

THE WALL STREET JOURNAL.

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Last week: DJIA 21637.74 ▲ 223.40 1.0% NASDAQ 6312.47 ▲ 2.6% STOXX 600 386.84 ▲ 1.8% 10-YR. TREASURY ▲ 21/32, yield 2.319% OIL \$46.54 ▲ \$2.31 EURO \$1.1470 YEN 112.53

What's News

Business & Finance

Peltz plans to launch a fight for a P&G board seat, which would make the consumer-products giant the largest company to face a proxy battle. A1

◆ A private-equity fund run by EnerVest that borrowed heavily to buy oil and gas wells has plunged from \$2 billion to zero. A1

◆ Chinese banks were ordered to put the brakes on loans to Dalian Wanda, limiting its ability to complete overseas deals. B1

◆ Musk warned of the potential dangers of artificial intelligence and called for a regulatory agency to guide its development. B3

◆ U.S. pork-belly prices have surged 80% this year to record highs, driven by a national craving for bacon. B1

◆ Boeing and Airbus are facing competition from three new makers of single-aisle commercial jets in China, Russia and Canada. B1

◆ Trucking firms are set to begin reporting earnings, with investors watching for a rebound in freight rates. B2

◆ IBM on Monday is unveiling its next generation of mainframe computers. B4

◆ Alfred Angelo, one of the largest bridal retailers, shut its stores and filed for bankruptcy protection. B5

◆ Dow Jones subscriber data was exposed due to an error in configuring a cloud-computing service. B5

◆ Wall Street's VIX, a key gauge of market volatility, hit its lowest level in almost 24 years Friday. B9

World-Wide

◆ Senate leaders said they would delay a vote on a GOP health-care bill, prolonging uncertainty about the measure's prospects. A1

◆ An attorney for Trump said no laws were broken when the president's eldest son agreed to a meeting with a Russian lawyer. A4

◆ Trump's political base remains strong, a poll found, even as he struggles for legislative victories and faces an expanding Russia probe. A4

◆ Venezuelans voted in an unauthorized referendum to defy Maduro and his plans to rewrite the constitution. A7

◆ Israel reopened the Temple Mount for worshipers amid heightened security, two days after gunmen killed two police officers. A8

◆ Iran handed an American academic a 10-year prison sentence on spying charges, the news agency for Iran's judiciary said. A8

◆ Pakistan's premier faces a fight for his political survival this week, as the high court begins hearings on alleged corruption. A8

◆ Chinese activists expressed concern for dissident Liu's widow, as she remained out of touch. A9

◆ China's Communist Party placed under investigation a senior official once seen as a possible successor to Xi. A9

◆ California lawmakers are weighing \$3 billion in rebates for buyers of electric cars to boost the industry. A3

◆ Died: Maryam Mirzakhani, 40, the only woman to win math's highest honor. A2

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Eighth Wimbledon Singles Trophy Is the Sweetest for Federer



HIS CUP RUNNETH OVER: Roger Federer, 35, defeated Marin Cilic to win his eighth Wimbledon title and 19th career Grand Slam title on Sunday, becoming the only player of the modern era to win eight men's singles championships at the All England Club. A14

Peltz Seeks P&G Board Seat

Consumer-products titan would be largest company ever to face a proxy fight

By DAVID BENOIT

Investor Nelson Peltz plans to launch a fight for a board seat at Procter & Gamble Co., in an effort to jolt the consumer-products giant whose sales and profit growth stalled, according to people familiar with the matter.

The move would make P&G, with a market value of \$222

billion, the largest company ever to face a proxy fight. Should Mr. Peltz's Trian Fund Management LP win, which is far from guaranteed given how much support it must gain from other shareholders, it would mark a new milestone for a shareholder-activism movement that has shaken up some of the biggest U.S. companies in recent years.

Trian, which owns roughly \$3.3 billion of P&G stock, will seek a single seat for Mr. Peltz in a shareholder vote at the company's annual meeting, likely in October, the people said. It is expected to disclose

the campaign Monday, they added.

After nearly five months of discussions, P&G last week rejected a demand from Trian to name Mr. Peltz a director, the people said, setting the stage for what could be months of public debate over how to get the maker of everything from Tide detergent and Gillette razors to Pampers diapers on a stronger growth trajectory.

In a statement, P&G said: "The Board is confident that the changes being made are producing results, and expresses complete support for the Company's strategy, plans,

and management."

P&G's sales growth has been lackluster amid a sluggish global economy, pricing pressure and competition from well-funded startups. It faced an earlier activist approach from William Ackman and has cycled through leaders as the stock price has lagged.

P&G shares have underperformed the S&P 500 and the consumer-staples group for the past 10 years. They have returned about 4% to investors over the past 12 months, including dividends, compared with a 16% return for

Please see P&G page A2

BILLIONAIRES BUILD AN UNEASY PARTNERSHIP

Bill Gates, Prince al-Waleed feuded after buying Four Seasons Hotels

By ANUPREETA DAS AND CRAIG KARMIN

A decade ago, two of the world's wealthiest men came together to buy Four Seasons Holdings Inc., home to some of the most expensive lodging around.

The deal was surprising both for its lofty price tag, \$3.8 billion, and for the unusual partnership, involving tech titan Bill Gates and Saudi Prince al-Waleed bin Talal.

The financial crisis soon pummeled the luxury-hotel business. The partners then took to feuding, about matters ranging from helping fund new hotel developments to who should be chief executive. After a truce in 2013, they have been trying to whip their investment into shape.

It has been no slam dunk, falling short of ambitious targets for new hotel develop-

ments. At the same time, the focus on fast growth has been causing some business partners and industry analysts to question whether standards and brand appeal can be maintained as Four Seasons hotels become more numerous.

In buying Four Seasons, Mr. Gates and Prince al-Waleed were at the forefront of an investment trend. The superrich, often through structures called family offices, increasingly have been teaming up to acquire whole companies, planning to keep them long term.

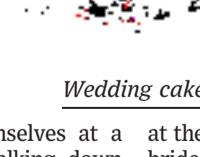
Family offices hold more than \$4 trillion in assets, approaching the total invested in hedge funds and private-equity funds combined. The wealthy clans sometimes invest together because they consider themselves

Please see HOTEL page A10

When a Chinese Bride Tosses the Bouquet, Nobody Knows Why

For-hire wedding 'hosts' baffle guests with fancy affairs, odd Western customs

By CHAO DENG



Wedding cake

"Come on, keep it on," said Mao Bokun to the sweaty attendant. "First groomsman, here," marking the place, herding the party into line.

Later, when the young women present hesitated at the back of the crowd as the bride prepared to throw the bouquet, Mr. Mao coaxed them to the front. "Don't be shy," he said, helping people understand it was an honor to catch it.

Western-style weddings, a byproduct of China's rising affluence and openness, are relatively new here, and people are still getting the hang of it.

When the best man won't take the stage to share memo-

Please see HOST page A10

INSIDE



THE MOST EXPENSIVE INDIE EVER

LIFE & ARTS, A11



REPUBLICANS AREN'T TEAM PLAYERS

OPINION, A17

Delayed Vote Dims Outlook On Health

WASHINGTON—A Republican push to pass a sweeping health-care law experienced another setback as Senate leaders said they would delay a vote set for this week, sparking fresh doubts about whether congressional leaders can muster support for a marquee GOP policy priority.

By Byron Tau,
Louise Radnofsky
and Kristina Peterson

President Donald Trump and party leaders in Congress were hoping the Senate would vote this week on a plan to overturn parts of the 2010 Affordable Care Act and make other changes to the health system. But Senate leaders announced a delay after Sen. John McCain said he would recover in Arizona from surgery removing a blood clot above his left eye, leaving supporters short of the votes needed to move ahead with the bill.

The delay prolongs the uncertainty over the bill's prospects. GOP leaders have pursued a fast-paced timeline, as health-policy changes are often controversial. Sen. John Cornyn, a member of Senate GOP leadership, told reporters last month that passing the bill is "not going to get any easier" with time.

Meantime, insurance companies, state governors and congressional critics continued to line up against the bill. Governors, including some Republicans, have said they are con-

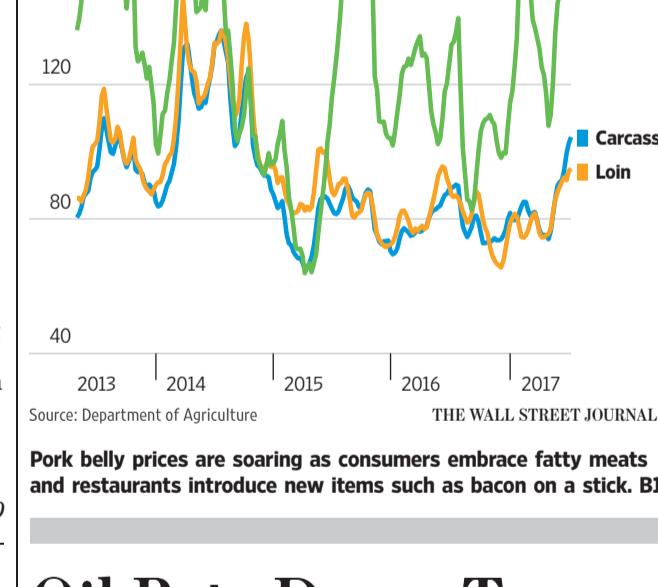
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◆ White House seeks to refocus on agenda..... A4

◆ Trump sustains support in counties behind win..... A4

Everything's Better With Bacon

\$200 per 100 pounds



Source: Department of Agriculture

Pork belly prices are soaring as consumers embrace fatty meats and restaurants introduce new items such as bacon on a stick. B1

Oil Bets Doom Texas Private-Equity Fund

By RYAN DEZEMBER

A \$2 billion private-equity fund that borrowed heavily to buy oil and gas wells before energy prices plunged is now worth essentially nothing, an unusual debacle that is wiping out investments by major pensions, endowments and charitable foundations.

EnerVest Ltd., a Houston private-equity firm that focuses on energy investments, manages the fund. The firm raised and started investing money in 2013, when oil was trading at more than double the current price of about \$45 a barrel. But the fund added \$1.3 billion of borrowed money to boost its buying power. That later caused it trouble when oil prices tumbled.

Now the fund's lenders, led by Wells Fargo & Co., are negotiating to take control of the fund's assets to satisfy its debt, according to people familiar with the matter.

"We are not proud of the result," John Walker, EnerVest's co-founder and chief executive, wrote in an email to The Wall Street Journal.

The outcome will leave investors in the fund with, at most, pennies for every dollar they invested, the people said. At least one investor, the Orange County Employees Retirement System, already has marked its investment down to zero, according to a pension document.

Though private-equity investments regularly flop, industry consultants and fund investors say this situation could mark the first time that a fund larger than \$1 billion has lost essentially all of its value.

EnerVest's collapse shows how debt taken on during the drilling boom continues to haunt energy investors three years after a glut of fuel sent prices spiraling down.

At its onset, the oil bust was expected to cause wide-

Please see FUND page A9

THE OUTLOOK | By Bob Davis

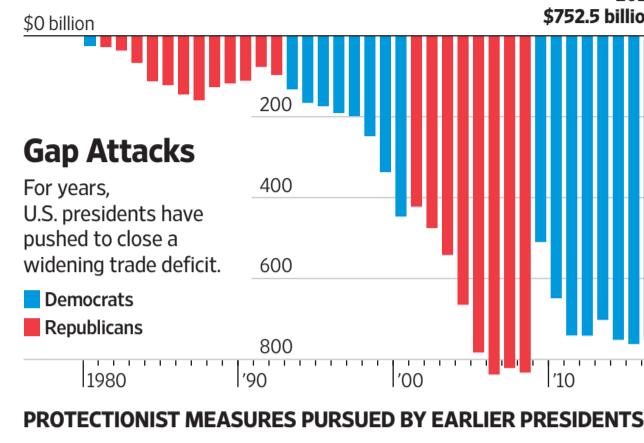
Trade System Checks Protectionism

President Donald Trump has looked to make protectionism respectable again, citing Abraham Lincoln's embrace of tariffs, pulling the U.S. out of a Pacific trade pact and preparing tariffs on steel imports. But changes in the international economy and the institutions governing trade are acting as constraints on what Mr. Trump can achieve.

Gone are Mr. Trump's campaign threats to hit China with 45% tariffs and Mexico with 35% levies. Steel tariffs could come in a matter of days, but steel lobbyists worry they will be more limited in magnitude than similar actions taken in the past. Meanwhile, Mr. Trump's commerce secretary says talks to update the North American Free Trade Agreement, which commence in August, will be guided by the principle, "Do no harm."

"The interests of companies and sectors are making it very difficult to go through with the extreme [measures] Trump proposed," says Brandeis University trade economist Peter Petri.

During the campaign, Goldman Sachs estimates, markets were betting that Mr. Trump's trade policies would lift tariffs by about 10 percentage points—enough to jolt the global economy. Now Goldman estimates the impact of Mr. Trump's more limited efforts



PROTECTIONIST MEASURES PURSUED BY EARLIER PRESIDENTS

RONALD REAGAN

- ◆ Tariffs on Japanese electronics
- ◆ Quotas on Japanese cars
- ◆ Quotas on steel imports

GEORGE H.W. BUSH

- ◆ Pushed Japan to buy U.S. semiconductors
- ◆ Pushed Japan to buy U.S. auto parts

BILL CLINTON

- ◆ Threatened tariffs on Japanese luxury cars
- ◆ Pushed Japan to buy U.S. auto parts

GEORGE W. BUSH

- ◆ Imposed steel tariffs

BARACK OBAMA

- ◆ Imposed tariffs on Chinese tires

Source: Census Bureau

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at a 1 percentage point tariff increase. "Market expectations of major trade policy changes now appear to have completely reversed," Goldman economists Daan Struyven and Ben Snider write.

Mr. Trump has taken the opposite approach of some recent White House predecessors. He threatens protection but so far has acted modestly. They praised free trade but pushed protection.

Richard Nixon imposed a

10% import surcharge to press trading partners to revalue their currencies. Ronald Reagan started more than a decade of pressure on Japan, whose imports battered U.S. industries, much as China's do today. He imposed stiff tariffs on Japanese electronics, and forced Japan to limit exports of cars to the U.S. and buy U.S. semiconductors. George H.W. Bush continued the semiconductor deal and pressed Japan to buy more U.S. auto parts.

Even Bill Clinton, seen now as an avatar of free trade for

his passage of Nafta and a deal that let China join the World Trade Organization, badgered Japan on cars, auto parts and computer chips throughout his first term. He threatened tariffs on luxury Japanese automobiles, calling off the levies at the last moment after Japan agreed to expand U.S. auto production.

Later presidents had their protectionist moments too, with George W. Bush imposing tariffs on steel imports and Barack Obama singling out Chinese tire imports.

Past presidents used protection in part to give them domestic political cover to push for overall trade liberalization. From Nixon's term through the end of Clinton's, the U.S. negotiated two global trade pacts, Nafta and the creation of the WTO, among other international trade deals. Those deals limit Mr. Trump's maneuvering room.

Many of the unilateral actions that Mr. Reagan used to punish Japan now would be handled as trade cases at the WTO, which generally frowns on protection and takes years to make decisions. Deals to reserve parts of a foreign market for U.S. companies are forbidden by WTO rules.

Industries that once lobbied heavily for protection have become more international, making them less likely to push for restrictions. When the U.S. and Japan fought over Japanese car imports, for instance, it may have made

sense to put quotas on Japanese automobile imports. But that logic doesn't work for the U.S. and Mexico. U.S.-based car makers—some of them Japanese owned—ship parts both ways across the border to build a car cooperatively.

The textile industry, long one of the most aggressive voices for trade protection, has become a defender of Nafta, because of how international the industry has grown.

On steel tariffs, Mr. Trump is using a rationale, national security, that President Nixon cited as a reason for his across-the-board import surcharge. This time, the steel industry is asking the administration to use tariffs for a more limited objective—to prod China to cut back its vast steel excess capacity. The administration, steel industry officials say, is looking at how to apply tariffs without prompting widespread retaliation.

None of this means that a new era of trade liberalization is at hand.

It's been 23 years since the last global trade deal and none is on the horizon. Tariff cuts are slowing around the world, according to the International Monetary Fund, as are the number of free-trade deals being signed annually.

But the architects who built the international trading system created a structure resistant to dramatic change. Over time Mr. Trump may find himself ensnared by it.

ECONOMIC CALENDAR

TUESDAY: The U.K. statistics office releases consumer price inflation data for June, expected to show that annual price growth held at 2.9%, near a four-year high. Inflation in Britain is stirring after a prolonged period of subdued price growth, spurred by the pound's sharp depreciation in the wake of last year's Brexit vote. As wage growth struggles to keep up, Britons have reined in their spending—a key engine of growth—causing the economy to slow visibly in the first quarter.

WEDNESDAY: The Commerce Department releases U.S. housing starts data for June. May housing starts fell 5.5%, indicating a mismatch between tight supply and solid demand. Some analysts attributed the drop in starts to a short supply of labor in the construction industry. Economists surveyed by The Wall Street Journal expect that starts rose 5.5% in June.

THURSDAY: The Bank of Japan holds its monetary policy meeting. Central bank watchers expect the bank will raise its economic assessment while cutting its inflation forecast for the financial year.

FRIDAY: The European Central Bank meets, just weeks after ECB President Mario Draghi hinted the ECB might start winding down its stimulus in response to accelerating growth in Europe. Any move toward reducing bond purchases would put the ECB on a similar path to the Federal Reserve, which has signaled an intent to taper its own stimulus program. The ECB tightened its communication at the June policy meeting.

'Herculean' China Pact Yields Modest Improvements

When Commerce Secretary Wilbur Ross announced in May the "herculean accomplishment" of extracting Chinese promises to swiftly open long-restricted markets in finance and agriculture, he pronounced the actions "more than has been done in the whole history of U.S.-China relations on trade."

Now, with the two countries

By Jacob M. Schlesinger, Jacob Bunge and AnnaMaria Andriotis

moved.

"They've delivered on the promises by the date they've been required, but they could do more," said Jake Parker, vice president for the U.S.-China Business Council, which represents U.S. companies in China and has been monitoring the deals. While the changes "indicate from the Chinese perspective that their market is open," Mr. Parker said, "whether foreign companies can actually operate there is still unclear" in some industries.

The success of those market-opening measures will be on the table when top economic officials from the two countries meet Wednesday to discuss trade and investment issues. Officials from both governments insist the pact has been successful.

"We hope to report further progress on...deliverables next week," a Commerce Department spokesman said Thursday, re-

ferring to actions taken under the May agreement.

"A number of 'early harvests' have been reaped," a Chinese foreign ministry spokesman said Friday.

The May announcement was portrayed as an early down payment on a general April agreement between President Donald Trump and Chinese President Xi Jinping to make progress toward reducing the \$347 billion bilateral trade imbalance that Mr. Trump regularly complains about.

In return for China's promises, the U.S. offered a couple of market-opening gestures as well and, in compliance with the pact, has issued rules allowing previously blocked Chinese cooked-poultry imports.

The two presidents gave themselves 100 days to come up with a comprehensive plan. More commitments are expected at this week's meetings, timed to observe the 100-day

mark of the U.S.-China Comprehensive Economic Dialogue.

But difficulty showing quick, significant progress on even the early items targeted as low-hanging fruit indicates bigger challenges ahead in reshaping U.S.-China economic relations.

The success of market-opening measures will be on the table at meetings this week.

in the written agreement. One resulted in clear, complete compliance: Beijing granted licenses promised to Citigroup Inc. and J.P. Morgan Chase & Co. to expand their bond-market activities in China. In the other four, market gains seem limited or uncertain, business officials say.

Consider the yearslong battle by Visa Inc. and Mastercard Inc. to get banks in China to distribute credit cards that run on their networks to Chinese consumers. China committed in May to issue any further necessary guidelines allowing U.S. firms to begin the licensing process, a crucial step that had long been stalled. The Chinese fulfilled that commitment June 30. But while that was aimed at leading "to full and prompt market access," according to a U.S. government press release, industry officials say it hasn't.

"All this does is allow companies to submit an application; it doesn't mean that a foreign

card company can begin operating in the market," said Mr. Parker, who believes it still will be years before Chinese banks distribute many Visa- or Mastercard-branded cards that run on those networks in China. Among other barriers, he said, the new rules require companies to submit to a national security review, without laying out the details of that process, and require them to build data centers in China.

Visa and Mastercard representatives said they are reviewing the guidelines, without offering a timetable for submitting applications.

One triumph touted by the Trump administration has been the late-June opening of China's beef market, shut to the U.S. since a 2003 mad-cow scare. But the strictness of China's standards mean China likely will remain for now a niche market for the American beef industry.

Winner of Math's Highest Honor

Associated Press

STANFORD, Calif.—Maryam Mirzakhani, a Stanford University professor who was the first and only woman to win the prestigious Fields Medal in mathematics, died at age 40.

Ms. Mirzakhani, who battled breast cancer, died on Saturday, the university said.

It didn't indicate where she died.

OBITUARY MARYAM MIRZAKHANI In 2014, she was one of four winners of the

Fields Medal, which is presented every four years and is considered the mathematics equivalent of the Nobel Prize. She was named for her work on complex geometry and dynamic systems.

Her work had implications in fields ranging from cryptography to "the theoretical physics of how the universe came to exist," the university said.

Ms. Mirzakhani was born in Tehran, Iran, and studied there and at Harvard University. She joined Stanford as a math professor in 2008.

Ms. Mirzakhani originally dreamed of becoming a writer but shifted to mathematics.



NIKKI RITCHER FOR THE WALL STREET JOURNAL

P&G rejected a Trian demand to name Nelson Peltz a director.

growth, a closely watched metric that excludes acquisitions or divestments as well as currency swings, has been stuck between 1% and 3% in recent years, well below pre-recession levels. In the March-ended quarter, organic sales rose just 1%.

Mr. Taylor has said the company was failing to deliver and "we need to bring our standards up."

Trian will need to garner

widespread investor support to succeed. Even though the investment is its largest ever and the fifth-biggest P&G holding overall, it still amounts to only about 1.5% of the company's market value.

Trian will have to convince investors that Mr. Peltz's experience—and stock gains—at consumer giants like Mondelez International Inc. and H.J. Heinz Co.—recommend him for a board stacked with well-known business leaders.

Those arguments didn't persuade P&G's board in private discussions. Over roughly half-a-dozen meetings and conversations, Trian laid out its concerns while P&G detailed its own views, but the sides didn't come to an agreement, the people said.

Last Tuesday, in a meeting with several directors and Mr. Peltz, P&G said it wouldn't give him a seat and that it wanted time to prove management could boost results, the people said. The board also refused to commit publicly to

adding Mr. Peltz if the company missed its targets this year, they said.

The activist is focused on the structure of P&G's leadership. Historically, there have been executives who run business units and others who are in control of sales and marketing, which Trian argues clouds who has ultimate responsibility for profits.

Mr. Taylor has looked to address this concern already. Regional units have been handed more autonomy in bringing their products to market and executives say profit-and-loss responsibility now lies at the feet of category leaders.

Trian also zeroed in on P&G's costs, questioning how a market powerhouse that commands prices far exceeding those of rivals, on average, doesn't have the best profit margins.

P&G has increased operating profit margins, to 20.6% last year from 19.1% in 2011, and says it ranks third in the industry—behind competitors that also charge high premiums. It has said the \$10 billion it will cut by 2021 will come from reducing billions in spending on packaging, supply-chain costs and marketing.

Trian says the previous \$10 billion in cost cuts didn't translate into profit growth even after taking into account surging foreign-currency costs and it wants to ensure the current plan increases the bottom line.

"We can't have what happened last time happen again," Trian co-founder and Chief Investment Officer Ed Garden said in an interview.

—Sharon Terlep contributed to this article.

Continued from Page One

the S&P 500.

Trian and P&G agree on some steps the company needs to take, such as cutting costs and restructuring management, and the investor supports Chief Executive David Taylor and the company's 11-person board. It isn't seeking a breakup as some analysts have speculated since the investment was disclosed in February.

Trian has told P&G if it were to win a seat at the annual meeting, it would seek to renominate whoever lost, the people said, expanding the board by the one seat.

Still, Trian believes P&G has failed to move fast enough to

move.

"We need a game-changing attitude at P&G," Mr. Peltz said in an interview. "We just can't keep going along the same path," he said, adding that he sees the board as well-intentioned.

Since Mr. Taylor took over in November 2015, P&G has moved to restructure management responsibilities, bring in outside talent, drop brands and cut some \$10 billion in annual expenses by 2021. That's on top of the \$10 billion the company says it already eliminated since 2012—by cutting 24,000 jobs globally, shedding 14 factories and more than 100 brands to refocus on its most lucrative businesses.

Yet sales and profit growth have remained elusive. The company reported earnings of \$13.4 billion for its fiscal 2016, slightly less than the \$13.8 billion it notched five years earlier. Organic sales

arrested its market-share losses and convert cost cuts into profit, questioning the credibility of the company when it comes to carrying out promises.

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U.S. NEWS



Venice Beach, above, is an example of what has been happening in wealthy urban enclaves across the U.S. that have resisted new housing development in recent years.

Housing Stalls in Urban Hot Spots

Venice Beach is the toughest neighborhood in U.S. in which to build units

By LAURA KUSISTO

Venice, Calif., is one of the nation's hottest neighborhoods, brimming with affluent young residents and technology startups like Snapchat parent Snap Inc. But in one respect, it bears little resemblance to a boomtown: It hasn't gained a single housing unit in 15 years.

The ZIP Code encompassing this vibrant Los Angeles precinct is the toughest place in America to build housing, according to an analysis of housing data conducted for The Wall Street Journal by Issi Romem, chief economist at BuildZoom, a website for contractors.

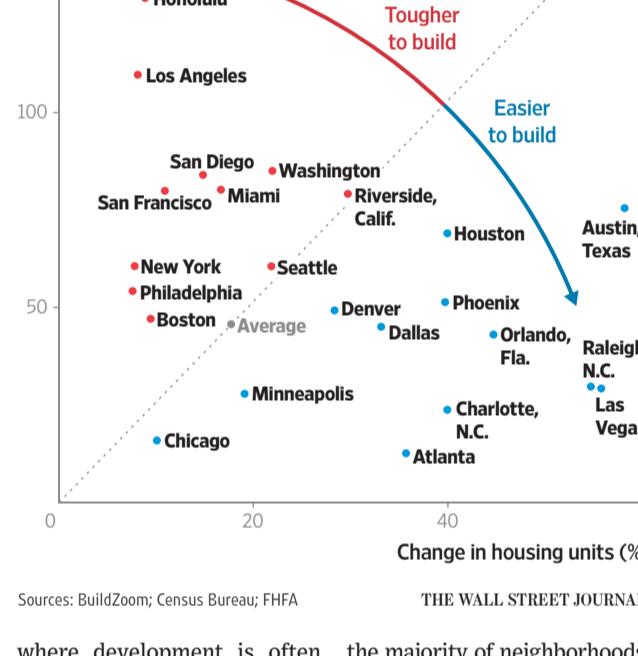
In all, the area, which encompasses Venice Beach, had about 700 fewer housing units in 2015 than in 2000, as apartment development stalled and wealthy homeowners gobbled up adjacent properties and leveled them. Home prices in the ZIP Code have more than tripled in those 15 years, rising 246% compared with the national average of 52% in the period, according to Mr. Romem's analysis.

Venice Beach is an extreme example of what has been happening in wealthy urban enclaves across the U.S. that have been resisting new housing development in recent years.

Apartment developers have stepped up production focused largely on the inner cores of big U.S. cities, where millennials are flocking for high-paying jobs and easy commutes, and

When Less Is More

Cities that produced the fewest housing units from 2000 to 2015 tended to have larger price increases, and vice versa.



Sources: BuildZoom; Census Bureau; FHFA

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where development is often welcomed. Meanwhile, surrounding low-rise neighborhoods—many filled with older structures and historical character—are keeping developers out.

Residents of these older urban neighborhoods generally have resisted newcomers, complaining about congestion on roads and public transportation and seeking to preserve architecture, sunlight and views.

Yet if U.S. cities want to ease housing-price pressures, Mr. Romem said, they will have to relax zoning restrictions and allow tall new buildings across

the majority of neighborhoods, not just in concentrated downtown areas.

"If you want to stunt this housing affordability crisis, you need to rewrite the rules," Mr. Romem said.

After Venice Beach, the second most difficult place to build in the U.S. was Prospect-Lefferts Gardens in Brooklyn, a park-side section of limestone row houses that is popular with young families priced out of other Brooklyn neighborhoods.

The third-toughest place to build was the Fishtown section of Philadelphia, a city few think of as hostile to development.

A Look at Fishtown Area in Philadelphia

Philadelphia's Fishtown section, not far from some of the city's toughest streets, seems an unlikely neighborhood to be suffering from the type of housing-supply pressures that plague the likes of San Francisco and New York.

But getting projects off the ground isn't easy. The problem for developers: Labor costs are nearly in line with those of New York City but rents and condo prices are nowhere close, despite some healthy gains in recent years.

Developers say that when they do build in the neighborhood, they tend toward townhouses rather than towers, because it rouses less opposition, though it also adds little housing to the overall mix.

Home prices in Fishtown increased 284% from 2000 to 2015, while the area added just

In Venice Beach, the total number of housing units permitted now under zoning rules is half the number permitted in the late 1950s, according to an analysis by Dario Alvarez, president of community planning firm Pacific Urbanism. Developers said projects that require only minimal changes to the rules encounter such stiff community opposition, often lose momentum and die.

Opponents "object all the way through and then they'll take every appeal that they can," said Frank Murphy, who has been a developer in the area for 40 years.

Those opposed to new de-

vlopment say it is often aimed at the very wealthy or very poor and doesn't seem to benefit residents of what traditionally have been middle-class neighborhoods.

The Venice Beach population is shrinking even as the local economy has boomed. The neighborhood had about 27,000 residents in 2015, about 3,800 fewer than in 2000, according to U.S. Census data. At the same time, the ZIP Code has added 4,000 new jobs, according to Jed Kolko, chief economist at employment website Indeed.

—Covey Son contributed to this article.

New Leader Of CDC Lays Out Goals

By BETSY MCKAY

The new director of the Centers for Disease Control and Prevention said she will prioritize a wide range of public-health issues, from fighting infectious disease to strengthening early childhood development, as the federal agency faces potentially substantial budget cuts.

In an interview at the end of her first week on the job, Brenda Fitzgerald said she would make a strong case for public-health spending should the agency fall on tough times.

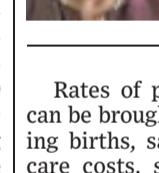
"When there are austere times, the most important factor is that you have to know what your mission is," Dr. Fitzgerald said. "You make sure what you're doing is indeed fulfilling that role, because there are certain things that I believe only public health can do," she said.

The Trump administration has proposed a \$1.22 billion, or 17%, cut to the CDC's budget for fiscal 2018, including reductions in chronic-disease prevention and epidemic preparedness.

Many public-health experts welcomed Dr. Fitzgerald's July 7 appointment, because she is a public-health advocate and leader. But she has been criticized for a Georgia childhood-obesity program that accepted funds from Coca-Cola Co.'s foundation.

Dr. Fitzgerald, 71 years old, grew up in Middlesboro, Ky., a town in coal-mining country. She was Georgia's public-health commissioner from 2011 until she was named to her CDC post.

She calls herself a "strong advocate for vaccines" and says she supports making reliable contraception available, two issues that have been scrutinized by the new administration.


New CDC head Brenda Fitzgerald was previously Georgia's public-health commissioner.

Rates of premature births can be brought down by spacing births, saving on health-care costs, she said, an approach that generally requires contraception.

She believes decisions about abortion should be made "between a woman and her doctor," with limitations. "There's absolutely no case once a child is viable," she said. But, she added, "I did not do abortions in my practice."

The CDC collects data on abortions but doesn't fund them.

Dr. Fitzgerald said that preventing the spread of infectious disease will remain a priority for the agency.

Battling the U.S.'s biggest killers will also be a focus for the CDC under her leadership, she said, though she didn't cite specifics. Fighting opioid addiction is a priority for the administration, her spokeswoman said.

She said she also wants to make advances in an area she championed as Georgia's public-health commissioner: children's early brain development.

Dr. Fitzgerald has come under fire for the Georgia SHAPE childhood-obesity program, which took \$1 million from 2013 to 2015 from the Coca-Cola Foundation to promote physical activity.

She said that the state purposely sought partners from every sector, including large area employers such as Coca-Cola, to join its \$57 million program. The program promotes eating fresh fruits and vegetables in addition to physical activity, she said.

