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# THE WALL STREET JOURNAL.

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## What's News

### Business & Finance

China's debt crackdown is driving firms to seek loans from loosely regulated trusts, which invest in riskier areas of the economy. **A1**

◆ GM's chief faces shareholders Tuesday, under pressure from hedge fund Greenlight to split the auto maker's shares into two classes. **B1**

◆ Tencent has become China's top investor in the U.S. tech sector, with stakes in ventures ranging from gaming to space tourism. **B1**

◆ Truckers face monitoring of their cellphone use as accidents increase and insurers' losses surge. **B1**

◆ Global growth will hit a seven-year high of 2.9% next year, the World Bank said, but warned of risks. **A2**

◆ A food-label suit against ABC is set to begin, in what could be the largest defamation case in U.S. history. **A3**

◆ Sunrun asked its board to review claims by former employees that they manipulated sales data. **B8**

◆ The NFL will allow its TV partners to run commercials for hard liquor, in a change of league policy. **B3**

◆ Rickmers filed for insolvency in a sign of crisis for German shipping firms. **B3**

◆ SpaceX launched a refurbished cargo capsule, a first for Musk's company. **B4**

### World-Wide

◆ Terrorists struck Britain for the third time in as many months, killing seven people in a rampage in London claimed by Islamic State and prompting May to say tolerance of Islamist extremism had gone too far. **A1, A10-A11**

◆ The attacks underscore the difficulty faced by authorities in stopping low-tech assaults by individuals or small groups. **A1**

◆ Republican leaders, pushing for a legislative win before summer recess, face hearings into possible Russian election meddling. **A1**

◆ Afghan authorities arrested over a dozen people in connection with a triple suicide bombing at a funeral that capped a week of violence. **A8**

◆ Iraqi forces captured a hub on a key Islamic State supply route between Syria and Iraq, the country's defense ministry said. **A8**

◆ Trump will launch a new campaign this week aimed at fulfilling his pledge for \$1 trillion of infrastructure investment. **A4**

◆ Trump's aides defended his decision to quit the Paris climate pact, but offered differing views on his beliefs about the environment. **A4**

◆ Philippine police ruled out terrorism in Friday's casino attack, calling the gunman a gambling addict. **A8**

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## U.K. Vows to Step Up Terror Fight



A woman asked a police officer to lay flowers near London Bridge on Sunday, as a tribute to the victims of the terror attack.

## Low-Tech Attacks Harder to Thwart

By JENNY GROSS  
AND STEPHEN FIDLER

LONDON—As British intelligence officers piece together how three attackers carried out Saturday's deadly rampage at London Bridge, counterterrorism chiefs will be trying to establish what went wrong with their strategy.

After escaping mass-casualty

attacks for 12 years, the U.K. has suffered three in quick succession, suggesting the authorities aren't able to stop low-tech improvised assaults carried out by individuals or small groups.

Prime Minister Theresa May said the U.K. would review its strategy in light of the changing threat.

The recent attacks in London, as well as in Stockholm

and Nice, where perpetrators used vehicles to mow people down, illustrate the challenge of preventing relatively unsophisticated attacks, even when security services succeed in thwarting higher-level ones.

Raffaele Pantucci, director of International Security Studies at the Royal United Services Institute, said it is too early to say what exact signs police and

officials missed.

In both the Manchester and the Westminster attacks, the perpetrators were known to intelligence agencies but deemed not a serious enough threat to warrant high-level monitoring, underscoring the difficulty for agencies in determining whom to monitor amid a growing pool of extremists, he said.

Please see LONDON page A10

Latest assault reflects rising challenges for police and intelligence; 'Enough is enough'

LONDON—The third terror attack in Britain in as many months laid bare a growing challenge to Europe's police and intelligence agencies and prompted Prime Minister Theresa May to say tolerance of Islamist extremism in the country had gone too far.

By Jenny Gross,  
Jason Douglas  
and Stu Woo

The attack, which killed seven people and was claimed by Islamic State, interrupted the campaigning for national elections for a second time and shook confidence in the country's counterterrorism strategy, which Mrs. May said would be reviewed.

"Since the emergence of the threat from Islamist-inspired terrorism, our country has made significant progress in disrupting plots and protecting the public. But it is time to say enough is enough," Mrs. May said on Sunday.

Mrs. May warned that more must be done to stop people from becoming radicalized.

She added that in the U.K.

Please see ATTACK page A10

### U.K. Terror Attack

◆ Assaults shatter an evening's revelries..... A10

◆ Uncertainty grows in coming election..... A11

◆ Police arrest 12 in raids on apartments in London... A10

## Democrat Questions Russia Link as Comey Heads to Hill

By SIOBHAN HUGHES

WASHINGTON—The top Democrat on the Senate Intelligence Committee said there was no proof so far of collusion between Russia and Donald Trump's campaign, as Congress geared up for a week of high drama highlighted by the testimony of former Federal Bureau of Investigation Director James Comey.

"Listen, there's a lot of smoke. We have no smoking gun at this point," Mark War-

ner of Virginia said on CNN. "But there is a lot of smoke."

As congressional Republican leaders begin a push to produce a legislative accomplishment before an August recess knowing the window of opportunity is closing, a series of hearings into possible Russian interference in the 2016 presidential election—and other challenges that have beset the Trump administration—threaten to derail their plans.

On Wednesday, the director of national intelligence, Dan

Coats, and the director of the National Security Agency, Adm. Mike Rogers, will appear before Mr. Warner's committee. On Thursday, Mr. Comey is expected to tell the same panel that Mr. Trump asked him to back off an investigation of former national-security adviser Michael Flynn.

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◆ Trump to turn focus to infrastructure..... A4

◆ Main Street is wary of health cuts..... A6

### Washington's Missing Regulators

Active member Vacant

Commodity Futures Trading Commission

Federal Energy Regulatory Commission

Federal Trade Commission

Federal Communications Commission

National Labor Relations Board

Securities and Exchange Commission

Source: the commissions

THE WALL STREET JOURNAL

Previous vacancies and the slow pace of President Donald Trump's transition have created uncertainty for companies and others with delicate business before federal commissions. **B1**

## Now Investing This Guy's Money: 400,000 Strangers on the Internet



Mike Roberts

\* \* \*

Engineer builds game to let users run his

\$50,000 stock portfolio; trouble sleeping

By BEN EISEN

On Tuesday morning, Mike Roberts, a 26-year-old software engineer from Seattle, handed over a personal \$50,000 brokerage account to a most unusual group of money managers.

A bunch of random yahoos on the internet.

People say the stock market is just a game, and in the case of Mr. Roberts and his hard-earned cash, it really is. By setting up an algorithm using thousands of lines of computer code, the risk-embracing Amazon.com Inc. employee is allowing any-

one to vote on what stock to

buy or sell with his money. Based on their votes, the game is designed to make a move every five minutes.

Online trolls got to work swiftly Tuesday, electing over and over to buy shares of Seaboard Corp., the second-most expensive U.S.-listed stock. His

\$50,000 would buy just 12 full shares in the agribusiness and transportation firm.

Mr. Roberts grew convinced troublemakers were trying to undermine him.

"This is exactly the sort of disaster I was hoping would not happen," he recalls thinking.

Please see STOCK page A12

## INSIDE



LIFE & ARTS, A13



MISTAKES  
WHEN PAYING  
FOR COLLEGE

JOURNAL REPORT, R1

## China Debt Crackdown Spurs Shadow Lending

By CHAO DENG  
AND LINGLING WEI

BEIJING—China's crackdown on debt is driving some companies to a murkier form of financing as it gets harder to secure bank loans or tap the bond market.

New loans from trusts, firms that raise money from individuals and corporations to plow into riskier areas of the economy, reached 882.3 billion yuan (\$129.5 billion) in the first four months of this year, according to data from the People's Bank of China, nearly five times as much as the same period in 2016.

Chinese trust firms, which often charge borrowers higher rates than banks, occupy a middle ground between banking and asset management. They are licensed and loosely regulated by China's banking watchdog but lack some of a bank's protections, such as government deposit insurance.

They also have more flexibility to invest in risky areas than banks do. For companies, trusts represent the next best option as bank loans and bond financing dry up or become more expensive.

Government-owned Qingzhou City Construction & Investment Co., in the eastern city of Qingzhou, received permission to issue bonds last year. But with yields rising on corporate debt, it has turned to a trust firm instead.

Daye Trust Co. is helping Qingzhou City Construction raise 200 million yuan through a two-year product that offers investors returns of 6.5% a year. The firm would pay Daye a rate of about 8%, which is still less than it was expecting to pay for bonds. Qingzhou City Construction intends to use the proceeds to finance a water-treatment project.

One area of concern for authorities as they tackle soaring

Please see CHINA page A6

# U.S. NEWS

THE OUTLOOK | By Tom Fairless

## For ECB, Halting Easy Money Is Hard

As the eurozone economy gathers pace, European Central Bank officials are plotting a route back to normality from an era of exceptionally easy money policies. It could be a complicated path.

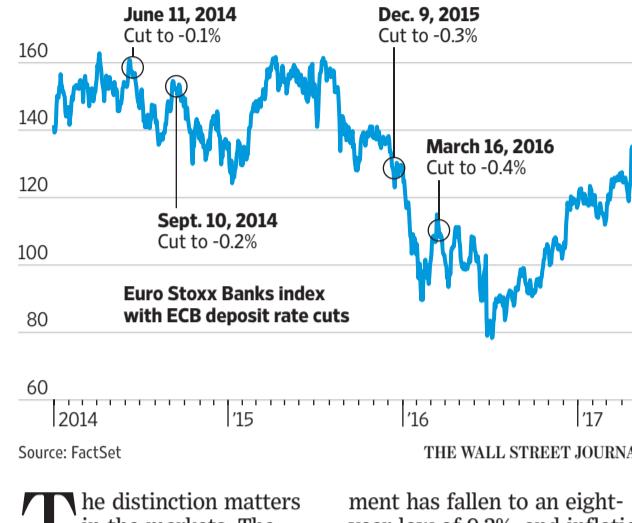
The ECB has indicated it will follow the U.S. Federal Reserve's game plan for unwinding its policies, first by phasing out a €60 billion-a-month (\$68 billion) bond-purchase program known as quantitative easing and then turning to increase short-term interest rates, which have been negative since 2014.

But a debate has broken out inside the central bank about whether that sequence is right. Some officials suggested at their March meeting starting to raise rates first, to get them out of negative territory, before ending bond purchases, a person familiar with the matter said. Other officials, notably the bank's chief economist, Peter Praet, believe the Fed's sequence has a strong logic and are wary of shifting from that approach.

It might sound esoteric, but the path the ECB chooses could have big consequences for bank stocks and lending, market volatility and the outlook for the euro. The two policies are different in part because they affect different kinds of interest rates. The negative-rate policies affect short-term rates, while bond purchases hit long-term rates.

### Negative Equity

Bank stocks slumped as the ECB pushed interest rates below zero, but they recently staged a rebound as the eurozone economy picked up.



Source: FactSet

Some economists suggest negative rates also encourage people to save money rather than spend it, thereby stunting economic growth.

ECB officials are weighing mixed evidence as they consider whether to raise rates first. Despite bank complaints about the impact of negative rates, bank lending to eurozone companies grew at the fastest pace in almost eight years in April, rising by 2.4% year over year.

Still, some officials worry about the longer-running effects. "We see the negative impact being accumulated over time...in terms of reducing the interest margin of banks," ECB board member Benoit Coeuré said in New York in April.

In Germany, negative rates have become an object of scorn in some political and media circles, which refer to them as "Strafzinsen," or "penalty rates."

Crucially, though, Germany's influential central bank takes a different view. The Bundesbank is less worried by negative rates than by bond purchases, which it argues reduce pressure on eurozone governments to carry out economic reforms.

To compensate for an early rate increase, the ECB might decide to extend its bond purchases. That would likely win favor among central-bank governors from southern Europe because the ECB's purchases of government debt hold down their borrowing costs. But it would displease

Bundesbank President Jens Weidmann, who voted in favor of cutting rates below zero in June 2014, but has never voted for government bond purchases.

Nor is it clear how much longer the ECB can continue bond purchases, under which it has already amassed around €2 trillion of bonds. The program is due to run through at least December, but constraints on its design mean the ECB could struggle to find enough to buy next year, particularly German bunds.

Within the ECB, the debate is likely to hinge on the overall impact of negative rates on the economy. Late last year, top ECB officials appeared to cool toward the policy, warning that it could, over time, cause banks to reduce lending.

More recently, though, ECB officials have appeared to change tack, arguing that the effects of negative rates have been mostly positive. The change in tone coincides with a recovery in eurozone bank stocks, which have risen by about 40% since October.

"We've seen the initial impact of our negative-rate policy being clearly positive," Mr. Coeuré said. The policy anchors short-term borrowing costs at low levels, stabilizes financial conditions and encourages banks to lend rather than leave excess funds at the central bank, he said.

"At some point we might change our conclusion," Mr. Coeuré said. "We're not there."

### ECONOMIC CALENDAR

**MONDAY:** The Labor Department releases revised U.S. first-quarter productivity figures. Productivity, or how many goods and services U.S. workers produce per hour, fell at an annual rate of 0.6% in the first quarter of 2017 from the prior three months, the most recent report showed. Economists surveyed by The Wall Street Journal expect the productivity figure to be revised up to 0%, still reflecting softness.

**THURSDAY: China** will release May export data—a key barometer of global demand—which is expected to decelerate to around 6% year-to-year growth from April's 8% level on the heels of softening business sentiment in advanced economies, weaker trade data from neighboring South Korea and lower commodity prices.

The European Central Bank is expected to leave its stimulus measures in place when policy makers meet for two days in Tallinn, Estonia. However, the governing council could change its guidance by removing language that suggests rates could be cut again and the size of its bond-buying program increased.

Japan will release revised gross domestic product figures for January through March (Wednesday evening in the U.S.). Economists expect GDP to have grown 2.4% from the previous quarter on an annualized basis, higher than the preliminary estimate's 2.2%. Capital expenditures and public investments are likely to have been slightly stronger than estimated.

**FRIDAY: China** is set to release May inflation data (Thursday evening in the U.S.) as economists forecast consumer inflation rose modestly to around 1.5% year-to-year from April's 1.2% level, driven by higher nonfood prices.

The distinction matters in the markets. The euro jumped and eurozone bonds tumbled in March on reports that ECB policy makers had considered raising interest rates before ending the bond purchases.

ECB officials will meet in Estonia on Wednesday and Thursday to consider their next moves. Mario Draghi, the bank's president, is expected to express greater confidence in the economy after the meeting. He could announce a review of different exit strategies.

The officials will meet amid signs of an economic pickup. Growth in the 19-nation bloc outpaced that in the U.S. in the first quarter, unemploy-

ment has fallen to an eight-year low of 9.3%, and inflation has risen from less than zero to 1.4% over the past 12 months, approaching the ECB's target of just below 2%.

Some eurozone bank executives have chafed under negative interest rates and would like the ECB to halt the policy as soon as possible, even before bond purchases end. They say negative rates undermine their profits—because they aren't able to pass the costs on to customers in the form of deposit fees—and thus curb their ability to lend.

That is crucial in an economy where businesses depend on banks for about 80% of their borrowing, compared with just 20% in the U.S.

## When Low Jobless Rates End Badly

BY JOSH ZUMBRUN

There have been only three fleeting periods in the past half-century when the U.S. unemployment rate was as low as it is today. This would be cause for celebration but for one disturbing fact: Each was associated with boiling excesses that led to serious economic trouble.

Low unemployment of the late 1960s preceded an inflation spiral in the 1970s. The late 1990s bred the dot-com bubble and bust. The mid-2000s saw the buildup and collapse of U.S. housing.

While there is reason to believe today's economy isn't boiling over as in the past, those episodes call for caution.

"It's not a matter of superstition, it's a matter of being mindful of the history of what such a low unemployment rate usually is followed by," said Michael Feroli, chief U.S. economist of J.P. Morgan Chase & Co.

While initially a welcome development, low unemployment in the 1960s laid the groundwork for a buildup of wage and price pressures, spurred on by low interest rates and aggressive government spending programs.

The unemployment rate dropped to 4.3% in September 1965 and then below 4%. Today's unemployment rate, also at 4.3%, could drop below 4% in the next year if it maintains its present trajectory.

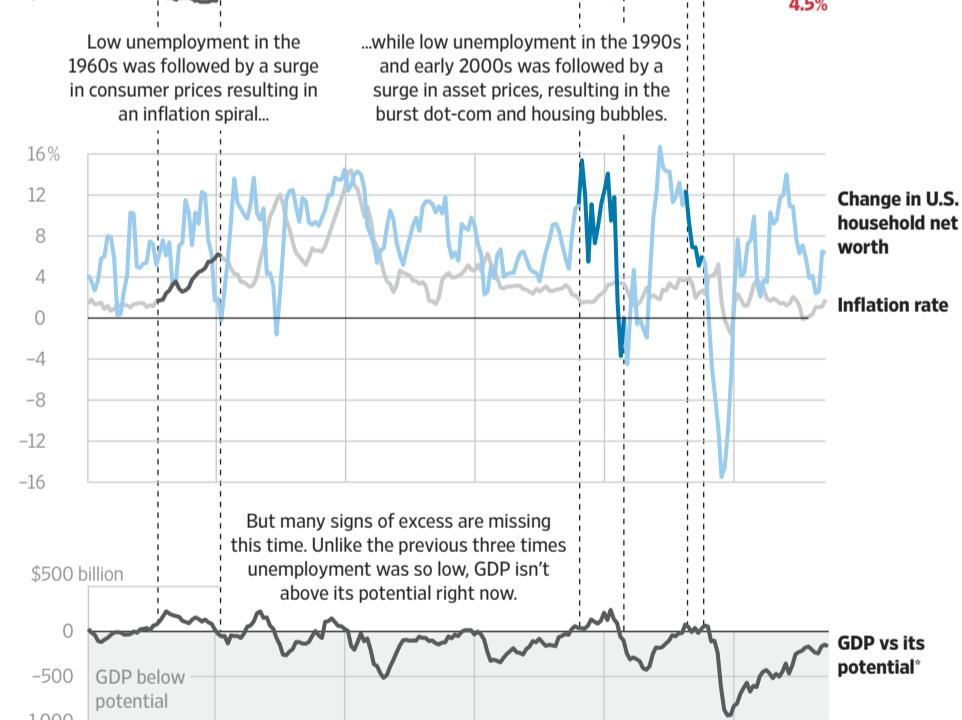
Unemployment fell again to 4.3% in January 1999. This time the inflation rate remained below 2% and it seemed that, unlike the late 1960s, the economy wasn't overheating.

But asset prices—the stock market in particular—soared after what had already been a long climb. The Dow Jones Industrial Average shot above 10,000 for the first time in March 1998. Highflying tech companies commanded billion-dollar valuations with no profits to report. In hindsight, an internet bubble grew out of control.

Economic theory draws clear linkages between low unemployment and inflation. As companies compete for scarce workers, they bid up wages and raise prices on goods and services to protect profit margins. The textbooks don't spell out such a connection between low unemployment and financial bubbles. The tech boom of the late 1990s might have been dismissible as a one-off event had it not been for what hap-

### Omen or Coincidence?

The unemployment rate has fallen this low three times in the past 50 years.



\*Potential GDP is the Congressional Budget Office's estimate of the economy's maximum sustainable output. If GDP is above potential, it means the economy is overheating.

Sources: Labor Department (unemployment, inflation); Federal Reserve (household net worth); Congressional Budget Office (Potential GDP)

pened next.

Unemployment fell back to 4.4% by October 2006. It coincided with a home-price boom that happened even though broader inflation measures remained stable. When housing prices fell, a financial sector deeply exposed to mortgage credit collapsed and the economy entered the longest and deepest recession since the

but they don't represent the same thing. The economy is very different than 20 years ago."

Though prices for houses and stocks are rising again now, the get-rich-quick mania of the dot-com and housing bubbles isn't so ubiquitous today. Importantly, Americans aren't loading up on debt and, in fact, have spent much of the past 10 years reducing their debt burdens.

Wage dynamics also have changed. Hourly wages increased more than 6% a year in the late 1960s. They rose over 4% a year in the late '90s and in the waning days of the housing bubble. Today, wage growth has been stuck around 2.5%.

"Hitting a low point on the unemployment rate, compared to history, isn't a sufficient condition to say we're near a recession," said Gregory Daco, the head of U.S. Macroeconomics at Oxford Economics. "The wage-inflation dynamic has not picked up, and that's clearly something different from the past."

Other measures suggest the economy remains on a more even keel. The Congressional

Budget Office estimates that after all these years of sluggish economic growth, today's economy is still producing goods and services at a slower rate than it is capable of producing.

Other measures support this conclusion. In the 1990s and from 2005 to 2007, U.S. industries operated at more than 80% of their capacity, according to Federal Reserve data. In the 1960s, they were churning out goods at nearly 90% of factory capacity. By contrast, U.S. industrial capacity utilization maxed at just 79% in 2014 before an oil bust and industrial slowdown idled many factories and refineries.

There is no telling how long this low unemployment period will last. Still, the broader historical lesson looms: Eventually these low unemployment cycles end.

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## 4.3%

The nation's unemployment rate fell to a 16-year low in May.

Great Depression.

Each of those episodes was different, making it hard to map out a systematic connection with low unemployment.

"I don't think we can compare the rate of unemployment now and the rate of unemployment 10 or 20 years ago," said Eugenio Aleman, a senior economist at Wells Fargo. "The rate is similar, yes, and it's calculated the same way,

## Global Growth Seen Hitting 7-Year High

BY IAN TALLEY

WASHINGTON—A rebound in trade growth from postcrisis lows should help perk up the global economy next year to its fastest pace in nearly seven years, the World Bank said Sunday.

But a host of risks threaten a recovery in major emerging markets and an accelerating expansion in rich economies, the bank said in its flagship report.

The development institution projects global growth will hit 2.9% in 2018, up from 2.7% this year. Stabilized commodity prices are allowing Brazil, Russia, Nigeria and other major emerging markets to pull out of a two-year funk. Growth in the U.S. and Europe is also picking up as many of the world's most powerful economies finally show signs of escaping the legacies of the global financial crisis.

Healthier industrial activity, investment and commodity prices fueled a revival in global trade growth to 4% this year, up from 2.5% last year, the bank said.

But it cautioned that downside risks dominate the outlook.

A buildup of emerging-market debt, notably in China, the world's second-largest economy, risks jeopardizing growth around the globe. The problem is particularly acute in the corporate sector. But it could quickly hit the financial sector and state balance sheets, triggering a plunge in cross-border orders and spurring capital flight, the bank warns.

While China's credit boom is the focal point of global worries, Turkey and major commodity exporters are also vulnerable to debt-driven disruption.

Trade-war fears are also

putting downward pressure on trade prospects and jeopardizing the effectiveness and viability of the multilateral trading system."

The bank also said President Donald Trump's tax plan would boost the economy, but likely widen the U.S. budget deficit. It estimates the White House's proposed corporate-tax and personal income-tax cuts could boost near-term gross domestic product by nearly 2 percentage points after two years. It currently forecasts a 2.2% rate in 2018, up from 2.1% this year.

But those cuts would also likely widen the budget deficit by up to 2.4 percentage points of GDP over the same period.

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## U.S. NEWS

# Food-Label Trial Set to Begin

Beef Products sues ABC over damages from 2012 reporting on a meat ingredient

BY JACOB GERSHMAN  
AND LUKAS I. ALPERT

Opening statements in what could be the largest defamation case in U.S. history are set to begin Monday in a South Dakota courtroom.

In suing ABC News for its coverage of a widely used processed-meat product that the news organization and others have branded "pink slime," Beef Products Inc. claims it was a victim of a journalistic hit job. The family-owned South Dakota meat processor claims the reporting reduced its revenue.

Raising the stakes is a state food-disparagement law that allows prevailing plaintiffs to triple actual damages. Beef Products has alleged \$1.9 billion in damages. That means, in theory, ABC could be hit with a nearly \$6 billion judgment, not including any potential punitive damages awarded if it loses.

ABC, a unit of Walt Disney Co., says it never reported anything about the beef that it knew to be a lie and contends Beef Products is trying to pun-



A worker in 2012 sorting cuts used in the production of 'lean finely textured beef,' also known as 'pink slime,' at a Beef Products' plant.

ish it for making reasonable editorial judgments.

In court documents, Beef Products has referred to ABC's coverage as "fake news," a term widely used to describe scurrilous internet reporting that has broadened in use since the 2016 presidential election.

"This was the opposite of fake news," said ABC lawyer Kevin Baine, a First Amendment attorney at Williams & Connolly LLP. "It was real news of interest to consumers who didn't know this product was in their ground beef."

ABC's first segment on the product aired March 7, 2012.

In the report, national correspondent Jim Avila, a defendant in the case, described the company's meat product as pink

slime made from "beef trimmings...once used only in dog food" and "sprayed with ammonia to make them safe to eat and then added to most ground beef as a cheaper filler."

The company filed suit that year, accusing ABC of creating a false impression "that BPI's product was not beef or meat, had little or no nutritional value, and was not safe to eat."

Beef Products says the product, called lean finely textured beef or LFTB, is merely the result of discovering how to extract more lean beef from cows. Approved by the U.S. Department of Agriculture in 1993, LFTB is made from beef trimmings put through centrifuges to remove fat. Some LFTB is treated with tiny amounts of

ammonia gas to kill pathogens.

In the wake of ABC's reports, Beef Products says its sales plummeted and ground-beef processors canceled orders, forcing the company to lay off 700 workers. Less than three weeks after ABC's first report, Beef Products suspended operations in three of its four processing facilities.

The company says ABC relied on biased experts and intentionally omitted accurate and more positive information about LFTB's safety.

"There is not a shred of evidence, let alone clear and convincing proof, that ABC intended to convey the message that LFTB is 'unsafe for public consumption,'" ABC lawyers stated in a court filing, noting that its coverage repeatedly said that LFTB is "safe to eat."

In addition to its defamation claims, Beef Products is suing under South Dakota's Agricultural Food Products Disparagement Act, which imposes liability for knowingly publishing false information that asserts or implies that an agricultural food product isn't safe for public consumption.

To prevail, Beef Products will have to show that ABC either knew the information was false or recklessly disregarded the truth.

## Border Retailers See Sales Decline

BY JIM CARLTON

SAN YSIDRO, Calif.—For decades, this border community has prospered because of Mexican shoppers crossing into the U.S. to buy everything from shoes to phones.

But a few years ago the value of the peso against the dollar fell by half as oil prices plunged. American big-box stores that opened in Mexico siphoned customers away from U.S. shops.

Business owners in this San Diego district of about 30,000 people say the decline has worsened in the last five months over a new factor: economic and political tension between the U.S. and Mexico.

President Donald Trump came into office based in part on pledges to beef up security on the Mexican border by building a wall and renegotiating what he called unfair trade pacts like the North American Free Trade Agreement. Business groups have cautioned the Trump administration to avoid putting Nafta's benefits at risk.

Since Robert Lighthizer was approved by the Senate to be the U.S. trade representative in May, the Trump administration has softened its rhetoric on Nafta toward modernizing the agreement rather than a wholesale "rethinking the issue of trade" that Mr. Trump promised on the campaign trail.

The peso got a 4% bump after Mr. Trump's inauguration, then tumbled as tensions escalated between the U.S. and Mexico. Late Friday the dollar stood at 18.68 pesos. The fluctuations have made it less attractive for Mexicans to cross the border to shop.

All along the border, American retailers are reporting sharp drops in sales this year that many attribute to tough trade and immigration policies.

Mr. Trump has insisted that Mexico would pay for a border wall, launched a renegotiation of the Nafta and tightened deportation rules.

Stepped-up deportations and border enforcement, merchants say, have discouraged many Mexicans from venturing north to shop at stores that often feature better prices and selection on everything from women's apparel to electronics.

"It's like a chilling effect,"



Pedestrians walk into Mexico with shopping bags, along the U.S.-Mexico border in San Ysidro, Calif.

said Denise Ducheny, senior policy adviser at the University of California, San Diego's Center for U.S.-Mexican Studies.

"It's depressing," said Eric Pineda, co-owner of a Cricket Wireless outlet in San Ysidro. He estimates his store has seen a 50% drop in sales so far this year compared with last year.

Still, some Mexican shoppers said Mr. Trump's tough talk doesn't faze them. "He's just another president," Arlette Mendez, a 43-year-old visitor from Mexico City, said as she entered a discount outlet mall in San Ysidro in April in search of brand-name clothing.

In Texas, the state's five biggest border metropolitan areas—Brownsville, McAllen, Del Rio, Laredo and El Paso—combined received 2.7% less sales tax allocations in the first quarter than the same quarter a year earlier, according to estimates by the Texas Comptroller's office. Allocations are a proxy for local retail spending.

Those numbers fell to \$96.8 million from \$99.5 million, even as cities statewide in Texas saw a 2.44% jump in the sales tax allocations over the same period.

The same data on sales tax allocations showed gains in most other Texas cities that aren't on the border, including Dallas, up 3.8%, Fort Worth, up 7.2%, Austin, up 4.5%, and San Antonio, up 2.6%.

In Texas, the steepest decline in shopping was reported in the

Rio Grande Valley city of McAllen, where sales tax allocations fell 6.4%. Earlier this year, a social media campaign called #AdiosMcAllen was launched, calling on Mexican shoppers across the border in Reynosa to boycott the border city.

Economists say much of the shortfall represents Mexicans either making fewer shopping trips into the U.S., or none at all.

"A lot of visitors say they no longer feel welcome in the U.S. or safe," said Tom Fullerton, a professor of economics at the University of Texas at El Paso.

"They worry they will be subject to searches by uniformed officials and are concerned they could have their visas or passports confiscated."

White House officials didn't return a call for comment.

Mr. Fullerton said retail sales from Mexicans account for about 10% of El Paso County's \$12 billion in annual retail sales, or between \$1.1 billion and \$1.2 billion when those sales peaked in 2014. The sales fell to about \$1 billion last year due in part to the peso problems and will likely fall below \$1 billion this year, he said.

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Political leaders in San Diego and Tijuana—a binational metropolis of about five million people—have worked in recent years to forge closer ties.

Binational efforts have been launched to open a new land port of entry and extend a rail line into the U.S. In 2015 the Cross Border Xpress pedestrian bridge opened, allowing airline passengers to walk from the U.S. to board flights at Tijuana's airport.

"We will survive, but there will be damage to the economy," said James Clark, a cross-border business consultant in Chula Vista, Calif.

—Jim Carlton

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## U.S. NEWS

# Trump Turns to Infrastructure Revamp

President could find bipartisan support for his effort; questions remain over financing

BY TED MANN  
AND MICHAEL C. BENDER

President Donald Trump will launch a new campaign this week aimed at fulfilling his pledge for \$1 trillion of infrastructure investment, hoping to capitalize on support for rebuilding the nation's transportation systems.

Mr. Trump will begin with a White House event Monday announcing a push to privatize air-traffic control across the U.S., in what backers say could be a catalyst for improving speed and fuel efficiency across the aviation industry.

From there, the president will campaign for reviving infrastructure along the Ohio River, then meet with mayors and governors in the White House, followed by a speech at the Transportation Department on Friday.

The White House still hasn't said how it plans to pay for the federal government's share of the projects, and officials said a more detailed proposal will come at an unspecified later date. But Mr. Trump's top economic adviser said the administration aims to encourage states and cities to bear much of the burden.

"We want to talk to them and make sure we're partnering with them to make sure that they can use their tax dollars as efficiently," White House National Economic Council Director Gary Cohn told reporters on Friday. "We can be a good partner with them in helping them to enhance their infrastructure projects."

Shifting the discussion to infrastructure could mean the best chance for Mr. Trump to find common ground with members of Congress who object to other elements of his agenda, given the broad agreement that the nation's roads, bridges, rails and water facilities are in disrepair. It would,



**Work in May on U.S. Interstate 11 near Boulder City, Nev. The president campaigned on a pledge to rebuild the nation's infrastructure.**

however, mean finding a way to live up to campaign pledges that many believe are irreconcilable—investing \$1 trillion in infrastructure, but doing so with funds raised almost entirely from the private sector.

The infrastructure push is encouraging, said Scott Rechler, a real-estate developer and former official at the Port Authority of New York and New Jersey who consulted with Mr. Trump's transition team. "They should have started with this, since it's one area with a level of bipartisan support."

But Mr. Rechler, a Democrat whose real-estate company has financed infrastructure in public-private partnerships with local government, said the administration's plans should recognize that private financing won't be able to replace federal funding in fixing some

areas—from commuter railroads to crumbling dams—where investors can't turn a profit.

"It's not free," Mr. Rechler said. "At some point or another someone's going to have to pay for this."

In remarks to reporters last week, presidential advisers made clear they will be attempting to pair the president's pledge to renew critical infrastructure with a shift of responsibility for some of the costs from federally funded grant programs to state and municipal taxpayers.

Some city and state officials say privately that they are already strapped for funds and worry about having to shoulder additional costs.

The administration has called for spending \$200 billion on infrastructure over 10 years, saying that infusion of

federal money could help trigger roughly \$1 trillion of total funding thanks to a surge in private investment.

The administration hasn't said how it will pay for the federal government's share of that investment, and hasn't put forward legislation that would show how it plans to spur private investment.

Senior administration officials didn't say if Mr. Trump would put forward his own proposals for raising the funds for an infrastructure package or defer to Congress, saying that is "something we are currently debating inside the White House."

An infrastructure proposal fleshed out with details will be ready "when the president tells us it should be ready," a senior administration official said.

The administration has been most specific about its

desire to cut regulation and permitting that can delay the start of new infrastructure projects. Mr. Trump has seized on a flow chart provided by Mr. Cohn's deputy, DJ Gribbin, that shows how the permitting process for a new highway can involve up to 16 federal agencies.

Mr. Cohn said Friday that the administration would like to shrink the permitting schedule for such projects from as much as 10 years to "two or less."

"The cost of infrastructure goes up dramatically as time goes on in the approval process, capital is tied up, it has people waiting for permits, and the amount of paperwork and the amount of fees that you just encumbered while you're going through the approval process is enormous," Mr. Cohn said.

## Plan for Air-Traffic Control Gets Focus

In his infrastructure push, President Donald Trump will embrace a longstanding goal of some aviation experts and lawmakers: transferring control of the nation's air-traffic system to a new nonprofit corporation, which they say would mean a more nimble and cost-effective approach.

Control by the Federal Aviation Administration, these advocates say, is an antiquated model that falls short of the best practices used in other countries.

Overhauling air-traffic control would be complex, involving the privatization of a federal workforce of some 30,000. The administration proposes moving air-traffic operations off the federal budget, eliminating taxes that currently pay for the system while allowing the new operators to impose user fees.

The new system could mean more efficient landing patterns and routes for planes, supporters say, and could let air-traffic controllers move more planes per hour through busy air corridors.

Some lawmakers and aviation officials are wary of privatization, including those from rural states who worry that a private system would neglect less-populated areas. Others are concerned that a new system would give too much influence to big airlines.

Privatization is opposed by many Democrats, and it isn't clear if the White House's endorsement will sway enough Republican senators to change that chamber's rejection of privatization less than a year ago.

The Trump administration's budget released earlier this year included a proposal for privatizing the air traffic control system with a three-year phase-in.

—Ted Mann  
and Andy Pasztor

# Aides Defend President on Move to Exit Paris Accord

BY REID J. EPSTEIN

manufacturing noncompetitive."

Mr. Pruitt suggested in a series of television interviews Sunday that what the president believes specifically about climate change is irrelevant to his policy decision on the Paris accord.

"I think the whole question is an effort to get it off the point and the issue of whether Paris is good for this country or not," Mr. Pruitt said on ABC. "The president has indicated the climate changes."

Asked by ABC host George Stephanopoulos whether Mr. Trump still believes climate change is a hoax, Mr. Pruitt said he hadn't discussed it

with the president.

"Our discussion, George, has been about the agreement, the efficacy of the agreement," Mr. Pruitt said. "That's what he spent the last several weeks focused upon, the merits and demerits of the Paris agreement. He put America first. He said that he's going to put jobs, and the environment first."

Ms. Haley, in a separate interview on CBS, went a step further than Mr. Pruitt, saying Mr. Trump "believes the climate is changing and he believes pollutants are part of that equation."

When asked by CBS host John Dickerson if Mr. Trump

believes human activity causes climate change, Ms. Haley said, "I mean, John, I just gave you the answer. I mean, that's what he believes. And so that's as clear as I know to give it."

Advocates for the Paris climate accord criticized Mr. Trump's decision during their own appearances on the Sunday interview shows.

Former Secretary of State John Kerry, who helped negotiate the Paris accord, said Mr. Trump isn't familiar with the science underlying the agreement.

"The fact is that still his whole staff cannot tell you whether or not he believes that climate change is a hoax,"

Mr. Kerry said on NBC.

"If you truly understand the science, if you have done your due diligence and homework, there is no way that you cannot conclude that there's an urgency to doing something. And you would not pull out of Paris," Mr. Kerry said.

Former Vice President Al Gore, who met with Mr. Trump at Trump Tower and said he has since spoken with him about the environment by telephone, called Mr. Trump's decision to withdraw from the Paris agreement "reckless."

"It was indefensible," Mr. Gore said. "It undermines America's standing in the world."



U.S. envoy to the U.N. Nikki Haley

# HILL

Continued from Page One

Mr. Warner said his committee will press Mr. Comey about the circumstances surrounding his abrupt firing last month by Mr. Trump. Many Democrats say Mr. Trump may have been attempting to obstruct justice by dismissing Mr. Comey. Mr. Trump said he fired Mr. Comey for incompetence. The president and his aides have denied colluding with Russia, which denies meddling in the election.

Meanwhile, as Congress returns to work Monday after a Memorial Day break, Senate Majority Leader Mitch McConnell (R., Ky.) will mount a fresh effort to rewrite the Affordable Care Act, the Obama-era health law. Mr. McConnell said last month he wasn't sure how he would secure enough votes to pass a bill given that no Democrats support the effort.

The House GOP plan, which barely passed that chamber, doesn't have enough support to pass the Senate, which is expected to advance its own plan. To pass that bill and count on Vice President Mike Pence to provide the tie-breaking vote, the Senate can afford to lose only two GOP votes. That is a tough goal because conservative Senate Republicans are at odds with at least



Senate Majority Leader Mitch McConnell plans a fresh effort to rewrite the Affordable Care Act.

three moderate Republicans.

The outlook for such a health measure didn't appear to improve over last week's break. "It's unlikely that we will get a health-care deal," Sen. Richard Burr (R., N.C.) told a North Carolina television station in a blunt assessment of the prospects for repealing and replacing the law often called Obamacare.

If the GOP health push fails, Congress would likely next put its energy into a tax overhaul, while also taking up other measures along the way, in

part to project an image of accomplishment amid the turmoil surrounding the White House. Among the bills potentially in the mix is one imposing sanctions on Iran, which cleared the Senate Foreign Relations Committee last month.

