

# THE WALL STREET JOURNAL.

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WSJ.com EUROPE EDITION

DJIA 21796.55 ▲ 0.39%

NASDAQ 6382.19 ▼ 0.63%

NIKKEI 20079.64 ▲ 0.15%

STOXX 600 382.32 ▼ 0.11%

BRENT 51.49 ▲ 1.02%

GOLD 1259.60 ▲ 0.85%

EURO 1.1657 ▼ 0.66%

## What's News

Business & Finance

A top U.K. regulator said it would phase out Libor and begin to plan for a transition to alternative benchmarks by the end of 2021. A1

◆ AstraZeneca reported disappointing results for a lung-cancer drug trial, sending shares sliding 15%. A1

◆ Shell warned that oil prices may never regain precrash levels and demand will eventually decline, even as its cash flow soared. B1

◆ Brokerages are pushing customers to take out securities-backed loans, a trend that yields lucrative fees but poses risks for borrowers. B1

◆ Airbus cut production plans for its A380 super-jumbo amid weak demand for big, four-engine jets. B1

◆ Amazon's revenue rose 25% last quarter but earnings fell 77% as the company spent heavily to expand. B1

◆ Deutsche Bank's revenue fell in all three business divisions. Shares slid 6.5%. B5

◆ Fiat's once-skeptical CEO said he is now ready to embrace electric vehicles. B2

◆ Nestlé said first-half sales eased and a key benchmark came in below forecasts. B2

◆ A Chinese joint venture agreed to buy Ista, a German maker of metering gear. B3

◆ Toshiba faces pressure for a bankruptcy filing from some creditors and others in its restructuring. B4

◆ Samsung's net surged 89% to a record \$9.9 billion, driven in part by sales of electronic components. B4

### World-Wide

◆ North Korean hackers are increasingly focusing on funneling stolen funds to the secretive nation, a South Korean report said. A1

◆ Israel removed the remaining security gear at the entrance to one of Jerusalem's holiest sites after widespread Arab protests. A3

◆ A GOP senator is crafting a bill to protect the independence of the special counsel probing Russian activity during the U.S. election. A5

◆ House Republicans were working to pass legislation funding Trump's promised Mexican border wall. A5

◆ The Pentagon won't change its policies toward transgender troops without further guidance, the top U.S. military officer said. A5

◆ France said it would temporarily nationalize a shipyard to stop an Italian firm from taking control, sparking tensions with Rome. A3

◆ Japan's opposition leader quit for failing to boost her party's election prospects despite the scandals afflicting the Abe government. A4

◆ Putin stepped up his anti-U.S. rhetoric, saying Russia wouldn't tolerate American "impudence" in advancing new sanctions. A4

◆ Iran successfully test-launched a rocket designed to carry satellites into space, official media reported. A4

◆ A British judge ordered that terminally ill infant Charlie Gard be moved from a hospital to a hospice. A4

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## Clashes Follow Jubilation Over Jerusalem Holy Site



**SECURITY DISPUTE:** Clashes erupted between Palestinians and Israeli security forces in Jerusalem's Old City after Israel removed controversial security measures at the entrance to one of the city's holiest places, prompting Muslims to return to pray at the site. A3

## AstraZeneca Takes Big Hit

Shares plummet on drug-trial news; CEO does little to squelch talk of possible exit

By DENISE ROLAND

Mystic, aimed to show that the combination of two of AstraZeneca's immuno-oncology drugs—designed to boost the immune system's ability to attack cancer cells—could enhance their individual disease-fighting prowess.

AstraZeneca said Thursday the trial instead showed that the combination was no better than standard chemotherapy at shrinking tumors in newly diagnosed cases of advanced lung cancer.

The test was seen as an important milestone in Chief Executive Pascal Soriot's go-it-

alone strategy, outlined after he rebuffed Pfizer Inc.'s 2014 takeover offer that was worth \$120 billion at the time. In rejecting the rich premium that the offer represented, he promised AstraZeneca's research and development pipeline would supercharge revenue over the next decade.

Dr. Soriot has also touted the drug-combination approach as a competitive edge that could help the company take on immuno-oncology market leaders Merck & Co. and Bristol-Myers Squibb Co. AstraZeneca's shares fell

sharply in response to news of the trial results, closing down 15% at £43.25 (\$56.49) in London trading.

Adding to investor unease, Dr. Soriot refused to rule out that he might be leaving the company. Earlier this month, an Israeli news outlet reported he was headed to run Israeli drug giant Teva Pharmaceutical Industries Ltd. Shares dropped sharply on the report, though they had recovered those losses before Thursday.

AstraZeneca representatives have said they wouldn't

Please see DRUG page A2

## U.K. Is Pulling The Plug On Libor

By MAX COLCHESTER

In five years, Libor could be no more.

On Thursday, a top U.K. regulator said it would phase out the London interbank offered rate, a scandal-plagued benchmark that is used to set the price of trillions of dollars of loans and derivatives across the world.

Andrew Bailey, the chief executive of the U.K.'s Financial Conduct Authority, which regulates Libor, said that work would begin to plan for a transition to alternate benchmarks by the end of 2021. "We do not think markets can rely on Libor continuing to be available indefinitely," he said.

Libor is calculated every working day by polling major banks on their estimated borrowing costs. Its integrity was called into question following a rate-rigging scandal where traders at numerous banks were able to nudge it up or down by submitting false data. Banks were fined billions of dollars and several traders were sent to prison.

Over the past five years, regulators have tried to find ways to tie Libor submissions to actual trades, as opposed to estimates. But in several cases that proved impossible because interbank lending has hugely diminished, Mr. Bailey said.

The push to ditch Libor creates a headache for authorities who have to drum up alternative benchmarks and banks that face having to rewrite trillions of dollars' worth of contracts. In financial markets, Libor is ubiquitous, used to

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## AS AUTOMATION SPREADS, NEW RIVALS STALK FINANCIAL ADVISERS

### Seeking Advice

The number of firms providing investment management and financial planning to individual clients has grown steadily.

#### Investment advice firms

4,000 firms



Note: Based on firms with at least \$100 million in total assets under management. Assets charted are those for which the firm, rather than the client, makes investment decisions. Data for 12-month periods ending March 31.  
Source: Securities and Exchange Commission

#### Assets under management

\$5 trillion



THE WALL STREET JOURNAL.

Algorithms generate investment advice, undercut traditional 1% fees

Automation is threatening one of the most personal businesses in personal finance: advice.

Over the past decade, financial advisers in brokerage houses and independent firms have amassed trillions in assets helping individuals shape investment portfolios and hammer out financial plans. They earn around 1% of these assets in annual fees, a cost advisers say is deserved because they understand clients' particular situations and can provide assurance when markets fall.

In the latest test of the reach of technology, a new breed of competitors—including Betterment LLC and Wealthfront Inc. but also initiatives from established firms such as Vanguard—is contending even the most personal financial advice can be delivered online, over the phone or by videoconfer-

encing, with fees as low as zero. The goal is to provide good-enough quality at a much lower price.

"It's always been questionable whether or not advisers were earning our money at 1% and up," said Paul Auslander, director of financial planning at ProVise Management Group in Clearwater, Fla., who says potential clients now compare him with less expensive alternatives.

"The spread's got to narrow."

The shift has big implications for financial firms that count on advice as a source of stable profits, as well as for rivals trying to build new businesses at lower prices. It also could mean millions in annual savings for consumers and could expand the overall market for advice.

Competitors across the spectrum agree

Please see ADVICE page A6

### Spain's Debt Problem Leads to a Zorro Problem

\* \* \*

Costumed collectors prosper, and sometimes cross swords

By JON SINDREU

VALENCIA, Spain—Antonio Sánchez recently came to a dispiriting conclusion about his professional future. Spain isn't big enough for two debt collectors who dress up like Zorro.

His troubles began one day in the Spanish city of Valladolid. Mr. Sánchez was at the wheel of the Zorro-branded car he would use to drop by unannounced—in full Zorro costume—to the homes and businesses of debtors he'd been hired to confront and to shame into paying up.

He pulled alongside another vehicle that, to his astonishment, also sported an image of the fictitious 19th-century masked crusader. "What's up, dude?" Mr. Sánchez recalls saying.

This chance meeting in Valladolid marks the moment Mr. Sánchez learned there was another company using masked

dressed as a monk or a bull-fighter, most Spaniards assume that person hasn't paid their bills.

Though Spain's economy is improving, there is still a lot of debt unpaid. In the first quarter of this year, 71% of money owed to companies was late for payment, according to the Spanish Confederation of Small and Medium Enterprises.

Because these costumed nuisance-makers get to keep between 20% and 60% of the money they collect from businesses and individuals, the spoils can be substantial. So substantial, in fact, that competing firms sometimes find themselves in court, too.

Last year, a company called El Zorro Cobro de Morosos took legal action against Mr. Sánchez's employer, El Zorro Cobrador—successfully claiming it holds exclusive rights to the use of Zorro in debt col-

lecting. Chasing money in Spain is an expensive and slow process. So for decades, Spaniards have tried another way: humiliating debtors with attention-grabbing stunts. If somebody is being pursued by a man carrying a briefcase while

Please see ZORROS page A6

Zorro

### INSIDE

#### THE MAKING OF A FASHIONABLE VEGETABLE

#### OFF DUTY, WI

#### HOW BUILDERS SPLURGE ON LUXURY

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## North Korea Hackers Said To Take Aim At ATMs

By TIMOTHY W. MARTIN

SEOUL—North Korea's cyberarmy has splintered into multiple groups and is unleashing orchestrated attacks increasingly focused on funneling stolen funds to the secretive nation, according to a government-backed South Korean report released Thursday.

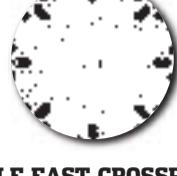
The emphasis on finances represents a significant shift from Pyongyang's prior patterns of attack seeking to obtain military information, destabilize networks or intimidate. It also shows how North Korea's fast-evolving—but costly—nuclear-missile program has accelerated its need for cash as it is subjected to financial sanctions.

Pyongyang has been blamed

Please see HACKS page A4

## WORLD NEWS

# Earlier Spat Helps Qatar Weather Embargo



MIDDLE EAST CROSSROADS  
BY YAROSLAV TROFIMOV

DOHA, Qatar—If Qatar is withstanding a far-reaching embargo by Saudi-led Arab nations, it's because the tiny emirate has drawn the right lessons from its previous neighborhood squabble.

Back in 2014, Saudi Arabia, the United Arab Emirates and Bahrain withdrew their ambassadors from Qatar, making some of the same complaints that resurfaced in this year's crisis. They objected to Qatar's support for the Muslim Brotherhood and other regional dissidents, and wanted to end critical coverage by Qatar's Al Jazeera broadcaster.

The confrontation at the time didn't involve the travel ban and the comprehensive closing of borders, airspace and ports that the three Saudi-led Gulf monarchies and Egypt announced on June 5. The 2014 crisis ended with Qatar's emir, Sheikh Tamim bin Hamad Al Thani, agreeing to tone down the emirate's activist foreign policy.

For many Qataris, however, it was clear that the 2014 confrontation—the re-

sult of their country's historic rivalry with the Saudis and especially the Emiratis—wasn't a one-off event. So in the years since, Qatar made sure to prepare for a second round. It helped, of course, to be the world's wealthiest nation based on per capita income—one that could afford the necessary investments.

"In 2014, we wouldn't imagine that Qatar could survive if the Saudis closed the border. Now they've closed it, and the Qataris discovered that they can live with it," said Marwan Kabaan, head of policy analysis at the Arab Center for Research and Policy Studies, a Doha think tank close to the Qatari government.

"These countries thought they could corner Qatar and force it to wave the white flag, using a shock-and-awe approach. It didn't work out. The Qataris had learned their lesson," he said.

In fact, both sides now expect the confrontation and the Saudi-led embargo on Qatar to last for months, if not years, despite international mediation attempts.

The most important initiator of the campaign, Saudi Crown Prince Mohammed bin Salman, can hardly afford to lose face and back-track on demands against Qatar. He has yet to show clear successes in his other signature projects, domestic economic reform and the war in Yemen.

The Qatari royal family,



AGENCE FRANCE PRESSE/GETTY IMAGES

**Qatar used to import Saudi dairy products. After the sanctions, it began shipping in cows of its own.**

too, has little inclination to capitulate and transform its emirate into a Saudi vassal state. That is especially so as the Saudi-led sanctions, imposed in the middle of the holy month of Ramadan and aiming to sow dissent in the emirate, have, so far at least, backfired. They have fomented a sense of defiance and newfound Qatari nationalism.

Stylized portraits of Sheikh Tamim, surrounded by handwritten pledges of allegiance by citizens, are mushrooming across the capital Doha, as are condemnations of the "siege nations."

In a televised address last week, his first since the crisis began, Sheikh Tamim agreed to negotiations while

defining the conflict with the Saudi-led camp as an existential issue.

"Since the onset of the blockade, day-to-day life in Qatar continued as normal," he said. "The Qatari people instinctively and naturally stood up to defend the sovereignty and independence of their homeland."

Unlike in 2014, Qatar now has a new seaport that can handle large container ships, the Hamad Port. That has permitted it to offset the ban on shipping via Dubai, until recently the main hub for cargo to Qatar.

The capacity of Doha's new Hamad International Airport, meanwhile, allowed Qatar to ramp up food imports by cargo planes. The

country's surplus electricity-generation capacity meant that the lights and—critically in the Gulf summer—air conditioners stayed on despite the border closure.

**T**he most evident economic impact of Saudi-led sanctions is the disappearance of Saudi dairy products, which used to account for the vast majority of Qatar's \$1.6 billion dairy market. Qatar compensated for this by flying in Turkish, Azerbaijani and Lebanese milk and by shipping in cows of its own.

At the sprawling Baladna farm in the desert north of Doha, workers from South Asia are toiling day and night to build air-condi-

tions housing for up to 14,000 Holstein cows. The 165 that already arrived in the first cargo plane are leisurely chewing the cud in the coolness of the first completed shed.

Baladna had planned to go into the cow-milk business before the Saudi embargo, but dramatically expanded the project after the crisis erupted. It expects to make an investment of as much as \$545 million in the venture.

"The embargo is an opportunity to fill the void. We would have had to battle for market share otherwise," said Baladna CEO John Dore. The Saudis aren't likely to regain Qatari consumers even once the crisis is resolved, he added.

"Look at the patriotic fervor here. People aren't going to forget the blockade."

Despite the war of words, some business between Qatar and its Gulf foes continues. Crucially, Qatari gas—which generates a large part of the U.A.E.'s electricity—keeps flowing through the Dolphin pipeline to Dubai. Other Gulf nations haven't withdrawn their funds from Qatari banks and Qatari financial institutions' affiliates continue operating in Egypt and the U.A.E.

"Qatar has absorbed the shock," said Abdullah Baaboud, head of the Gulf studies program at Qatar University. "Yes, there is an economic cost, but you have to compare this cost to the cost of losing sovereignty. And Qatar is not going to give up its sovereignty just like this."

net profit in the second quarter, due to lower spending on research and marketing, proceeds from several licensing deals and a favorable year-earlier comparison. Revenue fell as sales of new drugs struggled to offset the decline of older best sellers.

The company posted net profit of \$477 million, compared with a net loss of \$3 million a year earlier, when AstraZeneca took a restructuring charge related to job cuts. Revenue dropped 10% to \$5.05 billion. Analysts had expected net profit of \$450 million on revenue of \$5.05 billion.

AstraZeneca's top line has been shrinking for several years as its traditional best sellers like the cholesterol-lowering pill Crestor lost patent protection, allowing cheap copycats to enter the market.

Mr. Soriot has told investors that 2017 will be the year when sales bottom out.



CHRIS RATCLIFFE/BLOOMBERG NEWS

**The drug-trial result sent the stock 15% lower in London trading.**

ing reformed by the Bank of England. The euro's overnight interbank lending rate, Eonia, could also be a possible Libor replacement, said the FCA's Mr. Bailey.

An unknown is how existing contracts written using Libor will be amended and what rate will replace the benchmark. The Financial Stability Board, a global standards setter, is currently working with groups including the International Swaps and Derivatives Association to define a fallback rate to use if Libor suddenly disappears. Regulators could then have to enforce rules that push financial groups to simultaneously amend vast numbers of contracts.

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## LIBOR

Continued from Page One

comment on what they described as market rumors and speculation. Dr. Soriot did the same Thursday.

"I'm not a quitter," Dr. Soriot told reporters after fielding a handful of questions about whether he was staying or going. "That's as far as I will go." It is unusual for such a large company to allow uncertainty over a CEO's tenure to linger this long.

The Mystic setback sows fresh worry about the company's ability to meet Dr. Soriot's revenue goal, despite a string of successes in other clinical trials earlier this year that had shored up confidence in the company's cancer pipeline. As part of his Pfizer defense, he promised to nearly double revenue by 2023.

a bank said other lenders charged it to borrow, the safer the institution was deemed to be. The problem: Bank lending largely froze up, so the Libor rate was based on guesses and in some cases on deliberately skewed data.

Following the rate-rigging scandal, the bank lobby was stripped of its control of the benchmark. In 2014, the ICE Benchmark Administration, a subsidiary of **Intercontinental Exchange** Inc., became the new administrator of Libor. The IBA implemented a series of changes—including putting in a surveillance team that evaluates the data coming out of the banks—to ensure sub-

missions are more accurate.

But interbank lending has dried up. In one case, banks setting the Libor rate for one version of the benchmark executed just 15 transactions in that currency and duration for the whole of 2016, Mr. Bailey said. The U.K. regulator has the power to compel banks to submit data to calculate the benchmark. "But we do not think it right to ask, or to require, that panel banks continue to submit expert judgments indefinitely," he said, adding that many banks felt "discomfort" at the current set up. The FCA recently launched an exercise to gather data from 49 banks to see which in-

stitutions are most active in the interbank lending market.

Mr. Bailey didn't set out exactly what a potential replacement for Libor might look like, but a group within the **Bank of England** is already working on potential replacements.

However, any shift will have to be phased in slowly.

Some £30 trillion (\$39.4 trillion) of over-the-counter derivatives reference the rate, while dollar Libor contracts run to the hundreds of trillions, according to the central bank. After 2021, IBA could choose to keep Libor running, but the U.K. regulator would no longer compel banks to submit data for the bench-

mark. The IBA said in a statement that Libor "has a long-term sustainable future."

Regulators have already been working with banks for several years to find alternatives to Libor. Last month, the U.S.'s Alternative Reference Rates Committee, which is made up of a group of big banks, voted to use a benchmark based on short-term loans known as repurchase agreements or "repo" trades, backed by Treasury securities, to replace U.S. dollar Libor.

The new rate is expected to be phased in starting next year. In the U.K., one potential replacement is the Sterling Overnight Index Average, which is calculated using banks' overnight funding rates in the sterling unsecured market. This rate is currently be-

## Firefighters Gain On Blazes in France



UNDER CONTROL: A drop in the wind helped firefighters contain a blaze in the French town of Bormes-Les-Mimosas, on the Mediterranean coast. Wildfires also burned in Portugal.

## CORRECTIONS & AMPLIFICATIONS

European Policy Centre

was incorrectly called the Center for European Policies in a World News article on Thursday about a standoff between the European Union and Poland.

Oliver Schmidt, a former Volkswagen AG compliance executive, is scheduled to appear Aug. 4 at a plea hearing. A Business & Finance article Wednesday about his plans to plead guilty to U.S. charges related to VW's emissions cheating incorrectly said he is scheduled to be sentenced.

Readers can alert The Wall Street Journal to any errors in news articles by emailing [wsjcontact@wsj.com](mailto:wsjcontact@wsj.com).

# WORLD NEWS

## Israel Clears Security Gear From Shrine

Palestinians claim a victory as security is loosened at gate to Jerusalem holy site

BY RORY JONES

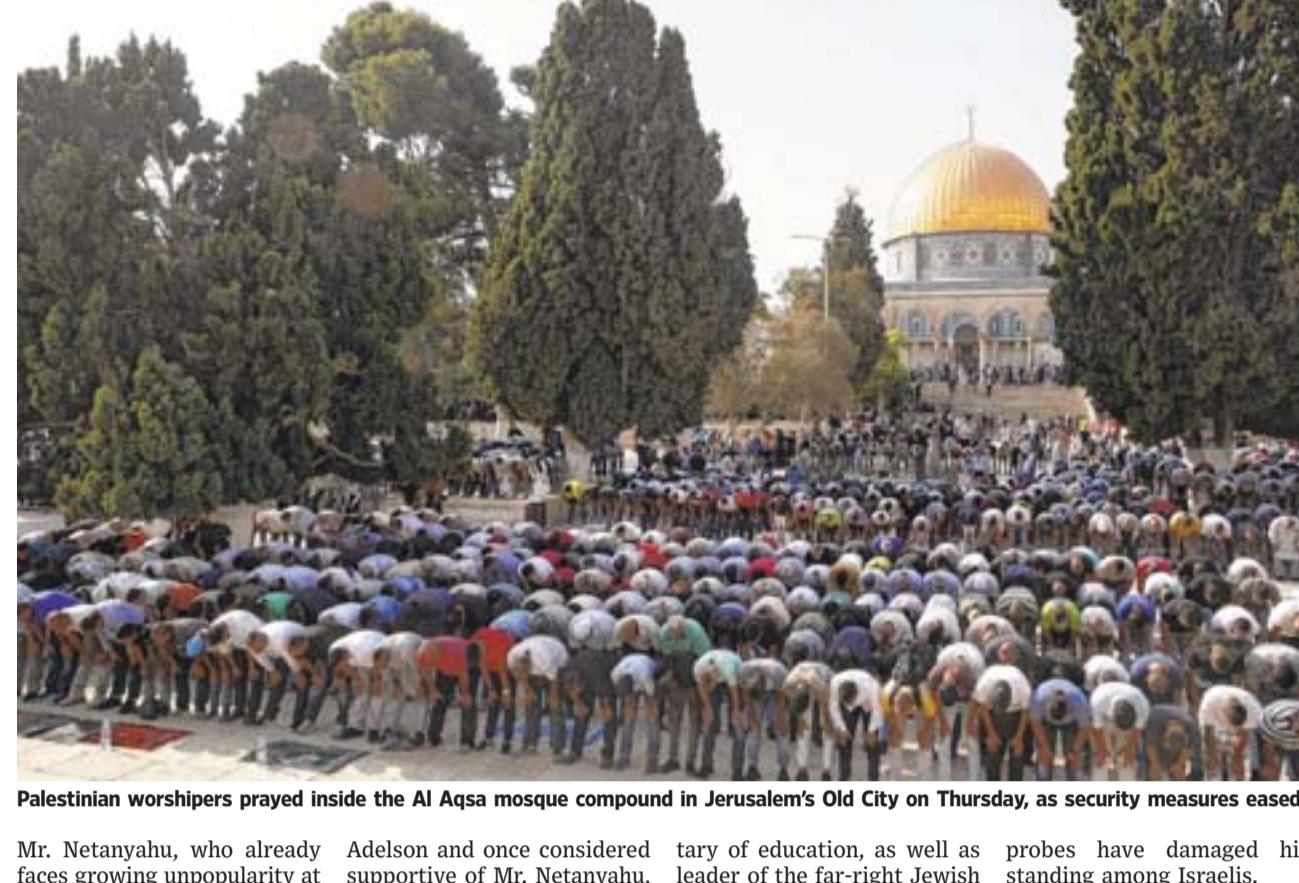
JERUSALEM—Israel on Thursday removed the remaining security measures at the entrance to one of Jerusalem's holiest sites, in a move that appeared aimed at ending a standoff that has piled political pressure on Prime Minister Benjamin Netanyahu.

Muslim leaders called off a boycott imposed in protest of the measures and encouraged Palestinians to return to pray at the site, known to Jews as the Temple Mount and to Muslims as the Noble Sanctuary. Clashes broke out between Palestinians and Israeli security at the compound later Thursday as thousands of Palestinians came to pray.

The metal detectors and metal archways supporting cameras and railings at the site had been installed after Arab gunmen killed two Israeli policemen there on July 14. The security measures sparked widespread protests among Arabs who said Israel was using the measures to try to control access to the site.

Violent protests and attacks over the weekend left three Israelis and at least three Palestinians dead.

The episode has weakened



Palestinian worshipers prayed inside the Al Aqsa mosque compound in Jerusalem's Old City on Thursday, as security measures eased. MAHMUD HLEIB/ASSOCIATED PRESS

Mr. Netanyahu, who already faces growing unpopularity at home over corruption allegations. Some 77% of Israelis believe the government capitulated to Palestinian demands by removing the metal detectors, according to a Tuesday poll by the country's Channel 2 broadcaster.

Israel Hayom, a daily owned by U.S. billionaire Sheldon

Adelson and once considered supportive of Mr. Netanyahu, published a scathing editorial on its front page this week over the prime minister's handling of the crisis, calling the government response "feeble and frightened."

"Israel will come out weakened," Naftali Bennett, who is a member of Mr. Netanyahu's governing coalition and secre-

tary of education, as well as leader of the far-right Jewish Home party, told Army Radio on Thursday.

Police are investigating Mr.

Netanyahu in twin corruption

probes into whether he received unlawful gifts in office and tried to negotiate favorable coverage in another newspaper. Mr. Netanyahu denies the allegations, but the

probes have damaged his standing among Israelis.

"All these things are adding up," said Emmanuel Navon, a political analyst and lecturer at Tel Aviv University. "He comes across as a leader that's made the wrong decisions."

Even so, he will likely weather this latest crisis, said Mitchell Barak, political analyst at Jerusalem-based

Keevoon Global Research.

"Netanyahu walks away from this unscathed," he said. "For one reason: Israelis cannot identify an alternative to Netanyahu."

A spokesman for the prime minister declined to comment on the criticism.

Mr. Netanyahu is expected to back a bill from members of his government to absorb settlements around Jerusalem in the West Bank into the city's municipal boundaries, adding thousands more Jewish settler residents, Israeli media reported.

The move is likely to appeal to Mr. Netanyahu's right-wing political base.

Palestinians were initially jubilant over what they consider a symbolic victory over Mr. Netanyahu and his government over the removal of the security measures. Thousands of Palestinians visited the site on Thursday afternoon, giving free food and water to fellow worshippers and shouting "Al-lahu Akbar," Arabic for God is great.

"They now know the force of the people of Jerusalem," Farah Walid, 71 years old, said of the Israeli government as he entered the compound to pray at the Al Aqsa mosque.

The metal detectors were removed on Tuesday and the archways on Thursday.

—Nuha Musleh in Ramallah and Abu Bakr Bashir in Gaza City contributed to this article.

## France Fends Off Italy With Shipyard Seizure

BY WILLIAM HOROBIN AND GIOVANNI LEGORANO

PARIS—Emmanuel Macron's government said Thursday it would temporarily nationalize the **STX France** shipyard to stop Italian company **Fincantieri** SpA taking majority control, a move that sparked tensions between Paris and Rome.

The French government said it would use its pre-emption rights to take 100% control of the shipyard at Saint-Nazaire on France's Atlantic coast, just days before Italian state-controlled Fincantieri was due to take a 66.7% stake from South Korea's STX Offshore and Shipbuilding. The French state already owns 33.3% of STX France.

"The decision has one sole objective: defend France's strategic interests in shipbuilding," said French Finance and Economy Minister Bruno Le Maire. The move will cost the state around €80 million (\$93.9 million).

The nationalization—Mr. Macron's first major industrial move since coming to power in May—runs counter to his pro-business campaign rhetoric and pledges to foster industry on a European rather than national level.

Before becoming president, however, Mr. Macron intervened in a number of corporate deals as economy minister. He scuttled a plan to sell the telecom operations of Bouygues to its competitors

and engineered raising the state's stake in Renault SA to 20%, against the wishes of management.

Mr. Le Maire said it was necessary to temporarily nationalize the Saint-Nazaire shipyard to keep jobs and skills in France. Saint-Nazaire also has a military interest for the French as it is the only French shipyard capable of building the hull of an aircraft carrier.

"We can't take the slightest risk with these skills or this know-how," Mr. Le Maire said.

Mr. Le Maire said France could accept a 50-50 split with Rome not Fincantieri taking majority control of STX France. Mr. Le Maire will travel to Italy Tuesday for talks with Fincantieri and the Italian government.

The brinkmanship from France's government sparked consternation in Italy, where the government described the temporary nationalization as "grave and incomprehensible."

"Nationalism and protectionism aren't acceptable bases on which to govern the relations between two great European countries. To achieve shared projects there is a need for mutual trust and respect," said Italy's Economy Minister Pier Carlo Padoa and Economic Development Minister Carlo Calenda in a joint statement. A Fincantieri spokesman said the company had no immediate comment on France's decision.

## German-Turkish Relations Worsen

In early June, Turkish President Recep Tayyip Erdogan hosted German Foreign Minister Sigmar Gabriel and made an unusual offer, according to German officials briefed on

By Andrea Thomas and Anton Troianovski in Berlin and Ned Levin in Istanbul

the exchange: extradite two Turkish generals who had applied for asylum in Germany, and receive a detained German-Turkish journalist in return.

According to the German officials, Berlin rejected the offer. A senior Turkish official, meanwhile, denied it was ever made and officials at the Turkish president's office didn't respond to requests for comment. But that meeting did nothing to soothe the strain in one of Europe's most important alliances.

After a year of slights, barbs and misunderstandings, both sides are now girding for a showdown that could rattle the European Union, alter the fight on terrorism and escalate the refugee crisis.

Turkey has made some efforts to calm the waters in recent days, but tensions continued to run high this week. Mr. Erdogan said in parliament that if any country implemented economic sanctions against Turkey, as Germany had threatened to do, "you'll have to take bigger consequences into account." A Turkish pro-government newspaper

per put a swastika on an image of Chancellor Angela Merkel on its front page. The headline: "Worse than Hitler."

German officials and politicians said they were prepared for the spat to get worse. Advisers who can moderate Mr. Erdogan, they said, have lost virtually all influence in Ankara; and Turkey's ambition to become a bigger player in the Middle East in its own right diminishes the weight placed by Turkish leaders on good ties with the EU, they said.

"The entire framework has changed," said German lawmaker Rolf Mützenich, a foreign-policy specialist for the center-left Social Democrats. "The best we can do currently is damage control."

Turkish officials said Turkey hasn't altered its policy on Germany, and say Germany's changed approach is motivated by Ms. Merkel's need to

drum up support in advance of Germany's September elections.

On July 5, on an island near Istanbul, came a pivotal moment in the drawn-out German-Turkish split: Turkish police stormed a seminar on data protection and detained a German Amnesty International activist, Peter Steudtner. He and five others were later charged with aiding terrorism, a charge Amnesty has described as absurd.

The arrest—the first of a German national with no prior link to Turkey—convinced Berlin that Ankara wasn't interested in repairing the relationship, according to a senior German official. After the arrest Mr. Gabriel warned, "We cannot carry on as before."

Ms. Merkel backed Mr. Gabriel's tough line even though their two parties are competing ahead of Germany's Sept.

24 national election. Mr. Steudtner's detention represented "the latest case in which, from our perspective, innocent people" had landed behind bars in Turkey, she said.

"The German government panicked that Turkey was beginning to specifically detain Germans to build up pressure," said Kristian Brakel, an analyst at the German Council on Foreign Relations, a non-partisan think tank. "For a long time, Germany believed [tensions] would shake themselves out again...but this was a misconception."

Mr. Gabriel warned Germans who visit Turkey—nearly four million Germans came in 2016—that they risked arbitrary detention. He said the German government could stop issuing export insurance guarantees—a form of insurance against political risk—for sales to Turkey. Germany also withdrew troops from a Turkish air base, complicating the fight against Islamic State.

Turkish officials maintain that the arrests of Mr. Steudtner and other German citizens, including Deniz Yucel, the reporter arrested in February on terror charges and reportedly offered in exchange for the extradition, are part of an independent judicial process.

Mr. Yucel is accused of spreading propaganda for a terrorist group, related to his reporting on the Kurdistan Workers' Party, according to his newspaper, Die Welt. Mr. Yucel has denied the charges.

BRUSSELS BEAT | By Stephen Fidler

## U.K. Government Lines Up, to a Point, on Brexit Transition

It took a while, but British government ministers finally got their messages aligned over the past week over an issue many businesses regard as vital. Finally speaking with one voice, they said Britain would seek a multiyear transitional agreement with the European Union to reduce the economic uncertainty around Brexit.

From either side of the Brexit divide inside Prime Minister Theresa May's government, ministers publicly backed an intermediate period post-Brexit before the U.K. fully separates from the EU. That would help firms adjust to leaving the bloc's regime of zero tariffs and common regulation, and provide time for customs and

other parts of the bureaucracy to cope.

They found common cause partly in recognition that it would be impossible, in the 20 months left before Brexit, to negotiate a wide-ranging permanent trade and economic agreement with the EU and have it ratified by the more than 30 national and regional parliaments that must do so.

In fact there was unity only up to a point. On Thursday, immigration minister Brandon Lewis suggested the matter wasn't yet settled when he told the British Broadcasting Corp. that "Free movement of labor ends when we leave the European Union in the spring of 2019."

If Mr. Lewis is really ruling out free movement of labor from the EU on Brexit day, he is also probably ruling out the most likely and

practical transition deal with the EU, one that would keep the U.K. temporarily inside the bloc's single market and its customs union.

**T**he EU insists that free movement of goods, services, capital and labor come as a package. If you want to stay in the EU's single market and enjoy free movement of services, goods and capital, as many businesses are demanding, then labor comes as part of the deal.

True, that EU proposition could be tested in the negotiations. But it would be tough for London to persuade the bloc to make concessions to a nonmember of the EU, which the U.K. will become on Brexit day, that it wouldn't concede to a member.

The U.K. could try to negotiate a bespoke interim arrangement, sector by sector,

issue by issue. But the Confederation of British Industry has joined other observers in reaching a firm conclusion on that prospect: "It is hard to see how this could be negotiated in time and it may not provide a sufficient legal basis for business continuity in many sectors."

The real problem with a transitional arrangement has lain with Britain's most eager EU-leavers, many of whom are in the governing Conservative Party. For them, staying in the customs union and single market would extend the agony of the jurisdiction of the European Court of Justice that polices the single market, and mean Britain would have to keep making accommodations for EU workers.

It would also mean continuing U.K. contributions into the EU budget—a pros-

pect Brexiteers hate but that provides a big incentive for the EU to accept a transition. Such a deal would keep a large net payer in the fold for a while longer and postpone a big impending fight between net contributors and recipients of EU funds over the bloc's shrinking spending pot.

**I**t would also take some of the steam out of the argument over the British "divorce bill"—the settlement the EU wants from the U.K. over spending pledges it has made but won't have carried out by Brexit day.

The EU's unofficial calculations of upward of €60 billion (\$70 billion) for that bill include U.K. spending commitments for the current seven-year EU budget period through 2020. If the U.K. stays in the single market

and customs union until then, its current budget obligation would require it to pay more than €20 billion of the bill anyway.

A transition would also likely delay the implementation of any trade agreements the U.K. negotiates with non-EU countries such as the U.S. Since customs unions impose common tariffs on goods coming from outside, members can't negotiate away tariffs with third parties.

Ministers have been talking of a three-year transition, allowing the U.K. to be free of its EU entanglements by the next scheduled U.K. general election in 2022.

U.S. President Donald Trump might thus be able to sign a trade accord with the U.K. during his first term of office. But he would have to win the 2020 election to oversee its implementation.

## WORLD NEWS

# Japanese Opposition Leader Steps Down

BY ALASTAIR GALE

TOKYO—The head of Japan's main opposition party resigned for failing to boost its election prospects despite the scandals afflicting the government of Prime Minister Shinzo Abe.

Renho's resignation on Thursday after only 10 months as leader of the Democratic Party highlights the weakness of Japan's national opposition parties and makes Mr. Abe's biggest political risk potential unrest within his own Liberal Democratic Party.

Mr. Abe is struggling to deflect allegations, which he denies, that his government provided favors for friends. Opinion polls have shown support for his cabinet below 30% for the first time since he took office in 2012.

He has said he will replace

some cabinet members early next month, a shuffle widely seen as intended to shore up his approval ratings.

Japanese media reported Thursday that Defense Minister Tomomi Inada would resign as soon as Friday to take responsibility for contradictory statements she and other officials made about the safety of Japanese peacekeepers in South Sudan.

A Defense Ministry spokesman declined to comment.

Renho, who goes by a single name, has led criticism of Mr. Abe and Ms. Inada in Parliament, but her party has also suffered in opinion polls.

It was routed along with Mr. Abe's party in a recent election for the Tokyo metropolitan assembly as voters instead flocked to a new local party led by Tokyo Gov. Yuriko Koike.



Renho quit as Democratic Party leader after 10 months.

In a brief televised news conference on Thursday, Renho said that election con-

tributed to her decision.

She also alluded to persistent policy differences within the party that analysts say undermine its prospects of gaining strong public support.

"I lacked the power to lead," Renho said. "I hope party executives can strengthen the party's unifying force."

Members of the Democratic Party cover a wide spectrum of political views. Under Renho, it formed closer ties with other opposition parties—including the Communist Party, which conservative members of the Democratic Party opposed.

Michael Cucek, an expert on Japanese politics at Temple University in Tokyo, said the party has no strong leadership candidates and would likely remain fractured.

"I have no sense it has any

viability," he said.

The departure of Renho, 49 years old, and the expected resignation of Ms. Inada are setbacks for high-level political representation by women in Japan.

Women make up only around 10% of Parliament, compared with a global average of about 23%, according to data compiled by the World Bank.

Renho was the first woman to lead the opposition since Takako Doi, who served as leader of the Socialist Party from 1986 to 1991. Japan has never had a female prime minister.

One reason more women don't progress in politics, said Hiroe Makiyama, a lawmaker in the Democratic Party, is because it is often harder for them to join the major relationship-building activity for

members of Parliament: going out drinking together in the evenings.

"It's easier for men if they're suddenly invited for drinks because they just ask their wives to take care of their kids," Ms. Makiyama said.

Renho, who was born to a Japanese mother and a Taiwanese father, has also been dogged since last year by news that she held Taiwanese as well as Japanese citizenship. Japan doesn't allow dual citizenship, although there is no penalty for it.

Renho last week made part of her family register public to prove she had renounced her Taiwanese citizenship. She said the issue hadn't contributed to her decision to resign.

—Koji Everard contributed to this article.



Pyongyang's nuclear-missile program has accelerated its need for cash. Pedestrians pass a display featuring images of missile launches and military exercises on a street in Pyongyang.

## HACK

*Continued from Page One*  
for major cyberattacks including 2014's **Sony Pictures Entertainment** hack, last year's daring cyberheist at **Bangladesh's central bank** and this year's WannaCry global ransomware attack.

Cybersecurity researchers have long suspected the hacking group Lazarus carried out those attacks with the backing of North Korea.

Earlier this year, Russian cybersecurity firm Kaspersky Lab AO identified an offshoot of Lazarus, called BlueNoroff, which specializes in heists of foreign financial institutions.

In the new report, the government-funded Korea Financial Security Institute said it had identified a second group linked with Lazarus that has carried out a range of cyber-

tacks on South Korea. FSI researchers found eight attacks from 2013 to May conducted by this new hacking operative, which they call "Andariel," and whose coding and internet-protocol address bear similarities to Lazarus attacks.

The efforts include even low-level scams such as planting malware in South Korean ATMs to steal bank-card information, according to the FSI report, the country's first-ever public report on North Korean cyberattacks, with law enforcement and intelligence officials getting briefed on the findings. That is behavior more typical of an organized crime ring.

North Korean operatives then sold the swiped data to people in Taiwan, China and Thailand who would try to withdraw money from ATMs in their own regions. But only several thousand dollars were withdrawn before South Korean law enforcement identi-

fied the ruse after six days.

"North Korea now cares more about making money than causing disruptions or cyberterrorism," said Joon Kim, owner of Naru Security Inc., who has advised South Korean law enforcement on cyber issues.

South Koreans have a unique lens into North Korea's cyberoffenses, as Pyongyang's longest-running and most frequent target. South Korean government groups and agencies withstand 1.4 million hacking attempts a day, according to law-enforcement and intelligence officials.

