

# THE WALL STREET JOURNAL.

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

MONDAY, MAY 1, 2017 ~ VOL. CCLXIX NO. 100

WSJ.com

★★★★ \$3.00

Last week: DJIA 20940.51 ▲ 392.75 1.9% NASDAQ 6047.61 ▲ 2.3% STOXX 600 387.09 ▲ 2.4% 10-YR. TREASURY ▼ 14/32, yield 2.28% OIL \$49.33 ▼ \$0.29 EURO \$1.0897 YEN 111.54

## What's News

### Business & Finance

Apple is expected to report that its cash reserves have topped a quarter of a trillion dollars, more than 90% of which is stockpiled outside the U.S. A1

◆ Harsh weather made the first three months of 2017 the most expensive first quarter for U.S. insurers in more than 20 years. B1

◆ Bankers are pushing for changes to operational risk, saying new rules could free up capital for lending or payouts. B1

◆ Detroit's Big Three remain upbeat about earnings, even as demand for passenger vehicles continues to weaken. B3

◆ Yahoo CEO Mayer's pay totaled \$27.4 million last year, unaffected by a deal to sell the core business and two security breaches. B4

◆ Google's CEO saw his 2016 pay double to \$200 million, making him the highest paid Alphabet executive. B4

◆ Fed officials are likely to keep interest rates steady at their two-day policy meeting that starts Tuesday. A2

◆ Regulators shut First NBC, a New Orleans bank created to help rebuilding after Hurricane Katrina. B8

◆ SoftBank is investing over \$1.5 billion in Indian mobile-payment firm Paytm. B8

◆ Investors are returning to Europe, lifting markets and the euro, as they look beyond political risks. B9

◆ A potential bidding war emerged for Tribune Media, one of the U.S.'s largest owners of local TV stations. B1

### World-Wide

◆ Congressional leaders reached a bipartisan deal to fund the government until October, while the White House pushed for a vote on a new health-law bill. A1

◆ The administration said its tax plan would curb carried interest for private-equity firms, but financiers could still see tax cuts. A4

◆ The president defended his record and took swipes at Democrats and the media at a rally to mark his 100th day in office. A4

◆ Trump invited Philippine President Duterte to the White House as he seeks backing from Asian leaders to counter North Korea. A7

◆ Military action against North Korea remains a possibility, Trump said. A7

◆ An Iranian media mogul accused by Tehran of spying was shot and killed in Istanbul in what Turkish media called a targeted killing. A8

◆ The EU vowed to safeguard the Iran nuclear deal despite U.S. threats to scrap it during a high-level weekend visit to Tehran. A8

◆ Abbas in pressuring Hamas to cede control of the Gaza Strip to his Palestinian Authority ahead of talks with Trump this week. A8

◆ Britain won't agree to pay an exit bill for leaving the EU without also reaching a trade deal, May said. A9

◆ College freshmen are politically engaged and worry about the cost of their education, a survey found. A3

◆ Tornadoes and flooding in the South and Midwest killed at least 14 people. A2

CONTENTS Markets B10  
Banking & Finance B8 Opinion A15-17  
Business News B2-3 Sports A14  
Crossword A14 Technology B4  
Head on Street B1 B10 U.S. News A2-6  
Journal Report R1-8 Weather A14  
Life & Arts A11-13 World News A7-9

18133>  
0 78908 63141 1

Copyright 2017 Dow Jones & Company. All Rights Reserved

## Deadly Storms Ravage Swaths of the U.S.



CLEANUP: Women retrieve items from a home destroyed by a tornado in Texas during a weekend of storms that left at least 14 dead. A2

## Top Food Brands Are Losing The Battle for Shelf Space

BY ANNIE GASPARRO

America's packaged-food giants are losing the battle for retailers' shelf space, complicating their efforts to break out of a yearslong slump.

Instead of promoting canned soup, cereal and cookies from companies like Kraft Heinz Co., Kellogg Co. and Mondelez International Inc., grocery stores are choosing to give better play to fresh food, prepared hot meals, and items from local upstarts

more in favor with increasingly health-conscious consumers.

"We've got to maximize return on our shelf space," said Don Fitzgerald, vice president of merchandising at Mariano's, a Chicago grocery chain bought by Kroger Co. in 2015. Shoppers, he said, are drawn to steamy pasta at the store's deli counter, rather than a box of dried macaroni with powdered cheese sitting on the shelf for weeks.

New Jersey-based ShopRite

and other grocery-store chains around the country are building new stores that have less space for traditional packaged foods in the center aisles and more for in-store restaurants and fresh meals shoppers can take home. "It's by demand of consumers looking for a quick meal," said Natalie Menza, ShopRite's director of health and wellness.

CVS Health Corp.'s drugstore chain recently said it planned to upgrade hundreds of its stores

to focus more on healthier products.

That means less space for traditional packaged-food brands, which are also facing increased competition from store brands and smaller upstarts.

Sales volume for packaged food and products—reflecting the number of items sold—fell 2.4% in the first quarter of 2017, according to market-research firm Nielsen. In the year ended

Please see FOOD page A6

## Trump Pushes For Vote On Health

BY LOUISE RADNOFSKY  
AND KRISTINA PETERSON

WASHINGTON—Congressional leaders reached a bipartisan deal late Sunday to fund the government until October, while Republicans scrambled to pull off an even more significant legislative achievement that has eluded them this year: an overhaul of the health-care system.

Both President Donald Trump and Vice President Mike Pence in television interviews Sunday suggested confidence that they could win enough votes to pass a bill to undo the Affordable Care Act. But skepticism among centrist members of the party remains a stumbling block, and it's unclear that congressional leaders have made enough progress to call a roll, as they grapple with Republicans who have expressed concern that recent changes to satisfy more conservative lawmakers may push coverage costs higher.

Adding to the difficulties for passing any major piece of legislation is the fact that the administration is also pressing lawmakers to flesh out a massive tax cut that the Trump administration unveiled last week, while congressional leaders struggle to reconcile his principles with very different views they have on how to rewrite the tax code.

The question is whether we can get 218 votes in the Please see HEALTH page A4

◆ Tax plan seeks to curb 'carried interest' ..... A4  
◆ Trump reaches out to Philippines' Duterte ..... A7

## Apple's Mountain of Cash Is Set to Top \$250 Billion

BY TRIPP MICKLE

Apple Inc. is expected to report Tuesday that its stockpile of cash has topped a quarter of a trillion dollars, an unrivaled hoard that is greater than the market value of either Wal-Mart Stores Inc. or Procter &

Gamble Co. and exceeds the foreign-currency reserves held by the U.K. and Canada combined.

The money, more than 90% of which is stockpiled outside of the U.S., has drawn fresh attention as President Donald Trump has proposed slashing business taxes and granting a one-time

tax holiday on corporate cash brought home. Those policies could ratchet up pressure on the tech giant to dole out more money to shareholders or make splashy acquisitions.

Apple's quarterly results will show the company has doubled its cash in just over 4½ years. In the last three months of 2016, it racked up cash at a rate of about \$3.6 million an hour.

As of December, the company had \$246.09 billion total cash, cash equivalents, and securities. Apple, like many big American companies, parks most of that cash offshore rather than paying U.S. taxes on its overseas profits.

Apple Chief Executive Tim Cook early this year said he was eager to bring cash home if tax changes enabled it. Chief Financial Officer Luca Maestri said such a move would give Apple flexibility to do more capital returns. Neither has given detailed plans.

One possible approach would be a special dividend. Apple could deliver such a windfall, benefiting investors including

Please see APPLE page A6

◆ Ahead of the Tape: Apple shares have room to grow... B9

\* \* \*

At 121 Feet, This Unwanted Statue Stands Out

\* \* \*

A divine figure in Peru draws more judgment than compassion

BY RYAN DUBE

LIMA, Peru—Rio de Janeiro's famous Christ the Redeemer statue is a beloved symbol of a world-famous city, and a big draw for tourists. Lima's Christ of the Pacific, 4 feet shorter, has a much harder time getting some love.

The giant statue of Jesus in Peru's capital is criticized by artists as a cheap knockoff. Anticorruption activists denounce it as a symbol of graft. And the faithful largely ignore it, preferring to attend Sunday mass in front of a Virgin Mary statue

located on top of the same dusty brown hill.

"It doesn't have a purpose," said Luz Juro, a shop owner in the neighborhood below the hill. "There are many people that question it."

The Christ of the Pacific, a 121-foot tall monument, was supposed to be a blessing for this Catholic nation, acting as a spiritual protector for Lima's 9 million resi-

dents from its spot overlooking the Pacific Ocean. Instead, after a corruption scandal involving Brazil's Odebrecht, the construction firm that donated it, Peruvians are pondering its fate.

Some people say the statue is a religious symbol that should be left alone. Others want it to remain standing as a daily reminder of the corruption. Many

Please see STATUE page A10

## INSIDE



ONE SURE WAY TO ANNOY A SCIENTIST

LIFE & ARTS, A11



TWO GENERATIONS, BOTH IN CHARGE

JOURNAL REPORT, RI

## HACKERS FOUND HOLES IN BANK NETWORK

Payment-transfer system left world's banks largely responsible for their own cyberdefense

BY KATY BURNE  
AND ROBIN SIDEL

The Society for Worldwide Interbank Financial Telecommunication has James Bond-level security at the facilities it uses to move millions of bank-payment orders around the world every day.

Visitors to a Swift operations center in Culpeper, Va., say their car trunks were inspected upon arrival by armed guards, who used mirrors to check under the chassis. Security inside included a fingerprint scan, a test for chemical weapons and an iris scanner in the most restricted areas.

"It's like Fort Knox," says Mohan Murali, chief executive of Axletree Solutions Inc., which helps banks and companies connect to Swift. That isn't where the

thieves hit. In the past year, a spate of cyberattacks has penetrated banks along Swift's less-defended perimeter, shaking confidence in the dominant network used by banks for cross-border transactions. While Swift diligently locked down that network's core, customers were left mostly responsible for their own security, creating an opportunity for hackers.

Targets included banks in India, Vietnam, Ecuador and Bangladesh. Thieves made off with a total of about \$90 million from Bangladesh's central bank and a commercial bank in Ecuador. The other cyberattacks were unsuccessful.

It was a stunningly simple ruse: The cybercriminals behind the Bangladesh heist used malware to steal bank codes and place fake transfer Please see HACK page A10

\*

\*

\*

# U.S. NEWS

THE OUTLOOK | By Marcus Walker

## Euro Holds On, Despite Its Enemies

**Berlin** The euro survived the financial crisis and a lost decade for the European economy. Now its test is political, and it is likely to survive it—battered as ever and still getting the blame for Europe's problems.

In Europe's year of election contests between the political establishment and its enemies, the euro is being targeted by populist insurgents and some mainstream figures. The common currency is variously blamed for unemployment, industrial decline, loss of national identity and German hegemony.

France's far-right leader, Marine Le Pen, who faces centrist candidate Emmanuel Macron in the final round of the presidential election May 7, wants a referendum on leaving the euro. So does Italy's anti-establishment 5 Star Movement, which could win power in elections due by mid-2018.

Mr. Macron, whom opinion polls favor to win Sunday, supports the euro but says it needs a major overhaul. He argues the currency union is skewed toward German interests—a common view outside Germany—and says the euro's 19 countries need a common budget to finance growth-friendly investments and recovery in struggling member nations. That's anathema to Berlin.

The euro was meant to bind European countries together, economically and politically, while boosting investment, productivity and growth. Instead, it has ex-

posed underlying weaknesses in many countries.

However, today's political attacks on the euro are unlikely to break it up. Although Europeans love to criticize the euro, they mostly don't want to leave it. Opinion polls have consistently shown low support for returning to the franc, peseta or drachma. Only in Italy is support for the euro more tepid, although it is still more popular than exiting.

In Southern Europe, the former national currencies are still associated with the bad old days of inflation and repeated devaluations. In Northern Europe, economies haven't performed all that badly under the euro. Across the continent, the crisis years taught most voters and politicians that breaking up the euro would bring massive financial turmoil. The middle class isn't willing to risk savings held in euro-denominated assets.

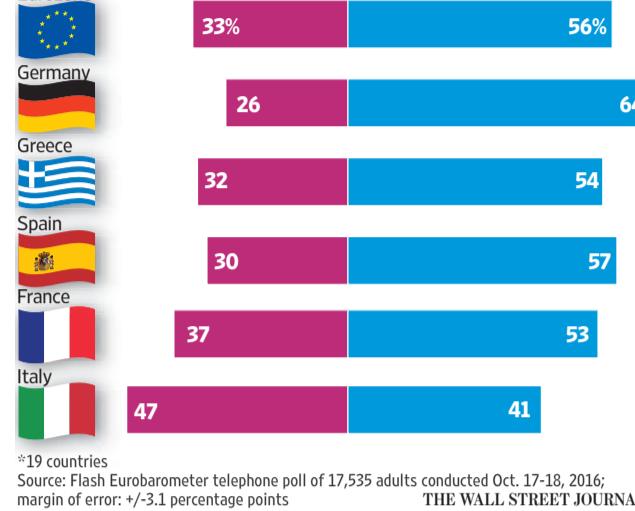
With Europe's economic recovery now finally improving after years of sluggish growth, the argument that countries can't grow under the euro is weakening. Many economists believe the eurozone's growth could be close to 2% this year, a fast pace by recent standards.

The euro remains far from what economists call an optimum currency area. Ideally, a currency should cover an economic zone where labor and capital move fluidly, where common taxes and public spending help weaker regions to keep up, and where the financial system has common

### Political Currency

Despite a rise of anti-euro nationalism, the public still stands behind the much-maligned currency.

**Is having the euro a good or bad thing for your country?**



Italy grew less than 1%.

Even members of the 5 Star Movement say leaving the euro wouldn't solve Italy's deep structural problems. The party is internally divided over its own proposal for a referendum. Italy's core growth problem—stagnant, even declining, productivity—has been evident since the mid-1990s, before the euro's creation.

There's little evidence that the euro is to blame for France's economic problems, says Daniel Gros, director of the Center for European Policy Studies, a Brussels think tank. The country didn't develop major imbalances, and its exchange rate under the euro was never obviously too high, he says.

Ms. Le Pen's main objection is about national sovereignty. But there are three hurdles to her ability to pull France out.

She would need a major upset to win the presidency. It

would be an equally big surprise if her National Front won control of parliament in June elections. And nearly three-quarters of French voters oppose leaving the euro.

Greece is one exception. Its economy is depressed. A bigger question mark is Italy, the eurozone's third-biggest economy. Economic stagnation has undermined public support for established parties and drawn voters toward populists who question the euro.

But the contrast between Italy's failure to grow and Spain's recovery suggests the fault lies at the national level, not with the common currency.

Spain's economy grew by over 3% last year, whereas

because countries couldn't adjust through independent currency devaluation, labor costs adjusted through painful wage deflation instead.

Greece is one exception. Its economy is depressed. A bigger question mark is Italy, the eurozone's third-biggest economy. Economic stagnation has undermined public support for established parties and drawn voters toward populists who question the euro.

But the contrast between Italy's failure to grow and Spain's recovery suggests the fault lies at the national level, not with the common currency.

Spain's economy grew by over 3% last year, whereas

the cost of breaking up the euro is so high that this probably won't be the consequence of the challenge from populism," says Christian Odendahl, chief economist at the Centre for European Reform, a London-based think tank.

◆ Investors return to Europe's markets..... B9

### ECONOMIC CALENDAR

**MONDAY:** The Federal Reserve's preferred measure of inflation, the **personal-consumption expenditures price index**, is expected to show little change in consumer costs in March. Economists surveyed by The Wall Street Journal predict the Commerce Department will report flat core PCE prices, after a 0.2% increase in February.

**WEDNESDAY:** The Fed's interest-rate-setting **Federal Open Market Committee** isn't expected to change monetary policy when it concludes its two-day meeting, though uncertainty about the prospect of a June rate rise lingers. Several Fed officials have indicated they expect to lift rates around two more times this year. Friday's weak gross domestic product report, which showed the U.S. economy grew at a 0.7% annual rate, likely won't be enough to prevent the Fed from raising rates in June.

Figures to be released by the European Union's statistics agency are expected to show **eurozone GDP** grew at a quarter-to-quarter rate of 0.5% in the first three months of the year. That would be slightly faster than has been typical of the eurozone's recovery since mid-2013, and would outpace both the U.S. and U.K.

**FRIDAY:** The U.S. Labor Department releases its **April jobs report**. The March report showed hiring slowed dramatically from earlier in the year, but the unemployment rate dropped to 4.5%, the lowest level in nearly a decade. Economists surveyed by the Journal expect the U.S. economy added 185,000 jobs in April, up from 98,000 the previous month.

## On Children's Day in Mexico, Love Knows No Border



**REUNITED:** Members of the Reyes family hugged Sunday at Border Field State Park in San Diego during a three-minute reunion as U.S. Border Patrol agents opened a gate to allow families to embrace along the Mexico border as part of Children's Day in Mexico.

### U.S. WATCH

#### WEATHER

#### At Least 14 Killed In Storms, Flooding

At least 14 people have been killed by tornadoes or flooding in the South and Midwest by a storm that also dumped a rare late-season blizzard in western Kansas on Sunday.

Tornadoes hit several small towns in East Texas, killing four people. Five people were killed by flooding and winds in Arkansas, including a fire chief who

was struck by a vehicle while working during the storm. Two deaths were reported in Missouri, including a woman who drowned after rushing water swept away a car. One of two deaths in Mississippi was a 7-year-old who died by electric shock, and a 2-year-old girl died in Tennessee after being struck by a soccer goal post thrown by heavy winds.

Flooding closed part of Interstate 44 near Hazelgreen, Mo., and officials expected it would be at least a day before the

highway reopened. Interstate 70 in western Kansas was closed because crews were waiting for snow falling at 3 to 4 inches an hour being blown by 35 mph winds to subside.

In Arkansas, Cove Creek/Pearson Fire Chief Doug Decker died shortly before 4 a.m. Sunday after being struck by a vehicle while checking water levels on Highway 25 near Quitman, about 40 miles north of Little Rock, Trooper Liz Chapman said. The volunteer chief's death will be included as a storm-related death.

A 2-year-old girl in Tennessee died after being struck by a heavy, metal soccer goal post that was blown over by high winds, the Metro Nashville Police Department posted on its Twitter page on Sunday evening.

Rescuers in northwest Arkansas continued Sunday to look for an 18-month-old girl and a 4-year-old boy who were in a vehicle swept off a bridge by floodwaters in Hindsville, the Madison County Sheriff's Office said.

In Texas, search teams were

going door to door Sunday after the tornadoes the day before flattened homes, uprooted trees and flipped several pickup trucks at a dealership in Canton.

—Associated Press

#### CALIFORNIA

#### Shark Injures Woman In Attack Off Beach

A shark attacked a woman wading in the ocean with friends off a Southern California beach, authorities said Sunday.

The attack occurred Saturday near San Onofre State Beach in northern San Diego County.

Thomas Williams, one of several witnesses who pulled the woman ashore, said the victim was conscious while a rubber surfboard leash was used to tie off bleeding from her upper thigh, part of which had been torn off. "If she didn't receive immediate care, it was life-threatening," he said.

The beach is adjacent to the Camp Pendleton Marine Base. Marine Sgt. Asia Sorenson said the victim, a civilian, was air-lifted to a hospital in unknown condition.

The injury was likely caused by a great white or a seven-gill shark, said Chris Lowe, director of the Shark Lab at California State University, Long Beach.

Several sharks have been sighted in the area recently.

The beach was expected to remain closed until Monday.

—Associated Press

## The Fed Is Expected To Maintain Rates

By NICK TIMIRAS

Federal Reserve officials are likely to keep interest rates steady at their policy meeting this week and drill down into details about when and how to reduce the bank's large holdings of mortgage and Treasury securities.

The challenge in their post-meeting policy statement will be to acknowledge the handful of disappointing economic growth indicators since officials last gathered in mid-March without suggesting they are ready to veer from the policy path they have sketched out at recent meetings. The two-day policy meeting is set to begin Tuesday.

Officials raised interest rates at the March meeting to a range between 0.75% and 1% and penciled in two more quarter-percentage point increases this year. They also believe they are on course to signal late in the year that they will begin winding down their securities portfolio.

Gross domestic product grew at a 0.7% annual rate in the first quarter as consumers reined in spending despite a surge in household confidence surveys and a rise in stock prices. The report isn't likely to cause too much alarm at the Fed because of signs temporary factors suppressed spending and because the economy in recent years has slowed at the start of the year before picking up speed in the spring and summer.

Inflation also weakened unexpectedly in March. The Labor Department's consumer-price index declined a seasonally adjusted 0.3% in March from the prior month,

and prices excluding food and energy fell 0.1%, the first decline for so-called core prices since 2010.

Still, officials believe the economy is near full employment, meaning inflation should slowly build in the months ahead. The unemployment rate fell to 4.5% from 4.7%, hitting its lowest level in almost a decade.

Fed officials have signaled in public statements and interviews any disappointing data points haven't been enough to change their rate outlook.

Given recent seasonal patterns, "something that looks like 1% in the first quarter—it might be actually more like 2% in reality," said New York Fed President William Dudley

after an April 7 speech.

After years of pushing down on the gas pedal, the Fed's job now is to allow "the economy to kind of coast and remain on an even keel, to give it some gas, but not so much that we're pressing down hard on the accelerator," said Fed Chairwoman Janet Yellen in remarks on April 10 in Ann Arbor, Mich.

Continuing to gradually remove large amounts of stimulus "seems likely both to maximize the prospects of a continued expansion in the U.S. economy and to mitigate the risk of undesirable spillover,"

*The central bank's two-day policy meeting will begin on Tuesday.*

overs abroad," said Fed Vice Chairman Stanley Fischer in remarks at a conference in Washington on April 19.

Also, potential growth shocks from abroad, which forced the Fed to scale back its plans to raise rates in 2015 and 2016, have largely been absent so far this year. More resilient global growth is making officials less worried about the latest batch of somewhat discouraging domestic data.

"The global economy, which was quite weak, now seems to be operating in a slightly more robust and healthier way," Ms. Yellen said in Ann Arbor.

With that as a backdrop, officials are comfortable with market expectations about their next move. Traders in futures markets placed a 63% probability on a Fed rate increase by June, according to CME Group.

That is up from less than 50% before the first round of voting in the French election on April 23. Markets rallied after centrist candidate Emmanuel Macron advanced to the final round of voting on May 7 against Marine Le Pen, the far-right nationalist who wants to withdraw France from the European Union's common currency.

Financial conditions have been mixed since the Fed last met in March. Stock markets have pulled back from their highs earlier this year, while bonds have rallied, sending down yields.

### CORRECTIONS & AMPLIFICATIONS

Readers can alert The Wall Street Journal to any errors in news articles by emailing [wsjcontact@wsj.com](mailto:wsjcontact@wsj.com) or by calling 888-410-2667.

THE WALL STREET JOURNAL  
(USPS 664-880) (Eastern Edition ISSN 0099-9660)

(Central Edition ISSN 1092-0935) (Western Edition ISSN 0193-2241)

Editorial and publication headquarters: 1211 Avenue of the Americas, New York, N.Y. 10036

Published daily except Sundays and general legal holidays.

Periodicals postage paid at New York, N.Y., and other mailing offices.

Postmaster: Send address changes to The Wall Street Journal, 200 Burnett Rd., Chicago, IL 60620.

All advertising published in The Wall Street Journal is subject to the applicable rate card, copies of which are available from the Advertising Services Department, Dow Jones & Co. Inc., 1211 Avenue of the Americas, New York, N.Y. 10036. The Journal reserves the right not to accept an advertiser's order.

Only publication of an advertisement shall constitute final acceptance of the advertiser's order.

Letters to the Editor: Fax: 212-416-2891; email: [wsj.letters@wsj.com](mailto:wsj.letters@wsj.com)

By web: [customercenter.wsj.com](http://customercenter.wsj.com); By email: [wsjsupport@wsj.com](mailto:wsjsupport@wsj.com)

By phone: 1-800-JOURNAL (1-800-568-7625); Or by live chat at [wsj.com/livechat](http://wsj.com/livechat)

NEED ASSISTANCE WITH YOUR SUBSCRIPTION?  
CONTACT CUSTOMER SUPPORT.

By web: [customercenter.wsj.com](http://customercenter.wsj.com); By email: [wsjsupport@wsj.com](mailto:wsjsupport@wsj.com)

By phone: 1-800-JOURNAL (1-800-568-7625); Or by live chat at [wsj.com/livechat](http://wsj.com/livechat)

By web: [customercenter.wsj.com](http://customercenter.wsj.com); By email: [wsjsupport@wsj.com](mailto:wsjsupport@wsj.com)

By phone: 1-800-JOURNAL (1-800-568-7625); Or by live chat at [wsj.com/livechat](http://wsj.com/livechat)

—Associated Press

—Associated Press

## U.S. NEWS

# Pittsburgh Grapples With Lead in Water

Seven U.S. water systems are under scrutiny in aftermath of Flint, Mich., crisis

BY KRIS MAHER

PITTSBURGH—As its soot-filled skies cleared, this city built on the steel industry gained a reputation as one of the nation's most livable places. But it now has another environmental issue to contend with: It is one of several major American cities with lead levels in drinking water above the federal limit.

Seven U.S. water systems, each serving more than 100,000 people, had lead concentrations above the federal action level of 15 parts per billion in recent months, according to Environmental Protection Agency data. They include Portland, Ore., and Providence, R.I., which exceeded the limit at least one other time in the past five years.

Since the lead crisis in Flint, Mich., cities have been under greater scrutiny from regulators and pressure from residents to reduce lead in drinking water. In most cases, there is no easy fix, and more cities

are looking at the costly prospect of replacing vast networks of pipes buried under streets and private property.

This past week, Michigan's legislature voted to send \$100 million in federal funds to Flint for lead-pipe replacement and other infrastructure upgrades. The funds were approved by the Obama administration in December.

Pittsburgh, which exceeded the lead limit last July for the first time, is drawing renewed attention to the problems besetting crumbling and heavily indebted water systems nationwide. Pittsburgh's troubled water authority has nearly \$1 billion in debt and has been plagued with water-main breaks and allegations of over-billing. It began testing for lead in the late 1990s.

"We have old pipes, and some of those pipes are lead," said Mayor Bill Peduto, a Democrat. "What took many decades to happen with the system itself will take at least a decade to solve."

The city wants to restructure the water authority so it can borrow \$1.5 billion to upgrade the system, and spend an estimated \$411 million to replace the city's lead pipes over the next 10 years. Last



Workers repaired a broken lead water line at a home in Pittsburgh last week.

week, the mayor rolled out a \$1 million program to provide free water filters to residents.

County health-department data show a decline in the percentage of children in Pittsburgh with elevated blood-lead levels through 2016, but Chelsa Wagner, Allegheny County's controller, has ordered an audit of those numbers. She says

progress made in cleaning up lead paint, among other factors, could be concealing the effects of lead in water.

"It's a public-health crisis," said Ms. Wagner, a Democrat who has criticized the mayor, also a Democrat, for not responding quickly enough when higher lead levels were found last year.

The Pittsburgh Water and Sewer Authority serves about two-thirds of the city, or about 250,000 people. It treats water from the Allegheny River and distributes it through 1,000 miles of pipes to 81,000 homes. The authority estimates that a quarter of those homes have lead pipes.

Pittsburgh's lead levels,

based on samples from a limited number of homes, reached 22 parts per billion last July and fell to 18 ppb in December. Exceeding the 15 ppb federal action level triggers increased regulatory oversight.

Cities typically treat water with special agents to coat aging pipes and prevent lead from leaching into drinking water. In Flint, the crisis was sparked when the city switched to a different water supply in April 2014 and failed to treat the water properly.

That same month, by coincidence, Pittsburgh changed the chemical it used to control corrosion. Last year, state regulators cited the authority for failing to report the switch or conduct tests to ensure it would be effective.

Will Pickering, a spokesman for the water authority, said it isn't clear if the chemical change, the city's aging infrastructure or another factor caused the higher lead levels.

Marc Edwards, a Virginia Tech researcher who helped uncover lead contamination in Flint, said Pittsburgh's woes are representative of issues facing older cities. "No one in Pittsburgh with a lead pipe should be drinking the water without a filter," he said.

## Universities Ramp Up Online Classes

BY MELISSA KORN  
AND DOUGLAS BELKIN

Purdue University's plan to buy for-profit Kaplan University to expand its reach, announced last week, is the latest twist on an old idea: boost enrollment by attracting students online.

For-profit colleges like University of Phoenix and American Public University expanded rapidly in the early 2000s by offering convenient, web-based classes to working adults who couldn't take time off to go back to school. Enrollments then plummeted amid tighter regulations, along with bad publicity from low graduation rates and high student debt at some for-profit institutions.

Despite lingering concerns that online courses lack some of the benefits of face-to-face instruction, the potential to appeal to a broader base of students—with the overhead of dorms and classrooms—has set off a dash among universities.

Among them are public schools including Arizona State University and the University of Massachusetts, and private, nonprofit ones such as Southern New Hampshire University.

Over six million postsecondary students took at least one class online in 2015, up 11% from 2012, federal data show.

"People say the sleeping giants are awakening," said Chip



Southern New Hampshire University has a large online presence.

years ago. It ventured online in 1994 and now has more than 85,000 internet students.

UMUC President Javier Mireles said schools that go online risk cannibalizing their local markets, but that is better than losing students to another school entirely.

Southern New Hampshire University has about 3,000 students on a modest campus in Manchester, N.H.—and about 80,000 students online.

Liberty University, a private Christian school in Lynchburg, Va., built its distance-education courses by mailing videotaped lectures to students, according to James Koch, an economist at Old Dominion University, in Norfolk, Va., who has researched the school.

Liberty has about 15,000 students on campus, and over 90,000 online. Online enrollment generated nearly \$800 million last year, up from \$53 million in 2000, according to Dr. Koch. A Liberty representative declined to comment.

2U, which went public in 2014, posts year-over-year revenue growth of more than 30%. The company handles the nuts and bolts of online education, such as marketing and running the web platform, while schools keep their faculty and maintain control over admissions.

"There's still so much runway," Mr. Paucek said of growth opportunities.

Paucek, co-founder and chief executive of 2U Inc., which for the past nine years has worked with elite schools to offer online graduate programs in areas including business and nursing. "No, they're awake."

Online opportunities appeal to cash-strapped public universities with tenuous state funding. They offer access to huge new markets, including the roughly 36 million U.S. adults who have some college experience but no degree.

The state of Indiana is targeting that population with its "You Can. Go Back" initiative, aiming for 60% of adults to hold postsecondary credentials by 2025. Purdue President Mitch Daniels said the still-unnamed new university resulting

from the Kaplan deal will cater to such students.

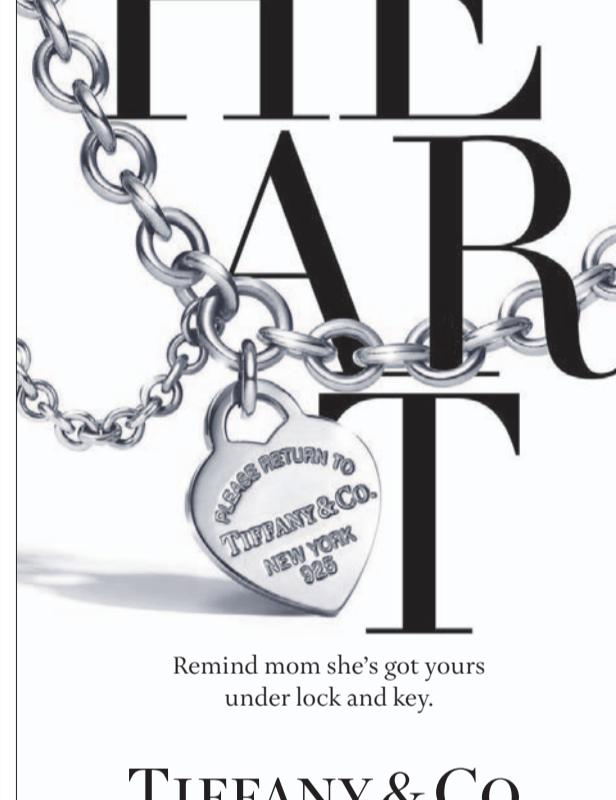
Colorado State University-Global Campus is pursuing a similar audience. The online-only school was launched nine years ago with 200 students. It now has about 18,000 students, nearly half in Colorado.

Unlike most public universities, CSU-Global doesn't have a line in the state budget. Instead, the governing board of the university system offered a \$12 million loan to cover startup costs in 2007; the online school paid it back, plus interest, in 2012, according to President Becky Takeda-Tinker.

The University System of Maryland created its University of Maryland University College for adult students 70

©T&CO. 2017 MOTHER'S DAY

Straight from the



Remind mom she's got yours under lock and key.

**TIFFANY & CO.**

NEW YORK SINCE 1837

RETURN TO TIFFANY®  
800 843 3269 | TIFFANY.COM

## College Freshmen Are Politicized, Stressed

BY MELISSA KORN

Today's college freshmen are politically engaged, cost conscious and obsessed with Instagram. They also increasingly question their emotional well-being.

So say results from a survey of more than 137,000 first-time, full-time students who started at 184 U.S. colleges in the autumn of 2016.

Just over 42% of the freshmen surveyed characterized their political views as "middle of the road," the lowest share in more than 50 years of the American Freshman, a survey conducted by the Cooperative Institutional Research Program of the Higher Education Research Institute at the University of California, Los Angeles.

Meanwhile, some 35% said they were "far left" or "liberal," and 22% said they were "far right" or "conservative." Those rates tracked higher than for the class that entered in 2015.

The heated presidential election of 2016 had a strong impact on the newest crop of college students, most of whom had just become old enough to vote. Forty-six percent of survey respondents said keeping up with political affairs is "very important" or "essential" to them, the highest rate since 1990.

The latest freshman class

also was losing sleep over how they would pay for college. Nearly 56% said they had "some" concern about their ability to finance college, while 13% said they had "major" concerns and didn't know if they would have enough funds to complete school—the highest for each in at least 16 years.

Cost concerns are affecting college decisions. In 2016, a record 15% of respondents felt they couldn't afford their first-choice school, compared with 9.4% when the question was first asked in 2004.

That financial worry, along with the fact that more students with psychological disorders are able to pursue a college education with the help of medication these days, may contribute to the fact that fewer freshmen rated their emotional health as above average compared with that of their peers. The figure stands at 47%, below last year's 51% and the lowest in at least 16 years.

A record-high 12% reported feeling depressed "frequently" in the past year, and 14% said there was a "very good chance" they would seek counseling in college.

There is still time for fun, of course. Nearly 41% said they spent at least six hours a week on social media, well above the prior high of 27%, reached in 2011 and 2014.

**Brooks Brothers**

There's a lot to love about Supima

Our iconic Performance Polo and our new women's oxford shirt are crafted of 100% American-grown Supima cotton.

**SUPIMA**  
WORLD'S FINEST COTTONS

BROOKSBROTHERS.COM/SUPIMA

## U.S. NEWS

# Trump Seeks to Curb ‘Carried Interest’

Priebus says president to curtail tax benefit; financiers could come out ahead in other ways

BY ERIC MORATH  
AND RICHARD RUBIN

WASHINGTON—The Trump administration plans to try to limit certain tax benefits currently enjoyed by private-equity firms and some other financiers, filling in a blank in the White House's tax-reform proposal, a top White House aide said Sunday.

But even with such a shift, the administration's full tax plan may still lower taxes on those firms and their managers.

The Trump tax-overhaul proposal released last week didn't address the question of whether the White House wanted to end the current tax treatment of “carried interest,” or profit share, for investors who claim those earnings as capital gains rather than ordinary income, and pay a lower tax as a result.

During last year's presidential campaign, Donald Trump said he would curb that practice. And while his tax-overhaul outline didn't follow through on that pledge, his White House chief of staff, Reince Priebus, said Sunday that he would keep that promise.

“That balloon is going to get popped pretty quickly,”

Mr. Priebus said on ABC. “The president wants to get rid of carried interest, so that balloon is not going to stay inflated very long, I can assure you of that.”

Mr. Priebus' comments echo those made by Treasury Secretary Steven Mnuchin, who said in March that “on carried interest, we want to tax hedge funds,” though he didn't elaborate at the time.

Under current law, a fund managers' share of profits is taxed as capital gains subject to a top rate of 23.8% for long-term gains, rather than as ordinary income subject to a top rate of 39.6%. Democrats have been trying for a decade to change that rule, arguing that fund managers are get-

ting investment tax rates for what is really labor income.

Even if Mr. Trump proposes such a change, private-equity firms, hedge funds, real-estate investors and venture capitalists could still see significant tax cuts under the full terms of the White House's tax outline.

In the proposal, the White House called for a new 15% rate for income created in sole proprietorships, partnerships and other “pass-through” companies. These include many small businesses, law firms, hedge funds and the president's own real estate and branding businesses.

Cutting the pass-through tax rate to 15% while keeping top rates above 30% could put

such companies in the position of having the firm's owners, such as law-firm partners and hedge-fund owners, paying much lower tax rates than their own employees.

And it would encourage fund managers to take a bigger share of their income as lower-taxed fees subject to Mr. Trump's proposed 15% rate rather than the 35% top rate the president proposes to apply to ordinary income and, theoretically, carried interest.

The administration could propose rules to address those issues but is in the early stages and produced only a one-page summary last week.

In the interview, Mr. Priebus also disputed the notion that the president's tax plan

disproportionately benefits the wealthy.

“While the top rate has been lowered to 35%, there's also a lot of deductions that have been taken off the table,” he said. “So a person like Donald Trump...and others are not going to see much of a reduction—a lot of the deductions that they enjoy are taken away.”

The only major deduction for individuals that the White House has proposed eliminating is the break for state and local taxes.

Mr. Trump and other high-income households would benefit from the lower rates on pass-throughs, corporations, capital gains, dividends and estates.

## President Stands By His Record On the 100th Day

BY PETER NICHOLAS

HARRISBURG, Pa.—President Donald Trump took pointed swipes at Democrats and the media while offering a robust defense of his record, proclaiming at a campaign-style rally that he has delivered “100 days of action” that are helping to revive the fortunes of the American middle class.

In a tense event Saturday marked by clashes between Trump supporters and detractors, the president said he has made good on an assortment of promises he made during last year's presidential campaign.

Mr. Trump said he is curbing illegal immigration, negotiating more-favorable trade deals and, in perhaps the most crowd-pleasing line of the night, pursuing construction of a wall along the Mexican border.

“We will build the wall as sure as you standing there tonight,” Mr. Trump said on his 100th day in office.

Though the president dwelled on what he sees as successes, he has faced setbacks, including the collapse of a health-care overhaul and court rulings that blocked his executive orders on immigration.

In remarks that veered off-script, he skittered across a range of topics, from war and peace to the economy to the New York Times's Manhattan headquarters building, which he called “ugly.” He boasted of his moves to roll back Obama-era regulations on fossil fuels and his threats to impose new import limits in hard-hit manufacturing sectors.

“Whether it's putting our coal miners back to work, pro-

tecting American steel and aluminum workers, or eliminating job-killing regulations, we are keeping one promise after another,” the president said. “And frankly, the people are really happy about it.”

Eager to show he is delivering for a state that he won by less than 1% of the vote, Mr. Trump said that “importantly for Pennsylvania, we have ended the war on beautiful, clean coal, and we are putting our great coal miners back to work. We love our coal miners.”

Invoking the economic nationalist rhetoric that has set many of his business supporters—and some of his aides—on edge, Mr. Trump proclaimed: “We are not going to let other countries take advantage of us any more. From now on, it's going to be America first!”

As Mr. Trump spoke, police repeatedly escorted protesters out of the arena. In some cases, the demonstrators and Trump supporters exchanged angry words, and in at least one instance, multiple police officers converged to restrain a protester before he was led away.

Mr. Trump took aim at Barack Obama, saying his predecessor let gang violence expand in the U.S. And he mocked Senate Democratic leader Chuck Schumer of New York as “a bad leader—not a natural leader at all.” The president also peppered his speech with broadsides against the news media. He cast the press as another political actor in the American system, one that he said is out of touch with “your priorities.”

The rally created a distinc-



Donald Trump aimed barbs at Democrats and the media at a rally in Pennsylvania. He said he would end the ‘war on beautiful, clean coal.’

tive split-screen moment. Rather than attend the annual black-tie White House Correspondents Association dinner in Washington, D.C., Mr. Trump opted for a come-as-you-are campaign rally at the Farm Show Complex and Expo Center in a state that was crucial to his upset victory. About 10,000 people packed the arena, many wearing “Make America Great Again” hats.

Mr. Trump told the crowd: “I could not possibly be more thrilled than to be more than 100 miles away from Washington's swamp, spending my evening with all of you and with a

much, much larger crowd and much better people.”

In Washington, the dinner unfolded without the president. The last president to miss the gathering was Ronald Reagan, who phoned into the event in 1981 as he was recovering from an assassination attempt.

“A large group of Hollywood actors and Washington media are consoling each other in a hotel ballroom in our nation's capital right now,” Mr. Trump said. When one of the speakers warming up the crowd in Harrisburg mentioned the dinner, boos rang through the arena.

### Show Goes On, Sans Usual Guest

WASHINGTON—The annual White House Correspondents' Association dinner went forward on Saturday without President Donald Trump, the first president in more than 30 years to skip the gala.

Mr. Trump opted to hold a rally in Pennsylvania to mark his hundredth day in office, rather than attend the event in Washington, which celebrates

both the White House press corps and the presidency.

Typically, presidents use the dinner to deliver a lighthearted monologue about relations between the media and the administration. The gathering also stars a professional comedian, who uses the event to poke fun at both the press and the administration.

Instead of a monologue from Mr. Trump, the dinner was headlined by veteran journalists Bob Woodward and Carl Bernstein, along with comedian Hasan Minhaj. —Byron Tau

## HEALTH

Continued from Page One

House to do big things,” said Rep. Mario Diaz-Balart (R., Fla.), referring to the number of the votes generally needed to reach a majority in that chamber. Though Republicans have 238 members, they haven't been able to unify them around legislation such as the health-care bill. Mr. Diaz-Balart said a tax-code rewrite would be even harder: “It's no secret we have some serious, serious challenges.”

Still, congressional leaders were celebrating a small victory Sunday night, when they announced a deal on a measure that would fund the government through September before a Saturday shutdown deadline. Lawmakers announced late Sunday that they had reached agreement on a package, and would vote on it early this week. The bill only nods to some of Mr. Trump's priorities—like higher defense funding, and more money for border security—and does not pay for the wall he wants to build along the Mexican border. The measure also leaves largely intact funding for programs Mr. Trump wanted to squeeze, like the Environmental Protection Agency.

That agreement gives Republican leaders a much-needed boost to show they can govern now that they have unified control of government. Health-care is a bigger challenge.

While House Republicans, in conjunction with the White House, continue to tinker with their health-care plan to win sufficient votes, officials have refused to set a fresh deadline for a vote.

Members of Congress are also working with the Trump administration to craft a tax bill they can show to members, but haven't yet given a schedule for that.

In an interview broadcast Sunday, Mr. Trump suggested the health-care plan was near completion, telling

CBS: “I didn't put a timeline” on it, but adding: “Now we have a really good bill....I think they could have voted on Friday.”

Mr. Pence, in an interview with NBC, said “repealing and replacing Obamacare is just around the corner.”

Lawmakers in the middle of the process offer a more cautious assessment. “People that are insinuating this could happen really soon are building false expectations,” said Rep. Steve Stivers (R., Ohio) Friday. “We're close, but there are

people who have individual issues and you need to work the individual issues one by one.”

The policy wrangling comes as Mr. Trump passed his 100-day mark without a major legislative accomplishment.

Asked Sunday to reflect on what he had learned in the 100 days, Mr. Trump answered: “I think things generally tend to go a little bit slower than you'd like them to go.”

“Obviously there are a lot of bumps and stumbles along the way,” Rep. Charlie Dent (R., Pa.) said of Mr. Trump's first

100 days, though he cited rolling back regulations as what he saw as a positive step. “I just hope the second 100 days are better than the first.”

While Congress may have frustrated his agenda, Mr. Trump has in the first 100 days used the powers of the White House to take executive action, and he has signaled that he plans to continue doing so in the weeks ahead.

One of the main ones looming: whether to pull the U.S. out of the 2015 Paris climate accord aimed at curbing climate change. The president said Saturday night that he would soon be “making a big decision” on the pact, which he blasted as a “one-sided” deal that could “ultimately shrink” the U.S. economy.

His predecessor, Barack Obama, has said the deal had helped make the U.S. economy more efficient and was essential to encouraging big developing countries to reduce carbon emissions.

The White House will continue to focus on rewriting American trade policy. “There is going to be breaking news on trade every week,” one official said. The trade issue illustrates the internal tussles between Mr. Trump's more nationalist aides and his more business-oriented advisers.

In a sign that the more hard-edge trade skeptics maintain a central role in the administration, Mr. Trump was joined in Pennsylvania Saturday by Peter Navarro, who has aggravated business leaders by pushing new trade threats, and

the president signed an order creating a new trade office to be run by Mr. Navarro.

But even rewriting American trade policy ultimately requires congressional support. And it will get even harder to deal with Congress next year, as the November 2018 midterm elections near.

The health-care bill has taken on a significance beyond the specific policies involved, as a symbol for whether Mr. Trump's team has learned how to work with Congress.

Some Republican aides have complained they are being set up to fail after members of Mr. Trump's team had predicted a House vote was going to take place last Wednesday.

At the time, members of Congress were scattered across the country and the world for a recess.

House Republicans tried to cobble together a majority last week, but they again came up short, and on Thursday conceded they would have no swift vote.

And even if Mr. Trump succeeds in pushing the health bill through the House, it faces an uphill battle in the Senate.

Mr. Trump on Sunday expressed his frustration with the many ways that Washington has stymied his agenda.

“It's just a very, very bureaucratic system,” he said on CBS. “I think the rules in Congress and in particular the rules in the Senate are unbelievably archaic and slow moving.”

—Janet Hook and Michael C. Bender contributed to this article.

### Trump: Coverage Rule Stays in Place

WASHINGTON—President Donald Trump insisted that Republicans' health-care plans would maintain a guarantee of coverage for people with pre-existing conditions—but side-stepped the thornier debate over whether proposed changes could raise insurance costs for sick people to the point where coverage is unaffordable.

“Pre-existing conditions are in the bill. And I mandate it. I said, ‘Has to be,’” Mr. Trump told CBS's “Face the Nation” Sunday when pressed on whether the GOP health-care plan would maintain one of the most popular aspects of the Affordable Care Act, which Mr. Trump has vowed to scrap.

Interviewer John Dickerson repeatedly asked Mr. Trump if the Republican plan—being ne-

gotiated among GOP lawmakers in the House—would guarantee coverage to people in every state, regardless of their medical history. Mr. Trump said that it would, but he didn't directly address the possibility that some states could opt to charge more to people with such pre-existing conditions, the current sticking point in negotiations between GOP centrists and conservatives.

“We have now pre-existing conditions in the bill. We have—we've set up a pool for the pre-existing conditions so that the premiums can be allowed to fall,” Mr. Trump said, referring to provisions to offer subsidized insurance pools for people with especially costly health needs.

When asked by Mr. Dickerson to respond to critics who said the changes “could effectively make coverage completely unaffordable for people,” Mr. Trump said that the evolving Republican plan would leave

people better off than they would be under the 2010 Affordable Care Act, also known as Obamacare.

“Forget about unaffordable,” the president said. “What's unaffordable is Obamacare.”

Republicans are wrestling with the future of the health law's provisions guaranteeing the sale of insurance to everyone, at similar prices, regardless of their risk. Those provisions have been widely popular in principle, though they have also caused surges in premium for many healthy people who benefited from low prices before the law was passed.

An earlier version of the GOP health plan collapsed in March after a conservative faction withdrew its support, saying it didn't go far enough in uprooting the ACA's insurance requirements, which they say have driven up premiums for healthier people.

—Louise Radnofsky

# Heavy Metal<sup>SM</sup>



## LUXURY CARD™

844.LUX.CARD | [luxurycard.com](http://luxurycard.com)

## U.S. NEWS

# LAPD Notes Progress Since 1992 Riots

By ZUSHA ELINSON

LOS ANGELES—A quarter of a century ago, this city exploded into riots after a jury acquitted police officers in the beating of Rodney King. Since then, the Los Angeles Police Department has made changes, and surveys show that Angelenos now view police more favorably. Shootings by officers have dropped.

