

# THE WALL STREET JOURNAL.

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## What's News

### Business & Finance

**Goldman named** David M. Solomon to succeed Lloyd Blankfein as CEO, a move expected to fuel the bank's evolution into a more nimble and entrepreneurial place. **A1**

◆ **Papa John's founder** has vowed to fight the pizza chain over how it pressed him to step aside as chairman for his use of a racial slur. **A1**

◆ **Texas Instruments' CEO** resigned after less than two months in the role, exiting over what the firm said were code-of-conduct violations. **B1**

◆ **The Fed's Powell** delivered an upbeat assessment of the economy in Senate testimony, but outlined risks if trade tensions result in permanently higher tariffs. **A2**

◆ **U.S. stocks rose** after the Fed chief's remarks, as investors continued to dissect earnings. The Dow gained 55.53 points to 25119.89. **B13**

◆ **U.S. corporations** are warning that currency fluctuations are pressuring financial results, raising a red flag for investors. **B1**

◆ **Car sellers say** consumers should expect to pay more for imports if Trump's proposed 25% tariff on foreign-built vehicles is enacted. **B1**

◆ **Manufacturing output** rose 0.8% in June after a 1% decline in May, part of a broader rebound for the U.S. industrial sector. **A2**

◆ **United beat earnings** forecasts and raised its outlook, saying profit is rising despite surging fuel costs. **B3**

◆ **J&J's sales** of cancer drugs and other medicines helped boost the firm's second-quarter performance. **B2**

### World-Wide

◆ **Trump said** he has "full faith" in U.S. intelligence services and accepts that Russia meddled in the 2016 elections, reversing course from remarks made alongside Putin that drew a barrage of criticism. **A1**

◆ **A Russian arrested** on charges of failing to register as a foreign agent spent years in the U.S. cultivating relationships with influential conservatives and the NRA. **A5**

◆ **Special counsel Mueller's office** asked a judge to grant immunity to five witnesses expected to testify against Paul Manafort. **A5**

◆ **Lawmakers are exploring** changes to U.S. retirement savings, including measures that would amount to the most significant alterations to 401(k) plans since 2006. **A1**

◆ **The House approved** a package of deregulatory measures aimed at making it easier for smaller firms to raise money in public markets. **A5**

◆ **May's Brexit plan** narrowly survived votes in Parliament, with skirmishes casting doubt on whether she can strike a deal with the EU that is acceptable to lawmakers. **A6**

◆ **The leaders of Japan and the EU signed** a deal to create one of the world's largest liberalized trade zones. **A9**

◆ **Boeing secured** a \$3.9 billion deal to build the new jets that will fly as Air Force One, following 18 months of to-and-fro with Trump. **A2**

◆ **Astronomers searching** for a planet beyond Pluto discovered a dozen new moons orbiting Jupiter. **A3**

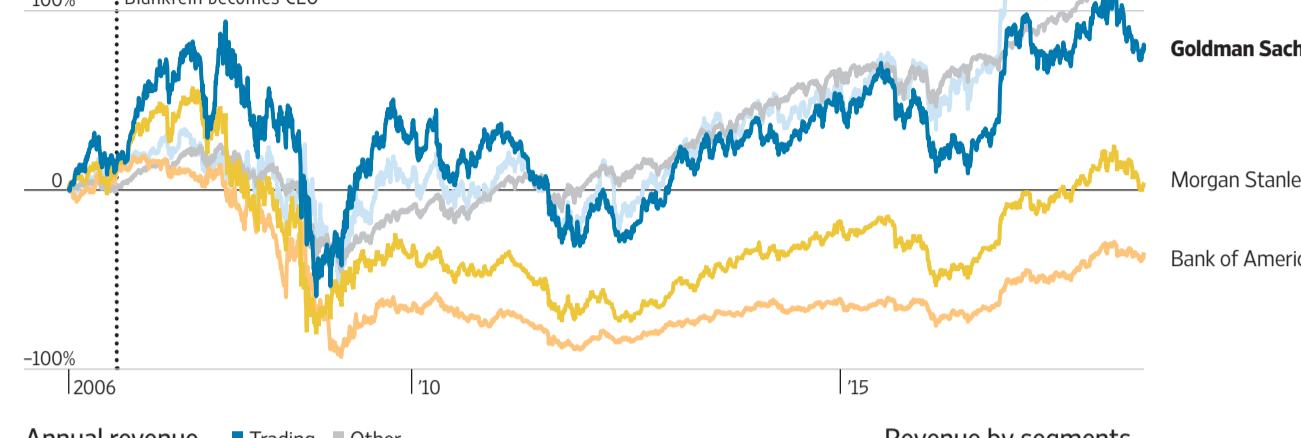
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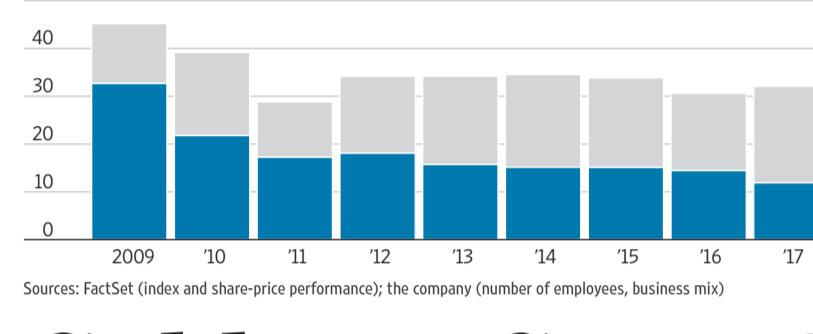
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Departing CEO Lloyd Blankfein steered Goldman Sachs through the financial crisis intact, but it was left with a smaller trading engine. Revenue growth has stalled, and its share price has trailed the S&P 500.

#### Index and share-price performance



#### Annual revenue



Sources: FactSet (index and share-price performance); the company (number of employees, business mix)



#### Revenue by segments



Siemon Chan /THE WALL STREET JOURNAL.

## Trump Reverses Tack on Russian Meddling

Under fire, president says he accepts U.S. intelligence findings on election interference

WASHINGTON—President Donald Trump said he has "full faith" in U.S. intelligence services and accepts that Russia meddled in the 2016 elections, reversing course from his remarks alongside Vladimir Putin Monday after a barrage of criticism that he failed to stand up to the Russian president.

By Michael C. Bender,  
Rebecca Ballhaus  
and Peter Nicholas

Mr. Trump's revision, given in remarks at the White House Tuesday, came after U.S. officials and some of the president's closest allies voiced concern that the Helsinki summit—and several contentious days in Europe that preceded it—had put the administration on the defensive, created conflicts with fellow Republicans and illustrated the perils of the president's off-the-cuff style.

Mr. Trump expressed surprise at the backlash and said after reviewing the transcripts of the news conference he realized that he had misspoken during "a key sentence in my remarks."

Asked at Monday's summit whom he believed—U.S. intelligence

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◆ Accused agent cultivated ties with NRA, GOP ..... A5  
◆ Mueller seeks amnesty for Manafort witnesses ..... A5

## Goldman Sets a New Path

David M. Solomon, tapped as next CEO, will push for fresh sources of growth

By LIZ HOFFMAN

NEW YORK—Lloyd Blankfein secured the survival of Goldman Sachs Group Inc. by leading it through the financial crisis. The challenge for its next leader: how to thrive in a radically altered postcrisis world.

The bank on Tuesday said David M. Solomon, Goldman's president and chief operating officer, will take over Oct. 1 as chief executive from Mr. Blank-

fein. The move puts a symbolic cap on Goldman's postcrisis era and will fuel the firm's continued evolution from a secretive trading powerhouse into a more nimble and entrepreneurial place.

In formally choosing Mr. Solomon, 56 years old, Goldman is tapping a proven business-builder who has spoken forcefully about the need for the firm to be less stuck in its ways. Neither a sharp-elbowed trader nor genteel banker in the classic mold—he moonlights as a dance-club DJ—he came to Goldman as a rare outside partner in 1999 and has spent nearly his entire career there in management jobs.

He has already been sketching out an agenda that would push the firm to be more organized, decisive and open. Insiders expect him to impose a corporate discipline that Goldman, which spent decades as a loosely run partnership, has been slow to embrace. One of his first moves, according to people familiar with the matter, is to demand three-year operating budgets from Goldman's division heads.

He has tipped to close associates that he is likely to prune Goldman's storied management committee, whose membership has swelled in the past decade, and refocus power among executives who run businesses.

He has built a strategy team to scout new business ideas and acquisitions; pushed to include more women in the firm's senior ranks; and is considering an investor day for 2019, lifting the secrecy that once bolstered Goldman's mythic status but has worn thin as profits shrank.

"Everything's on the table," Mr. Solomon has lately told top executives.

Mr. Solomon became the heir apparent earlier this year, winning a 15-month audition that pitted him against co-

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◆ Heard on the Street: Blankfein's uncertain legacy ..... B14

## Congress Explores 401(k) Plan Changes

By RICHARD RUBIN  
AND ANNE TERGESEN

Lawmakers are working on the biggest changes to U.S. retirement savings in more than a decade, exploring several proposals that could make it easier for small companies to offer 401(k) plans and for workers to guarantee themselves an annual income after they retire.

The efforts start with a bipartisan Senate bill and House Republicans' plan to make retirement and savings a crucial part of their push for tax legislation this summer and fall. It isn't clear which, if any, measures are likely to survive the legislative process, but the broad interest in encouraging savings gives lawmakers a chance at passing something this year.

Among the proposals Congress may consider are a new type of savings account that is more open-ended than current vehicles, ways to encourage savings that can be tapped in an emergency and the repeal of a provision that prevents people over age 70½ from contributing to traditional Individual Retirement Accounts.

Within 401(k)s, proposals include requiring plans to disclose to employees the monthly annuity income their savings would support. Other measures would encourage small employers to use auto-

Please turn to page A4

◆ House package to help fund small firms ..... A5

## Deadly Siege Against Nicaragua's Opposition



SAD FAREWELL: Mourners grieve for a man who witnesses say was killed at a Managua church where antigovernment protesters had fled. On Tuesday, police and paramilitaries swarmed Masaya. **A6**

CARLOS HERRERA/DPA/ZUMA PRESS

'Fairy Houses'  
Are Violating  
Building Codes  
\*\*\*\*\*  
Environmentalists  
decry the fanciful  
forest structures

By ELLEN BYRON

Clare Durst was walking through the woods on Monhegan Island when she discovered the cutest little "fairy garden" you've ever seen.

Lovingly built out of twigs and decorated with pennies, seashells and piles of uprooted moss, the house at its center stood about 4 feet tall—or five stories, in fairy scale.

Ms. Durst did what any law-abiding citizen would do: She demolished the structure and tossed the twigs, moss and shells into the woods. The pennies, she pocketed for donation to Monhegan Associates Inc., the group that man-

## Papa John's Founder Fights Back After Stepping Down

By JULIE JARGON

The founder of Papa John's International Inc. vowed to fight the pizza chain over how it pressed him to step aside for his use of a racial slur, in a controversy that is casting fresh attention on the handling of race issues in corporate America.

John Schnatter last week publicly apologized for using the slur during media training over the phone with a marketing agency, which was intended to prepare him for returning to his role as brand spokesman.

Days later, in a letter to the directors reviewed by The Wall Street Journal, he said he regretted giving up the chairmanship and accused the board of failing to investigate the nature of the phone call and the intention behind his use of the racial slur.

He said in the letter that he wasn't a racist and that while he articulated the word in a

discussion, he didn't do so as a racial epithet.

"The board asked me to step down as chairman without apparently doing any investigation. I agreed, though today I believe it was a mistake to do so," Mr. Schnatter said in the letter, dated Saturday. "I will not allow either my good name or the good name of the company I founded and love to be unfairly tainted."

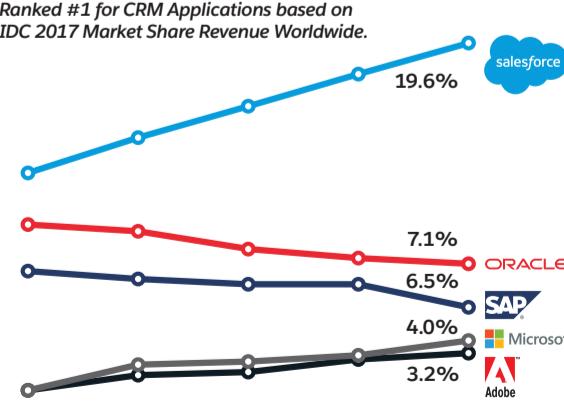
Papa John's declined to comment Tuesday, but the company has distanced itself from the man who founded the company 34 years ago. It said in a press release over the weekend that Mr. Schnatter is no longer allowed to use office space at corporate headquarters in Louisville, Ky., and that he would no longer be in any advertising or marketing materials.

Mr. Schnatter on Tuesday visited the corporate headquarters to talk informally to employees and received hugs

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## Salesforce. #1 CRM.

Ranked #1 for CRM Applications based on IDC 2017 Market Share Revenue Worldwide.



## U.S. NEWS

# Powell Says Fed on Course, for Now

BY NICK TIMIRAO

WASHINGTON—Federal Reserve Chairman Jerome Powell delivered an upbeat assessment of the economy and said continued interest-rate increases were justified, but he opened the door to a potential policy shift and outlined risks if escalating trade tensions result in permanently higher tariffs.

Mr. Powell has mostly sidestepped recent questions on trade policy because he says it is outside of the Fed's responsibilities. He offered words of caution Tuesday at a hearing before the Senate Banking Committee.

"In general, countries that have remained open to trade, that haven't erected barriers including tariffs, have grown faster. They've had higher incomes, higher productivity," said Mr. Powell. "And countries that have gone in a more protectionist direction have done worse."

Mr. Powell affirmed the Fed's plans to continue with gradual rate increases, and he said it was too soon to say if trade disputes might interfere with those plans. The central bank's rate-setting committee "believes that—for now—the best way forward is to keep gradually raising" its benchmark short-term rate, he said.

The addition of the qualifier "for now" to Mr. Powell's statement was new, emphasizing that policy decisions aren't on autopilot. The phrase also signaled less certainty about the rate path as the Fed raises its benchmark rate toward a so-called neutral level that neither spurs nor slows growth.

The Fed raised that rate in June by a quarter percentage point to a range between 1.75% and 2%, the second such in-

## Bernanke: Outlook Is 'Quite Strong'

Ben Bernanke, the former Federal Reserve chairman, remains upbeat about the economy's outlook and isn't particularly alarmed by bond-market developments seen as hinting at trouble down the road.

"Everything we see about the near-term outlook for the economy is quite strong," Mr. Bernanke said in a roundtable interview Monday along with Tim Geithner, an Obama administration Treasury secretary, and Henry Paulson, Treasury secretary for George W. Bush.

The three men took a look back at the financial crisis at the Council on Foreign Relations in New York. Those troubles began over a decade ago and all three were intimately involved in leading the response to those events.

Mr. Bernanke was asked whether he was worried about a narrowing in the difference between short- and long-dated securities that could soon lead to short-dated bonds yielding more than long-dated securities. If that happens, it is called an inversion of the yield curve, and inversions have a strong pattern of appearing before economic downturns.

The current narrowing is in

large part driven by Fed rate rises and expectations more are coming. Low inflation and the expectation it will stay that way is one of the factors helping limit the rise in long-dated bonds, many observers say.

Mr. Bernanke said that an inversion is "a good forecaster of economic downturns," but said the Fed must look at a broad array of factors to think about the future of the economy. "There's an argument" that maybe inversions aren't the signal they once were because long-term interest rates "are unusually low," as is the market-based compensation for risk, he said.

—Michael S. Derby



Fed chief Jerome Powell, testifying before a Senate panel Tuesday, affirmed plans to continue with gradual rate increases.

crease this year. Most Fed officials penciled in a total of at least four rate increases this year and three more next year.

Most of them expect they will need to raise the rate to a neutral level, which could be reached in the next year, but they haven't resolved whether or how much higher to go after that.

The Fed expects recent tax cuts and an increase in federal spending to boost spending and investment at a time when the labor market is already tight. This has put officials on the lookout for signs the economy could be overheating.

Intensifying trade disputes, on the other hand, could hurt business confidence and roil fi-

nancial markets if U.S. companies face higher prices or supply-chain disruptions.

Senators of both parties raised concerns Tuesday about President Donald Trump's decisions to impose new tariffs on trading partners and threaten more to come, prompting other countries to do the same to the U.S.

If the Trump administration's trade policy in the end "results in lower tariffs for everyone, that would be a good thing," Mr. Powell told lawmakers. "If it results in...higher tariffs across a broad range of traded goods and services that remain that way for a long period of time, that would be bad for our economy and for other economies, too."

The Fed has little reason to change course now because history is full of examples of tariffs that have been threatened but never imposed, or imposed only temporarily.

The Fed tries to set rates

with an eye toward the economy's performance a year ahead because monetary policy operates with a lag. But the central bank has few examples from recent history of widespread trade disruptions, so Fed officials will have to rely on current data "a little more than we normally would," said Boston Fed President Eric Rosengren in an interview last month.

Trade disputes have mixed implications for Fed policy. On one hand, they could slow economic growth, causing officials to hold off on rate increases. Or tariffs could push up inflation, requiring a steeper path of increases.

"Are they fighting the war against inflation or are they trying to cushion the shock to growth?" said Ethan Harris, chief economist at Bank of America Merrill Lynch. He said the weakness in overall growth, rather than faster price increases, would be the Fed's bigger worry.

Mr. Powell, in a radio interview last week, said the Fed could ignore the price increases from tariffs if officials conclude they represent a one-time rise that won't be incorporated into businesses' and consumers' expectations of future inflation.

Inflation is close to the Fed's 2% target after undershooting it for many years. Consumer prices in May rose 2.3% from a year earlier. Excluding the volatile food and energy categories, they rose 2%, according to the Fed's preferred inflation gauge.

Mr. Powell said Tuesday he took comfort from signs that moderate wage growth "is not causing high inflation."

◆ Heard: Don't expect rate hikes to pause for trade war..... B14

## U.S. WATCH

### FEDERAL RESERVE

#### Senate Confirms Quarles to Full Term

The Senate confirmed Randal Quarles to a full term on the Federal Reserve's governing board, eliminating uncertainty that has persisted since he took office in the fall.

Mr. Quarles, a former banking lawyer, is already serving as a Fed governor and as the Fed's vice chairman for supervision, a position that puts him in charge of the Fed's bank-regulatory agenda in addition to his monetary-policy responsibilities.

Senators in October approved him for a four-year term as vice chairman and to a term as Fed governor that expired in January. Mr. Quarles needed another vote to give him a full 14-year term on the Fed board. He was able to continue in his roles, even though his nomination was pending before the Senate.

Peter Conti-Brown, a professor at the University of Pennsylvania, has said the delay called into question Mr. Quarles's ability to act independently of politics.

Tuesday's vote on Mr. Quarles's nomination was 66-33.

—Ryan Tracy

### VETERANS AFFAIRS

#### Agency to Replace Acting Health Chief

The Department of Veterans Affairs will replace the acting head of its health-care system with a temporary appointee on Wednesday, the VA's acting secretary said, though the department hasn't settled on a permanent successor.

Richard Stone will take over the Veterans Health Administration, said the VA's acting secretary, Peter O'Rourke. The health administration is one of the three main branches of the VA and comprises more than 1,500 health-care facilities, thousands of physicians and nurses and a budget of about \$70 billion to treat some nine million veterans.

Dr. Stone succeeds Dr. Carolyn Clancy, who had been the acting head for months and who moved on to another position in the department, overseeing the VA's academic partnerships as well as research and development, Mr. O'Rourke said.

The top health-care job, a Senate-confirmed position, hasn't had a permanent leader since then-head Dr. David Shulkin departed to become the VA secretary last year.

—Ben Kesling

### LABOR DEPARTMENT

#### Rule Meant to Help Unions Is Rescinded

The Labor Department is wiping an Obama-era rule off the books that sought to give labor unions and workers more insight into talks employers have with legal counsel about thwarting union-organizing campaigns.

The department rescinded on Tuesday a 2016 regulation known as the "Persuader Rule," which was rolled back because it exceeded the department's authority under the law and impinged on attorney-client privilege by requiring the disclosure of confidential information, the Labor Department said.

"By rescinding this rule, the department stands up for the rights of Americans to ask a question of their attorney without mandated disclosure to the government," Deputy Assistant Secretary Nathan Mehrens said in a statement.

The rule, which more than 50 business groups had sued to block, never went into effect. In late 2016, a federal judge in Texas issued a permanent national injunction. The department could have pursued appeals but didn't do so after President Donald Trump, a Republican, took office.

—Eric Morath

# Boeing, U.S. Reach Air Force One Deal

BY SARAH CHANEY AND BOB TITA

The manufacturing sector staged a quick turnaround in June after a fire at the plant of a Ford pickup-truck supplier knocked output lower in May, extending a solid run of growth for U.S. industrial activity.

The fire, which occurred May 2 at a parts plant in Michigan operated by a unit of China's **Wanfeng Auto Holding Group**, led Ford Motor Co. to idle production of its flagship F-150 and Super Duty trucks for more than a week.

Output resumed, leading to a 0.8% increase in manufacturing output in June after a 1.0% decline the previous month, the Federal Reserve said Tuesday in a monthly report on U.S. industrial activity.

Manufacturing production has been climbing since mid-2016, when rising oil prices helped reverse a hit to U.S. energy production. Manufacturing output is now up 4.2% since May 2016 and up 22% from a recession low in June 2009, according to Fed data.

It is part of a broader rebound for the U.S. industrial sector, which has added 1.2 million jobs since March 2010. The manufacturing sector was

# Manufacturing Hits a Sweet Spot



A worker assembled a combine harvester in Nebraska in June, when manufacturing output rose 0.8%.

"Activity right now is hitting on all cylinders. Demand is up, production is up, [and there's] really robust hiring overall," said Chad Moutrey, chief economist at the National Association of Manufacturers.

Surveys show businesses feel confident in the economic outlook. Global growth, while slowing in some pockets, remains solid. Also, business investment has risen, a sign companies are spending to increase productivity. In the first quarter, investment in structures rose at a 16.2% seasonally adjusted annual rate, while investment in equipment climbed at a 5.8% rate.

Strength in business investment owes much to the rebound in the price of oil. Oil prices stopped falling in early 2016, then began to move higher, resulting in increased investment from energy firms that rippled throughout the U.S. economy.

Companies that sell parts and supplies to manufacturers are also benefiting from the improvement in the sector.

"A strong economy consumes our stuff more rapidly," said Holden Lewis, chief financial officer for **Fastenal Co.**, a distributor of screws, work gloves and other industrial supplies used at factories and construction sites.

Fastenal's second-quarter sales rose 13% from a year earlier, and net income increased 42%. Fastenal's customers typically don't maintain large inventories of the company's products, making it a bellwether of current demand.

**Bendix Commercial Vehicle Systems LLC**, an Elyria, Ohio, vehicle-parts supplier, has seen demand for its brakes and other products surge over the past year and a half as the transportation industry has picked up steam. To meet that demand, the company has increased investment in machinery and has added a rotation that allows it to run full shifts seven days a week.

Over the past 15 months, Bendix has added about 700

### Pickup

Manufacturing production index, change from a year earlier



Note: Seasonally adjusted  
Source: Federal Reserve

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## 4.2%

How much manufacturing output has increased since May 2016

hit hard by the 2007-09 recession and later by a big drop in oil prices, which hurt energy production. More broadly, it has been buffeted by years of competition from low-cost countries such as China.

Several large manufacturers report quarterly results next week, including 3M Co., motorcycle maker **Harley-Davidson Inc.** and conglomerate **United Technologies Corp.** Strong results are widely expected, though investors have become mindful of the potential for weakening demand next year, in part because trade disputes could disrupt global growth.

For now, the long U.S. expansion, now in its 10th year and being further fueled by recent business and individual tax cuts, appears to be paying dividends for American plants that churn out cars, appliances and business equipment.

**graphic** with a Markets article Thursday about banks' earnings contained a chart showing quarterly mortgage originations in billions of dollars. The chart didn't indicate the data were in billions.

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The name of the International Documentary Film Festival Amsterdam was incorrectly given as International Documentary Amsterdam Film Festival in a Life & Arts article Tuesday about the documentary "The Staircase."

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The

## U.S. NEWS

# Scientists Find 12 Moons Around Jupiter

Serendipitous discovery made as astronomers searched for a distant planet beyond Pluto

BY ROBERT LEE HOTZ

Astronomers searching for a planet beyond Pluto discovered instead a dozen new moons orbiting Jupiter. That swells to 79 or so the number found circling the giant planet since Galileo spotted the first of them with a homemade telescope more than 400 years ago.

The finds were announced Tuesday in a bulletin from the International Astronomical Union's Minor Planet Center at the Smithsonian Astrophysical Observatory in Cambridge, Mass., which serves as the global clearinghouse for the study of moons, asteroids and comets.

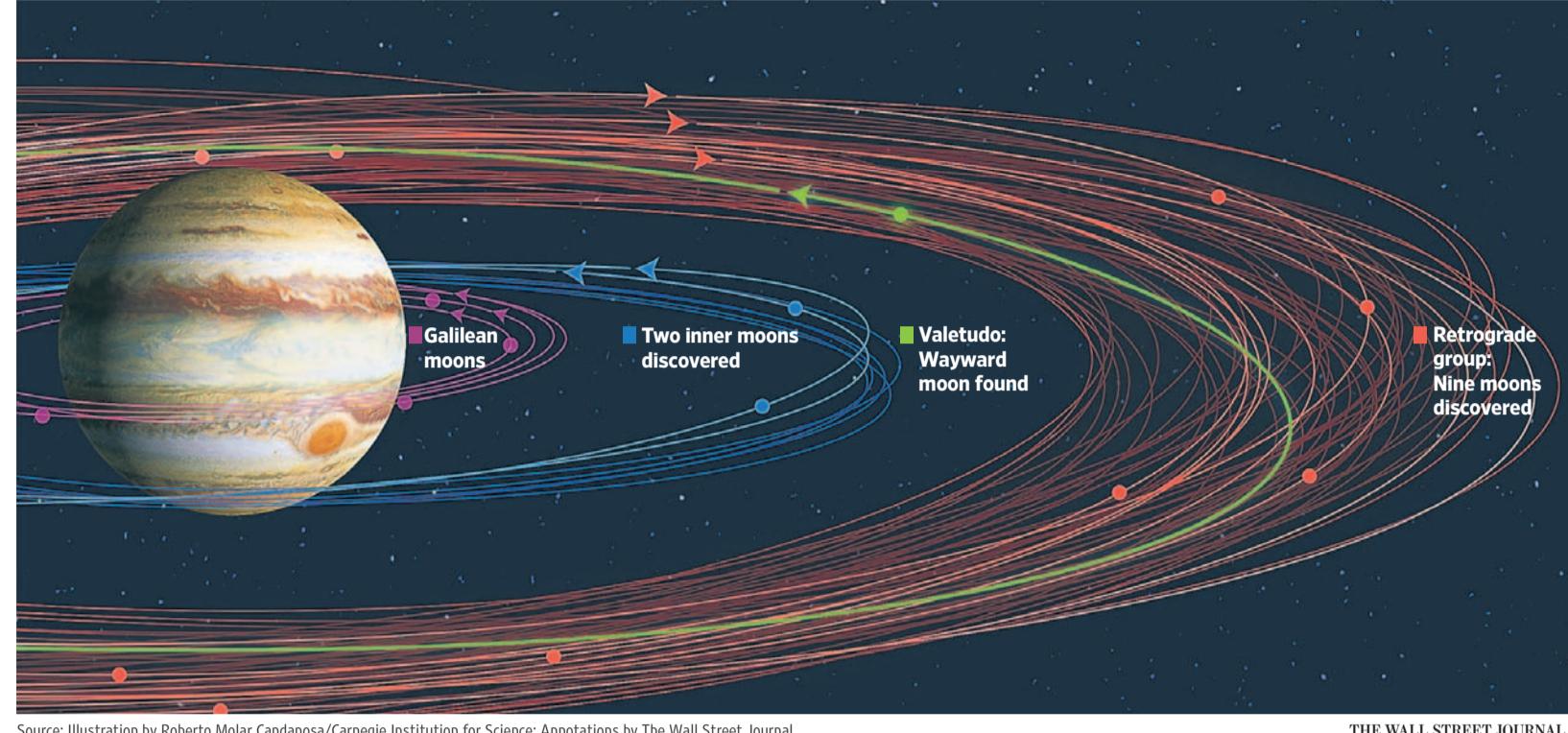
"It was serendipity," said astronomer Scott S. Sheppard at the Carnegie Institution for Science in Washington, who led the team.

The 12 small moons turned up last year as the astronomers were searching for an undiscovered world called "Planet Nine" that some scientists suspect lurks at the far edge of the solar system. "We were able to observe around Jupiter at the same time we were looking beyond Pluto," Dr. Sheppard said.

The astronomers first saw the Jovian moons using the Blanco telescope at Cerro Tololo Inter-American Observatory in Chile, which is operated by the U.S. National Optical Astronomy Observatory, and the Subaru telescope at the summit of Mauna Kea, Hawaii, operated

## Giant Discovery

In this rendering of Jupiter and its moons' orbits provided by Carnegie Institution for Science, two inner moons, in blue, circle in sync with Jupiter's rotation, while nine others, in red, orbit against the direction of the planet's spin. One wayward moon, Valetudo, in green, cuts across the flow of the outer moons, raising the possibility they may one day collide.



Source: Illustration by Roberto Molar Candanosa/Carnegie Institution for Science; Annotations by The Wall Street Journal

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by the National Astronomical Observatory of Japan. Four other observatories helped confirm the observations.

Even so, the distant moons were so faint when viewed against the giant glowing orb of Jupiter that it took about a year to verify them.

"It takes several observations to confirm an object actually orbits around Jupiter," said Gareth Williams, associate director of the Minor Planet Center, who calculated their official orbits.

To complicate matters, several moons of Jupiter have been spotted previously and then lost to view. It can therefore be hard to determine whether a find represents an addition to Jupiter's catalog of moons or a known moon re-emerging after a decade or more in the void.

"There are still a few out there that are missing," Dr. Williams said. "They'll turn up, I'm sure."

By latest count, Jupiter is home to more moons than any

other planet in the solar system, ranging from the largest, Ganymede, which is two-thirds the size of Mars, to the most promising candidate for extraterrestrial life, Europa. They include the most heavily cratered moon known, called Callisto, and the most volcanic, called Io, where NASA last week identified a hot spot that could be a previously undiscovered volcano near the small moon's south pole.

Sixteen other moons have been discovered around Jupiter

but not yet given official status or names, according to NASA.

The 12 moons that gained official recognition Tuesday appear to be several kilometers in diameter, Dr. Williams said. Nine of them, called the retrograde group, are outer moons that circle in one direction around the giant planet—opposite to the planet's spin—while two others are inner moons that orbit the other way.

"We believe these outer moons are the last building blocks of the solar system that

never got swept up and incorporated into the planets," Dr. Sheppard said.

The 12th newly designated moon, dubbed Valetudo after a Roman goddess of hygiene, is an outer moon that goes against the flow of the outer retrograde moons.

"Valetudo is going down the highway in the wrong direction," Dr. Sheppard said. "We think Valetudo will have a head-on collision with one of the retrograde objects in the future."



Enbridge wants to replace an existing pipeline that it says would require as many as 900 repairs over six years.

# Pipeline Evokes 'Standing Rock'

BY KRIS MAHER

Weeks after Minnesota regulators approved the replacement of an oil pipeline that crosses the state, Native American and environmental groups are starting to oppose the project with a similar playbook to a failed effort to stop the Dakota Access pipeline.

Winona LaDuke, who lives 30 miles from the pipeline's route on the White Earth reservation of the Ojibwe tribe, said three small protest camps have sprung up. To draw more protesters, she is planning a public campaign that includes a concert with the Indigo Girls in Duluth this month.

"All of us were at Standing Rock," the site of the Dakota Access pipeline protests, said Ms. LaDuke, a co-founder of Honor the Earth, a Native American environmental group.

But the fight against the Enbridge Inc. pipeline known as Line 3 is different from efforts

to stop the \$3.8 billion Dakota Access one. The Line 3 project, which would carry crude oil from Canada across Minnesota to Wisconsin, is a replacement of a pipeline built in the 1960s.

Enbridge said the existing pipeline requires as many as 900

repairs over six years. It has reduced capacity on the current line out of safety concerns.

Opponents are focused on stopping the replacement, but many want the existing line shut as well.

At the end of June, Minnesota utility regulators approved the project, which will diverge from the old route. Dan Lipschultz, a state utility commissioner, said the existing "highly corroded" line poses a danger to the environment and culturally sensitive areas.

The pipeline, which would cost \$2.6 billion in Minnesota and create thousands of construction jobs, would be the biggest in Enbridge's history, the company said. But it still needs 29 state and federal permits before it can begin construction on the 337-mile pipeline.

Minnesota Gov. Mark Dayton, a Democrat, said permit approvals for the pipeline "are by no means assured."

Local sheriffs are preparing

for potential protests, getting guidance from counterparts in North Dakota and speaking to people on both sides of the issue.

"Our hope and prayers, if you will, are that things will be very calm and orderly," said Bill Hutton, executive director of the Minnesota Sheriffs' Association.

To oppose the Dakota Access pipeline, protesters built a large encampment, drawing thousands of supporters who clashed with local law enforcement. Opponents sued in federal court to block the project, and the Obama administration eventually denied an easement needed to complete it. That decision was quickly overturned by the Trump administration.

Joseph Plumer, a tribal attorney with the White Earth and Red Lake bands of the Ojibwe, said he plans to challenge the utility commission's ruling and, if necessary, file an appeal with the Minnesota Court of Appeals.

# Risk of ADHD Grows With Screen Time

BY DANIELA HERNANDEZ AND BETSY MORRIS

The more teens use social-media networking sites, video-games and streaming services, the higher their risk of developing symptoms of attention-deficit hyperactivity disorder, or ADHD, a new study found.

The study, published Tuesday in the Journal of the American Medical Association, tracked 2,500 teens over two years and monitored their usage and symptoms.

It doesn't prove a causal link. The study also didn't rule out other possible causes such as lack of sleep, family stress at home or a family history of the disorder. But it was the first longitudinal study to follow so many teens over a two-year period, according to experts, going straight to an issue that pits parents and teachers against the tech industry in a battle for children's attention.

"I don't think it's reason for panic. But I'm a clinician who sees kids with ADHD all the time, and I don't want to see an increase," says Jenny Radesky, a University of Michigan assistant professor of pediatrics, who specializes in developmental and behavioral health.

"Executive function and flexible problem solving—all that matters for long-term success," she said. "Even if it's a small increase in ADHD, I

think that's important." Such skills are often affected by ADHD. Dr. Radesky, who wrote a JAMA editorial about the new study, wasn't involved in the work.

Use of technology could be one of several environmental factors related to ADHD. Research suggest that smoking and drug use during pregnancy and lead exposure during childhood may also increase the risk of developing the disorder, according to the U.S. National Institutes of Health.

For the study, students answered questionnaires every

six months about their media diet—including checking social media, browsing videos, video chatting and online shopping—and frequency of use, plus assessments of ADHD-related symptoms.

If students reported experiencing six or more symptoms on these self-assessments, researchers considered them positive for ADHD symptoms. Because the researchers wanted to assess whether media use was associated with new symptoms, the study excluded teens who exceeded that threshold when the study began, said Adam M. Leventhal, the study's lead author and the director of the University of Southern California's Health, Emotion and Addiction Laboratory at USC's Keck School of Medicine.

The roughly 500 teens who didn't report using digital media multiple times each day had a 4.6% rate of having ADHD symptoms, such as difficulty completing tasks or remaining still. Among the roughly 50 who reported daily use of all 14 different types of digital media included in the study, the rate was 10.5%.

Previous research has shown that incessant distractions and stimuli from tech use might diminish children's ability to concentrate. Scientists worry this could also harm the ability to develop skills like patience and delayed gratification.

## Teens and Technology

A new study tracking the media diets of 2,500 teenagers found links between frequency of use and ADHD symptoms.

### Share of adolescents who performed these media activities more than twice a day

Checking social-media sites	54.1%
Texting	52.1
Browsing or viewing images or videos	42.9
Streaming or downloading music	38.5
Liking or commenting	28.5
Chatting online	26.4
Streaming television or movies	25.2
Playing video/web games alone	18.0
Reading online content	17.7
Playing video and web games with others	15.3
Sharing others' web content	12.8
Posting own web content	12.2
Online shopping or browsing	10.1
Video chatting	8.8

Note: A sample size of 2,587 10th grade public school students.

Source: The Journal of the American Medical Association THE WALL STREET JOURNAL

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## U.S. NEWS

# Heritage Action Stumps for GOP

Conservative group known for criticizing lawmakers now works to get them elected

BY KRISTINA PETERSON

**WASHINGTON**—Heritage Action for America has spent years getting Republicans riled up in policy fights. Now the group is trying something new: getting GOP lawmakers elected.

Founded in 2010, Heritage Action spent its early years stirring controversy as it pushed GOP leaders and lawmakers to take a more combative approach in negotiations with former President Barack Obama, a Democrat. But with Republican President Donald Trump in office, the group is recalibrating its strategy and, for the first time, is getting significantly involved in congressional elections.

"The tactics have to change when you [Republicans] have the House, the Senate and the White House," Tim Chapman, executive director of Heritage Action, said in an interview Monday.

"We have got a very good apparatus built for stopping bad legislation and for holding people accountable. We're not quite as effective as we'd like to be at passing good pieces of legislation," he said.

To change that, Heritage Action plans to spend \$2.5 million, starting in early September, in an effort to help Republicans win in 14 congressional districts. The group plans to use its money on direct mail and digital ads promoting its view of how the



Republican Rep. Dave Brat of Virginia, who is viewed as vulnerable in November, is expected to receive Heritage Action's help.

tax law passed by Republicans in December is benefiting voters. Additional money raised could be used on television ads, said the group's vice president, Jessica Anderson.

The hope is that the campaign efforts will create allies on Capitol Hill and give Heritage Action ways to reward lawmakers, not just criticize them when the group views their voting records as not conservative enough.

"If you can get involved in elections and you can help members get re-elected, that's the ultimate carrot," Mr. Chapman said.

The group plans to advocate primarily for conserva-

tive House Republicans it views as vulnerable in November's midterm elections, including GOP Reps. Dave Brat of Virginia and Scott Perry of Pennsylvania. Both are members of the House Freedom Caucus, a group of roughly three dozen of the House's most conservative Republicans, some of whom face competitive races this fall.

Heritage Action will also work to defend Republicans it sees as under attack by liberal groups and to promote lawmakers and GOP candidates it believes could become part of coalitions the group expects to be helpful in passing conservative legislation in the

next session of Congress.

The new approach marks a dramatic shift from Heritage Action's days tangling with GOP leaders. Former House Speaker John Boehner (R., Ohio) lambasted conservative outside groups, including Heritage Action, in late 2013 over the group's opposition to a bipartisan budget deal brokered by then-Rep. Paul Ryan (R., Wis.), who later succeeded Mr. Boehner as speaker, and by Sen. Patty Murray (D., Wash.).