The eight Andariel attacks shared similarities in hacking tools and encrypted codes. To access "web shells," or servers used by hackers that allow them to control computers remotely, the Andariel group used one of two passwords: "famboss" or "youared," according to a person familiar with Andariel's techniques.

Andariel has also recently teamed up with BlueNoroff to target a large South Korean financial institution, according to the FSI report. The institution wasn't identified.

The report helps paint a fuller picture over how North Korea's digital army has grown into a web of specialist teams.

"The problem is that it's not just simple attacks anymore with North Korea. It's more orchestrated now, as if it were a military operation," said Kim Seung-joo, a Korea University professor who sits on a South Korean government cybersecurity advisory team.

North Korea's hacking teams have been recruited internally over years within the country's military and Ministry of State Security, said Adam Meyers, vice president of intelligence with the cybersecurity firm CrowdStrike, Inc. "They've got a rich capability that extends across multiple government organi-

zations," he said. "They have education programs and they have training programs."

Mr. Meyers believes that the country's hackers are "likely really well taken care of financially," he said. "These guys are definitely an important element of their doctrine."

The country likely sees offensive cyber operations "as a cost-effective, asymmetric, deniable tool that it can employ with little risk from reprisal attacks, in part because its networks are largely separated from the internet and disruption of internet access would have minimal impact on its economy," the Department of Defense wrote in a 2015 report.

The broader Lazarus group, discreet and meticulous in covering its tracks, has specialized in breaching computers or networks, foreign and South Korean cybersecurity experts said. BlueNoroff then follows up with the

actual heists or data swipes with less regard for cloaking its moves.

Outside of South Korea, the Lazarus group has recently set its sights on casinos, financial-trade software firms—and even organized-crime rings, said Vitaly Kamuk, a global research and analysis director at Kaspersky Lab, who is focused on the Asia-Pacific region.

"It sounds like a perfect crime," Mr. Kamuk said. "When you steal from a thief, nobody will go after you. Law-enforcement will focus on the criminal that stole the money in the first place."

Lazarus and BlueNoroff in recent years have made attempts to breach financial companies or institutions in at least 18 countries, including Mexico, Norway and India, according to Kaspersky.

—Min Sun Lee and Robert McMillan contributed to this article.

## WORLD WATCH

### RUSSIA

#### Putin Decries New U.S. Sanctions

Russian President Vladimir Putin stepped up his rhetoric against the U.S., saying the Kremlin would no longer tolerate American "impudence" in advancing tough new sanctions on Moscow.

During a trip to Finland, Mr. Putin said U.S. sanctions passed by the House of Representatives and expected to be approved by the Senate this week would force the Kremlin to respond.

"As you know, we have been very restrained, but at some point you have to respond," news agencies quoted him as saying. "It's impossible to endlessly tolerate impudence directed at your country."

The rare bipartisan vote in the House passed a set of measures meant to punish Russia after the U.S. intelligence community concluded Moscow tried to interfere in the 2016 presidential election. The legislation also would prevent the president from easing sanctions without congressional approval.

President Donald Trump, who has spoken out against that portion of the bill, has expressed

skepticism over the allegations of Russia's interference in last year's vote.

—Thomas Grove

### BRITAIN

#### Judge Orders Infant Moved to Hospice

A judge ordered that terminally ill infant Charlie Gard be moved from a hospital to a hospice where the ventilator keeping the 11-month-old alive will be removed and he will die "within a short period of time."

Judge Nicholas Francis had granted his parents, Connie Yates and Chris Gard, until noon Thursday to find a specialized medical team so they could spend a few extra days with him at a hospice, but the deadline passed without an agreement with the hospital.

The ventilation process requires round-the-clock attention from a medical team. The parents had initially sought to take Charlie home for his final days.

Hospices aren't equipped to provide intensive care for patients on ventilators beyond a few hours, and hospital officials had argued that keeping Charlie on life support would prolong his

suffering.

"Most people won't ever have to go through what we've been through," Ms. Yates said in a statement. "We've had no control over our son's life and no control over our son's death."

—Amanda Coletta

### IRAN

#### Tehran Tests Rocket To Carry Satellites

Iran successfully test-launched a rocket designed to carry satellites into space on Thursday, official media reported, a move that could further inflame tensions with the U.S. as Congress passes new sanctions on the country.

The test-launch of the rocket, called the Simorgh, took place at the official opening of a space center around 140 miles east of Tehran, according to the official Islamic Republic News Agency.

The Simorgh can carry satellites weighing up to 250 kilograms into low-earth orbit, it said.

While Iran's satellite launches aren't part of its ballistic missile program, some of its critics in the West see satellite-carrying rockets as abetting missile development.

—Asa Fitch



### BRITAIN

#### Bank of England Gets Deputy Chief

The government named Treasury veteran David Ramsden as deputy governor of the Bank of England, filling a vacancy on the rate-setting Monetary Policy Committee.

In addition to helping decide interest rates, Mr. Ramsden will manage the bank's balance sheet as one of four deputy governors.

He joined the Treasury in 1988 and is now its chief economic adviser.

The MPC is divided on whether to raise the bank's key rate from a record low of 0.25% in response to an inflation rate that is above its 2% target. In June, three members voted for a rate rise, but one of those has now left.

Those who oppose a rate point to the uncertainties around the U.K.'s departure from the European Union as one reason to proceed with caution. At the Treasury, Mr. Ramsden oversaw a review of the likely consequences of Brexit that drew some gloomy conclusions about its impact on the British economy. Some BOE watchers think that experience will make him less likely to vote for a rise.

—Paul Hannon

to run for Argentina's Senate. A firebrand populist, she largely banned sale of dollars and made Argentina's currency market one of the most tightly-controlled in the world.

Investors worry she and her allies could prevent President Mauricio Macri from continuing to overhaul Argentina's economy.

Several polls show Mrs. Kirchner leading Mr. Macri's Senate candidate in Argentina's largest province, Buenos Aires, where she is running for office.

—Taos Turner

—Paul Hannon

# U.S. NEWS

## Curb Sought On Trump in Russia Case

BY BYRON TAU

WASHINGTON—A senior Republican senator said Thursday he is crafting legislation to protect the independence of the special counsel investigation into Russian activity during the 2016 election, a response to President Donald Trump's criticism of the probe, which he has called a "witch hunt."

Sen. Lindsey Graham (R., S.C.) told reporters Thursday that he will introduce a bill next week that would curtail the power of the president to fire a special counsel under some circumstances without approval from a federal judge.

**Republican senator wants to limit president's ability to fire special counsel.**

The legislation will say that "a special counsel cannot be fired when they were impaneled to investigate the president or his team unless you have judicial review of the firing," Mr. Graham said. He said the legislation would apply to Mr. Trump and to future presidents.

"We need a check and balance here," said Mr. Graham, who as a member of the House of Representatives in the

1990s helped manage impeachment proceedings against President Bill Clinton over perjury and obstruction of justice allegations.

According to a January report from the U.S. intelligence community, Russia's interference in the 2016 presidential election was directed at the highest levels of its government. Its tactics included hacking state election systems; infiltrating and leaking information from party committees and political strategists; and disseminating through social media and other outlets negative stories about Democratic nominee Hillary Clinton and positive ones about Mr. Trump, the report said.

The investigation into the meddling, including whether anyone affiliated with the Trump campaign colluded in the effort, is being led by Special Counsel Robert Mueller, a former prosecutor and former head of the Federal Bureau of Investigation.

Mr. Trump cannot directly remove Mr. Mueller, and Justice Department regulations require any firing to be for "misconduct, dereliction of duty, incapacity, conflict of interest, or for other good cause." The president could ask the leadership at the Justice Department to terminate Mr. Mueller.

Mr. Trump has suggested that if the special counsel in-



Republican Sen. Lindsey Graham's bill would require a federal judge to approve the firing of a special counsel in some circumstances.

vestigation started looking into his finances, that would be a "violation" of its mandate. Mr. Trump has declined to say whether he would try to remove Mr. Mueller.

Mr. Trump has expressed his displeasure with Attorney General Jeff Sessions in interviews and on Twitter, criticizing the former senator's decision to recuse himself from management of the Russia inquiry. Because Mr. Sessions is recused, he cannot make any decisions around the special counsel, including firing him.

In a Wall Street Journal interview this week, Mr. Trump described himself as "very disappointed in Jeff Sessions." On Twitter, he has repeatedly said that Mr. Sessions should investigate Mrs. Clinton instead.

Mr. Sessions recused himself from the Russia investigation in March after questions were raised about his contacts with the Russian ambassador during last year's election. The investigation was managed by Deputy Attorney General Rod Rosenstein until Mr. Trump fired FBI Director James Comey in May.

A week after the firing of the FBI director, Mr. Rosenstein put Mr. Mueller in charge of the investigation in an effort to insulate it from political pressure. Special counsels operate outside the normal Justice Department chain of command.

Mr. Trump's public musings about removing his attorney general over his handling of the Russia matter raised alarm

on Capitol Hill, where lawmakers from both parties are warning the president not to take any steps to undermine the investigation.

"If Jeff Sessions is fired, there will be holy hell to pay," said Mr. Graham. "Any effort to go after Mueller could be the beginning of the end of the Trump presidency." He said Mr. Trump was proposing "turning democracy upside down" by subverting the independence of the Justice Department.

Other members of Congress also warned Mr. Trump against firing Mr. Sessions and trying to use his power to make a recess appointment when Congress goes home for two weeks in August. The Senate has frequently held "pro forma" sessions in recent

years in part to block the White House from making such appointments.

"If you're thinking of making a recess appointment to push out the attorney general, forget about it," said Sen. Ben Sasse, a Nebraska Republican.

Mr. Graham's legislation would need to be approved by the Republican-controlled Senate and House of Representatives, where many Republicans have been more protective of Mr. Trump than in the Senate.

The president could also veto the legislation, which could be overturned by two-thirds of the House and Senate. If Mr. Sessions is fired by Mr. Trump or resigns, the Senate also could deny Mr. Trump the ability to permanently replace him.

## GOP Bill Aims to Fund Border Wall

BY LAURA MECKLER  
AND SIOBHAN HUGHES

WASHINGTON—House Republicans were working to pass legislation Thursday funding President Donald Trump's promised wall along the border with Mexico, after dodging controversy surrounding transgender military service that threatened to derail the bill.

House leaders also helped their chances by ensuring that members don't have to vote directly on the border wall spending, which is opposed by Democrats and some Republican lawmakers. The wall funding is included in a larger bill to fund the Pentagon and the Department of Veterans Affairs, which is less controversial.

At the same time, some House conservatives had been threatening to vote against the spending bill unless the White House promised not to use tax dollars to fund gender-reassignment surgery for service members, a House Republican aide said Thursday.

Two weeks ago, an amendment to ban such spending failed on the House floor, and GOP leaders told proponents that a second vote wasn't likely to turn out differently. Proponents asked leadership if there was some other way for Congress to force a policy change and were told no.

Conservatives in both the House Freedom Caucus and the Republican Study Committee then reached out to the White House, holding conversations with policy staff and "at the highest levels," one aide said. Two other aides said that Mr. Trump was concerned that the spending bill—including money for the border wall—could fail if he didn't act on the transgender issue.

The conservatives didn't request an outright ban on



a request for comment. On Wednesday, White House spokeswoman Sarah Huckabee Sanders said Mr. Trump made the decision after consultation with his national security team and because he believed that the service of transgender people "erodes military readiness and unit cohesion."

With the transgender issue out of the way, the House is now expected to pass the spending bill and its \$1.6 billion for Mr. Trump's promised border wall.

But the border wall, too, is controversial, so Republican leaders staged the debate so members won't have to vote directly on its funding. Several GOP aides said leaders were concerned that such a vote could fail, delivering Mr. Trump an embarrassing defeat on one of his priorities.

On Thursday, the House voted along mostly party lines, 230-196, to begin debate on the military and veterans spending bill.

Under a maneuver set by GOP leaders, that vote has the effect of adding the border money to the underlying bill. The House Rules Committee also barred consideration of any amendments related to border security or the wall.

Two GOP aides said the debate was set up this way to ensure that the controversy over the border wouldn't jeopardize the underlying spending measure.

The addition of border-wall funding complicates the path forward in the Senate, where Republicans need 60 votes to clear most legislation but control only 52 seats. Senate Democrats have said they oppose paying for the construction of a wall, which as a candidate Mr. Trump promised would be funded by Mexico.

—Benjamin Kesling and Kate Davidson contributed to this article.

## Top Trump Aides Struggle for Power

BY ELI STOKOLS  
AND MICHAEL C. BENDER

WASHINGTON—President Donald Trump's newly appointed communications director publicly acknowledged his power struggle with the White House chief of staff and said their differences may be too wide to bridge.

Anthony Scaramucci, who joined the White House last week and reports directly to the president rather than to the chief of staff, as is customary, said in a CNN interview that he and Chief of Staff Reince Priebus have been at odds.

"We have had differences. When I said we were brothers from the podium, that's because we're rough on each other," he said, referring to a comment he made last week.

"Some brothers are like Cain and Abel. Other brothers can fight with each other and get along," he continued. "I don't know if this is reparable or not, that will be up to the president."

Mr. Scaramucci indicated to The Wall Street Journal that he has spoken to Mr. Trump about his differences with Mr. Priebus. Asked in a text message Thursday morning when he would make his case to the president, Mr. Scaramucci responded: "I spoke to him twice today."

Mr. Priebus didn't immediately return a call seeking comment. A White House spokesman declined to comment.

Mr. Scaramucci's comments to CNN came amid questions concerning a tweet he made late Wednesday. He referred to what he called a leaked document and added Mr. Priebus's Twitter handle to the end of the tweet.



Anthony Scaramucci

When some people took that tweet as a sign he was blaming Mr. Priebus for leaks, he deleted it and posted a new one: "Wrong! Tweet was public notice to leakers that all Sr Adm officials are helping to end illegal leaks," again tagging Mr. Priebus at the end.

"If Reince wants to explain that he's not a leaker, let him do that," Mr. Scaramucci said on CNN Thursday. "But let me tell you about myself. I'm a straight shooter and I'll go right to the heart of the matter."

"When I put out a tweet and I put Reince's name in a tweet, they're all making the assumption it's him because journalists know who the leakers are," he added.

Earlier this week, Mr. Scaramucci said one of his top priorities was to stop staff from leaking to the media. Mr. Scaramucci has already forced out one press aide and has warned he would fire staff who leak.

In a Wall Street Journal interview earlier this week, Mr. Trump said he was concerned primarily about intelligence leaks, and not leaks on White House palace intrigue, "where they're fighting over who loves me the most."

## U.S. WATCH

### TRUMP ADMINISTRATION

#### Senior Middle East Adviser Leaves Post

A top Middle East adviser to President Donald Trump who focused on Iran policy was abruptly removed from his post on Thursday and will be placed in a new position.

Derek Harvey, a former military

intelligence officer, was informed Thursday that he was being replaced as the National Security Council's senior Middle East director, according to current and former administration officials.

In that post, Mr. Harvey was a polarizing figure who pushed for a more aggressive policy toward Iran that often put him at odds with more cautious members of the administration, in-

cluding Lt. Gen. H.R. McMaster, the president's national security adviser. In a statement Thursday, Mr. Harvey said he was leaving the NSC to "take advantage of a new opportunity to continue serving our president and the U.S. in an important capacity." He didn't say what his new role would be.

—Dion Nissenbaum and Rebecca Ballhaus

### ECONOMY

#### Data Lift Hopes for Strong GDP Report

Economic reports Thursday offered encouraging signals about U.S. factories, jobs and underlying demand in the economy ahead of a much-anticipated report on national output Friday.

Orders for durable goods

grew 6.5% in June, the Commerce Department said. That marked the biggest jump in nearly three years. Separately, the nation's trade deficit in goods narrowed 3.7% last month as exports rose steadily and imports fell, the agency said.

Meanwhile, the Labor Department said jobless claims have held near four-decade lows, showing a tight labor market

overall despite a rise of 10,000 in the past week to 244,000.

The data boosted hopes for a strong report Friday on gross domestic product in the second quarter. Economists polled by The Wall Street Journal project that GDP—the broadest measure of goods and services made in the U.S.—expanded at a 2.7% annual pace in April through June.

—Josh Mitchell

## IN DEPTH

# ADVICE

Continued from Page One

the demand is there. Advice "is big and growing—it's what clients are looking for," said Roger Hobby, executive vice president of private wealth management at Fidelity Investments.

The hunger for help marks a shift from the 1990s, when do-it-yourself investing was in vogue. Back then, the adoption of 401(k) plans moved responsibility for investment choices to company employees just as one of the biggest bull markets in history was boosting individuals' confidence in their investing prowess. Meanwhile, pioneering online brokerage firms made trading inexpensive and convenient.

After internet stocks collapsed in 2000, along with the broader stock market eight years later, many individuals sought help. In the past decade, baby boomers started to retire and wanted technical guidance on drawing down their assets.

The advice industry expanded with the demand. Besides managing people's investment portfolios—handling the trades, not merely suggesting them—some financial advisers also provide help with budgets or tax and estate planning.

### Trillions in assets

The number of advisory firms grew to almost 3,900 in 2017, up from fewer than 750 in 2002, according to a Wall Street Journal analysis of Securities and Exchange Commission data. This universe of firms handles at least \$100 million in assets each and provides both investment management and financial planning to individuals.

As of March 2017, such firms collectively had \$5.5 trillion in assets on which they made investment decisions, the Journal's analysis found. That is about six times as much as in 2002.

Throughout this period, advice fees have largely held steady—typically 1% of assets, with a potential discount for big accounts. One reason the standard held is many clients value aspects of advice that can't always be measured or easily compared.

C. Lansdowne Hunt, 72, of Burke, Va., said he became more price-conscious after his portfolio fell 31% in the

late-2008 stock-market meltdown. So in 2012, he switched to a less expensive adviser, and this year, asked for a discount on its 0.9% fee.

After being rebuffed, Mr. Hunt shopped for a new adviser for his \$1.3 million portfolio at firms including Charles Schwab Corp., TD Ameritrade Inc. and Edward Jones. The former Naval officer and defense-contractor employee concluded his current Virginia advisory firm offers services, such as tax-sensitive investing and stock picking, that might be hard to replicate for a lower cost. "I couldn't get the exact twin," he said.

Many firms are wagering that other customers will take less, for less.

About two years ago, Vanguard Group, known for serving do-it-yourselfers, started undercutting the financial-adviser industry with an annual advice fee of 0.3%.

Assets in its service, which combines recommendations from computer-driven algorithms with phone, video and email consultations with human advisers, grew to about \$35 billion in the first year and to \$83 billion by end of last month, according to the firm.

Joe McDonald of Titus, Ala., was an early customer. Long a do-it-yourself investor, he decided he needed an adviser after making an ill-timed move into an all-cash portfolio after Barack Obama's 2008 election.

"I pulled out and stayed in cash until 2014, which was a terrible mistake," said the 74-year-old retired electrical engineer. "I found I didn't really have the discipline to stick with my own plan."

### 'Robo' advisers tempt young clients with fees as low as zero for the smallest accounts.

He thought about hiring a traditional adviser in Florida who charges 1% of assets under management. His wife wasn't comfortable entrusting money with someone she didn't know, he said.

Mr. McDonald said he first invested in a mutual fund from Vanguard in 1983. He liked its 0.3% fee on an account with advice, and moved his roughly \$500,000 in retirement accounts there.

"Expenses don't mean a whole lot if you are making



Financial advisers Ann Gugle, above, and Elyse Foster, below, are both at firms that have reduced the annual fees clients pay.

10% a year," Mr. McDonald said, "but if you are making 2% or 3% a year, they are a real big deal."

At Schwab, assets handled by financial advisers, including those at independent firms that use Schwab's services, now account for more than half of the firm's total assets. In recent years, the discount brokerage firm has added a range of options for those seeking advice, including a "robo" service introduced in 2015 that uses algorithms to build and monitor portfolios.

At Fidelity, assets handled with financial advice, either from the firm or from independent advisers who use its services, have nearly doubled over five years.

Part of the shift is generational, as younger adults appear to trust technology more than what they see as salesmanship. "Kids are saying to their parents, 'Why the hell are you paying so much to your adviser? Is it worth 1% a year to have somebody to play golf with?'" said Joe Duran, chief executive of United Capital Financial Advisers LLC, an investment-management and financial-planning firm that also provides services to advisers.

Independent robo advisers that target younger customers—with fees as low as zero for the smallest accounts—have enjoyed hefty growth. Betterment and Wealthfront say they manage \$9.7 billion and \$7.1 billion in assets, respectively, up from \$5.1 billion and \$3.5 billion a year ago.

Morgan Stanley, UBS Group AG, Wells Fargo & Co. and Bank of America Corp.'s Merrill Lynch, known for providing full-frills service at top rates, are testing or have already launched automated-advice ventures that charge less than their standard fees. The goal is to keep fee-conscious and lower-balance customers.

Some deal makers are buying up traditional financial advisers with an eye toward consolidating and cutting costs, saying the industry has too many firms with outmoded technology and high overhead. The first half of 2017 was the



most active yet for mergers and acquisitions among financial advisers, according to consulting and investment-banking firm DeVoe & Co.

The myriad pressures have traditional financial advisers investing in timesaving technology to cut costs. Some are passing along part of the savings to clients through fee reductions, while others are adding services to justify maintaining their fees. According to a survey from research firm Cerulli Associates, 79% of executives at advisory firms expect their fees to fall within the next five years.

Ann Gugle, a principal at Alpha Financial Advisors in Charlotte, N.C., said her firm recently cut its annual fee on assets of over \$5 million to 0.125% from 0.25%.

"If you do the math, you realize your practice will be worth significantly more if you're smart about aligning your pricing with the value you deliver," said Ms. Gugle. "If not, you're going to be mincemeat."

Robert Schmansky, a solo practitioner in Livonia, Mich., dropped his advisory fee to 0.85% from 1% earlier this year.

Until recently, Mr. Schmansky said, he has mainly marketed himself as a fiduciary—someone committed to working in the client's best interests. Now he finds himself in direct competition with Vanguard, Schwab and others that also call themselves fiduciaries. "My key marketing distinction is being eroded by these firms in some ways."

He said he works with a lot of younger investors, and "when I tell them my fee is 1%, they know immediately that Betterment costs less."

### Vanguard's move

Of all the initiatives, Vanguard's is widely cited as the most threatening to the status quo. The firm's size, brand recognition and aggressive pricing will create a challenge unlike anything independent

advisers have seen before, said Michael Kitces, director of wealth management at Pinnacle Advisory Group Inc. in Columbia, Md.—much as Vanguard's index funds have wreaked havoc on the traditional mutual-fund business.

Vanguard's Personal Advisor Services (minimum investment: \$50,000), has gained traction because customers want it, said Karin Risi, head of the firm's retail investor group: "They didn't just want to invest in a fund with us—they were saying they needed more help."

So far, only about 10% of assets in the program comes from clients new to the firm. Advisers and industry analysts say it is only a matter of time before the service starts poaching more clients from competitors.

Vanguard has devoted about 500 financial advisers to its venture, said Ms. Risi. She expects the firm to hire roughly 100 advisers annually for the next several years. Clients with more than \$500,000 get a dedicated adviser, who is a certified financial planner; those with less interact with rotating advisers drawn from a pool, some not yet CFPs.

Many traditional advisers suggest that partially automated services such as Vanguard's provide basic, cookie-cutter advice inferior to what an experienced financial planner can provide. Ms. Risi said the firm's advisers go through "pretty impressive training."

Elyse Foster, an adviser in Boulder, Colo., has taken note. Three years ago, she cut financial-planning fees by an average of 40% at her firm, Harbor Financial Group Inc. It also has invested in technology that allows clients to open accounts online, automatically rebalances portfolios to a target mix of stocks and bonds, and shares software so clients can simulate their own planning scenarios.

"We are aware consumers are more price-conscious and are lowering our fees proactively," said Ms. Foster. "We are trying to stay ahead of the industry."

"Their only business is to ridicule people," said Mr. Camacho, whose legal firm is called El Defensor del Moroso, or the Defender of the Delinquent.

Other debt collectors are also sick of the antics of their costumed peers.

"They tar us all with the same brush," said Rafael Rodriguez Campos, managing director at Icired, a Spanish debt-collecting company.

It can be a dangerous line of work. Mr. Cano says his Zorros have been threatened and shot at. In a recent case, a "delinquent came out of the house shooting his shotgun in the air," he said. "Our costumed man turned tail, got in his car and drove away."

Mr. de Diego's business operates from behind an unmarked door guarded by security cameras.

But both men are unrepentant about what they do.

"Sometimes your everyday delinquent, who the judge can't touch, goes around in a luxury car with a cigar in his mouth," Mr. Cano said. "Why can't you announce that somebody is a scoundrel? I don't care if they are a British Lord or a plumber."



Debt collectors often wear costumes when they seek payment, in order to shame debtors into paying.

# ZORROS

Continued from Page One

lecting because it had registered the brand and the logo with the Spanish Patents and Trademarks Office in 1994. The other Zorro firm said it registered a month later.

"They were using that name improperly," said an employee at El Zorro Cobro de Morosos, who declined to be named.

### Though Spain's economy is improving, much debt is still unpaid.

The story may not end there, however. The Zorro who laughs last laughs best—and that Zorro might be Zorro Productions Inc. of Berkeley, Calif. The firm owns the rights to Johnston McCulley's original character and leases the Zorro trademark for movies, jewelry, ice cream parlors, household dé-

cor and even robotic machinery. "They cannot do it," said John Gertz, the company's president and chief executive.

Mr. Gertz, who was baffled to learn about the Spanish Zorros, said he is now gathering more information about the matter. Using Zorro's likeness to hunt down debtors could hurt the character's reputation as a defender of the poor, he said.

The employee at El Zorro Cobro de Morosos said they've never sought to use the brand internationally.

Meanwhile, El Zorro Cobrador has rebranded to El Coyote Cobrador, or The Coyote Collector, mimicking a novel and comic-book character of the same name, itself inspired by Zorro. Mr. Sanchez and his five costumed colleagues at the Valencia-based firm are doing business as usual, but had to scrap their old uniforms that spelled "El Zorro" and order new, similar-looking ones.

The firm has also set up different companies that rent out other characters, including the Clown Collector and Roman Collection, where centurions show up. In the Basque Country, where there

is a strong nationalist drive, it deploys a collector dressed in traditional regional attire. Different brands "allow us to be our own competition and gain market share," said the owner, who goes by Jesus Cano, a pseudonym he said he uses in business to protect himself.

Juan Jose de Diego, who runs a different company, was among the first to use a costume, donning the habit of a Franciscan monk to chase delinquent debtors some 30 years ago. Now his El Monasterio del Cobro, or The Monastery of Collection, employs 30 monks who chase increasingly high-profile targets. In his Madrid office, Mr. de Diego proudly displays stacks of newspapers and magazines that feature his monks' exploits.

"It's not a costume, it's a uniform: Just like doctors or policemen have a uniform, so do we," he said.

Mr. Cano has set his sights on foreign markets and recently launched Sherlock Debt Collectors in Britain. The firm had intended to chase debtors while dressed as the fictional British detective Sherlock Holmes but found that English courts

treat such a pursuit as harassment, a crime punishable by five years in prison.

"They are a bunch of wimps," he said.

For now, when they travel abroad, his debt collectors limit themselves to handing out business cards to the debtor's family and friends, seeking to shame them in the

eyes of loved ones.

Even in Spain, debt-shaming has been likened to harassment by its critics and targets. Pablo Camacho, a reformed costumed-debt collector who once wore a frock coat and top hat, helped set up a law firm to defend those who have been targeted by Zorro and others.

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# BOOKS

'If you cross the Rubicon, you also have to march on Rome.' —Adolf Hitler

## From Putsch to Power

### The Trial of Adolf Hitler

By David King

Macmillan, 455 pages, £25

BY FREDERICK TAYLOR

**THE PAST CENTURY** has been, sometimes for the better but more often for the worse, the era of the demagogue. Proliferating mass media have enabled gifted mavericks to grab the public's attention and hold democratic political establishments to ransom—through newspaper columns and radio programs—even, later, cable TV and Twitter. But in the turbulent, chaotic Germany of November 1923, broadcast mass media had yet to be born. Germany's first proper radio station had only just launched in Berlin, its reach as yet confined to a few score subscribers.

Hundreds of miles to the south, conditions for the smart political opportunist were nonetheless ideal, as David King shows in his thought-provoking study "The Trial of Adolf Hitler." The German state of Bavaria was ruled by conservative nationalists who dismissed Berlin as a nest of traitors. Humiliating defeat in World War I had seen the Bavarian monarchy overthrown—the royal family fleeing in a hired car (the king's chauffeur had joined the revolution), with one of the princesses carrying the crown jewels and the monarch clutching just a box of fine cigars.

The pendulum in Munich, the capital, then swung violently leftward, leading to a short-lived "Soviet Republic." This in turn was crushed by local army units and hastily raised citizen militias. Thereafter Bavaria became in essence a counterrevolutionary dictatorship, semidetached from the postwar German Republic. Far-right nationalists flocked to Germany's Deep South.

This was the overheated political environment in which 34-year-old Adolf Hitler made his name as a "drummer" for the nationalist cause. The once-penniless war veteran's rise was due to his remarkable talent for oratory but also to the protection of the local powers that be. The latter, upper-class holdovers from the monarchy, enjoyed little connection to ordinary Bavarians.

Hitler could speak to those masses, expressing ultranationalist, anti-Semitic, vengeful slogans with a forcefulness that captivated audiences. By the fall of 1923, his National Socialist German Workers' Party claimed 20,000 members, including



IN THE DOCK A 1924 courtroom sketch of Hitler.

paramilitary units with a reputation for extreme violence.

State Commissioner Gustav von Kahr, the near-absolute ruler of Bavaria, shared power with his army commander, Gen. Otto Hermann von Lossow, and chief of police, Col. Hans Ritter von Seisser. This triumvirate had long been considering a "march on Berlin" to overthrow the democratic republic, modeled on the coup by which the Italian Fascist leader Benito Mussolini had seized power in Rome the previous year. To this end, they had been in negotiation with their protégé, Hitler, hoping that his Nazis would add mass muscle to their elitist project.

Their move against Berlin seemed subject to infinite delays. Hitler, losing patience, decided to force the ruling clique's hand. On Nov. 8, 1923, he and a host of armed followers invaded a public meeting in Munich's cavernous Bürgerbräu beer hall, where von Kahr, flanked by von Los-

sow and von Seisser, had been addressing a large crowd. Hitler advanced and fired multiple shots into the ceiling before declaring the Berlin government overthrown and a dictatorship of national salvation established.

The ruling trio were led to a private room. After Gen. Erich Ludendorff—in wartime, along with Paul von Hindenburg, the Kaiser's foremost commander and now an ally of Hitler—also appeared at the Bürgerbräu, von Kahr and co. finally agreed to support the Putsch. They gave their word to this effect and were released.

Elsewhere, however, pro-government police and military commanders had undertaken countermeasures. Then all three freed captives quickly reneged on their "words of honor" and called for resistance to the Nazi uprising. The next morning, Hitler decided to march some 2,000 supporters into the center of the city,

hoping to rally the populace and perhaps shame government troops into switching allegiance. A salvo fired into the insurgent ranks by police units barring access to the Odeonsplatz killed those hopes—and also 16 putschists. Hitler fled but was arrested some days later.

On Feb. 26, 1924, the trials of Hitler, Ludendorff and seven other accused began. The charge: high treason. Working from transcripts of the proceedings, archive documents, press reports and eyewitness accounts, Mr. King convincingly shows us a classic example of biased jus-

inspired in Hitler thoughts of suicide, the far right appeared to rise phoenixlike, as did its now most prominent leader.

"The Trial of Adolf Hitler" provides a textbook example of how a determined demagogue can turn defeat into victory. It is also a disturbing portrait of how an advanced country can descend into chaos and of the human cost that this chaos entails. Mr. King's gripping description of the failed coup includes glimpses of malign characters who would one day cast their evil shadows over Germany and Europe.

Heinrich Himmler is here in a spear-carrying role. Hans Frank, then a young law student, appears setting up a machine gun on a bridge and being mocked by passersby, who ask him if he has his mother's permission to be doing this. Later, as governor of German-occupied Poland, Frank would allow himself to kill millions.

Amid the wealth of telling detail that Mr. King's fine book gives us, there is one small slip-up. When Chancellor Gustav Stresemann is informed of the coup over dinner in Berlin, his companion, Hjalmar Schacht, is incorrectly described as "finance minister."

Schacht was not part of the government at the time, though within days he became a key figure as Reich currency commissioner, charged with ending the galloping hyperinflation that had helped bring the country to its knees. Schacht's reforms stabilized the mark and, for a time, rescued German democracy. The result of the next elections reflected a growing return to economic normalcy and a swing back toward moderate politics, sending Hitler (freed in December 1924) into the wilderness for the next few years.

However, in good part because of the quantum leap in his reputation that the Führer had engineered during those dramatic weeks in the Munich courthouse, he could never be cast back to complete obscurity. He remained a feature of the political landscape, diminished but not quite forgotten—until the Depression destroyed Germany's fragile prosperity, enabling him to propel himself back into the limelight.

That rasping, spellbinding orator's voice had never been totally silenced, and once millions started listening to it again, Germany's—and Europe's—fate was sealed.

Mr. Taylor is the author, most recently, of "Coventry: Thursday, November 14, 1940."

## Closing the 'Empathy Gap'

### The Working Class Republican

By Henry Olsen

HarperCollins, 345 pages, £20.99

BY MORTON KONDRAKE

**DONALD TRUMP'S** election has riveted attention on blue-collar Americans, whose economic and social woes—and discontent with the status quo—gave Mr. Trump his margin of victory. It is this group that Henry Olsen discusses in "The Working Class Republican," an attempt to understand the future of "blue-collar conservatism."

Mr. Olsen's title character—hero, really—is Ronald Reagan, the last Republican before Mr. Trump to win the blue-collar vote. His book explores how Reagan did so and what his example means, in the long term, for the party and the country.

A career conservative think tank now with the Ethics and Public Policy Center in Washington, Mr. Olsen admits that he long thought of Reagan as basically a tax- and government-slashing near-libertarian, succeeding politically where Barry Goldwater failed but following a similar script. Mr. Olsen decided to re-examine the record and concludes that Reagan was a proponent of "New Deal conservatism" who believed that government should help those in need and enable America's working class to enjoy "dignity, comfort and respect."

Both political parties, Mr. Olsen says, have ignored the needs of a working class rocked by globalization, technology and immigration, setting the table for Mr. Trump's election. Like Reagan, Mr. Trump is opposed to cutting Social Security

and Medicare benefits and seems committed to combating what he sees as unfair foreign trade practices. Like Reagan, he has appealed to white workers who are today disdained by conservative elites as "takers" and by liberals as "deplorables."

But Mr. Olsen disputes the idea that Mr. Trump is "the new Reagan." Mr. Trump has employed "racialism and white nationalism," he says, while Reagan was "free of bigotry" and welcoming toward immigrants.

The arch-conservative Ronald Reagan won the allegiance of blue-collar voters. How he did so may offer a lesson (or two) for today.

Mr. Olsen also doubts Mr. Trump's ability to deliver on his promises to better the lot of workers. "He has shown no inclination to develop the type of comprehensive philosophy that drove Reagan's political ambitions." Like Reagan, Mr. Trump expresses a "love" for ordinary Americans, but Reagan meant it.

Mr. Olsen repeats this thesis incessantly and irritatingly, but he has Reagan's outlook right. Reagan grew up in a working-class home, experienced the Depression and knew what hardship was. He cast his first vote for FDR in 1932, wrote that he "idealized" Roosevelt and called himself a one-time "hemophiliac liberal." He was president of the Screen Actors Guild, opposed right-to-work laws and campaigned for Harry Truman.

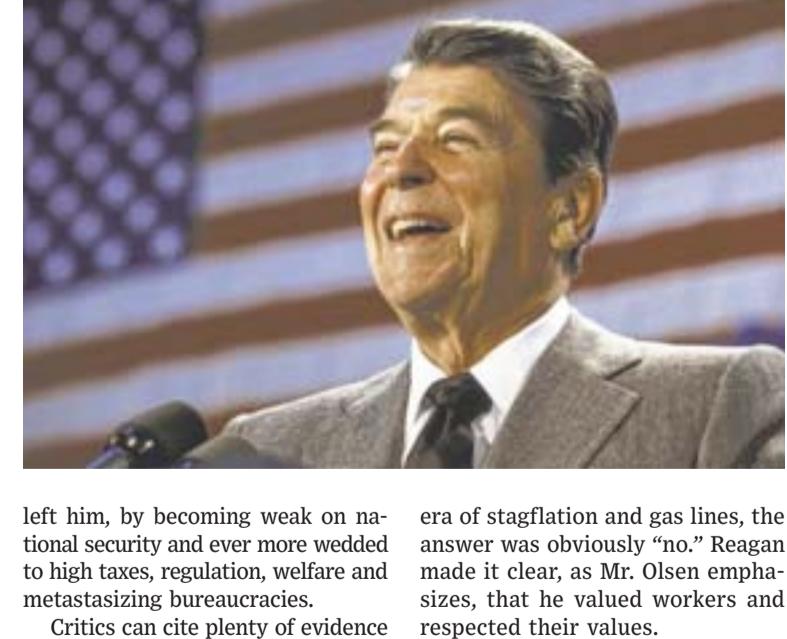
Reagan began doubting the liberal faith in the 1950s after fighting com-

munist in Hollywood and having to pay taxes as a movie actor at the top marginal rate of 94%. He started making speeches for General Electric in 1954 and discovered virtues in business and businessmen.

But he didn't become a Republican until 1962. He often said that he didn't leave the Democratic Party—it

goods and opportunity." In the 1964 speech, he defended Social Security and declared that "no one in this country should be denied medical care for lack of funds."

Reagan won workers away from the Democratic Party in 1980 by asking "are you better off than you were four years ago?" In the Carter



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era of stagflation and gas lines, the answer was obviously "no." Reagan made it clear, as Mr. Olsen emphasizes, that he valued workers and respected their values.

But his appeal to this bloc wasn't merely rhetorical. He won the allegiance of working-class voters—"Reagan Democrats," as they came to be called—by conquering inflation and rekindling economic growth through across-the-board tax cuts and tax reform, creating millions of jobs. What he sought to cut from the budget, Mr. Olsen maintains, was bureaucracy and spending not targeted at the "truly needy."

Mr. Olsen is at odds with current attempts at entitlement reform, especially the proposals of House Speaker Paul Ryan, Sen. Ted Cruz and Tea Party Republicans. He also opposes tax cuts skewed to the wealthy. After Barack Obama's 2012 victory, he notes, GOP strategists said that they had to close a gender gap and ethnic gap. Mr. Olsen says that what really hurts the party is "an empathy gap." To make empathy concrete, he favors cutting payroll taxes for workers and allowing tax cuts for corporations that hire Americans or raise wages.

What would Reagan do at the current moment? Mr. Olsen speculates that he would repeal ObamaCare's coverage mandates but guarantee that people wouldn't lose the coverage they had obtained through the program's exchanges or Medicaid expansion. To deal with out-of-control entitlements, he would means-test Social Security and Medicare on the Reaganite principle that, in Mr. Olsen's words, "benefits should go to people who need them."

As to a 2020 posing of the question "are you better off?": Mr. Olsen fears that if Republicans continue to misread Reagan—and assuming that Mr. Trump doesn't fulfill his pro-working-class promises—the answer will be "no." He implies that "Reagan Democrats" will then return to FDR's party if it can figure out how to appeal to them.

What will happen if Democrats continue heading left toward high-tax, high-unemployment, European-style social democracy is anyone's guess.

Mr. Kondracke is the former executive editor of *Roll Call* and co-author, with Fred Barnes, of *"Jack Kemp: The Bleeding-Heart Conservative Who Changed America."*

## BOOKS

'Written words can also sing.' —Ngugi wa Thiong'o

FICTION CHRONICLE: SAM SACKS

# The Voice of Kenya

 IN 1977, on the orders of Kenya's then vice president, Daniel arap Moi, Ngugi wa Thiong'o was detained without trial in a maximum security prison in Nairobi. His offense was having engaged in "activities and utterances . . . dangerous to the good Government of Kenya and its institutions," a likely allusion to two works that had excoriated the newly independent nation's greed and corruption, the Dostoevskian crime novel "Petals of Blood" and the play "I Will Marry When I Want," which Mr. Ngugi was performing with a grassroots theater company.

