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# THE WALL STREET JOURNAL.

DOW JONES | News Corp \*\*\*\*\*

MONDAY, JUNE 4, 2018 ~ VOL. CCLXXI NO. 129

WSJ.com

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Last week: DJIA 24635.21 ▼ 117.88 0.5% NASDAQ 7554.33 ▲ 1.6% STOXX 600 386.91 ▼ 1.1% 10-YR. TREASURY ▲ 10/32, yield 2.895% OIL \$65.81 ▼ \$2.07 EURO \$1.1659 YEN 109.52

## What's News

### Business & Finance

**S**tock indexes that rode accelerating global growth to fresh records in January are now hamstrung by slowing economic momentum in Europe and elsewhere. A1

◆ General Motors' finance unit, rebuilt after the crisis, has emerged as a budding profit driver. B1

◆ Apple faces the task of shoring up confidence in its software after a spate of high-profile flaws. B1

◆ An anonymous fan of Warren Buffett bid \$3 million at a charity auction to lunch with the investor. B1

◆ SpaceX confirmed it put off plans to take tourists to orbit the moon, as it projects launches next year to fall from 2018 levels. B3

◆ Google decided not to seek renewal of a Pentagon contract to assist in tracking potential drone targets. B4

◆ Small brewers are squaring off against distributors and bar owners in a fight for drinkers as craft beer's growth cools. B4

◆ Big Japanese investors are adding more money to hedge funds in their struggle against low rates. B9

### World-Wide

◆ Trump's drive to shrink the U.S. trade deficit through tariffs has led to a global blowback, isolating the U.S. and complicating his meeting this week with allied leaders. A1, A6

◆ New studies have bolstered a less-is-more approach to treating cancer that could spare patients hard side effects without endangering survival. A1

◆ Rear Adm. Douglas Fears was appointed homeland security adviser, filling a gap left by the ouster of Tom Bossert in April. A3

◆ Younger evangelical Christians are wavering in support of Israel, spurring it and pro-Israel U.S. groups to try to win them over. A4

◆ The U.S. is weighing an appeal from the U.A.E. for support to seize Yemen's main port for humanitarian aid from rebels. A9

◆ Germany's Merkel outlined views for overhauling the European Union, including combining defense capabilities. A7

◆ Defense Secretary Mattis suggested the U.S. response to China's buildup in the South China Sea could become more assertive. A7

### Journal Report

Summer camp for the ABCs of money management  
Investing in Funds & ETFs R1-6

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The studies are part of a Please turn to page A4

FDA asserts role in setting drug access ..... A4

MONDAY, JUNE 4, 2018 ~ VOL. CCLXXI NO. 129

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U.S. Commerce Secretary Wilbur Ross on Sunday arrived at the Diaoyutai State Guesthouse in Beijing to meet with Liu He, China's economic czar, for trade negotiations as the two countries edged closer to imposing tariffs on one another. A6

## Trade Tensions Intensify

Allies' public rebuke of the U.S., retaliatory moves test Trump ahead of G-7 meeting

The Trump administration showed no sign of backing down from restrictive tariffs in the face of pushback from allies and China over the weekend, isolating the U.S. and complicating the president's meeting later this week with leaders of Washington's staunchest partners.

Top finance officials from the Group of Seven leading na-

tions met in Canada, where the non-U.S. members issued a public rebuke of Washington's new steel and aluminum tariffs. Those six—the host Canada, along with France, Germany, the U.K., Italy and Japan—adopted a formal statement Saturday expressing their "unanimous concern and disappointment."

The following day in China, Beijing said it wouldn't abide by any agreement to buy more U.S. products without assurances that the U.S. wouldn't go ahead with plans to hit it with tariffs on \$50 billion on Chinese imports.

But even with retaliatory

moves under way in China as well as in Europe and North America, there was no sign over the weekend that the administration was wary of inching closer to a trade war.

"When you're almost 800 Billion Dollars a year down on Trade, you can't lose a Trade War!" President Donald Trump said in a Twitter message Saturday. "The U.S. has been ripped off by other countries

for years on Trade, time to get smart!"

The disputes come just as the Trump administration has its arms full of difficult negotiating tasks. Most immediately, Mr. Trump himself now must face leaders of countries who have termed his policies extreme, unwise and in some cases illegal when he arrives in Quebec for a summit of G-7 heads of state scheduled for

Please turn to page A6

◆ U.S., China make little headway in talks ..... A6

◆ Merkel outlines proposals for overhauling the EU ..... A7

## Global Growth Loses Steam

Shift dims outlook for stocks as some investors turn to safer assets such as bonds

Stock indexes that rode accelerating global growth to fresh records in January are now hamstrung by a moderate but unmistakable slowdown in economic momentum in Europe and elsewhere.

By Michael Wursthorn, Daniel Kruger and Ben Eisen

Business activity globally has slowed from multiyear highs, according to the JPMorgan Chase and IHS Markit global purchasing managers index. The global manufacturing index fell to 53.1 in May, a nine-month low. The services index for April, which will be updated Tuesday for May, slid to 53.8 from 54.8 two months earlier.

Meantime, business activity in the eurozone fell to its lowest level in a year and a half last month.

The Baltic Dry Index, a measure of shipping costs that investors often look to as a proxy for global demand, has fallen 22% from a recent peak last month. Copper prices, another gauge of economic activity, have been declining. Among developed economies, data on the whole have been missing economists' expectations by a wide margin, according to Citi.

Please turn to page A2

◆ Greg Ip: After the crisis, Italy and Spain diverge ..... A2

## Less Is More Seen For Cancer Treatment

By PETER LOFTUS

New studies have bolstered a push to take a less-is-more approach in treating cancer that could spare patients from tough side effects and high costs, without jeopardizing their survival.

One federally funded study, presented Sunday at the annual meeting of the American Society of Clinical Oncology in Chicago, showed that many women with early-stage breast cancer could safely skip commonly used chemotherapy after surgery. Doctors said the finding could spare tens of thousands of women a year from chemo side effects such as nausea and early menopause.

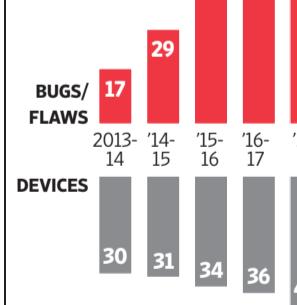
Another study presented at the meeting concluded that many patients with advanced kidney cancer could forgo kidney-removal surgery, a common treatment, and instead take Pfizer Inc.'s Sutent drug. Pfizer and the French health ministry funded the trial.

A separate recent study, funded by a U.K. health institute, showed that reducing treatment with Roche Holding AG's breast-cancer drug Herceptin to six months from 12 months kept some patients from the medication's potential heart-related side effects and its cost without sacrificing effectiveness.

The studies are part of a Please turn to page A4

## Apple's Lineup Grows, Along With New Bugs

Number of flaws compared with the number of devices. B1



Note: Period ends in September each year  
Source: the company  
THE WALL STREET JOURNAL

## A Longtime Republican Holdout In California Comes Under Siege

By NATALIE ANDREWS AND ALEJANDRO LAZO

IRVINE, Calif.—For years, as the Republican Party lost ground in California, it could at least rely on the conservative fortress of Orange County.

For California's primary election Tuesday, the county south of Los Angeles looks more like a Wild West battleground for control of the House of Representatives. Orange County voters could help tip the House to Democrats—or swelling Democratic Party enthusiasm could end up aiding Republicans.

For decades, Orange County sent Republicans to Congress with little opposition. Its postwar transformation from agriculture to tract housing, retail and industry opened miles of new suburbs, drawing voters that

over the years were largely white and Republican. Like much of California, it has changed.

Seven Republican-held congressional districts in California are competitive, and four of them are in Orange County, more than any single county in the U.S. Democrats need a net gain of 23 seats for a House majority.

With the stakes high, both national parties opened their California campaign headquarters in Orange County, about 5 miles apart.

Since the last century, the Republican Party has won presidential elections without mounting a serious campaign in California, the nation's most populous state. Now, state GOP officials are working just to stay on the

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◆ In race to succeed Ryan, more names pop up... A4

## Latest Trend in Education Is Watching Others Study

\* \* \*

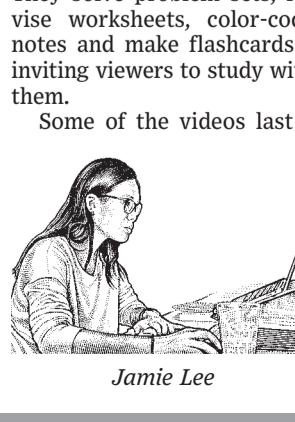
Students find inspiration in videos of someone else hitting the books

By HILARY POTKEWITZ

The video opens with medical student Jamie Lee at her desk, working on a computer and writing in a notebook. In the eighth minute, she pulls her hair up into a ponytail. At 11:20, she adjusts her glasses. She says nothing. She doesn't leave her seat. She never looks at the camera. This 53 minutes of footage has been watched almost 500,000 times.

As the school year comes to a close, lots of students are cramming for finals. Some are doing it on camera.

In a tidy corner of the in-



Jamie Lee

ternet, a diligent class of students film themselves studying and post the videos online. They solve problem sets, revise worksheets, color-code notes and make flashcards—inviting viewers to study with them.

Some of the videos last a

few minutes and include voice-over narration. Others can last hours with only ambient sound. A 2.5-hour study session by Ms. Lee has been watched 877,000 times. She spends most of that one highlighting in a textbook. The New York-based Ms. Lee's online channel, called TheStriveToFit, has 278,000 subscribers, who receive updates when she posts something new.

These study videos aren't tutorials. Their stars sit at their desks, sometimes without saying a word. And they aren't amateur study hour,

Please turn to page A10

## INSIDE



LENDING TO CAR BUYERS FUELS GM

BUSINESS & FINANCE, B1

## U.S. NEWS

THE OUTLOOK | By Greg Ip

## After the Crisis, Italy and Spain Diverge



Italy and Spain got new governments last week. But while Italy's change of leadership led markets on a roller coaster, Spain's was met with a yawn. The reason: Their economies have followed different paths, and so have their attitudes to the euro. The populists who make up Italy's new government have toyed with exiting the common currency, whereas all of Spain's major parties are committed to staying in.

This isn't what you would have predicted six years ago; Spain suffered far more than Italy during the euro crisis. But it also reformed its economy much more and has enjoyed a much stronger recovery; gross domestic product is now above its precrisis peak. By contrast, Italy's economic problems long predate the euro, and its failure to fix them has left GDP 5% below its prior peak and voters receptive to radical economic prescriptions.

**B**oth nations had a history of high inflation and currency devaluation to keep exports competitive, which forced them to pay more to borrow. Once they joined the euro, that penalty disappeared and both saw bond yields drop.

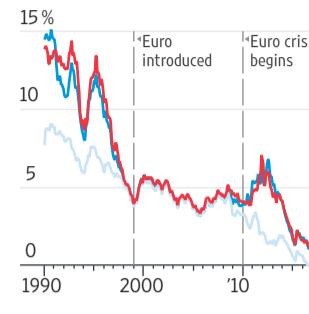
In Spain that sparked a housing bubble and a huge inflow of capital from Germans and other foreigners. Spain's current-account deficit, which includes trade and investment income, soared. When the cri-

## The Euro's Consequences

The euro sparked a borrowing and asset bubble in Spain, but not Italy, and Spain's post-crisis recovery has been stronger.

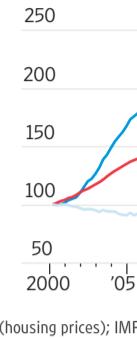
■ Italy ■ Spain ■ Germany

## Government bond yields

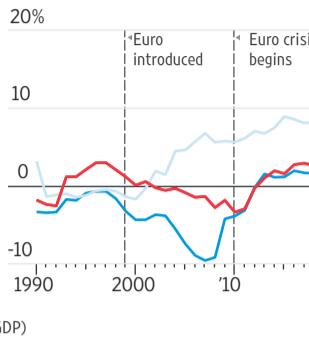


Sources: Haver Analytics (bond yields); OECD (housing prices); IMF (current account, per capita GDP)

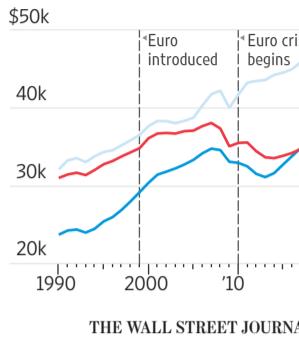
## Housing Prices



## Current account



## Per capita GDP, U.S. dollars converted at purchasing power parity



THE WALL STREET JOURNAL.

sis began, the inflows suddenly stopped, bond yields shot up and the economy fell into deep recession.

Under conservative Prime Minister Mariano Rajoy, Spain responded to the crisis by liberalizing its labor market; forcing banks to recognize bad loans, consolidate and recapitalize, and slashing public spending to contain deficits. GDP, which fell 9%, began recovering in 2013.

There is debate about whether Mr. Rajoy's reforms fueled this growth or more conventional factors did. But the recovery is an important reason euroskepticism never gained a foothold in Spanish politics. Mr. Rajoy, dogged by accusations of corruption, was ousted Friday in a no-confidence vote but his successor, socialist Pedro Sanchez, has promised to keep his budget.

Italy, like Spain, lost the ability to boost its competitiveness via devaluation when

it joined the euro. Andrea Montanino, chief economist of Confindustria, Italy's employer association, says Italy's large exporters "restructured, reorganized, and penetrated foreign markets." But small and medium-sized enterprises, which dominate the Italian economy, didn't, and couldn't compete without devaluation.

Italy had no borrowing binge like Spain, thus the inflow of foreign capital was more moderate, and the growth crunch during the crisis less severe. Italy didn't need a bailout for its banks, or undergo savage austerity. Its budget deficits topped the eurozone average, notes Daniel Gros, director of the Centre for European Policy Studies.

But Italy entered the crisis saddled with structural problems that predate the euro: low productivity growth, a low birthrate and rigid labor markets. Since Italy didn't accept a bailout, it was slower

to clean up its banks. Labor-market reforms were less ambitious than Spain's. Its most important fiscal reform was to reduce the burden of public pensions via a less generous benefit formula and higher retirement age. But the changes are deeply unpopular and the new populist government has promised to repeal them.

Meanwhile, Mr. Gros says, on corruption, rule of law and government effectiveness Italy still ranks far behind the rest of the eurozone. Italian politics have always been unstable, reflecting the plethora of parties and deep divisions between the prosperous north and poorer south. Voters like "simple solutions to complex problems," says Roberto Perli, an Italian-born economist and policy analyst at Cornerstone Macro in Washington. It is why support has surged for the 5 Star Movement and the League, which formed Italy's new gov-

ernment. The two populist parties have no unifying ideology other than disdain for the establishment, including the European Union.

**T**heir original candidate for finance minister was Paolo Savona, an economist who has advocated a euro exit to recover tools Italy has previously used to revive growth: devaluation and deficit spending.

Last week, blowback from the markets and opposition by the Italian president forced the coalition to replace Mr. Savona with a pro-euro finance minister. Voters, who generally want to stay in the euro, were probably more attracted to the coalition's promises of a crackdown on immigration, universal basic income and a flat tax. But Mr. Perli says the debate over euro exit may "only be postponed rather than abandoned."

## ECONOMIC CALENDAR

In the week ahead, the U.S. will issue data on international trade and productivity, while China will release figures on foreign-exchange reserves and trade.

**WEDNESDAY:** The U.S. Commerce Department releases **international trade** data for April. In March, the **trade gap** narrowed, as exports rose and imports fell. Economists will monitor this report to see whether the trade deficit with China is widening. Economists surveyed by The Wall Street Journal estimate the April trade gap was \$48.6 billion.

The U.S. Labor Department releases revised first-quarter **productivity** data. The Labor Department earlier reported that U.S. worker productivity improved modestly to start the year, while labor costs grew at a faster rate. A slowdown in productivity growth has posed a puzzle to economists in recent years. Economists surveyed by The Wall Street Journal estimate productivity grew a revised 0.6% in the first quarter.

**THURSDAY:** Economists expect **China's foreign-exchange reserves**, due Thursday, continued edging lower in May, to about \$3.110 trillion from \$3.125 trillion. The U.S. dollar's recent strength should have resulted in some valuation effect, but a larger trade surplus should have brought in more foreign exchange.

**FRIDAY:** China releases trade data on Friday. The country's **trade surplus** is expected to have widened to about \$32.50 billion in May from April's \$28.8 billion, with exports and imports both growing at double-digit pace, according to economists surveyed by The Wall Street Journal. Apart from robust demand, trade tensions may have promoted some companies to rush shipments, economists say.

## U.S. WATCH

FLIGHT 93

## Plane Debris to be Buried at Memorial

The remaining wreckage of United Flight 93 will be returned this year to the Shanksville, Pa., memorial marking where it crashed in the 9/11 terrorist attacks, officials said.

The wreckage—stored in shipping containers—will be buried in a restricted area of the park that is accessible only to loved ones of the victims, said Flight 93 National Memorial Superintendent Stephen Clark.

"Now that we are nearing the completion of the major design components of the memorial, we are ready to return the remaining wreckage to this hallowed ground," Mr. Clark said.

—Associated Press

NEVADA

## Casino-Hotel Workers Strike Tentative Deal

A union for casino-hotel workers said it reached a tentative agreement with **MGM Resorts International**, covering nearly half of the 50,000 employees threatening to strike in Las Vegas.

The deal between MGM and the Culinary Workers Union Local 226 was confirmed Sunday by a union spokeswoman. An MGM spokeswoman deferred further comment to the union.

A tentative accord between the union and the other big casino employer threatened by the job action, **Caesars Entertainment**, was reached Friday. Some smaller casinos haven't yet made deals and could still face the first city-wide strike in more than 30 years.

The main sticking points have been wages, workplace training and job security, the union said.

Workers have voted to authorize a strike, but no date has been set.

—Associated Press

KANSAS

## Candidate Shocks With Gun Replica

The Kansas City suburb of Shawnee has apologized after a Republican gubernatorial candidate appeared in a parade atop a Jeep with what appeared to be a large gun mounted on the back.

Onlookers reportedly appeared stunned by the sight of Kansas Secretary of State Kris Kobach on the red, white and blue-decorated vehicle at the Old Shawnee Days parade Saturday.

A spokesman for Mr. Kobach said the gun was a replica.

—Associated Press

## Global Growth Loses Steam

Continued from Page One group's index on economic surprises, after easily exceeding expectations for most of 2017.

Hardly anyone expects a recession any time soon. A rise this year in energy prices is being attributed to a combination of solid demand, reduced stockpiles and producer discipline. Growth in the U.S. and some other major economies continues apace, with the U.S. nonfarm payrolls report Friday showing a gain of 223,000 jobs and an unemployment rate of 3.8%, the lowest since 2000.

The upbeat jobs report helped steady the Dow Jones Industrial Average, but not enough to recoup all of its losses from earlier in the week. The blue-chip index on Friday added 219.37 points, or 0.9%, to 24,635.21.

But with government bond yields near record lows in many countries and the median S&P 500 stock trading at price/earnings multiples seen only rarely in the past century, many investors are buying government bonds and other lower-risk assets to brace against what is expected to be a volatile market year. It is a safe way to proceed, they say, when much of the expected upside from the global economic expansion for 2018 appears significantly less likely to be realized.

Investors' risk-off approach has been a hurdle for the stock market. The Dow industrials have struggled to push past 25,000 since March, a feat the index has done just once before falling below the mark again, even as the Federal Reserve has stuck to its well-choreographed pace of interest-rate increases.

In the U.K., the path is less certain as the Bank of England weighs whether to forgo further planned rises in its key interest rate or even ease policy depending on how its departure from the European Union proceeds. Meanwhile, trade issues and a volatile currency could force the European Central Bank to alter its own fiscal-tightening plans.

"We generally think markets are in for a series of rude awakenings," said Joachim Fels, a global economic adviser at the money-management firm Pacific Investment Man-

## The Dow Jones Industrial Average has been more susceptible to events domestically and abroad so far this year.

Global purchasing managers' index readings have turned lower since the start of the year.



Sources: WSJ Market Data Group (DJIA); IHS Markit (PMI)

agement Co. The firm recently said it expects to see more market volatility.

Developments in some of Europe's biggest economies, such as labor strikes in Germany and France in recent months and a harsh cold-weather spell across Northern Europe, are also undercutting the global growth narrative. The threat of more-restrictive trade policy has added further uncertainty to the outlook. And recent data have underscored how the economy remains sluggish, even years into the economic cycle.

Politics has also caused concern. Investors fled stocks and piled into supersafe U.S. Treasurys on Tuesday after a brief stretch of turmoil over the formation of a government in Italy that included a euroskeptic candidate for economy minister. The episode refocused investors on the weaknesses in Italy's economy as European policy makers attempt to pull back on postcrisis monetary policies.

Italy's divisions have dimmed much of the investor enthusiasm around last year's election of the business-friendly French president Emmanuel Macron, whose victory eased fears that the Continent would be riven by anti-Europe populist movements.

Fears of a trade war sharpened after the Trump adminis-

tration imposed tariffs on steel and aluminum imports from Canada, Mexico and the EU. All three outlined their own tariffs in response, such as proposing levies on U.S. food and agricultural products.

Barclays economists estimated that steel tariffs plus the toll from retaliation could reduce global growth by 0.1 percentage point. That, plus tariffs on \$150 billion of Chinese goods and any retaliation, could hit growth by 0.9 point.

The tariffs "reduce business confidence," which makes it more difficult for companies to make plans and execute on them, said Gary Pollack, head of fixed-income trading at Deutsche Bank Private Wealth Management. "That has ramifications for the real economy."

The strengthening dollar is

also exposing weaknesses in the developing world. Currencies are tumbling in countries with large trade deficits and large positions of short-term dollar debt. Turkey and Argentina felt compelled to jack up interest rates in May. Indonesia also lifted rates on Wednesday to stop its currency slide.

The U.S. is again looking like the star performer. That was reinforced Friday by data that showed the U.S. continued to rapidly add jobs. The U.S. factory sector picked up in May, according to data from the Institute for Supply Management.

U.S. corporate profits soared in the first quarter of the year, a result of the fiscal stimulus companies received after the passage of a \$1.5 trillion tax overhaul in December. Profits for companies in the S&P 500

jumped 26% in the first three months of 2018 from the same period a year earlier, according to Thomson Reuters I/B/E/S.

—Nick Timiraos contributed to this article.

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## CORRECTIONS &amp; AMPLIFICATIONS

The last name of Amit Elazari was misspelled as Alezari in a Journal Report article Wednesday about software bug bounties.

# Inside a School Shooter's Mind

Almost 20 years after he opened fire, one killer still can't explain why he did what he did

BY SHIBANI MAHTANI

SANTEE, Calif.—Charles Andrew Williams hid in a bathroom stall at Santana High School on a March day in 2001, staring at his father's .22 revolver.

The 15-year-old opened the door once, shut it in fear, and waited a few moments. Then he came out shooting—exhausting nearly 40 bullets, killing two people and injuring 13 others.

Over the next 17 years, he has grappled for possible explanations: incessant bullying, being forced to move twice in two years, his small stature at the time. He still can't square his actions.

"All I know is that I was hurting and that I wanted to hurt people," he said in a recent interview at Valley State Prison in California, where he is serving a life sentence with the possibility of parole in 2025.

Mr. Williams is among nearly three dozen people who have taken a firearm into a school and killed or injured three or more people since 1990, according to a review by The Wall Street Journal. This year, two alleged shooters—Nikolas Cruz, charged with killing 17 in Parkland, Fla., and Dimitrios Pagourtzis, accused of killing 10 in Santa Fe, Texas—joined the list.

They all have many common characteristics. They are typically male, teenage, white, from a rural or suburban setting, attended the school they attacked and got their guns from home or family members.

But what turns a teen into a killer remains a difficult question for school counselors, administrators and law enforcement. Explanations like bullying are insufficient, experts say, since few bullied children pick up a gun in retaliation.

The Journal wrote to the nine surviving school shooters, all serving time in prison for rampages that took place between 1996 and 2016. Two of the shooters replied: Mr. Williams and Michael Carneal, who opened fire on a group of praying students at a Kentucky high school in 1997, killing three. Both sent handwritten letters to the Journal.

"I saw myself as a victim of bullying, but in hindsight it might have been a matter of perspective," wrote Mr. Carneal, now 34 and serving a life sentence with the possibility of parole in 2022 at the Kentucky State Reformatory.

"Nothing justifies it," he wrote of the shooting. "And it seems as if nothing explains it."

Mr. Williams, who goes by Andy, said he didn't want to move to Santee, a suburb 19



**Jeff Williams**, above, said his son led a normal childhood. **Charles Andrew Williams**, at upper right during his arraignment in 2001, was 15 when he killed two people and injured 13 others at Santana High School in California. He is serving a life sentence with the possibility of parole in 2025.

miles from San Diego, just before the start of his freshman year. He'd spent most of his life in Brunswick, Md.

Jeff Williams, who had been raising Andy on his own since he was 3, said the boy had led a normal childhood, even landing a lead part in "You're a Good Man, Charlie Brown" while in Twentynine Palms and playing basketball and baseball.

"The spiral happened incredibly fast," said Randy Mize, the teenager's lawyer at the time and now the head of the San Diego County public defender's office. "It is one of the few cases where I can't say I know exactly what happened."

Andy Williams started hanging out at a nearby skate park, friends and family say, where he befriended two fellow students, A.J. Gilbert and Josh Stevens.

Witnesses and Mr. Mize say Mr. Williams, who stood 5'4"

and weighed 100 pounds at the time, faced nonstop bullying. He was burned by cigarette butts and a lighter, doused in lighter fluid and had his skateboard stolen frequently, Mr. Williams said in the interview and in court documents.

Prosecutors, however, said they found no evidence that Mr. Williams was bullied.

Nearly 12 years after the attack, and in subsequent interviews with the Journal and other publications, Mr. Williams said he had also been molested by the boyfriend of a friend's mother. The man is in prison on child molestation charges and couldn't be reached.

On March 2, 2001, three days before the shooting, Mr. Williams said a teacher lectured him for leaving an assignment at home. This, according to both his recollections and a psychiatrist's report after the

shooting, made him fantasize about bringing a gun to school.

"I wanted just one person to say it was a bad idea," he said. Instead, he said, his friends egged him on.

On March 5, 2001, a Monday, after his father left for work, Mr. Williams got the key to his father's gun cabinet. He loaded a revolver with eight .22-caliber bullets, jamming extra bullets in his pocket.

Mr. Williams said he wanted to make enough noise to attract the attention of the police, and hoped to be shot and killed.

Between first and second periods, Mr. Williams hid in the bathroom with his father's gun. The first time he opened the door, he recognized two boys.

He shut the door. "The only thing in my mind was that if I didn't follow through, [the bullying] was just going to get worse," he said in the interview.



*'All I know is that I was hurting and that I wanted to hurt people.'*

**Charles Andrew Williams**

He shot both boys.

Mr. Williams left the bathroom, shooting randomly as students screamed and ran away, reloading four times until all his bullets were exhausted.

Within minutes, police arrived, and he surrendered.

Since entering prison at age 16, he has grown from just over 5 feet to 6'4", and has earned his high-school diploma. He is training to be a substance-abuse counselor and therapist for those about to leave prison.

Andrew Karofey, now 34, who attended Santana High School and was an acquaintance of Mr. Williams, saw him holding the gun in the bathroom. The experience led to a life of drug abuse and untreated post-traumatic stress disorder, Mr. Karofey said.

"He ruined my life," he said.

—Tawenn D. Hobbs contributed to this article.

## Giuliani Claims Expansive Powers for President

BY ARUNA VISWANATHA

President Donald Trump likely has the authority both to pardon himself and to end federal investigations, but is unlikely to do either because it could lead to battles with Congress, including impeachment, his lawyer, Rudy Giuliani, said during Sunday TV interviews.

"It could lead to impeachment...if he terminated an investigation of himself," Mr. Giuliani said in an interview on NBC's "Meet the Press."

Mr. Giuliani also said Mr. Trump legally could pardon himself. "There's nothing that limits the presidential power of pardon from a federal crime," he said, adding: "The president of the United States pardoning himself would just be unthinkable and it would lead to probably an immediate impeachment."

Within minutes, police arrived, and he surrendered.

Since entering prison at age 16, he has grown from just over 5 feet to 6'4", and has earned his high-school diploma. He is training to be a substance-abuse counselor and therapist for those about to leave prison.

Andrew Karofey, now 34, who attended Santana High School and was an acquaintance of Mr. Williams, saw him holding the gun in the bathroom. The experience led to a life of drug abuse and untreated post-traumatic stress disorder, Mr. Karofey said.

"He ruined my life," he said.

—Tawenn D. Hobbs contributed to this article.

In a memo to special counsel Robert Mueller sent in January, Mr. Trump's lawyers argued that the president couldn't obstruct justice because "he could, if he wished, terminate the inquiry, or even exercise his power to pardon if he so desired."

Asked about the letter's broad assertions on executive power, Mr. Giuliani said he largely agreed with the arguments but said Mr. Trump wouldn't need to use those powers.

Mr. Giuliani and Mr. Mueller's office have been negotiating the terms of a possible interview of Mr. Trump, as the special counsel pursues his investigation into Russian interference in the 2016 election and whether there were any links to that effort from the Trump campaign.

Mr. Giuliani said on ABC's "This Week" that Mr. Trump wanted to speak to Mr. Mueller but that his lawyers were "leaning toward" not doing the interview.

A spokesman for Mr. Mueller declined to comment and has in the past not commented on the negotiations or the investigation.

Mr. Mueller also is examining whether Mr. Trump obstructed justice and sought to improperly end the investigation into former national security adviser Mike Flynn and other matters. In the January letter, Mr. Trump's lawyers vehemently denied any impropriety in the president's actions, and on Sunday, Mr. Giuliani reiterated that Mr. Trump had done nothing wrong.

### Parkland Seniors Receive Diplomas

The senior class from the Parkland, Fla., high school where a gunman killed 17 people on Feb. 14 received diplomas Sunday and heard from commencement speaker and talk-show host Jimmy Fallon, who urged graduates to move forward.

Four families were to receive diplomas for loved ones who were killed in the attack, which gave rise to a campaign by teens for gun control.

The private ceremony for the Marjory Stoneman Douglas High School class of 2018 was moved to the BB&T Center in Sunrise, Fla., a sports arena, to accommodate the large crowd.

—Associated Press



Marjory Stoneman Douglas High School graduates after their commencement on Sunday.

JOE RAEDLE/GETTY IMAGES

# Trump Names Adviser to Fill Homeland Security Position

BY DUSTIN VOLZ

President Donald Trump has named Rear Adm. Douglas Fears as his new homeland security adviser, the latest shuffling to occur within the White House National Security Council, the White House said.

The move, announced Friday, comes nearly two months after Tom Bossert was abruptly ousted as Mr. Trump's White House homeland security adviser after National Security Council staff complained about Mr. Bossert's management and lengthy meetings, according to people familiar with the matter.

Mr. Bossert left after John Bolton, the former U.S. ambassador to the United Nations, took over as national security adviser and moved to consolidate power, the people said.

Mr. Fears, who has spent more than 30 years serving in the U.S. Coast Guard, has been serving as an acting homeland security adviser in recent weeks. He had been scheduled to leave the National Security Council and take command of the U.S. Coast Guard Cyber Command later this month, before he was asked to be homeland security adviser.

Mr. Fears will hold the rank of deputy assistant to the



Douglas Fears, shown in 2014, was named homeland security adviser. He has served for more than 30 years in the U.S. Coast Guard.

president, a notch lower than the position of assistant to the president held by his predecessor, Mr. Bossert, whose level of authority was equal to that of Lt. Gen. H.R. McMaster, who served as Mr. Trump's national security adviser until he was replaced by Mr. Bolton.

That arrangement often led to differences between Mr. Bossert and Mr. McMaster about how to handle cybersecurity and other policy matters, according to people who worked with the two.

In a statement, Mr. Bolton confirmed Mr. Fears's selection for the post.

Mr. Fears is a graduate of the U.S. Coast Guard Academy, the U.S. Naval War College, and Harvard.

### Bank Panel Counsel Gets Nod For SEC

BY ANDREW ACKERMAN

WASHINGTON—President Donald Trump plans to nominate a top aide to the Senate Banking Committee chairman for a GOP opening on the Securities and Exchange Commission, the White House said.

If confirmed, Elad Roisman, the chief counsel to the banking panel led by Mike Crapo (R., Idaho), would succeed Michael Piwowar at the top U.S. markets regulator. Mr. Piwowar plans to leave the SEC by July.

Mr. Roisman, 37 years old, would join a long list of former banking committee staffers who have filled top slots at the five-member commission, including Mr. Piwowar and two other sitting commissioners: Kara Stein, a Democrat, and Hester Peirce, a Republican.

The Wall Street Journal reported last month that the White House was considering nominating Mr. Roisman.

Mr. Roisman's nomination isn't expected to advance immediately in the Senate. Instead, he will likely be paired with whoever is tapped to replace Ms. Stein, who is also expected to step down in the coming weeks or months.

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## U.S. NEWS

# Younger Evangelicals Waver Over Israel

Generational split emerges amid concern over Palestinian rights; churches reach out

BY IAN LOVETT

Growing up in evangelical Christian churches, Caleb Fitzpatrick learned quickly to be a steadfast supporter of Israel. From a young age, Mr. Fitzpatrick said, he was taught that Benjamin Netanyahu, Israel's prime minister, "was a hero" and that "Christians are supposed to back Israel on everything."

But the Tampa, Fla., native, who just finished his junior year at Liberty University, an evangelical school, has become critical of Israel for what he says is its mistreatment of Palestinians.

"Human rights is a core issue to me," Mr. Fitzpatrick, 21, said. "It's less important to me who has dominion over the northern part of historical Israel."

A generational divide is opening up among evangelical Christians in the U.S. over an issue that had long been an article of faith: unwavering support for the state of Israel. The shift is part of a wider split within the evangelical movement, as younger evangelicals are also more likely to support same-sex marriage and other positions their parents spent a lifetime opposing.

Older evangelicals have long played a powerful role in pushing the U.S. to support the Israeli government. Last month, two evangelical pastors spoke at the opening of the new U.S. Embassy in Jerusalem, a sign of the role evangelicals played in pushing



**U.S. evangelical Christians in the Sukkot holiday parade in Jerusalem in 2016. Evangelicals have long pushed the U.S. to support Israel.**

ABIR SULTAN/EP/SHUTTERSTOCK

President Donald Trump to make the move.

Millennial evangelicals, however, are less supportive of Israel and of the U.S.'s involvement in the conflict with the Palestinians. Only 58% of evangelicals ages 18 to 34 hold positive views of Israel, versus 76% of evangelicals over 65, according to a December survey of more than 2,000 people from LifeWay Research, an evangelical polling group.

Though the drop is modest, it has caught the eye of Christian megachurch pastors, private groups in the U.S. and the

Israeli government, all of which have begun working to win over young evangelicals.

Gary Burge, a professor at Calvin Theological Seminary and former professor at Wheaton College, an evangelical school, said the younger generation is less likely to quote Bible passages about Jerusalem, and more concerned with ethics and treatment of the downtrodden.

"There's a real sea change from what we've seen in the past," he said.

While many American Jews are critical of the Israeli gov-

ernment, evangelicals—making up roughly a quarter of U.S. adults—have kept pressure on conservative American politicians to side with Israel in conflicts with the Palestinians and Middle Eastern countries.

Some younger evangelicals joined liberal Jewish groups in criticizing the U.S. embassy move and Israel's fatal shooting of protesters who approached the border fence in Gaza the same day. Israeli officials said the tactics were necessary to defend its borders.

Increasingly, critics of Israel are also courting young evangelicals.

Jackie Westeren, who just completed her junior year at Wheaton, knew little about Israel before she went there

poll showing dropping levels of support for Israel among younger evangelicals.

Johnnie Moore, a member of Mr. Trump's unofficial evangelical advisory group, said that while it would be a "mistake to think that younger evangelicals are like older evangelicals...they will be friends of Israel."

Some conservative Christians questioned the LifeWay

during the summer of 2016 on a trip with a Palestinian nonprofit called Holy Land Trust.

By the time she returned to Wheaton, she was an advocate for Palestinian rights.

Meanwhile, the Israeli government has begun looking elsewhere to countries with growing evangelical populations. Josh Reinstein, director of the Christian Allies Caucus in the Israeli Knesset, said there were "behind-the-scenes discussions" going on with about 10 additional countries about moving their embassies to Jerusalem.

# In GOP's Race to Succeed Ryan, More Names Pop Up

BY KRISTINA PETERSON

**WASHINGTON**—House Majority Leader Kevin McCarthy and Majority Whip Steve Scalise are the lawmakers to beat to replace the departing House Speaker Paul Ryan.

But their status as frontrunners to succeed Mr. Ryan, who plans to leave office in January, hasn't quelled chatter on Capitol Hill of who else might become a contender. And a brewing fight over immigration could foment angst within the House GOP, leading to unpredictable outcomes.

Immigration negotiations between Mr. Ryan and the leaders of the centrist and conservative factions of the House GOP are expected to continue this week, ahead of a two-hour, closed-door meeting Thursday where all House Republicans will discuss the issue.

Centrist Republicans, work-

ing with House Democrats, are on the brink of securing enough support to force votes on bipartisan immigration legislation. If a bill were to pass the House backed by Democratic Leader Nancy Pelosi and several dozen Republicans, conservatives might revolt and force some kind of confrontation with GOP leaders.

Still, it's not clear that conservatives would want to push Mr. Ryan out early—and none of the candidates to succeed him has enough support to force him to leave. Many House Republicans are consumed by their own re-election races, with relatively few weeks of legislating in Washington scheduled before the midterms.

Mr. Ryan this year endorsed Mr. McCarthy, of California, to succeed him, and Mr. Scalise, of Louisiana, has indicated he would run only if Mr. McCarthy comes up short. But if nei-

ther can pin down the votes,

others could enter the fray.

Most of those being dis-

cussed as potential candidates

already flex some power, in-

cluding Rep. Mark Walker of North Carolina, chairman of the Republican Study Committee, a group of almost 160 House lawmakers; Energy and

Commerce Committee Chairman Greg Walden of Oregon; Homeland Security Committee Chairman Michael McCaul of Texas; and Rep. Tom Cole of

Oklahoma, a senior member of the Appropriations Committee, according to House GOP aides and other Republicans.

The biggest question is who could get support from the party's conservative faction and its more centrist wing, as well as those simply frustrated by the power struggles.

"It's really hard to see who that uniting figure would be," said Jason Pye, vice president of legislative affairs for FreedomWorks, a conservative group that has backed Rep. Jim Jordan (R., Ohio), former chairman of the House Freedom Caucus, a group of conservatives.