After clashes over the last farm bill, the government shutdown in the fall of 2013 and the budget deal, Mr. Boehner said the conservative

outside groups had "lost all credibility."

Heritage Action officials said their tactics then were aimed at creating a contrast between conservatives and Mr. Obama's policies. Now, with Mr. Trump in office and a string of former Heritage employees in his administration, the group is willing to take a less strident approach.

"If you can pass a piece of legislation that this president will sign and it gets us 50, 60, 70% of the way toward where we want to go, it makes complete sense for us to support that piece of legislation and then come back and try to get more later," Mr. Chapman said.

## Job-Skills Gap May Curb Growth, Report Warns

BY ERIC MORATH

White House economists have identified a potential stumbling block to maintaining the U.S. economy's momentum: a lack of well-trained workers.

The economy appears poised to expand this year at the fastest clip since the recession ended in 2009. That has allowed employers to extend their streak of consistent hiring, which began in 2010, and push the unemployment rate to nearly its lowest level in 50 years.

But there also is a growing gap between the rising number of job openings and the number of workers equipped to fill them, and this could limit growth in the long run, according to a paper from President Donald Trump's Council of Economic Advisers released Tuesday.

"There simply aren't enough

unemployed workers in the current pool of those looking for work to match the growth in demand for new workers," the paper said.

One problem is the overall size of the pool. A smaller share of adults between 25 and 54 years old are working or looking for jobs than before the recession began in 2007, even though the unemployment rate is lower, at 4% in June.

Another problem, the economists wrote, is many Americans on the sidelines of the labor market need more education or other skills to fill the types of jobs that are being created. The paper found a disproportionate share of those not seeking or holding jobs don't have college degrees, an indication they don't have the advanced skills needed to fill many job openings.

A lack of skills, however, is only one reason many Ameri-

cans are out of the workforce. Other economists have pointed to other reasons, including the rising cost of child care, the need to care for elderly parents and the opioid crisis.

The White House paper suggests that helping some of those adults who are out of the workforce improve their skills would enable them to seek and get jobs.

Spending on education and

training in the U.S. is focused almost entirely on people younger than 25 years old and in school, the paper said. Relatively little is spent during a person's working life by employers or the government, potentially leaving them without the ideal skill set for modern jobs, according to the paper.

Many employers are reluctant to provide that training,

fearing they will bear the cost,

only to see their competitors reap the benefits by hiring away their skilled workers, White House economists said.

To address the reluctance,

Mr. Trump will host an event at the White House on Thursday with large employers and have them sign a "pledge to the American worker" to make significant new investments in training their current and future workers.

## Savings Plans Face Changes

Continued from Page One

matic enrollment and make it easier for employers to automatically raise employees' savings rates beyond 10% of income—a cap that now applies to some plans.

The proposals could face obstacles in a divided Congress in an election year. Still, if passed, the measures would amount to the most significant alterations to 401(k) plans since 2006, when Congress made it easier for employers to enroll workers automatically and invest their money in funds that shift focus from stocks to bonds as people age.

"It is something that could actually move the needle on retirement security," said Michael Kreps, a principal at Groom Law Group, who represents financial-services companies and 401(k) plan sponsors.

The discussions are starting with a bill known as the Retirement Enhancement and Savings Act, or RESA, that hasn't advanced amid a slim

congressional election-year calendar and partisan tensions over tax policy. However, the bill has attracted support from financial-services companies and AARP, the advocacy group for older people, which says "RESA is an important step to improving retirement policy."

In the Senate, RESA is sponsored by the Finance Committee's chairman, Orrin Hatch (R., Utah), and its top Democrat, Ron Wyden of Oregon. RESA won unanimous approval from the committee in 2016, but it hasn't advanced beyond that stage.

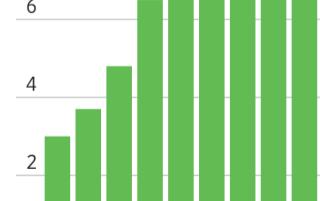
Among the provisions in RESA is one that would allow small employers to band together to offer 401(k)-type plans. By joining a so-called multiple-employer plan, or MEP, small companies can spread plan administrative costs over more participants, lowering fees.

The arrangement is now available, but only to employers with an affiliation or connection, such as members of the same industry trade association. RESA would eliminate that restriction.

The bill would also encourage 401(k)-style plans to offer annuities, which help participants transform their balances into lifetime income streams. Although commonly offered by traditional pension plans, an-

### Rising Assets

Balances in 401(k)-type plans have more than doubled since 2000.



Source: Investment Company Institute

THE WALL STREET JOURNAL

\$500 to as much as \$5,000 for three years.

On Tuesday, a bipartisan group of senators introduced separate legislation that would shift some of the fiduciary responsibility from small employers that band together in multiple-employer plans to the financial services firms that administer the MEPs.

The legislation would remove disincentives to small businesses to offer 401(k) plans that automatically enroll workers and allow employers to automatically enroll workers into emergency savings accounts. (Employees would be free to opt out.)

It would also give workers the option to choose to save a portion of their tax refund before it is issued.

Retirement and savings incentives will make up one of three bills in the "Tax Reform 2.0" package House Republicans are assembling, said Rep. Kevin Brady (R., Texas), chairman of the Ways and Means Committee. Mr. Brady and other committee members discussed the savings initiative Tuesday with President Donald Trump, according to Rep. Jim Renacci (R., Ohio), who attended the meeting.

The centerpiece of the House GOP tax package is an extension of last year's tax cuts beyond their 2025 expira-

tion date; that is unlikely to draw enough Democratic votes to become law. But Mr. Brady said he hoped the new retirement bill will attract bipartisan support.

Rep. Richard Neal of Massachusetts, the top Democrat on Ways and Means, said he backs tax provisions that would make it easier for people to set money aside—though he emphasized that Republicans should have placed higher priority on that than tax-rate cuts last year. Mr. Brady said any new ability for people to tap into tax-preferred savings would be "very limited."

"You want that money to stay in there and grow," he said. "But we also know that one of the hesitations is that they worry that they put it in and it is locked away, whether they need braces or there's an emergency."

House Republicans, as they did on the larger tax law last year, haven't included Democrats in their talks, said Rep. Suzan DelBene (D., Wash.).

"While I would like to see Democrats and Republicans work together to address struggling pension programs and ensure seniors can live in dignity, House Republicans again show no interest in bipartisan collaboration," she said in a statement.

## Sex Bills Covering Lawmakers Bog Down

BY NATALIE ANDREWS

**WASHINGTON**—The effort to overhaul the anti-sexual-harassment rules governing lawmakers has stalled over disagreements about the conduct for which senators and members of the House can be held personally financially responsible, aides said.

In December, accusations of misconduct roiled Congress, culminating in the resignation or retirement of several lawmakers from both parties.

Amid a nationwide movement to curb harassment in businesses, media, Hollywood and politics, the House and Senate this year passed legislation aimed at overhauling Congress's sexual-harassment policies.

But the two bills have yet to be reconciled and sent to the president's desk to become law.

House lawmakers say the Senate would water down their bill, while senators worry the House bill would leave them with too much financial exposure by leaving in place an

overly broad definition of sexual harassment and discrimination.

Because lawmakers are amending an existing law on workplace conduct, they must pass legislation agreed on by both chambers. "We're not quite there yet," said Mississippi Republican Rep. Gregg Harper, chairman of the House Administration Committee, which wrote that chamber's sexual harassment-related legislation.

The current law, known as the Congressional Accountability Act, bars discrimination based on race, color, religion, sex or national origin, but members aren't personally responsible for settlements of cases reported to an internal congressional office that arbitrates them. Settlements are paid by taxpayers, from an account set up for that purpose.

In one instance, former Rep. Blake Farenthold of Texas used public funds to settle an accusation of misconduct brought by a former staffer. House Speaker Paul Ryan called on him to pay back the money, but he left Congress without doing so.

Lawmakers want to ban the practice of using taxpayer funds to settle cases against lawmakers.

In the House bill, if a sexual harassment or discrimination case is brought against a member and settled, the member is on the hook for the monetary settlement. The Senate bill narrows the definition of the conduct for which lawmakers could be financially responsible.

## Roby Wins GOP Primary In Alabama

BY REID J. EPSTEIN

**WASHINGTON**—Rep. Martha Roby won a Republican primary runoff election Tuesday for her south Alabama congressional seat, dispatching a rival who accused her of being insufficiently loyal to President Donald Trump.

The Associated Press declared Ms. Roby the winner over former Rep. Bobby Bright, who campaigned as a Trump loyalist despite having previously represented the district as a Democrat.

Mr. Bright questioned Ms. Roby's Trump bona fides because, during the 2016 presidential election, she said Mr. Trump was an "unacceptable" candidate after a videotape emerged of him bragging about groping women without their consent. She said then she wouldn't vote for him.

Mr. Trump backed Ms. Roby.

Ms. Roby is likely to win the general election against Democrat Tabitha Isner. Mr. Trump in 2016 won 65% of the vote in the district, which covers Alabama's southeast corner.

## U.S. NEWS

# House Package to Help Fund Small Firms

By GABRIEL T. RUBIN

WASHINGTON—The House overwhelmingly approved a package of deregulatory measures aimed at making it easier for smaller companies to raise money in public markets.

The legislation, which passed the House on a 406-4 vote on Tuesday, is the latest installment of provisions designed to boost the number of companies that turn to financial markets for capital. The Securities and Exchange Commission is working on many of the measures in the bill.

The plan, an expansion of

the 2012 Jumpstart Our Business Startups Act, or JOBS Act, would further loosen regulations on securities offerings for small companies, including by broadening the pool of investors who can invest in private stock sales. The package, which includes 32 bills wrapped into one, also would allow all companies to secretly submit IPO paperwork to the SEC and to "test the waters" about a possible offering with investors before filing disclosures with the agency.

The package faces an uncertain fate in the Senate, which spearheaded a larger deregula-

tory package for the financial industry that was signed into law in May. As part of a deal to expedite House passage of that bill, Senate Majority Leader Mitch McConnell promised House Financial Services Committee Chairman Jeb Hensarling (R., Texas) a vote on the capital-markets legislation before the November midterm elections.

Senate floor time is at a premium during the next several months, with major business like Supreme Court confirmation hearings for Judge Brett Kavanaugh taking precedence.

Despite the bipartisan support in the House, some mod-

erate Senate Democrats who voted for the previous deregulatory bill may be reluctant to give Republicans another legislative win so close to November's elections.

"It's very unlikely that another broad financial deregulation bill will be taken up and passed in the Senate before the midterms," said Sen. Chris Coons of Delaware, one of 16 Democrats who voted for the previous deregulatory legislation. In a brief interview before the House vote, he left the door open to passing the measures as riders to appropriations bills, but only

if "it's genuinely bipartisan."

Sen. Sherrod Brown of Ohio, the top Democrat on the Senate Banking Committee, said he would meet with Mr. Hensarling on Wednesday to discuss the package.

Mr. Hensarling reminded Mr. McConnell of his promise for a vote in a Wall Street Journal opinion column and in remarks to reporters on Tuesday. "There's not a guarantee of a result, but there's a guarantee that this will be taken up on the floor," Mr. Hensarling said. Still, he warned, "never underestimate the Senate's ability to do nothing."

Mr. McConnell said in a written statement, "Senators will continue their ongoing bipartisan discussions as we work towards a vote in the coming months."

The substance of the bill isn't controversial. The package was trumpeted in joint press releases by Mr. Hensarling and Rep. Maxine Waters of California, the top Democrat on the House panel. It includes individual bills that were sponsored by both Democrats and Republicans.

"This is true bipartisanship we are witnessing today," Ms. Waters said.

## Accused Agent Cultivated Ties With NRA, GOP

By JULIE BYKOWICZ  
AND DEL QUENTIN WILBER

U.S. gun-rights community who have expressed admiration for her efforts to expand gun ownership in Russia.

Ms. Butina's interest in the issue "seemed 100% totally genuine," said Alan Gottlieb, a Second Amendment activist near Seattle. "She cared very much about gun rights and was willing to travel the globe to promote it internationally."

Mr. Gottlieb said he first encountered Ms. Butina in late 2012 or early 2013 when she contacted him "out of the blue" to ask if her group could join the International Association for the Protection of Civilian Arms Rights, where he was president. He said the organization accepted, and in late 2013 he and his wife traveled to Moscow for a Right to Bear Arms conference.

David Keene, former president of the NRA, and Paul Erickson, a conservative activist based in Sioux Falls, S.D., also attended Ms. Butina's 2013 Moscow conference, Mr. Gottlieb said. Neither Mr. Keene nor Mr. Erickson responded to requests for comment.

Ms. Butina's attorney, Robert Driscoll, didn't respond to an email seeking comment Tuesday. On Monday, Mr. Driscoll said his client isn't a Russian agent, described her actions as "public networking" by a foreign student and said the "substance of the charge...is overblown."

The Federal Bureau of Investigation said Ms. Butina started working for the Russian government as early as 2015. The FBI affidavit alleges Ms. Butina received help from two unnamed U.S. citizens, including "an American political operative" who arranged introductions to influential figures.



Maria Butina, whom the U.S. accuses of being a Russian agent, spoke at a gun-rights rally in Moscow in 2013.

ASSOCIATED PRESS

### Immunity Sought At Manafort Trial

Special counsel Robert Mueller's office asked a federal judge to grant immunity to five witnesses expected to testify against Paul Manafort, providing a window into the team's strategy for a trial expected to begin next week.

In filings Tuesday, Mr. Mueller's prosecutors said they had five potential witnesses against Mr. Manafort, President Donald Trump's former campaign chairman, who have refused to testify based on their Fifth Amendment right against incriminating them-

selves. Prosecutors asked the court to compel the witnesses to testify by giving them immunity. The witnesses aren't named.

The filings are among the final maneuvers as the two sides gear up for what is expected to be one of the most closely watched criminal trials of the year.

Also on Tuesday, U.S. District Judge T.S. Ellis rejected Mr. Manafort's request to relocate his trial to Roanoke, Va., more than 200 miles from its current location in Alexandria, Va., saying there was "no reason to believe" that impartial jurors couldn't be found in northern Virginia. Mr. Manafort had argued it was impossible for him to receive a fair

trial in the area because his case had received "unrelenting news coverage" in the Washington region, and had noted that voters in the area favored Mr. Trump's Democratic opponent in the 2016 election.

Mr. Manafort faces charges of tax fraud, bank fraud and failing to file reports on foreign bank accounts, based on accusations that he didn't report to tax authorities more than \$30 million in income from his work for pro-Russian politicians in Ukraine between 2006 and 2015.

Prosecutors have also accused Mr. Manafort of committing bank fraud and lying to financial institutions to obtain millions of dollars in loans in

2015 and 2016 as the Ukraine income dried up.

Mr. Manafort has pleaded not guilty and denies all charges. A spokesman for Mr. Manafort declined to comment Tuesday.

Mr. Manafort's longtime deputy, Richard Gates, pleaded guilty earlier this year to charges related to their Ukraine work, and is expected to testify against Mr. Manafort.

Mr. Mueller's office said the unnamed witnesses haven't been charged and "have not been identified publicly with the case." It said that if it revealed the witnesses' identities, it could create "the risk of their undue harassment."

—Aruna Viswanatha

## Trump Reverses Remarks

Continued from Page One

gence agencies or Mr. Putin—Mr. Trump said Dan Coats, the director of national intelligence, "came to me [and] said, they think it's Russia. I have President Putin, he just said it's not Russia."

He then said, "I will say this, I don't see any reason why it would be."

Mr. Trump said on Tuesday that he had meant to say, "I don't see any reason why it wouldn't be Russia," adding that the mistake "should have been obvious."

Even as he said he accepted U.S. officials' finding that Russia interfered in the election, Mr. Trump repeated his assertion that there was no collusion with his campaign and said there "could be others too." U.S. intelligence agencies haven't implicated other foreign countries in the 2016 election meddling.

Mr. Trump didn't address other remarks he made in the Helsinki news conference, including calling the special counsel probe of Russian election interference a "disaster for our country" and declaring his "confidence in both parties," referring to U.S. intelligence agencies and Mr. Putin. He also said "both countries had made some mistakes," whereas U.S. officials had urged him to take a tough line on issues such as Russia's

annexation of Crimea and Moscow's alleged role in the poisoning of a former spy in the U.K.

One White House official said the president had "kind of winged it" at the Helsinki news conference, veering from his preparations.

On Tuesday morning, after the president had seen the news coverage and looked at a transcript of his Helsinki remarks, he called a meeting at the White House to discuss how to re-

act.

One White House official said the president had "kind of winged it."

—Continued from Page One

spend. In attendance were Vice President Mike Pence, national security adviser John Bolton, new deputy chief of staff for communications Bill Shine and others, a person familiar with the matter said.

At that meeting, Mr. Trump agreed he would make a public statement in the afternoon saying he had misspoken and staff started drafting talking points.

Senate Republicans also

urged administration officials to push the president to change his stance, one Senate Republican said.

GOP leaders welcomed the change. "I hope that what he really thinks is what he said today and that is that he agrees with his intelligence community when it comes to the issue of Russia meddling," Sen. John Thune of South Dakota, a member of the chamber's Republican leadership, said Tuesday.

Mr. Trump spoke Tuesday "because enough of us had communicated that it was unacceptable," said Newt Gingrich, a Trump ally and former House speaker. "As you know, this is not a guy who backtracks very often. He looked at it and said we were right. He needed to clarify it."

Still, White House officials said they worried about further political fallout from the summit. Mr. Trump was also more broadly criticized for not publicly stating his objections to other Russian actions that have prompted concern in the U.S. and caused Congress to apply sanctions.

"This one could put a crack in the foundation," said one longtime Trump ally.

It was unclear what, if any, action lawmakers might pursue as a result but some took pains to reinforce the message that Russia is a U.S. adversary—and to reassure European allies that the U.S. was on their side, not Moscow's.

"I would say to our friends in Europe, we understand the Russian threat and I think that is the widespread view here in the United States Senate among

members of both parties," Senate Majority Leader Mitch McConnell (R., Ky.) said shortly before Mr. Trump was scheduled to speak.

White House officials said they were caught flat-footed by the strength of the reaction to Mr. Trump's Helsinki appearance, leaving them without a response for about a day, the capstone of a week when Mr. Trump's remarks have caused controversy with allies and challenged aides.

At the North Atlantic Treaty Organization summit in Belgium last week, for instance, during an emergency session called to discuss Mr. Trump's demands that NATO members increase their military spending, Chancellor Angela Merkel of Germany told the president parliamentary procedures would require additional time.

Mr. Trump responded that President Recep Tayyip Erdogan of Turkey didn't have the same problem, according to two people familiar with the exchange.

Mr. Erdogan has expanded his presidential powers, clamped down on judicial independence and pursued a nationalist agenda in Turkey, putting his country at odds with its U.S. and NATO allies.

"Nobody knew how to react to this," one foreign official said. "This is more of a Soviet style. This is not how we do business in the West."

A White House official said the president's comment was a joke and that people in the room laughed in response.

—Valentina Pop contributed to this article.

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## WORLD NEWS

## U.K. Divisions Imperil May's Brexit Plan

Prime minister's strategy to depart the EU narrowly survives votes in Parliament

By JASON DOUGLAS  
AND WILL HORNER

LONDON—Prime Minister Theresa May's Brexit plan narrowly survived a series of votes in Parliament on Tuesday, a struggle that casts doubt on whether she can negotiate an exit deal with the European Union that is acceptable to British lawmakers.

The skirmishes in Parliament, led by the pro- and anti-EU wings of Mrs. May's ruling Conservatives, highlight how Mrs. May's efforts to bury party divisions over Brexit have instead inflamed them. That undermines the chances for the smooth and orderly withdrawal that businesses say is essential to avoid severe harm to the nation's economy.

The political unrest heightens the uncertainty surrounding Brexit less than nine months before the U.K. is scheduled to depart from the EU at the close of a two-year window, during which it must negotiate divorce terms contained in the bloc's treaties.

Mrs. May faces two major challenges in the months ahead: strike a bargain with Brussels and then persuade Parliament to back it. Failure on either of those means Britain risks crashing out of the EU without a deal.

Lawmakers in the House of Commons, Parliament's lower chamber, on Monday and Tuesday considered competing amendments to Brexit-related



Anti-Brexit protesters walked past Parliament as debate continued inside over Prime Minister Theresa May's plan for leaving the EU.

legislation aimed at altering a revamped negotiating strategy Mrs. May unveiled earlier this month.

Mrs. May's plan was approved by her cabinet less than two weeks ago, prompting the resignations of two prominent cabinet ministers and a handful of junior ministers.

Among other provisions, it called for a free-trade area between the U.K. and the EU to ensure the free flow of goods after Britain's withdrawal—a proposal that enraged hard-line Brexit supporters because it would re-

quire the U.K. to effectively follow EU rules and standards.

The anti-EU faction scored a victory Monday when Parliament voted narrowly in favor of two proposals aimed at effectively killing off that plan by requiring the U.K. to maintain a separate system for value-added tax, a type of sales tax, and demanding reciprocity on a U.K. plan to collect EU tariffs on goods in transit through Britain to the bloc—two suggestions the EU would be unlikely to accept.

Richard Benyon, a Conservative member of Parliament,

said the amendments wouldn't change the government's plan because they were badly worded from a legal standpoint, but "I voted to reject them because I am fed up with a small group of uber-Brexiteers trying to push the government around."

On Tuesday, the pro-EU side was narrowly defeated on a proposal it put forward that would have required the U.K. government to negotiate a full-fledged customs union with the EU, implying common tariffs on imports, if it can't persuade

Brussels to agree to its free-trade-area proposal. The government argued against the idea, saying such a fallback position would severely weaken its hand in negotiations.

The eagerness of lawmakers to tinker with Mrs. May's Brexit plan underscore her weakness at home as talks with Brussels enter a critical few months.

Mrs. May lost her parliamentary majority in an ill-judged election last year and has struggled to impose order on a Conservative Party riven by disagreements over Brexit

### Some Call for New Referendum on Leaving the Bloc

The divisions over Brexit have intensified calls in the U.K. for another referendum on leaving the European Union.

Justine Greening, a former Conservative education secretary and member of Parliament, said the public should have a vote on whether to accept the final Brexit terms on offer, to leave the EU without a deal, or to remain an EU member.

"Because of the stalemate in this place, it is time for the British public to have the final say on the path ahead of us. On Brexit, we absolutely have to settle this," Ms. Greening said in Parliament.

Prime Minister Theresa May's government has sought to play down the divisions and says it is sticking to its negotiating plan.

ever since.

Internal party debates have become increasingly ill-tempered and public. Dominic Grieve, a leading pro-EU Conservative, on Monday described the anti-EU wing's legislative amendments as "malevolent."

For negotiators in Brussels, the political turmoil will intensify questions over whether Mrs. May can deliver whatever Brexit deal she eventually agrees to, as splits in Parliament mean that almost any possible Brexit outcome might not command majority support.

## Nicaragua Moves to Suppress Uprising Outside Capital

By JOSÉ DE CÓRDOBA

MANAGUA, Nicaragua—Hundreds of heavily armed police and paramilitary forces loyal to President Daniel Ortega swarmed Masaya, recovering control of the city's last rebel neighborhood after fighting for hours to quell protests demanding the leader's ouster, human-rights activists, residents and church officials said.

Videos on social media showed dozens of pickup trucks with armed men streaming into the indigenous Monimbó neighborhood of Masaya. The city, south of the capital Managua, has been a center of a three-month uprising against the president that has claimed at least 300 lives. Many of the trucks carried paramilitary fighters, identified by their blue shirts and black ski masks.

"This is a massacre in Monimbó," Álvaro Gómez, a high-school teacher, said in a telephone interview as shots rang out in the background. "They've killed a bunch of youths who are resisting with homemade mortars, bombs and their anger."

Mr. Gómez, a one-legged army veteran whose son was



A man who was killed in Masaya during a confrontation with government forces was buried Monday.

killed during previous protests against Mr. Ortega, said government forces were using automatic rifles and shoulder-fired antitank missiles.

Cristian Fajardo, the head of an anti-Ortega group, said that police and paramilitary forces on Tuesday killed at least five people, including women and children, and that

government security forces were searching for opposition leaders, including himself.

"They are breaking into houses searching for the leaders, and kidnapping young people who are against the government," Mr. Fajardo said, urging Nicaraguans and the international community to resist.

Masaya's police chief, Ramón

Avellán, said Mr. Ortega and his wife, Vice President Rosario Murillo, had ordered police to "clean up the streets" by removing barricades. "We will obey the order at whatever the cost."

After taking control of Monimbó, police and paramilitary forces took down the blue and white Nicaraguan flag in the main plaza and replaced it

with the red and black flag of the governing Sandinista party, according to photos published in the state news website El19. "Monimbó, Masaya, liberated territory," read a headline on the site.

The number of casualties couldn't be determined because the government was preventing human-rights groups and journalists from entering the neighborhood.

The U.S. State Department on Tuesday called for restraint. "We strongly urge President Ortega not to attack Masaya," wrote Francisco Palmieri, the State Department's top-ranking official for Latin America, on his Twitter account.

Managua's auxiliary Bishop Silvio Báez on his Twitter account asked Catholics in Nicaragua to pray for the people of Masaya. "Daniel Ortega, stop the massacre!" he wrote.

Masaya was once a stronghold of Mr. Ortega's Sandinista movement that overthrew the U.S.-backed dictator Anastasio Somoza in 1979. The city, and especially its Monimbó sector, is now at the heart of the anti-Ortega resistance.

Paulo Abrao, executive secretary of the Inter-American

Commission on Human Rights, an independent regional body, said Mr. Ortega's government seemed determined to pacify rebellious parts of the country before celebrations on Thursday marking the anniversary of the Sandinista triumph. "It looks like the state has abandoned dialogue when they do these type of operations," Mr. Abrao said.

The conflict has pitted students and protesters against the authoritarian government of Mr. Ortega, a former leftist guerrilla who was elected president in 2006 with strong support from Nicaragua's moderate business community and Catholic Church. In 2016, having abolished term limits, he was elected to a third, consecutive five-year term.

In April, protests began in response to a tax increase to fund the pension system. The government's violent response sparked the uprising, with students and activists setting up barricades and using makeshift arms to defend themselves on the campus of the National Autonomous University in Managua and in Masaya, among other places.

—Robbie Whelan in Mexico City contributed to this article.

## FROM PAGE ONE

## Papa John's Founder Fights Back

*Continued from Page One* from people as he walked the halls, according to a person who witnessed his visit.

Mr. Schnatter remains a board member and, according to regulatory filings, as of March he owned 29% of Papa John's shares, currently valued at about \$500 million. The board doesn't have the authority to remove him as a director and it will be up to shareholders at the next annual meeting in May to decide whether to re-elect him.

The man who built his eponymous pizza chain into the world's third-largest pizza-delivery company had withdrawn from appearing in ads following a dustup over comments he made in November in connection with the National Football League's handling of the players' national-anthem protests. Papa John's

was the official pizza of the NFL, and Mr. Schnatter blamed a sales slide at the chain on declining TV football viewership amid the anthem controversy.

It was in sessions in May aimed at his re-emergence in branding that Mr. Schnatter used the racial slur.

In Saturday's letter to the board, Mr. Schnatter wrote, the telephone call that month with digital marketing agency Laundry Service was intended to prepare him for questions he might be asked by reporters. When asked during the call whether he is racist, he answered "no," he said, according to the letter.

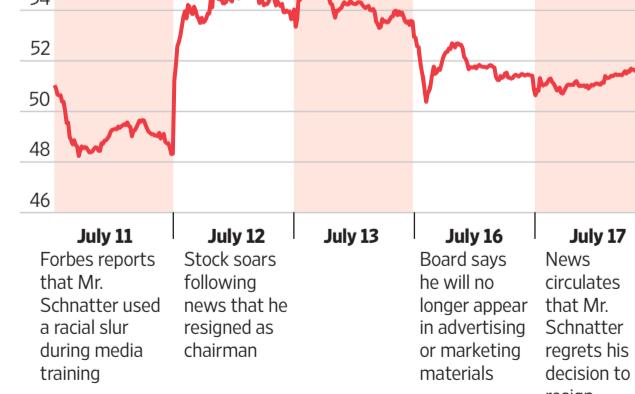
"I then said something on the order of, 'Colonel Sanders used the word 'N,' (I actually used the word), that I would never use that word, and Papa John's doesn't use that word," he said in his letter.

He also said in his letter that the marketing agency suggested Papa John's retain rapper Kanye West to appear with him in ads and that he resisted that suggestion because Mr. West uses the "N-word" in some songs.

### Boxed Out

Events surrounding John Schnatter's resignation have roiled the pizza chain's stock.

#### Papa John's share price



Source: SIX

in workshops led by her company, Perception Institute. Trainers don't explicitly say workers can't use such words but "it's kind of obvious," she said. "I've never had anybody say anything blatant."

Joelle Emerson, founder and chief executive of Paradigm, a consulting firm focused on inclusion, works with business leaders on diversity issues and has never encountered an executive who used the slur in a meeting. She said termination is the right outcome for an executive who crosses that line. "When a white leader uses that word in the corporate setting I don't think there are two options about how to handle it," she said.

After Papa John's sought Mr. Schnatter's resignation last week, and he agreed, he came to feel that he had acted rashly out of embarrassment about how the situation was construed, and now regrets the decision, according to people familiar with his thinking. These people said he also regrets stepping down as CEO in December following the NFL controversy.

Mr. Schnatter, who has

hired Los Angeles trial attorney Patricia Glaser to help him with the current controversy, has drawn criticism in other situations, including in 2012 when he said that providing health insurance to employees under the Affordable Care Act would result in costlier pizza.

The company has struggled recently, posting a 4.9% decline in first-quarter total revenue, and the damage from the latest controversy has led it to work on regaining trust with consumers.

Everything from a possible sale to a rebranding of the company is on the table, according to people familiar with the matter.

In a letter that Papa John's Chief Executive Steve Ritchie addressed to customers last week, he said the company is appointing an outside expert to audit the company's policies and procedures related to diversity and inclusion. "Racism and any insensitive language, no matter what the context simply cannot—and will not—be tolerated at any level of our company," he said.

—Rachel Feintzeig contributed to this article.

Laundry Service declined to comment.

Some people who consult on corporate diversity programs were unsympathetic to Mr. Schnatter's contentions. While more companies are having frank conversations about race in the workplace,

there are limits to how far the candid talk can go, these people say.

Alexis McGill Johnson, who recently helped design anti-bias training for tens of thousands of Starbucks Corp. employees, said she has never had anybody use the N-word

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## WORLD NEWS

# Tariff Threat Gets Closer to Consumers

*After imposing import levies on steel, aluminum and solar panels, the Trump administration is weighing a new round of tariffs on imports from China that would affect U.S. customers more directly, targeting goods such as fish, tech components and furniture*

The White House last week said it was weighing imposing tariffs on a further \$200 billion in Chinese products, a move that could expose \$250 billion of Chinese goods to U.S. import duties. President Donald Trump has said he is ready to assess tariffs on yet another \$200 billion in merchandise—or nearly all the \$505 billion in exports China sends to the U.S.

While some businesses have supported the tariffs, many have said they would hurt their profits or lead to higher prices for customers. The White House says China represents a fundamental threat to the U.S. that needs to be countered, even at the cost of pain to the U.S. economy.

The Trump administration sees the latest round of tariffs as necessary to protect vital U.S. industries from Chinese competitors who it says are sheltered by Beijing's protectionist policies. It has also decried China's habit of flooding world markets with goods—often made by state-owned enterprises—while erecting barriers to foreign competition at home, and forcing some businesses seeking access to the Chinese market to form local joint ventures and hand over technology as a condition to entry.

Here is a look at how U.S. businesses might be affected by the proposed levies:

## Switches and routers

The proposed tariffs target switches and routers, finished products that are used to set up wired and wireless networks. Those products are key infrastructure in new technology, said Cinnamon Rogers, senior vice president of government affairs at the Telecommunications Industry Association, an industry trade group. The tariffs put the U.S. at a competitive disadvantage to China by making it more costly for U.S. firms to develop cloud services that require network connectivity, Ms. Rogers said. Cisco Systems Inc., among the biggest makers of switching and routing gear, didn't respond to questions about the impact of the potential tariffs.

—*Jay Greene*

## Device parts

The growing list of tech products targeted for levies—some already tarifed, others proposed—includes many of the mundane components in modern gadgets. These items include disk drives used in servers and storage devices, as well as printer and copier components—parts most people generally wouldn't buy on their own.

But these device parts go into making products such as remote controls and automated teller machines. Tariffs on some items, such as printed-circuit assemblies, could boost the cost of consumer-electronics repairs. The list of tariffs proposed July 10 adds to the collection of parts that would be affected, including such components as television antennas.

—*Jay Greene*

## Furniture

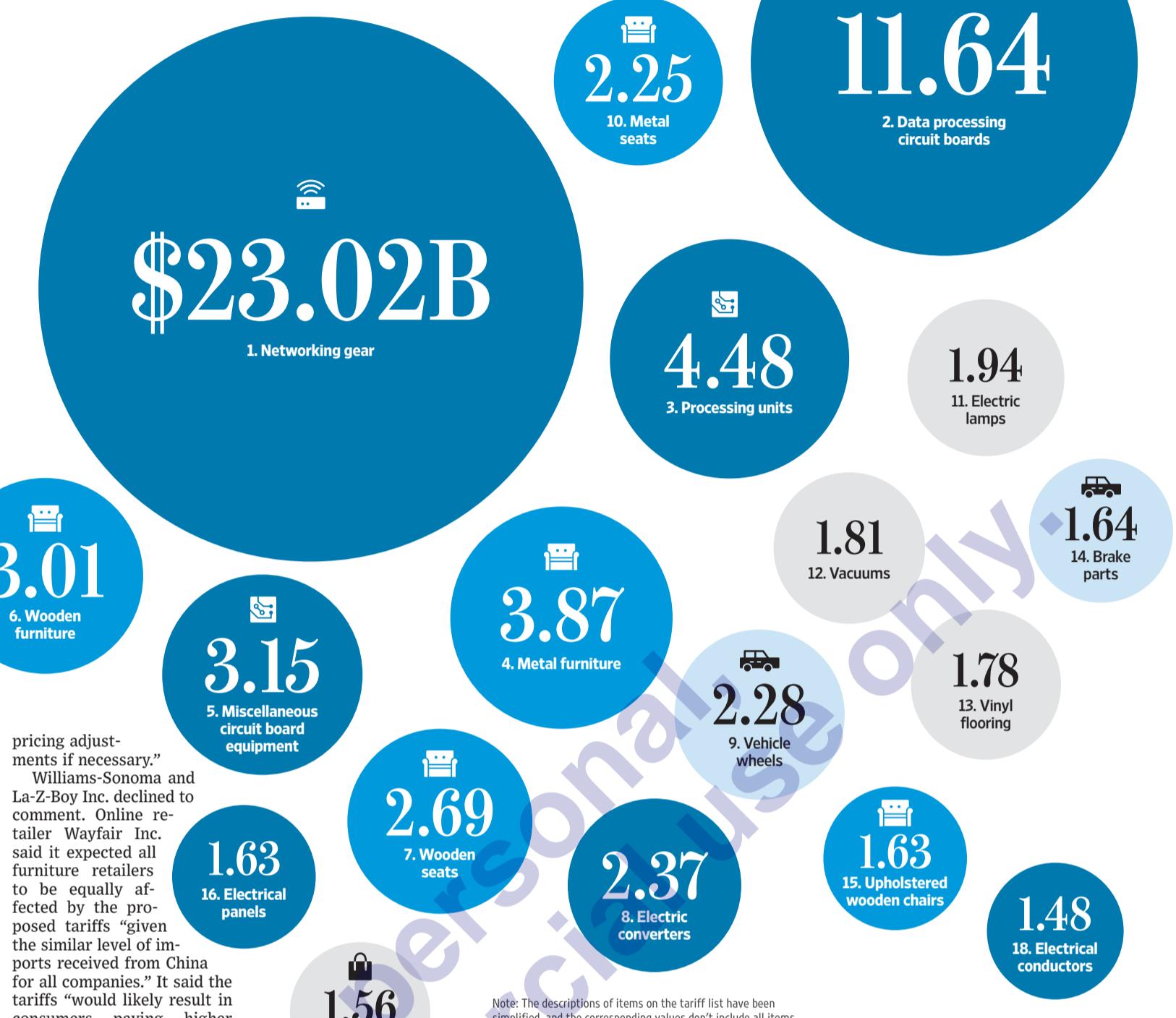
The tariffs target a broad swath of items, from swivel chairs to bamboo seats to convertible beds. The American Home Furnishings Alliance, which represents furniture manufacturers, estimates the products on the list could affect more than 500 parts or finished products sold by its members.

Furniture retailer RH said 35% of its products are sourced from China—a significant portion of which would be affected by the proposed tariffs—but noted it was "well positioned to make

## Top of the List

Out of the more than 6,000 Chinese products on the latest U.S. tariff list, the top 20 accounted for over \$75 billion in U.S. imports last year—or more than a third of the total import value of all targeted items.

■ Electrical ■ Furniture ■ Automotive ■ Other



Note: The descriptions of items on the tariff list have been simplified, and the corresponding values don't include all items within those descriptions.

Sources: trademap.org; International Trade Center

Kara Dapena/THE WALL STREET JOURNAL.

## Cars and car parts

The proposed tariffs would target dozens of auto products, including everything from struts and parts for gearboxes to brake pads and windshield glass. A levy on imported components, if imposed, would likely inflate costs for both manufacturers purchasing these parts to put in factory-assembled vehicles, as well as car owners who need replacement parts, such as windshield wiper blades.

—*Chester Dawson*

## Handbags

The proposed tariffs target handbags, but the companies with the biggest exposure don't include big U.S. brands such as Coach, Kate

Spade and Michael Kors. Those brands produce mainly leather handbags, and

leather bags account for only about 27% of U.S. imports of Chinese-made handbags, according to global trade data tracker Panjiva Inc.

Coach and Kate Spade, both owned by Tapestry Inc., have been moving production away from China amid rising labor costs.

The larger chunk of Chinese handbag imports are made of plastic. These non-leather bags account for 54%

of all handbag imports, or \$540 million worth of products, according to Panjiva. Those bags are largely sold in mass merchants under brands that aren't household names.

—*Suzanne Kapner*

## Mattresses

Chinese-made mattresses would be subject to tariffs, according to the latest list of proposed levies. The U.S. imported \$1 billion worth of mattresses in the 12 months ended May 31, and about \$850 million of that was imported from China, according to Panjiva.

But many of the big mattress brands are produced domestically.

Tempur Sealy International Inc., the biggest U.S. manufacturer, says the mattresses it sells in the U.S. are made in the U.S. It has more than 20 manufacturing sites in North America.

Even upstart online sellers such as Casper and Leesa, which have been challenging incumbents and traditional stores, tout that their products are made in the U.S.

—*Patrick Thomas*

## Seafood

The latest tariffs would put duties on dozens of varieties of seafood including

tilapia, salmon, cod and tuna.

