

THE WALL STREET JOURNAL.

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What's News

Business & Finance

The FCC plans to eliminate or scale back limits on local ownership of TV stations and newspapers, its chairman said. **A1**

◆ Vistra and Dynegy are in advanced talks to combine, with a deal between the two Texas power firms possible as soon as next week. **B1**

◆ Weinstein Co.'s talks with suitor Colony Capital have stumbled and the troubled studio may seek other bidders. **B1**

◆ Franklin Resources sold its entire stake in Puerto Rico bonds, part of an exodus of investors in the wake of recent hurricanes. **B1**

◆ Amazon unveiled a system that lets customers open their homes remotely for package deliveries. **B2**

◆ The Dow tumbled 112 points to 23329.46, its worst day since early September, on weak earnings. **B12**

◆ Boeing said it may boost output to meet demand for single-aisle jets as it posted forecast-beating earnings. **B3**

◆ Sprint and T-Mobile both canceled earnings calls this week, a possible sign they are near a deal. **B7**

◆ The Saudi wealth fund aims to nearly double the value of its assets to about \$400 billion by 2020. **B11**

◆ Anthem expects its enrollment in ACA plans to fall by around 70% in 2018. **B2**

◆ Visa posted an 11% profit rise, adding more fuel to its stock rally. **B11**

◆ Coke said its newest diet soda helped keep soda volume flat last quarter. **B3**

World-Wide

◆ Republicans sparred with Trump over 401(k) plans on the eve of a House vote that is crucial to their tax-cutting ambitions. **A1**

◆ Iraq's premier said he would keep close ties with both the U.S. and Iran despite tensions between the two. **A1**

◆ Iraqi Kurds offered to shelve their pursuit of statehood for now as the U.S. seeks to ease tensions. **A7**

◆ China's Communists unveiled a Politburo without a potential successor to Xi, as the party moved closer to one-man rule. **A6**

◆ A bipartisan health bill in the Senate would cut the deficit nearly \$4 billion over a decade, the CBO said. **A4**

◆ Clinton's campaign and the DNC helped fund research that led to a file of unverified allegations about Trump's Russia links. **A5**

◆ A data firm hired by Trump's campaign approached WikiLeaks' Assange before the election. **A5**

◆ Airlines are alerting U.S. bound passengers of tighter screening due to new security rules. **A3**

◆ A teenage migrant obtained an abortion following a legal clash with the Trump administration. **A3**

◆ Kenya's high court failed to block a repeat election for president. **A7**

◆ India and the U.S., during a visit by Tillerson, agreed to bolster security. **A7**

◆ Gene researchers created a new Crispr-based system to edit RNA. **B4**

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A Return to Harvest After California Wildfires



NEW SEASON: A worker carried a bucket of freshly picked Syrah grapes during a harvest on Wednesday in Kenwood, Calif., two weeks after wildfires ripped through Sonoma and Napa counties.

Mutual-Fund Ratings Are Not What They Seem

Morningstar's top-ranked funds rarely sustain high performance

Millions of people trust Morningstar Inc. to help them decide where to put their money.

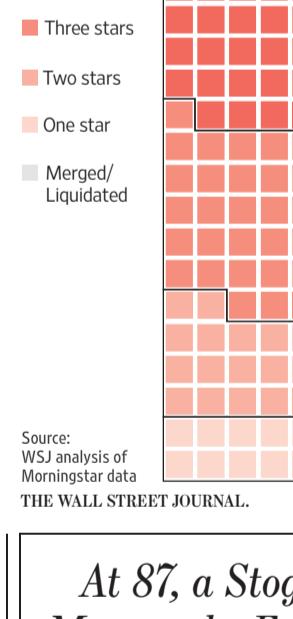
By Kirsten Grind,
Tom McGinty
and Sarah Krouse

From pension funds to endowments to financial advisers to individuals, investors rely on Morningstar's star ratings to help divide \$16 trillion among America's mutual funds, in much the way shoppers use Amazon's ratings to pick products. A lot of these investors, and the people paid to guide them, take for granted that the number of stars awarded to a mutual fund is a good guide to its future performance.

By and large, it isn't. The Wall Street Journal tested Morningstar's ratings by examining the performance of thousands of funds dating back to 2003, shortly after the company began its current system. Funds that

Five-Star Funds

Only 14% of funds that received a five-star overall rating from Morningstar performed at that level over the next three years.



Source: WSJ analysis of Morningstar data

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earned high star ratings attracted the vast majority of investor dollars. Most of them failed to perform.

Of funds awarded a coveted five-star overall rating, only 12% did well enough over the next five years to earn a top rating for that period; 10% performed so poorly they were branded with a rock-bottom one-star rating.

The falloff in performance was even more dramatic for domestic stock funds, the largest category of U.S. funds by assets.

Billions of investor dollars hang in the balance. Nearly every asset manager in the world pays Morningstar for data services. Some 250,000 financial advisers rely on Morningstar's data, services or ratings, according to the firm. That means Morningstar's analysis and ratings influence investment decisions for a vast landscape of retirement plans and brokerage accounts.

Please see STARS page A8

Abadi Tells U.S. and Iran: No Fighting On My Turf

By YAROSLAV TROFIMOV

BAGHDAD—Iraqi Prime Minister Haider al-Abadi insisted he would keep close ties with both the U.S. and Iran even as tensions rise between the two, and warned them both away from competing on Iraq's turf as he reclaims it from the retreating forces of Islamic State and the Kurds.

Mr. Abadi also said he wants U.S. forces to remain in Iraq after the last remaining Islamic State redoubts are liberated, and he pledged to disarm Iranian-backed Shiite Muslim militias that refuse to come under his control.

In an interview with The Wall Street Journal and two Please see IRAQ page A7

At 87, a Stogie-Toting Legend Mourns the End of Trading Floors

* * * * *
Characters like 'Cigar King' built Hong Kong's stock exchange—now it's closing

By STEVEN RUSSOLILLO

HONG KONG—David Tung Wai recently visited the trading floor of Hong Kong's stock exchange. He did so with the reverent sadness one shows for an elderly friend in declining health.

"It's changed," said Mr. Tung, 87. "It's different. I miss it. I really miss it."

During its heyday in the early 1990s, the exchange was among the world's largest, and Mr. Tung worked among more than 1,000 shouting, jostling and gesturing traders.

"Cigar King" was his nickname, a nod to the stogie he habitually chomped. "We were so busy," he said. "I was doing

so much business."

As a 14 year-old from Shanghai with just four years of schooling, Mr. Tung started in stocks in 1945 and had a ringside seat for every peak and valley of the global postwar economy. This March, when he hung up his red broker's jacket after more than 70 years, he was one of the oldest brokers trading on any floor anywhere, according to executives at major exchanges.

Now, the trading floor will close for good on Friday, leaving old-school brokers like Mr. Tung with only the memories.

"I'm very sad," he said, walking around the nearly-si-

Please see TRADER page A6

FCC to Lift Limits on Media Deals

By JOHN D. MCKINNON
AND KEACH HAGEY

WASHINGTON—The Federal Communications Commission is planning to make sweeping changes to media-ownership rules next month, eliminating or scaling back longstanding limits on local ownership of TV stations and newspapers, its chairman said Wednesday.

The plan by FCC Chairman Ajit Pai, a Republican, would eliminate or reduce several regulatory barriers—including some from the 1970s—that limit ownership of multiple media outlets in the same market. Mr. Pai outlined aspects of the plan

at a congressional hearing on Wednesday.

Television station owners have complained that federal rules—originally enacted in part to ensure a diversity of views—have hindered their efforts to grow and compete at a time when online competitors have made major inroads.

In recent years, the local TV station business has consolidated rapidly, driven by both the growing fees that cable and satellite companies pay for the right to retransmit broadcast signals—bigger station groups can extract higher fees—and increasing competition from the

Please see RULES page A5

Trump, GOP Spar Over Tax Details

WASHINGTON—Republicans disagreed with the White House over tax treatment of 401(k) plans and sought to resolve differences over state

By Richard Rubin,
Anne Tergesen
and Siobhan Hughes

and local taxes on the eve of a House vote that is crucial to their tax-cutting ambitions.

The jostling showed the challenge the party faces as House lawmakers prepare to lay out the fine print next week of their planned tax overhaul. Republicans have

made public broad plans to reduce individual and corporate tax rates, but have left out many knotty details over who wins and who loses, and which breaks stay and which change. As those details emerge, political resistance is building in the White House and beyond.

Rep. Kevin Brady (R., Texas), chairman of the House's tax-writing Ways and Means Committee, said law-

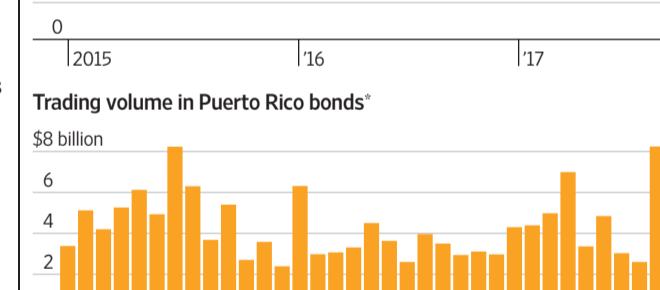
Please see TAXES page A4

◆ Greg Ip: Why innovation tops tax cuts..... A2
◆ Bipartisan health proposal gains support..... A4

Big Investors Bail on Puerto Rico

A swath of mutual and hedge funds that own some of the island's \$70 billion of bonds are now selling, sending trading volume soaring. Franklin Mutual Advisers has sold its \$294 million stake. **B1**

Puerto Rico's general obligation bond maturing in 2035, closing price



100 cents on the dollar



\$8 billion

*Total face amount of bonds traded, monthly.

Sources: Thomson Reuters (prices); Municipal Securities Rulemaking Board (trading)

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U.S. NEWS

CAPITAL ACCOUNT | By Greg Ip

Why Innovation Tops Tax Cuts

 You'd think from the debate raging in Washington that taxes are the key to economic growth. They aren't. In the long run, innovation matters way more, and that depends on inspiration, experimentation and luck, not tax-law changes.

Yet presidents matter for promoting innovation.

Under President Donald Trump the place to look is the regulators. Two of his appointees in particular, Food and Drug Administration Commissioner Scott Gottlieb and Federal Communications Commission Chairman Ajit Pai, have prioritized reducing regulatory hurdles to private investment as a way of boosting innovation. The efforts merit more attention at a time when the growth debate is focused on steep, deficit-financed tax cuts.

Consider pharmaceutical companies. Though vocal advocates of slashing the corporate tax rate, their bigger problem is the staggering cost of development: \$2.6 billion on average to bring a new drug to market, according to Tufts University's Center for the Study of Drug Development. Between 1989 and 2011 the cost per patient of a clinical trial more than doubled, after inflation, according to one study.

This in great part is because the most treatable diseases already have therapies, leaving only the toughest ones. But regulation may also play a role.

"Through regulation we have imposed additional steps: There are things you need to do as part of product development that 15 years ago you didn't need," Mr.

Bill Targets Chinese Tech Investments

BY KATE O'KEEFFE

WASHINGTON—Two influential Republican lawmakers plan to unveil legislation as soon as next week that would ratchet up scrutiny of foreign investment, taking aim in particular at Chinese technology deals.

The identical bills from Senate Majority Whip John Cornyn (R., Texas) and Rep. Robert Pittenger (R., N.C.), a prominent anti-China hawk, would broaden the authority of the Committee on Foreign Investment in the U.S. The panel, known as CFIUS, is a multiagency body that can advise the president to block foreign deals on national-security grounds.

Though the U.S. generally favors an open-investment policy, certain Chinese investments have drawn heightened scrutiny in recent months. Opponents say Chinese deals can pose disproportionate risks to national security because the companies are directed and subsidized by the government of China, an economic and military rival.

The new legislation would expand CFIUS's remit to include vetting minority investments in Silicon Valley and joint ventures involving American firms in China, according to a draft of the bill that is circulating on Capitol Hill and that was reviewed by The Wall Street Journal.

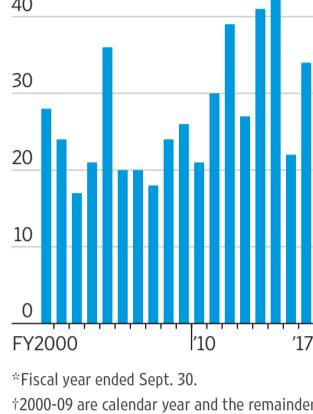
The House and Senate sponsors of the bill say they want to ensure that the panel is given broad and solid backing for such decisions. The Trump administration is expected to support the measure, according to people involved in the bill.

One of the bill's key provisions would broaden the types of transactions CFIUS vets to include joint ventures and other arrangements that require U.S. technology companies to provide intellectual property and support to a foreign person, according to a copy of the bill seen by the Journal.

The March of Medicine

The FDA is a major gatekeeper to medical innovation. Its approval of new drugs has stagnated, while approval of generics has shot up.

Novel drug approvals*

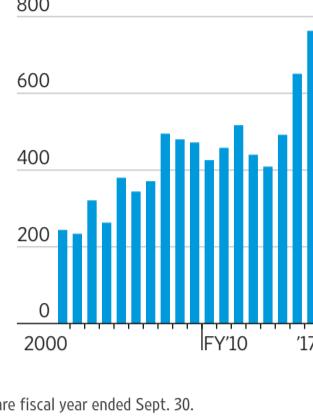


*Fiscal year ended Sept. 30.

†2000-09 are calendar year and the remainder are fiscal year ended Sept. 30.

Source: Food and Drug Administration

Generic drug approvals†



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necessarily drop.

On the other hand, there is progress on generics. Approvals sped up before Mr. Gottlieb, and he's redoubled the efforts; a record 763 generics were approved last fiscal year, which may be one reason prescription drug prices are rising more slowly this year.

At the FCC, Mr. Pai has targeted the "digital divide," the gap in broadband access, especially between rural areas and others. Mr. Pai thinks the solution is "setting rules that maximize private investment in high-speed networks."

Controversially, that includes a proposed rollback of his predecessor's imposition of utility-like regulation so that internet service providers (ISPs) adhere to "net neutrality"—charging all content providers the same to access their networks. Without those limitations, he reckons ISPs will have more incentive to expand capacity; critics worry this will favor rich, established content providers over newcomers.

Mr. Pai's philosophy also animates lower-profile initiatives. In June, the FCC gave OneWeb Ltd. permission to use 720 cheap, low-orbit satellites to provide internet access to rural areas.

Whether such efforts are enough to bolster overall economic growth remains to be seen. They come as Mr. Trump sought to slash federal spending on health research (Congress rejected the cuts). Private companies in monopolistic positions may pad their profits rather than undertake risky new investments.

Still, Mr. Gottlieb's and Mr. Pai's theory is that if you lower the hurdles to innovation, you'll get more of it. It offers a potentially more tangible payoff than fiddling with the tax code.

Gottlieb said in an interview.

