

ADVERTISEMENT

Others hope for a good year. We prefer good decades.

*Securities offered through American Funds Distributors, Inc.

AMERICAN FUNDS®
From Capital Group

THE WALL STREET JOURNAL.

DOW JONES | News Corp *****

TUESDAY, JULY 18, 2017 ~ VOL. CCLXX NO. 14

WSJ.com

★★★★ \$4.00

DJIA 21629.72 ▼ 8.02 0.04% NASDAQ 6314.43 ▲ 0.03% STOXX 600 386.86 ▲ 0.01% 10-YR. TREAS. ▲ 3/32, yield 2.309% OIL \$46.02 ▼ \$0.52 GOLD \$1,232.80 ▲ \$6.20 EURO \$1.1479 YEN 112.63

What's News

Business & Finance

Netflix blew through its estimate for subscriber growth last quarter, adding 5.2 million users, while revenue jumped 32%. **A1**

◆ **KKR promoted** executives Joe Bae and Scott Nuttall, putting them in line to one day run the private-equity firm. **B1**

◆ **Trian's Peltz** said he would seek a board seat at P&G, the largest company to ever face a proxy fight. **B1**

◆ **Toys "R" Us** is one of many retailers fighting to compete online while saddled with a high debt load. **B1**

◆ **BlackRock pulled in** a record \$103.6 billion last quarter, helped by the growing popularity of ETFs. **B10**

◆ **Google won't need** to turn over an entire set of salary data to the U.S. in a probe of pay for women. **B4**

◆ **The Nasdaq rose** for a seventh day. The Dow eased 8.02 points to 21629.72. **B11**

◆ **Blue Apron shares** slid 10% on news of Amazon's plans to deliver meal kits. **B4**

◆ **FedEx said** overseas deliveries continue to be affected by a June cyberattack. **B4**

◆ **Disney was sued** over its rights to a visual-effects technology in its movies. **B3**

◆ **Tesla named** Fox CEO James Murdoch and Ebony CEO Rice to its board. **B3**

World-Wide

◆ **GOP leaders abandoned** their effort to dismantle and simultaneously replace much of the Affordable Care Act, after the defections of two senators left them short of the votes needed to pass a new health bill. **A1**

◆ **The White House released** its road map for remaking Nafta, aiming to keep "Buy America" provisions and reduce the trade deficit. **A6**

◆ **Chinese military drones** have been deployed in the Mideast and Africa by U.S. allies blocked from buying American models. **A1**

◆ **Venezuela's opposition** called for a general strike and the U.S. threatened sanctions over Maduro's plans to rewrite the constitution. **A6**

◆ **House Republicans** are seeking to defund an agency that works to ensure the voting process is secure. **A2**

◆ **New York prosecutors** demanded records on loans to Trump's ex-campaign chairman Manafort. **A2**

◆ **An ex-Texas police officer** was indicted on a charge of murder in the April shooting death of a black teenager. **A3**

◆ **Seoul offered** to hold talks with North Korea. **A7**

◆ **The U.K. and the EU resumed** Brexit talks, with a focus on citizens' rights and British payments. **A16**

CONTENTS Opinion A13-15
Business News B3 Sports A12
Capital Journal A4 Streetwise B1
Crossword A11 Technology B4
Head on Street B12 U.S. News A2-4
Life & Arts A9-11 Weather A11
Markets B11-12 World News A6-7,16

2 9 2 3 6 >
0 78908 63141 1

© Copyright 2017 Dow Jones & Company. All Rights Reserved

GOP Abandons Senate Health Bill

Legislation loses support of two more Republicans, in a blow to party and president

BY KRISTINA PETERSON AND STEPHANIE ARMOUR

WASHINGTON—Senate GOP leaders gave up their effort to dismantle and simultaneously replace much of the Affordable Care Act, after the defections of

two more Republican senators left the party short of the votes needed to pass President Donald Trump's top legislative priority of his first seven months in office.

In a stinging defection for party leadership, GOP Sens. Mike Lee of Utah and Jerry Moran of Kansas on Monday night became the third and fourth Republicans to oppose the latest version of the GOP bill, which would roll back and replace much of the Affordable

Care Act.

Senate Republicans had already lost two GOP votes, from Sens. Rand Paul of Kentucky and Susan Collins of Maine, and the new opposition from Messrs. Lee and Moran meant Senate leaders didn't have enough support to advance the bill in a procedural vote.

Senate Majority Leader Mitch McConnell (R., Ky.) acknowledged the defeat. "Regrettably, it is now apparent that the effort to repeal and

immediately replace the failure of Obamacare will not be successful," he said in a statement.

In a strategy facing long odds, the majority leader said the Senate would instead vote in coming days on a bill the chamber passed in late 2015 to unravel most of the ACA, a measure former President Barack Obama vetoed in January 2016.

Conservatives in both chambers and Mr. Trump have pressed to repeat the vote on the 2015 bill, which Mr. McCon-

nell said would come as an amendment to the health-care bill passed by the House in May and would allow for a two-year transition.

"Republicans should just REPEAL failing ObamaCare now & work on a new Healthcare Plan that will start from a clean

Please see HEALTH page A4

◆ Gerald F. Seib: GOP hopes tax cuts will unite party A4
◆ Budget panel to consider fiscal 2018 resolution A4

Afghan Girls' Robot Opens Doors for a Visit to the U.S.



CONNECTED: An all-girl team from Afghanistan prepared to compete in an international robotics challenge on Monday in Washington. The team, from Herat, Afghanistan, was denied entry into the U.S. until President Donald Trump intervened. **A2**

Firms Sweeten 401(k) Plans

BY SARAH KROUSE

Microsoft Corp. and Host Hotels & Resorts Inc. are among a growing number of companies boosting contributions to 401(k) plans because some workers aren't saving enough, a move many firms have long resisted because of the costs.

The average company contribution to 401(k) plans rose to an estimated 4.7% of employee salaries in 2016, up from 3.9% in 2015, according to data on 1,900 workplace retirement savings plans run by mutual-fund company Vanguard Group. It was the highest percentage and biggest year-to-year jump since at least 2007.

Some companies in certain industries say they need to spend more to retain the best employees and motivate staff.

Please see SAVE page A2

Peltz's Trian in Rare Proxy Fight

Trian Fund Management launched a campaign Monday to get co-founder Nelson Peltz elected to the board of Procter & Gamble Co. P&G is the largest company to ever face such a campaign. **B1**

Largest companies to face a shareholder vote

Company	Meeting date	Market cap, billions
Procter & Gamble	October 2017	\$221.8
Time Warner	May 19, 2006	\$86.0
eBay	May 13, 2014	\$70.1
DuPont	May 13, 2015	\$60.3
Target	May 28, 2009	\$59.7
General Motors	June 10, 2015	\$58.0
General Motors	June 6, 2017	\$52.1
Motorola	May 7, 2007	\$44.3
Allergan	Dec. 18, 2014	\$39.9
Yahoo	June 30, 2016	\$38.8

Source: FactSet

THE WALL STREET JOURNAL

CHINA SEIZES MARKET FOR MILITARY DRONES

U.S. allies in Mideast and Africa that can't buy American turn to Beijing

Last October, satellite images captured the distinctive outlines of some powerful new weaponry at a Saudi runway used for military strikes in Yemen. Three

Wing Loong drones had appeared, Chinese-made replicas of the U.S. Predator with a similar ability to stay aloft for hours carrying missiles and bombs.

The same month, another Chinese military drone, the CH-4 Rainbow, appeared in a photo of an airstrip in Jordan near the Syrian border. Other commercial satellite images have since revealed Chinese strike and surveillance drones at bases used by Egypt and the United Arab Emirates.

These images and others now being scrutinized in international defense circles add to growing evidence that military drones exported by China have recently been deployed

By Jeremy Page in Beijing and Paul Sonne in Washington

in conflicts in the Mideast and Africa by several countries, including U.S. allies that the U.S. blocked from buying American models.

For the U.S., that is a strategic and commercial blow.

The U.S. has long refused to sell the most powerful U.S.-made drones to most countries, fearing they might fall into hostile hands, be used to suppress civil unrest or, in the Mideast, erode Israel's military dominance. The U.K. is the only foreign country that has operated armed Predators and Reapers, the most potent U.S. systems for offensive drone strikes, according to people familiar with U.S. sales.

The Obama administration, while seeking to facilitate exports under close regulation, led efforts to forge a global "drone code" that

Please see DRONES page A8

These Guys Don't Care if You Think They're Women

* * *

To woo female readers, novelists omit photos, use pseudonyms

BY ELLEN GAMERMAN

Is Riley Sager, author of the new thriller "Final Girls," a woman?

The writer's gender-neutral name won't answer the question. Neither will the author biography on the book's back flap, which avoids male or female pronouns, or the book jacket photo, which is nonexistent.

The website for the novelist features trees against a hot pink sky and the author's Instagram account includes shots of books, desserts, animals and fruity cocktails.

While it isn't exactly a secret that Riley Sager is the author Todd Ritter, it is fine with him if some people assume he's female. In fact, it is good for business.

Riley heads to bookshelves as male writers adopt ambiguous pseudonyms for suspense novels rooted in the inner worlds of women. Female authors like Gillian Flynn ("Gone Girl") and Paula Hawkins ("The Girl on the Train") have been leading this booming

George Eliot

genre in a realm dominated by women readers. The problem for men: Some fans doubt the authenticity of the female narrator's voice when it is delivered by a male author.

"Final Girls," out last week, is told in the voice of a woman in her 20s who is the only survivor of a slasher-movie-style massacre. (The author's Twitter avatar is a picture of Jamie Lee Curtis from

Please see NAMES page A8

Netflix Lures Millions Of New Subscribers

BY AUSTEN HUFFORD

Netflix Inc. blew through its subscriber-growth estimate in the second quarter, showing that its big bets on original programming and international expansion are paying off, even as the streaming market gets more crowded.

The Los Gatos, Calif., company ended the quarter with nearly 104 million subscribers globally. It added 5.2 million users in total, far more than the 3.2 million it had projected, as well as Wall Street's estimate of 3.5 million net additions.

Revenue jumped 32% to \$2.79 billion, while the company's operating profit margin globally was 4.6%, down from 9.7% in the first quarter.

Netflix has indicated to Wall Street it would like to be judged primarily based on its revenue and global operating-profit margins, as opposed to metrics such as its subscriber additions. But many investors have remained focused on subscriber growth as a proxy for long-term financial health.

Netflix shares have risen Please see STREAM page A4

U.S. NEWS

Election Agency Targeted for Cuts

By ERICA ORDEN
AND BYRON TAU

WASHINGTON—House Republicans are seeking to defund the U.S. Election Assistance Commission, the sole federal agency that exclusively works to ensure the voting process is secure, as part of proposed federal budget cuts.

The defunding move comes as the EAC is working with the Federal Bureau of Investigation to examine an attack late last year on the agency's computer systems by a Russian-speaking hacker.

House Republicans say the EAC no longer is necessary, and that the Federal Election Commission could bear its responsibilities. They also say the agency's work duplicates efforts at the Department of Homeland Security and FBI, and that it improperly interferes in the right of states to conduct their elections.

"People supporting the EAC are quite frankly proponents for a greater federal role in our elections," said Rep. Tom Graves (R., Ga.) at a June committee hearing on the proposal to eliminate the agency. "States themselves, they're responsible for all the elections. We do not

have a federally run election system."

Democrats oppose the proposal, arguing that alleged Russian meddling in the 2016 presidential election has boosted the importance of the EAC. The agency helps train local officials on such tasks as recruiting poll workers, and during last year's campaign, it distributed memos keeping election officials apprised of potential vulnerabilities in voting systems.

The commission "has a unique task that they're best situated to accomplish," said Rep. Mike Quigley, an Illinois Democrat who has been fighting to preserve the agency.

Mr. Quigley said that the intelligence community judgment that Russian President Vladimir Putin ordered a campaign of interference in the 2016 election makes it the "worst time" to try to eliminate the agency.

"Cutting funding to it is a green light to Putin to do it again," said Mr. Quigley.

The EAC said in December it was "working with federal law enforcement agencies to investigate the potential breach [by the Russian-speaking hacker] and its effects." It

said recently it has thoroughly scanned its systems to make sure there are no additional security concerns.

The commission provides election-management guidelines and develops specifications for certifying voting systems, though responsibility for administering elections ultimately falls to state and local governments.

House Republicans say the EAC's work duplicates efforts at other U.S. agencies.

The hacking probe is being conducted at the same time the FBI is undertaking a broader investigation into Russian meddling in the presidential election, including attempts to get into state election databases, and whether anyone working with President Donald Trump's campaign colluded in the effort. Mr. Trump and his campaign have denied any collusion with Russian hacking.

It is unclear if the EAC hack is part of that review; the FBI

declined to comment on the matter.

The hack appeared to include a breach of the EAC's administrative-access credentials, as well as access to non-public reports on flaws in voting machines, according to Andrei Barysevich, an analyst with cybersecurity firm Recorded Future.

Access to the reports could have allowed someone to exploit flaws in voting machines, Mr. Barysevich said. The stolen credentials could have been used to install malicious code on the EAC site, thus potentially infecting any user of it. The users could include state election officials, who might then use a thumb memory stick to interact with other machines, such as ballot machines not connected to the internet.

The security firm, which assessed the hack as having likely occurred in November, turned the information over to law enforcement in December, and Mr. Barysevich has been cooperating with the FBI on its probe.

The hack was discovered Dec. 1 by Recorded Future, which for one month prior had been tracking a hacker it dubbed "Rasputin."

dential election.

Russia has denied meddling in the election, and Mr. Trump and his representatives have said there was no collaboration. Mr. Manafort hasn't been accused of wrongdoing and has said any suggestion that he coordinated with Russia is unfounded.

The Wall Street Journal reported in May that Manhattan District Attorney Cyrus R. Vance Jr. and New York Attorney General Eric Schneiderman had begun examining real-estate transactions by Mr. Manafort, who has spent and borrowed tens of millions of dollars in connection with property across the U.S. over the past decade. Investigators at both offices are examining the transactions for indications of money-laundering and fraud, people familiar with the matters have said.

The Journal reported that at the time of the loans from Federal Savings Bank, Mr. Manafort was at risk of losing a Brooklyn, N.Y., townhouse and his family's investments in California properties being developed by his son-in-law, real-estate and court records show.

New York Prosecutors Seek Manafort Records

By MICHAEL ROTHFELD

* * *

New York prosecutors have demanded records relating to up to \$16 million in loans that a bank run by a former campaign adviser for President Donald Trump made to former campaign chairman Paul Manafort, according to a person familiar with the matter.

The subpoena from the Manhattan district attorney's office to the Federal Savings Bank, a small Chicago bank run by Steve Calk, sought information on loans the bank issued in November and January to Mr. Manafort and his wife, the person said. The loans were secured by two properties in New York and a condominium in Virginia, real-estate records show.

Asked about the subpoena Monday, Mr. Calk said he had no comment.

A spokesman for Mr. Manafort declined to comment.

Mr. Manafort, a Republican political consultant who spent years working for a pro-Russia party in Ukraine, is among the Trump associates at the center of federal and congressional investigations into Russian meddling in last year's presi-

U.S. WATCH

SEATTLE

Mayor Orders Officers To Wear Cameras

Seattle Mayor Ed Murray ordered the city's police department to equip patrol officers with body cameras, saying on Monday that he doesn't want any more serious uses of force to go unrecorded.

The decision, reported earlier by the Seattle Times, came a month after the absence of video recordings left lingering questions about the police shooting of Charleena Lyles, a pregnant mother who had struggled with mental-health issues.

The city has been negotiating with the Seattle Police Officers Guild over deploying the cameras. Mr. Murray said the cameras are a necessary accountability tool and the union talks had stalled.

Guild President Kevin Stuckey said he was confused by the order, calling it unnecessary because both sides are still at the bargaining table.

—Associated Press

Express Scripts Holding Co., the pharmacy-benefits manager that will help provide data analytics.

The program will focus on prescription and dispensing data and won't use private medical information, according to Mr. Greitens, who said penalties for doctors intentionally overprescribing opioids could range up to criminal charges or loss of a medical license.

The announcement surprised lawmakers, many of whom were unaware such a program was under consideration. Democrats questioned whether the order goes far enough, while some Republicans have privacy concerns.

—Associated Press

WASHINGTON

Afghan Girls Compete At Robotics Event

Six Afghan girls represented their nation Monday in an international robotics competition in Washington. The team of six teenage girls was twice rejected for U.S. visas before President Donald Trump intervened.

They arrived in Washington from their hometown of Herat, Afghanistan, early Saturday, and their ball-sorting robot competed in its first round Monday morning.

"We were so interested, because we find a big chance to show the talent and ability of Afghans, show that Afghan women can make robots, too," said team member Rodaba Noori.

The U.S. won't say why the girls were rejected for visas, citing confidentiality rules. But Afghan Ambassador Hamdullah Mohib said that based on discussions with U.S. officials, it appears the girls, who are 14 to 16 years old, were turned away due to concerns they wouldn't return to Afghanistan.

—Associated Press

MISSOURI

Program Is Created To Track Prescriptions

Missouri became the final state to create a prescription-drug-monitoring program when Republican Gov. Eric Greitens signed an executive order Monday.

For years, Missouri has been the lone holdout without a statewide program that tracks drug prescriptions as part of an effort to combat prescription-opioid addiction.

The program could be operating within a month, Missouri Department of Health and Senior Services Director Randall Williams said. Mr. Greitens signed the order after a news conference at

Microsoft's Redmond, Wash., headquarters.

"We were so interested, because we find a big chance to show the talent and ability of Afghans, show that Afghan women can make robots, too," said team member Rodaba Noori.

The U.S. won't say why the girls were rejected for visas, citing confidentiality rules. But Afghan Ambassador Hamdullah Mohib said that based on discussions with U.S. officials, it appears the girls, who are 14 to 16 years old, were turned away due to concerns they wouldn't return to Afghanistan.

—Associated Press

CORRECTIONS & AMPLIFICATIONS

Dalian Wanda Group has two overseas deals that are pending, proposed investments in Malaysia and Indonesia. In some editions Monday, a Business & Finance article about loans to the Chinese property and entertainment company incorrectly stated that the pending deals are European theater operators Odeon & UCI Cinemas Group and Nordic Cinema Group.

Poland's Senate passed two laws that govern how high-

court judges are appointed, but hasn't yet passed a third, under discussion, that would force such judges into retirement. In some editions Saturday, a World News article and a Page One What's News item about the moves incorrectly said the law forcing those judges into retirement had been passed.

The mean of 60, 61, 62, 63 and 100 is 69.2. A Review column Saturday about mathematical averages incorrectly said it was 82.

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

THE WALL STREET JOURNAL
(USPS 664-680) (Eastern Edition ISSN 0099-9460)

(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., Chico, MA 01020.

All advertising published in The Wall Street Journal is subject to the applicable rate card, copies of which are available from the Advertising Services Department, Dow Jones & Co. Inc., 1211 Avenue of the Americas, New York, NY 10036. The Journal reserves the right not to accept an advertiser's order.

Only publication of an advertisement shall constitute final acceptance of the advertiser's order.

Letters to the Editor: Fax: 212-416-2891; email: wsj.letters@wsj.com

NEED ASSISTANCE WITH YOUR SUBSCRIPTION?
CONTACT CUSTOMER SUPPORT.

By web: customercenter.wsj.com; By email: wsjsupport@wsj.com

By phone: 1-800-JOURNAL (1-800-568-7625); Or by live chat at wsj.com/livechat

SAVE

Continued from Page One

They also need to ensure that older, relatively expensive workers can afford to retire on time and make way for younger staff, retirement specialists said. Employees who don't have adequate nest eggs will stay in their jobs longer and add to a company's overall health-care costs.

The boost in contributions represents a policy shift for American companies that embraced tax-deferred 401(k) plans partly because the savings tool allowed them to shift the burden of paying for retirement to employees. Many shed more expensive defined-benefit pension plans that guaranteed employees a certain percentage of their salary in retirement.

Companies tried to encourage more 401(k) savings over the past decade by automatically enrolling workers in the plans and boosting the amount employees set aside each year unless they opted out.

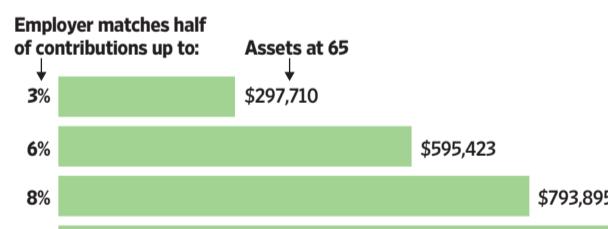
But many U.S. workers still aren't saving enough on their own. The average percentage they set aside among Vanguard-run retirement accounts has dropped since 2007 largely because more new 401(k) savers were enrolled at lower initial savings rates. The average total employee and company contributions to workplace savings plans among workers who participate, as a result, haven't moved above 11% of salaries for at least a decade.

Many retirement plan advisers say employees need to save about 15% of their salaries each year.

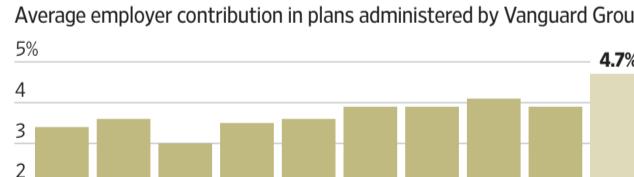
"If you want people to retire at a certain time they need to have acquired sufficient assets," said Jean Young, a senior research analyst at the

Match Stash

Growth of assets for a 25-year-old worker who starts saving for retirement making \$40,000 per year and contributes the maximum matched by employer*



Average employer contribution in plans administered by Vanguard Group



*Assumes annual salary increase of 2% and annual investment returns of 5%.

Sources: Bankrate.com (growth); Vanguard Group (contribution)

its 401(k) plan, up to 8% of their salary, an increase from the previous 6% limit.

Host also has a discretionary system that matches as much as an additional 4% of salary each year, up from 3% before the change.

In Seattle, Microsoft tried to change employee behavior before increasing its own contributions. Roughly three years ago it increased the salary amounts workers pick to contribute when they sign up for a 401(k). Workers now choose from the options of 8%, 10% or 12%, as compared with 6%, 8% or 10%.

Last year Microsoft offered more money to the more than 60,000 current employees in its 401(k) plan. Instead of chipping in half of up to 6% of each worker's salary, the firm started matching half of all employee contributions up to federal limits. The government limits employee contributions and sets an overall limit on the amount channeled into an individual's plan.

As a result of that change the company contributed roughly \$150 million more to its \$17 billion retirement savings plan last year.

"It's a no-brainer to try and max that out as much as possible," said Francois Buriel, a 43-year-old senior software engineer for Microsoft's Xbox gaming unit, who raised his 401(k) contributions by more than 70%.

After one year of the increased match, 52% of Microsoft workers had maximized the amount of pretax money they contributed to the plan, up from 36% in 2015, the company said. That was half the time the company's research suggested it could take to get 50% of its employees to maximize the amount they contributed.

"It's blowing my budgets," said Fred Thiele, general manager, global benefits at Microsoft.

U.S. NEWS

Ex-Officer Indicted in Death of Black Teen

BY DAN FROSCH

DALLAS—A former Texas police officer was indicted by a grand jury on a murder charge Monday in the April shooting death of a black teenager, Dallas prosecutors said.

Former Balch Springs police officer Roy Oliver, who is white, was accused of firing into a car that Jordan Edwards, 15 years old, was in with his brother and friends as they drove away from a party.

The case is one of several over the past few years to spur an outcry over police treatment of minorities.

Police in the Texas case said they had been responding to reports of underage drinking at a party in the Dallas suburb when they heard gunshots and encountered a frenetic scene as teens began fleeing.

After first saying that the car Jordan was in had backed toward officers, Balch Springs Police Chief Jonathan Haber said video footage showed the vehicle was actually moving away from police when Mr. Oliver, 37, fired on it.

According to the Dallas County Medical Examiner's office, the teenager, who was in the front seat, died from a rifle wound to his head.

Mr. Oliver turned himself in after being charged in the days following the shooting, and has since been free on bond.

His lawyer didn't immediately respond to requests for comment.

Mr. Oliver was fired by the Balch Springs Police Department following the shooting.

"This is the very first time we have issued an arrest warrant for a police officer before the case was presented to a grand jury," Dallas County District Attorney Faith Johnson said in a statement.

In addition to the murder charge, Mr. Oliver was indicted on four counts of aggravated assault with a deadly weapon by a public servant in the shooting, in charges related to the four other passengers in the car.

Both the murder charge, and the assault charges, each carry a penalty of as much as life in prison.

It is rare for police officers to face charges for on-duty shootings—though the number has risen in recent years—and it is especially difficult to win a conviction in such cases, experts say.

In recent months, several officers have been acquitted in high-profile shootings involving minorities.

Black Colleges Struggle With Debt

As federal loans to schools hit nearly \$2 billion, some lobby for relief from payments

BY MELISSA KORN

The federal government has lent out nearly \$2 billion over the past two decades to help dozens of historically black colleges and universities upgrade their campuses or refinance debt.

But only a fraction of the money has been repaid, oversight is limited and the lifeline promised to the schools, which have played a key role in educating African-Americans since the Civil War, has become more of an albatross for some.

Officials at Stillman College in Tuscaloosa, Ala., are lobbying the Education Department to have their \$40 million loan modified or forgiven, arguing that the funds it got through the Historically Black College and University Capital Financing Program in 2012 were secured with overly optimistic enrollment projections.

Barber-Scotia College in Concord, N.C., defaulted on its loan in 2005 after it lost its accreditation.

And four schools ravaged by Hurricanes Katrina and Rita, which in 2007 took out a combined \$361 million in loans capped at 1% interest over 30 years, have paid back just roughly \$12.4 million of it in the past decade and were granted a five-year forbearance period in 2013 when enrollment didn't rebound quickly.

"We've got to have much stricter underwriting requirements" to ensure that schools can handle the new debt, said Johnny C. Taylor Jr., president and chief executive of the Thurgood Marshall College Fund, which represents publicly supported HBCUs, and a member of the loan program's federal advisory board.

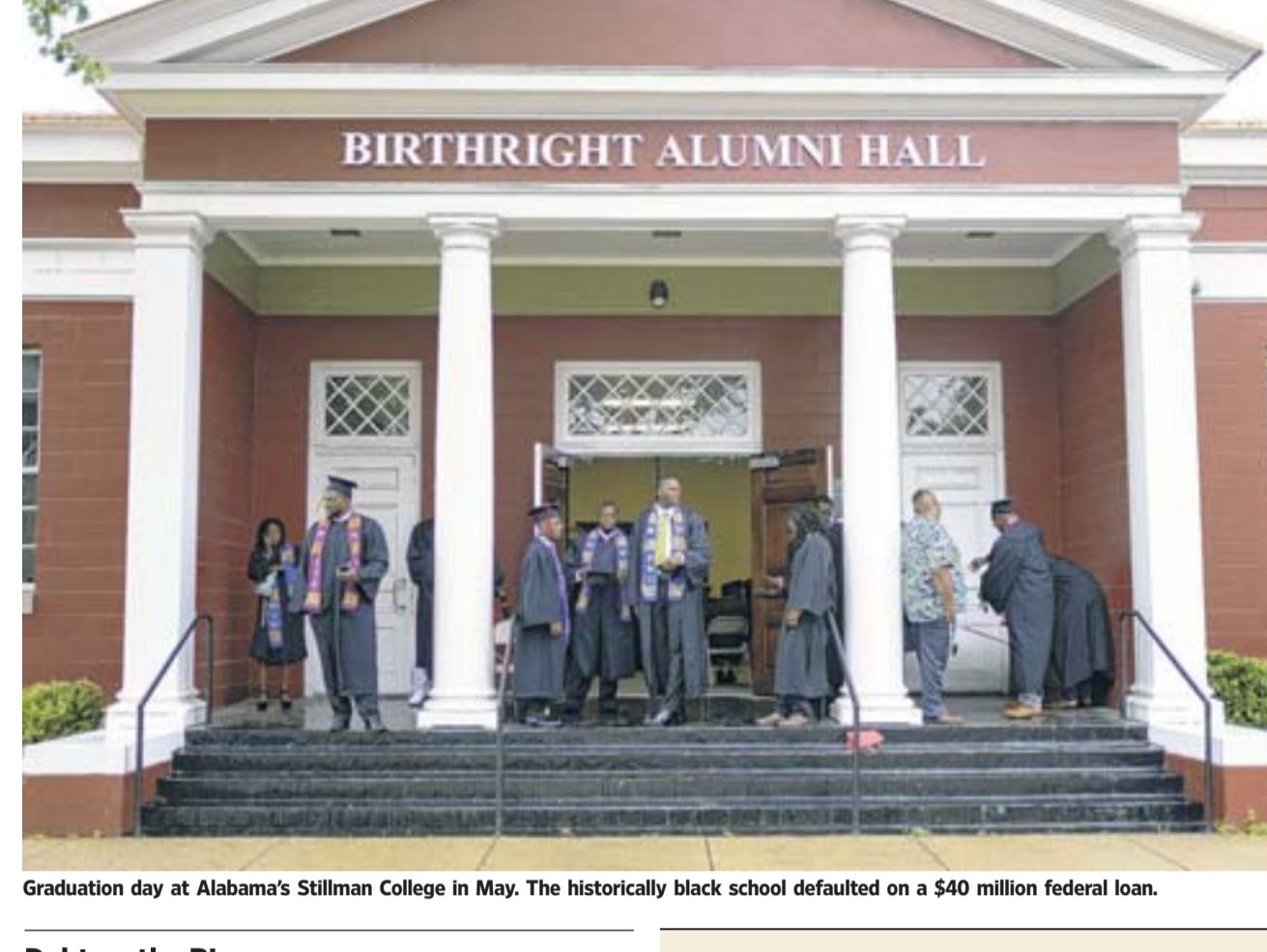
The program has long faced high delinquency rates.

The Education Department's fiscal 2017 budget request shows that the program had a target delinquency rate of 14%. Its actual delinquency rate—reflecting payments that were between 11 and 59 days late—was 19% in fiscal 2012, and 36% in fiscal 2013.

The budget paper doesn't include more recent figures for that performance metric.

Donald Watson, director of the federal loan program for 10 years, said at a May 2015 advisory board meeting that there were schools on his "watch list" because of concerns about impending financial trouble, and others that he described as "habitual late payers." The board hasn't met since then.

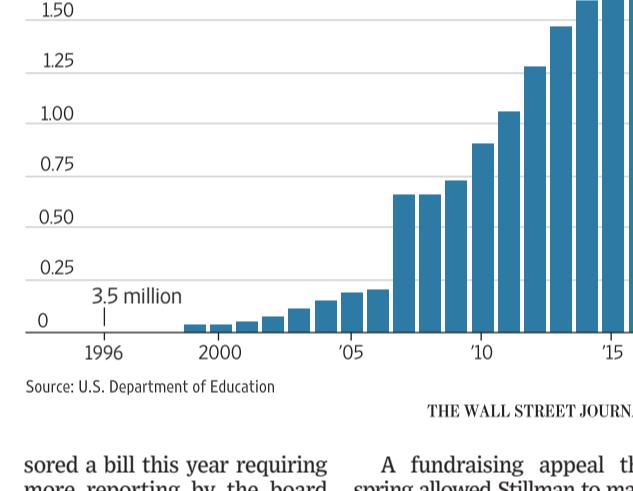
"A lot of this has been left without the oversight that we've needed," said Rep. Alma Adams (D., N.C.), who co-spon-



Graduation day at Alabama's Stillman College in May. The historically black school defaulted on a \$40 million federal loan.

Debt on the Rise

Cumulative value of loans approved for historically black colleges and universities under a federal capital financing program since the first loan was issued in 1996



Source: U.S. Department of Education

sored a bill this year requiring more reporting by the board and allowing the Education Department to provide financial counseling to schools that don't meet the loan program's requirements. "The schools that participate should be constantly assessed to determine whether they're on track for repayment."

Stillman hadn't been making regular payments for at least a year and a half before President Cynthia Warrick took the helm on an interim basis in January.

Stillman used its loan funds in part to refinance a loan that was used to build a new football stadium; it gave up the sport in late 2015, eliminating ticket-sales revenue that could have helped cover debt payments.

A fundraising appeal this spring allowed Stillman to make its April loan payment, but Dr. Warrick said it would need to increase enrollment to at least 800, from its current 570, to afford another installment.

Dr. Warrick said she has been in regular contact with Education Department officials and is hopeful that the repayment plan will be adjusted.

"It's in the nation's best interest to either give us a deferral or, if they evaluate the entire program and all of these schools and what we do for the nation, that we should get a bailout just like the automobile industry and the banking industry," she said.

Education Department spokeswoman Liz Hill said the

Schools On Hook For Each Other

Created by Congress in 1992, the Historically Black College and University Capital Financing Program encouraged the colleges to participate "as a coalition, as a collective, being willing to help other institutions," said Brian Johnson, who until last month was president of Tuskegee University. But as a pooled escrow system, the schools also were on the hook when institutions with questionable credit couldn't pay back their debt.

The Education Department program got off to a slow start: By summer 2006, it had approved just \$218 million in loans to 14 colleges. A Government Accountability Office report that year encouraged more aggressive marketing to potential borrower institutions. Over the next 10 years, the program approved \$1.75 billion in loans, including 11 worth more than \$50 million each.

department doesn't go into details about specific schools' finances, but noted that penalties are laid out in loan agreements and failure to repay can affect schools' accreditation and ability to borrow in the future.

Ms. Hill said schools "must be creditworthy to access this program," and not every school that applies is approved.

Morehouse College and Texas Southern University were rated as investment-grade by

Many of the schools have used the funds to build or refurbish student housing and dining facilities, and they generated enough revenue to pay off the loan if enrollments remained stable or rose.

LeMoyne-Owen College in Memphis, Tenn., took out a \$13.5 million loan in 2012 to finance a 336-bed dorm, doubling its capacity for residential students. The dorm opened in fall 2013 and had an 86% occupancy rate this past fiscal year, said spokeswoman Daphne Thomas. She said the school is "current and in good standing" with its loan, though she declined to provide specifics about how much remains outstanding.

But enrollment hasn't been growing at many of the schools in recent years, partly because the Education Department tightened borrowing requirements for a parent loan program popular at HBCUs. Historically black colleges enrolled 294,316 students in fall 2014, down from a peak of 326,614 in 2010.

—Melissa Korn

Moody's Investors Service at the time they got loans, but others were speculative bets.

"The federal government needs to be a little more particular in their lending," said Marybeth Gasman, professor of higher education and director of the Penn Center for Minority Serving Institutions at the University of Pennsylvania. "You should not be able to borrow anything unless you have a plan to pay it back."

U.S. Allows More Seasonal-Worker Visas

BY LAURA MECKLER
AND MICHAEL C. BENDER

WASHINGTON—The Department of Homeland Security said it would make 15,000 more visas available for seasonal workers, increasing by nearly 50% the number of foreigners able to work in the U.S. this summer.

The decision responds to complaints from businesses and members of Congress about a significant shortfall in H-2B visas that left hotels, restaurants and other businesses that see a surge of demand in the summer scrambling.

Administration officials said last month that they would issue more visas but didn't say how many or when applications would be accepted. On Monday, officials said applications would be accepted beginning Wednesday, and that 15,000 would be available.

To qualify, employers must attest that their businesses are likely to suffer "irreparable harm," defined as permanent and severe financial loss, without the H-2B workers.

While some U.S. lawmakers sought even more visas, DHS officials said this amount would cover the number of companies that meet this criteria.

Businesses seeking additional visas can expect to wait 30 to 60 days for the petitions to be approved, senior DHS officials said. The officials en-



A worker on an H-2B visa at Churchill Downs in Louisville, Ky. The horse-racing industry is dependent on immigrant workers.

couraged companies to seek "premium processing" for their petitions, which costs about \$1,200 but can shorten the wait time to about two weeks.

Legislation authorizing the additional visas wasn't approved until the spring.

"We understand that is late in the season," said David Lapan, a spokesman for the Department of Homeland Security. "We're working as hard as we can."

By law, the number of H-2B visas, which are available for temporary, nonagricultural jobs, is capped at 66,000, divided between the summer and winter seasons. This year, the summer allotment was ex-

hausted in March.