Some lawmakers and seafood groups had also sought the inclusion of Chinese crawfish, shrimp and other sea

food on a list of products tar-

getted for tariffs, saying

Chinese companies have for

years dumped substandard

products onto the U.S. mar-

ket to the detriment of local

industries and U.S. consum-

ers.

The U.S. imported \$2.7 bil-

lion worth of fish and sea-

food from China last year,

according to federal data.

Food manufacturers could have to pay

more for many varieties com-

monly sold in U.S. supermar-

kets and restaurants, and con-

sumers might see increased

prices as well, said John Con-

nnelly, president of the Na-

tional Fisheries Institute trade

group. Mr. Connolly said U.S.

seafood producers are also

contending with China's reta-

latory tariffs on products that

include Maine lobsters,

squid from New Jer-

sey and California,

and cod, pollock

and salmon from

Alaska, raising

concerns about lost

sales.

—*Heather Haddon*

and *Jesse Newman*

## Home improvement

Plywood, carpets and tools are on the latest list of pro-

posed tariffs. Large U.S.

home improvement retailers

don't import much of the

lumber and carpet products

they sell, said executives fa-

miliar with the industry.

Other items like grills, patio

furniture, tools and hardware

are often imported, they said.

The U.S. imported about

\$1.7 billion in tools and metal

products from China, or

about 40% of total tool im-

ports in the 12 months ended

in May, according to data

from Panjiva.

After the latest tariff list

was released, retailers

scrambled to assess their

ability to raise prices or ab-

sorb the cost by reducing

margins, one executive at a

large retailer said.

"If prices are passed

through we'll do our best to

find offsets and minimize the

impact to consumers," a

spokesman for Home Depot

said.

—*Sarah Nassauer*

## Chemicals

U.S. chemicals makers ar-

gue the proposed tariffs could

make raw materials more ex-

pensive while threatening ac-

cess to a key export market.

China has emerged as one of

the top global suppliers of ba-

sic chemicals, and the U.S. last

week outlined potential tarif-

s on a wide swath of Chinese-

made products, from pesti-

cides to photographic devel-

oper. Those tariffs would

increase costs for U.S. firms

that rely on imports of Chinese chemi-

cals to create more complex products in the U.S., said Ed

Brzytwa, international trade director for the American Chemistry Council.

That could mean higher costs for farmers and consumers.

—*Jacob Bunge*

## Semiconductors

Semiconductors and re-

lated products are among the

tech goods hardest hit by ex-

isting levies on \$34 billion of

Chinese exports of machin-

ery, components and elec-

tronics.

Those duties targeted China's young chip industry, a segment Beijing wants to emerge as a global power. But the tariffs also sting some U.S. chip makers that participate in the complex supply chain in which manufacturing often starts in the U.S., before products are shipped to China for assembly, testing and packag-

ing, and then shipped back to the U.S.

Intel Corp. and Qualcomm Inc. declined to comment.

—*Jay Greene*

## Mobile phones

The tariffs—both in effect and proposed—include some mobile-phone components, such as semiconductors and circuit boards. Mobile phones themselves aren't targeted. Finished devices made in China such as iPhones, for example, aren't among the products cur-

rently facing U.S. tariffs. U.S. consumers might not com-

## WORLD NEWS

# Japan and EU Sign Trade Agreement

BY ALASTAIR GALE  
AND EMRE PEKER

TOKYO—The leaders of Japan and the European Union signed a deal to create one of the world's largest liberalized trade zones, a contrast to escalating trade disputes between the U.S. and several of its trading partners.

While the signing in Tokyo on Tuesday was largely ceremonial, it marked a rare moment of unity on trade. In recent months, President Donald Trump has launched an array of punitive tariffs on products from China and elsewhere, stating such action is needed to correct the unfair trade advantages of other nations.

The EU and Japan's answer to Mr. Trump's trade policies has been the biggest trade deal struck by Brussels. It will eliminate some €1 billion (\$1.17 billion) in tariffs annually for European companies and twice that amount for Japanese exporters to the 28-member bloc, according to EU officials.

"We are sending a clear message that we stand together against protectionism," European Council President Donald Tusk said at a press conference with Japanese Prime Minister Shinzo Abe and European Commission President Jean-Claude Juncker.

The Japan-EU deal eliminates most bilateral tariffs, creating more favorable terms for Japanese autos sold in the EU and for European wine and dairy products sold in Japan. The EU and Japan together account for around 30% of global economic output.

The signing ceremony for the deal came on the heels of the two European leaders' trade discussions with Chinese officials a day earlier in Beijing.

While U.S. allies and rivals draw closer to countering Mr. Trump's policies, Washington filed claims on Monday at the World Trade Organization against China, the EU and others challenging retaliatory tariffs imposed on the U.S.

The EU launched a trade offensive as Mr. Trump took office, seeking to counterbalance his "America First" trade policies by accelerating ongoing talks and commencing new negotiations. Japan and Mexico topped the list for Brussels.

Tokyo and Brussels' scramble paid off quickly, with EU and Japan's leaders clinching an agreement in July 2017, sending a strong signal in support of global free-trade. In September, the EU and Canada's landmark trade pact provisionally entered into force. And in April, Mexico and the EU shook on a deal to update an existing accord by expanding its scope.

Meanwhile, the EU restarted long-stalled talks with Latin America's biggest trading bloc—Mercosur, including Argentina, Brazil, Paraguay and Uruguay—in an effort to become the first outside party to gain access to the carefully guarded market. Last month, the EU initiated official talks with Australia and New Zealand in its latest push to expand global trade links.

Both the EU and Japan were hit when the U.S. recently imposed tariffs of 10% on aluminum imports and 25% on steel imports, the opening salvo in the U.S.'s trade offensive.

# Metals Levies Unlikely to Shift Trade Flows

By KIM MACKRAEL

LAKESHORE, Ontario—Across the border from the U.S. auto capital of Detroit, a Canadian company here buys aluminum made at smelters in Quebec using bauxite from Africa or Brazil that Ford Motor Co. puts in America's best-selling pickup, the F-150.

The tightly woven production chain illustrates the U.S. dependence on aluminum from Canada that many say is unlikely to change despite recent metals tariffs the Trump administration hopes will boost the American metals sector.

"The reality is there's not enough aluminum made here," said Eric Krepps, who runs the North American automotive business at Constellium NV, a Dutch aluminum company. "We could not source everything out of the U.S. even if we wanted to."

Instead, the 10% tariffs are already adding costs right down the supply chain—directly through the duty paid at the border and indirectly through higher aluminum prices, delays and added bureaucracy, manufacturers say. Tariffs have contributed to a doubling in the premium paid for North American aluminum since January.

Analysts and some car companies say the higher aluminum prices will likely be passed on to American car buyers rather than absorbed entirely by companies.

Canadian-made aluminum is used for hundreds of different U.S. auto parts. The U.S. tariff on the metal, first imposed alongside steel tariffs in March, was extended to include Canada, the European Union and Mexico at the beginning of June.

On Monday, the office of the U.S. Trade Representative launched disputes at the World Trade Organization against Canada and others, challenging retaliatory tariffs they recently imposed.

The Trump administration used national security grounds to justify the metals tariffs. Canadian officials, citing historically close cooperation on



A worker at aluminum company Constellium in Van Buren, Mich. Below, Can Art, an automotive-parts supplier in Ontario.

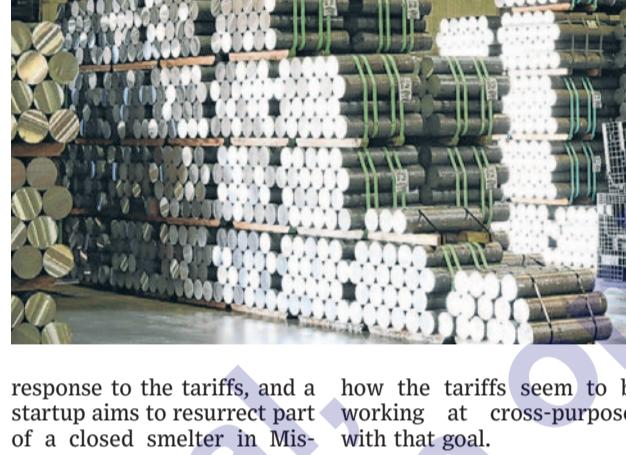
security and defense, have called that "insulting" and "absurd." The administration is again citing national security as it considers imposing new tariffs on cars and auto-parts imports. That would further complicate supply chains for U.S. auto makers.

In recent decades, Canada has become the key producer of aluminum for the U.S. because hydroelectric power in Quebec makes it relatively cheap to run energy-intensive aluminum smelters.

The U.S. produces just 13% of the 5.6 million metric tons of raw aluminum it uses each year.

U.S. aluminum smelters are among the costliest and oldest in the world—above \$2,000 per metric ton and 47 years on average, according to market consultant Harbor Aluminum in Texas. Canada's smelters, an average of 26 years old, make the metal for about \$1,500 a ton.

One U.S. company, Century Aluminum Co., said it plans to restart three production lines at a Kentucky-based smelter in



response to the tariffs, and a startup aims to resurrect part of a closed smelter in Missouri. Together they amount to just a 25% rise in available production capacity in the U.S.

But even if all dormant smelters were revived and domestic production more than doubled, it would only account for less than half of U.S. demand, the U.S.-based Aluminum Association says.

President Donald Trump has pledged to eliminate red tape for businesses. But Constellium's experience shows

durability test needed for the F-150 rockers, Constellium said. One U.S. supplier has tried unsuccessfully for four years to pass the test, Constellium said.

As the seller, Can Art is responsible for paying the 10% tariff when shipments of F-150 rockers cross the border. Constellium pays more for the aluminum it buys from Can Art because of higher raw aluminum prices, but can pass that cost along to its customers.

"Ultimately, it will get passed on to customer and consumer," said Constellium CEO Jean-Marc Germain.

A Ford spokeswoman said the company doesn't discuss specific supply deals but would work with suppliers on issues that might affect cost.

Other car manufacturers have been more blunt in their assessment of the tariffs. Toyota's chief executive of North America in March called steel and aluminum tariffs a "tax on the U.S. consumer."

The beams, called rockers, help protect the cab of a truck by absorbing energy in the event of a collision. Can Art is the sole supplier that passed a

## U.S. Expects China to Buy More Iranian Oil

By SARAH McFARLANE  
AND BENOIT FAUCON

There is one big hitch in U.S. plans to stem buying of Iranian oil: China.

Some in Washington now expect China to vacuum up much of the Iranian oil that other nations won't buy under the threat of U.S. sanctions, according to a senior U.S. government energy official.

China buying extra Iranian oil could dull the economic impact of those sanctions. It could also bring Iran closer to China at a time of elevated tensions between Washington and Beijing over trade.

In May, President Donald Trump pulled the U.S. out of the 2015 Iran nuclear deal and vowed to reimpose sanctions on Tehran.

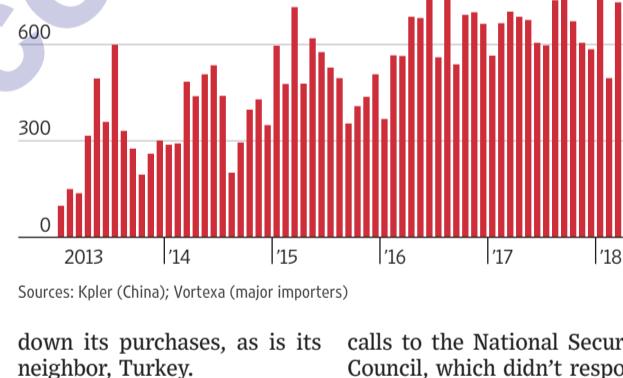
Oil prices rose sharply in response. If China does take spare Iranian crude, traders say, that could add to pressure currently pushing crude lower.

In anticipation of sanctions, foreign oil companies are exiting Iran and international banks have declined to finance oil trades. While the European Union doesn't back renewed sanctions, Greece is winding

### Reliable Customer

China is the world's largest buyer of Iranian oil, and its imports are widely expected to continue rising even in the face of U.S. sanctions on Iran.

#### China's imports of crude oil from Iran, thousands of barrels a day



down its purchases, as is its neighbor, Turkey.

But China, the largest buyer of Iranian oil, is gearing up to take more, said the senior official. Tehran is in negotiations with Chinese companies to ensure that, according to an Iranian oil official involved in those talks.

"We don't have any problem selling our oil" to China, the Iranian official said.

The White House referred

calls to the National Security Council, which didn't respond to emails seeking comment.

China's Foreign Ministry and its two biggest oil companies, China National Petroleum Corp. and China Petrochemical Corp., didn't respond to requests to comment. In the past Beijing has decried the U.S.'s resort to unilateral "long-arm" sanctions in international dealings.

Having initially indicated a

#### Average monthly imports of crude oil from Iran, barrels a day

Major importers, June 2017-June 2018

Importer	Imports (barrels a day)
China	677,211
India	486,225
S. Korea	305,971
Turkey	185,763
Italy	173,871
Japan	155,706
Spain	115,834
France	106,924

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said it would pursue Chinese companies with U.S. connections if they violate Iran sanctions.

"It is our intent to enforce sanctions on Iran-related oil against everybody including China," U.S. Treasury Secretary Steven Mnuchin told the House Financial Services Committee last week.

To be sure, not everyone in the Trump administration believes China will increase Iranian imports, said a former U.S. official briefed by current members of the administration.

Lower demand because of sanctions will make Iranian oil cheap at a time when two of China's other traditional suppliers, Libya and Venezuela, are struggling. China's rising needs could allow it to buy more oil from Iran without moving away from other suppliers, such as Saudi Arabia. The world's No. 2 economy is expected to need an extra 500,000 barrels a day in 2018 and 400,000 barrels a day in 2019, according to the International Energy Agency's latest monthly report.

China has made clear it doesn't support Mr. Trump's resumption of sanctions.

But Washington has also

## WORLD WATCH



IBRAHEEM ABU MUSTAFA/REUTERS

Palestinians line up for gasoline in the southern Gaza Strip after Israel stopped the transfer of fuel and cooking gas into the area.

accused Russia of degrading treatment toward the political activists Pussy Riot, who captured the world's attention again this week after storming the field during the soccer World Cup final in Moscow.

The rulings highlight President Vladimir Putin's weak human-rights record at a time when he is attempting to improve relations with the West.

"These are both extremely important rulings that confirm...that there are serious problems with freedom of expression and accountability for crimes in Russia," said Rachel Denber, deputy program director for Europe and Central Asia at nonprofit Human Rights Watch.

Ms. Politkovskaya, who worked for local newspaper Novaya Gazeta, had the highest international profile of the 36 journalists killed during the two decades of

Mr. Putin's government, according to the Committee to Protect Journalists. She was shot dead outside the elevator of her apartment building in 2006.

The European judges ruled

that while Russian authorities have eventually found and convicted Ms. Politkovskaya's assassins, they made no effort to find out who ordered the killing.

—Anatoly Kurmanov

### ISRAEL

#### Military Restricts Fuel Entering Gaza

Israel placed new restrictions on its only cargo crossing with the Gaza Strip in response to Hamas hostilities carried out after it agreed to a cease-fire that ended 24 hours of fighting.

Defense Minister Avigdor Lieberman said Israel will stop transferring gas and other fuel through the Kerem Shalom crossing until Sunday but will allow food and essential medication to cross. Commercial cargo was suspended last week.

After Hamas, Gaza's militant rulers, agreed to a cease-fire Saturday, incendiary kites and balloons floated from Gaza set off fires to farmlands.

—Associated Press

### LIBYA

#### Migrants Left to Die in Boat, Group Says

A migrant aid group accused Libya's coast guard of abandoning three people in the Mediterranean Sea, including a woman and a toddler who died, after intercepting 160 Europe-bound migrants near the shores of the North African nation.

Proactiva Open Arms, a Spanish rescue group, said it found one woman alive Tuesday and another dead, along with the body of a toddler, amid the drifting remains of a destroyed migrant boat 80 nautical miles from the Libyan coast.

A Libyan Coast Guard spokesman said the migrants were taken to a refugee camp in Khoms.

—Associated Press

### RUSSIA

#### Moscow Criticized in Reporter Death Probe

The European Court of Human Rights ruled that Russia failed to properly investigate the murder of investigative journalist Anna Politkovskaya, whose stories exposed the corruption and brutality of security forces in the breakaway Russian region of Chechnya.

In a 5-2 ruling Tuesday, the judges sided with Ms. Politkovskaya's relatives in accusing the Russian government of bungling the investigation and thereby violating the European Convention of Human Rights, of which Russia is a signatory. The court awarded the relatives €20,000 (\$23,400) in damages.

In a separate ruling, the court

## IN DEPTH

# 'Fairy Houses' Get Stomped

*Continued from Page One*  
ages the island's private nature reserve off the coast of Maine.

The fairy house wasn't up to code.

Monhegan and a growing number of other environmentally conscious locales are fighting the scourge of fairy gardens, miniature habitats built by children and young-at-heart adults to attract tiny mythical creatures.

Typically they include a pint-size house with a path leading to its entrance and surrounded with small plants. The houses can range from rustic lean-tos handmade from twigs, bark and pebbles to store-bought plastic castles accompanied by LED lights, artificial plants, colorful glass

beads and a family of fairy figurines.

On Monhegan, it is easy to run afoul of the regulations, which forbid picking living plants or using anything brought from the shore. No items are to be used "from your pockets," including coins, food and anything plastic.

It is also easy to run afoul of Ms. Durst, a retired computer consultant who, like several other like-minded vigilantes, calls herself a "stomper" and has crushed many a fairy house over the years.

"Some of them are terrible, they have pennies and pieces of plastic and are too obviously placed," she says. "The good ones are made from natural materials and almost hidden."

Last fall, Tinker Nature Park in Henrietta, N.Y., posted signs listing its fairy-trail rules, including "glitter is litter to the animals," and "stay on the trail, you don't want to step on a fairy or get poison ivy."

Its fairy trail started four

years ago when a local artist asked if she could install some of her fairy houses in the wooded area inside the 68-acre park, named for the Tinker family that lived on the property for six generations, not the famous fairy in Peter Pan.

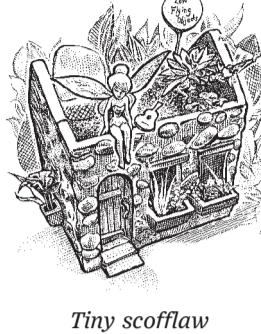
A portion of a trail near the park's playground was designated for the artist's 30 or so fairy houses. "I really didn't think there was an interest in this, but then it took on a life of its own," says Tim Pratt, education and programming director for Tinker Nature Park. "People drive hours to see this and I don't get it, to be honest with you."

Visitors started erecting their own fairy houses in the woods and embellishing existing ones, leaving behind plastic houses and fairies, toy cars, small soldier and wrestler figures, glass beads and lots of glitter (the favored imitation of fairy dust), which Mr. Pratt would scoop up with his hands each morning.

Hikers started wandering

off the path to get a closer look at the fairy houses, encountering poison ivy and compacting the soil.

"People not paying attention could crush some jack-in-the-pulpit and mayapple, and



Tiny scofflaw

we have lots of ferns and spring wildflowers on the forest floor," says Mr. Pratt, who soon moved the houses closer to the trail to keep visitors near it.

He also worried about the impact it would have on the animals, which include deer, fox, owls, woodpeckers, migratory songbirds and eight spe-

cies of frogs. "If the wildlife is picking something up they're getting glitter along with it, ingesting metal," he says. "Also, it's unsightly."

The regulatory red tape is having an effect on miniature gardeners. When Tracy Kane teaches children how to make fairy gardens, she emphasizes two rules: Use only natural materials if you're making one outside of your backyard. And don't disrupt plants that are still growing.

"We have to get kids outside, and here is a wonderful way to do it," says Ms. Kane, an author and illustrator of books about fairy houses who lives in Biddeford, Maine. "But I understand that some places can get overrun."

Julie Cole, on the other hand, is something of a scofflaw. She oversees a 5,564-member fairy-garden discussion group on Facebook, sells fairy furniture online and teaches fairy-gardening classes near her home in Jefferson, Ohio. "It's a true taste of serendipity to be along a

trail and see a little fairy door on a tree," says Ms. Cole. "I can't imagine anyone not liking that, but there's always someone."

In her classes, Ms. Cole urges students to scour garage sales for items that could be repurposed into a fairy-garden container, like old baskets or wheelbarrows. "The No. 1 rule is there is no fairy-garden police, so do what pleases you, not someone else," she says, including using artificial plants.

Michaels Cos., a crafts retailer, has been increasing its fairy-garden merchandise each year since 2012. "It's more than a trend, it's becoming a movement," says Idalia Farrajota, Michaels' senior vice president of merchandising and trend, who says fairy gardens are enjoyed by children, teens and adults seeking escapism.

"This is about not being on your phone," she says. "It's making things with your hands and feelings and creating something personal."

Mr. Solomon has wasted no time rethinking some of the firm's oldest traditions.

Big companies including JP Morgan and Walmart Inc. hold annual "investor days," where shareholders and analysts get updates and meet with executives. Goldman never has. Mr. Solomon has asked executives to plan one, possibly as soon as next year, people familiar with the matter said.

Goldman's division heads typically prepare annual budgets. Mr. Solomon wants three years of revenue and cost projections, hiring plans and client coverage initiatives, according to people familiar with the matter.

He is also discussing changes to Goldman's powerful management committee, according to people briefed on the matter. The group meets weekly on Monday mornings and is a carry-over from Goldman's days as a private firm, when a small group of partners set firm strategy.

Over the past decade it has swelled from fewer than a dozen executives, each running a major business line, to more than 30. About one-third of its members don't oversee a revenue-producing unit or region, and critics say Mr. Blankfein has used committee seats more to soothe egos and send signals to underlings and regulators than to run the firm's day-to-day affairs.

A Goldman spokesman declined to make Mr. Blankfein available for comment.

Mr. Solomon has discussed paring the committee or creating a smaller group of top managers that would meet separately, people familiar with the matter said. Executives from nonrevenue divisions such as human resources and legal might be shifted to a broader, less-powerful operating committee.

That would echo a move Mr. Solomon made while running the investment-banking division. Frustrated its leadership was too big and lumbering, he created a smaller brain trust of top executives, a move that bruised some egos but sped up decision-making.

**'Everything's on the table,' Mr. Solomon has lately told top executives.**

And as discussions get under way about the selection of the 2018 partner class, Mr. Solomon has advocated for a smaller one—almost certainly under 100—with a higher allotment of bankers, traders and other revenue-generating employees and fewer slots for functions including compliance and operations, according to people familiar with the discussions.

Mr. Solomon has taken up diversity as an issue, particularly the lack of women in senior roles at Goldman. The incoming class of college graduates that will join Goldman this fall is 48% women, and the firm has set a goal of parity by 2021.

"We're at a point in time where 'enough already,' he told PayPal CEO Dan Schulman in a video chat last month. "I have trouble talking to my daughters about this and explaining why, for so long, we haven't made more progress on this front."



Goldman Sachs' next CEO, David Solomon, performed as a disc jockey under the stage name D-Sol in New York City earlier this year.

## Bumpy Ride

Goldman's market capitalization remains near what it was more than a decade ago. It is searching for new areas of profit.

### Goldman Sachs market value



Sources: FactSet

He played social planner to a group of college friends, organizing ski trips to Vermont and summer rentals in the Hamptons, where roommates would wake up to find him mowing the lawn.

After stints at Salomon Brothers and Bear Stearns, he joined Goldman as a partner—it is unusual for an outsider to join at that rank—and set about building a junk-bond business. He then ran its investment-banking division for a decade, turning it from a loose collection of fiefs into a professionalized force that is the largest on Wall Street by revenue.

Mr. Solomon had a strict policy of giving zero bonuses to the bottom 5% of employees and aggressively clawed back stock from bankers who left Goldman to start their own firms. He helped build a corporate lending and debt-underwriting business—a risky area

that Goldman, notoriously tightfisted on loans, had avoided in the past—that generated record revenues last year.

In 2012, he took over the planning of a West Coast conference aimed at entrepreneurs that Goldman hoped could strengthen its ties to promising startups.

### 'Like a general'

Will McDonough, then a Goldman vice president, described an early planning call. "David swoops in like a general, barking orders, assigning responsibilities," said Mr. McDonough, who is now CEO of a blockchain business. "He saw the idea had legs and brought this intense discipline to it. I remember being taken aback, but it worked."

Today the Builders + Innovators Summit is a must-attend for startup founders and

venture capitalists and has become a significant feeder for Goldman's investment-banking business.

Off duty, Mr. Solomon skis Aspen bowls and kite-surfs and spins records in Baker's Bay, the Bahamas enclave where he has a home. Under the stage name D-Sol, he recently released his first single, a remix of the Fleetwood Mac song "Don't Stop," on the streaming service Spotify. His third New York restaurant, Legacy Records, recently opened on Manhattan's West side.

"A perpetual motion machine," said longtime friend and Hilton Worldwide Holdings Inc. Chief Executive Christopher Nassetta.

Mr. Blankfein leaves Goldman on firmer footing than he found it, though it took a near-death experience to get there. Goldman was at the forefront of the derivatives-trading boom that sowed the seeds of

the financial crisis, and emerged browbeaten but intact, having avoided the billion-dollar losses that hit rivals.

Its relative fortunes earned it a political lashing and cast Mr. Blankfein as a central villain of the meltdown, an image he spent years trying to shed.

He grew a beard and joined Twitter. Goldman has spent millions of dollars sponsoring female entrepreneurs and small businesses, in part aiming to rehabilitate its image and gain goodwill in Washington.

Mr. Solomon wasn't the obvious choice to succeed Mr. Blankfein. Goldman insiders gave the edge to Mr. Schwartz, who had followed in Mr. Blankfein's footsteps through the firm's trading arm and spent four years as its chief financial officer, learning the businesses and dealing with investors and regulators. Throughout much of the 15 months they competed for the top job, Mr. Solomon told associates he believed it was Mr. Schwartz's to lose.

### Powerful symbol

Mr. Solomon had previously considered leaving Goldman, but turned down a chance to run Sheldon Adelson's casino empire in 2014, and later pursued a top job at private-equity firm TPG.

His patience paid off with one of the most coveted jobs in finance. Despite Goldman's challenges, it remains a powerful symbol on Wall Street, and the men who have run it—the firm has never had a female CEO—are often looked to as a senior voice in the industry.



Longtime Goldman CEO Lloyd Blankfein testified before a Senate hearing on the financial crisis.

CHARLES DHARAKIAN/ASSOCIATED PRESS

# GREATER NEW YORK

## Former GOP Leader Is Convicted

Dean Skelos was found guilty of public corruption crimes, including bribery

BY CORINNE RAMEY

Former New York Senate Majority Leader Dean Skelos was convicted Tuesday of public corruption crimes after a retrial in which the onetime powerful state lawmaker took the stand in his own defense.

A federal jury in Manhattan found Mr. Skelos's 36-year-old son, Adam, who also was on trial, guilty of all counts as well.

Mr. Skelos, a Nassau County Republican, and his son were on trial for a second time. In 2015, a different jury found Mr. Skelos guilty of all eight criminal counts, including bribery and extortion.

A federal appeals court vacated his conviction last year after a U.S. Supreme Court ruling narrowed the definition



Dean Skelos left a federal courthouse in Manhattan on Tuesday.

of some public-corruption crimes.

In 2016, U.S. District Judge Kimba Wood, who also presided over the second trial, sentenced Mr. Skelos to five years in prison.

On Tuesday, Judge Wood

set the Skeloses' sentencing for October.

After the verdict Tuesday, federal prosecutors referenced other recent guilty verdicts in corruption trials of state officials.

"Yet again, a New York jury

heard a sordid tale of bribery, extortion, and the abuse of power by a powerful public official of this State," Robert Khuzami, Manhattan's deputy U.S. attorney, said in a statement. "And yet again, a jury responded with a unanimous verdict of guilt, in this case of Dean Skelos and his son Adam—sending the resounding message that political corruption will not be tolerated."

A lawyer for Dean Skelos didn't respond to a request for comment.

John J. Kenney, who represents Adam Skelos, said in a statement: "We respect the criminal process but are severely disappointed in today's verdict."

During the retrial, federal prosecutors argued that Mr. Skelos had won jobs and payments for his son by threatening companies that relied on the state for legislation, contracts and other benefits.

Mr. Skelos claimed he had asked longtime friends for favors only to help his troubled

son.

The retrial was, in many ways, a repeat of his first, with one major exception: Mr. Skelos chose to testify on his own behalf, a decision considered unusual and risky.

"I've asked many people to help Adam," Mr. Skelos told the jury, at times choking up while discussing his son's substance-abuse and behavior problems.

Mr. Skelos, 70 years old, was once one of the state's most powerful lawmakers. His indictment and subsequent conviction were considered victories for former Manhattan U.S. Attorney Preet Bharara, who had pledged to root out corruption in Albany.

Another powerful former state lawmaker, Sheldon Silver, was convicted by a federal jury in Manhattan in May after a similar retrial.

Mr. Silver, a Manhattan Democrat and former longtime speaker of New York's Assembly, is scheduled to be sentenced later this month.

## States File Suit Over Tax Overhaul

BY JOSEPH DE AVILA

A coalition of states led by New York sued the federal government Tuesday, alleging that last year's tax overhaul was politically motivated and designed to interfere with the rights of states to manage their finances.

New Jersey, Connecticut and Maryland joined New York in the federal lawsuit filed in U.S. District Court in Manhattan. The lawsuit takes aim at a part of the new tax law limiting federal tax deductions for state and local taxes to \$10,000.

The plaintiffs said the new law raises the federal tax liability of millions of taxpayers in those states, making it more difficult for the states to maintain their taxation policies. The tax law also seeks to force the states to slash public spending, the plaintiffs said.

"It was a political attempt to hurt Democratic states," Democratic New York Gov. Andrew Cuomo said in a conference call with reporters.

In 2015, the states with the highest percentage of tax filers who claimed deductions for state and local taxes above \$10,000 were blue states, according to the Pew Charitable Trusts.

A spokesman for the Internal Revenue Service said the agency doesn't comment on pending litigation. The Treasury Department said it is reviewing the complaint.

The states are asking the courts to declare the limit on federal deductions for state and local taxes unconstitutional. They also want the courts to enjoin the Trump administration from enforcing the cap.

The conservative-leaning Tax Foundation said the courts are unlikely to declare that capping federal tax deductions for state and local taxes is unconstitutional. "The concern that high state taxes might harm the competitiveness or attractiveness of a state like New York or Connecticut is a valid one, but the solution lies with revisiting those state tax rates rather than meritless litigation," Joseph Bishop-Henchman, executive vice president of the Tax Foundation, wrote in an analysis of the litigation.

Connecticut Gov. Dannel Malloy, a Democrat, said taxpayers in his state would lose \$10.3 billion in state and local tax deductions. Most Connecticut residents, however, will get a tax cut this year, according to the Tax Policy Center, a research group run by a former Obama administration official.

About 8.4% of Connecticut households will pay more in 2018 than they would have under the old law, compared with 6.3% nationally. In New York, 8.3% will pay more, according to the Tax Policy Center. In New Jersey it is 10.2%, and in Maryland, 9.4%.



Jie Zhang left the top job at Stuyvesant two years ago to lead New York Military Academy.

## Ex-Stuyvesant Principal Questions Changes

BY LESLIE BRODY

right way," she said, "you don't kill the current method."

Mayor Bill de Blasio called on state lawmakers last month to require a mix of course grades and state test scores to pick the top 7% of eighth-graders from each middle school citywide, in an effort to better integrate institutions that are now predominantly Asian.

Black and Latino students make up about 10% of the specialized high schools' enrollment, but 67% of the school system overall, according to city data.

City Department of Education officials say that students at the top of their middle schools have similar academic backgrounds to students who get offers now through the Specialized High School Admissions Test. The average state test score of a student in the top 7% of his or her school is 3.9, while that average for

students who received a specialized high school offer this year is 4.1, on a scale of 1 to 4.5, the department says.

Stuyvesant is known to be a competitive pressure cooker. Ms. Zhang, who also was a Stuyvesant parent, said that

**10%**

Portion of specialized high-school pupils who are black or Latino.

during her four years as principal, she had to call 911 emergency responders several times to help students suffering from breakdowns and expressing suicidal thoughts.

"My guidance department was very, very, very busy with

kids in huge need of social-emotional support because of the stress," she said. "If you actually send students who are going to have trouble doing the work, we may end up hurting the kids."

Current principals of the eight high schools haven't said much, if anything, publicly about the proposed overhaul.

Six didn't respond to emails and calls seeking comment. Two referred such requests to the city's Department of Education. The mayor's June 3 news release announcing his admissions plan highlighted 20 supportive comments from politicians, integration advocates and others, but didn't have any from the affected schools' principals.

Will Mantell, a department spokesman, said his agency and City Hall didn't discourage the eight principals from airing their views. He said they had a 90-minute meeting with Chancellor

Richard Carranza on June 28.

"We have an unacceptable status quo when it comes to specialized high-school admissions, and I'm working with educators on the ground to address it," Mr. Carranza said. "The specialized high-school principals and I have a clear, shared goal of increasing diversity and equity across the schools."

Ms. Zhang, a Chinese immigrant who has called herself a "soft Tiger Mother," said she was happy to be out of the city school system. She is superintendent of New York Military Academy in Cornwall-on-Hudson, the alma mater of President Donald Trump, Class of 1964.

Before leading Stuyvesant, Ms. Zhang visited dozens of New York City public middle schools as a regional instructional specialist for the city's Department of Education, and saw a wide

Please turn to page A10B

## Pot-Industry Investors Among Largest Cuomo Contributors

BY CORINNE RAMEY AND JOSEPH DE AVILA

The biggest donors to New York Gov. Andrew Cuomo's campaign in the past six months include the Winklevoss twins and a fund that invests in marijuana businesses, according to filings released Tuesday.

MedMen Opportunity Fund II L.P., based in Culver City, Calif., contributed \$65,000 to Mr. Cuomo, a Democrat running for a third term, and an executive associated with MedMen, Andrew Modlin, gave \$25,000, filings show. A MedMen fund also donated \$21,000 to the campaign of Democrat Letitia James, who is running for state attorney general.

The campaign-finance reports tallying the contributions come on the heels of a state health department report last week that supported legalizing recreational marijuana. The issue has become a talking point for Democratic gubernatorial candidate Cyn-



Andrew Cuomo (Democrat)

\$31,122,984.78



Marc Molinaro (Republican)

\$887,238.51



Cynthia Nixon (Democrat)

\$657,438.71



Stephanie Miner (Independent)

\$162,856.20

HEATHER AINSWORTH/AP; CLAUDIO PAPAPIETRO FOR THE WALL STREET JOURNAL; DREW ANGERER/GTY IMAGES; HANS PENNINK/AP

thia Nixon, who has called for marijuana legalization.

A spokesman for MedMen didn't respond to a request for comment. Spokeswomen for Mr. Cuomo and Ms. James didn't comment.

The fundraising reports show Mr. Cuomo with a huge cash advantage over his ri-

vals—Ms. Nixon, Republican Marc Molinaro and independent candidate Stephanie Miner. Mr. Cuomo raised more than \$6 million in the past six months and has \$31 million in cash on hand, filings show.

His major donors included twin-brother entrepreneurs Tyler and Cameron Winkle-

voss, who each gave \$65,000. The New York State Department of Financial Services announced in May that it had authorized Gemini Trust Co., a Winklevoss firm, to trade Zcash and other cryptocurrencies on its virtual-currency exchange. A spokeswoman for the brothers said they donated

to Mr. Cuomo because he is "definitely the right person to lead New York."

Ms. Nixon raised \$500,000 and has \$657,000 cash on hand, filings show. Many of the largest donations to Ms. Nixon's campaign came from fellow actors. Susan Sarandon and Lena Dunham each gave

the Nixon campaign \$10,000. Alec Baldwin gave \$16,000.

A spokeswoman for Mr. Baldwin declined to comment. Representatives for Ms. Nixon's other donors didn't return requests for comment.

The Nixon campaign said the relatively low number of small-dollar donations to Mr. Cuomo reflected a lack of enthusiasm for his re-election. The vast majority of the 30,500 donations to Ms. Nixon were under \$200, her campaign said.

"We rolled out a new low-dollar campaign to reach a wide variety of supporters...just as Ms. Nixon's campaign has dozens of contributions from her staff and their family members," said a Cuomo campaign spokeswoman.

Mr. Cuomo's formidable war chest and incumbency creates an uphill climb for Ms. Nixon, said Douglas Muzzio, a public-affairs professor at Baruch College.

—Melanie Grayce West contributed to this article.

## GREATER NEW YORK

METRO MONEY | By Anne Kadet

# 'Cool Pools' Are Brimming With Rules



When I asked my little brother to meet me at the city pool a few blocks from his apartment in Harlem, he later admitted he hadn't been looking forward to the swim. New York City's neighborhood pools, after all, don't have the best reputation. But he was seriously delighted with the Sheltering Arms Pool on Amsterdam Avenue.

"It's like a resort!" he said last week, surveying the sparkling water, new plantings, abundant lounge chairs, big shade umbrellas and peaceful atmosphere.

Sheltering Arms is one of five 1970s-era swim spots—one in each borough—included in the Department of Parks & Recreation's "Cool Pools" pilot program, aimed at refreshing some of the most neglected of the city's free-admission outdoor pools.

It's a pet project of Parks Commissioner Mitchell Silver. "I don't think a municipal pool needs to look like a municipal pool," he says.

Pool regulars have noticed. "I'm looking at major changes," said Robyn McEwen, enjoying Sheltering Arms with her five grandchildren. She said she avoids the larger city Marcus Garvey Pool near her home in East Harlem, which is "just nasty," and takes the bus several times a week to the Cool Pool.

The makeovers—which cost roughly \$70,000 per pool and took about nine months to complete—also included a fresh paint job with mod graphics, a more open layout and customer-service training for staffers.

In Harlem, a locker room attendant greeted me with a warm, "Welcome to Sheltering Arms Pool!" At the Douglass and DeGraw Pool in Brooklyn, the shower attendant offered to hold my towel while I hosed off.



**Swimmers did cannonballs at Brooklyn's Douglass and DeGraw Pool, which recently got a makeover.**

For those not used to the city pool routine, however, the first visit can be disconcerting. Schoolteacher Nicole Homnick, visiting the Brooklyn pool last week on the recommendation of a friend, said she couldn't believe all the rules.

Tell me about it. When I arrived, the entry attendant checked to ensure I had a lock and swimsuit. A second attendant directed me to put my phone in my locker as they are banned in the pool area.

Heading out to the deck, I was stopped by a sign: "All persons must shower before entering pool," and a third attendant said I couldn't bring my bag. Like an airport security agent, she went through my belongings item-by-item. Flip-flops OK, dress no. Hat fine, glass bottle no. Sunscreen is allowed—unless it's aerosol.

There were more signs in the pool area: "No Diving." "No Smoking." And my favorite: "No Breath Holding Contests."

At another pool, a supervisor escorted me back to

the locker room when she observed me wielding a dangerous notepad and pencil.

Newcomers also might be surprised to learn that every day, at every city pool, guests have to leave between 3 p.m. and 4 p.m. so the operations staff can clean, while the lifeguards rest and eat lunch.