That, he says, is appropriate if it means drugs are more likely to be safe and effective. But he believes costs can be cut without sacrificing safety. For instance, he wants the FDA to help drug developers narrow the information they must submit for preclinical trials, reducing the capital needed at the riskiest stage of development.

Mr. Gottlieb said developers can answer some questions, such as the most effective dose, more cheaply and accurately using artificial intelligence and computer modeling rather than through multiple clinical tests.

Aaron Kesselheim, a doctor specializing in drug research at Harvard Medical School, noted the FDA had been improving the efficiency of drug reviews before Mr. Gottlieb arrived.

Still, Michael Yee, an analyst with Jefferies LLC., says Mr. Gottlieb has signaled important shifts.

And while drug approvals last fiscal year were in line

with recent trends, Mr. Yee noted that under Mr. Gottlieb's watch, two new cancer cell therapies—**Gilead Sciences** Inc.'s Yescarta and **Novaltis** AG's Kymriah—were both approved without the usual large-scale phase 3 trial. Another company, **Amicus Therapeutics**, was invited to apply for approval without a trial the FDA previously demanded.

Some experts worry that speeding up the approval process may result in costly new drugs that may not be as safe or effective. Last year, before Mr. Gottlieb's arrival, controversy erupted when the FDA approved an expensive treatment for a rare form of muscular dystrophy against its own experts' recommendations, in part because of pressure from patients' parents aided by a consultant to the drugmaker.

And even if the new drugs are effective, their prices, which reflect what patients and insurers will pay, won't

U.S. WATCH



HORROR SHOW: The late director George A. Romero, known for his 1968 film "Night of the Living Dead," was honored on the Hollywood Walk of Fame on Wednesday in Los Angeles.

ECONOMY

New Home Sales Up Despite Hurricanes

U.S. new-home sales in September recorded the largest single-month increase since 1992, a sign the market remains resilient despite two major hurricanes and a continuing inventory shortage.

Purchases of newly built single-family homes—a narrow slice of all U.S. home sales—increased 18.9% to a seasonally adjusted annual rate of 667,000 in September from the previous month, the Commerce Department said Wednesday. That put new home sales at the highest level since October 2007.

—Laura Kusisto

TEXAS

GOP Leader Won't Seek Re-Election

In a move sending shock waves through Texas politics, state House Speaker Joe Straus, a powerful centrist Republican and champion of the state's business community, said Wednesday he won't seek re-election.

The surprise decision by Mr. Straus, seen as a moderate bulwark against the Tea Party wing of the Texas GOP, comes after a bitter legislative session during which he was often at odds

with a more socially conservative legislative bloc.

Mr. Straus blocked a push by social conservatives to restrict bathroom options for transgender people, and clashed with Republican state leaders over a range of issues.

Mr. Straus, 58 years old, who represents San Antonio and whose term expires after December 2018, said in a statement that he felt it was time to relinquish his position after serving five terms and that he wanted the chance to speak more freely about issues that were important to him.

—Dan Frosch

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U.S. NEWS

Screening of Air Passengers Set to Tighten

BY ROBERT WALL
AND SUSAN CAREY

Airlines are telling U.S.-bound passengers that they may be subject to interviews before boarding flights as part of stepped-up screening requirements Washington is demanding because of terrorism concerns.

United Continental Holdings Inc. notified customers on its website that the Department of Homeland Security now requires additional security measures for all international flights to the U.S. It said the measures may include enhanced screening with questioning of some or all travelers. Electronic devices larger than a standard smartphone also could be subject to checks, the airline said, as it advised passengers to arrive at airports at least three hours before flights.

Emirates Airline, the world's biggest international carrier by traffic, is among airlines alerting passengers that U.S.-bound

flights will be subject to closer checks starting Thursday. "The new directive requires passenger pre-screening interviews at the check-in counter for originating passengers and at the boarding gate for transfer and transit passengers," the Dubai-based airline said.

Homeland Security in June first said it would roll out tighter security checks on inbound international flights amid concerns terrorists were trying to bring down commercial airliners. The security measures affect about 325,000 passengers a day at 280 foreign airports with direct flights to the U.S.

The new rules extend to more behavioral vetting of passengers, steps that already were in place at some European airports but now are being applied to all foreign airports that send planes directly to the U.S. Passengers now could also face questions about why they are traveling or whom they have met, a person familiar with the new protocol said.

Witnesses Testify in Sgt. Bergdahl's Sentencing Hearing



MILITARY COMMAND: U.S. Army Col. Clint Baker, Sgt. Bowe Bergdahl's command leader in Afghanistan, was escorted from the military courthouse in Fort Bragg, N.C., after giving testimony for the prosecution during Sgt. Bergdahl's sentencing hearing on Wednesday.

SARA D. DAVIS/GETTY IMAGES

State Considers Changing Time Zones

BY JON KAMP

As Americans get ready to turn the clocks back next month, a Massachusetts commission is exploring whether the state should spring ahead one hour for good.

Winter darkness comes early in New England, which sits along the eastern edge of the Eastern Time Zone, and preserving more late-afternoon sunshine could yield some health and economic benefits, according to a draft report from a Massachusetts commission studying the issue.

Although the odds of a change appear long, Massachusetts "could make a data-driven case for moving to the Atlantic Time Zone year-

round," the 11-member commission said in a draft report issued last month. Another draft will be put to a final panel vote Nov. 1, and if that vote is positive, the report will

The year Congress set the dates for daylight-saving time

be sent to lawmakers to inform potential bills, said Democratic state Sen. Eileen Donoghue, who chairs the panel. Federal law only allows states to opt out of daylight-

saving time. They aren't allowed to adopt it all year. But Massachusetts could get there by shifting ahead one hour into Atlantic Time, which includes eastern Canadian provinces and Puerto Rico.

There is a major caveat for the effort: The report recommends against Massachusetts making a unilateral move without most of New England. Panel member Paul Frost, a Republican state representative, believes New York would also have to change zones.

Daylight-saving time was historically viewed as a way to cut energy use by replacing electric lighting with sunlight, and Congress set the dates in 1966. But switching the clocks can have negative conse-

quences: Losing an hour each spring has been associated with traffic deaths, workplace injuries and heart attacks, the Massachusetts draft said.

"Why do we keep doing this to ourselves?" said Maine Democratic state Rep. Donna Bailey, who sponsored a failed bill to shift to Atlantic Time. The sun sets over parts of her state before 4:00 p.m. after clocks turn back.

Lawmakers around the U.S. frequently pitch bills to do away with twice-yearly time changes. But the current system has decades of inertia that has proven hard to stop.

"The practical matter is this is something that has been in place and does not change easily," Ms. Donoghue said.

Teen Migrant Has Abortion After Ruling

BY BRENT KENDALL

WASHINGTON—An undocumented teenager in U.S. custody obtained an abortion Wednesday morning following a legal confrontation between the Trump administration and abortion-rights advocates.

The procedure came a day after a divided appeals court ruled that administration officials must allow the 17-year-old to leave a federally funded Texas shelter where she was

being held so that she could go to an abortion clinic.

The American Civil Liberties Union, which represented the teen, confirmed that the abortion took place, less than 24 hours after the court ruling. The ACLU had argued the Trump administration was violating Supreme Court precedent guaranteeing a woman's right to choose an abortion without undue burden from the government.

The teen's lawyers had said

the government wouldn't need to pay for the procedure or transport the girl. The teen was accompanied to the clinic by a court-appointed guardian and someone from the shelter and returned to the shelter after the procedure, according to her legal team.

Officials at the Department of Health and Human Services resisted the teen's abortion request, citing a new policy of refusing to facilitate the procedure. The Justice Depart-

ment contended that the government had a legitimate interest in promoting childbirth and said the administration wasn't placing a burden on the teen because she was free to leave the U.S. and do what she wished.

The Justice Department declined to comment. The Office of Refugee Resettlement, which is part of HHS and houses undocumented teens, didn't respond to requests for comment.

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U.S. NEWS

CBO Says Health Plan Would Cut Deficit

By STEPHANIE ARMOUR
AND KRISTINA PETERSON

A bipartisan Senate health bill would reduce the deficit by almost \$4 billion over the next decade without significantly affecting the number of people who have coverage, the Congressional Budget Office found in a report released Wednesday.

Sens. Lamar Alexander (R., Tenn.) and Patty Murray (D., Wash.), the bill's co-sponsors, said the findings strongly bolster the case for their legislation. But a standoff between the White House, which wants more provisions to undo the Affordable Care Act, and Democrats, who reject such provisions, has left the measure stalled for now, with no clear path forward.

The Alexander-Murray bill would restore the "cost-sharing" subsidies, federal money that helps insurers offset discounts they provide for low-income consumers. It would also give states more say in implementing the ACA and ex-

pand access to lower-cost, less-robust health plans.

But the impasse between Senate Democrats, who unanimously support the bill, and President Donald Trump, who signaled his support before declaring his opposition, is showing no signs of resolution. Many lawmakers now believe negotiations will likely be pushed to the end of the year.

The CBO assumed in evaluating the Alexander-Murray bill that it wouldn't be enacted until after the ACA's annual open-enrollment period launches Nov. 1. That means the bill would have no effect on premiums next year.

"This nonpartisan analysis shows our bill provides savings and ensures that funding for two years of cost-sharing payment will benefit taxpayers and low-income Americans, not insurance companies," Mr. Alexander and Ms. Murray said Wednesday.

Many of the bill's GOP critics describe it as a bailout for

Judge Backs White House on Subsidies

A California federal judge on Wednesday said he wouldn't force the Trump administration to continue paying insurers for providing health-coverage discounts to lower-income consumers, a blow to Democrats who fear the Affordable Care Act's exchanges will crater without the funding.

U.S. District Judge Vince Chhabria in San Francisco said the case was "close and complicated" but that, at the current early stage, the administration had a stronger legal position than the Democratic-led states

that filed the lawsuit seeking to keep the payments going.

The government payments reimbursed insurers for providing subsidies to some low-income consumers for out-of-pocket costs, including deductibles and copays. Insurers are required by the ACA to provide these cost-sharing subsidies, and about seven million people who buy health plans on the ACA's insurance exchanges get them.

President Donald Trump this month said he would end the subsidies as of Oct. 18 because Congress never appropriated money for the program. The payments are estimated at \$7 billion in 2017.

The move was a turnaround

insurers, but Sens. Alexander and Murray say the payments only go to help consumers.

The CBO also found that premiums for some people would drop because the legislation would expand access to

health plans that have fewer benefits and lower costs.

The bill would reduce the deficit, the CBO concluded, in part because it would allow wider access to health plans that cost less and have fewer

from the Obama administration, which had argued that the cost-sharing payments to insurers were lawful. House Republicans sued over that interpretation in 2014 and won a court decision last year when a Washington, D.C., trial judge ruled the payments to insurers weren't allowed. That case is pending at a Washington appeals court.

After Mr. Trump said he would discontinue the payments, 18 Democratic-led states and the District of Columbia filed suit in California. They argued that the president's move violated government administrative procedures as well as the Constitution.

—Stephanie Armour
and Kristina Peterson

plan and have urged more aggressive measures to peel back the ACA.

Rep. Kevin Brady (R., Texas), who leads the influential House Ways and Means Committee, joined other GOP lawmakers this week in proposing legislation that would continue the payments to insurers, like the Alexander-Murray plan, but would do more to roll back the ACA.

It would end the ACA requirement that most people have insurance or pay a fine, for example, and include other measures that the White House has said would have to be part of any bipartisan plan to get administration support. Such measures, which are opposed by virtually all Democrats, were part of GOP repeal efforts that failed to pass earlier this year.

"It's important that we lower premiums for those Americans trapped in Obamacare today, and I think it makes good fiscal sense to do that as well," Mr. Brady said Wednesday.

WASHINGTON WIRE

CENTRAL BANK

Trump Mulls Keeping Yellen as Fed Chief

President Donald Trump said Wednesday he is still considering offering Janet Yellen another term as Federal Reserve chairwoman when her term expires in early February.

"You like to make your own mark, which is maybe one of the things she's got a little bit against her," Mr. Trump said in an interview on Fox Business Network.

But the GOP president, who interviewed Ms. Yellen about the job in the Oval Office last week, said he thinks the central bank chief is "terrific" and that the two "had a great talk."

"And we're obviously doing very well together; you look at the markets," he said.

—Kate Davidson

TRADE

Union Leaders Echo President on Nafta

Labor unions gathering in St. Louis for the annual meeting of the AFL-CIO find themselves aligned with President Donald Trump on key aspects of the hot-button trade issue of the day: renegotiating the North American Free Trade Agreement.

Labor leaders have echoed the White House in saying the trade deal among the U.S., Canada and Mexico has been a job killer for more than two decades—but that terminating the pact isn't their first choice.

The White House and labor unions agree on several administration proposals for trying to revisit the deal. Those include a requirement that products sold in the U.S. under the agreement have at least minimum levels of U.S.-produced content, a demand that investor arbitration panels be scaled back and a rule that the trade agreement be revisited every five years. The administration and unions have both indicated they would rather kill the pact than continue the status quo.

"There are some good things that have been put forth already," AFL-CIO President Richard Trumka said of the administration's proposals. "We're hopeful, but we're not overly confident... No deal is better than a bad deal."

—Eric Morath

HEALTH

FDA Chief Discusses Fighting Drug Abuse

Food and Drug Administration Commissioner Scott Gottlieb proposed Wednesday that his agency take a more active role combating opioid drug abuse in the U.S., including urging greater use of addiction-treatment medicines.

Such a role for the FDA, which could include convening meetings to discuss the evidence of treatment benefits from drugs like naltrexone and buprenorphine, is a response to the seriousness of the current opioid-addiction crisis, Dr. Gottlieb said.

"We'll need to touch clinical practice in ways that may make certain parties uncomfortable," he told members of the House Committee on Energy and Com-

merce.

—Thomas M. Burton

TAXES

Continued from Page One

makers were considering changes to 401(k) plans, despite President Donald Trump's insistence—reiterated Wednesday—that the popular break for retirement savings should be untouched. The most talked-about idea: reducing the amounts that individuals and households can contribute to these plans without being taxed.

Republicans also discussed state and local tax deductions, searching for an approach that would satisfy at least some lawmakers from high-tax states such as New York and New Jersey who oppose the party's plan to repeal the deduction.

One option is replacing the deduction with a tax credit worth between 8% and 20% of a household's property tax payments, with caps for married couples that start somewhere between income of \$250,000 and \$400,000, said Rep. Tom Reed (R., N.Y.). Instead of generating \$1.3 trillion over a decade to offset lower tax rates, as repeal of the state and local deduction would do, the idea would yield between \$600 billion and \$1 trillion, he said. Some versions of the credit concept also include mortgage interest.

"We're going to have to nail this down before we get to next week with rolling out the proposal," said Mr. Reed, the lone New York Republican on the tax-writing committee.

The House is slated to vote Thursday on the fiscal 2018 budget, a procedural step that makes it possible for a tax bill to speed through Congress with only Republican votes, if no Democrats ultimately back the plan. Some lawmakers from high-tax states plan to oppose the budget, but in a sign GOP leaders expect they have enough votes, they canceled a late Wednesday meeting aimed at building support from lawmakers from high-tax states.