And while violent protests have roiled cities across the U.S. over police brutality against minorities, Los Angeles has remained largely out of the fray.

Yet the specter of the 1992 riots, which lasted six days, left more than 50 dead and caused over \$1 billion in property damage, is still present.

This year, for the first time since the riots, there was an increase in the number of Los Angeles residents who said it was likely that similar unrest could occur in the next five years, according to a Loyola Marymount University poll that has surveyed residents every five years since 1997.

The surprising increase—from 47% to 58%—was driven mainly by young people coming



People gathered last week to honor the victims of the 1992 riots at the spot where they began.

of age in the era of national protests, and has less to do with Los Angeles police in particular, said Fernando Guerra, a Loyola professor. "They view political mobilization as part of being civically involved and a riot is just an extension of that," he said.

The 1992 riots spurred calls for massive change in South Los Angeles, a 50-square-mile area that is home to about 800,000 people. Leaders called

for economic investment and a transformation of a police department.

"The division between the police and public was palpable; you could feel it, you could feel the hate as you drove down the

street," said Los Angeles Police Chief Charlie Beck, who was a sergeant during the riots. "We've made a lot of progress since then."

Black Lives Matter activists say the police are better at public relations now. "The actual experience of people at the hands of LAPD is not better," said Melina Abdullah, a professor at Cal State Los Angeles and a Black Lives Matter organizer.

Officer-involved shootings dropped from over 100 in 1991 to 40 in 2016—but that total was second-highest behind Chicago among the five largest police departments last year, according to the LAPD.

And while Angelenos' opinions of police have risen over the past quarter century, black residents still see police less favorably than white residents.

After the King beating, an independent commission headed by Warren Christopher found that the "problem of excessive force is exacerbated by racism and bias within the LAPD." Officers openly bragged about beatings and used racial epithets in messages sent on a computer system in patrol cars.

In 2011, a community-policing effort was launched with

civil rights attorney Connie Rice at four housing projects. Officers were given a mission of building trust and solving problems.

There are now 60 officers in the community-policing program in seven housing projects. Killings have dropped in the projects and solving them has become easier, said Deputy Chief Phil Tingirides, who helped launch the community-policing effort. "It is a way to police that saves lives and that builds relationships," he said.

This summer, the program will expand for the first time out of housing projects.

"In terms of the LAPD's relationship with the community, I think it's improved in key sections of the city," said Aqeela Sherrills, a community activist known for helping to broker a 1992 gang truce between the Bloods and the Crips. But "we're still having too many police-involved shootings."

Earlier this month, the department revised its use-of-force policy to encourage officers to de-escalate situations.

The department is also considering changing a policy of generally not releasing video footage of police shootings.

## FROM PAGE ONE

# APPLE

Continued from Page One

Warren Buffett's Berkshire Hathaway Inc., which more than doubled its Apple position in January to about 2.5%.

Wall Street analysts tend to focus more on companies' net cash position than the headline number. Since 2012, Apple has gathered some \$88 billion in debt to fund payouts to shareholders. But even subtracting that, Apple would be left with more cash than the total stockpile of Microsoft Corp., the next richest tech company, which has \$126 billion in cash, not accounting for debt.

With the exception of financial companies, Apple's stash exceeds that of any other U.S. company in recent history, said Jennifer Blouin, an accounting professor at University of Pennsylvania's Wharton School. "I have never seen a company in this kind of extreme position, barring a winding-down," she said. "Apple's a cash box right now."

Apple cash and cash equivalents are spread across short- and long-term securities, including corporate securities,

U.S. Treasury securities and money-market funds.

When Apple had its 1990s bankruptcy scare, then CEO Steve Jobs arranged an infusion from Microsoft, setting his resolve to keep reserves for emergencies. Mr. Jobs also believed Apple could better boost its stock price by using its money to develop products than through buybacks or dividends.

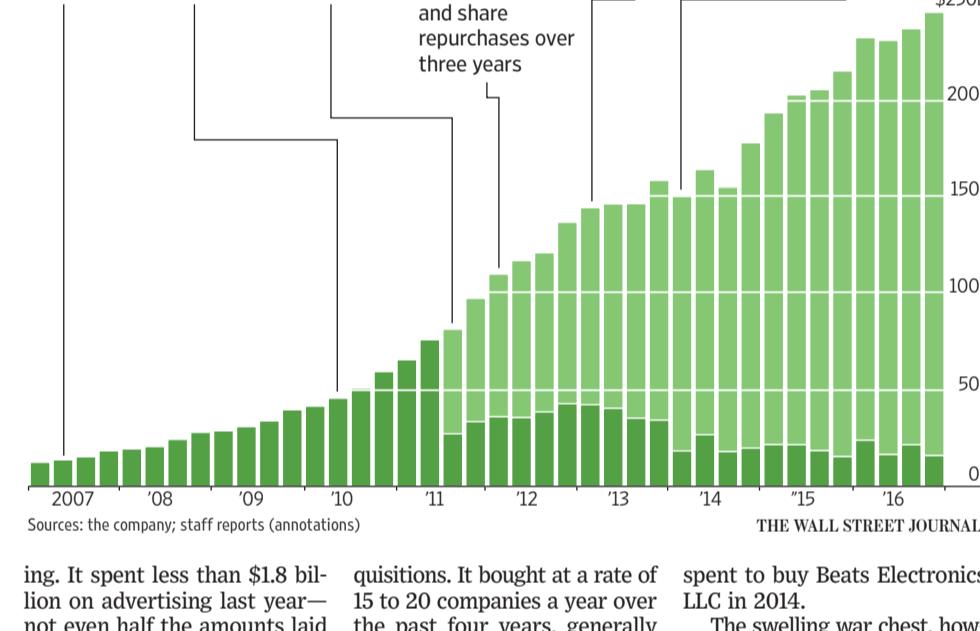
His biggest product, the iPhone, has only supercharged the cash machine. Apple has sold more than 1 billion of the devices in the decade since it was introduced, and today claims 91% of all the profits in the smartphone sector.

Mr. Cook has been somewhat more accommodating of shareholder desires than his predecessor. He started a program of dividends and stock buybacks in 2012 that has since sent more than \$200 billion to shareholders. And he has invested more in some areas, such as research and development.

But the CEO also stared down Carl Icahn in 2013 and 2014 when the activist investor bought a stake in Apple and demanded it increase buybacks. And Apple remains frugal in other realms, such as market-

### Sitting on a Fortune

Apple's amassed cash, cash equivalents and marketable securities are approaching a quarter of a trillion dollars, excluding debt.



ing. It spent less than \$1.8 billion on advertising last year—not even half the amounts laid out by smaller rivals Alphabet Inc. and Amazon.com Inc., according to company filings.

Apple also avoids large ac-

quisitions. It bought at a rate of 15 to 20 companies a year over the past four years, generally spending several hundred million dollars each on companies it can easily assimilate. Its biggest deal was the \$3 billion it

spent to buy Beats Electronics LLC in 2014.

The swelling war chest, however, has fueled hopes for bigger deals to vault Apple in new directions such as self-driving cars and entertainment. At Ap-

ple's 2015 shareholder meeting, one investor asked Mr. Cook about buying Tesla Inc., which today is valued around \$51 billion. The CEO didn't directly respond.

Robert Nichols of Windward Capital Management Co., an Apple shareholder, says it should buy Netflix Inc., valued around \$65 billion, to jump-start its video-streaming business and bolster its position against Amazon. "You can either build [content and distribution] or you can buy it," and buying would help Apple gain ground where it is behind, he said.

Netflix declined to comment. Tesla couldn't immediately be reached for comment.

With \$250 billion, Apple could buy both Tesla and Netflix and still have plenty left over. It also might want to use some cash to pay down some of its debt or look to boost U.S. manufacturing after facing calls last year from then-President-elect Trump to build a plant in the U.S.

Either way, some argue that Apple's cash hoard has far outstripped its needs. "If this a rainy-day fund, they're saving for a millennial flood," said Lee Pinkowitz, a Georgetown University professor of finance.

## Fresh Trend

Packaged-food sales are falling as consumers opt for ready-to-eat meals or fresh produce at the supermarket.



### Packaged food/beverages

UNIT SALES (BILLIONS)

253.8

CHANGE FROM PREVIOUS YEAR

-0.4%



### Fresh meat

16.5

+1.7%



### Fresh produce

32.3

+1.9%



### Bakery

4.0

+2.5%

### Deli-prepared foods

3.3

+4.0%

## FOOD

Continued from Page One

Feb. 25, sales volume for packaged food and beverages shrank by 0.4%—compared with growth of 1.7% for fresh meat, 1.9% for produce and 4% for deli-prepared foods during that period, Nielsen said.

Three of the biggest companies in the sector—Mondelez, Kraft Heinz and Kellogg—are expected to show the impact of these trends when they report first-quarter results this week. RBC Capital Markets' David Palmer recently lowered his forecast for the three, saying in a note to investors that "big food volume trends have not yet begun to recover after six months of accelerating declines."

Teresa Benande, a 70-year-old shopping in a Chicago Mario's grocery store, said she recently nixed chips and cereal, and now she usually buys chicken breasts, brown rice, potatoes, and fresh vegetables and fruit.

"I stopped buying that stuff because it has too much salt and sugar. Even the boxes that appear healthy, when you read them, they really aren't," she said. When she splurges, it is on a spinach and feta pizza, not a bag of Doritos, she said.

The shift in shopper preferences started several years ago, but its impact on big food makers is intensifying now because of added pressure from retailers.

That has exacerbated what has been a drumbeat of bad news for packaged-goods companies grappling with American consumers' sustained move toward natural, organic foods. A long stretch of falling food prices, fueled by excess supplies of staples like meat and dairy,

have also lowered costs for consumers at supermarkets, giving them more reason to choose fresh food over boxed meals.

Plus, more people are buying cheaper store brands and shopping for unique health-focused brands online.

"It's death by a thousand cuts," said Nielsen consumer analyst Jordan Rost.

Mondelez, which makes Oreo cookies and Ritz crackers, initially expected its comparable sales to rise at least 1% this year, but that could decline if its sales results for the first quarter are worse than anticipated—as was the case with Hershey Co., which reported last week.

Big companies such as Unilever PLC and Nestlé SA said in

section of the store. But, Mr. Fitzgerald says: "If we overrun perishables with all the big packaged brands, we lose our competitive edge."

Instead, retailers such as Wal-Mart Stores Inc. are pressuring big brands to lower their prices as a way to attract customers.

Companies like Hershey and PepsiCo Inc. said they are working with retailers to be creative. "That's a conversation we've been having with some of the retailers, to say 'how can we help you rethink the center store so that we can bring growth back,'" said Pepsi Chief Indra Nooyi on a conference call last week, when it reported declines in its Quaker Foods division. "Our hope is that with the rejuvenation of the center store, our categories will grow, too."

Big brands are increasingly focusing on improving profitability through cost-cutting and consolidation.

Kraft and Heinz combined two years ago as slow growth spurred a need for savings. Kraft Heinz Co. has been able to cut more than \$1 billion from the two predecessor companies' budgets. Earlier this year, it made an unsolicited \$143 billion offer for Unilever—the Anglo-Dutch maker of Dove soap and Hellmann's mayonnaise—which was rebuffed.

Some analysts say Kraft Heinz's sights could be set on Mondelez, which unsuccessfully attempted to buy Hershey last year. They argue that such an union would benefit both companies and make them better equipped to deal with the new reality of slowing sales and heightened competition.

Both companies have declined to comment on a potential deal. Kraft and Mondelez used to be part of the same conglomerate until 2012, when it was split in two.

# HOW AMAZON WEB SERVICES KEEPS THEIR CUSTOMERS FLYING HIGH.



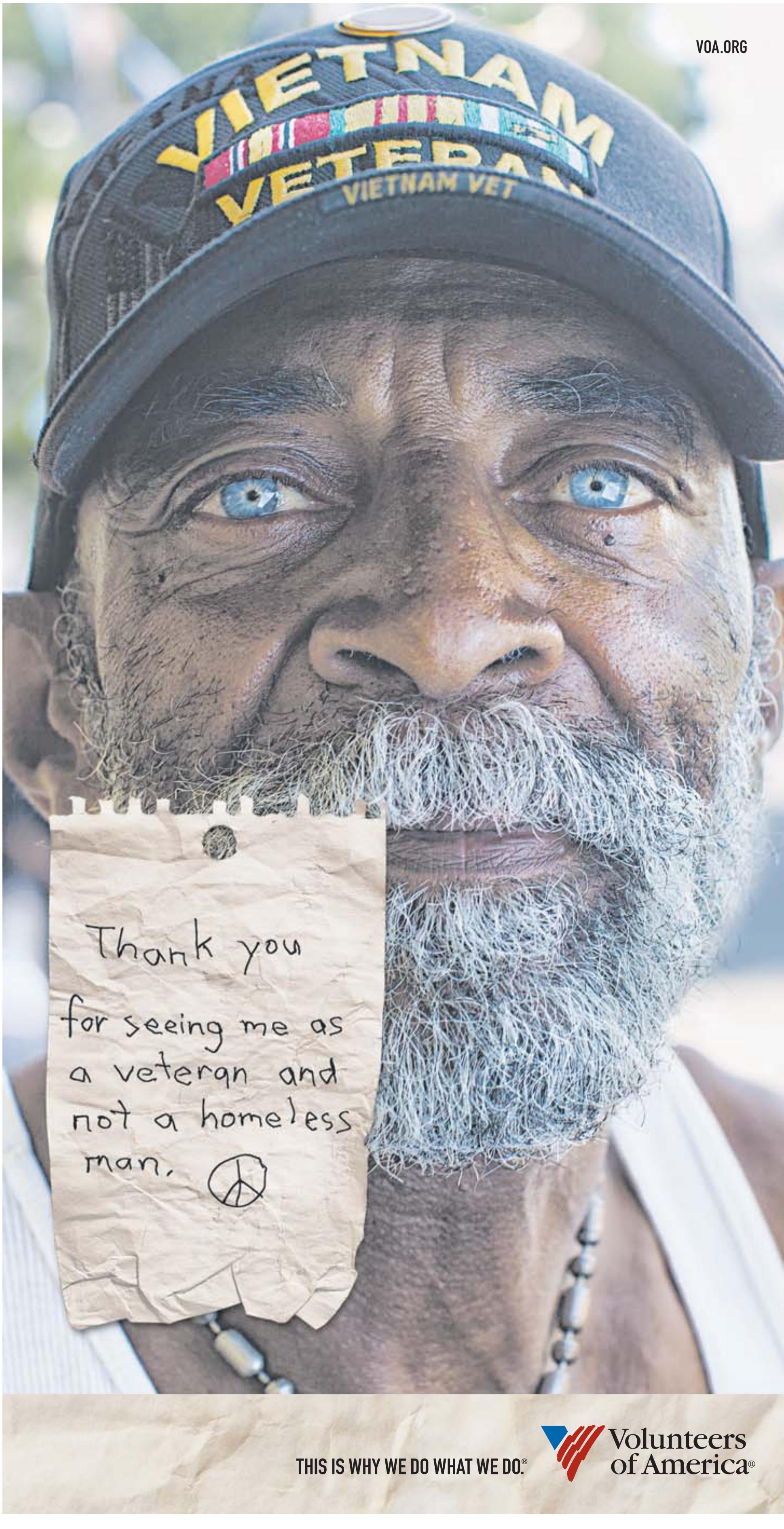
©2017 salesforce.com, inc. All rights reserved. Salesforce.com is a registered trademark of salesforce.com, inc., as are other names and marks.

They started with a simple idea: to make cloud computing available to every business, large or small. But as they grew from a startup to millions of clients, they wanted a whole new way to connect with their customers. That's why they've always used Salesforce. The Customer Success Platform, powered by Einstein artificial intelligence, qualifies their leads, predicts when customers are ready to buy, and helps them close more deals. What if you had a way to help your business take flight?



Blaze your trail.

VOA.ORG



THIS IS WHY WE DO WHAT WE DO.®

 Volunteers  
of America®

# WORLD NEWS



Officers from China's navy visited Davao City, the Philippines, President Rodrigo Duterte's hometown, on Sunday. A Chinese naval ship is in the background.

## Chinese Data Hint At Slowing Growth

BELJING—Business activity in China slowed markedly in April following months of steady expansion, official data showed, suggesting that economic growth, propped up by government spending and other stimulus measures, may be losing steam.

Two gauges of activity in and outside factories fell to six-month lows in April as demand softened, though construction activity remained robust.

China's official manufacturing purchasing managers index slid to 51.2 in April from 51.8 in the previous month, the National Bureau of Statistics said on Sunday. The sub-index measuring new orders dropped to 52.3, from 53.3 in March, while the production subindex fell to 53.8 from 54.2.

New orders fell at a faster pace than output, said Zhao Qinghe, an economist at the statistics bureau. "This new change in supply and demand demands further attention," he said.

Some economists have projected a drop-off in growth this year as Beijing tightens credit to tamp down debt, skyrocketing housing prices and other financial risks that have been building. Still, the fall in the manufacturing PMI was more precipitous than the 51.7 expected by economists in a poll.

China's official nonmanufacturing PMI also fell to 54.0 in April from 55.1 in March.

First-quarter growth clocked 6.9%, its fastest pace in a year and half, fueled by credit and infrastructure spending as well as the booming property market.

Since late last year, President Xi Jinping has vowed to contain rising financial risks and tighten measures to root out irregularities in the financial sector.

—Liyan Qi

## Trump Reaches Out to Philippines

Meeting with Duterte  
is part of bid to counter  
Pyongyang threat,  
White House says

BY JAKE MAXWELL WATTS

President Donald Trump invited President Rodrigo Duterte of the Philippines to the White House during a telephone call over the weekend, laying the groundwork for a first meeting after the maverick Filipino leader last year declared his "separation" from the U.S., a longstanding ally.

The conversation with Mr. Trump took place on the heels of a summit of Southeast Asian nations, chaired by Mr. Duterte, in which the region's leaders skirted the thorny issue of territorial disputes in

the South China Sea, handing China a diplomatic victory.

Meanwhile, three Chinese naval vessels made a rare visit to the Philippines and were hosted in Mr. Duterte's hometown of Davao City, a Philippine military spokesman said.

Reince Priebus, the White House chief of staff, said in an interview Sunday with ABC that Mr. Trump has been seeking backing from Asian leaders, including Mr. Duterte, to counter the threat of conflict from North Korea. "He's been speaking to all of our partners in Southeast Asia—the issue on the table is North Korea," Mr. Priebus said, adding that Mr. Trump planned to speak with leaders in Singapore and Thailand.

Mr. Priebus defended Mr. Trump's warm welcome of Mr. Duterte, whose human-rights record has been criticized in the wake of a bloody antinarcotics campaign that has killed more than 8,000 people since he took office at the end of June last year.

"If we don't have all of our folks together, whether they're good folks, bad folks, people we wish would do better in their country, it doesn't matter—we've got to be on the same page," Mr. Priebus said.

A spokesman for Mr. Duterte told local media that Mr. Trump expressed his commitment to the U.S. alliance with the Philippines and was interested in developing a warm relationship with his Filipino counterpart.

Mr. Duterte has shaken the U.S.-Philippines relationship, a cornerstone of Washington's projection of power in Asia at a time when China is wooing

other Southeast Asian nations and rapidly asserting control over the resource-rich South China Sea, a key thoroughfare of international trade. Beijing claims nearly the entire area and has reinforced its position by building an ambitious network of artificial islands.

Analysts said the reluctance of the Association of Southeast Asian Nations to address China's moves, despite claims by several members including the Philippines over parts of the South China Sea, has been exacerbated by uncertainty over U.S. engagement under the Trump administration, an issue that Mr. Trump may seek to resolve if he meets Mr. Duterte.

The region understands that Washington has been and will continue to be in a holding pattern at least for this

year, [but] Southeast Asia's ability to wait for Washington will be increasingly confronted by China's ability and pace to change the strategic landscape in the region," said Evan Laksmana, a senior researcher at the Centre for Strategic and International Studies in Jakarta.

The Philippines is emerging as a fulcrum of the Southeast Asia power balance. Mr. Duterte's predecessor favored a greater U.S. role to counterbalance Beijing and launched an international arbitration case at The Hague that invalidated China's claims last year.

But Mr. Duterte hasn't pressed the case and instead vowed to chart a more independent foreign policy, winning investment from China.

—Eric Morath

contributed to this article.

## President Repeats Option Of North Korea Conflict

BY JOSH MITCHELL  
AND ERIC MORATH

WASHINGTON—President Donald Trump left open the possibility of military action against North Korea, adding that he wouldn't be happy if Pyongyang conducts another missile test.

When asked in a Saturday interview with CBS that aired on Sunday whether he was threatening military action, Mr. Trump said: "I don't know. I mean, we'll see."

Mr. Trump also addressed his thoughts on North Korea leader Kim Jong Un personally.

"People are saying, 'Is he sane?' I have no idea," Mr. Trump said. "I can tell you this, and a lot of people don't like when I say it, but he was a young man of 26 or 27 when he took over from his father....A lot of people, I'm sure, tried to take that power away, whether it was his uncle or anybody else. And he was able to do it. So obviously, he's a pretty smart cookie."

Mr. Trump's comments come days after North Korea attempted, but failed, to launch a missile as part of a test, U.S. and South Korean authorities said. The missile exploded minutes after launch.

Top Trump administration officials have previously indicated that military options are on the table. On Sunday, Mr. Trump and his national security adviser, Lt. Gen. H.R. McMaster, reiterated that they preferred to solve the conflict without military action, mainly by pressuring China, North Korea's ally, to get more involved.

Mr. Trump said dealing with North Korea now overrode another priority of his administration, cracking down on China and what he has alleged to be unfair trade practices such as currency manipulation.

His administration has declined to label China as a currency manipulator, despite a campaign promise by Mr. Trump to do so.



An April military parade in Pyongyang showed models of missiles.

### U.S. Says It Will Pay For Missile Defense

White House national-security chief Lt. Gen. H.R. McMaster told his South Korean counterpart that the U.S. would pay for a missile-defense system designed to protect against a North Korean missile attack, but said hours later that the U.S. could later seek renegotiation on payment for the roughly \$1 billion battery.

Gen. McMaster's remarks came days after President Donald Trump rattled South Korea

with remarks suggesting South Korea should pay for Terminal High-Altitude Area Defense.

"What I told our South Korean counterpart is until any renegotiation that deal is in place. We'll adhere to our word," Gen. McMaster said on Fox News.

Gen. McMaster's remarks came after a phone call on Sunday morning in Seoul with Kim Kwan-jin, South Korea's national-security adviser, that the U.S. would finance Thaad as agreed to by the two countries last year, South Korea's presidential Blue House said.

—Jonathan Cheng

you with North Korea," Mr. Trump told CBS. He added, "I think that frankly, North Korea is maybe more important than trade. Trade is very important. But massive warfare with millions, potentially millions of people being killed? That, as we would say, trumps trade."

Mr. Trump also declined to answer whether the U.S. had any role in North Korea's technical failures during recent test launches. "Well, I'd rather not discuss it. But perhaps they're just not very good missiles," Mr. Trump said.

Gen. McMaster said in a separate interview that the administration's next move might be to push for tougher international sanctions on North Korea while preparing for "military operations if necessary."

"This is something we know we cannot tolerate in terms of a risk to the American people," Gen. McMaster said on Fox News, referring to North Korea's work toward developing nuclear weapons. He added that the administration preferred to work with other nations, including China, to ratchet up pressure on North Korea to "resolve the situation short of military action."

Vice President Mike Pence gave a separate interview on NBC on Sunday, saying the White House is prepared to accept short-term increases to the federal deficit created by its plan to lower taxes, in exchange for the possibility of stronger economic growth.

## Welcome to a world where unimaginable deliveries happen every day. Welcome to Simplistics™.

Forget the notion that logistics has to be complicated and scary. Those who are truly skilled and driven can make difficult tasks look easy. ArcBest™ has decades of logistics expertise, backed by the capacity resources of industry leaders like ABF Freight® and Panther Premium Logistics®. It means we can handle the most complex jobs seamlessly and simply. Or at least make it feel that way to our customers. Welcome to Simplistics™. Welcome to ArcBest™.

[arcb.com/simplistics](http://arcb.com/simplistics)



©2017 ArcBest Corporation®. All rights reserved. All service marks featured in this advertisement are the property of ArcBest Corporation® and its subsidiaries.

**ArcBest**

## WORLD NEWS

# Iran TV Mogul Shot and Killed in Turkey

Tehran had accused Saeed Karimian, founder of GEM Group, of espionage

An Iranian media mogul was shot and killed in Istanbul late Saturday in what Turkish media described as a targeted killing that set off a manhunt for the unknown perpetrators.

By Nour Malas  
in Istanbul and  
Asa Fitch in Dubai

Saeed Karimian was among a group of Iranian citizens given prison sentences in absentia by the Iranian government earlier this year for alleged spying. An advertisement that appeared in the official newspaper of

Iran's judiciary about three months ago also alleged Mr. Karimian spread propaganda against the state and violated national security.

Media company GEM Group announced the death of Mr. Karimian, its founder and director, on its official Facebook page. The statement called Mr. Karimian "the great man of Iranian media," but didn't elaborate on the circumstances of his death.

Turkish media reports said masked assailants drove up to a luxury sedan that was taking Mr. Karimian and a Kuwaiti business partner through an upscale Istanbul neighborhood. The attackers escaped after shooting into the car, Turkish newspapers and broadcasters reported.

Turkey's state news agency said a police investigation into

the attack continues. The car used by the gunmen was later set on fire and found charred, the agency said.

Kuwait's state news agency said a Kuwaiti citizen had been shot to death in Istanbul, but didn't provide a name. GEM Group didn't immediately return requests for further comment.

The Wall Street Journal couldn't independently confirm the details in the Turkish reports. A police official in Istanbul said no one was available to comment on the incident.

An Iranian representative at the United Nations in New York didn't immediately return a request for comment.

The shooting marks a brazen security breach in a high-end area of Istanbul, a city already on high alert after frequent terror attacks by Islamic State and Kurdish militants.



PHOTO:REUTERS-TV

A charred vehicle found in Istanbul after Mr. Karimian was shot.

It isn't clear what spurred Mr. Karimian's falling out of favor with the Iranian government. Iran bans foreign broadcasting, including Farsi-language media produced outside the country, and restricts broadcasts inside Iran, though Iranians widely circumvent the bans.

Mr. Karimian's GEM TV, his main business operation, is best known for dubbing into Farsi popular Turkish soap operas and at least one American television show. It also produces TV films and series in Farsi, many of which are filmed in Turkey.

Iran has turned up pressure on political activism ahead of a presidential election set for May 19. The incumbent, moderate Hassan Rouhani, is facing a challenge from hardline opponents.

The National Council of Resistance of Iran, an opposition group, condemned Mr. Karimian's killing in a statement and blamed it on Iran's Islamic Revolutionary Guard Corps.

Mr. Karimian founded GEM Group in London and later based it in Dubai, with another major base in Turkey.

The company owns the Middle East rights to some Turkish soap operas, a lucrative business in a region where the shows are so popular they are dubbed into Arabic and Farsi.

—Yeliz Candemir in Istanbul contributed to this article.



RAAD ADWAIEH/ASSOCIATED PRESS  
President Mahmoud Abbas, seen in March, is pressuring Hamas to give up control of the Gaza Strip ahead of his visit to Washington.

## Palestinian Leader Squeezes Gaza

BY RORY JONES

TEL AVIV—Palestinian leader Mahmoud Abbas is pressuring Hamas to cede control of the Gaza Strip to his Palestinian Authority in a high-stakes gambit to convince the White House he can strike a deal with Israel on behalf of the Palestinian people, Palestinian officials said.

The move comes ahead of a meeting this week with President Donald Trump in Washington, as Mr. Abbas seeks to convince the White House he controls both the West Bank and Gaza, the two territories that would make up a negotiated future Palestinian state.

In recent weeks, the 82-year-old president has imposed a financial squeeze on Gaza by slashing the wages of teachers, doctors and other workers and refusing to reduce a tax on fuel used by the strip's power plant. The Authority also has told Israel it would stop paying for electricity supplied by Israeli plants to Gaza, Israeli authorities said.

Now, Mr. Abbas is threatening to make cuts to education and health care unless Hamas immediately relinquishes power to the Fatah-led Palestinian Authority in a step to-

### The Great Divide

Mahmoud Abbas is deeply unpopular among Palestinians. Share of support for each leader in a presidential election in the West Bank and Gaza Strip



Survey of the three most popular candidates only

Source: Palestinian Center for Policy and Survey Research poll conducted March 8-11

THE WALL STREET JOURNAL

ward participation in any future parliamentary elections, said Tayeb Abdul Rahim, an aide to Mr. Abbas.

"Time has come for Hamas to hand over the Gaza Strip to the legitimate Palestinian Authority," said Mr. Rahim.

Mr. Trump has said he wants to negotiate a peace agreement between Israelis and Palestinians, which would be a major foreign-policy win for his administration.

The Trump administration

hasn't articulated a policy on working with the Palestinian leader, however. It initially set out a pro-Israel agenda, with a promise to move the U.S. Embassy to Jerusalem from Tel Aviv, and discussed abandoning a two-state solution. But Mr. Trump has moved to a more impartial approach to the conflict.

For the White House, Mr. Abbas's visit is a key component in efforts to maintain momentum in Mr. Trump's push for a peace accord. White House officials are encouraged by Mr. Abbas's initial moves on Hamas but they would still like to see him do more.

"We want some movement," a senior U.S. official said, citing the need for more action to prevent the incitement to violence against Israelis and to remove anti-Israeli content from school textbooks.

The Palestinian Authority has said it manages security with Israelis in the West Bank and can't stop all Palestinians from inciting violence against Israelis.

Mr. Abbas's pressure on Hamas is politically risky. His popularity has flagged after 10 years of rule.

"Hamas has undermined

Abbas's sense of authority,"

said Aaron David Miller, vice president at the Woodrow Wilson Center and former adviser to secretaries of state on Arab-Israeli negotiations. "He can't represent himself as the leader that will silence all the guns of Palestine" in the event they make a deal, he said.

The Palestinian leader is also facing pressure from Marwan Barghouti, a Fatah official serving five life sentences in an Israeli jail for his involvement in killing Israelis. Mr. Barghouti has been on a hunger strike to protest prison conditions. But the campaign also appears aimed at boosting his popularity and undermining the position of Mr. Abbas.

Hamas isn't likely to concede its territory easily. The group has said it is ready to form a national unity government with Fatah to run the Authority and govern Gaza but the two sides would need to work out the details.

"Gaza is not a car that Hamas will give to the PA," Hamas spokesman Abed Al Laateef al Kanoo said, referring to the Authority.

—Carol E. Lee in Washington, Abu Bakr Bashir in Gaza City and Nuha Musleh in Ramallah contributed to this article.

## EU Doubles Down On Tehran Accord

BY EMRE PEKER

TEHRAN—The European Union rallied behind Iran's nuclear deal during a high-level visit to the country over the weekend, vowing to safeguard the accord despite U.S. threats to scrap it and pledging to support the Islamic Republic's economy.

With less than three weeks before Iran's presidential elections, the EU's push to bring the country into the international fold pits Brussels against Washington, which is ratcheting up pressure on Tehran for "not living up to the spirit" of the 2015 nuclear agreement—even as it fulfills its commitments.

Differences over the Iran deal come as the EU puzzles over the U.S. stance on critical policies, while President Donald Trump seeks to execute a central campaign promise: rolling back his predecessor's landmark initiatives, including efforts to fight climate change and enact global trade agreements. A U.S. shift on the nuclear agreement would pose a particular risk in Iran, where hard-liners are challenging the moderate incumbent whose government clinched the accord, President Hassan Rouhani.

As Mr. Trump weighs his Iran policy, Brussels seeks to convince the White House that the settlement with Iran is important for global security, a cornerstone in efforts to stabilize the war-torn Middle East, and good for business. The president, however, has called

it "the worst deal ever negotiated" and his administration has repeatedly cast doubts over its future.

"It is delivering for all sides and the European Union fully stands behind it...we expect all sides to respect the deal," the EU's energy chief, Miguel Arias Canete, said in Tehran at a joint briefing with Iranian Vice President Ali Akbar Salehi, a chief architect of the agreement who oversees the country's nuclear agency.

The EU has emerged as a prime cheerleader of the Iran accord, providing financial, technical and regulatory support to help Tehran bolster nuclear safety and development capabilities. Brussels is also aiding the Islamic republic's push to join an international nuclear-fusion research project and benefit from the European Atomic Energy Community's capabilities.

Europe's engagement with Iran's civilian nuclear program was prescribed in the agreement to prevent Tehran from developing nuclear weapons in exchange for lifting economic sanctions. It also serves as a pillar of the EU's multipronged diplomatic and economic strategy.

Mr. Canete led a delegation of EU experts and officials, and dozens of European companies for two days of high-level meetings and business forums. Aside from nuclear issues, the main agenda item was energy—particularly investments in renewable resources—and climate change.



AGENCE FRANCE PRESSE/GETTY IMAGES  
Mr. Rouhani, center, faces an election challenge from hard-liners.

## A Macron Victory Buys EU Time to Restore Voters' Trust



EUROPE FILE

BY SIMON NIXON

Emmanuel Macron's victory in the first round of the French presidential election was greeted with relief rather than triumph in Brussels and other European capitals. With just 4 percentage points separating the top four candidates, the nightmare scenario of a final round between the anti-EU far left and far right candidates was averted by only the narrowest of margins. And

even if the polls are right, and Mr. Macron goes on to win easily in next Sunday's runoff against Marine Le Pen, no one will be under any illusions that this would represent a compelling endorsement of his pro-European, liberal economic agenda.

This isn't just a contest between nationalism and globalism, as Ms. Le Pen has claimed. It is also a contest of values. If Mr. Macron wins, it may be largely because voters indicate that around 60% of French voters believe that Ms. Le Pen and the National Front party which she led until last week, is a threat to democracy.

Certainly if Mr. Macron wins,

the EU will believe it

has earned a reprieve. The

risked of the euro unravelling

or the EU being hit by

further Brexit-style breakups

during this current European electoral cycle. The EU will have most likely bought itself several more years to attempt to win back the trust of voters and show it is still capable of solving common problems.

Whether it succeeds will hinge in large part on Mr. Macron himself. To reform Europe, he first needs to show he can reform France. That means delivering on the economic overhauls economists have long argued are essential to boost France's economic fortunes but which have eluded governments of the past 20 years.

To succeed, he first will need to build a governing coalition in the National Assembly following parliamentary elections in June, then overcome the inevitable resistance from vested interests among trade unions that have hobbled previous re-

form efforts—including his own under the previous government. That will prove a tough test of his political skills.

If reforming France is

likely to prove difficult, re-

forming the EU could prove

an even bigger challenge. Mr. Macron has proposed creating a European budget overseen by a European treasury, but similar proposals in the past have run into stiff opposition from Germany which is wary of transfers between member states.

That said, the German

government accepts that reforms of the eurozone in particular are needed, and indeed Berlin is hopeful that Mr. Macron can provide a useful partner in reforming the eurozone. The European Commission is due soon to publish detailed proposals for new initiatives that could go some way toward providing common shock absorbers for the single currency.

But as always, the price of German support for any proposal that deepens economic and financial integration will be that it is accompanied by transfers of real sovereignty, something French governments have found difficult.

Some say these obstacles are insurmountable, dooming a Macron presidency to failure. But that seems premature. Assuming he wins, Mr. Macron would start with important advantages. He will inherit a growing economy

and falling unemployment, creating an easier political climate for reform. And he hasn't saddled himself with damaging campaign promises, like the kind that derailed the presidency of his former boss François Hollande.

Mr. Macron also may benefit from a sense of national urgency that has eluded his predecessors, given the expected strong performance by Ms. Le Pen in Sunday's election will underline only too clearly the likely consequences of failure.

Above all, he has shown himself so far to be a politician with abundant reserves of courage, determination and luck.

He will need all three, because he may find that winning the presidency proves the easy part.

## WORLD NEWS



Hundreds of cybersecurity experts from Europe and the U.S. took part in the Locked Shields 2017 exercise in Tallinn, Estonia.

# In Pursuit of a Better Cyberdefense

Estonia sits at forefront of NATO defenses against hacking

By THOMAS GROVE

TALLINN, Estonia—A hotel conference room in the Baltic republic of Estonia recently became the front line in a rehearsal for cyberwarfare, in an exercise that tested the North Atlantic Treaty Organization's readiness to repel hackers.

Last week, nearly 900 cybersecurity experts from across Europe and the U.S. participated in an event hosted in Tallinn to focus on defending a fictional country against a simulated cyberattack. The defenders faced real-world scenarios: a knocked-out email server, fake news accusing a NATO country of developing drones with chemical weapons, and hackers compromising an air base's fueling system.

The exercise—dubbed Locked Shields 2017—was unprecedented in complexity, organizers say. And for the Estonian cybersecurity team hosting the event, it marked the 10-year anniversary of cyberattacks that crippled the Baltic nation's nascent digital infrastructure. The attacks, blamed on Russia, swamped Estonian banking and government websites

and threatened to take the country offline.

Since the 2007 cyberattacks, the former Soviet republic of 1.3 million has transformed into one of Europe's most tech-savvy countries. Its importance to NATO is vast: As well as playing a central role in

hosting the alliance's deterrent force in the Baltic region, Estonia is at the forefront of the alliance's defenses against hacking.

Following Russia's alleged hacking of the Democratic National Committee ahead of last year's U.S. presidential election, the urgency has never been greater.

To establish a stronger line of cyberdefense, Estonia established a volunteer body that can be called on to protect the country's digital infrastructure. The unit's volunteers donate their free

time to regular training, much like a national guard. And they are responsible for defending everything from online banking to the country's electronic voting system if an attack occurred.

"We have lots of talented people who work in the private sector and we offered them the possibility of working once a week for a more patriotic cause," said Toomas Hendrik Ilves, the former Estonian president who oversaw the creation of the unit. "You basically think of the most dystopian future imaginable and try to defend against that."

The Russian government consistently maintains that it doesn't interfere in the internal affairs of other countries, and denies orchestrating cyberattacks. NATO officials say they have seen an increase in cyberattacks on their networks.

NATO Secretary-General Jens Stoltenberg said this year there were an average of 400 attacks a month on alliance networks, up 60% from the previous year. He didn't indicate who may have been behind them.

"Our aim is to give [people] the proper mind-set and

capabilities to defend against attacks and to protect the lifestyle we are used to," said Aare Reintam, one of the organizers of the event.

During the exercise—the eighth in an annual series—teams faced not only simulated attacks on computer software, but also on critical infrastructure. Planners introduced another challenge: fake news. Participants in this year's exercise had to confront questions from a hostile press.

Organizers hope the experience gives other countries a chance to bolster their own defenses against cyberattacks. The Maryland National Guard has consulted with Estonia over its use of a cyber variant of a national guard. Neighboring Latvia, also a NATO member, implemented the cyber national guard model in 2014.

"We're not gearing up to go and invade anyone, we're worried about building up our defensive skill set," said Rain Ottis, a 36-year-old university professor who is a longtime organizer in Locked Shields. "We have much to protect and much to lose in terms of cyberspace and way of life."

### UNITED KINGDOM

#### May Is Adamant On Brexit, Trade Deal

Prime Minister Theresa May said Britain won't agree to pay an exit bill for leaving the European Union without also agreeing on a new trade deal with the bloc.

In an interview with the British Broadcasting Corp., Mrs. May said: "I'm very clear that at end of the negotiations we need to be clear not just about the Brexit arrangements—the exit, how we withdraw—but also what our future relationship is going to be."

Asked if that meant the U.K. wouldn't agree to settle any divorce bill until all negotiations are finished, including those covering trade, Mrs. May said: "The EU itself has said that nothing is agreed until everything is agreed."

—*Jason Douglas and Laurence Norman*

### NEPAL

#### Swiss Climber Steck Dies in Accident

Ueli Steck, acclaimed for his rapid ascents—including scaling dozens of peaks in the Alps in a little more than two months—was killed in a mountaineering accident near Mount Everest, expedition organizers said.

The 40-year-old Swiss was killed at Camp 1 of Mount Nuptse, Mingma Sherpa of Seven Summit Treks said. Mr. Steck's body has been recovered from the site and taken to the nearest airport.



OVER ARMOR: People rode on a T-60 light tank during a military-historic festival in St. Petersburg, Russia, on Sunday.

Mr. Steck's family said the exact circumstances of his death were still unclear.

—*Associated Press*

### FRANCE

#### Le Pen Names Her Choice for Premier

Presidential candidate Marine Le Pen said she will name the head of a separate far-right party as prime minister if she wins next weekend's election, a move to capture more votes as she faces off with centrist frontrunner Emmanuel Macron.

Ms. Le Pen said she had formed an alliance with Nicolas Dupont-Aignan, to appoint him prime minister atop a national-unity government if she is elected.

—*Sam Schechner*

### EGYPT

#### Pope Holds Mass For Local Catholics

Pope Francis celebrated Mass for members of the country's small Catholic community on Saturday, urging them to hope and forgive those who terrorize and persecute them.

"True faith...makes us see the other not as an enemy to be overcome, but a brother or sister to be loved," the pope said in his homily.

The pope spoke less than three weeks after Islamic State terrorists killed more than 40 Orthodox Coptic Christians in Palm Sunday bombings of two Egyptian churches.

—*Francis X. Rocca and Dahlia Kholailf*

WHAT'S YOUR GREATER?

Launch an idea. Turn a name into an icon.  
Build something lasting. Whatever your goals,  
we build your financial portfolio around them  
and optimize over time. It's where our  
deep expertise meets your biggest ambitions.

Call 866.803.5857 or visit [northerntrust.com/Ambition](http://northerntrust.com/Ambition)

ACHIEVE GREATER



NORTHERN  
TRUST

INVESTING \ BANKING \ TRUST & ESTATE SERVICES \ WEALTH PLANNING \ FAMILY OFFICE

Member FDIC. © 2017 Northern Trust Corporation.

## IN DEPTH

# HACK

Continued from Page One  
orders, according to people familiar with the incident.

The attacks also have threatened the trust that banks have had for decades in Swift, a cooperative that runs the international messaging service among banks. Banks use the service to instruct each other what to do, making Swift the lifeblood of the global banking system, where trillions of dollars flow between banks each day.

"Swift was not watching for the launch of cyberattacks on its customers beyond the core network," says Marcus Treacher, a Swift board member from 2010 to 2016. He now is an executive at digital-payments startup Ripple, an alternative to Swift.

An examination of Swift's culture and practices, including interviews with more than a dozen people who have worked for or closely with Swift, shows it was ill-prepared for some of the toughest challenges of the cyberattack era.

Security standards for banks using the Swift network were dictated in what was an eight-gigabyte handbook but rarely enforced, these people say. That left an opening for thieves to hack into Bangladesh's computer systems, steal their Swift access codes and send fraudulent messages seeking nearly \$1 billion in payments across Swift's network. The total for all the cyberattack attempts in the past year isn't known publicly.

Swift has since toughened its standards, including new rules for customers that were released in April, but it is too soon to tell how serious many of Swift's customers are about reducing their vulnerability to security breaches.

Swift has said it was surprised by the scale of the cyberattacks, rushed to shore up the system's defenses and remains confident in its overall security. Swift has said repeatedly that its core network, including the fortresslike facility in Virginia, hasn't been breached. It says customers still have the primary responsibility for their own computer security.

Gottfried Leibbrandt, Swift's chief executive, said in a statement: "While customers remain responsible for securing their own environment, we are dedicating very substantial efforts

and resources to our customer security program, which aims to help customers improve their security and prevent these frauds."

After last year's theft from the Bangladesh central bank's account at the Federal Reserve Bank of New York, he said in an interview: "We knew cyberrisk was a big deal for the industry, and it was only a matter of time before we saw something big happening, but I had not expected it in this form."

Last summer, a Swift executive told a meeting of the Association of Banks in Singapore trade group that Swift was investigating 26 attempted cyberattacks on bank customers, according to an attendee. Swift spokeswoman Natasha de Teran declined to comment on the remark.

After repeatedly urging customers to follow voluntary guidelines, Swift has rolled out a series of mandatory security measures, introduced a new system to help users identify and block suspicious payments, and is now requiring customers to attest annually to their own security. Swift also warned



**Substantial resources are going to security, says Swift CEO Gottfried Leibbrandt**

banks that they will be reported to regulators if they don't comply.

Swift tripled the size of its security team and hired a new chief information security officer from Deutsche Bank AG in October.

The changes come as cyber-criminals take aim at everything from consumer healthcare records to the U.S. power grid. Federal prosecutors believe that North Korea might have orchestrated the theft from Bangladesh's account, according to people familiar with the matter. No charges have been



ASHOK RAHMAN/REUTERS; JASON ALDEAN/LOMBERG NEWS/LEEBRANDT

Cyberthieves made off with tens of millions from Bangladesh's central bank, located in Dhaka.

filed. North Korea's permanent mission to the U.N. didn't respond to requests for comment.

Based in Brussels, Swift has more than 11,000 users, up from about 500 when its electronic messaging service was launched in 1977.

Belgium's Prince Albert pressed the button to turn on the service, and it soon rivaled the clunky, error-plagued Telex. Bessel Kok, one of Swift's founders and a former Swift chief executive, says it became profitable within a year.

Growth was important to Swift and its bank owners, who were eager to lower per-message costs by spreading them across a larger base, people familiar with the matter say. Swift agrees that it wanted more users but says it wasn't sales-driven or distracted by expansion.

Swift entered markets from Argentina to Australia. Much of the extra revenue it earned was distributed to members as rebates. Swift had revenue of €710 million (\$773.6 million) and rebates of more than €30 million in 2015, the latest year for which figures are available. Messaging costs fell to slightly more than 2 euro cents in 2015, compared with 26 euro cents in 2001.

Employees at Swift's headquarters often work without assigned offices or desks and are encouraged to take advantage of themed spaces like the "Vintage Room," with red and cream patterned wallpaper, and the bamboo-decorated "Zen Room," according to former employees.

The cafeteria nearly always offers wine with lunch, and employees have access to a swimming pool next to a 19th-century château on the property.

Leonard Schrank, another former Swift executive, says top managers considered an initial public offering during the dot-com boom of the late 1990s. Technology company values were soaring, but Swift backed down when member banks asked it to "stick to its knitting," Mr. Schrank recalls.

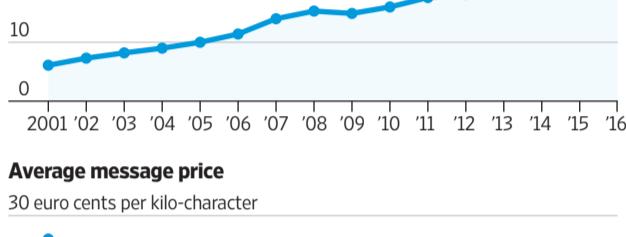
As it grew and prospered, Swift spent heavily to secure its systems. But it saw the challenge largely as making sure intruders couldn't penetrate crucial facilities and knock the network offline.

"Security issues were always primarily issues of stability, of coping with the volume on the

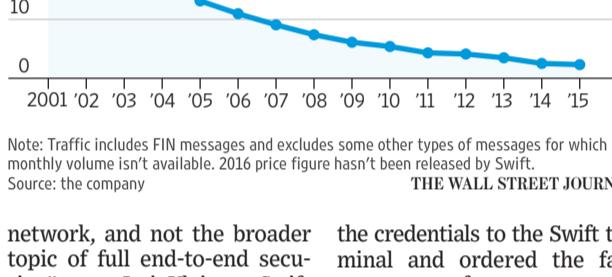
## High-Volume Business

The growing interconnectedness of global finance is bringing more and more payment orders to Swift, and costs have tumbled.

### Average daily message traffic



### Average message price



Note: Traffic includes FIN messages and excludes some other types of messages for which monthly volume isn't available. 2016 price figure hasn't been released by Swift.

Source: the company

THE WALL STREET JOURNAL.

network, and not the broader topic of full end-to-end security," says Itzi Klein, a Swift board member from 1998 to 2003 who now works as an independent consultant.

Swift's general counsel, Patrick Krekels, responds that Swift expanded to meet the needs of customers and reduce costs but never skimped on security.

"We are very much a technology and operationally driven company, not a sales-driven company," says Mr. Krekels. "We have very prudently and deliberately moved step by step into adjacent markets."

Swift has proclaimed the same motto for decades: "Failure is not an option."