A Parks Department spokesperson said there are a lot of rules by design, "to maximize the comfort and safety" of visitors.

The regulations make sense considering the crowds these pools can draw. At Fisher Pool in Queens, I counted 121 swimmers in the 75-by-60-foot pool on a Monday afternoon.

For those seeking a more exclusive experience, of course, there are several hotels and clubs in the city that open their pools to outsiders for a price.

Curious to see how a private pool compares with the public experience, I stopped by the McCarron Hotel & Pool in Williamsburg, Brooklyn.

Here, a one-day pool pass,

which includes Wi-Fi and towel service, costs \$55 or \$85 depending on the day of the week. Reservations for a poolside day bed start at \$115.

It's a sweet space featuring soft lounge music, large white umbrellas, palms and a travertine tile deck. Waiters serve drinks and appetizers. It's OK to bring your phone—or even a pencil. The vibe was chill and devoid of splashing children. But I prefer the city pools, if only because they're large enough for a serious swim.

The Parks Department says it's too early to say whether the pilot program will be expanded, but it's already proving popular. Since opening June 27, the five Cool Pools saw attendance rise 20% on average over the same period last year.

Mr. Silver, who lives near the Brooklyn pool, said he'd love to jump in after one of his marathon training runs. "But even I can't do that," he says, "because of all the rules."

*anne.kadet@wsj.com*

## City School Changes Questioned

*Continued from page A10A*  
disparity in students' skills. "School to school, math proficiency is years apart," she said.

If the top 7% of each middle school got into specialized high schools, she said, "I would really worry," though perhaps admitting the top 1% or 2% would be feasible. If the mayor's proposal passes in the state legislature, she said, Stuyvesant would have to dramatically expand its academic intervention services for struggling students.

Under the mayor's vision, each middle school's top performers also would have to rank in the top 25% of eighth-graders citywide to be admitted to specialized high schools, using a composite of state test scores and course grades.

Ms. Zhang expressed concern about how Stuyvesant's faculty would handle a broader ability band. "I worry about their training for teaching a completely new population," she said. "I don't think the teachers

in specialized high schools will be ready to adjust quickly."

Every spring when admissions decisions came out, she said she fielded 50 to 100 phone calls from disappointed parents begging for seats. Some had children who just missed the test score cutoff. In helping principals fend off upset parents, she said, "This one test is really a lifesaver."

Mr. Mantell said admitting the top 7% of performers wouldn't provide specialized high-school principals with any

*'Before you come up with the right way, you don't kill the current method.'*

more ability to select students than they have now. But the assembly bill on the overhaul says the city chancellor could include admission criteria beyond core course grades and state test scores. Defenders of the current system worry that potentially adding softer measures, such as interviews, could risk manipulation by powerful parents pulling strings.

## GREATER NEW YORK WATCH

## MANHATTAN

**Legionnaires' Cluster Kills One Person**

New York City health officials have confirmed that one person has died of Legionnaires' disease in a cluster of 18 cases in one Manhattan neighborhood.

The city health department said Tuesday that seven people remain hospitalized due to the outbreak in the lower Washington Heights area. Health officials say they have inspected 20 cooling towers and ordered several building owners to increase their use of biocides to kill the bacteria associated with the disease.

Legionnaires' is a form of pneumonia contracted by breathing in water droplets contaminated by the bacterium Legionella.

—Associated Press

## NEW JERSEY

**Report Recommends Overhaul of Courts**

New Jersey's municipal courts collected \$400 million in fines and fees in 2017, sometimes imposing "never-ending" and "overwhelming" financial obligations on people, a Supreme Court report said Tuesday.

The Supreme Court Committee on Municipal Court Operations, Fines and Fees released the report, including a list of 49 recommendations for changes to the state's municipal courts.

Among the changes suggested are mandated hearings to determine defendants' ability to pay, as well as monitoring the use of contempt-of-court fees that go directly into municipal coffers.

—Associated Press

# CHEW ON THIS



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# LIFE & ARTS

WORK &amp; FAMILY | By Sue Shellenbarger

## Your Children Need a Launch Plan

Early steps you take could ease their path toward financial independence and preserve your own retirement savings

BY SUE SHELLENBARGER

**FINANCIAL ADVISERS** are adding a new wrinkle to retirement planning: a launch plan to prepare clients' children to leave the nest when they're grown adults in the not-so-distant future.

This can get touchy. Some parents are reluctant to think about letting go, or give higher priority to supporting their children's academic success at the expense of their long-term financial well-being. For others, talk about money is taboo.

For teens, asking about parents' finances is like asking, "How many times do you and Mom have sex?" says Deborah Frazier, a Chapel Hill, N.C., financial planner.

Preparing children and teens to support themselves, however, instills crucial money-management skills they may not learn in other ways.

Financial adviser Matthew Papazian makes launch planning for clients' children a part of mapping out retirement. One couple he advised saw their retirement plans derailed after they helped an adult child buy a house he couldn't afford on his own. Mr. Papazian often offers to talk with clients' children to coach them on financial skills. But persuading parents to back off "is harder than I ever imagined," says Mr. Papazian, founding partner of Cardan Capital Partners in Denver. "Parents like to be proud of the lifestyle they provide their kids."

Kim Kenawell-Hoffecker uses financial modeling to help parents anticipate how providing varying amounts of support for their adult children will alter the date they run out of money in retirement. "Showing the end result to the parents can be eye-opening," says Ms. Kenawell-Hoffecker, founding partner of Avantra Family Wealth in Mechanicsburg, Pa.

One-third of young adults ages 25 to 29 in 2016 were living in multigenerational households, typically with their parents, a recent Pew Research study shows. And for the first time in more than a century, more 18-to-34-year-olds in 2014 were living with their parents than in other setups, including with a spouse or partner, an earlier Pew Research survey shows.

Some parents who provide financial support simply enjoy keeping their children close. And many young adults genuinely need help. The rising cost of housing, health care and other essentials has been outpacing gains in entry-level salaries in recent years.

But other parents use handouts as a way of controlling their children, says Kate Levinson, author of "Emotional Currency." They may be anxious about their children's ability to fend for themselves, sending the message, "I don't believe you can make it, so let me help you," says Dr. Levinson, a marriage and family therapist. Nearly half of adults in



FROM TOP: JOHN S. DYLES; THE QUIMBY FAMILY

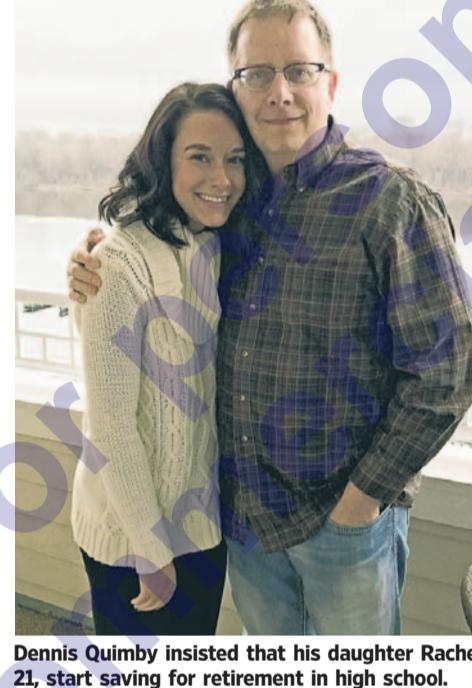
their 20s still receive some financial support from parents, says a 2015 poll of 1,000 adults ages 21 to 29 by Clark University.

Parents who give a child more money than they can afford risk creating what Dr. Levinson calls a toxicity situation.

Some parents don't think they know enough to coach their children on managing money. But all teens want is basic know-how that can be shared by any parent who manages household expenses, regardless of whether they can afford a financial adviser. Some 96% of 128 college students in a recent study said they wished their parents had taught them practical skills, such as budgeting and saving. Parents' teaching has more impact than taking financial-skills classes in school, according to the study by researchers at Brigham Young University.

Becoming self-reliant "starts with the mind-set that you can do it," an attitude parents can start to instill early, says Deborah Meyer, a St. Charles, Mo., financial planner.

Learning about saving and comparison shopping can start in childhood. Parents might ask, "Do we really need to buy those Ugg boots?" and let the child earn money to pay the premium, says



Dennis Quimby insisted that his daughter Rachel, 21, start saving for retirement in high school.

Lisa Bayer, principal of Opus Financial Solutions in Boulder, Colo.

Teens benefit from holding a job and learning to budget. Ms. Kenawell-Hoffecker sometimes meets with clients' teenagers and shows them their parents' budget, including their income minus housing, taxes, health insurance, clothing and groceries.

For many teens, this is the aha moment when they realize how much their parents sacrifice to pay for college, Ms. Kenawell-Hoffecker says. She recently met

### Steps to Firmer Financial Footing

- Start teaching basic saving and comparison-shopping skills when children are small.
- Require teens to earn at least part of their spending money.
- Teach teens how to make a budget and give them practice sticking to it.
- Share and discuss the basics of your household budget with your child.
- Give teens practice using checks or credit cards to pay for their activities or sports.
- Start discussing what you're willing to pay for college by the time a teen enters high school.
- Talk with your child about your own financial lessons and missteps in the past.

with Sean and Terri Carroll's two teenagers, ages 17 and 18, and coached them on budgeting earnings from their summer jobs.

Sharing a joint credit card account with a parent and helping make payments is good training. One student in the BYU study told researchers that he once thought,

"Oh, they're going to give me student loans? Awesome!" the study says. Looking back later, he realized he could have lived on half the amount he borrowed.

Parents should start talking

with their children early in high school about what they can and can't provide for college, and again in junior year when they prepare to apply, says Jeffrey Jensen Arnett, a psychology professor at Clark University and author of "Getting to 30."

Debra and Ron Leimkuehler of St. Charles, Mo., worked with their daughter Rachel, now 20, on deciding where to spend the college savings they'd set aside for her, pointing out their money would go further at certain schools, Ms. Leimkuehler says. "We have discussions about picking the right major: 'What are you going to do with that and how are you going to support yourself?'" she says.

Having children shoulder at least part of their college costs is a good idea so they have skin in the game, says Ms. Bayer, the financial planner.

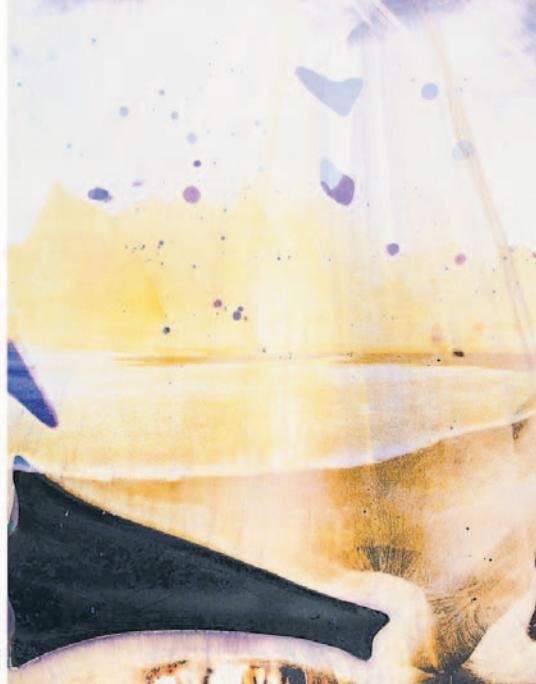
When Dennis Quimby's daughter, Rachel, was 18, he persuaded her to start a Roth IRA with her earnings from a fast-food job, rather than buying the car she wanted.

"I want my kids to have the good life. And the good life, in my opinion, includes financial independence," says Mr. Quimby, of Champlin, Minn. He also had Rachel meet with his financial adviser, Ms. Bayer, to help her invest her savings.

Saving seemed pointless at first, says Rachel, now 21 and a college senior. "I kind of fought my parents on it." But soon, watching her money grow became cool. She's still making deposits from her earnings as a server at a campus restaurant.

### ART REVIEW

## THE LAY OF THE PHOTOGRAPHIC LAND



BY WILLIAM MEYERS

Denver

"New Territory: Landscape Photography Today," curated by Eric Paddock at the Denver Art Museum, is extensive and diffuse, with 108 works by 40 photographers, some of them very large. The visitor is confronted at the show's entrance with Clifford Ross's black-and-white "Wood Wave XLIX" (2017), which is more than 18 feet wide and over 12 feet tall.

Mr. Ross says in the museum audio, "Rather than just making an image of a wave, I wanted to make the phenomenon of a wave." It's debatable how possible that is, but very large works are paradoxically easier to ignore: One glance takes it in, and the passerby keeps walking. Mr. Ross's three "Hurricane Scroll" (2001) prints are each a decorous 33 1/8 by 15

Please turn to page A12

Matthew Brandt, 'Lake Isabella, CA TC 2' (2014)

## LIFE &amp; ARTS



JASON KEEN FOR THE WALL STREET JOURNAL

MY RIDE | By A.J. Baime

# 'The Biggest, Baddest Car That Could Exist'

*Jim Patterson, an entrepreneur from Louisville, Ky., and twice winner of the Best of Show award at the Pebble Beach Concours d'Elegance, on his 1937 Cadillac, as told to A.J. Baime.*

The Pebble Beach Concours d'Elegance is the most important event in the world for car collectors. Being from Kentucky, I think of it as the Kentucky Derby of car shows. For the last two years, my 1937 Cadillac has been in a constant state of restoration. It is in its final weeks of preparation for Pebble Beach, which is next month.

The car is one-of-a-kind. Its story begins in Switzerland. In the mid-1930s, a gentleman from Lausanne wanted to buy the biggest, baddest car that could exist in that society. He had the unique idea of special ordering a Cadillac and hav-

ing it shipped from the U.S. to Lausanne.

In those days, car manufacturers like Cadillac did not always make bodies for their cars. They would supply the frame and motor, and the customer would order a custom body from a body builder.

This gentleman had a firm in Switzerland named Hartmann build the body. The end result was a 22-foot-long car, with a 16-cylinder engine. That is like having two V-8 engines, in one. The car and its motor are huge.

World War II disrupted everything in Europe, and this car became derelict, basically left to rot for years. It was ultimately brought into the U.S., I believe, in the late 1960s, and it went through some restoration. A private owner

kept it in the Blackhawk Museum, in Danville, Calif., and three years ago, it came up for sale.

When I bought it, it needed a lot of work and I immediately began a full restoration, hiring RM Auto Restoration in Canada. A tremendous amount of research has gone into finding out what this car looked like when it was new. General Motors supplied original factory build sheets, and we found a gentleman who worked at GM who remembered seeing this car when it was first brought to the States decades ago. He has been very helpful.

Privately, I have showed the car to friends in the car business. Their first reaction is always, "Wow, what is it? A Packard? A Duesenberg?" It is not. It's a Cadillac with a Swiss body.

We are nearing the finish line with our restoration. We are all as excited as we could possibly be to debut the car at Pebble Beach next month.

—Contact A.J. Baime at [Facebook.com/ajbaime](https://Facebook.com/ajbaime).



Jim Patterson with his one-of-a-kind 1937 Cadillac, which is 22 feet long. After putting the car through a two-year restoration, he will bring it to the Pebble Beach Concours d'Elegance. Inset, the car's grille and original hood ornament.

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## LIFE &amp; ARTS

# A Richer, Deeper 'Fiddler'

A thrilling new production in Yiddish, directed by Joel Grey, offers a fuller understanding of Jewish religious life.

BY EDWARD ROTHSTEIN

New York

## "FIDLER AFN DAKH."

Sounds crazy, no? But at the Museum of Jewish Heritage, that is what is presented: "Fiddler on the Roof," a classic American musical, entirely performed in a language now rarely heard (Yiddish), neither spoken by its director (the Broadway veteran Joel Grey) nor by most of the cast (which includes some players from the most recent Broadway production).

Yet the result is thrilling: It is almost as if "Fiddler on the Roof" (1964) were being restored to some primal form. And though Russian and English translations are projected on sides of the stage, they are often unnecessary. When Tevye—the dairyman who regularly argues with God and quotes Scripture—dreams of being a wealthy man and sings "Veni ikh bin a Rotshild," can anyone doubt the meaning? In fact, so virtuosic is Steven Skybell in that role that he often needs no language at all for us to feel his character swerve from ironic mockery to righteous anger to heartbreak.

The sense of restoration partly arises because "Fiddler" is loosely based on stories by the great Yiddish writer Sholem Aleichem; the language's culture, intonation and imagery leave traces throughout the musical. This ancestral influence can even be personal: Mr. Grey is but a generation removed from Yiddish performance culture (his father was the musician and comic Mickey Katz).

The main force here is the **National Yiddish Theatre Folksbiene**, which has been reviving Yiddish theatrical and musical traditions under the artistic direction of Zalmen Mlotek. Mr. Mlotek's taut yet supple conducting of a reduced 12-member orchestra reaches back to the klezmeric spirit and devotional melody that the musical often alludes to, making the results seem more authentic while inspiring Stas Kmiec's homage to the original's choreography.

In Beowulf Boritt's stage design a few basic props are moved by actors; the stage's space is simply framed by enormous hanging paper sheets that look like aged parchment. Aside from Mr. Skybell's memorable Tevye, Mary Illes as Golde is engaging and steely and Jackie Hoffman's Yente is comic



VICTOR NECHAY/PROPERPIX (3)

and a bit over-the-top. And while there is some unevenness among the main daughters (Stephanie Lynne Mason as Hodl, Rosie Jo Neddy as Khave, Rachel Zatoff as Tsaytl—all names in Yiddish transliteration) and their matches (Daniel Kahn as Pertshik, Cameron Johnson as Fyedke, Ben Liebert as Motl), the production's polish and verve make for an exuberant and touching celebration.

Tevye's way of life is based on law and belief, not arbitrary custom.

But there are also crucial complications. The show's attitude to the observantly Jewish culture of the *shtetl*, which it portrays in its death throes—assaulted by modernity, individual desire, and anti-Semitism—is itself quite ambivalent. "Fiddler" was created by four assimilated Jewish-Americans—Jerry Bock (music), Sheldon Harnick (lyrics), Joseph Stein (book) and Jerome Robbins (director and choreographer)—none of whom

had any deep knowledge of Yiddish or Judaism. They were trying to evoke the world of their fathers, bathing it in a sentimentality that undercut the acidic muscularity of Sholem Aleichem's stories. But they also meant to demonstrate why Tevye's *shtetl* had to be left behind—not just physically, but religiously.

This translation by Shraga Friedman (1924-1970)—a native Yiddish speaker who fled the Nazis to settle in Israel—was created for a 1965 Israeli production. Almost deliberately, it presses at the source of the musical's uneasiness: religion. The show's opening number, "Tradition," typically defines the glue that holds the community together, determining roles for each family member. Even 50 years ago, this was meant to suggest a repressive patriarchy that merited being overturned—as the daughters' marriages successively did.

But the Yiddish translation suggests something different. Instead of seeing tradition as merely ancestral, the Yiddish text declares that it arises because "God is a father and holy is his Torah." This may not be entirely accurate for some customs (like matchmaking), but it establishes a different context for Tevye's way of life: not arbitrary custom, but law and belief. In this production, the Hebrew word "Torah"—the first five books of the Hebrew Bible as well as an allusion to law and teaching—is inscribed on one of the hanging mock-parchments. That sheet is later torn in two and only jaggedly repaired. If the musical reduces religious life to

a few ceremonies and allusions, the translation reminds us how incomplete an understanding this is.

We are still moved by events, but we should realize we are seeing the past only as the Broadway show's creators wished it to be seen, in which traditions are justifiably overturned by the fast-talking challenges of a secular revolutionary Jew (Pertshik) and a literary-minded Russian (Fyedke, who pulls one of Tevye's daughters out of the fold). By the

end, we see that most characters will end up in the U.S., where, no doubt, their descendants—like the show's creators—will pay sentimental tribute to a world they never really understood.

For those who would like to get some idea of the wild, ironic and robust volubility of Sholem Aleichem, take a look at "Tevye Served Raw"—a three-person, 85-minute sampling of his work in Yiddish (accompanied by translations) at the 62-seat Playroom Theater, 151 W. 46th St.

The show is directed and translated by Allen Lewis Rickman, who, with his co-stars, Yelena Shmulenson and Shane Baker, offers a glimpse of the author, pre-*"Fiddler."*

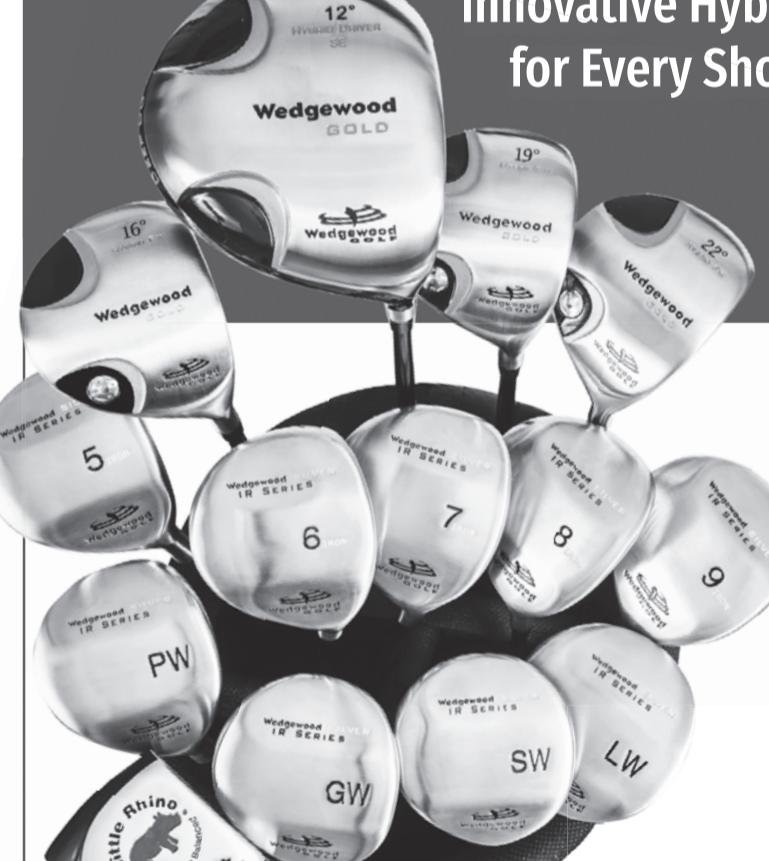
## *Fiddler on the Roof* (performed in Yiddish as *Fidler afn Dakh*)

The Museum of Jewish Heritage, 36 Battery Place, 866-811-4111, \$70-\$121, through Sept. 2.

Mr. Rothstein is the Journal's Critic at Large.

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Top, Steven Skybell as Tevye, center, and the Ensemble; left, Kirk Geritano and Jackie Hoffman; below, Mary Illes, Steven Skybell, Jodi Snyder and the Ensemble.



## SPORTS

**BASKETBALL**  
**A.I.: NBA'S LATEST ANSWER**

BY BEN COHEN

**JEREMY LIN** has no idea how many shots it took for him to become a professional basketball player.

"A lot," he says.

There is nothing unusual about how little he knows about his own history. Almost everyone in the NBA today came of age in the final years that sports were more art than science. But a tech revolution has swept through basketball and made it possible for certain high-schoolers to have more data about themselves than even the most progressive NBA teams had until recently.

Lin is now an investor in the latest product that's getting attention from the league's brightest minds, a new app called HomeCourt, which comes from a tech company focused on mobile artificial intelligence that was founded not long ago by former Apple engineers who were obsessed with basketball and have spent the last year developing the sort of weapon that Jeremy Lin never had.

This app doesn't use sensors or any kind of special equipment. It requires a phone and basketball hoop. That's it.

HomeCourt lets artificial intelligence and computer vision take care of the rest. Say you take 100 shots in a typical shooting session. The app can tell you how many shots you made and the precise location of each of those shots. It also lets you watch individual clips of any of those shots in real time or slow motion. Using nothing but an iPhone camera, it turns an ordinary workout into a trove of personal data.

It was invented earlier this year by a startup with Apple, Google and Facebook alumni, and it's already being used by NBA teams like the Boston Celtics and Philadelphia 76ers, college teams like Duke and Stanford, and youth players in more than 50 countries.

ANDY LYONS/GETTY IMAGES



HomeCourt investor Jeremy Lin

**BRITISH OPEN**

**The Luck of the Draw**

Rory McIlroy holds an umbrella as he walks on the 13th hole during the 2016 British Open.

BY BRIAN COSTA

Carnoustie, Scotland

**LATE SUNDAY** afternoon, the winner of the British Open will be asked to recall some of the pivotal moments that led to his remarkable triumph. He will talk about some of the shots he hit and the challenges he withstood.

But if this year's tournament is true to form, one of the turning points will have come on Monday. That's when the 156 players in the field at Carnoustie learned a crucial piece of information: what times they are teeing off on Thursday and Friday. That is not merely a guide to what time to set their alarm clocks.

At the British Open, it can be the difference between having a chance to win on Sunday and boarding a Gulfstream on Friday night. The reason is the weather, which can change more dramatically over the course of a round here than it does at any of the other three major championships.

"This is one event where if you're on the wrong side of the weather equation, you could be taken out after the first day," said former pro and current Golf Channel analyst Notah Begay III. "So much depends on where you end up in the draw."

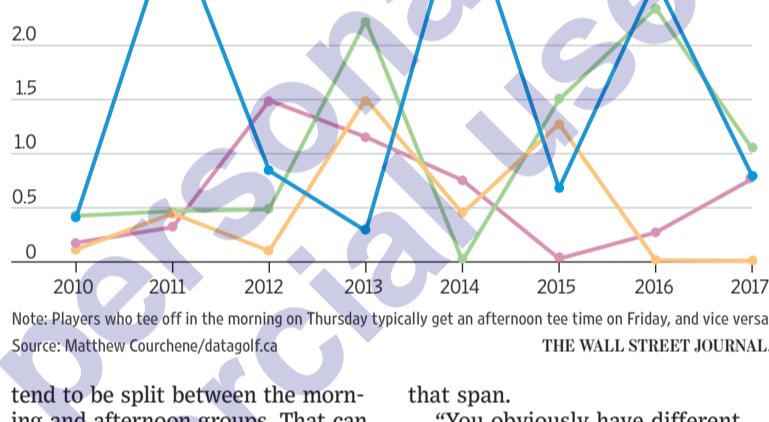
Unlike in the third and fourth rounds, when tee times and pairings are determined by the leaderboard, players have no control over what time of day they start in the first two rounds. The biggest names

**Morning Glory or Afternoon Delight**

The average difference in 36-hole scores between players who tee off Thursday morning and Thursday afternoon. At the British Open, the weather can change more dramatically than at any of the other majors.

■ British Open ■ PGA Championship ■ Masters ■ U.S. Open

3.5 strokes



Note: Players who tee off in the morning on Thursday typically get an afternoon tee time on Friday, and vice versa.

Source: Matthew Courchene/datagolf.ca

THE WALL STREET JOURNAL.

tend to be split between the morning and afternoon groups. That can have the effect of cutting the number of stars in contention by half.

Matt Courchene, a Canadian economics graduate student who co-founded the statistical website Data Golf, looked at how players performed by time of day at major championships from 2010 to 2017. He found that the difference in average score between the morning and afternoon groups on Thursdays and Fridays at the British Open is nearly 0.6 strokes. That is more than triple the average difference at any other major over

that span.

"You obviously have different conditions throughout the week that some players get, some players don't," defending champion Jordan Spieth said.

The difference isn't just in the difficulty of controlling shots. The degrees of wind and wetness can have a dramatic impact on which clubs players choose and which types of shots they attempt.

"You'll see a lot of different strategies," Spieth said.

Some days, the change in playing conditions can be negligible. But at times it can be stark. Jim

Mackay, formerly the longtime caddie for Phil Mickelson, recalled the scene at the driving range at St. Andrews around mid-day on Thursday. Players already on the course were enjoying winds of only a few miles an hour. But those warming up knew what was coming: winds above 20 mph that would inflate scores all afternoon.

"I just remember watching guys warm up and how upset they were before they had even hit shot one," Mackay said.

The quintessential British Open round might have come on a Friday two years ago at Royal Troon. For players who teed off in the morning, it was a benign day on the seaside links, with only the faintest wind to navigate. For players who teed off in the afternoon, it was a golfing hellscape, with driving rain and howling wind combining to send balls and water moving sideways. By day's end, the top of the leaderboard consisted almost exclusively of players who teed off early.

"It was ridiculous," said Justin Rose of England, who was in the afternoon groups.

The impact of the draw is partly a function of how fickle the weather can be on the seaside courses where the tournament is held. It also a ripple effect of the abundance of daylight in Scotland this time of year.

The U.S. Open, British Open and PGA Championship all start with 156 players. But only the British starts all of them off the first tee, rather than having half the field simultaneously go off No. 10 on Thursday and Friday.

As a result, it is essentially a 14-hour sporting event, which is a lot of time for the weather to turn for better and worse.

The current forecast calls for rain Friday morning and appears otherwise mostly dry, though veterans of the tournament know to prepare for anything.

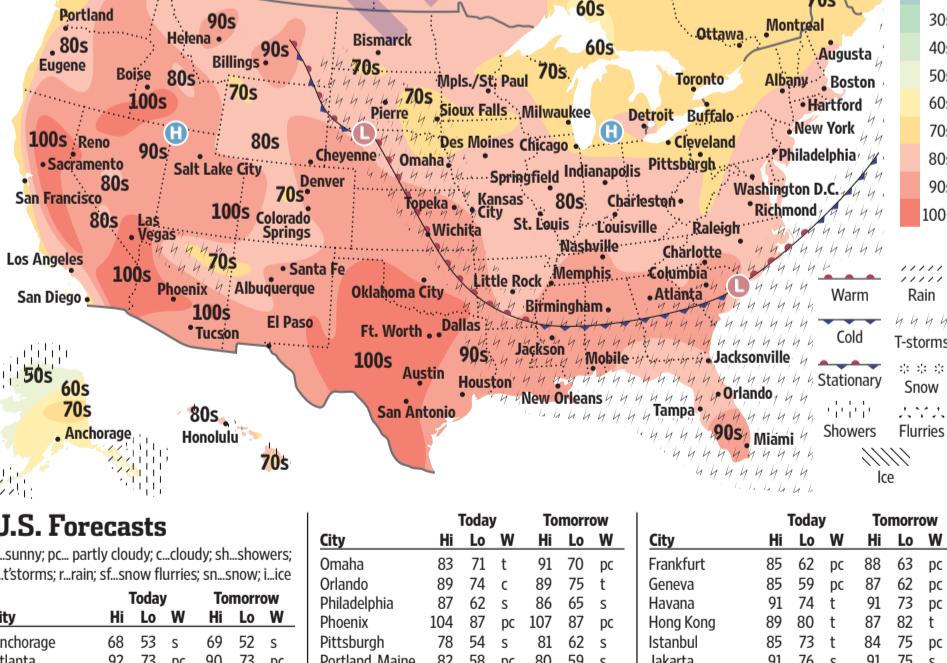
In 2002 at Muirfield, Tiger Woods was chasing the third leg of the Grand Slam, having won the first two majors of the year. He was in contention on what began as a sunny Saturday when, around the time he teed off, a punishing storm blew in and hovered over the course throughout his round.

Woods shot an 81—still his highest score ever at a major—finished tied for 28th and never again came as close to winning the Slam. "I hadn't seen a weather change like that in all my years on tour," Woods said. "Not like that."

Woods was speaking at a news conference in a tent near the clubhouse when, on an expected dry day, he was interrupted by a sudden pattering sound from above. He glanced up.

"Now we've got rain coming in," he said.

STUART FRANKLIN/GETTY IMAGES

**Weather****U.S. Forecasts**

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

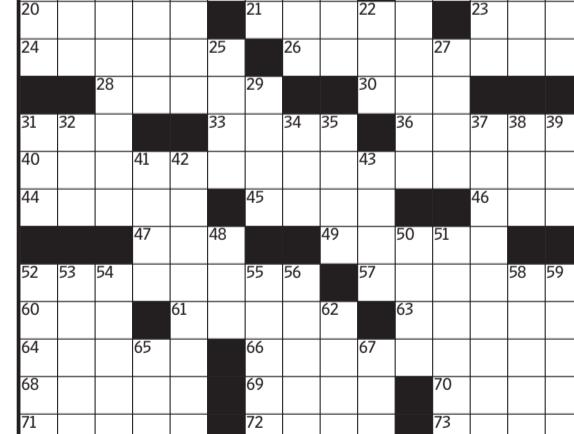
t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

Today Hi Lo W Tomorrow Hi Lo W

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Anchorage	68	53	s	69	52	s
Atlanta	92	73	pc	90	73	pc
Austin	103	76	s	104	76	s
Baltimore	87	61	s	86	63	s
Boise	99	63	s	96	66	s
Boston	81	64	pc	78	63	s
Burlington	77	52	s	82	57	s
Charlotte	90	70	pc	87	70	pc
Chicago	79	64	s	82	69	pc
Cleveland	77	59	s	83	67	s
Dallas	106	82	s	107	83	s
Denver	95	61	s	98	60	pc
Detroit	81	61	s	83	67	pc
Honolulu	89	77	pc	87	76	pc
Houston	98	78	pc	100	78	pc
Indianapolis	82	62	s	84	68	pc
Kansas City	86	71	t	92	71	s
Las Vegas	104	87	pc	104	87	pc
Little Rock	89	73	t	95	75	c
Los Angeles	86	70	pc	87	70	pc
Miami	91	79	t	92	79	t
Milwaukee	76	64	s	80	68	pc
Minneapolis	83	67	pc	75	63	t
Nashville	90	64	pc	91	69	pc
New Orleans	91	79	t	93	80	t
New York City	86	64	s	84	68	s
Oklahoma City	98	73	s	104	80	s

**International**

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	75	57	pc	76	57	pc
Athens	97	76	s	92	74	s
Baghdad	112	85	s	112	85	s
Bangkok	85	80	sh	88	79	t
Beijing	91	78	t	94	79	t
Berlin	78	58	t	78	57	s
Brussels	79	56	r	61	45	r
Buenos Aires	103	88	s	103	91	s
Dubai	69	51	pc	68	50	c
Dublin	67	51	pc	70	53	s
Zurich	84	58	pc	87	58	pc

**The WSJ Daily Crossword | Edited by Mike Shenk****SOMEWHAT CLUELESS |**

By David Alfred Bywaters

Across

1 Beer, casually

2 Bakery worker

9 Diamond delivery

14 Patella's place

15 "I Still Haven't Found What I'm Looking For" singer

16 Lincoln Center performance

## OPINION

## Trump Delivers on Russia

BUSINESS WORLD  
By Holman W. Jenkins, Jr.

Robert Mueller did his reputation for nonpartisanship no service by launching his indictment of Russia's military hackers on the eve of what 99% of the media now say was a disastrous performance by President Trump in his summit with Vladimir Putin.

This is the same Mr. Mueller who, as FBI chief, sat for five years on the indictment of a Russian uranium executive when it would have been embarrassing to Mr. Obama's own Russia rapprochement—and doubly embarrassing to his secretary of state, Hillary Clinton, because of the connection of the Clinton Foundation to the Russian uranium business in question.

Mr. Mueller's timing on Friday was unnecessary. His indictment is only for show. The Russian culprits will never be seen in a U.S. court.

It raises a question I did not expect to be raised: Should we now see Mr. Mueller as part of the retinue that includes former Obama CIA chief John Brennan, former Director of National Intelligence James Clapper and (ambiguously) former FBI chief James Comey? These men don't like Mr. Trump or his Russia rapprochement; Mr. Brennan openly calls him a traitor.

One hesitates to draw the comparison, but Truman and

Eisenhower were assailed as agents of the Soviet Union by Joseph McCarthy. Reagan was accused (by George Will) of selling out to Gorbachev. Critics of FDR's foreign policy were actually proved right in the historical archives: The British were seeking to assure his re-election in 1940.

Politics never did stop at the water's edge. It can't. All presidents use foreign policy the way they do domestic policy: to create, expand or protect their domestic political capital. That's how our system works.

And their opponents will always have recourse to the accusation that a president is a dupe or worse of foreign interests.

Mr. Trump's performance in Helsinki left a great deal to be desired, but he delivered the policy he has promised since the 2016 campaign. It is identical to the policy of his two most recent predecessors.

Mr. Trump has a history of financial relations with Russians. He has a history of statements saying that American leaders were "weak" and relations with Russia would improve if the U.S. had a "strong" leader.

He has sought to expand America's military power; he has sought to expand its energy power. One senses his walloping of Germany over the Nord Stream pipeline is less aimed at weakening Russia than at expanding U.S. gas sales but it would still weaken Russia.

He has said for 30 years that America's trade deficits and its

military spending on allies are related (as they are, sort of).

The best you can say about all this, there's a consistency here. Mr. Trump may not know Palmerston, who said countries don't have permanent friends, only permanent interests, but I wouldn't put it past him to have seen the quote in a Charles Krauthammer column.

### His Helsinki outing was tone-deaf but his policy is cribbed from Bush and Obama.

Of course, you can never disprove sinister influences, an impossibility on which certain fellow journalists will be hanging their reputations for years to come. But a reliable assumption that covers all cases is that presidents act in their own interest. Meanwhile, we have a democratic process, not to mention an extensive permanent bureaucracy with its own ideas, to help sort it out.

The hell of our situation is that 2016 created a big incentive for Democrats and others to adopt anti-Russia hysteria, likening Russia's meddling to "Pearl Harbor," a risky simile when two countries have enough nuclear weapons aimed at each other to make the world uninhabitable.

The only good news is Mr. Trump's apparent indifference to the media's attempt to shame him into adopting the

media's Russia policy. He may have no idea of the pressures and constraints under which Mr. Putin acts, but Mr. Trump is a one-man brake on a non-adroit hostility that doesn't serve U.S. interests.

Don't be misled. Mr. Mueller's Russian military hackers may have taken steps to preserve deniability, but they did not hide their hand. As the Obama domestic and foreign intelligence leadership testified in House hearings on March 20, 2017, Russia acted with deliberate "loudness." Its "No. 1 mission" was "freaking people out" about Kremlin meddling.

The content may have been largely (not exclusively) pro-Trump, but the content wasn't the message. The message was "I can destabilize your political system so don't destabilize mine."

Mr. Trump isn't the answer to Mr. Putin's dreams. The answer to his dreams is the U.S. tearing itself apart over tendentious, partisan claims of "treason," which ought to have some cheerleaders of this meme thinking twice.

You would also think that Americans by now would have no trouble understanding that small, jealous men can rise to positions of authority.

When looking at Mr. Trump or his enemies—such as Messrs. Brennan, Clapper and Comey, or Rep. Adam Schiff—do you honestly see Jesus in any of them? I don't. Nor would I expect to. Nor, thank God, do I believe it's necessary in order for the United States to survive and prosper.

BOOKSHELF | By Philip Delves Broughton

## For a Flat Monthly Fee

## Subscribed

By Tien Tzuo with Gabe Weisert  
(Portfolio, 246 pages, \$27)

**O**wning things is so over. Who wants the hassle of having your own car, lawn mower or tuxedo when, for a small monthly fee, you can just use one whenever you need it? Services such as iTunes and Spotify taught us that all those CDs can finally be consigned to the dump; Netflix cleared out the DVDs; Amazon's Prime subscription service has 90 million Americans hooked on its bundle of shipping and shows.

