

THE WALL STREET JOURNAL.

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What's News

Business & Finance

Hedge-fund managers face huge tax bills due to the closing of U.S. loophole on offshore gains. A1

◆ Hedge funds raised over \$6 billion last quarter after six periods of outflows. B7

◆ BP has held talks about selling its North Sea oil-and-gas fields with potential buyers that include private-equity firms. B1

◆ The ECB left its monetary policy unchanged and delayed discussion over whether to wind down its bond-buying program. A3

◆ The euro hit a nearly two-year high against the dollar on Draghi's remarks. A3

◆ PepsiCo named a president, filling a No. 2 role that has been vacant for nearly three years. B1

◆ Microsoft posted double-digit gains in its business selling web-based services to corporate customers. B1

◆ Earnings for the lowest-paid U.S. workers rose at a faster rate last quarter than for any other group. B1

◆ Goldman partners own just 4.8% of the firm, under the 5% threshold that mandates public disclosure. B7

◆ Sears will sell Kenmore appliances on Amazon's website, the first distribution outside its stores. B2

◆ GM workers at the Bolt plant are taking a month off this summer amid soft demand for the electric car. B3

◆ Honda said little progress has been made on its plans to collaborate with self-driving-car pioneer Waymo. B4

World-Wide

◆ Two online markets that sold drugs, firearms and other illicit goods have been shut down and their owners arrested. A1

◆ Polish lawmakers approved a bill that would allow the government to replace every judge on the country's high court. A4

◆ Sessions said he plans to stay on as U.S. attorney general despite Trump saying that he regretted the appointment. A6

◆ Trump's nominee to be the next FBI director cleared a key hurdle in the confirmation process. A6

◆ Exxon was fined \$2 million for what the Treasury said was a disregard of U.S. sanctions on Russia while Tillerson was CEO. A6

◆ The number of Americans without health insurance would rise by 22 million in a decade under a Senate GOP bill, a CBO report said. A6

◆ High-level economic discussions between the U.S. and China ended without any concrete agreement or future agenda. A3

◆ Germany said it would take new steps in response to Turkey's crackdown on human-rights activists. A4

◆ The EU and U.K. ended a second round of Brexit talks, with disputes remaining over a financial settlement and the role of EU courts. A4

◆ O.J. Simpson was granted parole by Nevada officials. The former football star has served nine years for armed robbery. A7

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Poles Take to Streets as Lawmakers Seek to Rein In Court



EMBATTLED JUDICIARY: Poland's lower chamber of parliament voted to let the government replace every judge on the nation's highest court, unleashing protests outside the legislature and in front of the Presidential Palace, above, in Warsaw. A4

Managers Face Big Tax Bill

Closing of loophole on offshore gains means hedge-fund stars owe billions of dollars

By GREGORY ZUCKERMAN AND ROB COPELAND

Hedge-fund managers for years accumulated offshore gains without paying federal and state taxes. Now Uncle Sam is going to get paid.

Steven Cohen is one of many managers preparing to write huge checks in early 2018 due to a crisis-era decision to close a tax loophole

that long benefited some of Wall Street's wealthiest investors.

The billionaire founder of SAC Capital Advisors LP amassed deferred offshore income of more than \$1 billion likely subject to the taxation, said people familiar with the matter. Other hedge-fund managers facing personal tax bills of over \$100 million include David Einhorn of Greenlight Capital Inc. and Daniel Loeb of Third Point LLC, said people familiar with the matter.

Total payments from all managers could amount to \$25 billion, according to a 2008 estimate from the Joint Committee on Taxation.

Hedge-fund managers are considering several steps to raise cash or soften the tax blow.

Some will trim stakes in

their funds to raise cash, said Brett Barth of hedge-fund investor BBR Partners LLC.

Hedge funds often invest through vehicles based inside and outside the U.S. They make money from their cut of 20% or more of trading profits.

For decades, the Internal Revenue Service allowed managers of offshore funds to defer receipt of this compensation and both avoid an immediate tax bill and grow the savings tax-free. The IRS generally per-

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◆ Hedge funds snap six-quarter streak of outflows..... B7

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Europe's Periphery Shrugs off ECB's Hints

By MIKE BIRD

Even as Europe prepares to tighten the monetary taps, its most fragile economies appear to be unfazed.

The bonds of the weakest economies have risen in value relative to those of ultrasafe Germany, despite expectations that the European Central Bank will reduce its stimulus—which has benefited these economies the most.

That speaks to the cautious path the ECB is treading in communicating the end of monetary policy that has shaped markets, and the more positive outlook for the re-

gion's economy and politics, investors say.

On Thursday, the ECB left its stimulus measures unchanged but signaled it would discuss how to proceed with interest rates and bond buying—part of its bid to stimulate the regional economy—in the fall.

Bond yields in so-called peripheral nations including Spain, Portugal and Italy have dropped dramatically since the summer of 2014, when ECB President Mario Draghi first hinted that the bank would kick off a quantitative-easing program. Nearly half believed they would end the year sharply or moderately higher.

But since December, when the ECB said it would reduce bond purchases by €20 billion (\$23 billion) a month, Spanish, Portuguese, Irish and Greek

bond yields have declined in comparison with German yields.

At the start of 2017, less than a fifth of investors surveyed by Citi Research believed that peripheral European spreads—the gap between yields on those nations' debt and German bonds—would end the year lower. Yields move in the opposite direction to prices.

Nearly half believed they would end the year sharply or moderately higher.

But since December, when the ECB said it would reduce bond purchases by €20 billion (\$23 billion) a month, Spanish,

Portuguese, Irish and Greek

bond yields have declined in comparison with German yields. The spread is commonly used as a measure of the risk that investors attach to holding other debt.

"We don't think we're going to see a car crash, a European government bond market tantrum," said Andrea Iannelli, fixed-income investment director at Fidelity Interna-

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◆ ECB to discuss bond-buying plans in the autumn..... A3

◆ Bank of Japan concedes delay in reviving inflation... A3

◆ Heard on the Street: Draghi's balancing act..... B8

Momentum

The euro hit its strongest level in almost two years.

How many dollars €1 buys



*Through 3 p.m. in New York

Source: WSJ Market Data Group

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An Extra-Constitutional Role: Junior Justice Runs Cafeteria

Top court's newcomers handle gripes on bad coffee, liberally salted oatmeal

By JESS BRAVIN

WASHINGTON—Justice Neil Gorsuch survived a Senate grilling to get his seat on the Supreme Court. Now, as the court's most junior member, he's the chief justice of the grill.

Tradition dictates that each newcomer to the nation's highest tribunal must serve on the committee that oversees the court's cafeteria, a 185-seat facility open to the public on the building's ground floor.

It isn't a job that justices relish.

"There's not much one can do to make the fare better," says Justice Ruth Bader Ginsburg. The committee is "a truly disheartening assignment."

Justice Gorsuch arrives at the cafeteria as something of a stealth candidate. President

Donald Trump, despite running several restaurants in his hotel empire, selected a judge with practically no food-service experience.

The 10th U.S. Circuit Court of Appeals, where Justice Gorsuch previously sat, has no cafeteria in its Denver courthouse.

He avoided signaling his culinary philosophy during confirmation hearings in April.

"The Senate overlooked that," laments retired Justice John Paul Stevens, who first dined in the cafeteria as a law clerk in the 1940s.

The windowless cafeteria, decorated with photos of the Supreme Court, offers a range of items, including hamburgers (\$5.70; cheese is 30 cents extra), chicken tenders (\$5), sweet potato fries (\$2.30) and

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Frozen-yogurt machine

INSIDE



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TO COLLECTING
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DISNEY BRANDS STYMIE MOGUL

Mickey Mouse's operation proves too strong for Wanda Group's theme-park ambitions

Chinese billionaire Wang Jianlin visited Shanghai Disney last fall to see for himself attractions drawn from the Disney catalog, from Star Wars and Pirates of the Caribbean to Snow White and the other fairytale princesses.

By Wayne Ma in Beijing and Ben Fritz in Los Angeles

Mr. Wang, whose competing theme parks lean toward stomach-churning thrill rides, had voiced contempt for Disney's bringing its brand of Americana to China. "One tiger is no match for a pack of wolves," he said in a 2016 TV interview. He described plans to build as many as 20 theme parks in China in a growing showbiz empire that included AMC Entertainment Holdings Inc. and Legendary Entertain-

ment, a Hollywood production and finance company.

Yet attendance at the theme parks Mr. Wang built so far has been disappointing, according to people familiar with the matter. The visit to Shanghai Disney revealed what his parks lacked, one of Mr. Wang's executives said—a fantasy world where visitors were immersed in familiar stories with popular characters.

This month, Mr. Wang's Dalian Wanda Group announced plans to sell most of its theme-park properties for more than \$13 billion, including debt. Mr. Wang, 62 years old, is preparing for an IPO of his property business in China but has yet to receive regulatory approval, prompting him to reduce debt and raise cash.

Wanda didn't make Mr. Wang available for an interview.

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WORLD NEWS

After Mosul, Faraway ISIS 'Provinces' Fight On



MIDDLE EAST CROSSROADS

By Yaroslav Trofimov

DUBAI—In the three years since it proclaimed a worldwide caliphate, Islamic State has become a global franchise—which means that the loss of its core in Syria and Iraq won't pacify the far-flung conflict zones where the group's affiliates operate.

Regional "provinces" of Islamic State have sprung up from West Africa to the Philippines after the group's self-appointed "caliph," Abu Bakr al-Baghdadi, seized the Iraqi city of Mosul in 2014 and demanded allegiance from Muslims world-wide.

Most of these "provinces" grew out of existing insurgent organizations, such as Nigeria's Boko Haram or Ansar Beit al-Maqdis in Egypt's Sinai Peninsula. These groups simply reflagged with Islamic State's new brand—they seen as uniquely appealing to recruits and donors because of Islamic State's seeming invincibility.

Other "provinces" were breakaways from relatively more-moderate groups, such as Islamic State Khorasan, which absorbed the most violent elements of the Taliban in Afghanistan and Pakistan. Some groups, like Boko Haram, controlled huge territory. Other Islamic State "provinces," such as the one



A man rode past storefronts spray-painted with pro-Islamic State graffiti in Marawi on the Philippines island of Mindanao on June 12.

in Russia's North Caucasus, consisted of scattered militants on the run.

thing like what happened to Mosul will happen to them, and will draw their lessons."

In fact, just as Iraqi troops were mopping up the last pockets of resistance in Mosul, Islamic State's Asian affiliate halfway around the world attempted a dramatic takeover of Marawi, one of the largest Muslim cities on the southern Philippines island of Mindanao. The battle there still goes on.

"Islamic State is a very resilient organization, it's not one single group but a movement now," said Rohan Guanaratna, head of the International Center for Political Violence and Terrorism Research at Nanyang Technological University in Singapore. "And because the world has no real strategy to contain, isolate and elimi-

nate Islamic State beyond Iraq and Syria, we will see a significant global expansion of this group."

Asia, home to many more Muslims than the Middle East, is a particular concern. "We should prepare for a Daesh pivot to Asia. Opportunities are limitless here because it is a very deep market," said Richard Javad Heydarian, a security analyst in the Philippines, using an Arabic acronym for Islamic State. "Places like Mindanao are a perfect haven: borders are extremely porous and it's easy to travel from Malaysia and Indonesia, while the depth of grievances of the Muslim minority in the southern region of the Philippines provides an ecosystem for extremism."

While Islamic State—routed from much of its territory in Syria and Iraq—no longer has the winning momentum that once made it so attractive to potential jihadis, the organization has left a permanent mark on the motley assortment of militant groups that joined its caliphate project.

"Daesh has already done its damage, transforming the local groups ideologically and operationally," said Muhammad Amir Rana, head of the Pakistan Institute of Peace Studies, a think tank focused on counterterrorism and security. "They have become ideologically more radical and have turned to more brutal attacks."

One consequence of Islamic State's losses in the Middle East may be a rekin-

dled debate within the organization's affiliates about just how indiscriminately brutal they should be.

That issue has already split Boko Haram, currently known as Islamic State West Africa Province, with one faction treating anyone not actively aiding the group as apostates deserving death and another preaching more-targeted violence against Christians and government officials.

In Pakistan, a recently formed group made up of disaffected Islamic State fighters, Ansar ul-Sharia Pakistan, has similarly rejected mass attacks targeting ordinary Muslims, focusing on assassinating police officers instead.

In trying to assess Islamic State's global future after Mosul, terrorism experts and counterterrorism officials look for clues in what happened to al Qaeda after the loss of its Afghan base in 2001 and the killing of Osama bin Laden 10 years later.

While these events significantly weakened al Qaeda's core and reduced its ability to target the West, the group's regional affiliates have flourished nevertheless—and marched on to victories in places such as northern Mali, Somalia and Yemen.

Niger parliament member Lamido Mounou Harouna, who represents a region on the border with Nigeria that is frequently attacked by Boko Haram, said that he doesn't expect his constituents to benefit from Islamic State's demise in Mosul and Raqqqa.

"The conflict here is a local conflict," he said. "And the way it will develop will depend on how the local environment develops."

TAX

Continued from Page One

mits businesses to allow executives to defer compensation because such deferrals lower the firms' compensation costs, forcing them to pay higher taxes on profits. That offsets income taxes not immediately paid by employees.

But this practice cost the Treasury income in the case of offshore hedge funds that don't pay any offsetting U.S. taxes.

Managers in some cases let

those deferred trading fees compound tax-free for 10 years or longer. Some also deferred management fees, even as they amassed large fortunes from gains earned by their U.S.-based funds.

"They kept rolling and rolling the money," said Richard Zarin, a partner at Morgan, Lewis & Bockius LLP.

The New York Times in 2007 highlighted this loophole, and Congress overwhelmingly voted to close it the following year as a way of raising revenue and stabilizing the financial sector during the 2008 financial crisis. The

change, part of the Emergency Economic Stabilization Act of October 2008, was made in section 457A of the IRS code.

The legislation gave managers a decade to pay taxes on money accumulated before the law changed. That deadline is now nine months away.

The deferred fees will be taxed at ordinary tax rates that can be close to 50% depending on where the managers live and work, according to tax experts.

"These are smart, aggressive people who don't want to pay more than they have to and writing a huge check can be quite demoralizing," said Jonathan Brenner, a tax partner at Caplin & Drysdale. "Most recognize they've had a good run and now have to pay the piper, though not after first asking six different ways if there's some silver bullet" to eliminate or reduce the taxes.

Mr. Cohen, who ran SAC Capital before it pleaded guilty to criminal insider-trading charges in 2013, is nearing a launch of a new firm to manage as much as \$20 billion, The Wall Street Journal has reported.

He has set that target, which would exceed the \$16 billion managed at peak by SAC, partly because he wants

to generate income to help pay the large tax bill, a person close to him said.

Other fund managers are shifting headquarters to Florida to mitigate the tax impact, said a local official. Florida doesn't have a state income tax on personal income.

"Even four or five years ago they saw this coming, they knew they'd bring money back in and needed to be in a state with lower taxes," said Kelly Smallridge, president of the Business Development Board of Palm Beach County.

Those moves are no guarantee of a smaller tax bite be-

cause states generally examine where and when deferred compensation was earned, experts say.

"People have been banging on our doors since the provision was enacted looking for a solution and we still have clients coming in, but one hasn't been found," said Mr. Brenner. "Every tax lawyer who touches hedge funds has had these kinds of calls....There's frustration among some clients that a solution has not been found."

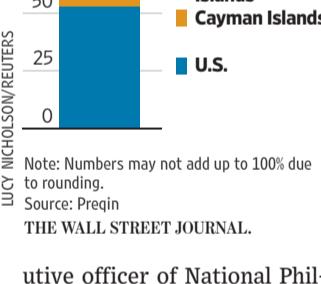
Some charities say managers anticipating a tax bite are discussing donations—to receive an immediate tax deduction—rather than handing money to the government.

Other managers are turning to charitable lead annuity trusts, said Henry Bregstein, an attorney at Katten Muchin Rosenman LLP. These trusts give a donor an upfront deduction of 100% as well as the opportunity to transfer to heirs, free of gift and estate tax, the trust's remaining value at the term's end after making annual, fixed distributions to charities.

Eileen Heisman, chief exec-

Far From Home

Nearly half of all active U.S.-based hedge funds are domiciled outside the U.S.



Note: Numbers may not add up to 100% due to rounding.

Source: Preqin

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utive officer of National Philanthropic Trust, said her organization is speaking to roughly 50 fund managers about establishing donor-advised funds by the end of year, three times the usual pace. She attributes the increase to the looming tax bills.

Such funds make grants to charities on behalf of donors after they contribute assets, enabling immediate tax deductions. Assets can be invested and grow tax-free even before the charities are chosen.

Sometimes, these funds can be invested in the manager's own funds, with restrictions, Ms. Heisman said.

"There's no way of knowing how much" money will be paid in taxes or how much will be shifted to charitable organizations, said Ms. Heisman. "But we think it will be very large."

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First Moves

Taxing of overseas gains hasn't slowed openings of U.S.-based hedge funds outside America's borders.

Percentage of new launches per year



*2017 figures are year-to-date Note: Numbers may not add up to 100% due to rounding

Source: Preqin

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BONDS

Continued from Page One

that the spread against German bonds has dropped from more than 6 percentage points to around 4.5. The country, which once seemed on the verge of leaving the eurozone, received its latest tranche of bailout funds from international creditors earlier this month, and is considering returning to private markets by issuing its first bond in three years.

One reason for the lack of widening in spreads is the care the ECB has taken in communicating with investors, said Gilles Pradere, a senior bond-fund manager at RAM Active Investments.

"It's still a very dovish message that they're sending overall," said Mr. Pradere. "They talk about patience, that they're not done yet."

On Thursday, Italian, Spanish, Portuguese and Greek bonds continued to rally, in a sign that investors are increasing

ingly relaxed about holding the debt of these countries.

Mr. Pradere said the ECB doesn't want to repeat the mistake he believes the U.S. Federal Reserve made in 2013. That May, the Fed's announcement that it would begin reducing bond-buying sparked the so-called taper tantrum, when U.S. 10-year Treasury yields rose from 2%

to 3% by early September.

Many analysts now expect the ECB to announce in September a reduction in the bond-buying program for a

fixed period—for example, cutting monthly purchases to €40 billion for a particular number of months. The Fed trimmed its buying by a set amount every month until it was no longer accumulating bonds.

Investors' concerns have been soothed by stronger growth in the eurozone, which has recently outstripped that in the U.S.

"The economy is definitely in a better place than it was last year—that helps sentiment and risk appetite," said Mr. Iannelli at Fidelity Inter-

national.

Worries about regional political risk that capped investors' enthusiasm for Europe through much of this year have also waned. The anti-euro political candidates that had ridden high in French and Dutch opinion polls failed to win their elections, while support for Germany's antiestablishment party has fallen.

Some analysts and investors still believe that debt markets in Europe's periphery are most exposed to a scaling back of stimulus, or tapering.

Analysts say that Italian debt is most at risk from tapering.

Spreads on other peripheral countries' debt have fallen relative to German bonds, but the differential on Italian 10-year debt is effectively unchanged compared with eight months ago.

Political risk in Italy hasn't faded. The country will go to the polls early next year, with the anti-euro populist 5 Star Movement regularly leading in national surveys.

"The Italian risks are just coming later, they've not been resolved," said Richard Barnwell, senior economist at BNP Paribas.

"The Italian risks are just coming later, they've not been resolved," said Richard Barnwell, senior economist at BNP Paribas.



WORLD NEWS

ECB Signals Caution on Inflation

Bank puts off decision on bond buying, echoing worries across globe over weak prices

By TOM FAIRLESS

FRANKFURT—The European Central Bank delayed discussion over whether to wind down its giant bond-buying program, underlining a recent tone of caution from global policy makers as they fight weak inflation.

ECB President Mario Draghi on Thursday welcomed a “robust” economic recovery in the 19-nation eurozone, but warned that stronger growth wasn’t yet translating into higher consumer prices.

“We need to be persistent and patient because we aren’t there yet,” Mr. Draghi said after the bank left its monetary-policy mix unchanged on Thursday. The bank will discuss the future of bond purchases, known as quantitative easing, in the fall, he said. “Basically inflation is not where we want it to be and where it should be.”

The ECB mirrored a message of caution emanating from other major central banks, which are struggling to understand why prices aren’t picking up more rapidly despite robust economic growth.

The Bank of Japan earlier Thursday pushed back by a year the date when it expects to hit its 2% inflation target, the sixth time it has been postponed under Gov. Haruhiko Kuroda. Federal Reserve Chairwoman Janet Yellen said in testimony last week that the U.S. central bank was looking “very carefully” at recent weak inflation data.

Still, Mr. Draghi’s comments drove the euro to its highest



ECB chief Draghi, right, in Frankfurt with his deputy on Thursday.

level against the dollar in nearly two years. His bullish description of the eurozone economy appeared to bolster the narrative of an end to the ECB’s support of bonds, a shift that would enhance the euro’s appeal.

Bond markets, on the other hand, were stable. Mr. Draghi highlighted low eurozone inflation and said the bank would act cautiously, suggesting that stimulus could remain in place through 2018 and possibly beyond.

After years of easy-money policies, central banks in the U.K., Canada and the eurozone have all recently signaled they are preparing to follow the Fed by nudging interest rates higher. Some investors believed the ECB could move soon after Mr. Draghi recently hinted that the days of easy money might be numbered. The ECB’s decision to stand pat surprised them.

“Contrary to what we too had expected, the ECB has not taken any step towards normalizing its monetary policy at today’s meeting,” said Ralph Solvérén, an economist with Commerzbank in Frankfurt.

Privately, though, ECB officials have long indicated that the bank might signal the future of the program at a policy meeting on Sept. 7. Mr. Draghi is due to speak at the Fed’s economic conference in Jackson Hole in late August, which could give the ECB chief an opportunity to signal a policy shift.

The ECB’s €60 billion (\$69 billion)-a-month bond-buying program has helped drive down market interest rates as the eurozone recovers from a yearslong economic crisis. Its future is one of the biggest questions hanging over financial markets. Asset prices, borrowing costs and the value of the euro currency will all be affected by its withdrawal.

But ECB officials face a dilemma: While the eurozone economy is accelerating, inflation, at 1.3% last month, remains some way below their near-2% target.

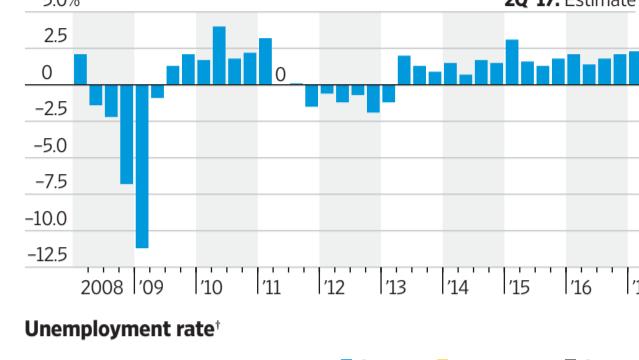
Mr. Draghi rocked financial markets last month in Sintra, Portugal, by suggesting that the ECB might soon wind down its bond-buying program as the region’s economy accelerates.

Keeping Things Stable

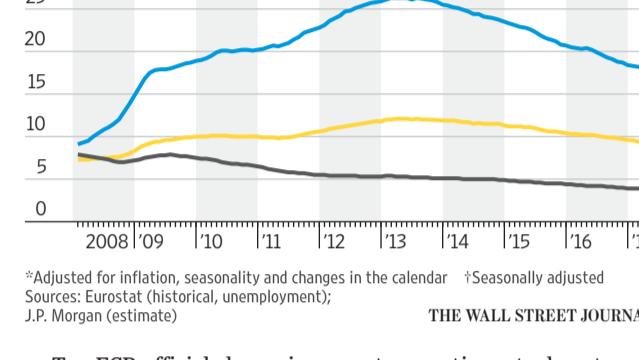
ECB President Mario Draghi said the bank’s mandate is price stability, not growth or employment.

Eurozone growth

Gross domestic product, quarterly change at an annualized rate*



Unemployment rate†



*Adjusted for inflation, seasonality and changes in the calendar

†Seasonally adjusted

Sources: Eurostat (historical, unemployment);

J.P. Morgan (estimate)

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rates continue to be at very supportive levels,” he said.

Only the recent strength of the euro was something that “received attention” from ECB officials, Mr. Draghi said. A stronger euro hurts the region’s large exporters and could put downward pressure on growth and inflation.

“Draghi’s overarching message was similar to his Sintra speech,” said Peter Schaffrik, an economist with Royal Bank of Canada in London. “The euro area was finally experiencing a strong recovery and the Governing Council needed to be patient.”

The ECB’s policies of ultra-low interest rates and mass asset purchases have helped pin down the euro and bond yields in recent years.

But with a strengthening local economy, many investors are asking whether the time is nearing when that stimulus will start to be withdrawn. That could mark an important turning point for markets, given the Federal Reserve is already tightening its own monetary policy and making plans to reduce the size of its balance sheet.

Mr. Draghi described the eurozone economy as “robust” on Thursday, but also highlighted the lack of inflation in the region, suggesting there are still reasons to keep stimulus in place. And while he said the central bank would discuss the issue of scaling back its bond-buying program in the fall, he refused to set a date. The bank’s Governing Council left monetary policy unchanged on Thursday.

The ECB is likely eager to avoid the sharp rise in bond yields that followed the Federal Reserve raising the prospect of trimming its bond purchases in 2013.

WORLD WATCH

VENEZUELA

Opposition Stages General Strike

The cities of this economically distressed country largely came to a halt on Thursday as the opposition staged a 24-hour general strike in an attempt to force President Nicolás Maduro to abandon plans to rewrite the constitution.

Most residents of Caracas stayed home and businesses were closed. The strike is part of the opposition’s “Zero Hour” protest campaign to prevent Mr. Maduro from staging a vote on July 30 for the Constituent Assembly, which is to be tasked with overhauling the country’s political system.

—Anatoly Kurmanov

SOUTH AFRICA

Bank Cuts Key Rate On Weaker Outlook

The South African Reserve Bank announced the first cut to its main interest rate since 2012, reducing its repo rate to 6.75% from 7%.

The cut comes after the country slipped into a technical recession in the first quarter and as the bank lowered its forecast for economic growth and inflation.

The SARB now expects gross domestic product to grow just 0.5% this year, down from a previous prediction of 1% growth.

—Gabriele Steinhauser

Euro Surges Against Dollar

BY CHRISTOPHER WHITTALL

LONDON—The euro jumped against the dollar to its highest level in nearly two years on Thursday after European Central Bank President Mario Draghi said the ECB will discuss when to trim its massive bond purchases in the fall.

But bond markets remained broadly calm, as Mr. Draghi’s tentative language failed to spark the kind of volatility that followed his comments in June in which he hinted at winding down its massive stimulus program.

The euro traded at \$1.1638 late in the European afternoon on Thursday, up 1.1% on the day against the dollar and its highest intraday trading level since August 2015. Meanwhile, 10-year German bond yields were little changed at around 0.54%, and riskier eurozone debt rallied, as financial markets showed signs of mixed reactions to the ECB’s messaging.

That contrasts to the concurrent rises in bond yields and the euro that followed Mr. Draghi’s comments in late June on the improving outlook in the euro area that investors took as the first clues the ECB is moving closer to ending its easy-money policies. Yields rose as prices fell.

The ECB’s policies of ultra-low interest rates and mass asset purchases have helped pin down the euro and bond yields in recent years.

But with a strengthening local economy, many investors are asking whether the time is nearing when that stimulus will start to be withdrawn. That could mark an important turning point for markets, given the Federal Reserve is already tightening its own monetary policy and making plans to reduce the size of its balance sheet.

Mr. Draghi described the eurozone economy as “robust” on Thursday, but also highlighted the lack of inflation in the region, suggesting there are still reasons to keep stimulus in place. And while he said the central bank would discuss the issue of scaling back its bond-buying program in the fall, he refused to set a date. The bank’s Governing Council left monetary policy unchanged on Thursday.

The ECB is likely eager to avoid the sharp rise in bond yields that followed the Federal Reserve raising the prospect of trimming its bond purchases in 2013.

WORLD WATCH

Japan Again Extends Inflation Time Frame

BY MEGUMI FUJIKAWA
AND YOKO KUBOTA

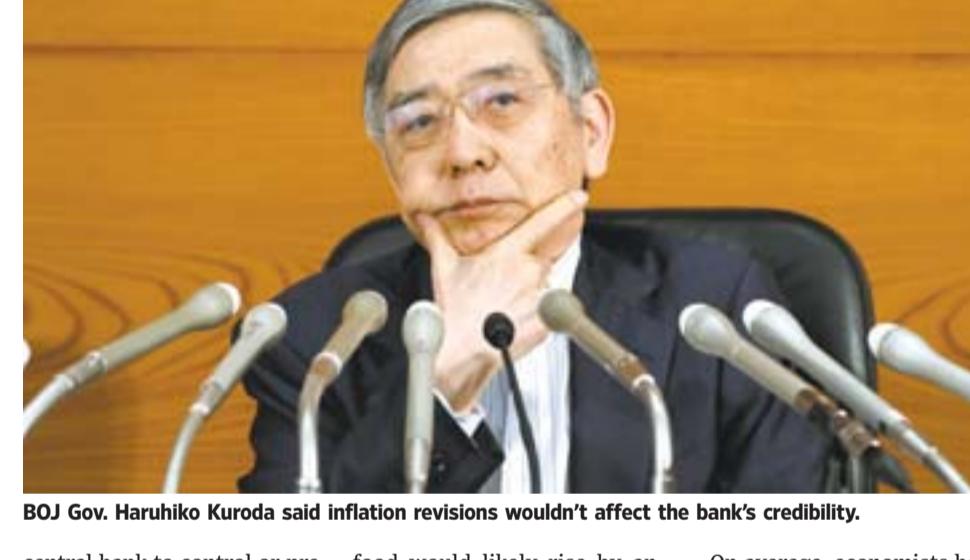
TOKYO—Japan’s timetable for achieving stable inflation has again been extended by a year.

The Bank of Japan on Thursday pushed back the date when it expects 2% inflation—the sixth time it has been postponed under Gov. Haruhiko Kuroda. The central bank now sees the target being reached by March 2020, five years after Mr. Kuroda’s initial timing.

The BOJ also kept its main interest rates on hold and looks set to dig in for some time with its ultra-loose policy while the Federal Reserve and some other major central banks raise rates and the European Central Bank hints at scaling back its stimulus.

Mr. Kuroda, whose term ends next year, said the frequent inflation revisions were regrettable but wouldn’t affect the BOJ’s credibility.

Central banks in the U.S. and Europe have also pushed back the timing to achieve their inflation targets a few times. There are some factors that are just too difficult for a



BOJ Gov. Haruhiko Kuroda said inflation revisions wouldn’t affect the bank’s credibility.

said SMBC Nikko Securities chief economist Junichi Makino.

Japan’s struggle to meet the BOJ’s price target comes despite brighter signs elsewhere. The bank raised its economic assessment and said growth in the year ending March 2018 was likely to reach 1.8%, up from an earlier forecast of 1.6%.

Central bankers around the world are trying to figure out how inflation can remain so weak while economic growth gathers momentum—a factor that usually drives up prices.

Retailers in Japan have pointed to price-slashing e-commerce sites as one possible cause. Thursday’s BOJ economic outlook cited possible improvements in productivity as another reason companies might be able to avoid price increases.

With the targeted inflation rate expected to take longer to arrive, the board kept its target for 10-year Japanese government bond yields at around zero and its short-term deposit rate at minus-0.1%, as expected. The bank also reiterated its promise to buy government bonds at an annual rate of ¥80 trillion (\$715 billion).

On average, economists believe the inflation rate is likely to fall short of 1% this year and next, according to a July survey conducted by the Japan Center for Economic Research, a think tank.

It was inevitable for the BOJ to lower its inflation forecasts because previous views were impossible to achieve,

No Clear Progress as U.S.-China Trade Talks Conclude

BY JACOB M. SCHLESINGER
AND IAN TALLEY

WASHINGTON—High-level economic talks between the U.S. and China ended Wednesday without any concrete agreement or future agenda, leaving the Trump administration’s efforts to recast trade ties with Beijing in limbo.

After a full day of bilateral meetings, the U.S. side issued a terse statement saying that “China acknowledged our shared objective to reduce the trade deficit which both sides will work cooperatively to achieve.”

The statement from Commerce Secretary Wilbur Ross and Treasury Secretary Steven Mnuchin didn’t provide further details on just how much the two sides could agree on, or when they would resume trade.

Chinese officials painted a rosier picture of Wednesday’s talks, with Foreign Ministry spokesman Lu Kang describing them as “innovative, practical

and constructive,” though he reiterated China’s displeasure at recent U.S. actions, including arms sales to Taiwan.

China’s Commerce Ministry didn’t immediately comment on the outcome of the dialogue.

U.S. and Chinese officials agreed that “one of the solutions to address the trade imbalance is for the United States to expand its exports to China, instead of reducing imports from China,” Chinese Vice Finance Minister Zhu Guangyao said in remarks reported by the official Xinhua News Agency.

Beijing is also urging Washington to lift export controls that curb sales of high-tech products to China, Mr. Zhu said.

The failure to take specific steps to close America’s \$347 billion trade deficit with China—70% of the U.S. global imbalance—raises pressure on the Trump administration to consider shifting from its embrace of cooperation with Bei-

jing toward more confrontation.

Trump aides have been weighing a series of tougher trade policies toward China, from new import barriers on steel and solar panels, to tighter restrictions on investments, but have so far chosen not to implement them.

President Donald Trump has focused on efforts to curb the U.S. trade deficit.

People familiar with Wednesday’s talks said that American negotiators tried, unsuccessfully, to use the threat of new steel tariffs to force the Chinese to commit to specific benchmarks for cutting the country’s mammoth production overcapacity in that sector, a big factor dragging down steel prices globally.

The meetings were held to

mark the end of a 100-day period that President Donald Trump and Chinese President Xi Jinping had set to come up with a comprehensive plan to reset commercial ties between the world’s two largest economies. The lack of any announced plan means they failed to meet that self-imposed deadline.

The decision to issue a statement from just the U.S. side was a break with past practices after similar negotiations held in recent years during the Obama and Bush administrations. It was also a contrast with the more amicable joint statement given by Mr. Trump and Mr. Xi during an April Florida summit where they agreed to launch a “Comprehensive Economic Dialogue.”

“Many expected at the 100-day point we would have much more substantive points of progress,” said Nicholas Lardy, a China scholar at the Peterson Institute for International Economics. He added that the lack of agreement on even

modest measures is a sign that U.S.-China relations “are very uncertain and subject to very high risks.”

People familiar with the talks said a major sticking point was a demand from the American negotiators to craft a concrete plan, with benchmarks and a timetable, for reducing China’s trade surplus with the U.S.

“The administration wanted to put some numerical targets in place and I know China was uncomfortable with that,” said Myron Brilliant, the U.S. Chamber of Commerce executive vice president for international affairs.

More than his predecessors, Mr. Trump has focused not just on removing barriers to American exports, but on trying to curb America’s trade deficit, which he has said is a concrete sign of flawed policies.

—Jacob Bunge in Chicago

and Chun Han Wong in Beijing

contributed to this article.

WORLD NEWS

Polish Judges Face Mass Dismissal

Assembly passes a bill that would permit the government to empty current supreme court

BY DREW HINSHAW

WARSAW—Poland's lower chamber of parliament approved a bill that would allow the government to replace every judge on the supreme court, a move opposition politicians and European Union leaders warned undermines democracy in the once-communist nation.

The bill, passed on Thursday after a rowdy two-day session as a few hundred protesters surrounded the building, allows Poland's government to retire all 83 judges within the next two weeks, unless individual judges get waivers from President Andrzej Duda. The justice minister would then appoint acting judges whom he would be able to fire at any moment.

The law would give the ruling Law and Justice party the leeway to empty the only branch of government beyond its control, which it says is stocked with former communists who don't represent the will of voters.

Poland's Senate, where Law and Justice retains an absolute majority, was expected to ratify the bill by Friday. Mr. Duda would then need to sign it to turn it into law.

The bill represents a key moment for Poland's post-communist democracy, underlining the broad power of the populist government to remake the largest country in what was once Europe's Eastern bloc as it wishes.



Members of the ruling Law and Justice party vote on the legislation. The Senate was expected to ratify the measure by Friday.

Though the courts have been the central battlefield, the government has also increased its influence over media, passing a law last year that gives it the right to name the heads of the public television and radio stations.

The ruling party and its state media allies argue their opponents are traitors and its leader, Jaroslaw Kaczynski, has accused the opposition of conspiring to kill his identical twin brother, who died in a 2010 plane crash in Russia.

Poland is in a "political crisis," said President Donald Tusk of the EU's European Council, a former Polish prime minister and leading figure for the opposition—which along with Russia's government says

the plane crash was an accident.

"The situation, including at international level, is really serious," he said in a statement Thursday.

Poland's supreme court holds the power to invalidate or validate election results. It can also block political parties from receiving state funding and functions as an appeals court for businesses and individuals who feel they aren't being treated fairly by the government's tax services, regulators or law enforcement.

Until now, judges have generally been appointed and managed by fellow judges. They also haven't been as fast as they should be in ruling, the party says.

"We are fighting pathologies in the judiciary," Foreign Minister Witold Waszczykowski told reporters Wednesday. "People even call parliament to complain to us that their cases are pending for years."

Top businesses have expressed unease with the law, saying they fear investors could be exposed to government interference in arbitration.

Mr. Duda has said he will sign the bill as long as a second amendment is passed. That amendment, which the Senate is likely to approve, would raise the number of votes needed for legislators to choose the committee members tasked with vetting future judges.

The EU next week will discuss whether to formally warn Poland, which could mark a step toward revoking its voting rights. That would be an enormous rebuke from the bloc, which has never before so punished a member state.

"The rule of law is one of the values on which our union is founded and which defines our union," said Frans Timmermans, vice president of the European Commission, the EU's executive arm, on Wednesday. "Sooner or later you will have to take the necessary steps to enforce the rules."

—Emre Peker and Laurence Norman in Brussels contributed to this article.



David Davis, left, and Michel Barnier in Brussels on Thursday.

EU and U.K. Make Cautious Progress

BY LAURENCE NORMAN AND STEPHEN FIDLER

BRUSSELS—The second round of Brexit negotiations wrapped up Thursday, with the European Union acknowledging progress but the two sides clashing over a financial settlement and the role of EU courts once Britain leaves the bloc.

The EU's chief negotiator, Michel Barnier, urged Britain to move speedily to offer more clarity on a number of disputed points, in particular which past spending pledges to the EU London will stand by once it leaves the bloc, expected in March 2019.

The issue of the divorce bill has long hovered over the discussions, with EU officials saying Britain may face exit payments upward of €60 billion (\$69 billion).

The U.K. government has publicly recognized it would still have financial commitments to the EU once it leaves. However, at a news conference with Mr. Barnier, U.K. Brexit Secretary David Davis didn't comment on whether Britain would make a payment to the EU.

Some British ministers have claimed the EU would owe Britain money once everything is netted out.

"The first round was about organization, the second round about presentation, the third round must be about clarification," Mr. Barnier said at the news conference.

He said a clarification of the U.K. position on the financial settlement would be "indispensable" for him to report to EU leaders in the autumn that enough progress had been made in the first phase of talks.

The EU has said it wants to see "sufficient progress" on priority issues—the divorce

bill, citizens' rights, Northern Ireland and other separation issues—to start discussions on a future trade agreement with the U.K. Mr. Barnier has said he hopes to say that threshold has been met in October.

Officials on both sides said Britain had offered no details on its position on the bill and it remains unclear whether the U.K. will start committing in coming months to some future payments.

On citizens' rights, where Britain and the EU have both set down detailed stances, Mr. Barnier said the two sides were headed in a "common direction" but noted a "fundamental divergence" over a critical issue—the role of the EU courts in the U.K. after Brexit.

British officials said the two sides shared common ground on most of the specific issues around citizens' rights, which focus on the residency rights and benefits EU citizens will get in Britain and U.K. citizens will receive in Europe in the future.

The issue of the role of the EU courts in Britain post-Brexit is a complicating one. U.K. Prime Minister Theresa May has set as one of her red lines that once Britain leaves the bloc, British courts will adjudicate based on British laws.

However, the EU wants the European Court of Justice to have a deciding role across a range of areas, including on whether the British government is correctly upholding the Brexit agreement if a deal is made.

The EU also wants the ECJ to be able to process fresh claims against the British government or British companies after Brexit if the alleged breach of EU rules happened during the years when Britain was an EU member.

Brexit Talks Tackle Rights

BY LAURENCE NORMAN AND STEPHEN FIDLER

When British Prime Minister Theresa May presented her ideas on the post-Brexit rights of European Union citizens in the U.K. to her European counterparts last month, the EU response was far from enthusiastic.

ANALYSIS Instead of welcoming it as the generous offer depicted by British officials, EU leaders and senior officials described it as below expectations.

Yet after the second round of Brexit negotiations ended on Thursday, officials said differences are narrowing, though some big gaps remain.

There are some 3.2 million EU citizens in the U.K. and more than 1 million British people in Europe who will be directly affected by the outcome. At issue are the post-Brexit rights and benefits of these people and which bodies should enforce the commitments. Britain is expected to leave the bloc in March 2019.