Mr. Jordan said he is considering running for a leadership post and could get enough support to block other candidates, forcing them to cut a deal with his group. Messrs. McCaul, Cole, Walden, and Walker didn't respond to requests for comment.



**From left, Reps. Kevin McCarthy, Steve Scalise and Paul Ryan, the House GOP leadership, last month.**

ALEX Wong/GETTY IMAGES

# Doctors Try Less Cancer Treatment

**Continued from Page One** movement among cancer doctors and researchers to de-escalate treatments for certain tumor types, as drugs become increasingly expensive.

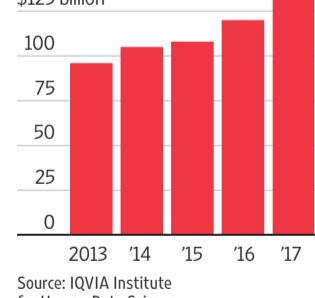
The average U.S. monthly price of oncology drugs more than doubled to \$15,535 in 2015 from \$7,103 in 2006, according to a May report in the Journal of Oncology Practice. Overall U.S. spending on cancer drugs doubled from 2012 to 2017, to nearly \$50 billion, according to IQVIA Institute for Human Data Science.

The rising costs have led patients and health insurers to question the "assumption that the maximum dose that they can physically cope with is the right dose," said Christopher McCabe, chief executive and executive director of the Institute of Health Economics, a health-policy nonprofit in Edmonton, Alberta.

Many of the studies testing reduced treatments are funded by government agencies because drugmakers "don't tend to want to do studies that eliminate treatments," said Dr. Monica Bertagnoli, chief of surgical oncology at Dana-Farber/Brigham and Women's

## Costly Care

Global oncology therapeutic and supportive care spending



Source: IQVIA Institute for Human Data Science

THE WALL STREET JOURNAL

Cancer Center in Boston and president-elect of ASCO, the oncology group.

Health insurers, government health programs and some doctors have been pressing drugmakers for several years to curb cancer-drug prices, saying they are straining health-care budgets and forcing some patients to skip treatment.

Drugmakers could face sales pressure if more doctors curtail treatments as a result of new studies, or if insurers start limiting reimbursement. "It is of course a threat, but I think it's the right thing to do," AstraZeneca PLC CEO Pascal Soriot said in an interview Sunday. "The debate should happen."

Mr. Soriot said sales of a new wave of drugs that harness patients' immune systems to destroy cancer cells could become vulnerable to efforts to cut treatment, particularly if they

are used more often in earlier stages of disease. Most of these drugs cost more than \$12,000 a month, and doctors haven't settled on the optimal duration of therapy. AstraZeneca sells an immunotherapy called Imfinzi to treat bladder and lung cancers.

Dr. S. Vincent Rajkumar, a blood-cancer specialist at the Mayo Clinic in Rochester, Minn., and critic of drugmakers' pricing practices, cautioned that companies could seek to preserve sales by raising U.S. prices to offset reduced usage.

The approach doesn't always pan out. A study in the U.K. found that leukemia patients receiving a reduced dose of the drug Rituxan fared worse than those who took the standard dose, according to results published last year in the journal Leukemia.

Drug companies say they test various doses of drugs in clinical development to arrive at the optimal dose. "We have our own very solid body of evidence," said Sandra Horning, chief medical officer at Roche's Genentech unit. She noted that previous studies have shown 12 months to be the best duration for Herceptin treatment.

The opportunity to trim treatments for breast cancer is significant because the patient population is large. The American Cancer Society estimates about 266,000 new cases of invasive breast cancer will be diagnosed this year in American women, and about 40,920 women will die from the disease.

In about half of all breast-

cancer cases, tumor growth is fueled by hormones but hasn't yet spread to lymph nodes. Standard treatment for these patients is surgery, followed by drug treatment to prevent relapse. Many women get a combination of chemotherapy and hormonal therapy, based partly on recommendations from the National Institutes of Health in 2000.

In 2006, the National Cancer Institute started a large clinical trial to test whether women at intermediate risk of recurrence could safely skip chemotherapy. The study enrolled more than 10,200 women with hormone-

middle-risk group, more than 6,700 women were assigned either the combination or hormone therapy alone.

Nine years after the start of treatment, some 83.3% of patients who received hormone therapy alone were free of invasive disease, versus 84.3% of those who had also gotten chemotherapy.

"You can spare tens of thousands of women per year the need for chemotherapy in this setting with a high degree of confidence," Dr. Joseph A. Sparano, associate director for clinical research at the Albert Einstein Cancer Center and Montefiore Health System in New York and lead investigator of the study, said in an interview.

There were some subgroups of patients in the middle-risk category—those on the higher side—who might still benefit from the combination, he said.

The genomic test costs about \$4,500 per patient, according to Genomic Health. The cost of chemotherapy can range from \$40,000 to \$80,000 for treatment after breast surgery, Dr. Sparano said.

Phyllis Laccetti, a participant in the study, took the hormonal therapy tamoxifen alone for five years after a mastectomy in 2007 to treat breast cancer, even though her doctor's initial recommendation was to also receive chemotherapy. Ms. Laccetti, a 58-year-old nurse at Montefiore, said the only side effect was menopausal symptoms. She has been cancer-free since halting tamoxifen in 2012, she said.

# FDA Asserts Role Setting Drug Access

BY PETER LOFTUS

U.S. Food and Drug Administration Commissioner Scott Gottlieb said he expects the agency will still decide in some cases whether terminally ill patients can receive unproven drugs, despite a new law intended to weaken the FDA's power over such cases.

The new "Right to Try" law, signed by President Donald Trump last week, allows terminally ill patients to try experimental drugs outside of standard clinical trials, without needing FDA approval and as long as drug companies are willing to provide them.

Supporters of the federal law and similar state laws enacted in recent years say they are needed because it is too cumbersome for patients and doctors to get FDA approval to try experimental drugs. Critics, however, say the FDA already approves the vast majority of such requests and the agency's oversight is needed to protect patients.

Dr. Gottlieb said in an interview the FDA will continue to operate its expanded access program, also known as "compassionate use," to consider requests by patients to try experimental drugs.

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## WORLD NEWS

## U.S., China Make Little Headway in Talks

Beijing digs in its heels after White House says it will impose tariffs on \$50 billion in goods

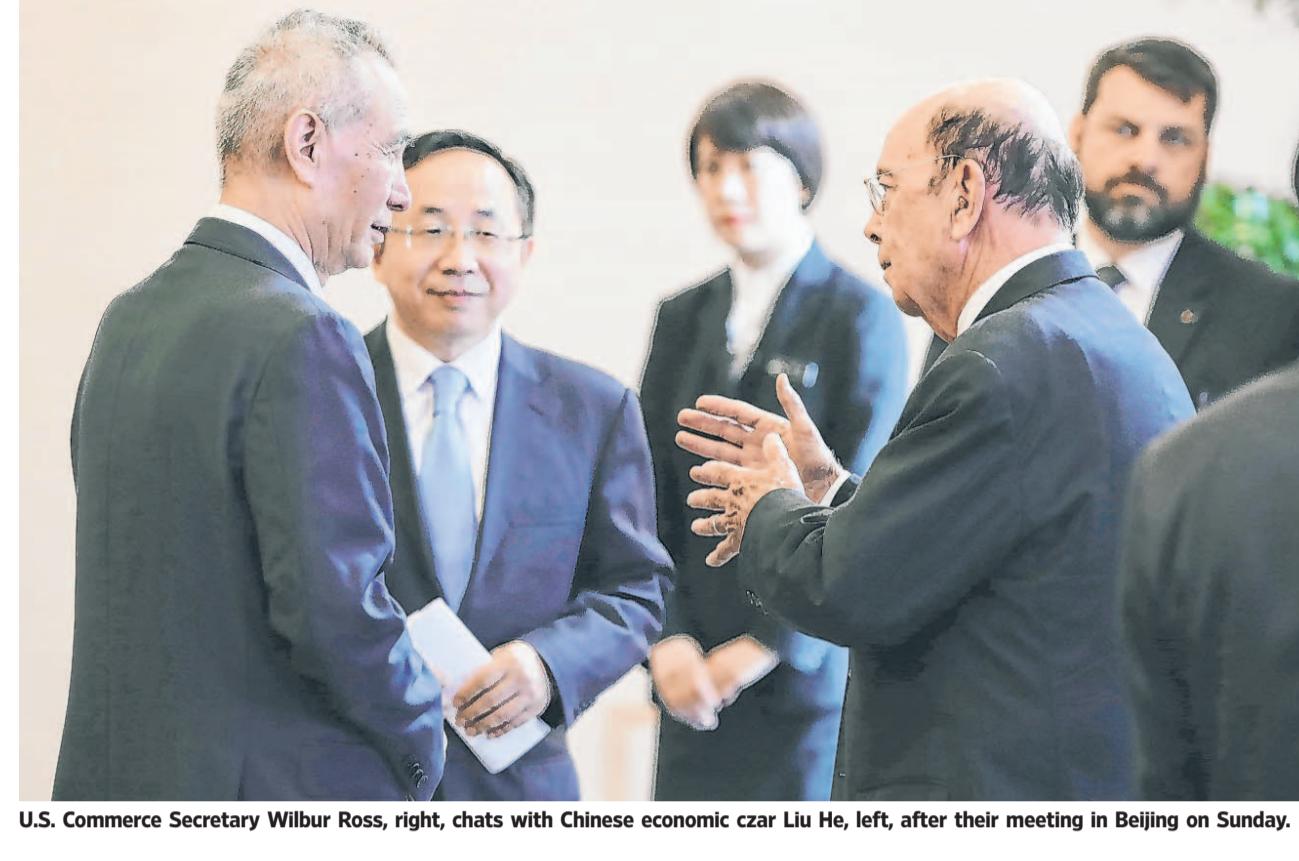
The U.S. and China moved closer to imposing tariffs on one another as negotiators made little progress in talks and Beijing threatened that it won't abide by a deal on farm and other products if the U.S. goes ahead with sanctions.

By Lingling Wei in Beijing and Bob Davis in Washington

U.S. Commerce Secretary Wilbur Ross and Liu He, China's economic czar, led the weekend negotiations in Beijing after several days of talks by lower-level officials. Discussions centered on getting China to carry out recent promises to buy more American farm and energy products.

White House statements last week that it plans to impose tariffs on \$50 billion in Chinese goods and other penalties clouded the talks, causing Chinese officials to dig in their heels, according to people with knowledge of the discussions from both sides.

"Before committing to anything, the Chinese side wants assurance that Washington won't go ahead with its tariff



ANDREW WONG/GETTY IMAGES

U.S. Commerce Secretary Wilbur Ross, right, chats with Chinese economic czar Liu He, left, after their meeting in Beijing on Sunday.

threats," said one of the people.

A statement released Sunday by China's official Xinhua News Agency said both sides achieved "concrete progress" in areas including agriculture and energy but details are yet to be hammered out. "If the U.S. introduces trade sanctions including

tariffs," the statement added, any results from the negotiations "won't go into effect."

That means China would not only back out of any purchasing agreements with the U.S. but also retaliate for any U.S. sanctions, Chinese officials said.

In comments to Mr. Liu in

front of reporters on Sunday, Mr. Ross said "our meetings so far have been friendly and frank, and covered some useful topics about specific export items."

Beijing's tough line in the negotiations comes as some of the U.S.'s closest allies criticize the

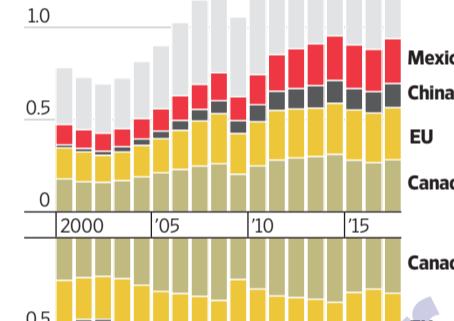
Trump administration for enacting what they see as protectionist trade policies. Finance ministers from the six non-U.S. members of the Group of Seven industrialized nations released a joint statement Saturday conveying their "unanimous concern and disappointment" with

## Tensions On Trade Intensify

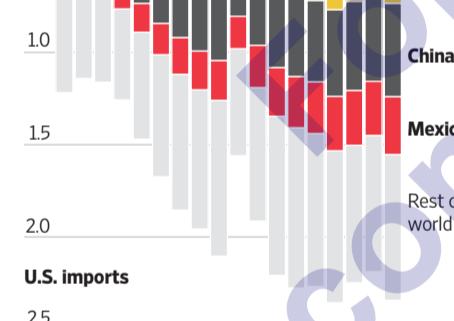
## Wide Impact

...The countries affected by tariffs represent a large slice of U.S. trade...

## U.S. exports



## U.S. imports



participates at the G-7 by virtue of being president of the Eurogroup, the association of eurozone finance ministers, described the U.S. position within the G-7 in stark terms.

"We can say the U.S. went into the tariff issue alone and they remain alone around the table," said Mr. Centeno in an interview.

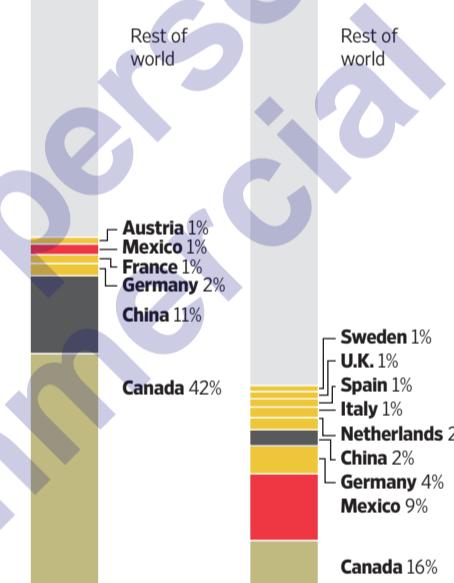
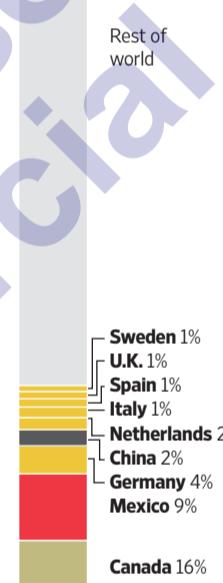
With U.S. lawmakers set to return from a Memorial Day break, many top Republicans such as Sen. Orrin Hatch, chairman of the Senate Finance Committee, are warning the administration to change course. In March, more than 100 congressional Republicans urged Mr. Trump in a letter to avoid tariffs.

The decision to impose tariffs contributed to volatility in global financial markets.

global financial markets and led to predictions of potentially adverse economic impacts.

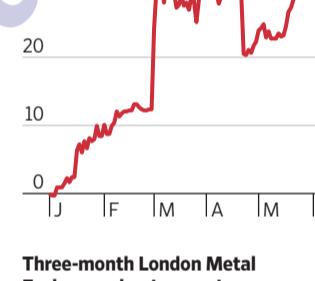
Economists warned that retaliation leading to increased

...And a large share of the aluminum and steel imports that have been targeted...

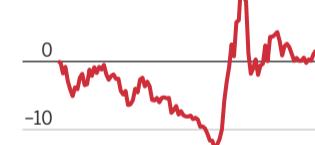
Top sources of U.S. aluminum imports<sup>\*</sup> 2017 (through Oct.)Top sources of U.S. steel imports<sup>\*</sup> 2017

...Steel prices in particular have risen amid U.S. calls for tariffs.

## U.S. hot rolled steel futures Change since start of year



## Three-month London Metal Exchange aluminum prices Change since start of year



## Six-on-One: A Rare Singing Out of U.S. By Its G-7 Partners

The Group of Seven, a club of industrialized nations formed around common interests, rarely issues strong condemnation aimed at one of its members.

More unlikely is the fact that the target of the criticism is the U.S., which has done more than any other country to establish the free-trade principles upon which the global economy functions today.

"I do not ever recall an instance where the U.S. was singled out for rebuke," said Daniel Price, managing director of Rock Creek Global Advisors, who represented the George W. Bush administration for G-7, G-20 and Asia-Pacific Economic Cooperation summits.

"Traditionally, the U.S. has been a driver of G-7 unity, and typically leads efforts to reach consensus. On trade, the U.S. has quite dramatically become a source of discord and division," Mr. Price said.

we went after our allies and acted unilaterally" on China.

Treasury Secretary Steven Mnuchin, who attended the G-7 finance officials' meeting, denied the U.S. was left outside the consensus on all matters and insisted Washington is playing a central role. "I don't think in any way the U.S. is abandoning its leadership in the global economy," Mr. Mnuchin said.

"These are our most important allies," Mr. Mnuchin said. "We've had longstanding relationships with all these countries that are very important across all different aspects."

*Lingling Wei in Beijing and Dave Michaels and Harriet Torry in Washington contributed to this article.*

## Broadening Range of Tariffs Ramps Up Threats to U.S. Economy

BY HARRIET TORRY

an additional wave of tariffs on auto imports.

The U.S. imports \$2.36 trillion of goods a year. It imports about \$29 billion of steel and roughly \$13 billion worth of aluminum annually. That accounts for less than 2% of total imports and just 0.2% of total economic output. But with the range of goods prone to tariffs widening, the impact could spread. The Trump administration has threatened \$150 billion worth of tariffs on Chinese imports—taking steps to proceed on the first \$50 billion—and auto imports total \$176 billion. Altogether that is nearly 15% of total U.S. imports.

"Uncertainty over trade

clouds the horizon," Federal Reserve Gov. Lael Brainard said last week, adding that "an escalation in measures and countermeasures—although an outside risk—could prove disruptive at home and abroad."

Tariffs have wide-ranging

foreign competition. That is a positive. But by boosting the prices of imported goods, they also increase input costs for domestic producers, such as car or soda can makers that need steel and aluminum. That is another negative. Higher costs, in turn, can lead to less production and less hiring.

Adding up all the negatives and positives is tricky. Economists at Barclays estimated in March that steel and aluminum tariffs, by reducing trade volumes and boosting inflation, could reduce U.S. growth by 0.1 to 0.2 percentage point. Oxford Economics, a research firm, estimates that steel and aluminum tariffs by themselves will

lead to net job losses of 70,000 in the manufacturing sector—with 10,000 new jobs in the metal-producing sector offset by 80,000 jobs lost in metal-consuming sectors. That is pretty modest. The U.S. economy generated 223,000 jobs in May alone, and growth appears to be picking up after slowing in the first quarter.

According to a survey of economists conducted by The Wall Street Journal in March, steel and aluminum levies would reduce U.S. employment by 53,000 on average, as gains in the domestic steel and aluminum industries would be outweighed by losses in sectors that purchase those metals.



A container ship moves along the Elbe River near Hamburg's port.

economic effects. They raise the prices of imported goods, nudging up inflation measures and potentially interest rates. That is a negative. They can also boost some domestic industries, such as steel or aluminum production, by reduc-

## WORLD NEWS

# Merkel Outlines Proposals For Overhauling the EU

German Chancellor Angela Merkel outlined proposals for overhauling and strengthening the architecture of the European Union in an interview published

*By Tom Fairless in Frankfurt and William Horobin in Paris*

on Sunday, including combining nations' defense capabilities and building a common investment fund for the eurozone.

While the suggestions broadly matched known German positions about the bloc's future, they marked Ms. Merkel's most direct and detailed reaction to proposals for overhauling the EU that French President Emmanuel Macron laid out in September.

The proposals, including beefing up an existing backstop for cash-strapped members of the eurozone and creating a joint budget for the currency union, came after capital markets briefly sank after the formation of a populist Italian government last week, evoking memories of the 2010 eurozone crisis.

They also come against a backdrop of mounting trans-Atlantic tension after President

Donald Trump slapped the EU with steep tariffs on steel and aluminum. Some analysts have predicted his aggressive stance could prompt EU members to bury their differences on a number of divisive issues.

"America is and remains the superpower, but at the moment it doesn't recognize multilateral agreements in all areas, as shown by the decision to leave the [Paris] climate accord and now the tariffs that President Trump has levied against Europe," Ms. Merkel told the Frankfurter Allge-

*Burden-sharing is key to the eurozone's survival, the German chancellor said.*

meine Sonntagszeitung weekly.

Institutional changes to the EU would ensure that "its voice is taken seriously in the world," she said.

French officials welcomed Ms. Merkel's proposals, even if her ideas for the eurozone fell short of Mr. Macron's ambi-

tions. The 40-year-old French leader has called for a deeper overhaul that would see eurozone countries share more resources and liabilities in a budget as large as several percentage points of eurozone economic output. That would potentially place the largest burdens on Germany and France, respectively the two largest eurozone economies.

Without steps toward such burden sharing, he said, the next economic shock could pull apart the 19-nation currency bloc.

"France and Germany still need to work on these subjects in the coming weeks for a more ambitious accord on banking union and the fiscal capacity for the eurozone," an official at Mr. Macron's office said on Sunday.

An official at the European Commission, the EU's executive arm, welcomed the chancellor's comments, saying the interview showed "that Merkel is determined to shape Europe in an ambitious and responsible manner in the coming months."

Sunday's interview marked more significant rapprochement with Mr. Macron on top-



**Chancellor Angela Merkel, seen in May, backed some of French President Emmanuel Macron's ideas.**

ics including migration and public investment in innovation and technology. "It's a positive move that shows the European commitment of the chancellor and her government," the official said.

The chancellor also backed

Mr. Macron's plans for a common European defense force, which have previously won little support in Berlin. Deeper military cooperation could help reduce complexity and overlapping systems, and could be extended to the U.K. after it leaves the bloc next March, Ms. Merkel said.

As they try to set a road map for eurozone overhauls by the end of the month, Mr. Macron and Ms. Merkel plan to meet at the meeting of the Group of Seven leading nations in Canada on Friday and Saturday.

"The chancellor is revitalizing the European overhaul process that has been started to strengthen Europe's ability to act in an uncertain and unstable world," one EU official said.

Ms. Merkel's proposals included a common investment fund for the eurozone, with an annual budget in the low-two-

digit-billion-euro range, that could help boost the bloc's technological capabilities. That falls well short of Mr. Macron's proposal that envisaged an instrument with budgetary firepower of around €200 billion (\$233.2 billion).

Ms. Merkel also called for the eurozone's €500 billion rescue fund, the centerpiece of its crisis-fighting strategy, to be converted into a European version of the International Monetary Fund that could offer long-term loans under conditions to stressed governments as well as short-term credit lines.

been in the steel business."

The change in government policy has set off a scramble for supply, and forced some distributors to turn away customers.

"We have had opportunities to sell hundreds and hundreds of tons to people who we heretofore had not heard of," said Terry Robinson, chairman of All Metals Industries Inc., a Belmont, N.H., metal-service center, who has turned down most of the large inquiries from noncustomers. "Our philosophy is that we will never hear from them again when this is all over."

# U.S. Levies Are Taxing Some American Steel Consumers

BY ANDREW TANGEL  
AND RUTH SIMON

New tariffs intended to bolster the American steel and aluminum industries are starting to have the opposite effect in a key part of the U.S. supply chain.

American steel producers are benefiting from tariffs that make it more expensive for companies to buy the metals overseas. But some U.S. firms that use the metals to make a host of products including refrigeration parts and wheels say the tariffs have led to higher materials prices that

are forcing them to charge more for their products.

In some cases, these firms say customers are turning to foreign suppliers that use cheaper, tariff-free metals to make the same products they can then export to the U.S. without bumping up against the new trade barriers.

The fallout, while so far limited, illustrates how efforts to protect some U.S. companies can cause unintended pain for others.

"This is a nightmare for steel consumers," said H.O. Woltz III, chief executive of Insteel Indus-

tries Inc., a North Carolina maker of concrete reinforcements. Mr. Woltz said some of Insteel's customers have indicated they will boost imports.

The Trump administration imposed broad tariffs on imported steel and aluminum this year, sparking fears among metal-consuming manufacturers that their customers would ditch them for suppliers abroad.

The White House ramped up trade tensions on Thursday when it said the U.S. would move forward with its threat to impose tariffs on European steel and aluminum, which fol-

lowed a threat earlier in the week to impose tariffs on Chinese imports.

Aneesa Muthana, owner of Pioneer Service Inc. in Addison, Ill., said her company recently lost two orders—worth about \$60,000 annually—from a longtime customer.

Pioneer Service doubled the price of some refrigeration and climate-control parts to account for higher steel costs, she said. In response, the customer tapped a Chinese competitor to supply the parts. "This is really hurting manufacturing," Ms. Muthana said.

One option for manufacturers with established supply chains abroad is to shift production outside the U.S. to take advantage of lower costs.

"A few of our customers have moved some of their production back to Europe and Canada because of the increases in prices for raw materials," said Jerry Pines, chairman of Millenia Products Group, a fabricator based in Itasca, Ill.

Mr. Pines said the effect of tariffs on pricing and availability "has made the marketplace the most difficult place to operate in the 50 years I have



**U.S. Defense Secretary Jim Mattis with the defense chiefs of Japan and South Korea at a regional security conference in Singapore.**

# Mattis Warns Beijing On Military Buildup

BY NANCY A. YOUSSEF

SINGAPORE—U.S. Defense Secretary Jim Mattis criticized China for continuing to militarize disputed islands in the South China Sea and suggested that the U.S. response could become more assertive.

Speaking at the Shangri-La Dialogue, a security conference, Mr. Mattis said there could be "much larger consequences" for China's installation of weapons systems on the islands. He didn't say what the consequences would be.

The warning, in response to a question from an audience member, followed a speech by Mr. Mattis in which he said "despite China's claims to the contrary, the placement of these weapons systems is tied directly to military use for the purposes of intimidation and coercion."

He called his decision to not invite China to the biennial Rim of the Pacific military exercise, slated to begin later in June, "an initial response" to its militarization of the South China Sea.

His comments were the most assertive yet in response to what he has described as a ramp-up of Chinese military activity in the past month. This appeared to lay the groundwork for an increased U.S. military—or even economic—response.

China recently sent an H-6K

heavy bomber to Woody Island, one of the areas under dispute. It also installed surface-to-air and antiship cruise missiles and communication-jamming equipment on some islands, U.S. officials have said. The U.S. responded last month by sending two Navy warships to the South China Sea to conduct a freedom of navigation operation.

Beijing's activities are "in stark contrast to the openness of what our strategy promotes; it calls into question China's broader goals," Mr. Mattis told the gathered international military officials, senior global lawmakers, experts and others on Saturday.

China says it has "indisputable" sovereignty over a number of the islands and the surrounding waters. It says its new facilities are for defensive and civilian purposes.

Lt. Gen. He Lei, of the People's Liberation Army's Academy of Military Sciences, delivered a frank defense of China's armaments in the South China Sea. Beijing has deployed soldiers and weapons there for defensive purposes, he said, calling criticism of those developments irresponsible.

"If we deploy soldiers and weapons in the South China Sea, it is just a matter of China's sovereignty," he said at a panel discussion Saturday after Mr. Mattis spoke.

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## INDONESIA TARGETS FOREIGN INVESTMENT IN THE DIGITAL ECONOMY

Indonesia is on the fast track to becoming the biggest digital economy in Southeast Asia. An October 2016 McKinsey report said that as Indonesia embraces digitization, it can realize up US\$150 billion in growth — 10 percent of GDP — by 2025.



The Investment Coordinating Board (BKPM) is working hard to attract foreign and domestic investment in digital enterprises. In 2017, Indonesia recorded foreign investment of US\$4.8 billion in the digital economy out of total foreign investment of \$51.75 billion. BKPM Chairman Thomas Lembong said e-commerce entrepreneurs have become a key focus, supporting an annual growth of 30 to 50 percent in startup firms. In 2017, Alibaba, injected almost US\$3.3 billion into Indonesia, equivalent to 50 percent of all oil and gas investment in the same year.

### E-COMMERCE ON THE RISE

According to data compiled by Statista, 104.96 million people accessed the internet in Indonesia in 2017; a figure projected to grow to 133.39 million by 2021. This is just one of the reasons the Indonesian government is focusing on encouraging digital innovation and providing opportunities for e-commerce players. E-commerce is expected to reach US\$81 billion by 2025 according to BKPM, driven largely by the travel and fintech sectors.

Online transportation services like Gojek, Uber and Grab, along with fintech e-commerce sites such as Doku, Go Pay and T-cash, are already powering parts of Indonesia's economy.

To support this digital transformation, the government is pushing forward with reform in

four areas. First, increasing productivity and skills among the workforce connected to the Internet of Things. Second, the use of digital technology to help SMEs access the export market. Third, using the cloud, big data and AI to increase efficiency across all industries. And, fourth, supporting startups and creating business incubation areas with the development of several techno parks.

### SUPPORTING THE 4.0 JOURNEY

This digital journey is part of the 'Indonesia 2045' vision, the country's roadmap to move from an emerging economy to developed economy status by 2045. To support this growth and the shift to a 4.0 economy, Indonesia is focusing on three areas – the development of a robust, countrywide infrastructure; shifting reliance from exporting raw materials to value-added and processed products; and the development of a strong services industry, particularly the tourism sector.

The country's focus on achieving its digital ambitions and its 2045 vision are complementary, and BKPM is committed to being part of these efforts for the long haul.

"There are no shortcuts for these steps. We need to work hard together as a nation to fulfill these predictions," said Thomas Lembong.

For more information on BKPM and investing in Indonesia, please visit our websites:

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Indonesia Investment Coordinating Board

## WORLD NEWS

# Spy Squad Fights Hidden Cameras

South Korea steps up efforts to combat growing problem at private firms and in public restrooms

BY EUN-YOUNG JEONG

SEOUL—Lee Hyo-rin spends hours every day on the phone talking to victims of sex crimes. Some cry the minute they hear her voice. Some speak of suicide. Many had to relocate or have lost jobs, friends and lovers. And almost all of them have never seen the perpetrator.

Ms. Lee works at a crisis-response center for women who have been filmed by hidden cameras—in a country where such crimes have become so prevalent that Seoul has a 50-person squad to sweep public restrooms, and President Moon Jae-in has made the issue a national priority.

"These are malignant crimes that destroy women's lives," Mr. Moon told senior aides, according to a spokesman at the president's office. "Investigators need a change in awareness to treat these as grave, illegal acts."

The discovery of concealed cameras in public facilities and private companies makes headlines here with regularity. Many candidates contesting June regional elections across the country are campaigning with pledges to provide funds for sweeping restrooms for hidden devices.

South Korea is already moving on multiple fronts to combat rampant voyeurism.

In April, the government established a hotline center for victims, most of whom are women. The center helps take down or block access to offending online material and offers support services such as legal counseling; 360 victims had contacted the hotline as of Thursday from the time it opened on April 30. And the South Korean National Assembly has passed a bill to provide a legal basis for victims to recoup the cost of removing content.

In Seoul, 50 safety mar-



South Korean authorities have been checking for hidden cameras at public restrooms in Seoul, above, in May, and learning how to search with infrared scanners at training sessions, below.



shals, employed by the city government, travel from restroom to restroom, armed with infrared scanning devices, flashlights and electromagnetic detectors.

They haven't found any cameras since they began sweeping in 2016, but the team's key goal is to prevent hidden-camera crimes and raise awareness, said Lee Yong-chul, head of the project.

"At the beginning, I really wanted to find one," said Park Kwang-mi, one of the marshals. "Now I don't. It shouldn't be there in the first place."

But cameras are still out there. Last year, one Seoul subway station recorded 83 reported incidents involving concealed cameras, according to police data. The number of such incidents increased to

5,249 in 2016 from 564 in 2007, according to the latest prosecutor data.

The number of unreported cases is much higher.

"Most don't even know they are a victim in the first place," said Seo Seung-hui, director at the Korea Cyber Sexual Violence Response Center, the nonprofit organization where Lee Hyo-rin works. Most victims who find out learn through acquaintances, she said.

South Korea has faced digital-privacy concerns for years. In 2004, telecommunications officials established a standard for cellphones sold in South Korea to make shutter sounds above 60 decibels when used to take pictures. But technological advancements have made it easier and cheaper to surrepti-

tiously record content and post it online.

South Korea and some other countries are "light years ahead" in attempts to address the unauthorized disclosure of sexually explicit images, said Mary Anne Franks, a law professor at the University of Miami and a director at the Cyber Civil Rights Initiative, an organization combating "revenge porn."

South Korean law forbids nonconsensual filming or photographing of a person in a way that can elicit sexual desire or cause sexual humiliation. But legal recourse for victims in South Korea often falls short. While penalties provide for a prison sentence of as long as five years or a fine of more than \$9,000, only 5.3% of registered hidden-camera crimes in the past five years led to prison terms, police said.

In one effort at deterrence, South Korean police last year began posting fake voyeurism videos on porn sites. The clips end when the victim turns out to be a ghost with a message to the viewer: Police are watching.

Meanwhile, concerns over hidden cameras have spawned a cottage industry. A popular accommodations-booking app advertises its practice of sweeping rooms regularly for spying devices. Firms have sprung up catering to victims who want content erased from the web. These "digital undertakers" issue takedown requests to website administrators and server operators, and sometimes involve authorities if site operators don't comply.

Han Nuri, at the Response Center, scours porn sites to track and remove videos. "Sometimes I'd see footage deleted on a site, and five minutes later it's back online," she said.

—Min Sun Lee in Seoul and Takashi Mochizuki in Tokyo contributed to this article.

# Assad to Meet Kim, Pyongyang Reports

BY JONATHAN CHENG

Syrian President Bashar al-Assad is planning to visit Kim Jong Un, North Korea's state media reported, for what could be the North Korean leader's first summit meeting with a foreign head of state in his capital, Pyongyang.

The report didn't say when a visit by Mr. Assad might take place, but quoted the Syrian president as saying: "I am going to visit the DPRK and meet HE Kim Jong Un," using the acronym for the North's formal name, the Democratic People's Republic of Korea. "HE" is short for "His Excellency."

If the visit takes place, it will add to a recent burst of diplomacy between North Korea—one of the world's most isolated countries—and its neighbors and allies.

In recent months, Mr. Kim has met twice with South Korean President Moon Jae-in at the inter-Korean demilitarized zone and twice visited Chinese President Xi Jinping in China. Mr. Kim has also twice hosted Mike Pompeo, now the U.S. secretary of state, in North Korea in recent months, and on Thursday he met with Russian Foreign Minister Sergei Lavrov in Pyongyang.

Mr. Kim is slated to sit down with President Donald Trump at a summit on June 12 in Singapore.

Syria has close ties with North Korea, and Messrs. Assad and Kim are frequently quoted in North Korean state media exchanging well wishes and pleasantries on their parties' and countries' respective national holidays and anniversaries.

Mr. Assad's remarks were made on May 30, according to the North Korean state media report.

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# #WITHOUTNEWS

This morning, the Newseum adds the names of 18 journalists who died while reporting the news in 2017 to its Journalists Memorial. They represent all of the journalists who died last year, some murdered to silence their work, others covering wars or dangerous assignments.

Join us in raising awareness of the threats to journalists around the world so we never have to imagine a world #WithoutNews.

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## WORLD NEWS

# U.S. Weighs Expanded Role in Yemen War

**U.A.E. seeks direct U.S. help to capture Red Sea port from Iran-backed fighters**

BY DION NISSENBAUM

**WASHINGTON**—The Trump administration is weighing an appeal from the United Arab Emirates for direct U.S. support to seize Yemen's main port for humanitarian aid from Iranian-backed Houthi fighters, according to U.S. officials, a move they worry could have catastrophic effects on the country.

Secretary of State Mike Pompeo has asked for a quick assessment of the U.A.E.'s plea for assistance such as surveillance drone flights to help a Saudi-led coalition retake Hodeidah, which currently serves as a vital lifeline for the country's 29 million residents, U.S. officials said.

U.A.E. and Saudi Arabian officials have assured the U.S. that they won't try to seize the Red Sea port until they get backing from Washington, American officials said. But there is growing concern in the Trump administration that fighting around the city could spiral out of control and force Washington's hand. Yemeni fighters backed by the coalition are battling Houthis near the city.

"We continue to have a lot of concerns about a Hodeidah operation," said one senior U.S. official. "We are not 100% comfortable that, even if the



Aid workers inspected a World Food Program warehouse earlier this year after a fire in the Yemeni port city of Hodeidah.

coalition did launch an attack, that they would be able to do it cleanly and avoid a catastrophic incident."

The debate over increasing U.S. support to the U.A.E. and Saudi Arabia is competing for the attention of top administration officials working furiously to prepare for the planned summit with North Korea in Singapore on June 12. But escalating military operations around the Yemeni port have triggered new urgency in Washington.

The U.S. and the Saudi-led

coalition have agreed that U.A.E. forces overseeing military operations won't enter the port in the near term so that the United Nations' new special envoy on Yemen, Martin Griffiths, can try to jump-start moribund diplomatic efforts to end the fighting, according to one Arab official.

But there is broad concern that Yemeni forces aligned with the Saudi-led coalition will act on their own.

Top Yemen specialists in the U.S. administration are ex-

pected to meet Monday to discuss what to do. Saudi Arabia and the U.A.E., which provides the main military backing for Yemeni forces working to take Hodeidah, have long sought U.S. support for the operation.

Special forces from the U.A.E. and U.S. work together inside Yemen to target al Qaeda and Islamic State fighters while U.S. drones carry out airstrikes. The U.S. also sells weapons to the Gulf countries and helps to refuel Saudi and U.A.E. warplanes that carry

out airstrikes—a move that concerns some U.S. lawmakers who worry about American culpability for civilian deaths.

For now, key administration officials involved in the debate harbor reservations about expanding American military involvement in Yemen, according to U.S. officials. But some see value in helping.

"We have folks who are frustrated and ready to say: 'Let's do this. We've been flirting with this for a long time. Something needs to change

## Conflict's Strategic Significance Draws Washington's Notice

The war in Yemen draws high interest in Washington because of its strategic importance. Trump administration officials worry about Iran's military support for the Houthis, who have fired advanced Iranian-made missiles into neighboring Saudi Arabia. Iran denies providing military aid to the Houthis.

U.S. officials also worry that the Houthis increasingly will threaten ships passing through the vital shipping lanes off the Yemeni coast—a fear that was reinforced last month when a missile hit a Turkish ship delivering humanitarian aid, causing minor damage. The White House issued an unusual statement denouncing the attack and blaming Iran.

the dynamic, and if we help the Emiratis do it better, this could be good," the senior U.S. official said.

Mr. Griffiths is supposed to present his proposal for resurrecting moribund peace talks to the U.N. Security Council in the next two weeks and has publicly warned that an attack on Hodeidah "would take peace off the table."

"We are all very concerned about the possible humanitarian consequences of a battle for Hodeidah," he said.

