THE WALL STREET JOURNAL.

DOW JONES | News Corp * * * * * *   MONDAY, JULY 9, 2018 ~ VOL. CCLXXII NO. 6   WSJ.com   ★★★★ $4.00

Last week: DJIA 24456.48 ▲ 185.07 0.8% | NASDAQ 7688.39 ▲ 2.4% | STOXX 600 382.36 ▲ 0.6% | 10-YR. TREASURY ▲ 5/32, yield 2.831% | OIL $73.80 ▼ $0.35 | EURO $1.1744 | YEN 110.46

What's News

Business & Finance

S&P 500 companies are on track to buy back a record $800 billion in stock this year, but many issuers aren't getting the share-price boost the move usually brings with it. **A1**

◆ **Chinese authorities** are scrutinizing Tencent more closely because of the volume and nature of the content moved by its WeChat app. **B1**

◆ **U.S. business** borrowing picked up late last month, offering relief to banks and signaling strength in the economy. **B1**

◆ **The CFTC waged** a rare and successful campaign to get Blackstone to unwind a bet on the default of home builder Hovnanian. **B1**

◆ **Potential successors** to Draghi are jockeying for position a year before a decision on who will fill his shoes as ECB chief. **A8**

◆ **Low freight rates** are pushing owners to send a record number of the biggest oil tankers to South Asian breaking yards. **B3**

◆ **Chinese conglomerate** HNA said co-founder Chen Feng will become its sole chairman after the death abroad of Wang Jian. **B3**

World-Wide

◆ **Trump polled outside** advisers about his Supreme Court nominee and appeared to favor different finalists ahead of an expected announcement of his choice on Monday. **A1, A4**

◆ **Divers extracted** four boys alive from a flooded cave in Thailand and were preparing to rescue the rest of a group trapped there. **A1**

◆ **Leaders braced** for a tense NATO summit this week with a U.S. president who has questioned elements of the Atlantic alliance. **A1**

◆ **The U.K. minister** in charge of negotiating Britain's exit from the EU resigned, putting pressure on Prime Minister May. **A8**

◆ **Health insurers faced** uncertainty from the Trump administration's move to suspend some Affordable Care Act payments. **A3**

◆ **Giuliani said Trump** would interview with Mueller only if the special counsel could show a "factual basis" for the Russia probe. **A4**

◆ **Pompeo said** his talks with North Korea were held in good faith, while Pyongyang accused the U.S. of "gangster-like tactics." **A6**

JOURNAL REPORT

Small-stock fund managers hit home runs

Investing in Funds & ETFs, R1-10

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FROM TOP: LINH PHAM/GETTY IMAGES; LAUREN DECICCA/GETTY IMAGES

An ambulance carrying one of the boys rescued on Sunday from a cave in northern Thailand headed to a hospital in Chiang Rai. Authorities said it could take two to three days to free all the boys and their coach. Onlookers, below, cheer the rescue effort.

Four Boys Pulled From Cave

Rescue divers, using air tanks, escort teens through floodwaters on treacherous journey

By Warangkana Chomchuen, Phred Dvorak and Jake Maxwell Watts

MAE SAI, Thailand—Sixteen days after 12 boys and their soccer coach disappeared inside a flooded underground labyrinth in northern Thailand, divers pulled four of them alive from the darkness.

Rescuers raced the onset of monsoon rains to extract the rest of the group from the cave complex, in a difficult operation that required navigating miles of often narrow, submerged passages.

Each of the boys—all between 14 and 16 years old—brought out on Sunday used air tanks and other diving gear and was accompanied by two divers. After reaching the surface, they were rushed to a hospital in nearby Chiang Rai.

Those still trapped include the coach, who spent much of the past decade as a novice in a Buddhist monastery, a student from Myanmar who came to Thailand for a better life, and a soccer fanatic who is afraid of the dark.

It could take two to three days to free them all, said Narongsak Osottanakorn, the governor of the province where the cave is located. Officials said new guide ropes and fresh air canisters need to be placed along the route before operations continue.

One diver, a former Thai navy SEAL, died early Friday after running out of air underground.

The soccer team's ordeal has

Please turn to page A10

◆ Risks leave rescuers mostly in the dark........................ A10

President Takes His Last Look At Court Choices

By Peter Nicholas And Louise Radnofsky

WASHINGTON—President Donald Trump on Sunday polled outside advisers about his Supreme Court nominee and appeared to favor different finalists as the day wore on, wrestling with a decision that is crucial to his legacy and that could tip the court's yearslong balance firmly toward conservatives.

On the eve of his planned Monday night announcement, Mr. Trump was undecided and was making calls and asking questions about a quartet of finalists: federal judges Brett Kavanaugh, Raymond Kethledge, Thomas Hardiman and Amy Coney Barrett, people familiar with the search process said.

During the day Sunday, Mr. Trump zeroed in on different aspects each finalist brought to the equation, and his own advisers weren't certain where he would land, noting a final decision could come just hours before Monday's televised announcement, set for 9 p.m. EDT. "It's a jump ball," said one person familiar with the search.

"We are close to making a decision," Mr. Trump said Sunday afternoon as he prepared to return to Washington from a weekend at his New Jersey golf club. "Let's just say

Please turn to page A4

◆ Who's who on short list for nomination........................ A4

Stock Prices Defy Surge in Buybacks

By Michael Wursthorn

U.S. companies are buying back record amounts of stock this year, but their shares aren't getting the boost they bargained for.

S&P 500 companies are on track to repurchase as much as $800 billion in stock this year, a record that would eclipse 2007's buyback bonanza. Among the biggest buyers are companies like Oracle Corp., Bank of America Corp. and JPMorgan Chase & Co.

But 57% of the more than 350 companies in the S&P 500 that bought back shares this year are trailing the index's 3.2% increase. That is the highest percentage of companies to fall short of the benchmark's gain since the onset of the financial crisis in 2008, according to a Wall Street Journal analysis of share buyback and performance data from FactSet.

The historic spending spree on share buybacks has some analysts worried companies are buying their shares at excessive valuations during the peak of the economic cycle and at a time the market rally is nine years old. Others warn the billions of dollars spent to buy back shares could have gone toward capital improvements like new factories or technology that could lead to stronger long-term growth.

"There has been less of a reward for companies engaging in new buybacks over the last 18 months," said Kate

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◆ Journal Report: The real problem with buybacks........ R1

Business Loans Show Strength

Companies have stepped up their borrowing, reflecting new confidence in the economy. **B1**

Commercial and industrial loans, change from a year earlier

Note: Weekly data, not seasonally adjusted
Source: Federal Reserve

NATO Feels Strain Of U.S. Demands

By Jacob M. Schlesinger in Washington and Bojan Pancevski in Berlin

When German Chancellor Angela Merkel visited Donald Trump shortly after he took office, the new U.S. president opened the meeting by telling her, "Angela, you owe me one trillion dollars."

It was his estimate of a 14-year gap between what Germany spent on its own defense and what it had promised to spend under arrangements with the North Atlantic Treaty Organization, according to an official briefed on the session.

Now, as NATO leaders prepare for a summit this week, Mr. Trump's European counterparts are girding for a meeting with a U.S. president who is taking aim at elements of the trans-Atlantic alliance he insists place unfair burdens on the U.S.

Since the post-World-War-II era the alliance has entwined security, through NATO, and the economy, through trade pacts. Mr. Trump has invoked a Cold War-era U.S. law to brand some imports from Europe as a threat to American security, the first time the law has been invoked against U.S. allies. Using that justification, he has placed tariffs on European steel and aluminum and threatened more against cars. The moves sparked European retaliation against U.S. industries.

The president also says the security umbrella the U.S. spread across Europe during the Cold War allows allies to

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These Giant Bloody Marys Require Demolition Skills

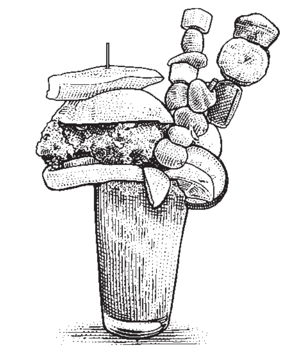
* * *

Classic cocktail becomes performance art, with chickens, doughnuts

By Thomas Vinciguerra

Brace yourself after ordering the signature Bloody Mary at the Party Fowl restaurant in Nashville, Tenn.

The cocktail arrives at the table weighing 7½ pounds and requires some muscling. Its garnishes extend about 7 inches up from the rim and 4 inches to the side. They include fried okra, an avocado, baseball-size Scotch eggs—and two Cornish game hens on 12-inch skewers.



Some disassembly required

"There were multiple servers—one who brought it and one or two others for either moral or physical support," says Cindy Matar, a 24-year-old Nashville salesperson who ordered one of the $55 extravaganzas for herself and friends last year. "You could see biceps bulging."

Consuming the 55-ounce drink—on the menu as "Brunch for Two"—was a cal-

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INSIDE

ANDREW HARNIK/POOL/REUTERS

TALKS UNCLEAR AFTER POMPEO KOREA VISIT

WORLD NEWS, A6

THE END OF POP'S DIVA ERA

LIFE & ARTS, A11

U.S. NEWS

THE OUTLOOK | By Nick Timiraos

Fed Debates Signal From Yield Curve

Atlanta Fed President Raphael Bostic and some of his colleagues are laying the groundwork to slow down the Federal Reserve's interest-rate increases if they foresee a bond-market development that has traditionally been a harbinger of recession.

At issue is the narrowing spread between short- and longer-term Treasury yields, a difference known as the yield curve.

The gap typically shrinks when the Fed raises short-term rates. But when short-term Treasury yields rise higher than longer-term yields, a so-called inverted yield curve, a recession has almost always followed within a year or two.

Mr. Bostic's concerns are taking on new urgency because the spread, which compares yields on two- and 10-year Treasurys, has fallen to levels last seen in 2007. It dropped below 0.3 percentage point last week, down from 0.5 percentage point three months ago and 1 percentage point one year earlier.

"Any inversion of any sort is a surefire sign of a recession," said Mr. Bostic in an interview last month. "I want us to avoid being in a situation where" the curve inverts.

Mr. Bostic, an economist, took office one year ago and is a voting member of the Fed's rate-setting committee this year. The group has voted to raise rates twice so far this year, both times unanimously, to keep the expanding economy on an even keel.

While the Fed's policy shouldn't focus explicitly on "manipulating the yield curve," Mr. Bostic said, an appropriate approach "will be consistent with there not being an inversion."

His unease is shared by others, including Dallas Fed President Robert Kaplan, St. Louis Fed President James Bullard and Minneapolis Fed President Neel Kashkari.

The degree of importance others place on the signal could determine whether the Fed raises rates once or twice more this year.

Fed Chairman Jerome Powell has said the yield curve is important to watch, but he said in March the flatter curve didn't appear to be a recession warning.

Inverted yield curves have preceded recessions in part because "inflation was allowed to get out of control, and the Fed had to tighten, and that put the economy into recession," he said at a news conference. "It's really not the situation we're in now."

Mr. Powell flagged a separate concern: A narrower spread can complicate bank profitability and raise financial stability risks. Banks pay short-term rates on deposits and earn long-term rates on loans. The prospect that banks might engage in risky behavior as the spread flattens is an issue "that we'll be watching carefully," he said.

Minutes of the Fed's June meeting released last week showed the debate heated up. The discussion revealed a willingness on the part of some officials and staff economists to tamp down concerns about the yield spread.

Some officials have said the spread isn't as reliable an indicator of future growth because bond purchases by the Fed, the European Central Bank and the Bank of Japan in recent years—designed to spur economic growth by forcing investors to buy stocks and other riskier assets—have depressed long-term bond yields.

The so-called term premium, or the extra compensation an investor demands for owning a 10-year bond rather than a shorter-dated instrument, has been slightly negative in recent years, according to one Fed estimate.

A lower term premium "may temper somewhat the conclusions that we can draw" from the historical relationship between an inverted yield curve and recession, said Fed governor Lael Brainard in a May speech.

Her willingness to consider alternate explanations is noteworthy because last year she was one of the leading voices for caution in raising rates, citing stubbornly soft inflation. Those concerns faded this year with inflation returning to the Fed's 2% target.

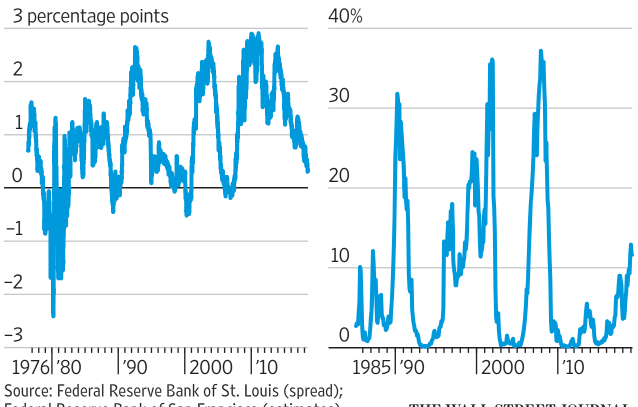
Research published last month by Fed staff economists said a more reliable gauge of market-derived recession probabilities can be found by comparing the difference between the yields on short-term Treasury bills and the yield implied by futures markets for the same bills some six quarters later.

This measure hasn't flattened in recent years and implied a low probability of a recession. Boston Fed President Eric Rosengren said in an interview last month he is paying more attention right now to such measures.

The debate over how much importance to place on an inverted yield curve could grow more fraught in the months ahead if U.S. economic growth remains strong and global growth falters. That could spur a flight to safe assets such as long-term Treasurys, pushing long-term yields below short-term yields.

Flattening Out

The shrinking spread between two- and 10-year Treasurys is at its lowest level in 11 years.



Source: Federal Reserve Bank of St. Louis (spread); Federal Reserve Bank of San Francisco (estimates)

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ECONOMIC CALENDAR

WEDNESDAY: The **Bank of Japan** releases June's **corporate goods price index** (release time is Tuesday evening in the U.S.). Inflation has remained subdued in Japan, which has experienced decades of deflation and stagnation. In mid-June, the central bank stuck to its ultra-easy monetary policy, bucking the global trend.

The **U.S. Labor Department** publishes June's **producer-price index**, a measure of the prices businesses receive for their goods and services. The PPI rose in May, pointing to a firming inflationary trend driven by rising energy prices, the imposition of tariffs and reduced labor-market slack, according to an Oxford Economics analyst. Economists surveyed by The Wall Street Journal expect prices in June grew at a 0.1% pace after increasing 0.5% in May.

THURSDAY: The U.S. Labor Department publishes the **consumer-price index** for June. Prices in May notched the heftiest annual growth since the beginning of 2012, a further sign price pressures in the economy are solidifying. As with the PPI, rising gas prices have pushed overall prices higher, and the number of businesses willing to raise price tags for customers appears to be broadening. Economists surveyed by The Wall Street Journal expect consumer prices increased 0.2% last month, the same as in May.

FRIDAY: The Bank of Korea releases a policy statement, after South Korea's headline consumer-price index gained 1.5% year-to-year in June. The subdued inflation likely weakens the case for tighter central bank policy.

BRYAN DEVASHER/WILLIAMSBURG YORKTOWN DAILY/AP/GETTY IMAGES

Helicopter Crash Kills One

FIERY ACCIDENT: At least one person was killed when a helicopter crashed Sunday in a residential area in Williamsburg, Va., causing a fire at a townhouse, State Police said. Peggy Weiss, who lives in the neighborhood, told the local Daily Press that she saw a small helicopter crash between two buildings. Another neighbor, Brook Sweeney, told the newspaper: "I just heard a loud 'bam' and the whole house was on fire."

—Associated Press

U.S. WATCH

COLORADO

Firefighters Getting Upper Hand on Blaze

Firefighters are making progress on a wildfire that has burned more than 130 homes and blackened nearly 170 square miles in southern Colorado.

Investigators say an illegal campfire sparked the blaze east of Fort Garland on June 27, and it has since become the third-largest in state history. It also forced the evacuation of more than 2,000 homes. The fire is 55% contained.

Meanwhile, firefighters were taking advantage of rain showers and increased humidity in their battle against a wildfire that has been burning for more than a month near Durango in southwestern Colorado. That fire has scorched about 85 square miles and is 50% contained.

—Associated Press

MASSACHUSETTS

Budget Agreement Eludes Lawmakers

State lawmakers are still trying to pull together a state budget for the 2019 fiscal year that began July 1.

House and Senate negotiators have been meeting to iron out differences between separate spending plans for the next 12 months that were approved by the two chambers.

Lawmakers have already approved a stopgap budget to keep state government operating.

The House and Senate versions of the roughly $41 billion spending plan have similar bottom lines. But an analysis by the Massachusetts Taxpayers Foundation, a business-backed budget watchdog group, finds about $500 million in differences in how the money should be spent.

Other major bills are still awaiting action before the end of the formal session.

—Associated Press

OHIO

Search Goes On For Teen Swimmer

Rescue crews on Sunday continued to search for a 13-year-old who went missing while swimming in Lake Erie off a Cleveland beach days earlier.

Cleveland police said the boy disappeared beneath waves while swimming off Edgewater Beach around 8:30 p.m. Friday. The search has employed divers, sonar technology and helicopters.

—Associated Press

Buybacks Surge at Record Pace

Continued from Page One

Moore, chief equity strategist and a managing director at asset-management firm BlackRock Inc. "It's fair for investors to ask whether companies are buying at the right point."

The S&P 500 Buyback index, which tracks the share performance of the 100 biggest stock repurchasers, has gained just 1.3% this year, well underperforming the S&P 500.

Share buybacks have become corporate America's go-to strategy for boosting stock prices over the past 30 years. The point of buybacks is to try to make a company's stock more valuable. By mopping up shares, a company shrinks the stock pie, which boosts earnings per share. That, in turn, should push the share price higher.

The potential problem: Executives directing buybacks are essentially timing the market and often buy during high.

Buyback activity reached a frenzy in the early 2000s; the previous record for share repurchases was $589.1 billion in 2007. But that was just a year before the stock market tumbled into the worst financial crisis since the Great Depression. The result: Companies like Exxon Mobil Corp., Microsoft Corp. and International Business Machine Corp. each paid more than $18 billion to repurchase stock at a peak, only to see their share prices slump a year later.

Stock buybacks appear just as ill-timed now, some analysts and investors said, especially as companies ramp up spending after last year's $1.5 trillion tax overhaul put extra cash in their coffers.

Oracle has been one of the biggest buyers of its own stock in recent years and spent $11.8 billion on stock repurchases last year, when shares gained nearly 23%. But that gamble hasn't looked smart this year as the networking-device maker has struggled alongside the broader market, pulling its shares down 6%.

Still, Oracle's board approved a fresh round of share buybacks totaling $12 billion in February, and executives appear to have spent nearly half that sum already. A representative from Oracle declined to comment on its share-buyback program, but the company said in a recent Securities and Exchange Commission filing that it "cannot guarantee" its share repurchase "will enhance long-term stockholder value."

Others like McDonald's Corp., Bank of America and JPMorgan Chase have spent billions on share repurchases this year but haven't seen a short-term bounce in share prices. McDonald's bought back $1.6 billion of shares in the first quarter, but the fast-food chain's stock is down 7.4% this year. Bank of America and JPMorgan Chase have both spent more than $4.5 billion to buy back their shares, which are down 5% and 2.7%, respectively.

All three companies also spent multibillion-dollar sums on buybacks in 2017 as the stock market hit repeated highs.

Companies in the S&P 500 that have repurchased shares are expected to see a return on investment of about 6.4% this year, a percentage that falls below the past six rolling five-year periods as measured by Fortuna Advisors, a financial consulting firm that has examined buyback trends going back to 2007.

Returns on investment for buybacks peaked in 2013, according to Fortuna's analysis, as companies used share repurchases to boost earnings and dig themselves out of the depths of the financial crisis. With stock prices relatively low at the time and economic activity tepid, share buybacks were one of companies' key sources of earnings growth.

But even as the stock market steadied in the subsequent years and economic growth around the world picked up to help boost profits, corporate executives continued to spend wildly on share repurchases—often at the expense of other types of spending, including dividends and capital improvements. Spending on capital expenditures rose to $166 billion in the first quarter, up 24% from a year earlier, according to Credit Suisse, but still well below the $189 billion spent on buybacks.

"The majority of capital deployed is going right back to shareholders and not reinvestment in businesses," said Gregory Milano, chief executive at Fortuna. "If that's the only thing you're relying on, it's going to end badly."

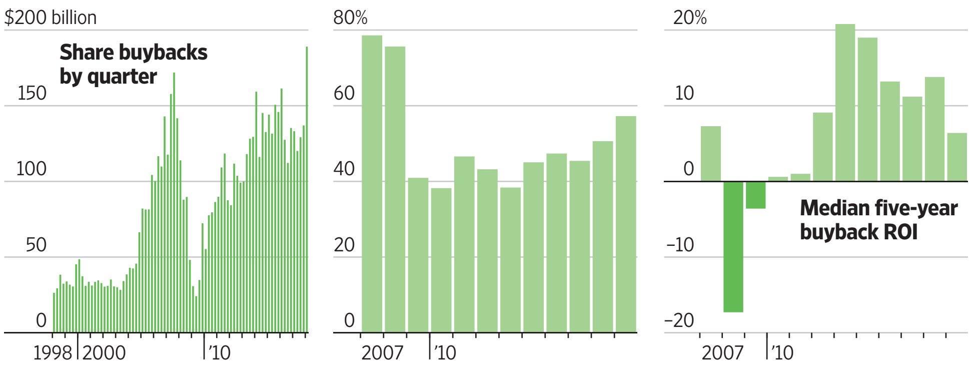
Some share buybacks do pay off, but that tends to be among companies that show a high level of sales and earnings growth on their own, analysts said. Apple Inc., for example, has bought back $22.8 billion worth of stock this year. Its shares have risen 11%, with much of the boost coming after it reported strong gains in second-fiscal-quarter revenue and profit—as well as a record $100 billion plan to buy back more stock.

Buyback Bonanza

Share repurchases among S&P 500 companies have jumped this year and are set to top a record set in 2007.

The percentage of current S&P 500 companies that bought back shares and failed to beat the S&P 500's annual return is on the rise.

Returns on investment for share buybacks in the S&P 500 is at its lowest point since 2011.



Sources: S&P Dow Jones Indices (share repurchases); FactSet (S&P 500 companies that bought back shares); Fortuna Advisors (ROI)

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CORRECTIONS & AMPLIFICATIONS

Milk Mantra had revenue of 1.8 billion rupees, or about $27 million, in the last fiscal year and began turning a profit six months ago. In some editions Saturday, a Page One article about the Indian startup incorrectly said it had sales of 18.2 million rupees ($265,000) in the fiscal year and went into the black two years ago.

In settling a sexual-harassment lawsuit against **National Beverage** Corp. Chief Executive Nick A. Caporella, pilot Terence Huenefeld withdrew his allegations as "factually unsupportable," according to a document provided by Mr. Caporella's attorney. A Business & Finance article on Thursday about the suit said the allegations were withdrawn but didn't say they were withdrawn as "factually unsupportable."

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New Worry for Insurers Under Trump Move

By Anna Wilde Mathews And Stephanie Armour

WASHINGTON—The Trump administration's move to suspend billions of dollars in payments that health insurers expect injects new uncertainty into the Affordable Care Act's markets right as the companies are deciding next year's rates.

The Centers for Medicare and Medicaid Services said Saturday it was forced to halt further collections or payments under the ACA program known as risk adjustment, because of a federal judge's ruling. Initially, the decision could affect $10.4 billion in payments tied to the 2017 benefit year, which were scheduled to flow this fall.

The insurance industry also warned it would likely push up rates on 2019 plans. The payments are drawn from insurers with a preponderance of relatively healthy customers to subsidize those with a larger contingent of less-healthy policyholders.

America's Health Insurance Plans, a trade group that represents insurers, said it was "very discouraged by the new market disruption brought about by the decision to freeze risk adjustment payments."

CMS officials didn't specify how long the suspension would last or what would trigger a resumption of payments in the program. CMS officials said they are looking for a quick resolution to the legal issues raised.

"We're now in the midst of the 2019 rate-filing process and it's not clear how the risk-adjustment program will be operating," said Cori Uccello, senior health fellow at the American Academy of Actuaries.

The Trump administration said the suspension stems from a February decision by a federal judge in Albuquerque, N.M., who ruled that part of the program's implementation was flawed and hadn't been adequately justified by federal regulators. The ruling came in a case filed by a small nonprofit insurer, which said the program relied on an inaccurate formula that disproportionately rewarded big insurers.

"We were disappointed by the court's recent ruling," CMS Administrator Seema Verma said in its statement. In a separate case in Massachusetts, a federal judge upheld the formula, however.

Some proponents of the health law, popularly known as Obamacare, said the administration didn't have to take the New Mexico judge's ruling as applying to the program outside of New Mexico.

"It's an excuse," said Nicholas Bagley, a University of Michigan law professor.

The risk-adjustment program plays a major role in the ACA markets. The aim is to encourage all insurers to participate in the health-insurance exchanges and sign up a broad consumer base instead of just targeting young, healthy people.

For 2016, risk-adjustment transfers were valued at 11% of total premium dollars in the individual-policy market, according to a CMS report.

The impact of the program on insurers varies widely. Some pay into it and don't get money back, so the suspension won't likely be a financial challenge. However, it could be a blow to those insurers that are expecting payments this fall based on 2017 plans.

For insurers expecting payments, the suspension "would be a big hit to their financial position," said Deep Banerjee, an analyst with S&P Global Ratings. Estimates of the next round of payouts had already been entered in many insurers' books as receivables because they are related to 2017 business, he said.

Insurers use projections of their likely future risk-adjustment payments in setting their rates. The new uncertainty comes as many insurers have been seeing their best financial results so far for ACA plans, and some are expanding into new geographies for next year.

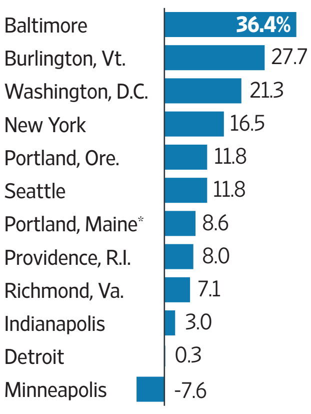
The Blue Cross Blue Shield Association said that if the risk-adjustment issue isn't resolved soon, "this action will significantly increase 2019 premiums for millions of individuals and small-business owners and could result in far fewer health plan choices." The association said CMS already "has the legal justification needed to move forward with the payments regardless of the New Mexico ruling."

John C. Wisniewski, chief actuary of UPMC Health Plan in Pittsburgh, said the insurer had already filed proposed rates for 2019 plans, and it would likely seek to make changes only if the risk-adjustment program was significantly altered or not in effect for 2019.

Rising Rates

Insurers already proposed higher premiums for 2019 Affordable Care Act plans. Some may boost them again after the latest move by the Trump administration.

Premium change for 40-year-old nonsmoker, benchmark plan, before tax credits



*Assumes reinsurance program is not implemented
Source: Kaiser Family Foundation
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Swimsuit Call Leads To Exodus At Pageant

By Valerie Bauerlein

Nearly half of Miss America's board has quit or been forced to resign in the wake of the organization's decision to eliminate the swimsuit competition from the contest, and 22 state pageant leaders are seeking to oust Chairwoman Gretchen Carlson over concerns about the pageant's new direction.

Ms. Carlson, a former Miss America and an early leader in the #MeToo movement, announced on June 5 that Miss America was dropping the swimsuit and evening-gown competitions and replacing them with an extended onstage interview. She said it was important to make women's voices heard during a "cultural revolution in our country."

Some former directors and state pageant heads said they felt pressured by Ms. Carlson and other executives to choose to end the swimsuit competition or risk having the pageant not being broadcast.

When asked for Ms. Carlson's comment, the Miss American Organization said in a statement that no binary choice between swimsuit and a television deal was ever posed.

The TV broadcast is of critical importance to the pageant as it generates a significant amount of the organization's revenue. The organization has long been on precarious financial footing, with a net loss of $575,000 in 2016—the latest available figures—on revenue of $9.8 million, according to federal filings.

The elimination of the swimsuit competition is testing the ability of a nearly 100-year-old institution to adapt. Miss America started as a swimsuit competition in 1921, when it was considered modern and liberating for women to pose in bathing suits.

ALEXANDER STEPHENS/USBR

Lake Mead in Nevada, the biggest reservoir in the West, is currently 2 feet above a federal threshold that would trigger mandatory cutbacks in water usage.

Arizona Faces Water Cuts as Reservoir Drops

By Jim Carlton

Arizona is the odd state out in agreeing to dramatically curtail water use from the Colorado River, raising tensions in the Southwest as extreme drought conditions return.

At Lake Mead, the West's biggest reservoir, water levels have dropped more than 150 feet over the past two decades to 1,077 feet. The Nevada reservoir is now 2 feet shy of falling below a federal threshold that can trigger mandatory cutbacks by U.S. officials.

Nevada, California—and Mexico—have mostly agreed to a regional Drought Contingency Plan that would adopt more reductions in the amount of water drawn from the river. But bureaucratic infighting between two Arizona agencies had delayed adoption of the plan.

The Central Arizona Project, which manages most of the state's river water, and Arizona Department of Water Resources have been in a yearlong dispute over the plan, and in May the two agencies pledged to work together.

"The risk is real, and the time for action is now," Terry Fulp, regional director for the U.S. Bureau of Reclamation's Lower Colorado Region, said in a recent public meeting on the issue in Tempe, Ariz.

The Colorado River, which supplies water to 40 million people from Denver to Los Angeles, has been gripped in the driest 19-year period on record, according to officials from the Bureau of Reclamation, a multistate agency that manages water and power in the West. With low snowpack and warm conditions again, runoff from the river this year is only about 40% of the long-term average, prompting renewed concerns over the water level in Lake Mead.

The risk of the reservoir falling below 1,025 feet by the year 2026—a level once thought unthinkable—has risen to 40%, according to new estimates by the Bureau of Reclamation. Because the lake is funnel shaped, water officials worry it could decline even faster once it gets that low—triggering even bigger cutbacks.

Arizona, Nevada and California in 2007 had agreed to undertake a series of cuts from the river, under Interior Department guidelines for when Lake Mead dipped below 1,075 feet. For example, Arizona, which has the lowest water rights on the system, agreed to curtail roughly one third its annual use, or 320,000 acre feet. (An acre foot is the amount of water used by an average family of five in a year.)

The state would reduce its usage by 512,000 acre feet under new drought plans.

The intensity of heat and drought since then has prompted the states to prepare the new drought plans, to leave more of their water in the reservoir. Arizona, for example, would under the new plan instead reduce its use by 512,000 acre feet.

"It's hard to understand how big of a haircut that is," said Drew Beckwith, water policy manager at Western Resource Advocates, an environmental advocacy group in Boulder, Colo.

One group in the crosshairs are Arizona farmers, who like many growers in the West are among the first to get hit with water reductions.

Real-estate developers are also concerned, because the cutbacks could result in less replenishment of groundwater basins they rely on to ensure future water supplies for subdivisions, said Cheryl Lombard, president and chief executive officer of Valley Partnership, an industry trade group.

Many States Are Unprepared for Next Economic Downturn

By David Harrison

Many states have been slow to improve their finances nine years into the economic expansion. That raises a risk they won't be prepared when another downturn hits, making them susceptible to big spending cuts that make that next recession worse.

State governments have been grappling with tepid revenue growth and heavy pension and Medicaid costs.

In many places that has resulted in smaller reserves. Measured as a share of spending, 21 states had smaller rainy-day funds in 2017 than they did in 2008, according to data from the National Association of State Budget Officers compiled by the Tax Policy Center. Rainy-day funds help states preserve spending levels when their revenues plunge. Those reserves are especially important because, unlike the federal government, states don't run budget deficits in downturns.

Most states rely primarily on income and sales taxes for funding. That makes them vulnerable during recessions, when layoffs result in lost incomes and scaled-back purchases. At the same time, recessions put pressure on state spending as demand for government services, such as unemployment insurance and Medicaid, soars.

In previous recessions, the federal government stepped in with spending to keep states afloat. That may be harder to do next time because federal debt is rising rapidly.

"There are levers that all the states could think about in terms of preparing for the next economic downturn," Federal Reserve Bank of Boston President Eric Rosengren said in an interview with The Wall Street Journal. "It doesn't seem like there is that much movement in that direction right now in many states."

North Dakota had 1.5% of its expenditures in a rainy-day fund in the 2017 fiscal year, down from 16.6% in 2008. Oklahoma's rainy-day fund had 1.6%, down from 9.3%. New Jersey emptied its fund in 2009 and hasn't begun refilling it.

Last week, New York State Comptroller Thomas DiNapoli warned that the state badly needed to replenish its reserves. New York will face budget shortfalls, reduced borrowing capacity and possible cuts to federal aid, he said in a report. "Yet, there are no plans to add to our reserves, leaving the state with little cushion in the event of an economic downturn," he said.

New York's rainy-day fund is at roughly the same level as it was before the recession, when measured as a share of expenditures, according to the Tax Policy Center.

There are some important exceptions. California's rainy day fund was empty in 2008 but in 2017 held 8.5% of the state's expenditures. Voters there passed a measure in 2014 requiring the state government to set aside money every year for the fund. That effort helped to drive overall state rain day funds to 6.8% of spending in 2017, up from 4.8% in 2008, according to NASBO.

Many state governments have seen their bond ratings downgraded during this expansion for not taking the appropriate measures to get their fiscal houses in order.

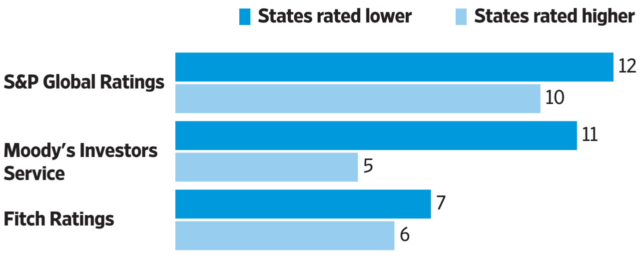
"It's very important in our view that during the good times to be building up their fiscal resilience and that really stands out as an area that's been lacking throughout this recovery," said Gabriel Petek, managing director at S&P Global Ratings.

State budgets faced their biggest test in decades in 2009, when revenues fell 11% following the financial crisis and the recession. Employment and consumer spending have improved since then but governments haven't made a full comeback.

Year-to-year growth in quarterly state tax revenues has averaged about 4% in this expansion, compared with about 6% in the last two economic expansions, according to data from the U.S. Census.

Downgrades During the Expansion

Change in state bond rating since 2010



Note: Fitch Ratings doesn't rate every state. Some states have seen both upgrades and downgrades between 2010 and the present.
Source: Ratings agencies
THE WALL STREET JOURNAL.

◆ Municipal-bond prices rise as cities borrow less........ B9

Iraq Shooting Gets Fresh Scrutiny

Former Blackwater guard is facing a new trial over deadly 2007 incident in Baghdad

BY ARUNA VISWANATHA AND ALEXA CORSE

FROM TOP TO BOTTOM: KHALID MOHAMMED/ASSOCIATED PRESS; CLIFF OWEN/ASSOCIATED PRESS

The deadly 2007 shooting by a Blackwater security detail in downtown Baghdad strained relations between the U.S. and Iraq.

WASHINGTON—Ten years, nine months and 19 days after spending a fateful few minutes at a Baghdad traffic circle, Majed Salman Abdel Kareem Al-Gharbawi sat in a Washington courtroom, reliving it.

"You heard a single shot?" prosecutor T. Patrick Martin asked Mr. Al-Gharbawi. Through an interpreter, he spoke on the witness stand about what he saw as a passenger in one of the cars caught in a 2007 shooting that led to the deaths of more than a dozen Iraqis and sparked international criticism.

"Yes," Mr. Al-Gharbawi said. Then "intense gunfire" followed, he added.

The testimony came in the second federal prosecution of Nicholas Slatten, an American security guard involved in the shooting. He was indicted in 2014 of murdering the driver of a white Kia at the Nisur Square traffic circle, with the single shot Mr. Al-Gharbawi said he heard at first.

That conviction was later overturned. Now Mr. Slatten is being retried in a Washington courthouse. Mr. Slatten has pleaded not guilty and said he didn't shoot the driver.

Three of Mr. Slatten's former colleagues at the security-contracting firm Blackwater, which faced withering scrutiny after the episode, were also accused of recklessly opening fire with automatic weapons and grenade launchers as they tried to clear a path for a State Department convoy through the circle. The incident came at one of the lowest points in the Iraq war and strained relations between the U.S. and Iraq.

Former Blackwater guard Nicholas Slatten had his 2014 murder conviction overturned

Blackwater's defenders argued the men were operating in a dangerous war zone, facing car bombs and suicide bombers daily, and responding to what they reasonably perceived as threats to their safety.

At the 2½-month initial trial in 2014, Iraqi witnesses spoke of the Blackwater convoy as the aggressor and said no cars or people in the area appeared to pose a threat. Mr. Al-Gharbawi testified that he watched the body of the driver of his car "shaking violently as the bullets were hitting him, piercing the body, and hitting the sidewalk." Mr. Al-Gharbawi himself had 150 pieces of shrapnel in his body and holes in his abdomen and leg, he had said.

That jury convicted Mr. Slatten of murder and the three others on manslaughter charges. Mr. Slatten, who was around 23 at the time of the shooting, received a life sentence. The other three, who were also in their 20s in 2007, received 30-year prison terms.

An appeals court last year overturned the sentences and granted Mr. Slatten a new trial. It said Mr. Slatten should have had a separate trial and been allowed to present statements from another guard who had earlier acknowledged firing the first shots at the traffic circle.

The other three guards have yet to be resentenced. The appeals court said the lengthy sentences, triggered by a gun charge they faced, violated the Constitution's prohibition on "cruel and unusual punishment." In denying Mr. Slatten's request to be released while he waited for his new trial, Judge Royce Lamberth said he found "the weight of the evidence against Mr. Slatten remains strong."

An attorney for Mr. Slatten argued in opening statements in late June that another security guard, not Mr. Slatten, fired first. The lawyer, Dane Butswinkas, also said it contradicts common sense that Mr. Slatten, a veteran who won several commendations and medals while in the U.S. Army, would commit premeditated murder in broad daylight.

Before a crowded courtroom at the outset of the trial, Mr. Martin, the prosecutor, accused Mr. Slatten of having an "intense hatred of Iraqis" and fatally shooting an Iraqi civilian without provocation.

"There's no exception to murder in a war zone," Mr. Martin said.

After the incident, Blackwater changed its name to Xe, and then to Academi.

The trial is expected to last several more weeks.

Trump Is Reviewing Contenders

Continued from Page One

it's the four people. Every one you can't go wrong. I'll be deciding tonight or tomorrow sometime by 12 o'clock, and we're all going to be meeting at 9 o'clock," he said.

The president's decision process included golf Sunday with friends such as conservative commentator Sean Hannity, the people familiar with the process said. Mr. Hannity didn't respond to a request for comment.

"Trump would say, 'I don't want to be remembered in 20 or 30 years as having made big mistakes here. I want to do this right and I want to do this for history,'" said Steve Bannon, former White House chief strategist.

Judge Kavanaugh had been a front-runner as late as Saturday, but the fact that Mr. Trump hadn't settled on him suggested his status may have slipped, several people familiar with the search said.

The judge, who sits on the District of Columbia Circuit Court of Appeals and who clerked for retiring Justice Anthony Kennedy, has a record of written decisions that Mr. Trump's advisers have said ensure his reliability as a conservative vote on the court. But some social conservatives have fretted that they don't believe the judge is sufficiently committed to their cause.

Another handicap for Judge Kavanaugh: his ties to the George W. Bush White House. The judge served as a senior official under the former Republican president, and Mr. Trump has made plain his distaste for the Bush family and the former president's administration.

While some people close to the search said Judge Barrett's social conservatism may spell trouble during a Senate confirmation vote, Mr. Trump was asking questions about her record Sunday morning, a person familiar with the search said.

Her supporters—believed to include Mr. Hannity—said that while she has spent a short time on the Seventh Circuit Court of Appeals, her body of academic writing should cheer conservatives, as should her ties to the late Justice Antonin Scalia, for whom she clerked.

Mr. Trump has also faced a late push to pick Judge Hardiman, the official runner-up in his 2017 search that ultimately settled on Neil Gorsuch. Among his supporters are gun-rights activists, another person familiar with the search said. Mr. Trump called Judge Hardiman on Thursday after an initial interview Tuesday, a sign the judge, who sits on the Philadelphia-based Third Circuit Court of Appeals, was under serious consideration.

Judge Kethledge, of the Cincinnati-based Sixth Circuit Court of Appeals, also met with the president last week.

White House aides, not knowing whom Mr. Trump would choose, devised rollout plans for each of the top contenders. They are preparing to lay out the nominee's biography and judicial record in the hours after the announcement and are arranging for supporters to speak on TV.

A central figure in the search is the White House counsel, Don McGahn, who is part of a conservative legal world that values judges who interpret the law by focusing on the precise legal text as written by Congress, as opposed to the purported reasons lawmakers had in mind when passing the law.

White House Chief of Staff John Kelly has played a minimal role in the selection, Mr. Trump's advisers said.

Last fall, Mr. McGahn spoke at a meeting of the Federalist Society, which helped vet the list of 25 Supreme Court candidates that the White House has used in filling vacancies.

"Our opponents of judicial nominees frequently claim that the president has outsourced the selection of judges," Mr. McGahn said at that time. "That's completely false. I've been a member of the Federalist Society since law school. Still am. So, frankly, it seems like it's been in-sourced."

With binders filled with the candidates' latest writings, Mr. McGahn has been privately making the case that it is risky to nominate someone with a thin record of judicial writings. Such considerations would appear to diminish Judge Barrett's prospects, given her comparatively short stint on the bench.

The president and Mr. McGahn spoke over the past week with most members of the Senate Judiciary Committee, where the GOP holds a slender majority. Committee member Sen. Chris Coons (D., Del.) said Sunday that in a call late last week Mr. McGahn asked if he would agree to meet with the nominee; Mr. Coons said he would, despite concerns about what he sees as the direction of the search and a likely confirmation battle before November's midterm elections.

A spokesman for Sen. Orrin Hatch (R., Utah), another member, said he has had conversations with the president and Mr. McGahn about the nomination and what the confirmation process would look like.

Republicans hold 51 of 100 seats in the Senate, and the party is already one vote short with Sen. John McCain of Arizona at home fighting brain cancer. Any nominee would need a simple majority to pass.

—Brent Kendall contributed to this article.

Who's Who on the Supreme Court Short List

As the clock ticks on President Donald Trump's choice for a Supreme Court vacancy, each of the four people under close consideration could move the court in a more conservative direction for decades. Here's a look at the top contenders:

— Brent Kendall and Jess Bravin

Brett Kavanaugh

Judge Kavanaugh is a favorite of the Republican legal establishment. Following a clerkship with Justice Anthony Kennedy in 1994, he joined Independent Counsel Kenneth Starr's Whitewater investigation. During the George W. Bush administration, Judge Kavanaugh became a top deputy to White House counsel Alberto Gonzales, helping select judicial nominees.

The Senate approved Judge Kavanaugh, 57-36, for a seat on the U.S. Court of Appeals for the District of Columbia Circuit.

In his 12-year tenure, Judge Kavanaugh frequently has found that federal agencies including the Environmental Protection Agency went too far in regulation.

Amy Coney Barrett

Judge Barrett has support from social conservatives because of her Catholic faith and their belief that she may be part of overturning of Roe v. Wade, the 1973 ruling that recognized abortion as a constitutional right. But those same reasons could make her confirmation the most contentious. The former law clerk to Justice Antonin Scalia has a long tenure as a law professor at the University of Notre Dame. She became a judge eight months ago after Mr. Trump tapped her for the Seventh U.S. Circuit Court of Appeals.

Judge Barrett has written academic articles on hot-button topics: abortion rights, religion and the law, and respect for Supreme Court precedent.

Thomas Hardiman

Judge Hardiman, who serves on the Philadelphia-based Third U.S. Circuit Court of Appeals, was the runner-up to Justice Neil Gorsuch last year. The first person in his family to graduate from college, Judge Hardiman has written opinions and dissents critical of laws limiting access to weapons, suggesting he could be influential in re-examining the Supreme Court's Second Amendment doctrine.

Judge Hardiman has shown sympathy toward arguments that secular laws sometimes must yield to religious objections. In 2010, Judge Hardiman ruled that jails can strip-search every arrestee police bring them, a decision the Supreme Court affirmed in 2012.

Raymond Kethledge

A longtime Michigan resident, Judge Kethledge has served for a decade on the Cincinnati-based Sixth U.S. Circuit Court of Appeals with a record his supporters say is reminiscent of Justice Gorsuch's.

In 2016, Judge Kethledge wrote a decision in favor of a group of tea-party conservatives that alleged it had been unfavorably targeted by the Internal Revenue Service. He also has been sympathetic to claims by religious groups that they face inappropriate interference from the federal government. He was part of a panel that rejected the Labor Department's case against an Ohio church that operated a restaurant using unpaid volunteers.

Giuliani Is In No Rush For Trump To Testify

BY LALITA CLOZEL

WASHINGTON—Rudy Giuliani said Sunday that President Donald Trump would only submit to an interview with Robert Mueller if the special counsel could show a "factual basis" for the Russia investigation, which he characterized as corrupt.

The new statement from Mr. Trump's lawyer, repeated on three Sunday news shows and in an interview with the New York Times, suggests prospects are receding for a sit-down between the president and Mr. Mueller.

The special counsel is investigating Russian meddling in the 2016 election, whether Mr. Trump's campaign colluded with the Kremlin and whether Mr. Trump obstructed justice in his subsequent actions.

Mr. Trump has denied any collusion and obstructing justice, deriding the probe as a "witch hunt." Russia has denied meddling.

"We would not recommend an interview for the president unless they can satisfy us that there is some basis for this investigation," Mr. Giuliani said on NBC, a hardening of the White House's stance after months of negotiations on the terms under which the president would agree to testify.

Mr. Trump's team had eyed early July as a possible time to sit with Mr. Mueller.

The special counsel investigation was established by Deputy Attorney General Rod Rosenstein to handle the FBI's Russia investigation, which began in 2016, after Mr. Trump fired FBI Director James Comey in May 2017.

The enabling documents for the probe authorize Mr. Mueller to investigate "any links and/or coordination between the Russian government and individuals associated with the campaign of President Donald Trump" as well as "any matters that may arise directly from the investigation."

Lawyers for Mr. Trump had been eyeing early July as a possible time for an interview with the special counsel, likely at Camp David or the White House and lasting for about 2½ hours. That timeline has now passed, and the president is set to leave on Tuesday on a seven-day trip.

Mr. Giuliani, a former mayor of New York City, repeatedly suggested many on Mr. Mueller's team were politically motivated against Mr. Trump.

Mr. Giuliani cited an inspector general report that found a former Federal Bureau of Investigation agent on Mr. Mueller's team, Peter Strzok, had sent text messages critical of Mr. Trump. Mr. Strzok was reassigned from his post last summer after Mr. Mueller learned about the messages.

"It cast a taint over the entire investigation," Mr. Giuliani said on ABC. He added: "This is the most corrupt investigation I have ever seen."

Mr. Strzok didn't respond to requests to comment. In a closed-door interview last month with members of the House Oversight and Judiciary committees, Mr. Strzok said his text messages were simply communications between friends that weren't indicative of the direction of the FBI's work.

Mr. Mueller declined to comment through a spokesman.

Mr. Trump would be "like a lamb going to the slaughter" if he were to testify, Mr. Giuliani added.

Mr. Giuliani also said he had "zero" concerns about Mr. Trump's longtime personal lawyer Michael Cohen speaking with federal prosecutors as part of a separate probe into Mr. Cohen's business dealings. Mr. Cohen has denied any wrongdoing. "As long as he tells the truth," said Mr. Giuliani, "we're home free."

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WORLD NEWS

Korea Talks Uncertain After Pompeo Visit

Pyongyang accuses U.S. of 'gangster-like tactics'; secretary of state cites 'good faith' negotiations

The path ahead for talks with North Korea appeared uncertain after a weekend visit by Secretary of State Mike Pompeo ended with Pyongyang accusing the U.S. of "gangster-like tactics" and increasing the "risk of war," but saying it retained confidence in President Donald Trump to reach a denuclearization agreement.

By Jessica Donati in Tokyo and Andrew Jeong in Seoul

ANDREW HARNIK/PRESS POOL

Secretary of State Mike Pompeo walks through the streets of Hanoi, Vietnam, on Sunday following his weekend talks in North Korea.

Mr. Pompeo characterized the talks very differently, saying the two sides had "good-faith, productive conversations which will continue in the days and weeks ahead." Speaking to reporters at a Sunday briefing in Tokyo, he added: "If requests were gangster-like, the world is a gangster."

He said the talks had yielded progress on key matters such as a timeline for denuclearization and concrete steps that North Korea could take to show commitment to the process.

The divergent accounts demonstrated the difficulty in translating the broad goal of denuclearization on the Korean Peninsula that resulted from the June 12 summit between Mr. Trump and North Korean dictator Kim Jong Un into specifics that would be acceptable to both sides.

The Trump administration wants Mr. Kim to abandon his nuclear ambitions while Mr. Kim seeks relief from sanctions that have hammered his nation's economy as well as a de-escalation of what he perceives as the threat to his regime by the U.S. military presence in South Korea.

Officials previously involved in talks with North Korea said the impasse was a familiar negotiating tactic and that Pyongyang was attempting to take control of the process. In this case, the reversal sent a clear message that North Korea wouldn't act without significant concessions by the U.S.

"The pace of discussions and negotiations are being dictated by North Korea," said Joseph Yun, a former U.S. special representative for North Korea policy at the State Department, who retired earlier this year.

But the unclear road ahead for talks effectively put the onus back on the White House to determine what happens next, including decisions such as whether to increase sanctions to force North Korea's hand, persist with negotiations among working-level staffers from each side, or return to a more belligerent rhetoric that characterized the two nations' relations last fall.

"I don't think it's the end," Mr. Yun said. "That is determined by President Trump."

The White House referred calls seeking comment to the State Department, which pointed to Mr. Pompeo's statements.

Related issues on the table such as immediately repatriating the remains of U.S. soldiers killed during the Korean War in 1950-1953, destroying a North Korean weapons-producing facility and the speed of denuclearization on the Korean Peninsula also became entangled in the dissonance after North Korea characterized the Pompeo meetings as "regrettable."

"The U.S. side came up only with its unilateral and gangster-like demand for denuclearization," the statement said. "All of which run counter to the spirit of the Singapore summit meeting and talks."

It added: "We maintain our trust in President Trump."

Mr. Pompeo said ahead of the trip to North Korea that he aimed to fill in details of the nuclear deal signed in Singapore, such as a timeline and key steps, including when Pyongyang will provide a list of its nuclear assets and other weapons. After the meeting and Pyongyang's statement, he signaled a hardening stance, saying the U.S. was "maintaining maximum" pressure on North Korea.

Mr. Trump stopped using the phrase "maximum pressure" last month to avoid provoking Mr. Kim and acknowledged that China wasn't enforcing economic sanctions as strictly as before.

"Sanctions remain in place, and we will continue to enforce them with great vigor," Mr. Pompeo told reporters Sunday.

"North Korea's response is typical," said Wi Sung-lac, a former South Korean nuclear envoy. "It's too early to say that it's the beginning of the end of the current round of talks. But I think we have a rough road ahead."

Doubt over North Korea's commitment to its nuclear promise in Singapore already emerged before the trip. Satellite imagery published in reports last week showed North Korea is rapidly expanding a weapons-manufacturing plant that produces solid-fuel missiles and has upgraded its main nuclear research facilities.

U.S. Allies in Asia Remain Wary

U.S. allies in Asia fear their interests may be sidelined in the U.S.-North Korea negotiations. After Pyongyang, Mr. Pompeo arrived in Tokyo to discuss the results with South Korean and Japanese officials, including Japanese Prime Minister Shinzo Abe. Both countries have an interest in the outcome.

While attention on North Korea's program has largely focused on its pursuit of intercontinental ballistic missiles, Japan is within striking distance of its shorter-range weapons.

Mr. Abe has called for the international community to maintain a hard line on the North, though Japan has had a less visible role in the process than others in the region such as South Korea and China.

Ex-Envoy Says Blackmail Is Part of Regime Playbook

By Andrew Jeong

SEOUL—In a Stockholm cafe one winter's day in 1999, North Korea's ambassador to Sweden made a proposal to his Israeli counterpart, according to a former Pyongyang diplomat: Give North Korea $1 billion in cash and we will scrap our agreements to sell our missile technology to Iran and other enemies of Israel.

The Israelis refused, and days later offered food aid instead, according to the account. The talks ended without an agreement. Since then, North Korea has remained a steady supplier of conventional and ballistic weapons and nuclear technology to countries such as Iran and Syria.

KOREA NEWS SERVICE/ASSOCIATED PRESS

A North Korean missile test launch last year. Pyongyang has supplied weapons to Iran, Syria and other countries..

The account of the offer, in a 2018 memoir by the translator at the meeting, former senior North Korean diplomat Thae Yong Ho, shows how Pyongyang has tried to use the threat of weapons proliferation to shake down its adversaries for cash that could finance its nuclear and missile programs.

This is part of the mind-set that Secretary of State Mike Pompeo and his team faced as they sought specific denuclearization commitments from North Korean officials in talks on Friday and Saturday.

North Korea has consistently offered concessions in exchange for economic assistance, though it has failed to satisfactorily deliver.

Mr. Trump declared the North Korean threat to be over after he met Mr. Kim in Singapore on June 12 and said Pyongyang would immediately begin dismantling its nuclear operations.

But North Korea has also been pushing ahead with weapons programs as it pursues dialogue with Washington, according to new satellite imagery.

The Israeli government declined to comment on the events outlined in the memoir by Mr. Thae, who defected to South Korea in 2016. Efforts to reach Israel's ambassador to Sweden at the time of the cafe meeting, Gideon Ben Ami, and the North Korean envoy, Son Mu Sin, weren't successful.

Mr. Ben Ami said in a television interview last week that he had three meetings with North Korean officials in 1999, but didn't say whether Pyongyang had asked for $1 billion. Mr. Son, meanwhile, is now serving in the foreign ministry in Pyongyang, according to an official at the North Korean delegation to Unesco, where Mr. Son used to work.

Declassified State Department documents show that the U.S. and North Korea were holding talks over Pyongyang's missile exports roughly around the time that Mr. Thae says he and his boss were in contact with Israeli officials.

In those discussions with the U.S., North Korea indicated it was ready to cease missile exports if economic benefits were forthcoming to make up for lost revenue, one of the documents says. U.S. diplomats encouraged the North Koreans "to understand that economic benefits came in many guises, including humanitarian assistance."

North Korea has a history of selling dangerous technology, including helping Syria build a nuclear reactor, according to the International Atomic Energy Agency. Israel bombed the facility in 2007.

"Depending on the demand, we certainly cannot exclude the possibility that North Korea will sell its nuclear weapons for cash," said Nam Sung-wook, a former South Korean intelligence official who teaches at Korea University.

Eric Gomez, a defense analyst at the Washington-based Cato Institute, pointed to Iran's Shahab-3 and Khorramshahr missiles—which resemble North Korea's Nodong and Musudan missiles, respectively—as evidence of a decadeslong collaboration on arms development.

Tehran has previously denied cooperating with North Korea on missile and nuclear technology. The Iranian Embassy in Seoul didn't respond to a request for comment.

—Dov Lieber and Felicia Schwartz in Tel Aviv and Asa Fitch in Dubai contributed to this article.

Scores Die As Flooding Hits Japan

Rescuers searched through the night on Sunday for victims of heavy rainfall that hammered southern Japan for the third straight day, as the government put the number of dead or presumed dead at 100.

Government spokesman Yoshihide Suga said the whereabouts of around 92 other people were unknown, mostly in the southern area of Hiroshima prefecture. Some 40 helicopters were out on rescue missions.

"Rescue efforts are a battle with time," Prime Minister Shinzo Abe said.

The Japan Meteorological Agency said three hours of rainfall in one area in Kochi prefecture reached an accumulated 10.4 inches, the highest since such records started in 1976.

The assessment of casualties has been difficult because of the widespread area affected by the rainfall, flooding and landslides. Authorities warned that landslides could strike even after rain subsides as the calamity shaped up to be potentially the worst in decades.

Rescuers, at right, searched for the missing in Kurashiki city on Sunday, where more than 570 homes were flooded.

—Associated Press.

KOJI HARADA/ASSOCIATED PRESS

Afghan Kills U.S. Service Member

By Craig Nelson

KABUL, Afghanistan—A U.S. service member was killed and two others were wounded in an apparent insider attack in southern Afghanistan, the American-led military coalition said Saturday.

The name of the deceased service member was withheld pending notification of next of kin, the coalition said in a statement, adding that those military personnel wounded in the attack were in stable condition.

The statement gave no details on the attacker's identity or whether he had been apprehended. It didn't disclose the circumstances of the assault or specify where, exactly, it took place, saying the incident was still under investigation.

A senior Afghan security official said the attack occurred at an Afghan army base in Uruzgan province.

The Taliban said the Afghan soldier had acted alone but praised the ambush.

The incident marks the third American combat fatality in Afghanistan this year.

U.A.E. Military Gets Test in Yemen

By Asa Fitch

AL-KHOKHA, Yemen—The United Arab Emirates paints its battle for the Yemen port city of Hodeidah as pivotal to forcing Houthi rebels to negotiate an end to the three-year war. It is also the biggest test yet of the U.A.E.'s growing military reputation.

But the U.A.E. has suspended the advance after confronting land mines, drones, snipers and humanitarian challenges, prolonging a drawn-out campaign in a broad contest for regional domination that pits the Emirates, Saudi Arabia and other Sunni Muslim Arab nations against Shiite-dominated Iran.

The U.A.E., working on the ground with Emirati-trained Yemeni brigades, wants the port out of Houthi hands as soon as possible, saying it generates as much as $40 million a month for the Houthi government that rules over the Yemeni capital, San'a.

The brigades are regrouping amid political talks aimed at averting what aid groups warn would be a catastrophe if food and medical supplies can't move through the port.

For the battle-hardened thousands of Yemeni forces advancing from the south, however, land mines have been the most difficult problem.

"Land mines are destroying our tanks and vehicles," said Brig. Gen. Sheikh Abdel Rahman al-Laji, the commander of the third brigade of the Giant Brigades, one of the coalition-aligned Yemeni forces fighting in Hodeidah.

Frequent Houthi attacks along the coastal road to Hodeidah, passing through al-Khokha, where the U.A.E. maintains a forward base, have presented another challenge.

Iran, Gulf Arab officials allege, has long used Hodeidah's port to ship weapons to the Houthis. They accuse Iran of nurturing the group as a proxy. United Nations experts have determined that some of the ballistic missiles the Houthis use to harass Saudi Arabia originated in Iran.

NAYEF AL-MAHROOBI/REX/SHUTTERSTOCK/EUROPEAN PRESSPHOTO AGENCY

Yemeni forces backed by the Saudi-led coalition took positions during an attack on Hodeidah Thursday.

Reaching Out

The United Arab Emirates has rapidly expanded its military footprint in the Mideast and North Africa.

■ Locations of U.A.E. bases

Iran denies arming the Houthis. There are no Iranian military personnel known to be in Yemen, as there are in Syria.

Some Western officials said they suspect Tehran's military assistance to the Houthis is intended to draw Saudi Arabia and the U.A.E. into a costly conflict.

The U.A.E. is one of the smallest nations in the region but one with the biggest military ambitions. With an active-duty military of just 63,000, the U.A.E. has rapidly expanded its footprint across the Arabian Peninsula and eastern Africa. It has a string of bases in Somalia and Eritrea and along the Yemen coast.

While Saudi Arabia is leading the coalition fighting the Houthis in Yemen, the U.A.E. is managing the Hodeidah battle. The U.A.E. sees Hodeidah as a potential milestone that will shift the momentum of a protracted conflict; it is also a test of the country's ability to train, equip and deploy local forces to achieve its military goals.

Hodeidah "is the largest combat operation the U.A.E. has ever coordinated anywhere in the world," said Michael Knights, a senior fellow at the Washington Institute for Near East Policy who has studied the U.A.E.'s military development closely. "This is the sort of thing people thought only the Americans can do."

After more than three years of fighting, the coalition and its Yemeni allies have gained territory but nothing close to full victory. More than 10,000 people have died in fighting, according to the U.N. More than three million have fled their homes, including more than 120,000 as a result of the Hodeidah battle, the U.N. says; more than 22 million—about four out of five people in Yemen—are in need of aid.

The Hodeidah port serves as the gateway for about three-quarters of Yemen's aid and almost all of its commercial food shipments. U.A.E. officials said a slow advance gives Hodeidah's 400,000 inhabitants the best chance of survival, with a step-by-step operation that allows the city's port to stay open and receive aid, with pauses to allow for diplomatic efforts toward a peaceful Houthi withdrawal.