"We are now moving forward in a common direction," chief EU negotiator Michel Barnier said after the talks concluded on Thursday. U.K. Brexit minister David Davis said overall he was encouraged at the progress made.

Some tricky issues were left aside this week, including mutual recognition of professional qualifications and economic rights like welfare payments.

But other areas are advancing. While there are details to iron out, Britain's detailed June 26 citizens'-rights paper

included pledges to pay EU citizens' pensions and keep them in line with inflation. It also made clear the U.K. would still pay social security benefits, such as child benefits, to EU-based dependents of U.K. residents.

The two sides disagree on whether Britain should be able to systematically run criminal-record checks on all EU nationals who apply for post-Brexit residency status. But Britain is offering a concession.

In running those checks on people now in the U.K., Britain will stick to current EU rules, meaning it will refuse residency only to people who pose

A second round of Brexit talks showed differences narrowing but big gaps remain.

a threat to public safety. The U.K. won't apply the tougher rules it applies to non-EU nationals, under which it deports anyone given a prison sentence of 12 months or more. By foregoing this, Mrs. May's government would allow thousands of EU criminals to stay in Britain permanently, a move that could prove unpopular.

Crucially, U.K. officials have sought to show this week that they aren't trying to box the EU into rewriting its freedom-of-movement, immigration or social-security rules. The U.K. team clarified its positions by describing them in terms of additions to or subtractions

from the rights and benefits that EU legislation secures.

Yet there are differences. The EU has said the two sides must make "sufficient progress" by October on this and other issues, including over financial payments, if it is to agree to start discussing a future trade deal with the U.K.

For one, while the EU wants to keep the current broad rights and benefits its citizens enjoy in Britain, it believes U.K. citizens in EU countries should receive residency rights only in the country they are living in—not in any other country in the bloc. It isn't clear how hard the British government will push back on this.

The U.K. is offering no clarity on the cut-off date after which new arrivals in the U.K. wouldn't receive a clear pathway to residency status. The EU wants that date defined as soon as possible, a step that could prove critical to meeting the "sufficient progress" threshold.

The toughest issue is how an agreement would be enforced. Britain seeks an international agreement enforced in British courts.

The EU thinks that is an insufficient safeguard. They want the EU's courts to adjudicate disputes. U.K. courts to refer cases to the EU courts and an EU body to monitor compliance. Brussels' concern is to ensure EU citizens with grievances against the U.K. government would be able to seek enforcement of their legal rights directly and not have their efforts thwarted by the authorities.

"It's not a choice, it's an obligation," Mr. Barnier said.

Germany Weighs Steps on Turkey

BY ANDREA THOMAS

BERLIN—Germany said it would take new steps in response to Ankara's crackdown on human-rights activists, escalating a travel alert and reconsidering an investment program, as a feud that has tested relations between the traditional allies deepened.

Germany and Turkey have been at odds over a litany of issues, with tensions mounting further after the arrest this month of a German activist in Turkey under controversial terror laws that give authorities wide leeway. Berlin says the accusations against him are unfounded.

Government officials met Thursday to discuss possible actions. In addition to the escalated travel alert, Foreign Minister Sigmar Gabriel said the country must reassess a key program guaranteeing companies' investments in Turkey.

"We have to come to a realignment of our Turkey policy," Mr. Gabriel said.

Turkish police on July 5 arrested 10 Amnesty International activists, including German citizen Peter Steudtner, who had gathered in Turkey for what the organization called a routine workshop. Six of the activists have been imprisoned pending trial on charges of aiding a terror group.

IMF Plan For Greece Caps Debt

A new cap on debt in the International Monetary Fund's latest Greek bailout that was due to be approved Thursday keeps pressure on Europe to deliver debt relief and prevents Athens from raising fresh cash in the markets anytime soon.

By Nektaria Stamouli in Athens and Ian Talley in Washington

The IMF's board is set to green light Greece's bailout, but only "in principle," since it still considers the country's debt is "unsustainable" without significant relief by Athens' European creditors.

The ceiling on the amount of debt Greece can hold—detailed in documents prepared well ahead of Thursday's meeting and signed by the Greek government—gives Athens and Europe little room to wiggle out of commitments they made to overhaul the economy and restructure the country's debt.

Greece's IMF bailout sets a debt-stock ceiling for the central government at around €325 billion (\$374 billion), accounting for the country's current debt and the bailout funds it receives from its European creditors.

While Greece could go back to the markets to manage its debt—swapping out old bonds for new bonds at better terms, if they can get them, for example—the cap would prevent new bond issuance to build up a cash buffer, as Athens had been considering.

Greece's European creditors and the IMF have been at odds since the beginning of the country's third bailout program about how much debt relief Europe should offer Athens and when.

The two sides reached a compromise last month when the Europeans agreed to some limited debt-relief measures that will be implemented after the bailout ends.

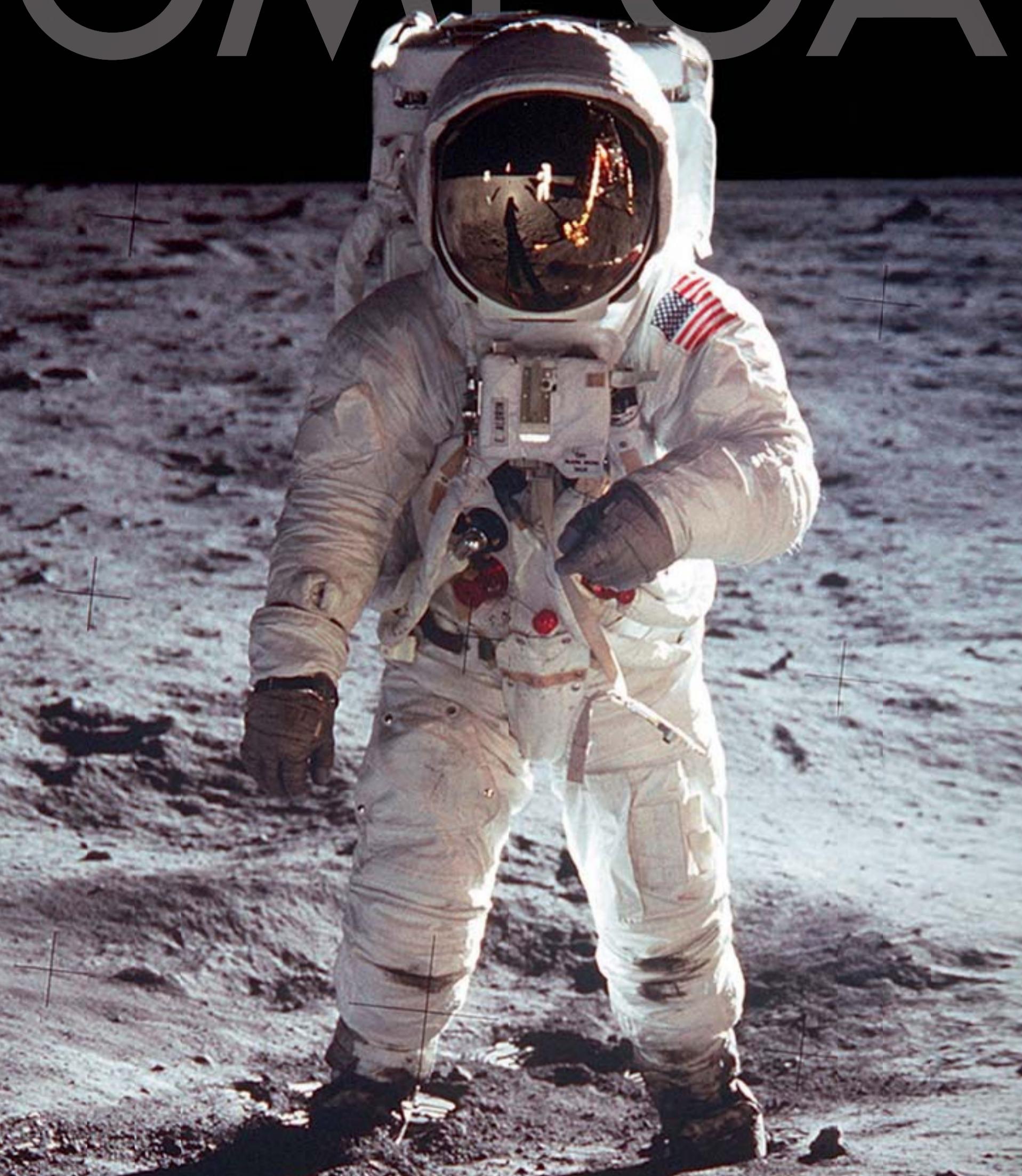
The IMF agreed to back a new program "in principle," but said it would disburse financing only once Europe agreed to a clear debt-relief plan.

The IMF had stayed out of the bailout for more than three years after Athens failed to deliver on promised overhauls and Europe put off debt-relief commitments.



An official carrying a U.K. flag before a news conference on Brexit talks in Brussels on Thursday.

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U.S. NEWS

Sessions Says He Intends to Stay On

After Trump's criticism, attorney general says he will remain 'as long as that is appropriate'

BY ARUNA VISWANATHA
AND REBECCA BALLHAUS

WASHINGTON—U.S. Attorney General Jeff Sessions said Thursday he has no plans to leave the Justice Department and will "wholeheartedly" pursue the administration's priorities, despite President Donald Trump saying in a recent interview that he regretted appointing Mr. Sessions.

"The work we are doing today is the kind of work that we intend to continue," Mr. Sessions said at a previously scheduled news conference at the Justice Department. "I'm

totally confident that we can continue to run this office in an effective way."

Mr. Sessions said he was honored to serve as attorney general and the position was "beyond any thought I would have ever had for myself."

He added, "We love this job, we love this department, and I plan to continue to do so as long as that is appropriate."

In an interview on Wednesday with the New York Times, Mr. Trump said he wouldn't have appointed Mr. Sessions to lead the Justice Department if he had known he would remove himself from the investigation into alleged Russian meddling in the 2016 election.

"Sessions should have never recused himself, and if he was going to recuse himself, he should have told me before he took the job and I

would have picked somebody else," the GOP president said.

Some prominent Republicans had called on Mr. Sessions to recuse himself, including former Rep. Jason Chaffetz of Utah and Sen. Rob Portman of Ohio. Some Democrats also urged Mr. Sessions to recuse himself.

In the interview, Mr. Trump also criticized Robert Mueller, the special counsel now in charge of the Russia investigation, for alleged conflicts of interest. He also said former Federal Bureau of Investigation Director James Comey had provided congressional testimony "loaded up with lies."

Mr. Comey declined to comment through an associate. A spokesman for Mr. Mueller declined to comment.

Mr. Trump aimed much of his ire during the interview at Mr. Sessions, a former U.S.

senator from Alabama who had been an early and outspoken supporter of Mr. Trump during the 2016 campaign. Mr. Trump described the attorney general's decision to recuse himself from the Russia investigation as "extremely unfair...to the president."

He also blamed Mr. Sessions for "bad answers" to Congress that set him down a path that led to his recusal. In his confirmation hearing, Mr. Sessions said he hadn't had "communications with the Russians" even though he had met with Russia's ambassador to the U.S., Sergey Kislyak.

"Jeff Sessions gave some bad answers...He gave some answers that were simple questions and should have been simple answers, but they weren't," Mr. Trump said.

Meanwhile, three of Mr. Trump's top campaign aides—Jared Kushner, the president's son-in-law and senior adviser, former campaign chairman Paul Manafort and Donald Trump Jr.—are expected to speak with Senate committees next week as part of the congressional inquiry into Russia's alleged interference in last year's election.

Mr. Kushner is set to hold a private interview on Monday with the Senate Intelligence Committee, his lawyer said Wednesday. The sit-down would mark Mr. Kushner's first time speaking with congressional investigators.

"As Mr. Kushner has been saying since March, he has been and is prepared to voluntarily cooperate and provide whatever information he has on the investigations to Con-



Attorney General Jeff Sessions at a news conference Thursday

gress," said Abbe Lowell, Mr. Kushner's attorney, in a statement. "He will continue to cooperate and appreciates the opportunity to assist in putting this matter to rest."

The president has expressed skepticism about U.S. intelligence agencies' conclusion that Moscow sought to intervene during the campaign. Russian officials have denied doing so. Mr. Trump and his campaign aides have denied any collusion with Moscow.

The Senate Judiciary Committee said the younger Mr. Trump and Mr. Manafort would appear next Wednesday in an open hearing. Jason Maloni, a spokesman for Mr. Manafort, said he had received the request for Mr. Manafort to testify "in the last 25 minutes" and said, "We're looking it over."

A spokesman for the president's eldest son didn't respond to a request for comment. The younger Mr. Trump has also said he was willing to cooperate with the congressional committees.

They would be speaking on a panel alongside William Browder, a hedge-fund manager turned human-rights advocate who has campaigned on behalf of the Magnitsky Act, and Glenn Simpson, a former Wall Street Journal reporter who runs a research firm linked to a dossier containing unverified allegations that the president had ties to Russian leaders. The Magnitsky Act is a 2012 U.S. law that punishes Russian officials accused of human-rights violations, and is named for Mr. Browder's lawyer, who died in a Russian jail in 2009.

The testimony from Donald Trump Jr. and Mr. Manafort is expected to focus in part on an email chain Mr. Trump released last week showing he helped arrange a June 2016 meeting at Trump Tower to discuss allegedly damaging information about Hillary Clinton. The meeting was also attended by Messrs. Kushner and Manafort.

FBI Director Pick Advances in Senate

WASHINGTON—Christopher Wray, President Donald Trump's nominee to be the next FBI director, cleared a key hurdle in his confirmation process on Thursday when the Senate Judiciary Committee voted in a show of unity to advance his nomination to the full Senate.

The unanimous vote by the 11 Republicans and nine Democrats on the panel paves the way for Mr. Wray to be confirmed and take office as the next leader of the Federal Bureau of Investigation before the Senate adjourns in mid-August

for a brief summer recess. Mr. Wray, whom Mr. Trump nominated last month after firing James Comey, has drawn bipartisan praise on Capitol Hill and has faced no serious obstacles for his confirmation.

He inherits leadership of the FBI from Mr. Comey, who was fired by the president in the middle of an investigation into alleged Russian meddling during the 2016 presidential election and whether Mr. Trump or his associates had colluded with Moscow.

Mr. Wray's testimony before the Senate Judiciary panel last week earned him bipartisan praise.

During his appearance, he vowed independence from the

president and a thorough investigation of questions about Russian interference in the U.S. election. The Kremlin has denied meddling in the election.

Senate Republican leaders have vowed a speedy confirmation for Mr. Wray. Democrats cannot block his nomination under Senate rules adopted in 2013, but they did have the power to delay a Judiciary Committee vote, which they declined to do.

"We need leaders with steel spines, not weak knees," said Sen. Dianne Feinstein, a California Democrat and the party's senior member of the Judiciary Committee. "I am hopeful Mr. Wray will be such a leader."

—Byron Tau

as well as a beachfront property in Antigua & Barbuda, the filings said.

Before discovering the digital keys to his digital currency accounts stored on his home computer, police seized about \$8.8 million in Bitcoin, Ethereum, Monero and Zcash, all digital currencies.

Investigators said Mr. Cazes earned commissions of between 2% and 4% on AlphaBay sales.

They counted more than 4 million AlphaBay transactions between May 2015 and February 2017 valued at about \$450 million.

Mr. Cazes earned between \$9 million and \$18 million during that period, they estimate.

Attempts to reach an attorney for Mr. Cazes weren't successful.

Created in December, 2014—just over a year after federal authorities shut down Silk Road, another illicit online marketplace—AlphaBay was run by a team of about eight to 10 anonymous staffers, including a second site administrator identified only as "DeSnake," federal authorities

said.

Before it was closed on July 5, AlphaBay was the biggest marketplace on the Dark Web, said Andrei Barysevich, a director at Recorded Future Inc., a threat-intelligence company. While Silk Road primarily focused on drug sales, AlphaBay also sold stolen credit-card numbers, drugs, online-fraud tutorials and guns, he said.

The Dark Web has emerged as a troubling source of illegal gun sales, researchers said. According to a Rand Corp. study, arms sales on the Dark Web now total an average of \$80,000 a month.

"Due to the arms trade on the Dark Web, every month there could be up to 136 untraced firearms or associated products in the real world," Rand said Thursday.

Dark Web sites such as AlphaBay are reachable via the Tor browser, which uses a special network that takes steps to preserve the anonymity of its users.

AlphaBay was averaging between \$600,000 and \$800,000 in sales a day, Mr. Christin said.



Aaron P. Bernstein/REUTERS

Deputy Attorney General Rod Rosenstein, left, speaks at the Justice Department on Thursday.

of thousands of messages between sellers and buyers on the site and collect more than 10,000 delivery addresses, Dutch police said. The site averaged 1,000 orders a day, most of which were for "hard drugs," they said.

The surveillance is likely to

give pause to some Dark Web users, said Nicolas Christin, an associate research professor at Carnegie Mellon University who studies online marketplaces. "This will probably have a stronger chilling factor than a mere seizure," he said.

Mr. Cazes, 25 years old,

lived a lavish lifestyle in Thailand, where he owned 10 vehicles including a \$900,000 Lamborghini and a \$293,000 Porsche Panamera, according to court filings. Mr. Cazes also owned a vacation home in Phuket, Thailand, and real estate in Bangkok and Cypress

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U.S. NEWS

McCain News Stuns Washington: Here's Why



CAPITAL JOURNAL

By Gerald F. Seib

At one point in his remarkable run through the New Hampshire Republican primary in 2000, Sen. John McCain went into full maverick mode to describe his quest to upset his party's prohibitive favorite in the race.

"George Bush is out there raising money," he said. "I'm going to be out there raising hell."

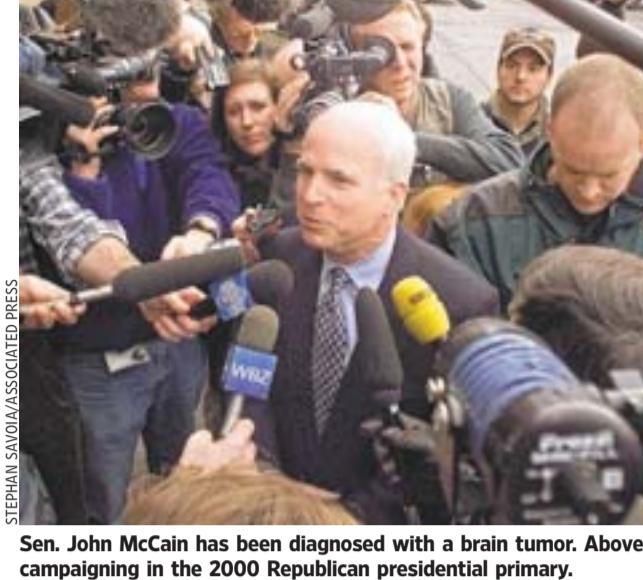
Raising hell is what John McCain has always been willing to do, without much regard for party or precedent. Indeed, it often appears he can't help himself. It's a style that occasionally infuriates Democrats and Republicans alike—but that ultimately has endeared him to many people in both parties, who admire his life story.

and the courage that has been laced through its many chapters.

That admiration explains why the capital went into a kind of shock Wednesday night when the news broke that Mr. McCain had been diagnosed with a brain tumor.

At one Washington dinner, perhaps a dozen cellphones pinged more or less simultaneously with the news, which temporarily brought the proceedings to a halt. Sen. Lindsey Graham, his closest friend in the Senate, articulated the view of many when he said that cancer has now picked the toughest opponent possible.

In a capital full of diverse characters, John McCain stands out. He is singular. Part of it is his remarkable story as a Vietnam War veteran: A young and somewhat reckless Navy pilot shot down over North Vietnam, grievously injured and then imprisoned under the most horrific conditions for more than five years, during which he declined opportunities to be released before his comrades. Candidate Donald Trump said during the 2016 campaign that Mr. McCain wasn't



Sen. John McCain has been diagnosed with a brain tumor. Above, campaigning in the 2000 Republican presidential primary.

a war hero, but few agreed.

There has followed a political career that took him first to the House and then to the Senate and ultimately to the Republican presidential nomination in 2008.

But it was that iconic 2000 presidential campaign that cemented the Arizonan's reputation as a unique political figure.

To anyone who wasn't there, it's almost impossible

to describe what it was like. He banked his whole campaign on winning the New Hampshire primary and set out to do so by canvassing the state, day after day, on a bus filled with aides and reporters and straight talk. In fact, it became known as the "Straight Talk Express," and his dozens of town-hall meetings were a cross between religious revivals and voter therapy sessions.

He slaughtered his party's sacred cows and picked up support from disgruntled voters along the way. He said the GOP's big-money donors not only owned Mr. Bush, but were destroying democracy in the process. He said an emerging federal budget surplus should be used not for tax cuts, but to pay down debt and bank money for Social Security. He attacked the religious right, directly and repeatedly. He was light on policy details, but details didn't seem to be the point.

He became a kind of Pied Piper in New Hampshire. It wasn't just reporters who followed him around. Voters did, too; some of them trailing him in their cars from one town hall to another just to be part of it.

In the end, he did win New Hampshire. It wasn't enough, because he went on to lose to Mr. Bush in South Carolina and ultimately in the race for the nomination. He finally won the elusive nomination eight years later, but it felt as if he'd never quite recaptured that 2000 lightning.

He returned to the Senate after the 2008 loss to Barack

Obama and seemed deflated at first. But then he roared back and now leads the powerful Armed Services Committee and occupies a prominent place in every debate and controversy. Among other things, as a victim of torture himself, he has emerged as a powerful voice against harsh interrogation techniques.

Sen. McCain has occasionally struck colleagues as tired and disoriented in recent days, probably early signs of the cancer diagnosis to come. But when he appeared last month at a Wall Street Journal conference for an onstage interview, he was sharp as ever.

And as outspoken as ever. He talked of his disappointment that President Trump didn't raise human-rights concerns on his recent trip to the Middle East: "If we abandon our advocacy for human rights, we're no different than any other nation that rises and falls throughout history," he said.

"You can't change human beings," Sen. McCain added. "They want freedom. They want human rights, and they look to us as the role model and our inspiration."

Vandals Release Up to 40,000 Minks

By QUINT FORGEY

Tens of thousands of minks—valued at about \$750,000—were released by vandals from a Minnesota fur farm this week and are at risk of death even as they wreak havoc on surrounding wildlife and farms.

The incident highlights the longtime clash between animal-rights groups and the more than \$100 million domestic fur industry, which has seen prices collapse in recent years.

Searns County Sheriff Don Gudmundson said a group of "nitwits" dismantled three sections of corrugated steel fencing at Lang Farms near Eden Valley late Sunday or early Monday, turning loose the facility's mink population. The 30,000-40,000 freed animals, mostly jet-black and some blond-colored, are roughly 17 inches long and weigh an average of about 3 pounds.

Mr. Gudmundson believes the culprits are misguided activists who don't realize the harm they caused for the animals they intended to liberate.

"They certainly don't care about animals because thousands of animals are maybe already dead and certainly will die," he said.

Alleged activists orchestrated a similar release of a few thousand minks at a neighboring ranch in Stearns County in 1998, he said, and there has been a drop in the

cost of furs from mink farms across rural America as a result of other acts of protest in recent years.

Katie Arndt, outreach coordinator for Minnesota's Animal Rights Coalition, said she wasn't sure whether she supported releasing the minks, as the small carnivores will threaten the ecosystem and eventually die in the wild. "This is one of these situations where you want to say, 'Yay, they're free!' But are they really?" she said.

"When the law does so little to protect minks and other animals from a horrifying life of misery on fur farms, it's not hard to understand why some people are compelled to take matters into their own hands and free animals from this kind of grotesque confinement," PETA President Ingrid Newkirk said.

But Mr. Gudmundson said the domesticated animals don't know how to survive outside the farm, without regular access to water in 90-degree weather. They also cannot handle the extraordinary stress brought on by natural events such as thunderstorms.

Of the 6,000-7,000 minks that have been recaptured, at least 5,500 perished shortly after recovery.

Fur Commission USA, a mink farming national trade association, is offering a \$10,000 reward for information leading to the perpetrators' arrest and conviction.



Vandals broke a fence and released minks near Eden Valley, Minn.

U.S. WATCH

EDUCATION

More Colleges Are Dropping Out

The number of colleges in the U.S. declined by nearly 6% between the past academic year and the year before, according to a new count by the federal government, and the rate of closings is accelerating.

The decline has been driven largely by closings of for-profit colleges that had low graduation and high student-loan default rates. A regulatory crackdown under the Obama administration drove many out of business.

Still, the broad decline lends credence to those who have long argued that higher education is ripe for a period of intense change and further declines.

"In the next 10 to 15 years, we'll see many fewer traditional colleges serving many more students," said Michael Horn, the co-founder of Clayton Christensen Institute, which champions so-called disruptive innovation, change that creates new markets and upends existing ones.

There were 6,760 colleges—four-year, two-year and shorter-term programs—that were eligible to award federal financial aid in 2016-17, down from 7,416 in

2012-13, a nearly 9% drop, according to an annual survey by the National Center for Education Statistics. The decrease was particularly sharp—5.9%—from 2015-16 to 2016-17.

—Douglas Belkin

SEATTLE

Court Battle Seen for Tax-the-Rich Effort

A new tax-the-rich measure in Seattle would hit about 9,000 taxpayers—about 2%—but the impact could go beyond wealthy Seattleites. Washington is one of seven states in the

country, including Florida, Texas and Wyoming, without an income tax. Backers of the Seattle measure expected to be signed this week by Mayor Ed Murray, a Democrat, are spoiling for a legal fight they believe will pave the way for a statewide income tax.

Taxpayer advocacy groups, meanwhile, are gearing up for litigation, confident that the state courts will reject this tax as they have in the past.

The new Seattle measure would impose a 2.25% tax on any income over \$250,000 or above \$500,000 for couples filing jointly.

—Zusha Elinson



READY FOR COMIC-CON: A participant waits in line for the first day of Comic-Con, which runs through Sunday in San Diego.

IN DEPTH

WANDA

Continued from Page One
view and declined to comment for this article.

While Hollywood has become reliant on Chinese investors and marketing partners to make movies and sell tickets to the world's second-largest audience, China hasn't produced any global blockbuster films or characters. Government officials want China to compete with the U.S. as the world's storyteller.

Mr. Wang's retreat reflects the challenge of rising to show-business superpower. China has yet to field companies with the talent to compete with Hollywood's movie and TV studios. American box-office success follows a century of filmmaking, which Disney and Comcast Corp.'s Universal Studios have parlayed into global theme-park empires.

"It takes time for a company to build intellectual property," said Dennis Speigel, who heads a theme-park consulting firm in the U.S. and has visited two Wanda-owned parks. "You need story, movies, publishing and TV to support it."

As Disney has shown, theme parks can promote content—with movies based on rides, rides based on movies and popular toys based on all of it. The late Walt Disney built Disneyland in the 1950s with the help of movie studio workers skilled in the arts of storytelling and illusion. Wanda, one of China's largest commercial property developers, tried to elbow its way into the business without that background.

Last week at a Wanda-owned park in Nanchang, fewer than 3,000 people roamed the property, which can accommodate 40,000 visitors, according to attendance records viewed by The Wall Street Journal.

At Wanda's theme park in Hefei at least half of its 25 attractions were closed on a visit in January. Guests were told it was too cold to run the large roller coasters. A park hotel was closed for maintenance, even though it had accepted room reservations days earlier.

Souvenir shop shelves were nearly empty. Park visitor Li Chunhong said there was nothing her young daughter wanted to buy, which wasn't a problem during their visit to Shanghai Disneyland.

"My daughter immediately wanted to buy Minnie Mouse," Ms. Li said. "She wants to be Minnie."

Big dreams

Wanda's move into theme parks was part of a broader shift into entertainment that began with its building of Chinese cinemas more than a decade ago. In 2012, Wanda bought AMC for \$2.6 billion, and through acquisitions became the world's largest cinema chain.

The company's other forays into entertainment have yet to strike gold. The \$3.5 billion Wanda paid for Legendary in 2016 was widely seen in Hollywood as too much money. Thomas Tull, Legendary's founder and driving force, left

a year later.

With its growing middle class, China is expected to surpass the U.S. in theme park revenue in 2019, according to data provider Euromonitor. Shanghai Disneyland drew more than 11 million visitors in the 12 months beginning in June 2016, its first year, and U.S.-based Universal Parks and Resorts and Six Flags Entertainment Corp. both plan to open parks in China.

Mr. Wang saw theme parks as a way to promote China's history and legends, people familiar with his thinking said.

Yet Mr. Wang's management team approached the design and operation of its theme parks as property developers rather than storytellers, people familiar with the matter said.

A few years ago, Walt Disney World employees in Orlando, Fla., noticed guests measuring bricks on Main Street and taking photos of fanciful shop keyholes, according to a person with knowledge of the incident. When asked, the visitors said they were conducting research for Wanda.

More recently, staffers at the original Disneyland in Southern California noticed park guests observing how lines were managed at Mr. Toad's Wild Ride, a popular children's attraction, this person said.

Approached by park employees, the guests acknowledged they were paid researchers who responded to an online job posting, the person said. Disney employees, the person said, connected the posting to a freelance worker whose visa was associated with Wanda's Beverly Hills office.

Mr. Wang's retreat reflects the challenge of rising to show-business superpower.

The focus on the technical aspects of Wanda's theme parks mirrored the company's approach to building shopping centers and office towers, according to the former Wanda executive.

The Wanda Movie Park in Wuhan, this person said, was built in the same by-the-book style that Mr. Wang used for commercial construction, including penalties for failing to meet even the smallest deadlines.

When Mr. Wang visited the Wuhan park for a preview in 2014, employees put carpets over unfinished floors and studded artificial leaves to trees, one of the people on the project said. Mr. Wang didn't like about half of the rides, the former executive said, but considered the park acceptable.

The park was aimed at thrill-seeking young adults, the former executive said, built around motion-simulation rides. But most of the rides didn't appeal to families with young children, who tend to spend more on food and souvenirs.

"By the end, they resorted to heavy discounting to get people into the park," the former executive said. "They



Wanda Group Chairman Wang Jianlin applauds performers at the opening show in Hefei Wanda City in September in Hefei, China.

FEATURE CHINA/BARCROFT MEDIA/GETTY IMAGES

didn't have the understanding that the business can't rely on heavily discounted tickets to get attendance, because this just means there is something fundamentally wrong, and you have to fix what's fundamentally wrong."

The \$510 million Wuhan park, which isn't included in the theme-park sale, closed for retrofitting last summer after 19 months in operation and hasn't reopened.

A few months after it closed, Mr. Wang met in Los Angeles with Walt Disney Co. Chairman Bob Iger, who invited him to visit Shanghai Disneyland last fall, according to a person with knowledge of the meeting.

A week after the visit, Mr. Wang appeared more serious about improving his theme parks, the current Wanda executive said.

Mr. Wang approved a 30% increase in the construction budget at one park, and he devoted more resources to design and storytelling across the chain. It was too little too late: The parks continued performing below expectations, according to current and former Wanda executives and documents viewed by the Journal.

Nanchang brought in revenue of \$26 million for the seven months it was open last year, close to its internal target of \$27 million for the period, the documents show. This year, it has earned \$15 million as of mid-July, running behind its 2017 target of \$52 million.

The park drew 662,000 visitors in the first six months of 2017, records show, well off the pace needed to hit its target of two million for the year.

End of the ride

In late April, Mr. Wang sat at a wooden conference table on the 25th floor of his Beijing headquarters building, flanked by his top executives.

As the men sipped from tea cups and bottles of water, the idea of selling the theme-park

business to Sunac China Holdings Ltd. surfaced, the Wanda executive said. Wanda had taken on significant debt to build the parks, he said, and its stretched balance sheet jeopardized plans to list Wanda's main property unit on a Chinese stock exchange.

Yet in mid-June, Wanda theme-park chief Andrew Kam, former head of Hong Kong Disneyland, was the keynote speaker at an amusement park trade group conference in Singapore. He outlined Wanda's plans to build as many as 20 theme parks across China over the next 15 years, said Mr. Speigel, the theme-park consultant.

"It was a very positive presentation on their growth and plans to literally own the market in China," said Mr. Speigel, who attended the event.

By the time Wanda's theme park in Harbin opened two weeks later, a deal to sell the parks to Sunac had been made, the Wanda executive said.

Under the deal announced July 10 and revised Wednesday, Wanda will sell a 91% stake in four existing and nine planned theme parks and tourism projects to Sunac. Wanda, which disclosed \$6.7 billion in debt on the parks, will continue to operate them under its brand.

Sunac executives didn't respond to requests for comment. The company in a statement last week said Wanda's theme park and tourism projects have potential for real-estate development.

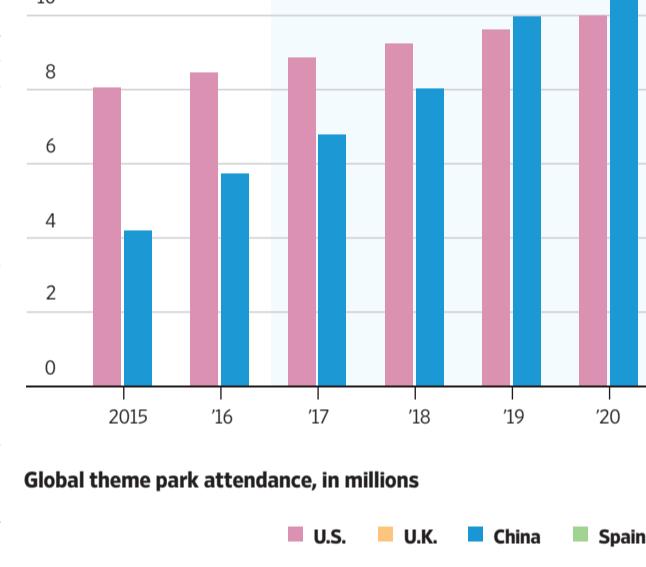
Former Wanda employees say that properties are being successfully developed around the theme parks, including apartment buildings and retail space, signaling Sunac's interest is more likely in development than in the parks' revenues.

Sunac's statement also suggested it harbored its own Hollywood dreams: "The company will also continue to further discuss and cooperate with Dalian Wanda Commercial Properties in other projects, as well as movies."

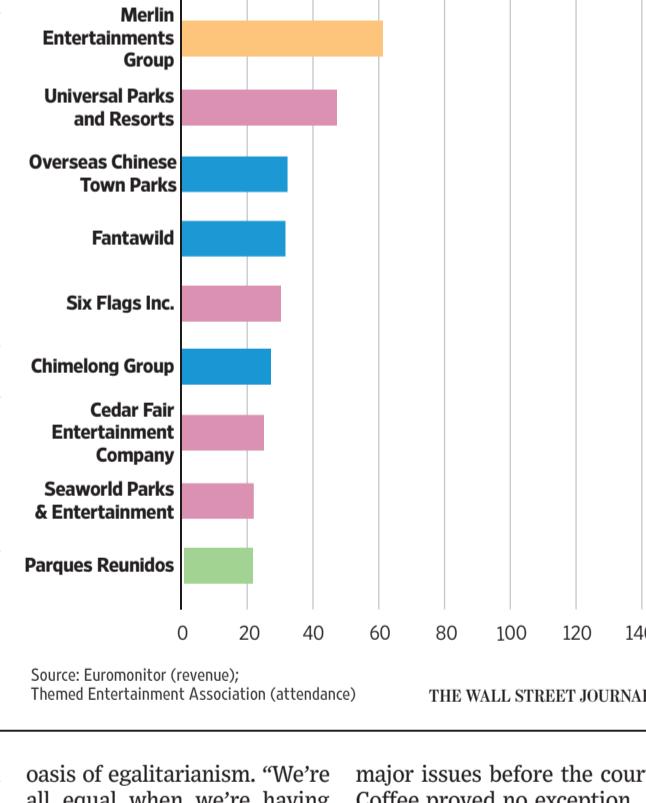
China's Theme-Park Boom

Chinese theme parks are expected to overtake U.S. theme parks in revenue by 2019. Three Chinese companies are among the top 10 theme-park operators in the world.

Theme park revenue



Global theme park attendance, in millions



Source: Euromonitor (revenue); Themed Entertainment Association (attendance)

THE WALL STREET JOURNAL.

FOOD

Continued from Page One
two soups a day. This week's specials included a grilled portobello sandwich (\$6.70). Employees get a 20% discount, but a frequent-diner rewards program was discontinued after a trial period last year.

Justice Gorsuch had no appetite for discussing his cafeteria plans, but he's clearly in the pressure cooker. There are no other eateries within convenient walking distance, making the cafeteria an essential ingredient in staff morale. Not only do the court's 400-plus employees depend on the facility, cafeteria proceeds subsidize staff enrichment activities like the spring cookout, the Christmas party and Supreme Court night at the Washington Nationals ballpark.

Raising the stakes, he takes over from a celebrated incumbent.

"Justice [Elena] Kagan succeeded in getting a new frozen-yogurt machine in the cafeteria," Chief Justice John Roberts reported to a judicial conference in 2011. "No one at the



Toppings for frozen yogurt at the Supreme Court cafeteria.

court can remember any of the prior justices on the committee doing anything."

Despite lifetimes spent salivating over a seat on the high court, most new justices find themselves unprepared for the challenge of running the cafeteria, which long has been dogged by a reputation for mediocre food and a perennial struggle to turn a profit.

Cafeteria duty is a recipe for bringing them back down to earth after the excitement of confirmation and appoint-

ment," the chief justice, who typically orders a salad, continued.

Message received, said Justice Kagan. "It's not a very good cafeteria, so this is really just the opportunity they have to kind of haze you all the time. Like, 'Argh, you know, Elena, this food isn't very good,'" she said at a Princeton University talk in 2014.

Justice Stephen Breyer, the court's junior member from 1994 to 2006, holds the record for cafeteria service. It is "a

very sensitive topic," he said when asked about lunch during a 2007 appearance on "Wait, Wait...Don't Tell Me!," an NPR quiz show. A salad bar expansion notwithstanding, "I'm not sure I was a great success in that position," Justice Breyer told host Peter Sagal.

Looking back today, "the most difficult challenge was to help promote service that would satisfy many different cafeteria users with many different tastes," Justice Breyer says. "After 11 years, I left that challenge to my successors."

When President Ronald Reagan appointed the first woman to the court, Justice Sandra Day O'Connor, in 1981, Chief Justice Warren Burger responded by assigning her to the cafeteria committee. Each junior justice since has been stuck with the chore, serving alongside a half-dozen rank-and-file court employees to discuss menu items, set prices and air customer complaints.

Unlike the Supreme Court itself, which meets a floor above, the cafeteria committee operates by consensus, with nary a dissent noted, former members say. In an otherwise hierarchical institution, it represents an

oasis of egalitarianism. "We're all equal when we're having lunch," says Justice Samuel Alito, who served from 2006 to 2009.

"I thought it was pretty good, under my supervision," Justice Alito says of the cafeteria.

Official records confirm the committee received "compliments on the shrimp bisque soup and the hummus and broccoli."

Still, the Alito years also saw disaffection over slow service and unhappiness about the removal of pudding parfait. Fellow justices piled on, Justice Alito recalls. One complained there was too much salt in the oatmeal, another said the turkey wrap needed more mayonnaise. He declined to identify the justices involved, invoking the court's little-known "cafeteria privilege."

The biggest source of indigestion in those days was the coffee, records say. Justice Alito says he tackled that problem by finding a new vendor. There were "many compliments on the delicious new coffee," he says.

Justice Sonia Sotomayor, who took over in 2009, often clashes with Justice Alito on

major issues before the court. Coffee proved no exception.

"I thought it was horrible," she says. She sought to overturn Justice Alito's decision, but a taste test among diners sustained his coffee judgment. "It stayed," she says.

That was but one frustration of her tenure. To confront chronic service delays, she proposed enlarging the kitchen. The idea went nowhere.

More heartburn came in 2010, when the Washington Post ran a series reviewing government cafeterias. The House of Representatives came in first, with a grade of A. The Patent and Trademark Office, the Pentagon and the State Department each got a C, while the Agriculture Department and the National Institutes of Health barely passed with D's.

Then came the Supreme Court. "This food should be unconstitutional," the paper said, citing a "falling-apart mushy" veggie burger and a salmon rice bowl that "bears no resemblance to any salmon I've tasted before." Grade: F.

"I got a note from the chief justice the next day," Justice Sotomayor says. "It said: 'You're fired.'"

Continued from Page One
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BOOKS

'The single biggest existential threat that's out there, I think, is cyber.' —Adm. Michael Mullen

The Coming War for Cyberspace

The internet, conceived as a tool for advancing freedom, now puts democratic societies at risk

The Darkening Web

By Alexander Klimburg

Penguin Press, 420 pages, £20

BY STEPHEN BUDIANSKY

ALEXANDER KLIMBURG thinks we aren't nearly as worried as we should be about internet-borne mayhem in our increasingly interconnected world. His timing couldn't be better. "The Internet, a fabulous artifact of human civilization largely perceived today as a domain for advancing freedoms and prosperity," he writes in the introduction to "The Darkening Web," "could become instead a dark web of subjugation."

He foresees a not too distant future in which cyberspace is primarily "a domain of conflict . . . threatening the overall stability and security not only of the Internet but also of our very societies."