The year of confinement did not have the intended effect of silencing him. Writing on government-issued toilet paper, Mr. Ngugi kept a scrupulous diary, later published under the title "Detained," and produced a novel, "**Devil on the Cross**" (Penguin, 291 pages, \$16). The latter, which first appeared in 1980, has just been reissued in the U.S. by Penguin Classics, joining the small shelf of his novels that have been deservedly canonized by the iconic series.

With "Devil on the Cross," Mr. Ngugi added his name to a motley fellowship of authors ranging from Boethius to Jean Genet who managed to turn out books while behind bars. But the forerunner he may have had mind was the 17th-century English clergyman John Bunyan, who wrote the great Christian allegory "The Pilgrim's Progress" while incarcerated for refusing to conform to the Church of England. Mr. Ngugi's allegorical novel stages a kind of satirical reversal of Bunyan's pilgrimage to the Celestial City, imagining a journey from Nairobi to the wicked village of Ilmorog, where the Devil is staging a contest in evildoing. Instead of showing mankind the path to heaven, it exposes the latter-day hellscape of a postcolonial Kenya that worships at the altar of money.

Its main character is Jacinta Wariinga, a Sister Carrie-like heroine who looks for a job in the booming capital and finds only lecherous executives dangling employment in exchange for sexual favors. While roaming the city, Wariinga receives a mysterious invitation to something called the Devil's Feast, "A Devil-Sponsored Competition to Choose Seven Experts in Theft and Robbery." During the trip to Ilmorog to view the nightmarish spectacle she encounters travelers from all strata of Kenyan society—



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laborers, intellectuals and businessmen—and the novel records their testimonies, concluding with the speeches of the nouveau riche vying in the satanic competition.

As might be expected from a writer issuing a *cri de coeur* from inside a prison cell, there isn't much nuance to this passionate, polemical book. The commentary on Kenya's rising materialism is sardonic and acid-tipped. "Believe me when I say that theft and robbery are the measure of a country's progress," says one of the businessmen. "Because in order for theft and robbery to flourish, there must be things to be stolen." By studying the ways of the West, a stranger tells Wariinga at the start of her journey, Kenyans "have been taught the principle and system of self-interest and have been told to forget the ancient songs that glorify the notion of collective good." In the end she is one of the few characters able to forcefully resist the devil's lures, embracing a vision of salvation that lies in a return to the communalism of the distant pre-colonial era.

But the most interesting aspect of the novel is the way it uses and distorts the stories of the Bible, paralleling Mr. Ngugi's contention that the Gospels brought to Kenya by missionaries had been wholly replaced by a gospel of wealth. One stand-alone chapter facetiously repurposes the Parable of the Talents

to defend the virtue of amassing huge fortunes. The victor at the Devil's Feast is a man who has contrived to extract and export the actual blood of his workers, a practice rationalized on the grounds that drinking blood is part of the Christian rite of the Eucharist.

Mr. Ngugi's familiarity with Christian teaching is as profound as that of any living novelist, and the tension in his fiction comes from the ways he both draws from and rebels against its influence. The son of a peasant farmer, he attended a Protestant boarding school in the 1950s and was during his childhood ardently religious. In his 2012 memoir "In the House of the Interpreter"—the title alludes to an episode in "The Pilgrim's Progress"—he writes about the disjunction of mastering English by studying the King James Bible ("I learned to mix the simple, the compound, and the complex for different effects") while his brother fought in the Mau Mau uprising against British rule.

His slim, beautiful 1965 novel, "**The River Between**" (Penguin, 148 pages, \$15)—the first he wrote but the second published, following the prize-winning "Weep Not, Child" (1964)—reflects the ambivalence of his upbringing. Set during the time of the Victorian missionary Dr. Livingstone, it centers on Waiyaki, a gifted, Western-educated village leader who is torn apart as he tries

to "bridge the gulf" between Christian converts and those who practice the ancient customs. "Waiyaki knew that not all the ways of the white man were bad. Even his religion was not essentially bad. Some good, some truth shone through it. But the religion, the faith, needed washing, cleaning away all the dirt, leaving

Ngugi wa Thiong'o, a perennial favorite for the Nobel Prize, is one of Africa's great writers.

only the eternal. And that eternal that was the truth had to be reconciled to the traditions of the people." Both tribes zealously prophesy a Messiah, one to bring all people to Christ, the other to drive out the white man. Waiyaki's downfall is that he glimpses a future that harmonizes the ways of both, and thus pleases neither.

Kenya's metamorphosis into a cutthroat kleptocracy drove Mr. Ngugi back toward tradition, even as he was forced into exile in the West. Beginning with "Devil on the Cross," he began to write his books in his native tongue of Gikuyu, later translating them into English. (He records that he would consult his cellmates on the finer points of the

language.) His Gikuyu magnum opus is "**Wizard of the Crow**" (Anchor, 768 pages, \$16.95), published in 2006 after nearly a decade in composition. Whereas the contradictions of his background and country had combined in his early novels in the form of tragedies, they now appeared as a gloriously sprawling political farce set in the invented African republic Aburiria.

The novel centers on the schemes of Aburiria's all-powerful dictator to construct a modern-day Tower of Babel, a massive boondoggle sponsored in part by the easily taken international banks. The Ruler's nemesis is another overburdened savior figure in the vein of Waiyaki and Wariinga, in this case a luckless beggar named Kamiti who pretends to be a witch doctor and soon accumulates a huge following, sowing disorder among the peasantry and government cadres alike. But the comic elements of this antic, fantastical beast of a book can't disguise the moral project at the backbone of all of Mr. Ngugi's fiction, salvaging the eternal truths of an old way of life within a modern system that has increasingly little use for them. "Don't cry despair at those who sold the heritage," Kamiti counsels. "Smile also with pride at the achievements of those that struggle to rescue our heritage." For over 50 years Mr. Ngugi has been at the forefront of that struggle.

# Twilight of the Ancient World

## Shakespeare's Roman Trilogy

By Paul A. Cantor

Chicago, 302 pages, £22.50

BY RYAN SHINKEL

IN HIS PLAYS, SHAKESPEARE is a poet of comedy, tragedy, history and romance—but what of philosophy? When he writes about ancient Rome, for example, does he inhabit the antique mind and see the world from its political perspective? Or does he make only superficial analogies with the ancients and write mainly of English concerns?

Shakespeare's Romans aren't Englishmen in togas, they're windows into the classical mind.

It depends on whom you ask. Goethe and Dr. Johnson believed that Shakespeare is an early modern writer whose Romans are Englishmen in togas. Alexander Pope, however, found him a Renaissance humanist "knowing in the customs, rites, and manners of Antiquity." When Shakespeare writes of Rome, said Pope, "not only the Spirit but the Manner of the Romans are exactly drawn."

Paul A. Cantor, a professor of English at the University of Virginia, sides with Pope. In his first book, "Shakespeare's Rome" (1976), he treated the three plays "Coriolanus," "Julius Caesar" and "Antony and Cleopatra" as a chronicle of Rome from city to empire. Now, in "Shakespeare's Roman Trilogy," he advances a more ambitious thesis: These plays constitute a thematically unified whole, a trilogy dramatizing, in the terms of his subtitle, "The Twilight of the Ancient World."

As Roman civic virtue led to empire, Mr. Cantor argues, empire readied the world for Christianity. He shows that Shakespeare systematically stages the virtues, vices and souls of a small martial republic, a decadent empire and a new religion.

Each Roman play concerns a focal point in the history of free citizens becoming imperial subjects. Read consecutively, the three form a panoramic study of the life and death of Rome, the ancient city whose heroes conquer all cities until no others remain. In this trilogy, the *polis* dies by her children.

"Coriolanus" shows a young Republic in which classes fight for honor. Plebeians and patricians, their tribunes and senators, are checks and balances on one another. Competition channels ambitions and ensures political participation.

Yet overambitious men emerge. Roman heroes conquer for fame and office. For his prowess in battle, the patrician Coriolanus almost wins consulship. But his contempt for plebeians leads to his exile. He vengeance attacks Rome with her enemies and almost succeeds. Already, Rome proves vulnerable to heroes who would become Caesar.

"Julius Caesar" shows a dying Republic led by a figure like Coriolanus but who can overcome his patrician side to win over plebeians. Military rule has made the Roman people, once engaged citizens, into cynical

longings. When Rome incorporates Greeks and Egyptians into her body politic, her citizens replace local self-governance with quietist philosophies, Eastern cults and eros.

Freed from republican limits, Antony and Cleopatra—Rome and Egypt—enjoy boundless romance. Their desire for love is as limitless as empire, and marked by tyrannical ambition. "He doth bestride the narrow world / Like a Colossus," Cassius says of Caesar. In Antony's time, love is a Colossus over a buried Rome.

Here, Mr. Cantor argues, Shakespeare shows how Caesarian aided the rise of Christianity. In his discussion of "Antony and Cleopatra," Mr. Cantor says that Shakespeare anticipates Nietzsche's dichotomy of "master morality" and "slave morality."

From Homer to Aristotle, master morality prizes valor and cunning, and detests foolishness. But Christianity preaches world-wide what Judaism originated: "The wolf shall dwell with the lamb." What Roman nobles deem bad and good, Christians deem good and evil; pride becomes sinful and meekness beautiful.

Shakespeare's characters act masterfully in "Coriolanus" but slavishly in "Antony and Cleopatra." Yet while Nietzsche leaves open how Christians defeated Roman nobility, Shakespeare provides the mechanism.

For Nietzsche, slave morality began in a humiliated aristocracy: During the Babylonian exile, Jewish priests criticized the warrior class



AFTERLIFE A 1700s bust of Caesar.

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and preached truth to power. Humbled under Caesar, aristocrats sought consolation in new philosophies. In "Antony and Cleopatra," Rome conquers Egypt, but Orientalism woos Rome. This ancient globalization prepares the Mediterranean world for the Gospel, because suffering under Caesar can be seen as redemptive through the lens of Christianity.

In this way, the corruptions of empire, of conqueror and conquered, precondition the rise of the nascent religion. As Mr. Cantor concludes, the Roman plays form a tragedy of competing goods in historical transition: Rome is the tragedy of slave morality reinterpreting master morality.

Although Mr. Cantor traces many Nietzschean parallels in Shakespeare's thought, and usefully brings in Machiavelli, his sketch of Shakespeare the philosopher leaves one wanting more. Comparing Shakespeare with pre-Renaissance writers seems called for: Augustine codifies pagan/Christian contrasts; Dante extolls republican virtue in Cato but punishes Brutus and Cassius. Contrasting Augustine's and Dante's evaluations of the Roman metamorphosis with those of Shakespeare, Machiavelli and Nietzsche would be in point.

In short, one hopes that Mr. Cantor's book precedes a more comprehensive study of Shakespeare, Rome, politics and philosophy. Shakespeare is indeed a philosophical poet, and nowhere more so, as the present book demonstrates, than in his Roman trilogy.

Mr. Shinkel is a researcher for the Faith and Liberty Discovery Center, opening in Philadelphia in 2019.

## BOOKS

'We may have knowledge of the past but cannot control it. We may control the future but have no knowledge of it.' —Claude Shannon

# The Elegance of Ones and Zeroes

### A Mind at Play

By Jimmy Soni & Rob Goodman

Simon & Schuster, 366 pages, £20.61

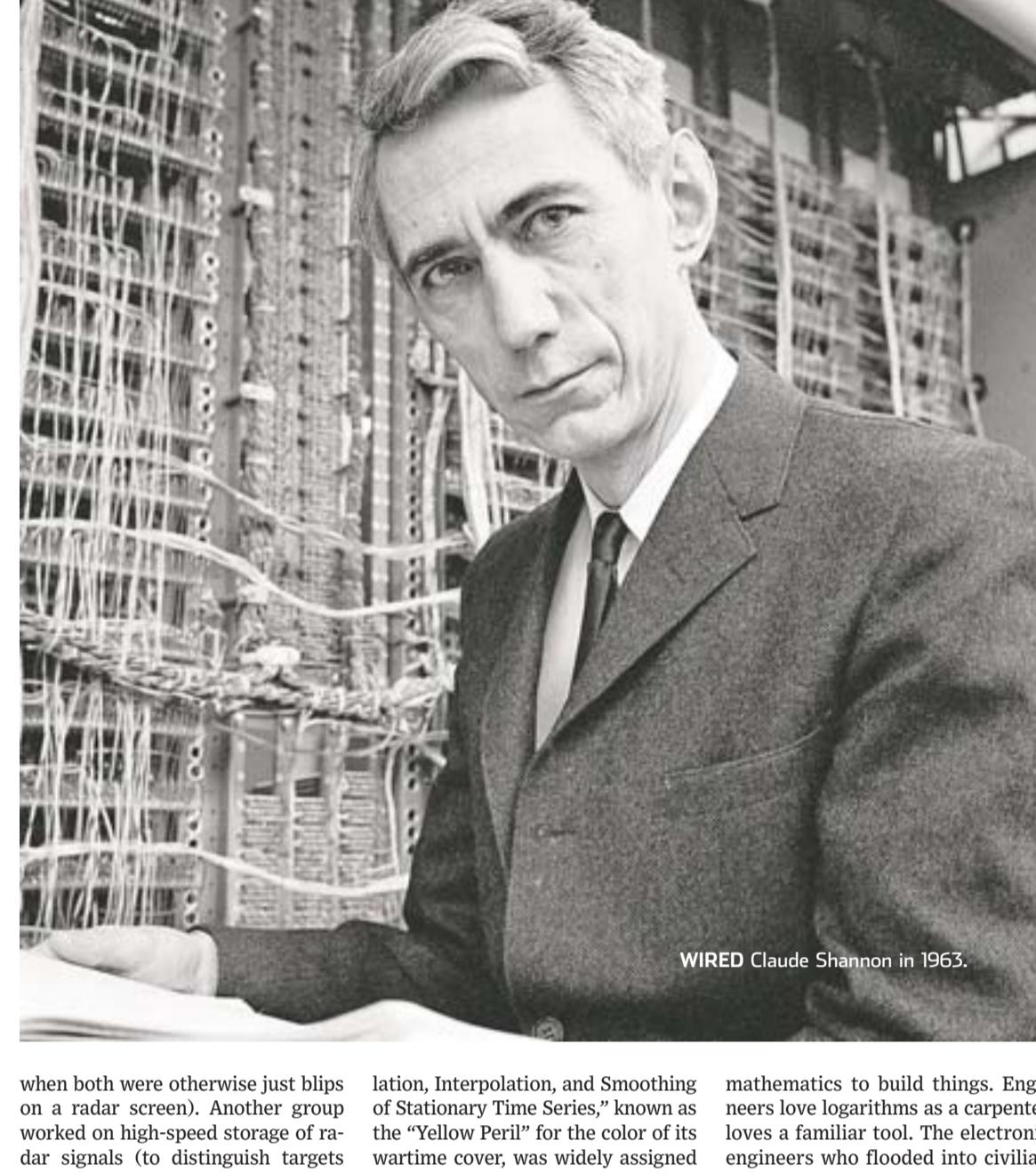
BY GEORGE DYSON

**THERE WERE FOUR** essential prophets whose mathematics brought us into the Information Age: Norbert Wiener, John von Neumann, Alan Turing and Claude Shannon. In "A Mind at Play: How Claude Shannon Invented the Information Age," Jimmy Soni and Rob Goodman make a convincing case for their subtitle while reminding us that Shannon never made this claim himself.

Claude Elwood Shannon (1916-2001), born in Petoskey, Mich., during World War I, brought a solid Midwestern sensibility to a world facing even greater upheaval in World War II. The definitive biography of Norbert Wiener is titled "Dark Hero of the Information Age." Alan Turing's is subtitled "The Enigma." John von Neumann served as a model for Dr. Strangelove in Stanley Kubrick's masterpiece. But there was nothing dark, enigmatic or strange about Claude Shannon. He enjoyed a happy childhood, left a trail of admiring friends and collaborators, served on the front lines of mathematics during World War II, raised a family, made a fortune, and helped launch the revolution to end all revolutions while countering the myth of the tortured genius along the way.

The only one of the four Information Age pioneers who was also an electrical engineer, Shannon was practical as well as brilliant. After undergraduate studies at the University of Michigan, he went to MIT to study with Vannevar Bush, the engineer, inventor and visionary who later masterminded the U.S. Office of Scientific Research and Development during World War II. Shannon also joined the university's flying club, Messrs. Soni and Goodman note, only for the instructor to consider banning him from the cockpit so as not to risk losing this versatile mind "of most unusual promise." His 1938 master's thesis enabled the now routine practice of using computers to design better computers by showing how the layout of an electrical circuit could be mapped to an equivalent logical expression; his doctoral thesis two years later focused on the mathematics of genetics.

In 1940, Shannon moved to Bell Labs, where problems involving information processing were appearing on all wartime fronts. Some of the teams working at Bell and other laboratories reporting to Vannevar Bush studied how to make coded signals as difficult to understand as possible (unless you had the key), while other teams worked to make coded signals as difficult to misunderstand as possible (for "Identification Friend or Foe," an electronic system to distinguish friendly targets from hostile ones



WIRED Claude Shannon in 1963.

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when both were otherwise just blips on a radar screen). Another group worked on high-speed storage of radar signals (to distinguish targets that moved), while a series of special-purpose computers were developed for problems ranging from the design of nuclear weapons to perhaps the most intractable problem of all: how to aim an antiaircraft shell that would take 20 seconds to reach its target when the target was equally determined to be somewhere else.

The transmission of a single fixed item of information is of no communicative value," Norbert Wiener explained in early 1942 in a then-secret wartime report that Shannon credited as an inspiration for his own work. "We must have a repertory of possible messages, and over this repertory a measure determining the probability of these messages." Wiener's insight was that the information content of a message is directly related to its improbability, this being at the heart of the mathematical understanding of languages and codes. Wiener's theory of information, drawing on his own background in thermodynamics, statistical mechanics and the study of random processes, was cloaked in opaque mathematics that was impenetrable to most working engineers. His treatise "The Extrapolation, Interpolation, and Smoothing of Stationary Time Series," known as the "Yellow Peril" for the color of its wartime cover, was widely assigned to the technicians trying to solve the problems of World War II. It was rarely understood.

Shannon, working on his own secret report, "The Mathematical Theory of Cryptography," developed a simpler, more general theory of information, published in two parts as "A Mathematical Theory of Communication" in the Bell System Technical Journal in 1948 and as a small book the following year. He simplified his model as far as possible, idealizing communicated signals as streams of binary alternatives—dots and dashes, or zeroes and ones—that were soon christened, thanks to statistician John Tukey, as bits. "Before Shannon," Messrs. Soni and Goodman write, "information was a telegram, a photograph, a paragraph, a song. After Shannon, information was entirely abstracted." He derived explicit formulas for rates of transmission, the capacity of an ideal channel, ability to correct errors and coding efficiency that could be understood by anyone familiar with logarithms to the base 2.

Mathematicians use mathematics to understand things. Engineers use

mathematics to build things. Engineers love logarithms as a carpenter loves a familiar tool. The electronic engineers who flooded into civilian life in the aftermath of World War II adopted Shannon's theory as passionately as they had avoided Wiener's, bringing us the age of digital machines.

Messrs. Soni and Goodman cast Vannevar Bush and his prewar differential analyzer—a room-size computer consisting of "an enormous wooden frame latticed with spinning rods"—as analog-age dinosaurs caught off guard by the digital computers that spelled their doom. This plays down Bush's own role as an advocate for next-generation digital machines. "There is a great deal more arithmetic and better arithmetic in the world than there used to be . . ." Bush reported in October 1936; "10,000 tons of [punch] cards are used per year, a total of four billion cards [and] the end of the development is not in sight." The age of information was already upon us, awaiting Shannon, Bush's protégé, to make sense of it.

Before the war, Turing had disrupted the rarefied world of mathematical logic with his vision of a universal computing machine. After the war, von Neumann, Turing and oth-

ers decided that it was time to actually build such machines. Shannon's theorems—equally applicable to conveying strings of bits across distance as coded signals or across time as data stored in memory registers—were essential to getting these machines to work.

The digital revolution can be defined, in a technical sense, as a leap from numbers that mean things to numbers that do things. Software was the realization of Turing's vision that an entire abstract "machine" could be encoded as a number, perhaps a very long number, and executed as a program by another machine. For everyday communication, reasonably good

Engineers used Shannon's theories to bring us the age of digital machines.

transmission over a noisy channel was sufficient, since the meaning, whether in English or some other natural language, would survive the trip. For the machine language of computers this was no longer true. Without Shannon, the digital revolution would have ground to a halt.

Though he eventually joined the faculty at MIT, Shannon avoided a life sentence in academia by spending his most productive years at Bell Labs in New Jersey and New York. He tackled problems ranging from the supremely practical "A Theorem on Coloring the Lines of a Network" (1949), giving a definite limit on how many colors of wire were needed to install a telephone branch exchange, to the less practical "A Universal Turing Machine With Two Internal States" (1954). In 1953 his passion for computer games, especially chess, led him to remark that "machines have been built to play games skillfully enough to defeat the people who designed the machines." An avid juggler, he published a paper on the mathematics of juggling and built an Erector-set robot that could bounce three balls. After investing in a number of successful companies based on his ideas, he became fascinated with trying to identify patterns in the stock market and, judging by his success as an investor, evidently he did.

Despite the progress of technology, we still have no clear understanding of how memories are stored in our own brains: Shannon's principles of redundancy and error correction are no doubt involved in preserving memory, but how does the process work and why does it sometimes fail? Shannon died of Alzheimer's disease in February 2001. The mind that gave us the collective memory we now so depend on had its own memory taken away.

Mr. Dyson is the author of "Turing's Cathedral" and "Darwin Among the Machines."

# Adventures in the Atmosphere

### Caesar's Last Breath

By Sam Kean

Doubleday, 373 pages, £20

BY MIKE JAY

IT WAS Jan Baptista van Helmont who first recognized that the classical concept of "air" was insufficient to describe the different vapors given off by processes such as burning charcoal or fermentation. Air was not one element but many, and in the early 17th century he coined a new term to describe them: "gas," from the Greek "chaos," to reflect their wild, elusive nature. His realization gave birth to modern physics and chemistry, which transformed the world through industrial applications, from steam engines to steel, anesthetics and electric light.

Like Sam Kean's previous books, "Caesar's Last Breath" is a themed miscellany of scientific stories, told with his trademark combination of goofy wisecracking and an exceptional knack for communicating the principles of science. It takes its title from a famous conundrum: Given that we inhale around 12 sextillion molecules of air each time we fill our lungs, what are the chances that one of them was among those that Julius Caesar exhaled in his dying breath? It turns out that the dizzying numbers involved more or less cancel each other out, and the chances are roughly even.

As a result, Mr. Kean's narrative of scientific discovery jumps back and forth. The first episode narrated in detail is Fritz Haber and Carl Bosch's conversion of nitrogen into ammonia, the crucial step in producing artificial fertilizer, which Mr. Kean characterizes as "an inflection point in history" that in the 20th century "transformed

technology that launched the Industrial Revolution. James Watt was its master craftsman, though Mr. Kean confesses that, as "a sucker for mechanical simplicity," he regards Watt's pioneering engine, with its separate condenser, as "a bunch of crap cobbled together." A more elegant application of gases was Henry Bessemer's process for making steel, which used blasts of compressed air to make obsolete the laborious and energy-hungry mixing of liquid cast iron and carbon.



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the very air into bread." The process consumes 1% of the global energy supply, producing 175 million tons of ammonia fertilizer a year and generating half the world's food. Haber and Bosch both won Nobel Prizes but were subsequently tainted by their involvement in developing chlorine gas for the German military.

The book's middle section turns back the clock to steam power, the

as nitrogen and oxygen, led to a race "to reach the bottom of the thermometer." Cooling gases were first used in refrigeration by Guinness for their beer around 1895. Albert Einstein, together with Leo Szilard (who later pioneered the electron microscope and particle accelerator), spent years developing methane-powered refrigerators before losing out to the more economical chlorofluorocarbon-based design in the 1930s.

With the discovery of radioactivity, atmospheric air and human chemistry became permanently mingled, though Mr. Kean notes that the amount of radioactive material we inhale each year from atomic-weapons testing amounts to no more than a 10th of an X-ray's worth (to which we add natural traces from sources such as coffee, Brazil nuts and bananas). Experiments in cloud seeding such as 1967's Project Popeye, in which American planes dropped 47,409 cannisters of silver iodide on Vietnam and Laos with negligible results, have also added our distinctive imprimatur to the planet's atmosphere. Such gaseous signatures, Mr. Kean suggests, may be our best route to establishing whether distant planets host life. And were we to visit them, we would most probably add to the mix a molecule or two of Caesar's dying breath.

Mr. Jay is the author, most recently, of "This Way Madness Lies: The Asylum and Beyond."

## OPINION

### REVIEW & OUTLOOK

#### Why Jeff Sessions Recused

President Trump lashed out again Wednesday at Jeff Sessions, and his fury over the Attorney General's recusal from the Russia campaign-meddling probe may take the President down a self-destructive path. So this is a good moment to explain why Mr. Sessions felt obliged to recuse himself and why it was proper to do so.

Mr. Trump seems to think Mr. Sessions recused himself in March due to a failure of political nerve after news broke that he had met with the Russian ambassador during the 2016 campaign. Mr. Sessions did recuse himself shortly after that story appeared, and the AG didn't help by forgetting to report those meetings during his confirmation hearing.

But Mr. Sessions and his advisers had been considering recusal long before that news—and for reasons rooted in law and Justice Department policy.

After Watergate in 1978, Congress passed a law requiring "the disqualification of any officer or employee of the Department of Justice, including a United States attorney or a member of such attorney's staff, from participation in a particular investigation or prosecution if such participation may result in a personal, financial, or political conflict of interest, or the appearance thereof."

The Justice Department implemented this language with rule 28 CFR Sec. 45.2. This bars employees from probes if they have a personal or political relationship with "any person or organization substantially involved in the conduct that is the subject of the investigation or prosecution" or which they know "has a specific and substantial interest that would be directly affected by the outcome of the investigation or prosecution."

This language didn't apply to Mr. Sessions during his confirmation process because he didn't know the contours of the FBI and Justice investigation. But the AG soon learned after he arrived at Main Justice in February that the investigation included individuals associated with the Trump presidential campaign.

Mr. Sessions had worked on the campaign, and he clearly had personal and political relationships with probable subjects of the investigation. These included former National Security Adviser Mike Flynn, former campaign manager Paul Manafort, and potentially others.

James Comey publicly confirmed this on March 20 when he told the House Intelligence Committee that the FBI "as part of our counter-intelligence mission, is investigating the Russian government's efforts to interfere in the

2016 presidential election and that includes investigating the nature of any links between individuals associated with the Trump campaign and the Russian government and whether there was any coordination."

Some legal sages say this means Mr. Sessions didn't have to recuse himself because this was a "counterintelligence," not a criminal, probe. But you have to be credulous to think Mr. Comey would ignore potential crimes if he found them in the course of counter-intelligence work. Mr. Sessions might have become a subject of the probe because of his meetings with the Russian ambassador.

The AG had no way of knowing where the investigation would lead, and the ethical considerations were serious as the post-Watergate statute makes clear. During his confirmation hearing in January, Mr. Sessions had promised that "if a specific matter arose where I believed my impartiality might reasonably be questioned, I would consult with Department ethics officials regarding the most appropriate way to proceed."

Mr. Sessions fulfilled that promise, and on March 2 he announced that he'd recuse himself "from any existing or future investigations of any matters related in any way to the campaigns for President of the United States" based on the advice of senior career Justice officials. Imagine the media storm if word leaked that Mr. Sessions had ignored his department's ethics officials.

Mr. Sessions's recusal helped Mr. Trump for a time by eliminating an easy conflict-of-interest target for Democrats. The calls for a special prosecutor died down. They only erupted again in May after Mr. Trump fired Mr. Comey and tweeted his phony threat that there might be White House tapes.

We understand Mr. Trump's anger at special counsel Robert Mueller's open-ended Russia probe, and Deputy AG Rod Rosenstein made a mistake in appointing Mr. Mueller, who is close to Mr. Comey and part of the FBI fraternity. Mr. Rosenstein should have selected a more disinterested special counsel, and even now Mr. Rosenstein should insist that Mr. Mueller investigate Clinton campaign contacts with the Russians, as our colleague Holman Jenkins Jr. has argued.

But Mr. Trump will only compound the problem if he fires Mr. Sessions and appoints a replacement who fires Mr. Mueller. He will cause multiple resignations and bipartisan talk of impeachment. Mr. Sessions acted honorably in recusing himself, and the President should let him do his job without harassment.

a plucky brown and white kid born this spring.

The union claims the goats actually count as subcontractors, and by that anthropomorphic reasoning it's claiming a violation of the school's collective-bargaining agreement.

Though the formal union grievance is exempt from public disclosure, a Local 1668 Facebook post blamed the animals for the fact that nine union members had lost jobs on campus.

WMU's students, who graduate with more than \$26,000 in debt on average, may wish more work could be assigned to animals. Last year the university estimated that by using goats instead of groundskeepers, it could save \$1,350 for each acre cleared. Plus, they're experts in the field.

Four-footed competition puts the fear of goat into organized labor.

the GOP voters who helped him eke out a roughly 10,000-vote victory in 2012 will rightly judge the opposite from Wednesday's vote.

Don't bet the fortune in the Vegas casinos or on a second Heller term.

Then there's Rand Paul of Kentucky and Mike Lee of Utah, who voted for repeal and will soon be flaunting their self-styled reputations as the only political saints in Sin City. The reality is that their long refusal to vote for less-than-perfect repeal gave decisive leverage to Senate GOP moderates, who have combined to water down reform.

The practical effect will likely be to squander a historic opportunity to put Medicaid on a sustainable budget and better serve the truly needy rather than able-bodied adults. Can we at least no longer hear lectures from Mr. Paul of the kind he offered in January that we "can absolutely not balance a budget" without addressing entitlements?

The Senate is continuing to debate amendments in a crush of votes, and no one knows what will result. The most likely possibility is a "skinny repeal" that kills discrete features of ObamaCare like the employer and individual mandates and medical device tax. Moving even a "skinny bill" into a conference negotiation with the House is better than nothing, but it is light years from the bold Republican Senate promises of 2015-2016.

The best outcome of Wednesday's repeal vote would have been to send the bill to a Republican President who is willing and even desperate to sign it. But at least voters have clarity about which GOP Senators are willing to ratify President Obama's achievements.

Seven Republicans pull a switcheroo as repeal fails, 45-55.

The Senate voted 45-55 Wednesday not to repeal ObamaCare with a two-year delay to replace it, and the only consolation for Republicans is the clarity of seeing who voted to preserve and protect rather than repeal and replace.

Congress had passed and sent to Barack Obama's desk a similar measure in 2015, with support from every current Senate Republican except Susan Collins of Maine. This time seven voted no, including Rob Portman of Ohio and Shelley Moore Capito of West Virginia, who aren't up for re-election until 2022 and 2020, respectively. If you're going to renege on your political promises, better to do it early, we suppose.

The repeal failure follows a Tuesday vote in which nine Republicans defeated a package to replace parts of the law and rehabilitate Medicaid, which went down 43-57. Only three Republicans voted against both, or to maintain the undiluted status quo: Ms. Collins, Lisa Murkowski of Alaska, and Dean Heller of Nevada.

In 2015 Ms. Murkowski's office put out an encomium to her many efforts to unwind ObamaCare, which she voted against in 2009. Ms. Murkowski has co-sponsored bills to delay the individual mandate and to nix the law's "Cadillac tax" on expensive plans. She bragged about her vote to eliminate the medical device tax and published op-eds on the "harmful impacts" of ObamaCare. This was apparently make-work for her staff.

Mr. Heller is the only Republican likely to have a tough re-election fight next year, and this week he made it that much tougher. The Nevadan voted Tuesday to allow debate, which Democrats will portray as a vote for repeal. But

#### The Post-Obama Democratic Party



WONDER LAND  
By Daniel Henninger

On climate change, Democrats believe they know to the 10th decimal place that Earth is on the brink of an apocalypse. But by their own admission this week, they don't have a clue about which way the wind is blowing with the American voter.

On Monday the Democrats released something called "A Better Deal," a set of policy ideas to win back voters. Think of it as the party laying down the first quarter-mile of blacktop on its road back to power.

The short version of "A Better Deal" is that they would bust up corporate trusts (Teddy Roosevelt, circa 1902), ramp up public-works spending (FDR, circa the Great Depression) and enact various tax credits (Washington, circa eternity).

The more interesting question lies in the document's unspoken subtext: How in God's name did we lose a presidential election to . . . him?

In a recent Washington Post interview, one of Hillary Clinton's closest advisers, Jake Sullivan, admits, "I am still losing sleep. I'm still thinking about what I could have done differently." Who wouldn't? What happened Nov. 8 was like losing five Super Bowls in one day.

Hillary Clinton has taken to citing one fact: "Remember, I did win more than three million [more] votes than my opponent." True, notwithstanding the pesky two-centuries-old Electoral College vote, which she lost.

Here's another fact that still poses a maddening question for many: Donald J. Trump got more than 62 million votes. It wasn't long before Election Day that many political sophisticates wondered how Donald Trump would get 620 votes, much less 62 million—after the McCain slander, the "Access Hollywood" tape, the generalized ignorance.

A conventional explanation for the loss—and we know this because Chuck Schumer conventionalized it last weekend—is to blame her. "When you lose to somebody who has 40% popularity," said Sen. Schumer, "you don't blame other things—Comey, Russia—you blame yourself."

This is rich. It's almost oxymoronic. The reason Democrats lost to *him* is that they had an unelectable candidate. But if both parties were running "unelectable" candidates, then a lot of that day's 138 million voters based their decisions on something more concrete than the personalities of two celebrities.

Hillary Clinton was running as the extension of Barack Obama's two-term presidency. If the Democrats are now throwing her under the bus, Mr. Obama is down there with her.

The Obama presidency was a watershed for the Democratic Party for reasons having little to do with his historic candidacy. Mr. Obama moved his party significantly to the left, arguably as Ronald Reagan did.

Write [henninger@wsj.com](mailto:henninger@wsj.com).

#### LETTERS TO THE EDITOR

#### The U.S. Is Right to Boost Russia Sanctions

Wolfgang Ischinger, Germany's former ambassador to the U.S., says "U.S. Sanctions on Russia Would Alienate Europe" (op-ed, July 18). A respected diplomat, Mr. Ischinger deserves attention. But his argument is misleading and based on an inaccurate reading of the bill, which the U.S. Senate passed 98-2.

Much of Mr. Ischinger's ire is directed at a provision authorizing sanctions against companies that invest in Russian energy pipelines. But that provision is discretionary, meaning it doesn't require new sanctions on anybody. It's hardly a reason to reject the bill.

Mr. Ischinger also criticizes a provision that extends current sanctions on Russian offshore oil ventures to projects in which any Russian company is involved. He claims this provision endangers Shah Deniz, a gas field in Azerbaijan. This is false, as the sanctions target oil projects specifically. In fact, the provision smartly closes a loophole that could allow Russia to copy advanced drilling techniques from U.S. firms.

Most misleading, Mr. Ischinger asserts the bill would undermine trans-Atlantic unity on Russia sanctions, arguing that Washington should negotiate new sanctions multilaterally. As one of the negotiators of existing U.S.-EU sanctions, I'm sympathetic to this argument. But it's a pipe dream that the Kremlin-friendly Trump administration would collaborate with Brussels to impose new sanctions on Russia. Moreover, the EU isn't exactly clamoring for new Russia sanctions either. Far from risking trans-Atlantic unity, the bill protects it by ensuring Mr. Trump can't capriciously lift sanctions.

A strong response to Russia is in the interest of America and Europe. This bill is just that.

EDWARD FISHMAN

Washington

Mr. Fishman was on the team that negotiated U.S.-EU sanctions in response to Russia's invasion of Ukraine.

As a former U.S. diplomat with strong ties to Europe, I concur with Wolfgang Ischinger's plea for trans-Atlantic unity in the face of Russian aggression in Ukraine.

AMB. ALEXANDER VERSHBOV

Washington

Mr. Vershbow is a former NATO deputy secretary-general and U.S. ambassador to Russia.

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



## LIFE & ARTS

FILM REVIEW | By Joe Morgenstern

# Explosive Acting Fails To Ignite

Charlize Theron looms large as an MI6 agent at the end of the Cold War

**SOME MOVIES GROW** as you think back on them, others shrink. "Atomic Blonde" is a shrinker, which is strange, when you think about it, because this hyperstylized, ultraviolent thriller with a super-seductive title stars Charlize Theron, a marvelous actress in any role and, in this one, a huge presence throughout.

She plays Lorraine Broughton, an MI6 agent sent to Berlin in 1989, just before the crumbling of the Wall, to retrieve what's called an atomic bomb of information, a list of double agents that could, someone says, extend the Cold War by 40 years. The script is based on a graphic novel series called "The Coldest City." That's why the film is grimly handsome, in color that yearns to be black and white.

One early shot is almost worth the price of admission, not because it's conventionally erotic but because it's chillingly beautiful, as well as indispensable to the trailer. Jonathan Sela's camera studies Ms. Theron's Lorraine from above, nude in a sullen blue light and rising slowly from a bathtub full of ice cubes, her powerful body covered with scars and bruises that attest to the punishment she takes in the course of her work. Lorraine gives what she gets, of course. She's a bisexual Wonder Woman minus the lariat and the buoyant spirit, though with myth-worthy boots; the only source of pleasure in her life is a brief encounter with a young French intelligence agent, Delphine Lasalle, who is played by Sofia Boutella.

In other words, Lorraine doesn't



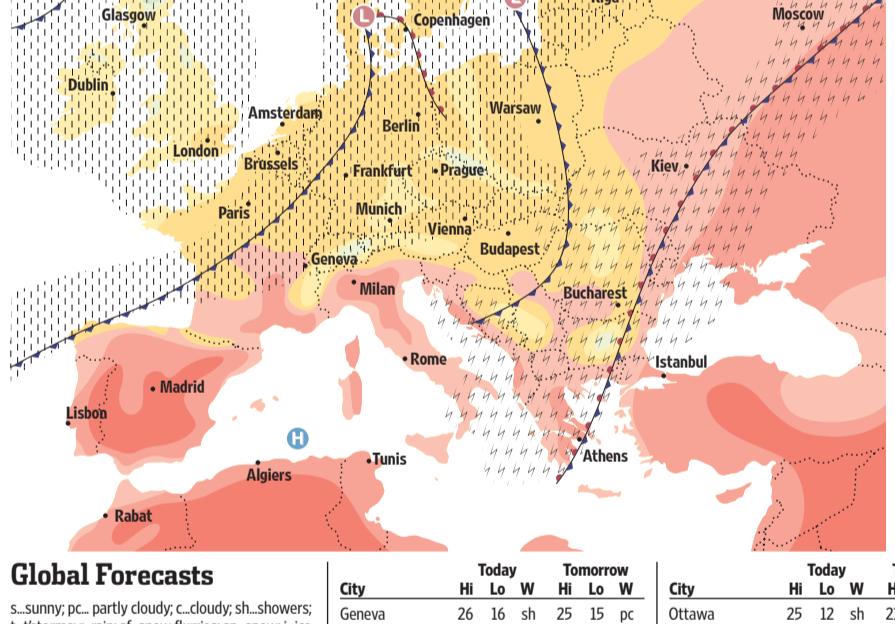
have a lot of fun. She's approximately as joyous as Richard Burton's Alec Leamas in "The Spy Who Came In From the Cold," a Cold War thriller that was in black and white and didn't want to be anything else. That's perfectly fine because Ms. Theron has the sly style, the deadpan wit and the drop-dead beauty to pull it off. (James McAvoy is also entertaining as David Percival, an MI6 station chief and Lorraine's Berlin contact.) But the film as a whole is a deep-dyed downer, notwithstanding Ms. Theron's sensational physicality in several spectacular fight sequences—the director, David Leitch, is a former stunt man of note—and a pounding soundtrack of 1980s rock and pop. The story is impenetrable, with more betrayals than you can give a damn about, and the frigid tone borders on self-parody, with frequent excursions to the wrong side of the border. As strong and formidable and commanding tall as Ms. Theron is, she can't rise above the gloom.