"I think if you're going to solve a big problem, you've got to have a public-private partnership," she said. "What you have to do is start at that place on which there is agreement and work from there."

By ALEJANDRO LAZO
AND TIM HIGGINS

SAN FRANCISCO—California lawmakers are considering \$3 billion in rebates for buyers of electric cars in an effort to power an industry that relies heavily on public subsidies.

The bill has passed the state Assembly and is advancing in the Senate. Gov. Jerry Brown has set ambitious goals for zero-emissions vehicles, though he hasn't said whether he would sign the bill.

California has long been a leader on environmental, clean air and climate policies with its large size, geography and heavy reliance on cars. The state has more than 250,000 zero-emission vehicles on its roads, including electric cars, accounting for about half the U.S. market, says the California Air Resources Board.

California has had a tax rebate of \$2,500 on fully electric vehicles since 2010, but the program was scaled back this summer based on a buyer's income as the program awaits new funding, according to Chuck Colgan, a spokesman at the Center for Sustainable Energy.

The per-vehicle value of the new rebate hasn't been set. It is expected to vary based on



Interstate 405 in Los Angeles, California, which has pioneered clean-air controls for decades, wants 1.5 million zero-emissions vehicles on its roads by 2025.

the customer's income and other factors such as how much a similar gasoline-powered model costs.

Similar incentives aided electric car sales elsewhere.

A \$5,000 tax credit in Georgia helped the state become the second-largest electric vehicle market in the U.S. after California until the credit was eliminated in July 2015, according to Edmunds, a website that tracks car sales. After the change, sales in Georgia fell to 2% of all U.S. electric vehicles sold in 2016 from 17% in 2014, according to the site.

Electric cars are priced far higher than those that run on gasoline, making sales challenging when gas prices are as low as they are now.

Auto executives talk about a "tipping point" when the costs of some electric models fall below the cost of the conventional version of the same vehicle type.

Industry analysts estimate that rising costs of developing combustion engines that meet ever-stricter emissions regulations could make some electrics reach that level as soon as 2025.

In California, electric cars made up just 2.7% of the new-car market in this year's first quarter, according to a report by the California New Dealers Association.

But to meet aggressive mandates for statewide reductions in greenhouse gas emissions, California aims to have 1.5 million zero-emissions vehicles on its roads by 2025 and five million by 2030. The car industry needs an "aggressive boost" to get there, said Assemblyman Phil Ting, a San Francisco Democrat who wrote the new rebate bill.

Jessica Caldwell, an auto industry analyst for Edmunds, said the new California program should boost sales, particularly given that new electric models such as the Chevrolet Bolt and Tesla Model 3 can go further on a charge.

Funds for the proposed rebate will come from existing programs, Mr. Ting said, with one source being the state's cap-and-trade program, which requires California industry to pay for greenhouse gas emissions. That program faces a key test Monday, with state lawmakers set to vote on whether to extend the program from 2020 through 2030.

Some cap-and-trade revenue helps fund the existing, limited electric car rebates, in which a buyer has to apply for one after purchasing a car. Mr. Ting's bill would offer buyers rebates at dealerships, with bigger discounts for lower-income buyers.

Critics say the program would be a giveaway to an industry that has struggled to survive without government funding. "The legislature is once again picking winners and losers in what is supposed to be a free market," said state Senator Andy Vidak, a Republican from Hanford, Calif.

Mr. Vidak has come under fire for the Georgia SHAPE childhood-obesity program, which took \$1 million from 2013 to 2015 from the Coca-Cola Foundation to promote physical activity.

She said that the state purposely sought partners from every sector, including large area employers such as Coca-Cola, to join its \$57 million program. The program promotes eating fresh fruits and vegetables in addition to physical activity, she said.

U.S. NEWS

White House Seeks to Refocus on Agenda

New campaign is the Trump team's latest attempt to impose message discipline

BY MICHAEL C. BENDER

WASHINGTON—The White House on Monday will embark on a three-week messaging campaign aimed at refocusing attention on President Donald Trump's agenda and framing a debate later this summer over rewriting the U.S. tax code.

The "Made In America" campaign, which starts with the president highlighting locally made products from around the country, is the latest attempt by Mr. Trump's communications team to control a narrative that has consistently spun out of their grasp during the six months since the inauguration.

The challenge in controlling the message is partly due to turmoil within the West Wing over strategy and tactics. Disagreements continue over how the communications shop should be organized and on what policies the team should concentrate, White House officials said. These conflicts have impaired the president's ability to hire experienced Republican communicators, with even some Trump supporters declining White House posts.

Scott Jennings, a consistent defender of the president on television and an ally of Senate Majority Leader Mitch McConnell, refused White House in-



KEVIN LAMARQUE/REUTERS

President Donald Trump at the U.S. Women's Open golf tournament at Trump National Golf Club in Bedminster, N.J., on Saturday.

quiries about taking a senior-level position in the communications department, two White House officials said.

But the team's biggest hurdle may be inside the Oval Office. Mr. Trump, who often says he is his own best adviser on politics and communications, frequently strays from the White House's script and has fought attempts to tone down his Twitter persona, of which many top aides—and a major-

ity of the American public—say they disapprove. Several senior administration officials privately complain that the White House's main problem is decision-making, not public relations.

The health-care debate has underscored the White House's conundrum, said Newt Gingrich, who remains a political adviser to Mr. Trump. He cautioned that the White House team is "still learning" about

its own power but said it was unclear what the Trump White House wanted to accomplish in a new health law.

Sean Spicer, the White House press secretary, said the White House is pushing to expand access to health care and lower costs for U.S. workers.

Although health care was a central plank in Mr. Trump's campaign, the president's attention has been diverted by other priorities as well as news

about investigations into Russia's meddling in the 2016 presidential election and whether anyone in the Trump campaign colluded with Moscow.

In an effort to impose message discipline, the communications shop orchestrated a series of "theme weeks," designed to focus both the president and his senior team on one core policy issue at a time. But the themes were often overtaken by the news of

Handling Of Meeting Is Backed By Lawyer

BY NICK TIMIRAO

WASHINGTON—A lawyer for President Donald Trump said Sunday that no laws were broken when the president's eldest son agreed to a meeting in June 2016 to hear what was described as a Russian government offer of allegedly damaging information about Democrat Hillary Clinton.

Jay Sekulow appeared on Sunday morning news programs to defend the president following a week in which Mr. Trump's eldest son, Donald Trump Jr., offered varying accounts of the meeting.

The meeting included a Russian lawyer, Natalia Veselnitskaya, and a U.S. lobbyist who had served in the Soviet military, Rinat Akhmetshin. Others attending included the Trump campaign manager at the time, Paul Manafort, and Mr. Trump's son-in-law, Jared Kushner, who is now a senior White House adviser.

Democrats and some Republicans have said the meeting showed that the Trump campaign knew about the Rus-

STEVE HELBER/ASSOCIATED PRESS



Jay Sekulow, a lawyer for President Donald Trump, seen in 2015.

sian government's desire to influence the election on Mr. Trump's behalf. Mr. Trump and his son have said the meeting was short and that nothing came of it.

"The meeting itself and those proposed discussions would not have been violations of the law," said Mr. Sekulow in an appearance on Fox. "The president was not aware about this meeting, did not participate in this meeting," said Mr. Sekulow on CBS.

In statements on Twitter on Sunday morning, Mr. Trump expressed unhappiness over the continued focus on the Russia investigation. He asked why there wasn't more attention on his defeated opponent, Mrs. Clinton, and why instead "my son Don is being scorned

by the Fake News Media."

Mr. Sekulow was asked whether agreeing to the meeting with a lawyer described as a representative of a foreign government was a mistake, even if it wasn't illegal. "It's easy to do that in 20-20 hindsight, but not when you're in the middle of a campaign," said Mr. Sekulow on CNN. Of the younger Mr. Trump, he said on CBS, "If he had to do it all over again, there are things he would do differently."

Mr. Sekulow also said the meeting amounted to routine opposition research by political candidates in both parties.

Campaign veterans of both parties have said it isn't normal for candidates to accept or seek political assistance from foreign governments.

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Trump Sustains Support In Counties Behind Win

BY MICHAEL C. BENDER

WASHINGTON—President Donald Trump's political base is sticking with him, according to a Wall Street Journal/NBC News poll, even as he struggles for legislative victories in Congress and as a federal probe expands into Russian attempts to influence the 2016 election.

In counties Mr. Trump won

during the presidential election, 50% of adults approve of his job performance while 46% disapprove, the poll of 600 adults taken July 8-12 showed. In a nationwide Journal/NBC survey taken last month, the president had a 40% approval rating, while 55% disapproved.

The new poll showed a significant split between the counties Mr. Trump easily won, and those that backed the Republican candidate after voting for President Barack Obama, a Democrat, in 2012.

That divide showed that while Mr. Trump's strongest supporters remain solidly behind him, he is weaker in swing counties.

In counties where Mr. Trump's election-day support was at least 20 percentage points higher than what Republican Mitt Romney drew in

his 2012 White House bid, the president's approval rating is now 56%, 16 percentage points higher than his disapproval rating. In counties that voted for Mr. Obama in 2012 but supported Mr. Trump in the 2016 election, the president's approval is 44%, 7 percentage points lower than his disapproval.

In nationwide polls, voters have soured on Mr. Trump, saying they have negative

views of his temperament, trustworthiness and level of knowledge needed for the job. Asked last month about the source of his problems, half of adults said Mr. Trump doesn't have the competence and experience needed to change Washington.

One of the biggest differences between all Americans and those in pro-Trump counties is among younger voters. In counties that backed Mr.

Trump, 42% of voters ages 18 to 34 approve of Mr. Trump's job performance while 52% disapprove. That gap of 10 percentage points compares with a 44-point gap among the same group nationwide. In the same age bracket across the country, just 26% of young voters approve of Mr. Trump, while 70% disapprove.

While he seeks a health-care overhaul, Mr. Trump's White House has been consumed by investigations into Russia's alleged interference in the 2016 election, and its possible coordination with the Trump campaign. The president has insisted there was no collusion.

Mr. Trump won the 2016 presidential election by flipping six states—Florida, Iowa, Michigan, Ohio, Pennsylvania and Wisconsin—that Mr. Obama had won four years earlier. He also captured 220 counties that had voted for the Democratic candidate in the 2012 election.

The Wall Street Journal/NBC News poll was based on telephone interviews in a broad cross-section of counties that Mr. Trump won during the election. It has a margin of error of plus or minus 4 percentage points.

not being able to deliver on that promise would do serious and long-lasting damage to the credibility of Republicans," Mr. Cruz said in an interview.

Others are weighing the fallout over health policy and how its changes would affect some states, particularly rural ones. "This bill would make sweeping and deep cuts to the Medicaid program....It would also jeopardize the very existence of our rural hospitals and our nursing homes," Ms. Collins said on ABC. Conservative lawmakers say the financing for Medicaid as now configured is unsustainable.

Rep. Mark Amodei, a Republican representing a competitive district in Nevada, opposed an early draft of the House health bill but voted for the final version in May. He said that ultimately, he would expect GOP voters to be frustrated if Congress doesn't repeal the ACA, or large swaths of it, but he recognizes the political peril either way.

"If somebody's looking for safe harbor and no hard votes, this is going to be an awful year for them, because I think it's going to be hard vote after hard vote after hard vote," he said.

—Jennifer Levitz
contributed to this article

HEALTH

Continued from Page One

cerned about its proposed cuts to the growth of Medicaid spending, while two top insurance industry groups objected to a change to the GOP bill proposed by Sen. Ted Cruz of Texas as "unworkable."

Senate Majority Leader Mitch McConnell (R., Ky.), who can't afford more than two defections among the 52 GOP senators, has been balancing demands by more-centrist lawmakers for additional money for Medicaid and consumer subsidies with a push by conservatives to pare back requirements on insurers in order to lower premiums for younger, healthier people.

One centrist and one conservative GOP senator, Susan Collins of Maine and Rand Paul of Kentucky, have said they can't support the bill, for different reasons. But others have yet to commit, and one more defection would derail the legislation. Mr. McCain's absence means GOP leaders are short of the votes this week for a procedural motion to consider the bill.

Ms. Collins, speaking on Sunday on ABC, said that eight

to 10 Republicans had "deep concerns" about the bill, even after a new version was unveiled last week to address issues raised by some GOP senators. "I think it would be extremely close," she said when asked whether Mr. McConnell had the votes for passage.

Senate GOP leaders, spurred on by the White House, had been building toward a deadline of this week that had been intended to isolate and spotlight holdouts, warning them that they would pay a price for bucking their party. They have emphasized insurance-market woes under the ACA in some states as proof of the urgency of the cause.

Mr. McConnell had hoped to finish the health debate this week so the Senate could turn to the annual defense-policy bill, confirmation of more of Mr. Trump's nominees and raising the debt limit before adjourning in mid-August.

The McCain absence gives Mr. McConnell and the White House a chance to continue working on holdout senators without having to back down from a vote this week. But it also creates a window for the 2010 health law's supporters to continue a fight they believe is more likely to be successful

Insurers Speak Out Against Cruz Plan

Insurers are ramping up opposition to a new amendment in the Senate Republican health bill that would allow them to sell plans that don't meet Affordable Care Act requirements.

The provision, backed by Texas Sen. Ted Cruz, would authorize insurers to sell coverage that wouldn't meet ACA stan-

ards on the condition that they also sell at least some plans that did.

In a letter sent Friday night to the Senate Republican and Democratic leadership, the two major associations representing health insurers, America's Health Insurance Plans and the Blue Cross Blue Shield Association, said the amendment "is simply unworkable in any form and would undermine protections for those with pre-existing medical conditions, increase

premiums and lead to widespread terminations of coverage for people currently enrolled in the individual market."

In an interview, Mr. Cruz said the provision is essential to his support of the bill. He said his amendment "takes nothing away" and would help millions of people by allowing them to buy lower-cost coverage, including with pre-tax dollars from health savings accounts.

—Anna Wilde Mathews

the longer they wage it.

"A key factor is time: The longer the bill languishes, the less likely it will pass," said Greg Valliere, chief global strategist at Horizon Investments. "And there won't be much time left after Labor Day, as Congress shifts its focus to budget and tax issues."

Prime targets for both sides are senators who had opposed an earlier version of the Senate bill but haven't taken a public stance on its latest iteration. Sen. Dean Heller (R., Nev.), up for re-election next year, is likely under the most pressure, due in part to concerns about the bill from the GOP governor of his state.

The extra time also allows

for more scrutiny of a measure from Mr. Cruz that would allow insurers to offer cheaper plans with less comprehensive coverage than required under the ACA, if they also offer plans that meet ACA coverage requirements. The proposal has alarmed insurers and centrist Republicans who say it would cause premiums to surge for sicker people.

Senate leaders said they are

confident they could hold the procedural vote to advance the bill as soon as Mr. McConnell was back in the Senate. The White House declined to comment at length on the setback Sunday. "We wish Sen. McCain a speedy recovery," said spokeswoman Helen Aguirre Ferré.

The Trump administration

has previously said a quick timeline on a health vote was best, particularly as Democrats and liberal organizers have stepped up their advocacy of preserving the ACA.

"The left, I think, has been

more organized in their messaging on this than collectively

Republincans have as far as ad-

vocating for the benefits of the

bill," said Marc Short, the White House director of legislative affairs, last week.

The difficulty for many Re-

publicans is that supporting the bill or opposing it both carry political risk. On the one

hand, the party has for years

vowed a full repeal of the ACA, known as Obamacare. "I think

the day and legislation winding its way through Congress, and the president himself often veered off message.

During the first full week of June, the White House declared it would focus on infrastructure. From Monday through Friday during "infrastructure week," Mr. Trump tweeted an average of about five times a day, including roughly once a day about infrastructure. But he also tweeted multiple times about his ban on travel for residents of several Muslim-majority countries into the U.S.

He used his social media perch that week to repeatedly attack "fake news," his pejorative for flattering reports in the media, and to criticize London Mayor Sadiq Khan.

Infrastructure was followed by theme weeks on energy, workforce development and technology. Mr. Spicer said the theme weeks were better received in local press than national media.

The strategy is receiving mixed reviews internally.

Mr. Trump was largely pleased with the effort, according to one official familiar with the president's thinking. But one senior administration official said theme weeks exposed the White House as "naïve."

A second senior White House official said the theme weeks were "stupid," particularly during a month in which the health-care debate should have been the priority.

A White House spokesman declined to comment on the criticisms.

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U.S. NEWS

South Carolina's Hacking Battle

BY ALEXA CORSE

To understand the scale of the hacking attempts against election systems in the 2016 presidential election, consider South Carolina.

On Election Day alone last November, there were nearly 150,000 attempts to penetrate the state's voter-registration system, according to a postelection report by the South Carolina State Election Commission.

And South Carolina wasn't even a competitive state. If hackers were that persistent against a state that President Donald Trump won comfortably, with 54.9% of the vote, it suggests they may have targeted political swing states even more.

In harder-fought Illinois, for instance, hackers were hitting the State Board of Elections "5 times per second, 24 hours per day" from late June until Aug. 12, 2016, when the attacks ceased for unknown reasons, according to an Aug. 26, 2016, report by the state's computer staff. Hackers ultimately accessed approximately 90,000 voter records, the State Board of Elections said.

Unlike in Illinois, South Carolina didn't see evidence that any attempted penetration succeeded, said Chris Whitmire, the State Election Commission's director of public information and training, last week. Most of the attempted intrusions there likely came from automated computer bots, not individuals.

"Security has been a top priority for the [commission] since implementing the statewide voting system in 2004," Mr. Whitmire said about South Carolina. But breaches of some states' voter-registration systems during 2016, among other events, "created an election-security environment that was very different," he added.

South Carolina's and Illinois's cases aren't unique, as many states faced virtual threats.

There is evidence that voting systems in 21 states may have been targeted by hackers.



Judy Watson helped her husband vote in the general election on Nov. 8 at a polling place in Dillon, S.C.

munications at the U.S. Department of Homeland Security, at a Senate Intelligence Committee hearing last month.

U.S. intelligence agencies say that Russia attempted to interfere in the 2016 election with the intent of helping Mr. Trump's campaign. Special

suspected Russian hackers for 11 months, until June 2016, according to a report issued by U.S. intelligence agencies. Also in June, the Democratic Congressional Campaign Committee learned that suspected Russian hackers had breached its network at least two months earlier. Russian President Vladimir Putin has denied any government role in either hack.

In Illinois, State Board of Elections staff noticed July 12 that the activity of its server for its voter-registration database "had spiked to 100% with no explanation," the state reported. Illinois took its voter-registration database and public-facing website offline for a week, but the hackers already had accessed roughly 90,000 voter records. None was altered, the state said, and the issue was resolved before Election Day.

On Aug. 18, the Federal Bureau of Investigation sent the first of two "flash" alerts to state election officials, warning

about attempts to hack election infrastructures. Also that week, the DHS offered cybersecurity help to election officials countywide, with 33 states and 36 cities and counties ultimately accepting aid.

In South Carolina, state election officials met with FBI and state law-enforcement officials, according to public meeting minutes from August.

On Sept. 6, Marci Andino, the state's executive director for elections, requested assistance from the DHS, according to emails in documents from a public-records request provided to The Wall Street Journal by Frank Heindel, an activist who has advocated for improving South Carolina's election security for nearly a decade. In September the state used an expedited process to hire Soteria, a private cybersecurity firm, while the South Carolina National Guard's cybersecurity specialists also conducted security assess-

ments at county election offices, Mr. Whitmire said.

On Sept. 18, DHS officials remotely completed an initial "cyber-hygiene scan" for South Carolina. The scans examined the state agency's website and office network, checking for vulnerabilities using a federally maintained database. The scan didn't examine vote-tabulation machines, which aren't connected to the internet, or the statewide voter-registration database.

The DHS discovered 55 vulnerabilities—the virtual equivalent of unlocked doors—across four internet-connected devices used by the State Election Commission, according to a copy of the DHS report. Two of them were classified as "critical," the highest level of severity.

Mr. Whitmire said the state saw no indication that it was targeted specifically. The commission declined requests for data from before 2016's Election Day or the 2012 election.

U.S. WATCH

ARIZONA

At Least Nine Killed As Flash Flood Hits

A flash flood in Arizona killed at least nine people on Saturday, and authorities on Sunday said that search operations were continuing for one missing person.

The flood hit a popular recreation area, the Cold Springs Swimming Hole in the Tonto National Forest, situated north of the town of Payson and about 90 miles north of Phoenix.

Russ Shumate, acting state forester for the Arizona Department of Forestry and Fire Management, said a group of about 15 people were at the swimming hole when the flood hit.

Disa Alexander, 20 years old, said she was waist-deep in water at times and suffered cuts and bruises from debris carried by the water, including a cactus. "It was just a wall of water, and it just came up and out of nowhere and was taking anything in its path," Ms. Alexander said.

—Alejandro Lazo

HONOLULU

Tower Fire Prompts Sprinkler Discussion

A fire in a Honolulu high-rise that killed three people and left a dozen others injured could have been quickly contained had the building been equipped with sprinklers, authorities said.

The fire at the Marco Polo residences broke out Friday afternoon in a unit on the 26th floor, where all three of the dead were found, Fire Chief Manuel Neves said. "Without a doubt if there were sprinklers in this apartment, the fire would be contained to the unit of origin," he said.

The 36-story tower, with more than 500 units, was built in 1971, before sprinklers were required. Honolulu Mayor Kirk Caldwell said the city needs to look at passing a law requiring older buildings be retrofitted with sprinklers. "The biggest argument is the affordability," he said. "But if it saves a life and it's your life, it's worth the cost."

—Associated Press

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WORLD NEWS

Venezuela Detentions Recall Earlier Era

Rising number of political prisoners evokes era of dictators across Latin America

By RYAN DUBE
AND MAYELA ARMAS

CARACAS—To young Venezuelan activists imprisoned by the government, Lisbeth Añez was a saint, delivering food, clothing and medicine while they were detained at a prison run by the spy agency.

Now, the 51-year-old is also jailed there, charged in May by a military court with treason and rebellion, her lawyers and relatives say. "I'm not alone," Ms. Añez wrote in a letter she recently released to relatives and supporters. "The love of Venezuela, together with God, accompany me."

While the recent transfer of opposition leader Leopoldo López to house arrest from a military stockade has received world-wide attention, Venezuela's jails now hold more political prisoners than at any time in 18 years of rule by the self-declared leftist Bolivarian Revolution, human-rights groups say.



MIGUEL GUTIERREZ/EUROPEAN PRESSPHOTO AGENCY

Venezuelans voted in Sunday's unofficial poll on President Maduro's plan to rewrite the constitution.

The trend harks back to an era in Latin America when dictators from Nicaragua to Argentina jailed thousands of dissidents. With the exception of Cuba, the spread of democracy since the 1980s changed all that, but now Venezuela's government has revived the

practice, rights groups say.

Foro Penal, a Caracas group whose lawyers represent many detainees, counts about 440 political prisoners, up from 117 before large antigovernment demonstrations began on April 1. Many recent detainees—including university students,

professors and a prominent electoral expert—face the threat of years in prison, their lawyers and relatives say.

In all, 3,500 people have been detained since the protests began, most for short periods, more people even than when Venezuela was shaken

by sustained street unrest in 2014. Most aren't charged; others face charges including treason and inciting violence.

"We've never seen this rate of detentions before," said Nizar El Fakih, a lawyer who leads the rights group Projuris.

Calls and emails to government officials weren't returned. President Nicolás Maduro and other top officials deny the existence of political prisoners in Venezuela and describe demonstrators as "terrorists" and part of a conspiracy to topple the state.

Mr. Maduro's crackdown has taken a more sinister turn with his government's use of military tribunals to try civilians critical of his administration, say activists, opposition members and families of detainees.

"This is systematic persecution," said Lilia Camejo, a lawyer for several prisoners.

Opposition politician Wilmer Azuaje, who was detained by intelligence agents, according to Human Rights Watch, after alleging corruption among government officials, has been held without access to his family and lawyers, said Kelly Garcia, his wife.

"For us, this is very hard,"

she said. "We have children, ages 1 and 3. The 3-year-old asks for her father."

Pressure to release prisoners has come from the streets, where protests continue, and from foreign capitals, including Washington, calling on Mr. Maduro to open the jail cells.

The country's most prominent prisoner, Mr. López, who leads the Popular Will party, was transferred home came after mediators led by former Spanish Prime Minister José Luis Rodríguez Zapatero met with top Maduro aides.

Mr. López received the attention of U.S. President Donald Trump after his wife, Lilian Tintori, went on a global tour to condemn Mr. Maduro's government. Others, however, like Ms. Añez, are barely known outside of Venezuela.

The imprisoned activist has hepatitis and back problems and hasn't received any treatment while in jail, said her son, Luis Fernando González. But Mr. López's release has given her some hope, her son said.

"She thinks this can have an effect on the rest of the political prisoners," he said.

—Kejal Vyas in Bogotá contributed to this article.

Symbolic Plebiscite Repudiates President

CARACAS—Millions of Venezuelans at home and abroad voted in an unauthorized referendum staged by government opponents to defy President Nicolás Maduro and his plans to rewrite the country's

By Anatoly Kurmanov, Kejal Vyas and Juan Forero

constitution.

Of the nearly 6.5 million who voted inside of Venezuela on Sunday, 98% rejected the government's proposal. Nearly 7.2 million voted in all, but ballots cast abroad had yet to be counted by early Monday.

Organizers said the torrent of voters, accounting for a third of those eligible, served as a mass repudiation of Mr. Maduro's planned national election on July 30 to pick a 545-member special assembly that would have the power to draw up a new constitution. That body is widely expected to remake the political system, giving what critics call an increasingly authoritarian president more power while possibly dissolving the opposition-controlled congress, the National Assembly.

"This result is without precedent in Venezuela," said opposition lawmaker Americo de Grazia. "Now the ball is in our court. In the coming days, we have to propose concrete measures to honor the people's will."

The government didn't have an immediate response to the results, but Mr. Maduro's government had said it wouldn't recognize the referendum, saying it isn't sanctioned by electoral officials. Mr. Maduro had characterized it as an internal consultation by the opposition, while other aides like Caracas Mayor Jorge Rodríguez tried to discredit it, alleging fraudulent voting.

The poll came in the midst of more than three months of unrest in Venezuela in which nearly 100 people have been killed, the vast majority of them young antigovernment demonstrators. With Venezuelans enraged about a deep economic crisis and the government's plans for a new constitution, opposition leaders had been hoping that upward of 10 million Venezuelans would vote against the government on Sunday.

Violence broke out outside one voting station in the poor west side of Caracas when a pro-government mob opened fire, killing a 61-year-old woman and wounding four others, the Attorney General's office said. The bloodshed marred a day of largely orderly voting across several time zones and underscored the country's deep polarization.

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WORLD NEWS

Israel Reopens Holy Site in Attack's Wake

Amid tighter security after killing of officers, officials let worshipers back to Temple Mount

BY NANCY SHEKTER-PORAT

TEL AVIV—Israel reopened the Temple Mount for worshipers amid heightened security, two days after closing access to the revered and highly sensitive site following the latest eruption of violence in Jerusalem's Old City.

Two entrances, where metal detectors have been placed, were opened on Sunday afternoon, Israeli police said, adding that other gates would be reopened as security measures are installed.

Hundreds of Muslims entered the site after the gates were opened for afternoon prayers, police said.

But the new security measures were criticized by Waqf, a Muslim religious authority overseen by Jordan that ad-



RONEN ZVULUN/REUTERS

Israeli police officers watched Palestinians pray at the Temple Mount in Jerusalem's Old City on Sunday.

ministers the Temple Mount with Israel's support. Its representatives refused to pass through the metal detectors and called on other worship-

ers to pray outside the gates until Israel removed them, raising tensions in the area around the site.

"We reject all forms of such

aggressive measures," said Sheikh Omar Kiswani, the Waqf director for Al Aqsa mosque, which sits on the esplanade. The Temple Mount is known to

Muslims as the Noble Sanctuary. "It's the right of all Muslims to pray at the Holy Sanctuary as respected human beings."

Mr. Kiswani also urged Israeli authorities to open all the gates to the Temple Mount to accommodate the usually huge number of worshipers, especially on Fridays. "We have nothing to do with the attack and so our rights as worshipers should be maintained," he said.

Israel's Public Security Minister Gilad Erdan said on Sunday that "the metal detectors are for the security of the worshipers and visitors." A spokesman for Israeli police said the new security measures will continue as long as necessary based on the government's security assessment.

Israeli officials said "police are posted at the Temple Mount gates to prevent attempts of provocation or disturbing the peace."

The Temple Mount will be gradually reopened to worshipers and visitors as part of Israel's policy to maintain the

status quo, Prime Minister Benjamin Netanyahu had said late Saturday.

The prime minister's decision followed discussions with Israel's top security leadership. The reopening will include increased security measures such as metal detectors and security cameras around the Temple Mount, he said.

Three gunmen killed two Israeli police officers near the entrance of the Temple Mount on Friday before being shot and killed by Israeli security forces. One person also was wounded in the attack.

Officials identified the two slain police officers, both members of Israel's minority Druse community, as Hael Sitawa, 30, from the town of Maghar, and Kamil Shnaan, 22, from Hurfeish.

The attackers were Arab citizens of Israel from the mainly Arab town of Umm al-Fahm, near the northern city of Haifa, Israeli police said. They were relatives and ranged in age from 19 to 29.

Iran Gives American 10 Years on Spy Charge

Iran has handed American academic Xiyue Wang a 10-year prison sentence on spying charges, the news agency for Iran's judiciary reported, the latest in a string of such cases against foreigners that have raised alarm in the U.S. and Europe.

By Aresu Eqlabi in Tehran and Asa Fitch in Erbil, Iraq

The news agency, Mizan Online, on Sunday cited Ghosham Hosseini Ejehi, a spokesman for Iran's judiciary, as saying an American had entered the country at the direction of the U.S. and was identified and arrested.

"It has been confirmed and verified that this individual has come to Iran for infiltration," Mr. Ejehi was quoted as saying. Mr. Ejehi said the person was appealing an Iranian court's initial sentence.

Mizan identified Mr. Wang as the person, citing an "informed source." The agency said Mr. Wang is 37 and was born in Beijing. The agency posted information about the case next to a screenshot of Mr. Wang's profile page at Princeton University.

Princeton spokesman Daniel Day said Mr. Wang is a fourth-year doctoral candidate specializing in 19th- and early 20th-century Eurasian history. He was in Iran last summer to do research on the late Qajar dynasty for his dissertation, he said.

"We were very distressed to

learn that charges were brought against him in connection with his scholarly work, and to learn of the subsequent conviction and sentence," Mr. Day said, adding that the university was doing everything it could to support Mr. Wang and his family.

A State Department official said the department was aware of reports of Mr. Wang's detention, but wouldn't go into detail about U.S. efforts in specific cases for privacy reasons.

"The Iranian regime continues to detain U.S. citizens and other foreigners on fabricated national-security related charges," the official said. "We call for the immediate release of all U.S. citizens unjustly detained in Iran so they can return to their families."

Princeton University said Xiyue Wang is a fourth-year doctoral student.

Mizan described Mr. Wang as a U.S.-Chinese national, but Mr. Day said he only held American citizenship. The Chinese Embassy in Washington didn't immediately respond to a request for comment.

Iran has arrested numerous academics, journalists and businesspeople with foreign ties in recent years and charged them with spying. All have denied the charges.

Pakistan Starts Hearings on Sharif

BY SAEED SHAH

ISLAMABAD—Prime Minister Nawaz Sharif faces a fight for his political survival this week, as Pakistan's Supreme Court considers disqualifying him from office or putting him on trial on corruption charges.

In hearings scheduled to begin Monday, Mr. Sharif is expected to confront questions over how his family acquired swank London apartments and an investigation ordered by the Supreme Court that accuses him and his children of living beyond their means, tax evasion and misdeclaration of assets as well as forgery and perjury in an attempted coverup of the London property.

Mr. Sharif has denied the allegations and called the report "a collection of assumptions, accusations and slander." Aides have said he would continue to fight the allegations.

The showdown could be an important turning point for Pakistan's fragile democracy, and could also shake the hard-won political stability of the nuclear-armed nation. In any case, as the Trump administration considers sending thousands more troops to Afghanistan and seeks Pakistan's help in bringing peace there, Islamabad looks set to be convulsed in a prolonged political crisis.

The prospect of talks with foe India, a major plank of Mr. Sharif's agenda, could also sink further, according to analysts.

Even if Mr. Sharif escapes immediate disqualification by the court, Pakistan faces the prospect of seeing a sitting prime minister on trial.