In past years, Congress has exempted returning workers from the cap, enabling many additional foreigners to participate in the program, but lawmakers didn't renew that exception for this year. Instead, on April 30, Congress gave DHS authority to add additional visas if Homeland Security Secretary John Kelly found businesses that were at risk without them.

President Donald Trump built his presidential campaign on a promise to protect U.S. workers from foreign competition and regularly said U.S. interests are threatened by foreigners who come to the

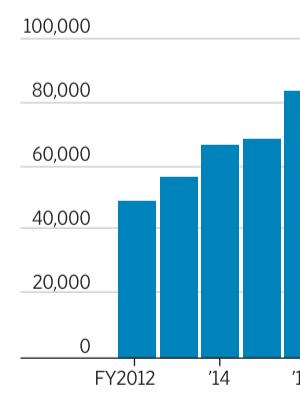
country both legally and illegally. As president, he has pushed a "Hire American" agenda and suggested he may try to restrict existing visa programs. Still, his own Mar-a-Lago club in Palm Beach, Fla., has used many H-2B workers for its winter season.

Roy Beck, president of Numbers USA, an advocacy group that wants to restrict legal and illegal immigration, said he was disappointed in the decision.

The H-2B Workforce Coalition, which lobbied for additional visas, saw a mixed result, too. In a statement, the coalition said it is "grateful for the minimal relief granted."

Upward Trend

H-2B visas issued for seasonal, nonagricultural workers



Note: Fiscal year ends Sept. 30.

Source: State Department

THE WALL STREET JOURNAL

Moody's Investors Service at the time they got loans, but others were speculative bets.

"The federal government needs to be a little more particular in their lending," said Marybeth Gasman, professor of higher education and director of the Penn Center for Minority Serving Institutions at the University of Pennsylvania. "You should not be able to borrow anything unless you have a plan to pay it back."



DE BEERS

JEWELLERY

THE HOME OF DIAMONDS SINCE 1888

DISCOVER THE TIMELESS MYSTIQUE OF THE TALISMAN COLLECTION

NEW YORK · HOUSTON · NAPLES FL · VANCOUVER BC · TORONTO

DEBEERS.COM · 800 929 0889

U.S. NEWS

Republicans Hope Tax Cuts Will Unite Party



CAPITAL JOURNAL

By Gerald F. Seib

There are lots of reasons the Trump White House will be glad when it can finally get past the tortured debate over health care and move on to tax reform, but a principal one is this: Health care is pulling apart the various strands of the Republican coalition. Tax cuts could unite them.

Today's Republican coalition weaves together three distinct philosophical strands: the populists/nationalists, the movement conservatives and the Wall Street/establishment conservatives. All three are well represented in the Trump administration, which is one reason it has had a hard time projecting ideological

coherence.

The health-care debate has been a seven-month migraine that pulls apart those strands of the coalition.

The populists/nationalists are troubled by the idea of rolling back the Affordable Care Act's taxes on the wealthy while cutting Medicaid funding and insurance subsidies that benefit core elements of President Donald Trump's 2016 constituency. Movement conservatives want a complete uprooting of Obamacare and far more reliance on market forces in the health sector. The establishment wing could live with some kind of compromise, if there were one that could satisfy the others.

That problem has been made worse by the fact that the Trump White House has been left either defending or trying to sell somebody else's idea of a repeal-and-replace plan, because it doesn't have one of its own. That has produced the spectacle of the president occasionally championing and then criticizing the very same proposal; supporting competing ideas; and backing plans that would hurt

many Trump voters. Mr. Trump has never offered a sustained public defense of any of the various approaches Republicans have tried. He owns none of them, and has left the impression that any will do.

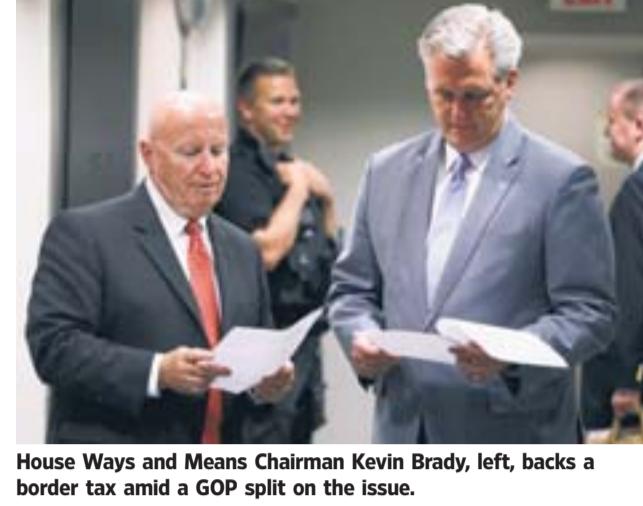
Unfortunately for the GOP, the magic compromise that skirts past these differences has proven elusive.

Tax reform holds the prospect of something different.

For starters, the Trump administration will be selling a tax plan of its own, and, with luck, one pre-cooked with congressional leaders, rather than hoping somebody else presents one that is acceptable. That alone would change the dynamic.

More broadly, the belief it is essential to revamp the tax system to lower tax rates, especially corporate rates, is as close to gospel as you can reach in today's Republican Party. Nothing unifies the GOP like cutting taxes.

Even the populist/nationalist wing agrees with the Wall Street/establishment wing on that notion. And that's especially true if, as



Aaron P. Bernstein/REUTERS

House Ways and Means Chairman Kevin Brady, left, backs a border tax amid a GOP split on the issue.

the administration has promised, lower corporate rates can be married to a broad-based tax cut that will help the middle class, financed by closing tax breaks for businesses and at the top end of the income ladder.

That isn't to say changing the tax code is simple—not by a long shot. There certainly are intra-Republican differences.

Most notably, House Speaker Paul Ryan and Ways and Means Chairman Kevin Brady have long been pushing the idea of building a

new tax system around a border-adjustable tax—a tax that essentially imposes a levy on imports while letting exports leave the country tax-free. The idea is to build domestic industries and supply chains while also raising a big chunk of revenue to finance tax cuts elsewhere.

That idea does, in fact, split the GOP coalition. Parts of the establishment wing hate it because it would hurt industries that rely on imported goods; the populist wing likes the way it could promote American manufac-

turing, but is leery of how it would drive up costs for products that working-class America buys at Wal-Mart; and the Trump White House thinks it's too complicated.

But the reality is that, because of such misgivings, the border tax probably has been a dead letter for months, though its proponents haven't given up. The Trump team will try to steer the conversation in a different direction.

There are plenty of other complications, including a debate about how much to cut taxes at the top of the income scale. If tax reform were simple, three decades wouldn't have passed since the last significant one. And the prospect of Democratic support is nearly as bleak as it has been on health care.

Still, the idea of lowering rates and simplifying the tax code is one Republicans are almost desperate to rally around. If that holds true, we'll be left to ponder how different the story of Mr. Trump's first year might have been if Republicans had been able to start with an idea that united them rather than one that divided them.

Budget Panel To Consider Fiscal-2018 Resolution

By RICHARD RUBIN

WASHINGTON—The House Budget Committee is scheduled to consider a fiscal-2018 budget resolution Wednesday, marking a crucial but still early step in Republicans' path to a major tax overhaul.

A budget resolution approved by the House and Senate is necessary to trigger the so-called reconciliation rules that would let Republicans pass a subsequent tax bill through the Senate with a simple-majority vote, meaning the GOP wouldn't need Democratic support. The budget will provide the parameters for the tax bill.

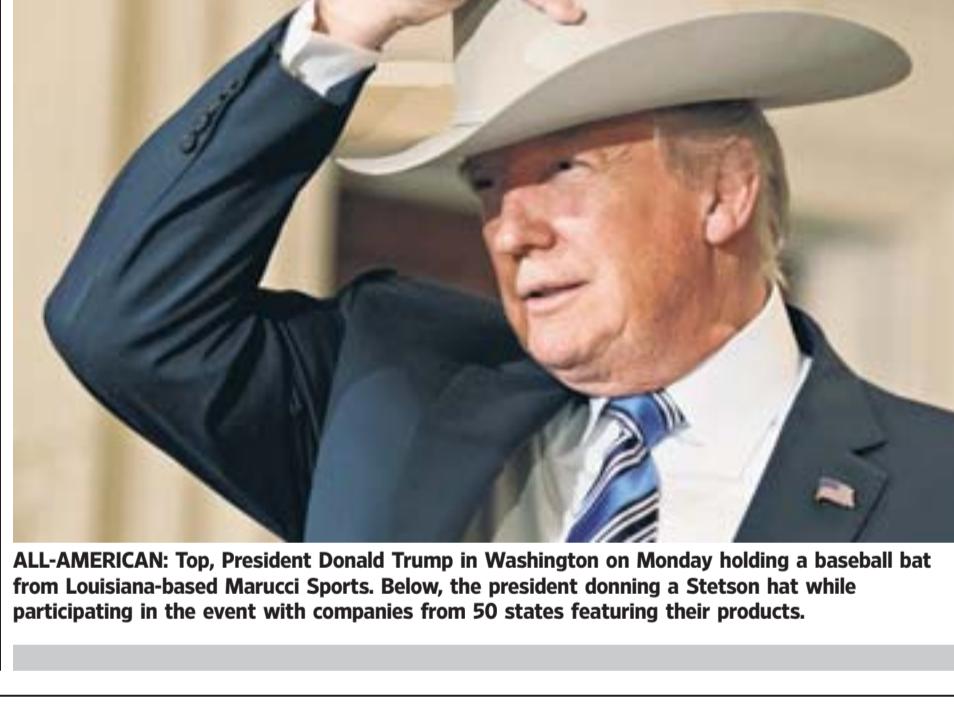
But Republicans have been divided over the budget itself, with defense hawks pushing for more spending and conservatives arguing for spending cuts in other programs. Republicans want the budget to balance by the end of a decade without raising taxes, a goal that requires a combination of spending cuts and aggressive economic-growth assumptions.

The committee didn't release a draft resolution or details about the session when it announced it Monday morning.

It was unclear whether Republicans have resolved any of the internal conflicts about the budget or when it would get a vote on the House floor.

Senate Republicans will be writing their own budget, and the chambers must approve identical resolutions to begin the reconciliation process. That could take time, and it is unlikely the House and Senate will reach a deal before Congress goes on its August recess.

A 'Made in America' Showcase at White House



OLIVIER DOULIERY/AGENCE FRANCE-PRESSE/GETTY IMAGES, ANDREW HARRER/PRESS POOL

ALL-AMERICAN: Top, President Donald Trump in Washington on Monday holding a baseball bat from Louisiana-based Marucci Sports. Below, the president donning a Stetson hat while participating in the event with companies from 50 states featuring their products.

HEALTH

Continued from Page One
slate. Dems will join in!" Mr. Trump tweeted shortly before Mr. McConnell's statement.

Mr. Trump had embraced the idea earlier in July when it was proposed by Republican Sen. Ben Sasse, who noted that 49 sitting GOP senators had voted for a sweeping repeal bill earlier.

But many Republican senators have balked at this strategy, saying they wouldn't feel comfortable rolling back the ACA without being able to tell their constituents what would supplant it.

Mr. McConnell's latest tactic applies new pressure to conservatives who have so far blocked a bill they have said falls short of ACA repeal by offering them the chance to vote on exactly that. And while the measure is unlikely to become law, it also offers a way to move on from a bruising fight.

With 52 Republicans in the Senate, Mr. McConnell needed to secure at least 50 GOP votes, with Vice President Mike Pence casting a tie-breaking vote. No Democrats were expected to support the bill. The opposition from Messrs. Lee and Moran ended a frenzied period of negotiations aimed at shoring up faltering GOP support.

"In addition to not repealing all of the Obamacare taxes, it doesn't go far enough in lowering premiums for middle-class families; nor does it create enough free space from the most costly Obamacare regulations," Mr. Lee, one of the Senate's most conservative Republicans, said in a statement Monday night.

Mr. Moran said he objected to the process used to craft the Senate GOP health-care bill, which he said "fails to repeal the Affordable Care Act or address health care's rising costs."

Messrs. Lee and Moran are

likely to face backlash from Mr. Trump and his supporters, who were eager to see Republicans keep their seven-year promise to repeal the 2010 health law.

On Monday night, the White House issued a statement that repeated a stance the president's officials have taken in recent days—that GOP senators have no choice but to act.

"Insurance markets continue to collapse, premiums continue to rise, and Obamacare remains a failure. Inaction is not an option," a spokesman said. "We look forward to Congress continuing to work toward a bill the president can sign to end the Obamacare nightmare and restore quality care at affordable prices."

Republicans' struggle to pass a health-care bill has exposed divisions within the party that could imperil other key items on their legislative agenda, including their yearslong push to overhaul the tax code.

Democrats said it was time

Mr. McConnell's latest tactic applies new pressure to conservatives.

for Republicans to begin to work with them on strengthening the health-care system.

"This second failure of Trumpcare is proof positive that the core of this bill is unworkable," Senate Minority Leader Chuck Schumer (D., N.Y.) said Monday night. "Rather than repeating the same failed, partisan process yet again, Republicans should start from scratch and work with Democrats on a bill that lowers premiums, provides long term stability to the markets and improves our health-care system."

—Michelle Hackman and Louise Radnofsky contributed to this article.

STREAM

Continued from Page One

30% this year and were up 10% in aftermarket trading on Monday.

The latest results underscored just how unpredictable Netflix's quarterly reports are becoming. The company is still trying to understand the precise mix of factors that propel fantastic results and those that bring about disappointing ones. One question for Wall Street will be whether the surge in the second quarter was related to specific show releases, or was a sign of underlying momentum.

In a letter to shareholders, Netflix said it underestimated the popularity of its growing slate of programming, which led to higher-than-expected subscription growth across its major markets. This year, Netflix programs got 91 Emmy Award nominations, up from 54 in 2016, according to Cantor Fitzgerald, including best drama nods for "Stranger

Things," "The Crown" and "House of Cards."

On a video chat with an analyst, Netflix Chief Executive Reed Hastings said the company is reaping the dividends of its big content investments.

"When we produce an amazing show like 'Stranger Things,' that's a lot of capital upfront, and then you get a payout over many years," he said. "And seeing the positive returns on that for the business as a whole is what makes us comfortable that we should continue to invest."

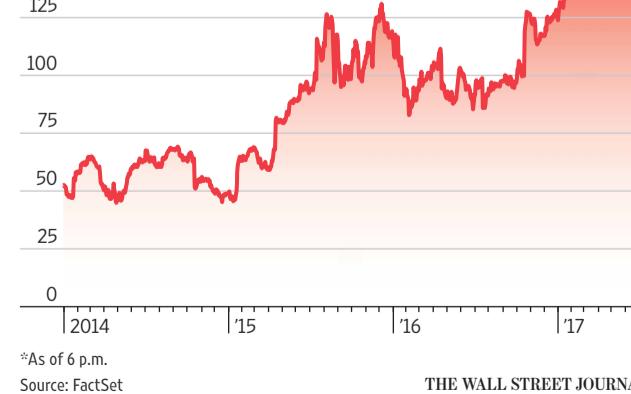
The company said it now has \$15.7 billion in streaming-content obligations, a measure of current and future costs for content acquisition, licensing and production, up from \$13.2 billion in the same quarter last year.

Netflix added 4.14 million international subscribers in the quarter, well above its guidance of 2.6 million. It added 1.07 million U.S. subscribers, compared with its target of 600,000.

The company said the sequential increase in new sub-

Loading Up

Netflix's share price



scribers to 5.2 million in the second quarter from 5 million in the first quarter went against historic seasonal trends.

Netflix expects to keep up strong momentum in the third quarter, projecting 4.4 million subscriber additions, but

warned that it has over-forecast in the past, and that some subscriber growth could have been pulled forward into the second quarter.

The strong growth comes as competition is intensifying in the streaming market. In

the U.S., Netflix is battling for wallet-share against rivals Amazon.com Inc. and Hulu, as well as "skinny" bundles like Sling TV and YouTube TV that hope to be substitutes for cable. Internationally, Netflix has to contend with dozens of local rivals. Netflix also competes against the biggest TV channels and studios for original programming.

Netflix posted a second-quarter profit of \$66 million, or 15 cents a share, compared with a profit of \$41 million, or 9 cents a share, in the same quarter last year.

Analysts surveyed by Thomson Reuters had projected earnings of 16 cents a share on \$2.76 billion in revenue.

As with many tech giants in recent years, investors are more concerned with Netflix's growth potential than its current earnings. Shares are priced at more than 200 times earnings.

The streaming-video company said that a majority of its subscribers are now international, and that it expects the

international unit to post its first-ever annual profit this year. International customers accounted for under a quarter of the total in 2013.

Netflix has been aggressively pursuing global expansion as its core U.S. market matures and as it works to offset growing content costs and original programming investments.

Following a battery of launches last year, Netflix said it serves customers in more than 190 countries. The one big market where the service isn't available is China. Netflix has acknowledged that gaining a foothold there has been difficult.

In April, Netflix said it reached a licensing deal with Baidu Inc.'s Chinese video-streaming platform iQiyi to show its original content in China.

Improving profitability in the company's more established international markets is letting Netflix invest more in newer areas. The company said it was on track to meet its operating-margin target of 7%.

Think Vanguard has the lowest cost? Think again.

With Schwab, you'll get the lowest costs for market cap index funds in the industry¹, with no minimums. Plus, everyone pays the same regardless of investment amount.

For a \$5,000 investment in an S&P 500 index fund:

Schwab
SWPPX

you pay
0.03%

Lowest
in the
industry

Fidelity
FUSEX

you pay
0.09%

3X
more
expensive

Vanguard
VFINX

you pay
0.14%

4X
more
expensive

charles
SCHWAB

Own your tomorrow.

Learn more at Schwab.com/indexfunds

Investors should consider carefully information contained in the prospectus, or if available, the summary prospectus, including investment objectives, risks, charges and expenses. You can download a prospectus by visiting www.csimfunds.com/schwabfunds_prospectus. Please read it carefully before investing.

Investment minimums and expenses are subject to change.

1. This claim is based on prospectus net expense ratio data comparisons between Schwab market cap index mutual funds (no minimum investment required) and ETFs and non-Schwab market cap index mutual funds and ETFs in their respective Lipper categories. Schwab operating expense ratios (OERs) reflect OERs as of 3/1/17. Competitor OERs obtained from prospectuses and Strategic Insight Simfund, as reflected on 1/31/2017.

Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab Funds, and Charles Schwab & Co., Inc. (Schwab), Member SIPC, the distributor for Schwab Funds, are separate but affiliated companies and subsidiaries of The Charles Schwab Corporation.

©2017 Charles Schwab & Co., Inc. All rights reserved. Member SIPC. (0317-UZ40)ADP96263-00

WORLD NEWS

Trump Unveils New Blueprint for Nafta

Plan seeks to reduce U.S. trade deficit, curb currency manipulation; Democrats call it vague

By WILLIAM MAULDIN

WASHINGTON—The Trump administration released its road map for remaking the North American Free Trade Agreement that aims to preserve “Buy America” provisions and reduce the U.S. trade deficit, but steps back from some of President Donald Trump’s most fiery campaign rhetoric on trade with Mexico and Canada.

The blueprint for a new Nafta shows the White House trying to navigate the shoals of striking a deal with its closest trading partners that can pass in the U.S. Congress. It contains nods to Mr. Trump’s base of voters fearful and angry over lost U.S. manufacturing jobs—including the broad objective for reducing the U.S. trade deficit with Nafta countries and an effort to retain rules that favor U.S. firms in government procurement.

The plan also backs an unspecified mechanism to prevent countries from manipulating their currencies for trade advantage, an issue of increasing concern among lawmakers and some economists,



Trucks waiting to enter the U.S. from Tijuana, Mexico, in February.

though one less central to U.S. trade ties with Mexico and Canada. It also includes provisions meant to challenge Mexico on labor and environmental issues.

In the 2016 campaign Mr. Trump repeatedly threatened to withdraw from Nafta, calling it the “worst trade deal maybe ever signed anywhere.” The plan released Monday didn’t deviate substantially from established U.S. trade policy.

The Mexican government welcomed the U.S. guidelines, and said it expects the three partners to be ready to begin formal negotiations by Aug. 16. The blueprint “will help set

out more clearly the subjects to be negotiated and the timing of the modernization process,” the economy ministry said in a statement.

Canada Foreign Minister Chrystia Freeland said the country welcomed the opportunity to improve the existing Nafta framework. The government would do so “while defending Canada’s national interest and standing for our values,” she said.

The plan drew a muted response from wary business groups and Republican lawmakers, whose votes will be needed to pass any agreement signed by Canada and Mexico.

Highlights of New Nafta Road Map

TPP by Another Name: The Nafta objectives include some items already negotiated under the Trans-Pacific Partnership, which President Trump killed. They include rules covering state-owned enterprises, e-commerce and financial services.

Environment and Labor: Disputes on these issues would be subject to arbitration panels—meaning alleged violations could be punished by tariffs.

Currency: The administration wants to make Nafta the first U.S. trade pact to police currency manipulation.

Tougher Enforcement: One proposal would scrap a dispute-settlement mechanism that allows Nafta partners to challenge duties before a tribunal.

Investor Protection: A Nafta provision allows investors to sue governments in arbitration panels over policies they deem anti-business. The U.S. wants to constrain the panels’ power.

—Bob Davis
and Jacob Schlesinger

strengthening of those provisions wasn’t enough to draw the immediate support of Democrats.

Sen. Ron Wyden (D., Ore.), the top Democrat on the Senate committee that oversees trade, called the blueprint “hopelessly vague both in explaining how the administration’s specific objectives will benefit the United States on key topics ranging from intellectual property rights and investment, to currency manipulation and government procurement.”

Mr. Wyden’s Republican counterpart, Sen. Orrin Hatch of Utah, applauded the administration’s commitment to working with Congress but said “future negotiating objectives must include stronger protections for intellectual property rights, upgraded rules and enforcement procedures for American exporters and investors, and improved regulatory practices that treat American goods and services fairly.”

Under fast track, the U.S., Mexico and Canada may now begin talks in 30 days. U.S. officials say they would like to finish the talks by January, before the Mexican presidential campaign and U.S. midterm elections heat up.

—Jacob M. Schlesinger,
Anthony Harrup
and Paul Vieira
contributed to this article.

Venezuela’s Opposition Plans Parallel State

By KEJAL VYAS
AND ANATOLY KURMANAEV

CARACAS—Venezuelan President Nicolás Maduro came under growing pressure Monday as the opposition announced plans for a parallel government and the U.S. threatened sanctions if his government moves ahead with plans to rewrite the constitution.

“It’s time for the zero hour,” the vice president of congress, Freddy Guevara, said at a news conference on Monday flanked by other foes of Mr. Maduro.

Mr. Guevara called for a 24-hour strike on Thursday, a day before lawmakers in the opposition-controlled National Assembly are scheduled to name replacements for some of the magistrates allied to Mr. Maduro on the country’s top court.

The opposition’s new strategy came as President Donald Trump said his administration would impose “swift economic actions” if Mr. Maduro goes ahead with a planned election on July 30 to the constituent assembly charged with rewriting the constitution.

“The United States will not stand by as Venezuela crumbles,” Mr. Trump said in a statement. He said Venezuela

lans’ “strong and courageous actions continue to be ignored by a bad leader who dreams of becoming a dictator.”

People familiar with the discussions in the White House say the administration has been pondering sanctioning Venezuela’s state-controlled oil company and its executives or taking an even tougher measure, such as finding a way to curtail the oil revenues on which Mr. Maduro’s government depends.

“My sense is there’s an intensive review on a variety of options,” said Michael Shifter, president of the Inter-American Dialogue, a policy group in Washington that tracks Venezuela. “I wouldn’t be surprised about discussions on very severe measures against the Venezuelan government.”

The Trump administration hasn’t publicly commented on the scope of its potential sanctions against Venezuela.

More than 7.5 million Venezuelans at home and abroad cast ballots on Sunday in an unofficial plebiscite organized by the opposition to serve as a mass repudiation of the unpopular Mr. Maduro’s efforts to create a constituent assembly on July 30 that would redraft

the constitution. The opposition, along with international human-rights groups and several governments, say the move is an attempt by the increasingly authoritarian leader to seize more power and bypass elections.

Voters on Sunday were presented with three questions. More than 98% of those who voted were against the government on the constitution redo,

urged the holding of general elections and demanded that the military, which has helped Mr. Maduro by cracking down on protesters during three months of deadly civil unrest, abide by the law.

Mr. Guevara and other opposition leaders said they were working to create a “government of national unity,” an alliance between longtime government foes and dissidents

from within Mr. Maduro’s ruling Socialist Party. Some formerly loyal lieutenants in the government have openly broken with Mr. Maduro recently. “This path that we’re forced to take carries risk,” opposition lawmaker Juan Andrés Mejía said, regarding the creation of parallel institutions. “This state of national unity will not be recognized by everyone. The important thing is for it to be

recognized by the people.”

Mr. Maduro has alleged that all actions by the opposition amount to an effort to dislodge him undemocratically. His rivals are calling for immediate general elections that polls show the president and his allies would lose.

—Ian Talley,
José de Córdoba
and Juan Forero
contributed to this article.

Freddy Guevara, vice president of the congress, on Monday announced a 24-hour general strike to increase pressure on the government.

CARLOS GARCIA RAWLINS/REUTERS

Mexico Drug Lord’s Extradition Fuels Bloody Turf War

By JOSÉ DE CÓRDOBA

CULIACÁN, Mexico—The extradition of Joaquín “El Chapo” Guzmán, Mexico’s long-dominant drug lord, has led to an explosion of violence in his home state of Sinaloa, the birthplace of the country’s narcotics industry.

Rival factions are fighting over Mr. Guzmán’s billion-dollar empire as he awaits trial in solitary confinement inside a high-security prison in New York. He was extradited to the U.S. in January on drug-trafficking and murder charges, to which he has pleaded not guilty.

Close to 900 people have been murdered in Sinaloa over the first six months of 2017, almost twice the number of homicides over the same period last year, according to the Sinaloa Attorney General’s Office. Most of the increase was due to drug-related killings.

In one outburst of violence late last month, 19 people were killed in an incident that ended with gunmen battling police a short distance from the Pacific beach resort of Mazatlán, Sinaloa officials



said.

“It’s a war between two groups fighting for drug markets and routes,” said Genaro Robles, a retired Mexican army general who was named Sinaloa’s secretary of public safety in December.

The war of succession has

also sowed violence elsewhere in Mexico, as rival groups take advantage of a weaker Sinaloa cartel to try to poach turf from the gang, which has been the top dog in the Mexican underworld for the past two decades.

This month, 14 people were

killed in a gunbattle in neighboring Chihuahua state between alleged gunmen from a faction of the Sinaloa cartel and members of La Línea, a dominant faction of the Juarez cartel, Chihuahua state officials said.

Mexico’s Jalisco New Gener-

Violent Aftermath

Killings have soared in Sinaloa since ‘El Chapo’ was sent to U.S.

200 homicides

Source: Mexico Interior Ministry

THE WALL STREET JOURNAL

ENRIC MARTÍ/ASSOCIATED PRESS

January 2017
Extradition

150

100

50

0

2016 2017

Correa-Cabrera, a professor at the University of Texas Rio Grande Valley, who has written a book on the Zetas cartel. “When a kingpin is removed, he is replaced by somebody else, violence increases, and there is more diversification of criminal activities.”

In Sinaloa, for the most part, old-time drug traffickers like Mr. Guzmán maintained a rough sort of law and order in places like Culiacán, the state capital. Some types of crimes, such as burglaries and street holdups, were rare. The old capos concentrated on exporting drugs to the U.S.

For that reason, many Sinaloa residents pray for the good health of 69-year-old Ismael “El Mayo” Zambada, the last of the old-time bosses still at large, who has a reputation as a conciliator. “El Mayo is the best of the bad ones,” a longtime Culiacán businessman said. “When he goes, there will be a bigger bloodbath.”

Tensions within the Sinaloa cartel had been simmering since Mr. Guzmán’s recapture in 2016, but they burst into open warfare in February following his extradition.

WORLD NEWS

China's Growth Masks Signs of Trouble

BY LINGLING WEI

BEIJING—China touted its economic expansion this year as evidence it can reduce debt without harming growth. But the outlook appears hazier when considering the property market's outsize role in the economy, jittery consumers and signs that significant deleveraging hasn't fully set in.

Beijing said domestic demand fueled 6.9% growth in the second quarter, a result that matched the first-quarter growth rate and beat economists' forecasts. However, economists and analysts say the result has to be measured against a continued reliance on problematic sectors such as real estate and a lack of meaningful progress toward cutting the country's debt.

Meanwhile, consumers aren't spending as fast as their wages rise, suggesting many have become more financially strapped because of high property prices. The latest data is "a blip" among Messrs. Zhu and Hu.

amid a growth deceleration," said China economist Larry Hu at Macquarie Securities in Hong Kong.

Armed with a more stable yuan and reduced capital outflows, Beijing has been able to tighten credit without causing market panic or affecting headline growth. That effort has forced banks and other financial institutions to cut back on borrowing from each other. But it hasn't led to significant debt reduction in the economy.

"There hasn't been too much deleveraging going on," said Zhu Chaoping, a Shanghai-based economist at UOB Kay Hian.

In June, Chinese banks issued a higher-than-expected 1.54 trillion yuan in new loans, or roughly \$227 billion, compared with 1.1 trillion yuan in May. More than a third of that amount went to home lending. Indeed, a resilient property market is the most important driver of China's growth so far, according to economists includ-

Still Addicted?

On a mission to wean itself off debt-fueled growth, China credited domestic demand for a stronger-than-expected second quarter. Yet, lending stayed high and consumption rose at a slower pace than wages.

New bank loans



Note: 1 trillion yuan = \$147.4 billion
Source: Wind Info

The results mean that in a year that will see a twice-a-decade leadership transition, Beijing will have little problem reaching its full-year growth target of about 6.5%.

But Beijing has to continue to clamp down on credit to shift

Consumption and wage growth, change from a year earlier



to a more sustainable growth model, leaders say. If growth slows in the coming months, that clampdown could become more difficult. "We shouldn't be too optimistic about the economic picture in the second half of the year," said Sheng

Songcheng, a senior adviser at the People's Bank of China.

Should growth weaken, Mr. Sheng said, the PBOC likely will gradually guide down the short-term interest rates used to price bonds and bank-to-bank loans and ease the liquidity constraints on the country's financial system to help the economy. That would mark a shift in strategy since late last year, when the PBOC embarked on an untraditional tightening path by pushing up the short-term rates while leaving unchanged the benchmark rates.

Beijing faces a policy dilemma in its battle to tame the property market, which, together with construction and home furnishings, now contributes to a third of the overall economy. It doesn't want home prices to soar for fear of destabilizing bubbles; on the other hand, it needs to prevent a property crash that could torpedo the economy.

Since late last year, a series of measures intended to curb

home buying has helped slow the run-up in home prices in megacities such as Beijing, Shanghai and Shenzhen. Yet those measures have done little to deter potential buyers. Many of them have simply flocked to smaller cities.

Nationwide, property sales jumped 16% from a year earlier in the second quarter, primarily driven by the gains in medium-size and small cities. Property investment continued to accelerate in the first half. Still, there were signs that developers tempered investment toward the end of the period.

In addition, the rising property prices are causing many consumers to tighten their purse strings. In the first six months, wages earned by urban residents increased 6.5%, on average, according to official data. By comparison, their consumption picked up at a slower pace of 5.1%.

◆ Beijing talks tough, and stocks decline..... B11

Seoul Reaches Out to Pyongyang

BY JONATHAN CHENG

SEOUL—The administration of South Korean President Moon Jae-in made its first formal offer to start talks with North Korea, following through on a policy plank of Seoul's first left-leaning president in nearly a decade.

South Korea's Ministry of National Defense on Monday proposed a meeting with its counterpart on Friday at Panmunjom, the truce village where the 1953 armistice that halted the Korean War was signed, to discuss ways to lower tensions between the two sides.

At the same time, the Ministry of Unification, which oversees Seoul's ties with Pyongyang, called for the two Koreas to restart reunions of families separated during the Korean War and reiterated a desire for an end to hostilities



Soldiers stood guard at the demilitarized zone near Kaesong in June.

between the two sides.

"If South and North sit down face to face, we will be able to frankly discuss issues of mutual concern," said Cho Myoung-gyon, the new unification minister.

North Korea didn't immediately respond through its state media to the proposals, but it has dismissed Mr. Moon's previous suggestions for a restart to dialogue.

Beijing, an ally of Pyong-

yang's, voiced support for Seoul's proposal. A Chinese Foreign Ministry spokesman said the effort is a step toward improving relations between the Koreas and easing regional tensions.

"We hope the two sides will move in a positive direction to create the conditions to break the stalemate and relaunch dialogue and negotiations," the spokesman, Lu Kang, said in Beijing.

The dual proposals on Monday underscore Mr. Moon's commitment to seeking engagement with Pyongyang as a way to lower tensions on the Korean Peninsula.

Mr. Moon, a liberal who favors dialogue with North Korea, was sworn into office in May following the impeachment and removal of his conservative predecessor, Park Geun-hye.

South Korea Will Lift Minimum Wage 16.4%

BY MIN SUN LEE
AND KWANWOO JUN

SEOUL—South Korea said it would boost its minimum wage 16.4%, a sharp rise compared with recent increases in other developed economies, drawing criticism from small businesses as the new left-leaning administration implements its policy agenda.

President Moon Jae-in, who took office in May, is pushing for a greater role for the government in creating jobs and spurring domestic demand, and had called for a substantial increase in the minimum wage to address income inequality. "It's not just an hourly wage but it symbolizes the right to live as a human," Mr. Moon said.

The Minimum Wage Commission said it had decided it

would raise the benchmark to the equivalent of \$6.67 an hour effective Jan. 1. The increase is the largest annual rise since 2001, and follows a 7.3% rise this year and an 8.1% increase in 2016.

The size of the increase raised concerns among businesses. The Korea Federation of Micro Enterprise, which is mostly made up of small-business owners, said its members were "worried about a sudden decline in employment, decline in service quality and possible closure due to worsened business environment."

The government is preparing an aid package for small companies.

As many as 4.63 million employees, or about 24% of the salaried population, will see their pay rise.

Lack of speech is a sign of autism.
Learn the others at autismbreaksbarriers.org

AUTISM SPEAKS



Your trust,
your future,
our commitment

MUFG, a major multinational financial group, offers comprehensive and tailored financial solutions to our clients around the globe. With more than 350 years of history, \$2.61 trillion in assets, and operations in nearly 50 countries, MUFG is steadfast in its commitment to serving business and society by building long-term client relationships. Focused on your future, we work every day to earn your trust.

Learn more at mufgamerica.com/future

The Bank of Tokyo-Mitsubishi UFJ, Ltd.
A member of MUFG, a global financial group

 MUFG

¹Exchange rate of 1 USD = ¥116.49 (JPY) as of December 31, 2016.

©2017 Mitsubishi UFJ Financial Group, Inc. All rights reserved. The MUFG logo and name is a service mark of Mitsubishi UFJ Financial Group, Inc., and is used by The Bank of Tokyo-Mitsubishi UFJ, Ltd., with permission.

IN DEPTH

DRONES

Continued from Page One
would curb proliferation and keep the weapons from misuse.

But China is filling the void. State companies are selling aircraft resembling General Atomics's Predator and Reaper drones at a fraction of the cost to U.S. allies and partners, and to other buyers.

China's sales have enabled multiple countries—including some with weak legal systems and scant public oversight of the military—to use unmanned aerial vehicles to spy and kill remotely as the U.S. has done on a large scale since 9/11.

Among the Pentagon's concerns is that advanced drones could be used against American forces. In Syria, U.S. pilots have shot down two Iranian-made armed drones threatening members of the U.S.-led coalition.

U.S. export policy that is driving partners to buy Chinese "hurts U.S. strategic interests in so many ways," said Paul Scharre, a former Pentagon official at the nonpartisan Center for a New American Security. "It damages the U.S. relationship with a close partner. It increases that partner's relationship with a competitor nation, China. It hurts U.S. companies trying to compete."

Removing Obstacles

China's drone exports are now starting to influence U.S. policy, as American manufacturers and politicians lobby the Trump administration to relax export controls to stop China from expanding market share and undermining U.S. alliances.

The White House National Security Council is reviewing the drone-export process with the goal to "wherever possible"

remove obstacles to American companies' ability to compete, a senior Trump administration official said.

"We are attuned to what China is doing," the official said.