# Iraqi Kingmaker's Task: Lift the Poor of Sadr City

BY ISABEL COLES  
AND GHASSAN ADNAN

**BAGHDAD**—The sprawling Sadr City slum helped deliver a surprising victory in Iraqi elections for cleric Moqtada al-Sadr, the son of the man who gave the Baghdad neighborhood its name. Now, Mr. Sadr's alliance faces a tough task: carrying out his lofty promises of change for the urban poor.

Home to more than three million people—about one-third of the capital's population—Sadr City is an extreme example of the economic ills that plague Iraq. Uncollected garbage fills the roadsides, children hawk goods to earn extra cash, and water and electricity outages are routine among the ramshackle settlements.

Six of Mr. Sadr's allies from Sadr City won seats in the May 12 election that over half of Iraqis skipped. The results of the vote reflected disillusionment with a political class that is blamed for neglecting places like Sadr City while enriching itself.

"I have put my last hope in

For Sadr City, it is a rare moment of political power—and a remarkable change from the aftermath of the U.S.-led invasion in 2003, when the slum was a battleground. Back then, U.S. forces faced fierce resistance in Sadr City from Mr. Sadr's Mahdi Army militias and considered capturing Mr. Sadr, whose fiery speeches were seen as inciting violence against coalition forces.

Now, Mr. Sadr is a political kingmaker. He formed an alliance with Iraqi communists for the recent elections, and the alliance won 54 seats in the 329-seat Iraqi parliament—more than any other bloc.

But the alliance is far short of a majority, and Mr. Sadr's promises to address economic woes and enact a sweeping overhaul of Iraq's political system are running into barriers as he tries to form a government—a process that could take



Supporters of Moqtada al-Sadr celebrate his election win in Baghdad's Sadr City neighborhood.

months. Mr. Sadr isn't trying to become prime minister himself, preferring to remain above the political fray as a cleric.

His coalition, known as Sairun, must partner with political parties that don't want

to give up their privileges.

Many Iraqis want the kinds of changes Mr. Sadr is calling for, but are skeptical. Mr. Sadr is part of the political establishment he railed against. The former governor of Baghdad,

who was from Mr. Sadr's political bloc, was unseated after being accused of corruption, which he denied.

The biggest test facing Mr. Sadr and his allies is managing the expectations of their

followers, said Jassem al-Helfi, a Sadr City native and a leading member of the Iraqi Communist Party who is involved in the negotiations to form a government.

"How can we convince our supporters that reform will not happen instantaneously?" Mr. Helfi said.

Mr. Sadr and his family are closely associated with Sadr City, where the rundown streets are decorated with pictures of the gray-bearded Mr. Sadr in his trademark black robe and turban—and of his father, Mohammed Sadeq al-Sadr, who was murdered in 1999 for his opposition to Saddam Hussein.

Mr. Sadr's followers say they remain focused on helping the country's poor. According to Mr. Abadi's office, the country's poverty rate is about 30%.

"We are going into battle to regain the rights of those people," said Alaa al-Rubaye, one of the six Sairun candidates from Sadr City who won seats in the next parliament.

—Ali Nabhan contributed to this article.

## WORLD WATCH

SPAIN

## Madrid Ends Direct Rule in Catalonia

Spain lifted direct rule in Catalonia on Saturday after regional government leaders were sworn in, concluding an unprecedented attempt by Madrid to contain a separatist push that threatened to splinter the country.

Thirteen members of Catalonia's regional government were sworn in during a ceremony in Barcelona, the capital of Spain's Catalan region. Regional leader Joaquim "Quim" Torra, a hard-line separatist who was appointed in May, noted in a speech that while seven months of direct rule had ended, he and his government were "without euphoria."

Some former separatist leaders are in jail pending a rebellion

trial and "we are a long way from where we would like to be," he said.

—Jeannette Neumann

## Soldiers Are Killed In Kashmir Attack

Two paramilitary soldiers were killed and eight civilians wounded Sunday when Pakistani soldiers attacked dozens of forward posts along the highly militarized frontier in disputed Kashmir, Indian officials said.

The fighting came barely a week after the two nuclear-armed rivals agreed to stop trading fire along the volatile frontier and uphold a cease-fire accord dating back 15 years. Pakistan didn't immediately comment.

—Associated Press

## TUNISIA

## Migrants Drown En Route to Europe

A boat carrying migrants toward Europe sank off the coast of Tunisia and at least 46 people drowned, the North African nation's defense ministry said.

The ministry said 68 people were rescued overnight after the boat sank in the Mediterranean Sea near Kerkennah Island, off Tunisia's eastern coast. Authorities said it was believed to have been carrying about 180 people.

Earlier Sunday, Turkish officials reported that nine migrants, including six children, drowned when a boat capsized in the eastern Mediterranean near the town of Demre in the southern province of Antalya.

—Associated Press

## GUATEMALA

## Volcano Eruption Kills at Least Seven

One of Central America's most active volcanoes erupted, killing at least seven people and injuring 20 while a towering cloud of smoke blanketed nearby villages in heavy ash.

Volcan de Fuego, Spanish for "volcano of fire," erupted shortly before noon about 27 miles from Guatemala City. Around 4 p.m., lava began flowing down the side of the mountain. Video images showed a charred landscape where lava came into contact with homes.

—Associated Press



TERRA FIRMA: American Scott Tingle is carried from a Russian space capsule that landed in Kazakhstan with three astronauts after a 168-day mission with the international space station.

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## IN DEPTH

# The Battle For Orange County

*Continued from Page One*  
political map.

"You can't write it off by any means," said House Majority Leader Kevin McCarthy, the California Republican who is looking to succeed retiring House Speaker Paul Ryan. "And if we learn to win in California, we can win anywhere in the nation."

The California Republican Party holds only 14 of the state's 53-member House delegation, its smallest share in six decades. Half those seats are considered vulnerable in the November midterm election.

The state's primary system sends the top-two vote getters to the general election, regardless of party. Given the shrunken ranks of Republican voters statewide, there is a chance that only Democrats will advance in the primary to replace retiring Gov. Jerry Brown, and that Sen. Dianne Feinstein will face a Democratic challenger.

Republican gubernatorial candidate John Cox is 13 points behind Lt. Gov. Gavin Newsom and 7 points ahead of former Los Angeles Mayor Antonio Villaraigosa, both Democratic candidates, according to a poll published Thursday by the Berkeley Institute of Governmental Studies.

Republican Party officials worry about a low GOP turnout in November, especially in the contested House races. They hope a ballot measure seeking to repeal a 12-cent-a-gallon gas tax will draw Republican voters to the midterm election.

"The Republican Party in California has been in free fall for the better part of a decade," said Carl DeMaio, chair of the initiative to repeal the gas tax, which was passed last year to finance transportation infrastructure repairs.

## Majority rules

Republicans, who are seeking to keep control of the House, could get help Tuesday from California Democrats. In three of the most competitive GOP-held congressional districts, 15 Democratic candidates are running. With the top-two primary system, Republicans have a shot to claim both slots if enough Democrats split their votes.

The Democratic Congressional Campaign Committee tried, with little success, to persuade weaker candidates to drop out of contention in crowded races. Many challengers are political novices who either owe little to, or oppose, the party establishment.

"Among the Democrats, it's the same kind of conversation. Everyone wants the field to consolidate, but around their chosen candidate," said Jay Chen, who dropped out of the race to replace Republican U.S. Rep. Ed Royce, who is retiring. Six Democrats and seven Republicans are still on the ballot.

The plight of California Republicans deepened over



Democratic congressional candidate Harley Rouda, above, hugs a supporter during a campaign appearance. Surfers in Huntington Beach, Calif., pass a sign for Republican Scott Baugh, who is challenging U.S. Rep. Dana Rohrabacher in the state's Tuesday primary.

the past generation as the state's population became more diverse. The GOP came to be seen as hostile to the state's growing Latino population during the administration of Republican Gov. Pete Wilson.

He supported the 1994 ballot initiative, Proposition 187, that proposed barring illegal immigrants from public schools and many health-care services.

Voters approved the measure, which never took effect and fell to legal challenges. It prompted, however, a surge in Latino voter registration and activism.

Many white voters—both working-class and middle-class—left California around that time, driven out by high housing costs and the decline of the state's defense and aerospace industries.

"California lost approximately 300,000 to 400,000 workers in the defense industry, a lot of them would have been considered Reagan Democrats," said Chuck DeVore, a former Republican state assemblyman from Orange County who was a U.S. Senate candidate in 2010.

In 2002, Republicans didn't

**Orange County has long sent Republicans to Congress with little opposition.**

win a single statewide office for the first time since 1882. In presidential elections, the party of Ronald Reagan came to see California—with its expensive media market and new demographics—as a poor campaign investment.

The last Republican governor in California was Arnold Schwarzenegger, who took office in the 2003 election recall of Democratic Gov. Gray Davis. Even when the national GOP was making historic gains in 2010 and 2014, Democrats swept statewide offices in California.



STUART PALLEY FOR THE WALL STREET JOURNAL (2)

For years, Republicans in Orange County bucked the trend, boasting a majority of GOP voters. But the gap between the two major parties is shrinking. In 2007, there were about 264,000 more registered Republicans than Democrats. A decade later, that advantage fell to 57,000, records show.

Orange County has grown to about three million people. In 1980, the percentage of white residents was 78% compared with 44% in 2010. The Latino population grew to about 34% from nearly 15% during that time, according to census data, and the Asian population grew to about 18% from 4%.

In 2016, Hillary Clinton carried Orange County, the first time a Democratic presidential candidate won there since Franklin Delano Roosevelt in 1936.

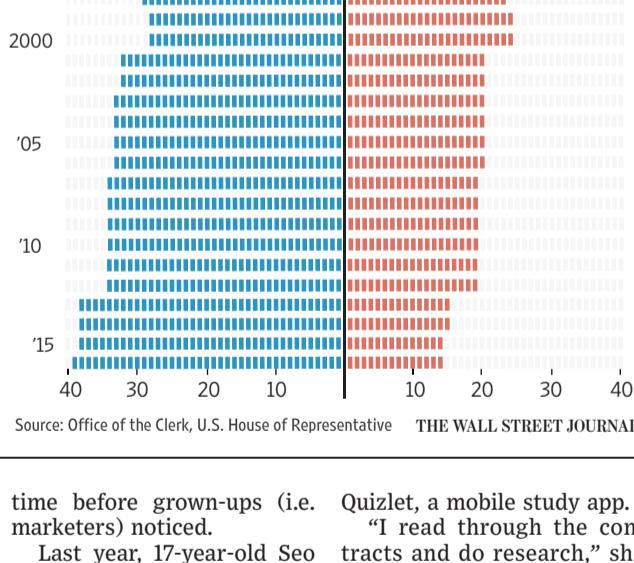
Changes in Orange County emboldened Democrats to target the county's four House districts represented by Republicans, including two Reps. Darrell Issa and Ed Royce—who are retiring. The other two, Reps. Mimi Walters and Dana Rohrabacher, are in competitive reelection fights.

In his district along the coast, Mr. Rohrabacher has come under attack for his involvement in controversial issues that seem far from the concerns of his constituents, including his defense of Russian President Vladimir Putin and support for WikiLeaks founder Julian Assange. Local road signs tell voters: "SAY NO TO ROHRABACHER."

Mr. Rohrabacher has drawn 15 challengers, including Scott Baugh, his former campaign aide. "Orange County should be to the Republican party what Holly-

## Dwindling Delegation

The California Republican Party holds only 14 of the state's 53-member House delegation, its smallest share in six decades.



# Studying Studiers Is a Thing

*Continued from Page One*  
ther: Many of the videos feature high production values, tight editing and multiple camera angles.

After filming a 25-minute study session at his college library in Iowa, Thomas Frank, 26, says he was unhappy with the sound quality of the background noise. So he edited it out. "All the ambience you hear is actually a recording of some library in Norway that I found online," he says.

Mr. Frank, who also makes short videos on improving productivity, setting goals and managing student debt, has one million subscribers to his YouTube channel.

Grayson Miller, who just finished her sophomore year of high school in Columbia, S.C., subscribed to the channel of a studying star called Studyquill six months ago for

inspiration. "I get a notification as soon as she uploads a new video," Ms. Miller says. "She's so neat and organized. Her videos make me want to make my information neater overall. I think it motivates me to put more time into school work."

Studyquill's channel, launched in 2016, is known for having font-worthy handwriting, colorful study outlines and detailed planning notes. It has 273,000 subscribers. Its creator is Jasmine Shao, a 16-year-old from the Bay Area who also posts videos about calligraphy, stationery and her favorite school supplies. "I'm really honored," she says. "I'm pretty introverted so it's weird to think that I'm able to affect people across the country and even the world."

Some students may feel isolated when they're up late studying. Having a video on in the background can feel like having a study buddy.

"I think the people making these videos are tapping into a need where you want to be social without being disrupted from your study goals," says Mitchell Nathan, professor of educational psychology and

learning sciences at the University of Wisconsin-Madison. "Think of it like parallel play. This is parallel studying: You're ignoring each other, but that's still much more preferable than doing it all by yourself."

In the U.S., views of so-called study-with-me videos tripled in 2017 from 2016, according to YouTube, which won't disclose total numbers. With a young, engaged audience, it was only a matter of

time before grown-ups (i.e. marketers) noticed.

Last year, 17-year-old Seo Jung, from Camas, Wash., received a call from Muji, a Japanese brand known for its pens and notebooks, seeking a sponsorship deal.

Ms. Jung, known on YouTube as *tbhstudying*, (139,000 subscribers) took it in stride. She had already done sponsorship deals with Skillshare, an online learning platform, and

Quizlet, a mobile study app.

"I read through the contracts and do research," she says. "Then I make my decision and let my parents know."

She declines to reveal her YouTube earnings, but says she puts half of it into savings.

Muji USA has cut deals with a few online study stars, spokeswoman Celine Vaaler said. "A lot of people were naturally promoting Muji without any paid partnership, and the content was really well done. We saw it as a great opportunity."

The sponsorship rates tend to be "modest," Ms. Vaaler says, starting at about \$100 per 10,000 views, plus products or gift cards. "They're younger, often living with their parents. This isn't their full-time job."

But Jade Bowler, a study tube star from England known online as *UnJaded Jade*, (187,000 subscribers) is taking things up a notch: She has an agent. Danny Lowney, the 24-year-old managing director of Sixteenth Talent Agency, handles Ms. Bowler's media and promotional requests, of which there are many, he says.

Sponsorship rates start at \$1,000, he says, while a multi-platform arrangement could run to \$10,000. "Or more, of course," he says.

Mr. Lowney has arranged about five commercial sponsorships for his client so far, including one with meditation app Stop, Breathe & Think, and another with consulting firm Accenture encouraging primary-school girls in science, technology, engineering and math.

Ms. Bowler describes herself as a "non-preachy, 18-year-old vegan."

"I never started my channel for money, and I wouldn't work with a brand whose ethics I disagree with," she wrote in an email.

Behind their successful channels, most are just typical students trying to balance work and extracurricular activities. Some are still adjusting to their newfound celebrity.

Occasionally one of Ms. Jung's teachers will call out, "I liked your new video!" as she exits class, she says. "When that happens, I blush and say thank you and try to leave quickly."



JAMIE LEE/THE STRIVE STUDIES

Medical student Jamie Lee posts videos of her study sessions on YouTube. One hours-long clip has been watched 877,000 times.

# GREATER NEW YORK

## Mayor Alters Exam-School Admissions

Low-income students on cusp get 20% of slots and de Blasio will lobby to end the single test

BY LESLIE BRODY

With his plans to integrate New York City's eight specialized high schools, Mayor Bill de Blasio is pushing for fundamental changes to address a lack of diversity at these elite institutions, which admit students by a single exam score.

In one definite step, he said 20% of ninth-grade slots will be set aside for low-income students who just miss the test-score cutoff for entry to these schools, which include Stuyvesant High School, starting in fall 2019.

In a separate proposal that requires legislative approval in Albany, the mayor wants to scrap the high-anxiety admissions test altogether. He said it has been an unfair barrier to entry for black and Latino students.

His weekend announcement stirred an outcry from alumni and parents who said their children will be squeezed out of some of the most competitive, high-performing schools in the city, including Brooklyn Technical High School, which the mayor's son, Dante, attended.

Some parents voiced their support for the changes. Harriet Hines, a Brooklyn mother of three, applauded ending the test, which she said is unfair to children who don't get test preparation or enroll in summer enrichment programs.

During a news conference Sunday at a middle school in the East New York section of Brooklyn, the mayor led dozens of elected officials, parents and students in a chant of "the test has got to go."

The specialized high schools enroll 15,540 students; Half are low-income, while 62% are Asian, 24% are white, 6% are Latino, and 4% are black, according to city data.

In the public system overall, by contrast, 68% of high-school students are Latino or Black.

Several alumni groups at the schools said the test was the most objective admissions method. It gave generations of talented, low-income immigrants a path to success, they said.

Soo Kim, president of the Stuyvesant High School Alumni Association, said in an email that his organization values diversity and believes something should be done to improve access, but "we don't believe that equity can be created by doing an inequity to another group." The mayor's changes,

### A Senior Warns of Tough Environment

Allan Wang, a senior at Stuyvesant High School, said students who couldn't pass the test could flounder in its pressure-cooker environment.

He started a company teaching science and math to middle schoolers from around the city, and said many lacked basic skills like multiplication. "Instead of trying to win some easy political points, why not tackle the real problem and fix the pipeline?" by improving the low-performing schools, he said.

Mayor Bill de Blasio disputed concerns that students who get the best grades at

struggling middle schools

wouldn't be prepared for the specialized high schools. He said every middle school has

gives them extra tutoring. About 200 students last fall were admitted through Discovery, the city said.

Stanley Ng, a former member of the Citywide Council on High Schools, an advisory body that makes recommendations for improvements, and a former Stuyvesant parent, said he opposed this plan for Stuyvesant, arguing that some students entering this way simply wouldn't be prepared for its rigor.

"For every class of kids that has to catch up, that is one less teacher for an Advanced Placement class," Mr. Ng said.

David Lee, an official of the Chinese American Citizens Alliance of Greater New York and an alumnus of Brooklyn Tech, said expanding admission through Discovery would unfairly skip over students with higher test scores to admit students with lower scores. If that reduces the numbers of Asian students, he said his group would likely litigate to reverse the change.

Mr. de Blasio and his new critics of considering class rank in admission say the city's middle schools have wide gaps in standards, so students of varying ability would pass muster. Some also contend the system would become more subjective and susceptible to manipulation by savvy parents pulling strings.



Stuyvesant is one of eight specialized high schools in the city.

schools chancellor, Richard Carranza, said they would lobby hard for an entirely new admissions process: Selecting students based on a combination of their rank in their middle schools and their results in the statewide tests that all public-school children take.

Officials said if the bill passes, and after a three-year phase-in, the top 7% of eighth-graders at each public middle school would get offers to the specialized high schools. Some seats would be allotted to high-achieving students from private schools.

The mayor, a Democrat, estimated that eventually under this method, about 45% of students in the eight schools would be Latino or black. He acknowledged it will be hard to get the bill passed in Albany. A spokesman for Gov. Andrew Cuomo, a Democrat, said his office was reviewing the measure. United Federation of Teachers President Michael Mulgrew said he would fight for its passage.

Critics of considering class rank in admission say the city's middle schools have wide gaps in standards, so students of varying ability would pass muster. Some also contend the system would become more subjective and susceptible to manipulation by savvy parents pulling strings.



Nanette Lepore moved a big piece of her business from the Garment District in Midtown Manhattan to the Brooklyn Navy Yard.

## Garment District Plan Is Sewn Up

BY KEIKO MORRIS

New York City officials have hammered out a plan to end a decades-old zoning regulation that protects manufacturing space in Manhattan's historic Garment District and replaces it with programs designed to keep some of the industry in

Midtown.

**PROPERTY** The plan, which is expected to be announced within days, would achieve a major goal of the real-estate industry, which has long sought to end the zoning. Landlords have argued it preserves more space than declining garment-production businesses can fill.

Advocates of New York City's fashion industry, who have battled to maintain the zoning, expressed support for much of the proposal, which was circulating behind the scenes last week. These proponents have

argued that a vibrant Midtown presence remains critical to the local industry, which relies on a network of services that offer speed and efficiency. Advocates also recognize that foreign competition and other forces have caused the industry to hemorrhage tens of thousands of jobs, and they have been open to replacing the zoning with other programs.

The plan worked out by City Hall, elected officials and advocates on both sides of the issue would lift a 1987 mandate to preserve millions of square feet of apparel-production space on certain side streets in the Garment District, which is bounded roughly by West 40th and West 35th streets and Broadway and Ninth Avenue. If approved by the city council, the proposal would allow property owners to convert buildings to other uses.

The plan would preserve a garment-industry presence in

Midtown partly by using up to \$20 million in city funds to acquire a building dedicated to manufacturers. The plan also includes a tax abatement for Garment District landlords who set aside at least 25,000 square feet in their buildings for manufacturers.

"I don't view this as a win

*Programs would allow the fashion industry to keep a presence in Midtown Manhattan.*

for the real-estate industry," said James Patchett, chief executive of the New York City Economic Development Corporation. "It was a win for the garment industry because we have been watching for...the last few decades the decline of the

garment industry in New York."

The administration of Mayor Bill de Blasio, a Democrat, last spring first proposed eliminating the special zoning, but that triggered fierce opposition from fashion-industry advocates who felt it didn't include enough to preserve a portion of the industry in Midtown.

The latest plan incorporates recommendations from a committee of the Garment District's various stakeholders. Representatives of the garment industry who served on that committee say the proposal is more palatable than the earlier plan.

"The Garment Center's unique ecosystem of skilled workers and specialty suppliers clustered in one place is the foundation that the wider New York fashion world is built on," said Manhattan Borough President Gale Brewer who helped form and lead the steering committee with City

Please turn to page A10B

Search for the two individuals who remain missing, it is with deep sadness that we are suspending the active search efforts," said Coast Guard Capt. Kevin B. Reed, commander Sector Long Island Sound. "This is always a difficult decision, and we cannot imagine the pain of those families who have lost their loved ones."

Difficult sea conditions made it hard for crews to deploy sonar equipment to locate the Piper PA31 Navajo, which went down around 2:30 p.m. Saturday about 2 miles off the shore near Indian Wells Beach, Amagansett. On board were Bernard "Ben" Krupinski, 70 years old, his wife Bonnie Krupinski, 70, William Maerov, 22, and the pilot, Jon Dollard, 47, according to the Town of East Hampton Police Department, which is leading the search. Mr. Maerov is the grandson of the Krupinskis.

The plane had been flying to

East Hampton from Newport, R.I., said Peter Van Scyoc, East Hampton town supervisor.

The National Transportation Safety Board is investigating the cause of the crash.

On Saturday, lifeguards recovered one body and U.S. Coast Guard crews were able to retrieve another body, according to Coast Guard officials. Their names weren't released.

Search teams scoured 646 nautical square miles, a Coast Guard spokesman said. An HC-144 Ocean Sentry aircraft from the Coast Guard's Cape Cod air station flew over the debris field from sunrise to about 9 a.m. Sunday. But a small craft advisory indicating difficult winds hindered dive teams, and rough water prevented crews from deploying a sonar device to look for the individuals and plane wreckage beneath the water, officials from the agencies involved in the search said.

The couple also owned a charter plane company operating out of East Hampton, several restaurants including the 1770 House and Cittanova, large land holdings and a sand mining operation, said Southampton supervisor Jay Schneiderman, who has known the couple for decades. Bonnie Krupinski's family also have been long-term fixtures in the community with land handed down over the generations.

The couple often made anonymous donations and contributed to major historic restoration projects as well as people who had fallen on hard times, Mr. Van Scyoc said.

"Many times he would make donations anonymously, so I don't think a lot of people understand the impact he and Bonnie had," Mr. Van Scyoc said. "They had an influence on the community in every corner of community life."



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## GREATER NEW YORK

# Bridge Work Stuck as Funds Run Dry

BY PAUL BERGER

Each time Amtrak opens the 100-year-old Portal Bridge over the Hackensack River in New Jersey it threatens to delay tens of thousands of commuters on the nation's busiest passenger rail line.

On Wednesday, Amtrak opened the swing bridge twice. The openings allowed two green tugboats to sail up the river to retrieve a construction barge near Kearny, N.J.

The barge held a crane that recently completed a small pier that will support construction of a new 2.3-mile-long rail bridge to reduce disruptions on the Northeast Corridor rail line.

The new Portal North Bridge is the beginning of the first phase of the Gateway Program, a sprawling package of projects including bridges, new railroad tracks and a tunnel that will double rail capacity between Newark and New York City.

If everything goes as planned, the program will take two decades to complete and cost an estimated \$30 billion. But its leaders, facing opposition from the Trump administration, are struggling to advance this single bridge project that costs \$1.5 billion.

The two states have committed \$750 million toward the replacement bridge, but the federal government is showing little enthusiasm for financing the remaining \$750 million.

"If you're waiting for that moment when all the pieces fall into place, that first piece is more frustrating than any other," said Steven Cohen, chairman of the Gateway Program Development Corp., which is overseeing the program.

Mr. Cohen, a former secretary to New York Gov. Andrew Cuomo, said he realizes that from the outside Gateway's prospects look bleak. But he said back-channel conversations between state and federal officials are providing hope.

"My experience has frequently been one in which it appeared no rational person would conclude there is hope and suddenly it's as if the



**The Portal Bridge over the Hackensack River swung open twice Wednesday to let tugboats pass.**

world has reversed course," he said.

So far this year, the Portal Bridge has failed to close three times, disrupting NJ Transit commuters traveling between New Jersey and New York, as well as Amtrak passengers shuttling between Washington, D.C., and Boston.

In March, when the bridge failed to close in time for the morning rush hour, more than 150 trains were delayed or canceled, frustrating about 66,000 travelers.

At about 10 a.m. on Wednesday, train traffic halted and a bell rang out from the Portal Bridge. From a control room 25 feet above the tracks in the center of the span, a bridge operator removed the wedges that hold the span in place, lifted the rails, raised the catenary power lines and swiveled the bridge 90 degrees to an open position.

Swing bridges are among the most difficult to operate and maintain. Amtrak usually sends at least six workers, in-

cluding a mechanic, a pipe fitter, a welder, an electrician and a signals specialist for each opening in case there is an issue. Amtrak sent more than a dozen workers Wednesday, so they could take advantage of the occasion to perform federally mandated testing.

Bob Schwartz, an assistant division engineer with Amtrak, said that because the bridge is so old, workers often have to fabricate their own parts when making repairs.

Until last year, he said, the bridge used to open three or four times a month, mostly to make way for a barge carrying waste from North Jersey.

Those shipments have dwindled so much that the bridge opens less often now, posing a different sort of problem. "If it sat there for 60 days, you are rolling the dice on whether it's going to be a good opening or not," Mr. Schwartz said.

The bridge stands about 25 feet above the water, which is why even the tugboats couldn't fit beneath it. Its replacement

will be more than 50 feet above the water and will be a fixed span.

Gateway's prospects looked good under the Obama administration, which pledged to fund half of the program's costs. But they have dimmed, with the Trump administration saying New York and New Jersey must contribute a bigger share.

In November, the U.S. Department of Transportation downgraded the bridge project's rating in a federal grant funding program, setting back its chances of receiving funds. Asked about the downgrade last week, a transportation department spokeswoman said in a statement: "It is the responsibility of the state and local sponsors of these projects to have adequate funding plans."

John D. Porcari, the interim executive director of the Gateway Program, said the new bridge is fully designed and has all of the required permits. But the project can't begin searching for contractors until federal funding is secured.

## New Plan In Garment District

*Continued from page A10A*  
Council Speaker Corey Johnson. "What we've negotiated here is a real plan to preserve it for years to come."

In the Garment District's heyday, from the 1920s to the 1950s, it was one of the city's largest employers, with hundreds of thousands of clothing manufacturing jobs. But rising rents and global competition started to take its toll as manufacturers moved jobs overseas.

In 1950, apparel-manufacturing jobs in the city numbered 334,182, according to the Garment District Alliance, a group that represents both landlords and businesses. By 1990, the number had dropped to 93,986, the Alliance said. And in April, the city's apparel manufacturing fell to 11,900, a 7% drop from the prior year, according to the state Labor Department.

About 9 million square feet fall within the boundaries of the 1987 zoning regulation, according to the Alliance. But many landlords are leasing space for uses that don't comply with those rules.

"This plan provides needed investments in the fashion-manufacturing sector, while at the same time removing antiquated zoning restrictions that have

simply failed to stop the exodus of jobs overseas," said Barbara Blair, president of the Alliance, which counts property owners among its members.

Indeed, even some Garment District proponents have given up space there. For example, Nanette Lepore, the owner of her eponymous brand, is moving a large part of her operation from the Garment District to about 5,000 square feet of space in the Brooklyn Navy Yard. She will maintain about 1,100 square feet in the Garment District, where her firm produces about 80% of its product, she said.

"It wasn't just the cost that got me to the Navy Yards," Ms. Lepore said. "We're working in a place with paper makers, artists, jewelry makers and all the food people on the main floor."

The city plan has a two-pronged approach for manufacturers seeking to stay in the Garment District. Landlords taking advantage of the tax-abatement part would have to lease space for a minimum of 15 years at rents, including expenses such as taxes, capped at \$35 a square foot.

Officials with the Economic Development Corporation said they have gained commitments from three owners for space in four buildings, totaling 300,000 square feet.

The other part of the proposal is the city's commitment to buy a Garment Center Building with a nonprofit developer, who would operate the property as dedicated production space. The city will launch the public-review process to lift restrictions on June 11.



**Manufacturing jobs have declined in Manhattan's Garment District.**

## GREATER NEW YORK WATCH

## CONNECTICUT

### New Bridge on I-95 Is Set to Fully Open

Connecticut transportation officials say a new bridge on Interstate 95 between New Haven and West Haven is set to fully open to traffic Monday after a \$141 million replacement project.

The northbound side of the West River Bridge is scheduled to open nearly two weeks after the southbound side was completed and opened.

The project began in 2014 and included installing three traffic lanes in each direction. Offi-

cials said full shoulders were added to help reduce lane closures in the event of an accident or police activity.

The 1,000-foot bridge first opened in 1958 and is one of the longest and most traveled in the state. More than 136,000 vehicles cross it every day.

—Associated Press

## NEW JERSEY

### Suspect in '99 Killing Identified With DNA

DNA evidence has helped identify a suspect in the sexual assault and murder of a nail sa-

lon worker found dead in a Bergen County alley nearly two decades ago, authorities say.

Hyo Lee, a 33-year-old immigrant from South Korea, was found dead on July 4, 1999, in Englewood.

State and county authorities say advances in forensic technology allowed them to create a DNA profile from evidence left at the scene, and a national database identified 44-year-old Jose Colon.

Mr. Colon, who served time after an assault conviction in Ohio, was deported to Nicaragua in 2005. New Jersey officials are now seeking his extradition on murder and sexual assault charges.

—Associated Press

## CONNECTICUT

### HUD Secretary to Visit Crumbling Home

U.S. Housing and Urban Development Secretary Ben Carson will visit Connecticut on Monday to tour one of many homes plagued by crumbling foundations.

Mr. Carson will tour the Willington home of Maggie and Vincent Perracchio. It is one of an estimated 30,000 or more houses in eastern and central Connecticut with failing foundations blamed on the mineral pyrrhotite that was in concrete mixtures.

The state's congressional delegation has been working with the Trump administration to try to get aid for repairs.

—Associated Press

## NEW JERSEY

### Three People Hurt in Hamilton Shooting

A man and two teenage girls are recovering from gunshot wounds after they were shot on the street in front of a Hamilton Township home early Saturday morning.

Hamilton police said a 15-year-old girl was shot in the face, a 16-year-old girl was shot in both legs and the 19-year-old man was shot in the leg. All were taken to Capital Health Medical Center, Fulde Campus.

The girls live in Trenton and the man in Hamilton. The shooting happened just outside the Trenton border.

—Associated Press

# WHAT TO EXPECT WHEN YOU'RE EXPECTING

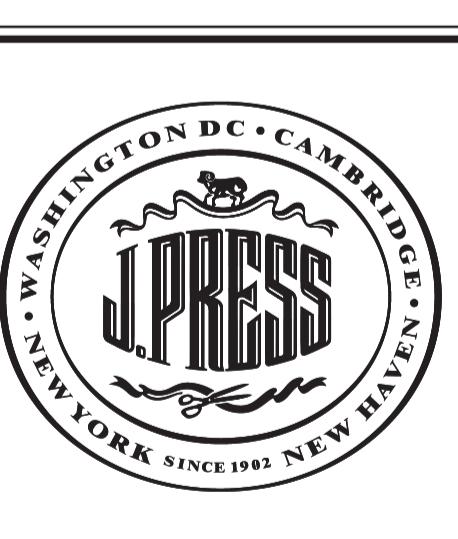
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# LIFE & ARTS

## HEALTH & WELLNESS

# An Ignored Skill in Aging: Having Fun

Experts abound in elderly grief, illness, finance and ethics but few focus on ways to enjoy plentiful leisure time

BY CLARE ANSBERRY

**WHERE ARE** all the experts on having fun?

Ken Dychtwald, CEO of Age Wave, a consulting firm specializing in age-related issues, was compiling a list of thought leaders around the world in the aging field. He found plenty of experts in ethics, social welfare, grief, illness, palliative care and geriatric health, among others.

He looked for experts on fun. "There weren't any," he says. He sees this as a lost opportunity because older adults have more time to have fun—7½ hours of leisure a day compared with 35-to-44-year-olds, who have only around 4 hours, according to a 2016 study by Merrill Lynch and Age Wave. He suspects many older adults are at a loss for how to fill that time, which he says may explain why the average retiree watches 48 hours of TV each week, according to 2017 Nielsen viewing figures.

It's not that older adults are glum. They're happier than middle-aged and younger adults, according to researchers at the Stanford Center on Longevity. Stress, anger and worry decrease with age, according to Laura Carstensen, director of the center and co-author of the study.

But many adults forget how to have fun. They've spent the past 40 years showing up for work every day, paying off mortgages, getting kids through school and taking care of aging parents. Having fun and being spontaneous—a key element of fun and play—gets lost. It's considered nonproductive, which makes some people feel guilty.

Fun is important at every age but can be even more beneficial as we grow older. The very things associated with it—laughter, levity, enjoyment, diversion—can act as antidotes to stress, depression, and anxiety. It often involves being with others, and social connections are linked to better cognitive health in later life and lower likelihood of developing dementia.

Dr. Dychtwald, 68, thinks there is great research potential in the benefits of fun for older adults and ways to help them figure out how to have it. He and his wife, wanting to relearn how to have fun, are doing things they never did before—like attending a Taylor Swift concert.

Play, often associated with fun, does have some experts, although mainly focused on children. One of the few studies on play and older adults concluded that "playful older adults are psychologically upbeat: they are happy, optimistic, cheerful, joyful, positive, relaxed, and enthusiastic individuals." The study, published in 2011 in the American Journal of Play, looked at 46 people, 65 years and older to come up with an "Older Adult Playfulness Scale" of characteristics.

Fun is different for every person. What makes you happy? What makes you laugh? What activities did you do in your youth? Fun is

usually not being kept busy by someone else. "There's a real sense of choice," says Peter Gray, 74, a Boston College research professor and psychologist who studies play, primarily in children.

For Joy Smith, 74, fun has to involve others. "It's hard to have fun without someone," says Ms. Smith. She loves roller coasters and luckily has two childhood friends who will join her riding the Intimidator at Carowinds, an amusement park in nearby Charlotte, N.C.

Cyd Madsen, 65 of Alma, Ark., doesn't think travel is much fun. Too much preparation, packing, missed connections—and laundry and catching up afterward. Fun for her is hiking with her dog, Molly, in the Ozark mountains. In her more spontaneous moments, she says, she will put on her headphones and dance in the back yard. "Fun is the cheapest thing I can think of for a lot of us who are getting older," she says.

Psychologist Elizabeth Skibinski-Bortman, 71, asks each client at their first session: "What do you do for fun?" Some can't think of anything. Others say they go to the gym, but when pressed say it's



Roy Jacobs and Bobbi Flotta play pickleball at a community center; below, Mary Ann Brincka shares photos with a fellow player. Left, psychologist Elizabeth Skibinski-Bortman, here at her daughter's wedding reception, asks clients 'What do you do for fun?'

be closer to her only grandchild. She explored classes at the gym and considered yoga, but thought pickleball looked like more fun. She plays three times a week. On Mondays and Fridays, she and a group of women go out to eat after. Wednesday is their tea outing.

Ms. Spradlin says she put play aside while she was raising her children and working with people who had brain injuries, a rewarding but intense career. "I didn't have time to have fun," she says. "Now I do."



not really fun. Answers can provide a clue as to whether a person is depressed because those with major depression often don't experience pleasure or fun. She encourages her older clients to get outside and be physically active, when possible, because it releases endorphins, which trigger positive feelings. Recently, she was walking on a trail while listening to an audiobook "Becoming Grandma" by journalist Leslie Stahl. "I was laughing out loud," she says.

We're really designed to play through our lifetime, says Stuart Brown, psychiatrist and author of "Play: How it Shapes the Brain, Opens the Imagination and Invigorates the Soul." Loneliness, a problem for many senior citizens, "is ameliorated when they find a

group and have a playful interaction, whether book club or birding," says Dr. Brown, 85, who founded the National Institute for Play in Carmel, Calif., to cultivate scientific study. The institute has an active board but no longer has any staff other than Dr. Brown, who gives speeches about the importance of play and helps teach a class at Stanford. While he considers play fundamental to well-being, it's not considered a top priority when it comes to public health. He no longer raises money for research.

Roy Jacobs says he doesn't need an expert on fun. "I am one," says the 88-year-old, sitting one recent morning on a bleacher at a local gym waiting his turn at pickleball, a paddle game that is a mix of tennis, badminton and ping pong. "That's all I do is have fun."

He semi-retired at 65 from his electrical contracting business and fully retired at 78 to take care of his wife, who has since died. Working outside kept him fit, he says, and less stressed. Now he spends six months a year skiing in Vail, Colo., where his daughter lives. In Pittsburgh, his home, he bowls and plays pickleball at the Bethel Park Community Center with two dozen others.

Most of the men and women are in their 60s and older, although one high-school senior joins them. They are competitive but not overly so. A missed shot elicits nothing stronger than "Oh sugar."

Brenda Spradlin, 62, started playing after moving to Pittsburgh from Kentucky five years ago to

**WHAT'S YOUR WORKOUT?** | By Jen Murphy

## HE HIT HIS FITNESS GOOOAL

**THE 2018 FIFA** World Cup, arguably the world's biggest sporting event, kicks off June 14 in Russia. Soccer players aren't the only ones feeling anxious. Andrés Cantor, the legendary Argentine soccer commentator known for his enthusiastic "Gooool!" shouts, is a ball of nerves.