After the budget vote, House Republicans plan to release a detailed tax bill on Nov. 1 that would fill in the blanks they have left so far, including income cutoffs for tax brackets, the size of the child tax credit, curbs on the deduction for business interest and many narrower provisions. That will dial up political pressure, as interest groups weigh in to defend or change pieces of the overhaul they view as most



President Donald Trump, left, and House Ways and Means Committee Chairman Kevin Brady (R., Texas) are negotiating tax-plan details.

critical to them.

"There's thousands of those 'one provisions' that are All-American and apple pie and should be saved," said Tim Phillips, president of Americans for Prosperity, a conservative group that favors eliminating narrow tax preferences.

Mr. Trump seemed to surprise lawmakers Monday by ruling out 401(k) changes that were discussed in news stories over the weekend. The idea would impose a lower cap on pretax contributions and push people into so-called Roth-style accounts that are funded with posttax dollars and available for tax-free withdrawals in retirement.

On Wednesday, Mr. Trump said there might be negotiations but also that he wanted to shut down negotiations about 401(k) plans. "There are certain elements of deals that you don't want to negotiate with," he told reporters. "Kevin Brady is fantastic but he knows how important 401(k)s are."

Mr. Brady said Wednesday that Republicans were "exploring a number of ideas" in the arena of 401(k) plans and added he was working with the White House on the issue. "We think in tax reform we can create incentives for Americans to save more and sooner," Mr. Brady said at

Broad Impact

A potential annual \$2,400 limit on tax-deductible 401(k) contributions would affect a large number of retirement savers.

Percentage of workers contributing to 401(k)s who put in more than \$2,400 annually

By salary

\$10,000-\$24,999	38%	\$3,203
\$25,000-\$49,999	32	2,710
\$50,000-\$74,999	60	4,197
\$75,000-\$99,999	76	6,622
\$100,000 or more	87	11,112

By age

25-34	43%	\$3,169
35-44	56	5,054
45-54	62	6,488
55-64	64	7,287

Source: Employee Benefit Research Institute

Average employee contribution

Wyden (D., Ore.).

Lobbyists and others in the retirement and financial-services industries who have spoken to congressional staff and committee members say lawmakers are looking at proposals that would allow 401(k) participants to contribute significantly less before taxes than the \$18,000 a year that is currently allowed in a traditional tax-deferred 401(k). An often mentioned amount is \$2,400 a year.

Currently, employees under age 50 can save up to \$18,000 a year in a 401(k) before taxes, while those 50 or older can set aside up to \$24,000. The 401(k) limits are scheduled to rise to \$18,500 and \$24,500 in 2018.

Of workers contributing to 401(k)-type plans whose annual salaries are between \$10,000 and \$24,999, 38% currently save more than \$2,400, according to Employee Benefit Research Institute, which drew on data from millions of administrative records from 401(k) record-keepers.

That share falls to 32% for those earning between \$25,000 and \$49,999. More than half of employees in thresholds above \$50,000 would be affected by a \$2,400 cutoff, with an 87% share for those earning more than \$100,000.

—Kristina Peterson
contributed to this article.

a breakfast sponsored by the Christian Science Monitor.

The president's opinion matters on this. He's the only person in America that can sign a bill into law and the president will get much of what he wants," said Sen. Pat Toomey (R., Pa.), a Finance Committee member. "But we are a coequal branch of [government] and he knows how important 401(k)s are."

Mr. Brady said Wednesday that Republicans were "exploring a number of ideas" in the arena of 401(k) plans and added he was working with the White House on the issue. "We think in tax reform we can create incentives for Americans to save more and sooner," Mr. Brady said at

20% corporate tax rate and a middle-class tax cut.

Tax committee members insist that crucial decisions about dozens of provisions haven't been made yet. But time is running short. They have a goal of passing the bill through the House by Thanksgiving and getting it on Mr. Trump's desk by year's end.

Democrats and some Republicans say they oppose any changes to 401(k) plans.

"We are going to take this to the mat," said Sen. Ron

U.S. NEWS

Democrats Law Firm Funded Trump Dossier

By REBECCA BALLHAUS

Hillary Clinton's presidential campaign and the Democratic National Committee were among a number of political groups that paid a firm for research that led to a dossier of unverified allegations about President Donald Trump's activities and connections in Russia, according to a person familiar with the matter.

Marc Elias, a partner at law firm Perkins Coie, who was paid by both the Clinton campaign and the DNC, hired the research firm, Fusion GPS, in April 2016 and ended the contract before the election, the person said.

On Wednesday, Mr. Trump called the dossier "fake" and criticized the Clinton campaign for not previously disclosing its role. "It's a disgrace," he said at the White House.

Fusion GPS had been conducting research on Mr. Trump before then, funded by at least one Republican donor, according to a letter from Perkins Coie to a Fusion lawyer dated Tuesday and filed in court the same day. In March 2016, as the Republican presidential primary was ending, Fusion GPS approached Perkins Coie about continuing the research. The firm hired Fusion GPS a month later to "perform a variety of research services," the letter said.

The letter describing the Clinton campaign and the DNC's role was filed in federal court in Washington, D.C., by Fusion GPS, which is fighting a subpoena of its banking records from congressional investigators seeking the identities of those who funded the research. Fusion GPS was founded in 2011 by former Wall Street Journal reporters. A Fusion representative didn't respond to a request for comment.

Trump-Linked Firm Contacted WikiLeaks

By REBECCA BALLHAUS

The chief executive of a data-analytics firm that worked for President Donald Trump's campaign reached out to WikiLeaks founder Julian Assange to offer help organizing the Hillary Clinton-related emails the website was releasing, according to a person familiar with the effort.

The outreach by the CEO of the firm, which is partly owned by a major Trump donor, came as Mr. Trump was publicly cheering the leaks of his Democratic rival's emails and some supporters were seeking to unearth further messages.

In an email sent in late July

2016 and recently reviewed by the person, Cambridge Analytica CEO Alexander Nix told other employees at the firm and Rebekah Mercer, a top Republican donor, that he had recently reached out to Mr. Assange to offer help better indexing the messages WikiLeaks was releasing to make them more easily searchable. Those emails included a trove of messages stolen from Mrs. Clinton's campaign chairman John Podesta's account and from the Democratic National Committee.

In his email, Mr. Nix said he had not heard from Mr. Assange, the person said.

On Wednesday, Mr. Assange

said he had rejected an approach by Mr. Nix, though he didn't say what had been offered.

A spokesman for Cambridge Analytica didn't respond to a request for comment. Mr. Assange didn't respond to a request for further detail.

Mr. Nix's email followed the Republican National Convention in July 2016, after which WikiLeaks began releasing its collection of Clinton-related emails. By Election Day, the site had released more than 50,000 emails stolen from Mr. Podesta and the DNC.

Mr. Trump has denied any collusion by him or his campaign with Russia and has called investigations into pos-

sible collusion during the election a "witch hunt." Moscow has denied meddling in the election.

Cambridge Analytica began the 2016 campaign working for presidential candidate Sen. Ted Cruz (R., Texas), according to campaign finance records. The Trump campaign began paying the company in July 2016.

Cambridge Analytica offers analysis related to the personalities and values of voters. The firm is partly owned by billionaire Robert Mercer, Rebekah Mercer's father, whose family began backing Mr. Trump in the election around the same time the Trump campaign hired the company.



Julian Assange

DOMINIC LIPINSKI/ZUMA PRESS

RULES

Continued from Page One

internet. That has led to the emergence of a handful of "super groups" like Sinclair Broadcast Group, which today reaches 45.6% of television households, according to Kagan, a media research group within S&P Global Market Intelligence.

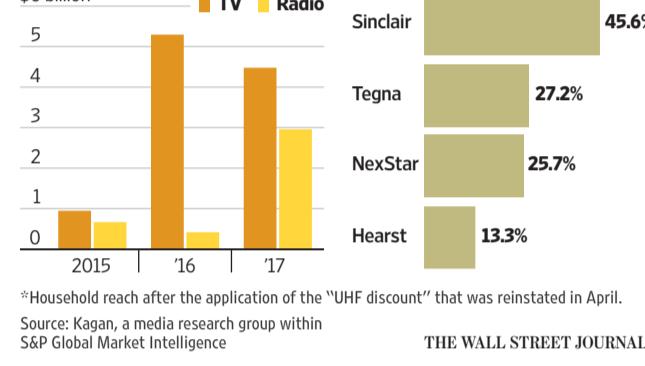
Since President Donald Trump tapped Mr. Pai as FCC commissioner, the pace of consolidation has accelerated. One of Mr. Pai's first moves as chairman was to change how station owners count certain television stations toward their national ownership caps. In the wake of that change, Sinclair announced the purchase of many more television stations, including those owned by major station group Tribune Media. That deal is currently being reviewed by the FCC.

Relaxing regulations on local TV station ownership likely would spark a "bonanza" of dealmaking among station owners, according to station broker Larry Patrick, particularly among the independent station groups that don't share ownership with broadcast networks like ABC or Fox.

For instance, the proposed rules would make it possible for

Big Picture

Rapid consolidation in the local television industry has led to the rise of "super groups" of TV stations that reach wide swaths of the country.



*Household reach after the application of the "UHF discount" that was reinstated in April.

Source: Kagan, a media research group within S&P Global Market Intelligence

THE WALL STREET JOURNAL

a single company to more completely dominate a local television market by owning two of its top four stations if the FCC decides it is in the public interest—for example, if a financially strong station proposed to buy a financially weak fourth-ranked station.

In an interview, Mr. Pai said the changes overall will promote the economic health of local media, including newsgathering operations, by removing what he said are arbitrary regulatory barriers.

"I think the biggest impact is going to be simply that the FCC

will not be pre-emptively dictating market structure in every market in the U.S." Mr. Pai said. "Overall I think the effect is going to be more local newsgathering...and more news for consumers."

Station groups are eager for consolidation because it would allow them to save money on overlapping functions while giving them more clout in negotiations with advertisers and pay-TV providers.

While the relaxed rules may allow some station groups to get bigger, much of the deal-making is likely to be in "swaps"

of stations between groups that would give each of them more control of a market. Stations owned and operated by broadcast networks like NBC and CBS are less likely to be affected.

Mr. Patrick expects major independent TV station owners like Tegna Inc., Hearst Corp., Sinclair and Nexstar Media Group, which own local affiliates of broadcast networks, would all want to look at bulking up in certain markets, if Mr. Pai's proposed changes are approved.

Hearst declined to comment. Sinclair didn't immediately respond to a request for comment. A Tegna spokeswoman said the company is "pursuing an aggressive growth strategy." A Nexstar spokesman said the company isn't looking to do another large deal, but rather "surgical and select tuck-in deals."

For newspapers, relaxing local-ownership rules will have come too late to afford much economic benefit, experts said. Between 2000 and 2015, newspaper advertising revenue fell from about \$60 billion to below \$20 billion, according to the Newspaper Association of America, as advertisers shifted their money to online companies like Google and Facebook.

The plan is sure to draw criticism from Democrats and others who worry that it will lead

to more concentration of power, less diversity and a loss of locally generated content. The plan also is likely to face legal challenges.

Democratic FCC Commissioner Mignon Clyburn said in prepared testimony for Wednesday's hearing that the expected changes likely would "roll back the best elements of our media ownership rules." She said the "already consolidated broadcast media market will become even more so, offering little to no discernible benefit for consumers."

The FCC plans to vote on the new rules at its Nov. 16 meeting and agency officials said they would take effect soon after that.

One proposed change would eliminate the rule that generally prohibits a single individual or company from possessing a daily newspaper and a radio or TV station in the same market. A related change would eliminate a similar rule regarding cross-ownership of radio and TV stations.

Other changes would make it easier for a company to own two TV stations in a market. For example, Mr. Pai's plan would eliminate a rule known as the "eight-voices test" that says an owner can buy a second station in a market only if there would be eight independently owned stations following the purchase.

The Face of Change

Denise Klein
Provider Advocate
Nashville, TN

Denise knows that trust must be earned every day, in every interaction. That's her secret to building strong customer relationships. Denise works closely with her customers to address their concerns, helping to facilitate a smooth path forward. It's just one way our people are helping to accelerate the transformation to a value-based healthcare system.

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CHANGE
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WORLD NEWS

China's Xi Gains a Longer Lease on Power

Party unveils a new top leadership without a likely successor to the president

BY CHUN HAN WONG
AND JEREMY PAGE

BEIJING—The future of 1.4 billion people, the world's second-largest economy and an emerging military juggernaut now lies largely in the hands of just one man: China's President Xi Jinping.

In unveiling a new top leadership lineup without a potential successor to Mr. Xi on Wednesday, the Communist Party edged closer to resurrecting one-man rule, four decades after the death of Chairman Mao.

The parade of the seven-man Politburo Standing Committee onto a red-carpeted podium in Beijing's Great Hall of the People was the climax of a twice-a-decade process that placed Mr. Xi on a par with Mao in the party constitution and positioned him as pre-eminent leader even beyond his second five-year term.

Concentrating such power in Mr. Xi—who can now make policy and personnel choices virtually uncontested—draws to an emphatic end an era of collective leadership. It also represents a historic gamble.

Mr. Xi is calculating that strongman rule will make it easier to add China to the ranks of rich, global powers and to project Chinese power globally. An early test of the latter comes in just a few weeks, when U.S. President Donald Trump is due



QILAI SHEN/BLOOMBERG NEWS

WHO'S WITH XI: President Xi Jinping, center, strode by other members of the Communist Party's new Politburo Standing Committee in Beijing on Wednesday. Pictured from left, Han Zheng, Wang Huning, Li Zhanshu, Li Keqiang, Wang Yang and Zhao Leji.

to visit Beijing. In a tweet on Wednesday, Mr. Trump said he called Mr. Xi and congratulated him on his elevation.

The risk is a political culture that rewards loyalty over initiative, in which it is harder for the leadership to astutely address complex challenges.

"The biggest drawback of this power structure is that no one will dare to tell him the truth: There could be an emperor's-new-clothes situation," said Zhang Lifan, an independent historian and political commentator. "If there is a crisis in the future, he might not

get the necessary information."

That would be dangerous, given China's critical role in the standoff over North Korea's nuclear and missile programs and its outsized influence on the global economy and world financial markets.

Mr. Xi, who is 64 years old, has offered few details of how he will exercise his enormous powers.

The leadership revamp effectively endorsed the revival of autocratic rule in a country where emperors wielded absolute power for centuries, and where Mao's brutal dictatorship

caused tens of millions of deaths through famine and the turbulence of political purges.

After Mao's death in 1976, Deng Xiaoping began to liberalize the economy and develop norms for retirement and power-sharing, which evolved further after the Cold War's end to avoid the gerontocracy and bureaucratic sloth that contributed to the Soviet Union's collapse. By the time Mr. Xi took power in 2012, the party had been thrown into disarray by a scandal.