The cyber attacks in May and June that shut down hospitals in Britain and the U.S., ATMs in Ukraine, railways in Germany, and tens of thousands of other targets around the globe were vivid illustrations of a concern that Mr. Klimburg, a cybersecurity researcher and senior fellow at the Atlantic Council, emphasizes throughout: that the U.S. government, in focusing single-mindedly on developing its own offensive cyber capability, has set off an "international arms race in cyber." The recent attacks in fact used malicious computer code originally developed by the U.S. National Security Agency; the malware fell into the hands of rogue hackers when it was stolen and openly published last year under circumstances that are still unclear.

Like the Stuxnet virus that the NSA, CIA and Israel reportedly employed to sabotage centrifuges in Iran's nuclear enrichment facility, the weapons used in recent attacks were crafted to penetrate the Windows operating system and exploit security flaws unknown to Microsoft at the time they were developed. Once inside a system, they can be commanded to steal data, monitor communications or engage in more disruptive attacks by disabling key functions.

In a world where these kinds of destructive attacks become the norm, Mr. Klimburg argues, it is the U.S. that has the most to lose. Or, as he more sweepingly asserts, the U.S. effort "to achieve total dominance" in offensive cyber capability "can be safely said to have totally backfired."

Mr. Klimburg is particularly dismayed by the two-handed game that the NSA has been playing: outwardly working with technology companies to improve security for all, while secretly withholding knowledge of key weaknesses in the internet and computer software that the agency wants to exploit for its own intelligence or cyber operations. And he warns that the West's



KILL SCREEN The 'ransomware' program known as Petya locks infected computers and displays this graphic.

responses to growing cyber threats run the risk of playing right into the "ambitions of authoritarian states," which have long sought to control the flow of information through propaganda and censorship.

A case in point: the discovery that hacking tools sold to the Mexican government by an Israeli security firm—and supposedly restricted to use against terrorists and criminals—had been used by the government to harass and spy on domestic critics.

Part of the difficulty that Western governments face in responding to these challenges is that a number of very different kinds of threats are lumped together under the catchall terms "cyber attack" or "cyber war." Broadly speaking, Mr. Klimburg explains, there are at least three types of cyber attacks.

The attacks that most resemble true warfare are those that aim to achieve the results that were once the sole business of bombers or commando teams: taking out an air-defense system or destroying a strategic target such as a power station, dam or command post.

A second type of attack is the natural outgrowth of the NSA's long-standing efforts to penetrate global communications. What was once done by monitoring radio transmissions and codebreaking is today a game of penetrating computers and swiping information at the source—a skill at which the Chinese and Russians have proved as adept as the NSA.

And then there's the nebulous but burgeoning field of propaganda and information warfare, alarmingly on display during the 2016 election. An

army of Russia-based human and automated attackers ("robo-trolls") deluged the U.S. with pro-Trump disinformation, while Russian-government controlled or sponsored groups hacked the Democratic National Committee and other U.S. targets in search of potentially embarrassing or damaging information to influence the outcome.

will eagerly exploit to clamp down further on their own citizens' free use of the internet.

Yet as the security expert Bruce Schneier has argued, only by setting regulatory standards for software security is there now a prayer of keeping up with the threat. Large companies such as Apple and Microsoft have done a creditable job de-

The U.S. kept security flaws it found secret, hoping to use them offensively. But nefarious actors learned of them and are using them for their own attack.

Mr. Klimburg isn't the most lucid or engaging guide through the technicalities of the subject. He is overly enamored of poli-sci speak and the jargon of international bureaucracy, devoting pages to discussions of "path dependency" in the government decision-making process and the nuances of the "multistakeholder approach."

He offers up the inevitable allusions to Clausewitz and Tom Friedman, and never seems to have met an acronym he didn't like. At crucial moments he retreats into vagueness and platitudes ("this is not an easy task").

The more disappointing deficiency in "The Darkening Web" is the failure to engage the inescapable trade-offs that all of these challenges pose. Mr. Klimburg asserts that "to keep the Internet free, we need to keep Internet governance free" and insists that any move toward government regulation falls into a "trap" that Russia and China

ploying quick patches as new threats emerge: Microsoft issued a patch as soon as the NSA hacking tools were published, and the computers affected in recent attacks were ones whose users hadn't bothered to install the update.

But the explosion of the "Internet of Things"—everything from cameras to cars to thermostats—has led to a deluge of shoddy and vulnerable code from companies too small to afford investing in security updates, or even to care. According to one recent estimate Mr. Klimburg cites, there are already 25 billion devices connected to the internet, more than three for every human being on the planet. This ever-expanding vulnerability, Mr. Schneier has argued, can only be addressed through a regulatory body that deals with security across the entire internet.

While insisting that the U.S. ought to devote far more resources to cyber defense and de-emphasize what he

sees as its no-win pursuit of an offensive dominance that has accelerated the "militarization" of cyberspace, Mr. Klimburg acknowledges a fundamental asymmetry at work. The U.S. is especially vulnerable to hackers given its ubiquitous embrace of technology. And the nature of the game virtually ensures that offense will always dominate: it is simply much easier and cheaper to create malicious code than to develop effective counters to it. He quotes Chris Inglis, the former NSA deputy director, who wryly observed that if cyberwar were soccer, the score would be 462 to 456 after the first 20 minutes. He also quotes two "truisms" of cybersecurity: "that the majority of attacks could be avoided by taking basic defense measures," notably by updating software immediately, but "that a dedicated attacker will always get in, no matter what."

In places, Mr. Klimburg concedes the moral ambiguities of the situation, noting for example that the best hackers make the best security professionals. But he never comes to grips with the fundamental question of whether there is any practical alternative to the U.S. maintaining an overwhelming offensive cyber capability—at least when it comes to deterring state actors from carrying out the most threatening attacks, those aiming to wreak physical havoc on factories, pipelines, electric grids and other vital infrastructure.

If "a dedicated attacker will always get in," the situation is very analogous to nuclear warfare: Only the threat of massive retaliation can deter an attack in the first place. Of course, that assumes that one knows who the attacker is, and the author is skeptical of recent NSA hints that it has solved the problem of "attribution," tracing an attack to its source.

Those charged with walking this tightrope of competing goals more astutely recognize that everything is a matter of degree. Michael Hayden, the former NSA director, has suggested that American policy must balance defense and offense on a case-by-case basis and has hinted that the NSA is keeping to itself knowledge of only the small number of software vulnerabilities that it is confident are beyond the means of anyone but the U.S. government to exploit.

Mr. Klimburg effectively outlines the dangers we face but, when it comes to solutions, offers little more than abstractions about international governance mechanisms. And he doesn't even mention what Mr. Schneier posits as, ultimately, the only real way out: If we truly wish to keep our devices safe from attackers out to take over what is becoming a single world-wide robot, we need to start unplugging things from the far-too-ubiquitous web.

Mr. Budiansky's latest book is "Code Warriors: NSA's Codebreakers and the Secret Intelligence War Against the Soviet Union."

Young Lives in Free Fall

BY SAM SACKS

'I FALL IN LOVE carefully,' says Thandi, the narrator of Zinzi Clemmons's **"What We Lose"** (Fourth Estate, 213 pages, £12.99), and the internal contradictions of the line characterize this debut. You can't, after all, carefully fall in love any more than you can cautiously leap off a bridge. The best you can try to do is maintain an illusion of control while you plummet.

Thandi, who grows up outside Philadelphia, is the child of a black American man and a mixed-race South African woman, and perhaps to compensate for the ambiguities of her complicated heritage—"My views and my skin made me a lonely little island," she writes—she has developed a disciplined, analytical way of recounting her experiences. The book's chapters are succinct, often shorter than a page; the sentences are concise and declarative. Non-fictional material like blog posts and news photos intersperse the story, as if this were an academic study rather than a novel. Thandi, a math tutor, illustrates her emotions with graphs and charts, and when she encounters events that cannot be tamed by logic she explains them to herself using the concept of the asymptote, a

line that a curve continuously approaches but cannot reach: "The idea of a geometrical asymptote is therefore an effort of pure reason, and the possibility of it must be made manifest to the mind, not to the senses."

Yet the senses have a way of making themselves known. The turning point in Thandi's life is her mother's death from breast cancer, which scrambles any semblance of coherence that she had made of the world: "It is a sunny day that feels completely

Two engaging first novels, each narrated by a woman new to loss, love and adulthood.

gray, and laughter in the midst of sadness. It is utter confusion. It makes no sense." Nearly as destabilizing is her love affair with a man named Peter, who lives on the other side of the country. When Thandi finds herself pregnant and unsure of how to proceed, the novel's intellectual poise has been fatally undermined.

This makes for anguished but rewarding reading. It's bracing to find eruptions of passion shoot through the varnished prose like hairline

cracks in porcelain. ("Sex," Thandi proclaims, "is kicking death in the ass while singing.") "What We Lose" finds itself when it accepts free fall, morphing from an arid work of assertion into a richly volatile study of grief, wonderment and love.



an "omnivore"—but now are best friends who perform as a slam poetry duo. Their act brings them to the attention of a famous essayist named Melissa, and the novel chronicles what happens when the young women enter her rarefied circle, which includes her husband, Nick, a hunky B-list actor.

As its leaden title portends, this novel partakes in the inexplicably chic trend epitomized by Karl Ove Knausgaard's "My Struggle" and Elif Batuman's "The Idiot" of merely recording everything its characters do or say, like a video feed, with no effort to discriminate between the trivial and the significant. Readers, therefore, have to push through reams of banal small talk and hackneyed dinner-party imagery. (Ms. Rooney is now the millionth writer to poetically describe the glowing tip of a cigarette.)

Then things change. At first we assume Frances will play the rational Elinor Dashwood role while Bobbi has an ill-advised fling with Melissa. Yet it turns out to be Frances who's the home wrecker, falling into a surprise affair with Nick. Suddenly the book takes on the excitement of a romance novel or Hugh Grant film about ordinary folk who have relationships with gorgeous celebrities. The writing picks up purpose and intensity. The sex scenes are, well, sexy, which is rarer than you'd think.

Ms. Rooney's trick is to render them largely in dialogue, avoiding awkward anatomy lessons. A breathless page-turner emerges.

As the affair goes south, and Frances's acquired habits of secrecy chip away at her friendship with Bobbi, the book transforms again, taking on a darker, spikier complexion. Nick has a history of depression, we learn, and Frances is diagnosed with a painful chronic disorder. The clandestine thrill of their romance comes to look like destructive co-dependency. "I was like an empty cup, which Nick had emptied out," Frances thinks after an acrimonious fight, "and now I had to look at what had spilled out of me: all my delusional beliefs about my own value and my pretensions to being a kind of person I wasn't. While I was full of these things I couldn't see them. Now that I was nothing, only an empty glass, I could see everything about myself."

That rings true, and so does Frances's recovery, in which Bobbi plays a crucial part. A lot of affectation encrusts "Conversations With Friends" and the ironic repartee gets old quickly. But even the filler can't disguise that Ms. Rooney is a natural-born storyteller.

Mr. Sacks writes the fiction chronicle for The Wall Street Journal.

BOOKS

'The man of genius knows what he is aiming at; nobody else knows.' —Henry David Thoreau

A Traveler in Concord

Henry David Thoreau

By Laura Dassow Walls

Chicago, 615 pages, £26.50

BY RANDALL FULLER

NO OTHER 19th-century American writer manages to annoy today's readers like Henry David Thoreau. In recent years, prominent writers have described him as "narcissistic" and "inestimably priggish and tiresome." Even Garrison Keillor, whose laconic humor owes a debt to Thoreau's pungent wit, has called him "a sorehead and a loner."

Blame it on "Walden." Thoreau's masterpiece, first published in 1854, still manages to strike a nerve. Its author—the self-appointed chanticleer intent on rousing his somnambulant readers—retreated to Walden Pond in the mid-1840s, constructing a small cabin near its sandy shores and, after two years, returning with a simple message: You are wasting your life trying to be like others. In sentences honed to a lacerating edge, Thoreau sliced away at Americans' faith in technology, their tendency toward distraction, their unthinking materialism. For more than a century and a half, the readers of "Walden" have responded defensively by accusing him of hypocrisy, misanthropy, poor social skills and general loutishness.

In her richly rewarding "Henry David Thoreau: A Life," Laura Dassow Walls rescues Thoreau (whose 200th birthday was on July 12) from the caricatures that have adhered to him since his most famous work was published. Ms. Walls's Thoreau is less the irascible hermit and sanctimonious scold than a sociable, curious, passionate writer deeply involved in his time and place. We see him planting

Thoreau's most acute insight? To know one place exhaustively is to glimpse the cosmos.

a garden as a honeymoon present for Nathaniel and Sophia Hawthorne, mourning the death of his beloved older brother, even falling in love. The result is a deeply humane thinker who seems more relevant than ever.

With few exceptions, Thoreau spent all of his days in Concord, Mass., a village of 4,000 souls whose citizenry included Ralph Waldo Emerson, Hawthorne and Louisa May Alcott. "Never was a poor, little country village infested with such a variety of queer, strangely dressed, oddly behaved mortals," Hawthorne remarked of the town's starry-eyed Transcendentalists, among whom Thoreau counted himself. Some of the most enjoyable portions of Ms. Walls's biography are its scenes of village life, with the inevitable personal squabbles, political disputes and eccentricities.

The town's most famous inhabitant, Emerson, was either the best or the worst thing that ever happened to Thoreau. A constant supporter of his acolyte's literary ambitions, Emerson published Thoreau's early work and allowed him to build his famous cabin on land that he owned near Walden Pond. He also invited Thoreau to live with his family and gave him access to his extensive library. But Emerson was a forceful personality, a cultural icon who tended to eclipse nearly everyone he met. He misguidedly encouraged Thoreau to become a poet and failed to fully grasp the younger man's talents for natural observation. Thoreau's life was in many ways a heroic, decadeslong struggle to both honor and escape the influence of his more famous friend.

He did that in part by taking his mentor's suggestions to an extreme. If Emerson began his career with a slim volume titled "Nature," Thoreau devoted four hours a day to exploring the woods and pasture surrounding Concord. One of his gifts was to view this familiar environment as terra incognita, chronicling his daily encounters with nature as though he were Mungo Park or Alexander von Humboldt. As Ms. Walls tells it, from this habit arose one of Thoreau's most acute insights: that to know one place exhaustively is to glimpse the cosmos.

Today we would say that he acted locally and thought globally. Thoreau kept up with the science of his day and, in his spare time, compiled a dozen or so notebooks devoted to Native American history and lore. He invented a way to improve the production of his family's pencil business



SELF-COMPOSED Three of Thoreau's journals and a bundle of pencils manufactured by his family's company.

and carefully traced Charles Darwin's journey around the globe as recounted in the naturalist's "Voyage of the Beagle." He relived the battles and political debates of the ancient Greek and Roman societies (he could read both languages) and delved into Eastern philosophy and religion, eventually acquiring the most comprehensive library of non-Western thought in the nation.

In "Walden," Thoreau declared with Zen-like serenity that the goal of life was to inhabit the "nick of time," or that "meeting of two eternities, the past and future, which is precisely the present moment." But as Ms. Walls shows, this insistence upon mindfulness was largely a response to his living on the cusp of modernity. Thoreau decamped to Walden Pond just as a major revolution in industry and technology was reshaping American life, eroding a centuries-old agrarian society and ushering in a fast-paced urban world whose contours remain with us today. While Thoreau lived at the pond, a railroad between Concord and Fitchburg was built beside the pond, and its string of freight and

passenger cars ruffled the water's surface several times a day. The wilderness that Thoreau extolled in "Walden" was already a memory by the time he finished the book in 1854.

Equally troubling for the author was the condition of the nation's less fortunate inhabitants. Thoreau was a vocal advocate for the impoverished Irish immigrants who moved to Concord to work on the railroad, and he was an especially ardent abolitionist. He helped his radical mother and sisters shelter runaway slaves, solicited contributions for a variety of antislavery projects, and conversed with many of the leading abolitionist thinkers of the day, including Charles Sumner, Lewis Hayden and Frederick Douglass.

These examples suggest why scholars have long divided the author into two distinct personas: the proto-environmentalist who extolled the virtues of the wild and the political dissenter whose "Civil Disobedience" (1849) served as an inspirational text for the civil-rights movement. Ms. Walls attempts to reconcile these two by suggesting that Thoreau believed

"that attention to the natural environment confronted the root of all political evil." By conceiving all living beings as interconnected, in other words, Thoreau was especially attuned to social injustice. Perhaps. But it is equally possible that, like most of us, he was a bundle of contradictions, a collection of competing impulses that responded to given situations less from philosophical systematizing than from the psychological requirements of the moment.

If we tend to see the two years at Walden as the heart of Thoreau's career, Ms. Walls's biography reveals a rich and varied life after that experience had been transformed into art.

The list of Thoreau's accomplishments following his experiment in simple living is astonishing and include his becoming a world-class expert on geology and Native American ethnography, a politically engaged speaker who swayed public opinion about the abolitionist John Brown, and one of the first authors on either side of the Atlantic to adopt Darwinian ideas.

Past scholars have tended to see the period after 1854 as a falling off—

the end of Thoreau's career as a writer. But Ms. Walls convincingly shows that Thoreau's journals are his second great masterpiece. Here Thoreau finally overcame the influence of Emerson to become a meticulous observer of natural phenomena. He compiled information about more than 100 tree and 60 shrub species, described the height of grasses, the size of red maple leaves in May, the dates during which the "leaves of goldenrod [are] obvious." He recorded the growth of fir trees and the leafing-out dates of the fever bush, waxwork, red cedar, tupelo, red currant and poison sumac. He noted the day on which "chicadees have winter ways."

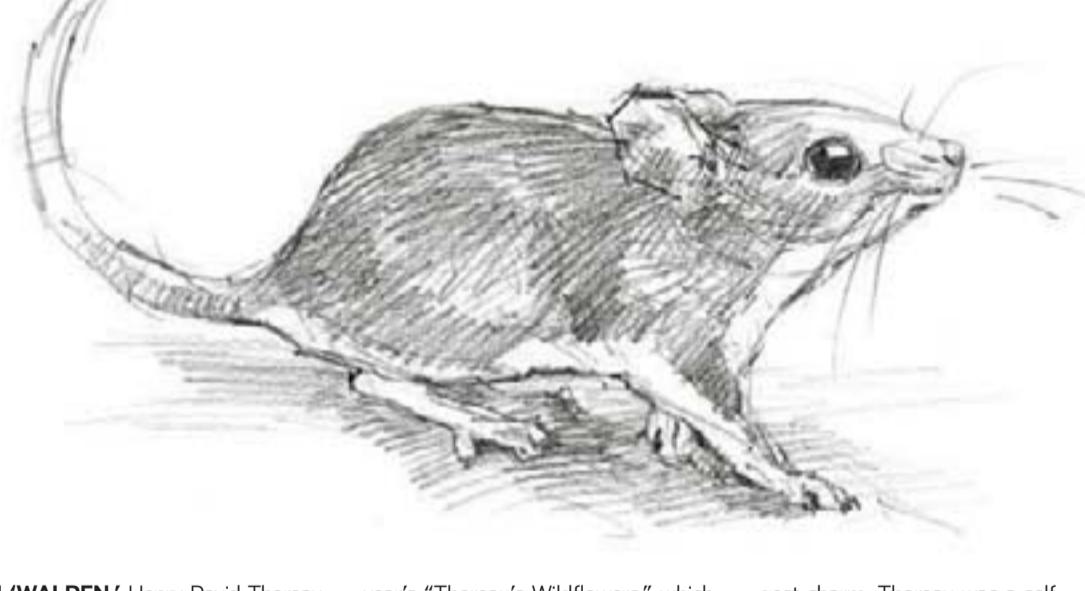
What exactly was he up to? The simple answer is that we don't entirely know. But the painstaking work he began in the 1850s enabled Thoreau to capture and quantify the process of growth and death in nature and to gradually become a philosopher-scientist who discerned some of nature's interrelated processes. He made dazzling associative insights, determining before anyone else, for example, why pine trees grew where oak forests had been cut down, and vice versa. More important, and unlike nearly every other thinker of the mid-19th century, he came to believe that people were an intrinsic part of nature—neither separate nor alienated from it. Two hundred years after his birth, Thoreau remains the American author who most anticipates our present understanding of the reciprocal relationship between humans and the natural world.

He died at age 44 of tuberculosis, leaving the voluminous project of his journals incomplete. But Emerson, always in the advance, understood their value long before scholars did. Grieving over his friend's premature death, he compared the ambitious and dazzling intellectual acrobatics in Thoreau's journals to a gymnast's "leap, climb & swing." Thoreau's insights into the natural world, he wrote, possessed "a force unapproachable."

Despite the naysayers, that force is still with us. While "Walden" continues to inspire any number of contemporary movements, such as "simple living" and "minimalism," Ms. Walls suggests how the later Thoreau might come to resonate most powerfully in the 21st century. This Thoreau abandoned much of Emerson's Transcendentalist philosophizing and focused instead on the deep interconnections of nature and culture. He seems to have become increasingly aware that human beings had become a geological force capable of changing the natural environment by denuding forests or converting wetlands to arable property. In recent years, climate scientists have used the meticulous observations of the later journals to determine that spring arrives nearly three weeks earlier in Concord than it did 150 ago. If the Thoreau beyond "Walden" is an author for our time, then Laura Dassow Walls is his biographer.

Mr. Fuller is the Herman Melville Distinguished Professor of 19th-Century American Literature at the University of Kansas.

On Thoreau's Animals | By Danny Heitman



IN 'WALDEN,' Henry David Thoreau boasted about scrutinizing the farms around his native Concord, Mass., variably owning all of them through the power of imagination. The remark reveals the way he used intense observation to stake his claim on the world, inviting readers to do the same. That sensibility rests at the heart of **"Thoreau's Animals"** (Yale, 256 pages, £25), an assortment of his musings on Concord's creatures great and small.

The possessive in the title points to Thoreau's proprietary interest in the birds and beetles, bobcats and bees, toads and turtles and voles that came under his gaze. For Thoreau, these wonders of creation weren't passive presences in his landscape but a living library as intimate as the books on his shelf. He watched wildlife to make it his own.

Following a format similar to last

year's "Thoreau's Wildflowers," which he also produced, editor Geoff Wisner has combed through Thoreau's two-million-word journal for material. As distilled by Mr. Wisner, some of the selections have the opaque sparseness of haiku: "I hear the night-singing bird breaking out as in his dreams, made so from the first for some mysterious reason." Others are prose equivalents of stroboscopic photographs: "As I walked through the pasture side of the hill, saw a deer mouse or two glance before me in faint galleries in the grass. They are seldom seen, for these small deer, like the larger, disappear suddenly as if they had exploded before your eyes." Such entries remind us that Thoreau's journal was his workshop, a place to record impressions that sometimes seem more like brainstorms than fully realized ideas.

But the improvisational quality of "Thoreau's Animals" is also its big-

gest charm. Thoreau was a self-styled reporter on the natural world, and his prose hums with the urgency of a scribe on deadline. Pencil illustrations by nature artist Debby Cotter Kaspari give a similar sense of immediacy. In her picture of the deer mouse, reproduced above and typical of her style, the strokes register as boldly as a seismograph's.

"The sound of the crickets even in the spring makes our hearts beat with its awful reproach . . . it seems irretrievably late," Thoreau wrote in August 1853, less than a decade before his death. "The year is full of warnings of its shortness, as is life." In this way, "Thoreau's Animals" celebrates paying attention as humanity's highest duty—and its deepest source of pleasure.

—Mr. Heitman, a columnist for the Advocate in Baton Rouge, is the author of "A Summer of Birds: John James Audubon at Oakley House."

BOOKS

'Improvisation . . . is the means by which the true and tested in the traditional regenerates itself in the vernacular.' —Albert Murray

Singing the Body Creative

The Evolution of Imagination

By Stephen T. Asma

Chicago, 327 pages, £22.50

BY JOHN KAAG

TWENTY YEARS AGO Stephen Asma opened for the legendary B.B. King and went on tour with Buddy Guy, playing weeks of gigs for hundreds of fans every night. His music career was on the brink of taking off. There was only one problem: It was getting in the way of his day job.

For a newly hired professor of philosophy, the lack of sleep and constant travel made teaching classes rather difficult. Mr. Asma had to choose: blues guitar or the love of wisdom. In the end, he picked philosophy, but his "The Evolution of Imagination" makes a compelling case that we should not, and ultimately cannot, leave our creative roots behind.

When an artist loses himself in a 'creative flow state,' what exactly is happening?

In the course of this slim but ambitious book on the nature of the imagination, Mr. Asma tells his reader that "sometimes an artist like James Brown will interrupt a long vamp or groove by calling out to the band. 'Should we take it to the bridge, fellas?'" For Mr. Asma the answer has always been "yes." The bridge is the point at which a melody takes what he calls "musical left turn," a moment that initiates artistic improvisation. This is where things get really interesting and, for a philosopher, even more perplexing.

Musicians experience the mystery of the bridge. Philosophers try to explain it and, in many cases, make the mistake of explaining it away. Mr. Asma takes readers to the bridge, the site of human creativity, gives them a sense of its thrill, and leads them through a series of questions that have stymied philosophers for millennia: How exactly does human creativity take place? What is the importance and meaning of the imagination? How did humans first become, in Mr. Asma's words, the "improvising ape"?

The burgeoning literature on creativity and inspiration, Mr. Asma argues, has done little to provide meaningful answers. Most books fall into one of three categories: "paeans to famous entrepreneurs and successful CEO creatives"; "how-to books that give artists a series of ex-

ercises to unblock their creative flow"; and, finally, ironically boring books about the imagination, what Mr. Asma calls "the impenetrable academic baffler, chock-full of erudite and cryptic references."

Fortunately, Mr. Asma's book is not one of these. Instead it is something akin to Jonah Lehrer's "Imagine: How Creativity Works" (but without its well-publicized problems)—a lively demonstration and accessible explanation of the origins of human improvisation.

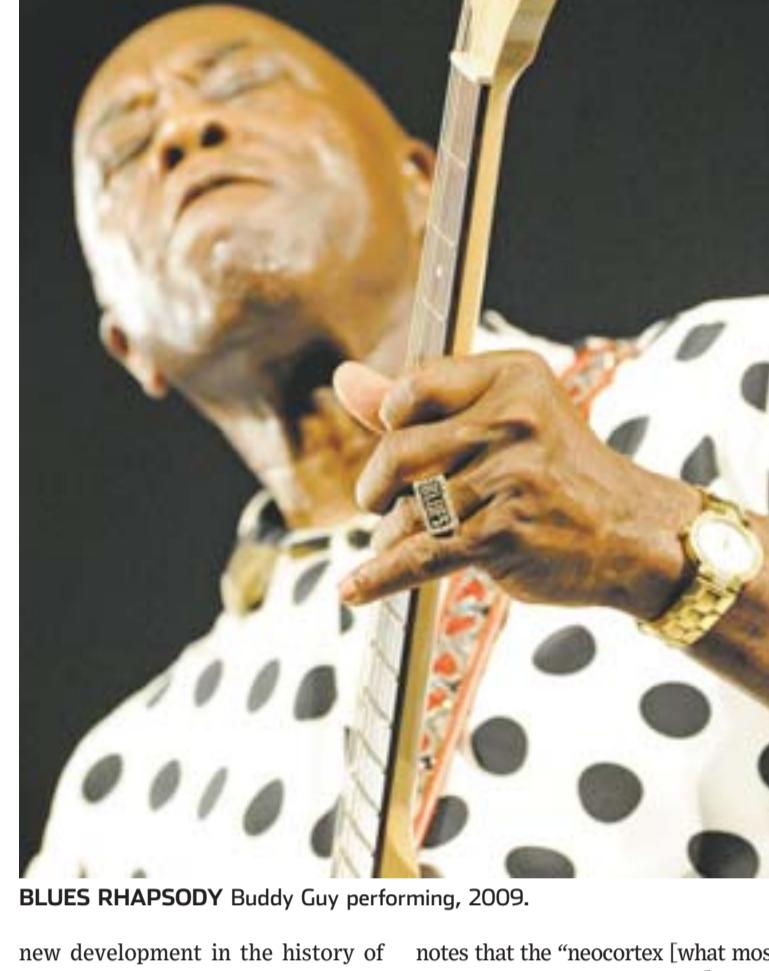
First the demonstration. Each of the six chapters in Mr. Asma's book opens with a brief but moving vignette of his time onstage, primarily descriptions of what it's like to play Jimmy Van Heusen's famous jazz melody "Imagination." Mr. Asma breaks it down and lays it out but somehow doesn't destroy the experience: "With the drummer and bassist pulsing the steady rhythmic foundation, the tenor saxophone player tells the main story over the top."

The story builds and breaks into improvisation: "The horn player signals the readying musicians to jump in again. But this time the guitarist peals a blistering line that seems to run the head melody backward. His eyes squint tighter as he struggles to complete some mysterious phrase that no one can predict."

I am not a music aficionado (not even close), but Mr. Asma's firsthand accounts inspired me to listen carefully—first to Van Heusen's "Imagination" and then on to Bo Diddley and Otis Rush—to music that I will continue to enjoy long after this review is published. In this respect, the effect of "The Evolution of Imagination" is not unlike that of Aaron Copland's "Music and Imagination" (1952). Mr. Asma wants a reader to attend to the imagination, not as it is explained but as it is experienced.

Once Mr. Asma has the reader's attention, the philosophical investigation begins, and it's not always easy going. The imagination, he admits, is notoriously elusive. It's often invoked as a vague, catchall concept when human abilities outstrip the attempt to explain them. How did Michelangelo "see" an angel in a block of stone and proceed to set it free with his chisel? How did Nikola Tesla foresee wireless communication in 1893? How did the Fourth Earl of Sandwich invent Britain's most remarkable culinary masterpiece? The imagination, of course—whatever that means.

One of the problems in understanding human creativity, according to Mr. Asma, is that it is frequently regarded as the endpoint or pinnacle of human evolution, embodied by the rare Mozart or Newton living in the past 500 years. On this account, the imagination is a novel and relatively



GETTY IMAGES

BLUES RHAPSODY Buddy Guy performing, 2009.

new development in the history of the species.

Mr. Asma, by contrast, explains that he is "reversing the traditional order of things both logically and chronologically. Improvising did not emerge recently as some rarefied elite employment of otherwise pedestrian symbols and behaviors. It was, instead, the driving force in our natural history."

Following anthropologist Steven Mithen, Mr. Asma holds that "cognitive fluidity," the capacity to react and adapt to novel and challenging situations in real time, is a ubiquitous feature of human behavior. When one learns a new language, makes a new recipe, parents a newborn for the first time (all by the seat of one's pants), one employs the same cognitive frameworks that enable Buddy Guy and B.B. King.

Furthermore, despite what many have argued, improvisation isn't originally symbolic or linguistic but rooted in physical manipulation. Mr. Asma contends that "improvisation skills emerged from earlier mammalian habits that manage resource exploitation and social cohesion, and they were emotionally (affectively) driven." Creativity isn't the function of some hidden muse or invisible captain operating behind the scenes of cognition but rather of the "creative body" of our primate ancestors.

Invoking the research of neuroscientist Antonio Damasio, Mr. Asma

notes that the "neocortex [what most people think of as 'the brain'] mushroomed to its current size less than 1 million years ago" but that "the human family broke off from the great apes in Africa 7 million years ago." What this means is that the symbol manipulation and tool wielding that is regarded as singularly human was grafted on the much deeper (and older) limbic system, which controls memory and emotional processes.

How do musicians know how to cross "the bridge" of a particular song? They don't think about it. They feel it—at the base of their skull, in their throat, chest, groin and toes.

The core of "The Evolution of Imagination" is dedicated to explaining how this creative body can account for our powers of visual improvisation, drawing and language. When it comes to drawing and painting, Mr. Asma is principally concerned with process rather than finished product.

He's interested in explaining how, in artist Paul Klee's words, one "tak[es] a line out for a walk." Mr. Asma maintains that the skills involved in two-dimensional line drawing are continuous with sculpting and, in turn, with object manipulation like the millennia-old art of knapping flint to make basic tools.

He takes a similar approach in explaining the evolution of language, extending Charles Darwin's basic intuition that "language owes its origin to the imitation and modification,

aided by signs and gestures, of various natural sounds, the voices of other animals, and man's own instinctive cries."

At times, Mr. Asma's argument for the bodily basis of language is brief, but a reader concerned with the details will be satisfied by the copious endnotes. In the end, Mr. Asma's gestures point in the right direction: "Even when mature language does give us a rich symbol system for easy manipulation, those abstract symbols have their semantic roots in bodily activity." It is easy enough to grasp and to see (two bodily metaphors for understanding) what he means.

In my very limited exposure to jazz, I have learned one thing: You should listen all the way through. You never know what will happen. Mr. Asma's penultimate chapter takes an unexpected turn and addresses what jazz musicians call "blowing"—derived originally from horn puffing, but now used for all instrument soloing.

When a tenor player steps up on the bridge and loses herself or, in Mr. Asma's words, "takes flight," what exactly is happening? Employing contemporary neuroscience, Daoism and Buddhism, Mr. Asma draws a reader into these creative flow states, those that seem to "blow the self away."

In 1932 John Dewey, one of Mr. Asma's philosophical heroes, delivered a series of lectures at Harvard that would later be published as "Art as Experience." The lectures aren't perfectly fitted, but together they harmonize, making the case that readers in the 20th century should refocus on the artistic and experimental dimensions of human experience.

Mr. Asma attempts to bring this argument up to date. The imagination is what makes each of us uniquely human but also what allows us to live cooperatively with others in a wider natural world that is "relentlessly coming at you in high speed." We neglect the imagination at our own peril.

Mr. Asma closes with a Deweyan insight that, in today's cultural climate, might be expressed as a warning: The imagination can flourish only under certain conditions, in particular social, political and educational contexts. "Stubbornness, inflexibility, and dogmatism in a person try our patience, but in a large-scale population, the dangers are dramatic and pronounced. Populations that hold tightly to ideologies have great difficulty adapting to change." Mr. Asma counsels letting go—so that we can continue to take it to the bridge.

Mr. Kaag is a professor of philosophy at the University of Massachusetts, Lowell, and the author of "American Philosophy: A Love Story."

The Making of Steve Bannon

Devil's Bargain

By Joshua Green

Penguin Press, 272 pages, £16.99

BY BARTON SWAIM

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 unlikelier 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.

A series of investments in Hong Kong video-game companies introduced him to a 'hidden world' of frustrated young men.

He had previously championed the presidential aims of Michele Bachmann, a Tea Party favorite, and made a cloyingly laudatory film, "The Unbeaten," 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

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 America, 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 sitcoms, including the theretofore unheralded "Seinfeld." Later he joined Jeff Kwatinetz'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" won't 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 well chosen (they're there for thematic reasons, not as gratuitous gossip) and brilliantly told.

We learn the origins of Mr. Trump's idea for a wall along the border between the U.S. 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."



AGENCE FRANCE PRESSE/GETTY IMAGES

first' nationalism"; and, second, "an infrastructure of conservative organizations"—especially Breitbart News.

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

OPINION

REVIEW & OUTLOOK

A Bad Republican Dream

President Trump sometimes campaigned on deporting every illegal immigrant in the U.S., but in office he has been measured and charitable to those he calls the “incredible kids” who were brought to the U.S. as children. So it’s regrettable that Republican state politicians are trying to bully Mr. Trump into deporting tens of thousands of young adults with no criminal record.

Last month 10 state attorneys general wrote to Attorney General Jeff Sessions asking that the Secretary of Homeland Security end an Obama Administration program known as Deferred Action for Childhood Arrivals. DACA currently allows about 750,000 individuals brought to America as kids to stay in the U.S. for two years subject to renewal without the threat of deportation. These are the so-called Dreamers.

The letter asks that the government “rescind the June 15, 2012 DACA memorandum and order that the Executive Branch will not renew or issue any new DACA or Expanded DACA permits in the future,” and it threatens to sue if the Administration declines to act. The ringleader seems to be Ken Paxton of Texas and the AG list includes Patrick Morrisey of West Virginia and Derek Schmidt of Kansas.

Earlier this year Homeland Security rolled back the Obama Administration’s Deferred Action for Parents of Americans and Lawful Permanent Residents, or DAPA, which usurped Congress’s law-writing power and applied prosecutorial discretion to an entire class of individuals. The courts blocked that Obama order.

DACA has similar constitutional deficiencies, but the way to address them is through Congress, not by Republicans suing a GOP President who didn’t write the law. There is also the legal question of what to do now that the government has invited individuals to identify themselves. Is it fair to coax them out of the shadows

State AGs try to bully Trump into deporting the so-called Dreamers.

and then deport them to countries where they have no family and little memory?

Remember: Dreamers were brought here as minors and aren’t criminals, and those who commit an offense forfeit their legal status under DACA. A January Cato Institute analysis by Ike Brannon says that Dreamers as employees tend to “be younger, better educated, and more highly paid than the typical immigrant.”

The average Dreamer is 22 and holds a job, and many pay tuition for higher education. More than 15% are seeking an advanced degree. Texas and other states rightly claimed that under DAPA the feds commandeered state resources because they had to provide driver’s licenses. But the states may be net beneficiaries under DACA due to tuition payments.

Cato’s Mr. Brannon adds that deporting the Dreamers would cost \$60 billion and even more to the U.S. economy, as the legal reprieve allows many to enter the labor force. The cost of granting DACA status is de minimis; applicants pay processing fees and are ineligible for food stamps or Medicaid. The federal government routinely claims to lack the funding and personnel to remove convicted criminals from the U.S., yet the state AGs would dedicate scarce enforcement resources to going door-to-door in a University of Texas dorm.

The better solution is for Congress to rewrite national immigration law to recognize reality, including that it isn’t a political winner to deport people brought to the country as 5-year-olds. A majority in both parties would favor legalizing Dreamers as part of a border enforcement bill. The state AGs have higher priorities than chasing down law-abiding young people contributing to American society, and a lawsuit would be political grandstanding rather than sensible law enforcement.

An Education in Due Process

U.S. Education Secretary Betsy DeVos admitted last week that the adjudication of campus sexual assault is “an issue we’re not getting right.” Before correcting course, Mrs. DeVos is meeting with rape survivors, their advocates, administrators—and even students who say they were wrongly punished under the Title IX law that covers such cases.

Far from seeing the wisdom in this multitude of counsels, progressives are outraged. Pennsylvania Sen. Bob Casey complained that meetings with the latter group constitute a “slap in the face to the victims of campus sexual assault,” while Guardian columnist Jessica Valenti accused the secretary of “enabling rape deniers.”

But Mrs. DeVos is right to consider the plight of the accused. The Foundation for Individual Rights in Education estimates that more than 170 students have brought legal challenges against universities over Title IX decisions. In more than 50 completed cases, courts have sided with the accused.

Many of these lawsuits hinge on the lack of due process for the accused. The Obama Administration’s infamous 2011 Dear Colleague letter mandated that students can be punished based on a “preponderance of evidence,” a burden of proof far less rigorous than the earlier “clear and convincing evidence” standard.

That same Dear Colleague letter also “strongly discourages” cross examination, which it says “may be traumatic or intimidating” to alleged victims. The accused frequently lack legal counsel and have often been prevented from presenting exculpatory evidence.

The Wolves of Long Island

Government prosecutors love to hunt for big cases on Wall Street, which are great for publicity, but an often-neglected duty is to protect small investors on Main Street. So it’s noteworthy that the U.S. Securities and Exchange Commission recently blew up a Long Island-based boiler-room scheme.

Last week the SEC charged 13 individuals with using high-pressure sales tactics to bilk more than 100 small investors—including many senior citizens—out of some \$10 million in savings. The U.S. Attorney for the Eastern District of New York followed with criminal charges.

According to the SEC, the alleged swindlers—many of whom had been banned from the brokerage industry—set up a sham financial-services company on Long Island. They used this “boiler room” to buy, trade and inflate the price of penny stocks in microcap companies. Penny stocks trade over the counter at less than \$5 a share and are often thinly traded, which makes them easier to manipulate than blue-chip securities on the big exchanges.

The alleged scammers purchased large blocks of shares and then “pumped” them to potential investors with harassing emails and phone calls. One conspirator emailed: “We are not brokers but a financial RESEARCH firm who continues to produce winner after winner in an UP or DOWN market! I need to speak with you about how this program will impact your portfolio in a POSITIVE way. BUT I can’t help you if I can’t speak with you.”

The SEC does its job in taking down a pump-and-dump stock scheme.

Another said the stocks were “guaranteed winners” and the “buy of a lifetime.”

The boiler boys also used “washes”—e.g., buying 100 shares of a stock at \$5 a share with one co-conspirator while selling the same number of shares for the same price to another. This drove up the stock price and created the impression that shares were actively being traded though ownership wasn’t changing hands. Once prices hit a certain level, they dumped the stocks, realizing \$14 million in gains while costing victims millions.

When a victim complained about his losses, one con artist allegedly told him: “I am tired of hearing from you. Do you have any rope at home? If so tie a knot and hang yourself or get a gun and blow your head off.”

The SEC was established during the New Deal to protect mom-and-pop investors from fraudsters. But the agency has lately become better known for its headline-making prosecutions of Wall Street barons for white-collar crimes like insider trading, though their alleged victims are often other well-heeled and sophisticated investors. The agency also won plaudits from progressives for rules requiring disclosures on executive pay. But the SEC was asleep when Bernie Madoff and Allen Stanford were bilking investors out of their life savings.