If a bank's corporate customer in New York needs to pay a supplier in Rome, the bank uses Swift to wire the corresponding bank in Italy to make the payment. Banks trust the authenticity of Swift's messages so much that they are typically processed automatically.

Bangladesh joined the Swift network in 1995. Over the next two decades, some risky practices by Bangladesh's central bank went undetected.

The central bank never changed its Swift passwords between late 2015 and early February 2016, according to an official at the bank. During that period, hackers breached the bank's computer systems, found

the credentials to the Swift terminal and ordered the fake money transfers.

The bank also wasn't using two-factor authentication on the system it used to access Swift, according to a person familiar with the bank's procedures. Two-factor authentication is a higher security standard that requires a second measure of verification in addition to a password.

Software that Swift provides to customers now has built-in two-factor authentication, but they can opt not to use it. At the time of the Bangladesh cyberattack, two-factor authentication was merely Swift's preference for local access, according to a copy of its security guidance reviewed by The Wall Street Journal.

Two people briefed on the theft say two-factor authentication might not have made the hacks impossible but would have made them more difficult.

Subhankar Saha, a Bangladesh Bank spokesman, wouldn't comment on the bank's password procedures or authentication measures. He said the central bank had firewalls, but they may have been weakened or not implemented in the right places.

The hackers had sent the New York Fed fake payment orders requesting nearly \$1 billion. The Fed paid out \$101 million, of which \$20 million was

recovered after a banker in Sri Lanka spotted a typo. The Fed rejected other orders, some for formatting errors, and others after they were detected by a sanctions screen.

The Bangladesh attack was even more embarrassing because Swift officials had been at the central bank in late 2015 to connect its Swift messaging platform to another system that handled payments among the country's banks, according to people familiar with the matter.

The hackers used malicious software to remotely monitor routine activity at the central bank for weeks before they struck. The Bangladesh central bank has said it is trying to determine if any of Swift's work played a role in the attack. Ms. de Teran, the Swift spokeswoman, said Swift doesn't comment on individual customers.

At first, Swift called the attack on Bangladesh Bank "an internal operational issue" at the central bank. When Swift learned that hackers were using software that disabled customers' ability to print out logs of their messages, it issued a software patch but left it up to customers to implement the upgrade.

Last May, the Journal reported that Banco del Austro SA in Ecuador had suffered a similar attack. Thieves got the Ecuadorean bank's Swift codes and used them to steal about \$9 million with fake transfer orders.

Within days, Swift rolled out a new customer security program, hinting that it wouldn't rule out the possibility of kicking violators out of the network. Swift didn't make the controls mandatory until September.

The 16 mandatory standards include tighter password security, such as two-factor authentication. Swift ordered bank customers to update software, threatening to report to regulators anyone who doesn't obey. Regulators have the power to withdraw licenses from banks deemed insufficiently safe and sound.

Axletree's Mr. Murali says the number of clients he works with who have requested two-factor authentication for the Swift messaging system has jumped to about 150 from 10 since last year.

Swift will likely need more time to fully win back confidence. The New York Fed stopped making payments on the strength of Swift messages alone and adopted a policy of double-confirming orders from Bangladesh by phone.

A New York Fed official complained last June that the arrangement "is not sustainable," according to a letter reviewed by the Journal. It isn't clear if the policy is still in effect. The New York Fed declined to comment.

The Bank of Papua New Guinea uses Swift's messaging service and has been interested in the cooperative's newer products, including one that scrapes message traffic for data used in price benchmarks and business analysis.

"We are concerned about what happened," says Stephen Pouru, a risk analyst at Papua New Guinea's central bank. "The question everyone is asking is: What Swift is doing?"

## Messaging Boom

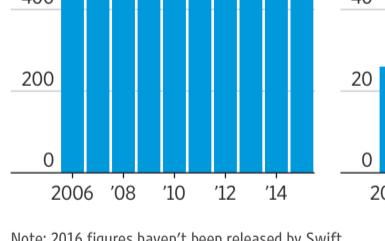
Swift's revenue surged as banks flocked to its international messaging service, and rebates flowed to the cooperative's members.

### Revenue

€800 million

### Rebate

€80 million



Note: 2016 figures haven't been released by Swift.

Source: the company

THE WALL STREET JOURNAL.

# STATUE

Continued from Page One

others want it torn down. "The minimum we can do is, using our own hands, bring the [statue] down," said Rodrigo Ramos, a 26-year-old university student who started a Facebook page called "Demolition Now."

The statue has its aesthetic critics, too—artists have called it a lousy imitation of Rio's monument. The head is too big for the body, they say, while the multicolored lights that make it glow at night look like neon signs at restaurants.

"For God's sake, it's an offense to Christ, not a tribute," said Augusto Ortiz de Zevallos, a well-known Peruvian architect and urban planner.

The all-white statue of Jesus, brought to Peru in pieces by boat from Brazil, was sprung on the city in June 2011 by then-President Alan Garcia, a month before he left office.

Mr. Garcia, who said he donated \$30,000 of his savings to the monument, called it a parting gift, fulfilling his longtime wish to erect a statue similar to Rio de Janeiro's that would protect Lima and attract tourists. Politicians inaugurated it with a fireworks show. Lima's

archbishop, Juan Luis Cipriani, blessed it. But many weren't amused. Lima's mayor at the time, Susana Villarán, complained she wasn't consulted. Odebrecht's donation of \$837,000 raised eyebrows at the time, given its success in winning a number of infrastructure contracts during Mr. Garcia's term, some of which are now under investigation for corruption.

Its location on a large coastal hill famous for a bloody battle during Peru's 19th century War of the Pacific with Chile is also problematic.

"It is important to point out that this donation was made in a transparent way, respecting all of the procedures, in a public act and with the knowledge of the relevant authorities," an Odebrecht spokeswoman in Peru said.

"Obviously, the location hasn't been minimally studied or considered," said Veronica Crousse, a professor specializing in sculptures at Peru's Catholic University.

There, it looks small and out of place alongside other monuments, like one that honors soldiers who died in the war and a giant cross made from power pylons that were blown up by Shining Path terrorists.

Karin Gomez, who has a food stand and likes the statue, said she wants it better taken care of to attract more tourists to benefit her neighborhood.

Alejandra Taipe, who works with Ms. Gomez and sometimes directs visitors to the road leading up the hill, also defended the statue, which she referred to as "the White Christ."

The statue's reputation wasn't helped by recent events. In December, Odebrecht admitted to paying \$29 million in bribes in Peru to win public works contracts over three administrations. That gave rise to a new nickname for the statue: The Christ of Theft.

Mr. Garcia, who hasn't been charged with wrongdoing and has denied taking bribes, rejects that the statue symbolizes corruption. "No one in their right mind and with a good Christian heart can say that," he said. "They'll regret it if they do something bad."

The man overseeing the corruption investigations, Attorney General Pablo Sanchez, thought it best not to give his opinion on whether the statue should stay or go, joking that he wanted to avoid being "punished from upstairs."

Karin Gomez, who has a food stand and likes the statue, said she wants it better taken care of to attract more tourists to benefit her neighborhood.

Alejandra Taipe, who works with Ms. Gomez and sometimes directs visitors to the road leading up the hill, also defended the statue, which she referred to as "the White Christ."

"It is a beautiful attraction," Ms. Taipe said.

Visitors who venture up the winding road past wooden shacks enjoy a striking view, but some said the Christ looks abandoned. On a recent day, Brazilian tourist Antonio Carlos Pessoa found his country's statue to be nicer, noting there was nowhere to buy a drink or souvenir near the one in Peru. There was no security, little shade to escape the sun, and nothing to prevent visitors from getting too close to the edge of a steep cliff.

"You'd kill yourself here at night," said another first-time visitor, Oscar Silva, a 46-year-old from Lima. "They should put more work into this, to get more tourists."

The municipality of Chorrillos, the Lima neighborhood where the statue is located, didn't respond to requests for comment.</p

# GREATER NEW YORK

## Bill Makes Room for Airbnb

More hosts would be allowed to rent their space under measure introduced in Assembly

By MIKE VILENSKY

A bill introduced this weekend by a Brooklyn state legislator would carve exceptions into New York state's housing laws to allow for more Airbnb rentals, a year after the state cracked down on the home-sharing service.

"This law puts New York in the 21st century," said Josh Meltzer, New York's public-policy director for Airbnb, which is supporting the measure. "This is the first serious, comprehensive approach to updating these laws."

The legislation, sponsored by Democratic Brooklyn Assemblyman Joseph Lentol, would amend New York's multiple-dwelling law, which prohibits rentals of fewer than 30

days in New York City apartment buildings unless the owner is present for the duration of that period.

The housing law has been in effect since 2010 but often was violated by Airbnb hosts, state surveys showed. Last year, Gov. Andrew Cuomo signed steep penalties into law for hosts who break it, a blow to Airbnb in one of the world's most tourist-heavy cities.

Under Mr. Lentol's proposed amendment, hosts could circumvent the multiple-dwelling law if they adhere to a number of rules intended to prevent Airbnb users from establishing makeshift hotels or disrupting their neighbors.

The hosts would be registered in a state database and only permitted to rent one unit at a time, the home where they live. A hotline would be set up to report violations, and those found to violate the rules would be barred from renting through Airbnb.

"The purpose of this bill is to

allow the law to catch up to the times we're living in," Mr. Lentol said. "It's not unlike how in the past we've helped and nurtured along new industries since the horse-and-buggy days."

The expansion of the tech company in New York during the past few years has led to a divide among lawmakers and intraparty battles among Democrats.

Democratic Manhattan Assemblywoman Linda Rosenthal successfully pushed for the fines on Airbnb hosts breaking state housing laws, allied with a group of New York Democrats, hotel unions and affordable-housing advocates.

They have argued that Airbnb is exacerbating a shortage of affordable housing units in the city by removing those residences from the market and driving up rents, and that it poses safety risks and quality-of-life problems.

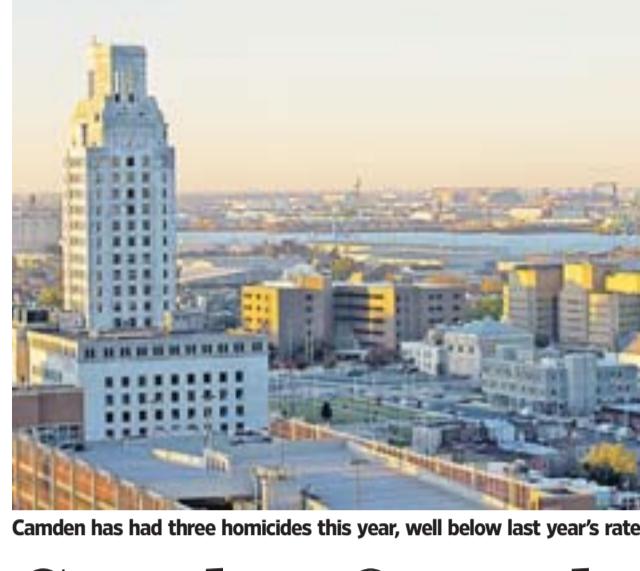
"The community fought back and won, and now Airbnb wants to play according to its

own rules," Ms. Rosenthal said on Sunday. Mr. Lentol's legislation, she said, "is a preposterous attempt by Airbnb to once again game the system that protects affordable housing. I'm only surprised it took them this long."

Others lawmakers in New York allied with the tech industry, like Mr. Lentol, have argued that Airbnb is an economic opportunity that provides additional income to mostly middle-class people, and have urged Mr. Cuomo to support the company.

Mr. Lentol's legislation has a long way to go before it can become law. It doesn't yet have a sponsor in the Republican-run state Senate. Mr. Cuomo's spokeswoman said Sunday, "We will review the legislation."

Airbnb executives and their supporters are heading to Albany this week to lobby for the measure. Mr. Meltzer said he hopes to see the bill pass if not in this legislative session, which ends in June, then the next.



Camden has had three homicides this year, well below last year's rate.

## Camden Opioid Deaths Surge As Murders Fall

By KATE KING  
AND ZOLAN KANNO-YOUNGS

Police in Camden are now fielding more calls for overdoses than for homicides.

Fatal opioid overdoses this year surged to 35 as of Friday afternoon compared with 10 at the same point in 2016, and likely will eclipse last year's 12-month total of 40 deaths within weeks, according to Police Chief J. Scott Thomson.

"The pace is really alarming," he said.

At the same time, homicides are trending lower in this southern New Jersey city of about 76,000, which has long been known for having one of the country's highest violent crime rates. Camden has logged three homicides this year compared with 12 during the same period in 2016.

The decline in homicides is a preliminary victory for the city, where killings increased 38% last year. Chief Thomson said the department's focus on community policing and targeted enforcement of people he described as "influencers of violence" is working.

Meanwhile, as the addiction crisis worsens, Camden patrol officers equipped with the heroin antidote naloxone are checking abandoned buildings, overgrown yards and alleyways for overdose victims while on their rounds.

Statewide, fatal drug overdoses killed about 1,600 people in 2015, a 22% increase over the prior year, state officials said. New Jersey Republican Gov. Chris Christie, who is scheduled to leave office in January, has made curbing the crisis the cornerstone of his final year in Trenton. He has budgeted \$536 million for addiction prevention and treatment this fiscal year, a 23% increase over 2016.

Mr. Christie also is heading President Donald Trump's new commission on opioid addiction. The commission will recommend federal funding and policy strategies for combating the epidemic.

Drug overdoses killed about 52,400 Americans in 2015, with 63% of the deaths attributed to opioids, according to the Centers for Disease Control and Prevention. Data for 2016 aren't yet available.

In Camden, the police chief blamed the recent rise in over-

dose deaths on the increasing availability of fentanyl and, more recently, carfentanil. The synthetic narcotics are more potent than heroin and difficult to police, with many made in laboratories in the U.S. or entering the country from overseas via shipping and postal services.

All Camden patrol officers carry naloxone, which they have used 283 times since May 2014 to revive people suffering from overdoses. Officer Stephen Marakowski said he used the nasal spray about three weeks ago on a man found lying in an alleyway.

35

Deaths from opioid overdoses in Camden this year as of Friday.

"He was probably early 20s," Officer Marakowski said. "His lips were blue, irregular breathing, gurgling sound, eyes rolled back in his head."

Officer Marakowski said he revived the man with two squirts of naloxone to each nostril and accompanied him to the hospital. Hours later, he said he saw the same man back on the street.

"You see them go right back to the corner," he said. "It's sad."

For Stephen Smarrito, 29 years old, overdosing in 2012 was the wake-up call he needed to get serious about kicking a year-long heroin habit. Mr. Smarrito said he used \$40 in winnings from a scratch-off lottery ticket to buy heroin in 2012 and composed a note to family on his phone before shooting up in a portable toilet in Camden's Pyne Poynt Park.

"If I don't make it out of this one," he wrote. "This has been a tough battle and I'm sorry for everything that went on and hopefully I'm not an embarrassment to our family."

A police officer patrolling the area found Mr. Smarrito after he overdosed, and he was revived with naloxone. He got sober three months later and is now a member of the Camden County Addiction Awareness Task Force, formed in response to the opioid and heroin crisis.

## Brooklyn Botanic Garden Celebrates Japanese Culture



A BLOOMING GOOD TIME: Visitors made their way down a path lined with blossoms during the Sakura Matsuri Festival at the Brooklyn Botanic Garden on Sunday. The weekend festivities featured more than 60 events and performances.

## Former Obama Official to Lead John Jay

By MIKE VILENSKY

Karol Mason, a former assistant attorney general in President Barack Obama's administration, will be the next president of the John Jay College of Criminal Justice, school officials said Sunday.

Ms. Mason, 59 years old, will succeed Jeremy Travis, who was at the helm of the City University of New York school for 13 years.

The CUNY Board of Trustees is expected to announce her appointment on Monday.

She will be the first woman and first African-American to serve as president of the col-

lege when she begins Aug. 1. "I think John Jay is on a wonderful trajectory and is a prominent voice on criminal-justice issues," Ms. Mason said on Sunday. "The students I've met were smart and inquisitive, and I look forward to working with them."

A CUNY spokesman couldn't immediately provide her salary details.

Ms. Mason is a New York native and a graduate of the University of Michigan Law School. She was an attorney for nearly three decades at the international firm **Alston & Bird**, where she headed the Public Finance Group. She joined the

  
**Karol Mason,**  
a native New  
Yorker, was  
appointed  
president of  
John Jay  
College.

Obama administration's Justice Department in 2009.

"Karol Mason has established herself as a bold, visionary leader in the fields of law and criminal justice reform and she will be ideal for continuing the history of excellence and inspiration at John Jay College," said CUNY Chancellor

James B. Milliken, in a statement.

John Jay was founded in 1964 as a liberal arts school with a focus on criminal justice. Located in Midtown Manhattan, the school has about 13,000 undergraduate students, 2,000 graduate students and an endowment of roughly \$7 million.

Ms. Mason lived across the hall in law school from Valerie Jarrett, who became Mr. Obama's senior adviser.

"Her unwavering commitment to justice is both the hallmark of her brilliant career and the definition of her character," Ms. Jarrett said in a statement.

Ms. Mason lived across the hall in law school from Valerie Jarrett, who became Mr. Obama's senior adviser.

"Her unwavering commitment to justice is both the hallmark of her brilliant career and the definition of her character," Ms. Jarrett said in a statement.

Drugs overdoses killed about 52,400 Americans in 2015, with 63% of the deaths attributed to opioids, according to the Centers for Disease Control and Prevention. Data for 2016 aren't yet available.

In Camden, the police chief blamed the recent rise in over-

## Annual Met Gala Generates Big Bucks and A-List Buzz

By CHARLES PASSY

Never mind all the headlines about budget shortfalls, staff changes and even a possible admission charge: It is party time at the Metropolitan Museum of Art.

On Monday night, the museum will host its annual gala, also known as the Met's Costume Institute Benefit. The fashion-focused, star-studded affair, which has been helmed by Vogue editor in chief Anna Wintour since the mid '90s and ties in with the Institute's annual spring exhibition, has become known as the East Coast equivalent of the Oscars. Perhaps just as important to the Met these days is what the event contributes to the museum's bottom line.

Since Ms. Wintour assumed leadership, the gala has raised

\$175 million for the Met, according to museum sources. Last year, it took in nearly \$13.5 million alone, according to federal tax records. Even factoring in the event's considerable expenses, which ran \$3.5 million in 2016, that is still a \$10 million payoff.

**The glittering event last year brought in \$13.5 million, federal tax records show.**

By contrast, other top-tier cultural institutions in the city raise less than half that amount at their signature events. For example, the Museum of Modern Art has taken in roughly \$4.5 million, before expenses, for its Party in the

Garden, according to the most recently available tax records.

There is little question why the Met event, which costs \$30,000 a ticket, has taken off. In a celebrity-crazed world, it has become the ultimate A-lister bash, with an invitation-only crowd of business moguls, Hollywood stars and, of course, the creme de la creme of the fashion-industry.

In addition to Ms. Wintour, the chairs of Monday's event include the pop singers Katy Perry and Pharrell Williams and New England Patriots quarterback Tom Brady and his wife, the model Gisele Bündchen. Celebrities who have graced the Met's red carpet include Beyoncé, Taylor Swift, Kim Kardashian and Kanye West, Emma Stone, Jared Leto, Kate Upton and Lady Gaga.

"It's one incredible perfect

storm of all the right people," said Shamin Abas, a New York-based publicist who works with luxury brands.

This year's gala comes at what is arguably the most challenging time in the Met's recent history. The museum faces a \$15 million deficit for the 2017 fiscal year in its nearly \$400 million annual budget.

News of that shortfall has been followed by other headlines. In late February, Met Chief Executive Thomas Campbell announced he was resigning. And last week, the New York Times reported the museum is considering charging out-of-town visitors for admission, a stark reversal of its longstanding policy of asking all patrons for suggested contributions only. A museum official told The Wall Street Journal that it had "started

preliminary discussions about our admissions policies."

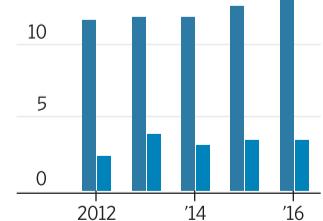
For all the gala's financial success, the money the museum raises is largely earmarked for the Met's Costume Institute, not its general fund. But even then, the gala's value goes beyond the millions of dollars in contributions it generates, say museum-industry experts. The gala creates a pop-culture buzz that introduces the museum to a much broader audience, most note.

"The attention the gala receives, which is truly extraordinary, helps draw visitors to the museum," Dan Weiss, the Met's interim chief executive, said in a statement via email.

Still, some in the philanthropic world wonder if the celebrity-fueled shindig might send the wrong message at a

## A Night to Remember

The numbers behind the Met gala



Source: Federal tax records

THE WALL STREET JOURNAL

time when the Met clearly is grappling with major issues. The money raised may offset such concerns. "I don't think you can sneeze at \$10 million," said Alden Briscoe, executive vice president of Briskeley Briscoe Inc., a California-based fundraising consultancy firm.

## GREATER NEW YORK

# Manhattan Retail Rents Fall Back to Earth

BY KEIKO MORRIS

Asking rents in many of New York City's priciest shopping corridors declined in the first quarter, one outcome of the broader national retail headwinds hitting landlords across the U.S.

Average prices for ground-floor space in nine of the 11 major retail districts in Manhattan fell in the first three months of 2017, according to real-estate services firm Cushman & Wakefield. SoHo recorded the largest percentage drop in average asking rent from the previous year, falling 12% to \$488 a square foot.

The availability rates along most of those corridors also increased, with the stretch of lower Fifth Avenue between 42nd and 49th streets reporting the highest rate at almost 33%.

"We've got a ways to go on this rent reset but the [retail] high street is not dead," said Garrick Brown, national retail-research director for Cushman & Wakefield.

The first quarter results showed a continued readjustment from a dizzying run-up in prices during the recovery from the last recession, brokers and analysts said.

Average asking rents for direct ground-floor leases in Manhattan rose 95% from the first quarter of 2011 to the first quarter of 2014, according to real-estate services firm CBRE Group Inc. Average prices during that period rose to a peak of \$1,073 a square foot. Since that high point, average asking rents across the 16 areas tracked by CBRE have decreased 21% to \$850 a square foot.

The steep rent rise often was difficult for tenants to swallow, as leases signed years ago expired and tenants confronted higher pricing, said Nicole LaRusso, CBRE's director of research and analysis for the tri-state region.

"It wasn't that they didn't have a viable business," Ms.



Available space at 597 Fifth Ave., as shown last week. Some retailers are pulling back even as the volume of pedestrian traffic keeps rising.

LaRusso said. "It didn't make sense at the rent the landlord was asking."

At the same time, landlords have begun to step back from previous asking rents as tenants grapple with the broader pressures of e-commerce and the fallout from a period of overexpansion that are buffeting the retail industry.

National chains such as Macy's Inc. and Sears Holdings Corp. are expected to close thousands of stores across the U.S. as they reconfigure their distribution channels and try to reach customers both online and in stores.

Ralph Lauren Corp. announced earlier this month it would close its Polo store on Fifth Avenue as part of a broader realignment.

A stronger dollar also has the potential to damp spending by tourists, analysts said.

While some owners of New York retail properties are re-

### Discounted

Asking rents per square foot are down in some prime areas

	First Quarter 2016	First Quarter 2017
Fifth Avenue (42nd-49th streets)	\$1,234	\$1,185
Fifth Avenue (49th-60th streets)	\$3,035	\$3,123
SoHo	\$556	\$488
Times Square	\$2,294	\$2,060
Upper West Side	\$385	\$364
Flatiron	\$419	\$437
Meatpacking	\$389	\$353
Lower Manhattan	\$420	\$405

Source: Cushman & Wakefield

Rack at the Durst Organization's 855 Sixth Ave. location.

Manhattan's top retail districts remain attractive for the sheer volume of pedestrian traffic, Mr. Brown said. Some estimates put about 15,000 people an hour passing on a corner along the stretch of upper Fifth Avenue between 49th and 60th streets, he said. Asking rents in that district are still above \$3,000 a square foot.

Moreover, New York City has been adding jobs and tourism has increased, said Hesam Nadji, chief executive officer of Marcus & Millichap Inc., a commercial real-estate brokerage and advisory firm. Spending by visitors is up and expected to rise, he said.

In 2016, 61 million tourists visited New York City, up from 51 million in 2011, according to NYC & Co., the city's official tourism-marketing organization. Spending rose to \$43 billion last year from less than \$35 billion in 2011.

New York has more positive trends going for it than a lot of other cities," Mr. Nadji said. "At the neighborhood level it comes down to merchandising and how merchandising is lining up with the foot traffic."

luctant to offer drastic rent cuts, they have become much more generous with other enticements such as free rental periods and contributions toward the costs of building out

a store, incentives that were rare a few years ago, brokers said.

Opportunities have opened up for food venues, especially health-focused quick-service restaurants, athletic-wear retailers, as well as service-oriented businesses including fitness studios, brokers said.

Discounters and lower-priced retailers are adding locations, many noted. Nordstrom Inc. announced in February it would open a 46,500-square-foot Nordstrom

## PROPERTY WATCH

MANHATTAN

### Target Store Planned For Lower East Side

The Lower East Side, a gritty precinct once infamous for crime, junkies and denizens of punk rock, is about to get its first Target.

The big-box retailer has signed a lease to open a 22,500-square-foot store at the 19 million-square-foot development stretching across several Manhattan blocks called Essex Crossing.

The move is part of Target Corp.'s expansion into urban areas. The company, which had 32 small-format locations—stores ranging from 12,000 to 60,000 square feet—at the end of 2016, is expected to have more than 130 by the end of 2019 in cities and dense suburbs across the U.S.

The new Target, slated to open in 2018, will be located on the second floor of the tower under construction at 145 Clinton St. The property will house a Trader Joe's supermarket on the lower level and rental apartments above.

The development venture, called Delancey Street Associates, includes Prusik Group LLC, BFC Partners, L+M Development Partners Inc. and Taconic Investment Partners.

Essex Crossing, which extends roughly between Stanton and Grand streets to the north and south and Essex and Clinton streets to the west and east, will have 1,078 rental and condominium apartments and include a movie theater, a bowling alley, a three-block-long marketplace and a medical facility.

A majority of the retailers that have signed for space at Essex Crossing are expected to open in 2018, offering services in an area that has been underserved, said Andrew Katz, a principal of Prusik.

MIDTOWN

### Bluemercury to Open Flagship on Sixth Ave.

Fast-growing beauty and spa chain Bluemercury Inc. plans to open a Manhattan flagship store in late June, taking about 2,600 square feet at the base of the Hilton hotel on Sixth Avenue, the company said.

"For me, Sixth Avenue is the new Fifth Avenue," said Barry Beck, co-founder and Blue Mercury's chief operating officer.

In June, the upscale beauty chain, which was acquired by Macy's Inc. in 2015, also will open two other Manhattan locations—one on the corner of East 57th Street and First Avenue and another on the corner of Third Avenue and East 13th Street in the East Village.

While many national chains, including parent company Macy's, are closing stores, Blueemercury has plans to open 40 stores this year, clustering them in dense areas.

At Bluemercury's suburban locations, nearly all of its customers live within a 15-minute drive, Mr. Beck said. In New York City, more than half of the company's clients come from a five-block radius.

QUEENS

### Grocer Signs Lease At Halletts Point

A developer of a massive Queens project has signed a long-term lease with a local grocer to open a supermarket at the site, a deal that was helped by the replacement this spring of a real-estate tax-abatement program.

Brooklyn Harvest Market will open a 25,000-square-foot store at the first building under construction at Halletts Point, a 2.4 million-square-foot Astoria project developed by the Durst Organization, a Durst spokesman said.

Durst began construction on the 405-unit tower just before a tax break for developers building affordable housing known as 421-a expired in 2016, making it difficult for the company to move forward on its plans for six other buildings, according to the company. A replacement subsidy program was approved earlier this month.

"Without the additional 1,600 units of housing going up in the community, the number of potential users of the market would have significantly decreased and drastically changed the economics of the deal," said Durst spokesman Jordan Barowitz.

The first tower is expected to be open by spring of next year, with the supermarket opening in the early summer of 2018.

—Keiko Morris

KIPS BAY BOYS & GIRLS CLUB

THE 45TH ANNUAL DECORATOR SHOW HOUSE

MAY 2-JUNE 1, 2017

125 EAST 65TH STREET

(Between Park & Lexington Avenue)

SPONSORED BY

KOHLER

HEARST design group  
DECOR | VERANDA | HouseBeautiful

Morgan Stanley

FARROW&BALL  
CRAFTSMEN IN PAINT AND PAPER

COSENTINO

A·K·D·O  
Slabs • Tiles • Rosettes

kravet

ARCHITECTURAL DIGEST

Istdibs

200  
LEX  
NEW YORK DESIGN CENTER

HICKORY CHAIR  
SINCE 1919

Miele

For more information, please visit [kipsbay.org](http://kipsbay.org)  
or call 718.893.8600 x11245

Mets SUITES

SUITES@NYMETS.COM

718.507.TIXX

METS.COM/SUITES

# LIFE & ARTS



Nancy Grace Roman is called the mother of the Hubble Space Telescope. She says she's 'proud' of the telescope which took rare photos like this one, right, of a dying star in 2009.

BY ELLIE KINCAID

**NANCY GRACE ROMAN** is the mother of the Hubble Space Telescope. Or so she heard at an astronomy meeting soon after the telescope's launch in 1990.

"I was rather startled," she says.

As NASA's chief of astronomy, Dr. Roman organized the meetings of astronomers and engineers in the mid-1960s that started the long process of getting the school-bus-sized telescope into orbit, but she had retired from the National Aeronautics and Space Administration a decade before the launch.

The title has been "a little embarrassing," she says, but "I'm proud of the Hubble."

While scientists contend for Nobel prizes, patents and grants, there's another honor to be had: the title of "father" or "mother" of a new field, tool or technique. As scientific specialties proliferate with new advances, so too, it seems, has the naming of their progenitors. In articles and at awards ceremonies, various scientists are named the father or mother of everything from deep learning to positive psychology to selenium biochemistry.

The honorifics are generally bestowed by proud institutions or other admirers or the press, and not generally by the scientists themselves. The titles often inspire mixed feelings not unlike the emotions of actual parents. Some spar over recognition, while some are mildly uncomfortable and others chafe against it.

"What really happens is that you either get no recognition or you get more than you deserve," says Carver Mead, an emeritus professor of engineering and applied science at the California Institute of Technology. "There's nothing in between."

He is variously referred to as the "father of neuromorphic computing," building machines that mimic brains, and "father of very-large-scale-integration design," a dramatic shift to make computer chips more complex by an approach he pioneered.

Aaron Beck, university professor emeritus of psychiatry at the University of Pennsylvania, is proud to be recognized as the "originator" of cognitive behavioral therapy, an alternative to psychotherapy based on his theory that people with conditions such as depression have correctable distortions in their thinking. But when he's called the "father," he says, it "makes me squirm a little bit."

Establishing parentage of an idea isn't a science.

Geoffrey Hinton isn't sure how he started getting called the "godfather of deep learning," a technique that allows computers to learn patterns from large data sets with minimal programming. "I think it was a joke," says Dr. Hinton, an engineering fellow at Alphabet Inc.'s Google, who has been working on deep learning since the early 1980s.

Jürgen Schmidhuber, scientific director of the Dalle Molle Institute for Artificial Intelligence in Switzerland, is another figure whose name gets bandied about as a "father" of AI. He considers Alexey Grigorevich Ivakhnenko the "father of deep learning" for work published in 1965.

Dr. Schmidhuber has written no fewer

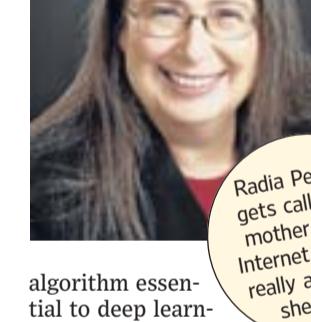
## SCIENCE

### One Sure Way to Annoy a Scientist



Call him or her the 'father of ...' or 'mother of ...' an invention; the title sticks and researchers chafe

Jürgen Schmidhuber, pictured here with the iCub robot, gets named among the fathers of Artificial Intelligence.



Radia Perlman gets called the mother of the Internet. It's 'not really accurate,' she says.

than seven letters to the journals *Nature* and *Science* disputing articles about scientific "firsts" from the telephone to powered flight to digital computing. He calls the narrative that lionizes Dr. Hinton "misleading" and wrote a lengthy critique on his own website when Dr. Hinton and a few colleagues authored a paper on deep learning in 2015 that didn't mention Ivakhnenko.

Ivakhnenko was the first to understand an

algorithm essential to deep learning, says Dr. Hinton, but his own work with a few colleagues was the first to show the algorithm could do something interesting for AI.

One of those colleagues, psychologist David Rumelhart, "is much more the father of deep learning than me," Dr. Hinton says.

"The whole father thing is difficult," Dr. Schmidhuber says in an interview. "There are so many fathers of important ideas."

Computer engineer Radia Perlman tells

people about to introduce her before a speech that it's probably better not to call her the

"Mother of the Internet," an honorific that caught on after its use in a magazine article.

Her development of the spanning tree algorithm and other work allowed the internet to scale up. But calling her the whole internet's mother "is not really accurate," she says. "I worry that people think it's me that is trying to promulgate that claim."

In 1975, geochemist Wally Broecker at Columbia University published a paper in the journal *Science* titled "Climatic change: Are we on the brink of a pronounced global warming?" That early use of the phrase got him recognition as the "father of global warming."

In 2017, he published another paper trying to ditch the title. Not because he has changed his mind about human-caused climate change. He just wants to be remembered for other things. One subtitle in his new paper: "I am not the father!"

If any single person must be named the "father of global warming," Dr. Broecker thinks the late Charles David Keeling, who recorded rising concentrations of carbon dioxide in the atmosphere from the Mauna Loa Observatory in Hawaii, is the man. "I don't want it to go on my tombstone," Dr. Broecker says of the title.

—Daniela Hernandez contributed to this article

## MUSIC

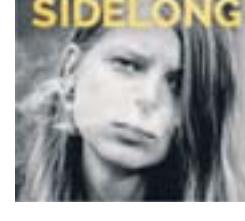
### SARAH SHOOK REVIVES THE BOOZY BALLAD

BY JOHN JURGENSEN

**SARAH SHOOK** was on her back porch, writing a song about feeling blue. The chorus came to her as she sipped from a bottle of bourbon.

"The only thing keeping my chin up is this bottle" she sings on "Misery Without Company," from her debut album with her band the Disarmers. That turn of phrase—the swigging motion literally forcing her chin up—puts a wry smile on the song's otherwise bleak message.

Since Ms. Shook, a 31-year-old singer and songwriter from Chapel Hill, N.C., discovered old-school country music about seven years ago, she has plunged into one of its hallowed traditions—the heart-



broken drinking song.

On "Sidelong," the title track of her album, out April 28, glances from "another lost and lonesome face" at a bar disrupt her plan to drown her sorrows alone. In "Solyary Confinement" the singer gets drunk to keep from driving over to an ex-lover's place. Just singing the word "whiskey" is enough to conjure a certain mood for listeners, Ms. Shook says, but even a teetotaler can identify with the feeling behind the lyrics.

"These songs let people know that even in the most

negative or despondent circumstances they're not alone in their experience," the singer says.

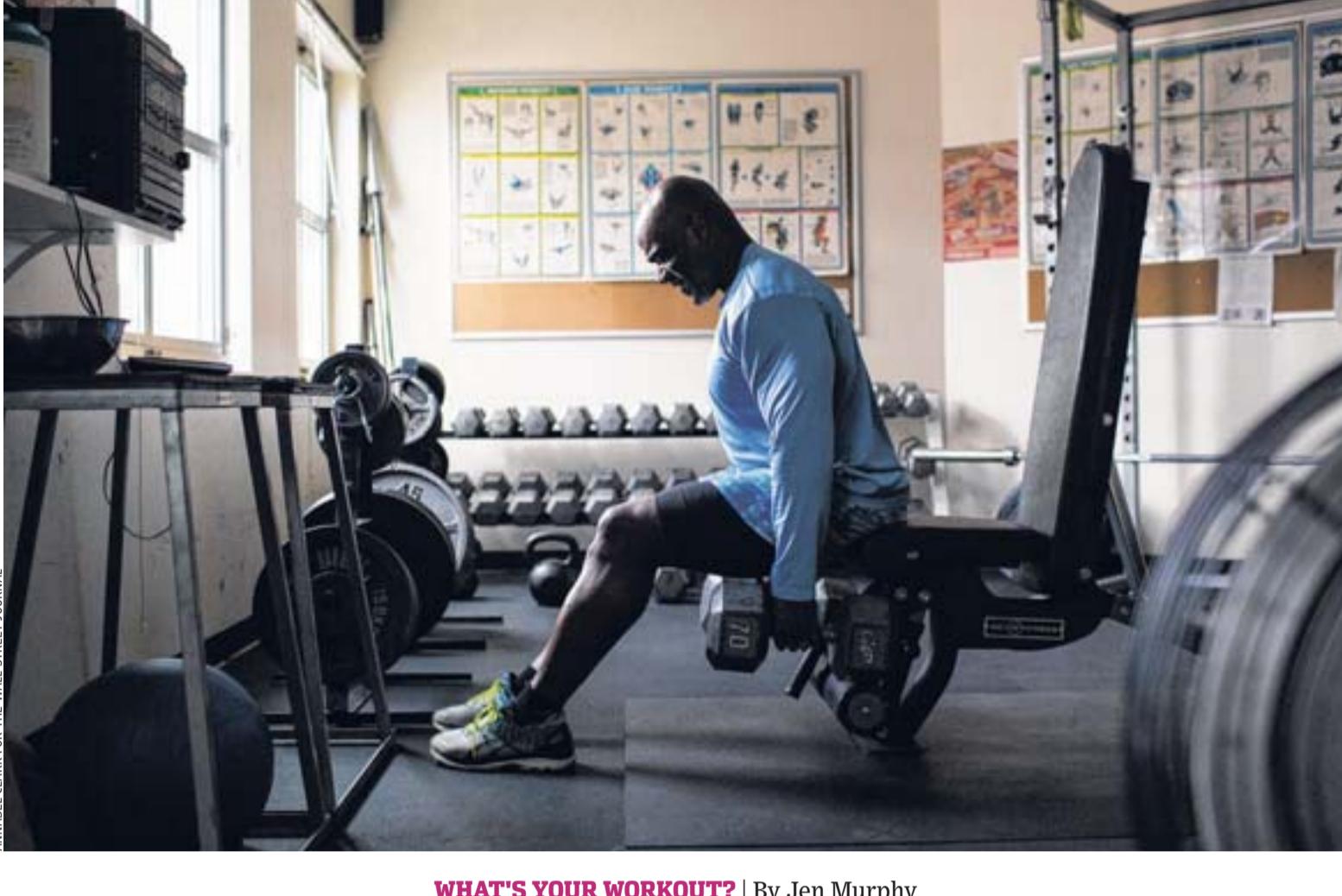
"Part of the problem with modern music and pop music especially is

Please see SHOOK page A12



Sarah Shook discovered old-school country music about seven years ago.

## LIFE & ARTS



WHAT'S YOUR WORKOUT? | By Jen Murphy

# A Body Built the Hard Way

After fits and starts, a firefighter found a way to get into shape for bodybuilding competitions



Richard Langford, a 51-year-old captain at Fire Department Station 1 in Everett, Wash., trains in the firehouse gym to prepare for bodybuilding competitions.



creases his cardio to "lean out" as competitions approach.

He strength-trains for 75 minutes at the firehouse gym or post-shift at Gold's Gym. He does separate sessions twice a week each for legs, chest and arms, and back and shoulders. A leg day might include reverse lunges, leg presses, single leg curls and leg extension ladders. A chest and arms day might include hammer preacher curls, isolation bicep curls, chin-ups and incline dumbbell presses. Back and shoulder days might in-

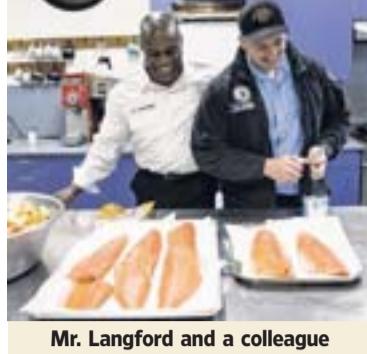
clude wide cable pulldowns, knee-ups, wide pull-ups, dumbbell shoulder presses and shrugs.

He works with Ms. Wayman-White two to three times a month on his bodybuilding routine, which is choreographed to the rock song "Simple Man" by Shinedown. During competitions, judges look for muscle development, symmetry and the ability to hold poses. "You have to be able to present yourself and your muscularity," he says.

Competitors must hold poses for several minutes. "If you start to flag you lose points."

### The Diet

"The Costco cashier remembers me as the guy who always eats the same thing," Mr. Langford says. He keeps a spreadsheet of meals, detailing calories, fat, carbs and protein. He eats every two to three hours, alternating protein and carb, then protein and vegetable. He takes supplements in the morning, then eats one cup



Mr. Langford and a colleague prepare grilled salmon and roasted vegetables.

### The Protein Puzzle

Protein is an important building block in the body, helping with muscle repair, fluid regulation and enzyme synthesis, says Kelly Pritchett, director of the Nutrition Graduate Program at Central Washington University in Ellensburg, Wash. According to the Recommended Dietary Allowance, a 180-pound man should consume 65 grams of protein and a 130-pound woman needs 47 grams of protein a day.

"That increases if you are pregnant or an athlete," she says. Trendy high-protein diets, such as paleo, typically exceed the amount of protein and fat in the diet, Dr. Pritchett says. Animal sources are a higher-quality protein, containing all nine essential amino acids. "But diets high in animal products, typical of high-protein diets like paleo, have been linked to cardiovascular disease and cancer," she says.

If you're going high-protein, she suggests working in complete, plant-based proteins like quinoa, amaranth and buckwheat. If embarking on a high-protein diet, Dr. Pritchett cautions not to forget other nutrients, like the fiber found in carbohydrates.

of egg whites and 170 grams of sweet potatoes.

Post-workout he eats two protein pancakes, which pack nearly 60 grams of protein. Lunch is 3.5 ounces of chicken with a half cup of broccoli. He might have two more meals of four ounces of sirloin with 170 grams of sweet potato, another round of chicken with one cup of spinach and a half-cup of brown rice and five ounces of tilapia with 150 grams of asparagus for dinner. "The firehouse has adapted to my diet. If the guys make lasagna they often set aside chicken for me," he says. Mr. Langford adds that he's lucky his wife, Darcy, puts up with his repetitive diet.

### The Cost & Gear

Mr. Langford pays \$85 a month for his Gold's Gym membership. He spends \$125 a month for fitness and posing coaching. Competition registration fees range from \$50 to \$150. He estimates he spends around \$1,500 per competition, including airfare, hotels, car rentals and maintenance like tanning. "People joke, 'You're black, you don't need to tan,' but your skin needs an even tone that shows well under the lights," he says. Mr. Langford spends \$75 on his custom mankini. "I had a judge tell me I didn't show enough of my butt in a Speedo," he says. "The judges want to see the development in your glute muscle, so you have to show some cheek."

### The Playlist

Mr. Langford's lifts weights to the Puddle of Mudd Pandora station, which plays 1990s rock from bands like Stone Temple Pilots and Staind.

## SHOOK

Continued from page A11  
that everything is about feeling good and looking good and having a positive image. That's totally unrealistic."

Liquor and beer figured in many folk songs that migrated from the British Isles to America and fueled domestic jazz, blues and hillbilly tunes that joked about—or warned against—wild living. But it was the rise of honky-tonk culture around the time of World War II that brought drinking songs into their golden age of sodden self-pity.

Songs like "Bubbles In My Beer," recorded in 1947 by Bob Wills and His Texas Playboys ("Scenes from the past rise before me, just watching the bubbles in my beer") and "There Stands the Glass," made famous by Webb Pierce ("There stands the glass, that will ease all my pain, that will settle my brain, it's my first one today") were by-products of postwar migration and regimented factory work.

"There was a lot more opportunity for drinking, infidelity and ro-

mantic rivalry," says John Rumble, senior historian at the Country Music Hall of Fame and Museum. A jukebox stocked with songs about drinking (and the motivations for it) not only set the mood in dance halls and taverns, it also was good for business. "You wanted the type of records that would encourage people to stay there and drink," Mr. Rumble says.

In recent years, commercial country radio has been on one of its periodic benders, with a flood of boozy songs hitting the charts, among them Jason Aldean's "Any Ol' Barstool," Blake Shelton's "Came Here to Forget" and Dierks Bentley's "Drunk on a Plane."

For Ms. Shook, a self-described vegan, bisexual atheist who grew up in a conservative Christian household where she was homeschooled, there's some subversion to singing about topics long monopolized by men. "There are times when I feel like I'm channeling the energy of a man in the '50s, and other times I'm writing from my perspective as a woman," she says.

When mingling with the audience at her shows, the front-woman of the Disarmers—four



Sarah Shook, with her band the Disarmers, says the relentlessly sunny mood of some pop songs is 'totally unrealistic.'

men on guitar, drums, upright bass and pedal steel guitar—notices "some dudes don't know what to make of me," says Ms. Shook. She often sings with a hiccup and shiver in her voice that might sound familiar to fans of Dwight Yoakam or Charlie Feathers.

Ms. Shook says she likes how country music can convert personal pain into self-deprecating humor. Several years ago, she weathered a break up with a long-time boyfriend who also played

bass in her former band. That sparked a kind of custody battle over the bar where they always hung out, and later, some lyrics for "Solitary Confinement": "I'm getting wasted in the corner of a bar I know for sure you never go to."

## LIFE & ARTS

### ARCHITECTURE REVIEW

# Calculated, Unpretty Design

The Times Square pedestrian plazas are a win for people in a crossroads long dominated by cars.



The new look of Times Square at night, left, and during the day, above; pedestrians on one of the new granite benches, which can stretch up to 50 feet, below.



BY JULIE V. IOVINE

New York

**TO OUTSIDERS,** Times Square has always looked like it's about people, from the sailor kissing the gal on V-J Day to the mobs each New Year's Eve and the more recent selfies projected onto looming jumbotronons. But at least since the 1950s and until recently, it was really about cars. The legacy of the Crossroads of the World—where the traffic on Broadway crossed the traffic on Seventh Avenue at 45th Street—was founded in fumes, in angry tirades at jaywalkers, and in word-portraits like John O'Hara's of a place where "everything / suddenly honks" or the images of streaking red tail lights in just about every movie about Manhattan ever made.

With the recent grand opening of the Times Square pedestrian plazas, however, the tide has turned and the people have won, in a way. Now 2.5 acres over five plazas have been transformed into pedestrian-only space, with cars restricted to passing through the so-called Bowtie intersection via Seventh Avenue and crosswalks designed to slow down vehicles at every crossing from 41st to 47th Streets.

It has been a slow-motion takeover initiated by Mayor Michael Bloomberg's administration in spring 2009, when the city installed beach chairs from Home Depot, painted dots in the road, and rerouted traffic so pedestrians could spill off the sidewalks officially, as they had long been doing anyway. It's the final confirmation of a generational shift away from prioritizing traffic toward safety for pedestrians.

But in spirit it still falls short of the ideal of the great public space where community and civic pride were centered and celebrated. And not everyone is happy. Drivers of taxis, delivery trucks and ambulances, as well as brand managers at nearby corporate headquarters, were outraged at the guerrilla-warfare speed of the taking, but being New Yorkers, they grudgingly have adapted. Mayor Bill de Blasio briefly pondered tearing out the plazas as a way to deal with the importunate costumed characters who roam the space, but promptly backed off. Some 40 million people a year—half tourists, half office workers, a few rogue Elmos and friends—didn't miss a beat and swarmed into every available void.

No design makeover will transform it into a charming European piazza

It was only once the plazas' popularity had been established that some thought was given to actually designing the space, but even then it was not really a beautification project. The firm Snøhetta, architects of the National September 11 Memorial Museum Pavilion, was commissioned to turn folding chairs into permanent and indestructible architecture.