Aid groups have pleaded with the coalition not to assault the city, and the U.S. has given only tepid support to its ally's plan, in large part because of the danger to human life.

The coalition hopes its staged conduct of the operation will alleviate concerns, while allowing more time for peace talks conducted by the U.N.'s Yemen envoy, Martin Griffiths.

—Saleh al-Batati in Aden, Yemen, contributed to this article.

Foes Eritrea, Ethiopia Restore Links

By Matina Stevis-Gridneff

Ethiopia and Eritrea announced the first concrete steps toward normalizing relations after two decades of conflict during an unprecedented visit by the Ethiopian prime minister.

The two neighboring archenemies agreed to open up their airspace to one another, re-establish telephone communications, reopen embassies and allow Ethiopia—which became landlocked when Eritrea seceded a quarter century ago—to use its smaller coastal neighbor's port, gaining precious access to the Red Sea, the countries' leaders said.

Lasting peace between Ethiopia and Eritrea could herald a new era in a strategic part of Africa near the Middle East. Ethiopia is a top Western and Chinese ally in the conflict-prone Horn of Africa, near one of the world's busiest shipping routes. Eritrea hosts a major United Arab Emirates military base and is home to a 715-mile Red Sea coastline near the Suez Canal.

Ethiopian leader Abiy Ahmed was greeted in Asmara, one of the world's most reclusive capitals, by longtime Eritrean rebel-turned-dictator Isaias Afwerki. Mr. Afwerki, 72 years old, became president of Eritrea at independence in 1993. The two men embraced at Asmara airport as Eritrean women danced to welcome Mr. Ahmed, Ethiopian state TV reported.

The visit came after a senior Eritrean delegation visited Addis Ababa last month to start peace talks between the David-and-Goliath neighbors, and is the first by an Ethiopian leader in recent history.

Messrs. Ahmed and Afwerki gave speeches about their efforts to reconcile their nations that share deep ethnic and cultural ties at a state dinner Sunday. Thousands of mixed families have been divided by the conflict, and the budding reconciliation is emotional for ordinary people on both sides.

"We have to join our hands and start cooperating as one people first, the rest will be settled side by side. There is no border to divide us, today's spirit of love will bridge us," said Mr. Ahmed at a formal dinner in a speech broadcast by the Ethiopian and Eritrean state TV stations.

Historic breakthrough in 20-year conflict as Ethiopia's leader visits Eritrea.

"The government and people of Eritrea will stand by your side, in all aspects of your effort and challenges, to maintain love and togetherness between the peoples of both nations," Mr. Afwerki said.

The 41-year-old Mr. Ahmed, just over three months into leading Africa's second-most-populous country and one of the world's fastest-growing economies, announced he wanted to resolve a border dispute with Eritrea that has led to a state of hostility between the two nations.

—Yohannes Anberbir in Addis Ababa, Ethiopia, contributed to this article.

WORLD WATCH

HECTOR RETAMAL/AGENCE FRANCE-PRESSE/GETTY IMAGES

PROTESTS IN PORT-AU-PRINCE: Looters pillaged burned and vandalized shops in Haiti's capital Sunday following two days of protests over the government's attempt to raise fuel prices.

UNITED KINGDOM

Murder Probe After Poisoned Woman Dies

British police said they opened a murder investigation into the death of a woman poisoned by the Novichok nerve agent.

The woman, 44-year-old Dawn Sturgess, died Sunday in a hospital in Salisbury, in western England, after collapsing on June 30.

Her death comes four months after the poisoning of former Russian intelligence officer Sergei Skripal and his daughter, Yulia. Mr. Skripal, who had been living in Britain after a spy swap with Moscow, was poisoned along with his daughter in Salisbury by the same type of Soviet-developed nerve agent.

Britain blamed that earlier incident on Russia, an accusation Moscow denied, plunging relations between the two countries to the lowest point since the Cold War. Other Western countries backed Britain's claim that Russia was responsible.

The development is likely to heighten tensions between Britain and Russia a week before a planned summit between U.S. President Donald Trump and Russian President Vladimir Putin.

In a statement, Prime Minister Theresa May said she was "appalled and shocked" by the death of Ms. Sturgess, a mother of three.

—Stephen Fidler

IRAN

Eight Men Executed In 2017 Tehran Attack

Iran executed eight men convicted in the 2017 Islamic State attack on parliament and the shrine of the Islamic Republic's founding ayatollah, the bloodiest terrorist attack to strike Tehran in decades, authorities said.

The June 7, 2017, attack has also been the only assault by the Sunni extremists in Shiite Iran, which has been deeply involved in the wars in Iraq and Syria where the militants once held vast stretches of territory.

The judiciary's official Mizan news agency announced the executions on Saturday morning, but didn't say when or where they took place. The head of Tehran's Justice Department, Gholamhossein Esmaili, told Iranian state television that authorities conducted the executions days earlier but chose not to immediately announce them, likely as a security measure.

Executions in Iran are carried out by hanging.

Mizan noted in its report that the executions came after the eight men had been tried and convicted in a trial that included both testimony from witnesses and video footage showing their involvement by providing the attackers support in the days leading up to the assault.

—Associated Press

SOUTH SUDAN

Ex-Vice President Offered a Deal

South Sudan has offered to reinstate its exiled former vice president, Riek Machar, in an effort to quell a civil war that has been devastating the world's youngest nation.

The agreement was reached in talks hosted by Ugandan President Yoweri Museveni that brought together Sudan President Omar al-Bashir and South Sudan President Salva Kiir, Uganda's government said in a statement Sunday. The deal will see Mr. Machar, the veteran guerrilla fighter turned opposition leader as one of four new vice presidents based in new regional capitals, part of a revitalized transitional government deal to end the conflict.

The peace push comes amid a more hawkish position from the U.S., South Sudan's largest humanitarian aid donor, which has said it would review its programs because it couldn't continue a partnership with leaders perpetuating "an endless war."

In a statement on Sunday, the South Sudan factions said the decision had been made after a 10-hour meeting at Mr. Museveni's lakeside residence in the Ugandan capital, Entebbe.

Mr. Machar couldn't be reached for comment.

—Nicholas Bariyo

U.K.'s Brexit Minister Quits

Unexpected departure of hard-liner Davis puts new pressure on May within her party

By Stephen Fidler

CHRIS RATCLIFFE/BLOOMBERG NEWS

David Davis took issue with a policy he said 'hands control of large swaths of our economy to the EU.'

LONDON—David Davis, the minister in charge of negotiating Britain's exit from the European Union, resigned unexpectedly Sunday night, likely heralding a further period of turmoil for the government of Prime Minister Theresa May.

The resignation by a prominent minister who campaigned for Britain to leave the EU follows a cabinet meeting on Friday in which a plan for Britain's future relationship was finally hammered out, 25 months after a referendum vote to leave the EU.

The proposal, under which Britain would commit to following EU regulations for food and manufactured goods, has generated disquiet among some Brexit supporters who want a more fundamental break.

The resignation increases the likelihood that Mrs. May will face an attempt to unseat her from within her own Conservative Party, with the possibility that Mr. Davis would seek to stand as a candidate to succeed her if a leadership race ensues. It also raises the possibility that other pro-Brexit ministers will follow Mr. Davis out the door.

In a letter to Mrs. May, Mr. Davis said "the current trend of policy and tactics" makes the Conservatives' pledge to leave the EU's single market and customs union "less and less likely."

"The cabinet decision on Friday crystallized this problem," he wrote. The policy "hands control of large swaths of our economy to the EU," adding the negotiating approach could just lead to further demands for concessions from the EU. "The general direction of policy will leave us in at best a weak negotiating position, and possibly an inescapable one," he wrote.

In her reply, Mrs. May took issue with Mr. Davis. "The direct effect of EU law will end when we leave the EU," she wrote, adding that Parliament would decide which EU rules follow. "Choosing not to sign up to certain rules would lead to consequences for market access, security cooperation or the frictionless border," she wrote.

Downing Street said a successor to Mr. Davis would be announced on Monday morning.

A fault line ran through the center of the Conservative Party for more than two decades over Britain's membership in the EU. Since the 2016 referendum, a fault line remains between those who want to make a fundamental break with the bloc and those who want to remain close.

The EU has yet to react in detail to the U.K. proposals.

Withdrawal is set for March, though both sides have provisionally agreed to a so-called transition period that keeps the U.K. bound to EU rules until the end of 2020.

Speculation Starts on ECB Chief's Successor

By Tom Fairless

FRANKFURT—The decision on who will succeed Mario Draghi as European Central Bank president is still a year away, but the jockeying for position is already under way.

The 19 countries that use the euro are preparing for a delicate political dance that will decide who will steer the eurozone economy away from years of easy-money policies. The favorite, Jens Weidmann, the conservative president of Germany's central bank, risks becoming a lightning rod for criticism of the nation's dominance of the $14 trillion currency bloc.

The ECB recently received legal advice that a French member of its executive board, Benoît Coeuré, could be elevated to president, people familiar with the matter said, adding another potential candidate to the pool. Many European officials had assumed executive-board members were ruled out under European law.

Governments pick the ECB's president, and the decision will likely involve an elaborate compromise over other top European Union jobs, including the head of the bloc's executive. EU officials say they believe Germany has a strong claim on the top ECB job, partly because a German has never held it.

Still, the legal discussions underscore the challenge facing European leaders as they prepare to name a successor to Mr. Draghi, an Italian who is the ECB's third president in its two-decade history and played a dominant role in navigating the Continent through its debt crisis. Unlike Federal Reserve chairmen, he can't be reappointed after his eight-year term ends in October 2019.

The development—which hasn't been previously reported and appears to have been kept to a relatively small circle of officials—underscores how the currency union is still a work in progress more than two decades after the ECB's creation.

It could complicate the ascension of Mr. Weidmann, who vocally opposed signature policies initiated by Mr. Draghi, including large-scale bond purchases that have been credited with saving the eurozone from collapse. At a minimum, the discussions suggest Mr. Weidmann is far from inevitable.

Several officials on the ECB's 25-member rate-setting committee are skeptical, or outright hostile, in private, to the idea of being led by someone who has frequently broken with the bank's tradition of decision making by consensus, and even testified against the ECB in German court over a bond-purchase program.

NATO Feels U.S. Strain

Continued from Page One

benefit without paying their full share as set by NATO goals.

"I'm going to tell NATO, you got to start paying your bills," Mr. Trump said at a rally in Great Falls, Mont., Thursday evening. "The United States is not going to take care of everything."

At a meeting in Quebec last month, Mr. Trump jousted with European leaders not only on trade but also on immigration, Russian relations, terrorism and other matters, and then walked away from a joint statement prepared by the group. European officials worry about a new round of discord at the NATO summit that opens on Wednesday in Brussels.

FROM TOP: INTS KALNINS/REUTERS; STEFFEN KUGLER/REUTERS

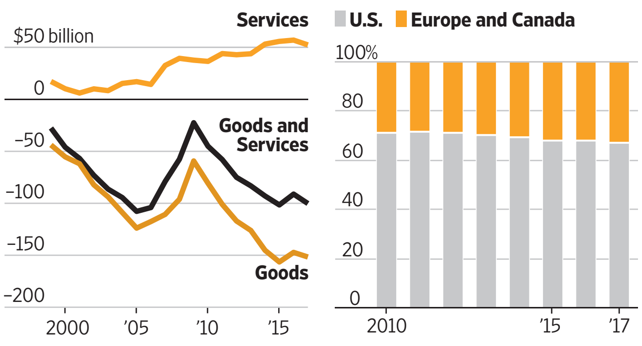
A U.S. Air Force aircraft, above, took part in a NATO exercise near Skrunda, Latvia, in June. German Chancellor Anglea Merkel, below, gave President Donald Trump a historical map of the German region where his ancestors lived.

'Angela, you owe me one trillion dollars.'

President Donald Trump to German Chancellor Angela Merkel

Trans-Atlantic Tension

President Trump has complained about the U.S. trade deficit with Europe, and has threatened tariffs to try to close the gap. Mr. Trump also wants NATO allies to accelerate their defense spending so they share more of the cost burden.



Source: U.S. Commerce Department (trade balance); NATO THE WALL STREET JOURNAL.

The postwar order has been jolted many times before, over security and economics. Lyndon Johnson placed tariffs on Volkswagen pickups, retaliating for European curbs on U.S. chicken. France left NATO in 1966. George W. Bush drew Continental condemnation for his own steel tariffs and the Iraq invasion. Barack Obama criticized NATO allies over their military budgets.

But many Europeans fear a deeper split this time because no previous American president has so openly questioned the trans-Atlantic alliance's value.

Uncertainty about Washington's commitment is prodding Europeans to spend more on their military and to hash out market-opening concessions. It is also emboldening opponents of European unity inside the Continent and on its borders, while prompting the region's leaders to look for alternative markets and allies.

Donald Trump "should not be underestimated," European Council President Donald Tusk told European heads of government at a gathering last month. "He is systematic, consistent and he has a method to undermine what the European values are in respect to trans-Atlantic relations," Mr. Tusk said, according to people who attended. Mr. Tusk is a former Polish prime minister whose own government has been more supportive of Mr. Trump than others in the region.

Many European leaders received letters in June, on White House stationery and bearing Mr. Trump's signature, telling them of the president's "growing frustration" with their military spending levels and his expectation they redouble efforts when they next meet.

His plans to follow the NATO meetings with a private sit-down with Russia's Vladimir Putin the alliance's biggest foe, stoked fears among European leaders that Mr. Trump may make concessions to the Russian leader.

"The U.S. is now being viewed in Europe as evolving from a strategic partner to a strategic problem," said Dan Price, a free-trade supporter who ran international economic policy in the George W. Bush White House and now runs a consulting firm advising multinational companies. For the whole postwar era, "Europe trusted that the U.S. would defend its interests and values. That fundamental trust is regrettably eroding."

Trump officials say the hand-wringing is overdone, and the president, for all his rough language, has done more to support Europe than his predecessor did. The Obama administration, despite soothing words, "went for its first six years in office with an approach to Europe that systematically disengaged—we withdrew the last U.S. tanks from Europe, we pivoted to Asia, we reset relations with Russia," said A. Wess Mitchell, the State Department's top official for trans-Atlantic affairs.

Trump advisers say the president is willing to apply an unusually high level of pressure on allies—and in the process convey ambiguity about how far the U.S. will go—to rebalance the economic relationship. "Our job is to reassure Europeans, but I think first and foremost it's to make sure that Americans remain stakeholders" in the alliance, Mr. Mitchell said.

Or, as one person familiar with administration deliberations put it: "Uncertainty is better than a one-sided guarantee." When Europeans worry more about the American commitment, "you're more likely to get a result. That's the art of the deal."

Europeans are frustrated by uncertainty about how its decisions are made. Confusion surfaced around Mr. Trump's March 1 announcement of the metals tariffs. Allies were invited to negotiate exemptions, and they initially did so with U.S. Trade Rep. Robert Lighthizer, during a Brussels meeting on March 10. EU Trade Commissioner Cecilia Malmstrom then flew to Washington for meetings and found the administration had since put Commerce Secretary Wilbur Ross in charge.

Europeans say Mr. Trump's understanding of trans-Atlantic economic relations is based on an incomplete and distorted use of the data. They complain his assertion that Europe has a $151 billion trade surplus with the U.S. counts only goods, ignoring, among other things, his own government's estimate of a U.S. $51 billion surplus in services.

They proposed in Quebec a joint study of facts and figures, to try to show Mr. Trump that his assumptions are mistaken and to establish common ground. That has further irked Washington. "The whole European strategy is to have endless commissions and discussions, without coming to grips with reality," said Mr. Ross. "We don't need a hundred more. What we need is action."

The sides are also locked in a stalemate over tactics. The EU has said it won't negotiate any trade concessions with U.S. until Mr. Trump promises to remove the metals tariffs and take away the threat of further penalties. The U.S. refuses to give away the leverage of existing and threatened tariffs without European action. "You take this gun away from us, we sit together as friends and equals, and we discuss," Ms. Malmstrom said in a news conference.

That impasse has persisted through more than a dozen rounds of talks between Ms. Malmstrom and Mr. Ross in person, on the phone or via videoconference from March to June. Ms. Malmstrom repeatedly hinted at concessions Europe could make—on accepting U.S. limits on European steel exports, and on acceding to Mr. Trump's demands of lower car tariffs—if the U.S. took away the threat, according to European officials. Mr. Ross said Europe had to take the first step, and that the promises were too vague. Ms. Malmstrom "made clear that she had no mandate," he said.

The Europeans retaliated against the U.S. metals tariffs in late June by imposing tariffs on more than $3 billion worth of U.S. goods. The U.S. is now threatening tariffs on car imports.

A core U.S. strategy is to find and expand cracks in European unity, and play countries off against each other. The way one U.S. official put it is, "Trump wants to...smoke everyone out and see what the real red lines are."

At the White House in April, Mr. Trump suggested to visiting French President Emmanuel Macron that France leave the EU, after which the U.S. would offer France its own trade agreement, according to European officials.

Four days later, Mr. Trump told a visiting Ms. Merkel, "Angela, you are the president of Europe, you need to get the Europeans to do a deal. These other countries will come to your doorstep if you negotiate something between us," according to an official in the room. She demurred.

Pessimists worry Mr. Trump's high-pressure negotiating strategy poses the risk of a miscalculation and a full-blown trans-Atlantic trade war disrupting global commerce, or of further moves by Mr. Putin to destabilize Europe.

There are optimists on both sides of the Atlantic who believe the parties can reach ample deals on trade and defense spending. On NATO burden sharing, in "the last year and a half, the number of European countries who have stepped up, the number spending 2% [of GDP] or committing to spending 2% by 2024, has tripled," said Mr. Mitchell.

On trade, optimists note that Europe has started to float concessions and Mr. Juncker plans a July 25 meeting with Mr. Trump to discuss their disagreements. In addition to suggesting a possible reduction in auto tariffs, the Europeans have started discussions on ramping up purchases of U.S. natural gas, a priority export for Mr. Trump.

In his April White House meeting with Ms. Merkel, Mr. Trump told her: "Angela, you need to stop buying gas from Putin," according to the official in attendance, a reference to a natural-gas pipeline between Russia and Germany.

Ms. Merkel said she would like to diversify gas purchases and promised to persuade her EU partners to make that part of any trade deliberations, the official said.

"We're going to go through some bumps in the road, but the target is elimination of tariffs or other barriers," said Mr. Ross. "The net effect will be much more freedom and much more global trade."

—Emre Peker, Valentina Pop and Vivian Salama contributed to this article.

Turkey Launches New Round Of Firings

By David Gauthier-Villars

ISTANBUL—Turkey dismissed more than 18,000 state employees, most of them police and military personnel, for alleged ties to terror groups, in an extension of mass purges launched after the 2016 failed military coup as President Recep Tayyip Erdogan prepared to begin a new term with expanded executive powers.

An emergency decree published in the Official Gazette listed the individuals, saying they had been "removed from public duty" over their alleged links to organizations that "act against national security."

The list, which was reviewed during a cabinet meeting convened by Mr. Erdogan last month, included nearly 9,000 police officers, over 6,000 military personnel and about 1,000 employees from the justice ministry.

The decree was released on the eve of a ceremony in Ankara, Turkey's capital city, during which Mr. Erdogan is due to be sworn in for a new five-year mandate following his victory in the June 24 presidential election.

With his re-election, Mr. Erdogan has gained more executive power over legislation and the judiciary due to constitutional changes voters approved last year.

Although the decree didn't name any particular organization, authorities have been targeting two groups in recent months: supporters of Fethullah Gulen, a Turkish cleric residing in the U.S. and once an ally of Mr. Erdogan, whom the president accuses of fomenting the failed coup, and sympathizers of the outlawed Kurdistan Workers' Party, or PKK.

Mr. Gulen denies playing any role in the coup attempt.

Close Race Emerges in Pakistan Vote

By Saeed Shah

ISLAMABAD, Pakistan—An election that features starkly different visions of progress for Pakistan is growing tighter, as polls show voters divided between the former ruling party and an opposition that promises far-reaching change.

Former Prime Minister Nawaz Sharif—who was convicted Friday of corruption by a Pakistani court—is asking voters to join him in resisting what he sees as an alliance of the military and the judiciary, and says he will appeal the verdict. He has said that he will risk arrest by returning to the country from London on Friday; it was announced on Sunday that he will fly to his hometown, Lahore, the capital of Punjab province, which holds the key to the July 25 election.

Mr. Sharif accuses the military of undermining his government and grabbing power behind the scenes, and alleges that it is supporting his main opponent in the election, former cricketer Imran Khan. The military denies political interference; Mr. Khan and the courts say they work independently.

Mr. Sharif's Pakistan Muslim League-N (PML-N) party is campaigning on its record of building physical infrastructure, including power plants to reduce the country's crippling electricity shortage and getting China to commit to a multibillion-dollar construction program in Pakistan. Electricity in particular is a top issue, polls show.

Mr. Khan argues instead for investing in education, health care, policing and other public services. Mr. Khan, a nationalist, also pledges to end the country's strained antiterror alliance with the U.S.

Mr. Khan and his Pakistan Tehreek-e-Insaf (PTI) party hounded Mr. Sharif's government with street protests and a court case that last year ended Mr. Sharif's third term as prime minister. He has lambasted Mr. Sharif for criticizing the military, which has staged four coups in the past.

Before Mr. Sharif's legal troubles began two years ago, his party seemed poised for an easy re-election. But four recent polls showed the two parties running roughly even. By contrast, Mr. Khan's party came in a distant third in terms of seats won in the last parliamentary election, in 2013.

As recently as March, a poll from Gallup Pakistan showed Mr. Sharif's party 12 points ahead. "The surprising thing for us is that so much could change in two or three months," said Bilal Gilani, executive director of Gallup Pakistan. "The election is up for grabs."

The election will be decided in Punjab, Mr. Sharif's bastion of support, where Mr. Khan's party must make huge inroads. The country's most affluent and populous area, Punjab holds more than half the seats in parliament.

It is also the traditional recruitment ground of the army. Mr. Sharif's intensifying attacks on the military, a popular institution, has pushed some supporters into the undecided camp, said Mr. Gilani.

Mr. Sharif's party is still well ahead in Punjab, according to three of the four recent polls. However, Mr. Khan's party has gained ground in Punjab and nationally, polls show.

Pakistan's parliamentary form of government means that people vote for their local candidate, not directly for the national leader. To gain a solid mandate, Mr. Khan needs to snatch seats from Mr. Sharif's strongholds across northern and central Punjab, in constituencies like Attock, where Mr. Sharif's candidate has previously been elected six times.

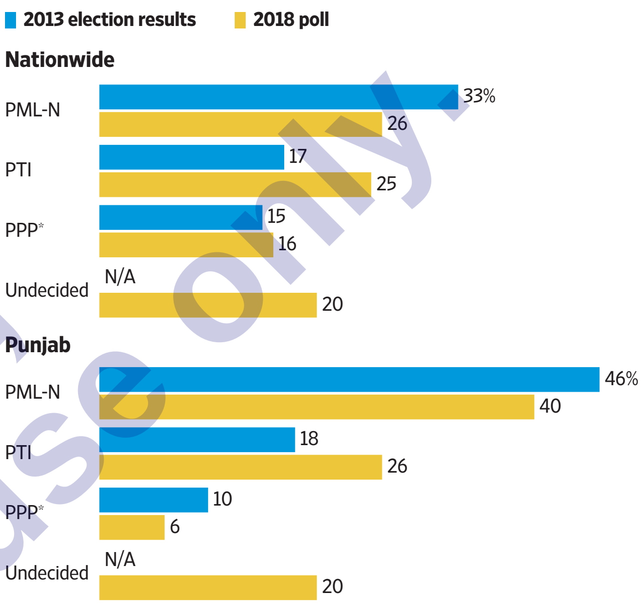
—Waqar Gillani contributed to this article.

AAMIR QURESHI/AGENCE FRANCE-PRESSE/GETTY IMAGES

Campaign posters in Rawalpindi, Pakistan. Ex-Premier Nawaz Sharif and ex-cricketer Imran Khan are the key contenders in the July 25 vote.

Neck and Neck

The former ruling party, the Pakistan Muslim League-N (PML-N), easily defeated rivals in a 2013 election but faces a stiff challenge this year from the Pakistan Tehreek-e-Insaf (PTI) party, which has gained ground in populous Punjab province.



*Pakistan Peoples Party

Sources: 2013 election results; Gallup Pakistan face-to-face in-home poll of 3,000 households conducted May 1-June 6; margin of error: +/-3 pct. pts.

THE WALL STREET JOURNAL.

FROM PAGE ONE

Bloody Marys Get Giant

Continued from Page One

culated affair, she says. "I didn't want to demolish it. I drank a quarter of it, then we broke the chickens out. Once you get them out, it's much more manageable."

The Bloody Mary was once a simple combination of tomato juice, vodka and seasonings in a normal-size glass. Now, in some bars and restaurants, it has become a giant work of performance art. Creations are so out of hand, they're nearly impossible to consume without great struggle.

The "Bloody Royale" at Franklin & Company in Los Angeles sports a burger slider, a bacon-wrapped jalapeño, a pickle spear, a cube of pepper Jack cheese, a pickled tomatillo, a lime, a roasted Brussels sprout and an onion ring. The Cove in Leland, Mich., inserts a smoked white chub for its "Chubby Mary."

The $60 version at Score on Davie in Vancouver, Canada, includes a whole chicken, wings, a burger, a pulled-pork slider and a pulled-pork mac-and-cheese hot dog. The structure, says general manager Rob Turpin, is "architecturally sound."

Diners approach these structures strategically. Kathy Stelfox, 64, had a plan for the one at MJ's Raw Bar & Grille in New Bern, N.C., which covers its Bloody Mary in a soft-shell crab on a lettuce cushion, featuring olives as eyes and celery pierced by shrimp in what resembles a scorpion's tail.

"I just pulled the crab's legs off and the body sat on the lettuce so it didn't sink into the drink," says Ms. Stelfox, a Gilbert, Ariz., nurse.

Among the creators, "it's everyone trying to top the other guy," says James Fraioli, co-author of "The New Bloody Mary," which includes what it calls "Over the Top" recipes. "These mixologists are operating like mad scientists."

F. MARTIN RAMIN/THE WALL STREET JOURNAL, STYLING BY ANNE CARDENAS

In some bars, the Bloody Mary has become performance art.

It is with scientific precision that Spring Brook Sports Bar & Grill assembles its $45 "Monster Mary" in Wisconsin Dells, Wis. Bartenders concoct a 50-ounce pitcher of Bloody Mary and send it to the kitchen.

There, experts insert six skewers of food: cheeseburger sliders crowned by pickled eggs; four smoked chicken wings; alternating chunks of sausage and cheese. They place two cartons on the summit, of deep-fried cheese curds and of pickle chips.

The trend has gone too far when mini doughnuts appear, says one expert.

When Renee Belanger, 35, attacked the Monster Mary with her fiancé, they took off the cartons, then the sliders and wings—then moved to the sausage and cheese.

"If you pull out the wrong skewer, everything collapses," says Ms. Belanger, a health-insurance agent from Inver Grove Heights, Minn. "We had to deconstruct everything before we could even pour the drink."

Not so impressed are Bloody aficionados such as Lee Grossman, 42, a New York TV executive. He has no problem with unusual garnishes in normal-size varieties. Among his favorites are lotus root and seaweed.

"I laugh off a lot of the obscure toppings like burgers and chickens," says Mr. Grossman, who has judged a Brooklyn Bloody Mary festival. "There's so much that can be done with Bloody Marys. But I'm not in favor of turning it into a buffet."

An early fomenter of Bloody Mary zaniness was Dave Sobelman, proprietor of several namesake establishments around Milwaukee. He says he began jazzing up his Marys around 1999, adding asparagus, onions, mushrooms and other accompaniments from a neighboring pickling plant.

Over the years, he says, others began making them, and it became a "garnish war." His efforts culminated in his $60 "Chicken Fried Bloody Beast" crowned by an entire fried chicken with sausages, cheese balls and other accouterments.

Originally, he favored an 80-ounce glass jar with a handle. Then one shattered under the sheer weight after the handle broke off as a server carried it. He now prefers a 70-ounce plastic pitcher.

John Dorf, 47, says he has tackled Mr. Sobelman's masterwork and likens the process to a dissection. "You look at it and you say, 'How do I attack this?' " says Mr. Dorf, an information-technology consultant living in Bayside, Wis. "You have to put together a game plan."

The trend has gone too far when mini doughnuts appear on the cocktail, says Bloody Mary expert Ellen Brown, as they have on the "Hail Mary" at Star Bar in Austin, Texas.

"I don't want a mini doughnut on top of my Bloody Mary any more than I want a shrimp cocktail on top of my apple pie," says Ms. Brown, author of "The Bloody Mary Book," which offers recipes and lore.

"It's a gimmick drink and meant to be fun," says Max Moreland, director of bar operations at FBR Management, which operates Star Bar. "If she can't find the humor in that or is just that pretentious about her Bloody Mary, then perhaps ours just isn't for her."

Risks Leave Rescuers Mostly in the Dark

By James Hookway and Jake Maxwell Watts

Elite divers working to rescue a Thai soccer team are having to traverse miles of caves and narrow, submerged passageways in a mission that is fraught with danger.

The most hazardous obstacle is a submerged choke point 15 inches across, shaped like the U-bend in a toilet. One former Thai Navy diver died last week after expending his air trying to make it through.

With oxygen levels inside Tham Luang cave deteriorating and more monsoon rains on the way, rescue leaders on Sunday approved outfitting the boys with scuba gear and guiding them out through the murky water one by one. Some eight hours later, the first four were rescued, Thai navy SEALs said. None of the boys had dived before, and officials expected it would take two or three days to get them all out.

"Visibility is bad. It's very difficult to keep your bearings, and the maps are very limited," said Ben Reymenants, a Belgian diver who assisted the rescue effort. "It is incredibly dangerous."

Rescue coordinators said they have no other choice: Despite a week of efforts, engineers, geologists and oil-industry specialists have been unable to pinpoint the location of the boys to construct an escape shaft.

The cave-rescue attempt shows that much beneath our feet is a mystery. Around the world, ramblers and cave explorers often stumble across new caverns, and sinkholes open up without warning on suburban streets.

The caves we know about are often sparsely mapped. The appeal of discovering new, hidden worlds is a big part of why spelunkers are drawn to cave exploring.

But it is also why cave rescues are so dangerous, experts say: Rescuers often have only a sketchy outline of what lies ahead, especially away from the main haunts of amateur cave explorers in Britain, Europe and North America.

Modern technology is of little use—the rock blocks signals from satellites to GPS devices, although radio beacons can sometimes be helpful. Amateur cave cartographers instead rely on tools as basic as a compass and measuring tape.

"The results can be, well, variable," said Bill Whitehouse, vice chairman of the British Cave Rescue Council.

Tham Luang cave didn't get its first map until 1986. The work of French hobbyists, it was little more than a carefully drawn sketch, and though British spelunkers have annotated as best they could in the years since, there is still no accurate indication of how high or low the cave goes. In 2014, an attempt to use GPS to verify the precise location of the entrance revealed the map was off by dozens of yards.

So when the soccer team disappeared, rescuers could only feel their way through, laying guide ropes and making sketches as they went. It was nearly 10 days before two British divers made contact with the boys and their coach.

Getting them out is an even bigger challenge.

"If we knew their exact location, then we could just drill straight into the cave and pull them out, but we don't know their exact position," said Thanes Weerasiri, an expert with the Engineering Institute of Thailand who is assisting the search.

Authorities figure the boys are anywhere between 600 and 1,000 yards down, and their lateral location is just as uncertain. It makes the team much harder to extract than the 33 miners trapped in Chile's Copiapó mine after a shaft collapsed in 2010. Rescuers there had to drill down some 700 yards, but at least they had an idea where to start.

In Thailand, local governor Narongsak Osottanakorn said surveyors dug more than 100 pilot holes into the mountainside. So far, none appeared to be on target.

Among those pitching in is entrepreneur Elon Musk, who sent engineers from his space-exploration and drilling companies to Thailand. "Boring Co. has advanced ground penetrating radar & is pretty good at digging holes," he wrote on Twitter this past week.

Even if rescuers had managed to pinpoint the boys' location, drilling would have presented a new set of obstacles. For one, the difficulty of placing large drills on top of a thickly forested hillside. Doing so would likely have required new roads to be built.

"In Chile, we were in the middle of a desert, so you had plenty of room, whereas you are in a mountainous region. The difficult bit is finding space to set up a drill rig," said Jeff Roten, a drilling-equipment specialist at Schramm Inc., which worked on the Chile rescue.

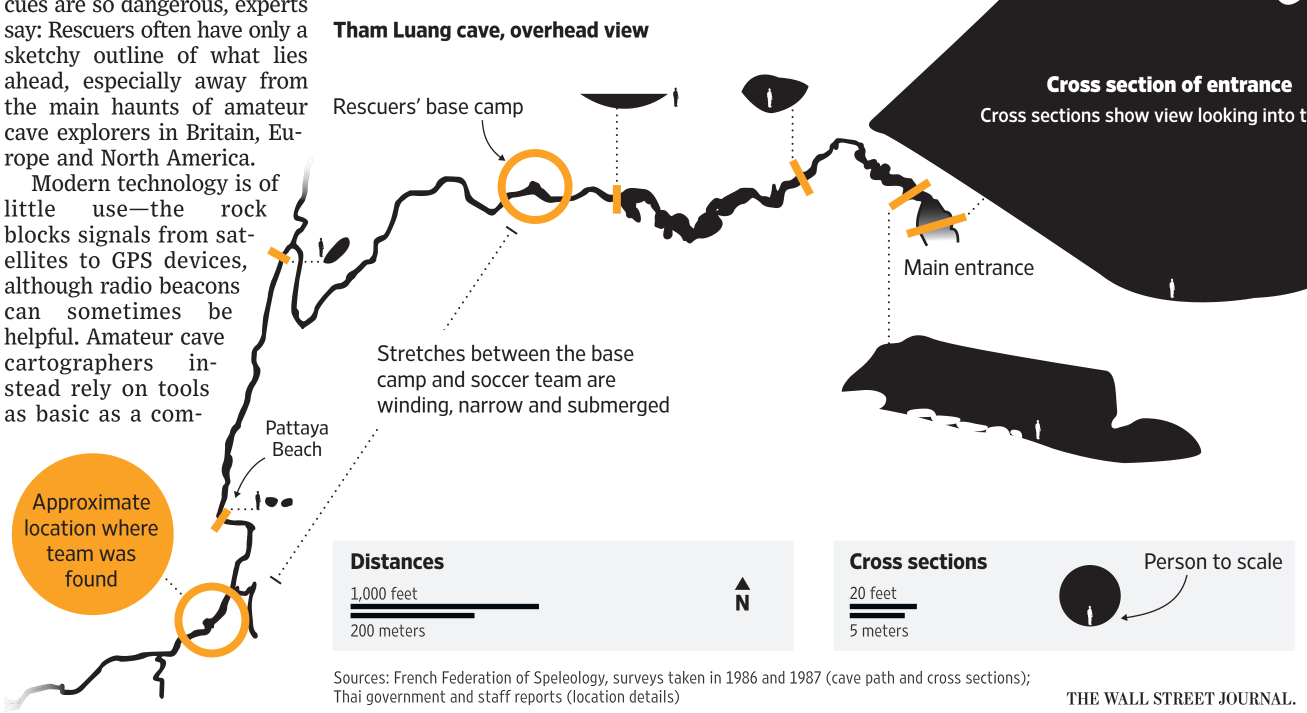
The composition of the mountain's interior is also unclear. Some experts warned if the cave where the boys are trapped is pressurized, then drilling a hole could simply have sucked water levels higher. "That could flood the thing immediately," said Richard Soppe, a senior engineer at drilling firm Center Rock Inc., who advised on the Chile rescue.

Given the risks, rescue organizers in recent days had prepared some unorthodox rescue plans, such as recruiting locals who climb rocks to harvest birds' nests to make a sought-after glutinous soup. They reasoned that these nest gatherers know how to find their way into tight spaces and might also identify the bird song that some of the children have reportedly said they could hear from inside the cave.

It was a measure of how much the rescuers didn't want to fall back on their least-favored option—the one they are now carrying out.

Winding and Complex

The soccer team and a coach have been trapped in the cave since a flash flood pushed them to seek higher ground in one of the harder-to-reach areas of the complex on June 23. Many passages are submerged, and none of the boys have dived before, making the rescue operation a challenge.



Sources: French Federation of Speleology, surveys taken in 1986 and 1987 (cave path and cross sections); Thai government and staff reports (location details)

THE WALL STREET JOURNAL.

Thai Boys Are Pulled From Cave

Continued from Page One

drawn global attention, with scientists and engineers including Elon Musk offering suggestions and well-wishers offering prayers.

On Sunday, after days of debate about the best way to extract the boys, the authorities gave the go-signal as a new storm front closed in. "We cannot wait," Gov. Narongsak said shortly after the mission began. "D-Day was 10 a.m."

More than 90 divers, including military personnel and volunteers from Britain, Australia and the U.S., in addition to Thai navy divers, took part.

Ben Reymenants, a Belgian diver based in southern Thailand who was an early volunteer on the scene, said the interior of the cave network presents a host of obstacles.

Divers found themselves fighting swift currents as they carried in extra air tanks or laid guide ropes. Narrow passageways and sections that required climbing in full scuba gear made it worse.

The most dangerous section is a narrow area the divers call a siphon: a submerged section that is so tight that some divers remove their gas tanks to squeeze through an area just two feet high.

"The distances involved far, far outweigh the normal protocols," Mr. Reymenants said, referring to standard diving practices. "They're combining and mixing protocols as they go."

The challenges were so daunting that some advocated waiting—perhaps months—until waters receded enough for the team to crawl its way out. But with rain setting in and rising carbon-dioxide levels in the cavern, authorities decided they needed to move.

"Earlier, I thought the boys could be all right for a while," Thai navy SEAL Chief Rear Admiral Aphakorn Yoo-kongkaew said on the evening of Friday July 6. "But now the situation has changed. We have limited time to work."

The drama started two weeks ago, when Ekkapol Chantawong, the 25-year-old assistant coach for the soccer team, known as the Wild Boars, decided to take some players on a trip after a Saturday practice match.

"OK everyone, drink a glass of water and please go to bed. Bicycle gang, see you at the school at 8:20," he wrote in a group chat on Facebook Messenger on Friday, June 22, which was viewed by The Wall Street Journal. "Don't forget to have breakfast and pack lunch everyone."

The next morning at 6:36, Mr. Ekkapol sent another message: "All, don't forget to bring your flashlight."

"I have one but it's very lame, bro. Hahaha," one boy replied.

The morning of June 23 dawned overcast. Weather reports had been predicting a high chance of heavy rain.

Over the next several days, there was no response from the boys.

Although intense rains made it hard for rescuers, eventually Thai navy SEALs and other divers were able to make forays into the cave system, which is one of the Thailand's largest and estimated to extend for more than 6 miles.

At some points, divers had to make their way up and down through twisting, clouded passages as they planted guide ropes. Divers set up relay stations with air tanks and other gear every 25 yards.

Deeper inside, where the boys and Mr. Ekkapol had fled in search of higher ground, conditions turned grim as days ticked by.

The boys—described by friends as a tightknit group that is soccer-mad—brought some snacks and a little water, and each had a flashlight, Thai authorities said.

They ate and drank sparingly; local press reported Mr. Ekkapol denied himself so his charges could have more. He told the boys not to use their flashlights at the same time, to conserve batteries.

When they ran out of water, Mr. Ekkapol warned the boys not to drink the muddy floodwaters and to sip water dripping from the cave instead, Thai authorities said. He told the boys not to move around much to conserve energy, and taught them meditation techniques to stay calm.

The boys idolize Mr. Ekkapol, who takes them on excursions often, people who know them said. Coach Ek, as he is called, had moved to the area after several years at a Buddhist monastery around 100 miles south, and was known to sport an amulet widely believed to protect the wearer from harm.

Others trapped at the site included Duangpetch Promthep, or Dom, the Wild Boars' gregarious captain, who turned 14 on Sunday. He is afraid of the dark, said his 13-year-old girlfriend, Nutchanan Ramkeaw, who said he once refused to go out to get something to eat because it was nighttime. He sees the cave trips as a challenge that he can brave in a group, she said.

Another boy, Adun Sam-on, is the overachiever of the group, with a 3.94 GPA and trophies in everything from volleyball to futsal, according to friends and teachers. The oldest of five siblings from a poor family in Myanmar, Adun's family sent the lanky 14-year-old to live in Thailand several years ago in hope of a better life, they said.

On Day 10, as the 13 were sitting in darkness, two British rescue divers who were surveying a passage inside the cave system stuck their heads out of the water and saw the group in front of them.

The discovery revived parents' hopes and energized rescuers, who raced to keep the boys healthy and figure out how to get them out. Thai SEALs swam in food, medicine, foil blankets and some chalk so the children could draw on cave walls to stay entertained.

The boys drew the SEALs logo, featuring two sharks and an anchor, with the words "13 Wild Boars," according to a video the Thai SEALs brought out and posted online.

One SEAL who swam to the boys' chamber said they asked him about the World Cup.

"I told them that the high-profile teams have gone home," the SEAL recalled. "It's only you who are still standing."

The boys laughed, he said.

On Friday, Thai SEALs brought out the group's first batch of letters, scribbled on water-stained and muddy paper. They were filled with assurances of health and pleas not to worry; one boy said he looked forward to eating barbecue pork.

Mr. Ekkapol apologized to parents and promised to take care of the boys. Dom asked his parents not to forget his birthday—July 8—and said he was fine, but chilly.

Adun wrote: "Don't worry about us. I miss everyone. I want to go back home quickly."

By Saturday night, rain was falling again and Thai authorities began making preparations for the dangerous mission to extract the boys.

Families and friends were preparing hopefully, too. Warangkana Somsamoechai, 14, said she bought her boyfriend, 16-year-old Pornchai Kamluang, a pair of soccer socks that he had wanted, along with a collapsible screwdriver set because he likes fixing his bicycle.

One of Adun's teachers, Boonlert Techamongkol, said he was glad the effort had started but urged rescuers to hurry before the rain picks up. "There could be more rain and more water any day," he said.

None of the three boys were among the first four to be brought out of the cave on Sunday.

—Wilawan Watcharasakwet contributed to this article.

CHIANG RAI PUBLIC RELATIONS OFFICE/AGENCE FRANCE-PRESSE/GETTY IMAGES

Military and police personnel staffed a quarantine tent on Sunday where the rescued boys were checked after divers removed them from the cave.

Silence Led to Worry For Family, Friends

The Thai soccer team and its coach entered the caverns around 2 p.m. on June 23. About an hour later, there was a sudden 30-minute downpour, followed by steady rain from 7 p.m. onward.

By around 8 p.m., with no sign of the boys, parents raised the alarm. The head coach and some parents trooped to the cave around 9 p.m. and saw the boys' bicycles outside, then alerted officials.

Other friends and relatives didn't yet know what was happening. Warangkana Somsamoechai, 14, said she had warned her boyfriend, 16-year-old Pornchai Kamluang, not to go to the cave that day, since flooding is common during the rainy season. She said the two argued after the morning soccer match, then again on the phone around 2 p.m. She said she hung up on her boyfriend, better known as Tee, in anger.

At 10 p.m., she began sending him text messages.

"Are you back at home?" she wrote. "Call me when you're online."

About an hour later, at 10:58 p.m., she sent a heart sticker and four messages:

"Do you have to be like this when you go to Tham Luang cave?"

GREATER NEW YORK


Danbury Mayor Mark Boughton has been endorsed by the state GOP for governor.


Tim Herbst, 37, is the youngest candidate. He served eight years as first selectman of Trumbull.


Steve Obsitnik, a technology entrepreneur from Westport, founded a number of startups.


Bob Stefanowski, from Madison, has been executive at GE and UBS, among others.


David Stemerman, of Greenwich, founded hedge fund Conatus Capital Management.

Connecticut Republicans Face Wide Choice

By Joseph De Avila

Connecticut's Republican voters will have to choose between government experience and business know-how in August's gubernatorial primary, in what is one of the most crowded fields in recent years.

There are five candidates on the ballot. The winner will face off in November against the Democratic primary victor—either Ned Lamont, a wealthy businessman from Greenwich, or Joe Ganim, mayor of Bridgeport.

All of the Republican candidates want to lower taxes, overhaul the state pension system and reduce spending. They also oppose tolls to pay for highway and rail improvements. Their personal backgrounds are perhaps the areas where they diverge the most.

MARK BOUGHTON

This is the second governor's race for Mr. Boughton, who flirted with running for governor in 2010 and opted instead to run for lieutenant governor. He jumped into the gubernatorial race in 2014 and lost the nomination to businessman Tom Foley.

Now, Mr. Boughton, in his ninth term as mayor of Danbury, enters the race as the candidate with the longest record in public service. He says his experience leading Danbury sets him apart from his GOP rivals. And the state Republican Party endorsed him.

His biggest policy proposal calls for phasing out the state's income tax over 10 years. He says the state won't need this revenue stream in a decade if it eliminates some departments and reins in spending.

"We need to put our financial house in order and rebuild our relationship with the business community," said Mr. Boughton, 54 years old.

TIM HERBST

Mr. Herbst, the former first selectman of Trumbull, is the youngest candidate in the race, at age 37. His public-service career began when he was 19 and was elected to the town's Planning and Zoning Commission. He served eight years as Trumbull's first selectman, the highest elected official in the town.

Mr. Herbst said he would focus on fixing the state's fiscal mess if elected—"pension and benefit reform right out of the gate," he said.

He wants to move future state employees from the pension system to a 401(k)-style plan and is calling for state employees to chip in more for health care.

He wants to scrap the income tax for anyone making less than $75,000 and eliminate both the business-entity tax, a $250 tax paid biennially by every business in the state, and the estate tax. He also wants to cut tax rates for corporations.

STEVE OBSITNIK

Mr. Obsitnik, a technology entrepreneur from Westport, is among the three GOP candidates with no experience in government. He founded a number of startups and worked with the company that developed the iPhone Siri program.

Mr. Obsitnik said his business background makes him the best Republican contender. "Connecticut must decide if they want a maker or taker for its next governor," said Mr. Obsitnik, 51, who served in the Navy.

The tech entrepreneur proposes eliminating the gift and estate tax and taxes on Social Security and pensions. He also called for income-tax cuts for people who earn less than $100,000 and plans to phase out taxes on corporations.

BOB STEFANOWSKI

Mr. Stefanowski also is highlighting his business career as he makes his case to voters. His résumé includes stints running DFC Global Corp., a consumer-financial-services company, as well as working as the chief financial officer for UBS Investment Bank and the division chief executive officer of General Electric Co.

The businessman, who lives in Madison, wants to phase

Please turn to page A10B


BRYAN ANSELM FOR THE WALL STREET JOURNAL

Chris Gaskins switched his plans after helping at a summer enrichment program at an Uncommon Schools network site in Newark.

Charter Recruits Diverse Teachers

By Leslie Brody

A large charter school network has found a way to diversify its staff despite a chronic shortage of black and Hispanic teachers nationwide.

Uncommon Schools, which has 52 urban charters in the Northeast, including New York City, recruits college juniors of color for a summertime taste of teaching in hopes they will sign on after graduation. Hundreds have joined the network full-time.

Chris Gaskins, who just finished his junior year at Albright College in Reading, Pa., is in Uncommon's current cadre of 134 "Summer Teaching Fellows." He had planned to find a job after college at an investment firm or in sports management, but discovered he loves helping at a summer enrichment program at one of the network's sites in Newark. He is switching his career path to the classroom.

Mr. Gaskins says that as an African-American man, he finds teaching offers a powerful chance to serve as a role model, especially for boys from his background. He developed a strong rapport with a fourth-grader who lost his father this spring in a shooting.

"I told him not to get discouraged," Mr. Gaskins said. "Keep your dad in your mind while you achieve your goals."

> *The teaching field has long had trouble attracting minority applicants.*

Many educators say diversifying the ranks of teachers will help close achievement gaps, by giving black and Hispanic children stronger connections to the adults at the front of the classroom. One 2017 study published by the IZA Institute of Labor Economics found that having at least one black teacher in third through fifth grades significantly increased a black boy's probability of finishing high school, particularly among very low-income students.

But the teaching field has long had trouble attracting minority applicants, particularly men.

Educators often blame low starting salaries, insufficient respect for the profession and cumbersome paths to certification. Nationwide about 80% of public school teachers were white, 9% Hispanic, 7% black and 2% Asian, according to a federal survey in 2016. Meanwhile, about half of public school students were nonwhite.

Brett Peiser, CEO of Uncommon, said diversifying its staff was a top priority because it "helps overcome the limits that come from only having our own backgrounds and our own perspectives."

Nearly all the children at the Uncommon Schools network are black or Latino, as are 42% of its 1,538 teachers, its officials say. The Summer Teaching Fellow program expands its pipeline. These rising college seniors get training, mentoring from experienced instructors as they co-teach every weekday, and paychecks up to $6,000 for 10 weeks. About 80% of the fellows are people of color.

Uncommon officials say they aim to offer most fellows jobs after graduation: 571 fellows completed the program since it started in 2010, and 250 were hired. About half are still with the network.

To recruit candidates, Uncommon targets historically black colleges and encourages the network's alumni to apply. Mikira Alex Jones, a fellow from Howard University, said she never had a black teacher growing up in Arkansas—besides her own mother—until she got to college.

"In my personal community, if you weren't an exemplary black student, you were pushed aside or forgotten about," she said. "White teachers cared about us but not to the point they'd go to bat for us."

Lofty Condo Tower Coming to Queens

By Keiko Morris

A venture planning to develop a soaring condominium tower in Long Island City, Queens, has scored a $502 million construction loan for the 802-apartment project that will test demand in this relatively new condo market.

A group of banks—led by JPMorgan Chase & Co.—made the loan at the end of June to the venture led by Queens-based developer Chris Xu, according to Meridian Capital Group, the firm that brokered the financing. The group began foundation work on the 67-story tower at 23-14 44th Drive late last year.

PROPERTY

Long Island City has seen a surge of residential development in the past decade, with towers lining the East River near the landmark Pepsi-Cola sign. But most of the new apartment buildings have been rentals.

New condo buildings in Long Island City have averaged about eight stories and 60 apartments, according to residential brokerage Stribling & Associates. "There has never been a project like this before in Long Island City," said Patrick W. Smith, a broker with Stribling.

Obtaining a construction loan is a major milestone for Mr. Xu and his partners, who have been active condominium and hotel developers in Queens. The 44th Drive project is their biggest one to date.

The size of the construction loan also is notable given that traditional bank lenders such as JPMorgan Chase generally have had limited appetite for that business.

Much of the construction financing has been done by "nonbank lenders," such as debt funds raised by private-equity firms. "This was a syndicated bank deal. We did not have to go to a debt fund to get this deal done," said Morris Betesh, the Meridian senior managing director who brokered the transaction.


MAQE

A rendering shows a 67-story, 802-apartment condominium planned for Long Island City.

JPMorgan Chase declined to comment on the loan.

The total cost of the project is about $700 million, with the balance of the money coming from equity. Mr. Xu's partners include Henry Yeung, Brian Pun of FSA Capital and Risland U.S. Holdings LLC, a Hong Kong-based developer.

The team hopes to begin presales of apartments ranging from studios to four-bedroom units at the end of this year or the beginning of 2019, said Eric Benaim, chief executive of Modern Spaces, the real-estate firm marketing the 778-foot-tall tower. The apartments will be completed in phases between 2021 and 2022.

Sales have been slow in the New York City condo market lately, but mostly in the lofty price range of $5 million and above. The developers of the Long Island City project are hoping their price range of about $500,000 to $4 million will spur stronger demand.

Brokers believe Long Island City's rental-apartment construction boom has primed the market for condos.

The Midtown Oyster Bar Where the Governor Brokers Deals

By Mike Vilensky

Gov. Andrew Cuomo has a publicly funded office in New York City and another on the Capitol's second floor in Albany—but much of his business goes down off the clock at an art-deco Manhattan oyster bar.

Docks Oyster Bar & Seafood Grill, a spacious Midtown restaurant, doesn't advertise itself as a haunt for New York's power brokers, and its staff is tight-lipped about the establishment's political clientele.

But at Docks, amid black-and-white tile walls, the governor last year held a tête-à-tête with his rival, New York City Mayor Bill de Blasio, a fellow Democrat, people familiar with the meal said, during a stalemate in Albany over mayoral control of city schools.

MICHAEL NOBLE JR. FOR THE WALL STREET JOURNAL

Docks Oyster Bar & Seafood Grill opened on Third Avenue in 1987.

The same seafood spot played host to Mr. Cuomo's negotiations between the Metropolitan Transportation Authority and Long Island Rail Road union leaders in 2014, ending in a new contract with wage hikes for train workers and several orders of fish, said people at the meal.

"Docks is pretty much like being in the governor's office," said former Cuomo policy adviser Howard Glaser, "but with vodka."

Mr. Cuomo and his aides' use of the restaurant for meetings, strategizing, and blowing off steam is this governor's stamp on the tradition of cocktail diplomacy in New York politics.

The restaurant opened on Third Avenue in 1987 and its menu includes mussels, Grey Goose tonics, and $21 sirloin burgers. Mr. Cuomo's campaign spent more than $5,000 at Docks in 2017 alone, according to the campaign's expenditure filings with the board of elections.

Docks isn't the first oyster spot with a second life as a hangout for New York's political professionals. That would be Jack's Oyster House, a century-old restaurant in Albany frequented by former Republican Senate Majority Leader Joseph Bruno, among others.

"Restaurants are neutral turf," said ex-Democratic Assemblyman Jack McEneny, who recalled shaking hands with Mr. Bruno at Jack's when they served together in the Legislature in opposite parties and chambers. "You can talk about sports, the weather, and then say, 'By the way, what's happening with such and such bill?' It's not as awkward as going to the guy's office."

Mr. de Blasio has been known to wheel and deal at Bar Toto, a small cafe in Brooklyn's Park Slope, where he lived before he became mayor in 2014.

Docks is located on the ground floor of the building where Mr. Cuomo has an office. The governor's aides and state legislators often are found among the lunch or happy-hour crowds, meeting with up-and-coming politicians or gossiping about work.

A backroom in the restaurant helps keep meals from prying eyes, but it is protocol not to discuss them.

"What happens at Docks stays at Docks," said political strategist and former New York City Hall aide Chris Coffey, who said he has met with Cuomo aides there.

Docks' staff feels similarly. "We take the privacy of our guests very seriously," said manager Stephen Olsen, who otherwise declined to comment.

GREATER NEW YORK WATCH

SKELOS RETRIAL

Ex-Lawmaker Faces Cross-Examination

Federal prosecutors on Monday are expected to question former New York state Senate Majority Leader Dean Skelos, who has taken the stand in his own defense at his retrial on public-corruption charges.

Mr. Skelos, 70 years old, is on trial in Manhattan federal court alongside his son, Adam, for the second time. Federal prosecutors have accused Mr. Skelos, a Nassau County Republican, of pressuring companies with business interests before the state to provide jobs and payments for Adam. Mr. Skelos claims he asked friends for favors to help his son.

On Friday, Mr. Skelos testified in his trial, an unusual move. Legal experts consider cross-examination the riskiest part of a defendant taking the stand, because it opens the defendant up to questioning he wouldn't otherwise face.

In a letter to the judge on Saturday, prosecutors asked to question Mr. Skelos about his employment with a law firm. In the letter, they said questioning about this employment would show Mr. Skelos "has engaged in conduct that created a clear conflict of interest, violated ethical guidelines, and lied about it."

A lawyer for Mr. Skelos declined to comment.

—Corinne Ramey

CONNECTICUT

Several Are Injured In Porch Collapse

A porch collapsed at a Hartford home, sending over a dozen people to the hospital.

Approximately 20 people were on a second-floor balcony Saturday night when the floor gave way. Hartford police said 15 people were taken to Hartford Hospital with injuries that aren't life-threatening.

Among the injured were infants and young children.

Assistant Police Chief Rafael Medina said people were gathered "on the second-floor porch for a family celebration."

Witnesses told the Hartford Courant the gathering was a party celebrating the birth of two babies.

First-floor resident Carlos DeJesus heard a thud and saw people and infants on the lawn. "I'm still in shock," he said.

Police said some had head injuries and lacerations. Some have left the hospital since Saturday night.

A Hartford fire official told NBC Connecticut one of the first patients transported to the hospital was an infant.

Personnel from the Fire Marshal's Office and Hartford Licenses and Inspection deemed the structure to be habitable following an inspection. The cause of the collapse is under investigation.

—Associated Press

DAVID OWENS/HARTFORD COURANT/ASSOCIATED PRESS

Paramedics treated an infant injured in a Hartford porch collapse.

Musical Duo Get Their Due

BY MAYA SWEEDLER

When it appeared on Broadway in March of 1943, the musical "Oklahoma!" became a smash hit, taking New York audiences by storm. More than seven decades later, the show remains a top draw, with 176 productions being staged in the U.S. so far this year alone.

"There's something at the core, at the base of this story," said Ted Chapin, the longtime president of the Rodgers & Hammerstein Organization, which licenses all performances of the duo's work. "I don't think people's emotions have changed through the years—people understand unrequited love, they understand opposites attracting....At their core, their audiences get into what's going on in these characters."

To mark the 75th anniversary of the premiere of "Oklahoma!," the Rodgers & Hammerstein Organization teamed up with the New York Public Library for the Performing Arts to put on an exhibit celebrating what the library called the "Rodgers and Hammerstein revolution on Broadway."

The exhibit, which runs through Sept. 25, draws on archival photos and sketches of the original productions of "Oklahoma!," the first collaboration of lyricist Oscar Hammerstein II and composer Richard Rodgers, and their other musical produced during World War II, "Carousel."

"I was trying to think through why 'Oklahoma!' was so successful, how did this appeal to the audiences in the '40s. I was trying to think about what else was going on at the time, and of course the war is the big thing," said Doug Reside, curator of the exhibit and the NYPL's Billy Rose Theatre Division.

As he began digging into archival materials, including newsreels that discussed the war, Mr. Reside said he saw parallels between the shows and the anxieties of the day.

Between 1943 and 1959, Rodgers and Hammerstein wrote five shows that have joined the American musical theater canon. Mr. Chapin described the shows as fitting into three tiers. "The Sound of Music" and "Oklahoma!" are the most popular, followed by "South Pacific" and "The King and I," and finally "Carousel," which is respected but not produced as frequently, he said.

In the past decade, there have been major Broadway revivals of "South Pacific," "The King and I" and "Carousel," the last of which is currently at the Imperial Theater.

The shows have also remained popular at the regional level. Between 2012 and 2014, the Rodgers & Hammerstein Organization licensed 832 productions of "Oklahoma!" and its child-friendly version, "Getting to Know Oklahoma!," to amateur and school theaters in the U.S. The three subsequent years saw 789 licensed productions.

"Those two guys were incredibly good theater dramatists," Mr. Chapin said. They had "a basic humanity and ability to dive into emotional situations that are still very relevant to people."

THE NEW YORK PUBLIC LIBRARY FOR THE PERFORMING ARTS

A New York Public Library exhibit marks the 75th anniversary of Rodgers & Hammerstein's 'Oklahoma!'

Politicians, Businessmen Vie for Nod

Continued from page A10A

out both the state income tax, which was established in 1991, and the corporate tax. He said the income-tax phaseout would be tied to revenue triggers and could be slowed or accelerated depending upon how the economy responded.

"The state thrived without a state income tax," said Mr. Stefanowski, 56. "There is no reason why we can't do it again."

He also wants to move new state employees from pensions to 401(k)-style plans and says state workers will need to pay more for health care.