The House and Senate plan to leave for a five-week recess starting July 28, though that could be delayed. Pressure on lawmakers ahead of that break has intensified, with the Treasury Department urging Congress to raise the government's debt limit before departing.

This isn't the first time a party has faced pressure to produce after winning control of the White House and Congress and found expectations colliding with political realities.

One challenge is that Congress and the White House operate on different clocks, and the window of opportunity that opens in the early months of a presidency can narrow rapidly, as lawmakers turn their attention to midterm elections.

When President Barack Obama led a Democratic takeover in 2008, Democrats man-

aged to enact a health law, a stimulus package and the Dodd-Frank banking measure in the early going. But they missed other goals, such as passing an ambitious energy bill. Some of what they did pass had to be significantly reined in—and prompted a backlash at the polls.

The Republican playbook for confronting these challenges consists of a series of interlocking steps. In the Senate, Republicans are expected to unveil their health plan as early as this week, then wait for the Congressional Budget Office to provide cost and coverage estimates before holding a vote. A CBO analysis can take a couple of weeks.

Sen. John Cornyn of Texas, the second-ranking Senate Republican, said recently the health-care debate would be wrapped up by the end of July. If the Senate passes a bill, it would mark a major win for Mr. Trump and Republican leaders, and could lend momentum to other GOP initiatives. Then, however, the measure would have to be reconciled with the House version to become law.

That could take months, or not happen at all during this congressional session.

Defeat of a GOP health plan in the Senate would leave Republicans with one more significant card to play: a tax overhauled. Republicans from Congress to the White House

are planning to lay the groundwork for a tax rewrite during this seven-week legislative period. Mr. Trump is expected to campaign during July and August for a tax overhaul with an official plan released after Labor Day, according to a senior White House official.

To clear a path for that bill, House Republicans are expected by mid-June to start a legislative process that would allow the Senate to rewrite the tax code with a simple majority. That is important because Senate Republicans hold only 52 of the chamber's 100 seats and can expect little support from Democrats, yet they need 60 votes to pass most bills.

The special procedure would come in the form of a budget resolution for the 2018 fiscal year that would include instructions to write tax legislation that can skirt the Senate's traditional obstacles.

The Trump administration recently issued a surprise warning that tax revenues are falling short of expectations, prompting Treasury Secretary Steven Mnuchin to urge Congress to raise the country's borrowing limit before it adjourns for the August recess. The timing is earlier than estimates independent fiscal analysts have cited.

—Peter Nicholas, Nick Timiraos and Jay Solomon contributed to this article.

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# WORLD NEWS

## Deadly Bombing Spurs Kabul Crackdown

Mass arrests follow suicide attack at funeral, as president appeals for unity

BY JESSICA DONATI  
AND EHSANULLAH AMIRI

KABUL—Afghan authorities on Sunday arrested more than a dozen people in connection with a triple suicide bombing at a funeral the day before, capping one of the most violent weeks in the capital in years.

The funeral was held for the son of the deputy speaker of the Senate, who was shot in clashes with police at a protest against the government over its failure to prevent a massive truck bombing on Wednesday. That bombing killed at least 90 people and injured more than 400.

The spate of violence has left more than 600 people dead or wounded in recent days and prompted President Ashraf Ghani to appeal for unity in a televised address on Saturday evening.

Over the weekend, the United Nations and U.S. embassies issued statements urging calm. Several embassies, including the German, United Arab Emirates and British,



**People in Kabul on Saturday ran following a suicide blast at a funeral, capping one of the most violent weeks in the capital in years.**

withdrew staff from Afghanistan after the truck bomb damaged their premises.

The collateral damage extended into international diplomacy. It wasn't immediately clear whether an international peace conference to be hosted by the Afghan government in the week ahead would take place as scheduled.

The more immediate concerns in the capital were fears of renewed ethnic violence in a city that was reduced to rubble during a civil war in the 1990s.

Many top government officials at the funeral belonged to the country's Tajik-led Jamiat-e Islami political party, and some accused the Pash-

tun-led government of a plot against the group.

The Afghan government said the attackers had been trained in Pakistan, which it accuses of using the Taliban as a proxy force to destabilize the country.

Islamabad denies the charge. The U.S. last year cut aid to Pakistan, demanding the

country do more to fight terrorism on its soil.

Those angry with the government included the powerful Tajik governor of northern Balkh province, Atta Mohammad Noor, who said on Sunday that the Jamiat-e Islami party, in which he is a senior member, had declined to meet with the president to discuss the attacks.

JAWAD JALAL/EUROPEAN PRESSPHOTO AGENCY

In a Facebook post, Mr. Noor said the party had instead sent a delegation of 10 people to talk to Chief Executive Abdullah Abdullah, whose role is similar to that of a prime minister and is seen to represent Tajik interests. Mr. Abdullah has urged people to unite against terrorism, and let the government continue its work.

Mr. Abdullah is part of a unity government formed with Mr. Ghani, who belongs to the majority Pashtun ethnic group, in late 2014 after conceding defeat in a bitterly disputed presidential election.

Rivalry and infighting has crippled their partnership and hampered efforts to fight corruption in the country.

In his televised address late on Saturday, Mr. Ghani vowed to deliver long-promised security-sector overhauls.

The country's armed forces remain in disarray following the resignation of top officials after a devastating attack on the army's northern headquarters in April.

More than 170 people died when Taliban fighters infiltrated the heavily fortified base with heavy weapons and massacred soldiers at rest for lunch and afternoon prayers.

—Habib Khan Totakhil contributed to this article.

## Iraqi Forces Capture Town on Islamic State Supply Route

BY BEN KESLING

MOSUL, Iraq—Iraqi paramilitary forces captured a hub on a key Islamic State supply route between Syria and Iraq, further disrupting the flow of fighters and goods between the terror group's major urban strongholds, Iraq's defense ministry said.

Units from Iraq's predominantly Shiite Muslim militias on Sunday retook the northwest town of Baaj, about 100 miles from Mosul, where Is-

amic State has lost substantial ground to U.S.-backed Iraqi forces. Baaj served as a staging ground for the extremists during a lightning advance that saw them seize about one-third of Iraq in 2014.

The town and the surrounding district, much of which sits on the Iraq-Syria border and which Iraqi forces also captured, have since been a main way station between Mosul and Raqqa, the Syrian city that is the group's de facto capital in Syria.

**Advance comes as U.S.-backed troops try to take western Mosul from militants.**

"It's a fatal blow to Daesh there since the liberation of the Baaj district means cutting off the connection between the Syrian Daesh in Raqqa and Iraqi Daesh in Mosul," said

Brigadier Tahseen al-Khafaji, spokesman for the defense ministry, using the Arabic acronym for Islamic State.

Much of the border area is sparsely populated and porous, allowing Islamic State to ferry goods and fighters. But as key roads and towns come under Iraqi control, options for Islamic State to resupply are diminishing.

Iraqi forces drove the extremists from east Mosul in late January, and have since February fought a grinding battle for

the city's west side. Victory in Baaj came as Iraqi troops continued a slow final advance in Mosul, marked by difficulties in using air power or heavy artillery in the densely populated area and Islamic State's use of civilians as human shields.

At an operations center close to the front lines in Mosul, Iraqi army Col. Hussein Mustafa sat on Sunday with American advisers in a dark room with large monitors, watching aerial surveillance of the front lines.

Some 300 to 400 civilian families were still trapped in his sector, just outside of Mosul's Old City. The sector is only a fraction of what remains under Islamic State control in the city.

Elsewhere, closer to the fighting, gunfire sounded a few hundred yards away from a stream of civilians as they hurried away from the front lines.

—Ghassan Adnan and Awadh Altaie contributed to this article.

## THE DEATH OF FIELD SALES

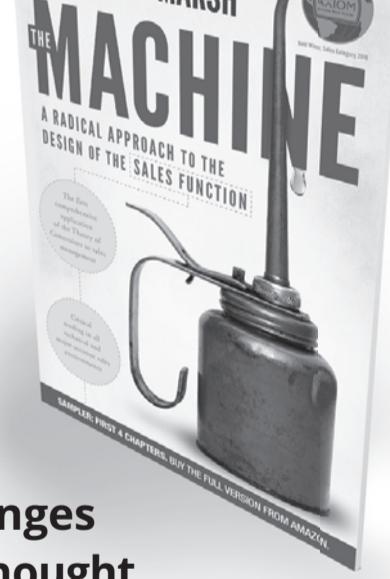
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## Police Rule Out Terrorism In Attack on Manila Casino

BY BEN OTTO  
AND JAKE MAXWELL WATTS

MANILA—The gunman who went on a deadly rampage at a metro Manila gaming complex was a Filipino gambling addict who had been recently barred from the country's casinos, Philippine police said.

On Sunday, police identified Jessie Carlos as the assailant in an early Friday gun-and-arson attack at Resorts World Manila that left at least 36 casino guests and employees dead of suffocation from smoke.

Philippine President Rodrigo Duterte said on Saturday the tragedy didn't resemble a terrorist attack by Islamic State, which has claimed the gunman was one of its fighters. Militants allied with Islamic State have been fighting Philippine troops in the country's south for nearly two weeks, leaving more than 100 people dead. Also on Saturday, dramatic security video footage of the attack was released to the public.

Manila Police Chief Oscar Albayalde, who spoke to the media on Sunday alongside Mr. Carlos's family at a hotel next to the casino, said the attacker had a gambling addiction and was deep in debt.

Police said the government-owned Philippine Amusement and Gaming Corp. banned Mr. Carlos from casinos in April at



Oscar Albayalde of the Manila police, at right, comforts the mother of attacker Jessie Carlos at a news conference on Sunday.

the request of Mr. Carlos's family. Mr. Carlos, who was in his early 40s, was a father of three who lived with his wife in Manila, police said.

"This could have probably triggered him," Mr. Albayalde said, describing Mr. Carlos as a high roller who typically played with a minimum bet of 40,000 Philippine pesos (\$808). Mr. Albayalde said Mr. Carlos had been addicted to gambling for several years and had sold property to try to settle his debts.

The security failures that allowed Mr. Carlos to rampage through the casino tarnish the Philippines' hopes of building a gaming industry on a swathe of reclaimed land to rival Asia's biggest gambling cen-

ters in Macau and Singapore.

Mr. Carlos was able to walk past a metal detector at an entrance, which was staffed by a single guard, a video of the incident shows. Police only caught up to him once he had taken his own life.

Police said they are still investigating how Mr. Carlos was able to carry out the attack and will meet this week with the heads of security of all the major casinos to review safety protocols.

Police said Mr. Carlos was a former employee of the government's Finance Department who had been fired. Local media said his departure was related to discrepancies in his personal statement of assets and liabilities.

## WORLD WATCH

### MALTA

#### Prime Minister Wins Second Term

Prime Minister Joseph Muscat claimed victory in early elections called to consolidate the government's position amid corruption allegations against his wife and some political allies. Unofficial results showed the Labor Party with 55% of the vote. Victory would give the party a five-year term.

Mr. Muscat called the vote following an investigation into allegations that his wife owned a

company related to the Panama Papers leaks, which exposed the identities of people with offshore holdings in Panama. He and his wife deny wrongdoing.

—Associated Press

### QATAR

#### Three Gulf Nations Cut Diplomatic Ties

Three Persian Gulf countries cut diplomatic ties with Qatar, accusing their neighbor of meddling in their internal affairs and backing terrorism.

The move by Saudi Arabia, the United Arab Emirates and Bahrain marks a sharp escalation of a rift that started May 24, when Qatar's official news agency posted comments purportedly by the country's emir that praised Iran and called Hamas the legitimate representative of the Palestinian people.

Qatar said the news agency had been hacked. The countries said they would also close off air and sea routes and gave Qatari diplomats 48 hours to leave.

Qatar didn't immediately respond to the moves.

—Nicolas Parasie

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## WORLD NEWS

# Ailing President Leaves Nigeria in Limbo

By ALEXANDRA WEXLER

ABUJA, Nigeria—Africa's largest economy is facing a potential political crisis, fueled by its president's worsening health and a religious divide that threatens his deputy's recent turnaround of Nigeria's fortunes.

Unofficially, Nigeria's presidency is supposed to alternate between the Muslim-majority north and the Christian south to keep both populations appeased, analysts and political commentators say. The south

is home to the country's oil and its economic capital, Lagos, while the north has historically felt it needs to be the seat of government to maintain balance of power.

"During the period of military rule, the north monopolized power," said Jideofor Adibe, an associate professor of political science at Nasarawa State University in Keffi, Nigeria. "That created a lot of animosity in the south." Still, Mr. Adibe added that the north feels as though "they are left with nothing" if the south has

the presidency. "You get this competitive anger," he said.

President Muhammadu Buhari has spent 70 days and counting in London this year, undergoing unspecified medical treatment. When he first left in January for what was billed as a 10-day vacation, Nigeria was in the throes of its worst recession in three decades amid a dollar shortage that was driving away investment and a revived insurgency in the oil-rich Niger Delta region.

Before he left on May 7 for his second visit to the British

capital this year, 74-year-old Mr. Buhari missed cabinet meetings and looked gaunt in public.

Ahead of each departure, Mr. Buhari signed over power to Vice President Oluyemi Osinbajo. While in charge, Mr. Osinbajo, a lawyer and a pastor, has ushered in a new foreign-exchange policy designed to infuse dollar liquidity into the market and sealed a ceasefire with militants in the Niger Delta. That has stabilized the oil-producing region, which accounts for about 95% of the country's export revenue.

The country's foreign-currency crisis has also abated.

Under Nigeria's constitution, if Mr. Buhari dies or steps down, Mr. Osinbajo, 60, will assume office. Although many analysts agree that Mr. Osinbajo has performed impressively, they fear that his religion and origin—he is a Christian from southern Nigeria, while Mr. Buhari is Muslim and hails from the north—could spur political infighting and put the continued recovery of Africa's leading oil producer in jeopardy.

President Muhammadu Buhari has been treated in London.

EUROPEAN PRESSPHOTO AGENCY



President Muhammadu Buhari has been treated in London.

## STOCK

Continued from Page One

If the account fell below \$25,000, the minimum a day-trader needs to continue trading under regulatory guidelines, he'd have to call it quits.

Such is life behind the scenes of what appears to be the world's first virtual stock-market videogame that puts actual money on the line. Mr. Roberts calls his game StockStream and broadcasts it on Twitch, an Amazon-owned website best known for operating a crowd-controlled game of Pokémon. He trades the money through Robinhood, an online brokerage platform.

In its first week of operation, the live feed on Twitch had more than 400,000 visits. "I wanted to have something where people can influence the real-life outcome," Mr. Roberts said. "I know the stock market is sort of virtual as well, but it has real-life consequences."

For years, people have used online tools to simulate stock portfolios. But none seem to have backed up their bets with hard currency. Mr. Roberts said once he got the idea, he became engrossed in tweaking the user experience and running simulations. The decision to use his own money was secondary. "I just wanted to be the first per-

son to do it," he said.

As Tuesday rolled on, a crowd of anti-Seaboard players entered the fray, voting to sell down the stock. These more-thoughtful players discussed other stocks and began mapping out strategies for diversification. Mr. Roberts finished Tuesday feeling optimistic, though the excitement left him with a bit of difficulty sleeping.

And some nausea.

It was still dark outside on Wednesday when Mr. Roberts jumped out of bed, took a shower, gobbled down some granola bars and a Red Bull, and sat down at his computer to watch day two of his experiment unfold. The buying and selling happened automatically as the sun rose over Elliott Bay and a cruise ship passed by out the window of his condominium.

Mr. Roberts was on vacation from his Amazon job because his parents were due to visit, but so far he'd spent his downtime watching the action in his brokerage account on his computer and a 65-inch television hooked up to it. He had to decommission his Roomba vacuum cleaner because he was afraid it would hit the computer and knock out the whole operation.

With its pixelated screen, StockStream is reminiscent of the earliest days of videogames. The scrolling feed of user stocks picks, interspersed with emojis



diversification. "Buy blackrock, we need financial stocks too," robaphone20 posted. One user wrote Thursday that "the portfolio it is unbalanced," citing the large amount of U.S.-focused companies and tech stocks.

One hot stock not being bought and sold: Amazon. Restrictions on trading shares of the company where he works pushed Mr. Roberts to write language into StockStream's code so it wouldn't recognize the stock. This means StockStream can't participate in what's been a torrid year for Amazon stock, which is up more than 30% and closed above \$1,000 a share for the first time on Friday.

Mr. Roberts got particularly excited about the project around the turn of the year when he got a new computer capable of handling the operation. He funded the account with sales of bitcoin and vested shares of Amazon he had received as compensation.

The account added more than \$700 in value in its first week.

For now, Mr. Roberts plans to pocket any proceeds from the project but will re-evaluate that plan if it becomes more profitable. Before launching StockStream, he ran extensive simulations that suggested the game could last six months or more on its own.

He did have one obstacle coming up, though: He had to go back to work on Monday.

and typo-heavy comments, was getting so many entries that the feed often flowed too quickly for viewers to keep up. The number of concurrent viewers watching his account on Wednesday afternoon was more than 3,000.

Mr. Roberts had to pick his parents up at the airport that day. It was their first visit to Seattle. His phone was buzzing as he drove back. He had some news for them: He was kind of famous on the internet.

"They had a hard time comprehending what was going on," he said, though they later came by his condo to see how the operation worked. His mom got a

good laugh. His dad enjoyed keeping up with what users were buying and selling.

In less than a week, a community of amateur stock pickers materialized around Mr. Roberts's game to battle over whether to buy or sell Tesla Inc., and to weigh in on which semiconductor stocks are hottest. Their deliberations mirrored the actual market in many ways—veering between fear and greed, caution and euphoria.

Just before noon on a recent morning, after the account had suffered some losses along with the broader market, it managed to claw back to a profit of more

than \$100. "We're up boys," said a message-board post from a user named Ahhhmong.

As the game went on, the users started to get more sophisticated. Netflix Inc., Tesla, Advanced Micro Devices Inc. and other momentum-driven stocks proved popular on day two. On day three, some blue chips like Boeing Co. were in the mix.

With about half the \$50,000 still uninvested at the end of the second day, user Phreadj chimed in, echoing the age-old conundrum of how much money to keep on the sidelines: "we wont make money if we have all this cash." Others sung the praises of

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# GREATER NEW YORK



Vehicles and pedestrians compete for space in Midtown. An advocacy group argues the city doesn't need state approval to charge drivers.

## New Twist on a Congestion Charge

BY PAUL BERGER

New York City could impose a congestion charge on motorists driving into Manhattan's busiest streets—and could do it with or without state approval, an advocacy group says.

Move NY, which is making the argument, will outline a new toll proposal to the City Council's transportation committee Monday.

Under the group's plan, the city would impose a \$2.75 fee on cars entering Manhattan's central business district south of 60th Street. Trucks would pay a higher fee, while taxis and other for-hire vehicles would pay a congestion surcharge based on travel within the zone.

Recent congestion-charge proposals faltered in the state Legislature. But Move NY says the city doesn't need state approval to charge drivers. It cites a 1957 state law giving cities with a population of more than one million people

the power to toll their own roads and bridges.

Scott Gastel, spokesman for the city's Transportation Department, said the city would analyze the legal theory. "The legal experts in both the current and previous administrations determined the city does not have this authority," he said.

Move NY's legal opinion was rendered by Roderick Hills, a professor at New York University School of Law. It was signed by four specialists from law schools at NYU, Columbia University and Fordham University, as well as by Frederick Schwarz Jr., a former corporation counsel for New York City now at the Brennan Center for Justice.

Mr. Hills said the law giving the city the power to raise tolls is straightforward. The politics of raising tolls is more complex. "Unless you've got the guts and the coalition, you can't use it," he said.

Congestion plans tradition-

ally face opposition from motorists in New York City's suburbs and outer boroughs. Although the City Council has endorsed congestion pricing in the past, it is unclear whether councilors would do so now.

Alex Matthiessen, campaign director for Move NY, said the city could raise about \$1 billion a year through the plan,

\$2.75  
Fee that Move NY would put on cars entering part of Manhattan

which could pay for improvements to roads and bridges, as well as subsidize MetroCards for low-income households and improve bus service.

Congestion pricing is a perennial issue in the city. While drivers pay tolls of up to \$17 per round-trip at bridges and

tunnels owned by state and bitorious agencies, they cross city-owned bridges such as the Brooklyn Bridge and the Manhattan Bridge at no charge.

The uneven setup attracts cars and trucks to certain parts of the city, exacerbating congestion.

A proposal a decade ago by then New York City Mayor Michael Bloomberg, modeled on congestion pricing in London, died in the state Assembly. That plan would have imposed an \$8 fee on drivers entering Manhattan below 60th Street on weekdays from 6 a.m. to 6 p.m.

More recently, Move NY advocated a plan that would have introduced more-modest tolls on city bridges, while reducing tolls on outer bridges. Mr. Matthiessen said that plan foundered in the state Legislature last year because of a lack of support from Gov. Andrew Cuomo.

A spokeswoman for the governor didn't respond to a request for comment.

## Cuomo Makes The Task Force His Go-To Move

BY MIKE VILENSKY

Hate crimes, heroin and power plants pose disparate problems, but New York Gov. Andrew Cuomo has responded with the same idea: Start a task force.

Mr. Cuomo, a Democrat, has increasingly relied on panels of mostly allies and appointees to navigate some of New York's dilemmas and controversies.

The governor's office and some past panelists say the tactic allows Mr. Cuomo to delegate tricky issues to outside experts who can reach nonpartisan recommendations. And they point to panel ideas that became laws to indicate the panels were successful.

But Cuomo critics and other past panelists say it can be a way for Mr. Cuomo to avoid taking firm stances, reward allies with policy-making roles, and still maintain control over an issue.

It isn't unusual for politicians to create task forces or commissions to solve problems, but aides to past governors said Mr. Cuomo employs them more frequently.

"We tried to limit their use to complex issues that really required outside expertise," said David Catalafano, who served as an aide to former Republican Gov. George Pataki. "But I don't think it is inherently bad to have more of them. Governance has gotten more complicated."

Critics said past task forces haven't had many tangible effects.

"There should be a full public accounting of what task forces have been created, what measures have been implemented, and whether or not the approach has been effective," said Assembly Minority Leader Brian Kolb, an upstate Republican. "The governor has formed task forces on everything from bee pollination to plastic bags—and it is difficult to see how they have served any useful purpose."

Mr. Kolb pointed to the Business Regulation Council. That panel made public recommendations to Mr. Cuomo last year to make New York more business-friendly, but most of them weren't acted on, though some have moved forward.

Mr. Cuomo's office said the task forces are effective.

"The governor believes in convening industry experts and stakeholders to collectively examine problems, develop best practices and identify solutions," spokeswoman Abby Fashouer said.

"From rooting out worker exploitation and reforming our criminal justice system to redesigning Medicaid and strengthening our business climate, these efforts are producing real, tangible results to the benefit of all New Yorkers."

Recommendations from

past panels have become policy, though some of them already had public support.

The governor's 2014 Commission on Youth, Public Safety & Justice issued a report that formed the basis for legislation passed this year keeping minors out of adult prisons and courts for nonviolent crimes.

The governor's most recent commission, a 14-person group tasked with fixing problems at Penn Station, was impaneled in late May.

Transit advocates pointed out Mr. Cuomo already appointed a panel three years ago to suggest overhauls to the city's transit systems, the Transportation Reinvention Committee.

The committee's report was released in November 2014.

"I don't know what's happened to it since," said Gene Russianoff, a public-transit advocate who served on that panel. He said implementing those recommendations may have prevented some of the city's current transit woes.

### Targeting Problems

Some of the panels that Gov. Andrew Cuomo has formed

- ◆ Hate Crimes, 2017
- ◆ Heroin and Opioids, 2016
- ◆ Common Core, 2015
- ◆ AIDS Epidemic, 2014
- ◆ Anti-Hunger, 2013

"The MTA has and continues to implement the recommendations of the reinvention commission, including launching a global competition seeking new procurement methods and technology—which is exactly what the governor and the MTA announced last week," Mr. Cuomo's spokeswoman said.

Recent task forces the governor impaneled were the Hate Crimes Task Force in January, "charged with deterring discrimination," according to the governor's office. In February, he launched one "to assist the local community" with the closure of the Indian Point Power Plant.

In February, he impaneled a group to examine the impact of plastic bags, amid a battle raging in New York City over adding a fee to plastic bag use.

Manhattan Assemblywoman Linda Rosenthal, a Democrat appointed to an opioid task force last year, said the panel she sat on helped pass legislation she had previously introduced, requiring more training for doctors prescribing opioids.

The task force helped push that existing legislation past opposition in the medical community, Ms. Rosenthal said.

## March for Israel Brings Out Thousands



BANNER DAY: Students from the Moriah School in New Jersey were among the groups that marched along Fifth Avenue in Manhattan on Sunday during the 53rd annual Celebrate Israel Parade.

## Cabaret Discovers the Right Mix and the Path to Profits

BY CHARLES PASSY

Feinstein's/54 Below spokesman.

Revenue is up as well. Last year, the club grossed about \$8 million, a 15% increase over 2015, says Richard Frankel, a veteran Broadway producer, who is one of Feinstein's/54 Below's owners and founders.

Of course, the club, an underground space that resembles a speakeasy from yesterday, has more than its share of expenses. Still, after an initial period of losing money, it finds itself in a relatively comfortable place. "We're managing at the moment to be stable to modestly profitable," said Mr. Frankel, whose business partners include fellow Broadway producers Steve Baruch, Marc Routh and Tom Viertel.

By most accounts, Feinstein's/54 Below owes its success to a diverse mix of programming that attracts all kinds of audiences. As might be expected, the club puts a heavy emphasis on major names from

the Broadway and cabaret scenes, topped by its namesake, Michael Feinstein.

Recent headliners have included Tony Award-winners Lea Salonga, the star of the original Broadway production of "Miss Saigon," and John Lloyd Young, who portrayed Frankie Valli in "Jersey Boys."

Just as important, the club presents a variety of other Broadway-related programs, from presentations of musicals from the past, to first looks at shows in development.

Even with its relatively small stage, Feinstein's/54 Below was designed with such flexibility in mind. "It can be a classic night-club or it can be a small theater," said Mr. Feinstein. He isn't one of the club's owners.

Not that Feinstein's/54 Below doesn't have competition in the cabaret world. The city has its share of long-established clubs, such as the Public Theater's Joe Pub, which will mark its 20th anniversary in 2018.



Customers settle in for the early show at Feinstein's/54 Below.

## GREATER NEW YORK



An Uber subsidy for tenants enabled Elements Truffles to add three employees to its Kearny Point staff, says owner Alak Vasa.

## New Jersey Tenant Perks Get a Lift

By KEIKO MORRIS

New Jersey office landlords have been sprucing up their properties with everything from food trucks to fitness centers to compete in an era when urban

**PROPERTY** amenities are in vogue.

The latest enticement: subsidies for digital ride-hailing services such as Uber and Lyft.

Hugo Neu Corp. in March launched a program offering \$50 monthly credits for each tenant employee without a car to commute to Kearny Point.

The real-estate investment firm Marcus Partners, meanwhile, is offering new tenants a ride-sharing program that pays the first \$3 of a trip to or from its newly acquired office building just outside Morristown's center in New Jersey.

"Morristown is a wonderful town not only because you have a train station but also because you have restaurants and nightlife," said David P.

Fiore, a principal at Marcus Partners and head of the company's New York metro region. "We thought the flexibility of a ride-sharing program allows tenants and employees a strong connection to downtown."

While residential landlords nationwide have been testing similar programs, such incentives from office owners are relatively rare. Services such as Uber and Lyft could help New Jersey office landlords, especially those who are a short drive to public transportation and downtowns, real-estate brokers said.

Subsidizing ride-hailing services also could help landlords attract tenants looking to pack more people into less office space, particularly in areas where parking is tight, brokers said. "The trend is companies putting more people in less space for efficiency and cost effectiveness," said David Simson, a vice chairman at real-estate services firm Newmark Grubb Knight Frank.

Older office buildings were

built with three to four parking spaces per 1,000 square feet of office space, but modern office spaces require upward of five spots per 1,000 square feet, according to a Newmark report. Adding parking decks can cost between \$20,000 and \$35,000 per space, the report said.

*Some landlords are offering subsidies for ride-hailing services such as Uber and Lyft.*

Parking constraints for train commuters prompted Summit city officials last fall to launch a pilot program subsidizing city residents' rides to and from the train station. The participants pay \$4 a day round trip and the city subsidizes the rest.

So far the program, a possible alternative to expensive new parking, has freed up 30

to 35 parking spaces a day, said Michael Rogers, Summit's city administrator. The city has increased the number of participants in its program from 100 to 150 people.

Adequate parking, however, hasn't been the issue for the property at Kearny Point's Building 78, which houses many small businesses. Hugo Neu, which owns and develops real estate, added the Uber credits to provide another transportation option and has found that its co-working tenants, many of whom don't have cars, have been using about half of the credits, said Nick Shears, director of leasing at Hugo Neu.

The Uber subsidy is what allowed Alak Vasa, founder of chocolate maker Elements Truffles, to add three people to her team at Kearny Point and keep a critical employee who had been with the company in its first space in Jersey City. "We have people who live in Jersey City who we have already invested in," Ms. Vasa said. "How do we get them here?"

## PROPERTY WATCH

### NEW JERSEY

#### Revamped Complex Is Sold to Barclays

A joint venture that transformed a bland New Jersey office campus in Whipple into a modern complex with an amenity building, a bike-share service and walking trails has sold the property to **Barclays PLC**.

The venture of Rubenstein Partners LP and Vision Real Estate Partners closed the \$69 million sale to banking giant Barclays, a tenant at the campus, at the end of May. Rubenstein and Vision bought the 500,000 square-foot property at 115 South Jefferson Rd. for \$25 million in 2012, said Stephen Card, a principal at Rubenstein.

The company intends to redevelop the site in the coming years "to create a world-class campus for our technology, operations and functional teams in the U.S.," a Barclays spokesman said in an email.

### MIDTOWN SOUTH

#### Refinancing in Place For Linked Buildings

The owners of two connected Midtown South buildings have secured \$430 million to refinance the newly renovated property, which houses companies such as Facebook Inc. and BuzzFeed.

The group led by Morton F. Silver obtained the 10-year, fixed-rate loan from Barclays PLC, enabling the partnership of owners to repay the previous \$217 million debt early and take advantage of an attractive interest rate, Mr. Silver said.

The loan also would allow them to recoup the \$135 million spent on a significant makeover of the early 20th Century office buildings at 225-233 Park Ave. South.

### BROOKLYN

#### McCourt Global Puts Money Into Modular

One of the city's most prominent investors is betting on modular construction.

McCourt Global, the asset-management firm and business arm of the family-owned enterprise led by former Los Angeles Dodgers owner Frank H. McCourt Jr., headed up a group of investors in a \$6 million Series A round of funding for Brooklyn company FullStack Modular LLC.

The financing will help FullStack ramp up its production capabilities at its 100,000-square-foot design and construction facility in the Brooklyn Navy Yard.

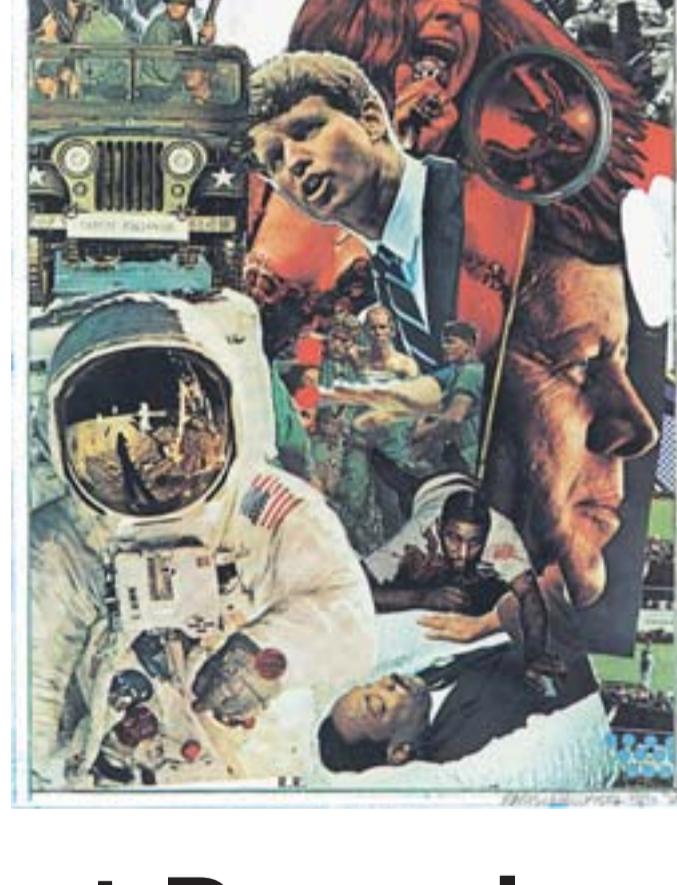
The investment also will enable the company to explore the possibility of expanding internationally and on the West Coast, said FullStack Chief Executive and founder Roger Krulak.

—Keiko Morris



A rendering of 225-233 Park Ave. South, which underwent a makeover.

## The Museum of Modern Art



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# LIFE & ARTS

## HEALTH

# Making a Tough Medical Call

Cancer-fighting treatments that can damage the heart put some patients into an agonizing quandary



BY LUCETTE LAGNADO

**AFTER FIGHTING** breast cancer with lots of chemotherapy and surgery, Jennine Elkins rejoiced last month, believing she was through the worst.

Then the 38-year-old math teacher from Staten Island, N.Y., got some bad news. Her heart was getting weaker—and doctors felt it was due to Herceptin, a potentially life-saving drug she was on to prevent the cancer from returning.

The hospital stopped the drug.

Now Ms. Elkins is waiting to see if her heart will get better so she can resume Herceptin, which is given intravenously and can stave off even some aggressive breast cancers. It could damage her heart all over again, so Ms. Elkins must decide if she wants to take that risk. Fighting cancer or heart failure "is like a coin toss," she says. "Which one do you choose?"

Thousands of cancer patients are confronting similar dilemmas because their treatment may also cause heart problems, either immediately or down the road. Women like Ms. Elkins face a tough choice: Stay on a miracle drug that might damage their heart or stop the drug and risk having the cancer spread.

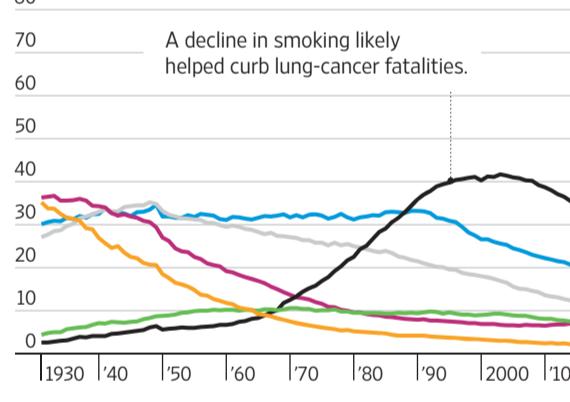
"It is a balancing act," says Richard Steingart, chief of cardiology at Memorial Sloan Kettering Cancer

## Hopeful Signs

Cancer death rates declined overall by 25% in the past two and a half decades, but barely budged for some types.

■ Lung and bronchus ■ Breast ■ Colorectum ■ Ovary ■ Uterus ■ Stomach ■ Prostate

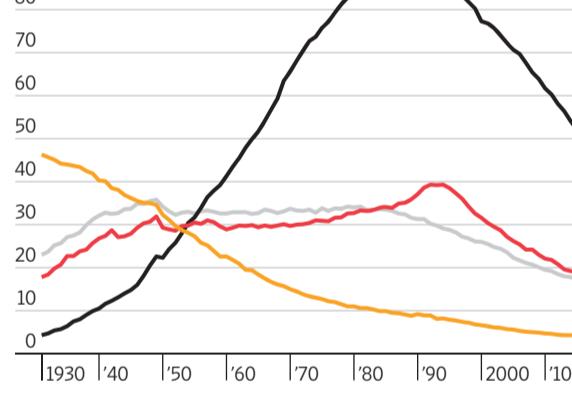
Cancer death rates per 100,000 women



Note: Age adjusted to the 2000 U.S. standard population.

Sources: National Center for Health Statistics, Centers for Disease Control and Prevention, American Cancer Society

Cancer death rates per 100,000 men



THE WALL STREET JOURNAL

Center, who is monitoring Ms. Elkins's heart while cancer specialists follow her cancer. He—and Ms. Elkins—hope she can resume taking Herceptin and be watched closely to avoid heart failure.

Genentech, the maker of Herceptin, said the drug has become "the standard of care" for certain aggressive breast cancers that once had a very poor prognosis, and it has improved survival rates among many

women who have been treated with it in addition to chemotherapy. Cardiac risks are included in the prescribing information, the company said, and physicians "are familiar with this risk."

Herceptin often is used against breast cancer in tandem with or after other therapies. Among women treated with Herceptin, 10% to 15% develop heart problems, Dr. Steingart says. But he points out that

with Herceptin, 72% of women with a certain type of early-stage breast cancer enjoy disease-free survival for 10 years. "It is a remarkably effective drug," he says, despite the cardiac-toxicity, which he believes is "manageable."

Men and women on some kidney-cancer and lung-cancer drugs also have experienced hypertension and other cardiovascular problems, as have patients treated

Jennine Elkins, at her home in Staten Island, N.Y., stopped a treatment to keep her breast cancer from returning because doctors thought the drug was damaging her heart.

with radiation to the chest area.

Oddly, it was a surfeit of good news—more cancer patients beating the disease—that brought the problem of cardio-toxicity to the fore, says Saro Armenian, a pediatric oncologist at City of Hope, a comprehensive cancer center in Duarte, Calif.

In some cases, such as with Ms. Elkins, the dangerous effects are spotted quickly. But they can take decades to surface, as seen in survivors of some childhood cancers. Pediatric oncologists began sounding the alarm 20 years ago, says Dr. Armenian, director of the Childhood Cancer Survivorship program, when they saw heart problems among patients who had beaten cancer as children.

"Our cancer outcomes are improving. People are living longer," Dr. Armenian says. "But we have to recognize there are new issues after the cancer treatment, and that the risk is much greater than in the general population."

Dr. Armenian led a team of experts to draft guidelines for the American Society of Clinical Oncology that would raise awareness of the cardiac risks that cancer patients face. The guidelines were published in March in the Journal of Clinical Oncology.

"Clinical suspicion for cardiac disease should be high and threshold for cardiac evaluation should be low in any survivor who has received potentially cardiotoxic therapy," the guidelines state. They call for monitoring and testing patients deemed at risk of heart problems because of cancer treatments received recently or long ago.

Rae Harris, a nurse in Santa Barbara, Calif., developed Hodgkin's lymphoma, a cancer of the lymph-node system, in the late '70s when she was 26. She was treated aggressively with radiation and had more radiation along with chemotherapy after she relapsed.