There are now 10 solid granite benches stretching 50 feet each—with top surfaces honed to give an extra reflective bounce to all the digital-billboard fireworks. The benches are arrayed

throughout the plazas to double as security bollards blocking vehicular invasion of the inner open space. Scattered red metal café tables and ice-cream-parlor chairs are gradually giving way to sturdier round ottomans made of wood and steel, tough enough to survive 330,000 visitors a day. Much of the design is more strategic than picturesque—the architects call it "nudge thinking"—including the round steel pucks embedded in the street pavers that glint by day and sparkle with reflected light at night. The pucks are aligned to subtly steer people away from the edges where cars move and toward the pedestrian-only center. The new pre-cast concrete pavers that replaced the roadbeds do not merely line up across the space, they were laid to follow the former flow of traffic as a visual cue to keep people moving.

Most of the architecture work in this \$55 million project is out of sight and underground. Sewers with water mains dating back to the Civil War have been replaced; there's new electrical wiring, including the latest in fiber-optic cables. Ancient cellars belonging to long-gone buildings had to be shored up and a low point at the crossroads contoured to deal with flooding caused by deep subterranean streams that converge at 45th Street. The benches are embedded with a full complement of power and broadcast capabilities, rendering miles of cables and growling generators obsolete for the 350 public events that take place here annually. This is design as problem solving at a high level that works hard and will endure but will win no beauty contests.

While its dazzling by night

remains intact, Times Square still looks drab by day. No design makeover will transform it into a charming European piazza. The age of automobiles dominating the streets may be over, but so is the age of the city beautiful where civic pride and the leisure of citizens were made manifest in sculpted Baroque fountains and majestic plane

trees. We now live in an era of making the best out of the need to design for efficient people-moving and for guarding pedestrians from attack. It may not be pretty, but it's real. And in a way, that was always the true appeal of Times Square.

Ms. Iovine reviews architecture for the Journal.



## YOUR CUP OF TEA CHARLES SOULACROIX



Revered artist. Sumptuous canvas. Astounding realism. The undisputed master of "Silk and Satins," Soulacroix composed extravagant tableaus with an awe-inspiring level of intricacy. Few artists could match his remarkable skill, as every luxurious element, from the glistening gowns to the marble floors, is rendered with photographic realism. Original oil on canvas. Signed "F. Soulacroix" (lower right). Canvas: 32" h x 24 1/4" w. Frame: 40 1/2" h x 32 1/4" w. #30-6344

**M.S. Rau Antiques**  
Antiques • Fine Art • Jewelry LLC

630 Royal Street, New Orleans, Louisiana • 877-677-2801 • ws@rauantiques.com • rauantiques.com

Since 1912, M.S. Rau Antiques has specialized in the world's finest art, antiques and jewelry. Backed by our unprecedented 125% Guarantee, we stand behind each and every piece.



Times Square circa 1927, crowded with automobiles, streetcars and pedestrians

# SPORTS

## HEARD ON THE FIELD



### Bills Finish the Draft, Fire General Manager

After selecting six players during the seven rounds of the NFL Draft, including LSU cornerback Tre'Davious White in the first round, the Buffalo Bills decided the person making personnel decisions needed to be replaced. The team fired general manager Doug Whaley on Sunday, owner Terry Pegula said, ending a four-year tenure with no playoff appearances.

That Whaley didn't get a fifth season isn't altogether surprising. He went 30-34 while in charge and cycled through head coaches. But the strange part of Whaley's firing is the timing: The team kept him around to make franchise-altering, long-term decisions in free agency and the draft. Then a day after the draft ended, he was gone.

Whaley took over in May 2013, just a few weeks after that year's NFL Draft, and with a new coach in Doug Marrone. Two years later, Marrone left after going 9-7—a stunning blow after going 9-7—a decade ago.

Whaley then hired Rex Ryan,

whose popularity in Buffalo outweighed his success and his tenure ended after less than two seasons. In January, the Bills hired Panthers defensive coordinator Sean McDermott to be team's 20th coach in its 57-season history.

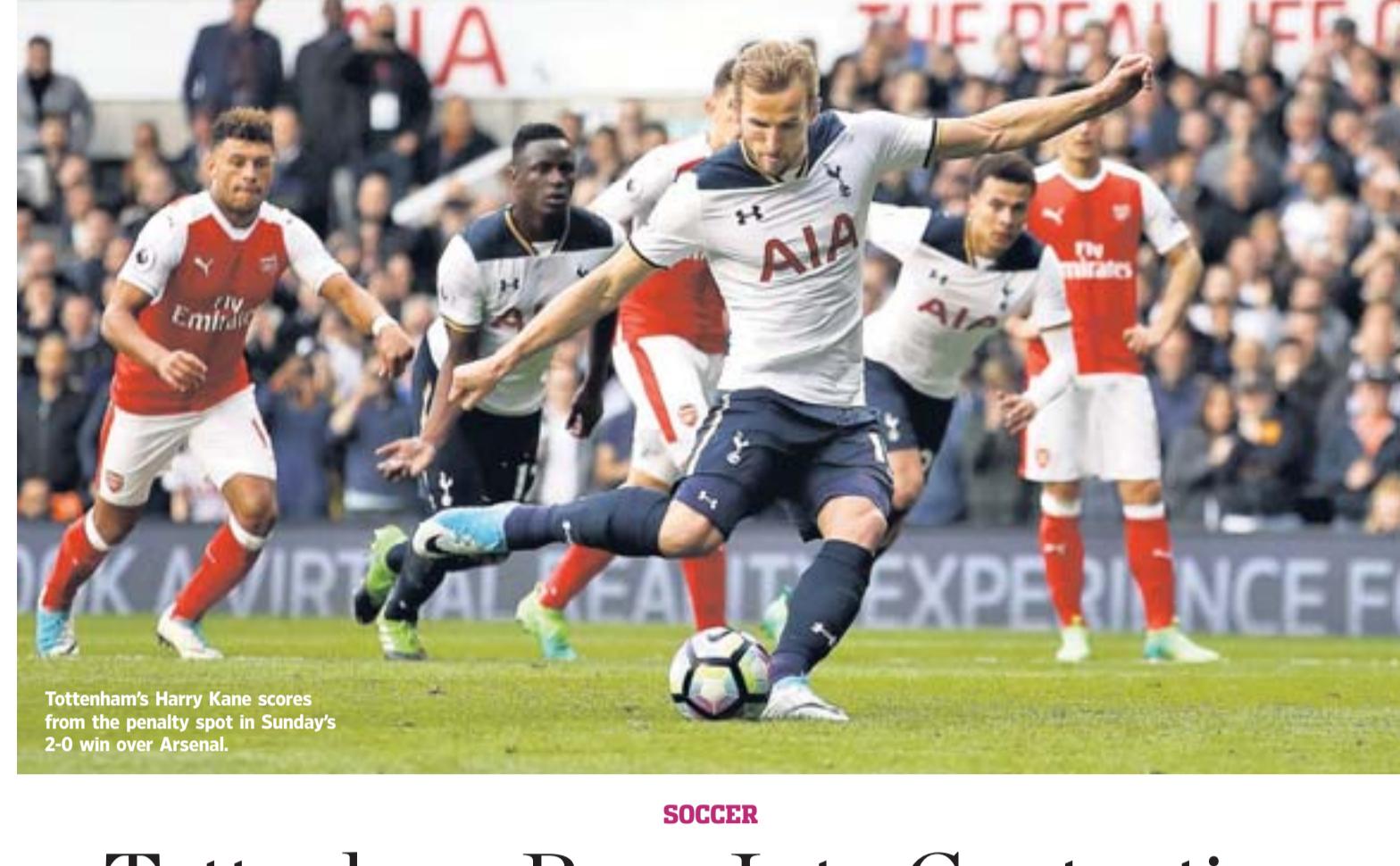
Until the Bills hire a new general manager, Pegula said he and his wife Kim, the team's co-owner, will handle personnel moves.

The biggest decision for this team—as has always seemed to be the case since Jim Kelly's prime in the '90s—will be the team's quarterback situation.

Whaley and McDermott passed on adding one of the most highly regarded quarterback in the first round, when they traded the 10th overall pick to Kansas City, who in turn took Texas Tech's Patrick Mahomes. But that doesn't mean the situation is settled in the hands of incumbent Tyrod Taylor: In the fifth round, Buffalo took Pittsburgh quarterback Nathan Peterman.

Besides White and Peterman, the Bills also drafted receiver Zay Jones (East Carolina), guard Dion Dawkins (Temple), linebacker Matt Milano (Boston College), and linebacker Tanner Vallejo (Boise State).

—Andrew Beaton



Tottenham's Harry Kane scores from the penalty spot in Sunday's 2-0 win over Arsenal.

## SOCER

# Tottenham Runs Into Contention

Spurs manager Mauricio Pochettino has transformed the club by playing a higher-intensity style

BY JOSHUA ROBINSON

LONDON—Quietly being the best team in English soccer over the past two years has, so far, earned zero trophies for Tottenham Hotspur. The club has racked up more points and scored more goals than any other Premier League team since the start of last season, but championships have remained just out of reach.

So Tottenham manager Mauricio Pochettino, in his mission to turn Spurs from a London also-ran into a contender, has had to look for other signposts of progress. On Sunday here, he finally got one.

With a 2-0 victory over Arsenal in the final North London grudge match at White Hart Lane, Pochettino guaranteed that Spurs would finish ahead of their bitter rivals for the first time in 22 years.

Pochettino, a former Argentine player with a penchant for quick-fire Spanish cursing, had been plotting this moment ever since he joined the club in 2014—not the victory per se, but the moment he could genuinely say he had bigger fish to fry than Arsenal.

"Our challenge, our aim, is to win, not only to beat Arsenal," Pochettino said. "It's to [beat] the 19 other teams against us in the Premier League."

Tottenham, which last won a league title 56 years ago, is now just four points behind first-place Chelsea with four games to play.

Whether or not, Spurs can pull off the comeback, there is no doubt that Pochettino is transforming a club that had spent the past 20 years playing third fiddle in London to Arsenal and Chelsea.

He did it in the most obvious way he knew how: in a league famous for its physical, high-intensity soccer, Pochettino revolutionized Tottenham by playing more physical, higher-intensity soccer.

"It's true that we are in a different level than many other clubs, but we work very hard to try to improve," Pochettino said earlier this season, recognizing he didn't have the assortment of expensive talent available to the likes of Chelsea and Manchester City.

"We need to be clever in the way that we work," he said.

By clever, Pochettino also meant ruthless. His pre-season regimens are notorious, even by Premier League standards. He runs grueling sessions of fitness drills two and sometimes three times a day. Anyone who isn't prepared to run can find himself benched.

His approach, tailor-made for England, began with a revelation he had when he arrived at Southampton in January 2013. It was different from the kind of revelation he received when, as manager of Espanyol in Spain, he once walked seven miles to visit a Benedictine monastery and pray for a miracle. This one was more tactical than spiritual.

Even though all professional soc-

cer matches last 90 minutes, it dawned on him that English games had a special property: they were somehow longer. Pochettino worked out that there were fewer stoppages due to fouling and the ball leaving the field. Games were so much crisper here than in Spain, he found, that the ball remained physically in play for up to 10 minutes longer. In his mind, that translated to 10 extra minutes of flat-out effort.

"It's important to run, but to run with good direction, at good moments, with good timing," he said on Sunday. "When you run more, it's because you give more options to your teammates when you have possession. And when you don't have the ball, it's to try to recover it as soon possible."

It's no coincidence that in the past two seasons, his players have been on top or near the top of every category for distance covered in a game and distance covered while sprinting. Against Arsenal, Tottenham's suffocating approach was in full effect, with Spurs outrunning their opponents by more than five miles.

Only a nine-save performance from Gunners' keeper Petr Cech kept the match from turning ugly.

"We lacked a little bit the freedom to play," embattled Arsenal manager Arsène Wenger said.

Tottenham's rise has coincided with Wenger's decline at Arsenal. Spurs had only beaten him seven times in their previous 49 encounters, according to Opta Sports, but

they are now riding a six-game undefeated streak against the Gunners in league matches.

For most of that spell, Tottenham was stuck playing the Mets to Arsenal's Yankees. There were occasional steps forward for Spurs—qualification for the Champions League, the emergence of home-grown talents in Harry Kane and Dele Alli—but the annual ignominy inflicted by the Gunners continued to gnaw away at them.

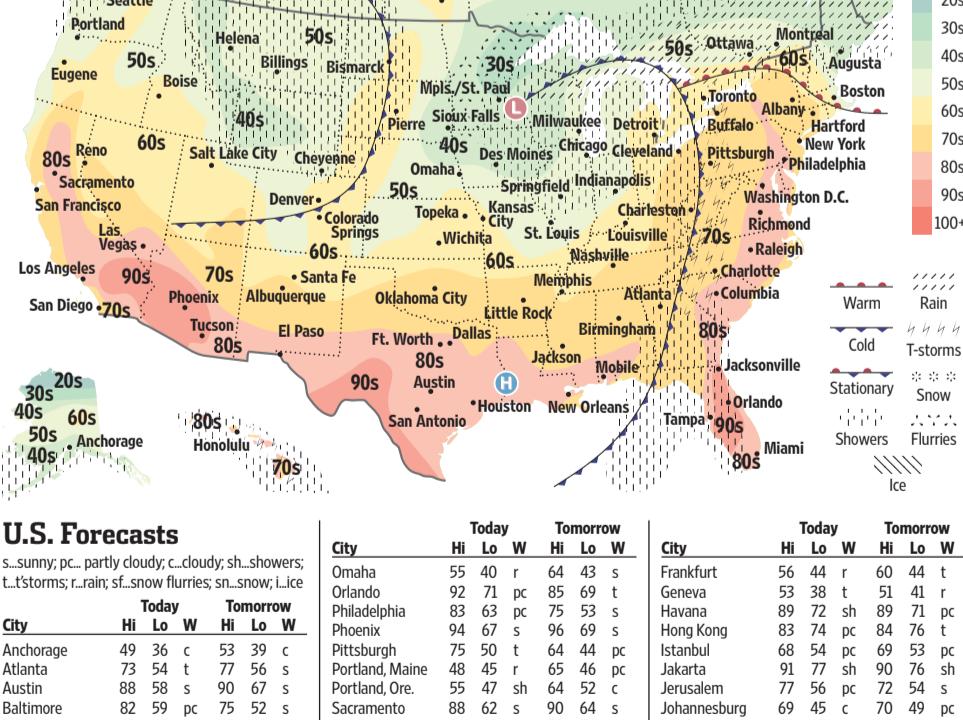
Some years were particularly painful. In 2004, Arsenal came to White Hart Lane to clinch the league title. Two years later, Arsenal leapfrogged Spurs in the standings on the final day of the season, because of a team-wide bout of food poisoning. The incident is still known as "Lasagna-gate."

Wenger argued last week that no matter which way Sunday's game went, it wouldn't signal a permanent shift in North London's power balance, with Tottenham moving next year—Spurs will migrate to Wembley while they wait for their new 61,000-capacity venue to be completed.

As Wenger put it, Tottenham would need two years to "recreate a kind of history" there. But for now, the 17-point gap between Pochettino's swashbuckling club and its rival is all the history Tottenham needs. No one in North London can call it an accident.

"The points are the points," Wenger said. "They don't come from heaven."

## 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 Tomorrow

City Hi Lo W Hi Lo W

Anchorage 49 36 c 53 39 c

Atlanta 73 54 t 77 56 s

Austin 88 58 s 90 67 s

Baltimore 82 59 pc 75 52 s

Boise 62 45 pc 67 43 pc

Boston 59 53 sh 71 51 pc

Burlington 69 55 pc 62 47 sh

Charlotte 78 54 t 77 50 s

Chicago 57 41 sh 54 35 c

Cleveland 73 49 r 60 45 c

Dallas 81 58 s 85 67 s

Denver 60 34 c 61 33 sh

Detroit 68 45 r 54 39 c

Besides White and Peterman, the Bills also drafted receiver Zay Jones (East Carolina), guard Dion Dawkins (Temple), linebacker Matt Milano (Boston College), and linebacker Tanner Vallejo (Boise State).

—Andrew Beaton

## International

Today Tomorrow

City Hi Lo W Hi Lo W

Amsterdam 55 45 r 54 45 r

Athens 79 60 s 80 61 s

Baghdad 96 72 pc 96 67 pc

Bangkok 98 80 t 96 83 t

Beijing 83 53 c 85 58 c

Berlin 59 44 c 54 44 t

Brussels 56 42 t 58 44 r

Buenos Aires 78 54 s 75 54 s

Dubai 99 84 pc 99 82 s

Dublin 56 43 c 55 43 pc

Edinburgh 56 45 p 55 40 c

## The WSJ Daily Crossword | Edited by Mike Shenk



### MAYDAY! | By Melina Merchant

**Across**

1 Redford's co-star in "The Sting"

7 October birthstone

11 Crafty

14 By the unit

15 Scruff of the neck

16 TV's \_\_\_ Haw"

17 Derringer, for example

18 \*Diversions for GLs

20 \*Longtime host of "CBS News Sunday Morning"

22 Zero, in British scores

23 Gratuity

24 People to keep up with

28 As soon as this

32 Heaps

33 Cain's brother

34 Take to court

35 \*1966 novel by Jean Rhys

40 Cain's mother

41 State east of Tenn.

42 Power unit

43 Cruel rulers

45 Skimpy swimsuits

57 \*Japanese bowlful

58 Many dreadlocks wearers

60 Cheer for the matador

61 Opposed to

62 As a whole

63 Obsolete

64 Put through the paces

65 Makes amends

Down

1 Afternoon refresher

2 Sweeping tale

49 Lingus

50 \*Children's collection by Rudyard Kipling

51 Employed

52 Inning sextet

53 Roaster's rod

54 Analogy words

55 School on the Thames

56 Fill to excess

57 Bovine bellow

59 Mayday call found in the starred answers

**Previous Puzzle's Solution**

ADIEU MARC SFPD  
TUNIS AREA CAL  
BEERSONTAPONYX  
AIRERS CSPOOT  
TNT HITTIEBARS  
GOESTAGSAW  
GREENARROWATME  
OHYES TRIBBLE  
TIESTRAFFICCOOP  
ANS PREMIUMS  
COFFEERING  
RODEO UPENDS  
MOORFLOWERBULB  
AUNTULINAORSEA  
CITY LSATBOARD

The contest answer is WIGGLE. The last word of each starred answer appears somewhere on a Monopoly BOARD (as hinted at in 65-Across). Water Works has a TAP, In Jail has BARS, Luxury Tax has a RING and Electric Company has a BULB. The first letters of those six spaces spell the contest answer.

# OPINION

## Personalized Medicine Is Here

By Peter Huber  
And Paul Howard

The Food and Drug Administration recently approved 10 of the personal-genomics company 23andMe's screening tests for genetic health risks, including one for Alzheimer's and one for a rare blood disorder. The decision represents a turning point in the democratization of personalized medicine. It's also a turnaround for the FDA, which had pulled the tests from the market in 2013. The company had blamed itself for that episode, admitting that it failed to follow up on promised communications with agency staff.

For the first time, patients don't have to go through a physician to learn about potential risks related to their genetic makeup. As long as 23andMe meets the FDA's "special controls" for subsequent tests, they won't have to get premarket clearance from regulators. Other companies will benefit from the same regulatory pathway after they receive their first approval for similar types of tests.

We applaud the decision. Consumers' right to know their own genetic health risks will become more important as sophisticated diagnostics like whole-genome scans, artificial intelligence, and targeted drug and gene therapies reach doctors' offices in the years to come. Together, these

tools can empower patients to become co-directors of their own medical destinies. In fact, the right to know the risks contained in your genetic code will likely become the most fundamental medical right of the 21st century.

The advent of low-cost, reliable consumer genomics has given ordinary people an unprecedented measure of control over their own health information. Companies such as

**The FDA's approval for 23andMe may be the first shot in a health revolution.**

23andMe, PatientsLikeMe and Curious are developing new products and platforms to help hundreds of thousands of Americans manage and monitor their health. These companies are also making it easier for researchers to manage privacy concerns, store large amounts of data over time, and report new findings to the patient community as they happen.

Already, companies and researchers are studying massive databases that combine genetic information with information from electronic medical records, wearable devices, and patient survey data on diet, exercise and even mood. Mining data from tens or hundreds of thousands of patients helps companies and

doctors explore, test and develop tailored interventions to treat or even prevent serious chronic diseases like cancer, Alzheimer's and Parkinson's. The day may come when physicians are able to intercept these diseases at their molecular or genetic roots, halting their progression before they inflict irreversible damage on critical tissues and organs.

23andMe isn't sitting on the data it collects. It's brought together the Parkinson's disease research community, forming partnerships with the Michael J. Fox Foundation, the biotechnology firm Genentech, and the Parkinson's Institute and Clinical Center. Together, their research has found new potential genetic risk factors for Parkinson's and is exploring how specific genetic variations influence the risk of developing serious side effects from some Parkinson's treatments. They have tracked participants' cognitive abilities over time to understand better how Parkinson's progression affects the risk of developing dementia.

Patients who have Parkinson's or a family history of the disease and use 23andMe can opt in to additional research projects, sharing not only their genetic information, but also information on diet and dietary supplement use, exercise and off-label treatments. They're not alone.

Across the country and the world, patients are networking with other patients with

similar ailments, participating in tailored research projects, and working more closely with researchers to develop better models of poorly understood diseases like chronic fatigue syndrome.

Consumer-facing companies have data-sharing built into their business models because their reputations depend on it. Accuracy and transparency attract new customers. And as these companies generate and validate insights from millions of DNA samples, their social and medical value will only grow.

To its credit, the FDA is increasingly embracing the future of big data and precision medicine. The agency has developed PrecisionFDA, an information "commons" where researchers and companies are working together to develop standards for the next generation of genomic-sequencing tools and algorithms. The agency has also launched Project Informed, which uses predictive analytics and other data tools to mine the enormous amounts of information flooding into the agency from wearable devices and traditional clinical trials.

So raise a glass to the future of precision medicine. Then spit into it and send it off to a company like 23andMe. Knowledge, after all, is power.

*Messrs. Huber and Howard are senior fellows at the Manhattan Institute.*

## Puerto Rico's Broken Promise



AMERICAS  
By Mary Anastasia O'Grady

A federal stay barring Puerto Rico's creditors from taking legal action against the commonwealth and most of its entities for non-payment of debt expires on Tuesday.

The stay was ordered under the Puerto Rico Oversight, Management and Economic Stability Act, or Promesa, passed by Congress in June 2016. It was designed to give a cash-strapped Puerto Rico time to come up with a viable long-term fiscal plan, and to work with creditors toward a voluntary debt restructuring. But as we go to press both sides appear to be far apart.

The expiration of the stay could allow Puerto Rico's newly elected Gov. Ricardo Rosselló to seek bankruptcy protection for much of that debt, as provided for under Promesa. Yet creditors won't go down without a fight.

To ensure accountability and adherence to the rule of law, Promesa created a "financial oversight and management board." On March 13 the board certified Mr. Rosselló's fiscal plan even though it violates the Puerto Rican constitution. More troubling, the plan is inconsistent with Promesa's broader objective, which is to restore Puerto Rican growth.

Mr. Rosselló forecasts a decade of stagnation averaging an annual decline in gross national

product of 0.1%. Either the governor is purposely lowballing his revenues to justify bankruptcy or his campaign promises to make Puerto Rico better off were hot air. It could be both: The plan significantly underestimates the cost to future financing of burning creditors and destroying market confidence.

Bankruptcy was not an option for Puerto Rico or its municipal corporations when together they issued the \$73 billion of debt that is now outstanding. A long history of willingness to pay back creditors had given Puerto Rico a high credit rating and, together with its triple-tax-exempt status, helped it attract capital at low rates.

It also made it too easy for the political class to pile up unproductive debt. In June 2015 then-governor Alejandro García Padilla announced that his government was running out of money and that he wanted Washington to step in and allow Puerto Rico to declare bankruptcy. Yet while the governor was crying poor, he was paying big money for "consultants." For example, in 2015 Puerto Rico initiated an 18-month, \$615,000 contract with the politically connected Podesta Group in Washington. Curious.

To paraphrase Bartleby the Scrivener, Mr. García Padilla seemed to "prefer not to" service Puerto Rico's bond obligations. A scare campaign about a looming humanitarian crisis followed. Conveniently, it was a U.S. election

year and that's how Promesa was born.

Creditors complained that bankruptcy would alter bond contracts. But the best reason to oppose the change was that it opened an escape hatch for a political class that had manufactured the crisis narrative to shed the burdens of debt and carry on with big-government populism.

**The cash-strapped, debt-laden island takes one step closer to bankruptcy.**

Promesa's supporters promised that the creation of the independent financial oversight board—four Republicans and three Democrats—would address that concern. It was to be the guarantor of reform.

Yet with the board's March approval of Mr. Rosselló's fiscal plan and the path to bankruptcy cleared, Promesa now looks like another Washington scam. On Wednesday oversight board member David Skeel is scheduled to deliver a talk in Philadelphia titled "Inside the Mind of a Bankruptcy Expert: Thoughts on the Need for U.S. States to Access Bankruptcy and Puerto Rico's Status."

One glaring inconsistency between what Promesa promised and the board-approved fiscal plan involves the seniority of constitutionally protected general obligation bonds and other debt issues.

Puerto Rico owes roughly \$18 billion in constitutionally protected bonds that must be paid before allocating revenues to other expenses in the budget, including public pensions. And Promesa states that the fiscal plan must "respect the relative lawful priorities or lawful liens, as may be applicable in the constitution, other laws or agreements."

Yet the plan approved by the oversight board does not recognize debt seniority. What's more, the government projects annual revenues of \$18.5 billion, yet budgets only about \$787 million annually for debt service. It also puts aside some \$620 million annually for contingencies, never a good thing with politicians.

The plan further fails to differentiate revenues available for 11 different debt issuers, as if they should all receive a uniform buzz cut. As University of Puerto Rico finance professor Carlos Colón de Armas told me in a telephone interview from the island last week, "the concept of a balanced budget only applies to the general fund. It no longer makes sense if you mix in the activities of public corporations."

Many politicians on the island and in Washington will celebrate bankruptcy. But it won't be good news for Puerto Ricans. They will suffer higher borrowing costs as their homeland is branded a deadbeat. And the pressure to rein in public-sector unions, which have ballooned spending, will be eliminated.

*Write to O'Grady@wsj.com.*

## Old Mr. Spectator Stood Up for Merchants

By Stephen Miller

May Day, also called International Workers' Day and traditionally celebrated on May 1, is a holiday for socialists and communists. But it also happens to be the birthday of the first English writer to discuss the benefits of a commercial society. This writer, one scholar says, "was regarded for many generations as one of the most significant English writers of his time." I'm referring to Joseph Addison, who in 1711 founded the *Spectator*, which has been called the most influential magazine in British history.

Writing under the persona of Mr. Spectator (as did his collaborator Richard Steele), Addison talked about the pleasures of walking in London. In one essay, he praised the Royal Exchange, a two-level structure, built in 1669 around a great courtyard, that housed shops and boutiques. The Exchange, Addison said, made

"this Metropolis a kind of Emporium for the Whole earth."

Addison implied that the many immigrants he met there had helped transform London into a bustling commercial center. "Sometimes I am jostled among a Body of Armenians; sometimes I am lost in a Crowd of Jews; and sometimes make one in a Groupe of Dutch-men. I am a Dane, Swede or French-Man at different times." He was "wonderfully delighted to see such a Body of Men thriving in their own private Fortunes, and at the same time promoting the Publick Stock." Addison was saying what Adam Smith would 65 years later: The self-interested pursuit of profit in most cases benefits the nation as a whole.

It's clear in Addison's writing that he was impressed by the globalization of Britain's food supply: "The Food often grows in one Country, and the Sauce in another." The expansion of trade, he argued, increased the range of products

available to Britons and created wealth by expanding the market for the products they produced. Even members of the landed interest, who generally opposed the political influence of merchants and financiers, benefited from the expansion of trade, since the owners' estates now had an international market for their products.

Addison's praise for merchants and traders went against a long literary tradition of contempt for men of commerce. "There are not more useful Members in a Commonwealth than Merchants," Addison wrote. "They knit Mankind together in a mutual Intercourse of good Offices, distribute the Gifts of Nature, find Work for the Poor, add Wealth to the Rich, and Magnificence to the Great."

A leading American scholar dismissed Addison as a light-weight "writer for a middle class." Addison was writing not for the middle class, but in

hope of expanding it. He wanted to persuade the upper class that it was foolish to reject trade as a profession for their children. Many aristocrats, he said, would "rather see their Children starve like Gentlemen, than thrive in a Trade or Profession that is beneath their Quality. This Humor fills several Parts of Europe with Pride and Beggary."

Promoting commerce, Addison made a radical suggestion: English aristocrats should emulate Jews, whom Addison praised for being industrious men of commerce.

Addison will never be as highly regarded as his friends Jonathan Swift and Alexander Pope (the latter eventually an ex-friend), but he understood the forces driving 18th-century Britain better than they did.

*Mr. Miller is author of "Walking New York: Reflections of American Writers from Walt Whitman to Teju Cole" (Fordham, 2014).*

hope of expanding it. He wanted to persuade the upper class that it was foolish to reject trade as a profession for their children. Many aristocrats, he said, would "rather see their Children starve like Gentlemen, than thrive in a Trade or Profession that is beneath their Quality. This Humor fills several Parts of Europe with Pride and Beggary."

Promoting commerce, Addison made a radical suggestion: English aristocrats should emulate Jews, whom Addison praised for being industrious men of commerce.

Addison will never be as highly regarded as his friends Jonathan Swift and Alexander Pope (the latter eventually an ex-friend), but he understood the forces driving 18th-century Britain better than they did.

BOOKSHELF | By Daniel Shuchman

## A Fundamental Liberty

### The Soul of the First Amendment

By Floyd Abrams  
(Yale, 145 pages, \$26)

To early-20th-century Americans, censorship was nothing unusual. Editors were jailed for criticizing judges; newspapers were penalized for reporting on executions. In 1909 municipal authorities in Spokane, Wash., burned "every copy" of a publication they deemed objectionable. The previous year, New York City police arrested a theatrical performer for giving a mock speech that, in the eyes of a police captain, constituted the crime of "impersonating a German." Pennsylvania law in 1916 banned cinematic "thrillers" with "heroines tied to tracks," and in 1921 two women were fined for serializing the "improper" James Joyce novel "Ulysses" in their literary magazine.

One century and several landmark Supreme Court cases later, Joyce's book is studied in literature programs across the country—one of the many free-speech triumphs celebrated in "The Soul of the First Amendment," Floyd Abrams's paean to what is perhaps America's most distinctive governing provision.

The book is a series of brief and compelling essays in which Mr. Abrams, the eminent constitutional lawyer, focuses on nine of the First Amendment's 45 words—those that prohibit Congress from "abridging the freedom of speech or of the press." His central theme is that the purpose of that passage is "anticensorial"—meant to protect Americans from government regulation that attempts, in the words of Supreme Court Justice Robert H. Jackson, to seize "guardianship of the public mind." At its core is the principle that human beings can achieve individual fulfillment only when freedom of thought is absolute.

Mr. Abrams's engaging and plain-spoken reflections will be of interest those already steeped in constitutional law as well as young readers curious about the nation's founding ideals. The author illuminates the unique attributes of the First Amendment chiefly by contrasting it with the laws governing speech in other countries, even other liberal democracies, where citizens, particularly journalists and activists, are subject to far less favorable laws governing libel, blasphemy, "hate speech" and privacy rights.

In one powerful example, Mr. Abrams describes how European regulators, intent on protecting citizens from the reputational fallout of their own misdeeds, now force Google to delete references to past criminal misconduct, judicial proceedings and other episodes deemed "inadequate, irrelevant or no longer relevant." In 2015 Britain's Telegraph newspaper published summaries of 100 articles that had been ordered deleted by the regulators; they included news-

**Abrams made enemies on the left after changing his mind on campaign spending and helping Citizens United win its Supreme Court case.**

worthy stories about a doctor who attempted to drug his pregnant mistress, alleged sexual misconduct by military officers, and a settlement between the Catholic Church and a former boy scout who claimed that he had been abused by a friar who was the son of J.R.R. Tolkien. Mr. Abrams convincingly argues that this "state-required suppression of truthful information" is a dangerous trend that sanitizes history and leads to an Orwellian memory hole.

The unpredictable consequences of censorship are illustrated by one of the Telegraph's deleted stories, about a policeman whose assault on a man was filmed by a CCTV security camera. Were the U.S. government to force such evidence to be regularly pulled from the internet in the name of "privacy," one could only imagine the (understandable) outcry from, say, the Black Lives Matter movement, which was organized in no small part in response to similar videos.

Such possibilities dramatize a seismic change in the debate over free speech: its politics. Historically, Mr. Abrams notes, progressive activists were the most absolutist defenders of free speech, while the more "conservative" elements of society flirted with various forms of censorship. After all, it was free expression, often exercised at great social and legal peril, that enabled once-radical causes—including prison reform, abolition and desegregation—to change society. In recent decades, however, the progressive left has seemingly abandoned this commitment to free speech in favor of speech codes and so-called safe spaces. Today many progressives argue that speech should be limited by who is doing the speaking. Corporations and politically active wealthy individuals, they say, speak "too much." Meantime, speakers deemed to hold views that are likely to "offend," or, as is now the rage on college campuses, to make listeners feel "unsafe," face restrictions and sometimes violent attempts to silence them. Woven throughout these essays is an elegant and persuasive rebuttal to such notions.

Mr. Abrams has himself undergone an intellectual and political evolution. His legal defense of the New York Times over its decision to publish the Pentagon Papers in 1971 made him a hero of the left. Four decades later, he earned enmity from former comrades by appearing before the U.S. Supreme Court in 2010's *Citizens United* case, which urged the court to affirm the right of corporations to spend money on political campaigns. In the end, the court did—and Mr. Abrams found himself aligned with the political right. He was particularly chilled by a statement made by Elena Kagan, then President Obama's solicitor general and now one of the Supreme Court's more liberal justices, who, during oral argument, acknowledged that her constitutional theory would permit the banning of political pamphlets by the federal government. Indeed, the more you may revile *Citizens United* (or think you do), the more essential it is to read Mr. Abrams's principled defense of that decision and to learn how he was persuaded to change his mind about the fundamental liberty inherent in campaign spending.

For Mr. Abrams, one inescapable truth applies across the history of First Amendment disputes. To allow the government to determine whose speech can be regulated—whether a newspaper publishing leaked documents, a company funding election advertising, or a presidential candidate composing boorish tweets—is, as Mr. Abrams's fascinating history shows, literally to play with fire.

*Mr. Shuchman, a New York-based investment-fund manager, is chairman of the Foundation for Individual Rights in Education.*

## OPINION

### REVIEW & OUTLOOK

## The Bolton Unmasking Files

Democrats and their press allies are going all in to squelch the Susan Rice "unmasking" story, insisting that the decision by Barack Obama's national security adviser to seek the name of at least one Trump campaign official was routine and no big deal. Tell that to former Bush Administration official John Bolton, whom Democrats pilloried for doing the same with far more justification.

The U.S. routinely eavesdrops on foreign officials, and sometimes U.S. citizens are caught on tape. Intelligence agencies strip the names of those U.S. citizens for privacy. A source confirms that Ms. Rice nonetheless requested the name of a Trump transition official in at least one intelligence summary, and Ms. Rice has all but confirmed that she did.

Democrats and the media have been at pains to call this business as usual. House Intelligence Committee Democrat Adam Schiff released a tutorial on why unmasking is "lawful." "Susan Rice Did Nothing Wrong," said an NBC headline, quoting no one on the record.

That's not what liberals said in 2005 as they opposed Mr. Bolton's nomination to be U.S. ambassador to the United Nations. Then Senators Joe Biden and Chris Dodd kicked up a fuss that, as Undersecretary of State for Arms Control and International Security, Mr. Bolton had 10 times over four years asked for the names of American officials who were swept up in National Security Agency monitoring.

Mr. Bolton and the State Department were clear that he followed procedure and provided intelligence officials with sound national-security reasons for requesting the names. Interpreting intelligence was central to Mr. Bolton's duties, so unmasking names on rare occasions wouldn't be unusual.

Critics nonetheless assailed Mr. Bolton for behavior for which they now absolve Mrs. Rice. Mr. Dodd claimed unmasking was "rarely requested" and "infrequently" by "non-career political appointees such as Mr. Bolton." The New York Times reported that the identities of Americans are released "only in response to special requests, and these are not common, particularly from policy makers."

Democrats argued (with no evidence) that Mr. Bolton's requests were politically motivated and the Los Angeles Times questioned whether

Mr. Bolton had requested the names to "intimidate intelligence analysts." A Times editorial called on Mr. Bolton to "step aside," noting Mr. Dodd was "rightly inquiring about Bolton's unusual request to look at [NSA] intercepts and why he asked for the identities of analysts. Why indeed?"

House Intelligence Chairman Devin Nunes recently stepped aside from his committee's Russia probe after complaints that he talked publicly about the unmasking. But in 2005 Democrats couldn't stop talking to the press, mostly complaining that Bush intelligence agencies wouldn't give Congress the names of those Mr. Bolton had unmasked. "I just think it's important to remember here that Mr. Bolton himself was able to look at this classified information," said then Sen. Barack Obama.

The Administration ultimately agreed to show transcripts (with the names redacted) to top members of the Senate Intelligence Committee. Democrats then drew up a list of 36 individuals whom Mr. Bolton had clashed with over the years and called on National Intelligence Director John Negroponte to rule out that these were the people Mr. Bolton had unmasked.

Senator Jay Rockefeller claimed that Mr. Bolton's decision to share the name of one unmasked citizen with a direct subordinate (who possessed the necessary security clearances) was improper and amounted to the mishandling of classified information. Democrats dug in, and Mr. Bush was forced to name Mr. Bolton to the U.N. as a recess appointment.

Compare all this to the Rice episode. Ms. Rice had no direct intelligence duties in her NSC post, and no Democrat has provided a valid reason that Ms. Rice might have needed to unmask anyone associated with the Trump presidential campaign. Twelve years on, not one of the 10 individuals unmasked by Mr. Bolton has had his or her identity leaked. By contrast, the Washington Post reports that no fewer than nine Obama appointees or career officials leaked or confirmed the identity and conversations of unmasked former Trump adviser Michael Flynn.

If John Bolton's unmasking was questionable, then Mrs. Rice's was more so. The House and Senate Intelligence committees should investigate what she did and why.

## Another State Frees the Braiders

Licensing laws that thwart the self-employed are a major barrier to economic opportunity. Kudos, then, to Indiana, which last week became the 22nd state to exempt hair braiders from a state cosmetology license.

Unlike some hair treatments, braiding doesn't use chemicals like dyes or relaxers, or hot tools like flat-irons. Many hair braiders are immigrants or African-Americans and the technique is often passed down from mother to daughter. Most cosmetology schools don't even teach it, but in 1987 the state passed licensing requirements that forced many practitioners to the sidelines.

Indianapolis resident Nicole Barnes-Thomas had been braiding since she was a teenager. But to work as a braider in Indiana, she would have needed 1,500 hours of

schooling at a cost north of \$10,000 for a state license. The Institute for Justice helped bring the issue to the attention of the state legislature on behalf of Ms. Barnes-Thomas with the help of GOP state Representative Timothy Wesco. Governor Eric Holcomb signed the bill, making Indiana the third state in recent months

to exempt the braiders, following Kentucky and South Dakota.

Occupational licensing has become a silent job killer across the U.S. In Indiana some 25% of residents require a license or certificate to do their work. The rules are often supported by businesses or others (cosmetology schools) that profit from barriers to competition. States like the fees people pay for the privilege of practicing their trade, but they cost far more in lost human potential and entrepreneurship.

### No longer will it cost \$10,000 to get a cosmetology license.

## Chobani vs. Alex Jones

The First Amendment protects the right of free speech, but defamation laws protect the innocent against malicious falsehoods. As false and often scurrilous news proliferates on the internet, those values are in tension more than ever, as the case of *Chobani v. Alex Jones* shows.

Chobani sued Mr. Jones, the right-wing provocateur, last week in Idaho state court for malicious false statements that tied the Greek yogurt maker to a sexual assault it had nothing to do with. The case has political overtones because of Mr. Jones's campaign against Muslim refugees, but it could have larger import as a case of a company fighting back against media falsehoods to maintain its public reputation.

The story began with a June 2, 2016 attack on a five-year-old girl in Twin Falls. The mentally disabled girl was sexually assaulted in an apartment complex by three boys, ages 7, 10 and 14. The youngest of the boys immigrated from Iraq, the other two from Eritrea.

This was horrifying enough, but Mr. Jones then turned his considerable media operation on the story. An InfoWars video reporting the assault was linked to by the Drudge Report under the headline, "REPORT: Syrian 'Refugees' Rape Little Girl at Knifepoint in Idaho." Never mind that there was no knife or Syrians, and the sexual assault, though heinous, was not rape. The boys have pleaded guilty and await sentencing.

What does this have to do with yogurt? Well, Chobani runs a plant in Twin Falls that employs refugees. Chobani's founder, Hamdi Ulukaya, is an immigrant from Turkey who is proud of giving jobs to refugees—and is not shy about advertising that he does.

Mr. Jones has a right to disagree with Mr. Ulukaya's support for refugee programs. But here's how InfoWars News put it in a tweet promoting

the video: "Idaho Yogurt Maker Caught Importing Migrant Rapists." The Chobani suit alleges that the video was republished that day "in a wide range of YouTube channels with the same headline."

The video provides no support for the headline's contention. Chobani has no link to the boys who assaulted the five-year-old. The company says none of its refugee workers has raped anyone. But the company says it has faced boycott calls following the tweet and video.

"The defamatory statements plainly and unambiguously impute conduct on the part of Chobani that amounts to a criminal offense," says the lawsuit. "Defendants falsely accuse Chobani of 'importing migrant rapists' and bringing 'crime and tuberculosis' into the community, among other false statements. Such bald accusations of criminal conduct constitute classic examples of defamation *per se*."

The suit adds that Mr. Jones and InfoWars "acted with actual malice," a crucial legal standard when trying to prove defamation against a public figure or company.

In a video responding to the suit, Mr. Jones conceded that Chobani isn't importing migrants and lacks the authority to do so. But he portrayed the suit as part of a larger effort to intimidate him by "the bullies of the Islamic invasion movement."

The Wall Street Journal is often obliged by the facts to write critically about companies, and we know how defamation law can be abused. But the press is typically protected by the law if it works hard to get facts right and corrects errors when they're pointed out. This standard has never been more important in this age of social media when anyone can make false claims that whip around the world and the truth never catches up. The Chobani case will test the legal limits of false reporting.

### The yogurt maker hits the media provocateur with a defamation suit.

none of its refugee workers has raped anyone. But the company says it has faced boycott calls following the tweet and video.

"The defamatory statements plainly and unambiguously impute conduct on the part of Chobani that amounts to a criminal offense," says the lawsuit. "Defendants falsely accuse Chobani of 'importing migrant rapists' and bringing 'crime and tuberculosis' into the community, among other false statements. Such bald accusations of criminal conduct constitute classic examples of defamation *per se*."

The suit adds that Mr. Jones and InfoWars "acted with actual malice," a crucial legal standard when trying to prove defamation against a public figure or company.

In a video responding to the suit, Mr. Jones conceded that Chobani isn't importing migrants and lacks the authority to do so. But he portrayed the suit as part of a larger effort to intimidate him by "the bullies of the Islamic invasion movement."

The Wall Street Journal is often obliged by the facts to write critically about companies, and we know how defamation law can be abused. But the press is typically protected by the law if it works hard to get facts right and corrects errors when they're pointed out. This standard has never been more important in this age of social media when anyone can make false claims that whip around the world and the truth never catches up. The Chobani case will test the legal limits of false reporting.

## LETTERS TO THE EDITOR

### Thou Shalt Not Post Any Bible Verses at Work

Rabbi S. Simcha Goldman's "A Court-Martial for a Bible Verse" (op-ed, April 25) regarding the preposterous prosecution of Lance Cpl. Monifa Sterling for displaying a verse from the book of Isaiah in her work area is doubly ironic.

In a corridor of the Pentagon itself there is a Bible verse on display that is also from Isaiah. At the bottom of a painting depicting a service member kneeling in prayer with his family is the following excerpt from Isaiah 6:8 which reads: "Whom shall I send and who will go for us? . . . Here am I. Send me." It has served both as an inspiration for countless service members who pass by it and as a reminder to those who may not have served of the nobility of those who have answered "send me."

Let us hope that Lance Cpl. Sterling can resume serving her country as a proud Marine.

CDR. ROSS S. SELVIDGE, USNR (RET.)  
Pasadena, Calif.

Imagine that the quotation had not been from the Bible but had been from the Muslim Sunnah. Let's suppose the quote was supportive of violent jihad or advocated adoption of one of the more extreme versions of Shariah. Should it be allowed because the defendant was expressing belief in Islam—religious belief? Or

should the court system be free to choose which religions' maxims it suppresses? What is the price of universal religious freedom? If you don't want to pay it, stay out of court.

HARVEY J. OSBORN, J.D.  
Portland, Ore.

I am a moderate, leaning right, who proudly served my country. And one of the reasons I served was to protect freedom of religion.

Our service members defend our freedoms, all of our freedoms. Should we not defend theirs?

EDWARD BOND  
Strongsville, Ohio

All branches of the service employ chaplains and have had a noble history of embracing religion as a beneficial source of strength, courage and hope in battle and in other service. One doubts that the Marines would forbid a chaplain from quoting Isaias to troops about to go to war, or to a person in the proverbial foxhole. Or would they? If so, these leaders should have the courage of their convictions and eliminate chaplains from their budgets and make their hostility to the Judeo-Christian religion explicit, rather than implied.

RICHARD K. MASON  
Altadena, Calif.

### How Many Muslim Refugees in Saudi Arabia?

I appreciate Saudi Ambassador Abdullah Al-Saud's advancement of the position that a strong American stance in the Middle East is needed to deter terrorism and his empathy with the "many sacrifices the American people have made in our part of the world" ("Saudis Know That U.S. Power Can Bring Lasting Peace," op-ed, April 19). The ambassador is also overtly sympathetic to the plight of the Syrian people, but I would ask Mr. Al-Saud how many refugees his country has taken in. Europe and America have taken in many hundreds of thousands of Muslim refugees and not housed them in migrant camps, but in apartments and homes in cities and suburbs. Although I am an avid reader of the Journal, I cannot recall a single article on the open-arms welcome that

Saudi Arabia has extended to its coreligionists.

LAWRENCE SCHNEIDER  
Buffalo Grove, Ill.

Amb. Al-Saud purports that the key reason Saudi Arabia is relentlessly bombing Yemen is to support "the forces of the elected government." He fails to mention that Yemen's President Abed Rabbo Mansour Hadi, whom the Saudis support, was chosen in an election in which he was the only candidate for a two-year transitional period and yet he did not call an election and stayed in power after the expiration of his mandate. Mr. Hadi was never recognized as president by the majority of the country.

BARBARA DELLER  
Bel Air, Md.

### On Lifetime Civil Service Tenure, No Matter What

In his 25 April letter "How About Accountability for Our Federal Employees," Rod Kelly ponders "when government ran off the rails." As a person who "worked" for 40 years in the federal government as a military and civilian employee starting in 1971, I offer up the following.

The front wheels went off the track when the government thought paying its employees higher salaries would entice higher quality people. Instead of a workforce with a calling to serve the government, it now has a culture of people trying to maximize their personal incomes.

The rear wheels followed when the government implemented affirmative-action programs, where physical attributes and the quest for perceived social justice overrode the knowledge, skills and abilities of its workforce.

STEPHEN BORKOWSKI  
Pittsburg, Texas

Government "ran off the rails" when President Kennedy issued executive order 10988 in 1962 giving government employees the right to collective bargaining via unions. That sealed the government's inability to fire employees for incompetence.

JOY ALFONSI  
Niles, Ill.

### Gratitude Tempers Desire, Tells When You Have Enough

I enjoyed the essay "When 'Enough' Doesn't Have to Mean 'More'" (Journal Report, April 24). I agree that realizing one has enough is important. What I have come to experience is that finding gratitude for having what I have is even more important. For me, finding gratitude is what helps recovery from the spiritual emptiness at the core of American life about which John Updike spoke. In my experience, getting what you want makes you happy only if you find gratitude. Without gratitude, you run the risk of never realizing you have enough.

STAN WOODS  
Cupertino, Calif.

The next person to utter the phrase "there ought to be a law against (enter current pet peeve)" will be sentenced to reading aloud the 100-page FDA rule requiring caloric counts of pizza toppings. The nanny state has run amok!

BARBARA JOHNSON  
Medford, Ore.