RANA SABU/HUSSAIN/PACIFIC PRESS/ZUMA PRESS

Opponents of Pakistani Prime Minister Nawaz Sharif held up placards during a protest on Sunday in the city of Lahore.

Caught up in the scandal are Mr. Sharif's political heir, his daughter Maryam, and finance minister Ishaq Dar. They say they have done nothing wrong.

According to Mr. Sharif's critics, democracy will be bolstered from a prime minister being held to account by a "new Pakistan" of an independent judiciary, a freer media, and an emerging middle class demanding better governance.

"Pakistan is way ahead of other Muslim countries. This is a vibrant society," said Fawad Chaudhry, a senior member of the opposition party led by Imran Khan, which brought the court case.

However, Mr. Sharif's aides say that the judiciary, the media and opposition parties have merely been co-opted by the old Pakistan: the powerful mili-

tary establishment which has repeatedly undermined and ousted civilian governments.

"The establishment has taken over this case and turned it into a witch hunt," said Daniyal Aziz, a lawmaker with Mr. Sharif's Pakistan Muslim League-N party. "Their aim is to rig the 2018 election and get a hung parliament."

Mr. Sharif's party currently has a majority in parliament. With a cloud over Mr. Sharif, the next election looks likely to be more closely fought with Mr. Khan's party.

"There are only two paths for Nawaz Sharif now: he can go in an orderly way, or he can go in chaos," said the opposition's Mr. Chaudhry.

Mr. Sharif has rejected calls from the opposition for his resignation. "Should I resign

because a band of anti-democracy conspirators says so?" Mr. Sharif told a cabinet meeting Thursday, according to his office. "We will not allow the journey of progress and development to be derailed. Pakistan paid a heavy price for such stunts in the past. This should stop."

Mr. Sharif has clashed repeatedly with the military, in particular over his outreach to India.

Two of the six officials who carried out the investigation for the court came from the military. Maj. Gen. Asif Ghafoor, the military's chief spokesman, said the officers were provided for the probe at the court's request. "The army has no direct involvement in this," he said.

The corruption allegations stem from the massive leak of documents from a Panamanian law firm last year that exposed the offshore assets of politicians, entrepreneurs and celebrities around the world. Among the disclosures was that some of Mr. Sharif's children, who are adults, own four apartments in London's Mayfair area.

The Supreme Court has already expressed frustration that the Sharifs haven't been able to provide a "money trail" for the acquisition of the property.

Mr. Sharif says his children, not him, were given the apartments in settlement of an old family business deal with a Qatari prince. He also says there is no proof of kickbacks or money laundering. The investigation report concluded that Mr. Sharif is "most likely" the owner of the London apartments.

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WORLD NEWS

Beijing Probes Top Official

BY CHUN HAN WONG
AND LINGLING WEI

BELJING—China's Communist Party placed under investigation a senior official once seen as a possible successor to President Xi Jinping, people familiar with the matter said, in a change that allowed the Chinese leader to promote an ally.

A hastily arranged meeting of party officials on Saturday in the inland city of Chongqing announced that Sun Zhengcai, the city's top official, was being replaced and investigated, a person familiar with the matter said. A second person corroborated the investigation.

State media announced Mr. Sun's removal Saturday but didn't provide a reason or mention an investigation. Replacing Mr. Sun as Chongqing's party secretary is Chen Min'er, who was party chief for the southern province of Guizhou, state media reported.

Mr. Sun couldn't be reached to comment.

The removal of Mr. Sun comes as the party gears up for a pivotal congress this fall, providing President Xi a chance to pack top leadership bodies with allies.

President Xi, who appears assured of gaining a second five-year term as party general secretary at the congress, is also trying to sideline rivals, party insiders and analysts said.

Some party insiders have said Mr. Xi may also be trying to block promotion of anyone who could be seen as a potential successor—a move that would enhance his authority



Sun Zhengcai, front right, attended the 12th National People's Congress in March.

and boost his chances of remaining in office after his second term expires in 2022.

Mr. Sun is a member of the party's Politburo—its top 25 officials—and had been regarded as a strong contender for promotion to the Politburo Standing Committee, the party's top decision-making body, or even as a possible successor to Mr. Xi.

The official replacing Mr. Sun in Chongqing, Mr. Chen, is one of Mr. Xi's allies, having worked with the current Chinese leader in the eastern province of Zhejiang, where Mr. Xi was party chief from 2002 to 2007.

Mr. Chen's new post is likely to assure him promotion to the Politburo. The party

secretary of Chongqing customarily sits on the Politburo. Mr. Chen is currently a part of the roughly 370-member Central Committee.

Zhao Leji, chief of the party's personnel department, announced the decision to replace Mr. Sun at the Saturday meeting. Mr. Zhao told the officials that Mr. Sun was being questioned by the party, without elaborating, one of the people familiar with matter said, adding that Mr. Chen, the new Chongqing party chief, was present at this meeting.

According to a state-media report, Mr. Chen told attendees that "firmly protecting General Secretary Xi Jinping's core status" should be their top political priority.

Chongqing was also at the center of political intrigue ahead of the last party congress in 2012. Bo Xilai, then Chongqing party chief, made a national name for himself promoting Maoist culture, targeting organized crime and spending heavily to build up the city.

His ambitions for high office were quashed by scandal, after his wife was implicated in the murder of a British businessman. Mr. Bo was subsequently jailed for corruption and abuse of power; his wife, Gu Kailai, is serving a de facto life sentence for the murder.

Mr. Sun, named Chongqing party chief in late 2012, was tasked with cleaning up Mr. Bo's legacy.

forecast for 6.8% growth by economists polled by The Wall Street Journal.

At a high-level financial conference this weekend, President Xi Jinping made it clear that the regulatory tightening would continue apace.

The latest monthly output and retail-sales data, also re-

leased Monday, largely tallied with the GDP data. Industrial output rose 7.6% in June from a year earlier, higher than a 6.5% increase in May. Retail sales grew by 11% in June from a year earlier, accelerating from a 10.7% increase in May.

—Grace Zhu
and Liyan Qi



An EnerVest fund was wiped out after energy prices plunged.

Jones foundations each invested millions in the fund, according to their tax filings.

Michigan State University and a foundation that supports Arizona State University also have disclosed investments in the fund.

None of these investors commented. It is possible some of them earlier sold their stakes in the fund, paring losses.

In the earlier interview, Mr. Walker said the struggles of EnerVest's 2013 and 2010 funds had sparked ire among his investors: "We've had some chew us out and hang up on us."

EnerVest was launched in 1992 and says it operates more U.S. oil and gas wells than any other company. It started out investing for GE Capital, General Electric Corp.'s finance arm. Eventually it began pooling other big investors' cash, which it used to buy producing oil and gas wells. EnerVest hunted for fields already producing oil and gas but neglected by big oil companies.

Once EnerVest bought them, it made improvements and drilled more to increase output.

The strategy isn't as risky as staking wildcatters or borrowing heavily to buy entire oil companies, but profits are usually lower. To juice returns,

however, funds managed by EnerVest and rivals that shared the strategy borrowed money as if they themselves were oil companies, encumbering all of the funds' assets with the same debt.

The fund was popular among charitable organizations as well. The J. Paul Getty Trust, John D. and Catherine T. MacArthur and Fletcher

each investment independently so that soured deals don't put good ones at risk. The use of fund-level debt effectively cross-collateralizes assets, meaning that good investments can be pulled down by bad ones.

Institutional investors were drawn to these so-called resource funds because they typically pay out steady streams of cash as soon as they make their first investments, unlike other private-equity investments that can take years to bear fruit, said Christian Busken, who advises endowments and other big energy investors as director of real assets for Fund Evaluation Group LLC.

"It shouldn't be something where you can be wiped out. But you are exposed to commodity prices," said Mr. Busken, who hasn't worked directly with EnerVest.

EnerVest's funds historically returned more than 30% or so, which enabled it to raise progressively larger pools of cash. In 2010, it raised about \$1.5 billion for its 12th fund and added \$800 million of debt. Three years later it raised \$2 billion for its next and borrowed \$1.3 billion, according to the firm. The fund bought wells in the Texas Panhandle, Utah, outside Dallas and elsewhere, according to securities filings from some of the sellers. The purchases were made largely as U.S. oil prices hovered in the \$100-a-barrel range and when natural-gas prices were higher.

—Andrea Fuller
and Dawn Lim
contributed to this article.

last year said he and his partners put \$85 million of their own money toward satisfying the banks, but it wasn't enough.

A number of prominent institutional investors are at risk of having their investments wiped out, including Caisse de dépôt et placement du Québec, Canada's second-largest pension, which invested more than \$100 million. Florida's largest pension fund manager and the Western Conference of Teamsters Pension Plan, a manager of retirement savings for union members in nearly 30 states, each invested \$100 million, according to public records.

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Chinese Dissident's Widow Slips From View

BY EVA DOU
AND JOSH CHIN

BELJING—Activists expressed concern for the wife of deceased Chinese dissident Liu Xiaobo, as she remained out of touch with friends despite the government saying she is "free."

Mr. Liu's brother, Liu Xiaoguang, was the only family member to appear publicly Saturday. At a government-organized news conference, he thanked officials for their care of Mr. Liu, who succumbed to liver cancer under police guard Thursday. He said Mr. Liu's wife, Liu Xia, was "too weak" to appear.

Since Mr. Liu's death, the U.S. and other governments have called for Beijing to allow his wife and other relatives to travel overseas. China's Foreign Ministry dismissed the calls Friday as meddling in the country's internal affairs.

Mr. Liu was cremated Saturday and his ashes scattered at sea, according to China's official Xinhua News Agency. The government has sought to erase Mr. Liu's legacy and mentions of his name have long been scrubbed from China's internet; the scattering of the ashes means he won't have a grave where supporters can gather.

The government of Shenyang released photos Saturday of Ms. Liu and other family members at a closed-door funeral, an apparent effort to show they are well

treated. "Liu Xia is free so far, and we want her to avoid trouble because she was in a grief," Xinhua quoted a Shenyang government representative as saying.

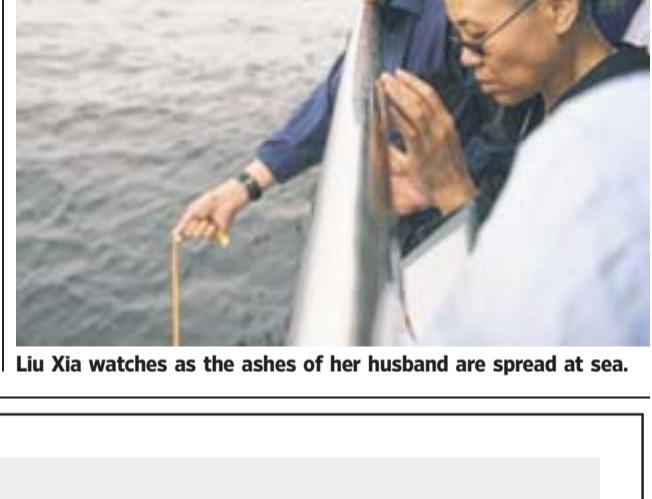
Activists and friends of Ms. Liu questioned the government account, saying they believe she remains under close watch, her movements restricted.

Liu Xiaoguang, the elder brother, praised the government multiple times at the press conference Saturday and said officials had followed all the family's wishes for funeral arrangements. Activists criticized his appearance as political theater, saying it was impossible to verify if there was coercion. Friends say they have been unable to contact Liu Xia and other relatives.

Mr. Liu was sentenced to 11 years of jail in 2009 for his calls for China to adopt democracy. He was awarded the Nobel Peace Prize the next year, a decision that infuriated Beijing. His wife has been under house arrest since then, though she hasn't been charged with a crime.

Separately, Xu Zhiyong, the founder of a loosely organized civic group called the New Citizens Movement, was released from prison Saturday morning after completing a four-year sentence for "gathering crowds to disturb public order," according to his lawyer, Zhang Qingfang.

Mr. Zhang said it "isn't very convenient" for Mr. Xu to appear in public for now.



Liu Xia watches as the ashes of her husband are spread at sea.

Economic Data Suggest Continued Resilience

BEIJING—China's economy steamed along strongly in the second quarter, matching the 6.9% growth rate in the first, as Beijing balances its growth objectives against the need to rein in excessive credit and an overheating property market.

That there was no deceleration in growth is a strong sig-

nal to investors and policy makers that Beijing is handling its balancing act well and that it will be able to maintain stability in the world's second-largest economy ahead of a leadership shuffle this year.

The result released on Monday by the National Bureau of Statistics came in above a

forecast for 6.8% growth by economists polled by The Wall Street Journal.

At a high-level financial conference this weekend, President Xi Jinping made it clear that the regulatory tightening would continue apace.

The latest monthly output and retail-sales data, also re-

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and Liyan Qi

FUND

Continued from Page One
spread losses for private-equity investors. While most funds have been able to navigate the downturn and are hanging on while awaiting higher prices, there have been pockets of acute pain. EnerVest's struggles have been among the most severe.

Only seven private-equity funds larger than \$1 billion have ever lost money for investors.

RON JENKINS/Tribune News Service/ZUMA PRESS
An EnerVest fund was wiped out after energy prices plunged.

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IN DEPTH

HOTEL

Continued from Page One
like-minded in being long-term investors. That doesn't guarantee an easy partnership, however, as evidenced in this deal, as it was described by former executives, current and former board members, business partners and industry observers familiar with events at Four Seasons.

The first Four Seasons was a motor lodge in a rundown part of Toronto, opened in 1961 by Isadore Sharp, a son of Polish immigrants to Canada. By the time he began looking to sell the publicly traded company in 2006, Four Seasons was a renowned name in lodging, known for personalized service and top-of-the-line amenities.

Rather than owning its hotels, Four Seasons forms partnerships with investors and developers, then keeps tight control by managing the properties. Four Seasons hotel owners include billionaires such as Oracle Corp. founder Larry Ellison and Beanie Baby mogul Ty Warner.

By 2006, Prince al-Waleed's investment firm, Kingdom Holding Co., already owned about 25% of Four Seasons stock as well as several hotels. Mr. Sharp consulted him about his sale plans. Prince al-Waleed recommended bringing in Mr. Gates's investment firm, Cascade Investment LLC, which also owned some Four Seasons shares.

The three men agreed to a deal in which Cascade and Kingdom would each own 47.5% of the company, while Mr. Sharp would have the other 5% and remain chief executive for five years.

The sale closed in early 2007, near the peak of the real-estate boom. The price, 47 times one measure of earnings, reflected the era's optimism, as well as projections that Four Seasons would continue to expand at an increasingly rapid pace.

"From a valuation perspective, they were seen as having paid a lot of money," said Jonathan Stanner, former CEO of Strategic Hotels & Resorts Inc., who partnered with Four Seasons to build hotels. "But people reasoned that as long-term investors they could justify the high price."

The purchase brought together family investment firms



ANDREW RUDAKOV/BLOOMBERG NEWS

Inside the Four Seasons in Moscow. Some new properties, such as a 77-room hotel in Miami Beach, have opened to strong reviews

zine of understanding his wealth in its annual ranking of the richest people.

Mr. Sharp, in an autobiography, told of being hosted by Prince al-Waleed on his 288-foot yacht in the south of France and joining the prince on the slopes at Jackson Hole, Wyo. Cascade executives, in their work, didn't share this taste for the high life. When the Four Seasons board met one year at the George V in Paris, a luxury hotel owned by Kingdom, some Cascade employees stayed in more modest accommodations.

Premium price

Kingdom, which had bought much of its Four Seasons stake in 1994 for less than the 2007 deal price, was happy to let Mr. Sharp continue to run the show. Cascade had paid a premium price, based partly on rosy growth projections from Mr. Sharp's bankers. The bankers said the company could more than double its number of hotels in a decade, to 160.

The 2008 financial crisis left that plan in tatters, as both hotel developers and luxury-minded travelers cut back. "One can only imagine Cascade felt it had been bamboozled," said Laurence Geller, an investor who has in the past owned

utive of Kingdom's hotel business, said both investors are happy with their partnership and the performance of their investment.

As occupancy rates fell in the recession, some hotel owners pushed Four Seasons for cost cuts, from scrapping huge displays of fresh flowers to outsourcing laundry.

At one meeting, Cascade executives argued that to save money at a Cascade-owned Four Seasons in Whistler, British Columbia, they should stop replacing guests' sheets every day unless requested. Mr. Larson's view was that wealthy travelers were also environmentally conscious. Mr. Sharp disagreed, saying guests paying as much as \$700 a night should have their sheets washed daily, according to people familiar with the meeting. In a compromise, guests were given the option of placing a pine cone on their sheets if they didn't need them washed every day.

Mr. Sharp said he didn't recall those conversations with Cascade.

Rift over CEO

Mr. Sharp stepped down as CEO in 2010 but set the condition that he should be succeeded by his protégé, company president Kathleen Taylor, who then took over.

Cascade executives would have preferred an outside candidate because they felt that Ms. Taylor didn't represent enough of a break with the past and wouldn't engineer the rapid expansion they were counting on, according to people familiar with the company.

Kingdom executives were supportive of Ms. Taylor, which surprised some Cascade executives who thought that their partners felt the same.

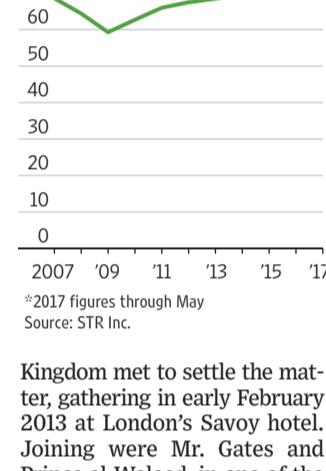
During Ms. Taylor's tenure, the rift became a distraction. The board found it hard to approve capital commitments needed to win over investors in new hotels. Cascade executives sometimes withheld their support to signal they wouldn't put capital behind a chief executive they didn't support, those familiar with the company said.

After months of tension, top executives from Cascade and

Better Lodging

Daily room rates and occupancy levels for luxury hotels in the U.S. are at their highest in 10 years.

Occupancy rate



*2017 figures through May

Source: STR Inc.

Average daily rate



THE WALL STREET JOURNAL.

Kingdom met to settle the matter, gathering in early February 2013 at London's Savoy hotel. Joining were Mr. Gates and Prince al-Waleed, in one of the few times the two billionaires sat down to discuss their investment.

The meeting ended with a decision to replace Ms. Taylor. "It was time to make a change," said Mr. Sharp, who drew the job of dismissing her. "It was my role to take the responsibility," said the founder, now 85. Ms. Taylor declined to comment.

With this dispute over, Cascade and Kingdom sought to put aside their remaining disagreements and push growth and profitability, moving swiftly to make up for the years lost to the recession and its aftermath. Cascade's hotel specialist, Randy Jack, and Kingdom's Mr. Zok led the search for Ms. Taylor's successor and picked Allen Smith, a veteran of real-estate investing. Messrs. Jack and Zok became more active in running Four Seasons, discussing the business regularly and together courting potential new hotel developers.

Some differences persisted. A few months after the truce, Prince al-Waleed said publicly he favored an initial public offering of Four Seasons within a couple of years. Cascade appeared to disagree, releasing a brief statement saying it was "in for the long term."

"There are times when we have a divergence of vision, and when that happens, we have a discussion and the best idea prevails," said Mr. Zok.

Hotel analysts say Four Seasons has been growing faster than most other five-star brands, at a time when the luxury market is enjoying a boom. In the U.S., luxury room rates and occupancy levels are at or near their highest levels ever, according to industry data tracker STR Inc.

Still, Four Seasons is falling somewhat short of its internal goals, even after revising them downward after the recession. In 2013, the company set a target for 120 hotels by end of this year, according to a person familiar with the matter. It now has 105 properties in operation, with more than 50 under development or in the planning stage. A Four Seasons spokeswoman said the company hopes to get to 108 properties by the end of 2017.

Four Seasons has grown partly by defying industry conventions. In New Orleans it plans a 330-room hotel, even though many say luxury service suffers when hotels build much more than 200 rooms.

The company is comfortable with a larger property in New Orleans because the city is "supply starved with luxury product," said Mr. Smith, the CEO. He said Four Seasons has

quite a few other hotels with over 300 rooms, and "the reviews in terms of service levels remain exceptionally high."

Four Seasons also has sometimes opened a second hotel in a city, such as New York and Boston. Traditionally, it avoided doubling up for fear of angering an existing owner. Mr. Smith said the company pursues the strategy "judiciously" and "with sensitivity to the owners involved."

It has become more ambitious globally, opening hotels in emerging markets. The company recently expanded its board to include younger representatives as it tries to woo millennials and engage guests using technology and apps.

Some new Four Seasons properties, such as a 77-room hotel in Miami Beach, have opened to strong reviews. Nadiim Ashi, whose investment firm owns the property, said room rates are averaging \$1,000 a night.

Four Seasons decentralized some functions last year after listening to some hotel owners' complaints. They no longer have to buy supplies such as light fixtures from the company, giving them more control of costs.

Reputation risk

Some of the changes risk Four Seasons' reputation, said Piers Schmidt, founder of Luxury Branding, a U.K. consultancy. In a survey his firm did in 2015, based on analysis of hotel reviews on travel website TripAdvisor, Four Seasons ranked 13th. Other surveys rank Four Seasons higher; a 2017 J.D. Power study about North American hotel guest satisfaction that was just released) ranked Four Seasons third in the luxury segment, behind JW Marriott and Ritz-Carlton.

Mr. Schmidt said luxury brands that expand rapidly risk diluting their culture by hiring staff too quickly or promoting managers too fast, and "I do believe that's the case with Four Seasons."

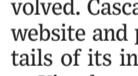
Four Seasons spokeswoman Sarah Tuite called the results from Luxury Branding's study "inconsistent with what we see in multiple third-party tracking sources."

Four Seasons has seen an exodus of veteran executives in recent years. Mr. Smith said that "invariably, changes ensue" when a company shifts from founder-led to a more corporate structure.

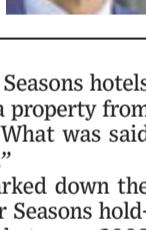
A rapid expansion of this sort raises a different concern to Ellis O'Connor, co-head of MSD Hospitality, a unit of Michael Dell's family office that owns two Four Seasons hotels. "With luxury hotel operation, scarcity is part of the allure," Mr. O'Connor said. "You can't turn it into a commodity and get above-market rates."

People familiar with the Four Seasons operation said Cascade and Kingdom appear determined not to weaken the chain as it grows, and have broken off 14 partnerships with owners whose properties weren't up to standard.

That is a "clear indication we are striking an appropriate balance between growing the brand and actively managing the quality of our portfolio," Mr. Smith said. "We will never compromise quality for the sake of growth."



In buying Four Seasons, Mr. Gates and Prince al-Waleed were at the forefront of an investment trend. The super-rich, often through structures called family offices, increasingly have been teaming up to acquire whole companies.



with quite-different cultures. Cascade is run by Michael Larson, a low-profile money manager with a brusque manner and penchant for the color pink. Mr. Gates rarely gets involved. Cascade doesn't have a website and provides scant details of its investments.

Kingdom welcomes publicity, putting out press releases, photos and video clips documenting Prince al-Waleed's meetings. The prince shot to prominence in 1991 after buying a stake in a predecessor to Citigroup Inc. Forbes confirms that he once accused the maga-

numerous Four Seasons hotels and now owns a property from a rival brand. "What was said was not reality."

Kingdom marked down the value of its Four Seasons holding every year between 2008 and 2012, according to annual reports it publishes because a small portion of Kingdom trades in Riyadh. The value recovered slightly in the next two years but was still below the 2008 value as recently as 2014, the most recent available data.

Cascade doesn't disclose how it values its Four Seasons stake.

Sarmad Zok, the chief exec-

utive of Kingdom's hotel business, said both investors are happy with their partnership and the performance of their investment.

As occupancy rates fell in the recession, some hotel owners pushed Four Seasons for cost cuts, from scrapping huge displays of fresh flowers to outsourcing laundry.

At one meeting, Cascade executives argued that to save

money at a Cascade-owned Four Seasons in Whistler, British Columbia, they should stop replacing guests' sheets every day unless requested. Mr. Larson's view was that wealthy travelers were also environmentally conscious. Mr. Sharp disagreed, saying guests paying as much as \$700 a night should have their sheets washed daily, according to people familiar with the meeting. In a compromise, guests were given the option of placing a pine cone on their sheets if they didn't need them washed every day.

Mr. Sharp said he didn't recall those conversations with Cascade.

The meeting ended with a decision to replace Ms. Taylor.

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"It was my role to take the responsibility," said the founder, now 85. Ms. Taylor declined to comment.

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GREATER NEW YORK

Race With a Twist in Red Hook



FORMULA E: Electric cars zipped somewhat quietly around a street course in Brooklyn on Sunday for the Qualcomm New York City ePrix.

Mayor's Brooklyn Haunt Now a Hub

BY MIKE VILENSKY

For Mayor Bill de Blasio, going to Brooklyn most mornings is a way to get away from City Hall's political scene. But after four years of hitting the same cafe and gym, that scene has followed him over the bridge.

Park Slope's Ninth Street between Fifth and Sixth avenues, where the mayor works out and grabs coffee, has transformed from a quiet block into a hub for power brokers, protesters and politically minded neighbors.

Public-school activist Tish Doggett ran into Mr. de Blasio at neighborhood cafe Colson Patisserie last year and told him a letter to the city she co-wrote went unanswered. Just days later, mayoral aides set up a meeting.

"I said 'I don't want to bother you,'" she recalled, "and he said, 'Oh, no, many an important meeting has taken place at Colson.'"

The mayor's mornings in Brooklyn typically include stops at the Belgian cafe for a yogurt parfait and espresso,

according to people familiar with his routine, then on to the YMCA for a workout. Both are near the home Mr. de Blasio has owned since 2004, where he lived before moving to Gracie Mansion after his 2014 swearing in.

This mayor isn't the first to have a hard time finding refuge from the job. Former Mayor Michael Bloomberg took weekend trips to his residence in Bermuda only to become a local celebrity on the island and gain scrutiny from journalists for his overseas travel.

William Cunningham, a former aide to Mr. Bloomberg and the late Gov. Hugh Carey, said of Mr. de Blasio's trips to Brooklyn: "If you thought you could hide in New York City by creating a routine in a different neighborhood, you are mistaken."

The mayor's office declined to comment about Mr. de Blasio's effect on the neighborhood, but the mayor has previously said being there keeps him "grounded."

A few weeks back, Darren Mack, an activist seeking to

meet with Mr. de Blasio to hasten the closure of jails on Rikers Island, interrupted the mayor's morning workout. He got a guest pass to the gym and started on the treadmill while awaiting the mayor's arrival. Then he confronted Mr. de Blasio on camera.

De Blasio's mornings in Brooklyn typically include stops at a cafe and the YMCA.

In a video that went viral in political circles, Mr. de Blasio, stretching, largely ignores the activist.

"He goes to the YMCA to be with other New Yorkers," said Mr. Mack. "So we thought that was an appropriate space to let him know our concerns."

Other groups have used the YMCA as a place to stage demonstrations. Last year, the Patrolmen's Benevolent Association, the police union, protested there during union contract negotiations, with signs reading "Workout a

contract!" A rally for conserving the Elizabeth Street Garden was held there earlier this year.

The mayor has long defended the trips from Gracie Mansion to south Brooklyn from criticisms that they waste taxpayer time and money, saying they keep him close to his roots. He ran as a liberal insurgent in 2013 and often pointed to his Brooklyn background on the campaign trail.

Locals largely shrug off his visits now. "People are used to it," said Jade Henry, 19, who works at juice bar next to the YMCA.

"I don't pay him no mind," said Eddie Maettei, a 63-year old who lives on Ninth Street.

Andrew Hackel, a partner at Colson Patisserie, said he didn't know if business has been aided by the mayoral visits, but they have opened a new location during Mr. de Blasio's tenure.

"He's a customer like everyone else," Mr. Hackel said.

—Mara Gay
and Mariana Alfaro
contributed to this article.

Transit Targeted In Connecticut's Fiscal Squeeze

BY JOSEPH DE AVILA

Spent

Connecticut's roads, bridges and rail projects may face hazards ahead.

After the state failed to pass a budget—and close a two-year deficit of \$5.1 billion—lawmakers are now taking aim at infrastructure projects. Both Republicans and Democrats in the House proposed capping transportation bonds at \$700 million for the current fiscal year, well below the \$1.3 billion the Connecticut Transportation Department wanted.

James Redeker, commissioner of the Transportation Department, said a \$700 million cap on new bonds could result in delays for several federally funded projects, and others would be canceled.

"We have major, significant projects that need to get done," Mr. Redeker said. "If we lose that momentum then we start jeopardizing the state of good repair and our ability to maintain our system."

Connecticut's transportation options are already looking bleak. Its special transportation fund, which pays for debt service on transportation-related bonds and operations for the Transportation Department, is projected to be insolvent in three years, according to Gov. Dannel Malloy's budget office.

Budget cuts proposed by House Democrats and Republicans could speed up that insolvency, industry experts said.

"It's a difficult time here in Connecticut," said Karen Burnaska, coordinator of Transit for Connecticut, a group that wants more investment in transit service. "We are worried about what the short-term revenue will be to maintain existing services and to continue the investment in capital projects."

The aging condition of the state's transportation system comes at a price. The state estimates that drivers spend up to 40 hours a year stuck in traffic at the cost of \$1.6 billion in lost time and fuel, and \$2.6 billion in operating and fuel costs and accidents.

Businesses have pushed for highway congestion relief, said Eric Gjede, counsel with the Connecticut Business & Industry Association. "That's been identified as the number one issue," he said.

Meanwhile, the Connecticut

Note: Fiscal year ends June 30. FY 2017 expenditure figures are based on a June 20 letter to the comptroller.

Source: Connecticut Office of Policy and Management

THE WALL STREET JOURNAL.

Transportation Department's four-year plan to complete 280 federally funded projects could be jeopardized. Among those projects are replacing tracks on Metro-North Railroad's New Haven line, rehabbing highway bridges across the state, and making upgrades to a traffic-clogged stretch of Interstate 95 between Greenwich and Stamford.

Democrats in the Connecticut House of Representatives, who are a majority in that chamber, have proposed using sales-tax revenue that is scheduled to fund transportation expenses to help balance the overall budget. House Republicans are calling for similar cuts.

If enacted, those diversions would accelerate the insolvency of the state's transportation fund, said Donald Shubert, president of the Connecticut Construction Industries Association.

"We are going to be lucky if we can make it through the next couple of years" even if we avoid spending reductions, Mr. Shubert said. "This is no time to be cutting transportation."

Speaker of the House Joe Aresimowicz said investment in transportation infrastructure is one of his priorities, but the state needs a new way to pay for it.

"Maintaining and updating our outdated transportation infrastructure is critical to our future," said Mr. Aresimowicz. He supports bringing back highway tolls to raise revenue, an idea widely opposed by Republicans and some Democrats.

Arms Out in Midtown as Artists Bring the Ink

BY CHARLES PASSY

The New York Hilton Midtown hotel this weekend was transformed into a giant tattoo parlor.

About 5,000 attendees and exhibitors descended on the hotel for the two-day New York Empire State Tattoo Expo. Many came to get inked on the spot, spending \$2,000 or more to have one of the 400 artists in attendance—some traveling from as far away as Asia—work their magic.

As more Americans get tattoos—about three in 10 have one, according to a Harris Poll survey—body art has become a big business. Annual industry revenue has more than doubled in the past decade, reaching \$1 billion in 2016, according to IBISWorld, a market researcher.

New York City has helped



Darwin Enriquez inks a design on Cody Kaagmann of Westtown, N.Y., at an expo Sunday at the New York Hilton Midtown hotel.

lead the boom, especially after the city removed the ban on tattooing in 1997. The body-art tradition has become so accepted and embraced that the New-York Historical Society

even hosted an exhibition about it, "Tattooed New York," this year.

Some attendees came to see the latest in tattoo designs, be it photo-realistic portraiture or fantastical scenes straight out of a sci-fi movie.

Others came to shop for all manner of accessories, including a baby-size T-shirt from one vendor that declared, "15 years until my first tattoo."

Steve Butcher, an in-demand tattoo artist from Auckland, New Zealand, who attended the expo, is certainly reveling in the industry's growing success. On Sunday, he was working on a one-of-a-kind tattoo—a rendering of retired hockey great Tony Esposito—for a client who traveled from Michigan.

Tattooing used to be taboo, said Mr. Butcher, but "now, it's weird if you don't have a tattoo."