New SEC Chairman Jay Clayton told us last week that he plans to make protecting small investors from scams like the Long Island boiler room a priority, and the agency deserves credit for bringing these cases back to the center of SEC enforcement.

Central Banks Fall Into a Data Trap



POLITICAL ECONOMICS
By Joseph C. Sternberg

Is central-bank independence entering its silly phase? The latest fad for “data dependence” makes one wonder.

That phrase or its variants have appeared in a growing number of central bankers’ statements about their activities.

The idea is that their exit from their current round of ultralow interest rates and balance-sheet-ballooning bond purchases will be driven only by data, as opposed to ideology, political pressure, market turbulence or entrails.

What data? Take your pick.

In the eurozone it’s wage growth. European Central Bank President Mario Draghi has settled on this as an important indicator that the eurozone will have achieved “stronger inflation dynamics,” for which he said in his press conference Thursday that he’s still waiting.

In America, it’s inflation. Federal Reserve policy makers “will adjust their assessment of the appropriate path” for interest rates in a manner “informed by incoming data.” Janet Yellen told Congress this month. In particular, the Fed “will be monitoring inflation developments closely in the months ahead” as inflation falls further below the Fed’s 2% target—despite eight consecutive years of economic growth and obvious asset-price bubbles.

In Britain, it’s anything and everything. At times, Bank of England Governor Mark Carney has expressed a fixation on wage growth. More recently, he suggested he might wait to raise interest rates until he’s seen whether exports and investment can compensate for falling consumer spending as drivers of growth.

Given that technocrats at central banks are *supposed* to make data-driven decisions, their vigorous protests that they’re doing so should make you suspicious. Sure enough, markets have figured out that “data-dependent” is code for “we’ll find some way to avoid normalizing policy at even a hint of a small cloud on the horizon.”

Don’t fault the central bankers too much. They do it because they have to. The concept of central-bank independence is misleading. Monetary policy is inherently political, forcing trade-offs between young and old, savers and borrowers, importers and exporters, homeowners and renters, and the like.

No one in his right mind would trust unelected economics professors to make those bargains on their own. Instead, independent central banks are supposed to implement a set of predetermined political trade-offs that elected politicians say they want but doubt they’d have the courage to enact themselves. This is what policy mandates, which invariably imply a demand for central banks to do unpopular things such as burst bubbles, are all about.

The problem is that amid demographic changes, unprecedented globalization, an economic transformation toward ser-

vices—and a failure of elected politicians to respond appropriately—the old instructions central banks received no longer work. Inflation and economic growth no longer move in tandem, if they ever did, and ultralow interest rates have lost their stimulative power.

Applying the old guidelines in these new conditions has become both economically and politically destructive. Absent outlets for economic growth in the productive economy, accommodative monetary policies skew asset prices and distort investment decisions. The inflation they manage to create hits unevenly, with the young and the poor especially poorly off owing to the basket of goods they’re more likely to consume. Voters strike back by voting for Brexit, Donald Trump, Italy’s 5-Star Movement and Marine Le Pen (almost).

‘Data dependence’ masks the lack of a broader consensus about economic policy, monetary or otherwise.

What’s a central bank to do in the face of the contradictory economic signals for which it wasn’t prepared by its elected patrons? The only thing it can do: Follow the old playbook slavishly while awaiting political events. “Data dependence” is the rhetorical justification for what is essentially a political decision to lay low.

Central bankers, like all of us, need a new political settlement that will lend some coherence to monetary policy. That might include a new determination to reform entitlements to accommodate new demographic realities, along with a commitment to policy reforms that would boost productivity and investment.

This would free central banks of the burden of worrying about the implications of their interest rates and inflation for government debt service, and they would no longer be the default stimulators of growth.

Surprisingly, the eurozone may lead the way. The reformist Emmanuel Macron got himself elected as France’s president, and Germany’s Angela Merkel may be headed to a center-right coalition with a reform-minded party after September’s election there. It’s possible that France and Germany revive growth enough that Berlin can re-apply its traditional hawkish pressures on the ECB.

Elsewhere, not so much. Washington’s health-care meltdown and Britain’s election fiasco reveal politicians and electorates profoundly confused about how best to achieve a fiscally sustainable entitlement state and sufficiently widenspread economic opportunities in light of new realities.

Until the politicians figure something out, independent central banks will remain heavily dependent on their data for lack of any broader political consensus to lean on.

LETTERS TO THE EDITOR

Garrett Is the Right Man for the Ex-Im Bank

National Association of Manufacturers (NAM) President Jay Timmons’s “A Trump Disappointment for Manufacturers” (op-ed, July 13) slamming Scott Garrett, President Trump’s nominee for the U.S. Export-Import Bank, leaves readers with more questions than answers. But one issue that is made abundantly clear is the lengths to which Mr. Timmons will go to preserve crony capitalism.

Instead of questioning Mr. Garrett’s integrity, the better question is why does NAM so staunchly defend an entity that’s become synonymous with corruption and fraud.

It’s hard to defend the Ex-Im Bank

DAVID MCINTOSH

President, Club for Growth

Washington

Lawlessness on Immigration Is a Threat to Democracy

In “America’s Walled-Off Immigration Debate” (Politics & Ideas, July 6), William Galston states: “A new immigration policy need not mean surrendering to nativism.” Merriam Webster defines nativism as “a policy of favoring native inhabitants as opposed to immigrants.” Most of us irredeemable deplorables aren’t nativists by this definition. If the definition were changed to “favoring native inhabitants and legal immigrants as opposed to illegal immigrants,” it would fit. We welcome controlled, legal immigration but think it is unlikely to occur without control of our borders.

Congress (especially its Democratic members) seems determined to provide all benefits to illegal immigrants. Members of Congress, many in the media, some local politicians and anti-Trump demonstrators will insult our various security agencies when they enforce the very laws Congress passed. A Rasmussen Report in 2015 showed 53% of registered Democrats favored allowing tax-paying illegal immigrants to vote. No one in Congress seems to favor actually doing anything like passing or enforcing laws for fear of losing a vote.

MICHAEL P. CARTER

Savannah, Ga.

An Unattractive Similarity In Covering Visits to Poland

Regarding Peggy Noonan’s “A Pope and a President in Poland” (Declarations, July 10): Have you noticed that many in the U.S. media are treating President Trump’s speech in Poland the way the communist government’s media treated Pope John Paul II’s famous words in 1979 Poland? Very little of President Trump’s speech is shown. When it is, it is often described as racist or (-)phobic (fill in the blank with your favorite oppressed group). The Polish communists contented themselves with barely showing the pope’s speech. Many in America’s media go beyond that in their continuing attempt to delegitimize our constitutionally elected president.

HELENE KRAUSS AND MARTIN KRAUSS

Rye Brook, N.Y.

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

The City Is the Battlefield of the Future

By John Spencer

The battle for Mosul represents the future of warfare—and it wasn't pretty for America's allies. A ragtag army of a few thousand Islamic State fighters managed to hold the city for months against some 100,000 U.S.-backed Iraqi security forces.

The Islamic State fighters communicated via social media and were armed with crude explosive devices and drones available at Wal-Mart. In the end the rebel fighters were dislodged, but not before an estimated 7,000 people were killed and another 22,000 wounded.

The Mosul experience shows the difficulties of urban warfare—and the need for better training.

U.S. commanders ought to imagine how they would handle a similar environment. Future American conflicts won't be waged in the caves or craggy mountaintops of Afghanistan, much less the open deserts of Iraq or the jungles of Vietnam. They will be fought in cities—dense, often overpopulated and full of obstacles: labyrinthine apartment blocks, concealed tunnels, panicking civilians. The en-

emy will be highly networked and integrated into his surroundings. America's next war will be the 1993 Battle of Mogadishu on steroids.

The U.S. military must wake up to the reality of demographic trends. More than half of the world's population resides in cities, and the United Nations estimates that figure will reach 60% by 2030.

By the same year, the number of "megacities," those with more than 10 million residents, will climb to more than 40 from 31. Such urbanization makes less plausible the traditional tactic of coercing civilians out of conflict zones to give the military free rein.

This in turn makes cities increasingly attractive to bands of violent nonstate actors in places like the Middle East and Northern Africa. Dense populations, advances in communication technology, and the often-poor coordination between city and national-security forces can allow terror groups to control urban territory at a fraction of the cost states spend to fight back.

No amount of money thrown into the U.S. defense budget will correct this urban disadvantage without a major shift in the way Americans prepare to fight.

Surprisingly, few militaries specifically train for major urban operations. The U.S. military has no location that can adequately replicate a big city. The training sites on Army bases that are generously labeled as



GETTY IMAGES

A U.S. Army vehicle in west Mosul, Iraq, on June 21.

"urban" include a few dozen buildings at best. The three centers that certify major units for combat—the National Training Center at Fort Irwin, Calif., the Joint Readiness Training Center at Fort Polk, La., and the Joint Multinational Readiness Center in Hohenfels, Germany—are in rural places.

We don't transport sand into the woods to train for desert warfare or build greenhouses to simulate jungles. We train in those environments, and we should train for urban warfare in cities.

The only site available to the Army that comes close to what's needed is the Indiana National Guard's Muscatatuck Urban Training Center. This

1,000-acre facility has 68 buildings, a reservoir, a system of tunnels, and more than nine miles of roads. But Muscatatuck still lacks the density American and allied forces have repeatedly faced since the beginning of the Iraq war in 2003.

American forces also need to be

equipped to operate in large cities

with new equipment, formations and

doctrine. Nowhere in the U.S. Army's

doctrine—the manuals of concepts

and operating procedures that guide

the action of its forces—does the

word "siege" appear. But this oldest

form of warfare has become the chosen

tactic to end urban fights in Iraq

and Syria. Islamic State was able to

drag out the conflicts in Mosul and

Raqqa while U.S.-backed forces struggled to cut off supply routes.

What can be done to level this imbalance on urban terrain? A first step would be to create an authentic, full-scale training site to prepare American troops. I imagine a school in an actual city, analogous to the mountain, desert and jungle operations centers the U.S. currently maintains. Major cities such as Detroit and the outer boroughs of New York have large abandoned areas that could be safely redeveloped as urban training sites.

This is a long-term investment: A new training facility wouldn't prevent quagmires like Mosul overnight. Critics might argue that the U.S. should focus on retaining its advantage against strategic adversaries such as China, North Korea and Russia.

But strategic deterrence and battlefield readiness aren't mutually exclusive. Equipping soldiers to fight in cities is one way to deter enemies—state and nonstate actors alike—from challenging America directly.

The city is the battlefield of the future, whether the U.S. military trains for it or not. Failing to invest in urban warfare only means American soldiers will be sent into combat in environments they have never seen.

Maj. Spencer is an Army infantryman and deputy director of the Modern War Institute at the U.S. Military Academy in West Point, N.Y.

Europe's Struggle to Take Its Destiny Into Its Own Hands

By Josef Joffe

In the Bavarian beer tent, the unnamed target was instantly identified as Donald Trump when Chancellor Angela Merkel declared an end to those balmy days "when we could rely completely on others." Now, "we Europeans must take our destiny into our own hands."

Of course, Europe could and should. The Continent weighs in with 500 million people, with as many troops as the U.S., and a gross domestic product just shy of America's. So why has the European Union always punched below its weight? Because a group of nation-states, no matter how closely bound, do not a single strategic player make.

But now they have Mr. Trump. So Mrs. Merkel and France's President Emmanuel Macron met in Paris last week to restart that fabled Franco-German "motor" of European togetherness.

Pronouncing a "revolution," the two leaders want to build a fifth-generation fighter jet and a Eurodome. They want to beef up projection forces by buying transport aircraft (never mind that those

C-130 are Made in America). They want to collaborate on space-based surveillance.

That's quite a list. Too bad the French also want to cut €850 million (\$980 million) from their defense budget. Germany, meanwhile, shows no signs of raising its own defense spending to the promised 2% of GDP from its current 1.2%, and will have zero chance of doing so if September's elections force Mrs. Merkel into another coalition government with the butter-not-guns Social Democrats. Domestic politics always trumps strategic ambitions.

Back to the coining Franco-German couple. Hardly had Mrs. Merkel left when Mr. Trump, invited on short notice, arrived in Paris for Bastille Day, where he was feted with a pomp worthy of the Sun King.

Mr. Macron extolled a "friendship across the ages"—ever since the French helped the Americans best Britain in the War of Independence. "Nothing will ever separate us," he told the U.S. president.

Warm words, cold realpolitik. By embracing Mr. Trump, Mr. Macron aimed to score big. The U.S. has always relied on two "special relation-

ships" in Europe, with Britain and Germany. But Brexit-bound London is about to lose leverage on the Continent, and Mrs. Merkel, leading a fervently anti-Trump country, has taken herself out of the running.

A Continent that doesn't spend on defense and thinks 'peace' is a form of power still needs America.

Enter France, pushing into the vacuum, never mind Mr. Macron hugging Mrs. Merkel the day before. Six weeks prior, the French president had courted Vladimir Putin in the Palace of Versailles. These were textbook moves to make Paris the choice address in Europe. Thus do economy powers try to fly business.

So who will take Europe's destiny in hand? By weight and strategic position, it should be Germany, especially because of its "Europe über alles" convictions. But while Mrs. Merkel seems to agree with Mr. Macron on fiscal union, they don't

mean the same thing. The French want a looser fiscal policy, and denounce the German approach as "austerity."

All of this ignores Germany's irreducible handicap. Germans still loathe the use of force. The twinship of war and diplomacy famously preached by Clausewitz has today become an alien concept in the country.

In the past 70 years, Germans have convinced themselves that it is much more profitable to cultivate their own garden than to go abroad to slay monsters. France has at least some remnants of a warrior culture. It would take a lot more than Mr. Trump to undo Germany's cherished stance as *Friedensmacht*, a "power of peace."

To step up, Mrs. Merkel would address her nation thus: "To take Europe's destiny in our own hands, we must double our defense spending and triple our projection and fighting forces. Above all, the time has come to shed our aversion to strategic action—not for the sake of the Fatherland, but of Europe."

But she won't, because she knows her electorate.

Now look beyond Berlin and Paris. Cohesion is waning. To the north, London is retreating into nonsplendid isolation. To the east, authoritarianism, laced with anti-Europeanism, is on a roll in Hungary and Poland. Nationalist populism has been rising from Naples to Narvik.

So Europe will be what it has been: a dynamic but uninspiring enterprise. It will cautiously deepen economic integration. France and Germany will compromise here and deadlock there.

The best news is that the eurozone is growing again, while France seems earnest about loosening the grip of statism. The populist revolt has been contained in France and Holland. Disarmament has turned into rearmament thanks to Mr. Putin.

And Mr. Trump's America? The U.S. has been quietly moving troops and some 2,000 pieces of heavy equipment into Europe to deter Russia. Men and guns speak louder than tweets.

Mr. Joffe serves on the editorial board of *Die Zeit* in Hamburg and is a fellow of the Hoover Institution in Stanford, where he teaches U.S. foreign policy.

Barack Obama Gets the Last Laugh

a generation. What does it look like now? How did so much promise produce this week's dud?

One problem revealed by this episode is the liabilities of a presidency held by a nonideological figure, a goal of good-government types. Until this moment, the Republican Party had become self-identifiable conservative. We have just learned two things.

The Republicans aren't as conservative as they thought. As important, a complex legislative effort like this—Reagan's 1986 tax bill comes to mind—was going to require both ideological discipline and direction from the top, from the president.

The unideological Mr. Trump neither conveyed nor enforced idea discipline in his public messaging, other than "get it done."

Lacking an ideological North Star, the Republicans reverted to form: They divided—first with the Freedom Caucus's rebellion from the right in the House and then with the moderate Republicans' 1970s-like spending demands in the Senate.

At that point, the Laurel and Hardy act of Sens. Mike Lee and

Jerry Moran blowing up the bill was almost comic.

Left undone by this failure is a historic chance to reform the 1965 Medicaid entitlement that now will roll unchecked to the fiscal cliff.

Also lost is \$772 billion in savings, which imperils both permanent tax reform's promise of strong economic growth and America's underfunded defense posture.

Republican Party conservatism always seems to be an undone symphony. It started with Goldwater. Then came Reaganomics for a decade, which gave way in the 1990s to the religious right until the tea party displaced them, which gave way to a preoccupation with illegal immigration and the "establishment." It's one Holy Grail after another.

Now, incredibly, the party's various *idées fixes* seem to include expanding Medicaid's medical mediocrities to the nonpoor.

A bedrock belief in individual liberty and private property endures, but beyond that, the Republican identity today looks fatally inchoate, no one idea lasting long enough to make a deep impression on the electorate.

Democrats don't indulge defection. After new Democratic National Committee head Tom Perez demanded a pro-abortion litmus test for party candidates, even Nancy Pelosi demurred.

Notable & Quotable: China-India Standoff

From a July 11 article in the *Nikkei Asian Review* by Brahma Chellaney:

The standoff involving hundreds of PLA and Indian troops, near where the borders of Tibet, Bhutan and India's Sikkim state meet, has successfully halted the Chinese construction of the highway in Doklam, which Beijing claims as a "traditional pasture for Tibetans."... The Indian intervention has triggered a furious reaction from China, which is warning India almost daily to back down or face reprisals, including a possible

But make no mistake: Mr. Perez's crude message was heard through the ranks. Income inequality, Medicare for all, choice—keep it simple, stupid.

When new Minority Leader Chuck Schumer expressed early support for a few of the Trump cabinet nomi-

Schadenfreude for Democrats is seeing the GOP humiliate itself.

nees, thousands of progressives demonstrated in front of his Brooklyn apartment shouting, "Get a spine, Chuck!"

Mr. Schumer hopped back in line fast. Did anything remotely like this public pushback happen to Sen. Shelley Moore Capito of West Virginia, which Mr. Trump won by 42 points? Democrats are in the streets. The Republicans are on Twitter.

The ObamaCare reform failure has damaged President Trump. He has come a long way with some undeniable magic, but at the political margin, his can-do reputation has taken a hit.

The Trump White House is right that it has accomplished a lot—energy and financial deregulation, abandoning the Paris climate pact,

reversing the Obama pen-and-phone executive orders.

But big legislation is the big league of politics. It turns out the American Congress is not Wollman Rink.

This same Hydra-headed Republican party will now descend upon the budget and tax reform. The GOP's negative-energy factions are already in play.

On cue Monday, Mark Meadows of the Freedom Caucus pronounced the House budget dead on arrival. Some might call that a Freudian slip.

As antidote to this, let me recommend "Free People, Free Markets," an entertaining history of The Wall Street Journal's editorial page, written by my former colleague and long the page's deputy editor, George Melloan, and published by Encounter Books.

The page's first editor was company co-founder Charles Dow, who put the editorials on the front page, calling them, as today, Review & Outlook.

His successors, such as William Peter Hamilton and William Henry Grimes, produced decades of consistent conservative opinion. As Mr. Melloan's history and this week's events make clear, the main job requirement for daily opinion writing remains the same: optimism.

Write henninger@wsj.com.

Beijing has no good options in emerging as a winner from this confrontation. Given the geography, military logistics, weapon deployments and the entrenched Indian positions, the PLA will find it hard to give India a bloody nose and seize Doklam. If it were to attack, it could suffer a setback. Just as Beijing's intense propaganda war against India over the Dalai Lama's April tour to the Chinese-claimed northeastern Indian state of Arunachal Pradesh achieved nothing, China risks losing face over the current troop standoff.

THE WALL STREET JOURNAL.

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LIFE & ARTS

FILM REVIEW | By Joe Morgenstern

'Dunkirk': Finding Humanity in Calamity

IN "DUNKIRK," an astonishing evocation of a crucial event during the first year of World War II, Christopher Nolan has created something new in the annals of war films—an intimate epic. The scale is immense, and all the more so in the IMAX format that shows the action to best advantage. The density of detail is breathtaking; it's as if the camera can barely keep up with what's happening inside and outside the frame. Yet the central concern is steadfastly human. Whether we're watching a huge Allied army encircled by Nazi forces on a beach in France or tracking the progress of their would-be rescuers, the drama turns on individuals and their feelings—of terror, excruciating vulnerability and fragile hope that they will make it back home, only 26 miles across the English Channel.

What the film excludes is historical context. It is not, and wasn't meant to be, an explanation of the circumstances that led, in the spring of 1940, to the entrapment of some 400,000 British, French, Belgian and Canadian troops, including what Prime Minister Winston Churchill called "the whole root and core and brain of the British Army." Instead, "Dunkirk," which Mr. Nolan directed from his own screenplay, is a fictionalized, impressionistic account of a calamity that culminated in a near-miracle, although many lives were lost in the process—the rescue of 338,000 of those soldiers by shallow-draft naval vessels plus a large civilian flotilla of fishing boats and yachts.

With sparse dialogue, a minimum of digital simulations and an emphasis on spectacular images, the production follows, among others, a young British enlisted man, Fionn Whitehead's Tommy, from the moment he emerges from the streets of Dunkirk to join vast throngs of other men, most of them young and all of them frightened, on the sands of what was formerly a vacation resort. They have no more idea than he does what's in store for them. All they know is that they're totally vulner-



MELINDA SUE GORDON/WARNER BROS. PICTURES

able to German tanks and planes, and unlikely to survive. (The cast includes Harry Styles, of One Direction, making his acting debut.)

"Dunkirk" is hardly the first film to depict the mad chaos of modern war. The champion in that category remains "Apocalypse Now," with "Black Hawk Down" and "Saving Private Ryan" as strong contenders. Still, Mr. Nolan has spoken of his own list of influences being topped by "The Wages of Fear," Henri-Georges Clouzot's peerless thriller, made in 1953, about desperate men in South America driving nitroglycerin-laden trucks over primitive roads. What's the common denominator? Existential terror, for sure, an awareness that one's life may be snuffed out at any moment, but

also classic suspense.

A superlative thriller in its own right, "Dunkirk" wields its power in equal measure through the general (in one memorable overhead shot, hundreds of troops standing defenseless on a breakwater look up to the sky as Nazi bombers scream in for the kill) and the particular (countless vignettes of soldiers in extreme peril and anguishing suspense). Who will live and who will die as bullets fly, bombs drop, water rises in the hull of a sinking ship? Those are familiar questions in war films. The difference here is that we care intensely even though no one on screen has been characterized through familiar speeches about hopes for the future or dreams of girls back home. Long dialogue-free

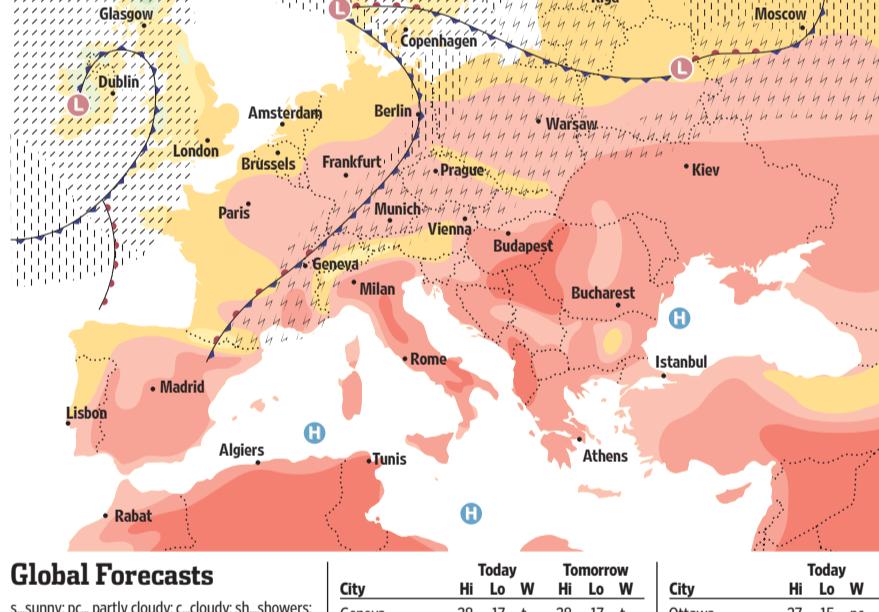
stretches of "Dunkirk" could qualify as silent film if—a big if—it weren't for the shattering sounds of war, and for Hans Zimmer's brilliantly piercing, keening score, which often merges with those sounds of war. It's the images that tell the essence of the story, and you should try to see the film in the largest format possible, either IMAX or a 70mm print. (The production was designed by Nathan Crowley and photographed by Hoyte Van Hoytema.)

Until now Mr. Nolan's stories—in "Memento," his Batman trilogy, "Inception" and "Interstellar"—have been notable for their intricacy (or, to my taste on occasion, notorious for their opacity). This time he has dared to keep things simple, except for manipulations of the timeline that heighten narrative urgency without diminishing structural clarity. The structure is tripartite, with more or less equal attention given to tumultuous events on and around the beach and breakwater (Kenneth Branagh has a small but significant role as a naval commander); in the air, where RAF Spitfire fighters woefully short on fuel struggle to protect the soldiers; and on the Channel, where the little boats of the civilian flotilla make their painfully slow way from Dover to Dunkirk.

The aerial sequences, featuring Tom Hardy as one of the Spitfire pilots, are a marvel. Once again, the form could hardly be more familiar. Dogfights—enhanced by hand-tinted muzzle flashes and engine fires—were an impressive part of the 1927 "Wings," which won the first best-film Oscar, and the first one for special effects. Here, though, the use of IMAX cameras is transformative. By turns the screen is filled by pilots' faces, Katsuki-like behind goggles and oxygen masks, and skies so capacious that we understand, as never before, the near-impossibility of keeping guns trained on the tiny gyrating dots of enemy fighters.

Simplicity also reigns at sea. Instead of spending time on various boats in the flotilla, as an affecting 1958 feature about Dunkirk did, Mr. Nolan's film, surprisingly short (especially for him) at 106 minutes, focuses on a single 40-foot wooden yacht, the Moonstone, and its crew of three: the owner, Mr. Dawson (Mark Rylance); his son, Peter (Tom Glynn-Carney); and George (Barry Keoghan), Peter's 17-year-old friend. (They're joined during the Channel crossing by Cillian Murphy as an unnamed survivor of a torpedoed ship.) It's part of the film's distinction that the taciturn Mr. Dawson is played by one of the world's pre-eminent actors, but Mr. Rylance's gifts aren't wasted. When young George asks the yacht owner where they're going, Mr. Dawson replies briskly, "Into war, George." With three words he conveys the audacity of the voyage.

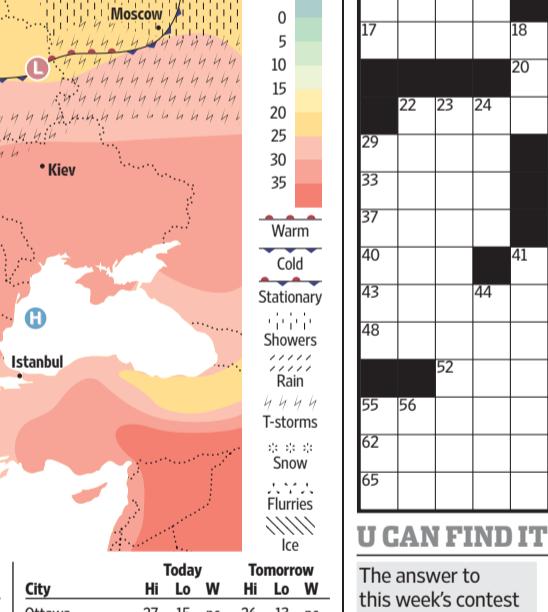
Weather



Global Forecasts

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	22	16	pc	23	14	t
Anchorage	19	12	pc	20	14	s
Athens	32	24	s	33	23	s
Atlanta	35	24	s	33	23	pc
Bahrain	48	32	s	50	32	s
Baltimore	35	23	pc	31	24	t
Bangkok	32	26	t	32	25	t
Beijing	25	22	r	25	22	c
Berlin	24	15	pc	26	17	t
Bogota	19	9	r	18	10	r
Boise	33	16	s	35	17	s
Boston	32	21	s	29	19	pc
Brussels	24	15	pc	22	13	t
Buenos Aires	17	8	p	17	10	pc
Cairo	35	25	s	36	25	s
Calgary	22	12	s	27	13	pc
Caracas	31	26	pc	32	27	pc
Charlotte	36	24	s	36	25	s
Chicago	31	22	t	31	22	t
Dallas	38	27	s	37	27	s
Denver	33	18	t	28	15	t
Detroit	30	21	pc	28	22	t
Dubai	43	33	s	43	34	s
Dublin	17	10	r	18	11	c
Edinburgh	19	13	r	18	12	sh
Frankfurt	28	19	pc	28	17	t

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The WSJ Daily Crossword | Edited by Mike Shenk

63 Aquarium	64 Off	65 Kirsten of "Hidden Figures"	28 Student's second try
66 Arizona shooters	67 Roll call call	29 Las Vegas or Atlantic City casino	31 ___ kosher
Down		32 Words once spoken by James Earl Jones	35 "Silver Bells" novelist Rice
1 Push a Toro	2 Friend of Victor Hugo	38 Lingeringly upset	39 Feature of Cindy Brady's speech
3 School with paradoxes	4 Last section	41 Action indicated by two clockwise-pointing arrows forming a rectangle	42 Related
5 "Silver Bells" novelist Rice	6 Fast food in boot, ball, bow-tie and bell shapes	43 "Three's Company" co-star	44 "Three's Company" co-star
7 Nat, e.g.	8 Stops in the Sahara	45 Balance sheet info	46 New York passers
9 Came into the world	10 Tennessee Williams title word	47 Party you can attend barefoot	48 Party you can
11 Seating for alfresco diners	12 Big game of a sort	49 Dream location	50 Mauna ___
13 ___ Moines	14 Grandfather clock seven	51 Big bird	52 "I'm gonna pass"
15 ___ Nat	16 Jack on the road	53 She goes baa	54 She goes up
17 ___ stops	18 Apple-assisted computer?	55 Screw it up	56 Its top producers are Germany, Poland and Russia
18 ___ stops	19 Make Relat	57 Joy	

U CAN FIND IT! | By Matt Gaffney

The answer to this week's contest crossword is a famous monument.	21 Forbid	40 "Valerian and the City of a Thousand Planets" director Besson
Across	22 Check no-no	41 Swiss potato dish
1 Corn ___ (autumn amusement)	23 Sea whose Wikipedia page is written in the past tense	42 Bird with a curved beak
5 K-P connection	33 John on piano	43 Tugging type
9 Cleaned (off)	36 Art created in a parlor, for short	45 "You're naughty!"
14 Danger sign	37 Laundry amount	47 Schedule opening
15 Home of a medical center named for Ronald Reagan	38 Lesley of "60 Minutes"	48 Nice for the nose
16 Like cat burglars	19 Siphons (out)	50 Bic writer
17 Roof roosters	20 Make accustomed	52 Impress
18 ___ stops	39 In the wee hours	53 Smiling cow
19 Make Relat	40 Chew the scenery	55 Davis Eyes"
20 Make accustomed	41 Opiate CIA	57 Jolly Roger flyer

► Email your answer—in the subject line—to crossovercontest@wsj.com

by 11:59 p.m. Eastern Time Sunday, July 23. A solver selected at random will win a WSJ mug. Last week's winner: Dave Bromsey, Poughkeepsie, NY. Complete contest rules at WSJ.com/Puzzles. (No purchase necessary. Void where prohibited. U.S. residents 18 and over only.)

Previous Puzzle's Solution

HOST	METER	ZERO
INCA	OXIDE	VID
PEEK	SALEM	MS DIV
TUNE	TIME	WILED
OPIA	TAPE	CLIA
CHILD	DOOF	CAMP
SWAIN	REMIT	RIO
PART	HUMAN	BELL
AGE	BENCH	JEWEL
MEAT	LIKIAHOSE	OAR
SHORN	LAUD	UNTAME
POKE	CHIMP	LOUT
AJAR	ALITO	ANNE
YOYO	TYSON	YEAR

Global Forecasts

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Geneva	28	17	t	28	17	t
Hanoi	30	26	t	31	26	t
Havana	34	22	pc	33	23	pc
Hong Kong	31	27	t	30	27	t
Honolulu	31	25	pc	31	25	sh
Houston	34	25	t	33	26	t
Istanbul	29	21	s	29	22	s
Jakarta	32	25	t	32	24	t
Johannesburg	20	4	s	20	4	s
Kansas City	36	26	s	37	23	t
Las Vegas	39	29	s	40	30	s
Lima	21	15	pc	21	15	s

BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

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Euro vs. Dollar 1.1637 ▲ 1.05%

FTSE 100 7487.87 ▲ 0.77%

Gold 1244.80 ▲ 0.29%

WTI crude 46.79 ▼ 0.70%

German Bund yield 0.530%

10-Year Treasury yield 2.266%

BP in Talks to Sell North Sea Assets

Discussions are at early stage, with private-equity firms among potential buyers

LONDON—BP PLC has approached potential buyers of its oil-and-gas fields in the North Sea, people familiar

By Sarah McFarlane,
Matt Jarzemsky
and Ben Dummett

with the matter said, a half-century after the company helped pioneer deep-water extraction there.

BP said it remained "committed to the U.K. North Sea," which the British company

sometimes calls its "heartland." The company said it planned to ramp up its U.K. North Sea production to 200,000 barrels a day and pointed to important new developments there west of the Shetland Islands.

But the company has held discussions about selling the full range of its currently producing assets in the U.K. North Sea, people familiar with the matter said. The collection of oil-and-gas fields now produce the equivalent of about 150,000 barrels a day, with some nearing the end of their production lives.

The potential buyers include private-equity firms, the people said, which in recent years have swooped in to buy

North Sea fields, lower their costs and extract profit.

The people said the talks were at an early stage, and it isn't clear yet which fields BP would ultimately be willing to part with, if any.

"Our aim is to sustain a material business in the region for decades to come," said BP, which produces more oil and gas from the British North Sea than any other company.

The value of the assets BP approached buyers about wasn't known. Earlier this year, when BP's British-Dutch rival Royal Dutch Shell PLC sold stakes in U.K. North Sea fields that produce about 115,000 barrels a day, the assets fetched \$3.8 billion.

The talks come as BP and

other big energy companies reassess their portfolio of oil-and-gas fields while the crude-price downturn enters its fourth year. With prices stuck around \$50 a barrel, BP, Shell and others have been looking to ditch oil fields that are nearly tapped out for cheap, quicker-hit options like U.S. shale.

The North Sea is a prime example. BP has been a leader in the North Sea since the mid-1960s, when exploration and production began. Along with Shell and others, BP helped make it one of the world's premier oil basins in the 1970s and '80s; its production peaked in the 1990s.

Since the peak, however, it

Please see BP page B2



One of BP's oil platforms operating in the North Sea.

PepsiCo Finally Names President

BY JENNIFER MALONEY

PepsiCo Inc.'s longtime leader, Indra Nooyi, is promoting one of her lieutenants into the vacant No. 2 position at the company, in a move that shuffles potential successors to her job.

Ramon Laguarta, head of the company's Europe and sub-Saharan Africa business, will become PepsiCo's president, a headquarters role covering global operations, corporate strategy, public policy and government affairs. The spot has been unoccupied for nearly three years.

Mr. Laguarta's current duties will be given to Laxman Narasimhan, who will continue to oversee the snack-and-beverage giant's Latin America division. Both appointments will take effect Sept. 1.

In an interview, Ms. Nooyi, 61 years old, said she intends to keep running the Purchase, N.Y.-based company "for the foreseeable future." The two promotions are the latest in a series of moves over the past few years to "stretch" executives and prepare them to be contenders for the top job, she said.

The leading internal candidates to succeed Ms. Nooyi include Mr. Laguarta, Mr. Narasimhan and Hugh Johnston, PepsiCo's chief financial officer, who in 2015 was named vice chairman and put in charge of e-commerce and information technology.

PepsiCo, which has a market value of about \$165 billion, has been using higher prices, smaller packaging and a broader product portfolio to help boost results amid shifting consumer tastes that are pressuring the packaged-food and beverage industries. Despite falling soda demand and other industry challenges, the company's profit margins are rising and its shares are trading near all-time highs.

During Ms. Nooyi's 11-year tenure, two potential successors have been promoted to the No. 2 role of president only to leave the company later on. The job has been vacant since the 2014 departure of Zein Abdalla.

Ms. Nooyi, who was chief financial officer and president before she was named chief executive in 2006, said Mr. Laguarta, 53, shouldn't be presumed to be her successor.

"There is no heir apparent," she said. "When the time comes for succession, whenever it is, I think the wonderful thing is our board is going to have so many people to choose from."



SANDY HUFFAKER FOR THE WALL STREET JOURNAL

For Low Earners, Big Raises in Pay

BY ERIC MORATH

For the first time in years, pay for the lowest-income Americans is rising faster than for other groups.

Weekly pay for earners at the lowest 10th percentile of the wage scale rose at a faster rate last quarter, from a year earlier, than for any other group measured by the U.S. Labor Department—including those at the top of the income scales who earn five times as much.

The shift for low-income workers—including restaurant workers and retail cashiers—who make about \$10.75 an hour, is a sign that a tightening labor market is delivering better pay to workers who largely

haven't shared in gains since the recession ended eight years ago, according to economists and government data. Last quarter marked the first time since late 2010 that this earning group's gains outpaced all others, including the 90th, 75th, 50th and 25th percentiles.

Rising minimum wages in many states may have been a factor.

Usual weekly earnings for workers ages 25 and older at the bottom of the pay scale rose 3.4% from a year earlier in the second quarter, according to analysis of new Labor Department data. That was stronger than the median gain of 3.2% and the 3.1% improvement for workers at the 90th percentile, who earn more than nine

in 10 other Americans. The percentage increases are based on a four-quarter average of earnings, to smooth out volatility in the data.

Throughout much of the economic expansion that began in mid-2009, wage gains for the lowest-earning Americans trailed behind median wage gains and those of the highest earners. The annual raise for the lowest earners was below 1% annually during 2015, less than half as strong as the median gain.

The recent improvement for low earners coincides with a downward trend in the U.S. unemployment rate, which stood at 4.4% last month, versus 4.9% a year earlier. The unemployment rate for those with less

than a high-school education—who make up much of the low-wage workforce—fell even more sharply, to 6.4% last month from 7.5% a year earlier. Tighter labor supply in theory should push up wages.

Wages have been rising swiftly in fields such as restaurants, amusements and gambling, said Jed Kolko, economist at job-search site Indeed.

That is an indication that employers need to pay more to attract workers into those fields.

In a strengthened economy, people spend more on entertainment and eating out, raising demand for workers in

Please see PAY page B2

◆ Small firms step up raises to retain their employees B3

Life Policy Isn't So Permanent

BY LESLIE SCISM

When Gary Lebbin turns 100 years old in September, hanging over any celebration will be one very costly fact: His life insurer aims to cancel two policies totaling \$3.2 million in death benefits.

The Lebbin family has run up against a provision that ex-

ists in many life-insurance policies. Policies have expiration dates, and the one in the Lebbin family's two contracts is age 100 for the policyholder.

It is a standard feature of permanent life insurance, a product combining a tax-deferred savings component with a tax-free death benefit. The provision calls for the termina-

tion of the death benefit and payout of all of the built-up savings when the policyholder reaches the specified age.

The limits weren't an issue in the many decades when very few people lived beyond 100. But they increasingly are a problem for the U.S. life-insurance industry as more people become centenarians. There were an estimated 53,364 centenarians in the U.S. as of 2010, up from 37,306 in 1990 and 32,194 in 1980, according to a U.S. Census report published in December 2012.

Since the middle to latter part of the last decade, the industry has used age 121 as the standard maturity date in new contracts. But an unknown number of older contracts with the 100-year-old limit remain in consumers' hands. Some insurers previously offered older policyholders the opportunity to extend the age in their older policies with varying financial terms.

The Lebbin family's insurer, a unit of Transamerica Corp., didn't offer an extension.

Please see INSURER page B2



LEBBIN FAMILY

Gary Lebbin is nearing 100, and Transamerica has told him his life-insurance policy will be terminated. He is fighting back.

Cloud Computing Helps Power Microsoft's Earnings

BY JAY GREENE

Once written off as a technology has-been, Microsoft Corp. continued its rebirth as a force in cloud computing, posting double-digit increases in its business selling web-based services to corporate customers.

The giant software company has solidified its spot as the No. 2 provider of on-demand computing processing and storage behind market pioneer Amazon.com Inc. In its fiscal fourth quarter, Microsoft notched gains in its Azure cloud-computing business and Office 365, the online version of its widely used productivity software.

Revenue from the Redmond, Wash., company's Intelligent Cloud segment, which includes Azure, rose 11% to \$7.4 billion. In the Productivity and Business Processes segment, which includes the Office franchise, revenue climbed 21% to \$8.4 billion.

Microsoft doesn't disclose revenue figures for its Azure

and Office 365 businesses, but it said Azure revenue jumped 97% and Office 365 revenue grew 43%.

Overall, the company posted fourth-quarter net income of \$6.51 billion, or 83 cents a share, compared with \$3.12 billion, or 39 cents a share, a year ago. Excluding the impact of revenue deferrals and other items, the company said adjusted earnings climbed to 98 cents from 69 cents a year earlier.