Charlize Theron and James McAvoy in David Leitch's 'Atomic Blonde'

FOCUS FEATURES (2)

### Weather



### Global Forecasts

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

t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

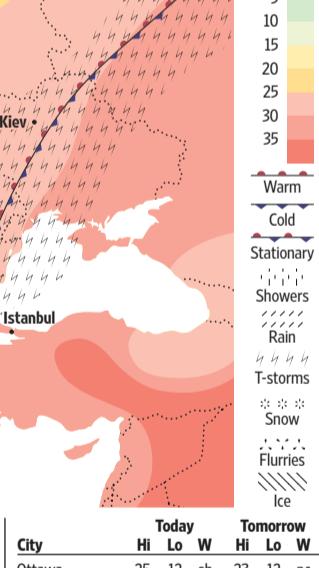
City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	20	15	pc	20	15	sh
Anchorage	18	13	pc	16	12	c
Athens	31	24	pc	31	22	s
Atlanta	33	23	t	32	23	t
Bahrain	47	30	s	48	32	s
Baltimore	30	22	pc	28	20	t
Bangkok	32	25	t	32	26	pc
Beijing	29	22	c	28	21	c
Berlin	23	14	c	21	14	sh
Bogota	18	10	pc	18	10	c
Boise	33	19	pc	36	20	s
Boston	25	19	pc	25	18	r
Brussels	21	13	pc	21	15	sh
Buenos Aires	23	16	pc	24	16	pc
Cairo	39	26	s	38	25	s
Calgary	32	14	s	25	12	s
Caracas	33	27	pc	33	27	pc
Charlotte	32	22	pc	29	21	t
Chicago	28	18	t	27	17	s
Dallas	38	27	s	38	27	s
Denver	29	16	t	31	17	t
Detroit	28	20	t	25	16	sh
Dubai	45	36	s	44	36	s
Dublin	17	10	sh	17	11	s
Edinburgh	16	11	sh	17	12	sh
Frankfurt	22	13	sh	22	14	sh

AccuWeather.com

Shown are today's noon positions of weather systems and precipitation. Temperature bands are highs for the day.

Legend: -15, -10, -5, 0, 5, 10, 15, 20, 25, 30, 35

Legend: Warm, Cold, Stationary, Showers, Rain, T-storms, Snow, Flurries, Ice



### The WSJ Daily Crossword | Edited by Mike Shenk



#### STAFF I.D. | By Marie Kelly

The answer to this week's contest crossword is a five-letter word.	22 Coolly determined	41 Ad character with a necklace of daisies
	23 *Pretentious	42 Exchange membership
	25 NASDAQ debut	
Across		
1 Grant in the movie business	26 Pert flirt	43 Compel
5 Shudder, say	27 Stop sign shape	45 "You were saying..."
10 Staff note	32 Have trouble on the ice	47 Q neighbor
14 He beat Connors at Wimbledon in 1975	34 Language that gives us gecko and orangutan	48 *Ham hocks, chitlins and the like
15 Quran topic	35 Tinkertoy piece	52 "Bathers at Asnières" painter
16 Cameo shape	36 Co. abbr.	55 Spanish gentleman
17 Dissenting chorus	37 *Kin of phasers	56 *1932 Spencer Tracy film
18 *Social set?	39 Billionaire Broad	58 Tarry
20 Immune system triggerer	40 Mauna ___	

► Email your answer—in the subject line—to [crossovercontest@wsj.com](mailto:crossovercontest@wsj.com)

by 11:59 p.m. Eastern Time Sunday, July 30. A solver selected at random will win a WSJ mug. Last week's winner: Jay Pringle, Show Low, AZ.

Complete contest rules at [WSJ.com/Puzzles](http://WSJ.com/Puzzles). (No purchase necessary. Void where prohibited. U.S. residents 18 and over only.)

### PUZZLE CONTEST

30 1970 hit for the Kinks

31 Shorten a sentence, say

32 Corn Belt sight

33 It's just for openers

34 Computer game set in a deserted world

37 Look at

38 Rosa Parks, for one

42 Spot for a guest

44 Player with a store

45 Plea choice

46 Not funny anymore

49 Site of Chicago touchdowns

50 City east of the Great Salt Lake

51 Active bunch

52 Sonic the Hedgehog company

53 Pull down

54 Salt for sale, e.g.

56 Challenge for a barber

57 Empty blather

### Previous Puzzle's Solution

ABBA	VIA LOR	SOD
CLARA	OMEGA	PAR
HORIZONTAL	ALBATA	
EGGSON	SEARCHB	
SEE	ACRE	TIE
REL	LOAD	TRAP
OYSTER	WIZARD	
TKO	CREASES	CAF
NAUGHT	TWELVE	
TYRO	ROADEO	
EBB	ASTON	I DO
GENIUS	USB	UPCARD
ATE	Raise	SETHEBAR
LOX	SMEAR	IRATE
ANT	TESLA	STEW

### Global Forecasts

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

t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Geneva	26	16	sh	25	15	pc
Hanoi	34	26	pc	35	27	pc
Havana	33	23	pc	33	23	pc
Hong Kong	33	28	sh	33	28	sh
Honolulu	31	24	s	30	24	pc
Houston	35	25	pc	37	26	s
Istanbul	31	22	s	28	23	pc
Jakarta	32	24	pc	32	24	c
Johannesburg	18	5	s	19	5	s
Kansas City	29	19	t	29	17	pc
Las Vegas	39	30	pc	39	29	pc
Lima	21	15	s	21	16	pc
London	20	13	sh	20	16	sh
Los Angeles	29	20	pc	29	20	pc
Madrid	37	21	s	37	21	s
Manila	29	26	r	28	26	t
Melbourne	14	8	c	14	9	pc
Mexico City	24	12	pc	25	12	pc
Miami	34	27	pc	33	27	t
Milan	32	17	pc	34	21	pc
Minneapolis	29	17	s	28	17	s
Monterey	36	21	pc	38	21	pc
Montreal	26	14	sh	24	13	pc
Moscow	2					

# BUSINESS & FINANCE

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\* \*

THE WALL STREET JOURNAL.

Friday - Sunday, July 28 - 30, 2017 | B1

Euro vs. Dollar 1.1657 ▼ 0.66%

FTSE 100 7443.01 ▼ 0.12%

Gold 1259.60 ▲ 0.85%

WTI crude 49.04 ▲ 0.59%

German Bund yield 0.540%

10-Year Treasury yield 2.312%

## Shell Girds for 'Lower Forever' Oil

Cost cutting helps offset slumping prices, as company develops alternatives to crude

By SARAH KENT

LONDON—Royal Dutch Shell PLC presented a pessimistic vision for the future of oil on Thursday, even as the company reported success in generating cash during a prolonged energy downturn.

Shell has cut costs and said it is preparing for a world in which crude prices may never regain precrash levels and petroleum demand eventually declines. Shell Chief Executive Ben van Beurden said the company has a mind-set that oil prices would remain "lower forever"—a riff on the "lower for longer" mantra the industry adopted for a price slump that has

proved unexpectedly lasting. "We have to have projects that are resilient in a world where oil has peaked," Mr. van Beurden told reporters on a conference call discussing the company's second-quarter financial results. "When it will happen we don't know, but that it will happen we are certain."

The views of the British-Dutch oil company reflect the transition under way in a global energy industry grappling with the twin forces of an oil-supply glut and a looming consumer shift away from petroleum. These trends are even more pronounced for oil companies in Europe, where local and national governments are trying to phase out vehicles with internal-combustion engines, encourage electric automobiles and reduce overall carbon emissions.

Experts differ on the timing of peak oil demand. In its most-guarded scenario, Shell

sees oil peaking within the coming decade. The International Energy Agency says the timing will be more like 2040. The advent of declining demand—after decades of unrelenting growth—would likely erode the value of oil and the companies that produce it.

*'We have to have projects that are resilient in a world where oil has peaked.'*

On the other hand, U.S. energy giants such as Exxon Mobil Corp. and Chevron Corp. have said peak oil demand is still far off. And even when oil consumption eventually stops growing, Shell isn't expecting it to drop off a cliff.

"It doesn't mean it's game

over straight away," Mr. van Beurden said. "There will be a continued need for investment in oil projects."

Mr. van Beurden's comments are broadly in line with Shell's overall strategy of moving toward producing fuel for electricity, such as natural gas and even renewables, and focusing on keeping costs low. The company now produces more gas than oil. It is also building a massive wind farm off the Dutch coast and envisions spending as much as \$1 billion a year on developing new energy sources such as renewables by the end of the decade.

Despite Shell's warnings on oil, the company posted what analysts said was a strong second quarter.

Shell's equivalent of net profit rose to \$1.9 billion from \$239 million a year earlier and its cash flow from operations—a metric that has been

come increasingly important to investors—soared to \$11.3 billion. The company said it generated \$38 billion of cash from its business over 12 months, enough to cover dividend payments and pare debt.

French oil company Total SA and Norway's Statoil ASA also reported their quarterly results on Thursday, both striking a confident if cautious note. They trumpeted falling debt levels and strong cash flow.

Total's profit for the quarter was \$2 billion, roughly the same as last year, while the company reported a significant increase in cash flow from operations to \$4.6 billion.

Statoil said it earned \$1.4 billion, compared with a loss of \$302 million in last year's second quarter. The company said it generated \$4 billion in free cash flow.

Exxon and Chevron report earnings on Friday.

## Brokers Make Lending Push

By MICHAEL WURSTHORN

Wall Street brokerages are pushing customers to take out billions of dollars in loans backed by stocks and bonds, a trend that yields lucrative fees for the firms but poses risks for borrowers.

Executives at Morgan Stanley earlier this month highlighted these loans to individuals as a big growth area and revenue driver, saying the loans helped expand the bank's overall wealth lending by about \$3.5 billion, or 6%, in the second quarter.

On Thursday, Goldman Sachs Group Inc. took a step toward expanding its securities-based lending business through a new partnership with Fidelity Investments.

For brokerages, these securities-backed loans have become a reliable source of revenue in the years since the financial crisis, as firms have begun moving from a business model of charging commissions for trading to a system of fees based on assets under management.

The loans themselves help brokers retain these assets because customers don't have to sell stocks and other securities when they need cash. These loans have also become a big factor in brokers' compensation.

Clients, in turn, are able to borrow money at relatively low interest rates because the loans are secured.

But they could be left in the lurch if markets tank and the value of that collateral shrinks, prompting the bank to demand loan repayment. If the margin call isn't met, the securities backing the loans are sold and the borrower is responsible for any remaining balance.

These arrangements are structured to benefit the brokerage, with the client shouldering virtually all the risk, critics say. These loan products are often pushed without regard to whether clients even need them, they add. Regulators are also taking notice.

Several Merrill Lynch brokers unit said they have asked longstanding clients to open a securities-backed line of credit to help them hit bonus hurdles, assuring that clients wouldn't need to use it or pay any fees for opening it. Merrill brokers receive continuing payments for getting clients to tap credit lines, and those loan balances contribute to year-end bonus calculations, people familiar with the matter said.

Brokerage executives have said the longer a client has one of these loans tied to their account, the more likely they are to use it.

"We were dramatically pushed to put these on all of our client accounts," said Steven Dudash, a former Merrill Lynch broker who has been managing his own investment-advisory firm since 2014. "Whenever

Please see LOANS page B2



GILLES SABRI/BLOOMBERG NEWS

Billionaire Wang Jianlin's Movie Metropolis project in Qingdao was central to his vision of creating a global filmmaking empire.

## Wanda Trims Hollywood Aspirations

By WAYNE MA

BEIJING—Chinese billionaire Wang Jianlin was on the verge last year of becoming the entertainment industry's newest mogul, snapping up prime media assets and setting his sights on a major Hollywood studio.

But that breakthrough now seems remote with the \$13 billion sale of assets by Mr. Wang's majority-owned company Dalian Wanda Group to Sunac China Holdings Ltd.

Buried in the fine print of filings related to the asset sale is the disclosure that Mr. Wang is unloading his nascent sound-stage business, known as Wanda Studios. The 30 film and TV sound stages are part of the Qingdao Movie Metropolis entertainment complex Mr. Wang was building in the seaside city of Qingdao.

Once billed as a \$7.4 billion project with production facil-

### Entertainment Ambitions

Dalian Wanda Group has spent billions of dollars on entertainment assets as it seeks to diversify from its main property business.

Year	Company (Location)	Industry	Deal value
2016	Legendary Entertainment (U.S.)	Production	\$3.50 billion
2012	AMC Entertainment Holdings (U.S.)	Theaters	\$2.60
2016	Carmike Cinemas (U.S.)	Theaters	\$110
2016	Dick Clark Productions* (U.S.)	Production	\$1.00
2017	Nordic Cinema Group (Sweden)	Theaters	\$0.93
2016	Odeon & UCI Cinemas Group (U.K.)	Theaters	\$0.65
2016	Hoyts Cinemas (Australia)	Theaters	\$0.37
2016	Mtime.com (China)	Marketing	\$0.28
2016	Propaganda GEM (U.S.)	Marketing	Not disclosed
2016	Hoolai Games (China)	Videogames	Not disclosed

\*Failed deal

Source: the companies

THE WALL STREET JOURNAL.

ties, a studio tour, outdoor theme park, yacht club and hotels, the Qingdao Movie Metropolis was the focal point of Mr. Wang's filmmaking ambitions.

In 2013, he flew Hollywood

luminaries including Leonardo DiCaprio, Nicole Kidman and John Travolta to Qingdao for a red-carpet launch event and vowed to make China the global center of filmmaking.

Since then, however, the

studio tour and theme park have been scrapped, plans for an international film festival intended to draw attention to the complex have stalled, and its original director has left.

Under the terms of the sale to Sunac, Wanda will retain a 9% stake and a management role in them. Still, for Mr. Wang it marks the surrender of a prize.

A Sunac spokeswoman confirmed it would acquire the sound stages. Dalian Wanda Group declined to comment.

Wanda has shelved plans for further overseas acquisitions following a rebuke from the Chinese government for deals regulators view as overpriced and irrational. China has blocked state-owned banks from financing or refinancing six of Wanda's pending or completed acquisitions, with the approval of President Xi Jinping.

Dalian Wanda will "respond  
Please see WANDA page B2

## Airbus Scales Back Plans for Superjumbo

By ROBERT WALL

LONDON—European plane maker Airbus SE again cut production plans for its A380 superjumbo, bringing nearer to an end the era of the big, four-engine long-haul jets closely associated with the rise of global jet-setting.

Boeing Co. pioneered the age with the introduction of the iconic 747 jumbo jet, which entered service in 1970. But the latest model, the 747-8, has sold poorly. The Chicago-based plane maker has cut production plans and said it could cease building the humped-back jet.

Airbus said it would build only eight of its double-decker A380 a year from 2019. It had

already cut production plans to 12 planes starting next year from 15 planned in 2017. Production of the aircraft, which have a list price of \$436.9 million each, peaked at 30 planes in 2014.

"The situation is certainly not comfortable," Airbus Chief Executive Tom Enders said, adding that there were sales prospects, but "not many."

Singapore Airlines, the first operator of the plane, has said it wouldn't renew the lease of its first A380s and planned to retire some starting next year. Other airlines, including Air France-KLM SA and Deutsche Lufthansa AG have reduced orders.

Airlines have shied away from the big, expensive planes.

worried about filling all the seats. They have instead flocked to more efficient, twin-engine long-range jets such as Airbus's A350 and Boeing's 787 Dreamliner and 777. Even demand for those big planes has softened in recent months.

Airbus now loses money on every A380 built, though Mr. Enders said cost-cutting efforts mean the impact on earnings is marginal.

The plane maker has sold 317 A380s, with Emirates Airline alone ordering 142 of them. The future of some A380 deals in the backlog are uncertain. The company is also contending with supplier issues that are hobbling deliveries of some of its more popular planes. Delivering new planes

smoothly underpins its promise to investors that earnings and cash flow will improve toward the end of the decade.

Lower deliveries of those planes, particularly the A320neo single-aisle jetliner that has a record backlog of orders and the A350 long-range jet, dragged on the company's second-quarter earnings on Thursday. Airbus reported a 34% decline in net income to €895 million (\$1.05 billion). The company also suffered about €2 billion in cash outflow in the first six months of 2017.

Airbus stuck to its full-year guidance, including delivering about 720 jetliners. That would include close to about

Please see AIRBUS page B2

## Amazon's Revenue Climbs, But Its Profit Tumbles 77%

By LAURA STEVENS

Amazon.com Inc.'s revenue rose 25% in the second quarter, bucking the retail industry's slump with its dominance of online shopping.

However, Amazon said Thursday that its profit fell 77% as the company spent heavily to expand. Profit totaled \$197 million, or 40 cents a share, off from \$857 million, or \$1.78 a share, a year earlier. Analysts surveyed by Thomson Reuters expected adjusted earnings of \$1.42 a share.

Sales totaled \$38 billion, up from \$30.4 billion. That was above Amazon's own forecast of between \$35.25 billion and \$37.75 billion for the quarter

and above analysts' expectations of \$37.18 billion.

Shares in the company fell 2.5% in after-hours trading after finishing at \$1,046 on Thursday. Shares were up about 39% year-to-date after the close.

Amazon's stock rose to a record Thursday morning ahead of the results, before closing down less than 1%, temporarily making Amazon founder and Chief Executive Jeff Bezos the world's richest person. According to Forbes, which tracks a list of billionaires, Mr. Bezos reached a net worth of \$90.6 billion as the market opened, pushing him in front of Microsoft Corp. founder Bill Gates.

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## Nestlé Warns That Growth May Stay Modest This Year

By BRIAN BLACKSTONE

**ZURICH**—Nestlé SA reported lackluster first-half sales, raising pressure on the packaged-foods company to find ways to boost profitability and pacify restless investors.

Organic sales growth, which strips out the effects of currency changes, acquisitions and divestments, was just 2.3%, missing analysts'

forecasts for 2.7% growth. Nestlé warned Thursday that the key growth metric would likely register in the "lower half" of a 2%-to-4% range for the full year.

Overall, first-half sales slipped to 43 billion francs (\$44.6 billion), from 43.2 billion francs a year earlier. Profit rose 19% to 4.9 billion francs, though the rise partly reflected a tax adjustment last year.

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### INTERNATIONAL NOTICES

Record No. 2017 224 COS

THE HIGH COURT

COMMERCIAL

IN THE MATTER OF INNOCOLL HOLDINGS PUBLIC LIMITED COMPANY

AND IN THE MATTER OF THE COMPANIES ACT 2014

AND IN THE MATTER OF SECTIONS 49 TO 454 OF THE COMPANIES ACT 2014

AND IN THE MATTER OF SECTIONS 84 TO 86 OF THE COMPANIES ACT 2014

NOTICE is hereby given that on 24 July 2017 that:

(i) The Order of the Irish High Court made on 21 July 2017 confirming the Reduction of the Capital of Innocoll Holdings public limited company (the "Company") pursuant to a special resolution passed by the shareholders of the Company at an extraordinary general meeting held on 28 June 2017 by the cancellation and extinguishment of all the Cancellation Shares (as defined in the scheme of arrangement between the Company and the Scheme Holders) (as defined therein); and

(ii) The minute approved by the Irish High Court showing the share capital of the Company as altered by the said Order, were registered by the Registrar of Companies pursuant to Section 86(1) of the Companies Act 2014.

WILLIAM FRY

Solicitors for the Company

2 Grant Canal Square

Dublin 2

28 July 2017

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## WANDA

Continued from the prior page to the state's call and has decided to keep its main investment within China," Chinese financial magazine Caixin quoted Mr. Wang as saying last week.

"Looking forward, these recent policy changes will certainly derail many of Wang Jianlin's ambitions vis-à-vis Hollywood, at least for the short term," said Michael Berry, a professor of contemporary Chinese culture at University of California, Los Angeles.

Mr. Wang was the talk of Hollywood last year after he bought U.S. entertainment company Legendary Entertainment for \$3.5 billion. He entered talks to buy a 49% stake in Viacom Inc.'s Paramount Pictures unit and negotiated to acquire Golden Globes producer Dick Clark Productions for \$1 billion. Legendary would help Wanda become "the highest revenue-generating film business in the world," Mr. Wang predicted.

But the prediction hasn't yet come true. Mr. Wang failed to merge Legendary with his other film businesses.

Regulatory filings related to the Legendary acquisition and a presentation on it that Dalian Wanda made to prospective investors offer a glimpse into a deal that caught the attention of Chinese regulators.

In January 2016, with the ink barely dry on its Legendary purchase, Dalian Wanda pursued an immediate follow-up transaction—seeking \$1.5 billion in financing from investors in China's public markets to help take its movie businesses public, according to the investor presentation viewed by The Wall Street Journal.

Dalian Wanda's planned to merge Legendary with its existing movie-production assets and list the combined entity—called Wanda Pictures—on a Chinese stock exchange, according to the presentation.

To do the listing, Dalian Wanda planned to sell the combined movie-production assets to another one of its entertainment units, Wanda Film Holding Co., which was already listed on the Shenzhen stock exchange. Such transactions have become common in China with companies seeking higher asset values by tapping demand from retail investors, people familiar with the matter say.

While Chinese regulators never publicly rejected the transaction, they met with the country's big banks in June and told them Wanda is no longer allowed to inject overseas assets into its listed companies in China.

This month, Wanda Film said it would try to buy media assets again as part of a reorganization. Legendary won't be part of that transaction, people familiar with the matter said.

—Junya Qian in Shanghai and Lilian Lin, Liyan Qi and Grace Zhu in Beijing contributed to this article.

## AIRBUS

Continued from the prior page 200 A320neo models, which Mr. Enders said was contingent on engines being available. Airbus said meeting its targets was now "more challenging."

On Thursday, shares in Airbus dropped 3.2% to €72.27 (\$84.80) in Paris in response to the figures.

The European aircraft maker couldn't match Boeing Co., which reported strong second-quarter results on Wednesday, including \$4.5 billion in free cash flow.

Mr. Enders expressed frustration with continued problems Pratt & Whitney, a unit of United Technologies Corp., was having with the engines it makes for the A320neo.

The engine maker delivered to Airbus far fewer engines than it should have in the first six months and reliability problems haven't been fixed, the Airbus CEO said. "They certainly need to work hard and harder to fix the outstanding issues," he said.

United Technologies Chief Financial Officer Akhil Johri said earlier this week that sup-

ply-chain issues had been addressed and reliability issues would be completely fixed by year-end.

Despite the production headaches, Airbus is pressing forward with boosting output of A320 planes to 60 a month in 2019. With a backlog of

more than 5,500 single-aisle planes, Airbus is sold out through 2022, Mr. Enders said.

The large cash outflow in the first six months also was caused by a decision from Qatar Airways to cancel an order for four A350 long-range jets that are already built.

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## BUSINESS & FINANCE

# Fiat Chrysler CEO Changes Course

BY CHESTER DAWSON

Fiat Chrysler has come full circle on electric vehicles, with its once-skeptical CEO saying Thursday he is now ready to embrace them.

"We will effectively switch all of its portfolio to electrification," Mr. Marchionne said on a conference call with financial analysts.

**Fiat Chrysler Automobiles**

NV joins Toyota Motor Corp., which also has recently signaled a change of heart, as one of the last remaining holdouts among major auto makers that have questioned the viability of electric vehicles. The moves come as EVs account for just a fraction of global auto sales, but as the industry prepares for a ramp-up in demand in the coming decade.

The push into EVs has been hastened by increasingly strin-

gent regulations globally on fuel-economy standards and tailpipe emissions, along with generous government subsidies. That is prompting more auto makers to offer alternatives to gasoline engines.

That trend was highlighted when the U.K. this week said it would ban sales of cars powered by traditional internal-combustion engines altogether by 2040. Earlier this month Sweden's Volvo, owned by

Zhejiang Geely Holding Group Co. of China, said it would only sell partly or wholly electric vehicles by 2019.

Mr. Marchionne's comments mark a sharp about-face from previous public statements. He has repeatedly questioned consumer demand for EVs, warned they risk turning cars into commodities and lampooned his company's sole exist-

ing EV—the Fiat 500e—as a perennial money loser.

## BUSINESS NEWS

# Li Ka-shing Venture Sets German Deal

Acquisition of Ista, a maker of metering gear, is a bet on energy-efficiency technology

By BEN DUMMETT

A joint venture backed by Hong Kong billionaire Li Ka-shing agreed to acquire Germany's Ista International GmbH, betting on the increasing adoption of so-called smart-metering technology to cut water and power consumption.

The sale price wasn't disclosed. But the deal values Ista at

about €4.5 billion (\$5.3 billion), including debt, according to people familiar with the matter.

The transaction coincides with a major investment by a Hong Kong company in U.K. real estate Thursday. LKK Heath Products Group agreed to acquire one of London's most recognizable office towers—known as the Walkie Talkie because of its shape—for £1.28 billion (\$1.68 billion).

Together, the two acquisitions are a sign that companies based in parts of China can continue to secure foreign acquisitions even as European sellers show skittishness dealing with

Chinese buyers after China's clampdown on capital outflows and scrutiny of some loans.

**Cheung Kong Property Holdings** Ltd., together with CK Infrastructure Holdings Ltd., is acquiring the smart-metering company from private-equity firm CVC Capital Partners and its minority partner Canada Pension Plan Investment Board, Canada's biggest pension fund.

Based in Essen, Germany, Ista's metering equipment is used by property managers and homeowners to measure individual tenant and home consumption of energy and

water to reduce waste and cut costs. By billing energy and water use based on individual consumption, consumers have more incentive to use less.

CK Infrastructure is a well-known global infrastructure investor, recently winning government approval to acquire Australian pipeline operator and power distributor Duet Group for \$5.8 billion. Its infrastructure investments in energy, transportation, water and waste management span parts of Asia, Australia, Canada and Europe. The Ista deal would be CK Infrastructure's first in Germany, according to a list of holdings on

the company's website.

Cheung Kong Property, with interests in commercial, industrial and residential real estate, is one of Hong Kong's largest property developers. It also operates in mainland China and has properties in Singapore, the U.K. and the Bahamas.

The Ista acquisition comes at a time when governments are pushing measures to curb energy use as a way to reduce reliance on fossil-fuel imports, cut greenhouse gases to help counteract climate change, and foster development of new technologies to boost economic growth.

In the real-estate deal, LKK, a diversified business with interests ranging from the development of Chinese herbal health products to property investment, is acquiring the Walkie Talkie building from British property companies Land Securities Group PLC and Canary Wharf Group. It is the latest example of Chinese buyers targeting U.K. real estate to diversify geographically and take advantage of the strength of their domestic currencies against the British pound since the Brexit vote in a move that makes real estate cheaper for the buyers.



Setbacks in the U.S. for Bud Light and other Anheuser-Busch InBev beer brands have come despite renewed marketing efforts.

## AB InBev Loses Market Share in U.S.

By NICK KOSTOV

Bud Light's long-running turnaround is still falling flat.

**Anheuser-Busch InBev** NV, the world's largest brewer by sales, said its best-selling brand in the U.S. lost almost a full percentage point of market share in the three months to June 30—a steeper-than-expected retreat in a long-running beer war usually fought in tenths of a percentage point.

Budweiser also lost market share—more than one-third of a percentage point in the U.S. Those setbacks came, however, as AB InBev made progress consolidating control over SABMiller, which it bought last year for more than \$100 billion.

Budweiser also lost market share—more than one-third of a percentage point in the U.S. Those setbacks came, however, as AB InBev made progress consolidating control over SABMiller, which it bought last year for more than \$100 billion.

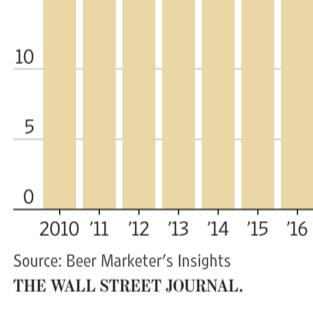
Cost-cutting associated with that integration, as well as higher prices, helped boost global profit for the beer giant in the three-month period ended in June. The company reported overall growth in volumes around the world for the quarter. Earnings, stripping out one-time gains or losses, beat analysts' expectations.

Shares of AB InBev rose 5.9% in Brussels.

Still, AB InBev's longer-term struggles in the crucial U.S. market threaten to overshadow those shorter-term gains. In May, the company said it was launching one of

### Losing Fizz

Bud Light, America's best-selling beer, has been losing market share in the U.S.



Source: Beer Marketer's Insights  
THE WALL STREET JOURNAL

the largest capital-investment programs in U.S. brewing history, pouring close to \$500 million into its U.S. operations this year and a total of \$2 billion through 2020. AB InBev's sales in the U.S. have fallen as American consumers shift away from domestic lagers toward craft beers, Mexican imports, wine and spirits.

That new spending follows previous efforts at turning around Bud Light and Budweiser, AB InBev's namesake beers. Earlier this year, the company launched a fresh Bud Light marketing campaign.

AB InBev said it has seen some improvement from those

efforts, but was disappointed in the steep market-share decline. Bud Light lost nine-tenths of a percentage point of market share in the second quarter of 2017, a decline that has accelerated sharply from the half of a percentage point it lost through all of 2016.

In the U.S., "we've seen additional pressure in the premium sector, especially for Bud Light," Chief Financial Officer Felipe Dutra said Thursday. Still, he said, "we're moving in the right direction."

Bud Light remains by far America's favorite beer by sales, but the second-quarter drop continues years of declines. Mr. Dutra said the company needs "to balance the equation in terms of share and profitability."

The company also recently rolled out marketing aimed at some key Hispanic markets and is releasing a handful of beers it markets as "craft," to compete with the hundreds of smaller brewers that have popped up across the U.S. in recent years. It said this portfolio gained market share but didn't provide details.

The Budweiser brand, meanwhile, lost over one-third of a percentage point of market share in the quarter despite its own marketing push. Last year, and again this year, it rebranded cans and packag-

ing of Budweiser with a special "America" logo. The move—which first came ahead of last year's presidential campaign—drew controversy, but the company said in May it would do it again this year through late summer.

Mr. Dutra said the company was seeing "positive momentum" behind the campaign.

Overall sales volume in North America fell 1.1% in the quarter from a year earlier. Margins in the U.S. increased, however, as the company's

portfolio of more expensive beers, including Michelob Ultra and Stella Artois, performed well.

Outside the U.S., AB InBev said overall net profit rose to \$1.5 billion in the quarter, from \$152 million a year earlier. Adjusted core earnings, which strip out one-time gains or losses, rose 12%, to \$5.35 billion as the company benefited from higher prices and additional cost savings from its acquisition of SABMiller.

AB InBev said the integration of SAB "continues to go as planned," with savings of \$335 million from the combination in the period. That has led some analysts to suggest the company could bring out more than the overall \$2.8 billion in cost savings the company is targeting in the deal.

## Glencore Payments Face Canada Probe

By SCOTT PATTERSON  
AND BEN DUMMETT

LONDON—**Glencore** PLC is subject to a Canadian investigation of more than \$100 million in payments a subsidiary made to a company owned by an Israeli businessman who has been accused of bribing Democratic Republic of the Congo officials, said people familiar with the probe.

The investigation by securities regulators stems from payments that a Canada-based copper-mining company controlled by Glencore and that operates in Congo was expected to make to Congo's state-run mining company,

**Gecamines**, but instead sent to a Cayman Islands company owned by the Israeli businessman, Dan Gertler. Glencore has acknowledged the shift in payments and said it was done at the request of Gecamines.

Canada's Ontario Securities Commission, the country's biggest regional securities regulator, is investigating whether the Glencore subsidiary, Katanga Mining, violated rules requiring that companies disclose business done with their own investors, said the people familiar with the investigation.

Katanga is listed in Toronto and Mr. Gertler's company has invested in its business.

Glencore and Gecamines declined to comment. A spokesman for Mr. Gertler's company said it disputes any allegations of bribery and follows all disclosure obligations.

A spokeswoman for the Ontario Securities Commission said the agency had a policy against commenting on the "existence, nature or status of any investigation." Investigations by securities agencies don't necessarily result in regulatory action.

The payments began in 2013, according to Global Witness, a nonprofit investigative group that works to publicize allegations of resources-industry corruption and brought the payments to light.

Both Gecamines and Mr. Gertler's company, **Fleurette Group**, have for years been large investors in Katanga Mining's business, according to Canadian public records.

That could make them so-called related parties to Katanga, meaning that each has a significant stake in the company and therefore potentially subject to disclosure requirements under Canada's law, said experts on Canadian securities regulations.

Katanga had disclosed in regulatory filings payments to Gecamines, which it described as a related party, until 2014. Starting that year, Katanga disclosed no further payments to Gecamines nor the payments to Mr. Gertler's company, according to a review of its filings by The Wall Street Journal.

Under a deal with the Congolese government, Gecamines is allocated a slice of annual sales from Katanga Mining subsidiary Kamoto Copper Co., known as KCC. But rather than send the royalties to Gecamines, KCC has been sending them to Mr. Gertler's Cayman Islands-based company, Africa Horizons Investment Ltd., Glencore and Fleurette have said.

Glencore and Fleurette have said Gecamines wanted the money shifted to Mr. Gertler's company to pay back a \$196 million loan Fleurette made to Gecamines in 2013. The payments are ongoing, they said.

Glencore is the world's third-largest copper producer, according to CRU Group, a commodity research firm. Katanga ranks among Glencore's largest copper operations, though work there has been suspended for the past 18 months as the company undertakes a \$1 billion upgrade.

Glencore and Mr. Gertler joined forces in Congo in 2007 when Glencore invested in a Congo-focused mining company called Nikanor PLC, partly owned by the Israeli businessman. Nikanor merged with Katanga a year later, forming one of Congo's largest copper-mining operations.

Glencore in February purchased Mr. Gertler's stake in Katanga Mining, as well as his stake in another jointly run Congo copper mine, Mutanda Mining, for nearly \$1 billion, a move that analysts said helped distance the company from Mr. Gertler.

## Toyota Touts Advances For Electric Car Battery

By SEAN MCCLAIN

TOKYO—**Toyota Motor** Corp. believes it has mastered the technology and production process for a new lithium-ion battery that could slash charging time and double the range of electric vehicles, according to U.S. patent filings and one of the inventors.

On Tuesday, Toyota said that by the early 2020s it plans to sell cars equipped with solid-state batteries, which replace the damp electrolyte used to transport lithium ions inside today's batteries with a glasslike plate.

Behind Toyota's brief statement lies years of research aimed at solving issues that have bedeviled batteries for electric cars. Current lithium-ion batteries can't be packed too tightly together because of fire risk. That is one reason electric cars tend to have limited range compared with traditional gasoline-powered cars.

With the solid-state battery, "you can improve the output

and reduce the charge time—hopefully," said Ryoji Kanno, a professor at the Tokyo Institute of Technology. Prof. Kanno led a team including Toyota scientists that discovered the materials for the glasslike electrolyte.

Advances in battery technology have tended to come later than initial expectations, and Prof. Kanno cautioned that his version of a solid-state battery has been shown effective only on a small scale and in a laboratory setting. Figuring out how to produce more powerful versions of the battery—in large quantities and at reasonable cost—is Toyota's job, he said.

History suggests those are all high hurdles. Prof. Kanno said the original rechargeable lithium-ion battery was born in the laboratory in 1980, but manufacturing didn't start until the early 1990s. Based on that precedent, he said his battery might be a decade away, "but then, everything moves faster now, so I don't know."

## BUSINESS WATCH

**PORSCHE**  
**Germany Orders**  
**22,000 Cars Recalled**

Germany on Thursday ordered Porsche to recall and stop selling 22,000 diesel vehicles that the government says have illegal defeat devices.

Transport Minister Alexander Dobrindt said a probe by the German Federal Motor Transport Authority found the defeat devices—software that allows vehicles to dupe tests measuring emissions—in three-liter Porsche Cayenne TDI models in Europe, with 7,500 of those in Germany. The total recall, which includes vehicles already sold and some that haven't yet been delivered to customers, is equivalent to about 9% of the more than 235,000 vehicles Porsche sold world-wide last year.

Mr. Dobrindt said the same defeat device was probably also used on the Volkswagen Touareg, though that hasn't yet been confirmed. Matthias Mueller, chief executive of **Volks-wagen AG**, which owns Porsche parent **Audi AG**, agreed to fully cooperate with the authorities, the minister said.

VW Chief Financial Officer Frank Witter declined to comment on the Porsche recall when asked about it on a conference call Thursday with analysts.

—Marcus Klausen  
and Eric Sylvers

**VALE**  
**Nickel-Price Revival Is Viewed as Unlikely**

Brazilian mining company Vale SA, the world's largest producer of nickel, signaled Thurs-

day that it will stop betting on a recovery in prices for the metal. Vale has long expected an upturn in the nickel market, which peaked in 2007 and never recovered. In late 2014, when prices were about \$16,000 per metric ton, Chief Executive Fabio Schvartsman's predecessor, Murilo Ferreira, told investors prices would likely rise "substantially" higher than Vale's \$21,000 forecast for the coming year. Instead, prices went the other way, and nickel now trades at less than \$10,000 a ton.



SASCHA STEINBACH/REX SHUTTERSTOCK/EPA

Porsche faces a recall order centered on diesel Cayenne vehicles.

**PETROBRAS**  
**Former CEO Arrested In Bribery Probe**

Brazilian federal police on Thursday arrested a former chief executive of two of the country's largest state-run companies as part of a widespread corruption investigation.

Aldemir Bendine, who led oil company **Petróleo Brasileiro** SA and before that Banco do Brasil, was taken into custody for allegedly requesting bribes from construction giant **Odebrecht** SA, prosecutors said.

While at Banco do Brasil, which he ran from 2009 to 2015, Mr. Bendine allegedly requested 17 million reais (\$5.4 million) in bribes to allow a roll-over of a loan at one of Odebrecht's units, prosecutors said.

Just before taking the helm at Petrobras, of which he was CEO from 2015 to 2016, Mr. Bendine requested a payment of three million reais from Odebrecht and received it in three installments of one million each, according to prosecutors.

Mr. Bendine's lawyer didn't return messages for comment.

—Luciana Magalhaes

## TECHNOLOGY

WSJ.com/Tech

# Toshiba Is Facing Difficult Options

TOKYO—A number of creditors and others involved in Toshiba Corp.'s restructuring are pushing for a Toshiba bankruptcy filing as the best path to rebirth after its effort to raise money through a chip-unit sale stalled.

By Kosaku Narioka,  
Takashi Mochizuki  
and Peter Landers

People involved in talks over Toshiba's workout, including business partners, lawyers and people with ties to the company's bankers, said bankruptcy is worth serious study. Some of them said it is the best available option and that they are advocating it in discussions with Toshiba or creditors. They said a bankruptcy filing by Toshiba, the core of an industrial conglomerate, could free it of burdens that include lingering liabilities from the March bankruptcy of its **Westinghouse Electric** Co. nuclear unit in the U.S.

Toshiba's chief executive, Satoshi Tsunakawa, said at a recent news conference that seeking debt relief through the courts isn't an option. A Toshiba spokesman reiterated this week that the company has "no specific plan" to seek bankruptcy protection.

A person familiar with deliberations at one of Toshiba's main lenders compared the conglomerate to a hole that might have treasure at the bottom but also lurking snakes. Bankruptcy, this person said, could kill any snakes and let lenders access the treasure.

A filing would be among the largest in Japan's history and carry drawbacks including possible political backlash in the U.S., where Toshiba has committed \$3.68 billion to nuclear-plant operator **Southern** Co. to cover its Westinghouse-related obligations. Japanese government officials and Toshiba executives are aware of those drawbacks and may be deterred from a bankruptcy filing, people involved in the discussions said.

Toshiba in June estimated that its liabilities exceeded assets by more than \$5 billion as of March 31. That followed its warning in April that it had "substantial doubt" about being able to continue as a going concern because of losses connected to Westinghouse.

Toshiba has said it plans to recover financial health by selling its memory-chip business, which has been booming thanks to demand for chips in smartphones and servers. On June 21, Toshiba designated a consortium led by a Japanese government-backed investment fund as the preferred bidder for the unit.