### No Free Lunch or Free Degree

I will neither argue for or against New York Gov. Andrew Cuomo's plan to offer some parents the opportunity to send their children to college without paying tuition. I will argue strongly with Robert Mujica's use of the words "tuition-free college" (Letters, April 26). Someone must pay. Nothing, absolutely nothing, is "free."

JACK HOOD  
Ashburn, Va.

### Pepper ... And Salt

THE WALL STREET JOURNAL



"Taggart's looking at me funny."

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

## OPINION

# How to Defuse the North Korean Threat

By Mark Helprin

**N**orth Korea has embarked at breakneck speed upon a slipshod effort to field land-, mobile-, and submarine-based ICBMs with nuclear warheads. Unlike the eight other nuclear powers, North Korea's doctrine resides unknowingly and capriciously in the mind of one man.

All nuclear doctrines are different, but most never go beyond the conditional when treating their arsenals as instruments of deterrence. North Korea, however, issues an unrelenting stream of histrionic threats that

**China's interests are aligned—for the moment—with those of the U.S., Japan and South Korea.**

comport with its recklessness in the shelling of South Korea and sinking of one of its warships, the kidnapping of Japanese citizens in Japan, assassinations abroad, executions and Stalinist gulags at home, criminal sources of revenue, proliferation of missile, and, tellingly, its perpetual war footing.

The totality of its declarations, behavior, and accelerating nuclear trajectory cannot be ignored. Nuclear weapons alone radically change the calculus of any strategic problem. Given the complexity and fragile interdependence of the structures of American life, nuclear detonations in only a few of our cities constitute a true existential danger. North Korea's successful August test of the KN-11 submarine-launched ballistic missile—

along with its construction of a second ballistic-missile submarine and its development of longer-range land-based missiles—will put North America at risk.

Note that North Korea has no defensive need of nuclear weapons. Because of the vulnerability of South Korean population centers, it can exercise an almost equivalent deterrence with its conventional forces and huge stockpile of chemical weapons.

Over two decades the U.S. has run the extremes from President Clinton's foolish or deceptive claim that his diplomacy had solved the North Korean nuclear problem, through the serial procrastinations of subsequent administrations, until the belated realization that if nothing else works the U.S. will have to attack North Korea full force. The first option has failed. The second, to which it is possible we may be compelled, is catastrophic.

The heart of South Korea's economy and half its 50 million people are densely concentrated within range of the approximately 10,000 North Korean artillery pieces, rocket launchers, and short-range ballistic missiles capable of delivering chemical munitions, of which North Korea has an estimated 5,000 metric tons. Even conventional explosives would have a devastating effect. No matter how fast South Korean and American forces raced to suppress such fires, not to mention a nuclear attack itself, millions would probably die.

With such shock and escalation there is no guarantee that China or Russia would not come to North Korea's aid. Russia could also take the opportunity to feast upon Eastern Europe if American power were monopolized by the battle, as it would be.



ASSOCIATED PRESS

North Korean sailors and a submarine-launched ballistic missile, April 15.

As undesirable are the two extremes of a North Korean nuclear strike or pre-emptive war in armament-saturated East Asia. America cannot accept the former. The U.S. will be forced to the latter if it fails to exploit the considerable ground that still lies between them.

North Korea is almost entirely dependent upon China, which is responsible for 85% of its trade, knows the country, and might have links to still-living potential replacements for Kim Jong Un. Given China's fearless and severe nuclear doctrine, it is itself invulnerable to North Korean threats. Until recently, China has been content with North Korea as a fleet-in-being—i.e., something with which to tie down competing powers in Asia, or unleash as another front in case of conflict elsewhere.

Now that things have gone too far, U.S. actions combined with the natural course of events can influence China to change this policy and move

to defang the North. Throughout Chinese history instability has led to ruin. Seoul is closer to Beijing than San Francisco is to Seattle, and China does not want a major war on its border, especially one that may draw in the U.S. and Japan, both now augmenting conventional forces in the area.

President Trump wisely has been willing to abandon demonization of China and modify his protectionist catchall in return for China's assistance. Yet it is of utmost importance for the U.S. to make clear that the Korean issue, unique and existential, will not be part of any *strategic* trade, such as in regard to the South China Sea.

China knows that the U.S. must respond to the North's ongoing breakout, but even should it have doubts, further pressure will automatically ensue. To wit, South Korea and Japan are already well within North Korean missile range and have every reason

to mount a vigorous ballistic missile defense. Now the U.S. has deployed the Terminal High Altitude Air Defense system in South Korea. By obtaining early launch and trajectory data as it reaches deep into China, Thaad's X-band radar is capable of enhancing American missile defense to the point of seriously compromising China's nuclear deterrent.

Should the U.S., Japan, and South Korea further bolster missile defense in northeast Asia, it would have commensurate effects on China's nuclear posture. Even more nightmarish for everyone, particularly China, would be if South Korea and (until now unthinkable) Japan developed their own nuclear deterrents, something that in the face of North Korea's nuclear capabilities and declarations the U.S. could not justly oppose any more than it opposes the British and French independent nuclear forces.

Avoiding an escalation crisis is in the interest of all involved, China no less than the U.S. Although America's outrageous neglect of the North Korean nuclear threat has led to this pass, there is still a way out. It requires steady nerves and a clear view of the strategic interplay among all parties. The fundamental dynamics of interests and security are now bringing China into a genuine, if temporary, alignment with the U.S., Japan, and South Korea. The U.S. should be wide awake to this in the days to come, because it may be, in fact, the only way out. If not, Katy bar the door.

*Mr. Helprin, a senior fellow of the Claremont Institute, is the author of "Winter's Tale," "A Soldier of the Great War" and the forthcoming novel "Paris in the Present Tense."*

By Alan S. Blinder

**W**hen America elects a new Republican president, nothing is as certain as debt and tax cuts. So it is again.

Many of us wondered, though, what sort of tax proposal we'd get from the highly unconventional Donald Trump. The answer came last Wednesday—sort of—and it sticks reasonably close to both Mr. Trump's campaign proposal and standard Republican fare.

Look back at history. The tax cuts championed by Ronald Reagan in 1981 and George W. Bush in 2001 shared four elements—call it the Republican Tax Cut Formula. First, they were remarkably generous to the rich. Second, they blew large holes in the federal budget. Third, their backers denied they would do so. Fourth, they were sold as rocket fuel for the economy—but they weren't.

Presidents Reagan and Bush were re-elected, of course. President George H.W. Bush, in contrast, deviated from the formula, became a pariah within his own party, and was defeated in 1992.

President Trump's one-pager—

that's all the proposal is—follows the GOP formula. The “plan” is remarkably regressive. Yes, doubling the standard deduction would help the middle class, as the administration claims. But look at the rest. The top individual tax rate would drop substantially, to 35%. Corporations would pay a superlow rate of 15%. That same 15% rate would apply to pass-through operations like hedge funds, law firms and real-estate developers. The estate tax, which only the richest Americans pay, would be abolished. Draw your own conclusions.

You may recall that Treasury Secretary Steven Mnuchin once assured the public that “there will be no absolute tax cut for the upper class.” That would have been a departure from the Republican Tax Cut Formula. But we now see it isn't true. If the plan ever gets fleshed out and priced, we may learn that, in dollar terms, it gives more new loopholes to the rich than it takes away.

Think, especially, about the 15% tax rate for business income from partnerships, S-corps and other pass-throughs. This is a huge revenue loser per se. But it's also an invitation to

## The White House Rejects Tax Reform for the Old Tax Cut Formula

millions of people to create faux businesses as a way of transforming ordinary income like salaries, taxed at 35%, into business income, taxed at 15%.

Then there is budget busting. The one-pager carries no price tag. But the revenue loss presumably would be huge—perhaps \$5 trillion to \$6 trillion over 10 years. How would the

**The system would remain complicated, unfair and inefficient. But the richest would pay much less.**

administration pay for it? With smoke and mirrors, it appears. The White House wants to leave that little “detail” to Congress, which will find the task both unpalatable and impossible.

There is a big difference between tax reform and tax cuts. The essence of reform is raising some people's taxes (typically by closing loopholes) while cutting other people's, with little net effect on total revenue. That necessarily creates many winners and

losers, and the losers and their lobbyists raise a ruckus.

The essence of tax cutting is throwing a party at the budget's expense. Which is why tax cuts sail through Congress so easily. A few deficit scolds may scold, but once a tax-cutting party gets going, it's hard to stop.

My guess is that the bill that ultimately emerges from Congress will be light on tax reform, heavy on tax cuts. Legislators know they can mask the creation of future deficits in at least three ways. If you see any being used, it's a sign that a con is taking place.

The simplest method is unscrupulous use of “dynamic scoring” to claim that tax cuts will boost economic growth so much that revenue will come pouring into the Treasury. This effect is real, but small. Scrupulous dynamic scoring gets you much less revenue. Secretary Mnuchin has made it clear that the administration will rely heavily on this technique.

The question is: Will the Congressional Budget Office buy into the magical thinking? The answer is almost certainly no.

A second method is to “sunset”

some of the tax cuts after nine or 10 years, even though the majority party neither expects nor wants that to happen. Such legerdemain helps whittle an overweight tax cut down to manageable size within the 10-year budget window—and to zero thereafter. This makes the bill eligible for the Senate's “reconciliation,” process, allowing it to bypass a filibuster and pass with only 51 votes.

If those two gimmicks don't suffice, Congress can resort to what's called “directed scorekeeping,” a polite term for telling the Joint Committee on Taxation and the CBO to buzz off and let lawmakers do the calculating. In now-familiar words, it means using alternative facts.

After all is said and done, Americans will most likely still face a complicated, unfair, inefficient tax code. But the richest will pay much less. President Trump will declare it the greatest tax reform ever, and his supporters will have been suckered once again.

*Mr. Blinder is a professor of economics and public affairs at Princeton University and a former vice chairman of the Federal Reserve.*

## Trump and Congress Can Help Restore Campus Free Speech

By Harvey Silvergate

**T**he culture of censorship within higher education is now legendary. And although the problem is of long standing, the Obama administration made it worse by giving academic bureaucrats a convenient excuse—“the feds made us do it”—for punishing speech. The Trump administration and Congress could help restore academic freedom, without which higher education cannot flourish.

Campus censorship affects faculty as well as students and guest speakers. And conservatives aren't the only targets. At Louisiana State University, Teresa Buchanan's tenure didn't protect her from dismissal in 2015 for occasionally using vulgar language in her education classes. She did so, she said, to prepare future

teachers for the language they would encounter from some students. Administrators ignored a unanimous faculty committee recommendation against termination and a report of the American Association of University Professors that found Ms. Buchanan's academic freedom was violated.

In a statement to the press, LSU claimed it was following “the U.S. Department of Education's Office of Civil Rights' advisements.” That would be a 2013 OCR statement, in a settlement with the University of Montana, that in order to comply with federal antidiscrimination laws, universities must ban “unwelcome conduct of a sexual nature,” including “verbal” conduct—in other words, speech. LSU gave these “advisements” weight because of OCR's power to withhold federal funding.

The Obama administration's overreach in higher education produced many stories like Ms. Buchanan's.

The new administration has an opportunity to undo this damage. Education Secretary Betsy DeVos should instruct OCR to rescind its “guidance” undermining the right to free speech and guarantee that universities that receive federal dollars return to their role as centers of inquiry and learning, not censorship and indoctrination. Further, OCR's practice of setting national standards through “guidance”—without seeking comment from academic institutions and the public—should end. Future regulations should be subject to open debate, as mandated by the Administrative Procedure Act.

The department should further clarify that the governing definition of harassment in the educational

setting must be the one set forth by the Supreme Court in *Davis v. Monroe County Board of Education* (1999). Under *Davis*, “harassment” is limited to conduct that is discriminatory, targeted and “so severe, pervasive, and objectively offensive” that it deprives the victim of access to educational opportunities.

**Withdraw the Obama Title IX ‘guidance’ and tie federal funds to respect for the First Amendment.**

and physical safety with emotional comfort. Students who take offense at speech claim to be the victims of harassment or “bias incidents.” Rather than challenge students' notions that they are entitled to be “safe” from offense, administrators validate this behavior by establishing elaborate “bias reporting systems.” A FIRE survey of such systems uncovered one incident at Ohio State University in which students shared a meme comparing Hillary Clinton to Hitler. That prompted a mandatory dormitory floor meeting to discuss the “triggering” event.

The trend cannot be reversed unless universities—which too often behave like companies beholden to customers and regulators, rather than institutions that prepare students for citizenship—push back against illiberal expectations. One step is to adopt a version of the University of Chicago's 2015 free-speech policy statement, which asserts: “It is not the proper role of the University to attempt to shield individuals from ideas and opinions they find unwelcome, disagreeable, or even deeply offensive.”

Reviving free speech on campus will require action on multiple fronts and by many interested parties, including university trustees, administrators, faculty, students and donors. The federal government can't make that happen, but by making academic freedom a requirement for rather than an obstacle to federal aid, it can help.

*Mr. Silvergate, a co-author of “The Shadow University,” is a co-founder and board member of the Foundation for Individual Rights in Education. Samantha Harris, FIRE's vice president for policy research, contributed to this article.*

## THE WALL STREET JOURNAL.

PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

Rupert Murdoch  
Executive Chairman, News Corp

Gerard Baker  
Editor in Chief

Matthew J. Murray  
Deputy Editor in Chief

DEPUTY MANAGING EDITORS:

Michael W. Miller, Senior Deputy;

Thorold Barker, Europe; Paul Beckett,

Washington; Andrew Dowell, Asia;

Christine Glancy, Operations;

Jennifer J. Hicks, Digital;

Neal Lipschutz, Standards; Alex Martin, News;

Shazna Nessa, Visuals; Ann Podd, Initiatives;

Matthew Rose, Enterprise;

Stephen Wisniewski, Professional News

Paul A. Gigot, Editor of the Editorial Page;

Daniel Henninger, Deputy Editor, Editorial Page

WALL STREET JOURNAL MANAGEMENT:

Suzi Watford, Marketing and Circulation;

Joseph B. Vincent, Operations;

Larry L. Hoffman, Production

Robert Thomson  
Chief Executive Officer, News Corp

William Lewis  
Chief Executive Officer and Publisher

DOW JONES MANAGEMENT:

Mark Musgrave, Chief People Officer;

Edward Roussel, Innovation & Communications;

Anna Sedgley, Chief Operating Officer & CFO;

Katie Vannbeck-Smith, President

OPERATING EXECUTIVES:

Ramin Beheshti, Product & Technology;

Jason P. Conti, General Counsel;

Frank Filippo, Print Products & Services;

Steve Grycuk, Customer Service;

Kristin Heitmann, Transformation;

Nancy McNeill, Advertising & Corporate Sales;

Jonathan Wright, International

DJ Media Group:

Almar Latour, Publisher;

Kenneth Breen, Commercial

Professional Information Business:

Christopher Lloyd, Head;

Ingrid Verschuren, Deputy Head

DOW JONES  
News Corp

## Notable & Quotable

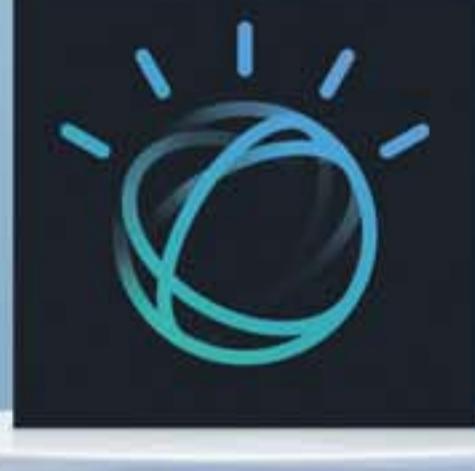
From “A Survey of Dartmouth's Political Landscape” by Alexander Agadjanian and Amanda Zhou in the *Dartmouth*, a student newspaper, April 26:

This sentiment of openness to politically divergent roommates was not equally distributed across students of different political stripes. While 61 percent of independents and 69 percent of Republicans said they would be comfortable with a roommate of opposing political views, only 39 percent of Democrats said so. Few independents (16 percent) and Republicans (12 percent) said they would be uncomfortable, while statistically Democrats were as likely to say they would be comfortable as they would be uncomfortable.

Opponents of free speech on campus conflate speech with violence,



▲ 8



## Can a billion people move more smoothly? With IBM Watson, KONE makes sure they can.

When you are in the business of people flow, it's critical that everyone travel efficiently, safely and reliably. Working with Watson IoT and IBM Global Business Services, KONE is able to analyze data from more than a million elevators and escalators to identify and predict potential problems before they happen. This minimizes downtime and keeps people moving. Only with Watson IoT + IBM Services. [ibm.com/konewithwatson](http://ibm.com/konewithwatson)

# BUSINESS & FINANCE

© 2017 Dow Jones & Company. All Rights Reserved.

\*\*\*\*\*

THE WALL STREET JOURNAL.

Monday, May 1, 2017 | B1

## Tribune Media Attracts Interest

By JOE FLINT

A potential bidding war is emerging for **Tribune Media Co.**, one of the nation's largest owners of local television stations.

**Sinclair Broadcast Group Inc.**, **21st Century Fox Inc.** in partnership with private-equity firm **Blackstone Group LP**, and **Nexstar Media Group Inc.** are all circling Tribune, according to people familiar with the matter. The deadline for final bids is Thursday, these people said.

With 42 television stations in some of the nation's biggest markets including New York, Los Angeles and Chicago, Tribune is very appealing. The Federal Communications Commission in early April made a change to its TV ownership rules that would make an acquisition of Tribune by another big broadcaster easier.

Baltimore-based Sinclair, which owns 173 stations, has stations in midsize and small markets. But it doesn't have a strong presence in the biggest cities, something a purchase of Tribune would provide. Tribune has a market cap of \$3.2 billion, and Sinclair has a market cap of \$3.6 billion.

Fox's interest in Tribune is motivated, in part, by a desire to keep Sinclair from owning it, one of the people said. Sinclair is already one of the biggest owners of stations "affiliated" with the Fox network, and acquiring Tribune would add an additional 14. That would give Sinclair significantly more leverage in negotiations with 21st Century Fox.

21st Century Fox has had several meetings with Tribune about an acquisition, people with knowledge of the talks said.

Blackstone, which doesn't own any television stations, would provide cash for a purchase of Tribune with Fox putting its 28 television stations into the partnership, an executive close to the two companies said.

21st Century Fox and Wall Street Journal parent **News Corp** share common ownership.

News of 21st Century Fox  
Please see **MEDIA** page B8

## Storms Tossed Insurers in Quarter

By LESLIE SCISM

Hail, tornadoes and an ice storm turned the first three months of 2017 into the most expensive first quarter in more than 20 years for U.S. insurers.

The bad weather continues. Over the weekend, tornadoes and severe flooding in Missouri, Texas, Arkansas, Mississippi and Tennessee killed at least 14 people, according to the Associated Press.

The unexpectedly harsh weather is surfacing in insurers' earnings. First-quarter underwriting results for **Travelers Cos.** worsened year over year as catastrophe costs jumped 9% to

\$347 million. **Allstate Corp.** and others have warned about increased storm-related claims ahead of their earnings reports, with many property-casualty insurers, including **American International Group Inc.** reporting this week.

These companies insure millions of cars and homes across the U.S., and some also insure businesses. Insurers are paying out for weather-related vehicle crashes, shattered windows and damage to roofs of cars and homes from the hail and fallen tree limbs.

Some insurers have said the weather was more typical of second quarters than the first

three months of the year. "We, like the broader industry, are experiencing historic levels of weather-related losses

### \$6B

How much insured damage severe storms did in first quarter

and clearly seeing a troubling weather trend," Marita Zuraitis, **Horace Mann Educators Corp.**'s chief executive, told analysts in an April 25 earnings call.

She said the company is "keenly focused on ensuring that our rate plan includes adequate increases to account for this volatility."

The insured damage from all natural disasters in the U.S. in the first quarter is estimated to total nearly \$7 billion, according to reinsurance specialist **Aon Benfield**. Of that, about \$6 billion is from severe storms.

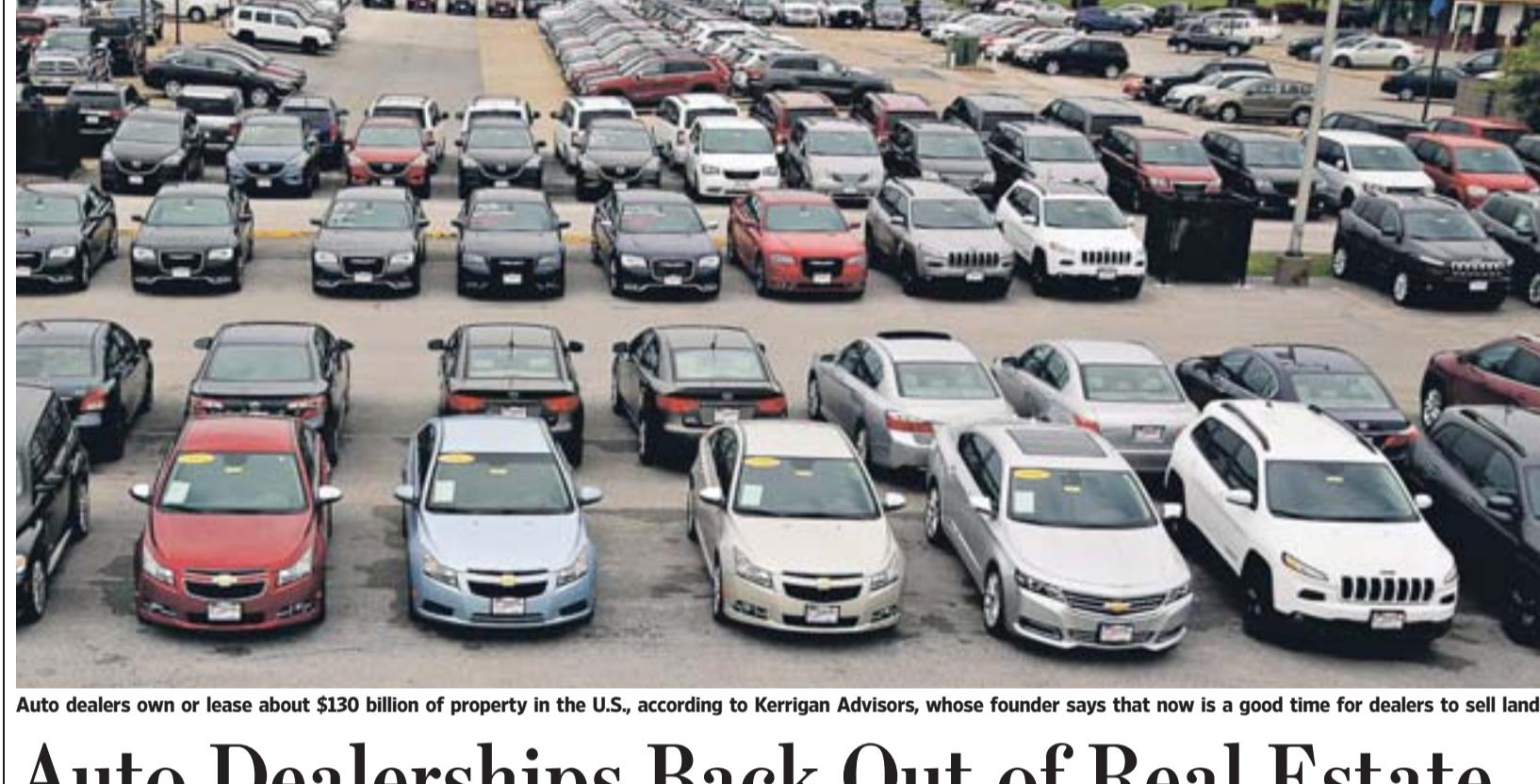
That makes this year's opening three months the most expensive first quarter on record for the insurance industry in paying out severe thunderstorm-related claims, the firm said. This year's first-

quarter cost compares with an average of about \$1.5 billion in such first-quarter insured losses from 2000 to 2016, Aon Benfield said.

According to preliminary government data, there were 425 tornadoes from January through March, compared with 205 in the same period in 2016, and an average of 93 in the same period for the three years 2014-2016.

How much impact the bad weather will have on U.S. consumers' insurance bills is unclear, but it is expected to add to the pressure that already has caused a 14% increase

Please see **INSURE** page B2



Auto dealers own or lease about \$130 billion of property in the U.S., according to Kerrigan Advisors, whose founder says that now is a good time for dealers to sell land.

## Auto Dealerships Back Out of Real Estate

Buyers check out cars online, so chains pare vehicle inventory and the property to store it

By ADRIENNE ROBERTS

**AutoNation Inc.**, the largest seller of new vehicles in the U.S., is making a \$500 million bet on the used-car business. To pay for it, the dealer chain is selling what has long been the industry's most precious asset outside of cars: property.

The move by AutoNation,

based in Fort Lauderdale, Fla., follows a broader trend in the business.

As car buyers increasingly use smartphones and internet tools to shape shopping decisions, several large chains are paring property holdings as they shrink the amount of inventory they keep close to the showroom.

Auto dealers own or lease \$134.4 billion of real estate in the U.S., according to Kerrigan Advisors, an advisory firm that helps dealers sell their businesses.

Dealers traditionally have

sought land on high-traffic roads with enough space to store gobs of inventory, requirements that led to big real-estate investments.

AutoNation, for instance, owns \$3 billion of real-estate assets. It will sell some of it to help raise as much as \$500 million to create a line of stand-alone used-car stores called "AutoNation USA," which the company says could deliver higher margins than the new-car business.

"It's a very prudent approach to brand extension," AutoNation Chief Executive

Mike Jackson said in an interview.

Car sellers are seeing buying behavior change, with shoppers sometimes spending more time searching for better deals while in the showroom instead of looking at a dealer's inventory.

Aware of this trend, sellers are storing inventory off-site on cheaper land.

Nearly 90% of car shoppers use the internet to shop for a vehicle, according to a 2016 study by the third-party shopping site Autotrader.com conducted by the research firm

IHS Automotive.

At the same time, commercial real-estate values have increased for the past eight years, amplifying the underlying property's role in the overall value of a dealership.

For those dealers who own the land in a prime location and whose business is thriving, the real estate is an asset, said Jamie Albertine, an analyst at Consumer Edge Research LLC. "But our sense is

Please see **CARS** page B2

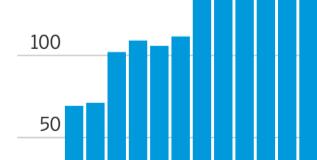
◆ Detroit is upbeat even as car sales are slowing down.....B3

HEARD ON THE STREET | By Jacky Wong

## Sony's Many Ways to Win

### Good Connection

Sony's quarterly network revenue



Note: \$1 billion=\$8.99 million

Source: the company

THE WALL STREET JOURNAL

million units as of February, but that has already dwarfed the sales of rivals including **Facebook's Oculus** and **HTC**. A better lineup of games could speed up adoption.

Another area in which Sony expects to deliver is its image sensor business. The company, which supplies **Apple**, has a dominant position in smartphone image sensors. Sales at Sony's semiconductor segment, a big part of which includes image sensors, grew by 36% last quarter from a year earlier.

Sony's music business looks relatively unexciting as the company forecast only flat growth. This may be too cautious. The company's streaming revenue surpassed that from physical sales last fiscal year, as streaming services like Spotify and Apple Music have lifted the music industry out of decades of declines.

Sony's shares have gone up 35% over the past year and are now trading at 17.3 times forward earnings, lower than the two-year average of 22.4, according to S&P Global Market Intelligence.

Given the potential growth, there could be more happy surprises in store for Sony.

well as download games and goodies. PlayStation users can also stream movies, cable channels and music on their devices. With a user base of 60 million for PlayStation 4, the chance for more subscription revenue looks good.

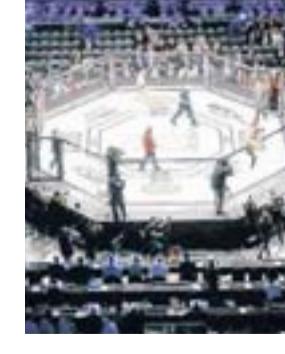
There could be unexpected upside from Sony's foray into one of the hottest technologies of the moment, virtual reality. Sales of the company's virtual-reality goggles, PlayStation VR, have ramped up slowly so far. It had sold only around a

### INSIDE



### DRUGMAKERS LEARN TO SHARE RISK

PHARMACEUTICALS, B3



### UFC FOUNDERS JUMP INTO INVESTING

FINANCE, B8

## Lenders Seek Change To a Measure of Risk

By TELIS DEMOS

Tucked inside a nearly 600-page legislative proposal to overhaul U.S. financial regulations are 93 words that could provide a windfall for bank investors seeking heftier dividends and share buybacks.

The words are contained in the bill to repeal and replace the Dodd-Frank Act, formally introduced last Wednesday by Texas Republican Jeb Hensarling, chairman of the House Financial Services Committee.

The section relates to an area of bank capital known as operational risk, a concept regulators have used since the financial crisis to measure the possibility that a bank's own actions, rather than unfavorable economic or market movements, could sink it. Operational risk is largely influenced by a bank's previous missteps, such as big legal settlements, and could require it to hold more capital.

While obscure and technical, the result is that the sins of the past linger on big banks' balance sheets. Bank analysts at Barclays PLC estimate \$236 billion in capital is tied up in operational risk at the four biggest U.S. lenders alone.

Bankers have become increasingly vocal in urging regulators, lawmakers and the Trump administration to change the way risk is measured. They

### Sins of the Past

The share of risk-weighted assets at big banks generated by operational risk

Morgan Stanley	35%
Bank of America	33%
Citigroup	28%
J.P. Morgan	27%
Wells Fargo	23%
Goldman Sachs	21%

Source: the companies

THE WALL STREET JOURNAL

want to free up capital that could be returned to shareholders or used for more lending.

James Dimon, chief executive of **J.P. Morgan Chase & Co.**, lashed out at the requirements in his recent annual letter to shareholders, saying regulators' approach "should be significantly modified if not eliminated." At the bank's investor day in February, he called operational risk a "false number."

The shareholders letter highlights that operational risk in 2016 increased J.P. Morgan's assets adjusted for risk by \$400 billion. Mr. Dimon added that U.S. banks hold about \$200 billion in capital against operational risk.

Please see **RISK** page B8

## INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

A	
Alibaba Group Holding	B8
Allergan	B3
Allstate	B1
Alphabet	A6,B2,B4,B9
Amazon.com	A6,B9
American International Group	B1
Anthem	B3
Aon Benfield	B1
Apple	B1,B9
AutoNation	B1
Avillion	B3
Axletree Solutions	A1
B	
Bank of America	B1
Barclays	B10
Berkshire Hathaway	A6
Blackstone Group	B1
Bonobos	B3
Boring	B4
Bristol-Myers Squibb	B3
C	
Chubb	B2
Cigna	B3
Citigroup	B1
Crust	R6
D	
Desert View Tower	R7
Deutsche Bank	A10
Devil's Rope Museum	R7
E	
Eli Lilly	B3
Engineering For Kids	R8
F	
Facebook	B1,B2,B9
Fertita Capital	B8
Fiat Chrysler Automobiles	B3,B10
First NBC Bank Holding	

## BUSINESS NEWS

# Detroit Is Upbeat as Car Sales Slow Down

BY MIKE COLIAS  
AND CHESTER DAWSON

DETROIT—U.S. car sales may be slowing, but the profit engines of Detroit's Big Three auto makers are in high gear.

**General Motors Co., Ford Motor Co. and Fiat Chrysler Automobiles** all beat Wall Street's expectations last week when they reported first-quarter earnings, mostly because of strength in the North American market. All three kept their full-year earnings forecasts intact, a signal they don't expect the wheels to fall off.

That comes despite clear signs overall demand for passenger vehicles is weakening. April is expected to mark the fourth straight monthly decline in U.S. vehicle sales when the industry reports volumes Tuesday, raising the likelihood that 2017 will end a seven-year run of increases.

Industry observers don't expect a collapse in sales, even if demand drifts below record levels hit last year. "Total sales are still strong from a historical perspective and the decline is very gradual," said Jessica Caldwell, an analyst at Edmunds.com, an auto-research firm and car-shopping website.

"It shouldn't really be seen as alarming."

Auto makers say they will trim production levels to reflect weaker demand instead of cutting prices to keep their factories humming.

GM, Ford and Fiat Chrysler are in a relatively stronger position than some of their foreign-based rivals because they rely less on sales of sedans, which are in free fall as buyers switch to crossover wagons, SUVs and pickup trucks. U.S. brands specialize in those vehicles, which tend to offer high profit margins.

"The industry shift that we're seeing around the world from cars and [into] SUVs plays to our strengths," said Mark Fields, Ford's chief executive officer, on a conference call with analysts on Thursday.

The shift toward light trucks—a category that includes pickups, SUVs and crossover wagons—is helping auto makers keep prices high overall, even as they dole out bigger discounts on cars. In recent months, light trucks have accounted for more than 60% of total sales volume.

J.D. Power, a market-data provider, says the average price paid by buyers from the start of the year through mid-April was a record \$31,380.

For two years now, auto-industry insiders have been girding for the end of an upward sales cycle that began in 2010 as the U.S. was emerging from the 2007-09 recession.

Concern spread when March sales fell to a seasonally adjusted annual rate of 16.6 million, the slowest in two years.

"The competitive intensity is increasing," Fiat Chrysler CEO Sergio Marchionne said on a call with analysts.

◆ Heard: What's keeping GM strong likely won't last..... B10

# Drug Firms Learn From Hollywood

Investors help cut risk, paying development costs in exchange for a portion of the upside

BY DENISE ROLAND

**Pfizer** Inc. executives hope the late-stage clinical trials on its new sickle-cell-anemia treatment will show strong benefits for sufferers of the blood disease. But if they don't, there will be a small silver lining: Pfizer didn't pay for the trials.

Last year, **NovaQuest Capital Management** LLC, a private-equity firm focused on life sciences, agreed to pay for Pfizer's Phase 3 trial program for the drug, called Rivipansel. Phase 3 is typically the final and costliest trial period.

NovaQuest is one of many investors that fund late-stage clinical trials. Such deals are becoming increasingly common as the pharmaceutical industry seeks to limit risk.

The strategy takes a page from Hollywood, where big production companies have long sought to attract upfront investment—in exchange for a cut of box-office sales or royalties—as they gamble on the next blockbuster film.

Large pharmaceutical companies, like big movie production houses, must contend with "most innovation occurring outside your walls, and your cost structure varying over time and project type," said Richard Evans, an analyst at SSR LLC.

NovaQuest is one of the more active trial backers, and over the years has counted **Sanofi SA**, **Takeda Pharmaceuticals Co.**, **Allergan PLC** and **Eli Lilly & Co.** as its partners in cost-sharing ventures that have spanned drug launches as well as research.

Rivipansel is an experimental drug Pfizer acquired from **GlycoMimetics Inc.** in 2011, while it was undergoing mid-stage trials, in a deal valued at \$340 million. For the final push, NovaQuest has agreed to



Pfizer and other drugmakers have enlisted cost-sharing partners to help fund some clinical trials.

## Hepatitis C Therapy Approved in China

All-oral Bristol-Myers treatment combines two drugs

China's drug regulator approved **Bristol-Myers Squibb** Co.'s all-oral treatment for hepatitis C, which will be the first therapy of its kind for the liver disease to be sold in the country, giving the U.S. company a leg up in the Chinese market.

Friday's decision by the China Food and Drug Administration means the estimated 10 million Chinese infected with hepatitis C will be able to gain access to a treatment that has been available in other markets, including Japan, for several years.

Chinese patients have mainly relied on older treatments for hepatitis C, which typically involve painful injections of drugs that often produce severe side effects such as headaches and hair loss.

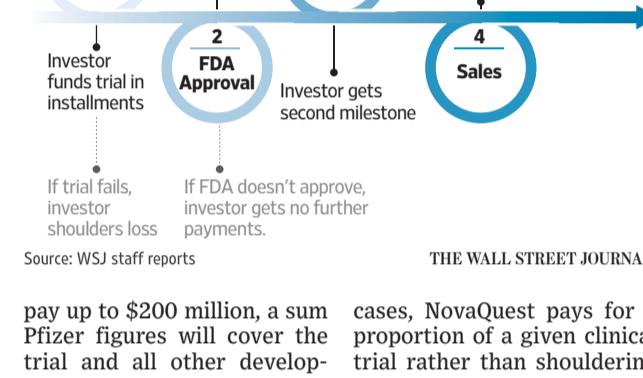
The Bristol-Myers treatment combines two antiviral drugs, daclatasvir and asunaprevir. In its decision, the agency said the combination was approved for treating a type of hepatitis C known as genotype 1b, the most prevalent in China. The regulator also approved daclatasvir for use in combination with other drugs to treat more types of the disease.

Left untreated, hepatitis C can scar the liver, lead to liver cancer and even result in death. More people in China are infected than the rest of the world combined, according to Bristol. But until the approval of the company's drug, China didn't authorize use of one of the direct-acting all-pill regimens that have transformed treatment elsewhere, curing nearly all patients with a few years' treatment and without painful injections.

—Fanfan Wang

## Sharing Risk, Sharing Reward

Outside investors shoulder losses if a drug fails, but stand to make big gains if it succeeds



Source: WSJ staff reports

THE WALL STREET JOURNAL

pay up to \$200 million, a sum Pfizer figures will cover the trial and all other development costs. If the drug is successful, NovaQuest could receive a series of payments totaling as much as \$267 million, plus royalties on sales, for the next eight years.

"People look at us as an alternative," said NovaQuest founding partner William Robb.

The structures of its deals vary, he said, and in most

cases, NovaQuest pays for a proportion of a given clinical trial rather than shouldering the entire cost.

A Pfizer spokeswoman said that while the company still self-funded most of its clinical trials, it was increasingly seeking to collaborate with external partners to "increase the potential of our innovation activities."

Drugmakers, facing declining returns on their research dollars, are using various

strategies to supplement their fixed annual research-and-development budgets. These include striking up collaborations with one another to pool the costs and rewards of drug programs they consider especially risky or expensive. They also trim their own research investment by selling the rights to promising pipeline drugs that fall outside of their own areas of interest.

The drawback: sharing risk also involves sharing the rewards. Such collaborations involve the company in question agreeing to relinquish some of the drug's profit to its partners.

"R&D has periods of feast and famine," said Luciano Rossetti, head of global research and development at **Merck KGaA**. The German company recently reached a deal with **Avillion LLP**, a London-based group set up in 2013 that finances and executes clinical trials for drugmakers. Under that deal, Avillion will bankroll and execute the Phase 2 and 3 development of an experimental psoriasis drug.

Left untreated, hepatitis C can scar the liver, lead to liver cancer and even result in death. More people in China are infected than the rest of the world combined, according to Bristol. But until the approval of the company's drug, China didn't authorize use of one of the direct-acting all-pill regimens that have transformed treatment elsewhere, curing nearly all patients with a few years' treatment and without painful injections.

—Fanfan Wang

# As Retailers Close Stores, E-Retailer Opens Them

BY KHADEEJA SAFDAR

While many retailers are scrambling to close storefronts, one internet upstart is opening them—but for just a few months at a time.

Greats, an online sneaker brand founded in 2013, plans to open at least 10 locations over the next two years by signing short-term leases ranging from three months to one year.

"Given the store closures and changes in the industry, this is the best route for us," said Rachael Ulman, **Greats Brand Inc.**'s chief operating officer. "Right now we don't even know what we don't know."

The Brooklyn-based brand, which sells sneakers ranging from \$50 to \$200, manufactures most products in Italy and markets them directly to consumers online. It has tested three temporary stores since 2014, most recently a location in Williamsburg, Brooklyn, that was open for one year. In March, the company

received \$10 million in a funding round led by private-equity firm JH Partners.

The brand's expansion comes as many traditional chains struggle to cope with years of overbuilding and a shift to online shopping. In early April, Payless ShoeSource Inc., one of the country's largest shoe retailers, filed for chapter 11 protection and said it plans to close about 400 locations.

Online brands are treading more carefully into physical retail. Several brands, such as Everlane, Casper and Warby Parker, have opened temporary stores to test foot traffic and experiment with new concepts. Reformation, an eco-friendly women's apparel brand, opened a store in Miami by signing a three-month lease starting in March.

Greats is targeting locations between 700 to 1,000 square feet—about the size of a coffee shop—primarily in urban areas.

One challenge for online brands is to ensure that new

locations increase sales, rather than cannibalize existing business.

"We have to see the interplay between our online and offline channels," said Ms. Ulman. "A customer who shops online and offline is supposed to be very valuable, but we want to understand just how much more valuable."

Historically, a short-term lease for a retailer was consid-

ered anything less than 15 years, according to the International Council of Shopping Centers. Landlords are increasingly viewing leases less than a year as necessary to minimize vacancies and spruce up shopping centers.

Temporary stores are also less risky for landlords, who often make bigger investments to improve spaces for long-term tenants. Short-term ten-

ants typically get what is known as a "vanilla box"—the shell of a building, said Liz Holland, CEO of real-estate developer Abbell Associates. "It's not just the retailer that's testing out the location. It's also the landlord testing out the retailer."

Online apparel brands are finding that they don't need much to set up a store. The evolution of point-of-sales technology means that transactions can be made on phones and tablets. Some newer retailers don't even keep much inventory. **Bonobos**, which started out selling men's clothing online, lets customers try on items at its more than two dozen "guide-shops" and mails purchases to their doorsteps.

Greats sells eight core styles of shoes in different colors and materials, making its business more mobile than that of a traditional retailer.

At its new locations, the company plans to bring its own interior elements such as shelving,

greenery and lighting.

## BUSINESS WATCH

ANTHEM

### Ruling Blocking Deal For Cigna Is Upheld

A federal appeals court on Friday declined to allow health insurer **Anthem Inc.** to acquire **Cigna Corp.**, affirming a trial judge's recent ruling that blocked the deal on antitrust grounds.

The decision is another major legal blow to Anthem's effort to salvage a \$48 billion transaction.

A three-judge panel of the U.S. Court of Appeals for the District of Columbia Circuit, in a divided ruling, rejected Anthem's argument that the trial court had failed to sufficiently weigh the company's claim that billions of dollars in cost savings would flow from the merger.

Cigna said in a regulatory filing that it was continuing to work through the litigation process, and a spokesman declined to comment beyond the filing. Anthem said Friday it was disappointed by the decision.

—Brent Kendall

and Anna Wilde Mathews



Brazilian businessman Eike Batista, shown in January, awaits trial.

BRAZIL

### Eike Batista Released To House Arrest

Brazilian businessman Eike Batista was released from prison early Sunday to house arrest, where he will be monitored while he awaits trial on charges of corruption and money laundering.

A Supreme Court justice on

Friday ordered the release of the former billionaire, saying Mr. Batista's alleged crimes, though serious, don't require his jailing.

Mr. Batista was arrested in January amid a sprawling graft investigation.

Before going to jail, Mr. Batista and his lawyer declined to comment on the accusations. His lawyer couldn't be reached Sunday morning.

—Luciana Magalhaes

**synchrony**  
BANK

Our great rates  
are a thing of beauty.

Enjoy award-winning CD rates  
consistently above the national average.\*

12-MONTH  
CD

1.35%  
APY\*

\$2,000  
minimum  
opening  
deposit

Visit us at [synchronybank.com](http://synchronybank.com) or call 1-800-753-6870 to get started.

\*Annual Percentage Yield (APY) is accurate as of 5/1/17 and subject to change at any time without notice. A minimum of \$2,000 is required to open a CD and must be deposited in a single transaction. A penalty may be imposed for early withdrawals. Fees may reduce earnings. After maturity, if you choose to roll over your CD, you will earn the base rate of interest in effect at that time. Visit [synchronybank.com](http://synchronybank.com) for current rates, terms and account requirements. Offer applies to personal accounts only.

NATIONAL AVERAGE: National Average APYs are based on specific product types of top 50 U.S. banks (ranked by total deposits) provided by Informa Research Services, Inc. as of 4/1/17. CD Rates: Average APYs are based on certificate of deposit accounts of \$25,000. Although the information provided by Informa Research Services, Inc. has been obtained from the various institutions, accuracy cannot be guaranteed.

Member  
FDIC

## TECHNOLOGY

WSJ.com/Tech

# Tesla's Musk Dreams Big About Traffic

Startup would create underground network of roadways designed to curb congestion

BY ROLFE WINKLER

Silicon Valley entrepreneur Elon Musk showed off more ambitious, often head-scratching projects Friday, including an underground roadway system beneath cities that would zip cars through tunnels.

Mr. Musk, chief executive of electric-car maker Tesla Inc., rocket company Space Exploration Technologies Corp., or SpaceX, and the nascent brain-computer company Neuralink Corp., used an appearance at the TED 2017 conference in Vancouver to show the first concept video for the Boring Co., a startup he hopes would help kick-start a tunnel network underneath Los Angeles to alleviate traffic congestion.

He also reiterated Tesla's plan to announce "probably four" more of its giant battery factories by year-end and showed a photo of an electric semi truck, which the com-

pany has said would reveal in more detail in September.

The talk also included previous animations Mr. Musk has shown of a rocket SpaceX proposes to build to send people to Mars.

He didn't discuss his newest company, Neuralink.

Mr. Musk is a hero to technology types who believe he can usher in a science fiction-inspired future, and often criticized by some Wall Street investors for making what they see as ridiculous promises. He has delivered highly popular electric vehicles and built the first company to return a rocket booster from orbit and launch it again. On the other hand, he has burned through billions in capital and routinely misses aggressive product-release schedules.

He said he is devoting just 2% to 3% of his time to the Boring Co., which he said is staffed today with interns and part-timers and works with secondhand machinery. But TED audience members seemed no less wowed by the company's first concept video.

The animation showed elevators built into the street



Elon Musk says cars traveling in a tunnel system could reach speeds of as much as 130 mph.

that would lower cars to a tunnel network running on many levels, where they would travel on high-speed "skates" along what appear to be magnetic rails.

These skates, Mr. Musk said, would top out at roughly 130 miles an hour.

To lower the cost of current tunneling technology, and

make his network possible, Mr. Musk said he would decrease tunnel diameter and develop boring machines that could reinforce tunnels as they go, speeding the digging process.

Days after Uber Technologies Inc. revealed plans to test flying cars in three years, Mr. Musk criticized the idea of taking to the skies to alleviate

road traffic.

"If something is flying over your head...that is not an anxiety-reducing situation," he said. As a person walking down the street, "you're thinking, 'Did they service their hubcap, or is it going to come off and guillotine me?'"

—Eliot Brown contributed to this article.

## At Yahoo, CEO Pay Exceeds \$27 Million

BY DEEPA SEETHARAMAN

Yahoo Inc. Chief Executive Marissa Mayer's compensation totaled \$27.4 million last year, a package mostly unaffected by a deal to sell Yahoo's core business to **Verizon Communications** Inc. or two large security breaches that nearly scuttled the acquisition.

Ms. Mayer's base salary was \$1 million, unchanged from the previous two years, according to a filing Friday with the Securities and Exchange Commission.

The bulk of her 2016 compensation comes in the form of stock awards valued at \$11.3 million and options awards valued at \$13.3 million, according to the filing.

Those awards are part of the more than \$187 million she stands to make from stock options, restricted-stock units, and other equity-based awards if she leaves after Yahoo's core business is sold to Verizon for \$4.5 billion. The value of her payout has increased as Yahoo shares have tripled since her arrival in 2012. Ms. Mayer hasn't said whether or not she will join Verizon after the sale is completed.

She landed her big pay package despite a 14% drop in Yahoo's revenue last year, excluding commissions paid to partners for web traffic.

The Verizon sale was announced last summer, four years after Ms. Mayer was hired as Yahoo's CEO to revive the faded brand.

Instead, she cut the deal to sell to Verizon. Ms. Mayer and other top Yahoo executives are eligible for accelerated vesting of all stock options, restricted-stock units, and other equity-based awards outstanding when the deal closes, according to a proxy filing published April 24.

## Google Chief's Compensation Doubled Last Year

BY DEEPA SEETHARAMAN

Google Chief Executive Sundar Pichai's pay package doubled to \$200 million last year, making him the highest paid executive at parent company **Alphabet** Inc., according to a regulatory filing Friday.

Eric Schmidt, Alphabet's executive chairman, saw his compensation decline 46% to

\$4.3 million, down from more than \$8 million in 2015, when he also received a \$6 million bonus. Alphabet Chief Financial Officer Ruth Porat's pay jumped 26% to \$39 million, up from \$31 million the previous year, buoyed by the higher value of her stock awards.