Revenue rose 13% to \$23.32 billion. When adjusted to reflect Windows 10 revenue deferrals, revenue came to \$24.7 billion.

Analysts surveyed by S&P Global Market Intelligence expected Microsoft to report adjusted per-share earnings of 71 cents on \$24.29 billion in adjusted revenue.

Shares rose 1.5% to \$75.32 in after-hours trading as the results beat investors' expectations. The software giant's shares closed at a record on Thursday, after setting the previous high a day earlier.

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BP

Continued from the prior page has become more expensive to extract the remaining barrels from aging fields. BP already sold part of its interest in the North Sea's Magnus field to EnQuest PLC earlier this year.

"They can't get the returns in the North Sea compared to more attractive, lower-cost

BP is under pressure to raise cash this year to pay for continuing costs related to the Deepwater Horizon blowout that killed 11 people in 2010 and spilled millions of barrels of oil into the Gulf of Mexico. The company wants to raise \$5.5 billion with various divestments this year. It is considering spinning off some of its U.S. pipelines into a separate public company.

BP is moving into a period of growth, which may require it to shed some of its older North Sea assets, said Oswald Clint, analyst at Sanford C. Bernstein.

"It's the same as Shell; they're selling producing assets, but not development or growth assets," Mr. Clint said.

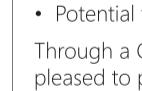
Selling assets in the U.K. North Sea isn't straightforward. It costs billions to dismantle and dispose the North Sea oil rigs when the fields are fully tapped. As part of its deal to sell North Sea fields this year, Shell agreed to pay up to \$1 billion in decommissioning costs.

—Sarah Kent contributed to this article.

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BUSINESS & FINANCE

Sears Appliances Get Second Home

BY SUZANNE KAPNER
AND IMANI MOISE

Sears Holdings Corp. will start selling its Kenmore line of refrigerators and stoves on **Amazon.com Inc.**'s website, marking the first distribution of its kitchen appliances outside of its own stores.

Sears's shares were up nearly 11% at \$9.60 on Thursday.

The move could be a boon to sales as dwindling foot traffic in stores has led to years of sales declines. Sears has been facing increased competition in white goods from Best Buy Co., Home Depot Inc. and other retail chains.

Amazon will buy the Kenmore inventory, but it will reside in Sears's warehouses. Inovel Solutions, a unit of Sears, will ship the goods to customers' homes and provide installation services, said a Sears spokesman, Howard Riefs.

"This will give the Kenmore brand access to a new set of



MIKE BLAKE/REUTERS

Sears's Kenmore appliances will be offered on Amazon's website.

customers who aren't necessarily shopping at Sears," said Dev Mukherjee, a former president of Sears home appliances, who now works at a private-equity firm.

Sears's major-appliance sales fell 9.5% to \$3.76 billion in 2016 compared with the prior year, according to Twice, a trade publication. The retailer ranks third in major appliance sales, behind **Lowe's Cos.** and Home Depot, according to a report the magazine published in June.

The struggling retailer has been looking at strategic options for some of its top brands for over a year, as sales have slid and losses have mounted. Earlier this year, it agreed to sell its Craftsman tool brand to **Stanley Black &**

Decker Inc. for \$900 million. The company continues to look at options for its DieHard battery brand.

The partnership also marks a big move by Amazon into the large-appliance business, a retail category where it has yet to penetrate deeply. But it could also give shoppers less reason to visit Sears stores.

"Any incremental sales that Sears can get through any channel is a good thing," said Matt McGinley, an analyst at research firm Evercore ISI.

Some analysts speculated that the deal could be a precursor to Amazon buying the Kenmore brand outright. Mr. Riefs declined to comment on the possibility.

The Kenmore name first appeared in 1913 on a sewing machine. The first Kenmore washing machine was introduced in 1927. The brand is currently produced by **Whirlpool Corp.**, **General Electric Co.** and other manufacturers.

PAY

Continued from the prior page those fields," he said. Those wage gains also at least partially reflect rising minimum wages, which have increased in 21 states this year.

Usual weekly earnings is a different wage measure than the more broadly cited average hourly earnings figure reported in the jobs report each month. The quarterly figure incorporates overtime pay, commissions and tips that might not be captured in the hourly figure.

Average hourly earnings have been stuck near a 2.5% annual increase for most of the past year and a half. But the jobs report does show stronger wage growth in the lowest-paying broad sector tracked, hospitality.

Average earnings' failure to rise even while many Americans doing better reflects a slowdown at the top.

"The slowdown has been particularly sharp within the top 5%," Goldman Sachs economists wrote in a research note Thursday. "One possibility is that some high-wage individuals could be delaying the recording of earnings, given the possibility of a future income tax cut."

Still, higher-earning Americans have fared much better

during the expansion. Pay for workers in the 90th percentile has increased nearly 20% since mid-2009. Pay for the 10th percentile worker rose 12.5%, not enough to offset inflation.

"We're starting to see wage pressure at the two ends—the high-skilled end and the low-skilled end," Philadelphia Federal Reserve President Patrick Harker said in an interview this month. "Where the squeeze is still happening is the middle-skill jobs."

He said that could partially reflect new technologies emerging to supplant better-paid workers. For example, he said, sophisticated document-reading software is reducing law firms' need for armies of

young associates to do the task.

Since the recession ended, employment in legal services rose less than 1%. Employment at restaurants and bars is up 24%.

Last year, the Wireless Zone, a chain of cellphone stores, raised base pay for workers at its company-owned locations to about \$18 an hour, but cut back the bonus incentives it offered. As a result, the lowest-paid workers earn more, shrinking the gap between high and low earners. Average pay is little changed, said Dave Staszewski, executive vice president of the Rocky Hill, Conn.-based franchise. He said the change in pay structure was designed to attract scarce workers.

and energy, disrupted by OPEC and shale.

Perhaps enthusiasm for disruption doesn't show up between sectors, though.

Amazon is disrupting retail, and new technologies are being deployed in many other sectors, too. If investors were betting on the disrupters and against the disrupted, we should expect to see a big gap between the best and worst performers within sectors. We don't.

Tim Edwards at S&P Dow Jones Indices calculates a measure known as dispersion showing how much variation there is in stock performance. Only in the industrial and financial sectors is it higher than the long-run average, and even within consumer discretionary the effect of Amazon isn't visible, with dispersion slightly below average.

I think investors give Amazon and Tesla way too much credit as disrupters, but being overpriced isn't the same thing as being in a bubble. There could be an everything bubble lifting the entire market, but stock performance doesn't suggest overenthusiastic investors have inflated a tech bubble or even a broader bubble of disrupters. Yet.

STREET

Continued from the prior page

Another way to judge excessive enthusiasm for disruptive companies should be to look at the losers. Old-style retail stocks, owners of U.S. malls and more recently stocks such as Zillow, facing rumors of competition from Amazon, have all been hammered.

Have they been driven down too far? Taking the gap between the best- and worst-performing sectors offers a measure of how powerful investment fashions are, and it is wider than usual at the moment. Yet, it doesn't back up the disruption theory.

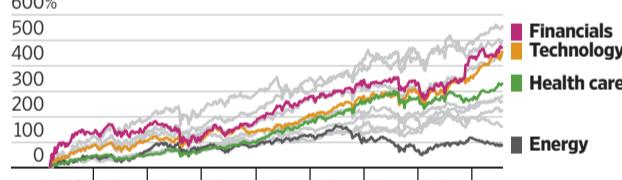
Over the past year, the best sector has outperformed the worst by more than 50 percentage points, the second-widest gap since the recovery from the crisis in 2009. In the 2000 bubble the gap reached 124 points, and in 2008 energy was 66 percentage points ahead of the worst sector (real estate, where the property-price crash was already under way).

Yet, if this wide gap between the best and worst sectors is a reason to worry, it isn't a reason to worry

Forever Spotting Bubbles

The dot-com bubble in technology stocks and the 2008 bubble in energy stocks stand out. The S&P 500 tech sector is finally above its 2000 peak, but it's hard to see a bubble in any sector today.

S&P sector performance*



Performance since 2009 low



BUSINESS NEWS

Pay Boosts Help Fight Poaching

By RUTH SIMON

As the job market tightens, many small-business owners are racing to boost pay to keep experienced hands from jumping ship.

Robert White typically gives raises of 1.5% to 3% at Dahlstrom Roll Form, a 113-year-old manufacturer of steel products in Jamestown, N.Y. But over the past three years, workers have received increases in pay and benefits totaling about 10% annually.

Mr. White, the company's president, calls the raises "a proactive strike" designed to keep his 35-person team in place. "Business is better, so we are able to do it," he added.

Even with the latest increases, wage growth at small firms is only now approaching that of larger companies, which typically pay more than small firms. The increase is being fueled by heightened demand for employees and websites like PayScale and Glassdoor that make it easier for both workers and bosses to see what competitors pay.

Wage growth for existing employees accelerated by 1.07% annually over the past three years at companies with fewer than 50 employees, according to an analysis of ADP data by Moody's Analytics for The Wall Street Journal—well above the 0.69% average increase for firms of all sizes over the same period.

Small businesses are feeling the pressure, Mark Zandi, chief economist of Moody's Analytics, said. "They have to work harder to keep employees now that the labor market is tight."

There were 5.7 million job openings in May, the latest month for which data were available, according to the U.S. Bureau of Labor Statistics.

According to a June survey of roughly 800 companies by the Journal and Vistage Worldwide Inc., 58% of small-business owners reported increased difficulties finding needed workers. Many have responded by boosting pay or



Fusion OEM, an Illinois contract manufacturer, has been increasing compensation for many of its workers in recent years.

benefits, while others have stepped up training or slowed the pace of growth.

Craig Zoberis, president of Fusion OEM, a contract manufacturer outside Chicago, has raised hourly pay for entry-level workers by \$1 for each of the past three years. Over the past two years, he has also stepped up efforts to reward the best employees on his production floor, who can now see their pay jump by as much as 73% over a four-year period.

"With the competition going on for top employees, we had to meet and exceed what the marketplace is looking for," he said.

But rising pay is also burdening small firms, which typically operate with thinner margins than their bigger competitors. With wages up, "there are things we are scrapping on," said Julie Irwin, owner of Spectrum Building & Restoration Corp. and a Servpro franchise in Bend, Ore., which recently gave new and existing employees

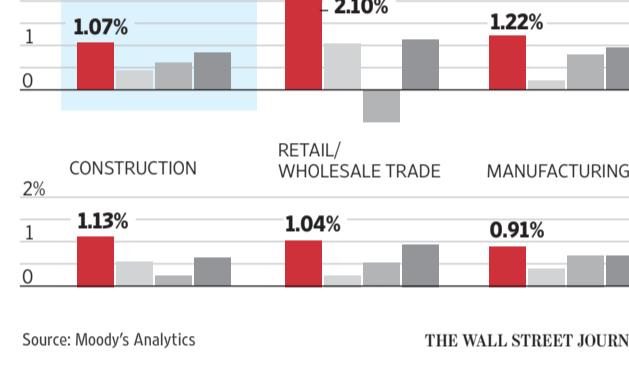
Small Firms, Bigger Raises

Wage growth is increasing faster at smaller employers as they seek to retain staff in a tight job market.

Companies by number of employees

■ 1-49 ■ 50-499 ■ 500-999 ■ 1,000+

Percent increase in average raises over the past three years



Source: Moody's Analytics

THE WALL STREET JOURNAL.

raises of as much as 10% to 20% to keep competitors from poaching them.

She has been forced to delay purchases of new vehicles

we have," she said.

Younger workers—those under age 35—are capturing the biggest pay increases, according to the Moody's Analytics analysis.

At Gold Systems Inc., a software firm in Salt Lake City, Utah, "year two and year three salaries are much higher than they used to be," said owner Dave Wilcox, noting that \$10,000 raises have become more common for employees with starting salaries of \$50,000 to \$60,000. Younger workers come to the negotiating table well-armed.

Higher salaries for new workers are also driving adjustments. Matt Haney, chief executive of Universal Network Solutions Inc., an information technology consultancy in Minneapolis, boosted pay by 12% to 17% over the past two years after experienced workers realized that they earned less than new hires.

"We had unknowingly fallen behind and had to make up for that," he said.

GM's Bolt Goes on Vacation

By ADRIENNE ROBERTS

Workers assembling General Motors Co.'s Tesla fighter are taking a month off this summer amid lukewarm demand, a sign American car buyers are showing little interest in vehicles that rely solely on battery power to get from Point A to B.

The Detroit auto giant's plant in Orion Township, Mich., began producing the Chevrolet Bolt late last year, with output hitting more than 15,000 vehicles before the company's typical summer shutdown at the start of July. That break usually spans two weeks, but workers at the Bolt plant—also building the slow-selling compact Chevrolet Sonic—remain on vacation the third week of the month as inventories of both cars climb.

A GM spokesman, saying the shutdown stems from the oversupply of Sonics, said workers will return to the Orion assembly line on Monday. However, they will take another one-week break in August.

The long layoff affecting the Bolt is unusual for a vehicle still considered to be in launch mode, and it delivers a blow to GM as Tesla Inc. is ramping up production of the Model 3, which is priced lower than its Chevrolet counterpart while offering a similar driving range on a single charge. The \$35,000 Model 3, Tesla's fourth model, already has amassed hundreds of thousands of reservations from potential buyers.

The \$37,000 Bolt is struggling to drum up demand. About 7,500 Bolts have been sold through June, though it is yet to go on sale in all 50 states.

Electric vehicles make up just 0.6% of U.S. auto market in 2017, according to Autotrader.com, as inadequate charging infrastructure, high costs and low gasoline prices have muted demand.

—John Stoll contributed to this article.

Musk Envisions Another Tunnel

By TIM HIGGINS

He didn't immediately say which government agency or official had given approval, or elaborate on issues such as timing or cost, but later added he aimed to build similar systems in suburban Los Angeles and Texas. Infrastructure projects of large sizes often take years—if not decades—to receive government approvals.

"Still a lot of work needed to receive formal approval, but am optimistic that will occur rapidly," Mr. Musk wrote.

A representative for Mr. Musk's tunnel venture, the Boring Co., didn't immediately respond to a request for clarification.

The U.S. Transportation Department referred questions about the hyperloop to the White House, which confirmed

conversations with Mr. Musk and other Boring Co. executives. But the White House didn't say whether it had given any kind of approval for the hyperloop.

Mr. Musk has long talked about the creation of a so-called hyperloop, a system for high-speed transportation in a near-vacuum state that takes place in miles-long tubes.

Mr. Musk's tweets convey his wide-ranging interests. He is chief executive of electric-car maker Tesla Inc., which last year merged with energy company SolarCity, another business he backed. Mr. Musk also leads the rocket maker Space Exploration Technologies Corp.

—Eliot Brown contributed to this article.

BUSINESS WATCH

UNILEVER

Strong Earnings Offer Reassurance

Unilever PLC reported a sharp rise in first-half profit and forecast better-than-expected margins for the full year, making good for now on its promise to improve its performance after fending off a \$143 billion takeover approach from Kraft Heinz Co. earlier this year.

The upbeat earnings report offers reassurance to investors as the industry grapples with fast-changing consumer tastes and slowing sales.

After rejecting Kraft's approach in February, Unilever launched a review of its operations and in April said it would sell or spin off its margarine-and-spreads business. On Thursday, it said preparations for the exit were well under way but didn't elaborate. Analysts have said the unit could fetch \$7.5 billion to \$8.5 billion.

For the six months to June 30, Unilever reported net profit attributable to shareholders of €3.11 billion (\$3.58 billion), up from €2.51 billion a year earlier. Revenue rose to €27.73 billion from €26.28 billion.

—Rory Gallivan

AB INBEV

Brewer to Acquire Energy-Drinks Maker

Just as the soda giants are going after startups making healthy, nonalcoholic fizz, so too is Anheuser-Busch InBev NV.

The world's largest brewer on Thursday said it is acquiring Hiball, a San Francisco-based company making organic energy drinks and carbonated juices and water. Terms of the deal weren't disclosed.

AB InBev in Latin America sells a range of energy drinks, soft drinks and teas. Its latest step toward a similar expansion in the U.S. is a modest one. Hiball, founded in 2005, has 20 employees. It had retail sales of about \$40 million over the last 12 months, according to a person familiar with the matter.

Its products include Hiball Energy, a line of caffeinated drinks with ingredients such as guarana and ginseng, and Alta Palla, a line of sparkling juices with organic and fair-trade ingredients.

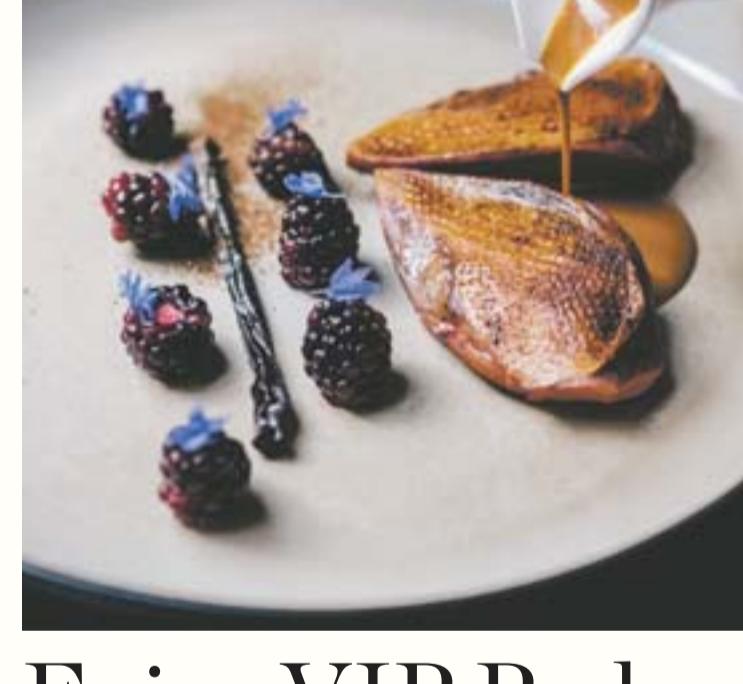
AB InBev has been broadening its U.S. portfolio as consumers shift away from American lagers, including its Budweiser and Bud Light brands, toward craft beers, Mexican imports, wine and spirits.

—Jennifer Maloney



Unilever, which has plans to sell or spin off its margarine-and-spreads business, reported higher first-half profit and revenue.

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TECHNOLOGY

Twitter Claims Progress On Abuse

BY GEORGIA WELLS

Twitter Inc. said it has clamped down on harassment in its service, a campaign that is forcing the company to confront tricky questions about how it applies its standards.

Twitter suspends or restricts accounts for abusive content at 10 times the rate of a year ago, the company said during a media briefing at its San Francisco headquarters this week. Twitter declined to say how many of its 328 million monthly average users are affected.

Compared with the previous four months, Twitter over the past four months has removed twice as many new accounts created by repeat offenders banned for abuse, said Ed Ho, general manager of consumer product and engineering teams.

Over the past year Twitter has increasingly used artificial intelligence to flag potential abuse, instead of leaving detection to users. This marks a change for a company that had been loath to police its platform, former employees say.

But tweets posted by President Donald Trump on his personal account in recent weeks have raised the question of whether he is violating the social network's rules. In late June, Mr. Trump ridiculed the appearance of television news host Mika Brzezinski; in July, he posted a doctored video of himself beating up a man whose face had been digitally altered to show the CNN logo.

Asked this week whether the site treats Mr. Trump like other users, Twitter's head of trust and safety, Del Harvey, said, "We apply our policies consistently. Rules are rules."

Those rules ban graphic content, threats of violence and the targeted abuse of others, though comments judged hateful or abusive can be exempted if they are deemed newsworthy. Twitter last year created a Trust and Safety Council made up of safety advocates, academics and researchers to advise it on online safety.

The crackdown raises the question of whether the rules apply to Trump.

"The Trump tweets are a litmus test for folks in the safety council, folks who work for Twitter and observers on the outside," said council member Stephen Balkam, founder of the nonprofit Family Online Safety Institute.

"There are robust discussions about whether the tweets should be left up or not."

A spokeswoman for Twitter declined to comment on Mr. Trump, citing a policy of not commenting on specific users.

The White House has defended the tweets. Deputy press secretary Sarah Huckabee Sanders said Americans "knew what they were getting when they elected Donald Trump."

How Twitter applies harassment policies to public figures versus ordinary users suggests the limits of its willingness to censor.

"For our democracy, I think we should all see what Trump is saying," said council member Danielle Citron, a professor at the University of Maryland School of Law who studies online harassment. She has advised Twitter since 2009.

Other academics disagree. Retired professor Michael Hawley, formerly of the Massachusetts Institute of Technology Media Lab, wrote to Twitter in early July urging a temporary ban on Mr. Trump's personal and official Twitter accounts, @realDonaldTrump and @potus, for violating the terms of service.

"Such tweets have the effect of promoting abusive behavior, or worse, stimulating real violence," he wrote.

Mr. Trump's tweets have drawn rebuke from lawmakers from both parties.

Honda Talks With Waymo Barely Budge

BY SEAN MCCLAIN

TOKYO—Seven months after Honda Motor Co. announced plans to collaborate with self-driving car pioneer Waymo LLC, little progress has been made, Honda's chief executive said.

"Nothing concrete" has been decided in talks with Waymo, the driverless-car division of Google parent Alphabet Inc., said Honda Chief Executive Takahiro Hachigo in an interview this week. "We are still at the study stage and haven't come up with specific research or businesses."

Mr. Hachigo's comments mark the latest sign that Waymo's collaboration with established auto giants isn't moving quickly, although the Silicon Valley company has said it would like to tap their expertise.

When it was part of Google several years ago, Waymo talked with Toyota Motor Corp. but couldn't agree on collaboration. In February, Ford Motor Co. invested \$1 billion in self-driving startup Argo AI.

Honda and Waymo said last December they would talk

about teaming up, a sign that Honda was looking for help in catching up with larger, better-funded rivals in the race to develop next-generation car technology.

Mr. Hachigo said the discussions are still alive, and he said people from Honda and Waymo meet regularly in Mountain View, Calif., where both have offices. The lack of specific progress "doesn't mean we've come to a deadlock or we're not getting anywhere," he said.

Asked whether Waymo's willingness to share technology was an issue, Mr. Hachigo said the talks hadn't progressed far enough for that to come up.

A person familiar with Waymo's thinking said talks have moved little in the past seven months. The two companies are looking at equipping Honda vehicles with Waymo hardware or having Honda manufacture vehicles for Waymo's road tests of self-driving cars, this person said.

Analysts said the lack of progress was worrisome because they said Honda, which is about half the size of Toyota and General Motors Co. in terms



Waymo, Alphabet's driverless-car unit, has been meeting with the Japanese auto maker for months.

of annual car sales, needed to collaborate more on technology.

"The whole reason they inked an agreement is a recognition that they can't do it alone. They both need each other," said Christopher Richter, an auto analyst at CLSA. "It's a little bit discouraging that things can't move more quickly."

Kurt Sanger, an analyst at Deutsche Bank, said, "Honda doesn't have a history of playing well in the sandbox."

Honda's Mr. Hachigo rejected that view, saying his company was working well with European suppliers of self-driving technology. He also highlighted a partnership with Hitachi Ltd. to build electric motors for vehicles.

"We want to attach importance to collaboration with

suppliers that can work together with us in the field of motors, batteries and electronic control," he said.

The one big auto maker that has advanced in its work with Waymo is Fiat Chrysler Automobiles NV. Fiat Chrysler manufactures minivans equipped with Waymo's suite of sensors and sells them to Waymo for testing use. It took around six months from the deal's signing to delivery of the first vehicles, Waymo Chief Executive John Krafcik said in a December blog post.

In the time since the Honda talks were announced, Waymo has looked outside the class of traditional car makers for collaborations. It signed a deal with ride-hailing startup Lyft Inc. to co-develop self-driving

technology and in June tapped rental car company Avis Budget Group Inc. to maintain its growing fleet of driverless cars.

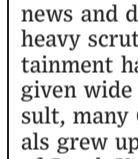
Honda plans to sell a car capable of driving itself on highways by 2020 and on city streets by 2025, but its own self-driving suite is still in the early stages of development.

Yuji Yasui, a Honda engineer in charge of automated driving, said the company would need to staff up and obtain outside software expertise to meet the targets. "It's impossible to achieve them with what we have now," Mr. Yasui said. "We need to expand our collaborative relationship with universities and maybe other startups—especially on software."

—Jack Nicas contributed to this article.

CHINA CIRCUIT | By Li Yuan

Video Websites Feel Chill as Beijing Moves In



In the Chinese government's relentless policing of the internet, political news and discussions draw heavy scrutiny while entertainment has generally been given wide leeway. As a result, many Chinese millennials grew up watching videos of South Korean soap operas, American TV shows and Japanese animation series.

This generation spends a lot of time watching videos of sports and entertainment; research firm Analysys International says over 70% of China's mobile-video users are under 30 and nearly three-quarters of them watch at least one to two hours of video daily. Many take little note of politics.

Their indifference is being shaken up. Under President Xi Jinping's more assertive guidance, the Communist Party is trying to instill patriotism and reinsert ideology into public life. Instead of American TV comedies,

Beijing wants Chinese youth to watch revolutionary-themed series and other politically inspiring fare.

The effect is unsettling for many young Chinese—and for the online companies building businesses catering to them.

"It feels like the government is yelling into your ears about its existence every day now," says Gloria Liu, a 23-year-old law graduate student in the northeast city of Changchun.

Storm clouds have been gathering for some time. Earlier this year, Chinese video websites pulled popular South Korean music videos and TV dramas after Beijing clashed with Seoul over its deployment of a U.S. missile-defense system. Last month, after meeting with regulators, social-media sites



Streaming sites have cut back on foreign entertainment. An AcFun promotion in Shanghai in 2016.

deleted many entertainment accounts.

The real blow came last week when video-streaming sites Bilibili and AcFun—popular among teenagers and young Chinese—removed most of their U.S., U.K., Japanese and South Korean movies, TV dramas and shows to comply with what they say are regulatory requirements.

On social media, young people said they were "shocked" and "confused" and "powerless" when they found out their bookmarked videos on those sites had disappeared overnight.

Bilibili says all of its film

and TV content is being reviewed to ensure it meets regulatory standards and that foreign films and TV shows comprise only about 10% of all content. AcFun says the company is making changes based on the regulator's guidance and its site won't carry any illegal or inappropriate content.

The State Administration of Press, Publication, Radio, Film and Television didn't respond to a request for comment.

This curtailing of content is hitting businesses that, according to industry people, aren't yet profitable.

Both Bilibili and AcFun

started out catering to animation fans and then expanded into more mainstream content. Viewers can post real-time comments that scroll across the screen—a huge draw for the young audience.

Bilibili, founded in 2009 and owned by Shanghai Hode Information Technology, says it has 150 million monthly active users, three-fourths of whom are below the age of 24. AcFun, which was launched in 2007 and has Alibaba Group Holding's Youku Tudou video site as an investor, declined to disclose user numbers. Both companies, which rely on advertis-

ing and games for revenue, declined to comment on their profitability.

The latest crackdown, if sustained, is likely to affect their revenues, according to investors. It has already poured cold water on investing in other online entertainment startups, one of the hottest plays over the past two years because of the demand from millennials.

Investors feel "anxious and powerless" about the current situation, says a venture capitalist whose fund suspended negotiations with startups creating online entertainment content.

Upset fans aren't taking to the streets; so far their protests are confined to social media. But the forced changes to their viewing diets are causing some to rethink their relationship with a government seen largely as a distant presence until now.

Ms. Liu, the law student, views herself as patriotic, like many of her generation. She's also a fan of South Korean pop culture, especially the band EXO. She taught herself Korean and uploaded subtitled shows and media coverage of the band on Bilibili. Now, she says, the website no longer allows uploading of these videos.

Frank Guo, a marketing executive at an online-game company in the southern city of Guangzhou who studied in Ireland, says he doesn't understand why the government doesn't trust people to be responsible for their own viewing behavior.

Like Ms. Liu, Mr. Guo thought the government was a remote force.

"Now it's infiltrating every detail of your life, including what entertainment you watch," he says.

Follow Li Yuan on Twitter @LiYuan6 or write to li.yuan@wsj.com.

Volvo Tightens Technology Ties With Chinese Owner

BY WILLIAM BOSTON AND DOMINIC CHOPPING

STOCKHOLM—Volvo Car Corp. and its Chinese parent Zhejiang Geely Holding Group Co. on Thursday outlined a wide-ranging technical collaboration to further the Swedish auto maker's transformation into an all-electric brand and as well Geely's global ambitions.

Under their agreement, they will create a China-based joint venture to build on their current technology sharing with the aim of accelerating electric-car development.

Volvo Cars will also take a "significant minority stake" in Lynk & Co., a car brand the Chinese investment group created in its effort to become a global automotive force. Lynk will be jointly owned by Geely Holding, Geely Automobile Holdings Ltd and Volvo Cars.

"This venture will allow us to achieve lower prices in global markets, faster development of technology and to get more resources," Volvo Cars Chief Executive Hakan Samuelsson said in an interview.

"The cooperation is primarily targeting Lynk & Co and gives

us more influence."

Earlier this month, Volvo said all of its new models from 2019 would be either fully electric or a hybrid, making it the first traditional auto maker to abandon the conventional internal combustion engine that has powered the industry for more than a century.

The announcement of the joint venture with Geely Holding comes as the Gothenburg, Sweden-based automotive group confirmed it is on track to achieve record sales for a fourth year in a row.

Volvo, a niche player in the

global luxury-car market, has staged a strong recovery since Geely Holding acquired it from Ford Motor Co. in 2010. The iconic car maker, long known in suburban America for its safety and reliability, is trying to leverage its brand recognition to become a force in new technology such as electric cars, connected vehicles and self-driving cars.

Volvo on Thursday said its second-quarter net profit rose to 1.56 billion Swedish kronor (\$187.8 million) from 1.27 billion kronor last year, with operating profit rising 34% to 3.29 billion kronor.

New car sales in the period rose 9.2% to 148,493 units, riding strong results in China. Revenue rose to 54.47 billion kronor from a year-earlier 42.18 billion kronor, driven by demand for the company's XC60, S90 and V90 models and favorable exchange rates.

Volvo and Geely already share some technology, including a system that allows Volvo, Geely and Lynk models to share components. Mr. Samuelsson said the new joint venture aims to greatly expand the collaboration.

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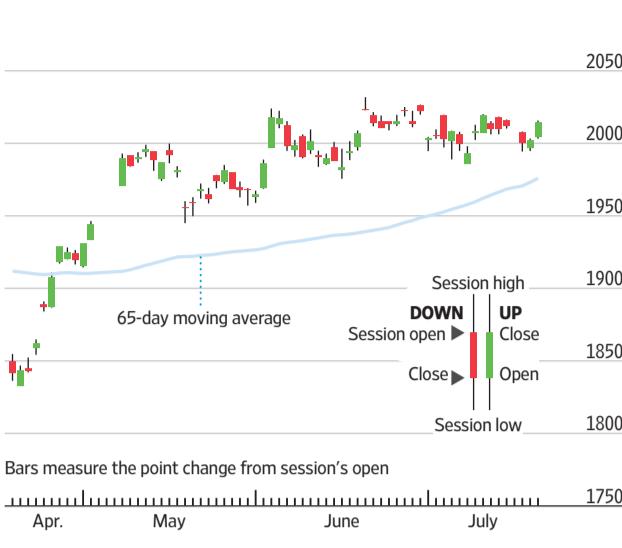
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(1) Source IPE "Top 400 asset managers" published in June 2017 and based on AUM as of end December 2016. (2) Source: Amundi and Pioneer Investments combined figures pro-forma as of end December 2016 provided for information purposes only, subject to change without prior notice.
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MARKETS DIGEST

Nikkei 225 Index

20144.59 ▲ 123.73, or 0.62%
 High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

STOXX 600 Index

384.07 ▼ 1.47, or 0.38%
 High, low, open and close for each trading day of the past three months.



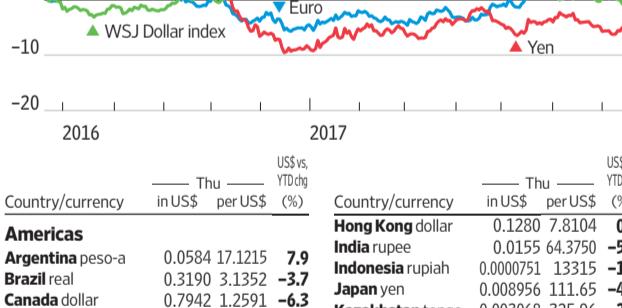
International Stock Indexes

Region/Country	Index	Data as of 4 p.m. New York time					
		Close	NetChg	% chg	52-Week Range	High	YTD % chg
World	The Global Dow	2840.93	3.93	▲ 0.14	2384.24	2844.70	12.4
	MSCI EAFE	1936.55	10.42	▲ 0.54	1471.88	1956.39	12.8
	MSCI EM USD	1060.43	0.31	▲ 0.03	691.21	1061.72	33.5
Americas	DJ Americas	595.85	0.01	▲ 0.002	503.44	596.87	10.3
Brazil	Sao Paulo Bovespa	64911.56	-191.54	-0.29	55695.52	69487.58	7.8
Canada	S&P/TSX Comp	15263.86	19.15	▲ 0.13	14319.11	15943.09	-0.2
Mexico	IPC All-Share	51196.50	109.57	▲ 0.21	43998.98	51364.19	12.2
Chile	Santiago IPSA	3825.92	-1.26	-0.03	3120.87	3837.15	18.7
U.S.	DJIA	21611.78	-28.97	-0.13	17883.56	21681.53	9.4
	Nasdaq Composite	6390.00	4.96	▲ 0.08	5034.41	6398.26	18.7
	S&P 500	2473.45	-0.38	-0.02	2083.79	2477.62	10.5
	CBOE Volatility	9.54	-0.25	-2.55	9.37	23.01	-32.1
EMEA	Stoxx Europe 600	384.07	-1.47	-0.38	328.80	396.45	6.3
	Stoxx Europe 50	3149.97	-5.82	-0.18	2720.66	3279.71	4.6
Austria	ATX	3198.51	5.22	▲ 0.16	2166.58	3220.36	22.2
Belgium	Bel-20	3900.59	-0.80	-0.02	3362.71	4055.96	8.2
France	CAC 40	5199.22	-16.85	-0.32	4293.34	5442.10	6.9
Germany	DAX	12447.25	-4.80	-0.04	10073.28	12951.54	8.4
Greece	ATG	854.54	1.00	▲ 0.12	546.95	859.78	32.8
Hungary	BUX	35424.34	-364.94	-1.02	27001.48	36280.07	10.7
Israel	Tel Aviv	1458.12	2.68	▲ 0.18	1372.23	1490.23	-0.9
Italy	FTSE MIB	21438.63	-40.32	-0.19	15923.11	21828.77	11.5
Netherlands	AEX	526.29	2.04	▲ 0.39	436.28	537.84	8.9
Poland	WIG	62269.72	-263.74	-0.42	46052.49	62853.78	20.3
Russia	RTS Index	1038.54	-4.59	-0.44	898.05	1196.99	-9.9
Spain	IBEX 35	10564.80	-23.30	-0.22	8229.40	11184.40	13.0
Sweden	SX All Share	574.89	-3.65	-0.63	483.91	598.42	7.5
Switzerland	Swiss Market	9027.37	3.05	▲ 0.03	7585.56	9148.61	9.8
South Africa	Johannesburg All Share	54287.32	196.21	▲ 0.36	48935.90	54716.53	7.2
Turkey	BIST 100	106735.56	-681.96	-0.63	70426.16	107749.80	36.6
U.K.	FTSE 100	7487.87	56.96	▲ 0.77	6615.83	7598.99	4.8
Asia-Pacific	DJ Asia-Pacific TSM	1671.38	4.63	▲ 0.28	1405.52	1674.00	17.5
Australia	S&P/ASX 200	5761.50	29.40	▲ 0.51	5156.60	5956.50	1.7
China	Shanghai Composite	3244.86	13.89	▲ 0.43	2953.39	3288.97	4.6
Hong Kong	Hang Seng	26740.21	68.05	▲ 0.26	21574.76	26740.21	21.5
India	S&P BSE Sensex	31904.40	-50.95	-0.16	25765.14	32074.78	19.8
Japan	Nikkei Stock Avg	20144.59	123.73	▲ 0.62	16083.11	20230.41	5.4
Singapore	Straits Times	3293.13	-31.94	-0.96	2787.27	3325.07	14.3
South Korea	Kospi	2441.84	11.90	▲ 0.49	1958.38	2441.84	20.5
Taiwan	Weighted	10499.36	-6.74	-0.06	8902.30	10513.96	13.5

Source: SIX Financial Information/WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



London close on July 20

Country/currency	US\$ vs. Yen			US\$ vs. Euro		
	Thu	in US\$	per US\$	Thu	in US\$	per US\$ (%)
Country/currency	Thu	in US\$	per US\$	Thu	in US\$	per US\$ (%)
Europe						
Bulgaria leva	0.5947	1.6815	-9.5			
Croatia kuna	0.1570	6.368	-11.2			
Euro zone euro	1.1637	0.8594	-9.6			
Czech Rep. koruna-b	0.0447	22.390	-12.8			
Denmark krone	0.1565	6.3912	-9.6			
Hungary forint	0.003812	262.30	-10.9			
Iceland krona	0.009482	105.46	-6.6			
Norway krone	0.1247	8.0182	-7.2			
Poland zloty	0.2763	3.6195	-13.6			
Russia ruble-d	0.01697	58.939	-3.8			
Sweden krona	0.1216	8.2261	-9.7			
Switzerland franc	1.0521	0.9505	-6.7			
Middle East/Africa						
Bahrain dinar	2.6517	0.3771	-0.2			
Egypt pound-a	0.0560	17.8730	-14			
Israel shekel	0.2813	3.5545	-7.6			
Kuwait dinar	3.3058	0.3025	-1.0			
Oman rial	2.5970	0.3851	-0.2			
Qatar rial	0.2746	3.641	0.03			
Saudi Arabia riyal	0.2667	3.7502	-0.01			
South Africa rand	0.0770	12.9836	-5.2			
Asia-Pacific						
Hong Kong dollar	0.1280	7.8104	-0.7			
India rupee	0.0155	64.3750	-5.3			
Indonesia rupiah	0.0000751	13315	-1.6			
Japan yen	0.008956	111.65	-4.6			
Kazakhstan tenge	0.003063	325.96	-5.3			
Macau pataca	0.1244	8.0404	-1.6			
Malaysia ringgit-c	0.2330	4.2915	-4.3			
New Zealand dollar	0.7399	1.3515	<span style="			

FINANCE & MARKETS



The firm's partners own just 4.8% of Goldman, slipping under a 5% threshold that mandates public disclosures on buying or selling shares. Here, outside its headquarters.

Hedge Funds Enjoy Rebound

By ROB COPELAND

For the first time since 2015, hedge funds have reason for cheer.

The hedge-fund industry ended a record six consecutive quarters of investor outflows in the second quarter by raising more than \$6 billion as a group, according to researcher HFR Inc.

Faced with a stream of disaffected clients and steady outflows, the \$3 trillion hedge-fund industry has spent more than a year on the defensive. Some money managers, such as ex-Goldman Sachs star Eric Mindich, have outright closed up shop, while others have openly wondered whether it was worth sticking around if they have to cut their notoriously high fees to do so.

The bounceback in fund-raising comes amid a steady stretch for hedge-fund investment performance in the first half of the year, with the average fund up 3.6% overall. Helped by consistent gains for U.S. stocks, the industry has posted 15 monthly gains out of the past 16, the longest such streak since 2004.

Hedge-fund executives have also flagged renewed interest from international investors in the Middle East and Asia as helping overcome dimming support from big-money backers in the U.S. and Europe.

A single quarter's bounce-back won't cure all of the hedge-fund industry's woes. The recent inflows just barely overcome the \$5.5 billion cashed out in the first quarter, when brand-names such as Och-Ziff Capital Management experienced heavy redemptions. And as reported Thursday, many managers are preparing to sell off investments—thus shrinking their firms—to pay a tax bill on deferred income due at year-end.

Quantitative traders, prized as the new kings of Wall Street, soaked up the most new money in the second quarter, HFR said. Event-driven strategies, which include the activist investors who shake up corporate boardrooms, were a laggard, with nearly \$4 billion of outflows in the quarter, HFR said.

Goldman Partners Are Pulling Back

By LIZ HOFFMAN

Goldman Sachs Group Inc. became a public company 18 years ago. It is starting to look more like one.

Goldman's 450 or so partners own just 4.8% of the firm today, according to a securities filing late Wednesday. That is the lowest level since its initial public offering and slips under a 5% regulatory threshold that for years has mandated public disclosures that opened a window into the sway held by this elite inner circle.

Goldman won't have to disclose its partners' stakes, or

their buying and selling of the bank's shares, unless the group's collective stake jumps back over 5%.

That would shield from public view when partners unload shares en masse, which happened last winter as Goldman's stock touched highs.

The filings are the last outward vestige of the old private partnership that once ruled Goldman. The document itself is defiantly old-school, using a stripped-down format abandoned by most companies for Securities and Exchange Commission submissions.

The private-partnership era, which stretched from

Goldman's 1869 founding to its 1999 IPO, once meant that access to its upper echelons meant tying one's personal fortunes to the firm's capital.