But this is just the beginning, according to Tien Tzuo in "Subscribed: Why the Subscription Model Will Be Your Company's Future—and What to Do About It." Mr. Tzuo is a co-founder and CEO of Zuora, a company that creates software for subscription businesses. "Simply put," he writes, "the world is moving from products to services. Subscriptions are exploding because billions of digital customers are increasingly favoring access over ownership, but most companies are still built to sell products."

Not all, though. Husqvarna, the Swedish maker of forestry and garden tools, maintains what it calls the Husqvarna Battery Box out of a Stockholm parking lot. The handyman's hut offers subscribers access to hedge trimmers, chain saws, leaf blowers and other equipment; users pay a flat monthly fee to borrow the tools and return them when they're done.

Husqvarna thus gains a steady income stream, becomes less reliant on seasonal sales fluctuations and acquires insight into its customers' behavior. In Europe and on the American West Coast, subscribers to Surf Air, a five-year-old company based in Santa Monica, Calif., can fly on the company's fleet of small executive aircraft for an annual fee plus a per-flight price; there's also an all-you-can-fly option. With a subscription model, Surf Air is better able to predict its revenue, so it can take tighter control of its variable costs.

Even major car makers are giving subscriptions a try. With Volvo, a monthly fee covers everything but the gas. The difference between subscriptions and traditional leases is that here you get tax and insurance bundled in. You also get a new car every 24 months. Cadillac has a plan that allows you to swap out your car up to 18 times a year. What's making all of this possible is technology that closes the gap between companies and their customers. Netflix doesn't have to go to all the bother of creating TV pilots the way networks do in order to figure out what its viewers want to see. It's constantly amassing oodles of data on what users are watching and how they watch it, so it already has a good idea of audience preferences before it throws millions of dollars at a new show.

### Subscription businesses are proliferating because billions of digital customers are increasingly favoring access over ownership.

In almost every category of product and service these days, you can listen to the market, launch a product or service, listen some more, then do some tinkering before committing serious resources to a new project. In fact, Mr. Tzuo argues, you'd be a fool not to. Kanye West even did it with his 2016 album, "The Life of Pablo," which he released on the subscription service Tidal. He continued to tweak it as he learned what his fans thought of it.

Subscription businesses, which derive important information from their customers' behavior in real time, are better at fast adaptation than companies dependent on their in-store employees for feedback. Mr. Tzuo quotes Amazon's Jeff Bezos on the difference between an e-commerce company, constantly dialed into its community of customers, and physical stores: "I don't know about you, but most of my exchanges with cashiers are not that meaningful."

The numbers cited by Mr. Tzuo are staggering. Amazon's Prime members "spend an average of \$117 billion a year" shopping on Amazon. That may be a sliver of the \$5 trillion spent in physical U.S. stores, but it's growing quickly.

Apple's revenue from services, \$31 billion in 2017, now represents more than half the company's growth. Unlike its hardware business, which goes through seasonal peaks and troughs, all those monthly dings to customer credit cards for apps, music, TV shows and online storage offer steady, predictable income. Mr. Tzuo reckons that if Apple fully embraced the idea of being a subscription-service company, bundling phone upgrades into the bargain, it would easily become the world's first trillion-dollar company.

Other surprising examples include the guitar maker Fender, which sells almost half of its instruments to new guitarists, 90% of whom give up playing within a year. To reduce that churn rate, Fender created Fender Play, an online teaching service. By watching what encourages or discourages new guitar players, the company can find ways to keep them pursuing their dream of becoming the next Eric Clapton.

Even SNCF, France's state-owned railway company, has twiggled. To stem the migration of young people to ride-sharing services, discount airlines and long-distance buses, SNCF created a monthly plan for 16- to 27-year-olds: all you can travel for €79 (\$92) a month. That led to an extra 75,000 young passengers on the network and helped SNCF hit its annual growth targets within a couple of months.

For companies to move to full subscription models, Mr. Tzuo says, they will have to blow up their organization silos. "Product cultures are built around thinking and organizing like assembly lines: stay in your lane, do your job, then pass it on.... Subscription cultures are about making sure your customer continues to succeed with your service over time, and translating that ongoing value into revenue."

In other words, subscription models demand constant adaptation, in everything from product and service updates to fluid accounting, marketing and finance. That degree of change is dramatic and difficult, Mr. Tzuo notes. But changing customer expectations demand it, and if you don't shift now, he writes, "chances are that in a few years you might not have any business left to shift."

Mr. Delves Broughton is the author of "The Art of the Sale: Learning From the Masters About the Business of Life."

## POLITICS &amp; IDEAS

By William A. Galston

POLITICS &amp; IDEAS

## OPINION

## REVIEW &amp; OUTLOOK

## Containing Putin—and Trump

**P**resident Trump rarely admits mistakes, so it was good on Tuesday to see him reverse his claim of Monday that Russia may not have interfered in the 2016 U.S. election. The problem is that he still doesn't seem to understand the nature of the adversary known as Vladimir Putin whom he wants to make his friend.

"I have full faith in our intelligence agencies," Mr. Trump said Tuesday at the White House. He added that he unintentionally erred Monday when he said, "I don't see any reason why it would be Russia" that had done the cyber-hacking. He said he meant to say, "I don't see any reason why it *wouldn't* be Russia."

We wonder who thought of that one, but never mind. At least Mr. Trump has at last publicly sided with his own advisers over the former KGB agent in the Kremlin. He also said "we are doing everything in our power to prevent Russian interference" in the 2018 election, which his intelligence advisers have also warned him about.

Less encouraging is Mr. Trump's continued enthusiasm for working with Mr. Putin on issues like Syria and arms control. On nuclear weapons in particular, Mr. Trump is a neophyte compared with the Russian who wants to rewrite the historical record to lure the President into further reducing the U.S. arsenal.

Nuclear weapons are "the greatest threat of our world today," Mr. Trump told reporters Tuesday. Russia is "a great nuclear power, we're a great nuclear power. We have to do something about nuclear, and so that was a matter that we discussed actually in great detail, and President Putin agrees with me."

Uh oh. In an interview with Fox News host Chris Wallace Monday, Mr. Putin lamented America's "unilateral withdrawal" from the 1972 Anti-Ballistic Missile Treaty (ABM) during the George W. Bush Administration. "We didn't want the United States to withdraw from the ABM treaty, but they did despite our request not to do it," Mr. Putin said.

What Mr. Putin didn't explain is that the ABM Treaty, which limited deployments of missile defenses, was a bilateral pact that the U.S. adhered to and the Soviets repeatedly violated, notably

by building a large, phased-array radar at Krasnoyarsk. When the Soviet Union collapsed in 1991, the ABM Treaty was effectively voided, yet Republican and Democratic Presidents kept the treaty in place.

George W. Bush finally withdrew from ABM in 2002, explaining that the Cold War had ended, Russia was no longer an enemy, and the treaty hindered the U.S.' ability to develop ways to protect our people from future terrorist or rogue state missile attacks." The Bush Administration understood that the treaty left the U.S. defenseless against a missile from the likes of Iran and North Korea.

Mr. Bush's withdrawal was legal under the treaty's termination clause, and at the time Mr. Putin said the move was "mistaken" but "presented no threat to Russia's security." Yet on Monday Mr. Putin said Russia's development of new offensive weaponry like the Sarmat intercontinental ballistic missile was "born as a response to the unilateral withdrawal of the United States from the ABM Treaty."

In his news conference with Mr. Trump, Mr. Putin also excused Russian violations of the 1987 Intermediate-range Nuclear Forces Treaty, which bars ground-launched ballistic and cruise missiles with ranges of 500 to 5,500 kilometers. Mr. Putin blamed "implementation issues." He didn't say that the Pentagon believes a new medium-range nuclear cruise missile that Russia has deployed in Europe violates the INF treaty. And Mr. Trump didn't call him on it.

Mr. Putin wants to draw Mr. Trump into an arms-control negotiation that would revive the ABM limits while expanding Barack Obama's New Start reductions in U.S. missiles. Mr. Trump is so confident of his personal deal-making skills, and so untutored in nuclear arms, that we hope the negotiations never begin.

This is where Congress needs a containment strategy—for Mr. Putin and for Mr. Trump's desire to cut deals with him. Members of both parties can make clear that no new arms deal is possible until Mr. Putin stops cheating on current treaties; that no limit on missile defenses is tolerable; and that any new deal must be submitted to the Senate as a treaty requiring a two-thirds vote for ratification.

## No More Union Skimming

**T**he Supreme Court said in its *Janus* ruling last month that unions must obtain clear and affirmative consent from public employees before they collect fees. Now the Department of Health and Human Services has taken the first step toward affording home-care providers the same protection against unions that want to confiscate their money on the sly.

States receive federal funds to defray the cost of in-home care for the poor and ill or disabled. These caregivers are often family members who devote their time to changing adult diapers, making sure medications get taken as prescribed, and other labors of love. But unions wanted a cut of the cash from Medicaid, the Child Care and Development Fund, and Temporary Assistance for Needy Families program. So they have argued that home-care providers should be counted as dues-paying state employees—regardless of whether caregivers want to join the union.

The Supreme Court's 2014 *Harris v. Quinn* decision gave home-care providers the freedom to opt out of paying for representation they don't want. But in several states, caregivers remain union members by default, and many don't even realize they're paying dues. Big Labor has made it difficult for workers to leave, subjecting them to narrow opt-out windows and burdensome paperwork.

At least 11 states abet the labor cash-grab by skimming caregivers' wages and sending the

money straight to unions to cover fees and member contributions to labor political action committees. That once was illegal given the Social Security Act's explicit instructions that, with few exceptions, state payments to a Medicaid beneficiary must go directly to the person or institution that provides the care or service.

But in 2014 the Obama Administration codified a new exemption that allowed states to make payments to third parties on behalf of caregivers "for benefits such as health insurance, skills training, and other benefits customary for employees." In other words, this was a political gift to unions.

On July 10 HHS announced a proposed rule to repeal this union carve-out. This would end dues skimming for good, and caregivers would have to opt in to union membership. Dues payments and contributions to union PACs would become more transparent, with consenting members writing a check or handing over their credit card.

This will not please the Service Employees International Union, Afscme and other unions, which get \$250 million each year from this arrangement, according to the State Policy Network. But the current transfer of wealth is all the more cynical given that one in five households with a disabled family member fall below the federal poverty line. The Trump Administration is right to stop unions from pillaging vulnerable families.

## Trading Past America

**P**resident Trump called the European Union a trading "foe" last week, and on Tuesday European leaders replied by signing an economic partnership with Japan that will eliminate almost all tariffs on bilateral goods. The negotiations had dragged on for years, but Mr. Trump's protectionism pushed both sides to reach a deal that shows how trade liberalization will increasingly bypass the U.S.

We wrote about the potential of the Japan-EU deal to put American food exports at a disadvantage when it was finalized in December. The removal of Japanese quotas and duties on European farm products will hurt American hog farmers, who currently enjoy a strong market position in Japan. EU processed-food exports are expected to grow by as much as 180%.

The biggest impact will be in manufacturing industries dear to Mr. Trump's heart. In addition to removing tariffs, the deal will harmonize standards and remove nontariff barriers. As the U.S. raises duties on imported raw materials and components, its attractiveness as a manufacturing base will fall and supply chains will cut out American suppliers.

The EU projects that its exports to Japan of chemicals will increase 22% and mechanical engineering products 16%, according to Deutsche Welle. European companies will gain better access to government contracts, something the U.S. has long sought. Meanwhile, as European tariffs on Japanese cars decline to zero from

10%, American automakers will face stiffer competition on the continent.

Japanese Prime Minister Shinzo Abe is resisting U.S. pressure to negotiate a bilateral deal that would offer benefits similar to those in the Trans-Pacific Partnership (TPP). The remaining 11 countries defied predictions that TPP would collapse after Mr. Trump pulled the U.S. out in 2017, and they signed a renegotiated version in March. Part of Mr. Abe's calculation is that the lost trade will prove so painful for the U.S. that it will choose to rejoin, whether under Mr. Trump or his successor.

China is also seeking closer economic relations with Japan and the EU to mitigate the effects of its escalating trade war with the U.S. Beijing recently de-emphasized tariff retaliation against the U.S. and began to offer preferential treatment to multinationals from other countries. Instead of forcing Beijing to open up its markets to American companies, the Trump tariffs will help their competitors.

Mr. Trump picked fights with America's largest economic partners because he assumes that, like him, they would focus on bilateral flows of finished goods and treat trade as a zero-sum game. That is proving wrong. As the EU-Japan deal and renegotiated TPP show, they see a route to prosperity by liberalizing trade among themselves. The rest of the world will benefit from freer trade while American companies and consumers lose.

**Japan and the EU strike a deal that leaves U.S. companies in the cold.**

## LETTERS TO THE EDITOR

## Murky Pricing Works, but Not for the Patient

Regarding Steve Cohen's "You Can't Put a Price on a Hip Replacement, and That's a Problem" (Cross Country, July 14): Our cost estimates are based on about two billion de-identified records we receive each year from payers covering 150 million insured individuals nationwide. Mr. Cohen compares his charges to the 80th percentile charges in FAIR Health's data. By definition, however, 20% of the charges for a procedure in a given area may exceed the 80th percentile charge. Of course, hospitals in New York set their own private market rates.

ROBIN GELBURN  
President, FAIR Health  
New York

If an intelligent lawyer like Mr. Cohen accepts whatever his insurance company pays for a procedure as long as he has no further expense, what hope can there possibly exist for "transparency"? Why does an organization know that a hip replacement costs \$29,162, but in-network charges for Mr. Cohen's surgery were \$75,000, yet there is no pressure for price and quality competition? Is it because the insurance companies have no incentive to compete on the basis of price?

Reference pricing is an excellent method to lower medical costs without impacting quality or availability. In California, Calpers determines the hospitals and surgeons who provide both cost savings and quality (in line with the FAIR Health estimate of \$29,000), and tell those they insure that they would incur no additional costs at those institutions, but if they chose to go elsewhere the insurance would cover no more than that amount. That is transparency. Many local hospitals reduced their charges to be able to compete for patients.

Because state insurance boards continue to authorize double-digit increases in insurance premiums, the companies have no need to do something as logical as reference pricing. Perhaps one day a major insurer will take the opportunity to say "enough."

R. MARSHALL ACKERMAN, M.D.  
Potomac, Md.

It is virtually impossible to know what the patient responsibility will be until the insurance company pays its share. Then the patient may (but not with 100% certainty) know what the final bill will be.

Would either Mr. Frank or Mr. Cohen have decided not to get his hip replaced if he knew what his final bill would be? For Mr. Cohen, with no out-of-pocket payment, the answer would clearly be yes. For Mr. Frank, with a personal cost of a little more than \$8,000, we don't know.

There is no other industry in which you don't know the final price you will pay. This is one of the major drivers for a single-payer health system.

DON M. MICHAELS, PH.D.  
Apollo Consulting Group  
Westborough, Mass.

Orthopedic surgeons receive on average \$1,300 to \$1,400 for a hip replacement. This amount is the result of a steady decrease since the year 2000. The total cost for the procedure has increased sharply since the same year.

A subspecialty-trained reconstructive surgeon with at least 16 years of education is clearly irrelevant in the cost structure of hip replacement.

## A Marketing Tool Doesn't Care About Your Children

There are many reasons for parents to be concerned about the impacts of voice assistants on children ("Alexa! Tell My Child to Behave!" Life & Arts, July 11). Kids already spend enough time immersed in digital technologies, at the expense of more enriching activities crucial to their development, and doctors and educators say they miss out on crucial face-to-face interaction when encouraged to develop "relationships" with devices. Experts are also concerned that children's privacy, and expectations of privacy, are both being harmed by encouraging them to be friendly with a device designed to sell them things, collect their personal information, and then use that information to sell them more things. The article notes studies that find that young children see voice assistants as friendly and trustworthy. But it didn't discuss the negative implications of this, or hint at the advice suggested by many child-development experts—keep kids away from snooping voice assistants.

DAVID MONAHAN  
Campaign for a Commercial-Free Childhood  
Boston

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

Since there has been a 30-fold increase in the number of hospital administrators since the year 1970, one might ask how many hospital administrators it takes to skillfully replace a hip, and at what cost.

ALLAN DOBZNIAK, M.D.  
Eastport, Mich.

Insurers surely know what hospitals charge for the range of health procedures, and the large dominant health insurers are in a position to drive down excessive charges. Why don't they? In addition, the more the hospitals charge, the more insurers' fees go up, as do the salaries of the insurance company executives, for profit and nonprofit alike.

PAUL SLOBODIAN  
Grantsboro, N.C.

We think of high-quality care as that which is necessary, timely, safe, patient-centered and effective. It is impossible to determine whether the cost of a procedure is reasonable without considering these factors. Compare two hospitals on metrics that are currently reported publicly for total joint replacements: Hospital A performs 300 total joint replacements each year and has a complication rate of 4%; a readmission rate of 7%; and 50% of patients give the hospital a rating of 9 or 10 on a scale from 0 (lowest) to 10 (highest). Hospital B performs 3,000 total joint replacements each year; has a complication rate of 2%; a readmission rate of 3%; and 90% of patients give the hospital a rating of 9 or 10. Hospital B is clearly the better choice in terms of safety and satisfaction. How much is that difference worth to a patient deciding where he or she should have a hip replacement?

Unfortunately, other metrics that matter to patients aren't currently available to inform care decisions. How much purchasers of health care would be willing to pay when meaningful measures of quality along with pricing are made available remains to be seen.

LOUIS A. SHAPIRO  
President and CEO  
CATHERINE H. MACLEAN, M.D., PH.D.  
Hospital for Special Surgery  
New York

Mr. Cohen reports "retail" prices ranging between \$140,000 and \$180,000. Health City Cayman Islands (HCCI) ran an ad in the Journal (Dec. 6, 2016) featuring all-in bundled pricing for a menu of medical procedures, with hip replacements coming in at \$15,800. HCCI's health outcomes and infection rates are equal to the best in the U.S.

Those serious about bringing health-care costs back to reality are finally acting as they do for other purchases: demanding that vendors disclose and match price and quality, or lose the business.

VIDAR JORGENSEN AND BRIAN KLEPPER  
The Health Value Institute  
Woburn, Mass.

## OPINION

# The Model for a Saudi Reformer

By Karen Elliott House

**A** Riyad, Saudi Arabia's Mohammed bin Salman begins his second year as crown prince and de facto ruler of Saudi Arabia, it becomes clearer that his role model is his paternal grandfather, Abdul Aziz al Saud. The uncanny similarity between these two young rulers, a century apart, offers clear clues to the country's direction today.

Born in 1875, Abdul Aziz was under 30 when he conquered Riyadh and began to subdue and unite the fractious Saudi tribes. Three decades later, in 1932, the Kingdom of Saudi Arabia was declared. Abdul Aziz then leveraged his primitive kingdom's newfound oil wealth to make it a pivotal power before his death in 1953.

His grandson, 32, seeks a similar transformation. Addicted to oil wealth, Saudi Arabia has become a somnolent and spoiled society, with

**Mohammed bin Salman, the young crown prince, has much in common with his legendary grandfather.**

a squabbling royal family of some 7,000 princes. Mohammed bin Salman, known as MBS, hopes to transform his country into a modern, self-reliant nation—while retaining his grandfather's iron grip on power. The question on every Saudi's lips is: Can he succeed?

A hard look at the parallels between MBS and his grandfather suggests he can. The crown prince shows every sign of equaling Abdul Aziz's ability to outmaneuver disgruntled royals, recalcitrant religious fanatics and meddlesome foreign powers—not to mention today's skeptical populace, traumatized by new taxes, job scarcity, very slow economic growth, and slashed government subsidies for gas, electric and water.

One trait the two leaders share is a visionary streak. Abdul Aziz knew that the shifting loyalties of nomadic Bedouins made it hard to create a stable nation. His novel idea was to



Abdul Aziz with FDR aboard the USS Quincy, Feb. 14, 1945.

Ikhwan, a Bedouin army that had helped him win numerous battles, because it refused to halt raids into neighboring British protectorates that he didn't want to antagonize. MBS has stood up to the religious elite to impose breathtaking social changes, including letting women drive and allowing concerts and cinemas. At a recent showing of "Incredibles 2" in Riyadh, I saw Saudi men, women and children happily mixing and munching large boxes of popcorn, trays of nachos and supersize colas—a scene that would have been incredible only a few months ago.

MBS is not his grandfather in every way. Abdul Aziz had a reputation for always being cool and calculating, plotting his moves patiently. By contrast, the crown prince has developed a reputation, at least among his critics, for being rash and impulsive—such as in his confrontations with Qatar and Yemen. Admirers argue, however, that such moves are cleverly planned for domestic as well as international effect. In addition, Abdul Aziz had a hardscrabble upbringing and a reputation for simple living, whereas MBS has purchased a \$500 million yacht, a French château and a \$450 million painting by da Vinci.

In a country with no history or pretense of democracy, the royal family intrigue and tribal kinship have been a constant. Saudi rulers mostly have wrangled the factions with a blend of wisdom, manipulation, brutality and blandishments. The crown prince, whose maternal grandfather murdered Abdul Aziz's brother during one rivalry, is well placed to understand how to use that same formula to stay on top.

Saudi society clearly has changed over the past half-century. Still, it retains indelible traces of its past. MBS will have to manage angry uncles and cousins, as well as an internet-informed young populace. Yet if history is a guide, he seems likely to navigate successfully and, like his grandfather, retain firm control of one of the world's only remaining absolute monarchies.

*Ms. House, a former publisher of The Wall Street Journal, is author of "On Saudi Arabia: Its People, Past, Religion, Fault Lines—and Future" (Knopf, 2012).*

persuade the nomads to live in agricultural villages, where he pledged to send them religious teachers—who then preached loyalty to Allah ahead of tribal connections. This began to create a dependence on Abdul Aziz and his religious partners, loosening tribal ties.

The grandson's Vision 2030, unveiled at a televised press conference in 2016, is no less revolutionary. Saudis, long dependent on an oil-funded welfare state for jobs, education, cheap energy and more, now are being asked to take jobs in the private economy, where they actually must work and can be fired for nonperformance. So far slow economic growth has crippled job creation.

Another common trait is ruthlessness. In 1911, Abdul Aziz's opponents, including some of his own cousins, massed an army to challenge his hold on Riyadh. In response he forced the surrender of the rebellious village of Laila. Displaying his flair for the dramatic, he granted the village's leaders a 24-hour stay of execution while his men built a platform outside the town gate. At dawn he took his seat and presided over the beheading of 18 of the 19 condemned men. He abruptly pardoned the final man, ordering him to tell all he met of the vengeance of Abdul Aziz. It was classic Abdul Aziz: offering opponents a choice between destruction or submission.

MBS showed his own taste for drama last year by rounding up at

least 300 princes, ministers and businessmen on charges of corruption. Men accustomed to carrying several cellphones and living in guarded privacy were jailed in Riyadh's Ritz-Carlton, forced to keep open their room doors, and denied contact with anyone other than interrogators. The government claims that the shakedown netted \$100 billion of ill-gotten money from the prisoners. Even after being released their humiliation continues, since many are required to wear tracking devices and can't leave the country.

Selected Saudis continue to be arrested quietly and held without charges; others have their bank accounts frozen by the government. Last week the kingdom's best-known businessman, Prince Al Waleed bin Talal, was photographed embracing MBS, who is his cousin and his recent Ritz jailer. It was a visible sign of the crown prince's dominance. His message in all this echoes that of his grandfather: destruction or submission.

MBS also matches his grandfather's reputation for charisma. Abdul Aziz was said by one of his biographers to have a smile "irresistibly all absorbing, which swept listeners up with him, blinding their judgment." Now the crown prince's informality and charm have made him popular among young Saudis and foreigners alike.

Both leaders faced down their kingdom's religious fanatics. In 1929, Abdul Aziz crushed the fanatical

## Training For the Jobs Of Tomorrow

By Ivanka Trump

**T**he assembly line, energy plant and retail store have changed dramatically in the past 25 years—and the jobs have, too. Nearly 1 in 5 working Americans has a job that didn't exist in 1980, many in technology, the fastest-growing segment across all industries. Such rapid change is one reason 6.6 million U.S. jobs are currently unfilled.

Many of these jobs require skills training, but not a college degree. Yet for too long, both the public and the private sectors have failed to develop innovative and effective training programs. With a new initiative we are launching Thursday, that will change.

With more companies expanding, hiring and raising wages, it is time to deliver better workforce training so that all Americans have the chance to move into better jobs and earn bigger paychecks. Already this administration has taken action to expand apprenticeships, increase access to STEM education for K-12 students, and help 11 million students and workers by working with Congress to pass an improved Perkins Career and Technical Education bill. On Thursday the president will sign an executive order to prioritize and expand workforce development so that we can create and fill American jobs with American workers.

### A new White House initiative will tackle the challenges technology poses to the workforce.

First, this action establishes the National Council for the American Worker, composed of senior administration officials, who will develop a national strategy for training and re-training workers for high-demand industries. For decades the government has had more than 40 workforce-training programs in more than a dozen agencies, and too many have produced meager results. The new council will help make the government more efficient, innovative and, most importantly, focused on results.

Another critical task of the council will be to facilitate the use of data to connect American businesses, workers and educational institutions. All participants in the job market should know what jobs are available, where they are, what skills are required to fill them, and where the best training is available.

We will also launch a nationwide campaign to highlight the growing vocational crisis and promote careers in the skilled trades, technology and manufacturing.

Second, this executive order forms an advisory board comprising leaders from the private sector, educational institutions, philanthropic organizations and state governments. They will work with the administration to implement results-driven job-training programs in classrooms and workplaces across the country.

Finally, the administration is asking companies and trade groups throughout the country to sign our new Pledge to America's Workers—a commitment to invest in the current and future workforce.

On Thursday, more than 15 companies and associations will sign the pledge to educate, train and reskill American students and workers. They commit to expanding apprenticeships, increasing on-the-job training, and providing Americans from high school to near-retirement with opportunities to obtain skills to secure stable jobs and careers in the modern economy.

We call upon employers large and small to join this crucial initiative to create more jobs, strengthen our economy and restore hopeful futures to countless families.

Our goal is to ensure that every American can move from an entry-level job into a lifelong career. Our hope is that millions of men and women who have been on the sidelines will now have the chance to find fulfilling work that lifts up them and their families. Our vision is to create a workforce culture that fosters and prioritizes life-long learning.

Twenty-five years from now, America's factories, labs, stores and nearly every sector of our economy will have again been transformed from what we know today. But American workers have always seized change as an opportunity. They built the Model T, put men on the moon and connected the world via the internet. If we give American students and workers the training and opportunities they need, they will continue to be the greatest pioneers of the 21st century.

*Ms. Trump is a senior adviser to the president.*

## When District Judges Try to Run the Country

**UPWARD MOBILITY**  
By Jason L. Riley

When a federal district court in Texas issued a nationwide injunction in 2015 that halted the implementation of President Obama's amnesty program for illegal-alien parents of U.S. citizens, many on the political right cheered. Two years

later, when a federal district court in Maryland issued a nationwide injunction that blocked President Trump's efforts to place restrictions on transgender people serving in the military, it was the left's turn to celebrate.

In recent years national injunctions have somehow become all the rage, even though it's not clear they are constitutional. Traditionally, an injunction requires the parties in a case—and only those individuals—to continue or cease particular actions. What makes national injunctions distinct and controversial is that they apply to people who are not parties in the case.

The issue here is not the wisdom or silliness of a given federal policy. The bigger concerns are the scope of lower-court judges' authority and the integrity of the judicial process. Under the Constitution, lower courts are empowered to decide cases for particular parties, not for the whole nation. In his concurrence last month in *Trump v. Hawaii*, the Supreme Court ruling that upheld the administration's travel ban, Justice Clarence Thomas expresses skepticism that district courts have the authority to issue national injunctions and urges his colleagues to address this judicial adventurism sooner rather than later.

These injunctions are beginning to take a toll on the federal court system—preventing legal questions from percolating through the federal courts, encouraging forum shopping and making every case a national emergency for the courts and for the Executive Branch," Justice Thomas writes. "If their popularity continues, this Court must address their legality." The same concern is echoed by a growing number of legal scholars, who worry that the national-injunction trend will result in the Supreme Court reviewing hastily considered lower court rulings that never had the chance to work their way up the system.

In testimony last year before the House Judiciary Subcommittee on Courts, Samuel Bray, a professor at Notre Dame Law School, explained that the Supreme Court justices typically wait until there's a split at the circuit-court level before they

decide to hear a case. National injunctions, he said, force the high court "to decide cases faster, with less evidence, with fewer contrary opinions—a recipe for bad judicial decisionmaking."

As usual, both political parties helped pave the way in getting to this point. Republican state attorneys general obtained nationwide injunctions to stop various Obama

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Other countries, including the U.S., failed to express support for Vietnam

## Notable & Quotable: China

*From "China Is Winning in the South China Sea" by Lynn Kuok, WSJ.com, July 17:*

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

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## Chips CEO Resigns Over Conduct

By MARIA ARMENTAL  
AND ELIOT BROWN

**Texas Instruments** Inc. Chief Executive Brian Crutcher resigned after spending less than two months in the role, exiting over what the chip maker said were code-of-conduct violations.

TI on Tuesday said "the violations are related to personal behavior that is not consistent with our ethics and core values, but not related to company strategy, operations or financial reporting."

A TI spokeswoman declined

to comment on the violations beyond the company's statement. She said TI's board learned of the violations last week and immediately looked into the matter. Mr. Crutcher, she said, submitted his resignation Tuesday.

Mr. Crutcher, who also resigned from TI's board, couldn't immediately be reached for comment Tuesday afternoon.

The resignation, which comes amid intensified scrutiny of executive behavior across the business world, makes Mr. Crutcher the third

chip-industry boss to leave for conduct reasons in the past month. Brian Krzanich resigned as CEO of **Intel** Corp. on June 21 after violating company policy by having a relationship with an employee, Intel said.

**Rambus** Inc., which licenses technology used in semiconductors and software, fired its CEO, Ron Black, on June 28, after what the board said was conduct that "fell short of the company's standards" and was unrelated to its business.

Mr. Crutcher was promoted to CEO and president of TI on

June 1, succeeding Rich Templeton.

Mr. Templeton, who had stayed on as chairman, is returning to the president and chief executive roles on an "ongoing, indefinite basis." He will also retain the chairman title, the company said.

In a video message sent to employees Tuesday and posted on TI's website, Mr. Templeton said the company has "no tolerance for violations of our code of conduct." He added: "I am back in, deeply immersed and very excited about the opportunity in

front of us today and the opportunity to be your CEO."

Mr. Templeton also said in an email to employees Tuesday he didn't plan to make any changes to TI's organizational structure.

At the end of May, just before he took over as CEO, Mr. Crutcher was asked at an industry conference what he would bring to the company.

"I gave you one word, it would probably be consistency," he said, according to a transcript. "We're not changing the seat right now because there's some huge problem."

## Stronger Dollar Weighs On Profits

By AKANE OTANI

U.S. corporations are warning that currency fluctuations are pressuring their results, raising a red flag for investors heading into the thick of the second-quarter earnings season.

Roughly half of the first 23 S&P 500 companies that posted results for the latest quarter as of Friday said currency swings either had a negative impact on earnings or revenue or were expected to become a problem in coming months, according to John Butters, senior earnings analyst at FactSet.

Among those issuing such warnings were cruise-ship company **Carnival** Corp., computer giant **Oracle** Corp. and aftermarket auto-parts retailer **AutoZone** Inc.

That makes currency swings by far the most mentioned headwind on earnings calls so far. In comparison, seven companies mentioned the rising cost of raw materials, while five mentioned oil and gas prices and just one cited tariffs. Meanwhile, 60 companies in the broad stock-market index are on tap to report results this week.

While it is still early in the earnings season, corporate executives' warnings about currency fluctuations—and, in particular, the strengthening dollar—suggest multinational companies could face an increasingly tough environment in the second half of the year. A string of upbeat U.S. economic data have sent the WSJ Dollar Index, which measures the dollar against a basket of 16 other currencies, up 3.1% this year, although the index remains down 1.6% since the Federal Reserve began its interest-rate-raising campaign in December 2015.

The currency's rebound is forcing executives at companies ranging from cruise operators to auto-parts retailers to walk back earnings estimates for future quarters and rethink their spending plans. U.S. multinational companies tend to suffer when the dollar strengthens, since it makes their exports more expensive to overseas buyers and makes their foreign profits look smaller when translated back into the U.S. currency.

Carnival said on its June earnings call that a combination of factors is driving the rebound.

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A Mazda CX-9 is assembled at a plant in Vladivostok, Russia. Mazda and Mitsubishi rely on the U.S. and are expected to be hurt more than many other foreign brands.

## Prices of Imported Cars Are Set to Increase

By ADRIENNE ROBERTS

Consumers should expect higher prices on imported cars if President Donald Trump's proposed 25% tariff on foreign-built vehicles shipped into the U.S. is enacted, according to car sellers.

Car makers said they plan to pass on the added costs to customers, which dealers and car sellers said could lead to a decline in sales. About 44% of all U.S.-sold cars were imported into the country last year. Because of the higher price tag,

auto retailers said, they may curtail orders of vehicles built abroad and focus on used cars with higher margins.

The tariff could also, to a lesser extent, inflate prices for cars built in the U.S., because many of them use foreign-built car parts, car companies said.

"There is no doubt the auto retail industry will be adversely affected," car dealer David Rosenberg said in an interview. "We'll see price increases across the board and a lot of that will be passed on to the consumer. Sales will go down."

Mr. Rosenberg, who has dealerships in New England, is taking Mr. Trump's threat seriously. He has already begun stockpiling foreign-built Mercedes-Benz and Audi sport-utility vehicles based on worries that the tariff, if enacted, would make those vehicles more expensive to order from overseas.

The average price of a car has been rising steadily for nearly a decade. Car makers and dealers say a 25% duty would only further increase costs, adding several thousand

additional dollars to the sticker price of an imported vehicle.

Mazda and Mitsubishi are expected to be hurt more than many other foreign brands because they are 100% reliant on imports to stock U.S. dealer lots and typically sell to price-sensitive buyers.

The Alliance of Automobile Manufacturers, the auto industry's chief lobbying group in Washington, estimates a 25% tariff would increase the average price of an imported vehicle by \$5,800.

For some top-selling im-

ports, such as the Japanese-built Subaru Forester, Tim Kelly, owner of **Kelly Subaru** in Chattanooga, Tenn., estimates the tariff could add an extra \$5,000 to the price tag, pushing the vehicle's cost far higher than other SUVs that aren't subject to the import duty.

If that were the case, Mr. Kelly said, it wouldn't be worth stocking the Forester. The increase would make it "wildly uncompetitive," he said.

"Why not buy an Outback?" Mr. Kelly added, which could

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## GE Wrestles With a Problem: GE Capital

By THOMAS GRYTA

**General Electric** Co. has assured investors that its long-awaited reorganization sets the company on a path to recovery, but some on Wall Street still worry its biggest problem, GE Capital, will continue to get in the way.

GE Capital wasn't central to the plans Chief Executive John Flannery unveiled last month to restructure the company around its power and aviation businesses. The lending unit, which once financed things including oil-drilling ships and overseas car loans, previously accounted for as much as half of GE's profit and helped fund its dividend. Then the financial crisis hit, and GE Capital nearly sank the entire company.

Former CEO Jeff Immelt sold most of the assets late in his career, but some of the less-desired pieces continue to be a drag, including a \$15 billion commitment to an insurance business that caught even board members and senior executives by surprise.

In mapping out GE's future structure, Mr. Flannery and his team also grappled with what to do with GE Capital. The company continues to work with

bankers and advisers to shed pieces of the business, devise a way to reduce or neutralize remaining risk, or, ideally, separate the entire operation, said people close to the process.

GE said last month that it expects to put \$3 billion in cash into GE Capital in 2019, although several analysts warn that the size of that contribution could grow. "They've taken great pains in exiting a lot of GE Capital and de-risking," said Stifel analyst Robert McCarthy. "That said, we continue to get nasty surprises."

As investors consider the risk and reward around GE shares, which are down almost 50% in the past year, it is difficult to be comfortable with the shadow of GE Capital and the potential for new large financial obligations, Mr. McCarthy said. GE could face more questions about its plans for the finance unit when the company reports earnings on Friday morning.

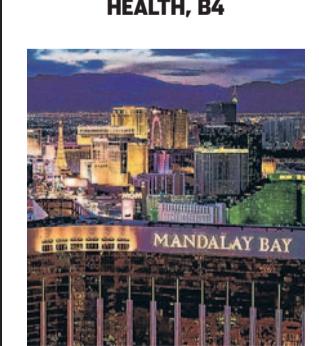
Despite years of shrinking, GE Capital still has about \$146 billion in assets, including a large airplane-leasing business, a defunct subprime mortgage operation and more than \$3 billion in a collection of variable Polish residential mort-

gages, Mr. McCarthy said. GE could face more questions about its plans for the finance unit when the company reports earnings on Friday morning.

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**MGM RESORTS** SUES VICTIMS IN SHOOTING

**LAW, B8**



**MGM RESORTS** SUES VICTIMS IN SHOOTING

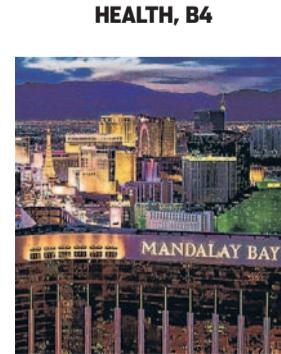
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A CHINESE FILM TAPS ANGER ON DRUG PRICES

**HEALTH, B4**



**MGM RESORTS** SUES VICTIMS IN SHOOTING

**LAW, B8**

## HEARD ON THE STREET | By Dan Gallagher

## Big Tech Has Big Bills to Pay

**Cover Charges**  
Combined R&D and capital expenditures per year

\$150 billion

Estimate

Source: S&P Capital IQ; FactSet

**THE WALL STREET JOURNAL**

**Apple** Inc., **Amazon.com**, **Alphabet** Inc., **Microsoft** and **Facebook** are expected to average sales growth of 21% on a combined basis this year compared with 19% last year.

Results for the June quarter coming over the next two weeks from the five giants are expected to show combined growth of 26% year over year compared with 8.7% growth projected for the S&P 500, according to FactSet.

But the cost to generate that growth is going upward as well—at a faster clip.

Combined spending on re-

venue for this calendar year, outpacing the 10% revenue growth analysts expect for the same period.

The iPhone maker's R&D bill has been steadily climbing over the past several years as it seeks out new hit products to offset its slowing smartphone and tablet businesses.

But Apple still under-spends Google parent Alphabet as well as Microsoft and Amazon in both whole dollar and in percentage of revenue, leading Toni Sacconaghi of Bernstein to note last week that the company may still be "underinvesting in innovation."

Capital spending also will rise sharply—especially for companies like Amazon, Microsoft and Google that have to keep building out network infrastructure to deliver their growing list of cloud-based services.