Now 65, Ms. Harris felt that "All in all, I survived very, very well." But a few months ago, doctors found signs of a heart murmur that had gotten worse. Tests showed problems with two heart valves. To fix them, Ms. Harris is supposed to have surgery in a few weeks.

Decades ago, doctors pointed out that radiation could cause serious side effects, including other forms of cancer, but Ms. Harris doesn't recall warnings about heart problems. "I didn't see it coming," she said.

Her cardiologist, Megha Agarwal, at UCLA Health Specialty Practice in Ventura, Calif., says Ms. Harris's heart problems are the result of the radiation she received nearly 40 years ago. That radiation caused scar tissue to form over the heart valves, making them rigid and no longer functioning ad-

Please see CANCER page A15

## FOOD & DRINK

# OFFICE BARISTAS TAKE YOUR ORDER

BY ALINA DIZIK

**FORGET THE SLUDGE** in the break room. The latest corporate perk is a barista who knows how to pour.

Companies are opening on-premise coffee shops that wouldn't look out of place on Instagram. There is cold brew on tap and expertly pulled espresso shots keep employees from stepping out.

It is an uphill battle. Daily coffee drinkers spend more than 62 hours a year purchasing coffee away from the office with 75% of full-time employees also drinking coffee at work, according to a 2015 research report from Packaged Facts, a market research firm.

The shift follows technology companies, which learned decades ago that stocking premium snacks and providing hip areas for lounging can improve the office atmo-

sphere, keep long days more enticing and encourage employees to stay at their desks. Now the idea is reaching the mainstream, including at manufacturers and real-estate investment firms, as they look for ways to revamp more traditional offices and recruit young talent.

Employees typically pay for the coffee drinks, but prices are passed on to employees without a markup. Costs can be as much as 50% less in-house. A 16-ounce Stumptown cafe latte costs around \$4.25 at their cafes, but only \$2.50 in offices.

Companies outsource daily operations, staffing and build-out of the cafes. Coffee revenues go directly to the company, but the firms pay \$18,000 to \$100,000 monthly per space, says Michael Schultz, founder of Infuse, a year-old Chicago-based firm that works with companies and hotels to create cafe

Please see COFFEE page A14



Jones Lang LaSalle's coffee shop offers cold brew on tap. Here, barista George Fero, Jr. makes a green tea matcha latte.

## LIFE & ARTS

WHAT'S YOUR WORKOUT? | By Jen Murphy

# 'Contact Combat' Before Work

PayPal chief executive Dan Schulman swears by Krav Maga, the intense Israeli self-defense practice; a tool for conflict resolution

**MOST CEOs** start their day strategizing bottom lines or growth strategies over email. Dan Schulman starts his day at the gym, figuring out how to disarm someone with a knife. He credits his daily Krav Maga (pronounced krahv mah-GAH) training with developing leadership skills he has put to use in roles at American Express, Virgin Mobile, Priceline, AT&T and in his current position as president and CEO of PayPal Holdings Inc. "They say leadership is defined in times of stress, and I think Krav Maga trains you for those moments," he says.

Krav Maga, or "contact combat" in Hebrew, is a self-defense and fighting system that combines techniques from judo, boxing, wrestling and aikido. It was originally taught to the Israeli army. Today, the practice has been embraced by law-enforcement agencies, as well as gyms, where a faster-paced version has become an increasingly popular workout.

Mr. Schulman, 59, was introduced to the practice when he was 13 and visiting Israel. "I was living on a kibbutz and was put into youth military training," he recalls. "I was a skinny little kid and it was incredibly intense, but also extraordinarily practical and useful in stressful situations involving conflict."

In Krav Maga, all elements of the body—legs, knees, elbows, hands, feet—are used as tools to strike and defend. "People complain about having less resources, but having too many tools often starves you from being as creative as you might be," Mr. Schulman says. He rediscovered Krav Maga after college and now practices daily. He splits his time with his wife between Silicon Valley and the New York City area. (The couple has two college-aged children.)

He trains at **Tactica Krav Maga Institute** in Santa Clara, Calif. At Gotham Gym in New York he boxes and slips in some Krav Maga kicks.

"Part of the Krav Maga philosophy is that the best way to win a fight is not to get into a fight. So we spend a lot of time figuring out how you de-escalate situations and win through avoidance of conflict," he says.

When conflict is unavoidable,



PayPal CEO Dan Schulman, above and top right, during a Krav Maga self-defense workout with his coach, Danny Zelig.

Krav Maga teaches how to use everything at your disposal to neutralize a threat while remaining calm under pressure. "My teacher always says, 'Standing still is asking to be hit.' That's a valuable lesson in business," he says. "If you stand still as a business just because things are going well and you don't challenge yourself, inevitably your competition catches up with you."

### The Workout

Mr. Schulman trains for a minimum of one hour daily during the week and up to three hours on Saturdays and Sundays. He warms up on the speed bag or heavy bag, sometimes challenging his core by balancing each foot on a skateboard, and will then do footwork

drills, like various kicks, to loosen up. The next phase involves working on technique, like a particular combination of kicking and striking, or escaping from a headlock, followed by 15 to 20 minutes of sparring. He might have to disarm someone with a knife, stick or gun.

Once he's worn out from sparring, he finishes the workout with a set of drills. He might bear-crawl around the perimeter of the room, stopping in each corner to perform push-ups, then reverse and go the opposite direction. "I might end up doing 150 push-ups in that exercise," he says. "It requires incredible focus to get through it when your body is already at its limit."

Mr. Schulman typically works one-on-one with a coach or spar-

ring partner, but says it's also important to train with groups. "Often in fights, there are multiple attackers," he says.

### The Diet

Mr. Schulman has half of a cup of coffee pre-workout. "That's just enough to get the body going without having coffee sloshing around in my stomach during a workout," he says. Post-workout he has yogurt and fruit. Lunch is light, usually a salad, and dinner is a protein, often steak or fish, with a vegetable or salad. Two to three times a week he must attend a work lunch or dinner. "I'll have one or two sips of wine to be social, because people don't want to drink alone," he says.

### The Krav Maga Mentality at Work



Krav Maga might look like something out of "Fight Club," but proponents say the philosophy of the fighting system develops skills that translate to the office. "Krav Maga training develops an individual's ability to effectively deal with confrontation," says Danny Zelig, founder of the Tactica Krav Maga Institute, based in San Francisco. "People learn to maintain confidence and mental function without shying away from conflict due to fear of confrontation."

"Making decisions under stress boosts mental strength and teaches students to focus their efforts and energy on the most important, immediate needs," he says. Krav Maga develops heightened negotiation and improvisation skills through situational awareness, he says.

"An individual learns to take cues from others during their attempts to de-escalate and negotiate with an aggressor during dangerous situations," Mr. Zelig says. "A heightened sense of awareness allows leaders to understand their peers, co-workers and upper management and to be in tune and aware of their co-workers' current mental states by the cues they give."

### The Gear & Cost

Mr. Schulman spars barefoot. His uniform consists of Nike Pro Combat compression shorts, a T-shirt, a mouth guard and Revgear MMA gloves, which retail between \$30 and \$60. "If we're really going at it, I wear shin guards," he says. "I have scars on my legs from not wearing them."



Dan Auerbach collaborated with Nashville artists for 'Waiting On a Song.'

## MUSIC

# ROCKER TAPS INTO THE OLD GUARD

BY JOHN JURGENSEN

**DAN AUERBACH'S** new album "Waiting On a Song" is billed as a solo project because it doesn't feature his famous rock band the Black Keys. In fact, his "solo" album resulted from top-to-bottom collaboration with some of the best songwriters and session musicians in Nashville.

Mr. Auerbach didn't seek out hot, young talent. Instead, he surrounded himself with seasoned veterans—most of whom are about twice the age of the 38-year-old singer and guitarist.

"They have this magic that transcends age," Mr. Auerbach says of his writing and recording team, including John Prine, age 70, keyboardist Bobby Wood, 76, and guitarist Duane Eddy, 79.

Unlike the slash-and-burn style that made early Black Keys recordings stand out, "Waiting On a Song," out June 2, has a precise, multilayered sound that pays respect to the bright pop of the 1960s and '70s.

By working daily with musicians



who helped create hits of that era, Mr. Auerbach says he learned how to collaborate across generations. Some of his takeaways:

### Seek out introductions

After the Black Keys moved to Nashville in 2010 from their hometown of Akron, Ohio, Mr. Auerbach became fast friends

with David Ferguson, a sound engineer who worked with Johnny Cash, among many other artists. "Fergie" would go on to introduce Mr. Auerbach to most everyone who contributed to "Waiting For a Song," including Mr. Prine and his longtime mandolin player Pat McLaughlin, who co-wrote most of the songs.

### Do the work

Songwriting sessions typically began at 9 a.m. when Mr. Ferguson and Mr. McLaughlin arrived at Mr. Auerbach's house. At quitting time, about eight hours later, they would emerge with two or three new songs. In total, Mr. Auerbach wrote about 200 songs with various collaborators, though only 10 made it onto the album.

"That's the thing about songwriting in Nashville, you don't get paid for your job directly. You have to work a lot of hours to possibly get a song used [by a recording artist]. So songwriters are used to writing just to write, and you end up sharpening your blade."

### Don't get lost in nostalgia

Despite being surrounded by musicians who worked side by side with legends such as Elvis Presley (as Mr. Wood did), Mr. Auerbach says nobody wasted time on nostalgia.

"I like to hear a story every now and then, but I don't hang out with these guys for the work they did. I hang out with them for what they might do, right now," Mr. Auerbach says. "And they are as addicted and in love with making music as they ever were."

### Create the right setting

The album was recorded in Mr. Auerbach's Easy Eye Sound, which he built to function in the way that legendary studios like Stax and Motown did—with musicians playing live together in one room. "Then I meet these guys, who spent their entire lives recording just like that," Mr. Auerbach says. "Immediately they felt at home and they knew exactly what to do."

### Don't get stuck on pecking order

As the one whose name and image is on the album cover, Mr. Auerbach says he wasn't timid about guiding colleagues with decades more experience. "It doesn't matter how old you are or what you've done before. All that goes out the window in the studio. Whoever makes the magic is what matters."

### Soak up the expertise

By spending days at a time with his collaborators, Mr. Auerbach absorbed their quirks—such as Mr. Prine's knowledge of meatloaf specials across Nashville restaurants—and advice. In addition to helping him learn "not to overthink things," Mr. Auerbach says, "those guys taught me that to really be someone in Nashville, you've got to drive a Cadillac."

He adds, "I definitely got that Cadillac. It's working already."

## COFFEE

Continued from page A13  
spaces and menus from independent roasters.

Most firms end up breaking even on the running the cafes, he says. Mr.

Schultz works with brands

including Irving Farm Coffee Roasters, Ritual Coffee Roasters and Metric Coffee

and uses the same kind of commercial espresso machines that

are used by the roasters.

At Jones Lang LaSalle's Chicago headquarters, the "Club," a seating area with a long coffee bar, draws younger employees,

who don't want to spend the day in a traditional cubicle, says Ed Nolan, managing director of workplace strategy. The company built

out the space to feel like an "internal co-working space," but it has

become so popular that it's now a spot for external meetings, Mr. Nolan says. Unlike in nearby cafes,

"they are free to loiter," he adds.

Employees can plug in laptops along the bar area while sipping traditional espresso-based drinks, pour-over offerings from local

roasters, sparkling teas and green tea matcha lattes. Cold brew is offered on tap. "I keep it pretty legit,"

says George Fero, Jr., the lead barista at Jones Lang LaSalle who

often uses ceramic cups in lieu of paper. Recently, Mr. Fero who works for Infuse, introduced some employees to a traditional macchiato, an espresso with a dash of milk.

Piercings, tattoos and casual clothing are allowed—and, at times, encouraged. "They are not walking in a suit and tie and serving up coffee like it's the Admiral's Lounge," Mr. Schultz says.

Corporate food-service company

Compass Group's Bon Appétit subsidiary, is also working to mimic in offices what employees are purchasing off premises, says Maisie Ganzler, chief strategy and brand officer. Three years ago, the company started hiring coffee managers, who are professionally trained baristas that can "discuss coffee at length" and host regular tastings with employees, says Ms. Ganzler.



A barista pours coffee at Jones Lang LaSalle.

Companies are more demanding when it comes to beverage offerings, she says. "Fifteen years ago, it was just coffee," she says.

Most weekdays, ConAgra Brands attorney Megan Agnew orders her regular—a latte with cinnamon—and stays for the chitchat. At the one-year-old cafe, which is run by Infuse, baristas keep regulars' mugs behind the bar and offer Kombucha, a fermented tea beverage, on tap.

The cafe also serves breakfast tacos and chia seed pudding. "These are my besties at work," says Ms. Agnew who often shares photos of her children with the baristas.

At Mastercard's Union Square office in New York, people often sit for meetings in nooks surrounding the cafe where a barista pours drinks from Portland roaster, Stumptown. Employees are less likely "go out" hunting New York City for this kind of experience," says John Sheldon, a senior vice president at Mastercard.

At some companies, coffee lounges are replacing the corporate cafeteria. In 2010, office furniture maker Steelcase turned an under-utilized cafeteria into what the company bills the Workcafe in their Grand Rapids, Mich., headquarters. They've replicated it for some clients. In addition to a barista, employees get access to a full kitchen and a "nourishment bar." It is open from 7 a.m. to 7 p.m. with an atmosphere that resembles a cafe, says Ms. Johnson:

"We purposely offer the best coffee—and it's not self service."

## LIFE & ARTS



'America Responds,' above, and 'United but Unequal,' left, galleries in the 'Arsenal of Democracy' exhibit at the National WWII Museum

### EXHIBITION REVIEW

# The War at Home

World War II viewed from the U.S., from the Victory Garden to the factory

BY MARK YOST

**New Orleans**  
**AT FIRST GLANCE**, it may seem odd that the National WWII Museum is opening its new exhibit, "Arsenal of Democracy," about life on the home front, on the anniversary of D-Day. But as the show makes abundantly clear, the Allies couldn't have embarked on the greatest amphibious landing in history without the efforts of the folks at home.

The museum's \$5.6 million permanent addition, encompassing some 9,500 square feet and nearly 400 artifacts, dedicates the first three of its nine galleries to the

events leading up to the Japanese attack on Pearl Harbor. A wall timeline charts the rise of fascist dictatorships and militant nationalism from Italy to Germany to Japan. Interesting artifacts include an original *Volksempfänger*, the "People's receiver" created by the Nazis to pick up only Nationalist broadcasts, as well as a Walt Disney-created Mickey Mouse gas mask for children (rubber shortages limited production, making this a rarity).

"Discordant Voices," the second gallery, reminds visitors how divided America was about going to war, and how those attitudes changed quickly. Side-by-side Gallup polls show that in January

1940 88% of Americans were against declaring war on Germany and Italy, and 60% against helping a besieged Britain. Fast-forward a year and two-thirds of Americans were in favor of going to war. Audio and video loops rebroadcast President Franklin D. Roosevelt's January 1941 "Four Freedoms" speech, in which he outlines the fundamental freedoms people "everywhere in the world" should enjoy. The antiwar argument is given by the leading isolationist of the day, Charles Lindbergh.

"America Besieged" uses a 50-foot-wide screen to immerse visitors in the Japanese attack on Pearl Harbor. Notable artifacts include a wristwatch belonging to

Storekeeper Second Class Roy Boreen, who was aboard the USS Oklahoma, abandoned ship, and swam to safety on the USS Maryland, where, a plaque tells us, "...he had a cup of black coffee and the first cigarette of his life." The watch is stopped at 8:04 a.m., less than 20 minutes after the Japanese attack started.

Oral histories recount harrowing tales of those who survived it.

While this history is important, six of the nine galleries focus on life on the home front and how every American contributed to the war effort. "War Affects Every Home" features a mural of a woman and boy hoeing dirt in a Victory Garden, where Americans grew their own fruits and vegetables. Visitors next step into an exquisitely re-created 1940s American kitchen, complete with period appliances, ration books, and recipe books that helped women stretch those rations.

"United but Unequal" is a balanced look at how America struggled with—and resolved—its segregationist policies to fight and win the war. Personal stories shine here, telling how minorities—blacks, Latinos, American Indians—were initially rejected but eventually integrated into military service, such as Enrique Cervantes, a Mexican-American who persevered to become a distinguished B-17 pilot.

Japanese-Americans rightly get the most coverage. On display is FDR's Executive Order 9066,

which gave the military the authority to "declare any part of the country a restricted military zone." It didn't mention the Nisei by name, but that's who it targeted. Among the stories told here is that of William Nakamura of the 442nd Regimental Combat Team, an all-Japanese unit that distinguished itself in Europe. Nakamura was killed distracting a machine gun away from his comrades. He was initially awarded the Distinguished Service Cross, because Japanese-Americans were not eligible for the Medal of Honor. President Bill Clinton changed that in 2000 for Nakamura and others who'd been denied awards and medals based on race. Video screens embedded in period suitcases—internees were allowed to bring just one suitcase—tell oral histories, including that of Rep. Norman Mineta.

The museum has also re-created a factory floor with assembly lines for Jeeps and the Packard-built Merlin engines that gave American P-51 Mustangs a significant performance advantage over German aircraft.

Most interesting here is a wall display showing what manufacturers made before the war, and what they converted to for wartime production: Frigidaire made the Browning M2 machine gun, Kodak made Beano grenades.

This museum has long been the standard-bearer for serious World War II history, especially the oral histories it curates for the public. "Arsenal of Democracy" only adds to that much-deserved reputation.

Mr. Yost is a writer in Houston.

## CANCER

*Continued from page A13*  
equally. She wishes that a cardiologist had monitored Ms. Harris through the years.

Many cancer patients are vigilant about getting checked for cancer, but ignore potentially greater risks they face with their heart, says Dr. Agarwal, a cardiologist with an interest in the emerging subspecialty of onco-cardiology, also called cardio-oncology.

"Every one of those survivors, they go back to their oncologists; [the female patients] get screening mammograms, they get routine colonoscopies, their doctors reiterate the importance of wearing sunscreen to prevent melanoma," she says. "But once you cross 10, 12 years, [cancer] isn't your main issue: What you should be concerned about is heart disease, and everyone forgets that."

Sometimes the risk to the heart is worth taking. Last year, John Cheek, an 86-year-old retiree from Idaho, moved in with his daughter in Oak View, Calif., after he was diagnosed with Stage 4 lung cancer and given three months to live. He had treatment at UCLA Health Hematology-Oncology and seemed to be beating the odds. Then



Rae Harris survived cancer in the '70s but is facing heart surgery.

he started feeling poorly. "My breathing was so bad I could hardly carry on a conversation," he says.

The problem turned out to be his heart, Dr. Agarwal says. She believes the cancer therapy was the source of his problems, even as it was saving his life. His daughter, Lynette Cheek, a nurse, is philosophical. "I know there are risks and benefits," she says. "I can't help thinking that without the cancer treatment he wouldn't be here. He is still walking."

Some patients beset by cancer and heart issues manage to survive both.

That has been the case for Emeldine McAndrew, a patient of Dr. Steingart for 20 years. She consulted him for

a serious heart problem in 1998 when he was practicing cardiology in Long Island, N.Y. Ms. McAndrew was diagnosed with Stage 3 breast cancer in 2005. Following chemotherapy and radiation, she started Herceptin, but after a month, developed heart problems.

Doctors told her that if they continued "you will be cancer-free but you will also be gone," the 59-year-old accountant recalls. They stopped the drug. Twelve years later, she is cancer-free and her heart has been stable. She has annual check-ups for breast cancer. Every six months, Dr. Steingart monitors her heart. Ms. McAndrew says she also has simply been "lucky."



John Cheek in the center where patients have chemotherapy at UCLA Health Hematology-Oncology.



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# SPORTS

GOLF | By Jason Gay

## Phil Mickelson's Easy Choice

The golf star will skip the U.S. Open for a family moment. Who would argue it isn't the right move?



Venus Williams fell in three sets to Timea Bacsinszky on Sunday.

### TENNIS

## AMERICANS ARE LOST IN PARIS

BY TOM PERROTTA

**THE SECOND WEEK** of the French Open began with a goodbye: All the American singles players are gone.

Venus Williams, the last remaining American in singles, was beaten by Switzerland's Timea Bacsinszky, 5-7, 6-2, 6-1 in the fourth round. Williams, 36 years old, was making her 20th appearance at the Open. She has never won the tournament.

"I feel like I played well today, but, you know, I didn't quite figure out the solution in time," Williams said. Williams looked like she would dominate after shocking Bacsinszky in the first set. Williams trailed 5-1 and promptly won six straight games. But Bacsinszky led the rest of the way.

Other defeats in the women's tournament on Sunday made the unpredictable event even more wide open. Caroline Wozniacki defeated Svetlana Kuznetsova, who won a French Open title in 2009. Jelena Ostapenko, a 19-year-old from Latvia, upset Australian Samantha Stosur in three sets. And in the most popular highlight of the afternoon, France's Kristina Mladenovic knocked out Garbiñe Muguruza, last year's Open title winner, in three sets, 6-1, 3-6, 6-3. Those defeats mean there's not a single player left in the draw who has won a Grand Slam singles title.

A French woman has not won this tournament since Mary Pierce in 2000. Mladenovic will face Bacsinszky in the quarterfinals. Bacsinszky said she knows the crowd will root against her—but no matter what, she said, Switzerland tops France in at least one thing.

"Of course everyone knows Swiss cheese is so much better than French cheese," she said. "You are impostors."

Besides Mladenovic, two others from France remain in the draw: 23-year-old Caroline Garcia and 27-year-old Alizé Cornet. Garcia and Cornet will play each other in the fourth round on Monday.

**IT'S POSSIBLE** the golfer Phil Mickelson will conclude one day that he made a terrible mistake, deciding to skip the 2017 U.S. Open to attend his daughter's high school graduation. The man they call Lefty turns 47 later this month, and the U.S. Open is the only major that has eluded him in his outstanding career—Mickelson has finished second in the tournament a maddening six times.

Graduations are nice, but who knows how many more chances he will get? Won't Mickelson feel a twinge of regret when he realizes his colleagues are teeing off without him at Erin Hills in Wisconsin?

Maybe. But I doubt it.

It's the right move. He knows it, and I think the rest of us do, too.

Mickelson told the media Saturday after his round at the Memorial Tournament in Ohio that he's informed the United States Golf Association of his intention to withdraw from the U.S. Open. He added that he's yet to officially withdraw—were the graduation plan to change, or the long-term forecast for Thursday, June 15's opening round look like a washout, there's a chance Mickelson could make it to the start.

But that's a long shot. A far more likely scenario is that on the day the tournament begins, Mickelson will be in California with his family, and his daughter, Amanda, for commencement ceremonies.

"She's the school president," Mickelson said. "She'll be giving the commencement speech."

I hate schmaltz, and I don't want to be schmaltzy here. Too often we give professional athletes excessive credit for the most ordinary of human behavior—or, conversely, fly off the handle when they make the most human of mistakes. My opinion here is not exactly radical—columnist sides with athlete prioritizing family, what courage!—but there's something reassuring about Mickelson's choice, and his apparent comfort with it.

"Obviously, [the U.S. Open] is the tournament that I want to win the most, and the only way to win is if you play," Mickelson said. "But this is one of those moments where you look back on life, and you just don't want to miss it. I'll be really glad that I was there."

Most of us have faced a choice like this—probably not with such public and dramatic stakes as Mickelson's, but with similar emotional pulls. Surely there are a few of us who have made a choice we regret. I definitely have a few. We almost always know what the correct decision is, but career versus family isn't the easiest battle to navigate.

That's especially the case today,



Phil Mickelson said he plans to withdraw from the U.S. Open to attend his daughter's high school graduation.

when that insidious smartphone brings our work wherever we go. There's not a Saturday I haven't contemplated tossing that thing in the ocean.

I think we're wising up, I really do. Even in sports, where perspectives are always a little askew and caveman-like.

Mickelson's fellow golf pro Hunter Mahan walked away from the Canadian Open—with the lead—when his wife Kandi went into labor in 2013, and his move was widely lauded. You can also see progress in team sports. Yes, there are still dinosaurs among us who gnash and growl that a player who leaves to attend a childbirth is letting down the club, teammates, fans. (Usually, it seems, these dinosaurs have shows on sports radio.)

But many more of us feel like Sarunas Jasikevicius, the coach of the Lithuanian team Zalgiris (and former Maryland Terrapin) whose spirited defense of a player became a viral video last month.

**Reporter:** Coach, what do you think about Augusto Lima going away in the midst of a series to attend the birth of his child?

**Jasikevicius:** What do I think about it? I allowed him to go.

**Reporter:** But is it normal for a player to leave the team during the semifinals?

**Jasikevicius:** Do you have kids? When you have kids, youngster, you'll understand. Because that's the height of a human experience. Wow, that's a good question, really. Do you think basketball is the most important thing in life?

**Reporter:** No, but a semifinal is important.

**Jasikevicius:** To whom is it important?

**Reporter:** The team.

**Jasikevicius:** Which one?

**Reporter:** Zalgiris.

**Jasikevicius:** Did you see the number of fans at the game? Important? When you see your first child, you will understand what the most important thing in life is. Because nothing can be more majestic in the world than the birth of a child. Not titles, not anything else. Augusto Lima is now in heaven emotionally. I'm really happy for him.

Career versus family isn't the easiest battle to navigate. But we appear to be wising up.

This doesn't mean it's a simple decision; it's just a simpler one.

Would Mickelson have made a different decision had he won a bunch of recent tournaments? Who cares? He made the choice he made.

Mickelson has a history with balancing family life with this particular tournament.

Four years ago, he managed to hustle between the U.S. Open in Philadelphia and the West Coast to attend Amanda's eighth grade graduation, and still finished second in the field. More memorably, there was 18 years ago, when Mickelson—with his wife Amy very pregnant—finished runner-up to the late Payne Stewart. At the end, Stewart cupped Mickelson's face and congratulated him on impending fatherhood, and the birth of a child who would be born the following day:

Amanda.

Mickelson was asked Saturday if he planned to help Amanda, who will attend Brown University, with her graduation speech.

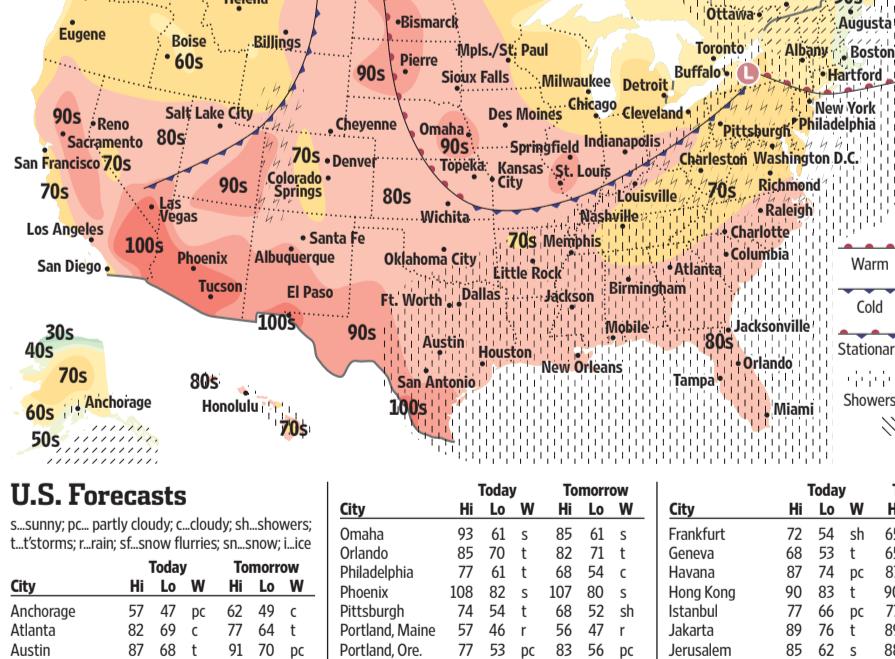
"Probably not, no," he said. "Actually, definitely not."

"She's a better writer, more eloquent speaker than I ever dreamed to be."

There will be plenty of recognizable golf talent in Erin Hills a week from Thursday—stars like Jordan Spieth, Jason Day, Dustin Johnson and recent Masters champion Sergio Garcia. The tournament will go on, and on Sunday, June 18—Father's Day—the winner will get a check close to \$2 million dollars, and one of the most coveted titles in golf.

Phil Mickelson will be elsewhere. And richer for it.

### Weather



### U.S. Forecasts

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

t=tstorms; r=rain; sf=snow flurries; sn=snow; lce=ice

Today Hi Lo W Tomorrow Hi Lo W

City Anchorage 57 47 pc 62 49 c

Atlanta 82 69 t 77 64 t

Austin 87 68 t 91 70 pc

Baltimore 76 61 r 75 54 c

Boise 76 53 pc 86 61 s

Boston 57 50 r 53 50 r

Burlington 66 52 r 59 50 r

Charlotte 84 68 t 81 61 c

Chicago 71 52 s 73 53 s

Cleveland 73 55 c 66 54 sh

Dallas 85 71 t 90 68 pc

Denver 86 54 t 75 53 t

Detroit 74 55 pc 68 53 pc

Honolulu 86 72 pc 86 73 pc

Houston 87 71 t 89 70 t

Indianapolis 84 56 s 76 53 s

Kansas City 89 62 s 80 57 s

Las Vegas 104 78 s 104 75 s

Little Rock 82 68 t 83 60 pc

Los Angeles 80 61 pc 77 60 pc

Miami 88 79 sh 89 79 t

Milwaukee 67 54 pc 69 53 s

Minneapolis 80 57 s 81 57 s

Nashville 79 66 t 81 58 s

New Orleans 82 72 t 82 72 t

New York City 71 58 t 63 53 sh

Oklahoma City 81 64 c 88 59 s

### International

Today Hi Lo W Tomorrow Hi Lo W

City Amsterdam 70 56 pc 62 53 pc

Athens 83 65 s 84 66 s

Baghdad 109 76 s 113 80 s

Bangkok 92 77 t 91 78 t

Beijing 87 59 c 66 57 c

Berlin 70 56 pc 72 52 t

Brussels 71 54 pc 60 50 t

Buenos Aires 56 33 pc 59 39 s

Dubai 101 87 pc 108 86 s

Dublin 58 46 r 60 46 t

Edinburgh 62 48 r 57 46 r

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



### CHANCES ARE | By Daniel Hamm

Across	26 "The Mikado" town	49 List-shortening abbr.
1 Donna Summer's music	28 Genesis name	50 Hit's opposite
6 Tack on	29 Language suffix	52 Explosive letters
9 Stress-relieving resorts	32 Close angrily	53 *Physical location?
13 From Brunei, Bhutan or Bangladesh	33 *Shark, maybe	58 Banish
14 "...man ___ mouse?"	37 John Smith, often	59 Might succeed, and what the starred answers do
15 Conduct a census	39 Recipient of much Apr. mail	63 No longer bright
16 *Stool occupant, perhaps	40 Like many a neglige	64 Mamie's husband
18 " ___ la vistal!"	41 *Expert at drawing?	65 Pageant winner's headgear
19 *Person who gets the picture	44 Anna's sister in "Frozen"	66 Eliot Ness, notably
21 Conditions	45 Military control, for short	67 For every
24 Semitransparent gem	46 Printer cartridge contents	68 County northeast of London
25 Bond, for one	47 Focus (on)	

► Solve this puzzle online and discuss it at [WSJ.com/Puzzles](http://WSJ.com/Puzzles).

Down  
1 Bit of ointment  
2 "A Dream \_\_\_ Wish Your Heart Makes"  
3 Army address  
4 "Lil' Abner" creator  
5 How some ground balls are fielded  
6 Major artery  
7 Bib moistener  
8 "Rats!"  
9 Melodramatic  
10 Promote the sale of

11 Cost for a hand  
12 Feature of the Texan flag  
15 Wedding settings  
17 Convertible driver's option  
20 Answer an invitation  
21 "We're on!"  
22 Get gas  
23 Challenges for dry cleaners  
27 " \_\_\_ corny as Kansas in August" ("South Pacific" lyric)

28 Different  
29 Hole for a lace  
30 Does an usher's job  
31 Straying from the proper course  
34 Sound from a sty  
35 Assn.'s kin  
36 "Pardon me..."

38 Like some revealing skirts  
42 Ruler division  
43 River through Lyon  
48 Addictive drug

## OPINION

# The Radial Tire Lesson for Tech

By Andy Kessler

**W**ant to know what scares tech executives? It's not competition from China, WannaCry ransomware attacks, or being coded out of existence by Mark Zuckerberg clones. It's radial tires.

Until around 1970, almost all cars and trucks rolled on bias-ply tires. Under the rubber treads, nylon belts ran diagonally, at 30 or 45 degrees, forming a crosshatch. This allowed for stronger sidewalls and cheaper manufacturing. The problem was that bias-ply tires needed to be changed every 12,000 miles.

Then along came radial tires. Introduced in 1949 by Michelin, radials have steel belts inside that run across the tread at a 90-degree angle. They are wider, better at dissipating heat, and safer. Although radials cost a little more to manufacture, they last at least 40,000 miles.

The first American car that came with radials was the 1970 Lincoln Continental. Four years later, Goodyear was making only radial tires. Other companies missed out and paid dearly. By the end of the decade, radials effectively had 100% market share for cars.

Which brings us back to Silicon Valley. In the 1980s and '90s, technology was changing so fast that a new computer was almost disposable. You upgraded every

few years. But as innovation slowed, they lasted longer, which meant fewer people buying computers.

Bill Gates was worried about this all the way back in 1991. "When radial tires were invented," he said in an interview, "people didn't start driving their cars a lot more, and so that means the need for production capacity went way down, and things got all messed up. The tire industry is still messed up."

### Smartphones and computers last longer than ever. Can their makers adapt?

During the dot-com boom, Mr. Gates invoked the analogy again. "Every time I read about optic fibers or wireless, I say to myself, 'Wow, that sounds like radial tires,'" he said. "When they got radial tires did people drive four times as much just because the tires lasted longer? No, the industry shrank."

That fear has come true. When was the last time you upgraded your PC? Exactly. They run and run. Sales of personal computers peaked in 2011 at 365 million. Five years later, only 260 million shipped, down almost 30%. Tech companies continue to

post relentless performance increases and cost improvements, except they show up elsewhere—in cloud computing, artificial intelligence and speech recognition.

It's true that tablet computers caused some of the PC's decline, but they've peaked, too. Steve Jobs introduced the iPad in 2010. Sixty-eight million were sold in 2014. Last year Apple moved barely 45 million, down a third. The company is on pace to sell even fewer this year. These tablets don't wear out, and the new ones don't have enough additional features or applications to entice users to upgrade. It's a radial tire.

Smartphones are the same story. The iPhone turned heads in 2007. Here was a piece of glass with a computer behind it that you could tap and flip and pinch. Think different indeed. Since then Apple has added bigger screens, better graphics, polycarbonate housing, fingerprint sensors, front-facing cameras, pressure-sensitive displays and Siri. By last July, it had cumulatively sold a billion, often to the same customers who upgraded early and often.

Yet sales essentially have flatlined since 2015. Are smartphones so good that they now last three or four years instead of two? What would it take to make you upgrade? You've probably heard about the 10th-anniversary

refresh, the iPhone 8, to be announced this fall. By all accounts it will be incredible. Industry wags suggest it will include the cool features of today's Samsung Galaxy S8—such as edge-to-edge displays. But note the S8 sold only five million in its first month, against 10 million for the Galaxy S4 in 2014.

Maybe the iPhone 8 will have killer new features. The website MacRumors has floated wireless charging and a camera with three-dimensional infrared sensors to measure location and depth, allowing facial recognition, iris scanning and augmented reality. Will it be enough to meet sky-high expectations? Rumors also suggest an iPhone 8 could run \$1,000. For many, that iPhone 7 may look like a gently used radial tire.

As with PCs, technology gains continue, but they show up elsewhere. At the pace voice platforms are improving—whether it's the Amazon Echo, Google Home, or Apple's new stand-alone Siri device due to market soon—maybe we don't even need smartphones. Maybe screens are dead—in which case that old Motorola flip phone will make a comeback. After all, flying cars don't need tires, radial or otherwise.

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

**BOOKSHELF** | By Edward Kosner

# What Could Go Wrong?

Careful

By Steve Casner  
(Riverhead, 326 pages, \$26)

**G**rowing up in Manhattan in the 1940s and '50s, I climbed the Palisades across the Hudson, rode between subway cars, took 15- and 20-mile bike rides along busy highways, bodysurfed the breakers at Long Beach in the summers, played hardball on lumpy playgrounds with my glasses on, swam in pools during polio season, flicked my switchblade, set off cherry bombs and had BB guns fired at me. And I never suffered more than a scuffed knee and a cut lip.

As it turns out, Steve Casner, a NASA psychologist who has devoted his career to studying why people get into accidents and how to prevent them, flirted with even more dangerous things a few decades later, like dangling out of the bed of his grandfather's pickup. Most of that behavior wouldn't be tolerated these days—and for the rest there are

bike lanes, batting helmets, shatterproof lenses, inoculations and endless precautions. Yet people feel less safe than before. "Being careful today seems harder than it used to be," writes Mr. Casner, in his useful new book, "Careful: A User's Guide to Our Injury-Prone Minds."

There's certainly enough to worry about. Deaths from accidents—"avoidable injuries" in safety speak—are down drastically from the good old days of the early 20th century. But the downward curve flattened out in 1992, Mr. Casner writes, and then began to rise. This is partly because smartphones and other driving distractions offset safety improvements in cars and, inescapably, because people are living longer and thus have more opportunities to get killed in accidents.

That observation is just one of a fascinating—and chilling—array of facts and stats that Mr. Casner marshals to buttress his case. Did you know that more than one person per second in the U.S. suffers an injury needing medical attention? Or that some of them are among the more than a quarter-million Americans who die each year because of "medical errors"? Or that injuries caused by washing machines sent 40,000 people to the ER in 2014.

Mr. Casner is one of those pop writers who tell you what they're going to tell you, then tell you, then tell you what they've just told you. Still, his repetitious analyses and guidance are worth reading.

His central point is that human fallibility is a fact of life. People—smart or dumb, young or old, highly educated or dropouts—can't concentrate on a single task for long before their attention wanders. Multitasking is a myth: It generally means doing two things badly at the same time. Remind yourself—or someone—to do something in a few minutes and it will be forgotten. Confident that you're watching your kids frolic in the pool? You were—but now you're probably thinking of the hot new associate at your law firm, how your Apple stock is doing, the latest episode of "The Real Housewives of Beverly Hills" or the utility slot in your fantasy-baseball lineup.

**Utility workers wrangling high-voltage cables are as safe as anyone at home. Kitchen knives send 300,000 people a year to the hospital.**

Mr. Casner's generalizations are backed up by an array of studies by ingenious psychologists all over the map. These invariably show that people are overconfident about their own capabilities, more open to risk than they imagine, less cool in a crisis, and prone to error. He distinguishes between "slips"—minor distracted errors like absent-mindedly dropping your sweaty T-shirt in the toilet rather than the washing machine—and "errors": like misdiagnosing Lyme disease as the flu.