Chef Bobby Flay's New Offering Will Be on Wall Street

BY CHARLES PASSY

New York-based celebrity chef Bobby Flay is looking to Wall Street for his next move—and not as a location for his next restaurant.

Mr. Flay said he is planning to offer shares to the public in his Bobby's Burger Palace, a fast-casual restaurant chain that competes with such burger-centric concepts as Shake Shack and Five Guys. He will use the initial public offering's proceeds, which he hopes will reach \$15 million, to expand the chain nationally and internationally.

Up till now, Mr. Flay, a 52-year-old chef who is especially beloved for his shows on the Food Network, hasn't sought investors in his restaurants,

which also include such high-end concepts as Bar Americain in New York and Uncasville, Conn.; Bobby Flay Steak in Atlantic City, N.J.; and Mesa Grill in Las Vegas.

"We love the idea of going public," he said, adding that the investment opportunity



A Bobby's Burger Palace burger

will "allow my fans who watch me on TV and my customers to participate in the growth."

He sees opportunity in Bobby's Burger Palace, which currently has 17 locations clustered mainly in the Northeast at casinos and malls.

Bobby's Burger Palace will be offered under a set of rules, known as Regulation A+, that make it easier for smaller companies to hit the market.

Medical-robotics maker Myomo Inc. became the first Reg A+ offering to be listed on a major exchange when it made its debut on the New York Stock Exchange last month.

But Bobby's Burger Palace could face some challenges wooing investors, say restaurant industry analysts, who point out the chain has plenty

of competition.

"There are many, many places to get a burger," said John Zolidis, a restaurant analyst who is president of Quo Vadis Capital.

And the chain doesn't have the same buzz as Shake Shack did before it went public in early 2015, Mr. Zolidis said.

Mr. Flay said his burger concept is special because it has more of a chef-driven pedigree—namely, his—with an emphasis on professional cooking techniques and fresh ingredients.

He also points to his signature Crunchburger—essentially, a burger topped with potato chips.

"If people try it, they're crunchified for the rest of their lives," he said.

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GREATER NEW YORK

Central New Jersey Office Buildings Fill Up

By KEIKO MORRIS

Office leasing in central New Jersey picked up steam in the second quarter, as tenants seeking affordable prices and like-new renovated buildings signed deals, according to reports from real-estate brokerage firms.

The region was a rare bright spot in the state's overall market, which continues to struggle with large blocks of empty office space.

In all, central New Jersey notched 1.9 million square feet of leases signed, up 70% from the second quarter last year, according to real estate services firm Colliers International. Meanwhile, the amount of space leased in northern New Jersey fell to about 1 million square feet, a drop of more than 50% from the same period last year.

Areas like Monmouth County and along the Interstate 287 corridor played a key role, real-estate brokers and analysts said. Major overhauls of older buildings such as the Bell Works project in Holmdel have continued to draw tenants and set an example for other landlords to invest in renovations, they said.

Somerset Development LLC, the developer behind Bell Works, said in April that it had signed a 90,000-square-foot lease deal with the Guardian Life Insurance Company of America and has signed smaller deals since then. The project has helped pull down the vacancy rate for upper-tier office space in the Monmouth market from almost 30% in the third quarter to about 22%, said Steve Jenco, director of suburban tri-state research for real estate services firm JLL.

Central New Jersey office buildings were responsible for 90% of the 510,000 square feet of upper-tier office space absorbed in the northern and central markets combined, Mr. Jenco said.

"You are going to see pockets of activity in suburban markets where landlords invest in buildings and put in amenities that tenants are looking for,"



Occupancy at Lincoln Place in Edison, N.J., will soon hit 70%, up from 25% in 2014, after the building received a makeover and new amenities.

Mr. Jenco said.

Some smaller properties in the Monmouth market have undergone makeovers as well. Michael Abboud, chief executive of TetherView, a technology company providing cloud services, revamped the former army headquarters building in Fort Monmouth to establish a home for his growing company. The expense of Manhattan and the inconvenience of a long commute persuaded Mr. Abboud to locate the offices close to his and his employees' homes.

"It's not an efficient use of anyone's time to be commuting two hours in either direction," Mr. Abboud said.

The percentage of vacant or soon-to-be-unoccupied office space also plummeted in Piscataway, Somerset and Franklin Township on the Interstate 287 corridor, areas that historically recorded some of the state's highest availability and vacancy rates, brokers and analysts said.

Empty offices or space expected to become vacant in the next 12 months fell to 18% in that corridor, compared with

Struggle to Meet Warehouse Demand

Industrial developers have been accelerating efforts to construct new warehouse buildings and meet strong demand in New Jersey, but tenants looking for modern large spaces still face limited options, according to reports from real estate services firms.

In the first half of the year, 5.1 million square feet of new industrial space was added, exceeding all last year's total of 4.2 million square feet, according to Cushman & Wakefield.

about 26% two years ago, according to Colliers.

Terumo Medical Corp. expanded its offices by about 59,000 square feet at 265 David Ave. in Somerset where it signed a lease for 95,023 square feet.

Over the past few years, higher rents and decreasing available space in surrounding

E-commerce-related tenants are driving the quest for space, in addition to demand from traditional industrial and warehouse users, said Jules Nissim, a Cushman executive managing director. He estimates only a handful of sites exist today that can accommodate industrial developments of 750,000 square feet or more.

Overall, the amount of industrial space in New Jersey continued to decline, according to a report from JLL, as older facilities were converted to other purposes such as apartment buildings or self-storage space.

—Keiko Morris

Newmark Knight Frank.

"That market is the least expensive of central and northern New Jersey, but the other factor has been major upgrades by different landlords to their buildings," Mr. Russo said.

In nearby Edison, American Equity Partners has invested between \$2.5 million and \$3 million to add a gym and a 5,000-square-foot cafeteria and lounge, make over the lobby, add new elevator cabs and make other improvements to its 248,000-square-foot building called Lincoln Place, said David Elkouby, an American Equity principal.

With lease deals expected to close shortly, the building's occupancy will soon reach 70%, up from 25% in 2014, when the company bought it, Mr. Elkouby said.

"We go into areas where the real estate is good but the property needs some improvements," he said. "In turn, we see a great result from the tenancy that comes to take a look at these buildings, when in the past they were irrelevant."

PROPERTY WATCH

COMMERCIAL INVESTMENT

Sales Trend Higher But Trail Last Year's

Investment in Manhattan commercial real estate increased between the first two quarters of this year but dropped dramatically from last year, according to a report and data from real-estate services firm Avison Young.

Sales in the second quarter rose to about \$5.6 billion, a 74% increase from about \$3.2 billion tracked in the first quarter of this year. The report, however, largely attributed the bump to the \$2.21 billion purchase of 245 Park Ave. by Chinese conglomerate HNA Group.

Compared with the same period in 2016, second-quarter sales fell 60% from \$13.8 billion in deals, according to Avison's data. The firm tracks deals with a price of \$10 million or greater. The number of deals in the last quarter also dropped from a year ago.

ONLINE SHOPPING

New Way for Tenants To Receive Deliveries

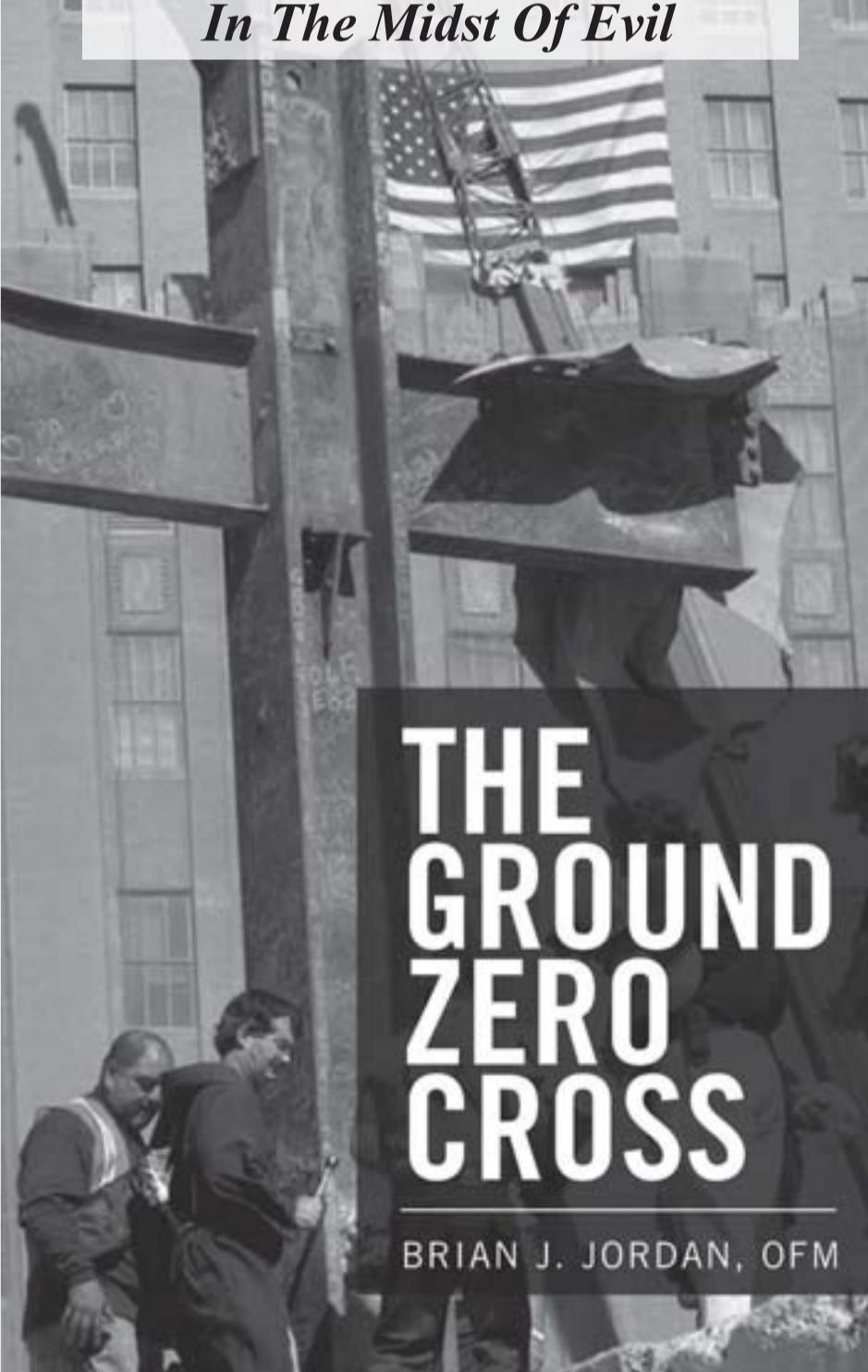
Jet.com Inc., the online retailer owned by Wal-Mart Stores Inc., and real-estate technology startup Latch are aiming to expand their reach by offering a free system to New York City landlords to make shopping online easier for tenants in nondormant buildings.

The companies are testing a program providing free installation of Latch's keyless technology for lobby entrances in 1,000 city buildings, said Luke Schoenfelder, Latch co-founder and chief executive.

Latch's hardware and software system allows entry using methods such as a passcode, smartphone or a smart card. Delivery workers will be able to use temporary passcodes generated with Jet.com orders to enter lobbies and drop off online purchases. The program, reported earlier in TechCrunch, could reach 100,000 people and allow the companies to test this type of keyless entry on a large scale.

—Keiko Morris

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LIFE & ARTS



BY ERICH SCHWARTZEL

LOS ANGELES—The new science-fiction spectacle "Valerian and the City of a Thousand Planets" opens with a memorable montage of intergalactic communities joining to form a giant space colony, all set to the tune of David Bowie's "Space Oddity."

"Under Pressure" would have worked, too.

"Valerian" arrives in theaters on July 21 already boasting an unusual, and high-stakes, record: It is believed to be the most expensive film in history that wasn't made by one of the six major studios. Its \$180 million production budget is in line with costly competitors like "Spider-Man: Homecoming," but its production company, Paris-based EuropaCorp, is a fraction of the size of Hollywood's major players.

A 3-D extravaganza that's been called a cross between "Avatar" and "Star Wars," "Valerian" will have to overcome a host of obstacles to turn a profit. Released in the most competitive part of the summer movie season, it's the only big budget movie that isn't based on characters or franchises already well known to audiences. There is also the foreign nature of the name itself, "Valerian," based on a French comic book. "To a U.S. audience, that is an unfamiliar name," acknowledges EuropaCorp Chief Executive Marc Shmuger.

Though early footage of the film has set science-fiction blogs abuzz, reviews so far have been mixed, with some critics praising the movie's kaleidoscopic visuals but saying its stars Dane DeHaan and Cara Delevingne are miscast in the lead roles.

The film has become a case study in whether a globally ambitious movie from outside Hollywood's main studios can perform well in the current environment dominated by franchise films.

A hit would transform EuropaCorp, a small studio founded by "Valerian" director Luc Besson in 2000. Mr. Besson, a favorite among the Comic Con crowd because of the science-fiction classic "The Fifth Element," is one of the few directors working today whose reputation could justify such a massive undertaking without traditional studio support.

"The first 'Star Wars' wasn't a franchise. 'Avatar' wasn't a franchise," said Mr. Besson. The movie marquee needs to have some fresh

FILM The Most Expensive Indie Ever

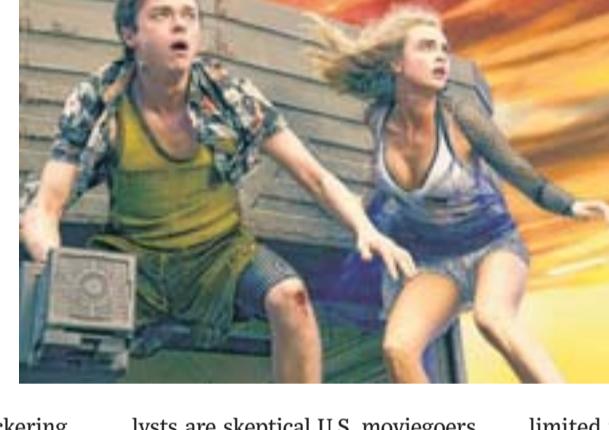
With a budget of \$180 million, the 3D spectacle 'Valerian' will need to win over global audiences to make money



ideas from time to time, he added. "It's like never changing the water in the aquarium."

Set in the 28th century, "Valerian" imagines a universe where the Space Race never stopped, and sprawling colonies formed across galaxies. Alpha, where much of the movie takes place, is a cross-galaxy United Nations, like a metropolis populated by regulars of the "Star Wars" Mos Eisley cantina. Mr. DeHaan and Ms. Delevingne star as bickering crime fighters in this futuristic world, home to alternate dimensions, alien creatures and a shape-shifting cabaret performer named Bubble (Rihanna).

Mr. Besson rose to fame with contemplative thrillers like "La Femme Nikita" and "Léon: The Professional" in the 1990s before becoming known for his science-fiction epics. The director has a fervent fan base, but box-office ana-



lysts are skeptical U.S. moviegoers will show up in the droves needed for a film of this size. The director's last movie, "Lucy" starring Scarlett Johansson, grossed \$463 million worldwide, and EuropaCorp says it may consider sequels to "Valerian" if its global haul lands above the \$350 million range, which is plausible but far from certain.

For EuropaCorp, the timing for a high-risk release comes at a precarious moment. The studio last month

posted a loss of 119.9 million euros (\$136 million) for the 2017 fiscal year. Though the company is open to building "Valerian" into a sequel-spawning franchise, executives say they plan to primarily stick with their usual projects: Modestly budgeted action thrillers like the "Taken" and "Transporter" franchises that continue to make up the bulk of its release slate.

Crafty financing has limited the company's risk on "Valerian." To raise the \$180 million for the movie, Mr. Besson adopted a financing structure common with independent films, offsetting the cost of production by selling distribution rights in more than 65 countries and bringing on about a dozen equity partners. Ultimately, the patchwork of financing left EuropaCorp responsible for about 10% of the budget. "For the cost of a small to modest-sized film [for



Scenes from 'Valerian and the City of a Thousand Planets' starring Rihanna, above, Dane DeHaan and Cara Delevingne, below from left.

EuropaCorp], Luc was able to realize the largest production in the history of continental Europe," said Mr. Shmuger.

"Valerian," a comic that Mr. Besson says he has obsessed over since childhood, has been the director's quixotic project for years. The 2009 blockbuster "Avatar," with its computer-generated Na'vi appearing alongside human actors, convinced him the technology had caught up with the storyboards in his head.

The movie is expected to perform better overseas. French moviegoers are most excited for "Valerian," where the film is projected to gross between \$50 million and \$100 million, far above typical grosses in the relatively small market. The highest-grossing movie in that country so far this year made only \$33.3 million, or about the opening-day gross for a hit like "Wonder Woman" in the U.S.

France was so eager to get on board with native son Mr. Besson that the country changed its tax-credit program after the director threatened to shoot the movie in Hungary. Tax rebates ultimately shaved \$30 million from the movie's cost.

Mr. Besson said he realizes asking audiences to go to movies featuring characters they don't know is a tall order in today's marketplace. "I just wish people will take the risk," he said.

HOME PRODUCTS

BUGS, THE NEW FRONTIER IN HOUSECLEANING

BY ELLEN BYRON

YOUR FLOOR is scrubbed, the bathroom gleams, dishes are washed and the laundry is done. But have you captured your home's flying bugs?

Procter & Gamble Co. wants to add a step to your cleaning routine. The consumer-product company, already known for Tide laundry detergent, Mr. Clean disinfectant and Swiffer mops, in April introduced Zovo, an indoor trap for winged insects including flies, mosquitoes, gnats and moths.

After cleaning tubs, floors, clothes, hair and skin, bugs offer a new frontier, and a potential opportunity as P&G looks to re-



verse years of lackluster sales. "Another dirt for P&G are those insects around your home," says Jane Welling, a scientist for P&G's Ventures unit, which pursues new business opportunities.

"When flying insects come in, they seem to multiply and ruin everything that makes your house a home," an online Zovo ad says. "If you have pets and kids that are constantly going in and out of the house, then Zovo is a must-have."

Creating new product categories is one way P&G is trying to turnaround its business, which has struggled as consumers cut back spending and small, upstart brands have eaten into its dominance of shaving, cleaning and beauty products. Sales in P&G's most recent quarter ended March 31 fell 1% to \$15.6 billion. Its fabric & home care division posted sales and profit declines over the same period.

Please see BUGS page A12

LIFE & ARTS

WHAT'S YOUR WORKOUT? | By Jen Murphy

A Routine That Gets Him Jumping for Joy

Jump ropes turned out to be just what an executive needed to make exercise fun



JASON HENRY FOR THE WALL STREET JOURNAL

WHAT DOES A 10-year-old have in common with a pro boxer? Both jump rope with ease, says Grant Opperman. "Boxers, some of the fittest athletes in the world, work cardio, reflexes and coordination by performing an activity most of us did as children," he says. "And even though it's grueling, there's also something really fun about jumping rope."

Mr. Opperman, the 52-year-old founder of the Microburst Group, a Bay Area communications and strategy consultancy, began his search for a sustainable workout in 1996. "I was 31 years old then, so I wasn't feeling the effects of an unhealthy lifestyle, but in the span of a few years my pants size went from a 32 to a 34," he says. Having climbed to 187 pounds despite being just 5-foot-9, he was scared into a gym membership after an instructor in a yoga class warned him he was on the road to heart disease. Even with regular, hourlong sessions of cardio and weights, he didn't feel any fitter. "I blamed it on my metabolism slowing with age," he says.

In 2014, his wife told him to stop making excuses and join her at boot camp. The couple took the burpee exercise, their least favorite in class, and turned it into an at-home challenge. "We tried to do 100 burpees a day for one month," he says. "Soon I was doing 150 or 200, and by the last day I did 400 burpees," he says.

He began to take other exercises from class—pull-ups, push-

ups—and turn them into monthly challenges. Last year he took on jump rope. "There was nothing enjoyable about burpees," he says. "But with jump rope, I was constantly amusing myself by trying new tricks."

Mr. Opperman found inspiration on the Zen Dude Fitness YouTube channel. "It's two young guys with six packs who created the ultimate jump-rope tutorial," he says. "They convinced me that if I just kept up with it, I could become good."

The combination of jump rope and boot camp has helped Mr. Opperman drop to 155 pounds. "I have a leaner, stronger build than I ever believed possible," he says. "I'm still not a master of jump rope, but I love that there's always a new move to learn."

The Workout

Six days a week Mr. Opperman rises at 4:45 a.m. He starts the day by jumping rope for 15 minutes. He uses a light rope for fancy footwork like side swipes, boxer skips and double unders, which require him to jump higher and spin the rope faster so that it passes twice before he touches the ground. He uses a heavier rope for endurance and strength.

"You have no idea the pain that you can achieve jumping rope until you've jumped for a minute with a 1-pound rope," he says. "It works the arms, chest and back muscles." Some days he does a circuit, performing one minute of basic bounce jumping,

Grant Opperman uses a 1-pound jump rope, above, for agility and speed. He also works out at a boot camp gym in Dublin, Calif., with a battle rope, below.



followed by a 30-second rest, one minute of mountain climbers, and a 30-second rest, then one minute of push-ups.

At home, he jumps in his garage or in his backyard. On the road he jumps in the hotel gym or parking lot. "I've even jumped in front of the LAX airport," he says.

After jumping rope, he drives to Fit Body Boot Camp near his home in Dublin, Calif., for a 6:30

a.m. circuit class for 30 minutes. After boot camp he does 50 burpees.

The Diet

Mr. Opperman eats an energy bar pre-workout and drinks a protein shake after boot camp. He makes lunch at home, usually some variation of sautéed spinach, peppers, broccoli and sweet potato mixed with black beans, two eggs and

sometimes brown rice.

"As I've gotten older, my body doesn't process carbs as well, so I've cut back," he says. If he's eating out, he'll order a burger in a lettuce wrap or a bowl at Chipotle rather than a burrito. His wife might make steak or chicken with roasted vegetables for dinner. "Chocolate and ice cream are problems in my life," he says. "Particularly when I'm stressed or tired."

The Gear & Cost

Mr. Opperman initially resisted buying a good jump rope. "In my mind, a jump rope should cost \$5, not \$50," he says. "But like any other piece of athletic equipment, you pay for quality. Half the reason people can't jump rope is because 90% of jump ropes are miserable." He purchased a Crossrope starter set, which includes a 1/4-pound agility rope and a 1-pound intensity rope.

He wears Under Armour Micro G Optimum sneakers, which are lightweight but cushioned for support. He bought his for \$59 on Amazon. He says the minimalist nature of Inov-8 Bare-XF 210 sneakers (retail \$110) are great for working on footwork. He pays \$150 a month for his boot-camp membership.

The Playlist

"When you jump rope, it's not about what music you like or don't like, it's about the rhythm," he says. "Some of the best music to jump to is from singers who are also dancers, like Justin Timberlake, Michael Jackson or Usher."

FROM LEFT: ISTOCK; PROCTER & GAMBLE

BUGS



This summer homeowners may face a particularly annoying insect population.

employee named "Mosquito Joe," whose title is "chief test subject." Zovo's packaging includes a thank-you note.

Zovo, which resembles a plug-in air freshener, uses a combination of blue and UV light to attract flying insects onto a sticky cartridge that ensnares and ultimately kills them. Developers borrowed know-how from across P&G's businesses, including device

technology from Febreeze, adhesive capabilities from Always sanitary pads and the replaceable-cartridge business model from Gillette razors.

A starter kit, which includes a device and two trap cartridges, costs \$12.99 and two refill cartridges cost \$5.99.

P&G considered at least 50 iterations of the device as it looked for the right cover for the sticky cartridge—it needed to have openings wide enough for insects to see the blue light and fly through it to be captured, yet not so revealing that consumers could see too many dead bugs.

"We didn't want the consumers to get totally grossed out," says Ms. Welling.

Still, seeing how many dead bugs are snagged during the cartridge's 45-day or so lifespan helps persuade consumers they need the device, P&G says.

During a four-week test in Orlando, chosen because of its bug-friendly climate, consumers involved initially were skeptical they had a bug problem. "But then looking at their cartridge,

they said, 'oh, I did need that,'" says Ms. Welling.

P&G uses gruesome facts to describe why winged insects are more than just a household nuisance. Twice as many germs are carried by house flies than cockroaches and flies spit, throw up and defecate on food they land on, P&G says in its marketing materials. Some 1.6 million gallons of American blood is sucked by mosquitoes each year, and fruit flies can lay 500 eggs on your fruit in less than 10 days, P&G says.

Still, except for mosquito-borne diseases like the West Nile and Zika viruses, flying insects don't usually pose a health hazard in the U.S., says Joshua Benoit, an entomologist and assistant professor of biology at the University of Cincinnati, who is involved in Zovo's development. "Flies and other insects in your house in the U.S. are mostly just a major nuisance," he says.

This summer homeowners may face a particularly annoying insect population thanks to a mild winter and warmer and wetter spring this year in many parts of

the U.S. "We'll have a lot more pests," says Dr. Benoit.

P&G says they aren't replacing the capabilities of an exterminator, but rather helping to alleviate an annoyance without chemicals or swatters.

"If you're doing nothing before, now you're doing something," says Ms. Welling.

Zovo, the flying insect trap, uses blue and ultraviolet light to attract insects onto a sticky cartridge that ensnares and ultimately kills them.



LIFE & ARTS



2017 ANDREW WYETH/ARTISTS RIGHTS SOCIETY (ARS), NY

ART REVIEW

Reassessing a Mythic Painter

Though Andrew Wyeth has long been dismissed as a mere regional nostalgic, an exhibition argues for his larger importance.

BY RICHARD B.
WOODWARD

Chadds Ford, Pa.
IS IT OK to like Andrew Wyeth again?

One of the country's most respected artists for most of his life, the first living American painter to have a retrospective at the Metropolitan Museum of Art, he became a victim of his own mass acclaim. The critical backlash against his so-called Helga series—"secret" nudes of his young blond and buxom neighbor that were disclosed in 1986-87 and inflated by lucrative media hype—severely marred his reputation. It never recovered.

Since his death in 2009, his precisionist vision of rural America has seemed increasingly outmoded. Unlike his older friend Edward Hopper, he is not exalted as a prophet of film noir and contemporary unease. Sophisticates continue to dismiss Wyeth as a regional nostalgic.

On the centenary of his birth, the Brandywine River Museum of Art has opened "Andrew Wyeth: In Retrospect," a tightly edited exhibition (with catalog from Yale University Press) that seeks to present new facets of the artist. The co-curators, Patricia Junker from the Seattle Art Museum (the show's next and final venue) and Audrey Lewis from the BRMA, view Wyeth as a death-haunted magical realist, whose portrayal of his stark surroundings in Chadds Ford, Pa., and the islands of Maine was more mythic than documentary.

Wyeth's obsession with World War I is one surprising theme of the show. Not only did he collect military



Andrew Wyeth in 1935, above; Wyeth's 'Adam' (1963), top

miniatures from the period and portray aging men in their old uniforms (U.S. and German), he also developed an unhealthy enthusiasm for the 1925 silent film antiwar epic, "The Big Parade."

According to the art historian Henry Adams, Wyeth bought a print of the epic, which runs almost 2½ hours, and watched it an estimated 500 times. Directed by King Vidor, the melodrama unfolds against the realities of war; the hero becomes an

to be wider than previously thought. On both floors of the show are more than a dozen portraits of African-Americans, along with paintings and drawings of the places where they lived and worshipped.

The revision is persuasive and expands the borders of the artist's psychological concerns. The absence in the show of "Christina's World," "Tenant Farmer," "Faraway," "Corner of the Woods" and other favorites does not

lessen the impact or quality of what's here.

Wyeth's is a completely believable and self-contained world, one governed by a harsh and lonely code of self-sufficiency. Only single farms and houses are visible in his mostly treeless landscapes. There is no community. Nor do we see families, either—only portraits of solitary individuals.

He did not ignore the heavy toll paid by his characters—women, above all—for scratching out a life in these climates. In the drybrush watercolor "The Kuerners" (1971), the only picture here of a couple, the rifle that hangs from the husband's shoulder is aimed at his wife's heart. (Wyeth often brings to mind Robert Frost at his bleakest, as in his poem "The Death of the Hired Man.")

Like Ansel Adams, Wyeth chose to keep modernity from intruding on his frames. The one mechanical vehicle depicted in the show is a pickup truck at the scene of a farm foreclosure ("Public Sale," 1943). Electricity is in short supply. The sources of illumination in his paintings are usually sunlight or kerosene lamps. Stoves burn wood.

What invigorates Wyeth's fossilized aesthetic is his undeniable skill as a draftsman and painter. The pan-

oramic "Hoffman's Slough" (1947) is a masterwork that should be more famous. Rendered in deep shadow, with mottled reds among the browns and greens, the valley still holds slivers of water in its hollows. The sentimental grip of a place where the artist skated as a child is conveyed in a design that is as abstract as it is realistic. It could almost be a Clifford Still.

Wyeth's standing has suf-

ficed from his position apart from both pure abstraction and Pop. MoMA, for example, doesn't know what to do with "Christina's World" and has stuck it in a corridor by the escalators. Among contemporary art stars, only James Welling has been brave enough to cite Wyeth as an early inspiration. His 2010-12 series of photographs in the landscapes of Chadds Ford and Maine is an unironic homage.

If Norman Rockwell can be rehabilitated for today's art world, Wyeth can be, too. He was a more complicated and blood-stirring artist than his detractors have led us to believe.

**Andrew Wyeth:
In Retrospect**
Brandywine River Museum of
Art, through Sept. 17

**Mr. Woodward is an arts
critic in New York.**



'Winter 1946' (1946), which was likely influenced by Wyeth's love of the 1925 film 'The Big Parade.'



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OPINION

How Cuba Runs Venezuela



AMERICAS
By Mary
Anastasia
O'Grady

The civilized world wants to end the carnage in Venezuela, but Cuba is the author of the barbarism. Restoring Venezuelan peace will require taking a hard line with Havana.

Step one is a full-throated international denunciation of the Castro regime. Any attempt to avoid that with an "engagement" strategy, like the one Barack Obama introduced, will fail. The result will be more Venezuelas rippling through the hemisphere.

The Venezuelan opposition held its own nationwide referendum on Sunday in an effort to document support for regularly scheduled elections that have been canceled and widespread disapproval of strongman Nicolás Maduro's plan to rewrite the constitution.

The regime was not worried. It said it was using the day as a trial run to prepare for the July 30 elections to choose the assembly that will draft the new constitution.

The referendum was an act of national bravery. Yet like the rest of the opposition's strategy—which aims at dislodging the dictatorship with peaceful acts of civil disobedience—it's not likely to work. That's because Cubans, not Venezuelans, control the levers of power.

Havana doesn't care about Venezuelan poverty or famine

or whether the regime is unpopular. It has spent a half-century sowing its ideological "revolution" in South America. It needs Venezuela as a corridor to run Colombian cocaine to the U.S. and to Africa to supply Europe. It also relies heavily on cut-rate Venezuelan petroleum.

To keep its hold on Venezuela, Cuba has embedded a Soviet-style security apparatus. In a July 13 column, titled "Cubazuela" for the Foundation for Human Rights in Cuba website, Roberto Álvarez Quiñones reported that in Venezuela today there are almost 50 high-ranking Cuban military officers, 4,500 Cuban soldiers in nine battalions, and "34,000 doctors and health professionals with orders to defend the tyranny with arms." Cuba's interior ministry provides Mr. Maduro's personal security.

"Thousands of other Cubans hold key positions of the State, Government, military and repressive Venezuelan forces, in particular intelligence and counterintelligence services."

Every Venezuelan armed-forces commander has at least one Cuban minder, if not more, a source close to the military told me. Soldiers complain that if they so much as mention regime shortcomings over a beer at a bar, their superiors know about it the next day. On July 6 Reuters reported that since the beginning of April "nearly 30 members of the military have been detained for deserting or

abandoning their post and almost 40 for rebellion, treason, or insubordination."

The idea of using civilian thugs to beat up Venezuelan protesters comes from Havana, as Cuban-born author Carlos Alberto Montaner explained in a recent *El Nuevo Herald* column, "Venezuela at the Edge of the Abyss." Castro

Havana's security apparatus is deeply embedded in the armed forces.

used them in the 1950s, when he was opposing Batista, to intimidate his allies who didn't agree with his strategy. Today in Cuba they remain standard fare to carry out "acts of repudiation" against dissidents.

The July 8 decision to move political prisoner Leopoldo López from the Ramo Verde military prison to house arrest was classic Castro. Far from being a sign of regime weakness, it demonstrates Havana's mastery of misdirection to defuse criticism.