DAVID STEMERMAN

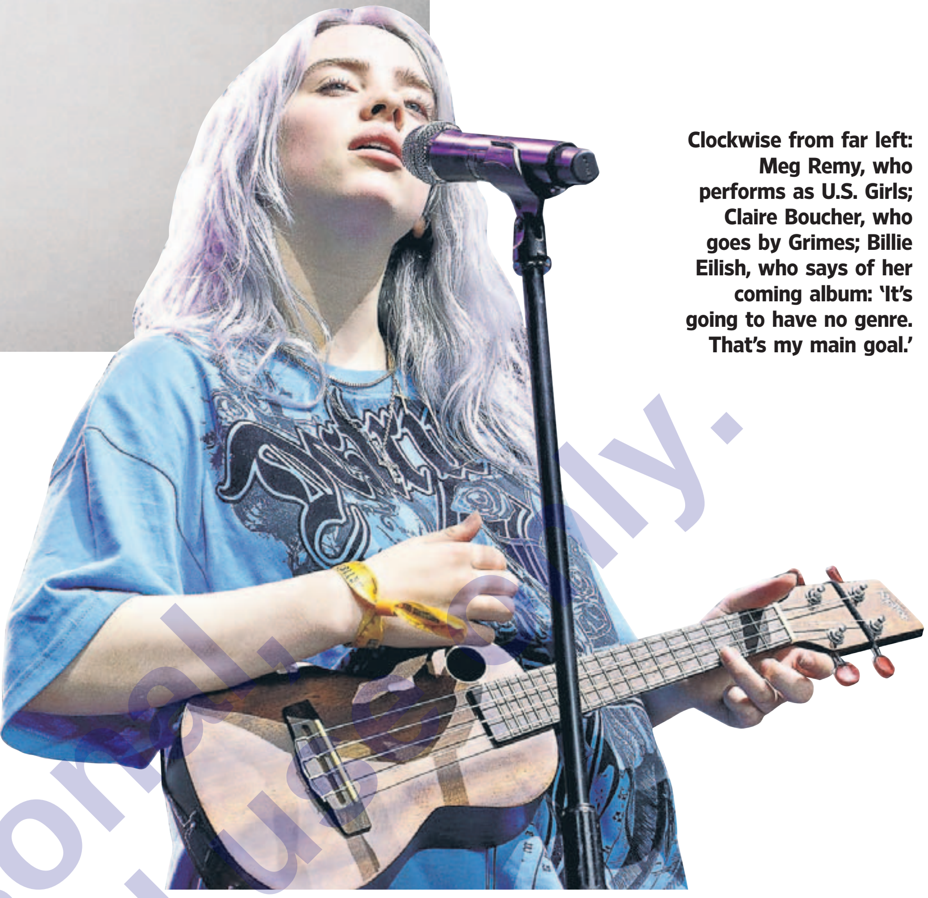
Mr. Stemerman began shutting down his hedge fund, Conatus Capital Management LP, in 2017 to launch his bid for governor, telling people he felt a calling to serve Connecticut. Before founding his fund in 2007, he worked as a portfolio manager at Lone Pine Capital LLC.

He wants a complete overhaul of the state's pension system, arguing that the current version is unsustainable and crowds out spending in other areas, such as education. One option under Mr. Stemerman's plan would allow current employees and retirees to take a one-time, lump-sum payment to buy them out of their pension.

"For taxpayers, we are going to get them out of the business of guaranteeing benefits that they cannot earn themselves," said Mr. Stemerman, 49, from Greenwich. "It's unfair."

Mr. Stemerman said the proposals by his rivals to eliminate the state income tax are unrealistic. Instead, he proposes lowering the top tax rate from 6.99% to 5%. He also wants to slash corporate income taxes from 7.5% to 5%.

LIFE & ARTS



FROM LEFT: DREW REYNOLDS FOR THE WALL STREET JOURNAL; GETTY IMAGES (2)

Clockwise from far left: Meg Remy, who performs as U.S. Girls; Claire Boucher, who goes by Grimes; Billie Eilish, who says of her coming album: 'It's going to have no genre. That's my main goal.'

MUSIC

The End of Pop's Diva Era

A new generation of female acts are blurring genres and changing the music industry

BY NEIL SHAH

PROUDLY WEIRD and just 16 years old, Billie Eilish is determined to make people uncomfortable.

Her approach is already bringing her unexpected success. The Los Angeles-based singer signed with Interscope Records in 2016 after her spare, haunting song "ocean eyes" went viral. This year, she worked with the Grammy-nominated R&B star Khalid in April, released a low-key cover of Drake's "Hotline Bling" in which she plays ukulele in June, and in October she is scheduled to perform with the British indie group Florence + the Machine.

Meanwhile, Ms. Eilish is working on her debut album, but don't expect it to hew to any of the above styles.

"It's going to have no genre. That's my main goal," she says. "I don't f— with genres."

Ms. Eilish, along with Grimes, Kali Uchis and U.S. Girls, are among a new generation of female pop artists who are changing the music industry. While they aren't the polished megastars that Adele, Beyoncé and Taylor Swift are, they are building loyal followings willing to buy concert tickets and merchandise. In the process, they are demonstrating how streaming media is flattening the pop-music ecosystem, elevating dozens of medium-size acts instead of just a handful of breakout successes.

"We are moving into a post-diva age," says Simon Halliday, head of independent record label 4AD, home to Grimes and U.S. Girls.

What characterizes these newer players are an instinct for mixing and matching musical genres, particularly hip-hop and R&B, an eagerness to defy gender norms, and often a quirkier presence that young fans respond to.

There is a greater appetite for such unconventional acts, says Jonathan Daniel, co-founder of Crush Music, which manages Lorde, Sia and Lykke Li. "People are more open-minded."

> Kali Uchis dabbles in R&B, reggaeton and funk. 'I'm like a walking collage,' she says.

The noirish artist Lana Del Rey, who with New Zealand singer Lorde helped pave the way for today's alternative-pop stars, has only one U.S. Top Ten hit, yet she has a devoted audience: Her songs have been streamed nearly 1.7 billion times since 2015, according to Nielsen Music. Ms. Uchis and another young singer, Charli XCX, have each racked up more than 200 million U.S. audio streams over the same period.

Dua Lipa, a soulful 22-year-old from the U.K. who isn't a household name in America, was Spotify's most-streamed female artist in the world on July 4, ahead of Cardi B, Ariana Grande, Taylor Swift and Rihanna, according to Chart Data, a widely followed music-news provider.

Edgy female acts like Kate Bush, Björk, Robyn and St. Vincent have long been part of the scene. Megastars still anchor the music business and could regain their luster.

Like all of them, the new host of arty, unconventional women could struggle to break through, particularly in a time when listeners are inundated with options.

Spotify, Apple Music and other streaming services provide access to broader audiences that weren't as reachable when artists were more dependent on commercial radio stations and their limited number of slots, says Sam Riback, head of A&R at Interscope Records. Music festivals, where tiny acts can play to huge crowds, have proliferated, creating more opportunities for under-the-radar performers to be discovered.

Twitter, Instagram and other social-media tools help artists grow their fan bases, a crucial step toward a sustainable touring career that is often the majority of a fledgling artist's income. In addition, music fans in their teens and 20s accustomed to playlists have such easy and free access to music that they listen to more different types, including artists who blur genres.

"With the bigger artists, people around them are going to tell them, 'No, this is too crazy, you have to unify it, people are going to be confused.' That's bulls—," says Meg Remy, 33, who performs as U.S. Girls and blends disco, post-punk and synth-pop sounds. "People aren't idiots."

Ms. Uchis, 23, shuttled between Virginia and Colombia as a child. A 17-song mixtape uploaded to the internet in 2013 brought attention from rappers like Tyler, the Creator. On "Isolation," a well-regarded debut album she released in April, she dabbles in R&B, reggaeton and funk, evoking Amy Winehouse on one song and singing in Spanish the next.

"I'm like a walking collage," Ms. Uchis says.

Ms. Remy, among others, has also won fans with lyrics that confront sexism and don't shy away from rage. On "Velvet 4 Sale," from U.S. Girls's critically acclaimed 2018 album "In a Poem Unlimited," she sings, "Instill in them the fear that comes with being prey."

On "Raw," Sigrid, a Norwegian vocalist with a husky voice reminiscent of Adele, sings that she's "terrible at putting up a show." "I need to be able to see myself in every picture—I need to recognize myself," she says. "And I think people respond positively to it."

These female acts, as their clout grows, could help women have a more powerful voice in the industry.

One of pop's most respected experimentalists, Grimes (real name Claire Boucher) makes weird but accessible music and—in a rarity—records, engineers and produces the melodies, harmonies and beats on her laptop. "It's almost replacing a band," she said in a Wall Street Journal podcast earlier this year.

Growing up playing videogames with her brothers, Ms. Boucher, 30, found music production a natural extension of her interests. "I don't love being on stage. I don't love doing photo shoots," she says. "Making beats and tracks is what I like to do."

She is far from alone. Lorde wants to produce her next album herself, having co-produced last year's "Melodrama," whose sound engineer, Laura Sisk, was a woman.

"More women are helping other women," says Anne Litt, a DJ for Santa Monica, Calif.-based public-radio station KCRW. "Women are just kicking ass right now."

BOOKS

FROM A LONDON SHOP, BESPOKE LIBRARIES

BY JEFFREY A. TRACHTENBERG

PEREGRINE CAVENDISH, the 12th Duke of Devonshire, inherited his majority ownership stake in London's Heywood Hill bookstore after his father died in 2004. The duke, who prefers to be called by his nickname, Stoker, was surprised to learn that his partners didn't share the same interest in turning a profit that he did.

"I went to one of the annual meetings," said the duke, 74 years old, during a chat at the Mark Hotel in New York. "The other investors had one message: that they cared more about preserving the shop's culture than making money. 'They all said, 'There's one thing we need to be clear about: We don't want or expect a dividend,'" he said.

But the duke, who is deputy chairman of Sotheby's and owns two small hotels and three gastropubs in the U.K., recognized that the environment for booksellers had become more competitive and wanted to ensure the shop's future. He believed it was one thing to lose money by mistake, but not on purpose. In 2013, he bought out his partners.

"Their shares weren't worth a lot, as you can imagine," he says.

This year, the now-profitable landmark store on Curzon Street in London's upscale Mayfair neighborhood, is expected to generate in excess of £2 million ($2.64 million) in revenue, up from £540,000 in 2011, says Nicky Dunne, chairman and the duke's son-in-law.

Today, the duke has set his sights higher once again and is focusing on the U.S. A certain number of well-to-do American book lovers have long had accounts with Heywood Hill, but the store is trying to broaden its reach by targeting more readers online.

DAVE NICHOLSON

The store, in London's Mayfair neighborhood, is focusing on readers in the U.S.

The secret sauce is its highly personalized subscription service based on interviews with its customers, either in person, online or via telephone. At a time when discounted books are as close as one's cellphone or tablet, the Duke of Devonshire says the shop's ability to predict what customers will want to read next based on past reading experiences is a crucial difference maker.

Heywood Hill gets its share of casual walk-in customers, but more than half its revenue comes from assembling libraries for people or institutions. The rest comes from consumers in the U.K. and abroad willing to pay a bit more in exchange for books tailored to match their tastes. It's a bit like having a favorite college English professor whispering in your ear, making recommendations.

Some customers even take photographs of their own bookshelves so that Heywood Hill can better understand their literary sensibilities. "You can get a good read on someone by looking at their shelves," says Mr. Dunne.

Customers can buy individualized parcels of books built around a theme, or purchase annual highly tailored subscription packages un-

Please turn to page A12

WHAT'S YOUR WORKOUT | By Jen Murphy

Before the Alps: A Tour de Delaware

Laurie Grimmelsman and her husband, John Breakey, training on roads near their Delaware home.

RYAN COLLERD FOR THE WALL STREET JOURNAL

LAURIE GRIMMELSMAN never imagined she would be riding in the tracks of Chris Froome and other Tour de France greats. But on July 8, Ms. Grimmelsman, 56, and her husband, John Breakey, 61, joined thousands of cycling enthusiasts who are crazy enough to want to test their grit on a stage of the Tour de France.

The 28th edition of L'Etape du Tour takes amateur riders along the same route as stage 10 of the 2018 Tour de France. Among the estimated 15,000 participants in this year's L'Etape du Tour, 6% are women. The amateurs hit the road nine days before the professionals cycle the same route on July 17. Not for the faint of heart, the ride spans 105 miles from Annecy to Le Grand-Bornand in the French Alps with more than 13,000 feet of climbing.

"We were motivated by the challenge, but also the opportunity to travel to France, eat good food, drink good wine and watch some of the Tour," says Ms. Grimmelsman, an interior designer in Wilmington, Del.

She met her husband, who is head of the graphic-design program at Delaware College of Art and Design, on a bike ride 35 years ago. He had been racing since the 1970s. She was a novice. "I was sporty so I liked trying to keep up," she says. "He was very patient with me lagging behind for years but now we're very compatible cycling partners."

Ms. Grimmelsman says she is the better climber and her husband is the better descender. "I may be faster because of my power to weight [ratio] going up but he will most likely catch me on way down," she says, referring to her strength compared to her weight. The higher your power-to-weight ratio, the faster you will go. On flat sections between climbs they work together and draft, where the rider in front blocks the wind, creating an air pocket that pulls the back rider along so they can use less energy.

Mr. Breakey says he feels lucky that his partner in life can double as his training partner. "We're a great team," he says. "We pride ourselves as being able to ride elbow to elbow. I'm sure at times we tax each other's patience but we also motivate each other at the right moments."

L'Etape du Tour is the couple's biggest cycling challenge to date. "We've been training and see ourselves as viable competitors," she says. "If one of us has an issue like cramping, the other must absolutely go on. But the goal is that we cross the finish together."

The Workout

The couple started to build their endurance with long rides in November, then switched to a three-month training program issued by L'Etape du Tour that focused on endurance, intensity and hill workouts. "Before this we did junk miles," Ms. Grimmelsman says. "We rode four to six times a week but we were never concerned with intensity."

The biggest challenge was figuring out how to train for the steep climbs of the Alps in flat Delaware, she says. The solution: repeats up a 1-kilometer stretch of road with a 15% grade. On Tuesday nights the couple would do 10 to 12 back-to-back climbs.

On Thursday nights the couple trained for intensity. "We needed to get used to riding with an elevated heart rate for a sustained period of time," Ms. Grimmelsman says. After a 30-minute warmup, the couple rode six minutes at an all-out effort, then recovered six minutes, eight minutes full-effort, recovered eight minutes, and then a final six-minute, all-out effort followed by a six-minute recovery ride and a 30-minute cool down.

She hopes the intense workouts pay off during the last climb, which is 97 miles into the 105-mile event. Mr. Breakey says training for mental toughness was just as crucial. "It's amazing what one comment from her, like a heartfelt 'good job!' does for my mental state after going anaerobic for several minutes," he says.

On weekends, the couple go on four to five-hour-long rides. Three days a week Ms. Grimmelsman attends Vinyasa yoga classes. "I find it helps me remember to breathe evenly on the intense climbs," she says. The couple arrived in France a week before the event to get accustomed to the altitude and scout the course.

The Diet

When Ms. Grimmelsman was diagnosed with colorectal cancer in 2003 she became much more conscious of her diet. "I am a bread lover," she says. "I made a big effort to eat more whole grains and vegetables." Now cancer-free, she allows herself a croissant with butter and jam and a cappuccino in the morning. Lunch might be avocado toast or an organic, frozen burrito. She prefers to cook dinner rather than eat out. In the summer, she and her husband grill chicken or salmon to accompany a vegetable dish and a salad. During the day she'll graze on nuts, fruit, or yogurt. In the evening she indulges in two squares of dark chocolate. "When I'm riding a lot I feel less guilty," she says.

The Gear & Cost

Ms. Grimmelsman's 2012 Specialized S-Works carbon-fiber road bike has Mavic wheels and cost about $9,500. She spent about $350 on her Sidi Genius 7 bike shoes. Her Castelli bib shorts cost around $250 a pair and she spends between $100 and $175 for her Machines for Freedom jerseys. She wears a Kask Protone helmet, which costs around $300. The couple use the Wahoo Power Meter app for their Wahoo Kickr trainer (retail $1,200) in combination with Global Cycling Network training videos. She pays $100 a month for unlimited classes at Yoga U in Wilmington, Del.

The Playlist

"We listen to music on the trainer to keep us motivated through the pain," she says. Their current playlist includes "Milk and Cookies" by Melanie Martinez, "Back to You" by Louis Tomlinson, and songs by Bonobo, Coldplay and Lady Gaga.

A London Bookshop Eyes the U.S.

Continued from page A11

der the rubric "A Year in Books." The subscriber titles, chosen by four full-time staffers known as "the core four," reach readers in 75 countries and more than 40 U.S.states. "Our booksellers make conscious linkages when they match people with books," said Mr. Dunne.

Tastes vary. One of the parcels assembled for U.S. readers is "A Very British Romance" sparked by the recent marriage of Prince Harry and Meghan Markle. The 10 titles include Ian McEwan's "Atonement" and D.H. Lawrence's "Lady Chatterley's Lover," although some might question whether the latter belongs in a basket inspired by newlyweds.

The group costs £120 plus £24 for shipping to the U.S. The parcels often feature English writers with whom the store has long been associated, including Evelyn Waugh and Nancy Mitford. Ms. Mitford was a wartime bookseller at the store. She was also the duke's aunt, and was responsible for introducing the Devonshire family to the store.

Mr. Dunne described the books sent to American subscribers as in print and generally new. Those who want 12 hardcover titles pay a one-time annual payment of £390.00 plus £80 shipping to the U.S. Less expensive packages include 12 children's books tailored to each child priced at £225.00 plus £55 for shipping to the U.S.

"Everything is bespoke," added the duke. "Before they start getting the books, the booksellers have an interview to identify the sorts of things they are interested in, and just as importantly, the sorts of things they aren't interested in."

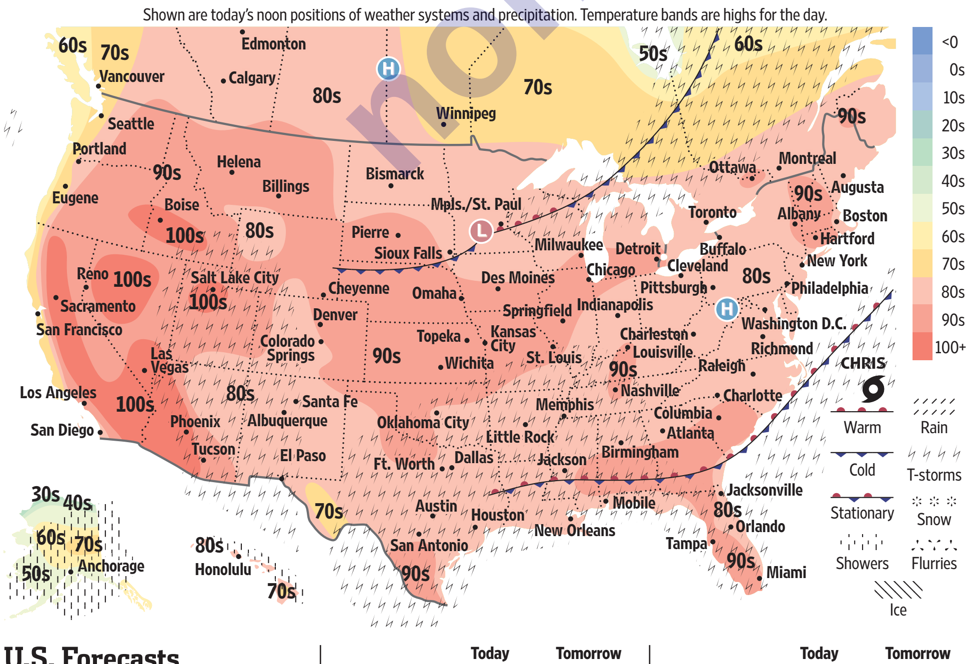
MICHAEL BUCHER/THE WALL STREET JOURNAL

Heywood Hill bookstore's owner, Peregrine Cavendish, far right, and his son-in-law, Nicky Dunne.

Weather

AccuWeather DOWNLOAD THE APP

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



U.S. Forecasts

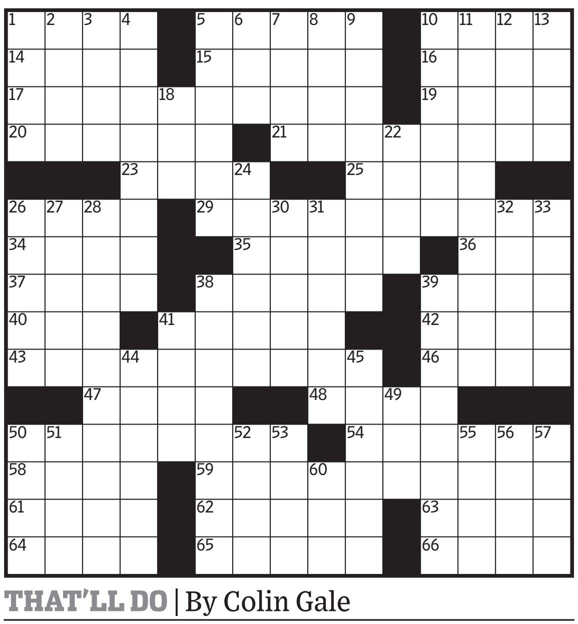
s...sunny; pc... partly cloudy; c...cloudy; sh...showers; t...t'storms; r...rain; sf...snow flurries; sn...snow; i...ice

City	Today Hi	Today Lo	Today W	Tomorrow Hi	Tomorrow Lo	Tomorrow W
Anchorage	59	51	r	59	51	sh
Atlanta	89	71	s	92	72	s
Austin	89	71	t	95	72	pc
Baltimore	87	66	s	92	71	s
Boise	102	68	s	93	63	s
Boston	88	69	s	90	70	s
Burlington	92	66	s	82	57	t
Charlotte	89	65	s	93	71	s
Chicago	92	72	s	84	65	s
Cleveland	87	72	s	80	65	pc
Dallas	89	74	t	93	75	t
Denver	96	64	s	97	65	s
Detroit	90	70	s	86	61	s
Honolulu	87	74	pc	87	76	pc
Houston	89	74	t	92	74	t
Indianapolis	89	73	pc	89	67	pc
Kansas City	93	72	s	95	73	s
Las Vegas	107	88	pc	103	87	t
Little Rock	88	73	t	92	74	t
Los Angeles	91	69	pc	90	69	pc
Miami	90	76	t	89	76	t
Milwaukee	90	66	s	81	64	s
Minneapolis	89	68	s	87	69	s
Nashville	91	74	pc	90	73	pc
New Orleans	89	77	t	91	78	t
New York City	87	70	s	92	71	s
Oklahoma City	89	70	pc	90	71	s
Omaha	94	71	s	92	73	s
Orlando	88	74	t	90	73	pc
Philadelphia	89	67	s	94	71	s
Phoenix	104	84	t	102	84	t
Pittsburgh	86	68	s	84	60	t
Portland, Maine	87	62	s	86	62	pc
Portland, Ore.	82	60	pc	79	60	pc
Sacramento	97	61	s	98	59	s
St. Louis	92	77	pc	94	72	pc
Salt Lake City	100	78	pc	98	75	t
San Francisco	77	61	pc	78	61	pc
Santa Fe	85	56	t	86	59	t
Seattle	78	57	pc	75	57	pc
Sioux Falls	88	67	s	87	71	pc
Wash., D.C.	89	71	s	94	74	s

International

City	Today Hi	Today Lo	Today W	Tomorrow Hi	Tomorrow Lo	Tomorrow W
Amsterdam	71	57	c	70	58	sh
Athens	86	72	t	87	71	s
Baghdad	115	84	s	114	85	s
Bangkok	92	79	t	91	79	t
Beijing	82	70	t	81	70	c
Berlin	76	56	c	69	56	t
Brussels	75	55	c	67	55	c
Buenos Aires	54	38	pc	54	41	pc
Dubai	106	92	s	108	93	s
Dublin	70	48	pc	68	54	pc
Edinburgh	67	52	c	65	53	pc
Frankfurt	81	58	pc	72	57	sh
Geneva	84	58	pc	81	56	pc
Havana	90	71	pc	90	72	pc
Hong Kong	90	81	t	91	81	s
Istanbul	85	74	s	86	74	s
Jakarta	91	77	pc	89	76	sh
Jerusalem	87	66	s	86	67	s
Johannesburg	60	41	pc	61	42	pc
London	86	57	c	75	56	pc
Madrid	96	68	s	97	68	s
Manila	86	78	t	84	78	sh
Melbourne	55	43	c	56	43	pc
Mexico City	74	52	t	74	53	t
Milan	88	70	pc	86	69	s
Moscow	70	58	pc	74	61	pc
Mumbai	85	79	r	84	80	r
Paris	82	60	pc	76	57	pc
Rio de Janeiro	75	66	pc	70	65	r
Riyadh	113	87	s	112	87	s
Rome	85	66	s	85	69	s
San Juan	83	79	r	87	79	pc
Seoul	77	70	r	82	75	r
Shanghai	94	79	pc	91	81	pc
Singapore	85	78	t	86	79	c
Sydney	62	49	s	63	47	s
Taipei City	96	77	s	88	78	r
Tokyo	86	77	pc	88	77	pc
Toronto	89	66	s	83	60	s
Vancouver	71	59	c	71	58	pc
Warsaw	79	58	pc	81	61	c
Zurich	81	57	pc	75	52	sh

The WSJ Daily Crossword | Edited by Mike Shenk



THAT'LL DO | By Colin Gale

Across

1 Throw of the dice
5 Extent
10 Motel amenity
14 Song for a soprano
15 Doctor's visit expense
16 Passionate about
17 Snitch
19 Bed with bars
20 Ace's blackjack value, sometimes
21 Like Amal Clooney, by birth
23 "Gotcha, daddy-o!"
25 Stepped down
26 ___ mater
29 Open audition
34 College VIP
35 Hammer and sickle, e.g.
36 Marker letters
37 Lens covers?
38 Titan, Rhea and 60 others, for Saturn
39 Crumb carriers
40 Glacier material
41 Components
42 For fear that
43 The USS Maine, for one
46 Sound like a donkey
47 Has markers out
48 Valentine verb
50 Powerful giants
54 Hook, for one
58 Important times
59 Rickety ride
61 Cardinal base?
62 Conductor Seiji
63 Hand cream additive
64 Nursery group
65 Mister of Madrid
66 Cabernet characteristic

Down

1 Fixed charge
2 Spoken
3 Miller brand
4 Riga residents
5 Suitable for use on a postcard
6 Evacuation center sight
7 Semitransparent stone
8 Susceptible to sunburn
9 Checks out
10 Take-out meal?
11 Hired by a client, in a way
12 Singer Redding
13 Brain section
18 Was ahead
22 Publican's wares
24 University of Florida squad
26 Wing it on stage
27 German camera brand
28 Rugged
30 Wearer of a crown, at times
31 Throat mass
32 "___ luck!"
33 Strong and healthy
38 They know the score
39 Calgary native
41 Entreaty
44 Citrus garnishes
45 Aspen or cottonwood
49 Compete
50 Polite fellow
51 Creme-filled treat
52 Visibility lessener
53 Tennis star Wawrinka
55 Folkie Guthrie
56 Artsy New Mexico town
57 Kin of the foil and saber
60 Binary base

▶Solve this puzzle online and discuss it at **WSJ.com/Puzzles.**

Previous Puzzle's Solution

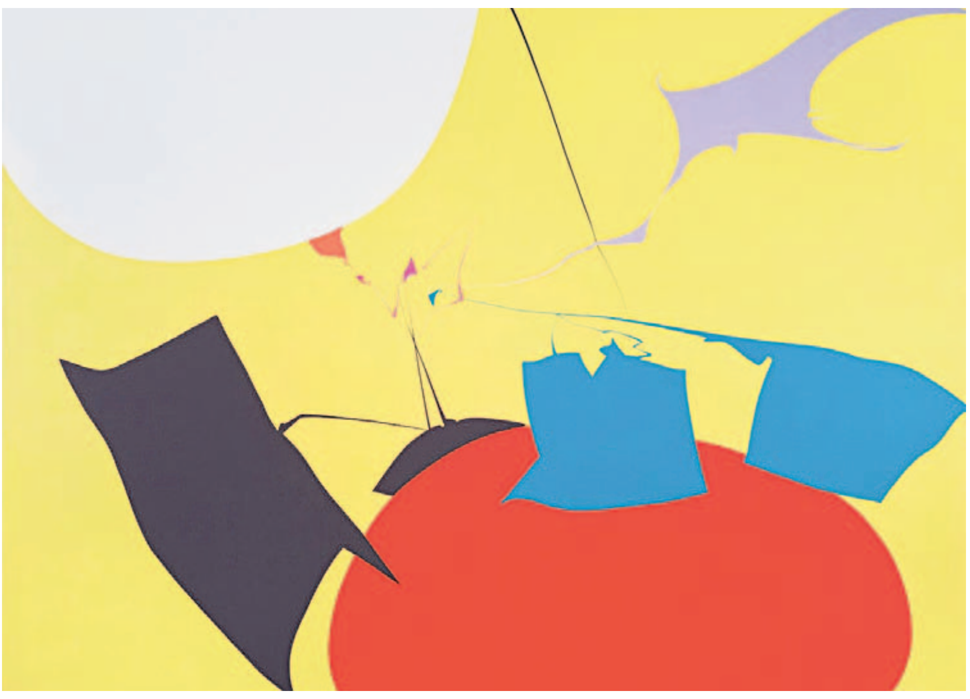
I	G	G	Y	■	E	P	O	D	E	■	S	A	G	A
T	R	U	E	■	X	E	N	O	N	■	T	R	A	P
S	E	T	S	A	P	R	E	C	T	■	O	O	Z	E
O	T	S	■	N	O	M	■	■	R	H	O	D	E	S
K	A	Y	A	K	S	■	B	R	E	A	D	■	■	■
■	■	■	T	H	E	Q	U	E	E	N	O	F	S	W
E	L	L	E	■	T	U	S	H	■	K	N	O	P	E
R	A	Y	■	D	O	I	L	I	E	S	■	R	I	P
I	N	F	O	R	■	T	A	R	A	■	B	E	N	T
C	A	T	H	E	R	I	N	E	U	V	E	■	■	■
■	■	■	S	A	U	T	E	■	D	I	G	I	T	S
I	D	I	O	M	S	■	■	G	E	L	■	V	E	T
P	A	R	R	■	S	E	A	L	V	E	L	O	P	E
O	M	A	R	■	I	M	P	E	I	■	A	R	E	A
D	E	N	Y	■	A	T	U	N	E	■	D	Y	E	D

The contest answer is "PARADISE LOST." Each of the four theme answers is missing the letters EDEN (SETS A PRECEDENT, THE QUEEN OF SWEDEN, CATHERINE DENEUVE, SEALED ENVELOPE).

ART REVIEW

Trying to Corral the Uncorralable

Making it clear that painting today is frantically trying to keep up with the winking, blinking and noise of electronic media



Heather Gwen Martin's 'Trigonometric Functions' (2010), left, and Corinne Wasmuht's 'Bibliotheque/CDG-BSL' (2011), top

BY PETER PLAGENS

Nashville, Tenn.

'CHAOS AND AWE: Painting for the 21st Century" (whose title is unfortunately redolent of the "shock and awe" of the Iraq War) comprises work made before, or independently of, Frist Art Museum chief curator Mark Scala's idea for the exhibition. Like all anthology shows, this one is a kind of collage, a meta work of art. Of course, the products of artists are often used in ways their makers didn't intend, and contemporary artists are happy to be included in almost any reputable museum exhibition.

Mr. Scala's operative thesis for this gathering of 52 works by 39 international artists is grounded in what he refers to as the world's "social body, billions of bodies" acted upon by "larger forces, which seem uncontainable." (We're talking global warming, immigration, wars, political extremism, pollution, and more.) This is about as big a theme for a show of paintings as ever there was. Naturally, questions arise: Does the show work? Why didn't a powerhouse museum in New York or Los Angeles come up with this sort of survey and take it on tour to more venues than the Chrysler Museum in Norfolk, Va. (where "Chaos and Awe" reappears beginning Nov. 15)? What does this exhibition including artists from, as Mr. Scala puts it, "the Congo to California" say about the current state of painting?

> The show serves as 'a breakwater against the art world's anti-painting waves'

The answer to the first question is yes and no. Regarding the second, you'd have to ask the Los Angeles County Museum of Art or the Museum of Modern Art (which, in 2014 mounted a smaller painting survey, "The Forever Now," with half the number of artists—all but three were American). Finally, "Chaos and Awe" makes it clear that painting today is frantically trying to keep up with the winking, blinking and noise of electronic media.

As is often the case, a single work can represent the thrust of a show. Here it's Corinne Wasmuht's enormous triptych (with almost invisible seams and meant to be seen as a contiguous whole) "Bibliotheque/CDG-BSL" (2011). The title apparently refers to the Bibliothèque Nationale in Paris—a repository of about as much knowledge and opinion as can be crammed, in traditional physical format, into one place—coupled with the airport codes for Paris and Basel, Switzerland (home of the world's most prestigious contemporary art fair, which is held annually).

It's a daunting painting, both technically (oil paint on wood mounted on aluminum) and pictorially, with a kind of architectural psychedelia spread in organized form across almost 165 square feet of surface. If you step back far enough, you can see its three sections progressing, left to right, from mostly grayish to warmer colors and then to cool ones. Most of the imagery has been lifted from the exhibition's lurking foe, the internet. Its wildly varying scale (partial human figures five feet tall to some no more than little clots of paint) and institutional glare are supposed to say something, one assumes, about the socially, politically and culturally overwhelmed and unmoored state in which we currently exist.

"Chaos and Awe" contains some wonderful paintings. Among them are Dannielle Tegeder's crisp and airy "Lightness as It Behaves in Turbulence" (2016); Heather Gwen Martin's bright, Ellsworth-Kelly-on-a-trapeze "Trigonometric Functions" (2010); and "Everything" (2004), a handsomely absurd, rusty orange mélange of city maps by Guillermo Kuitca.

The abstractions and semi-abstractions here fare generally better than the figurative paintings because those modes are more tolerant of artists' throwing in everything but the proverbial kitchen sink; some painters, such as Kazuki Umezawa with "Over the Sky of the Beyond" (2014) and Nashvillian James Perrin with "Semiosis on the Sea" (2015), toss veritable dishwashers and stoves onto the pile. One exception to representational painting's second-tier status is Neo Rauch's "Waiting for the Barbarians" (2007), in his trademark style of a 1930s magazine illustrator having been hit on the head and wandering the streets, disoriented. His subject is racism and colonialism, and the painting delivers political content more subtly and convincingly than any other work in the show. Its realism shows white colonizers preparing for an attack by natives, but the absurdist composition reveals the injustice of their cause.

At times, "Chaos and Awe" can look like a Master of Fine Arts degree exhibition on steroids. Minimalism (with a small "m")—with its emphasis on form, rigor and restraint—is woefully out of style these days, and seemingly every ambitious young painter wants to make, as the show's catalog puts it, pictures "in the era of the LED-backlit computer and smartphone [that] often engage with the kind of spaces and effects that the electronic screen generates." Alas, as the same catalog admits, "what can be achieved today through painting looks very circumscribed compared to what is possible in other more immersive and interactive media."

All of this may make it seem as though "Chaos and Awe" isn't an excellent show. It is, in its noble, practically heroic attempt to corral the uncorralable, and in its rough-and-tumble arm-wrestling with computer and TV screens. "Chaos and Awe" tries mightily to be a breakwater against the art world's anti-painting waves. The catalog should be bought and read by everyone interested in serious painting today, and those worried about its state would do well to make a trip to Nashville or Norfolk.

Chaos and Awe: Painting for the 21st Century
Frist Art Museum, through Sept. 16

—Mr. Plagens is an artist and writer in New York.

Dannielle Tegeder's 'Lightness as It Behaves in Turbulence' (2016)

FROM TOP: CORINNE WASMUHT/PETZEL; HEATHER GWEN MARTIN/HALLMARK ART COLLECTION; DANNIELLE TEGEDER/CARRIE SECRIST GALLERY

SPORTS

SOCCER

Premier League's World Cup Takeover

Of the 92 players still in the tournament, 40 of them spent last season at one of the English Premier League's 20 clubs

BY JOSHUA ROBINSON AND JONATHAN CLEGG

St. Petersburg, Russia

The final four teams at the World Cup all took wildly different paths to the final week of the tournament, from tense penalty shoot-out victories to quiet, comfortable dominance. But if their success so far has proven one thing it's that they wouldn't be here without the trait they all share: players based in England.

Welcome to the World Cup semifinals, brought to you by the English Premier League.

Of the 92 players still at the tournament, 40 of them spent last season at one of the Premier League's 20 clubs. Most of them were concentrated at powerhouse teams such as Manchester City, Manchester United, Liverpool, and Tottenham Hotspur whose wealth, reach and ambition helped them bring global talent together in the first place. But the number of Premier League clubs represented in the semifinals numbers 12 in all, from City at the top to West Bromwich Albion at the bottom.

Now, in an unplanned twist, those local factors are reshaping the international game.

"The Premier League is the biggest competition in the world. You play against the best players and that brings out the best in you," said Belgium and Tottenham defender Toby Alderweireld. "Even No. 16 and 17 in the squad has a lot of quality. This leads to rising quality of the national team."

No other country's domestic league soccer comes anywhere close to the Premier League's representation. Spain's La Liga and France's Ligue 1 have 12 players apiece left in the World Cup, the German Bundesliga has nine and Italy's Serie A has eight.

Much of that is due to England being the only team of the 32 that started the tournament to draw its entire squad from its domestic league. The numbers would certainly be closer had Germany not flamed out in the group stage, for instance, or Spain not collapsed against Russia. But even they were stacked with Premier League players, too. With the Cup field now whittled down to its elite, the reality of the modern game is stark. The Premier League is the richest, most powerful league in the sport. It was only a matter of time before Premier League players became key to World Cup success.

Belgium is armed with 11 players based in England, including two who featured in the Premier League's team of the season, Kevin De Bruyne and Jan Vertonghen. On Tuesday, they'll face France and their own English soccer all-stars, including the most expensive player in Premier League history (Manchester United's Paul Pogba), the 2015-16 Premier League player of the year (Chelsea's N'Golo Kante), and a captain who starts in goal for one of the Premier League's meanest defenses (Tottenham's Hugo Lloris).

And in Wednesday's semifinal, England's team of Premier League natives will see plenty of familiar faces—and a few club teammates—wearing Croatia jerseys, such as Liverpool defender Dejan Lovren. That's not to mention the three Croatian players who cut their teeth at English clubs, including Luka Modric, now of Real Madrid but formerly of Tottenham.

Even the men pacing the sidelines for the final week of the World Cup have been shaped by the English game. England's Gareth Southgate, of course, was an 11-year veteran of Middlesbrough and Aston Villa. France's Didier Deschamps played for Chelsea after becoming a world champion. And Roberto Martinez coached Wigan and Everton before taking over Belgium.

The cosmopolitan makeup of the Premier League partly explains its popularity around the world. That global attention means English soccer commands international TV rights deals that far outstrip rival European leagues. The Premier League currently earns around $1.5 billion a year from its foreign rights, or about $800 million more than Spain's La Liga.

Not so long ago, a technically gifted team like Croatia would have been rubbing its hands at the prospect of facing a squad of Premier League players. In the 1990s, they were known to the rest of the world as a physical bunch whose favorite tactic was to lump the ball long and play for crosses.

But as Croatian soccer federation president Davor Suker, a veteran of Arsenal and West Ham, conceded on Saturday, the style of the 1990s is long gone.

"What I would like is the England from before," he said. "But we respect them a lot. It is a great country. They have the Premier League."

CLIVE BRUNSKILL/GETTY IMAGES

Belgium's Kevin De Bruyne, left, plays against France's Paul Pogba.

SOCCER

THE U.S. MEN LOOK TO FUTURE

BY RACHEL BACHMAN

The World Cup is moving to the semifinal round. But for a U.S. team that failed to qualify for the first time since 1986, the tournament is just another torturous reminder that the world's richest nation, and one of the most populous, didn't make it.

"It's agony," said Tim Howard, the veteran U.S. men's goalkeeper. "I'll be delighted when it's over and we can move past this part."

While the world's top teams clash in Russia, Howard has been working his day job with the Colorado Rapids. Fellow veteran goalkeeper Brad Guzan has been posting clean sheets for MLS Eastern Conference leader Atlanta United. U.S. star Christian Pulisic recently taught at a youth clinic at Hershey Company headquarters in his hometown of Hershey, Pa.

The U.S. Soccer Federation, meanwhile, is deep into a prolonged soul searching that began with an October loss to Trinidad and Tobago that ensured the American squad would stay home. U.S. coach Bruce Arena resigned three days after the loss. Sunil Gulati, U.S. Soccer president for a dozen years, soon announced he wouldn't run for re-election. In February, federation voters replaced Gulati with former Goldman Sachs partner-turned-soccer volunteer Carlos Cordeiro, an immigrant son of a Colombian mother and Portuguese father.

"There's been an expectation, particularly amongst our awesome fan and supporter base, that we go to every Cup," said Cordeiro by phone from Miami, on a brief hiatus before returning to Russia. "It doesn't really set in entirely until the event begins and you realize we're not there."

The U.S. has yet to hire a permanent coach and is in no rush; Cordeiro noted that the team's next competitive matches are in the Gold Cup next June. Meanwhile the U.S. is plowing ahead with a brutal slate of friendlies this fall, including England, Italy, Brazil and Mexico.

"When we didn't qualify it was just this incredible witch hunt on what's wrong," Howard said. "I'm not concerned. I think the future's bright with Christian Pulisic and Timothy Weah."

The 19-year-old Pulisic, a rising star for German club Borussia Dortmund, holds promise to be the best American-born player ever. Weah, an 18-year-old Paris Saint-Germain forward, is a son of former European-leagues star George Weah, who late last year was elected president of Liberia.

TONY QUINN/ISIPHOTOS/ZUMA PRESS

Christian Pulisic holds promise to be the best American-born player ever.

Wil Trapp, a 25-year-old midfielder who started friendlies against France and Ireland in June, praised the hiring of veteran U.S. player Earnie Stewart as the men's team's first general manager.

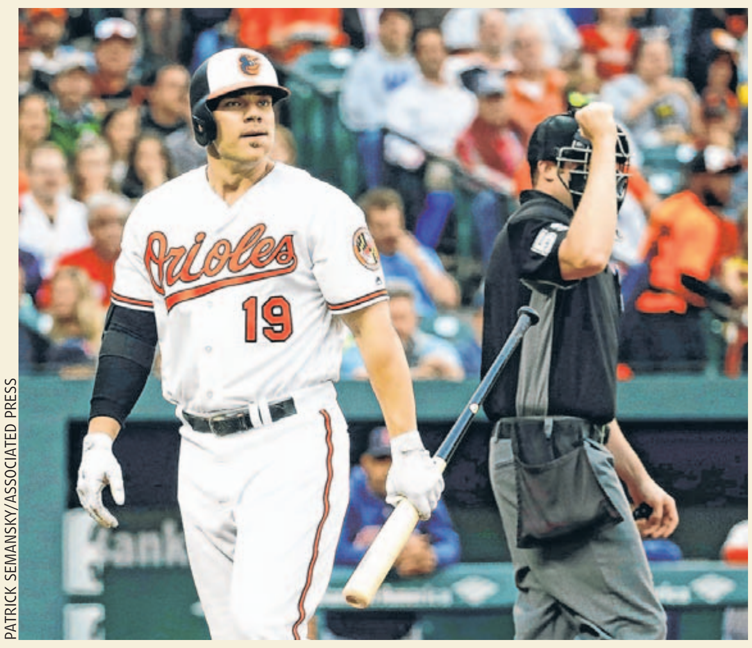
Stewart starts Aug. 1 and will lead the search for a coach. Dave Sarachan, an assistant under Arena, is under contract as interim head coach through the end of the year.

In contrast to soccer powers like Brazil or Spain, the U.S. has long been a team without a playing identity. Trapp, who plays for the Columbus Crew, says having Stewart as a general manager could help the U.S. team formulate an approach.

"He can oversee the stylistic things," Trapp said. "He can oversee the personnel, players that fit into his philosophy, and really start to form a team."

The 39-year-old Howard said he'll be long retired by the 2022 World Cup, but has thoughts on where the U.S. could improve in the next four-year cycle.

"We've gotten too nice," Howard said. "I think we need to be a bit more nasty in how we approach World Cup qualifying. "Everybody in our region of the world, Concacaf, is desperate to see us fail. And that's fine. I think we should be just as cynical towards other countries. And when we have the chance to bury someone, we do it."



PATRICK SEMANSKY/ASSOCIATED PRESS

Baltimore Orioles first baseman Chris Davis is hitting .157 this season.

THE COUNT

BASEBALL'S WORST HITTING SEASON

When the Baltimore Orioles signed first baseman Chris Davis to a seven-year, $161 million contract in 2016, they thought they were paying for one of baseball's premier sluggers. What they have instead is, by some measures, a player on track to have the worst single season in the history of the sport.

Let's start with something simple: batting average. After Sunday's 1-for-4 effort, Davis is hitting .157. No player who qualified for the batting title since 1900 has ever hit below .179, an ignominious honor that belongs to Rob Deer with the 1991 Tigers and Dan Uggla of the 2013 Braves.

As for Davis, despite appearing in 73 of the Orioles' 89 contests, he has scored just 16 runs, which would put him on pace for 29, or .18 per team game. That puts him in the territory of Mario Guerrero, who scored 27 runs for the 1978 Athletics despite compiling 546 plate appearances.

Then there's the matter of wins above replacement, or WAR, a popular metric in the analytics community designed to measure a player's total value. By that measure, Davis is on pace to finish 2018 at around minus-4, or four wins worse than a typical Triple-A call-up, according to Baseball-Reference. That's only happened once ever: Jerry Royster had a minus-4 WAR for the Atlanta Braves in 1977, hitting .216 in 445 at-bats and committing 28 errors between shortstop, second base and third base.

In reality, these records are difficult to break, because teams rarely allow players struggling this badly to stay on the field. But the Orioles have the worst record in the majors. When it comes to Davis, they really don't have anything to lose.

—Jared Diamond

Swing and a Miss

Worst batting averages for a qualified hitter since 1900:

HITTER/TEAM	SEASON	AVG
Chris Davis, BAL	2018	.157
Rob Deer, DET	1991	.179
Dan Uggla, ATL	2013	.179
John Gochnauer, CLE	1903	.185
John Gochnauer, CLE	1902	.185

Source: Baseball-Reference

OPINION

Russia in Central America, Again

AMERICAS
By Mary Anastasia O'Grady

Sometimes it seems that Central America is unwilling or unable to make the connection between strong institutions and a free and just society. The privation in the northern triangle—Guatemala, Honduras and El Salvador—that has sent thousands of migrants to the U.S. border in search of work and a better life is ultimately the result of failed institutions.

The bloody upheaval in Nicaragua is another case in point. Since April 19 more than 300 people have been killed while protesting against strongman Daniel Ortega, according to local human-rights groups. The U.S. Treasury last week imposed sanctions on three Ortega henchmen—the national police commissioner and a Sandinista Youth official for human-rights violations, and the head of Nicaragua's state-owned oil company for corruption.

Central America is strategically important to enemies of the U.S., and Russia's role is particularly notable. It has a large and secretive satellite compound at the edge of the Nejapa lagoon on the outskirts of Managua, and its Interior Ministry has a large "police training center" in the capital's Las Colinas neighborhood. The Soviet Union was an Ortega ally in the 1980s, and Russia today has every incentive to help him prosper as a dictator.

Nicaragua hasn't had a fair, transparent national vote since the one that brought Mr. Ortega to power in 2006. He and his unpopular wife Rosario Murillo, now Nicaragua's richest couple, are often called "the new Somozas," a reference to the ruling family Mr. Ortega's Sandinista movement removed in 1979.

When it's all over except for carting away the dead, as in Venezuela, U.S. diplomats and legislators are good at tsk-tsking abuses of power. But when something can still be done about it, they are mostly AWOL and sometimes complicit. Witness U.S. funding of the U.N.'s International Commission against Impunity in Guatemala, or CICIG.

CICIG's abuse of a Russian migrant family, which I have written about several times, is one example of how the commission egregiously tramples rights. But CICIG's perniciousness goes much deeper. Claims that it has morphed into a tool of power-hungry political and economic interests are credible. By weakening already weak institutions, it threatens Guatemala's democracy.

Well-known organized-crime groups, like one famous for blatantly stealing electricity to fund its militant, left-wing activism, remain untouched by CICIG. Meanwhile the commission uses its unchecked power to go after center-right business interests that have traditionally backed democratic capitalism. Lead CICIG prosecutor Iván Velásquez has made no secret of his desire to bring down democratically elected center-right President Jimmy Morales.

Nicaragua ought to be a lesson for Guatemalans and the U.S. The checks and balances to contain Mr. Ortega were in place a decade ago. But he gradually eroded them, and his power grab was permitted and even celebrated at home and abroad. He was said to be helping the poor while he shared the spoils of his power grab with the business community. He has also made Russia feel at home.

The Kremlin is up to its old tricks in Daniel Ortega's corrupt Nicaragua.

It all began when he made a deal with the corrupt former center-right President Arnoldo Alemán to lower the minimum vote threshold necessary to win a presidential election in the first round to 35%. He won in 2006 with 38%.

Venezuelan oil largess boosted his might from the start. He controlled the army and he had a sizable representation of Sandinista judges on the Supreme Court. Mr. Ortega's creeping authoritarianism was as clear as early as February 2010. He continued dismantling limits on his personal power with little pushback. By 2011 he was running for re-election in defiance of the constitution.

Only when Venezuelan oil dried up in 2016 did things begin to get difficult for him.

A slowing economy has made the Somoza-like Ortega dynasty more objectionable. University students are angry about government hints of new social-media restrictions and about a huge fire in an important biological reserve in April.

The tipping point was when retirees, demonstrating on April 18 against a social-security reform decreed by Mr. Ortega, were roughed up by thugs while police watched. Student protests began the next day. Meanwhile Mr. Ortega has lost the support of his business allies. They were already miffed about Ms. Murillo's increasing power and her heavy-handed style. Not consulting them about the pension reform was a step too far.

Citizens are being indiscriminately gunned down by Ortega police and trained paramilitaries. At a Mother's Day march May 30, called to show solidarity with victims' families, 15 people were killed by snipers using Russian Dragunov rifles.

Russia knows how to put down rebellions. The Soviets did it in Cuba in the 1960s for Fidel Castro by quashing the uprising in the Escambray mountains. The Nicaraguan city of Masaya was an opposition stronghold until Mr. Ortega called in police reinforcements from Managua on June 19 and took it back. Without greater international help, that may go down as the turning point in this struggle. Good news for the Ortegas, but heartbreaking for Nicaraguans.

Write to O'Grady@wsj.com.

How to Beat the Zuckerberg Casino

By Daniel Gallant

Revelations about pernicious advertising by Russian operatives, chicanery by Cambridge Analytica, and questionable sharing of user data have left many Americans skeptical about Facebook. But now that we recognize the potency of its promotional tools, organizations of all sizes need to do a better job of harnessing them.

Those who would benefit most from paid Facebook outreach—small businesses, nonprofits, artists and activists—are often wariest of using the platform. Microtargeting tools like those that made the Russian campaign ads effective can seem confusing to inexperienced users. The reluctance of these smaller players to embrace the platform means a windfall for the few institutions that do invest in targeted Facebook advertising campaigns.

The key to social-media influence is not having the deepest pockets or the best content. It is availing oneself of the discrepancy between the two billion Facebook users who absorb free content and the six million ad buyers who are willing to pay fees for their content to be prioritized.

Imagine Facebook as a continuous poker game with billions of players. The winners are not necessarily the players who have the best cards or the tallest stacks of chips. Rather, the players who come out ahead are the ones who exploit competitors' hesitation by wagering more money on a hand than anyone else is willing to risk. A player who strategically bets $50 on a hand will tend to beat out competitors who are only wagering $5. Similarly, a marketer who strategically budgets $50 a week for an ad campaign can reach more customers than competitors who budget $5 for the same audience.

The cost of reaching audiences is low if few people bid on that access. When the majority of social-media users aren't willing to pay anything to promote their content (even though Facebook ad revenue is soaring in aggregate), a $5 boost can go far. But only if it is targeted effectively. If I want my ads to reach vegetarian fans of bluegrass music in Abu Dhabi, Facebook can make it happen for cheap because so few other people are paying for the same privilege. Access to audiences that other marketers undervalue is remarkably affordable. But if everyone is willing to pay $5 to reach the same audience, my $5 boost won't lead to much visibility.

As a particular audience becomes more desirable, and as marketers who covet that audience become savvier at social-media promotion, the cost of reaching that audience through Facebook increases. Consider the Nuyorican Poets Cafe, the nonprofit arts organization where I am executive director. Target audiences for our spoken-word events—youthful and diverse New Yorkers whose interests include slam poetry, open mics and hip hop—have become more expensive to engage through Facebook than they were when the cafe began its paid promotions a few years ago. Expenses have increased by about 20% as other marketers have focused promotions for cars, clothing and concerts on customers like ours.

The key to success in Facebook advertising is finding an affordable audience.

In poker, as players raise and reraise, the cost of playing each hand grows. Similarly, to remain successful against aggressive competitors in the Facebook advertising market, you need to wager more than they are willing to spend.

Nonetheless, Facebook customers are plentiful, and the ways to segment them are virtually infinite. While poker tournaments have become significantly harder to win as recreational players' skill levels have increased, the yawning gap between the numbers of social-media customers and social-media advertisers creates vast opportunities for marketers to find more profitable niches.

Arts Japan 2020, one of my marketing clients, is a campaign that promotes Japanese cultural programs in the United States. It saw its cost per engagement decrease significantly after it adjusted its Facebook ad targeting to focus on audiences whose interests included at least five manifestations of Japanese culture, such as woodblock prints, Ikebana or Kabuki.

Sculptor Karen LaMonte, another client, was able to engage Facebook audiences at a lower cost once she aimed her promoted posts at sculpture enthusiasts with relevant jobs (at museums or art schools) or habits (arts-focused subscriptions or ticket purchases). The key is to forgo broad audiences for more-affordable groups that other marketers aren't paying for.

Americans should be concerned that Facebook's marketing resources have been used for divisive ends. But businesses, nonprofits and individuals can profit from Facebook if they make shrewd, responsible and strategic use of its advertising tools.

Mr. Gallant, a social-media marketing consultant, is executive director of the Nuyorican Poets Cafe.

Save the SAT Writing Test

By Naomi Schaefer Riley

Princeton and Stanford last week became the latest schools to drop the SAT essay requirement. The College Board made the section optional in 2016. Skeptics will applaud this essay's demise as a return to a test that measures real aptitude. But the essay, introduced in 2005, turned out to be useful. Ditching it is another plan by colleges to make all standards of admissions subjective and easily rigged.

The writing test began in 2005 in order "to improve the validity of the test for predicting college success," according to the College Board. A pilot program found that "scores on the new SAT writing section were slightly better than high school grades in predicting first-year college grades."

There were problems with the exam. One MIT professor found students were rewarded for sheer length. Another criticism was that it wasn't graded on accuracy. Students could make factual errors, or make things up.

In 2014 the College Board revised the essay test, asking students to read a passage and then answer a question with a persuasive argument using evidence from the text. Test-takers, their parents and guidance counselors criticized this new approach as well. There was too little time. It stressed students out. It raised the cost of preparation and of the test itself.

It's a much better measure than application essays.

Princeton cited cost as its reason for eliminating the exam. But taking the essay part of the test adds only $14 to the registration fee, and poor kids can get waivers.

It is true that 25 minutes is not much time to write an essay, but one can discern a few things about a student's command of grammar, vocabulary and logic from three paragraphs. True, grading a writing test is more subjective than scoring a multiple-choice test. But writing is a real skill, and colleges should measure it.

How will schools discern a student's writing ability now? Primarily through application essays or papers graded by high school teachers. In other words, the applicants who get help from adults at home and at school will have the advantage. Parents, teachers or counselors can suggest themes that will appeal to admissions officers (hardship, discrimination, fighting for social justice), advise on writing structure and vocabulary, and proofread final submissions.

This kind of coddling continues in college, where students are encouraged to make use of campus writing tutors and then expect professors to let them submit multiple drafts and get feedback before incurring a real grade. Result: According to a 2016 survey released by PayScale, 44% of managers think "writing proficiency is the hard skill lacking the most among recent college graduates."

If colleges really wanted to reduce applicants' stress and stop wasting time and money, they might ask students to submit the SAT writing section instead of an application essay. Forget about the College Board; send the essay to the school's freshman composition teachers for grading. That would put everyone on more equal footing and tell colleges something useful about their applicants.

Ms. Riley is a visiting fellow at the American Enterprise Institute and a senior fellow at the Independent Women's Forum.

BOOKSHELF | By Terry Golway

Calling Bigotry By Its Name

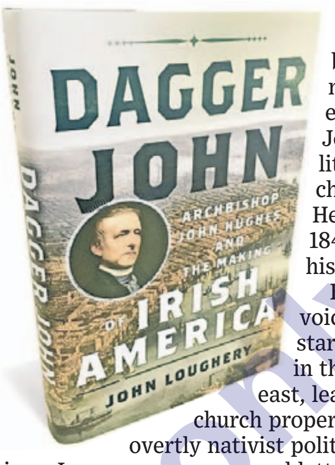
Dagger John

By John Loughery
(Three Hills, 407 pages, $32.95)

After making her way through the United States in 1846, a British travel writer named Susan Minton Maury recorded her observations of the statesmen who were leading the nation through its turbulent adolescence. She introduced her readers to characters whose names, for better or worse, have not been lost to history: Daniel Webster, William Seward, Roger Taney, Martin Van Buren. None of these men, however, impressed Maury more than the Roman Catholic bishop of New York, John Hughes. He was, she wrote, "the historical man of the day."

In his well-researched biography of Hughes, John Loughery explains why Maury's description of the controversial cleric made perfect sense at the time, for John Hughes was indeed a towering figure in the years before the Civil War.

An immigrant from County Tyrone in today's Northern Ireland, Hughes worked as a laborer in his adopted country before earning admission to a Catholic seminary in Maryland in 1820, when he turned 23. Brilliant and outspoken, he rose through the clerical ranks and became coadjutor bishop of New York in 1838, meaning that he shared leadership duties with the aging John Dubois. But there was little doubt who was in charge once Hughes arrived. He had sole authority from 1842, when Dubois died, until his own death in 1864.



Hughes was the American voice of his church as waves of starving Irish Catholics landed in the port cities of the Northeast, leading to fiery attacks on church property and the founding of an overtly nativist political party, the Know-Nothings. In sermons, essays and letters to the editor, Hughes called bigotry by its name and insisted that it was possible to be both Catholic and American.

It was an astonishing and infuriating notion in the 1840s, when right-thinking Americans, including many abolitionists and the poet of the common man, Walt Whitman, saw Catholics as threats to the nation's liberties. Even more astonishing, a succession of 20th-century Catholic politicians, from Al Smith to John F. Kennedy and Mario Cuomo, felt obliged to defend their faith long after the putative fall of the Know-Nothing movement.

The novelist and essayist Peter Quinn once described Hughes as the Al Sharpton of his day—an in-your-face disrupter who assailed the hypocrisies of his critics and refused to stand by while his flock endured discrimination and injustice. Politicians and pundits judged him and his kind to be a danger to the nation's self-image as an Anglo-Protestant country, as indeed they were. So paranoid were his critics that they saw the cross he scribbled next to his signature as a stiletto aimed at the heart of the nation's identity. That's how John Hughes became known as "Dagger John."

The outspoken cleric who fiercely defended his church as starving Irish Catholics arrived in America and faced exclusion and injustice.

Mr. Loughery deftly narrates a life spent in defense of immigrants and as an imperfect advocate for tolerance and, yes, diversity. That's not to say that Mr. Loughery portrays his subject as a heroic visionary with views far in advance of his time. To the contrary, he explicitly posits Hughes as a man very much of his times. Mr. Loughery notes that his views about women were "not even advanced enough to call sexist." His views on race were mixed at best, and he certainly had no time for the abolitionist movement. That hostility, as Mr. Loughery notes, has given some academics license to label Hughes unfairly as pro-slavery, never mind that the abolitionists in question would have gladly paid for a seawall in the North Atlantic to keep out the hordes of Irish Catholics seeking relief from starvation and oppression.

Hughes asserted that Catholics were entitled to the rights and privileges they were promised as citizens, and he argued that the nation's founders were opposed to discrimination based on religion. Hughes's critics did not take kindly to his lectures on Americanism, given who and what he was. He occasionally spoke not only as the voice of Catholics but as an advocate for all religious minorities. "If the Jew is oppressed," he told New Yorkers in 1841, "then stand by the Jew."

Hughes's prominent role in the nation's cultural wars and his self-styled role as a great Gaelic chieftain inevitably led to charges of untoward mixing of church and state—although the same could have been said of many Protestant preachers at the time. Hughes dismissed such accusations, but as Mr. Loughery writes, he "was a political creature as much as a devoutly spiritual man." He developed warm friendships with the legendary Whig operative Thurlow Weed as well as with Seward, a New York governor, and James Buchanan, Abraham Lincoln's forlorn predecessor. Lincoln himself deputized Hughes to visit Paris and Rome to plead the Union's cause. And during New York's divisive school debates of the 1840s, Hughes formed his own slate of candidates in a vain effort to win public funding for the Catholic school system he was building.

As a political figure, advocate and spiritual shepherd, Hughes operated as an unapologetic authoritarian, brooking little dissent. In the abstract, he could be an unappealing figure, and he fell into disrepute among Catholic intellectuals in the 1960s, who regarded him as insufficiently ecumenical and far too confrontational. But to be so dismissive of Hughes is to forget the times in which he lived, not least the era's profound divisions between Protestants and Catholics.