And then there's "risk homeostasis." That's the tendency of people to accelerate their dangerous behavior when new safety features are introduced—say, by driving even faster in cars with the latest safety technology. Or the inclination to use the right tool, a screwdriver, say, for the wrong job: not to tighten or loosen a screw but to pry open a jammed lid—resulting in a maimed forearm.

So what to do? Mindfulness—easy to imagine, hard to sustain—is Mr. Casner's prescription. People should be constantly aware of their limitations, visualize driving, walking, working and other situations in advance, and program their responses to danger. "How could this go wrong?" is the question, he says, that should always be at the top of one's mind. When you reach for that screwdriver to pry open a lid, "visualize the blade . . . snapping in two and the bottom half of the blade taking flight." Being careful can be as simple as looking both ways before stepping off the curb on a one-way street and as complex as long checklists for pilots and surgeons. If you're watching a child in a pool, don't even talk to anyone; concentrate on the kid. Remember that using a cellphone hands-free while driving is as distracting as holding one to your ear.

It turns out that people are far safer at work than they are while walking down the street or in their houses. In 2014 Mr. Casner reports, 333,527 emergency-room visits in the U.S. involved kitchen-knife injuries. Power-line workers wrangling high-voltage cables are as safe as anyone at home. He tells the story of a champion Hollywood stunt woman who knocked herself out colliding with a shelf in her bathroom.

Some of Mr. Casner's lessons are common-sensical. For example, when making a turn at an intersection, always remember that a van or truck may be shielding a car about to pass into your path. But some are counterintuitive: Keep in mind that most drowning victims don't splash around making noise, but simply sink under the surface. When people switch tasks, it takes the brain nearly 30 seconds to focus fully on the new one. A third of young men in one survey admitted to SWD—having sex while driving. But Mr. Casner, who flies jets and helicopters, was surprised to learn that SWF in single- and twin-engine private planes is more prevalent than he imagined, with fewer fatal consequences than one might think.

So life can be a crapshoot. The players who know how the odds can be stacked against them and stay focused have the best chance to keep on rolling.

Mr. Kosner is the former editor of *Newsweek*, New York, *Esquire* and the *New York Daily News*.

## Brazil's President Temer Teeters



**AMERICAS**  
By Mary Anastasia O'Grady

Brazil's Superior Electoral Court is expected to rule Tuesday on whether illegal campaign donations, made during Brazil's 2014 presidential race, invalidate the re-election victory of former President Dilma Rousseff and her vice president, Michel Temer.

Ms. Rousseff, of the hard-left Workers' Party, was impeached and removed from office by Congress in 2016 on charges of violating the constitution. Mr. Temer, of the more centrist Brazilian Democratic Movement Party (PMDB), is now president. He had his own finance committee for his vice-presidential campaign so he could be judged independently of Ms. Rousseff. But if the court were to rule against the ticket, he would have to step down.

In that case, the constitution stipulates, the speaker of the Chamber of Deputies, the legislature's lower house, becomes president for a 30-day period. During that time Congress would elect a successor to finish the term, which runs through 2018.

But forces on the left have mounted a public campaign in favor of holding a general election. The threat to the constitution is so serious that the Brazilian daily *O Estado* de São Paulo editorialized on the

issue on May 31: "It would be a fraud to the democratic state of law if a particular political group or social stratum could, under certain circumstances, change the rules of the game simply because they are now unappetizing." All true. Brazilians are right to resist.

The world's 9th largest economy grew 0.5% in 2014; in 2015 it contracted 3.8% and last year lost another 3.6%. Despite his close association with the leftist Ms. Rousseff, Mr. Temer is now trying to put Brazil back on the market-oriented trajectory launched under Fernando Henrique Cardoso, who was president from 1995 through 2002.

Yet Mr. Temer's tenure is tenuous. Even if the electoral court validates his 2014 re-election as Ms. Rousseff's vice president, it is far from certain that he can survive as president for the remaining 19 months of the term.

That challenge was made more difficult on May 19 when Brazil's Supreme Federal Court released plea-bargain testimony from executives of the giant meatpacking company JBS, alleging that they had bribed Ms. Rousseff. Mr. Temer, former president Lula da Silva and more than 1,800 other politicians.

Shortly thereafter an audio tape of Mr. Temer talking to JBS chairman Joesley Batista was leaked to the press. Mr. Temer's opponents said that the tape, secretly recorded by Mr. Batista, proved

he can revive growth. But he has to shrink the state and rein in a far-too-generous public-sector pension system.

Government-employee unions are among the country's most powerful special interests. Plenty of other corporatists, including some business interests, also have their hands out. Rent-seekers are not about to let Mr. Temer take away the gravy train without a fight.

Still, getting rid of Mr. Temer may be easier than derailing reform. His coalition in Congress seems to have held together, and it will be under pressure to rally around a market-friendly successor. The left knows this too, which is why it wants to ignore the constitutional mandate and hold a direct election for a new president.

If that were to happen, Mr. da Silva, who remains a popular figure with his base, would likely be a candidate. He has been indicted for his alleged role in a corruption scheme involving the state-owned oil company Petrobras. If he is found guilty, he will be barred from holding public office. But if he were to win a snap election to replace Mr. Temer, any prosecution against him as president could be carried out only by the Supreme Federal Court and would probably drag on.

That would be a double gut-punch for a country that needs to show that it has graduated from using the rule of *bananalandia* to using the rule of law. It has made great strides. But this is a crucial test.

Write to O'Grady@wsj.com.

## Yes, Pittsburgh Trumps Paris

By Lou Weiss

Pittsburgh

**M**y hometown has been basking in glory since President Trump said last week that he'd rather look after Pittsburgh than Paris. No need for concern, Mr. President. I have been to Paris for a few days and can authoritatively state that Steel City holds up quite well.

Paris may be lovely, but there is no truer beauty than being able to make it from your house to Heinz Field in under 15 minutes thanks to the hundreds of bridges that cross our three rivers—triple the rivers of Paris. And can you spell Monongahela?

The Louvre—not to mention Paris's impressive museums devoted to Rodin and Picasso—is world-class. Pittsburgh has the Andy Warhol and Roberto Clemente museums, the latter dedicated to the greatest artist ever to play right field. We can't help it if our greatest (robber?) barons, Frick and Mellon, plunked

their artistic booty into facilities in New York and Washington. Advantage: Paris.

The City of Light is famous for its cuisine, but how do you really feel after all that heavy sauce? Meanwhile, Pittsburgh won Zagat's 2015 award for the No. 1 food city in America. The Big Mac was invented here, too. We may not confit our ducks, but we do put french fries on the inside of our sandwiches. Throw in Heinz ketchup and it's not even close. Pittsburgh.

Paris ended up with Jim Morrison, Oscar Wilde and many more famous expats. But only Pittsburgh can claim the geniuses of Gene Kelly, August Wilson and Christina Aguilera. Gertrude Stein, hostess of famous Parisian artistic salons, was born in Allegheny County. Call this a draw.

Paris has a few historical sites, but from my backyard I can look down the river to the battlefield where Gen. Edward Braddock and George Washington fought the French

When it comes to fashion, we could be in trouble. Cargo shorts may not have the same cachet as Yves St Laurent, Dior, Chanel and Givenchy, but at least we can hold a lot of stuff in our pockets.

The Paris Metro is comprehensive and famous for the beauty of some of its stations. Pittsburgh has a ridiculous and expensive three-hole subway that runs under a river

and their Indian allies. France won in a rout, but made it up to us a bit in the Revolutionary War. All right, give this one to Paris.

Sports? No contest. The Penguins are now on the verge of their fifth Stanley Cup. How many Super Bowls has Paris won?

### What's better than duck confit? French fries on the inside of a sandwich.

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The Paris Metro is comprehensive and famous for the beauty of some of its stations. Pittsburgh has a ridiculous and expensive three-hole subway that runs under a river

to a casino. Thanks to Uber and Ford, we are pioneers in self-driving cars, which one needs to navigate our gridless street layout. Advantage: Paris.

Anyone who has ever been to Pittsburgh remarks about the fabulous friendliness of the people. Parisians are notoriously snobby, although I must say that the two I have met have been nice. While folks in the 'Burgh speak what to outsiders seems like a foreign language, to us yinzers it is the language of love.

Sure, France is exquisite—even if it is populated by cheese-eating surrender monkeys. But what can compare to living in the land of the free and home of the brave?

So, Mr. President, thanks for looking out for us here in Pittsburgh—but on the whole we're doing quite well already.

Mr. Weiss is a carpet salesman.

## OPINION

### REVIEW & OUTLOOK

## Jihad Returns to Britain

Saturday's terror attack in the heart of London, Britain's third murderous assault in 72 days, poses a difficult choice for free societies: Do more to contain this internal Islamist insurgency now, or risk a political backlash that will result in even more draconian limits on civil liberties.

Islamic State claimed responsibility late Sunday, and the operation that killed seven and wounded 48 bore the hallmarks of recent jihadist atrocities. The London Bridge area and nearby Borough Market are packed with bars and restaurants popular with tourists and young people. The three alleged perpetrators rammed a van into pedestrians, then began stabbing people before police shot them.

Prime Minister Theresa May said Saturday's attack wasn't directly linked to the suicide bombing committed by Salman Abedi at a pop concert in Manchester last month. But the three attacks in succession show why governments must target the threat at its roots, in self-isolating Muslim communities that reject mainstream values and create homegrown or Islamic State-inspired radicals like Abedi.

On this front, Mrs. May is well ahead of many of her European counterparts. The Prime Minister in a speech Sunday morning outlined a new counterterrorism strategy that puts ideology and Muslim integration at the forefront. The trio of recent attacks in Britain, she said, were "bound together by the single evil ideology of Islamist extremism."

Mrs. May went on to call for a battle of ideas against Islamism and tough love for British Muslims who have failed to confront radicals in their mosques and community centers. Said the Prime Minister: "We need to live our lives not in a series of separated, segregated communities, but as one truly United Kingdom."

Mrs. May suggested this would involve "diffi-

### The U.K. is waking up to the ideological nature of the Islamist threat.

cult and often embarrassing conversations" with the Muslim community, and she is right. This has to include an end to political coddling of so-called soft Islamist groups and imams who treat candor about the Islamist threat as anti-Muslim or refuse to identify radicals in their midst.

The one misstep in an otherwise clear-eyed speech is Mrs. May's suggestion to outsource surveillance of jihadist online speech to social-media platforms. This line is popular among Western leaders because it provides an excuse for their failure to defend the need for Big Data surveillance and threat analysis following Edward Snowden's National Security Agency thefts.

Silicon Valley companies such as Facebook and Google bear some of the blame because they joined the fashionable campaign against the NSA's metadata collection. And by all means Facebook, Twitter and other social media need to police their sites against the promotion of violence and jihad. If they refuse, politicians will eventually do it for them because Western publics will not allow mass murder to become a new normal.

But that's all the more reason for governments to revive the use of Big Data and surveillance to prevent attacks to avoid even worse intrusions on civil liberties. As attacks continue, so will political pressure for measures such as quarantines and mass preventive arrests of people on terror watch lists.

On that score the U.S. is no exception. President Trump responded to the London attack in a typically heavy-handed way with a tweet urging "the courts" to restore his travel ban. But the anti-antiterror left needs to realize that hostility to surveillance and honest debate about jihad will make such bans inevitable if attacks continue—and Mr. Trump won't be the only politician pushing them.

## A Mosque for New Jersey

Each year the State Department rates other countries on respect for religious liberty, but Americans also sometimes need reminders. So it was good to see the Justice Department last week announce a settlement that will allow a mosque to go up in a New Jersey town that had unfairly tried to stop it.

The settlement comes after five years, 39 public hearings and two suits—one by the Islamic Society of Basking Ridge and the other by the Justice Department. At the heart of the dispute was the town's bid to impose parking requirements on the mosque that it didn't require for Christian churches. In December a federal court ruled against the town.

It's telling that in bringing its suit the Islamic Society of Basking Ridge enjoyed the backing of an extraordinary range of reli-

gious outfits, from the American Association of Jewish Lawyers and Jurists to the Becket Fund for Religious Liberty to the National Association of Evangelicals, the International Society for Krishna Consciousness and the Sikh Coalition. All recognize that a threat against one faith is a threat against all. In its amicus brief, the Becket Fund noted that Congress passed the Religious Land Use and Institutionalized Persons Act in 2000 precisely to address the kind of unequal treatment the mosque faced in New Jersey.

The good news is that free exercise has prevailed. At a time when the United States is pushing Middle Eastern nations to show more respect for the minority religions within their midst, it's also a welcome insistence that we practice at home what we preach abroad.

**Religious liberty is for every American, including Muslims.**

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## How to Make Medicine More Expensive

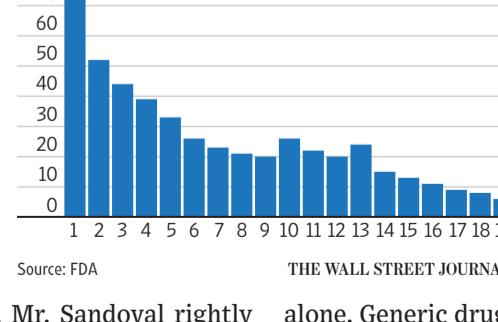
Registering outrage over the high price of medicine is a national pastime, especially for politicians whose solution is always handing themselves more power. The latest examples come from Nevada and Maryland, where legislators are passing bills to punish drugmakers for no benefit to patients.

On Friday Nevada Republican Governor Brian Sandoval vetoed a bill on diabetes medication. The bill swept through the legislature and may make a comeback, so it's worth examining the details.

The state would have decided what counts as an "essential" diabetes medicine, including insulin and others. Manufacturers would be required to disclose the cost of production and marketing, as well as profits and more. That information is proprietary and hard to calculate, as the cost of medicines is influenced by research and development over many years.

### Competition and Drug Prices

Average relative price per dose and the number of manufacturers, 1999-2004



generic Metformin? \$2.31 a month.

One FDA analysis in 2005 revealed that patients pay 94% of the branded price when a medicine has one generic competitor. That falls to about 20% of the price when eight companies are angling for market share. (See the nearby chart.) Yet a drug like insulin is expensive to produce and profit margins are low, so companies invest in areas with higher returns. Proving similarity to a branded drug is another challenge for more complex treatments, particularly alternatives to things like the EpiPen allergy shot that also require deploying a device.

Yet instead of noticing such disincentives, state governments are now attacking the generic industry. In May, Maryland's Republican Governor Larry Hogan allowed a bill to become law without his signature that would unleash the state Attorney General to investigate any generic drugmaker responsible for an "unconscionable" price increase. Remember that the left defines as unconscionable paying money for any health-care product or service.

The assault is especially bizarre given that generic products fill nearly 90% of all prescriptions but account for only 27% of total drug costs. State and federal programs are among the largest purchasers of generic drugs, and in 2015 generics saved more than \$32 billion in Medicaid alone. Generic drugs saved Maryland \$3.7 billion in 2015.

More than a dozen states have a drug-pricing bill in the hopper. The good news is that FDA Commissioner Scott Gottlieb is preparing a plan to drive more generic innovation and competition, which may include streamlining a duplicative approval process, among other improvements. That would make medicine more available and affordable for patients, unlike the political ploys rolling out of state capitals.

**State politicians know nothing about drug prices.**

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In his veto message, Mr. Sandoval rightly said the bill "fails to account for market dynamics that are inextricably linked to health care delivery and access to prescription drugs."

If Nevada's Democrats really want to lower the price of medication, they should support more competition from generic alternatives. Take Glucophage, which helps regulate a diabetic's blood sugar. Glucophage costs about \$43 a month out of pocket for a Medicare D patient, according to data from the Association for Accessible Medicines. A prescription for the ge-

## LETTERS TO THE EDITOR

### Hard Times Come to Much of Rural America

Businesses in rural towns are starving for equal access to capital that has benefited urban areas for decades. Scarcity of capital for small businesses has accelerated the crisis described in "Rural America Is the New Inner City" (page one, May 27) by stunting the growth of young businesses. Traditionally, a rural business owner or enterprising farmer who needed assistance to purchase farm or manufacturing equipment or even warehouse space would go to the community bank or farm credit office and acquire a loan.

GETTY IMAGES

Today there are far fewer community banks, and those remaining lenders have higher credit and liquidity standards. Federal lending standards have made loans cost-prohibitive for many entrepreneurs. Furthermore, big banks have decreased their loan volumes to small businesses, creating a widening lending gap.

AB BASU  
Rural Jobs Coalition  
Ocoocoan, Va.

slightly over 25% of all rural residents. In contrast, central cities were estimated to have 10 million people in poverty—about 17% of central-city residents. The idea that local government, churches and community groups provided a viable social safety net is great theory not supported with facts. At best, these pick up a percentage of people in need. Life can be great growing up on a farm or living in a rural community away from horns and traffic and people. But there are costs. Services are always less available, the most important being health care.

DALE L. STANSBURY  
Los Gatos, Calif.

The once-dominant rural culture of discipline, self-reliance and hard work is collapsing under the corrosive influence of Hollywood and secular liberalism.

LINDA NICOLOSI  
Encino, Calif.

### So Europe Is Now on Its Own? It's About Time

German Chancellor "Angela Merkel's Lament" (Review & Outlook, May 30) that "we Europeans must really take our destiny into our own hands" raises the question as to why Europe delegated the determination of its destiny to someone else in the first place. If President Trump's reluctance to follow in his predecessor's footsteps and bless the Paris climate accord infuriated Europeans and prompted a renewed sense of responsibility for their fate, is that so bad? Germany can step up now and start covering more of the cost of defending Europe or it can cuddle up to Vladimir Putin, supposedly Mr. Trump's BFF, and hope that a nonaggression pact works out better than the one in 1939.

President Trump's disorderly behavior led to Ms. Merkel's epiphany regarding Europe's responsibility for Europe's fate. It's about time. World War II ended seven decades ago, and the Cold War ended nearly three decades ago.

THOMAS BELL  
Atlanta

The real lament, not just the German chancellor's, but all leaders of European NATO countries, isn't the fact of being asked to contribute more to their defense.

CARL BECHGAARD  
Eastham, Mass.

### VOA Should Come Clean on Mandarin Service

As a former director of the Voice of America, I was surprised at the current VOA director's May 26 letter upbraiding the performance of her Mandarin language service chief. Amanda Bennett said that Sasha Gong didn't uphold "the journalistic principles . . . [that] apply universally to all VOA services."

This accusation was made in respect to a live VOA interview with expatriate Chinese billionaire businessman Guo Wengui who had some explosive revelations to make on how Chinese businesses are suborned into supporting the Chinese government's spying on its own citizens. In my day, such an interview would have been considered a coup. What went wrong?

As far as I am aware, no one has raised any journalistic concerns regarding the content of the interview. Nor does it appear that the broadcast took place without permission, as it was monitored live by several senior members of VOA management. Nonetheless, the broadcast was abruptly terminated at an hour and 16 minutes into what was to be a three-hour interview. What must the Chinese audience have thought of this?

In my 11 years of experience at VOA, I am unaware of anything like this having happened before. It is

ROBERT R. REILLY  
Vienna, Va.

Pepper ...  
And Salt

THE WALL STREET JOURNAL



"Let's do something completely crazy this time."

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.

## OPINION

# The Diminishing Returns of a College Degree

By Richard Vedder  
And Justin Strehle

In the 375 years between 1636, when Harvard College was founded, and 2011, college enrollments in the United States rose almost continuously, rarely undergoing even a temporary decline. When the American Revolution began in 1775, only 721 students attended the nine colonial colleges. By 2010 enrollments had surpassed 20 million.

**In the mid-1970s, far less than 1% of taxi drivers were graduates. By 2010 more than 15% were.**

Yet from 2011 to 2016, the National Student Clearinghouse reports, total higher education enrollments declined every fall, falling to 19 million from 20.6 million. Although the declines were concentrated in community colleges and for-profit institutions, even many traditional four-year schools saw previously steady enrollment growth come to an end. Many smaller schools have even missed their annual enrollment goals.

Why is this happening? Some point to demographic influences, such as a drop in birth rates during the 1990s. Others cite increases in job opportunities, which lured college-age Americans away from the academy in the aftermath of the Great Recession. But two longer-term trends are at work: The cost

of college attendance is rising while the financial benefits of a degree are falling.

The evidence on rising costs is well established: From 2000 to 2016, the tuition-and-fees component of the Consumer Price Index rose 3.54% annually (74.5% over the entire period), adjusting for overall inflation. With sluggish business investment, a slowdown in income growth has aggravated the rising burden of paying for higher education. American families have taken on more than \$1.3 trillion in student-loan debt—more than what they borrow with credit cards or to buy cars.

Less well known is that the earnings advantage associated with a bachelor's degree compared with a high school diploma is no longer growing like it once did. Census data show that the average annual earnings differential between high school and four-year college graduates rose sharply, to \$32,900 in 2000 (expressed in 2015 dollars) from \$19,776 in 1975—only to fall to \$29,867 by 2015. In the late 20th century rising higher-education costs were offset by the increasing financial benefits associated with a bachelor's degree. Since 2000 those benefits have declined, while costs have continued to rise.

Rising costs and declining benefits mean the rate of return on a college investment is starting to fall for many Americans. Some observers have begun asking whether it might not be better for more students to forgo college in favor of less expensive postsecondary training in vocations like welding and plumbing. The New York Federal Reserve Bank says about 40% of recent college graduates are "underemployed," often for



DAVID GOTTSCHALK

a long time. They sometimes resort to taking jobs as Uber drivers or baristas. With some inexpensive vocational training, they could easily get jobs that pay much better.

To be sure, the payoff from a college education varies sharply depending on school and major. U.S. Department of Education data suggests recent attendees of Stanford University earn on average far more than twice as much as those

attending Northern Kentucky University (\$86,000 vs. \$36,000). Electrical engineers typically earn twice as much as psychology majors. No wonder elite students flock to schools like Stanford and demand for graduates with engineering degrees remains robust, while many state universities, community colleges and smaller liberal-arts schools struggle to attract students.

The size of the college-earnings advantage also varies with race and gender. In recent years, male college graduates' earning power has decreased significantly, as it has for whites and Asians. Not so for women, Hispanics and blacks, for whom the financial payoff to a college education has continued to rise. College graduates traditionally earn more than high school graduates in part because their degrees act as signaling devices in the job market. To employers, a candidate with a bachelor's degree has always seemed brighter and more disciplined, ambitious and reliable than someone with only a high school diploma. But how does knowing a lot about, say, anthropology, make one a more productive worker?

As the proportion of adult Americans with college degrees grows beyond one-third, being a college graduate no longer necessarily denotes exceptional vocational promise. The bachelor's degree is not the reliable signaling device it once was.

Nowadays, because of underemployment among college graduates, restaurant owners can hire bartenders who have college degrees. Credential inflation is at work. In the mid-1970s, far less than 1% of taxi drivers were college graduates; by 2010 more than 15% were. Is it possible that by 2030 a master's degree in janitorial science could be a prerequisite for a job sweeping floors?

*Mr. Vedder is director of the Center for College Affordability and Productivity and teaches at Ohio University, where Mr. Strehle studies economics.*

## C'mon, LeBron, Your Emmett Till Analogy Is Simply Cavalier

By Jason Whitlock

**O**n the eve of the NBA Finals, vandals defaced basketball star LeBron James's \$20 million second home in Los Angeles. According to the police report, the perpetrator scrawled the N-word across a gate.

When asked to comment last Wednesday, Mr. James responded like a young politician mentored by Bill Clinton, an expert at giving speeches to elevate his stature with black voters. Mr. James, who campaigned for Hillary Clinton in the 2016 presidential election, measured his words, tone and posture in a way to convince working-class and poor African-Americans that he shared their pain.

"Hate, in America, especially for an African-American, is living every day," he said. "Even though it's concealed most of the time . . . it's alive every single day. And I think back to Emmett Till's mom, actually. It's kind of one of the first things I thought of. And the reason that she had an open casket is because she wanted to show the world what her

son went through as far as the hate crime, and being black in America. No matter how much money you have, no matter how famous you are, no matter how many people admire you, being black in America is tough. And we've got a long way to go for us as a society, and for us as African-Americans, until we feel equal in America."

The progressive media hailed Mr. James's words as the most powerful, uncomfortably authentic and eloquent ones spoken by an American athlete since Muhammad Ali retorted: "I ain't got no quarrel with them Viet Cong."

As a member of the Nation of Islam and a protégé of Malcolm X, Ali would never have been so naive as to analogize the pain of spray-paint graffiti to the grief associated with the brutal murder of a 14-year-old boy. Only a coddled multimillionaire celebrity pitchman could be that foolish. And only a journalism industry addicted to social-media click-bait could sell Mr. James's poorly crafted victimology as genuine empathy.

In 1955 two white men kidnapped

and bludgeoned Emmett Till before tossing his body in a creek. Till had been visiting his uncle in Money, Miss., a tiny town populated mostly by cotton sharecroppers. The victim's mother, Mamie Till, chose to have an open-casket funeral so the

### The Cleveland star likens graffiti vandalism to the brutal murder of a 14-year-old boy.

American press could expose the brutality of the killers and of Mississippi's segregation. An all-white jury acquitted Till's murderers, who then publicly confessed.

"The locals rallied around the men who killed Emmett Till," says Devery Anderson, who wrote a 2015 book on the killing. "There were collection jars in all the stores to pay for the murderer's lawyers. When the press started using the Till case to argue against segregation, the people in the state rallied around

the killers because they saw it as protecting segregation and their way of life."

The Till family was the epitome of the working poor. Emmett Till's uncle earned about \$1,200 a year as a sharecropper. Mamie Till lived and worked in the Chicago area and earned \$3,900 a year (about \$35,000 now). They did not own a gated home in Los Angeles. They employed no staff capable of cleaning a fence within hours.

Mr. James, whose net worth is estimated at \$500 million, had a repugnant and racist slur spray-painted on a home where he wasn't living by an unknown criminal. The slur was deleted like a bad tweet. Police are conducting a legitimate investigation. Mr. James's "open casket" discussion of the graffiti so far has not included releasing a picture of the vandalism.

Mr. James's sharing of his "tough" African-American plight has included few details beyond that his staff removed a slur from a gate.

Racism is real. It has real damaging effects, mostly on the poor. Wealthy black elites are inconvenienced by racism but rarely denied

opportunities or seriously harmed. Mississippi's love of white supremacy irreparably devastated Mamie Till. Mr. James should know the difference. If he wanted to start a discussion, one about how to help the poor could make a difference. But his social circle includes prominent politicians—people skilled in manipulating the plight of the poor for brand enhancement.

Google, Facebook, Twitter, Snapchat and Instagram, the social-media titans of Silicon Valley and San Francisco, have turned athletes and celebrities into 24-hour-a-day performers. Their lives are now a constant popularity contest, and retweets and likes are the poll numbers.

It should be no surprise that LeBron James is channeling Bill Clinton, who perfected the art of feeling black pain publicly and intensifying that pain with his policies. As long as Mr. James courts popularity, he will never equal Muhammad Ali.

*Mr. Whitlock is a co-host of "Speak for Yourself" on Fox Sports 1.*

## Syria's Chemical Weapons Might Start a New Six Day War

By Asher Orkaby

**W**hen Syrian forces launched a chemical attack on the town of Khan Sheikhoun two months ago, no one was watching more closely than Israel's military elite. Of all the existential threats their country fears, chemical weapons rank high on the list. In 1967 Israeli fear of a chemical attack helped spark the Six Day War, the most transformative conflict in the modern history of the Middle East. Continued use of chemical weapons in Syria poses a similar threat to Israeli security—and may foreshadow another regional war.

The first country to use chemical weapons in the Middle East was Egypt. During the 1960s, President Gamal Abdel Nasser deployed poison-gas bombs during the North Yemen Civil War. Unknown to the Egyptians, Israel had obtained a

front-row seat to study their military capabilities.

The conflict involved the Yemen Arab Republic, founded in 1962 after a coup d'état deposed the country's religious monarch, Imam Muhammad al-Badr. Egypt took the republican side, sending mechanized and heavily armed battalions to aid the revolutionaries.

The monarchist northern tribal militias, aided by a cadre of British and French mercenaries, took shelter in the country's mountainous highlands. The problem was finding a way to resupply their position. After concluding that an air resupply was vital, the mercenaries began searching for an ally willing to orchestrate airlifts into hostile and unfamiliar territory. In the end they turned to Israel, the only country with something substantial to gain from an extended guerrilla war against Egypt.

Between 1964 and 1966, the Israeli Air Force flew 14 missions to Yemen, airlifting vital weapons and supplies to beleaguered tribal outposts. Although the identity of the supplier was a closely guarded secret, these airlifts constituted an important physical and psychological lift for the tribal militias.

In exchange, Israel received well-informed intelligence from its own pilots and British mercenaries on the ground. The Israelis' main contact was Neil McLean, a former Special Air Service soldier and member of the British Parliament. McLean passed to Israel details of Egypt's military activity, even samples of its chemical weapons.

The Egyptian Air Force had been dropping the poison-gas bombs, targeting militias hiding in a network of caves, with increasing frequency and precision. This news alarmed Israelis, many of whom had lost family and friends to Hitler's poison-gas chambers only two decades earlier. They were haunted by the prospect of a similar fate befalling them in a gas attack on Tel Aviv or another Israeli city. A sense of

looming existential threat pervaded Israeli society, down to the local school district. In one emergency meeting in May 1967, teachers debated security protocols. In the event of an air-raid siren, should students be ushered into the basement bunkers? Or would climbing to the rooftops be better for escaping poison gas?

### In 1967, fear of a gas attack convinced Israel it had to destroy Egypt's air force pre-emptively.

the 1960s crisis in Yemen so dangerous was that the international community did not respond to Egypt's use of chemical weapons. The Yemeni civil war was waved off as merely an intra-Arab conflict. Without visible international assurances that chemical warfare would not be tolerated, Israel in 1967 felt compelled to eliminate the threat before it arrived.

In the barrage of Tomahawk missiles President Trump launched against Syria in April, the U.S. provided some response to the latest chemical attack. Failure to follow up this show of force with collective international action—making clear to Israel that further chemical warfare is off the table—may push the Middle East toward another destructive regional war.

*Mr. Orkaby, a research fellow at Harvard's Near Eastern Languages and Civilizations Department, is the author of "Beyond the Arab Cold War: The International History of the Yemen Civil War, 1962-68," out next month from Oxford University Press.*

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## Notable & Quotable: The \$600 Billion Man

From James Freeman's *Best of the Web*, WSJ.com, May 31:

As if taxes haven't been high enough, the U.S. Government also forced Americans to spend an eye-watering \$1.9 trillion in 2016 just to comply with federal regulations. That's according to the latest annual "10,000 Commandments" report released today by Wayne Crews of the Competitive Enterprise Institute. . . .

According to the Crews annual scorecards, the yearly cost of federal regulation soared by more than \$700

billion in nominal dollars from 2008, the last full year of the Bush Administration, through Mr. Obama's final full year of 2016. Adjusting for inflation, you can call Mr. Obama the \$600 Billion Man. . . .

Some readers will argue that the \$600 billion figure wildly understates the costs inflicted on the U.S. economy by Mr. Obama given increases in on-the-books federal spending and the creation of future federal spending commitments. But on that score he must share the blame. It's not easy to precisely assign responsibility between

the executive branch and the Congress for each dollar of the historic increase in federal outlays that occurred early in the Obama presidency or the relative moderation that occurred after Republicans took control of the House in 2010.

In contrast, the executive branch is largely responsible for the costs of regulation. Yes, a Democratic Congress had to . . . enact laws like Dodd-Frank and ObamaCare . . . , but the regulatory agencies have enjoyed broad discretion in deciding just how heavy those burdens will be.



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## BUSINESS NEWS

# German Shipping Firm Seeks Bankruptcy

BY WILLIAM WILKES  
AND COSTAS PARIS

FRANKFURT—Germany's third-largest shipping firm filed for insolvency Friday after it was cut loose by one of the country's biggest shipping lenders, a sign Germany's long-simmering shipping crisis has reached a boiling point.

**Rickmers Holding AG** said lender **HSH Nordbank AG** backtracked on an understanding that it would restructure the company's debt, forcing it to file for insolvency. HSH Nordbank said its board examined the Rickmers business plans carefully before deciding they weren't viable. Rickmers bondholders said they expect the firm's owner, Bertram R.C. Rickmers, to "gut" the company's assets.

Frank Günther, managing director at One Square Advisors, the chief representative for bondholders, said money could be recovered from Rickmers if an investor is found to help finance restructuring. Mr. Günther said he was surprised HSH Nordbank didn't agree to the original restructuring plans.

"Rickmers is maritime royalty," said Basil Karatzas, chief executive of New-York based Karatzas Marine Advisors & Co. "Seeing them file for bankruptcy is like seeing a king get deposed."

The company's bankruptcy puts an exclamation mark on a dismal 12 months for Germany's shipping firms. Plunging world freight rates and the bankruptcy of South Korea's Hanjin Shipping last year helped create a perfect storm for the sector, a headache for German banks and investors who own around 21% of the world's container fleet, according to the German Shipowners' Association.

A glut of tonnage in the water brought about a rare wave of industry consolidation over the past two years, with the world's 20 biggest container operators shrinking to about a dozen that posted about \$5 billion in collective losses in 2017.

**'Rickmers is maritime royalty,' says industry adviser Basil Karatzas.**

Despite some signs of the recovery with rebounding volumes, freight rates in the benchmark Asia to Europe trade route are still around half break-even levels, forcing top players like Denmark's Maersk Line and Germany's Hapag-Lloyd to shed thousands of jobs.

Industry players said the carnage isn't over, with Asian operators like Hong Kong's Orient Overseas Container Lines and Taiwan's Yang Ming in the cross hairs of bigger players.

Rickmers, which operates 114 ships, on Wednesday said HSH Nordbank "surprisingly denied" a term sheet needed to restructure its debt. Bondholders said Mr. Rickmers's new business proposals were too risky for creditors. Rickmers Maritime, Singapore, a financially independent subsidiary of Rickmers, last year missed interest payments on a bond, and rating agency Creditreform Rating AG warned the company's debt had a "high to very high default risk."

"This conflict shows there is huge distrust between the Rickmers group and their major banking lender," said Wolfgang Schirp of Berlin-based Schirp Neusel & Partners, a law firm that owns Rickmers debt and advises other bondholders.

Frank Scheunert, a Dubai-based minor owner of Rickmers's debt, said the bankruptcy filings show the "old Rickmers clan" would have too much control of the company. Mr. Scheunert said he doubted One Square Advisors could recover debt. "These bonds will be emptied out."

# NFL Adds Liquor to Menu of Ads

Up to four 30-second spots per game will be permitted in the coming football season

BY JOE FLINT  
AND SUZANNE VRANICA

The National Football League is ready for a good stiff drink.

In a change of its advertising policy, the NFL will allow its television partners to accept commercials for distilled spirits in the 2017 season, according to a memo reviewed by The Wall Street Journal.

The NFL said it will accept no more than four 30-second hard-liquor spots per game with a limit of two such spots in any quarter or during half-time. In addition, the networks airing the matchups—ESPN, Fox, CBS and NBC—can run two spots in pregame and postgame programs.

The ads have to include a "prominent social responsibility message" and can't have a football theme or target underage drinkers.

The NFL confirmed the policy change. While described as a one-season test, the policy is expected to become permanent, an NFL executive said.

Over the past 10 years, sports leagues have expanded aggressively into wooing new advertisers and league sponsors to bring in more revenue from companies beyond the traditional beer brands, car makers and financial-services firms.

But the ban on spirits had held firm amid concerns of associating hard liquor with famous football players in front



FOCUS ON SPORTS/GETTY IMAGES

Liquor ads will have to include a 'prominent social responsibility message' and can't have a football theme or target underage drinkers.

of young fans. Broadcasters and other professional sports leagues started easing into accepting ads from spirits brands several years ago.

Hard-liquor companies spent roughly \$411 million on U.S. ads last year, estimates Kantar Media.

There are still several categories of advertising the NFL wants to continue to keep clear of football.

Most prominent on its list of "prohibited advertising categories" are condoms and

other forms of birth control. While those spots aren't allowed, the league has no problems with commercials for performance-enhancing erectile dysfunction drugs.

Also, while many people like to mix their vodka with an energy drink, they won't get that idea from the NFL, which still wants nothing to do with Red Bull and similar energy drinks.

Earlier this year, a brouhaha erupted after Fox rejected a Super Bowl commercial for

GNC, just days before the big game. The Pittsburgh-based vitamin and supplement retailer said at the time that it was notified by Fox that GNC's participation in the Super Bowl as an advertiser wasn't acceptable to the NFL.

GNC is listed under "prohibited companies" on a memo from the NFL and the players union, warning against business relationships with the company because it is associated with substances banned by the NFL.

Gambling also is still a red flag, including ads for any hotel that features gambling even if it isn't referenced in the commercial. That also includes tourism ads for places that allow gambling such as Las Vegas. Lottery ads are acceptable, as is general advertising for horse or dog racing or state and municipal off-track betting organizations.

The NFL is also worried about excessively violent movies and videogames being advertised.

# 'Wonder Woman' Reigns at the Box Office

BY ERICH SCHWARTZEL

"*Wonder Woman*," the first major comic-book adaptation to put a super heroine front and center in more than a decade, powered to the top of the box office this weekend with an estimated \$100.5 million debut.

The critical acclaim and box-office success of "*Wonder Woman*" breathes new life into **Warner Bros.**' DC Comics franchise, which has had the performance of recent installments like "*Suicide Squad*" hurt by withering reviews.

Gal Gadot headlines "*Wonder Woman*" as Diana, Princess of the Amazons, a warrior who becomes the title character made famous by Lynda Carter on the 1970s television show. When a World War I pilot (Chris Pine) crashes into her hidden world of Themyscira, Diana joins him to fight the German army.

"*Wonder Woman*," directed by Patty Jenkins, is the best opening of all time for a female director. Women made up 52% of the opening-weekend audience; most DC movies sell more than 60% of tickets to men in their first weekends, said Jeff Goldstein, president of domestic distribution at the **Time Warner** Inc.-owned studio.

"There's no question that this character hits the zeitgeist," he said.

"*Wonder Woman*" is Ms. Jen-

kins's first feature directing credit since 2003's "*Monster*." Her accomplishment comes amid considerable scrutiny of Hollywood's lopsided record of hiring women directors.

In 2015, the U.S. Equal Employment Opportunity Commission began interviewing directors and Hollywood executives about hiring practices; the investigation is ongoing.

Overseas returns totaled \$122 million, led by a \$38 million debut in China. Warner Bros. brought on Chinese companies **Dalian Wanda Group** Co. and **Tencent Holdings Ltd.** as investors in the film to help with marketing and distribution in the country. "*Wonder Woman*" has so far opened in countries comprising about 75% of the global marketplace.

The movie, which cost about \$100 million to make, was also co-financed by Rat-Pac-Dune Entertainment LLC,

the film finance group that until recently was co-led by U.S. Treasury Secretary Steven Mnuchin. (Mr. Mnuchin is listed as an executive producer on the film.)