The five-time Emmy-winner and Telemundo star isn't worried about who wins or loses. He's concerned with how he'll find time to exercise while calling eight consecutive games in seven cities in eight days. "My spin instructor and trainer have been my shrinks in the lead-up," he says.

Mr. Cantor, 55, has dropped 11 pants sizes and 55 pounds in under two years. For decades, his weight yo-yoed. In 2015, his daughter, Andrea, dragged him to his first spin class. "I honestly didn't like it," he says. "But I kept going, because I knew the cardio was good for me." He then met instructor Sandra Gonzalez, whom he calls "Messi on wheels," referring to Argentine

soccer star Lionel Messi. "She had so much energy and was so motivating," he says.

But spin classes alone didn't yield results. When he returned home to Miami after the 2016 Summer Olympics in Rio de Janeiro, Mr. Cantor, who stands 5-foot-11 and weighed 285 pounds at the time, was determined to lose weight. That October, he started working with trainer Mike Causidas, owner of M Fitness in Miami. "The first thing I told him was that I hate weights," Mr. Cantor says. "He told me that was my problem."

Reluctantly, Mr. Cantor began strength training, first with light weights, then heavier. As he shed pounds and became more mobile, he moved to exercises like burpees and sled pushes. He weighs 230 pounds and says he hasn't been this fit since he played club soccer at the University of Southern California.

Mr. Cantor used to have a size 44 waist. When he went shopping

last year, he says he tried on a pair of size 36 skinny jeans. They were too big. "I swapped for a size 33 and when they fit I yelled, 'Yessss!' like I was calling a game," he says. "Everyone in the shop was alarmed."

He knows even an abbreviated version of his daily two-hour workouts will be tough in Russia. "I'm going to go through exercise withdrawal. But my trainer keeps reminding me I should enjoy the moment and if I fall off track, I can pick up my routine when I get home," he says.

### The Workout

Mr. Cantor works out Monday through Saturday when in Miami. He takes hourlong spin classes five mornings a week. When on the road, he tries to find a spin studio. Before or after spin he meets his trainer for an hour. They alternate traditional weights with days dedicated to obstacles

Please turn to page A12



Soccer commentator Andrés Cantor has lost 55 pounds thanks to a dedicated routine of strength training and spinning and a smarter diet.

## LIFE &amp; ARTS

## BOOKS

# A Chinese Hit Comes To America

BY TOBIAS GREY

**ZHOU HAOHUI'S** crime series "Death Notice" has sold over 1 million printed copies in the writer's native China.

Now an American publisher is preparing to introduce it to English-language readers, with the first book in the trilogy slated for U.S. release on Tuesday.

Set in China's southwestern city of Chengdu, "Death Notice" follows Capt. Pei Tao as he and other detectives attempt to track down Eumenides, a shadowy vigilante who sends letters, or death notices, to people he believes have gotten away with crimes.

One of the book's victims is a wealthy woman who runs over a roadside vendor in her BMW, killing him, but she escapes punishment because of her husband's political connections. Eumenides—the name is a nod to the vengeful Furies of Greek mythology—tells his victims when they can expect to die and even encourages online voting to help determine his next target. He executes them with everything from knives to bombs.

A character like Eumenides can be a cathartic one for Chinese readers, said Mr. Zhou, a 41-year-

old former schoolteacher who has written 14 books. He likened the villain to the folk-hero concept of *youxia*, or warrior vigilante, popular in classical Chinese poems and literature.

The first "Death Notice" book came out in 2009, and the trilogy has inspired a similarly named online series that has been viewed more than 2.4 billion times, according to Cheng Feng at Shanghai Dook Publishing, the Chinese publisher of "Death Notice." A new generation of Chinese thriller writers began to develop five to 10 years ago, Mr. Cheng said, prompted by the popularity of overseas novelists like Dan Brown, Ken Follett and Keigo Higashino.

As readers have caught on to Mr. Zhou's work, so have plagiarists, Mr. Cheng added.

Mr. Zhou said he has been to court twice in the past five years because of such disputes, winning one plagiarism case and losing the other.

Bian Jiang, a 27-year-old bank manager from Huzhou, became a "Death Notice" fan after finding the books in his university library.

"I like the way the books feature a very cerebral conflict between the police and a serial killer where, ev-

ery step of the way, each side is trying to guess what the other is thinking and predict their actions," he said.

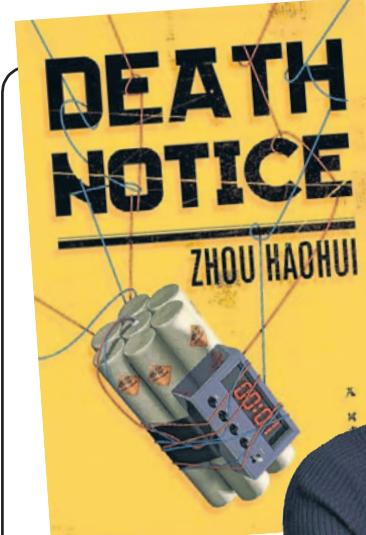
"Death Notice" is the first Chinese thriller to be published by Doubleday, which is planning an 18,000-copy print run in the U.S. and to translate the next two books in the series, said editor Rob Bloom.

"I liked that it was something very much in the Western thriller tradition: a madman holding a city hostage, and an elite crew of detectives out to get him," Mr. Bloom said.

Sweetening the deal: An English-language version of the first book was available, thanks to Shanghai-based translator Zac Haluza.

"Often books in translation might come in with 30 or 40 pages translated and maybe a synopsis of the rest of it, because a lot of places don't want to make a full translation before they have a deal," Mr. Bloom said. "I was thrilled to have the whole thing in."

"Death Notice" contrasts the glittering skyscraper existence of Chengdu's upper class with the cockroach-infested slums of its poorest inhabitants. It remains to be seen how American readers will respond to how it diverges from the more familiar ways of



Zhou Haohui,  
author of 'Death  
Notice,' has written  
14 books, including  
murder mysteries  
based around  
Chinese cuisine.



LIU LEI

stateside sleuths and crime thrillers in general.

For example, one argument among detectives concerns whether to use one of Eumenides's targets to lure him out into the open. One officer warns that he could use a sniper rifle to do the killing from afar, but his concern is dismissed.

"Where do you think we are, Washington, D.C.? Not even our department has that kind of equipment," says a colleague.

Elsewhere, Capt. Pei seems to be a lone wolf in the early chapters of the book but falls into line when his

maverick behavior is criticized by his commanding officer.

When an investigative task force is formed, they live together in the same dormitory, common practice for Chinese police on an important case, Mr. Zhou said.

"What really caught my eye is that you're in a somewhat familiar setting where you have your police and an anonymous bad guy, but there is also this idea of respecting people's sense of honor and the chain of command," said Mr. Bloom, something, he added, "so foreign to what a Jack Reacher might do."

## Hitting a Fitness Gooool

Continued from page A11  
and interval drills.

Mr. Cantor might push and pull sleds, slam battle ropes, high-step over small hurdles and do variations of plank pose. Now that he's lost weight, he loves doing ladder drills. "I feel so much more mobile in my new body," he says. Drills last 45 seconds to one minute. Mr. Cantor says if he has poor form, Mr. Causadias makes him redo the drill. "He does not let me off the hook the entire hour," he says. On Saturdays, he works out at his home gym.

When Mr. Cantor travels, he tries to spin and train at the hotel gym. Mr. Causadias sends him motivational texts and tips. Mr. Cantor replies with photos of himself working out, which he often posts on social media.

### The Diet

Mr. Cantor says an Atkins-inspired diet low in sugar and carbs and high in protein has worked for him



Mr. Cantor works with a medicine ball with trainer Mike Causadias. He says texts from his trainer will keep him motivated to squeeze in a workout during the World Cup in Russia.

ANDRIANA MERLEUTA FOR THE WALL STREET JOURNAL

after having tried "every diet known to mankind."

He has two boiled eggs and half of an avocado for breakfast. Occasionally he adds a cup of cottage cheese and lean ham. Post-workout he has a piece of fruit or a protein bar. Lunch is fish or chicken, brown rice and a salad. He has another protein bar around 5 p.m. After his

daily, nationally syndicated radio show he has a protein like steak or fish and a salad.

Mr. Cantor says travel always invites temptation from unhealthy food. "After a game, I might get to my hotel after midnight," he says. "I would clean out the junk food in the mini bar." He jokes he now packs protein bars as if they were

toothpaste.

Learning portion control has also been key, especially when faced with unhealthy choices. "I don't succeed every time, but if I order a burger and fries, I'll now eat the burger, no bun, and pick on six or seven fries," he says. "In the past, I'd clean my plate."

### The Gear & Cost

He uses his Apple Watch to track his steps and calories. He likes Nike Dri-FIT workout apparel and wears Nike Air Zoom Pegasus sneakers (retail \$120). He spends about \$2,000 a month for his spin classes and trainer fees.

"I feel blessed I can afford to invest in my health," he says.

### The Playlist

"I've become hooked on reggaeton," he says, referring to the genre influenced by hip hop and Latin American and Caribbean music. He also enjoys the Beatles and Bee Gees. "Billy Joel is my idol," he says.

### Help Shed Fat By Lifting Weights

Like many people struggling to lose weight, soccer broadcaster Andrés Cantor thought cardio would help him drop pounds. "Running and spinning may burn calories, but strength training burns fat," says Mike Causadias, owner of M Fitness in Miami.

Studies have shown that after a weight-training workout, our metabolism can get a boost 15 or more hours later. "Weight training builds more lean muscle mass, which becomes a calorie-burning machine," he says.

Strength training is a great way to initiate weight loss and build stamina. "Muscles play a huge part in endurance," Mr. Causadias says.

But don't ignore cardio, either. "It is important for heart health and cardiovascular fitness," he says.

Low-impact activities like swimming, walking or running on an antigravity treadmill are great alternatives until people shed some pounds, he says. Mr. Causadias says a combination of cardio and weight training is ideal, but the key is to start with some kind of exercise.

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## LIFE &amp; ARTS



Clockwise from above: Nakajima Yoshiume's 'Clumsy Waiter' (mid-19th-century); Hakuin Ekaku's 'Monkey'; Ito Jakuchu's 'Elephant' (1795)

## ART REVIEW

## Elegance That Encourages Laughter

BY LEE LAWRENCE

*Delray Beach, Fla.*  
**THICK BLACK LINES** mark the contours of an elephant depicted head-on, its legs merging into a single, columnar mass fringed with a curlicue of toes, its body so large only a sliver fits inside the painting. Ito Jakuchu's 1795 "Elephant" is at once imposing and cute, one of many of the 48 ink paintings in "Unexpected Smiles: Seven Types of Humor in Japanese Paintings" with a high "Aw!" factor. That is a good thing. Humor and entertainment depend greatly on a body of shared knowledge and references, and the labels can better work their magic when playful visuals have already hooked us.

Credit for the selection goes to the show's originator, Stephen Addiss, professor emeritus of art history at the University of Richmond. And Tamara Joy is to be commended for their pre-

sentation at the Morikami Museum and Japanese Gardens. The museum's chief curator, she brings out political zingers, possible social commentary, and cultural references in her labels. She has also created an effective introduction, spotlighting four instantly appealing pieces that offer varying degrees of complexity.

In 18th-century Japan, as her label points out, "Elephant" also offered the thrill of seeing an odd-looking, exotic animal. More layered, "Snowman Daruma" by Fukuda Kodojin (1865-1944) presented a charming portrait of the founder of Zen Buddhism. Infused with puns that the label decodes, it is also one of the show's many amusing reminders that Buddhist practice isn't the beatific experience people like to believe.

Though the works are grouped under such headings as "Exaggeration," "Parody" and "Personification," these categories prove only

mildly useful. Best to imbibe the energy that the paintings collectively embody, for there's nothing like a dollop of peace and a lavish sprinkling of prosperity to fuel a surge of creativity. Add a pinch or two of authoritarian control, and artists are quick to whittle wit into barbs. So it was in Japan during the Edo period (1603-1868) when the shogun oversaw the smooth running of a feudal system whose *daimyos* (lords) had armies of samurai.

It was also a time when country folk streamed into cities. Merchants prospered. Greater access to education meant literacy rates soared. And urban life grew ever more lively. Caricatures filled prints and illustrated books, poetry took wild turns, and comic fiction flourished. Salesmen hawked goods by putting on a show. Street entertainers enacted folk tales, impersonated fantastical creatures, paraded exotic animals. Temple festivals sprouted monthlong carnivals with acrobats, storytellers, trained animals, staged dramas, sideshows, you name it.

Some paintings, like Hakuin Ekaku's early 18th-century "Korean Acrobats" and Nakajima Yoshiume's mid-19th-century octopus as "Clumsy Waiter," reflect this broader context, which this installation underscores with the fortuitous addition of 40 *Edo-goma*. These are colorful wooden toys that spin like tops and depict everything from beloved Buddhist figures to fierce samurai and characters from folk tales. They are the work of Hiroi Michiaki, a fourth-generation maker of such tops, and part of the Morikami's permanent collection.

This popular culture was so vibrant it persisted into the Meiji period (1868-1912), when the emperor once again held the reins of power and the island faced more change as it increasingly opened up to the outside world. Threaded into this vibrant cultural tapestry was a good amount of venting that censors readily ignored as long as the medium was ephemeral. But criticize the social order in an enduring art form or take direct aim at a leader, and artists could—some indeed would—find themselves banned.

The 16th- through 19th-century paintings we see here were, by their very nature, durable, and they would not have alarmed the censors. They are either apolitical—like the delightful, early 19th-century depiction of fat-bellied, sumo-wrestling frogs by Mori Shuhō and any number of Buddhist-themed paintings—or innocuously general,

such as poetess Takabatake Shikibu's 19th-century "Bannerman as a Kite," which mocks the inflated ego of those who led ceremonial processions for *daimyos*.

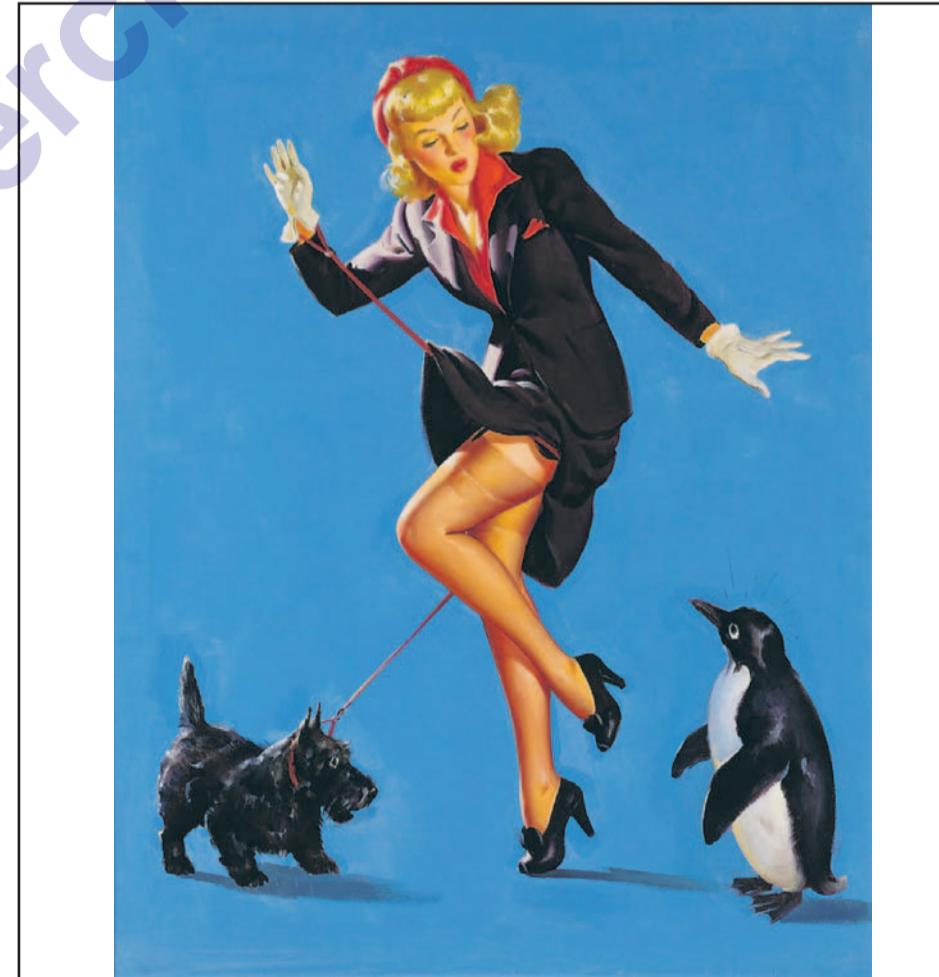
Still, as much knowledge as we might bring to the show or how deep we might dig, it would be presumptuous to assume we get every

joke. A few are bound to elude us. Is Hakuin's depiction of a monkey, its long arm stretching down to catch the moon's reflection in water, a sly put-down of a revered 14th-century writer? Perhaps. And as we ponder this, we smile because one thing's for sure: This is one awfully cute monkey.

**Unexpected Smiles: Seven Types of Humor in Japanese Paintings**

Morikami Museum and Japanese Gardens, through Aug. 5

Ms. Lawrence writes about Asian and Islamic art for the Journal.

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## SPORTS

## FRENCH OPEN

## RIVALS SET TO MEET IN PARIS

BY TOM PERROTTA

PARIS—The list of cities in which Serena Williams has beaten Maria Sharapova reads like a travel guide: Madrid, Doha, Melbourne, London and Miami to name a few. All of this one-sided global competition has added up to a total of 19 Williams victories—including the last 18 matches in a row. Sharapova has beaten Williams just twice, both times in 2004.

One of those, though, was the Wimbledon final—a defeat that devastated Williams, and motivated her to dominate Sharapova whenever possible. On Monday at the French Open, the rivals will meet again.

"Despite the record that I have against her, I always look forward to coming out on the court and competing against the best player," Sharapova said.

Williams loves this competition, too, but not because she and Sharapova get along. They never have, and Williams was disappointed in Sharapova when Sharapova's autobiography, published in September of last year, told a story about the aftermath of the 2004 Wimbledon final. In the book, Sharapova wrote her victory caused Williams to cry in the locker room with "guttural sobs, the sort that make you heave for air, the sort that scares you."

Williams said she was disappointed by the book.

"I think the book was 100% hearsay, at least all the stuff I read and the quotes that I read," Williams said. "What happens [in the locker room] should definitely maybe stay there."

Williams added: "It would be more shocking if I wasn't in tears."

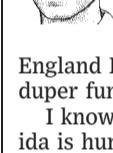
Williams's coach, Patrick Mouratoglou, said Williams is ready—and eager—to play Sharapova again.

"I don't know what's going to happen, but what I know is that she's going to be super focused," Mouratoglou said.



NFL | By Jason Gay

## Bill Belichick Isn't a Barrel of Laughs



Folks, there's an ugly, ugly rumor going around the NFL these days, and I'll just come out and say it:

Apparently, the New England Patriots aren't super-duper fun to play for.

I know: it's like finding out Florida is humid. Or a ride in a convertible is airy. Or that doughnuts aren't a terribly healthy dinner.

Do you mean to tell me that life on the Patriots—that salty sea vessel piloted by the Grumpy Lobster Boat Captain himself, Bill

Belichick, a man whose smile appears once every 17 years, like a cicada—isn't a dance party full of ha-ha's and yukkety-yuk-yuk-yuks?

Let me sit down and reel from this shock!

This is news, however, because Patriots minicamp begins this week, and everything involving New England's football club is news. Tom Brady could find a turtle in his backyard and it's a three-part front page story up in Boston, plus a documentary.

Meanwhile, the rest of the planet despises the Patriots, so even the slightest whiff of negativity gets brewed into a full-blown, five-news-chopper controversy.

As it did this past week, when a New England short-timer named Cassius Marsh dumped from the Pats roster after a handful of games last season—told the San Francisco Chronicle that his existence with the Patriots was nasty,

brutish and short.

"They don't have fun there," Marsh said. "There's nothing fun about it. There's nothing happy about it. I didn't enjoy any of my time there, you know what I'm saying? It made me, for the first time in my life, think about not playing football, because I hated it that much."

Then Eagles offensive tackle and noted Belichick skeptic Lane Johnson challenged the usual rationalization of New England's grim-faced ethos.

"All these guys talking about 'I'll take the rings.' OK. You can have your rings. You can also have [expletive] 15 miserable years," Johnson said, according to Bleeding Green Nation.

These are not the first voices to challenge the Patriot Way. But this latest round of no-fun criticism appears to be catching on, because there's unrest in New England. A bad taste lingers from the 2017-18 "WHY DIDN'T THEY PLAY MALCOLM BUTLER?" runner-up season. The Boston Globe reports that Brady is still sour about the way Belichick booted his personal

trainer, feels generally underappreciated, and it's part of the reason why he's stayed away from voluntary workouts. Rob Gronkowski—and if there's ever been an easy revert to the 'No Fun Patriots'

critique, it's been the jolly presence of Gronkowski, the human bouncy castle—has been reportedly so worn down, he was mull-

ing a career in...pro wrestling.

This is the part where a reasonable person interjects, "Ahem." This is what *always* happens to a championship-caliber club. Everyone wants to find the cracks. The Patriots have eaten pretty much everyone's lunch for a decade and a half now. Who wouldn't want to accelerate their decline?

I also believe it's a little unfair to Belichick. The man on the sideline might look like a stoic, humorless piece of granite, but I bet when you chisel that stoic, humorless piece of granite away, you find...OK, there's probably another stoic, humorless piece of granite underneath.

What do you want me to tell you, that Belichick is secretly Jerry Lewis? BRAADDYYYYYYYY!!!

There's a larger issue here, about the definition of success in the 21st century. Workplaces are struggling to find the sweet spot between productivity and having a good time, and there's a lot of mythologizing the notion of fun. Silicon Valley is famed for its daycare center style offices with slides, ping-pong tables and cereal dispensers—but those can mask a grinding culture where 100-hour weeks are the norm.

What do employees want today? Does appreciation have to be regularly articulated—or, as Don Draper famously huffed at his underling Peggy Olson, "That's what the money's for!" Is employee validation as essential as free coffee—

or is that need a symptom of entitlement?

What I'm really trying to ask is: Can we blame this all on millennials? With the Patriots, the blame-the-kids narrative doesn't work so cleanly. Tom Brady might look preserved in amber, but he is not a millennial. He turns 41 in August. He is as Generation X as a Suzanne Vega cassette, and a living embodiment of the Patriot Way—a player raised from seed by Belichick, who sacrificed money and personal accomplishments in pursuit of greater goals, won five Super Bowls, and still wants more.

And yet the key takeaway from New England's dominant run is not Brady's greatness, or Belichick's grouchy mien, but this: everyone is replaceable. That's at the core of the Patriots' success, and it is an essential truth of every workplace. Every human, no matter how skilled, can be replaced. That goes for football players. That goes for me. That goes for you. (OK I'm just kidding about you—we need you. If you want to subscribe or renew your Journal subscription, hit me here at [jason.gay@wsj.com](mailto:jason.gay@wsj.com).)

It's great to have fun, but in the end, it won't matter if you're having fun or not. One day, you're going to get a tap on the shoulder, and there, standing behind you, will be your replacement.

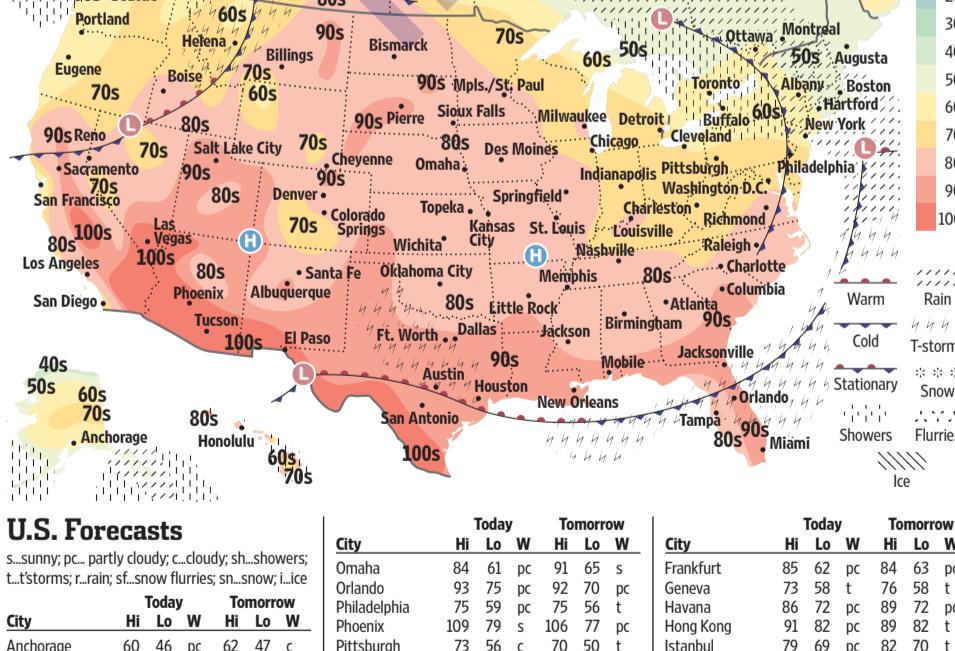
Or a talking robot named Mr. Bonkers.

That's not cruel. Mr. Bonkers is just business.



Serena Williams in action in Paris.

## Weather



## U.S. Forecasts

S=sunny; pc=partly cloudy; c=cloudy; sh=showers; t=tstorms; r=rain; sf=snow flurries; sn=snow; l=ice

Today Hi Lo W Tomorrow Hi Lo W

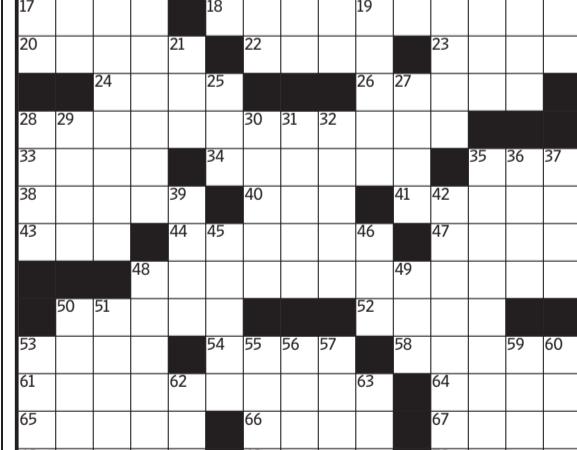
City	Today	Hi	Lo	W	Tomorrow	Hi	Lo	W
Anchorage	60	46	pc	62	47	c		
Atlanta	86	62	s	85	65	pc		
Austin	96	74	pc	99	75	s		
Baltimore	77	56	pc	77	53	t		
Boise	83	53	d	82	53	pc		
Boston	53	49	r	59	51	sh		
Burlington	59	51	r	60	51	r		
Charlotte	86	58	s	83	62	pc		
Chicago	79	61	s	74	52	pc		
Cleveland	74	57	pc	70	53	sh		
Dallas	91	73	s	94	75	pc		
Denver	89	61	s	93	59	pc		
Detroit	74	55	pc	73	51	pc		
Honolulu	95	75	sh	85	74	pc		
Houston	92	76	pc	94	76	pc		
Indianapolis	78	60	s	84	54	t		
Kansas City	80	59	pc	87	62	s		
Las Vegas	107	79	s	103	76	pc		
Little Rock	86	63	s	83	64	pc		
Los Angeles	81	61	s	77	60	pc		
Miami	91	76	pc	90	52	pc		
Milwaukee	80	57	s	69	52	pc		
Minneapolis	82	62	s	82	64	s		
Nashville	83	60	s	86	62	pc		
New Orleans	92	73	s	90	75	pc		
New York City	66	57	r	72	54	t		
Oklahoma City	82	62	t	87	63	s		

## International

Today Hi Lo W Tomorrow Hi Lo W

City	Today	Hi	Lo	W	Tomorrow	Hi	Lo	W
Amsterdam	70	53	c	68	54	pc		
Athens	88	71	s	92	71	pc		
Baghdad	110	78	p	107	80	s		
Bangkok	92	78	p	90	78	t		
Beijing	96	67	s	103	73	s		
Berlin	78	58	pc	79	55	pc		
Brussels	75	43	c	73	57	pc		
Buenos Aires	57	43	c	54	41	pc		
Toronto	106	90	s	107	92	s		
Dublin	66	51	pc	65	48	pc		
Edinburgh	63	45	d	61	44	pc		
Zurich	79	59	t	78	58	t		

## The WSJ Daily Crossword | Edited by Mike Shenk



CLOTHES-MINDED | By Zhouqin Burnikel

Across	23 Gardner and DuVernay	48 Favorite outfits for Godzilla?
1	Dance and drama, for example	50 Tongue in Tehran
14	24 Kill, as a dragon	52 Garnets and sapphires
17	26 Off the plate, perhaps	53 Woodstock singer Guthrie
20	28 Favorite outfits for spam lovers?	54 Meghan, to Prince Louis
21	30 Hitting three triples in a game, say	58 Attach with string
22	32 Random drawing	61 Favorite outfits for duel attendants?
23	34 Medioce	64 Bad thing in a crossword clue
24	36 The night before	65 Without dissent
25	38 Bit of crime scene evidence	66 Glitz party
26	40 RuPaul accessory	67 Tiny amount
27	42 "Puppy Love" singer/songwriter Paul	68 New moon, for example
28	44 Favorite outfits for fans of singer Janis?	69 Ladder part
29	46 He visited China in 1972	70 Bottom
30	48 Informal affirmative answer	
31	49 Ushers walk them	
32	50 Fishing rod attachments	
33	51 Have to have	

## OPINION

## Trump's Mexico Problem

AMERICAS  
By Mary Anastasia O'Grady

Donald Trump has cultivated a contentious relationship with the government of Mexican President Enrique Peña Nieto. But if left-wing Mexican presidential candidate Andrés Manuel López Obrador wins the July 1 election, it may not be long before Mr. Trump regrets many lost opportunities to advance U.S. interests by working with Mr. Peña Nieto to deepen institutional reforms.

The troubles that an AMLO presidency could bring to the U.S. go way beyond the renegotiation of the North American Free Trade Agreement. AMLO says he is an anti-establishment moderate out to unseat a corrupt political class. Others say he is an old-fashioned Mexican corporatist. But he can't get to the presidential palace without Mexico's hard left. If he makes it, he will be under pressure to repay the more extreme elements of his campaign.

The market will impose some economic discipline on him. But there will be no cost to opening the doors of his government's Foreign Ministry to every useful idiot, true believer in utopia, and power-hungry climber in the country.

Once in, they will bring their friends from places like Cuba, Venezuela, Nicaragua, Bolivia and Iran to "educate"

and provide "health care" in the *barrios* and *pueblitos*—and to share military advice.

The AMLO team understands the risks of a peso collapse sparked by an investor stampede for the exits if he is declared winner on July 2. This is why he makes a point of calmly promising "respect" and "friendship" with the U.S. and no big reversals of the market economy.

Between the election and the Dec. 1 inauguration, expect even more reassurances of continuity. Anything less could finish his presidency before it starts. Brazilian President Luiz Inácio Lula da Silva had to do much the same when he first won election in 2002.

Yet there are gaping inconsistencies between AMLO's worldview and his insistence that he is a centrist. He cannot, for example, promise fiscal restraint while pouring government resources into agriculture with the goal of reviving agrarian life circa 1960.

Nor has he reconciled his long history of opposing private investment in oil and gas with his vague and shifting suggestions that he will not disrupt the opening of the energy industry. In February AMLO adviser Alfonso Romo said that the campaign had reviewed most existing contracts and found them acceptable, as if he and the new president will be the final arbiters of

"sustain an intense relationship with *chavismo* in general and the party of Maduro"—the United Socialist Party of Venezuela—"in particular."

Exhibit A is Morena's president, Yeidckol Polevnsky, who speaks frankly about her admiration for Fidel Castro, Hugo Chávez and the Bolivarian revolution and of her desire to import Bolivarian ideas to Mexico. "She travels constantly to Venezuela" Mr. Gar-

cia Ramírez wrote, "participates in *chavista* activities, has continuous contact with the United Socialist Party of Venezuela." Another high-ranking Morena official who is enamored with Venezuela is Héctor Díaz-Polanco. He has said that Morena coming to power will allow Mexico to integrate into the Bolivarian revolution. Mr. García Ramírez's full column, "To Deceive with the Truth," is worth reading.

Mr. López Obrador will also attract opportunists who see him as a way to get ahead. Mr. Romo is one such figure. Another is Sen. Gabriela Cuevas, who once belonged to the center-right National Action Party but jumped to Morena in January to advance her political career. When I met her in Mexico last year she had just returned from a recreational break in Cuba where, she told me, she goes because she has "friends" in the dictatorship. She is also a fan of Iran, as she explained in a November speech in Mexico City: "Today Iran is one of the most important fighters against extremism, violence and terrorism. In this sense, both Iran and Mexico have been loyal to the constructive dialogue."

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Bring this stuff up and AMLO shouts "dirty war." Many Mexicans fear his vengeance if he wins and thus shrink from the debate. But no one will be able to say, after the fact, that the proclivities were not there. That includes Mr. Trump.

*Write to O'Grady@wsj.com*

BOOKSHELF | By Marc Levinson

## A Legume's World Conquest

## Magic Bean

By Matthew Roth  
(Kansas, 356 pages, \$24.95)

When the Trump administration announced in April that it would impose sweeping tariffs on imports from China, the Chinese government knew how to strike back. It threatened to slap a 25% tariff on U.S. soybeans and then canceled several incoming orders. It was no wonder that alarms rang out across the farm belt: American farmers planted 90 million acres of soybeans last year, an area nearly the size of Montana, and roughly a fourth of their production ended up in China.

This isn't the first time soybeans have been wielded as weapons in a trade war, and it almost certainly won't be the last. As historian Matthew Roth makes clear in "Magic

Bean: The Rise of Soy in America," trade restrictions helped turn the United States into the leading soybean producer in the world, and America's own eagerness to use soybeans against trading partners has helped Brazil and Argentina become major competitors in the soybean market.

American farmers first planted soybeans in the 1850s, but in tiny quantities. Aside from Seventh-day Adventists, who promoted them as a healthy food, and Chinese and Japanese immigrants, who used them to make tofu, "Japan peas" attracted few takers. In any case, the limited number of varieties available for planting were poorly suited to U.S. climates and soils.

Turning soybeans into a major cash crop was the work of government. For several decades after its founding in 1862, the main activity of the U.S. Department of Agriculture was distributing seeds to farmers. A remarkable cast of USDA officials who dedicated their careers to improving soybeans marches across Mr. Roth's pages: David Fairchild, who in 1897 set up a network of missionaries, diplomats and agricultural scientists to collect Asian soybean samples; Frank N. Meyer, a Dutch-born plant breeder assigned to roam rural China between 1905 and 1908 gathering 44 previously unrecognized varieties of soybeans while fending off complaints from Washington that his expense reports were late; Yamei Kin, the first Chinese woman to earn a U.S. medical degree, whom the USDA sent to China in 1917 to study uses for soybeans; and Charles Piper and William Morse, a two-man team whose landmark 1923 book, "The Soybean," was instrumental in promoting the soybean's virtues. They took enormous pride in their work. "I see that my name has been immortalized in the christening of a humble, mottled bean," Meyer wrote Fairchild in 1907. "What a joy!"

To raise prices during the Depression, the Agricultural Adjustment Act of 1933 gave farmers an incentive to reduce their acreage of certain crops and to plant others instead, including soil-enriching soybeans. But what to do with the beans? A 10% tariff on imported oils, imposed in 1934, was meant to prop up domestic growers of oilseeds. As so often

## Though soybeans are unloved by American consumers, the U.S. is the leading global soybean producer. How did that happen?

happens, though, Washington was working at cross-purposes: The federal levy on "artificially" colored margarine—often made from soybean oil—sheltered dairy farmers at the expense of soybean farmers. Most soybeans were thus harvested for seed, cut and baled as hay for cattle, or simply plowed under to improve the soil.

If Washington had few good suggestions for using the soybeans it was urging farmers to plant, Depression-era entrepreneurs were full of ideas. "The soybean truly took off in what might have seemed the unluckiest of times," Mr. Roth writes, "when the prospects for so much else in American life looked so bleak." Henry Ford became a tireless advocate, chasing the dream—never to be realized—of a car body made of soybean-based plastics. The German-trained Percy Julian, a pioneering African-American chemist, took charge of the soybean lab at Glidden Co. and filed a hundred patents on soybean technology. The Chicago Board of Trade created a soybean futures contract, allowing growers to hedge the risk of planting more beans. Output grew quickly, providing the raw material for the soy biscuits packed into soldiers' K-rations during World War II. When New York Gov. Thomas Dewey hosted a war-diet luncheon in 1943, featuring chicken-and-soybean-sprout soufflé and soybean bread, thousands of patriotic housewives wrote to request recipes.

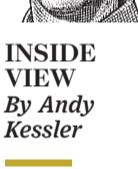
Soybean acreage quadrupled during the 1950s and 1960s, but it took Richard Nixon to reveal how essential this low-profile plant had become. Panicked by fast-rising inflation, Nixon prohibited the export of soybeans in June 1973. In an administration notable for bizarre economic policies, this was among the most insane. The hope was that a domestic soybean glut would lower the cost of feeding cattle and bring down the price of beef. Instead the short-lived embargo led Japanese buyers to protect themselves against an unreliable supplier by building a soybean industry in Brazil.

The lesson was not learned in Washington. In 1980, Jimmy Carter cut off grain and soybean exports to the Soviet Union to protest its invasion of Afghanistan. The result: Brazil shipped soybeans to the Soviets while American exporters sold to Brazil's regular customers. As Mr. Roth explains: "It ended up being an elaborate game of musical chairs." Nearly four decades later, Brazil exports more raw beans than the United States and trails only Argentina in exports of soybean meal and oil. And the market is global. If China no longer wants U.S. soybeans, more rounds of musical chairs may be in store.

As a food, soybeans still aren't much loved. When "The Simpsons" depicted daughter Lisa buying Soy Pops, "now with gag suppressant," the show was confirming a widespread prejudice. But this once obscure legume has become the basis of a massive industry. Mr. Roth had given us a lively, well-researched tale of how this came about. It's worth reading even if you feel no great desire to try a soybean-sprout soufflé.

Mr. Levinson's most recent book is "An Extraordinary Time: The End of the Postwar Boom and the Return of the Ordinary Economy."