To understand Hughes, it is worth recalling an observation from Daniel Patrick Moynihan's essay on the Irish in "Beyond the Melting Pot" (1963). Moynihan was talking about political bosses of more than a century ago; he may as well have been discussing John Hughes. "The principle of Boss rule was not tyranny, but order," he wrote. Hughes understood that an embattled people—and Irish Catholics certainly were that in his lifetime—required unity and solidarity, not division and chaos. They needed to fall in line, and they did. Mr. Loughery explains how and why that happened and leaves the reader to judge the results.

Mr. Golway is a senior editor at Politico and the author of "Frank and Al," a dual biography of Franklin Roosevelt and Al Smith to be published in September.

OPINION

REVIEW & OUTLOOK

A Justice With a Record

President Trump by midday Sunday had narrowed his choice for the Supreme Court to four federal judges, and Brett Kavanaugh, Amy Coney Barrett or Raymond Kethledge would all warrant Senate support. But in the jostling to influence Mr. Trump, some on the right are resorting to dubious arguments that deserve to be rebutted lest they steer the President wrong.

Legal opinions are a better test for a nominee than personal biography.

Mr. Trump is again working off the list of candidates he compiled during his presidential campaign and revised after Neil Gorsuch's admirable nomination. The list wasn't merely a campaign gambit. It was intended as, and has turned out to be, a governing tool. The point was to help Mr. Trump choose nominees with a proven legal record who won't turn out to be Harry Blackmun, John Paul Stevens, David Souter, or even Sandra Day O'Connor.

On that score it's simply bizarre to hear conservatives warn and Senators lobby that Mr. Kavanaugh might be hard to confirm because his paper trail is too long. A long legal record is the best insight by far into how a nominee thinks about the law. The Justice Souter debacle resulted from his lack of a legal record combined with too much White House faith in his biography (he lived in a rustic farmhouse!), private Senate assurances and interviews.

Judge Kavanaugh's 12-year record on the D.C. Circuit Court of Appeals is among the longest of any recent nominee, and it is impressive in breadth and quality. The Supreme Court has endorsed positions in his opinions no fewer than 11 times. Mr. Kavanaugh has no opinion that would create a confirmation problem on abortion rights.

Yet his record on the First and Second Amendments is solid, and perhaps most telling are his opinions on the separation of powers and the administrative state. This is where the High Court is likely to be crucial over the next 20 years as progressives use executive power to rewrite the law by regulatory diktat. Like Justice Gorsuch, Judge Kavanaugh has been a leader among the younger generation of originalist judges who have questioned *Chevron* judicial deference to federal agencies.

He also has been a leading voice on the appellate bench in the proper balance of power among the three branches of government. This too has been under assault by the judicial left, most recently in the Trump travel-ban case. The separation of powers will be at stake as liberal states like California claim they can reject federal law on such matters as "sanctuary cities."

Some Senators are also grumbling that Mr. Kavanaugh's role as a staffer on Ken Starr's independent counsel probe of Bill Clinton would require too much document production. But Judiciary Chairman Chuck Grassley can set reasonable limits, especially since this history doesn't bear directly on a Justice's duties. The larger point is that if a GOP Senate can't confirm someone like Brett Kavanaugh, it doesn't deserve to hold the majority.

Meanwhile, some on the right are calling Judge Kethledge a potential Souter, though there is no evidence for this in his 10 years on the Sixth Circuit Court of Appeals. The rap is that he ruled for immigrants in some cases. But he also ruled against them in others among the many immigration cases he has heard. His analysis in those cases faithfully applied the law, and it's a shame that immigration obsessives on the right are now falling into the left's trap of results-based judging.

Mr. Kethledge lacks the breadth of Mr. Kavanaugh's record on the separation of powers, but his opinions on property rights, the First Amendment and regulatory abuses are admirable and suggest he would also be an originalist on the Court.

At age 46 Judge Barrett has an impressive record on religious freedom as a legal professor but her time on the federal bench has been too short to match the opinions of the others. Whether she would thus be easier or harder to confirm is a judgment we leave to Majority Leader Mitch McConnell, who better knows the vagaries of Senator Susan Collins.

The biggest gamble would be if Mr. Trump went beyond those three to choose Thomas Hardiman of the Third Circuit Court of Appeals. Mr. Hardiman is said to be easier to confirm because he had a hardscrabble upbringing. But that's the Souter trap of putting biography over a legal record. Our reading of Judge Hardiman's opinions is that they are not as impressive or extensive as those of either Judges Kavanaugh or Kethledge.

The lesson of the Gorsuch success is that the best nominee is one with the best legal and intellectual credentials and no personal skeletons for opponents to exploit. Mr. Trump's supporters aren't looking for a nice biography. They want a distinguished legal mind who will interpret the law as the Constitution intended.

Leandra English Clocks Out

One of the more amusing subplots on Season 2 of "The Resistance" has been the invented drama over who runs the Consumer Financial Protection Bureau. On Friday the George Costanza of the left, Leandra English, finally abandoned her effort to depose Mick Mulvaney, President Trump's appointed acting director.

"I will be stepping down from my position at the Consumer Financial Protection Bureau early next week, having made this decision in light of the recent nomination of a new Director," Ms. English said in a Friday statement relayed by her lawyer Deepak Gupta. The position she's claiming to relinquish is acting director, which she says her old boss and former director Richard Cordray bequeathed to her, as if it were part of a feudal estate.

Ms. English sued but hasn't been able to persuade a judge she's the rightful heir, and now she's giving up. Her desk will be easy to clean out, given that our sources say she hasn't shown up at headquarters in months. No one has any idea what she's done to earn her more than $200,000 annual salary.

Mr. Mulvaney didn't fire Ms. English because he didn't want to give her ammunition she might deploy in court. Ms. English also tried to insulate herself from dismissal. Senator Ron Johnson of Wisconsin has documented how Ms. English morphed her political appointment under President Obama into a career job, including a large raise.

Ms. English may now move on to an enriching future at a "public interest" group, but the end of her suit is a welcome development for the rule of law. No agency can usurp a President's authority to staff the executive branch with the people of his choice. President Trump has nominated Kathy Kraninger to be the next director for a five-year term, and if CFPB founder-turned-Senator Elizabeth Warren wants control of the agency again she is going to have to win a presidential election.

A Food Fight Worth Having

An old line from writer P.J. O'Rourke is that the two most terrifying words in Washington are "bipartisan consensus," and the Senate farm bill looks like a classic example. Before it went on its Fourth of July recess the Senate whooped through, 86-11, a farm bill whose only imagined virtue is broad support from both parties. At least there's still a chance to improve the final product, particularly on work incentives in welfare.

The White House can force a farm-bill debate on work and food stamps.

The farm bill is a Beltway totem that features handouts for agriculture interests and funding for food stamps. The House passed a farm bill in June that includes new incentives in food stamps to help Americans return to work amid the best job market in more than a decade. The Senate bill includes no such changes.

The two chambers will have to sort out their differences, and the House reforms deserve to prevail. The concept is simple: Require work or training for beneficiaries age 18 to 59 who are not disabled or caring for a young child. The current program has ostensible work requirements that states have managed to elude.

The Foundation for Government Accountability lent intellectual firepower in drafting the House bill and has documented how states exploit waivers meant for areas with persistent high unemployment. California's San Mateo County hasn't had a jobless rate above 4% since 2014, but work requirements are waived.

The House bill also includes a provision that requires a person to cooperate with child support enforcement officials or forego benefits. Robert Doar of the American Enterprise Institute noted recently that less than half of poor single-parent families, many of which are eligible for assistance, don't have a formal child support arrangement. Cash assistance is a lever to encourage deadbeat dads to pay up.

Senate Agriculture Chairman Pat Roberts of Kansas didn't include these changes in the Senate bill ostensibly because he wanted support from Democrats who won't abide changes to food stamps. This meant leverage for ranking committee Democrat Debbie Stabenow of Michigan, whose definition of "bipartisan" is when Republicans do what she wants.

The Trump Administration in a policy statement praised the House bill as "clearly a step toward meaningful welfare reform" and expressed concern over the food-stamp deficiencies in the Senate version. The White House has leverage of its own if it's willing to veto a bill without the food-stamp fixes. Senate Republicans will say they can't crack 60 votes to elude a filibuster, but this is a debate worth having.

Most of the discussion on food stamps is about single parents and children, who will continue to be the majority of recipients. But millions of working-age men dropped out of the labor force during the recession and haven't returned. Businesses are so desperate for workers in a tight labor market that a Kentucky Fried Chicken in Indiana is offering a $150 signing bonus, among many similar anecdotes.

This crisis of work has been made worse by scourges like the opioid crisis, but welfare programs haven't helped. What's bewildering is that Democrats seem willing to write off so much human potential as permanent wards of the state. Republicans shouldn't pass up a chance to show the public that it's the party of opportunity and advancement.

LETTERS TO THE EDITOR

Patients Win With More Access to Treatments

The Food and Drug Administration's approval of Sarepta Therapeutic's Duchenne drug is a teachable moment for 21st-century regulatory science ("A Risky Drug Approval Lesson", Review and Outlook, July 5). The story demonstrates the agency's ongoing shift toward prioritizing patient choice.

The FDA cannot regulate drug trials properly without factoring in patients' opinions. How much risk is a patient willing to accept? How can that tolerance be measured in order to factor it into a regulatory risk-benefit calculation? What weight should patient input have relative to a randomized controlled trial? Is that calculation reproducible across therapeutic categories?

Of course, the FDA can't simply take these testimonies and put them on the labels of new drugs. Determining the viability of drugs will always depend on collecting empirical data about their effectiveness, and the agency has continued to improve the scope and accuracy of its trials. But the FDA's willingness to accommodate the Duchenne drug shows the upside of its more patient-centered approach.

From the highest levels, the agency is rightly embracing regulatory flexibility by combining a scrupulous review process with pragmatism. The new formula for approving drugs still places a high premium on accuracy but has raised the importance of speed and public demand as well.

Peter J. Pitts
New York

You report that Sarepta Therapeutics received FDA approval for its new gene therapy for Duchenne disease only "after a long and ugly fight within the agency." We need to thank our stars for long and ugly fights within the FDA that save lives. Such a huge agency regulating so many firms and drugs requires such fights if we don't want more little boys to die of diseases like Duchenne while waiting for FDA unanimity. Lives are lost as the agency's attempts to gain total certainty about each new drug, and ugly fights are good when they move things along.

Richard E. Ralston
Newport Beach, Calif.

Value Investing Is a Long-Term Commitment

"If You Want to Do Good, Expect to Do Badly" (Business & Finance, June 29) deserves a rebuttal. I strongly disagree that you necessarily have to give up stock-market returns when investing in companies that have been identified as doing good for society and the environment.

You assume that "ESG" investors, who use environmental, social and governance metrics to determine their investments, have a short investing horizon. The example of coal stocks outperforming the world market in the past 12 months encapsulates this notion. Impact investors are positioning their portfolios in stocks that will outperform over multiple years, not in stocks that might revert to the mean during the next three months due to the fact that they are "undervalued" relative to rear-view mirror statistics. In addition, cost of capital is more than how volatile your stock is or where the interest rate on your debt stands at the end of the quarter. In the long run, cost of capital arguably includes ESG issues more than weighted average cost of capital. Yes, a stock trader can disregard whether kids have trouble breathing due to black smog enveloping their world. Impact investors take a longer-term view.

At the next cocktail party, see who has a bigger crowd around them: the hot-tip trader or the ESG investor talking about how his portfolio companies are driving innovation and good for the world.

Craig Seidler
BSW Wealth Partners
Boulder, Colo.

I like investment writers who write about reality instead of pie-in-the-sky dreams. My kids and I have discussed stocks such as Exxon Mobil. They are concerned about the environment and feel that investments should go to companies with a track record of helping the environment.

I don't disagree with them. I care mostly about profit, since that is the purpose of investing. Exxon has produced great returns over the past 25 years. I challenge my kids to find an environmentally friendly company making returns like that—and then I will be all in.

American Electric Power, largely a coal and natural-gas energy producer, is committed to phasing out coal, converting to mostly natural gas and adding a large percentage of solar-power generation in the next 15 years. AEP isn't as profitable as Exxon, but I expect that to change as coal becomes more expensive and solar and wind power become more affordable and cost effective.

I tell my kids that Exxon and other fossil-fuel companies will either fade away or convert to forms of renewable energy during the next 50 years as most fossil fuels are used up. Their argument (and it's a very good one) is that the environment will be trashed by then. My counterargument is that their generation will have a problem to fix. The key is to make it profitable to help the environment.

William K. Everett
Mount Pleasant, S.C.

Road Trips Wind to an End, But the Memories Roll On

I thoroughly enjoyed Mike Kerrigan's "Save the Great American Family Road Trip" (op-ed, June 29), and I remember using all of the quotes he cites: "I don't want to hear another peep out of you," and "This is your only bathroom stop. Make yourself go" and so on.

Here are two more: "Don't make me stop this car!" and "We're stopping in five minutes. Everybody find your shoes," followed shortly by "What do you mean, you can't find your shoes? You had them on when you got in the car!"

John Conway
Prattville, Ala.

Like Mike Kerrigan I have fond memories of family road trips, though mine were in the 1960s. My dad had been transferred for work to Oklahoma, so every other summer our family made the three-day driving trek from Tulsa to Boston to visit family. For weeks my siblings and I stockpiled board games, playing cards, books, snacks and grape Fizzies tablets in anticipation of the trip.

Dad was an early advocate of car seatbelts—he had them installed in his company car long before they were legally required. But we kids spent a lot of time laying down in the back of the station wagon, to avoid the cloudy haze of smoke from my dad's ever-present cigar.

These trips to visit family created a bond between cousins that has been passed on to the next generation. Travel now—for weddings, graduations, birthdays—is usually by plane. But the smell of cigar smoke still brings back great memories.

Patt Thompson
Indialantic, Fla.

A Viable Space Force Starts With Antisatellite Weapons

I would like to add a major concern to those mentioned in your fine editorial "Houston, We Have a Space Force" (July 5). Today's vulnerability of U.S. space assets was caused by Congress during the 1980s and '90s, when it prohibited testing of various types of antisatellite missiles. Their theory was that if the U.S. developed antisatellite capability, others would follow.

In other words, space assets were considered by Congress to be something that no country would attack. Unfortunately, a big hole in our military capability was thus left to be exploited by unfriendly nations. That decision left the U.S. without a capability to retaliate in like fashion against an attack to destroy our vital space assets. Thus, today, the U.S. does not have a capability to deter this type of attack on our space assets.

Unless Congress relents on its long-standing ban on developing and deploying antisatellite weapon systems, a new Space Force is not a solution to this vulnerability.

Ellery Block
Westerville, Ohio

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Pepper ... And Salt

THE WALL STREET JOURNAL

"Caesar walks in, we stab him, and the rest, as they say, will be history."

America's NATO Allies Are Stepping Up

By Jens Stoltenberg

Brussels, the city I've called home since becoming secretary general of the North Atlantic Treaty Organization in 2014, is only a couple hours' drive from some of the 20th century's bloodiest battlefields.

Many of them, such as Bastogne and Nijmegen Bridge, were the sites of outstanding acts of valor by American soldiers. Europeans will always be grateful for the sacrifices those men made to bring freedom back to our shores.

Only three members spent 2% or more of GDP on defense in 2014. This year we expect eight will.

NATO was created in 1949 to ensure that none of us will ever have to live through another world war. The result of the alliance has been an unprecedented period of peace and security for the citizens of North America and Europe.

The U.S. has had close allies and friends in NATO that no other world power can match. Together, the alliance's 29 countries represent half the world's economic and military might.

But for all NATO has achieved, we cannot be complacent. Facing the most complex and dangerous security environment in a generation, we must invest more in our collective defense. In an unpredictable world, we must do what is necessary to keep our nations safe.

All NATO allies understand this. At our 2014 summit, each nation agreed to stop cutting defense budgets, increase expenditures, and move toward spending 2% of their respective gross domestic products on defense within a decade.

That pledge is being kept. After many years of decline, allies have ended the cuts and started to increase national defense spending. Last year NATO allies boosted their defense budgets by a combined 5.2%, the biggest increase, in real terms, in a quarter of a century. Now 2018 will be the fourth consecutive year of rising spending.

In 2014, only three allies—the United States, the United Kingdom and Greece—met the 2% target. This year, we expect that number to rise to eight, adding Estonia, Latvia, Lithuania, Poland and Romania. Furthermore, a majority of allies have plans to meet their 2% commitments by 2024, while the rest are moving in the right direction. There is still a long way to go, but NATO members have turned the corner on defense spending.

President Trump has been outspoken on this issue, and I thanked him for his leadership when we met at the White House in May. The upswing in NATO defense spending over the past year and a half demonstrates that his efforts are making a difference.

PETRAS MALUKAS/AFP/GETTY IMAGES

A U.S. soldier participates in a NATO drill in Lithuania, June 4.

NATO's credibility as an alliance—in each other's eyes, and in those of our potential adversaries—relies on sharing the defense burden fairly. Ahead of our summit on July 11-12 in Brussels, I have been carrying that message with me every time I meet with allied leaders.

Increased spending is only one part of the equation, however. Allies are also directing that money where it will matter. When NATO leaders signed on to the 2% guideline, they also pledged to put at least 20% of their defense budgets toward major new equipment, such as fighter planes, tanks and warships. Accordingly, NATO countries have added $18 billion in spending on equipment since 2014.

At the same time, NATO forces are doing more—in more places and in more ways—to strengthen our shared security. They're training Afghanistan's security forces how to bring stability to their country and create the conditions for peace and reconciliation. That's why NATO has increased its troop numbers there to 16,000, up from 13,000 last year. Over the past decade, NATO countries have provided more than $2 billion for the Afghan army. At the coming summit, I expect allied leaders to extend their funding beyond 2020.

NATO has also been training Iraqis, and at the coming summit we will launch a new mission to build on those efforts. Hundreds of NATO soldiers will help to train Iraqi forces to secure their country and make sure Islamic State does not return.

From the Balkans to the North Atlantic, from the Black Sea to the Baltic, American and European soldiers, sailors and airmen are working together through NATO to keep our nations safe. They do so because we have common interests, history and values, and because the ties that bind us run deep.

That's why NATO allies invoked Article 5, our mutual-defense clause, after 9/11—the first and only time we have done so. It's why hundreds of thousands of European and Canadian troops have served shoulder-to-shoulder with Americans soldiers in Afghanistan. More than 1,000 of them have made the ultimate sacrifice.

It's no secret that there are differences among NATO countries on serious issues such as trade, climate change and the Iran nuclear deal. But we have always managed to overcome our differences before. Two world wars and a Cold War have taught a simple yet powerful lesson: United, we are stronger and safer.

Mr. Stoltenberg is the secretary-general of NATO.

Gay Marriage Is Here to Stay, Even With a Conservative Court

By Walter Olson

No matter who replaces Justice Anthony Kennedy, gay marriage isn't going anywhere: The court won't overturn Justice Kennedy's 5-4 decision in *Obergefell v. Hodges* (2015). Don't believe me? Let's count eight reasons:

1. Most closely fought landmark decisions don't get overturned when the losing faction becomes a majority. When they do, there's usually foreshadowing, in which justices in the minority have conspicuously challenged the ruling's legitimacy. At least two post-*Obergefell* decisions have now gone by in which conservative justices have refrained from such challenges: *Pavan v. Smith* (2017) and *Masterpiece Cakeshop v. Colorado Civil Rights Commission* (2018).

2. In deciding whether to respect *stare decisis* and follow a precedent deemed wrongly decided, justices apply standards that can appear wobbly and uncertain. But whatever else is on their minds, they always claim to take seriously the practical dangers of upending a decision on which many people have relied.

Few legal strokes would be as disruptive, yet fully avoidable, as trying to unscramble the *Obergefell* omelet. Large numbers of marriages would be legally nullified in a moment, imperiling everyday rights of inheritance, custody, pensions, tax status and much more. These effects would hit on day one because an earlier generation of social conservatives managed to write bans on same-sex marriage and equivalents into many state constitutions. Those bans would prevent elected officials from finding legal half-measures to avert massive dislocation for innocent persons.

3. The American public would not view all this turmoil as somehow worth enduring in order to get rid of a widely detested decision. Since the *Obergefell* ruling, as per Pew Research last year, the long-standing trend toward acceptance of same-sex marriage has continued, with support rising from 55% in 2015 to 62% in 2017. Just 32% of Americans opposed gay marriage as of last year. Opposition to legal recognition of same-sex marriage commands less than a majority even among those who vote or lean Republican. University of Virginia legal scholar Sai Prakash writes that in this area Justice Kennedy's "opinions seem secure because his jurisprudence largely mirrors changes in society."

4. Nor would the chaos be likely to please President Trump, who went on "60 Minutes" days after his election and said of the gay-marriage legal cases: "They've been settled, and I'm fine with that."

In *Masterpiece Cakeshop*, Roberts, Alito and Gorsuch all endorsed Kennedy's antidiscrimination view.

5. Since *Obergefell* came down, cooler heads on the social-conservative side have urged pivoting away from vain attempts to block the transformation in public opinion, in favor of finding an accommodation for religious minorities who object—the theme of *Masterpiece Cakeshop* and several pending cases.

6. The one high-court decision to test *Obergefell*'s limits is *Pavan*, a somewhat technical case on the issuance of amended birth certificates. After the Arkansas Supreme Court seemed less than fully on board with *Obergefell*'s spirit, the high court swatted it down in a six-justice per curiam summary reversal—legalese for telling a balky teen, "We don't even want to hear your story about this, now go clean up what you did." Widely noted on *Pavan*: Chief Justice John Roberts crossed over to join the four liberals and Justice Kennedy. Equally notable: Justice Neil Gorsuch, writing for the three dissenters who wanted to hear the state's argument, stayed well away from culture-war implications and framed the dispute as about how best to implement *Obergefell*, not whether to retreat from it.

7. The Arkansas case aside, *Obergefell* has been logistically easy to administer; in general, states know what is expected of them, they've done it, and life goes on.

8. In *Masterpiece Cakeshop* last month, every conservative justice save Clarence Thomas signed onto Justice Kennedy's language as follows: "Our society has come to the recognition that gay persons and gay couples cannot be treated as social outcasts or as inferior in dignity and worth. For that reason the laws and the Constitution can, and in some instances must, protect them in the exercise of their civil rights. The exercise of their freedom on terms equal to others must be given great weight and respect by the courts."

If there is a danger for *Obergefell* over the longer term, it lies in some critics' claim that gay marriage is somehow in unavoidable future tension with religious liberty. As Justice Samuel Alito noted in last month's *Janus* decision, *stare decisis* is easier to abandon when a challenged precedent is thought itself to impinge on a constitutional right.

This "inevitable conflict with religious liberty" argument—which Justice Alito touched on in his *Obergefell* dissent—is unsound, most notably because any high-court majority inclined to overturn *Obergefell* would also have the votes to apply the First Amendment directly to secure whatever religious objectors' rights it thought necessary to vindicate. Still, the argument underscores an additional reason to hope that in its consideration of objectors—bakers, florists, photographers and the rest—the court takes care to respect both pluralism and liberty.

Mr. Olson is senior fellow at the Cato Institute.

A Brief Introduction to Trade Economics

By Alan S. Blinder

Treasury Secretary Steven Mnuchin assured us on May 20 that the incipient trade war was "on hold." Well, I guess the "hold" came off. The U.S. is now skirmishing with China, the European Union, Mexico and Canada. Yes, even Canada.

Let's review three important truths about international trade that, unfortunately, are not yet self-evident to President Trump.

First, when you're dealing with multiparty trade—whether among people, businesses or nations—bilateral surpluses and deficits are the norm, not aberrations. Yet Mr. Trump seems to interpret any bilateral trade deficit with any country as a sign that America is "losing" or being "taken advantage of" by that country.

Nonsense. Think about your personal trade patterns. You almost certainly run a large, persistent surplus with the organization you work for. It pays you for your work, but you probably buy little or nothing from it. Rather, you take the money you earn and spend it elsewhere—on rent, at the local supermarket, at restaurants and dozens of other places, thereby running trade deficits with all of them. You probably can't name a single trading partner with whom you have balanced trade.

So it is with nations. If you examine bilateral trade flows, you find surpluses and deficits everywhere. That's how trade works.

But that doesn't mean that when you add them all up, the nation should necessarily have a huge multilateral trade deficit with the rest of the world, as the U.S. does. Why is the U.S. different? The second truth is a bit less self-evident.

Imagine a nation whose citizens don't save much, and whose government actually saves a negative amount by running persistent budget deficits. (Guess which country I have in mind?) If that nation still wants to invest for the future, where does it turn for financing? If the nation is creditworthy and attractive to foreigners, it can borrow what it needs from investors in other countries. That's what the U.S. does.

Put differently, Americans sell paper assets to foreigners (run a capital-account surplus) each year in an amount equal to the trade deficit. Mr. Trump, like the mercantilists of the 18th century, calls that losing. I call it arithmetic.

Let's think about the alternatives to foreign borrowing. The U.S. government has tried just about everything to get Americans to save more, but Americans are a bunch of spendthrifts. The government could run smaller budget deficits, but the Trump administration just took a couple of giant leaps in the opposite direction. Or, worst of all, we could invest less and be poorer in the future. Ultimately, given America's domestic profligacy, its ability to borrow from abroad is a blessing. And borrowing from abroad means running trade deficits.

This brings me to the least self-evident of the three truths: the principle of comparative advantage. A snarky mathematician once challenged the great Paul Samuelson to name an economic proposition that is true but not obvious. Samuelson's choice was comparative advantage, which shows, among other things, that there are mutual gains from trade even if one nation is better than another at producing everything.

Here's a homespun illustration. Suppose a surgeon is also a whiz at house painting—better than most professional painters. Should she therefore take time off from her medical practice to paint her own house? Certainly not. For while she may have a slight edge over most painters when it comes to painting walls, she has an enormous edge when it comes to performing surgery. Surgery is her comparative advantage, so she should specialize in it and let some others, who don't know their way around an operating room, specialize in painting—their comparative advantage. That way, the whole economy becomes more efficient.

Why deficits are normal, especially for a country like the U.S., and what is comparative advantage.

The same principle applies to nations. Even if China could manufacture everything more efficiently than the U.S. can (which it can't), it would still make sense for the U.S. to specialize in the goods in which it has comparative advantages, and then trade with China for the things it wants but doesn't produce. Both countries wind up getting more for less.

Now let's put those three truths together. First, international trade benefits all nations (though not every person in every nation), so all countries lose when trade is disrupted. Second, in multicountry trade, it is normal and no cause for alarm to see bilateral trade deficits and surpluses. Third, when a country invests far more than it saves, that nation will have a large multilateral trade deficit—and therefore bilateral deficits with many nations.

Does all this exonerate China's unfair trade practices? Not at all. But the problems there reside mainly in intellectual-property protection, not in the bilateral trade deficit.

Mr. Blinder is a professor of economics and public affairs at Princeton University and a former vice chairman of the Federal Reserve. His most recent book is "Advice and Dissent" (Basic, 2018).

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Notable & Quotable: The '60s and the '10s

From "Here's What Happened the Last Time the Left Got Nasty" by David Greenberg, Politico.com, July 5:

As the events of the late 1960s and early 1970s show, the outrageous and obnoxious antics of the militant left ended up hurting their cause. The taunting of public figures isn't well remembered, and neither will history long record June's showdown at the Red Hen. But insofar as these actions stem from a determination to score political points by violating civil norms, they—and the repellent and violent methods of extreme protesters more generally—engender a backlash and alienate allies. By 1972, we should recall, a majority of Americans had come to oppose the Vietnam War, but greater numbers opposed the antiwar movement. Nixon cannily positioned himself as upholding law and order—a helpfully ambiguous phrase that lumped together the threats of rising crime, urban riots and rowdy left-wing activism. His invocation of the "silent majority" aimed to bring together those who were put off by the noisy, disruptive and politically extreme protests. Trump, who has openly borrowed Nixonian terms like "law and order" and "silent majority," has already been using the confrontations with his administration's officials to shift the discussion from his immigration policies and onto the left's behavior.


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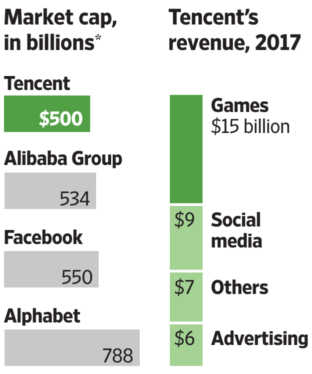
TECHNOLOGY: MEMORY CHIPS TAKE A TUMBLE B4

Last Week: **S&P** 2759.82 ▲1.52% **S&P FIN** ▲0.33% **S&P IT** ▲2.31% **DJ TRANS** ▲1.25% **WSJ $ IDX** ▼0.47% **LIBOR 3M** 2.331 **NIKKEI** 21788.14 ▼2.32% **See more at WSJMarkets.com**

New Growth

Games were traditionally its top revenue source, but Tencent's social media and advertising success made it a behemoth.



*Figures as of June 13

Sources: Tencent (revenue); Google Finance (market capitalization)

THE WALL STREET JOURNAL.

Tencent Walks Tricky Path

WeChat owner's size makes it a national symbol, but also often a target of Beijing

BY WAYNE MA AND ALYSSA ABKOWITZ

SHENZHEN, China—The WeChat smartphone app's ubiquity in China is creating a new challenge for its creator **Tencent Holdings** Ltd.: heightened scrutiny from Beijing.

WeChat, which has more than a billion users, in recent years has emerged as the main conduit for personal, business and institutional communications in China.

That makes Tencent a national champion—a technology powerhouse that can stand with the world's best, but also a threat to a Communist Party accustomed to keeping tight reins on the nation's communications.

"There is an inherent conflict between Tencent's business and the government," said Matthew Brennan, a China tech consultant.

People use WeChat to send texts, pay bills, stream entertainment and play games—and to share news stories and opinions. But Chinese regulators are mostly concerned about WeChat being used to spread "fake news" and anti-government comments, along with the use of false online identities to cloak dissident activity, say people with knowledge of the company.

By law, Tencent is responsible for keeping illegal content off its news feeds and other platforms—including anything that endangers "national honor and interests" or undermines "national unity." China's new cybersecurity law also requires companies to police their web platforms for illegal content, and Tencent has been penalized at least twice for violations since the law went into force last year.

Incursions from government regulators go beyond WeChat. Tencent also has a big presence in gaming and mobile payments, and last year, state-run media attacked the company's top mobile game as addictive "poison."

Tencent declined to comment. The Cyberspace Administration of China, which oversees internet content, didn't respond to a request for comment.

WeChat has measures in place to prevent people from

Please turn to page B2

Businesses Crank Up Borrowing At Banks

BY RACHEL LOUISE ENSIGN

Business borrowing is picking up, a welcome relief for banks and a sign of strength for the U.S. economy.

Preliminary second-quarter data from the Federal Reserve indicate the year-over-year growth rate of business loans rose to 5.5% in late June from less than 1% near the end of 2017. The upturn marks the reversal of a slump in business-loan growth that began in earnest about two years ago.

The rebound reflects increased confidence at companies. In April, Manvee, a Milwaukee wholesale bakery, decided to take out loans for more than $4 million from Indiana-based lender **Old National Bancorp**, said co-owner Thomas Roepsch.

"We're trying to keep up with growth," he said. "People are knocking on the door asking for more of our products."

Manvee plans to use the loan to expand into Indiana and invest in automation and delivery trucks, he said.

The potential spoiler is trade tensions, which could make businesses more cautious. The Federal Reserve's rate-setting committee, at its June meeting, expressed concern about the effect tariffs and trade restrictions could have on investment activity, according to minutes released last week. Contacts in some Fed districts "indicated that plans for capital spending had been scaled back or postponed as a result of uncertainty over trade policy," they said.

For banks, the acceleration in lending may help lift results when firms report quarterly results this month. Profit from lending is a major component of bank earnings and grow when total loans increase or rates on loans rise. Business-loan growth often helps on both fronts because these credits typically carry floating rates that allow banks to capture rate increases.

"We've been waiting for this ever since the 2016 election," Scott Siefers, a bank analyst at Sandler O'Neill + Partners said.

A slowdown in businesses' appetite for bank loans began to gather pace in summer 2016, a few months before the presidential election. Lending growth, which had exceeded 10% for much of the prior two years, fell into single digits.

Many bankers expected that optimism among business owners in the wake of Republican President Donald Trump's victory would lead to

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Blackstone Bet Drew Regulator's Rare Move

BY GABRIEL T. RUBIN AND ANDREW SCURRIA

When **Blackstone Group** LP made a bet that shook confidence in the credit derivatives market, U.S. regulators waged an unusual campaign to pressure the investment firm to back down.

The Commodity Futures Trading Commission took an interest last year when Blackstone's GSO Capital Partners LP disclosed it had taken out insurance on bonds issued by **Hovnanian Enterprises** Inc., wagering the home builder would default on its debts. Blackstone offered Hovnanian a low-cost loan and persuaded the builder to miss a small interest payment, which would trigger payouts on $333 million in Blackstone's credit-insurance contracts and yield the firm tens of millions of dollars, depending on market factors.

The contracts, known as credit-default swaps, typically pay out when a company defaults, usually reflecting dire financial straits. But Hovnanian was healthy enough to pay its debts, so a default would be opportunistic.

Blackstone's plan quickly became controversial as the parties on the other side of the trade complained it could corrupt the multitrillion-dollar market for credit-default swaps. The worry among swap-market participants was that other lenders would copy Blackstone's strategy and ruin the instruments as a useful source of investor protection.

Hovnanian planned to miss only a small interest payment May 1 on corporate bonds it had issued and then repurchased. The fact that Hovnanian, not a third party, held

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Ship-Breaking Yards Are Riding a Big Wave

AMIT DAVE/REUTERS

ABANDON SHIP: A vessel scrapped by its owner at an Indian yard. A recovery in commodities has made hulls more valuable. B3.

INSIDE

'ANT-MAN' CLIMBS TO TOP OF THE HILL

BOX OFFICE, B6

PERSONAL TECHNOLOGY | By David Pierce

Voice Chat Is Way of the Future

Steve Jobs should have called it the iText. Maybe the iStagram, or the iUber-Everywhere. The iPhone—like every other phone in 2018—is many things, but it isn't much of a phone.

For decades, the best and often only way to reach someone out of earshot was to call them on the phone. The internet brought chat, FaceTime, Instagram, Snapchat stories and a host of other ways to keep in touch that made phone calls seem wildly inefficient. For many of us, the phone call over the past few years has gone the way of the telegraph and the typewriter.

That's not a good thing. We need voice back in our communication.

In the swing from calls to texts, we lost the warmth and humanity that made the first place. I'm not pining for the days of the loudly spinning rotary phone, though. Better ways to actually talk to people already exist. A few companies are building tools that improve upon what didn't work about phone calls, making them less disruptive and more productive.

At the same time, a new type of chat is sitting right under our noses. It's called voice messaging, and it deserves a place alongside text and video as core parts of how we chat in the digital age.

When it comes to effective communication, there's no beating voice. Have you ever tried to make a joke or be brief in a text or email, and the person on the other

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INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

INDEX TO PEOPLE

Businesses Crank Up Borrowing

Continued from the prior page
increased borrowing. Instead, loan growth continued to fall, reaching a rate of around 0.5% in December 2017.

The fall-off damped bank profits. Just as troubling for bankers: Broader economic data were solid and there weren't obvious reasons for the decline. Some bankers attributed it to competition from nonbank lenders or a lack of confidence at companies due to political upheaval.

The exact reason demand for business loans has risen of late is tough to pinpoint. Many analysts point to metrics that show businesses have a rosier economic outlook.

5.5%

Year-over-year growth rate for business loans in late June

Some bankers think midsize clients are laying plans to expand, including through acquisitions, and are drawing on lines of credit to fund those endeavors, according to a federal advisory council of bank executives.

"Businesses no longer have an excuse not to borrow. Whether it was the election, deregulation or taxes—now we have the answer to all three," said Chris Marinac, director of research at FIG Partners LLC. "They have every reason in the world to take on debt and expand."

Business loans are growing faster at small and midsize banks than they are at the biggest U.S. lenders, according to Fed data. These smaller lenders tend to focus on businesses outside of the largest corporate firms.

At Green Bay, Wis.-based **Associated Banc-Corp.**, clients started to seem more interested in borrowing last year as the tax overhaul took shape, said David Prince, executive vice president for commercial banking. Now, they are taking out loans, driven by both a bullish economic view and a desire to borrow before rates rise much further, he said.

Stronger business-loan growth is helping lift broader lending growth. Overall loan growth at banks increased to a 5% year-over-year rate in late June from 3.9% at the start of 2018, according to Fed data. Growth in some other categories of lending, such as for commercial real-estate projects, by contrast, is slowing.

Accelerating loan growth could pressure some banks to raise deposits to fund loans, although most banks still have loan-to-deposit ratios that are low enough to provide them with lending headroom.

That is fortunate because while deposits are still growing across the industry, they are doing so at a slower pace than in recent years. And the three largest lenders, JPMorgan Chase & Co., Bank of America Corp. and Wells Fargo & Co., continue to garner much of the growth.

That is causing some smaller banks to pay higher interest rates to attract more deposits. The downside is this can eat into the profit margin on loans.

There are concerns that banks, eager for growth, are making business loans with looser terms that may lead to problems in the future.

In a May report, the Office of the Comptroller of the Currency identified the easing of commercial-loan standards as a top risk in the banking industry. While the rate of bad business loans remains low, and most banks still have a moderate risk appetite, the regulator said that during the past year it privately issued more warnings ordering financial institutions to modify business-lending practices.

One big concern: While rising rates will make the loans more lucrative for banks, they may make it harder for businesses to pay off the loans, the OCC said.

The OCC said banks are extending interest-only periods on commercial loans, allowing borrowers to draw down bigger portions of the value of collateral and relaxing covenants meant to protect from losses.

BUSINESS & FINANCE

QILAI SHEN/BLOOMBERG NEWS

The popularity of Tencent's WeChat makes it a threat to a Communist Party used to keeping tight reins on communications in China.

Tencent Walks a Tricky Path

Continued from the prior page
using the platform to organize large groups, which is believed to be why China blocked Facebook, Twitter and other Western social-media platforms in 2009. No official reason was given, but it followed state-media reports blaming social media for fomenting unrest among China's Muslim minority.

On WeChat, chat groups are limited to 500 members, and once a group tops 100 members the account of each new member must be linked to a verified mobile-phone account with a state-owned telecommunications company.

There is a perception among many in China that WeChat is monitored by the government, and Chinese activists and others say they have been questioned by authorities over what they thought were private comments on the app.

Tencent says it doesn't store WeChat messages on its servers and authorities don't have access to them. Yet messages aren't encrypted in the same way they are on Facebook's WhatsApp; people familiar with the matter say Tencent can save and hand over messages at the request of police.

What is more, the mere perception that the government has access to WeChat data is a hindrance to its growth overseas, people close to the company say. These concerns come as U.S. technology companies like Facebook Inc., too, are fending off government inquiries on use of customer data and other issues.

All big tech companies in China, including Tencent rival Alibaba Group Holding Ltd., face government scrutiny. But the scrutiny on Tencent is more intense given WeChat's role as a social network.

"Alibaba is just a consumer service where you buy and sell things," said X.L. Ding, a social science professor at Hong Kong University of Science and Technology. "Tencent is different because it has a function of propaganda and spreading information."

As government scrutiny has intensified, Tencent Chief Executive Ma Huateng, also known as Pony Ma, has stepped up to serve as its point man with regulators. While not a Communist Party member, the 46-year-old billionaire has been an active participant in China's National People's Congress, the party's tightly controlled annual political meeting.

Mr. Ma and other executives are spending more time meeting government demands, according to people close to the company.

Regulatory changes and other actions that could impact Tencent's products and services come up frequently at board meetings, these people say.

"He's an introvert, but he's accepted what he needs to do," one Tencent executive said of Mr. Ma's lead role in dealing with high-ranking government officials. The executive added that Mr. Ma would much rather be immersed in developing new products and services. Mr. Ma declined to comment.

There is a perception among many in China that Beijing monitors WeChat.

His myriad NPC duties this March forced Tencent to delay release of its annual results; it would be hard to imagine an American company doing the same because its chief executive was away at a political convention.

Mr. Ma moves quickly to get his company out of the crosshairs.

Last year, the Communist Party's People's Daily newspaper published scathing editorials about Tencent's game "Honor of Kings," saying school children were dozing in class because they stayed up late playing the game. Tencent's shares fell more than 3% on the Hong Kong stock exchange.

Tencent slapped limits on play time for anyone under 18, and Mr. Ma traveled to Beijing to make peace, posing for photographs with People's Daily executives at the newspaper's offices. Its shares reversed their decline.

"The company is showing they implicitly understand the agenda of the people who...regulate them," said Richard Kramer, founder of Arete Research, who has followed Tencent for years.

Tencent, which has more than 45,000 employees, recently began moving into a new $600 million Shenzhen headquarters, a futuristic complex with skywalks linking twin skyscrapers.

The architects had a bold plan for the executive suite: They wanted to station Mr. Ma and his top lieutenants in a central command post with high visibility, like the bridge on a battleship.

That wouldn't do, architects were told. One reason: Too many government officials come calling, and their visits need to be discreet. The executive offices were placed instead in the upper reaches of the highest tower.

—Xiao Xiao in Beijing contributed to this article.

Blackstone Bet Drew Rare Move

Continued from the prior page
the bonds would shield it from a broader debt default or more severe consequences—but the missed payment would be enough to trip Blackstone's credit-default swaps.

CFTC officials began taking stock of the deal after it spilled into public view in securities filings and was amplified by a lawsuit. **Solus Alternative Asset Management** LP, a hedge fund that sold Blackstone the credit protection on Hovnanian, learned about Blackstone's strategy and sued in federal court in January. Solus alleged fraud and market manipulation, and sought a court order to stop the transaction.

Banks, hedge funds and the International Swaps and Derivatives Association industry group also voiced concerns about the strategy. Blackstone told the court in New York it did nothing wrong and had offered the best financing terms among several firms competing to lend to Hovnanian. The judge ruled against Solus.

CFTC officials were reluctant to intervene but became convinced by April that market participants were unlikely to resolve the situation on their own, according to people familiar with the agency's thinking.

As the May 1 default approached, the CFTC grew more vocal about the consequences, though it was careful not to name names publicly. The CFTC had been warning Blackstone through private meetings before issuing an unorthodox public bulletin a week before the default deadline that said manufactured defaults could be considered market manipulation, these people said.

In a Bloomberg TV interview, CFTC Chairman J. Christopher Giancarlo pressed the parties to come up with a solution, implying they would be wise to settle things themselves before regulators had to consider a formal investigation.

Yet default looked like the likely outcome on May 1, when Hovnanian failed to make the interest payment and triggered a 30-day grace period before Blackstone could try to collect. James McDonald, the CFTC's enforcement director, got a call from a Blackstone lawyer saying that Blackstone would work to make peace with the firms on the other side of its trade and consider backing out of the default before the 30-day countdown expired, according to people familiar with the call.

The missed payment touched off negotiations to unwind the credit-default-swap position. Blackstone first struck a deal with Goldman Sachs Group Inc., which was caught on the other side of Blackstone's trade, then settled with Solus shortly before the 30-day period ran out. The settlement, whose terms weren't made public, compensated Blackstone for backing out of the default while prohibiting it from triggering the insurance Solus had written, people familiar with the matter said.

Blackstone then released the Hovnanian interest payment, letting Solus off the hook.

For its part, Hovnanian was "pleased with the additional financial flexibility we were able to achieve as a result of these refinancing transactions," a spokesman said.

CFTC Saw a Chance To Be Proactive

Regulators are generally loath to reveal their views about whether a potential transaction is legal while seeking information from the parties. Disclosing legal conclusions could interfere with legitimate deal-making or give an implicit green light to a deal that turns out to be problematic.

"The nature of most violations means we find out about them after they occur, and our only option is to bring an enforcement action," said James McDonald, the Commodity Futures Trading Commission's enforcement director. "But sometimes we see a concerning market event in advance, where we can be proactive to ensure market participants understand the view of the Commission staff before the activity takes place."

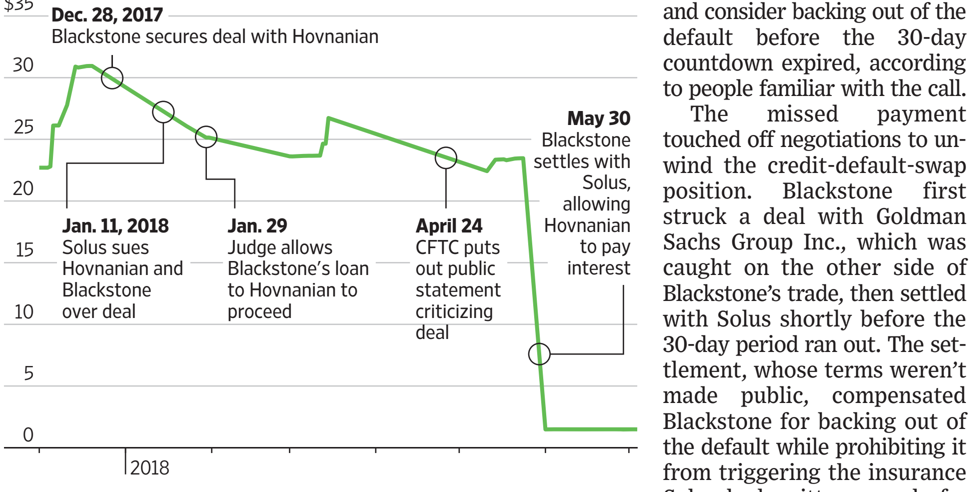
The CFTC was in a unique position in the case of Blackstone's Hovnanian deal—rarely do financial watchdogs get advance notice about potentially risky or legally troubling behavior before it happens.

But the debate over a potential manufactured default was playing out publicly, in the news and at industry conferences. That gave CFTC staff time to work with the parties to try to avoid a default—and a payout to Blackstone via the credit-default swaps—a possibility that worried the agency's senior leadership.

Bet on Default

Since offering a loan to Hovnanian Enterprises Inc., Blackstone Group has come under criticism for pushing the home builder to miss interest payments and trigger insurance payouts.

Price per Hovnanian 1-year credit-default swap



Source: Thomson Reuters

THE WALL STREET JOURNAL.

Randa To Press Bid for Perry Ellis

By Dana Mattioli

Randa Accessories plans to publicly press its bid to buy **Perry Ellis International** Inc., according to people familiar with the matter, in an effort to overcome the apparel maker's swift rejection of its takeover offer last week.

Last week, closely held Randa, a men's-accessories provider, submitted a $28-a-share all-cash bid that topped a $27.50-a-share deal Perry Ellis founder George Feldenkreis had earlier reached to take the company private.

A few days later, Perry Ellis rejected the overture, saying "the proposal is highly conditional, nonbinding and insufficient in terms of value and certainty of the provided debt financing commitments, as well as the lack of evidence of sufficient cash equity on hand."

Randa Chief Executive Jeffrey Spiegel on Monday plans to send a public letter to the independent directors of Perry Ellis saying: "We are confident that your shareholders will conclude that $28 per share is superior to $27.50 per share, and thus that our proposal is in fact a superior proposal."

Perry Ellis has refused to communicate with Randa about its offer outside of the press release it issued, some of the people said.

The new letter is aimed in part at Perry Ellis shareholders, in hopes they will put pressure on the company to negotiate with Randa. Shareholders have contacted Randa to learn more about its offer and what the receptivity from Perry Ellis has been, said some of the people.

The prospect of a bidding war has already pushed Perry Ellis shares above both offers; they closed Friday at $28.37.

If Perry Ellis were to engage, Randa could sign up a deal within a day, said some of the people. Randa had participated in an auction for Perry Ellis, submitting a $27.75-per-share bid for the company before it announced the deal with Mr. Feldenkreis, the people said. As a result, it has done all of its due diligence, they added.

Mr. Feldenkreis and his son Oscar, the company's current CEO, are two of its biggest investors. Their deal, also in cash, values the company at about $437 million; the Randa bid values it at about $444 million.

Shipowners Scrap Oil Tankers

Dismal freight rates send record number of vessels to recycling yards in South Asia

By Costas Paris

The yards in the Indian subcontinent recycle around 80% of all ships, with the remainder going to China and Turkey.

ATHENS—Dire freight rates are pushing shipowners to scrap a record number of the biggest oil tankers this year, making it a bumper period for recycling yards in South Asia.

Very large crude carriers, or VLCCs, move much of the world's oil across the oceans. But there are far too many in operation in a shrinking market. Major oil-producing countries have curbed production in recent years and the U.S. is importing less crude as it increasingly covers its needs with local oil.

The overcapacity is good business for ship-breaking yards in India, Pakistan and Bangladesh, which pay as much as $20 million for each VLCC sent to be taken apart for scrap. The industry is worth up to $5 billion a year, and tankers are among its top earners.

"We expect $1 billion worth of VLCCs to be recycled this year," said Anil Sharma, chief executive of U.S.- and Dubai-based GMS, the biggest cash buyer of ships headed for scrap. "It's one of our best years overall."

Industry executives say the current global fleet of 720 VLCCs is about 20% bigger than needed to serve oil markets and that it will take until 2020 for VLCC supply to match demand, provided there are no orders for new ships.

Some 50 VLCCs are up for recycling this year, which is up from 15 in 2017, according to GMS data. Spot freight rates for those ships are hovering below $6,000 a day, according to brokers, in a business where $25,000 is generally considered a break-even rate.

Greek owners, who have some of the biggest VLCC fleets, say if freight rates don't recover next year, smaller players will go out of business or be swallowed up by bigger peers. One owner with around 20 VLCCs said scrapping is expected to speed up unless there are clear signs of recovery, "which is unlikely."

"This year has been appalling for VLCC owners, to say the least," said Peter Sand, chief shipping analyst for Bimco, an association of shipping-industry executives. "There's been significant fleet growth while demand is low, and it doesn't look like it's going to get better until 2020, so you scrap to cut the bleeding."

A recovery in commodities markets, including the value of scrap metals, is making the hulls of tankers more valuable, changing the financial calculations for ship operators. Data from industry tracker VesselsValue show average scrap prices at around $425 per metric ton of steel in the last week of June, up from less than $300 per metric ton in 2016.

Some 1,000 vessels are broken up every year and their steel and other metals are melted or simply stacked up and sold to factories. The yards in the Indian subcontinent recycle around 80% of all ships, with the remainder going to China and Turkey, although Beijing has said it will suspend scrapping starting next year.

The average age of VLCCs going to scrap this year is 18.8 years, the youngest since 2013, according to VesselsValue. A ship's average operational age is around 25 years, but after 15 years in the water, the vessel has to go through an extensive survey to determine if it is seaworthy.

"An average survey costs about $2 million, and you have to do it again at 20 years, so a number of owners opt to scrap instead," Mr. Sharma said.

A China Deal Wins U.S. Clearance

Cosco Shipping Holdings Co.'s takeover of rival **Orient Overseas International** Ltd. has received the blessing of a U.S. national-security review body, removing a major overhang of the $6.3 billion deal.

China's state-run Cosco said Sunday the Committee on Foreign Investment in the U.S. has cleared its planned takeover of the Hong Kong-based container shipping operator, after Cosco agreed to place a large container terminal in Long Beach, Calif., into a U.S.-run trust and put it up for sale.

CFIUS doesn't have any outstanding "unresolved national security issues" related to the takeover, after the companies signed an agreement with the U.S. departments of Homeland Security and Justice regarding the proposed divestment of the Long Beach terminal, the companies said in a joint statement.

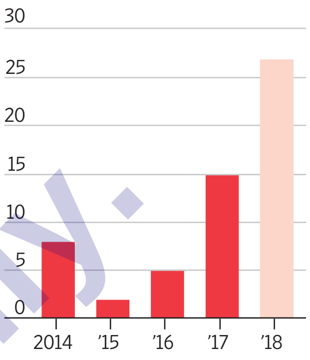
Cosco had offered to sell the Long Beach terminal and place it in a U.S. trust to allay U.S. national-security concerns about Chinese ownership of the facility, The Wall Street Journal reported in June.

—Joanne Chiu

Underwater

Shipowners opt to recycle supertankers as demand for ocean oil transport falls.

Scrapped large crude carriers



Note: 2018 figure as of May 31

Source: GMS International Inc.

THE WALL STREET JOURNAL.

HNA Regroups After Death of Executive

By Stella Yifan Xie

HONG KONG—Chinese conglomerate **HNA Group** Co. said co-founder Chen Feng will become its sole chairman following the death of its other founder, Wang Jian, in a freak accident in France this past week.

Mr. Chen, 65 years old, will assume Mr. Wang's co-chairman duties at the airline-to-hotels conglomerate, while Chief Executive Adam Tan will continue in his role, the Haikou-based company said.

Mr. Wang died Tuesday during a business trip in France. The 57-year-old had gone on a sightseeing excursion to a cliffside church in Bonnieux, a village in southeast France. Police said Mr. Wang fell to his death from a wall he stood on for a photo.

On Friday, HNA said the disposal of a 15% stake in the company that Mr. Wang controls "will be addressed in due course, consistent with his pledge to donate them to charity." HNA has charitable foundations based in Haikou and New York that together own about half of the group. Last summer, the company said all of the group's shareholders had pledged to donate their shares to the foundation upon their resignation or death.

Mr. Wang's family and some HNA executives, including Mr. Tan, are in France, according to Israel Hernandez, HNA's head of international corporate affairs. He said that before Mr. Wang went on the sightseeing trip, the chairman had been in Paris meeting with some of HNA's portfolio companies in preparation for quarterly board meetings.

Mr. Hernandez, who was with Mr. Wang during some of the meetings over the past week, said he noticed "nothing out of character" with the chairman before the accident. "We talked about the board meetings. He was very engaged," he said.

Mr. Wang was a top decision maker at HNA. Over two decades, the former civil aviation official helped oversee the transformation of what was originally a small regional airline into a conglomerate with stakes in airlines, hotels, financial institutions and other assets in China and abroad.

Pricier Fuel to Test Airline Profits

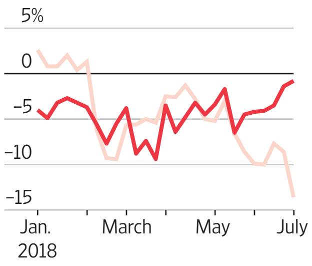
By Alison Sider

Rising Costs

Jet fuel prices have risen steeply since late June of last year.

Price of jet fuel

Weekly airfare change from a year earlier



Note: U.S. Gulf Coast kerosene-type jet fuel

Sources: Harrell Associates LLC (airfare); Energy Information Administration (jet fuel)

Schedule cuts would be a way for carriers to address rising costs.

U.S. airlines are aiming to convince investors that surging fuel costs won't knock a record stretch of profitability off course.

Some investors say airlines won't be able to raise prices fast enough to cover a roughly 55% increase in fuel costs from a year ago. The NYSE Arca Airline Index is down nearly 13% this year while the S&P 500 is up 3.2%. They expect carriers to commit to schedule cuts to address the rising costs when they report quarterly earnings this month. **Delta Air Lines** is the first to report, on Thursday.

"The first course of action may be to adjust their fall and winter schedule, while trying to raise fares in strong markets," said Helane Becker, an analyst at Cowen & Co. "Delta has repeatedly hinted at this."

Delta declined to comment ahead of its earnings report. Executives have said higher fuel costs will factor into their capacity decisions after the peak summer travel season.

"We've made money at fuel prices at $100 and we've made money at $40," Delta Chief Executive Ed Bastian said recently at the National Press Club in Washington. "There's a resiliency and a stability to our business like never before."

By many measures, airlines should be Wall Street darlings. The industry notched a record eighth straight year of profits last year. A strong global economy is stoking demand for air travel. Global passenger traffic rose 6.1% in May from a year earlier, according to the International Air Transport Association.

Delta said last week it expects unit revenue to be up as much as 5% over the prior year in the second quarter. Unit revenue is a measure of how much airlines make for each mile they fly a passenger.

But other costs are rising, too. In addition to fuel, many airlines recently agreed to labor contracts that will see them pay more in wages and benefits. And a shakier forecast for geopolitics and international trade could hurt flight demand if companies cut back on business travel, analysts said.

"You need to have higher fares to offset the higher fuel. To do that, either demand has to be strong enough to absorb the increase, or if it's not you need to not fly those unprofitable seats," said Savanthi Syth, an analyst at Raymond James.

United Continental Holdings Inc. and Delta have each said they are paying about $2 billion more for fuel compared with last year—pressuring profit margins. Delta cited rising costs in June as it cut profit expectations for the second quarter from $1.80 to $2 a share to a range of $1.65 to $1.75 per share.

United earlier this year raised its earnings expectations for 2018 to $7 to $8.50 per share. Scott Kirby, United's president, said on May 30 that the airline can hit that target despite higher fuel costs.

Most airlines have cut back on using derivatives to hedge against fuel-price increases, lowering their operational costs while oil prices stayed low and relatively steady. Higher fuel prices will test whether airlines can pass on rising costs to customers, said Philip Baggaley, managing director at S&P Global Ratings.

But raising prices is easier said than done, said Bob Harrell, head of Harrell Associates LLC, a consulting firm that tracks airline pricing. His research shows that while airlines have raised fares in recent weeks, they still lag behind last year's levels.

"What drives pricing is not what they're paying at the pump but the balance of supply and demand," Mr. Harrell said. "It's very hard to get prices up if you're adding seats faster than you're adding passengers," he said.

Airlines have been dogged this year by concerns that they are adding seats too quickly. United rattled investors with plans to expand capacity by 4% to 6% a year for three years. In April the airline tightened growth plans to 4.5% to 5.5% this year, and some hope it will throttle back further.

Quorum, Maker of Energy Software, Explores a Sale

By Laura Cooper

Quorum Business Solutions Inc., a software provider to the energy industry, is betting a rebound in oil prices will help it land a new owner.

The private-equity-backed company is working with investment bank **Credit Suisse Group** AG to explore a possible sale, according to people familiar with the situation. Quorum is timing it with recovery of the oil-and-gas sector after years of sluggish activity.

Quorum, which offers software products including those that support marketing, transportation and storage of pipelines, is projected to generate roughly $43 million in 2018 full-year cash earnings before interest, taxes, depreciation and amortization, according to people familiar with the sale, citing marketing documents. Both private-equity and corporate buyers are looking at the company, according to another person familiar with the situation.

Last month, **Insight Venture Partners** sold much of its stake in oil-and-gas software company **Drilling Info Holdings** Inc. to fellow private-equity firm **Genstar Capital** in a deal that valued it at roughly $1 billion, according to people familiar with the sale.

Technology-focused buyout shop **Silver Lake** invested in Quorum in 2014 in a deal that valued the company at $310 million. The firm initially financed its investment using equity from its core buyout fund and from Silver Lake Kraftwerk, a growth-capital vehicle dedicated to backing tech businesses in the operations, energy and resources industries.

Since Silver Lake's investment, Quorum has become an active acquirer. In April, the company announced it had entered into an agreement to buy Entero Corp., a software provider for the upstream and midstream sectors. In September of last year, it acquired WellEz Information Management LLC, a cloud-based well-life-cycle analytics provider.

Oil Prices' Increase Sets Stage for Deal

Quorum is one of at least two dozen software providers in the energy sector that private-equity firms took a stake in between 2012 and 2014, before oil prices plummeted, according to data provider PitchBook Data Inc.

Many of those companies have reached a stage at which their investors would typically look to exit. Industry experts say with prices of Brent crude, the global benchmark, up more than 19% so far this year, valuations for these companies have improved, encouraging more of them to explore sales.

Energy-technology companies have sprung up as the oil-and-gas industry expanded, providing software for land management, life-cycle reporting of wells, accounting and tracking of active oil rigs. The rebounding sector could mean that more energy companies seek their services to help manage increasingly complex operations.

Private-equity interest in energy-focused software deals has picked up after more than a two-year lull. So far this year, private-equity firms have backed five deals in the sector, putting the industry on pace to exceed the eight deals done in 2017, according to PitchBook.

SEONGJOON CHO/BLOOMBERG NEWS

Global smartphone shipments in the first five months of 2018 fell 2.2% from the same period in 2017, hurting memory-chip demand.

Memory-Chip Prices Slip

Softer demand and new supply have taken the steam out of a historic run-up

By Timothy W. Martin

SEOUL—The memory-chip industry is taking a breather from a hot run.

After a historic rise in 2017, prices of two major types of memory chips—NAND and DRAM—this year have fallen 37% and 16%, respectively, according to semiconductor sales tracker DRAMeXchange.

The price drop led to a profit forecast from **Samsung Electronics** Co. that was below analysts' expectations.