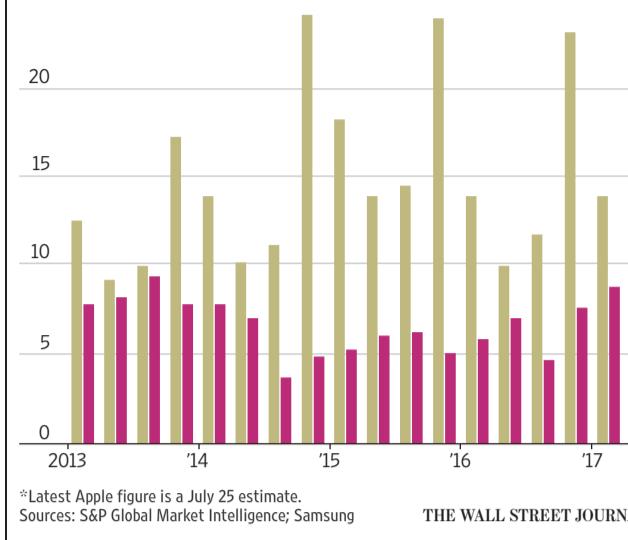
But the sale talks have bogged down since The Wall Street Journal reported that the consortium's bid could include an equity stake for **SK Hynix** Inc. of South Korea. A role for SK Hynix could raise antitrust issues and contradict the government's stance that Toshiba's technology shouldn't fall into foreign rivals' hands. Also, Toshiba's joint-venture partner in the chip business, **Western Digital** Corp., has filed suit to block the sale.

Russell Gold contributed to this article.

### Poised for an Upset

Samsung is in position to top Apple's projected quarterly earnings.

Quarterly operating profit ■ Apple ■ Samsung



\*Latest Apple figure is a July 25 estimate.  
Sources: S&P Global Market Intelligence; Samsung

THE WALL STREET JOURNAL.



Components that Samsung Electronics sells to its rivals account for about 70% of its bottom line.

BALINT PORNECZI/BLOOMBERG NEWS

# Samsung Reports Record Profit

After a difficult year, South Korean group soars on robust sales of its Galaxy S8 phone

BY TIMOTHY W. MARTIN  
AND EUN-YOUNG JEONG

SEOUL—Samsung Electronics Co. delivered its biggest-ever quarter of profits, shrugging off a year of tumult by leaning on its dominance as a supplier of electronics components that even its rivals can't do without.

Samsung said net profit jumped to 11.05 trillion won (\$9.9 billion) for the three-month period ended June 30, an 89% rise from 5.85 trillion won for the same period a year earlier. Revenue shot up to 61 trillion won, rising from 50.94 trillion won in the prior year's second quarter.

The South Korean technology giant blew past its previous record quarterly net profit of 8.24 trillion won, which came nearly four years ago as

booming smartphone sales drove growth. In a shift from those days, components such as semiconductors and display panels, sold to competitors such as **Apple** Inc. or **Sony** Corp., account for about 70% of the firm's bottom line.

Samsung's profits were also boosted by strong sales of the Galaxy S8, its first premium smartphone since last year's global recall of the Galaxy Note 7. Samsung said the Galaxy S8 and the larger S8+, which won strong reviews for their sleek design, have outsold its predecessor, the Galaxy S7, in almost all regions.

Operating profits also rose 73% to 14.07 trillion won, a record, over the 8.14 trillion won reported a year earlier.

The record-setting results also position Samsung to top Apple in quarterly profits. Apple has an expected net income of \$8.2 billion for the three-month period, according to analysts polled by S&P Global Market Intelligence, in what is traditionally a weaker quarter for the world's most

valuable company. Apple, set to launch its 10th-anniversary iPhone, is still projected to notch larger full-year profits than Samsung.

Samsung Electronics shares are trading near records and have risen more than 60% over the past year. On Thursday, Samsung said it would continue a 9.3 trillion-won share buyback program this

The results follow the 2016 global recall of Galaxy Note 7 devices.

year, repurchasing 670,000 common shares and 168,000 preferred shares over the next three months. Samsung has so far repurchased about five trillion won worth of shares.

Less than a year ago, Samsung's potential ascension to the world's most profitable technology company, even for

a singular quarter, would have seemed bold. Last fall, its Galaxy Note 7 devices overheated, and some caught fire, handing Samsung a crisis that ended with an embarrassing global recall that cost the company more than \$5 billion. Then in February, Samsung's de facto leader, Lee Jae-yong, was put behind bars, accused of having a role in the country's corruption scandal. Mr. Lee denies wrongdoing and is standing trial.

Even without its leader, its chic brand tarnished, the Suwon, South Korea-based firm saw its profits balloon due to voracious demand for its memory chips and flexible displays, mundane products that few consumers even realize are Samsung-made.

More than a decade ago, Samsung began plowing billions of dollars into 3-D NAND semiconductors that can store more content in a small chip,

allowing gadgets extra memory capacity. The company also moved aggressively into flexible OLED displays, which

enable phone makers to create sleeker, thinner devices.

Despite the record quarter, the question hanging over the company's head is the fate of Mr. Lee, Samsung Electronics' vice chairman and grandson of the company's founder. Mr. Lee isn't known as a micro-manager, but in South Korea's family-run chaebol system, his signoff is required for overall strategy moves and important decisions.

The Harvard-educated Mr. Lee has tried to modernize the company's opaque and hard-driving culture since his father, Samsung's chairman, became incapacitated with a heart attack in 2014. He has also pushed the Samsung conglomerate, which spans dozens of enterprises as varied as theme parks and lithium-ion batteries, to slim down and pivot to new areas such as biotechnology.

Per South Korean law, Mr. Lee, 49 years old, can be detained until late August. A verdict is expected from a lower court next month.

# Huawei Plays Catch-Up in Smartphone War

BY DAN STRUMPF

SHENZHEN—Chinese telecommunications giant **Huawei Technologies** Co. has reclaimed the top spot in China's fiercely competitive smartphone market, but it still faces a tough fight in its goal to become the world's top seller of phones.

Huawei said it shipped 73 million smartphones during the first six months of the year, an increase of 21% from the same period last year. It said strong sales growth in China and Europe powered that increase, and that it sold more high-end phones.

Though Huawei is narrowing the gap with **Apple** Inc. and South Korea's Samsung Electronics, it still has some catching up to do with its rivals in the competitive and slowing smartphone market, especially overseas. It had 9.9% of global market share in the first quarter, up a percentage point from a year ago but behind Apple and **Samsung**, according to analytics firm Canalys. The company has been in third place for two years.

Huawei is already a major player in the sale of networking gear and telecommunications equipment, along with Sweden's Ericsson AB.

Last year, the company's top consumer executive, Richard Yu, set a target of becoming the No. 1 smartphone ven-

dor within five years.

At the company's Shenzhen headquarters Thursday, Mr. Yu said Huawei is sticking by its goal. A priority is boosting its sales and brand image in the more profitable high-end phone market, he said. "We are trying to build up a high-end and premium brand image," Mr. Yu said.

Huawei launched a new flagship model, the P10, earlier this year. Meant to challenge Samsung and Apple, the phone featured improvements on the dual-lens camera on the back of the phone and the selfie camera on the front, developed in conjunction with Germany's Leica Camera AG.

Mr. Yu said the company has shipped more than six million P10 phones since its launch. He said the company plans to release another high-end phone, the Mate 10, around the time of Apple's iPhone 8 release later this year.

Overseas, Huawei has invested heavily in marketing and last year spent more than \$11 billion on research and development across the entire company, including on patents to build its brand portfolio. The company has also expanded its gadget offerings beyond just handsets, pushing into wearables with a smartwatch and earlier this year unveiling a laptop version of its MateBook tablet.

While Huawei is a house-

### Middle of the Pack

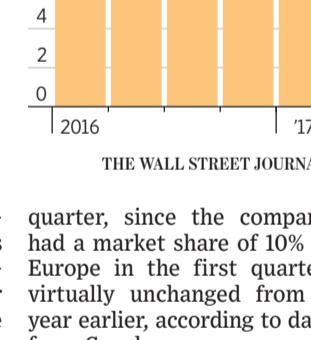
Huawei's smartphone business has made strides taking on rivals Apple and Samsung but remains third in market share, and its phones command lower prices.

#### Europe's average sale price for smartphones in 2016

Company	Avg. Sale Price (\$)
Apple	\$745
Samsung	\$414
Huawei	\$312
LG	\$251
Lenovo	\$227

Source: Canalys

#### Huawei's global market share by smartphone shipment



quarter, since the company had a market share of 10% in Europe in the first quarter, virtually unchanged from a year earlier, according to data from Canalys.

Huawei has struggled to crack Asian markets outside of China, where regulatory hurdles and a marketplace favoring low-cost models have presented challenges. In Southeast Asia and India, Canalys data show Huawei had a 3% share of the market in the first quarter, putting it in eighth place.

The challenges facing Huawei are compounded by a broader slowdown in the global handset business and a

slate of new models from rivals. Along with Apple's iPhone 8 later this year, Samsung launched a new flagship phone in May, the Galaxy S8, hoping to move past the massive Galaxy Note 7 recall in 2016.

Among Huawei's biggest challenges: its small presence in the U.S., the world's largest market for high-end smartphones. The company's telecom equipment has been effectively banned in the U.S. since a 2012 congressional report that recommended U.S. carriers avoid Huawei's gear. Huawei has repeatedly denied allegations in the report that the company could use its gear to spy on Americans, but it still lacks a major carrier partner in the U.S.

Another challenge: getting Huawei's customers to pay more for its smartphones. A Huawei phone in Europe, for example, cost \$312 on average last year—less than half the average price of an Apple smartphone, and below the \$414 for an average Samsung phone, according to Canalys.

Huawei's overall consumer business generated 105.4 billion yuan (\$15.6 billion) in revenue in the first half of the year, up 36% from a year ago. The company isn't publicly traded and only reports selective financial metrics.

Revenue across the entire corporation rose 15% to 283.1 billion yuan during the first half.

Continued from the prior page senior executive. Search engine **Baidu** Inc. unveiled an Amazon Alexa-like voice system that powers hardware.

From tech giants to consumer-electronics makers, all see voice-activated products as the gateway to a future where platforms animated by artificial intelligence will power homes, cars and offices. To some, this first wave in the AI revolution already looks frothy.

"This is definitely a bubble," says Mr. Li of Ximalaya, which launched a smart speaker in June.

China's online population is barely growing—2.9% last year by official data—and the number of hours spent online hasn't budged in two



Audio-sharing site Ximalaya in June launched a smart speaker.

years—3.8 hours a day. Internet companies need new ways to engage users, and smart speakers look like the next big thing.

For the internet giants, voice command is seen as a critical technology, the new interface between humans and computers, after keyboards and touch screens. For ambitious startups, the smart speaker is an opportunity, like apps were at the advent of the mobile internet age.

For electronics manufacturers, the smart speaker may keep production lines and sales humming, just as laptops, tablets, smartphones and drones did.

An added inducement to jump in is that Amazon's, Google's and Apple's smart speakers don't offer voice interfaces in Chinese—and those are hard to build.

Smart speakers require

from shopping to payment.

The speakers are supposed to interact with users and learn their preferences over time.

That means heavy re-

search and development.

"It's like when you were trying to build a smartphone in 2007 only to find that you had to build the Android operating system and the mobile apps running on the phone, too. It's not something for small startups," says Mr. Song, the Sugr founder.

Ximalaya's owner, **Shanghai Zendai Ximalaya Network Technology** Co., joined

with the new AI subsidiary of app developer Cheetah Mobile Inc., which hired more than 200 engineers to work on the smart speaker.

"It was a lot of work," says Mr. Li, the vice president. He says they used more than 80,000 different

voices to ensure the speaker understands when people call its name, "Xiaoya." When they changed the cover fabric for the speaker, the voice recognition rate fell from 90% to 10%. They then spent a month rewriting the algorithm.

Technology aside, the pack might be chasing a market that isn't yet there. Having only recently risen to the middle class, many Chinese have never lived with stereo speakers, much less a digital assistant, so they will need to get comfortable with both.

E-commerce giant JD.com, which launched a smart speaker in 2015, sold 100,000 units last year and expects to sell hundreds of thousands this year. At prices between 179 yuan to 998 yuan (\$27 to \$148), the sales revenue is negligible for the company whose total revenue was

260.2 billion yuan in 2016. Since the launch three weeks ago, Alibaba's Tmall shoppers preordered roughly 7,600 AliGenie smart speakers at 499 yuan each ahead of the Aug. 10 shipping target.

Ximalaya has an advantage, says Mr. Li, because the audio-sharing site's 370 million registered users and 22 million daily users are natural customers for a smart speaker. The company sold 50,000 units of Xiaoya at 699 yuan each the day it was launched and expects to sell one million units this year at 999 yuan each, including subscription services.

As for his many competitors flooding into the field, "I think 80% to 90% of them will die next year," Mr. Li says.

Follow Li Yuan on Twitter @LiYuan6 or write to li.yuan@wsj.com.

## FINANCE & MARKETS

# Deutsche Bank Posts 10% Fall in Revenue

Shares slide 6.5% even as cost-cutting moves help lender beat earnings forecasts

BY JENNY STRASBURG

**Deutsche Bank AG's** cost-cutting moves helped it beat analysts' earnings expectations in the second quarter, but year-over-year revenue fell in all three business divisions as its chief executive faces pressure to revive results amid a continuing overhaul.

Deutsche Bank shares fell 6.5% Thursday, to €15.53. They are down about 20% from their highs earlier this year after the lender put behind it a major litigation threat and then embarked on a successful €8 billion capital raise.

On Thursday, Deutsche Bank executives again faced questions from analysts about how much more investment-banking market share the bank might lose to rivals. Shares continued to fall after an early afternoon conference call. On that call, Chief Executive John Cryan said strategic changes are "starting to bear fruit" but warned that a lot of work remains.

The German lender said quarterly net income was €466 million (\$546.8 million), compared with €20 million for the same period a year earlier. But investors focused more on Deutsche Bank's companywide revenue, which declined a worse-than-expected 10% from the year-earlier period, to €6.6 billion.

Also on Thursday, Deutsche Bank said it reached an agreement with 11 mostly former senior executives who will voluntarily forfeit €38.4 million (\$45 million) in frozen bonus payments. That amounts to more than half of the almost €70 million in bonuses the bank froze while it investigated whether the executives,



CEO John Cryan cited 'muted client activity' in capital markets. He said strategic changes are 'starting to bear fruit' but work remains.

ALEX KRAUS/BLOOMBERG NEWS

including former co-CEOs Anshu Jain and Jürgen Fitschen and former CEO Josef Ackermann, could be held personally liable for legal and other costs tied to activities when they served as management board members.

Deutsche Bank said its supervisory board found "insufficient factual and legal basis" to pursue such claims. The individuals voluntarily waived the unpaid bonuses and believe they upheld their duties as Deutsche Bank executives, the bank's statement said. The individuals declined to comment or couldn't be reached.

Investors want to see Deutsche Bank prove it can cut its workforce, expenses and overall risk-taking without fur-

ther weakening its moneymaking engines.

But its biggest division, investment banking, posted worse-than-expected revenue declines last quarter in most key areas, from securities trading to trade financing.

Expectations for the quarter were modest, with analysts projecting Deutsche Bank to manage a narrow profit of about €169 million, according to consensus estimates of 12 analysts compiled by the bank.

Dismal results in the bank's huge trading division show it remains hobbled in the business it has long depended on most for profits. Overall trading revenue across debt, interest-rate products, currencies and equi-

ties was down 18% last quarter.

The fixed-income piece of that business—the most important for Deutsche Bank—performed roughly in line with big U.S. rivals during what was broadly a rough quarter

*Its biggest division, investment banking, posted worse-than-expected revenue.*

for debt trading. Deutsche Bank's fixed-income trading revenue was down 12%.

But unlike those U.S. banks, Deutsche Bank failed to get a

bump from clients' stock-trading.

The German bank's equities-trading revenue fell 28% from a year earlier. Not enough hedge funds and other clients have come back to the bank after a rocky 2016 to generate the volume of business it had a year ago, according to the bank. And the clients who have returned aren't paying enough fees to make up for the exodus.

Mr. Cryan said "muted client activity in many of the capital markets" hurt the lender. Net revenue was down 16% in investment banking, which includes deal advising, securities issuance and trading. In the private- and retail-banking unit, net revenue fell 7%. Asset-management reve-

nue fell 4%, but that division earned higher performance fees and would have shown a 7% revenue rise excluding a one-time accounting charge last year, Deutsche Bank said.

The lender said clients continued to return to Deutsche Bank last quarter, bringing €9 billion in net inflows across the retail and private bank, wealth management and asset management. This time last year, clients were pulling money and business from the bank over concerns about big legal charges and its capital cushion.

The lender is going through its second major restructuring in less than two years, recombining its investment bank and trading divisions and folding in a German retail-banking business, Postbank, that it had intended to sell. It is now integrating Postbank and has closed hundreds of bank branches as part of broader cost-cutting moves.

Deutsche Bank brought on a new chief financial officer, former Citigroup Inc. Treasurer James von Moltke, who started this month. Ex-banker-turned-finance chief Marcus Schenck is now overseeing the recombined investment bank along with trading-unit chief Garth Ritchie.

Mr. Cryan and his management team are under pressure to rejuvenate Deutsche Bank's lagging revenue after raising €8 billion in capital from shareholders earlier this year.

Citigroup Inc. analysts called Thursday's results "low-quality" because cost-cutting benefits can't keep making up for lagging performance, and Deutsche Bank hasn't proven it can revive revenue as much as investors expected.

The bank said it cut head count by almost 4,700 employees from a year ago, to 96,652 full-time workers, as of the end of June. Its noninterest expenses last year were down 15% from a year ago.

## Telecom Sector Is At Risk of Extinction

BY AKANE OTANI

In 2000, the S&P 500 telecom sector was stuffed with a dozen companies, including Nextel Communications and WorldCom Inc. Today, it is down to four.

This has created a strange dynamic for the group, which can swing wildly when the stock price of one or two of the companies change.

That was on display Thursday, when the S&P 500 telecom sector climbed roughly 4% in midday trading, led by a jump in shares of **Verizon Communications** Inc., and on Wednesday, when it rose 3%, boosted by a rally in AT&T Inc., after both companies reported quarterly earnings. Verizon was up nearly 7% midday Thursday.

The question now awaiting investors is: Will the sector disappear entirely?

Telecom's influence on the broader S&P 500 has waned over the years as companies have merged, been acquired or spun off businesses—leaving it the next obvious choice for a makeover, investors and analysts say. Telecom, which is made up of Verizon Communications, AT&T, **CenturyLink** Inc. and **Level 3 Communications** Inc., is the smallest of the S&P 500's 11 sectors.

"Right now when you look at what telecom is doing, it's usually just one of four stocks moving," said Art Hogan, chief market strategist at Wunderlich Securities. "It makes a great deal of sense to look at the sector."

A wave of possible changes to the S&P 500's classifications could overhaul the group and reshuffle billions of dollars in index-tracking funds that stay aligned with the makeup of the S&P 500. S&P Dow Jones Indices and fellow index provider **MSCI** Inc. said this month that they are considering rolling out a new sector, the communication-services sector, that would fold telecom stocks in with select media, entertainment, con-



## Biggest HNA Shareholder Doesn't Really Exist Yet

Who owns **HNA Group**, a multibillion-dollar Chinese conglomerate that holds a quarter of **Hilton Worldwide**

By Julie Steinberg,  
Anjani Trivedi  
and Cezary Podkul

**Holdings** Inc. and is trying to buy an investment firm from White House communications director Anthony Scaramucci?

The answer, it turns out, is a work in progress.

Closely held HNA's biggest shareholder, disclosed in a document released earlier this week, is a New York nonprofit that the group established in December and located in HNA's office building in Midtown Manhattan. That organization, Hainan Cihang Charity Foundation, has yet to commence operations, decide on what charitable causes to contribute to or work out details of how it will be funded, according to people familiar with the matter.

The HNA shares in question—a nearly 30% stake valued at tens of billions of dollars—have yet to be transferred to the foundation, the people said. HNA is learning as it goes: Executives recently held discussions with another big U.S. foundation to understand how it was being run, the people said.

HNA's disclosure of a big, new owner leaves many questions about the group unanswered, especially concerning the provenance of the 30% stake.

The shares had been held offshore by two private investors unrelated to HNA who donated the holdings to the foundation, people familiar with

the matter said.

The birth of Hainan Cihang Charity Foundation also reflects an opaque Chinese acquirer's struggle to conform to Western rules.

Many of China's most aggressive and entrepreneurial companies are closely held and disclose little information about their operations, ownership or funding. That has hurt them as they have rushed to expand overseas in recent years, with regulators, bankers and lawmakers in numerous countries questioning a wide variety of issues, including potential ties to the Chinese government and whether investments abroad were merely ways of moving private wealth out of China.

HNA, which has \$146 billion in assets and gets half its revenue from outside China, has encountered challenges at home and abroad. It has been one of the country's most aggressive overseas investors, whose \$25 billion in announced deals since the beginning of 2016 include stakes in **Deutsche Bank** AG, Hilton Worldwide Holdings and the yet-to-close purchase of a stake in hedge-fund investment firm **SkyBridge Capital** from Mr. Scaramucci.

A few months ago, however, Chinese regulators started probing the group's high debt levels. In the U.S., regulators didn't approve HNA's proposed stake in a Los Angeles-based in-flight entertainment equipment maker by a deadline, causing the deal to collapse this week.

If the foundation gets off the ground this year, as people close to HNA say it should, it will have to disclose more about

its funding, activities and holdings than most of the sprawling conglomerate, which is largely composed of private entities including hotels and airlines.

Hainan Cihang incorporated in New York, meaning it will have to follow the state's strict rules for nonprofits. It has applied for tax-exempt status as a U.S. private foundation, according to a person familiar with the application, which means it must disclose how much its holdings—including HNA's shares—are worth. That value is difficult to ascertain because HNA's limited disclosure obscures which of its units' debts and assets are considered part of the group balance sheet, and how much money the units make.

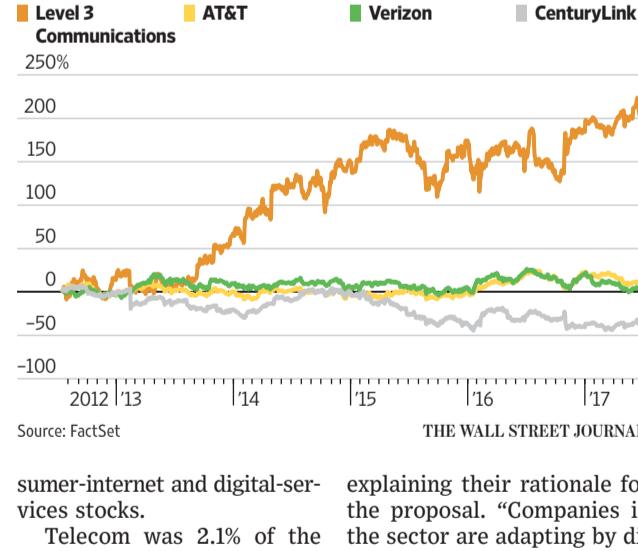
The foundation also will be bound by rules requiring roughly 5% of its net assets be disbursed for charitable purposes each year.

HNA wanted a New York center for its charitable operations both for the tax benefits and proximity to companies it has acquired and in which it has stakes, according to people familiar with the group's strategy.

Scrutiny around taxes has heightened in China, prompting companies to clean up their various overseas holdings, tax specialists say.

One example of a donation that may eventually come from the New York foundation is a previously announced \$25 million pledge to Harvard University, according to people familiar with the matter, and a six-volume book published by HNA earlier this year.

—Jenny W. Hsu  
and Chuin-Wei Yap  
contributed to this article.



sumer-internet and digital-services stocks.

Telecom was 2.1% of the S&P 500's overall market capitalization as of the end of June, according to S&P Dow Jones Indices, down from 8.7% in 1990.

Over that time, giants like the former SBC Communications bought Ameritech Corp. and AT&T Corp. before rebranding itself as AT&T, while GTE Corp. merged with Bell Atlantic and renamed itself Verizon Communications.

More recently, CenturyLink has been preparing to complete its purchase of Level 3 Communications, a move that would further reduce the number of stocks in the telecom sector.

Much of the deal activity in the telecom sector reflects the pressures the industry has faced. The sector "is changing as landlines disappear, smartphones become more affordable and internet connections become increasingly important," S&P Dow Jones Indices and MSCI said in a statement.

Investors, asset managers and analysts have said that the telecom sector is too narrowly defined and that it was due for a review, said David Blitzer, head of index policy and governance at S&P Dow Jones Indices.

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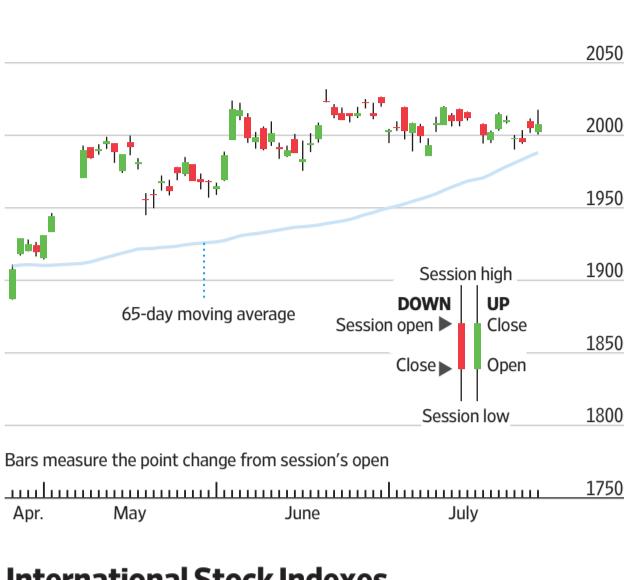
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## MARKETS DIGEST

### Nikkei 225 Index

**20079.64** ▲ 29.48, or 0.15%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

Apr. May June July

17500 18000 18500 19000 19500 20000 20500

### STOXX 600 Index

**382.32** ▼ 0.42, or 0.11%

High, low, open and close for each trading day of the past three months.



Apr. May June July

365 370 375 380 385 390 395

### S&P 500 Index

**2475.42** ▼ 2.41, or 0.10%

High, low, open and close for each trading day of the past three months.



Apr. May June July

2300 2330 2360 2390 2420 2450 2480

### International Stock Indexes

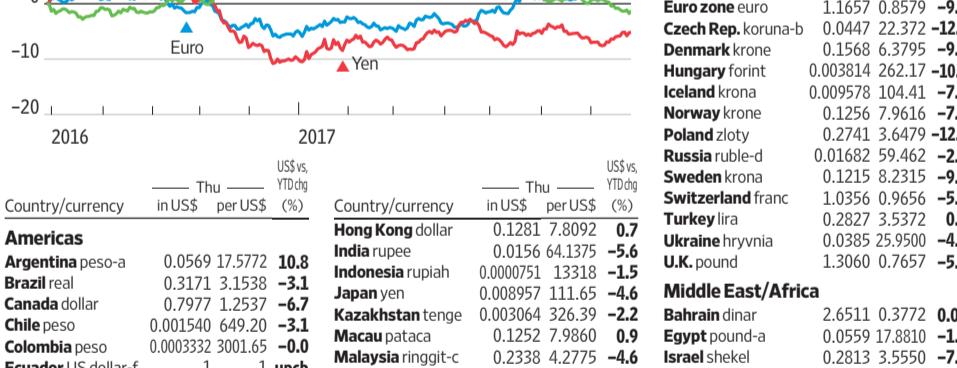
Data as of 4 p.m. New York time

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
<b>World</b>	<b>The Global Dow</b>	<b>2851.75</b>	<b>2.22</b>	<b>▲ 0.08</b>	2384.24	2865.60	2851.75	2865.60	12.8
	<b>MSCI EAFE</b>	<b>1937.83</b>	<b>8.46</b>	<b>▲ 0.44</b>	1614.17	1937.83	1937.83	1937.83	12.9
	<b>MSCI EM USD</b>	<b>1067.91</b>	<b>5.62</b>	<b>▲ 0.53</b>	838.96	1070.87	1070.87	1070.87	34.5
<b>Americas</b>	<b>DJ Americas</b>	<b>595.83</b>	<b>-0.78</b>	<b>-0.13</b>	503.44	598.27	598.27	598.27	10.3
Brazil	<b>Sao Paulo Bovespa</b>	<b>65280.14</b>	<b>269.57</b>	<b>▲ 0.41</b>	55695.52	69487.58	69487.58	69487.58	8.4
Canada	<b>S&amp;P/TSX Comp</b>	<b>15185.21</b>	<b>13.82</b>	<b>▲ 0.09</b>	14319.11	15943.09	15943.09	15943.09	-0.7
Mexico	<b>IPC All-Share</b>	<b>51256.65</b>	<b>-343.61</b>	<b>-0.67</b>	43998.98	51772.37	51772.37	51772.37	12.3
Chile	<b>Santiago IPSA</b>	<b>3831.10</b>	<b>0.30</b>	<b>▲ 0.01</b>	3120.87	3839.82	3839.82	3839.82	18.9
<b>U.S.</b>	<b>DJIA</b>	<b>21796.55</b>	<b>85.54</b>	<b>▲ 0.39</b>	17883.56	21798.47	21798.47	21798.47	10.3
	<b>Nasdaq Composite</b>	<b>6382.19</b>	<b>-40.56</b>	<b>-0.63</b>	5034.41	6460.84	6460.84	6460.84	18.6
	<b>S&amp;P 500</b>	<b>2475.42</b>	<b>-2.41</b>	<b>-0.10</b>	2083.79	2484.04	2484.04	2484.04	10.6
	<b>CBOE Volatility</b>	<b>10.19</b>	<b>0.59</b>	<b>▲ 6.15</b>	8.84	23.01	23.01	23.01	-27.4
<b>EMEA</b>	<b>Stoxx Europe 600</b>	<b>382.32</b>	<b>-0.42</b>	<b>-0.11</b>	328.80	396.45	396.45	396.45	5.8
	<b>Stoxx Europe 50</b>	<b>3124.13</b>	<b>-8.41</b>	<b>-0.27</b>	2720.66	3279.71	3279.71	3279.71	3.8
Austria	<b>ATX</b>	<b>3254.34</b>	<b>11.24</b>	<b>▲ 0.35</b>	2166.58	3256.74	3256.74	3256.74	24.3
Belgium	<b>Bel-20</b>	<b>3985.60</b>	<b>32.90</b>	<b>▲ 0.83</b>	3362.71	4055.96	4055.96	4055.96	10.5
France	<b>CAC 40</b>	<b>5186.95</b>	<b>-3.22</b>	<b>-0.06</b>	4293.34	5442.10	5442.10	5442.10	6.7
Germany	<b>DAX</b>	<b>12212.04</b>	<b>-93.07</b>	<b>-0.76</b>	10092.53	12951.54	12951.54	12951.54	6.4
Greece	<b>ATG</b>	<b>818.63</b>	<b>-11.58</b>	<b>-1.39</b>	546.95	859.78	859.78	859.78	27.2
Hungary	<b>BUX</b>	<b>35828.70</b>	<b>263.80</b>	<b>▲ 0.74</b>	27001.48	36280.07	36280.07	36280.07	12.0
Israel	<b>Tel Aviv</b>	<b>1451.48</b>	<b>-2.16</b>	<b>-0.15</b>	1372.23	1490.23	1490.23	1490.23	-1.3
Italy	<b>FTSE MIB</b>	<b>21634.72</b>	<b>57.16</b>	<b>▲ 0.26</b>	15923.11	21828.77	21828.77	21828.77	12.5
Netherlands	<b>AEX</b>	<b>530.35</b>	<b>2.63</b>	<b>▲ 0.50</b>	436.28	537.84	537.84	537.84	9.8
Poland	<b>WIG</b>	<b>62171.70</b>	<b>-190.59</b>	<b>-0.31</b>	46052.49	62853.78	62853.78	62853.78	20.1
Russia	<b>RTS Index</b>	<b>1030.95</b>	<b>10.35</b>	<b>▲ 1.01</b>	898.05	1196.99	1196.99	1196.99	-10.5
Spain	<b>IBEX 35</b>	<b>10603.40</b>	<b>28.00</b>	<b>▲ 0.26</b>	8229.40	11184.40	11184.40	11184.40	13.4
Sweden	<b>SX All Share</b>	<b>566.59</b>	<b>-1.51</b>	<b>-0.27</b>	483.91	598.42	598.42	598.42	6.0
Switzerland	<b>Swiss Market</b>	<b>9017.79</b>	<b>27.45</b>	<b>▲ 0.31</b>	7585.56	9148.61	9148.61	9148.61	9.7
South Africa	<b>Johannesburg All Share</b>	<b>54888.89</b>	<b>52.70</b>	<b>▲ 0.10</b>	48935.90	55222.81	55222.81	55222.81	8.4
Turkey	<b>BIST 100</b>	<b>108391.71</b>	<b>1185.55</b>	<b>▲ 1.11</b>	71792.96	108605.51	108605.51	108605.51	38.7
U.K.	<b>FTSE 100</b>	<b>7443.01</b>	<b>-9.31</b>	<b>-0.12</b>	6615.83	7598.99	7598.99	7598.99	4.2
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	<b>1682.49</b>	<b>13.00</b>	<b>▲ 0.78</b>	1405.52	1691.23	1691.23	1691.23	18.3
Australia	<b>S&amp;P/ASX 200</b>	<b>5785.00</b>	<b>8.40</b>	<b>▲ 0.15</b>	5156.60	5956.50	5956.50	5956.50	2.1
China	<b>Shanghai Composite</b>	<b>3249.78</b>	<b>2.11</b>	<b>▲ 0.06</b>	2953.39	3288.97	3288.97	3288.97	4.7
Hong Kong	<b>Hang Seng</b>	<b>27131.17</b>	<b>190.15</b>	<b>▲ 0.71</b>	21574.76	27131.17	27131.17	27131.17	23.3
India	<b>S&amp;P BSE Sensex</b>	<b>32383.30</b>	<b>0.84</b>	<b>▲ 0.00</b>	25765.14	32383.30	32383.30	32383.30	21.6
Japan	<b>Nikkei Stock Avg</b>	<b>20079.64</b>	<b>29.48</b>	<b>▲ 0.15</b>	16083.11	20230.41	20230.41	20230.41	5.0
Singapore	<b>Straits Times</b>	<b>3354.71</b>	<b>17.99</b>	<b>▲ 0.54</b>	2787.27	3354.71	3354.71	3354.71	16.5
South Korea	<b>Kospi</b>	<b>2443.24</b>	<b>8.73</b>	<b>▲ 0.36</b>	1958.38	2451.53	2451.53	2451.53	20.6
Taiwan	<b>Weighted</b>	<b>10508.37</b>	<b>89.26</b>	<b>▲ 0.86</b>	8902.30	10513.96	10513.96	10513.96	13.6

Source: SIX Financial Information; WSJ Market Data Group

### Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency      Thu      YTD chg (%)

Country/currency	Thu	YTD chg (%)
US\$ vs. Yen	86.58	0.44
US\$ vs. Euro	86.58	0.44
US\$ vs. US\$	86.58	0.44
Country/currency	Thu	YTD chg (%)
US\$ vs. Yen	86.58	0.44
US\$ vs. Euro	86.58	0.44
US\$ vs. US\$	86.58	0.44

Country/currency      Thu      YTD chg (%)

Country/currency	Thu	YTD chg (%)



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## FINANCE & MARKETS

# Losses in Tech Stocks Weigh on Indexes

BY AKANE OTANI  
AND GEORGI KANTCHEV

U.S. technology stocks slid abruptly Thursday, pulling the S&P 500 away from record territory.

**THURSDAY'S MARKETS** The declines began around mid-day and accelerated, sending technology stocks sharply lower before they pared losses through the end of the session. The moves

marked a reversal from the morning, when technology stocks led gains in broader indexes.

In a week packed with earnings reports, some traders said the moves could have been due to investors unwinding bets on what has been one of the best-performing sectors in the stock market this year.

The Nasdaq Composite, which is heavily influenced by tech giants including Facebook, Google and Microsoft, as

well as biotechnology firms, ended down 0.6%.

The Dow Jones Industrial Average rose 85.54 points, or 0.4%, to 21796.55, a closing record. The S&P 500 fell 0.1%.

In Europe, the Stoxx Europe 600 was down 0.1% to 382.32 after swinging on the latest batch of corporate earnings.

Shares of Royal Dutch Shell gained 0.7% after the company reported a sharp increase in cash flow from operating activities. Deutsche Bank shares

fell 6.5% after the bank beat analysts' expectations in the second quarter but said revenue fell on the year.

Corporate earnings reports have largely pointed to continued strength among U.S. firms. With second-quarter results in from nearly half of S&P 500 companies, the broader index is poised to report earnings growth of 9% from the year-earlier period, according to FactSet.

That would build on gains

from the first quarter, when U.S. companies reported their fastest earnings growth in nearly six years.

The S&P 500 tech sector was down 1.1% in late trading, with Advanced Micro Devices, Nvidia and Adobe Systems posting among the steepest losses.

The declines offset a rally in shares of Facebook, which said Wednesday afternoon that profit rose 71% in the second quarter. Facebook shares

added 2.9%.

Consumer-discretionary shares rose 0.6% in the S&P 500 in late trading. Viacom jumped 3.2% after The Wall Street Journal reported the firm was out of the running to acquire media company Scripps Networks Interactive.

Government bonds pulled back, with the yield on the 10-year U.S. Treasury note rising to 2.312% from 2.285% on Wednesday. Yields rise as bond prices fall.

## Dollar's Decline Bedevils Global Central Bankers

BY SAUMYA VAISHAMPAYAN  
AND JAMES GLYNN

The dollar's continued slump against a range of global currencies is making life more complicated for central bankers outside the U.S., putting downward pressure on inflation at a time when many are contemplating how to exit from years of loose policy.

The dollar's decline overnight extended into Asian trading hours Thursday. The ICE U.S. dollar index, which measures the U.S. currency against six of its peers, fell 0.2% to its lowest level in more than a year. That came after the Federal Reserve's latest policy statement, which indicated that officials have become more concerned about a recent slowdown in domestic inflation.

The dollar's slide this week extends a run of weakness for the greenback in recent months that has fully reversed its surge in the wake of U.S. elections last November.

The euro and Australian dollar have both surged more than 11% against the dollar this year, while the British pound has gained 6.4% and the Japanese yen has risen 5.2%. On Thursday, the Aussie dollar

hit its highest level since May 2015 at 80.2 U.S. cents, while the Chinese central bank set the yuan at its highest level against the dollar since Oct. 18 at 6.7307 per dollar.

The Fed's recent caution, as well as waning optimism over the pace at which President Donald Trump's economic policies might take effect, have contributed to the dollar's recent weakness. Investors now see a less-than-50% chance that the Fed will raise rates again this year, according to data from CME Group Inc.

For central bankers in places like Europe and Japan that have fought long struggles against low inflation, the dollar's weakness is adding another wrinkle. A stronger currency tends to drag on inflation, because it makes imported goods and services less expensive. It can also weigh on growth for trade-reliant economies, as it makes a country's exports more expensive in dollar terms.

"Clearly, both yen and euro appreciation have been unwelcome" given low inflation around the world, Joachim Fels, global economic adviser at fund manager Pacific Investment Management Co., said in a note Wednesday.

While central bankers tend to couch any concerns in cautious language, several have noted currency moves in recent communications.

European Central Bank President Mario Draghi said last week that "the repricing of the exchange rate has received some attention" during the central bank's latest meeting.

Mr. Draghi described the economic recovery in the eurozone as "robust" but also highlighted the region's low inflation, suggesting the bank's stimulus efforts could need to remain in place for a while longer. A stronger euro only complicates that calculus, because it should curb inflation.

For sure, several analysts argue that rising currencies can be taken as a sign that the global economy is in reasonable health, and that they shouldn't derail central bankers from any plans to tighten policy.

"There seems to be some degree of consensus among global central banks that the forces that are capping price pressures are likely to be transitory," said Todd Elmer, head of G-10 FX strategy for Asia at Citi in Singapore.



The Bank of Japan in Tokyo. The central bank has struggled to raise the country's inflation rate.

Still, for export-reliant economies like Japan, the yen's strength this year has given the central bank another headache.