Still, the ritual of selecting partners every two years has remained a vital part of the firm's identity, a way to reward and motivate its most promising employees and help guard the firm's culture as Wall Street changes around it.

Partner slots carry minimum salaries of about \$1 million and bonuses that can be multiples of that. Partners also get access to invest in firm deals and other perks.

Goldman's IPO made its

partners much more wealthy. But it also set in motion a slow-motion transformation of the firm. With more than 95% of its shares held by outside investors, Goldman is now, more than ever, a public company.

That lesson was hammered home this week, when Goldman faced tough questions from analysts about whether it has moved quickly enough to address weakness in its core trading business.

The firm posted steep declines in fixed-income trading that sparked a 2.6% drop in shares.

Analysts are also pressuring

Goldman on its signature secrecy, a privilege afforded to private partnerships but not public companies.

On its earnings conference call Tuesday, one analyst questioned why Goldman doesn't, as peers do, tell investors what they can expect in dividends and share repurchases.

"Analysts and investors are grown up enough" to understand that forecasts might change, the analyst, Autonomous Research's Guy Moszkowski, told Goldman Chief Financial Officer Martin Chavez. "I just don't think you're doing yourselves any favors by not telling us."

Apollo Global Is Preparing an IPO for ADT

Private-equity firm **Apollo Global Management** LLC is preparing an initial public offering for ADT, just a year after it bought the home-security company.

By Maureen Farrell,
Dana Mattioli
and Matt Jarzemsky

Apollo could file paperwork for the offering with the Securities and Exchange Commission by the fall and list the shares around the end of the year, according to people familiar with the matter.

The offering could value ADT at well over \$15 billion, including debt, some of the people said, making it one of the largest IPOs of the year.

There is no guarantee a list-

ing will take place, and the expected timing could slip. Such planning is always subject to the whims of the volatile IPO market.

Should Apollo pull it off, the IPO would mark a quick turnaround for the private-equity firm, which began consolidating home-security providers two years ago. The New York firm bought **Protection 1** and **ASG Security** simultaneously in 2015, put them together, and then used the combined company to acquire ADT for about \$7 billion last year. The former competitors were jointly valued at about \$15 billion, including debt, Apollo said in May of last year.

The fact that Apollo is already teeing up a sale is surprising and indicates the in-

vestment could prove to be lucrative.

Private-equity firms routinely buy a company intending to use it as a vehicle for additional acquisitions, but

The offering could value ADT at well over \$15 billion, including debt.

they rarely do so at such a quick pace and on such a scale. The deals have already started to pay off. In February, an ADT unit sold \$800 million in debt to finance a dividend to its owners.

ADT makes security products ranging from burglar-alarm systems to wireless cameras for homes and businesses. It has worked to position itself as a player in the so-called smart-home market, which aims to connect consumers wirelessly to various household devices.

ADT was once part of the former Tyco conglomerate assembled by L. Dennis Kozlowski. ADT had merged with Tyco in the late 1990s in a roughly \$5 billion deal.

Tyco used ADT's Bermuda domicile to relocate abroad and lower its tax rate. In 2012, Tyco spun off ADT to shareholders in an effort to refocus the sprawling conglomerate's operations.

Apollo, based in New York,

was founded by veterans of junk-bond pioneer Drexel Burnham Lambert. The firm is known for its willingness to make aggressive, sometimes contrarian, bets. Apollo recently raised \$23.5 billion for the world's largest-ever buyout fund.

IPO activity has picked up this year, with 94 companies raising \$28.5 billion on U.S. exchanges, according to Dealogic.

That is nearly triple the volume at this point last year, when 48 companies had raised \$10.6 billion amid the worst new-issue drought in more than a decade.

It isn't clear whether the momentum will continue, however, especially after some recent debuts stumbled.

Let's Do Lunch, Singapore Market Says

By STEVEN RUSSELLO

Traders in Singapore soon won't have to worry about being chained to their desks for lunch.

Singapore Exchange, known as SGX, said earlier this week that it will reinstate a daily one-hour lunch break, in which trading will stop from noon to 1 p.m. local time each day. The move, which will take effect in November, is part of the exchange operator's efforts to boost interest and trading volume in its market.

The exchange scrapped its longstanding lunch break in March 2011.

While going out for lunch is a dying tradition in the U.S. during the working week, the meal is still sacrosanct in many countries across Asia, not just for eating but also for networking. In 2012, hundreds of brokers in Hong Kong protested when the Hong Kong stock exchange cut its onetime two-hour midday trading break down to the current 60 minutes.

Stock exchanges in mainland China, Malaysia and Tokyo also have midday lunch intermissions. The Indonesia Stock Exchange has a 90-minute break each day, an intermission that swells to 2½ hours on Fridays.

Still, continuous trading occurs on exchanges in India, South Korea and Australia. And no major Western stock exchange has a midday break. In the U.S., the New York Stock Exchange gave up its lunch intermission in 1871.

Singapore had originally scrapped the lunch hour to increase competitiveness with its Asia-Pacific peers, but crit-

ics said trading volume dried up during what were normal lunch hours anyway.

The exchange has also announced plans to increase the minimum bid sizes for some listed securities and other measures to boost trading volume.

Many appear to feel a proper lunch break will help concentrate traders' minds.

"There was agreement with SGX's view that a midday break will not adversely affect trading volumes in any significant way," SGX said, after a consultation with some 40 firms involved in the market.

"Some respondents also said that shorter trading hours may in fact result in higher trading velocity and a concentration of liquidity, which would make price discovery easier."

Nicholas Teo, a trading strategist at KGI Securities in Singapore said: "Lunch is always good. We're in a relationship-building business. Lunch is a way to network."

From a corporate perspec-

tive, Mr. Teo said that a lunch break might also give companies the opportunity to release news in the middle of the day without the concern of a halt in trading of their stock.

Singapore has long been an important financial center in Asia, and has become a hub for high-tech data centers in recent years. Still, its equity market is relatively small, with roughly a \$730 billion market capitalization as of May, according to the World Federation of Exchanges. That is much smaller than rival exchanges in Asia such as those in Tokyo and Hong Kong, and a fraction of major markets in the U.S., data from the federation showed.

Singapore's market has performed well so far in 2017. The Straits Times index is up 15% year to date, riding a wave that has lifted most global equity markets higher for the year.

The Singapore Exchange's reputation has taken a hit over

the past several years. A crash of three small-capitalization stocks listed there in 2013 wiped out billions in market value, spooking investors and leading to diminished trading volumes in the region. The exchange has also grappled with a spate of high-profile trading outages in recent years.

It hosted just 16 initial public offerings last year, down from 27 in 2014 and as many as 79 in 2004, according to data provider Dealogic.

The announced changes are set to go into effect on Nov. 13.

American Express's Lending Push Pays Off

By ANNAMARIA ANDRIOTIS
AND ALI STRATTON

American Express Co. reported net income and revenue for the second quarter that exceeded analysts' expectations, results largely helped by the company's push into lending.

Total revenue net of interest expense was \$8.3 billion, up 1% from a year earlier. It was the first quarter of adjusted revenue growth since a year ago.

Still, second-quarter earnings fell 33% from last year as the card giant endured heavy competition from large banks and the loss of its 16-year exclusive relationship with **Costco Wholesale** Corp.

The firm, run by Chairman and Chief Executive Kenneth Chenault, posted net income of \$1.3 billion, or \$147 a share. Analysts polled by Thomson Reuters expected earnings of \$143.

When removing the Costco balances that AmEx had for most of the second quarter last year, adjusted revenue increased 8%, compared with 7% in the first quarter and 4% a year ago.

Jeffrey Campbell, chief financial officer of AmEx, said the company now expects full-year adjusted revenue growth to be

above the top end of the 5%

6% range it shared at its investor day in March. "We're off to a stronger start than we expected," he said.

AmEx's revenue growth is largely due to its efforts to take on more loan balances. The company has traditionally focused on affluent consumers who pay their bills in full each month.

AmEx's world-wide card member loans reached \$66 billion in the second quarter, up 10% from a year earlier. In the U.S., card-member loans hit \$58.5 billion, also up 10% from a year prior. Industrywide, credit-card balances in the U.S. are up about 6% from a year ago, according to Federal Reserve data from May.

Mr. Campbell said AmEx believes it has "a long runway for growth" with lending, as it increases lending to existing customers as well as new ones.

The company increased loan-loss reserves for world-wide card-member loans by 21% to \$1.3 billion. Its net write-off rate, including principal, interest and fees written off as a loss, increased to 2.1% from 2.0% in the first quarter and 1.8% a year prior, though it still remains among the lowest in the industry.

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MARKETS

Fewer China Bonds Go Bad

Despite a tricky year as rates rise, corporate debt defaults fell in first half of 2017

By SHEN HONG

China's bond market has had a tricky year, with rising borrowing costs and a downturn in new issues, but there is one apparent bright spot: Fewer bonds are going bad.

The number of defaults on Chinese corporate bonds dropped to 23 in the first half of the year, on debt worth a combined 18.7 billion yuan (\$2.8 billion)—a drop in the ocean in a \$4.9 trillion market. That is down from 38 bonds worth 23.7 billion yuan in the first half of 2016, according to data provider Wind Info.

A steady performance from China's economy has helped corporate earnings. Steel and coal companies, among the heaviest bond issuers in recent years, have benefited from higher commodity prices.

"The seemingly better performance of bond defaults was to a large extent due to the significant rebound in steel and coal prices, thanks to Beijing's strong efforts to cut overcapacity in those industries," said Zhang Shuncheng, analyst at Fitch Ratings.

A drop in defaults might encourage foreign investors, who have greater access to China's bond market than in the past. Last year, Beijing scrapped many restrictions on foreign investment in domestic bonds, and earlier this month it opened the so-called Bond Connect trading link, which enables global investors in Hong Kong to invest in bonds traded on the mainland.

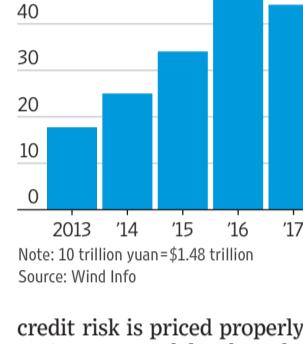
Still, some say the low default level may be a warning sign—a reflection of Beijing's history of bailing out state-owned companies in financial trouble. Bailouts can hinder the development of a market where



China's steel industry, a heavy user of the bond market, has benefited from higher prices.

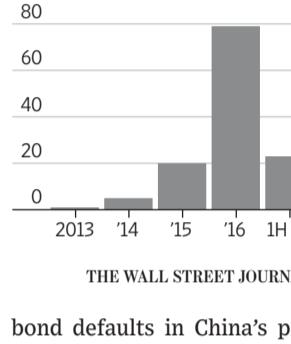
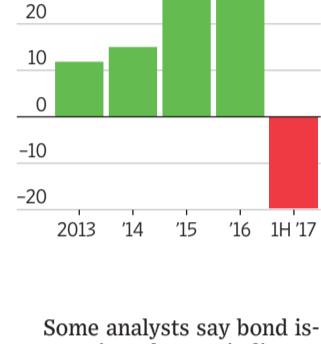
Defaults in Decline

Despite strains in China's bond market, defaults on corporate debt are declining.



Note: 10 trillion yuan=\$1.48 trillion

Source: Wind Info



THE WALL STREET JOURNAL.

credit risk is priced properly.

Corporate debt has ballooned to around 150% of China's gross domestic product as companies rely even more on borrowed money to support themselves and grow. And recently the cost of borrowing has risen: The yield on the benchmark 10-year government bond now stands at 3.59%, just below the 29-month high of 3.69% it hit in early May.

"The fundamentals of China's corporate-bond market have actually deteriorated a lot and the risk of more defaults down the road isn't going away at all," said Fitch's Mr. Zhang.

Some analysts say bond issuance is a better indicator than defaults: Chinese companies raised 2 trillion yuan via corporate bonds in the year's first half, less than half the year-earlier 4.2 trillion yuan.

With more Chinese corporate debt maturing than is being issued, net bond financing in the first half was a negative 251.3 billion yuan—the first time it has turned negative for a six-month period—compared with a positive 1.92 trillion yuan in the first half of 2016.

A record 418 companies shelved or delayed bond sales.

Another noteworthy trend is the rise in the proportion of

bond defaults in China's private sector. Nine of the 11 corporate-bond issuers that defaulted on bonds in the first half were private companies, compared with 11 of 19 a year earlier. Private companies historically have had less access to state-directed bank lending.

"Although the number of defaults looks smaller this year, I happen to think that the risk has actually grown because the majority of the bond issuers that have defaulted are private firms this time," said Wu MinHong, an analyst at Hongxin Securities.

—Yifan Xie contributed to this article.

Dow Slips, Hurt By Home Depot

By RIVA GOLD
AND CORRIE DRIEBUSCH

The Dow Jones Industrial Average pulled back from a record Thursday, as a drop by Home Depot took more than 45 points off the blue-chip index.

Shares of appliance retailers fell after Sears Holdings

said it would

start selling its Kenmore line of refrigerators and stoves on Amazon.com's website, its first distribution of its kitchen appliances outside of its own stores.

Sears shares were up 12% in late trading, while shares of Lowe's fell 5.1% and Home Depot dropped 4%. Best Buy, which also sells appliances, dropped 3.9%.

The Dow industrials fell 28.97 points, or 0.1%, to 21611.78, while the S&P 500 fell less than 0.1% and Nasdaq Composite rose nearly 0.1%. All three indexes, along with the Russell 2000, rose to record closing highs on Wednesday.

Earlier Thursday stocks briefly dropped sharply after a Bloomberg report that the investigation into ties between President Donald Trump's campaign and Russia in last year's election are extending to Trump's businesses. The report cited a person familiar with the probe.

"At this point, the market is viewed as so frothy, it's definitely a sell first and sort it out later mentality," said Justin Wiggs, managing director in equity trading at Stifel Nicolaus.

Meanwhile, corporate earnings drove swings in individual stocks. Shares of Qualcomm fell 5% after the producer of smartphone chips said its profit dropped 40% in the latest quarter, while Amer-

ican Express dropped 0.8% after second-quarter earnings declined 33% from last year.

In Europe, the Stoxx Europe 600 fell 0.4% to 384.07, while Asian markets extended a recent advance. The euro was on track for its highest settlement since January 2015 after two central-bank meetings and a flurry of corporate results.

Monetary policy was in focus for most investors with a pair of central-bank meetings driving stocks, bonds and currency markets. The Bank of Japan pushed back its inflation forecast, boosting hopes for extended monetary stimulus just hours ahead of the policy decision and press conference with the European Central Bank.

The ECB on Thursday left its key interest rates unchanged as expected and retained a passage in its opening statement reiterating its readiness to increase its €60 billion (\$69 billion) a month bond-buying program if needed.

The euro initially fell but later climbed during Mr. Draghi's press conference. The euro rose 1% to \$1.1624 by late afternoon in New York.

The British pound fell 0.4% to \$1.2968, lifting the export-heavy FTSE 100 Index. The wider WSJ Dollar Index, which tracks the dollar against a basket of 16 currencies, fell 0.3%.

Earlier, the Nikkei Stock Average led stock markets in Asia higher, rising 0.6%, after the Bank of Japan raised its economic growth forecasts at its policy meeting but once again pushed back its inflation target.

The BOJ now expects inflation to reach around 2% in the year ending March 2020, a year later than its previous projection, raising investors' expectations for an extended period of stimulus.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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Draghi's Delicate Balancing Act



The decision to end bond purchases may not be easier in the fall.

tightening of conditions "was the last thing we may want."

But investors are hypersensitive to even slight changes in tone. German bond yields and the euro initially fell when the ECB's policy statement showed it retaining the option to do more asset purchases if needed, a potentially dovish signal. But they then rose again as Mr. Draghi in his press conference was upbeat

on growth and didn't sound too worried about the rise in yields and the euro that has occurred in the past few weeks. Markets took that as a green light: In the end, the euro rose above \$1.16, reaching its highest level since January 2015.

It isn't clear, however, that the ECB's decision will be any easier in the fall than it might be now. While the growth picture in the eurozone is strong, Mr. Draghi

was forced to acknowledge that inflation "is not where we want it to be." The latest reading showed headline inflation at 1.3% in June and little sign of upward pressure on underlying measures. But Mr. Draghi reiterated that there was confidence the economic expansion would lift inflation toward the ECB's aim of "below, but close to" 2%.

The ECB's ambiguity about its intentions have helped keep market pressures contained in the short term. While the euro and bond yields have moved, there has been little in the way of repercussions into other asset classes. If this is a taper tantrum, it's on a small scale so far.

The focus will now move swiftly to Mr. Draghi's appearance at the Federal Reserve's Jackson Hole conference at the end of August, where his speech will be scrutinized for any hints on how the ECB will execute its exit plans. Mark your diaries now.

—Richard Barley

OVERHEARD

Biotech investors need a safe space to protect them from short sellers.

Such is the view of the Biotechnology Innovation Organization. John Blake, a senior finance executive at **aTyr Pharma**, said during congressional testimony Tuesday on behalf of the group that new disclosure rules are needed to prevent manipulation from investors betting companies' stock prices will fall.

While he said appropriate short selling can support stable markets, "we strongly believe that the current lack of transparency related to short positions is enabling trading behaviors that unfairly harm growing companies, long-term investors, and, most importantly, patients."

Yet Mr. Blake's employer might not offer the best example of the described phenomenon.

The stock is down about 75% since its 2015 initial public offering. A mere 3.8% of publicly available shares are sold short.

Qualcomm Chips Steer The Ship

It has been easy to forget lately that Qualcomm is a chip company. Investors won't have that problem for a while, for better and for worse.

Chips turned out to be the bright spot in Qualcomm's fiscal third-quarter results late Wednesday. Revenue for the company's chipset segment rose 5% year over year, beating the 1% gain expected by analysts. Qualcomm controls the majority of the market for modem chips that connect smartphones to wireless networks.

The rub is that chips accounted for 75% of Qualcomm's total revenue in the quarter, the highest in at least nine years. That is because Qualcomm's licensing business took a serious hit from its dispute with Apple.

Licensing revenue fell an unprecedented 42% year over year, in large part because Apple's contract manufacturers are withholding payments owed to Qualcomm.

Qualcomm warned previously of the impact, yet many analysts hadn't adjusted their forecasts down.

Licensing accounts for the majority of Qualcomm's operating profit, so investors should expect this dispute to cast a shadow for the foreseeable future. The matter also has spawned lawsuits by those manufacturers against Qualcomm. Qualcomm for its part is seeking an injunction against some iPhone models.

Also unclear is the fate of Qualcomm's pending acquisition of **NXP Semiconductors**. That is still awaiting regulatory approvals, while some NXP shareholders are agitating for a higher offer. Qualcomm still faces too many unknowns for investors to feel comfortable.

—Dan Gallagher

The Saga Isn't Quite Over for China's Dalian Wanda Group

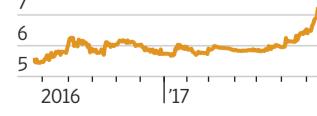
Many good movies have a satisfying twist at the end.

China's **Dalian Wanda Group**—owner of the world's biggest cinema chain, **AMC Entertainment Holdings**—may hope a last-minute tweak to a deal to sell nearly \$10 billion of hotel and amusement-park assets can solve some of its near-term problems. Yet its key audience, the powers that be in Beijing, may still not be applauding.

Under scrutiny from regulators following its debt-fueled shopping spree overseas in recent years, Wanda had originally planned to sell a collection of its Chinese assets to **Sunac China Hold-**

High Rise

Yield on Sunac's 2019 dollar-denominated bonds



Source: FactSet, Tradeweb

THE WALL STREET JOURNAL.

ings, a fellow property developer. Sunac itself, though, is also heavily in debt, to the extent that Wanda had arranged to lend it about \$4.4 billion to get the deal done. The arrival of a new

buyer, midsize developer **Guangzhou R&F Properties**, means Wanda will sell it some of the hotels in the deal for \$2.95 billion. That leaves Sunac needing to fund a smaller bill of \$6.5 billion to buy only the theme parks. As a result, Wanda's loan to Sunac has been canceled.

Happy endings for all, it might seem. Sunac's shares jumped 14% Thursday, while R&F's rose 6.8%. Wanda says the deal will lead to a significant reduction in its debt burden: The price of its bonds surged Thursday.

But investors should wait for the credits to roll. Sunac will still be highly indebted after this deal, which, even

at its reduced size, will eat up most of its cash. The yield on its bonds is still well up from their level a month ago, meaning it faces much higher financing costs in the future.

As for Wanda, its objective of gaining a listing in mainland China by August next year may remain tough to achieve. The company delisted its commercial unit from the Hong Kong exchange last year in a \$4.4 billion take-private deal. It promised that deal's investors a higher valuation from a mainland listing, adding that it would repay them with 12% interest a year if that didn't materialize.

There is, however, still a logjam of companies trying to list in Shanghai and Shenzhen. Because this latest transaction will alter Wanda's business substantially, regulators may need more time to scrutinize its planned listing. Wanda is clearly still in Beijing's bad books.

The Chinese government has told the country's biggest banks to stop financing some of its overseas deals, according to The Wall Street Journal.

Wanda may have gotten its deal done finally. The sequels are what will be worth watching.

—Jacky Wong

Overly oaky
wines: Some
drinkers have a
quarrel with
barrels



W6

OFF DUTY



The favorite
tools of
the Baltimore
Orioles' head
groundskeeper
WS

EATING | DRINKING | STYLE | FASHION | DESIGN | DECORATING | ADVENTURE | TRAVEL | GEAR | GADGETS

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THE WALL STREET JOURNAL.

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Older, Wiser, Trendier?

As men age, dressing stylishly gets increasingly treacherous—especially with fashion veering ever more casual. But giving up entirely is never a good look. Here's help

BY TERRANCE FLYNN

CALL IT GUTSY or foolish, but as a younger man I was prone to taking the occasional fashion risk. When I was 30, for example, a pair of black leather pants spoke to me. I mean they actually made a sound when I pulled them on in the dressing room, that satisfying twisting noise of leather in motion. They also smelled like a catcher's mitt and bulked up my thighs so that walking in them was a minor undertaking. But dressing outside my comfort zone had the pleasant effect of estranging me slightly from myself, of magnifying my boldness. (Then again, I bought the pants at Gap, the daring purveyor of the Pocket-T. So not all *that* risky.)

Ten years later, I was still at it. At 40, I fell prey to that illusion, perpetuated briefly in the aughts, that urban western wear was not as embarrassing as previously thought, and got myself a blue straw cowboy hat. I promptly took the hat on a weekend to Montauk—a trip whose sole purpose was to introduce me to the best friends of my new significant other. The relationship lasted a long time but so did the story of my appearing poolside, mounting a lounge chair like a saddle and donning that stupid hat as if to say: *No big deal, I'm just wearing a blue cowboy hat at the pool—why wouldn't I?*

I recently entered my 50s. As a newly single father with a school-age daughter, I'm warier now about dressing outside the lines. Giving up, however, is never a stylish look. In California, where I live, sartorial surrender among older men often manifests as a field vest with its outer pockets drooping sadly like a basset hound's eyes, or head-to-toe Margaritaville wear, a look I like to call Forever 71. There has to be a middle state, neither embarrassed nor embalmed in which over-40 men can live and look sharp. And don't believe that old chestnut about men becoming distinguished as they age no matter what they wear, as if by default rather than effort. It's total crap. Not everyone grows older like the Trivago guy or Flea.

So you do actually have to try, but I've learned through trial and glaring error that it's best to proceed with stealth, precision and caution. I'm suspicious of most trends, especially as men's fashion skews increasingly more casual (sneakers posited as appropriate wedding-guest attire) or florid (chinoiserie embroidery; anything from Gucci). Colors other than manly army greens and universally condoned blues work best in small doses, though not as cowboy hats. And if you don't submit daily to the form of group torture called CrossFit, I'd avoid anything clingy or flimsy; softer bodies need the flattering armor of weightier fabrics. (See "Getting It Right" on page D2 for more advice.) I avoid the new array of ethereal shirts made of ever more gauzy, practically mist-like materials. Similarly lacking in structure are sweatpants attempting to stand in for jeans. Worst of all: drop-crotch "harem" sweatpants. I can't be the only guy my age looking for clothes with substance and few, if any, concubine connotations.

Turns out I am not. Take Michael Engleman, the mid-40s executive vice president of entertainment marketing and brand innovation at TBS and TNT in Los Angeles. He's

Please turn to page W2



JUST DO IT...OR MAYBE NOT

Wearing sneakers with a suit has become socially acceptable in some quarters, but mature guys might want a pair that skews more understated than these Tom Sachs X Nike Mars Yard 2.0.

OFF DUTY

NEITHER EMBARRASSED NOR EMBALMED

Continued from page W1
also husband of comedy writer Jessi Klein and a busy new dad. His time crunch led him to try Seize sur Vingt, a clothier specializing in custom tailoring that started as a small shop in New York's Nolita neighborhood, and has since expanded to sell within its own multi-brand menswear shop in Manhattan called Groupe and L.A. men's boutique Avedon. "Now they have my measurements," he said. "I picked the fabrics. They sent me a couple of shirts and a suit. Done." This route is a bit beyond my means, but I envy him the opportunity to specify materials that aren't onionskin thin and to get the fit right every time, neither too voluminous nor too vacuum-sealed—both of which defeat an older guy's bid for style.

'Never mistake someone's telling you how young you look for a compliment.'

Michael Souter, 64, founder of Souter/Partners, a luxury branding firm in New York with clients such as Givenchy and Issey Miyake, still has a functioning relationship with fashion but knows the value of restraint. His livelihood, after all, relies on the subtlety of his taste. "One of the few rules I have," he said, "is to avoid anything with a youth message on it." I think guiltily of my Marquette University sweatshirts and, more embarrassingly, of the fact that I only recently edited from my wardrobe a "Vote for Pedro" ringer T-shirt. "Also, avoid hair dye," added Mr. Souter. It should be mentioned that he has a full head of thick, naturally non-gray hair. He is less strict about other practices, such as "wearing a young jean or too fun a sock," stating only that they should be "minimized." Fashion insiders, I've noticed, favor the collective singular ("jean," "sock"), dropping that final "s" like it's completely out of style.

"Or a pleated short," I offered gamely.

"Any shorts," he said, reinstating the last "s" in shorts, perhaps as a slight admonition about who gets to use the lingo and when. "The important thing to remember is: Never mistake someone's telling you how young you look for a compliment. It is not."

"No?"

"No. Only old people are told they look young, and it is usually when their strategy is showing. Shoot for looking good, not young."

In my childhood, my father used a hair tonic called Vitalis, which supposedly made hair shiny minus the greasiness of Bryl-creem. Though it failed completely to tame my dense curls when I gave it a try, its name hinted at a quality that still defines many of the well-dressed men I admire. When I'm 60 and beyond, I'd like to emulate those older guys who have a healthy respect for the open question. Men who know that the real fountain of youth lies in maintaining a lively curiosity about what life might yet bring. Who, when they're getting dressed, leave room for unpredictability.

I hope that, even if I'm just getting dressed to take the garbage out, I'll still be open to the possibility that I could bump into that attractive neighbor who right at that moment might be walking down an adjacent driveway. God help me if I'm wearing harem sweatpants when I do.



GOOD OLD BOYS From left: Both Brad Pitt, 53, and Steve Carell, 54, know how to nod to fashion without looking conspicuously "fashionable."

GETTING IT
RIGHT // THREE
COMBOS TO HELP
OLDER MEN LOOK
CURRENT IN
RELATIVELY QUIET
WAYS

INFORMAL UPGRADE

A denim overshirt is a casual classic (just ask Steve McQueen), but this one by Tod's elevates the cut with stolen-from-a-dress-shirt spread collar and sharp, straight hem. A stylish twist: Wearing it over a Breton-stripe T-shirt.

NAP OF LUXURY

Suede loafers from Crockett & Jones, not athletic sneakers, complete the ensemble. Pair them with cotton twill patch-pocket pants that dial up the default look of chinos a couple notches.

BRIGHT IDEA
While it's safe to stick to navy, brown, gray and black clothes when you're of a certain age, a palate punch-up like this burnt orange Brunello Cucinelli sweater—mostly hidden under a restrained suit—adds vitality.

SOLID FOUNDATION

This sweater would be too loud worn with an electric-blue suit. Manage the risk of color by grounding it with staid shades like no-nonsense navy and sophisticated, black cap-toe shoes.

THE ZIP CODE
Between a mid-life-crisis biker jacket and an overly collegiate fleece, lies the distinguished suede bomber. Wear it over a polo with enough heft to its fabric that it won't cling.

BEST DENIM
Dark-washed, straight-legged (read: not Al-Bundy baggy) and free of distressing or intentional holes: These are the jeans every dad should aspire to. Wear them with under-the-radar, solid leather sneakers to finish off a dignified downtime look.

TOO ERR IS HUMAN, BUT... SERIOUSLY?

There are so many ways older men can go wrong when it comes to style.

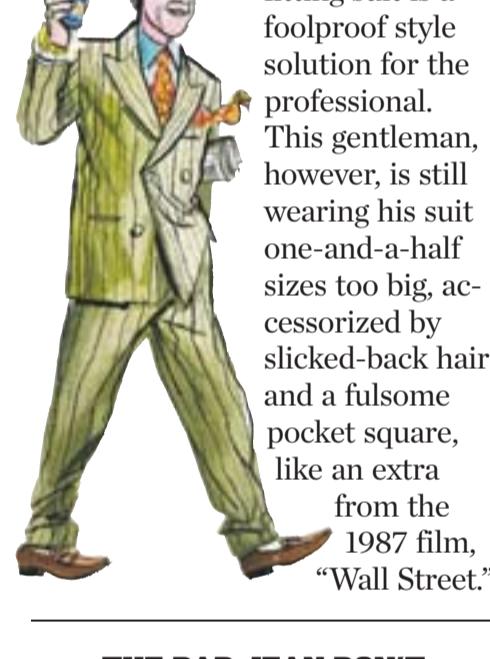
Here, a few examples of trying too hard, not trying hard enough and just plain checking out

THE TRENDY TRAGEDY

This man loved to have the latest from early on. He may still have a pair of Vivienne Westwood bondage pants, circa-1977, in his closet. Nowadays he's all about Gucci's noisily cutting-edge clothes and droopy-necked T-shirts that expose his salt-and-pepper chest hair.



THE EIGHTIES LEFTOVER



Finding a great-fitting suit is a foolproof style solution for the professional. This gentleman, however, is still wearing his suit one-and-a-half sizes too big, accessorized by slicked-back hair and a fulsome pocket square, like an extra from the 1987 film, "Wall Street."

THE DAD-JEAN DON'T

They're safe. They're easy. They're comfortable. Dad jeans certainly have their allure. But wearing them can also telegraph the message that you've given up. This paterfamilias has lazily added a too-big polo shirt, a freebie baseball cap and drugstore sunglasses.



THE 'I WAS WITH THE BAND'

When it comes to more mature guys with spare tires, we don't recommend wearing a "The Strokes" T-shirt in 2017. And you might want to leave the man-buns to the promising 20-something subway buskers. This fellow, however, marches to his own drummer.



Officine Générale Jacket, \$1,325, bygeorgeaustin.com; Polo Shirt, \$125, sunspele.com; Jeans, \$125, sidmashburn.com; Sneakers, \$845, Brunello Cucinelli, 212-334-1010

OFF DUTY



Clockwise from left: Necklace, Price upon Request, Bulgari, 800-285-4274; Magicien Earrings, Price upon Request, Cartier, 800-227-8437; Vintage Starburst Earrings, \$188,000, Verdura, 212-758-3388; Ring, \$60,000, Tiffany & Co., 800-843-3269

plained Lori Gross, author of "Brooches: Timeless Adornment." With their straight edges, the stones were suited to being creatively stacked and tiled. "Some of the Cartier and Van Cleef pieces from that period have the most fantastical shapes," said Ms. Gross.

Baguettes are fueling a similar creative zeal today. Austin, Texas designer Nak Armstrong transforms untraditionally trapezoid-shaped, tapered baguettes, into a "pleated, ruffled, ruched look, like you would see in fabric." He views the cut as a challenge of sorts. "Some people let the stone tell them how they should design the piece," he said. "I want to whip them into shape and turn them into something else."

Designer Suzanne Kalandjian, founder of Suzanne Kalan, started using baguettes six years ago, but her designs initially met with resistance. "Baguettes are [sharp-cornered] and not as shiny as round diamonds," said Ms. Kalandjian. Customers looking for edgier jewelry cottoned to her pieces immediately, but more conventional stores, she said, "took a bit longer." Today, her collection, which merges the romance of diamonds with spiky, geometric forms, is almost fully baguette-focused. It's carried in places such as Neiman Marcus and Dover Street Market.

'It has a clean look that makes a statement without all the chatter.'

Baguettes can, of course, be used in elaborate traditional pieces, like the Bulgari necklace pictured here, but they also appeal to jewelry minimalists who might not usually consider diamonds. "The cut has a clean, architectural look that makes a statement without all the chatter," said Greek designer Ileana Makri, whose current collection features her signature "evil eye" pieces rendered in baguette diamonds as well as a necklace featuring an inverse pyramid of baguettes.

The simplicity of the cut, however, belies its technical challenges. The cut shows all flaws, "like clear water" said Ms. Makri, so high-quality stones are a must. Setting can also be a challenge, due to the crisp corners.

Yet that's clearly not keeping jewelers from enthusiastically using the stones, particularly designers like Ms. Kalandjian who are banking on the cut's popularity. She, however, is confidently unbothered. "In the beginning people thought they were trendy," said jeweler Ms. Kalandjian. "But they're here to stay. It's done—it's part of life now."



The Baguette Rises

Once a supporting player for big blingier stones, the rectangular diamond shape is now starring in unexpected modern jewelry designs

BY RIMA SUKI

FIRST LET'S GET it out of the way. The baguette—the long, lean, rectangular cut of diamond—has little in common with the long, lean, crisp-crusted French loaf of the same name. The word is derived from an Italian noun meaning "stick" or "wand."

The glittering baguette has most often played backup singer to the proverbial rock star, most often flanking a large round or emerald-cut stone in a ring. It was particularly visible in the 1980s when big showy gems were de rigueur. Ah, but how times have changed. The baguette is currently at the center of jewelry design—literally and otherwise. "Baguettes were late to the party but now are having a moment," said Paul Schneider, co-

owner of Twist, a jeweler with shops in Seattle and Portland, Ore., that carries modern pieces from brands like Ileana Makri and Suzanne Kalan.

The cut evolved from the unfortunately named hogback cut (whose uppermost surfaces form a peak, while the baguette's top is flat). Though its history dates to the 1600s, the baguette cut "became more prominent in the 1920s during the art deco period," ex-

Suzanne
Kalan Cuff,
\$58,000,
Neiman
Marcus,
310-550-5900



ILLUSTRATIONS BY JOE MOREOVER

HANG TIME CLOSET STRATEGIES FROM WOMEN WITH LOTS OF CLOTHES



In the debut of Off Duty's new recurring feature on wardrobe organization, three fashion-loving women share their tips on orderly hanging, happiness-inducing shoe storage and the one thing every clotheshorse should do



MANDANA DAYANI

Mandana Dayani, the Los Angeles-based chief brand officer of online estate-sale website Everything But the House (EBTH), recently reorganized her walk-in with a professional: "It was the most therapeutic thing I've ever done," she said.

On hanging order Ms. Dayani goes for the classic combination of hanging clothes by color and category. "Blazers together and organized by color; coats by color and so on," said Ms. Dayani. The one exception is her dresses. "We organized them by length," she said. Anything embellished for evening is in a garment bag—with a clear window—to avoid snagging its neighbor.

On shoe storage Ms. Dayani is lucky enough to have a wall of shoe shelves in her walk-in. But a recent tweak in how she arranges them has made a big difference. "I used to do one heel forward, one toe forward to save space," she said. This time I did both toes forward; it just feels happier! All boots get stuffers to keep them upright. "You see them so much better," she said.

On the best practice everyone can follow Don't jam a closet to the brim. Said Ms. Dayani, "I think having actual air circulation is really important for preserving the fabrics." And your sanity.

CATEGORICALLY CLEVER



AMANDA ROSS

When she was a fashion editor living in a one-bedroom Manhattan apartment, Amanda Ross, founder of lifestyle and e-commerce website ARossGirl, sharpened her wardrobe wizardry. "It's amazing how much you can fit into a closet if you're organized," she said.

On hanging order This self-professed hater of clutter arranges clothes by category, color and season in the closets she now shares with her husband. Being able to see and access your clothes, said Ms. Ross, is a crucial step in being stylish. "[Getting dressed] is like baking a cake," she added. "You have to have the right ingredients on hand—and know when to mix them."

On shoe storage Again, visibility is important. "Nothing is in a box," said Ms. Ross of the floor-to-ceiling shoe shelves in her main closet.

On the best practice everyone can follow Take stock every season. Twice a year, she purges pieces she's not wearing and knows she won't wear again. She also sifts through various secondary closets to find things she'll want to access quickly and moves them to her main closet. "It's like shopping in your own wardrobe," she said. "I pull out things from 10 years ago that are relevant today."



BRETT HEYMAN

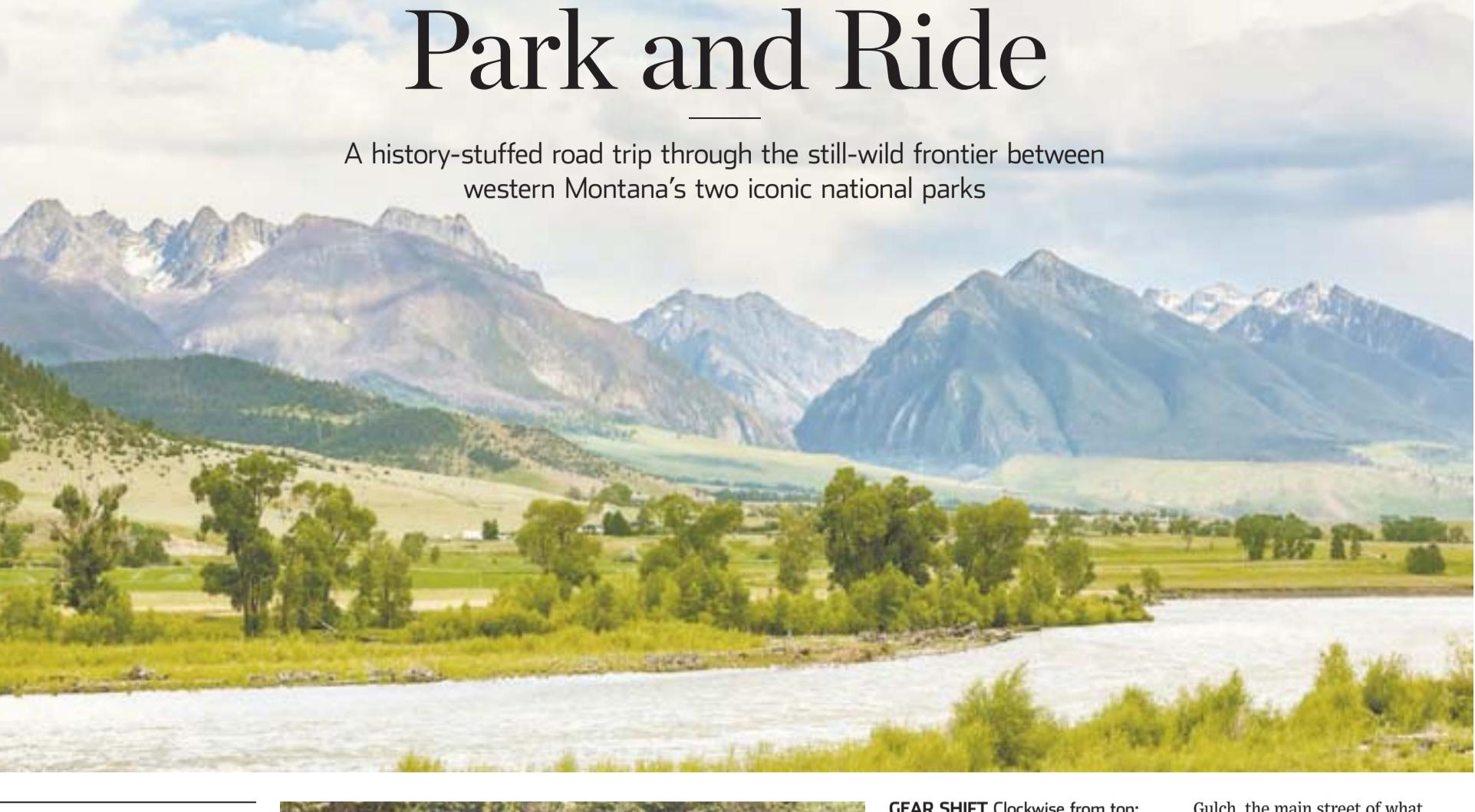
Though she's streamlined her wardrobe since having kids (ages 7, 6 and 1), Brett Heyman, founder of handbag line Edie Parker, still requires serious closet space for a vintage collection which, she said charmingly, equips her to dress for impromptu costume parties.

On hanging order Ms. Heyman also hangs by type—trousers, skirts, dresses, et cetera—which is probably so common because it's simply logical. The designer is dedicated to one sort of hanger—the razor-thin SlimLine brand. "It's out of necessity," she said. "I can't fit anything else."