Thomas Bossert, assistant to the president for homeland security and counterterrorism, emphasized the effort to balance economics and security. The administration seeks to help U.S. industry while advancing strategic objectives, he said, including "a deliberate approach to our technology sales policy and the protections we put in place to avoid imperiling innocent lives."

China, meanwhile, has its sights on another milestone: building military drones in the Mideast. In March, Chinese and Saudi officials agreed to jointly produce as many as 100 Rainbow drones in Saudi Arabia, including a larger, longer-range version called the CH-5, according to people involved.

Shi Wen, the chief designer of China Aerospace Science and Technology Corp.'s Rainbow, said earlier versions of the aircraft had been exported to the Mideast, Africa and Asia and were proved "on the battlefield," hitting 300 targets in the previous year or so with Chinese laser-guided missiles.

"Our main competitors? The Americans, of course," Li Yidong, chief designer of the Wing Loong, which is built by Chengdu Aircraft Industry Group, said in November at China's biggest air and defense show in Zhuhai.

Behind him, a video screen played animated clips depicting a drone strike on a terrorist base, set to a thumping soundtrack. Nearby, miniskirted models posed with laser-guided missiles.

China's government and drone manufacturers declined



Saudi officers talk with Chinese sales staff in front of a CH-5 Rainbow drone at an air and defense show in Zhuhai, China in November.

JEREMY PAGE/THE WALL STREET JOURNAL

to reveal who bought the aircraft. The foreign ministry said Beijing requires strict user agreements—offering no details—and ensures that its arms sales do no harm to regional peace and stability.

"China is paying high attention to the question of the use and export of armed drones," it said. Authorities from Saudi Arabia, Egypt, the U.A.E. and Jordan declined to comment.

China began exporting strike-enabled drones around 2014-2015, heralding a new phase in its arms industry as a global competitor that can influence conflicts and alliances world-wide.

Beijing used to sell mainly low-tech arms to poorer countries; now it is marketing sophisticated items including stealth fighters, and targeting markets once dominated by Russia and the U.S. Sales help Beijing gain leverage in areas where its economic interests are expanding, adding muscle to President Xi Jinping's drive to establish his country as a global power.

China is now the world's third-biggest arms seller by value, behind the U.S. at No. 1 and Russia, according to the Stockholm International Peace Research Institute, or SIPRI.

Maintaining such a ranking depends in large part on demand for China's armed drones, which China has sold to countries including Iraq, Saudi Arabia, Egypt and the U.A.E., the Pentagon said in a report in June.

"China faces little competition for sale of such systems, as most countries that produce them are restricted in selling the technology" by international agreements, it said.

Key among those agreements limiting American sales is the 1987 Missile Technology Control Regime, signed by 35 nations including the U.S., but not China. The MTCR limits exports based on an unmanned system's range and how much it can carry—putting tight restrictions on the most powerful American drones.

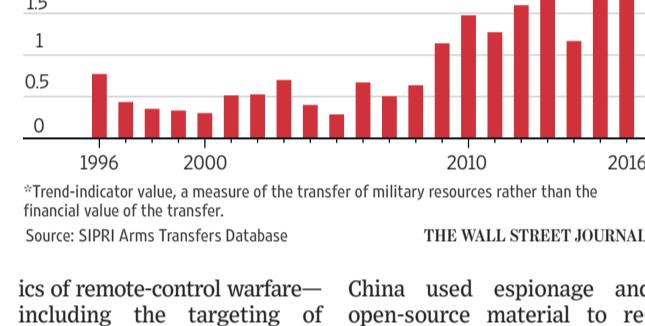
In 2015, the Obama administration issued new export rules that tried to enable drone exports if buyers agreed to use them in line with international human-rights law.

The rules grew in part from the administration's expansion of drone operations in places such as Afghanistan. The growth spurred concerns about the lawfulness of killings outside combat areas and the eth-

Budding Business

China's arms sales have evolved from mainly low-tech arms to more sophisticated items, making Beijing the world's #3 arms seller by value

Weapons exports from China



*Trend-indicator value, a measure of the transfer of military resources rather than the financial value of the transfer.

Source: SIPRI Arms Transfers Database

president of the U.S.-U.A.E. Business Council. The U.A.E. has used them to guide missiles from planes for strikes in Yemen, he said.

In Libya, the U.A.E. is using Chinese drones to help support a general who opposes the United Nations-backed government in Tripoli, satellite images indicate. They also show that Egypt's military is deploying Chinese drones in the Sinai Peninsula in its campaign against Islamist militants.

Iraq last year published video of its missile attacks on Islamic State from a Chinese drone, and Nigeria issued footage of a strike by a Chinese drone on the Boko Haram insurgency. An official with Iraq's Joint Operations Command said Iraq has used the Chinese-made CH-4 Rainbow. A Nigerian Air Force spokesman said Nigeria was using CH-3 Rainbows procured from China.

U.S. manufacturers, and their political backers, argue that Washington can no longer prevent drone proliferation.

Weapons makers have been buoyed by President Donald Trump's statements of support for U.S. manufacturing and for a \$110 billion arms sale to Saudi Arabia that includes some items that were blocked by the Obama administration. The administration in June approved the sale to India of 22 Guardian drones, an unarmed maritime version of the Reaper.

Bart Roper, executive vice president of General Atomics Aeronautical Systems Inc., said the U.S. is ceding the drone market to Chinese and others "due to obsolete and arbitrary restrictions."

He expressed hope the Trump administration would revise policy.

In recent months, China has unveiled larger, longer-range drones and tested radar-evading stealth models, according to state media. It has also expanded its marketing, displaying its drones for the first time in Mexico in April and in France in June.

At the Chinese air show in November, two uniformed Saudi officers inspected a CH-5 Rainbow displayed publicly for the first time. "It's amazing," said one. "This thing can stay up for more than 24 hours."

The CH-5 can in fact operate for up to 40 hours, its manufacturer says—about 50% longer than its American competition.

—Asa Fitch in Dubai and Yang Jie in Beijing contributed to this article.

Who's Buying

China's military drones have recently appeared in Mideast war zones, but it's also been selling them in Asia and Africa, from surveillance models like the ASN-209 to the strike-enabled Wing Loong.

Egypt



18 units of ASN-209 between 2012 and 2014

Iraq



4 units of Rainbow CH-4 in 2015

Jordan



2 units of Rainbow CH-4 in 2016

Kazakhstan



2 units of Wing Loong 1 in 2016

Myanmar



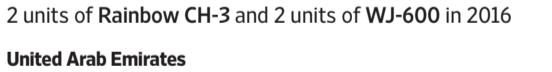
12 units of Rainbow CH-3 between 2014 and 2015

Nigeria



5 units of Rainbow CH-3 delivered in 2014

Pakistan



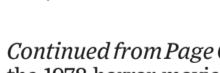
20 units of Rainbow CH-3 between 2013 and 2016

Saudi Arabia



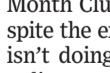
2 units of Rainbow CH-4 and 2 units of Wing Loong 1 in 2015

Turkmenistan



2 units of Rainbow CH-3 and 2 units of WJ-600 in 2016

United Arab Emirates



2 units of Wing Loong 1 in 2013

Source: SIPRI Arms Trade Registers

THE WALL STREET JOURNAL.

NAMES

Continued from Page One

the 1978 horror movie "Halloween.") The first Riley Sager novel is one of five Book of the Month Club picks for July. Despite the excitement, Mr. Ritter isn't doing a book tour. Some online posts have referred to him as a woman, a mistake he sometimes ignores. He won't lie about his identity, created with help from a list of gender-neutral baby names, but he isn't trumpeting the truth, either.

"I didn't want there to be people thinking I was trying to deceive them in any way, but at the same time I think it's cool to have a little mystery," said Mr. Ritter, a 43-year-old author from Princeton, N.J. He said he chose the pseudonym partly because this book was unlike any other he had written and

thrillers published under his real name hadn't sold well.

The world has changed since the Brontë sisters and the woman born Mary Ann Evans, writing as George Eliot, had to disguise themselves with masculine-sounding pen names to be taken seriously. Women hold a large share of the power in the reading public. Last year, women bought 59% of all fiction, according to NPD Books.

A 2014 Goodreads survey of 20,000 male and 20,000 female participants on the site found that of the 50 books published that year that were most read by women, 46 were written by women. (One of those was by J.K. Rowling under the pen name Robert Galbraith.)

The stakes are high for male writers not to make mistakes that female readers would catch. S.J. Watson—Steve Watson—tried on a bra in his office while writing his 2011 best

seller "Before I Go to Sleep." The book refers to the undergarment at least seven times. If he had messed up a reference to bra mechanics, he said, his mother, one of his first readers, would have told him.

Pen names offer benefits, including the freedom of a clean slate. Retailers may rule out another work by an underperforming veteran in favor of a splashy newcomer.

In recent years, many female readers have been drawn away from international espionage thrillers, a genre predominantly written by men, in favor of suspense novels told through the point of view of female characters, often compared with the 2012 juggernaut "Gone Girl." Since then, certainly, men have written psychological thrillers under their own names and women have used pen names. But once a formula is successful, publishers try to replicate it.

"I'd be totally disingenuous if I said I haven't noticed women are the ones powering these books," said Daniel Mallory, 37, whose thriller "The Woman in the Window" comes out in January under the name A. J. Finn.

Mr. Mallory, vice president and executive editor at William Morrow, constructed the pseudonym using initials, like other male authors do, with help from his cousin's French bulldog, Finn. He used the name for his debut novel to steer clear of his ties in publishing and appeal to as broad an audience as possible.

Authors who use pseudonyms argue that a good writer can be genuine in the voice of the opposite gender—or a dog or a space creature, for that matter. And they accept that nothing stays a secret for long in the age of the internet.

A quick Google search linked Tony Strong to his pen name,

JP Delaney, even before his 2017 best seller "The Girl Before" hit shelves. Publisher Ballantine Books identified JP Delaney as a pseudonym in the book jacket bio but didn't use title pronouns like "he" or "she." If readers assume he's a woman, Mr. Strong said, it signals to him that he wrote a believable female narrator. "At almost every event, someone will say, 'Oh, I didn't realize you weren't a woman,' and I'm always pleased."

Last year, Amy Feld referred to author S.K. Tremayne as a woman in an online post about the 2015 thriller "The Ice Twins." Ms. Feld, 53, a child psychologist from Conshohocken, Pa., said she is more likely to pick up a first-person female narrative written by a woman. When she finds authors she likes, she reads all their books, follows them on social media and tries to de-

velop a feel for them. When informed of S.K. Tremayne's actual gender recently, she balked. "It leads me to be suspicious of the writer," she said. "I just feel a little bit lied to."

Sean Thomas, 53, the Londoner who is S.K. Tremayne, had been toiling for years as Tom Knox, a pen name that distanced his fiction from his work as a journalist but never delivered literary stardom. When he took on S.K. Tremayne, with what he called its "slight feminine feel," his luck changed. "The Ice Twins" was a 2015 international best seller and optioned for a movie.

Mr. Thomas adopted the pen name on the advice of his all-female publishing team but he didn't set up social media accounts for it because he didn't want to flesh out the fake identity. "We didn't overtly lie," he said. "It's a cut-throat industry."

GREATER NEW YORK

Commuter Headache Arrives Late

Riders experience severe delays after a fire and fatal accident disrupt train service

The "summer of hell" started one week late.

After Amtrak began an eight-week reduction of train service into New York Penn Station by 20% on July 10, commuters braced for a nightmare commute that, by and large, never happened last

By Paul Berger,
Corinne Ramey
and Zolan Kanno-
Youngs

week.

They arrived at train stations in New Jersey and Manhattan Monday morning to find severe delays.

NJ Transit reported delays of up to 60 minutes on its Morris and Essex Lines after a man trespassing on the tracks between Chatham and Summit was struck and killed by a train around 6:30 a.m., a spokesman for NJ Transit said.

Meanwhile, a fire on the tracks at 145th Street in northern Manhattan disrupted A, B, C and D subway lines. Nine people suffered minor injuries, including smoke inhalation, in the incident.

The misery continued through the day.

NJ Transit canceled a half dozen trains, mostly during the afternoon and evening, because of staffing problems. A person with knowledge of the situation said drivers were exercising a contractual right not to show up for work in the immediate aftermath of a



Passengers leave a Bronx bound C train at West 4th Street on Monday after a track fire disrupted service on several subway lines.

schedule change.

A spokeswoman for NJ Transit said: "We would hope they would come to work because this is not helping the public."

Jim Brown, the general chairman of the drivers' union, the NJ Transit Brotherhood of Locomotive Engineers, declined to comment.

The subways suffered further problems too. In the late afternoon and early evening there were disruptions on A, C, E, F, G, M, N, Q, R, W, 2, 3, 4, and 5 trains. The delays

were caused by signal and mechanical problems as well as a track fire at Lexington Avenue and 63rd Street. No one was injured by that fire.

This summer's service reductions into Penn Station have placed increased strain on a transportation system that in many areas is already operating at capacity. New York Gov. Andrew Cuomo warned in the months leading up to the reductions that commuters faced a "summer of hell."

Following the morning's

track fire, riders on one train recounted filing through the cars to exit through a single door of a train that had been pulled into the 155th Street station.

"It was horrible," said Martha Canto, a travel consultant who lives in Washington Heights. She walked to the 1 train, which she called a nightmare because of packed commuters, many of whom had to allow multiple trains to pass before they could squeeze onto a car.

"I'm totally late, and I

started out early," added Ms. Canto, 54 years old. "Once one train goes out of commission, it's a domino effect and creates a lot of problems, especially for millions trying to get to work during rush hour."

Justine DiCostanzo, who owns a Pilates studio, said her train stopped between stations, and was eventually evacuated into the 168th Street station.

"It's frustrating because there was another issue with the A train not that long ago," said Ms. DiCostanzo, 52.

Greenfield Won't Seek New Term On Council

By MARA GAY

New York City Councilman David Greenfield, a Brooklyn Democrat who is one of the city's most influential lawmakers, won't seek re-election this year.

The decision by Mr. Greenfield was a surprise to many at City Hall and leaves another open seat on the 51-member council, which could see wide-ranging changes next year under a new speaker.

"I love being a councilman, it's wonderful to be in the thick of things," Mr. Greenfield said in a phone interview. "But part of the purpose of serving the public is to try to figure out where you can make the greatest impact."

Mr. Greenfield, 38 years old, said he had accepted a job as CEO and executive director of the Metropolitan Council on Jewish Poverty, a New York City-based nonprofit, whose board officially voted on the position Sunday.

"This is what I'm passionate about," Mr. Greenfield said of the group's work. "It is, to be frank, my world."



David Greenfield will lead the nonprofit Metropolitan Council on Jewish Poverty.

Mr. Greenfield and others on the City Council have steered thousands of dollars in discretionary funds to the group in recent years, as well as to other nonprofits. "I've given because I know they're important and I want to support them," he said.

Mr. Greenfield serves as chairman of the council's powerful Committee on Land Use, wielding especially significant sway over rezoning proposals that are critical to Mayor Bill de Blasio's housing plan. He is also a member of the council's budget negotiating team.

Mr. Greenfield, a lawyer, is known as a moderate Democrat in the largely liberal council.

Mr. Greenfield has served on the council since 2010, when he was elected in a special election. He said he plans to serve out the remainder of his term, which runs through Dec. 31. It isn't immediately clear who might run to succeed Mr. Greenfield.

The City Council is set to have several open seats this year, and a new speaker next year because the current speaker, Melissa Mark-Viverito, is term-limited.

Mr. Greenfield's district includes the Brooklyn neighborhoods of Ocean Parkway, Midwood, Borough Park and Bensonhurst.

New Law Widens Type of Evidence Allowed

By CORINNE RAMEY

When police seek to identify a suspect, they typically show a witness at least six photos of people with similar skin tones, hair colors and other physical traits. An officer then asks the witness to point out the person who committed the crime.

But until this month, these photo arrays, while commonly used by police, weren't allowed as evidence in criminal trials in New York. This changed due to legislation that overhauled aspects of how law enforcement conducts eyewitness identification in New York, including permitting photo arrays at trials and, by next April, mandating videotaped interrogations for those accused of certain serious crimes.

Proponents say these changes will help convict the guilty and prevent wrongful convictions of innocent people. Critics say some of the changes, including guidance for how officers conduct arrays, don't go far enough.

The legislation is a "sea change" for criminal justice in New York, which was the only state in the nation that didn't

allow photo arrays to be used at trial, said Alfonso David, counsel to Gov. Andrew Cuomo, a Democrat.

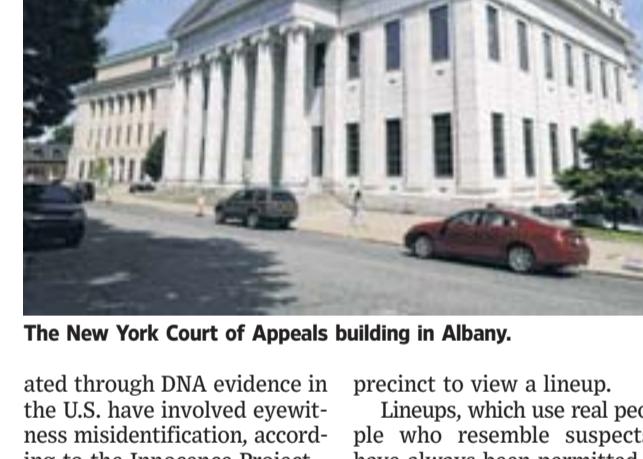
Backing the changes are uncommon allies: The Innocence Project, which seeks to exonerate the wrongly convicted, and the District Attorneys Association of the State of New York, which represents prosecutors in the state.

"In the courtroom, it created issues with the jury," said Scott McNamara, the association's president, who also serves as Oneida County district attorney, of the ban on photo arrays.

Because prosecutors couldn't present the arrays, the jurors missed a crucial chunk of the investigation, he said. When a prosecutor asked if the person who committed the crime was in the room, the witness would point to the defense table, which seemed suspect to a jury, Mr. McNamara said.

"The jury would wonder, how did the police get from 'The bank was robbed' to here?" he said.

Seventy-one percent of wrongfully convicted exoneration



The New York Court of Appeals building in Albany.

ated through DNA evidence in the U.S. have involved eyewitness misidentification, according to the Innocence Project.

Allowing photo arrays will have a larger impact on upstate counties and rural areas that rarely use lineups, prosecutors say. The New York Police Department prefers to conduct lineups, but uses photo arrays in circumstances where a lineup isn't feasible, a spokeswoman said. For example, a witness might be in the hospital and can't come to the

precinct to view a lineup.

Lineups, which use real people who resemble suspects, have always been permitted.

Research has shown the reliability of an array or lineup depends on the procedures used to administer it, said J.C. Lore, director of trial advocacy at Rutgers Law School. However, it is easier to put together a good array than a good lineup because of the ease and speed of assembling similar photos as opposed to similar people, he added.

The changes include a requirement to videotape the questioning of a suspect accused of serious crimes like some homicides and sexual assaults. To introduce photo arrays in court, the officers who conducted the array must either not know where the suspect is in the array or not know who the suspect is.

Some defense attorneys criticized the changes, saying allowing arrays in court would create a disincentive to conduct lineups, which are considerably more labor intensive. Furthermore, the measures meant to improve identification procedures don't go far enough, they said.

"The real problem with this photo-identification law is how much of it is optional," said Al O'Connor, litigation counsel at the New York State Defenders Association.

Peter Mitchell, an attorney at the Legal Aid Society, said the legislation doesn't completely eliminate post-identification reinforcement, or officers giving subtle approval to the witness, which could then give them more confidence when testifying in court.

Cuomo and de Blasio Make Nice With Each Other

By MIKE VILENSKY
AND MARIANA ALFARO

The Republican push to repeal the Affordable Care Act on Monday momentarily united two New York Democrats who are often at odds.

Gov. Andrew Cuomo and Mayor Bill de Blasio have long sparred with one another, most recently over troubles at the Metropolitan Transportation Authority, and they rarely appear together.

But they held a joint rally criticizing Republican-backed federal health-insurance bills and supporting New York Attorney General Eric Schneiderman's vow to sue if the GOP gets a new law through Congress.

"This health plan put forward by this Congress will hurt the people of the state of New York, and I'm going to do everything I can to fight against it," said Mr. Cuomo, calling the mayor "a colleague in this battle."

The Republican-led House



earlier this year passed a bill that would repeal parts of former President Barack Obama's signature health-insurance law. The Republican-led Senate is currently considering

its own version of that bill.

Mr. Schneiderman, another Democrat, said Monday he would sue the federal government if either the House or Senate bills becomes law on

"the basis of several constitutional defects."

Representatives for House Speaker Paul Ryan and for Senate Majority Leader Mitch McConnell declined to com-

ment Monday.

Mr. Ryan, a Republican from Wisconsin, has defended the GOP's bill, saying insurance markets created by Mr. Obama's law are collapsing and a repeal will help people end their struggles with their health-care plans.

The event on Monday, held at Mount Sinai Hospital in Manhattan, included remarks from Messrs. Cuomo, de Blasio, and Schneiderman and Democratic Assembly Speaker Carl Heastie.

Mr. Cuomo, who has been floated as a 2020 presidential candidate, touched on national themes. "Disregarding the poor, disregarding the weak, that is not what made this country this country," he said.

He largely trained his fire on Congress and avoided naming President Donald Trump, which is his custom.

Mr. Schneiderman, who is considered a possible contender to succeed Mr. Cuomo as governor, gave lower-deci-

bel remarks focused on the rule of law. Mr. de Blasio, who is aligned with the left wing of his party, adopted the rhetoric of Sens. Bernie Sanders and Elizabeth Warren, saying "people will die" if the Republican proposals lead to a new law.

The last time Messrs. Cuomo and de Blasio held a joint event was after a bomb exploded in a Manhattan neighborhood in September 2016.

Associates said the two have recently engaged in something of a detente after a yearslong public feud. They had a private lunch in New York City in May, these people said, and discussed the MTA by phone recently.

Politics has united them before. When U.S. Sen. Ted Cruz of Texas assailed Mr. Trump for holding "New York values" during the 2016 presidential campaign, Messrs. Cuomo and de Blasio released a joint essay extolling such values.

GREATER NEW YORK



VASSAR & NEW YORK STAGE AND FILM
Previous productions at Vassar College's Powerhouse Theater festival in Poughkeepsie. The event is a significant incubator of fresh work.

Creative Freedom Thrives at Festival

BY CHARLES PASSY

It is about 80 miles from New York City's theater district to the relatively quiet upstate city of Poughkeepsie. But these days, it often feels as if there is a direct connection between the two locales—at least in an artistic sense.

That is because Poughkeepsie is home to Vassar College and its Powerhouse Theater festival, a six-week summer event that brings about 350 actors, directors, playwrights and other dramatic professionals to the city of about 30,000.

Productions take place at theaters throughout the campus; all the participants live at Vassar as well.

Plenty of the talent comes from New York City. But just as important, what is presented at Powerhouse often finds its way back to the Big Apple.

The 33-year-old festival has become a significant incubator for fresh work, with such shows as the blockbuster musical "Hamilton" and the Tony Award-winning drama "The Humans" having been showcased at Powerhouse before landing on Broadway.

Indeed, for many in New York's theater community, the festival, a collaboration between Vassar and the nonprofit New York Stage and Film organization, has become a *de facto* pit stop. Or, at the very least, a place where an artist is free to think, unwind and, most critically, create.

"It is one of the safest, yet stimulating places," said the Pulitzer Prize-winning playwright John Patrick Shanley, who has developed several works at Powerhouse over the years.

This summer, the Power-



house tradition continues, with the festival running through July 30. Though Mr. Shanley won't be on hand, several other prominent artists already have, or are making their way to, the festival.

Josh Radnor, best known as an actor on the hit sitcom "How I Met Your Mother," unveiled one of his plays, "Sacred Valley," in a production that ended on July 9.

"The Secret Life of Bees," a new musical from playwright Lynn Nottage and composer Duncan Sheik, both Broadway veterans, will be presented July 27-30.

In all, Powerhouse, which is run on a \$1.2 million budget, offers more than a dozen works during the course of its season, though some are seen just in readings.

The festival also has an educational component. About 40

actors, playwrights and directors attend an intensive training program, with a tuition of \$5,000, and present their productions during the season.

Powerhouse isn't the only summer program that is focused on developing new work. In New York City, for example, there is the New York Musical Festival, which opened on July 10 and runs through Aug. 6.

But Powerhouse officials and artists connected to the festival say the fact its program isn't in New York City works to its advantage because the escape from the hustle and bustle allows for more creativity and experimentation.

The festival also sees to it that theater critics aren't allowed to review the productions, so artists are additionally shielded from the outside world as they develop their work.

Even the more polished Powerhouse productions aren't considered finished, explains Johanna Pfälzer, New York Stage and Film's artistic director.

"One of our hallmarks is recognizing the work is in its incubation phase," she said.

Still, the projects are enough of a draw that about 10,000 people attend the event annually, according to festival officials.

Some are Broadway producers seeking the next big thing, but the majority are theater-loving locals who appreciate being a test market of sorts.

Donna Perry, a retiree who lives in the Poughkeepsie area, counts herself among the Powerhouse fans.

The shows "aren't always ready for prime time," she said, "but they all have something to say."

'Vision Zero' Shows Signs Of Success

BY MARIANA ALFARO

In 2013, Amy Cohen's 12-year-old son, Sammy, was struck and killed by a van outside his Brooklyn home.

Hoping to reduce traffic fatalities in the city, Ms. Cohen, 52, became an advocate for safer streets. She has been closely following Vision Zero, Mayor Bill de Blasio's campaign to end such deaths in the city by 2024.

"Everybody in New York knows what it means to drive like a New Yorker, and that can't be tolerated anymore," Ms. Cohen said.

Earlier this month, the Vision Zero campaign announced a milestone in its progress—traffic-related fatalities in the first half of the year dropped to under 100, the fewest since 1988. The toll was 93.

In the three years since the campaign launched, the city has re-engineered streets and corridors found to be the most prone to traffic accidents. It has also increased protected bike trails and launched educational campaigns to keep pedestrians, bikers and motorists safe. These changes, Ms. Cohen said, are extremely effective but don't happen fast enough.

Ms. Cohen founded Families for Safe Streets, a coalition of traffic-accident survivors and relatives of victims to offer support services to individuals and to help New Yorkers channel their grief into action and advocate for safer streets. Traffic accidents, she said, are an epidemic and solutions must be implemented quickly.

"If this was a virus and we had the inoculation, the vaccine, we would not be talking about when should we do this, what should be the time frame," she said. "We need to treat it like the crisis it is."

Department of Transporta-

tion Commissioner Polly Trottenberg acknowledges that getting to zero fatalities is a challenge, but she said this keeps her motivated to continue working on initiatives that have proven successful. For Ms. Trottenberg, increased traffic safety comes down to the "three E's": engineering, enforcement and education.

According to the Vision Zero website, the DOT plans to carry out safety improvements at 50 city corridors and intersections a year. Notable redesigns include a re-engineering of Jackson Avenue in Long Island City, Queens, and the creation of bus lanes, crosswalks and protected bike lanes on Manhattan's First and Second avenues.

'We need to treat it like the crisis it is,' said an advocate whose son was killed by a van.

City officials have also pushed for the campaign in Albany. The 2014 session passed legislation lowering the city-wide default speed limit to 25 miles an hour and increasing the number of school zones with speed cameras to 140 from 40.

But the process can be slow. Activists and organizers said plans to redesign streets can take months, even years, to be approved by community boards across the city.

Paul White, executive director of Transportation Alternatives, an organization that advocates for safer streets, said street redesign has proven to be the most effective way to lower traffic-related fatalities and serious injuries across the city.



The city has increased protected bike lanes to reduce accidents.

Ice-Cream Makers Get Inspired

BY CHARLES PASSY

Call it cookies and cream, New York-style.

To mark the opening on Monday of its location on Manhattan's Upper East Side, Quality Eats steakhouse has created a rugelach ice cream in partnership with Orwashers, a bakery that has been a fixture in the neighborhood since 1916.

The idea, say representatives from both businesses, is to play off the popularity of the cookies-and-cream flavor, but with a kind of Big Apple bravado. Rugelach is a Jewish-style pastry that is a staple at New York bakeries, including Orwashers, which offers it in

three different varieties—chocolate, raspberry and apricot (the latter was used for the ice cream).

The rugelach ice cream is "a fun, modern riff," said Michael Stillman, president and founder of Quality Branded, the parent company of Quality Eats, whose original location is in Greenwich Village.

Keith Cohen, owner of Orwashers, said when the collaboration was discussed, he thought it was a natural. Rugelach, he noted, is made with cream cheese, so it has an inherent richness that works well in an ice-cream context.

The rugelach ice cream is available for \$10 a pint at the Upper East Side locations of

GREATER NEW YORK WATCH

CRIME

Three Men Indicted In Gang Massacre

Federal prosecutors unsealed an indictment saying three members of the MS-13 street gang were among those responsible for the April massacre of four young men found hacked to death in a Long Island park.

The indictment unsealed last week identified the defendants as Alexis Hernandez, Santos Leonel Ortiz-Flores and Omar Antonio Villata. A federal prosecutor declined to comment, saying any information released about the case would jeopardize an investigation.

An attorney for Mr. Ortiz-Flores declined to comment. It was unclear whether the other men had attorneys.

—Associated Press

ATLANTIC CITY

Casino Launches Daily Fantasy Sports

New Jersey's first casino has become the first in Atlantic City to let patrons play daily fantasy sports contests for money.

Resorts Casino Hotel on Monday launched FastPick, a daily fantasy sports game in which customers choose head-to-head player matchups of real-world athletes. The move marks the expansion of daily fantasy sports into a new casino market.

—Associated Press



Rugelach ice cream, a collaboration between Orwashers and Quality Eats, sells for \$10 a pint.

KEVIN HAGEN FOR THE WALL STREET JOURNAL

GREUBEL FORSEY
ART OF INVENTION

THE 20 CALIBRES
RETROSPECTIVE EXHIBITION

JULY 10 – 24



Double Tourbillon 30° Technique

Private viewing at
cellini

509 Madison Avenue at 53rd Street | 800-Cellini
CelliniJewelers.com

LIFE & ARTS

YOUR HEALTH | By Sumathi Reddy

When Videogames Can Help

Children with anxiety and ADHD can learn to control their emotions by playing games connected to a heart-rate monitor

IT ISN'T OFTEN that children are encouraged to play videogames.

But a group of Boston Children's Hospital researchers have developed videogames for children with conditions such as attention deficit hyperactivity disorder (ADHD) and anxiety, or those who just need to learn how to control their emotions better.

The videogames track a child's heart rate, displayed on the screen. The games get increasingly difficult as the player's heart rate increases. To be able to resume playing without extra obstacles the child has to calm themselves down and reduce their heart rate.

"What we're trying to do is build emotional strength for kids," said Jason Kahn, co-founder and chief scientific officer of Mightor, a Boston-based company and spinoff of Boston Children's Hospital. BCH runs an accelerator and funded some of the research and development of the products. They retain a small piece of ownership of Mightor. Dr. Kahn worked as a developmental psychologist at Boston Children's for seven years and maintains an affiliation there but launched the company in November.

The games help children "build muscle memory," he said. So once they are able to reduce their heart rate over and over again the response of physiologically calming themselves down becomes more automatic.

Melissa Feldman, a 39-year-old occupational therapist in Milton Mass., said she heard about the Mightor videogames through a blog. She enrolled in a pilot group in September for her children, Carson, 10-years-old, and Quinn, 7-years-old, who have been diagnosed with anxiety disorders, among other conditions.

The games have helped the boys stop and give pause when their emotions feel out of control, she said. "I think being able to visualize that happening when they are breathing and seeing their heart rate come down and connecting that has really helped," she said.

Ms. Feldman said she's also seen a lot of carry-over into real life. "I've seen it become a much more automatic response for them," she said.

Her older son, Carson, agrees. He says the games have helped him remain calm in situations where he's upset, like when he misbehaves and can't swim in his pool.

"I think it's a fun way for kids to control their heart rate when their feelings are high and energetic," he said.

Still, he said the games aren't quite as fun as the regular videogames he plays on his mother's computer and phone. "They're maybe three-quarters as fun," he said. His favorite is still Minecraft.

The impact of the games was tested in two studies. In a pilot study, they first tested the game in a psychiatric inpatient unit with



Above, Quinn Feldman, 7-years-old, breathes to lower his heart rate while playing a Mightor videogame. Below from left: The 'Hibachi Hero' game from Mightor; Dr. Gonzalez-Heydrich, Dr. Jason Kahn and Pete Ducharme, LICSW, of Boston Children's, who created mobile videogames to build emotional strength.



The company has about seven videogames available now and hope to have 50 in a year. Now, customers can buy a three-month, \$249 subscription to the platform giving them access to all the games. The subscription includes a tablet and wristband that acts as a wireless heart monitor, as well as coaching sessions for parents. After that, the cost is \$19 a month.

Dr. Kahn said they recommend that children play the games 45 minutes a week. The product is geared toward children ages 6 to 14. Parents receive six coaching sessions from clinical social workers when they sign up.

Kyle Smith, a child and adolescent psychiatrist at Primary Children's Hospital in Salt Lake City, said last year he began using the videogames as part of the therapy used in an outpatient program for children with anxiety. The children come to the hospital three days a week, where they attend cognitive behavioral therapy sessions.

He incorporates the videogames but the feedback is variable he said. "Certain kids really seem to take to it quite well and it's motivating for them," he said. "And there's other kids who have a harder time. If they have motor coordination difficulty or sensory problems it can be a little tougher."

children with anger management issues, said Joseph Gonzalez-Heydrich, director of the developmental neuropsychiatry clinic at Boston Children's. They found improvements in just five days and published the results in 2012 in a study in the journal Adolescent Psychiatry.

"A lot of these kids we are seeing are not interested in psychotherapy and talking," said Dr. Gonzalez-Heydrich, who is head of the scientific advisory board of Mightor, and said he has a small amount of equity in the company. "But they will work really hard to get good at a videogame."

In a subsequent outpatient study the researchers randomized 20

youth to 10 cognitive behavior therapy sessions and videogame therapy that required them to control their heart rate, and 20 youth to CBT with the same videogame but not linked to heart rates. All the adolescents had anger or aggression problems, said Dr. Gonzalez-Heydrich, who was senior author of the study.

Therapists interviewed the children's primary caregiver before and two weeks after their last therapy session. They found the children's ratings on aggression and opposition were reduced much more in the group that played the game with the built-in biofeedback. The ratings for anger went down about the same in both groups.

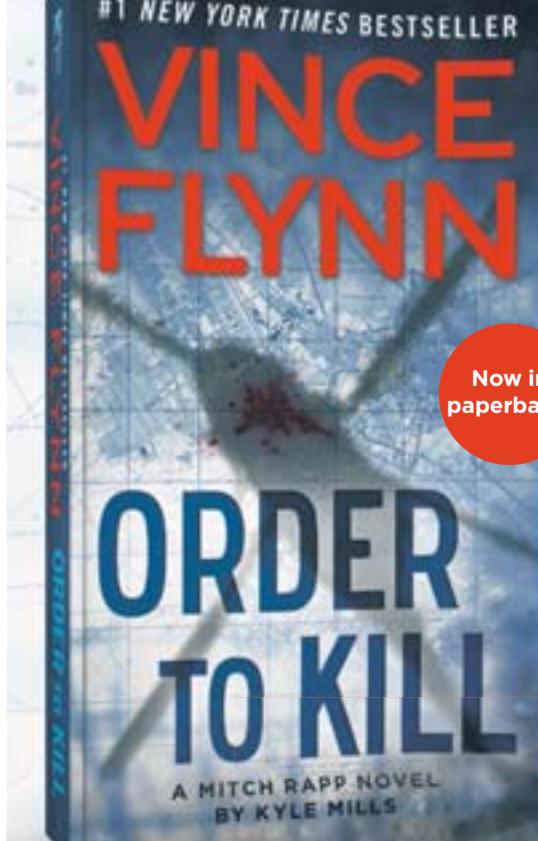
The findings were presented at

the American Academy of Child and Adolescent Psychiatry conference in 2015. The study is currently under review for publication.

Some doctors are skeptical that this type of biofeedback using videogames can work as a therapy.