## The Canard About Falling Incomes

INSIDE VIEW  
By Andy Kessler

As election season approaches, chants about the hollowed-out middle class predictably grow louder. Wages have been flat for decades, we're told. "In

1973, the inflation-adjusted median income of men working full time was \$54,030. In 2016, it was \$51,640," the New York Times breathlessly reported last year. Sounds awful. Except it's nonsense. Cast a leery eye on anyone who uses 1973 as a base—it was a high-water mark before a deep recession. But the real red flag—what makes this argument totally bogus—is the phrase "inflation-adjusted."

The odiferous offender is the manufacturer of inflation data, the Bureau of Labor Statistics. After the creation of Social Security in 1935, Congress would occasionally bestow vote-winning gifts on retirees in the form of benefit increases. In 1975 Congress switched to automatic cost-of-living adjustments based on a consumer-price index, or changes for "a market basket of consumer goods and services." That's food, rent, electricity, T-Mobile, Netflix.

Forget for a moment that some of that didn't exist in 1975. As consumer items got more feature-rich and complex, the BLS simply couldn't

note the absolute price of, say, a microwave oven. So the bureau came up with the indignantly named hedonic quality adjustment, defined as "decomposing an item into its constituent characteristics, obtaining estimates of the value of the utility derived from each characteristic, and using those value estimates to adjust prices when the quality of a good changes."

It's a better measurement but still inaccurate. Here's a thought experiment: Think about your car's automatic emergency braking, sometimes known as precrash or collision avoidance. It has been an increasingly popular option in recent years. By 2022, it will be standard on most cars. Some silicon sensors and a few pieces of code—today it costs maybe \$50 to produce. But what's it worth?

Let's do a little hedonic decomposing of our own. Before these sensors, you would have had to hire a person to ride shotgun and constantly watch for potential collisions and slam on the brakes for you. In 2016 the AAA Foundation for Traffic Safety estimated the average driver spends almost 300 hours a year in the car, logging more than 10,000 miles. Paying someone even \$10 an hour to stare into traffic means that over five years, collision avoidance is worth nearly \$15,000. Double if you want someone to look out the back window, too.

Does this show up anywhere in the consumer-price index? Of course not. One of the most lifesaving features has dropped in cost by three orders of magnitude in less than a decade. To the BLS, it's practically nonexistent.

Then there's that hunk of glass and plastic in your pocket. Your smartphone is your newspaper deliveryman, librarian, stenographer, secretary, personal shopper, DJ, newscaster, broker, weatherman, fortuneteller—shall I go

Don't believe the government's consumer-price index, which is obsolete.

on? The mythical man of 1973 certainly couldn't afford \$100,000 or more for dozens of workers at his beckoning.

By the time the BLS puts something new in the CPI basket, it's already cheap, so it misses the massive human-replacement price decline. The CPI is good at freezing a lifestyle and standard of living and showing how it gets more expensive over time. Great.

But the CPI absolutely doesn't take today's technology-infused lifestyle and work backward to show how much more expensive it would have been in 1973. Yet that's what pundits infer when they talk about a hollowed-out middle

class. How would the BLS reverse-decompose artificial intelligence and Alexa? Good luck with that.

The CPI is obsolete. The feds should more accurately rename it the CDI, for Currency Debasing Index. Most hedge-fund managers I know rely on the CRB Commodity Index, which tracks everything from oil and hogs to molybdenum and orange juice, as a proxy for inflation. The Bureau of Economic Analysis and the Fed also use hedonic adjustments for inflation, meaning that official measurements of gross domestic product and productivity are also massively understated.

Worse, that undermeasured hedonic cost decline driven by technology has allowed price increases to sneak in elsewhere without triggering classic inflation fears. Have you bought tickets to a professional basketball game lately? Studied your hospital bill? Rented an apartment? Bought smelly cheese, organic balsamic vinegar or a textbook?

Don't believe the numbers—at least not the government's numbers. Former Fed Chairman Alan Greenspan was on to this in 1996, saying the optimal level of inflation was "zero, if inflation is properly measured." Freezing today's lifestyle and going backward, I estimate a "true" median income of \$347 in 1973 against the \$51,640 of 2016. Today's middle class isn't hollowed-out. It's living high on the hog.

Eisenhower had set for a summit was concluding a treaty to recognize Austria's independence. The Austrian State Treaty was signed on May 15, 1955, and the summit went ahead. It was touted by the Soviets as having created a happy "Spirit of Geneva." This soon paid off for the Soviets. The Icelandic Parliament resolved that the

began to doubt that anything could be gained by another summit, which he blew up as the U.S. delegation gathered in Paris.

The next U.S. presidential summit, between President Kennedy and Krushchev, took place in Vienna in June 1961. From the beginning, Kennedy was outrageously browbeaten. During the meeting, Krushchev delivered an ultimatum restricting access to Berlin, which ultimately led to the erection of the Berlin Wall. I believe Krushchev's impression that Kennedy was weak led to the nail-biting Cuban Missile Crisis the following year.

We were relieved when Krushchev decided that he could cut a better deal with Eisenhower than his representatives in Geneva could. This led to a new summit between the U.S. and Soviet leaders in September 1959 in Washington. At that summit, however, Eisenhower also took a weak position on Berlin.

This weakness led Krushchev to conclude that a follow-up summit would pay off. That meeting was scheduled for May 1960 in Paris. But in the interim the U.S. gathered new intelligence that there was in fact no missile gap. Eisenhower's public position on Berlin got tougher. Krushchev

should draw down its military presence in the country. In April 1956 U.S. Army Chief of Staff Omar Bradley said that Russian propaganda touting its supposedly conciliatory mood "is having a direct effect on the integrity of NATO." But the "Spirit of Geneva" came to an abrupt end when the Soviets crushed the October 1956 Hungarian Revolution.

In the spring of 1959 I at-

tended the Geneva Foreign Ministers Conference and participated in negotiations with Soviet representatives. Based on our belief (prompted by the 1957 Sputnik launch) that the Soviets possessed a ballistic-missile advantage over the U.S., we were prepared to make significant and potentially dangerous concessions over Berlin.

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was a saint.

Mr. Stearman, who served on the National Security Council staff under four presidents, is author of "An American Adventure: From Early Aviation Through Three Wars to the White House" (Naval Institute Press, 2012).

By William Lloyd Stearman

The summit between President Trump and Kim Jong Un appears to be on track once again. But a presidential summit is seldom the right forum for nuclear diplomacy. My involvement in several summit meetings during the Eisenhower administration leads me to believe that serious negotiations can be conducted only by experts on both sides who have the time and knowledge to come to agreements. These agreements should only be ratified, not negotiated, at a presidential summit—especially when the U.S. is facing off with an intrinsically hostile leader.

President Eisenhower's first summit with Nikita Khrushchev took place in Geneva in July 1955. Khrushchev had been keen on a summit to crown his attempts at creating a spirit of détente and to encourage the U.S. to reduce its post-Korean War military buildup. One condition

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## OPINION

## REVIEW &amp; OUTLOOK

## The Other China Challenge

**W**hile President Trump focuses on trade and North Korea, China is aggressively building military outposts beyond its borders in the South China Sea. Beijing wants to push Washington out of the Indo-Pacific, and the Trump Administration and Congress may finally be developing a serious strategy to respond.

Trillions of dollars of trade annually float through the Indo-Pacific, which stretches from East Africa through East Asia. In recent years China has built military bases on artificial islands hundreds of miles from its shores, ignoring international law and a 2016 ruling by a United Nations tribunal.

The buildup has accelerated in recent weeks, as China has deployed antiship missiles, surface-to-air missiles and electronic jammers on the Spratly islands and even nuclear-capable bombers on nearby Woody Island. This violates an explicit promise that Chinese President Xi Jinping made to Barack Obama in 2015 that "China does not intend to pursue militarization" on the Spratlys.

The next step could be deployed forces. At that point "China will be able to extend its influence thousands of miles to the south and project power deep into Oceania," Admiral Philip Davidson, who leads the U.S. Indo-Pacific Command, said in April.

In the face of China's buildup, the U.S. has shown uneven commitment. Mr. Obama limited freedom-of-navigation patrols to avoid a confrontation and never committed the resources to make his "pivot to Asia" a reality. China saw Mr. Obama's hesitation and kept advancing. The growing concern is that China will begin to dictate the terms of navigation to the world and coerce weaker neighboring countries to agree to its foreign policy and trading goals.

Defense Secretary Jim Mattis lately has been putting this concern front and center. He recently rescinded an invitation to the Chinese navy to participate in the multinational Rim-pac exercises off Hawaii this summer. And at the annual Shangri-La security dialogue in Singapore this weekend, Mr. Mattis said that "the placement of these weapons systems is tied directly to military use for the purposes of intimidation and coercion."

He pointed to the Rimpac cancellation as a "small consequence" of this behavior and said

## Mattis and Congress push back against Beijing's military escalation.

there could be "larger consequences," albeit unspecified, in the future.

One such consequence could be more frequent and regular freedom-of-navigation operations inside the 12-mile territorial waters claimed by China. Joint operations with allies would have an even greater deterrent effect, and the U.S.

should encourage others to join. Beijing will try to punish any country that sails with the U.S., but that will underscore the coercive nature of its plans.

Believe it or not, Congress is also trying to help with the bipartisan Asia Reassurance Initiative Act (ARIA). The Senate bill affirms core American alliances with Australia, Japan and South Korea, while calling for deeper military and economic ties with India and Taiwan. It notably encourages regular weapons sales to Taipei.

The bill authorizes \$1.5 billion a year over five years to fund regular military exercises and improve defenses throughout the region. It also funds the fight against Southeast Asian terror groups, including Islamic State. This will help, but more will be needed. This year's \$61 billion military spending increase was more backfill than buildup, and China recently boosted its defense budget 8.1%.

ARIA also tries to address Mr. Trump's major strategic blunder of withdrawing from the Trans-Pacific Partnership trade deal, which didn't include China. The Senate bill grants the President power to negotiate new bilateral and multilateral trade deals.

It also calls for the export of liquefied natural gas to the Indo-Pacific and authorizes the U.S. Trade Representative to negotiate a deal with the Association of Southeast Asian Nations (Asean). If the U.S. had a trade rep who believed in trade, this could strengthen the U.S. relationship with Vietnam and the Philippines—countries at odds with China over its territorial claims and militarism.

The bill is backed by Republicans Cory Gardner and Marco Rubio and Democrats Ben Cardin and Ed Markey, which is a wide ideological net. China's rise, and Mr. Xi's determination to make China the dominant power in the Indo-Pacific, is a generational challenge that will require an enduring, bipartisan strategy and commitment. A firmer stand to deter Chinese military expansionism is an essential start.

## A Machinist Break-in at Boeing

**W**hen God closes a door to Big Labor, he opens a window—or maybe the International Association of Machinists is breaking and entering. On Thursday a small group of workers at Boeing's North Charleston, S.C., plant voted to unionize, defying the wishes of most of their colleagues.

The machinists union pulled off Thursday's victory by excluding the workers who have long opposed it. The union persuaded the National Labor Relations Board's regional director that 178 flight-line maintenance and production workers' jobs are so separate and specialized that they deserved to organize alone, as a micro unit. The union won entry with a 104-65 vote out of some 3,000 North Charleston workers.

Plantwide, Boeing workers' rejection of the union stretches to 2009 when they voted overwhelmingly to decertify. The machinists attempted a North Charleston revival in 2015, but the lack of worker enthusiasm was so embarrassing they canceled the vote. The union tried again in 2017, and 74% of the plant's workers voted against joining up.

Boeing is appealing Thursday's vote, and one of its arguments is that the 178 workers' jobs aren't as distinct as the union claims. The flight-

## A mere 104 of the plant's 3,000 workers voted to let the union in.

line technicians and technician inspectors focus on ensuring planes' airworthiness, which requires special training and skills and merits additional pay. But they also do the same work as other Boeing employees. They redo projects that need improvement and finish tasks that other departments didn't have time to complete. Up to one-fourth of

the time, they leave the flight line and work shoulder-to-shoulder with other employees on the production line.

This will introduce union politics across the plant, even if the other 2,800 workers won't have to join the union. The 2,800 had no chance to vote on this intrusion into work practices and its inevitable impact on morale and plant operations. Boeing claims this will cause "grave harm" and violates the NLRB's "community of interest" standard, which seeks to ensure that micro units aren't used to gerrymander.

The NLRB has already acted to end some abuses involving micro unions that emerged in the Obama years. Now the board has an obligation to review this case and assess if it violates the NLRB's collective-bargaining standards. As for Boeing and other employers, the vote is a warning that they must stay attentive to worker concerns—even in a right-to-work state in the South.

## Spain's Abrupt Left Turn

**H**is many opponents finally caught up with Mariano Rajoy on Friday when a leftist coalition ousted the Spanish Prime Minister's center-right government with a no-confidence vote in parliament. The risk now is that Madrid will unwind the reforms that have helped the country grow faster than its neighbors.

Mr. Rajoy's Popular Party (PP) has itself to blame for Friday's 180-169 defeat. Last month Spain's National Court convicted 29 people, including the party's former treasurer, of a kickback scheme. Mr. Rajoy denied knowledge of the operation, but the scandal has alienated PP voters and the party's liberal-centrist Citizens coalition partner, whose leader, Albert Rivera, called for snap elections.

Mr. Rajoy ignored Mr. Rivera's good advice and tried to hang onto power, giving an opening to Socialist Party leader Pedro Sánchez to cobble together a so-called Frankenstein coalition that few Madrid insiders thought possible. The crew includes far-left Podemos, Catalan pro-independence parties and the right-leaning Basque Nationalist Party, which had negotiated pension benefit increases for the region in Mr. Rajoy's last budget.

Mr. Sánchez has promised to honor that budget, as well as keep Spain's fiscal commit-

## Rajoy finally falls, but his reforms helped the Spanish recovery.

ments to the European Union. But to do that he'll have to keep Spain's economic engine purring. That will be hard to do with Podemos in the coalition. The Spanish left wants to roll back the Rajoy Administration's supply-side reforms, including tax cuts and the 2012 Derecho Laboral reform, which made it easier to hire and fire

workers, as well as implement a new wealth and inheritance tax.

Mr. Sánchez will also face pressure to change the penal code to facilitate the release of Catalan separatists and negotiate with the region's new chief, Quim Torra, who demanded talks Saturday. Mr. Rajoy navigated a fractious Catalan bid for independence last year by upholding Spain's rule of law, and most Spaniards don't want a rerun of that debate.

Mr. Rajoy, Prime Minister since 2011, said Friday "it has been an honor to leave Spain better than I found it," and he has. Spain's GDP growth clocked in at 3.1% last year, far above that of Italy (1.5%) or Portugal (2.7%), and the country's fiscal deficit is trending downward. Investors are expecting trouble as Spanish bond yields are rising, and the burden will be on Mr. Sánchez to show the left can govern better than it has in the past.

## LETTERS TO THE EDITOR

## There Are Reasons for Using Identity Politics

Republican Sen. Orrin Hatch's message that "Identity Politics Threatens the American Experiment" (op-ed, May 19) comes across as heartfelt and nonpartisan, but it is sure to be dismissed as self-interested or sour grapes by those who have gained power and built political careers on group grievances and identities.

Identity politics works primarily for Democrats. If all demographic subgroups that today lean right or left split their votes 60%/40% toward their favored political party going forward, Democrats would have great difficulty winning national elections. Assuming the GOP gets 60% of the white-male vote, 60% of the married white-female vote and 40% of the rest of the subgroup votes, Republicans would be tough to beat. However, as long as Democrats can capture roughly 75% of the nonwhite vote and better than 50% of the single white-female, millennial and college-educated vote, they are tough to beat. The more effective Democrats are in pigeonholing Republicans as the party of angry white males, the better their prospects for control of Washington. Divisive Identity politics works. It can be rationalized as an overdue reset of an American experiment that was morally tainted.

Unfortunately, too many people in and out of politics have too much riding on the Balkanization of America as a path to social justice and ideological homogenization. It will take a lot more than a Kanye West selfie and a Sen. Hatch appeal to our common American identity to turn the tide of identity politics.

JAY GILBERT  
Raleigh, N.C.

Sen. Orrin Hatch says "identity politics is cancer on our political culture." Spoken like a straight, white male. He extols "the American idea that all of us—regardless of color, class or creed—are equal" without

MEG CAMERON  
Rye, N.Y.

Embracing identity politics, what Sen. Hatch calls, "condition[ing] us to define ourselves and each other by the groups to which we belong," allowed me to receive a top-notch education. Yes, my all-female education "puts the demands of the collective before the sovereignty of the individual," but it is to right the wrongs committed for thousands of years against women who struggled to obtain an education they deserved.

I now attend Columbia University in New York City, an Ivy League institution that did not allow women to attend until 1983. For those women who fought to receive a Columbia education, their gender was not, as Sen. Hatch calls it, "an arbitrary difference," because the university did not see it as arbitrary at all. Until we, as Americans, purposefully create classrooms that treat boys and girls exactly the same, prioritizing the collective is necessary. Not only

necessary, it is the only way to achieve Sen. Hatch's American utopia in which all people "regardless of color, class or creed" are judged upon their individual merit and not their identity.

MADDIE WODA  
Columbus, Ohio

## Real Treatment of Mentally Ill Beats Prisons

As we continue to confront a broken mental-health system in which prisons serve as de facto mental institutions, we look back with a slightly romanticized nostalgia at the bucolic, but costly, asylums of yesterday ("Bring Back the Asylum," Review, May 19). Our nostalgia is enhanced by the reality that, post-deinstitutionalization, most community-based treatment centers proved inadequate and insufficient.

Howard Husock and Carolyn D. Gorman rightly suggest, before rushing to reopen "empty and eerie" institutions, we explore a wide range of treatment models in various settings. One such evidence-based, cost-effective and successful approach exists at Fountain House in New York City. Through its Community System of Care which combines psychiatric and primary care with social interventions in the areas of employment, education housing and wellness, people with the most serious forms of mental illness are recovering and experiencing reduced hospitalizations, homelessness and incarceration. A 2017 study by New York University confirmed a 21% reduction in Medicaid costs by members of Fountain House.

Also critical to repairing our broken system are the "vouchers" Jeffrey Geller proposes that would follow people with mental illness wherever they go. Such a shift to what are essentially value-based payments focused on health outcomes would be transformative and support treatment approaches in settings ranging from inpatient to community-based.

KENNETH J. DUDEK  
President  
RALPH AQUILA, M.D.  
Fountain House  
New York

Mr. Husock and Ms. Gorman are right on the money: We need inpatient mental-health facilities to treat the hundreds of thousands of Ameri-

JASON ACEVEDO, M.D.  
Abilene, Texas

## Many Reasons Democrats Seek Trump's Impeachment

Allen Guelzo's "Impeach Trump? History Counsels Against It" (op-ed, May 26) notes that, "many Democrats want to impeach Mr. Trump because they simply don't like him." That's a misleading oversimplification. Many Democrats (at least the ones I speak to) are happy to explain why they don't like him. They don't like him because he makes America unsafe, because of his disdain for important American principles (e.g., inclusiveness, heroism, respect, etc.), valued American institutions (the White House, FBI, science) and for his manifest disrespect for potential allies and essential friends. The president's behavior, rather than making America great again, is weakening and defacing America's integrity, making us more vulnerable.

LAWRENCE H. CLIMO  
Lincoln, Mass.

## Pepper ... And Salt

THE WALL STREET JOURNAL



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CALLISTA GOULD  
West Des Moines, Iowa

## OPINION

# I'm Running To Restore Yale Values

By James Kirchick

I love Yale. It's where I pursued a passion for sketch comedy, started writing a newspaper column, came out of the closet, and gained the critical-thinking skills that equipped me for a career in journalism. But recent events leave me worried that my alma mater is changing for the worse.

A sign that something had gone terribly wrong came in October 2015, when a viral internet video revealed a student mob shrieking at Nicholas Christakis, then master of Yale's largest residential college. That these students were treating a professor with such disrespect was bad enough, but the impetus for their outrage was an innocuous email

**My alma mater provides comfort to student mobs, and half the faculty back 'trigger warnings.'**

written by his wife, fellow professor Erika Christakis, doubting Yale needed to warn students about "appropriate Halloween wear." Yale's failure to stand up for the Christakises—he stepped down as master, she left the university—left me ashamed. When the university rewarded two of the mob's leaders with a prestigious prize, something was deeply amiss.

Further developments have only confirmed my worries. Yale ditched the title "master" on the ludicrous grounds that it is racist; a survey finds half the faculty approves of "trigger warnings" for readings and classroom discussions, and the number of campus administrators continues to swell while the cost of attending has increased to \$70,000 a year.

To reverse these worrying trends I have decided to mount a petition campaign to join Yale's Board of Trustees.

Yale instilled in me the two basic values that guide me as a writer: freedom of expression and the pursuit of knowledge. I have traveled to many countries where people are physically attacked or imprisoned for speaking their minds. That taught me never to take America's freedoms for granted.

The 1974 Woodward Report, Yale's policy on free expression, notes: "The history of intellectual growth and discovery clearly demonstrates the need for unfettered freedom, the right to think the unthinkable, discuss the unmentionable, and challenge the unchallengeable."

A worthy aspiration, but recent events have tested Yale's commitment to it. The Foundation for Individual Rights in Education gives Yale a yellow-light speech-code rating.

As a trustee, I will advocate that every incoming freshman be sent a copy of the Woodward Report. Yale's president and dean should also issue an annual statement modeled on the excellent letter sent by the University of Chicago's dean of students, Jay Ellison, to that school's freshman class. "Our commitment to academic freedom," he wrote, "means that we do not support so-called 'trigger warnings,' we do not cancel invited speakers because their topics might prove controversial, and we do not condone the creation of intellectual 'safe spaces' where individuals can retreat from ideas and perspectives at odds with their own."

A decade before the publication of the report bearing his name, historian C. Vann Woodward warned that "the University is in danger of sacrificing principle to expediency." If elected trustee, I promise never to sacrifice free speech, academic excellence or the pursuit of knowledge on the altar of fashionable opinion.

Mr. Kirchick, a journalist, is a 2006 graduate of Yale College.

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# Italy's Populist Flirtation Won't Last

By Josef Joffe

**E**verybody loves Italy for its savoir vivre and panache—not to mention Rome's place as the cradle of Western civilization. Yet there is a darker side to the country's vanguard role. In 1922 Italy gave the world fascism, more than a decade before Hitler's storm troopers marched through Berlin's Brandenburg Gate. After World War II, Italy was the only Western country ever to include members of a pro-Soviet Communist Party in its governing coalition. In 1970, the Red Brigades invented modern European terrorism.

This March brings another nasty first: power to the populists of the left-wing 5 Star Movement and the far-right League. Radical parties have won seats in several European legislatures, but nowhere have they captured a majority. Forget Marine Le Pen's National Front in France, which can't win more than a third of the French public. The outcome in Italy is historic: Europe's fate may well be decided in Rome.

Imagine, in American terms, a coalition between Bernie Sanders and the tea party: an orgy of government spending on one side, tax cuts and small government on the other. Can't be done? In Italy, *non fa niente*—it doesn't matter. We can eat our pizza and have it too. While 5 Star seeks a guaranteed income of €780 (around \$900) a month, the League will pursue its suggested flat tax of 15%.

Now do the arithmetic. Italy's public debt has already surpassed 130% of gross domestic product, and European hedge-fund manager Joseph Oughourlian predicts that the new government's goodies could swell the annual deficit by more than €150 billion.

This economic-policy brew becomes even more toxic when we add the issues about which the League



ALESSANDRO DI MEO/ANSA VIA ASSOCIATED PRESS

5 Star leader Luigi di Maio and League leader Matteo Salvini in Rome, June 1.

and 5 Star agree. Both want to cut the pension age, which would be poison for a nation with a shrinking labor pool and one of the lowest fertility rates in Europe. In foreign policy, both rail against the euro and Brussels "imperialism," mumbling that Italy should receive about €250 billion

## The new right-left coalition will be hampered by the nation's debt—and its own internal discord.

in debt forgiveness. Both want to cozy up to Vladimir Putin by scrapping sanctions, which amuses neither President Trump nor German Chancellor Angela Merkel.

The markets don't like what they see. The spread between German bunds and Italian 10-year bonds had narrowed from 3.5% in 2013 to a shade over 1% at the end of April 2018. Last week it spiked to 2.6%, erasing most of Italy's gains.

*Is bella Italia turning into brutta*

*Italia*, an ugly denizen of the European Union and North Atlantic Treaty Organization? Casting around for heartening news, Italy's friends have actually found some.

First, the coalition may not last long. The League and 5 Star partnership, the weirdest of couples, is as stable as nitroglycerin. Neither party wanted to yield the prime ministership to the other, and it took them nearly three months to cobble together a government with a weak prime minister.

Cain and Abel could have done better. Stand-ins like Giuseppe Conte, a little-known academic, do not lead long lives in the Palazzo Chigi. So one might take refuge in cynicism. Italy has had 66 governments in only slightly more years since World War II. This government may not last long enough to impose its bizarre program on the country.

Perhaps the electorate will come to its senses as it watches the League and 5 Star continue to slug it out in government. These parties hate the euro, but 72% of Italian voters want to stay in the eurozone.

By all rights, Italy should not be in

the euro. Its debt-to-GDP ratio is second only to Greece's among eurozone nations. Its growth rate has been flat for a decade. Since the global financial crisis, Italy's unit labor cost—a key measure of competitiveness—has increased by double digits. *Ciao, Italia*, right?

Look again, and behold the positive. Italy's deficit has shrunk to 2.3% of GDP, better than France's. The rise of the unit labor cost, which for years had plagued Italian exports, slowed to just 0.5% in 2016.

Now add to these pleasing statistics the big one: Never will the EU let Italy sink, not this founding member and Europe's fourth-largest economy. As they say, Italy is too big to fail, and this is where Mario Draghi and the European Central Bank come in. Mr. Draghi pledged in 2012 that he would do "whatever it takes" to preserve the euro. He kept his promise, and overdid it by pouring trillions of liquidity into the eurozone.

Already, the ECB is holding down Italian bond yields, and it has an ample toolbox to buy bonds en masse while providing no-cost loans to banks. Europe will do whatever it takes to save Italy. But will Italy save itself, having lined up behind the Pied Pipers of the League and the 5 Star?

Let's cull an answer from history to demonstrate Italy's capacity for pragmatism. Yes, the Italians invented fascism and joined Hitler in World War II. Yet by 1943, the Allies were on a roll, and calculated interest moved in. Mussolini was toppled, flanked by a separate armistice with the U.S. Realism is a winner, this tale whispers. In 1949, the chastened ex-fascists were promoted to founding members of NATO. Not bad for a loser.

*Mr. Joffe is an editorial council member at Die Zeit in Hamburg and a fellow of Stanford's Hoover Institution.*

## The Economic Risks of Trump's Premature Tweeting

By Jason Furman

**T**he May jobs numbers, released Friday morning, were excellent. If I were still working in the White House, I would have received the numbers around 1 p.m. Eastern Time Thursday. I'd have closed the door of my office and let out a private exclamation of delight. A few hours later I'd have briefed President Obama. He too would have been excited, as he was the 13 times I briefed him on a number that came in even higher than the 223,000 jobs added last month. We then would have waited until 9:30 a.m. Friday to share our enthusiasm, and the news, with the public.

If—69 minutes before the numbers were set to be released—President Obama had signaled via Twitter that they were going to be great, I'd have been shocked. After collecting myself, I'd have marched over to the Oval Office, with the encouragement of the White House chief of staff, and said:

"Mr. President, early release of economic data is a major mistake. You should make it clear that you understand this and that it will not happen again. Financial markets reacted to your tweet with unusual volatility for the early morning hours, and investors feverishly speculated whether you had conveyed confidential information. In the future, investors will be looking even more closely, hoping to infer from your tweets what inside information you have about the state of the economy. This will increase economic instability and uncertainty at a time when there is already too much."

I hope President Trump's staff said something similar after he tweeted, at 7:21 a.m. Friday: "Looking forward to seeing the employment numbers at 8:30 this morning."

One of America's strengths is the integrity of the economic data informing decisions made by policy makers, businesses, shareholders

and citizens. That integrity is compromised if data aren't released by independent statistical agencies in a transparent, nonpolitical manner. A Nixon-era Office of Management and Budget directive prevents executive-branch officials from commenting on data until one hour after their public release.

This rule can be annoying for White House officials. I remember at least one time when Air Force One was scheduled to depart at 9:15 a.m. and we had to hold the plane so the president could make an on-camera statement 15 minutes later. A president, of course, should share his perspective on economic data, but it's crucial that the nonpartisan Bureau of Labor Statistics be the first to release them.

A president who signals advance news about economic data invites concern that he also is bragging about the good news privately, which could result in the information's exploitation for enormous private gain by some well-connected in-

vestor. When this happens, it's always at the expense of less-connected members of the public. That's why the distribution of advanced job data is strictly limited to the Treasury secretary, the chairman of the

## Jobs data are closely held to prevent volatility and insider trading at the expense of the public.

Federal Reserve, the director of the National Economic Council and the president. Even the labor secretary—whose department produces the numbers—doesn't get the jobs data a day in advance.

The president—any president—doesn't need to hype the jobs numbers before they're released. People will always pay attention to good economic news. In fact, crowding about the numbers ahead of time

could end up distracting attention from the story told by the data.

Early in my tenure as chairman of the Council of Economic Advisers, a staffer accidentally shared an analysis of some minor data with unauthorized government officials a few minutes before their scheduled release. In response I instituted a wholesale review of our data-handling procedures, worked closely with independent statistical agencies to ensure their adequacy, developed more-stringent procedures for handling market-sensitive data, and scared my staff into thinking that if anything like this ever happened again, the agencies might withhold the data from the White House.

The same thing may happen if Mr. Trump keeps tweeting about the data prematurely.

*Mr. Furman, a professor of practice at the Harvard Kennedy School, was chairman of the White House Council of Economic Advisers, 2013-17.*

## A 'Tin-Pot Northern Trump'? Hardly

By Rondi Adamson

Toronto

**W**hen Doug Ford was elected leader of Ontario's center-right Progressive Conservative Party in March, the media hyperbole began almost immediately. Headlines proclaimed Canada's most populous province would soon elect its very own Donald Trump. A Toronto Star column called Mr. Ford's campaign to unseat Ontario Premier Kathleen Wynne a "Trump-Clinton rematch." A Canadian writer wondered in a New York Times op-ed whether provincial voters would elevate a "tin-pot Northern Trump" in Ontario's June 7 general election.

In Canada, provincial and territorial governments are responsible, among other things, for health care and education. The premier of Ontario—a province of 14 million, nearly 40% of Canada's population—wields considerable economic influence across the country.

American politics often affect Canadian elections. A candidate suggesting, say, that limited private options be allowed into Canada's publicly funded health-care system will be accused of threatening to impose "American-style health care." But the reaction to Doug Ford has been more about personality than policy. To some degree, it's been about his late brother, Rob Ford, the Toronto mayor who became best known for his drug use and whose name still makes Canadian elites apoplectic.

While it is true that the suburban, right-leaning Doug Ford was the perfect foil to the urban, left-leaning Ms. Wynne, he isn't Donald Trump. Mr. Ford is a businessman, but he has been a city councilor. His father

was a member of Ontario's Parliament and his brother was a big-city mayor. He can be aggressive and unpolished and would never be described as a wonk, but he isn't a braggart or a narcissist. One can scarcely picture him in a gilded eyeporous tower.

Mr. Ford is a classic political type: the retail politician who helps you get a permit and fixes your potholes. It's easy to imagine him offering constituents a beer while

## Doug Ford could become one of the most powerful politicians in Canada.

Liberals are freaking out.

listening sympathetically to complaints about high taxes and underperforming schools. He has run a disciplined campaign, advocating fiscal conservatism and avoiding personal attacks.

The same couldn't be said of Ms. Wynne, whose campaign co-chairman was forced to apologize for calling Mr. Ford "a bit of a dick." The Liberals have held power in Ontario since 2003 but are currently running third in the polls, with some surveys showing them trailing the more progressive New Democratic Party, the usual third-place finisher. Over the weekend, Ms. Wynne acknowledged that she would lose, meaning the contest is now between Mr. Ford and New Democrats leader Andrea Horwath—who may be Canada's Bernie Sanders.

Despite the media portrayal of Mr. Ford as a culture warrior, throughout the campaign he has tried to play

down social issues. He expelled from his team a candidate who made anti-gay comments, and he unequivocally condemned neo-Nazis who endorsed him. He is popular with immigrants: During his unsuccessful 2014 run for Toronto mayor he won the highest share of immigrant votes in the field.

Justin Trudeau, Canada's current prime minister, sometimes seems to have more in common with Mr. Trump than Mr. Ford does. Mr. Trudeau has been famous in Canada since birth, and like Mr. Trump has benefited politically from a celebrity-obsessed media. Both are showmen who use social media to their advantage.

Both have a tendency to offer simplistic solutions to complex problems. Mr. Trump has his wall; Mr. Trudeau has the words "diversity" and "feminism."

Mr. Ford clearly isn't popular with Canada's chattering classes, which is why "Look, it's Trump!" has become an election issue, alongside Ontario's sky-high provincial debt, anemic economic growth, and a scandal in which a top Liberal Party aide was sentenced to prison for wiping the memories of government computers.

When Mr. Ford said there would be "more Liberals in jail" if such things occurred in the private sector, it was Ms. Wynne who channeled her inner Trump. She let loose with a Twitter rant in which she claimed Mr. Ford's comments were "just short of 'lock her up.'"

If Ontario voters choose to defy the media and political establishment by electing Mr. Ford, expect Canadian leftists to embrace another fashionable American political trend—resistance.

*Ms. Adamson is a Canadian writer.*

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# BUSINESS & FINANCE

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## GM Turns to Rebuilt Lending Business

By MIKE COLIAS

**General Motors** Co. is counting on a profit boost from an unlikely source: its in-house lending arm.

The gains come as other parts of the auto business face pressure and interest rates rise. For its part, **Fiat Chrysler Automobiles** NV is weighing a plan to offer lending directly to car buyers.

GM, the nation's largest auto maker by sales used to run one of the nation's largest banks, **General Motors Acceptance Corp.** GMAC once contributed the bulk of the auto maker's profit, leading critics to label General Motors a bank that happened to sell cars.

The auto maker was forced

to give up control of GMAC over the past decade, as both car company and lender careened toward federal bailouts in 2008 and 2009. But now, the rebuilt vehicle-finance unit, called GM Financial, has emerged as a budding profit driver, just as the company faces challenges elsewhere.

Vehicle sales are slowing and GM, like other auto makers, is turning to heavier discounts to maintain sales momentum in the U.S. and China, at the same time that commodity costs are climbing.

Executives at GM are telling investors the lending arm will help keep the auto giant's 2018 operating income near the record \$12.8 billion that the company earned in each of

the past two years.

GM Financial's expansion has contributed about \$1 billion in additional profit in recent years from car sales that

*The in-house unit has emerged as a budding profit driver for the auto maker.*

wouldn't have happened otherwise, the company estimates. The unit nearly doubled first-quarter pretax profit to \$443 million, the highest since GM's 2009 bankruptcy. The company says it expects

GM Financial's full-year profit to grow significantly, from \$1.2 billion in 2017—or about 10% of GM's bottom line—and predicts it will hit \$1.6 billion within a few years.

Captive finance units such as GM Financial enable auto makers to keep customers loyal by offering special offers and promotional rates on car leases and loans. Dealers lean on the captive banks to lend to customers with spotty credit, and they use them to finance new-car inventory.

Fiat Chrysler is considering setting up its own vehicle-financing unit or buying an existing one. The company, which has operated without such a business since Chrysler emerged from bankruptcy in

2009, said that it expects the move would boost profit growth by as much as \$800 million annually.

GM pioneered the in-house lending model when it established GMAC in 1919. The bank grew into a juggernaut with more than \$300 billion in global assets. It expanded beyond auto loans, but bad bets on subprime mortgages eventually forced GMAC into a \$17.2 billion federal bailout. It was renamed Ally Financial in 2010 and remains one of the largest U.S. auto lenders. GM sold its remaining minority stake in Ally in 2013.

In 2009, GM emerged from bankruptcy as one of the few major car companies without a

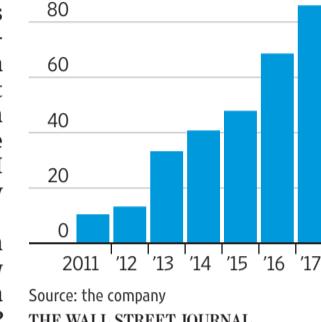
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### Loan Lift

GM has added leasing, dealer loans and other services to rebuild its in-house lender.

### GM financial assets

\$100 billion



Source: the company  
THE WALL STREET JOURNAL.

## Fan Bids \$3 Million To Meet Buffett

By NICOLE FRIEDMAN

A charity auction to have lunch with Warren Buffett stopped short of a record, with an anonymous fan bidding \$3,300,100 to meet the billionaire.

This year's winning bid is up from \$2,679,001 last year and down from the record of \$3,456,789.

The annual auction for lunch with the **Berkshire Hathaway** Inc. chairman has raised more than \$25 million for San Francisco charity Glide, a favorite cause of Mr. Buffett's first wife, Susie Buffett. Glide offers free meals, health care and other services to homeless and low-income people in San Francisco.

The winner can invite up to seven friends for lunch with Mr. Buffett at steakhouse Smith & Wollensky in New York. The steakhouse's founder makes an annual donation to Glide.

Last year's lunch also went to an anonymous bidder.

Six bidders participated in this year's auction, which opened at \$25,000.

The winning price has held above \$1 million since 2008. The auction moved online in 2003, allowing international fans of Mr. Buffett to participate.

Ted Weschler won twice when he was a hedge-fund manager, paying more than \$2 million each time. Mr. Weschler was later hired by Mr. Buffett as a portfolio manager. He and Berkshire's other portfolio manager, Todd Combs, are expected to eventually succeed Mr. Buffett in overseeing Berkshire's stock investments.

### INSIDE



YOUR FLIGHT TO THE MOON HAS BEEN DELAYED

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CHINA ADDS TO ITS STRING OF UNICORNS

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## Craft-Beer Makers Take Their Products Directly to the People

Percentage of traffic at brewery taprooms and brewpubs (as opposed to bars\*)

Atlanta	8%
Austin, Texas	3
Boston	17
Chicago	12
Dallas	8
Denver	35
Detroit	17
Houston	6
Indianapolis	25
Los Angeles	11
Minneapolis	24
New York	3
Philadelphia	14
Phoenix	19
Portland, Ore.	29
San Diego	30
San Francisco	13
Seattle	22
Washington, D.C.	12

Source: MillerCoors

\*concessionaires, stadiums, golf courses, restaurants are not included

Note: Data is for 2017 through November

Craft beer direct sales grew

24%  
in 2017



**BATTLE BREWS:** Small brewers are squaring off against distributors and bar owners in a fight for drinkers as craft beer's once-explosive growth cools. Growth is being driven entirely by direct sales from brewers to customers. Please see article on B4.