Google's capex bill alone is projected to surge more than 50% this year, while analysts expect increases of more than 30% for Microsoft and Amazon.

And most projections for Amazon exclude the capital

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## Finance Unit Looms Over GE

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gates.

The size of the liabilities and uncertainty around some pieces means that GE might have to pay someone to shed the business. Mr. Flannery asserts that he is now comfortable that there are no more looming surprises akin to the insurance shortfall, prompting JPMorgan analyst Steve Tusa, a longtime bear on GE's stock, to question the idea of paying money to eliminate liabilities if there aren't more risks.

"They are working on ring-fencing insurance, but we don't understand why this is necessary if appropriately capitalized," he wrote to investors recently. "A resolution of a neutral item that requires cash or value transfer is negative."

GE Capital was launched last century to help consumers pay for appliances. Former Chief Executive Jack Welch led its growth, and assets had ballooned to \$661 billion when credit markets seized up during the financial crisis in late 2008.

GE is now essentially unwinding much of the entire operation, with plans to sell \$25 billion in energy and industrial finance assets by 2020.

The potential separation of GE Capital is complicated by



CEO John Flannery has grappled with what to do with GE Capital.

talks with the Justice Department to settle claims the GE unit violated the law with some of its lending practices leading up to the financial crisis.

In a separation, GE's industrial divisions likely would add a financial-services function, a tool that can be helpful in closing sales of their massive machines that can cost hundreds of millions of dollars. Competitors such as **Siemens AG** and **United Technologies Corp.** have financial-services organizations that play that role.

permantly hobbled by its missteps with user data. But those sorts of gains set up some risk if growth numbers disappoint.

Look no further than Netflix, whose shares sank Monday after it reported disappointing subscriber and revenue growth for the second quarter.

The streaming company's market value had more than doubled this year even as it burned billions of dollars in cash to produce more content, to keep subscribers flowing in.

Although it is an extreme example, Netflix shows what happens when investors focused on hypergrowth start taking a closer look at their bills.

Continued from page B1

leases that the company also uses.

Tech investors who value growth above all else have largely shrugged off these bills.

Amazon's shares are up 57% so far this year. And Facebook has surged 30% since its last report, as investors are betting the social network's advertising business won't be

permanently hobbled by its missteps with user data.

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## BUSINESS & FINANCE

# J&J's Pharma Business Fuels Sales

BY PETER LOFTUS  
AND ALLISON PRANG

Strong sales of **Johnson & Johnson**'s cancer drugs and other medicines helped boost the company's second-quarter performance, though the health-products giant's U.S. consumer business continued to struggle.

Global sales for the pharmaceuticals unit rose 20% from a year earlier, the largest increase among J&J segments. Cancer-drug sales rose 42%, helped by big gains for the Zytiga prostate-cancer drug and Darzalex, a blood-cancer treatment.

The segment's sales topped analysts' expectations despite what executives said was a continued decline in average net U.S. pricing for the company's drugs after discounts and rebates. J&J finance chief Joe Wolk said on a conference call with analysts that average U.S. net pricing could decline 4% to 6% this year, after a 4.6% drop last year.

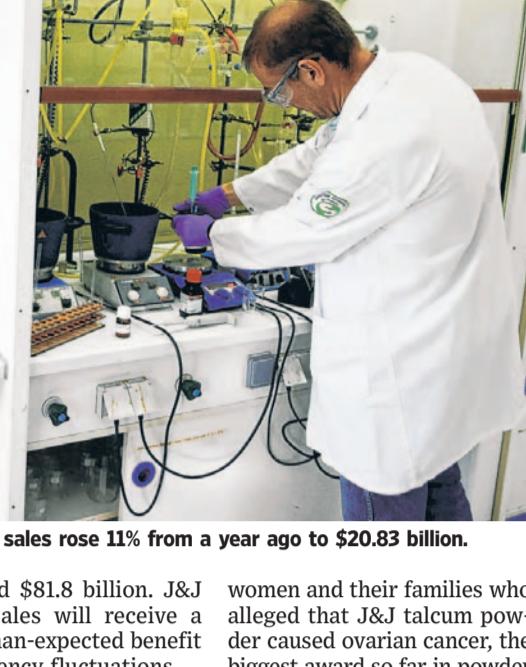
J&J shares rose 3.5% to \$129.11 on Tuesday, though they are still down 7.6% this year on investors' concerns about slower growth in other parts of J&J's diversified business, including consumer products.

Global sales in J&J's consumer unit rose 0.7% to \$3.5 billion. Its U.S. consumer sales fell by the same margin.

Within the consumer unit, the baby-care division, which sells well-known brands such as Johnson's baby shampoo, saw global sales drop 7.7% for



CHARLY TRIBALLEAU/AGENCE FRANCE PRESSE/GETTY IMAGES



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the quarter. J&J is in the process of introducing new versions of its baby-care products, and inventory moves hurt sales for the quarter.

J&J Chief Executive Alex Gorsky called the consumer-segment results disappointing. "We need to perform better here," he told analysts on a conference call.

J&J's medical-device sales rose 3.7% to \$6.97 billion for the quarter. Sales of surgery and vision products increased, while orthopedics dropped.

Overall, J&J said its second-quarter sales rose 11% to \$20.83 billion.

The New Jersey-based company said it now expects sales of \$80.5 billion to \$81.3 billion for the year, compared with its prior estimate of between \$81

billion and \$81.8 billion. J&J said its sales will receive a smaller-than-expected benefit from currency fluctuations.

J&J's profit rose 3.3% to \$3.95 billion, or \$1.45 a share.

It narrowed its full-year profit target to between \$8.07 and \$8.17 a share on an adjusted basis; its previous estimate was \$8 to \$8.20 a share.

J&J also reported \$57 million in restructuring costs for the second quarter, up from \$11 million a year earlier.

By 2022, J&J aims to cut between \$600 million and \$800 million in annual supply-chain costs, which it expects will result in as much \$2.3 billion in charges over the next few years.

A jury in St. Louis last week awarded \$4.69 billion to

women and their families who alleged that J&J talcum powder caused ovarian cancer, the biggest award so far in powder litigation that involves more than 6,000 cases. The company plans to appeal the verdict.

Mr. Gorsky defended the baby powder on Tuesday, saying, "We remain confident that our products do not contain asbestos and do not cause ovarian cancer."

The company about a month ago said it had accepted a roughly \$2.1 billion offer to sell its blood-glucose monitor business, LifeScan, to private-equity firm Platinum Equity.

J&J also recently got an offer from industrial-equipment maker Fortive Corp. to buy its Advanced Sterilization Products unit for \$2.7 billion.

Analysts were expecting revenue of \$56 billion. Revenue from the UnitedHealthcare segment rose 12% to \$45.8 billion.

This year, UnitedHealth guided for adjusted per-share earnings of between \$12.50 and \$12.75, up from its prior forecast of between \$12.40 and \$12.65.

Shares of UnitedHealth fell 2.6% to \$250.29 apiece.

## UnitedHealth Raises 2018 Earnings Forecast

BY KIMBERLY CHIN  
AND ANNA WILDE MATHEWS

**UnitedHealth Group Inc.** on Tuesday raised its full-year earnings outlook as the company continued to see growth in health-plan membership and premiums.

The parent of the nation's largest health insurer earned \$2.92 billion, or \$2.98 a share,

in the second quarter, up from \$2.28 billion, or \$2.32 a share, in the year-earlier period. On an adjusted basis, UnitedHealth's profit rose to \$3.14 a share. Analysts polled by Thomson Reuters expected \$3.04 a share.

Analysts said the earnings beat was fueled largely by nonoperating factors, particularly a tax rate that was lower

than some had estimated. The second quarter "seems mostly in-line with tax rate driving upside," Wells Fargo analyst Peter Costa wrote in an investor note.

Overall, revenue rose 12% to \$56.1 billion, boosted by membership growth in its health-insurance arm, as well as continued expansion in its Optum health-services segments. An-

alysts were expecting revenue of \$56 billion. Revenue from the UnitedHealthcare segment rose 12% to \$45.8 billion.

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Shares of UnitedHealth fell 2.6% to \$250.29 apiece.

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## BUSINESS NEWS

# Chef'd Suspends Its Operations as Meal Kits Multiply

BY HEATHER HADDON

**Chef'd**, a national meal-kit operator serving major food brands and prominent chefs, has suspended operations after burning through investments and failing to secure more cash, according to people familiar with the matter.

The development is a troubling sign for the meal-kit sector as venture capital-backed startups seek to become profitable in an increasingly competitive food segment, and startups seek to scale up into national operations that can provide customers with ever more choices.

Chef'd, a Los Angeles-based startup launched in 2015, operates a complex food manufacturing business that distributes meal kits to a growing list of retailers while also running an e-commerce site for home delivery with far greater options than most rivals. Chef'd was valued at around \$160 million during its last funding round last year.

But in recent months, it has churned through tens of millions of dollars in cash from venture capitalists and big food companies such as **Campbell Soup Co.** and **Smithfield Foods Inc.**, according to people familiar with the matter.

The company lost a number of executives, along with several junior employees in product development and sales, as finances grew shakier in the past several months, the people said. Executives scrambled to secure new financing from major banks and private investors, but talks didn't progress, they said.

"Due to some unexpected circumstances with the funding and business, I regret to inform that Chef'd has ceased all operations until our investors and lenders decide the fi-

nal fate of the company," the company's chief technology officer wrote in an email to a supplier Tuesday. "Consequently, please cease all work associated with Chef'd."

Chef'd issued layoff notices to employees Monday and is informing suppliers that it is suspending business.

A spokeswoman for Chef'd said she was no longer retained by the company.

Many meal-kit companies have struggled as the sector has grown more crowded and retaining online customers increasingly expensive.

Companies such as **Blue Apron Holdings Inc.** and **HelloFresh SE** are expanding their online meal options and pushing into retail to try to push growth, but other meal-kit operators have sold or are seeking exits.

Chef'd was one of the earliest companies to simultaneously sell its boxes in stores and online. The company developed sophisticated operations that could assemble kits from a thousand different recipes, as opposed to a handful of weekly menus offered by most others. That flexibility helped Chef'd strike deals with major food companies and diet plans—including the **Coca-Cola Co.**, **Hershey's Co.** and **Weight Watchers International Inc.**—to feature their products in boxes. Campbell Soup and **Smithfield Foods Inc.**, legacy manufacturers looking to pivot into fresh food, took \$35 million stakes in the company. Wolfgang Puck and dozens of other chefs put their names behind meal-kits sold on Chef'd.

"Seven days a week, we offer thousands of choices anywhere in the country. It's a logistic company in the end," said Kyle Ransford, Chef'd chief executive, in a recent interview.



The commercial-aviation industry has been especially nervous about trade tensions. Boeing, for instance, is the U.S.'s biggest exporter. SIMON DAWSON/BLOOMBERG NEWS

## Orders for Cargo Planes Soar

The global fleet of airfreight craft is expected to grow 70% in the next 20 years

BY KILEY ROACHE

FARNBOROUGH, England—**Boeing Co.** secured a \$9.8 billion commitment for cargo planes, underscoring a recent boom in airfreight that so far hasn't softened because of an escalating global showdown over trade.

Russia's **Volga-Dnepr Group** and **CargoLogicHolding** said Tuesday they would buy 29 of Boeing's 777 freighter jets. The two freight specialists, which have shared ownership, also used the Farnborough Airshow, held this week outside London, to re-confirm a \$2 billion agreement for five Boeing 747-8 jumbo jet freighters. The deals followed a series of multibillion-dollar cargo-plane agreements an-

nounced earlier in the show.

"Air cargo is back, without question," said Randy Tinseth, Boeing's vice president for commercial plane marketing. The market has been recovering strongly from a prolonged slump in the wake of the global economic crisis.

The International Air Transport Association projects an 8.6% increase in airline cargo sales this year, to \$59.2 billion. Business has recovered since 2009, when it fell to \$48.4 billion in sales following the financial crisis. Mr. Tinseth said the global fleet of cargo planes is expected to grow 70% in the next 20 years.

Aerospace executives have gathered at Farnborough amid rising trade tensions between the U.S. and China, as well as between Washington and a number of the U.S.'s traditionally close trading allies, including the European Union, Mexico and Canada.

The Trump administration has imposed tariffs on goods

from Chinese, European and other markets, arguing prior trade agreements disadvantaged the U.S. China and Europe, among others, have imposed retaliatory measures.

The commercial-aviation industry has been especially nervous. Boeing, for instance, is the U.S.'s biggest exporter.

So far, though, there have been scant specific signs the trade tensions are causing a significant slowdown in airfreight, a key indicator for the health of the general commercial-aviation market. When airfreight volumes start to fall, passenger demand typically follows months later.

Calin Rovinescu, chief executive of **Air Canada**, one of the largest foreign airlines flying into the U.S., said airfreight and passenger demand so far has held up. Steven Udvar-Hazy, the founder of plane-rental giant **Air Lease Corp.** echoed that view. "We have seen no evidence from any of our customers of any

reduction in traffic or cargo movements," he said.

Airfreight shipments have been bolstered by numerous drivers, including the growth of online commerce. The sector is somewhat insulated from the current clash over trade. Early tariffs imposed by the U.S., and countered by China and EU, affect goods typically moved by sea—like steel and aluminum.

**GE Capital Aviation Services**, a unit of **General Electric Co.**, said Tuesday it had agreed to buy 35 737-800 Boeing jets converted for cargo use. Deals for jets that are converted from passenger airlines typically don't come with specific price tags.

And on Monday, Boeing announced a deal with **DHL Worldwide Express Inc.** for 14 777 freighters. The German freight operator also took options for nine more of the planes. Qatar Airways on Monday completed a \$1.7 billion deal for five 777 freighters.

## Airbus Clinches \$5.5 Billion Order for New A220 Jetliner

BY ROBERT WALL  
AND ANDREW TANGEL

FARNBOROUGH, England—European plane-making giant **Airbus SE** on Tuesday secured a \$5.5 billion order for its new jetliner, the A220, with a planned U.S. startup carrier, ramping up the pressure in the small-jetliner market that **Boeing Co.** hopes to enter.

Airbus said the deal, which still needs to be completed, is for 60 planes and was placed

by a carrier being set up by investors including **JetBlue Airways Corp.** founder David Neeleman. JetBlue last week also ordered 60 of the A220 planes.

The A220 is "just such a versatile airplane," Mr. Neeleman said in an interview here. "It can fly long, it can fly short. We can put several different kinds of configurations in it. It just gives us so much flexibility."

The latest transaction is

with traditional factory practices.

Airbus officials previously highlighted expected financial gains stemming from assembling up to two satellites a day at the comparatively low cost of \$1 million each.

But Mr. Hoke's comments at the Farnborough International Airshow in England Monday were the most specific yet about the project's positive effect on internal industrial processes, as well as on the general approach of Airbus engineers.

Committing to assemble a new generation of lightweight satellites primarily using robots "was a game changer for us," Mr. Hoke said.

—Andy Pasztor

part of a second day of plane orders valued at more than \$51 billion that Airbus, Boeing and others announced at the Farnborough International Airshow.

Boeing also secured multiple deals, including a \$9.6 billion deal with lessor **Air Lease Corp.** and a \$9.8 billion agreement with Russian airfreight operator **Volga-Dnepr Group** and **CargoLogicHolding** for 777 freight planes. Airbus's announcement included a deal for 100 A320neo-family jets from an undisclosed buyer, valued at \$12.5 billion before industry-standard discounts, and a \$2.5 billion deal for eight A350 long-range jets, also from an unnamed customer.

Airbus's A220 deal signals how the battle between the European plane maker and Boeing, the world's No. 1 by plane deliveries, has begun to widen.

Both have historically competed in the market for planes seating 150 passengers or more. They are now taking that fight into the segment for 100-seat planes.

Airbus on July 1 took control of a joint venture making the A220, formerly called the CSeries, from Bombardier Inc.

—Doug Cameron

contributed to this article.

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## United Continental Beats Profit Forecasts

BY ALISON SIDER

**United Continental Holdings Inc.** said its profit is rising despite surging jet fuel costs.

The airline said efforts to gain market share—by adding more flights and connecting more small cities to its hubs in Chicago, Denver and Houston—are paying off. The No. 3 U.S. carrier by traffic beat earnings forecasts on Tuesday and raised its profit outlook for the year.

"These results are the strongest evidence yet that our strategic growth plan is

working, and we are well positioned to carry our momentum into the second half of the year," Chief Executive Oscar Munoz said in a news release.

United also said it is throttling back growth plans and expects capacity to increase by at most 5% this year as airlines pay about 60% more for jet fuel than a year ago.

That is still more than many other carriers are planning to grow, but below the high end of the range it flagged in January. That plan had rattled investors who feared it could spark a fare war between carriers.

Airline shares climbed in after-hours trading following United reported its second-quarter results, led by United which rose 3.5%.

United on Tuesday raised its profit outlook for the year by 25 cents a share to a range of \$7.25 to \$8.75.

United's passenger unit revenue came in 3% above last year. United posted a profit of \$684 million in the second quarter, or \$2.48 a share, compared with \$821 million, or \$2.67 a share, a year earlier. On an adjusted basis, earnings rose to \$3.23 a share, topping the \$3.07 analysts expected.

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## TECHNOLOGY

# Big Tech Asked How It Fights Fake News

**Lawmakers question Facebook, Twitter and Google, revealing a muddled approach**

BY BENJAMIN MULLIN  
AND DEEPA SEETHARAMAN

Tech firms, publishing executives and lawmakers broadly agree on the dangers of fake news and hate speech online. But they still can't find common ground on how to define it and what to do about it.

On Tuesday, executives for leading social-media firms

said on Capitol Hill that they were committed to improving the quality of the content on their websites, but caught flak from lawmakers who took issue with where the companies draw the lines.

The hearing highlighted how Facebook Inc. and other technology firms are under pressure to punish publishers of fabricated news articles without stoking broader concerns about censorship.

The testimony before the House Judiciary Committee came days after a private meeting late last week when some publishing executives

criticized Facebook for being overly sensitive to conservative complaints about potential liberal bias.

Facebook in particular has come under sustained criticism in recent years for how it mediates political discourse on its platform. The social-media giant has hosted a number of meetings in the past two years with various stakeholders, including publishers, lawmakers and civil-rights groups, to discuss the issue. It also has implemented a number of changes to how it presents news and information on its platform.

But Facebook's actions have failed to quell the outcry from its critics, including Republican and Democratic lawmakers who on Tuesday continued to question the company for a range of complaints including its handling of pages that repeatedly spread hate speech and conspiracy theories.

Matt Gaetz (R., Fla.) questioned why a Facebook page called Milkshakes Against the Republican Party remained up for months despite multiple posts that called for violence against Republicans. The page appeared to be down as of Tuesday; a Facebook spokes-

woman said the company didn't take it down.

Throughout the Tuesday testimony, executives for Facebook, Alphabet Inc.'s Google and Twitter Inc. were grilled on how they choose what content to remove or demote. Fake content isn't against the policies of any of these companies. However, each of the firms takes steps to prevent the spread of certain types of content, typically with a goal of reducing misinformation.

Facebook's head of global policy management, Monika Bickert, was asked by Democratic lawmakers why the so-

cial network hadn't suspended InfoWars, a far-right page that has promoted conspiracy theories, including one saying that the 2012 Sandy Hook shooting in Connecticut never happened and another saying the victims of the Parkland, Fla., school shooting were actors.

Ms. Bickert said a page that repeatedly violated Facebook's content standards would be suspended, but that the "threshold varies depending on the severity of different types of violations." She didn't provide more detail.

—Georgia Wells  
contributed to this article.

# Chinese Film Hits a Nerve Over Surging Drug Prices

**BEIJING**—A dark comedy dominating the Chinese box office this summer has tapped into public discontent about pharmaceutical costs, and is being linked to a government push to tamp down prices of cancer drugs.

The film, "Dying to Survive," is loosely based on the real-life exploits of Lu Yong, who smuggled cheap versions of a leukemia medication from India for resale to Chinese patients struggling to afford the genuine article.

The low-budget film has taken in nearly 2.5 billion yuan, or almost \$374 million, since its release July 5, already making it the No. 6 highest-grossing movie in Chinese box-office history, according to Beijing-based research firm EntGroup.

In addition to filling theaters, "Dying to Survive" has provoked an outpouring of comments on social media. In its first week, the film generated more than 200 posts topping 100,000 views on the social-media app WeChat, according to web-tracking firm newrank.cn.

Costs for certain drugs have long been an issue in China, where government insurance doesn't cover everything and people with severe diseases can have sizable out-of-pocket expenses.

Last week, the Chinese State Medical Insurance Bureau summoned representatives from 10 foreign and eight domestic pharmaceutical companies to begin preliminary discussions on cutting cancer-drug prices, state media reported Sunday.

"The timing of the movie and recent government actions to crack down on drug prices are not accidental," said Roger Liu, a former pharmaceutical-industry executive who currently runs his own drug-consulting firm.

Officials from the State Medical Insurance Bureau didn't immediately respond to requests for comment.

Beijing has been campaigning to reduce drug prices for several years. In May, China removed import tariffs on cancer drugs.

Mr. Lu, on whom the film is based, imported an Indian

knockoff of Gilead Sciences' Gleevec, which is made by Swiss pharmaceutical giant Novartis AG.

In the film, the company and its product are identified by Mandarin names that sound similar to Novartis and

Gilead. In the movie's English subtitles, however, the pharmaceutical company is simply called "Novartis."

A Beijing-based spokeswoman for Novartis Oncology (China) declined to comment regarding the movie. But she said Novartis has a program to help low-income Chinese patients cover the cost of the company's cancer drugs.

The program had helped

more than 60,000 patients from 2003 through last year, according to the Novartis Oncology spokeswoman.

Zhou Zijun, an associate professor at Peking University's School of Public Health, said Novartis had to invest significant sums to develop the drug, and said such innovation should be rewarded with reasonable profit.

"In order to grab eyeballs, the best way for a movie is to have good guys and bad guys, but it's not fair to Novartis," Mr. Zhou said.

However, Chinese moviegoers such as Beijing physician Zhang Yulin said the film captures the pain many families experience when a loved one gets cancer and can't afford good treatment.

Dr. Zhang said she hadn't been to the movies in years but felt compelled to see "Dying to Survive."

"It is real life," said Dr. Zhang, who saw the film Sunday afternoon. "I know patients who had leukemia ended up losing both lives and money."

—Fanfan Wang



The dark comedy revolves around efforts to smuggle in cheaper versions of a treatment from India.

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## PUBLIC NOTICES

NOTICE TO CLAIMANTS FILING CLAIMS AS AGAINST:  
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and  
THEIR FORMER AND CURRENT DIRECTORS AND OFFICERS

## NOTICE OF CLAIMS PROCEDURE and CLAIMS BAR DATE

DEBENTUREHOLDER CLAIMS  
PLEASE TAKE NOTICE that this notice is being made to you pursuant to an order of the Ontario Superior Court of Justice (Commercial List) (the "Court") made July 13, 2018 (the "Claims Procedure Order"). The Court has ordered that the Monitor of the Applicant, PricewaterhouseCoopers Inc., LIT (the "Monitor"), send a Claims Package to the known Claimants of the Applicant part of the Court-approved claims process (the "Claims Procedure"). All capitalized terms shall have the meaning given to those terms in the Claims Procedure Order.

You will receive shortly a Balance Statement, which sets out your Debentureholder Claim as valued by the Applicant, in consultation with the Monitor, based on the books and records of the Applicant and calculated in accordance with the Claims Procedure Order.

If you wish to dispute the stated Debentureholder Claim, you may do so by completing a Dispute Notice. In addition, if you wish to assert any additional claim against the Applicant, their former and/or current Directors and/or Officers, you must complete a Proof of Claim form. Any Dispute Notices and/or Proofs of Claim must be sent to the Monitor and received by the Monitor before 4:00 p.m. (Toronto Time) on August 13, 2018 (the "Claims Bar Date").

NOTICES OF DISPUTE MUST BE RECEIVED BY THE MONITOR BY THE CLAIMS BAR DATE, OR THE APPLICABLE CLAIM WILL CONSTITUTE PROVEN CLAIM, BE CONSIDERED CORRECT AND CONFIRMED BY THE CLAIMANT AND SHALL BE FINAL AND BINDING; AND THE CLAIMANT SHALL BE FOREVER BARRED FROM ASSERTING ANY OTHER CLAIM AGAINST THE APPLICANT, INCLUDING ANY CLAIM(S) AGAINST THE DIRECTORS OR OFFICERS.

ANY OTHER CLAIMS

The Claims Procedure Order and the Claims Package, including this notice and the Proof of Claim and related materials, can also be accessed from the Monitor's website at [www.pwc.com/ca/telopip](http://www.pwc.com/ca/telopip). Please take notice that any Person who believes that they have a Claim (other than a Debentureholder Claim) against the Applicant or their former and/or current Directors or Officers that existed as at the date of the Initial Order must send a Proof of Claim to the Monitor to be received by the Monitor before 4:00 p.m. (Toronto Time) on August 13, 2018, being the Claims Bar Date.

PROFESSES OF CLAIM MUST BE RECEIVED BY THE MONITOR BY THE CLAIMS BAR DATE, OR THE APPLICABLE CLAIM WILL BE FOREVER BARRED AND EXTINGUISHED, INCLUDING ANY CLAIM(S) AGAINST THE DIRECTORS OR OFFICERS.

IF YOU ARE OWED MONIES FOR GOODS AND SERVICES ACTUALLY PROVIDED TO THE APPLICANT EITHER PRIOR TO OR AFTER THE COMMENCEMENT OF THE APPLICANT'S PROCEEDINGS, YOUR CLAIM IS UNAFFECTED AND YOU DO NOT NEED TO FILE A PROOF OF CLAIM.

The Monitor can be contacted at the following address to request a Claims Package or any other notices or inquiries with respect to the Claims Procedure.

PricewaterhouseCoopers Inc., LIT  
Monitor of TELoIP Inc.  
PwC Tower  
18 York Street, Suite 2600  
Toronto M5J 0B2  
Attention: Tracey Weaver  
Email: cmt\_processing@ca.pwc.com  
Tel: (416) 687-8853  
Fax: (416) 614-3219

NOTICE OF MEETING OF CREDITORS

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,  
R.S.C. 1985, C-C36, AS AMENDED  
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF  
TELOIP INC.

NOTICE IS HEREBY GIVEN that a plan of compromise and arrangement (the "Plan") has been filed with the Ontario Superior Court of Justice (Commercial List) (the "Court") in respect of TELoIP Inc. ("TELoIP") pursuant to the Companies' Creditors Arrangement Act, R.S.C. 1985, c.C-36, as amended.

NOTICE IS ALSO HEREBY GIVEN that a meeting of the Affected Creditors (as defined in the Plan) of TELoIP will be held at the offices of PricewaterhouseCoopers Inc., LIT (the "Monitor") at 18 York Street, Suite 2600, (Toronto Room, 26018), Toronto, ON M5J 0B2, on August 14, 2018 at 10:00 a.m. (Toronto Time), or such other date as may be set and announced in accordance with the Meeting Order (as defined below), for the purpose of considering and voting upon the Plan.

The Meeting is being held pursuant to the Order of the Court made on July 13, 2018 (the "Meeting Order"). A copy of the Meeting Order can be found on the Monitor's website at [www.pwc.com/ca/telopip](http://www.pwc.com/ca/telopip).

NOTICE IS ALSO HEREBY GIVEN that a date for a Court hearing ("the Sanction Hearing") on August 20, 2018, before the Court at 330 University Avenue, Toronto, Ontario, at which time TELoIP will ask the Court to approve the Plan, if the Plan was approved by the Requisite Majority (as defined in the Plan) of the Affected Creditors at the Meeting.

Affected Creditors should receive an information package and important forms for completion and submission with respect to the Meeting. If you do not, please contact the Monitor at the address listed below. To cast a vote at the Meeting, Affected Creditors should follow the procedures set out in the Meeting Order. Affected Creditors entitled to vote at the Meeting may attend the Meeting in person or may submit the proxy included in the information package as per the terms outlined therein.

The Monitor's contact details for additional information or materials relating to the Meeting is:

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#JUL2018NYC-J02 Software Engineer; New York, NY; (Multiple Positions); C, C++, Java, JavaScript, Objective-C, Cocoa, HTML, or CSS; OO analysis & design; & adv algorithms, multi-threading, machine learning, artificial intelligence, data mining, APIs, natural lang processing; Mapreduce.

#JUL2018NYC-J04 Software Engineer; New York, NY; (Multiple Positions); C++ or Java; distrib syst or multithreading; & machine learning, mapreduce, API dev, or GWTF.

Technical Program Specialist (Multiple Positions); New York, NY; Ensure that the technical aspects of Google programs satisfy the business needs of Google's clients and users.

#JUL2018NYC-TPS Excl: Inc: Coordination of technical projects or programs; C++, C#, CSS, HTML, Java, Javascript, Perl, Python, Shell, or XML; and databases, data warehousing, information retrieval, or SQL.

Interaction Designer (Multiple Positions); New York, NY; Define the user model and user interface for new and existing Google products and features.

#JUL2018NYC-ID Excl: Interaction design, user experience design, user interface design, user-centered design, visual design, graphic design, desktop application design, web application design, mobile application design, motion design, industrial design, or accessibility design; HTML, HTML5, CSS, JavaScript, Java, C++, Objective-C, Python, PERL, PHP, REST, or JSON; and OmniGraffle or Adobe Suite products.

Quantitative Analyst (Multiple Positions); New York, NY; Research methods for improving Google technology.

#JUL2018NYC-QA Excl: Optimization methods, quantitative analysis, statistical analysis, or statistical modeling; databases, data mining, data analysis, or SQL; and C++, Java, Javascript, MATLAB, Perl, Python, R, SAS, S, Plus, or Shell.

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## BUSINESS NEWS

REUTERS  
A factory in Linyi, China. The strong U.S. economy is driving demand for consumer goods, which are largely made overseas.

## Omnicom Boosts Data Effort With Digital Platform

BY ALEXANDRA BRUELL

Ad giant Omnicom Group Inc. has created a one-stop-shop for its agencies and clients to create, plan and execute campaigns using reams of third-party data, the latest in a wave of efforts by major ad companies to step up the sophistication of their data and technology services.

All Omnicom agencies will be able to log into the new marketing platform, called Omni, to identify creative images that resonate with desired consumers, plan and buy media, store anonymized customer information and track customer actions like sales.

"What we're doing with this tool is really further transforming the way our teams work across agencies, the way they collaborate and the way they develop ideas so we can ultimately deliver those outcomes that are underpinned by that single view of the consumer," said Daryl Simm, CEO of Omnicom's media agency operations. "We live in a data-driven world."

Meanwhile, broad uncertainty of how U.S. trade battles with China and other countries will play out has led many companies to delay major supply-chain decisions, at least until they know whether the new tariffs will remain in place or will fall away in new negotiations.

Despite the Trump administration's new tariffs on imports—intended to reduce trade deficits and bring production back to the U.S.—experts say low-skilled, labor-intensive manufacturing operations are likely to remain in countries where labor costs are low, such as China, India, Vietnam, Malaysia, Indonesia, Bangladesh and others.

"You have existing production already in Asia, and it is cheaper to expand a current production facility as opposed to building a brand new one in another location," Mr. Gott said.

In June, imports at the nation's top ports rose an estimated 6.8% from the same month last year to 1.83 million 20-foot equivalent units, a standard measure for container cargo, according to the report.

In recent months the U.S. trade deficit has narrowed as exports surged and import growth slowed, but economists don't expect the trend to last. The strong U.S. economy is driving demand for consumer goods, which are still

largely manufactured overseas.

U.S. manufacturers that have moved production to low-cost regions overseas aren't bringing that factory work back to the country, according to a report from business consultancy A.T. Kearney.

The report suggests that returning industrial production to the U.S., a Trump administration goal helping drive its aggressive trade policies, will remain tough as manufacturers adjust their supply chains to a new trading landscape.

U.S. manufactured-goods imports from the top offshoring countries grew faster than American manufacturing output in eight of the last 10 years, A.T. Kearney said in the recently released report. Last year, imports from the 14 largest low-cost U.S. trading partner countries in Asia rose 8% to \$751 billion while domestic manufacturing grew 5.6% to just over \$6 trillion.

The imports, which include consumer goods such as electronics, toys and furniture, have expanded even as pressure has grown in the U.S. and Europe for companies to restore manufacturing, sometimes called reshoring. Electronics imports from China alone surged by \$22 billion in 2017 from the year before after declining by \$7 billion in 2016, the report said.

"Reshoring has been hyped for the last five to 10 years," said Johan Gott, a partner at A.T. Kearney and co-author of the report. "Spoiler alert: it may still happen, but it hasn't happened yet."

In recent months the U.S. trade deficit has narrowed as exports surged and import growth slowed, but economists don't expect the trend to last. The strong U.S. economy is driving demand for consumer goods, which are still

largely manufactured overseas.

According to the monthly Global Port Tracker report, published by the National Retail Federation and Hackett Associates, retail imports at the nation's top ports are expected to reach record levels this month.

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**BUSINESS NEWS**

# U.S. Warehouse Supply Tightens

By ERICA E. PHILLIPS

For U.S. retailers, manufacturers, importers and exporters, warehouse space is at its tightest since 2000, when the first dot-com boom was driving strong consumer spending and imports from China were beginning to surge.

Economists with real-estate brokerage CBRE Group Inc. said in a recent report that new warehouse space is getting gobbled up as soon as it is completed.

In the second quarter, demand for industrial space went beyond the 49 million square feet that came online, but supply and demand are edging closer to equilibrium.

As consumers increasingly do their shopping on the internet—even buying big, bulky items like furniture—the availability of warehouse space to store those goods and fulfill orders continues to decline across the U.S.

In the second quarter, industrial real estate availability fell to 7.2%, the lowest measure since 2000, CBRE economists said.

The industrial availability rate, which includes properties that are vacant or will soon be vacant, has now fallen for a record 32 consecutive quar-



As consumers increasingly shop online, space to store goods and fulfill orders continues to decline.

ters, according to CBRE, the longest stretch of declines since the firm began tracking the data in 1988.

Overall, the market is "remarkably balanced," said Tim Savage, senior managing economist for CBRE.

He said industrial developers have been able to respond quickly to most of the demand in many markets because the structures are relatively simple to build: "Just four walls and a roof."

E-commerce has been driving up demand for warehouse space and has also pushed retailers to adjust how they use spaces they already occupy—a "compositional change," Mr. Savage said.

Some distribution centers have added fulfillment operations.

Other warehouses have converted to "cross-dock" facilities to handle last-mile delivery of bulky items. And many brick-and-mortar retail loca-

tions have added e-commerce services, reducing the storefront footprint.

"You're seeing a broad shift in the blurring of the line between retail and industrial space," Mr. Savage said. "So something that may appear as a complete retail space does have an industrial component to it."

Changes to trade policy could throw off the near-alignment of supply and demand in industrial real estate, Mr. Savage said.

# WD-40 Feels Muted Trade Hit

By EZEQUIEL MINAYA

Eventually trade disputes will pressure pricing, he said. "Companies can use these to hide other price increases," he noted.

During the latest quarter, WD-40 saw net sales rise 9% compared with the same period last year to \$107 million, with results receiving a tailwind from foreign-exchange impacts, among other factors, according to company filings. Profit climbed 12% to \$16.1 million.

For the nine-month period ended May 31, the company collected 52% of net income outside the Americas, which includes Latin America and Canada.

Washington has faced off with Beijing in a deepening trade spat. The U.S. also has imposed tariffs on metals from Canada, Mexico and the European Union.

"We source and manufacture as close as we can to our consumers, we are not doing a lot of building of product in just one jurisdiction," Mr. Rembold said, explaining why WD-40 isn't hurt by the trade tensions. Still, he added, "I think they are unfortunate, I think they are ill-advised."

During a recent conference call, company leaders said that they are closely watching rising energy prices. "Volatile commodity prices particularly those for crude oil have negatively impacted our gross margins recently," said Chief Executive Garry Ridge during the call. Crude oil is among the primary feedstocks of some of the company's petroleum-based specialty chemicals. And rising oil costs have weighed on WD-40's cost of goods, company leaders said.

## Investor Proposals Garner Support

By TATYANA SHUMSKY

Shareholder proposals, a key tool investors use to steer corporate decision-making, have fallen in number but are better at hitting the mark, according to a report by law firm Gibson, Dunn & Crutcher LLP.

Investors lodged 788 proposals to companies during this year's proxy season, down 5% from 2017, the report said. This was the third-straight year of declines, and comes in part as companies have responded to past missives and incorporated changes to business practices.

Proposals on social and environmental topics—at 43%—remained the most frequently submitted this year, according to the report. Governance proposals are in second place at 36% of the total.

Investors' missives are also becoming more successful. The average support for proposals that came to a vote rose to 32.7%, up from 28.7% in 2017.

"We have seen a number of large institutional investors announcing voting policy changes indicating that they're more likely to support these proposals," said Elizabeth Ising, a partner at Gibson Dunn and co-chair of the firm's securities regulation and corporate governance practice.

Meanwhile, companies this year had a harder time getting regulatory approval to exclude investor proposals from proxy documents without incurring enforcement action. Companies submitted 256 "no-action" requests to the U.S. Securities and Exchange Commission this year, and staff granted 64% of these requests for exclusion. In 2017, the SEC approved 78% of the 288 requests it received from companies.

One reason behind the decline is that so-called proxy-access proposals, which call for allowing investors to nominate directors to a company's board, have declined to 48 in 2018, from 112 in 2017. The SEC allowed many companies to exclude these proposals in recent years because companies could demonstrate they were substantially implemented, Ms. Ising said. This was also the first year that some companies followed SEC staff's new guidance on providing board analysis to show why a shareholder proposal wasn't significant to the business and should be excluded.

"It definitely impacted the success rate of the no-action requests this year as companies were experimenting with the staff's new guidance," Ms. Ising said.

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# THE PROPERTY REPORT

## Investors Comb Retail Ruins for Bargains

BY ESTHER FUNG

Many property investors these days recoil from owning retail-oriented real estate, worried that most shopping centers are on their way toward extinction.

Then there is Brian Kosoy. The chief executive officer of the **Sterling Organization**, a private-equity firm based in Palm Beach, Fla., said his firm is poised this month to close a nearly \$500 million real-estate fund to invest in grocery-anchored shopping centers, street retail and other shopping centers across the U.S.

Sterling is part of a shrinking group of investors who still believe they can find bargains among the ruins, then turn these struggling properties around. Shopping centers in high-traffic locations might be weighed down by fixable issues like a low-paying anchor tenant, poor configuration or multiple owners with conflicting views, Mr. Kosoy said.

The exodus of investor capital from retail "will adjust pricing and offer buying opportunities for us," he said.