Much of the surge in Mr. Pichai's

stemmed from stock awards, the value of which doubled last year after he received a large equity award that February. Mr. Pichai collects 99.7% of his annual compensation in equity and just 0.3% in salary. Alphabet gives large equity awards to many top executives, including Mr. Pichai and Ms. Porat, in even-numbered years.

Mr. Pichai received a salary of \$650,000 last year, roughly on par with the \$652,500 he earned the year before, as well as \$322,241 for personal security and \$38,561 for personal use of Google's aircraft.

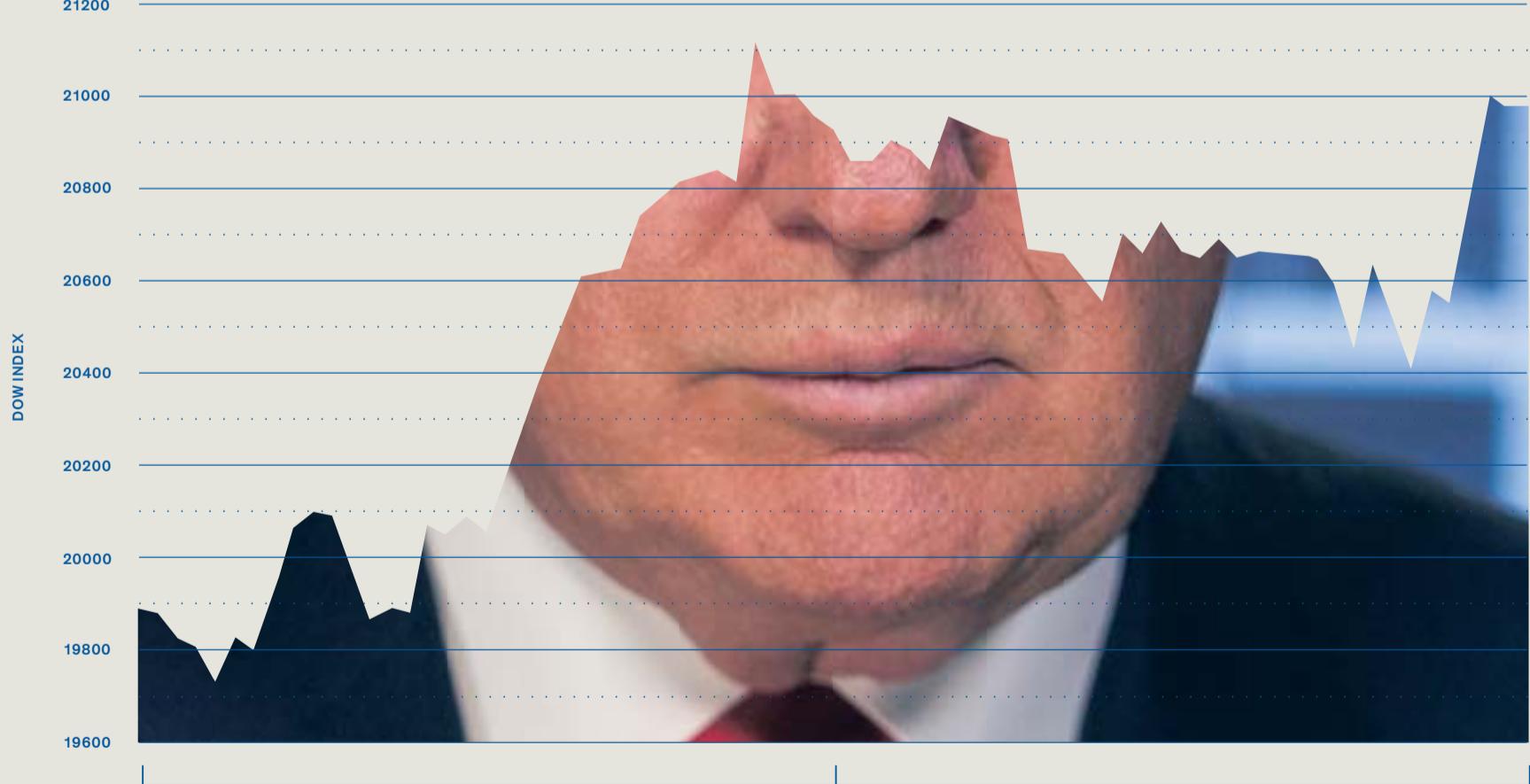
Alphabet's co-founders, CEO Larry Page and President Sergey Brin, were each paid a symbolic \$1, as has been the

case in previous years.

Google has built the world's largest advertising business on the back of its search engine, and more users are clicking on its ads thanks to increasing internet usage in the smartphone era.

Google is also extending into new forms of advertising, such as mobile search and automated ad buying.

BARRON'S



Smart investors see the whole picture

After 100 days of unpredictability, at least one thing is certain. Barron's brings you the insight and analysis you need to make educated and informed investments. Sharpen your perspective for the next 100 days (and the 1,261 after that) with the world's premier investing publication.

Prosper in a pivotal time

[barrons.com](http://barrons.com)



## Discover my Turkey story!

Turkey connects Europe and Asia and its strategic export base provides an essential value for Hyundai. The production capacity and operation only adds to its benefits.

Turkey is projected to grow and become a highly advanced country in the future which persuades Hyundai to exist in further years to come.

Come to Turkey.  
Discover your own story.

**Mong Hyun Yoon**  
Hyundai Assan Turkey  
President & CEO

**Turkey**

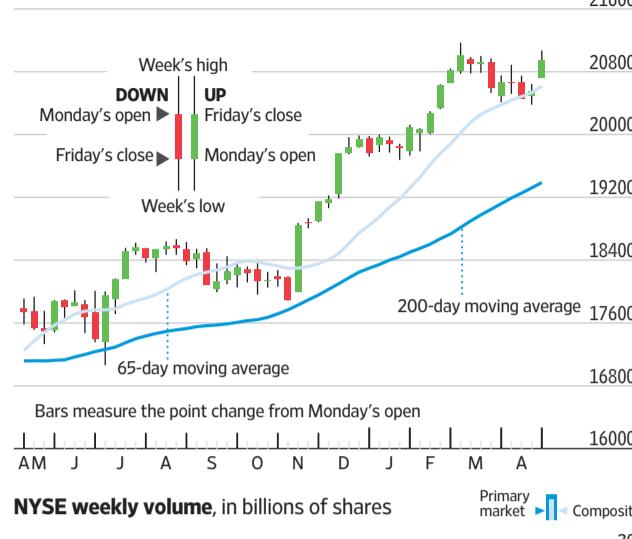
Discover  
the potential

Discover your story at:  
[turkeydiscoverthepotential.com](http://turkeydiscoverthepotential.com)  
#myturkeystory

## MARKETS DIGEST

### Dow Jones Industrial Average

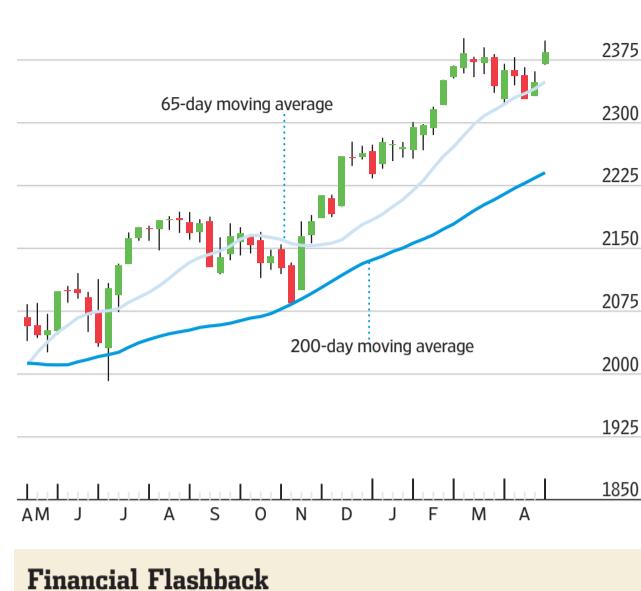
**20940.51** ▲392.75, or 1.91% last week  
High, low, open and close for each of the past 52 weeks



Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

### S&P 500 Index

**2384.20** ▲35.51, or 1.51% last week  
High, low, open and close for each of the past 52 weeks



**Financial Flashback**  
The Wall Street Journal, May 1, 1989

Mobil Corp.'s board approved the sale of the company's operations in South Africa, citing onerous U.S. legislation as the reason.

### New to the Market Public Offerings of Stock

#### IPOs in the U.S. Market

Initial public offerings of stock expected this week; might include some offerings, U.S. and foreign, open to institutional investors only via the Rule 144a market; deal amounts are for the U.S. market only

Expected pricing date	Filed	Issuer/business	Symbol/primary exchange	Shares (mil.)	Pricing Range(\$)	Low/High	Bookrunner(s)
5/3	3/28	Antero Midstream GP LP GP in Antero Midstream company.	AMGP N	37.3	22.00/ 25.00	MS, Barclays, JPM, Robert W. Baird, Citi, GS, WFS	
5/3	4/7	Biohaven Pharmaceutical Holding Co Ltd Developing treatments for migraine and neurological disorders.	BHVN N	8.3	14.00/ 16.00	MS, Piper Jaffray, Barclays	
5/3	2/14	Liberty Oilfield Services LLC Oilfield service company.	BDFC N	22.9	16.00/ 19.00	MS, GS, WFS, Citi, JPM, Evercore Partners	
5/3	4/7	UroGen Pharmaceuticals Ltd Drug delivery systems developer.	URGN Nq	3.5	12.00/ 14.00	Jefferies, Cowen & Company	
5/4	4/3	KKR Real Estate Finance Trust Inc REIT focused on commercial real estate debt.	KREF N	10.0	20.50/ 21.50	WFS, MS, KKR, Barclays, GS, JPM	
5/4	4/11	Ovid Therapeutics Inc Clinical-stage biotech for rare neurological disorders.	OVID Nq	5.0	15.00/ 17.00	Citibank, Cowen & Co, William Blair, JPM	

#### Lockup Expirations

Below, companies whose officers and other insiders will become eligible to sell shares in their newly public companies for the first time. Such sales can move the stock's price.

Lockup expiration	Issue date	Issuer	Symbol	Offer price(\$)	Offer amt (\$ mil.)	Through Friday (%)	Lockup provision
May 3	Nov. 4, '16	Smart Sand	SND	11.00	148.0	10.7	180 days

Sources: Dealogic; WSJ Market Data Group

#### IPO Scorecard

Performance of IPOs, most-recent listed first

Company	SYMBOL	Friday's close	Offer price(\$)	1st-day close	Company	SYMBOL	Friday's close	Offer price(\$)	1st-day close
China Rapid Finance	XRF	6.40	6.7	...	Zymeworks	ZYME	13.00	...	...
Carvana	CVNA	11.10	-26.0	...	Floor & Decor	FND	32.40	54.3	1.1
Cloudera	CLDR	18.10	20.7	...	Verona	VRNA	13.50	...	...
Emerald Expositions	EEX	19.50	14.7	...	Catasys	CATS	5.15	7.3	-0.6
NCS Multistage	NCSM	20.01	17.7	...	Select Energy Svcs	WTTR	15.37	9.8	9.6

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

"Shelf registrations" allow a company to prepare a stock or bond for sale, without selling the whole issue at once. Corporations sell as conditions become favorable. Here are the shelf sales, or takedowns, over the last week:

Issuer/Industry	Takedown date/Registration date	Deal value (\$ mil.)	Registration (mil.)	Bookrunner(s)
TransEnterix Inc Healthcare	April 28 Nov. 7/14	\$24.9	\$180.5	Stifel
FuelCell Energy Inc Computers & Electronics	April 28 Jan 12/17	\$15.4	\$150.0	Oppenheimer Inc
Brookline Bancorp Inc Finance	April 27 Aug. 5/14	\$75.0	\$200.0	Piper Jaffray
Southern First Bancshares Inc Finance	April 27 March 30/17	\$22.9	\$50.0	Sandler O'Neill & Partners
CorMedix Inc Healthcare	April 27 April 9/15	\$10.0	\$100.0	HC Wainwright & Co LLC
TransUnion Professional Services	April 26 Sept. 8/16	\$586.6	...	JPM, GS, MS
Crown Castle International Corp Telecommunications	April 26 March 27/15	\$447.0	...	Barclays, RBC Cptl Mkts, Citi, JPM
TrueCar Inc Computers & Electronics	April 26 Jan. 19/17	\$170.8	\$357.6	GS, JPM, RBC Cptl Mkts, JMP Securities LLC
Medical Properties Trust Inc Real Estate/Property	April 25 Dec. 31/15	\$571.4	...	GS, BofA ML, KeyBanc, Brdcs, CS, JPM, RBC, SunTrust
Karyopharm Therapeutics Inc Healthcare	April 25 Nov. 8/16	\$40.0	\$200.0	Cantor Fitzgerald & Co
ContraVir Pharmaceuticals Inc Healthcare	April 25 March 9/15	\$12.0	\$200.0	Canaccord Genuity
Marrone Bio Innovations Inc Chemicals	April 25 Dec. 9/16	\$8.0	\$50.0	Natl Sec.

Sources: WSJ Market Data Group; FactSet Research Systems

#### International Stock Indexes

Source: SIX Financial Information; WSJ Market Data Group

Sources: SIX Financial Information; WSJ Market Data Group

## CLOSED-END FUNDS

Listed are the 300 largest closed-end funds as measured by assets. Closed-end funds sell a limited number of shares and invest the proceeds in securities. Unlike open-end funds, closed-ends generally do not buy their shares back from investors. Who will buy a closed-end fund depends on who wants to cash out its holdings. **a**-The NAV and price are as of a week earlier. **b**-The NAV is fully diluted. **c**-NAV is as of Thursday's close. **d**-NAV is as of Wednesday's close. **e**-NAV assumes rights offering is fully subscribed. **f**-Rights offering in process. **g**-Rights offering announced. **h**-Lipper data has been adjusted for rights offering. **j**-Rights offering has expired, but Lipper data not yet adjusted. **k**-NAV as of previous day. **o**-Tender offer in process. **v**-NAV is converted at the commercial rate. **w**-Convertible Note-NAV (notional value). **x**-NAV assumes that the information is not available or not applicable. **NS** signifies fund not in existence of entire period. **12-month yield** is computed by dividing income dividends paid (during the previous twelve months) for periods ending at month-end or during the previous fifty-two weeks for periods ending at any time other than month-end) by the latest month-end market price adjusted for capital gains distributions.

Source: Lipper

Friday, April 28, 2017

**52 wk**

**Prem Ttl**

**Fund (SYM)** **NAV Close/Disc Ret**

**General Equity Funds**

Adams Divers Equity Fd **ADX** 16.63 14.05 -15.5 19.9

Boulder Growth & Income **BIF** 11.37 9.46 -16.8 23.1

Central Securities **CET** 29.33 24.94 -15.0 34.2

Coh Steer Opprty Fd **FOF** 13.83 10.07 -5.5 27.4

Cornerstone Strategic **CLM** 13.39 16.67 +24.5 32.5

EtnVnc TaxAdvDiv **EVT** 22.29 21.80 -2.2 18.0

Gabelli Dividend & Incm **GDV** 22.97 21.48 -6.5 22.1

Gabelli Equity Trust **GAB** 6.20 6.15 -0.4 23.3

Genl American Investors **GAI** 40.26 34.13 -15.4 23.1

Hink John TaxAdv **HTD** 26.15 26.11 -0.2 18.0

Liberty All-Star Equity **USA** 6.39 5.50 -13.9 21.0

Royce Micro-Cap **RMT** 9.84 8.71 -11.5 28.1

Royce Value Trust **RVT** 16.39 14.57 -11.4 31.1

Source Capital **SOR** 42.82 33.68 -10.9 6.4

Tri-Continental **TY** 27.32 23.68 -13.3 22.1

**Specialized Equity Funds**

Adams Natural Rscs Fd **PEO** 22.44 19.40 -13.5 6.4

AllnGln NFJ Div Interst **NFJ** 14.54 13.14 -9.6 15.5

AlpnGlbPrProp **AWP** 6.81 6.08 -10.7 18.8

ASA Gold & Prec Metals **ASA** 13.39 11.93 -10.9 -11.9

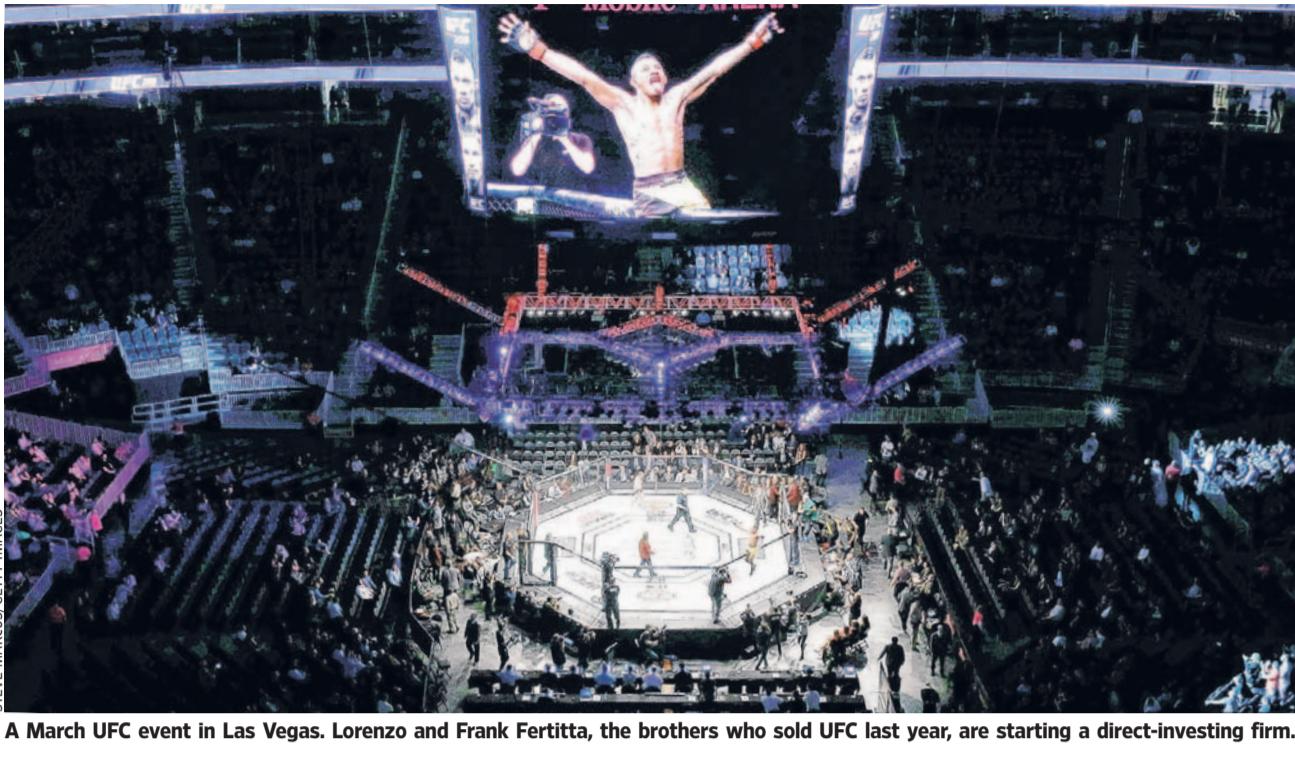
Blkrk Enh Cap Inc **CHI** 15.85 14.83 -6.4 19.2

		<b>52 wk</b>		
<b>Fund (SYM)</b>	<b>NAV</b>	<b>Prem</b>	<b>Ttl</b>	
Blkrk Engy Res Tr <b>BGR</b>	14.85	13.55	-8.8	2.0
BlackRock Enh Eq Div Tr <b>BDJ</b>	9.40	8.70	-7.4	23.2
BlackRock Global Trust <b>BOE</b>	14.22	13.01	-8.5	18.5
Blkrk Health Sci <b>BME</b>	34.20	34.99	+2.3	4.5
Neuberger Berman MplIncm <b>NM</b>	10.96	9.97	-9.0	44.2
Neuberger Berman Rmt <b>NR</b>	5.91	5.38	-9.0	13.9
Nuveen Dow 30 Dynamic <b>DIAK</b>	17.15	16.16	-5.8	22.7
Nuveen Diversified Div <b>JDC</b>	12.83	12.23	-4.7	21.6
Nuveen Engy Pfd Fd <b>JMF</b>	13.36	13.44	+0.6	26.6
Nuveen Nasdaq Qm Div <b>QDQ</b>	21.03	21.56	+2.5	31.4
Nuveen Real Est Incm Fd <b>JRS</b>	11.38	11.32	-0.5	13.9
Nuv S&P 500 Dyn Overwrt <b>SPXK</b>	NA	15.35	NA	23.5
Central Fund of Canada <b>CGA</b>	12.58	NA	-4.1	NA
ClearBridge Amergy <b>CBA</b>	9.76	NA	3.2	NA
ClearBridge Enrgy MLP <b>CEN</b>	16.91	NA	2.3	23.5
ClearBridge Enrgy MLP Op <b>EMO</b>	NA	13.57	NA	19.1
Clearbridge Engy MLP Tr <b>CTR</b>	NA	13.60	NA	22.9
Cooper Utility & Infr <b>BUI</b>	20.58	20.66	+0.4	23.0
CBRE Clarion GblRtEstnmc <b>IGR</b>	8.65	7.66	-11.4	5.1
Central Securities <b>CET</b>	29.33	24.94	-15.0	34.2
Coh Steer Opprty Fd <b>FOF</b>	13.83	10.07	-5.5	27.4
Cornerstone Strategic <b>CLM</b>	13.39	16.67	+24.5	32.5
EtnVnc TaxAdvDiv <b>EVT</b>	22.29	21.80	-2.2	18.0
Gabelli Dividend & Incm <b>GDV</b>	22.97	21.48	-6.5	22.1
Gabelli Equity Trust <b>GAB</b>	6.20	6.15	-0.4	23.3
Genl American Investors <b>GAI</b>	40.26	34.13	-15.4	23.1
Hink John TaxAdv <b>HTD</b>	26.15	26.11	-0.2	18.0
Liberty All-Star Equity <b>USA</b>	6.39	5.50	-13.9	21.0
Royce Micro-Cap <b>RMT</b>	9.84	8.71	-11.5	28.1
Royce Value Trust <b>RVT</b>	16.39	14.57	-11.4	31.1
Source Capital <b>SOR</b>	42.82	33.68	-10.9	6.4
Tri-Continental <b>TY</b>	27.32	23.68	-13.3	22.1

		<b>52 wk</b>		
<b>Fund (SYM)</b>	<b>NAV</b>	<b>Prem</b>	<b>Ttl</b>	
Macquarie Gbl Infrastr <b>MGU</b>	26.53	23.40	-11.8	18.2
Neuberger Berman MplIncm <b>NM</b>	10.96	9.97	-9.0	44.2
Neuberger Berman Rmt <b>NR</b>	5.91	5.38	-9.0	13.9
Nuveen Dow 30 Dynamic <b>DIAK</b>	17.15	16.16	-5.8	22.7
Nuveen Diversified Div <b>JDC</b>	12.83	12.23	-4.7	21.6
Nuveen Engy Pfd Fd <b>JMF</b>	13.36	13.44	+0.6	26.6
Nuveen Nasdaq Qm Div <b>QDQ</b>	21.03	21.56	+2.5	31.4
Nuveen Real Est Incm Fd <b>JRS</b>	11.38	11.32	-0.5	13.9
Nuv S&P 500 Dyn Overwrt <b>SPXK</b>	NA	15.35	NA	23.5
Central Fund of Canada <b>CGA</b>	12.58	NA	-4.1	NA
ClearBridge Amergy <b>CBA</b>	9.76	NA	3.2	NA
ClearBridge Enrgy MLP <b>CEN</b>	16.91	NA	2.3	23.5
ClearBridge Enrgy MLP Op <b>EMO</b>	NA	13.57	NA	19.1
Clearbridge Engy MLP Tr <b>CTR</b>	NA	13.60	NA	22.9
Cooper Utility & Infr <b>BUI</b>	20.58	20.66	+0.4	23.0
CBRE Clarion GblRtEstnmc <b>IGR</b>	8.65	7.66	-11.4	5.1
Central Securities <b>CET</b>	29.33	24.94	-15.0	34.2
Coh Steer Opprty Fd <b>FOF</b>	13.83	10.07	-5.5	27.4
Cornerstone Strategic <b>CLM</b>	13.39	16.67	+24.5	32.5
EtnVnc TaxAdvDiv <b>EVT</b>	22.29	21.80	-2.2	18.0
Gabelli Dividend & Incm <b>GDV</b>	22.97	21.48	-6.5	22.1
Gabelli Equity Trust <b>GAB</b>	6.20	6.15	-0.4	23.3
Genl American Investors <b>GAI</b>	40.26	34.13	-15.4	23.1
Hink John TaxAdv <b>HTD</b>	26.15	26.11	-0.2	18.0
Liberty All-Star Equity <b>USA</b>	6.39	5.50	-13.9	21.0
Royce Micro-Cap <b>RMT</b>	9.84	8.71	-11.5	28.1
Royce Value Trust <b>RVT</b>	16.39	14.57	-11.4	31.1
Source Capital <b>SOR</b>	42.82	33.68	-10.9	6.4
Tri-Continental <b>TY</b>	27.32	23.68	-13.3	22.1

		<b>52 wk</b>		
<b>Fund (SYM)</b>	<b>NAV</b>	<b>Prem</b>	<b>Ttl</b>	
Calamos CHI <b>CHI</b>	11.17	11.34	+1.5	31.3
<b>World Equity Funds</b>				
Alpine Tot Dyn Div <b>ADD</b>	9.56	8.62	-9.8	24.5
Calamos Gbl Dyn Incm <b>CHW</b>	8.70	8.23	-5.4	29.4
Genl Genl Inv <b>CGI</b>	29.30	20.65	-29.1	21.6
China Fund <b>CHN</b>	19.41	17.59	-9.4	24.8
Clough Global Opp Fd <b>GLO</b>	11.36	10.65	-6.3	25.9
EtnVncTxAdvDiv <b>ETG</b>	17.20	16.75	-2.6	24.9
Eaton Vance AdvtOpport <b>ETO</b>	23.57	23.72	+0.6	18.6
First Trust Advt <b>EDU</b>	19.19	17.87	-6.7	21.5
India Fund <b>IFN</b>	29.22	26.39	-9.7	25.5
India Fund <b>IFN</b>	12.30	10.94	-11.1	24.9
Japan Smal Cap <b>JOF</b>	12.30	12.04	-1.1	24.9
Korea Fund <b>KF</b>	42.59	38.75	-9.0	20.5</

## BANKING &amp; FINANCE



A March UFC event in Las Vegas. Lorenzo and Frank Fertitta, the brothers who sold UFC last year, are starting a direct-investing firm.

## Former UFC Owners Try Finance

BY JULIET CHUNG

The Las Vegas-based brothers who built mixed martial-arts company UFC into a \$4 billion enterprise are using some of that money to start a direct-investing firm.

Lorenzo and Frank Fertitta, who sold UFC to Hollywood talent agency and other investors last year for roughly \$4 billion, have started **Fertitta Capital**

with \$500 million in its coffers. It plans to invest directly in consumer-facing companies in technology, media and entertainment, executives said.

The Fertittas join a growing number of families looking to do private-equity-style deals through their family offices—largely unregulated firms set up to manage the fortunes of the ultrawealthy—or similar ventures.

"It was, 'We've sold the

UFC, we've got some liquidity, what do we do next?'" said Lorenzo Fertitta, chairman of Fertitta Capital.

He said the creation of a direct-investing firm helps fill a void in the market: long-term, flexible capital. Mr. Fertitta, 48 years old, said his dissatisfaction with his courtship by would-be buyers earlier in UFC's history sparked the thought.

"My mind-set wasn't on an exit or a public company. It was on who can help provide an operational road map" to building UFC and helping it expand internationally, Mr. Fertitta said.

Mr. Fertitta said many of the private-equity firms that came calling from as early as 2005 were focused on elements like ensuring they could have timely exits and preferred securities. UFC in 2010 wound up selling a stake to

Flash Entertainment, Abu Dhabi's government-owned live-events company.

The Los Angeles-based Fertitta Capital expects to invest between \$20 million and \$75 million in private companies, said Chief Executive and co-founder Nakisa Bidarian. He said Fertitta Capital can hold investments for decades. A separate multifamily office invests some of the brothers' wealth in funds.

Fertitta Capital will take minority positions in companies, though controlling stakes, and larger deals of up to \$500 million are possible. Mr. Bidarian, UFC's former chief financial officer, will run Fertitta Capital day to day with former SBE Entertainment Group President Sam Bakshandehpour.

Frank and Lorenzo Fertitta grew up in Las Vegas. Their father, a one-time Galveston,

Texas, dock worker, went from working as a casino bellman to founding a casino of his own that catered to locals. That casino became the foundation of what eventually became casino operator Red Rock Resorts Inc., which went public last year. Frank Fertitta is its chief executive; much of the payout from the IPO also went to the Fertitta family.

Also last year, the brothers sold casino-management company Fertitta Entertainment Inc. as part of Red Rock's IPO.

The brothers bought UFC for \$2 million in 2001, turning fights once decried by lawmakers into mainstream entertainment.

Executives said they are talking with management teams in the fitness, food and beverage and sports sectors, among others.

—Anupreeta Das contributed to this article.

## RISK

Continued from page B1

One big gripe banks have is the backward-looking nature of the rules. **Citigroup** Inc., for example, still holds capital against operational risks in businesses it has been winding down since the crisis.

At **Bank of America** Corp., a big portion of the firm's operational-risk exposure stems from its purchase of Countrywide Financial, the defunct subprime lender for which it has paid billions of dollars in fines and settlements. Operational risk accounted for \$500 billion of the bank's \$1.5 trillion in risk-weighted assets at the end of 2016.

Bankers said it doesn't make sense to continue holding capital for such problems. Citi-group's finance chief, John Germansch, last year said, "When you incur an operational loss, it has got a plutonium-238 half-life."

Others argue the lasting imprint reflects the outsized role banks played in fueling the financial crisis. "The fines banks paid in the past may well be indicative of future risk," said Anat Admati, finance professor at Stanford University's Graduate School of Business. "There are enormous rates of recidivism in corporate misconduct. Paying a fine need not lead to significant change."

So how does operational risk affect banks?

By some regulatory measures, the amount of capital a bank has to hold is based on total assets, which are then adjusted to reflect their risk. In some cases, this reduces the weighting of an asset because it is deemed so safe, for example U.S. Treasurys. In others, though, it inflates the size of an asset because it is seen as being very risky.

Operational risk does the latter. That ends up forcing banks to hold more capital.

Consider a bank with \$1.5



Rep. Jeb Hensarling

trillion in risk-weighted assets and a requirement to have a 10% capital buffer. It would need \$150 billion in capital.

Say then that operational risk makes up one-third of those risk-weighted assets. If operational risk was eliminated, risk-weighted assets would fall to \$1 trillion and require capital of \$100 billion—freeing up \$50 billion.

Granted, it is unlikely operational-risk weighting would be eliminated entirely should rules change.

But even a modest reduction could prove meaningful and free up capital.

Operational-risk weightings at five of the biggest U.S. banks are on average equal to about 29% of their risk-weighted assets. Combined, their \$1.5 trillion of operational risk is equal to about 18% of the banks' total assets.

Ironically, moves by banks in recent years to slash holdings of assets that carry lots of market or credit risk have increased the effect of operational risk. In 2014 operational risk represented just 18% of those five banks' overall risk-weighted assets.

That's a contrast to the trend in banks' legal payouts. At J.P. Morgan, Citigroup, and Bank of America, litigation expenses were around \$2 billion last year, down from \$28 billion in 2014, according to analysts at Compass Point Research & Trading LLC.

ership rules.

Even with the relaxed FCC television ownership rules, Sinclair, Nexstar, and a 21st Century Fox-Blackstone partnership could have to sell off some stations to be in compliance with regulations. Also, Tribune owns affiliates of Fox rivals ABC, NBC and CBS, which could further complicate a Fox transaction.

Besides its local television stations, Tribune also owns the entertainment cable channel WGN America. It is unclear if all the suitors are interested in acquiring that property as well.

## MEDIA

Continued from page B1

and Blackstone Group partnering for a potential Tribune Media bid was reported earlier by the Financial Times.

Nexstar, a Texas-based broadcaster that owns 170 local television stations, has also approached Tribune, one of the people said. Its chief executive, Perry Sook, told analysts earlier this year that the company was looking for opportunities to grow in light of changes to the FCC's TV own-

## Failed Lender Costs Insurance Fund

BY RACHEL LOUISE ENSIGN

Bank regulators Friday closed a troubled New Orleans bank that was established to help the city rebuild after Hurricane Katrina.

The failure of **First NBC Bank Holding** Co.'s bank subsidiary is the final chapter in the demise of an institution that opened in 2006 with the backing of local luminaries including football stars Peyton and Eli Manning.

On Friday, the Louisiana Office of Financial Institutions closed the lender and appointed the Federal Deposit Insurance Corp. as receiver.

**Whitney Bank**, based in Gulfport, Miss., is assuming all of the bank's transactional deposits and branches, though First NBC's Florida branches will open as Hancock Bank locations.

The two banks are owned by the same parent. It is also taking over some of its assets.

"No depositor is losing money as a result of this transaction," the FDIC said.

It is the largest bank failure handled by U.S. regulators in more than two years. Doral Bank in Puerto Rico was closed by regulators in February 2015.

The FDIC estimated that First NBC would cost its deposit-insurance fund \$996.9 million, which would be the eight-costliest failure for the fund.

First NBC, which until re-

cently had about \$5 billion in assets, invested heavily in New Orleans construction projects that included tax credits established by federal and state governments. These included the New Orleans African-American Museum, local theaters and an assisted-living facility in a historic building, according to the bank's annual report.

As business boomed, First NBC became the largest bank based in the city by assets.

## SoftBank Puts Cash in Paytm

BY NEWLEY PURNELL AND MAYUMI NEGISHI

**SoftBank Group** Corp. is plowing more than \$1.5 billion into a rapidly growing Indian mobile-payment company, people familiar with the matter said, as the Japanese internet and telecom titan chases new deals in emerging technologies. The deal could be announced as early as this week.

Paytm makes a popular smartphone app that can be used to pay for goods and services. The firm said it has 218 million mobile wallets on its platform. That is a 45% increase from last year when the government cracked down on cash by nullifying its largest-denomination notes to root out corruption and tax evasion.

That move triggered a cash shortage and accelerated the adoption of Paytm and other smaller payment services in the populous country, where millions of people are getting online for the first time via inexpensive smartphones—and increasingly paying for goods digitally rather than with checks or credit cards.

"The addressable market is immense in a country like India," said Shiv Putcha, a telecommunications analyst at research firm IDC. Paytm could use the money to hire armies of sales staff and customer-service personnel to extend its reach, tapping new users and signing up new merchants across the country, he said.

The company could also use the money to expand into new products like insurance, one of the people familiar with Paytm's plans said.

Paytm "has the potential to become the **Tencent** or **Alibaba** of India," said Jayanth

Kolla, founder of research firm Convergence Catalyst.

The investment will give SoftBank a 20% stake in Paytm's parent company, **One97 Communications**, one of the people familiar with the deal said, and marks its single largest investment in an Indian tech firm.

The cash infusion represents a shift in SoftBank's strategy in India, according to one of the people. Under Nishesh Arora, who last year stepped down as Softbank's president, the company invested hundreds of millions of dollars across a variety of Indian e-commerce, taxi-hailing and real-estate startups.

Now, as SoftBank Chief Ex-

## Currencies

U.S.-dollar foreign-exchange rates in late New York trading

Country/currency	Fri in US\$	Fri per US\$	YTD chg (%)	Country/currency	Fri in US\$	Fri per US\$	YTD chg (%)
<b>Americas</b>				<b>Vietnam</b> dong	.0004397	22744	-0.1
Argentina peso	.0650	15.3897	-3.0	Czech Rep. koruna	.04060	24.632	-4.1
Brazil real	.3148	3.1768	-2.4	Denmark krone	.1465	6.8272	-3.4
Canada dollar	.7323	1.3656	1.6	Euro area euro	.10897	.9177	-3.5
Chile peso	.001499	667.10	-0.4	Hungary forint	.003482	287.19	-2.4
Colombia peso	.0003399	2941.89	-2.0	Iceland krone	.009413	106.24	-5.9
Ecuador US dollar	1	1	unch	Norway krone	.1165	8.5849	-0.7
Mexico peso	.0531	18.8172	-9.3	Poland zloty	.2578	3.8795	-7.3
Peru new sol	.3076	3.251	-3.0	Russia ruble	.01756	56.9498	-7.0
Uruguay peso	.03557	28.1100	-4.2	Sweden krona	.1130	8.8534	-2.8
Venezuela b. fuerte	.098273	10.1758	1.8	Switzerland franc	1.0051	.9949	-2.4
<b>Asia-Pacific</b>				Turkey lira	.2816	3.5516	0.8
Australian dollar	.7490	1.3351	-3.8	Ukraine hryvnia	.0376	26.6235	-1.7
China yuan	.1451	6.8940	-0.7	UK pound	.12951	.7721	-4.7
Hong Kong dollar	.1286	7.7785	0.3	<b>Middle East/Africa</b>			
India rupee	.01556	64.260	-5.4	Bahrain dinar	2.6524	.3770	-0.04
Indonesia rupiah	.0000749	13.351	-1.3	Egypt pound	.0554	18.0495	-0.5
Japan yen	.008965	111.54	-4.7	Israel shekel	.2763	3.6188	-6.0
Kazakhstan tenge	.003178	314.64	-5.7	Kuwait dinar	3.2821	.3047	-0.3
Macau pataca	.1244	8.0380	1.5	Oman rial	2.5968	.3851	0.03
Malaysia ringgit	.2303	4.3420	-3.2	Qatar rial	.2746	3.642	0.04
New Zealand dollar	.6867	1.4562	0.8	Saudi Arabia riyal	.2666	3.7503	-0.01
Pakistan rupee	.00955	104.700	0.3	South Africa rand	.0748	13.3704	-2.4
Philippines peso	.0199	50.214	1.2	<b>Close Net Chg % Chg YTD Chg</b>			
Singapore dollar	.7158	1.3970	-3.5	<b>WSJ Dollar Index</b>	89.72	-0.06	-0.07
South Korea won	.0008788	113.87	-5.8				
Sri Lanka rupee	.0065600	152.44	2.7				
Taiwan dollar	.03310	30.210	-6.9				
Thailand baht	.02891	34.590	-3.4				

Sources: Tullett Prebon, WSJ Market Data Group

**UNITED STATES DISTRICT COURT**  
**SOUTHERN DISTRICT OF NEW YORK**

In re THIRD AVENUE MANAGEMENT LLC SECURITIES LITIGATION

Civil Action No. 1:16-cv-02758-PKC

CLASS ACTION

This Document Relates To:  
ALL ACTIONS.

**SUMMARY NOTICE OF PROPOSED SETTLEMENT OF CLASS ACTION REGARDING THE THIRD AVENUE FOCUSED CREDIT FUND**

TO: ALL PERSONS WHO PURCHASED SHARES OF THE THIRD AVENUE FOCUSED CREDIT FUND (THE "FUND") DURING THE PERIOD BEGINNING MARCH 1, 2013 THROUGH DECEMBER 10, 2015, INCLUSIVE ("CLASS PERIOD")

YOU ARE HEREBY

## EQUITIES

# Investors Return to European Markets

Political fears recede after French vote; foreigners pile into stocks, euro rises

By RIVA GOLD  
AND GEORGI KANTCHEV

Investors aren't waiting for the conclusion of the French election to put money back into Europe.

They are already flocking back, betting that the region has finally unshackled itself from fears of political turmoil.

Local stock markets just had their best week this year following the first round of the French presidential vote, and investors have poured money into the region's equity funds at the fastest pace since 2015. The euro climbed 1.6% against the dollar in its best week since July.

All of this comes as investors start to look beyond political risks and focus on the Continent's strong economic recovery.

"People are beginning to let go of European political risks as a theme," said George Maris, portfolio manager at Janus Capital. The underlying picture regarding the economy and earnings is becoming more evident now in Europe, Mr. Maris said.

Europe's buoyant equity markets are already reflecting much of that optimism, despite coming political events that had once concerned investors—chiefly the final round of voting in France's presidential elections and

votes in Italy and Germany.

Germany's benchmark DAX index reached a record in the week following the French vote, while the Euro Stoxx 50 index of blue-chip eurozone stocks climbed 3.5%, with advances in Europe led by the banking sector. In dollar terms, the Euro Stoxx 50 index is up almost 12% this year, nearly double the S&P 500's gains.

European equity funds recorded their strongest inflows since December 2015, with \$2.4 billion arriving during the week to April 26, according to EPFR Global data.

Eurozone markets have rallied since the first round of French presidential elections on April 23, when pro-European centrist Emmanuel Macron won more votes than both Marine Le Pen, who pledged to take France out of the euro, and Jean-Luc Mélenchon, a far-left antiglobalist candidate. Mr. Macron is now seen as a heavy favorite in the second round May 7, when he will face Ms. Le Pen.

A solid election victory for the Dutch political establishment in March has also soothed fears of a continentwide lurch toward nationalism, a concern that had weighed on asset prices through this year.

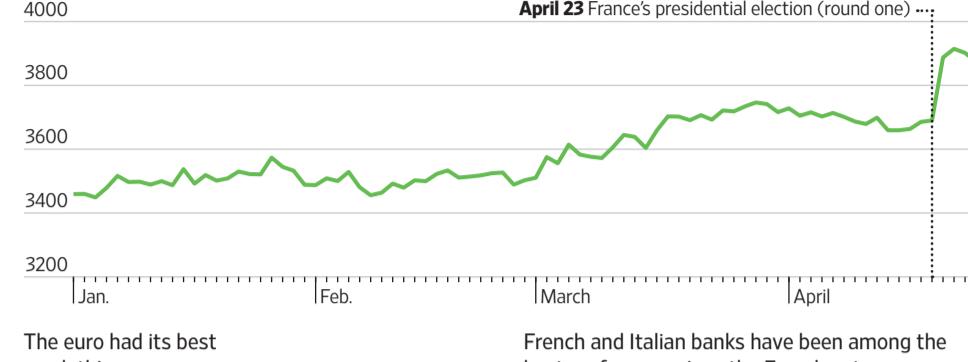
Instead of politics, investors are focusing on economics and earnings.

Unlike in previous years, analysts have continued to raise their projections for annual growth in earnings per share in the eurozone, according to J.P. Morgan Chase & Co.

### Exit Brexit

The blue-chip index of eurozone stocks jumped last week, with investors betting political risks have receded.

#### Euro Stoxx 50 index\*



The euro had its best week this year.

#### Euro vs. U.S. dollar†, 10-minute intervals



\*Through 5 p.m. BST Friday †As of Friday

Sources: Thomson Reuters (index); FactSet

First-quarter earnings in the Stoxx Europe 600 are expected to increase 5.5% from the first quarter of 2016, according to Thomson Reuters data.

Investors point to good signals from the economy. Business confidence and gauges of activity in the eurozone's manufacturing and services sectors rose to six-year highs

in April, despite uncertainty ahead of the French vote.

"European growth is the best it's been since the global financial crisis," said Robert Waldner, chief strategist at Invesco Fixed Income. "The combination of supportive financial conditions and a solid economy should boost equities and credit markets in the region."

much of the past three years. The euro rose after Friday's inflation figures to \$1.0897 late in New York trading, up from \$1.0874 late Thursday. "The market is pricing out political risks and is pricing in a less cautious" European Central Bank, said Vasileios Gkionakis, head of foreign-exchange strategy at UniCredit Research.

Mr. Gkionakis expects that if Mr. Macron becomes French president, the euro would go past \$1.10.

The ECB's signals in the months ahead are expected to be critical for the euro's performance toward the end of the year.

Risks remain. There is still a chance that Ms. Le Pen could win the French presidency, renewing questions about the future of the eurozone. Euroskeptic parties have a shot at winning Italian elections that will come by next year, at the latest, and Italy continues to struggle with weak banks and bleak economic prospects.

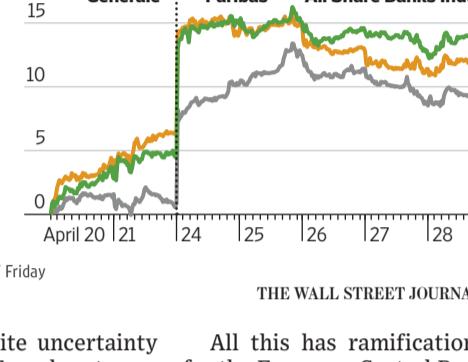
French economic growth slowed at the start of the year, while ECB President Mario Draghi highlighted Thursday that consumer prices remain subdued across the euro area.

For now, the European party continues.

Assuming French elections go as expected, "it at the very least removes the immediate existential concerns about the eurozone and euro currency itself," said Abi Oladimeji, chief investment officer at Thomas Miller Investment.

#### French and Italian banks have been among the best performers since the French vote.

#### Eurozone bank shares, 10-minute intervals‡



‡Through 3:10 p.m. BST Friday

THE WALL STREET JOURNAL.

AHEAD OF THE TAPE | Steven Russolillo

## This Apple Still Has Room to Get Bigger

In today's buoyant stock market, tech giants keep getting bigger. Apple Inc., the biggest of all, isn't done growing.

The iPhone maker's shares have surged almost 30% over the past six months, more than double the rise in the S&P 500. Amazon.com Inc. and Alphabet Inc., Google's parent, have logged double-digit-percentage gains, too.

Such rallies over short periods would normally produce sticker shock in the tech sector. But Apple's earnings report on Tuesday and, more importantly, the new iPhone expected later this year, should give investors confidence that the rally still has legs.

Analysts polled by FactSet estimate fiscal second-quarter earnings of \$2.02 a share, up 6% from a year ago. Quarterly revenue for the period ending in March is expected to have increased 5.3% to \$53 billion. iPhone sales, which make up roughly two-thirds of Apple's overall revenue, are expected to tick up 4.3% from a year ago for a second consecutive quarter of year-over-year growth.

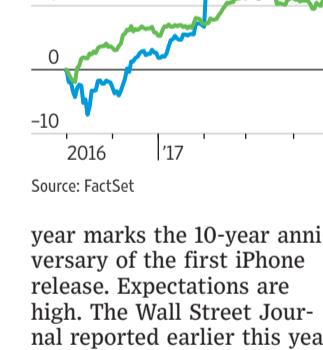
But what investors seem to be focused on the most is the new iPhone. Apple usually updates its smartphone lineup once a year and this



Expectations are high ahead of the launch of Apple's newest iPhone on its 10-year anniversary.

### Bigger Slice

Share and index performance



Source: FactSet

current models. Analysts concur that the average selling price of an iPhone in the current fiscal year will increase for the first time in three years.

Apple shares typically rally ahead of an iPhone release. This year will probably be no different. In the three months before Apple launched new or updated iPhones—typically in September or October—the stock has averaged a 20% gain, according to Bespoke Investment Group. Those rallies have tended to fade once the product is released, though. The market buys the rumor and sells the news. Apple shares have averaged a roughly flat performance in the month that follows an iPhone announcement.

Maybe not this time. Ana-

lysts at Credit Suisse are optimistic that the new iPhone "super cycle," as they call it, will help drive replacement rates higher and attract new customers from other platforms, such as Android. This is an opportunity for Apple.

The research firm e-Marketer says Apple accounts for 44% of the U.S. smartphone market, trailing Android's 52% share.

Despite Apple's sharp rally, its stock still looks reasonably priced at 15 times projected earnings over the next 12 months. While that isn't quite the bargain it was in recent years, it is still about 25% cheaper than a basket of rivals, including Alphabet, Microsoft Corp. and Facebook Inc.

This Apple appears ripe for more gains.

# 8

The number of consecutive quarters during which Amazon has reported a profit

## Amazon's River of Profit

Amazon.com Inc. is delivering consistent profits and investors are rewarding the e-commerce giant for it.

Amazon said Thursday it earned \$724 million during the first three months of the year, its eighth consecutive quarter in the black. That is the longest

### MONEYBEAT

such streak since 2012 and ranks as the most profitable period in the company's history.