BRIAN POWERS/THE DES MOINES REGISTER/ASSOCIATED PRESS

## Apple Puts Focus on Swatting Bugs

By TRIPP MICKLE

At Apple Inc.'s annual conference for developers Monday, executives face the task of not only wowing the audience with new features but also shoring up confidence that the company can deliver quality software.

Apple's expected emphasis on quality follows a year in which the company's software captured headlines for the wrong reasons. Since September, Apple has issued 14 software updates for its mobile operating system, known as iOS, and fixed 67 software flaws—a 46% rise from the 46 bugs addressed in the same period a year earlier, according to a tabulation of Apple's software-update notes, which offer a publicly available snapshot of software issues.

Among the most high-profile flaws the company addressed was one that caused iPhone users typing "i" to get a character described as "A [?]" instead, and another that caused messages to display out of chronological order.

The recent uptick in software flaws reflects the challenge Apple's engineering team has faced designing a system that works across a growing array of devices, former employees and analysts said. At the same time, Apple has introduced more complicated hardware features as it tries to differentiate iPhones and Macs from rival devices.

The battle with the bugs could jeopardize Apple's reputation for delivering products that "just work," said Michael Covington, vice president of product at Wandera, a mobile security firm supporting com-



An expected emphasis on quality follows a year of glitches.

panies such as Deloitte & Touche LLP and Mazda Motor Corp. It could lead people to "question why they are paying \$1,200 for a device that is no longer polished," he said.

Apple's reliance on the iPhone—it contributes two-thirds of Apple revenue and is the backbone of Apple's App Store sales, mobile payments and music-streaming service—means the company has little margin for software errors, analysts say. In a saturated smartphone market, Apple is expected to increase iPhone shipments at a compound annual growth rate of just 2.6%

to 242.5 million by 2022, according to researcher International Data Corp.

Apple declined to comment.

The company this year tabled some features it had hoped to introduce Monday at its Worldwide Developers Conference to improve quality, people familiar with the decision said, setting the stage for an event this week that will emphasize software performance.

Steven Sinofsky, former president of Microsoft Corp.'s Windows division, said Apple's focus on performance is typical of a mature organization's software-development process.

Writing earlier this year on Medium, he said he believes Apple's software and hardware deliver greater quality than any company in the history of technology, especially given the scale of its new iPhone releases. Apple shipped 18 million iPhone X units in the first quarter, making it the world's best-selling smartphone, according to market research from Strategy Analytics.

Underscoring the complexity, Apple is selling 40 different devices this year—one-third more than it did five years ago—increasing the amount of code the engineering team must write to make sure each functions properly, the former employees said.

And with more high-end features, including smaller batteries and new sensors powering facial-recognition technology, Apple's engineering team is facing more challenging software problems than it did with earlier iPhone models, the people said.

Apple has compounded those challenges since 2012 by releasing both iOS and Mac software updates annually. Previously, the company updated Mac software about every other year, giving the engineering team more time to fix bugs and develop new features, the people said.

Each new release adds features and layers of code that can trigger a mistake in the underlying existing code, analysts said. The code "just gets so big it becomes unwieldy," said Patrick Moorhead, a technology analyst with Moor Insights & Strategy.

Unlike the crisis period earlier this decade, the continuing cleanup of small- and medium-size banks like CajaSur means they are less likely to be a source of contagion and panic.

Last year was a "watershed" for fixing these banks, says Magdalena Stoklosa, a bank analyst at Morgan Stanley. "In terms of the balance

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## Small Bank Reflects a Eurozone Recovery

BY JEANNETTE NEUMANN AND MAX COLCHESTER

CÓRDOBA, Spain—Catholic priest Fernando Cruz Conde carries a rare distinction: He is among the few bankers who paid a price for his role in the financial crisis.

Eight years ago, Spanish taxpayers bailed out a small bank controlled by the Spanish Catholic church after a real-estate binge came to a crashing halt. Regulators ousted Father Cruz Conde and Córdoba's other banker-priests and slapped them with fines for their financial mismanagement.

Today the bank, **CajaSur Banco SA**, stands resurrected, swept up by a larger regional lender that has mopped up billions of dollars in bad loans.

The transformation of CajaSur is testament to the slow-motion banking recovery in much of the eurozone, even though Italy's latest markets turmoil shows the strength of Europe's financial system remains open to question.

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Dúaz, Antonio.....B2	Mahaney, Jim.....R6
Domian, Danae.....R6	McCabe, Christopher.....A4
Donati, Elisabeth.....R1	Merkel, Angela.....A7
F	Miller, Charles.....B3
Fredrickson, Tom.....R1	Moorhead, Patrick.....B1
G	Morquecho, Jorge.....B2
George, Shelby.....R4	Morrison, Charlie.....R4
Ghriskey, Tim.....R1	Mueller, Thomas.....B3
Gleeson, James.....B3	Munster, Gene.....B10
Gori, Roy.....B3	Musk, Elon.....B3
Gottlieb, Scott.....A4	N
Haberkorn, Bob.....B9	Nakamura, Masanori.....B9
Haruna, Takayuki.....B9	Near, Casey.....R6
Heymach, John.....B3	Nikolaev, Kiril.....R5
Heyman, Mick.....R1	Nugent, Oliver.....B9
P	P
Hill, Kasey.....R2	Piwowar, Michael.....A3

## GM Looks To Lending Business

Continued from the prior page  
finance arm. That cut off a profit source and also dragged down car sales. The lack of an in-house lender cost GM as many as 300,000 lost vehicle sales in 2012, for example, about 12% of its tally that year, Morgan Stanley estimated.

GM spent \$3.5 billion in 2010 to acquire AmeriCredit Inc., a subprime-loan specialist. As the company began cobbling together services to become a full captive, the chief executive of GM Financial, Dan Berce, recalls assuring GM's directors, who were still stung from GMAC's mortgage meltdown, that "we were only going to do auto lending."

"Our mandate was to help them sell cars, but also make money" on loans, Mr. Berce said. GM Financial moved into leases and dealer loans, and has expanded earning assets 10-fold since 2010, to \$86 billion last year. Its workforce has tripled to about 9,000 employees, mostly near its Fort Worth, Texas, headquarters.

Still, the business will have to navigate potential hurdles.

GM Financial is smaller and higher funding costs than most lenders it competes against, including the finance



Higher interest rates will likely cause auto makers to lean more heavily on their in-house lending units to finance buyers.

GENE J. PUSKAR/ASSOCIATED PRESS

arms of rivals such as Ford Motor Co. and Toyota Motor Co. Used-car values are falling as a wave of leased vehicles return to pre-owned car lots, which could hurt GM Financial's lease business.

And interest rates, which remained low for years and helped booming auto sales, are rising again. Average auto-loan interest rates hit 5.6% in April, the highest level since 2009, according to consumer-research site Edmunds.com, and the Federal Reserve has signaled further interest-rate

increases. Subprime buyers, GM Financial's specialty, are disproportionately hit by higher rates.

Scott Fink, a car dealer in the Tampa, Fla., area, for years has sought ways to arrange manageable monthly payments for buyers. It has become more difficult as rates rise and banks tighten lending standards, in response to falling used-car prices and higher losses on subprime loans.

"We can still get them approved," said Mr. Fink, who sells Chevrolet as well as non-

GM brands. "But they're paying more."

Higher interest rates will likely cause auto makers to lean more heavily on their in-house lending arms to finance buyers.

While dealers typically

use multiple lenders to finance customers, auto makers' captive-finance companies can

subsidize loans to qualified buyers and keep a lid on their monthly payments.

GM expects continued

growth for GM Financial partly because it is still relatively small. It provided loans

or leases on 40% of GM's 2.4 million retail-vehicle sales in the U.S. last year, compared with 63% for Toyota's finance unit and 55% for Ford's.

GM sees GM Financial as a

core part of its plan to sustain

profitability when auto sales

stall or the economy weakens,

## Discovery To Air Golf Overseas

BY KEACH HAGEY

Discovery Inc. is making a big bet on international interest in golf.

The media company, which owns channels like the Discovery channel, TLC and Eurosport, has signed a 12-year deal with the PGA Tour for rights to air its events outside the U.S. on TV and digital platforms.

Discovery expects to spend \$2 billion over the course of the alliance, which begins in 2019, including the media rights and investments to build a streaming-video platform for golf in international markets.

The deal marks a continuation of Discovery's strategy of investing in sports rights outside of its home market of the U.S., where it has long been priced out of the top sports.

In 2015, Discovery took control of pan-European sports broadcaster Eurosport—best known for its coverage of sports like cycling and tennis—and later won rights to the Olympic Games, which it broadcast on Eurosport as well as over various free-to-air and digital platforms.

## BUSINESS &amp; FINANCE

## Education Realty in Talks

Student-housing owner holds sale discussions with private-equity firms

By DANA MATTIOLI

Student-housing owner Education Realty Trust Inc. is exploring a potential sale, according to people familiar with the matter.

The real-estate investment trust is speaking with private-equity firms about a possible take-private transaction, the people said. There is no guarantee the talks will result in a sale of the company.

Education Realty has a market value of \$2.8 billion. On Friday, its shares traded up 3.8% to \$37.94 after The Wall Street Journal reported on the talks.

The Memphis, Tenn., company is one of the largest developers, owners and managers of collegiate housing in the U.S., according to its website. It has partnerships with 50 universities in 25 states and provides housing at such schools as the University of North Carolina, Chapel Hill, and the University of California, Berkeley.

In addition to on-campus dormitories, Education Realty provides housing in the areas surrounding major campuses.



Education Realty has ties to 50 schools, including the University of North Carolina at Chapel Hill, above.

Student housing is considered a stable segment of the real-estate industry, churning out reliable profits. It is considered relatively recession-proof because college enrollment doesn't tend to fluctuate with overall economic performance. That has drawn in investors even though the properties tend to be less high-profile than, say, hotels or skyscrapers.

Earlier this year, a joint venture between the Canada Pension Plan Investment Board, Singapore sovereign wealth fund GIC and Chicago-based student-housing owner Scion Group acquired a portfolio of 22 student-housing properties in the U.S. for \$1 billion.

Also this year, Mapletree Investments Pte, owned by Singapore state investor Te-

mase Holdings, bought Cira Centre South, an 850-bed high-rise facility in Philadelphia near the University of Pennsylvania, for \$197.5 million.

Real estate is the fifth-business sector for mergers and acquisitions so far in 2018, with \$159 billion of deals, up from \$138 billion in the same period last year, according to Dealogic.

mercial real-estate developers. "We found ourselves with bank branch directors who didn't know how to write a mortgage," Mr. Morquecho said.

Now, the bank issues mortgages at a solid clip as Córdoba's economy recovers.

Yet CajaSur's reincarnation also speaks to the challenges of Europe's recovery. The bank's balance sheet is still shrinking and its profits are meager. CajaSur's total volume of loans is still falling, about 2% year over year, as the amount of debt borrowers pay off continues to outpace the growth of new loans.

Adding to the headwinds, many Spanish loans are variable rate and based on a benchmark known as Euribor, which has been negative for several years. "We never thought we would have been able to earn money with Euribor negative," Mr. Morquecho said, "and we're earning money." The bank made a €16 million profit last year.

Like other European banks, CajaSur has adjusted its business model to compensate for low rates by focusing on fee-based products instead, selling more insurance and pension products to its customers. CajaSur now manages around €1.5 billion in investment funds up from €60 million when the new management took over.

*'We [had] bank branch directors who didn't know how to write a mortgage.'*

Combing through CajaSur's finances, the new management team discovered a relatively worthless plot of land valued at €100 million, and a concentration of massive loans to Córdoba's top property developers, says former executive Francisco Rapún. The new management slashed costs, cutting about one-third of the bank's 3,000 staff along with generous funding of local social projects.

CajaSur executives say they have spent much of the past several years training staff on the basics of banking. During the boom, CajaSur had almost exclusively lent money to com-

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## BUSINESS NEWS

# Manulife Commits \$1 Billion To Fund

BY DAWN LIM  
AND WILLIAM LOUGH

**Manulife Financial Corp.** has spent years buying stakes in pipelines, power grids and transportation systems. Now it wants to manage more of these types of assets for other investors.

The Canadian insurance giant is shifting roughly a billion dollars of past infrastructure bets into a new fund that is open to outside clients, said people familiar with the matter.

It is Manulife's first attempt to raise outside money—and fees—for private infrastructure deals. The firm is seeking additional money for the fund, which will be managed by its U.S. division John Hancock and could increase the pool's size to as much as \$2 billion, two of the people said. One large European investor has already committed some \$1 billion.

The push is part of a larger strategy to seek new profits and mitigate the impact of recent Canadian regulations that make it more costly for insurers to hold certain long-term assets on their balance sheets.

Roy Gori, Manulife's chief executive, announced in late 2017 that the insurance company would reduce its allocation to longer-term alternative assets over the next year and half. At the time, Mr. Gori said that changes would lead to an "improved risk profile" and "free up capital" for new initiatives to expand.

Big institutional investors are looking for new ways to generate yield after years of ultralow interest rates and expensive asset prices. More are now turning to investments in pipelines, utilities and roads to generate stable cash flows. Some, like Manulife, are choosing to manage those assets for others for additional revenue.

"Roy Gori is very keen on expanding the asset management component of the business," said David Beattie, a senior vice president at Moody's Investors Service who tracks various financial institutions.

But the asset-management push also exposes Manulife to new risks if a prolonged market slump leads to a drop in assets under management and fees, he added.

The firm will also have to demonstrate it can compete with more established infrastructure players in an increasingly crowded market. After U.S. President Donald Trump promised to boost private spending for America's roads and bridges, investors poured more money into infrastructure funds.

U.S.-based managers seeking money for infrastructure plays raised \$31 billion in 2017, the highest amount since at least 2000, according to research firm Preqin. Private-equity giant **Blackstone Group LP** is seeking up to \$40 billion for infrastructure deals.

# SpaceX Delays Tourist Voyages

New challenges disrupt Musk's plans for flying private individuals on journey to circle moon

By ANDY PASZTOR

SpaceX has indicated it won't launch a pair of space tourists to loop around the moon this year as previously announced, the latest sign that technical and production challenges are disrupting founder Elon Musk's ambitious plans for human exploration of the solar system.

A new timetable for the flight—now postponed until at least mid-2019 and likely longer—hasn't been released by **Space Exploration Technologies Corp.**, the formal name of the closely held company.

Over the weekend, company spokesman James Gleeson confirmed the private moon launch has been postponed, without indicating when it might occur. "SpaceX is still planning to fly private individuals around the moon and there is growing interest from many customers," he said in an email.

The delay comes amid SpaceX's own projections of a nearly 40% drop in launches next year from as many as 28 anticipated for all of 2018. The decline primarily reflects a continuing global slump in manufacturing orders and launch contracts for large commercial satellites.

Partly as a result, SpaceX also is confronting growing industry doubts about market demand for its Falcon Heavy rocket, the company's newest and biggest launcher, which had its maiden blastoff in February. "People don't think it's serious enough yet to figure out how to use it," Thomas Mueller, SpaceX's chief propulsion technology officer, said in May, speaking to attendees on the sidelines of a space conference in Los Angeles. Mr. Mueller declined to elaborate or respond to questions.

Industry officials and SpaceX competitors have said the latest variant of the company's smaller Falcon 9 rocket—upgraded to provide substantially more thrust than



Elon Musk had hoped to send two paying customers around the moon and back to earth using a Dragon capsule by the end of 2018.

earlier versions—is capable of putting most of the current generation of large and small satellites into required orbits.

Those improvements have "eliminated much of the commercial need for the Falcon Heavy," according to Charles Miller, a consultant and space entrepreneur.

Regardless of when tourist voyages start, Mr. Musk and his team already have revolutionized the launch industry by accomplishing two goals that historically were considered virtually impossible: SpaceX has slashed rocket prices with the Falcon 9 and pioneered fully reusable main stages, including engines. The company seeks to refly those parts 10 times with minimal refurbishment.

But Mr. Musk's vision of quickly using the Falcon Heavy for moon missions has been upended. In February 2017, Mr. Musk announced with some fanfare that before the end of 2018, SpaceX intended to send two paying customers around the moon and back to earth

using an automated Dragon capsule launched by the company's most powerful rocket. The passengers were never identified, but the company said they already had paid "a significant deposit" and preparations were under way for health tests and training for the estimated weeklong trip.

At the time, SpaceX anticipated completing uncrewed flight tests of the enhanced Dragon capsule, and then repeatedly transporting astronauts to and from the international space station, before using it to carry any paying passengers deeper into the cosmos.

But that schedule has now slipped, with the company telling the National Aeronautics and Space Administration it is targeting the first astronaut test flight no earlier than December 2018. Congressional investigators have said that could drag well into 2019, with approval for routine operational flights coming many months later.

## Space-Travel Effort Poses Major Risks And Opportunities

Elon Musk's vision for lunar travel is a steppingstone for bigger goals. Company spokesman James Gleeson indicated private missions around the moon and elsewhere amount to "an important milestone as we work toward our ultimate goal" of establishing large-scale settlements on Mars. Mr. Musk has talked about first establishing a base on the lunar surface.

Some industry experts and analysts see huge risks for SpaceX from potentially suffering a major malfunction, or even fatal accident, involving tourists, before its Dragon capsule is certified to fly NASA astronauts into orbit. "SpaceX faces much higher stakes" than carrying paying passengers as soon as it envisioned, according to Charles Miller, who

served on President Donald Trump's transition team for NASA. "Company leaders can't risk" sacrificing the agency's trust or "prompting hearings before Congress" if there is a catastrophic problem on a private mission, he said.

Mr. Musk hasn't signaled interest in soliciting federal funds to help defray the cost of tourist flights, even as the Trump administration has made public-private partnerships the centerpiece of its drive to accelerate space exploration. Around the time Mr. Trump came into office, Mr. Miller and other NASA transition team participants drafted a memo that sketched out plans, among other things, for "private American astronauts, on private space ships" to circle the moon as early as 2020.

More recently, the agency has rolled out a multiyear blueprint promoting small private lunar landers, and then transitioning to joint industry-government efforts to develop manned vehicles.

# HelloFresh to Sell Meal Kits at Supermarkets

By HEATHER HADDON

**HelloFresh SE** is putting its meal kits on supermarket shelves, the latest sign that makers of the preportioned meals are counting on retailers to bolster their subscription businesses.

HelloFresh meal kits will be on sale Wednesday in nearly 600 Giant Food and Stop & Shop stores owned by grocery company **Koninklijke Ahold Delhaize NV**.

It is the widest launch to date of meal kits into retail stores. **Blue Apron Holdings Inc.** began selling its kits at **Costco Wholesale Corp.** stores last month, and **Albertsons Cos.** is selling Plated kits after buying the startup last year.

Grocer **Kroger Co.** said last month it was buying Home Chef to offer its meal kits

## Meals at Home

Top meal-kit companies by market share



Note: Hello Fresh includes Green Chef acquisition made in March

Source: Second Measure

THE WALL STREET JOURNAL

alongside store-branded boxes.

HelloFresh Chief Executive Dominik Richter said that while online subscriptions will drive sales for the fore-

seeable future, retail placement will help the Berlin-based startup find new customers.

"It's for customers that don't have the ability to pre-

plan as much," Mr. Richter said in an interview. "We think this is an offering that is very complementary." The company is in talks with other retailers to sell its kits in their stores, he also said.

Many meal-kit companies have struggled to acquire delivery customers and keep them on board. Analysts expect the biggest meal-kit makers will need to sell their products in stores as well to keep driving sales.

"They sustain a much better chance of being profitable in the grocery store than outside," said Diana Sheehan, vice president of retail and shopper insights for Kantar Consulting.

Subscriptions still drive the majority of meal-kit sales, according to Nielsen, but in-store purchases grew by 27% to around \$155 million in the

last year.

HelloFresh executives said they chose to sell their kits at Giant Food and Stop & Shop stores because of their concentration on the East Coast, where consumers tend to seek out more-convenient meals.

"Retailers are looking for the right partner to make the economics work," Mr. Richter said. "This is still a quickly growing category."

HelloFresh has grown rapidly since arriving in the U.S. in 2012. The company reported around \$215 million in sales and 1.2 million customers in its most-recent quarter. New York-based Blue Apron, previously the market leader, counted 786,000 customers and \$197 million in sales during the same period.

HelloFresh acquired organic-kit maker Green Chef in March.

## BUSINESS WATCH

### CONSTRUCTION

#### No Boom for Highway Work

One segment of U.S. construction spending suggests the U.S.'s infrastructure woes could linger even as the economy chugs along at a healthy clip and unemployment hovers at the lowest rate in 18 years.

Public spending on highway and street construction has been excluded from broader growth in building outlays, falling 2.9% in the first four months of 2018 from a year earlier to \$19.54 billion.

The decline comes even as broader construction spending rose 6.6% in the first four months of the year to \$387 billion.

—Paul Kiernan



MATT BARNARD/TULSA WORLD/ASSOCIATED PRESS

Roadway spending has fallen.

Five studies of the immune-boosting drug Keytruda.

One new company-sponsored study, presented Sunday at the annual meeting of the American Society of Clinical Oncology in Chicago, found Keytruda was superior to chemotherapy in prolonging survival of newly diagnosed lung-cancer patients, and with less severe side effects.

Keytruda is already approved to treat a subgroup of such patients, but the new study could widen its use because it had a

broader patient population.

"This study represents a true milestone for the field" because it shows the majority of patients with the most common form of lung cancer can receive immunotherapy instead of chemotherapy "and receive a substantial benefit," John Heymach, an oncologist at MD Anderson Cancer Center, said at a news conference.

—Peter Loftus

### AUSTRALIAN BANKS

#### Commonwealth Bank To Pay Large Fine

**Commonwealth Bank**, Australia's biggest bank, agreed to pay an almost US\$530 million fine to settle a civil lawsuit that revealed numerous breaches of the country's Anti-Money Laundering and Counter-Terrorism Act.

The proposed agreement with the federal government's financial-intelligence agency includes further admissions by the bank it contravened the law, including breaches of risk procedures.

—Rob M. Stewart

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Big 5 banks



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## BUSINESS &amp; TECHNOLOGY

WSJ.com/Tech

# Direct Sales on Tap for Craft-Beer Makers

As growth cools, brewers look to bypass distributors and bar owners

BY SAABIRA CHAUDHURI

Small brewers are squaring off against distributors and bar owners in a fight for drinkers as craft beer's once-explosive growth cools.

Craft-beer volumes grew by just 1.6% last year, according to trade association the Beer Institute, the slowest growth in at least 10 years.

Growth is being driven entirely by direct sales from brewers to customers, mainly through taprooms and brewpubs. Direct sales last year grew by 24%—accounting for one in 12 craft beers sold—while the remainder of craft-beer sales declined, according to the Beer Institute.

Small brewers are eager to capitalize on the trend—selling direct makes for higher margins—but many distributors and bar owners are feeling shortchanged.

In response, the two sides are waging a lobbying war across the U.S. over exceptions to the post-Prohibition “three-tier system” that keeps the production, distribution and retailing of alcohol separate in many states.

“Taprooms have always met some resistance from distributors and retailers, but resistance has lately become much greater,” said Marc Sorini, a lawyer who advises brewers at McDermott Will & Emery.



JOHN J. KIM/TNS/ZUMA PRESS

**Taprooms refer to locations in a producing brewery where consumers can buy its beer. Brewpubs are restaurants with breweries.**

The scramble for drinkers' dollars has gained urgency as beer continues to lose share to wine and spirits amid demographic shifts and changing consumer behavior.

Austin Evans, a 27-year-old insurance professional based in Austin, Texas, likes drinking at taprooms and brewpubs because he occasionally gets to try small-batch, experimental brews. “It’s one of the biggest perks,” he said.

Definitions differ by state but broadly taprooms refer to the locations in a producing brewery where consumers can buy its beer while brewpubs

are restaurants that also have their own breweries and serve beer.

Roughly 9% of bar traffic across the U.S. now moves through brewery taprooms and brewpubs, according to data from MillerCoors. In Denver and San Diego, the figure is 35%.

Craft-beer bar chain Flying Saucer Draught Emporium closed its Austin location after 10 years in January. It blamed declining sales on a 2013 law ushering in an exception to the three-tier system to allow breweries to sell up to 5,000 barrels of beer a year for

drinking on site.

“The Texas beer industry was introduced to topsy-turvy legislation, which has harmed our Austin Saucer significantly, as well as hundreds of retailers across the state,” said Shannon Wynne, the chain’s co-owner.

Mr. Wynne said the additional competition dragged sales down by 20% over the past three years in Austin. Sales have declined at Flying Saucers across Texas.

But the Texas Craft Brewers Guild doesn’t think the 2013 law went far enough. The trade association is lobbying

for breweries to be allowed to sell beer to go, something wineries, distilleries and brewpubs are already permitted to do.

Earlier this year it started a political-action committee that aims to counter Texas’s powerful beer distributors, who want the existing law prohibiting the sale of beer to go to be maintained.

“We fully support the three-tier system, but in Texas, it has been manipulated for years by the middle tier, the distributors, in order to make the system work most favorably for them,” said Charles Vallonrat, executive director of the guild,

pointing to years of lobbying and political donations. Texas, he said, is the only state in which craft breweries aren’t allowed to sell beer to go.

Tom Spilman, executive vice president of the Wholesale Beer Distributors of Texas, denied the allegation that distributors manipulate the system and noted that they have both “won and lost on issues at the Texas Legislature.” Changing the law, he said, will hurt sales for retailers and wholesalers, while adding another exception to the three-tier model.

“The more carve-outs you make for a system the weaker it becomes,” he said.

In New Jersey, the issue has split the beer industry. The original brewers association is lobbying to scrap a requirement forcing taproom visitors to take a tour before they buy or taste alcohol. It also is behind a bill proposing breweries be allowed to serve food that has rankled the restaurant industry.

“Just stay in your lane,” said Marilou Halvorsen, president of the New Jersey Restaurant & Hospitality Association.

Fed up with the focus on taprooms, larger New Jersey craft brewers that depend mainly on distributors for sales in March set up their own trade association to concentrate on issues like tax and production.

“Tasting rooms became the focus of a lot of people at the association,” said Gene Muller, a founding member of the new trade body. “It became a one-trick pony.”

## Wall Street Moves Toward Mining of Social-Media Data

BY TELIS DEMOS

mobile app usage and web surveys of prices.

The business began as Majestic Research in 2002 before being acquired by **Investment Technology Group Inc.**, and then by **Jefferies Financial Group Inc.** in 2016. M Science now has 115 employees, more than double the number in 2016.

So far, alternative data has mostly been based on things directly relevant to forecasting sales, including credit-card receipts and tracking the number of customers visiting a business, such as with satellite images of parking lots.

More recently, a number of startups, such as TickerTags, **Dataminr** and **iSentient**, have emerged to mine **Twitter Inc.** and other social media for a variety of signals, including news about public companies. Some firms and investors also measure market sentiment through social media.

Now forms of social monitoring are being directly integrated into research products

ALLEN EYESTONE/THE PALM BEACH POST/ZUMA PRESS

**TickerTags noticed a surge in social-media references to ‘slime,’ made with Newell Brands glue.**

already consumed by Wall Street. **Goldman Sachs Group Inc.**, for example, sometimes includes measures of Twitter mentions in stock research reports.

TickerTags has compiled more than a million keywords and phrases and mapped them to public companies for which they are relevant. It then monitors online discussions, including Google search terms, for those keywords.

TickerTags has yet to take off as a product sold directly

to funds. But Michael Marrale, chief executive at M Science, said that clients had asked him about trying to find a way to integrate the TickerTags system into M Science’s own data and reports on public and private companies.

“Data is just a small part of the equation,” said Mr. Marrale. “It’s how you map that data to public and private companies in ways you didn’t anticipate.”

For example, **Newell Brands Inc.**’s shares soared in May 2017 after it reported un-

usually strong sales of Elmer’s glue. The product is a key ingredient in slime, a gooey homemade toy that surged in social-media popularity last year.

TickerTags co-founder Chris Camillo said that the company’s system noticed a surge in the mention of “slime” in April, because it was often paired with mention of “Elmer’s,” and also “sold out,” all of which had been tagged as relevant to Newell stock.

## Google To End Pentagon Contract

BY DOUGLAS MACMILLAN

**Alphabet Inc.’s Google** has decided not to seek renewal of a Pentagon contract that had become the focus of internal debate around the use of the tech giant’s technology for military purposes, said a person familiar with the matter.

Diane Greene, head of Google’s cloud-computing division, on Friday told employees the company wouldn’t renew a partnership with the U.S. Defense Department that is set to expire in March 2019, the person said. The program, code-named “Project Maven,” helped the Pentagon identify and track potential drone targets through artificial intelligence.

Technology blog Gizmodo earlier reported Google’s decision that it wouldn’t try to get the contract renewed.

Google’s capitulation on a high-profile government contract comes amid debate within the firm’s campus about its involvement in war. As news of Project Maven leaked in recent months, employees objecting to the program protested on internal message boards. Some employees signed a petition asking Google Chief Executive Sundar Pichai to end the program.

A Google spokesman said recently the Pentagon uses its technology only to recognize objects and help “save lives,” not for launching weapons.

Google is struggling to contain growing activism among fractious groups within its workforce. Google’s employee intranet is filled with tools enabling its 80,000 employees to broadcast their opinions on topics ranging from social issues to political beliefs.

Just as some employees have protested Google’s work with the government, others expressed concern that the opinions of low-level employees shouldn’t have a bearing on the company’s business contracts.

The internal debate around Maven contributed to the company’s decision, the person familiar with the matter said.

Google is still competing with rivals including Amazon.com Inc. and Microsoft Corp. for a multibillion-dollar contract to move the Pentagon’s data into the cloud.

—Gordon Lubold contributed to this article.

## App Is Under Probe by Beijing

BY LIZA LIN

SHANGHAI—Jinri Toutiao, a hugely popular news-and-content aggregator, has come under investigation for allegedly slandering a Chinese war hero in violation of China’s new “Heroes and Martyrs Protection Law.”

The content, which the platform has removed, featured a satirist known as Baozou Comic portraying Dong Cunrui, a Communist soldier who blew himself up during the Chinese Civil War to destroy a Kuomintang bunker. The comic used the heroic account, which is taught widely in Chinese schools, to tell jokes.

In announcing the investigation, China’s Culture and Tourism Ministry said Jinri Toutiao had allowed a martyr to be portrayed in a negative light. It didn’t comment on potential penalties.

The incident caught the public’s attention two weeks ago, leading the comic’s producer to apologize on his Twitter-like Sina Weibo account. Jinri Toutiao issued an apology on its own platform and removed the offending content.

Jinri Toutiao’s parent company, **Beijing Bytedance Technology Co.**, didn’t return requests seeking comment. The “Heroes and Martyrs Protection Law,” which took effect May 1, requires “all of society” to “honor, study and defend” Communist Party-approved heroes. It is enforced by the Culture and Tourism Ministry.

In a statement announcing the Jinri Toutiao investigation Friday, the ministry said that it had taken down 60,000 offending videos, removed 17,000 related news pieces, and closed more than 8,000 user accounts in the law’s first month.

Sina Weibo said in a statement last month that it had closed 16 accounts because they violated the new law and that it would strictly adhere to the law and deal with relevant harmful information.

President Xi Jinping has made honoring China’s historical heroes and martyrs a large part of his political rhetoric.

—Xiao Xiao contributed to this article.



Offices of Jinri Toutiao parent Beijing Bytedance Technology Co.

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## BUSINESS NEWS

# After Weak Debut, 'Solo' Plummets Further at Box Office

By ERICH SCHWARTZEL

LOS ANGELES—"Solo" is crashing at light speed.

**Walt Disney** Co.'s hope that the latest "Star Wars" installment would attract audiences after its disappointing opening proved unfounded, as the movie made a lackluster \$29.3 million in the U.S. and Canada during its second weekend in theaters.

That is a steep 65% drop from its Memorial Day weekend debut, bringing the movie's domestic gross to an estimated \$148.9 million. Overseas returns aren't much better: "Solo" has made a weak \$115.3 million in international markets.

"Solo: A Star Wars Story," which cost more than \$250 million to produce, will likely finish its domestic run below \$200 million—a once unfathomable performance for the "Star Wars" spinoff about beloved character Han Solo that could signal wavering support among fans for how Disney is treating the storied franchise.

"Solo" had the worst second-week drop of any movie in the franchise after "Star Wars: The Last Jedi," which fell 67% in its second week last December after opening to \$220 million. The previous "Star Wars" spinoff, "Rogue One," had grossed \$286 million by the end of its second weekend.

The latest movie is the first major crack in Disney's grand "Star Wars" plan.

The company spent \$4 billion to purchase Lucasfilm Ltd. in 2012, an acquisition that Disney plans to mine for mov-

ies, television shows and other revenue sources for years to come.

"Solo" was plagued with problems from the start. Its original directors, Phil Lord and Christopher Miller, were fired midway through production and replaced with Ron Howard. Originally projected to gross more than \$150 million over the long holiday weekend, "Solo" opened to \$103 million. Critics gave it the worst reviews of any "Star Wars" movie since the widely panned prequels of the early 2000s.

The movie's drop in attendance in the second week signals lukewarm interest among fans, too, who have been known to return to "Star Wars" movies multiple times in a theatrical run. Disney's decision to release "Solo" only five months after "The Last Jedi" likely contributed to the "Star Wars" fatigue, and the studio doesn't have another movie scheduled until December 2019.

Hollywood was clearly expecting "Solo" to be a blockbuster; no rival studio scheduled a major release to compete against it this weekend.

"Adrift," a lost-at-sea adventure from STX Entertainment, opened in third place with a so-so \$11.5 million. "Upgrade," a microbudget horror movie in more limited release, grossed \$4.5 million in sixth place. "Action Point," a Johnny Knoxville comedy from **Viacom** Inc.'s Paramount Pictures, was an automatic flop, collecting only \$2.3 million in ninth place.

## Estimated Box-Office Figures, Through Sunday

FILM	DISTRIBUTOR	WEEKEND*	CUMULATIVE	% CHANGE
1. Solo: A Star Wars Story	Disney	\$29.3	\$148.9	-65
2. Deadpool 2	Twentieth Century Fox	\$23.3	\$254.7	-46
3. Adrift	STX Entertainment	\$11.5	\$11.5	--
4. Avengers: Infinity War	Disney	\$10.4	\$642.9	-40
5. Book Club	Paramount	\$6.8	\$47.3	-32

\*Friday, Saturday and Sunday. Source: comScore



Hong Kong Disneyland. In 2005, Disney drew angry emails from Chinese citizens for labeling Hong Kong and Taiwan as countries.

ALEX HOFFORD/EPA/SHUTTERSTOCK

# Avoiding Apologies to China

Consultants suggest U.S. companies mind local laws, customs on disputed territories

By MIKE SPECTOR AND WAYNE MA

American companies have lately been quick to apologize for offending China's geopolitical sensibilities, from listing Taiwan and Tibet as countries on their websites to inaccurately reflecting the status of Chinese-controlled Hong Kong and Macau.

The spate of incidents has business and trade consultants suggesting ways companies can avoid getting into the situation in the first place—among them, hiring China experts, understanding domestic regulations about maps and being mindful of Chinese advertising and cyberspace laws.

This week, **Costco Wholesale** Corp. became the latest U.S. company to be pilloried on Chinese social media after images surfaced online of a 2016 letter from one of the retailer's executives to a Washington group supporting Taiwan's independence. The letter said the company viewed Taiwan as a "country."

Costco, which has long operated in Taiwan and is preparing to open its first store in mainland China, hasn't responded publicly and didn't respond to a request for comment.

American companies such as **Delta Air Lines** Inc., **Marriott International** Inc. and **Gap** Inc. and some European firms have apologized and changed or removed content that China has deemed offensive. China's recent policing of American companies, followed by those companies' swift capitulation in most cases, adds another dimension to the intensifying trade tensions be-

## Problems Grow With Social Media

The rise of social media in China has enabled controversies to go viral.

**Daimler** AG's Mercedes-Benz of Germany in February pulled an Instagram post quoting the Dalai Lama after Chinese state media and social-media users in the country denounced the auto maker.

China also ordered **Marriott International** to temporarily suspend its online services in China after the hotelier circulated an online guest survey that listed Hong Kong, Taiwan, Tibet and Macau as countries.

And **Gap** Inc. recently apologized for selling a T-shirt depicting a map of China that omitted Taiwan and other China-claimed territories after an online backlash emerged. It also destroyed the offending

merchandise.

Such perceived missteps attracted less scrutiny before social-media use exploded in China. In 2005, **Walt Disney** Co. drew angry emails from Chinese citizens for mislabeling Hong Kong and Taiwan as separate countries in an online form that users were asked to fill out for updates about Hong Kong Disneyland, a person familiar with the matter said. Disney quickly fixed the problem and sidestepped scrutiny from Chinese authorities, the person added.

Since coming to power in 2012, President Xi Jinping has tightened his grip over the internet, establishing China's Cyberspace Administration and introducing laws to combat messages that undermine national sovereignty. China added a clause prohibiting advertisements from "damaging the dignity or interest of the state" when updating laws in 2015.

Some business consultants suggest hiring staff who understand local rules and conventions and can review communications before they are made public. That is especially important when companies use third-party vendors to provide some online services, said Washington-based crisis consultant Eric Dezenhall. "Even big companies have some media vendor tweeting stuff...without levels of approval."

The responses of American companies have raised concerns among lawmakers of censorship and improper retaliation. "As we have seen with Marriott, Delta, and now Gap, the Chinese government is increasingly extending its 'long arm' and economic leverage to interfere in the internal business practices of American companies," said Sen. Marco Rubio (R, Fla.), chairman of the Congressional-Executive Commission on China.

these places "countries," a term that suggests independent entities, Ms. Ennis said, adding that some international organizations call them economies or regions.

For Delta, the largest U.S. airline by market capitalization, its website's listing of Tibet and Taiwan as countries was what drew the ire of Chinese aviation regulators in January.

Delta apologized to Beijing and tweaked a drop-down menu on its online destinations form to read "country/region" instead of "country," a person familiar with the matter said.

In their rush to tap China's 1.4 billion consumers, multinational corporations sometimes forget to tune in to cultural differences, said Ted Billings, a managing director at consulting firm AlixPartners who advises CEOs.