Russell Barkley, a clinical professor of psychiatry at Virginia Commonwealth University Medical Center, noted that the studies looked at youth with high levels of anger, but not specifically with ADHD or anxiety, suggesting that further study as a therapy for anger control in particular may be warranted.

The Mightor games became commercially available in June. Before that about 200 children had been participating in a pilot project.



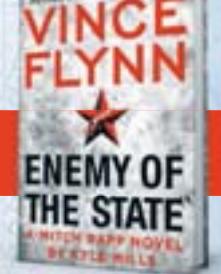
Covert operative Mitch Rapp is ready for anything.
But this time the enemy is ready for him.

#1 NEW YORK TIMES BESTSELLER
VINCE FLYNN
ORDER TO KILL
A MITCH RAPP NOVEL
BY KYLE MILLS

American Assassin is
coming to theaters 9/15!

Look for *Enemy of the State*,
coming 9/5 in hardcover!

POCKET BOOKS / PocketBooksFanpage @Pocket_Books SimonandSchuster.com



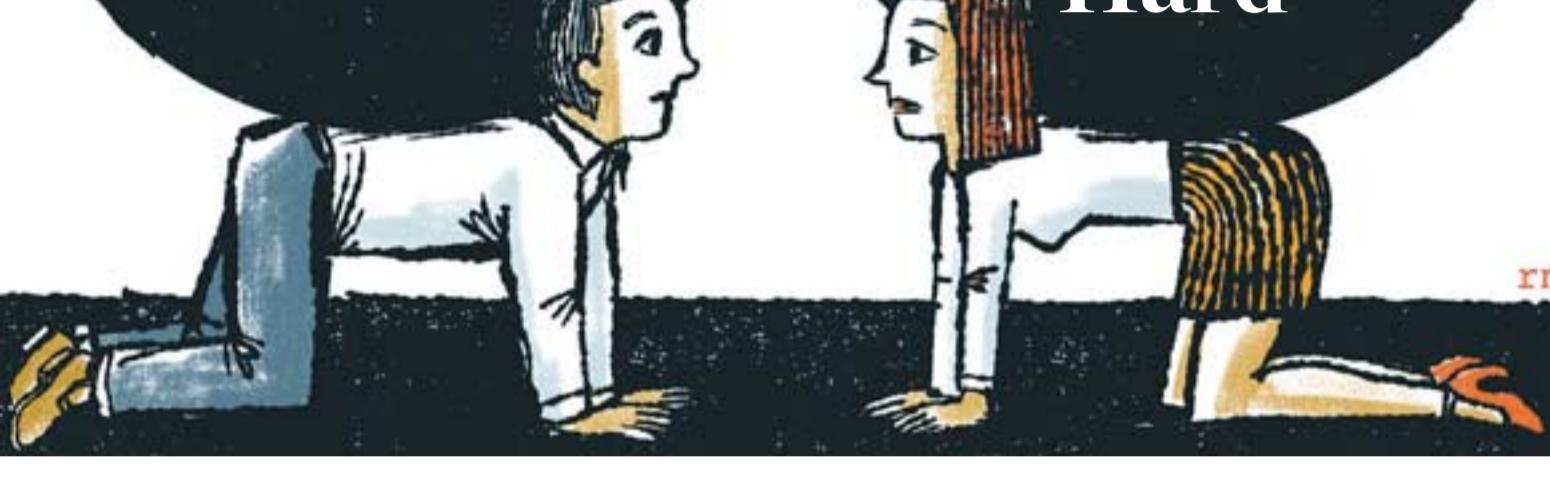
LIFE & ARTS

BONDS: ON RELATIONSHIPS

By Elizabeth Bernstein

This Conversation Doesn't...

...Have To Be So Hard



SAY WHAT YOU NEED TO SAY.

Easier said than done, right? Difficult conversations come in many forms: "Shall we commit?" "I am worried about your health." "You hurt me." "This isn't working." Communication researchers call them consequential unscripted interactions because there are no rules or guidelines for them. Health, work, finances, relationships, sex, religion, politics are common topics.

Many tough conversations contain bad news, but not all. (Consider: "I think I love you.") And they can be difficult for many reasons: We may not have had this type of talk before, so have no experience to learn from. We are worried about how we come across. We don't want to hurt the other person, or get hurt ourselves. The receiver may not want to hear what we have to say.

A study by researchers at Hope College, in Holland, Mich., and the University of Hawaii at

Manoa, published in March in the journal *Communication Quarterly*, found that people are more reluctant to share bad news in a conversation when they are the cause of it—and they worried more about how they came across in the conversation than sparing the other person's feelings.

The researchers asked 330 people to answer questions about a time when they had to tell someone bad news, and then coded them for the reasons and concerns the person had for sharing, the source of the news and how reluctant they were to talk about it. People reported they worried more about themselves if they caused the bad news and more about the other person when they didn't.

"This idea of 'don't shoot the messenger' was very active in their minds, especially when they were the locus of the event," says Jayson Dibble, an associate professor in the department of communication at Hope College and lead researcher on the study.

Two more studies by Dr. Dibble and researchers at the University of Hawaii, published together in the journal *Communication Research* in March, 2015, found that people will pause in a tough conversation right before they have to deliver bad news.

The researchers brought 275 people into the lab, told them they would be paired with another participant who had taken an IQ test, and that they would need to score this test and share the results with the test-taker. In reality, the test taker was an actor and a computer program produced false results—some were high, some average, some very low. Some of the participants were given a script to use when delivering the news and some had to improvise. Script or not, the participants who had to tell the test taker that he or she had failed, hesitated for a few seconds right before doing so. Participants who had to deliver good news, of a high

score, didn't hesitate.

"It might be a communication signal that you are meant to pick up on as a receiver, a way of firing a warning shot," says Dr. Dibble. "I am giving you a chance to prepare yourself mentally for what is to come."

My dad had a sort of warning shot he used when I was a child and he wanted to have a serious talk: He'd suggest we take a walk around our block, which was large and lined with oak trees and Victorian homes. On these walks, Dad told me I had to study more in Spanish class and bicker less with my sisters. But we also discussed how to get over the pain of an unrequited crush or handle our grief after Grandma died. I asked my father recently why he chose the walk-and-talk method and he said he felt that strolling side-by-side was less intimidating, as well as bonding, and that getting outside in a pretty setting made the conversation seem lighter.

How can you make tough talks a little easier?

Don't rush into it. Conversations undertaken in the heat of a moment often don't go well. Invite your loved one to talk. Explain you want to have a vulnerable conversation and ask when it would be a good time to chat. Reassure the other person that the conversation isn't all bad. Researchers call this pre-talk meta-communication—it is communication about communication, and it helps both parties prepare.

Pay attention to your state of mind. Ditto for the other person. "If you know they are emotionally fragile or under a lot of duress you may want to consider a time where they are more relaxed and receptive," says Woody Woodward, an organizational psychologist in Jersey City, N.J.

Start with a question. Try to learn where the other person stands, rather than make assumptions. "You may not like what you hear, but at least you can find some common ground on the actual issue in dispute," says Dr. Woodward.

Listen compassionately. Focus on listening more than talking. To show your loved one you understand what he or she said, repeat it: I understand that you are upset because I said I need more space. Allow the other person to express emotion. Sentences such as, "Don't feel sad," or "You are overreacting," should never come out of your mouth.

Give recognition up front. Acknowledge the other person's strengths. Give a compliment. This will lower the emotional intensity of the discussion, says Dr. Kuczynski.

Be clear about your goals. What do you want to get out of the discussion? Write this down beforehand. Some people even like to take notes into the talk, to stay on track.

"If you were talking to your boss or giving an important presentation, you would bring your notes," Dr. Dibble says. Use these to clearly state what you need from your loved one.

ART REVIEW

THE FIRST AUSTRIAN EXPRESSIONIST

BY KAREN WILKIN

New York

PABLO PICASSO and Jackson Pollock are synonymous with radically innovative art. Others, such as Vincent van Gogh or Caravaggio, are eponyms for extreme behavior. As the illuminating exhibition "Richard Gerstl" at the Ronald S. Lauder Neue Galerie makes clear, this pioneering Austrian modernist painter (1883-1908) should be acclaimed on both counts: for his daring, ahead-of-the-curve expressionist paintings and for his highly colored personal history. Yet though he is hailed by admirers as "the first Austrian Expressionist," Gerstl, unlike his celebrated compatriots Gustav Klimt, Egon Schiele and Oskar Kokoschka, remains obscure on this side of the Atlantic.

In part, this is because of the brevity of his working life, despite a precocious early start. (The exhibition's first harbinger of future directions is a semi-nude self-portrait painted around 1902-1904, before the artist was 21.) But Gerstl committed suicide soon after his 25th birthday, in the wake of a scandal, so there are few extant works, most of which are in Austrian collections. More important, because of the circumstances of his death, Gerstl's correct bourgeois family hid most of his art from view for more than 20 years; other works are believed lost. His first exhibition was not held until 1931, when his brother brought the surviving paintings to the attention of a prestigious Viennese gallery. The show was hailed as a revelation.

Gerstl fans have long been tantalized by the Neue Galerie's energetic

"Portrait of a Man (Green Background)," painted in 1908, the last summer of the artist's life, with its fluent, ribbony brushstrokes, casual pose, and summarily indicated outdoor setting. "Richard Gerstl," organized by independent curator Jill Lloyd for the Neue Galerie, in partnership with the Schirn Kunsthalle,



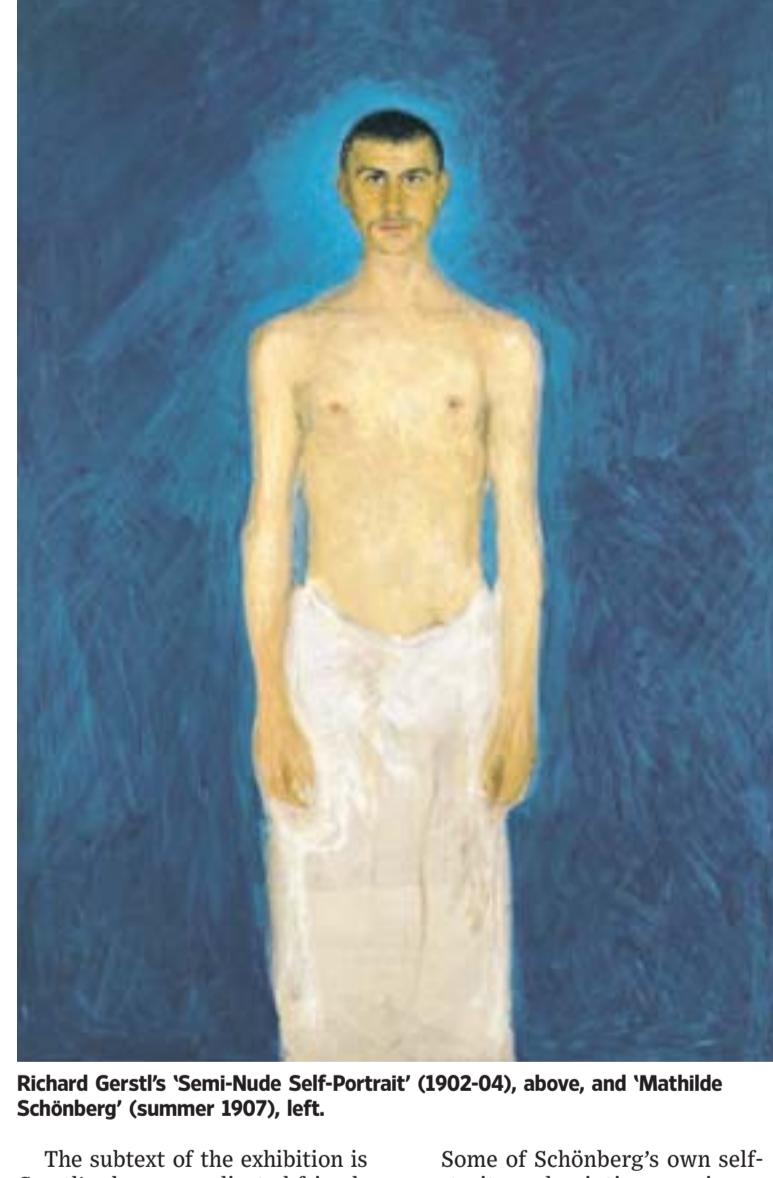
Frankfurt, sets this fine picture in context and allows us to gauge some of the excitement generated by that 1931 exhibition. We follow Gerstl's evolution over a startlingly brief six years, from prodigiously gifted maker of naturalistic portraits to fearless creator of fiercely scrawled landscapes and figures so elusive that they verge on abstraction. Through the shifts in his approach, we can follow his discovery of artists such as Vincent van Gogh, Ferdinand Hodler, Edvard Munch and perhaps Edouard Vuillard.

The exhibition's center gallery concentrates on portraits made between 1906 and 1908, the earliest constructed with large, rhythmic, broken marks, like over-scaled Im-

pressionist touches, the latest with exuberant, uninhibited swipes and stabs of a loaded brush. Gerstl, we are told, can be seen as a bridge between Klimt and Kokoschka. Yet while his loosely patterned backgrounds may faintly echo Klimt's "mosaic" society portraits, the presence of one of the older artist's typically stylized, crisply delineated depictions of a woman in a fabulous hat emphasizes, by contrast, the greater freedom and sensuality of the younger man's paint handling. An agitated, rapidly scribbled Kokoschka portrait of a man underscores the prescience of Gerstl's approach.

That pivotal early self-portrait, with the nude Gerstl swathed in a white sheet from the waist down, is on view in the first gallery. With its rough strokes, confrontational pose and symbolist overtones, it looks remarkably progressive for the first years of the 20th century, but it's completely overwhelmed by Gerstl's last—1908—self-portrait, in the final room. A tour de force of slashing brushwork, pale flesh and full frontal nudity, it seems to show the painter at work, with the dark mass of his easel and large canvas an ominous vertical band that forces the figure to the left.

A more ambiguous, minimally suggested standing nude, possibly in an interior with watchful witnesses, also from 1908, suggests that Gerstl, had he lived longer, might have painted figures as bold and economical as those of the marvelous Bay Area artist David Park. Light-struck, outdoor group portraits, with features and details of clothing implied by slashes and sweeps of sunny color, seem to bear witness to summer pleasures and a more relaxed mood, despite the urgency of Gerstl's brushwork.



Richard Gerstl's 'Semi-Nude Self-Portrait' (1902-04), above, and 'Mathilde Schönberg' (summer 1907), left.

The subtext of the exhibition is Gerstl's close, complicated friendship with the composer Arnold Schönberg, his family, his musician colleagues and, above all, Schönberg's wife, Mathilde, with whom the painter had a brief, disastrous affair. Gerstl's portraits of these protagonists, executed with varying degrees of intensity, bring these connections to life. (That Gerstl's suicide was triggered by Schönberg's discovery of the couple in flagrante and the aftermath of that revelation was suppressed by the composer's circle until 1967; a carefully researched catalog essay by the Gerstl scholar Raymond Coffer clarifies the tragic story.)

Some of Schönberg's own self-portraits and paintings are included, along with photographs and portraits by various artists of all the players in this highly charged drama. The most vivid is Gerstl's unfinished, life-size nude of Mathilde, painted in the autumn of 1908, before the affair was discovered and she returned to her husband. It was Gerstl's last painting.

Richard Gerstl

Ronald S. Lauder Neue Galerie, through Sept. 25

Ms. Wilkin is an independent curator and critic.

LIFE & ARTS

ANATOMY OF A SONG | By Marc Myers

Alice Cooper's 'Eighteen'

How the teen-angst song became the shock-rock band's first national hit and a generational anthem



FROM LEFT: JOSEPH ORPANO/WIREIMAGE/GTY IMAGES; MICHAEL LOCHS ARCHIVES/GTY IMAGES

THREE MONTHS AFTER the release of Alice Cooper's "Eighteen" in 1970, the shock-rock single about teenage self-doubt became the band's first hit, reaching #21 on Billboard's pop chart. Recently, lead singer Alice Cooper, guitarist Michael Bruce, bassist Dennis Dunaway, manager Shep Gordon and producer Bob Ezrin talked about the song's evolution. Currently touring, Alice Cooper will release "Paranormal" (earMusic) July 28. Edited from interviews.

Alice Cooper: After our first two albums came out in 1969 and early '70, they bombed. We lived in Los Angeles then and were running out of cash. We never considered quitting, but we started to worry. Shep Gordon, our manager, suggested we relocate to the Midwest, where we had a larger fan base.

Michael Bruce: Touring in the Midwest in early '70, we stayed at motels. During our down time, I came up with songs on my guitar. One of them was called "I Wish I Was 18 Again." I hadn't been home in a couple of years and I missed Phoenix.

I had the song's three-chord riff—E minor, C major and D major—but my lyric was a little silly

(he sings): "Be my high school girl / be the only one / I wish I was 18 again." I knew that wasn't going to last (laughs).

I used the song to warm up in dressing rooms before shows. Eventually the band began using my riff as an eight-minute sound-check jam.

Dennis Dunaway: In the early spring of '70, we were in New York. At the Gorham Hotel, I looked across West 55th St. at the City Center theater. All the posters outside were for the Joffrey Ballet's spring season.

On the poster was a scary white-faced clown with thick makeup around his eyes and squiggly lines coming out like spokes.

I told Alice he should do his eyes that way. At first he wasn't into it but he was open. We bought eyeliner at a nearby cosmetics store and applied it at the hotel. That was the start of Alice's spider eyes.

Mr. Bruce: Back in the Midwest, the band wanted to start performing our sound-check jam for audiences. But my original lyric was too cumbersome. Alice rewrote it.



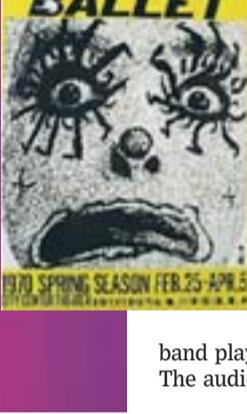
Mr. Cooper: My lyric was about coming of age, confusion and frustration. It became an angst song, like The Who's "My Generation." In some ways it's bleak: "I got a baby's brain and an old man's heart / Took eighteen years to get this far."

When I wrote the lyric, I was 22, so I had to think back to what it was like to turn 18: "Don't always know what I'm talkin' about / Feels like I'm livin' in the middle of doubt."

By then, we needed a place to live and to rehearse 24/7. Our road manager, Leo Fenn, found us a ranch just outside Pontiac, Mich., about 45 minutes north of Detroit.

Mr. Bruce: The place had a four-bedroom farmhouse with a kitchen

Alice Cooper's eye make-up at a show last year in London, left, and below, in 1971, was inspired by a 1970 flyer, right, for the Joffrey Ballet.



and an empty barn out back. Behind that was an indoor horse paddock, with a large enclosed room that was perfect for rehearsing.

Shep Gordon: The band just needed a smart record producer. The Guess Who was a Canadian hard-rock band with hits like "No Time" and "American Woman" on the pop charts. The guy who produced their records was Jack Richardson. I went up to Toronto to see him.

Bob Ezrin: Jack didn't want to have anything to do with Alice Cooper. He didn't like their albums. To keep Shep happy, though, Jack told me to go to New York to hear the band and let them down easy.

In early September of '70, I sat down at a table right in front of the stage at Max's Kansas City. At times, the music was powerful, what people called hard rock then. At other times it was whimsical and focused on theatrics. I loved it.

After, I went upstairs and bounded into their dressing room. I said, "We're going to produce your next album." I also said their song, "I'm Edgy," could be a hit. Drummer Neal Smith said Alice was ac-

tually singing, "I'm eighteen."

When I finally left at 3 a.m., I realized Jack was going to fire me for committing to produce a band he wanted me to blow off.

In the morning, when I called him, Jack wasn't happy. But he said, "If you like the band that much, you produce them."

Jack wanted me to start by recording just four songs. I went up to the band's Pontiac ranch to get the music in shape. The first one we tackled was "Eighteen."

Mr. Cooper: Bob was brilliant. He kept telling us to dumb it down so we could shorten it. He wanted the listener to get it immediately. We had been intent on being the

Yardbirds and showing off our guitars. Bob said absolutely not. Glen Buxton's lead guitar needed to come at the right time and then drop out.

The guitar couldn't interfere with the melody line or bass and drums. Bob stripped us down to what the Beatles had done. Bob was our George Martin.

Mr. Ezrin: After we had "Eighteen" set, the band played it live at a Detroit gig. The audience went nuts.

Mr. Cooper: In the fall, we recorded "Eighteen" and three other songs at RCA's Mid-American Recording Center in Chicago. Elvis had recorded there.

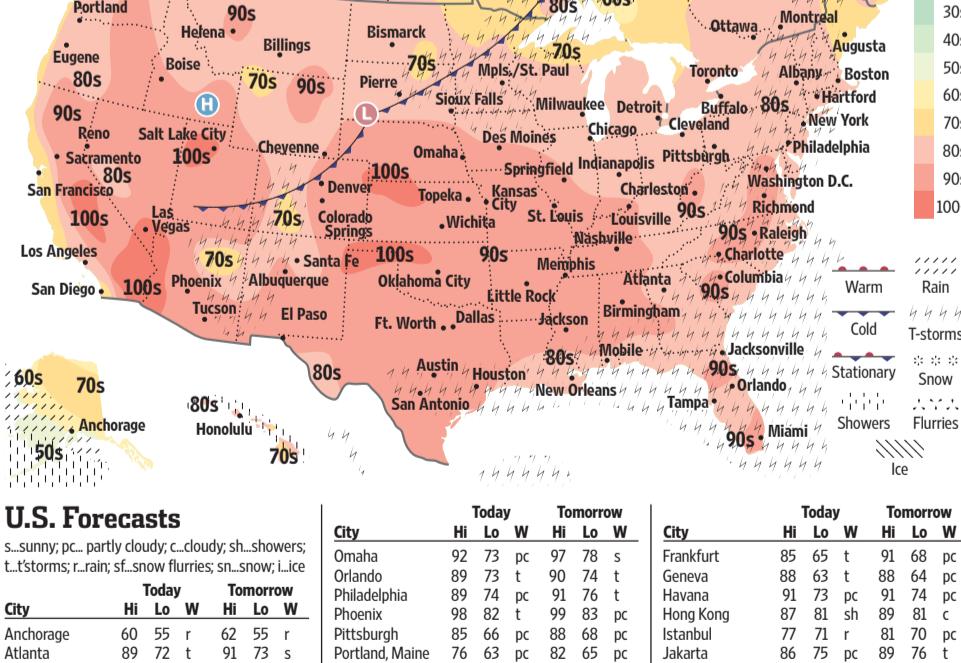
Mr. Dunaway: Jack Richardson was there by then. At some point he turned over a metal ashtray and taped it to the console. Then he tapped the beat on the tray with a drumstick like a metronome so we'd hear it in our headphones. It kept us from speeding up.

Mr. Bruce: When the single came out in November, Shep had everyone constantly call radio station CKLW in Windsor, Canada, to request it. CKLW's signal reached into the Midwest. As the single gained traction, we recorded our third album, "Love It to Death," which was a hit after it came out in March '71.

Mr. Cooper: The last line of my lyric to "Eighteen" was supposed to be "I'm 18 and I hate it." But as I neared the end of my vocal in the studio, I decided to flip it to "I'm 18 and I like it." I wanted to turn the teenage angst around.

That was a surprise to everyone in the control booth. With my earlier lyric, the song was a good hard rocker. But by flipping the line, the song became a statement.

Weather



U.S. Forecasts

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

City Today Hi Lo W Tomorrow Hi Lo W

Anchorage 60 55 r 62 55 r

Atlanta 89 72 t 91 73 s

Austin 97 74 t 99 75 pc

Baltimore 90 72 pc 93 73 pc

Boise 96 63 s 96 64 s

Boston 82 69 pc 86 70 pc

Burlington 85 66 pc 87 69 pc

Charlotte 90 70 t 93 71 l

Chicago 87 71 s 87 73 t

Cleveland 84 68 pc 88 71 pc

Dallas 95 79 pc 96 79 pc

Denver 96 65 pc 97 65 s

Detroit 85 66 s 88 69 pc

Honolulu 88 76 sh 88 76 pc

Houston 91 75 t 92 76 t

Indianapolis 86 67 s 89 73 pc

Kansas City 93 75 s 94 77 s

Las Vegas 105 86 pc 100 84 t

Little Rock 94 73 s 94 74 s

Los Angeles 84 66 pc 84 66 pc

Miami 91 79 t 92 80 pc

Milwaukee 83 71 s 81 71 t

Minneapolis 84 66 t 85 71 pc

Nashville 92 72 pc 94 74 s

New Orleans 88 76 t 89 76 t

New York City 84 73 pc 87 75 pc

Oklahoma City 96 73 s 98 73 s

Today Hi Lo W Tomorrow Hi Lo W

City Omaha 92 73 pc 97 78 s

Orlando 89 73 t 90 74 t

Philadelphia 89 74 pc 91 76 t

Phoenix 98 82 t 99 83 pc

Pittsburgh 85 66 pc 88 68 pc

Portland, Maine 76 63 pc 82 65 pc

Portland, Ore. 84 55 s 83 58 s

Sacramento 89 57 s 93 59 s

St. Louis 96 78 s 100 80 pc

Salt Lake City 100 79 pc 98 74 pc

San Antonio 88 65 t 88 69 pc

Seattle 81 54 s 80 56 s

Sioux Falls 88 65 t 89 69 pc

Washington, D.C. 92 76 pc 96 78 pc

Today Hi Lo W Tomorrow Hi Lo W

City Frankfort 85 65 t 91 68 pc

Geneva 88 63 t 88 64 pc

Havana 91 73 pc 91 74 pc

Hong Kong 87 81 sh 89 81 c

Istanbul 77 71 r 81 70 pc

Jakarta 86 75 pc 89 76 t

Jerusalem 90 69 s 89 69 s

Johannesburg 63 32 s 67 33 s

London 79 67 pc 78 59 t

Madrid 98 72 pc 92 67 pc

Manila 91 79 t 91 78 t

Melbourne 56 47 sh 54 46 pc

Mexico City 73 55 pc 73 54 t

Milan 89 69 pc 91 67 pc

Moscow 70 54 pc 69 53 pc

Mumbai 86 80 sh 86 81 r

Paris 92 69 pc 87 64 t

Rio de Janeiro 73 65 sh 70 64 sh

Riyadh 112 83 pc 112 86 pc

Rome 86 64 s 84 65 pc

San Juan 89 78 sh 90 80 s

Seoul 88 76 pc 87 77 pc

Singapore 98 84 t 101 84 pc

Sydney 87 77 pc 86 78 pc

Taipei 71 50 s 64 47 pc

Tokyo 99 79 pc 96 80 t

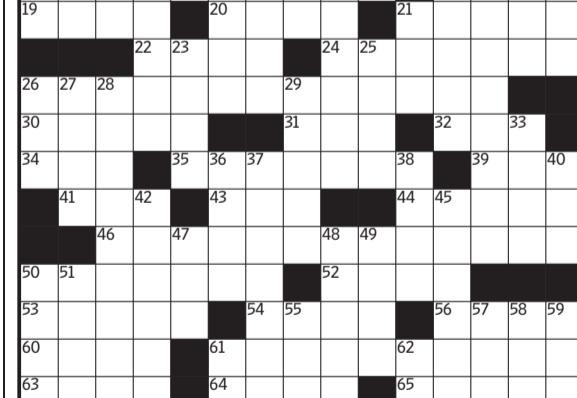
Toronto 88 75 pc 86 78 pc

Vancouver 82 62 pc 85 66 pc

Warsaw 75 54 s 73 56 s

Zurich 87 61 t 90 63 pc

The WSJ Daily Crossword | Edited by Mike Shenk



SHORT NOTICE | By Zhouqin Burnikel

Across

1 Far from talkative

6 Creative endeavors

10 Gloomy guy

13 Coral island

14 Fishing line holder

15 Woodstock singer Guthrie

24 Nerdy type

26 Online referee

<

SPORTS

MLB

The Cubs' World Series Hangover

After winning 103 games and a title in 2016, Chicago has disappointed this year and ranks as baseball's most curious story line

BY JARED DIAMOND

JOE MADDON couldn't deny the awkwardness of the situation. Last week, he found himself in the dugout at Marlins Park managing the National League All-Stars, an honor he received by guiding the Chicago Cubs to a World Series title last year.

But when he looked down the bench, he saw...none of the players who made that happen, a strange truth that Maddon admitted left him feeling "uncomfortable."

For the first time ever, nobody who played for the defending champions earned a spot on the All-Star team. Instead, the Cubs brought along Wade Davis, their new closer acquired in a December trade with the Kansas City Royals, as their lone representative.

The conspicuous dearth of Cubs in Miami only highlighted the surprising nature of the first half they just endured. Expected to cruise back into October, the Cubs entered Monday's action 4 1/2 games behind the Milwaukee Brewers in the National League Central and 5 1/2 games out of a wild-card spot.

Rather than using the next 10 weeks to prepare for the playoffs, the Cubs—the odds-on favorites two months ago—must now attempt to climb back up the standings in a race nobody saw coming.

"I'm really looking forward to our second half," Maddon said. "I have a strong belief system in our guys. I really do."

The Cubs rewarded their skipper's faith this weekend, opening the second half by exploding for 27 runs in an impressive three-game sweep of the Orioles in Baltimore. Afterward, catcher Willson Contreras offered a bold prediction, declaring to reporters that the Cubs are "back to where we were last year."

But in a season notable for a record pace of home runs, potential juggernauts in Los Angeles and Houston, and rookie outfielder Aaron Judge revealing himself as a real-life Terminator, the disappointing Cubs rank as baseball's most curious story line.

On the most basic level, it doesn't take an advanced degree in statistical analysis to understand the problem: Injuries and under-performance have resulted in the players who powered the Cubs to 103 wins in 2016 simply struggling to duplicate their production.

Offensively, Kris Bryant, Anthony Rizzo, Addison Russell, Willson Contreras, Albert Almora and Ben Zobrist have all seen their on-base-plus-slugging percentages



Cubs pitcher Jon Lester, center, has struggled, after a heavy workload last postseason.

JUSTIN K. ALLER/GTY IMAGES

drop from a year ago, in some cases dramatically. Burly outfielder Kyle Schwarber started so slowly that the Cubs briefly demoted him to Triple-A to reset.

Their pitching has regressed even further. After leading the majors by a wide margin with a 3.15 ERA last season, that figure has risen by nearly a full run. (They took a step toward fixing that last week by sending four prospects to the Chicago White Sox in exchange for left-hander Jose Quintana, who threw seven shutout innings in his Cubs debut Sunday.)

Certainly, it stands to reason that the Cubs' young sluggers will bounce back. Bryant, the reigning NL MVP, has returned to form in July, while Rizzo hit .320 in June after posting a .194 batting average in May. Most of the time, good players in their primes ultimately put up numbers that match the back of their baseball cards.

The Cubs' issues on the mound, however, present a serious challenge likely more difficult to overcome, one that points to an entirely new paradigm in baseball: Once a regular occurrence, teams don't win consecutive World Series anymore. It hasn't happened

since the New York Yankees claimed their third straight ring in 2000, making this the longest stretch in MLB history without a repeat champion.

No franchise better embodies this phenomenon than the San Francisco Giants. They won the World Series in 2010, 2012 and 2014. Each time, they failed to qualify for the postseason in the next year.

It is currently the longest stretch in MLB history without a repeat champion.

"The competitive balance and parity has changed a lot," Giants general manager Bobby Evans said. "The way talent is distributed, the competitive balance taxes, free-agency compensation rules—the parity is a huge issue."

For sure, MLB has taken tangible steps to ensure that small-market organizations can regularly contend with their richer counter-

parts. Expanding the postseason—a crapshoot no matter the format—has only increased the randomness. Additionally, players often cite a mental component, inducing a condition known as the "World Series hangover."

"When you're World Series champions, it's all over the stadium, it's on your jerseys, the other team sees all that stuff," said third baseman Mike Moustakas, whose Royals won the World Series in 2015 before going 81-81 last season. "The other team plays a little harder."

But ultimately, the real reason for the hangover probably comes down to pitching. Surviving through the World Series forces pitchers to log many more innings and change their off-season regimens. Most pitchers rest in October and begin a throwing program at the end of November. World Series pitchers rest in November and begin a throwing program in early December, ramping up with less rest than their peers.

Jon Lester threw 35 1/2 innings last postseason and went into his outing in Atlanta on Monday sporting an uncharacteristic 4.25 ERA. Kyle Hendricks threw 25 1/3

extra innings, and he hasn't pitched in six weeks with a hand injury. Jake Arrieta and John Lackey have also pitched worse than last season. All told, the foursome of Lester, Arrieta, Hendricks and Lackey have a 4.45 ERA, up from 2.75 a year ago.

Of course, nobody can say for sure that the additional workload has caused the decline—but it couldn't have helped.

"That can be an area that affects clubs, if the bullpen or starters get overextended," Evans said.

Over the next two months, the Cubs could turn all of this into a moot point. The analytics website Baseball Prospectus still gives them a 40.7% chance of reaching the playoffs, while FanGraphs puts it at 67.7%—a testament to their overwhelming on-paper talent.

If the Cubs get there, their surprisingly slow start will fade away. But if they don't pick up the pace soon, there will be some angry people on the North Side. Cubs fans waited 108 years for a championship. They won't be quite so patient again.

"There's definitely an emotional part, and you've got to push through it," Davis said.

SWIMMING | By Jason Gay

PHELPS VS. SHARK: WHO YA GOT?

I HATE TO sound like a disloyal human being, but in the upcoming race between Michael Phelps and a Great White Shark, I am picking the shark.

Sorry, my fellow humans. I have to go with my gut here.

You've probably seen or heard hype for this cuckoo summertime TV stunt: starting July 23, as part of its "Shark Week" tradition, the Discovery channel will pit the all-time Olympic men's swimmer versus the magnificent beast of the sea. It's a bizarre gimmick that could only be cooked up in a room full of TV producers, or a sandbox full of juice-box-drunk 4-year-olds, which I guess is the same thing.

It's so silly, but I kind of love it. Between Phelps vs. Shark, the inane Mayweather vs. McGregor fight, and the Home Run Derby being 600 times more exciting than baseball's dreary All-Star Game, it's shaping up to be the Summer of the Shameless Stunt.

And there's nothing wrong with a little shamelessness in sports. What's to be so sacred about? Jesse Owens sprinted against horses. Cyclists chased speeding trains. The Jets play the Patriots twice a year.

I'll admit that on paper, Phelps vs. Shark is a grotesque mismatch. The all-time gold medal leader has a stable case as our greatest waterborne human, but even at his Olympic peak, Phelps averaged only five or six miles per hour in the pool. Offi-

cials are letting him compete against the shark using a "monofin"—think state-of-the-art mermaid tail—but even Phelps acknowledges the monofin is only going to add a few miles per hour more.

A Great White, on the other hand, can easily hit 20 mph or more when it's in predatory mode.

Good grief. This thing is going to be a rout. Phelps is going to have to hope the shark has an off day. Maybe the shark falls down a staircase the night before. Maybe the shark stays out all night with Ryan Lochte.

We don't know a lot about the parameters of this competition (which apparently—spoiler alert—has already been performed in South Africa). It isn't going to be the two of them side-by-side in an Olympic-sized pool, which is a little disappointing. Phelps did not force the Great White to swim the individual medley, which would have been phenomenal.

We also don't know much about the shark opponent. Is it a young, aggressive shark? An older, more contemplative shark? Has the shark put on a few pounds? Why do I know 50 bazillion things about Lonzo Ball, who hasn't played a single NBA game, and absolutely nothing about the Great White Shark that Michael Phelps is going to swim against?

What is the shark's name? Jerry? Eloise? Sally? Rufus? Mindy? Steve?

Phelps recently gave an inter-

view to Time magazine in which he talked about the competition—and hinted it might be narrower than expected.

"[The monofin] helped make the race a bit closer," he said. "When the Great White bursts at the surface, that's their mechanism for obviously attacking and getting food, so that's not a normal speed that they swim at. [The scientists] were calculating the speed they could potentially swim in a straight line."

OK. So he's throwing out a little intrigue there: the shark isn't going to be giving the Full Shark.

Still, I am going with the Great White.

I'm not the only one who's unsold on Phelps's chances. You can actually bet Phelps against the Shark on the online bookmaker Bovada. A \$1,000 bet on the shark

will net \$100 in a shark victory. A hundred on Phelps will get you \$550 if Phelps wins. That's only mildly worse odds than Conor McGregor's!