The weekend's other new wide release, "*Captain Underpants: The First Epic Movie*," opened to \$23.5 million in second place, a fine start for the inexpensive animated film.

"*Captain Underpants*," adapted from the children's book series, is the last **Dream-**

**Works Animation SKG Inc.** release that will be distributed by Twentieth Century Fox since the company was acquired last year by **Comcast Corp.**'s NBCUniversal.

(Fox's parent company, **21st Century Fox**, and **News Corp.**, owner of *The Wall Street Journal*, share common ownership.)

"*Wonder Woman*" re-energizes a summer box office that last week suffered its worst Memorial Day weekend in 18 years.

Year-to-date box office is up nearly 3%, according to Nielsen.



Gal Gadot in '*Wonder Woman*' as Diana, Princess of the Amazons. Patty Jenkins directed the movie.

**Estimated Box-Office Figures, Through Sunday**

SALES, IN MILLIONS

FILM	DISTRIBUTOR	WEEKEND*	CUMULATIVE % CHANGE
1. <i>Wonder Woman</i>	Warner Bros.	\$100.5	\$100.5 —
2. <i>Captain Underpants</i>	Twentieth Century Fox	\$23.5	\$23.5 —
3. <i>Pirates of the Caribbean</i>	Disney	\$21.6	\$114.6 -66%
4. <i>Guardians of the Galaxy</i>	Disney	\$9.7	\$355.5 -53%
5. <i>Baywatch</i>	Paramount	\$8.5	\$41.7 -54%

\*Friday, Saturday and Sunday Source: comScore

## Toyota Hit Brakes on Tesla Partnership



JONATHAN ALCON/BLOOMBERG NEWS

Toyota Motor Corp. sold its stake in **Tesla Motors** Inc. some time last year, the company said, formally ending a partnership between the car makers.

A spokesman for the Japanese car maker declined to say when the transaction occurred or how much Toyota made from the sale. But Tesla shares have been on a tear, rising

more than 50% in the past year.

Tesla owned 2.3 million Tesla shares in March last year, and its stake was valued at \$53.1 billion (\$480 million) at the time, according to the most recent company disclosure.

The companies teamed up in 2010 to work on electric vehicles. Toyota took a \$50 million stake

in the maker of electric cars and SUVs. In return, Tesla produced components for the battery-powered version of the RAV4 SUV, shown above.

Tesla sold a portion of its Tesla holdings in 2014, after announcing it would stop using Tesla as a supplier for the electric RAV4, which is no longer sold.

—Sean McLain

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## BANKRUPTCIES

THE COMPANIES LAW

NOTICE OF APPOINTMENT OF OFFICIAL LIQUIDATOR

CHC Group Ltd. (In Official Liquidation)

Take notice that by order of the Grand Court made on 18 May 2017, CHC Group Ltd., registration number 213521, whose registered office is situated at Deloitte & Touche, P.O. Box 1787, Grand Cayman, KY1-1109, Cayman Islands, was ordered to be wound up in accordance with the Companies Law (2016 Revision).

AND FURTHER TAKE NOTICE that pursuant to Rule 8, Rule 2 of the Companies Winding Up Rules 2008 (as amended), the first meeting of any creditors of the Company will be held at the offices of Deloitte & Touche, 4th Floor, Citrus Grove Building, Goring Avenue, KY1-1109, Cayman Islands, on 4 July 2017 at 10.00am local time.

ANY PERSONS CLAIMING TO BE CREDITORS OF THE COMPANY are to prove their debts or claims on or before 28 June 2017 and to establish any title they may have under the Companies Law (2016 Revision), or are to be excluded from the benefit of any distribution made before the debts are proved or from objecting to the distribution.

Dated this 26th day of May 2017

Stuart Sybersma, Joint Official Liquidator

Contact for enquiries: Michael Green, Deloitte & Touche, P.O. Box 1787, Grand Cayman, KY1-1109, Cayman Islands, Telephone: +1 (345) 949 8258, Email: michaelgreen@deloitte.com

## TECHNOLOGY

WSJ.com/Tech

# Musk's SpaceX Notches Another Milestone

Cargo capsule used on previous mission is refurbished and then successfully relaunched

BY ANDY PASZTOR

Elon Musk's **SpaceX** for the first time launched a refurbished cargo capsule that had been used on a previous mission, a major stride toward eventually reusing spacecraft carrying astronauts.

Saturday's blastoff of the Falcon 9 rocket carrying the unmanned Dragon capsule went off like clockwork, rising from Florida's Kennedy Space Center on schedule at 5:07 p.m. local time. Neither the rocket nor the previously flown capsule, filled with roughly three tons of supplies and experiments destined for the international space station, experienced any technical problems.

The capsule initially flew and came back from the orbiting laboratory in 2014.

The latest feat by Southern California-based **Space Exploration Technologies** Corp. followed by two months the closely held company's historic accomplishment of launching, returning and vertically land-

ing the major portion of a used booster to cap off two separate trips to space.

Slightly more than five years ago, SpaceX became the first corporate entity to link up a spacecraft with the orbiting space station.

Ultimately, Mr. Musk and many other space experts consider reusable rockets and spacecraft key to slashing the cost of access to space and stepping up launch tempos.

Over the years, a major challenge confronting SpaceX was ensuring that water didn't leak into returning Dragons as parachutes guided them to gentle splashdowns. A still unanswered question is how many times a capsule's heat shield—attached to the bottom of the pear-shaped vehicle and designed to withstand fiery returns through the atmosphere—can be re-flown safely.

The recycled Dragon featured a new heat shield and replacement parachutes.

Three minutes after liftoff, the main engines stopped firing as planned, the first stage separated and then the engine powering the second stage ignited. Less than eight minutes after blastoff, the Falcon 9's first stage touched down vertically at its landing site near



BILL INGALLS/NASA/ZUMA PRESS

Saturday's blastoff of the Falcon 9 rocket carrying an unmanned Dragon capsule went smoothly.

the launchpad. The capsule is scheduled to arrive at the space station Monday. The launch had been scrubbed Thursday due to weather. Scientific cargo on board includes

mice that are part of an effort to study loss of bone density in space, along with hundreds of fruit flies for biological experiments and seeds intended to grow in microgravity.

### Lawmakers to Study Some Space Rules

GOP lawmakers craft bill to simplify federal supervision of private outer space ventures

Three influential House Republicans have proposed shaking up federal oversight of burgeoning commercial space activities by putting the Commerce Department squarely in charge of regulating such endeavors.

Backed by Rep. Lamar Smith, the veteran Texas lawmaker who chairs the House Science, Space and Technology Committee, the bill seeks to promote private space ventures partly by giving Commerce primary authority over nongovernmental missions beyond the atmosphere ranging from imaging to anticipated asteroid mining. That responsibility is now scattered across the government, with the Federal Aviation Administration playing a central role in approving launch licenses and coordinating agency positions.

The FAA would keep its launch-approval authority, but the bill doesn't support the

agency's efforts to enhance its power over monitoring space debris or creating new air traffic-control procedures reflecting rapidly increasing launch tempos.

Proposed space tourism flights aren't affected by the proposals.

The legislation, scheduled to be debated and likely approved by the full committee on Thursday, also aims to dramatically streamline approvals for remote sensing satellites while updating and simplifying procedures to ensure that operators of all commercial spacecraft comply with international treaty obligations.

The goal of the bill is to champion private enterprise in space, reduce government involvement and make U.S. entities more competitive by speeding regulatory decisions and providing investors greater certainty.

Other key sponsors include Rep. Brian Babin, the Texas Republican who heads the space subcommittee, and Rep. Jim Bridenstine, an Oklahoma Republican who is an outspoken advocate of loosening government controls on a wide range of private imaging systems.

—Andy Pasztor

## FUNDS

Continued from page B1  
out on the frontier a little further than the other teams" in Tencent, he said.

Based in the southern Chinese technology hub of Shenzhen, Tencent competes on many fronts with China's two other tech giants, Alibaba Group Holding Ltd. and Baidu Inc. Each has ventured overseas as part of their appetite for growth outside China, though none has invested as aggressively in the U.S. as Tencent.

Since 2011, Tencent has invested in 41 tech startups in the U.S., joining fundraising rounds worth \$3.5 billion. The figure excludes investments in public companies. That makes it the second-biggest foreign investor in the sector—behind only Korea's Samsung Group—and tied for 11th biggest corporate investor overall, up from 18th four years ago, according to research firm CB Insights. Google parent Alphabet Inc. is at the top of the list.



JOSH LEFKOWITZ/GETTY IMAGES

Sang Park in a League of Legends College Championship match

In May Tencent reported a 58% rise in first-quarter profit and a cash pile of \$4 billion.

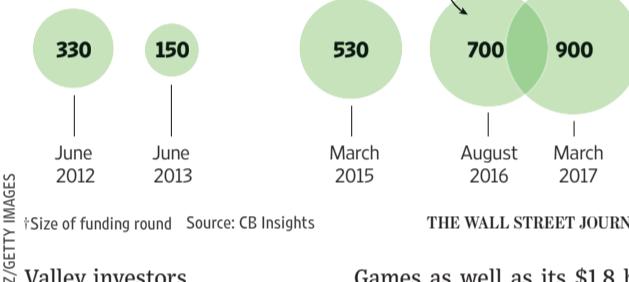
Mr. Wallerstein, whose official title is "chief exploration officer," is a key figure in the company's overseas push. The California native joined Tencent in 2001 and spent more than a decade shuttling between China and the U.S. before settling full time at the

company's U.S. headquarters in a converted church in Palo Alto, Calif.

People close to Tencent said Mr. Wallerstein and his team of roughly half a dozen executives take a hands-off approach after buying a stake, investing just a few million dollars at a time or less, typically alongside other big companies or well-known Silicon

### Recent Acquisitions

Investments involving Tencent, in millions of dollars<sup>1</sup>



<sup>1</sup>Size of funding round Source: CB Insights

THE WALL STREET JOURNAL.

Valley investors.

"We get behind the founder and the executive team and help the company become the best company they can become," Mr. Wallerstein said. "We will work with the company to bring their technology to China when they're ready, but we do not push the company."

These investments differ from the handful of big-ticket stakes that Tencent has taken in the U.S. Those deals have been led by the company's China-based deals team, people familiar with the company said, and include its acquisition of Los Angeles-based Riot

Games as well as its \$1.8 billion investment in Tesla Inc.

"Chinese companies are now wanting to go global more than ever before," said Connie Chan, partner at the Menlo Park, Calif., venture-capital firm Andreessen Horowitz.

Among recent investments, Tencent led a \$10 million investment round in Academia.edu, a San Francisco-based company that operates a platform for scientists and academics to publish and review papers online.

Other smaller stakes include: a \$3 million investment disclosed earlier this year in

Innovega Inc., a Bellevue, Wash.-based company building an "augmented reality" device into a contact lens. A former Tencent executive now sits on the company's board, and Chief Executive Steve Wiley says he plans to first launch the final product in China with Tencent's help.

Some of Tencent's early investments paid off big, like its investment in Snap Inc. in 2013, four years before the Snapchat parent went public. But not every investment has taken off.

Since 2014 the company has participated in \$25 million worth of fundraising by Kamcord, a San Francisco social-media company. Kamcord has had ambitions to expand in Asia, but last year discontinued its live video-streaming service. Kamcord wasn't available for comment.

In March Tencent participated in a \$900 million funding round for Grail Inc., a Menlo Park, Calif., firm aiming to build tests for genetic evidence of cancer. Other investors in the round included Johnson & Johnson and Merck & Co.

Michigan who has studied collaboration and innovation at academic research institutions. His research indicates that for every 100 feet of overlap between the typical daily walking paths of people in a building, there is a 17% increase in the likelihood two researchers who have not previously worked together will collaborate on a new project—and a 20% increase in the likelihood they will get their project funded.

In one building Dr. Owen-Smith and his team studied, the men's and women's restrooms were at opposite ends of the facility. Same-gender collaborations went up and mixed-gender collaborations were suppressed. Famously, at Pixar, Steve Jobs put the bathrooms in the center of the building, to force people to cross paths multiple times a day.

## MIMS

Continued from page B1  
ployees leave as a result. Other companies, though, cite saving on rent among a variety of reasons for letting employees work remotely. They say it also improves employee satisfaction, helping retention and recruiting.

The larger truth is that nearly every company that employs knowledge workers is still learning which jobs can best be done remotely, as the tools to accomplish remote work become increasingly powerful.

Making the transition in a

big company isn't easy, Dell's Mr. Price says. What is absolutely essential is getting everyone the right tools. This can be expensive and time-consuming, even for companies whose primary purpose is building those tools.

To understand the issues, it is helpful to look at a company that has always been almost entirely remote. **Automattic**, maker of WordPress, the content-management system that powers 28% of all websites, has 558 employees spread across more than 50 countries, up from 302 in December 2014.

Despite its growth, the company is getting rid of its custom-designed, light-filled,

14,250-square-foot office in a hip San Francisco neighborhood. On an average day, maybe five workers will show up, dwarfed by the cavernous space and nearly outnumbered by the Ping-Pong and foosball tables that mostly sit idle.

With teams that may be spread across a dozen time zones, Automattic relies on Slack for synchronous communication, Zoom for weekly videoconferences and its own internal system of threaded conversations for documenting everyone's work and for major decisions.

When everyone is forced to communicate through these tools, no one is left

out, says Mark Armstrong, whose site, Longreads, was acquired by Automattic in 2014. "Everyone knows that feeling where you're the one on the conference call and everyone else is in the room together," he says.

A distributed workforce can have other benefits, says Julia Amosova, a "happiness engineer" at Automattic. The online communication required allows for radical transparency, since anyone in the company can search across all internal communications. "Most of the meetings were held behind closed doors at other places I worked at," she says. "I didn't have the same feeling of unity and inclusion."

Unless you're a pure software company like Automattic, being 100% remote probably isn't an option. Dell isn't planning to get any

more of its employees working remotely, Mr. Price says. "Engineering, leadership, R&D, sales and customer support—those are roles that don't lend themselves very well to remote work. Not everybody gets to do it." Roles

The tools to accomplish remote work are becoming increasingly powerful.

where it does work include HR, legal, marketing, analytics, data science and other support functions, he adds.

For workers in an office, collaboration occurs naturally, says Jason Owen-Smith, a professor of sociology at the University of



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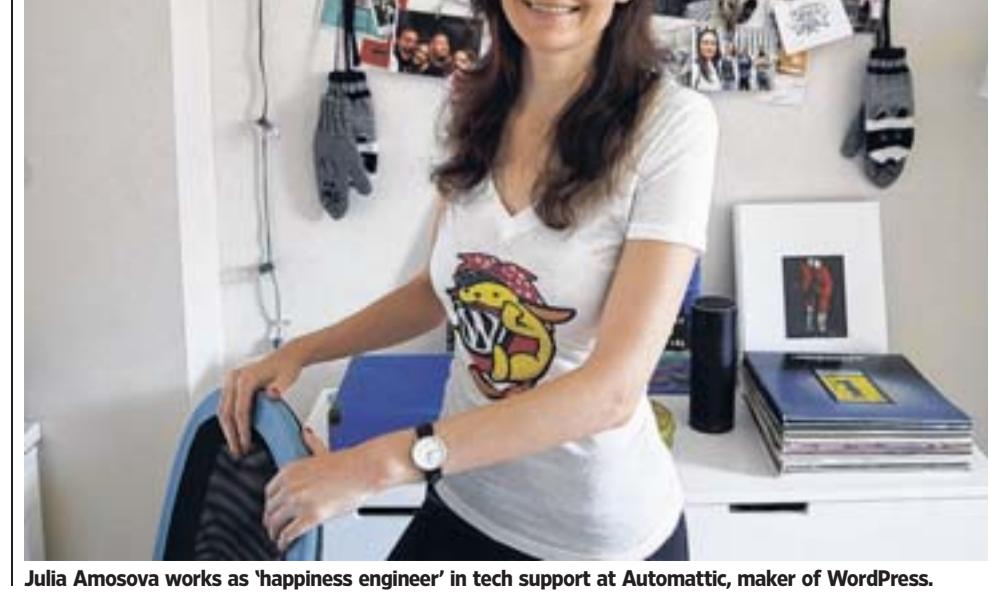
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Julia Amosova works as 'happiness engineer' in tech support at Automattic, maker of WordPress.

# The Wrong School Could Cost You a Lot More Than Money

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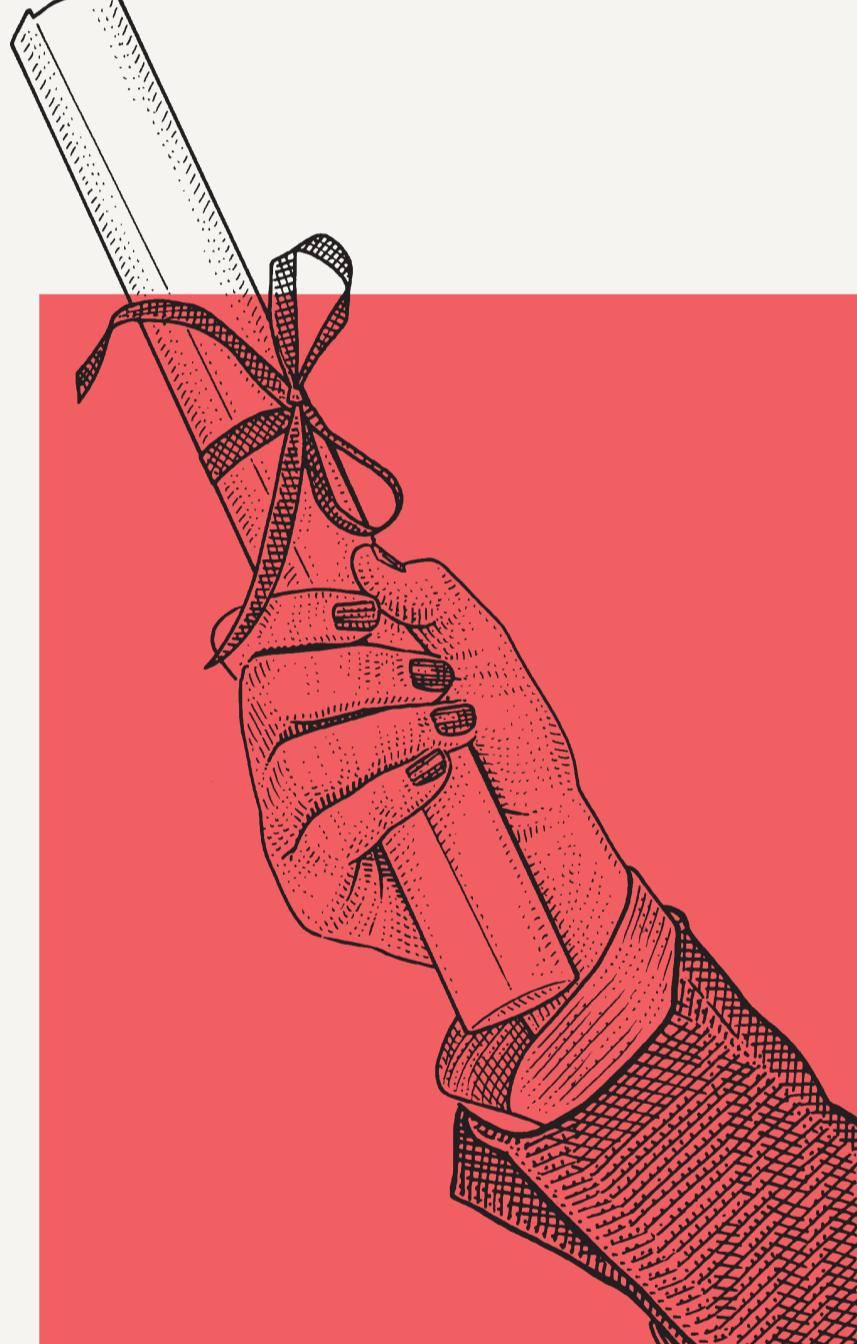
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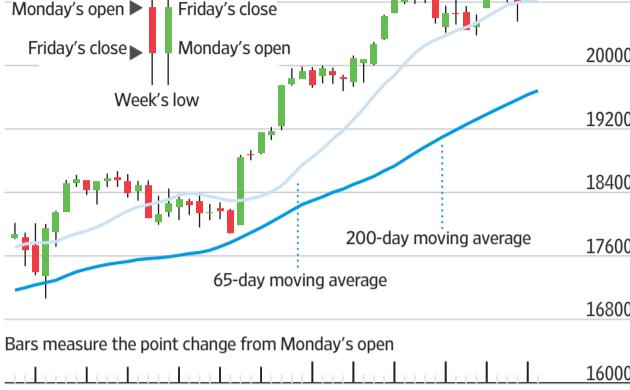
## MARKETS DIGEST

### Dow Jones Industrial Average

**21206.29** ▲ 126.01, or 0.6% last week  
High, low, open and close for each of the past 52 weeks

Trailing P/E ratio 20.63 19.00  
P/E estimate \* 17.92 16.99  
Dividend yield 2.37 2.58  
All-time high 21206.29, 06/02/17

Current divisor 0.14602128057775



Bars measure the point change from Monday's open

J J A S O N D J F M A M J

NYSE weekly volume, in billions of shares Primary market Composite

J J A S O N D J F M A M J

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

### S&P 500 Index

**2439.07** ▲ 23.25, or 0.96% last week  
High, low, open and close for each of the past 52 weeks

Trailing P/E ratio 24.08 24.22  
P/E estimate \* 19.01 17.81  
Dividend yield 1.95 2.18  
All-time high: 2439.07, 06/02/17



J J A S O N D J F M A M J

### New to the Market

#### Public Offerings of Stock

##### IPOs in the U.S. Market

Initial public offerings of stock expected this week; might include some offerings, U.S. and foreign, open to institutional investors only via the Rule 144a market; deal amounts are for the U.S. market only

Expected pricing date Filed	Issuer/business	Symbol/ primary exchange	Shares (mil.)	Pricing Range(\$) Low/High	Bookrunner(s)
Week of 6/5/2	ShotSpotter Inc Gunshot location detection systems company	STI Nq	2.8	10.00/ 12.00	Roth Cptl Ptrs, Northland Securities Inc
6/8 6/16/14	Plymouth Industrial REIT Inc Focused on acquisition, ownership and management of single and multi-tenant Class B industrial properties located in markets across the Eastern half of the U.S. and Texas.	PLYM N	3.8	19.00/ 21.00	DA Davidson & Co, BBT Capital Markets Oppenheimer Inc, Janney Montgomery Scott

#### Lockup Expirations

Below, companies whose officers and other insiders will become eligible to sell shares in their newly public companies for the first time. Such sales can move the stock's price.

Lockup expiration	Issue date	Issuer	Symbol	Offer price(\$)	Offer amt (\$ mil.)	Through Friday (%)	Lockup provision
June 5	Dec. 7/16	Senesotech Inc	SNES	8.00	15.0	-26.1	180 days
June 6	Dec. 8/16	Athena Holding Ltd	ATH	40.00	1242.0	22.9	180 days
	Dec. 8/16	Ichor Holdings Ltd	ICHR	9.00	60.8	164.2	180 days
June 11	Dec. 13/16	WildHorse Resource Development	WRD	15.00	447.0	-17.2	180 days

Sources: Dealogic; WSJ Market Data Group

#### IPO Scorecard

Performance of IPOs, most-recent listed first

Company	SYMBOL	IPO date/Offer price	% Chg From Friday's close (\$)	Offer 1st-day close	Company	SYMBOL	IPO date/Offer price	% Chg From Friday's close (\$)	Offer 1st-day close
KBL Merger IV		10.00	...	...	Bright Scholar Edu Hldgs		12.40	18.1	-7.5
<b>KBLMU</b> June 1/\$10.00					<b>BEDU</b> May 18/\$10.50				
Appian		17.85	48.8	18.9	G1 Therapeutics		18.94	26.3	26.3
<b>APPN</b> May 25/\$12.00					<b>GTHX</b> May 17/\$15.00				
WideOpenWest		18.00	5.9	9.1	ASV Holdings		8.19	17.0	4.3
<b>WOW</b> May 25/\$17.00					<b>ASV</b> May 12/\$7.00				
SMART Global Hldgs		14.09	28.1	4.8	Gardner Denver Hldgs		22.65	13.3	7.3
<b>SGH</b> May 24/\$11.00					<b>GDI</b> May 12/\$20.00				
argenx		20.88	22.8	-9.2	Solaris Offshore Infrastructure		11.67	-2.8	1.0
<b>ARGX</b> May 18/\$17.00					<b>SOI</b> May 12/\$12.00				

Sources: WSJ Market Data Group; FactSet Research Systems

#### Other Stock Offerings

Secondaries and follow-ons expected this week in the U.S. market

Symbol/ Primary exchange	Amount (\$ mil.)	Friday's price (\$)	Bookrunner(s)
<b>PRHR</b> N	50.0	1.88	Johnson Rice & Co, Seaport Global Securities

#### Off the Shelf

"Shelf registrations" allow a company to prepare a stock or bond for sale, without selling the whole issue at once. Corporations sell as conditions become favorable. Here are the shelf sales, or takedowns, over the last week:

Issuer/Industry	Takedown date/ Registration date	Deal value (\$ mil.)	Registration (mil.)	Bookrunner(s)
<b>Savara Inc</b> Healthcare	June 2	\$38.5	\$150.0	Jefferies
<b>Park Hotels &amp; Resorts Inc</b> Real Estate/Property	June 1	\$392.3	\$832.3	GS
<b>Visa Inc</b> Finance	May 31	\$209.4	...	BofA ML
<b>Air Transport Services Group Inc</b> Transportation	May 31	\$77.9	...	BofA ML
<b>NanoString Technologies Inc</b> Healthcare	May 31	\$50.3	\$100.0	R W Baird & Co
<b>Extended Stay America Inc /ESH Hospitality Inc</b> Real Estate/Property	May 30	\$438.8	\$2,785.6	Citi, MS
<b>Apollo Commercial Real Estate Finance Inc</b> Real Estate/Property	May 30	\$251.9	...	Citi, JPM, BofA ML, MS
<b>James River Group Holdings Ltd</b> Insurance	May 30	\$170.0	\$715.8	MS

Sources: WSJ Market Data Group; FactSet Research Systems

### International Stock Indexes

Source: SIX Financial Information; WSJ Market Data Group

Region/Country	Index	Latest Week Close	% chg	52-Week Range	YTD Close	% chg	YTD Close
World	The Global Dow	2790.26	0.75	2197.91	2790.26	10.2	
	DJ Global Index	362.83	1.09	293.27	362.83	11.3	
	DJ Global ex U.S.	243.70	1.15	194.95	243.70	13.9	
	Global Dow Euro	2330.21	-0.06	1885.53	2398.98	3.1	
DJ TSM	Global	3734.62	1.11	3015.61	3734.62	11.1	
	Global ex U.S.	2462.44	1.15	1969.71	2462.44	14.0	
	Developed ex U.S.	2398.94	1.48	1921.04	2398.94	13.5	
	Global Small-Cap	5074.27	1.38	4057.00	5074.27	9.8	
	Global Large-Cap	3543.80	1.07	2866.49	3543.80	11.4	
Americas	DJ Americas	585.14	0.89	480.83	585.14	8.3	
Brazil	Sao Paulo Bovespa	62510.69	-2.46	48648.29	69052.03	3.8	
Canada	S&P/TSX Comp	15442.75	0.17	13689.79	15922.37	1.0	
Mexico	IPC All-Share	49317.38	-0.72	44280.03	49939.47	8.1	
Chile	Santiago IPSA	3724.11	0.26	3067.58	3782.66	15.5	
Europe	Stoxx Europe 600	392.55	0.31	308.75	396.45	8.6	
	Stoxx Europe 50	3233.89	0.17	2636.71	3276.11	7.4	
Eurozone	Euro Stoxx	388.06	0.51	288.98	392.06	10.8	
Belgium	Euro Stoxx 50	3591.82	0.36	2697.44	3658.79	9.2	
France	Bel-20	3915.04	0.36	3141.13	4041.03	8.6	
Germany	CAC 40	5343.41	0.13	3984.72	5432.40	9.9	
Israel	DAX	12822.94	1.75	9268.66	12822.94	11.7	
Italy	Tel Aviv	1421.14	-0.16	1378.66	1478.96	-3.4	
Netherlands	FTSE MIB	20928.24	-1.33	15104	21788	8.8	
Spain	IBEX 35</td						

## BUSINESS NEWS

# States Press AmEx Case

By ANNA MARIA ANDRIOTIS

Attorneys general from 11 states filed a petition Friday asking the U.S. Supreme Court to review their case against **American Express Co.**, which centers on whether the card company can ban merchants from encouraging consumers to use cards that run on competing networks, like Visa and Mastercard.

Also Friday, the Justice Department said it won't ask the

Supreme Court to review its antitrust case against AmEx. "We believe the DOJ's decision not to proceed sends a strong signal that this seven-year litigation should come to an end," an AmEx spokesman said.

Ohio is the lead state in the 48-page states' petition and is joined by Connecticut, Idaho, Illinois, Iowa, Maryland, Michigan, Montana, Rhode Island, Utah and Vermont.

AmEx card policy says mer-

chants that choose to accept AmEx cards can't steer consumers into using cards on other networks.

The states along with the Justice Department were plaintiffs in this case against AmEx when a federal appeals court ruled in favor of American Express last September.

The appeals court reversed a lower-court ruling that said AmEx violated antitrust rules because it didn't allow stores

that accept its cards to encourage shoppers to use cheaper cards.

The costs at issue are the fees merchants pay the card company when people use its cards to shop.

AmEx has said in financial filings that losing this case could have a material adverse effect on its business.

The AmEx statement said the company "will continue to vigorously defend" the appeals court ruling.



At issue are fees merchants pay the credit-card companies.

## Closed-End Funds | WSJ.com/funds

Listed are the 300 largest closed-end funds as measured by assets. Closed-end funds sell a limited number of shares and invest the proceeds in securities. Unlike open-end funds, closed-end generally do not buy their shares back from investors who wish to cash in their holdings. Instead, fund share trade on a stock exchange. **a**-The NAV and market price are ex dividend. **b**-The NAV is fully diluted. **c**-NAV is for Thursday's close. **d**-NAV is as fully subscribed. **f**-Funds offering in process. **g**-Fund offers a minimum monthly distribution that has been adjusted for right offering. **h**-Right offering has expired, but Lipper data not yet adjusted. **i**-NAV as of previous day. **j**-Offer in process. **k**-NAV is converted at the commercial rate. **w**-Convertible Note-NAV (not market) conversion value. **y**-NAV and market price are in Canadian dollars. NA signifies that the information is not available or not applicable. NS signifies fund not in existence of entire period. **12 month yield** is computed by dividing income, dividends and capital gains distributions by the average NAV over the previous two months for periods ending at any time other than month-end; for the latest month-end market price adjusted for capital gains distributions.

Source: Lipper

Friday, June 2, 2017

52 wk  
Prem  
Fund (SYM) NAV Close/Disc Ret

52 wk  
Prem  
Fund (SYM) NAV Close/Disc Ret

General Equity Funds

Adams Divers Equity Fd **ADX** 17.03 14.43 -15.3 21.5

Boulder Growth & Income **BFIF** 11.49 9.49 -17.4 23.4

Central Securities **CET** 30.33 25.05 -17.4 29.7

CohSteer Opprtnity Fd **FOF** 13.84 13.05 -5.7 24.9

Cornerstone Strategic **CLM** 14.5 16.94 +25.9 28.3

EtnVnc TaxAdv Div **EVT** 22.31 21.77 -2.7 15.9

Gabelli Dividend & Incm **GDV** 23.39 21.89 -6.4 22.0

Gabelli Equity Trust **GAB** 6.38 6.27 -17.2 22.8

Genl American Investors **GAM** 40.96 34.32 -16.2 21.2

HnckHns TxAdv **HTD** 26.79 25.95 -3.1 13.3

Liberty All-Star Equity **USA** 5.64 5.66 -13.5 22.6

Royce Micro-Cap **RMT** 9.90 8.74 -11.7 25.6

Royce Value Trust **RVT** 16.57 14.69 -11.3 30.8

Source Capital **SOR** 43.18 38.36 -11.2 8.4

Tri-Continental **TY** 27.87 24.24 -13.0 22.8

Specialized Equity Funds

Adams Natural Rsrcs Fd **PEO** 21.51 18.73 -12.9 -0.

AllnzGf Div Interest **NFJ** 14.56 13.34 -8.4 15.6

AlpnGblPrfProp **AWP** 7.19 6.24 -13.2 24.4

ASA Gold & Prec Metals **ASD** 13.58 11.90 -12.4 -7.8

BirkR Enq Res Tr **BGR** 14.51 13.26 -8.6 0.7

BlackRock Global Trust **BOE** 14.58 13.43 -7.9 19.2

Tekla Healthcare Ops Fd **DHQ** 19.24 17.66 -8.2 14.6

Tekla Life Sciences **HOL** 20.09 20.36 +1.3 17.5

Tekla World Hlthcr Fd **THW** 15.49 14.66 -5.4 12.2

Tortoise Enq Indy Fd **NDP** 12.34 14.43 +7.5 17.5

Tortoise Energy **TYG** 28.34 31.95 +1.1 14.2

Tortoise MLP Fund **NTG** 18.69 19.15 +2.5 11.1

Tortoise Pipeline & Enrg **TPP** 20.14 19.95 -4.7 21.0

Voya GI Equity Div **IGD** 8.11 7.45 -8.1 20.1

Income Preferred Stock Funds

Calamos Strat Fd **CSQ** 12.48 11.82 -5.3 29.4

Cohen & Steers Sel Prf Incm **CII** 15.94 14.92 -6.4 18.1

BirkR Enq Res Tr **BGR** 14.51 13.26 -8.6 0.7

BlackRock Global Trust **BOE** 14.58 13.43 -7.9 19.2

BirkR Int'l Growth & Income **BGY** 6.85 6.39 -6.7 15.8

BlackR Rscs Comm Str Tr **BCK** 9.37 8.26 -11.8 16.4

BlackRock Science & Tech **BST** 45.72 22.92 -6.7 49.1

BlackRock Utility & Inf **BUI** 21.20 21.38 +0.8 16.4

CBREComGrBldEstIncm **IGR** 8.77 7.70 -12.2 6.2

Central Fund of Canada **CDF** 16.31 17.83 -12.9 -0.

ClearBridge Amer Enrgy **CBA** 9.87 9.13 -7.5 14.7

ClearBridge Enrgy Mltl Pfd **EMD** 16.30 15.89 -2.5 5.1

Clearbridge Enrgy Mltl Pfd **EMD** 13.52 12.92 -4.4 9.95

Clearbridge Enrgy Mltl Pfd **CTR** 13.78 13.04 -5.4 12.6

Cohen & Steers Inf Fd **UTP** 25.53 23.40 -8.3 27.7

G&L Pltfrm & Enrgy Pfd **MIE** 11.70 10.93 -6.6 17.4

Cohen & Steers QuaIn **RQI** 13.61 12.54 -7.9 8.0

CohnStrohPltfndco **RNP** 22.68 20.45 -9.8 15.7

Cohen & Steers Tr **RFI** 13.53 12.61 -6.8 5.2

CLSLgmn Prem Thd Grd **STK** 21.28 22.00 +6.7 47.8

Divers Real Asset Incm Fd **DRA** 19.46 17.70 -9.0 16.7

U.S. consumer price index

All items **244.524** 0.30 2.2

Core **251.642** 0.14 1.9

International rates

Latest Week ago -52-Week High Low

U.S. prime rates

U.S. **4.00** 4.00 4.00 3.50

Canada **2.70** 2.70 2.70 2.70

Japan **1.475** 1.475 1.475 1.475

Policy Rates

Euro zone **0.00** 0.00 0.00 0.00

Switzerland **0.50** 0.50 0.50 0.50

Britain **0.25** 0.25 0.50 0.25

Australia **1.50** 1.50 1.75 1.50

Overnight repurchase

U.S. **0.94** 0.93 1.30 0.15

U.S. government rates

Discount **1.50** 1.50 1.50 1.00

Federal funds

Effective rate **0.9300** 0.9200 0.9400 0.3300

High **1.0625** 1.0625 1.0625 0.5000

Low **0.7500** 0.9000 0.9100 0.2000

Bid **0.9100** 0.9100 0.9300 0.2000

Offer **0.9300** 0.9200 1.0000 0.2600

Treasury bill auction

4 weeks **0.840** 0.735 0.840 0.160

13 weeks **0.960** 0.920 0.960 0.250

26 weeks **1.060** 1.050 1.060 0.340

Secondary market

Fannie Mae

30-year mortgage yields

30 days **3.455** 3.463 3.865 2.806

60 days **3.483** 3.490 3.899 2.832

Other short-term rates

Week ago -52-Week high low

Call money **2.75** 2.75 2.75 2.25

Commercial paper (AA financial)

90 days **1.06** 1.05 1.13 0.51

Libor

One month **1.08617** 1.0467 1.08617 0.44205

Three month **1.22250** 1.20178 1.22250 0.62360

Six month **1.42822** 1.41378 1.44517 0.88685

One year **1.73067** 1.72122 1.82761 1.19570

Euro Libor

One month **-0.401** -0.399 -0.351 -0.404

Three month **-0.370** -0.369 -0.278 -0.373

Six month **-0.287** -0.285 -0.163 -0.287

One year **-0.170** -0.155 -0.026 -0.170

## BANKING & FINANCE

# Solar Giant Reviews Sales

By KIRSTEN GRIND

Executives at solar energy giant Sunrun Inc. have asked the company's board of directors to independently review claims by former employees that they were manipulating sales data around the time of Sunrun's initial public offering in 2015.

According to a statement on its website, Sunrun made the request to its audit committee following a Wall Street Journal article published May 22.

The story quoted former employees saying they held back on internally reporting hundreds of customers who canceled their contracts for home energy systems during a roughly five-month period in the middle of 2015.

Sunrun didn't directly address the allegations at the time of the Journal's story, saying in a statement from Chief Executive Lynn Jurich it had "reviewed the digital audit trail in our systems" and "turned up no evidence that our employees changed cancellation dates in our systems to delay the reporting of cancellations."

In its new statement, the company said: "Sunrun's executive team is committed to



Sunrun made a request to review sales data from near the time of its IPO, which was in 2015

transparency and looks forward to taking any and all appropriate actions in response to the Audit Committee's eventual findings. We remain committed to doing what is right for our customers and shareholders at all times."

San Francisco, Calif.-based

Sunrun, the largest publicly traded residential solar company in the U.S., and Tesla Inc.'s SolarCity Corp. are under investigation by the Securities and Exchange Commission for masking the number of customers backing out of contracts, the Journal has re-

ported.

Sunrun has declined to comment on the investigation. SolarCity has said the company has focused on reporting the quality of its installed assets, not "pre-install cancellation rates." The SEC has declined to comment.