Cuba's poisonous influence in Latin America could be weakened if the international community spoke with one voice. The regime needs foreign apologists like former Spanish Prime Minister José Luis Rodríguez Zapatero and the leftist wing of the Vatican. It also needs the continued support of American backers of the Obama engagement

policy, who want the U.S. to turn a blind eye to human-rights abuses.

Yet there are limits to what can be brushed off. When opposition congressmen were attacked by Cuban-style mobs on July 5, and their bloodied faces showed up on the front pages of international newspapers, the Zapateros of the world began to squirm. That was Havana's cue to improve the lighting for Mr. Maduro.

First Mr. Maduro claimed he knew nothing about it, though his vice president was on the floor of the legislature while it was happening. That was not believable. Three days later came the sudden decision to move Mr. López from military prison to house arrest. Mr. Maduro said it was a "humanitarian" gesture. Defense Minister Vladimir Padrino, an acolyte of Fidel, said that it was a "product of dialogue and tolerance."

Thus the images of the savagery in the National Assembly receded while photos of Mr. López, kissing a Venezuelan flag atop a wall outside his home, popped up everywhere. Mission accomplished and Mr. López remains detained.

For too long the world has overlooked the atrocities of the Cuban police state. In 1989 Fidel was even a special guest at the inauguration of Venezuelan President Carlos Andrés Pérez. Today the "special guests" are brutalizing Venezuela as the world wonders what went wrong.

Write to O'Grady@wsj.com.

smartphone, apps like Google Translate can do real-time voice translation. No one ever has to say worthless phrases like *la plume de ma tante* anymore. The app Waygo lets you point your phone at signs in Chinese, Japanese or Korean and get translations in English. Sometime in the next few years you'll be able to buy a Bluetooth-based universal translator for your ear.

Fluency in coding is a more useful skill than French, Spanish or Russian.

out a study showing those who speak a foreign language earn 2% more than those who don't.

High schools tend to follow colleges' lead, but maybe that's beginning to change. I read through all 50 states' language requirements and only one requires either two years of a foreign language or two years of "computer technology approved for college admission requirements." Wow. Is that California? No. New York? No. Would you believe Oklahoma? South Dakota and Maryland also have flexible language skill laws. Foolishly, the Common Core state standards are silent on coding.

The U.S. is falling behind. In 2014 England made computing a part of its national primary curriculum. Estonia had already started coding in its schools as early as first grade. The Netherlands, Belgium and Finland also have national programs.

Maybe the U.S. can start the ball rolling by requiring colleges and high schools to allow computer languages to count as foreign languages. A handful of high schools already teach the Java computer language using a free tool called BlueJ. Nonprofit Code.org exposes students to a visual programming language called Blockly. To compete in this dog-eat-dog world, America should offer Python and Ruby on Rails instead of French and Spanish.

Knowledge is good. Great literature reshuffles the mind. Tough trigonometry problems provide puzzles for the brain. Yet there is no better challenge than writing code that teaches a machine to do exactly what you want. Some will respond, "So you want us to do vocational education?" As if computer programming is akin to auto shop and plumbing. Sorry, that's a *faux* argument. Even I remember the French word for bogus.

Let's face it, the world is headed toward one language anyway. The American-based Germanic-named Uber was *originato* at the Le Web conference in Paris. In Shanghai, I've seen ads on trains and storefronts signs that read "Learn Wall Street English."

Mr. Cook is right to want more coders, though a tad self-serving as Apple basically sells software wrapped in glass and metal. Same with Code.org, supported by Google and Microsoft. But every company requires coders. Even the formerly blue-collar job of operating machine tools now requires expertise in programming to control them. This will be increasingly true in workerless retail, doctorless medicine and even teacherless education. Time to modernize the dated curriculum—*pronto*.

Mr. Kessler writes on technology and markets for the Journal.

La Raza Finally Loses 'the Race'

By Mike Gonzalez

La Raza has decided to rebrand. The liberal political group announced last week that it would change its name from one suggestive of adversarial Chicano politics to something with broader appeal: UnidosUS. The shift appears to stem from a recognition of long-ignored social and financial transformations in the U.S.

Since its inception in 1968, made possible in part by a grant from the Ford Foundation, La Raza has been far more dependent on boardrooms and government than grass-roots support. But with government largess drying up, the liberal political-advocacy group may find itself needing greater support from the rank and file. This won't be easy.

The nation's "Hispanics" are undergoing a radical shift that most politicians are missing: A white majority is likely to persist in America.

"Many children growing up today in mixed families are integrating into a still largely white mainstream society," sociologist Richard Alba noted in *American Prospect* last year. These children are "likely to think of themselves as part of that mainstream, rather than as minorities excluded from it."

The leftist Chicano outfit rebrands itself as UnidosUS.

The name La Raza—"the race" in Spanish—flies in the face of this reality. It is off-putting to many "Hispanics," an artificial Census category comprising many razas. The organization's CEO, Janet Murguia, admitted as much in a video announcing the name change: "We must make sure that our name and our organization evolves along with and remains relevant to our ever changing Hispanic community."

Appealing to a broader swath of this diverse group is necessary now that the "fat years" under President Obama are gone. The Obama Justice Department made a practice of settling lawsuits against corporate defendants by requiring they make large donations to groups like La Raza. It was, in the words of House Judiciary Committee Chairman Bob Goodlatte, "a scheme to funnel money to politically favored special interest groups."

In a letter sent to Attorney General Loretta Lynch in the closing days of the Obama administration, Mr. Goodlatte noted that "in just the last two years, DOJ has directed nearly \$1 billion to activist groups, entirely outside of Congress's spending and oversight authority."

Taxpayer money was flowing into La Raza coffers too. When Cecilia Munoz, a top La Raza lobbyist, joined Mr. Obama's Domestic Policy

Council, federal subsidies for La Raza went from \$4.1 million to \$11 million a year. And La Raza loyally promoted Mr. Obama's policies as pro-Latino. You can expect the group to continue agitating on behalf of the Democratic Party.

Whether UnidosUS becomes more grass-roots-driven than La Raza remains to be seen. The group's corporate board of advisers still includes Comcast, AT&T, Bank of America, Chevron, Coca-Cola, Ford, ConAgra Foods and other Fortune 500 firms. Its more than 260 local affiliates train and mobilize an activist core of community organizers but have only a third of the vote on the board.

This week's name change may be a recognition of an imperfect model. Or it may be nothing more than a marketing ploy. The latter is more likely.

Mr. Gonzalez is a senior fellow at the Heritage Foundation.

BOOKSHELF | By Gregory L. Rosston

Unlocking The Airwaves

The Political Spectrum

By Thomas Winslow Hazlett
(Yale, 401 pages, \$35)

Americans enjoy unprecedented choice in communications technology. We have millions of options for digital entertainment, keep a universe of information in our back pockets and can call nearly anywhere on earth for a pittance. To most consumers, government seems a minor player. So what's wrong with communications regulation?

As Thomas Hazlett explains in *The Political Spectrum*, there are many problems, and they have enormous consequences. Economic activity is increasingly conducted wirelessly, under a regulatory regime developed nearly a century ago—one that favors well-heeled incumbents and does little to encourage efficient use of the spectrum. The difficulty that new entrants face in securing spectrum, along with a system that locks in existing technology, chills investment in next-generation infrastructure.

Given the exciting promise of today's technology, how did we end up hamstrung by such a backward regulatory regime? Mr. Hazlett provides a fascinating history. When radio technology began to spread around the turn of the 20th century, there was a need to ensure that signals sent over the wireless spectrum didn't interfere with one another.

When nearby ships did not hear the distress calls from the *Titanic*, government stepped in to control interference between transmitters and to make sure that seagoing vessels had radio priority. Secretary of Commerce Herbert Hoover built on these efforts in the 1920s, seeing in radio's growing influence an opportunity to use government's regulatory power as an instrument of political control. The result was the Radio Act of 1927, which established a system under which consumers have routinely taken a back seat to those with outsize influence in Washington.

Mr. Hazlett cites as an example the 1930s-era drama surrounding FM radio. From the start, FM had much better sound fidelity than AM—and so threatened existing AM networks operated by NBC, CBS and AT&T's wired long-distance telephone network. These companies used the Federal Communications Commission to hamper the development of FM and succeeded in having it moved to a different band after World War II. This rendered all existing FM equipment—purchased by consumers at no small expense—useless and limited stations' transmission power such that their audiences became too small to sustain a competitive business. So distressing was the episode that the father of FM radio, Edwin Howard Armstrong, ended his own life in 1954. The sad saga was merely an early example of the FCC exhibiting the "capture theory" of regulation, according to which regulators and legislators enact rules nominally in the public interest but in fact designed to enrich specific interest groups.

In regulating radio, the FCC enacted rules nominally in the public interest, but which actually enriched specific interest groups.

With informative vignettes, Mr. Hazlett elaborates on this flaw in our regulatory structure, exposing how inefficient, and perhaps corrupt, our spectrum policy really is. The regulatory process has blocked thousands of radio stations, delayed cellular service and propped up broadcast television. The cost has been borne by consumers, who have been denied the fruits of innovation, choice and competition.

Mr. Hazlett devotes a substantial portion of his book to arguments for reforms, the most promising of which rest on the Nobel Prize-winning work of British economist Ronald Coase. Coase showed that, absent transaction costs, well-defined assets will wind up in the hands of the entities that value them most. By assigning property rights to frequencies—thereby turning them into assets and enabling the pricing mechanism—immense value can be created from the more efficient employment of bandwidth. For years, the concept of treating bandwidth like property and distributing it through competitive auctions seemed like a pipe dream. In the 1970s, two FCC commissioners said that the odds that this approach would be adopted "were equal to those on the Easter Bunny in the Preakness." Well, the Easter Bunny won, and in 1994 the FCC started auctioning wireless licenses.

While most traditional spectrum allocation continues under the longstanding discretionary regime, competitive bidding has raised more than \$100 billion for the U.S. Treasury. More important, the competitively acquired licenses have brought much greater flexibility: Rather than having the FCC lock in the technologies and services for which the bandwidth can be used, license owners are allowed to decide how to use it, and they can change their technologies and business plans in response to a dynamic mobile wireless marketplace.

While Mr. Hazlett covers other reform alternatives, his own preference is for strong, well-defined property rights. He is especially fond of auctioning broad "overlay" licenses, which allow their owners to transmit over unoccupied bands of spectrum near existing users and then bargain with the incumbents to entice them to vacate. An inefficient user of a particular band—a low-value television signal, say—might find that a proposed payment exceeds the value of remaining in business at that wavelength. The holder of the overlay license—a 4G wireless company, perhaps—thinks it can create more value from that band than it pays the TV station to clear it. Everybody wins.

Mr. Hazlett may be overly sanguine about the potential for overlay auctions—he neglects, for example, the transaction costs associated with the thousands of contingent negotiations his approach would require. Nevertheless, "The Political Spectrum" is full of valuable instruction—especially for lawyers, economists and other students of regulation for whom the book provides example after example of the strategic use of the regulatory process. Potential entrepreneurs in fields where regulation may be a barrier—fintech, pharma and transportation, for example—will benefit too, finding cautionary tales about how to enter a market with a disruptive idea.

And for consumers and the public, "The Political Spectrum" is a good reminder of how far we have come. Today few economists question the benefits of well-defined rights, flexible use and auctions. That we are debating how to implement these ideas, rather than whether to do so, is reason for cautious optimism about our wireless future.

Mr. Rosston is director of the Public Policy Program at Stanford University.

OPINION

REVIEW & OUTLOOK

Prosecutors and Political Corruption

Has the Supreme Court handed corrupt politicians a free pass? That's the taunting question following an appellate court's decision last week to toss the conviction of former New York Assembly Speaker Sheldon Silver in the wake of the High Court's landmark 2016 *McDonnell* ruling. We think the answer is no, but prosecutors will have to follow the law better than former U.S. Attorney Preet Bharara did.

Readers may recall that a unanimous Supreme Court overturned the conviction of former Virginia Governor Bob McDonnell because prosecutors had too broadly interpreted the meaning of a corrupt "official act." The act couldn't merely be setting up a meeting or hosting an event, even if the politician had received personal gifts from the person who benefitted from the meeting, as Mr. McDonnell had. It must involve a formal exercise of government power and the public official must make the corrupt decision or take the action.

The ruling is an important check on prosecutors who have pursued corruption cases with too little evidence and for routine constituent service. But some prosecutors warned that politicians could get away with anything short of extorting a direct bribe. They're now pointing to Silver's appellate victory as proof.

Not so fast. The Second Circuit Court of Appeals didn't vacate Silver's conviction on grounds that the evidence was insufficient. Judge José Cabranes, one of the country's most distinguished appellate judges, explicitly wrote for the court that "the evidence presented by the Government was sufficient to prove" the extortion, honest-services fraud and money-laundering counts against Silver.

The evidence at trial showed that Silver had used his political influence to set up schemes to enrich himself. The most egregious involved steering mesothelioma cases to the Weitz & Luxenberg law firm for which he did little work, in return for some \$3 million in referral fees. He also cadged nearly \$1 million in a real-estate referral scheme. The evidence was clear and convincing, as the jury concluded.

Judge Cabranes and two colleagues overturned the verdict because the instructions to

the jury in the case did not "comport with *McDonnell* and are therefore in error." Specifically, wrote the judge, "the instructions did not convey to the jury that an official action must be a decision or action on a matter involving the formal exercise of government power akin to a lawsuit, hearing, or agency determination."

This may sound like a technicality, but accurate jury instructions are fundamental to a fair trial. And here is where Mr. Bharara's dereliction comes in. He denied responsibility for the Silver reversal because the trial occurred before *McDonnell*. But he knew the highly publicized *McDonnell* appeal was in progress, and that the Supreme Court had already targeted overbroad honest-services indictments in its 2010 *Skilling* decision.

As Judge Cabranes writes, "The Government expressly urged the jury to convict because an official act 'is not limited to voting on a bill, making a speech, passing legislation, it is not limited to that,' but rather, includes 'any action taken or to be taken under color of official authority.' The Government thus directly argued that the District Court's instruction defining an official act was broader than the formal exercise of government power described in *McDonnell*." (The italics are Judge Cabranes's.)

Our guess is that Mr. Bharara was only too happy to overlook a faulty jury instruction if he could get a high-profile conviction. He took a similar risk when he exceeded the limits of insider-trading law before he was slapped down by the Second Circuit in the *Newman* case. This is often the habit of prosecutors who want to make a political name for themselves and are celebrated in the press. See James Comey and Rudy Giuliani.

Mr. Bharara's successor is vowing to retry Silver, but other corruption convictions may also be in jeopardy on appeal after the Second Circuit ruling. The lesson is that prosecutors have to follow the law even when their targets are unsavory politicians. As for reducing corruption, voters can help by refusing to tolerate the kind of political self-dealing that George Washington Plunkitt of Tammany Hall famously called "honest graft." They can do that at the ballot box.

The U.N. Bans Nuclear Weapons

The United Nations banned nuclear weapons this month, in case you hadn't heard, and all the children of the world joined hands and sang together in the spirit of harmony and peace, as Steve Martin once put it.

Ok, not that last part. But 122 non-nuclear U.N. member states—two-thirds of the total—did adopt the 10-page Treaty on the Prohibition of Nuclear Weapons this month. Nations that sign the treaty at the U.N. General Assembly in September will be committing not to "develop, test, produce, manufacture, otherwise acquire, possess or stockpile nuclear weapons or other nuclear explosive devices." The treaty takes effect when 50 countries sign it.

Kim Jong Un's North Korea hasn't declared where it stands on the treaty, perhaps because it's too busy building more nuclear weapons

and missiles to deploy them. But you'll be pleased to know Iran is on board. This may have something to do with the treaty's provision that allows "research, production and use of nuclear energy for peaceful purposes," without defining what "peaceful" means.

The world's nine nuclear powers boycotted the treaty vote, the Netherlands voted no and Singapore abstained. In a joint statement the U.S., Britain and France denounced the ban, saying it "clearly disregards the realities of the international security environment" that "continue to make nuclear deterrence necessary" and recommitted to the Nuclear Nonproliferation Treaty that hasn't stopped nuclear proliferation.

If the U.N.'s record holds, this new treaty will take effect right about the time Kim Jong Un launches a nuclear attack.

The D.C. Circuit vs. Deregulation

Harry Reid may have left Washington, but the former Senate Majority Leader's legacy abides in a D.C. Circuit Court of Appeals stacked with progressives ready to defend the Obama Administration's agenda. One of those judges joined a Bill Clinton appointee this month to salvage President Obama's methane rule with an extraordinary display of raw judicial power.

Barack Obama's Environmental Protection Agency imposed the controversial rule forcing oil and gas drillers to slash methane emissions—never mind that such emissions are already falling. Scott Pruitt, the new EPA Administrator, announced in April that the agency would reconsider the rule.

One reason is that the Obama EPA included provisions in the final rule that weren't in the proposed version and thus weren't open to public comment. Mr. Pruitt also issued a 90-day stay of the rule's June 3 compliance date, and such a stay is clearly within his powers under the Clean Air Act.

Six environmental groups quickly filed an emergency lawsuit with the D.C. Circuit, which Mr. Reid packed with liberal jurists after killing the Senate filibuster for appellate-court nominees. One of those judges, Robert Wilkins, joined Judge David Tatel in a 2-1 ruling that blocked the Pruitt stay with the effect of imposing the Obama policy (*Clean Air Council v. Pruitt*).

The opinion is extraordinary for taking such action despite its acknowledgment that the court can only review "final agency actions" and that the EPA's decision to reconsider the rule is not final. The two judges nonetheless contort themselves to explain why a stay is really the same as "revoking a rule"—and thus is final and so the court has jurisdiction.

In her dissent, Judge Janice Rogers Brown

Two judges say the EPA can't stay its own rule pending review.

skewered this legal creativity: "In contrast to our precedent, the Court's opinion concludes a particular administrative proceeding has innumerable final agency actions, including intermediate decisions. No authority supports this proposition."

The judges are claiming the courts are the final arbiters of when a federal agency

can stay its own rules pending reconsideration. This has implications for other Obama regulations that the Trump Administration is now reviewing—such as net neutrality at the Federal Communications Commission or the Education Department's gainful-employment rule for colleges.

This is a sweeping new claim of judicial powers of administrative review, and it follows the pattern set by the Fourth and Ninth Circuits in their rulings blocking President Trump's immigration order.

The Supreme Court unanimously rebuked those courts before it left town by allowing the order to proceed in nearly all cases until it can hear the merits in October.

Mr. Pruitt can appeal to the Supreme Court, but that means waiting into next year for a ruling. He can continue his review with an eye toward reissuing a new, less-onerous methane rule, but in the interim the EPA may be obliged to enforce the Obama version. This means imposing new costs and uncertainty on businesses that would have to comply even if the rule is ultimately withdrawn.

Look for a deluge of such lawsuits as progressives resort to the courts to compensate for their defeat in 2016. The D.C. Circuit's affluence also underscores the stakes in judicial nominations and why even appellate courts have become political battlegrounds. We're in dangerous political territory when judges appear to join the anti-Trump resistance on such flimsy legal grounds.

OPINION

Republicans Aren't Team Players

By Fred Barnes

Politics is a team sport, and Republicans are playing it poorly. They have one more chance in the Senate to repeal and replace ObamaCare—possibly their last hope for a victory.

Democrats are performing like a well-coached team. Minority Leader Chuck Schumer has all 48 members of his caucus on board with saving ObamaCare at all cost. It's been a successful strategy.

It works for one reason: Republicans are divided. Their 52-48 majority in the Senate means they can lose two votes and still prevail, since Vice President Mike Pence is the tie-breaker. After promising to get rid of ObamaCare for the past seven years, it shouldn't be difficult.

But as many as eight Republican senators opposed the first GOP bill, forcing Majority Leader Mitch McConnell to come up with a revised version. While an improvement, it



ASSOCIATED PRESS

Sens. Dean Heller (R, Nev.) and Susan Collins (R, Maine).

measure, sometimes merely because it's politically beneficial and better than the alternative.

This is especially true in dumping ObamaCare. The Republican alternative is a more free-market health-care system in which people can buy the insurance they want, not what government requires.

Sticking with the team makes that possible. But too many Republicans aren't comfortable as team players. To them, it's shady and unprincipled to vote for something about which you have serious doubts. Democrats are more realistic and less persnickety, so they're better at uniting.

The political consequences of failing to eliminate ObamaCare would be disastrous for Republicans next year. Midterm elections are always tough for the party that holds the White House. But reneging on the promise to "repeal and replace" would put Republican control of the House and even the Senate at risk.

Worse, ObamaCare would be further entrenched with Republican help. If repeal fails, Mr. McConnell's

Plan B is to compromise with Democrats to stabilize the health insurance marketplace and keep ObamaCare alive and kicking. He would have no other choice.

When the voting begins, Republican senators need to ask themselves three questions: How would the result affect you? How would it affect your party? How would it affect the country?

On the first question, if any Republican senator sees voting to uphold ObamaCare as politically safer, think again. Trying to reach across the aisle to protect Medicaid's rate of growth won't win you any new Democratic votes. But if you desert the GOP, the base won't forget or forgive. Republicans care passionately about ending ObamaCare. If you cross them on this vote, large numbers will cut you loose. There's private polling on this, by the way.

The House Freedom Caucus learned this the hard way. In May, when its members blocked the first House health-care bill from going forward, they expected to be hailed as heroes. They weren't. When a

second bill was offered, they did nothing to stop it. They got behind the team and it passed.

If the Republican Party fumbles the Senate vote, it will suffer—and will deserve to. Having made the death of ObamaCare its overriding concern, a GOP that fails to deliver would shatter its credibility. An important element of the Republican brand is its identity as the conservative party. Fewer would see it that way if ObamaCare survives. GOP voter turnout would fall, and the party's candidates would feel the difference.

What about the country? It wouldn't benefit from making ObamaCare permanent. Health care would cost more and heal less. A political comeback by Democrats could lead to a single-payer system. Anyone who has experienced medical treatment at a Veterans Administration hospital would find the new system quite familiar.

Sen. Rand Paul of Kentucky opposes the Senate bill because it leaves too much of ObamaCare in place. But the alternative is to leave all of it in place.

Sen. Dean Heller of Nevada feels the bill's Medicaid reforms would hurt thousands of his state's residents and jeopardize his re-election in 2018. But preserving ObamaCare would hurt millions nationwide and his prospects for winning a second term.

Sen. Susan Collins of Maine says the bill won't "fix the flaws" in ObamaCare. But the alternative would lock those flaws in place, probably forever.

Messrs. Paul and Heller and Ms. Collins are playing politics as if it's an individual sport, like golf, boxing or gymnastics. In the Senate, only a team can win.

Mr. Barnes is an executive editor of the Weekly Standard.

A Terrorist's Big Payday, Courtesy Of Trudeau

By Peter Kent

Ottawa

Omar Khadr pulled the pin from a grenade and tossed it at Sgt. First Class Christopher Speer, a U.S. Army Delta Force medic, on July 27, 2002. Those are the facts to which Mr. Khadr, a Canadian citizen, confessed when he pleaded guilty before a Guantanamo Bay war-crimes commission.

For several years Mr. Khadr had been living and training with al Qaeda in Afghanistan under the tutelage of his father, Ahmed. The Khadrs reportedly lived in Osama bin Laden's Kandahar-area compound.

Canada's prime minister hands millions to Omar Khadr, whose victims may not be able to collect.

Speer died of his wounds 1½ weeks after the attack, which left another soldier, Sgt. First Class Layne Morris, partly blind. Mr. Khadr, badly wounded, was treated and transferred to the Cuba base. In 2012 the U.S. returned him to Canada to serve the remainder of his eight-year sentence.

Mr. Khadr was just shy of his 16th birthday at the time of the attack. In 2010 Canada's Supreme Court held that the interrogation of Mr. Khadr at Guantanamo Bay by Canadians in 2003-04 violated Canadian standards for the treatment of detained youths. These violations occurred during the mandates of Liberal Prime Ministers Jean Chrétien and Paul Martin. The Supreme Court left it to the government, then headed by Conservative Stephen Harper, to determine an appropriate remedy, and to the civil courts to rule on any damages.

A few months later Mr. Khadr entered his guilty plea on five war-crimes charges. He was sentenced to 40 years in prison, reduced by pretrial agreement to eight years. The Harper government determined that returning Mr. Khadr to Canada would be the appropriate remedy. In 2012 he was repatriated to serve the remaining years of his sentence. He was released on bail in 2015.

Mr. Khadr wasn't satisfied. He sued the Canadian government for 20 million Canadian dollars (about US\$16 million at current exchange rates).

Meanwhile in Utah, Sgt. Speer's widow, Tabitha, his two young children and Mr. Morris sued Mr. Khadr and received a judgment for \$134.1 million in damages. Their goal was to preserve possible future action against Mr. Khadr's assets—at the time a remote possibility.

But last week Liberal Prime Minister Justin Trudeau issued a formal apology to Mr. Khadr and a massive cash settlement, though no court had ordered him to do so. Mr. Trudeau refuses to disclose the amount of the settlement, but leaked reports peg it at C\$10.5 million. That's an extravagant sum in the Canadian justice system, which is much more restrained in awarding damages than U.S. courts.

Mr. Trudeau knew there was an outstanding judgment against Mr. Khadr in Utah. An insider told the Canadian Press wire service that Ottawa rushed the payment to Mr. Khadr to dodge compliance with the Utah judgment. The Speer family and Mr. Morris had filed for an injunction June 8 to enforce the Utah judgment in Canada. The Trudeau government had the money out the door before their petition could be heard in court.

Last week the Speer family filed an emergency injunction to freeze Mr. Khadr's assets. On Thursday an Ontario judge denied the request, describing it as "extraordinary." Had Mr. Trudeau waited for a court ruling, the Speers' claims could have been adjudicated without extraordinary measures. The prime minister's choice thus undermined the Speer family's legal options.

Mr. Trudeau's actions are an affront to the memory of Christopher Speer, to Tabitha Speer and her children, to Layne Morris, to our U.S. allies, and to all men and women in uniform. This payout was a cynical subversion of Canadian principles. Mr. Trudeau made Omar Khadr a millionaire, and he didn't have to.

Mr. Kent is a member of the Canadian Parliament and official opposition critic for foreign affairs.

GOP Senators who defect from ObamaCare repeal will hurt themselves, their party and the country.

has encountered opposition too. Mr. McConnell is skillful in bringing senators together. But here his task is more difficult than usual because the dissidents don't all agree on what's wrong with the bill. Appeasing one senator may alienate another.

This is an example of why legislative success depends on operating as a team. You don't abandon your team just because you don't get everything you want (or want left out). You hold your nose and vote for an imperfect

Why Europeans Oppose the Russia Sanctions Bill

By Wolfgang Ischinger

The U.S. Senate was almost unanimous—98-2—when it passed a bill updating and expanding the sanctions regime against Russia. Congress has every right to make a strong statement on Russia's alleged interference in last year's presidential election. But this bill, which is awaiting a vote in the House, will not achieve its objectives and will instead cause new problems. Unless it undergoes significant revision, it would compromise European energy security and damage U.S. relations with Europe. The beneficiary of such an outcome would be Russia.

At risk is the joint stance the U.S. and Europe have maintained against Russia since it annexed Crimea in 2014. Every sanctions measure was assessed by American and European partners before enactment. Europe and the U.S. moved hand in hand to ensure that neither would exploit markets or business opportunities previously held by the other. This trans-Atlantic approach is now jeopardized by the Senate's desire to impose additional sanctions unilaterally, without consultation and against the explicit will of the European Commission and key U.S. allies including Germany, France and Italy.

Even worse, the bill's language suggests that it aims to advance U.S. commercial interests at Europe's expense. Section 257 prioritizes "the export of United States energy resources to create American jobs"—which sounds to Europeans like an unfriendly political attempt to promote U.S. exports of liquefied natural gas to Europe.

One target of the bill is the Nord Stream 2 natural gas pipeline from Russia to Germany, involving both Russian and European companies.

There are good arguments why Europe should diversify its gas supply, but the dependency fears around NS2 are exaggerated. Europe has taken decisive measures to boost supply security: constructing additional

interconnectors and LNG terminals, employing reverse flow capabilities, and eliminating restrictive clauses on ultimate destinations. These measures make it difficult for Russia even to consider using energy as a weapon against Europe.

It imperils the Continent's energy security and would end up benefiting Moscow.

There is a vibrant debate in Europe about NS2 and the best way forward. Strong arguments, both pro and con, are being exchanged. The Polish and Ukrainian governments are concerned that the pipeline will compete against Russian gas flowing through pipelines in their territories. Some, including German Chancellor Angela Merkel, propose to welcome all additional sources and supply routes of energy to Europe, including American LNG. Ideally, the market would decide the best course.

This is not a question that should be decided in Washington. It is a European issue, to be decided by Europeans based on European law and regulation. How would the U.S. react if Europe were to pass legislation on the merits of the Keystone XL pipeline, especially if it was perceived to benefit European business?

Even if one opposes NS2, the Senate-passed bill would harm Eurasian energy security in other important ways. Perhaps most egregiously, the bill would extend sanctions to countries outside Russia where U.S. persons provide goods, services and technology for certain projects "in which a Russian energy firm is involved." The presence of Lukoil, a private Russian company, in Azerbaijan could potentially trigger sanctions on the Shah Deniz gas field and deter Caspian gas shipments to Europe via the emerging Southern Corridor. Under such a threat, banks could renege on financing. Rather than promote security, the bill

would jeopardize one of Europe's new gas pipeline alternatives to Russia, a \$45 billion undertaking that is well under way. This provision would force American companies out of joint ventures in which Russian companies participate around the world.

The bill would expose to sanctions goods, services, technology and information that would "significantly facilitate" even the maintenance of pipelines carrying Russian oil and gas or passing through Russia. That could stall two-thirds of Kazakhstan's oil exports shipped through the Caspian Pipeline Consortium, which is led by Chevron but has a 31% Russian government share. It could hinder operations and safety for pipelines, such as those passing through Ukraine, that deliver some 32% of Europe's oil and a similar share of its gas consumption. For Europe, terminating such large oil or gas imports from Russia is not feasible: alternatives for such large volumes are unavailable.

Our joint U.S.-European experience with sanctions affirms two

longstanding lessons. First, sanctions work best when they are multilateral. Second, sanctions alone rarely achieve a national-security outcome. Ideally, they create leverage. They almost always presume a negotiation, where adjusting the sanctions can be part of a strategy for achieving a desired goal.

Leverage goes hand-in-hand with flexibility—and the Senate bill would curtail flexibility. Its unilateral approach could tip the scales in favor of those who want to end Europe's participation in the existing trans-Atlantic policy approach on Russia, including the sanctions regime.

If the bill becomes law in its current form, it would alienate America's important European allies, complicating our alliance at a critical moment. A better approach would be to revise the bill in line with realities and recommit to a joint trans-Atlantic approach.

Mr. Ischinger was Germany's ambassador to the U.S., 2001-06, and has been chairman of the Munich Security Conference since 2008.

The Conscience of a Valet

By Mike Kerrigan

In the 1990s the 1789 Restaurant in Washington, which is still around today, hired Georgetown University athletes as valets. I was not a Georgetown athlete, but I covered for one over winter break and earned a permanent spot in the holiday rotation.

The job was fantastic. Parking cars wasn't hard labor, and the chef had a soft spot for valets, so we always ate well. I think he enjoyed watching us knock back peanut soup while huddled in a stairwell below street level.

The maître d' was a gentleman. When a valet dined in the restaurant—say, with his girlfriend—this courtly man made sure the couple was given a table by the fireplace and treated like royalty. Once, when dining with my now-wife, the chef asked if it was my first time having the venison. I told him it was my first time having the venison indoors, at a table with silverware and without gloves.

The two valets per shift pooled their tips because it would be unseemly to fight over the fanciest cars. Not that we could ever really tell who would tip well. The most bankable car for a "par" tip—Georgetown golfers had designed the scoring system—was the Chrysler LeBaron.

Everyone had a "best tip" story. Mine featured a guy who, when he handed over his keys, tore a \$50 bill in my face, gave me half, and told me I would get the other half at the end of the night. I did, and some tape and one dimly lit convenience store later, I made change and went home happy.

Of all the tip stories I heard, Sean's stands out. I didn't work with Sean that night, but I trust Tom, the valet who did.

One night Sean retrieved a car while Tom chatted with its owner. Sean handed back the keys and received his tip. One thing valets do well is discreetly identify cash. As the car drove off, Sean realized he was holding a \$100 bill.