Alden Ehrenreich in a scene from 'Solo: A Star Wars Story'

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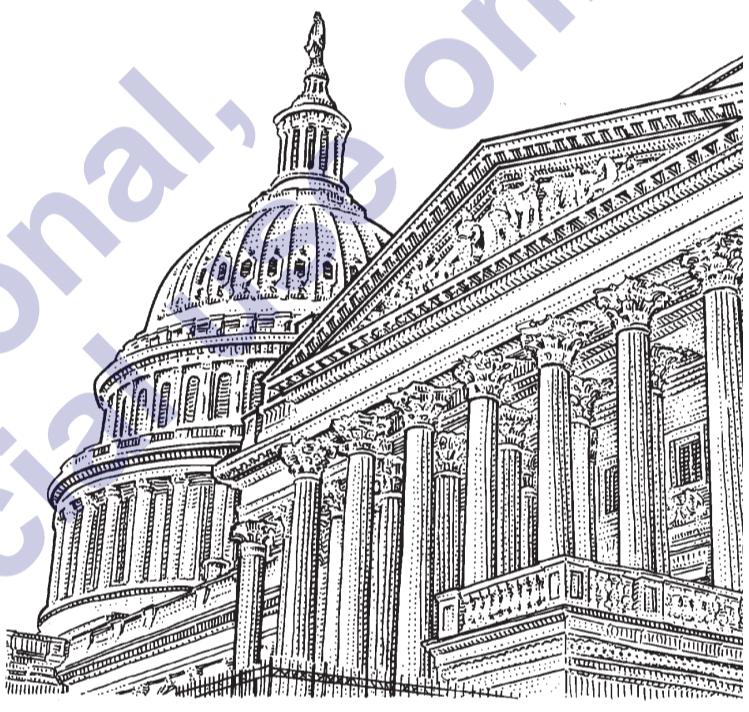
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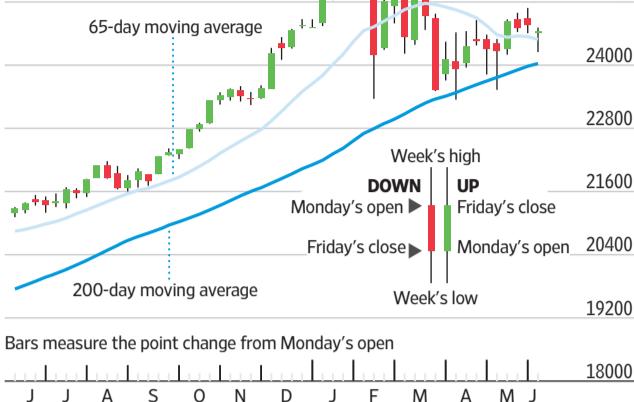
## MARKETS DIGEST

## Dow Jones Industrial Average

**24635.21** ▼117.88, or 0.48% last week  
High, low, open and close for each of the past 52 weeks

Trailing P/E ratio 24.22 20.63  
P/E estimate \* 16.21 17.92  
Dividend yield 2.21 2.37  
All-time high 26616.71, 01/26/18

Current divisor 0.14523396877348



Bars measure the point change from Monday's open

J J A S O N D J F M A M J

18000 19200 20400 21600 22800 24000 25200 26400

NYSE weekly volume, in billions of shares



30 20 10 0

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

## S&amp;P 500 Index

**2734.62** ▲13.29, or 0.49% last week  
High, low, open and close for each of the past 52 weeks

Trailing P/E ratio 24.09 24.08  
P/E estimate \* 17.15 19.01  
Dividend yield 1.91 1.95  
All-time high 2872.87, 01/26/18



2200 2300 2400 2500 2600 2700 2800 2900

J J A S O N D J F M A M J

2000 2100 2200 2300 2400 2500 2600 2700 2800 2900

Financial Flashback

The Wall Street Journal, June 4, 1993

Shares of Allstate Corp. surged 8.8% following the Illinois-based insurer's \$2.12 billion initial public offering, the largest ever by a U.S. company at the time.

## 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

Symbol/ primary exchange (\$)	Pricing shares range (\$) Low/High	Bookrunner(s)
YQ	60.1	10.00/ Citi, DB, 12.00 Daiwa Secs, Mizuho
MGX	5.0	14.00/ BofA ML, Barclays, 16.00 Evercore, Chardan Cptl Mkts

## 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	Issuedate	Issuer	Offer Symbol	Offer price(\$)	Offer amt (\$ mil)	Through Friday (%)	Lockup provision
June 4	Dec. 6, '17	CURO Group Holdings	CURO	14.00	107.3	64.0	180 days
	Dec. 6, '17	Odonate Therapeutics	ODT	24.00	160.6	7.6	180 days
	Dec. 6, '17	Quanterix	QTRX	15.00	73.8	22.5	180 days
June 5	Dec. 7, '17	Denali Therapeutics	DNLI	18.00	287.5	4.7	180 days
	Dec. 7, '17	Luther Burbank	LBC	10.75	150.2	16.7	180 days

Sources: Dealogic; WSJ Market Data Group

## IPO Scorecard

Performance of IPOs, most-recent listed first

Company	SYMBOL	IPO date/Offer price	Friday's close (\$)	% Chg From Offer price	1st-day close	Company	SYMBOL	IPO date/Offer price	Friday's close (\$)	% Chg From Offer price	1st-day close
Hancock Jaffe Laboratories	HJLI	May 31/\$5.00	4.98	-0.4	-5.0	Kiniksa Pharmaceuticals	KNSA	May 24/\$18.00	17.80	-1.1	-8.6
Trident Acquisitions	TDACU	May 30/\$10.00	10.09	0.9	0.6	Scholar Rock Holding	SRRK	May 24/\$14.00	19.65	40.4	26.8
Iterum Thera	ITRM	May 25/\$13.00	12.24	-5.8	-4.7	EVO Payments	EVOP	May 23/\$16.00	21.92	37.0	15.2
CLPS	CLPS	May 24/\$5.25	5.25	...	-4.7	Pluralsight	PS	May 17/\$15.00	22.05	47.0	10.3
GreenSky	GSKY	May 24/\$23.00	26.66	15.9	14.1	VectoQ Acquisition	VTIQU	May 16/\$10.00	10.01	0.1	0.1

Sources: WSJ Market Data Group; FactSet Research Systems

## Other Stock Offerings

Secondaries and follow-ons expected this week in the U.S. market

None expected this week

## Off the Shelf

None expected this week

## Public and Private Borrowing

## Treasuries

Monday, June 4

Tuesday, June 5

Auction of 13 and 26 week bills; announced on May 31; settles on June 7

Auction of 4 week bill; announced on June 4; settles on June 7

## Public and Municipal Finance

Deals of \$150 million or more expected this week

Sale	Final maturity	Issuer	Total (\$mil)	Rating	Bookrunner/ Bond Counsel(s)
June 4	Nov. 1, 2024	Dallas & Fort Worth Cities-Texas	302.4	N.R.	BoA Merrill/Bracewell LLP
June 4	April 1, 2033	Milwaukee City-Wisconsin	165.3	N.R.	Preliminary/Katten Muchin Zavis Rosenthal/Hurtado Zimmerman LLC
June 4	Sept. 1, 2028	So California Metro Water Dt	207.5	N.R.	FTN Financial Capital Markets/-
June 5	June 15, 2038	Ohio	300.0	N.R.	Preliminary/Ice Miller LLP
June 5	Sept. 1, 2028	Orange USD	165.6	N.R.	N.R. Preliminary/Nixon Peabody LLP/Curls Bartling PC
June 8	June 15, 2038	Clark Co-SD	200.0	N.R.	Preliminary/Sherman & Howard
June 8	Jan. 5, 2038	Connecticut	500.0	N.R.	BoA Merrill/-
June 8	Jan. 5, 2038	Harris (Houston) ISD	200.0	N.R.	Raymond James/Orrick H & S/Escamilla Poneck & Cruz
June 8	prelim.	Kentucky St Property & Bldg Comm	283.1	N.R.	N.R. Citi/-
June 8	prelim.	Los Angeles Co-California	700.0	N.R.	Goldman & Co/-
June 8	prelim.	Lower Colorado River Authority (LCRA)	289.9	N.R.	BoA Merrill/-
June 8	prelim.	Port of Seattle-Washington	567.4	N.R.	JPMorgan Securities LLC/-
June 8	prelim.	Riverside Co-California	340.0	N.R.	Stifel Nicolaus/-

Source: Thomson Reuters/Ipso

## International Stock Indexes

Region/Country Index Close Latest Week % chg Low 52-Week Range Close High YTD % chg

World The Global Dow 3025.69 -0.71 2756.60 3323.74 -2.0

DJ Global Index 397.36 -0.13 358.20 425.41 0.0

DJ Global ex U.S. 260.21 -0.81 239.56 285.34 -2.5

Americas DJ Americas 654.17 0.42 579.04 687.75 1.8

Brazil Sao Paulo Bovespa 77239.75 -2.10 60761.74 87652.64 1.1

Canada S&P/TSX Comp 16043.54 -0.20 14951.88 16412.94 -1.0

Mexico S&P/BMV IPC 45013.12 -0.17 44647.37 51713.38 -8.8

Chile Santiago IPSA 4052.24 -1.90 3593.92 4442.56 -3.8

EMEA Stoxx Europe 600 386.91 -1.07 363.18 402.81 -0.6

Stoxx Europe 50 3085.27 -1.02 2894.75 3274.97 -2.9

Eurozone Euro Stoxx 385.09 -1.38 366.11 404.86 -0.1

Euro Stoxx 50 3453.54 -1.76 3278.72 3697.40 -1.4

Austria ATX 3357.10 -1.42 3058.09 3688.78 -1.8

Belgium Bel-20 3809.22 -1.24 3760.51 4176.88 -4.2

France CAC 40 5465.53 -1.39 5031.92 5640.10 2.9

Germany DAX 12724.27 -1.65 11787.26 13559.60 -1.5

Greece Athex Composite 776.77 -2.80 701.36 886.54 -3.2

Israel Tel Aviv 1512.01 -0.28 1363.50 1554.30 0.1

Italy FTSE MIB 22109.55 -1.29 20584 24544 1.2

Netherlands AEX 559.18 -0.64 507.15 572.05 2.7

Portugal PSI 20 5517.49 -1.66 5074.49 5791.88 2.4

Russia RTS Index 1164.37 -0.48 973.33 1324.62 0.9





## MARKETS

## Emerging-Market Currencies Squeezed

Stronger dollar has Brazilian, Indonesian and other central banks under pressure

By IRA IOSEBASHVILI

A surging dollar is pressuring emerging-market countries to support their currencies by halting rate cuts or even tightening monetary policy, adding to investor concerns about growing stresses on their economies.

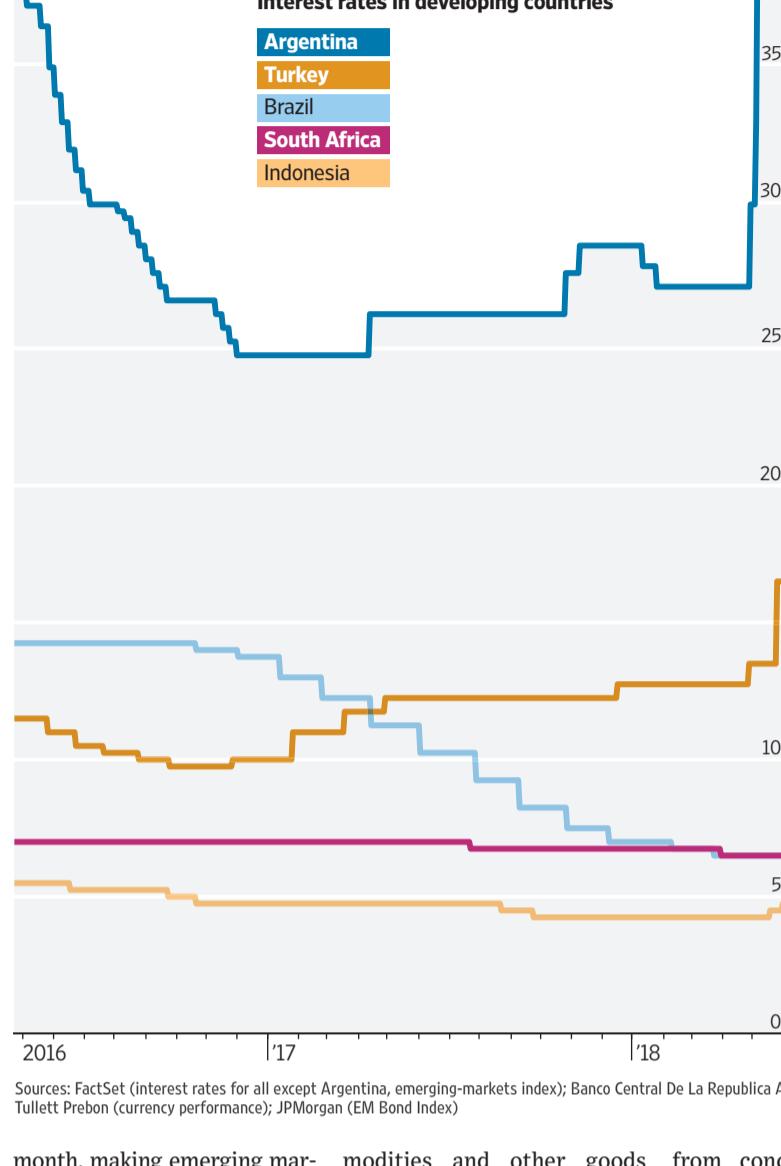
Indonesia's central bank raised rates on Wednesday, its second increase after lifting rates for the first time in four years earlier in May. Turkey's monetary authority last month raised rates by 3 percentage points to arrest a sharp drop in its currency, while the plummeting Argentine peso forced that country's central bank to raise rates to 40%—among the highest in the world.

Other central banks halted a long series of cuts. Brazil's central bank last month left rates unchanged for the first time in 19 months, citing concerns about global economic turbulence weakening the local currency. The South African Reserve Bank, which cut its main policy rate in March, left it unchanged in May and warned of inflation risk and weaker economic growth.

Low oil prices and last year's weakness in the dollar had allowed many developing countries to cut rates and boost growth without having to worry about sparking higher inflation—often a consequence of loose monetary policy.

Now, a 5.5% rally in the dollar from its February lows and a 14.8% rise in oil prices this year have forced central banks to rethink that strategy. So have yields on U.S. government bonds, which hit multi-year highs above 3% last

Some emerging-market central banks are halting rate cuts or tightening monetary policies to defend their currencies from recent declines.



Sources: FactSet (interest rates for all except Argentina, emerging-markets index); Banco Central De La Republica Argentina (Argentina interest rate); Tullett Prebon (currency performance); JPMorgan (EM Bond Index)

month, making emerging markets a less attractive option to some investors.

A stronger U.S. dollar can dent emerging markets because it pushes down the value of their currencies, makes dollar-denominated debt more expensive to repay and increases the cost of com-

modities and other goods priced in dollars. That is causing anxiety at a time when investors are increasingly uncertain about the global growth picture.

That shift comes as last year's extraordinary pickup in world-wide growth is already meeting a number of hurdles,

from concerns over global trade to higher oil prices. Investors are closely watching emerging markets to see how they withstand the bouts of risk aversion these pressures have sparked. Many view the asset class, where investors typically take on greater risk for greater returns, as an im-

portant barometer of global economic health.

The MSCI Emerging Markets Index, which measures stock performance, rose 37.3% in 2017 as investors bet the eurozone would lead a revival in global expansion. Few analysts now believe that Europe will repeat its 2017 perfor-

mance and recent data have been uneven. The eurozone's annual rate of inflation hit the European Central Bank's target for the first time in a year in May, a hopeful sign. Yet, earlier last month, Germany, Europe's largest economy, reported that its growth had slowed sharply in the first quarter amid a drop in government spending and weak exports.

Brazil's central bank said last month that the lack of a fiscal overhaul to address a gaping budget deficit, currently at 7% of gross domestic product, makes the country more vulnerable to volatility. Analysts polled by the central bank in May lowered their 2018 economic growth forecast to 2.5% from 2.9% in March.

Indonesia's new central-bank governor last month signaled more rate increases to bolster the country's weakening rupiah, which is hovering near its lowest level since late 2015.

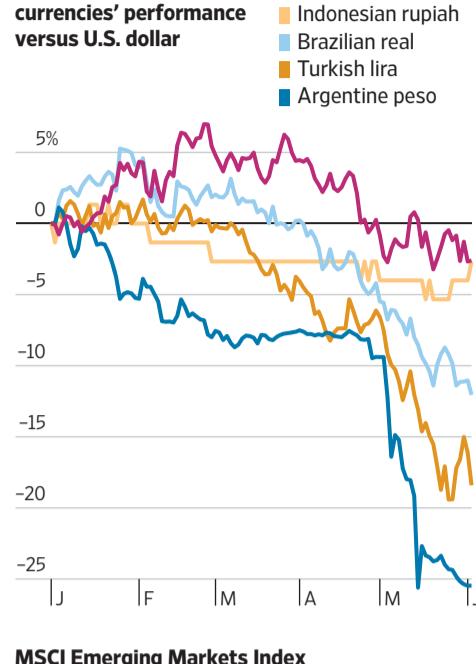
The recent volatility has spooked some investors. Emerging-market stocks and bonds have notched some \$20 billion in outflows since mid-April, data from the Institute of International Finance showed.

Meanwhile, the dollar has continued to march higher, fueled by political uncertainty in the eurozone and signs of steady economic growth in the U.S.

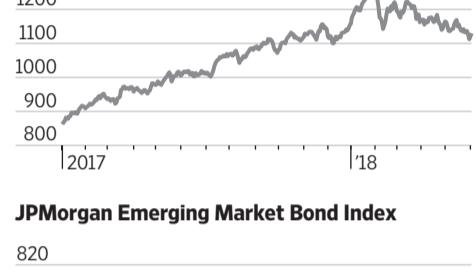
Still, some investors believe emerging-market fundamentals remain relatively robust and the recent selloff in the asset class has provided an opportunity to buy on the cheap.

"The policy response from emerging market authorities is picking up and supports sentiment," analysts at Morgan Stanley said in a note to clients. They expect Indonesia's rate increases to buoy the rupiah.

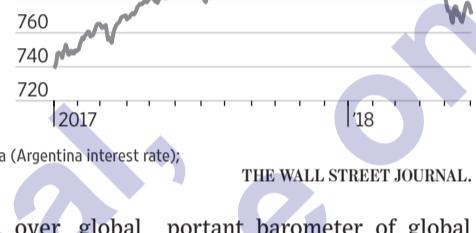
Emerging-market currencies' performance versus U.S. dollar



MSCI Emerging Markets Index



JPMorgan Emerging Market Bond Index



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## HEARD ON THE STREET

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## Full Reserve

Bank deposits are normally worth many times the volume of central-bank reserves, but in Switzerland the ratio\* has collapsed



\*In technical terms, this is the ratio of monetary measures M1 to M0.

Source: Swiss National Bank

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## A Radical Swiss Proposal

Imagine giving a committee of central bankers direct control of how much lending happens in an economy. Sound disruptive? Vulnerable to political meddling? Well, Swiss voters could make it happen on June 10 in one of the country's many referendums.

A vote in favor would transform how banks function and likely cut profits on lending. But local bankers aren't hyperventilating yet. The Swiss tend to reject crazier popular initiatives. In recent years, for instance, they voted against proposals to force the central bank to hold 20% of its assets in gold bullion and ban financial speculation on food.

However, the banking proposal isn't completely mad. Since the 2008 crisis, several countries have discussed similar ideas as a way to tame boom-and-bust credit cycles. Some mainstream media have promoted such changes, including the Financial Times.

Full-reserve banking means all instant-access deposits, like checking accounts, are backed by central-bank reserves, so people's money is always safe. The U.S. came close to introducing full-reserve

banking in the 1930s as a way to stop bank runs. Ultimately, it created deposit insurance instead, as have other countries, including Switzerland.

Swiss campaigners are more interested in preventing credit bubbles. Their proposal would mean banks can decide who gets to borrow and how, but they would have to back loans with longer-term funding—like peer-to-peer lenders do. Banks couldn't lend money they don't have, which is how they create money today.

Instead, only the central bank could create money, giving it control over the amount of lending. Today, central banks control the price of money through interest rates, but let the market (in the form of banks and borrowers) work out how much money the economy needs.

One worry is that the central bank could be slow to respond to demand for credit, restricting supply. Bankers, driven by profits, may be quicker to act on moneymaking opportunities.

The proposal would likely hurt lending profits because longer-term funding is more expensive than ultracheap ordinary deposits. That said,

it wouldn't affect private banking or international operations, so the biggest Swiss banks—Credit Suisse, Julius Baer and UBS—would be somewhat protected.

A change wouldn't crimp lending straight away because, by chance, Swiss deposits are currently more or less matched by central bank reserves. That is a side effect of all the money printing done to hold down the once-soaring Swiss franc and promote inflation.

Switzerland could turn on full-reserve banking tomorrow and banks overall would roughly meet the requirements.

The real risk isn't that credit growth could be slow in an improving economy, but that it might be harder for the central bank to restrict lending when things get too hot.

The Swiss central bank is independent, like its equivalents in the U.S. and U.K. But if it has to decide when to turn credit off—which could directly cut growth and cost jobs—the temptation among politicians to step in would likely be too great to resist. There is no guarantee that politicians or central bankers make better decisions than the market.

—Paul J. Davies

## Apple Must Keep Connection Strong

In today's smartphone business, keeping what you have is the name of the game.

That may not sound exciting, but it is the reality faced by companies like Apple Inc. and Google parent Alphabet Inc., which together control the two dominant mobile device platforms on the market. Google's Android has powered 85% of smartphones sold over the past two years while Apple's iOS has accounted for most of the remainder. That is unlikely to change anytime soon. IDC's latest projection issued Wednesday has that share-split remaining stagnant through 2022.

Also unlikely to change soon is Apple's reliance on the iPhone, as well as the additional revenue it sparks through sales of apps, content and services. Apple's iPhone sales have accounted for more than 60% of its total revenue over its past three fiscal years. Wall Street expects that to remain the case for at least the next two. Service revenue is now the most important driver of growth for the world's most valuable company. That makes Apple's seemingly small slice of the global smartphone market a rather important one to hold on to.

Investors may still want to keep an eye on the company's Worldwide Developers Conference, which gets under way on Monday. The event typically focuses on coming software updates, though last year's also included a smattering of new devices like the HomePod smart speaker. But iOS is typically the star, and this year should preview the 12th version of the mobile operating system that

typically launches in the fall with new phones.

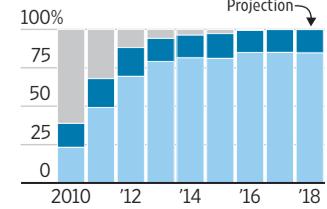
Little else is known about what the secretive Apple may have up its sleeve this year. Gene Munster of Loup Ventures expects the company to focus in particular on its Siri personal digital assistant, which is often compared unfavorably to Google's own digital assistant. But while Siri may be the butt of many jokes, its shortcomings have done little to alter the market-share dynamics between Apple's and Google's platforms.

Even if today's smartphone users are comfortably settling into their platform of choice, the owners of those platforms are spending ferociously to outdo one another and thus can't afford to sit still. Apple expended \$12.7 billion in R&D for the 12-month period ended in March, which is an 18% jump from the same period last year. Alphabet's own R&D bill surged 22% to \$17.7 billion for the same period. Such spending drives new features that keep users engaged and can even help companies like Apple command a higher price for their offerings.

That is one expensive stalemate. —Dan Gallagher

## Pair Trade

Global market share for smartphone operating systems



Source: IDC

# INVESTING IN FUNDS & ETFs

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THE WALL STREET JOURNAL.

Monday, June 4, 2018 | **R1****INSIDE****SAVING FOR RETIREMENT**  
Ask Encore: Retire, Then Travel Like Crazy?

Columnist Glenn Ruffenach answers the question of whether postretirement adventures are for everyone

R2

**CITs Are Not Quite Mutual Funds but...**

Collective investment trusts in retirement plans are increasingly popular, and their assets could pass the \$3 trillion mark by the end of 2018

R4

**FIXED-INCOME INVESTING**  
The Pros and Cons Of Rate-Hedged ETFs

These funds can work as an interest-rate hedge, at least in the short term, but there are some catches to keep in mind

R4

**FUNDAMENTALS OF INVESTING**  
What Matters for Index Funds  
Low fees are important, but the true test can be the tax management of the funds, writes a George Mason professor

R5

**SAVING FOR COLLEGE**  
529s Have Appeal for Grandparents

Answers to readers' latest questions about paying the college-tuition bill, including how 529 college-savings plans fit into estate planning

R6

**College Tours, on a Budget: Try a 'Virtual' Look**

One expense for parents of college-bound students is visiting schools, but there are ways to save money—such as virtual tours on websites

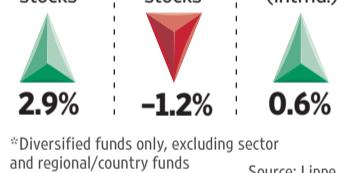
R6

**CURRENCIES****Emerging Markets Have a Dollar Problem**

Emerging-markets stocks have been pummeled lately, and the strength of the dollar gets much of the blame

[WSJ.com/FundsETFs](http://WSJ.com/FundsETFs)**SCOREBOARD**

May 2018 fund performance, total return by fund type. More on R2.



\*Diversified funds only, excluding sector and regional/country funds

Source: Lipper

## What I Did at Summer Camp: Stocks and Personal Finance!

Investing-focused camps continue to expand, as young adults still struggle with money issues

BY JANE HODGES

AT SOME SUMMER camps, the boys and girls will be skipping the campfire songs and three-legged races. Instead, they'll be learning how to invest in stocks or launch startups.

With names like Camp Millionaire, MoolahU, Financial Investors Club of America and WhizBizKids, the camps are designed to appeal to parents who want to teach their children the basics of money management, or support budding Warren Buffetts and Steve Jobs who show an interest in business. The programs teach everything from basic financial concepts, like active and passive income, to skills such as building money through investments, or launching a startup.

The camps are a compelling summer activity at a time when financial literacy among young adults has faltered and schools lack time and budget to incorporate financial education into the mix. The Council for Economic Education reported in its 2018 Survey of the States that only 16 states require any economics course work during K-12, and only seven states require students to take courses in personal finance.

Citing concern about the lack of financial education available to students and curriculum training available to teachers, the JumpStart Coalition, a financial-literacy advocacy group, in April launched an initiative to expand financial education in schools by 25% between now and 2025.

But for some parents, there's no

need to wait for schools. They want to put summer vacations to good use. While devoting part of a summer to profit-and-loss statements isn't every child's idea of fun, some campers say they're happy they did it.

"I liked that even at a young age, we were able to become entrepreneurs," says Ben Aubin, a 15-year-old in Dallas who attended MoolahU at age 8, and since age 12 has worked with the program as an apprentice. "You didn't need permission."

After his first entrepreneurial adventure at camp at 8—developing a duct-tape bracelet with his team, then selling it and coming home with a small check—he says he became a "startups" guy. This spring, on his own, he launched his third app, a tool to help young drivers with learner's permits track their hours behind the wheel.

**Money matters**

Whether children learn about money through camps or in their

classrooms, they need to gain a foundation early, says Lisa Cochran, a senior wealth strategist at PNC Wealth Management in Cleveland who has volunteered in high schools as an instructor for Junior Achievement, an independent nonprofit that offers business and financial education for children.

"Kids absolutely can learn financial literacy in schools as well as in camps," Ms. Cochran says. "Both [approaches] will continue gaining traction. In the past 10 years, there's been a greater awareness of the need for this education."

Youngsters may need help with one area of financial literacy in particular: investing. PNC research among millennials shows they may have learned more about saving than about expanding their wealth via investing, given that their parents were raising them during the 2007-09 recession.

"Money is not an elective in life," says Elisabeth Donati, whose

*Please turn to the next page*

## 5 FUNDS THAT REOPENED: SHOULD YOU INVEST?

BY DAN WEIL

AT SOME FINE restaurants, popularity can surge to the point that average Joes can't get a table. Eventually the reputation begins to slip, making reservations available again.

Mutual funds aren't too different. Many top-name funds have closed to new investors after a strong performance brought a flood of new money, making the funds harder to manage. But then disappointing performance can cause investors to flee, allowing the funds to reopen.

"When funds close to new investors, 95% of the time it's because of liquidity constraints on the portfolio," says Russel Kinnel, director of manager research for Morningstar. Funds can get so big that they either have to buy shares of more companies or buy stocks with a higher market capitalization than they intended, he says. "When you own small-cap stocks or high-yield bonds, or even mid- and large-cap stocks, there are liquidity constraints where bigger trades hurt performance."

On the flip side, when assets are flying out the door, funds will reopen. A loss of assets can make it hard for a fund to establish as many positions as it would like. In addition, less assets mean less fees for the fund managers.

The closing and reopening of funds, however, can be a

contrarian indicator. "When a fund closes, it can be a good time to get out quick," says Tim Ghriskey, chief investment strategist at Inverness Counsel, a money-management firm in New York. "That happens following a run-up, and after a fund closes, that style of investing may go out of favor." When the fund reopens, he says, that style may come back into favor amid strong performance.

Morningstar has identified five top mutual funds among those that closed and then reopened over the past 15 years: **Artisan Global Value** (symbol ARTGX), **Dodge & Cox Stock** (DODGX), **Fidelity Low-Priced Stock** (FLPSX), **FMI International** (FMIJX) and **Royce Special Equity** (RYSEX). Here's a closer look:**Artisan Global Value Fund**  
*Closed Feb. 17, 2014,  
reopened Oct. 1, 2015*

This offering boasts a 9.25% annualized return over the past 10 years, compared with 1.96% for the MSCI ACWI Ex-USA index in dollar terms, according to Morningstar.

The fund likes firms with financial strength and shareholder-oriented management, and avoids those with poor accounting and governance, Morningstar analyst Andrew Daniels says in a report.

Chris Litchfield, a retired hedge-fund manager who is a private investor in Greenwich,

Conn., says investors should be aware that the fund has a 60% weighting in financial services and tech stocks. "That's a relatively large bet," he says.

**Dodge & Cox Stock Fund**  
*Closed Jan. 16, 2004,  
reopened Feb. 4, 2008*

The fund has outperformed the S&amp;P 500 for the past five and 15 years, but not for 10.

Mr. Daniels writes that its strong investment team and "rock-bottom fees" give him confidence in its ability to outperform long term. "It favors firms with good management, competitive advantages, and solid growth potential," he writes.

The fund's managers sell only reluctantly, which has contributed to its long-term success but has made for high volatility, Mr. Daniels notes.

Mick Heyman, an independent financial adviser in San Diego, says several of his clients have owned the fund and been content. But given its heavy value tilt, he says you'll need another fund focused on growth stocks to be diversified.

**Fidelity Low-Priced Stock Fund**  
*Closed Dec. 31, 2003,  
reopened Dec. 17, 2008*

This fund has generated an



annualized 10-year return of 9.15%, compared with 8.97% for the S&amp;P 500.

"The fund's eclectic portfolio reinforces its place as a standout," writes Morningstar analyst Katie Rushewicz Reichtart, who praises manager Joel Tillinghast for posting "tremendous long-term results despite a huge asset base." Mr. Tillinghast combs the globe for stocks trading under \$35, with a low-turnover, value-oriented approach.

Its size—more than 800 stocks comprising \$38 billion—can be a hindrance, experts say. "Great performance comes from being selective," Mr. Ghriskey says. "It's tough when you have that much in assets."

**FMI International Fund**  
*Closed April 30, 2017,  
reopened April 2, 2018*

This fund has generated an

This fund, which began in 2011, generated an annualized return of 7.91% over the past five years, compared with 5.13% for the MSCI ACWI Ex USA index in dollar terms.

Fidelity analyst Alec Lucas likes FMI's "capacity-conscious and cautious, but effective, strategy." The fund uses a risk-averse, value-oriented approach, and most stocks come from outside the U.S.

Ethan Anderson, a financial adviser at Rehmann Financial in Grand Rapids, Mich., is critical of the fund's policy of hedging foreign-currency exposure. "I feel if you're looking for diversification, you don't need to pay extra for hedging," he says.

**Royce Special Equity Fund**  
*Closed March 12, 2004,  
reopened June 26, 2006**Closed again Feb. 29, 2012,  
reopened Jan. 4, 2016*

The Royce fund has a 10-year annualized return of 8.88%, which is even with its fellow small-cap value stock funds, according to Morningstar.

The managers, writes Morningstar's Tony Thomas, "look for businesses with low debt, high returns on invested capital, and growing free cash flow. Top prospects must generate earnings at a rate exceeding a conservative cost of capital."

The fund may work well for patient investors concerned that the market is overheated, says Tom Fredrickson, a New York financial planner.

*Mr. Weil is a writer in West Palm Beach, Fla. He can be reached at [reports@wsj.com](mailto:reports@wsj.com).*

## JOURNAL REPORT | INVESTING IN FUNDS &amp; ETFS

ASK ENCORE | GLENN RUFFENACH

# Retire, Then Travel? It's Not the Only Way

Also: Answers to reader questions on IRAs, trusts and Social Security benefits

*Would you recommend traveling a lot at the beginning of retirement?*

Interesting question. Most people, when asked what they hope to do after leaving the office, include "travel" (or "travel more") among their replies. That certainly was true for my wife and me. As I mentioned in an earlier column, we seemed to be living out of our suitcases in our first year or so of retirement, which included a two-week trip to France and a half-dozen trips in the U.S.

The easy answer to this question is: Sure. Travel early and often, while you and your nest egg are still healthy. There is also the possibility—as several readers have cautioned us, in a series of heartbreaking emails—that you could lose your spouse or partner early in retirement and end up regretting that you didn't travel more when you had the chance.

All that said...I think this question speaks as much to our expectations about retirement as retirement itself. A "good" retirement is one that involves lots of travel, or so the popular image goes.

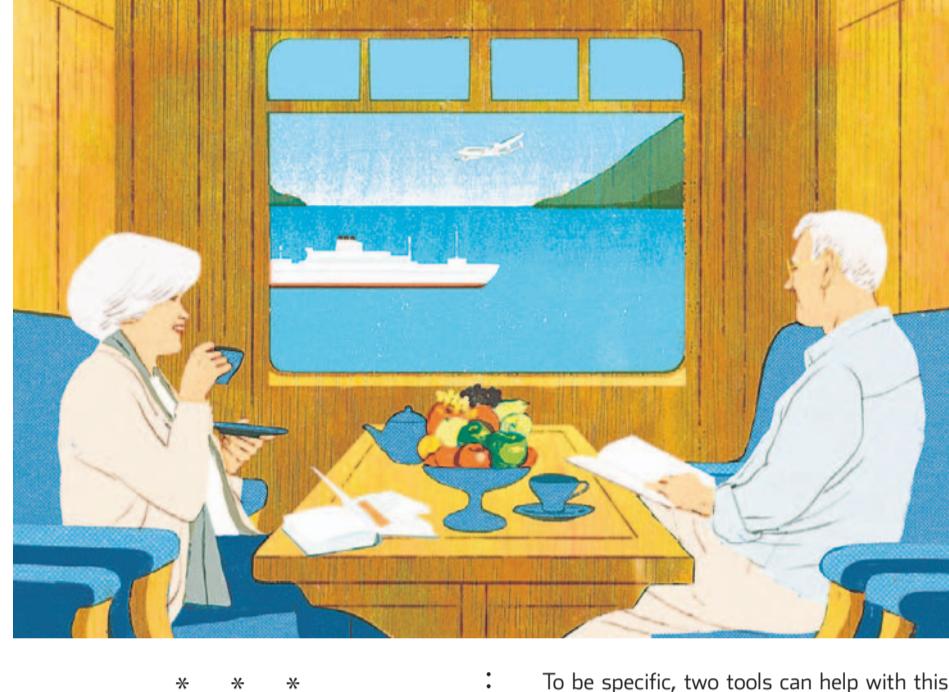
But travel, for most, ends up being just one part of later life, and the frequency and timing are likely to be less important than you imagine. (Spoiler alert: Most retirees spend most of their time doing things other than traveling.)

My wife and I, now in our third year of retirement, aren't traveling quite as much as we did at first—not because we don't enjoy traveling, but because we have discovered how much we enjoy our lives at home: reading a book on our back porch, volunteering at a local school, catching a movie on a Wednesday afternoon (love those matinees), going to a baseball game or dinner with friends, visiting with our children and grandchildren, taking a late-afternoon walk.

Think about it this way (in one of my favorite descriptions about later life from Peter Leo, a former columnist at the Pittsburgh Post-Gazette): "Retirement gives you the time to live ordinary life well."

So, I think a better answer to this question is: You will discover, at your own pace, if traveling "early and often" is right for you. If it is, that's great. And if not, the occasional trip—combined with a daily routine that's rich with the commonplace—is just as rewarding. Believe me.

**Mr. Ruffenach** is a former reporter and editor for The Wall Street Journal. His column examines financial issues for those thinking about, planning and living their retirement. Send questions, comments to [askencore@wsj.com](mailto:askencore@wsj.com).



\* \* \*

*My wife and I have been diligent savers our entire lives. We have accumulated assets of approximately \$2 million in an individual retirement account. We have two adult children in their 20s who did not inherit the saving gene. Do you know of a trust that would, first, maintain the tax-deferred status of the IRA assets; second, make required minimum distributions to our children; and third, include appropriate spendthrift provisions? Also, would the distributions be based on my wife's and my life expectancy or the life expectancy of the oldest beneficiary?*

Let's tackle the last question first.

When the owner of an IRA dies, and if the account is left to an individual beneficiary (say, a child), the payout period is based on the life expectancy of that individual. If the IRA is left to several children, the oldest child's life expectancy applies—unless the children divide up the inherited IRA into separate inherited IRAs within a year. In that case, each child uses his or her own life expectancy as the measuring period for required distributions.

But your question highlights what can go wrong: Naming children outright as beneficiaries means they can cash out the entire account at will. Which brings us to a trust, something that will stand between the beneficiaries and the IRA money.

To be specific, two tools can help with this particular situation, says Natalie Choate, a lawyer specializing in retirement benefits at Nutter McClennen & Fish in Boston. First, some IRA providers offer a "trust IRA," where your IRA is, itself, in the form of a trust. (The IRA document is combined with a trust agreement.) Second, you can leave your IRA to a trust that qualifies as a "conduit trust" under Internal Revenue Service rules. As the name implies, such trusts convey or channel payments to a beneficiary.

The larger point: Both tools can help protect your adult children from themselves, Ms. Choate says. Both will ensure that each child takes out, each year, only the minimum distribution required by law. (Although you could specify instances where additional funds could be paid out: medical expenses, education, emergencies, etc.) And both are entitled to use the child's life expectancy to measure those required distributions.