## Citigroup Adds a Quant Trader

By TELIS DEMOS

Citigroup Inc. has tapped a quantitative trading veteran to help the bank vault into that hot category, as part of a broader build-up of its equities unit.

Thomas Chippas will join as global head of quantitative execution, the bank said Friday.

Mr. Chippas previously led quant-trading units at Barclays PLC and Deutsche Bank AG, before leaving for jobs beyond Wall Street, most recently as chief operating officer of blockchain-technology startup Axoni Inc.

The return to Wall Street for someone who left to work at a tech startup is an indica-

tion of the growing importance of the highly complex and tech-heavy "quant" style of trading.

Banks are trying to keep up with clients who are increasingly shifting away from fundamental trading strategies to ones dictated by data and patterns. The shift comes as banks' equity trading desks have struggled with low volatility and a growing emphasis on low-cost forms of passive trading.

"I would categorize the environment as being okay, but low volatility," Citigroup CEO Michael Corbat said at an industry conference Thursday, echoing other bank chief executives who were expecting a dip in trading revenue in the

second quarter.

The pressure led banks across Wall Street to invest in quant trading and prime brokerage, which provides technology and financing for clients.

Citigroup in particular has said that despite the tough environment for stock trading, it believes it can sharply grow its market share—which has lagged behind peers in recent years—in large part by investing in prime brokerage, which also provides clearing services for complex quant trading.

"We called ourselves out a few years ago" for being too small in equities, Mr. Corbat said Thursday. "I think you've seen us continually taking rev-

enue share."

Citigroup's first quarter equity revenue rose 10% from a year ago, versus smaller gains or falls among its larger rivals.

Mr. Chippas will oversee the global expansion of systems that allow hedge funds and asset managers to rapidly put on or take off trades based on quantitative signals, known as "low-latency execution," the bank said. He will report both to the head of cash trading and the head of prime finance.

Such quant trading is "critical in continuing the momentum of our prime and equities businesses," said Adam Herrmann, Citigroup's global head of prime finance.

## Coming Soon: What Auditors Think of Company Numbers

By MICHAEL RAPORT

Investors will soon get a new window into companies, courtesy of auditors.

Audit regulators from the Public Company Accounting Oversight Board voted Thursday to approve a long-planned overhaul and expansion of the auditor's report—the letter included in a company's annual report in which the auditor blesses the financial statements.

That statement, which hasn't changed much in more than 70 years, has largely become legal boilerplate and doesn't give investors much information about what an auditor actually thinks of a company.

The new report will retain the current report's up-or-down decision on whether an auditor thinks a company's numbers are "fairly presented." But it will also require auditors to tell investors about any "critical audit matters"—areas of their audit that were especially challenging or complex or forced them to make tough decisions in evaluating a company's books.

For instance, the auditor's assessment of how a company sets aside loan-loss reserves when it introduces a new loan product could be a critical audit matter. So could the evaluation of a company's estimates and the valuations of the assets it acquires.

The new rule will make the auditor's report "more complete and relevant" for investors, the board's Chairman James Doty said in an interview with The Wall Street Journal. "Investors want it."

The new requirement will bring the U.S. closer to the U.K. and other European countries where such disclosures in the auditor's report are already required.

Some other new disclosures will also be required, including the length of the auditor's tenure working for the

company. Some investor advocates think an audit firm that has been working with a company for decades might get too cozy with management, jeopardizing its ability to perform a tough, impartial audit.

In addition, new language will be added to the report to clarify the auditor's responsibilities, notably a proviso that auditors are required to design the audit to detect any material misstatements, "whether due to error or fraud."

The new rule will take effect in stages. Disclosure of auditor tenure and all other changes except the critical audit matters will begin with reports filed in early 2018. Large companies must begin

70

The rough number of years the PCAOB has used a boilerplate

detailed critical audit matters with reports in mid-2019; all other companies will begin doing so in early 2021. Newer, smaller companies classified as "emerging growth companies" will be exempt from the critical audit matters requirement.

The efforts to revamp the auditor's report date back nearly a decade, and the PCAOB made its first formal proposal in 2013. Audit firms balked at first, complaining the requirement to disclose critical audit matters was too broad and could force them to disclose dozens or hundreds of such issues.

The oversight board subsequently narrowed the requirement's scope: To be disclosed, critical audit matters must be material and significant enough to be reported to the company's audit committee.

## COMMODITIES

### Gold Hits A High Following Jobs Data

By IRA JOSEBASHVILI

Gold prices rose to their highest level in more than a month Friday after weaker-than-expected U.S. employment numbers bolstered the case for the Federal Reserve to continue raising rates at a gradual pace.

Gold for August delivery closed up 0.8% at \$1,280.20 a troy ounce on the Comex division of the New York Mercantile Exchange, the highest settlement value since April 21.

Nonfarm payrolls rose by a seasonally adjusted 138,000 in

The metal for August delivery closed up 0.8% at \$1,280.20 a troy ounce.

May from the prior month, the Labor Department said Friday. Economists surveyed by The Wall Street Journal had expected 184,000 new jobs.

Some investors believe the data will keep the Fed from raising rates too quickly for fear of bruising a hard-won U.S. recovery. That is good news for gold, which struggles to compete with yield-bearing investments when borrowing costs rise.

"It doesn't seem the U.S. economy is firing the way people think it is," said Peter Hug, global trading director at Kitco Metals.

The unemployment rate fell to 4.3% from the prior month's 4.4% reading. The rate was last this low in May 2001.

Copper for July delivery was down 0.5% at \$2,5745 a pound.



A cotton field in Texas. The International Cotton Advisory Committee has reduced its estimates of the world's ending stocks for the current and next market years.

### Cotton Futures Fall as Speculators Exit Positions

By CARMELA CUI

Cotton futures fell Friday as speculators continued to exit their bullish positions after cotton's gyrations in mid-May.

In New York, cotton for July delivery dropped 1.2% to settle at 76.69 cents a pound at the ICE Futures U.S. exchange. That represented a 12% loss from its peak hit on May 15.

Open interest of the July contract dropped to 91,399 lots Friday, down more than 50,000 contracts since May 5, when it had reached a record 141,874 contracts, according to Plexus Cotton.

"Speculators have been

calling it quits since July's parabolic up and down move, but there haven't been any massive sell stops hit so far, which is why the liquidation has been orderly and without much price movement.

While speculators are selling, the trade is eager to cover its short position, which is to a large degree tied to unfixed on-call sales," according to Plexus.

The latest on-call report showed that as of May 26 there were still 3.1 million bales to be fixed on July and Plexus estimated that this number is down to around 2.7 million bales by Friday.

"Nevertheless, this is still a

sizable amount considering that there are only about three weeks left to get it done," it said.

The International Cotton Advisory Committee on Thursday reduced its estimates of the world's ending stocks for the current and next market years. The ICAC said it estimated world cotton production to reach 22.9 million tons while world mill use was projected at 24.3 million tons, "which represents the second consecutive season where mill use has exceeded production."

As a result, the committee said it estimated the total cotton stocks by the end of July would decrease by 7%

to 17.3 million tons.

Specifically, the ICAC noted that China, the world's largest cotton consumer, would increase its cotton purchases from the international market for the first time in five years. Declining domestic production and increasing mill use have pushed Chinese mills to source cotton overseas. In the year ending in July, China is expected to increase cotton imports by 10% to 1.06 million tons.

Sales from the state-run reserves were also used to make up for the shortfall. The ICAC estimated that China this year has auctioned off over 1.1 million tons of cotton through May.

As a result, the decline of world ending stocks occurs entirely within China where stocks are projected to be down 17% to 9.2 million tons by the end of July, according to the ICAC. Stocks held outside of China are forecast to rise by 6% to 8 million tons.

In other markets, raw sugar for July was down 3.4% to end at 13.74 cents a pound, the lowest level since February 2016; cocoa for July fell 1.1%, to close at \$2,001 a ton; arabica coffee for July delivery lost 1.7%, to end at \$1.2555 a pound and frozen concentrated orange-juice futures for July added 0.5%, to end at \$1.3250 a pound.

## MARKETS

# Venezuela Poses Investor Dilemma

Bonds produce big profits as nation grapples with deep economic crisis

BY JULIE WERNAU  
AND KEJAL VYAS

As managing director at hedge-fund manager **Knossos Asset Management**, Francisco Ghersi buys and sells Venezuelan debt for a living. But as a Venezuelan, he is also hoping for the day when his country puts rebuilding over repaying him.

"If a new government stepped in and said it couldn't pay me for five years because it had a plan to resolve the problems in Venezuela, I would say, OK," he said.

About 23.4% of the country's debt outstanding is held by individuals and institutions inside Venezuela, according to investment bank **Torino Capital**. That doesn't include bonds held by the millions of expats who have fled in recent years.

"If you took out the Venezuelan demand for these bonds, I would suspect that half the transactions would not occur," said Juan I. Sosa, co-chairman of **Portfolio Resources Group**, Inc. in Miami. Mr. Sosa, also a Venezuelan, estimates that 40% of the 3,800 accounts he manages belong to Venezuelans, most of whom own Venezuelan debt.

Many of the Venezuelan investors profit from their country's bonds, which have posted returns of about 55% over the past year, the best in emerging markets. But the investors are also acutely aware of the country's plight. Venezuela is gripped by an economic crisis so deep that some of its citizens, including children, are starving.

This year, the country's socialist government likely will spend as much money servicing foreign debt to investors as it does importing food and medicine for its people, according to estimates by Nomura Securities.

Goldman Sachs's recent purchase, through an intermediary, of Venezuelan bonds



**Juan I. Sosa says investors are marching against Venezuela's regime but still buying its bonds. 'It's a little eerie. But it's a reality,' he says.**

that had been held by the country's central bank sparked an angry reaction from opposition groups. They said the transaction provided fresh funds for the embattled administration of President Nicolás Maduro as it faces rising unrest over food and medicine shortages.

Alejandro Grisanti, a Venezuelan economist, said he has no moral qualms about Venezuelans who bought bonds years ago or snapped them up on the secondary market as long as the transactions don't provide new capital for the government, which he said might use the money on tear gas against protesters.

Many Venezuelan investors say they feel that by holding the bonds, they are helping to keep the country's wealth abroad.

Others believe that if Venezuela were to default, the money that would have gone to bondholders would simply be stolen rather than put toward food and medicine.

"I'd rather that they pay interest and principal rather than put more money in their pockets," said Mr. Sosa, who travels frequently to Venezuela to see family and even recently joined a street protest.

"Investors are out there marching against the regime and buying bonds," he said. "It's a little eerie. But it's a reality."

On a recent sunny day, between transactions in his Miami office, Mr. Sosa received a call that the son of one of his longest-standing clients had been kidnapped in Caracas, a common occurrence in the crime-ridden capital.

Under Mr. Maduro's predecessor, the late strongman Hugo Chávez, Venezuela's government piled on debt despite a \$1 trillion oil windfall during his tenure.

But years of mismanagement and lower oil prices have left the country scrambling for cash.

Venezuela's opaque finances have haunted investors and

credit-rating firms trying to figure out how much money the country has. On the central bank's balance sheet, a host of securities it holds are valued at four different exchange rates due to the country's Byzantine currency controls.

Many Venezuelan economists dub the bank's books simply as "the zoo."

Venezuelan investors think they know enough about Venezuela that they will get out in time, said Alejandro Lara, a former securities broker in Venezuela and a Florida licensed independent investment adviser.

"You're sitting in front of a prospective client with \$500,000 to invest and you try to convince him to buy **General Electric** stock, **Procter & Gamble**, and the return is 2%-3% a year. They say, 'Why am I going to do that when Venezuela keeps paying?' They have never been proven wrong," he said.

Venezuela has gone to extraordinary lengths to keep

servicing its debt.

One reason could be the large number of wealthy expats and Venezuelan institutions that still hold it, and profit handsomely from it. Local state-run and private banks hold about \$15.5 billion in debt, according to investment bank Torino Capital.

The government could force them to swap those securities for locally denominated notes. Venezuelan officials could then raise about \$5 billion to \$6 billion by selling these bonds at a deep discount as it did with Goldman, which paid 31 cents on the dollar. This could service the country's debt payments for an additional eight months, according to Torino.

"To sell its own bonds at a discount is an incredibly expensive way of raising cash. You're potentially putting yourself in a much worse hole," said Brad Setser a senior fellow at the Council on Foreign Relations and a former senior U.S. Treasury official in the Obama administration.

# Dollar Takes Hit Over Rate Outlook

BY CHERLSEY DULANEY

The dollar tumbled Friday after a disappointing monthly jobs report fueled uncertainty about the path for higher U.S. interest rates.

**CURRENCIES** The WSJ Dollar Index, which measures the U.S. currency against 16 others, fell 0.5% to 88.28—the lowest closing level since the U.S. presidential election Nov. 8 sent the currency soaring.

The Labor Department said that while the unemployment rate fell to its lowest level in 16 years in May, the pace of hiring was slower than expected.

Average hourly earnings, a measure being closely watched by investors for signs that inflationary pressures are firming, rose 2.5% from a year earlier, the latest sign that wages haven't risen much despite the low jobless rate.

Investors believe stronger wage growth would signal that inflation is picking up, supporting the Fed's case for raising rates at a faster pace.

"Earnings remain subdued, which is going to hurt the dollar," said Vassili Serebriakov, a currency strategist at Crédit Agricole. Mr. Serebriakov said Friday's data does support the Fed's case for raising rates at its meeting this month, but he added that "it validates very low expectations for rate increases thereafter because of low wage pressures."

Fed-funds futures, used by investors to bet on the U.S. interest-rate outlook, show a 96% chance that the Fed raises rates at its June 13-14 meeting, according to CME Group data. Markets are pricing in a 52% chance that the Fed sticks to its forecast for three rate-increases in 2017, CME data shows.

Higher rates typically boost the dollar by making U.S. assets more attractive to yield-seeking investors.

# 52%

The percentage of domestic large-cap stock mutual funds that are beating their benchmarks so far this year, their best performance since 2009

## Stock Pickers Rebound

Soaring technology stocks this year are providing a boost to stock pickers

Much maligned active stock managers are off to their best start to a year since the end of the financial crisis. Some 52% of domestic large-cap stock mutual funds are beating their benchmarks this year, their best

performance since 2009, according to Goldman Sachs stock strategists headed by David Kostin.

Most actively managed U.S. stock funds have failed to beat their market benchmarks over the past decade and a half, according to the latest S&P Indices Versus Active funds

scorecard. Such performance has made it difficult for active stock managers to justify their higher management fees, and in turn, investors have flooded into lower-cost index-tracking funds that aim to mimic, rather than beat, the stock market.

Some \$1.2 trillion has flowed out of actively managed U.S.

stock funds over the last decade, while nearly the same amount, \$1.1 trillion, has moved into passive U.S. stock funds, according to Morningstar Inc.

A surge in the shares of the biggest tech firms this year is the reason behind the improved performance. The S&P 500 tech sector is up 21% in 2017, while the S&P 500 has gained 8.9%. **Apple** Inc. and **Facebook** Inc. are up more than 30% apiece.

Funds owning outsize stakes in those firms have generated

the best returns. Fully 63% of large-cap growth funds, which are most exposed to tech shares, have beaten the Russell 1000 Growth index in 2017, compared with the 10-year average of 38%. Growth funds buy shares of companies with rapid earnings growth.

Fund types that haven't bulked up in tech continue to lag. Just 37% of core stock funds have topped the S&P 500 this year. A core fund aims for a diversified basket of stocks. Goldman's analysis of these portfolios found core funds, on average, own slightly fewer tech stocks than the indexes they aim to beat.

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### Currencies

U.S.-dollar foreign-exchange rates in late New York trading

Country/currency	Fri in US\$	Fri per US\$	YTD chg (%)
<b>Americas</b>			
Argentina peso	.0623	16.0388	<b>1.1</b>
Brazil real	.3079	3.2483	<b>-0.2</b>
Canada dollar	.7415	1.3486	<b>0.3</b>
Chile peso	.001492	670.30	<b>0.1</b>
Colombia peso	.0003454	2895.48	<b>-3.5</b>
Ecuador US dollar	1	1	unch
Mexico peso	.0535	18.6794	<b>-9.9</b>
Peru new sol	.3056	3.272	<b>-2.4</b>
Uruguay peso	.03531	28.3200	<b>-3.5</b>
Venezuela b. fuerte	.098790	10.1225	<b>1.3</b>
<b>Asia-Pacific</b>			
Australian dollar	.7443	1.3435	<b>-3.2</b>
China yuan	.1468	6.8105	<b>-1.9</b>
Hong Kong dollar	.1284	7.7890	<b>0.4</b>
India rupee	.01552	64.415	<b>-5.2</b>
Indonesia rupiah	.0000751	13311	<b>-1.6</b>
Japan yen	.009057	110.41	<b>-5.6</b>
Kazakhstan tenge	.003195	313.01	<b>-6.2</b>
Macau pataca	.1244	8.0356	<b>1.5</b>
Malaysia ringgit	.2336	4.2800	<b>-4.6</b>
New Zealand dollar	.7143	1.4000	<b>-3.1</b>
Pakistan rupee	.00955	104.725	<b>0.3</b>
Philippines peso	.0202	49.627	<b>0.04</b>
Singapore dollar	.7240	1.3813	<b>-4.6</b>
South Korea won	.0008941	1118.40	<b>-7.4</b>
Sri Lanka rupee	.0065664	152.29	<b>2.6</b>
Taiwan dollar	.03321	30.108	<b>-7.2</b>
Thailand baht	.02937	34.050	<b>-4.9</b>
<b>Europe</b>			
Bahrain dinar	2.6511	.3772	<b>0.01</b>
Egypt pound	.0555	18.0029	<b>-0.7</b>
Israel shekel	.2820	3.5466	<b>-7.8</b>
Kuwait dinar	3.2919	.3038	<b>-0.6</b>
Oman rial	2.5978	.3849	<b>-0.01</b>
Qatar rial	.2745	3.643	<b>0.1</b>
Saudi Arabia riyal	.2666	3.7505	<b>-0.01</b>
South Africa rand	.0781	12.8115	<b>-6.4</b>
<b>Middle East/Africa</b>			
Bahrain dinar	2.6511	.3772	<b>0.01</b>
Egypt pound	.0555	18.0029	<b>-0.7</b>
Israel shekel	.2820	3.5466	<b>-7.8</b>
Kuwait dinar	3.2919	.3038	<b>-0.6</b>
Oman rial	2.5978	.3849	<b>-0.01</b>
Qatar rial	.2745	3.643	<b>0.1</b>
Saudi Arabia riyal	.2666	3.7505	<b>-0.01</b>
South Africa rand	.0781	12.8115	<b>-6.4</b>

Close Net Chg % Chg YTD % Chg

**WSJ Dollar Index** 88.29 -0.48 -0.54 -5.00

Sources: Tullett Prebon, WSJ Market Data Group

THE TICKER | Market events coming this week

### Monday

Factory orders

March, previous

up 0.2%

Apr., expected

down 0.2%

ISM non-mfg index

Apr. previous

57.5

May, expected

57

Productivity

4th Qtr. previous

down 0.6%

1st qtr., prel., expected

0.0%

Unit labor costs

4th Qtr. previous

up 3.0%

1st qtr., prel., expected

up 2.4%

Tuesday

Earnings expected\*

Estimate/Year Ago(\$)

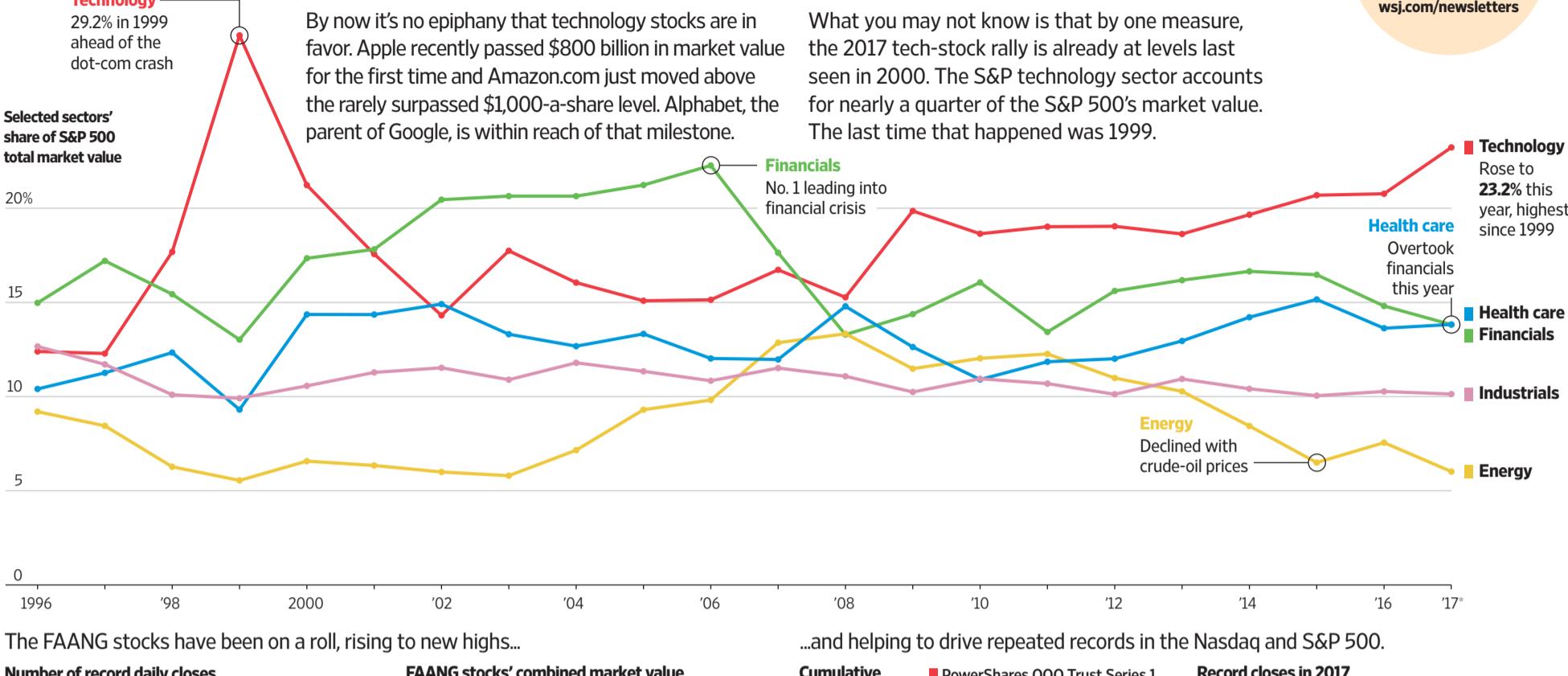
HD Supply 0.66/0.51

# MARKETS

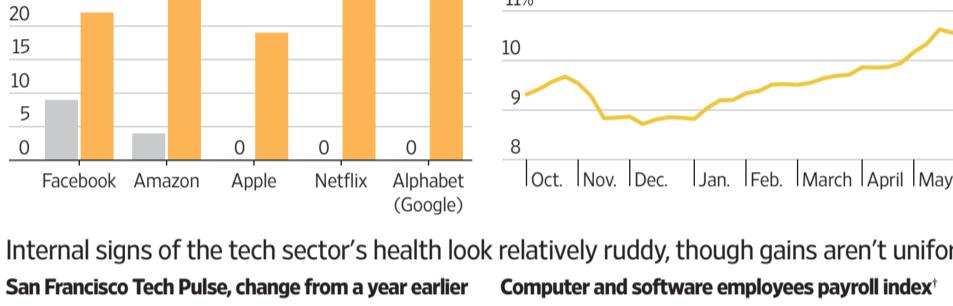
THE DAILY SHOT | By Lev Borodovsky, Ben Eisen and Tom Destefano

## The Tech Sector Catches Fire

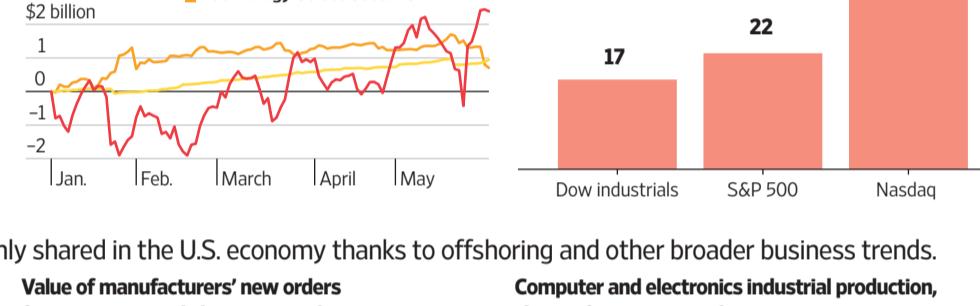
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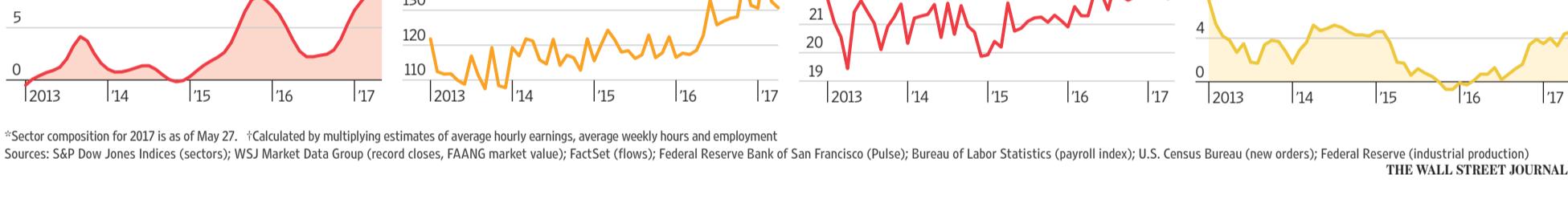
The FAANG stocks have been on a roll, rising to new highs...



...and helping to drive repeated records in the Nasdaq and S&P 500.



Internal signs of the tech sector's health look relatively ruddy, though gains aren't uniformly shared in the U.S. economy thanks to offshoring and other broader business trends.



\*Sector composition for 2017 is as of May 27. \*Calculated by multiplying estimates of average hourly earnings, average weekly hours and employment

Sources: S&P Dow Jones Indices (sectors); WSJ Market Data Group (record closes, FAANG market value); FactSet (flows); Federal Reserve Bank of San Francisco (Pulse); Bureau of Labor Statistics (payroll index); U.S. Census Bureau (new orders); Federal Reserve (industrial production)

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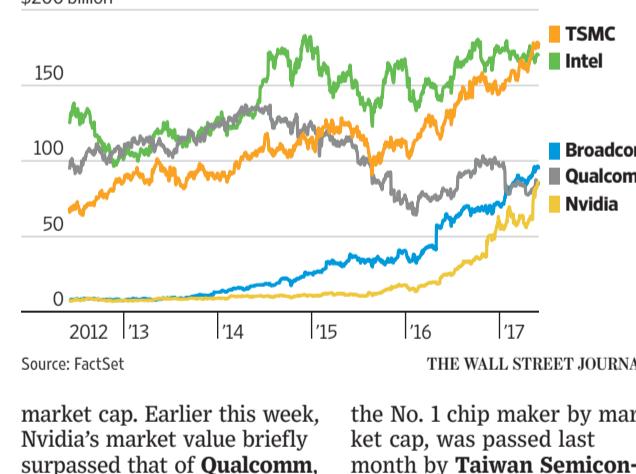
## HEARD ON THE STREET

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FINANCIAL ANALYSIS & COMMENTARY

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## Chip Rally Knocks Down Leaders



doubled since its merger with Avago early last year. The company reported an 18% jump in revenue for its fiscal second quarter on Thursday, beating expectations. It projected a similar gain for the current period, getting a boost from the buildup of the next iPhone models, which use the company's wireless filter chips. At just 15 times forward earnings, Broadcom is still at a slight discount to the PHLX average.

Nvidia could see further gains as well. The company's graphics processing chips have a prime opportunity ahead as companies like Amazon, Google and Microsoft build artificial intelligence into their vast global networks.

Nvidia's high multiple of around 48 times forward earnings admittedly makes the stock a bit more precarious. But the PHLX Index in general is averaging only 16 times, less than 10% above its five-year average and about 30% below the Nasdaq's average, so chip investors needn't rush to cash out just yet.

—Dan Gallagher

## OVERHEARD

## Plenty Can Go Right for Bristol-Myers

Last year's cancer-drug darling is this year's value stock.

At last year's American Society of Clinical Oncology annual meeting, investors mostly considered **Bristol-Myers Squibb** to be the frontrunner. That changed when the company announced last August that a key clinical trial in lung cancer for its main immuno-oncology drug, Opdivo, had failed. The news shocked investors, and the stock remains 24% lower over the past twelve months.

Late Sunday, Bristol presented new data to investors. They should recognize that falling share prices have the silver lining of lowered expectations. Analysts expect, for instance, that Bristol-Myers will book \$20.8 billion in revenue next year, down from nearly \$23 billion a year ago, according to FactSet. Bristol can clear that lower bar.

Opdivo sales still are growing, despite last year's setback. First-quarter sales of the drug were up 60% from a year earlier.

And there is good reason to suspect that Opdivo will have a lasting commercial presence. More than 240 clinical trials are under way across the industry using Opdivo in combination with another drug, according to research firm EvaluatePharma.

Bristol's shares aren't particularly cheap at about 18 times forward earnings, but this is down from 26 times a year ago. That is supported by the attractiveness of Opdivo. Any larger pharma company could theoretically buy the company and immediately get a large presence in a lucrative area.

Less than a year removed from a major disappointment, that should reassure investors.

—Charley Grant

## Foreign Tourists Aren't Coming to America This Summer

### Flight Pattern

Long-haul flight bookings for June through August by destination, versus a year ago.

U.K.	18%
Spain	13
France	7.3
Italy	6.8
Thailand	3.2
U.S.	-3.5

Source: ForwardKeys

for other major travel destinations. With global tourism rising overall, "if you've got a negative number, something must be going on," said ForwardKeys spokesman David Tarsh.

That is supported by data from location-tracking company Foursquare, which show that the U.S. share of international tourism to leisure locations such as casinos, department stores and theme parks was down 16% in March compared with a year earlier. Residents of the Middle East and Latin America have been the primary groups avoiding the U.S., Foursquare found.

"What we're seeing is a rise in antipathy toward the U.S., related to the administration's rhetoric and policies, that's translating into a shift in travel intentions," said Adam Sacks, president of consulting firm Tourism Economics.

In first-quarter earnings,

Expedia noted a slowdown in travel from the Middle East to the U.S., and Hyatt Hotels said it saw a decline in international inbound travel to the U.S. A March ban by the U.S. and U.K. on carrying on laptops on flights from certain countries in the Middle East and North Africa may also be having an effect.

New York City tourism officials are forecasting the first drop-off in foreign visitors this year since the financial crisis. Foreigners account for half of tourism spending even though they amount to just a fifth of tourists to New York, city officials say.

That could hurt some real-estate investment trusts that

are heavily exposed to New York hotels. **Hersha Hospitality Trust, DiamondRock Hospitality, Host Hotels & Resorts and LaSalle Hotel Properties** have the highest exposure to the city, according to Rich Hightower, an analyst with Evercore ISI. Retailers such as jeweler **Tiffany**, which gets a significant percentage of annual sales from its flagship store on New York's tourist-trafficked Fifth Avenue, could also feel the pain.

Mr. Trump was a master at drawing tourists to his hotels and casinos. As host-in-chief, he may have lost his touch.

—Justin Lahart and Miriam Gottfried

# INVESTING IN FUNDS & ETFS

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INSIDE

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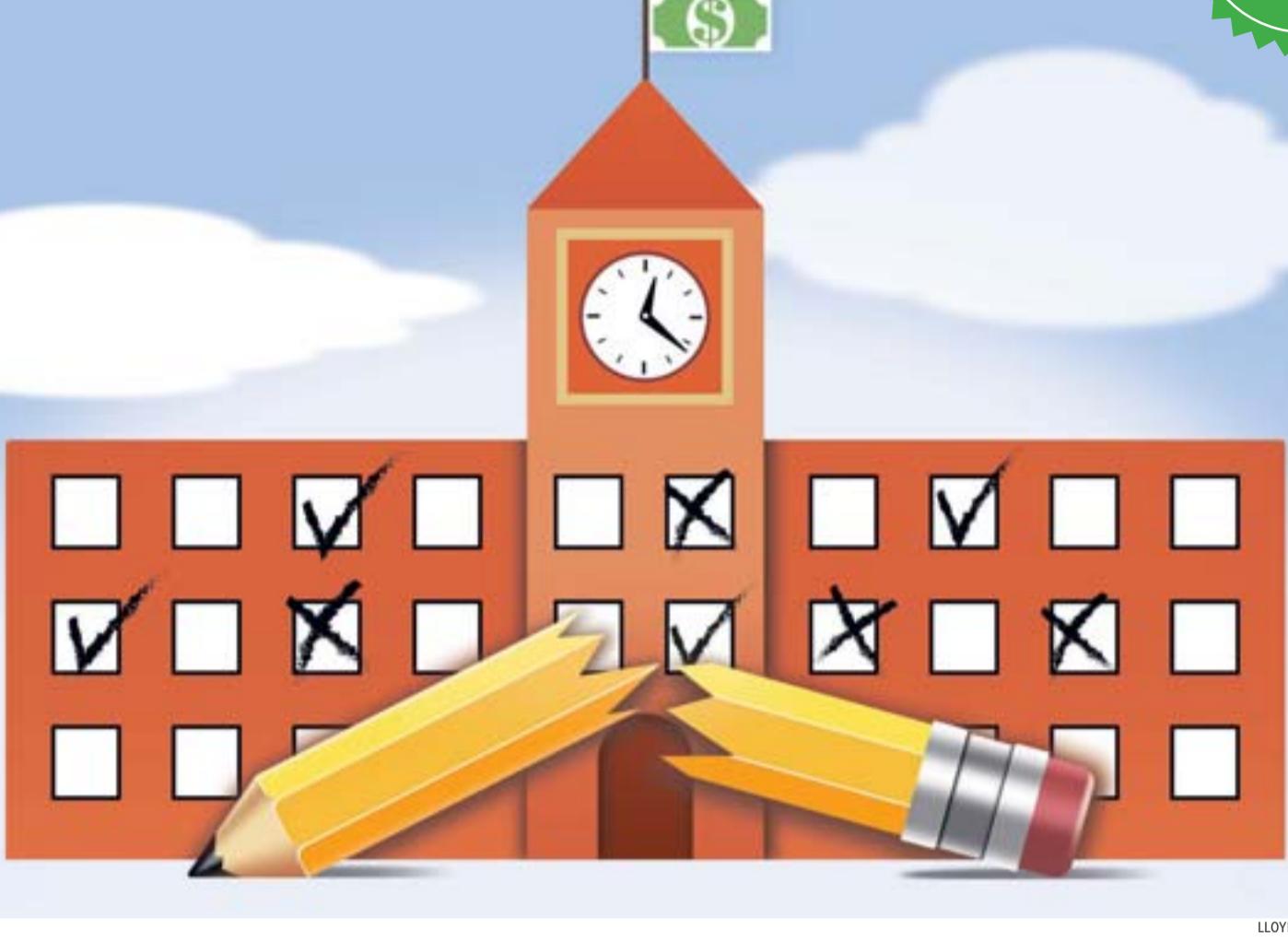
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LLOYD MILLER

## The Mistakes We Make When Paying for College

Traps include fixating on the Ivy League, or not even trying for aid

BY CHANA R. SCHOENBERGER

AS THE SCHOOL YEAR ENDS, summer vacation offers parents and students alike the opportunity to focus on what may be their most dreaded subject: paying for college.

Unfortunately, many of them will deserve an A for effort, but a middling C for execution. That's because many families continue to commit unforced errors in their efforts to save and pay for the hefty tuition bills that typically await. It's no disgrace, since few people have all the nuances covered. But experts say that some of the biggest blunders being made can be easily fixed.

Among the traps people fall into: obsessing about Ivy League schools; thinking it isn't worth it to even apply for aid or scholarships; and not considering "529" college-savings plans—investment accounts that offer big tax advantages when the profits are used to pay for higher education. Only about one-third of parents are even aware of 529s, according to the latest annual survey, released in May, by St. Louis brokerage firm Edward Jones.

Here are some of the main mistakes that families make, and how to fix them.

### 1. NOT APPLYING FOR AID

Just 1 in 8 students at private, nonprofit colleges pay full freight for school. Yet many upper-income and even middle-class families don't apply for aid or fill out the Free Application for Federal Student Aid, or Fafsa. Many figure that they won't be approved, or that it will prejudice the admissions decision makers against their student.

"They just assume they're not going to qualify for any need-based financial aid," says Anne Sturtevant, executive director of higher education at

the College Board.

But many factors can improve the chances that a family will get aid, including the cost of the school, how many children in the family are in college and any special circumstances.

"There's a tendency among middle-income families for the parents to overestimate eligibility for merit aid and underestimate eligibility for need-based aid," says Mark Kantrowitz, publisher and vice president of strategy at the scholarship site Cappex.com. Merit aid is typically for overqualified students whom the college wants to attract, while need-based aid is about the family's financial situation, not the student's own résumé.

It's also a mistake not to apply for financial aid before freshman year.

Some families delay applications for aid to subsequent years, to minimize the possibility that a request for aid could hurt their student's chance of being admitted. But colleges don't like it when families try to game the system, so they typically restrict new applications for aid to students whose financial circumstances have changed, Mr. Kantrowitz says.

Some parents may not want to apply for financial aid, fearing it could affect their child's admission chances. In some cases that's true, and parents should first check to see if the school considers applicants' financial situations in its admission process. Parents should be aware,

Please turn to the next page

### SCOREBOARD

May 2017 fund performance,  
total return by fund type.  
More on R2.



\*Diversified funds only, excluding sector and regional/country funds

Source: Lipper

## Take My Bitcoin...Please! A Comedian Tries to Mine The Cryptocurrency for Laughs

BY RYAN VLASTELICA

"DO WE HAVE ANY libertarians in the house?"

The comedian, Margaux Avedisian, is setting up her audience.

"You must be so happy with this administration," she continues, after maybe half the 50 audience members cheer. "It actually makes Gary Johnson look like not a bad idea. But he's like Bitcoin Unlimited—never gonna happen."



Margaux Avedisian

There's a smattering of laughter, but it's drowned out by the mild gasps and "oohs" that come from the audience. With this crowd, any offense taken isn't in response to the reference to Mr. Johnson, the Libertarian Party's 2016 presidential candidate. Instead, the audience is reacting to the knock against Bitcoin Unlimited, a software update that is controversial in the cryptocur-

rency's community.

If you aren't laughing—or don't even get the joke—that's understandable. It was told at a cryptocurrency conference, and it's fair to say that Ms. Avedisian's is a specialized form of comedy, written by a bitcoin nerd, for other bitcoin nerds.

"I've been in crypto since 2012. It was the first time I worked in an industry where compared with everyone else, I was the sane and rational person."