"How'd we do?" Tom asked. "A hundred dollars," Sean answered. "Unbelievable!" Tom exclaimed. But Sean disagreed. "It's not right," he said. "Look at that car. No way he meant to give us this."

Sean sprinted after it. He caught the car three blocks away and explained the situation to the speechless driver, who hadn't intended, and couldn't afford, to tip so much. The driver took back the money, gave Sean a new tip and drove off.

Tom started in on Sean while he was still half a block away. "Well?" Sean affirmed that the \$100 had been a mistake. "He tipped us, though," Sean added, a faint smile on his face. "Three bucks."

I've had many occasions over the years to think about that story. When the driver took back the \$100, what should he have given in its place? What was the minimum to ensure Sean stayed on the high road the next time around? Every time I've considered it, \$20 has always seemed right.

Only now do I realize the question is irrelevant. Only now do I know why Sean smiled. He wouldn't even have minded getting stiffed. Sean had already made up his mind when he started running. His character wasn't for sale.

The more I think about it, that's the best tip I've ever received. Thanks, Sean.

Mr. Kerrigan is a partner at Hunton & Williams LLP.

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WORLD NEWS

Fires Grow in Canada, Forcing More to Flee

By PAUL VIEIRA

High winds exacerbated some of the wildfires in the west-coast Canadian province of British Columbia over the weekend, and the number of people forced to flee their homes more than doubled to 37,000 in what is shaping up to be one of the worst forest-fire seasons in more than a decade.

Officials in British Columbia said that as of Sunday there were 37,000 evacuees, up from 17,400 at the start of the weekend, and 15 fires threat-

ened local communities.

The largest population center affected Saturday was Williams Lake, roughly 375 miles north of Vancouver and home to 25,000 residents.

Winds caused a "significant increase" in fire activity across the interior of the province, officials said. Weather conditions showed no signs of improving and strong winds were expected to prevail in coming weeks.

"It would take an unseasonably significant rain event to really change the situation now," said Kevin Skrepnek, a

spokesman for the British Columbia Wildfire Service.

Todd Stone, British Columbia's transportation minister, said it was going to be a "difficult time" for the province of 4.7 million inhabitants.

"There's going to be ongoing risk for all British Columbians in the interior, and we need all to prepare to evacuate without any notice," he said.

He added that the capacity to accommodate additional evacuees was becoming stretched in certain places, particularly in Kamloops, 220 miles northeast of Vancouver.

The fires have forced major lumber producers to halt operations in the province and that could disrupt supply for home builders if the blazes persist.

Last week, lumber futures reached their highest close in 12 years.

The last time forest fires in British Columbia forced a large-scale evacuation was in 2003, when roughly 50,000 people fled their homes and more than 640,000 acres of forest were destroyed. Then as now, the weather was hotter and conditions drier than normal.

The provincial government

declared an emergency on July 8, with officials estimating there were 162 active blazes across British Columbia. The fires are estimated to have destroyed 320,000 acres of forest so far this season, which started in April.

In May 2016, out-of-control forest fires engulfed Fort McMurray, Alberta, the epicenter of Canadian oil-sands production, destroying 2,400 homes and forcing the evacuation of 80,000 residents. The fires closed nearby oil-sands production sites for more than two weeks.

App Aims To Curb Terrorist Content

By JAMES HOOKWAY

JAKARTA, Indonesia—The co-founder of encrypted messaging app Telegram said on Sunday that it will put together a team of moderators who are familiar with Indonesia's language and culture to remove terrorist-linked content after Indonesia's government limited access to the service and threatened a complete ban.

The Ministry of Communications and Information Technology on Friday complained militants were using the app to recruit Indonesians and spread information on how to carry out terrorist attacks. It threatened to block Telegram entirely if it didn't introduce new measures to filter illegal content, despite an uproar from some users. It also asked internet service providers to block access to the web-based version of the service.

"The government has long observed Telegram and we are a country that prioritizes the safety of our nation, our people," Indonesian President Joko Widodo said on Sunday.

Pavel Durov, who launched the app in 2013 with his brother Nikolai, wrote in a message to followers on Telegram that he hadn't been aware of the Indonesian government's request to block several chat groups where Islamist radicals are active. He said Telegram had now blocked those chat groups and would take additional steps to respond to requests from authorities in Indonesia, the world's most populous Muslim nation.

"We are forming a dedicated team of moderators with knowledge of Indonesian culture and language to be able to process reports of terrorist-related content more quickly and accurately," Mr. Durov, a Russian national, said.

WORLD WATCH

FRANCE

President Denounces Holocaust Apologists

President Emmanuel Macron excoriated his country's collaboration in the Holocaust, lashing out at those who negate or minimize France's role in sending tens of thousands of Jews to their deaths.

After he and Israeli Prime Minister Benjamin Netanyahu on Sunday attended a Holocaust commemoration in Paris, Mr. Macron also appealed for renewed Israeli-Palestinian peace talks.

Marking 75 years since a mass roundup of Jews during the darkest chapter of modern French history, Mr. Macron insisted that "it was indeed France that organized this."

Holocaust survivors recounted wrenching stories at the ceremony at the site of Vel d'Hiv stadium outside Paris, where French police herded some 13,000 people on July 16-17, 1942, before they were deported to camps. Fewer than 100 survived.

—Associated Press

CONGO

Journalist, Guards Missing After Attack

An American journalist and three Congolese guards were missing after a local militia at-



COUP ANNIVERSARY: Turkish President Recep Tayyip Erdogan, center, and his wife, Emine, attended the opening ceremony of the July 15 Martyrs Monument in Ankara on Sunday.

tacked a security station in a forest reserve in the northeast of the country on Friday.

Six Congolese park rangers were found in the Okapi Wildlife Reserve on Saturday after the attack the day before, but there was no word on their condition, said Mambasa territory administrator Alfred Bongwala Efoloko.

No details about the missing journalist were immediately available and authorities had no

proof the attack was an abduction, Mr. Efoloko said.

—Associated Press

EUROPEAN UNION

Sanctions on Syria To Name Scientists

The EU is set to target 16 Syrian scientists and military officers in a new round of sanctions against the regime of President Bashar al-Assad, seeking to

punish those responsible for chemical attacks against civilians.

The EU sanctions are set to be adopted Monday at a meeting of the bloc's foreign ministers.

The list of targets won't be known until the names are published Tuesday morning in the bloc's official journal of record.

U.K. Foreign Secretary Boris Johnson said Sunday that the British government "will continue to work closely with our international partners to hold

perpetrators to account."

Two other European sources confirmed the decision to identify the researchers and officers.

—Laurence Norman

POLAND

Judicial-Reform Bills Draw Mass Protests

Thousands of government opponents protested in Warsaw and other cities in Poland on Sunday against judicial reforms and future plans to change the Supreme Court.

European Union politicians and Poland's opposition have condemned legislation adopted last week, saying it violates the independence of the courts and the rule of law.

Under the new legislation, lawmakers appoint members of the National Council of the Judiciary, which reviews judicial candidates, among other things.

Another draft law calls for the retirement of all Supreme Court judges and new appointments to be made by the justice minister. Among the court's tasks is confirming the validity of elections and ruling on especially difficult cases.

The demonstrations were the latest in a string of antigovernment rallies challenging the conservative populist Law and Justice party.

—Associated Press

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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Monday, July 17, 2017 | B1

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Bacon Craze Pushes Up Prices

By BENJAMIN PARKIN

A national craving for bacon is pushing U.S. pork-belly prices to records.

Prices for the part of a hog used to make bacon have risen around 80% this year, while frozen reserves are at a six-decade low. Americans bought around 14% more bacon at stores in 2016 than in 2013, according to market-research firm Nielsen.

"The consumer has simply woken up to the joy of having bacon on more and more things," said Arlan Suderman, chief commodities economist at INTL FCStone in Kansas City, Mo.

Once considered a more unhealthy byproduct of a hog

compared with prized cuts like pork chops and tenderloin, bacon has become a guilty pleasure amid a broader embrace of fatty meats.

In the past decade, bacon has popped up on menus far from BLT's and breakfast specials. The craze has gained pace this year.

Fast-food chain Arby's Inc. last month introduced a series of "triple thick" bacon sandwiches. Brooklyn-based eatery Landhaus serves maple bacon on a stick. And bacon-themed summer festivals have sprung up in cities across the country.

"Everybody and their mother is coming out with a new bacon sandwich," said Dan Norcini, a livestock trader in Coeur d'Alene, Idaho.

Appetite for beef and bacon typically swells ahead of a July 4 and Memorial Day grilling boost. Wholesale beef prices followed that seasonal trajectory this year, falling from a mid-June peak.

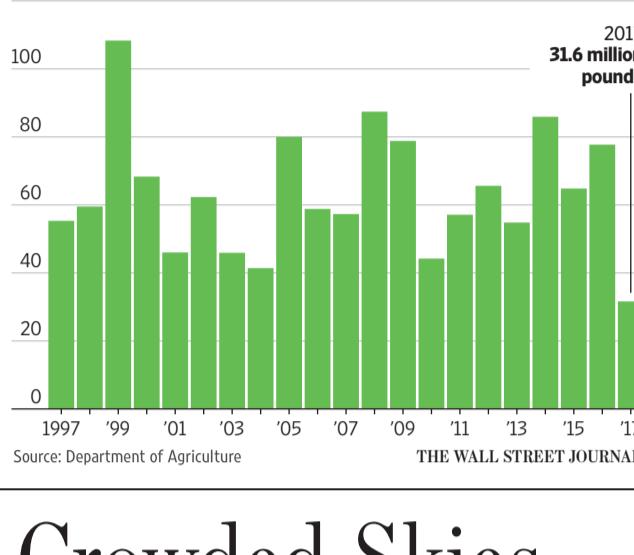
Some analysts say bacon, meanwhile, is becoming a yearlong staple that consumers are eager to procure. That voracious demand has left wholesalers in a squeeze.

Retailers "have turned hand-to-mouth, buying only what they need, waiting for production to increase and prices to decline," said Dennis Smith, a commodities broker at Archer Financial Services in Chicago.

Pig farmers are struggling
Please see BACON page B2

Running Low

Stocks of pork bellies in commercial freezers as of May 31 each year



Source: Department of Agriculture

THE WALL STREET JOURNAL.

Beijing Blocks Wanda On Loans

By LINGLING WEI AND WAYNE MA

BEIJING—Chinese regulators have ordered the nation's big banks to put the brakes on loans to **Dalian Wanda Group**, the giant property and entertainment company owned by billionaire Wang Jianlin.

Chinese banking regulators met with executives at the country's big state-owned lenders June 20 and advised them that six of Wanda's foreign acquisitions, including Hollywood producer Legendary Entertainment, were subject to government capital restrictions enacted last year, according to a document from one of the participating banks that was obtained by The Wall Street Journal.

The document likely refers to Wanda deals dating back about five years in the U.S. and Europe, according to a person familiar with the matter.

Those include U.S. theater chains AMC Entertainment Holdings and Carmike Cinemas, U.K. yacht maker Sunseeker International, Legendary Entertainment and European theater operators Odeon & UCI Cinemas Group, and Nordic Cinema Group.

Four of those deals were already closed between 2012 and 2016, and the two that haven't—Odeon and Nordic—are being acquired through Wanda's AMC unit in the U.S., which doesn't appear to fall under China's regulatory jurisdiction, the person said.

The State Council, China's cabinet, put in place rules restricting outbound Chinese investment in late November, in a bid to prevent money from leaving China as accelerated outflows put enormous pressure on the yuan.

As part of the rules, Chinese companies are discouraged from making overseas deals related to real estate and entertainment.

Although four of the deals have already closed, the action would appear to block Wanda from getting new financing in connection with them from Chinese banks. In addition, the actions clouds financing for the two deals yet to close.

In addition, the government also prevents the company from using its funds parked in the mainland to finance any of these projects overseas. Wanda also is banned from injecting any of these foreign assets into its listed company in China.

Boeing, Airbus Confront Crowded Skies

China, Russia and Canada produce rival aircraft makers in the market for single-aisle commercial jets



Technicians work on a C919 narrow-body jet in China. The plane, which is made by state-owned Comac, has attracted more than 500 orders, mainly from China.

By ROBERT WALL

LE BOURGET, France—**Boeing** Co. and **Airbus SE** suddenly have competition.

For nearly two decades, the two have had the global market for big commercial jetliners largely to themselves. That is all changing, with three new competitors—from China, Russia and Canada—rolling out their own entries into what is

called the single-aisle market.

Orders for these new jets are few for now, and the Russian and Chinese makers won't deliver planes for years. It is also uncertain how popular they will become.

Boeing and Airbus, meanwhile, are selling plenty of their own tried and tested work horses in the category.

Still, if even one of these new competing jets is a hit, it could

threaten one of the most lucrative sectors for Boeing and Airbus.

"I don't have any problem buying Russian or Chinese aircraft," if a viable model emerges, Akbar Al Baker, chief executive of Qatar Airways, one of the world's biggest jet buyers, said recently.

The sudden competition is unfamiliar for both jet makers, and it adds pressure on them as they face waning demand in other markets.

Bigger, long-haul jets aren't selling nearly as well as single-aisle, or narrow-body, jets and both Boeing and Airbus have struggled recently with big cost overruns and delays for some of their military programs.

The narrow-body market has been the industry's sweet spot for years. Large airlines and rapidly growing budget carriers love them for their size and fuel efficiency. At Please see AIR page B2

HEARD ON THE STREET | By Dan Gallagher

Apple's Newest iPhone Will Test Fans' Loyalty

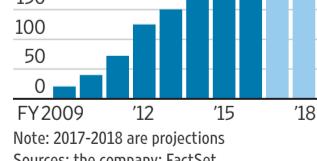
On the iPhone's 10th anniversary, Apple Inc. seems intent on repeating at least one bit of history from the original: scrambling to actually get the device done.

That, at least, is the upshot of numerous leaks and reports over the past month. Apple is reportedly working on at least one new iPhone model that will sport an entirely new design from the previous generation. The challenges posed by that design—plus shortages of key components such as organic light-emitting diode, or OLED, displays—now appear likely to push the actual launch of the device later in the year. The most recent new iPhone models have begun shipping in mid-to-late September.

This complicates Wall Street's hopes for a "supercycle" that would drive Apple's shares still higher. Another

Screen Time

Apple's iPhone shipments per fiscal year ended September



Note: 2017-2018 are projections

Sources: the company; FactSet

THE WALL STREET JOURNAL

INSIDE



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BUSINESS & FINANCE

Trucking Is Primed for Rebound

BY JENNIFER SMITH

Improving freight demand could signal brighter days ahead for transportation companies—if they can persuade retailers and manufacturers to pay more for shipping.

Trucking and logistics firms should give their outlooks for the rest of the year as they begin to report earnings in the coming week, with investors watching for signs of a rebound from a two-year slump in freight rates.

J.B. Hunt Transport Services Inc., one of the largest U.S. freight carriers, is expected to announce its second-quarter earnings Monday. **C.H. Robinson Worldwide Inc.**, the biggest freight brokerage, reports Thursday. Several large trucking companies report the following week.

The results come as bountiful produce harvests and increased shipping demand tied to **Amazon.com Inc.**'s Prime Day sales promotion have helped boost rates on the spot truckload market, where companies book freight transportation on a daily basis. The average rate for dry vans, the most common type of tractor-trailer used to ship consumer goods, rose 11% in June compared with the same month last year, according to DAT Solutions LLC, an online freight marketplace.

The recent lift has fueled hopes for a broader freight recovery, and transportation firms will be watching closely this month to see whether the upswing holds. Spot rates can be a leading indicator for contract rates, the long-term prices transportation firms negotiate with shippers. Big carriers do the majority of their business via contract, and those prices have remained stubbornly low even as freight volumes rose.

"July is the canary in the

coal mine for the industry," said Cowen & Co. analyst Jason Seidl.

Overcapacity in the truckload sector, where customers book entire trailers to carry their cargo, has weighed on trucking companies since late 2015. Fleets that expanded during a previous boom found themselves with too many trucks chasing a smaller pool of freight.

The glut has also tamped down rates in the intermodal business of moving container cargo over long distances by rail and truck.

At J.B. Hunt, the largest

truckload operator, rates are up 4.2% so far this year, says Mr. Yeager.

Still,

it could be months before improvements in the spot market translate into broader pricing gains for most carriers, which often negotiate freight contracts in the first half of the year.

Rates may start to climb this year, and catch up in 2018, said Dave Yeager, chief executive of **Hub Group Inc.**, an intermodal and brokerage provider that expanded its trucking portfolio this year with the \$306 million acquisition of Estenson Logistics, which provides dedicated trucking services for shippers that have outsourced their private fleet operations. "It does appear that pricing is headed upward, versus that horrific downward trend we saw for quite some time," Mr. Yeager said in an interview.

The surging spot market could shrink profits for freight brokers, which use it to source most of their trucking capacity. Citi recently lowered its second-quarter and 2017 estimates for **C.H. Robinson Worldwide Inc.**

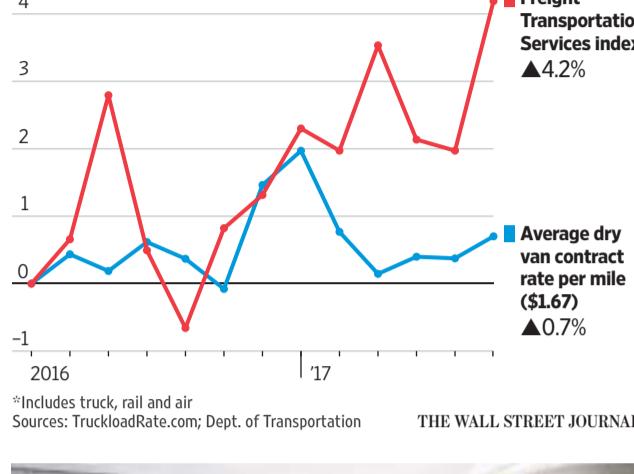
Even as some truckload carriers report freight demand is picking back up, analysts expect earnings for their most recent quarters to lag behind compared with the same period in 2016 because contract rates remain low.

Better results are forecast for less-than-truckload carriers, which consolidate small shipments into trailer loads for multiple customers and have benefited from the rise in online shopping. Last month **Old Dominion Freight Line Inc.**, **Saia Inc.** and **YRC Worldwide Inc.** reported increased freight volumes during the second quarter.

Trailing Behind

Truckers are hauling more goods but that hasn't translated into higher prices for shippers.

Percentage change since May 2016



*Includes truck, rail and air
Sources: TruckloadRate.com; Dept. of Transportation

THE WALL STREET JOURNAL.



LUKE SHARRETT/BLOOMBERG NEWS

J.B. Hunt is set to announce second-quarter earnings Monday.

U.S. intermodal carrier, second-quarter earnings are expected to hold steady at 92 cents a share, according to a consensus of analysts via FactSet.

"Moving into 2018, you got to believe that at some point truckload rates may improve, even if just slightly," Darren Field, J.B. Hunt's senior vice president for the intermodal division, said at an industry conference last month. "It offers an opportunity for intermodal."

Over the past 18 months large truckload operators

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price for a pound of wholesale pork belly to \$2.10 last week, the highest since the USDA began regularly tracking the market in 2013.

Analysts say prices are also at a record compared with those reported voluntarily before then. Lean hog futures at the Chicago Mercantile Exchange hit a 2½-year high in early July.

High prices in the past have led some retailers and restaurants to slice bacon more thinly or promote alternatives like sausage, said Altin Kalo, an economist at the Steiner Consulting Group, which advises food companies.

"There's a point where it gets to be too expensive," he said.

The crunch pushed the

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BUSINESS NEWS

Publishers Double Down on Video

Print-brand owners embrace Facebook, TV licensing after making missteps in the area

By JEFFREY A. TRACHTENBERG

When Condé Nast launched its video hub, the Scene, in July 2014, it envisioned a sophisticated website that would showcase content from such titles as *Vogue*, *Vanity Fair* and the *New Yorker*, with media partners that included ABC News.

But the site offered so much choice that users found it more overwhelming than entertaining, and traffic eventually sank. Condé Nast didn't shut down the Scene; instead, it reoriented the platform as a vehicle to distribute videos on Facebook aimed at an 18- to 34-year-old audience, with the tagline "videos for women who get it."

"We learned you can't be all things to all people and expect people to come to you," said Dawn Ostroff, president of Condé Nast Entertainment, which like Condé Nast is owned by closely held **Advantage Publications Inc.**

Condé Nast and other legacy magazine publishers are redoubling their efforts in online video after learning from their stumbles over the past



'Last Chance U' is a behind-the-scenes sports series Condé Nast's digital unit sold to Netflix in 2015.

few years. Those who tried unsuccessfully to build centralized, destination-websites for their brands are now more concerned with distributing their work on platforms like Facebook, YouTube, Snapchat and MSN. Publishers are also plowing cash into in-house studios to increase production volume and quality, and they are getting more aggressive about developing TV series around their brands.

As magazine print advertising revenue continues to weaken, video has become more critical. Advertisers are

expected to spend \$15.4 billion on video ads next year, according to **eMarketer**, up nearly threefold compared with 2014.

At Condé Nast, traffic at the Scene and its related branded-video channels fell from a peak of 13.5 million unique visitors in October 2014 to 4.9 million unique visitors in June 2016, according to comScore Inc.

But the switch to publish and distribute stories on Facebook, mainly for young women, has worked. In May, the Scene attracted 98.3 million video views across Facebook, according to video ana-

lytics firm Tubular Labs—nearly triple the 36.4 million online video views the Scene generated in October 2016.

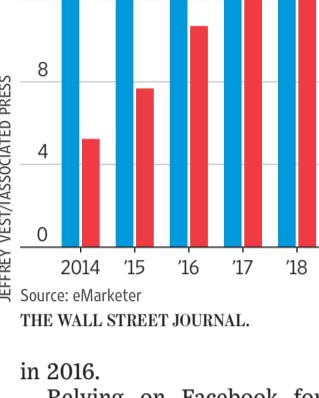
Condé Nast is also building up its long-form video. Its digital unit sold a behind-the-scenes sports series, "Last Chance U," to Netflix Inc. in 2015 and is producing two major movies based on stories that appeared in Condé Nast magazines.

Since late 2011, Condé Nast has invested between \$50 million and \$70 million in its video arm. Ms. Ostroff said the unit turned an operating profit

Showtime

U.S. publishers are pursuing digital video ad dollars as print ads stall.

■ Magazine (print) ■ Online Video
\$16 billion



Source: eMarketer

THE WALL STREET JOURNAL.

in 2016.

Relying on Facebook for distribution can be a double-edged sword, however, presenting risks when the social network tweaks its news feed algorithm.

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Tesla Boss Warns on Artificial Intelligence

By TIM HIGGINS

Elon Musk warned a gathering of U.S. governors that they need to be concerned about the potential dangers from the rise of artificial intelligence and called for the creation of a regulatory body to guide development of the powerful technology.

Speaking Saturday at the National Governors Association meeting in Rhode Island, the chief executive of electric-car maker **Tesla Inc.** and rocket maker **Space Exploration Technologies Corp.** laid out several worst-case scenarios for AI, saying that the technology will threaten all human jobs and that an AI could even spark a war. "It is the biggest risk that we face as a civilization," he said.

Mr. Musk helped create OpenAI, a nonprofit research group that aims for the safe development of the technology. He suggested to the governors that a regulatory agency needs to be formed to gain insight into fast-moving AI development, followed by putting regulations into place.

"Right now the government doesn't even have insight," he said. "Once there is awareness people will be extremely afraid, as they should be."

Proponents of AI say such concerns are premature. Arizona Gov. Doug Ducey, a Republican, questioned Mr. Musk over the suggestion of new rules, saying that he was unsure what policy makers could do beyond pushing for a slowdown in development.

"For sure the companies doing AI—most of them, not mine—will squawk and say this is really going to stop innovation," Mr. Musk said. But he said he doubted that such a move would cause companies to leave the U.S.

Apes Debut at No. 1, Overwhelming Spider-Man

By ERICH SCHWARTZEL

Nearly 50 years after Charlton Heston first felt their stinking paws, the "Planet of the Apes" primates have topped the box office yet again.

"War for the Planet of the Apes," the third installment in the reboot series, collected an estimated \$56.5 million in the U.S. and Canada this weekend.

That debut is about 20% below the opening of its predecessor, "Dawn of the Planet of

the Apes," which opened to \$72.6 million in 2014. "Rise of the Planet of the Apes," which kicked off the series, opened to \$55 million in 2011 and went on to gross \$177 million in the U.S. and Canada.

Strong word-of-mouth should help "Apes" see an eventual gross that is closer to the "Dawn" total of \$209 million, said Chris Aronson, president of domestic distribution at Twentieth Century Fox, which released the film.

The latest installment has earned rave reviews from critics, in particular for the motion-capture performance of Andy Serkis, who stars as Caesar, the ape who leads his fellow primates into battle.

Over the past six years, the "Apes" series inspired by the 1968 classic has evolved into a critical franchise for Fox. **21st Century Fox**, which owns the studio, and **News Corp.**, parent of The Wall Street Journal, share common ownership.

Estimated Box-Office Figures, Through Sunday

FILM	SALES, IN MILLIONS		
	DISTRIBUTOR	WEEKEND*	CUMULATIVE % CHANGE
1. War for the Planet of the Apes	Twentieth Century Fox	\$56.5	\$56.5 --
2. Spider-Man: Homecoming	Sony	\$45.2	\$208.3 -61%
3. Despicable Me 3	Universal	\$18.9	\$188 -44%
4. Baby Driver	Sony	\$8.8	\$73.2 -33%
5. The Big Sick	Lions Gate	\$7.6	\$16 +112%

*Friday, Saturday and Sunday Source: comScore

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TECHNOLOGY

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IBM Mainframes Focus on Encryption

New systems offer extra horsepower for professional uses; prices from \$500,000

By TED GREENWALD

International Business Machines Corp. on Monday is unveiling its next generation of mainframes, the industrial-strength computers that underpin industries like banking and insurance, highlighting an old product category that still drives much of its profit.

The new line of mainframe computers pairs what IBM claimed is the industry's fastest processor with additional

resources in a package designed to handle large-scale, ongoing tasks such as processing credit-card transactions.

In addition to increased speed, the company says the new systems, branded IBM Z and priced starting at \$500,000, offer extra horsepower for encrypting data at all times throughout the system and automating compliance with international data regulations.

IBM said it expects the new units to be widely available in September.

Mainframes, which date back to the 1950s, in recent decades have been overshadowed by networks of smaller computers and, more recently,

cloud computing. But their extraordinary reliability, security and ability to move data in and out means they continue to crunch numbers in the back offices of many large organizations.

IBM has continued to update its mainframes over nearly seven decades through successive waves of computer design, and now holds more than 90% of the market, according to analyst Peter Rutten at International Data Corp. Global sales of these powerful machines last year totaled \$3.5 billion, according to market research firm Gartner Inc.

Mainframe revenue last year accounted for a small slice of Big Blue's total, but those sales

combined with related support, software, storage and financing brought in 24% of revenue and 41% of operating profit, analyst Toni Sacconaghi of Bernstein Research wrote in a recent report. Mainframe sales are especially valuable to IBM as they support long-term customer relationships that drive further sales, especially software subscriptions that bring in stable recurring revenue, he noted.

IBM has mentioned the new mainframes as a factor in its 2017 results that will accelerate profits in the second half of the year as investment falls and sales kick in. The company's financial forecast anticipates that it will generate

63% of its total, annual adjusted earnings per share in the third and fourth quarters. That would make the rest of this year one of IBM's two highest-earning second halves in the past 20 years, according to Mr. Sacconaghi—an ambitious goal in his view.

IBM is expected on Tuesday to release its second-quarter results.

Users of conventional systems tend to perform encryption on limited portions of data at specific points in their use, leaving opportunities to copy unprotected data and consuming general computing capacity in the process.

By offering the option to protect data systemwide, IBM

Z would help thwart such threats, according to Patrick Moorhead of Moor Insights & Strategy, a market research firm. "They're definitely focusing on the right thing," he said.

IBM isn't the only maker of business hardware emphasizing data protection. Intel Corp. on Tuesday launched its Xeon Scalable server chips, which accelerate encryption of data as it is being transferred to storage. Advanced Micro Devices Inc. in June started selling its Epyc server-chip line, which encrypts data in memory. Equipment vendors such as Hewlett Packard Enterprise Co. are beefing up security in other ways.

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Legal Notices

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CLASS ACTIONS

Legal Notice

- **IF YOU PURCHASED SHELL EGGS IN THE U.S. FROM 9/24/2004 - 12/31/2008 DIRECTLY FROM DEFENDANTS, YOU MAY BE A MEMBER OF A CERTIFIED LITIGATION CLASS AND A CLASS MEMBER IN A PROPOSED CLASS ACTION SETTLEMENT.**
- **IF YOU PURCHASED SHELL EGGS OR EGG PRODUCTS IN THE U.S. FROM 1/1/2000 - 12/19/2014 DIRECTLY FROM ANY PRODUCER, YOU HAVE THE OPPORTUNITY TO SUBMIT A CLAIM IN CONNECTION WITH CERTAIN PREVIOUSLY-APPROVED SETTLEMENTS.**

This legal notice is to announce certification of a Litigation Class; to provide information regarding a new settlement with Michael Foods, Inc. ("MFI"); and to provide information for submitting claims in connection with previously-approved settlements with National Food Corporation ("NFC"), Midwest Poultry Services, L.P. ("Midwest"), United Egg Producers and United States Egg Marketers ("UEP/USEM"), NuCal Foods, Inc. ("NuCal"), and Hillandale Farms of Pa., Inc. and Hillandale-Gettysburg, L.P. ("Hillandale") in *In re Processed Egg Products Antitrust Litig.*, No. 08-md-2002 (E.D. Pa.).

What is this lawsuit about?

Plaintiffs allege that Defendants conspired to decrease the supply of eggs which caused the price of eggs to artificially increase and direct purchasers to pay more for Shell Eggs and Egg Products than they would have otherwise paid. Defendants have denied all liability for this conduct and asserted that their conduct was lawful and/or exempt from the antitrust laws, among other defenses.

Who is included in the Litigation Class?

The Litigation Class includes individuals/entities that purchased Shell Eggs in the U.S. directly from Defendants from 9/24/2004 through 12/31/2008. If you exclude yourself, you will not be entitled to share in any future distributions if Plaintiffs obtain money from a trial or future settlements. The deadline to exclude yourself is October 9, 2017.

Who/what is included in the MFI Settlement?

The MFI Settlement Class includes individuals/entities that purchased Shell Eggs in the U.S. directly from Defendants from 9/24/2004 through 12/31/2008. MFI will provide the Class with \$75 million and cooperation. Plaintiffs will release all claims against MFI. The deadline to submit a claim, submit an objection, or submit an exclusion is October 9, 2017.

Who may submit a claim in connection with the NFC, Midwest, UEP/USEM, NuCal & Hillandale Settlements?

If you did not previously exclude yourself from these Settlements, and you purchased Shell Eggs and/or Egg Products in the U.S. from 1/1/2000 through 12/19/2014 directly from any Producer, you may be entitled to submit a claim form postmarked no later than October 9, 2017.

Who represents you?

The Court appointed Stanley Bernstein (Bernstein Liebhard LLP); Michael Hausfeld (Hausfeld LLP); Mindee Reuben (Lie DePalma Greenberg, LLC), and Stephen Sussman (Sussman Godfrey LLP) as Class Counsel. You do not have to pay them to participate. You may hire your own attorney at your expense.

When will the Court decide whether to approve the MFI Settlement?

A hearing to determine the fairness and adequacy of the MFI Settlement is scheduled for 10:00 a.m. on November 6, 2017 at the U.S. District Courthouse, 601 Market Street, Philadelphia, PA 19106-1797. The Court will also consider a motion for attorneys' fees and costs and any objections. The Court may change the date/time of the hearing without notice.

Check www.eggproductssettlement.com for updates and more information. This notice is a summary only.