Shares of the world's largest smartphone and semiconductor maker slid 2.3% on Friday after Samsung said it expected second-quarter operating profits of 14.8 trillion won ($13.2 billion), below analyst estimates of 15.1 trillion won. That result would break the South Korean company's string of four record-shattering quarters.

Memory chips go in everything from smartphones to self-driving cars, and growth in demand for the chips had outrun supply. The current pullback in their pricing reflects stepped-up production by manufacturers plus sluggish smartphone sales.

Even so, the industry is still healthy. Though memory-chip prices are cooling, the cost of NAND and DRAM remains historically high.

"It's getting back to normal versus the big shortages we were in," said Randy Abrams, a Taiwan-based analyst for Credit Suisse.

The rich prices for chips weren't trouble-free for the industry, as their dramatic rise has prompted legal scrutiny. Samsung, **Micron Technology** Inc. and **SK Hynix** Inc. said last month that Chinese regulators had visited their offices, a move analysts said could be linked to DRAM prices.

A U.S. class-action lawsuit targets the same three chip makers, alleging they "artificially stabilized and raised the prices of DRAM" from June 2016 to December 2017.

"You're talking about billions and billions of dollars of overcharges, and I don't think consumers should have to bear that," said Steve Berman, managing partner of Hagens Berman Sobol Shapiro LLP, whose firm filed the lawsuit in April in a California district court.

The chip industry 'is getting back to normal versus the big shortages we were in.'

Samsung, Micron and SK Hynix declined to comment.

Smartphone makers are big buyers of memory chips, and so the sales slowdown for the devices is being felt by chip suppliers.

Global smartphone shipments in the first five months of this year declined 2.2% from the same period in 2017, driven by a 10% drop in China, the world's largest smartphone market, said Tom Kang, an analyst at Counterpoint Technology Market Research.

That hurt Samsung in multiple ways. Sales of its new flagship device, the Galaxy S9, are expected to reflect the global trend, plus slower smartphone sales cut into demand for Samsung-made components.

As of the end of 2017, the prices of DRAM and NAND chips had more than doubled over two years.

DRAM prices, however, peaked in January at $4.90 and have since fallen to $4.07 in June, according to DRAMeXchange, based on a 4-gigabit average spot price. Today's price is still more than double the level of September 2016. NAND prices have fallen by more than one-third this year.

DAVID PAUL MORRIS/BLOOMBERG NEWS

The Apple Watch is offering a walkie-talkie feature. New apps are using vintage tech in new ways.

Voice Chat Is Key Tool For Future

Continued from page B1

side missed it completely, or even ended up mad at you?

The problem with phone calls was never the talking. It was all the related complexities. You dial a bunch of numbers. You wait while it rings, not knowing if they'll answer. (If they don't, this was all for nothing.) If they do, you start with hellos, some self-identification and some small talk before you get to why you called. Then there's more small talk and finally a protracted goodbye. A three-second question—Where should we go to dinner?—requires a five-minute conversation.

Texting's initial limitations made it the perfect antidote. Back when you only had 160 characters and paid by the message, there was no time for wasted words.

But texting lacks humanity. We need a way to preserve our most salient mode of communication but strip away all the cruft. The answer might be in another vintage tech that has undergone a high-tech evolution: the walkie-talkie.

The modern walkie-talkie is most likely a smartphone app, not a hand-held radio the size of a car battery (or the push-to-talk feature you remember from those old Nextel commercials). Yet it operates much the same way: You press a button to talk, and when you are finished your voice rings out from someone else's device. They listen and talk back.

Walkie-talkies do have their baggage. If you aren't wearing earbuds, you might have to sneak away or risk having others hear your messages. It's still an improvement: Chatting this way offers the warmth of a phone call, with none of the time-sucking technological hurdles or social norms. "You don't need the small talk," says Bill Moore, chief executive of voice-messaging app maker **Zello** Inc. "You don't have the social overhead of a conversation."

This type of voice messaging is probably already possible in the tools you already use to chat. And it comes with three critical advantages over the phone calls we've been making for decades:

Better voice mail. Let's be clear: Voice mail is the evil spawn of the phone call. Whether you use Android or iOS, there's a better voice-messaging tool built into your device.

If you're an iMessage user, just press and hold the microphone to the left of the text box, then record your message and swipe up to send it. Android's version is a bit clunkier but essentially the same. Either way, your audio will appear in the same thread as the texts, pictures and GIFs you've been sending back and forth.

WhatsApp and Facebook Messenger have similar features. And there are apps dedicated to voice, too, like Zello and Voxer.

Get to it later. When someone calls you, typically they have no idea whether you are available to chat, or whether they are crashing into the middle of your day like a mariachi band arriving at your table. If they had sent a voice message instead, you would be able to listen whenever you can and respond whenever you feel like it.

Chat from anywhere. The next gadgets—be they smart headphones, smart speakers, smart glasses or smartwatches—won't have large screens with roomy keyboards.

Starting this fall, with a WatchOS software update, you'll be able to have quick, text-like chats with friends on your Apple Watch. Rather than tap furiously on its tiny screen, or hold your wrist to your ear for minutes at a time, you'll have a Walkie Talkie feature. If you own an Amazon Echo, you can already shout, "Alexa, send a voice message to Anna" and have a conversation without having to touch a device.

Maybe as keyboards become less ubiquitous, you'll start to dictate messages. And you can play incoming texts aloud, with a simple "Read my most recent text" request to your voice assistant.

But consider sending a voice message instead. After all, if I were on the receiving end, I'd really prefer your voice over Siri's.

'Ant-Man' Marches to No. 1

Disney sequel takes in $76 million for its opening weekend in U.S. and Canada

By Erich Schwartzel


MARVEL/WALT DISNEY/EVERETT COLLECTION

'Ant-Man and the Wasp,' a Marvel Studios release, had a solid showing amid generally positive reviews.

LOS ANGELES—**Walt Disney** Co.'s "Ant-Man and the Wasp" took a bite out of the box office over the weekend, premiering in first place with a healthy $76 million in the U.S. and Canada.

That is a robust 33% jump from the debut of the original "Ant-Man," which opened to $57 million and went on to collect $180 million at the domestic box office in July 2015. The Marvel Studios release likely got a boost from favorable reviews and the superhero showing of the company's "Avengers: Infinity War," which has made $675 million since opening in April.

"Ant-Man and the Wasp" added an estimated $85 million to its opening from international territories, where it opened in about 48% of global markets.

The holiday weekend's other new release, "The First Purge," grossed $31.1 million since opening on July 4. That is a fine start, considering its microbudget production cost, but the movie's three-day haul of $17.2 million is lower than its three predecessors in the dystopian horror series. "The First Purge" was released by **Comcast** Corp.'s Universal Pictures.

The solid opening for "Ant-Man and the Wasp" restores some box-office luster to the July 4 weekend, which was once a guaranteed home for 1990s Hollywood blockbusters like "Independence Day" and "Armageddon." Recently it has become just as well known for high-profile duds like "Terminator Genisys" in 2015 and "The Legend of Tarzan" in 2016.

Bullish analyst projections had "Ant-Man" coming in a bit higher than $76 million, but its ultimate performance "landed solidly within our range," said Cathleen Taff, Disney's president of theatrical distribution.

Ms. Taff attributed the boost in performance to the sequel's expanded cast and the "halo effect of all things Marvel," which has built a cinematic universe of interconnected story lines and characters over 20 movies. In addition to "Avengers: Infinity War" this year, the studio released the No. 1 movie of the year so far, "Black Panther."

"Ant-Man and the Wasp" stars Paul Rudd as a master thief who gains the ability to shrink or grow as he fends off bad guys. The sequel was well-received by critics and moviegoers, who gave it an "A-" grade, according to the CineMaScore market research firm.

Disney had good news to spare at the box office over the weekend. The company's "Incredibles 2" became the top-grossing animated release of all time at the domestic box office, with more than $504 million so far.

Estimated Box-Office Figures, Through Sunday

	FILM	DISTRIBUTOR	SALES, IN MILLIONS: WEEKEND*	CUMULATIVE	% CHANGE
1.	Ant-Man and the Wasp	Disney	$76	$76	--
2.	Incredibles 2	Disney	$29	$504.4	-37
3.	Jurassic World: Fallen Kingdom	Universal	$28.6	$333.3	-53
4.	The First Purge	Universal	$17.2	$31.1	--
5.	Sicario: Day of the Soldado	Sony	$7.3	$35.3	-62

*Friday, Saturday and Sunday Source: comScore

Rule Change May Help Online TV

By Michael Rapoport

Is it a TV show or a really long movie? In the streaming, binge-watching era, the line between the two has gotten blurry—and that could help nudge earnings upward at companies like **Amazon.com** Inc. and **21st Century Fox** Inc.

Accounting rule makers have tentatively agreed that companies should account for their costs of producing TV shows in the same way that movie-production costs are handled. Right now, TV producers have to immediately expense many of those costs, cutting into profits; movie makers can bleed them into results over time.

The difference between shows and movies "is no longer as relevant" for purposes of gauging companies' finances, said Jason Bond, coordinator of the Emerging Issues Task Force, a part of the Financial Accounting Standards Board. The group decided upon the change last month.

If the change is enacted by the full FASB, TV producers could record profits more quickly than they do now.

Mr. Bond said the impact will vary among companies.

Under current rules, companies that make movies can fully "capitalize" their production costs—they are placed on the balance sheet and filtered into earnings over time instead of being recognized in earnings all at once.

TV-show makers can only capitalize a portion of their expenses, while the rest are charged to current earnings. The only production costs they can capitalize are those they can show are matched by revenue they have contracted for, or by future revenue from other markets like syndication or DVD sales.

Last month, the FASB task force, which handles new and specialized accounting issues, tentatively decided all production costs could be capitalized, whether for movies or TV shows. For companies that now expense some of their costs, that could mean they will record lower current expenses, boosting earnings, although the capitalized costs will ultimately be reflected in earnings down the line.

Not all TV producers will necessarily benefit. **Netflix** Inc. said in its annual report that it already capitalizes production costs for its original productions. Netflix couldn't be reached for comment.

Amazon has indicated it does count some of its production costs against current earnings. The company said in its annual report its capitalization of those costs is limited, and so some of them are expensed as they are incurred. An Amazon spokeswoman declined to comment.

21st Century Fox said in its annual report that TV production costs "incurred in excess of the amount of revenue contracted for each episode in the initial market are expensed as incurred on an episode-by-episode basis." A Fox spokeswoman declined to comment. 21st Century Fox shares ownership with **News Corp**, parent of The Wall Street Journal.


SUBEL BHANDARI/DPA/ZUMA PRESS

Luke Westcott supplies soccer jerseys to African national teams.

World Cup Offers Shirt Maker a Niche

By Rob Taylor

CANBERRA, Australia—One of the biggest contests at the World Cup in Russia was taking place off the pitch—the selling of replica shirts in the estimated $173 billion sports-apparel industry dominated by **Adidas** AG and **Nike** Inc.

Luke Westcott, a 24-year-old Australian college student, hit on a different business plan: He went ahead and outfitted the game's minnows, nations like South Sudan, Rwanda, Ethiopia and Sierra Leone, for whom the World Cup is a distant dream and whose records so far make them unattractive to global sportswear giants.

In his quest to build a grass-roots brand upon dusty far-flung pitches from Western Sahara to Eritrea, Mr. Westcott has dealt with soccer-loving armed rebels, Ebola scares and customs officials coveting his gear at the border.

During a sales visit to South Sudan at the height of the civil war in 2016, Mr. Westcott says he was bundled into a car filled with weapons and military gear. "It turned out they were opposition—or rebels, depending on your view," Mr. Westcott said. "The opposition leader wanted some new jerseys from my hotel."

When Sierra Leone was in the grip of the Ebola virus pandemic, with players and staff under quarantine restrictions, he agreed to supply distinctive azure uniforms when no other supplier would risk dealings with the West African nation.

"It was really just about finding the right people, and for that you need a lot of patience," he said.

Mr. Westcott built a supply chain that starts in Australia, takes in factories in China and employs couriers to deliver the clothing to poor or conflict-racked nations in sub-Saharan Africa. He has exploited a big differential in the prices charged by global sportswear companies and what African sports federations and citizens typically can afford.

A South Sudan soccer shirt produced by his **African Manufacturing Solutions** business, or AMS, founded five years ago, sells locally for around $10, compared with $100 price tags in neighboring Kenya for replica jerseys made by the country's official uniform supplier, Adidas.

"Our designs are also preferred to the counterfeits, because fakes are mostly just blank shirts with an Adidas and national football logo," said Mr. Westcott, noting fake shirts are available in markets for around $8 each. While he has opened a retail shop in Juba, the South Sudan capital, most of his shirts are sold online to international collectors, many of them in the U.S. "I can't say how much we're making, but it is profitable," he said.

None of Mr. Westcott's clients made it far in World Cup qualifying rounds. South Sudan's maiden campaign, following independence in 2011, ended in defeat to Mauritania, which then lost in the next qualifying round. Sierra Leone and Eritrea also didn't make it past the opening qualifiers, while Ethiopia and Rwanda crashed at the second hurdle. He now supplies apparel to 19 African nations and club sides, with others including Djibouti, Zanzibar and Darfur.

MARKETS DIGEST

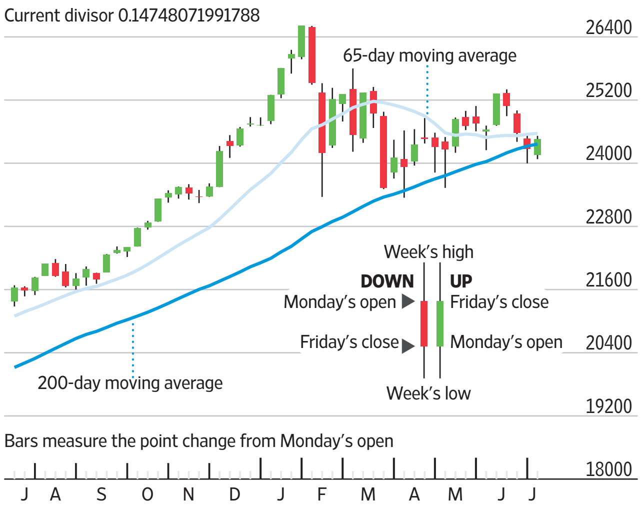
Dow Jones Industrial Average

24456.48 ▲185.07, or 0.76% last week

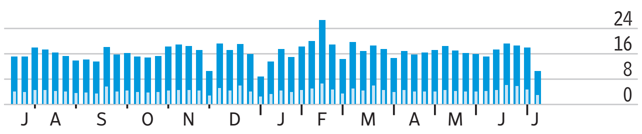
High, low, open and close for each of the past 52 weeks

	Last	Year ago
Trailing P/E ratio	23.57	20.82
P/E estimate *	16.05	18.24
Dividend yield	2.21	2.35
All-time high	26616.71, 01/26/18	

Current divisor 0.14748071991788



NYSE weekly volume, in billions of shares



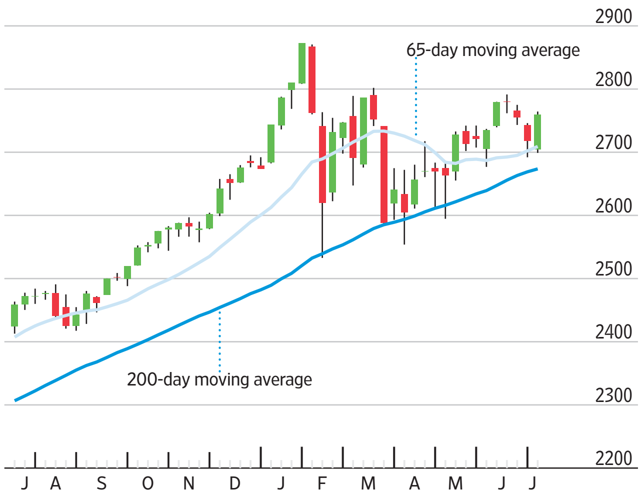
*Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

S&P 500 Index

2759.82 ▲41.45, or 1.52% last week

High, low, open and close for each of the past 52 weeks

	Last	Year ago
Trailing P/E ratio *	24.15	23.77
P/E estimate *	17.22	18.56
Dividend yield	1.89	2.01
All-time high	2872.87, 01/26/18	



Financial Flashback

The Wall Street Journal, July 9, 1997

ING Groep NV agreed to pay $2.2 billion for Equitable of Iowa Cos., doubling the size of its U.S. life-insurance operations.

Major U.S. Stock-Market Indexes

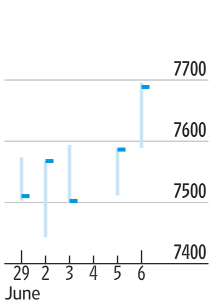
	Latest Week High	Low	Close	Net chg	% chg	52-Week Low	Close (●)	High	% chg	% chg YTD	3-yr. ann.
Dow Jones											
Industrial Average	24520.29	24077.56	**24456.48**	185.07	0.76	21408.52		26616.71	**14.2**	-1.1	**11.4**
Transportation Avg	10520.08	10291.45	**10473.93**	128.94	1.25	9021.12		11373.38	**8.0**	-1.3	**9.0**
Utility Average	731.26	709.42	**729.37**	17.73	2.49	647.90		774.47	**3.9**	0.8	**9.0**
Total Stock Market	28831.07	28122.58	**28792.09**	478.32	1.69	25030.26		29630.47	**14.6**	4.0	**9.9**
Barron's 400	754.54	731.60	**753.76**	15.37	2.08	629.56		760.51	**16.3**	6.0	**10.1**
Nasdaq Stock Market											
Nasdaq Composite	7695.81	7443.10	**7688.39**	178.08	2.37	6153.08		7781.51	**25.0**	11.4	**15.5**
Nasdaq 100	7217.00	6969.16	**7207.33**	166.53	2.37	5656.47		7280.7	**27.4**	12.7	**17.7**
S&P											
500 Index	2764.41	2698.95	**2759.82**	41.45	1.52	2425.18		2872.87	**13.8**	3.2	**10.1**
MidCap 400	1992.94	1936.24	**1989.49**	37.82	1.94	1691.67		2003.97	**13.9**	4.7	**9.9**
SmallCap 600	1051.05	1009.53	**1049.94**	32.56	3.20	817.25		1052.4	**22.8**	12.1	**13.6**
Other Indexes											
Russell 2000	1695.18	1631.06	**1694.05**	50.98	3.10	1356.90		1706.99	**19.7**	10.3	**10.8**
NYSE Composite	12684.35	12400.54	**12664.88**	160.63	1.28	11699.83		13637.02	**7.8**	-1.1	**5.5**
Value Line	581.50	564.82	**580.88**	11.25	1.97	503.24		589.69	**11.7**	3.3	**5.3**
NYSE Arca Biotech	5008.71	4707.77	**5008.06**	256.18	5.39	3787.17		5018.28	**28.3**	18.6	**6.3**
NYSE Arca Pharma	543.58	522.63	**542.62**	15.15	2.87	514.66		593.12	**1.9**	-0.4	**-2.1**
KBW Bank	105.44	103.01	**104.33**	0.44	0.42	89.71		116.52	**7.4**	-2.2	**10.6**
PHLX§ Gold/Silver	83.96	80.62	**83.75**	2.16	2.64	76.42		93.26	**8.1**	-1.8	**9.7**
PHLX§ Oil Service	154.58	149.42	**154.25**	-0.62	-0.40	117.79		170.18	**21.7**	3.1	**-6.6**
PHLX§ Semiconductor	1351.31	1293.78	**1349.19**	35.48	2.70	1054.90		1445.9	**27.9**	7.7	**26.0**
CBOE Volatility	18.08	13.34	**13.37**	-2.72	-16.90	9.14		37.32	**19.5**	21.1	**-7.7**

§Nasdaq PHLX

Sources: SIX Financial Information; WSJ Market Data Group

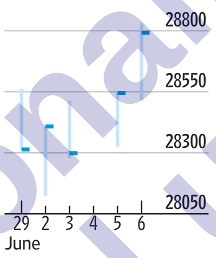
Nasdaq Composite

▲ 178.08, or 2.37% last week



DJ US TSM

▲ 478.32, or 1.69% last week



International Stock Indexes

Region/Country	Index	Latest Week Close	% chg	52-Week Range Low	Close	High	YTD % chg
World	**The Global Dow**	3007.63	0.96	2771.46		3323.74	-2.6
	DJ Global Index	394.56	0.86	358.71		425.41	-0.7
	DJ Global ex U.S.	253.65	0.08	239.56		285.34	-4.9
Americas	**DJ Americas**	660.58	1.59	582.66		687.75	2.8
Brazil	**Sao Paulo Bovespa**	75010.39	3.09	62322.40		87652.64	-1.8
Canada	**S&P/TSX Comp**	16371.78	0.58	14951.88		16450.14	1.0
Mexico	**S&P/BMV IPC**	48981.41	2.77	44647.37		51713.38	-0.8
Chile	**Santiago IPSA**	3912.20	-0.31	3688.64		4442.56	-7.1
EMEA	**Stoxx Europe 600**	382.36	0.64	363.18		402.81	-1.8
	Stoxx Europe 50	3072.55	0.97	2894.75		3274.97	-3.3
Eurozone	**Euro Stoxx**	381.67	1.26	366.11		404.86	-1.0
	Euro Stoxx 50	3448.49	1.56	3278.72		3697.40	-1.6
Austria	**ATX**	3268.94	0.40	3124.61		3688.78	-4.4
Belgium	**Bel-20**	3770.67	1.37	3697.28		4176.88	-5.2
France	**CAC 40**	5375.77	0.98	5031.92		5640.10	1.2
Germany	**DAX**	12496.17	1.55	11787.26		13559.60	-3.3
Greece	**Athex Composite**	747.04	-1.39	701.36		886.54	-6.9
Israel	**Tel Aviv**	1523.75	0.46	1363.50		1554.30	0.9
Italy	**FTSE MIB**	21925.51	1.38	21015		24544	0.3
Netherlands	**AEX**	553.62	0.35	509.92		572.05	1.7
Portugal	**PSI 20**	5599.76	1.29	5074.49		5791.88	3.9
Russia	**RTS Index**	1173.47	1.67	995.24		1324.62	1.6
South Africa	**FTSE/JSE All-Share**	57313.88	-0.52	51900.26		61684.77	-3.7
Spain	**IBEX 35**	9905.00	2.93	9381.0		10734.7	-1.4
Sweden	**OMX Stockholm**	565.54	-1.47	545.83		600.20	-0.6
Switzerland	**Swiss Market**	8697.42	1.02	8456.95		9611.61	-7.3
U.K.	**FTSE 100**	7617.70	-0.25	6888.69		7877.45	-0.9
Asia-Pacific							
Australia	**S&P/ASX 200**	6272.30	1.25	5651.8		6272.3	3.4
China	**Shanghai Composite**	2747.23	-3.52	2733.88		3559.47	-16.9
Hong Kong	**Hang Seng**	28315.62	-2.21	25340.85		33154.12	-5.4
India	**S&P BSE Sensex**	35657.86	0.66	31159.81		36283.25	4.7
Japan	**Nikkei Stock Avg**	21788.14	-2.32	19274.82		24124.15	-4.3
Malaysia	**FTSE Bursa Malaysia KLCI**	1663.86	-1.63	1663.86		1895.18	-7.4
Singapore	**Straits Times**	3191.82	-2.35	3191.82		3615.28	-6.2
South Korea	**Kospi**	2272.87	-2.29	2257.55		2598.19	-7.9
Taiwan	**TAIEX**	10608.57	-2.11	10225.28		11253.11	-0.3

Source: SIX Financial Information; WSJ Market Data Group

Commodities and Currencies

	Last Week Close	Net chg	% Chg	YTD % chg
DJ Commodity	631.59	-9.35	**-1.46**	1.00
TR/CC CRB Index	198.05	-2.33	**-1.16**	2.16
Crude oil, $ per barrel	73.80	-0.35	**-0.47**	22.14
Natural gas, $/MMBtu	2.858	-0.066	**-2.26**	-3.22
Gold, $ per troy oz.	1254.30	3.00	**0.24**	-3.98
U.S. Dollar Index	93.96	-0.67	**-0.71**	2.00
WSJ Dollar Index	87.62	-0.41	**-0.47**	1.91
Euro, per dollar	0.8515	-0.0044	**-0.52**	2.21
Yen, per dollar	110.46	-0.25	**-0.22**	-1.99
U.K. pound, in dollars	1.33	0.0082	**0.62**	-1.67

	52-Week Low	Close (●)	High	% Chg
DJ Commodity	550.51		667.35	**14.73**
TR/CC CRB Index	172.56		206.38	**14.77**
Crude oil, $ per barrel	44.23		74.15	**66.86**
Natural gas, $/MMBtu	2.55		3.63	**-0.21**
Gold, $ per troy oz.	1208.60		1362.40	**3.78**
U.S. Dollar Index	88.59		96.06	**-2.12**
WSJ Dollar Index	82.70		88.51	**-0.83**
Euro, per dollar	0.7996		0.8773	**-2.90**
Yen, per dollar	104.73		114.17	**-3.02**
U.K. pound, in dollars	1.28		1.43	**3.10**

New to the Market

Public Offerings of Stock

IPOs in the U.S. Market

None expected this week

Lockup Expirations

Below, companies whose officers and other insiders will become eligible to sell shares in their newly public companies for the first time. Such sales can move the stock's price.

Lockup expiration	Issue date	Issuer	Symbol	Offer price($)	Offer amt ($ mil.)	Through Friday (%)	Lockup provision
July 10	Jan. 11, '18	Industrial Logistics Properties Trust	**ILPT**	24.00	480.0	**-5.8**	180 days
	Jan. 11, '18	Liberty Oilfield Services	**LBRT**	17.00	248.9	**10.2**	180 days

Sources: Dealogic; WSJ Market Data Group

IPO Scorecard

Performance of IPOs, most-recent listed first

Company SYMBOL IPO date/Offer price	Friday's close ($)	% Chg From Offer price	1st-day close	Company SYMBOL IPO date/Offer price	Friday's close ($)	% Chg From Offer price	1st-day close
Allegro Merger **ALGRU** July 3/$10.00	10.06	**0.6**	0.1	EverQuote **EVER** June 28/$18.00	17.70	**-1.7**	-1.8
Domo **DOMO** June 29/$21.00	21.89	**4.2**	-19.8	Forty Seven **FTSV** June 28/$16.00	15.60	**-2.5**	3.7
Entera Bio **ENTX** June 28/$8.00	6.60	**-17.5**	5.1	HL Acquisitions **HCCHU** June 28/$10.00	10.08	**0.8**	0.1
BJ's Wholesale Club **BJ** June 28/$17.00	23.65	**39.1**	7.5	Neuronetics **STIM** June 28/$17.00	25.50	**50.0**	-8.2
BrightView Hldgs **BV** June 28/$22.00	21.85	**-0.7**	2.1	New Frontier **NFC.U** June 28/$10.00	10.00	...	-0.3

Sources: WSJ Market Data Group; FactSet Research Systems

Other Stock Offerings

Secondaries and follow-ons expected this week in the U.S. market

Expected	Issuer/Business	Symbol/ Primary exchange	Amount ($mil.)	Friday's price ($)	Bookrunner(s)
July 9	SELLAS Life Sciences Group Healthcare	**SLS** Nq	34.6	3.47	RBC Cptl Mkts, Cantor Fitzgerald & Co

Off the Shelf

None expected this week

Public and Private Borrowing

Treasurys

Monday, July 9

Auction of 13 week bill; announced on July 5; settles on July 12

Auction of 26 week bill; announced on July 5; settles on July 12

Tuesday, July 10

Auction of 4 week bill; announced on July 9; settles on July 12

Auction of 3 year note; announced on July 5; settles on July 16

Wednesday, July 11

Auction of 10 year note; announced on July 5; settles on July 16

Thursday July 12

Auction of 30 year bond; announced on July 5; settles on July 16

Public and Municipal Finance

Deals of $150 million or more expected this week

Sale	Final maturity	Issuer	Total ($mil.)	Rating Fitch	Moody's	S&P	Bookrunner/ Bond Counsel(s)
July 10	June 27, 2019	Colorado	310.0	N.R.	N.R.	N.R.	Preliminary/ Kutak Rock
July 10	Feb. 15, 2048	Massachusetts School Bldg Auth	200.0	N.R.	N.R.	N.R.	Preliminary/ Mintz Levin Cohn Ferris
July 11	July 1, 2025	Metro Atlanta Rapid Transit Auth	168.1	N.R.	N.R.	N.R.	Preliminary/ Holland & Knight
July 12	June 26, 2019	Colorado	600.0	N.R.	N.R.	N.R.	Preliminary/ Greenberg Traurig PA
July 13	prelim.	California State Univ Trustees	154.6	N.R.	N.R.	N.R.	M. Stanley/—
July 13	prelim.	California State Univ Trustees	514.1	N.R.	N.R.	N.R.	M. Stanley/—
July 13	prelim.	Houston City- Texas	249.1	N.R.	N.R.	N.R.	BoA Merrill/—
July 13	prelim.	Marion (Salem-Keizer) SD #24-J	391.3	N.R.	N.R.	N.R.	Piper Jaffray/—
July 13	prelim.	San Diego USD	200.0	N.R.	N.R.	N.R.	Citi/—
July 13	prelim.	Texas Water Development Board	240.3	N.R.	N.R.	N.R.	Piper Jaffray/—

Source: Thomson Reuters/Ipreo

Closed-End Funds | WSJ.com/funds

Listed are the 300 largest closed-end funds as measured by assets. Closed-end funds sell a limited number of shares and invest the proceeds in securities. Unlike open-end funds, closed-ends generally do not buy their shares back from investors who wish to cash in their holdings. Instead, fund shares trade on a stock exchange. **NA** signifies that the information is not available or not applicable. **NS** signifies fund not in existence of entire period. 12 month yield is computed by dividing income dividends paid (during the previous twelve months for periods ending at month-end or during the previous fifty-two weeks for periods ending at any time other than month-end) by the latest month-end market price adjusted for capital gains distributions.

Source: Lipper

Friday, July 6, 2018

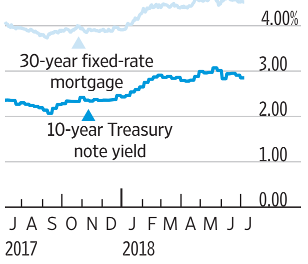
Fund (SYM)	NAV	Close	Prem /Disc	52 wk Ttl Ret
General Equity Funds				
Adams Divers Equity Fd **ADX**	18.16	15.55	-14.4	18.4
Boulder Growth & Income **BIF**	12.35	10.31	-16.5	9.0
Central Securities **CET**	33.91	28.15	-17.0	16.6
CohSteer Opprtnty Fd **FOF**	13.57	13.07	-3.7	8.6
Cornerstone Strategic **CLM**	12.60	13.82	+9.7	5.5
Cornerstone TR Fd **CRF**	12.25	13.78	+12.5	6.2
EtnVnc TaxAdvDiv **EVT**	23.19	23.05	-0.6	13.7
Gabelli Dividend & Incm **GDV**	24.35	22.98	-5.6	11.1
Gabelli Equity Trust **GAB**	6.39	6.30	-1.4	12.5
Genl American Investors **GAM**	41.54	34.61	-16.7	11.1
HnckJohn TxAdv **HTD**	25.56	23.76	-7.0	0.4
Liberty All-Star Equity **USA**	6.87	6.51	-5.2	27.0
Royce Micro-Cap **RMT**	11.17	10.32	-7.6	27.5
Royce Value Trust **RVT**	17.50	15.86	-9.4	17.0
Source Capital **SOR**	44.87	39.93	-11.0	5.3
Tri-Continental **TY**	30.34	26.70	-12.0	15.0
Specialized Equity Funds				
Aberdeen Glbl Prem Prop **AWP**	6.92	6.36	-8.1	11.4
Adams Natural Rscs Fd **PEO**	23.73	19.99	-15.8	15.6
AllnzGI NFJ Div Interest **NFJ**	14.41	12.62	-12.4	3.5
BlkRk Enh Cap Inco **CII**	17.11	16.39	-4.2	16.5
BlkRk Engy Res Tr **BGR**	15.89	15.22	-4.2	28.3
BlackRock Enh Eq Div Tr **BDJ**	9.68	9.06	-6.4	8.7
BlackRock Enh Gl Div Tr **BOE**	11.99	11.16	-6.9	0.1
BlkRk Intl Grwth&Inco **BGY**	6.40	5.78	-9.7	-1.4
BlkRk Health Sci **BME**	37.03	39.86	+7.6	15.8
BlackRck Rscs Comm Str Tr **BCX**	10.19	9.16	-10.1	20.4
BlackRock Science & Tech **BST**	31.30	32.98	+5.4	54.3
BlackRock Utilities Infr **BUI**	20.43	20.56	+0.6	8.0
CBREClarionGlblRlEstIncm **IGR**	8.64	7.62	-11.8	7.9
ClearBridge Amer Engy **CBA**	8.17	7.63	-6.6	-5.6
ClearBridge Engy MLP Fd **CEM**	14.78	14.13	-4.4	1.8
Clearbridge Engy MLP Opp **EMO**	11.64	10.97	-5.8	-2.1
Clearbridge Engy MLP TR **CTR**	11.88	11.34	-4.5	-1.2
Cohen & Steers Infr Fd **UTF**	24.59	23.03	-6.3	8.5
C&S MLP Incm & Engy Opp **MIE**	10.74	10.16	-5.4	4.1
Cohen & Steers Qual Inc **RQI**	13.30	12.24	-8.0	4.6
CohnStrsPfdInco **RNP**	22.09	19.54	-11.5	1.5
Cohen & Steers TR **RFI**	13.14	12.72	-3.2	10.0
CLSeligmn Prem Tech Gr Fd **STK**	21.44	21.61	+0.8	12.5
DNP Select Income Fund **DNP**	9.44	10.88	+15.2	7.2
Duff&PhelpsGlbUtilIncFd **DPG**	16.59	14.62	-11.9	-2.2
Eaton Vance Eqty Inco Fd **EOI**	15.12	15.32	+1.3	21.1
Eaton Vance Eqty Inco II **EOS**	NA	16.95	NA	24.1
EtnVncRskMngd **ETJ**	9.74	9.51	-2.4	11.5
Etn Vnc Tax Mgd Buy-Write **ETB**	15.92	16.17	+1.6	6.2
Eaton Vance BuyWrite Opp **ETV**	15.13	15.50	+2.4	11.0
Eaton Vance Tax-Mng Div **ETY**	12.26	12.32	+0.5	17.6
Eaton Vance Tax-Mngd Opp **ETW**	11.18	11.92	+6.6	14.3
EtnVncTxMngGlDvEqInc **EXG**	9.17	9.47	+3.3	14.0
FT Energy Inc & Growth Fd **FEN**	22.90	22.97	+0.3	-1.4
FstTrEnhEqtIncFd **FFA**	16.09	15.68	-2.5	13.9
First Tr Engy Infr Fd **FIF**	17.30	16.23	-6.2	-4.0
First Tr MLP & Engy Incm **FEI**	13.00	12.91	-0.7	-6.4
Gabelli Hlthcr & Well **GRX**	12.15	10.29	-15.3	1.3
Gabelli Utility Tr **GUT**	5.17	6.02	+16.4	-3.2
GAMCOGlblGoldNatRscs&Inc **GGN**	5.12	5.13	+0.2	5.6
Goldman Sachs MLP Inc Opp **GMZ**	NA	9.19	NA	4.5
Goldman Sachs MLP Energy **GER**	NA	6.20	NA	-5.8
John Hancock Finl Opps Fd **BTO**	38.69	37.62	-2.8	6.6
Macquarie Glbl Infrstrctr **MGU**	26.82	23.17	-13.6	2.3
Neuberger Berman MLP Incm **NML**	9.64	8.95	-7.2	0.4
Neubrgr Brm Rl Est Sec Fd **NRO**	5.51	5.20	-5.6	8.9
Nuveen Dow 30 Dynamic **DIAX**	18.16	18.40	+1.3	19.3
Nuveen Core Eq Alpha **JCE**	14.70	14.40	-2.0	14.7
Nuveen Diversified Div **JDD**	12.01	11.71	-2.5	2.3
Nuveen Engy MLP Fd **JMF**	11.32	10.78	-4.8	-8.8
Nuv NASDAQ 100 Dyn Over **QQQX**	23.53	25.94	+10.2	28.9
Nuveen Real Est Incm Fd **JRS**	11.10	10.08	-9.2	-0.7
Nuveen Real Asset Income **JRI**	18.78	16.12	-14.2	-2.2
Nuv S&P 500 Dyn Overwrite **SPXX**	NA	16.52	NA	15.7
Nuveen S&P 500 Buy-Write **BXMX**	13.96	14.17	+1.5	8.6
Reaves Utility Fund **UTG**	32.42	29.46	-9.1	-9.4
Tekla Hlthcr Investors **HQH**	24.72	22.47	-9.1	NE
Tortoise Energy **TYG**	25.87	26.30	+1.7	-2.2
Tortoise MLP Fund **NTG**	16.16	16.12	-0.2	-6.0
Voya Gl Equity Div **IGD**	7.60	7.34	-3.4	7.1
Income & Preferred Stock Funds				
Calamos Strat Fd **CSQ**	12.96	12.73	-1.8	16.9
Cohen & Steers Dur Pfd **LDP**	25.66	25.23	-1.7	2.1
Cohen & Strs Sel Prf Inco **PSF**	26.17	27.31	+4.3	4.6
FT Interm Duration Pfd **FPF**	23.27	21.59	-7.2	-4.8
John Hancock Pfd Income **HPI**	21.79	22.11	+1.5	8.8
John Hancock Pfd II **HPF**	21.51	21.63	+0.6	6.0
John Hancock Pfd Inc III **HPS**	19.18	18.80	-2.0	6.5
JHancock Pr Div **PDT**	15.30	16.83	+10.0	11.0
LMP Cap & Inco Fd **SCD**	14.44	12.98	-10.1	0.3
Nuveen Pfd & Incm Opps Fd **JPC**	10.15	9.49	-6.5	-1.6
Nuveen Pfd & Incm Secs Fd **JPS**	9.65	8.96	-7.2	-6.4
Nuveen Preferred & Incm **JPI**	24.27	23.30	-4.0	0.5
Nuv Tax-Adv Div Gr **JTD**	17.31	16.68	-3.6	11.7
TCW Strategic Income Fund **TSI**	NA	5.47	NA	4.5
Virtus Global Dividend **ZTR**	11.17	11.49	+2.9	1.0
Convertible Sec's. Funds				
AdvntClymrFd **AVK**	17.21	15.27	-11.3	2.5
AllianzGI Conv & Incm **NCV**	6.35	7.04	+10.9	12.0
AllianzGI Conv & Incm II **NCZ**	5.70	6.07	+6.5	8.7
AllianzGI Equity & Conv **NIE**	23.99	22.44	-6.5	21.8
Calamos Conv Hi Inco Fd **CHY**	11.86	12.90	+8.8	20.0
Calamos **CHI**	11.24	11.83	+5.2	16.0
World Equity Funds				
Aberdeen Total Dyn Div **AOD**	9.95	8.84	-11.2	8.8
Calamos Glbl Dyn Inc **CHW**	8.85	8.99	+1.6	15.4
Cdn Genl Inv **CGI**	36.01	NA	NA	NA
China Fund **CHN**	22.28	20.48	-8.1	13.1
Clough Global Opp Fd **GLO**	12.04	11.05	-8.2	16.8
EtnVncTxAdvGblDiv **ETG**	18.06	17.16	-5.0	7.6
EatonVance TxAdv Opport **ETO**	24.10	24.34	+1.0	8.1
First Trust Dynamic Eur **FDEU**	17.75	16.13	-9.1	-6.1
Gabelli Glbl Multimedia **GGT**	9.17	9.01	-1.7	9.3
GDL Fund **GDL**	11.27	9.18	-18.5	-5.8
India Fund **IFN**	27.71	24.32	-12.2	5.5
Japan Sml Cap **JOF**	12.90	11.25	-12.8	15.0
Korea Fund **KF**	41.37	37.32	-9.8	3.9
Mexico Fund **MXF**	18.72	16.15	-13.7	-4.5
Morgan-Stanley Asia-Pac **APF**	19.73	16.87	-14.5	4.3
MS China a Shr Fd **CAF**	26.14	21.95	-16.0	2.8

Continued on Page B8

Consumer Rates and Returns to Investor

U.S. consumer rates

A consumer rate against its benchmark over the past year



Selected rates

30-year mortgage, Rate

Bankrate.com avg†:	**4.52%**
Lincoln Savings Bank	**3.63%**
Waterloo, IA	866-235-2098
First Mutual Bank, FSB	**4.25%**
Belpre, OH	304-422-1212
Crossroads Bank	**4.50%**
Wabash, IN	260-563-3185
Florence Savings Bank	**4.50%**
Florence, MA	800-644-8261
Iowa State Bank	**4.50%**
Hull, IA	712-439-1025

Interest rate	Yield/Rate (%) Last (●)	Week ago	52-Week Range (%) Low	High	3-yr chg (pct pts)
Federal-funds rate target	1.75-2.00	1.75-2.00	1.00	1.75	**1.75**
Prime rate*	5.00	5.00	4.25	5.00	**1.75**
Libor, 3-month	2.33	2.34	1.30	2.37	**2.05**
Money market, annual yield	0.53	0.52	0.25	0.53	**0.20**
Five-year CD, annual yield	1.74	1.74	1.39	1.74	**0.28**
30-year mortgage, fixed†	4.52	4.52	3.73	4.69	**0.36**
15-year mortgage, fixed†	4.00	4.00	2.99	4.14	**0.67**
Jumbo mortgages, $424,100-plus†	4.71	4.73	4.21	4.96	**0.24**
Five-year adj mortgage (ARM)†	4.28	4.37	3.22	4.78	**0.79**
New-car loan, 48-month	3.72	3.74	2.85	4.28	**0.67**

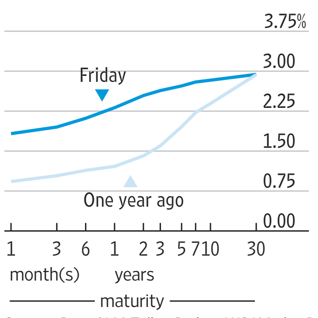
Bankrate.com rates based on survey of over 4,800 online banks. *Base rate posted by 70% of the nation's largest banks.† Excludes closing costs.

Sources: SIX Financial Information; WSJ Market Data Group; Bankrate.com

Benchmark Yields and Rates

Treasury yield curve

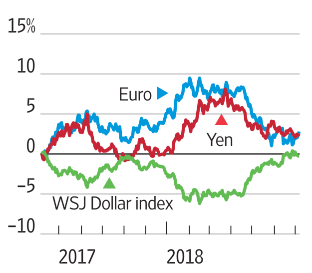
Yield to maturity of current bills, notes and bonds



Sources: Ryan ALM; Tullett Prebon; WSJ Market Data Group

Forex Race

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Corporate Borrowing Rates and Yields

Bond total return index	Yield (%) Last	Wk ago	Spread +/- Treasurys, in basis pts, 52-wk Range Last	Low	High	Total Return 52-wk	3-yr
10-yr Treasury, Ryan ALM	2.831	2.847				-1.61	0.35
DJ Corporate	3.913	3.931				-0.45	2.95
Aggregate, Barclays Capital	3.290	3.290	n.a.	34	45	0.10	1.70
High Yield 100, Merrill Lynch	6.193	6.089	341	293	376	2.131	4.062
Fixed-Rate MBS, Barclays	3.420	3.410	n.a.	20	33	0.44	1.45
Muni Master, Merrill	2.443	2.462	13	5	17	1.453	2.458
EMBI Global, J.P. Morgan	6.557	6.725	374	289	394	-0.355	4.719

Sources: J.P. Morgan; Ryan ALM; S&P Dow Jones Indices; Barclays Capital; Merrill Lynch

CLOSED-END FUNDS

Continued from Page B7

Fund (SYM)	NAV	Close	Prem /Disc	52 wk Ttl Ret
MS Emerging Fund **MSF**	18.58	16.11	-13.3	-0.1
MS India Invest **IIF**	29.71	25.99	-12.5	-2.1
New Germany Fund **GF**	20.70	18.31	-11.5	17.6
Swiss Helvetia Fund **SWZ**	13.25	12.42	-6.3	0.6
Templeton Dragon **TDF**	24.24	20.85	-14.0	10.7
Templeton Emerging **EMF**	16.85	14.69	-12.8	5.6
Virtus Total Return Fund **ZF**	11.65	11.23	-3.6	2.7
Voya Infr Indls & Matls **IDE**	15.12	14.86	-1.7	4.4
Wells Fargo Gl Div Opp **EOD**	6.07	5.65	-6.9	3.6

Fund (SYM)	NAV	Close	Prem /Disc	12 Mo Yld
U.S. Mortgage Bond Funds				
BlackRock Income Trust **BKT**	6.35	5.83	-8.2	5.4
Nuveen Mtg Opp Term Fd **JLS**	24.31	23.42	-3.7	8.0
Investment Grade Bond Funds				
Blackrock Core Bond Tr **BHK**	14.06	12.87	-8.5	6.1
BlkRk Credit Alloc Incm **BTZ**	14.00	12.16	-13.1	6.7
John Hancock Income Secs **JHS**	14.54	13.36	-8.1	5.6
MFS Inc Tr **MIN**	4.15	3.85	-7.2	9.6
Western Asset Infl Incm **WIA**	12.93	11.34	-12.3	3.6
Western Asset Infl Opps **WIW**	12.56	11.14	-11.3	3.8
Loan Participation Funds				
Apollo Sr Fltg Rate Fd **AFT**	17.63	16.16	-8.3	6.7
BlkRk Debt Strat Fd **DSU**	12.48	11.22	-10.1	7.3
BlackRock FR Incm Strat **FRA**	14.86	14.00	-5.8	5.2
Blkrk FltRt InTr **BGT**	14.33	13.16	-8.2	5.3
BlackstoneGSO Strat Cred **BGB**	NA	15.90	NA	7.9
Blackstone GSO Sr Float **BSL**	NA	17.98	NA	6.4
Eagle Point Credit **ECC**	NA	18.65	NA	12.1
Eaton Vance FR Incm Tr **EFT**	NA	14.57	NA	5.7
EatonVnc SrFltRate **EFR**	NA	14.31	NA	5.9
Eaton Vance Sr Incm Tr **EVF**	NA	6.40	NA	5.7
First Trust Sr FR Fd II **FCT**	13.95	12.73	-8.7	5.8
FT Sr Floating Rate 2022 **FIV**	9.58	9.25	-3.4	5.3
Highland FR Opps Fd **HFRO**	15.18	NA	NA	NA
Invesco Credit Opps Fund **VTA**	13.10	11.63	-11.2	6.8
Invesco Senior Income Tr **VVR**	4.90	4.28	-12.7	5.6
Nuveen Credit Strt Inc Fd **JQC**	9.08	7.96	-12.3	6.9
NuvFloatRteIncoFd **JFR**	11.51	10.48	-8.9	7.5
Nuv Float Rte Opp Fd **JRO**	11.44	10.41	-9.0	7.7
Nuveen Senior Income Fund **NSL**	6.88	6.20	-9.9	7.3
Pioneer Floating Rate Tr **PHD**	12.33	11.17	-9.4	6.4
Voya Prime Rate Trust **PPR**	5.65	5.04	-10.8	5.5
High Yield Bond Funds				
AllianceBernstein Glbl **AWF**	13.24	11.55	-12.8	7.2
Barings Glbl Short Dur HY **BGH**	20.45	18.67	-8.7	9.6
BlackRock Corp Hi Yd Fd **HYT**	11.80	10.52	-10.8	8.0
BlackRockDurInco Tr **BLW**	16.61	14.84	-10.7	6.4
Brookfield Real Assets **RA**	24.34	22.98	-5.6	10.5
Credit Suisse High Yld **DHY**	2.66	2.63	-1.1	9.6
DoubleLine Incm Solutions **DSL**	20.45	20.31	-0.7	9.0
Dreyfus Hi Yd Strat Fd **DHF**	3.38	3.13	-7.4	9.0
Fst Tr Hi Inc Lg/Shrt Fd **FSD**	16.80	14.55	-13.4	9.7
Ivy High Income Opps Fund **IVH**	15.91	14.29	-10.2	9.3
Neuberger Berman HYS **NHS**	NA	10.87	NA	7.8
NexPoint Strat Opps Fund **NHF**	24.73	22.24	-10.1	10.9
Nuveen Credit Opps 2022 **JCO**	9.80	9.56	-2.4	5.9
Nuveen Gl Hi Incm Fd **JGH**	17.72	15.27	-13.8	9.2
Nuveen High Incm Dec18 **JHA**	9.97	9.85	-1.2	4.0
Nuveen High Incm Dec19 **JHD**	10.04	9.83	-2.1	5.1
Nuveen Hi Incm Nov 2021 **JHB**	9.93	9.55	-3.8	6.1
PGIM Global Short Dur HY **GHY**	16.09	13.71	-14.8	7.6
PGIM Short Duration HY Fd **ISD**	16.26	14.01	-13.8	7.7
Pioneer High Income Trust **PHT**	10.37	9.27	-10.6	8.4
Wells Fargo Incm Opps Fd **EAD**	NA	8.00	NA	8.3
Wstrn Asset Glbl Hi Inco **EHI**	10.54	9.17	-13.0	8.4
Wstrn Asset High Inco II **HIX**	7.26	6.45	-11.2	8.8
Wstrn Asset Opp Fd **HIO**	5.40	4.78	-11.5	6.9
West Asst HY Def Opp Fd **HYI**	16.17	14.48	-10.5	7.6
Other Domestic Taxable Bond Funds				
Ares Dynamic Credit Alloc **ARDC**	NA	16.07	NA	7.2
Barings Corp Investors **MCI**	NA	15.24	NA	7.9
BlackRock Multi-Sector IT **BIT**	18.72	17.17	-8.3	8.9
BlackRock Taxable Mun Bd **BBN**	23.37	21.99	-5.9	7.1
Doubleline Oppor Credit **DBL**	20.38	20.95	+2.8	9.5
Duff & Phelps Utl & Cp Bd **DUC**	9.23	8.64	-6.4	5.8
EtnVncLtdFd **EVV**	NA	12.61	NA	7.4
Franklin Ltd Duration IT **FTF**	11.63	11.03	-5.2	12.3
Invesco High Incm 2023 **IHIT**	10.09	9.83	-2.6	6.0
KKR Income Opps Fund **KIO**	NA	16.70	NA	9.3
MFS Charter **MCR**	8.75	7.84	-10.4	9.2
Nuveen Build Am Bd Fd **NBB**	21.81	20.51	-6.0	6.0
PIMCO Corporate & Incm **PTY**	14.63	17.69	+20.9	8.9
PIMCO Corporate & Incm **PCN**	14.80	17.96	+21.4	7.6
PIMCO HiInco **PHK**	NA	8.69	NA	11.6
PIMCO Inco Str Fd **PFL**	11.08	12.10	+9.2	9.1
PIMCO Incm Strategy Fd II **PFN**	10.01	10.62	+6.1	9.1
Putnam Mas Inco **PIM**	5.02	4.57	-9.0	6.5
Putnam Premier Income Tr **PPT**	5.60	5.24	-6.4	5.9
Wells Fargo Multi-Sector **ERC**	NA	12.58	NA	10.3
World Income Funds				
Abeerden Asia-Pacific **FAX**	4.94	4.34	-12.1	9.7
Brandywine Global Incm **BWG**	13.37	11.51	-13.9	8.6
Etn Vnc Short Dur Fd **EVG**	14.88	12.92	-13.2	6.8
MS EmMktDomDebt **EDD**	7.77	6.90	-11.2	8.9
PIMCO Dynamic Credit **PCI**	23.79	23.77	-0.1	8.3
PIMCO Dynamic Income Fund **PDI**	29.08	32.20	+10.7	8.3
PIMCO Income Opportunity **PKO**	25.15	27.72	+10.2	8.3
PIMCO Strat Income Fund **RCS**	NA	9.81	NA	8.9
Templeton Emerging **TEI**	11.45	10.44	-8.8	8.5
Templeton Global **GIM**	7.08	6.15	-13.1	5.1
Wstrn Asset Emerg Mkts **EMD**	15.63	13.55	-13.3	8.7
Wstrn Asset Gl Def Opp Fd **GDO**	17.85	16.56	-7.2	7.9
National Muni Bond Funds				
AllianceBrnstn NtlMun **AFB**	14.37	12.66	-11.9	4.6
Blackrock Invest **BKN**	15.50	NA	NA	5.1
BlackRock Mun 2030 Target **BTT**	23.70	21.57	-9.0	4.0
BlackRock Municipal Trust **BFK**	14.10	12.91	-8.4	5.8
BlackRockMuni **BLE**	14.65	13.94	-4.8	5.6
BlackRockMuni Tr **BYM**	14.81	13.09	-11.6	5.3
BlkRk MuniAssets Fd **MUA**	14.12	13.14	-6.9	5.0
BlkRk Munienhanced **MEN**	11.62	10.45	-10.1	5.9
BlkRk MuniHldgs Inv **MFL**	14.22	12.94	-9.0	6.1
BlkRk MuniHldgs Qlty II **MUE**	13.62	12.22	-10.3	5.9
BlkRk MuniVest **MVF**	9.43	8.80	-6.7	6.0
BlkRk MuniVest II **MVT**	14.86	14.11	-5.0	6.0
BlkRk MuniYield **MYD**	14.50	13.42	-7.4	5.9
BlkRk MuniYld Quality **MQY**	15.43	13.72	-11.1	5.7
BlkRk MuniYld Qlty II **MQT**	13.55	12.04	-11.1	5.5
BlRkMunyldQltyIII **MYI**	14.04	12.54	-10.7	5.9
Dreyfus Mun Bd Infr Fd **DMB**	14.10	12.40	-12.1	5.1
Dreyfus Strat Muni Bond **DSM**	8.22	7.51	-8.6	6.1
Dreyfus Strategic Munis **LEO**	8.44	7.68	-9.0	6.2
DWS Muni Income Trust **KTF**	12.17	11.00	-9.6	5.9
Eaton Vance Mun Bd Fd **EIM**	13.25	11.84	-10.6	5.1
Eaton Vance Mun Income **EVN**	13.11	11.96	-8.8	5.4
EV National Municipal Opp **EOT**	21.31	20.42	-4.2	5.0
Invesco Adv Mun Incm II **VKI**	11.79	10.65	-9.7	6.0
Invesco Mun Incm Opps Tr **OIA**	7.49	7.58	+1.2	5.4
Invesco Mun Opportunity **VMO**	13.16	11.77	-10.6	5.7
Invesco Municipal Trust **VKQ**	13.14	11.83	-10.0	5.9
Invesco Qlty Mun Inco **IQI**	13.24	11.94	-9.8	5.6
Invesco Inv Grade Muni **VGM**	13.58	12.37	-8.9	6.0
Invesco Value Mun Incm Tr **IIM**	15.84	14.12	-10.9	5.2
MainStay Mac Defined Muni **MMD**	20.19	19.25	-4.7	5.5
Nuveen AMT-Free Mun Value **NUW**	16.42	15.44	-6.0	4.5
Nuveen AMT-Free Quality **NEA**	14.79	13.02	-12.0	5.3
Nuveen AMT-Free Mun **NVG**	16.20	14.67	-9.4	5.9
Nuveen Mun Credit Incm Fd **NZF**	15.72	14.37	-8.6	5.9
Nuveen Enhncd Mun Val Fd **NEV**	14.70	13.64	-7.2	5.8
Nuveen Intermed Dur Mun **NID**	13.64	12.33	-9.6	4.8
NuveenMuniIncoOpp Fd **NMZ**	13.35	12.69	-4.9	6.0
Nuveen Muni Value Fund **NUV**	10.12	9.52	-5.9	3.9
Nuveen Qual Mun Incm Fd **NAD**	15.07	13.28	-11.9	5.3
Nuveen Sel TF **NXQ**	14.60	13.58	-7.0	3.6
PIMCO MuniFd **PMF**	12.63	13.26	+5.0	5.4
Pimco Muni Inc II **PML**	11.88	13.27	+11.7	5.9
PIMCO Muni Inc III **PMX**	10.82	11.57	+6.9	5.7
Pioneer Mun Hi Inc Adv Tr **MAV**	11.62	10.93	-5.9	5.6
Pioneer Mun Hi Incm Tr **MHI**	12.61	11.62	-7.9	5.4
Putnam Tr **PMM**	7.86	7.00	-10.9	5.4
Putnam Muni Opportunities **PMO**	13.07	11.60	-11.2	5.2
Wstrn Asset Mngd Muni **MMU**	13.50	12.66	-6.2	5.9
Western Asset Mun Tr Fund **MTT**	20.78	20.99	+1.0	4.7
Single State Muni Bond				
BlackRock CA Municipal Tr **BFZ**	14.89	12.95	-13.0	5.2
BlkRk MuniHldgs CA Qlty **MUC**	15.11	13.21	-12.6	5.1
BlkRk MunHI NJ Qlty **MUJ**	15.29	13.03	-14.8	5.7
BlRk MuHldg NY Qlty **MHN**	14.39	12.39	-13.9	5.1
BlkRk MuniYld CA Fd **MYC**	15.20	13.37	-12.0	5.2
BlkRk MuniYld CA Quality **MCA**	15.36	13.38	-12.9	5.2
BlkRk MuniYld MI Qlty **MIY**	15.10	12.97	-14.1	5.5
BlRk Muyld NY Qlty **MYN**	13.79	11.95	-13.3	5.0
Eaton Vance CA Mun Bd **EVM**	12.04	10.27	-14.7	5.2
Invesco CA Value Mun Incm **VCV**	13.06	11.81	-9.6	5.3
Invesco PA Value Mun Incm **VPV**	13.66	12.01	-12.1	5.4
Invesco Inv Grade NY Muni **VTN**	14.17	12.75	-10.0	5.4
Nuveen CA AMT-Free Qual **NKX**	15.42	13.69	-11.2	5.4
Nuveen CA Muni Value **NCA**	10.27	9.51	-7.4	4.0
Nuveen CA Quality Muni **NAC**	15.30	13.39	-12.5	5.4
Nuveen MD Qual Muni **NMY**	14.30	12.10	-15.4	4.8
Nuveen MI Qual Muni **NUM**	15.03	12.65	-15.8	4.6
Nuveen NJ Qual Muni **NXJ**	15.52	13.03	-16.0	5.3
Nuveen NY AMT-Free **NRK**	14.18	12.29	-13.4	4.7
Nuveen NY Qual Muni **NAN**	14.73	12.59	-14.5	5.1
Nuveen OH Qual Muni **NUO**	16.22	13.84	-14.7	4.8
Nuveen PA Qual Muni **NQP**	14.92	12.65	-15.2	5.2
Nuveen VA Qual Muni **NPV**	14.18	12.55	-11.5	4.4
PIMCO California Muni **PCQ**	13.71	16.99	+23.9	5.4
PIMCO California Mun II **PCK**	8.46	8.30	-1.9	5.9

Fund (SYM)	NAV	Close	Prem /Disc	52 wk Ttl Ret
General Equity Funds				
Specialized Equity Funds				
Griffin Inst Access RE:A	27.04	NA	NA	7.1
Griffin Inst Access RE:C	26.47	NA	NA	6.3
Griffin Inst Access RE:I	27.24	NA	NA	7.4
NexPointHCOpp;A	20.22	NA	NA	NS
NexPointHCOpp;C	20.20	NA	NA	NS
NexPointHCOpp;Z	20.23	NA	NA	NS
NexPointRlEstStrat;A	21.12	NA	NA	8.2
NexPointRlEstStrat;C	21.20	NA	NA	8.1
NexPointRlEstStrat;Z	21.22	NA	NA	9.2
NorthStar RE Cap Inc:Adv	NA	NA	NA	NS
PREDEX;T	26.10	NA	NA	NS
PREDEX;W	26.10	NA	NA	NS
Resource RE Div Inc:A	10.36	NA	NA	7.2
Resource RE Div Inc:C	10.36	NA	NA	6.5
Resource RE Div Inc:D	10.52	NA	NA	6.7
Resource RE Div Inc:I	10.80	NA	NA	7.5
Resource RE Div Inc:L	10.36	NA	NA	NS
Resource RE Div Inc:T	10.34	NA	NA	6.5
Resource RE Div Inc:U	10.37	NA	NA	7.3
Resource RE Div Inc:W	10.52	NA	NA	7.3
SharesPost 100;A	29.07	NA	NA	13.8
SharesPost 100:I	29.11	NA	NA	NS
SharesPost 100:L	29.05	NA	NA	NS
Tot Inc+ RE:A	29.92	NA	NA	8.0
Tot Inc+ RE:C	29.00	NA	NA	7.2
Tot Inc+ RE:I	30.31	NA	NA	8.3
Tot Inc+ RE:L	29.83	NA	NA	7.7
USQ Core Real Estate:I **USQIX**	25.47	NA	NA	NS
USQ Core Real Estate:IS **USQSX**	25.47	NA	NA	NS
Versus Cap MMgr RE Inc:I	28.07	NA	NA	NE
Versus Capital Real Asst **VCRRX**	25.50	NA	NA	NS
Wildermuth Endwmnt Str	13.23	NA	NA	11.1
Wildermuth Endwmnt S:C	12.99	NA	NA	10.3
Wildermuth Endwmnt S:I	13.32	NA	NA	11.8
Income & Preferred Stock Funds				
MultiStrat Gro & Inc:A	14.59	NA	NA	1.6
MultiStrat Gro & Inc:C	14.21	NA	NA	0.8
MultiStrat Gro & Inc:I	14.80	NA	NA	1.8
MultiStrat Gro & Inc:L	14.34	NA	NA	1.1
Convertible Sec's. Funds				
Calamos Dyn Conv & Incm **CCD**	21.31	22.11	+3.8	14.2
World Equity Funds				
BMO LGM Front ME	10.65	NA	NA	5.9
Calamos Global Tot Ret Fd **CGO**	12.94	14.30	+10.5	12.1

Fund (SYM)	NAV	Close	Prem /Disc	12 Mo Yld
U.S. Mortgage Bond Funds				
Vertical Capital Inc:A	12.23	NA	NA	3.2
Vertical Capital Inc:C	12.31	NA	NA	NS
Vertical Capital Inc:I	NA	NA	NA	NS
Vertical Capital Inc:L	NA	NA	NA	NS
Loan Participation Funds				
504 Fund	9.62	NA	NA	3.9
Angel Oak Str Crdt:Inst **ASCIX**	NA	NA	NA	NS
Blackstone/GSO FR EI I	NA	NA	NA	NS
Blackstone/GSO FR EI T	NA	NA	NA	NS
FedProj&TrFinanceTendr	10.01	NA	NA	3.7
FS Global Crdt Opptys D	NA	NA	NA	5.9
Invesco Sr Loan A	6.73	NA	NA	3.9
Invesco Sr Loan C	6.75	NA	NA	3.2
Invesco Sr Loan IB	6.74	NA	NA	4.1
Invesco Sr Loan IC	6.73	NA	NA	4.0
Invesco Sr Loan Y	6.73	NA	NA	4.1
RiverNorth MP Lending **RMPLX**	23.28	NA	NA	10.8
Sierra Total Return:T **SRNTX**	NA	NA	NA	3.9
Voya Senior Income:A	12.50	NA	NA	4.9
Voya Senior Income:C	12.48	NA	NA	4.5
Voya Senior Income:I	12.46	NA	NA	5.2
Voya Senior Income:W	12.51	NA	NA	5.2
High Yield Bond Funds				
Griffin Inst Access Cd:A	NA	NA	NA	5.2
Griffin Inst Access Cd:C	NA	NA	NA	5.2
Griffin Inst Access Cd:F	NA	NA	NA	NS
Griffin Inst Access Cd:I	NA	NA	NA	5.2
Griffin Inst Access Cd:L	NA	NA	NA	NS
PIMCO Flexible Cr I;Inst	10.29	NA	NA	7.2
PionrILSInterval	9.72	NA	NA	1.4
WA Middle Mkt Dbt	736.19	NA	NA	10.0
WA Middle Mkt Inc **WMF**	762.97	NA	NA	10.0
Other Domestic Taxable Bond Funds				
BlackRock Mlt-Sctr Oppty	96.53	NA	NA	NS
Capstone Church Capital	11.68	NA	NA	3.1
CION Ares Dvsfd Crdt;A	NA	NA	NA	5.4
CION Ares Dvsfd Crdt;C	NA	NA	NA	NS
CION Ares Dvsfd Crdt;I	NA	NA	NA	NS
CION Ares Dvsfd Crdt;L	NA	NA	NA	NS
CNR Select Strategies	9.68	NA	NA	NS
GL Beyond Income	2.39	NA	NA	NE
Palmer Square Opp Income	19.35	NA	NA	4.5
Resource Credit Inc:A	11.08	NA	NA	6.3
Resource Credit Inc:C	11.20	NA	NA	5.5
Resource Credit Inc:I	11.10	NA	NA	6.5
Resource Credit Inc:L	11.07	NA	NA	NS
Resource Credit Inc:W	11.07	NA	NA	6.3
World Income Funds				
Destra Int&Evt-Drvn Crdt	24.80	NA	NA	NS
National Muni Bond Funds				
Tortoise Tax-Adv Soc Inf	9.99	NA	NA	NS

A Week in the Life of the DJIA

A look at how the Dow Jones Industrial Average component stocks did in the past week and how much each moved the index. The DJIA gained 185.07 points, or 0.76%, on the week. A $1 change in the price of any DJIA stock = 6.78-point change in the average. To date, a $1,000 investment on Dec. 31 in each current DJIA stock component would have returned $30,329, or a gain of 1.10%, on the $30,000 investment, including reinvested dividends.