The 33-year-old Ms. Avedisian is a bitcoin investor, founder of two bitcoin-related companies and an adviser and director at others. But what sets her apart is this unique job title: bitcoin comedian. She performed in May at Consensus 2017, a New York conference dedicated to all things bitcoin and blockchain (that's the ledger used for bitcoin transactions), where no explanations for her jokes were needed.

Ms. Avedisian has traveled the world using bitcoin, accepts tips in the form of the cryptocurrency and has worked at every level of the industry. She has been dubbed, by herself and others, the Queen of Bitcoin, a nickname she wants to shed. "Because I don't have that much bitcoin," she says, "and because I'd like to not get kidnapped."

"It's not a crypto conference without someone who is,

like, in prison or banned from the country."

Ms. Avedisian entered comedy and bitcoin on the same day in 2012, and both decisions were largely impulsive. She has no formal performance training but signed up for an open-mic night. After her set, she met a founder of Tradehill, an early bitcoin exchange. "They were looking for a business-development person, were going to a meeting in San Diego, and had an extra seat on the plane," she says. "I was like, 'Yeah, I'll do that.'"

The move to technology wasn't out of left field. Though she studied psychology and chemistry at Mount Holyoke College, and was trained and certified as an emergency medical technician, Ms. Avedisian also worked at a variety of startups in San Francisco, including Answer in 30, a video-based information service she co-founded.

### Wild West adventure

"I got a little jaded—how many photo-sharing apps do we really need?" she says. "But bitcoin seemed like something that really could disrupt the world and change finance. And it was such a Wild West that you could help shape it."

When Tradehill shut its doors later that year, Ms. Avedisian went on to co-found AlphaPoint Exchange, a financial-software firm specializing in digital-currency networks. She stayed there only three

months, then co-founded MonetaGo Inc., which works with financial institutions on blockchain-related issues.

"She's like Zelig," says Michael Terpin, referring to the Woody Allen character who finds himself at every pivotal moment of the Jazz Age. Mr. Terpin is CEO of Transform Group, a public-relations firm focusing on companies that deal with new technologies.

Ms. Avedisian is currently a vice president at Transform, but it was at MonetaGo that she began combining her comedy with her work, starting a weekly comedy show at New York's Bitcoin Center—an educational and promotional site for the currency—that lasted about two years.

"We initially laughed about it: 'You're going to tell jokes about bitcoin? That plays?'" says Jesse Chenard, CEO of MonetaGo. "But the best comedy is what you live, and she lives bitcoin."

Her material has never

been just bitcoin-related. At a variety of venues, she does routines about Florida and San Francisco, as well as her experiences on dating apps and being a woman in tech.

"If everyone had a reference to what bitcoin was, it'd be a lot easier to do jokes about it outside the context of a conference," Ms. Avedisian says. Meanwhile, bitcoin-specific audiences pose unique issues. "They're nerds, so typically they're not the most gregarious audience, and the community can be very cliquish," she says. "I find I get more of a reaction if I roast the audience a bit or reference things that are more obscure."

### The Antonopoulos joke

Those references to things that are obscure to bitcoin outsiders become a sort of inside joke. For example, the setup to one of her Consensus jokes—"I was in a car with Andreas Antonopoulos," a major figure in the industry—got a bigger laugh than the punchline, about why they weren't in a nicer car given all the digital currencies he holds.

"Bitcoin audiences are open to being made fun of; God knows they've been the butt of the joke for seven years," Mr. Chenard says before Ms. Avedisian's Consensus show.

"There's a whole raft of comedy—or tragedy—that can be created out of the fact that this is literally digital gold, created out of nothing. Of course, it must be easier to have a thick skin when the digital gold you spent \$10,000 on is now worth \$2 million."

Ms. Avedisian agrees, and then jumps on a table to begin her set in front of the bitcoin crowd. "I'm very honored to be here, 'cause this may be the last comedy show some of you see before you are jailed."

Mr. Vlastelica is a markets reporter at MarketWatch in New York. Email him at [r.vlastelica@marketwatch.com](mailto:r.vlastelica@marketwatch.com).



GARY HAOLAND

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## JOURNAL REPORT | INVESTING IN FUNDS & ETFS

# Paying for College: What We Do Wrong

Continued from the prior page

though, that for at least some of these schools, it will affect only how much aid they receive—not whether their child gets in or not.

## 2. NOT LOOKING INTO A 529

The stats are glum. Yes, more than \$275 billion was stuffed into these tax-advantaged higher-education investment accounts at the end of 2016, according to the Investment Company Institute. But according to the Edward Jones survey, just 32% of Americans are aware of 529s, and, when asked how they have paid or how they plan to pay for college, only 14% cited a 529.

That is misguided, says Mr. Kantrowitz, who argues that 529s are the best tool available to save for college.

A 529 account allows you to invest after-tax money for the benefit of your child (or another designated recipient). The money is invested in mutual funds, and no federal tax is owed on withdrawals as long as they are used to pay for qualified higher-education expenses.

If your child wins a scholarship or goes to a military service academy, you can withdraw the equivalent amount

from the account without penalty (you'll have to pay income taxes on the portion that represents your gains, but not on your contributions). If plans change, you can retitle the account, pointing it to any direct relative of the original beneficiary—another sibling, or cousin, for instance. The plans come with state-tax benefits in some states as well.

There's little downside: If you take the money out for a non-qualified reason, you just have to pay income tax on the gains and a 10% penalty.

But parents

shouldn't count on their financial adviser to set them up with a plan, says Kent McDill, a researcher at Spectrem Group, which analyzes the behavior of wealthy investors. A Spectrem survey found that only 16% of investors with more than \$100,000 in nonresidential assets held a 529 account.

"Advisers don't promote the plan because there's no benefit to them," Mr. McDill says. That is because advisers don't get paid extra to push their clients into 529s, unless they happen to work for a firm that offers a 529 program, he says.

Even small contributions to a 529 will still help. Parents should aim to save at least one-third of their student's expected college costs. Because these expenses typically go up by a factor of three over 17 years, their savings goal should be the cost of a college education in the year the baby was born, Mr. Kantrowitz says.

If parents can't afford to pay for college all at once—and few can—their best strategy is to pay for some with college savings (in a 529, ideally), some with current income, and borrow the rest. And take advantage of tuition installment plans, which allow payments over the course of the school year for a nominal fee.

## 3. NOT BUDGETING FOR TRUE COSTS

Families have plans for how they're going to pay for college. But they rarely have backup plans, says Sara Goldrick-Rab, a professor of policy, organizational and leadership studies at Temple University in Philadelphia who studies higher-education funding.

For instance, what happens if a parent doesn't qualify

**HAVE A COLLEGE-FINANCE QUESTION IN GENERAL?** We'll be answering them in future Investing in Funds & ETFs reports. Write to [reports@wsj.com](mailto:reports@wsj.com).

for a Parent Plus loan, which requires a credit check? Or if parents establish a financial plan that assumes their student will work 20 hours a week, but the student can't find a job for as many hours? What if the student plans to take 15 credits and graduate early, but the work is too hard, so she ends up dropping a class and doing poorly in another, landing her in academic probation and imperiling her financial aid? What if her roommate doesn't work out and she needs to move into another housing situation in the middle of the semester? How about if the parents make more money this year than last, and their student loses some of her aid as a result?

It's important to have a family conversation about how much parents can afford to pay for college, before deciding where the student will enroll, Prof. Goldrick-Rab says.

Another common mistake is not factoring in accurate costs for housing and food, which can exceed a student's budget by thousands of dollars a year, she says. As a result, parents should research the actual cost of living in the college's local area, and not just rely on the figures the college gives out.

## 4. MISFIRING ON SCHOLARSHIPS

Scholarships are the best way to attend school courtesy of someone else's money, although earning outside scholarships will likely reduce any aid you received from the college by the same amount. Many students don't approach the scholarship process in the best way, Ms. Sturtevant says.

Students have a higher likelihood of qualifying for scholarships in their local area, so they should start in the college counselor's office by looking through records of scholarships earlier graduates have won, she says. Ideally, their goal should be to obtain more in scholarship money than the school offers them in either grants or loans.

"Look at sources you're likely to qualify for, renewable over four years or a big dollar amount, so when you're spending all that effort you'll get the biggest bang for your buck," she says.

Just 0.2% of students receive \$25,000 or more in scholarships for one year, so a free ride is exceedingly rare, Mr. Kantrowitz says. The best bet is to cobble together many small scholarships. Students should try one of the free scholarship-matching services online; they should never pay a fee for this information. They should enter as much biographical detail as possible. This will allow them to apply for scholarships aimed at niches like students whose siblings have had cancer or whose ancestors came from a specific country.

Most people skip over scholarships that award less than \$1,000 as well as essay contests, so these are untapped resources.

## 5. OBSESSING ABOUT ELITE SCHOOLS

Think the Ivy League is the only college pedigree that matters? Just 2.7% of undergraduate applications in 2015 went to the eight universities that belong to this club, Mr. Kantrowitz says—and that is applications, not individuals, many of whom applied to multiple Ivy schools. Most American college students are at public institutions where admissions are moderately selective, not cutthroat. So while an elite education definitely can pay dividends, families should focus on aligning what they can spend with their student's needs, wishes and academic performance.

"Students will do better if they go to a college they can afford that is a match for them academically—where they will be challenged but not overwhelmed," Ms. Sturtevant says.

With 4,000 colleges in the U.S., it is also a mistake to fall in love with one school too early in the process.

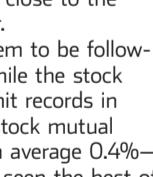
You can't know what school is best for you after visiting a single campus, says Prof. Goldrick-Rab. Students often get hung up on a particular school without knowing their full range of options, she says, and parents struggle to afford it although the student could easily have been happy at a different campus.

Research shows the more a college charges, the more people apply, says Prof. Goldrick-Rab: "Just because it is expensive doesn't mean it is good."

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## MONTHLY MONITOR | WILLIAM POWER

# U.S.-Stock Funds Rise, but Many Investors Look to Bonds



There's an old Wall Street expression about long stock rallies: It's too early to leave the party, but stay close to the door.

Many investors seem to be following that approach. While the stock market continued to hit records in May—boosting U.S.-stock mutual funds and ETFs by an average 0.4%—investors fear they've seen the best of the corporate-earnings gains that drove the market in the beginning of the year, and they are looking to the bond market and overseas instead.

"The whole 'reflation trade' is history," says Marc Chaikin, founder and chief executive officer of Chaikin Analytics in Philadelphia, referring to investors who had been selling bonds and buying stocks after the November election of Donald Trump. The bet was that the new president's ex-

pected moves to stimulate the economy would lead to higher inflation.

While stocks do continue to hover at highs, bonds have come back from that postelection sell-off. Mr. Chaikin says, "In 20 of [the past] 21 weeks, money has been flowing into bonds. So that's pretty interesting since the assumption after the Trump victory is we'd be seeing money flowing out of bonds, and that hasn't been the case."

The stock-fund gains in May have left investors with a solid 6.4% year-to-date average return, according to Thomson Reuters Lipper data.

The bond-market rally boosted funds focused on intermediate-maturity, investment-grade debt (the most common type of fixed-income fund) by an average of 0.7% in May. The funds are now up 2.5% for the year to date.

The bond-fund buying has been intense despite the Federal Reserve's telegraphing of what it plans to do with rate increases. Another increase

is expected in mid-June. Bond prices move in the opposite direction of yields, yet investors generally expect the Fed's increases to be gradual—not generating a sharp rise in yields.

International-stock funds, meanwhile, rose 3.4% in May, and are up nearly 15% for the year to date. Many investors have followed the advice to park at least some of their portfolio in overseas stocks. The U.S. market's gains have often undercut that strategy. So far this year, though, the international diversification has paid off.

"Growth stocks [in the U.S.] performed very well last month, but value stocks were down—in Europe everything was up across the board," says Mr. Chaikin. "Money is going into Europe. I call this a momentum trade because Europe has really outperformed since the beginning of the year—France, Germany, Italy and the U.K. Fund money is chasing the European economy."

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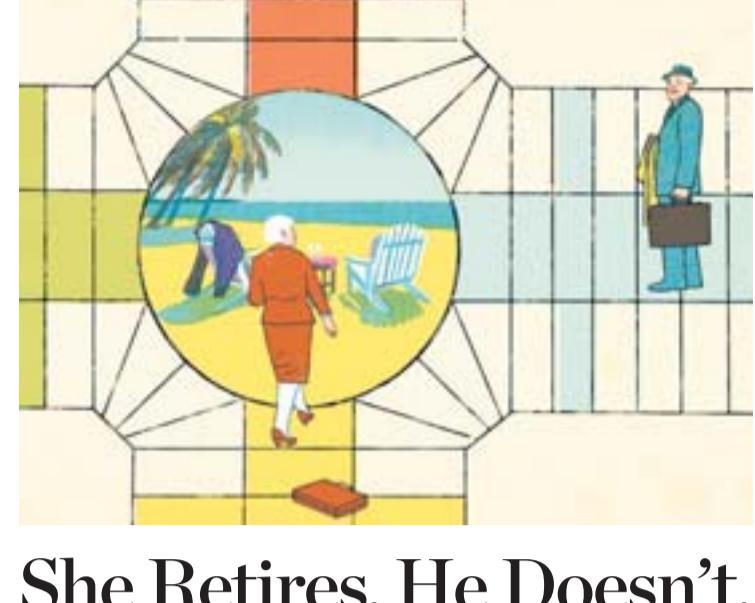
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◆ "Some Work Breaks Are More Effective Than Others," by Journal contributor Heidi Mitchell, on studies that set out to find which kinds of breaks work best.

◆ "How Much Do You Pay in Adviser Fees?" by Journal reporter Andrea Fuller, who tells her personal story of frustration in getting a simple answer from her investment managers.

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## ASK ENCORE | GLENN RUFFENACH



SONIA PILUDO

# She Retires. He Doesn't. Why Retiring Together Makes Sense (Usually).

*My wife and I both work, and we're trying to figure out when each of us will retire. What are the advantages and disadvantages of retiring together or at different times? How do you manage retirement when one spouse is still working?*

There is, of course, no single correct answer when it comes to timing retirement. But here are several points to consider:

### ◆ Retiring at the same time tends to work better.

Most couples, by definition, navigate big changes in their lives together: relocating, starting a family, choosing (and changing) career paths. Retirement, of course, is a very big change. If one spouse suddenly is staying home, it can throw a marriage out of whack.

Take something as simple as housework. When one spouse continues to work while the other retires, the working spouse may expect the latter to take on more responsibility for cleaning, running errands and cooking. But the retired spouse may balk at suddenly becoming a full-time homemaker. Retiring together can help minimize such complications.

### ◆ Except when it doesn't.

Yes, some spouses who retire at the same time struggle with new routines and new boundaries. But that's usually because they failed to take time before retiring to address several fundamental questions. Among them: What's our vision of later life? How do we plan to fill our days? What activities and interests will we pursue as a couple and individually?

There is also one specific instance in which retiring at the same time can cause problems. Men and women often view decisions about retirement through different lenses, says Deborah B. Smith, a professor of sociology at the University of Missouri-Kansas City.

To be specific, when a husband retires, it is frequently an individual decision: His career has run its course, or he has reached a particular age or goal. Yes, he might discuss the decision with his wife, but such chats are more likely to occur after he has made up his mind, or all but made up his mind.

When a woman retires, by contrast, it's more likely to be a family decision, Dr. Smith says. A husband expects the wife to leave work because he is doing so, or a family member (usually an aging parent) requires care.

In short, if a wife is pulled from a job or career before she might be ready, strains are all but inevitable.

### ◆ Negotiating how a single retirement might work.

Of course, many spouses can't, or don't want to, retire at the same time. Layoffs, health problems, working longer to qualify for a full pension or to beef up a nest egg, a spouse who simply loves her/his job—any number of issues can translate into differing retirement dates.

If that's the case, the best way to

*Mr. Ruffenach is a former reporter and editor for The Wall Street Journal. His column examines financial issues for those thinking about, planning and living their retirement. Send questions and comments to [askencore@wsj.com](mailto:askencore@wsj.com).*

In a recent column we invited readers to tell us about some of their favorite experiences that combine travel and volunteer work. Among the recommendations:

### ◆ Habitat for Humanity.

A number of readers said they worked with this venerable group, building homes in the U.S. and overseas.

### ◆ African Impact.

Offers opportunities to work in African communities (education, construction, health care) and help conserve wildlife.

### ◆ Great Shape Inc.

Organizes humanitarian projects in the Caribbean, focused on education, health.

### ◆ Wilderness Volunteers.

Leads 50 weeklong service trips a year throughout the U.S. (Similarly, see the Society for California Archaeology and its Archaeological Site Stewardship Program.)

Our thanks to all who wrote in.

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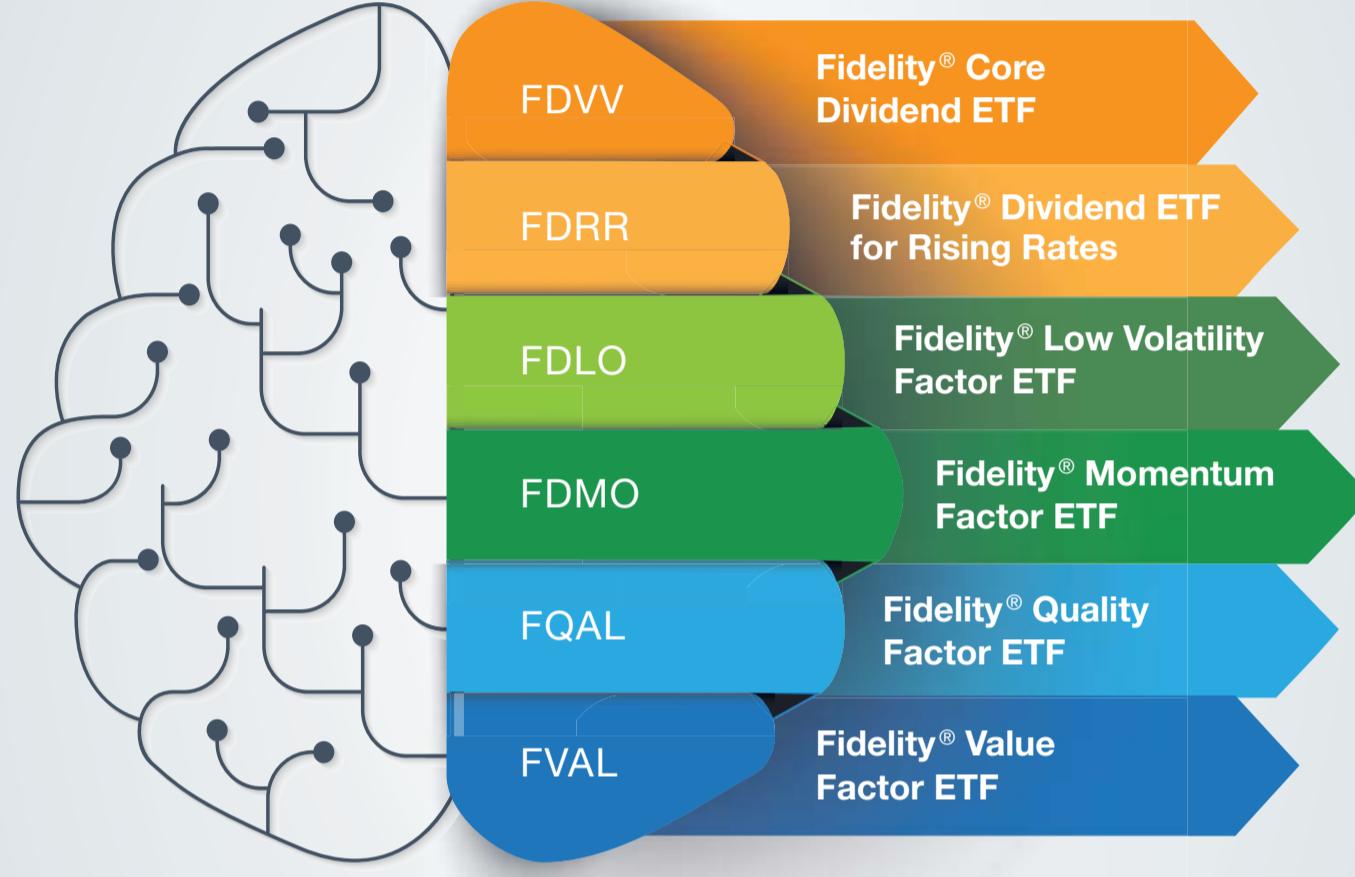
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## JOURNAL REPORT | INVESTING IN FUNDS & ETFS

### FUNDAMENTALS OF INVESTING

# Why Momentum Investing's Death Has Probably Been Exaggerated

Here's the case for still using the much-maligned strategy



BY MARK HULBERT

MOMENTUM STRATEGIES have turned in disappointing performance for nearly the past decade. But there are still plenty of reasons for momentum investors to stay the course.

With a momentum strategy, the investor favors stocks with the best trailing-12-months returns and shuns those that have performed worst. Some of those approaches explicitly base their strategies on price movements, while others do so implicitly by focusing on factors such as earnings momentum, trends in analyst revisions and so forth. But anyone who sells their losers and holds on to their winners is at least partly a momentum investor.

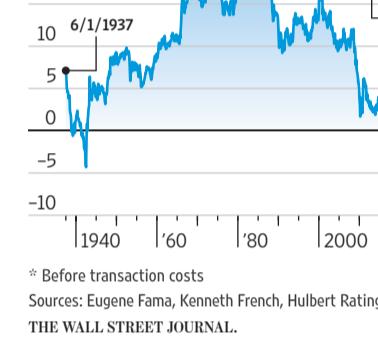
The past 10 years have been frustrating for followers of this approach. According to data compiled by Eugene Fama, a finance professor at the University of Chicago Booth School of Business, and Kenneth French, a finance professor at Dartmouth College's Tuck School of Business, the decile of stocks with the highest momentum beat the S&P 500 by just 1.3 percentage points over the 10 years through March 31 of this year (before transaction costs). That is less than one-fifth as much as the strategy's average annual advantage over the past 90 years, and almost certainly not enough to pay the considerable expenses—both brokerage commissions and bid-offer spreads—involving in the high turnover of a momentum portfolio.

This frustrating decade has been particularly evident in the real-world performance of a momentum newsletter that, in mid-2007, had the best long-term record of any of the services monitored by the Hulbert Financial Digest: NoLoad FundX, edited by Janet Brown.

This service's approach to capturing momentum is to recommend those no-load mutual funds with the best performance over the trailing 12 months. Over the 25 years through mid-2007, it was in first place for performance among any of the nearly 200

### Losing Momentum

Trailing 10-year annualized return\* relative to S&P 500 of a portfolio containing the 10% of stocks with best trailing 12-month performance, in percentage points.



that were monitored. Since then, however, it has lagged behind the market by 3.1 annualized percentage points.

Ms. Brown, while acknowledging that the past decade hasn't been favorable to momentum approaches, says she doesn't believe the strategy has permanently lost its market-beating potential and, therefore, she and her firm are sticking with it.

### Stick with it

There are several reasons to agree with Ms. Brown. First, despite a decade of market-lagging performance, momentum strategies are still ahead of the market over the long term. According to the Fama-French data, for example, from 1927 through March 31 of this year the top decile momentum portfolio beat the S&P 500 by 6.6 annualized percentage points (before transaction costs).

Also, a decade of disappointing performance isn't unprecedented for momentum strategies. Something broadly similar occurred in the late 1930s and early 1940s, according to Kent Daniel, a finance professor at Columbia University who has extensively studied momentum strategies. (See chart.)

Yet another reason not to give up

on momentum comes from Tobias Moskowitz, a Yale University finance professor and a principal at AOR Capital Management, a firm that manages a number of momentum-oriented funds. Prof. Moskowitz says he and fellow researchers haven't detected any overwhelming increase over the past couple of decades in the amount of money invested in the highest-momentum stocks. Had there been such an increase, we would worry that momentum had stopped working because too much money had killed the goose that lays the golden egg.

### Psychological basis

Absent too much money chasing it, momentum would stop working only if its underlying causes disappeared. One of the most significant of those causes, Prof. Moskowitz says, traces to human psychology, and in particular to our tendency to react irrationally when confronted with new information. He says he has seen no evidence that there has been any change in investor psychology that would call into question momentum's long-term potential.

Meanwhile, there is a relatively simple way to improve the profitability of momentum investing, according to Prof. Daniel. The strategy derives from two discoveries that he and others have made: Momentum works best when market volatility is low, and periods of high volatility tend to be clustered together. Taken together, he explains, this means a trader should be able to improve returns by having a high allocation to momentum stocks when volatility is low, and investing instead in an index fund when volatility is high.

### A VIX strategy

Prof. Daniel adds that he hasn't translated his research into a set of specific trading rules. But a simple rule of thumb would be to focus just once a month on the CBOE's Volatility Index, or VIX. If it is below its historical median (17.7 at the end of May), and assuming the future is like the past, allocate an above-average portion of your equity portfolio to momentum strategies. He reported that, in his simulations, an approach such as this would have markedly increased momentum's past profitability—even over the past decade.

If you follow this strategy, keep transaction costs low by using exchange-traded funds. The momentum-based ETF in the U.S. equity market with the most assets under management is **iShares Edge MSCI USA Momentum Factor** ETF (MTUM), with an expense ratio of 0.15% (or \$15 per \$10,000 invested). When shifting funds away from momentum, **Vanguard Total Stock Market** ETF (VTI) has an expense ratio of just 0.04%.

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JON KRAUSE

## It Takes One to Know One: Analysts With Experience Might Be Better Watchdogs

BY JEFF BROWN

IS HAVING INDUSTRY experience good or bad for a Wall Street analyst?

Academics and investors have long assumed that analysts will ride herd on corporate executives by exposing high pay, self-serving actions and poor performance that undermine shareholders' interests. And, in theory, an analyst who has worked in the industry that he or she covers could be better at knowing when a pay package truly spurs a CEO to do a better job. This is the "effective-monitor hypothesis."

But the opposing "impaired-monitor hypothesis" says industry experience could make the analyst too sympathetic or, worse, leave a trail of personal contacts that could undermine the gadfly function.

New academic research finds that the first theory—experience makes analysts better watchdogs—generally holds true, says one of the researchers, Fei Xie, associate professor of finance at the University of Delaware's Lerner College of Business & Economics.

### Fraud watchers

"We examine multiple outcomes of corporate governance, including the extent of earnings manipulation and probability of committing financial fraud, CEO compensation and CEO turnover decisions," Prof. Xie says. "We find broad support that coverage by industry expert analysts improves these governance measures."

Co-authors on the study are Daniel Bradley, finance professor at the University of South Florida's Muma College of Business, and Sinan Gokkaya and Xi Liu, assistant finance professors at Ohio University's College of Business.

Research by others has shown that industry experience improved analysts' earnings forecasts and stock recommendations, but the study by Prof. Xie and his colleagues zeroes in on an analyst's impact on things like the quality of firms' financial disclosures, CEO

compensation and CEO turnover.

Using a database of analysts' reports and profiles from LinkedIn, the business networking site, the researchers examined reports by 4,845 analysts covering 6,391 firms from 1988 to 2011, distinguishing reports by the 25% who had worked in the industry they covered from reports by analysts who hadn't.

Then the professors assessed such issues as earnings management, the frowned-upon practice of "smoothing" earnings from quarter to quarter, or boosting reported earnings when that will trigger more pay for the CEO.

### Keeping down CEO pay?

The researchers found that companies more heavily covered by industry-experienced analysts were less likely to have issued financial misstatements or earnings restatements, less likely to overpay their CEOs relative to industry norms and more likely to replace underperforming CEOs.

"Our collective findings indicate that industry-expert analysts provide external monitoring of firm managers and improve corporate governance," the researchers write.

The study also found industry-experienced analysts 31% more likely than other analysts to examine corporate governance issues in their reports. These analysts also were more likely to issue cash-flow forecasts, discouraging financial misstatements. And they disagreed with firms' earnings forecasts more often.

Future research will look at whether investors could profit from this insight by betting for or against firms based on the work history of the analysts that cover them, Prof. Xie says.

The recent work also has implications for aspiring analysts, Prof. Xie says: "It clearly makes sense for brokerage firms to emphasize industry experience in hiring and assigning analysts."

*Mr. Brown is a writer in Livingston, Mont. He can be reached at [reports@wsj.com](mailto:reports@wsj.com).*

### Mutual-Fund Yardsticks: How Fund Categories Stack Up

Includes mutual funds and ETFs for periods ended May 31. All data are preliminary.

Data provided by LIPPER

#### Diversified stock & stock/bond funds

Performance (%)

May YTD 1-yr 5-yr

Large-Cap Core 1.2 8.0 15.9 14.0

Large-Cap Growth 2.9 15.5 18.7 14.7

Large-Cap Value -0.02 3.7 15.1 13.5

Midcap Core -0.3 4.4 14.6 13.3

Midcap Growth 1.9 11.6 16.8 13.1

Midcap Value -0.8 2.5 15.0 13.8

Small-Cap Core -1.8 1.0 17.5 13.0

Small-Cap Growth 0.1 7.8 19.6 12.9

Small-Cap Value -3.0 -2.4 17.1 12.6

Multipcap Core 0.8 7.3 15.6 13.7

Multipcap Growth 2.5 14.1 18.3 14.1

Multipcap Value -0.3 3.3 14.8 13.5

Equity Income 0.5 4.7 13.4 12.1

S&P 500 Funds 1.4 8.4 16.9 14.8

Specialty Divers. Equity 1.0 4.5 4.9 -5.2

Balanced 1.0 6.0 10.2 8.3

Stock/Bond Blend 1.0 6.0 10.3 7.4

Avg. U.S. Stock Fund<sup>1</sup> 0.4 6.4 15.4 12.5

**Sector stock funds**

Science & Technology 4.1 18.1 29.1 16.6

Telecommunication 1.2 6.6 13.0 11.6

Health/Biotechnology -1.5 11.4 9.0 17.9

Utility 3.4 10.8 11.6 11.0

Natural Resources -4.9 -13.7 -0.5 -0.7

Sector -0.7 0.4 6.4 8.3

Real Estate -0.3 1.0 3.3 9.2

#### World stock funds

Performance (%)

May YTD 1-yr 5-yr

Global 2.5 11.9 16.4 11.4

International (ex-U.S.) 3.4 14.9 15.7 9.2

European Region 4.0 16.3 16.4 11.1

Emerging Markets 2.3 16.6 23.4 4.6

Latin American -1.7 11.7 25.6 -3.7

Pacific Region 3.5 16.7 20.8 9.1

Gold Oriented 0.3 6.2 1.0 -9.4

Global Equity Income 2.0 8.4 12.1 9.5

International Equity Income 3.2 12.6 15.6 6.6

**Taxable-bond funds**

Short-Term 0.2 1.2 1.8 1.3

Long-Term 1.0 3.4 4.0 3.6

Intermediate Bond 0.7 2.5 2.2 2.3

Intermediate U.S. 0.1 1.5 2.3 0.3

Short-Term U.S. 0.7 2.5 2.2 2.3

Long-Term U.S. 0.8 2.4 -0.4 1.1

General U.S. Taxable 0.8 3.4 5.1 4.1

High-Yield Taxable 0.7 4.1 11.4 6.1

Mortgage 0.6 1.8 1.6 1.9

World Bond 0.8 4.9 7.0 2.1

Avg. Taxable-Bond Fund<sup>2</sup> 0.6 2.7 4.8 2.7

**Municipal-bond funds**

Short-Term Muni 0.2 0.7 0.6 0.4

Intermediate Muni 1.2 3.2 0.8 2.2

General & Insured Muni 1.4 3.5 0.9 3.2

High-Yield Muni 1.5 4.9 1.8 4.7

<sup>1</sup>Annualized \*Diversified funds only <sup>2</sup>Excludes money-market funds <sup>3</sup>Europe, Australia, Far East

## JOURNAL REPORT | INVESTING IN FUNDS & ETFS

### NEED TO KNOW



**SPOTLIGHT | VANECK VECTORS RUSSIA**

#### A RUSSIA ETF HAS INVESTORS SPINNING

**VanEck Vectors Russia ETF (RSX)** is taking a rocky ride as relations between the U.S. and Russia have run hot and cold, and as the price of energy, its largest sector weighting, slumps.

The \$2.2 billion fund's performance over the past few years offers a cautionary tale for any investor with a weak stomach considering a single-country emerging-market exchange-traded fund.

The fund soared more than 47% last year on improving economic fundamentals and a rebound in commodities. Russian stocks also jumped after Donald Trump's election. But this year through May, the fund has shed 6.9%, while **VanEck Emerging Markets Fund (GFBAX)** has gained 23.6%, according to Morningstar Inc.

"There was a lot of wind in the sails of the market post Donald Trump's election," says Michael Cohick, an ETF product manager with VanEck. "That had a lot to do with the expectation that we would perhaps see an end to [U.S.] sanctions [on Russia] or at least a moderation of sanctions."

Few observers, including Mr. Cohick, think that is still likely, given the investigations in Washington into Trump dealings with Russian government officials.

The negative performance this year could also be attributed to energy prices, says Mr. Cohick. Oil has been on a roller coaster since March amid concerns over mounting stockpiles. OPEC officials extended output cuts into next year, but the price of Brent crude initially fell on disappointment the cuts weren't bigger.

Energy investments made up 32.4% of RSX's stockholdings as of May 30, Morningstar says.

—Daisy Maxey

# A Fund's 'Peak' Performance Matters

We found the active funds that did best in the complete bull-bear cycle

BY JOHN COUMARIANOS

MANY INVESTORS don't look at how funds performed during the complete cycle of a bull and bear market, instead relying on typical industry yardsticks such as one-, three- and five-year returns.

But in doing so, investors may be missing an important gauge of a fund's performance—as we discovered in our own analysis.

The argument for a complete-market-cycle yardstick was made by Ryan Leggio and Steven Romick of FPA Funds, a Los Angeles fund manager, in an article in the Fall 2015 issue of the Journal of Portfolio Management. The two authors define a full market cycle as a "peak-to-peak period that contains a price decline of at least 20% over at least a two-month period from the previous market peak, followed by a rebound that establishes a new higher peak."

The authors rely partly on **Berkshire Hathaway's** 2013 shareholder letter, in which Warren Buffett remarked that Berkshire's book-value increase exceeded the return of the S&P 500 index from year-end 2007 through 2013. In the letter, Mr. Buffett also said that he expected Berkshire's performance to exceed that of the index over subsequent full-market cycles, and that investors have recourse to index funds if it doesn't.

In subsequent reports, however, Mr. Buffett has maintained a more-

conventional presentation, showing Berkshire's calendar-year returns versus those of the S&P 500 index.

#### Our winners' list

Still, following the lead of Messrs. Leggio and Romick, we decided to apply a peak-to-peak approach to the performance of the 100 largest non-bond, actively managed funds, from 2008 through the first quarter of 2017, making sure a single manager or team was responsible for the performance. We are still living in the cycle that Mr. Buffett mentioned in his 2013 letter since it hasn't suffered a major extended decline beyond that of 2008 and early 2009.

From 100, we narrowed the list by stripping out sector funds, small-cap funds, midcap funds, and allocation funds, since most people have the bulk of their stock exposure to domestic large-cap funds. That left us with 60 funds that invested in large-cap domestic and/or foreign stocks.

Of the 60 funds, 41 beat the S&P 500, the MSCI EAFE or the MSCI ACWI from 2008 through the first quarter of this year. That is a strong performance, compared with studies showing a much smaller percentage of active funds typically beating their relevant indexes. Nevertheless, one-third of our largest active funds, holding more than \$1 trillion, couldn't beat their index.

Among the domestic funds beating their index by the highest margin were value funds such as **AMG**

**Yacktman Fund (YACKX)** and growth funds such as **Fidelity Growth Company (FDGRX)**.

The value funds made it on the list mostly for holding up in the bear market of 2008 and early 2009. Yacktman's lowest point, a peak-to-trough decline of 39.7%, reflects its relative resiliency in bad times. But its most recent portfolio shows it is hunkered down with around 23% in cash along with many consumer-staples companies such as **Procter & Gamble** and **PepsiCo**, and stodgier information-technology names such as **Cisco** and **Oracle**.

Consequently, it looks subpar on three-year and five-year comparisons, supporting Messrs. Leggio and Romick's point that a shorter time frame can sometimes mask longer-term excellence.

The growth funds, meanwhile, show impressive results regardless of the time frame. But they can still have problems. Indeed, they owe much of their full-cycle performance to the past few years when growth stocks have rallied. Fidelity Growth counts **Apple**, **Amazon.com**, Google parent **Alphabet** and **Facebook** among its top holdings. These investments have helped it produce a 14.2% annualized return for the past five years, helping overcome a peak-to-trough plunge of 47% during the financial crisis.

#### The full cycle's importance

The late-cycle dominance of the growth funds may mask earlier stumbles, but Messrs. Leggio and Romick's point is that the full cycle is more important than any of its individual parts. Fidelity Growth held up well enough in a part of the cycle unfavorable to its style to allow its performance during the beneficial part of the cycle to catapult it to index-beating full-cycle returns. Investors should note, however, that the fund's Sortino ratio, a measure of volatility-adjusted returns, was the lowest among the top-five funds. That means investors had to stomach more volatility to reap rewards.

A full cycle view can help investors avoid dismissing funds with a subpar three- or even five-year performance versus an index. Although there can be some anxiety associated with trailing the index in the last stages of a bull market, some downside protection in a bear market can make up for that lag both in lower drawdowns and better long-term performance.

It may well be that low-cost index funds are the most appropriate choice for most investors. But those contemplating alternatives should know how to judge them properly. To assist that effort, fund companies and ratings services should display full-cycle return data along with the current standard one-, three-, five- and 10-year data points.