The Bank of Japan has been trying to raise the country's stubbornly low inflation for years by continuing to buy up trillions of yen of government bonds. Last week, though, it again pushed back the date when it expects to achieve its 2% inflation target.

Meanwhile, Australia's central bank has described the gains in its currency against the U.S. dollar this year as "not helpful." Consumer prices

rose more slowly than expected in the second quarter, according to data released Wednesday, prompting markets to wind back their expectations for when interest rates will be raised.

Even if the Reserve Bank of Australia wants to join other central banks in raising interest rates, it is now effectively paralyzed, said Michael Blythe, chief economist at Commonwealth Bank of Australia.

"The RBA clearly is in no hurry to lift rates....Inflation remains dead in the water," he said.

Currency gains haven't

been confined to developed markets this year: Emerging-market currencies have soared as investors continue to plow money into stocks and bonds in those countries in search of higher returns. Some analysts say central banks in Asia could prove more tolerant of currency gains because their growth has been solid, driven by robust exports.

The Korean won has rallied more than 8% against the dollar, while the Indian rupee is up 6% and the Brazilian real has gained about 3.7%.

—Chelsey Dulaney contributed to this article

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# MARKETS

## Weak Dollar Juices Stocks

Favorable exchange rate gives earnings lift to U.S. exporters and supports shares' rally

By BEN EISEN

A pickup in global growth and a weakening dollar are boosting profits at many U.S. exporters, helping support the yearslong rally in the stock market and tipping major indexes to new records.

**Boeing** Co. led the Dow Jones Industrial Average to a new high on Wednesday, rising almost 10% after beating analyst expectations and giving investors confidence that rising global airline traffic will lead airlines to follow through on the jet orders they have placed.

Boeing joined **Facebook** Inc. and **Hershey** Co. in reporting strong earnings Wednesday, and healthy earnings continued on Thursday morning.

The reports picked up on a theme recurring during the second-quarter earnings season: Companies are benefiting from growing demand for goods and services by foreign buyers as well as expectations for faster global growth with continued low inflation.

The belief in corporate earnings has helped propel markets to new highs for the past year. Recent earnings periods have helped solidify that view. Earnings from America's biggest companies have in large part helped keep the market rally going in the face of political uncertainty at home and abroad.

Profits at companies in the S&P 500 rose 14% in the first three months of the year and second-quarter earnings are estimated to have climbed 8.2% versus the prior-year period, according to FactSet.

"Earnings in general have been very good," said Paul Brigand, managing director and head of trading at Direxion

### Tailwind

The U.S. dollar has tumbled, which could help extend the stock-market rally by bolstering profits at U.S. exporters.



Source: WSJ Market Data Group  
THE WALL STREET JOURNAL.

Investments, an exchange-traded fund provider. "That's fueled the continued optimism in the market."

The declining dollar is also helping drive earnings higher. U.S. exports become cheaper to foreign buyers when the dollar's value falls.

The U.S. currency slid again Wednesday after the Federal Reserve left its benchmark interest rate unchanged. Many analysts don't expect the Fed to raise rates again until December, and a slowdown in inflation could keep the dollar under pressure. With the Fed's commentary suggesting the central bank will keep rates low for the time being, investors say U.S. stocks should keep eking out gains, provided that corporate earnings continue to be supportive.

**Coca-Cola** Co. Chief Financial Officer Kathy Waller cited the "slightly better currency environment" as a reason the company was raising its earnings forecast for the full year.

The company on Wednesday said it expects adjusted earnings per share to be flat to down 2%, compared with guidance of a decline of 1% to 3% from the year prior. Its shares climbed 1.1% to \$45.74 on Wednesday and were up 0.4% Thursday afternoon.

"Clearly a weaker dollar is

helpful there," Fredrik Eliasson, the sales and marketing chief at railroad company **CSX** Corp., said on an earnings call last week, referring to the company's coal-exports business. The company transports U.S. exporters' freight. "And I think as we look at some of the other markets, we will see some of those benefits. I don't think we've seen a lot of it yet, but anytime we have a little bit of weaker dollar, it does help them."

The ICE Dollar index, which measures the currency against six peers, was down about 8.6% this year at its lowest level in 13 months as of Wednesday. The euro, which is heavily weighted in the index, has been a standout performer, rising roughly 12% against the dollar this year.

The dollar has tumbled in 2017 after a rally that followed the U.S. presidential election, when investors bet on faster growth and higher inflation under the Trump administration. Tepid data on inflation, auto and retail sales have pressured the dollar recently, and investors and analysts have tempered expectations for President Donald Trump's agenda.

The Fed has penciled in one more rate increase this year, but some investors believe that plan will be thwarted by persistently weak inflation, which has continued to undershoot the central bank's annual target of 2%. The fed funds futures market, in which traders bet on the future rate path, suggests a 49% probability of at least one more increase before the end of the year, according to data from CME Group.

A weaker dollar, if it lasts, could further fuel earnings gains in the coming quarters. If the ICE Dollar Index ends 2017 about where it is now, the drop for the year would lift per-share earnings in the S&P 500 by roughly 4% in 2018, according to Morgan Stanley, which estimates that profits increase 1% for every 2% fall in the dollar.

Some experts say the dollar is poised to fall further, particularly if Mr. Trump, facing resistance to his economic agenda, attempts to use the currency as a tool to help the economy grow faster. He could do so by "jawboning the dollar further down and instituting policies that are more dollar depreciative in nature," said Adrian Helfert, head of global fixed income at Amundi Smith Breeden.

Mr. Trump praised Fed Chairwoman Janet Yellen for keeping the dollar "not too strong," in an interview with The Wall Street Journal Tuesday.

There are risks for companies banking on a lift from currency movements: If the Trump administration chooses to pursue protectionist trade policies that provoke tit-for-tat tariffs, it could undermine the advantages of a weaker dollar by adding other costs for exporters. Mr. Trump, for example, is considering whether to block steel imports, telling the Journal Tuesday that he would take his time to make a decision.

Many firms hedge their currency exposure to reduce its impact on earnings. Toy company **Hasbro** Inc., for example, hedges nearly three-quarters of its costs, Chief Financial Officer Deborah Thomas said on an earnings call Monday.

"To the extent we haven't hedged, we should get some benefit from it. But on a full-year basis, again, we really hedge to protect the pricing that we offered to our retailers," she said.

Some said a stronger global economy was helping results. M. Keith Waddell, chief financial officer at staffing agency **Robert Half International** Inc., cited a strong operating environment outside the U.S., particularly in Europe, on an earnings call Tuesday afternoon. The stronger euro, he said, was simply "even more icing."

—Amrit Ramkumar contributed to this article.



LKK Health Products Group purchased the London building known as the Walkie Talkie because of its shape, left, for \$1.68 billion.

## Hong Kong Firm Buys 'Walkie Talkie'

By OLGA COTAGA

LONDON—One of London's most recognizable buildings has been bought by a Hong Kong-based company in the U.K.'s largest office deal, highlighting the continuing appeal of the city's real-estate market to Asian investors.

The building, known as the Walkie Talkie because of its shape, was bought by **LKK Health Products Group** for £1.28 billion (\$1.68 billion) from **Land Securities Group** and **Canary Wharf Group**.

The deal is the latest purchase by an Asian investor of a landmark property in London's financial district and shows the attractiveness of the City of London, as the area is known, despite the uncertainty caused by Britain's vote to leave the European Union.

Commercial-property investment in the City of London reached £4.98 billion in the first six months of 2017, up 17% compared with the first half of 2016, according to real estate adviser Savills.

In March, Hong Kong buyer

**CC Land Holdings** Ltd., controlled by Cheung Chung Kiu, bought the Leadenhall Building, known as the Cheesegrater for its triangular shape, for £1.15 billion. The building is the tallest tower in London's main financial district.

"Since the vote to leave the EU, capital targeting London from the Asia-Pacific region has increased to record levels," said James Beckham, head of London capital markets at Cushman & Wakefield. The firm advised LKK on the purchase of the Walkie Talkie and said the sale was the U.K.'s largest office deal by value.

Asian investors have accounted for 50% of real-estate deals in the City of London in the first half of 2017, according to Savills. "Demand for trophy assets remains strong this year," Savills said in a recent report.

The Walkie Talkie building was developed by its previous owners in 2010, completed in 2014 and comprises 671,000 square feet of office space on 34 floors in the City of London's insurance district.

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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## AstraZeneca's Cautionary Tale

Chasing exciting new developments in medicine can be a very expensive endeavor for investors.

Such is the takeaway from **AstraZeneca**'s stunning announcement Thursday that a hotly anticipated clinical trial didn't meet expectations.

The company's combination of new cancer drugs failed to shrink tumors any more effectively than chemotherapy in patients with advanced lung cancer. The revelation overshadowed second-quarter earnings that topped analyst expectations.

The trial will continue through next year, and there is still a possibility that the drugs will show a survival benefit. Investors took no comfort in that fact: AstraZeneca shares dropped 15% in London trading.

The news rippled through rivals' share prices as well.

**Bristol-Myers Squibb** shed about 3% and **Merck & Co.** gained 3.3% in late U.S. trading. Merck has a key part of the lung cancer market that topped analyst expectations.

Share prices for companies of all sizes have gotten

### Safety Signal



Sources: FactSet, Bloomberg News (photo)  
THE WALL STREET JOURNAL.



AstraZeneca quotes shown at the New York Stock Exchange

self for the time being, while Thursday's news appears to have negative implications for a key part of Bristol-Myers's new-drug pipeline.

Immunotherapy drugs, which leverage the body's immune system to fight tumors, are arguably the hottest segment of the market for biotech and pharmaceutical companies.

Share prices for companies of all sizes have gotten

a boost thanks to investor enthusiasm. AstraZeneca's U.S. shares had appreciated 24% this year before Thursday's meltdown. And some of these drugs already have hit the market and generated impressive financial returns, in addition to providing significant benefits to cancer patients on an overall basis.

At the same time, trial failures are starting to pile up. A key Bristol-Myers lung

cancer trial failed last summer, and the stock has yet to recover a year later. Even

Merck, which now is the clear market leader in immuno-oncology, announced this week that a clinical trial in head and neck cancer missed the target.

Successfully anticipating clinical trial outcomes with any consistency is a tall order for almost any outside observer.

Investors can protect themselves by not overpaying for growth, though. AstraZeneca shares traded at 17 times forward earnings before the trial results, according to FactSet. That was close to a 10-year high. Bristol-Myers traded at an even loftier 25 times forward

earnings last summer before its shares were leveled.

"You've got to be in it to win it" is Wall Street's mantra when promising technologies emerge. Thursday's collapse is a reminder that great rewards generally come with great risks.

—Charley Grant

### OVERHEARD

A new diagnostic test is flying off the shelves. **Exact Sciences** reported second-quarter revenue of \$57.6 million on Tuesday afternoon, thanks to strong growth in its signature product, Cologuard.

The company reported more than 135,000 completed tests using Cologuard, which screens for colorectal cancer in patients with an average risk profile. Exact Sciences expects at least 550,000 completed tests this year.

Using Cologuard is less invasive than a traditional colonoscopy, but the method does come with its own hassles.

Patients need to ship a stool sample to the company's testing center, which analyzes the sample and provides the result to the patient's physician.

Those results had shareholders beaming. The stock climbed 6.2% on Wednesday, and it had tripled this year.

It is less clear whether mail carriers are happy.

## Activist May Have a Point On Nestlé

If activist Daniel Loeb's hopes for food giant **Nestlé** are to bear fruit, he needs support from other investors. Weak second-quarter results reported Thursday may push a few more in his direction.

Like other consumer-goods groups, Europe's most valuable company is struggling to grow at the healthy clip investors once took for granted. Unlike other consumer-goods groups, Nestlé isn't offsetting its growth problem with a more radical approach to trimming costs.

Second-quarter organic sales, which strip out the effects of acquisitions and currencies, were up just 2.4% year over year, barely above the first-quarter growth rate despite a boost from a late Easter.

Management once again tempered expectations, suggesting full-year growth would be in the lower half of the range of 2% to 4% unveiled by new Chief Executive Ulf Mark Schneider in February.

Nestlé's underlying operating margin was all but flat at 15.9%; cost savings were offset by rising commodity prices. Mr. Loeb argued in an open letter last month that management should set a formal margin target of 18% to 20% by 2020, as Unilever has done.

Mr. Schneider has stressed the need to balance margin gains with reinvestment in innovation and other sources of top-line growth.

Nestlé's stellar long-term record has earned it loyal investors. But each quarter of mediocre growth undermines the company's exceptionalism. Mr. Loeb may be onto something.

—Stephen Wilmot

## Facebook Investors Enjoy Rapid Growth While It Lasts

Facebook is as popular as ever. That may be making it a little harder for it to impress its friends.

The social-networking giant on Wednesday reported second-quarter earnings and revenue that exceeded analysts' expectations. Its monthly active user base now exceeds two billion people. For some perspective, the population of people in the world between the ages of 15 and 64 living in countries where Facebook isn't banned is only about twice as high.

Some 66% of Facebook's monthly active users continue to visit it daily. But while 45% top-line growth from a year earlier and 24%

makes them less valuable from the standpoint of advertising.

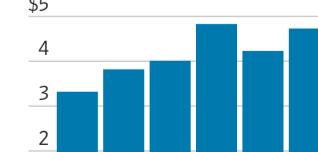
The dynamic—and the fact that Facebook plans to stop inserting more ads in users' feeds—heightens the pressure on the company to generate more revenue from existing users with new ad formats, including video.

It also must begin generating revenue from its Messenger and WhatsApp platforms.

Facebook started showing ads in Messenger this month, and Chief Executive Mark Zuckerberg said

### Worthy Friends

Facebook's average revenue per user



Sources: the company; Elise Amendola/AP Photo

THE WALL STREET JOURNAL.

Sheryl Sandberg emphasized that it was still early days for generating revenue from

Messenger.

Facebook did cheer investors when it narrowed the range of its expectations for full-year operating-expense growth to

Can you  
wear a tux  
without a bow  
tie? Let the  
debate begin  
**W3**



# OFF DUTY



Grilled leg of  
lamb. Roasted  
apricots. A union  
made in 35  
minutes  
**W4**

EATING | DRINKING | STYLE | FASHION | DESIGN | DECORATING | ADVENTURE | TRAVEL | GEAR | GADGETS

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THE WALL STREET JOURNAL.

Friday - Sunday, July 28 - 30, 2017 | **W1**



VICTOR PRADO FOR THE WALL STREET JOURNAL, FOOD STYLING BY HEATHER MELDRUM, PROP STYLING BY STEPHANIE HANES

## Growing Fashionable

Is kohlrabi the new kale? As chefs, farmers and wholesalers plot emerging produce trends, here's a glimpse into the making of an 'It' vegetable—and what smart market bags will be hauling home next

BY KAREN STABINER

**Y**OU MAY NOT have heard of a yacon, but pay attention. This Andean tuber could be big. If you've ever eaten a kiwi or a kale salad, you've already surfed a produce wave. But there's a new urgency to fruit and vegetable trends as a tight restaurant economy makes it more important than ever for a chef to stand out. Savvy customers want produce that's intriguing, surprising, delicious and, if possible, wildly nutritious—not only at restaurants and stores but on our doorsteps, as grocery-delivery services such as FreshDirect expand the market.

On the local level, veteran southern California farmer Alex Weiser plants what he calls "develop-

ment crops"—seasonal items that a chef might audition on his menu—to see if they warrant more acreage. On a much larger scale, companies like Los Angeles-based Frieda's Specialty Produce scour the globe for fruits and vegetables that might come from nearby or from South America, because supermarket clients want variety year-round.

Karen Caplan, CEO of the 55-year-old Frieda's, has never seen anything like the current scramble for marquee produce. "Information travels at the speed of light" in the Instagram era, she said. The next big thing gets a lot more exposure, and faces a lot more competition.

The new star could be a tomato called the datertino—Italian for little date—that Pennsylvania farmer Chris Field brings to New York's Union Square Greenmarket every Friday. "We can't grow enough," said Mr. Field, considering a near-empty

crate only an hour after the market opened.

Or it could be a happy fluke like the Stokes purple sweet potato that Frieda's distributes. Its debut happened to coincide with the popular Blue Zone diet; though the regimen promotes the health benefits of a different variety of purple sweet potato, the Stokes benefited from the association.

Yet for every lucky crop there's a story of unmet potential. Remember kale sprouts, aka lollipop kale or kalettes? Back in 2013, this hybrid of kale and Brussels sprouts was touted as the next kale—the biggest produce-marketing success story in recent memory—but wasn't.

On a postcard Sunday morning in Santa Monica, Calif., Mr. Weiser presides over his family's stand at the farmers' market in a well-worn "Life is Good" T-shirt. Conversations with customers invigorate

Please turn to page W2

## OFF DUTY

# EAT YOUR TRENDY VEGETABLES

Continued from page W1

him. Chatting with a couple of chefs, he learned about the yacon, the aforementioned Andean tuber, which he now cultivates alongside other newcomers at his farm at the base of the Tehachapi Mountains. The versatile vegetable "tastes like a combo of celery and apple raw, and cooked, it gets sweeter," said Mr. Weiser. He'll give the early yield to the chefs who told him about it, to see what kind of response they get from diners.

Collaborations between chefs and small farmers sometimes hinge on matching produce to the appropriate microclimate. Evan Funke, chef-partner at Felix Trattoria in Venice, Calif., handed out chicory seeds to Mr. Weiser and a few other farmers, to make sure he has a constant supply of the bitter green as the seasons shift. He's a one-man chicory trend-maker: When the crops hit, there will be enough not only for him but for other local chefs.

Kong Thao, who has a farm in Fresno, Calif., is going to grow a thin-skinned Italian pepper called Jimmy Nardello for Mr. Funke, as is Mr. Weiser. Once the peppers hit the market, Mr. Thao expects word of mouth to expand his customer base. "Chefs try something, people see it on the menu, they want to buy it and try it at home," he said. "And if a chef's here buying something and another chef's standing nearby, they have a conversation—and the second chef tries it too."

The same synergy informs the East Coast market. Greg Vernick, who won this year's James Beard Foundation award for Best Chef, Mid-Atlantic Region, said that his menu at Vernick Food & Drink in Philadelphia emphasizes vegetables because so many people, himself included, are eating more of them (or feel they should be). He's always on the hunt for novel produce.

Like most people, Mr. Vernick thought of kohlrabi as a fall vegetable—until he found some in June at the local farmers market. The summer strains were tasty and easy to work with, Mr. Vernick found—the right combination for a potential trend. "It's not like an artichoke, where you do all this work to get a quarter cup of vegetable," said Mr. Vernick. His kohlrabi slaw recipe, at right, combines the zesty bulb, cut into matchsticks, with cabbage, corn, tomatoes and strawberries.

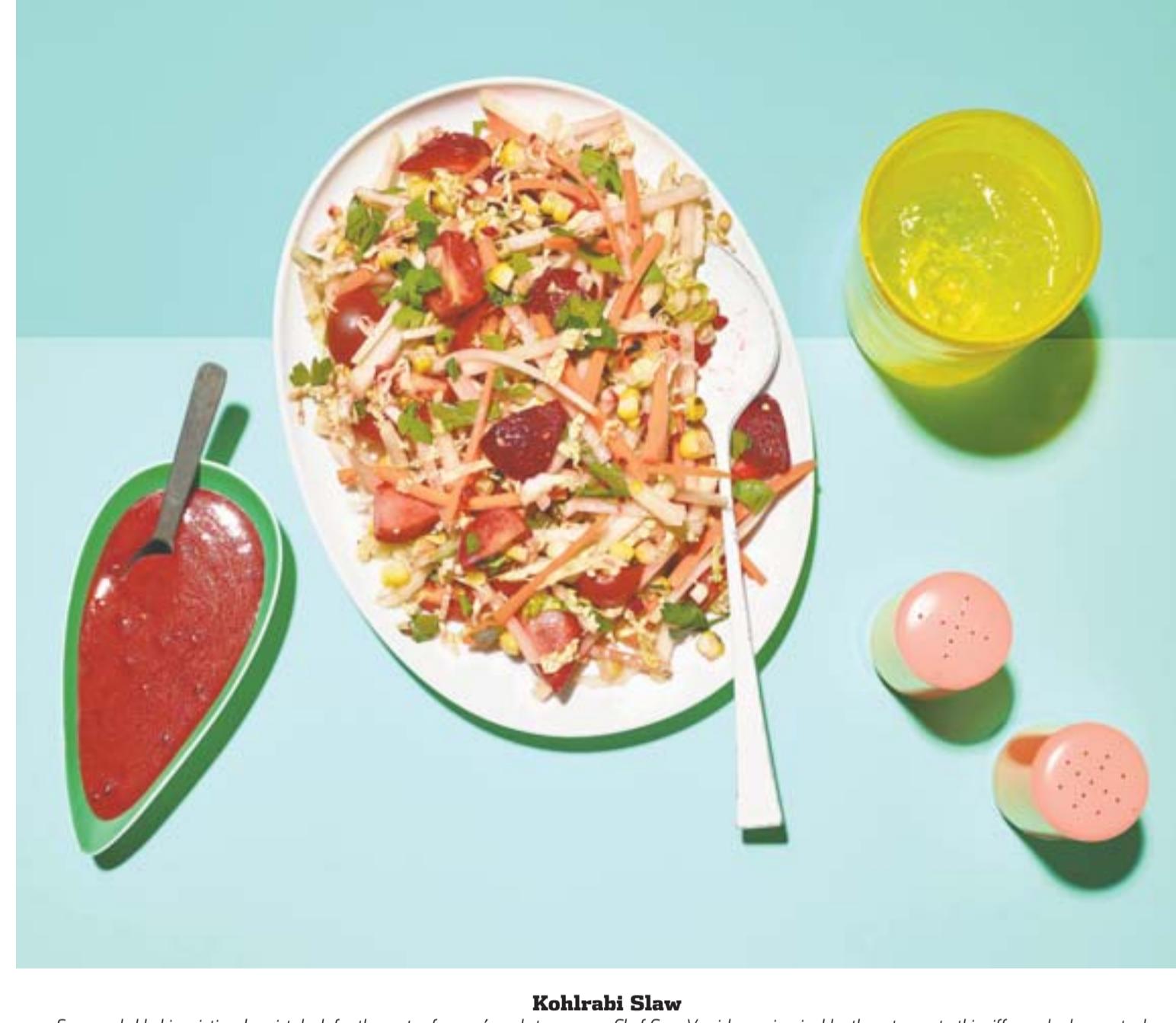
The back-and-forth among farmer, chef and market customer means more variety, and more candidates for fame. When Mr. Thao first came to the Santa Monica market 21 years ago he had about 15 crops to sell, including Chinese long beans, most of which went back on the truck at the end of the day. Now he grows about 300 produce varieties, and a bigger harvest of Chinese long beans frequently sells out in the first hour.

On the national level, big distributors take a more strategic approach to trend-building, selecting candidates that satisfy two additional criteria: volume and a decent shelf life. "Jackfruit's the hottest," said Ms. Caplan of Frieda's Produce, who likens its flavor to "Juicy Fruit gum" and describes it as "big as a toddler." It doesn't spoil quickly, it's unusual enough to appeal to a retailer who wants to stand out, and it works raw and cooked, frozen or canned. It also has a demographic advantage, coming from Asia: The Asian population is the fastest-growing in the U.S.

None of which was sufficient to make a shopper take a chance on an \$80 whole jackfruit. Ms. Caplan said shoppers will spend about five dollars to try a new fruit or vegetable. So Frieda's created a label to introduce the new item and got retailers to sell cut segments for a fraction of an entire jackfruit's cost.

As with any trend, there can be backlash. Chef Missy Robbins of Lilia, in Brooklyn, said that over the last couple of seasons she saw versions of the same dish everywhere: "carrots, roasted, with some seeds and yogurt." Instead, she used thinly sliced raw carrots in a salad with feta and boquerones. For years she embraced springtime peas and fava beans, an annual rite at New York restaurants. "Peas come in, people do them with everything; favas come in, people do them with everything," she said. She's over it.

"Peas and favas don't excite me the way they used to," she said. Vegetables have moved to the center of the plate, from the cauliflower steaks that have been so popular in recent years to Ms. Robbins's own hearty, boldly flavored broccolini salad (recipe at right). "I like a vegetable you can eat as a meal, and people want that," she said. "That's the trend."



### Kohlrabi Slaw

Summer kohlrabi varieties do exist; look for them at a farmers' market near you. Chef Greg Vernick was inspired by them to create this riff on a barbecue staple.

ACTIVE TIME: 40 minutes TOTAL TIME: 40 minutes SERVES: 4-6

#### For the vinaigrette:

$\frac{1}{4}$  cup raspberry vinegar  
2 tablespoons Dijon mustard  
1 teaspoon kosher salt  
1 pinch cayenne pepper  
1 tablespoon honey  
1 cup extra-virgin olive oil  
1 cup fresh raspberries

#### For the slaw:

2 cups kohlrabi, peeled and cut into matchsticks (from 1 large or 2 small bulbs)

#### $\frac{3}{4}$ cup carrot, cut into matchsticks

$\frac{1}{2}$  cup thinly sliced Napa cabbage  
2 ears corn, husked  
 $\frac{1}{2}$  cup cherry tomatoes, quartered  
 $\frac{1}{2}$  cup strawberries, stems removed, quartered  
2 tablespoons Italian parsley, chopped  
Kosher salt  
Crushed chili flakes

1. Preheat grill. (You can also use a grill pan on the stove over medium heat.) Once hot, place corn on grate and grill until charred in spots, 5 minutes. Turn and continue to cook until charred all over. Let cool, then cut kernels off cob.

2. Make vinaigrette: Put all ingredients except olive oil and raspberries into a blender or food processor. Process on high and add olive oil in a slow stream to

emulsify. Add raspberries and blend briefly, leaving little chunks of berries.

3. Make slaw: Assemble all vegetables and fruits in a large salad bowl. Add chopped parsley and a pinch each of kosher salt and chili flakes. Add 3-4 tablespoons vinaigrette and mix well to combine. Adjust seasonings and add more vinaigrette, if you like.

—Adapted from Greg Vernick of Vernick Food & Drink, Philadelphia

The back-and-forth among farmer, chef and market customer means more variety.

### Broccolini Salad

Broccolini is the lighter, brighter summer cousin of deep-winter broccoli or the stronger-flavored broccoli rabe. It cooks up quickly for this mix of tart, spicy and salty flavors.

Oil-packed Calabrian chilies can be purchased at Italian markets, many supermarkets and online at [kalustyans.com](http://kalustyans.com).

TOTAL TIME: 25 minutes SERVES: 4-6

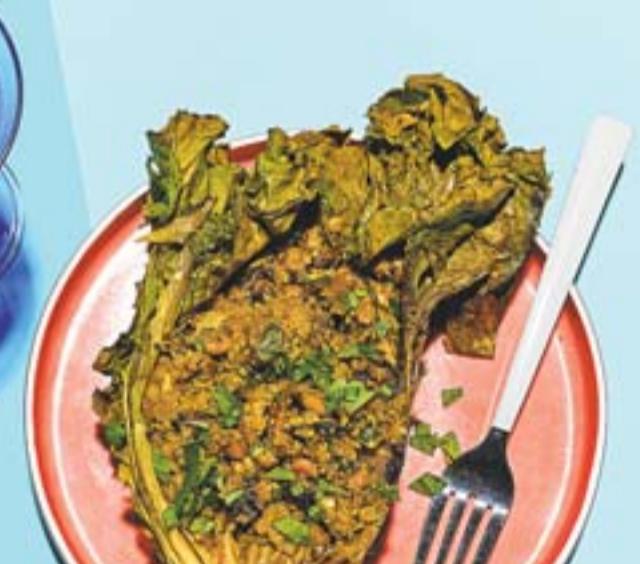
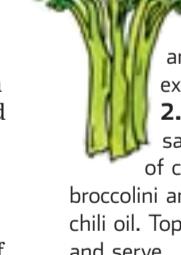
2 tablespoons oil from a jar of oil-packed Calabrian chilies  
 $\frac{1}{2}$  cup extra-virgin olive oil  
1½ pounds broccolini

2 lemons, halved  
 $\frac{1}{2}$  cup extra-virgin olive oil  
 $\frac{1}{2}$  cup grated Parmigiano Reggiano  
Salt

1. Bring a large pot of salted water to a boil. Add broccolini and cook until very tender and bright green, 3-5 minutes. Remove from water and drain in a colander. Place on towels to remove any excess water.

2. Put half the grated cheese in a large salad bowl. Place warm broccolini on top of cheese. Squeeze lemons over broccolini and drizzle with olive oil and Calabrian chili oil. Top with remaining cheese, mix gently and serve.

—Adapted from Missy Robbins of Lilia, Brooklyn



### Stuffed Escarole

Chef Evan Funke of Felix Trattoria, in Venice, Calif., likes bitter greens—a southern California produce trend, thanks in part to seeds he's provided to local farmers. Here, his version of traditional Italian stuffed escarole.

ACTIVE TIME: 45 minutes TOTAL TIME: 1 hour 45 minutes SERVES: 4-6

#### 1 large head escarole

$\frac{1}{4}$  pound ground pork shoulder

1 cup unseasoned bread crumbs

2 tablespoons capers

2 tablespoons black currants

2 tablespoons toasted pine nuts

#### nuts

2 tablespoons chopped Italian parsley

2 tablespoons chopped marjoram

2 tablespoons sliced mint

3 tablespoons torn basil

#### leaves

1 clove garlic, finely chopped

2 fillets white anchovy, mashed

Zest and juice of 1 lemon

Zest of 1 orange

$\frac{1}{4}$  cup olive oil

Mix thoroughly.

4. Add lemon juice and olive oil and mix to combine. Adjust seasonings.

Spoon pork stuffing into center of outer escarole leaves until about  $\frac{1}{2}$  full. Gather edges of outer leaves, pinch together at top to make a purse and use a piece of twine to secure. Roast until stuffing is cooked through and exterior leaves crisp at edges, 45 minutes-1 hour.

—Adapted from Evan Funke of Felix Trattoria, Venice, Calif.



## OFF DUTY

### STYLE ROLE MODEL

# The Slope Sartorialist

Outshining his T-shirt-clad rivals, Olympic snowboarder Shaun White isn't afraid to wear a suit—with Vans or without. Here, his tips



BY JACOB GALLAGHER

**A**S HE HOPS from competition to competition these days, Olympic gold-medalist Shaun White keeps his garment bag next to his snowboard. "I go to sporting events like the X Games and they'll have us line up at a press conference," said Mr. White. "I'll be wearing a sport coat and I look like I'm ready for a ball, because everybody is wearing beanies and hoodies."

Mr. White, 30, who turned pro at 13, doesn't look down on his relatively disheveled rivals: He used to be one of them. His teenage wardrobe was littered with graphic tees, skinny jeans and whatever else his sponsors sent his way. As he Double McTwisted and Triple-Corked his way around the globe, however, the San Diego native developed a more worldly sensibility. "I'm in Japan and there's this super well-tailored velvet suit, and there's all these different

things that I was finding through my travels," said Mr. White. "That sparked my interest in fashion."

Mr. White's pace hasn't let up (he is currently training for the 2018 Olympics), which means more time on the road in discovery mode. A jaunt to Peru last summer prompted a fascination with its colorful geometric patterns, while a subsequent stint in Greece led him to gauzy, band-collared shirts—a suitably breezy look for his new home base, Malibu, Calif. And while visiting Korea earlier this year, Mr. White acquired a cache of black dress pants, which have largely knocked jeans out of his fashion rotation, quite a feat. "When you're wearing polos and other [nicer] things, black pants do the look a little more justice," he said.

Vestiges of his pre-upgrade style do linger in his closet, especially now that the high-fashion world has been feasting on the streetwear brands he grew up with. "I can wear Vans with my suit and [people] will be like, 'Oh yeah he gets it,'" said Mr. White, "but I just wear Vans because I actually skate."

**Pocket the Difference**  
"The Japanese brand N. Hoolywood has great unstructured suits. Plus, inside the chest pocket, the suit already

has a built-in pocket square so you just flip it up and it's the perfect size. I like that, even if I forget, I've still got one in there."



**HIGH FASHION**  
Shaun White, here on Mount Hood in Oregon, seeks out unique pieces like this embroidered bomber jacket.



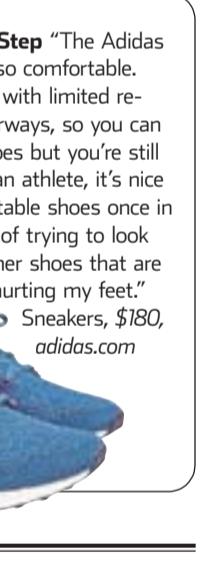
**Cash Wrap**  
"I love money clips. M-Clip has made one that never stretches out. There's a sliding system to them where you slide out the sides and clamp your money in." Clip, \$140, [m-clip.com](http://m-clip.com)



**Breathing Room**  
"My everyday dress shirt is Theory. They have a bit of stretch in them. If I'm working out like crazy and bulking up a little, it's not so cumbersome in my suit." Shirt, \$195, [theory.com](http://theory.com)



**Trusty Trunks**  
"I usually go to skate brands like Vans for swim trunks because they're easy and functional. I surf, so I'm going to get wax on them. High-end ones never work out the same." Trunks, \$55, [vans.com](http://vans.com)



**Spring in His Step**  
"The Adidas Ultraboost are so comfortable. They come out with limited releases and colorways, so you can wear tennis shoes but you're still in style. Being an athlete, it's nice to have comfortable shoes once in a while instead of trying to look the part in leather shoes that are hurting my feet."



CLAYTON COTTERELL FOR THE WALL STREET JOURNAL (PORTAIT); F. MARTIN RAMIN/THE WALL STREET JOURNAL (HILL); HIDE STORE (SHOP)

### THAT'S DEBATABLE

## CAN I WEAR A STRAIGHT NECKTIE WITH MY TUXEDO?

**NO** Whenever Cary Grant showed up in a tuxedo, he wore a bow tie. So did JFK, Sidney Poitier and Steve McQueen. And so should you, said Ilaria Urbini, a stylist who tends to the looks of actors such as Donald Glover and Riz Ahmed: "If you're going to wear a tux, own it and do the bow tie. A [straight] tie comes off as, I'm not really committing to this."

Two stars who might balk at that characterization: Christian Bale and Michael Strahan, who strung on straight ties with their tuxes at last year's Oscars. Ignore such red-carpet renegades, said Tyler Mitchell, owner of San Francisco department store Wilkes Bashford: "You'll see [a celebrity] every year wearing a laydown tie. I just don't think that makes it right." He reasons that the everyday neckwear undermines the formality. Most tuxedos, he points out, are very dark, either black or blue. In photographs, pairing a regular tie with one can leave you looking like you're just wearing a suit.

Yet, in an age when ties in general are nearly an endangered species, a traditional bow tie can trigger pre-party anxiety among guys who are wary of appearing pathetically old-fashioned. Mr. Mitchell tells clients not to worry, and to derive reassurance from the fact that they are doing the correct thing. "It's way more appropriate to be wearing a bow tie," he said.

As for what kind of bow, he advocates for black, preferably in satin to match the tuxedo lapel. Ms. Urbini advised paying close attention to the tie's size. The wider the jacket lapel, the bigger the bow. "You don't want to have a skinny little bow tie with a wide lapel," she added. "That's so wrong."



**YES** Easy there, Poindexter. Not everything has to be so rigid. "Too often, people want to be very, very prescriptive on what's right and what's wrong," said Brice Pattison, fashion director at the Black Tux, a Los Angeles-based tuxedo-rental company. "If someone wanted to wear a black knit tie with a tuxedo and it's on the right guy, I think that's totally a cool move."

Others agree that penguin-suit imperatives have loosened considerably. Today, many wedding and gala invitations specify dress codes with open-to-interpretation descriptors such as "festive" or "creative." Suddenly, even when the invite reads "black tie," it seems easy to break away from the formality of a bow. Though she personally doesn't favor straight ties with tuxedos, stylist Ms. Urbini admitted that the look falls within the "black tie" parameters: "It's not inappropriate," she said.

Even if you go with a straight tie, it's often best to hang onto the debonair air of a bow tie. That typically means choosing black satin. Alternatively, try white or ivory, which sounds challenging, yet works because the hues "stay within the formal palette," said Mr. Pattison.

If you're of a mind to push the evening-wear envelope further, consider a microdot pattern or a slightly textured tie such as the aforementioned black knit. When played off a staid tuxedo, these subtle deviations from convention add character without attracting the bride's gimlet eye. "Especially if you're a guest at a wedding, it's not your day, so be reserved," said Mr. Pattison. And whatever you do, don't eschew neckwear altogether. Some rules should never be broken. —J.G.

PAUL TULLER

## OFF DUTY

MESSAGE IN A BOTTLE NOVELIST CHRISTOPHER BOLLEN ON CARDINAL SPIRITS TERRA BOTANICAL GIN



# Can You Capture Nostalgia in a Bottle?

I WAS BORN and raised in Cincinnati, Ohio, and vodka has been my go-to liquor for most of my adult life. Just add a slice of lemon, club soda, two cubes of ice.

So, when a bottle of Terra Botanical Gin, distilled in Bloomington, Ind., arrived at my Manhattan apartment on a blistering Friday afternoon, it didn't seem like an entirely foreign entity. Brisk, clear liquor, Midwestern city. Indeed, this Hoosier spirit with its hunter-green label that looked as if it were moded on a merit badge transported me back to two periods of my life.

Memory one: On the small farm on the border of Ohio and Indiana where my father grew up, the white farmhouse with its tiny windmill and two-car garage sat safely on the Ohio side. On visits, my grandmother would tell me—it always seemed like a warning—that somewhere beyond the barn and before the cornfield loomed the invisible Indiana state line. I used to spend lonely afternoons traversing the land between barn and cornfield, concentrating with each step on the moment I might cross. I'd also imagine being chased by Ohio police and just making it over the border and out of their jurisdiction.

Later, as a preteen, I'd attend barbecues at the house of Indiana cousins just beyond that cornfield. Those male cousins were so much bigger and blonder than I was (the fey, emaciated brat from suburban Cincinnati); they wore tight red-and-white Indiana University sweatshirts, while I doomed myself to alienation by wearing a Wimbledon one. It was at one of those barbecues that I downed my first alcoholic drink, a beer pilfered from the cooler, and at another that I first shot a gun (a semi-automatic pistol, into a stop sign). Indiana was beautiful and rural and it always felt on the verge of beating me up.

Memory two: Before vodka, my alcohol of choice was gin. There was no real logic to the allegiance except for the fact I'd decorated my teenage bedroom with ripped-out magazine ads for a certain bejeweled gin brand. At 17, at 18, even at 20, a gin and tonic sounded distinguished, refined, very grown up. I liked the look of the clear, fizzy liquids in a glass along with the floating corpse of a lime rind.

I remember being told by wise elders in their early twenties to be careful with gin. It made people mean; it caused some to sit slumped at bar counters at 11 a.m.; too much of it re-sculpted pretty faces into gourds. Truthfully, at that age, I don't think I could even distinguish the taste of gin beyond a stinging tartness. Gin was intoxication fuel. It was liquid with a purpose: to make me stumble and laugh and



F. MARTIN RAMIN/THE WALL STREET JOURNAL, ILLUSTRATION BY ANGELA SOUTHERN

dance and feel horrible the next day. The flavor was not the point.

I'd noted right away that this bottle of Terra Botanical Gin had "nostalgia" printed on its back label. It had done as it promised. The very sight of Indiana gin had zoomed me into multiple memory wormholes. On closer inspection, however, I saw that the label actually read "nostalgia for nature." Then I spotted other phrases: "wilderness in a bottle," "woodsy state parks, secret streams, treasured hiking trails." Terra was offering something other than the glamorous, exotic image that had sold me on gin in my youth, and it was after a different kind of nostalgia: the collective longing for camping in tents and climbing through mountain vistas and scaring deer while slapping mosquitoes.