The Week's Action: Pct chg (%)	Stock price change	Point chg in average*	Company	Symbol	Close	$1,000 Invested (year-end '17)
5.47	3.29	22.27	**Walgreens**	WBA	$63.30	$882
3.63	4.41	29.90	**Johnson & Johnson**	JNJ	125.75	912
3.34	1.66	11.26	**Intel**	INTC	51.37	1,127
2.59	2.55	17.29	**Microsoft**	MSFT	101.16	1,193
2.47	1.50	10.17	**Merck**	MRK	62.20	1,124
2.33	1.17	7.93	**Verizon**	VZ	51.48	996
2.29	0.83	5.63	**Pfizer**	PFE	37.11	1,044
2.21	5.42	36.75	**UnitedHealth Group**	UNH	250.76	1,145
1.99	2.78	18.85	**IBM**	IBM	142.48	948
1.78	0.78	5.29	**Coca-Cola**	KO	44.64	990
1.74	2.73	18.51	**McDonald's**	MCD	159.42	938
1.60	1.25	8.48	**Procter & Gamble**	PG	79.31	878
1.55	2.86	19.39	**Apple**	AAPL	187.97	1,120
1.24	1.64	11.12	**Visa**	V	134.09	1,180
0.69	0.84	5.70	**Travelers**	TRV	123.18	918
0.55	1.22	8.27	**Goldman Sachs**	GS	221.79	876
0.53	0.52	3.53	**American Express**	AXP	98.52	1,003
0.38	0.74	5.02	**3M**	MMM	197.46	850
0.30	0.37	2.51	**United Technologies**	UTX	125.40	994
0.02	0.01	0.07	**DowDuPont**	DWDP	65.93	936
-0.03	-0.03	-0.20	**Walt Disney**	DIS	104.78	982
-0.13	-0.14	-0.95	**JPMorgan Chase**	JPM	104.06	988
-0.19	-0.26	-1.76	**Caterpillar**	CAT	135.41	868
-0.26	-0.87	-5.90	**Boeing**	BA	334.64	1,146
-0.32	-0.62	-4.20	**Home Depot**	HD	194.48	1,038
-0.48	-0.40	-2.71	**Exxon Mobil**	XOM	82.33	1,004
-0.74	-0.32	-2.17	**Cisco Systems**	CSCO	42.71	1,141
-1.33	-1.14	-7.73	**WalMart**	WMT	84.51	866
-1.81	-2.29	-15.53	**Chevron**	CVX	124.14	1,010
-4.02	-3.20	-21.70	**Nike**	NKE	76.48	1,230

*Based on Composite price. DJIA is calculated on primary-market price.
Source: WSJ Market Data Group; FactSet.

Insider-Trading Spotlight

Trading by 'insiders' of a corporation, such as a company's CEO, vice president or director, potentially conveys new information about the prospects of a company. Insiders are required to report large trades to the SEC within two business days. Here's a look at the biggest individual trades by insiders, based on data received by Thomson Financial on July 6, and year-to-date stock performance of the company

KEY: B: beneficial owner of more than 10% of a security class **CB:** chairman **CEO:** chief executive officer **CFO:** chief financial officer **CO:** chief operating officer **D:** director **DO:** director and beneficial owner **GC:** general counsel **H:** officer, director and beneficial owner **I:** indirect transaction filed through a trust, insider spouse, minor child or other **O:** officer **OD:** officer and director **P:** president **UT:** unknown **VP:** vice president Excludes pure options transactions

Biggest weekly individual trades

Based on reports filed with regulators this past week

Date(s)	Company	Symbol	Insider	Title	No. of shrs in trans (000s)	Price range ($) in transaction	$ Value (000s)	Close ($)	Ytd (%)
Buyers									
June 26-28	Energen	EGN	C. Icahn	BI	1,470	67.70-71.32	103,499	75.10	30.4
June 29-July 3			C. Icahn	OEI	647	71.58-73.04	47,120		
June 29	FinTech Acquisition Corp II	FNTEU	D. Cohen	CEO	300*	10.05	3,015	10.60	1.0
June 29			J. Mcentee	P	200	10.05	2,010		
June 27-28	OFG Bancorp	OFG	J. Colon-Gerena	D	80*	14.14-14.50	1,140	14.45	53.7
June 29-July 2	Nicholas Financial	NICK	A. Peterson	DOI	84	8.81-9.39	746	10.19	15.8
June 27	AbbVie	ABBV	G. Tilton	D	5	91.90	496	96.92	0.2
June 27-29	THL Credit	TCRD	T. Olson	COI	57	7.88-8.02	450	8.14	-10.1
June 22-26			T. Olson	COI	52	7.91-7.94	415		
July 2-3			T. Olson	COI	41	8.01-8.15	329		
June 28	Marriott Vacations Worldwide	VAC	S. Weisz	CEO	4	108.43	380	116.39	-13.9
July 2-3	PICO Holdings	PICO	G. Bylinsky	DI	31	11.61-13.65	363	12.25	-4.3
June 28-29	Otelco	OTEL	I. Sochet	BI	21	15.00	316	15.05	12.7
June 29	BOK Financial	BOKF	J. Gottron	CT	2	94.63	199	95.69	3.7
June 28	DISH Network	DISH	J. Defranco	OD	5	32.99	165	34.99	-26.7
July 2			J. Defranco	OD	5	32.99	165		
June 29	Culp	CULP	F. Jackson	D	5	25.32	127	26.10	-22.1
July 2	Dermira	DERM	T. Wiggans	CEO	14	8.71	120	9.91	-64.4
Sellers									
June 27	Cheniere Energy	LNG	C. Icahn	BI	9,000	64.93	584,370	66.20	23.0
June 28-29	Facebook	FB	M. Zuckerberg	CEOI	494	193.91-197.29	96,584	203.23	15.2
July 2-3			M. Zuckerberg	CEOI	453	192.92-197.33	87,966		
June 28			S. Sandberg	COI	55	193.94-196.71	10,754		
July 2-5	Pure Storage	PSTG	M. Speiser	DI	1,200	23.70-23.96	28,546	24.41	53.9
July 2	Ollie's Bargain Outlet Holdings	OLLI	M. Butler	CEO	375*	70.46-70.47	26,424	74.25	39.4
June 27-29	SBA Communications	SBAC	K. Bagwell	O	127	165.03-165.08	20,897	165.46	1.3
June 29	Nike	NKE	E. Sprunk	CO	150	78.60-80.00	11,860	76.48	22.3
June 29			A. Campion	CFO	103	80.01	8,241		
June 28	McCormick & Co	MKC.V	A. Wilson	DO	100	110.00	11,000	119.32	18.7
July 5	Alphabet	GOOG	S. Pichai	OD	10	1110.16-1115.24	10,769	1140.17	9.0
June 27	Sarepta Therapeutics	SRPT	R. Barry	D	75	130.34	9,776	139.33	150.4
July 3	New Relic	NEWR	L. Cirne	CEOI	89	101.15-103.20	9,047	104.99	81.7
June 29-July 2	Heron Therapeutics	HRTX	R. Rosen	P	225	38.13-41.39	8,770	40.85	125.7
July 2	Palo Alto Networks	PANW	M. Mclaughlin	D	40	202.43-206.16	8,194	211.16	45.7
July 2	Quest Diagnostics	DGX	E. Cunningham	O	68	109.60-110.12	7,465	110.49	12.2
July 2-3	CarMax	KMX	T. Reedy	CFO	99	73.65-74.45	7,324	76.41	19.1
June 29	Vertex Pharmaceuticals	VRTX	D. Altshuler	O	44	161.57-167.04	7,314	173.45	15.7

* Half the transactions were indirect **Two day transaction
p - Pink Sheets

Buying and selling by sector

Based on actual transaction dates in reports received this past week

Sector	Buying	Selling	Sector	Buying	Selling
Basic Industries	39,616	7,538,955	Finance	6,082,784	18,101,485
Business services	4,846	10,739,538	Health care	68,574	87,586,089
Capital goods	0	0	Industrial	28,276	16,768,174
Consumer durables	0	2,043,299	Media	329,900	2,322,741
Consumer nondurables	126,600	48,009,925	Technology	81,348	59,460,185
Consumer services	94,359	22,517,180	Transportation	0	429,830
Energy	106,551	6,284,617	Utilities	47,510	1,618,040

Sources: Thomson Financial; WSJ Market Data Group

MONEY & INVESTING

A Fallen Banker Retires in Scotland

By Max Colchester

A decade after the financial crisis, The Wall Street Journal has checked in on dozens of the bankers, government officials, chief executives, hedge-fund managers and others who left a mark on that period to find out what they are doing now. Today, we spotlight former Royal Bank of Scotland Chief Executive Fred Goodwin.

A decade ago Sir Fred Goodwin helmed the world's biggest bank by assets, **Royal Bank of Scotland Group** PLC. Today, he is no longer a banker. He is no longer knighted. And RBS has shrunk to a U.K.-focused bank owned by British taxpayers.

The former chief executive of RBS stepped out of the limelight after he became the de facto face of British banking excess. The Scot briefly took a job advising an Edinburgh-based architecture company. British newspaper the Daily Mail tracked him down last summer at an Edinburgh golf course and reported that he spends his days tending to his collection of vintage cars.

Mr. Goodwin also received the ultimate British establishment slap-down: His knighthood, handed to him in 2004 by Queen Elizabeth II for "services to banking," was revoked by Her Majesty eight years later.

"I have nothing to say," Mr. Goodwin said when asked by The Wall Street Journal for comment.

In the early 2000s, Mr. Goodwin helped turn RBS from a Scottish bank into an international powerhouse through a series of expensive takeovers. His big undoing was his race to buy Dutch global bank ABN Amro Holding NV. A consortium led by RBS bought the bank in 2007 for $101 billion, just as the credit crunch began to bite. A year later the music stopped and RBS needed a record £45.5 billion ($60.1 billion) U.K. taxpayer bailout.

The former accountant didn't go quietly. Following his ousting in 2009, he fought to keep his $1 million-a-year pension. Vandals attacked his Edinburgh home and his Mercedes. Eventually he agreed to halve his pension to $500,000 a year.

A decade on and Mr. Goodwin's legacy continues. Between its bailout and 2017, the bank lost £58 billion, paying for fines and massive balance-sheet cleanup. It recently paid several hundred million dollars to settle a lawsuit with disgruntled shareholders suing the bank. The payout spared RBS seeing the 59-year-old cross-examined in court. RBS declined to comment for this article.

PA IMAGES/GETTY IMAGES

Queen Elizabeth II revoked Fred Goodwin's knighthood in 2012.

Borrowing Benchmarks | WSJ.com/bonds

Money Rates

July 6, 2018

Key annual interest rates paid to borrow or lend money in U.S. and international markets. Rates below are a guide to general levels but don't always represent actual transactions.

Inflation

	May index level	Chg From (%) April '18	May '17
U.S. consumer price index			
All items	251.588	0.42	2.8
Core	257.469	0.17	2.2

International rates

	Latest	Week ago	52-Week High	52-Week Low
Prime rates				
U.S.	5.00	5.00	5.00	4.25
Canada	3.45	3.45	3.45	2.70
Japan	1.475	1.475	1.475	1.475
Policy Rates				
Euro zone	0.00	0.00	0.00	0.00
Switzerland	0.50	0.50	0.50	0.50
Britain	0.50	0.50	0.50	0.25
Australia	1.50	1.50	1.50	1.50
Overnight repurchase				
U.S.	2.00	2.15	2.18	1.01

U.S. government rates

	Latest	Week ago	52-Week High	52-Week Low
Discount	2.50	2.50	2.50	1.75
Federal funds				
Effective rate	1.9400	1.9400	1.9500	1.0700
High	2.1500	2.1500	2.1500	1.3125
Low	1.8700	1.8700	1.9000	0.9700
Bid	1.8800	1.8800	1.9200	1.0600
Offer	1.9100	1.9000	2.1500	1.0700

	Latest	Week ago	52-Week High	52-Week Low
Treasury bill auction				
4 weeks	1.860	1.770	1.860	0.940
13 weeks	1.940	1.900	1.940	1.000
26 weeks	2.085	2.085	2.085	1.105

Secondary market

	Latest	Week ago	52-Week High	52-Week Low
Fannie Mae				
30-year mortgage yields				
30 days	4.148	4.155	4.344	3.253
60 days	4.172	4.178	4.371	3.281

Other short-term rates

	Latest	Week ago	52-Week high	52-Week low
Call money	3.75	3.75	3.75	3.00
Commercial paper (AA financial)				
90 days	2.20	2.15	2.31	1.14
Libor				
One month	2.08625	2.09025	2.10288	1.22389
Three month	2.33144	2.33575	2.36906	1.30350
Six month	2.50813	2.50125	2.52375	1.44767
One year	2.77375	2.76406	2.78400	1.69511
Euro Libor				
One month	-0.398	-0.394	-0.394	-0.420
Three month	-0.357	-0.357	-0.349	-0.389
Six month	-0.314	-0.319	-0.298	-0.339
One year	-0.237	-0.231	-0.182	-0.263
Euro interbank offered rate (Euribor)				
One month	-0.371	-0.370	-0.366	-0.374
Three month	-0.321	-0.321	-0.321	-0.332
Six month	-0.270	-0.270	-0.267	-0.279
One year	-0.181	-0.181	-0.151	-0.194

	Latest	Value Traded	52-Week High	52-Week Low
DTCC GCF Repo Index				
Treasury	1.974	31.800	2.233	1.013
MBS	2.004	89.900	2.321	1.030

	Settle	Change	Open Interest	Implied Rate
DTCC GCF Repo Index Futures				
Treasury Jly	98.003	0.010	825	1.998
Treasury Aug	98.000	0.005	1309	2.000
Treasury Sep	97.940	unch.	662	2.060

Notes on data:
U.S. prime rate is the base rate on corporate loans posted by at least 70% of the 10 largest U.S. banks, and is effective June 14, 2018. **Other prime rates** aren't directly comparable; lending practices vary widely by location; **Discount rate** is effective June 14, 2018. **DTCC GCF Repo Index** is Depository Trust & Clearing Corp.'s weighted average for overnight trades in applicable CUSIPs. Value traded is in billions of U.S. dollars. **Federal-funds rates** are Tullett Prebon rates as of 5:30 p.m. ET. **Futures on the DTCC GCF Repo Index** are traded on NYSE Liffe US.

Sources: Federal Reserve; Bureau of Labor Statistics; DTCC; SIX Financial Information; Tullett Prebon Information, Ltd.

Cash Prices | WSJ.com/commodities

Friday, July 06, 2018

These prices reflect buying and selling of a variety of actual or "physical" commodities in the marketplace—separate from the futures price on an exchange, which reflects what the commodity might be worth in future months.

	Friday
Energy	
Propane,tet,Mont Belvieu-g	0.9569
Butane,normal,Mont Belvieu-g	1.2168
NaturalGas,HenryHub-i	2.850
NaturalGas,TranscoZone3-i	2.750
NaturalGas,TranscoZone6NY-i	2.390
NaturalGas,PanhandleEast-i	2.330
NaturalGas,Opal-i	2.420
NaturalGas,MarcellusNE PA-i	2.120
NaturalGas,HaynesvilleN.LA-i	2.650
Coal,C.Aplc.,12500Btu,1.2SO2-r,w	66.100
Coal,PwdrRvrBsn,8800Btu,0.8SO2-r,w	12.350
Metals	
Gold, per troy oz	
Engelhard industrial	1258.79
Engelhard fabricated	1353.20
Handy & Harman base	1255.35
Handy & Harman fabricated	1393.43
LBMA Gold Price AM	*1252.50
LBMA Gold Price PM	*1255.50
Krugerrand,wholesale-e	1302.86
Maple Leaf-e	1315.39
American Eagle-e	1315.39
Mexican peso-e	1518.44
Austria crown-e	1230.95
Austria phil-e	1315.39
Silver, troy oz.	
Engelhard industrial	16.0000
Engelhard fabricated	19.2000
Handy & Harman base	16.0000
Handy & Harman fabricated	20.0000
LBMA spot price	*£12.0400
(U.S.$ equivalent)	*15.9500
Coins,wholesale $1,000 face-a	11818
Other metals	
LBMA Platinum Price PM	*845.5
Platinum,Engelhard industrial	841.0
Platinum,Engelhard fabricated	941.0
Palladium,Engelhard industrial	952.0
Palladium,Engelhard fabricated	1052.0
Aluminum, LME, $ per metric ton	*2127.0
Copper,Comex spot	2.8130
Iron Ore, 62% Fe CFR China-s	n.a.
Shredded Scrap, US Midwest-s,m	n.a.
Steel, HRC USA, FOB Midwest Mill-s	n.a.
Fibers and Textiles	
Burlap,10-oz,40-inch NY yd-n,w	0.5650
Cotton,1 1/16 std lw-mdMphs-u	0.8415
Cotlook 'A' Index-t	*92.85
Hides,hvy native steers piece fob-u	59.000
Wool,64s,staple,Terr del-u,w	n.a.
Grains and Feeds	
Barley,top-quality Mnpls-u	n.a.
Bran,wheat middlings, KC-u,w	59
Corn,No. 2 yellow,Cent IL-bp,u	3.2750
Corn gluten feed,Midwest-u,w	116.8
Corn gluten meal,Midwest-u,w	437.4
Cottonseed meal-u,w	253
Hominy feed,Cent IL-u,w	98
Meat-bonemeal,50% pro Mnpls-u,w	288
Oats,No.2 milling,Mnpls-u	2.8875
Rice, Long Grain Milled, No. 2 AR-u,w	25.75
Sorghum,(Milo) No.2 Gulf-u	6.8400
SoybeanMeal,Cent IL,rail,ton48%-u	349.60
Soybeans,No.1 yllw IL-bp,u	8.4300
Wheat,Spring14%-pro Mnpls-u	7.0325
Wheat,No.2 soft red,St.Louis-bp,u	5.3250
Wheat - Hard - KC (USDA) $ per bu-u	5.4300
Wheat,No.1soft white,Portld,OR-u	5.9400
Food	
Beef,carcass equiv. index	
choice 1-3,600-900 lbs.-u	179.33
select 1-3,600-900 lbs.-u	167.21
Broilers, National comp wghtd-u,w	1.1431
Butter,AA Chicago	2.1700
Cheddar cheese,bbl,Chicago	124.50
Cheddar cheese,blk,Chicago	154.25
Milk,Nonfat dry,Chicago lb.	77.25
Cocoa,Ivory Coast-w	n.a.
Coffee,Brazilian,Comp	1.0753
Coffee,Colombian, NY	1.3201
Eggs,large white,Chicago-u	1.3250
Flour,hard winter KC	16.60
Hams,17-20 lbs,Mid-US fob-u	n.a.
Hogs,Iowa-So. Minnesota-u	78.46
Pork bellies,12-14 lb MidUS-u	n.a.
Pork loins,13-19 lb MidUS-u	1.0084
Steers,Tex.-Okla. Choice-u	n.a.
Steers,feeder,Okla. City-u,w	162.96
Fats and Oils	
Corn oil,crude wet/dry mill-u,w	29.0000
Grease,choice white,Chicago-h	0.2650
Lard,Chicago-u	n.a.
Soybean oil,crude;Centl IL-u	0.2777
Tallow,bleach;Chicago-h	0.2713
Tallow,edible,Chicago-u	n.a.

KEY TO CODES: A=ask; B=bid; BP=country elevator bids to producers; C=corrected; E=Manfra,Tordella & Brooks; G=ICE; H=Hurley Brokerage; I=Natural Gas Intelligence; M=monthly; N=nominal; n.a.=not quoted or not available; R=SNL Energy; S=Platts-TSI; T=Cotlook Limited; U=USDA; W=weekly, Z=not quoted. *Data as of 7/5
Source: WSJ Market Data Group

As Market Matures, Bitcoin Exchanges Raid Wall Street

BY ALEXANDER OSIPOVICH

A bitcoin exchange has hired the New York Stock Exchange's top technology executive—the latest sign that cryptocurrency trading platforms are seeking to move beyond their rebellious roots and look more like traditional financial markets.

Gemini, the digital-currency exchange founded by twin-brother entrepreneurs Cameron Winklevoss and Tyler Winklevoss, will add NYSE Chief Information Officer Robert Cornish to its management team later this month, Gemini representatives said.

Robert Cornish will help the Gemini exchange build more-reliable systems.

Mr. Cornish will be Gemini's first chief technology officer. His last day at the NYSE was last week, people familiar with the matter said. Mr. Cornish declined to comment.

Mr. Cornish's NYSE duties included overseeing an ambitious project to overhaul the Big Board's aging electronic trading platforms.

He was hired by the stock exchange in 2016 after the first phase of what was called the Pillar project was marred by repeated delays and glitches.

Before joining the NYSE, Mr. Cornish worked for over a decade at the International Securities Exchange, the first all-electronic U.S. options exchange. He eventually became its chief information officer, leaving after the ISE was acquired by Nasdaq Inc.

Mr. Cornish will help Gemini build more-reliable systems that can handle heavy trading volumes, the firm's president Cameron Winklevoss said. "As the crypto market matures, we feel it's going to look and feel like existing, mature markets like equities, FX and derivatives," Mr. Winklevoss said.

Bitcoin exchanges have a history of being attacked by hackers and crashing at times of heavy trading—a checkered past that some are trying to overcome as they seek to win business from hedge funds and other institutional investors.

Coinbase, the largest U.S. bitcoin exchange by trading volume, has hired several veterans of the NYSE and Chicago-based futures exchange CME Group Inc. in recent months.

Many Wall Street firms are wary of bitcoin, a digital currency that isn't backed by any government. It is less than a decade old and notoriously volatile.

Bitcoin drew widespread attention last year when massive inflows of speculative investment drove its price to about $20,000. It was recently trading at around $6,500.

Bitcoin exchanges also face regulatory scrutiny. The Securities and Exchange Commission warned in March that many crypto-trading platforms were potentially unlawful.

Still, opportunities in the digital-currency markets have drawn financial-industry heavyweights who played major roles in the electronification of the U.S. stock market in the 1990s and 2000s.

Those include Greg Tusar, the former head of electronic trading at Goldman Sachs Group Inc. Mr. Tusar is a cofounder of Tagomi Systems Inc., a startup that is developing technology to help investors easily buy and sell large quantities of cryptocurrencies.

The NYSE's Pillar project was unveiled in 2015 and is still ongoing.

Currencies

U.S.-dollar foreign-exchange rates in late New York trading

Country/currency	Fri in US$	Fri per US$	US$ vs, YTD chg (%)
Americas			
Argentina peso	.0358	27.9217	**50.1**
Brazil real	.2589	3.8627	**16.6**
Canada dollar	.7650	1.3073	**4.0**
Chile peso	.001522	656.90	**6.7**
Ecuador US dollar	1	1	**unch**
Mexico peso	.0525	19.0458	**–3.2**
Uruguay peso	.03179	31.4600	**9.2**
Venezuela b. fuerte	.000009	114862.0001	**1110552.3**
Asia-Pacific			
Australian dollar	.7430	1.3459	**5.1**
China yuan	.1505	6.6434	**2.2**
Hong Kong dollar	.1274	7.8477	**0.4**
India rupee	.01454	68.765	**7.7**
Indonesia rupiah	.0000697	14350	**6.4**
Japan yen	.009053	110.46	**–2.0**
Kazakhstan tenge	.002910	343.69	**3.3**
Macau pataca	.1237	8.0820	**0.4**
Malaysia ringgit	.2475	4.0400	**–0.5**
New Zealand dollar	.6834	1.4633	**3.8**
Pakistan rupee	.00822	121.642	**9.9**
Philippines peso	.0187	53.349	**6.8**
Singapore dollar	.7365	1.3578	**1.5**
South Korea won	.0008964	1115.57	**4.5**
Sri Lanka rupee	.0062818	159.19	**3.7**
Taiwan dollar	.03285	30.443	**2.6**
Thailand baht	.03017	33.150	**1.7**
Vietnam dong	.00004341	23035	**1.4**
Europe			
Czech Rep. koruna	.04535	22.049	**3.6**
Denmark krone	.1576	6.3457	**2.3**
Euro area euro	1.1744	.8515	**2.2**
Hungary forint	.003634	275.21	**6.3**
Iceland krona	.009332	107.16	**3.5**
Norway krone	.1245	8.0312	**–2.1**
Poland zloty	.2697	3.7072	**6.6**
Russia ruble	.01589	62.946	**9.1**
Sweden krona	.1146	8.7238	**6.6**
Switzerland franc	1.0112	.9889	**1.5**
Turkey lira	.2187	4.5731	**20.5**
Ukraine hryvnia	.0380	26.3340	**–6.4**
UK pound	1.3287	.7526	**1.7**
Middle East/Africa			
Bahrain dinar	2.6295	.3803	**0.8**
Egypt pound	.0559	17.8855	**0.6**
Israel shekel	.2759	3.6246	**4.2**
Kuwait dinar	3.3052	.3026	**0.4**
Oman sul rial	2.5974	.3850	**0.01**
Qatar rial	.2746	3.642	**–0.2**
Saudi Arabia riyal	.2667	3.7499	**–0.01**
South Africa rand	.0742	13.4702	**9.0**

	Close	Net Chg	% Chg	YTD % Chg
WSJ Dollar Index	87.62	–0.32	–0.36	**1.91**

Sources: Tullett Prebon, WSJ Market Data Group

MIKE ELIASON/SANTA BARBARA COUNTY FIRE DEPARTMENT/ASSOCIATED PRESS

Demand for munis is expected to remain high in July and August as outstanding bonds mature and investors seek new opportunities.

Municipal Bonds Rebound

States, cities pare debt, lifting value of existing bonds, cutting borrowing costs

BY HEATHER GILLERS

The prices for municipal bonds have recovered from their worst first-quarter slump of the past 15 years. The reason: U.S. states and cities continue to cut back on their borrowing.

CREDIT MARKETS

Municipalities borrowed $156 billion in the first two quarters of this year, down 17% from last year. Citigroup researchers are projecting that year-over-year decline will reach 25% by the end of the year.

The low supply is pushing up the value of existing bonds and reducing borrowing costs for some governments, particularly on riskier bond deals. Twelve-year bonds backed by settlement payments from tobacco companies to the state of California sold with yields of 3.07% in June, compared with yields of 3.25% in March of last year.

"It's a seller's market," said Howard Cure, director of municipal-bond research at Evercore Wealth Management, which invests in public debt. "We're trying to be careful about that aspect of it and not go down that path of sacrificing for a little extra yield and having a big decline in credit quality."

The Bloomberg Barclays Municipal Bond Total Return Index edged up 0.87% in the second quarter, after falling by 1.11% in the first quarter. The first-quarter drop was the biggest decline of any first quarter in the past 15 years.

About half of the drop in supply resulted from Congress's decision last year to end tax exemption for early refinancings of outstanding municipal bonds, according to an estimate by Vikram Rai, head of municipal strategy at Citigroup. Borrowers also rushed to sell municipal bonds amid talk of other legislative proposals—such as a ban on tax-exempt issuance by hospitals and universities—that weren't ultimately enacted.

"The rush to market toward the end of 2017 emptied out a lot of the forward pipeline," Mr. Rai said.

Aftershocks from the 2008 recession are also contributing to the drop-off. Municipal bonds typically become eligible for refinancing a decade after they are issued. Issuance of new money bonds fell 24% in 2008 as the recession destabilized city and state finances, leading to a smaller-than-usual crop of bonds eligible for refinancing in 2018.

Those factors combined to push down the total amount of refinancing deals in the first half of this year to $44 billion, the lowest since 2000.

All that scarcity has driven up prices despite rising interest rates, which typically erode the value of outstanding bonds. Central-bank officials last month raised the benchmark federal-funds rate by one-quarter of a percentage point, their second rate rise this year. They projected a total of four increases for 2018, up from three at their March meeting.

Exchange-traded funds are one relatively new beneficiary of the stronger demand for municipal bonds. Their municipal-debt holdings have grown from zero in 2007 to about $30 billion this year, according to federal data. The iShares National Muni Bond ETF received inflows of $630 million last month, the highest since December 2016, according to FactSet. The inflows followed a decision on June 1 to cut fees for that ETF by more than 70%.

Demand is expected to remain high in July and August, as outstanding bonds mature and investors look for new municipal-debt investments, analysts said.

Some government borrowers could get an additional market boost from a recent Supreme Court decision banning public-employee contracts that require workers to pay union dues.

The decision is expected to empower governments seeking to curtail pension benefits.

"You're talking about the states retaining some negotiating leverage and being able to improve their fixed cost structure long-term," said John Miller, co-head of Global Fixed Income at Nuveen Asset Management.

Mulvaney Challenger to Leave CFPB

BY LALITA CLOZEL

WASHINGTON—An Obama-era bureaucrat who challenged Mick Mulvaney's position running the Consumer Financial Protection Bureau is resigning from her post and plans to drop her lawsuit.

"In light of the recent nomination of a new director," Leandra English said in a statement Friday, "I will be stepping down from my position at the Consumer Financial Protection Bureau early next week."

Mr. Mulvaney was chosen by President Donald Trump in November to be the CFPB's acting director. Last month, the White House tapped Kathy Kraninger, a midlevel official who works under Mr. Mulvaney at the Office of Management and Budget, to lead the agency permanently. Mr. Mulvaney juggles his two roles at the helm of the OMB and CFPB.

Ms. English's lawyer said Friday that she would drop her suit challenging Mr. Mulvaney's position, which she filed in November after then-Director Richard Cordray, an Obama appointee, stepped down.

On the day he left, Mr. Cordray made Ms. English his deputy, setting the stage for her to argue that she should head the agency until Mr. Trump found a permanent director. Around the same time, Mr. Trump tapped Mr. Mulvaney as interim chief, resulting in a protracted period during which both officials claimed leadership of the bureau.

Mr. Mulvaney has led the agency, taking steps to roll back Obama-era policies and slowing the pace of enforcement actions against industries the regulator oversees.

THE TICKER | Market events coming this week

Monday

Consumer Credit
April, prev. up $9.26 bil.
May, exp. up $12.0 bil.

Tuesday

Earnings expected*
Estimate/Year Ago($)
PepsiCo **1.53**/1.50

Wednesday

Short-selling reports
Ratio, days of trading volume of current position, at June 15
NYSE 4.5
Nasdaq 4

Mort. bankers indexes
Purch., previous up 1%
Refinan., prev. down 2%

EIA status report
Previous change in stocks in millions of barrels
Crude oil up 1.2
Gasoline down 1.5
Distillates up 0.1

Producer Price Index
All items, May up 0.5%
June, expected up 0.1%
Core, May up 0.3%
June, expected up 0.2%

Wholesale Inventories
April, previous up 0.1%
May, expected up 0.4%

Earnings expected*
Estimate/Year Ago($)
Bank of Ozarks **0.89**/0.73
Fastenal **0.66**/0.52

Thursday

Initial jobless claim
Previous 231,000
Expected 225,000

EIA report: natural gas
Previous change in stocks in billions of cubic feet
up 78

Consumer-Price Index
All items, May up 0.2%
June, expected up 0.2%
Core, May up 0.2%
June, expected up 0.2%

Treasury Budget
June, '17 $90.0 bil. deficit
June, '18 exp. n.a.

Earnings expected*
Estimate/Year Ago($)
Delta Air Lines **1.73**/1.64

Friday

Import Price Index
May, previous up 0.6%
June, expected 0.0%

Consumer Sentiment Index
June, final 98.2
July, prelim. 98.0

Earnings expected*
Estimate/Year Ago($)
Citigroup **1.56**/1.28
First Republic Bank **1.17**/1.06
JPMorgan Chase **2.22**/1.82
PNC Financial **2.58**/2.10
Wells Fargo **1.12**/1.07

* FACTSET ESTIMATES EARNINGS-PER-SHARE ESTIMATES DON'T INCLUDE EXTRAORDINARY ITEMS (LOSSES IN PARENTHESES) ◆ ADJUSTED FOR STOCK SPLITNOTE: FORECASTS ARE FROM DOW JONES WEEKLY SURVEY OF ECONOMISTS

SHAUN JUSA/XINHUA/ZUMA PRESS

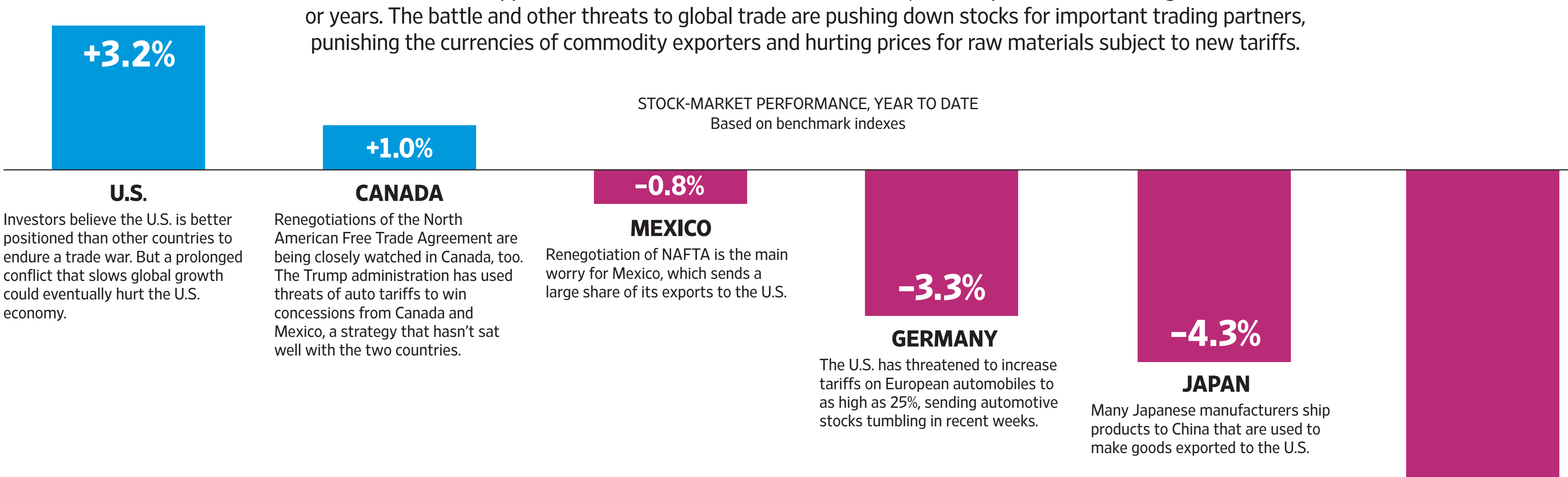
PepsiCo, maker of soft drinks and snacks, is scheduled to post quarterly results on Tuesday. Analysts expect earnings of $1.53 a share.

MARKETS

Mapping the Damage From the Trade Battle

The U.S. and China slapped $34 billion in tariffs on each other Friday, in a dispute that could drag on for months or years. The battle and other threats to global trade are pushing down stocks for important trading partners, punishing the currencies of commodity exporters and hurting prices for raw materials subject to new tariffs.

STOCK-MARKET PERFORMANCE, YEAR TO DATE
Based on benchmark indexes



U.S.
Investors believe the U.S. is better positioned than other countries to endure a trade war. But a prolonged conflict that slows global growth could eventually hurt the U.S. economy.

CANADA
Renegotiations of the North American Free Trade Agreement are being closely watched in Canada, too. The Trump administration has used threats of auto tariffs to win concessions from Canada and Mexico, a strategy that hasn't sat well with the two countries.

MEXICO
Renegotiation of NAFTA is the main worry for Mexico, which sends a large share of its exports to the U.S.

GERMANY
The U.S. has threatened to increase tariffs on European automobiles to as high as 25%, sending automotive stocks tumbling in recent weeks.

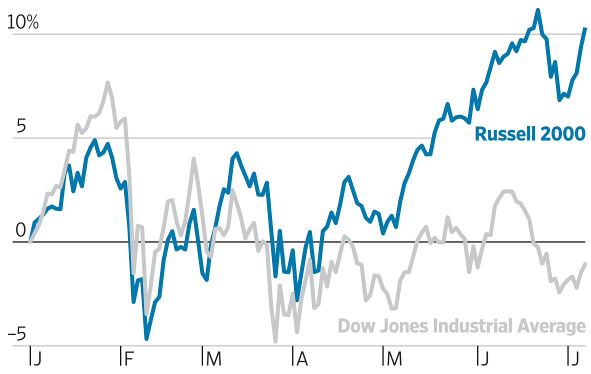
JAPAN
Many Japanese manufacturers ship products to China that are used to make goods exported to the U.S.

CHINA
The intensifying trade battle has already weighed on Chinese stocks and slowed manufacturing activity. The U.S. has threatened to levy tariffs on another $200 billion of Chinese goods.

Thinking small

Small-cap domestic-oriented stocks have held up better than large multinational companies with more exposure to trade risks.

INDEX PERFORMANCE, YEAR TO DATE



Down and under

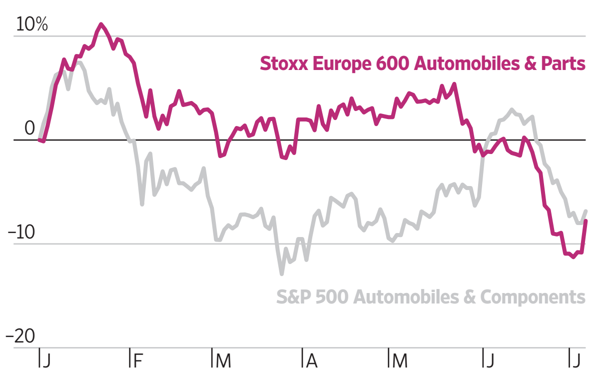
The Australian dollar has fallen against its U.S. counterpart given the country's commodities exports to China, which is expected to be hit hard by any trade war.

HOW MANY U.S. DOLLARS ONE AUSTRALIAN DOLLAR BUYS

Tapping the brakes

European auto stocks had outperformed their U.S. counterparts until trade war worries began weighing on both sectors.

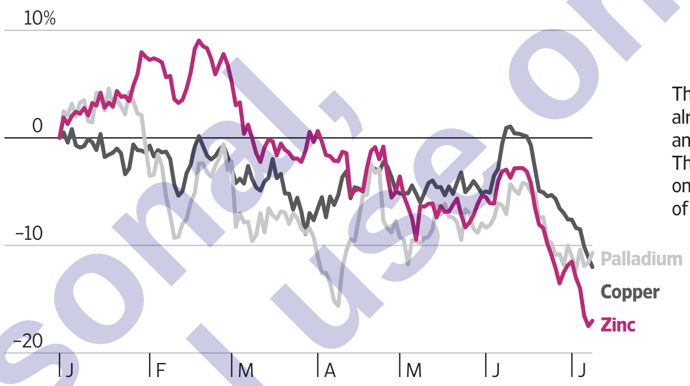
INDEX PERFORMANCE, YEAR TO DATE



Heavy metals

Investors fear the trade spat will weigh on global growth and hurt demand for commodities.

FUTURES PRICE PERFORMANCE, YEAR TO DATE



Sources: FactSet (stock-market performance, auto-stock indexes); WSJ Market Data Group (Russell 2000, DJIA); Thomson Reuters (Australian dollar, metals prices)

Reporting by Julie Wernau and Ira Iosebashvili/THE WALL STREET JOURNAL.

HEARD ON THE STREET

Email: heard@wsj.com FINANCIAL ANALYSIS & COMMENTARY **WSJ.com/Heard**

U.S. Deficits Will Cost the Dollar

The dollar's startling rally has upended markets around the world. Burgeoning U.S. deficits due to tax cuts and higher spending should mean a weaker dollar in the long run as investors demand a discount to buy U.S. assets. But when will the long run arrive?

The dollar's second-quarter rise was as sharp as it was unexpected. It rose 5.5% against the euro and racked up double-digit-percentage gains against emerging-market currencies like the Brazilian real and South African rand. The rout reached China late in June, with the yuan falling 4% in just a couple of weeks.

The greenback rose as U.S. growth barreled along while the rest of the world proved less buoyant than hoped. Additional fuel for the move has come from concerns about an escalating trade war—the U.S. and China imposed tariffs on each other's exports Friday—and political stresses in Europe and some developing countries.

For now, the rush of better U.S. growth has proved stronger than the fear of the consequences of wider U.S. budget and current-account deficits that have to be financed. The gain has been taken before the potential pain.

That could persist for a while yet. There have been tentative signs of stabilization in economic data outside the U.S., but the idea of synchronized global growth has taken a hammering. Trade-war fears are still concentrated outside the U.S. and the Federal Reserve is alone in methodically raising interest rates.

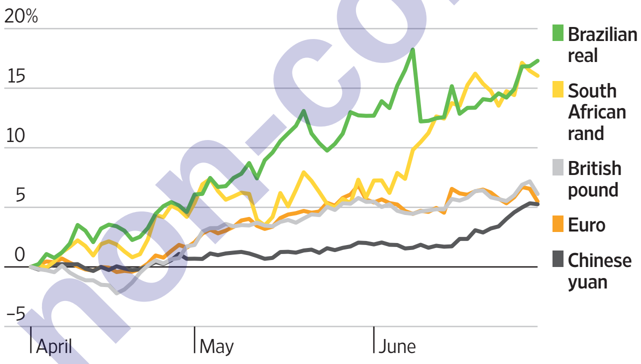
At the same time, longer-term concerns haven't gone away. For signs of when then might become a problem for the dollar, investors should pay attention to the U.S. corporate-bond market, thinks Morgan Stanley. Low interest rates globally have led foreign investors to pile in, chasing higher returns. For instance, Japan's holdings of U.S. corporate debt have risen by more than 50% to nearly $250 billion since the start of 2016, according to U.S. Treasury data.

However, corporate bonds have turned into a losing trade, hit by both higher Treasury yields and wider credit spreads. If foreign investors start to pull back, pushing up borrowing costs further, that could weigh on prospects for U.S. growth—and on the dollar.

With the rest of the world facing challenges, the dollar's strength can continue for now. But the bill for the higher growth the U.S. is currently enjoying can't be put off forever. Eventually, the dollar will have to pay the price. —*Richard Barley*

Greenback Power

Second-quarter performance of U.S. dollar against selected currencies



Source: FactSet
THE WALL STREET JOURNAL.

OVERHEARD

News of a potential medical breakthrough, while it gives hope to ill people and their loved ones, can create a different kind of scourge: bad puns from Wall Street's professional stock pickers.

Biogen's and **Eisai**'s Thursday announcement of promising new data in an experimental Alzheimer's disease treatment called BAN2401 offers the latest example. Investors celebrated the news as Biogen's share price ripped higher on Friday. While they were tallying the potential profits of the medication should it reach the market, analysts found time to cook up verbiage to make investors groan.

For example, RBC Capital Markets said the announcement amounted to a "BANNER Day" for Biogen in a Thursday note. But the RBC analysts had stiff competition in the cringe-inducing department: The Jefferies healthcare desk deemed the news "Eisai of Relief" on Friday.

Samsung's Rally Is Just A Memory

Samsung's winning streak is over. Investors may still stay for the cash payout.

The South Korean technology giant said Friday it expects its operating profit in the latest quarter dropped by 5.4% compared with the previous three months.

Weak sales for Samsung's flagship smartphone Galaxy S9 and its mobile displays likely dragged down its results. More worryingly, memory chips—which carried the company through its bumper years—don't seem to have been able to offset those weaknesses.

That reflects the fact that Samsung is feeling more heat from competitors as more chip supply comes online globally. Prices for NAND—memory chips used for storage—have dropped 15% to 20% from their peak last year, according to DRAMeXchange.

All this means is that the rally in Samsung shares, which have more than doubled since 2016, is probably done for now. Still, things are unlikely to worsen too much, either. The market has been expecting memory-chip prices to peak for some time.

And investors can always fall back on the promise of Samsung's $63 billion cash pile. The company in October promised to raise its total dividend payout to at least $8.6 billion for this year and the next two. That translates to a dividend yield of 3% which could yet rise: Samsung pledged in 2016 to return half of its free cash flow to shareholders annually.

Investors who have become used to Samsung's shares going up in the past couple of years may be in for a more boring time. But there will be some compensations. —*Jacky Wong*

No Tears in Corn Belt for Former EPA Chief Scott Pruitt

Scott Pruitt could probably still hear the ethanol lobby howling from inside his $43,000 phone booth.

Stories about Thursday's resignation of the leader of the Environmental Protection Agency have centered on alleged ethical lapses and how zealous an eventual successor may be in rolling back regulations. For Republican farm-belt politicians, though, Mr. Pruitt's tampering with rules worth tens of billions of dollars annually to their constituents had gone too far.

At first glance, his agency's proposal for 2019 ethanol quotas seemed like a sort of perfect compromise in that it left all sides upset: a 3% increase to 19.88 billion gallons.

Condemnations rolled in from groups decrying the fuel's environmental impacts and from restaurant and poultry concerns worried about corn prices. Groups representing mostly smaller refiners who say they are burdened financially by having to blend ethanol into gasoline or to pay for waivers if they are unable to do so complained as well.

But Mr. Pruitt also was pilloried by Bob Dinneen, head of the Renewable Fuels Association, which lobbies for the biofuel industry. While lifting proposed volumes for "advanced biofuels," the amount to be sourced from corn remained flat at 15 billion gallons. Mr. Dinneen pointed to hardship exemptions Mr. Pruitt's agency gave to refiners. He claimed the following year's requirement was more like 13.4 billion gallons, not the advertised 15. Prices of RINs—renewable identification numbers used to verify compliance with ethanol quotas—had dived recently.

The RFA and other ethanol advocates also had attacked the EPA for not allowing the sale of E15—gasoline containing 15% ethanol—during summer for air-quality reasons. President Donald Trump had campaigned on lifting the prohibition. Following the news of Mr. Pruitt's resignation, Mr. Dinneen wrote that there was a "collective sigh of relief coming from the Midwest."

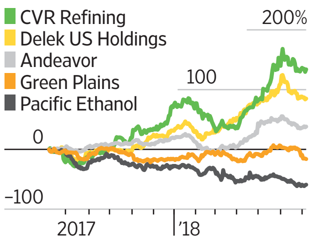
CVR Refining, **Andeavor** and **Delek U.S. Holdings**, all of which benefited from waivers granted by the EPA, had rallied by 136%, 40% and 92%, respectively, in the year ended Thursday. Ethanol companies **Pacific Ethanol** and **Green Plains** had fallen by 60% and 14%, respectively.

Agricultural lobbyists often portray any easing of the rules as a sop to "big oil," but that isn't accurate. High RIN prices benefit the refining arms of some large, multinational energy companies, though not enough to meaningfully affect their bottom lines.

Most headlines about Mr. Pruitt will focus on ethics or the environment. For investors, the bigger news will be if his successor tips the scale away from refiners and toward agribusinesses. —*Spencer Jakab*

Ethanulled

Share-price performance



Source: SIX
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JOURNAL REPORT | A QUARTERLY ANALYSIS

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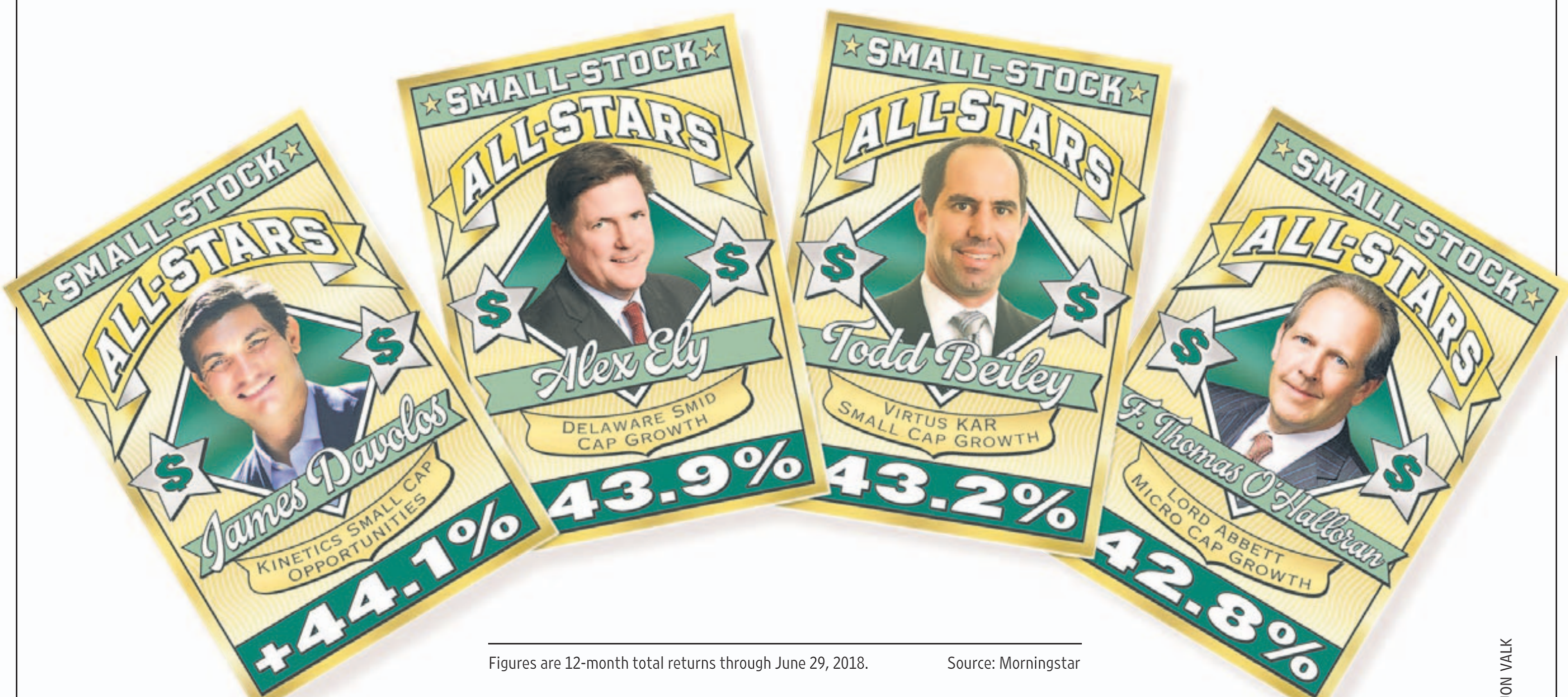
WINNERS' CIRCLE

Small-Stock Fund Managers Hit the Home Runs



Figures are 12-month total returns through June 29, 2018. Source: Morningstar

JON VALK

BY SUZANNE MCGEE

These stock pickers dominated with gains of 40% and more for the past 12 months. Can the hot streak last?

SOMETHING UNUSUAL happened in the latest Wall Street Journal ranking of top-performing U.S. mutual funds: Small-cap money managers completely dominated the contest.

In every quarterly Winners' Circle contest, we seek to identify the actively managed U.S.-stock funds that had the best performance over the previous 12 months. (To qualify, funds must have at least $50 million in assets and a record of at least three years.)

Usually the top few funds every quarter have something in common—for example, they may all have big overweight positions in Apple Inc., or be heavily invested in biotechnology or oil plays in the Bakken Shield. Typically, however, the list becomes relatively diverse, after the first few names. (We disqualify sector funds and non-U.S. funds; we also exclude index funds, exchange-traded funds and leveraged funds, since the goal is to evaluate stock-picking prowess over a defined period.)

But things were different this quarter. All but one of the 10 best-performing funds for the 12 months through June 2018, according to data provided by Morningstar Inc., were managed by small-cap investment teams.

The most successful of all—capturing this quarter's Winners' Circle crown—was **Kinetics Small Cap Opportunities Fund** (KSCOX). Co-managed by James Davolos and Peter Doyle, the $300 million fund posted a gain of 44.1% in the past 12 months, narrowly edging out its nearest rival, **Delaware Smid Cap Growth Fund** (DFCIX), which recorded a return of 43.9% in the same period ("Smid" stands for small-cap and midcap).

Right on their heels were **Virtus KAR Small Cap Growth Fund** (PXSGX) and **Lord Abbett Micro Cap Growth Fund** (LMIYX), with 12-month returns of 43.2% and 42.8%, respectively.

"Small stocks represent—by far—the best-performing market this year," says Jack Ablin, chief investment officer of Cresset Wealth Advisors. Some of this, he says, may be the group playing "catch-up"—since June 30, 2010, annualized returns for small stocks have been only 13.9%, compared with 14.8% for those in the S&P 500. But small stocks have done better over a longer period: Since June 30, 2000, small stocks have gained 8.1% versus 5.6% for the S&P 500.

Investors are showing an overwhelming desire to avoid companies that are exposed to global turmoil, such as tariffs and trade disputes. "This feels like the way to shield themselves from the vagaries of the global market," says Mr. Ablin of the wholesale move toward small-caps. "People are investing as if we're building a wall around our entire country."

One risky strategy paid off even more than simply focusing on small stocks, however. The three top performers in our survey each built small, concentrated portfolios of what they believe to be the best of these smaller businesses—usually only 25 to 40 companies.

"You really need to do something different to earn real risk-adjusted returns in this market," says Mr. Davolos, whose Kinetics fund topped the chart. "We look for niche businesses that are very idiosyncratic."

The Kinetics team wants to invest in companies whose stocks are mispriced relative to their fundamentals, assuming share prices will rise as investors recognize the errors they have made in valuing those businesses. In the past year, one of the biggest contributors to its returns has been **Texas Pacific Land Trust**, a Dallas-based land

Please turn to the next page

◆ Three small-stock mutual funds, and an ETF, to consider during this rally R2

INSIDE

SCOREBOARD

Second-quarter 2018 fund performance, total return by fund type. More on R2.

U.S. stocks*	Intl. stocks*	Bonds (intmd.)
3.7%	−2.1%	−0.3%

*Diversified funds only, excluding sector and regional/country funds

Source: Lipper

The Real Problem With Stock Buybacks

BY JESSE M. FRIED AND CHARLES C.Y. WANG

JAMES STEINBERG

THERE IS A PROBLEM with share buybacks—but it isn't the one many critics and legislators are obsessed with.

Some critics claim that repurchases starve firms of capital they could invest for the long term, harming workers to enrich shareholders. Democratic Sens. Chuck Schumer of New York and Tammy Baldwin of Wisconsin agree and have introduced legislation to "rein in" corporate stock buybacks. The bill would give the Securities and Exchange Commission authority to reject buybacks that, in its judgment, hurt workers. It also would require boards to "certify" that a repurchase is in the "best long-term financial interest of the company." Sen. Baldwin has introduced another bill, co-sponsored by Sen. Elizabeth Warren (D., Mass.), that goes even further: It bans all open-market repurchases.

This criticism of buybacks is flawed; there is simply no evidence that the overall volume of dividends and repurchases is excessive. The real problem with buybacks is that they tend to enrich executives at the expense of shareholders. Fortunately, there is a simple remedy.

Flawed argument

Buyback critics say S&P 500 firms don't have enough investment capital because dividends and repurchases routinely exceed 90% of their net income. Between 2007 and 2016, for example, these companies distributed $7 trillion to shareholders, mostly via repurchases. That was 96% of total net income. But our research shows that public firms recover from shareholders—directly or indirectly—about 80% of the capital distributed via repurchases. Shareholders return this capital by buying newly issued shares, mostly from employees paid with stock, but also directly from firms. Taking into account all types of equity issuances, *net* shareholder payouts in S&P 500 firms during the decade 2007-2016 were only about $3.7 trillion, or 50% of total net income.

At this level, net shareholder payouts don't appear to impair investment capacity. Indeed, our research shows that total R&D expenditures by public firms are at the highest level ever. A broader measure of investment intensity at public firms, the ratio of capital expenditures and R&D to revenue, has been rising over the past 10 years and is near peak levels not seen since the late 1990s.

One might argue that firms would invest *even more* if they had more cash at their disposal. But there is no shortage of cash. During 2007-16, cash balances at S&P 500 firms also rose by 50%, reaching around $4 trillion, providing ample dry powder for additional expenditures. This astonishing level of idle cash suggests that net shareholder payouts may actually be too low.