Mr. Xi became convinced that what led to the Soviet

Union's dissolution was a lack of strong party leadership. "In the end, nobody was a real man, nobody came out to resist," he said in an internal speech shortly after taking power, people who saw an official summary of his remarks said.

Most striking in the new leadership slate unveiled on Wednesday was the absence of any member of the next generation of leaders, now in their 50s. That was the strongest indication yet that Mr. Xi plans to rule for the long haul.

Under recent practice at the twice-a-decade congress, the

party has retired leaders over 67 and elevated to the Standing Committee at least one potential successor for the top post five years before he would take power, to ensure a smooth transition. By those norms, none of the new Standing Committee members are young enough to succeed Mr. Xi and rule for two five-year terms.

"Mao Zedong and Deng Xiaoping each needed decades to achieve their accomplishments," said Ding Xueliang, a China politics expert at Hong Kong University of Science and Technology. "Xi Jinping still needs to consolidate his gains and needs more time to achieve his goals."

Premier Li Keqiang, whose powers have been severely curtailed, remained on the top body. Three of the five new members have close ties to Mr. Xi. Mr. Xi also now has trusted lieutenants in the new Politburo, the party's top 25 leaders, and the broader 376-member Central Committee.

Mr. Xi has declared the start of a new era defined by strong leadership and more balanced development as a way to preserve party rule far into the 21st century.

It will be a big task to turn these broad goals into specific guidelines that China's bureaucracy will follow.

"Xi needs local leaders to implement his policies, and he thinks that corruption crackdowns are the key to implementation, in a theory of 'if only they would do what I say,'" said Ryan Manuel, an expert on Chinese politics at the University of Hong Kong. "It isn't that simple."

Japan's Rising Foreign Workforce Hits Wages

BY YOKO KUBOTA



A Filipino recently waited tables at a sushi restaurant in Tokyo.

ity," said Takuya Hoshino, an economist at Dai-ichi Research Institute. "But the rise of foreign workers is actually placing a halt on such moves."

Japan added 400,000 foreign workers in the four years through 2016, surpassing one million for the first time, or nearly 2% of the workforce, labor ministry data show. That is low compared with the U.S.'s 17% of foreign-born workers but enough to sway the labor market in urban centers like Tokyo.

Without the foreign help, "we would have to close some of our restaurants," said Yoshiteru Fukui, the hiring manager at RDC, which runs sushi chains including Gatten Sushi.

"If labor costs were rising, that would put pressure on companies to boost productivity."

Business leaders and economists in Japan have called for more immigration, saying it is the only way for a nation with a fast-aging and declining native population to add new workers. Yet such people are helping keep wages down, contradicting Prime Minister Shinzo Abe's priority of lifting wages and productivity.

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WORLD NEWS

U.S., India Agree to Bolster Security

BY NIHARIKA MANDHANA

NEW DELHI—The U.S. and India agreed to work together more closely to strengthen regional security and prevent other nations from providing safe spaces for terrorists, during a visit here by Secretary of State Rex Tillerson.

Indian Foreign Minister Sushma Swaraj said Wednesday the U.S. and India plan to hold talks with Afghanistan aimed at increasing regional stability.

Ms. Swaraj said the two sides also agreed Pakistan must take immediate steps to end havens for terrorists on its soil. India and the U.S. say Pakistan harbors terrorist organizations that launch attacks in neighboring Afghanistan and India, a claim Islamabad denies.

"We believe President [Donald] Trump's new strategy can succeed only if Pakistan takes action against all terror groups," Ms. Swaraj said, referring to the Trump administration's approach to the Afghanistan conflict. That policy depends on ending havens for Afghan militants in Pakistan, the U.S. has said.

Mr. Tillerson, who arrived in New Delhi after a visit to Islamabad, said he had told Pakistani leaders "too many terrorist organizations find a safe place in Pakistan," and that their expansion could undermine the stability of Pakistan's government.

In Wednesday's talks, Indian and U.S. officials also discussed efforts to boost India's security role in the Indo-Pacific region by equipping it with advanced military technology and expanding cooperation with U.S. allies in Asia, such as Japan.

"The U.S. supports India's emergence as a leading power and will continue to contribute to Indian capabilities to provide security throughout the region," Mr. Tillerson said.

The U.S. sees India as a democratic counterweight to China and has sought to bring New Delhi closer into its orbit. In an India-focused speech last week in Washington, Mr. Tillerson referred to the world's largest democracies as "the two bookends of stability on either side of the globe" and said they "must serve as the eastern and western beacons of the Indo-Pacific."

Although India is unwilling to enter a formal alliance with the U.S., it has shed its reluctance to building closer security and economic ties as it confronts growing Chinese power. Beijing has expanded its footprint in India's neighborhood, with infrastructure and port projects in the region.

Kenya Court Won't Block New Vote

By MATINA STEVIS-GRIDNEFF

NAIROBI, Kenya—A controversial repeat-run election scheduled to take place in Kenya on Thursday is set to go ahead, after the Supreme Court failed to decide whether to block it, saying five justices didn't show up.

The court's inability to reach a ruling was another episode in a months-long political saga that has thrown one of Africa's most promising economies and democracies into crisis.

"Based on assurances we have received, elections will go on as scheduled," Wafula Chebukati, the chairman of the electoral body, said at a press conference. "Polling stations will open at 6 a.m."

The court was due Wednesday morning to decide whether the vote should be postponed, after a last-ditch petition was brought in an effort to block it, but said it lacked a quorum to make a judgment.

Chief Justice David Maraga told the court that just two of the seven justices were present, with others "indisposed,"

"ill" or "out of town," and promised to rule when a quorum was reached, but didn't specify when that might be.

Kenyans voted for a new president on Aug. 8, but the Supreme Court annulled the election in September because of widespread irregularities. A date to repeat the vote was set for Oct. 26.

President Uhuru Kenyatta, whose re-election was overturned, has been campaigning in recent days, rallying his supporters to vote for him again and insisting elections must be held on Thursday to avoid further uncertainty.

Raila Odinga, his veteran nemesis who withdrew from the rerun this month, has been urging his supporters to boycott the elections, claiming the government plans to rig the vote. He has led a few protests in his western Kenyan强holds, but hasn't campaigned.

Calls to postpone the election grew this week, with the International Crisis Group warning violence could break out because of the extreme rift between the two men and



Opposition leader Raila Odinga's backers, who urge a boycott of the vote, run from police in Kisumu.

their entrenched positions.

Tensions escalated last week when the chief of Kenya's electoral commission said he wasn't able to deliver a credible election amid meddling from candidates and threats of violence, after a top electoral official resigned and

said she feared for her life.

The situation has also soured for international observers, whom the opposition blames for missing major shortcomings in the original August vote. The European Union's election-observation mission and other observers said late

Tuesday that they would scale back their operations during the new vote, citing security concerns for their staff.

The electoral gyrations have created a deep rift between the two parties, with no side seemingly prepared to negotiate a compromise.

Under Fire, Kurds Offer Baghdad a Concession

Iraqi Kurds offered to shelf their pursuit of statehood for now as pressure mounts on the leader of the country's semiautonomous region to step aside and the U.S. seeks to ease tension between two vital allies in the fight against Islamic State. Tensions between Baghdad

By Isabel Coles and Ali A. Nabhan in Erbil, Iraq, and Yaroslav Trofimov in Baghdad

and the Kurds have risen since last month's independence referendum. Prime Minister Haider al-Abadi said in an interview that the vote—which Iraq and the U.S. opposed—had set the Kurdish dream back for years. "And that was my warning to them," he said.

Washington says it isn't taking sides in the dispute, and a senior U.S. official called for military advances to stop and negotiations to begin. Since the referendum, Iraqi forces have seized a swath of Kurdish-held territory—much of it captured from Islamic State—and Mr. Abadi has vowed to retake Kurdish-controlled border crossings.

"It's hard to argue that the Iraqi government doesn't have the legal and constitutional right to control its border crossings," said the U.S. official. "But it's easy to argue that there is a better way to do it than what they are doing now."

Once military action ceases, the official said, the "United States—and I think coalition forces as well—are more than



Iraqi Kurdish President Masoud Barzani voting in a disputed independence referendum in Erbil last month.

willing to help with disengagement and trying to figure out what the next step will be."

U.S. Secretary of State Rex Tillerson visited Iraq this week and met with Mr. Abadi. Mr. Tillerson didn't go to Erbil, the capital of the Kurdish region, where Western officials typically travel to speak to Mr. Barzani and other officials after visiting Baghdad.

The Iraqi Kurds' offer was aimed at starting talks with Baghdad. A Kurdish spokesman

on Wednesday said the Sept. 25 referendum results would be "frozen or suspended in a way that will create an atmosphere for negotiation."

The Kurdish concession fell short of amnulling the vote, something Baghdad has demanded as a precondition for talks. It came as Iraqi forces are massing, according to Iraqi and Kurdish military sources, for an incursion into other areas the Kurds control in northern Iraq.

A self-ruled Kurdistan re-

gion, which had enjoyed considerable autonomy from Baghdad since the 1990s, was officially recognized by the 2005 Iraqi constitution. The Kurds took control of some territory outside the formal boundary of the region in the years that followed, and captured more land in the fight against Islamic State.

The clash between Baghdad and the Iraqi Kurds comes as Islamic State is on the verge of defeat in Iraq. Kurdish Pesh-

merga forces have been a valuable partner for both Baghdad and Washington in the fight.

But the decision by Masoud Barzani, the leader of the Kurdish region, to pursue the referendum over the objections of most of the international community has undermined the good will Iraqi Kurds built during that battle.

Western diplomats and some Iraqi and Kurdish politicians say constructive dialogue may only be possible if Mr. Barzani, who is 71, resigns.

"It might be that the best possible thing that can happen for the Kurdistan region is for Masoud to stand down...with his dignity intact as a former president, but pass the baton on to the younger generation and away from the septuagenarians who are calling the shots," said one Western diplomat. A spokesman for Mr. Barzani didn't respond to requests for comment.

To his most-faithful adherents, Mr. Barzani's insistence on holding the vote was a noble endeavor thwarted by forces that would eventually have moved against the Kurds anyway. To critics, however, Mr. Barzani's decision was a reckless gamble with the fate of his own people.

Either way, the Kurds now have little option but to negotiate with Baghdad from their weakest position since 2003, when the Kurdistan region began its transformation from an impoverished backwater to a key player in the politics of Iraq and the Middle East.

FROM PAGE ONE

IRAQ

Continued from Page One
other U.S. publications, he issued a plea to Washington and Tehran not to involve Iraq in their growing confrontation over Iran's nuclear deal and missile program, and the U.S. threat of renewed sanctions. Iraq, like Iran, is majority Shiite and Mr. Abadi's predominantly Shiite party has been allied with Tehran for decades.

"What we are telling everyone, including our Iranian neighbors and the U.S., who have become our friends by supporting us in our fight against Daesh, is that we welcome your support, we would like to work with you, both of you, but please don't bring your trouble inside Iraq," Mr. Abadi said in the interview, using the Arabic acronym for Islamic State.

A senior U.S. official said the ball is in Iran's court. "We have no intention of conducting a campaign against Iran in Iraq. But it will really be up to the groups that may or may not be under the control of the prime minister," the official said, referring to Iran-backed Shiite militias. "What will happen will depend upon the actions of the proxies of Iran inside Iraq."

The conflict over an independence referendum in Kurdistan—where Iranian mediation allowed Mr. Abadi's forces to seize the oil-rich province

Mnuchin Launches Antiterror Center In Saudi Arabia

RIYADH—Treasury Secretary Steven Mnuchin kicked off a week of high-level meetings across the Middle East aimed at increasing financial pressure on Iran and cracking down on terror financing in the region.

On Wednesday, he launched a new regional anti-terror-finance center in Saudi Arabia called the Terrorist Financing Targeting Center, which brings together the U.S., Saudi Arabia, Qatar and five other Gulf states to cut off the

flow of money to terror networks in the region.

In its first steps, the group said it would target eight leaders, financiers and facilitators of Islamic State and al Qaeda operations in Yemen.

Through a series of meetings in Saudi Arabia, Israel, Qatar and the United Arab Emirates, Mr. Mnuchin and other senior Trump officials also are seeking to bolster a new Iran policy, announced earlier this month, which aims to confront the U.S. adversary more aggressively, particularly over its weapons programs and links to terror groups in the region.

—Ian Talley and Margherita Stancati

of Kirkuk this month—adds another complication. While the U.S. initially endorsed Mr. Abadi's move, Washington is now urging his government and the Kurdish authorities to begin a dialogue.

A roadside bombing north of Baghdad that U.S. officials believe was perpetrated by a pro-Iranian militia killed a U.S. service member, Spc. Alexander Missildine, on Oct. 1. Some recent rocket attacks on Baghdad's Green Zone, which houses the U.S. Embassy, were attributed by American officials to Iranian proxies.

Mr. Abadi said the U.S. and other Western troops are in Iraq on the government's invitation and that Baghdad won't tolerate

an Iraqi nationalist leader who isn't beholden to Tehran.

In the interview, he reiterated his pledge to secure the Kurdish-controlled border crossing with Turkey and warned Kurdish forces not to fight against Iraqi troops.

"Iraq must have a border with Turkey. They should not cut Iraq from Turkey," Mr. Abadi said. "The Kurds are our citizens. My priority is to protect them, to protect the rest of Iraqis, but I'm sending a powerful message: If you continue to kill Iraqi soldiers you will be held responsible."

While Mr. Abadi secured the backing of Sunni Arab states and Turkey over his handling of Kurdistan, the issue of Iraqi Shiite militias, some of them operating as de facto subsidiaries of Iran's Revolutionary Guard Corps, remains a sore point in relations with these neighbors—and Washington. Some of the groups reacted angrily when U.S. Secretary of State Rex Tillerson said on Sunday that Iranian militias in Iraq "need to go home."

Qais al Khazali, the head of one such Iranian-backed militia, Asaib Ahl al-Haq, retorted by tweeting that the 5,200 American troops in the country should "get ready to immediately leave our Iraqi homeland."

In the interview, Mr. Abadi rejected such calls, saying that any decision to ask U.S. forces to leave should be up to the country's parliament and not to individual political groups.

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IN DEPTH

How funds with different ratings compare

Morningstar gives funds one to five stars for past performance, with five the best.

Many investors treat the stars as a guide to future performance.

But over time, the performance of funds with different overall star ratings converges.



'It's a way to whittle down a big universe into something more manageable.'



Morningstar founder Joe Mansueto on the star ratings

Average rating after 10 years

3.0

2.8

2.5

2.2

1.9

How five-star funds performed over time

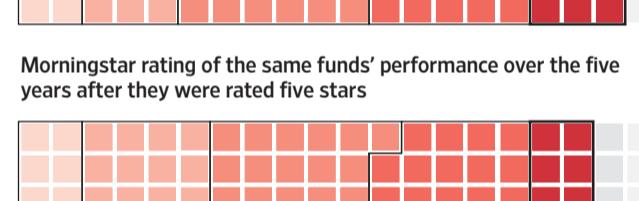
For every fund given an overall rating of five stars, The Wall Street Journal looked at future Morningstar ratings to assess how the fund performed.