On shoe storage Ms. Heyman made her closets a priority when she renovated an apartment with her husband eight years ago. Footwear got its own special place. "I used faux Venetian glass to make a beautiful wall in our bedroom that you open [to reveal] a shallow shoe closet." One drawback: it doesn't fit boots. "I just put them in my main closet and close my eyes," she said.

On the best practice everyone can follow Don't get too attached to stuff. "There are so many great consignment places," said Ms. Heyman. If you're not wearing it, let it go unless it has sentimental—or emergency costume-party—value. —Christine Whitney

OFF DUTY



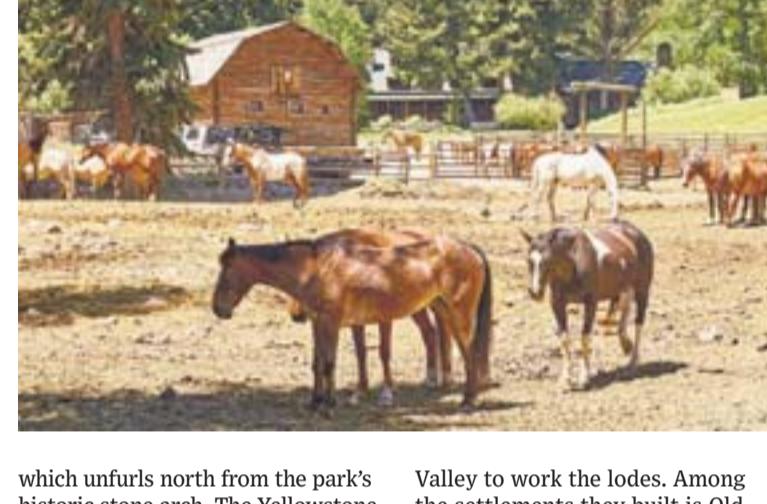
JOSHUA TUG FERGUSON FOR THE WALL STREET JOURNAL

A history-stuffed road trip through the still-wild frontier between western Montana's two iconic national parks

BY JIM ROBBINS

OF AMERICA'S 59 national parks, two of the most celebrated lie some 400 miles apart in western Montana—Glacier and Yellowstone. Even though I've lived in the region for four decades, I'd never taken the time to fully explore the in-between territory outside the parks. So one spring day, after the snow had mostly melted off, I set out from Yellowstone with my compass pointed north toward Glacier. If you don't stop, weaving a path through the wild heart of the northern Rockies, the drive takes about seven hours, but I was in no rush and spread the trip out over three days.

The first thing you realize leaving Yellowstone—by way of Highway 89—is that the abundant wildlife doesn't stop at its boundary. Just north of Gardiner, a park gateway town, electric warning signs flash "animals on the road" and indeed they were: 20 or so elk milled about in the middle of the highway and mule deer too numerous to mention crowded the shoulder all along a 50-mile stretch of highway. Antelope grazed, unperturbed by traffic whipping along the road, bison wandered across the green hills and bald eagles wheeled overhead, scouting fish along the purling Yellowstone River. This is Montana's Paradise valley,



which unfurls north from the park's historic stone arch. The Yellowstone, the longest undammed river in the contiguous U.S., bisects the valley and many people come to raft it in these parts, especially on the churning rapids of Yankee Jim Canyon, the color of chocolate milk in the spring, giving way to a sea-green shade come summer. The steel-gray Absaroka Mountains tower mightily in the background.

For centuries, the Paradise Valley was a shared hunting ground for Native American tribes in the region. But much of the written history of this part of Montana features pick-wielding prospectors and their dogged search for precious metals. In the 1860s, gold miners moved into the Paradise

Valley to work the lodes. Among the settlements they built is Old Chico, a mountain village a half-hour north of Yellowstone, now home to just a handful of people who live in an assortment of old cabins and newer houses with breath-stealing views of the peaks. Within walking distance sits Chico Hot Springs Resort & Day Spa, centered around a large geothermally heated swimming pool. The resort's barnwood-lined dining room, which serves grass-fed beef and fresh fish, also happens to rank among the best restaurants in the state. After dinner, I swam in the hot pool, steam shrouding the mountain scenery.

The 19th-century miners here also needed to eat, and so cattlemen and their herds made their way to the Paradise Valley. A gold miner named Nelson Story drove 1,000 cows from Texas across the plains, up the Bozeman Trail and on to Montana where he founded a ranch tucked in the mountains near a town called Emigrant. Now a sprawling spread, it's called the Mountain Sky Guest Ranch, a high-end rustic retreat owned by Arthur Blank, chairman of Home Depot.

I joined Interstate 90 at Livingston, a windblown railroad town with a quaint historic downtown backed by a sudden rise of mountains. I spent the night in a meticulously refurbished railcar (listed on the vacation-rental site VRBO), set in a cottonwood grove a few miles south of town.

This region was still largely cattle country when I first came west in

GEAR SHIFT Clockwise from top:
Overlooking Yellowstone River from
just outside the northern border of
Yellowstone National Park; the
Garden of a Thousand Buddhas;
Mountain Sky Guest Ranch, a high-
end dude ranch in the Paradise Valley.



the 1970s, but it has since become a destination for the world's well-heeled who come for the scenery, skiing and fly fishing. "I think it's because the landscape and people are still authentic," said Cyndy Andrus, deputy mayor of Bozeman, the bustling college town just 30 minutes from Livingston.

After lunch in Bozeman, at a popular place called Dave's Sushi, I stopped at the Madison Buffalo Jump, a seven-mile detour (one way) off the Interstate, some of it on a bumpy gravel road but worth the trip. The tribes who came here over the centuries got dressed like bison and whooped and yelled, luring and chasing the creatures down lanes lined with rock, and over the cliff to their death or near death on the rocks below. I hiked to the top for an expansive view of the valley. It's the kind of place, as the saying goes, where you can watch your dog run away for three days.

Just up the road, the town of Three Forks is named for the nearby site where three rivers—named the Madison, Gallatin and Jefferson by Lewis and Clark—meander and bow and finally get their act together to create the beginning of the mighty Missouri. I hiked around the Missouri Headwaters State Park and found the exact spot where three rivers become one.

I motored on to Helena, my hometown, founded in 1864 when four exasperated prospectors, on the verge of giving up, finally plucked gold nuggets out of a small creek that tumbled out of the mountains. The gold-filled creek became Last Chance

Gulch, the main street of what quickly evolved into a prosperous city. Some say that for a time, Helena claimed more millionaires than any town its size, which is easy enough to fathom when you drive through its 19th-century mansion district. Today, new coffee shops, a microbrewery and a wine bar line the gulch. Jill Roberts, who returned home to Helena after many years as a sommelier in New York, co-owns the wine bar, Hawthorn Bottle Shop and Tasting Room. "My Dad used to sing in a barbershop quartet in front of this building," she said. "I wanted to be part of bringing back historic Helena."

The shortest route from here to Glacier zips through the Swan Valley, but who's in a hurry? I headed west, driving a couple of hours to Missoula, another lively college town in the mountains. The novel "A River Runs Through It" was partly set here, and a river called the Clark Fork does indeed run through the center of town. Surfers in gleaming black wetsuits gather below the Higgins Avenue Bridge to ride its rapids.

A few miles north of town, I stopped at what may be the least likely Montana tourist attraction: the Garden of One Thousand Buddhas, a legion of statues built by a Buddhist monk from Tibet on the Flathead Indian Reservation. The road from there winds past the National Bison Range, where I stopped for a peek at the herd, and through the Mission Mountains, named for a 19th-Century Jesuit mission set in, for my money, one of Montana's prettiest valleys at the mountains' foot.

I finished my trip in northwest Montana with a night at the century-old Kalispell Grand Hotel, and then on to West Glacier, the gateway to Glacier National Park. This is huckleberry country, where the blueberry's wild and more flavorful sibling, stars in menus all over town—in pies, milkshakes, Martinis, beer; come July, locals will tell you where to pick your own.

When I finally drove into Glacier National Park, snow still clogged the high country there. I sat on the shore of Lake McDonald, at the edge of the park, and looked at the famed peaks at the far end of the water's edge and their mirror image in the still surface.

THE LOWDOWN // ROAD TRIPPING IN WESTERN MONTANA

STAYING THERE

Near Livingston, the **Centennial Inn**, a restored railway car, sleeps four. Fishing on the Yellowstone is a short walk away (*from \$195 a night, vrbo.com*). At the luxe **Mountain Sky Guest Ranch** many cabins date back to the 1920s (*from around \$4,000 a week per person, all-inclusive, www.mountainsky.com*). In Helena, try the **Sanders Bed and Breakfast**, a 19th-century mansion built by a prosecutor for vigilantes (*from \$140 a night, sandersbb.com*). The **Kalispell Grand Hotel** in Kalispell,



is a family-run place with a great Italian restaurant, Scottibellis, next door (*from \$72 a night, kalispell-grand.com*).

EATING THERE

Chico Hot Springs draws as many patrons to its dining room as to its spa (*163 Chico Rd., Pray, chichotsprings.com*). Built in 1910, the **Sacajawea Hotel** in Three Forks also houses a top restaurant (*5 North Main St., sacajaweahotel.com*). In Missoula, **Red Bird** offers upscale, locally sourced fare like grilled bison tenderloin (*111 N. Higgins, redbirdrestaurant.com*).

BOOKSHELF

WALKING DOWN MEMORY LANE

From Manhattan's High Line to the New Zealand coastline, these three books cater to travelers whose favorite mode of transportation is their own two feet

A History of the World in 500 Walks

By Sarah Baxter (\$28, Thunder Bay Press)

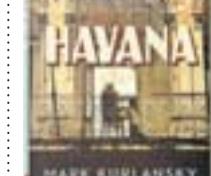
British travel writer Sarah Baxter tackles an ambitious task in this 400-page volume: compiling a list of walkable routes that have shaped natural and human history. These range from a hike in what is now Québec through the crater left by a meteorite crash 350 million years ago, to the Kokoda Track through the mountains of Papua New Guinea, where Japanese and Australian soldiers fought during World War II. Fittingly, the book is organized by historical period, starting with pre-human history and moving to the Middle Ages up through the 20th century. Descriptions of the walks' historical significance are accompanied by maps, photographs and practical tidbits on when to go and the degree of physical ability required, whether it's a two- to three-hour meander on Boston's Freedom Trail or a six- to 10-day trek up Kilimanjaro.



Magnetic City: A Walking Companion to New York

By Justin Davidson (\$22, Spiegel & Grau)

This new book by architecture critic Justin Davidson offers walking guides for visitors to New York, whether it's their first Big-Apple trip or their 100th. Mr. Davidson planned each of the seven itineraries—through Manhattan, Brooklyn and the Bronx—to expose walkers to a wealth of cultural and architectural history. The Upper West Side walk, for example, takes you past a Georgian beaux-arts mansion which, at the turn of the 20th century, was home to philanthropists Isaac and Julia Rice. While her husband pored over chess boards in the basement, the book reveals, Julia fought against river-traffic noise pollution, founding the Society for the Suppression of Unnecessary Noises. The society wielded a degree of political power, notes Mr. Davidson, but only temporarily, like so much in an ever-changing city with what he calls "layered ghosts on every block."



Havana: A Subtropical Delirium

By Mark Kurlansky (\$26, Bloomsbury)

A flâneur, a frequent figure in 19th-century French literature, wanders city streets, keenly observing urban life from under the brim of his top hat. Mark Kurlansky makes a case for Havana as catnip for modern flâneurs (sans top hats) in his kaleidoscopic portrait of Cuba's capital. "There is still probably no other city in the world where a strolling visitor is afforded so many candid domestic scenes," he writes. To be clear, the book doesn't include maps or walking routes. Instead, the author, a former foreign correspondent, intersperses pages on Havana's cultural and political history with vivid descriptions and anecdotes about specific sites, from Revolution Square to Ernest Hemingway's (many) former watering holes to the UFO-shaped ice cream parlor commissioned by dairy-loving Fidel Castro—furnishing enough intriguing intel to propel your own aimless ramble. —Sydney Lazarus

OFF DUTY

Still-Life With Gelato

Creamy and crunchy, sweet and tart, the deftly composed coppetta is what you might get if the sundae went to art school in Italy

BY GABRIELLA GERSHENSON

YOU MIGHT not think of gelato as a lower-fat option. But talk to New York City pastry chef Meredith Kurtzman, and you learn all sorts of things. Italian-style gelato, she explained, contains a fraction of the cream used in American-style ice cream and way more milk. "Fat coats your tongue and obfuscates flavor," she said. For a pastry chef fixated on expressing the character of her ingredients, this is a pretty big deal.

Ms. Kurtzman started churning gelato at Esca, an Italian restaur-

rant in Manhattan, and went on to gain wide acclaim for her frozen desserts (and a cult following for her olive-oil gelato) during her 12-year run as the founding pastry chef at Otto, Mario Batali's Greenwich Village pizzeria. Her contributions to the craft continue—she's now working as a consultant to ice cream companies and plotting a cookbook—as does the dessert program she created at Otto, based on house-made gelati, sorbetti and the sundaes they star in, which Ms. Kurtzman dubbed coppetta.

"Coppetta just means little cup," said Ms. Kurtzman, in her unassuming way. But really, in her hands, it's a dessert composed with remarkable finesse. "You want it crunchy and creamy. Ideally you want it hot and cold, but that's not always possible," she said. "You want different textures. The flavors always have to balance out. Sweet has to be counteracted by acid or bitter." One of Ms. Kurtzman's coppette, the Meringata, illustrates this principle particularly well. A sort of deconstructed lemon-meringue pie, it brings together lemon sorbet (acidic and cool), lemon curd (sweet and creamy), torched meringue (warm), blueberry compote (juicy) and crumbled pie crust (crunchy). The cumulative effect? Sheer delight.

In preparation for her role at Otto, Ms. Kurtzman went to Italy to hone her gelato-making skills. She brought back lessons on what to do—and what not to. "Most places in Italy start with a white base and toss in different flavor compounds," said Ms. Kurtzman. "I wanted to do it the from-scratch way." That meant, for instance, steeping mint leaves in milk to build a surprisingly minty gelato from the base up. She's also been known to pinch every nectarine at the Union Square Greenmarket to find the best ones for sorbet. Though coppette are Ms. Kurtzman's invention, her commitment to finding the best ingredients and letting them shine is very Italian. "I always want you to know what you're eating," she said. "Otherwise what's the point?"

For the crunch element, Ms. Kurtzman recommends toppings ranging from streusel to pretzels to granola. The richness could come from the gelato, and/or from a creamy topping, like crème fraîche or whipped cream. Sauces can certainly include favorites like chocolate or caramel, but Ms. Kurtzman recommends experimenting with

Cherry Coppetta With Vanilla Gelato and Amaretti Cookies

This coppetta made using store-bought ingredients requires little time to assemble. Macerate cherries with balsamic vinegar for a tart-savory flavor, or use brandy for an elegant, boozy dessert. Or, swap in jarred amarena cherries from Italy, preserved in a delicious syrup that doubles as a sauce.

ACTIVE TIME: 10 minutes
TOTAL TIME: 40 minutes
SERVES: 8

2 pound or 2 cups sweet cherries, pitted and halved
2 tablespoons balsamic vinegar, kirsch or brandy
½ cup sugar
1 pinch salt
16 amaretti cookies, coarse-chopped into spoonable pieces
1 quart vanilla gelato

1. In a medium bowl, toss cherries with balsamic vinegar, kirsch or brandy, sugar and salt. Let sit 30 minutes.

2. Place cookies in the bottom of a pre-chilled serving dish, scoop gelato on top, festoon with cherries and drizzle macerating liquid over top.



Coconut Gelato Coppetta With Lime Granita, Macerated Strawberries and Mint

ACTIVE TIME: 1½ hours TOTAL TIME: 9 hours (includes freezing) SERVES: 8

For the coconut gelato:
1 quart whole milk
½ cups unsweetened dried coconut
10 large egg yolks
¾ cup sugar
½ cup heavy cream
½ teaspoon salt

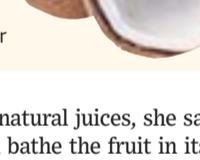
1 (14-ounce) can sweetened condensed milk
For the lime granita:
1 cup water
½ cup sugar
Zest of 2 limes
½ cup lime juice, from 3 to 4 limes
½ teaspoon salt

For the macerated strawberries:
1 pint strawberries, washed and sliced into bite size pieces
2 tablespoons sugar
½ teaspoon salt
A few leaves basil or mint, sliced into thin ribbons, for serving (optional)

1. Make coconut gelato: Preheat oven to 325 degrees. Spread coconut over a metal baking sheet and roast until barely colored, 10-15 minutes. In a medium saucepan over medium heat, bring milk and cream to a bare simmer, then remove from heat. When coconut is finished roasting, use a spatula to nudge it into hot milk and let steep 30 minutes (and no longer). Pass milk through a fine-mesh strainer and discard coconut.

2. In a medium saucepan over medium heat, heat strained milk with **½** cup sugar, stirring until steaming. Remove from heat. In a heatproof bowl, whisk egg yolks and remaining sugar. Gradually ladle hot milk into eggs, whisking to combine, until you've added about half the milk. Return custard to saucepan and heat gently over medium-low heat, stirring with a spatula until mixture is steaming but not boiling.

3. Quickly strain hot custard into a heatproof container, then stir in salt and condensed milk. Place container over a bowl of ice water, and stir



to cool down quickly. Cover cooled custard and chill in refrigerator at least 4 hours, preferably overnight.

4. Freeze gelato in an ice-cream maker according to manufacturer's instructions. Cover with plastic wrap and chill in freezer at least 1 hour.

5. Make lime granita: In a saucepan, heat water and sugar until sugar dissolves and liquid is clear. Stir in lime zest and cool syrup in refrigerator. Once cool, strain out zest and discard. Stir lime juice into syrup. Pour lime mixture into a shallow 8-by-8-inch metal or glass pan and place in freezer. Use a fork to scrape liquid around pan every half hour, until mixture is flaky, evenly textured and icy, not rock hard or mushy. Keep it in freezer until ready to serve.

6. Macerate strawberries: 1 hour before serving, in a medium bowl, toss strawberries with sugar and salt. Chill in refrigerator.

7. To serve, scoop gelato into center of a chilled dish. Add a scoop of granita on one side and a dollop of macerated strawberries on another.

other tasty drizzles, like maple syrup or good olive oil.

Above all, produce inspires this chef. "Fruit is my favorite thing to work with," she said. "Since I couldn't make pies at Otto, I worked fruit into the coppetta." Ms. Kurtzman's favorite method is to simply toss fresh fruit with a bit of sugar, a pinch of salt and maybe some citrus zest, liqueur, balsamic vinegar or fresh herbs. Sugar and salt draw out

fruits' natural juices, she said, which in turn bathe the fruit in its own flavor. "You want to taste the fruit first," said Ms. Kurtzman. "The other stuff is just an accent."

If you're feeling ambitious, you can make an entire coppetta, gelato and all, from scratch. Above is Ms. Kurtzman's recipe for coconut gelato and lime granita with a strawberry-mint topping. Or, you can produce a perfectly complex and

delicious coppetta using store-bought ingredients. In the recipe at left, Ms. Kurtzman recommends marrying vanilla gelato with cherries and amaretti cookies.

Finally, consider the manner in which you convey the coppetta to your mouth. "You want to combine a bit of each thing in each spoonful," said Ms. Kurtzman. "The fun of a coppetta is that you can put it all together in one bite."

HALF FULL



1. Cambridge Brewing Banryu Ichi, 14% ABV

Brewed with sake's uniquely high-octane yeast strains, this barleywine has a frilly, floral, cantaloupe-and-vanilla aroma masking a tough and toothsome caramel core.

2. Dogfish Head Bitches Brew, 9.0% ABV

A mix of traditional African mead and English stout, this slow-burning sipper grooves with chocolate and charcoal.

3. Unity Vibration Triple Goddess KPA, 7.0% ABV

KPA starts with fizzy, funky kombucha, then turns lambic-like with sour yeast in an open fermentation tank and finishes with an IPA's worth of hops.

4. Jester King SPON Albariño & Blanc du Bois, 6.7% ABV

A truly Texan hybrid beer fermented with wild yeast and local white-wine grapes, dry and gritty as the soil, with a sweet, purple-candy glow.

5. Allagash Victor, 7.4% ABV

Cabernet Franc grapes in Pilser grain play red-fruit melodies over a spiced and snappy beat: candied ginger with a side of raspberries.

6. Firestone Walker ZinSkin, 7.0% ABV

Aged on grapes for three weeks, then fermented in barrels for a full year, ZinSkin emerges surprisingly light and sprightly: a summer brew to sip among the vines.

CRACK OPEN A WILD ONE

Refreshing new beer-wine hybrids—among other Frankenbrews—bring in the funk

SUMMER IS ABOUT wild combinations: sandals with a suit, books on the beach. 'Tis the season of ice cubes in your wine glass and iced tea in your lemonade—and now, in your beer glass, a new breed of hybrid brews. These cross-genre blends of beer, wine, booze and soda bring playful irreverence to summer refreshment.

Experimenting with wild yeasts and natural fermentation, brewers have found common ground with winemakers. Once the staff at Texas's Jester King Brewery saw neighboring Hill Country wineries using the same natural-fermentation tricks they did—barrels, open tanks, local microbes—borrowing fruit from them seemed a logical next step.

Jester King SPON Albariño & Blanc du Bois is a Belgian-style lambic beer refermented with wine grapes. "We had to develop our palate," said Jester King founder Jeffrey Stuffings, "learn to identify what flavors are good, what's bad, what just needs time." One early experiment with Blanc du Bois grapes gave off "this funky, overripe-fruit smell," Mr. Stuffings said, "but then we drank some Sauvignon Blanc made with those grapes and tasted the same flavor. That gave us confidence we weren't off course."

All these beer blends are born of exploration, made by brewers chasing exotic yeasts once limited to cider, mead and even sake.

Unity Brewing Co. ferments a gluten-free beer using the bacteria and yeast normally found in kombucha. Cambridge Brewing uses sake's unique mix of yeast and koji (a mold). To produce its Bitches Brew, Dogfish Head studied the traditional honey fermentation that makes ancient African t'ej wine.

Before the advent of modern brewing, with its clearly delineated styles and designated yeast strains, brewers worked with a splash of this, a pinch of that and a hefty helping of respectful resignation to the mysteries of fermentation. There's an element of improvisation to these new brews, and that's what makes them fun. "In the early days, we were crushing grapes with baseball bats," said Allagash brewmaster Jason Perkins.

They've grown up, somewhat. Dogfish Head plans to release its Bitches Brew in canned six packs this year—big news for a beer once available only as a centerpiece-size shareable bottle. Will that workaday packaging detract from its distinctiveness? Allagash's Mr. Perkins believes these beers deserve attention, not affectation. "When I'm drinking wine, it's usually out of grandma's juice glasses," he said. And he drinks these beers from nothing more pompous than a short, wide-mouth glass to direct and disperse their aromas. "I'm practical," he said. "We're brewers at heart." —William Bostwick

OFF DUTY

ON WINE LETTIE TEAGUE



How Oak Makes—Or Breaks—a Wine

SOME WINE LOVERS fear it. Many winemakers overdo it. And most every wine merchant and sommelier spends lots of time explaining it. I'm talking about the relationship between wine and oak, a perennial hot topic in the wine world.

Wine has been matured in oak barrels for centuries, of course; some of the greatest wines in the world are aged in oak, sometimes for several years. Yet a backlash against oak has been building for decades, and it seems to have gained momentum in recent years. More and more winemakers have either reduced the time their wines spend in oak or eliminated the use of oak altogether, believing the practice can obscure the true taste of a wine. Rioja-based winemaker Telmo Rodríguez called oak a "cosmetic" in a recent email to me, saying that it masks "the taste of the terroir"—and he's far from alone in his opinion.

How could something so important be so maligned? The right oak barrel, judiciously employed, can add character and interest, structure and richness to a red or white and even some rosés. But oak can also overpower a wine if it's a poor match, resulting in that feared and maligned "oaky" wine.

Wine drinkers are especially wary of oaky whites, according to Jason Jacobson, wine director at Bâtarde restaurant in New York. A Chardonnay aged in new oak will be much richer than one aged in stainless steel, and much darker-gold in color. Burlingame, Calif.-based wine merchant Gerald Weisl said he believes that often customers ask for a "less oaky" Chardonnay because they think a wine with more oak will be higher in alcohol. (Not true.)

The oak applied to Chardonnay is invariably French oak, more or less the gold standard for barrels in the case of both red and white wines—and its price reflects that fact. A new French oak barrel from a top cooperage (*tonnellerie*) costs around \$1,000, while a new American oak barrel costs about \$600. Though barrel makers source oak from all over the world—notably Russia, Hungary and Slovenia—French and American oak barrels are the two most important types and they lend some very different characteristics to wine.

American oak tends to confer more obvious, sweet notes of vanilla and coconut (thanks to a higher concentration of something called lactones in the American species of wood), while tighter-grained French oak contributes more restrained savory-spicy notes.

The differences between American and French oak actually start with the forests themselves. In America, the forests that supply barrel wood are privately owned; the French oak forests are mostly



PEP MONTSERRAT

OAK TALK // WINE-LABEL TERMS DECODED

"Aged in 100% new French oak." This signals that the winemaker has spent some money, since new French oak barrels are costly. The wine is likely to be full-bodied, densely-fruited and, when young, tannic.

"Aged in American oak." American oak imparts a sweet vanilla note drinkers love or loathe. Wines aged in this kind of wood tend to be softer. Popular Silver Oak Cabernet from California is aged in American oak as are many Riojas. American oak costs a lot less, so it often shows up in cheaper wines, too.

"Aged in French and American oak barrels." Some winemakers hedge their bets financially and stylistically by using both kinds of barrel, giving the wine a more tannic structure with the French oak and sweeter aromatics with the American oak.

managed by the French government. Few producers know the names of the very best American sources, while the five key sources of French oak—Allier, Tronçais, Nevers, Vosges and Limousin—are known to winemakers and oenophiles as their names often appear on the ends of barrels.

Each of the French forests produces a particular type of oak, sourced by tonneliers or brokers who specialize in a particular type of barrel. A barrel is called new if it hasn't previously been used to hold or age wine, but the wood used to make a barrel ages for two, three or even four years—the longer the aging the mellower the wood—before becoming a barrel.

"Toasting" describes the process of flavoring a barrel and also reducing the astringency of the oak by placing the newly-made barrel directly over a flame. Winemakers can order barrels toasted

to their specifications—light to medium, medium-plus or heavy toast; the process stops short of outright charring—directly from the barrel producer or their barrel salesman.

A good barrel salesman can help interpret a winemaker's vision of a wine. One of the best in the business for decades, Mel Knox is the San Francisco-based sales consultant to two of the top tonneleries, François Frères in Burgundy and Taransaud in Cognac. Over the years, Mr. Knox has acquired new clients after tasting wines that he felt needed his help and paying the winemakers discreet calls.

Mr. Knox has probably sold more barrels to top winemakers in California than anyone else in the business—including stars like Steve Kistler and David Ramey. Mr. Ramey, a Sonoma-based winemaker, probably knows as much about barrels as Mr. Knox. He's

backed away from using large quantities of new oak, most notably in his Chardonnays. His single-vineyard Chardonnays were once aged for 65-70% of the time in new oak barrels and the rest of the time in previously used barrels. "Now it's more like 20% new oak," said Mr. Ramey. This has meant a big savings on new barrels. "My wife, who writes all the checks, is ecstatic," he added.

Yet for him the choice was a stylistic rather than an economic one, noted Mr. Ramey. He simply preferred the way his Chardonnays tasted with a more limited impression of oak. By contrast, he has not backed away from new oak with his Cabernet and Merlot-based Napa reds. "Those wines can absorb it without being overwhelmed," said Mr. Ramey. Of course, he added, that kind of oak has to be applied to denser, more concentrated fruit—"hillside not valley floor," in Mr. Ramey's terms—which has bigger tannins and is substantive enough to stand up to and thrive in new oak.

A winemaker has to have the vision and integrity to assess his wine accurately. And of course the wine has to be worth the investment of many new \$1,000 barrels each year. This last fact is especially important since the worth of a new barrel drops precipitously after it's used—much like a new car after it's driven off the dealer's lot.

A used French or American oak barrel is worth about \$20 according

to Ron Celaya, the sales manager at Demptos Napa Cooperage, a French outfit in Napa and France. "Most winemakers will use [new] barrels for three to five years," said Mr. Celaya. His company offers winemakers a "buy back" for the barrels and ships them to whisky producers in Scotland.

Like Mr. Knox, Mr. Celaya plays an active role in helping producers select the right barrel, usually tasting a wine during various stages of its development. "It comes down to tasting a few wines to get a sense of

Some winemakers say that oak masks the 'taste of the terroir.'

what they want," he said. If a client is looking for a sweeter profile, for example, he might recommend American over French oak. But above all, a good barrel salesman has to be able to "deconstruct" a wine and to imagine how it will evolve over time.

Fortunately oenophiles don't have to deconstruct the wines they drink to know if they're too oaky.

Even in a young wine, the oak

should never stand out too much. A well-made wine is always balanced, whether fermented and aged in oak or not.

► Email Lettie at wine@wsj.com.

SLOW FOOD FAST SATISFYING AND SEASONAL FOOD IN ABOUT 30 MINUTES



The Chef
Steven Satterfield

His Restaurant
Miller Union in
Atlanta, Ga.

What He's Known For
A deep affinity for vegetable cookery, from root to stem. Inventive dishes that seem timeless



Grilled Okra With Spiced Yogurt, Peanuts and Mint

A COUPLE YEARS ago, when Steven Satterfield was writing his cookbook "Root to Leaf," the publisher nixed a chapter devoted to peanuts at the last minute. "It was deemed too colloquial," said Mr. Satterfield. "The book was meant to have national appeal." But the Savannah-born, Atlanta-based chef couldn't let it go; he knows how versatile and appealing this Southern staple can be. So he presented the jettisoned recipes to another publisher, Short Stack Editions, and four months ago his "Peanuts" cookbook hit the shelves.

That's where this recipe, his final Slow

Food Fast contribution, comes from. It stars grilled okra, nestled into a lemon-yogurt spread spiced with cumin and coriander. Generous handfuls of toasted peanuts and torn mint are scattered overtop.

"Grilled okra gets a nice green-bean texture and a bit of smokiness from the grill," said Mr. Satterfield. If you're wary of the viscous quality okra can have, take heart: This quick-cooking technique produces crisp-tender results without that familiar ooze. But it's the crunch of the toasted peanuts that really gives this quick summertime recipe snap. —Kitty Greenwald

TOTAL TIME: 20 minutes SERVES: 4

1 cup whole Greek yogurt	1 teaspoon coriander seeds, toasted and coarsely smashed	3 tablespoons olive or peanut oil, plus more for drizzling
1 large garlic clove	1 teaspoon pepper flakes	½ cup roughly chopped dry-roasted peanuts
1 lemon	Kosher salt	½ cup torn fresh mint
1 teaspoon cumin seeds, toasted and coarsely smashed	1 pound fresh okra	

1. Submerge several 6-inch wooden skewers in water to soak. Preheat a grill. 2. Place yogurt in a medium bowl. Use a fine grater to grate garlic and lemon zest over yogurt. Halve lemon and squeeze one half into yogurt. Add cumin, coriander, red pepper flakes and season with salt and more lemon juice, if needed. Stir to combine and refrigerate until ready to use. 3. Thread a skewer through 4-6 okra pods just below caps. Thread a second skewer through the same pods, about ½ inch from the tapered

tips, creating a secure plank of skewered pods. Repeat with remaining skewers and okra, leaving about 1 inch of bare skewer at each end. 4. Brush both sides of okra with oil and sprinkle with salt. Place okra skewers on hot grill and cook until okra begins to char, about 2 minutes. Flip and grill opposite side until charred, about 2 minutes more. Transfer grilled okra to a platter and discard skewers. 5. To serve, spread yogurt sauce over a serving platter or individual plates. Drizzle with oil and top with okra. Garnish with peanuts and mint.



BRYAN GARDNER FOR THE WALL STREET JOURNAL, FOOD STYLING BY HEATHER MELDRUM, PROP STYLING BY NIDIA CUEVA; ILLUSTRATION BY MICHAEL HOEWELER

FLAME CATCHER Okra quick-charred on the grill has a smoky flavor, a satisfying bite and none of the oozy aspect that slow-stewed okra can have.

OFF DUTY

Bloomin' Shames

Fourteen design pros voice very strong opinions, both scathing and affirming, on summer flowers

BY CATHERINE ROMANO

IKNOW IT'S WRONG to detest a poor innocent little flower, but..." So demurred one of the design pros we approached when compiling a list of least-favorite bloomers. Even the most diplomatic designers, florists and architects have preferences, however. Some blossoms please, some bring on bad memories. Of the widely disdained sunflower, Key Biscayne-based designer James Duncan said: "It reminds me of lurid 1970s kitchens and tacky fall decorations." Here, picks from 12 other aesthetic experts.

Loathed "I really dislike zinnias, which are pretty common in plant beds in Houston," said **Paloma Contreras**, a Texas interior designer. "They don't look very delicate, and the colors are too bright and garish for my taste."



Beloved "I've recently come around on baby's breath," she said. "For years, it's been regarded as a loathsome filler flower, but when you arrange big bunches together, the result is super chic and fresh."

Loathed "Nothing says just in from the supermarket and out of the cellophane like the unimaginative pink star-gazer lily bouquet," said **Michael Amato**, creative director of the Urban Electric Company, who adds this description: "Pointy ruffled petals, speckled interior—the combination makes them look like a diseased tongue."

Beloved "I grew up in New England, and daffodils always meant spring was here," he said. "And my grandfather called them narcissus, their proper name, so they make me think of him."

Loathed "Gerbera daisies are revolting—loud, cloying, obvious and garish," said **Adam Rolston** of INC Architecture & Design, in New York. "Andy Warhol wrecked that flower for me in his 1980s series of them. He could hold a mirror up to our worst vulgarities and make us hate ourselves for it. In this case, I just ended up hating Gerbera daisies."



Beloved Mr. Rolston appreciates the deep purple and pink of the banana blossom as well as its uncommon silhouette.



Loathed "Unless you're trying to re-create the colors of Switzerland in summer, impatiens are hard to use well in almost any garden," said **M. Brian Tichenor**, of Tichenor and Thorp Architects, in Los Angeles. Despite this drawback, impatiens prevail, he said, because they grow "just about anywhere."

Beloved "We use a wide variety of succulents," said Mr. Tichenor, "which most people don't think of as flowering. The latest favorite is echeveria 'Doris Taylor,' with its cadmium red flower."



Loathed "Forsythia is this glaring, egg-yolk yellow that arrives early and therefore has only brown, gray bark to sit with," noted **Annie Selke**, whose eponymous company, based in Pittsfield, Mass., sells rugs, textiles and furniture. "If it came out with more green around it, I'd probably have a much more favorable view."

Beloved Ms. Selke could not settle on one: "Peonies for their shape, color and scent; lily of the valley for its delicacy and scent; and ranunculus, for the complexity of petals and the fantastic colors it comes in," she said.

Loathed "Orchids are a rare, special breed, a small treasure," said New York designer **Frank de Biasi**. "My favorite is the lady slipper, especially when seen in the wilds in Virginia, where I grew up." But the white orchid, in its ubiquity, recalls "banal, cookie-cutter high-rise condo buildings," he said.

Beloved The purple flowers of the Verbenae bonariensis recently planted on his terrace "make for a beautiful arrangement—chic and airy with a mind of their own and perfectly contrasted with all the green in our apartment."

Loathed "The ruffled edges of the carnation remind me of a ruffled tuxedo shirt that has been wadded up and thrown on the floor," said **Leslie Hendrix Wood**, a Midland, Texas, designer. "A boyfriend in high school sent me a make-up bouquet of carnations after we had a terrible fight. I dumped



the boyfriend and developed a lifelong aversion to carnations."

Beloved Ms. Wood prefers ranunculus. "The layers and layers of soft petals give the flower a dreamlike quality," she said.

Loathed "Generally, the flowers I don't like are those that are overused," said **Stephen Block**, president of Inner Gardens in Los Angeles. "Wilshire Boulevard in Los Angeles, for example, has miles of beds overflowing with pink impatiens. I am bored to tears."

Beloved A flower's comeliness depends upon its context, said Mr. Block. "That same pink impatiens in a pretty black planter can be striking and beautiful."

Loathed "The colors of azaleas are too strident, the overall form of the plant ungraceful and the ratio of flowers to foliage too equal," said **Joan Dineen** of Manhattan's Dineen Architecture and Design. "On Mother's Day, everywhere one looked were scrawny

pink-flowered plants with matching hot-pink tin foil wrapping their plastic pots. They no longer looked like living things. We would get my mom one nevertheless."

Beloved "Bright pink enormous peonies are bold and elegant and fun."

Loathed "Canna lilies have long, shaggy stems from which sprout relatively small, usually harshly vivid flowers," said **Jeffry Weisman**, of San Francisco-based Fisher Weisman. "They never blend into a garden."

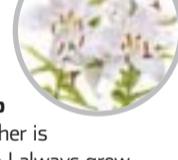
Beloved "For my 40th birthday my husband terraced a hillside on our Sonoma property and planted 400 rose bushes. I spent most weekends over the next decade happily toiling there."

Loathed "Begonias are missing the organic nature and soul that I love about so many flower and plant species," said **Laurie Blumenfeld-Russo**, of Brooklyn firm LBR Home. "The waxy leaves look plastic."

Beloved Liatris tops the designer's list.

"Spectacular bright purple tufts of flowers open from the top down on a tall spike," she said.

Loathed "I find the smell of Casablanca lilies sickening, and they remind me of death," said New York designer **Philip Gorriar**.



Gorriar. "My mother is from Casablanca, so I always grew them. But she doesn't like them either."

Beloved "Foxglove are quintessential English garden flowers," he said. "My favorites are vibrant pink."

Loathed "The mustard of a sunflower's petals, combined with the brown centers, are not tones I would normally go with," said Los Angeles florist **Eric Buterbaugh**, whose clients include Beyoncé and Tom Ford. "And their thick, prickly stems make them hard to arrange with other flowers."

Beloved "Peonies. The fragrance, the size, the colors, the way every day it looks a little different—it truly is the queen of all flowers."

THE MEDIATOR

DECK-CHAIR DEADLOCK

The conflict: He wants to bring a contemporary, leather-accented lounger into their outdoor space. She's not parting with her tradition-tinged patio bench. Three designers conduct the décor equivalent of couples counseling, suggesting all-weather accessories—from a pillow to a rug—to bridge the aesthetic gap

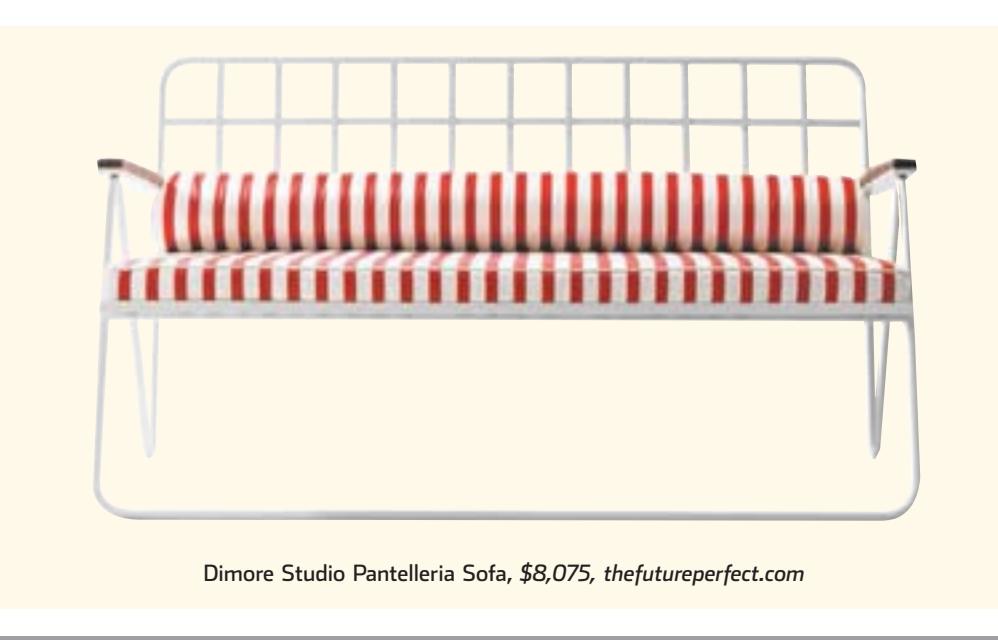


Massimo Castagna 10th Sun Lounger by Exteta, \$9,795, DDC, 212-685-0800

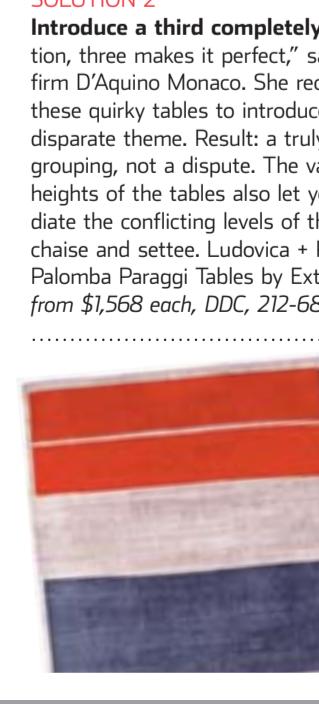


SOLUTION 1

Throw in an anti-geometric pillow. The organic flame-stitch pattern of this ikat cushion would soften the hard lines of the seating, said Boston designer Erin Gates, whose instinct is to make the at-odds furniture pairing less rigid without introducing a cutesy pattern. The pillow also combines the two pieces' colors. "I would put it on the chaise to bring the red tone over," she said. Fiamma Ikat Flame Outdoor Pillow, \$159, frontgate.com



Dimore Studio Pantelleria Sofa, \$8,075, thefutureperfect.com



SOLUTION 2

Introduce a third completely different style. "As in any combination, three makes it perfect," said Francine Monaco, of New York firm D'Aquino Monaco. She recommends bringing in all three of these quirky tables to introduce a third disparate theme. Result: a truly eclectic grouping, not a dispute. The various heights of the tables also let you mediate the conflicting levels of the chaise and settee. Ludovica + Roberto Palomba Paraggi Tables by Exteta, from \$1,568 each, DDC, 212-685-0800



SOLUTION 3

Amp up the linear theme. Two striped pieces? Add a third. San Francisco designer Nicole Hollis recommends this polypropylene rug by Christopher Farr, a former graphic artist. "The pattern of the rug ties in the stripes of the sofa's fabric and the irregular blocking of the lounge," said Ms. Hollis. The seats' colors, deep azure and crimson, team up in the rug, which is big enough to corral the furniture's dissonant personalities in a "room." Asawa Bespoke Outdoor Rug, \$8,500 for 8-by-10-foot rug, Christopher Farr, 310-967-0064 —C.R.