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BANKRUPTCIES

IN THE UNITED STATES BANKRUPTCY COURT FOR THE EASTERN DISTRICT OF VIRGINIA RICHMOND DIVISION

In re: THE GYMBOREE CORPORATION, et al.¹ Case No. 17-10026 (KLP)

Debtors. (Jointly Administered)

NOTICE OF DEADLINES FOR THE FILING OF PROOFS OF CLAIM, INCLUDING REQUESTS FOR PAYMENTS UNDER SECTION 503(b)(9) OF THE BANKRUPTCY CODE

THE CLAIMANT'S BAR DATE IS AUGUST 11, 2017

THE GOVERNMENTAL CLAIMS BAR DATE IS DECEMBER 8, 2017

PLEASE TAKE NOTICE OF THE FOLLOWING:

Deadlines for Filing Proofs of Claim. On July 11, 2017, the United States Bankruptcy Court for the Eastern District of Virginia (the "Court") entered an order (the "Bar Date Order") establishing certain deadlines for the filing of proofs of claim, including requests for payment under section 503(b)(9) of the Bankruptcy Code, in the chapter 11 cases of the following debtors and debtors in possession (together, the "Debtors"): **DEBTOR, CASE NO.: The Gymboree Corporation, 17-32986 (KLP); Giraffe Intermediate B, Inc., 17-32987 (KLP); Gym-Cards, LLC, 17-32988 (KLP); Gym-Mark, Inc., 17-32989 (KLP); Gymboree Manufacturing, Inc., 17-32990 (KLP); Gymboree Retail Stores, Inc., 17-32990 (KLP); Gymboree Operations, Inc., 17-32991 (KLP); S.C.C. Wholesale, Inc., 17-32992 (KLP).**The Bar Dates Pursuant to the Bar Date Order, all entities (except governmental units), including individuals, partnerships, estates, and trusts who have a claim or potential claim against the Debtors that arose prior to June 11, 2017, no matter how remote or contingent such right to payment or equitable remedy may be, **including** requests for payment under section 503(b)(9) of the Bankruptcy Code, MUST FILE A PROOF OF CLAIM ON or before **August 11, 2017, at 5:00 p.m., prevailing Eastern Time** (the "Claims Bar Date"). Governmental entities holding claims against the Debtors that arose prior to June 11, 2017, no matter how remote or contingent such right to payment or equitable remedy may be, **MUST FILE A PROOF OF CLAIM ON or before December 8, 2017, at 5:00 p.m., prevailing Eastern Time** (the "Governmental Bar Date").

ANY PERSON OR ENTITY WHO FAILS TO FILE A PROOF OF CLAIM, INCLUDING ANY REQUEST FOR PAYMENT UNDER SECTION 503(b)(9) OF THE BANKRUPTCY CODE ON OR BEFORE THE CLAIMS BAR DATE OR GOVERNMENTAL BAR DATE, AS APPLICABLE, SHALL NOT BE TREATED AS A CREDITOR WITH RESPECT TO SUCH CLAIM FOR THE PURPOSES OF VOTING AND DISTRIBUTION ON ANY CHAPTER 11 PLAN.

Filing a Proof of Claim. Each Proof of Claim must include, including reporting documentation so that Prime Clerk, actually receives the Proof of Claim on or before the applicable Bar Date by either (i) electronically using the interface available on Prime Clerk's website at <https://cases.primeclerk.com/gymboree> or (ii) U.S. Mail or other hand delivery system, which Proof of Claim must include

an original signature, at the following address: The Gymboree Corporation, Claims Processing Center, c/o Prime Clerk LLC, 830 Third Avenue, 3rd Floor, New York, New York 10022.

PROOFS OF CLAIM SUBMITTED BY FACSIMILE OR ELECTRONIC MAIL WILL NOT BE ACCEPTED.

Contents of Proofs of Claim. Each proof of claim must: (i) be written in English; (ii) include a claim amount determined in United States dollars; (iii) state the name and address of the Debtor against which the claim is asserted; (iv) conform substantially with the Proof of Claim Form provided by the Debtors or Official Form 410; (v) be signed by the claimant or by an authorized agent or legal representative of the claimant on behalf of the claimant, whether such signature is an electronic signature or is ink; and (vi) include an attachment of any and all supporting documentation on which the claimant bases. **Please note** that each proof of claim must state a claim against only one Debtor and clearly indicate the specific Debtor against which the claim is asserted. To the extent more than one Debtor is listed on the proof of claim, a proof of claim is treated as filed only against The Gymboree Corporation, or if a proof of claim is otherwise filed without identifying a specific Debtor, the proof of claim may be deemed as filed only against The Gymboree Corporation.

Electronic Signatures Permitted. Proofs of claim signed electronically by the claimant or an authorized agent or legal representative of the claimant may be deemed acceptable for purposes of claims administration. Copies of proofs of claim sent by email or facsimile will not be accepted.

Section 503(b)(9) Requests for Payment. Any proof of claim and/or priority asserting a claim arising under section 503(b)(9) of the Bankruptcy Code must also (i) include the value of the goods or services provided; (ii) state the date when the 20 days prior to the Petition Date attach documentation identifying the particular invoices for which such 503(b)(9) claim is being asserted; and (iii) attach documentation of any reclamation demand made to the Debtors under section 546(c) of the Bankruptcy Code (if applicable).

Additional Information. If you have any questions regarding the claims process and/or you wish to obtain a copy of the Bar Date Notice, a proof of claim form or related documents you may do so by: (i) calling the Debtors' restructuring hotline at (844) 822-9233 (toll free) or (646) 486-7945 (international); and/or (ii) visiting the Debtors' restructuring website at <https://cases.primeclerk.com/gymboree>.

The Debtors are in chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number. Include: The Gymboree Corporation (5258); Giraffe Intermediate B, Inc. (6459); Gym-Cards, LLC (5720); Gym-Mark, Inc. (6464); Gymboree Retail Stores, Inc. (6461); Gymboree Operations, Inc. (6463); and S.C.C. Wholesale, Inc. (6588). The location of the Debtors' service address is 71 Stevenson Street, Suite 2200, San Francisco, California 94105.

Students try out the Galaxy S8. Samsung is nudging the bar higher as Apple readies its 10th anniversary iPhone this fall.

Samsung Stresses Design Gains

By TIMOTHY W. MARTIN AND TRIPP MICKLE

Samsung Electronics Co.'s newest flagship smartphone owes a lot to scuba diving.

Samsung design chief M.H. Lee wanted to give consumers the weightless sensation of being underwater when they held the Galaxy S8, which hit shelves in April and is the South Korean tech giant's first premium device after last year's costly Galaxy Note 7 recall.

The Galaxy S8 grew longer and slimmer, and it dropped most of the frame surrounding the display, for a sleek design many in the tech industry contend has bested **Apple** Inc.'s iPhone—some would say for the first time. Ten years after Apple launched the first iPhone, the smartphone war is shifting to how a phone looks and feels. Smartphone innovation has plateaued in the eyes of many consumers, who now see incremental changes instead of game-changing features, like a front-facing camera or a crisper-looking display, that they once lined up for.

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Companies used to design phones to show off their tech-

nology," Mr. Lee, a 45-year-old executive, said in an interview, where he wore gold-colored sneakers and a Darth Vader T-shirt. "Now the focus is on designing a product that can be a buddy to the person, inseparable to them," Mr. Lee said.

Samsung, at least for now, is turning the tables on Apple with phone quality, Consumer Reports concluded when it ranked the Galaxy S handset the top smartphone on the market for the second straight year. Design earned praise alongside battery life and camera quality on the latest incarnation, the S8. Bragging rights matter more than ever as each company introduces fresh devices this year and vies for some of the record numbers of smartphone owners due for upgrades.

Samsung has been putting more effort into creating a strong design culture. It has put the spotlight on Mr. Lee, who has the nickname "Midas" in South Korea yet is relatively unknown internationally, and who took over mobile design at Samsung in 2014. In contrast, Apple's Jony Ive continues to enjoy star status in industrial-design circles.

Mauro says peer-reviewed research reveals aesthetics matter much more than previously believed, as older surveys pegged looks as influencing only 7% of a phone purchase.

Consumers are upgrading en masse: Global smartphone shipments rose 5.6% for the first three months of 2017 versus the year-earlier period—representing the first sustained growth in two

years, according to market researcher IHS Markit. The up-tick comes as a large number of consumers who have held on to their smartphones for two years—or more—are looking to upgrade their device.

Samsung says Galaxy S8 sales hit one million units in its home market in half the time it took for the prior year's model, the Galaxy S7, now Samsung's best-selling smartphone.

The South Korean firm is putting more effort on a strong design culture.

Google Fights Quantum Computing Riddles

By SARA CASTELLANOS

A research scientist at **Alphabet** Inc.'s Google is working to solve two of the most pressing challenges of quantum computing, a field that is making rapid advances and could soon begin solving problems that are currently out of reach.

John Martinis, a physics professor at University of California, Santa Barbara, joined Google in 2014 to help build a quantum computer that eventually might be able to sort through a vast number of variables—more than the number of atoms in the universe—to come up with a probable solution within a fraction of a second.

"The real excitement is, if you can do it efficiently, you can start solving problems that you couldn't even dream of solving on a classical computer," said Dr. Martinis, speaking last week to CIO Journal from Russia, where on Friday he addressed the International Conference on Quantum Technologies in

Moscow. He was expected to speak to a crowd of about 2,500 people from around the globe, including researchers, company executives and Russian government officials about the technology, Google's role in it and its business applications.

This year, the conference is being held at a significant turning point for the quantum-computing field. Technology executives in sectors such as biotechnology and automotive and materials manufacturing have announced partnerships this year with technology vendors on quantum computing experiments, and China and other countries have made technological leaps in quantum computing.

Traditional computers use

binary digits, or bits, which can either be 0s or 1s. Quantum computers use quantum binary digits, or qubits, which represent and store information in both 0s and 1s simultaneously. This means the computers have the potential to sort through a vast number of possibilities within a fraction of a second to come up with a probable solution.

To commercialize quantum computing, Dr. Martinis said there are two essential problems that his 20-person Santa Barbara-based research team is trying to solve: One is the fact that qubits can't yet be made to maintain their quantum mechanical state for more than a fraction of a second, in part because they are delicate, easily disrupted by changes in temperature, noise or frequency.

Another challenge is that current quantum computing systems don't have fault tolerance like traditional computers, meaning the delicate qubits won't continue operating in the event of a disruption.

John Martinis joined Google to help build a quantum computer.

BUSINESS NEWS



ALLEN EYESTONE/THE PALM BEACH POST/ZUMA PRESS
Alfred Angelo filed for chapter 7 bankruptcy protection Friday.

Sudden Collapse Of Retailer Leaves Brides in Lurch

BY PEG BRICKLEY
AND MICHELLE MA

Alfred Angelo, one of the nation's largest bridal retailers, shut its stores and filed for chapter 7 bankruptcy protection Friday. The abrupt closure sent women flocking to stores, trying to claim gowns for their weddings.

In Rochester, N.Y., Jason Stein and his fiancée Jeanie Brockman walked into their local Alfred Angelo store to find the manager crying. "We're in a real bind," Mr. Stein said. "We actually went above and beyond what we were planning on spending on a dress because she loved it so much."

Rival retailers and independent stores that count on Alfred Angelo's manufacturing and wholesale divisions to deliver dresses, said they were surprised at the sudden store closings.

Madison Debany, store manager at **RK Bridal**, an independent boutique in Manhattan, said Alfred Angelo's collapse will affect many stores like her own that take online orders. She found out about the closing Thursday on a private Facebook group for bridal stores and manufacturers.

According to Ms. Debany, RK Bridal currently has about 100 open orders on Alfred Angelo dresses, most with customers that have either paid in full or left a deposit. On Friday morning, the store received over a dozen calls from concerned customers who were informed that the store would work with them to find new dresses from other designers.

Alfred Angelo's sudden, un-

explained shutdown shocked other bridal retailers.

"We are just as much in the dark as the brides are," said Megan Dumaine, owner of The Wedding Embassy in Oakville, Conn. There was, she said, "no indication" that Alfred Angelo would close its doors.

Other retailers may see a brief boost in sales, but in the long term, the abrupt end of Alfred Angelo will take a toll on stores already fighting to keep people walking in their doors, she said.

"What this does is give brick-and-mortar stores like me that have been in business for 49 years a bad rap," said Sue Maslowski, owner of **Jay West Bridal** in Haddonfield, N.J. "Brides will be reluctant to put deposits down, afraid we'll go out of business."

As to what took down a company that has been around for more than 80 years and was at one time considered one of the top bridal designers in the country, it's anyone's guess.

Alfred Angelo issued a statement Sunday apologizing for the "inconvenience and hardship" resulting from its sudden collapse. It directed customers concerned about the status of their orders to contact bankruptcy trustee Margaret Smith at mjstrustee.com.

Alfred Angelo was founded in Philadelphia in the 1930s by Alfred Angelo Piccione and his wife Edythe Piccione.

Alfred Angelo's gowns are priced in the midrange, where most of the money is spent, according to Shane McMurray of The Wedding Report, an industry research firm.

Dow Jones Subscriber Data Exposed on Cloud

BY ROBERT MCMILLAN

An error by **Dow Jones** & Co. in configuring a cloud-computing service left addresses and other information about subscribers to some of its products, including The Wall Street Journal, exposed to possible unauthorized access.

About 2.2 million subscribers' records were affected, a Dow Jones spokesman said. Some of the records included customer names, usernames, email and physical addresses, and the last four digits of credit-card numbers, although some records were missing parts of that information, the spokesman said.

The exposed data were discovered by UpGuard Inc., a cybersecurity firm, which said it notified Dow Jones of the leak on June 5.

"We immediately remedied the situation and have no reason to believe that any data was taken," said the Dow Jones spokesman, who said the exposed data didn't include passwords. He declined to say whether the company planned to notify affected customers. The data "did not include full credit-card or account-login information that could pose a significant risk for consumers or require notification," he said.

In addition to the subscriber information, the data also included information relating to Dow Jones's Risk & Compliance service, which helps companies follow international regulations, the spokesman said. According to UpGuard, this database contained information on 1.6 million people and entities. Dow

Jones said that these data are taken from publicly available sources but didn't confirm the number of entries in the database.

The episode is one of a series of inadvertent leaks on cloud-computing systems by companies as they move more of their data from servers that they operate themselves to those managed by **Amazon.com** Inc. and others.

On Wednesday, for example, Verizon Communications Inc. said one of its vendors had inadvertently exposed data on about six million customers under circumstances similar to the Dow Jones incident. In a statement, Verizon said that it had confirmed that there was "no loss or theft of Verizon or Verizon customer information" as a result of the incident.

In both the Dow Jones and Verizon cases, administrators had misconfigured their Amazon cloud storage servers, UpGuard said. In Dow Jones's case, the data were visible to anyone with an Amazon Web Services account, said Chris Vickery, a researcher with UpGuard, which also discovered the Verizon incident. UpGuard uses software tools that guess the internet addresses of exposed data to raise awareness about cyberrisk issues, the company said. The company sells software and services that help companies detect this type of configuration problem. An Amazon spokeswoman said that its cloud-storage service is configured by default to only be accessible to the account owners. "Well over a million customers continue to use Amazon S3 safely and securely," she said.

This announcement is neither an offer to purchase nor a solicitation of an offer to sell shares of Preferred Stock (as defined below), and the provisions herein are subject in their entirety to the provisions of the Offer (as defined below). The Offer is made solely by the Offer to Purchase, dated as of July 17, 2017, and the related Letter of Transmittal and any amendments or supplements thereto, and is being made to all holders of shares of Preferred Stock. The Offer is not being made to (nor will tenders be accepted from or on behalf of) holders of shares of Preferred Stock in any state in which the making of the Offer or the acceptance thereof would not be in compliance with the securities, "blue sky" or other laws of such state. In those states where applicable laws require the Offer to be made by a licensed broker or dealer, the Offer will be deemed to be made on behalf of Purchaser (as defined below) by one or more registered brokers or dealers licensed under the laws of such state to be designated by Purchaser.

Notice of Offer to Purchase for Cash

All Outstanding Shares of Series B Convertible Perpetual Preferred Stock

of

Alere Inc.

at

\$402.00 Net Per Share of Series B Convertible Perpetual Preferred Stock

Pursuant to the Offer to Purchase, dated as of July 17, 2017

by

Abbott Laboratories

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 11:59 P.M., NEW YORK CITY TIME, ON AUGUST 11, 2017, UNLESS THE OFFER IS EXTENDED OR EARLIER TERMINATED (SUCH DATE AND TIME, AS IT MAY BE EXTENDED OR EARLIER TERMINATED, THE "EXPIRATION DATE").

Abbott Laboratories, an Illinois corporation ("Abbott" or the "Purchaser"), is offering to purchase all the outstanding shares of Series B Convertible Perpetual Preferred Stock, par value \$0.001 per share (the "Preferred Stock"), of Alere Inc. ("Alere"), at a price of \$402.00 per share of Preferred Stock (the "Offer Price"), plus accrued but unpaid dividends to, but not including, the Tender Settlement Date (as defined in the Offer to Purchase (as defined herein)) net to the seller in cash, without interest thereon and subject to any withholding of taxes required by applicable law, upon the terms and subject to the conditions set forth in the Offer to Purchase, dated as of July 17, 2017 (as it may be amended or supplemented from time to time, the "Offer to Purchase"), and in the related Letter of Transmittal (as it may be amended or supplemented from time to time, the "Letter of Transmittal," which, together with the Offer to Purchase and other related materials, collectively constitute the "Offer"). As of July 14, 2017, there were 1,774,407 shares of Preferred Stock outstanding.

Barclays Capital Inc. is serving as Dealer-Manager in connection with the Offer (the "Dealer-Manager") and D.F. King & Co., Inc. is serving as Information Agent in connection with the Offer (the "Information Agent").

Holders of record of shares of Preferred Stock who tender directly to American Stock Transfer & Trust Company, LLC (the "Depositary") will not be obligated to pay brokerage fees, commissions or similar expenses or, except as otherwise provided in the Letter of Transmittal, stock transfer taxes with respect to the purchase of the Preferred Stock by the Purchaser pursuant to the Offer. Holders of shares of Preferred Stock who hold their Preferred Stock through a broker, dealer, commercial bank, trust company or other nominee should consult with such institution as to whether it charges any service fees or commissions.

Abbott and Alere are party to an Agreement and Plan of Merger, dated as of January 30, 2016, as amended on April 13, 2017 (the "Merger Agreement"), providing for, subject to the satisfaction or waiver (if permissible under applicable law) of specified conditions, the acquisition of Alere by Abbott at a price of \$51.00 per share of common stock in cash (the "Merger"), with Alere surviving the Merger as a wholly-owned subsidiary of Abbott. The Merger is not conditioned upon, or otherwise subject to, the completion of the Offer. The Offer, however, is conditioned upon the consummation of the Merger on the terms set forth in the Merger Agreement.

There is no financing condition to the Offer. The Offer, and the obligation of the Purchaser to accept for payment and pay for shares of Preferred Stock tendered pursuant to the Offer, is conditioned on there being validly tendered (and not properly withdrawn) at the Expiration Date, that number of shares of Preferred Stock that equals at least a majority in voting power of the Preferred Stock issued and outstanding at the Expiration Date. The Offer is also subject to the satisfaction of certain other conditions described in the Offer to Purchase, including, among other conditions, the consummation of the Merger in accordance with the terms of the Merger Agreement prior to, or concurrent with, the Expiration Date.

If, upon the expiration of the Offer, any of the conditions to the Offer have not been satisfied or waived, the Purchaser may elect to extend the Offer for any length of time and in its sole discretion, but is under no obligation to do so.

Upon any extension, amendment or termination of the Offer, the Purchaser will inform the Depositary and make a public announcement of an extension of the Offer no later than 9:00 a.m., New York City time, on the business day after the day on which the Offer was scheduled to expire.

The Purchaser expressly reserves the right to waive, in whole or in part, any Offer condition or modify the terms of the Offer, subject to the applicable rules and regulations of the Securities and Exchange Commission.

For purposes of the Offer, the Purchaser will be deemed to have accepted for payment, and thereby purchased, shares of Preferred Stock validly tendered and not properly withdrawn as, if and when it gives oral or written notice to the Depositary of its acceptance for payment of such shares of Preferred Stock pursuant to the Offer. Upon the terms and subject to the conditions of the Offer, payment for shares of Preferred Stock accepted for payment pursuant to the Offer will be made by deposit of the applicable offer price for such shares of Preferred Stock with the Depositary, which will act as paying agent for tendering shareholders for the purpose of receiving payments from the Purchaser and transmitting such payments to tendering shareholders whose shares of Preferred Stock have been accepted for payment.

The Purchaser will pay for shares of Preferred Stock tendered and accepted for payment pursuant to the Offer only upon timely receipt by the Depositary of (i) the certificates representing shares of Preferred Stock (the "Share Certificates") or confirmation of a book-entry transfer of such shares of Preferred Stock pursuant to the Offer ("Book-Entry Confirmation") into the Depositary's account at The Depository Trust Company (the "Book-Entry Transfer Facility") pursuant to the procedures set forth in the Offer to Purchase, (ii) the Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed, with any required signature guarantees or, in the case of a book-entry transfer, an Agent's Message (as described in the Offer to Purchase) in lieu of the Letter of Transmittal and (iii) any other documents required by the Letter of Transmittal. Accordingly, tendering shareholders may be paid at different times depending upon when the Share Certificates or Book-Entry Confirmations with respect to the shares of Preferred Stock are actually received by the Depositary.

Shares of Preferred Stock tendered pursuant to the Offer may be withdrawn at any time prior to 11:59 p.m., New York City time, on the Expiration Date and, unless theretofore accepted for payment by Purchaser pursuant to the Offer, may also be withdrawn at any time after September 15, 2017, which is the 60th day after the date of the commencement of the Offer, unless prior to that date the Purchaser has accepted for payment the shares of Preferred Stock tendered in the Offer. For a withdrawal to be proper and effective, a written, telegraphic or facsimile transmission notice of withdrawal must be timely received by the Depositary at its address set forth on the back cover page of the Offer to Purchase and must specify the name of the person who tendered the shares of Preferred Stock to be withdrawn, the number of shares of Preferred Stock to be withdrawn and the name under which the Share Certificates are registered, if different from that of the person who tendered such shares of Preferred Stock. If the Share Certificates evidencing shares to be withdrawn have been delivered or otherwise identified to the Depositary, then, before the physical release of such Share Certificates, the tendering shareholder must also submit the serial numbers shown on such Share Certificates to the Depositary and the signature(s) on the notice of withdrawal must be guaranteed by an Eligible Institution (as described in the Offer to Purchase). If shares of Preferred Stock have been tendered pursuant to the procedure for book-entry transfer as set forth in the Offer to Purchase, any notice of withdrawal must also specify the name and number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn shares of Preferred Stock and otherwise comply with the Book-Entry Transfer Facility's procedures. Withdrawals of shares of Preferred Stock may not be rescinded, and any shares of Preferred Stock properly withdrawn will thereafter be deemed not to have been validly tendered for purposes of the Offer. However, withdrawn shares of Preferred Stock may be re-tendered by again following one of the procedures described in the Offer to Purchase at any time prior to the Expiration Date.

All questions as to the form and validity (including time of receipt) of any notice of withdrawal will be resolved by and at the discretion of the Purchaser. None of the Purchaser, the Depositary, the Dealer-Manager, the Information Agent nor any other person will be under any duty to give notice of any defects or irregularities in any notice of withdrawal or incur any liability for failure to give any such notification.

The information required to be disclosed by paragraph (d)(1) of Rule 14d-6 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, is contained in the Offer to Purchase and is incorporated herein by reference.

The exchange of shares of Preferred Stock for cash pursuant to the Offer will be a taxable transaction to U.S. holders for United States federal income tax purposes. See the Offer to Purchase for a more detailed discussion of the tax treatment of the Offer. Shareholders should consult with their tax advisors as to the particular tax consequences of the Offer to them, as well as tax consequences under any other U.S. federal tax laws, such as estate and gift tax laws, and any applicable state, local or foreign tax laws or under any applicable income tax treaty.

The Offer to Purchase and the related Letter of Transmittal contain important information. Holders of shares of Preferred Stock should carefully read both documents in their entirety before any decision is made with respect to the Offer.

Questions and requests for assistance may be directed to the Information Agent at the address and telephone numbers set forth below. Requests for copies of the Offer to Purchase and the related Letter of Transmittal may be directed to the Information Agent or to brokers, dealers, commercial banks, trust companies or other nominees. Such copies will be furnished promptly at the Purchaser's expense. Except as described in the Offer to Purchase, the Purchaser will not pay any fees or commissions to any broker or dealer or any other person (other than the Dealer-Manager, Depository and the Information Agent) for soliciting tenders of shares of Preferred Stock pursuant to the Offer.

The Information Agent for the Offer is:

D.F. King & Co., Inc.

48 Wall Street – 22nd Floor
New York, New York 10005

Banks and Brokers Call: (212) 269-5550

All others call Toll-Free: (877) 283-0316

Email: alr@dfking.com

The Dealer-Manager for the Offer is:

Barclays Capital Inc.

745 Seventh Avenue, 5th Floor
New York, New York 10019

Attn: Liability Management Group

Banks and Brokers Call: (212) 528-7581

All others call Toll-Free: (800) 438-3242

July 17, 2017

RISE of the QUANTS

the new kings of wall street

Welcome to the quant age. Pushing boundaries in AI and machine learning, data-driven quants are luring capital from traditional funds—and transforming finance in the process.

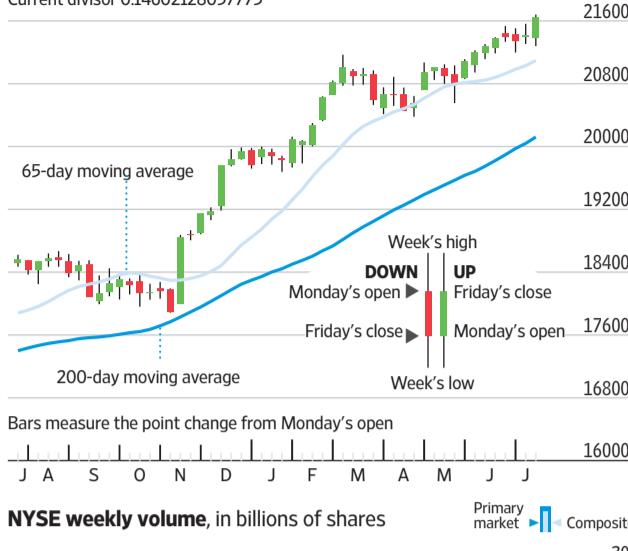
Learn how quant funds are reshaping Wall Street in this in-depth series from the Journal. WSJ.COM/QUANTS

THE WALL STREET JOURNAL.
Read ambitiously

MARKETS DIGEST

Dow Jones Industrial Average

21637.74 ▲ 223.40, or 1.04% last week
High, low, open and close for each of the past 52 weeks



Bars measure the point change from Monday's open

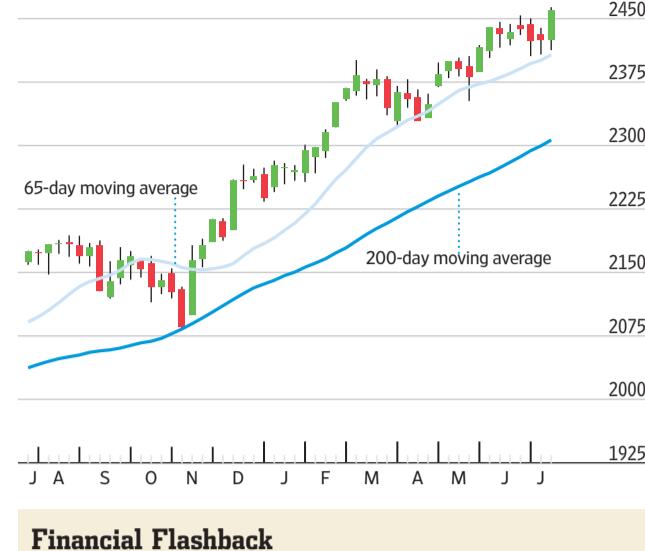
J A S O N D J F M A M J J



Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

S&P 500 Index

2459.27 ▲ 34.09, or 1.41% last week
High, low, open and close for each of the past 52 weeks



J A S O N D J F M A M J J

Financial Flashback

The Wall Street Journal, July 17, 2007

News Corp reached a tentative agreement for the purchase of Wall Street Journal owner Dow Jones & Co. at its original \$5 billion offer price.

New to the Market Public Offerings of Stock

IPOs in the U.S. Market

Initial public offerings of stock expected this week; might include some offerings, U.S. and foreign, open to institutional investors only via the Rule 144a market; deal amounts are for the U.S. market only

Expected pricing date	Filed	Issuer/business	Symbol/primary exchange	Shares (mil.)	Pricing Range(\$)	Low/High	Bookrunner(s)
7/19	6/23	Calyxt Gene editing agriculture company	CLXT	6.1 Nq	15.00/ 18.00	Citi, Jefferies, WFS	
7/19	6/21	Federal Street Acquisition Blank check company	FSACU	40.0 Nq	10.00/ 10.00	Citi, BofA ML	
7/19	6/23	Kala Pharmaceuticals Biotech company	KALA	6.0 Nq	14.00/ 16.00	JPM, BofA ML, WFS	
7/19	4/25	TPG RE Finance Trust Commercial real estate finance company	TRTX	11.0 N	20.00/ 21.00	BofA ML, Citi, GS, WFS, DB, JPM, MS, Barclays	
7/19	6/23	YogaWorks Provider of yoga instruction	YOGA	5.0 Nq	12.00/ 14.00	Cowen & Co, Stephens, Guggenheim Partners	
7/20	6/23	PetIQ Veterinarian-grade animal health and wellness company	PETQ	5.7 Nq	14.00/ 16.00	Jefferies, W. Blair	

Lockup Expirations

Below, companies whose officers and other insiders will become eligible to sell shares in their newly public companies for the first time. Such sales can move the stock's price.

Lockup expiration	Issue date	Issuer	Offer Symbol	Offer price(\$)	Offer amt (\$ mil.)	Through Friday (%)	Lockup provision
July 18	Jan. 19, '17	Keane Group	FRAC	19.00	584.7	-15.0	180 days

Sources: Dealogic; WSJ Market Data Group

IPO Scorecard

Performance of IPOs, most-recent listed first

Company SYMBOL	IPD date/Offer price	Friday's close (\$)	Offer price	% Chg From 1st-day close	Company SYMBOL	IPD date/Offer price	Friday's close (\$)	Offer price	% Chg From 1st-day close
Akcea Therapeutics	9.48	18.5	Blue Apron	7.36	26.4	26.4	...
AKCA July 14/\$8.00					APRN June 29/\$10.00				
Co-Diagnostics	5.61	-6.6	-3.5		Dova Pharmaceuticals	24.03	41.4	21.3	
CODX July 12/\$6.00					DOVA June 29/\$17.00				
Byline Bancorp	20.78	9.4	3.6		Mersana Therapeutics	14.05	-6.3	0.4	
BY June 30/\$19.00					MRSN June 28/\$15.00				
Tintri	6.99	-0.1	-3.9		Avenue Therapeutics	7.73	28.8	-6.3	
TNTR June 30/\$7.00					ATXI June 27/\$6.00				
Aileron Therapeutics	13.59	-9.4	25.8		Esquire Financial	14.65	4.6	-3.9	
ALRN June 29/\$15.00					ESQ June 27/\$14.00				

Sources: WSJ Market Data Group; FactSet Research Systems

Nasdaq Composite

▲ 159.39, or 2.5%

last week

July 10 11 12 13 14

DJ US TSM

▲ 344.69, or 1.37%

last week

July 10 11 12 13 14

Off the Shelf

"Shelf registrations" allow a company to prepare a stock or bond for sale, without selling the whole issue at once. Corporations sell as conditions become favorable. Here are the shelf sales, or takedowns, over the last week:

Symbol/ Primary exchange	Amount (\$ mil.)	Friday's price (\$)	Bookrunner(s)
Citius Pharmaceuticals Healthcare	18.0	6.24	Aegis Cptl
Reven Housing REIT Real Estate/Property	59.0	5.21	Ladenburg Thalmann, Wedbush Sec
BBVA Banco Frances Finance	521.3	17.76	MS, Citi, Credit Suisse, BBVA
IRSA Propiedades Comerciales Real Estate/Property	385.0	57.38	JPM, Citi, Credit Suisse, Itau BBA

Sources: WSJ Market Data Group; FactSet Research Systems

Other Stock Offerings

Secondaries and follow-ons expected this week in the U.S. market

Symbol/ Primary exchange	Amount (\$ mil.)	Friday's price (\$)	Bookrunner(s)
Citius Pharmaceuticals Healthcare	18.0	6.24	Aegis Cptl
Reven Housing REIT Real Estate/Property	59.0	5.21	Ladenburg Thalmann, Wedbush Sec
BBVA Banco Frances Finance	521.3	17.76	MS, Citi, Credit Suisse, BBVA
IRSA Propiedades Comerciales Real Estate/Property	385.0	57.38	JPM, Citi, Credit Suisse, Itau BBA

Sources: WSJ Market Data Group; FactSet Research Systems

International Stock Indexes

July

Region/Country Index	Latest Week Close	% chg	52-Week Range Low	Close	High	YTD % chg
World						
The Global Dow	2829.44	2.09	2384.42	2829.44	2829.44	11.8
DJ Global Index	366.18	2.08	311.55	366.18	366.18	12.3
DJ Global ex U.S.	246.24	2.79	206.73	246.24	246.24	15.1
Global Dow Euro	2327.32	1.59	2003.49	2327.32	2327.32	3.0
DJ TSM						
Global	3769.83	2.05	3204.05	3769.83	3769.83	12.2
Global ex U.S.	2487.45	2.75	2088.07	2487.45	2487.45	15.1
Developed ex U.S.	2411.62	2.46	2035.46	2411.62	2411.62	14.1
Global Small-Cap	5131.11	1.87	4354.21	5131.11	5131.11	11.0
Global Large-Cap	3576.15	2.08	3040.83	3576.15	3576.15	12.3
Americas						
DJ Americas	592.00	1.60	503.67	592.00	592.00	9.6
Brazil	65436.18	5.00	5578.24	65436.18	65436.18	8.6
Canada	15174.81	0.98	14349.10	15174.81	15174.81	-0.7
Mexico	51162.23	2.20	44364.17	51162.23	51162.23	12.1
Chile	3799.13	3.00	3127.54	3799.13	3799.13	17.9
<						

BANKING & FINANCE

Citigroup to Overhaul Premium Card

By ANNAMARIA ANDRIOTIS

The rewards war in the premium-card market isn't subsiding.