One star Two stars Three stars Four stars Five stars
Merged Liquidated

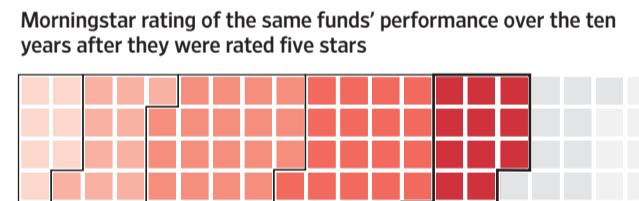
These squares represent 100% of the funds that received an overall rating of 5 stars



Morningstar rating of the same funds' performance over the three years after they were rated five stars



Morningstar rating of the same funds' performance over the five years after they were rated five stars

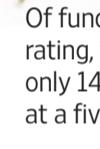


Morningstar rating of the same funds' performance over the ten years after they were rated five stars



Source: WSJ analysis of Morningstar data

THE WALL STREET JOURNAL



Of funds with a five-star rating, three years later only 14% had performed at a five-star level.

Journal's analysis, half of them held on to it for just three months before their performance and rating weakened.

The findings were especially stark among U.S.-based domestic equity funds. Of those with the five-star badge, a mere 10% earned five stars for their performance over the next three years. Only 7% merited five stars for the next five years, and 6% did for 10 years.

For all of the measured periods—three, five and 10 years—five-star domestic equity funds were more likely to turn in a one-star performance than a top one.

That means a five-star rating for the equity funds was no more an omen of success than it was one of failure.

Morningstar's ratings of taxable-bond funds proved a little more indicative of future performance. Of five-star bond funds, about 16% turned in a five-star performance over the next five years.

Still, 8% of five-star taxable-bond funds did poorly enough to merit only one star.

Police pensions

Hickory Hills, Ill., has a small pension fund for about 50 active and retired police officers. In 2011, it moved about \$2.1 million into the Nuveen Santa Barbara Dividend Growth Fund, which had a five-star Morningstar rating.

The pension board paid heed to star ratings. "Our brokers thought it was one of the best measurements we had available to decide whether the fund is worth investing in," said board secretary Mary McDonald, referring to brokers from Morgan Stanley.

The fund had beaten 95% of others in Morningstar's "large blend" category—funds that buy large-company stocks using a blend of a "value" strategy and a "growth" strategy.

The following year, the fund beat only 26% of similar funds, and in 2013 just 11%.

The president of the Santa Barbara fund family, John Gomez, attributed the Dividend Growth fund's performance to its focus on stocks with growing dividends, not just the highest-yielding ones.

The Hickory Hills board pulled \$1.2 million from the fund in 2014, and in early 2016 \$750,000 more. It has since switched to a local broker, in part because of Morgan Stanley's reliance on Morningstar ratings, said David Wetherald, a police officer who is also the pension board's president.

It was frustrating because

Notes: Stars on left represent the initial overall rating. Other points on chart are star ratings for the following three, five or ten years. Funds rated by Morningstar can have up to four ratings: a three-year rating, a five-year rating, a 10-year rating, and an overall rating that is based on a combination of the others.

"we rely a lot on the financial people. We're not completely blind and naive, but we're smart enough to know that this is what they do," Mr. Wetherald said. Morgan Stanley declined to comment.

Morningstar said its five-star rating of Nuveen Santa Barbara Dividend Growth in 2011 "was an accurate historical grade on the fund. It was not intended as or presented as a conclusion as to what they should do."

Morningstar also said this type of fund generally did poorly after 2011. The example "presents an underperforming fund in a badly underperforming category as if it's representative of the full rating set, which it's not," the firm said.

The Journal's analysis found that investors put new money into five-star-rated funds in 69% of the months they held that rating, compared with 29% for one-star funds.

Morningstar acknowledged its ratings can influence demand, though Mr. Mansueto says he believes investors typically move money mainly based on a fund's performance, not its star rating.

The Journal found over a dozen cases where well-performing funds attracted few investors until they won a fifth Morningstar star.

Tiny Buffalo Emerging Opportunities Fund saw little interest despite beating many similarly focused funds, including gaining 24% in 2012. After it got a fifth star from Morningstar in spring 2013, hundreds of millions came in, quadrupling assets to above \$400 million in five months.

The small management team in Mission, Kan., closed the fund to new investors six months later, a step managers sometimes take when given more cash than they feel they can invest. The Journal found many instances of funds closing after an influx that followed a high star rating.

At Buffalo Emerging Opportunities, fortunes soon reversed. In 2014 it lost over 7% and trailed about 95% of other funds focused on growing small companies. In the next two years its Morningstar rating fell to two stars and assets plunged to under \$100 million.

Buffalo Funds declined to comment.

Inflows sparked by high star ratings are especially important for managers of actively managed funds now that more investors have migrated to passive ones that just try to match an index. On calls with securities analysts, fund-company chiefs often trumpet how much of their asset total is in four- and five-star funds, as a sign of the companies' ability to attract cash.

From his office in Mechanicsburg, Pa., financial adviser Donald DeMuth starts each workday by logging onto Morningstar Office, which helps him organize client portfolios. He uses Morningstar data to check on fund performance and details such as how fast fund portfolios turn over.

Please turn to the next page

STARS

Continued from Page One

Morningstar's reach is so pervasive that the ecosystem for buying and selling mutual funds revolves around it. Fund firms heavily advertise their star ratings. Money typically pours into funds after they get a five-star rating from Morningstar, the Journal found. It flows out if they lose stars.

There is no question that Morningstar has greatly improved the transparency and rigor of data on mutual funds' holdings and performance, making it easier for individual investors to compare funds.

Morningstar says it has never claimed its star ratings suggest how funds will do in the future. The star system is strictly backward-looking, assessing past performance, the firm says. "We have always been very clear that it's not intended to predict future performance," the company said in a written statement.

"The star rating works well when it's used as intended: as a first-stage screen that helps identify lower-cost, lower-risk funds with good long-term performance," Morningstar said. "It is not meant to be used in isolation or as a predictive measure. Reversion to the mean is a powerful force that can affect any investment vehicle."

Future performance

The firm sends conflicting signals about the star ratings' predictiveness. A study published by Morningstar last month said the stars point investors to funds "likelier to outperform in the future."

Morningstar founder Joe Mansueto said in an interview that the firm's analysis of past ratings found "some modest predictive value." Chief Executive Kunal Kapoor, in another interview, called the star system "a better predictor than it ever has been."

In its written statement, Morningstar said its analysis has found "the Star Rating is moderately predictive," which "conforms to what we'd expect of a backward-looking, entirely quantitative measure."

The Journal's analysis found that most five-star funds perform somewhat better than lower-rated ones, yet on the average, five-star funds eventually turn into merely ordinary performers.

Inside Morningstar, some employees have expressed discomfort about how much investors rely on the ratings. Stephen Wendel, head of behavioral science at the Chicago-based firm, wrote in the June/July issue of Morningstar magazine that part of his job was "examining whether we are contributing to abuses in the industry," and said: "Morningstar's star ratings for funds are clearly used in the industry to imply that funds that performed well in the past will do so in the future."

He added, "That needs to change."

Morningstar's Mr. Mansueto, 61, said the star system "is a way to whittle down a big universe into something more manageable." The firm said it has worked to make investors understand the star ratings should be just a starting point for their research.

Since 2011, Morningstar has had a second rating system, lesser known and of limited scope, that includes analysts' opinions. Unlike the star ratings, it is designed to be forward-looking, Morningstar says. In this system, too, the Journal found the performance of funds rated high, low and in between tended to converge after several years.

Mr. Mansueto, growing up in suburban Chicago, sold lemonade by the roadside before moving up to Christmas trees. At the University of Chicago, he and a roommate sold chips and soda and advertised by hanging posters for the "Room 607 Soda Service." He also made his first mutual-fund investment, with \$250 from a restaurant job.

After college, he and the ex-roommate, Kurt Hanson, started a business that provided market research for radio stations. It surveyed listeners and created a sheet of charts detailing their behavior. Mr. Mansueto then got a job as a financial analyst at Harris Associates LP, a Chicago money manager.

Mutual funds were proliferating, and a few fund managers were becoming stars, such as John Templeton and Peter Lynch. Funds didn't give much information about themselves, and what they provided was opaque to nonprofessionals. Mr. Mansueto told a colleague he wanted to start a fund newsletter in the mold of the radio-station fact sheets.

The colleague, Ralph Wanger, cautioned that financial newsletters didn't have a record of success. "That turned out to be the dumbest...thing I ever said," he recalls. "What I meant to say was, 'Joe, that's the best idea I've ever heard—how about I quit and we go 50-50?'"

Mr. Mansueto launched Morningstar from his one-bedroom apartment in 1984 with \$80,000, taking the name from the ending of Thoreau's "Walden": "The sun is but a morning star."

He later spent \$50,000 to hire Paul Rand, the noted designer of IBM's logo, who created a signature red font consisting of tall letters with an "O" looking like a rising sun. With reports obtained from fund companies, Mr. Mansueto laid out data points so they were easy to read, and advertised his reports in Barron's.

When BusinessWeek later asked him to devise rankings for an issue devoted to mutual funds, Mr. Mansueto began work on what would become his five-star rating system. He toyed with using symbols suggesting little bags of gold before deciding on stars.

Since then, assets invested in U.S.-based mutual funds have multiplied more than forty-fold. Morningstar rode

the wave and went public in 2005.

Today, investors descend on Chicago for Morningstar's annual conferences, a pilgrimage for money managers and advisers hoping to gather assets. At this year's event, shirtless male acrobats cartwheeled and stood on each other's shoulders while financiers sipped cocktails and mingled.

Morningstar groups funds into categories based on their investing style or area, more than 100 groups in all. It compares funds not to all other funds, nor to the overall market, but to other funds with

most funds have multiple "classes," each charging a different expense fee. Since varying expenses spell varying returns, Morningstar rates each class of each fund separately.

Its star ratings covered over 10,800 mutual funds—and almost 39,000 share classes—during the 14 years studied by the Journal. The only qualification to be rated is being in business three years. The ratings include index funds, which try to mimic the performance of markets.

(The Journal's analysis didn't include exchange-traded funds, or ETFs, which trade throughout the day like a stock. Morningstar began rating ETFs, too, late last year, after the period covered by the Journal's analysis.)

Going back to 2003, the Journal examined the rating of every investment class of every fund, in every month, and how these changed—some three million records in all.

The Journal also reviewed retirement-plan data, fund ads and regulatory filings, and interviewed dozens of current and former Morningstar employees, fund officials, financial advisers and investors.

For funds that had an overall five-star rating at any point, the Journal found that their average Morningstar rating for the following five years was three stars—in other words, halfway between the top and the bottom.

When funds picked up a fifth star for the first time in the period included in the

same investment focus. The top 10% of funds in each group receive five stars, the bottom 10% get one, and the rest get two, three or four.

The ratings don't reflect raw performance, but performance adjusted for funds' degree of risk. For that calculation, Morningstar uses an algorithm Mr. Mansueto devised reflecting variation in month-to-month returns.

The firm rates funds on how they did over three years—plus over five years and 10 years if they're old enough—and assigns them an overall rating based on the others. A fund thus could have

an overall rating after 10 years that is based on a combination of the others.

Many investors treat the stars as a guide to future performance.

But over time, the performance of funds with different overall star ratings converges.

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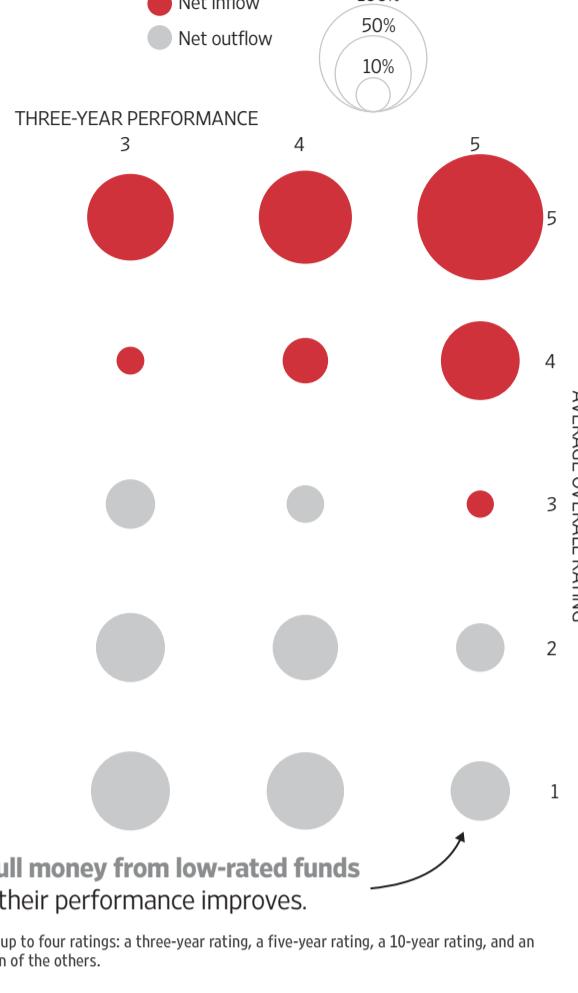
But over time, the performance of funds with different overall star ratings converges.

IN DEPTH

Money In Motion

The Journal analyzed how much money flowed into or out of funds over three years based on the overall ratings investors saw and how well the funds actually performed.

Investors pour money into top-rated funds
even if their performance declines.



Investors pull money from low-rated funds
even if their performance improves.

Note: Funds rated by Morningstar can have up to four ratings: a three-year rating, a five-year rating, a 10-year rating, and an overall rating that is based on a combination of the others.

Mr. DeMuth, 66, has used Morningstar so long he can't remember when he started. "With rare exception, we would want a fund to have five stars," he said.

In early 2012 he put some of his clients' money in a fund called Permanent Portfolio when it had a five-star Morningstar rating. The fund invests across an array of assets, including gold and silver.

Its performance had already started to slip. By the end of 2012, it was 5 percentage points behind its Morningstar category benchmark, the "Morningstar Moderate Target Risk," which is a mix of global bonds and global stocks.

Mr. DeMuth moved clients out in the fall of 2013, a year when the fund trailed that benchmark by 16 points. At the end of 2013, Morningstar gave the fund a one-star rating for its performance over the prior three years.

Client David Peterseim, a 55-year-old retired surgeon in Charleston, S.C., said he was relieved the financial adviser got out. He was disappointed "Morningstar didn't have some semblance to reality," Dr. Peterseim said.

Michael Cuggino, president of the family of Permanent funds, said Permanent Portfolio's performance suffered as gold and silver prices fell.