Lochte—Phelps' longtime Olympic teammate and the celebrated Rio de Janeiro service station Yelp reviewer—does not feel his colleague has the goods.

"Hell no," Lochte told TMZ when asked if Phelps would beat the shark.

Of course, we're not hearing what they're talking about on the shark side. Are they nervous? This is Michael Phelps, after all. Or are the sharks offended? What are they saying on Shark TMZ? Or on Shark Sports Radio?

Let's go to Bam Bam, who's calling from off the coast of Cape Cod. Bam Bam, you're on the air. Yeah, I just want to say I think

this whole Phelps vs. Shark competition is a disgrace to our entire species. Ooo! I just saw a paddleboarder. I'll hang up and listen.

One merciful element to this event is that it appears to be pure pleasure for Phelps, who is rich and a legend and isn't depressingly coming out of retirement to race a shark because he lost money buying crystal skulls or on a restaurant deal gone bad. The dude just loves sharks. He told Time the chance to do Shark Week represented "a dream come true."

"The biggest thing is to get the message across that they don't want to eat us," Phelps said. "They're out here surviving just like we are on land."

Isn't that the truth? Sounds good. I'm in.

If Phelps can't pull it off, let's send Katie Ledecky.



Michael Phelps is racing a Great White Shark as part of the Discovery Channel's 'Shark Week.'

FROM LEFT: CLIVE ROSE/GTY IMAGES; REINHARD DIRSCHERL/JULIUS STEIN BILD/GTY IMAGES

OPINION

For the Love of Charlie Gard



MAIN
STREET
By William
McGurn

So Charlie Gard's fate now comes down to this: whether an American doctor can persuade a British judge that little Charlie's life is worth living.

The child cannot see, cannot hear, and suffers from a genetic disorder for which there is no cure—yet he has exposed the great fault line between the post-Christian West and its past. For most of history, men and women have regarded suffering as part of life. But as medicine tames once-deadly afflictions and the idea of some larger meaning to the cosmos wanes, suffering comes to appear less a part of the natural order than an intolerable anomaly.

Follow this logic to the end and you will arrive at London's Great Ormond Street Hospital for Children. The hospital dates to 1852, when it was founded by a doctor hoping to relieve "the shockingly high level of infant mortality." How curious that this same hospital now argues for infant mortality, or at least for the mortality of one particular infant.

Hospital experts say it's in Charlie's "best interests" that he be denied the experimental treatments because he "has no quality of life." Better for him to die, they say, than risk suffering. Never mind the judge's

original admission that "no one can be certain whether or not Charlie feels pain."

Let us stipulate a distinction between removing someone from life support, as the hospital proposes, and taking active measures to induce death. Put another way, if Connie Yates and Chris Gard—Charlie's parents—decided to remove their son from his ventilator and allow nature to take its course, it would be a difficult but eminently defensible position.

But the claim asserted by the representatives of Britain's state-run health care system is more sweeping and insidious: This is our call, they say. Such is the Great Ormond Street Hospital's sense of dominion, says Ms. Yates, that it refused to allow Charlie to come home to die, wrapped in the loving arms of his mom and dad.

In the Book of Exodus the Israelites were warned that theirs is a "jealous God," but there is no god more jealous than single-payer health care.

For at the heart of single payer is single authority. Isn't it striking how resentful the legal and health care authorities are that Charlie's family has raised \$1.7 million, thus taking money off the table as an excuse to deny him the offered treatments?

Against the emotional outbursts of the parents, the official pronouncements all aim to convey a sense of reasonableness, with soothing references

to the law, the selflessness and expertise of those pushing to overrule Charlie's parents, and, of course, the complexity of the situation.

Still, the deck has been stacked from the beginning. The giveaway is the appointment of a guardian to represent Charlie's interests, even as the court rulings concede it would be difficult to find a

When it comes to the life of a child, should parental devotion be disqualifying?

more devoted mother and father. Now we learn Charlie's designated legal guardian runs a charity with connections—surprise!—to a sister organization that promotes assisted suicide and until 2006 called itself the Voluntary Euthanasia Society.

The Great Ormond Street Hospital even wants the last word on love: "In one respect, Charlie is immensely fortunate" to have such loving parents. Because in this context "in one respect" really means, "not in the sense that has to do with decisions about their son's life." In other words, the parents' love disqualifies them. In choosing a guardian to represent Charlie against his parents, the courts sided with the doctor who characterized Charlie's

mom and dad as a "spanner in the works."

It wasn't long ago that people worried about the cheapening of human life were predicting practices such as legal abortion would lead to the acceptance of things once thought unthinkable. Euthanasia, for example, or the weeding out of children deemed not perfect enough. These people were dismissed as Casandras. They now look like

prophets.

Charlie Gard's story comes after a case in the Netherlands where an elderly woman suffering from dementia woke up and resisted as she was about to be euthanized—only to have the doctor order her family to hold her down for the fatal injection. Meanwhile, how many moms and dads of children with Down syndrome have had complete strangers come up to ask, "Didn't you have a test?" Translation: Surely you wouldn't have had this child had you known.

The essence of civilization is that the strong protect the weak. But Charlie Gard shows that the barbarian no longer comes wielding a club and grunting in some undecipherable tongue. These days the barbarian comes as an expert, possessed of all the requisite certification—and an unquestioned faith in his absolute right to impose final judgments about the "quality of life" of other people's loved ones.

Write to mcgurn@wsj.com.

BOOKSHELF | By Barton Swaim

The Making Of Steve Bannon

Devil's Bargain

By Joshua Green
(Penguin Press, 272 pages, \$27)

Stephen K. Bannon, President Donald Trump's chief strategist, grew up in a working-class suburb of Richmond, Va. He attended Benedictine College Preparatory, a Catholic military school, where he and his peers viewed rivals from wealthier prep schools with disdain. "We were the blue-collar guys," recalls a school friend of Mr. Bannon in Joshua Green's "Devil's Bargain." "They were the rich snobs. They'd always do the employer-employee joke at us: 'When you grow up, you'll work for us.' And we'd punch 'em in the nose."

Mr. Green's book chronicles the life and career of Mr. Bannon, especially his unlikely friendship with the seemingly un-blue-collar Mr. Trump and their even unluckier victory in last year's election, and returns again and again to this us-versus-

the-establishment theme, only rarely pushing the trope too hard. Mr. Bannon is among the most disliked figures in American politics, hated by many on the right and both hated and feared by almost everyone on the left. But a reader of "Devil's Bargain" who knew nothing about American politics and didn't catch Mr. Green's subtle but thoroughly unsympathetic judgments of his subject might come away thinking Mr. Bannon was the book's hero: Everyone roots for an irreverent upstart who outrages a self-satisfied establishment and turns the system upside down.

Mr. Bannon was introduced to Mr. Trump in 2012, soon after Mitt Romney's loss to Barack Obama. At that time, he had just taken over Andrew Breitbart's abrasively right-wing news website, following its founder's death, and was searching for a political candidate who had no regard for the conventions of American politics and would mount an unapologetic defense of American values against both a hegemonic left and conciliatory right. He had previously championed the presidential aims of Michele Bachmann, a Tea Party favorite, and made a cloyingly laudatory film, "The Undefeated," about Sarah Palin. Mr. Bannon's cultural conservatism—rooted, Mr. Green suggests, in the deeply traditionalist Catholicism in which he was raised—didn't seem like a perfect fit for a libertine real-estate mogul and reality TV star. (Mr. Trump, moreover, is notoriously averse to slovenly attire, and Mr. Bannon often gives the appearance of having just awakened from a night on a park bench.)

Yet the two connected. Mr. Trump liked Mr. Bannon's boldness, intelligence and contempt for ruling classes of all kinds. Mr. Bannon provided the aspiring president, Mr. Green contends, with two things he didn't already have: first, "a fully formed, internally coherent worldview that accommodated Trump's own feelings about trade and foreign threats, what Trump eventually dubbed 'America first' nationalism"; and, second, "an infrastructure of conservative organizations"—especially Breitbart News.

A series of investments in Hong Kong video gaming companies introduced Steve Bannon to a 'hidden world' of frustrated young men.

I suspect Mr. Trump was also impressed by Mr. Bannon's career and accomplishments, engagingly recorded in "Devil's Bargain." After graduating from Virginia Tech, Mr. Bannon entered the Navy, serving on the destroyer Paul F. Foster when it was sent to the Persian Gulf in 1980 as part of the Carter administration's disastrously failed attempt to extract American hostages held in Iran. It was there, as Mr. Bannon explains to the author (he was interviewed extensively for the book), that his political outlook began to form. That a band of terrorists could humiliate the United States, thanks largely to a weak and risk-averse president, enraged him.

He entered Harvard Business School in 1983, worked for a time at Goldman Sachs, then started his own company, Bannon & Co., which dealt mainly with media acquisitions. His Hollywood firm bought a stake in several sit-coms, including the theretofore unheralded "Seinfeld." Later he joined Jeff Kwasnitz's talent agency, The Firm, and made headlines by acquiring former Disney president Michael Ovitz's ailing Artist Management Group for a tiny fraction of what almost everyone thought it was worth. In 2005 Mr. Bannon went to Hong Kong and invested in a series of internet gaming companies. This, Mr. Green writes, "introduced him to a hidden world" of frustrated but driven and competent young men and "provided a kind of conceptual framework that he would later draw on to build up the audience for Breitbart News." It also helped him recognize the potential for social media to amplify messages that simmer below the surface.

For a year or more, Mr. Bannon has been portrayed in sharply unkind ways in the American news media—a bigot, a boor, a nutcase. But although Mr. Green is no admirer of Mr. Bannon's politics, readers of "Devil's Bargain" will not conclude that the subject is either unsophisticated or politically incompetent. Whether in the end this unapologetic nationalist will get what he wants out of the title's bargain—a durable populist revolution that subverts and weakens the cultural progressivism that dominates America's media, education system and entertainment industry—remains as uncertain as ever. The rebellion's leader doesn't share Mr. Bannon's worldview in more than a superficial way and lacks his sustained commitment. But if I were a progressive, I wouldn't get too complacent about it.

Mr. Green is a talented reporter and a gifted storyteller. The anecdotes he records from the chaotic 2016 Trump campaign are both well chosen (they're there for thematic reasons, not as gratuitous gossip) and brilliantly told. Here, to take one of the best, we learn the origins of Mr. Trump's idea for a wall along the border between the United States and Mexico. According to former Trump adviser Sam Nunberg, he and consultant Roger Stone came up with the concept as a mnemonic device to help the candidate remember to talk about immigration. It worked. At the Iowa Freedom Summit in January 2015, he tried it. "I will build a wall," Mr. Trump said. Then he rounded off the point with one of his characteristically short and brash declarations: "Nobody builds like Trump." The crowd went berserk, and the wall was born.

Mr. Trump's despisers will relish these and similar stories in Mr. Green's book. But they'd better ask themselves, too: Who's got the bloody nose?

Mr. Swaim is the author of "The Speechwriter: A Brief Education in Politics."

For Isaac Orr

German Chancellor Angela Merkel used her closing speech at the recent Group of 20 summit to chide President Trump for withdrawing the U.S. from the Paris climate accord. Yet the German people will benefit far more from the American president's focus on facilitating U.S. energy production and boosting exports than from Mrs. Merkel's climate policies. They have increased residential electricity prices for German households and failed to achieve any meaningful reductions in fossil-fuel consumption or carbon-dioxide emissions.

Germany has developed a reputation as a green-energy superpower, but in many respects it isn't. Of all the energy used in Germany in 2016, 34% came from oil, 23.6% from coal, 22.7% from natural gas, 7.3% from biomass, 6.9% from nuclear, 2.1% from wind power, and 1.2% from solar. Waste, geothermal and hydro-power accounted for the remaining 2%.

All told, Germany derived more than 80% of its total energy consumption from fossil fuels. That's bad news for a country that depends on imports. About 97% of the oil, 88% of the natural gas and 87% of the hard coal Germans consume are imported.

Angela Merkel's slaps at Trump don't help her country's cause.

America's frackers do.

Though they may find it difficult to swallow, the German people will benefit from Mr. Trump's efforts to make energy resources accessible and affordable. Germans spent \$73.5 billion on imported oil in 2013, when the price of Brent crude averaged approximately \$108 a barrel. Since then, the U.S. embrace of hydraulic fracturing—also known as "fracking"—has resulted in a surge of U.S. crude oil on the

world market, causing global oil prices to fall to about \$47 per barrel. Some back-of-the-envelope math suggests Germans may now pay \$41.5 billion less per year for their oil imports, constituting an average savings of around \$1,107 (at current exchange rates) for each of Germany's 37.5 million households.

Ms. Merkel's climate and energy policies have caused residential electricity prices in Germany to spike by approximately 47% since 2006, costing the average German household about \$380 more a year. The higher prices are largely due to a 10-fold increase in renewable-energy surcharges that guarantee returns for the wind and solar-power industries. These surcharges now make up 23% of German residential electric costs.

The German people are paying far more for their household energy needs under Ms. Merkel, yet they have little to show for it. Since 2009, when Germany began to pursue renewables

aggressively, annual CO₂ emissions are down a negligible 0.1%.

Meanwhile, the U.S. experienced year-over-year reductions in CO₂ emissions in 2015 and 2016, and CO₂ emissions have fallen a dramatic 14% since 2005. This has mostly been made possible by fracking—a practice banned in Germany. Fracking has allowed the U.S. natural-gas industry to compete with coal in a way that wasn't previously possible, lowering costs for everyone.

Slapping around Mr. Trump, who is deeply unpopular in Germany, might score Ms. Merkel some domestic political points. But if the German leader really wants to help the environment, she might consider scaling back the attacks. Without American energy production and exports, Germany—and the world—would be a dirtier, darker and less efficient place.

Mr. Orr is a research fellow at the Heartland Institute.

Germany Should Say Danke for U.S. Oil

By Isaac Orr

German Chancellor Angela Merkel used her closing speech at the recent Group of 20 summit to chide President Trump for withdrawing the U.S. from the Paris climate accord. Yet the German people will benefit far more from the American president's focus on facilitating U.S. energy production and boosting exports than from Mrs. Merkel's climate policies. They have increased residential electricity prices for German households and failed to achieve any meaningful reductions in fossil-fuel consumption or carbon-dioxide emissions.

Germany has developed a reputation as a green-energy superpower, but in many respects it isn't. Of all the energy used in Germany in 2016, 34% came from oil, 23.6% from coal, 22.7% from natural gas, 7.3% from biomass, 6.9% from nuclear, 2.1% from wind power, and 1.2% from solar. Waste, geothermal and hydro-power accounted for the remaining 2%.

All told, Germany derived more than 80% of its total energy consumption from fossil fuels. That's bad news for a country that depends on imports. About 97% of the oil, 88% of the natural gas and 87% of the hard coal Germans consume are imported.

Angela Merkel's slaps at Trump don't help her country's cause.

America's frackers do.

Though they may find it difficult to swallow, the German people will benefit from Mr. Trump's efforts to make energy resources accessible and affordable. Germans spent \$73.5 billion on imported oil in 2013, when the price of Brent crude averaged approximately \$108 a barrel. Since then, the U.S. embrace of hydraulic fracturing—also known as "fracking"—has resulted in a surge of U.S. crude oil on the

world market, causing global oil prices to fall to about \$47 per barrel. Some back-of-the-envelope math suggests Germans may now pay \$41.5 billion less per year for their oil imports, constituting an average savings of around \$1,107 (at current exchange rates) for each of Germany's 37.5 million households.

Ms. Merkel's climate and energy policies have caused residential electricity prices in Germany to spike by approximately 47% since 2006, costing the average German household about \$380 more a year. The higher prices are largely due to a 10-fold increase in renewable-energy surcharges that guarantee returns for the wind and solar-power industries. These surcharges now make up 23% of German residential electric costs.

The German people are paying far more for their household energy needs under Ms. Merkel, yet they have little to show for it. Since 2009, when Germany began to pursue renewables

aggressively, annual CO₂ emissions are down a negligible 0.1%.

Meanwhile, the U.S. experienced year-over-year reductions in CO₂ emissions in 2015 and 2016, and CO₂ emissions have fallen a dramatic 14% since 2005. This has mostly been made possible by fracking—a practice banned in Germany. Fracking has allowed the U.S. natural-gas industry to compete with coal in a way that wasn't previously possible, lowering costs for everyone.

Slapping around Mr. Trump, who is deeply unpopular in Germany, might score Ms. Merkel some domestic political points. But if the German leader really wants to help the environment, she might consider scaling back the attacks. Without American energy production and exports, Germany—and the world—would be a dirtier, darker and less efficient place.

Mr. Orr is a research fellow at the Heartland Institute.

OPINION

REVIEW & OUTLOOK

The Trumps and the Truth

Even Donald Trump might agree that a major reason he won the 2016 election is because voters couldn't abide Hillary Clinton's legacy of scandal, deception and stonewalling. Yet on the story of Russia's meddling in the 2016 election, Mr. Trump and his family are repeating the mistakes that doomed Mrs. Clinton.

That's the lesson the Trumps should draw from the fiasco over Don Jr.'s June 2016 meeting with Russians peddling dirt on Mrs. Clinton. First Don Jr. let news of the meeting leak without getting ahead of it. Then the White House tried to explain it away as a "nothingburger" that focused on adoptions from Russia.

When that was exposed as incomplete, Don Jr. released his emails that showed the Russian lure about Mrs. Clinton and Don Jr. all excited—"I love it." Oh, and son-in-law Jared Kushner and Beltway bagman Paul Manafort were also at the meeting. Don Jr. told Sean Hannity this was the full story. But then news leaked that a Russian-American lobbyist was also at the meeting.

Even if the ultimate truth of this tale is merely that Don Jr. is a political dunce who took a meeting that went nowhere—the best case—the Trumps made it appear as if they have something to hide. They have created the appearance of a conspiracy that on the evidence Don Jr. lacks the wit to concoct. And they handed their opponents another of the swords that by now could arm a Roman legion.

* * *

Don't you get it, guys? Special counsel Robert Mueller and the House and Senate intelligence committees are investigating the Russia story. Everything that is potentially damaging to the Trumps will come out, one way or another. Everything. Denouncing leaks as "fake news" won't wash as a counter-strategy beyond the President's base, as Mr. Trump's latest 36% approval rating shows.

Mr. Trump seems to realize he has a problem because the White House has announced the hiring of white-collar Washington lawyer Ty Cobb to manage its Russia defense. He'll presumably supersede the White House counsel, whom Mr. Trump ignores, and New York outside counsel Marc Kasowitz, who is out of his political depth.

Mr. Cobb has an opening to change the Trump strategy to one with the best chance of saving his Presidency: radical transparency. Release everything to the public ahead of the inevitable leaks. Mr. Cobb and his team should tell every Trump family member, campaign

operative and White House aide to disclose every detail that might be relevant to the Russian investigations.

The best defense against future revelations is radical transparency.

That means every meeting with any Russian or any American with Russian business ties. Every phone call or email. And every Trump business relationship with Russians going back years. This should include every relevant part of Mr. Trump's tax returns, which the President will resist but Mr. Mueller is sure to seek anyway.

Then release it all to the public. Whatever short-term political damage this might cause couldn't be worse than the death by a thousand cuts of selective leaks, often out of context, from political opponents in Congress or the special counsel's office. If there really is nothing to the Russia collusion allegations, transparency will prove it. Americans will give Mr. Trump credit for trusting their ability to make a fair judgment. Pre-emptive disclosure is the only chance to contain the political harm from future revelations.

This is the opposite of the Clinton stonewall strategy, which should be instructive. That strategy saved Bill Clinton's Presidency in the 1990s at a fearsome price and only because the media and Democrats in Congress rallied behind him. Mr. Trump can't count on the same from Republicans and most of the media want him run out of office.

If Mr. Trump's approval rating stays under 40% into next year, Republicans will begin to separate themselves from an unpopular President in a (probably forlorn) attempt to save their majorities in Congress. If Democrats win the House, the investigations into every aspect of the Trump business empire, the 2016 campaign and the Administration will multiply. Impeachment will be a constant undercurrent if not an active threat. His supporters will become demoralized.

* * *

Mr. Trump will probably ignore this advice, as he has most of what these columns have suggested. Had he replaced James Comey at the FBI shortly after taking office in January, for example, he might not now have a special counsel threatening him and his family.

Mr. Trump somehow seems to believe that his outsize personality and social-media following make him larger than the Presidency. He's wrong. He and his family seem oblivious to the brutal realities of Washington politics. Those realities will destroy Mr. Trump, his family and their business reputation unless they change their strategy toward the Russia probe. They don't have much more time to do it.

Lula and Brazil's Progress

The forever-developing nation of Brazil has been putting its legal system to an extreme stress test, impeaching one former president, indicting the current one, and late last week convicting former President Lula da Silva of corruption even as he plans to run for the office again.

So far the rule of law is winning, but Lula may be its sternest test. The champion of Brazil's left who served two terms as president from 2003-2011 was convicted for money laundering and corruption and sentenced to nearly 10 years in prison. Judge Sergio Moro ruled that Lula had steered government contracts to the Brazilian construction firm OAS in exchange for roughly \$1.2 million in bribes in the form of a refurbished beach-front apartment.

Lula's Workers Party allies are howling that he was framed by his political enemies, but everything about the decision suggests the opposite. Mr. Moro's prosecutors have spent three years in a painstaking investigation that has uncovered a vast network of government graft emanating from the giant government-owned oil company Petrobras, whose contracts were steered by Lula.

Scores of Brazilian businessmen and politicians have been caught in the net. And it is

Mr. Moro's willingness to follow the case where it led, including to a popular former head of state, that breaks new ground for the young democracy. "It's lamentable that a president of the republic is criminally convicted," Mr. Moro said.

"No matter how important you are, no one is above the law." Investors voted on the Lula verdict by bidding up stocks and Brazil's currency on the news.

This is real progress for South America's largest economy and a cause for optimism despite the immediate turmoil. The great flaw most developing countries share is a weak rule of law. Brazil has spent lavishly trying to become an industrial giant by subsidizing and sheltering from competition large state-owned enterprises like Petrobras. But it has been slow to nurture an independent judiciary, and Mr. Moro's determination to pursue political corruption is encouraging.

Lula says he is innocent and will appeal, and in the meantime he is free and expected to launch a new bid for the presidency. Should he win next year before the appeal is concluded, the sentence and legal appeal would be suspended until he finished his four-year term. Brazil's political maturity will be tested as much as its rule of law.

America's Summer Labor Shortage

Employers from Cape Cod bed-and-breakfasts to Alaskan fisheries have been begging the Trump Administration for more seasonal guest-worker visas.

Summer is nearly half over, and on Monday the Department of Homeland Security finally agreed to issue 15,000 additional H-2B visas.

The H-2B visa program covers a myriad of industries that rely on seasonal labor including seafood, construction, skiing, tourism and landscaping. These jobs typically pay well, though they can be grueling and their temporary nature deters native-born Americans from applying. Some summer jobs in tourism used to be filled by teens who now spend their summers studying or volunteering.

Foreign workers have become even more crucial as labor markets have tightened amid near record low unemployment in many states. Unemployment is a mere 2.3% in Colorado, 2.7% in Hawaii and 3.2% in Maine. According to the Bureau of Labor Statistics, there were 755,000 job openings in food services and accommodations in May, up 12% from a year ago.

H-2B visas are capped annually at 66,000,

Trump's 15,000 extra guest-worker visas aren't nearly enough.

and the labor shortage was exacerbated after Congress last year refused to extend a provision in the law that allowed foreigners who had previously worked on H-2Bs to count toward the limit. But the omnibus budget that Congress passed in May let Homeland Security Secretary John Kelly increase the number of visas in consultation with Labor

Secretary Alexander Acosta.

While the 15,000 additional visas will no doubt be welcomed by employers, they won't satisfy the growing demand for labor. More than 120,000 seasonal visas were requested this year, so tens of thousands of summer positions in hotels, fisheries and elsewhere will go unfilled. Businesses in disparate industries will be competing for too few foreign workers. And because the government usually requires between 30 to 60 days to process visas, workers may not arrive in time to benefit some employers. The result will be reduced economic output and perhaps shorter vacations for U.S. workers.

The decision to grant the new visas is a de facto admission that the U.S. has a labor shortage. Why hurt the economy by providing so few?

OPINION

LETTERS TO THE EDITOR

Tribes Lose Again, This Time on Health Care

It is no surprise that "Federal Care Fails Tribes" (page one, July 8). As a U.S. Public Health Service nurse, I was stationed on a remote reservation on the Nevada-Idaho border. Attracting competent nurses and doctors was always a problem. We hired Rent-a-Docs when desperate and experienced competence problems along with cultural insensitivity.

Doctors and nurses had to have state licenses, but ancillary staff didn't. Administrators, ambulance drivers, supply people and others needed to run a health-care facility were chosen under the Indian Preference Act. They often lacked the education and experience needed for their jobs. On more than one occasion, I went on an ambulance run only to run out of gas or to have no supplies to attend to the patient.

The government has no business in health care whether it is the Indian Health Service (IHS), Veterans Affairs or ObamaCare.

DEBORAH RING
Radford, Va.

Many IHS service units provide excellent, high-quality care despite underfunding, staffing shortages and isolation. My husband and many colleagues have devoted more than 25 years of their careers to serving on a remote reservation in Arizona. The hospital where they serve not only meets, but surpasses the minimum U.S. standards for medical facilities. If you compare the salaries they earn, you'll find that they make below the national average for family practitioners, pediatricians and internists. Partly because of this salary disparity, partly because of the bureaucratic application process and partly because of the isolation of the area, it is difficult

cult to maintain a full staff of providers. When service units are forced to hire temporary locum tenens physicians in lieu of decreasing services, the quality of care can change dramatically. The practitioners who remain despite the hardships are beloved and valued within the Native American community. Please do not paint all IHS service units with the same brush.

LAURA B. BROWN, M.D.
Pinetop, Ariz.

My experience as an IHS physician in the Zuni-Ramah Service Unit, which for a brief time had a medical-student program, suggests how medical-school affiliation with remote facilities could help improve the quality of care. If each failing hospital had a teleconferencing and resident rotation contract with a university medical school primary-care department, it would be possible for patients who met severity criteria to be reviewed via teleconference at the time of presentation. Patients could have their treatment reviewed immediately and, if needed, be transferred to the university. Primary-care residents rotating through the facility also could provide on-site review for patients. Each of the hospitals also could contract with the university's physician-assistant program for training and one- to two-year placement agreement for their graduates. This would provide another way to improve direct care.

The costs of such an intervention could be spread across the health-care system in the Indian Health Service and from the government grants to university family practice, resident and physician-assistant training programs.

KIM JAMES MASTERS, M.D.
Fairview, N.C.

Influencing China's Non-Princeling Future

William McGurn suggests that we put pressure on Beijing by denying visas to some Chinese students at U.S. universities because they are children of the influential elite ("How to Squeeze China," Main Street, July 11). I have just returned from China where I visited families of my students at Brandeis University.

You don't need to be a "princeling" to go to school in the States. Millions of ordinary Chinese have thrown themselves into securing the daunting but still achievable dream of a U.S. diploma. One father I met had gone into business in a coastal boomtown only after his support for the Tiananmen protests of 1989 had forced him out of his home city.

Enacting this embargo would inevitably mean thwarting corrupt and honest families alike. That won't hurt the politically wired. They'll send their kids to Oxford and the London

School of Economics instead. We would cut ourselves off from the honest families that choose schools not for their social cachet but for the chance they offer their kids to out-compete those princelings on merit alone.

Teaching this generation of Chinese students is an extraordinary chance to engage smart and ambitious youth from one of the world's most influential countries. I teach a class that specifically looks at the lessons that Alexis de Tocqueville's works might hold for China. I invite Mr. McGurn to come up for a session or two and listen to this generation of Chinese discuss "Democracy in America," or even better, "The Old Regime and the Revolution."

CHANDLER ROSENBERGER
Boston

Where Are the Riots About Bad Schools and Gangs?

Regarding Jason L. Riley's online "Still Living With the 'Riot Effect,' 50 Years Later" (Opinion, July 11) and his words in the July 13 Notable & Quotable "Riots, Then and Now": The question is whether or not these violent actions by rioters constitute an act of conscience by brave revolutionary souls protesting overall conditions, or are the riots merely faddish opportunism, a chance to destroy property and steal that big TV set the rioters always wanted. This is played out for the cameras, perhaps sparked by an arrest that went bad or a trial verdict that the rioters didn't like, or the local basketball team winning a championship. It's a valid question to ask.

Is there rioting over the lousy schools that poor kids are trapped in generation after generation? Are there angry demonstrations over the gang killings that chronically plague minority neighborhoods? How about unrest and looting over the absent fathers who sire thousands of children who are lost in an urban jungle without direction, love or hope? No. All those "revolutionaries" are pretty quiet on these issues.

I think Mr. Riley has it right.

MICHAEL FLEMING
Chino Hills, Calif.

Pepper ... And Salt

THE WALL STREET JOURNAL



"His ability to shoulder all the blame makes him irreplaceable."

Children Learn by Facing And Overcoming Adversity

Chief Justice John Roberts's message to his son's middle-school graduating class is unusual in today's climate, but absolutely the right one (Notable & Quotable, July 8). I wish this was the message all institutions of learning would convey because character and self-esteem are formed by learning to deal with the difficulties we must face and cannot avoid. Experiencing a difficulty and getting through it makes children feel good about themselves. By pampering students throughout their school years, we are not training them to deal with the ups and downs of life. Parents also need to learn and support this approach.

JOSEPH C. MITCHO, Ed.D.
Tulsa, Okla.

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

OPINION

A Step Toward Scientific Integrity at the EPA

By Steve Milloy

The Trump administration in May began the process of replacing the small army of outside science advisers at the Environmental Protection Agency. In June, 38 additional EPA advisers were notified that their appointments would not be renewed in August. To Mr. Trump's critics, this is another manifestation of his administration's "war on science." Histrionics aside, the administration's actions are long overdue.

Scott Pruitt sweeps out Obama-era science advisers. The agency needs truly independent ones.

The most prominent of the EPA's myriad boards of outside advisers are the Science Advisory Board and the Clean Air Scientific Advisory Committee, or CASAC. Mostly made up of university professors, these boards also frequently draw members from consulting firms and activist groups. Only rarely do members have backgrounds in industry. All EPA boards are governed by the Federal Advisory Committee Act, which requires that they be balanced and unbiased. While the EPA is required by law to convene the SAB and CASAC, the agency is not bound by law to heed their advice.

The EPA's Obama-era "war on

coal" rules and its standards for ground-level ozone—possibly the most expensive EPA rule ever issued—depend on the same scientifically unsupported notion that the fine particles of soot emitted by smokestacks and tailpipes are lethal. The EPA claims that such particles kill hundreds of thousands of Americans annually.

The EPA first considered regulating fine particles in the mid-1990s. But when the agency ran its claims past CASAC in 1996, the board concluded that the scientific evidence did not support the agency's regulatory conclusion. Ignoring the panel's advice, the EPA's leadership chose to regulate fine particles anyway, and resolved to figure out a way to avoid future troublesome opposition from CASAC.

In 1996 two-thirds of the CASAC panel had no financial connection to the EPA. By the mid-2000s, the agency had entirely flipped the composition of the advisory board so two-thirds of its members were agency grantees. Lo and behold, CASAC suddenly agreed with the EPA's leadership that fine particulates in outdoor air kill. During the Obama years, the EPA packed the CASAC panel. Twenty-four of its 26 members are now agency grantees, with some listed as principal investigators on EPA research grants worth more than \$220 million.

Although the scientific case against particulate matter hasn't improved since the 1990s, the EPA has tightened its grip on CASAC. In effect, EPA-funded researchers are empowered to review and approve



GETTY IMAGES/STOCK

their own work in order to rubberstamp the EPA's regulatory agenda. This is all done under the guise of "independence."

Another "independent" CASAC committee conducted the most recent review of the Obama EPA's ground-level ozone standards. Of that panel's 20 members, 70% were EPA grantees who'd hauled in more than \$192 million from the agency over the years. These EPA panels make decisions by consensus, which has lately been easy enough to achieve considering they are usually chaired by an EPA grantee.

Would-be reformers have so far had no luck changing the culture at these EPA advisory committees. In 2016 the Energy and Environment Legal Institute, where I am a senior fellow, sued the agency. We alleged that the CASAC fine-particulate subcommittee was biased—a clear violation of the Federal Advisory Committee Act. We found a plaintiff who

had been refused CASAC membership because of his beliefs about fine particles. Unfortunately, that individual was not willing to take a hostile public stand against the EPA for fear of professional retribution. We ultimately withdrew the suit.

The EPA's opaque selection process for membership on its advisory boards has opened the agency to charges of bias. In 2016 Michael Honeycutt, chief toxicologist of the Texas Commission on Environmental Quality, was recommended in 60 of the 83 nominations to the EPA for CASAC membership. The EPA instead selected Donna Kenski of the Lake Michigan Air Directors Consortium. Ms. Kenski received only one of the 83 recommendations. While no one objected to Mr. Honeycutt's

nomination, Sen. James Inhofe (R., Okla.) lodged an objection to Ms. Kenski's nomination, claiming she had exhibited partisanship during an earlier term on the committee.

Congress has also tried to reform the EPA's science advisory process. During the three most recent Congresses, the House has passed bills to provide explicit conflict-of-interest rules for EPA science advisers, including bans on receiving EPA grants for three years before and after service on an advisory panel. The bills went nowhere in the Senate, where the threat of a Democrat-led filibuster loomed. Had they passed, President Obama surely would have vetoed them.

President Trump and his EPA administrator have ample statutory authority to rectify the problem. As Oklahoma's attorney general, Scott Pruitt spent years familiarizing himself with the EPA's unlawful ways. He is in the process of reaffirming the independence of the agency's science advisory committees. This won't mean that committee members can't have a point of view. But a committee as a whole must be balanced and unbiased. Mr. Pruitt's goal is the one intended by Congress—peer review, not pal review.

Mr. Milloy served on the Trump EPA transition team and is the author of "Scare Pollution: Why and How to Fix the EPA."

Notable & Quotable: JFK

Niall Ferguson writing in London's *Sunday Times*, July 16:

Here is one contemporary verdict on the Kennedy administration, written before the president's death. It had "demoralised the bureaucracy and much of the military." It had engaged in "government by improvisation and manipulation." It had relied on "public relations gimmicks."

It had "no respect for personal dignity" and treated people "as tools." It had "brutalised our allies within Nato." It was undermining the US reputation for reliability—"the most important asset any nation has". The State Department was "a shambles, demoralised by the weakness of

the secretary of state and the interference of the White House." Its foreign policy was "essentially a house of cards". Thus the young Henry Kissinger.

The resemblances between the two presidents are more than superficial. In particular, both were too much inclined to see politics as a family affair. . . . What the Trump presidency has revealed most clearly is not the way the presidency has changed as an institution, but the way the American press has changed.

Or maybe not. Perhaps, if JFK had been a Republican, he would have been treated with the same ferocious animosity as DJT is treated today for much less heinous acts.

Return Medicaid to Its Rightful Role

By Frank Keating
And Doug Beall

Rolling back ObamaCare's Medicaid expansion has become the focal point of the health-care debate, and rightly so. Without fundamental change, Medicaid—expanded or not—will push state budgets to the brink even as it fails to help the most financially vulnerable Americans.

Consider Oklahoma, our home state. Despite intense lobbying by hospital corporations, the state Legislature stood strong and refused the Medicaid expansion. But the Medicaid rolls increased anyway, and at a dramatic cost to priorities like education, public safety and transportation.

The program should provide poor Americans with quality care, not shoddy coverage.

Like most states, Oklahoma used to spend most of its funds on education. But a few years ago Medicaid's rapidly rising costs pushed it to the top of the budget. Today, Oklahoma spends \$5.1 billion a year on Medicaid, more than the \$3.4 billion a year for K-12 schools and \$942 million a year for higher education combined. Medicaid is now crowding out other state priorities, with real consequences in education and beyond: lower teacher pay, fewer textbooks, deferred road maintenance, fewer mental-health treatment options in the state justice system to prevent incarceration of nonviolent offenders, and—within the Medicaid program itself—lower reimbursement rates for doctors.

Something has to give. If policy makers want to preserve a functioning and reliable safety net for low-income citizens with serious health challenges, they must face the fact that Medicaid is failing.