Terra is the brainchild of Adam

Quirk, co-founder of Cardinal Spirits, and New York-based master spice blender Lior Lev Sercarz. In the attempt to conjure a return to nature, Mr. Sercarz created a blend of flavors that includes a wild mint grown in his father's olive grove in Galilee and Indonesian cubeb berries. I admit none of these ingredients scream Deep Forest of My Youth to me, but I also understand the peculiar manner in which sense memory operates. For example, the smell rising from New York subway tracks on a humid morning takes me back to the summer of 1999, when I lived in Venice, Italy. I could happily miss a train to keep breathing that dank, dying-rat odor and reminisce about my morning walks over the Grand Canal.

I opened the bottle of Terra and set a glass on the kitchen counter.

But, hold on; the Upper West Side was not the ideal laboratory for testing an alcohol meant to propel me into the woods of yore. No, I would take Terra into the woods to determine whether it managed to bottle nature. Luckily, I own a 1923 hunting cabin deep in the Berkshire Mountains. So I packed the Terra in my bag, herded my Australian boyfriend and his visiting-from-Brisbane sister into the car, and drove for three hours into the forest.

We arrived at night, and I went around opening the windows and picking up a week's worth of dead mice.

The Australian boyfriend built a fire and put on an album of sitar music by Ravi Shankar that he had just purchased in Los Angeles.

I set three red-glass Murano tumblers on the Amish dining table and poured out three shots of Terra Gin.

"OK," I said handing the Australians their glasses. "It's meant to conjure the wilderness."

"Smells like mouthwash," the sister exclaimed.

I sniffed my glass. "That's because of the wild zuta from Galilee." One press release and I was suddenly an expert on Israeli mint.

The Australian boyfriend ran to the kitchen. "I'll get tonic water and lemon! Maybe we have juice."

"No," I wheezed. "We're supposed to be judging how it unlocks our childhood memories of the outdoors. You know, camping." But then I realized that these Australians were from the Gold Coast, which means they basically grew up inside a commercial for boogie boards. They had no pre-adolescent reference points for the nostalgia of shining flashlights on raccoons or fighting through the sticky branches of evergreens with your sleeping bag tied to your backpack.

I closed my eyes and tasted the Terra. I got the sting and some flavors, soft delicious flavors, but I couldn't recognize them due to distraction. The sitar music was too loud, the Australians were chatting away. I submitted to the lemon wedge and tonic. "The quinine in tonic water gives our stepmother bruises," the Australians said. "But wasn't it a cure for malaria and that's why they call it tonic? Oh, the record needs to be flipped."

Later, when the Australians were asleep and the fire quieted to embers, I filled a glass with gin. I sat by an open window, the pines and hemlocks were swaying in the wind and the coyotes were calling to each other in the blackness of the mountains. I sipped. There was the familiar burn on the tip of the tongue, a sort of antiseptic snakebite. Then my gums started to tingle, and in the reverse direction, from the back of my mouth to the front came the fresh taste of mint, strong as any I'd picked from a garden, riding on a playful, sweet citrus.

And yes it was woodsy, and it flowed like a stream, and suddenly I was back in the woods that surrounded my house in Cincinnati. I used to run the trails, jumping over downed trees, swinging from ropes tied to branches. No one was chasing me and there was nothing ahead, not even a border. I took another sip and sprinted through the maples and oaks. I stayed up a little while longer. Since my father died I haven't been back to Indiana. My mother sold our house in Cincinnati. I always say I miss that house. But what I really miss are those woods.

Mr. Bollen's latest novel, "The Destroyers," was published last month by Harper.

SLOW FOOD FAST SEASONAL AND SATISFYING FOOD IN ABOUT 30 MINUTES

## Grilled Leg of Lamb With Roasted Apricots



The Chef  
Tom Hill

His Restaurant  
Ducksoup, in  
London

What He's  
Known For  
Cozy, quietly  
impressive dishes  
that marry Mediter-  
ranean and Middle  
Eastern flavors,  
with no superfluous  
flourishes.

**WITH STONE FRUITS** the first of the season is never the best of the season," said Tom Hill, chef of London's Ducksoup. So he waits until high summer to serve this combination of lamb and creamy labneh topped with apricots roasted on the grill.

It was inspired by a simple vineyard lunch Ducksoup's proprietress, Clare Lattin, had outside Beirut. Mr. Hill's recipe calls for grilling the lamb for char and smokiness, then roasting to cook it

through. Any stone fruit can stand in for the apricots; use whatever looks best and ripest. "We've done this with firm peaches and nectarines," Mr. Hill said. "Roast with the pit in place to help the fruit keep its shape while it blisters and its flavors concentrate."

When tearing the fruit, hold it over the serving platter to let the lamb catch all the delicious juices—your reward for patiently awaiting peak ripeness. —Kitty Greenwald

TOTAL TIME: 35 minutes SERVES: 4-6

1 (3-pound) leg of lamb, deboned and butterflied  
3½ tablespoons extra-virgin olive oil, plus extra for drizzling  
Salt and freshly ground black pepper

8 fresh apricots  
15 thyme branches  
1½ cup labneh  
Juice of ½ lemon

1. Heat grill and preheat oven to 400 degrees. Rub lamb with 2 tablespoons oil and season all over with salt and pepper. Place lamb on grill and cook both sides over medium-high heat until well charred, 3-5 minutes per side. Use tongs to turn lamb onto its sides to sear edges, 1-2 minutes per side. Transfer seared lamb to a large roasting pan and place on oven's center rack. Roast until interior is rosé and cooked to medium, about 10 minutes. Poke lamb in thickest part; it should have a little bounce and feel firm. If there is little resistance, lamb should roast a few minutes more.

2. Meanwhile, place an ovenproof frying pan on grill and swirl in ½ tablespoon oil. Once hot, add whole apricots and cook until blistered, about 5 minutes. Season fruit with salt and

add 2/3 of thyme branches to pan, tucking them under the fruit. Transfer pan to oven and roast until apricots are caramelized but still firm to the touch, about 8 minutes.

3. Loosely cover lamb in foil and let rest at least 15 minutes. Meanwhile, in a medium bowl, season labneh with lemon juice, remaining olive oil, salt and pepper to taste. Stir in thyme leaves picked from remaining branches.

4. To serve, slice meat at a 30-degree angle into ½-inch-thick pieces. Spread labneh over individual plates or a serving platter and top with lamb slices. Pour pan juices over meat and drizzle with oil. Working over lamb, tear apricots into large bite-size pieces and discard pits. Nestle fruit into meat and season everything with salt and another drizzle of olive oil.



CREAM ON Labneh, the tangy Middle Eastern yogurt strained until thick and luscious, makes a cool and refreshing counterpoint to the charred lamb.

## OFF DUTY



# Minorca Undertaking

One of the quieter Spanish Islands, it has obstinately endeavored to remain unspoiled

BY RAPHAEL KADUSHIN

**T**HE TOWN OF Ciutadella, on the Spanish island of Minorca, is dense with statues. My favorite by far was a cameo of the Virgin Mary sitting above the doorway of the Diocesan Museum. Hoisting a big bat in her manly fist, more holy avenger than stoic saint, she was nonchalantly clubbing the bug-eyed devil slithering at her feet.

This particular Mary also functions ably as a metaphor for Minorca (Spanish for "minor island"), which has largely managed to protect its honor by batting away the big developers and supersize projects overrunning its fellow Balearic islands. Mega resorts crowd Mallorca. And Ibiza, the home of thumping all-night clubs and all-day hangovers, looks nothing like the quiet outlier it was 50 years ago.

But as far as tourist destinations go, Minorca has remained so relatively untouched that it still lives down to its recessive name. As word gets out that this slumbering isle is the next big Mediterranean thing, however, its future doesn't look so minor.

I discovered Minorca's paradox—idyllic but relatively unfrequented—on a recent visit. Flying into Mahón airport, I picked up a rental car and set out on a route that would bisect the island, taking me 28 miles from the capital of Mahón on the east coast to Ciutadella on the west. Minorca's coves, pocking its 120 miles of coastline, offer some of the finest sand beaches in the Mediterranean.

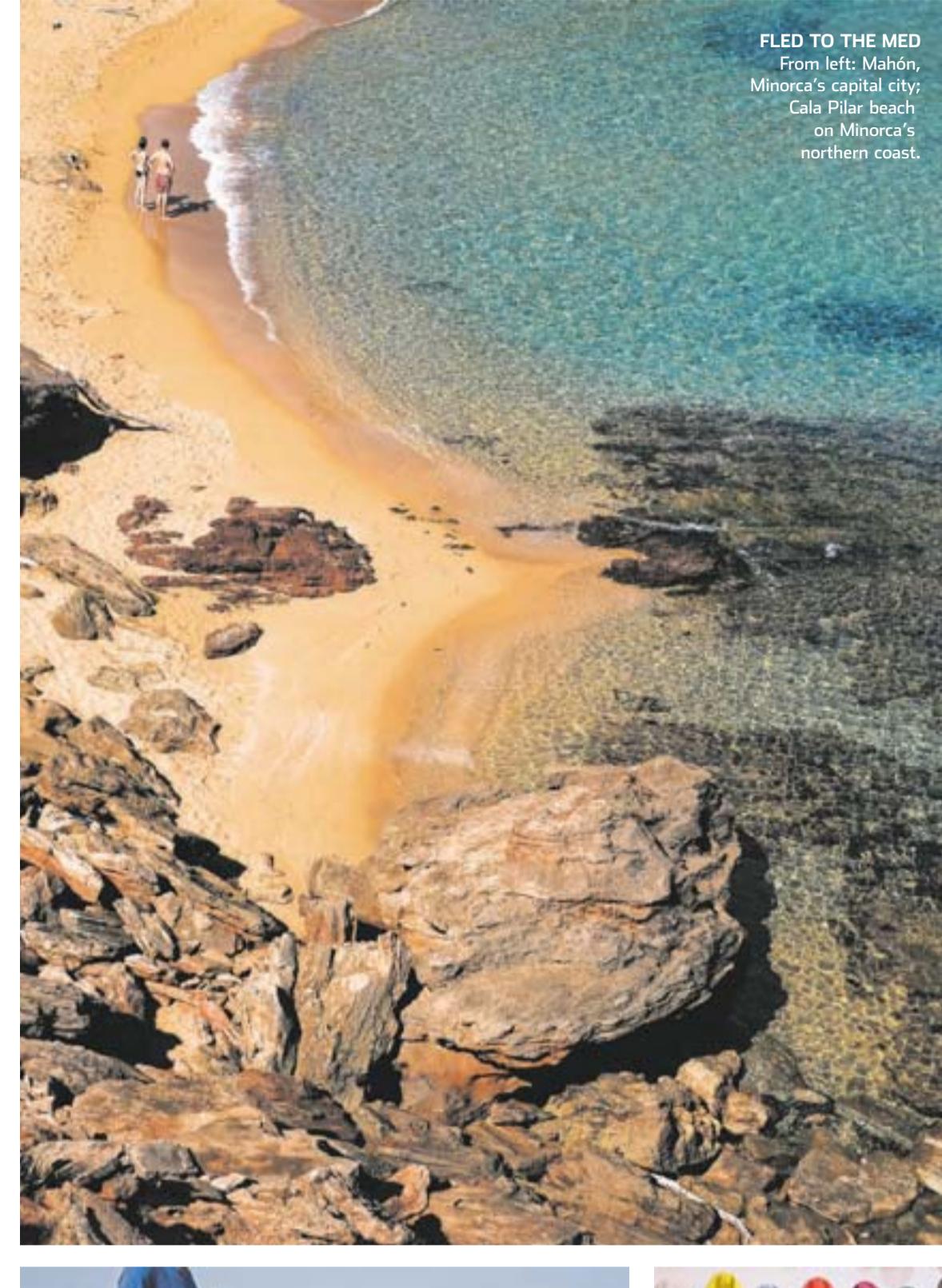
So where were the crowds? After a few big-box hotels popped up on the island in the '70s, and its Balearic neighbors started to look manically overbuilt, the Minorcans opted for a more thoughtful kind of development. The result: an island that's the poster child for very slow travel.

My first stop, Torralbenc Hotel, which opened in 2013, seems to

embody this more delicate approach to tourism. Instead of another Brutalist resort, this renovated 19th-century farmstead is a sprawl of whitewashed buildings and red-tile roofs, surrounded by vineyards and olive trees. My room was all bucolic restraint, from its limestone floors to its exposed beamed ceiling, and the hotel's restaurant featured a strictly locavore menu. "I work almost entirely with what Minorca has to offer," said chef Luis Loza proudly, serving me shavings of Iberian ham in a dining room crowned by a high cane ceiling. Local red prawns, langoustines, olives, figs and plums also frequent his menu.

The tourist attractions at Torralbenc skew organic too. You can horseback ride through the olive groves, or head down to the beach. On my first day on the island, I chose instead to explore neighboring Mahón, the tiny capital (population: 28,000). Still very much a working market town, Mahón felt drowsy. Boys were kicking soccer balls in the plazas, matrons were drinking the local gin in outdoor cafes, and the shops were stocked with regional crafts. The classic souvenir to take home: the espadrilles that jam the dollhouse-sized Boba's shop, in the city's center.

"The heritage of shoemaking is a Minorcan tradition," owner and espadrille designer Llorenç Pons told me as I tried on some of his work. "I try to combine that heritage with my own designs." Dangling from the atelier's walls were every imaginable, and some unimaginable, iteration of espadrille: leopard skin, polka dot, ikat, graffiti, chintz and a rubber-soled, high-top sneaker version that probably qualifies as the butchest espadrille ever made. I opted for restraint, purchasing a pair of green-tartan creations that seemed subtle by local standards. The one time I wore them back home, they looked about as understated as clown shoes, but they went unnoticed on the island as I



**FLED TO THE MED**  
From left: Mahón,  
Minorca's capital city;  
Cala Pilar beach  
on Minorca's  
northern coast.



**LOAF ABOUT** Clockwise from top: A bread run in the fishing village of Binibequer; espadrilles at Boba's shop in Mahón; Hotel Can Faustino; Mercado de Pescado in Mahón.

worked my way through Mahón's produce market, which is tucked into the cloisters of La Verge del Carme church. I scanned the pyramids of Minorcan cheese, lemons, artichokes, eggplants and melons, under the stone arches, and settled on a basket of strawberries. Then I headed off in my rental car, driving west out of town into Minorca's interior.

Within minutes Mahón gave way to the back country, where dry stone walls were looping, like a craggy necklace, through pastures as green as those in the Cotswolds. Olive groves popped up frequently, and sometimes I glimpsed the glint of the ocean along Minorca's sandy coast. What turns Minorca into something more enigmatic than other beach destinations are its cultural heirlooms. Cyclopean stone burial chambers dating as far back as 1400 B.C. and still lined with skulls, survey the island's meadows. But it's the island's *taulas*, tall stone structures shaped like giant Ts, jutting up everywhere, that remain a riddle. My guide, Luis Ameller, a local historian, led me down a rocky path to the *taula* that anchors the Torretrencada site, a prehistoric settlement 26 miles northwest from Mahón. We walked through a field

of purple thistle, as the original Minorcans might have, and suddenly the soaring standing stones, topped by a thick slab, soared up with a kind of primal jolt. "There are lots of theories regarding the *taulas*," Luis told me. "The current theory is that they represent some version of divinity, maybe the bull god or a phallic fertility symbol. What's clear is that they were a kind of religious altar." As we left, I realized the pottery shards, crunching under our feet were splinters of ancient votive offerings.

The *taula* was the last stop along my route to Ciutadella. If Mahón is a ruddy, forthcoming city, Ciutadella is more patrician and self-sufficient. A Baroque port, the town feels slightly haunted, like a place that's hugging its own sad secrets. Sacked by the Ottomans in 1558, it was left largely abandoned; most of its surviving 3,000 inhabitants were hauled off and sold in the slave markets of Constantinople. Today, its narrow, winding streets still look deserted at dusk. Carriage lanterns light the golden stone manor houses, and if you look up you see the raucous world of cherubs, saints and apostles carved into the austere facades.

The Palau Salort house museum

allows a peek inside one of the mansions but a better view was offered by the Hotel Can Faustino, a refurbished 16th-century palace where I stayed the night. "When I started restoring the place it was still a private house in a state of decay," owner Laurent Morel-Ruymen told me, giving me a tour of the library and guest rooms, all minimally designed, showcasing the mansion's own baroque, vaulting bones. Sitting just below Can Faustino's terrace was Ciutadella's wide curve of a harbor, where I had dinner, alternating between two dueling seafood restaurants. At Café Balear I sampled the island's signature lobster rice stew, a creamier take on paella; at S'Amador I tackled coins of octopus dusted with paprika.

Mr. Morel-Ruymen, who's originally from Paris, was waiting for me back at Can Faustino, relaxing on the terrace with a nightcap. "I wanted to bring the palace back to its original beauty," the hotelier said. "When I sailed into the port here a long time ago, it was still unique and still preserved." Sitting under the golden stones of his revived palace, staring down at the ancient harbor, he could make the same claim today.

### THE LOWDOWN // SIZING UP MINORCA

**Getting There** Flights from major European cities connect to the island's Mahón Airport.

Hotel Torralbenc, which sits outside Mahón overlooking the sea (*from \$220, torralbenc.com*).

**Eating There** Other than the fine restaurants at Can Faustino and Torralbenc hotels, sample the daily catch at Café Balear in Ciutadella (*Pla de Sant Joan 15, cafebalear.com*) and the neighboring S'Amarador (*Port des Pujol 14, Sant Luis, sapedreradespujol.com*).



**Ciutadella, s'amador.com.** For a splurge, Sa Pedrera d'es Pujol, 15 minutes outside Mahón, plates an elegantly simple spiny lobster stew (*Camí des Pujol 14, Sant Luis, sapedreradespujol.com*). We walked through a field

## OFF DUTY

# What Do You Say to a Naked Lady?

Decades of minimalist interior design have made the decorative painted nude so rare, its reappearance is a revelation

BY JULIE LASKY

**M**Y LATE FATHER was a doctor who dabbled in life drawing. He loved the human body. During my childhood, plenty of nude art decorated our suburban Chicago home, including a large lithograph by Swiss artist Hans Erni that hung in my parents' bedroom.

The print depicted a naked man crouching over a woman who wore only a dreamy expression. "Believe it or not, it was hanging over your father's fireplace when I met him," my mother recalled recently. "We used to stare at it and wonder, 'Before or after?'"

A lot of people in the 1960s and '70s, my formative decades, considered nudes socially progressive. My parents respected the frank sexual references in Freud, Picasso and "Portnoy's Complaint." In those heady days of wine and roach clips, they were not alone.

One designer offsets crisp right angles with the curves of female nudes.

And today? After falling out of style for years—sensitivities ran higher over the perceived objectification of women; reserved minimalism dominated décor—naked folks are so out they're arguably in. As the pendulum swings toward maximalism, a look characterized by a profusion of pattern and design exhibitionism, the candid expressiveness of nudes seems fresh.

The decision to hang one in your home, however, is still fraught for many. Mary Crowder Spears, 29, attended graduate school for American literature with a focus on women's and gender studies. She thought twice before installing female-nude portraits—one painted by a male artist, one anonymous—in her Philadelphia living room. Was she supporting the exploitation of women, promoting "the male



**FLESH TONES** In a Los Feliz, Calif., guest room, designer Isabelle Dahlin installed one of her client's nudes in lieu of a faddish macramé wall hanging.

gaze"? Ms. Spears, who owns the vintage fashion and design boutique Millay, ultimately decided "no": She was attracted to the imperfect bodies in the paintings. "They celebrate any woman," she said.

More than once, New York designer Vicente Wolf has set out to hang clients' nudes in living rooms and heard the cry, "No, no, the kids will see that!" Indeed, many people still cache their nudes in bedrooms and bathrooms, a move New York architect Calvin Tsao considers clichéd. He talked a client out of displaying some not particularly provocative male-nude photographs by Robert Mapplethorpe in the bedroom. "If you're squeamish and not proud to expose a piece, don't buy it," he advised. The photos hang in

the living room.

Still other professionals insist that clients are not prudish, arguing that the painted, drawn or sculpted figure—with or without clothes—has simply gone out of style. The trend is for "contemporary art and its more abstract imagery," said New York designer Jamie Drake. Ms. Spears acknowledged that, for her generation, progressive artwork isn't figurative: "It's bold, abstract and super minimalist." She characterized the nudes she hung so hesitantly as "frumpy."

Designer Todd Nickey, who sells art in his Los Angeles (and, soon, New York) shop, Nickey Kehoe, said of the relative absence of the human figure in décor: "An antidote will follow." The return of exuberant

color and layered pattern may help turn the tide, especially as old-school painted nudes have taken on a quaint quality after the deluge of undressed humans in Abercrombie and Fitch catalogs, web porn and HBO series. "I see plenty of nudity on 'Game of Thrones,'" said design historian Steven Heller, co-author of the coming Rizzoli book "Head to Toe: The Nude in Graphic Design."

Chicago designer Sean Cowan disputes the notion that nudes and minimalist décor don't mix. He uses the curves of female nudes to offset crisp right angles in his own home. Mr. Wolf, too, champions the use of nudes, male or female, in any style of setting. "I think it's a wonderful, beautiful form," he said. The Cuban-born designer suggests a series of

photos by a single artist with a strong compositional sense, like Hungarian-born André Kertész.

When Los Angeles designer Isabelle Dahlin remodeled a home in Los Feliz, Calif., she found a moody portrait of a bare-breasted woman in her clients' collection. The oil painting went between the nobby spindles of a four-poster, on a busily papered wall in a guest room (pictured above). The work, she said, was a refreshing departure from the craft-based art pieces she had been dealing with: "If I have to see another macramé wall hanging, I'm going to kill myself."

The couple is now expecting a girl. This will be the baby's room, and the picture, Ms. Dahlin said, is staying.

## FLOWER SCHOOL



**THE ARRANGEMENT**

## LOUNGE ACT

Floral designer **Lindsey Taylor** captures the tranquility—and simmering unease—in a painting by 'Austria's van Gogh'

**ON A RECENT STICKY** summer day, I treated myself to a trip to New York's Neue Galerie, an elegant—and vigorously air-conditioned—jewel of a museum. I stumbled on an exhibit devoted to an artist unfamiliar to me, Richard Gerstle (1883-1908), considered by some to be Austria's Vincent van Gogh. Until he took his life at 25, after a scandalous affair with the wife of composer Arnold Schoenberg, Gerstle painted prolifically in an expressionist style. While some of his self-portraits verge on disturbingly intense, his brush strokes loosened in his later work and he began painting en plein air. The resulting pieces seem to suggest that he saw beauty in the

world despite his anguish. The inspiration for this month's arrangement, Gerstle's "Portrait of a Man" (1908), depicts a well-dressed figure in repose, his clenched face revealing a tension at odds with his languor and the cool, verdant setting. To translate this dynamic, I gathered heirloom flowers that felt loose and summery: pink and lavender sweet pea, purple baptisia, white scabiosa, periwinkle hydrangea and fresh green lady's mantle. I let the flowers cascade over the vintage ceramic's rim, taking on a horizontal shape, so the arrangement aped the man's pose while the deep brown vase and black background convey some of the darkness seen in his anxious expression.



**THE INSPIRATION**

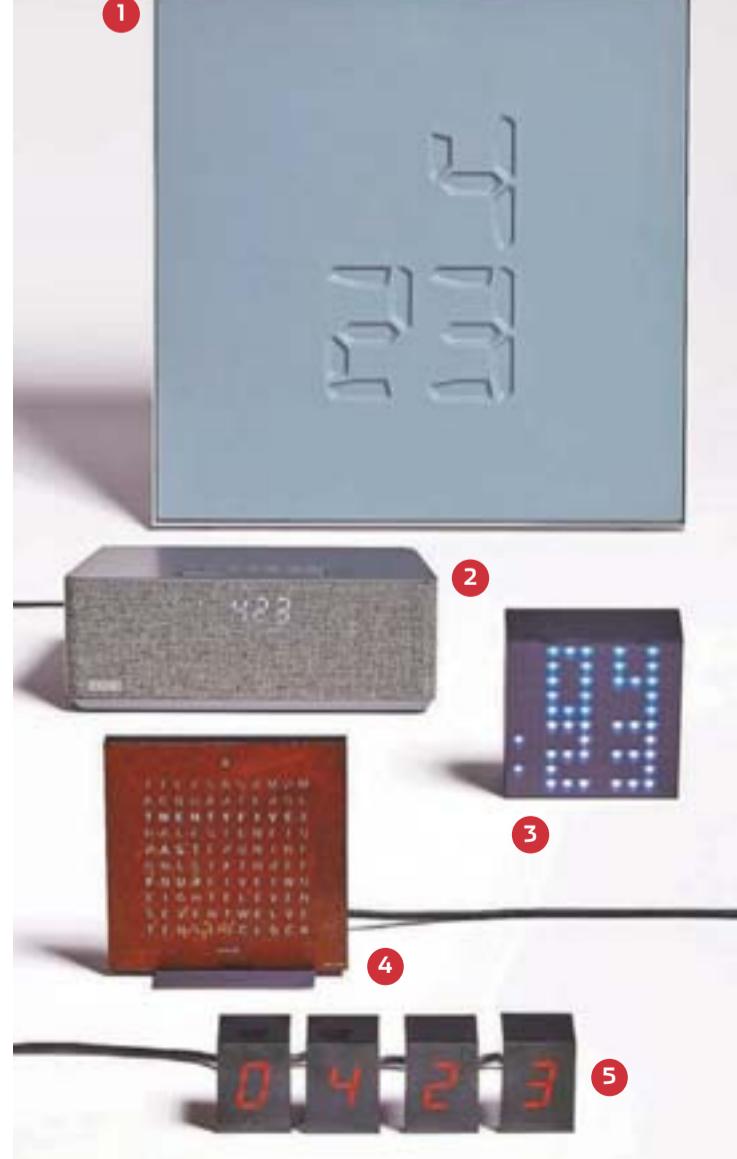
An array of cascading sweet pea, baptisia and scabiosa mimic the reclining figure in Richard Gerstle's 1908 'Portrait of a Man.'

Ceramic Vessel, artist's own

## FAST FIVE

### LOOK, NO HANDS

Most digital alarm clocks? So mundane. It's high time to consider these stylish exceptions

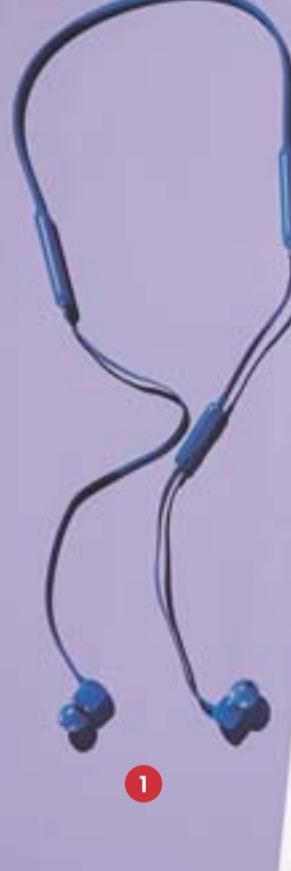


1) Ameico Etch Clock, \$1,950, MoMA Design Store, 212-767-1050; 2) iHome Bluetooth Dual-Alarm Clock, \$100, bestbuy.com; 3) AuraBox Clock Speaker, \$65, store.moma.org; 4) Touch Creator's Edition Clock, \$1,250, qlocktwo.com 5) Numbers Clock, \$80, areaware.com

## OFF DUTY

# Don't Tangle With Me

They may look bulky, but neckband earbuds are surprisingly comfortable and won't tie you up in knots



BY MICHAEL HSU

**F**OR ANY MUSIC lover who longs to be untethered from a smartphone, Bluetooth headphones look like they'd offer the ultimate freedom.

In reality, though, they can be harder to live with than expected. Totally wire-free models, like Apple's futuristic AirPods, are easy to lose. Over-the-ear models weigh you down too much to feel truly liberating. And those Bluetooth 'buds whose earpieces are linked by a single wire have their drawbacks, too: subpar battery life and unwieldy cables that you can hear hitting your body as you move around.

In the real world, where you're constantly taking your headphones on and off throughout the day, the neckband earbud may turn out to be the most practical.

With neckband earbuds, each earpiece has a short wire connecting it to a band that fits around the back of your neck. The seemingly clunky design offers many advantages: Because the cables are short and kept apart from each other, they're unlikely to tangle (unlike the corded earbuds you're always stuffing into your pockets). The neckband anchors

the cords in place, so there's less noise when you listen on the move.

And when you're not using them, you can simply let the earbuds dangle. It's easy enough to drape the neckband over your shoulders and leave it there until the end of the day.

Although the band itself does add weight, it rests mostly on your collarbone; after a while, you don't notice it. Most important, that little bit of bulk allows manufacturers to pack in larger batteries that last all day. These are also pretty much the only category of headphone to vibrate when you get an alert on your smartphone (available on all models shown here except the BeatsX).

LG's Tone series of neckband headphones feature earbuds whose wires can be retracted by giving them a tug, like a roll-up shade. If you're looking for active noise cancellation, the Bose QuietControl 30 (\$300) offers that perk, but we found that simply making sure that the earpieces of standard earbuds are seated firmly in your ear canal does a pretty good job of blocking outside noise, too.

Here, four models that not only sound great but are sleek and comfortable enough to hang out with all day.

### HANGERS ON // SONICALLY SUPERIOR NECKBAND EARBUDS

#### 1 FOR APPLE ACOLYTES **BeatsX**

This is the outlier of the bunch: Unlike other earbuds shown here, the BeatsX has no bulky neckband to house a large battery, yet it delivers eight hours of playback (and yields two hours of playtime with a five-minute charge). Even better, for owners of an iPhone, iPad or Mac running a newer operating system, the BeatsX eliminates much of the headache associated with Bluetooth pairing. Your first device will automatically sync with the BeatX with just a tap. After that, all of your other Apple devices associated with the same iCloud account get paired in the background. A thicker cable does make these 'buds feel heavier than the others, and as with other Beats products, the sound is aggressively bottom-heavy. But for Apple devotees, the convenience makes up for the minor trade offs. \$150, [beatsbydre.com](http://beatsbydre.com)

#### 2 FOR STELLAR SONICS **Sennheiser HD 1 In-Ear Wireless**

Expecting pristine sound quality when using earbuds in public is rather misguided, since subtle sonic improvements are easily obliterated by background noise. That said, this pair does sound heavenly, delivering airy, shimmering high and mid frequencies plus plenty of measured and musical-sounding low end. The austere neckband, clad in sheepskin leather with a contrasting red stitch, houses an 1,100 mAh battery that provides 10 hours of playback and can be fully recharged in 90 minutes. A little known feature that will appeal to audiophiles: If the compressed sound of Bluetooth gets you down, you can connect these earbuds to a computer via a micro-USB cable to listen using a purely digital audio path. \$200, [sennheiser.com](http://sennheiser.com)

#### 3 FOR DISCRETION **V-Moda Forza Metallo Wireless**

If draping a neckband over your shoulders all day will detract from your meticulously put-together look, fear not. The Forza Metallo Wireless's lightweight titanium neck band is slim enough to hide under your shirt collar. Sound is open and uncolored, with a crispness that shimmers and bass that never veers toward boomy. It's also sport-friendly. In addition to being water resistant, it has a nanocoating that protects against sweat's corrosive properties. Three sizes of earfins, which lock into the folds of your ear to keep the 'buds secure, are included. The Forza Metallo has a 10-hour battery life (and a 15-minute quick charge that yields two hours of playback). \$170, [v-moda.com](http://v-moda.com)

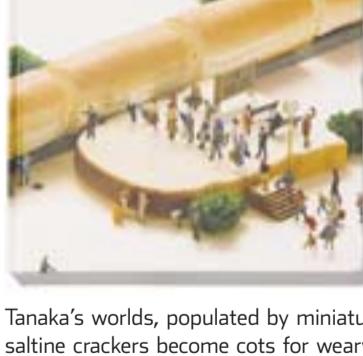
#### 4 FOR ALL-DAY LISTENING **Klipsch X12**

The X12's neckband is the most ornate. Clad in leather with copper-colored caps, it houses not one but two 1,100-mAh batteries, thus these headphones' impressive 18 hours of battery life. Although at 3.25 ounces, it's the heaviest model of those shown here, the X12 is still comfortable to wear. Music comes across as neutral and colored, and a wide range of eartips makes it easy to get a good seal: Three sizes of single-flange tips are included, as well as two sizes of double-flange (for superior noise isolation), and a pair of audiophile-grade expanding foam eartips that are superlative at blocking background noise. The dedicated switch to toggle vibration alerts on and off is a nice touch, too. \$299, [klipsch.com](http://klipsch.com)

## BOOKSHELF

### SUMMER READS FOR YOUR INNER NERD

A coffee-table book of miniature worlds made mostly of food, harrowing tales of search-and-rescue crews and a biography of an intrepid scientist seeking aliens



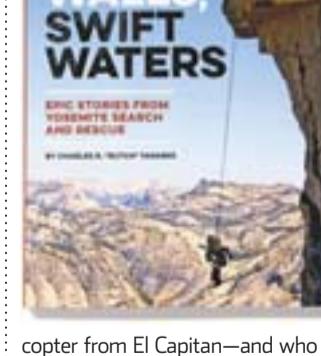
**Small Wonders:**  
Life Portrait in  
Miniature  
By Tatsuya Tanaka

**Elevator pitch** Artist and Instagram star (with a following 800,000 strong) Tatsuya Tanaka creates tiny tableaus, cleverly using everyday objects to build bustling super-small-scale environments. In Mr.

Tanaka's worlds, populated by miniature figurines that he crafts, saltine crackers become cots for weary workers while thinly sliced cheeses serve as blankets and pillows. A half-avocado convincingly turns into a steamship for two sailors, and SD memory cards are expertly arranged to look like grand pianos. This book collects the photos of those adorable scenarios that Mr. Tanaka has posted each day to his website Miniature Calendar ([miniature-calendar.com](http://miniature-calendar.com)) since 2011.

**Very brief excerpt** "Have you ever thought that a bunch of broccoli or parsley would look like a forest? I am sure everyone has had a similar experience. This act of making objects resemble something else is often called 'Mitiate,' or 'likening.' It has been my life-work to capture this 'Mitiate' through the eyes of miniature people."

**Surprising factoid** Not all of Mr. Tanaka's scenes appear to be static. To represent a tennis ball hovering in midair, he stuck a pin with a yellow head (the ball) into a pair of kitchen sponges with their green scrubber sides up.

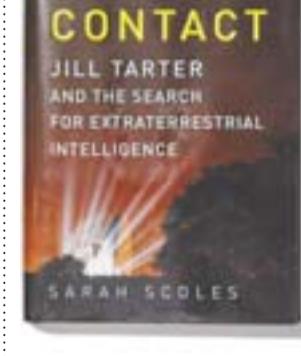


**Big Walls, Swift  
Waters: Epic Stories  
From Yosemite  
Search and Rescue**  
By Charles R. "Butch" Farabee

**Elevator pitch** "Butch" Farabee has participated in over 900 missions with Yosemite Search and Rescue. In this book, he chronicles those that his team and others have undertaken. Some stories end relatively favorably, like that of an Austrian climber who was rescued by helicopter from El Capitan—and who managed to have his severed thumb reattached. Others end in tragedy (you can tell by foreboding synopses, like "A peaceful rafting trip goes terribly wrong," that precede the stories). All of these cautionary tales are followed by a "Takeaway" section, which explains mistakes that triggered the crisis ("disobeyed a warning sign," "wore the wrong boots").

**Very brief excerpt** "As day eight dawned, [photographer Galen Rowell and master climber Warren Harding] knew they were in true trouble, and might not survive. Rowell was completely soaked, his toes and fingers totally numb, but he still hoped to make it down the 1,400 feet of snow-covered cliff to the base of Half Dome."

**Surprising factoid** In 1871, a San Francisco restaurateur stopped on a ladder to offer assistance to a female climber. When she declined his hand, he stepped back to bow politely—and fell 35 feet to his death. The park's ladders were replaced by wooden staircases with railings shortly thereafter.



**Making Contact: Jill  
Tarter and the Search  
for Extraterrestrial  
Intelligence**  
By Sarah Scates

**Elevator pitch** After reading "Making Contact," a biography of former SETI Institute director Jill Tarter, it's hard not to ponder the question Dr. Tarter used as a screen saver: "So... Are we alone?" On earth, Dr. Tarter blazed trails both in the search for extraterrestrial intelligence and as a female scientist in the

1960s. She purportedly got the male scientists at Australia's National Telescope Facility to stop telling blonde jokes by responding to a punch line with, "I don't get that one. Please explain it to me," while staring vacantly. Her male colleagues never told a blonde joke around her again.

**Very brief excerpt** "Searching for extraterrestrial civilizations is like waiting for the cable guy to come: You're always ready, on edge and dressed, even though he probably won't show within the anticipated window."

**Surprising factoid** Carl Sagan modeled the protagonist of his science-fiction book "Contact" on Ms. Tarter. Ms. Tarter was surprised by the accuracy of his depiction of her, from the details of her formative relationship with her parents to the fact that her favorite car was a 1957 T-Bird.

—Lane Florsheim

## OFF DUTY

RUMBLE SEAT DAN NEIL



# VW Atlas: What Germany Knows America Wants

**FERDINAND PORSCHE**—automotive genius, Volkswagen patriarch, Hitler BFF—was an imaginative guy, but I bet he never saw this coming: the VW Atlas, a mid- to full-size, three-row SUV, built by and for the North American market, in Chattanooga, Tenn., which is nowhere near Berlin.

The ironies are irresistible. During World War II, some of Dr. Porsche's best work—the Tiger tank, for instance—was designed to kill Americans. Seventy-two years later, the company Dr. Porsche founded absolutely loves Americans, obsessively studies their habits and needs, and wants nothing more than to sell them what they want. Which are tanks.

Have you seen the Atlas commercial in which a German émigré grandmother, fulfilling her husband's dying wish, takes a road trip across America to show the grandkids the country they embraced as home? To the strains of Simon and Garfunkel's "America," no less?

I believe I've decoded a message, sir: Atlas=American.

Now, having embarked on this shameless sop to American vanity in an effort to sell SUVs, VW should double down. I will not be satisfied until they make Hinrich J. Woebcken, VW's North American CEO, walk around in an Uncle Sam costume on stilts. I want to see the man eat squirrel jerky he bought at a Stuckey's in Arkansas. Commit, dude.

The Atlas (\$30,500 base MSRP) is a steel-bodied, seven-passenger crossover SUV, the largest and heaviest vehicle built atop VW's transverse-front-engine vehicle architecture, known as the MQB. The Atlas comes out of VW's new, \$900 million assembly hall on the Chattanooga campus, part of a planned \$7 billion investment in North America by 2019. The one I drove was nicely knocked together, I must say, with excellent fit and finish.

The only engine currently available is VW's immortal 3.6-liter gas



**WOULD YOU LIKE SIZE WITH THAT?**  
The extra-roomy 2018  
VW Atlas SUV has a  
conversation-starting  
base price of \$30,500.

VOLKSWAGEN

V6 (276 hp), bolted to an eight-speed automatic, with front-wheel drive and optional on-demand all-wheel drive. Our test vehicle was an SEL in Premium trim (\$49,415, with destination charge), including big-ticket items such as 4Motion all-wheel drive, 20-inch wheels and panoramic sunroof. A version with a 2.0-liter four, front-drive only, will follow later this year.

The square-shouldered Atlas lines up against popular three-row family crossovers such as the Chevy Traverse, GMC Acadia, Honda Pilot and Toyota Highlander. Fortunately for the Atlas, this segment doesn't have a lot of what you would call lookers. Compared to some of these steel-bodied flower arrangements, the Atlas is a vision of purpose.

Above all, the Atlas is about product, volume, moving the tin. In case you hadn't heard, VW Group has recently incurred some legal liabilities

that it will be paying down for the next few years. The Atlas—a high-volume crossover SUV built on fully amortized underpinnings in a low-wage state—represents naught but rich, creamy profit.

Which is to say, VW desperately needs cash flow from an American-spec SUV that gets quite mediocre fuel economy (19 mpg, combined) to help pay off damages from Dieselgate, which involves cheating on emissions. That makes my head hurt.

You know who's delirious with joy at the sight of the Atlas? VW dealers, whose collective misery in the wake of the scandal would make a really good Broadway musical called "Screwed!" Not only does the Atlas fill in gigantic product white space, it changes the topic of conversation.