Morningstar said Permanent Portfolio was an "outlier" that "was designed as an inflation hedge; when precious metals are in favor, it will score well, and when they're not, this fund won't do well." Major rallies in gold and silver ended in 2011, shortly before Mr. DeMuth invested.

Used as a crutch?

Current and former Morningstar employees said some advisers use the ratings as a crutch.

"It's a cover-your-ass type of service," says Samuel Lee, a former strategist at Morningstar. "An adviser can say, 'I'm going to put you in this fund, it's a 5-star fund,' ...and if something goes wrong the adviser can shunt blame to Morningstar."

Scott Jennings, a former Morgan Stanley financial adviser, recalled struggling last year to explain to a company's employees which funds they should choose in their retirement plans. He decided to keep it simple and told them, "You only have two funds rated by Morningstar—one's a two-star and one's a four-star. Go with the four-star." He could see a look of understanding flash across their faces.

At Morgan Stanley, "Advisers get in trouble when they go against the grain," Mr. Jennings said. "You isolate yourself more if you sell something else rather than just go with what research recommends."

Morningstar said if advisers use the ratings this way, "this is a fault with the users of the ratings, not the ratings.... If an advisor wants to do proper due diligence, we provide a robust set of information." The

firm's marketing cautions that "a high rating alone is not a sufficient basis for investment decisions." Morgan Stanley declined to comment.

Fund firms often cite Morningstar ratings in their advertising—at times even out-of-date ones. AllianceBernstein ran an ad for nine of its funds in a spring edition of Private Wealth magazine, citing star ratings from September 2016. Two of the funds' ratings had fallen by the time the ad ran.

A spokesman for AllianceBernstein said it made a "human error" in two instances out of "hundreds of digital and print ads...that quarter."

Dallas-based Hodges Small Cap Fund's retail share class beat 95% of similar funds in 2010 but had less than \$100 million in assets. Late in 2011 Morningstar gave it a fifth star, and everything changed, said Craig Hodges, who manages Hodges Capital Management. Charles Schwab put the fund on its "Schwab Select List." Mr. Hodges and his brother Clark advertised their star rating on a billboard in Dallas/Fort Worth airport.

Hodges Capital paid over \$10,000 to Morningstar for the right, to advertise the stars, Craig Hodges said. By 2014 year-end, assets in the fund hit about \$1.6 billion, according to Morningstar data.

Michael Rawson, who was a

Morningstar fund analyst for six years until spring 2016, said asset managers who pay to advertise their stars are misrepresenting their funds because the ratings are solely backward-looking.

"We know people misuse it. If we know people misuse it, why don't we do something about it?" Mr. Rawson said.

Morningstar said it publishes the ratings because it believes they have investment merit, not for financial gain. It said its intellectual-property licensing packages, which include the stars, contributed just 4% of revenue in 2016.

Mr. Mansueto said employees are encouraged to debate issues related to its products, but the efficacy of its star ratings no longer comes up internally. "This is not a hot topic or even a cold topic at Morningstar today," he said.

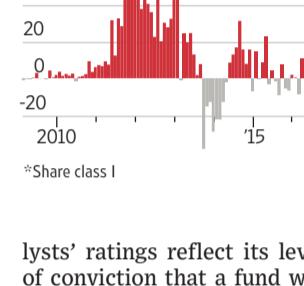
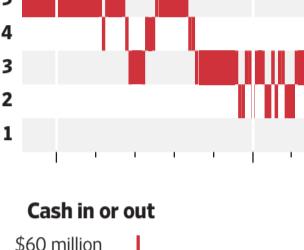
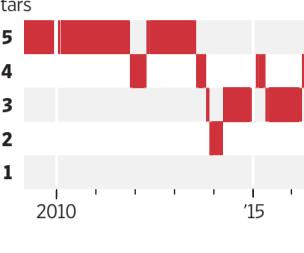
As for Hodges Small Cap, its performance has since turned down. Its rating has fallen to two stars from five, and assets that had soared after the top rating have dropped by more than half.

Morningstar in 2011 launched a second rating system, currently covering 26% of fund share classes, in which the firm's analysts do a more qualitative assessment. Unlike the stars, analysts' ratings often refer to likely future performance. The firm said ana-

Case Studies

Nuveen Santa Barbara Dividend Growth Fund*

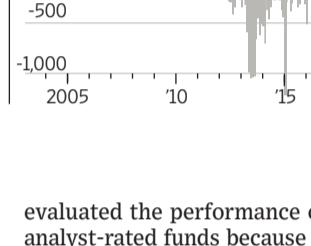
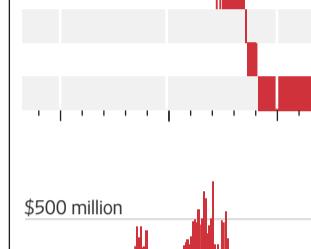
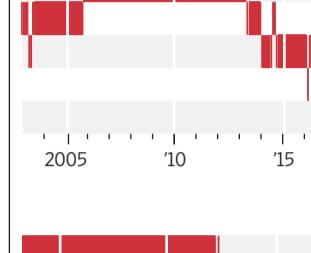
A pension fund moved \$2.1 million into the Nuveen Santa Barbara Dividend Growth Fund in November 2011, when the fund had a five-star rating.



*Share class I

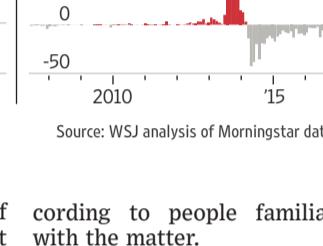
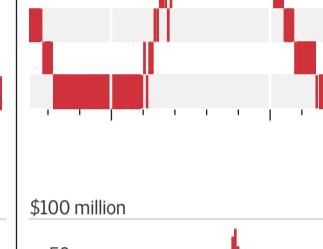
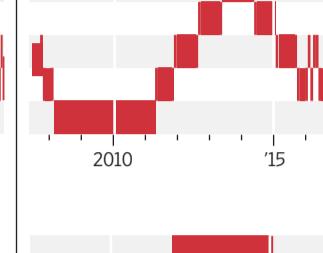
Permanent Portfolio*

A financial adviser invested clients in Permanent Portfolio in early 2012 when it had five stars, but it quickly started underperforming.



Buffalo Emerging Opportunities Fund

After Morningstar gave the tiny fund five stars in the spring of 2013, investors poured in hundreds of millions of dollars.



Source: WSJ analysis of Morningstar data

according to people familiar with the matter.

They added that BlackRock CEO Laurence Fink met with Morningstar analysts early this year to discuss the firm's ratings. In May, Morningstar upgraded to positive BlackRock's "parent pillar" rating, an evaluation in which analysts take into account a "load"—a sales fee—that some funds have.

The

Journal analysis also found Morningstar analysts' ratings of funds were overwhelmingly positive. From November 2011 through August 2017, the firm gave analyst ratings to about 9,200 fund share classes. Just 421, or 5%, received negative reviews. At the end of August, only 1% did.

Mr. Mansueto said analysts tend to choose better funds to examine, since they can't review them all. "Investors want to know what funds they should be investing in," Mr. Mansueto said. "They don't care so much about what the terrible funds are."

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tend to choose better funds to examine, since they can't review them all. "Investors want to know what funds they should be investing in," Mr. Mansueto said. "They don't care so much about what the terrible funds are."

Morningstar recently started a third "quantitative ratings" system that it says applies analyst screening to a broader universe of funds.

This one is likely to include more negative ratings, executives said.

J.P. Morgan Chase & Co. is among asset managers that regularly send portfolio managers to talk to Morningstar analysts about the merits of their funds. BlackRock Inc. has a team that works to persuade Morningstar analysts of the merits of various funds, ac-

Funds of its own

Mr. Kapoor, the Morningstar CEO, said analysts operate independently from fund companies and without influence from management despite frequent angry calls executives must field. "We prize our independence," he said.

Morningstar's application to the Securities and Exchange Commission for permission to launch nine mutual funds of its own has led some critics to cry conflict of interest. The Morningstar spokeswoman said the firm is in a quiet period related to the filing, restricting what it can say, but she said the firm's analysts sit in a separate entity from Morningstar Investment Management, which would oversee the company's funds.

The Journal spoke with more than three dozen executives at asset-management firms large and small about Morningstar. Few would go on the record.

Several years ago, some were unhappy when Morningstar changed the way it calculates its "stewardship grade," which is supposed to measure the corporate culture of each fund company. Executives from fund companies viewed the change as the latest example of Morningstar acting unilaterally and without explaining itself.

The money managers drafted a two-page letter to Morningstar that accused the company of "bullying" fund companies and running a monopoly, according to people familiar with the letter.

"The nature of what we do is going to end up alienating some portion of the industry," said Jeffrey Ptak, Morningstar's global director of manager research. "That's not something we relish but it's part of our job."

When the time came for the money-management firms to put their names to the letter, they balked. The letter was never sent.



'With rare exception, we would want a fund to have five stars.'



Financial adviser Donald DeMuth



'Advisers get in trouble when they go against the grain.'



Former Morgan Stanley financial adviser Scott Jennings

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GREATER NEW YORK

Suffolk County District Attorney Indicted

Thomas Spota accused of trying to cover up beating of a suspect by an ex-police chief

BY JOSEPH DE AVILA

A federal grand jury in New York indicted Suffolk County District Attorney Thomas Spota on Wednesday on obstruction of justice charges connected to a 2012 assault by the county's former police chief.

Christopher McPartland, the chief of investigations and head of the government-corruption bureau of the Suffolk County District Attorney's Office on Long Island, also was charged in the four-count indictment that includes conspiracy to tamper with witnesses and obstruct an official proceeding.

Both men pleaded not guilty Wednesday in federal court in Central Islip, N.Y.

They face a maximum of 20 years in prison if convicted.

"Tom categorically denies the government's charges," said Alan Vinegrad, an attorney for Mr. Spota, who was released on bond and left court without telling reporters whether he would resign.

Larry Krantz, a lawyer who represents Mr. McPartland said his client "vehemently denies the charges."

Federal prosecutors allege that Mr. Spota, 76 years old, and Mr. McPartland, 51, attempted to cover up the assault of a handcuffed suspect by former county Police Chief James Burke in 2012. Mr. Burke beat Christopher Loeb, who was accused of stealing sex toys, pornography and other items from Mr. Burke's police-issued sport utility vehicle. Mr. Burke pleaded guilty in 2016 and is serving 46 months in prison.

"Prosecutors swear oaths to pursue justice and enforce the



District Attorney Thomas Spota, right, pleaded not guilty when he appeared Wednesday in federal court in Central Islip, N.Y.

law," said Bridget Rohde, acting U.S. Attorney for the Eastern District of New York. "Instead of upholding their oaths, these defendants allegedly abused the power of the Suffolk County District Attorney's Office."

Following the assault of Mr.

Loeb, the defendants, along with Mr. Burke and others, tried to conceal Mr. Burke's role in the incident and attempted to impede the probe, the indictment said.

The indictment was a stunning turn for Mr. Spota, who de-

veloped a reputation for taking on corruption, including the successful prosecution of former town of Islip Supervisor Peter McGowan, who pleaded guilty to corruption charges in 2006.

In 2001, Mr. Spota, a Democrat, was elected as Suffolk County's district attorney and has served four terms. He said earlier this year he wouldn't run for a fifth term, citing his age and a desire to spend more time with family.

Suffolk County Police Commissioner Tim Sini, a Democrat who is running for district attorney in the county, said Mr. Spota should step down. "He's unfit to serve under federal indictment," he said.

Suffolk County Executive Steve Bellone also called on fellow Democrat Spota to resign. Republican Suffolk County District Attorney candidate Ray Perini said: "I don't see how you can continue. This kind of cloud—who is go-

ing to trust his judgment?"

Mr. Spota's relationship with Mr. Burke dates to the 1970s. At the time Mr. Spota was prosecuting a high-profile murder case and Mr. Burke was a witness. After Mr. Burke entered the law-enforcement field, Mr. Spota later hired him to work for the Suffolk County District Attorney's Office.

Earlier this month, Mr. Spota came under criticism from Mr. Bellone for using funds from the county budget to make "unauthorized bonus payments" to his staff. Mr. Spota said he didn't need approval because the payments were reimbursed from a fund of assets and money seized during criminal investigations. Among those to receive bonuses: Mr. McPartland, who got \$5,000 in 2014 and \$17,500 this year, according to budget documents.

—Zolan Kanno-Youngs contributed to this article.



Chess Is King in Helping Prisoners

BY ZOLAN KANNO-YOUNGS

Mr. Arcelay the winner of the first Rikers chess tournament.

"To be in a situation that I'm in right now in jail, it leaves me speechless," Mr. Arcelay said, referring to his chess victory.

The final round of the two-month tournament is part of a series of programming designed to educate and reduce idleness funded by a \$38.9 million New York City initiative.

"It teaches them how to think, how to strategize, in an environment that is conducive to those things," said James Walsh, the Department of Correction's deputy commissioner of adult programming & community partnerships.

While this was the first official tournament at Rikers, chess has long been popular behind bars. Carl Portman, 53, author of "Chess Behind Bars," and the

manager of prisons chess for the English Chess Federation, said the game's history in prisons dates to World War II.

"The more they're playing chess, the less they have time to attack officers or attack each other, or concentrate on negative things," Mr. Portman said.

The five men and one woman who faced off this week against Mr. Ashley were finalists from the tournament. The inmate who played the most competitive game against Mr. Ashley would be named the winner.

During the games, inmates stood on bleachers cheering, critiquing and moving their arms on imaginary boards as if they, too, were participating.

"Society wastes so much when we don't channel the energy and capabilities of those

who have been incarcerated," Mr. Ashley said.

The spectators applauded when Mr. Arcelay won the tournament, earning him a \$150 commissary voucher.

"Just when I thought I had him, he came back," Mr. Ashley said. "It just goes to show the tremendous potential of these young men and women."

Mr. Arcelay, who is awaiting trial on charges of impersonating a police officer and robbery, said he compares the chess pieces to his family: His wife is the queen, and the bishops, knights and rooks are relatives who have sacrificed for him.

He said he marshaled patience while playing Mr. Ashley.

"Always step back to analyze situations," Mr. Arcelay said. "And opportunities that are going to be a positive to you."

After it was abruptly abandoned in September, a \$250 million plan to build an island park called Pier 55 in the Hudson River has been revived, due to a deal brokered by New York Gov. Andrew Cuomo.

The governor, media mogul Barry Diller, real-estate developer Douglas Durst and the City Club of New York on Wednesday announced that an agreement had been reached to once again attempt to make the ambitious park a reality.

Mr. Diller, whose family foundation is the main financial source for the project, had pulled out of the effort in September, citing escalating costs and years of litigation. The move effectively scuttled plans to erect the grassy 2.4-acre man-made park, which was to be mounted on scores of undulating concrete pilings driven in the riverbed near West 13th Street in Manhattan.

The park had long been blocked by litigation brought by the City Club and funded by Mr. Durst. The club argued that the project wasn't subject to sufficient environmental review and complained that it would block the view of the river.