The ObamaCare expansion sent Medicaid's already soaring costs even higher. It dramatically increased spending in states like Illinois, Ohio and Washington, which were lured by temporary federal funds and rosy projections for economic recovery after the 2007-09 recession. What's particularly perverse is that ObamaCare

pays states more for the able-bodied adults newly covered under the Medicaid expansion than for people with serious disabilities under the original program.

As Illinois expanded Medicaid, more than 800 people already on the program's waiting list died, according to state documents reviewed by the Foundation for Government Accountability. Even in states that refused the expansion, surging costs have cut people off from care while leaving them still technically "covered."

Medicaid's unsustainable path was paved by the incentives built into its structure, combined with earlier expansions like the State Children's Health Insurance Program, passed in 1997. Oklahoma's share of spending on Medicaid in 2003 was \$714 million. By 2016 that had ballooned to \$2.1 billion, an increase of 194.1%, according to the Oklahoma Health Care Authority, the agency responsible for administering Medicaid in Oklahoma. No other significant piece of the state budget grew so fast.

Over the same period, enrollment in Oklahoma skyrocketed from just under 500,000 to over a million. This means one-quarter of the state's population is on medical welfare. Medicaid covers 57% of all births in Oklahoma, according to the Oklahoma Health Care Authority. Up to 72% of all children are on Medicaid at some point in their first five years, according to the authority. Government dependency expanded during a period of significant income growth here. Per capita income in Oklahoma grew 70.9%, from \$26,720 in 2003 to \$45,682 in 2016, according to federal data at the Bureau of Economic Analysis.

Part of the problem is that politicians want to score points by getting people "covered." But ObamaCare's monomaniacal focus on coverage has led to shoddier care at higher costs. Today's health-care debate should aim at the opposite: increasing the quality of care, not merely coverage by insurance or welfare.

A start would be refocusing Medicaid on its original mission of caring for the poor and those unable to do it for themselves. That means changing the program's incentives to allow people more responsibility for their own health outcomes. It also means giving states the freedom to explore options like health savings accounts,

direct primary care for Medicaid patients, and systems to remove enrollees who abuse the program.

Now is the time for fundamental Medicaid reform—for the good of every state and the most vulnerable people who depend on the program.

Mr. Keating served as governor of Oklahoma, 1995-2003. Dr. Beall is Chief of Radiology Services for Clinical Radiology of Oklahoma. Both are board members of the Oklahoma Council of Public Affairs.



AVENGER

HURRICANE

The superlative-charged chronograph. 50 mm case in Breitlight®. Exclusive Manufacture

Breitling Caliber B12 with 24-hour military-style display. Officially chronometer-certified.

BREITLING BOUTIQUE
575 MADISON AVENUE • WORLD TRADE CENTER
NEW YORK

BREITLING
1884

INSTRUMENTS FOR PROFESSIONALS™

PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

Rupert Murdoch
Executive Chairman, News Corp

Robert Thomson
Chief Executive Officer, News Corp

Gerard Baker
Editor in Chief

Matthew J. Murray
Deputy Editor in Chief

DEPUTY MANAGING EDITORS:
Michael W. Miller, Senior Deputy;
Thorold Barker, Europe; Paul Beckett,
Washington; Andrew Dowell, Asia;
Christine Glancey, Operations;
Jennifer J. Hicks, Digital;
Neal Lipschutz, Standards; Alex Martin, News;
Shazna Nessa, Visuals; Ann Podd, Initiatives;
Matthew Rose, Enterprise;
Stephen Wisniewski, Professional News

Paul A. Gigot, Editor of the Editorial Page;
Daniel Henninger, Deputy Editor, Editorial Page

WALL STREET JOURNAL MANAGEMENT:
Suzi Watford, Marketing and Circulation;
Joseph B. Vincent, Operations;
Larry L. Hoffman, Production

EDITORIAL AND CORPORATE HEADQUARTERS:
1211 Avenue of the Americas, New York, N.Y., 10036
Telephone 1-800-DOWJONES

DOW JONES
News Corp

BREITLING

WORLD NEWS

Civilian Casualties Rise in Kabul

U.N. report documents violence in Afghan capital, raising concerns for returning migrants

BY JESSICA DONATI

KABUL—More civilians were killed and wounded in Kabul in the first six months of 2017 than in war-ravaged Helmand, according to a United Nations midyear report on civilian casualties that showed deaths and injuries in Afghanistan remained near record levels documented last year.

A rise in large-scale militant attacks in Kabul has had a profoundly destabilizing effect on the capital, where some roads are still locked down and some embassies have scaled back to skeleton staff after a massive truck bomb struck near the diplomatic enclave in May.

The U.N. Assistance Mission to Afghanistan documented 5,243 civilian casualties across the country, including 1,662 dead and 3,581 wounded over the period, a decrease of less than 1% from last year, the report released Monday said. This included a 2% rise in civilian deaths and a 1% decline in injuries.

The trend reflects the growing influence of the Taliban insurgency in rural areas, which has provided a bigger foothold and more recruits for it to carry out large-scale attacks targeting workers at rush hour in central Kabul and



A soldier searched a man in Afghanistan's Nangarhar province in June. Officials are reviewing plans to bolster security in Kabul.

other major cities.

The U.N. said civilian casualties in Kabul were almost twice as high as in Helmand, which is mostly under Taliban control and has been long considered the country's most violent province. There were 1,048 civilian casualties in Ka-

bul province over the period, including 219 deaths and 829 injured, a 26% increase from last year, the U.N. said.

The rising urban toll could fuel concerns over plans by the European Union to deport Afghan migrants back home on the basis that some parts

of Afghanistan, including Kabul, were safe enough for them to return.

Around 200,000 Afghans arrived on the continent in 2015 in an effort to escape their country's conflict, according to the EU, and tens of thousands followed last year.

Helmand recorded the highest number of deaths, the report said.

The U.N. report also showed a 23% rise in female casualties this year, including 174 women dead and 462 injured, and a rise in child deaths, which were up 9% to 436.

U.K. Resumes Brexit Talks With EU

The U.K. and the European Union began Brexit talks in earnest, with a four-day negotiating session on a set of thorny issues the EU wants largely resolved before discussions turn to a future trade deal.

U.K. Brexit Secretary David

By Jason Douglas
in London
and Laurence Norman
in Brussels

Davis and the EU's top negotiator, Michel Barnier, returned to the negotiating table in Brussels for the first time since the official opening of talks on June 19, with the focus on U.K. and EU citizens' rights after Brexit and how much London must pay to cover the U.K.'s outstanding financial commitments to the bloc.

The two sides also are due to discuss how to manage the U.K.'s border with Ireland after withdrawal, expected in March 2019.

The EU has insisted progress must be made on these and other separation issues before it will consider discussing future economic ties to the U.K., highlighting the challenge of agreeing a far-reaching settlement on Brexit within the 18 months remaining for talks.

"We made a good start last month, and as Michel says we are now getting into the substance of the matter," Mr. Davis said, adding that it is "time to get down to work and make this a successful negotiation."

Mr. Barnier said last week there were major differences on key points. The EU proposed granting EU citizens in the U.K. and U.K. citizens in the EU rights to work and benefits similar to those that they already enjoy. The U.K. countered with proposals offering EU citizens "settled status" that confers many but not all existing rights as well as a pathway to British citizenship.



U.K. Brexit Secretary David Davis, left, and the EU's top negotiator Michel Barnier in Brussels.

Foreign Ministers Back U.S. on Koreas

BRUSSELS—European Union foreign ministers swung largely behind Washington's stance on North Korea on Monday, threatening further sanctions and pressing China to push Kim Jong Un's regime to abandon its nuclear work.

Yet behind Monday's joint

stance, European governments are staking out conflicting positions on one of the world's most volatile flashpoints.

Despite recent EU overtures urging dialogue on the North Korean crisis, the ministers called on Pyongyang to move toward reducing its nuclear program as a precondition for broader international talks,

even as South Korea's new left-leaning president pushed military-to-military contacts with

the north to ease tensions.

EU foreign-policy chief Federica Mogherini, with the backing of Sweden, Ireland and others, has been looking at how the EU could revive discussions to help avert conflict over North Korea. They argue that pressure alone is insufficient.

The EU has no formal role in the United Nations-backed six-party talks, which are charged with ending the nuclear standoff.

—Laurence Norman

There are around three million EU nationals in Britain and more than one million U.K. nationals living in the union's 27 other member states.

Despite such differences, analysts say the two sides should be able to reach a deal on citizens' rights, but a much bigger disagreement looms over money.

The EU estimates the U.K. is on the hook for upward of

€60 billion (\$69 billion) in spending pledges made but not yet fulfilled.

The prospect of payment on such a scale is political dynamite in the U.K., where advocates of Brexit won last year's referendum in part on a promise to stop sending Brussels any money at all.

Boris Johnson, U.K. foreign secretary, last week dismissed such demands as "extortionate"

and agreed with a colleague in Parliament that the EU could "go whistle" for such a sum.

Yet the U.K. government subsequently conceded in a written statement to Parliament that Britain is prepared to make "a fair settlement" with the EU and that it may keep making payments even after withdrawal.

—Wiktor Szary in London contributed to this article.

Russia Threatens Retaliatory Moves

Moscow turned up the rhetorical heat against the U.S. on Monday as high-ranking U.S. and Russian officials met in Washington amid a continuing dispute over American allegations that the Kremlin interfered with the 2016 presidential election.

By Nathan Hodge in Moscow and Paul Sonne in Washington

The Obama administration, in response to Russia's alleged meddling, late last year expelled 35 Russians it said were intelligence operatives serving under diplomatic cover. The State Department also denied Russian diplomats' access to two Russian government-owned compounds in the U.S.

Speaking to reporters Monday in Minsk, Russian Foreign Minister Sergei Lavrov called the closing of the compounds "theft in broad daylight, just highway robbery."

The accusation came hours before scheduled talks between Deputy Russian Foreign Minister Sergei Ryabkov and U.S. Undersecretary of State Thomas Shannon.

The State Department didn't immediately comment on the outcome of the meeting between Messrs. Ryabkov and Shannon. The White House declined to comment at a news briefing, referring questions to the State Department.

Russian-U.S. relations have been in an abysmal state since Moscow's seizure of the Black Sea peninsula of Crimea in 2014 from Ukraine. But Mr. Lavrov on Monday extended an olive branch to the Trump White House, blaming the retaliatory diplomatic measures on the Obama administration, which he said was trying to

U.S. Says Iran Is Complying With Deal

BY FELICIA SCHWARTZ

WASHINGTON—The Trump administration said it notified Congress late Monday that Iran is complying with the international nuclear deal reached two years ago, but the fate of the agreement remains uncertain as it is still under review.

The notification came despite a push by some within the administration to refuse to certify Iran's compliance, people familiar with the deliberations said.

The administration has been reviewing the Iran deal for several months. President Donald Trump has attacked the agreement, reached in 2015, as a "terrible deal" for the U.S.

Despite the certification, the Trump administration will disclose on Tuesday that it is levying additional sanctions related to Iran's ballistic missile program and other behavior it considers destabilizing, senior administration officials said.

"Iran is unquestionably in default of the spirit" of the deal, a senior administration official said Monday evening.

The official said the administration would pursue a strategy "that will address the totality of Iran's malign behavior."

—Farnaz Fassihi contributed to this article.

destroy U.S.-Russia relations. The Trump administration has pledged to try to restore them.

After the Obama administration introduced sanctions over the U.S. election, Russian President Vladimir Putin elected not to expel U.S. diplomats. But Russian Foreign Ministry spokeswoman Maria Zakharova recently hinted that Russia might take retaliatory measures against the U.S. diplomatic mission in Moscow.

Ahead of the Washington meeting, Russian state television gave heavy play to the subject of the diplomatic compounds, with legal commentator Gasan Mirzoyev telling state TV broadcaster Rossiya 24 he was "absolutely sure that our side will take adequate steps in response" if the

Russia's foreign minister called the compound closings 'highway robbery.'

Russians aren't granted access to the compounds.

Earlier this month, three U.S. senators sent a letter to President Donald Trump urging the White House not to return the compounds to Russia.

"The return of these two facilities to Russia while the Kremlin refuses to address its influence campaign against the United States would embolden President Vladimir Putin and invite a dangerous escalation in the Kremlin's destabilizing actions against democracies worldwide," wrote Sens. Marco Rubio (R., Fla.), Jeanne Shaheen (D., N.H.) and Johnny Isakson (R., Ga.).

WORLD WATCH

CANADA

Housing Market Is Cooling Off

A cool-down in Canadian housing now appears well under way, with last week's rate rise from the Bank of Canada expected to prolong the slowing trend.

National resale figures for June from the Canadian Real Estate Association indicate sales fell a seasonally adjusted 6.7% from May, the steepest decline in seven years. It was the third straight month-over-month drop in sales, and the second consecutive month transactions declined by over 6%. On an actual, not seasonally adjusted, basis, sales fell 11.4% on a year-over-

year basis in June.

Meanwhile, the association's index measuring house prices slowed for a third straight month, climbing 15.8% in June from a year ago, off from the recent April peak of a nearly 20% advance.

—Paul Vieira

INDIA

Modi Ally Looks Set To Become President

Lawmakers voted Monday to choose India's next president in an election widely expected to be won by a little-known member of a Hindu political group closely allied to India's ruling Bharatiya Janata Party.

The likely winner, Ram Nath

Kovind, 71 years old, is the former governor of the eastern state of Bihar and an associate of the Rashtriya Swayamsevak Sangh, or National Volunteer Corps, a Hindu group that has long been accused of stoking religious hatred against Muslims.

The votes from Monday's election will be counted Thursday.

—Associated Press

JORDAN

Killer of 3 Americans Gets Life in Prison

A soldier was sentenced to life in prison after being convicted of killing three U.S. military trainers last year, but some said questions lingered about his

motive for the shooting at a Jordanian air base.

Jordan has ruled out terrorism in the November shooting in which a convoy of U.S. Army Special Forces troops was fired on. The defendant has said he felt no animosity toward Americans and opened fire because he believed the base was coming under attack. However, relatives of the slain U.S. troops have described security-camera footage that they say shows him shooting for six minutes, reloading and aiming at the Americans, even as they identify themselves as friendly forces.

The Jordanian soldier, 1st Sgt. Marik al-Tuwayha, was given the maximum possible sentence.

—Associated Press



GREATEST OF EASE: African penguins glide through the water in a tank placed on the roof of a public aquarium in Tokyo.

BUSINESS & FINANCE

© 2017 Dow Jones & Company. All Rights Reserved.

* * * * *

THE WALL STREET JOURNAL.

Tuesday, July 18, 2017 | B1

S&P 2459.14 ▼ 0.01% S&P FIN ▼ 0.13% S&P IT ▲ 0.04% DJ TRANS ▼ 0.46% WSJ \$IDX ▲ 0.08% LIBOR 3M 1.306 NIKKEI (Midday) 19991.86 ▼ 0.63% See more at WSJMarkets.com

Changing of Guard at KKR Takes Shape

Promotions of Bae, Nuttall solidify their candidacies to one day run private-equity titan

By MATT JARZEMSKY

KKR & Co. put two executives in line Monday to take over one day for Henry Kravis and George Roberts, the private-equity pioneers atop one of the biggest brands in finance.

The New York asset manager elevated Joe Bae and Scott Nuttall to the roles of co-president and co-chief operating officer and added them to its board, according to a statement Monday. In their new roles, they will run KKR's

day-to-day operations.

The appointments solidify the men's candidacies to one day run KKR. There is no guarantee that either or both the men will end up atop the firm.

KKR, founded in 1976, helped popularize debt-fueled corporate takeovers known as leveraged buyouts. It earned a place in Wall Street lore with deals such as the 1988 purchase of **RJR Nabisco**, chronicled in the book "Barbarians at the Gate: The Fall of RJR Nabisco."

But like its rivals, KKR has faced nagging questions over its ability to endure a generational change. The top private-equity firms rely on the track records, influence and mystique of their founders to raise money and land deals, and

many of the industry's leaders have been reluctant to hand over the reins.

KKR has expanded dramatically in recent decades, though it has lagged behind some rivals such as Blackstone Group LP and Apollo Global Management LLC since the financial crisis in a race to accumulate fee-generating assets. While KKR's stock has roughly doubled since the company listed its shares in 2010, it has lagged behind Blackstone's and the S&P 500.

Mr. Bae, a 45-year-old Korean-American deal maker, is well-known in private-equity circles. A Harvard grad and Goldman Sachs alum, he built an Asian investing operation that proved a bright spot for

KKR as the firm struggled with souring U.S. buyouts struck in the run-up to the financial crisis. Its wins included the \$1.8 billion buyout and subsequent

outs in the Asia-Pacific region, the largest such investment product focused on the area.

Mr. Nuttall, 44, helps manage some of the activity KKR sees as key to differentiating itself from an increasingly crowded field.

More than its peers, the firm has expanded into the lucrative business of advising companies on raising debt and equity capital, and put its own money into deals, a twist on the private-equity model KKR's founders had a hand in creating.

A soft-spoken executive who previously worked at Blackstone after graduating from the University of Pennsylvania, Mr. Nuttall joined KKR as a private-equity investor. As time passed, his focus

shifted to building the firm's own business, helping it create in-house debt-trading and hedge-fund units as KKR sought to diversify beyond its private-equity roots.

He rose through the ranks while taking part in challenging deals such as KKR's 2007 buyout of First Data. KKR has struggled to unload its investment in the payment processor, whose business had stumbled after it was saddled with debt that at one point totaled more than \$20 billion. Mr. Nuttall routinely speaks for the firm on quarterly earnings conference calls and investor events.

In their new roles, Mr. Bae will lead KKR's efforts in private-equity, infrastructure, real estate and more.

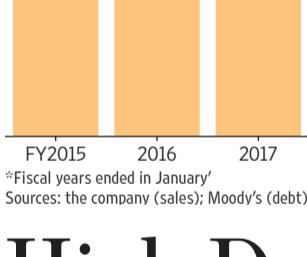
Please see **KKR** page B2



Toys 'R' Us is trying to boost its online sales.

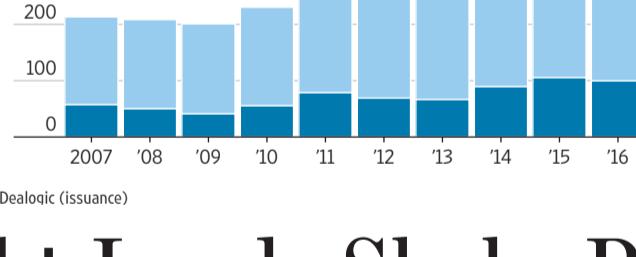
Sales at traditional retailers have come under pressure with the rise of online rivals, a squeeze intensified by the heavy debt burdens of many such firms. The slowdown has made raising debt more difficult for many in the sector.

Toys 'R' Us sales, annually*

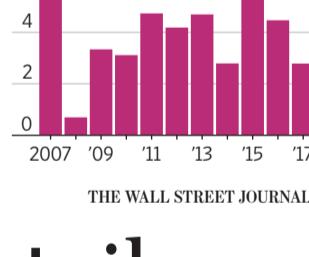


*Fiscal years ended in January
Sources: the company (sales); Moody's (debt); Dealogic (issuance)

Debt outstanding, issued by retailers and rated by Moody's



Retail junk-bond issuance, through July 14 of each year



THE WALL STREET JOURNAL.

BY MIRIAM GOTTFRIED

Toys "R" Us Inc. will get a new website this summer as it struggles to compete online with cash-rich rivals. The toy retailer, laden with \$5 billion in debt, has spent \$100 million over the past several years to help boost its online sales.

That isn't likely to stop the toy chain from falling further behind its rivals. **Wal-Mart Stores** Inc. bought Jet.com last August for \$3.3 billion and

since then has purchased three more online retailers. **Target** Corp. is investing billions to lower prices and improve online sales.

Toys "R" Us is one of many retailers fighting to keep up. High debt loads, nervous lenders and falling sales make it impossible to invest enough to compete online. And when companies do generate online sales, the margins are so tight that future investments are harder to make.

Macy's Inc. had \$5.5 billion in net debt at the end of the first quarter. A year ago, it said it would improve its performance and use the cash to pay down debt. Instead, the retailer struggled and had to use nearly two-thirds of its free cash flow last year to pay off \$750 million in maturing debt. It bought back more this year, further hurting its ability to fund plans to revive sales, including improving its mobile app and expanding its off-

price concept Backstage. Worries that borrowing will become more expensive or won't be there at all have prompted some relatively healthy companies to focus on paying down their debt, which further limits the amount they can invest.

Retailers sold just four high-yield bonds this year worth \$2.8 billion, compared with seven bonds worth \$5.7 billion last year. That is down

Please see **DEBT** page B2

STREETWISE | By James Mackintosh

On the Random Walk, Don't Fear Robots

Ten years ago, computer-driven traders pulled the plug after their algorithms ran amok, leading to billions in losses and the eventual closure of **Goldman Sachs Group** Inc.'s flagship quantitative fund.

A decade on, artificial intelligence, or AI, and machine learning are the buzzwords in automated investment. But for all the hype, applying AI to investment has three serious problems: It works too well, it is often impossible to under-

stand, and it only knows about recent history. Worse, it will be self-defeating if it proves popular, as algorithms face off against each other in the market.

Machine-learning systems are now really good at spotting patterns. Unfortunately, computers are just too good and frequently find patterns that aren't really there.

Michael Kollo, chief strategist at Axa IM Rosenberg Equities, points to the neural network—a type of AI loosely modeled on brains—developed by three University of Washington researchers to distinguish

between pictures of wolves and dogs by associating wolves with snow.

"It can easily identify something of an intransigent nature and learn one rule from it," he says. Train an AI on the last 35 years of markets, and it might well develop a single simple rule: Buy bonds. With 10-year Treasury yields down from 13.7% in July 1982 to 2.31% on Monday, it worked beautifully in hindsight, but yields can't possibly fall that much again in the next 35 years.

In the industry, spotting patterns that don't repeat is

known as "overfitting"—picking up on the irrelevant snow in the picture of a wolf or chance patterns in past stock prices that bear no relation to the future.

David Harding, founder of hedge fund **Winton Group**, says finding ways to avoid such fake patterns is at the core of computer-driven investment.

"Avoiding overfitting is a state of mind," he says. "It's the same thing as avoiding wishful thinking."

Anthony Ledford, chief scientist at quant fund Man AHL, says more advanced

Please see **ROBOTS** page B2

INSIDE



DISNEY FACES VISUAL-EFFECTS LAWSUIT

ENTERTAINMENT, B3

BNY MELLON TAPS EX-CHIEF OF VISA AS CEO

BANKING, B10

INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

A
Airbus.....B6
AllianceBernstein.....B12
Alphabet.....B4
Altice USA.....B12
Amazon.com.....B2,B4,B12
B
Bank of America.....B11
Bank of New York Mellon.....B10
Barclays.....B10
Berkshire Hathaway.....B3
Berkshire Hathaway Energy.....B3
Bespoke Investment Group.....B11
BlackRock.....B10,B11
Blue Apron Holdings.....B4,B11
BNP Paribas.....B10
Boeing.....B6
C
Chengdu Aircraft Industry Group.....A8
Church & Dwight.....B3
Citigroup.....B10
D
Dagong Global Credit Rating.....B6
Dalian Wanda Group.....A2
Deutsche Post.....B4
Didi Chuxing Technology.....B4
Dominion Diamond.....B3
E
eBay.....B11
Eli Lilly.....B12
F
Fidelity.....B11
Flexport.....B4
Flydubai.....B6
G
General Electric.....B1
General Motors.....B12
Goldman Sachs Group.....B1,B11
H
Hershey.....B3
J
JPMorgan Chase.....B10
K
Keuhne Nagel.....B4
KKR.....B1,B2
Kohl's.....B11,B12
M
Macy's.....B1,B11
Mahindra & Mahindra B6
Mediolanum Asset Management.....B2
Microsoft.....A1,B11
MidOcean Partners.....B3
Morgan Stanley.....B11
Mount Lucas Management.....B12
N
Netflix.....B11,B12
Northern Trust.....B10
P
Nuttall, Scott.....B1
R
Peltz, Nelson.....B1
Perlman, Steve.....B3
Petersen, Ryan.....B4
S
Roberts, George.....B1
Rudderow, Tim.....B12
T
Scharf, Charles.....B10
Suttmeyer, Stephen.....B11
U
Taylor, David.....B1,B2
V
Vanguard Group.....A1
Visa.....B10
W
Wal-Mart Stores.....B1
Walt Disney.....B3,B12
Washington.....B3
Water Pik.....B3
Whole Foods Market.....B4
Winton Group.....B1
Z
Zlotnikov, Vadim.....B12

BUSINESS & FINANCE



NIKKI RITCHIE FOR THE WALL STREET JOURNAL

Activist investor Nelson Peltz is campaigning for a seat on the board of Procter & Gamble.

P&G

Continued from the prior page
the next four months, Mr. Peltz spoke with executives and board members a number of times, according to a regulatory filing.

Among the discussions was an hourlong meeting on May 4 between Mr. Peltz and P&G's top 30 executives, moderated by Mr. Taylor. Later that month, Mr. Peltz told P&G that he didn't want to break up the company, a filing with the Securities and Exchange Commission said.

Throughout, Mr. Peltz maintained that P&G wasn't moving quickly enough and that a board seat would put him in better position to help the company execute its plans. On July 11, Mr. Taylor and P&G's lead director, Jim McNerney, "listened to Mr. Peltz's ideas, but did not agree to give him a Board seat," the filing said.

The activist isn't saying explicitly it wants more costs cut than the \$10 billion P&G has targeted, and isn't giving specifics on how it would tackle the costs. But Trian is concerned about whether the goal will be hit.

Triant says years of P&G's underperformance in revenue

and the stock market have raised questions about why the board should be given another year to execute without Mr. Peltz in the boardroom.

Central to Trian's case is the fate of roughly \$3 billion of the \$10 billion in P&G's previous cost reductions. P&G said the other \$7 billion in savings were lost to currency fluctuations, which Trian doesn't dispute.

Trian is concerned about whether P&G can hit its cost-cutting targets.

Trian argues, however, that if P&G were operating efficiently, the \$3 billion would have shown up in increased sales and profit growth, both of which have been stalled for years.

Trian is concerned the latest cost-cutting initiative "could be as ineffective as the 2012 productivity program in driving sales growth, earnings growth and shareholder creation," Trian said in a regulatory filing Monday.

Gary Bradshaw, a fund manager at Hedges Fund, said he

would support Mr. Peltz for the board. "I don't know he can change things overnight but, now, earnings aren't growing and that's what will eventually push the stock higher," said Mr. Bradshaw, whose fund has about 150,000 P&G shares.

In a presentation to investors last month, P&G finance chief Jon Moeller said that cost-cutting alone won't be enough to turn around years of sluggish sales. To drive faster revenue growth, the Cincinnati-based company also needs to reinvest savings to improve product formulations and packaging, sales coverage and advertising, among other areas.

In April, the company first detailed plans for the second round of cutting it announced last year. P&G took heat from Wall Street after initially unveiling the plan with scant details about where the savings would come from. The biggest reductions will be in cost-of-goods sold, with \$4.5 billion coming from materials, \$1.5 billion in manufacturing expense and \$1 billion in transportation and warehousing savings. An additional \$3.5 billion would come from cuts to marketing and trade spending.

—David Benoit

contributed to this article.

TRIAN

Continued from the prior page
rose 9.3% through June and an index of activist funds tracked by HFR Inc. rose 4.2% in the same period.

Trian says its presence helps companies grow their earnings and stock price more than average.

Of the boards that Mr. Peltz has joined, the companies have averaged annual returns that beat the S&P 500 by 8.8 percentage points, Trian said in a presentation.

Trian's willingness to work with companies privately has often led it to negotiate its way onto the board instead of needing a fight.

Since it started in 2005, it has had only two prior proxy fights—with H.J. Heinz Co. and DuPont Co.—and there were nearly 10 years between them.

In 2015, Trian ran a fight against DuPont. At the time, a win by Trian would have made DuPont the largest company ever to lose a shareholder vote, but it waged a successful counter-campaign.

Though Trian lost that fight, the vote was close enough that if any single large investor had flipped, Trian would have won a seat. And within months, DuPont missed on its quarterly results, changed its CEO and opened back up to Trian helping it structure its pending merger with Dow Chemical Co.

P&G seems ready to make a similar case to DuPont's: CEO David Taylor only started in November 2015 and has been moving to turn the gigantic organization.

The board backs his plan and doesn't want to add Mr. Peltz because it doesn't see the need, people familiar with the matter said. The board also rejected Trian's concerns that Mr. Taylor wouldn't deliver on pledged cost cuts, arguing the fear was based on prior management.

—Rob Copeland
contributed to this article.

INDEX TO PEOPLE

B
Bae, Joe.....B1
Bittles, Bruce.....B11
Bradshaw, Gary.....B2
Buffett, Warren.....B3
C
Cordray, Richard.....B10
D
Dimon, James.....B10
Drosos, Virginia.....B3
E
Ellis, Charles.....B2
F
Farstrup, Adam.....B12
Fink, Laurence.....B10
G - H
Garden, Ed.....B10
Harding, David.....B1
Hassell, Gerald.....B10
J
Jacobsen, Brian.....B11
K
Katz, Jason.....B10
Kilduff, John.....B11
Kohlberg, Jerome.....B2
Kollo, Michael.....B1
Kravis, Henry.....B1
L
Ledford, Anthony.....B1
Light, Mark.....B3
M
Mahindra, Anand.....B6
McNerney, Jim.....B2
Moeller, Jon.....B2
Musk, Elon.....B3
N
Navab, Alexander.....B2
Noreika, Keith.....B10
P
Nuttall, Scott.....B1
R
Peltz, Nelson.....B1
Perlman, Steve.....B3
Petersen, Ryan.....B4
S
Roberts, George.....B1
Rudderow, Tim.....B12
T
Scharf, Charles.....B10
Suttmeyer, Stephen.....B11
U
Taylor, David.....B1,B2
W
Wadhwan, Sushil.....B2
Washington, Dennis.....B3
Z
Zlotnikov, Vadim.....B12

DEBT

Continued from the prior page
from a 20-year peak of 28 bonds totaling \$10.7 billion in 2013, according to Dealogic. The amount of retail bank and bond debt rated by Moody's is up 65% since 2007.

Toys "R" Us and other struggling chains can likely survive for years, but they will struggle to catch up with the competition while still turning a profit. During holiday 2015, the toy retailer had to resort to "sales prevention" by halting some online deals after a deluge of web orders overwhelmed its ability to get products to customers in time for Christmas. The company had planned to launch its new website ahead of Christmas 2016 but was forced to delay it to fully test the new platform.

Toys "R" Us declined to comment.

Macy's has been forced to rethink its strategy in other ways. In March 2015, Chief Financial Officer Karen Hoguet said the company "liked having control of our real estate." That November, Macy's announced it was exploring joint ventures for its four flagship properties. In 2016, it sold its men's store in San Francisco's Union Square, reached an agreement to sell its downtown Minneapolis store and began work on a plan to shrink its store on Chicago's State Street to make way for a buyer or joint-venture partner.

When Macy's laid out plans two weeks ago for a revamped marketing strategy and greater focus on exclusive products, it warned its 2017 gross-margin rate could be weaker than it had expected in February. It cited excess inventory and bigger discounting in the beauty business.

For large retail chains, one of the few levers left to pull are store closures. "We're going to see indefinite top-line and gross-margin declines until there have been enough store closures," said Jenna Giannelli, a retail credit analyst at Citigroup.

Toys "R" Us, which was taken private in 2005 in a \$6.6 billion leveraged buyout by Bain Capital, KKR & Co. and Vornado Realty Trust, has swapped debt coming due this year and next for longer-term debt with a higher interest rate. Analysts expect it to do the same with another \$400 million bond due next year, but that could be tough. On June 20, S&P Global Ratings lowered its outlook for the retailer, saying that if markets are nervous or the company's business gets worse, it might not be able to pay off that bond when it comes due.

Toys "R" Us declined to comment.

Macy's has been forced to rethink its strategy in other ways. In March 2015, Chief Financial Officer Karen Hoguet said the company "liked having control of our real estate."

That November, Macy's announced it was exploring joint ventures for its four flagship properties. In 2016, it sold its men's store in San Francisco's Union Square, reached an agreement to sell its downtown Minneapolis store and began work on a plan to shrink its store on Chicago's State Street to make way for a buyer or joint-venture partner.

When Macy's laid out plans two weeks ago for a revamped marketing strategy and greater focus on exclusive products, it warned its 2017 gross-margin rate could be weaker than it had expected in February. It cited excess inventory and bigger discounting in the beauty business.

For large retail chains, one of the few levers left to pull are store closures. "We're going to see indefinite top-line and gross-margin declines until there have been enough store closures," said Jenna Giannelli, a retail credit analyst at Citigroup.

Toys "R" Us, which was taken private in 2005 in a \$6.6 billion leveraged buyout by Bain Capital, KKR & Co. and Vornado Realty Trust, has swapped debt coming due this year and next for longer-term debt with a higher interest rate. Analysts expect it to do the same with another \$400 million bond due next year, but that could be tough. On June 20, S&P Global Ratings lowered its outlook for the retailer, saying that if markets are nervous or the company's business gets worse, it might not be able to pay off that bond when it comes due.

Toys "R" Us declined to comment.

Macy's has been forced to rethink its strategy in other ways. In March 2015, Chief Financial Officer Karen Hoguet said the company "liked having control of our real estate."

That November, Macy's announced it was exploring joint ventures for its four flagship properties. In 2016, it sold its men's store in San Francisco's Union Square, reached an agreement to sell its downtown Minneapolis store and began work on a plan to shrink its store on Chicago's State Street to make way for a buyer or joint-venture partner.

When Macy's laid out plans two weeks ago for a revamped marketing strategy and greater focus on exclusive products, it warned its 2017 gross-margin rate could be weaker than it had expected in February. It cited excess inventory and bigger discounting in the beauty business.

For large retail chains, one of the few levers left to pull are store closures. "We're going to see indefinite top-line and gross-margin declines until there have been enough store closures," said Jenna Giannelli, a retail credit analyst at Citigroup.

Toys "R" Us, which was taken private in 2005 in a \$6.6 billion leveraged buyout by Bain Capital, KKR & Co. and Vornado Realty Trust, has swapped debt coming due this year and next for longer-term debt with a higher interest rate. Analysts expect it to do the same with another \$400 million bond due next year, but that could be tough. On June 20, S&P Global Ratings lowered its outlook for the retailer, saying that if markets are nervous or the company's business gets worse, it might not be able to pay off that bond when it comes due.

Toys "R" Us declined to comment.

Macy's has been forced to rethink its strategy in other ways. In March 2015, Chief Financial Officer Karen Hoguet said the company "liked having control of our real estate."

That November, Macy's announced it was exploring joint ventures for its four flagship properties. In 2016, it sold its men's store in San Francisco's Union Square, reached an agreement to sell its downtown Minneapolis store and began work on a plan to shrink its store on Chicago's State Street to make way for a buyer or joint-venture partner.

When Macy's laid out plans two weeks ago for a revamped marketing strategy and greater focus on exclusive products, it warned its 2017 gross-margin rate could be weaker than it had expected in February. It cited excess inventory and bigger discounting in the beauty business.

For large retail chains, one of the few levers left to pull are store closures. "We're going to see indefinite top-line and gross-margin declines until there have been enough store closures," said Jenna Giannelli, a retail credit analyst at Citigroup.

Toys "R" Us, which was taken private in 2005 in a \$6.6 billion leveraged buyout by Bain Capital, KKR & Co. and Vornado Realty Trust, has swapped debt coming due this year and next for longer-term debt with a higher interest rate. Analysts expect it to do the same with another \$400 million bond due next year, but that could be tough. On June 20, S&P Global Ratings lowered its outlook for the retailer, saying that if markets are nervous or the company's business gets worse, it might not be able to pay off that bond when it comes due.

Toys "R" Us declined to comment.

Macy's has been forced to rethink its strategy in other ways. In March 2015, Chief Financial Officer Karen Hoguet said the company "liked having control of our real estate."

That November, Macy's announced it was exploring joint ventures for its four flagship properties. In 2016, it sold its men's store in San Francisco's Union Square, reached an agreement to sell its downtown Minneapolis store and began work on a plan to shrink its store on Chicago's State Street to make way for a buyer or joint-venture partner.