A subject for M.B.A. seminars of the future is American consumers' remarkable clemency toward VW as a brand, notwithstanding the roughly half-million wildly pissed off victims of Dieselgate who will never darken its door again. In 2016, VW's *annus terribilis*, brand sales in the U.S. were off only about 7%.

The Atlas is not, fair to say, revolutionary car-building. It takes VW's modular architecture—the sideways-mounted engine and transmission, front axles and auxiliaries in front of the firewall—to places it has been before, in vehicles such as the Tiguan compact SUV. The dash module (including LCD instrument panel, steering column, center-stack touch screen, HVAC vents, plumbing and controls, air bags) is freshly modern but conspicuously carlike, even a bit dwarfed in the Atlas's cavernous cabin.

Still, the innards look pretty nice, retaining a bit of German premiumness as compared to the domestics' interiors. The Atlas's app-driven, 8-inch central touch screen—commanding connectivity, entertainment and navigation functions—is bright, fast and works effortlessly.

Between the seats, in a console with two gigantic cupholders, is a stubby shift selector that could have come out of a sport compact. Near at hand is the (optional) all-wheel-drive-mode selector, with special mapping for snow and loose terrain. The Atlas's crisp, substantial switchgear (window and locking controls, switches, column stalks) is typical of the VW Group parts bin, and it's good stuff.

When it comes to the chassis, the MQB's usual suspension array (struts in front, multi-links in rear) delivers driving behavior that is blandly competent and composed, but no more. The power steering feel is light, strongly boosted for ease of low-speed maneuvering, but at highway speeds it's just a tiller. The suspension occasionally runs out of leverage trying to contain the Atlas's raised mass (4,728 pounds on Car and Driver's scales) and high center of gravity (27.5 inches, also according to C&D) so it's easy to provoke body roll.

The Atlas offers American customers the thing that they covet most: room.

In performance, the Atlas team was content with being merely competitive against the segment, and I think that's fine. Zero-to-60 mph acceleration (8 seconds) matters less than maximum towing capacity (5,000 pounds). Likewise with content: The Atlas offers a competitively priced spread of optional driver-assistance functions, including autonomous collision-avoidance braking, which tops my list. Also included in the SEL's package is the parking assist, which stitches together video from several cameras to simulate a bird's-eye view.

Most of all, the Atlas does an exquisite job of being soft. VW conducted extensive market research into the vehicle preferences of American SUV buyers. Based on this analysis, VW's chassis engineers tuned the Atlas to ride and handle like a turgid water bed.

And yet, by a quirk of its own expediency—putting a big SUV body on a car's mechanical platform—the Atlas is able to offer American customers the thing that they actually covet most in three-row family trucksters: room.

The Atlas's interior is comparably vast, almost improbably spacious, especially the front cabin around the broad driver's, um, throne. If I had the butt that did justice to that seat, I would definitely avoid tennis whites.

The second and third-row seating areas are also Checker Cab-like in their spaciousness. If you are transporting a high school basketball team, the Atlas's mid- and rear-seat legroom will look like a problem solved. Moreover, the mid-row bench seats (heated, ventilated, 60/40 split fold-down) tilt and slide forward easily, with a single lever pull, making third-row entry almost as easy as it is in a minivan. Parents, please note: The mid-row seats can fully forward-retract even with a baby car seat in place. That is. Huge.

Finally, both second and third-row seats fold forward to form a wide flat floor and cargo area of 97 cubic feet behind the front seats.

Such acute market research as produced the Atlas constitutes nothing less than a portrait of the intended audience, a mirror of industrial design. We're a big people, with big beverages, and large feet, apparently. And we'll forgive just about anybody for the right price on a family SUV.

You, me, VW? We've all come to look for America.

### AT PLAY

## THE DOG DAYS OF SUMMER

Gear to keep adventurous canine companions comfortable—and safe—this season



### For Staying Cool

No matter how proud or attitudinal your pooch, chances are he won't protest when you slip him into the latest doggy apparel from Ruffwear. The Jet Stream Vest leverages the principle of evaporative cooling to keep dogs from overheating as they tag along on your hikes or bike rides: Just

wet the vest and wring it out before fitting it on your four-legged friend. The wicking material that covers your pet's chest area promotes evaporation to cool his core, while a dry-weave inner mesh allows for airflow. The vest is available in six sizes, to accommodate breeds from Pomeranians to Great Danes. \$40, [ruffwear.com](http://ruffwear.com)—*Brigid Mander*

### For Keeping Tabs

Dogtra's recently released canine-tracking device, the Pathfinder, leads the pack of competing devices, whether you plan to venture into unknown territory with your dog or just want more peace of mind when you let him roam off-leash closer to home.

Like similar GPS-based products, the Pathfinder includes an e-collar that your dog wears around his neck, allowing you to view his location in real-time. What's unique: Your dog's location is mapped on a smartphone app instead of a stand-alone GPS device; the collar pings a GPS Connector (shown right) every two seconds, which communicates with your phone over Bluetooth.

Because the Pathfinder doesn't require cellular service to work, you don't have to pay any monthly fees. The collar weighs about 10 ounces, has a 24-hour battery life and a range of 9 miles. Designed to be robust enough for use by canine search-and-rescue teams, the app can keep tabs on up to 21 dogs at a time—or, of course, just the one that's your closest friend. \$400, [dogtra.com](http://dogtra.com)—*Brigid Mander*



# MANSION

HOMES | MARKETS | PEOPLE | UPKEEP | VALUES | NEIGHBORHOODS | REDOS | SALES | FIXTURES | BROKERS

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THE WALL STREET JOURNAL.

*'My buildings will be my legacy ...  
they will speak for me long after  
I'm gone.'* —Julia Morgan

Friday - Sunday, July 28 - 30, 2017 | W9

## What Builders Build for Themselves

Construction-company bosses will splurge on the best materials and perks like seven ovens and a dog-grooming room. Some eschew complex home-automation systems.



**COURTYARD COMFORTS** Robert Wood completed a 5,200-square-foot house in 2015 in Lubbock, Texas, for himself and his wife, Candace, above. The home's main kitchen, top, was designed for entertaining and has three ovens. Above left, the pool is located in the home's courtyard, which also has a covered patio with an indoor/outdoor kitchen and seating area, above right.

BY KATY MC LAUGHLIN

**WHEN DREW DANIELS**, a luxury-home builder in the Chicago metro area, shows clients the roughly \$1.5 million house he built last year for

himself and his family, they ooh and aah over the French-country finishes, the European white oak floors and a "dog room" that includes a shower for George and Harry, the family poodles.

But to Mr. Daniels, director of development

for custom-builder Sexton Development in Lake Bluff, Ill., the home's best features are invisible—the \$120,000 radiant-heating system, the \$20,000 lighting system that creates "moods" in nearly every room, as well as numerous energy-

Please turn to page W14

## HOUSE CALL | WILLIE MCCOVEY AT HOME AMONG THE GIANTS

The Hall of Fame first baseman was nurtured in a loving home, apart from the indignities of a segregated South

*Willie McCovey, 79, is a former first baseman for the San Francisco Giants who played in the major leagues from 1959 to 1980. He hit 521 career home runs and was inducted into the Baseball Hall of Fame in 1986. He spoke with Marc Myers.*

The South of my youth in the 1940s was strictly segregated. I grew up in Mobile, Ala., and as long as we stayed in our neighborhood, we were fine. But you still had to deal with the indignities. I remember a white fellow in his 20s coming to our house and addressing my father as "boy." That was hard to take.

Our neighborhood was close-knit. My friends and I played sports year-round. But we didn't play much hardball early on. We played fast-pitch softball.

My family's A-frame house was a 15-minute walk from town. It had a living room and not much of a bedroom. I was the seventh of 10 kids—eight boys and two girls. Fortunately, we all weren't living at



A HIT Willie McCovey in the press box at AT&T Park in San Francisco in June.

home at the same time. The older ones moved out as soon as they could, so six of us shared a room. We were crammed onto two convertible beds.

My father, Frank, worked hard fixing tracks for the GM&O Railroad. He wasn't a large man, but he was strong—and very quiet. When he spoke, we listened. At home, he never raised his voice. But if he had to talk to you about right and wrong, he'd sit you down and you wouldn't forget it.

My mother, Esther, was a loving woman and an incredible, understanding cook. I hated okra, so she'd cook a separate dish for me, or she'd pick out the okra pieces. She wasn't an "eat it or else" mom.

All of us had our chores. Mine was feeding the chickens we raised out back. The oldest in the family was responsible for driving my father to work in our Buick Roadmaster. My father didn't drive.

At night, we'd gather

around the radio to listen to a guy who re-created the play-by-play of major league baseball games by reading the ticker. With sound effects, he made it seem real.

My friends and I played sports in the streets or empty fields. We played softball in a large local playground. Jesse Thomas was the director. I pitched and was a better pitcher than a first baseman. But I could hit the ball hard.

In early 1954, when I was a junior, I dropped out of high school to help support my family. In addition to my paper route, I tried working as a bus boy in a whites-only restaurant, but I quit after a week. All the things that make you cringe was normal talk then. You took it or you walked away.

I soon found work at a chicken place. I was responsible for washing the chicken parts before they were put out for people to buy.

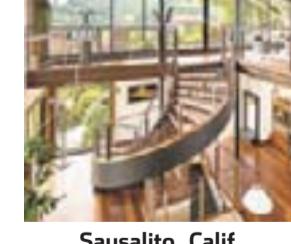
That December, I took the train to Los Angeles to visit

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**HOUSE OF THE DAY**  
[wsj.com/houseoftheday](http://wsj.com/houseoftheday)



Kent, England  
A country house with its own lake



Sausalito, Calif.  
A contemporary home with dramatic bay views



Greenwich, Conn.  
A waterfront compound for \$15.9 million

## MANSION

PRIVATE PROPERTIES | CANDACE TAYLOR

# Harvey Weinstein Cuts Price

CLOCKWISE FROM TOP LEFT: JAKE RAJIS; ALBERTO E. RODRIGUEZ/GETTY IMAGES; ROB MUIR; CIRO COEHL



Academy Award-winning film producer Harvey Weinstein is reducing the price of his Hamptons home—which comes with an elaborate home theater—to \$12.4 million.

Mr. Weinstein and his wife, Georgina Chapman, co-founder of the fashion label Marchesa, bought the Amagansett, N.Y., house in 2014 for \$11.65 million, according to public records. They have been trying to sell it for the past few years, first putting it on the market for \$13.5 million in 2016 then reducing the price to \$12.8 million.

"Unfortunately with our busy schedules we just don't have time to go to Amagansett as much as we'd like," Mr. Weinstein and Ms. Chapman said in an email.

Frank Newbold and Beate V. Moore

of Sotheby's International Realty, who have taken over the listing from the Corcoran Group, said the couple also has homes in New York City and Connecticut and will look for a home closer to the city.

The gated Amagansett estate sits on roughly 2 acres with frontage on Gardiners Bay. Built around 1995 by filmmaker Barry Sonnenfeld, the house measures about 9,000 square feet, with five bedrooms plus an attached two-bedroom guest wing with a separate entrance. The home's terraces, outdoor heated pool and roof deck are positioned to take advantage of the bay views, the agents said.

The home has a finished lower level with a gym, children's playroom

and the home theater, which fits about 50 people.

The space has a separate projection room and a roughly 20-foot-wide screen set up for viewing 3-D films. The screening room contains one of the home's five wood burning fireplaces, so "when you're watching 'Doctor Zhivago' you can light a fire," Mr. Newbold said.

A lobby area adjacent to the theater has a wet bar, a popcorn machine and several tables for dining or cocktails.

Mr. Weinstein and his brother Bob co-founded Miramax Films in 1979. In 2005 the brothers launched their own film production company, The Weinstein Company.



## HAMPTONS ESTATE WITH PRIVATE ART MUSEUM ASKS \$23.45 MILLION

The Hamptons estate of the late venture capitalist and art collector Jerome L. Stern—with a roughly 7,500-square-foot private art museum—is hitting the market for \$23.45 million.

Affectionately nicknamed Camp Jerome, the roughly 17-acre estate on Quantuck Bay is located in the small hamlet of Quogue in Southampton, N.Y.

The 10-bedroom main house was originally built around 1910, though the Sterns put on an addition after buying the property, said Geoffrey Stern, son of the late Mr. Stern. In addition to the "art barn," the property also includes two guest cottages, a horse barn with three stalls, a swimming pool and pool house, and a tennis court. The property has a dock on Quantuck Bay.

Mr. Stern, who lived primarily in New York City, first bought the property in 1966 for \$250,000—he added more acreage later on—and used it as a vacation home for his family.

In the early 2000s, Mr. Stern and his wife, Ellen, built a climate-controlled art barn on the property to

house their collection of contemporary photography and sculpture, his son said. Surrounded by trees so it's not visible from the main house, the 36-foot-high metal building has four main galleries. (The art is being sold separately and isn't included in the price of the house.)

Listing agent Tim Davis of the Corcoran Group said for buyers who aren't art collectors, the space would work well as storage for cars or motorcycles.

Mr. Stern died in March at age 93, and his son said the family is selling because they are spread out and continuing to maintain the home is "too ambitious for all of us to handle."



## TEXAN PAYS \$20 MILLION FOR MALIBU HOME

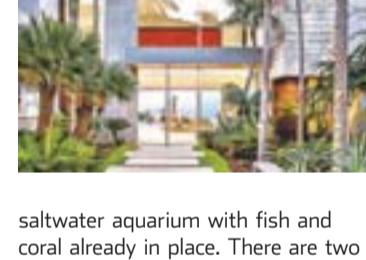
A luxury car dealer from Texas has paid \$20 million for a Malibu spec house with a second-floor putting green.

According to public records, buyer Ron Heller closed on the property earlier this month. Mr. Heller, of the car dealership group South Texas Luxury Experience in San Juan, Texas, declined to comment.

Located on a bluff above the ocean in the 80-acre MariSol Malibu development, the house was listed last year for \$27.9 million, then saw its price reduced to \$22.9 million, according to Rodrigo Iglesias of Hilton & Hyland, which had the listing with MariSol Malibu Realty.

The contemporary home has about 10,300 square feet of living space, including a detached guest house, according to Richard Morris, one of the developers of MariSol Malibu.

Sold fully furnished, the house also has a gym, movie theater and



saltwater aquarium with fish and coral already in place. There are two temperature-controlled wine rooms, one for red wines and one for white. There are seven bedrooms in total between the main house and the guest house. The roughly 1-acre grounds also include an infinity-edge pool and a roughly 4,000-square-foot man-made sandy "beach" with ocean views just beyond the pool.

MariSol Malibu, located in Ventura County, includes 17 homes and building lots, 12 of which have been sold since sales started about three years ago, Mr. Morris said. The remaining lots start at \$6.5 million, he said.

Mr. Heller previously owned another home in MariSol Malibu, which he sold in March for \$15.85 million, according to public records.

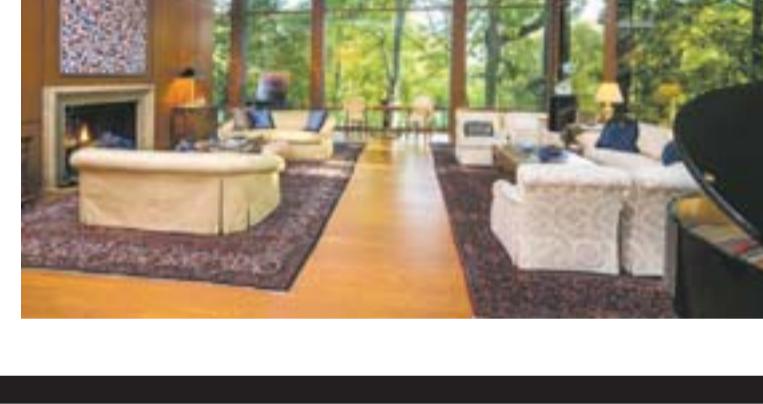
## A CONTEMPORARY HOUSTON HOME LISTS FOR \$19.5 MILLION

In Houston, a contemporary house built in the 1960s is listing for \$19.5 million. Designed by the Texas architecture firm Howard Barnstone & Partners, the house has a 55-foot-long steel-and-glass living/dining room designed to look as though it is suspended among the trees. The owner is Richard Mithoff, a personal-injury lawyer who bought the house with his wife, Ginni, in the mid-1990s.

Located in the affluent River Oaks

neighborhood, the roughly 11,670-square-foot house has five bedrooms. The Mithoffs kept the original structure but updated the house, covering the home's original brick exterior with stucco, adding glass doors on the front of the house and remodeling the kitchen. Later they built a garage for Mr. Mithoff's car collection.

They also commissioned American sculptor Jesús Moroles to create a sculptural fountain consisting of four



16-foot granite towers, which sits at the home's entry. The grounds, which span about 5.2 wooded acres, also include a guesthouse, circular driveway and swimming pool.

Contemporary homes are somewhat rare in Houston, where traditional and transitional homes are more common, said listing agent Jeanne Marosis of John Daugherty Realtors.

As a trial attorney, Mr. Mithoff is known for his work negotiating a \$2.3 billion settlement with the tobacco industry on behalf of several Texas counties; winning \$80 million for the families of nursing-home residents killed when their bus caught fire; and obtaining the first verdict against Dow Corning for silicone breast implants that harmed women.

They are selling because they are downsizing, Mr. Mithoff said, and plan to move into a condominium in the River Oaks area.

► See more photos of notable homes at [WSJ.com/Mansion](http://WSJ.com/Mansion). Email: [privateproperties@wsj.com](mailto:privateproperties@wsj.com)

## RELATIVE VALUES

# LAKESIDE LIVING IN THE OZARKS

Three luxury homes for sale in the mountains of Missouri



**\$2.9 million**

Osage Beach

Six bedrooms, six bathrooms, two half-baths

Sitting on 1.16 acres on the end of Robyn Point, this home has 390 feet of shoreline on Lake of the Ozarks. The house has a large dock, as well as a three-car garage, a man cave, a wine cellar and a screened-in porch.

Agent: Jeff Krantz, Re/Max Lake of the Ozarks



**\$3.4 million**

Branson

Six bedrooms, five bathrooms, three half-baths

This 9,185-square-foot Tuscan-inspired home sits on 2.6 acres overlooking Lake Taneycomo. It features extensive stonework and exposed ceiling trusses. Amenities include a walk-in wine cellar, a home theater and an infinity-edge pool.

Agent: Booker Cox III, Foggy River Realty



**\$3.999 million**

Four Seasons

Four bedrooms, four bathrooms, two half-baths

This newly built 5,209-square-foot home sits on 1.6 acres on Six Mile Cove. Expansive decks and patios are designed for outdoor entertaining. Inside are hand-hewn timber beams, custom flooring and stonework throughout. Boat dock has four slips.

Agent: Jim Trowbridge, Four Seasons Realty

## MANSION

### BALANCE SHEET

# A Country Musician's Kin Steps In

When a singer-songwriter's bungalow and guesthouse needed an overhaul, he turned to his big sister



**FOR THE RECORD** Elizabeth and Rob Baird, above, at the 'record bar' in Mr. Baird's newly renovated home in Austin. Right, from top to bottom: the exterior of the 1,000-square-foot bungalow in the Bryker Woods neighborhood, the kitchen of the main house and the living room of the main house.

BY NANCY KEATES

**WHEN RENOVATING** a house, it helps to have a sister who is an award-winning architect.

Rising country musician Rob Baird bought a three-bedroom, 1,000-square-foot bungalow in Austin's tree-lined Bryker Woods neighborhood, near the University of Texas, for \$292,000 in 2010. He then rented it out to a friend and moved to Nashville to make his

name in the country-music scene, staying in the house's 300-square-foot guesthouse when he was in town for shows.

After four years of writing songs for other people, Mr. Baird felt trapped by what he describes as Nashville's pressure to conform, and decided to move back to Austin full time and start his own record label. "Austin has a better creative vibe. I've written my best songs here," says Mr. Baird, who is 30 years old and working on his

fourth album.

While Mr. Baird's friend was still renting the house, his sister, Elizabeth Baird, 35, transformed the guesthouse out back from a nondescript tan room into a modern writing studio. Inside, a wood-and-glass partition with a built-in desk on one side envelops a new bathroom. A skylight in the bathroom and soft-gray walls keep the space light and airy.

Most of the furniture—the closet, the kitchen and bathroom cabinets and fixtures—came from a one-weekend shopping frenzy at IKEA. The project totaled \$45,000 and took about four months.

After the musician's tenant friend moved out, Ms. Baird turned to the main house, with the goal of making it more suited to a single guy who likes to cook dinner for his songwriters before they spend the night creating music. "I wanted it to be more manly," says Mr. Baird. The project, which totaled about \$55,000 and took over eight months, started with taking down a wall in the kitchen. Ms. Baird added a large dining banquette of her own design, with a green slatted wood backrest to allow light to pass through.

Now the wide-open floorplan has sight lines from the front door, through the living room, kitchen and dining areas and out to the back deck. Ms. Baird replaced the tile in the kitchen and utility room with oak floors that matched the rest of the house. She painted the walls white, aiming for a clean, simple aesthetic.

A focal point is what Mr. Baird calls his "record bar zone." Here, a Pioneer turntable sits on a wood cabinet with open shelves holding roughly 20 record albums next to two guitars hanging on the wall. Most nights the writers move from there to a piano in what was a bedroom but is now an office. Here, one wall was replaced with glass doors to make it more open to the main living area.

The siblings grew up in Memphis and made their first Christmas record together when they were in elementary school. Ms. Baird graduated from the University of Virginia in 2009 and got her master's in architecture from the University of Texas in Austin, going to work afterward for Mell Lawrence Architects, where she designed an award-winning pavilion in Dallas. Her brother's home was one of her first projects when she opened her own firm, Elizabeth Baird Architecture & Design, and she has since worked on resi-



dential and commercial projects, including a hip Austin wine bar and coffee shop.

Mr. Baird went to Texas Christian University to study ranch management but found he liked playing the guitar better. His most recent album "Wrong Side of the River" was released last year by his label, Hard Luck Recording Co. Now he's working on a new album that he's writing in Austin and recording in Memphis.

Mr. Baird says working with songwriters he has known for decades makes the creative process much smoother because "you don't have to explain yourself," he says. It's about trust. "I need people who will tell me something is a bad idea."

That is also true when it came to renovating his house. "There's built-in trust and built-in frankness with a sibling," says Ms. Baird.

## GUEST HOUSE

Bathroom

**\$12,000**

Kitchenette

**\$4,500**

Wall, skylight and built-ins

**\$8,000**

Electrical, lighting

**\$3,000**

Paint

**\$4,000**

Misc.

**\$13,500**

**TOTAL**

**\$45,000**



ANNOTATED ROOM

# Luxury Details in a Swiss Penthouse

Gallery owner Stefan von Bartha and the Basel home that holds his personal favorites

Stefan von Bartha doesn't mind taking his work home. The Swiss gallerist sells everything from kinetic art to pieces of light, which make up part of the personal collection that only friends get to see at his Basel penthouse residence. The 36-year-old, who runs the von Bartha gallery founded by his parents, lives in a 2,600-square-foot, two-room apartment in St. Johann, an artsy neighborhood in

the northern Swiss city.

Mr. von Bartha owns the 14-unit building in which he resides. About four years ago, he decided to combine three attic spaces into one large rooftop apartment. "I was looking to construct something very different from what you could rent on the market," he says. He then commissioned Zurich-based Luvo architects, who also designed his Basel gallery

space, for the job. The renovation took about a year, and in early 2015, he moved into his new home. "There's a classic touch to it though it's also very modern and slick," says von Bartha, who lives there alone.

Here, a look at the open-plan living/dining space where he hosts clients and friends.

—Katerina



The Vitra sofa designed by Jasper Morrison is a recent addition to Mr. von Bartha's home. While he generally prefers vintage furniture, Mr. von Bartha wanted a large couch and realized it would be challenging to find a big antique he liked. The black-and-white cushions are from Italian artist Piero Fornasetti and are a gift from his mother.

Price: \$8,175

**2.** The Joe Colombo Kd27 table lamp from the 1960s is one of several bargains Mr. von Bartha is proud of. He bought it at a flea market at what he estimates to be a fraction of its retail price. "It's made out of plastic and very light and beautiful," he says, noting that the lamp is designed to be stackable.

Price: \$20

**3.** Mr. von Bartha purchased the "tankette" table created in the 1980s by Paolo Pallucco and Mireille Rivier at an auction eight years ago. He had seen similar editions of the metal table, which actually rolls like a tank, in the home of a friend and spent a long time trying to find it on sale. "I was very fortunate to be the only one bidding for it," he says.

Price: \$2,335

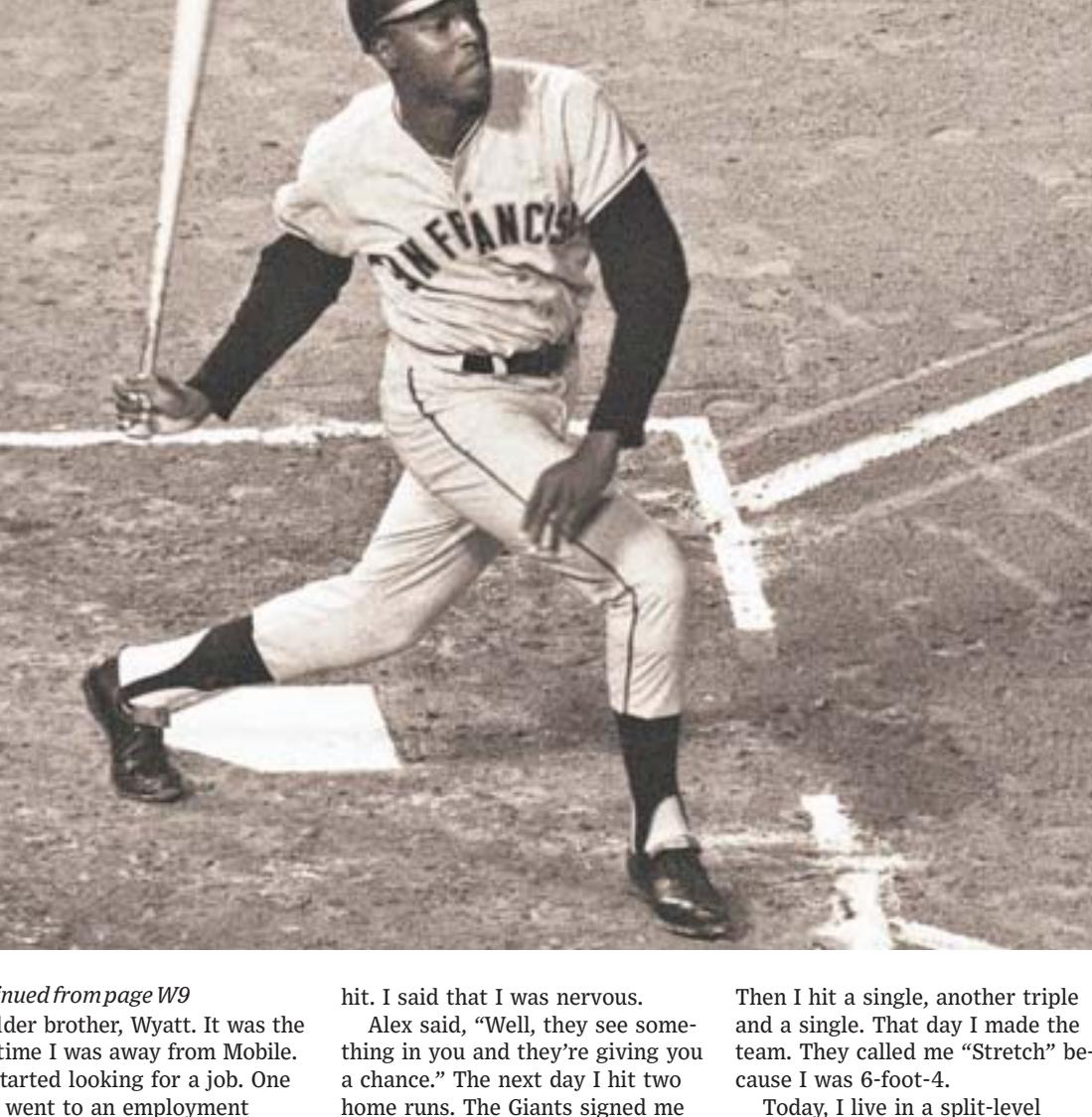
**4.** The green vintage 1950s molded fiberglass chairs are by Ray and Charles Eames. Mr. von Bartha, who worked in the furniture business before joining the art world, was originally reluctant to buy the designer seating because the chairs were a relatively common sight, but he liked that the pair he settled on were in a relatively unusual color.

Price: \$2,120

**5.** The dining table is custom made of heavy wood by local designers Inch furniture. Mr. von Bartha wanted a table he could use to host events for up to 20 people and commissioned this piece, which weighs almost a ton and had to be lifted by a crane into his apartment. "I love to do dinners at my place where people can meet," he says.

Price: \$15,890

## AT HOME AMONG THE GIANTS



Continued from page W9

older brother, Wyatt. It was the time I was away from Mobile. I started looking for a job. One went to an employment agency, but the line inside was

It was so hot that I fainted. I probably dehydrated.

Ailing to find a job that day was a blessing. Back at my mother's apartment, the phone

It was Jesse. He was a "bird" who spotted baseball talent

San Francisco Giants scout

and Alex Pompez. He said he

Alex about me. Alex wanted

to report to Florida where the

s were trying out players.

of the black players slept at

end of an old army barracks.

My first day I did lousy. Alex

hit. I said that I was nervous.

Alex said, "Well, they see something in you and they're giving you a chance." The next day I hit two home runs. The Giants signed me to their minor league system.

In July 1959, I had just finished playing a double header in Phoenix for the Pacific Coast League when the general manager told me the Giants were calling me up to the big club. I had to be in San Francisco the next day for a game. I flew up on the first flight out.

Horace Stoneham, who owned the Giants, sent his driver to pick me up. I got to the ballpark just in time to get dressed.

Bill Rigney the manager, told me I was batting third, between Willie Mays and Orlando Cepeda.

Then I hit a single, another triple and a single. That day I made the team. They called me "Stretch" because I was 6-foot-4.

Today, I live in a split-level house in the Bay Area. I built it from scratch on an acre in the late 1970s. I have a good view of Mount Diablo and Redwood City across San Francisco Bay.

Because of an old baseball knee injury, I spend most of my time in the bedroom watching the Baseball Channel on TV when I'm not at Giants home games.

My father never saw me play with the Giants. My mother did, though, in the 1960s. She didn't know much about the game. But after, she said, "People clapped for you, so you must be doing some-



ALL IN Willie McCovey bats against the Los Angeles Dodgers in L.A. in 1962. In 1963, he became the first black player to play for the San Francisco Giants.

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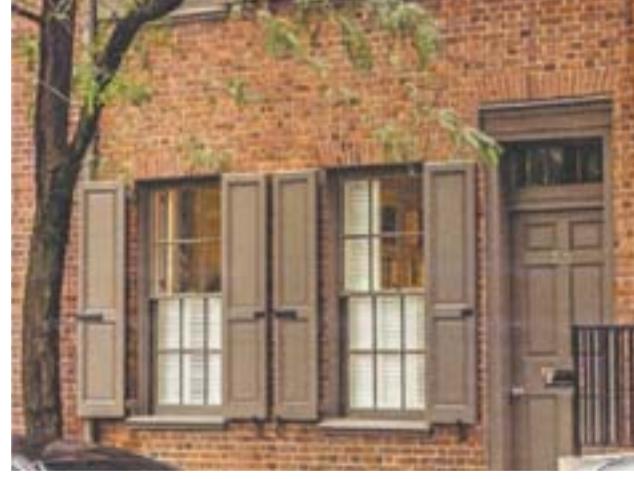


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## MANSION

# WHAT BUILDERS BUILD FOR THEMSELVES



KELLY MARSHALL FOR THE WALL STREET JOURNAL (3)

**SAVING ENERGY** Arnold Karp's contemporary home in Greenwich, Conn., is loaded with energy-efficient features, such as a \$175,000 geothermal heating and cooling system. Top, a living room opens up onto a waterfront patio. Above, from left to right, a bedroom; the exterior of the home, and Mr. Karp with Robin Friedman Carroll, a project manager at his company, in the kitchen.

*Continued from page W9*  
efficient components.

Try as he might to interest guests in what he jokingly calls the "nerdy, geeky, OCD-psych" elements, Mr. Daniels says clients get most excited about his screened-in porch. "People see it and say, 'I want one,'" says Mr. Daniels, who is 38.

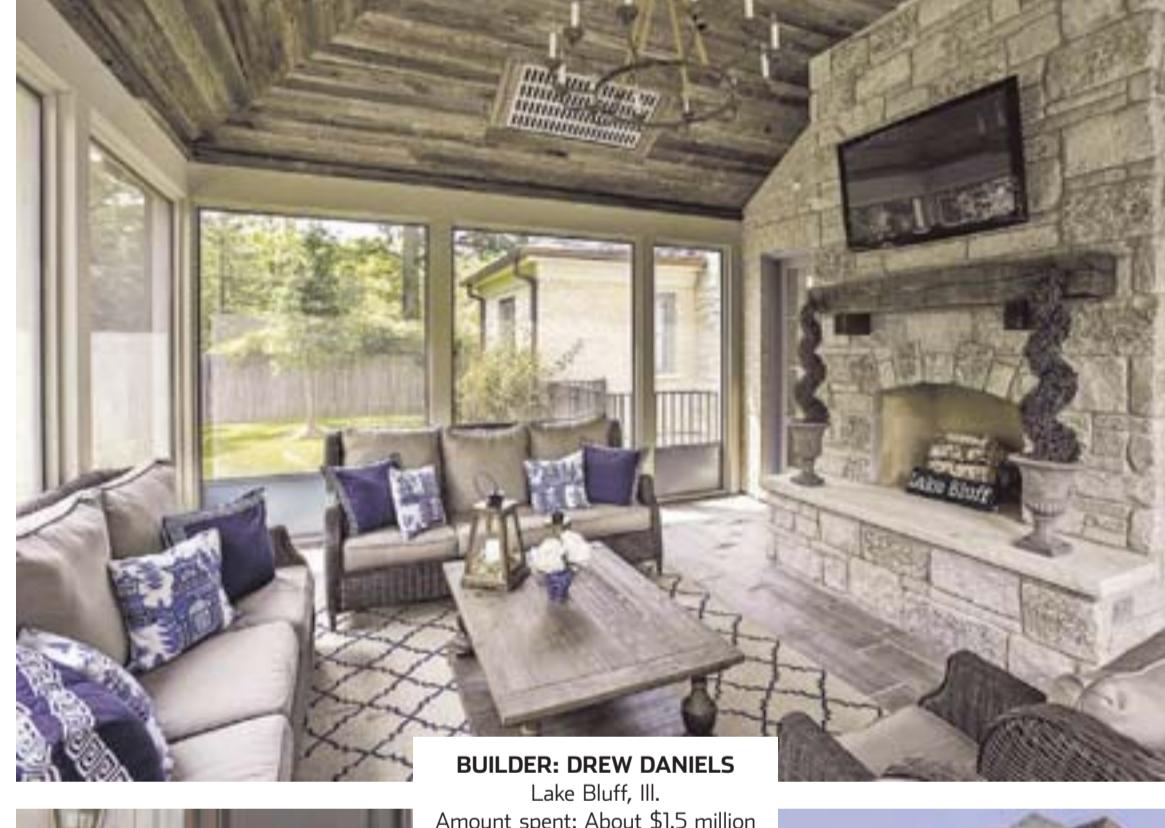
Luxury builders who build their own homes can splurge on the best materials, the latest technology and top-notch craftsmanship. The result is a showhouse-worthy property that is part innovations lab and part marketing kit to show potential clients what a construction company can accomplish.

While real-estate agents urge people who build their own homes not to include too many oddball amenities, builders are proud of the extreme features they include in their own abodes. In Lubbock, Texas, for example, custom builder Robert Wood completed a 5,200-square-foot house for himself and his wife in 2015 that includes seven ovens.

The house, which cost roughly \$1.3 million to build, is constructed around a courtyard that has a pool and an outdoor dining area. A stainless-steel kitchen with four ovens is separated from the courtyard by a retractable glass wall. The ovens come in handy when Mr. Wood and his wife, Candace, entertain their friends and host charity events. (The home's main kitchen has three additional ovens.)

"The courtyard feel is the No. 1 thing I wanted to try," says Mr. Wood, who says he got the idea from homes in Palm Springs, Calif. An enclosed courtyard ensures privacy, he adds, and orients the view away from the arid West Texas landscape. Though the home has three outdoor spaces, the intimate courtyard "is by far the one we use the most," says Mr. Wood, 54.

What builders consider worthy of including—or excluding—from their personal homes can be revealing. The features deemed "essential" by buyers who earn over \$150,000 a year are relatively common comforts, such as laundry rooms and ceiling fans, plus basic "green" features such as Energy Star appliances and energy-efficient windows, according to the results of a 2017 National Association of Home Builders survey of



BUILDER: DREW DANIELS

Lake Bluff, Ill.

Amount spent: About \$1.5 million



BOB STEFKO FOR THE WALL STREET JOURNAL (3)

**SHOWCASE** Drew and Brynn Daniels with their children, from left to right, Caroline, William and Annabelle in front of their Lake Bluff, Ill., home Mr. Daniels built last year. The screened-in porch, top, gets high praise from clients. Builders' homes are often a 'marketing kit' to show potential clients what a construction company can accomplish.

buyers' home preferences.

But luxury builders tend to have much higher standards for what constitutes an environmentally friendly home. Some invest small fortunes in the latest energy-efficient heating systems, weather-resistant materials and building techniques that minimize energy loss.

Luxury-home builder Arnold Karp spent \$175,000 on a geothermal heating and cooling system in his new \$2.7 million contemporary home in Greenwich, Conn. Mr.

Karp, 57, knows that even if his system slashes his utility bills dramatically, it may not pay for itself. But nonetheless, it's still a great marketing tool for potential clients.

"It helps sell the house to 'green' and 'non-green' buyers who care about operating costs and the environment," says Mr. Karp.

Contractors are often able to rationalize high upfront spending because they use their own homes as both testing grounds for new technologies and as showcases

they can take potential clients through to help close a deal. But it's a two-way street: They are also able to use clients' experiences to inform their choices. Mr. Karp knew to stay away from a complicated, multi-device, iPad-controlled "smart home" technology system because he has fielded so many complaints about them from customers.

"Everybody calls me two hours before the Super Bowl to tell me their fancy technology is not working," says Mr. Karp, who is presi-

dent of Karp Associates in New Canaan, Conn. Both Mr. Karp and Mr. Daniels, having heard such gripes, made sure their systems had buttons on walls that even young children could use without help.

And some builders' clever features don't win over all clients. Mr. Daniels' "dog room" has stone floors and baseboards, and the doors are lined with Plexiglas so the dogs can't damage them with scratches. It leads to the backyard and has a shower, so muddy paws can be quickly cleaned.

"If clients have a dog, they think it's amazing," says Mr. Daniels. "If they don't, they think I'm an idiot," he cracked.

These builders say they don't take advantage of cheap labor in building their homes. "I'd rather pay than owe people favors," says Mr. Karp. They say they pay their subcontractors—electricians, plumbers and other tradesmen—full freight, in the interest of maintaining good relationships with people who are key to their success in business.

"I would sell my house if someone offered me a big price. Then I would have to face them," which would be uncomfortable if he had demanded cheap or free work, says Mr. Wood.

But builders do admit to some foibles familiar to anyone who has built their own home. Mr. Daniels' perfectionism comes with a high price tag: The ceiling in the screened-in porch is made from reclaimed wood from a barn in Wisconsin, he says. Each board needed to be sized, squared, cut and installed, adding to labor costs.

Builders aren't immune to a version of the classic upsell: Mr. Wood said that while appliance and other hardware suppliers will often provide discounts to people in the business, in some cases he paid full fare in exchange for upgrades to the next level of luxury.

More proof that when it comes to their own homes, builders are only human: Mr. Karp's budget numbers got fuzzy as he got excited about glamorous upgrades, like a Jacuzzi with a fire feature, and backlit stairs that "make it look like you're walking up a magic carpet," he said.

"My original budget was \$2.3 million, but we ended up at \$2.7 million," says Mr. Karp.