After Mr. Diller withdrew, Mr. Cuomo intervened to bring the parties back to the negotiating table, said a spokeswoman in the governor's office. Mr. Cuomo, she said, has agreed to support the completion of the Hudson River Park, the 550-acre stretch of riverside property between 59th Street and Battery Place in Manhattan, as part of the deal.

"I have spoken to the parties involved in the lawsuit against Pier 55 and expressed

my belief that cooperative efforts to complete the overall park are more constructive than litigation and stalemate," Mr. Cuomo said in a statement.

A lawyer for the City Club said it won't pursue further litigation. "In exchange for holding our nose and letting this project go through," the state finally will complete the Hudson River Park, said Richard Emery, lawyer for the City Club. "The stars aligned to get the park out of its malaise."

Mr. Emery said completion of the Hudson River Park, which officially was created in 1998 but has never been fully built, will cost at least \$200 million. The governor's office declined to comment on cost.

Mr. Diller, in a statement, said many people had asked him not to give up on the Pier 55 project, which had a profound impact on him and his family. "So, I'm going to make one last attempt to revive the plans to build the park, so that the intended beneficiaries of our endeavor can fall in love with Pier 55 in the way all of us have," Mr. Diller said.

Diana Taylor, chairwoman of the Hudson River Park Trust, which had planned the project with Mr. Diller's support, said: "We will work with all stakeholders to figure out a way forward and bring this incredible project to fruition."

Michael Gruen, president of the City Club, said his members are satisfied that the estuary will be protected and are willing to support the project even if they still don't like the way it looks. "If we manage to get this park completed and get the funding the park needs, I think that is fabulous," he said.

Asbury Park Broadens Appeal With Arts Center Deal

BY CHARLES PASSY

or NJPAC, to bring a broader range of cultural events to the seaside destination.

As part of the plan, NJPAC will present several artists and shows at two historic boardwalk venues now owned by Madison Marquette—the 3,600-capacity Convention Hall and the 1,600-seat Paramount Theatre. Already announced are programs with

astrophysicist Neil deGrasse Tyson (Dec. 15 at Convention Hall) and comedian Paula Poundstone (March 24 at Paramount Theatre).

In the 1960s and '70s, Asbury Park emerged as a destination for budding rock musicians. Mr. Springsteen got his start in local clubs—most notably, the Stone Pony. He named his debut album "Greet-

ings from Asbury Park, N.J."

In recent years, the city has reclaimed some of its former glory—not only in terms of its music scene, but also as a fun-in-the-sun locale. New condos have gone up, with prices topping \$750,000 for some units. A new 110-room hotel, called the Asbury, opened last year.

The partnership with NJPAC is aimed at building upon

that recent success, said Madison Marquette project director George H. Ladyman Jr. The idea is to not only show that Asbury Park can be about more than rock 'n' roll, but to also grow the city's events calendar well beyond the summer. "We're a 12-month destination," said Mr. Ladyman.

Madison Marquette will share in the costs and profits

for shows with NJPAC, said Mr. Ladyman. He declined to provide specific dollar figures or percentages, saying the partnership is on a show-by-show basis.

Mr. Ladyman also indicated that the revenue from the shows wasn't necessarily as important as boosting the boardwalk's overall business and image.

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GREATER NEW YORK

Jersey City Condo Joins Space Race

The 79-story tower would rank among the nation's tallest residential buildings

By JOSH BARBANEL

A sleek limestone and glass tower soon will soar nearly 900 feet into the skyline with broad views of New York Harbor and the Statue of Liberty.

This latest venture isn't in Manhattan—it is in downtown Jersey City,

PROPERTY where its developers hope to create a fresh brand and set a new standard for luxury and amenities.

The tower, known as 99 Hudson, is part of a push by Chinese developers to enter the local condominium market in a big way, setting the stage for expansion into other major markets.

The building, a block from the waterfront, would be the tallest in New Jersey. The 781 condo apartments went on the market in the past few weeks. Now a 16-story frame of concrete and steel, it is due to open in 2019.

The total sellout of condos at the 79-story tower will total slightly more than \$1 billion, said Martin Brady, executive vice president of the Marketing Directors, which is listing the apartments in the U.S.

Prices start at \$889,000 for one-bedroom units and \$1.5 million for two bedrooms.

At 887 feet tall, 99 Hudson would be the sixth-tallest residential building in the U.S. if it were open today. There are 11 taller towers under construction, mostly in New York City, but also in Chicago and San Francisco, according to data from the Council on Tall Buildings and Urban Habitat.

Condo development has lagged in Jersey City since the 2008 financial crisis, even as a forest of tall rental buildings came on the market, and Jersey City developed a reputation as a center for arts, culture and business. Asking prices at 99 Hudson average about \$1,400 a square foot, about 64% of the average price a square foot in Manhattan, brokers said.

But 99 Hudson, about a four-minute ride on the PATH train to the World Trade Center, has one unbeatable advantage over most Manhattan towers: a vast open view of the Manhattan skyline. It sits directly across from the World Trade Center and views extend from Midtown to the Statue of Liberty and Liberty State Park in New Jersey.

Cindy Xu, president of China Overseas America Inc., said the building's residents "will have unparalleled views of the Manhattan skyline, while enjoying the luxury lifestyle and amenities of a pre-



The 99 Hudson residential tower, under construction above and seen in a rendering below, would be the tallest building in New Jersey.

Chinese Companies Expand Their Reach

Large-scale condominium development is returning to Jersey City, in large part through the efforts of two separate subsidiaries of the same Chinese-government-owned enterprise.

Both subsidiaries were looking to hone their reputations and develop their skills as they move into more highly competitive condo markets in places such as New York City.

In July, Strategic Capital put a condo project known as Park and Shore in the Newport section of Jersey City on the market. The development includes two separate buildings, 75 Park Lane and Shore House, that will share amenities.

Strategic Capital is an investment and development company owned by China Con-

struction America, which in turn is owned by China State Construction Engineering Corp. Ltd., a Chinese government-owned conglomerate.

Nearly 20% of the 180 sales at Park and Shore so far have been to Chinese buyers, said Jacqueline Urgo, president of the Marketing Directors, which is overseeing U.S. sales.

It is competing against another subsidiary of China State Construction, China Overseas America, which is building 99 Hudson. The building's prices are pegged to be the highest in Jersey City. Sales were simultaneously launched this month in Jersey City and China.

Both China State Construction subsidiaries are looking to expand further, though in August China announced curbs to limit the outflow of corporate investment in property, among other sectors.

Cindy Xu, president of China Overseas America, declined to

discuss limitations on capital outflow. She confirmed that 99 Hudson is being built without a conventional mortgage.

"Whether to pay cash or arrange for loans is affected by various factors, such as the finance-modeling methods, the strategic concerns and the overall environment," she said.

Nine years ago, large-scale condo development fell out of favor in Jersey City, as the financial crisis of 2008 left a large overhang of unsold units. That is now turning around, with at least four new developments on the market since last year. The two projects by the Chinese-owned companies are the largest.

Both 99 Hudson and Park and Shore are being built by Plaza Construction, a Manhattan-based construction management, consulting and contracting firm that was purchased by a China State Construction subsidiary in 2013.



mier residential property."

The building will soar above the massive 42-story Goldman Sachs Tower about a block away, which at 781 feet currently is the tallest building in New Jersey.

The angled tower is rising at the eastern, Manhattan-facing edge of a block-square site that formerly was a parking lot between Hudson and Greene streets, a short walk from the Exchange Place PATH station.

It has several angled glass walls on each side to give more units Manhattan views.

China Overseas America

purchased the site from Hartz Mountain Industries for \$68 million in 2013. Hartz had bought it two years earlier for \$35 million.

The building is clad in floor-to-ceiling glass and vertical columns of limestone that soar up the face.

The tower stands on a seven-story base that covers an entire square block. It has ground-floor retail, parking spaces that are being sold with condos and wall of studios on Greene Street, facing away from Manhattan. The roof of this base is a playground with

an irregularly shaped 80-by-50-foot outdoor pool, a lawn, fire pits, barbecues and cabanas.

Inside, there will be a spa with hot tub, steam room, sauna, fitness area, poker rooms, a business center and golf simulators.

China Overseas America is a U.S. subsidiary of China Overseas Holdings Ltd., which in turn is a subsidiary of the China State Construction Engineering Corp. Ltd., a Chinese government-owned enterprise.

Ms. Xu said sales at 99 Hudson were launched on-site si-

multaneously by a team from the Marketing Directors, a New York-based marketing company, and a China State Construction unit in China. She noted that many potential Chinese buyers have children working or studying in the U.S.

"We have built up a large and solid base of loyal customers who follow us to anywhere in the world," Ms. Xu said.

She said her subsidiary is looking to expand beyond Jersey City because overseas markets remain part of her company's "sustainable development strategy."

Land Trust To Offer Affordable Housing

By LAURA KUSISTO

New York City has long struggled with how to help lower-income families buy homes as real-estate prices climb further out of reach.

A coalition of housing groups has unveiled plans for a new community land trust that they say could offer a new model for how the city addresses low-income homeownership.

One key feature: The land trust will retain ownership of the land under the homes and control how much the homes are resold for, preserving affordability for generations to come.

Community land trusts are still in their infancy in major cities, and it remains to be seen how effectively a non-profit can compete to buy land, especially in a place like New York City where many land deals are closed quickly and in cash.

The creators of the New York land trust said it could generate 250 units over the next couple of years, which would make it one of the largest in the U.S., according to Melora Hiller, chief executive of Grounded Solutions Network, which works with community land trusts across the country.

In the wake of the foreclosure crisis, many places shifted focus away from promoting low-income homeownership after that became a path to financial ruin for many during the era of easy mortgages. Roughly two-thirds of New Yorkers rent.

But as real-estate prices have climbed, housing groups said they began to search for alternatives that would give people more control over their living situation.

"Coming out of the foreclosure crisis, we spent a lot of time and still do spend a lot of time figuring out how to keep homeowners in their homes. We started seeing that there was very little daylight between recovery and gentrification," said Christie Peale, executive director of the Center for NYC Neighborhoods, one of the organizations behind the creation of the trust, dubbed

'We feel that we have to act now and acquire land at a cheap price.'

the Interboro Community Land Trust.

There is a growing body of evidence that homeowners fare better financially than renters over time. The median net worth of homeowners increased by 15% between 2013 and 2016, while the incomes of renters or other non-homeowners fell 5% during the same period, according to a September report by the Federal Reserve.

"Whatever savings they could have put together for a deposit on a home or an apartment is being exhausted by rising rental costs," said Bob Annibale, global director of Citi Community Development and Inclusive Finance, which has contributed \$1.2 million toward the Interboro Community Land Trust.

As the owner of the land, the trust then has the ability to restrict the price at which owners can resell their units, keeping them below market rate in perpetuity. This differs from many of the current models for affordable homeownership, where regulatory agreements that keep homes or apartments affordable often expire after a couple of decades, freeing the owners up to sell their homes at market rates and potentially turn a substantial profit.

Ms. Peale said the trust is likely to focus on areas like southeast Queens, the Bronx and southeast Brooklyn and to include a significant component of single-family homes, as well as co-op apartment buildings. Many of the homes will be affordable to those making 80% of New York's median income, or just over \$76,000 for a family of four.

"We feel that we have to act now and acquire land at a cheap price," Ms. Peale said.

GREATER NEW YORK WATCH

NEW YORK CITY

Inspectors Charged In Construction Probe

Two city building inspectors and an asbestos investigator were among 14 people charged Wednesday in three construction schemes involving bribery and corruption, authorities said.

Officials said the two-year probe by the city Department of Investigation and the Brooklyn district attorney's office revealed construction corruption thought to be widespread in the city.

Other defendants included property owners and developers. There were no injuries reported from the alleged schemes.

—Zolan Kanno-Youngs

TRANSIT

MTA Votes to Ban Subway Alcohol Ads

Bye-bye, beer and booze ads on the subway. The board of the Metropolitan Transportation Authority approved a measure Wednesday that bans beer, wine and spirits advertising on any MTA property.

The measure prohibits any new contracts for alcohol ads immediately, but allows for existing contracts to continue until the end of the calendar year. Some 30 major cities have already banned alcohol ads on transportation systems, and New York City banned tobacco ads from its system decades ago.

—Melanie Grayce West

SETH WENIG/ASSOCIATED PRESS



Investigators converged on a marshy area in a Freeport, N.Y., park following the discovery of suspected human remains.

OPIOID CRISIS

App Lets Public Send Tips on Drug Crimes

A New Jersey prosecutor is turning to an app to fight his county's opioid epidemic. Residents of Somerset County can use their smartphones to anonymously text tips on opioid-related crimes to the office of the prosecutor, Michael H. Robertson.

Mr. Robertson said he hopes the STOPit app will encourage tech-savvy people who are less likely to call a police hotline and those uncomfortable speaking to law enforcement to come forward with information about dealers and overdoses. "Our intention with this is basically to use it almost like a neighborhood watch on steroids," he said.

—Zolan Kanno-Youngs

LONG ISLAND

Park Search Yields Apparent Remains

The FBI says its gang task force has found apparent human remains in a Long Island park nearly a week after the body of a 16-year-old boy was found in a neighboring community.

An FBI spokeswoman said the suspected remains were found Wednesday in Cow Meadow Park & Preserve in Freeport. On Oct. 19, investigators discovered the body of 16-year-old Angel Soler in woodlands in Roosevelt. Authorities haven't commented on whether either case is linked to the MS-13 street gang, which is blamed for 22 killings on Long Island since January 2016.