OFF DUTY

RUMBLE SEAT DAN NEIL



Dodge Unleashes a Drag-Racing Demon

BECAUSE DRAG RACERS like to get to the finish line fast: The 2018 Dodge Demon (\$86,090) is a wheelie-pulling, 840-hp version of the Dodge Challenger, extensively re-engineered for quarter-mile racing and offered as sizzle for the brand's aging, underselling steak.

Mmmm, smell those roasted meats.

Last winter the National Hot Rod Association (NHRA) certified a quarter-mile ET (elapsed time) of 9.65 seconds with a trap speed of 140 mph, making this rocket-propelled pachyderm the quickest production car the organization had ever tested, exceeding even the all-electric Tesla Model S, which, by the way, is lousy at wheelies. The Demon jolts to 100 mph in an eye-crossing 5.1 seconds.

Also, according to Guinness World Records, the Demon is the first production car capable of pulling a wheelie off the line. If you feel a "why" coming, no. There is no why.

These displays require favorable weather conditions and a highly prepared drag strip, both of which Dodge arranged for last week at Lucas Oil Raceway in Indianapolis. The cars were making power and hooking up nicely, thank you. Incidentally, and not to throw shade at the Demon's production-car record, I would like to put drag slicks and gobs of traction compound on the all-wheel-drive, 1,500-hp Bugatti Chiron and see what happens. The thing would take off like a belt sander.

The Demon is unique: a mass-produced, street-to-strip racing machine, complete with taffy-soft slicks, no less than a turnkey operation for amateurs, enthusiasts and poseurs. Every Demon will come with its own Demon Crate race-day tool chest (a \$1 option), including floor jack, cordless impact driver, torque wrench, as well as the two skinny front wheels that get thrown on once the driver is at the track. (Hereafter and unless otherwise noted, everything is Demon-branded).

This rocket-propelled pachyderm the quickest production car the NHRA had ever tested, exceeding even the Tesla Model S.

It's not clear how many of the 3,300 Demons produced annually in Ontario, Canada, will ever boil them balloons. For starry-eyed collectors, the car may be like the good couch that grandma keeps the plastic on.

Speaking of plastic: It is not the monster engine that makes the Demon program possible but the wheel-arch extensions that shroud, just barely, the foot-wide Nitto drag slicks. I think these clip-ons look like hell, myself. Considering the Demon's price tag and the production



RIDING HIGH The 2018 Dodge Challenger SRT Demon, shod with skinny front racing wheels, at the Lucas Oil Raceway in Indianapolis.

of me and didn't level off until the car had executed three perfect upshifts and was whining like a vacuum cleaner ingesting a sock. The instrument display flashed: 10.8 seconds. I'll take it.

Away from the drag strip, the Demon is a pretty weird and fetishy automobile, starting with its para-military stance on those 315/40 slicks and 18-inch black rims. Cops of the future sure look tough.

The Demon is hella heavy: 4,250 pounds at its lightest, i.e., wearing the skinny front wheels and with the passenger seats removed. One engineer at the press event had the gall to utter the phrase "mass optimization." You cad.

Theoretically, the Demon may offer the plunkest highway ride in the Dodge inventory, what with its tall sidewall tires and super-soft suspension to aid weight transfer (more vehicle squat equals more holeshot traction). But cornering? After my first pass I let the 2-ton car roll through to the shutdown area to reach the last turnout. As I was braking and turning left, the Demon's body sloshed diagonally like it was a 1970 Chrysler Newport.

To cut weight, the Demon does use a smaller front sway bar and brakes than the Hellcat, but customers are free to lard back up. The front passenger seat, rear seat and trunk-carpet kit are all \$1 options. You can order this car with heated and cooled leather seats and a 18-speaker/900-watt audio system. The sunroof is a \$4,995 option. The sunroof is a \$4,995 option. I wonder how the NHRA feels about those?

And the fact that the Demon's front passenger seat is optional is so poignant.

Anybody wanna go for a ride? Anybody?



2018 DODGE CHALLENGER SRT DEMON

Type Front-engine, rear-drive sports coupe

Price, as tested \$86,090

Powertrain Intercooled and supercharged 6.2-liter DOHC V8; eight-speed automatic transmission with manual-shift mode and trans-brake-style launch control; rear-wheel drive (3.09:1 rear-axle ratio)

Horsepower/torque 808 hp at 6,300 rpm /717 lb-ft (91 octane gas);

840 hp at 6,300 rpm/770 lb-ft (100 octane)

Length/height/width 197.5/57.4/78.8 inches

Weight/wheelbase 4,250 pounds/116.2 inches

0-60 mph 2.3 seconds

Quarter-mile ET 9.65 seconds

EPA fuel economy 13/22/16 (city/highway/combined)

Luggage capacity 13.4 cubic feet



We cut grass at the ballpark two times a day using the **Toro Reelmaster 3100-D**. With eight separate blades on each reel, it has an almost scissor-type of cut, unlike the rotary mower you would use at home, which spins clockwise. If you have a really jagged cut or your blades are dull, it can cause infection in the grass by creating a point of entry for fungus to get into the plant and destroy it. The Reelmaster provides a healthy, straight-edge cut.



I'm here from 9:30 in the morning until an hour and a half after every game. I'm outside for 10 hours a day straight, so sunglasses and sunscreen are very important. Right now I'm wearing **Maui Jim Blue Hawaii Mavericks sunglasses**. For sunscreen, I like **Neutrogena Ultra Sheer Dry-Touch Sunscreen Broad Spectrum SPF 70**. It doesn't feel

too greasy. I just have to be mindful to reapply all the time. You can't just put it on once.

At home, I use a **Husqvarna HU700F Walk Behind Mower**. It has a good engine, is well built and can get up the enormous hill in my backyard. Nobody wants to go home and cut grass when they have time off, but I don't mind it.

—Edited from an interview by Chris Kornelis



TECH ESSENTIALS

NICOLE SHERRY

The Baltimore Orioles' head groundskeeper on keeping the stadium's 2.25 acres of Kentucky bluegrass perfectly green

A **Leatherman Wingman** is on me all the time. It has a bunch of tools—I use the pliers or the blade if I need to cut out dead material [from the grass] or fix an irrigation head.



My main job during the game is to monitor the radar and make sure that we're ready for any storms that could possibly impact the playability of the surface or our fans. I'm also monitoring **weather.com** and **NOAA.gov**, a government weather service that provides forecasts, discussions and warnings. It's a site that anybody can access. There are different satellite radars and detailed weather forecasts related to air, sea, and land travel. It has deeper information than I can find on any consumer sites.

Weather is a huge part of my day. We use a radar subscription service called **dtn WeatherSentry** that tells me the dew point, humidity, wind speed and "evapotranspiration" rate—which is how much water the grass could be losing in a day. I'm looking at it from the time I wake up to when I go to bed and all throughout the day because it can change drastically from one moment to the next.

Another important tool that we use is the **AcuRite 00661 Soil Thermometer**, which helps us keep an eye on how hot our soil is. Any time the temperature is over 65 degrees, you have prime conditions for disease for the field's Kentucky bluegrass. You can cool the soil down with water, but you have to watch it, because too much water can cause disease as well. It's really a fine line between too much and too little, too hot and too cold. It's something that you have to monitor a couple of times a day.

MANSION

'Stars shone white in a velvet sky.
The dry wind from mountain and
desert blew in their faces.'

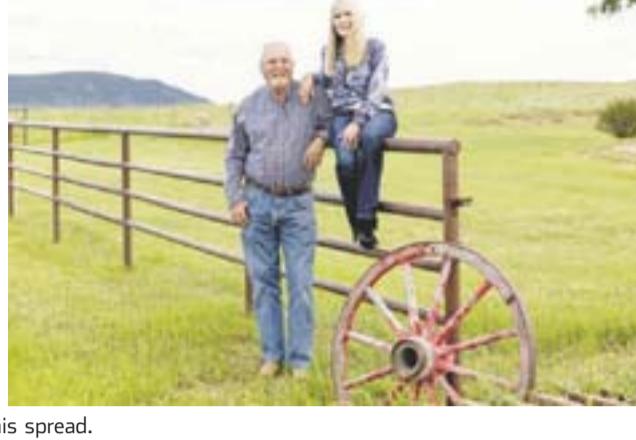
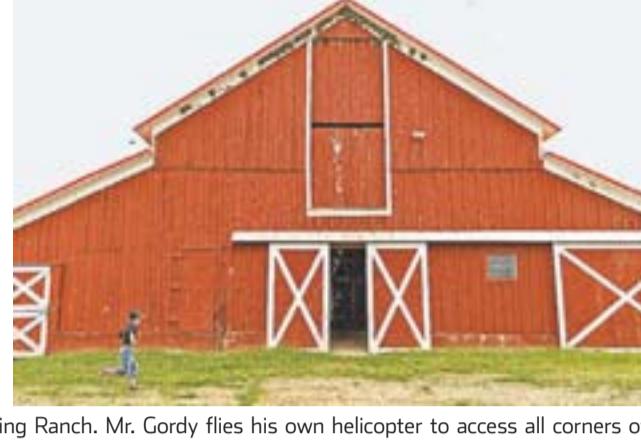
—Zane Grey

HOMES | MARKETS | PEOPLE | UPKEEP | VALUES | NEIGHBORHOODS | REDOS | SALES | FIXTURES | BROKERS

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THE WALL STREET JOURNAL.

Friday - Sunday, July 21 - 23, 2017 | W9



REBECCA STUMP FOR THE WALL STREET JOURNAL (3)

GONE RANCHING Russell and Glenda Gordy, right, on their Wyoming Ranch. Mr. Gordy flies his own helicopter to access all corners of his spread.

The Ranch Collector

Oilman Russell Gordy has amassed 155,000 acres of land—for about \$96 million—for hunting, fishing and raising cattle; a camo wardrobe for all seasons.



MONTANA
48,000 acres
\$45 million

HAPPY TRAILS The Gordy family's Double Arrow ranch outside Livingston, Mont., cost more than \$45 million. It reaches from the Yellowstone River to the Crazy Mountains of the northern Rockies.



TEXAS SIZE La Ceniza ranch has a \$5 million, 15,000-square-foot, hacienda-style retreat built for hunting trips with friends and family that was designed by Glenda Gordy and a builder.

BY AMY GAMERMAN

"IF WE WERE TO THROW you out here, they'd never find you," said Russell Gordy, as he piloted his helicopter over the Absaroka mountains, flying from his sprawling Montana ranch to his even bigger ranch in Wyoming.

Mr. Gordy, a 66-year-old Texan with a deadpan sense of humor who made his fortune in the oil-and-gas industry, has two private planes. But the helicopter comes in handy for short hops around his domain: 155,000 or so acres of mountains, rivers, buttes and forest spread patchwork across the West, amassed for his personal enjoyment at a cost of roughly \$96 million.

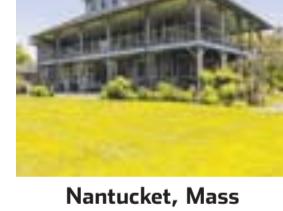
"I've always liked land. Every time I sold an oil and gas property, I would take some of the money and buy ranches," said Mr. Gordy, whose closets are full of camouflage clothing, grouped

Please turn to page W10

VILLAGES DANGLE AN ORGANIC CARROT

In rural England, gastropubs and artisanal shops with seasonal produce are attracting affluent home buyers to the countryside; the influx of the 'skinny latte' crowd has led to a 10% home-price premium in some areas.

HOUSE OF THE DAY
wsj.com/houseoftheday



Nantucket, Mass.
New England home,
Hawaiian style



Laguna Beach, Calif.
A mansion built into a
California hillside



Argyll, Scotland
An 18th-century estate
in the Highlands

ALICE WHITBY FOR THE WALL STREET JOURNAL (3)

BY RUTH BLOOMFIELD

HIP NEW GASTRO PUBS in the British countryside and upscale artisanal food shops in rural villages are encouraging affluent urbanites to pay premium prices just to buy homes near them.

These businesses, with an emphasis on organic, sustainable, seasonal produce and gluten-free goodies are

creating fertile real-estate markets in their villages, where, in some cases, local property prices have increased by 10%, experts say.

The classic example of this

is Daylesford, in Gloucester-

shire. The hamlet and neighboring village of Kingham have become ultra fashionable thanks to a single local business.

The woman behind Daylesford's rise is Lady Carole

Bamford, the wife of industrialist Sir Anthony Bamford, chairman of JCB.

The couple own a 1,500-acre country estate in the area and in the late 1990s

Please turn to page W12

FOCUS ON FOODIES Inside the Wild Rabbit,

left, a Michelin-starred restaurant and inn in Kingham. Above, produce and cheese displays at

Daylesford Organic Farmshop and Cafe.

Daylesford's rise is Lady Carole

Bamford, the wife of indus-

trialist Sir Anthony Bamford,

chairman of JCB.

The couple own a 1,500-

acre country estate in the

area and in the late 1990s

Please turn to page W12

STUART RUSSELL PHOTOGRAPHY

MANSION

THE RANCH COLLECTOR

Continued from page W9
by season.

His Double Arrow ranch—a 48,000-acre spread outside Livingston, Mont.—cost him more than \$45 million. Mr. Gordy pointed out some landmarks while driving his all-terrain vehicle.

"This is the Yellowstone River, my boundary line," he said, as herds of antelope sprinted past. He pointed to hot springs puffing out white steam, an old homesteader's cabin deep in a forest grove, and a mountain ridge with two towering rock cairns—so-called sheepherders' monuments—built in the 19th century. The ranch ends somewhere up in the Crazy Mountains, an island mountain range spanning 40 miles of the northern Rockies.

Mr. Gordy, who presides over a Houston-based conglomerate of privately held partnerships that include energy, mineral and real-estate development businesses, bought his ranches through his family-owned Rock Creek Ranch limited partnership.

Occasionally, he loses track of just how many he owns. The Montana ranch, for example, is an aggregate of 10 individual ranches. His Wyoming ranch has grown from its original 50,000 acres, purchased in 1993 for \$5 million, to nearly 80,000 acres as he bought up neighboring ranches and parcels—at a total cost of \$23 million.

"If the old families want to sell, most of them call me first," Mr. Gordy said. He also owns two ski homes in Utah's Deer Valley and an oceanfront retreat in the Bahamas, which he bought and redecorated as a surprise 60th birthday gift to his wife, Glenda, in 2011.

The son of a Houston policeman and an office cleaner, Mr. Gordy traces his love for land back to his grandparents' 40-acre farm in Louisiana, where he learned to hunt and fish. "They kept me from becoming a juvenile delinquent," said Mr. Gordy. He honed his marksmanship shooting wasps with his BB gun, while mooning over the hunting guns in his grandmother's Sears, Roebuck catalog. He now owns a museum-worthy collection of rare and antique rifles, guns and pistols.

After working his way through college with stints as a garbage collector, a truck-loader and a roustabout, Mr. Gordy went to work in the oil industry. In 1981, he co-founded a small gas and oil exploration company, then sold the majority of it in 1985, before oil prices collapsed. "My grandfather used to say, 'If you give anybody luck, s— will do for brains,'" he said.

Mr. Gordy bought up more oil fields while prices were low, then expanded into coal-bed methane drilling and minerals exploration. He formed a new company, RGGS Land & Minerals, when he acquired mineral rights from U.S. Steel in 2004—a deal that gave him control over the mineral rights to 1.5 million acres, he said.

This spring, Mr. Gordy made his first foray into retail, opening Gordy & Sons Outfitters, a high-price hunting and fly-fishing store in Houston, with his sons Shaun and Garrett. Patrons can shop for handcrafted British Purdey guns, and try out rods at a casting pond stocked with imported Amazonian peacock bass.

He also has moved into real-estate development with Buffalo Heights, a 4.8-acre mixed-use complex with an upscale grocery, offices and luxury apartments, now under construction in Houston. It is the first phase of development of a 23-acre site he owns.

Mr. Gordy's first ranch purchase was a 113-acre parcel in East Texas, which he bought in 1982 for \$78,000. "We were so excited—it felt like it was just miles," said Ms. Gordy, a petite 65-year-old who works out with a punching bag.

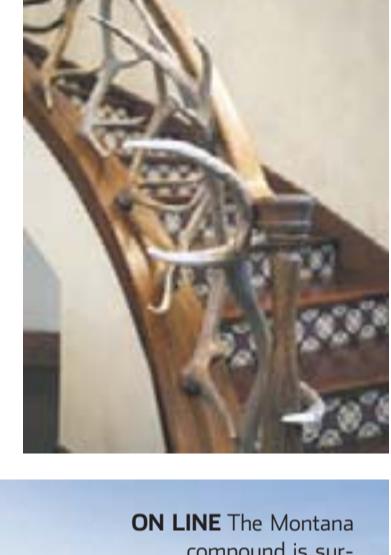
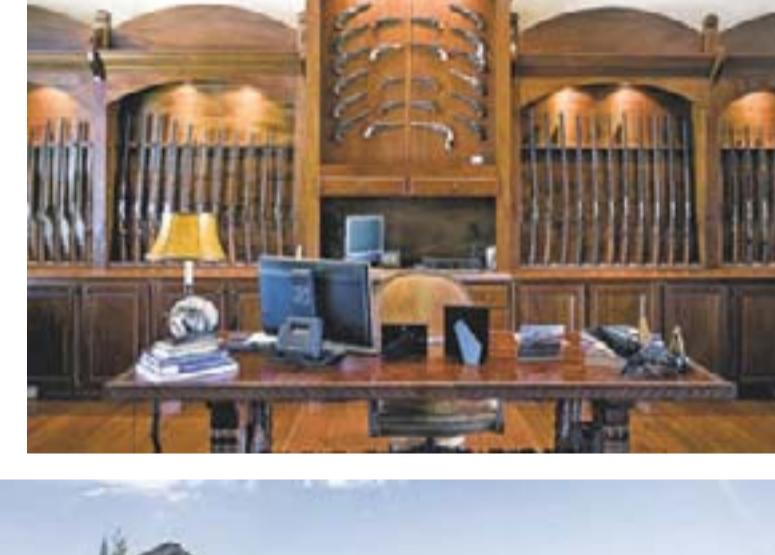
For years, the family stayed in a cabin without electricity or running water, cooking on a woodstove and sleeping on mattresses on the floor, until a woodrat ran over Ms. Gordy's bed one night. She refused to return until her husband built a cabin with a bathroom.

The East Texas ranch has since expanded to about 8,000 acres, at a total cost of about \$10 million. Mr. Gordy, now negotiating for an additional 800 acres there, is transforming it into a quail plantation.

He owns a larger ranch in southwest Texas called La Ceniza, a 19,000-acre spread he acquired in several chunks between 1998 and 2002 for about \$18 million. Mr. Gordy built a \$5 million hacienda-style manse there in 2004 as a hunting retreat for friends and fam-



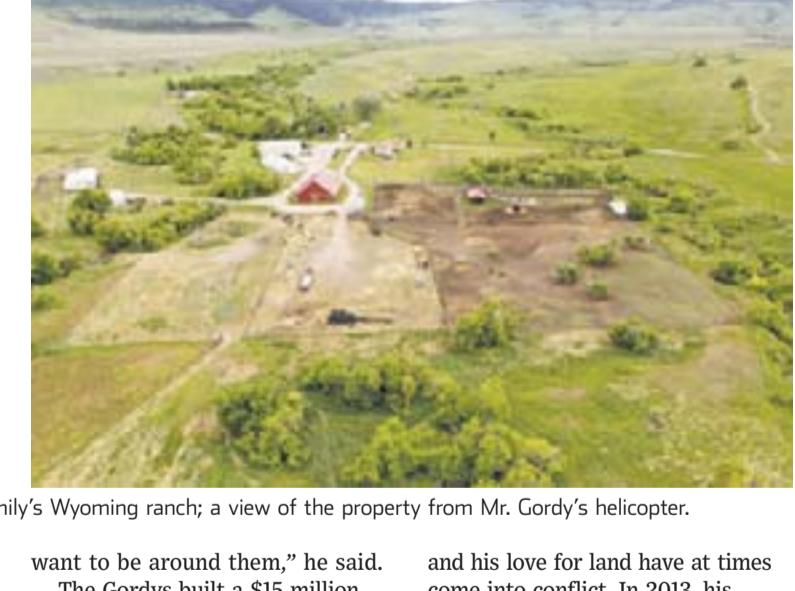
HUNT AND GATHER The trophy room in the South Texas ranch, above, is a gathering spot for friends and family. Below from left, a closet full of Mr. Gordy's camouflage clothing; his study with some of his gun collection; a staircase decorated with shed antlers collected on the South Texas property.



ON LINE The Montana compound is surrounded by man-made ponds and streams stocked with trout.



IN THE SADDLE Glenda Gordy and one of about 130 quarter horses on the family's Wyoming ranch; a view of the property from Mr. Gordy's helicopter.



REBECCA STUMPF FOR THE WALL STREET JOURNAL (2)

ily. "Every time I'd come up with a plan, he'd want it bigger," said Ms. Gordy, who designed the 15,000-square-foot house with a builder.

Its centerpiece is a large trophy room with a big stone fireplace, game tables, a jukebox and a saloon-style bar. "South Texas is a hunting paradise," said Mr. Gordy, who hunts quail, doves, wild pigs and deer there.

Mr. Gordy's biggest ranch is his nearly 80,000-acre property on Wyoming's North Platte River—with red stone buttes, mountains and lakes, and a 45-foot waterfall cascading down a box canyon.

"There are six waterfalls on the ranch, but three are more slip 'n' slides," said Mr. Gordy, jumping in his helicopter to tour the property. "We could take a four-wheeler," he explains, "but to go all around the ranch would take a day, at least."

Wyoming is a working ranch—as are all his ranches—where he

raises Black Angus cattle and quarter horses. He and his family take part in cattle branding and three-day cattle drives to the mountains.

He also likes to hunt Hungarian partridge, bow-hunt for elk and fly-fish there and on his Montana ranch, where he sometimes takes friends to remote trout streams by helicopter.

"If it wasn't a large property, Russell wasn't interested in buying it," said Dave Palmerlee, a Wyoming-based buyer broker and attorney, who represented Mr. Gordy in the acquisition of the Montana ranch in 2002, negotiating with seven ranch families who had been there for generations. (Mr. Gordy has since bought three more.)

Unlike many big ranches, which contain or encompass state-leased or federal land, there was very little public land involved—a key issue for Mr. Gordy, who values privacy. "I like people—I just don't

want to be around them," he said.

The Gordys built a \$15 million family compound in Montana in 2014, with a 13,000-square-foot main lodge designed by Locati Architects that overlooks the Absaroka Mountains. There are two adjoining homes for the Gordys' sons and their families.

The ranch house is both rustic and grand, with walls of Montana moss rock, reclaimed old timbers, and high stenciled ceilings. The butler's pantry is made out of an old homesteader's cabin. Man-made ponds and streams are stocked with trout. A glass passageway to the master suite was designed so the couple's three grandchildren could watch the fish. There is also a stone heliport, an aircraft hangar and two big garages for "the toys," including a Polaris Slingshot—a three-wheeled motorcycle—and numerous all-terrain vehicles.

Mr. Gordy's business interests

and his love for land have at times come into conflict. In 2013, his RGGS Land & Minerals issued a lease to a mining company to extract iron ore from a section of northern Wisconsin's scenic Penokee Range. The prospect of an open-pit mine amid the hills, forest and trout streams outraged local residents, environmentalists and Native American tribes. Plans were eventually shelved—due to a decline in iron ore prices, according to Mr. Gordy.

"The land is beautiful," he said. "The Nature Conservancy would like to buy it, but I've probably got \$2 [billion] to \$3 billion in iron-ore royalties in it; what are you going to do?"

Mr. Gordy said he has toyed with the idea of turning the Penokee land into a commercial bird-hunting retreat, stocked with woodcocks and grouse.

"It wouldn't make money," he said. "But it would be fun."

MANSION

HOUSE CALL | DAN BARBER

A Dream Sprouts On Grandma's Farm

The award-winning chef found his calling after events led his family to a spread in the Berkshires; David Rockefeller's real-estate offer

MATT FURMAN FOR THE WALL STREET JOURNAL; DAN BARBER (HISTORICAL)

When I was little, I didn't like mixing the fruit at the bottom of yogurt containers. I only wanted the jelly. So I choked down the plain yogurt as fast as I could. I never thought to just remove it. I had to pay my dues.

I grew up in an apartment building on 96th Street off Madison Avenue in Manhattan. My father, Fred Lee, was a businessman who worked in the toy industry.

We lived on the fourth floor in a two-bedroom apartment with a maid's room. My half-sister, Carolyn, from my mother's first marriage, was 12 years older than me. She had the maid's room. My older brother, David, and I shared a bedroom.

I don't have many memories of my mother, Joan. She died of breast cancer when I was 4. She hated to be photographed, so I don't have many images of her, either.

From the time I was little, my father took David and me to spend our summer vacations at my maternal grandmother's farm in Great Barrington, Mass. In my teens, I went there to work the farm.

Ann, as my grandmother liked to be called by us, didn't talk much about my mom. No one in my fam-

ily really did. Back then cancer was taboo. Which is why the Berkshires took on a certain importance for me and the rest of my family.

Ann liked to tell the story of how she came to own the farm. She had married a wealthy guy who started Strauss pens. At the time, they lived in Great Barrington, and Ann loved heading off to climb a hill a short distance from their house. At the top was a panoramic view of southern Berkshire County along with a dairy farm known locally as Blue Hill Farm.

Two brothers ran the farm, which had been in their family for generations.

Ann said she occasionally asked them if they'd be willing to sell. They always laughed politely, which meant "not a chance." Then one day, up on the hill, Ann was approached by one of the brothers.

He said he had a terrible fight with his brother and that if she

still wanted to buy the farm, they'd sell it to her that day. "Otherwise," he said, "we'll wind up killing each other."

Ann bought the 700 acres on the spot. She didn't even know where the property began and ended, just that it was special.

Years later, she and her husband divorced. My sense is she didn't get much in the settlement, but she had the farm.

When I worked up there in my teens, Ann's farm had a huge vegetable garden that someone tended for her. She also had pasture and 40 head of grazing cattle that belonged to a neighbor.

The family inherited the farm when Ann died in 1982.

After high school, I studied political science and English at Tufts University. But when I graduated in '92, I was lost. So I headed to Los Angeles to bake bread at a well-known bakery. I had this hair-brained idea that I'd bake at night and write the great American novel during the day. One evening I forgot to salt 1,200 pounds of rosemary

dough and was fired.

Over the next decade, I worked in kitchens in France, California and New York. For the most part, I was thinking of that time as researching material for my writing.

By then I was living in Greenwich Village and cooking at various restaurants. From time to

time, I visited a restaurant in an old brownstone. One day, I asked the owner if he might want to sell. He'd always laugh, saying the place was his dream. Then one day he said, "I'm selling." It was as if I was re-living Ann's experience.

Together with my

brother, David, and sister-in-law, Laureen, we decided to take it over.

Laureen had the idea to name the new place Blue Hill as an ode to Ann's farm. The year we opened, David Rockefeller came in to eat. He enjoyed his meal, but more than that I think he was impressed that the restaurant was a family business with ties to a farm. As a boy, he had to milk cows before church on Sundays with his brothers and sisters at their estate in

FIELD DAY Dan Barber, left, at his Blue Hill at Stone Barns restaurant in Pocantico Hills, N.Y., and, below, on his family's Blue Hill Farm in Great Barrington, Mass., around 1978.

Pocantico Hills, N.Y. His family wanted them to be connected to the land.

In 2004, Mr. Rockefeller invited us to open a restaurant in the stone milk barns on his family's estate. We soon opened Blue Hill at Stone Barns.

Today, my wife, Aria, and I live with our two daughters in a brownstone in Manhattan's West Village. We visit Ann's farm when we can. The cows provide much of the dairy for our restaurants.

Recently, I was at the farm with my daughter, Edith, when the landscape and late-afternoon light caught me. It was the same beautiful view Ann had wanted to preserve for my mother, and here it was for my daughter.

— As told to Marc Myers

Dan Barber, 47, is an award-winning chef and the co-owner of Blue Hill restaurant in Manhattan and Blue Hill at Stone Barns in Pocantico Hills, N.Y. He is the author of "The Third Plate: Field Notes on the Future of Food" (Penguin).



RELATIVE VALUES

HOMES IN THE PATH OF THE SOLAR ECLIPSE

Properties for sale in Missouri, Georgia and South Carolina that are in the area set to experience the Aug. 21 event



\$1.85 million

Columbia, Mo.

Five bedrooms, 5½ baths



\$3.59 million

Clayton, Ga.

Seven bedrooms, five bathrooms, four half-baths

This 6,008-square-foot, three-level home was custom-built in 2013 by Mike Tompkins on 11.42 acres. Interior features include a gym and a great room with fireplace. Another fireplace is in a screened patio. The property also has an unfinished carriage house, and a pool with hot tub and firepit. It is at the end of a ½-mile-long private road. Agent: Chris Boatright, Weichert Realtors



\$5.75 million

Charleston, S.C.

Three bedrooms, 3½ baths

The roughly 4,160-square-foot, three-story Inglis Arch House is a restored 1787 home on about ¼ acre. It has six fireplaces, including three in separate dining areas. An elevator leads to a rooftop deck with views of Cooper River and Fort Sumter. A one-bedroom carriage house, about 2,310 square feet, overlooks three gardens and a pool. Agent: Debbie Fisher, Handsome Properties

FROM LEFT: JET STREAK PHOTOGRAPHY (2); CHRIS & TIFFANY NELMS/VSI GROUP (2); CASSANDRA MICHELLE PHOTOGRAPHY (2)

MANSION



Alice Whitby for The Wall Street Journal

GOING LOCAL Inside Daylesford Organic Farmshop and Cafe, credited with hiking house prices in neighboring villages and inspiring other village stores that focus on locally grown and raised food.

VILLAGES DANGLE AN ORGANIC CARROT

Continued from page W9

Lady Bamford developed an interest in organic food and traditional farming methods. In 2002 she opened a stylish farm store and cafe she named Daylesford Organics.

The venture drew Londoners like bees to honey. "They want somewhere to go where they can get their skinny

latte," explained Luke Morgan, a partner at Strutt & Parker's country department.

Today the Daylesford brand has four shops, a spa, a Michelin-starred country pub and culinary school.

Mr. Morgan says the enterprise has had a transformative effect on Daylesford and Kingham, where proper-

ties now carry a price premium of 10%. "Villages like Kingham have been upgraded to super-village status in the last few years," said Mr. Morgan. "When we do have something for sale there, it flies off the shelf."

Daylesford and Kingham have advantages beyond proximity to Lady Bamford's

store. Both villages are located about 90 miles outside of London—a manageable weekend commute and popular with celebrities. The former Blur bassist Alex James owns a farm just outside Kingham and hosts an annual music and food festival, the Big Feasting.

The beautiful countryside is dotted with period properties. Knight Frank is currently listing a stone manor house in nearby Maugersbury for £1.95 million, or \$2.55 million. The 9,505-square-foot house comes with almost 2 acres of land.

The "Daylesford Effect" is spreading. "More recently we have seen a reinvigoration of the local pub in the surrounding areas, where in many, food has taken center stage," Lady Bamford said in a written response.

This spread has reached as far as the county of Wiltshire, where the Swedish owner of the H&M fashion brand, Stefan Persson, owns a country estate near Ramsbury, 70 miles from London. He also owns the local pub—the Bell. "He has totally revamped that pub," said buying agent Charlie Wells, managing director of Prime Purchase.

In the village of Kersey, located in Suffolk, a rural county 80 miles east of London, buyers pay an estimated 10% premium on properties like Bridge House, a pink-painted five-bedroom historic home right in the center of the village, which is listed with Savills with a guide price of \$1.17 million.

Caroline Edwards, a partner at Carter Jonas estate agents, said that four years ago, the village's "pretty average" pub, the Bell Inn, was bought by sisters Wendy Green and Janet Woolard.

The venue was previously slightly frosty to wealthy incoming urban types, Ms. Edwards said, but is now a "completely inclusive" spot, welcoming London hedge-fund managers and local farm laborers alike. "It has become a real heart of the local community," she said.

She is convinced the warm welcome at the Bell has boosted prices in Kersey at a time when the rural market in Britain is flailing.

In 2014, the British government increased stamp-duty costs on homes worth roughly \$2 million or more. In 2016 it imposed a 3% stamp-duty surcharge on second homes. What this means is that anyone spending about \$2 million on a second home in the country will pay about \$122,850 in taxes, an increase that has shaken the

prime rural market. And businesses like Daylesford and the Bell are also bucking a trend which is seeing traditional pubs and village stores—selling basic groceries—close amid online competition and changing lifestyles. According to the advocacy group Campaign for Real Ale, 21 British pubs close for good every week.

In the face of these closures an increasing number of local communities are coming together to save local businesses.

Mr. Wells cites the example of the Queens Arms in East Garston, Berkshire. "The pub was facing closure three or four years ago until it was bought by a couple of local residents who wanted to keep a pub in the village," he said.

"What was in effect a community buyout has resulted in a great success story."

A similar community effort helped open a not-for-

profit shop in the village of Lodsworth in West Sussex. The Lodsworth Larder opened in 2009, with a strong emphasis on organic, sustainable, seasonal produce (plus a gluten-free range). Most of its produce is supplied by small local businesses, and it is squarely aimed at affluent locals, many of whom commute the 50 miles to central London.

Philip Harvey, managing partner at Property Vision, said the shop has elevated Lodsworth above surrounding villages. Properties, as a result, are 10% more expensive, he estimated.

For Lindsay Cuthill, head of Savills' country department, the premium pricing makes sense. "If you had a choice between living in a village which had a nice pub or shop and one which did not, you would choose the one with," he said. "Ergo prices go up."

Rural Outposts



\$1.44 million

Charleston, SC USA

Five bedrooms, three bathrooms

This 4,300-square-foot house has views of the River Yeald. The local community worked to save the post office and shop, which now sells artisanal bread and crafts, alongside everyday essentials. Agent: Marchand Petit



\$1.44 million

Ramsbury, Wiltshire

Five bedrooms, three bathrooms

The 3,065-square-foot White House Cottage was built in 1652 and has a thatched roof. It is located in the village, where the local pub is owned by H&M boss Stefan Persson. Agent: Carter Jonas

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Makeup Maven Lists N.Y.C. Pad



Laura Mercier, creator of the eponymous cosmetics brand, is putting her downtown Manhattan condo on the market for \$11.15 million.

The French makeup artist-turned-entrepreneur bought the two-bedroom condo at Chelsea's Walker Tower for \$5.9 million in 2013. The 16th-floor apartment measures about 2,150 square feet, said listing agent Vickie Barron of the Corcoran Group.

Walker Tower, completed in 1929, was an Art Deco office building before being converted to condos. Ms. Mercier said she was living in the neighborhood when construction on Walker Tower began, and she became "absolutely obsessed" with the building.

Ms. Mercier was one of the first buyers to sign a contract at Walker Tower, and said she got "a very good price," as a result.

Ms. Mercier, 58, said she is returning to France to focus on expanding her brand in Europe. For the past few years, she has divided her time between New York and Paris, but she now plans to spend most of her time in France, where she has a home in Paris and two in her native Provence. (One of her homes in Provence, an 18th-century castle, is on the market for €3.5 million.) She said she will



maintain a smaller place in New York as a pied-a-terre.

When she is in residence at Walker Tower, she said she uses a large white table in the living room, which has ample natural light through large windows, to apply makeup and test products.



SINGER NATASHA BEDINGFIELD ASKS \$4.75 MILLION FOR LOS ANGELES HOME

Singer-songwriter Natasha Bedingfield is trying again to sell one of her Los Angeles homes—this time with a higher price.

The "Pocketful of Sunshine" singer is putting her modern house in Los Feliz back on the market for \$4.75 million. She previously listed it in 2014 for \$3.75 million. Ms. Bedingfield ended up renting out the house rather than selling it, but the tenant has now moved out, according to Andrew Mortaza of the Agency, who has the listing with colleague Bryan Castaneda.

Ms. Bedingfield bought the house in 2009 for \$2.3 million, according to public records. She and husband Matt Robinson now live in Hollywood, but kept this property as one of several homes they own in the area as investments, Mr. Mortaza said.

"Matt and I have so much fun identifying great properties and then getting to share them with future owners," Ms. Bedingfield said in an email.

Built in the 1950s, the four-bedroom house spans about 4,800 square feet, with several balconies and views of the Griffith Observatory. There is a kitchenette and bar adjacent to the media room. Located in the gated community of Laughlin Park, the property also includes a guesthouse currently set up as a gym, an outdoor swimming pool and a built-in hot tub.

Mr. Mortaza said home values have increased in the neighborhood since the last time the home was on the market.

Known for hits like 2004's "Unwritten," Ms. Bedingfield recently finished touring with Train and O.A.R.



MIAMI HEAT'S TYLER JOHNSON PUTS PINCREST, FLA., HOME ON THE MARKET FOR \$5.25 MILLION



Sports run in the family for Miami Heat guard Tyler Johnson.

When the NBA player and his fiancée, Ashley Fletcher, bought a roughly 12,000-square-foot, Miami-area home last year, they planned to have his mother and younger brother move in with them. But his brother, Logan, is in the midst of being recruited by college basketball programs and decided to finish high school in their native California to avoid disrupting the process. So Mr. Johnson is putting the Miami house on the market for \$5.25 million, less than a year after he bought it, and will look for a smaller home in the area.

"There were going to be more people in the house," Mr. Johnson, 25, said by phone. Though they love the property, "it's too big for our family size right now," Ms. Fletcher added. The couple have a three-year-old son and another baby on the way.

Mr. Johnson bought the house last

year for \$4.82 million, shortly after he made headlines by signing a \$50 million contract with the Miami Heat. The team had matched an offer from the Brooklyn Nets.

The Mediterranean-style house is located in the village of Pinecrest, an affluent Miami suburb. Built in 2009, it has six bedrooms plus an office and spans about 12,000 square feet, said listing agent Kimberly Knausz of ONE Sotheby's International Realty. The house has two kitchens inside—the main kitchen and a chef's kitchen behind it—and a covered summer kitchen outside with a grill, refrigerator and sink. There is also an elevator, a game room with a bar and a home theater. "It's a great house for entertaining," said Ms. Fletcher, noting that Mr. Johnson's teammates are frequent guests at the house. Mr. Johnson said they recently hosted a birthday party for a friend's son with a waterslide, carnival games and a pet-

ting zoo.

The couple said their favorite feature of the roughly 1-acre estate was probably the grounds, which include a heated swimming pool, built-in hot tub, and pool house.

"We love our big backyard," Ms. Fletcher said.

After buying the house, they made some improvements to the landscaping, added an in-ground trampoline and a playground. They also revamped the existing half-basketball court, giving it a Fresno State logo in homage to their alma mater. "That's really fun for us," Ms. Fletcher said. Mr. Johnson said he uses the court three or four times a week.

Ms. Knausz said the luxury market in the area has increased in value since Mr. Johnson bought the house.

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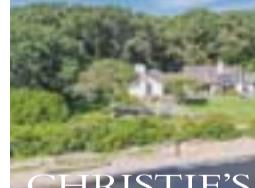
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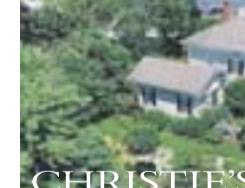


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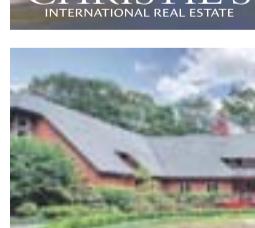


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