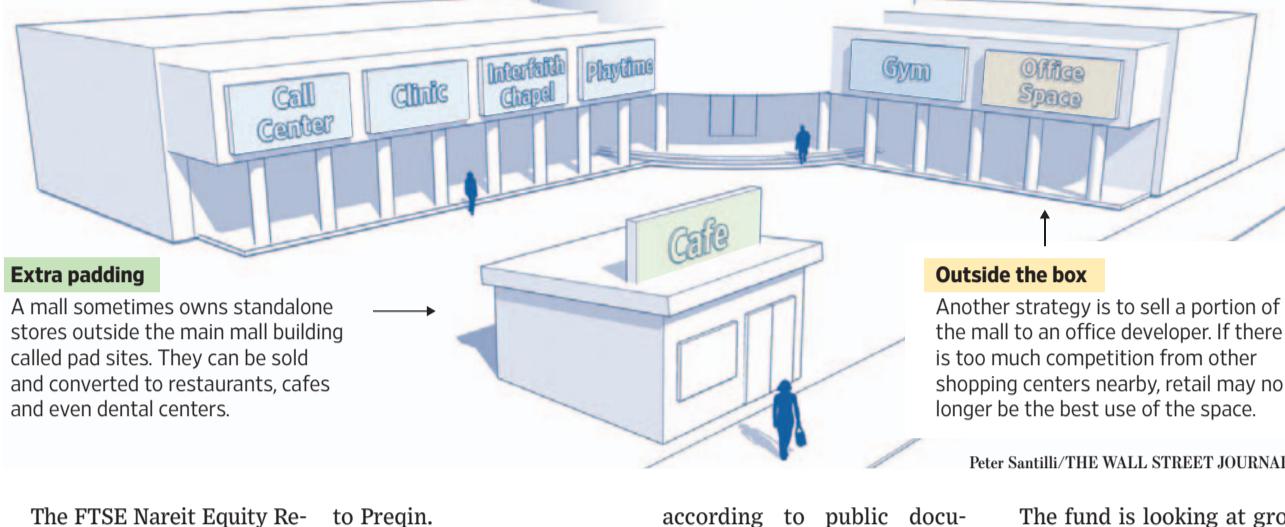
It is one of the biggest contrarian moves in commercial real estate. Strengthening consumer sentiment hasn't done much to boost demand for retail properties. Vacancy rates of malls and community shopping centers in major metro areas reached their highest level since 2014 in the second quarter at 9.9%, according to data tracker REIS.

### Shopping for Value

Some of the ways new owners boost revenue at a struggling shopping center

#### Expanding the tenant pool

Landlords sometimes get creative, renting to tenants who transform the spaces into call centers, medical offices, places of worship, gyms or entertainment venues such as trampoline parks.



#### Extra padding

A mall sometimes owns standalone stores outside the main mall building called pad sites. They can be sold and converted to restaurants, cafes and even dental centers.

The FTSE Nareit Equity Retail Index, which tracks the shares of retail real-estate investment trusts, has tumbled 30% since July 2016, when the shares of mall and shopping-center landlords started to skid. The S&P 500 is up by 29% over the same period.

Those returns have made it tough to raise new property funds focused on retail. This year through early July, retail specialist **L3 Realty Group** is the only other firm to close a retail property fund, according

to Prequin.

Even Mr. Kosoy said that it wasn't an easy task to get big investors to take a chance on shopping centers.

"There was definitely some apprehension among certain institutional investors," he said of the pension funds, college endowments and charitable foundations that invested with him.

The University of Michigan and the Teachers' Retirement System of Louisiana both have invested in the Sterling fund,

according to public documents. An official at the Louisiana pension fund and a University of Michigan official confirmed their investments but declined to comment beyond that.

Sterling's new fund shoots for average annual returns in the mid-to-upper teens by purchasing less-stable properties that require more active management. It also has another fund that invests in more-stable properties with predictable cash flows.

#### Dropping anchor

Anchor stores such as Sears and J.C. Penney, once seen as important tenants because of their ability to draw shoppers, often signed cheap, long-term leases decades ago. Landlords now seek to replace them with trendier retailers that will pay more rent.

#### Outside the box

Another strategy is to sell a portion of the mall to an office developer. If there is too much competition from other shopping centers nearby, retail may no longer be the best use of the space.

Peter Santilli/THE WALL STREET JOURNAL.

square foot to about \$14 a square foot with a market-rate lease, said James Corl, managing director and head of real estate at New York-based private-equity firm **Siguler Guff** and Co. Mr. Corl's firm has invested more than \$100 million with Sterling over the years, including in the latest fund.

Retail real-estate investors say there is money to be made from unraveling property-specific problems. Retailers such as **Hobby Lobby Stores** Inc. and discount retailers like **TJX Cos.** are expanding their store fleet. They are candidates to fill vacated spaces.

In other instances, investors could sell anchor department-store space to nontraditional tenants, such as churches or medical centers.

"We buy properties that are underleased, undermanaged or underloved," said Ami Ziff, director for national retail at real-estate firm **Time Equities** Inc., which has been an active acquirer of malls and open-air shopping centers.

Investors have a lot of damage to pick through. Strip centers' value has fallen 3% over the past 12 months, the result of overbuilding and the shift to online retail.

Big box stores have been hit, too. Department-store operator Bon-Ton Stores Inc. in April said it would liquidate all of its 256 stores and Toys 'R' Us closed all of its stores in the U.S. by the end of June.

—Dawn Lim contributed to this article.

## Three Commercial Sectors Surge

BY KEIKO MORRIS

Student housing, manufactured homes and industrial property were the top performing commercial real-estate sectors in the past 12 months, according to new data from Green Street Advisors.

These three sectors outperformed the broader commercial property market, where values remained flat between June 2017 and the end of the first half of this year. Meanwhile, values fell 10% in the hard-hit retail sector during the 12-month period, according to Newport Beach, Calif.-based Green Street, which tracks the market with its Commercial Property Price Index.

The index monitors office buildings, malls, warehouses and other commercial property owned by real-estate investment trusts. REITs tend to own larger and higher-quality properties than many private landlords.

The latest data provides a window into the large rise in real-estate values since the recession, as well as investor sentiment about different types of property as the current business cycle moves into its ninth year of growth.

The Commercial Property Price Index was at 100 in August 2007, its pre-2008 crash high. It descended to a low of 61.2 in May 2009.

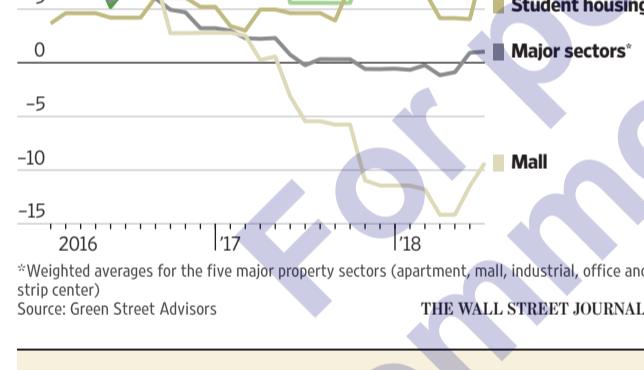
Since then, the index more than doubled as the improving economy pushed rents and occupancies higher and demand strengthened from yield-hungry investors who could borrow money easily because of low interest rates.

But broad market values plateaued at the end of 2016 and have hovered at that level since then. In June, the broad index remained unchanged from the month before at 126.9.

The plateau is partly because of rising interest rates,

### Above the Pack

Top-performing commercial-property sectors through July 1, compared with the industry average and slumping retail, change from a year earlier



which includes warehouses and distribution centers—thanks to growth in e-commerce.

Big industrial deals this year include Prologis Inc.'s agreement to buy logistics-property owner DCT Industrial Trust Inc. for \$8.4 billion including debt. Also, private-equity giant Blackstone Group LP is buying industrial and office REIT Gramercy Property Trust for \$7.6 billion, including debt. Blackstone's offer represents a 15% premium over Gramercy's closing stock price before the deal was announced.

"The general thesis around future property-value increases [is] that industrial rents are growing at an especially fast pace above inflation throughout most of the U.S.—even with a healthy amount of new construction," said Eric Frankel, a senior Green Street analyst. "Investors generally assume this will continue as e-commerce sales grow."

Student housing also performed well over the past 12 months, chalking up a 10% increase in values, Green Street said. These properties are considered to be more recession-resistant than other asset classes because even in an economic downturn, college enrollment are expected to remain steady.

Manufactured-home parks also remained a popular niche sector among investors. They require low capital costs and tend to be supply-constrained because community groups and local governments in recent years have slowed permitting processes.

According to Green Street, manufactured-home values rose 10% in the past 12 months. The firm's index tracking only that sector hit 178.3 at the end of June, compared with 158.5 in June 2017.

"You wind up increasing rents 3% a year regardless of what the economy is doing," Mr. Rothermund said.

## Gap Sues Westfield, Says It Overcharged Retailer's Expenses

BY MIKE CHERNEY

**Gap** Inc. is suing high-end-mall operator Westfield for allegedly overcharging the fashion retailer in an action that underscores the sometimes tense relationship between landlords and tenants as e-commerce transforms the retail sector.

Other well-known U.S. retailers, such as Starbucks and Saks Fifth Avenue, have duked it out with landlords in court recently as they have sought to trim costs amid a glut of shopping-center space. Mall vacancies in the U.S. recently hit a six-year high, with strip malls and neighborhood centers particularly hard-hit.

Gap's lawsuit, filed in May in a state court in Los Angeles, charges Westfield with using fraudulent accounting that resulted in Gap paying more than its fair share of mall expenses at more than two dozen shopping centers. Gap also sued Westfield's contractors that provided trash collection, including **Waste Management** Inc., for charging noncompetitive rates that were too high.

The lawsuit was filed about a month before European mall operator **Unibail-Rodamco** closed its acquisition of Australia-based Westfield. A spokesman for the merged company, now named **Unibail-Rodamco-Westfield**, declined to comment, saying that it doesn't discuss pending litigation.

"We take potential allegations very seriously," a Waste Management spokeswoman said, though she declined to elaborate because the matter is continuing.

The defendants have yet to file a legal response to the case, according to the court docket. Gap, which also owns Banana Republic, Old Navy and Athleta, declined to comment beyond what is alleged in the lawsuit.

Mall leases typically allow landlords to charge tenants for their proportionate share of certain expenses, such as taxes and maintenance fees. Disputes over these expenses are common, but landlords and tenants are often able to settle their disagreements without resorting to a lawsuit, lawyers said.

Now, however, the tough retail environment is creating "fertile territory for there to be more challenges," said Douglas M. Bregman, a commercial-real-estate lawyer and

senior partner at Bregman Berbert Schwartz & Gilday LLC in Bethesda, Md. "Larger tenants are not thrilled at paying anything that they don't have to pay."

Gap's legal papers say that its proportion of mall expenses was calculated based on the so-called gross leasable area of a development. The smaller the area, the more that Gap would have to pay as its share. But Gap says Westfield improperly excluded certain areas of its malls when making the calculation, which increased Gap's bill.

Gap says department stores and stores with a "primary exterior entrance" could be excluded from the calculation. However, it argues that vacant department stores can't be excluded—and that Westfield counted vacant stores as operating stores. It also argues Westfield improperly counted movie theaters as department

**\$1.8M**

Westfield said in one instance it would pay Gap more than this

stores and that Westfield said some stores had a primary exterior entrance when in fact they didn't.

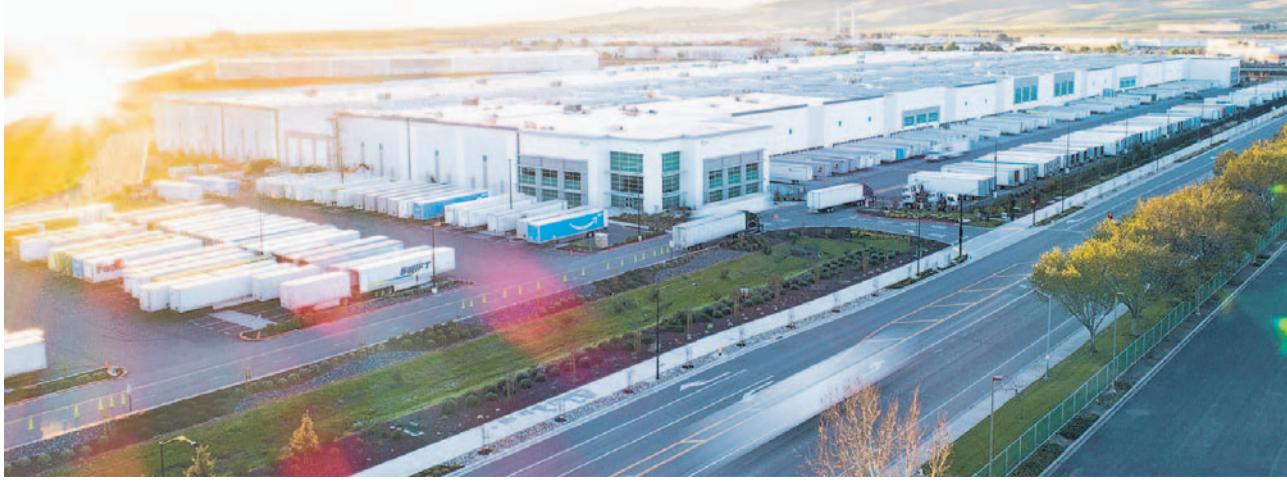
Westfield "prevented plaintiffs from discovering the fact and extent of Westfield's overcharges and other misconduct," Gap said in the lawsuit. For years, it said, Westfield "prolonged this delay by providing incomplete information while purporting to negotiate a settlement concerning the overcharges."

According to the lawsuit, Westfield acknowledged and agreed to pay some of the alleged overcharges, and in one instance said it would pay Gap more than \$1.8 million. But Gap says Westfield has withheld any payment until a "global resolution" is reached.

Bruce May, chairman of the real-estate department at Jennings Strouss & Salmon PLC in Phoenix, called Gap's lawsuit a "textbook case" that highlights the difficulty in determining how much tenants should pay for mall maintenance fees.

He predicted Westfield would settle the case before it goes to trial.

"It raises issues that you may not think of when you're drafting a lease," he said.

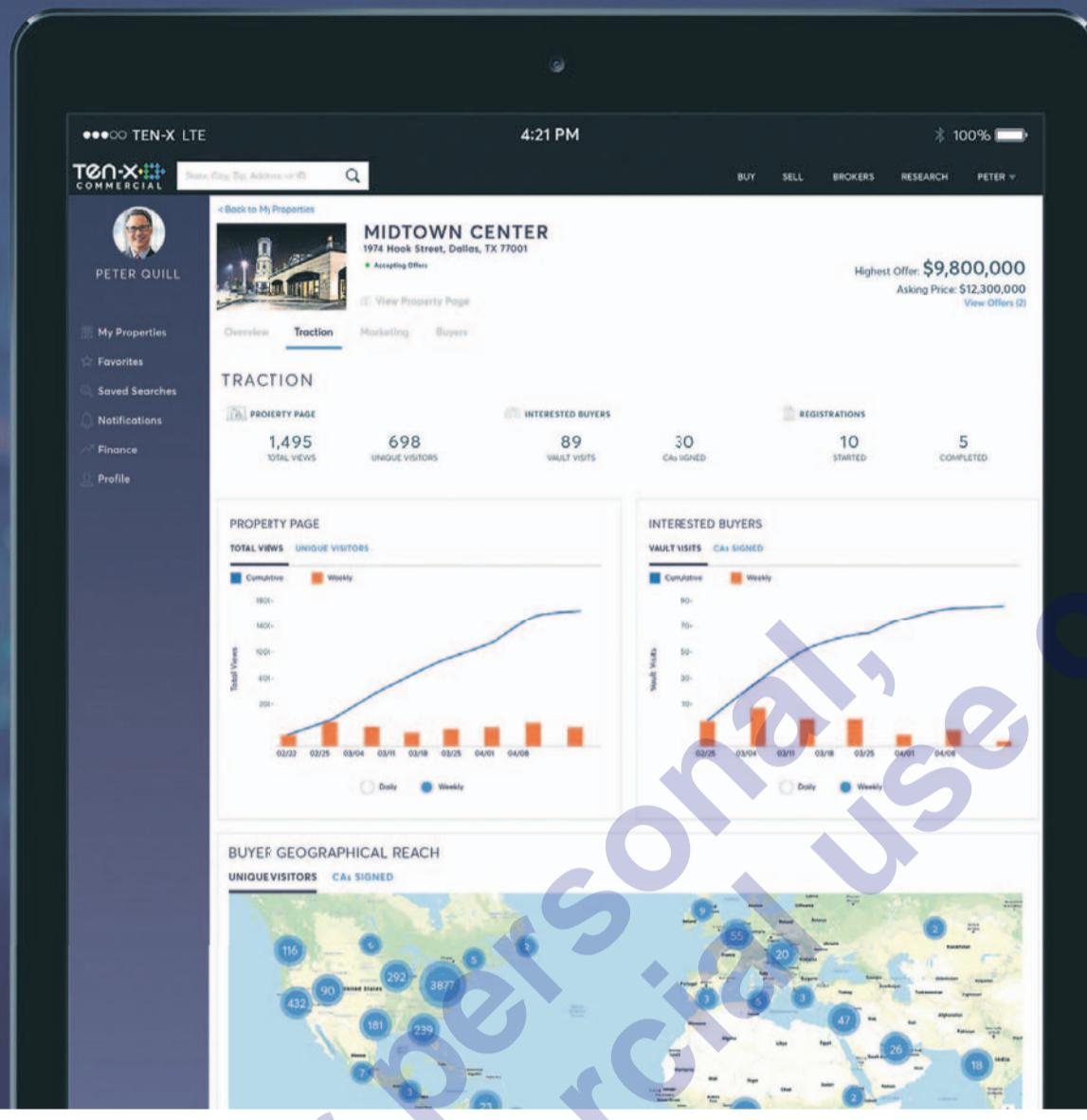


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**MARRIOTT**  
ST. LOUIS, MO

299 ROOMS	HOTEL
--------------	-------



**BID ONLINE JUL 30 – AUG 1**

**WHITTIER CENTER**  
WHITTIER, CA

143,484 SF	OFFICE
---------------	--------



**BID ONLINE JUL 30 – AUG 1**

**LAUREL POINTE APARTMENTS**  
HAWTHORNE, CA

115 UNITS	MULTIFAMILY
--------------	-------------



**BID ONLINE JUL 30 – AUG 1**

**PULLMAN PORTFOLIO**  
CHICAGO, IL

87 UNITS	MULTIFAMILY
-------------	-------------



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**THE WALL STREET JOURNAL.**

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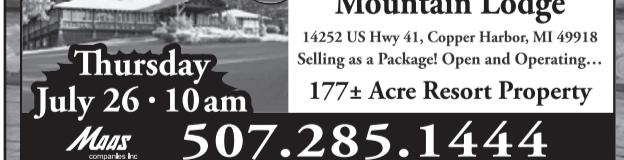
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**MGM RESORTS****Las Vegas Hotel Sues Shooting Victims**

**MGM Resorts International** is suing some of the people associated with the deadliest shooting in modern U.S. history, including victims of the attack, to protect itself from potentially significant legal claims.

MGM owns the Mandalay Bay Casino & Resort, where Stephen Paddock shot into a crowd of concertgoers with high-powered guns from a room on the Las Vegas hotel's 32nd floor in October.

He killed 58 people and injured more than 500. In lawsuits, filed Friday in Las

**BUSINESS WATCH**

Vegas federal court, MGM claims that more than 2,500 people have sued it or its subsidiaries or had threatened to do so in connection with the shooting.

MGM said complaints or threats of legal action claim the company was liable for the deaths, injuries and emotional distress resulting from Mr. Paddock's attack. MGM alleges that federal law protects it from liability stemming from the massacre.

Passed in 2002, the law says that "sellers" of antiterrorism technology, such as security companies like the one hired to handle the Las Vegas concert, may be held responsible for mass attacks, but that buyers of such services, like the entertain-

ment company, are shielded from liability claims, according to MGM's lawsuit.

"The Federal Court is an appropriate venue for these cases and provides those affected with the opportunity for a timely resolution," an MGM Resorts spokeswoman said in a statement. "Years of drawn out litigation and hearings are not in the best interest of victims, the community and those still healing."

—Micah Maidenberg

**GOOGLE****Cloud Services Unit Hit by Tech Issues**

Google Cloud Services experienced problems Tuesday after-

noon, causing issues across the internet. Google, owned by **Alphabet** Inc., said many of its services were returning error messages as of 3:34 New York time. Google said the problem was resolved Tuesday afternoon.

Google's status page listed problems with Google App Engine, Google Cloud Networking and Google Stackdriver.

Companies rely on cloud service providers to run their systems, including their websites. When problems arise in the cloud they can have widespread effects. For instance, **Snap** Inc. said many users were also having issues using its app, while **Spotify Technology** SA also said that "something's not quite right."

—Austen Hufford

**Car Dealers Prepare for Price Rises**

*Continued from page B1*

end up being cheaper than the Forester if the tariff were imposed. The larger Subaru Outback is built in Lafayette, Ind.

Several dealers contacted by The Wall Street Journal said they aren't convinced the tariff will go into effect. They said they are waiting to make plans until they have a clearer idea about if and when the tariff will be enacted.

Also, luxury brands may be more insulated from the tariff because their buyer base can likely afford a few thousand extra dollars on top of the typical selling price, said Jeremy Acevedo, an analyst at Edmunds.com. Due to the popularity of leasing in the luxury market, he said, the tariff could be absorbed into the monthly lease payment and might only drive up a payment by about \$50 a month.

Mr. Trump has repeatedly taken aim at foreign and domestic auto makers in his efforts to pressure companies to expand U.S. manufacturing

jobs.

He has had some success. **Ford Motor** Co. last year scrapped plans for a \$1.6 billion assembly plant in Mexico after facing criticism by Mr. Trump for more than a year. And **Toyota Motor** Corp. announced plans to build a \$1.6 billion Corolla sedan plant in the U.S. Mr. Trump had pressured Toyota to drop plans for making that model in Mexico.

In May, the White House asked the Commerce Department to investigate whether it could use a national-security law to impose a 25% tariff on all U.S. auto imports, including assembled vehicles and car parts. A public Commerce Department hearing on the proposal is scheduled this week.

The Commerce Department said after completing an analysis it will make a report for the White House "within a couple months," adding "no proposal for action has yet been made."

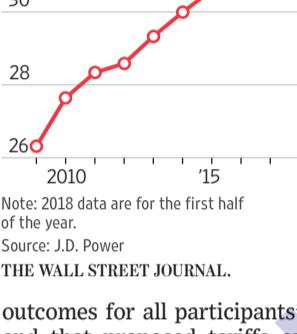
**Audi AG** declined to comment. **Mazda Motor** Corp. didn't respond to requests for comment. **Subaru Corp.**, in a statement, said it is monitoring the situation and if a tariff is implemented, it would "have to consider our options at that time."

Mercedes maker **Daimler AG** said it supports trade policies "that produce favorable

**Climbing**

Average U.S. car prices have steadily increased, and tariffs could push them up further.

\$34 thousand



outcomes for all participants" and that proposed tariffs on imported vehicles and parts could "invite retaliation by trading partners and depress U.S. sales volumes." **Mitsubishi Motors** Corp., in comments to the Commerce Department in June, said the tariffs could restrict choice and make vehicles less affordable.

**General Motors** Co. last month said proposed tariffs would raise its costs and eventually lead to higher prices for consumers. Last year, about 36% of GM's U.S. sales were of imported vehicles made out-

side the U.S., or about 1.1 million vehicles, according to forecasting firm LMC Automotive.

The warnings come as U.S. auto sales continue at a near-record pace, thanks to a strong economy, low unemployment and tax cuts. The average price paid for a vehicle in the U.S. has climbed, hitting \$32,225 through the first half of 2018, up nearly \$3,000 from five years ago, according to data from market-research firm J.D. Power.

Some analysts estimate the tariff could cut U.S. auto sales by roughly two million vehicles a year. Last year, the industry sold 17.2 million new vehicles in the U.S.

If the tariff is enacted, consumers would have a window of one or two months to buy a car before prices start to rise because dealers will have lower-priced inventory stocked on their lots, analysts say.

Ryan Gremore, president of **O'Brien Mitsubishi** in Normal, Ill., said if a tariff were imposed, he would give selling new cars and focus on selling used cars, where profit margins are higher. He said Mitsubishi tends to attract a budget-minded buyer who would be turned off by a price increase.

"We wouldn't get a warm reception from customers," he said. "We have to survive."

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2	Arlington Hgts	IL	Branch	11,400 SF	0.91 AC	\$1,350,000
3	Channahon	IL	Land	n/a	1.72 AC	\$375,000
4	Crystal Lake	IL	Land	n/a	4.85 AC	\$1,950,000
5	Danville	IL	Branch	3,000 SF	1.24 AC	\$199,000
6	Danville	IL	Office	21,530 SF	1.41 AC	\$350,000
7	Dekalb	IL	Branch	2,450 SF	0.20 AC	\$150,000
8	Leland	IL	Branch	3,530 SF	0.52 AC	\$325,000
9	Matteson	IL	Branch/Office	13,500 SF	2.04 AC	\$799,000</td

## MARKETS DIGEST

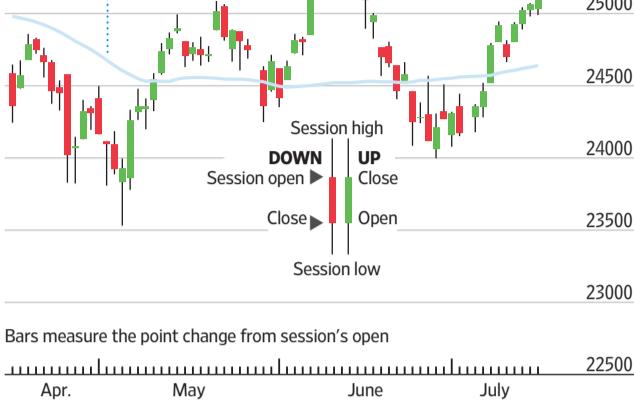
## EQUITIES

## Dow Jones Industrial Average

**25119.89** ▲ 55.53, or 0.22%  
 High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 23.77 20.85  
 P/E estimate \* 16.34 18.41  
 Dividend yield 2.16 2.31  
 All-time high 26616.71, 01/26/18

Current divisor 0.14748071991788



Bars measure the point change from session's open  
 Apr. May June July 22,500 2500

\*Weekly P/E data based on as-reported earnings from Binyi Associates Inc.

## S&amp;P 500 Index

**2809.55** ▲ 11.12, or 0.40%  
 High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 24.52 24.29  
 P/E estimate \* 17.45 18.80  
 Dividend yield 1.87 1.99  
 All-time high 2872.87, 01/26/18



Apr. May June July 2500 22,500

## Nasdaq Composite Index

**7855.12** ▲ 49.40, or 0.63%  
 High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 26.45 26.14  
 P/E estimate \* 21.36 20.91  
 Dividend yield 0.94 1.12  
 All-time high: 7855.12, 07/17/18



Apr. May June July 6600 2500

## Major U.S. Stock-Market Indexes

	High	Low	Latest Close	Net chg	% chg	High	52-Week Low	% chg	YTD % chg	3-yr. ann.
	Dow Jones	Industrial Average	Transportation Avg	Utility Average	Total Stock Market	Barron's 400	Nasdaq Composite	Nasdaq 100	SPX	MidCap 400
Industrial Average	25155.39	24989.61	<b>25119.89</b>	55.53	▲ 0.22	26616.71	21513.17	<b>16.4</b>	1.6	<b>11.6</b>
Transportation Avg	10485.98	10412.96	<b>10463.13</b>	27.61	▲ 0.26	11373.38	9021.12	<b>8.6</b>	-1.4	<b>8.1</b>
Utility Average	723.62	720.40	<b>720.82</b>	-0.23	▲ -0.03	774.47	647.90	<b>1.3</b>	-0.4	<b>7.8</b>
Total Stock Market	29280.79	29019.21	<b>29236.35</b>	125.42	▲ 0.43	29630.47	25030.26	<b>14.7</b>	5.6	<b>9.6</b>
Barron's 400	757.04	749.93	<b>756.00</b>	4.40	▲ 0.59	761.78	629.56	<b>15.5</b>	6.3	<b>9.8</b>

Nasdaq Stock Market	Nasdaq Composite	7867.15	7749.61	<b>7855.12</b>	49.40	▲ 0.63	7855.12	6213.13	<b>23.8</b>	13.8	<b>14.7</b>
	Nasdaq 100	7418.43	7288.30	<b>7403.89</b>	45.99	▲ 0.63	7403.89	5786.54	<b>25.9</b>	15.8	<b>16.7</b>

S&P	500 Index	2814.19	2789.24	<b>2809.55</b>	11.12	▲ 0.40	2872.87	2425.55	<b>14.2</b>	5.1	<b>9.7</b>
	MidCap 400	1997.62	1981.85	<b>1994.74</b>	9.37	▲ 0.47	2009.15	1691.67	<b>13.1</b>	5.0	<b>9.8</b>
	SmallCap 600	1049.51	1039.83	<b>1047.63</b>	6.53	▲ 0.63	1057.32	817.25	<b>21.5</b>	11.9	<b>13.1</b>

Other Indexes	Russell 2000	1690.04	1676.10	<b>1687.26</b>	8.72	▲ 0.52	1706.99	1356.90	<b>18.2</b>	9.9	<b>10.0</b>
	NYSE Composite	12797.58	12725.99	<b>12779.22</b>	30.44	▲ 0.24	13637.02	11699.83	<b>7.6</b>	-0.2	<b>5.2</b>
	Value Line	582.09	577.60	<b>581.45</b>	2.71	▲ 0.47	589.69	503.24	<b>10.3</b>	3.4	<b>5.2</b>
	NYSE Arca Biotech	5128.45	5025.52	<b>5111.63</b>	56.69	▲ 1.12	5115.93	3787.17	<b>30.8</b>	21.1	<b>4.9</b>
	NYSE Arca Pharma	550.45	546.76	<b>549.31</b>	5.15	▲ 0.95	593.12	514.66	<b>2.5</b>	0.8	<b>-3.0</b>
	KBW Bank	107.51	106.34	<b>106.99</b>	0.29	▲ 0.27	116.52	89.71	<b>11.9</b>	0.3	<b>10.5</b>
	PHLX® Gold/Silver	80.71	79.56	<b>80.03</b>	-0.11	▲ -0.14	93.26	76.42	<b>-2.9</b>	-6.1	<b>13.9</b>
	PHLX® Oil Service	152.13	150.04	<b>151.53</b>	-1.16	▲ -0.76	170.18	117.79	<b>12.9</b>	1.3	<b>-5.6</b>
	PHLX® Semiconductor	1359.28	1328.84	<b>1358.99</b>	19.75	▲ 1.47	1449.90	1060.02	<b>23.2</b>	8.5	<b>26.8</b>
	Cboe Volatility	13.18	11.85	<b>12.06</b>	-0.77	▲ -6.00	37.32	9.14	<b>21.9</b>	9.2	<b>0.3</b>

## International Stock Indexes

\$ Nasdaq PHLX Sources: SIX Financial Information; WSJ Market Data Group

## Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 50,000 shares.

## Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
VanEck Vectors Gold Miner	GDX	5,206.5	21.86	-0.02	<b>-0.09</b>	21.89	21.82
VanEck Vectors Semiconduc	SMH	3,945.4	106.00	-0.04	<b>-0.03</b>	106.15	106.00
General Electric	GE	3,938.2	13.69	...	<b>unch.</b>	13.71	13.66
SPDR S&P 500	SPY	3,861.5	280.78	0.31	<b>0.11</b>	280.81	280.14

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
iShares MSCI Emg Markets	EEM	2,823.3	43.99	0.06	<b>0.14</b>	43.99	43.55
Wells Fargo	WFC	2,520.6	56.56	...	<b>unch.</b>	56.84	56.56
Twitter	TWTR	2,401.4	44.75	0.04	<b>0.09</b>	44.85	44.53
iShares Global Healthcare	IXJ	2,261.3	58.75	-0.21	<b>-0.36</b>	58.75	58.75

United Continental Holdings

CSX

Cameco Corp

Fossil Group

Textron

Cara Therapeutics

Teck Resources

## BIGGEST 1,000 STOCKS

**How to Read the Stock Tables**

The following explanations apply to NYSE, NYSE Arca, NYSE American and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq BX (formerly Boston), Chicago Stock Exchange, Cboe, NYSE National and Nasdaq ISE. The list comprises the 1,000 largest companies based on market capitalization.

**Underlined quotations** are those stocks with large changes in volume compared with the issue's average trading volume.

**Boldfaced quotations** highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.

Tuesday, July 17, 2018

Net

Stock Sym Close Chg

Stock Sym Close Chg

Net

## COMMODITIES

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## Futures Contracts

## Metal &amp; Petroleum Futures

	Contract						Open interest
	Open	High	Low	Settle	Chg	Interest	
<b>Copper-High (CMX)</b> -25,000 lbs.; \$ per lb.	2,7600	2,7735	2,7365	2,7395	-0.0175	1,747	
July 2,7600	2,7735	2,7365	2,7395	2,7415	-0.0175	164,684	
<b>Gold (CMX)</b> -100 troy oz.; \$ per troy oz.	2,7670	2,7795	2,7415	2,7470	-0.0175	164,684	
Aug 12,4070	12,4510	12,2510	12,2310	12,2730	-12,40	256,425	
Oct 12,4590	12,5020	12,3130	12,3230	12,3520	-12,50	31,344	
Dec 12,5170	12,5570	12,3660	12,3780	12,3525	-12,50	193,726	
<b>Feb'19</b> 12,5500	12,6160	12,4300	12,4360	12,4800	-12,80	24,940	
June 12,6920	12,6980	12,5500	12,5580	12,6800	-12,80	5,975	
Dec 12,8830	12,9240	12,7610	12,7530	12,90	-12,90	3,684	
<b>Palladium (NYM)</b> -90 troy oz.; \$ per troy oz.	9,1400	9,2000	9,0200	9,0920	-4.30	19,241	
Sept 9,1400	9,1840	9,0930	9,0590	9,0420	-4.20	2,282	
<b>Platinum (NYM)</b> -50 troy oz.; \$ per troy oz.	8,2080	8,2100	8,2080	8,1580	-6.50	18	
Oct 8,2630	8,3240	8,1790	8,1990	8,6500	-6.50	76,746	
<b>Silver (CMX)</b> -5,000 troy oz.; \$ per troy oz.	15,70	15,710	15,50	15,546	-0.189	682	
Sept 15,70	15,885	15,560	15,617	15,617	-0.195	154,218	
<b>Crude Oil, Light Sweet (NYM)</b> -1,000 bbls.; \$ per bbl.	68,05	68,44	67,03	68,08	0.02	144,263	
Sept 67,09	67,61	66,35	67,16	69,00	0.468	777	
Oct 65,65	66,33	65,25	65,84	68,00	0.18	243,945	
Dec 64,69	65,47	64,35	64,89	68,18	0.289	289,699	
<b>Jan'19</b> 64,27	65,02	64,01	64,54	62,00	0.20	159,150	
Dec 60,77	61,69	60,59	61,07	62,04	0.24	206,991	
<b>NY Harbor ULSD (NYM)</b> -42,000 gal.; \$ per gal.	2,0579	2,0820	2,0476	2,0701	-0.018	83,944	
Sept 2,0644	2,0877	2,0537	2,0753	2,0148	-0.148	102,882	
<b>Gasoline-NY RBOB (NYM)</b> -42,000 gal.; \$ per gal.	2,0058	2,0283	1,9982	2,0261	-0.0239	74,401	
Sept 1,9801	2,0011	1,9715	1,9972	2,015	-0.0215	121,196	
<b>Natural Gas (NYM)</b> -10,000 MMBtu's; \$ per MMBtu.	2,767	2,788	2,731	2,740	-0.19	126,756	
Sept 2,737	2,756	2,701	2,707	2,023	-0.24	249,220	
Oct 2,750	2,767	2,715	2,720	2,022	-0.24	147,120	
<b>Jan'19</b> 2,995	3,013	2,962	2,968	2,021	-0.13	133,053	
March 2,873	2,888	2,842	2,847	2,018	-0.18	123,063	
April 2,605	2,620	2,581	2,586	2,015	-0.15	129,547	

## Agriculture Futures

<b>Corn (CBT)</b> -5,000 bu.; cents per bu.	345.00	348.75	344.25	346.25	4.50	651,606	
Sept 345.00	348.75	344.25	346.25	4.50	651,606		
Dec 358.75	362.25	357.75	359.75	4.50	762,775		
<b>Oats (CBT)</b> -5,000 bu.; cents per bu.	231.25	232.75	229.75	231.50	...	1,679	
Sept 231.25	232.75	229.75	231.50	...	1,679		
Dec 235.75	237.00	234.00	236.50	-5.0	3,151		
<b>Soybeans (CBT)</b> -5,000 bu.; cents per bu.	832.35	843.50	830.00	839.50	10.00	82,683	
Aug 832.35	843.50	830.00	839.50	10.00	82,683		
Sept 849.75	859.75	846.00	855.25	9.50	434,122		
<b>Soybean Meal (CBT)</b> -100 tons; \$ per ton.	330.00	332.90	328.10	329.10	...	58,504	
Sept 330.00	332.90	328.10	329.10	...	58,504		
Dec 328.30	331.70	326.00	327.20	-3.0	202,842		
<b>Soybean Oil (CBT)</b> -60,000 lbs.; cents per lb.	27.77	27.91	27.57	27.73	.09	58,041	
Aug 27.77	27.91	27.57	27.73	.09	58,041		
Dec 28.24	28.32	27.99	28.13	.04	234,860		
<b>Rough Rice (CBT)</b> -2,000 cwt.; \$ per cwt.	120,50	120,00	119,00	120,100	-3.50	6,333	
Sept 120,50	120,00	119,00	120,100	-3.50	6,333		
Nov 119,70	118,00	117,90	118,450	4.50	1,183		
<b>Wheat (CBT)</b> -5,000 bu.; cents per bu.	491.00	504.25	487.75	497.25	9.25	202,116	
Sept 491.00	504.25	487.75	497.25	9.25	202,116		
Dec 507.25	519.00	502.75	512.25	8.25	156,480		
<b>Wheat (KC)</b> -5,000 bu.; cents per bu.	529.00	537.50	529.00	533.25	5.00	29,978	
Sept 529.00	537.50	529.00	533.25	5.00	29,978		
Dec 547.50	555.00	547.50	551.00	5.00	16,670		
<b>Wheat (MPLS)</b> -5,000 bu.; cents per bu.	510.25	523.50	509.25	515.00	6.00	86,077	
Sept 510.25	523.50	509.25	515.00	6.00	86,077		
<b>Soybean Meal, Cent IL, rail, ton</b> 48-u	11513	11513	11513	11513	...	339.60	
Sept 11513	11513	11513	11513	11513	...	339.60	
<b>Soybeans, No.1 llw IL-bpu</b>	11513	11513	11513	11513	...	8,075	
Sept 11513	11513	11513	11513	11513	...	8,075	
<b>Wheat, Spring 1/4% pro Mnpls-u</b>	11513	11513	11513	11513	...	6,5575	
Sept 11513	11513	11513	11513	11513	...	6,5575	
<b>Wheat, No.2 soft red St.Louis-bpu</b>	11513	11513	11513	11513	...	5,1300	
Sept 11513	11513	11513	11513	11513	...	5,1300	
<b>Wheat - Hard - KC (USA) \$ per bu</b>	11513	11513	11513	11513	...	5,2075	
Sept 11513	11513	11513	11513	11513	...	5,2075	
<b>Wheat, No.1 soft white, Portl, OR-u</b>	11513	11513	11513	11513	...	5,8500	
Sept 11513	11513	11513	11513	11513	...	5,8500	

## Contract

	Contract						Open interest
	Open	High	hilo	Low	Settle	Chg	
<b>July</b> 14,27	14,29			14,23	14,24	-.02	3,700
<b>Aug</b> 15,16	15,27			14,92	15,00	-.18	4,468
<b>Sept</b> 2,389	2,420			2,395	2,418	-.22	75,455
<b>Dec</b> 2,425	2,456			2,395	2,418	-.22	75,455

## BANKING &amp; FINANCE

**Oil Boom**

U.S. oil exports surged to record highs after a 40-year ban was lifted. Meanwhile, crude-oil prices in different parts of the world have diverged this year on local issues.