The current run is something of a change for Amazon. For much of its history, the company has eschewed profitability to expand its business. While it continues to plow money into growth, it is also earning money.

One big driver of Amazon's recent profitability is its high-margin cloud business, Amazon Web Services.

The segment's operating income has increased 235% over the past eight quarters.

Amazon's current run in the black has gone along with a surge in its share price. The company's stock has more than

doubled to \$924.99 during the two-year period that concluded Friday, bringing its market capitalization to \$422.1 billion from \$199.9 billion.

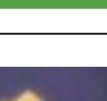
By contrast, the stock gained 68% during the two years before that.

Though Amazon is classified as a consumer stock, it is often compared with the biggest tech companies, whose shares have gained steadily over the past two years. Even by that standard, Amazon is outperforming. Gains in its share price have easily topped those of Facebook Inc., Google parent Alphabet Inc., Apple Inc. and Microsoft Corp. over that period.

If investors keep plowing money into Amazon, the company may soon gain another distinction: joining the \$1,000 a share club.

—Ben Eisen

### ONLINE



For more MoneyBeat blog posts, go to [blogs.wsj.com/MoneyBeat](http://blogs.wsj.com/MoneyBeat)

THE TICKER | Market events coming this week

### Monday

Construction spending

Feb., previous up 0.8%

March, expected up 0.5%

ISM mfg. index

March, previous 57.2

April, expected 6.5

Personal income

Feb., previous up 0.4%

March, expected up 0.3%

Personal spending

Feb., previous up 0.1%

March, expected up 0.2%

Earnings expected\*

Estimate/Year Ago(\$)

Cardinal Health 1.46/1.43

Edison Intl. 0.89/0.82

GGP 0.14/0.20

Loews 0.66/0.57

SBA Comm. 0.21/0.43

Vornado Realty Trust 0.49/(0.61)

### Tuesday

Fed 2-day meeting starts

Total vehicle sales

Domestically produced, at an annual rate

March, previous 16.6 mil.

April, expected 17.2 mil.

Earnings expected\*

Estimate/Year Ago(\$)

Altria Group 0.74/0.72

Apple 2.02/1.90

Charter Communications 0.91/(1.86)

Mastercard 0.95/0.86

Merck & Co. 0.83/0.89

Pfizer 0.67/0.67

### EIA status report

Previous change in stocks in millions of barrels

Crude oil down 3.6

Gasoline up 3.4

Distillates up 2.7

ISM non-mfg index

March, previous 55.2

April, expected 55.7

Earnings expected\*

Estimate/Year Ago(\$)

AIG 1.07/0.65

Facebook 1.12/0.77

Kraft Heinz 0.86/0.73

MetLife 1.28/1.20

Southern Co. 0.59/0.58

Tesla (0.81)/(0.57)

### Factory orders

Feb., previous up 1.0%

March, expected up 0.3%

Productivity

4th qtr., prev.

up 1.3%

1st qtr. prelim. exp.

down 0.1%

International trade deficit in billions

Feb., previous \$43.6

March, expected \$44.5

# MARKETS

THE DAILY SHOT | By Lev Borodovsky

## Why Stocks and Bonds Are Both Rallying: The Goldilocks Jobs Market

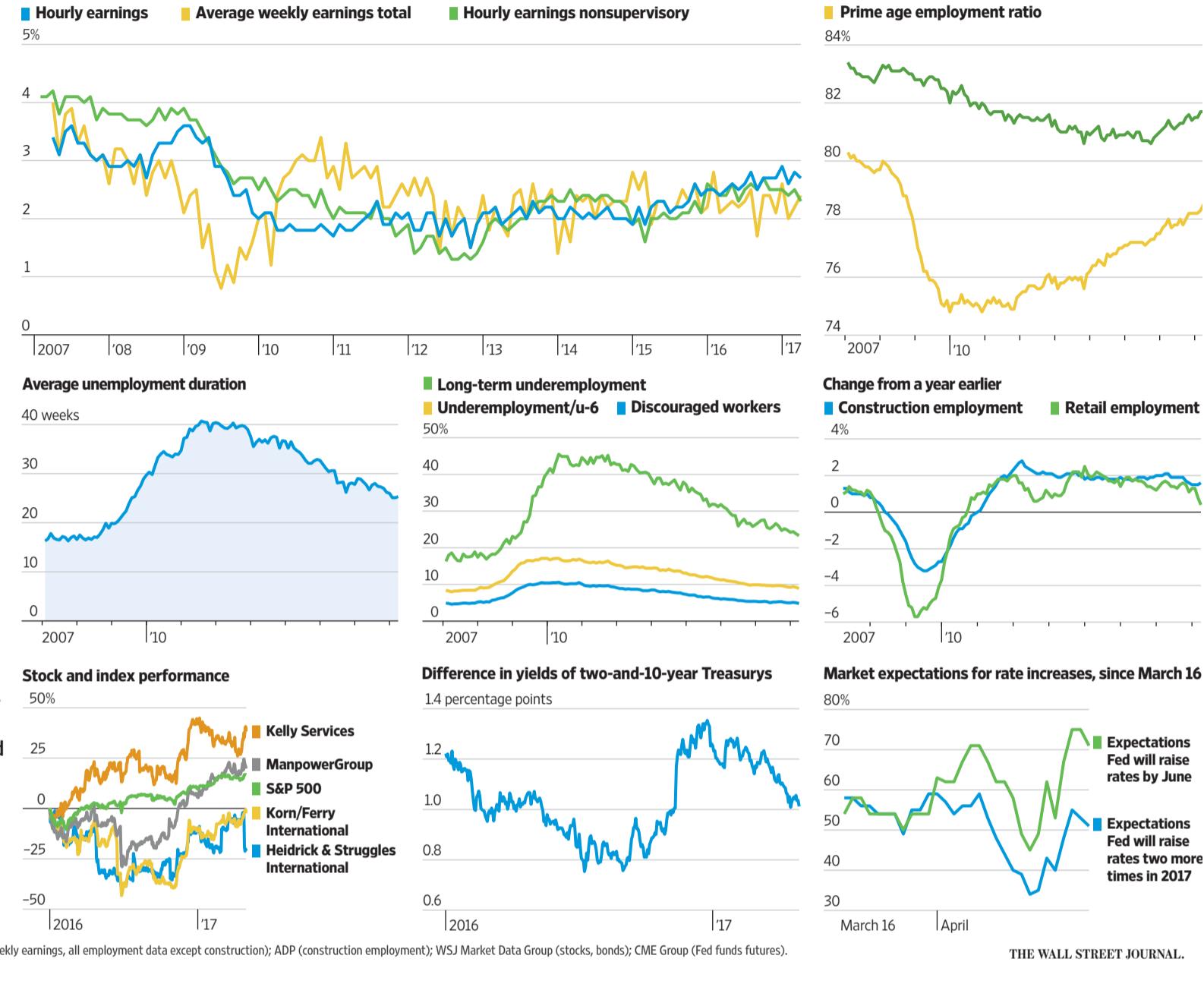
The tepid expansion that has fueled solid 2017 rallies in both stocks and bonds will be on display again with Friday's jobs report. Employment measures have firmed, but a labor-market liftoff remains elusive. The Federal Reserve is widely expected to extend its tightening cycle in June, but many investors fear momentum is slowing.

WSJ subscribers can get **The Daily Shot**—a chart-by-chart briefing on markets and economics—sent to their email each morning. Subscribe at [wsj.com/newsletters](http://wsj.com/newsletters)

Wages have ticked up, both for managers and in the broader labor force, but the scale of gains pales in comparison to previous economic expansions.

Broad employment gauges have improved markedly, reducing slack. But gains have flattened and dark spots have emerged, particularly in retail, where job growth is collapsing.

The mixed share performance of outplacement and temporary-employment firms highlights tough competition. Still, the yield curve remains off its flattest levels of the past year, likely pointing to healthy banks, solid growth and more rate increases.



Sources: Federal Reserve Bank of St. Louis (hourly and weekly earnings, all employment data except construction); ADP (construction employment); WSJ Market Data Group (stocks, bonds); CME Group (Fed funds futures).

THE WALL STREET JOURNAL.

## HEARD ON THE STREET

Email: [heard@wsj.com](mailto:heard@wsj.com)

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

### An Inflation Surprise in Eurozone

Can the eurozone take up the reflation baton? Inflation data for April, released Friday, were surprisingly strong. This could shake the perception that eurozone inflation is going nowhere.

Headline eurozone inflation rose to 1.9% in April from 1.5% in March, according to Eurostat, matching the European Central Bank's inflation target. The real surprise, however, was in underlying core inflation—which excludes food, energy, alcohol and tobacco. That rose from 0.7% to 1.2%, its highest reading since 2013. Services inflation jumped even more sharply, from 1% to 1.8%, another four-year high.

The increase was bigger than expected. The FactSet consensus forecast for core inflation was 1%.

Moreover, broader measures of eurozone inflation have been beating economists' expectations for six months now, according to Citigroup's inflation surprise index. The mantra has been that underlying price pressures remain subdued, a message that ECB President Mario Draghi repeated Thursday.

But consistent surprises tell a story of their own: They should start to change expectations. That is what the ECB wants to see in its battle to restore headline inflation sustainably to a rate of below but close to 2%.

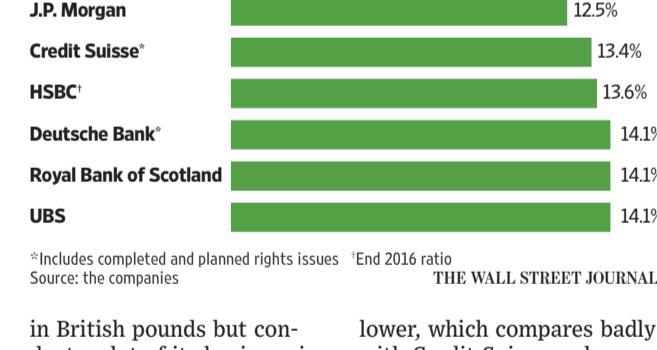
April's inflation data thus raise the stakes for coming months. Europe isn't playing out according to the script for this year. Political shocks are notable for their absence, while economic surprises are continuing to be pleasant. That is a potentially powerful combination for investors.

—Richard Barley

### The Pressure Mounts on Barclays

#### Test of Strength

Common equity capital ratios at the end of the first quarter



good returns.

But of these four, the issue that might start to nag at Barclays now is that it has dropped to the back of the pack in terms of capital strength. The U.K. bank has a 12.5% common-equity Tier 1 ratio and is aiming to reach about 13% in the next year or so. Credit Suisse will be at 13.4% after the rights issue it announced this week, while Deutsche Bank, UBS and others are above 14%.

J.P. Morgan is in the same area as Barclays, but U.S. banks don't get quite as much benefit out of their risk models and in terms of more simple leverage ratios, J.P. Morgan is much stronger.

Barclays also has several regulatory issues hanging over it: Chief Executive Jes Staley's treatment of a whistleblower is under review and U.K. fraud investigators are close to finalizing a probe into crisis-era fundraising, while it is also fighting the U.S. Justice Department over mortgage bonds.

Barclays isn't out of the woods yet. —Paul J. Davies

#### OVERHEARD

The mysterious stability of China's official GDP figures—which have remained stubbornly range-bound even as commodity prices and corporate profits have fluctuated wildly—has long been a source of frustration among China watchers.

Now a trio of New York economists may have discovered a solution: Just turn out the lights. Watching nighttime satellite data to see how quickly Chinese cities brighten over time may be at least as good a measure of growth as popular metrics like the "Li Keqiang index," derived from the current Chinese premier's famous comment casting doubt on official gross-domestic-product figures. One result of interest to investors: The data appear to validate the recent uptick in growth hinted at by corporate profits and rebounding inflation, although they also hint that economic activity may have slowed somewhat more sharply than officially acknowledged in late 2014 and early 2015.

The authors found that bank lending actually lined up with light data better than most other indicators. Measures such as freight volume lined up less well, which makes sense given the Chinese economy's continuing shift toward services that are less freight-intensive. The authors' estimates also suggest that Chinese growth may actually have been a few points above official estimates for several years, because of difficulties measuring the real size of the service sector.

The data's strong correlation with lending also contains a warning: If there is ever a reason for bank lending to truly slow abruptly, the economy will suffer.

For bemused foreign investors watching China through a glass darkly, a little extra light is welcome indeed.

### What Is Keeping GM Strong Likely Won't Last

#### Diverging Fortunes

Adjusted first-quarter earnings per share



of profits on the North American continent.

U.S. car sales and used-car prices are now weakening. Most forecasters expect the market to plateau over the coming years. With raw-materials prices increasing sharply and heavy investments necessary to keep up with the technological trends pioneered by Tesla, flat sales imply cratering profits and a fight for market share. GM has won this fight in recent quarters, helping it post record results, while Ford has struggled to find sales to offset technology investments.

Focusing on the U.S. has become a pillar of GM's strategy under Chief Execu-

tive Mary Barra. She agreed to sell the company's money-losing European business in March and has made clear she wants to tidy up its international portfolio further.

But now the tide seems to be turning away from the U.S. European growth remains robust and emerging markets seem to be bottoming out. French car maker Renault, whose second-largest market is Russia, reported Thursday that its sales jumped by a quarter year over year.

As the U.S. SUV boom matures, American car makers shouldn't forget the wisdom of global diversification.

—Stephen Wilmot

Most multinationals performed better outside the U.S. in the first quarter. Not so the Detroit car makers, which barely made any money outside North America. Their home bias will eventually become a problem.

General Motors said Friday that its first-quarter operating profit rose 28% year over year. Growth would have been stronger still without a collapse in international profits. Outside of North America, GM barely broke even, as profits in China were wiped out by losses in South America and Europe.

Ford Motor, which re-

ported results Thursday, also made all of its first-quarter profits in North America. Fiat Chrysler is slightly better diversified, thanks to its Italian parentage, but still made more than four-fifths

# SMALL BUSINESS

© 2017 Dow Jones & Company. All Rights Reserved.

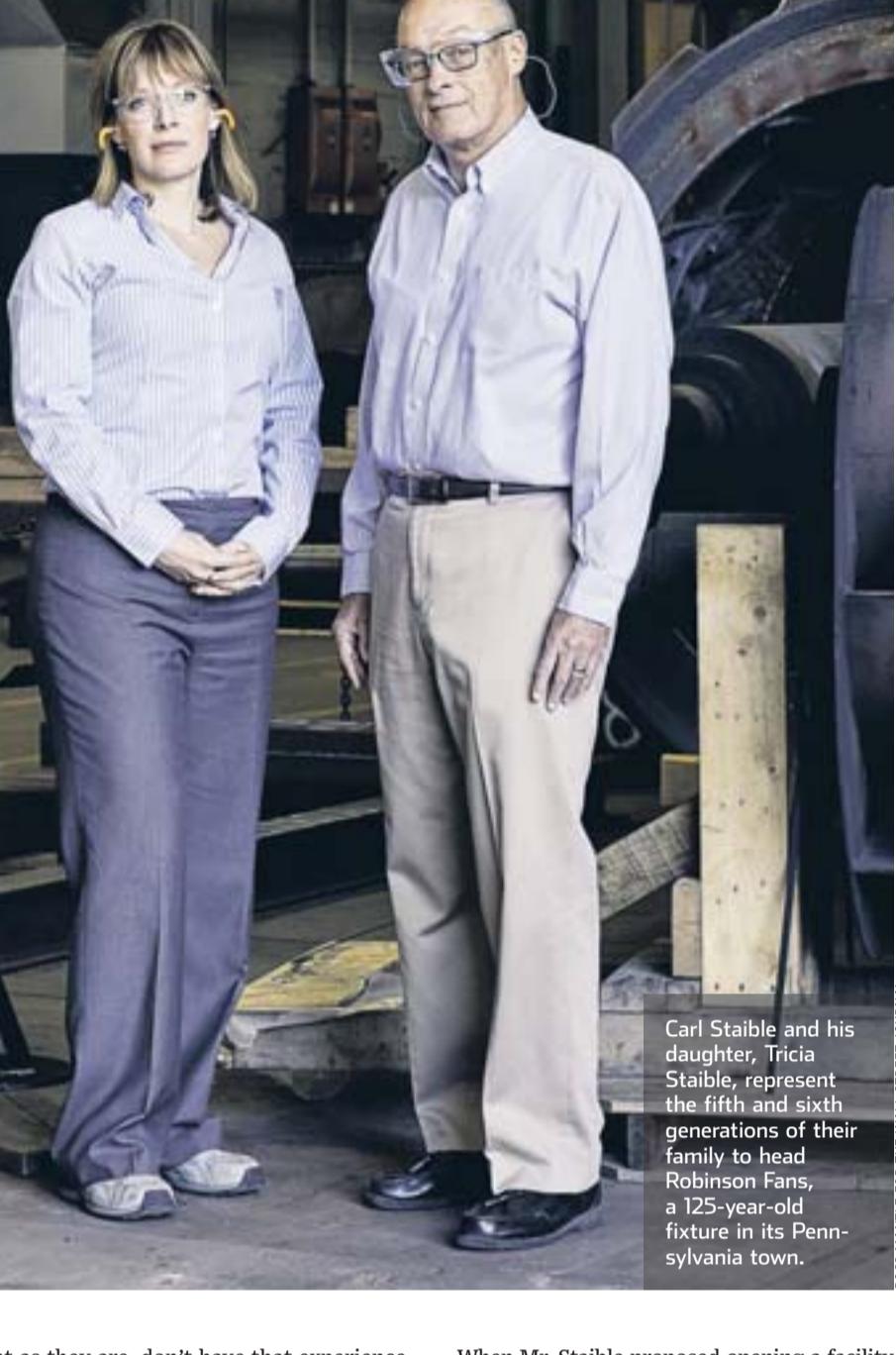
THE WALL STREET JOURNAL.

Monday, May 1, 2017 | R1

## Two Generations, Both in Charge

A lot of entrepreneurs in their 60s have no interest in retiring from the businesses they run. But that leaves their children to figure out just where they fit in.

Introducing  
The Journal  
Report Podcast  
[wsj.com/  
JRpodcasts](http://wsj.com/JRpodcasts)



Carl Staible and his daughter, Tricia Staible, represent the fifth and sixth generations of their family to head Robinson Fans, a 125-year-old fixture in its Pennsylvania town.

BY CLARE ANSBERRY

**C**ARL STAIBLE, 69, IS CHIEF EXECUTIVE and the fifth generation of his family to run **Robinson Fans**, which makes industrial fans that weigh as much as an 18-wheeler, in a small town in Pennsylvania.

Tricia Staible, his 36-year-old daughter representing the sixth generation, is president.

They have different temperaments and management styles. She is impatient. He is measured. She favors teams and an open-air cubicle. He occupies the office of his late father-in-law, who ran the company for 40 years, and is more comfortable with traditional chains of command.

He has no plans to retire.

She says it is ticklish trying to figure how they both can remain relevant and avoid stepping on each other's toes. "The hard part is, he has a legacy at Robinson," says Ms. Staible. "It isn't that I don't value what he has done, I want to do things differently."

In the 125 years since Robinson was founded by an immigrant from England and his son, the company has navigated the Depression, a few recessions and many booms and busts in industrial America.

Yet what Mr. Staible marvels at most is that it survived the tussles between generations about who would run the company, how and when. "It is a miracle, really," says Mr. Staible.

Almost seven in 10 baby boomers plan to work past the age of 65. That means a lot of family businesses are dealing with parents who aren't ready to retire, and their children who aren't sure when and if they will ever run the show on their own.

"This is an age-old question in family business," says Wayne Rivers, president and co-founder of the consulting firm Family Business Institute. "At what point does the senior generation reap the reward of all their work? When do they retire?" Often, he says, the answer is never.

It can be especially difficult when their identity is entwined in the business, as is frequently the case when the parent is the founder, he says. But it happens in subsequent

bright as they are, don't have that experience. It is hard to turn things over until they are comfortable the children know what they are doing.

Robinson Fans is remarkable in at least two ways. First, it's 125 years old, and second, it's in its sixth generation. Most companies don't last beyond 20 years, and only 3% of family-owned businesses make it to the fourth generation, according to the Family Business Institute.

For more than a century, Robinson has been a fixture in the small town of Zelienople, population 3,800, about 30 miles north of Pittsburgh. Many of the family's neighbors and fellow church members worked here, as did their parents and grandparents, building fans that helped power locomotives and allowed commodity giants to dig the world's deepest mines. The narrow hallway outside of Mr. Staible's office is lined with photos of employees like Roy McWithey, who was honored at the company's 1988 Christmas party for his 56 years of service. For decades, watches have been presented to 25-year employees. Workers receive a Thanksgiving turkey and gather with their families in a local park for an annual summer picnic.

### A family affair

Mr. Staible, who calls himself a SLOB—Son-in-Law Of the Boss—joined the company in 1979 after marrying Nancy, the daughter of then-president James Henderson. The couple met in Denver, where Nancy was working as a physician assistant and where Carl was born and raised and was working in electrical sales.

He knew nothing about fans. Having lived out West, with its wide expanse, mountains and blue skies, he was apprehensive about moving to Zelienople, known historically for coal and its annual Horse Trading festival. "It took getting used to this gray dome," he says.

It was also intimidating. His father-in-law was a brilliant engineer, and domineering.

When Mr. Staible proposed opening a facility out West, the answer was no. He persevered for 10 years before getting a yes—and experienced what younger generations face when suggesting something new. Eventually, Mr. Staible bought out the rest of the family and became sole owner.

Tricia Staible, a lawyer, was working at a firm in Utah that helped structure the sale. While she enjoyed being at the firm, she was drawn to the tightknit culture of the family business. Then 28, she began working in Robinson's Utah facility, learning about fans and rotor dynamics, something that would have been harder doing in Zelienople.

"Everyone would be watching me here," she says.

Four years later, Mr. Staible, then 65 and thinking down the road about succession, said she should move to Zelienople to be closer to the main operations. "On one hand, I was ready for new adventure," says Ms. Staible, who was named vice president of sales and general counsel. "On the other hand, I only packed what I could fit into my car because I wasn't convinced it would be a long-term deal."

Immediately, their differences emerged. "The younger folk all have more enthusiasm and are more willing to risk," says Mr. Staible. "It does create a little tension there."

When asked if she followed in her father's footsteps after she arrived, he answers for her: "No."

"That's not my M.O.," says Ms. Staible.

More of a collaborator, she initiated a team management structure. She didn't have the decades of experience to be a top-down manager and isn't comfortable with that style, either. Her father was wary. A consultant had proposed adopting a team structure years earlier, but it didn't catch on. "It was too big of a change for our people at that

Please turn to the next page

## INSIDE

### TAXES

#### The Home-Office Deduction

What you need to know

R2

### MANAGING TECHNOLOGY

#### See It. Click It. Buy It.

Social sites make shopping easier

R4

### Recipe for Success

What does it take to keep a restaurant thriving? This Miami couple knows.

R6

Fun by the Highway

How roadside attractions get us to pull over and spend

R7

### Tell Me a Story

A strong narrative can help get people interested

R8

### THE MONEY GAME

#### Mutual Feelings

More mutual funds are investing in small firms

R3

### Friendship Can Hurt VCs

Having a partner too similar to you can lower chances of success

R3



### Small Screen, Big Dreams

Inside the world of video-on-demand movies

R4

### RUNNING THE SHOW

#### How Was Your Stay?

Online reviews let independent hotels close the gap with chains

R4



## JOURNAL REPORT | SMALL BUSINESS

TAXES | TOM HERMAN



### The Home-Office Deduction: What You Need to Know

More quality time with family and friends. No more worries about the office dress code. Fewer daily commuting nightmares. No neatnik boss ordering you to clean up your messy desk.

These are among the benefits of working at home, as growing numbers of Americans have discovered in recent decades. But there is one aspect that isn't so delightful: trying to master the tax rules for deducting home-office expenses.

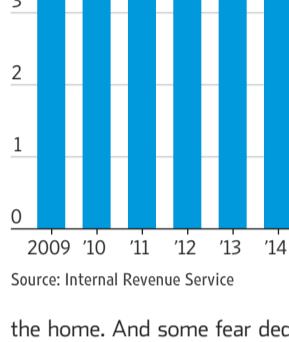
Many people who probably are eligible don't even try. An Internal Revenue Service spokesman says that about 3.4 million individual income-tax returns for 2014—the latest data available—deducted expenses for business use of the home, about the same as in 2009.

Besides concern about tax-law complexity, there are other reasons that many taxpayers say no, thanks. Some conclude it isn't worth the time and record-keeping hassles. Some figure it isn't worth it because of a complex depreciation-recapture provision that could mean higher taxes when they eventually sell

#### Home Work

More Americans are working at home, but there has been little change in recent years in the number of tax returns claiming home-office deductions.

##### Number of Returns



##### Deductions



Source: Internal Revenue Service

THE WALL STREET JOURNAL.

the home. And some fear deducting home-office costs will greatly increase the chances that their tax returns will be audited by the meanest, stingiest agent at the IRS.

"There's an intimidation factor," says Julian Block, an attorney in Larchmont, N.Y., and the author of numerous tax guides.

Whatever the case, many readers may benefit from a refresher course on the basics, especially since they may not be aware of an optional method introduced several years ago that can greatly simplify the task. Also, several myths and misconceptions have sprung up that could discourage some people from claiming valuable deductions.

**What counts as an office?** The taxpayer typically must use part of the home "exclusively and regularly" as "your principal place of business"—or it generally must be used exclusively and regularly as "a place where you meet or deal with patients, clients, or customers in the normal course" of your trade or business, according to IRS Publication 587. The "exclusive-use" test doesn't apply if part of the home is used regularly as a day-care facility, or to store inventory or product samples.

**Does the office have to be a separate room?** No, says Mr. Block. The IRS confirms this: The home office can be either "a room or other separately identifiable space." Also, that space "does not need to be marked off by a permanent partition."

"Make sure it looks like an office," says Scott Kaplowitz, a certified public accountant and managing partner at Edelstein & Co. LLP. "Don't have a bed in there. Don't have a closet full of clothes in there. Have your computer hooked up in there."

**What counts as a 'principal' place of business?** The IRS recognizes that you can have more than one business location, including your home, for a single trade or business. In such cases, the home must be the principal place of business for that trade or business, the IRS says.

To decide, consider the "relative importance" of activities in each place and the amount of time spent at each place. The home office can meet the "principal place of business" test if you use it exclusively and regularly for "administrative or management activities"—and if you "have no other fixed location where you conduct substantial administrative or management activities." But the IRS says you can deduct costs for a "separate free-standing structure" if used exclusively and regularly for business; it doesn't have to pass the "principal place" or "meeting-place" tests.

**What does 'regularly' used for business mean?** The IRS doesn't offer much guidance, but it does say "incidental or occasional business use" isn't enough. Mr. Block says IRS auditors base their decisions on the facts and circumstances of each case. Be sure to keep excellent records.

**Can I claim the deduction if I'm an employee?** Maybe, but employees face additional hurdles. Any use of the home office in connection with your employment must be for your employer's convenience, the IRS says. Also, you can't rent out any part of your home to your employer and use the rented portion "to perform services as an employee for that employer." If the office really is for your employer's convenience, ask that employer to confirm this point in writing, says Mr. Block.

**What are my chances of getting audited?** Audit fears appear to be exaggerated—or, as Mr. Block puts it, "a persistent urban myth." For the year ended Sept. 30, the IRS audited slightly more than one million individual income-tax returns, down 16% from the prior year and the lowest since 2004. That number represented only 0.7% of returns the IRS received in the prior calendar year. (Officials haven't disclosed how many of those audits involved home-office deduction claims.)

**Is there an easier way to do all of this?** Some taxpayers choose a simpler option that was introduced starting with the 2013 tax year. Here's how it works in most cases: Multiply the office's square footage (up to 300 square feet) by \$5. Thus, the maximum deduction would be \$1,500.

Mr. Herman is a writer in New York City. He was formerly The Wall Street Journal's Tax Report columnist. Send your comments and tax questions to [taxquestions@wsj.com](mailto:taxquestions@wsj.com).

## Two Generations, Both in Charge

*Continued from the prior page time,* Mr. Staible says, adding, "I suppose you can say we're still wondering."

His daughter says, "We're still working to implement it for sure."

She has heard people say that the company is changing more rapidly now that she is here. Some people are comfortable with that and others aren't, or they may be confused about whom they report to.

As CEO, he is in charge of long-term strategy. Now president, she runs the daily operations, technically reporting to him. Still, it is hard to draw the lines.

When they bought a new business in Florida, which is part of a long-term strategy but also included many operational questions, like who would run it and who would train them, Mr. Staible got more involved in helping it get up and running.

Sometimes they step on each other's toes, relaying the same information to their chief financial officer.

"Who does what every day and how both of us can still feel that we are adding value to what we are doing is the tricky part," says Ms. Staible. It can mean anything, such as who talks to the customers, the vendors and the suppliers.

For Mr. Staible, the big tension is the hesitation of older generations to move into something different, something that he experienced as the younger generation with his father-in-law and sees himself doing in responding to his daughter.

When asked if she would like to expand overseas, Ms. Staible says, "Perhaps eventually."

"After I'm gone," says her father.

He says, "The younger generation wants to try new things and rather than the older generation jumping on board and riding it, the younger generation has to prod and encourage and even sometimes fight to get that through."

Part of it might be protecting turf, he says, but another is concern about moving quickly into higher-risk areas. "Older generations have the experience and hopefully the wisdom to say, 'Slow down,'" he says.

#### A big acquisition

A case in point: Soon after being named president by a succession committee made up of independent board members, Ms. Staible wanted to buy a fabrication shop in Florida that had been one of their vendors, and that served some

of the same industries, but with different products, such as piping and tanks. She saw it as a relatively safe way to diversify.

"She was very enthusiastic from the very beginning and I was—let's just say less enthusiastic," Mr. Staible says. It meant having to borrow money, and while not a huge amount, it was still borrowing and venturing into a new line of business, and would require someone to run it.

"I wasn't saying stop, but I was saying let's go slowly," he says.

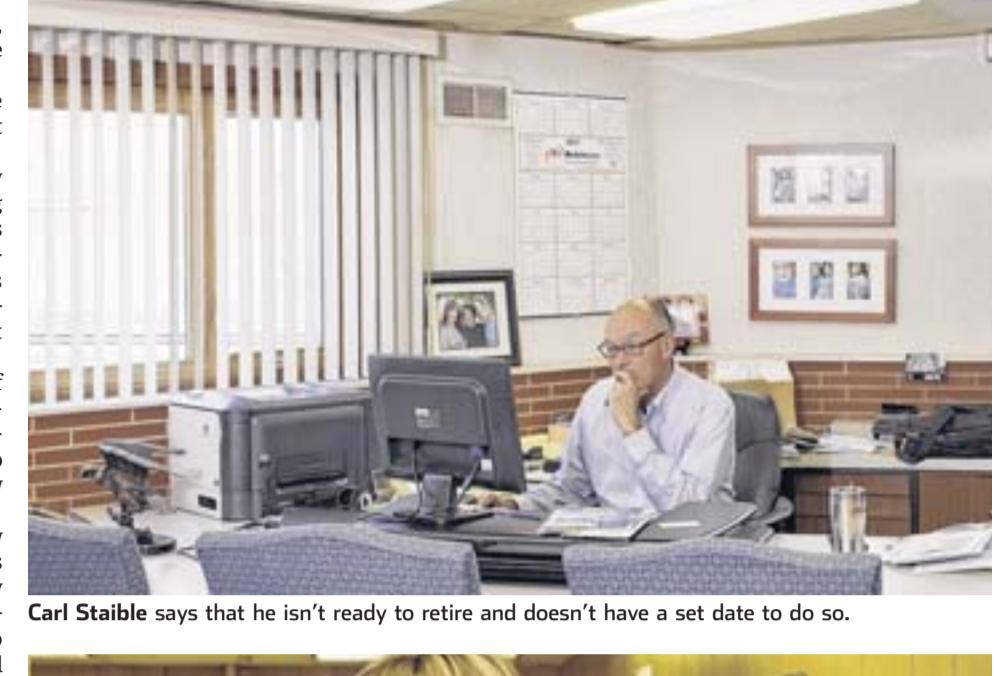
She presented the idea to the board, which includes both her parents. The board had many concerns and laid out criteria that needed to be met. Mr. Staible and his wife, Nancy, who is secretary of the board, went down to see the property and assets and were encouraged. The proposal went through several iterations, says Mr. Staible, and was accepted.

It was Robinson's first acquisition of another company's assets, and Ms. Staible's first move as president. "It is going well," her father says. "It has

attractions were born as superhighways rose in the mid-20th century. They're still around, though as Wall Street Journal contributor Kevin Brass says, making money can be tricky.

◆ **"In Search of a Perfect Team at Work."** Who works best with whom? Companies are crunching lots of data to answer that question. The Wall Street Journal's Stu Woo joins us from London with some of the surprising new ways companies are going about this task.

◆ **"How to Avoid Boredom in Retirement."** Why do some people get bored in retirement and others don't? Wall Street Journal Contributor Glenn Ruffenach joins us with the answer to that question plus some tips.



Carl Staible says that he isn't ready to retire and doesn't have a set date to do so.



Tricia Staible favored a management strategy and acquisition that her father questioned.

great upside potential."

They meet weekly to talk about pressing business issues, such as the progress with the new acquisition, additions to the executive committee and long-term strategy. Ms. Staible wants to expand the company but also feels the importance of preserving the family legacy, and offering opportunity for workers.

As family, it is hard to separate emotions and not take things personally, especially when their styles are so different, with Ms. Staible being quick to make a decision and Mr. Staible being one to ponder, and both getting frustrated with each other.

"I'm often in the middle," says Nancy Staible, as was her mother before her. "Those things you need to air with someone else."

The message is always, she says, "Family comes first before the business."

Mr. Staible is not ready to retire and doesn't have a set date to do so. "It is something I think about and apparently a lot of other people do, too. They ask me, 'When are you going to retire? Aren't you retiring yet?'"

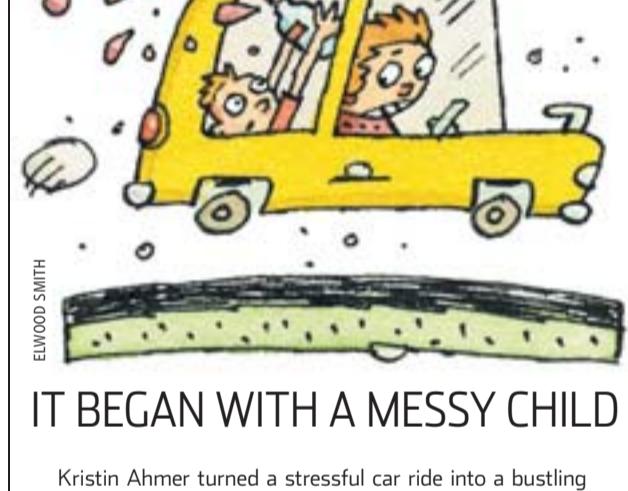
He doesn't have any hobbies that are so compelling that he wants to do them every day, although he likes to golf and hike and take longer vacations. Like his father-in-law, he sees himself as a steward who is charged with preserving the company and its opportunities for the next generation.

When asked if he worries about what would happen if he leaves, he says, "Maybe," adding that he himself didn't always make great choices.

"I don't want to push him out," says Ms. Staible. "I want him here as long as he wants to be there. It is just always, 'How do we make sure our roles coalesce and don't cause issues?'"

**Ms. Ansberry is chief of The Wall Street Journal's Pittsburgh bureau and writes the paper's Turning Points column. Email her at clare.ansberry@wsj.com.**

## HOW I THOUGHT OF IT



## IT BEGAN WITH A MESSY CHILD

Kristin Ahmer turned a stressful car ride into a bustling business.

In 2010, Ms. Ahmer launched a fitness franchise. On her way to teach a class, she handed her son a disposable food pouch in the car. He squeezed it and squirted food all over him and the car seat.

"It was a freak-out moment," Ms. Ahmer says. "I was late to teach the exercise class, and I didn't have a change of clothes for him."

When she got home, she thought there had to be an easier solution to storing a healthy, spill-proof snack. So she sketched on a napkin a design for a squeeze pouch.

It took 13 months to take that sketch from idea to fruition. The reusable food package with a spill-proof spout can be used for apple sauce, smoothies, yogurt, as well as any food that is pureed.

In August 2011, Ms. Ahmer launched her company, **The Original Squeeze**, from her kitchen and garage in San Clemente, Calif. She sold 2,000 units in 3½ weeks, hiring her babysitter to help pack boxes.

Ms. Ahmer credits the "mommy underground" with telling friends about the pouches and helping with feedback on the prototypes.

Besides the U.S., the product is distributed in more than a dozen countries around the world and since 2011 has pulled in \$1.7 million in sales. The Original Squeeze is in Babies "R" Us and Costco stores. This year the business has landed 20 cities for a road show with Sam's Club.

The Original Squeeze with Eeeze, aimed at 2-year-olds and older, is also helpful for special-needs individuals. In 2015, Ms. Ahmer expanded the product line to a Sports Squeeze for people who use power drinks and gels and protein shakes.

"When I read the emails from caregivers for people who are severely disabled, I get goosebumps," Ms. Ahmer says. "I created the product as a convenience, but it is especially satisfying to help others who are struggling."

—Barbara Haislip



### The Journal Report Podcast »

Each week, the Journal Report offers several new podcasts, which take an in-depth look at timely topics that matter to readers. Listen to the latest or subscribe to Journal Report podcasts at [WSJ.com/JRpodcasts](http://WSJ.com/JRpodcasts). Recent podcasts include:

◆ "How Roadside Attractions Try to Make a Profit." Roadside attractions were born as superhighways rose in the mid-20th century. They're still around, though as Wall Street Journal contributor Kevin Brass says, making money can be tricky.

◆ "In Search of a Perfect Team at Work." Who works best with whom? Companies are crunching lots of data to answer that question. The Wall Street Journal's Stu Woo joins us from London with some of the surprising new ways companies are going about this task.

◆ "How to Avoid Boredom in Retirement." Why do some people get bored in retirement and others don't? Wall Street Journal Contributor Glenn Ruffenach joins us with the answer to that question plus some tips.

The Journal Report welcomes your comments—by mail, fax or email. Letters should be addressed to Lawrence Rout, The Wall Street Journal, 4300 Route 1 North, South Brunswick, N.J. 08852. The fax number is 609-520-7256, and the email address is [reports@wsj.com](mailto:reports@wsj.com).

## THE JOURNAL REPORT

For advertising information  
please contact Katy  
Lawrence at 212-416-4119  
or [katy.lawrence@wsj.com](mailto:katy.lawrence@wsj.com)

## REPRINTS AVAILABLE

FULL PAPER: The entire Wall Street Journal issue that includes the Small Business Report can be obtained for \$10 a copy. Order by:

Phone: 1-800-JOURNAL

Fax: 1-413-598-2259

Mail\*: Small Business

Dow Jones & Co.

Attn: Back Copy Department

84 Second Ave.

Chicopee, Mass. 01020-4615

REPRINT OR LICENSE ARTICLES: To order reprints of individual articles or for information on licensing articles from this section:

Online: [www.djreprints.com](http://www.djreprints.com)

Phone: 1-800-843-0008

Email: [customreprints@dowjones.com](mailto:customreprints@dowjones.com)

\*For mail orders, do not send cash.

Checks or money orders are to be made payable to Dow Jones & Co.

## JOURNAL REPORT | SMALL BUSINESS

THE MONEY GAME

# The Feeling Is Mutual

More funds are pumping money into small firms

BY SIMON CONSTABLE

IT USED TO BE that almost all mutual funds invested their capital only in securities of public companies. But that's been changing—which could be good news for some small businesses that have big plans.

Thirty-six percent of firms going public in 2016 received mutual-fund financing before their IPO, according to a recent research paper by Michelle Lowry and Sungjoung Kwon, both at LeBow College of Business, Drexel University, and Yiming Qian at the University of Iowa.

This practice of investing in private firms has become increasingly widespread. Specifically, the authors say, fewer than 15 funds invested in private companies each year through 2000, compared with around 90 unique funds in 2015 and 2016. The research used data from 16 fund families from 1995 to 2016.

"The interest of mutual funds is driven by two things: the possibly of investing in unicorns and the fact that these firms are going public later and later," says José-Miguel Gaspar, professor of finance at Essec Business School in Paris. In other words, mutual funds want to get in early on companies with potential for fast growth.

If this trend continues, it's likely to be good for some, but not all, small businesses. To get an investment from a mutual fund, a company will need to offer something rather special. "I am not sure this is a development for the average startup," says Prof. Gaspar.

On top of that, the level of mutual-fund investment in private firms, while growing fast, is still relatively small and likely to stay that way. "Under the terms of a law from 1940, mutual funds are allowed to own 15% of their assets in pri-

vate firms; guidance that came later suggested 10%," says Richard Evans, professor of finance at the University of Virginia's Darden School of Business in Charlottesville. "They can only put a small allocation in such firms."

But for those companies that can get a mutual fund interested, there is plenty of good news.

**Lower cost of capital.** Prof. Evans notes that the availabil-

private allows managers to concentrate on growing the business rather than filling in government forms. The longer they stay private, the longer they can avoid the paperwork.

### Help with growing pains.

Any small company that wants to grow will see growing pains, but with a mutual-fund investor, there are seasoned managers available to offer advice.

**IPO prep.** The advice isn't just there when there is a mis-

### Funds Take Note

Across 16 mutual-fund families, which include the largest in the industry, the number of funds owning shares in private firms has increased substantially.



Source: Michelle Lowry, Sungjoung Kwon and Yiming Qian THE WALL STREET JOURNAL.

ity of more capital to fund businesses ultimately means a lower cost of capital for the businesses. It goes back to economics 101—more supply lowers the price of the capital needed. In this case, the potential returns that the investors want to see in the companies they buy will be lower.

**Stay private longer.** "What the paper shows is that having mutual-fund investors shows that companies can stay private 1½ to 2½ years longer than otherwise," says Prof. Lowry.

That allows the firms the potential to grow without the pressure of reporting earnings each quarter. That means that profits can be reinvested into the business and so help boost longer-term growth.

**Less regulatory filing.** Public companies must file many documents each year. Staying

step. Perhaps most important, the advice and coaching can help companies with their debut on the stock market, aka the IPO.

"The transition [from private to public] can be quite a big change," says Sonu Kalra, portfolio manager of the Fidelity Blue Chip Growth Fund. He adds, "The leaders are used to sitting in a room with a few people, whereas when they are public, it will be with a big group of people."

Mr. Kalra says he and his team try to prepare company managers for what to expect when their stock is listed. They hold mock earnings conference calls, and mock roadshows where company leaders will talk with investors.

*Mr. Constable is a writer in New York. Email him at reports@wsj.com.*

# The Perils of Having a Venture Partner Who's a Lot Like You

BY LOUISE LEE

IT'S A NATURAL IMPULSE: When people are looking for partners on a deal, they seek out people with whom they have a lot in common.

For venture investors, though, that kind of familiarity can be costly.

Recent research has found that investors are more likely to work together if they share certain traits, including gender, ethnicity and educational and employment history. But doing so often reduces their chances of financial success.

For instance, the chance of a deal's culminating in a public offering or in a profitable sale fell by 19% if both investors attended the same college, and by 17% if they previously worked at the same company. Working with a partner with the same minority ethnicity diminished the chances of an IPO or a profitable sale by 20%.

### Dangerous groupthink

The research, published in the Journal of Financial Economics, examined 3,510 individual venture capitalists who invested in 12,577 companies from 1973 to 2003.

In the study, two venture capitalists who both held degrees from top-tier universities were 16.3% more likely to invest together as a syndicate than two who weren't both alumni of top schools. Two investors who studied at the same college were 34.4% more likely to be partners on a deal than two who attended different schools. Investors belonging to the same ethnic minority were 39.2% more likely to pair up.

The authors speculate that matches based on most affinities may encourage "groupthink" that diminishes critical thinking for the sake of maintaining a harmonious relationship. "People who have the same background are likely to make the same mis-

### Too Close for Comfort?

A look at traits that make venture capitalists more likely to invest together—but reduce the chances of a deal's culminating in financial success.

**INCREASED**  
the chances of joining together by

**16%**  
Attended a top-tier college

**34%**  
Attended the same college

**39%**  
Share a minority ethnicity

**DECREASED**  
the chances of success by

**17%**  
Worked at the same employer

**19%**  
Attended the same college

**20%**  
Share a minority ethnicity

Source: "The Cost of Friendship" by Paul A. Gompers, Vladimir Mukharlyamov, and Yuhai Xuan

THE WALL STREET JOURNAL.

tended different top-tier universities. Why? The authors say that particular connection, unlike a shared gender or ethnicity, may reflect actual high ability.

"Having two smart people look at a deal is probably better than having one smart person look at the deal," says Dr. Gompers. That advantage fades, though, if both attended the same school because of the groupthink that the affinity of a shared college tends to produce.

### Look for biases

The research suggests that venture capitalists as well as those in other industries need to be aware of their biases toward hiring and working with people similar to them and the potential negative effects of those biases.

"They should proactively think about issues of diversity and try to hire and work with people who have different backgrounds," says Dr. Gompers.

For their part, the entrepreneurs seeking funds should consider that "having a diverse set of investors in their company is probably a good thing."

*Ms. Lee is a writer in Palo Alto, Calif. She can be reached at reports@wsj.com.*

SAMSUNG

Sprint  
Business

## Small Business Week is a big deal. So, we're celebrating all month.

These two big deals make it easy.

Work without boundaries on the network with the best price for Unlimited among national carriers! And now, for a limited time, your 5th line is **FREE!**

Call to save now:

**866-700-0034**

[sprint.com/unlimitedgalaxy](http://sprint.com/unlimitedgalaxy)

Plan: Limited time offer. Savings until 6/30/18; then \$65/mo. for line 1, \$35/mo. for line 2 & \$25/mo. for lines 3-10. Streams video up to HD 1080p, music at up to 1.5mbps, gaming at up to 8mbps. Data de prioritization and restrictions apply.

2 for 1: S8 \$31.25/mo. S7 Edge (32GB) \$10/mo after \$28.96/mo service credit. Reqs. 2 new lines of service or 1 new line and 1 upgrade. For well-qualified customers with 18-mo. leases. Early termination results in remaining balance due. Credit applied within 2 invoices.

## Works for Business™

**2 for 1**  
with Sprint Lease



SAMSUNG  
Galaxy S8



SAMSUNG  
Galaxy S7 edge

Lease a Samsung Galaxy S8,  
get a Galaxy S7 edge lease on us!

**Unlimited  
\$30**

Now, get your  
5th line  
**FREE!!**

mo./line for 4 lines

Plus, HD streaming and 10 GB Mobile Hotspot

## JOURNAL REPORT | SMALL BUSINESS

### MANAGING TECHNOLOGY

# See It. Click It. Buy It.

You can now make purchases right on social sites. Small businesses are getting on board.

BY DENNIS NISHI

**YOU SEE** A picture on Pinterest, Instagram or Facebook. But there's something different about it. There's a button that asks you if you want to buy the product you see.

Would you click then and there?

Social-media giants are betting you will. And some small businesses are signing on to the idea.

As social sites seek new sources of income—and people demand ever more convenient ways to buy online—they're giving companies the option to add "buy" buttons to their posts. And some small businesses are already seeing encouraging gains from this new capability, boosting sales by leveraging the close contact they have with customers on social sites.

But experts warn that businesses should take a soft and helpful tone when reaching out, because customers can get turned off when companies try to use social media to push them into making impulse buys.

They don't like it when companies post aggressive sales pitches in the comments on pictures at photo-sharing sites, for instance, or when companies send them pushy sales messages through plat-

forms such as Facebook Messenger.

Customers are "in a different mind-set when on social sites," says Jay Baer, president of Convince & Convert, a digital marketing firm in Bloomington, Ind. "They don't go there to buy. That transition to buying can be jarring."

#### Room to explore

The idea of buying straight from posts on social media isn't exactly new. But only now is the practice becoming feasible as third-party companies like Shopify and BigCommerce—or in the case of Pinterest, the site itself—make it easier to set up the purchasing options and handle the backend processing.

Companies pay the third-party companies a subscription fee, but the social sites aren't charging anything yet to monetize posts.

On Instagram and Pinterest, companies post photos the way anybody else does, and people find the pictures the way they find any other photos: searching by keyword or seeing what their friends have marked as interesting—"pinned"—or otherwise shared. The only difference is that people have the option to buy items companies have posted.