The real problem is that buybacks, unlike dividends, can be used to systematically transfer value from shareholders to executives. Researchers have shown that executives opportunistically use repurchases to shrink the share count and thereby trigger earnings-per-share-based bonuses. Executives also use buybacks to create temporary additional demand for shares, nudging up the short-term stock price as executives unload equity. Finally, managers who know the stock is cheap use open-market repurchases to secretly buy back shares, boosting the value of their long-term equity. Although continuing public shareholders also profit from this indirect insider trading, selling public shareholders lose by a greater amount, reducing investor returns in aggregate.

Buybacks tend to transfer wealth from shareholders to executives, these two professors say.

Executives can use repurchases to enrich themselves because disclosure requirements are woefully inadequate. When executives trade personally, they must publicly disclose the details of each trade within two business days. The spotlight created by such real-time, fine-grained disclosure helps curb trading abuses by executives. By contrast, the SEC only requires a firm to report, in each quarterly filing, the number of shares repurchased in each month of the quarter and the average price paid per share. Investors see this filing a month or so into the next quarter, one to four months after the buybacks occur. And they never see individual repurchases, just aggregate transaction data. Researchers can detect the existence of buyback abuses across a large sample of public firms, but investors cannot easily identify the particular executive teams using repurchases to line their own pockets.

A solution

A simple, common-sense regulatory change would curb such abuses. In particular, the SEC should require a firm to disclose each trade in its own shares within two business days, as it does for executives personally trading company stock. This two-day rule would shine a spotlight on repurchases, discouraging executives from using them opportunistically. For example, if such real-time disclosure leads investors to believe that executives are using a buyback to buy underpriced stock, the stock price would start rising, reducing executives' indirect profits from any subsequent repurchases, and thereby increasing public investors' returns.

A two-day rule won't unduly burden firms' use of repurchases for proper purposes, just as the rule doesn't unduly burden individual insiders. Indeed, some of the largest stock markets outside the U.S. already require even more timely disclosure by firms trading in their own shares. In the U.K. and Hong Kong, firms must report a repurchase to the stock exchange before trading begins the next day. Japan requires same-day disclosure, and Swiss investors see these trades in real-time.

Even if the two-day disclosure rule doesn't eliminate completely executives' abuse of buybacks, it will generate fine-grained data about repurchases that can be used to decide whether more aggressive regulation is desirable.

The regulatory reforms currently under consideration, such as empowering the SEC to block buybacks, might curb these abuses even more. But they also could generate huge economic costs by impairing the circulation of capital in the economy. It would be foolish to go straight to such drastic measures rather than start with a modest regulatory tweak: subjecting firms to the same trade-disclosure requirement as their own executives.

__Prof. Fried__ is a professor at Harvard Law School, and Prof. Wang is an associate professor at Harvard Business School. They can be reached at __reports@wsj.com__.

PORTFOLIO STRATEGY

Small Stocks Are Back: 3 Funds to Ponder

These mutual funds, plus an ETF, are worth considering for those taking the plunge

BY DAN WEIL

SMALL-CAPITALIZATION stocks are standing tall.

For fund investors who are seeking exposure to the sector, the question now is which mutual fund or exchange-traded fund might make the most sense.

First, some background: The Russell 2000 index of small-cap stocks has climbed 10.3% since the start of this year, compared with 3.2% for the S&P 500 index of large-cap stocks (excluding dividends), as small stocks have benefited disproportionately from the tax cut passed last year, stronger growth in the U.S. than overseas, a rising dollar since mid-April and global-trade disputes.

And some experts say the trend will continue. "With economic data still solid, small-cap stocks probably have more runway in the months ahead," says Michael Sheldon, chief investment officer at RDM Financial Group-HighTower Advisors in Westport, Conn.

Tax play

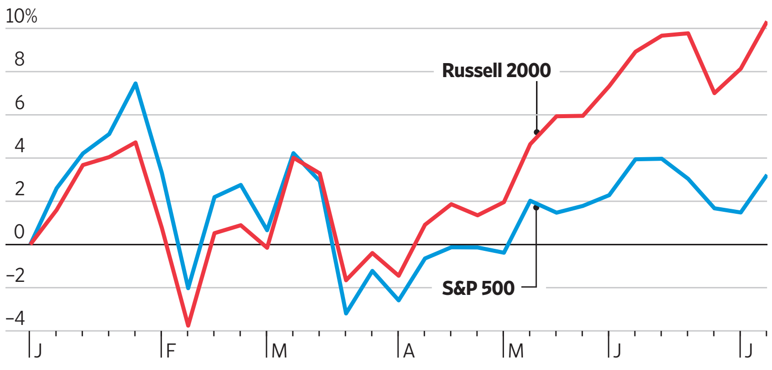
Lower taxes tend to help small companies more than bigger ones, because effective tax rates generally are higher for small companies, given the wealth of tools that large companies have to reduce their tax burden.

Domestic economic growth, meanwhile, can boost small-cap stocks more than large-caps, because bigger companies are more dependent on foreign markets. Companies in the S&P 500 receive about 30% of their revenue from abroad on average, compared with 21% for Russell 2000 companies, according to Bank of America Merrill Lynch.

On the currency front, a rising dollar hurts U.S. companies that export by making their goods more expensive in foreign currencies, and it hurts the profitability of U.S. companies with sales overseas by making that revenue worth less when translated into dollars. So again, small-cap companies benefit from having a smaller exposure overseas than their large-cap brethren.

Smaller Stocks in the Lead

Price return for the S&P 500 versus the Russell 2000 so far in 2018



Source: FactSet THE WALL STREET JOURNAL.

"The dollar trend is likely to continue, and if so, small-caps should continue to benefit," says Jack Ablin, chief investment officer at Cresset Wealth Advisors in Chicago. The Federal Reserve's continuing interest-rate increases combined with the reluctance of foreign central banks to raise rates should boost the dollar, he and others say.

Worsening trade disputes, too, would hurt large-cap stocks more than small-caps, because large-caps are more dependent on trade, experts say. "Investors are now showing more interest in small-caps to hedge exposure to trade skirmishes," says Karim Ahamed, an investment adviser at HPM Partners in Chicago.

Inflation factor

Even the recent acceleration of inflation has helped small-caps, says James Paulsen, chief investment strategist of Leuthold Group in Minneapolis. Inflation tends to benefit small companies more than large, because small companies generally have narrower profit margins than large companies. So, higher prices for their products represent a larger portion of small-company profit margins and thus boost earnings more for small companies.

In addition, valuations of small-cap stocks are attractive, some analysts say. By one measure of value—the ratio of enterprise value (which takes into account a company's market capitalization and debt, among other factors) to earnings before interest, taxes, depreciation and amortization, or Ebitda—the Russell 2000 was at a 12% premium to the Russell 1000 index of large-cap stocks as of May 31, Mr. Sheldon says, citing data from Barclays. That compares with a median premium of 14.1% for the period from Dec. 31, 2003 through May 31, 2018.

"For a while it looked like small-caps were overvalued, but that has narrowed dramatically," Mr. Ahamed says. "On a relative valuation basis, now is a better time to invest in small-caps."

If you're thinking of taking the plunge into small-cap stocks, what mutual funds might you consider? Russel Kinnel, director of manager research at investment information firm Morningstar, lists three possibilities: a small-cap value fund, a small-cap growth fund and a small-cap blended (growth and value) fund.

VALUE: DFA US Small Cap Value Portfolio (DFSVX)

"Because their expertise is small-cap and value, this seems like a good expression of what DFA does well," Mr. Kinnel says, referring to **Dimensional Fund Advisors**, the fund's sponsor. This fund finds inexpensive stocks based on price-to-book valuations, and it holds more than 1,000 names. "Because holdings are cheap and small, you get more volatility than you'd expect from a diversified portfolio, but it's a consistent performer," Mr. Kinnel says. The fund had a five-year annualized return of 10.8% through the end of June.

GROWTH: T. Rowe Price QM U.S. Small-Cap Growth Equity Fund (PRDSX)

The fund is managed based on so-called quantitative analysis, which relies on mathematical equations to analyze various data for a company and its shares. The fund managers look at valuation, profitability, capital allocation, earnings quality and stock-price momentum. "It tends to be a good process," Mr. Kinnel says. "It's very diversified with 300 stocks." The fund produced a five-year annualized return of 14.6% through the end of June.

BLENDED: Harbor Small Cap Value Fund (HISVX)

Despite the name, Morningstar classifies this fund as blended. "They have growth-like qualities to their portfolio construction," Mr. Kinnel says. It's an unusual strategy based on pattern recognition, looking for characteristics to identify stocks that are likely to outperform.

With about 60 holdings, this portfolio is more concentrated than the average small-cap fund. "But it's not like you will live and die on two names," Mr. Kinnel says. The fund generated a five-year annualized return of 13% through the end of June.

* * *

Experts also suggest a small-cap exchange-traded fund: **iShares Russell 2000 ETF** (IWM). "At the moment, active managers have been struggling to beat their benchmarks, so for a lot of our clients we've been using index funds and ETFs," Mr. Ahamed says. The fund returned an annualized 12.6% for the five years through the end of June.

Mr. Weil is a writer in West Palm Beach, Fla. He can be reached at reports@wsj.com.

IN TRANSLATION

BOTTOM-UP VS. TOP-DOWN

Sometimes you'll see investment research that discusses so-called top-down and bottom-up estimates of how much money the companies in the S&P 500 index will earn overall.

The differences can sometimes be meaningful.

With the bottom-up method, an analyst adds up the individual after-tax earnings estimates of each of the 500 companies in the index to generate an overall forecast. It is called a bottom-up approach because the figures are coming from the bottom level: each stock. Investment firms often use company earnings forecasts from their in-house analysts and then supplement those with average estimates from the investment community, says John Vail, chief investment strategist at Nikko Asset Management.

A top-down approach, by contrast, starts with the broader economy. "It is done via analysis of macroeconomic indicators, as well as what is happening with the corporate sector," Mr. Vail says. Such top-down calculations would look at forecasts for gross domestic product, as well as inflation, interest rates and corporate tax rates, and then use such figures to extrapolate overall corporate earnings.

The different approaches usually result in two sets of slightly different figures.

In a July report, Goldman Sachs said its top-down estimate of S&P 500 earnings for 2018 and 2019 was $159 a share and $170 a share, respectively.

Consensus bottom-up estimates are currently $159 and $175 a share for the same two years, according to financial-research firm CFRA Research.

—Simon Constable

Small-Stock Managers on a Roll

Continued from the prior page

trust with extensive holdings in the Delaware Basin region. As some of the biggest oil-and-gas exploration and development companies have pushed into the region, the company has earned higher royalty revenues, and profited from selling access to those wanting to build roads and pipelines or access water for fracking, Mr. Davolos says. On a split-adjusted price, Mr. Davolos calculates that the fund paid less than $6 a share to acquire its initial stake in the firm back in March of 2000; the stock now changes hands at $719.95 a share.

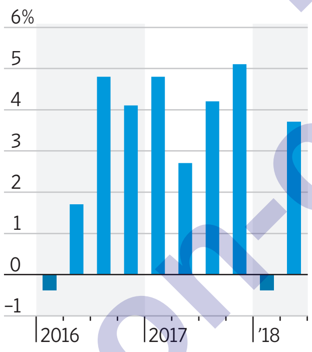
Hunting for a bargain

Initially, investors spurned **Howard Hughes** Corp., a real-estate development company spun off from General Growth Properties Inc., for failing to pay any kind of yield. But Mr. Davolos and his team found the bargain-basement spinoff valuation in 2010 compelling. "It was trading for less than book value," he recalls. "The South Street Seaport properties in Manhattan, which may be worth $5 billion, were on the books at $5 million." Trading at around $40 when the fund acquired the stake, the real-estate firm now changes hands for $138.50 a share.

Any of the long list of top-performing small-cap funds has an equally eclectic list of relatively unfamiliar companies responsible for its gains, though some of the ideas underpinning their businesses

Score at the Quarter

U.S.-stock funds were up 3.7% in the second quarter, the eighth gain in the past nine quarters. Average total return (U.S. diversified funds).



Source: Lipper
THE WALL STREET JOURNAL.

may be familiar. Alex Ely, manager of Delaware Smid Cap Fund, tries to build a portfolio of three dozen or so firms that fit into roughly a dozen themes, such as providing solutions to the opioid crisis. These include **Pacira Pharmaceuticals**, which has developed a long-lasting local anesthesia that dentists and surgeons can use as a non-opioid alternative to treating postsurgical pain. Then there is **Collegium Pharmaceutical** Inc., which has developed an extended-release painkiller with the same active ingredients as OxyContin, but with features that deter abuse.

Mobile services is another hot theme, Mr. Ely says. "We're clearly very early in terms of what our phones can do," he says. That led the fund to **Weight Watchers**: As health-conscious individuals have gravitated to apps to help them manage diet and fitness, so the company has shed its stodgy past in favor of online meetings and support. The fund first bought **Weight Watchers** stock in May 2017 at an average cost of $23.18; it now trades at $102.42.

Doug Foreman, the chief investment officer of Los Angeles-based Virtus Investment Partners, says his team doesn't care that anxiety about trade disputes is reviving interest among fickle investors in small-cap holdings, whose fates are more closely linked to the domestic economy. For Virtus KAR Small Cap Growth Fund, the challenge remains the same: identifying strong companies that will outperform in any climate.

Those winners, says Todd Beiley, the fund's manager, include **Ollie's Bargain Outlet Holdings** Inc., which the team bought following an initial public offering. The company was bargain-priced because it wasn't a household name, and investors were fearful that growth would slump. Mr. Beiley, however, was willing to bet on Ollie's scale (277 stores), the chief executive's long history in the closeout business (he founded the company in 1982 and still owns a 16% stake) and its ability to strike savvy deals. The fund first bought the stock at $15.38 in 2015; it now trades at $74.25. Mr. Beiley also bucked the consensus in buying shares of **Old Dominion Freight Line** Inc., a "less than truckload" transportation firm whose stock was in the doldrums in 2016, thanks to an industrywide slump. But he once again bet on an array of factors, from scale to the role of the founding family in running the business. The stock has soared to around $147.39 today from $68.32 at the time of purchase in September 2016.

Research matters

Mr. Ablin reminds investors eager to emulate these managers that small-cap investing can be tricky. "Small-cap stocks aren't always buy-and-hold investments," he says. Some businesses collapse. Others stagnate and flounder. A handful may become tomorrow's giants. The challenge requires a lot of research—as this quarter's winning managers would be the first to acknowledge.

There is also the question of whether the small-cap rally will be a long-term phenomenon, or something fleeting.

"Nervous investors can leave just as rapidly as they arrived," Mr. Ablin cautions. "It depends on whether people are making this shift because of anxiety and nervousness about their alternatives—or because there is something in the world of small-caps that really engages them."

Ms. McGee is a writer in New England. She can be reached at reports@wsj.com.

QUARTERLY MONITOR | WILLIAM POWER

U.S.-Stock Funds Rose 3.7% in Quarter But Bonds Drew Cash

You can almost hear fund investors' lament to their investments: *Thank you, stocks. But I have other plans—with bonds.*

Fund investors on average have registered modest gains in their stock funds this year, but they have been flocking to bond funds. The average diversified U.S.-stock fund's total return for the second quarter was 3.7%, according to Thomson Reuters Lipper data, to bring the year-to-date return to 3.4%.

International-stock funds were down 2.1% in the quarter, making their year-to-date decline 2.7%.

The U.S.-stock gains aren't bad. But bond funds were the real story last quarter. No, they didn't gain much: Funds focused on intermediate-maturity, investment-grade debt were down 0.3%, and are now down 1.7% this year. Yet they drew an eye-opening amount of cash from jittery investors.

FOLLOW THE MONEY

Second-quarter 2018 flow of investor cash by fund type, in billions*

U.S. stocks	Intl. stocks	Bonds
−$58.7	$85.8	$126.7

*estimated mutual-fund/ETF flows through 6/27
Source: Investment Company Institute

Investors sent a net $126.72 billion to bond-focused mutual funds and ETFs in the quarter, according to Investment Company Institute estimates. In contrast, long-term funds focused on U.S. stocks suffered an outflow of $58.72 billion. International-stock funds took in $85.84 billion as investors continued to question how long the bull market in U.S. stocks can last.

"I think it's a very confusing time," says Christopher Smart, Barings's new head of macroeconomic and geopolitical research, based in Boston. "On the one hand, you have very good balance and what appears to be sustainable growth in the U.S., you have slowing growth in Europe and maybe China—although nothing terribly worrisome—and unemployment and inflation mostly headed in the right direction. But markets still seem a little suspicious. And it's hard to tell whether that's because of a lot of political noise, which people spend a lot of time worrying about but not as much thinking about how to quantify."

Overall, while it's hard to argue that it is a great time to pour money into the markets, says Dr. Smart, "individual investments, whether on equity or the fixed-income side, seem to offer some good opportunities."

One beneficiary has been smaller stocks, which are thought to be less vulnerable to global-trade turmoil. Small-cap growth funds were up 8.7% in the quarter, one of the strongest fund sectors. (More on the rally in today's cover article, and above.)

Then there's the current darling of investors. "The environment at this point in the cycle should actually become more favorable for bonds," says Robert Tipp, chief investment strategist and head of global bonds at PGIM Fixed Income, in Newark, N.J. "I think what people have found out over time is that once the [Fed's] interest-rate hiking cycle is well under way, the rise in long-term rates should be mostly over, and bonds move into the part of the cycle where they tend to outperform both cash, and sometimes even equities."

Mr. Power is a Wall Street Journal news editor in South Brunswick, N.J. Email him at william.power@wsj.com.

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◆ "Why Annuities May Be Safer Than You Think," by Benjamin Harris (@econ_harris), a visiting associate professor at the Kellogg School of Management.

◆ "Run the Numbers on Your Retirement Plan. Now Do It Without Social Security," by Ted Jenkin (@tedjenkin), co-CEO and founder of oXYGen Financial.

The Journal Report welcomes your comments—by mail, fax or email. Letters should be addressed to Lawrence Rout, The Wall Street Journal, 4300 Route 1 North, South Brunswick, N.J. 08852. The fax number is 609-520-7256, and the email address is reports@wsj.com.

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ASK ENCORE | GLENN RUFFENACH

The Hard Job of When to Stop an Older Driver

Our columnist says that in hindsight, he would have done things differently with his mother

Any guidance about when and how to limit, or stop, an older and increasingly frail family member from driving? My husband and I are facing this situation with one of our parents, and there don't appear to be any trouble-free approaches or solutions.

There aren't. My two brothers and I wrestled with this very issue with my mother when she was in her early 80s and in failing health. The day we told her she could never drive again (after she was involved in a fender bender) was devastating for her and for us.

In hindsight, I should have done several things differently. I should have listened more closely to my mother's friends, who had started raising concerns about her ability to drive; I should have talked with my mother about taking steps to assess her driving skills (more on this in a moment); I should have asked her primary-care doctor to get involved (given that my mother invariably gave more weight to her doctor's opinions than that of family members); and I should have had a transportation plan in place before she had to give up driving. (My vague assurances that we would "figure this out" didn't help much.)

The best place to start with your parent is a self-quiz, something on paper or a computer that lets older drivers rate their abilities at home with little or no pressure. Yes, if we're being honest, one purpose of a self-test is to soften a person's resistance to further evaluation. But the primary goal here—which you should emphasize with your parent—is *not* to run people off the road; rather, it's to keep older adults behind the wheel for as long as they can drive safely, regardless of age.

Three organizations can help: the AAA Foundation for Traffic Safety, the University of Michigan Transportation Research Institute, and the National Highway Traffic Safety Administration.

AAA publishes "Drivers 65 Plus: Check Your Performance," a self-rating form. (Go to seniordriving.aaa.com and click on: Evaluate Your Driving Ability.) The exam's 15 questions cover the basics—Do I signal and check to the rear when I change lanes? Do I get regular eye exams? Do I find it difficult to decide when to merge with traffic on a busy interstate highway?—and produce a score that will help identify a driver's strengths and weaknesses. An additional 12 pages of material offer suggestions for how to improve your driving.

The University of Michigan publishes "SAFER Driving: The Enhanced Driving Decisions Workbook" (elderlydrivingassessments.com/safer.php), and NHTSA publishes "Driving Safely While Aging Gracefully" (go to nhtsa.gov and search for the title). Again, both evaluations focus on helping people remain safe drivers for as long as possible.

If you and your parent wish to move beyond these self-tests, some good resources are available. Hartford Financial Services Group Inc. publishes several guidebooks about older drivers. In particular, check out: "We Need to Talk: Family Conversations With Older Drivers." (Go to: thehartford.com/lifetime.) The National Institute on Aging (nia.nih.gov/health/older-drivers) has a number of recommendations for older drivers, as does the Centers for Disease Control and Prevention (go to cdc.gov and search for: older adult drivers).

Finally, AAA (again, seniordriving.aaa.com), NHTSA (nhtsa.gov/road-safety/older-drivers) and AARP, the Washington-based advocacy group (aarp.org/auto/driver-safety), offer valuable information and resources (beyond self-evaluations) about older drivers. Best of luck.

* * *

My son has been unemployed for a couple of months, and I need to give him some financial assistance. I am debating between sending him a gift of cash and/or a gift of stock. First, if I send him cash, how much can I send him in a given year without triggering additional tax reports and taxes for me? Second, does he have to report any amount of cash received from me when he files his 2018 tax return? Third, if I give him shares of stock I currently hold, what are the tax liabilities for him and myself? Do I have to pay taxes on a stock-ownership transfer? If yes, what would my tax liability be compared with a gift of cash?

If you limit your gift—of cash or stock—to $15,000 or less during 2018, you wouldn't need to file a federal gift-tax return, says Robert Sinsheimer, a certified financial planner with Modera Wealth Management in Atlanta. That figure is what's known as the "annual exclusion"; you can give up to $15,000 annually to as many people as you wish and not have the gifts count toward your federal lifetime exemption for gift taxes (currently $11.18 million).

So, if your son is married, you could give $15,000 to your son and $15,000 to his spouse without having to file a gift-tax return, Mr. Sinsheimer notes. Or you could give your son $15,000 on, say, Dec. 28—and turn around and give him $15,000 on, say, Jan. 2, 2019, without having to file a gift-tax return.

If your gift is larger than $15,000, you would need to file a gift-tax return. Your lifetime exemption would be reduced by the amount that exceeds $15,000.

As for your son, he wouldn't have to report on his taxes any amount of cash or stock received from you, Mr. Sinsheimer says. That's because the donor is generally responsible for paying any gift taxes.

Gifts of stock alone can get somewhat complicated, triggering capital-gains taxes in some cases, depending on whether the shares are worth more or less than when you acquired them. If you're careful about who sells the shares and when, however, you could avoid some of these taxes.

Mr. Sinsheimer offers this example: You (the mother) own 100 shares of stock that you bought for $50 apiece more than a year ago. The shares now trade at $150. If you give the 100 shares to your son, he also gets your tax basis for the shares ($5,000) and your holding period (in this case, more than one year).

If your son turns around and sells the shares, he would have to report a long-term capital gain of $10,000. But…the federal capital-gains tax would be zero if your son's taxable income is less than $38,700. (If your son's income is between $38,700 and $200,000, the federal tax rate would be 15%.)

Compare that with you (the mother) selling the stock first and then giving the proceeds (totaling $15,000) to your son. In this case, you would have to report $10,000 in long-term capital gains on your tax return with a possible federal tax bite of as much as 23.8%, depending on your adjusted gross income.

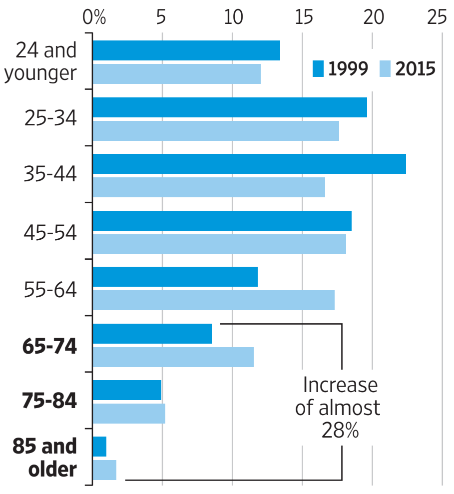
By giving the appreciated stock to your son (instead of selling the shares first and then giving him the cash), you avoid a tax bill, your son gets $15,000, and everyone is happy. (Except the Internal Revenue Service, I suppose.)

In short, if you plan to give your son a sizable gift—and if securities are involved—please consult with a good tax professional first.

Mr. Ruffenach is a former reporter and editor for The Wall Street Journal. His column examines financial issues for those thinking about, planning and living their retirement. Send questions, comments to ***askencore@wsj.com****.*

Drive My Car

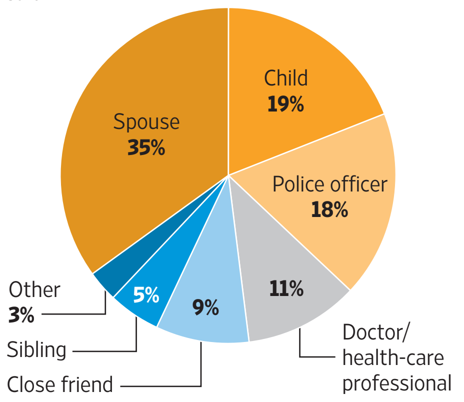
Between 1999 and 2015, the percentage of licensed drivers in the U.S. age 65 and older jumped almost 28%:



Source: Federal Highway Administration

Trusted Sources

Surveyed drivers age 50 and older were asked: 'If someone were to approach you with concerns about your driving, whom would you be most likely to listen to?' The following percentages said:



Sources: Hartford Financial Services Group Inc.; Massachusetts Institute of Technology AgeLab

THE WALL STREET JOURNAL.

Largest Stock and Balanced Funds

Data provided by LIPPER

Total returns are for periods ended June 29. All data are final. Assets are through May 31. Performance data include both share prices and reinvested dividends.

Fund Name	Symbol	Assets ($ millions)	Performance (%) June	2nd-qtr	1-year	3-year*	5-year*
Vanguard TSM Idx;Adm	VTSAX	698,686.3	0.7	3.9	14.8	11.6	13.3
Vanguard 500 Index;Adm	VFIAX	414,722.8	0.6	3.4	14.3	11.9	13.4
Vanguard Tot I Stk;Inv	VGTSX	343,288.5	−2.1	−3.2	7.0	5.3	6.4
SPDR S&P 500 ETF	SPY	262,441.3	0.6	3.4	14.2	11.8	13.3
Vanguard Instl Indx;Inst	VINIX	225,070.1	0.6	3.4	14.3	11.9	13.4
American Funds Gro;A	AGTHX	187,953.7	1.5	5.9	22.4	14.5	15.5
American Funds EuPc;R6	RERGX	167,553.7	−2.3	−2.8	9.4	6.5	8.3
iShares:Core S&P 500	IVV	151,616.5	0.6	3.4	14.3	11.9	13.4
Fidelity 500 Idx;Pr	FUSVX	150,360.9	0.6	3.4	14.3	11.9	13.4
Fidelity Contrafund	FCNTX	128,429.5	0.9	6.3	24.0	14.9	16.0
American Funds Bal;A	ABALX	127,967.7	0.7	2.1	9.2	8.6	9.3
Vanguard FTSE Dev Mk ETF	VEA	110,341.4	−1.5	−1.6	7.3	5.7	7.0
American Funds Inc;A	AMECX	108,058.8	−0.1	0.5	5.8	6.9	7.8
American Funds CIB;A	CAIBX	105,072.9	−0.1	−0.2	2.5	4.7	6.0
Vanguard Wellington;Adm	VWENX	103,551.2	−0.1	0.8	6.9	8.0	8.9
American Funds Wash;A	AWSHX	103,308.8	0.1	2.6	13.8	11.6	12.0
American Funds CWGI;A	CWGIX	99,353.7	−1.0	0.1	10.8	8.2	9.6
American Funds FInv;A	ANCFX	97,408.6	0.6	2.5	14.5	12.5	13.3
Vanguard Md-Cp Idx;Adm	VIMAX	96,713.5	0.9	2.6	12.1	9.2	12.3
American Funds ICA;A	AIVSX	94,257.7	0.9	3.4	12.9	11.0	12.7
Vanguard Sm-Cp Idx;Adm	VSMAX	89,686.1	0.7	6.2	16.5	10.5	12.4
Vanguard EM St Idx;ETF	VWO	88,529.4	−4.5	−9.1	6.3	3.6	4.3
American Funds NPer;A	ANWPX	81,661.6	0.2	2.3	15.2	11.1	11.9
Vanguard Gro Idx;ETF	VUG	79,296.1	1.2	5.9	19.3	13.3	15.4
Franklin Cust:Inc;A	FKINX	77,788.4	0.4	2.2	3.9	5.2	5.7
iShares:MSCI EAFE ETF	EFA	76,671.2	−1.3	−1.0	6.8	4.9	6.3
Dodge & Cox Stock	DODGX	69,866.5	1.5	2.8	11.9	11.0	12.8
Vanguard Ext Mk Id;Adm	VEXAX	66,758.7	0.9	6.0	16.8	10.3	12.6
Invesco QQQ Trust 1	QQQ	66,188.8	1.1	7.2	25.7	18.1	20.5
Vanguard Value Idx;ETF	VTV	65,636.7	0.2	1.3	10.2	10.3	11.6
Vanguard PRIMECAP;Adm	VPMAX	65,214.0	−1.0	2.9	18.3	15.2	16.8
American Funds AMCP;A	AMCPX	64,833.6	1.0	4.9	21.3	11.7	14.4
Dodge & Cox Intl Stock	DODFX	61,244.2	−1.8	−5.1	0.5	2.1	5.8
iShares:Core MSCI EAFE	IEFA	58,377.4	−1.3	−1.0	7.8	5.8	7.2
Vanguard RE Idx;ETF	VNQ	57,756.4	4.1	8.8	2.3	7.5	7.9
First Eagle:Global;I	SGIIX	56,029.3	−1.0	−0.1	4.9	6.7	7.2
T Rowe Price Gro Stk	PRGFX	53,882.9	1.3	5.9	22.9	15.5	17.6
T Rowe Price BC Gro	TRBCX	53,762.7	0.5	5.7	27.8	17.2	18.8
Fidelity Tot Mk;Pr	FSTVX	53,276.2	0.7	3.9	14.8	11.6	13.2
Vanguard Wellesley;Adm	VWIAX	53,241.6	0.1	0.3	3.2	5.9	6.2
iShares:Core MSCI EmMkts	IEMG	49,243.0	−4.4	−7.8	8.0	5.4	5.0
American Funds Mut;A	AMRMX	49,116.1	0.8	2.7	10.8	9.9	10.9
Vanguard Windsor II;Adm	VWNAX	47,820.9	0.4	2.3	7.6	8.1	10.1
iShares:Core S&P Md-Cp	IJH	46,952.4	0.4	4.3	13.5	10.8	12.6
iShares:Russ 2000 ETF	IWM	46,685.5	0.7	7.7	17.6	11.0	12.5
MFS Value;I	MEIIX	46,644.8	0.3	−0.6	4.0	8.4	10.7
Oakmark Internatl;Inv	OAKIX	45,847.9	−2.8	−5.0	3.1	5.7	6.8
Vanguard Health Care;Adm	VGHAX	45,270.3	0.8	0.5	2.3	2.8	13.7
Fidelity Gro Company	FDGRX	44,817.2	0.2	5.8	28.0	17.9	19.4
Vanguard Ins T StMk;Ins+	VITPX	43,370.1	0.7	3.9	14.9	11.6	13.3
iShares:Russ 1000 Gr ETF	IWF	41,879.8	1.0	5.7	22.3	14.8	16.1
American Funds SMCP;A	SMCWX	41,833.4	−0.4	3.1	15.6	8.8	11.4
iShares:Core S&P Sm-Cp	IJR	41,298.3	1.1	8.7	20.5	13.8	14.6
Vanguard Tgt Ret2025;Inv	VTTVX	40,558.6	−0.2	0.7	7.6	6.7	8.1
Oppenheimer Dev Mkts;Y	ODVYX	40,345.0	−2.5	−4.0	12.5	7.4	5.9
Vanguard FTSE xUS;ETF	VEU	38,129.3	−2.0	−3.3	6.8	5.2	6.3
iShares:MSCI Em Mkts	EEM	37,979.8	−4.2	−8.0	7.5	5.0	4.4
Vanguard Intl Gro;Adm	VWILX	37,919.4	−0.2	0.7	20.0	12.3	11.7
Vanguard Bal Index;Adm	VBIAX	37,695.9	0.4	2.3	8.6	7.7	8.9
American Funds NWld;A	NEWFX	36,925.4	−2.6	−3.9	10.0	7.0	6.3
Fidelity Low-Prcd Stk	FLPSX	36,273.4	0.6	2.0	13.0	8.1	10.6
iShares:Russ 1000 Vl ETF	IWD	36,024.4	0.2	1.1	6.6	8.1	10.1
BlackRock:Gl Alloc;I	MALOX	35,688.8	−0.6	−1.2	3.9	3.9	5.3
SPDR Gold	GLD	35,536.2	−4.2	−5.6	0.3	1.8	0.6
Vanguard Div App Idx;ETF	VIG	34,625.6	0.3	1.1	11.8	11.3	11.3
Vanguard Tgt Ret2030;Inv	VTHRX	34,364.1	−0.2	0.8	8.5	7.2	8.7
Schwab Cap:S&P 500 Idx	SWPPX	33,408.9	0.6	3.4	14.3	11.8	13.3
Vanguard Tgt Ret2035;Inv	VTTHX	33,046.7	−0.3	0.8	9.3	7.7	9.3
Vanguard Tgt Ret2020;Inv	VTWNX	32,677.1	−0.1	0.6	6.7	6.1	7.5
Fidelity Balanced	FBALX	32,662.8	0.8	3.2	10.8	8.1	10.0

Note: For funds with multiple share classes, only the largest is shown *Annualized N.A.=Not applicable or not available

Tracking Exchange-Traded Portfolios

Performance figures are total returns for periods ended June 29; for largest exchange-traded funds and other portfolios, ranked by asset size.

Fund	Symbol	Assets ($ billions)	Volume (000s)	Expense ratio	Launch date	Performance (%) June	2nd-qtr	1-year
SPDR S&P 500 ETF	SPY	259.30	954.9	0.09	01/22/93	0.6	3.4	14.2
iShares Core S&P 500 ETF	IVV	148.27	76.9	0.04	05/15/00	0.6	3.4	14.3
Vanguard Tot Stk Mkt Idx ETF	VTI	97.42	18.5	0.04	05/24/01	0.7	3.9	14.8
Vanguard 500 Index ETF	VOO	90.79	7.3	0.04	09/07/10	0.6	3.4	14.3
iShares MSCI EAFE ETF	EFA	72.57	313.1	0.32	08/14/01	−1.3	−1.0	6.8
Vanguard FTSE Developed Markets ETF	VEA	70.00	142.1	0.07	07/20/07	−1.5	−1.6	7.3
Invesco QQQ	QQQ	65.89	357.5	0.20	03/10/99	1.1	7.2	25.7
Vanguard Emg Mkts Stk Idx ETF	VWO	60.48	216.0	0.14	03/04/05	−4.5	−9.1	6.3
iShares Core MSCI EAFE	IEFA	57.50	65.1	0.09	10/18/12	−1.3	−1.0	7.8
iShares Core US Aggregate Bond ETF	AGG	55.29	70.6	0.04	09/22/03	−0.1	−0.2	−0.5
iShares Core S&P Mid-Cap ETF	IJH	47.21	12.8	0.07	05/22/00	0.4	4.3	13.5
iShares Russell 2000 ETF	IWM	47.05	240.2	0.20	05/22/00	0.7	7.7	17.6
iShares Core MSCI Emerging Markets	IEMG	46.71	161.2	0.14	10/18/12	−4.4	−7.8	8.0
iShares Core S&P Small-Cap ETF	IJR	42.94	41.5	0.07	05/22/00	1.1	8.7	20.5
iShares Russell 1000 Growth ETF	IWF	42.27	15.5	0.20	05/22/00	1.0	5.7	22.3
Vanguard Value ETF	VTV	38.71	10.3	0.05	01/26/04	0.2	1.3	10.2
Vanguard Total Bond Market ETF	BND	36.61	14.2	0.05	04/03/07	−0.03	−0.2	−0.6
iShares Russell 1000 Value ETF	IWD	36.08	21.8	0.20	05/22/00	0.2	1.1	6.6
Vanguard Growth ETF	VUG	35.40	5.6	0.05	01/26/04	1.2	5.9	19.3
iShares iBoxx $ Inv Grade Cor B ETF	LQD	33.16	78.6	0.15	07/22/02	−0.7	−1.4	−1.6

*Expense charge is a maximum of 8 cents a share †Assets are estimated N.A.= Not applicable, fund is too new.
Note: Total returns are based on the change in the net asset values, not changes in market prices. Net asset values can vary from market prices, which therefore can reflect a premium or discount to the net asset values.

Source: Thomson Reuters

Mutual-Fund Yardsticks: How Fund Categories Stack Up

Includes mutual funds and ETFs for periods ended June 29. All data are final.

Data provided by LIPPER

Investment objective	Perfomance (%) June	2nd-qtr	1-yr	5-yr*
Diversified stock & stock/bond funds				
Large-Cap Core	0.4	**2.8**	N/A	11.9
Large-Cap Growth	0.8	**5.7**	N/A	15.3
Large-Cap Value	0.1	**1.2**	24.6	9.9
Midcap Core	0.5	**2.9**	23.5	10.4
Midcap Growth	0.6	**4.4**	22.4	12.7
Midcap Value	0.6	**2.2**	22.3	9.9
Small-Cap Core	0.6	**6.0**	20.6	11.0
Small-Cap Growth	1.3	**8.7**	20.5	12.9
Small-Cap Value	0.7	**6.6**	19.2	9.7
Multicap Core	0.4	**2.6**	17.8	11.2
Multicap Growth	0.6	**5.0**	17.6	13.9
Multicap Value	0.2	**1.5**	16.3	9.7
Equity Income	0.3	**2.0**	14.8	9.4
S&P 500 Funds	0.6	**3.3**	14.7	12.8
Specialty Divers. Equity	−0.4	**0.6**	14.5	−3.4
Balanced	−0.1	**0.81**	14.4	6.8
Stock/Bond Blend	−0.3	**0.58**	14.0	6.2
Avg. U.S. Stock Fund†	0.5	**3.7**	13.9	10.7
Sector stock funds				
Science & Technology	−0.02	**4.4**	13.5	16.9
Telecommunication	2.3	**0.2**	13.4	7.1
Health/Biotechnology	1.6	**6.7**	12.7	15.5
Utility	2.2	**4.4**	12.5	8.4
Natural Resources	−0.8	**10.5**	12.2	−1.6
Sector	1.8	**4.4**	11.9	6.8
Real Estate	3.6	**7.5**	10.4	7.5

Investment objective	Performance (%) June	2nd-qtr	1-yr	5-yr*
World stock funds				
Global	−0.4	**0.8**	10.1	9.1
International (ex-U.S.)	−1.8	**−2.1**	9.7	6.2
European Region	−1.0	**−0.9**	8.8	6.7
Emerging Markets	−4.1	**−8.9**	8.4	4.1
Latin American	−4.6	**−17.6**	8.3	−3.0
Pacific Region	−4.0	**−4.3**	8.0	8.8
Gold Oriented	−1.07	**0.2**	7.7	0.1
Global Equity Income	−0.2	**0.3**	−1.3	6.6
International Equity Income	−2.0	**−3.6**	−2.6	4.0
Taxable-bond funds				
Short-Term	0.02	**0.31**	7.1	1.1
Long-Term	−0.4	**−0.8**	6.4	3.2
Intermediate Bond	−0.1	**−0.3**	6.2	2.1
Intermediate U.S.	0.3	**0.5**	6.1	1.1
Short-Term U.S.	−0.1	**−0.3**	5.6	2.1
Long-Term U.S.	0.1	**0.01**	5.3	1.7
General U.S. Taxable	−0.01	**−0.3**	4.9	3.2
High-Yield Taxable	0.2	**0.5**	4.8	4.3
Mortgage	0.04	**0.2**	4.8	1.9
World Bond	−1.0	**−3.6**	4.3	1.5
Avg. Taxable-Bond Fund**	−0.1	**−0.2**	4.0	2.2
Municipal-bond funds				
Short-Term Muni	0.04	**0.2**	3.5	0.5
Intermediate Muni	0.1	**0.7**	3.2	2.5
General & Insured Muni	0.1	**0.9**	3.2	3.6
High-Yield Muni	0.3	**1.6**	2.3	5.2

Stock & Bond Benchmark Indexes All total return unless noted

Investment objective	Perfomance (%) June	2nd-qtr	1-yr	5-yr*
Large-cap stocks				
DJIA	−0.5	**1.3**	16.3	13.0
S&P 500	0.6	**3.4**	14.4	13.4
Midcap stocks				
S&P MidCap 400	0.4	**4.3**	13.5	12.7
Small-cap stocks				
Russell 2000	0.7	**7.8**	17.6	12.5
Broad stock market				
DJ U.S. Total Stock Market	0.7	**3.9**	14.8	13.2
Russell 3000	0.7	**3.9**	14.8	13.3

Investment objective	Perfomance (%) June	2nd-qtr	1-yr	5-yr*
Stock indexes				
DJ U.S. TSM Growth	1.2	**6.1**	21.0	15.7
DJ U.S. TSM Value	0.1	**1.5**	8.8	10.8
Taxable bonds				
Barclays Agg. Bond	−0.1	**−0.2**	−0.4	2.3
Municipal bonds				
Barclays Muni. Bond	0.1	**0.9**	1.6	3.5
International stocks				
MSCI EAFE†† (price return)	−1.4	**−2.2**	4.0	3.6
Dow Jones World (ex. U.S.)	−2.0	**−2.4**	7.7	6.6

*Annualized †Diversified funds only **Excludes money-market funds ††Europe, Australia, Far East

FIXED-INCOME INVESTING

Convertible-Bond Issuance Soars, But It's Not Easy

RICHARD MIA

One expert calls this the perfect climate to issue convertibles, but likely the worst time to buy them

BY JEFF BROWN

U.S. ISSUANCE OF convertible bonds has soared this year along with a rise in interest rates, as companies look for cheaper ways to raise capital and income-oriented investors hunt for assets that can outperform humdrum holdings like Treasurys without a wild ride.

Some experts, however, say investors may be underestimating how tricky these securities can be to evaluate and how much risk is actually associated with them.

A cross between debt and equity, convertibles typically pay a lower yield than an ordinary corporate bond because investors can swap them for equity under terms set when the bonds are issued. Some experts say investors who need to keep their nest eggs intact for a long retirement may find them particularly appealing, drawn to their promise of steady income, as well as capital gains if stocks prosper.

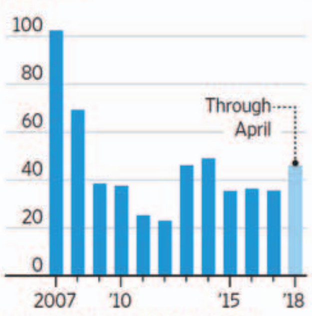
The ideal convert investor wants a better return on fixed-income investments, has a three- to five-year investment horizon and is bullish on stocks, but also wants the loss protection provided by the return of principal if the investor doesn't convert to stock, says Arnaud Brillois, portfolio manager on the global convertibles team at Lazard Asset Management.

Companies have sold $46.1 billion of convertibles this year through April, versus $35.5 billion for all of 2017, according to UBS Group, the Swiss investment bank. At the current pace, issuance of convertibles will beat the $102.3 billion U.S. record of 2007.

"Issuance is up because interest rates are higher and rising," says Dave King, portfolio manager of Columbia Threadneedle's **Columbia Convertible Securities Fund** (PACIX). "Some companies that would have issued regular bonds two years ago are now being priced out of the straight bond market and into the convertible market."

Converting

Convertible-bond issuance in the U.S. so far in 2018 is on pace to break the annual record.



Source: UBS Convertibles Marketing / Thomson Reuters

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Proceed with caution?

Advocates say investors may find convertibles especially attractive now because of their low default rates and the good results they've produced when interest rates rise.

SPDR Bloomberg Barclays Convertible Securities (CWB), an exchange-traded fund that tracks the convertible-debt market, yields just under 4% and has average annual returns of 10.2% for the five years through June, says Morningstar. By comparison **Vanguard Long-Term Corporate Bond Index Fund** (VCLT), one of many ETFs tracking ordinary corporate bonds, yields a slightly richer 4.43%, but has returned just 6.21% a year for the past five years, well under the CWB return.

That makes convertibles look good, but some financial pros say these securities can be tricky for investors accustomed to ordinary stocks, bonds and funds. Each convertible bond is essentially a customized contract, and terms can vary. Investors can face interest-rate risk, default risk, stock-market risk and call risk—when principal is returned early, likely at a bad time to reinvest.

"This is the perfect climate for companies to issue convertible bonds and likely the worst time for investors to buy them," says Robert R. Johnson, principal at the Fed Policy Investment Research Group and former president of the American College of Financial Services. He worries that convertible prices, like those of most bonds, will be damaged by rising interest rates.

The Federal Reserve has raised short-term rates twice this year, and the markets expect two more increases. That threatens many fixed-income investments, as investors favor new issues that pay more.

But convertibles often flourish in these conditions, says a study issued in March by Gabelli Funds. It found that in each of the past eight periods in which the 10-year U.S. Treasury note's yield rose at least 1 percentage point, convertibles outpaced Treasurys. They beat junk bonds in four of the eight periods and even outpaced the S&P 500 in two.

"Rising interest rates frequently occur in strong economic times, when growing earnings can lead to higher stock prices," says Mr. King, whose fund has returned 9.3% annually over the past five years. "This is not to say that convertible managers root for higher interest rates, but the relatively strong performance of the asset class in past rising rate environments is a documented fact."

Not a bond substitute

Nicole Tanenbaum, chief investment strategist at Chequers Financial Management in San Francisco, says converts behave like bonds when they are new but more like stocks as they age. She and others say converts shouldn't be viewed as an alternative to ordinary bonds like Treasurys. "An investor looking for bonds to act as the steady ballast of a portfolio should not use converts for this purpose, since they carry more equity-like volatility along with credit risk," Ms. Tanenbaum says.

While converts aren't as safe as Treasurys, the gold standard in safety, they are nowhere near as risky as high-yield, or junk, bonds. Default rates average about 1%, versus 4% for junk bonds, according to Barclays Equity Research.

Still, investors shouldn't shrug off the risk of default, says John Hagensen, managing director of Keystone Wealth Partners in Scottsdale, Ariz. "Many companies issuing convertible bonds are low quality, so the default risk during bear markets is extremely high," Mr. Hagensen says.

Also, a falling share price can make the conversion feature worthless, leaving just the interest earnings, and driving down the bond price for the investor who must sell before getting principal back at maturity.

Shopping for a convert, therefore, takes evaluation that could be tricky for some individual investors, requiring study of both the bond and stock prospects. Among the devils in the details: What is the conversion stock price? Can the company "call" or repay principal early? Can it force a conversion under certain conditions?

Investors can leave the research work to professionals with a managed account. There also are a number of actively managed and passive funds focused on convertibles.

"Convertible bonds have complex legal clauses that can be triggered for a variety of reasons, which necessitates constant monitoring," Lazard's Mr. Brillois says. "For these reasons, I believe it is best for investors to rely on specialist convertible-bond managers, and to invest through funds."

*Mr. Brown is a writer in Livingston, Mont. He can be reached at **reports@wsj.com**.*

How Convertibles Work

Convertible bonds start life as interest-paying corporate bonds, paying more than the firm's stock dividend if there is one, but slightly less than its ordinary bonds. At some point, the owner has a choice of getting back principal, as with any bond, or exchanging the principal for shares of stock at a set price, typically 25% to 40% above the share price when the bond was sold, according to a study issued in March by **Gabelli Funds**.

If the shares have gone up enough, that means a capital gain on top of the interest earnings, plus gains from any future share-price increases. If the company runs into trouble, its convertibles are "senior" to stocks, meaning the owners must be paid before common stockholders get their dividends. And if stocks slump, the investor can get the principal back, as with ordinary bonds, protecting against loss unless the firm is in deep enough trouble to default.

"Convertible securities are attractive because they historically have been able to provide returns that are highly competitive with common stocks in average equity markets, outperform in poor equity markets and participate in strong equity markets," the study says.

That study says the ICE BofAML (Bank of America Merrill Lynch) All US Convertible Index (VXAO) averaged annual returns of 8.4% in the 15 years ended March 31, slightly below the 10.1% of the S&P 500 stock index.

Companies like raising money with convertibles because the prospect of stock gains induces investors to settle for lower yield than they would require for ordinary corporate or junk bonds. Also, issuing converts doesn't immediately dilute the value of existing shares.

—*Jeff Brown*

READING LIST

Books That Financial Planners Say You Should Read

A lot of the writing goes beyond just money management—and even a classic for the little ones

BY JANE HODGES

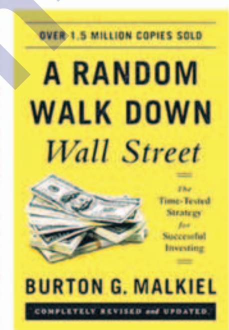
SUMMER READING is a classic American pastime—as is worrying about money.

That is why this summer we turned to financial planners for their go-to summer financial reading recommendations. There is something here for everyone from children to retirees, with accessible advice that often goes beyond managing your money to thinking about how money fits into the rest of your life.

Fundamentals and more

Looking for a good old-fashioned money classic? Try "The Little Book of Common Sense Investing" by John Bogle, the godfather of index investing, a top pick of Marguerita Cheng, a certified financial planner who is the chief executive of Blue Ocean Global Wealth in Gaithersburg, Md. "It offers timeless and trusted advice," Ms. Cheng says.

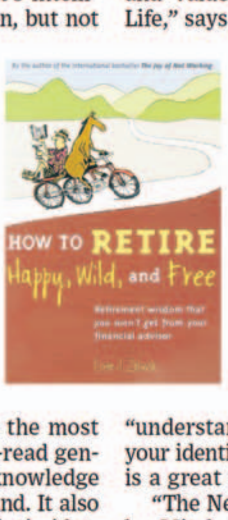
Lisa Weil, a certified financial planner with Clarity Northwest Wealth Management in Seattle, seconds Ms. Cheng's vote, but also suggests that investors read "Your Money or Your Life" by Vicki Robin and Joe Dominguez. "This book goes beyond investing and helps readers see that in truth, while you might try to game the markets, your best bet is to change the way you think about your money—what you make and where it goes," Ms. Weil says. "It's really terrific for helping readers address the fundamentals, think about what matters most to them."



"A Random Walk Down Wall Street" by Burton Malkiel is another classic Ms. Weil recommends, because it can "help readers understand what makes Wall Street tick—or fail to tick. It is written in an engaging, accessible style and offers lessons from as far back as "tulip mania" in 17th-century Holland.

"I'm a big fan of William Bernstein," says Abby Morton, a certified financial planner with SagePath Financial Planning in Bangor, Maine. She recommends Mr. Bernstein's "The Investor's Manifesto: Preparing for Prosperity, Armageddon, and Everything in Between."

"It's a good overview of sound investing strategy for interested novice investors," Ms. Morton says. "It's intelligent and well written, but not overly lofty."



"The Investment Answer" by Daniel Goldie and Gordon Murray is the book Derek Lenington, a certified financial planner at Lenington Financial in Portland, Ore., recommends to clients regardless of their level of financial literacy. "This book remains the most concise and easy-to-read general investment knowledge type of book I've found. It also is a size that is not intimidating to most clients—one reading for some," Mr. Lenington says.

Keith Rauschenberger, a certified financial planner with Rauschenberger Financial Advisors in Hoffman Estates, Ill., also recommends "The Investment Answer," calling it an "accessible primer." Another of his top picks is "The Little Book of Main Street Money" by Jonathan Clements. "It provides more than just investment advice," Mr. Rauschenberger says. "It provides good, basic financial advice—and the introduction alone is worth the read."

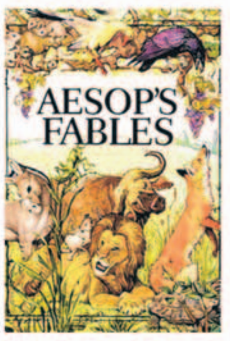
Tackling retirement

Nearing retirement? Consider George Kinder's "The Seven Stages of Money Maturity: Understanding the Spirit and Value of Money in Your Life," says Jake Engle, a certified financial planner at Wealth Planning & Management in Vancouver, Wash. "Kinder provides questions and answers to help people deal with what retirement is really like," Mr. Engle says, and it isn't just about the money—it also helps readers "understand that work isn't your identity and that freedom is a great thing."

"The New Retirementality" by Mitch Anthony is recommended by Skip Fleming, a certified financial planner at Lodestar Financial Planning in Colorado Springs, Colo. "It provides a modern way to think about and plan for not having to work anymore," Mr. Fleming says, noting that it offers worksheets for investors to tackle on their own that can be informative in the planning process. "I have clients tell me that the book made them think. Often, it's more than just money that they need to consider in retirement. The book's worksheets tend to correspond to planning work I do for them."

Another pick: "How to Retire Happy, Wild and Free," by Ernie Zelinski. It's recommended by Ira Fialkow of Fialkow Financial Planning in West Palm Beach, Fla., for advice on retirement financing and retirement living. "What *are* you going to do with your time?" Mr. Fialkow asks. "This book helps facilitate the next steps to a fulfilling retirement."

A simple tale



Last but not least, investors who want to lull children to sleep with a good tale that also instills investment principles should look no further than "Aesop's Fables," where the tale of "The Tortoise and the Hare" demonstrates that patience pays, says Michele Clark, a certified financial planner with Clark Hourly Financial Planning and Investment Management in Chesterfield, Mo.

"Slow and steady wins the race. That idea can also be applied to saving for a goal—short-term goals like buying furniture or long-term goals like retirement. Just keep putting a bit away consistently and you will get to the finish line," Ms. Clark says. "It is an excellent story to read to your children and grandchildren, while a good reminder for ourselves."

*Ms. Hodges is a writer in Seattle. She can be reached at **reports@wsj.com**.*

Largest Taxable-Bond Funds

Data provided by LIPPER

Total returns are for periods ended June 29 and are final; assets are through May 31, and include all share classes.

Fund Name	Symbol	Assets ($ millions)	Performance (%) June	2nd qtr	1 yr	3 yr*	5 yr*	10 yr*
Vanguard Tot Bd;Adm	VBTLX	198,347.8	0.04	−0.2	−0.5	1.7	2.2	3.7
Vanguard Tot Bd II;Inv	VTBIX	156,327.1	0.03	−0.1	−0.6	1.6	2.1	N.A.
PIMCO:Income;Inst	PIMIX	112,173.7	0.02	−0.5	2.5	5.3	5.9	9.3
Vanguard Tot Itl BI;Adm	VTABX	106,859.6	0.5	0.4	3.1	3.4	3.9	N.A.
Met West:Total Return;I	MWTIX	76,989.7	−0.2	−0.1	−0.2	1.6	2.5	5.5
PIMCO:Tot Rtn;Inst	PTTRX	70,863.8	0.03	−0.4	−0.1	2.1	2.5	4.9
Vanguard Sh-Tm Inv;Adm	VFSUX	61,206.6	0.04	0.2	0.2	1.6	1.8	2.8
Dodge & Cox Income	DODIX	56,141.0	−0.1	−0.3	0.4	2.6	3.1	4.9
iShares:Core US Agg Bd	AGG	55,616.1	−0.1	−0.2	−0.5	1.7	2.2	3.6
Vanguard Sh-Tm Bd;ETF	BSV	49,868.0	0.01	0.2	−0.3	0.8	1.0	2.2
DoubleLine:Tot Rtn;I	DBLTX	49,849.3	0.1	0.4	1.1	2.3	3.0	N.A.
Lord Abbett Sh Dur;F	LDLFX	40,154.4	0.1	0.5	1.2	2.0	2.2	4.0
American Funds Bond;A	ABNDX	38,402.8	−0.1	−0.2	−0.9	1.6	2.1	3.0
Fidelity US B Id;IP	FXNAX	37,206.4	-0.04	−0.2	−0.5	1.7	2.2	N.A.
Templeton Gl Bond;Adv	TGBAX	36,933.4	−1.0	−2.6	−1.9	1.2	1.9	5.7
Fidelity Str Adv Cre Inc	FPCIX	36,735.8	0.02	−0.3	unch.	2.4	2.7	4.7
BlackRock:Str Inc Opp;I	BSIIX	35,179.3	−0.3	−0.8	2.0	2.3	2.9	4.3
Vanguard Int-Tm Bd;ETF	BIV	33,974.5	-0.03	−0.3	−1.4	1.7	2.5	4.6
PGIM Tot Rtn Bond;Z	PDBZX	32,979.3	0.01	−0.6	0.5	3.1	3.7	5.7
iShares:iBoxx $IG Corp	LQD	32,640.1	−0.7	−1.4	−1.6	2.9	3.7	5.5

*Annualized N.A.=not applicable, fund is too new

FUNDAMENTALS OF INVESTING

'Value' Stocks Aren't a Bear-Market Cure

Perceptions aside, there is no consistency in the performance of value vs. growth

BY MARK HULBERT

IT'S THE CONVENTIONAL WISDOM that growth stocks and value stocks go in and out of favor along with the market cycle: Growth shines in bull markets, especially in its latter stages, while value takes the lead in bear markets.

As plausible as this pattern appears to be, however, it has held up less than half the time over the past 90 years. This is especially important to keep in mind now, given widespread concern that the bull market may be coming to an end—if it hasn't already. Investors should think twice before betting that value stocks will help protect them from the full brunt of a bear market.

Value stocks are those that are trading for the lowest prices relative to their underlying net worth. The metric most often used to determine where a stock falls on the value-growth spectrum is its ratio of price to per-share book value. Value stocks are those with the lowest such ratios, while growth stocks have the highest.

Current examples of value stocks within the S&P 500 include several in the energy sector, such as **Baker Hughes**, **Loews** Corp. and **Mosaic** Co., which produces phosphates and potash. The price-to-book ratios for these companies range from 0.87 to 0.94, according to FactSet, in contrast to a 3.16 price-to-book ratio for the S&P 500. Two stocks near the growth end of the spectrum, meanwhile, are **Amazon.com** and **Netflix**, both of which sport price-to-book ratios above 20.

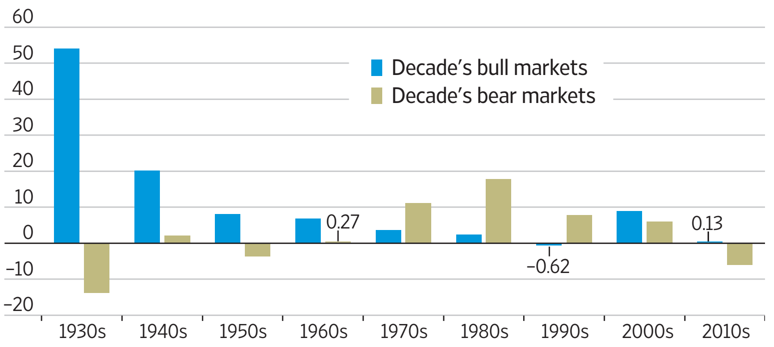
No consistency

Since the 1920s, there has been no consistency in the relative performance of value and growth in either bull or bear markets.

In bear markets before 1970, for example, the 50% of stocks nearest the growth end of the spectrum outperformed the 50% at the value end by an annualized average of 3.8 percentage points. In the bear markets of the subsequent four decades, however, it was just the opposite, with value beating growth by an annualized average of 10.7 percentage points. The current decade appears to be reverting to the pre-1970 pattern, with value lagging behind growth in both the 2011 and 2015-16 bear markets. (These results are calculated using data from two professors, Eugene Fama at the University of Chicago Booth School of Business, and Kenneth French at the Tuck School of Business at Dartmouth College.)

Is Value a Bear-Market Strategy?

Extent to which value beat growth*, in annualized percentage points



*'Value' represented by the 50% of stocks with the lowest price-to-book ratios; 'growth' by the 50% with the highest such ratios

Source: Eugene Fama, Kenneth French, HulbertRatings.com

THE WALL STREET JOURNAL.

As you can see from the accompanying chart, a similar picture of value and growth's relative performance emerges in bull markets as well. Value came out ahead of growth in bull markets up through the 1980s, but has been inconsistent since then. It is well behind growth in the bull market that began in March 2009, for example.

Value led growth in bull markets up through the 1980s, but has been inconsistent since.

Why do so many persist in nevertheless believing that growth leads in bull markets and value in bear markets?