Want to get even more stringent? You can set up a trust that gives the trustee total control over how much money each child receives and when, Ms. Choate says. That gives the greatest protection from a child's (potentially foolish) spending choices. But the life-expectancy payout method wouldn't be available for such a trust, Ms. Choate notes. The IRA would have to be cashed out over a shorter period of time (five to 10 years) after the IRA owner's death.

## On the Road Again

Asked about their travel plans and expectations for 2018, surveyed baby boomers\* said their top motivation for travel would be:

Spend time with family/friends	<b>57%</b>
Relax and rejuvenate	<b>49</b>
Get away from normal, everyday life	<b>47</b>
Visit a place I've always wanted to go	<b>37</b>
Share new experiences w/significant other	<b>32</b>
Go on an adventure	<b>21</b>
Try something new	<b>15</b>
Scout retirement locations	<b>4</b>
Improve health	<b>2</b>
Scout relocation	<b>1</b>
Other	<b>5</b>

\*Ages 53-71. Source: AARP Travel Research: 2018 Travel Trends

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\* \* \*

*And finally, a few thoughts about Social Security and spousal benefits...*

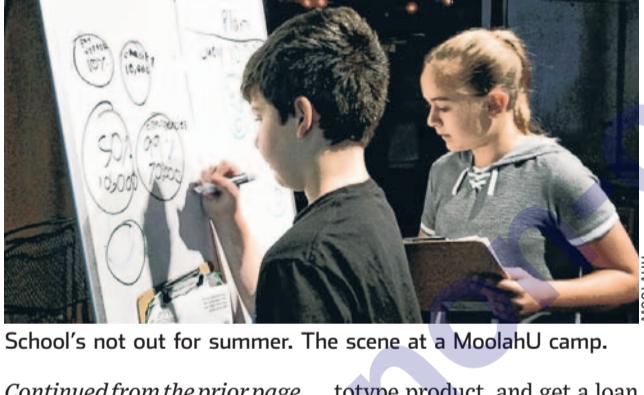
In my May 7 column, I answered a question about a wife turning 62 in 2019 and the options she has for claiming Social Security. I noted that, if her husband had already filed for his benefits, her options would be limited: On the day she submits her application, the Social Security Administration will regard her as filing for both a spousal benefit and a benefit based on her work history and will award her the larger of the two. Period.

While those details are correct, several readers wrote me and said my answer should have included a Social Security claiming strategy that's still available to some retirees. When Congress overhauled such strategies in late 2015, it carved out an exception: Individuals who turned 62 before Jan. 2, 2016, still have the option—if they first claim benefits at their full retirement age or later and if their spouse is already collecting Social Security—of claiming just a spousal benefit and switching in the future (say, age 70) to a benefit based on their earnings history.

I must admit: It would have helped to include that additional information in my original column.

I hope this expanded answer helps. And thanks for the nudge in the ribs.

## Some Summer Camps Focus on Money



School's not out for summer. The scene at a MoolahU camp.

*Continued from the prior page*

company Creative Wealth International launched Camp Millionaire day camps for youngsters ages 10 to 17 in Santa Barbara, Calif., in 2002.

"Money camps tend to appeal to two types of parents," she says. "Wealthy parents who don't feel they alone can teach their children about finances, and parents who wish they were more financially successful and don't want their children to have to learn the hard way like they did."

Camps' pricing varies. MoolahU is \$315 a week (more for food); while 10-day Camp-BizSmart can run to more than \$4,000 with tuition, room and board at Santa Clara University. Camp Millionaire can go as low as \$229—but that's only for two days.

### Business attire

Most money camps are offered in a day-camp format, although Financial Investors Club's overnight camps can span multiple weeks; it's \$2,499 for a week including room and board. (The club's camps also require that students wear suits or business attire to college-campus seminars and on field trips to businesses and financial districts.)

At MoolahU, a startups camp that launched in Austin, Texas, in 2005 and will soon debut in Singapore, young business minds ages 7 to 17 collaborate for a week to develop a business idea and pro-

toty product, and get a loan from a "barracuda tank" of local business experts.

From there, they sell their product, repay their borrowed money with interest and take turns occupying different leadership roles in their business. They also review a daily profit-and-loss statement and change course according to their findings.

Valerie Granoff's son Aaron attended camp at age 10 in 2017. Before the family knew about the camp, Aaron was asking "us to explain the stock market to him and how investing works," says Ms. Granoff, a psychotherapist in Austin. "I saw the camp online and thought, 'This is right up his alley!'"

Ms. Granoff says Aaron's biggest gains from the camp may have been in learning leadership skills—business modeling, course correcting, accountability and public speaking.

Outside of camp, Ms. Granoff and her husband have helped their son open a custodial brokerage account so he could invest in a stock of his choice. Initially, he chose Target, then switched to Netflix—up 130% since his purchase.

"I told him not to get used to returns like that," she says.

Dave Guzman's son, Josh, attended MoolahU at 12 and 13 years old, in 2011 and 2012. While Josh, now 19, wasn't necessarily motivated by strong financial interest—he

wanted to earn his Boy Scout entrepreneurship badge—he wound up taking away business lessons such as stopping and pausing before making purchases, planning long term and managing his time.

"You couldn't have paid him to talk when he went off to the camp," Mr. Guzman says. "But when it was done he was more vocal and had more confidence."

The camp also has courses for parents, such as one on dealing with children who constantly demand money. And local businesspeople like Mr. Guzman, owner of an employee-wellness company, are brought in to help teach as entrepreneur mentors; he says the emphasis is on letting children draw information out of mentors as they need it, versus lecturing down to them.

"The basic reason I started our program was to teach my daughter that money isn't just for spending," says Gayle Reaume, MoolahU's founder and CEO. "When children are at school they learn the right answers they need to know to succeed, but when they create something new in an environment like this, they also learn from experimenting and from their failures and mistakes."

### Ways to make money

At Camp Millionaire, Ms. Donati says, youngsters learn that money can be earned

through a salaried job where time is traded for money, or "made" by creating a business or income stream that delivers returns or passive income (rent, licensing fees, royalties, franchising fees, etc.).

"In camp, kids earn paychecks, pay taxes, learn to budget, how debt works, and, eventually, how to invest," says Kasey Hill, a former Merrill Lynch employee turned high-school teacher. For three years, Ms. Hill has led Camp Millionaire sessions for children ages 10 to 14 in Edmonds, Wash., an affluent waterfront village north of Seattle.

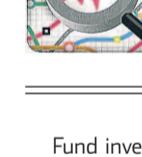
Coming into camp, most children didn't understand stocks or bonds, she says. Some thought the investments were a form of real estate.

With the help of a local Edward Jones office and their parents' custodial oversight, campers bought their own mutual funds—and they each now receive statements about their investment performance. The Edward Jones representative agreed to keep a continuing dialogue with interested campers about their investments.

"These kids are now coming in to see him with plastic bags of cash, and asking him how Boeing and Microsoft are doing," Ms. Hill says.

**Ms. Hodges is a writer in Seattle. She can be reached at [reports@wsj.com](mailto:reports@wsj.com).**

## MONTHLY MONITOR | WILLIAM POWER



## U.S.-Stock Funds Survive the Swings, Gain 2.9% for Month

Fund investors are getting a reminder about long-term investing: Don't overreact to daily price swings.

Markets were relatively calm for a good stretch, until recently. Volatility returned in reaction to Italy's tumult and trade-war rumblings. Still, May was a positive month for the U.S. market and for funds. The average diversified U.S.-stock fund's total return for the month was 2.9%, according to Thomson Reuters Lipper data, to bring the year-to-date return to 2.8%.

International-stock funds were down 1.2%, making the year-to-date decline nearly 1%.

"People should not overreact to political happenings or one-day events. Leave that to traders, not investors," says Brent Schutte, chief investment strategist at Northwestern Mutual Wealth Management in Milwaukee. That said, he adds, "we are getting later in the [economic and market] cycle, so make sure you're not too far over your skis in terms of risk."

Mr. Schutte says he remains more focused on inflation than on political events. "I still think that for the next two years, the boogeyman of this market is inflation, and the Fed's reaction, if it spikes above where people currently have it priced, which is still low."

Bond funds were up overall in May. Funds focused on intermediate-maturity, investment-grade debt (the most common type of bond fund) advanced 0.6%, leaving them down 1.6% for 2018 so far.

### Regulated funds number 114,000, ICI says

The 2018 Fact Book from the Investment Company Institute trade group is hot off the press. Total assets of world-wide regulated funds have more than doubled since 2008, surpassing \$49 trillion. There are 114,000 regulated open-end funds. The U.S. remains the biggest fund market, with \$22.1 trillion in assets (45% of the world total) in mutual funds and ETFs.

**Mr. Power is a Wall Street Journal news editor in South Brunswick, N.J. Email him at [william.power@wsj.com](mailto:william.power@wsj.com).**



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Contributors featured throughout the week include:

◆ Annamaria Lusardi, Denit Trust Chair of Economics and Accountancy at the George Washington University School of Business.

◆ Patrick Lach, an associate professor of finance at Bellarmine University and founder of Lach Financial.

◆ William Reichenstein, Powers Professor at Baylor University and head of research at socialsecuritysolutions.com.

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1. This claim is based on prospectus net expense ratio data comparisons between Schwab market-cap index mutual funds (no minimum investment required) and non-Schwab market-cap index mutual funds in their respective Lipper categories. Schwab operating expense ratios (OERs) and competitor net OERs represent the lowest OERs reported from prospectuses and Strategic Insight Simfund, as reflected on 07/31/2017. Funds in the same Lipper category may track different indexes, have differences in holdings, and show different performance. Competitors may offer more than one index mutual fund in a Lipper category, including funds that are not market-cap index mutual funds. Expense ratios and minimums are subject to change.

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## JOURNAL REPORT | INVESTING IN FUNDS &amp; ETFS

## FIXED-INCOME INVESTING

# The Pros and Cons of Rate-Hedged Bond ETFs

There are a few catches, but they can work—at least short-term

BY MARK HULBERT

EVEN THOUGH bond-market yields are now high enough to be an attractive alternative to the stock market, many investors are avoiding the fixed-income market because of the near-certainty that interest rates are headed even higher.

But there is a way of capturing bonds' newly attractive yields without incurring the losses that would result from higher interest rates: interest-hedged bond ETFs.

About a dozen such exchange-traded funds now exist. Several have been around long enough that there is enough data to judge them not just for their theoretical potential but also for their real-world performance.

The idea is to invest in a

basket of corporate bonds while simultaneously selling short a group of U.S. Treasurys with similar maturities. Any losses incurred by the corporate bonds as interest rates rise would, in theory at least, be offset by gains realized by selling the Treasurys short. An interest-rate-hedged bond ETF's expected return, therefore, should be its starting yield minus the cost of the hedge, which typically is about 50 basis points, or half a percentage point.

#### With and without

To judge how this works in practice, contrast **iShares Interest Rate Hedged Corporate Bond ETF** (LQDH) with the identical fund without the hedge—**iShares iBoxx \$ Investment Grade Corporate ETF** (LQD). From July 8, 2016,

when the 10-year Treasury yield hit its low of 1.37%, to today, with that yield at 2.895%, the unhedged ETF has produced an annualized loss of 0.8%, in contrast to an annualized gain of 4.7% for the interest-rate-hedged version. Not bad for a bond fund during a nearly two-year period in which interest rates more than doubled.

There are several catches, however. One is that, by investing in an interest-rate-hedged bond fund, you are forfeiting any capital gain if interest rates were to decline. That's just the flip side of not losing money when rates rise, of course. And you may be more than willing to give up that possibility, given the widespread expectation that rates will rise.

Another catch is that a hedge created by shorting Treasurys, even though it should be largely effective, may still not precisely offset the risk of higher corporate in-

terest rates, says Lawrence Tint, chairman of Quantal, a risk-management firm for institutional investors. One way

**4.7%**  
Annualized gain since  
2016 for a rate-hedged  
version of a corporate  
bond ETF, vs. a 0.8%  
loss for unhedged

no other hedging technique that would do a better job than shorting Treasurys.

The possibility of an imperfect hedge means that rate-hedged bond ETFs could perform worse than expected. Take LQDH's performance from June 2014 through July 2016, during which the 10-year Treasury's yield fell from 2.67% to 1.37%. The fund produced a loss of 1.3% annualized over this period, even though in theory its return should have come close to its initial yield of more than 3%.

#### Another catch

Yet another catch with interest-rate-hedged bond funds is that you still are incurring so-called credit risk: the possibility that the corporate bond issuers will run into financial trouble and be unable to pay back some or all of their bonds' principal. This is especially worth remembering in the case of those rate-hedged ETFs that invest in high-yield,

or junk, bonds.

Finally, it's worth keeping in mind that there are other ways of hedging interest-rate risk.

One popular way is the so-called bond ladder, consisting of a basket of bonds of successively longer maturities. When rates rise, you are able to reinvest the proceeds of any maturing bond in a new one with a higher yield. Provided you hold on to the bond ladder for several years, those higher yields of the newly bought bonds will almost completely make up for the capital losses incurred by previously owned ones, says Martin Leibowitz, managing director at Morgan Stanley. If so, then rate-hedged bond funds may be most appropriate for bond investors with a shorter-term horizon.

**Mr. Hulbert is the founder of the Hulbert Financial Digest and a senior columnist for MarketWatch. He can be reached at reports@wsj.com.**

# CITs, the Not-Quite Mutual Funds, Near \$3 Trillion

BY BAILEY MCCANN

COLLECTIVE INVESTMENT trusts, the increasingly popular retirement-plan investments that seem like mutual funds but aren't, are ballooning.

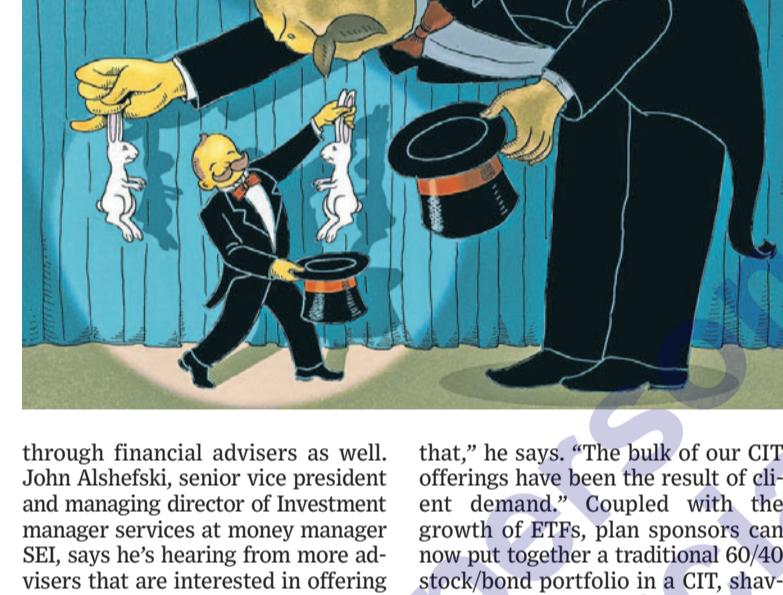
Data from financial-services company ALPS shows that assets in collective investment trusts, or CITs, could surpass the \$3 trillion mark by the end of 2018, up from \$1.9 trillion at the end of 2015.

Much of this is thanks to 401(k) plan sponsors adding CITs to the menus of investment choices that they offer their plan participants. The 2018 Defined Contribution Trends Survey from investment consultant Callan shows that such use of trusts in 401(k)s has jumped 48% since 2011, while the use of mutual funds has decreased.

#### Lower costs

When CITs are added to retirement plans, plan participants have new ways to expand their nest eggs. The trusts are sponsored by banks and trust companies, and so are primarily overseen by banking regulators. Thus, even though the trusts tend to mirror mutual funds in the types of assets and strategies they use, they have lower management and distribution costs because they aren't subject to Securities and Exchange Commission rules.

CITs are increasingly available



given plan, Stadion can create customized retirement offerings by using the five CITs.

#### Innovation opportunity

"We've been operating on this one-size-fits-all model with 401(k)s and target-dates where we aren't looking at factors like when people start participating," Mr. Lacey says. "There's a recognition in the industry that this isn't great," he adds, and "there is an opportunity with CITs to jump-start some of that innovation."

One drawback of CITs, meanwhile, has been their lack of a trading symbol, making it difficult for 401(k) participants to track how the trusts are performing and compare them with other investments. Some companies that offer CITs, though, now offer mutual funds with identical asset mixes and strategies as the CITs they offer. So, CIT investors can use the mutual fund as a proxy for the CIT performance, because both are using the same strategy.

CIT providers understand that the market expects daily information, says Shelby George, senior vice president of advisory services at investment firm Manning & Napier.

"What we've seen with [CITs] is a lot of innovation behind the scenes in terms of improving the timeliness of reporting, getting more performance information out there, in addition to expanding the strategies that are available in a CIT," she says. Ms. George adds that she wouldn't be surprised to see a third party step in and start offering CIT research and ratings, similar to what Morningstar does for mutual funds.

**Ms. McCann is a writer in New York. She can be reached at reports@wsj.com.**



#### IN TRANSLATION

## CCAR

Over the next few weeks, the abbreviation CCAR, which stands for Comprehensive Capital Analysis and Review, is likely to crop up in news articles and online posts. It matters for anyone who follows the U.S. banking industry.

CCAR (pronounced SEE-car), evaluates how banks manage their balance sheets and whether they are financially strong enough to pay dividends or buy back shares. The exercise is conducted annually by the Federal Reserve, which conducts many stress tests. Experts expect few surprises from the results, due in June.

"In the past, the bank stocks would rally on the back of positive results from the CCAR," says Mayank Seksaria, head of macro strategy at Macro Risk Advisors in New York. He says that while there could be unexpected positive results for a bank or two this year, "the likelihood of that is low and the likelihood that there will be something affecting the sector is even lower," now that the banking system has bounced back from the financial crisis.

CCAR is still watched by investors, but the focus now is on whether some of the reporting requirements get lifted. "Even though the [rules] may not be relaxed, the process that the banks go through is expected to be less onerous," Mr. Seksaria says.

—Simon Constable

## FUND RESULTS

Lipper's A-to-Z monthly mutual-fund and ETF listings are free at [WSJ.com/FundsAnalysis](http://WSJ.com/FundsAnalysis).

### 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

Investment objective      Performance (%)      May YTD 1-yr 5-yr

Investment objective      Performance (%)      May YTD 1-yr 5-yr

#### Diversified stock & stock/bond funds

	May	YTD	1-yr	5-yr
Large-Cap Core	2.0	1.2	13.0	11.4
Large-Cap Growth	4.1	8.0	21.1	14.7
Large-Cap Value	0.6	-1.3	10.3	9.6
Midcap Core	2.5	1.1	11.7	10.0
Midcap Growth	4.4	6.9	19.7	12.3
Midcap Value	1.0	-0.6	9.2	9.6
Small-Cap Core	4.8	4.1	16.2	10.7
Small-Cap Growth	7.0	10.7	26.1	12.7
Small-Cap Value	5.0	3.1	15.3	9.4
Multicap Core	2.1	1.5	12.9	10.8
Multicap Growth	4.2	7.3	20.1	13.4
Multicap Value	0.8	-1.2	10.3	9.5
Equity Income	1.2	-0.9	9.4	9.2
S&P 500 Funds	2.4	1.8	13.9	12.4
Specialty Divers. Equity	1.0	-0.1	4.6	-3.3
Balanced	0.9	0.02	7.0	6.4
Stock/Bond Blend	0.7	0.02	6.8	5.8
Avg. U.S. Stock Fund <sup>†</sup>	2.9	2.8	14.3	10.4

#### Sector stock funds

	May	YTD	1-yr	5-yr
Science & Technology	4.9	8.6	21.8	16.7
Telecommunication	-2.3	-4.7	-1.6	6.8
Health/Biotechnology	4.8	6.6	20.8	14.8
Utility	-0.2	-0.8	1.2	8.0
Natural Resources	2.6	4.3	16.7	-1.8
Sector	2.0	-1.6	4.7	5.8
Real Estate	2.8	-3.2	1.5	6.3

#### Stock & Bond Benchmark Indexes

All total return unless noted

Investment objective      Performance (%)      May YTD 1-yr 5-yr

Investment objective      Performance (%)      May YTD 1-yr 5-yr

#### Large-cap stocks

	May	YTD	1-yr	5-yr
DJIA	1.4	-0.2	18.9	12.8
S&P 500	2.4	2.0	14.4	13.0

#### Midcap stocks

	May	YTD	1-yr	5-yr
S&P MidCap 400	4.1	3.1	14.9	12.2

#### Small-cap stocks

	May	YTD	1-yr	5-yr
Russell 2000	6.1	6.9	20.8	12.2

#### Broad stock market

	May	YTD	1-yr	5-yr
DJ U.S. Total Stock Market	2.8	2.6	15.1	12.8
Russell 3000	2.8	2.5	15.1	12.9

\*Annualized \*Diversified funds only \*\*Excludes money-market funds \*\*\*Europe, Australia, Far East

### How the Largest Funds Fared

Data provided by LIPPER

Performance numbers are total returns (changes in net asset values with reinvested distributions) as of May 31; assets are as of April 30. All data are preliminary.

#### The Largest Stock Mutual Funds

## JOURNAL REPORT | INVESTING IN FUNDS &amp; ETFS

## FUNDAMENTALS OF INVESTING

# What Matters for an Index Fund: Tax Skill

Yes, low fees are important, but the true test can be the after-tax return

BY DEREK HORSTMAYER

MANY INVESTORS believe that the best way to choose among similar index-tracking funds for long-term investment is to pick the one with the lowest fees. But there's a better way: Compare the funds' after-tax returns.

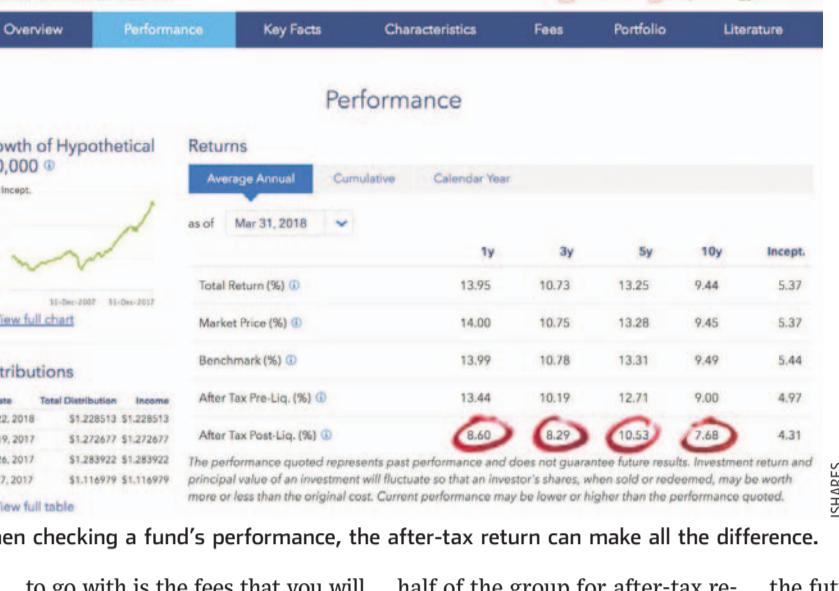
Looking at the 25 most popular S&P 500 index funds, measured by assets under management, it's clear that the tax-management practices of the funds are more important to their long-run performance than their fees are.

It might seem that because index funds are meant to be passively managed, there shouldn't be much distinction among them when it comes to portfolio turnover and other tax-management issues. While the buying and selling of securities in an active manager's portfolio will surely affect the taxes paid on short-term and long-term capital gains—and affect long-term performance—how could tax issues be of significant concern for funds whose managers are simply tasked with following an index?

At first glance, they aren't. When the 25 most popular S&P 500 index funds are ranked by their pretax performance over 10 years, the difference in average annual returns between the fund at the 75th percentile of performance and the fund at the 25th percentile of performance is 0.115 percentage point. That nearly matches the difference between those funds in operating expenses—passed on to investors as fees—of 0.10 percentage point (0.06% for the fund at the 75th percentile of performance versus 0.16% for the fund at the 25th percentile).

## Where the gap is

In other words, for pretax returns, all that appears to matter when deciding which index fund



When checking a fund's performance, the after-tax return can make all the difference.

to go with is the fees that you will be paying the fund manager.

However, a much bigger gap emerges when the funds are ranked by after-tax returns. After adjusting for the management fees paid at each fund, the difference in the average annual returns over 10 years of the fund at the 75th percentile of posttax returns and the fund at the 25th percentile is 0.26 percentage point. This is a pure measure of the performance difference due to tax-management practices, since operating expenses and other fees have been negated in this calculation.

For the most part, differences in the after-tax performance of the 25 S&P 500 index funds were persistent over the entire decade. A fund that performed in the top

half of the group for after-tax returns during the first five years of the sample period had a 72% chance of being in the top half of the group in the latter five years of the period.

It seems that some funds are just better at managing tax issues than others.

## The role of flows

What drives after-tax differences in returns among S&P 500 index funds? The biggest challenge to fund managers is largely out of their control: inflows and outflows of money from the funds. The greater the volatility in these flows, the more the fund manager has to rebalance—to keep the fund in line with the index it tracks—by buying or selling securities, which

leads to a greater tax bill.

While the overall trend of inflows and outflows depends largely on the movements of the stock market—the greatest outflows, for instance, occur during times of market panics—the effect differs for each fund. And fund managers can distinguish themselves by how effectively they tackle this challenge. For instance, it's possible for an index-fund manager who is attuned to the tax considerations of the fund's portfolio to harvest some losses along the way—selling stocks that have fallen, to realize a tax-deductible loss—to reduce

the future tax bill while minimizing the effect on the fund's ability to track its benchmark index, says Rich Powers, head of ETF product management at Vanguard.

Other drivers of differences in after-tax returns are how managers handle rebalancing their portfolios around market-moving events like mergers and acquisitions, or around the occasional changes in the S&P 500 index.

In the end, the numbers make it clear: Taxes matter in passive investing, just as they do for actively managed funds.

**Dr. Horstmeier is an assistant professor of finance at George Mason University's Business School in Fairfax, Va. He can be reached at [reports@wsj.com](mailto:reports@wsj.com).**

## Tracking Exchange-Traded Portfolios

Performance figures are total returns for periods ended May 31; for largest ETFs and other portfolios, ranked by asset size.

Fund	Symbol	Assets (\$billions)	Volume (000s)	Expense ratio	Launch date	May	YTD	1-year
SPDR S&P 500 ETF	SPY	262.44	87,512.1	0.09	01/22/93	2.4	2.0	14.3
iShares Core S&P 500 ETF	IVV	151.62	4,461.5	0.05	05/15/00	2.4	2.0	14.3
Vanguard Tot Stk Mkt Ixd ETF	VTI	96.78	1,700.9	0.04	05/24/01	2.8	2.6	15.1
Vanguard 500 Index ETF	VOO	90.35	538.4	0.04	09/07/10	2.4	2.0	14.3
iShares MSCI EAFE ETF	EFA	76.67	45,162.7	0.32	08/14/01	-2.2	-1.5	7.9
Vanguard FTSE Developed Markets ETF	VEA	71.75	8,895.1	0.07	07/20/07	-1.6	-1.2	9.5

\*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 value.

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**Dr. Horstmeier is an assistant professor of finance at George Mason University's Business School in Fairfax, Va. He can be reached at [reports@wsj.com](mailto:reports@wsj.com).**



## SPOTLIGHT

### AMPLIFY ONLINE RETAIL ONLINE-SALES ETF COULD BE IN A SWEET SPOT

Online retailing has been expanding rapidly, but still has untapped potential, according to the head of an exchange-traded fund.

The \$366 million **Amplify Online Retail ETF** (IBUY) has returned just over 15% so far this year. The fund tracks an index of companies that obtain at least 70% of their revenue from online or virtual sales, with 75% of its holdings based in the U.S. and the rest from a number of global markets, notably China, Japan and Germany.

In the U.S., just under 10% of overall retail sales occur online, says Christian Magoon, the CEO of Amplify ETFs, though he expects that to double over the next five years. He points to the rollout of technologies like 5G, which will improve web access and virtual reality, which could improve the online shopping experience, making it easier to size clothes, for example.

IBUY divides online retailers into three broad categories. The majority of the fund consists of traditional retailers like Lands' End that use the web to sell their own products directly to consumers. The second-biggest category, at just under 30%, are firms like **Grubhub** that provide a platform for other providers to sell their products or services. Finally, travel companies like **TripAdvisor** make up 12% of the fund.

The index tracked by the fund equal-weights its holdings within each of its broad geographical categories, rebalancing twice annually. This means a smaller online retailer can have a similar or greater impact than a giant like Amazon.com, Mr. Magoon says. For example, the online used-car dealer **Carcvana** was at 3.48% as of the end of May, compared with 3.32% for Amazon.

The growing spending power of millennials has partly driven IBUY's performance says Kiril Nikolaev, an analyst at ETFdb.com.

"As the younger generations become older there's no reason to assume that they will start liking offline shopping more than online," he says. "This is simply due to evolving technology and the convenience that online shopping provides to consumers."

—Gerrard Cowan

## Category Kings in 10 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 30. All data are preliminary.

### Large-Cap Core

	Assets (\$millions)	Total return (%)	1-yr	5-yr*
	May	YTD	1-yr	5-yr*
EntrepreneurSh:ERS Etp30	66.9	5.9	14.6	N.A.
Amer Cent:Foc DG:Inv	50.7	5.0	14.2	30.3
Principal Sust Mom:Idx	5.4	5.1	8.8	N.A.
PowerShares S&P500 Momnt	32.1	3.8	8.7	28.0
ProShares:Eqtos for RR	14.4	3.3	7.0	N.A.
Fidelity Momentum Factor	74.9	4.1	6.7	20.3
Capital Advisors Gro	52.2	4.3	6.2	14.1
Category Average:	1,072.9	2.0	1.2	13.0
Fund Count	837	836	819	777
	609			

### Large-Cap Value

	Assets (\$millions)	Total return (%)	1-yr	5-yr*
	May	YTD	1-yr	5-yr*
Am Beacon:Alpha QV:Inst	2.5	1.5	3.9	20.0
Cambria Val and Momentum	32.6	4.0	3.7	13.6
Barclays ETN+ShillerCAPE:I	97.1	2.6	2.9	11.3
DoubleLine:Sh Enr CAPE:I	5,034.4	3.0	2.7	11.0
Amer Cent:Inc&Gro:Inv	2,194.6	2.6	2.3	16.0
SPDR MFS Sys Value Eqty	29.9	1.0	2.3	20.0
Union St Prtn Val:C	28.7	3.7	2.0	19.4
Category Average:	1,052.1	0.6	-1.3	10.6
Fund Count	496	495	488	476
	558			

### Large-Cap Growth

	Assets (\$millions)	Total return (%)	1-yr	5-yr*
	May	YTD	1-yr	5-yr*
Berkshire:Focus	...	6.4	19.8	39.6
Touchstone Inst:Snd Gr	1,963.3	6.9	19.6	32.5
Touchstone:Sel Gro:Y	2,530.7	6.8	19.4	31.1
Dunham:Focused LC Gro:N	80.2	6.9	18.3	26.3
Transam:Cap Growth:I	1,017.3	6.5	16.9	30.3
Pru Jenn Focused Gr:A	475.6	5.2	14.5	30.6
Victory:Lg Cap Grow:I	26.3	5.5	13.9	24.0
Category Average:	1,483.8	4.1	8.0	21.1
Fund Count	714	720	717	696
	554			

### Midcap Core

	Assets (\$millions)	Total return (%)	1-yr	5-yr\*
	May	YTD	1-yr	5-yr\*




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## JOURNAL REPORT | INVESTING IN FUNDS &amp; ETFS

SAVING FOR COLLEGE | CHANA R. SCHOENBERGER

 529s Have Appeal For Grandparents

A reader asks how the college-savings accounts fit into estate planning

We again asked experts to help us answer reader questions on using "529" college-savings plans and other methods to pay for education.

\* \* \*

How does a 529 fit into estate planning?

"When you contribute to a 529 savings plan, you specify that gift is allocated only for education, while also lowering the taxable value of your gross estate," says Danae Domian, a principal at brokerage firm Edward Jones in St. Louis.

The estate-planning aspect of 529 funding is less of an issue than it was before the latest federal tax bill, says Jim Mahaney, vice president for strategic initiatives at Prudential Financial. Now the lifetime exemption for gifts is \$11,181,000 for each person, double that for a couple, in 2018, and it's slated to rise with inflation. If your estate is set to be higher than this amount, you and your spouse can still give the annual amount of \$30,000 to each 529 beneficiary without it counting toward your lifetime exemption, he says.

The chief benefit of a 529 as part of an estate plan is that it locks up the funds so that your beneficiaries must use them for educational purposes. That is important to many grandparents, Mr. Mahaney says. "The combination of soaring college-education costs coupled with a desire to assist grandchildren with having college options and lower amounts of student debt postgraduation likely means more grandparents will look into 529 plans going forward," he adds.

One key benefit of 529s is that you can contribute up to five times the annual gift exclusion in one year without incurring any gift taxes, if

you note this on your gift-tax returns after making this gift, and you don't give this beneficiary any more money for five years, Ms. Domian says. This means that a couple filing jointly could give \$150,000 to each of their five grandchildren, "removing \$750,000 from their estate in just one year," she says.

\* \* \*

Are we allowed to transfer money between our three grandchildren's 529s?

One of the benefits of 529s is that you can switch the beneficiary on an account to any close relative of the original beneficiary.

A caveat: This is allowed only if your 529 is set up as an individual account, not as a custodial account (an irrevocable gift to a beneficiary).

\* \* \*

I have been told that moving money from a minor's UTMA account to the same child's 529 account is a liquidation and subject to tax. True?

"Because the original contribution was an irrevocable gift to the minor, the money in the UTMA would be moved to a Custodial 529 Plan—versus an Individual 529 plan where the account owner retains control for the life of the account," Ms. Domian says. Before making the transfer, you'll have to liquidate any securities held in the original UTMA account, because contributions to a 529 must be in cash, she says. This liquidation may trigger tax for the minor.

"However, the potential tax benefits of a 529 plan could outweigh the short-term impact of liquidating an UTMA account," Mr. Mahaney says.

Once the money gets into the 529, its growth won't be taxed if the proceeds are used for education.

**Have a college-finance question in general? We'll be answering some of them in future Investing in Funds & ETFs reports. Write to [reports@wsj.com](mailto:reports@wsj.com).**

## A Budget Guide to College Tours

BY CHERYL WINOKUR MUNK

PARENTS OF college-bound children tend to focus on the most obvious, biggest expenses—tuition, room and board. But there are additional expenses that not everyone thinks about.

One of the biggest: the cost to visit schools while deciding which to choose.

College-visitation costs can easily add up to thousands of dollars. The good news is that unlike fixed costs such as application fees, visitation costs can be managed with some clever maneuvering. Experts offer several tips to help families accomplish their visitation goals without breaking the bank.

**1. Start with virtual tours**

Some families feel they have to visit every school their student is interested in. But there are other options, says Casey Near, senior director of Collegewise, a company that counsels students on choosing colleges. For instance, families can take advantage of online research to help them weed out colleges that may not suit their needs, without ever setting foot on campus, Ms. Near says.

Many colleges offer virtual tours on their websites. There are also aggregator sites like YouVisit ([youvisit.com](http://youvisit.com)) that may offer even more in-depth virtual tours or a tour that doesn't exist on a particular school's website—so it's worth checking out both options, says Kat Cohen, chief executive and founder of IvyWise, a college-admissions counseling and tutoring provider. Other options include eCampusTours ([ecampus-tours.com](http://ecampus-tours.com)), which provides sets of 360-degree photos of various campuses, and CollegeWeekLive ([college-weeklive.com](http://college-weeklive.com)), a free, online event held several times a year that is designed to connect prospective students with colleges and universities in a live, interactive environment.

Dr. Cohen says students and families should also explore university-related social-media channels such as Facebook, Instagram and Snapchat. They can help students get a comprehensive picture of a school, student perspectives and the opportunities available on campus.

**2. Visit a near 'proxy' school**

Ms. Near recommends students start visiting local colleges as high-

Fordham's Rose Hill campus in New York, seen on [youvisit.com](http://youvisit.com). YOUVISIT.COM

school sophomores to get a taste of similar schools they might be interested in. For instance, a student from Connecticut, New York or New Jersey considering a big, urban school out West might arrange to visit a similar-size school closer to home. This would allow the student to attend a lecture, walk the campus and get a feel for the environment at this type of school without spending a large amount of money on travel and overnight accommodations.

With thousands of schools in the U.S., there's bound to be a proxy within two hours' drive where students can spend a day, Ms. Near says. Nothing precludes an actual campus visit if the student wants to move forward, but it can help families save time and money if students can rule out certain types of schools based on local visits, she says.

**3. Research flyout programs**

Some schools do so-called flyout programs—covering some or all of the expenses of a student's visit—in the fall for low-income applicants, and schools may extend the opportunity in the spring to admitted students from all financial backgrounds, Ms. Near says. Some lesser-known rural schools that are harder to visit because of their location will commonly pay for a flight up to a certain cost for students who have already been admitted.

These opportunities can change from year to year, so it's worth calling the school's admissions office to determine the policies, Ms. Near says.

**4. Budget creatively**

Families can also use StudentUniverse ([studentuniverse.com](http://studentuniverse.com)), a platform that caters specifically to stu-

dents planning various trips. The platform can also be used to find low-cost accommodations for families planning on staying overnight.

Dr. Cohen also recommends that students get creative with overnight accommodations. For instance, many schools provide applicants with the option of spending a night in a dorm with a current student, which can be an opportunity to get a free, firsthand look at campus life. For students touring with their family, Airbnb and VRBO can be a cost-effective alternative to hotels near campus. Some larger cities also offer hostels with private rooms for families, Dr. Cohen says. In addition, students may be able to arrange free accommodation if a student from their local high school attends the college they are visiting, she says.

There are also ways for students to keep their dining costs down while they are visiting colleges. Eating at a dining hall is a good way to evaluate dining options at a school, but it can be pricey if you aren't using a meal plan, especially for several people. Plan to have one small meal on campus and research nearby dining options that are affordable, Dr. Cohen suggests. Families can check out discount sites such as Groupon to see if any local restaurants are offering deals. Some schools may offer food vouchers to visitors, and families can always bring their own drinks and snacks from home to keep costs down further, Dr. Cohen says.

Parents "need to plan ahead so that these visits fit within their budget," she says.

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