On Facebook, customers arrive at company pages either

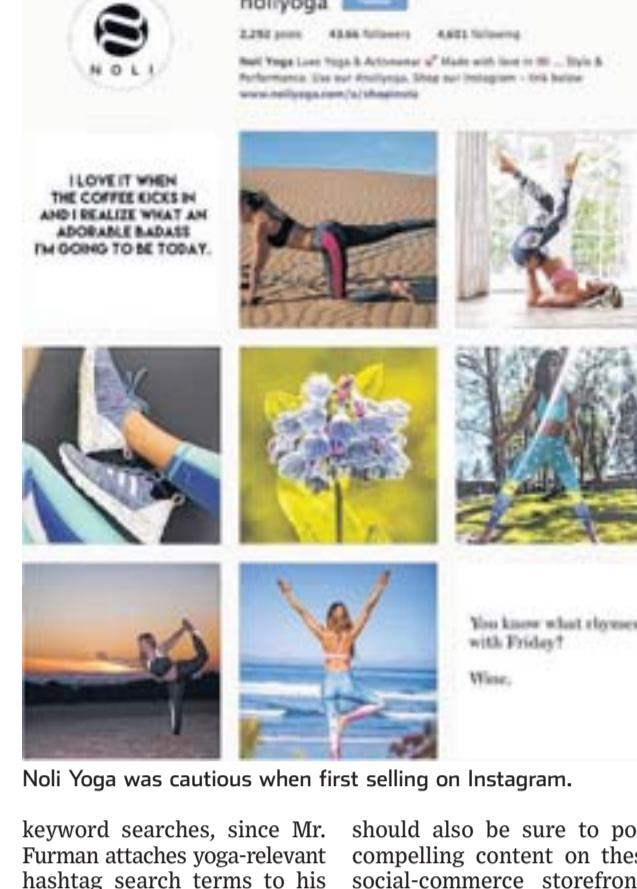
by searching on keywords or by joining a group devoted to the company. Purchasable items are found by clicking the shop tab, and the transactions are handled by manually entering credit-card numbers that can be stored for later use. Facebook doesn't charge for the transaction.

How can entrepreneurs make the most of this new setup?

The experts suggest that companies ease customers into the idea of buying on social media by gently letting them know, since the majority of online users are not even aware that they have the option to make direct purchases on social media.

On Pinterest and Instagram, for instance, users are usually looking for ideas or inspiration, not to buy. Companies should not put aggressive sales pitches in the comments to photos, where most of the conversations on Pinterest and Instagram take place.

Slava Furman, founder of Miami-based **Noli Yoga**, knew that yoga practitioners were posting scenic selfies of their perfected yoga positions on Instagram. Without making any sales pitches, he started posting his own photos showing customers in his activewear. Yoga fans discovered them while browsing through other yoga photos or doing



Noli Yoga was cautious when first selling on Instagram.

keyword searches, since Mr. Furman attaches yoga-relevant hashtag search terms to his images.

After building a sizable following, he turned to an e-commerce app called Snappic that lets people buy items in his photos.

He currently gets 90% of his business from all of his social-media marketing and advertising efforts, and 15% of that comes from direct sales on Instagram.

#### Special content

Avoiding sales pitches is one thing. But companies

should also be sure to post compelling content on these social-commerce storefronts that gives users a reason to visit, experts say. On Instagram or Facebook, that might mean streaming live video. In a Facebook shop, companies might offer a free PDF instructional guide for the product, along with a coupon.

**Pure Cycles**, a 20-employee urban-bicycle manufacturing company in Burbank, Calif., posts events that show up in followers' calendars on Facebook. As with click-to-buy posts on Instagram and Pinterest, visitors to the company's

Facebook shop page can purchase items in photos. But Pure Cycles says it's careful to add extra content to keep customers interested.

The company recently invited customers to its headquarters, where they could test-ride bikes and get free swag. It also features instructional videos and streamed Facebook Live video events where employees interact with customers. Another touch that helps, the company says: The live videos are often done by company owners as a way to make themselves more accessible to customers.

When doing a question-and-answer session, they have opportunistically referenced products in the store.

Jordan Schau, co-founder of Pure Cycles, says the human touch is crucial to show that there are real people behind the content, not a faceless marketing department.

"In terms of shopping and getting the right stuff, it's much more impactful if we're behind the chat," says Mr. Schau, who oversees the social-media efforts at Pure Cycles. He'll often respond directly to social media inquiries on his personal phone and interact with customers after hours.

"We're not trying to actively hit people up by saying, hey, everybody, we're having a sale on this," says Mr. Schau. "We're more like, hey, we're your friend. If you have a question about your bike, we're happy to answer."

**Mr. Nishi** is a writer in Los Angeles. He can be reached at [reports@wsj.com](mailto:reports@wsj.com).

# Small Screen, Big Dreams

Low-budget films look to video on demand for wider audience

BY BEN FRITZ

**DIRECTOR** Sean Mewshaw and his screenwriter wife, Desiree Van Til, hoped that they had another "Little Miss Sunshine" on their hands when they started developing the romantic comedy "Tumbledown" in 2008.

It took years to find the money they needed. The movie, which was finished in 2015, ended up costing \$4.2 million and starred Jason Sudeikis and Rebecca Hall.

By the time "Tumbledown" was finished, the world had changed.

It had been a long time since an indie movie appeared seemingly out of nowhere and grossed \$60 million, as "Little Miss Sunshine" did in 2006. Theatrical releases had vanished for the vast majority of indie films, and the question was no longer how to become a box-office success, but how to succeed on video-on-demand platforms like iTunes, Amazon and Vimeo.

"What we always imagined all along wasn't really possible anymore," says Ms. Van Til. "Now as filmmakers our job is pounding the digital pavement."

#### The digital world

With audiences paying attention primarily to a handful of megahits like "Beauty and the Beast" and "Jurassic World," indie movies have become marginalized at the box office. Most rely exclusively on VOD rentals to make their money and use short runs at a handful of theaters to generate reviews.

Meanwhile, filmmakers can boast in marketing material that they are on cable boxes, videogame consoles and tablets at the same time they're on the big screen.

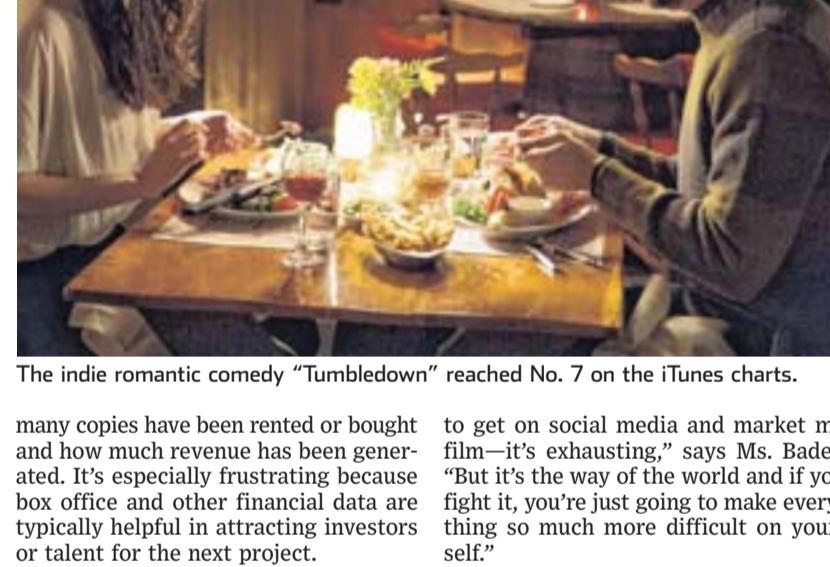
With infinite digital shelves, making a movie available to watch at home is easier than ever for independent filmmakers. The challenge is getting it noticed and, with no box-office receipts to count, gauging whether it's a success.

In some cases, filmmakers sell the movie to a distributor, who puts it on digital platforms for them. The benefit is an advance payment on future royalties, but the downside is they typically have no idea how many people actually watched their movie.

After premiering at the Tribeca Film Festival, the investors in "Tumbledown" had the option to sell the movie to a distributor willing to release it widely in theaters, but for relatively little money up front. The most lucrative option was with the cable channel Starz's digital division, which released the movie via video on demand in February 2016.

Mr. Mewshaw and Ms. Van Til watched the movie climb the charts on iTunes as high as No. 7, the couple says, and read reactions on social media. Like other digital rental services, iTunes takes 30% of the revenue and passes on the rest. But then Starz—like many other middlemen in the video-on-demand world—takes its cut and then applies the rest against the filmmakers' advance, using a complex calculation.

So, like most independent filmmakers, the "Tumbledown" team has no idea how



The indie romantic comedy "Tumbledown" reached No. 7 on the iTunes charts.

many copies have been rented or bought and how much revenue has been generated. It's especially frustrating because box office and other financial data are typically helpful in attracting investors or talent for the next project.

"It's a black box to us," says Mr. Mewshaw.

Another option is for movies to launch on subscription services like Netflix, where viewers don't pay per video. These services pay a flat fee—typically a few hundred thousand dollars—to stream an independent film to members for one or two years. But producers typically wait to sell to a subscription service, because transactional services where viewers pay to watch individual films, like Amazon or iTunes, are more profitable.

The trade-off is attention. Because there's no additional cost, people are more likely to try an independent movie they've never heard of on Netflix than to pay for it on iTunes.

"Anybody who wants to make a fortune is not going to do it by selling to Netflix," says documentary director Jason Wise. "But you are going to be seen by a lot more people."

#### Doing it yourself

For filmmakers willing to forgo an advance and do all of the marketing work themselves, digital platforms can offer a tremendous amount of transparency and control. For her first directorial effort after years of producing, Marina Bader knew "Anatomy of a Love Seen" would be released only on video on demand, save for a premiere screening at the gay and lesbian film festival Outfest.

The romantic drama was made for a minuscule \$70,000. Rather than adding the costs and potential delays of a distribution partner who could get the movie onto iTunes or in theaters, Ms. Bader initially released the movie herself on the lesser-known—but purely independent-film focused—platform Vimeo.

She could keep 90% of the revenue from each \$5 rental and see exactly how much her film made. But she would be responsible for the marketing.

"I didn't get into this because I want to spend every day thinking about how

to get on social media and market my film—it's exhausting," says Ms. Bader. "But it's the way of the world and if you fight it, you're just going to make everything so much more difficult on your self."

In addition to interviews in the LGBT press, Ms. Bader ran contests on social media with prizes for people who posted screenshots of themselves renting "Love Seen," and engaged with anyone she could find talking about the movie, answering emails and Twitter comments personally. The film was ultimately profitable, says Ms. Bader.

#### Out of the bottle

Mr. Wise also spent late nights engaging on social media for his two documentaries set in the world of wine: 2012's "Somm" and 2015's "Somm: Into the Bottle." Aware that oenophiles were his target audience, Mr. Wise says he lobbied "every single human being with any influence in the [wine] business" to post on social media about the movies.

Mr. Wise kept his social-media accounts active between the two films to ensure that people who saw "Somm" would remain engaged until the follow-up was ready.

Also critical, he says, was editing and posting his own trailers as he worked on the movies. Although he didn't yet have a specific release date for the film, trailers helped validate that the movie was really happening.

"I wanted the audience who had been following me to believe I was actually going to make it," he says.

For his next documentary, about the former child actress and "The Dick Van Dyke Show" star Rose Marie, Mr. Wise is working with his subject's family to use her social-media accounts and promote a crowdfunding campaign that will help fund the film.

"Directors have to enlist people to support their passion and then excite everyone on set to follow their vision," says Mr. Wise. "I don't see a mind-set better for social media."

**Mr. Fritz** is a reporter in The Wall Street Journal's Los Angeles bureau.

Email him at [ben.fritz@wsj.com](mailto:ben.fritz@wsj.com).

# How Was Your Stay?

Online reviews let independent hotels steal business from big brands

BY CHANA R. SCHOENBERGER

IN THE HOTEL business, brand names mean a lot less than they used to.

That is the conclusion of a recent study by Brett Hollenbeck, an assistant professor at UCLA Anderson School of Management. By looking at hotel revenue and reviews, he found that while chain hotels still have more sales than independent ones, the margin is narrowing considerably. And the change is largely driven by the growth of online reviews and ratings. Independent hotels got more of a revenue bump than branded hotels from factors such as the number and types of reviews they receive.

Online reviews might be leveling the playing field between chains and independent businesses," says Dr. Hollenbeck.

#### New playing field

Before the boom in reviews, travelers had few ways to tell how good a particular hotel was, aside from word-of-mouth and travel books—so the best way for them to pick a reliable hotel was to select a branded one. If travelers booked a room at a Holiday Inn, they knew what they were going to get.

Now that there is more information out there about independent spots, Dr. Hollenbeck says, brand recognition doesn't carry nearly the same weight.

In his research, Dr. Hollenbeck looked at hotel revenue over 15 years and analyzed nu-

merous aspects of 1.5 million reviews from multiple platforms.

Branded hotels' lead in revenue over independents has declined to 19% in 2015 from 32% in 2000, he found. After controlling for a number of other factors that might affect sales, Dr. Hollenbeck found that online reviews had a large effect in narrowing that gap.

#### A boost from reviews

For instance, if an independent hotel gets 10 reviews on average, this translates to about 1.7% higher revenue, while for a chain it increases revenue only by 0.7%, he says. Website reviews had the greatest impact on hotels with a long-term low-quality rating—as measured by AAA's diamond ratings—and those in small markets.

Those in urban areas saw less of an impact. In small markets, the revenue edge enjoyed by chains fell to 6.9% from 25%. In medium-size towns and suburban markets, the drop was to 13.7% from 33.4%. In denser urban areas, it fell only to 25.9% from 34.5%.

The hotels that lost the most of their revenue edge belong to well-known but modest brands, such as Best Western, La Quinta, Super 8, and Motel 6.

The effect doesn't seem to hold for higher-end chains, which benefit from loyalty-points programs and luxury amenities that lure in customers, Dr. Hollenbeck says.

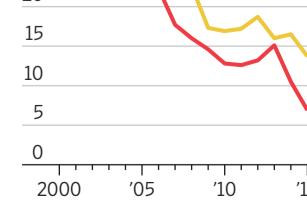
**Ms. Schoenberger** is a writer in New York. Email her at [reports@wsj.com](mailto:reports@wsj.com).

## Location, Location, Location

Chain hotels as a group bring in more revenue than independent ones, but in many cases the gap has been narrowing. Here's a look at the percentage difference in revenue between chains and independents and how it has changed. (Based first on location, and then star rating.)

### HOTEL LOCATION

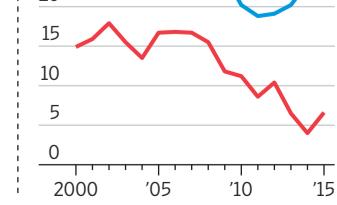
■ Urban ■ Rural ■ Suburban



Source: Brett Hollenbeck, UCLA Anderson School of Management

### HOTEL RATING

■ 1 Star ■ 2 Star ■ 3-5 Star





***My Impossible:*** In prison I lost 70 lbs and any chance of employment. So I started ConBody to teach my prison fitness regime. I now employ ex-cons to help train more than 400 clients.

Coss Marte,  
ConBody  
Hiscox customer



***My Impossible:*** To take on my workplace bully, I started a business to take on all workplace bullies.

Catherine Mattice,  
Civility Partners  
Hiscox customer



***My Impossible:*** Surfing prepared me for my photography business. It taught me it's okay to fall over a few times before finding your feet.

Ryan Struck,  
Ryan Struck Photography  
Hiscox customer

**Is it impossible for a small business to take out a full-page ad in The Wall Street Journal?**

**We think not.**

# I'mpossible

***My Impossible:*** Moving to a new city to start a business without clients took strength. Then a fire left me homeless and without tools to show how strong I could be.

Alicia Igess,  
Urban Tangles  
Hiscox customer

Hiscox business insurance. Helping the courageous overcome the impossible.

[hiscox.com/impossible](http://hiscox.com/impossible)  
866-622-9053

***My Impossible:*** With higher unemployment rates among Vets, no one thought it was a good idea to start a recruitment agency solely for them. So, I guess I'm no one.

Jordie Kern,  
7 Eagle Group  
Hiscox customer

  
**HISCOX**  
**encourage courage®**

## JOURNAL REPORT | SMALL BUSINESS

### RUNNING THE SHOW

# A Recipe for Success

Opening a restaurant is a huge gamble. Here's how one eatery beats the odds and thrives.

BY MARTHA BRANNIGAN

WITH A LONG CAREER in fine dining under his belt, executive chef Klime Kovaceski got a craving for something more casual.

Two years ago, he and his wife opened a restaurant, **Crust**, in Miami, serving pizzas and pasta along with other fare. It was a huge risk. Even for the savviest chef or businessperson, a new restaurant is a great way to lose a lot of money—fast. The industry sees thousands of new entrants each year, and about 27% of them close their doors within 12 months, and 60% in the first three years, according to H.G. Parsa, a University of Denver professor.

But Crust is beating the odds. Opened in June 2015, it posted sales of just over \$1 million for 2016 and a pretax profit of more than \$200,000, according to Mr. Kovaceski. The restaurant is on track to generate about \$1.5 million in sales for 2017 with a higher pretax profit margin than the approximately 20% in 2016, he says. TripAdvisor often ranks the little place as Miami's No. 1 restaurant.

How do they do it? How does one restaurant succeed where so many others fail, including many with big-name backers and renowned chefs?

A look at the inner workings of Crust, which Mr. Kovaceski owns and runs with his wife, Anita, offers insights into how a small, independent restaurant becomes a success. Their formula is endless work and passion and attention to countless details. The couple stay on top of every aspect of the business, from choosing dishes that let them repurpose ingredients and ensure a good profit margin, to reinforcing good employee practices, to policing reviews and comments online. They often work 12 or more hours a day—either in Crust or on call—six or seven days a week.

Along the way, they try to make it all seem effortless. "No one wants to see you running around in panic," says Mr. Kovaceski, 56, who formally trained in Croatia and Macedonia and has operated and consulted for restaurants for more than 30 years. "It should look easy."

#### Romance and reality

Opening a restaurant is still

among the most romanticized of small-business ventures. Even in 2009, amid fallout from the Great Recession, the industry added 2,568 eating and drinking establishments, a less than one-half percent increase, for a total of 548,246, according to the Bureau of Labor Statistics. In 2015, a more normal period, the number rose by 9,877 to 603,223. "On the surface, it doesn't look all that complicated," says Jim Laube, the CEO of RestaurantOwner.com, a resource for independent operators. "The problem is when you look under the hood and see all the moving parts."

The Kovaceskis began brainstorming about Crust four years ago. The couple—he's from Macedonia, she's

and making some himself. "The easiest thing is to open a restaurant," he says. "The hardest one is to make it work."

Mr. Kovaceski wanted to try an informal Italian restaurant and pizzeria with an accent on takeout and delivery, a hot area of growth for restaurants. The couple hunted for a year just to find the right location, finally locating an old house in a gentrifying neighborhood on the Miami River, where rusted freighters nose by megayachts. Several restaurants were thriving within a few blocks.

The 1930s house, which has 14-foot ceilings and wall columns, had been a fish market and a paint shop. It took a year to remodel and equip the place—which has a feel of old

top seller; he offers it because it rounds out the menu, and guests often order it with a bottle of wine, which typically is marked up 200% to 300% above its wholesale price.

What's more, he says, many chefs use too many ingredients. That drives up costs and leads to spoilage. Crust's menu is big, but simple to manage. He uses variations of risotto for dishes like chicken Marsala (mushroom risotto), rack of lamb (mint risotto), and chicken piccata (basil risotto). "It's all risotto, just done in different ways," he says.

Controlling waste is also vital: Employees must show him spoilage before throwing it out, so they can decide what went wrong.

While labor costs typically total about one-third of sales at full-service restaurants, according to benchmarks, Crust's are lower, because the owners do so much. "My labor is around 20%, because I don't have to pay an executive chef and general manager," Mr. Kovaceski says.

Crust starts servers at \$5.08 an hour, Florida's minimum wage for tipped employees. Tips can bring that to more than \$20. And Mr. Kovaceski keeps a close eye on employees. When a new employee called in sick on a Sunday, one of the busiest days, the chef told the employee he had probably hired 5,000 people over 30 years, and "I'm not accusing you of anything—but most of the time, they call in Sunday because they're partying on Saturday." The worker insisted that wasn't the case.

"I said, 'Don't worry about it. If you're doing it, you're going to do it again.'

Mr. Kovaceski also lets employees know he's watching his back door and garbage can—common ways that goods go missing. He originally planned to use a back kitchen door for delivery orders, but decided it

was too vulnerable to theft, he says.

What's more, he reminds employees of the video-surveillance cameras throughout the restaurant. And only the owners can void items or checks.

Another crucial ingredient in the restaurant's success is constant attention from the owners. Mr. Kovaceski often works from 11:30 a.m. to 1 a.m. and can't recall taking a day off since opening. The restaurant is closed Mondays, but he's there, catching up or doing repairs.

Mrs. Kovaceski typically tries to take the day off, or at least not to come in. Mondays are also their day to go out to eat and see what other restaurants are doing.

She took a five-week trip to Australia last summer. That meant hiring a hostess and giving more responsibilities to a trusted manager. Even so, by 8 a.m. in Sydney, she was on her laptop watching the cameras at Crust, where it was 6 p.m. She checked reservations and sent texts to her husband and a manager. "I couldn't disconnect," she says.

The hard work can take a personal toll. The day before the restaurant's opening day, June 16, 2015, her father was diagnosed with an illness, potentially serious, in Sydney. "My family didn't tell me for three months," she says. "My mom and my sister told me over the telephone after three months" when he was better.

She was upset they had shielded her, but also thankful, because her instincts would have been to hop a plane to Australia. "I had to work. I had to put on a brave face, because it was a sensitive time," she says.

Another demand on their time is social media, which they use to attract customers and shape their reputation. They also monitor postings on



MICHAEL PRICE/CRUST

The Kovaceskis began brainstorming about their restaurant, Crust, four years ago.

### Adding More Tables

Number of eating and drinking places in the U.S. and the annual net increase

#### Establishments

625 thousand

600

575

550

525

500

Nine months ended Sept. 30, 2016

Source: Bureau of Labor Statistics

#### Net increase

15 thousand

10

5

0

THE WALL STREET JOURNAL

from Australia—married in 2013. Mrs. Kovaceski had worked in medical advertising and marketing in Australia and was new to restaurants. Lively and gregarious, she would take on the job of welcoming guests and setting a tone of friendly service for her staff. "I never let a table go untouched," she says.

Scheduling reservations is a juggling act. The restaurant is open 5 p.m. to 10 p.m., with seating for 70 guests. Managed properly, Crust can use each table 2.5 times per night.

Most guests want reservations between 7 p.m. and 8 p.m. That means asking them to push ahead or back a half-hour to smooth the flow during peak hours. "I thought we would just open up and things would start happening," says Mrs. Kovaceski, who oversees the dining room, while her husband runs the kitchen.

Mr. Kovaceski knew better from decades of experience, seeing others make mistakes

Europe with warm furnishings—and the couple invested \$500,000 of their own funds before the restaurant started to bring in money. Employees trained for weeks before opening day.

One of the keys to initially turning and then maintaining a profit is a favorable lease. Rent runs about 5% of sales, Mr. Kovaceski says. That beats an industry benchmark of 6%.

Even more important, Mr. Kovaceski designs the menu with a close watch on food costs. For a casual restaurant like Crust, those costs typically should total no more than 28% of sales (33% at fine-food spots), according to benchmarks. "I'm a lot less than 28%," Mr. Kovaceski says.

The key is making sure top-selling items—pasta, pizza and chicken dishes—are the most profitable, he says. A lamb-chops entree is less profitable, because its ingredients cost more than 30% of its \$22.95 price, he says. But lamb isn't a

## JOURNAL REPORT | SMALL BUSINESS

### RUNNING THE SHOW

# How Roadside Attractions Get Us to Pull Over

Corn mazes. Barbed-wire museums. Banana shrines. Keeping them going is tough.

BY KEVIN BRASS

ON A DESOLATE stretch of Interstate 8, in the middle of California's high desert, Ben Schultz is trying to run a business. Perched on an outcropping at 3,000 feet, his Desert View Tower is the only structure for miles. That's not counting the junk yard down the road billed as a "flying saucer repair station," featuring ersatz space vehicles.

Mr. Schultz hopes travelers will stop for a few minutes and pay \$6.50 to visit the 70-foot-tall viewing tower, hike the trails and check out folk art carved into the rocks. But it's a tough way to make a buck. "People aren't interested in experiencing something new anymore," Mr. Schultz says. "They don't stop. They just go where they are going."

The construction of superhighways in the mid-20th century spawned the uniquely American phenomenon of roadside oddities and attractions, designed to entertain and quench the thirst of weary travelers. Across the country, business owners like Mr. Schultz are trying to lure drivers off the road with everything from giant balls of yarn to alien artifacts. Coaxing them to stop and buy an ice cream and maybe a souvenir shot glass is a difficult, competitive business, and it often takes extras like petting zoos and play areas to seal the deal.

We talked to the owners of roadside attractions about their experiences in the business of promoting one-of-a-kind oddities.

### THE DEVIL'S ROPE MUSEUM

People should appreciate the historic importance of barbed wire, says Delbert Trew, who in 1990 helped start the Devil's Rope Museum in McLean, Texas, a dot on Route 66 in the Texas Panhandle. The museum's slogan: "Get hooked on barbed wire."

Barbed wire "settled the West," says Mr. Trew, 83, who is retired from running his 3,000-acre cattle ranch. An avid collector of barbed wire, he founded the museum with several collectors in the area focused on "the devil's rope." The intention: keep their town from disappearing as a new highway opened and Route 66 was decommissioned. A museum honoring the famous road is next door, giving Mr. Trew's museum an advantage many attractions don't have.

"If a guy driving down the road at 70 miles an hour sees a sign that says barbed-wire museum, I don't think they'll hit the brakes," Mr. Trew says. "But they see the old Route 66 museum, a lot of people hit the brakes."

The museum is a potpourri of barbed wire, with samples of hundreds of different types and photos of it, as well as sculpture. There is also an extensive library. Mr. Trew serves as unofficial spokesman and curator. "I kind of learned curator is a fancy word for janitor," he says. His wife, Ruth, serves as secretary and treasurer. Two part-time employees and volunteers help out in the museum.

Last year, the museum generated \$15,580 in sales, Mr. Trew says. Membership fees (\$30 a year), donations and revenue from the gift store help pay for insurance, the staff and general upkeep.

The museum put up billboards along the interstate, but he says discussions and coverage on the internet generate the most traffic. Half of the visitors are foreigners, lured by articles and the pull of the Wild West, he adds.

Working on the museum has "got to be not as fun as it used to be," Mr. Trew says. He laments that many old-time collectors are passing away. "I don't know too many new collectors." But he has no plans to quit. "I plan on being around for a while."

### INTERNATIONAL BANANA MUSEUM

A twist of fate led Fred Garbutt to become world-renowned as the founder of the



The World's Largest Corn Maze is the center of an Adventure Farm full of other attractions.

be a grind. "We're in our 60s," Mr. Richardson says. "It means some long months."

Mr. Richardson declined to discuss numbers, but says business is steady. "Nobody is buying second homes, but business is good," he says. "We can make enough that we can plow more money into it."

### DESERT VIEW TOWER

Ben Schultz has a long, fond history with the Desert View Tower. He visited it when he was 4 and had his 7th birthday party there. Years later, in 2002, he was working in building maintenance and decided to buy the 93-acre site for \$350,000. He had experience buying and renovating properties, and he saw the 94-year-old stone tower as a fixer-upper. And he couldn't resist the idea of owning the roadside attraction.

Mr. Schultz lives in a rock-cave house on the property. He spends his days working on the property and as the official greeter for the steady stream of visitors who pull off the road. He spends almost no money on advertising. He relies on historical-landmark signs installed by the state of California, and Google Maps—the tower shows up as the only stop for miles.

People are free to wander the grounds and check out the folk-art rock carvings made by a local artist 80 years ago; Mr. Schultz also charges visitors for campsites.

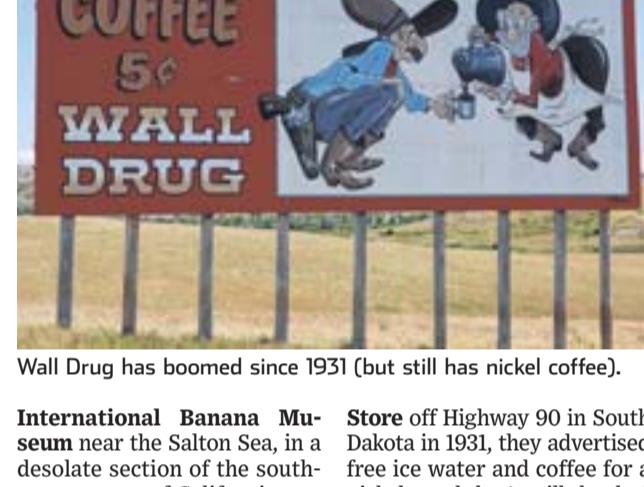
But the main revenue is from admission to the tower. Last year, he raised the price from \$3.50 to \$6.50, and "people didn't bat an eye," he says.

The tower also has a small gift store, with everything from books and local jewelry to oddities such as a kit to create a lava lamp.

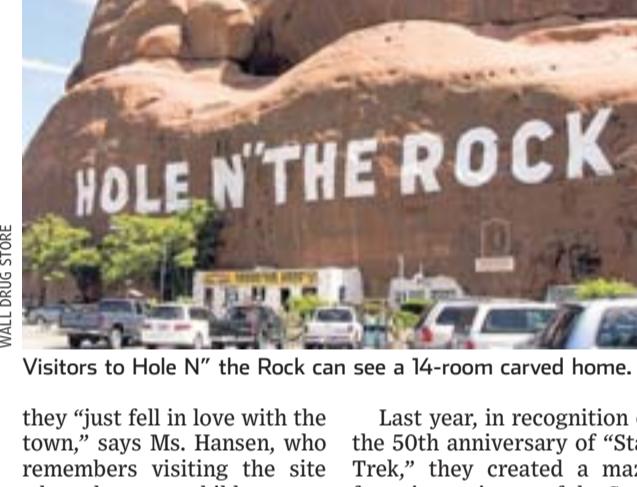
The site generates about \$120,000 a year in gross revenue, Mr. Schultz says. But it's a constant struggle. He would like to sell the business; he's ready to do something different. And it gets cold on the site during the winters.

But he recognizes he will miss it if he does sell. "What I love about it, is people come here and they're happy," Mr. Schultz says.

*Mr. Brass is a writer in San Diego. Email him at [reports@wsj.com](mailto:reports@wsj.com).*



Wall Drug has boomed since 1931 (but still has nickel coffee).



Visitors to Hole N' the Rock can see a 14-room carved home.

**International Banana Museum** near the Salton Sea, in a desolate section of the southeastern part of California.

In 2010, he was looking for something to fill the retail space next to the liquor store his family has owned since 1958. He saw an ad on eBay for what was described as the world's largest collection of banana-related items.

"I thought it was a fun, catchy gimmick that would make a really fun roadside attraction," says Mr. Garbutt, 53, who builds tennis courts for a full-time job. "On a personal level, it was a challenge to see what I can do to pull people off the highway."

Turns out, promoting more than 25,000 banana-related items and photos works great. Mr. Garbutt won't talk numbers, but he says the museum can attract more than 100 people a day on weekends, and he has received visitors from around the world since opening in 2012. The operation does well financially, he says. The original idea was to help boost sales of the liquor store, but the museum has turned into its own business.

"The museum does less business [than the liquor store], but the profit is a lot more," Mr. Garbutt says.

The museum features everything banana, from banana-shaped record players to banana-style bar stools, salt-and-pepper shakers, staplers, jewelry, ashtrays, socks and cookie jars. Mr. Garbutt also offers banana-flavored ice cream, shakes and sundaes.

Admission is \$1, but it's waived if you buy something. Mr. Garbutt's wife, Kym, and daughter, Millie, help out in the store.

Mr. Garbutt doesn't do any advertising, beyond a big sign, a 6-foot stuffed banana perched on a chair next to the front door and a yellow VW bug parked out front. He says word-of-mouth, press coverage, social media and reviews on sites like Trip Advisor and Yelp drive traffic. Many visitors are from Europe, where he has been featured in TV shows on roadside oddities.

The museum has been "a lot more work than I thought it would be," he says. But he enjoys the people aspect of the business. He's thinking of expanding and quitting the contractor business to focus on the museum full time.

"I see myself doing this for years and years," he says.

**Store** off Highway 90 in South Dakota in 1931, they advertised free ice water and coffee for a nickel—and that's still the deal promoted on more than 300 billboards along highways in South Dakota, Minnesota and Wyoming. Today, Wall Drug covers 76,000 square feet, with a cafe and shops, and can attract 20,000 visitors on a summer day. Travelers are encouraged to check out a giant recreation of the mythical jackalope, a roaring mechanical T-Rex and a miniature version of Mount Rushmore.

"Wall Drug Store is an experience," says Mr. Hustead, 66, who started working in the store's soda fountain when he was 8 years old.

Mr. Hustead went on to work as a high-school guidance counselor and teacher. But he returned to the family business when he was 30 at the request of his father, Bill.

Today his daughter, Sarah, is working at Wall Drug, the fourth generation to work in the family business, along with his wife, Patt. "I am thrilled to see [the business] continuing," Mr. Hustead says.

Wall Drug employs more than 200 people during the summer, and 60 year-round. In 2016 the operation generated more than \$10 million in revenue, Mr. Hustead says. "We were profitable, but it is a struggle every year," he says.

He says he enjoys the challenges of making the business work, but it is "very demanding....I pretty much work every day, taking a few afternoons off each week."

Fifty percent of Wall Drug's business is from repeat customers, typically travelers on their way to Yellowstone National Park or Mount Rushmore. Once they stop, Mr. Hustead wants to make sure they have plenty to do. The longer they linger, the more likely they are to buy a piece of jewelry made with Black Hills gold or a souvenir T-shirt.

But Mr. Hustead has a clear focus on what Wall Drug is really selling. "We're throwbacks," he says. "We're classic Americana."

**HOLE N' THE ROCK** In 2000, Wyndee and Erik Hansen were running a painting business in Salt Lake City when they bought the Hole N' the Rock—a 5,000-square-foot, 14-room home carved into stone outside the town of Moab, in southwestern Utah. The home was created in the 1940s by Albert and Gladys Christensen.

The Hansens were looking for something different and

they "just fell in love with the town," says Ms. Hansen, who remembers visiting the site when she was a child.

Hole N' the Rock charges adults \$6.50 (\$3.50, children 5 to 10) for a guided tour. The home is essentially an elaborate cave with many homey touches, including a fireplace, carpeting and a big bathtub built into the rock.

Ms. Hansen says the key to attracting visitors these days is a petting zoo, which grabs the attention of children, who convince their parents to stop. The Hansens charge \$4.25 to get into the zoo.

The souvenir shop and "trading post" supply a big chunk of total revenue. Jewelry, pottery and knives are big sellers, as well as the souvenir items, Ms. Hansen says. She tries to stock "odd things" like a rubber frog in a box or voodoo dolls, items that can't be found in a Wal-Mart.

For the first 10 years the Hansens, who live on the site, didn't make much, primarily because they spent any profit on improving the site and marketing, Ms. Hansen says. But they cut the \$25,000-a-year advertising budget after they surveyed customers and found 98% of them were either repeat visitors or "drive bys" who noticed "Hole N' the Rock" painted in big white letters on the side of the rock.

Business has picked up as the economy has improved, Ms. Hansen says. But last year, the Hansens decided they were tired of the struggle and advertised Hole N' the Rock for sale.

But "our kids talked us out [of selling]," Ms. Hansen says. "We love the place. We don't know what else we would do."

### WORLD'S LARGEST CORN MAZE

For 20 years, the Richardson family raised pigs and grew corn and soy on their 544-acre farm in Spring Grove, northwest of Chicago. But competition from big farms made it tougher to turn a profit. "We either had to grow bigger or do something different," George Richardson says.

They started selling Christmas trees in 1986 and kept adding elements—food, wagon rides, a pumpkin patch. "We love the people business, and not every farmer is good with that," Mr. Richardson says.

Eventually, in 2001, they built "the World's Largest Corn Maze." There is some dispute about whether the 33-acre maze is actually the world's largest, but there is no doubt it is big and intricate.

Last year, in recognition of the 50th anniversary of "Star Trek," they created a maze featuring an image of the Starship Enterprise and Capt. Kirk and Mr. Spock. Past mazes have been devoted to the Chicago Blackhawks and Beatles.

Today, the corn maze is the centerpiece of an Adventure Farm, with a 50-foot slide, a 650-foot-long zip line and 50-foot-tall observation tower.

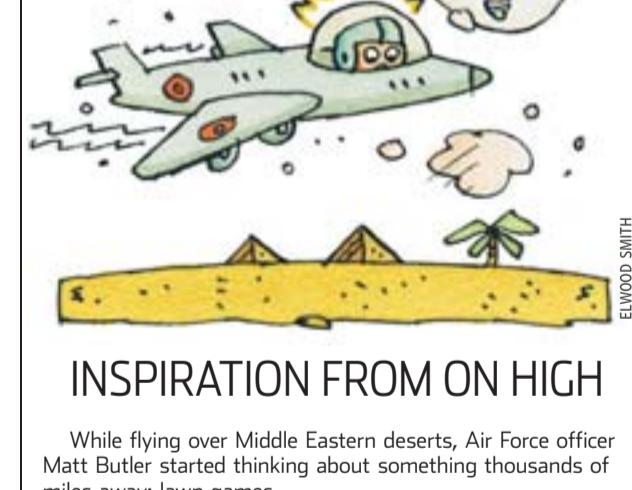
All of Richardson Farm draws more than 80,000 people a year, and revenue from attractions has surpassed the farm's working elements.

Most members of the extended Richardson family help out in the operation, to some extent. Mr. Richardson says they enjoy the work, but it can

be a grind. "We're in our 60s," Mr. Richardson says. "It means some long months."

Mr. Richardson declined to discuss numbers, but says business is steady. "Nobody is buying second homes, but business is good," he says. "We can make enough that we can plow more money into it."

### HOW I THOUGHT OF IT



### INSPIRATION FROM ON HIGH

While flying over Middle Eastern deserts, Air Force officer Matt Butler started thinking about something thousands of miles away: lawn games.

Lt. Col. Butler says he would look down at the desert from his reconnaissance and surveillance aircraft, and his mind would wander back to growing up in Minnesota, with lush green grass, clean water and family games, including horseshoes.

On those flights of 12 to 15 hours, he started to dream up a game of his own—a combination of horseshoes, dice, bowling and bocce. The game would provide some R&R during time off between deployments.

In Rollers, as he dubbed it, players roll oversize wooden disks underhand, like bowling or bocce, and try to get their disks closest to a target, like in horseshoes. But there's also an element of chance. The disks have point value on both sides, ranging from one to six. Players can get points depending on how the disks come to rest.

Mr. Butler asked an out-of-work Vietnam veteran to make a prototype and took it to a barbecue at a friend's house in Florida. It was a hit. After a few sales to friends, he had 50 games made up and took them to a church craft fair in Des Moines, Fla.—where he sold out in four hours. "I wish I had 200 of those at the time," he says.

The company, launched in 2010, has sold 65,000 games and is in more than 600 retailers nationwide. Mr. Butler employs veterans in many key roles at the company.

He has also given keynote speeches to veterans leaving the military who want to be entrepreneurs.

"It's fun to give back to people, to offer the lessons learned and point out the resources available," says Mr. Butler. "Some are hesitant to take the next step. I hope I can help them take that step."

—Barbara Haislip

## JOURNAL REPORT | SMALL BUSINESS

# Tell Me a Story

An entrepreneur's tale can be the perfect marketing vehicle—if told correctly

BY BARBARA HAISLIP

HAVE YOU HEARD the one about the company with a really great story to tell?

You see them on company websites and commercials. Businesses, particularly small ones with limited marketing budgets, use stories about their company to grab the attention of consumers, lenders and investors. Whether the tales are about the founding of the firm or how it affects customers, stories can be a powerful tool, resonating more deeply than facts and figures or traditional product pitches.

"Emotions and motivations shape cognition, which is why good stories stay with us," says Angela Randolph, assistant professor at Babson College. "People are more likely to remember emotional information than nonemotional."

But shaping a narrative to really grab and hold people's attention involves a lot of subtleties. Here's a look at some of those secrets.

### Do some myth making.

Effective business narratives tap into old archetypes of storytelling that go all the way back to the earliest tales of mythology. "Stories about founders and new innovations are often in the form of a myth and follow the hero's journey," says Dr. Randolph.

Like the heroes of classic tales, she says, the company founder is going about a normal life when they run into a problem that interrupts it. After this call to action, the founder undergoes trials that must be overcome—and along the way transforms into a leader and the idea turns into a product. Then the founder returns to "normal" life as an entrepreneur with a product or service for society.

Founders should keep that structure in mind when com-



Tom Little (second from left) used stories to build bonds.

works. We are programmed to respond to stories that build empathy for the main character, says Mary Gale, a Babson College lecturer, citing research by Paul Zak of Claremont Graduate University.

In additional research, Dr. Zak showed that a story that sustains tension and thus engages the brain longer increases the probability that listeners will "come to share the emotions of the characters in it."

"Perhaps the listener becomes motivated to tell others about the presenter's products or services. A potential investor who heard and was enchanted by a venture's compelling character story may recommend that his partners take a deeper look at the company," says Ms. Gale.

Along with tension, Dr. Zak says, the brain responds to stories with relatable characters. They "result in a better understanding of the key points a speaker wishes to make and enable better recall of these points," he says.

Dr. Zak cites a commercial for Guinness beer that features a bar with an empty chair. It "initially draws us into a mystery: Why is the chair empty? It deepens the mystery when the chair remains empty and the barmaid does not allow the empty chair to be moved. This builds tension that we can see neurologically," he says.

Because the mystery is about a person—the unknown patron who will sit in the empty chair—"it has a social component that we find builds emotional connection—oxytocin release—as the story continues," Dr. Zak says. The tension is released when we finally learn that the chair is for a soldier, whom the crowd salutes when he arrives.

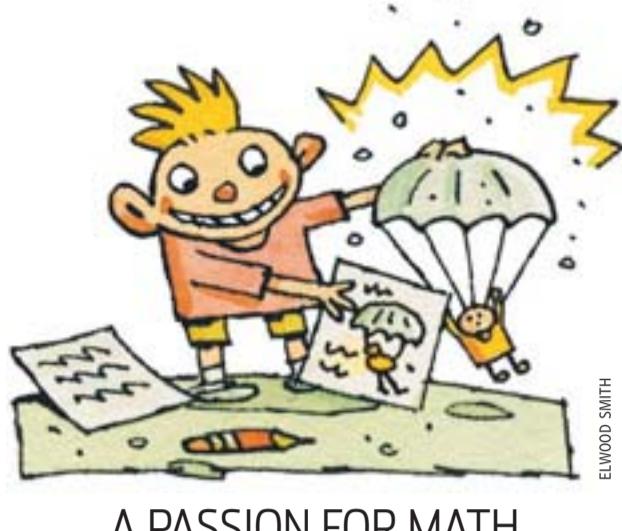
Dr. Zak adds that it's important to take advantage of the effect a story has created by including an explicit call to action at the end, like buying a product or calling for more information. "Otherwise you lose the ability to influence the viewer," he says.

### Keep things tense.

The best stories also take advantage of how the brain

Ms. Haislip is a writer in Chatham, N.J. Email her at [reports@wsj.com](mailto:reports@wsj.com).

### HOW I THOUGHT OF IT



### A PASSION FOR MATH

What happens when your children find STEM more appealing than the Magic Kingdom?

#### Start a business.

Every year, Dori Roberts and her students at Colonial Forge High School in Stafford, Va., would compete in technology and engineering tournaments, and in 2008 they did well enough to reach the finals at a national competition in Orlando, Fla.

Ms. Roberts decided to bring her 6-year-old son, Matthew, and her 8-year-old daughter, Kaley, along for the trip, and promised to take them to Disney World. She thought it was going to be torture with her children asking, "When are we going to Disney World?" Instead, Matthew and Kaley were mesmerized by the engineering projects created by their mother's team, expressing a desire to participate and hang out with the students.

How to make the most of that passion? Ms. Roberts would have loved to get her children into science, technology, engineering and math education programs, but she could find opportunities only for high-schoolers. So she decided to create a curriculum herself.

Matthew and Kaley, her test subjects, loved the projects and wanted more, which led Ms. Roberts to launch an after-school engineering class at their elementary school. After membership hit 180 students and the group won multiple state championships, she left her high-school teaching job and devoted 100% of her time to developing a startup, **Engineering For Kids**. Ms. Roberts began franchising the business in 2012.

Geared to children ages 4 to 14, the company offers after-school programs, camps and classes. Students enrolled in the aerospace program design and build rockets, parachutes and lunar landers, while students in the mechanical-engineering programs design and build roller coasters, sails and catapults. She now has 165 locations in 28 countries, with plans to open 25 additional locations in the U.S. each year. Systemwide sales doubled in 2015 to \$10 million.

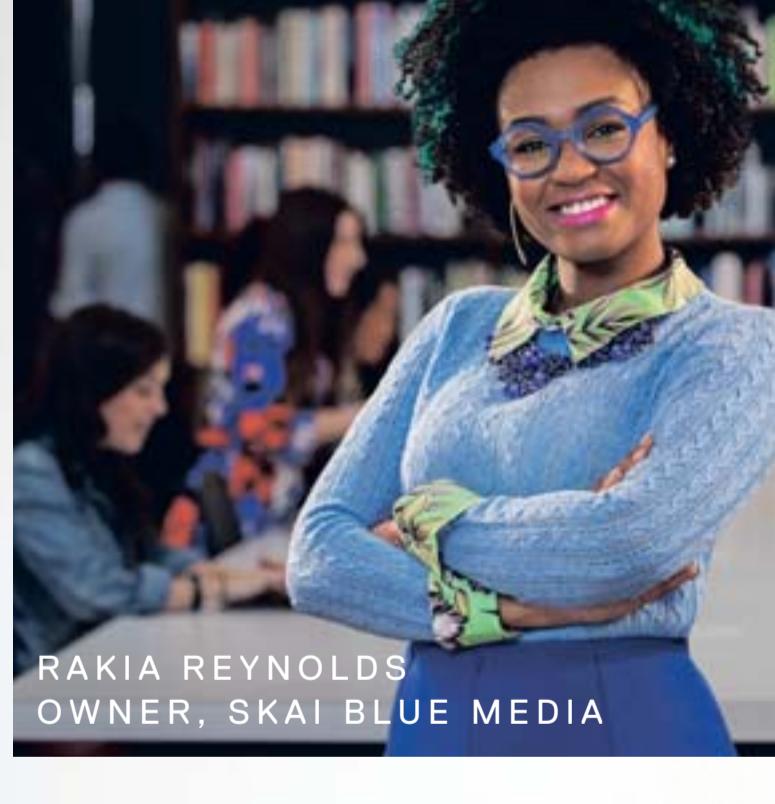
In April 2015, Ms. Roberts also started a nonprofit arm to bring STEM education to at-risk youth in the U.S. "My mission is for every child to have engineering education," she says.

—Barbara Haislip

Dell recommends Windows 10 Pro.



**SMALL  
BUSINESS**



**RAKIA REYNOLDS**  
**OWNER, SKAI BLUE MEDIA**



**MARIO DELAPEÑA**  
**SMALL BUSINESS ADVISOR**

MORE THAN A PC.  
YOUR SMALL BUSINESS PARTNER.

Dell's highly-trained Small Business Technology Advisors provide personalized solutions and service for business owners like Rakia Reynolds of Skai Blue Media.

CALL TODAY  
877-BUY-DELL

XPS 13 2-IN-1

With Intel® Core™ i5 processor.

Starting at \$999<sup>99</sup>



Intel Inside®. Powerful Productivity Outside.

Offers subject to change. Taxes, shipping, and other fees apply. Dell reserves the right to cancel orders arising from pricing or other errors. Intel, the Intel Logo, Intel Inside, Intel Core, and Core Inside are trademarks of Intel Corporation in the U.S. and/or other countries. Dell, EMC, and other trademarks are trademarks of Dell Inc. or its subsidiaries. © 2017 Dell Inc. All rights reserved. 215261