Sources: Energy Information Administration (exports); Argus (Houston); WSJ Market Data Group (Brent, Cushing)



# Oil Rebounds From Rough Start, Focus Stays on Reserve

By DAN MOLINSKI  
AND CHRISTOPHER ALESSI

U.S. oil prices ended slightly higher Tuesday after an early-session drop to their lowest level in nearly a month on expectations global producers would bring additional crude oil to market to make up for recent deficits.

Light, sweet crude for August delivery ended 0.03% higher at \$68.08

a barrel on the New York Mercantile Exchange. Brent crude, the global benchmark, rose 0.5% to \$72.16 a barrel. U.S. prices fell to as low as \$67.03 a barrel during morning trading, the lowest intraday since mid-June.

"Reports that the U.S. is mulling a [strategic petroleum reserve] release and a softer stance on Iranian exports, along with comments from other large producers reassuring markets that they would continue to balance the market, helped fuel the perception that more oil is re-entering the market," said JBC Energy, which added this notion "is finding solid justification in terms of crude movements."

New futures contracts regularly face hurdles in garnering enough traction to compete. In 2016, CME Group launched futures contracts that track the difference between Houston and Cushing prices—allowing market participants to hedge their exposure to gaps. Combined open interest on such products between ICE and CME has steadily risen to more than 180,000 contracts, more than double last year's level. ICE and CME are the two dominant players in the oil futures market.

Escalating trade tensions between the U.S. and China could also derail the trend of growing exports, and undermine the emphasis on Houston pricing, said Philip Verleger, an energy economist.

oil inventories.

The American Petroleum Institute, an industry group, said late Tuesday that its own data for the week showed a 629,000-barrel increase in crude supplies, a 425,000-barrel rise in gasoline stocks and a 1.7-million-barrel increase in distillate inventories, according to a market participant.

"The market is trading nervous after taking a pummeling in yesterday's action," said Dan Flynn at Price Futures in Chicago. "The market is in chop mode for the moment and we are expecting another large draw in crude oil and product stocks."

Tuesday's moves came after oil prices fell more than 4% for the second time in the last four sessions on Monday.

Oil-market observers are increasingly focused on the possibility the U.S. could open up its strategic reserves following comments by President Donald Trump late last week.

"The main reason for yesterday's significant price drop was the talk about SPR release that is getting louder," according to Tamas Varga, analyst at brokerage PVM Oil Associates Ltd.

"The U.S. SPR is currently some 270 million barrels above the required level of 90 days of the previous year's net imports—there is room to act if deemed necessary," he added.

Also exerting pressure are signs Saudi Arabia is ramping up output more than agreed in conjunction with the Organization of the Petroleum Exporting Countries last month. At the same time, the U.S. Energy Information Administration said Monday that it expects August U.S. shale oil output to increase 143,000 barrels a day month on month to reach 7.47 million barrels a day.

# Export Boom Lifts Houston

By STEPHANIE YANG

Houston is set to get its own oil futures, a sign of the city's growing importance as the U.S. sends more crude abroad.

Intercontinental Exchange Inc. is planning a new crude futures contract with physical delivery in Houston, the company said Tuesday. The contract will provide traders with direct access to Houston prices. The exchange is aiming to launch this quarter, subject to regulatory review.

For decades, the benchmark for U.S. oil prices has been in Cushing, Okla., because of its accessibility through major pipelines and extensive storage space. However, with the U.S. on track to become a major energy exporter, some analysts say that pricing power is shifting to the Gulf Coast, where oil gets loaded onto tankers and shipped overseas.

"Houston's become the main trading hub," said Jeff Barbuto, vice president of oil markets at ICE. "It's a better representation of the economics of where U.S. crude production meets the water to be exported."

U.S. exports of crude oil have surged since a 40-year-

old ban was lifted in 2015. In June, crude exports reached a high of 3 million barrels a day, and have since stayed at about 2 million barrels a day. Meanwhile, U.S. shale companies are producing at record levels of 10.9 million barrels a day.

Right now, those who want to trade Houston prices use futures that track Cushing prices and contracts that track the difference between the two locations. An outright Houston contract could help streamline the process for traders and companies looking to lock in prices for their crude.

"This will help our customers through the process of hedging their risk around those differentials," said Mark Roles, vice president of commercial crude oil at Magellan Midstream Partners LP, whose East Houston terminal will act as the settlement and delivery point for the new contract.

"As more volumes hit the international market, we're going to see a much stronger need for pricing and hedging," he said.

Several times this year, Cushing prices were influenced by logistical issues, creating headaches for producers, said John Coleman, an analyst at energy consultancy Wood

Mackenzie.

"There's a lot of guesswork that goes into factors impacting Cushing," Mr. Coleman said. "A coastal-based contract is going to be much more relevant in selling crude into the global market."

Houston may also start competing with other major export locations such as Corpus Christi, analysts said, as more infrastructure is built out to ship crude overseas. On

U.S. oil futures based on Cushing prices closed. Meanwhile, Houston prices closed \$1.65 above Cushing, according to prices compiled by Argus Media group.

New futures contracts regularly face hurdles in garnering enough traction to compete. The old guard may be slow to shift into a new pricing dynamic," Mr. Coleman said.

In 2016, CME Group launched futures contracts that track the difference between Houston and Cushing prices—allowing market participants to hedge their exposure to gaps. Combined open interest on such products between ICE and CME has steadily risen to more than 180,000 contracts, more than double last year's level. ICE and CME are the two dominant players in the oil futures market.

Escalating trade tensions between the U.S. and China could also derail the trend of growing exports, and undermine the emphasis on Houston pricing, said Philip Verleger, an energy economist.

# Netflix Shorts Get Rare Reprieve as Stock Dives

By BEN EISEN

Investors who bet against Netflix this year erased some of their steep losses on Tuesday.

The streaming-video service's stock price fell as much as 14% in morning trading before rebounding to close 5.2% lower at \$379.48.

The move came after Netflix's second-quarter results late Monday showed the company missed its own forecasts for subscriber growth. The company blamed issues with its internal forecasting, a problem it has faced in the past.

Short sellers, who seek to profit from a stock's fall, had paper profits of \$366 million on Tuesday, according to S3 Partners, a financial analytics company.

Those betting against the stock have been reducing the number of shares shorted as the stock has skyrocketed.

But the rising share price means shorts still had nearly



Netflix's stock fell as much as 14% in morning trading before rebounding. A scene from the service's 'Orange Is the New Black.'

\$7 billion of value at risk on Monday, placing Netflix's stock among the most shorted U.S. stocks.

Greenlight Capital, the hedge fund run by David Ein-

horn, is among the investors shorting the stock. The Wall Street Journal reported earlier this month, citing an early 2018 investor presentation.

Short sellers typically borrow stock from a lender and sell it, hoping it has fallen by the time they buy it back to return it.

If it has dropped, the

short seller captures the price difference after fees.

If the stock is up, as is the case with Netflix recently, losses can be unlimited.

Netflix shares have been flying higher this year as the company invests heavily in original content.

Even with Tuesday's fall, the company's shares have nearly doubled since the end of last year.

Short sellers are nursing paper losses of \$3.9 billion for the year, S3 data show.

Netflix's rapid rise over the past two years has captivated Wall Street as well as brought out the short sellers who think the company's shares have run up too far.

"This expensive stock may take some time to find bullish footing again, but we continue to believe in the long-term value proposition for consumers and investors," Canaccord Genuity technology analyst Michael Graham said in a research note.

The S&P 500 hasn't hit a fresh high since January, when investors were still betting on a robust global economy. Now, investors are the least optimistic they have been about global growth since February 2016, Bank of America Merrill Lynch found in a survey of global fund managers polled between July 6 and July 12.

"Because of where we are in the cycle, the catalysts for a meaningful upside [in the stock market] don't number as many as the potential negative catalysts," said Sameer Samana, global equity and technical strategist at Wells Fargo Investment Institute.

That is especially true since earnings growth is already poised to slow in the second quarter from the first and generally taper off over coming quarters, analysts say.

A host of things are affecting firms' decision to give guidance for the second half of the year, and that's muting positive reaction to what would otherwise be a strong earnings season," Mr. Hogan of B. Riley FBR said.

Other fears flagged up by the survey include high levels of corporate debt and the possibility that earnings growth has reached its peak.

# Caution Is Growing For Fund Managers

By JOSEPH WALLACE

Investors are growing more cautious on the global growth story.

For the first time since the China-inspired market turmoil of early 2016, a clear majority of the fund managers surveyed by Bank of America Merrill Lynch don't expect global growth to accelerate over the next 12 months.

Confidence in global economic growth propelled markets through last year and supported benchmarks into 2018, despite concerns over trade and wider geopolitics.

In the BAML survey, trade was a concern, with 60% of investors saying a possible trade war poses the greatest risk to markets.

The monthly survey polls investors who collectively manage \$542 billion in assets.

This month's survey took place from July 6 to July 12, a period that began with the U.S. and China imposing tariffs on \$34 billion worth of each other's exports and ended with Washington threatening levies on a further \$200 billion in Chinese goods.

Concerns over risks to global growth tally with increased caution elsewhere. On Monday, the International Monetary Fund said it still expects the world economy to grow at a healthy clip this year and next but warned the "risks to the outlook are mounting."

Such caution is showing up in portfolios. Investors told BAML they have cut their exposure to equities, especially in emerging markets, and moved into bonds. Having hit a multiyear high of over 3.1% in mid-May, the yield on 10-year Treasury notes has fallen under 2.9%.

Other fears flagged up by the survey include high levels of corporate debt and the possibility that earnings growth has reached its peak.

# Dollar Weighs on Earnings

Continued from page B1

tion of higher fuel prices and a stronger dollar will likely shave 19 cents off 2018 per-share earnings. Its shares have fallen 12% this year, while the S&P 500 has risen 5.1%.

Meanwhile, Oracle, whose shares are up 3.4% in 2018, said exchange rates had moved from being a 3% boost to revenue for the next quarter to a 1% headwind. AutoZone, whose shares have lost 1.6% this year, said currency swings were forcing it to "be deliberate" with its pace of investment.

"As we head into the earnings season, the thing we're going to be concerned about is what might cause guidance to be conservative. One clear concept would be trade policy. But the second and more current would be the dollar,"

said Art Hogan, chief market strategist at B. Riley FBR, who added that he would be watching to see if corporations continue mentioning the dollar headwind on their coming earnings calls.

Despite corporate executives' warnings, analysts remain optimistic about the ongoing earnings season. Companies in the S&P 500 are expected to grow their earnings in the second quarter by 20% from the year-earlier period, which would mark the second-fastest pace of growth since the third quarter of 2010, according to FactSet.

The gains are expected to span all 11 sectors of the S&P 500, with analysts forecasting that the energy, materials and technology sectors will report among the fastest paces of growth in the broad stock index.

Investors have also been encouraged by the fact that companies have largely been posting results that have surpassed analysts' estimates.

So far in the earnings season, 89% of companies have reported stronger-than-ex-

## Dollar Headwind

Companies are warning that a rising dollar could dent earnings and revenue growth. A stronger currency makes exports more expensive and hurts overseas earnings when converted back into the U.S. currency.



\*Figures for second quarter 2018 are based on a blend of reported results and estimates. Third quarter is an estimate.

Sources: WSJ Market Data Group (dollar index); FactSet (change in earnings)

pected earnings, according to FactSet.

rising interest rates and signs that economic momentum outside the U.S. is slowing, the dollar's uptick presents yet another difficulty for companies to deal with.

## MARKETS

# Bonds Fall On Strong Economic Report

BY ORLA McCAFFREY

U.S. government bond prices crept lower Tuesday after Federal Reserve Chairman Jerome Powell presented a positive assessment of the U.S. economy and said the central bank remains on track to gradually raise interest rates.

The yield on the benchmark 10-year Treasury settled at 2.862%, compared with 2.856% Monday. The two-year yield, typically more sensitive to changes in expectations for Fed policy, rose to 2.615% from 2.601% Monday. Yields fall as bond prices rise.

**CREDIT MARKETS** “[The testimony] was in line with what we’ve heard from him recently,” said Larry Milstein, managing director of Treasury and agency trading at R.W. Pressprich & Co. “There wasn’t anything new or surprising, and the market reacted accordingly.”

Yields had fallen in the lead-up to Mr. Powell’s remarks, before trading sideways during the hearing. He pointed to continued economic growth and stable inflation as two factors keeping

**A recent uptick in inflation is ‘encouraging,’ the Fed chairman says.**

the bank on its tightening path.

The chairman noted increased participation among [prime-age] workers as a “sign of labor market strength.” A recent uptick in inflation is “encouraging,” Mr. Powell said, and it is reassuring that moderate wage growth wasn’t “causing high inflation.”

The central bank would become worried “if inflation were running persistently above or below our objective,” Mr. Powell said. Inflation threatens the value of government debt because it erodes the purchasing power of its fixed payments and can spur the Fed to raise interest rates.

Fed funds futures, which investors use to bet on the direction of interest-rate policy, late Tuesday showed a 64% probability that Fed officials would raise rates at least two more times this year, up from 59% a week ago, according to CME Group data.

Minutes from the central bank’s June meeting indicated officials were growing more concerned about trade tensions, but Mr. Powell’s prepared comments Tuesday referenced those tensions just once, calling the outcome “difficult to predict.”

Yields on the benchmark note fell earlier Tuesday after the Fed said overall industrial production rose in June, a sign gains in the manufacturing and mining sectors are boosting the economy.

Tuesday’s moves come after yields on the benchmark note saw their largest daily gain in a week on Monday following strong U.S. retail-sales data.

Mr. Powell is scheduled to appear before the House Financial Services Committee on Wednesday morning.

**AUCTION RESULTS**

Here are the results of Tuesday’s Treasury auctions. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

**FOUR-WEEK BILLS**

Applications	\$130,871,034,800
Accepted bids	\$45,000,113,700
*noncompeting	\$589,499,800
Foreign noncompeting	\$0
Face rate (rate)	99.853778 (1.880%)

**Coupon equivalent** 1.900%

**Bids at clearing yield accepted** 78.87%

**Cusip number** 912796NQ8

**The bills**, dated July 19, 2018, mature on Aug. 16, 2018.

**52-WEEK BILLS**

Applications	\$78,705,679,900
Accepted bids	\$26,000,129,900
*noncompeting	\$589,606,900
Foreign noncompeting	\$0
Auction price (rate)	97.639056 (2.335%)

**Coupon equivalent** 2.410%

**Bids at clearing yield accepted** 78.410%

**Cusip number** 912796QR3

**The bills**, dated July 19, 2018, mature on July 18, 2019.

# Stocks Buoyed by Fed Chairman

Tech shares led the way as investors ignore disappointing results from Netflix

BY ALLISON PRANG  
AND JON SINDREU

U.S. stocks rose Tuesday following Federal Reserve Chairman Jerome Powell’s Senate testimony, while investors also continued dissecting the latest round of corporate earnings results.

The Dow Jones Industrial Average added 55.53 points, or 0.2%, to 25119.89. The S&P 500 rose 11.12 points, or 0.4%, to 2809.55, and the technology-focused Nasdaq Composite climbed 49.40 points, or 0.6%, to 7855.12.

Mr. Powell told Congress that strong economic growth and stable inflation should keep the central bank on track to gradually raise short-term interest rates.

He added he wants inflation to stay around 2% and that the economy is “just shy” of hitting that point. He also touched on trade tensions, saying he thought countries that are open to trade have grown more quickly and commented on the new tax law, saying it was too early to see its impact.

Mr. Powell’s remarks were made before the Senate Banking Committee as part of his semiannual monetary policy report. Derivatives markets were pricing in a 62% chance that rates will rise at least twice more this year, according to data by CME Group.

Quincy Crosby, chief market strategist for Prudential Financial, said Mr. Powell’s comments demonstrated the Fed is following the trade situation and looking at whether the economy could be hurt by businesses acting more cautiously. There were concerns that, no matter where the economy stood, Mr. Powell wanted to do four rate increases in 2018, she said.

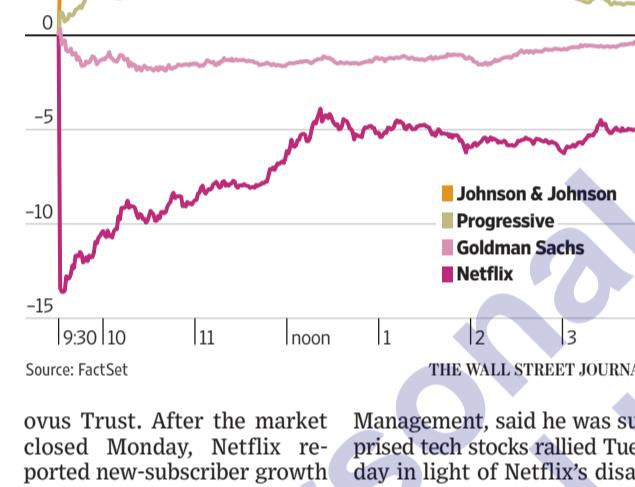
The chairman’s reassuring remarks also took eyes off Netflix, said Dan Morgan, senior portfolio manager at Nuveen Asset



Mr. Powell said strong growth and stable inflation should keep the central bank on track to gradually raise rates.

## Mixed Bag

Earnings reports swung several stocks Tuesday as investors wonder whether growth might be peaking.



ovus Trust. After the market closed Monday, Netflix reported new-subscriber growth for its recent quarter that fell short of estimates, prompting shares to fall sharply. The stock made up some of its earlier declines and fell \$21, or 5.2%, to \$379.48.

Bob Doll, senior portfolio manager and chief equity strategist for Nuveen Asset

optimistic expectations.

So far, the second-quarter earnings season is off to a broadly positive start, even though companies have a high bar to beat: Analysts expect earnings for S&P 500 companies to grow 20% from a year earlier, according to data provider FactSet.

Among the companies whose shares rose after reporting quarterly results were

**Johnson & Johnson** and **Progressive**.

Strong sales of J&J’s cancer drugs and other medicines helped boost its revenue and earnings, pushing shares up 4.42, or 3.5%, to 129.11, their highest percentage increase since January 2016.

Progressive, meanwhile, posted a sharply higher profit as the insurer continued to see growth in active policies and net premiums written. Its shares climbed 98 cents, or 1.7%, to 59.40.

But shares of **Goldman Sachs**, the latest large U.S. bank to release second-quarter earnings, slipped 42 cents, or 0.2%, to 231.02. Despite reporting strong profits, Goldman’s revenue fell below analysts’ expectations. The firm

also said David Solomon would succeed Lloyd Blankfein as chief executive Oct. 1.

“There’s no reason to expect anything but impressive headline numbers,” said Emiel van den Heiligenberg, head of asset allocation at Legal & General Investment Management.

“While solid earnings growth will not come as a big surprise to most investors, it should provide a positive backdrop to markets in the coming weeks at a time where sentiment seems neutral to slightly bearish.”

Oil prices steadied after steep losses Monday, with U.S. crude settling up less than 0.1% at \$68.08 a barrel. The oil market has been buffeted by expectations of supply increases from Libya, Russia and other producers, as well as worries that weaker global economic growth will lower demand for commodities.

The Stoxx Europe 600 added 0.2%. In Asia early Wednesday, Japan’s Nikkei Stock Average was up 1%, Hong Kong’s Hang Seng was up 0.4%, the Shanghai Composite was up 0.5% and South Korea’s Kospi was up 0.3%.

# Gold Falls to Lowest Level Since 2017, Hit by Rising Dollar

BY AMRITH RAMKUMAR  
AND DAVID HODARI

Gold prices fell to their lowest level in more than a year Monday with the dollar on track for a fresh 2018 high.

Front-month gold for July delivery declined 1% to \$1,225.70 a troy ounce on the Comex division of the New York Mercantile Exchange—its lowest close since July 13, 2017.

Prices, which had their worst day in more than a month in a third straight session of losses, are down 10% from their January peaks and 6.2% for the year, hurt by a stronger dollar and worries about higher Treasury bond yields making gold less attractive for investors.

A stronger dollar makes

gold more expensive for overseas buyers. On Tuesday, the WSJ Dollar Index, which tracks the dollar against a basket of 16 other currencies, edged up 0.4%.

Investors Tuesday were weighing Federal Reserve Chairman Jerome Powell’s testimony before the Senate Banking Committee. Mr. Powell said strong U.S. economic growth and stable inflation should keep the central bank on track to gradually raise short-term interest rates. Expectations for a more aggressive Fed with economic growth momentum shifting to the U.S. have also hurt gold.

Those projections have come with inflation rising but not quickly enough to cause panic and more investors to use gold as a hedge, analysts

have said.

“A strong dollar and interest rates going up faster than inflation—those are two things that are not positive for gold demand,” said Steve Land, a manager of the Franklin Gold & Precious Metals Fund.

Management, said he was surprised tech stocks rallied Tuesday in light of Netflix’s disappointing results and speculated some investors used the drop in Netflix as a buying opportunity.

Tech giants have been key in driving stock-market gains in 2018, and investors are looking for signs that customer growth is in line with



Gold is down 10% from its January peak. A strong dollar makes gold more expensive for overseas buyers.

Huseyin Aldemir/Reuters

have said.

“A strong dollar and interest rates going up faster than inflation—those are two things that are not positive for gold demand,” said Steve Land, a manager of the Franklin Gold & Precious Metals Fund.

Prices have fallen in 11 of the past 14 sessions and are near their lowest level of the year, slumping after hitting a four-year high in early June

with trade tensions intensifying.

Some analysts fear that a global economic slowdown could lower material demand, and lukewarm economic figures out of China, the world’s largest copper consumer, have also hurt sentiment.

# Emerging-Market Rally Eyed

BY MIKE BIRD

After a sharp selloff in emerging-markets stocks, some investors are wondering if the pullback has gone too far.

Shorts, or bearish bets, on emerging-market equities have sneaked back onto the list of most “crowded” trades in Bank of America Merrill Lynch’s latest fund-manager survey.

The 231 respondents, managing a combined \$663 billion, still view investments in the group of U.S. technology titans known as the FAANG (Facebook, Amazon.com, Apple, Netflix and Alphabet’s Google) as the most crowded trades in the same survey.

The last time bearishness about emerging-market

stocks was seen as the most crowded trade was in March 2016, after which the sector began to rally.

From April 2016 until its peak in late January, a buyer of the MSCI Emerging Market index could have made a 60% return in dollar terms. Even a buyer who held until today would be up 36% in slightly over two years.

The conventional wisdom can hold for some time, but investors often look at measures of gloom and exuberance as a contrarian indicator of future reversals.

As recently as May, long positions in emerging-market assets broadly were listed among the most crowded trades in the same survey.

Though U.S. interest-rate increases typically hurt

emerging markets, according to Chetan Sehgal, portfolio manager at Templeton Emerging Markets Investment Trust, investors often overreact in advance. “Markets tend to price in a worst-case scenario prior to the event,” he said.

Emerging-market equity

strategists at JPMorgan Chase & Co. cut their 2018 target for the MSCI EM index from 1,300 to 1,230 this week.

However, that target would

still mean a rally of nearly

15% in the next 5½ months.

The gauge is dominated by

Asia, including some comparatively developed markets—shares from mainland China, South Korea, Taiwan and India account for roughly two-thirds of the overall index’s value.

Expectations that the central bank will raise rates at a faster pace have boosted the dollar in recent months, as higher borrowing costs make the U.S. currency more attractive to yield-seeking investors. The WSJ Dollar Index is up 3.1% this year.

Some analysts believe an intensifying global trade conflict between the U.S., China and Europe will eventually hurt the dollar.

“In the immediate future, an escalation in the trade wars would reinforce the strength in the dollar,” analysts at TD Securities wrote in a note to clients.

# Optimistic U.S. Outlook Gives Greenback a Lift

BY IRA IOSEBASHVILI

The dollar rose Tuesday, after Federal Reserve Chairman Jerome Powell gave an upbeat assessment of the U.S. economy to Congress.

The WSJ Dollar Index, which gauges the U.S. currency against a basket of 16 others, was up 0.4% at 88.63, its highest level in more than a year.

Strong economic growth and stable inflation should keep the central bank on track to gradually raise short-term interest rates, Mr. Powell told lawmakers.

The Fed raised interest rates by a quarter-percentage point in June for the second time this year. Most Fed offi-

cials penciled in a total of at least four rate increases this year, up from three in forecasts released in March.

Expectations that the central bank will raise rates at a faster pace have boosted the dollar in recent months, as higher borrowing costs make the U.S. currency more attractive to yield-seeking investors. The WSJ Dollar Index is up 3.1% this year.

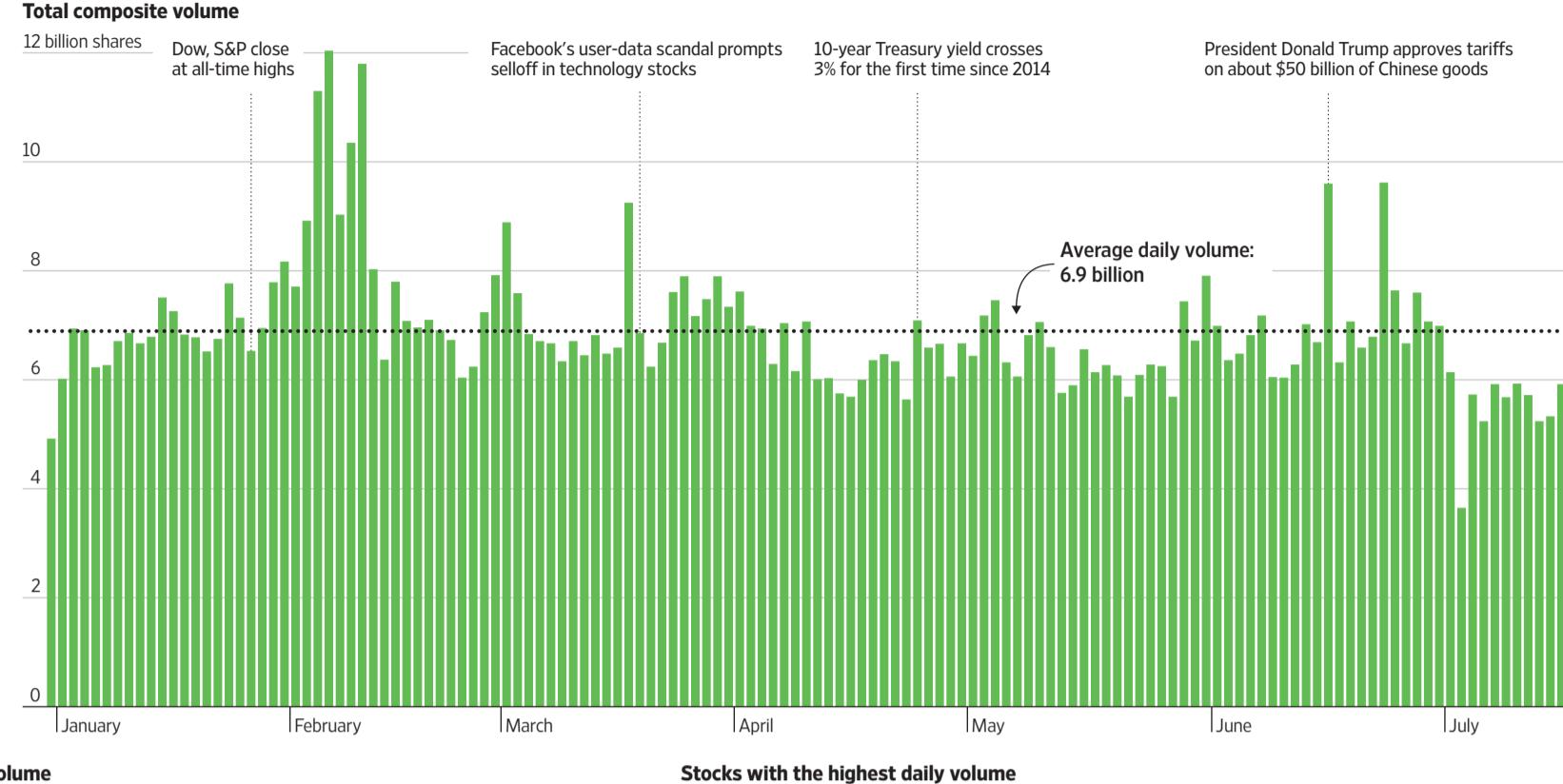
## MARKETS

## Low Volume Lulls Markets

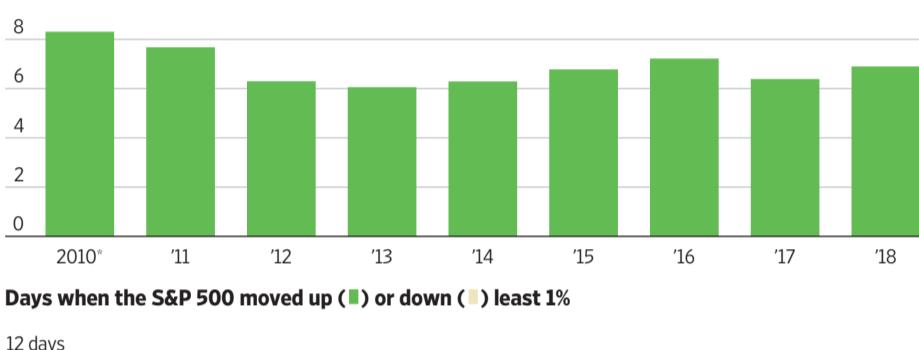
U.S. stock trading volumes have tumbled this month, despite escalating trade tensions with China, a cooling global growth outlook and fears about the impact of rising interest rates.

Activity peaked in February as the stock and bond markets swooned and corresponded with a surge in turbulence as measured by the Cboe Volatility Index. But volumes since then have been relatively muted, with the number of shares changing hands across the New York Stock Exchange and Nasdaq falling on Friday to the lowest level for a full trading session this year.

Among the stocks with the highest daily average volumes are old-economy companies like General Electric Co. and AT&T Inc., along with market darling Apple Inc. and tiny Canadian medical-device maker Neovasc Inc.

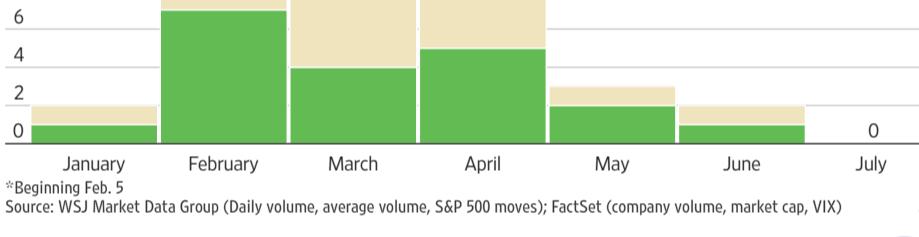


## Total composite average daily volume



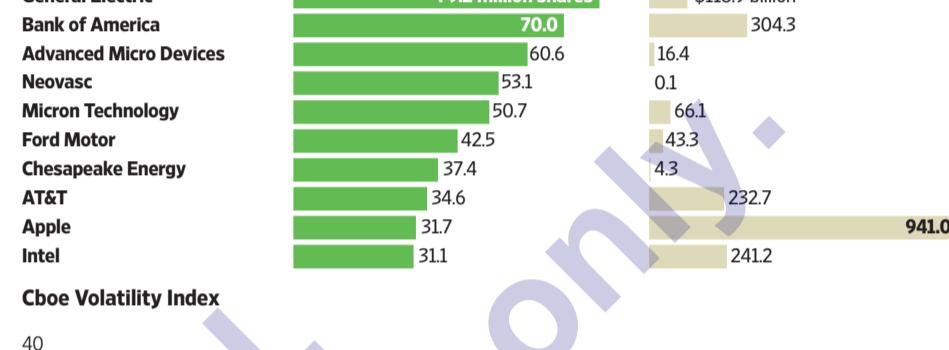
Days when the S&amp;P 500 moved up (green) or down (orange) least 1%

12 days



Source: WSJ Market Data Group (Daily volume, average volume, S&amp;P 500 moves); FactSet (company volume, market cap, VIX)

## Stocks with the highest daily volume



## Cboe Volatility Index



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## Blankfein's Legacy Is Uncertain

## Goldman Sachs Group

Chief Executive Lloyd Blankfein is leaving on a high note with the firm's earnings showing strong performance nearly across the board. But the course he has set for the future, featuring more traditional bank activity like lending to consumers, remains unproven.

Goldman on Tuesday reported revenue and earnings per share that were far ahead of analyst estimates. Net profit soared 40% from a year earlier to \$2.57 billion. Fixed-income currency and commodity-trading revenue jumped 45% from a year earlier. That is off a low base, as trading missteps in the first half of last year resulted in very weak revenue. Trading revenue for the first half of 2018 was up 5% from the first half of 2016.

Investment-banking businesses were even stronger, as equity-underwriting revenue climbed 88%, and revenue from advising on mergers and acquisitions rose 7%. More strength is in store for the M&A line over the next

## Back in the Saddle

Goldman Sachs quarterly fixed-income, currency and commodities trading revenue



Source: the company

couple of quarters as fees are collected on deals struck recently in a global merger boom.

One could find fault with a few minor details. Equity trading revenue, for instance, was basically flat, compared with double-digit gains for rivals like **JPMorgan Chase** and **Citigroup**. But on the whole, it was an exceptionally strong quarter for Goldman.

These results vindicate

Mr. Blankfein's worldview that a better trading and banking environment was bound to eventually follow years of postcrisis stagnation, making it unwise to cut cyclical businesses too deeply. With market volatility rising as central banks tighten policy and animal spirits roaring in corporate boardrooms, this patient strategy is now paying off.

But Mr. Blankfein also has pushed the bank out of its

comfort zone into new areas, including lending more to its business clients and even direct lending to consumers. This initiative is still in its infancy and must be fully implemented by his successor, David Solomon.

So far, the strategy is proving successful in its stated aim of growing Goldman's top line. In the first half of 2018, the bank's net interest income rose 47% from a year earlier to \$1.92 billion.

But these lending programs remain untested by a turn in the credit cycle. Just as a rebound in market activity was likely after years of dormancy, a rise in consumer defaults is also sure to come at some point, especially following the surge in borrowing seen in the U.S. over the past few years.

This will present a new and unfamiliar challenge to Goldman. It will be up to Mr. Solomon to start preparing for this now and to guide the bank through the inevitable downturn.

—Aaron Back

## OVERHEARD

What do Fish Fox, 2 Fat, Grace Gunn, Fabio Vee and D-Sol have in common? Well, it almost certainly isn't their tax bracket.

The last of those people is the musical alter ego of **David Solomon**, the new chief executive of **Goldman Sachs Group**.

The rest, on the list of 20 "similar artists" suggested by music streaming service **Spotify**, range from "a dude with a mild obsession for animals...walking around New York in a striped onesie" to a DJ "scouted on Instagram to become a fashion model." Mr. Solomon's mantra: "never lose sight of what you are passionate about."

Mr. Solomon not only earns more than these other artists in his day job, if not his occasional night one, but he also has more listeners by far than his musical peers.

And, while he probably isn't keeping count, he may be pleased to hear that this audience is over 100,000 times more than that of **Vampire Squid**.

## China Home Prices Won't Buoy Builders

Chinese housing prices are accelerating their gains again. Should investors also jump back into Chinese property developers, whose stocks and bonds have been tumbling?

China's new-home prices rose 1.1% in June from a month earlier, the fastest pace in 20 months. Housing markets in China's largest cities are clearly picking up steam. Still, the renewed frothiness is likely to worry Beijing, which had introduced a slew of measures to tighten the market. Those seemed to have worked until recently. Now that prices are rising quickly again, even more stringent measures could be introduced.

The greater worry comes from China's small towns. Local governments have spent the past few years propping up regional housing markets by offering subsidies to buyers so they can purchase homes directly from developers. That has helped feed rapidly rising debt levels among developers, who have splurged on land buying in the hope that they can build more homes to sell. Chinese land prices boomed in the first half this year, according to Deutsche Bank. Beijing now seems likely to scale back such subsidies.

This bodes ill for developers which have borrowed heavily—especially on short-term debt—to grab land and build houses in the past two years. They include major companies like **Evergrande**, **Agile Property** and **Sunac**—which have already seen the yields on their dollar-denominated bonds surge recently. Investors may want to bet on something with surer foundations than the recent rise in housing prices.

—Jacky Wong

## Don't Expect the Fed to Pause Rate Rises for Trade Fight

The Federal Reserve will keep raising interest rates until it thinks it has a reason to stop. The danger for investors is that they believe that the Fed will be stopped by rising trade tensions when its focus is elsewhere.

Fed Chairman Jerome Powell on Tuesday told Congress that with a strong economy, solid job growth and inflation warming up, the central bank believes that "the best way forward is to keep gradually raising" interest rates.

That makes sense: With the unemployment rate at 4% and inflation lately reaching their 2% target, policy makers don't want to

## Stepping Up

Midpoint of the Federal Reserve's target range on overnight rates



Source: Federal Reserve

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run the risk of the economy running too hot.

It is all in keeping with projections policy makers offered up last month, showing they expect to raise rates by

a quarter point two more times this year, and to keep on raising them after that. One thing that might upset that plan is escalating trade tensions that threaten to damage business investment and confidence enough to slow the economy.

But the Fed might not react as quickly as investors might like to rising trade skirmishes.

First, the impact of trade troubles will take time to show up in the economy. Not only do economic data come with a lag, but there is some evidence that companies are ramping up activity to avoid tariffs—something that could give the economy a short-

term boost.

Moreover, because the effects of tariffs and trade restrictions on the economy are so hard to model, the Fed might opt to take a wait-and-see approach before deciding to alter course on interest rates.

Second, as Mr. Powell noted in an interview last week, while tariffs could slow the economy, they could push inflation higher. Ultimately, the Fed would probably be more worried about growth, especially since the tariff-induced increase in inflation would be temporary.

But even a temporary pickup in inflation could complicate the Fed's re-

sponse. Politics also could come into play, since the Fed might not want to be viewed as monetizing a trade battle.

Investors hoping for a Fed bailout could argue that if trade does become a real problem for the economy, the stock market would likely tumble and put a nervous Fed on hold.

But with stock prices still looking richly valued, the drop would probably have to be fairly steep before the central bank changes its plans—a mere 10% wouldn't cut it. By the time Fed gets worried about trade, investors could be downright alarmed.

—Justin Lahart