One reason is that memories of the internet-stock bubble are still fresh in many investors' minds. The internet stocks that soared in the late 1990s, during the inflation phase of that bubble, couldn't have been further away from the value end of the spectrum. From the beginning of 1997 through March 2000, the growth-stock category beat the value category by an annualized average of 7.7 percentage points. It was just the reverse during the bear market that was precipitated by the bursting of that bubble, with value stocks beating growth by an annualized average of 22.8 percentage points.

But, to repeat, value and growth's experience in the late 1990s and early 2000s is more the exception rather than the rule. So we're on shaky ground extrapolating its experience into the future.

So plausible

Another reason why many continue to believe that value leads in bear markets is because theories as to why this should be true are so plausible. A stock that is trading for a lower price relative to its intrinsic worth presumably is less likely to fall as far in a bear market than one that is trading for a high price. In a bull market, in contrast, growth stocks should come out ahead since investors are less worried about downside risk.

This belief has a long and distinguished history, tracing at least as far back as Benjamin Graham, author of the classic "The Intelligent Investor" and erstwhile mentor to Berkshire Hathaway Chief Executive Officer Warren Buffett. Graham famously argued that stocks trading for low enough prices relative to their net worth provide a "margin of safety" against a downturn.

What basis?

It is true that, before the 1970s, the average value stock had a much lower beta than the average growth stock. It therefore wasn't a particular surprise that value stocks fell by less in bear markets. But, since then, there have been significant periods in which value stocks had higher betas and, sure enough, that is when they fell by more than growth stocks during bear markets.

Right now, according to FactSet, there is hardly any difference in the average betas of growth and value stocks, as judged by the 50% of stocks within the S&P 500 with the highest price-to-book ratios and the 50% with the lowest. This suggests that both groups could easily fall by more or less the same amount in the next bear market.

The investment implication: If your current equity exposure level is higher than you can tolerate during a bear market, then you should reduce that exposure level now rather than hope that a shift to value stocks will lessen your losses.

I hasten to add that this discussion doesn't mean that you should avoid value stocks. There no doubt are many good reasons why such stocks might be compelling investments. The point of this discussion is more limited: Don't invest in value stocks in the hope they will be a good defensive strategy in a bear market.

Mr. Hulbert is the founder of the Hulbert Financial Digest and a senior columnist for MarketWatch. He can be reached at reports@wsj.com.

FUND RESULTS

WSJ .COM

Lipper's A-to-Z quarterly mutual-fund and ETF listings are free at WSJ.com/FundsAnalysis.

SPOTLIGHT

VANECK VECTORS GAMING

A GAMBLING ETF BETS ON GLOBAL GROWTH

The recent Supreme Court sports-betting decision won't necessarily be the jackpot for a certain ETF focused on gambling. Instead, the ETF is betting on global growth in gaming and related businesses.

VanEck Vectors Gaming ETF (BJK) is a $30.9 million exchange-traded fund that tracks an index of companies involved in different aspects of the industry: casinos, casino hotels, bookmakers, racetracks, and internet and gaming companies with interests in gambling.

Each company is limited to at most 8% of the index, which rebalances quarterly.

BJK has a global focus, says Ed Lopez, marketing director at VanEck, but Asia is a particularly large market for the sector.

The fund had returns of just under 16% over the past 12 months, which Mr. Lopez attributes to "strong overall economic growth that we've seen globally."

That performance, however, has tailed off more recently, with its shares slipping 1.7% year-to-date. Mr. Lopez attributes this to broader economic and political trends, as talk of tariffs and trade disputes has spooked investors in an industry that depends on discretionary spending.

Still, if the global economy stays out of recession, Mr. Lopez says, there is strong potential for the gambling sector.

BJK "does a decent job of providing exposure to this very narrow space," says Elisabeth Kashner, director of ETF research at FactSet, though she notes that it "reaches somewhat beyond just the casino and gambling sector to include a touch of real estate" through inclusion of casino hotels.

—Gerrard Cowan

Category Kings in 16 Realms

Top-performing funds in each category, ranked by one-year total returns (changes in net asset values with reinvested distributions) as of June 29; assets are as of May 31. All performance numbers are preliminary.

Data provided by LIPPER

Best and Worst

Total return for the best- and worst-performing stock, bond and mixed mutual-fund categories; for period ended June 29; ranked by 2nd-quarter returns.

Source: Lipper

Best Performers

Fund	Second-quarter	12-month
Natural Resources	10.5%	17.8%
Small-Cap Growth	8.7	24.6
Real Estate	7.5	3.2
Health/Biotechnology	6.7	14.7
Small-Cap Value	6.6	12.5
Small-Cap Core	6.0	14.0
Large-Cap Growth	5.7	22.4

Worst Performers

Fund	Second-quarter	12-month
Latin American	−17.6%	0.4%
Emerging-Market Local-Currency Debt	−10.1	−2.6
Emerging Markets	−8.9	6.1
Pacific Region	−4.3	11.9
World Bond	−3.6	−0.4
International Equity Income	−3.6	3.2
International Stock	−2.1	7.1

International Funds

	Symbol	Assets ($ millions)	2nd-qtr (%)	YTD	Total return (%) 1-yr	5-yr*	10-yr*
Brown Cap Intl SmCo;Inst	BCSFX	46.9	2.9	14.1	**30.7**	N.A.	N.A.
Morg Stan I:Intl Opp;I	MIOIX	1168.4	3.7	8.6	**28.0**	18.8	N.A.
PGIM Jenn Intl Opps;Z	PWJZX	451.6	2.6	5.4	**26.4**	10.6	N.A.
Morg Stan I:Intl Adv;I	MFAIX	446.2	3.6	8.8	**23.7**	15.4	N.A.
Bail Giff EAFE;5	BGEVX	2906.5	−0.1	5.8	**23.3**	N.A.	N.A.
Category Average:		1,146.2	−2.1	−2.7	**7.1**	6.2	2.9
Number of Funds:			1,662	1,638	**1,593**	1,085	754

Large-Cap Core

	Symbol	Assets ($ millions)	2nd-qtr (%)	YTD	Total return (%) 1-yr	5-yr*	10-yr*
Amer Cent:Foc DG;Inv	ACFOX	61.0	10.3	17.4	**33.7**	16.1	8.1
Invesco S&P500 Momnt	SPMO	42.6	5.3	8.8	**26.1**	N.A.	N.A.
Gotham Enh S&P 500;Inst	GSPFX	3.2	4.3	5.0	**21.5**	N.A.	N.A.
Fidelity Magellan Fund	FMAGX	17,527.3	4.4	5.5	**20.3**	15.0	7.9
Gotham Enh Idx Plus;Inst	GENDX	3.0	2.8	2.5	**19.9**	N.A.	N.A.
Category Average:		1,104.9	2.8	1.7	**12.7**	11.9	9.0
Number of Funds:			812	803	**766**	601	458

Large-Cap Growth

	Symbol	Assets ($ millions)	2nd-qtr (%)	YTD	Total return (%) 1-yr	5-yr*	10-yr*
Berkshire:Focus	BFOCX	...	8.8	22.2	**44.1**	21.6	16.5
Touchstone Inst:Snd Gr	CISGX	2,086.1	10.4	21.1	**33.9**	16.1	13.8
Transam:Cap Growth;I	TFOIX	1,173.9	8.2	18.8	**33.6**	21.2	N.A.
Touchstone:Sel Gro;Y	CFSIX	2,328.2	10.3	21.0	**33.5**	15.9	13.4
PGIM Jenn Focused Gr;A	SPFAX	510.1	7.0	15.5	**33.1**	18.2	12.6
Category Average:		1,539.4	5.7	9.0	**22.4**	15.3	10.4
Number of Funds:			717	714	**697**	555	410

Large-Cap Value

	Symbol	Assets ($ millions)	2nd-qtr (%)	YTD	Total return (%) 1-yr	5-yr*	10-yr*
AMG Yacktman FcSec;I	YFSIX	1.5	4.9	4.4	**17.7**	N.A.	N.A.
Union St Prtn Val;C	USPCX	$29.6	6.4	2.4	**16.5**	10.0	N.A.
SPDR MFS Sys Value Eqty	SYV	33.6	2.0	0.9	**15.8**	N.A.	N.A.
Pac Fds:Comstock;P		117.0	4.5	1.5	**15.5**	10.7	N.A.
iShares:Edge MSCI USA VF	VLUE	3,773.0	1.3	−0.1	**14.8**	12.2	N.A.
Category Average:		1,060.4	1.2	−1.3	**8.3**	9.9	7.9
Number of Funds:			490	484	**474**	358	265

Small-Cap Core

	Symbol	Assets ($ millions)	2nd-qtr (%)	YTD	Total return (%) 1-yr	5-yr*	10-yr*
Perkins Discovery	PDFDX	11.9	26.2	33.4	**37.8**	10.1	9.7
AMG Mg Emerg Opps;N	MMCFX	187.5	12.0	14.1	**30.9**	14.2	12.7
Paradigm:Oppty Fund	PFOPX	9.0	8.0	12.5	**27.8**	11.8	10.2
Oak Dyn Sm Cp;I	ORSIX	28.4	7.0	8.5	**24.2**	N.A.	N.A.
AdvisorShs Cornerstne SC	SCAP	5.1	11.8	11.9	**23.9**	N.A.	N.A.
Category Average:		553.4	6.0	4.8	**14.0**	11.0	9.8
Number of Funds:			1,017	1,012	**985**	689	501

Small-Cap Growth

	Symbol	Assets ($ millions)	2nd-qtr (%)	YTD	Total return (%) 1-yr	5-yr*	10-yr*
Delaware Sm Cap Gro;Inst	DSGGX	10.6	14.4	19.0	**46.9**	N.A.	N.A.
Delaware Smd Cp G;A	DFCIX	1,227.2	12.8	17.5	**42.9**	15.5	13.3
Pac Fds:Dev Gro;P		10.4	15.0	23.4	**42.4**	11.0	N.A.
Lord Abbett Dev Gro;I	LADYX	2,067.2	15.1	23.4	**42.3**	13.3	12.6
Virtus:KAR Sm-Cap Gro;I	PXSGX	3,672.1	11.5	20.7	**42.2**	20.9	15.7
Category Average:		320.2	8.7	12.2	**24.6**	12.9	10.8
Number of Funds:			597	589	**566**	445	336

Small-Cap Value

	Symbol	Assets ($ millions)	2nd-qtr (%)	YTD	Total return (%) 1-yr	5-yr*	10-yr*
CM:Advisors SC Val;I	CMOVX	107.1	18.3	12.7	**36.3**	5.6	N.A.
Pacific Adv:Sm Cap Val;A	PASMX	21.5	11.7	8.2	**28.4**	0.8	4.8
Aegis Value;I	AVALX	154.2	3.5	4.8	**27.3**	5.7	8.6
Small Cap Value Fund	SCAPX		16.4	5.4	**26.8**	10.3	11.6
Heartland:Value +;Inv	HRVIX	415.7	10.6	7.4	**21.0**	8.0	7.6
Category Average:		471.5	6.6	3.7	**12.5**	9.7	9.4
Number of Funds:			300	295	**286**	222	152

Midcap Core

	Symbol	Assets ($ millions)	2nd-qtr (%)	YTD	Total return (%) 1-yr	5-yr*	10-yr*
CB Select;I	LBFIX	98.1	11.0	21.9	**38.4**	20.4	N.A.
Neiman:Opportunities;A	NEOMX	8.3	13.8	14.5	**27.9**	N.A.	N.A.
RBB:Mtly SM Cap Gro;Inv	TMFGX	305.0	0.2	3.7	**22.2**	12.4	N.A.
Pacific Adv:Mid Cp Val;A	PAMVX	5.5	7.4	4.3	**20.7**	1.1	0.9
Frst Tr Srs:AQA Eqty;A	AQAAX	45.9	4.5	3.0	**20.4**	N.A.	N.A.
Category Average:		714.2	2.9	1.6	**10.4**	10.4	8.8
Number of Funds:			469	464	**454**	318	210

Midcap Growth

	Symbol	Assets ($ millions)	2nd-qtr (%)	YTD	Total return (%) 1-yr	5-yr*	10-yr*
Virtus:KAR Mid-Cap Gr;A	PHSKX	145.4	8.9	22.0	**36.2**	14.8	9.1
Kinetics:Paradigm;NL	WWNPX	842.7	12.8	13.3	**36.0**	13.7	8.6
Invesco Russ MdCp PG	PXMG	164.7	7.4	15.1	**33.6**	14.5	9.0
Morg Stan I:MCG;A	MACGX	610.0	12.9	22.2	**33.5**	10.8	9.1
AB Discovery Gr;Adv	CHCYX	2,396.5	8.2	14.6	**32.3**	14.6	13.3
Category Average:		639.3	4.4	7.5	**19.2**	12.7	9.4
Number of Funds:			393	389	**381**	312	220

Midcap Value

	Symbol	Assets ($ millions)	2nd-qtr (%)	YTD	Total return (%) 1-yr	5-yr*	10-yr*
Huber Cap MC Val;Inst	HUMEX	2.1	7.7	5.9	**17.0**	N.A.	N.A.
Guggenheim:MC Val;A	SEVAX	471.1	6.1	4.1	**14.7**	9.9	10.1
Guggenheim:MCV Inst;Inst	SVUIX	72.4	6.3	4.3	**14.7**	10.2	N.A.
TCW:Rel Value MC;I	TGVOX	102.4	2.0	1.3	**14.4**	10.9	8.5
Vident Core US Equity	VUSE	671.3	3.0	1.1	**14.4**	N.A.	N.A.
Category Average:		732.8	2.2	−0.1	**8.0**	9.9	9.2
Number of Funds:			180	179	**171**	120	93

Multicap Core

	Symbol	Assets ($ millions)	2nd-qtr (%)	YTD	Total return (%) 1-yr	5-yr*	10-yr*
Federated MDT LCG;A	QALGX	90.4	5.8	10.7	**26.7**	13.9	8.7
Meridian Contrarian;Leg	MVALX	679.3	5.2	7.8	**25.7**	13.9	10.2
TCW:New America Prm Eq;I	TGUSX	26.4	8.0	10.6	**24.9**	N.A.	N.A.
Aptus Behavioral Momentm	BEMO	68.0	7.0	11.9	**24.1**	N.A.	N.A.
MF&Var:Rtnl Dy Brnd;A	HSUAX	20.0	6.0	8.1	**22.7**	7.3	7.6
Category Average:		1,569.3	2.6	1.8	**12.2**	11.2	8.6
Number of Funds:			823	804	**782**	565	403

Multicap Growth

	Symbol	Assets ($ millions)	2nd-qtr (%)	YTD	Total return (%) 1-yr	5-yr*	10-yr*
Sparrow:Growth Fund;A	SGFFX	17.0	14.8	25.7	**46.7**	13.4	6.7
Zevenbergen Genea;Inv	ZVGNX	17.2	16.3	32.3	**46.3**	N.A.	N.A.
Morg Stan MultiCp Gr;A	CPOAX	637.4	12.8	21.8	**40.6**	21.2	13.6
Bail Giff US EG;I	BGGSX	1.7	14.5	26.7	**40.0**	N.A.	N.A.
Fidelity Adv Srs Gro Opp	FAOFX	663.0	15.5	19.2	**34.7**	N.A.	N.A.
Category Average:		743.6	5.0	7.9	**20.6**	13.9	10.2
Number of Funds:			536	533	**526**	406	305

Multicap Value

	Symbol	Assets ($ millions)	2nd-qtr (%)	YTD	Total return (%) 1-yr	5-yr*	10-yr*
Deep Value	DVP	144.0	4.3	7.5	**25.6**	N.A.	N.A.
Alp Arc US Quant Value	QVAL	122.7	3.5	2.1	**23.5**	N.A.	N.A.
Mt Lucas US Focus Eq;I	BMLEX	9.3	5.1	7.3	**23.0**	12.9	10.1
Copley Fund	COPLX	93.3	1.9	14.0	**21.2**	11.4	8.2
WBI Power Factor Hi Div	WBIY	49.2	5.7	3.6	**18.5**	N.A.	N.A.
Category Average:		612.2	1.5	−1.1	**8.4**	9.7	8.2
Number of Funds:			388	388	**377**	268	208

S&P 500 Funds

	Symbol	Assets ($ millions)	2nd-qtr (%)	YTD	Total return (%) 1-yr	5-yr*	10-yr*
GuideStone:Eqty Idx;Inv	GEQZX	1002.0	3.5	2.6	**14.6**	13.1	9.9
SS Inst Inv:Eq 500 Id II	SSEYX	2,668.8	3.4	2.7	**14.4**	N.A.	N.A.
JPMorgan:Equity Idx;R6	OGFAX	3,356.3	3.4	2.6	**14.4**	N.A.	N.A.
SEI Inst Inv:S&P500;A	SPINX	4,336.2	3.4	2.7	**14.4**	N.A.	N.A.
BlackRock:IS S&P500;K	WFSPX	14,816.5	3.4	2.6	**14.4**	13.4	10.1
Category Average:		10,863.2	3.3	2.4	**13.9**	12.8	9.6
Number of Funds:			125	125	**123**	106	96

Global Stock

	Symbol	Assets ($ millions)	2nd-qtr (%)	YTD	Total return (%) 1-yr	5-yr*	10-yr*
Kinetics:SC Oppty;NL	KSCOX	308.3	11.3	17.9	**43.0**	13.4	10.2
Artisan:Thematic;Inv	ARTTX	45.7	6.1	13.3	**40.1**	N.A.	N.A.
Bail Giff LTGGE;K	BGLKX	214.8	10.2	17.5	**37.8**	N.A.	N.A.
Baron Global Advtg;Inst	BGAIX	83.9	5.6	12.9	**33.9**	17.1	N.A.
Selective Oppty;Fndtn	SLCTX	56.2	4.1	20.3	**33.9**	N.A.	N.A.
Category Average:		553.9	0.8	0.4	**10.3**	9.1	6.1
Number of Funds:			1,082	1,072	**1,037**	678	384

Balanced Funds

	Symbol	Assets ($ millions)	2nd-qtr (%)	YTD	Total return (%) 1-yr	5-yr*	10-yr*
Wisconsin:Plumb Balanced	PLBBX	58.7	5.5	7.0	**16.4**	11.2	7.6
Dscpld Growth Invest;I	DGIFX	212.4	4.5	6.0	**15.0**	11.0	N.A.
Jns Hndsn:Balanced;T	JABAX	14,650.0	2.5	3.1	**12.7**	9.0	8.2
Fidelity Puritan	FPURX	27,955.4	3.4	3.1	**12.7**	10.4	8.3
Virtus:Strat Alloc;A	PHBLX	489.5	1.5	4.1	**12.4**	7.2	6.2
Category Average:		1,110.0	0.8	−0.1	**6.4**	6.8	5.9
Number of Funds:			596	594	**586**	512	435

N.A.: Not applicable; fund is too new   * Annualized Note: For funds with multiple share classes, only the largest is shown.

Winners and Losers

Best- and worst-performing stock funds for the periods ended June 29; assets as of May 31 and include all share classes. Performance data are final and include share prices and reinvested dividends.

Second-Quarter Best Performers

Fund Name	Assets ($ millions)	Performance (%) June	2nd-qtr	1-year
iPath Bloomberg NatGas A	0.9	−7.6	**81.5**	−72.3
ProShares:UlS MSCI Brz	30.2	15.9	**77.4**	−11.4
Direxion:S&P OG EP Bl 3X	139.0	4.1	**70.4**	95.5
BMO REX MS FANG+ 3x Lev	76.1	13.6	**54.1**	N.A.
ProFunds:UltSh Latin;Inv	4.7	12.9	**53.5**	−8.1
Crdt Suis AT3X L Brnt CO	25.3	5.8	**49.1**	N.A.
VelShs 3x Long Crude ETN	98.5	33.1	**42.6**	230.8
VelShs 3x Long Crude	183.0	33.1	**42.5**	230.3
USCF:US 3x Oil	5.9	32.9	**42.0**	N.A.
Direxion:Nat Gas Bull 3X	33.3	6.3	**39.8**	19.9
Direxion:EnergyBull 3X	462.4	0.5	**39.7**	54.2
UBS PS Daily 3x Lng Crd	12.7	26.0	**36.1**	224.7
ProShs II:UltPro 3x CO	24.9	25.9	**35.6**	221.6
Direxion:MSCI EM Bear 3X	71.9	13.9	**32.1**	−28.8
VelShs Dly 4X L USDvsEUR	4.2	1.2	**32.0**	N.A.
Direxion:MSCI RE Bull 3X	54.7	13.0	**29.5**	−0.2
Direxion:Retail Bull 3X	21.9	15.0	**28.6**	52.5
UBS E-TRACS MP2xL US SCH	51.5	8.8	**28.2**	11.5
Invesco Dyn Enrgy	89.2	3.4	**28.0**	43.7
ProShares:Ult Oil & Gas	128.9	0.8	**27.6**	40.3
Perkins Discovery	11.9	2.6	**26.2**	37.8
VelShs Dly 4X L USDvsGBP	4.0	5.6	**25.9**	N.A.
UBS E-TRACS 2xML S&P MLP	46.9	−3.4	**24.9**	−10.2
ProShs II:Ult Blm CrO	414.0	17.4	**24.9**	131.9
Frst Tr IV:NASD Oil&Gas	27.2	0.1	**24.1**	41.1
Crdt Suis XL MP 2L AMLP	15.8	−3.6	**22.4**	−15.2
SPDR S&P Oil&Gas Exp	3,324.5	2.1	**22.4**	36.0
Direxion:China Bear 3X	50.9	21.3	**22.3**	−43.5
Invesco S&P SC Enrgy	76.9	−2.0	**22.1**	27.9
ProShares:UltP Rus2000	152.7	1.4	**21.9**	47.5

Second-Quarter Worst Performers

Fund Name	Assets ($ millions)	Performance (%) June	2nd-qtr	1-year
Direxion:MSCI Bra Bull3X	277.2	−26.7	**−65.3**	−31.1
Direxion:Latin Bull 3X	12.0	−13.8	**−51.7**	−16.4
Direxion:S&P OG EP Br 3X	87.7	−9.4	**−51.5**	−74.0
ProShares:Ult MSCI Braz	10.3	−17.7	**−49.2**	−15.8
BMO REX MS FANG+ -3x IL	25.4	−15.9	**−43.4**	N.A.
Crdt Suis AT3X I Brnt CO	24.9	−10.7	**−41.7**	N.A.
VelShs 3x Inv Crude	231.2	−29.6	**−40.3**	−82.1
VelShs 3x Inv Crude ETN	4.8	−29.6	**−40.2**	−82.0
USCF:US 3x Short Oil	0.7	−29.5	**−40.1**	N.A.
Direxion:Ntrl Gs Rl Br3X	7.3	−10.3	**−38.9**	−54.3
ProFunds:UltraLatin;Inv	28.6	−13.2	**−38.4**	−10.0
ProShs II:UltPro 3x SCO	19.8	−25.3	**−37.3**	−81.8
UBS PS Daily 3x Inv Crd	2.8	−25.2	**−37.1**	−81.6
ProShs II:UltVIX STF ETF	359.3	−3.0	**−35.5**	−68.8
Direxion:EnergyBear 3X	38.4	−2.9	**−34.4**	−51.1
Direxion:MSCI SKor Bl3X	20.3	−18.6	**−30.6**	−9.4
Direxion:S&P Btech Br 3X	69.6	−0.8	**−28.8**	−62.5
Direxion:MSCI EM Bull 3X	243.5	−14.1	**−28.8**	7.3
Direxion:CSI300 ChA Bl2X	60.8	−19.8	**−28.2**	−6.3
DB Crude Oil Db Sht ETN	17.5	−21.3	**−27.1**	−65.6
Franklin ETF:FTSE Brazil	N.A.	−8.3	**−26.5**	N.A.
Direxion:Russia Bull 3x	175.6	0.6	**−26.4**	27.4
VelShs Dly 2x VIX MT ETN	4.9	−1.6	**−26.2**	−37.5
iShares:MSCI Brazil	6,608.1	−8.0	**−25.8**	−2.4
Direxion:MSCI RE Bear 3X	17.0	−12.1	**−25.8**	−15.0
iShares:MSCI Turkey	296.8	−4.6	**−25.4**	−24.6
ProShs II:UlS Blm CrO	172.3	−17.0	**−25.2**	−65.6
VnEck Vctrs:Brazil Sm Cp	78.2	−8.4	**−25.2**	−3.6
Direxion:China Bull 3X	281.8	−20.2	**−24.8**	18.0
VelShs Dly 4X L EURvsUSD	3.6	−4.9	**−24.8**	N.A.

Five-Year Best Performers

Fund Name	Assets ($ millions)	Performance (%) 2nd-qtr	1-year	5-year*
Direxion:Semicnd Bull 3X	833.4	−7.3	74.0	**66.2**
ProShares:UltP QQQ	3,485.2	19.0	75.3	**59.4**
Direxion:Tech Bull 3X	685.7	16.7	86.3	**56.5**
ProShares:Ult Semicond	79.8	−3.6	62.6	**45.1**
ProShares:Ult Tech	342.0	11.3	57.5	**40.3**
ProShares:Ult QQQ	1,783.1	13.3	49.9	**39.7**
Direxion:M NAS Bl 2x;Inv	201.7	13.4	50.0	**39.4**
Rydex:NASDAQ 2x;H	470.3	13.1	48.6	**38.5**
ProFunds:UltraNASDAQ;Inv	474.8	13.2	48.3	**38.4**
ProFunds:Internet;Inv	260.4	21.0	70.0	**35.7**
ProShares:UltPro S&P500	1,452.2	7.7	35.5	**35.3**
Direxion:S&P 500 Bull 3X	1,051.9	7.7	35.3	**34.7**
ProShares:UltP Dow30	576.6	0.8	41.1	**33.5**
ProFunds:Semiconduct;Inv	271.8	−2.2	46.5	**33.2**
Direxion:Hlthcre Bull 3X	150.6	6.1	9.3	**32.9**
Direxion:Finl Bull 3X	1,923.0	−1.7	28.2	**31.8**
ProShares:UltP MidCap400	35.8	10.6	32.9	**31.6**
Direxion:MidCapBull 3X	67.2	10.6	32.9	**31.0**
ProShares:UlP Fin Sel	56.6	−12.4	15.1	**31.0**
iPath ETN Glbl Carbon A	10.0	14.2	237.6	**29.9**
ProShares:UltP Rus2000	152.7	21.9	47.5	**29.5**
ProFunds:Technology;Inv	83.9	8.7	41.6	**29.1**
Direxion:Sm Cap Bull 3X	759.2	21.9	47.3	**28.9**
ProShares:Ult Cons Sv	23.9	12.2	36.3	**27.8**
Invesco Dyn Smcnd	347.6	−1.0	25.5	**27.7**
T Rowe Price Glbl Tech	6,746.5	2.1	22.5	**26.8**
Direxion:Retail Bull 3X	21.9	28.6	52.5	**26.8**
ProShares:Ult SC600	28.4	16.8	38.5	**26.1**
Fidelity Sel Semicnd	3,760.0	2.1	30.2	**26.1**
Fidelity Adv Semicnd;I	321.4	2.0	29.8	**25.9**

Five-Year Worst Performers

Fund Name	Assets ($ millions)	Performance (%) 2nd-qtr	1-year	5-year*
ProShs II:UltVIX STF ETF	359.3	−35.5	−68.8	**−84.7**
Direxion:Nat Gas Bull 3X	35.4	39.8	19.9	**−70.0**
VelShs 3x Long Nat Gas	308.3	11.5	−53.4	**−69.1**
Direxion:Gold M Id Br 3X	143.1	−6.2	−22.1	**−61.9**
Direxion:Semicnd Bear 3X	78.0	−4.8	−64.4	**−60.9**
VelShs 3x Long Crude ETN	130.1	42.6	230.8	**−57.2**
VelShs Dly 2x VIX MT ETN	4.9	−26.2	−37.5	**−52.0**
ProShs II:VIX ST Fut ETF	114.1	−23.5	−28.8	**−51.4**
iPath ETN SP500 VIX ST A	802.8	−23.3	−28.2	**−51.2**
VelShs VIX ShTm ETN	9.1	−23.3	−28.2	**−51.2**
ProShares:UltP Sht QQQ	574.3	−20.9	−55.1	**−49.9**
Direxion:Tech Bear 3X	31.0	−19.3	−58.7	**−49.5**
iPath Bloomberg NatGas A	0.8	81.5	−72.3	**−48.9**
ProShs II:Ult Blm Nat Gs	25.7	6.6	−40.1	**−47.3**
Direxion:Russia Bear 3x	19.8	10.3	−48.9	**−46.2**
Direxion:China Bear 3X	61.7	22.3	−43.5	**−45.5**
Direxion:Gold M Id Bl 3X	1,388.7	0.01	−19.1	**−44.6**
ProShares:UlS Semicond	3.6	−2.3	−50.8	**−43.0**
ProShares:UlPS Fin Sel	0.8	7.2	−33.1	**−40.7**
Direxion:Sm Cap Bear 3X	354.9	−20.9	−42.5	**−40.5**
ProShares:UltPSh Rus2000	78.8	−21.2	−43.0	**−40.0**
Direxion:Finl Bear 3X	136.4	−1.9	−34.3	**−39.3**
Direxion:MSCI Bra Bull3X	277.2	−65.3	−31.1	**−38.4**
Direxion:MidCapBear 3X	3.1	−12.3	−34.7	**−37.4**
ProShares:UltPSh MdCp400	1.9	−12.4	−35.0	**−37.3**
Direxion:S&P 500 Bear 3X	291.7	−10.2	−35.7	**−37.2**
ProShares:UlS Tech	2.9	−12.8	−44.3	**−37.0**
ProShares:UlS Nasdaq Bio	32.8	−8.1	−19.7	**−36.7**
ProShares:Ul PrSh S&P500	464.8	−10.2	−35.6	**−36.6**
ProFunds:UltSh NAS;Inv	13.0	−14.1	−40.3	**−36.2**

One-Year Best Performers

Fund Name	Assets ($ millions)	Performance (%) June	2nd-qtr	1-year
iPath ETN Glbl Carbon A	10.0	0.8	14.2	**237.6**
VelShs 3x Long Crude ETN	98.5	33.1	42.6	**230.8**
VelShs 3x Long Crude	183.0	33.1	42.5	**230.3**
UBS PS Daily 3x Lng Crd	12.7	26.0	36.1	**224.7**
ProShs II:UltPro 3x CO	24.9	25.9	35.6	**221.6**
ProShs II:Ult Blm CrO	414.0	17.4	24.9	**131.9**
Direxion:S&P OG EP Bl 3X	139.0	4.1	70.4	**95.5**
iPath ETN S&P GSCI CTR A	437.3	14.0	19.4	**86.5**
Direxion:Tech Bull 3X	685.7	−1.5	16.7	**86.3**
ProShares:UltP QQQ	3,485.2	2.3	19.0	**75.3**
Direxion:Semicnd Bull 3X	833.4	−14.2	−7.3	**74.0**
United States Brent Oil	101.6	2.8	16.1	**71.3**
ProFunds:Internet;Inv	260.4	3.5	21.0	**70.0**
Direxion:Aero & Def Bl3X	86.4	−9.8	−10.5	**68.9**
iPath Bloomberg Nickel A	15.2	−2.4	13.3	**66.0**
ARK Web x.0	531.6	3.7	11.1	**64.0**
ProShares:Ult Semicond	79.8	−12.0	−3.6	**62.6**
ProShares:K1 Fr Crd Oil	12.2	10.9	14.8	**59.5**
iPath ETN S&P GSCI CTR B	102.3	10.9	14.9	**59.3**
ARK Innovation	882.7	3.3	15.1	**59.3**
UBS E-TRACS S&P GSCI CO	15.6	10.9	14.9	**59.3**
United States Oil Fund	1,888.4	10.8	14.7	**58.7**
Crdt Suis XL WTI Cru Oil	42.4	8.8	13.1	**58.1**
ProShares:Ult Tech	342.0	−2.3	11.3	**57.5**
DB Crude Oil Long ETN	7.7	4.9	12.0	**55.6**
Invesco DB MS Oil	434.0	4.9	11.9	**55.3**
iPath ETN P Beta CrdeOil	2.7	6.5	11.7	**54.9**
Direxion:EnergyBull 3X	462.4	0.5	39.7	**54.2**
Direxion:Retail Bull 3X	21.9	15.0	28.6	**52.5**
DB Commodity Db Lng ETN	1.6	−2.8	11.1	**51.6**

One-Year Worst Performers

Fund Name	Assets ($ millions)	Performance (%) June	2nd-qtr	1-year
Rex VolMAXX Sh VIX FS	10.9	−1.0	14.8	**−86.8**
ProShs II:ShVIX STF ETF	528.3	−0.9	10.2	**−84.1**
VelShs 3x Inv Crude	231.2	−29.6	−40.3	**−82.1**
VelShs 3x Inv Crude ETN	4.8	−29.6	−40.2	**−82.0**
ProShs II:UltPro 3x SCO	19.8	−25.3	−37.3	**−81.8**
UBS PS Daily 3x Inv Crd	2.8	−25.2	−37.1	**−81.6**
Direxion:S&P OG EP Br 3X	87.7	−9.4	−51.5	**−74.0**
iPath Bloomberg NatGas A	0.8	−7.6	81.5	**−72.3**
ProShs II:UltVIX STF ETF	359.3	−3.0	−35.5	**−68.8**
ProShs II:UlS Blm CrO	172.3	−17.0	−25.2	**−65.6**
DB Crude Oil Db Sht ETN	17.5	−21.3	−27.1	**−65.6**
Direxion:Semicnd Bear 3X	78.0	13.5	−4.8	**−64.4**
Direxion:S&P Btech Br 3X	69.6	−0.8	−28.8	**−62.5**
Direxion:Tech Bear 3X	31.0	0.1	−19.3	**−58.7**
VelShs 1x Long VSTOXX	4.2	−7.8	−23.5	**−55.3**
ProShares:UltP Sht QQQ	574.3	−3.4	−20.9	**−55.1**
Direxion:Ntrl Gs Rl Br3X	7.3	−10.3	−38.9	**−54.3**
VelShs 3x Long Nat Gas	308.3	−3.4	11.5	**−53.4**
Direxion:EnergyBear 3X	38.4	−2.9	−34.4	**−51.1**
ProShares:UlS Semicond	3.6	12.2	−2.3	**−50.8**
Direxion:Russia Bear 3x	19.8	−2.6	10.3	**−48.9**
Upright Growth Fund	15.9	−0.2	13.0	**−47.0**
ProShares:UlS Tech	2.9	1.7	−12.8	**−44.3**
Direxion:China Bear 3X	61.7	21.3	22.3	**−43.5**
ProShares:UltPSh Rus2000	78.8	−2.4	−21.2	**−43.0**
Direxion:Sm Cap Bear 3X	354.9	−2.2	−20.9	**−42.5**
Direxion:Reg Bnk Bear 3X	2.5	9.3	−6.6	**−41.6**
ProFunds:UltSh NAS;Inv	13.0	−2.3	−14.1	**−40.3**
ProShs II:Ult Blm Nat Gs	25.7	−1.9	6.6	**−40.1**
Rydex:Inv NAS 2x;H	14.6	−2.3	−14.1	**−40.0**

Ten-Year Best Performers

Fund Name	Assets ($ millions)	Performance (%) 2nd-qtr	1-year	10-year*
ProFunds:Internet;Inv	260.4	21.0	70.0	**26.4**
ProShares:Ult Cons Sv	23.9	12.2	36.3	**25.4**
ProShares:Ult QQQ	1,783.1	13.3	49.9	**25.3**
Rydex:NASDAQ 2x;H	470.3	13.1	48.6	**24.4**
ProFunds:UltraNASDAQ;Inv	474.8	13.2	48.3	**24.3**
Direxion:M NAS Bl 2x;Inv	201.7	13.4	50.0	**22.2**
ProShares:Ult Hlth Cr	89.4	6.1	12.6	**21.9**
ProShares:Ult Tech	342.0	11.3	57.5	**21.8**
Frst Tr:NYSEArcaBiotech	1,546.2	5.5	22.9	**20.1**
Frst Tr:DJ Internet Idx	8,314.3	14.2	45.3	**20.0**
Invesco NASD Intrt	634.6	8.8	35.1	**19.9**
Fidelity Sel Retailing	2,566.9	10.6	34.9	**19.8**
T Rowe Price Glbl Tech	6,746.5	2.1	22.5	**19.3**
Delaware Healthcare;Inst	669.3	8.8	22.1	**19.3**
ProFunds:Biotech;Inv	244.6	−0.5	5.0	**19.2**
ProFunds:Cnsmr Svcs;Inv	72.0	9.3	26.5	**19.1**
ProShares:Ult Semicond	79.8	−3.6	62.6	**19.0**
SPDR S&P Biotech	5,190.6	8.6	23.7	**17.8**
ProShares:Ult Cons Gd	9.8	−0.6	−4.9	**17.7**
PRIMECAP:Odyssey Ag Gr	11,197.6	−2.6	25.5	**17.4**
T Rowe Price Hlth Sci	12,131.4	6.3	15.3	**17.2**
Fidelity Sel Bio Tech	8,766.0	5.4	14.5	**17.2**
Firsthand Tech Opptys	190.9	9.8	46.2	**17.1**
Fidelity Sel SW & IT Svc	5,913.8	9.1	32.6	**17.1**
ProFunds:Technology;Inv	83.9	8.7	41.6	**17.0**
PGIM Jenn Health Sci;Z	2,346.4	10.5	19.4	**16.9**
ProShares:Ult SC600	28.4	16.8	38.5	**16.8**
Fidelity Sel IT Svcs	2,461.2	7.4	34.7	**16.8**
Invesco Dyn Pharm	532.1	8.0	7.8	**16.7**
ProFunds:Semiconduct;Inv	271.8	−2.2	46.5	**16.6**

Ten-Year Worst Performers

Fund Name	Assets ($ millions)	Performance (%) 2nd-qtr	1-year	10-year*
iPath Bloomberg NatGas A	0.8	81.5	−72.3	**−49.9**
ProShares:UlS Rl Est	19.6	−13.9	−10.9	**−41.3**
ProShares:UlS Semicond	3.6	−2.3	−50.8	**−38.7**
Direxion:M SC Br 2x;Inv	4.1	−14.0	−28.3	**−38.1**
ProShares:UlS Finl	27.9	−0.4	−21.4	**−38.1**
ProShares:UlS FTSE Ch 50	31.8	14.9	−29.8	**−36.6**
Rydex:Inv Rus 2x;H	14.8	−14.3	−30.1	**−35.9**
United States Nat Gas	336.3	5.2	−12.6	**−35.8**
ProFunds:UltSh NAS;Inv	13.0	−14.1	−40.3	**−35.4**
ProFunds:UlSh China;Inv	5.3	−4.1	−39.5	**−35.0**
ProShares:UlS QQQ	269.5	−13.9	−39.8	**−34.9**
Rydex:Inv NAS 2x;H	14.6	−14.1	−40.0	**−34.9**
ProFunds:UltSh Sm-Cp;Inv	19.4	−14.5	−30.7	**−34.8**
ProShares:UlS SC600	2.2	−15.9	−33.5	**−34.4**
ProShares:UlS Rus2000	92.6	−14.2	−29.9	**−34.0**
ProShares:UlS Tech	2.9	−12.8	−44.3	**−33.7**
ProShares:UlS Cons Sv	1.3	−12.6	−31.7	**−33.5**
ProShares:UlS Bas Mat	4.5	−8.2	−25.3	**−31.4**
ProFunds:UltSh Md-Cp;Inv	1.4	−8.3	−24.2	**−31.3**
ProShares:UlS MSCI EM	19.1	20.5	−19.0	**−30.8**
ProShares:UlS MC400	3.5	−8.1	−23.7	**−30.5**
ProShares:UlS Indust	2.7	0.6	−21.4	**−30.0**
ProShares:UlS Hlth Cr	1.0	−7.6	−18.0	**−29.4**
ProFunds:UltSh Japan;Inv	0.9	−7.9	−26.7	**−28.1**
Direxion:M S&P Br 2x;Inv	6.5	−5.6	−23.0	**−28.1**
ProFunds:UltraBear;Inv	8.6	−6.8	−25.1	**−27.8**
ProFunds:UltSh Dow30;Inv	3.9	−3.0	−28.3	**−27.6**
Rydex:Inv S&P 2x;H	29.0	−6.8	−24.9	**−27.3**
Rydex:Inv Dow 2x;H	9.5	−3.0	−28.1	**−27.1**
ProShares:Ul Sht S&P500	854.4	−6.5	−24.2	**−26.9**

Note: For funds with multiple share classes, only the largest is shown   *Annualized   N.A. = not applicable, fund is too new

SAVING FOR COLLEGE | CHANA R. SCHOENBERGER

What to Do if You Find 529 Plans Too Inflexible

Also: Answering a reader's question about using 529 funds to pay for K-12 education

As students gear up for the fall's college-admissions season, we asked experts to weigh in on the best ways to save for higher education, including the savviest ways to use tax-advantaged "529" savings accounts.

* * *

We recently had a baby and want to start a savings account for him. However, we don't like the limitations of a 529 because we want him to have the ability to use the money for a down payment on his first home, for example, as well as for college. What is the best way to give our son maximum flexibility?

"Parents who contribute large sums to college savings accounts will likely expect those funds to actually be used for college, and with 529 accounts, that is all but guaranteed," says James "JJ" Burns, a certified financial planner in Melville, N.Y. If you withdraw the money for a nonqualified expense, you'll have to pay a 10% penalty, plus income tax on the earnings portion of your withdrawal. So most families leave this money in the 529 until the beneficiary uses it for school, or they transfer it to a close relative for educational spending.

If the constraints of a 529 make you uneasy, you could open both a 529 for education and another, more-flexible account (that doesn't have the same tax advantages) for other purposes. That way, you'll have some money specifically earmarked for education, which will telegraph the importance of college to your child, says Deborah Goodkin, managing director at NEST 529 College Savings Plans.

"If parents want to provide flexibility to their children, they should consider establishing a 529 plan for college savings and an additional UGMA/UTMA account, which will allow the child to use the money for purposes other than college expenses," Mr. Burns says.

These trust accounts offer more latitude in how the money can be used. While the child is a minor, the money has to be spent for the child's benefit; at a state-designated age of majority, the child gets control of the money and can use it for anything (with no legal input from the parent), Mr. Burns says.

Of course, UGMA accounts don't come with any tax benefits for educational purposes. Withdrawing money from the account will trigger income taxes, he says, although at the child's tax rate, usually the lowest bracket.


ISTOCKPHOTO/GETTY IMAGES

Parents can choose to open both a '529' for education and another, more-flexible account.

Note also that while a parent-owned 529 gets privileged status when colleges compute financial-aid packages, a UGMA is considered a student asset and thus carries much more weight in the calculation, he says.

* * *

I read your article about whether to use 529 funds to pay for K-12 education, which the federal government now allows but some states, such as New York, don't. I think about it a little differently: Why can't I withdraw the funds and simply pay the state taxes on the gains? Doesn't this still give me the full benefit of the federal deduction to pay for the K-12 expenses, which I think is a great deal?

"It may seem like a good idea to get a federal tax break, but depending on your financial situation, your taxable income and your state's rules, the withdrawal may have some unexpected tax consequences," Ms. Goodkin says, since certain states don't give residents state tax benefits if they withdraw 529 funds for K-12 costs.

"If you do utilize funds from a 529 in a state where [K-12 costs aren't considered to be a qualified educational expense], then that state may recapture any previous deduction that you already received," Mr. Burns says.

The big question is whether money saved for college should be spent earlier, for elementary and secondary education. Ms. Goodkin says it isn't a good idea because higher education is more expensive, and 529s are designed to compound a family's college savings over many years tax-free. Parents who withdraw 529 money early lose the power of this compounding.

* * *

My sister opened a 529 for her grandchildren, and I have given money for the last two years directly to the financial adviser who manages the account for her. Can I claim a tax benefit?

Not in most states. "States like Nebraska only permit the account owner to claim a tax benefit on an account they own," Ms. Goodkin says. You might want to open your own 529 accounts for your great-nieces and great-nephews, which would give you the tax benefits while continuing to help fund the children's education.

* * *

My oldest son will be attending college in the fall. We have a 529 with a balance that will cover about two years of expenses. In two years, I will have twins attending college, as well. Would our chance at financial aid improve if we paid the first two years of college expenses for my oldest child from savings and wait to use the 529 for the second two years, or the other way around? Or does it not matter?

This is a common question from readers: How do I optimize my regular savings vs. tax-advantaged educational savings to get as much financial aid as possible for my student?

"In most cases, a 529 plan will have a minimal effect on the amount of financial aid a child will receive," Mr. Burns says.

It matters who owns the account: If the parent or the dependent child is the owner, the financial-aid package could be reduced by a maximum of 5.65%, he says. If someone else, such as a grandparent, owns the 529 account, it won't have any effect on the student's aid package—until you start withdrawing money. At that point, it will be considered untaxed income to the student and assessed at 50% when your financial aid is computed, he says.

Paying for the first two years of your older child's college expenses with 529 funds will reduce the 529 savings you will have to report on the twins' Fafsa filings, Ms. Goodkin says. "The downside of using the money in the first two years is that by taking a qualified withdrawal on the 529 savings, you will not get any more tax-deferred growth on those assets," she says.

* * *

If you convert an UTMA/UGMA account to a custodial 529, can you transfer that money to another beneficiary, as you are allowed to do with a noncustodial 529?

No. "The contributions to the original UTMA/UGMA legally gifted the money to that beneficiary and can only be used for that beneficiary," Ms. Goodkin says.

Have a college-finance question in general? We'll be answering some of them in future Investing in Funds & ETFs reports. Write to reports@wsj.com.

Should a Parent or Student Take Out the College Loan?

Here are three things to keep in mind when confronting this borrowing decision

BY CHERYL WINOKUR MUNK

MANY FAMILIES plan to borrow money to pay for college. But some aren't sure who should take out the loan—the parents or the student.

Considering that 42% of families borrowed money to help pay for college in the 2016-17 academic year, according to Sallie Mae's "How America Pays for College 2017," this is a decision that many people will face. More students take out loans than parents, but there is no set formula for making the determination. It is largely a personal choice, based on a family's preferences and financial circumstances, experts say, and the approach could change from year to year.

For those wrestling with the decision, here are a few things to consider:

1. TAP FEDERAL STUDENT LOANS FIRST

Students generally should exhaust their federal student-loan eligibility before looking at other options, experts say. That's because the interest rate on federal student loans is fixed regardless of a student's credit history (or lack thereof), a cosigner isn't required, and these loans are typically less expensive than a federal Parent Plus loan or private student loans, says Debra Chromy, president of the Education Finance Council, a national trade association representing nonprofit and state-based higher-education finance organizations.

Federal student loans come with other benefits, such as the ability to apply for an income-driven repayment plan, in which loan payments are based on a percentage of the borrower's discretionary income and family size. Some federal student loans may even be forgiven or discharged under certain circumstances. People who work for the government, at qualifying nonprofits or in teaching, for example, may qualify for loan forgiveness.

The problem is, students may not be able to cover the cost of college with federally backed student loans because there are limits on how much they can borrow annually and in total. (The limits depend on the student's year in school and whether he or she is considered a dependent.)

If federal student loans won't fully cover the cost of school (and a student has exhausted scholarship and grant opportunities), it may be appropriate to consider other types of loans. The first step is to decide how much responsibility a parent is willing—and able—to take on.

2. EVALUATE PARENTAL EARNINGS POWER

Not all parents are in a position to take on debt for their children—even if they would ideally like to cover all of their student's educational expenses. And if parents can't afford to take on college debt they shouldn't, experts say, especially if it is going to take away from their retirement savings. While students have many other ways to pay for college, the same isn't true of parents trying to save for retirement. And if parents eat up all their retirement money on education costs, they may be forced into the uncomfortable position of having to rely on their children for financial help later on in life.

"If you're taking the loan as a parent only, you have to feel comfortable that you are paying it off with your earning power," says Joe DePaulo, co-founder and chief executive of College Ave Student Loans, a private student-loan provider.

For parents who are comfortable taking on debt for college, here are a few options:

◆ **Federal Direct Plus** loan for parents. With this option, parents can borrow money from the U.S. Education Department to cover any costs not covered by the student's financial-aid package, up to the full cost of attendance. Parents generally need to start making payments as soon as the loan is fully disbursed, but they may request a deferment while their child is in school and for an additional six months after the student graduates; interest still accrues during this time. A Direct Plus loan made to a parent cannot be transferred to a child. Also, the interest rate may be considerably higher than some private options, and there is an origination fee that comes off the top; that fee is 4.248% for loans between Oct. 1, 2018, and Sept. 30, 2019. Under certain conditions, a parent may be eligible to have part of the loan forgiven or discharged.

◆ **Home equity.** Parents may be able to take out a secured loan, such as a home-equity loan or home-equity line of credit or home-equity conversion loan, to pay education costs. With a home-equity line of credit, borrowers withdraw money as they need it, up to a certain amount. These loans often have a floating interest rate, and borrowers generally have 10 to 20 years to pay the money back. A home-equity loan, by contrast, is a one-time lump-sum loan that often comes with a fixed interest rate. The interest rates on home loans may be more favorable than other types of loans, but parents need to consider factors such as their home's value, how much they owe, how much they need and whether they are comfortable putting up their home as collateral before proceeding, experts say.

◆ **Private parent loans.** Private lenders such as Sallie Mae and College Ave Student Loans offer private student loans for parents. Typically, these loans are available to people with strong credit histories. Borrowers may be able to choose between a variable or fixed rate and determine a repayment option that works for them. On the downside, these loans could be more expensive than other alternatives, says Charlie Javice, chief executive of Frank, a company that assists families in the financial-aid process.

3. CONSIDER SHARING RESPONSIBILITY

Students also have the option of taking on private student loans, which may be offered by state-based agencies, public companies, marketplace lenders or banks. Students generally can borrow up to their cost of attendance.

These kinds of loans usually require a cosigner—often the parent—because most college-age students don't have the necessary credit history to obtain a loan on their own. With a cosigned loan, payment history—good and bad—will affect the credit record of both people on the loan.

Parents who cosign a private student loan need to consider the possibility that a child could be delinquent or default, Ms. Javice says. This can be a long-term concern since borrowers typically have about 10 years or more to pay off these loans. Several years out of school a child could lose a job, become an addict, go through a divorce or be unable to pay for some other reason, and the parent will be on the hook, Ms. Javice says. In some cases, the loan could become a stain on the parents' credit record, which might affect their ability to borrow money to buy a home or a car, she says.

For some parents, the desire to encourage fiscal independence and responsible financial behavior in their children outweighs the fear that they could end up on the hook for the child's debt.

They want their child named on the loan in the belief it will motivate the student to do well in school, finish on time and even spend the money more responsibly, says Mr. DePaulo of College Ave Student Loans. There are also parents who plan to cover the debt on the student's behalf, but prefer the loan be in their child's name to start the child's credit history out on the right foot, he says.

There's no hard and fast rule about which type of private loan—parent or student—will be the least expensive or most beneficial. Different loans have different rates, perks and requirements, so families should shop around and compare how the various options stack up, says Ms. Chromy of the Education Finance Council.

Families "should explore all their options so that they can make an informed choice that best reflects their needs," she says.

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Monitoring Money-Market Funds

Performance figures for these consumer-oriented funds are estimated annualized yields, which include earnings from the funds' investments and the effects of compounding. Funds open only to institutions, special-purpose and tax-exempt funds are excluded from these tables.

Largest Funds

Fund Name	Assets ($millions)	Performance (%) 2nd–qtr	Performance (%) 12-mos	Compound 7-day yield (%)
Fidelity Govt Cash Reserves	130,783.2	1.43	**1.00**	1.55
Vanguard Federal MMF	95,555.9	1.66	**1.26**	1.83
Vanguard Prime MMF/Investor	87,955.7	1.88	**1.43**	2.04
Fidelity Government MMF	87,205.7	1.38	**0.95**	1.52
Schwab Govt Money Fund/Sweep	19,435.7	1.15	**0.70**	1.28
Schwab Value Adv MF/Ultra	18,937.9	1.88	**1.41**	2.02
Fidelity Inv Money Market/Instit	18,779.9	2.00	**1.55**	2.14
Edward Jones MMF/Inv Class	17,392.6	1.08	**0.66**	1.21
Vanguard Treasury MMF	17,248.2	1.69	**1.26**	1.83
Northern US Govt MMF	15,561.4	1.42	**1.01**	1.57

Highest 12-Month Yield

Fund Name	Assets ($millions)	Performance (%) 2nd–qtr	Performance (%) 12-mos	Compound 7-day yield (%)
Fidelity Inv Money Market/Instit	18,779.9	2.00	**1.55**	2.14
JPMorgan Liquid Assets MMF/Capital	346.8	1.91	**1.47**	2.04
Invesco Premier Portfolio/Inst	835.2	1.89	**1.46**	2.03
Federated Prime Cash Oblig/Wealth	4,858.4	1.86	**1.45**	2.01
BlackRock MMP/Instit Cl	253.2	1.82	**1.43**	1.94
First Amer Retail Prime Obligs/Cl Z	286.9	1.88	**1.43**	2.03
Vanguard Prime MMF/Investor	87,955.7	1.88	**1.43**	2.04
Dreyfus Prime MMF/Cl A	139.4	1.87	**1.41**	2.00
Schwab Value Adv MF/Ultra	18,937.9	1.88	**1.41**	2.02
BMO Prime MMF/Premier	229.3	1.79	**1.35**	1.95

Highest Seven-Day Yield

Fund Name	Assets ($millions)	Performance (%) 2nd–qtr	Performance (%) 12-mos	Compound 7-day yield (%)
Fidelity Inv Money Market/Instit	18,779.9	2.00	1.55	**2.14**
JPMorgan Liquid Assets MMF/Capital	346.8	1.91	1.47	**2.04**
Vanguard Prime MMF/Investor	87,955.7	1.88	1.43	**2.04**
First Amer Retail Prime Obligs/Cl Z	286.9	1.88	1.43	**2.03**
Invesco Premier Portfolio/Inst	835.2	1.89	1.46	**2.03**
Schwab Value Adv MF/Ultra	18,937.9	1.88	1.41	**2.02**
Federated Prime Cash Oblig/Wealth	4,858.4	1.86	1.45	**2.01**
Dreyfus Prime MMF/Cl A	139.4	1.87	1.41	**2.00**
BMO Prime MMF/Premier	229.3	1.79	1.35	**1.95**
BlackRock MMP/Instit Cl	253.2	1.82	1.43	**1.94**

Lowest 12-Month Yield*

Fund Name	Assets ($millions)	Performance (%) 2nd–qtr	Performance (%) 12-mos	Compound 7-day yield (%)
Transamerica Govt MMF/Cl A	172.3	0.01	**0.01**	0.01
Ready Assets USA Govt MF	32.0	0.56	**0.21**	0.71
Federated Govt Oblig Fund/Cash Ser	102.8	0.75	**0.31**	0.88
Federated Tr for UST Oblig/Cash Ser	316.2	0.75	**0.32**	0.90
Federated Govt Reserves Fund/Cl P	8,824.3	0.76	**0.34**	0.88
RBC US Govt MMF/Investor	1,158.1	0.78	**0.35**	0.86
BlackRock Liquidity:Treas Tr Select	36.3	0.77	**0.35**	0.86
BlackRock Liquidity:T-Fund Select	24.8	0.79	**0.36**	0.92
BlackRock Liquidity:FedFund Select	245.3	0.81	**0.37**	0.94
AZL Government MMF	452.4	0.93	**0.41**	1.06
Average Yields (all retail taxable funds)		**1.23%**	**0.81%**	

Source: Money Fund Report (iMoneyNet.com)

* - Ranked by assets.

BEST BET/WORST BET


LENDINGTREE

Doug Lebda says he made a mistake when he 'followed the hype.'

LendingTree CEO Scored On a House, Not Recycling

BY CHRIS KORNELIS

GROWING UP, DOUG LEBDA and his family were skiers, and his parents dutifully picked up the check for boots, skis, jackets or other necessities. But if he wanted the fancy jacket or the racing skis, he was on his own.

"Their rule with money was they would buy me things that were within their budget," he says. "And if I wanted things that were not in their budget, I had to pay for them myself."

He quickly figured out that he could make more money working for himself than his friends did scooping ice cream for minimum wage. So, as a teenager, he had a number of his own businesses. He mowed lawns, cleaned pools, even sold fireworks around his hometown, Lewisburg, Pa. Sometimes he and a friend would go "pond-ing"—diving for golf balls at night at a local golf course. They would stay up late cleaning the balls and sell them for a dollar apiece on the course the next day. By the time he finished high school, he had his sights fixed on a bigger pond: Wall Street.

"I didn't know why, but it had an appeal to me," Mr. Lebda says. "I loved reading books on economics. Milton Friedman's 'Free to Choose' was something that really changed my life. I loved politics and economics, but always wanted to work for myself."

After a few years at Price Waterhouse in Pittsburgh, he also wanted to own a home. But when he was shopping for a mortgage, he was put off by getting the runaround from banks. Convinced there was a better way, he says, he launched an online-lending platform in 1996 called **LendingTree**. He took it public in 2000, sold it in 2003 to **IAC/InterActiveCorp** and helped IAC spin it off in 2008. Now he is the chief executive officer of a company with a market cap of more than $3 billion.

Mr. Lebda says his decision to found LendingTree and continue to invest in it at strategic times, moves that have resulted in hundreds of millions of dollars in gains, will always be his best bets. Here is what he had to say about a couple of his other bests and worsts.

*Mr. Kornelis is a writer in Seattle. He can be reached at **reports@wsj.com**.*

BEST BET
AN OUTER BANKS RENTAL PROPERTY

INVESTMENT
Roughly $750,000

GAIN
$240,000 in one year

Mr. Lebda grew up in a family that valued owning over renting, and believed that real estate was a good investment.

His parents bought a trailer soon after he was born, because that was what they could afford at the time. When they had saved enough to buy a little house, they held on to the trailer as a rental. And while Mr. Lebda was an undergraduate student at Bucknell University in Lewisburg, he lived in one of his father's rental apartments.

As Mr. Lebda got older, he and his father invested in a number of properties together. One of the best was a single-family home they bought in a development near the water in North Carolina's Outer Banks in 2006.

The home checked many of the boxes that the Lebdas look for in investment properties. It was in a desirable location and featured a number of upgrades. Critically, it also had the possibility of generating rental income.

The Lebdas spent about $750,000 on the house, turned it into a rental, and sold it for nearly $1 million a year later, netting roughly $240,000.

"It was right before the crash," says Mr. Lebda. "My dad kind of sniffed it."

THE TAKEAWAY: Mr. Lebda says that the process of vetting and evaluating real-estate opportunities with his father has helped him in other areas of his business life.

He says LendingTree, for example, has a good track record in mergers and acquisitions, in part because it follows some of the same principles in evaluating deals that he and his father do when considering real-estate opportunities, "particularly when you're looking at ways of adding value."

In the case of the Outer Banks house, the additional value that the Lebdas brought to the property was created when they turned the home into a rental in a neighborhood where rental properties definitely made sense but none existed.

"It wasn't in a place where people were renting yet," he says. "And the market was appreciating pretty rapidly in that area."

WORST BET
RECYCLEBANK

INVESTMENT
Roughly $550,000

LOSS
$550,000

In 2008, an early LendingTree employee went to work at a company called Recyclebank, which Mr. Lebda says was proposing "one of the best ideas I've ever heard."

Recyclebank, which is still in operation, worked with local municipalities to award homeowners points based on the amount of recycling picked up at their homes. The points were redeemable at certain retailers. Mr. Lebda says it seemed like a "free-market way of encouraging recycling."

Mr. Lebda joined Recyclebank's board and invested $500,000 in the company. He even took his board fees—roughly $50,000, he says—in company stock.

But the business was hard to scale. Municipalities had to change the way they handled recycling. Local retailers had to be pitched the points program. Trucks had to be outfitted to weigh empty bottles and cans.

"The thing I learned there," he says, "was the very, very difficult task of scaling a local business."

Mr. Lebda says he's never realized any return from the investment and considers it a total loss.

Paul Winn, chief executive of Recyclebank, declines to comment.

THE TAKEAWAY: Mr. Lebda says that he didn't follow his own advice when he decided to get involved with Recyclebank. He didn't know the recycling business. He let himself get caught up in the local-coupon-related hype fueled by companies like Groupon and Living Social.

"It was like buzzword bingo," Mr. Lebda says. "We were [trying to capitalize] on mobile and social and all this stuff. At the end of the day, the business models were flawed. But there was a lot of hype at that time around those things and I followed the hype instead of really looking at the substance."

Mr. Lebda didn't just lose money in the Recyclebank experience. He lost time, too.

It's one of the reasons he says he has stopped sitting on the boards of small companies. LendingTree and his family, he says, need all the attention that he can muster.

But he hasn't given up working with up-and-comers.

"I love helping entrepreneurs," he says, "but I can do that without sitting on your board."