Citigroup Inc. is revamping some of the benefits on its Prestige card in an effort to sweeten the deal for coveted affluent consumers who exceed high spending thresholds.

The bank is expected to announce Monday that it will raise the sign-up bonus on the high-end card to 75,000

points from 40,000. It also is raising the minimum amount that card holders must spend in the first three months to earn the reward to \$7,500 from \$4,000. Both changes take effect July 23.

Points have become a valued currency for many consumers, especially in the travel sector where they can be redeemed for airfare and hotel stays. Premium cards geared at big spenders in particular have taken off because consumers

who put most of their expenses on cards view them as a way to get discounts or free travel worth hundreds or thousands of dollars.

Citigroup's is the latest shot in an increasingly competitive market for high spenders. **American Express** Co. dominated the segment for decades, but that started to change in recent years. Citi jumped into the market in 2013 with Prestige, and competition intensified last summer when **J.P.**

Morgan Chase & Co. launched the Sapphire Reserve card.

"The market has many options, though, with these annual fees, many eligible consumers will not be taking multiple cards," said Brian Riley, director of the credit advisory service at Mercator Advisory Group Inc. He said he expects other lenders to quickly react to Citi's latest changes.

The bank's executives, led by Chief Executive Officer Mi-

chael Corbat, are making the credit-card moves as the overall business becomes more important to the company.

Citigroup's revenue for the second quarter beat analysts' expectations, rising 2% from a year prior, helped in part by credit cards. Revenue for Citibranded North America cards increased 10% to \$2.1 billion, though the bank's credit costs continue to rise as it expands its card portfolio.

Citigroup is also beefing up

the Prestige card's hotel benefit. Under the changes, Citi will allow card holders to get their fourth night in a hotel free, regardless of whether they paid for the first three with dollars or points. The sign-up bonus for Prestige, which carries a \$450 annual fee, doesn't rival the 100,000 points that J.P. Morgan used to offer on the Sapphire Reserve card in exchange for spending \$4,000 in the first three months. That came to an end in March.

Closed-End Funds | WSJ.com/funds

Listed are the 300 largest closed-end funds as measured by assets.

Closed-end funds sell a limited number of shares and invest the proceeds in securities. Unlike open-end funds, closed-end generally do not buy their shares back from investors who wish to cash in their holdings. Instead, fund shares trade on a stock exchange.

a-The NAV and market price are per dividend. b-The NAV is fully adjusted for dividends. c-The NAV is not fully adjusted for dividends. d-The NAV is fully adjusted for dividends. e-NAV assumes rights offered are fully subscribed. f-Rights offering in process. g-Rights offering announced. h-Lower data has been adjusted for rights offering. i-Rights offering has expired, but Lipper data not yet adjusted. j-NAV as of previous day, o-Tender offer in process. n-NAV is converted at the commercial Rand rate. w-Convertible Note-NAV (not market) conversion value. y-NAV and market price are in Canadian dollars. NA signifies that the information is not available or not applicable. NS signifies not applicable.

12-month yield is computed by dividing income dividends paid during the previous twelve months for periods ending at month-end or during the previous fifty-two weeks for periods ending at any time other than month-end by the latest month-end market price adjusted for capital gains distributions.

Source: Lipper

Friday, July 14, 2017

52 wk

Fund (SYM) NAV Close/Disc Ret

General Equity Funds

Adams Divers Equity Fd **ADX** 17.22 14.63 -15.1 21.2

Boulder Growth & Income **BIF** 11.72 9.89 -15.6 22.4

Central Securities **CET** 10.91 13.49 -16.7 33.9

Coh Steer Prfity Fd **FOF** 13.96 13.35 -4.4 23.8

Cornerstone Strategic **CLM** 13.19 15.49 +17.4 15.1

EtnVnc TaxAdv Fd **EVET** 22.65 22.34 -1.4 17.1

Gabelli Dividend & Incm **GDV** 23.45 22.14 -5.6 20.0

Gabelli Equity Trust **GAB** 6.26 6.20 -1.4 20.9

Gen American Investors **GAN** 41.24 34.95 -15.3 21.3

Guggenheim Enh Fd **GPM** 8.72 8.38 -3.9 19.7

Hnck John Txdv **HTD** 26.02 25.55 -1.8 12.2

Liberty All Star Equity USA **LSE** 6.62 5.82 -12.1 24.4

Royce Micro-Cap **RMT** 9.00 8.83 -10.8 23.0

Royce Value Trust **RVT** 16.60 14.94 -10.0 30.8

Source Capital **SOR** 47.82 39.52 -9.7 11.5

Tri-Continental **TCA** 27.91 24.69 -11.5 22.5

Specialized Equity Funds

Adams Natural Rsrc Fd **PEO** 21.81 18.77 -13.9 -0.3

AllnGlnfJf Div Interest **NFI** 14.50 13.30 -8.3 15.7

AlpnGlnfProp **AWP** 7.22 6.41 -11.2 30.2

ASA Gold & Prec Metals **ASA** 13.01 11.49 -11.7 -25.1

BlikRk Enh Cap Inc **CHI** 16.02 15.12 -5.6 18.0

BlikRk Engy Res Tr **BGR** 12.91 -0.3 -2.3

BlackRock Enh Qdtr Fd **BDI** 9.51 8.89 -6.5 19.8

BlackRock Enh Qdtr Fd **BOE** 14.42 13.48 -6.5 21.6

BlikRk Int'l Growth & Income **BGY** 6.81 6.39 -6.2 19.5

BlikRk Health Sci **BME** 35.25 37.16 +5.4 14.6

BlackRk Rscs Comm'rtr **BCX** 8.33 NA 11.6

BlackRock Science & Tech **BST** 24.72 23.65 -4.3 49.3

BlackRock Utility & Inf **BU** 20.51 NA 10.2

CBRECaronGlnfEstmcm **IGR** 8.77 7.72 -12.0 1.4

Central Fund of Canada **CEF** 12.88 12.09 -6.1 -5.8

ClearBridge Amer Enrgy **CBA** 9.03 NA 12.9

ClearBridge Engy MLP Fd **CEM** 15.75 NA 8.8

52 wk

Fund (SYM) NAV Close/Ret

52 wk

Fund (SYM) NAV Close/Ret

Prem Ttl

Fund (SYM) NAV Close/Disc Ret

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MARKETS

Fear Gauge Falls to Lowest Since 1993

BY GUNJAN BANERJI

A key gauge of market volatility hit its lowest level in almost 24 years Friday as stock indexes smashed records.

The CBOE Volatility Index, known as Wall Street's "fear gauge," or VIX,

EQUITIES slid for a sixth consecutive session to 9.51, the

third-lowest close in history and its nadir since Dec. 23, 1993. The index uses options bets on the S&P 500 index to measure expected stock swings over the next month. It tends to rise when investors are anxious and stocks are falling.

U.S. stocks hit highs on Friday, despite some disappointing economic data. Retail sales decreased in June from the prior month, while inflation data came in flat from May and well below the Federal Reserve's 2% target. The S&P 500 and Dow Jones Industrial Average both closed at records and the Nasdaq Composite finished with its second-highest close.

This year has been eerily calm for stocks. The fear gauge has finished below 10 nine times this year, the most ever, according to The Wall Street Journal's Market Data Group. Investors have attributed the lack of market turbulence to the easy monetary policies of central banks

world-wide. On Thursday, Fed Chairwoman Janet Yellen indicated that the central bank would tighten monetary policy gradually.

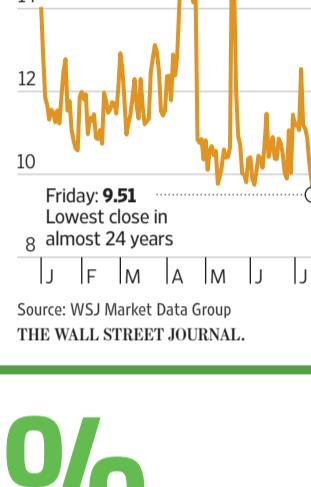
But placid markets as evidenced by the VIX index have pushed some investors to wonder if markets are too complacent, and others have even posited that the VIX is subject to manipulation.

As the volatility gauge slumped Friday, some options traders eyed a potential rebound. Almost three times as many bullish call options traded over bearish put options on the index Friday, Trade Alert data show.

Feeling Calm

The VIX slid for a sixth consecutive session Friday.

CBOE Volatility Index



Source: WSJ Market Data Group

THE WALL STREET JOURNAL

Wells Hit by Broker Exodus

More than 500 have left the lender since settlement in its cross-selling scandal

BY MICHAEL WURSTHORN

Wells Fargo & Co. has lost more than 500 brokers since it agreed to a multimillion-dollar settlement last year on its cross-selling scandal, a level of attrition that outstrips the pace at the other three big brokerages.

The San Francisco bank has largely played down the scandal's impact on its brokerage arm, saying the multi-quarter decline has been due, in part, to brokers retiring.

But some who feel burned by the allegations from the cross-selling scandal say otherwise.

Dustin Granger, who left Wells Fargo's brokerage arm in March to launch his own firm with brokerage **LPL Financial Holdings Inc.**, said: "I was getting sick of people thinking I worked at the bank. It was a big hindrance to us and our growth."

Mr. Granger, who works in Lake Charles, La., had managed more than \$100 million in client assets at Wells Fargo, where he had worked for nine years.

In its second-quarter earnings Friday, Wells Fargo said its total number of brokers had fallen by 1%, or 130, to 14,527 as of June 30 from the previous quarter. Wells Fargo's broker count had been stagnant since 2014 through early last year. Since the third quarter of last year, when the bank announced its sales-practice settlement, its attrition picked up.

From the second quarter in 2014 through the second quarter of last year, Wells Fargo's overall broker force fell slightly less than 1% to 15,042. But since the third quarter of 2016, its total number of brokers has fallen nearly by 4%, or 559 brokers. Because the bank reports net totals each



CEO Timothy Sloan says Wells Fargo undertook a companywide 'culture assessment' recently.

quarter, it wasn't clear how many brokers left Wells Fargo.

A Wells Fargo spokeswoman attributed the declining head count to "recent demographic and regulatory shifts [that] have resulted in some retirements across the industry." She added Wells Fargo has a strong pipeline of experienced recruits and trainees ready to join the firm.

Analysts say the head-count decline isn't surprising. "It's hard to market to new clients as you have that [issue] as an overhang," said Brian Kleinhanzl, a banking analyst with Keefe, Bruyette & Woods Inc. "It's going to be a challenge for a time period, and it's hard to say how long that will be."

The industry is dealing with a graying broker population, with researchers saying the average age of a broker these days is in the mid-50s. Besides that, analysts say the Labor Department's fiduciary rule requiring brokers to act in the best interest of retirement savers has caused some to retire sooner than they otherwise would have.

Still, Wells Fargo's brokerage departures have been outpacing those of rivals. Other brokerage-owning banks have

ven't reported second-quarter results yet, but both **Bank of America Corp.**'s Merrill Lynch and **Morgan Stanley** said broker forces declined by half a percentage point from the third quarter of 2016 through the first quarter of this year, while **UBS Group AG** lost slightly more, with its total number of brokers falling 1.7%.

While Wells Fargo's broker count has fallen since the sales scandal, referrals from the bank's community-banking arm to the wealth unit jumped 12% from the previous quarter. Two of the months during the quarter had \$1 billion in monthly referred investment assets; in the first quarter, Wells Fargo said it had only one month in which it reached \$1 billion in monthly referred investment assets.

Wells Fargo's Chief Financial Officer John Shrewsbury said those referrals were the result of "effective partnering between our bankers and financial advisers."

Total assets within Wells Fargo's wealth arm reached \$1.8 trillion, up 8% from the year-earlier period, on higher market valuations and customers entrusting more cash with the bank's financial advisers.

Wells Fargo is trying to turn around its head-count fortunes with more aggressive broker recruiting at a time many rivals have temporarily stopped. Merrill Lynch, Morgan Stanley and UBS have all said they would curtail their recruitment efforts at least temporarily to save costs and shift spending elsewhere, such as on broker technology. Wells Fargo, meanwhile, sweetened its pitch in May, saying it would offer some brokers a recruitment bonus of as much as three times the annual fees and commissions they generate.

The bank has also put more emphasis on attracting younger brokers to its ranks.

Chief Executive Timothy Sloan told analysts on a conference call Friday that the bank has directed significant resources toward repairing its relations with consumers and undertook a companywide "culture assessment" in recent months.

"We are processing these results and the goal is to identify both positive attributes and potential weaknesses we can take actions that will strengthen our culture," Mr. Sloan said.

Bitcoin, Ether Are Caught In Cryptocurrencies Selloff

BY PAUL VIGNA

The price of the digital currency bitcoin fell over the weekend, dropping below \$2,000 and farther away from its June highs, part of a broad sell-off in dozens of cryptocurrencies, including ether.

Bitcoin on Sunday traded as low as \$1,836, according to news and research site CoinDesk, down about 8% on the day, and almost 40% from its high of \$3,018 on June 11. Meanwhile, ether, the currency used on the Ethereum network, traded as low as \$155 on Sunday, down about 60% from its high of \$395 on June 13.

Prices were lower across the board on Sunday, most notably

for the tokens created via the so-called initial coin offering, or ICO, process.

The selloffs are another reminder that these new kinds of digital assets remain highly speculative trading vehicles. The markets around them are still relatively immature and illiquid, resulting in extremely volatile trading.

The simple problem is that prices earlier this year were rising faster than the fundamental values warranted, said Andreas Antonopoulos, a bitcoin developer and author.

"Analysis tools are immature, investors are immature and expect quick riches, then get washed out." "You have to ignore the drama and focus on the real reason to be involved in this," he added.

Currencies

U.S.-dollar foreign-exchange rates in late New York trading

Country/currency	Fri in US\$	per US\$	YTD chg (%)
Americas			
Argentina peso	.0594	16.8463	6.2
Brazil real	.3145	3.1796	-2.3
Canada dollar	.7907	1.2648	-5.9
Chile peso	.001521	657.50	-1.8
Colombia peso	.0003312	3019.00	0.6
Ecuador US dollar	1	1 unch	
Mexico peso	.0569	17.5618	-15.3
Peru new sol	.3082	3.245	-3.2
Uruguay peso	.03477	28.7600	-2.0
Venezuela b.fuerte	.100150	9.9851	-0.1
Asia-Pacific			
Australian dollar	.7828	1.2775	-8.0
China yuan	.1474	6.7840	-2.3
Hong Kong dollar	.1281	7.8040	0.6
India rupee	.01556	64.279	-5.4
Indonesia rupiah	.0000750	13339	-1.4
Japan yen	.008887	112.53	-3.8
Kazakhstan tenge	.03054	327.49	-1.9
Macau pataca	.1245	8.0327	1.5
Malaysia ringgit	.2330	4.2925	-4.3
New Zealand dollar	.7347	1.3611	-5.7
Pakistan rupee	.00951	105.110	0.7
Philippines peso	.0198	50.524	1.9
Singapore dollar	.7291	1.3715	-5.2
South Korea won	.0008857	1129.10	-6.5
Sri Lanka rupee	.065125	153.55	3.4
Taiwan dollar	.03303	30.272	-6.7
Thailand baht	.02962	33.760	-5.7
Europe			
Vietnam dong	.00004400	22725	-0.2
Middle East/Africa			
Bahrain dinar	2.6522	.3771	-0.3
Egypt pound	.0556	17.9700	-0.9
Israel shekel	.2813	3.5554	-7.6
Kuwait dinar	3.3006	.3030	-0.9
Oman rial	.25953	.3853	0.1
Qatar rial	.2711	3.689	1.4
Saudi Arabia riyal	.2666	3.7503	-0.01
South Africa rand	.13102	.7632	-5.8
Close	Net Chg	% Chg	YTD % Chg
WSJ Dollar Index	87.31	-0.60	-6.05

Sources: Tullett Prebon, WSJ Market Data Group

Earnings Jolt Is Coming

Traders all year have lamented the lack of volatility in the U.S. stock market and, in turn, the influence of corporate fundamentals on market returns. They may want to gird for action as second-quarter earnings get under way.

Over the past two decades,

Over the past three years, 52% of those stocks' total returns have accrued during their earnings weeks, Goldman says.

If history is any indicator, the stocks of companies reporting this week will likely get a jolt.

Netflix Inc., a member of the FANG stock club synonymous in recent years with momentum stocks, posts second-quarter results late Monday. The streaming video company's stock fell 2.6% after it unveiled slowing subscriber growth during the first quarter. Shares of **International Business Machines Corp.**, which is scheduled to report Tuesday, have averaged a move of 4% higher or lower in the trading session following earnings over the past four years, according to Trade Alert.

—Chris Dieterich

ONLINE

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Bitcoin on Sunday traded as low as \$1,836, according to news and research site CoinDesk, down about 8% on the day, and almost 40% from its high of \$3,018 on June 11. Meanwhile, ether, the currency used on the Ethereum network, traded as low as \$155 on Sunday, down about 60% from its high of \$395 on June 13.

Prices were lower across the board on Sunday, most notably

for the tokens created via the so-called initial coin offering, or ICO, process. The selloffs are another reminder that these new kinds of digital assets remain highly speculative trading vehicles. The markets around them are still relatively immature and illiquid, resulting in extremely volatile trading.

The simple problem is that prices earlier this year were rising faster than the fundamental values warranted, said Andreas Antonopoulos, a bitcoin developer and author.

"Analysis tools are immature, investors are immature and expect quick riches, then get washed out." "You have to ignore the drama and focus on the real reason to be involved in this," he added.

Tuesday

Import price index

May, previous

June, expected

down 0.3%

down 0.2%

Earnings expected*

Estimate/Year Ago(\$)

BlackRock **5.40**/4.78

Brown & Brown **0.97**/0.47

J.B. Hunt **0.92**/0.92

Netflix **0.16**/0.09

Housing starts

May, previous

June, expected

1.09 mil.

1.15 mil.

Earnings expected*

Estimate/Year Ago(\$)

AmEx **1.44**/2.10

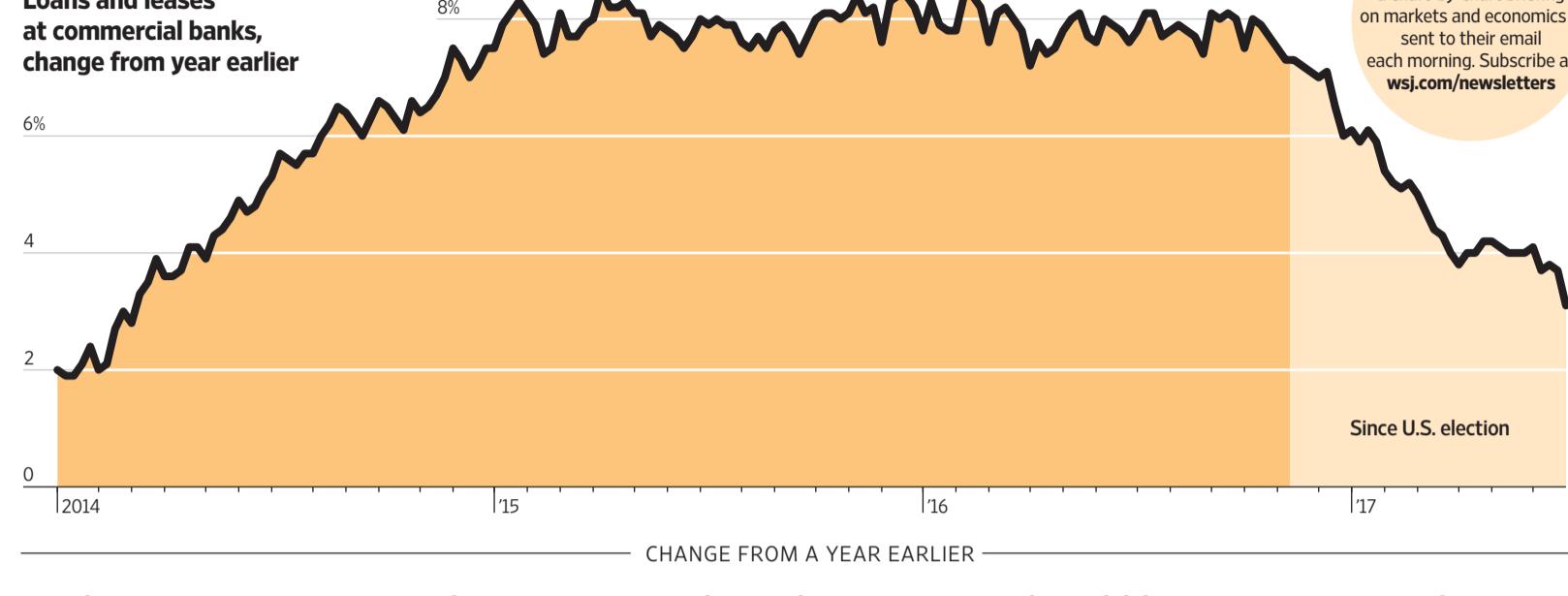
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MARKETS

THE DAILY SHOT | By Lev Borodovsky and Colin Barr

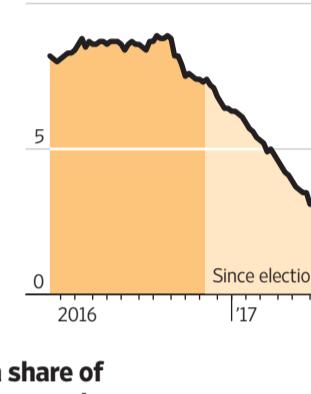
Lending Retreat Won't Derail U.S. Economy

Loans and leases at commercial banks, change from year earlier

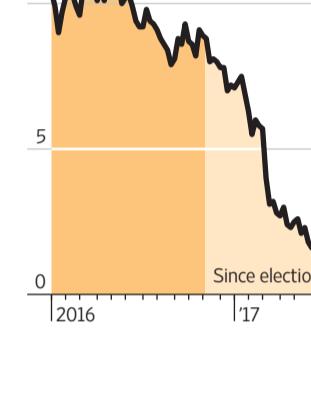


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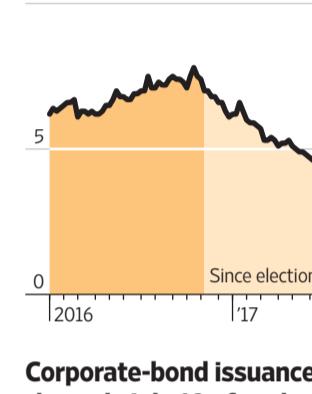
Auto loans



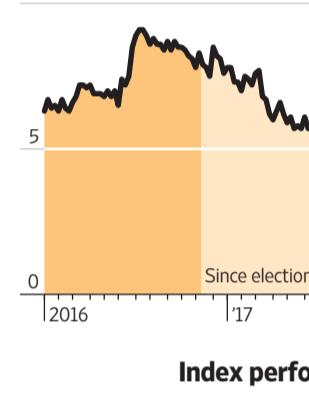
Business loans



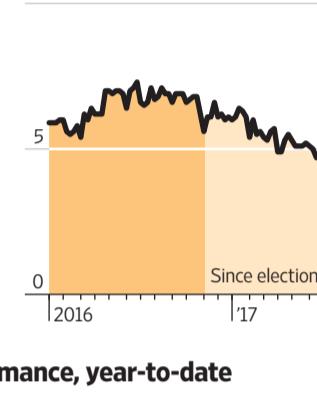
Real-estate loans



Credit-card debt*



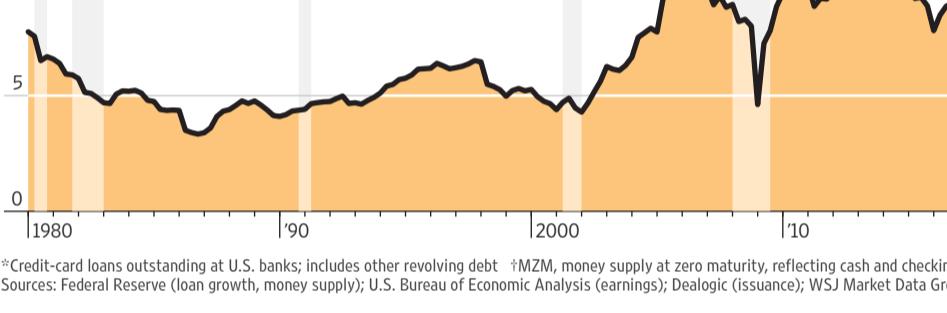
Money supply†



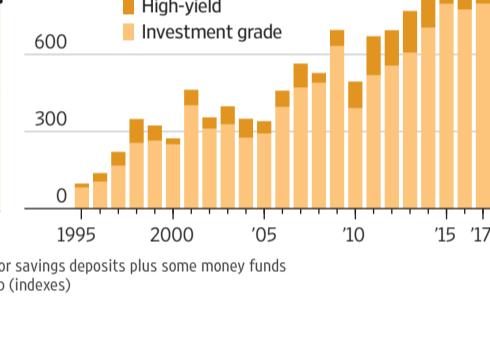
A broad slowdown in bank lending is the latest economic riddle to confront investors. Does a pullback in bank loans, the lifeblood of economic growth, herald the end of a tepid expansion well into its ninth year, with malign implications for stocks and many other assets? Or is the U.S. economy simply taking a welcome breather that will keep inflation low and restrain the Federal Reserve, setting the stage for a fresh 'goldilocks' advance in major stock indexes?

Though major categories from car and home loans to credit cards and business debt are all weakening, many analysts believe it's early yet to fret about recession. Booming capital markets and solid corporate earnings make it easy for companies to raise money, salving default fears. Hopes for a Republican rollback of corporate taxes and many regulations have been deferred rather than abandoned, lending support to stretched-looking valuations. Even the Fed is playing along for now, with quiet inflation data leaving the slow-and-steady outlook for rate increases intact. The party will end eventually, but don't bank on it just yet.

U.S. corporate profits as a share of annual economic output, quarterly



Corporate-bond issuance, through July 12 of each year



Index performance, year-to-date



*Credit-card loans outstanding at U.S. banks; includes other revolving debt. †MZM, money supply at zero maturity, reflecting cash and checking or savings deposits plus some money funds

Sources: Federal Reserve (loan growth, money supply); U.S. Bureau of Economic Analysis (earnings); Dealogic (issuance); WSJ Market Data Group (indexes)

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FINANCIAL ANALYSIS & COMMENTARY

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Subscriber Growth Still Fuels Netflix

Netflix investors can't seem to quit their favorite metric for measuring the company's success: net subscriber additions. That could help Netflix's stock when the company reports second-quarter earnings Monday but may not serve investors in the long run.

Netflix told investors in the first quarter they should judge it on revenue growth and global operating margins. The market had been focused on subscriber net additions and U.S. segment margins.

The problem for Netflix is the company is still valued at more than 100 times forward earnings. Investors are still valuing the company on subscriber growth.

In the second quarter, analysts anticipate Netflix will report 68% growth in earnings and 31% growth in revenue. Operating margins are expected to contract versus the prior quarter due to higher marketing costs. Domestic and international streaming subscriber net additions are expected to be 631,000 and 2.6 million, respectively.

Those numbers look good, but they would show subscriber net additions in the U.S., Netflix's most important market, fell 18% in the first half of 2017. The company now has just under 50 million domestic streaming subscribers and says it can eventually get to 60 million to 90 million. That growth has come at a cost. Netflix has been burning cash to pay for programming and expects to continue to do so.

No matter what Netflix says, subscriber growth will drive the stock for the foreseeable future. Investors should watch those numbers closely. —Miriam Gottfried

The Four Stocks You Can't Skip

Value Trap

Cumulative return



Source: FactSet

has over time tended to outperform the S&P 500. But not this year. Midsize- and small-company shares, in both the growth and value categories, have also underperformed.

So for almost any investors who adhered to any particular style, 2017 probably hasn't been so good. And unless they loaded up on the four stocks that happened to power the market higher, it hasn't been much of a year for stock pickers. The plain-vanilla strategy of just buying the S&P 500 has so far been the right one.

But when the stock market is driven by just a handful of stocks, each of which is substantially more expensive on a price-earnings basis than they were at the start of the year, it can be setting itself up for trouble. It might not take much for investors to suddenly pine for all the stocks and styles they have abandoned.

—Justin Lahart

OVERHEARD

There are plenty of people who would like to give the Internal Revenue Service the finger and many feel like the tax-collecting agency is extracting its pound of flesh. Both of those feelings are figurative, of course, but apparently not for everyone.

The Seattle Post-Intelligencer reported that a 68 year-old Tacoma, Wash., man, frustrated with the IRS, sent them his severed finger in the mail. He also sent them a marijuana cigarette, a bullet and, most recently, a device that appeared to be a bomb but turned out to be fake. The threats to a federal agency earned him federal charges.

The man, who has been aggrieved since losing a civilian job with the Navy in the 1990s, didn't rule out more actions, according to investigators, telling them: "I'm not going to tip my hand."

Please don't.

How to Prepare When Central Banks Go in Same Direction

The central-bank landscape has changed. Divergence is dead, and convergence is in the cards. Such transitions are when things start to get tricky.

The turn in the tide at central banks—whether it be the European Central Bank charting a path to reducing bond purchases, the Federal Reserve preparing to rein in its balance sheet, the Bank of Japan's stealth tapering, the Bank of England talking of a rate rise or the Bank of Canada actually raising rates for the first time in seven years—has led to speculation about coordinated action. The idea that a secret cabal of central bankers has conspired to work together was dismissed recently by ECB executive board member

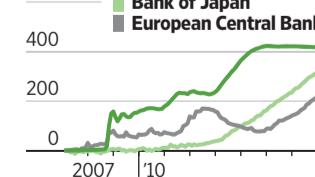
Peter Praet. The more likely explanation is simply that central banks are reacting to a global economy moving in the same direction for the first time in years. After a decade of crisis-fighting policy, there is no obvious crisis to fight. Output gaps are closing and economic volatility is low. The threat of deflation has faded. Inflation is below target in many countries, with the exception of the U.K. But central bankers are generally making the argument that softness in headline measures is transitory, with growth holding up and labor markets tightening. That shift matters for markets. It tips the balance for future policy actions:

Economic data would need to deteriorate persistently for a change in tone. And it allows room for central bankers to consider other risks, in particular the steep rise in asset prices that their policies have engendered and which may yet pose a threat to financial stability.

The question is whether markets have taken that on board. This week's action highlights that. First, markets put a dovish spin, perhaps unwarrantedly, on Fed Chairwoman Janet Yellen's testimony Wednesday and the "everything rally" resumed. Prices for stocks, bonds and gold all rose. But to the extent that markets ease financial conditions, they

Cruising Altitude

Change in central-bank balance-sheet size



markets could yet do some of the tightening for central banks, particularly when it comes to currencies. For instance, if the euro strengthens, as a 10% rise in the trade-weighted exchange rate could shave 0.5 percentage point off inflation, notes Lombard Street Research. No wonder the Fed and the ECB are eager to talk about how they will move gradually. The risk to markets is that investors get too comfortable with this idea.

This push-and-pull seems likely to lead to higher volatility. Central bankers have for a long time been investors' best friends. Now the relationship is a lot more complicated.—Richard Barley