When Macy's laid out plans two weeks ago for a revamped marketing strategy and greater focus on exclusive products, it warned its 2017 gross-margin rate could be weaker than it had expected in February. It cited excess inventory and bigger discounting in the beauty business.

For large retail chains, one of the few levers left to

BUSINESS NEWS

Disney Sued Over Films' Visual Effects

Legal fight concerning ownership rights stems from the use of facial-capture technology

By BEN FRITZ

A lawsuit against Walt Disney Co. has roped the entertainment giant into a long-running legal dispute over ownership rights to a visual-effects technology, potentially threatening the company's ability to profit from the top-grossing movie so far this year.

Rearden LLC, a company controlled by Silicon Valley entrepreneur Steve Perlman, on Monday sued Disney in U.S. District Court in San Francisco, alleging copyright, patent and trademark infringement, stemming from Disney's use of a facial-capture technology in the March blockbuster "Beauty and the Beast," as well as 2014's "Guardians of the Galaxy" and 2015's "Avengers: Age of Ultron."

Rearden is seeking injunctions to stop Disney from selling or showing these movies until the two companies reach a deal.

The dispute centers on a technology called MOVA Contour. In "Beauty and the Beast," it was used to turn actor Dan Stevens's facial performance into that of the beast. In "Guardians" and "Age of Ultron," it was used in the portrayal of the alien Thanos.

Water Pik Is Sold for \$1 Billion By MidOcean

By JUSTINA VASQUEZ

Church & Dwight Co. said Monday that it will buy Water Pik, Inc. for \$1 billion from private-equity firm **MidOcean Partners**, the latest acquisition in the consumer-product maker's strategy to acquire complementary businesses with growth potential.

Water Pik, a dental-equipment and showerhead company, generated about \$265 million of revenue in the fiscal year ended June 30, about 70% of which came from its water flosser products, Church & Dwight said.

The transaction, seen closing in the third quarter, is structured as a stock purchase that the company expects to finance with debt.

Church & Dwight makes Arm & Hammer toothpaste and cleaners as well as Orajel toothpaste and Spinbrush electronic toothbrushes. Water Pik is Church & Dwight's second purchase this year, after it acquired Agro Biosciences Inc. in May for \$100 million.

The lawsuit alleges Disney knew, or should have known, that Rearden—not Digital Domain, the visual-effects firm Disney paid for the work—had sole rights to MOVA.

Disney didn't respond to a request to comment.

Since 2015, Rearden has been fighting in court against companies affiliated with Digital Domain over MOVA.

Various studios have used the technology, with no resulting legal conflict, in films including "The Curious Case of Benjamin Button," "Gravity" and Disney's "Tron: Legacy." Mr. Perlman has alleged a former employee stole the technology and unlawfully sold it to the Digital Domain-affiliated companies.

In June, a federal judge issued a preliminary injunction preventing Digital Domain from continuing to use MOVA. A trial in the case was held in December, and a ruling is pending.

Digital Domain declined to comment.

MOVA was launched to much fanfare in 2006 by Mr. Perlman, a former Apple Inc. executive best known for selling WebTV to Microsoft Corp. in 1997. The system, which translates an actor's movements to a digital character, won a science and technology Academy Award in 2015.

In the lawsuit filed Monday, Rearden alleges that Disney should have known the technology didn't belong to Digital Domain because in 2013, its



Rearden's suit potentially threatens Disney's ability to profit from its blockbuster 'Beauty and the Beast.'

movie studio considered acquiring the technology from the former employee.

At the time, Rearden sent a letter stating that it owned the technology and Disney dropped out of the bidding as a result, according to testimony from the former employee. In addition, the lawsuit alleges, Disney previously contracted directly with Rearden to use MOVA on four films re-

leased in 2010 to 2012.

"Disney never bothered to contact its longtime MOVA Contour service provider Rearden LLC to ask any questions or to verify Disney's authorization to use the MOVA Contour system, methods, trade secrets or trademarks that Disney knew Rearden owned," the lawsuit states.

In addition to the injunc-

tions, Rearden is seeking orders to destroy all infringing copies of "Guardians of the Galaxy," "Avengers: Age of Ultron" and "Beauty and the Beast" and is asking for financial damages.

"Beauty and the Beast" has grossed \$1.26 billion globally. "Age of Ultron" raked in \$1.4 billion world-wide, while "Guardians" grossed \$773 million.

Signet CEO To Retire, Citing Health

By EZEQUIEL MINAYA
AND JOANN S. LUBLIN

Signet Jewelers Ltd. said Monday that Chief Executive Mark Light has decided to retire for health reasons and will be succeeded by Virginia Drosos, who has served as an independent board member since 2012.

Officials declined to disclose the condition prompting Mr. Light to leave the company he has been a part of for 35 years.

The company has also been defending against high-profile litigation alleging gender discrimination in pay and promotion. Signet says the claims have no merit.

Signet, which operates Kay Jewelers, Jared and Zales stores, and Mr. Light believed it was the right time for change because of "his personal need to address some health issues," company spokesman David Bouffard said. The health concerns aren't life-threatening, Mr. Bouffard said, but they have resulted in "multiple hospitalizations and a couple of surgical procedures." Mr. Light has served as CEO since 2014.

Ms. Drosos, a former Procter & Gamble Co. executive, in 2014 was named CEO of Assurex Health, a genetics-testing company that was acquired in 2016 by Myriad Genetics Inc.

Signet directors began to consider Ms. Drosos as the company's next CEO a few months ago after realizing Mr. Light's medical condition was serious, said one person familiar with the company.

Signet's board feared a formal external hunt for Mr. Light's successor would take too long. "Doing a search for a CEO in the retail business today is not an easy task," this person said. And Signet directors were "not sure of the quality out there."

Analysts at Citi said in a client note that a CEO change makes sense given that Signet's 2014 acquisition of Zales hasn't gone smoothly, as well as the "several public relations issues which may have hurt sales."

The analysts did question, however, why the board conducted only a limited, internal search for a successor and selected someone who "does not have retail experience."

The company has faced scrutiny amid a class-action arbitration case alleging widespread discrimination against women employees in Signet's Sterling Jewelers unit. Employees have also raised claims of sexual harassment. The company has called the sexual-harassment claims "distorted and inaccurate."

"We continue to hear from women who have complained of mistreatment in the company," said Joseph Sellers, an attorney at the law firm Cohen Milstein Sellers & Toll, which is representing plaintiffs. "They deserve justice and future employees deserve to work in an environment free from discrimination and harassment."

—Suzanne Kapner contributed to this article.

Tesla Adds Two Board Members

By TIM HIGGINS

Tesla Inc., which has faced criticism from its investors about a lack of independent directors, named **21st Century Fox** Inc. Chief Executive James Murdoch and **Ebony Media** CEO Linda Johnson Rice to its board.

The appointments announced Monday expand Tesla's board to nine people, including the Silicon Valley auto maker's CEO, Elon Musk.

In April, Mr. Musk suggested Tesla would appoint two additional directors when he responded on Twitter to a group of investors, including the California State Teachers' Retirement System, that were calling for improved corporate governance. Among the changes, the investors requested Tesla recruit two new directors who don't have prior personal or professional ties with Mr. Musk.

Mr. Murdoch is the son of Rupert Murdoch, executive chairman of Fox and **News Corp**, publisher of The Wall Street Journal. James Murdoch, who also serves on the board of News Corp and is the chairman of Sky PLC, succeeded his father as CEO of Fox in 2015.



Linda Johnson Rice, CEO of Ebony Media, is joining Tesla's board.

the Fox News Channel.

Mr. Waizenegger said those issues mean Mr. Murdoch isn't an ideal candidate "for a board that really needs to prove that it wants to take up shareholder accountability several notches," he said.

While Mr. Murdoch faced questioning by a U.K. parliamentary committee in the phone-hacking scandal, he wasn't accused of any wrongdoing.

Mr. Murdoch in 2011 called the phone-hacking scandal "a matter of serious regret," and has said he didn't know about or try to hide any wrongdoing in the matter.

At 21st Century Fox, the company has replaced much of the management at Fox News, has hired more women and minorities including a head of diversity outreach and provided sensitivity training for all employees at the network.

A spokesman for Mr. Murdoch referred questions to the auto maker. Tesla declined to comment beyond its announcement Monday.

A representative from Calstrs didn't have immediate comment.

Three other pension funds that signed the letter to Tesla declined to comment or didn't respond to requests.

BUSINESS WATCH

DOMINION DIAMOND

Washington Cos. Buys Mining Firm

Canadian mining company **Dominion Diamond** Corp. said Monday that it agreed to be acquired for \$1.15 billion after a months-long standoff with Montana-based **Washington Cos.**

The deal price at \$14.25 a share offers a 44% premium over Dominion's closing price on March 17, before The Wall Street Journal reported that Washington had approached the company with a \$1.1 billion bid in late February.

The agreement ends the review of strategic alternatives Dominion announced in late March after news of the offer became public.

Dominion will continue to operate as a stand-alone business with a new chief executive based in Canada and operate the Ekati Diamond mine as well as the Diavik Diamond mine, in which it has a 40% interest.

Washington Cos., a group of North American mining, railroad and transportation assets founded by billionaire Dennis Washington, owns stakes in two diamond mines near the Arctic Circle and has been working on a big expansion of one section of one of them—the Ekati mine—that could take until 2022.

—Imani Moise

Nutrition Labels To Be Updated

Hershey Co. is updating nutrition-facts labels on its products this year and next, one of the first major retailers to implement the changes as federal regulations requiring the revisions stall.

The Food and Drug Administration recently delayed the original July 2018 deadline for big brands to implement the new package labels, though companies had already invested in the changes.

The Obama-era rules were to require more prominent calorie and serving-size information and new information about added sugars.

—Heather Haddon

BERKSHIRE HATHAWAY Bid for Oncor Gains Support, Suitor Says

Berkshire Hathaway Energy is touting growing support for its bid to buy **Energy Future Holdings** Corp.'s Oncor.

Texas retail electricity providers and market participants including **TXU Energy** and **NRG Energy** Inc. support the transaction, said Berkshire Hathaway Energy, a subsidiary of Warren Buffett's **Berkshire Hathaway** Inc., in a news release.

Elliott Management Corp., a major Energy Future creditor, has said Berkshire's offer doesn't value Oncor highly enough and that it is working on a rival bid.

—Nicole Friedman

synchrony
BANK

Want Great Rates + Safety?
It's a day at the beach.

Relax with a great CD rate and special term from Synchrony Bank.

SPECIAL OFFER
15-MONTH CD

1.55%
APY*

\$2,000
minimum
opening
deposit

Visit us at synchronybank.com or call 1-800-753-6870 to get started.

*Annual Percentage Yield (APY) is accurate as of 7/1/17 and subject to change at any time without notice. A minimum of \$2,000 is required to open a CD and must be deposited in a single transaction. A penalty may be imposed for early withdrawals. Fees may reduce earnings. After maturity, if you choose to roll over your CD, you will earn the base rate of interest in effect at that time. Visit synchronybank.com for current rates, terms and account requirements. Offer applies to personal accounts only.

© 2017 Synchrony Bank

Member
FDIC

TECHNOLOGY

WSJ.com/Tech

FedEx Struggles After Cyberattack

Petya significantly affects overseas operations of TNT Express business

BY IMANI MOISE

Customers waiting for packages abroad are experiencing significant delays as FedEx Corp. continues to reel from the effects of a June 27 cyberattack.

The delivery giant said Monday in a securities filing that the global cyberattack known as Petya significantly affected the operations of its TNT Express business, which has delivery operations in the Middle East and Africa, Asia-Pacific, Europe and South America.

FedEx said while TNT depots, hubs and facilities are operational, it has resorted to manual processes to facilitate a significant portion of operations and customer service functions. The company said it couldn't estimate when TNT services would be fully restored.

FedEx said the cyberattack will likely have a material financial impact on its operations and that lower volumes at TNT have already dented revenue. FedEx doesn't have cyber insurance or any other insurance to cover the attack.

United Parcel Service Inc. and the U.S. Postal Service didn't immediately respond



Cargo is unloaded from the hold of a jet at TNT Express's European mail hub in Belgium. TNT has seen lower volumes since Petya.

to questions Monday about whether they hold insurance policies to cover damage stemming from cyberattacks.

Many consumers have vented their frustrations on social media platforms about slow delivery times. On July 9, Twitter user @pieceofone complained about not receiving a package being delivered from China to Portugal. The tracking information began on June 24 with an estimated June 28 delivery date, but the user said he hadn't received the package or any further

information from the company.

The Twitter user didn't immediately respond to interview requests. According to shipment tracking information through TNT's website, the package mentioned in the tweet arrived July 12. FedEx didn't immediately respond to comment about that customer's package delivery.

Last month's attack, which stemmed in part from an Ukrainian tax software product, hit a number of major global companies from Merck & Co. to PAO Rosneft. It also marks the second major cyberattack to hit FedEx this year.

In May, a large cyberattack known as WannaCry scrambled the company's computers. The courier said at the time it was experiencing interference with its Windows-based systems caused by malware. FedEx declined to say how widespread the problem was and whether deliveries were affected.

FedEx acquired TNT Express BV last year for \$4.8 billion, the largest acquisition in FedEx's history as part of a move to accelerate its growth abroad.

The Dutch company contributed 12% to FedEx's top line in the prior fiscal year.

FedEx shares fell \$3.58, or 1.6%, to \$215.48 on Monday. The shares are up 16% year to date. The modest decline Monday is a rational response, Citigroup said in a research note.

—Cara Lombardo and Paul Ziobro contributed to this article.

Amazon Filing Hits Meal-Kit Shares

BY AMRITH RAMKUMAR

Add Blue Apron Holdings Inc. to the long list of stocks getting hammered by news related to Amazon.com Inc.

Already-battered shares of the meal-kit delivery company fell 10% Monday after an Amazon subsidiary filed a trademark for prepared food kits. The filing occurred on July 6, according to a U.S. Patent and Trademark Office document, and was reported by a British newspaper, The Sunday Times, this weekend.

Blue Apron offers a subscription service that delivers premeasured ingredients and recipes to customers to cook at home. Amazon said in the trademark filing that it, too, is looking at delivering meal kits ready for cooking.

Amazon's proposed tagline for the kits is, "We do the prep. You be the chef," according to the trademark filing.

The Amazon news is the latest blow to Blue Apron, which had to slash its initial public offering price in June amid concerns about its marketing costs and customer turnover. Blue Apron had about a million customers as of March 31 and almost \$800 million in revenue last year, but the company has recorded steeping losses since its inception as the cost to attract customers has increased.

Since its debut at \$10 a share on June 29, Blue Apron's stock has fallen on eight of its 12 trading days as a public company. It closed Monday at \$6.59, 34% below its IPO price. Amazon shares were up 0.8% on Monday.

Amazon has been a key driver of the stocks of food-related companies since it announced its \$13.7 billion acquisition of Whole Foods Market Inc. on June 16.

Ruling Narrows Scope of Google Pay Disclosure

BY DOUGLAS MACMILLAN AND JACK NICAS

government's request for 19 years of pay data on 21,000 Google employees, ruling the inquiry is overly broad and intrusive of employee privacy.

The decision, which isn't final, could be a partial victory for the Alphabet Inc. unit, which has resisted the agency's effort to investigate a possible gender pay gap in its workforce.

The Labor Department sued Google for salary data earlier this year as part of an audit into whether Google complies with laws barring federal contractors from discriminating against employees.

In his recommended decision and ruling, Steven B. Berlin, an administrative judge in San Francisco, said the federal agency failed to offer credible

evidence of any pay disparity in its request for data. He did, however, ask Google to give the Labor Department a smaller set of pay data for as many as 8,000 employees dating to 2014. The government could appeal the decision.

In a blog post on Sunday, Google welcomed the judge's decision, saying that its own analysis of its compensation

practices doesn't reveal a gender pay gap.

"While we're pleased with Friday's recommended decision, we remain committed to treating, and paying, people fairly and without bias with regard to factors like gender or race," Eileen Naughton, the company's vice president of people operations, said in the blog post.

ADVERTISEMENT

The Mart

To advertise: 800-366-3975 or WSJ.com/classifieds

BUSINESS OPPORTUNITIES

WEST ISLAND Ontario Place

BFIN

The Province of Ontario is seeking a development partner for the West Island of Ontario Place. This is a unique waterfront opportunity in cosmopolitan Toronto, Canada's largest city.

Key features of this opportunity include:

- A flexible offering for all or a portion of the site
- Potential for a long term ground lease arrangement

Through a Call for Submissions process, Brookfield Financial is pleased to present this unique opportunity. For more information please visit:

www.OntarioPlaceWestIsland.com

Nurit Altman, Broker | +1.416.956.5225 | Nurit.Altman@brookfield.com

Brookfield Financial Real Estate Group LP

BUSINESS FOR SALE

MACHINE SHOP

OKLAHOMA AREA 27 YEARS IN BUSINESS
3M - 4M ANNUAL SALES
AUTOMOTIVE & OIL FIELD EQUIP
OVER 150 CUSTOMERS
Larry Aspren, Aspen Com'l Realty
405 213 6473 AsprenLL@aol.com

24 year old Defense company that manufactures over 100 OEM items containing national stock numbers for sale. Average yearly net profit 2.5 million. Less than 20 employees and no debt. Small, manageable and highly profitable. Interested parties can email ds@ampatss.com

BUSINESS OPPORTUNITIES

MIDDLE MARKET M & A

Seven figure income potential for top performers. 90% payout at closing to Managing Directors.

Contact: denny@chapman-usa.com

CHAPMAN ASSOCIATES

Nationwide M & A since 1954

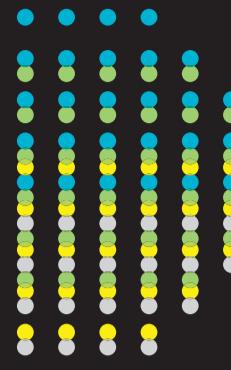
EARN 11%+
INVESTING IN 1st MORTGAGES
Short Term, High Yield, Low LTV.
Secure & Great Monthly Income.

Call 949-346-1217

JASPER JUNIEN/BLOOMBERG

ANTHONY KUAN/BLOOMBERG NEWS

ANTHONY KUAN/BLOOMBERG NEWS</



THE WALL STREET JOURNAL.
D.LIVE
LAGUNA

OCTOBER 16-18 | LAGUNA BEACH, CA

TECH'S MOST AMBITIOUS
MINDS, ON STAGE AND
ON THE RECORD

2017 SPEAKERS INCLUDE:



SAM ALTMAN

President
Y Combinator



PHILIP KRIM

Co-Founder and CEO
Casper



CHIP BERGH

President and CEO
Levi Strauss & Co.



JENNY LEE

Managing Partner
GGV Capital



BETH COMSTOCK

Vice Chair
GE



MARC LORE

President and CEO
Walmart eCommerce U.S.



KHANYI DHLOMO

Founder and CEO
Ndalo Media



MARISSA MAYER

President and CEO
Yahoo! (2012-2017)



BARRY DILLER

Chairman and Senior Executive
IAC and Expedia, Inc.



JENNIFER NASON

Global Chairman, Investment Banking
J.P. Morgan



JEFFREY KATZENBERG

Partner
WndrCo



EDUARDO SAVERIN

Co-Founder and Partner
B Capital Group

Join conversations with investors, founders and luminaries
disrupting the status quo, as well as industry giants fostering
innovation around the globe.

TICKETS TO THIS EVENT ARE LIMITED, REQUEST YOUR INVITATION TODAY:
DLIVELAGUNA.WSJ.COM

Proudly supported by:



NETJETS



BUSINESS & FINANCE



The Emirates-Flydubai partnership comes at a difficult time for Middle Eastern carriers. A Flydubai plane at an air show in 2015.

Luxury Joins With No Frills

Emirates Airline, known for its amenities, plans to collaborate with budget carrier Flydubai

By NICOLAS PARASIE

DUBAI—Emirates Airline and budget carrier Flydubai said they are going to work more closely together through a wide-ranging tie-up, in the latest sign that intensifying political and economic pressures are making Middle East carriers rethink their business plans.

The carriers, both owned by Dubai's government, announced a partnership that includes collaborating on routes and scheduling, an agreement on code sharing—in which airlines list each other's flights on their reservation systems—and the alignment of their frequent-flier programs.

Emirates Airline, the world's largest carrier by international

traffic, flies Airbus SE A380 superjumbos and Boeing Co. 777 long-range jets worldwide, offering ample amenities. In contrast, Flydubai offers a no-frills service that connects cities using smaller planes. More closely integrating its schedule with Flydubai would allow Emirates to offer access to cities that don't warrant use of big planes, feeding passengers to and from those destinations to long-haul flights via its Dubai hub to help fill the large planes flying to the U.S., Europe and Asia.

Emirates and Flydubai said the partnership should allow them to "leverage each other's network to scale up their operations and accelerate growth." Jointly, the two airlines aim to offer 240 destinations by 2022, up from 216 now, using a combined fleet of 380 aircraft.

The Emirates-Flydubai partnership agreement comes at a difficult time for the Middle Eastern carriers. After a pe-

riod of rapid growth, Emirates and its two major regional rivals, Etihad Airways and Qatar Airways, are facing challenges. Low oil prices have hit business travel to and from their home bases while an oversupply of seats has put downward pressure on ticket prices.

Tougher travel-security measures in response to the threat of terror attacks and uncertainty surrounding travel to the U.S. have also weakened demand. More recently, a diplomatic standoff between Qatar and its neighbors including Saudi Arabia and the United Arab Emirates—Dubai is one of the U.A.E.'s seven emirates—has added extra uncertainty to the region's aviation sector.

The disruption was visible in the latest results from Emirates. The carrier reported an 82% drop in net profit to \$340 million for the fiscal year ended in March compared with the previous 12 months. Though Emirates and Fly-

dubai are owned by Dubai's sovereign-wealth fund and operate from the same international airport, they have functioned independently and will continue to do so under separate teams.

Emirates, which was founded in 1985, became one of the most prolific buyers of widebody planes from Airbus and Boeing in creating a global network from its hub in Dubai. The airline, which has a fleet of 259 aircraft, is known for its lavish offerings in first and business class such as showers and fine wines.

Flydubai was set up in 2008 with the aim of mirroring the success of budget airlines such as Southwest Airlines Co. in the U.S. and Ryanair Holdings PLC in Europe. The airline operates a fleet of 58 Boeing 737-800 aircraft and will take delivery of more than 100 aircraft by the end of 2023.

—Robert Wall in London contributed to this article.

China Rating Firm Seeks Credit Clarity

By NINA TRENTMANN

A rating firm in China is aiming to boost transparency in the country's often-murky world of corporate credit ratings.

Beijing-based **Dagong Global Credit Rating** Co. plans to launch a digital credit-rating platform in the coming months that requires companies to submit financial information daily.

"We need to limit the credit risks stemming from financial engineering and leveraging, especially among Chinese firms," said Jianzhong Guan, chairman of the agency. "Creditors and rating agencies often don't get access to crucial information."

The push for better reporting comes at a time of increasing competition from Western rivals to play a role in China's bond market, which was valued at \$9.3 trillion at the end of last year. China's central bank said this month that foreign-owned rating firms would be allowed to assess credit risks in the interbank bond market if they register with the central bank and meet certain criteria.

Investors are also growing more nervous about some Chinese borrowers as Beijing cracks down on runaway debt. President Xi Jinping over the weekend again stressed the importance of reigning in high debt levels, sparking a drop in share prices.

Companies rated by Dagong will be able to enter sales and revenue data on a daily basis. An algorithm then calculates their creditworthiness and if necessary, makes changes to the rating. It focuses on a company's profitability, its debt-reduction capability and the nature of its assets, Mr. Guan said.

"Tools like this could

boost the credibility of Chinese credit-ratings firms," said Oliver Rui, a professor for finance at the China Europe International Business School in Shanghai. Currently, there is no local rating agency that asks companies to submit data on a daily basis, he said.

In fact, few raters globally do anything similar, although Business Funding Research Ltd., a U.K. firm, takes data submitted in filings and adjusts risk ratings within 24 hours if warranted.

Some Western competitors express doubts about the self-reporting. "I don't know whether a company would provide financial information on a daily basis," said Gary

The push for better reporting comes amid rising competition from Western firms.

Lau, managing director at Moody's Investors Service Hong Kong Ltd.

Moody's doesn't use an algorithm-based system, he said, adding, "We monitor rated entities on an ongoing basis."

However, Moody's Analytics Inc., a separate unit, has since 2010 used models that can calculate ratings and default probabilities for Chinese companies, said David Hamilton, managing director for Asia Pacific Stress Testing and Credit Risk Analytics at Moody's Analytics. The company uses both company financial data and market data, such as changes in equity value, in its models. The analytics group doesn't have access to information that issuers share with the ratings agency, he said.

Oncology Firm's Shares, Bonds Backstopped

By TOM CORRIGAN

21st Century Oncology Inc., which operates more than 180 cancer treatment centers, has signed a deal with bondholders to backstop \$275 million in new shares and bonds, funding the company says will serve as the cornerstone of its chapter 11 plan.

In court papers filed Friday with the U.S. Bankruptcy Court in White Plains, N.Y., the cancer specialist outlined offerings for \$200 million in new bonds and about \$88 million in shares of the reorga-

nized company. Both offerings are fully backstopped, court papers say.

Lawyers for 21st Century Oncology say approval of the two rights offerings is "critical" to the success of its restructuring. Court papers peg the total cash raised from the offerings at \$275 million, which will be used to help repay the company's debts and to send a clear 'business as usual' message to patients, physicians, vendors, and employees."

Lenders had already offered up a separate \$75 million lifeline to ensure 21st

Century Oncology's cancer treatment centers stay open during its bankruptcy. The company operates 144 centers in the U.S. and 36 centers in Latin America.

A hearing on the rights offerings, which require a bankruptcy judge's signature, is slated for Aug. 4.

Based in Fort Myers, Fla., 21st Century Oncology provides a wide range of cancer treatment services, employing more than 3,600 people.

The company filed for bankruptcy with a widely supported preliminary agreement with key lenders that, if ap-

proved by Judge Robert Drain, will trim its debt-laden balance sheet.

The pact, reached after months of negotiations, would trim the company's \$1.14 billion in total liabilities by more than \$500 million, court papers show.

The company says broad changes in the health-care industry have cut revenue and insurance reimbursements. 21st Century Oncology treats between 3,000 and 3,200 patients a day.

A spate of government penalties and settlements have also hurt the cancer-treat-

ment business. In March 2016, 21st Century Oncology agreed to pay \$35 million to U.S. regulators to settle allegations of fraudulent Medicare billing practices, on top of an earlier \$19.75 million settlement.

Private-equity firm Vestar Capital Partners bought 21st Century Oncology, formerly known as Radiation Therapy Services Holdings Inc., for \$1.1 billion in 2008.

The company skipped an interest payment in November and didn't correct the missed payment within a 30-day grace period, according to a regulatory filing.

Mahindra Doubles Down on U.S. Push

By MIKE SPECTOR

Mahindra & Mahindra Ltd. plans to double its bets in the U.S. over the next five years, spending \$1 billion in an effort to strengthen the Indian company's brand as President Donald Trump pressures foreign and domestic companies to steer investments toward America.

"We believe in America," Chairman Anand Mahindra said Monday during a discussion with reporters and a separate interview with The Wall Street Journal in Midtown Manhattan. He played down Mr. Trump's rhetoric on trade, investment and immigration, pointing to encouraging business conditions in the U.S.

"For the moment, the cycle seems to be very much in favor" of a robust U.S. economy, Mr. Mahindra said. He added that he is "not the expert" on whether attractive economic conditions resulted from previous Obama administration policies or the current White House.

Mahindra's plan, which builds on \$1 billion invested in the U.S. to date, would double the company's American employment to roughly 5,000 people, executives said. The Mumbai-based conglomerate, which executives refer to as a federation of independently run businesses, manufactures sport-utility vehicles and faces competition in its home market from established auto makers rushing to India.

Its efforts are also small when stacked against established auto makers. In the U.S., Toyota Motor Corp. plans to spend \$10 billion over the next five years.

While its auto sales are far smaller in the U.S., Mahindra is ramping up more, recently establishing an engineering center outside Detroit and a nearby factory expected to start building a utility vehicle in October.

GO TO WORK IN BLISSFUL COMFORT

The Un-Sneaker™ goes to work. To your colleagues, it's a fashion statement. To your feet, it's an all-day festival of lush, leather-lined comfort. But let's keep that confidential.

SAMUEL HUBBARD.COM
SHOEMAKERS SINCE 1930

Free shipping and returns. Order online or call 844.482.4800.

Dividend Changes

Dividend announcements from July 17.

Company	Symbol	Amount	Payable/	Record
		Yld %	New/Old	Frq
Increased				
National Retail Properties	NNN	4.8	.475/.455	Q
Ryder System	R	2.5	.46/.44	Q
				Aug15/Jul31
				Sep15/Aug21
Reduced				
Mesabi Trust	MSB	4.6	.16/.55	Q
				Aug20/Jul30
Initial				
Formula Folios Income ETF	FFTI	.058		Jul21/Jul19
Funds and investment companies				
Arrow Dow Jones Gil Yd	GYLD	6.7	1005	M
O'Shares FTSE Russ Int'l	ONTL	0.2	.00412	M
O'Shares FTSE Russ SC Qu	OUSM	0.3	.00599	M
OShares FTSE Eur Quality Div	OEUR	0.8	.01666	M
				Jul21/Jul19

KEY: A: annual; M: monthly; Q: quarterly; r: revised; S: semiannual;
S2: stock split and ratio; SO: spin-off.

Exchange-Traded Portfolios | WSJ.com/ETFresearch

Largest 100 exchange-traded funds, latest session				
Monday, July 17, 2017				
ETF	Symbol	Closing Price	Chg	YTD (%)
iShares MSCI EAFE	SCZ	58.63	.012	17.6
iShares MSCI Emerging Markets	EEM	43.22	-.046	23.5
iShares MSCI Eurozone	EUZ	41.36	-.027	19.5
iShares MSCI Japan	EWJ	53.56	-.013	9.6
iShares Nasdaq Biotech	IBB	315.08	-.042	18.7
iShares National Muni Bond	MUB	110.37	.001	2.0
iShares Russell 1000 Growth	IWF	121.31	-.005	15.6
iShares Russell 1000 Value	IWB	136.59	... 9.7	
iShares Russell 1000 Val	IWD	116.45	-.003	3.9
iShares Russell 2000 Growth	IWT	171.15	0.05	11.2
iShares Russell 2000 Val	IWM	142.06	0.23	5.3
iShares Russell 2000 Val	IWN	119.29	0.38	0.3
iShares Russell 3000	IWN	145.51	0.04	9.4
iShares Russell Mid-Cap	IWR	193.95	0.18	8.4
iShares Russell Mid-Cap Value	ISHV	84.62	0.30	5.2
iShares Russell Mid-Cap Value	IJK	199.34	0.08	9.4
iShares S&P 500 Growth	IVW	139.93	0.04	14.9
iShares S&P 500 Value	IVE	105.66	-.007	4.2
iShares SPDR S&P 500	PFF	39.05	-.003	4.9
iShares TIPs Bond	TIP	113.28	0.20	0.1
iShares 3-Yr Treasury Bd	SHY	84.52	0.01	0.1
iShares 7-10Y Treasury Bd	IEF	106.53	0.12	1.6
iShares 20+Y Treasury Bd	TLT	123.67	0.28	3.8
iShares Russell MCGrowth	IWP	109.48	-.005	12.4
PIMCO Enhanced Matturity Fund	MINT	101.69	-.001	0.4
PIMCO Enhanced Matturity Fund	QQQ	142.19	0.05	20.0
Pimco Short				

MARKETS DIGEST

EQUITIES

Dow Jones Industrial Average

21629.72 ▼8.02, or 0.04%
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 21.00 19.69
P/E estimate * 18.41 17.74
Dividend yield 2.30 2.49
All-time high 21637.74, 07/14/17

BIGGEST 1,000 STOCKS

WSJ.com/stocks

How to Read the Stock Tables

The following explanations apply to NYSE, NYSE Arca, NYSE MKT and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq OMX BXSM (formerly Boston), Chicago Stock Exchange, CBSE, National Stock Exchange, ISE and BATS.

This list comprises the 1,000 largest companies based on market capitalization.

Underlined quotations are those stocks with large changes in volume compared with the issue's average trading volume.

Boldfaced quotations highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

Footnotes:

- i-New 52-week high.
- j-New 52-week low.
- dd-Indicates loss in the most recent four quarters.
- FD-First day of trading.
- H-Does not meet continued listing standards.
- If-Late filing.
- q-Temporary exemption from Nasdaq requirements.
- NS-NYSE bankruptcy.
- v-Trading halted on primary market.
- wj-In bankruptcy or receivership or being reorganized under the Bankruptcy Code, or securities assumed by such companies.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.

Monday, July 17, 2017

		Net		Net				Stock		Sym Close Chg		Net		Stock		Sym Close Chg		Net		Stock		Sym Close Chg		Net		Stock		Sym Close Chg		Net			
																												Stock		Sym Close Chg		Net	
																												Stock		Sym Close Chg		Net	
																												Stock		Sym Close Chg		Net	
																												Stock		Sym Close Chg		Net	
																												Stock		Sym Close Chg		Net	
																												Stock		Sym Close Chg		Net	
																												Stock		Sym Close Chg		Net	
																												Stock		Sym Close Chg		Net	
																												Stock		Sym Close Chg		Net	
																												Stock		Sym Close Chg		Net	
																												Stock		Sym Close Chg		Net	
																												Stock		Sym Close Chg		Net	
																												Stock		Sym Close Chg		Net	
																												Stock		Sym Close Chg		Net	
																												Stock		Sym Close Chg		Net	
																												Stock		Sym Close Chg		Net	

BANKING & FINANCE

Arbitration Fight Heats Up

Acting comptroller of currency urges consumer watchdog to delay rule

By RACHEL WITKOWSKI

WASHINGTON—A fight between regulators escalated Monday when President Trump's acting national banking regulator urged the Consumer Financial Protection Bureau to delay a rule barring mandatory arbitration requirements between financial firms and customers.

Acting Comptroller of the Currency Keith Noreika asked CFPB Director Richard Cordray to halt the rule, which could ease the way for class-action litigation against companies, until his office can assess the

data behind the rule and verify it won't put banks in financial risk.

The letter is the third between Mr. Noreika and Mr. Cordray since the CFPB announced its arbitration rule last week.

"The OCC should be granted the opportunity to conduct an independent review of the CFPB data to determine the safety and soundness implications of the Final Rule," Mr. Noreika wrote.

CFPB spokesman David Mayorga said the bureau received the letter and is reviewing it.

Mr. Noreika raised concerns about the rule the day it was announced by the CFPB, saying it presented potential risks for banks.

He said the CFPB rule could allow lawsuits that could harm

a bank's reputation and financial performance and ultimately drive up bank costs on consumers.

Mr. Cordray responded to the acting comptroller on Wednesday, saying he was "surprised" by the OCC's letter. "At no time during the [two-year process of preparing the rule] did anyone from the OCC express any suggestion that the rule that was under development could threaten the safety and soundness of the banking system," Mr. Cordray said in the July 12 letter.

Mr. Noreika's Monday response said Mr. Cordray continues to ignore his request for data despite "prior telephonic and in-person assurances that we would have access."

The back-and-forth between

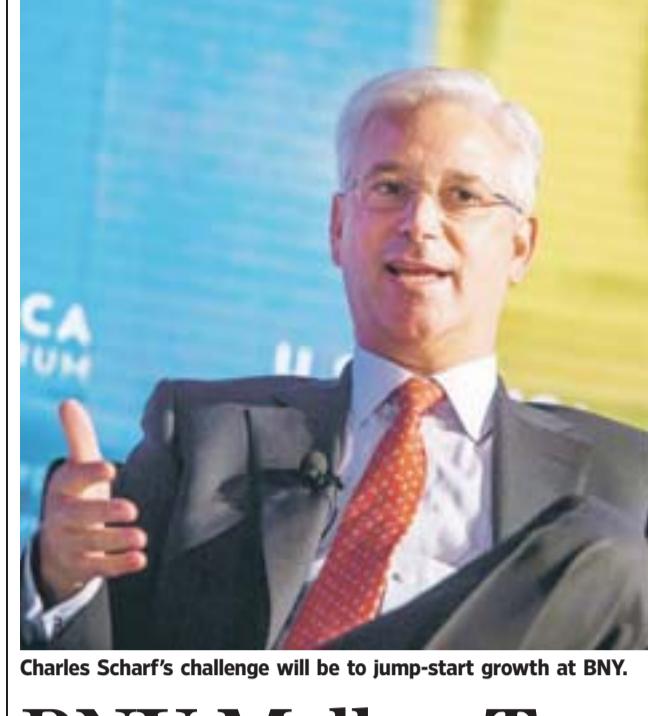
the two regulators could increase the chance congressional Republicans attempt to step in and stop the arbitration rule.