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#### Dancing Peak-to-Peak | Funds that beat the S&P 500 by the biggest margin over a full cycle

FUND	TICKER	MORNİNGSTAR CATEGORY	2008 TO 2017 RETURN (PCT.)	S&P 500 RETURN (PCT.)	EXCESS RETURN FOR CYCLE (PCT. PTS.)	3-YEAR ANNUALIZED EXCESS RETURN (PCT. PTS.)	5-YEAR ANNUALIZED EXCESS RETURN (PCT. PTS.)	MAX DRAWDOWN (PCT.)	RETURN OVER 'BAD' VOLATILITY (SORTINO RATIO) 2008 TO 2017
<b>AMG Yacktman I</b>	<b>YACKX</b>	Large Blend	<b>10.57%</b>	<b>7.59%</b>	<b>2.98</b>	<b>-2.95</b>	<b>-2.70</b>	<b>-39.73%</b>	<b>1.17</b>
<b>Oakmark Select Investor</b>	<b>OAKLX</b>	Large Blend	<b>10.27</b>	<b>7.59</b>	<b>2.68</b>	<b>-2.35</b>	<b>0.40</b>	<b>-46.76</b>	<b>0.89</b>
<b>Oakmark Investor</b>	<b>OAKMX</b>	Large Blend	<b>10.14</b>	<b>7.59</b>	<b>2.55</b>	<b>-1.35</b>	<b>0.82</b>	<b>-45.28</b>	<b>0.93</b>
<b>Vanguard Primecap Core</b>	<b>VPCCX</b>	Large Growth	<b>10.07</b>	<b>7.59</b>	<b>2.48</b>	<b>1.01</b>	<b>2.41</b>	<b>-40.82</b>	<b>1.02</b>
<b>Fidelity Growth Company</b>	<b>FDGRX</b>	Large Growth	<b>9.84</b>	<b>7.59</b>	<b>2.25</b>	<b>1.67</b>	<b>0.89</b>	<b>-47.26</b>	<b>0.88</b>
<b>S&amp;P 500 index</b>				<b>7.59%</b>				<b>-48.45</b>	<b>0.76</b>

\*through March 31 Source: Morningstar

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Without sales charges	1-year	3-year	Since Inception
Class Z	9.94	4.59	4.40
Class A	9.63	4.34	4.13
With sales charge			
Class A (5.75% max. sales charge)	3.35	2.30	2.85

Expense ratios: Class Z: Gross 1.03% | Net 1.00%

Class A: Gross 1.28% | Net 1.25%

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## JOURNAL REPORT | INVESTING IN FUNDS & ETFS

### EXCHANGE-TRADED FUNDS

# Biotech ETFs Are Getting Hearts Pumping Again

Risks remain despite this year's 11% bounceback



BY GERRARD COWAN

BIOTECH STOCKS took a pounding in 2016 but have bounced back since, with a range of exchange-traded funds benefiting from the resurgence.

The biotechnology sector harnesses biological processes to create technologies and products for a wide variety of challenges, from expanding crop sizes to treating disease. Pharmaceutical-focused firms are a major component of biotech funds, with names like Celgene Corp. and Gilead Sciences Inc. often among their top 10 holdings.

Last year, the Nasdaq Biotechnology Index, or NBI, fell about 21%. Politics was a major contributor, analysts say, as drug prices became a punching bag in the presidential campaign. In September 2015, for example, a Hillary Clinton tweet on "price gouging" sent stocks tumbling.

Things have turned around this year, with the NBI up 11% so far. Mutual funds and ETFs measured by Lipper's health/biotechnology category are likewise up 11% in 2017 after falling 10% last year.

Politics, some fund managers say, has played a role in the turnaround, as well.

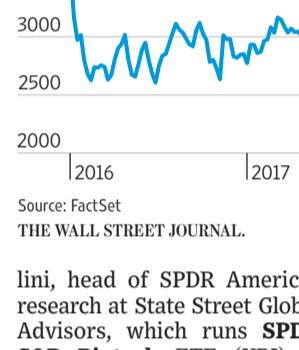
#### Election effect

More specifically, Donald Trump's victory in the presidential election made investors more optimistic, they say. Although Mr. Trump also criticized high drug prices during the campaign, investors believed Mrs. Clinton was more likely to bring in tougher measures aimed at controlling prices, says Michael Cohick, product manager at Van Eck, which runs **Van Eck Vectors Biotech** ETF (BBH), a \$645 million fund that has gained 9.18% this year through May.

Investors also expected Mr. Trump would be in favor of streamlining the Food and Drug Administration's drug-approval process. There also has been innovation in areas like immunotherapies, Mr. Cohick says, with more products in clinical trials.

Politics may have played a role in the biotech rebound in other ways, says Matt Barto-

#### Rebound



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lini, head of SPDR Americas research at State Street Global Advisors, which runs **SPDR S&P Biotech** ETF (XBI), a \$2.95 billion fund with a year-to-date gain of 14.47% through May. Mr. Trump's tax plans and efforts to bring back profits held offshore could spur merger and acquisition activity in the sector, he says, as many of the large biotech names have cash holdings overseas. The sector benefited from M&A in 2015, he says, and "a return to that could be a nice tailwind for the segment."

That point is echoed by Neelarjo Rakshit, an analyst for ETfdb.com, who says the number of M&A deals in biotech in 2016 was the lowest in six years. "There is increasing anticipation that M&A activity will increase, which is raising the overall price-to-earnings ratio in the sector."

Then there is the fact that last year's drop in biotech stocks led to significant reductions in companies' valuations, says Dave Gedeon, vice president and head of index research and development for Nasdaq Global Information Services. Many of these firms have continued to generate healthy earnings, he says, so they "start to actually look very favorable from a valuation perspective."

#### Biotech risks

Still, the biotech sector has a number of vulnerabilities that investors need to keep in mind, analysts say. One of the biggest is that it remains susceptible to political developments. Mr. Cohick points to a dip in biotech stocks in recent months that may have been driven by factors including a tweet from President Trump

pledging to bring drug prices "way down" and uncertainty around the repeal of the Affordable Care Act. Some companies also have missed earnings expectations.

The sector also tends to be volatile, with stocks experiencing dramatic moves based on drug approvals. For some who want to invest in the healthcare sector, taking a more diversified approach might be more sensible, says Ben Johnson, director of global ETF research at Morningstar. There are a number of broader ETFs that focus on health care as a whole, he says, which could provide more-stable returns.

Biotech has always been a difficult sector to value, says Tushar Yadava, an investment strategist at BlackRock Inc.'s iShares unit, which runs the largest biotech ETF in the U.S.: **iShares Nasdaq Biotechnology** ETF (IBB), a \$7.75 billion fund that is up 7.97% this year.

On the one hand, the outlook for companies can be relatively clear in that there is patent protection, and a defined customer base. But there is also that "regulatory overhang": Any change to the drug-pricing landscape would turn companies' revenue models upside down, he says.

Still, "when you look at the companies and their underlying fundamentals—especially the large-cap biotechs—you've got a pretty good backdrop of solid earnings and solid revenue," he says. "That lends itself well to investing in biotech. You just have to weather the storms of momentum, of valuation and regulation."

In the long run, the sector holds some key attributes, says Ryan Issakainen, senior vice president and ETF strategist at First Trust Advisors, whose \$931 million **First Trust NYSE Arca Biotechnology Index Fund** (FBT) is up 15.07% this year.

Some of the biotech sector's products are aimed at the biggest challenges in society, from expanding food supplies to tackling the health problems of aging populations. "They're certainly at the cutting edge of innovation," he says.

*Mr. Cowan is a writer in Northern Ireland. He can be reached at reports@wsj.com.*

### Tracking Exchange-Traded Portfolios

Performance figures are total returns for periods ended May 31; for largest exchange-traded funds and other portfolios, ranked by asset size.

Fund	Symbol	Assets (\$ bil.)	Volume (000s)	Expense ratio	Launch date	Performance (%)	May	YTD	1-year
SPDR S&P 500 ETF	SPY	235.79	8,683,357.5	0.09	01/22/93	1.4	8.6	17.4	
iShares Core S&P 500 ETF	IVV	112.53	334,550.9	0.07	05/15/00	1.4	8.7	17.4	
ARK Web.x.O	ARKW	105.00	5,750.1	0.89	09/30/14	16.1	40.3	59.4	
Vanguard Tot Stk Mkt Idx ETF	VTI	79.14	204,384.9	0.04	05/24/01	1.0	8.0	17.7	
iShares MSCI EAFE ETF	EFA	76.08	3,105,390.1	0.33	08/14/01	3.7	14.1	16.4	
Vanguard 500 Index ETF	VOO	68.73	64,133.6	0.04	09/07/10	1.4	8.6	17.4	
Vanguard FTSE Emerging Markets ETF	VWO	54.77	1,171,898.0	0.14	03/04/05	1.2	13.8	24.0	
Vanguard FTSE Developed Markets ETF	VEA	53.76	1,144,245.1	0.07	07/20/07	3.4	14.1	17.0	
PowerShares QQQ Nasdaq 100	QQQ	52.20	3,029,941.8	0.20	03/10/99	3.9	19.5	29.2	
iShares Core US Aggregate Bond ETF	AGG	45.34	239,428.8	0.06	09/22/03	0.8	2.4	1.5	
iShares Core S&P Mid-Cap ETF	IJH	39.59	105,877.6	0.12	05/22/00	-0.5	4.3	17.1	
iShares Russell 1000 Value ETF	IWD	36.92	243,134.2	0.20	05/22/00	-0.1	2.9	14.4	
iShares Russell 1000 Growth ETF	IWF	36.01	184,238.9	0.20	05/22/00	2.6	14.2	20.0	
iShares Russell 2000 ETF	IWM	34.90	3,384,394.2	0.20	05/22/00	-2.0	1.5	20.4	
SPDR Gold Shares	GLD	34.49	1,033,865.6	0.40	11/18/04	-0.1	9.1	4.1	
Vanguard Total Bond Market ETF	BND	34.28	208,899.8	0.05	04/03/07	0.8	2.4	1.5	
iShares iBoxx \$ Inv Grade Cor BETF	LQD	33.98	442,870.4	0.15	07/22/02	1.4	3.9	4.1	
Vanguard REIT ETF	VNQ	33.85	551,406.2	0.12	09/23/04	-0.7	0.5	2.7	
iShares MSCI Emerging Markets Index Fund	EEM	31.47	7,996,474.5	0.72	04/07/03	2.9	17.0	26.7	
iShares Core MSCI Emerging Markets	IEMG	31.25	705,631.1	0.17	10/18/12	2.7	17.1	26.3	
Vanguard Value ETF	VTY	30.85	172,919.5	0.06	01/26/04	0.1	3.4	15.8	
iShares Core S&P Small-Cap ETF	IJR	29.61	292,108.6	0.12	05/22/00	-2.2	-0.2	19.6	
Vanguard Growth ETF	VUG	27.28	53,414.3	0.06	01/26/04	2.8	15.3	19.9	
iShares Core MSCI EAFE	IEFA	26.75	461,193.6	0.12	10/18/12	3.7	14.6	16.7	
Vanguard Div Appreciation ETF	VIG	24.40	40,357.5	0.08	04/21/06	1.6	9.7	16.1	

\*Expense charge is a maximum of 8 cents a share. †Assets are estimated. N.A.= Not applicable, fund is too new.

Note: Total returns are based on the change in the net asset values, not changes in market prices. Net asset values can vary from market prices, which therefore can reflect a premium or discount to the net asset values.

Source: Thomson Reuters

## Europe's ETF Trek Speeds Up

Still far behind the U.S., the market hits a 'higher gear'

BY TANZEEL AKHTAR

IT HAS TAKEN nearly a decade for exchange-traded funds to gain traction in the European market, but they finally seem to be catching on.

Propelled by the U.S. market, where investors have been pouring money into passive investments such as ETFs, the appetite for cheaper funds that track European indexes has been slowly increasing.

Fund-tracker Morningstar Inc. predicts that by 2020, ETFs listed in Europe will have more than \$1 trillion in assets under management. Currently, there is about \$700 billion invested in European ETFs, according to Jose Garcia-Zarate, associate director of passive-strategies research at Morningstar.

"We've seen the European ETF market shifting to a higher gear," Mr. Garcia-Zarate says. In addition to ETFs that track core indexes, ETF providers are bringing to market products that offer more sophisticated strategies, including smart beta (in which holdings are weighted by something other than market value).

Mr. Garcia-Zarate calls it a natural evolution: "First, one starts with plain-vanilla, straightforward exposures. Then when clients are happy with those and are comfortable with how ETFs operate, they start demanding more-complex exposures and strategies."

#### Playing catch-up

At the end of 2016, there was about \$3.4 trillion in ETF assets globally, according to ETFGI LLP, a London-based consulting firm. U.S.-listed funds, which have been around since about 1993, continue to attract the most money, pulling in some 50% of all new ETF investment.

The first ETF listing on the London Stock Exchange came in April 2000. Now, there are



Fidelity has launched two smart-beta ETFs in London.

some 1,350 exchange-traded products listed on the LSE.

Lida Eslami, manager of listed products at the London exchange, says a range of new ETPs have been coming to market in London. In April, she says, Fidelity International listed its first European ETFs in London.

Still, Europe is at least five years, and some would say a decade, behind the U.S. in the adoption of ETFs. What's behind the lag? Mr. Garcia-Zarate says one major reason is that Europe hasn't had the same demand from individual investors the U.S. has.

"In the U.S. there is a very active participation of the retail community in the uptake of ETFs. This isn't the case in Europe," he says, adding that "distribution channels and regulation are more conducive to reach retail clients in the U.S."

Andrew Craswell, vice president at Brown Brothers Harriman, explains that Europe isn't a homogeneous market (so the way ETFs are distributed can differ from region to region). Still, his firm expects growth to accelerate over the next three to five years as new players bring innovation in terms of the types of products offered and how they are sold.

#### Regulatory changes

Regulatory changes such as the Markets in Financial Instruments Directive, a rules package set to take effect across Europe in January 2018, are expected to contribute to ETF growth in Europe.

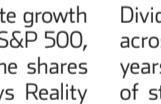
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## FUND RESULTS

Lipper's A-to-Z mutual-fund and ETF monthly performance listings and other statistics are free at [WSJ.com/FundsETFs](http://WSJ.com/FundsETFs).

### SPOTLIGHT | REALITY SHARES DIVS

## AN ETF THAT COUNTS ON THE DIVIDEND STREAM



Stock investors looking for some stability in this market might find it in overall dividend growth.

That's the thinking behind **Reality Shares DIVS** ETF (DIVY), a \$53.4 million exchange-traded fund that is up 3.01% this year through May.

The idea is to invest in the aggregate growth rate of dividends of companies in the S&P 500, rather than the growth in value of the shares themselves or any other metric, says Reality Shares Chief Executive Eric Ervin.

The fund is based on the S&P 500 as a whole: The index is imagined to be one gigantic stock, with DIVY looking to benefit from the growth rate of the combined dividends across the index. This is largely achieved through the use of tools like dividend-swap contracts. These are financial instruments that are arranged with another institution—for example, an investment bank—in which Reality Shares makes a payment based on the estimated future value of the index dividend, and the counterparty ultimately pays Reality Shares the actual value of

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Investment minimums and expenses are subject to change.

1. This claim is based on prospectus net expense ratio data comparisons between Schwab market cap index mutual funds (no minimum investment required) and ETFs and non-Schwab market cap index mutual funds and ETFs in their respective Lipper categories. Schwab operating expense ratios (OERs) reflect OERs as of 3/1/17. Competitor OERs obtained from prospectuses and Strategic Insight Simfund, as reflected on 1/31/2017.

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## JOURNAL REPORT | INVESTING IN FUNDS & ETFS

### Category Kings in 16 Realms

Top-performing funds in each category, ranked by year-to-date total returns (changes in net asset values with reinvested distributions) as of May 31; assets are as of April 28. All data are preliminary.

#### Large-Cap Core

	Assets (\$millions)	Total return (%)				
		May	YTD	1-yr	5-yr*	
Amer Cent:Foc DG;Inv	15.0	3.3	17.9	23.9	14.7	
GMO:Quality;III	8,549.7	3.6	15.9	2.2	14.5	
Pear Tree:Quality;Ord	12.4	3.6	15.8	19.2	13.8	
BNY Mellon:Foc Eq;Op;M	444.9	5.2	15.7	27.3	16.6	
Direxion:Billionaire Id	13.9	3.8	14.6	18.0	N.A.	
BlackRock:LC Gro;A	121.4	2.0	14.4	22.5	15.3	
Indep Franch Prtnrs USEq	1,814.1	3.3	13.8	19.2	15.2	
Frst Tr:Capital Strength	412.3	2.8	13.3	17.8	17.8	
Vanguard PRIMECAP;Adm	5,233.6	3.0	13.1	24.4	19.2	
Davis Research;A	4.7	2.7	12.8	21.9	14.7	
Category Average:	84.4	1.2	8.0	15.9	14.1	
	738	897	858	822	664	

#### Large-Cap Value

	Assets (\$millions)	Total return (%)				
		May	YTD	1-yr	5-yr*	
DoubleLine:Sh Enh CAPE;I	351.7	2.5	12.6	28.4	N.A.	
Barclays ETN+ShillerCAPE	62.3	1.9	11.8	26.7	N.A.	
Natixis:VN Select;Y	138.1	1.9	1.7	17.5	N.A.	
MassMutual Sel:Fc Vl;I	738.7	1.3	8.5	25.7	15.6	
BlackRock:USA Sz Fl;K	1.5	1.4	8.2	N.A.	N.A.	
Deutsche CROCI EqDv;A	196.7	1.9	8.6	17.5	12.4	
WellsFargo:LV US Eq;Inst	34.7	2.0	7.5	N.A.	N.A.	
Cullen:High Div Eqty;I	1,894.7	1.4	7.3	14.0	12.3	
Pioneer Disc Val;A	583.6	0.9	7.2	19.6	12.7	
MFS Value;I	42,439.1	1.4	6.6	14.2	15.3	
Category Average:	486.2	-0.2	3.7	15.8	13.5	
	467	525	59	488	375	

#### Large-Cap Growth

	Assets (\$millions)	Total return (%)				
		May	YTD	1-yr	5-yr*	
Transam:Cap Growth;I	718.1	6.5	29.5	3.4	18.9	
Morg Stan l:Growth;A	355.4	6.3	28.9	3.4	18.7	
Baron Fifth Ave Gro;Inst	158.6	4.3	24.5	25.2	15.9	
JPMorgan:Dyn Gro;R5	343.8	5.5	22.9	27.5	16.6	
JPMorgan:LgCp Gro;I	12,151.0	6.3	21.8	25.4	14.4	
Touchstone Inst:Snd Gr	2,267.8	3.3	21.6	19.0	13.5	
Columbia:Select LCG;Z	4,296.3	2.6	21.6	18.2	15.7	
Touchstone:Sel Gro;Y	2,399.0	3.3	21.6	18.9	12.9	
Edgewood Growth;Inst	8,646.1	3.7	21.1	27.2	19.1	
Marsico Inv Fd:Focus	532.5	4.1	2.3	14.9	12.6	
Category Average:	85.2	2.9	15.5	18.7	14.7	
	637	725	695	662	535	

#### Midcap Core

	Assets (\$millions)	Total return (%)				
		May	YTD	1-yr	5-yr*	
CB Select;S	16.4	4.8	19.4	29.0	N.A.	
Guggenheim Insider Snt ETF	71.1	1.4	12.9	16.8	13.6	
Tarkio	69.4	1.7	11.3	32.7	17.4	
13D Activist;I	28.5	0.2	1.3	25.2	16.2	
JPMorgan:MdCp Eq;R6	2,737.5	1.7	9.3	14.7	N.A.	
Guggenheim MC Core ETF	165.0	0.8	9.2	17.9	15.2	
Aberdeen:US MdCp Eq;Inst	1.6	1.6	9.2	15.3	N.A.	
Sterling:Sp Mgmt Opps;I	8.6	1.8	8.8	N.A.	N.A.	
Govt Street MdCp	47.1	1.3	8.7	17.3	14.0	
Calvert US MCC Resp Ix;I	31.6	0.9	8.4	18.9	N.A.	
Category Average:	413.2	-0.3	4.4	14.6	13.3	
	44	466	455	42	32	

#### Midcap Value

	Assets (\$millions)	Total return (%)				
		May	YTD	1-yr	5-yr*	
Neuberger MC Int V;Inv	94.1	-0.9	6.9	17.6	15.0	
Vanguard MC Val Idx;ETF	14,865.4	0.1	6.0	17.3	16.2	
Transam:Sm/Md Cap V;A	879.6	-0.7	5.4	21.9	14.1	
Nuveen Mid Cp Value;I	19.0	0.3	5.3	14.5	14.6	
Alambic Mid Cap Val Plus	0.7	-1.4	5.2	N.A.	N.A.	
Transam:McDp Val Opps;I	154.7	0.3	5.0	14.8	N.A.	
Am Beacon:MC Val;Inv	622.8	-0.4	4.6	18.2	14.8	
Nuance Mid Cap Val;Inst	34.0	0.8	4.3	14.3	14.2	
Ancora Special Optpy;I	15.9	-0.3	4.2	15.2	14.2	
Hennessy:Crmst MdCp;Inst	173.3	-1.5	4.6	9.9	12.9	
Category Average:	319.6	-0.8	2.5	15.3	13.8	
	154	174	166	159	12	

#### Midcap Growth

	Assets (\$millions)	Total return (%)				
		May	YTD	1-yr	5-yr*	
Baron Partners Fund;Rtl	184.9	4.8	26.2	31.4	17.9	
Renaissance IPO ETF	13.1	6.4	22.1	25.4	N.A.	
BlackRock:MC Gro;A	638.3	3.7	21.5	26.7	17.4	
Virtus:KAR Mid-Cap Gr;A	92.1	3.6	19.5	21.5	11.2	
Harbor:Mid Cap Gro;Inst	347.8	5.6	18.6	23.0	14.3	
Baron Focused Gro;Inst	196.4	3.8	18.3	19.9	11.8	
J Hancock II:MC Stk;NAV	1,638.7	5.2	17.3	21.7	14.7	
Baron Asset Fund;Rtl	2,773.1	3.3	17.2	22.8	15.7	
PowerShares Russ McP PG	68.0	4.5	16.7	21.7	12.7	
Baron Growth;Inst	675.9	1.5	16.5	2.0	14.3	
Category Average:	33.6	1.9	11.6	16.8	13.1	
	358	417	48	398	327	

#### Latin American funds

	Assets (\$millions)	Total return (%)				
		May	YTD	1-yr	5-yr\*	
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## JOURNAL REPORT | INVESTING IN FUNDS & ETFS

### FIXED-INCOME INVESTING

# What Some Star Bond Managers Are Doing

Interest rates are expected to rise, thanks to the Fed, but mutual-fund managers differ on the strategy

BY TIM MULLANEY

NOTHING ABOUT the bond market is ever simple—not even the best way to play this year's expected rise in interest rates.

As markets look for the Federal Reserve to raise rates three or even four times this year, star bond managers have embraced different strategies. Much of their differences boil down to a simple question: Do they share the economic optimism that fueled the so-called Trump Bump (the surge of market enthusiasm that followed Donald Trump's election win) or not?

For every manager like Loomis Sayles's Dan Fuss, betting on corporate bonds, believing defaults will be rare in a strong economy, another is adding less-glamorous mortgage securities that allow for more weakness. Pros like Bryan Whalen, co-manager of **MetWest Total Return** (MWTRX), say the corporate-bond rally is overdone despite a recent downturn, and postelection optimism is, too.

"We have felt that earnings growth, real economic growth, real income growth, have been insufficient to support the debt load that has built up," Mr. Whalen says. "You can ignore fundamentals for a long time, but not forever."

We talked to major investors about how they're approaching the bond market, and why. Here are some highlights.

**ELAINE STOKES**, Loomis Sayles Bond

The managers of the \$14 billion **Loomis Sayles Bond Fund** (LSBRX) think the economy is healthy enough to take some credit risk on bonds to boost returns.

To a degree, that has meant acting and thinking something like stock pickers—not surprising, since nearly a quarter of the fund is in high-yield (or junk-rated) debt, an investment that requires detailed knowledge of company fundamentals and an appreciation of how sentiment can move short-term values.

Co-manager Ms. Stokes and her partners—Mr. Fuss, Matt Eagan and Brian Kennedy—also are weeding out bonds from challenged industries such as retailing in favor of financial-company bonds, which have been bolstered by stiffer capital requirements so unpopular in Washington.

One note of caution: Citing "political risk," Mr. Fuss said in March that the fund is focusing on shorter-term bonds, a shift Loomis says is mostly within its government-bond holdings. The fund is still adding corporate bonds, confident that credit conditions are solid, Ms. Stokes say.

Sometimes it works, sometimes it doesn't: Ms. Stokes concedes the fund was too early in 2015 to bet on energy bonds' resurgence, when low oil prices increased repayment risks. Loomis's fund beat its benchmark by 6.9 percentage points in the year through May 31, but its performance ranks low among comparable funds over three years through May.

"We're long-term investors," she says. "We're more into buying into down markets and not as worried about staying close to the benchmark."



**MICHAEL COLLINS AND ROBERT TIPP**, Prudential Total Return

Like Loomis Sayles, Prudential's \$24 billion **Prudential Total Return Bond** fund (PDBAX) is heavy on corporates and light on Treasurys: The 8% of its assets in Treasurys is a fraction of their weight in the benchmark index. The fund is overweight (relative to its benchmark) in corporate debt, including high-yield, emerging-markets bonds and asset-backed securities.

Prudential feels good about credit risk, and it will add risk to get yield, says Mr. Collins, senior investment officer at Prudential. But it isn't infinite: The fund, which is up 3.75% this year through May, has pared junk holdings by a third, a move Mr. Collins mostly chalks up to profit-taking after the rally in corporate bond prices over the past year.

"We made most of our trims, on valuation mostly, earlier in the year," says Mr. Collins. "The U.S. data has been a little weaker, and there has been more appreciation lately that it's going to be hard to implement a lot of the administration's pro-growth agenda."



**SCOTT MATHER**,  
Pimco Total Return

Pimco's \$74 billion **Pimco Total Return** fund (PTTAX) is now run by three managers, including Mr. Mather, and pretty conservatively. Only 19% is in corporate credit, and only 3% represents high-yield debt. Instead, the fund's holdings are concentrated in government-related securities and mortgage-related paper, categories that overlap because of Washington's role in mortgage-bond markets.

To Mr. Mather, this is a logical reaction to the 9% run-up in corporate debt prices in the first half of 2016, and it has paid off modestly: Total Return is beating its benchmark with a 3.16% gain this year through May, after trailing in 2014 and basically matching it for the 2013-15 period overall, according to Morningstar data. Within corporates, Pimco favors conservative plays such as insurance firms, as well as mortgage bonds in both residential and commercial sectors, except for debt from real estate built for retailers, which are losing customers to online rivals. The managers also are skeptical of developed-market non-U.S. corporate debt.

"High quality is more affordable and lower quality is less affordable after the repricing," Mr. Mather says. (The 9% run-up in corporate-debt prices was especially pronounced in high-yield bonds.) And "if [stimulus] is coming, it's likely to be smaller and to take a lot longer," he says, referring to the administration's tax-cut and infrastructure-spending proposals.

**RICK RIEDER**, BlackRock Inc.



**RICK RIEDER**, BlackRock Inc.

Few oversee more bond assets than Mr. Rieder, chief investment officer for global fixed income at the world's largest asset manager. He says he is using hedging instruments and global diversification to avoid too heavy a macro bet in either direction—but BlackRock is betting that paper with maturities of two to five years will outperform short-term Treasurys as rates rise.

BlackRock has added inflation-protected Treasurys to lower the interest-rate sensitivity of its \$1.6 trillion portfolio, including the flagship \$28 billion **BlackRock Strategic Income Opportunities** (BASIX) fund, which is up 2.02% this year through May. It also is reducing exposure to principal losses from rising U.S. rates by adding debt from countries where interest rates are still falling.

The most eye-catching part of the BASIX fund may be its concentration in derivatives, which account for more than half of the fund. Lower volatility has made it possible to trade 10-year options on U.S. Treasury rates, for example, letting BlackRock take interest-rate risk with more downside protection, Mr. Rieder says. Heading into spring, the fund was beginning to increase exposure to investment-grade corporate bonds and shave exposure to junk, he says. At BlackRock, risk is in, exuberance isn't.

"One thing that's distinct about fixed-income is the extraordinary variety of tools you can use," Mr. Rieder says. "We diversify like crazy. We want a stable yield and a fund that isn't as volatile as the benchmark."

*Mr. Mullaney is a writer in Maplewood, N.J. He can be reached at reports@wsj.com.*

## 'ULTRASHORT' BOND FUNDS BECKON

With the Federal Reserve's next interest-rate rise all but certain in June and the stock market at or near highs, some investors are taking a more-defensive approach.

Historically, that has meant money-market funds. But new rules have placed liquidity constraints on those funds. Rising interest rates also mean that investors could see fees creep up, effectively neutralizing much of the yield that makes money-market funds attractive.

As a result, "ultrashort-duration" bond funds and exchange-traded funds are becoming more popular. About \$13 billion is in ultrashort bonds year-to-date through May 24, compared with \$8.2 billion at the end of 2016, according to Morningstar data.

Ultrashort-duration bonds are bonds that are due to come to maturity in less than two years. These securities

can sometimes be removed from bond indexes once the maturity date drops below one year, creating an opportunity for short-term investors to pool them and capture the yield at maturity. The resulting performance of an ultrashort-duration bond product often looks similar to or slightly better than that of a money-market fund.

"We view this product as a way to help advisers and ETF strategists with their tactical cash management," says Joseph Barrato, CEO and director of investment strategies at Arrow Funds. "The yield is higher than a traditional money-market fund, with similar liquidity."

Still, there are key differences. For one, investors in the bond category will be taking on credit risk, however briefly. Vanguard Group, for example, advises investors in its **Ultra-Short-Term Bond**

**Fund** (VUBFX) to hold off on tactical moves as a way to manage some of this risk. "We discourage people from entering and exiting before the bonds reach maturity," says Chris Philips, head of Vanguard Institutional Advisory Services. "Exiting early increases the amount of churn and cost in the holdings."

Karen Schenone, a fixed-income-product strategist in BlackRock's Global Fixed Income Group, isn't so sure.

She says the basket of securities in an ETF or fund offers diversity, which lowers the risk and mitigates the need for advisers or investors to manage individual securities selection.

"We ask people to...look

at what they need in terms of immediate liquidity," she says.

"Anything over and above

that could go into an ultra-short-bond position, say on a

6- to 18-month timeline."

—Bailey McCann

### SPOTLIGHT | MAINSTAY CONVERTIBLE FUND

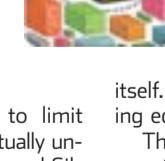
## A CONVERTIBLE FUND HAS ITS OWN REWARDS, RISK

Torn between bonds and stocks? There's a mutual fund for both.

**MainStay Convertible Fund** (MCOAX) invests in convertible corporate bonds, which are debt instruments that can be converted into the underlying stock of the issuer, usually when they reach maturity.

MCOAX's approach is designed to limit downside potential, while allowing a virtually unlimited upside, says fund manager Edward Silverstein. A convertible bond pays less in interest income than one would expect from a similar, nonconvertible bond with a similar rating (typically BB or BB minus, Mr. Silverstein says). For example, a standard bond that pays 6% to 8% interest would pay only about 2% to 3% in its convertible form.

The potential upside of the convertible bond, however, more than compensates for the difference, Mr. Silverstein says. Say an investor pays \$1,000 for the bond, with an agreement that he or she can opt for 20 shares of the company at maturity, rather than take back the principal. If those shares combined are valued at more than \$1,000, the investor profits. If the value of the shares is less than the principal, the investor can simply take back the initial investment.



The latter scenario shouldn't be viewed as a good investment, Mr. Silverstein says, as the investor wouldn't see a great return. Still, the convertible approach allows investors to potentially benefit from a surging stock price, without having to invest in the stock itself. "You get equity-like returns, without taking equity risk."

The \$1.1 billion fund is up about 4.98% this year through May. The fund managers decide whether to take back the principal or invest in shares based on simple math, Mr. Silverstein says. If they opt for stock, the shares generally are sold right away, and the proceeds used to invest in more convertible bonds.

Convertible bonds are generally non-investment-grade, or "junk" bonds, Mr. Silverstein says, just as the nonconvertible high-yield versions are. The convertible bonds have greater volatility, however, because ultimately they are linked to the performance of a share price, which tends to move around much more than the price of a bond. "The risk with convertibles is definitely a little bit greater than you would see on a high-yield bond," Mr. Silverstein says. "But it's certainly lower than equities."

—Gerrard Cowan

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## JOURNAL REPORT | INVESTING IN FUNDS & ETFS

### NEWS CHALLENGE: FUNDS AND INVESTING

# Test Your Smarts on...China Stocks

BY DAISY MAXEY

CHINA'S STOCK MARKET is more than 100 years old and ranks second in size behind the U.S. But access for foreign investors has been tightly controlled.

That might be about to change. In what has become an annual ritual, investors are awaiting a decision on June 20 by index provider MSCI Inc. on whether it will add domestic Chinese shares, known as A shares, to its MSCI Emerging Markets Index. Such a move would be a blockbuster that could draw billions of dollars into China, because asset managers who track the index would then allocate money to the included China shares.

Foreigners can buy and sell shares issued by Chinese companies listed in Hong Kong but have more limited access to the mainland exchanges in Shanghai and Shenzhen, where mainland-China-based companies are listed. The latter exchanges are known for irregularities, insider trading, accounting fraud and a heavy hand by the government, which has ordered companies and fund managers to buy stocks during downturns, for example.

Whether or not you're considering jumping into China's capricious markets, the expected MSCI decision this month is a good time to test your knowledge of the market:

1. The Shanghai Stock Exchange was re-established in what year?

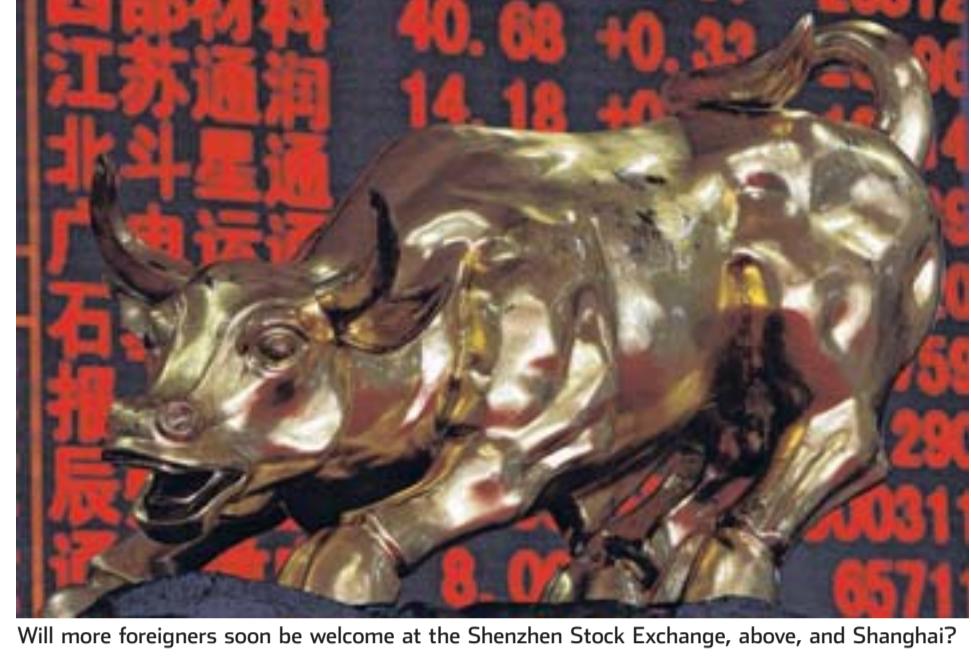
- A. 1890    B. 1901    C. 1990    D. 2008

ANSWER: C. Securities trading in Shanghai began in the 1860s but the current Shanghai Stock Exchange was re-established in 1990 after a 41-year hiatus due to China's Communist revolution. When it was re-established, the SSE "was in large measure a means of getting private money to state-owned entities," says William Kirby of Harvard Business School. More private companies are now listed, but the SSE is still a vehicle through which private savings are invested in state-owned enterprises, he says.

2. What is the market capitalization of China's A-share market?

- A. \$1.5 billion    B. \$7.3 trillion  
C. \$4.5 trillion    D. \$16 billion

ANSWER: B. At about \$7.3 trillion in size, China's domestic stock market trails only that of the U.S., according to the World Bank.



Will more foreigners soon be welcome at the Shenzhen Stock Exchange, above, and Shanghai?

3. China's stock market is dominated by \_\_\_\_\_.

- A. Golden statues of dragons  
B. Hedge-fund managers  
C. Individual investors  
D. Hong Kong investors

ANSWER: C. Individuals dominate trading. Some 61% of Chinese investors trade at least once a month, compared with 37% of investors globally, according to a 2016 study by State Street Corp. "China's stock market is widely understood as speculative," says Marshall Meyer at the University of Pennsylvania's Wharton School. "People are betting on government policy, not on the fundamentals generally." Chinese economist Wu Jinglian famously called China's market worse than casinos, noting that casinos have rules.

4. Who is permitted to purchase China's A shares?

- A. Chinese investors only  
B. Chinese investors and some foreign investors  
C. Chinese citizens with a net worth of \$1 million or more  
D. Foreign investors who are living in China

ANSWER: B. Chinese may purchase A shares, and some foreigners may also buy limited amounts.

5. Name a reason why some index providers haven't included A shares.

- A. Not enough A share listings  
B. Concerns about China's capital controls  
C. U.S. noncompete provisions  
D. The fear that assets would flow out of U.S. stock markets

ANSWER: B. "We have worked very closely over a decade with China to bring our concerns to them, and work with them in a positive and collaborative way to affect those changes," says Mat Lystra, senior research analyst at FTSE Russell, which began in 2015 offering transitional indexes including A shares. "Some have come in a matter of months; for others, it has taken years to break down those barriers."

6. How much money could pour into mainland-listed Chinese shares if MSCI adds A shares to its index?

- A. \$5.3 billion    B. \$30.3 billion  
C. \$4.5 trillion    D. \$11.1 billion

ANSWER: D. Some \$11.1 billion could in time move into Chinese shares if they are added to the index, MSCI estimates. The index is followed by money managers with \$4.75 trillion in assets, MSCI says.

7. Compared with H shares—China's state-owned enterprises listed in Hong Kong, trading in Hong Kong dollars—the A shares have historically:

- A. Traded at about the same level  
B. Been incomparable  
C. Frequently traded at a discount  
D. Frequently traded at a premium

ANSWER: D. The shares have the same intrinsic value, but A shares typically trade "more according to speculation" than on fundamentals, says Wharton's Minyuan Zhao. The Hang Seng China AH Premium Index tracks the changes in the premium.

8. What is the Shanghai-Hong Kong Stock Connect?

- A. A mechanism that permits international investors to buy stocks in Shanghai, and permits mainland Chinese investors to buy stocks listed in Hong Kong  
B. A mechanism to link China's Shanghai and Shenzhen stock exchanges to make trading easier for residents  
C. A shuttle between the exchanges  
D. A program to exchange information

ANSWER: A. The Shanghai-Hong Kong Stock Connect was launched in 2014, and the Shenzhen version in 2016.

9. The Qualified Foreign Institutional Investor program:

- A. Permits foreign governments to view trades on China's stock exchanges  
B. Permits foreign institutions to buy and sell A shares  
C. Permits individual foreign investors to invest in China's institutions  
D. Allows U.S. investors only to invest in China's state-owned corporations

ANSWER: B. The QFII, launched in the early 2000s, permits foreign institutions such as asset-management firms to buy and sell A shares within a quota based on the firm's size or assets under management. Foreigners with QFII licenses can repatriate out of China each month no more than 20% of their total assets as of the prior year's end.

10. True or false: About 35% of A shares are owned by foreigners.

ANSWER: False. Less than 2% of A shares are foreign-owned, according to Capital Economics, a global economic consultancy. "Trading individual stocks is really difficult because of weak corporate governance and the lack of transparency in the market," says Ms. Zhao.

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