Senate Republicans, for instance, are considering steps to overturn it, and House Republicans are looking into whether they could hold Mr. Cordray in contempt for not complying with information requests related to the rule.

Mr. Cordray, who was appointed by former President Barack Obama, is serving a term that ends in July 2018.

Mr. Noreika and Mr. Cordray are members of the Financial Stability Oversight Council, a government body consisting of top regulators that has the authority to delay proposed rules by the CFPB.

The rule is scheduled to become binding in March 2018.



Charles Scharf's challenge will be to jump-start growth at BNY.

MICHAEL NAGLE/BLOOMBERG NEWS

More Cash Pours Into BlackRock

By SARAH KROUSE

BlackRock Inc. pulled in \$103.6 billion in the second quarter, further solidifying the largest trend in asset management, where billions of dollars keep flooding into lower-cost funds—often at the cost of money run by human stock and bond pickers.

The net new money from investors was a quarterly record for the firm. Of the total, \$73.8 billion flowed into its iShares exchange-traded-fund unit.

While the popularity of ETFs is helping many firms with significant lineups of passive investment strategies, BlackRock stands out among its peers. The firm's \$1.5 trillion ETF business gives the world's largest money manager by assets a major competitive edge. Its assets have swelled to \$5.69 trillion, up 16% from the same time last year, while fund firms without large ETF franchises have struggled to gather assets.

"We are seeing more and more active investors using ETFs for active management," Chief Executive Laurence Fink said in an interview.

Those shifting preferences, however, mean lower fees and, therefore, revenue for fund providers.

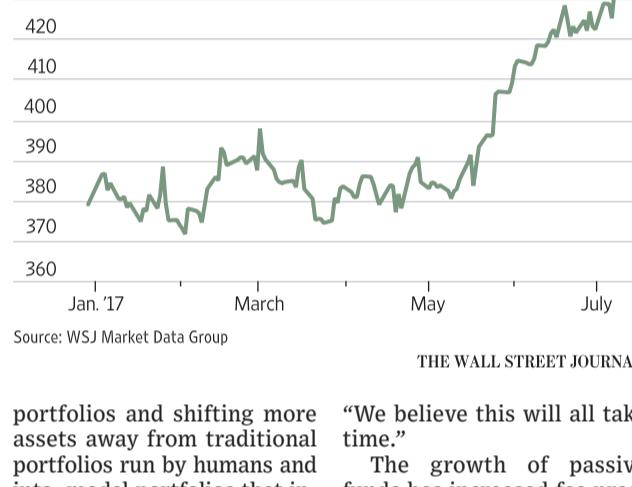
BlackRock's revenue rose 5.7% to \$2.97 billion, while analysts polled by Thomson Reuters had projected \$3.02 billion in revenue. The firm's stock fell 3.1% Monday.

Mr. Fink said changing regulations governing retail investing and advice globally are helping BlackRock attract net new money.

The Labor Department's fiduciary rule in the U.S. and the Markets in Financial Instruments Directive II in Europe are reshaping investor

Blip

The asset manager's shares fell Monday after gaining ground



"We believe this will all take time."

The growth of passive funds has increased fee pressure and forced asset managers to better control costs. As BlackRock has built up its iShares ETF unit, it has looked for new ways to use technology to save money and generate additional revenue.

Its Aladdin risk and portfolio management technology system, which the firm has invested heavily in recent years, is now used by money managers, custodians, risk managers and wealth advisers. Mr. Fink said on a call with analysts Monday that the firm had also used Aladdin internally to significantly reduce its own trading costs.

BlackRock's technology and risk-management revenue increased 12% year over year. Still, at \$164 million, the business makes up a small portion of the firm's overall revenue.

In traditional actively managed products, flows turned positive compared with last

The growth of passive funds has increased fee pressure and forced cost controls.

in Washington and tepid economic growth, global investors still think the U.S. is the best place to put money to work.

"If you had a view that we were going to have rapid infrastructure and tax reform, those people probably are disappointed," Mr. Fink said.

More broadly, Mr. Fink said that despite political gridlock

quarter. During the second quarter, investors added \$7.5 billion to the company's actively managed funds, including retail fixed-income products and multiasset strategies for institutional investors.

It continued to suffer net withdrawals from its active equity business. The firm is in the throes of a revamp of its stock-picking unit, a process that puts a greater emphasis on quantitative investing rather than traditional equity selection.

"It's doing better than we feared," Mr. Fink said of the project, referred to internally as Monarch. Uncertainty and management changes have led some clients to withdraw assets, but the effort remains on track, he said.

The firm posted a significant improvement in performance among its scientific active equity products, which are its quantitatively managed equity strategies. Over one year to the end of June, 9% of assets in scientific active equity products underperformed their benchmark or peers, compared with 60% at the same time last year. Over three years to the end of June, 8% of assets in those strategies underperformed, compared with 18% at the same time last year.

BlackRock reported a profit of \$857 million, or \$5.22 a share, for its second quarter, up from \$789 million, or \$4.73 a share, a year earlier.

Excluding certain items, BlackRock earned an adjusted \$5.24 share, up from \$4.78 a year earlier. Analysts polled by Thomson Reuters had projected \$5.39 a share in adjusted earnings.

BlackRock's stock is up 12% year to date.

—Imani Moise contributed to this article

portfolios and shifting more assets away from traditional portfolios run by humans and into model portfolios that include a number of lower-cost ETFs.

"I do believe the changes in the ecosystem in retail are giving us accelerated flows," Mr. Fink said.

More broadly, Mr. Fink said that despite political gridlock

The growth of passive funds has increased fee pressure and forced cost controls.

in Washington and tepid economic growth, global investors still think the U.S. is the best place to put money to work.

"If you had a view that we were going to have rapid infrastructure and tax reform, those people probably are disappointed," Mr. Fink said.

More broadly, Mr. Fink said that despite political gridlock

in traditional actively managed products, flows turned positive compared with last

BNY Mellon Taps Ex-Chief of Visa To Head Bank

By JUSTIN BAER

Charles Scharf is returning to Wall Street as the new chief executive of **Bank of New York Mellon Corp.**, placing a retail banking veteran in charge of a firm that safeguards trillions of dollars for big institutions.

Mr. Scharf, 52 years old, succeeded Gerald Hassell as CEO on Monday. The 65-year-old Mr. Hassell will remain chairman at BNY Mellon until Dec. 31, when he will hand the title to Mr. Scharf.

Mr. Scharf's challenge will be to jump-start growth and navigate the technological changes sweeping through the financial-services industry. The New York company responded to pressure earlier this decade from shareholders, including activist **Trian Fund Management LP**, to cut costs during a period of low interest rates. Profits have improved, but revenue growth remains tepid.

Mr. Hassell planned to retire once the firm showed progress on a series of goals set in 2014, according to Mr. Hassell and Ed Garden, Trian's chief investment officer and a BNY Mellon director. Trian didn't push for a change in leadership, Mr. Hassell said in an interview.

"I have enjoyed a highly collaborative and constructive relationship with Gerald and am excited to welcome Charlie to BNY Mellon," Mr. Garden said in a statement.

BNY Mellon's shares rose 1.9% to close at \$53.35 on Monday. They have climbed 32% in the past year, underperforming the KBW Nasdaq Bank Index's 43% gain.

The appointment gives Mr.

Scharf a second chance at running a public company. He left the top post at San Francisco payments network **Visa Inc.** in 2016 so he could be closer to his family in New York. Before heading to Visa in 2012, Mr. Scharf worked in the banking industry, including a seven-year stint running the retail-banking division of **J.P. Morgan Chase & Co.** A top lieutenant to J.P. Morgan Chief Executive James Dimon for roughly two decades, Mr. Scharf was at one time considered a potential successor. He left J.P. Morgan in 2012.

Mr. Scharf had been eager to return to his roots at a large financial firm, people familiar with the matter said. On Monday, he said in an interview that he weighed options inside and outside the financial-services industry before concluding BNY Mellon "was one of the most exciting places to be" given the company's central role in the world's financial system.

The bank has more than \$30 trillion in assets under custody and runs a collection of investment managers that oversee \$1.7 trillion.

Mr. Hassell spent his entire career at BNY Mellon. He was named CEO in 2011 when the company was still coming to terms with the lasting effects of a financial downturn. Low interest rates crimped its profits, and the bank's margins lagged behind those of rivals **State Street Corp.** and **Northern Trust Corp.**

In a memo to employees, Mr. Scharf said, "I know change is never easy, but I will do my best to make it smooth."

—Emily Glazer contributed to this article.

Copper Soars to Four-Month High, Lifted by China



The price of copper soared Monday as upbeat Chinese economic data damped fears of a slowdown in the metal's largest market.

Copper for July delivery settled up 3.30 cents, or 1.2%, at \$2.7170 a pound on the Comex division of the New York Mer-

cantile Exchange, the highest level since March 1.

Copper investors were reassured when the Chinese government released gross domestic product and industrial production data early Monday. Both metrics outperformed consensus expectations, with industrial produc-

tion at 7.6% growth beating the FXStreet.com forecast of 6.5% growth.

However, Commerzbank warned in its morning note against moving into copper too quickly. "[We] do not believe the momentum will be maintained throughout the second half year," the bank said.

Copper investors will be scrutinizing Chinese house price index data, expected Tuesday, for any signs of market softness.

Above, molten copper poured into ceramic molds to form plates at a smelter facility in Peru.

—David Hodari and Ira Iosebashvili

FINANCE WATCH

BNP PARIBAS

Probe Results in \$246 Million Fine

French bank **BNP Paribas SA** agreed to pay \$246 million to the Federal Reserve to resolve a probe of misconduct in its foreign-exchange business.

Traders at the French bank who buy and sell dollars and foreign currencies used electronic chat rooms to collude with rivals to manipulate FX prices and benchmark rates, the Fed said in a statement. It ordered BNP Paribas to improve its senior management oversight and controls relating to the firm's FX trading.

BNP Paribas, which also agreed to a \$350 million settlement in May with New York's state banking regulator over the deficiencies, said it "deeply regrets the past misconduct which was a clear breach of the high standards on which the group operates." It added that it has improved its systems of control by increasing resources and staff dedicated to compliance, conducting staff training and launching a new code of conduct that applies to all staff.

BNP Paribas is the latest in a line of banks fined for its failure to stop traders from trying to manipulate foreign-exchange markets. Several global banks including **Barclays PLC**, **Citi-group Inc.** and **J.P. Morgan Chase & Co.** have together paid

billions of dollars in fines in recent years.

BNP Paribas said the misconduct took place between 2007 and 2013. In January, the Fed banned former BNP Paribas trader Jason Katz, who pleaded guilty to violating federal antitrust laws, from working in the U.S. banking industry for his manipulation of FX prices. It also barred the French lender from re-employing individuals who were involved in the misconduct.

—Nick Kostov

CHINA

People's Bank Sells Foreign Exchange

China's central bank sold a net 34.32 billion yuan (\$5.06 billion) of foreign currency in June, according to calculations made by The Wall Street Journal based on central-bank data released Monday.

The figure came in higher than a net foreign-exchange sale of 29.33 billion yuan in May, according to the latest data from the People's Bank of China. The central bank's total foreign-exchange purchase position stood at 21.515 trillion yuan at the end of June, down from 21.550 trillion yuan a month before, the PBOC said. The purchase position has been falling for 20 consecutive months, indicating continued capital-outflow pressure.

—Liyan Qi

MARKETS

Nasdaq Rises; Blue Chips Pull Back

By ALEXANDER OSIPOVICH
AND RIVA GOLD

The Nasdaq Composite rose for a seventh consecutive session, on a quiet trading day ahead of a busy week of corporate earnings.

As the index extended its rebound after **EQUITIES** last month's turbulence in technology stocks,

the Dow Jones Industrial Average and S&P 500 retreated from records.

The Dow industrials slipped 8.02 points, or less than 0.1%, to 21629.72. The S&P 500 fell 0.13 point, or less than 0.1%, to 2459.14. Both indexes closed at records Friday.

The Nasdaq Composite added 1.97 points, or less than 0.1%, to 6314.43, just shy of its record close of June 8, before a spate of declines began. Tech has bounced back in recent weeks, with the S&P 500 technology sector rising 4.4% so far this month after falling 2.7% in June.

Around 5.1 billion shares of New York Stock Exchange- and Nasdaq-listed securities changed hands, making Monday the second-lowest-volume day of the year.

Consumer-discretionary shares made some of the biggest moves as investors snapped up beaten-down shares in brick-and-mortar re-

tailers. Macy's rose 69 cents, or 3.1%, to \$23.05, and Kohl's added 1.06, or 2.7%, to 39.87. Both stocks have slid in recent months amid tough e-commerce competition but have rebounded over the past week.

"Going into earnings season, there was a lot of pessimism priced into retail stocks," said Brian Jacobsen, senior investment strategist at Wells Fargo Asset Management.

Blue Apron Holdings fell 77 cents, or 10%, to 6.59, its lowest close since going public last month, following news that a unit of Amazon.com filed a trademark to begin a meal-kit service.

Shares of **BlackRock**, the world's largest money manager, fell 13.71, or 3.1%, to 424.63 after its second-quarter results fell short of analysts' expectations.

Netflix jumped 10% in aftermarket trading, when it reported that it added more users than projected in the second quarter.

Other tech firms such as **Microsoft** and **eBay** are set to report later in the week, along with banks such as **Goldman Sachs Group**, **Bank of America** and **Morgan Stanley**.

Of the 6% of S&P 500 companies that had reported second-quarter earnings as of Friday, 80% had beaten analysts' earnings estimates, according to FactSet.



Macy's shares gained 3.1% as investors bought beaten-down shares in brick-and-mortar retailers.

The Stoxx Europe 600 rose less than 0.1% Monday, with investors awaiting a meeting of the European Central Bank on Thursday to see whether an improving economy prompts the bank to shift its tone.

Chinese equity markets were volatile. Shanghai's benchmark index fell 1.4% in its biggest daily drop this year, while the Shenzhen Composite tumbled 3.6%. The declines came even after the world's second-biggest economy beat expectations with second-

quarter growth of 6.9%.

China's top officials signaled over the weekend that the country's campaign against runaway debt and speculation remains a priority, dragging down small-cap shares.

Early Tuesday, the Shanghai and Shenzhen indexes each opened 0.5% lower. Other Asia/Pacific markets mostly fell. Australia's S&P ASX 200 was down 0.9%, while Japan's Nikkei 225 Stock Average was down 0.6%.

AUCTION RESULTS

Here are the results of Monday's Treasury auctions. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

13-WEEK AND 26-WEEK BILLS

	13-Week	26-Week
Applications	\$114,600,623,700	\$116,834,710,100
Accepted bids	\$39,000,403,700	\$33,000,445,100
"noncomp	\$542,024,700	\$558,010,100
"foreign noncomp	\$0	\$400,000,000
Auction price (rate)	99.734583	99.441361
	(1.05%)	(1.10%)
Coupon equivalent	1.06%	1.12%
Bids at clearing yield accepted	40.68%	16.42%
Cusip number	912796LY3	912796NN5

Both issues are dated July 20, 2017. The 13-week bills mature on Oct. 19, 2017; the 26-week bills mature on Jan. 18, 2018.

Dollar Steadies As Central Banks Set To Meet

By CHERYL DULANEY

The dollar stabilized ahead of major central-bank meetings later in the week.

The WSJ Dollar Index, which measures the U.S. currency against 16 others, rose less than **CURRENCIES** 0.1% to 87.38.

On Friday, the index closed at its lowest level since October after weaker-than-expected U.S. economic data. The index is down 6% this year.

Investor focus this week will be on policy decisions from the European Central Bank and Bank of Japan. Goldman Sachs Group Inc. expects both central banks to keep policy unchanged when they announce their decisions on Thursday. Still, investors will parse the banks' statements for any clues on plans to pare back their big stimulus programs.

The ECB this month hinted that it is moving closer to scaling back its bond-buying program, propelling the euro higher. Central banks in Canada and the U.K. have also turned more hawkish recently. Meanwhile, the dollar continues to be hurt by investor pessimism over the path for U.S. interest-rate increases. Disappointing inflation and retail sales data released on Friday added to concerns about the health of the U.S. economy.

6%

The decline this year in the WSJ Dollar Index

"The lack of meaningful price pressures on a consumer level continue to suggest little need for haste in normalizing U.S. monetary policy," said analysts at Commonwealth Foreign Exchange in a research note.

Markets are pricing in a roughly 52% chance that the Fed raises rates again in 2017, according to fed-funds futures contracts tracked by CME Group Inc. Expectations that U.S. rates will remain lower typically weigh on the dollar by encouraging investors to buy higher-yielding currencies.

In other currencies, the British pound fell to \$1.3054 from \$1.3102 Friday as the U.K. and the European Union began the first round of Brexit talks. The Chinese yuan advanced 0.2% against the dollar after data showed the Chinese economy expanded more than expected in the second quarter.

The euro rose to \$1.1479, from \$1.1470 Friday, while the dollar bought ¥112.63, compared with ¥112.53 Friday.



The Dow Jones Transportation Average has lagged behind the Dow industrials, weighed down in part by UPS, but its recent push to fresh records is a bullish sign.

Dow Transports Are Waving the Rally Flag

By BEN EISEN

An index of plane, train, and shipping companies has been hitting fresh records this month, a bullish signal for those who track the century-old Dow Theory.

The Dow Jones Transportation Average didn't hit a new record between the beginning of March and the start of this month. The divergence between the index and the Dow Jones Industrial Average, which has repeatedly hit fresh records since the start of June, had raised concerns about the strength of the stock

market rally.

The Dow Theory holds that any lasting rally to new highs in the Dow industrials must be accompanied by a fresh record in the Dow transports, the 20-stock index of the largest U.S. airlines, railroads and trucking firms.

When the transport average lags behind the blue-chip index, it can presage broader stock declines.

The transports have gained 7.2% this year, while the Dow industrials have climbed 9.4%.

The price-weighted transport index had been dragged down in part by **United Parcel Service** Inc., the third most

expensive stock in the index. The company's shares have fallen 2.2% this year as UPS contends with higher shipping costs associated with e-commerce.

The series of transport records this month offers confirmation of the rally in industrials, an encouraging sign for chart watchers that the broader stock market rally is on track.

"Both the industrials and transports are in gear and confirming each other," said Stephen Suttmeier, a technical research analyst at Bank of America Merrill Lynch.

"There's no divergence for the bears to growl about."

Critics of the Dow Theory say it has become less relevant as the U.S. has shifted to a more service-based economy and away from a manufacturing one. But the Dow Theory is just one of a number of technical indicators that have recently flashed bullish signals for the rally. Measures of how broadly the rally has spread across stocks, known as market breadth, have also indicated to technicians a wide base of support for stocks.

The technical indicators point to further gains in the

stock market," said Bruce Bitiles, chief investment strategist at Baird, in a note to clients on Monday.

A high in the transports has also often preceded moves higher in other indexes, such as the S&P 500. On Friday, the transports hit a 52-week high alongside the S&P 500 and the small-cap Russell 2000 index. The last time the trio began hitting 52-week highs after a three-month absence of such "triple plays" was in November, according to **Bespoke Investment Group**, and the S&P 500 gained 7.5% over the next three months.

Beijing Talks Tough, and Stocks Fall

By SHEN HONG

SHANGHAI—Chinese stocks tumbled and the central bank made a large-scale injection of cash into the financial system,

after top officials signaled over the weekend that the country's campaign against runaway debt and speculation remains a priority.

At a high-level meeting that ended Saturday and is seen as setting the direction of Chinese financial policy for the next five years, President Xi Jinping stressed the importance of reigning in high debt levels in the world's No. 2 economy and announced the formation of a new committee to coordinate financial regulation. That was in contrast to the last meeting of the National Financial Work Conference five years ago, which advocated overhauls that would bring China's markets more in line with global peers.

Chinese investors appeared to interpret the stern tone as signaling that a regulatory push in recent months to reduce risk and leverage in financial markets would continue full force. On Monday, the country's stock markets sold off, particularly the Shenzhen Stock Exchange, which is known for its smaller, more speculative-prone stocks.

The Nasdaq-style ChiNext startup board finished the day

down 5.1%, and the Shenzhen Composite Index declined 4.3%. The bigger Shanghai Composite Index closed down 1.4% after falling as much as 2.5% after the opening bell.

All three indexes posted the sharpest drops since Dec. 12, 2016, FactSet data showed.

The selloff came despite data showing faster-than-expected growth in the Chinese economy in the second quarter. Some investors said the

strong economic performance would give Beijing more leeway to tighten policies.

Meanwhile, the People's Bank of China injected a net 140 billion yuan (\$20.64 billion) into the financial system on Monday, the largest such supply of cash in nearly six weeks. Analysts said the move appeared to be aimed at preempting panic among investors. The injection may have helped fend off jitters in China's bond market, which has seen yields spike briefly in recent months during Beijing's crackdown on leveraged investment.

On Monday, the yield on the 10-year Chinese government bond fell 0.01 percentage point to 3.56%. Yields rise as bond prices fall. A steady Chinese yuan also helped calm some investors, analysts said.

The yuan's fix is near the high end of our expectations, which also shows the PBOC's intention to stabilize markets," said a senior currency trader at a Chinese bank.

Oil Shifts Gears, Ends Lower on Glut Worries

By STEPHANIE YANG
AND JENNY W. HSU

Oil prices reversed gains Monday as investors weighed signs of strong demand against

ENERGY a global glut that has proved difficult to reduce.

Light, sweet crude for August delivery settled down 52 cents, or 1.1%, at \$46.02 a barrel on the New York Mercantile Exchange, breaking a five-day winning streak after trading as high as \$46.68 earlier in the session. Brent, the global benchmark, settled down 49 cents, or 1%, at \$48.42 a barrel.

While recent data have indicated increasing consumption of crude oil, market participants have grown wary of high levels of stockpiles in the wake of increasing production around the world.

U.S. production rose near a two-year high in the week

ended July 7, according to data from the U.S. Energy Information Administration last week. Meanwhile, attempts by the Organization of the Petroleum Exporting Countries to limit supply have been undermined by growing output by members such as Libya and Nigeria, which are exempt from the deal to curb production.

The International Energy Agency reported Thursday that global oil supplies in June rose by 720,000 barrels a day to 97.46 million a day, on production from both OPEC and non-OPEC members.

"The supply story here just continues to weigh," said John Kilduff, founding partner at Again Capital. "It gets pushed off the main stage at times, but it's still lurking and ready to hit prices again."

Earlier Monday, prices edged higher on data showing positive oil demand in China.



Chinese President Xi Jinping, right, wants to rein in debt.

MARKETS

Investors Are Digging Deeper for Value

They find alternatives after cutting exposure to assets that now seem too expensive

By IRA IOSEBASHVILI

Some investors are searching globally for out-of-favor assets, concerned that a looming wind down of central banks' easy-money policies will hit the markets' top performers.

That goes beyond moving money into less-loved areas of the stock market, such as shares of auto makers or retailers. Some are swapping U.S. Treasuries for currencies such as the Japanese yen or Swiss franc, or betting on investments that will benefit if inflation picks up again after a yearslong hiatus.

For money managers, such trades are a way to stay invested while cutting exposure to assets they believe may have become too expensive during nearly a decade of ultraloose monetary policy from the world's central banks. Signals that policy makers around the world are preparing to dial back stimulus efforts amid evidence of broad improvement in the global economy sparked selling in government bonds, utilities shares and the U.S. dollar in recent weeks.

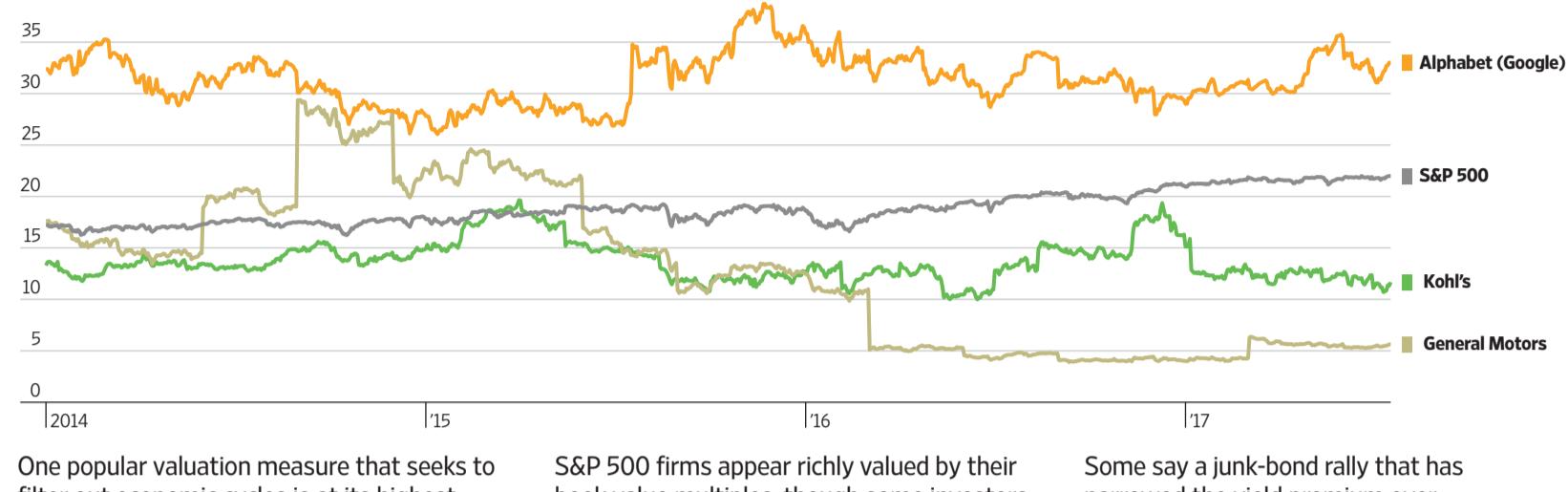
The yield on the benchmark U.S. 10-year Treasury note is a yardstick money managers use to value other assets, so a rapid climb in yields could rattle other markets. At the same time, the cyclically adjusted price/earnings ratio for the S&P 500, a popular metric pioneered by Nobel Prize-winning economist Robert Shiller, shows valuations are at their highest levels since 2002.

"In 2009, you didn't have to dig too deep for value, once you concluded the world wasn't coming to an end," said Adam Farstrup, head of multiasset product, Americas at Schroders. "Now...there are no

Bargain Hunting

Investors are seeking out-of-favor assets at a time when many say the run-up in stocks and bonds has stretched valuations. Some are selling companies that have outperformed the market and buying shares of beaten-up retailers or auto makers.

12-month trailing price/earnings ratio



One popular valuation measure that seeks to filter out economic cycles is at its highest level since 2002.

Cyclically Adjusted Price/Earnings (CAPE) ratio

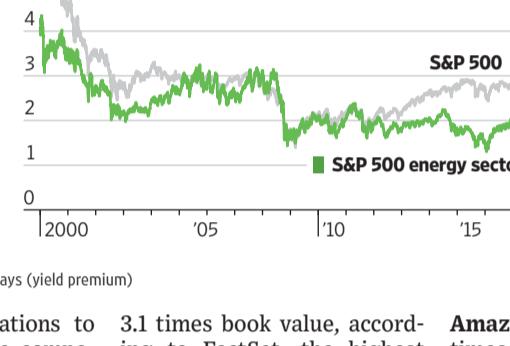


*Book value is a measure of reported net worth.

Sources: FactSet (P/E ratio, book value); Robert Shiller (CAPE); Bloomberg Barclays (yield premium)

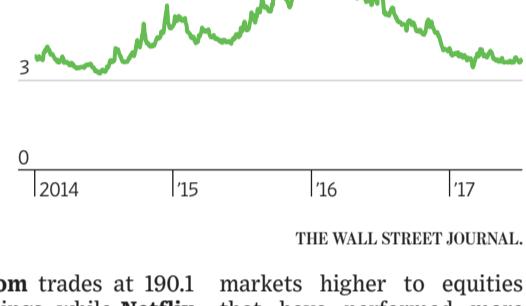
S&P 500 firms appear richly valued by their book value multiples, though some investors see bargains in energy.

Price-to-book-value ratio*



Some say a junk-bond rally that has narrowed the yield premium over Treasurys makes stocks look less pricey.

9 percentage points



THE WALL STREET JOURNAL.

obvious places to hide."

To protect against sharp declines in the stock market, the firm prefers a basket of haven currencies such as the Swiss franc and Japanese yen to U.S. government bonds, where yields remain near historic lows despite the recent global bond selloff. Yields fall as bond prices rise.

Schroders has also cut positions in economically sensitive stock sectors such as financials

and increased allocations to shares of health-care companies, which it believes have been depressed by months of political wrangling over a repeal of the Affordable Care Act.

Other investors are mining the stock market for companies with shares trading at relatively low multiples of earnings or book value, the total value of their assets outside what they owe. The average S&P 500 stock now trades at

3.1 times book value, according to FactSet, the highest multiple in a decade.

Tim Rudderow, chief investment officer at Mount Lucas Management LP, owns General Motors, which traded last week at 5.6 times its past 12 months of earnings, and retailer Kohl's, whose stock price is down roughly 50% from its 2015 high and trades at 11.7 times earnings, according to FactSet. By comparison,

Amazon.com trades at 190.1 times earnings, while Netflix trades at 211.1 times earnings.

While GM has benefited from a rise in U.S. auto sales since the financial crisis, some analysts said threats from rivals such as Tesla have hurt its shares. Kohl's shares have been stung as retailers compete with e-commerce firms.

Mr. Rudderow believes momentum will shift from technology stocks that have led

markets higher to equities that have performed more modestly. "This hugely bifurcated market is creating big value," Mr. Rudderow said.

Vadim Zlotnikov, chief market strategist and co-head of multiasset solutions at AllianceBernstein, is buying derivatives that are linked to the consumer-price index and would rise in value if U.S. inflation broke out of its monthslong slump.

HEARD ON THE STREET

Email: heard@wsj.com

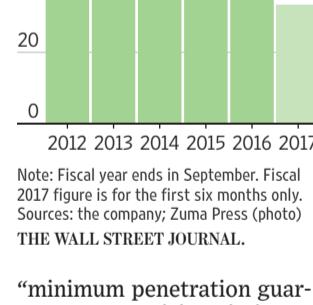
FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Disney's Chance to Boost ESPN

On the Sidelines

Disney's cable networks' operating profit as a share of total



Note: Fiscal year ends in September. Fiscal 2017 figure is for the first six months only.

Sources: The company, Zuma Press (photo)

THE WALL STREET JOURNAL.



The ESPN Wide World of Sport Complex in Florida

"minimum penetration guarantees"—provisions in its contracts that stipulate which TV packages ESPN must appear on and what portion of pay-TV subscribers must receive it.

Assuming Disney already increases the prices it charges cable and satellite companies for ESPN by 5% a year, bumping that up to 6% as it signs new deals would boost fee revenue by 4% a year to \$12.56 billion from

2016 to 2022, MoffettNathanson estimates. This assumes its subscriber base declines at a compound annual rate of 2%. If Disney can use minimum penetration guarantees to add back 2.5 million of the subscribers it lost to skinny bundles, it could get an additional \$400 million in fee revenue over the period, the firm says.

There may be other levers at Disney's disposal, including the August 2019 launch

of the ACC Network for which ESPN will split the profits with the Atlantic Coast Conference. If all of this goes in Disney's favor, its compound annual growth rate for domestic cable revenue from affiliate fees would be 6%, MoffettNathanson estimates.

Pay-TV providers are projecting programming costs will rise, and it is highly unlikely that any would risk dropping ESPN. Moreover, Disney negotiates for all of its networks at once, so if ESPN looks expensive, distributors may still be getting ABC relatively cheaply.

For Disney, a solid boost in revenue could juice profits and change investors' perceptions about the company. Disney gets 33% of its operating income from its cable networks compared with 57% in 2012.

At 15.9 times forward earnings estimates, Disney's shares trade below their five-year average of 17.4 times. A better outlook for ESPN could give the mouse house a makeover.

—Miriam Gottfried

OVERHEARD

This time last year, the talk of the sport during the off-season was deflategate. The National Football League would gladly take a public-relations problem over a financial one, though.

Upfront advertising sales have been the softest since the financial crisis according to Ad Age.

The main culprit has been autos, the leading category overall, thanks to a recent slump in car sales. Movie studios also have cut back as box-office sales have stagnated.

Now, another mainstay of gridiron bathroom breaks is leaving the league feeling deflated: drugs for erectile dysfunction. The category's pioneer, Viagra, has lost patent protection and has little need to advertise. Meanwhile, Eli Lilly, the maker of its leading competitor, Cialis, has said that it is dropping the drug's NFL sponsorship.

So much for an awkward Sunday tradition: kids asking embarrassed parents what "ED" stands for.

High-Yield Bonds Not Worth Risk

Interest rates are low, so what's not to like about high-yield corporate bonds? One measure suggests investors should think twice.

The yield on the Bloomberg Barclays global high-yield corporate-bond index stands at just over 5%, not far from its record 2014 low of 4.7%. But what really matters is the extra yield—or spread—that investors pick up versus other, safer asset classes such as government bonds. At first glance, that looks relatively chunky.

But it is worth looking again. Strategists at Prudential Portfolio Management Group, part of the U.K.'s Prudential PLC, break it down like this: First, there are always going to be some high-yield companies that default. So PPMG shaves off some of the extra yield to account for long-run average losses due to defaults. Then, the strategists deduct the spread available on safer investment-grade corporate bonds. After all, if an investor can achieve the same yield pickup by buying a less risky security, it would make sense to do so.

On that basis, the risk premiums on high-yield bonds in the U.S. and Europe were negative in June, PPMG calculates. The extra yield wasn't enough to compensate investors for the risk of owning them over time.

This has happened before, most recently in 2014. That was followed by a selloff that gathered pace in 2015 as the falling oil price hit energy-company balance sheets. There may not be an immediate catalyst for the market to fall now. But for investors buying high-yield bonds, the risk-reward balance doesn't look encouraging.

—Richard Barley

Markets Ponder Who Gets Hit Next in Beijing Crackdown

Beijing is contending with a web of financial risks. Markets are jittery about which part of the system regulators will go after.

Chinese authorities spent the weekend at the National Financial Work Conference considering risks plaguing the financial system. Fear permeated markets, which tumbled Monday after President Xi Jinping gave a speech that supported efforts to tamp down complicated lending along with other financial-system risks. Frightened investors—seeing room for yet more policy tightening after cheery GDP growth data—are now searching

for signs of the regulators' next hit.

At hand is an ever-growing asset-management industry—now around 60 trillion yuan (\$8.8 trillion)—and the deepening nexus of banks, brokers, trusts and insurance companies. The central bank elaborated on the linkages it uncovered in the asset-management industry in its recently published financial-stability report. That is likely telling about where regulators will go digging.

Untangling the asset-management industry's ties will be painful. Banks have sold more than one-third of the wealth-management

product assets. These products are then further packaged and sold off to trusts, brokers and funds to be managed.

For instance, per central-bank data, more than 17 trillion yuan of assets have been unloaded to trusts. Banks have used a further 18 trillion yuan of separate asset-management plans to take credit assets—like loans and bonds—off their balance sheets.

Wealth-management products—most of which are off-balance sheet—are equal to 20% of total assets of listed banks, on average, according to Nomura.

If regulators do take on

the asset-management business, it could spell trouble for corporate borrowers. Corporate bonds account for more than 40% of underlying assets in wealth-management products sold by banks.

Asset managers have been the only active buyers of these bonds so far this year. These bonds are already primed for a selloff: The leverage ratio in asset managers' bond-market positions has risen to 1.4 times in the past month from 1.25.

Given the complexity of the system, regulatory disruption is likely to be painful.

—Anjan Trivedi



Chinese President Xi Jinping