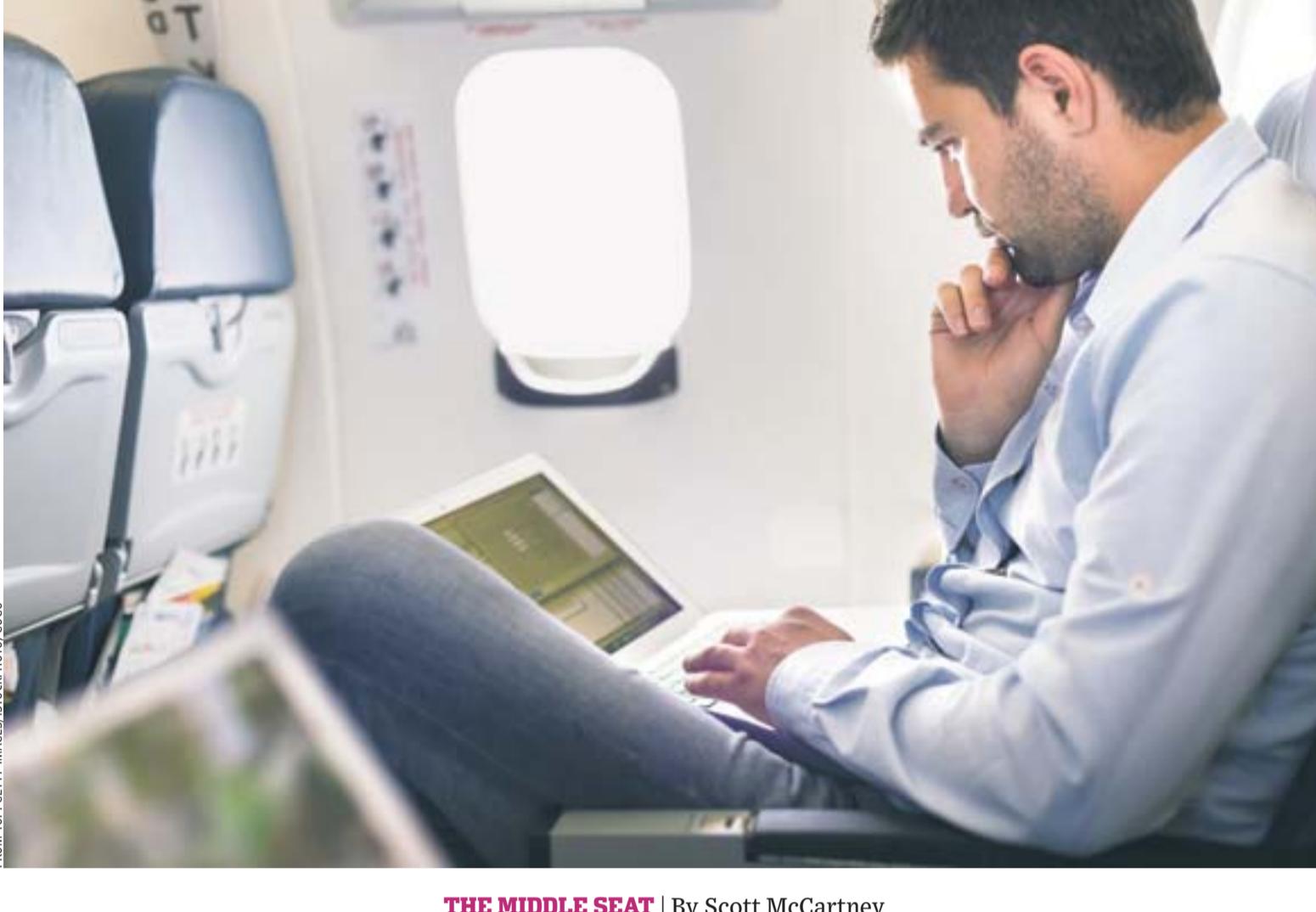
—Associated Press

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LIFE & ARTS



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THE MIDDLE SEAT | By Scott McCartney

Cut Through the Confusion Of In-Flight Wi-Fi

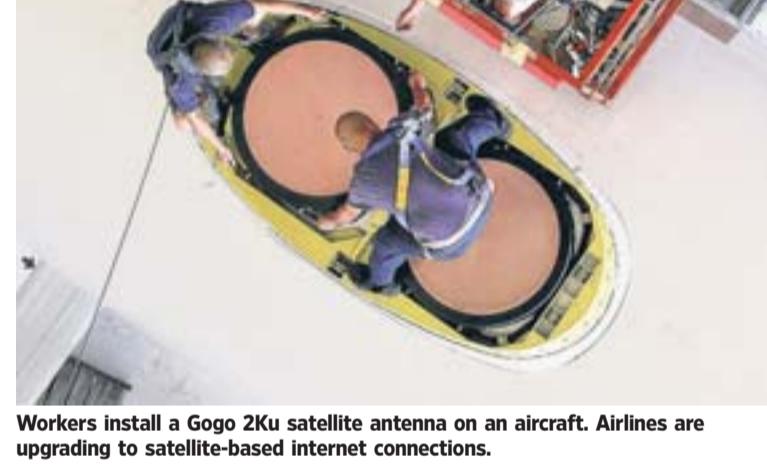
TRAVELERS USED TO struggle to figure out if their flight was going to have Wi-Fi. Now the question is whether they'll have Wi-Fi that works.

Wi-Fi has grown from a mile-high luxury to an essential amenity for many travelers. Internet connections are more important than food in airline surveys. Alaska Airlines says Wi-Fi reliability is the No. 1 topic of conversation among its most loyal customers. "There are certain things people view they need while in a metal tube, and Wi-Fi is one of them," Alaska spokeswoman Bobbie Egan says.

But with more passengers trying to log in and each using more data, systems that connect to ground antennas get overwhelmed on many flights. Frequent travelers sometimes call Gogo, the leading air-to-ground service, Slowgo or Nogo.

"Sometimes the service is spotty or I get kicked off. You get frustrated and sometimes just bag it," says Hemant Pathak, an attorney based in Washington, D.C., who travels frequently to Seattle and other West Coast cities.

Airlines are rushing to upgrade to satellite-based Wi-Fi systems that can route much larger amounts of data much faster. With satellite-based Wi-Fi, you can log in from gate to gate instead of waiting until the plane climbs above 10,000 feet, and you can stream live TV and movies.



Workers install a Gogo 2Ku satellite antenna on an aircraft. Airlines are upgrading to satellite-based internet connections.

Not all carriers have it. Some airlines have it on some of their planes, but not others. Some satellite systems have been upgraded to deliver speeds three to four times faster than early satellite systems. Others await an upgrade. And airlines make it difficult to sort the slow from the speedy—there's rarely much information about what Wi-Fi you'll get until you step onboard.

Gogo has four flavors of Wi-Fi onboard airliners right now—two versions of ground-based systems, plus an original satellite system and a version with a new modem that handles far more data each second, known as 2Ku. The differ-

ent versions range in speed from receiving 3 megabits per second for the entire plane to 100 Mbps per second. That's a huge difference if you have 30 or 40 passengers all on at the same time.

When the small-capacity systems get overwhelmed, problems can worsen when flight crews intervene. "Sometimes people mistake degraded service for not working and flight attendants reboot the system," kicking all users off, says Anand Chari, Gogo's chief technical officer.

One side benefit to upgrading so many planes: Congestion on the ground-based antenna network will decrease, says John Wade, Gogo's

chief operating officer. "Technology has caught up with passenger expectations," Mr. Wade says.

Delta flies all four Gogo varieties and is quickly upgrading, sometimes installing satellite equipment on two planes a night at its Detroit hub. All of Delta's long-haul wide-body fleet has satellite service, and 238 of about 700 mainline narrow-body jets have been upgraded to Gogo's satellite service as of Oct. 20.

Delta is upgrading each aircraft type together so savvy customers will know which flights have better Wi-Fi. By the middle of 2018, Delta says it will have satellite Wi-Fi service on all its domestic flights longer than 1,500 miles.

Like all U.S. airlines, regional partners will stick with ground-based systems. With fewer passengers onboard, airlines say ground-based works better on smaller planes, and satellite antennas that get installed on top of planes don't fit on narrow regional jets.

"The reality is not every product will ever be the same when you operate as large a fleet as we do," says Andrew Wingrove, Delta's managing director of product strategy and customer experience.

Delta is sending an email before travel to passengers who will get satellite service. Satellite-equipped planes have different signs at airplane doors and flight attendants announce the upgraded service. Delta is working on distinguishing

Staying Connected At 10,000 Feet

Airlines are at various stages of upgrading in-flight Wi-Fi. Some have as many as four different kinds of service. Here's a look at who offers what for large-plane mainline flights (excluding regional flights):



American: Wide-body international fleet has satellite connections in 129 of 150 aircraft. Domestic fleet mostly ground-based service. First narrow-body satellite-equipped plane starts flying Nov. 29. Upgrades won't be completed until end of 2019.

Delta: International planes have satellite connections. Domestic narrow-body conversion to satellite up to 238 of 700 planes. A319s and 737-800s have it. Working on A320s now.

United: Entire fleet has satellite-based service except for 15 Boeing 757s. Some 737s have coverage limited to continental U.S.

Southwest: Entire fleet has satellite service. In the process of upgrade that delivers speeds three to four times faster than original.

Alaska: Ground-based Wi-Fi service. Upgrade to satellite service starts next year, with completion in 2020. Virgin America has 53 air-to-ground planes and 12 satellite-equipped planes.

JetBlue: Entire fleet has satellite-based service, offered free. Coverage only over the contiguous U.S.

between upgraded Wi-Fi and ground-based when customers book flights, Mr. Wingrove says.

Like reliability, pricing can vary significantly with in-flight Wi-Fi. Several airlines have recently begun to offer free text messaging in-flight. JetBlue offers full satellite Wi-Fi with live television. Southwest charges \$8 a day for satellite-based internet access, but live TV is free. Other airlines typically charge \$12 to \$28 a day for internet access. Some offer monthly passes at around \$50, or discounts if you pre-purchase Wi-Fi when you book.

"You can pay a bunch and get very little," says Ed Pizzarello, a Reston, Va.-based venture capitalist who blogs about frequent-flier programs and travel.

United was slow to offer Wi-Fi years back because it decided from the start to install satellite service. Now the airline crows that it made the right decision. Besides the increased speed and capacity, satellite service allows connections over most areas on long international flights.

Yet United ended up with a mix, too. United has 15 Boeing 757s used on transcontinental flights that have ground-based service. So does all of its two-cabin regional-jet fleet. And one of United's satellite-service providers offers connections only over the continental U.S. So a 737 flying to Central America or other destinations outside the lower 48 states would lose service for much of the trip.

"It's something we are eager to improve," says Tarek Abdel-Halim, United's managing director of on-board products.

MUSIC

THIS IS NOT YOUR FATHER'S ROCK BAND

BY NEIL SHAH

SOME OF THE MUSIC industry's biggest players are betting that a new sound is ready to catch on. It's called classic rock.

The genre is being reinvented by young musicians, some of whom are barely out of high school, who are channeling bands their mothers and fathers grew up with.

Greta Van Fleet is a rarity in today's music business: An old-fashioned rock band that could, some music executives say, break into the pop world.

The Frankenmuth, Mich., group is made up of 21-year-old twins Jake Kiszka, the band's guitarist, and Josh Kiszka, its singer; their brother and bassist Sam Kiszka, 18; and drummer Danny Wagner, 18. Greta Van Fleet's debut EP, "Black Smoke Rising," which features Josh's Robert Plant-like howl and

Jake's guitar hooks, opened at No. 1 on Apple's iTunes rock chart. "Highway Tune," their single, recently topped Billboard's mainstream rock radio chart for five weeks. Despite having just four songs, Greta Van Fleet is selling out clubs like New York City's Bowery Ballroom.

Championing them are two of the industry's most powerful names: Marc Geiger, head of music at talent agency WME, which represents Adele, Foo Fighters and Kendrick Lamar, and Lava Records executive Jason Flom, who helped launch Lorde, Katy Perry and Kid Rock.

The band is releasing a "double-EP" on Nov. 10 that will include "Black Smoke Rising" and four new tracks—two originals and two covers. "Black Smoke Rising" showed the band's knack for catchy, tightly-crafted songs but was also criticized by some fans as derivative of Led Zeppelin. The new songs, including a cover of

soul singer Sam Cooke's "A Change Is Gonna Come," aim to prove the band isn't a Zeppelin clone by showing its other musical influences, Sam Kiszka says.

The band's ascent is reviving a question pondered by industry executives ever since hip-hop took over America's youth culture: For younger music fans who see Led Zeppelin, Guns N' Roses, and Nirvana as the distant past, can "classic rock" be new again?

"There's a theory that rock needs one new band showing up and getting people to talk about rock again," says Eddie Trunk, a longtime rock personality who hosts a daily radio show on SiriusXM's "Volume" channel. "Could this be that band?"

"We grew up listening to blues and soul," not classic rock, says Josh Kiszka. The Kiszka brothers' father is a blues musician with an

Please see ROCK page A12



Greta Van Fleet, a group of teenagers who recently finished high school, are winning listeners and attention with their modern take on rock 'n' roll.

LIFE & ARTS



CLOCKWISE FROM TOP LEFT: NETFLIX; JACKSON LEE DAVIS/NETFLIX (3)

In the series, from left, Noah Schnapp, Finn Wolfhard, Gaten Matarazzo and Caleb McLaughlin play suburban middle-school students who encounter monsters.

STREAMING SERIES

The '80s of 'Stranger Things'

How the hit Netflix series recreates an 'awesome' era without going over the top

BY JOHN JURGENSEN

IN "STRANGER THINGS 2," the second season of Netflix's sci-fi horror hit set in the 1980s, certain props catch the eye like cameos by stars of that decade: a Reagan-Bush '84 campaign sign, a bulky camcorder, an E.T. figurine and a fat Madrid brand skateboard.

For the show's production designer, Chris Trujillo, it wasn't hard to find vintage action figures, boxy cars and other emblems of the era. The challenge was to avoid distracting viewers with an overdose of retro accessories.

"It was a constant censoring," says Mr. Trujillo, who received an Emmy nomination for the production design in season 1. Often his team resisted the urge to load sets with lamps or wallpaper that were too "awesome and bizarrely '80s" for fear they'd steal the scene. "It's a lot harder to have that self-control than you'd think," he says.

"Stranger Things" is about a group of middle-school students who confront monsters spilling into their suburban world from another dimension. When it premiered last year, the series trans-



ported viewers to 1983 with period references such as Steven Spielberg movies, the synthesizer music of horror master John Carpenter and even the title font of "Choose Your Own Adventure" books.

Twin brothers Matt and Ross Duffer, the show's 33-year-old writers and directors, created a story about four boys who team up with a girl with telekinetic powers who escapes from a secret research facility. The plot mirrors

the Cold War paranoia and Dungeons & Dragons games that the characters are immersed in.

"When the real world starts to reflect the kids' fantasy pop-culture world, it all feels oddly kind of seamless," says Mr. Trujillo, who met the Duffers before Netflix picked up "Stranger Things." "All the things that influenced us to make the show are very present in the world of the show."

As a flashback to a time when

unsupervised kids roamed on BMX bikes, the show gave a cross-generational audience a respite from today's hyper-connectivity. With scant pre-release promotion and press coverage, the show's popularity spread gradually by word of mouth, another seeming throwback.

Hype surrounding "Stranger Things" and its sequel season have since gone into overdrive, and cheeky Netflix marketing has reveled in '80s touchstones. A Super Bowl ad announcing season 2 incorporated a vintage Eggos waffle commercial. Posters paid homage to old movies like "Firestarter." A "Stranger Things" app borrowed the look of vintage Nintendo games.

Mr. Trujillo acknowledges the risk of the show becoming a victim of its own nostalgic style, but he says season 2 has the substance to back it up. In early reviews, many TV critics seem to agree, though some note that it takes awhile for the show to get back up to speed.

Many sets from season 1 re-



Vintage cameras, above, and arcade games, below, for 'Stranger Things 2,' by directors Ross Duffer (left, inset) and Matt Duffer (right, inset).

main, but other facets got an update for 1984, such as the Ghostbusters gear the boys sport for Halloween. The '80s props and costumes offered by Hollywood rental houses tend to be a little too "on the nose," Mr. Trujillo says. So the production designer and his team, including art director Sean Brennan, prop master Lynda Reiss and set decorator Jess Royal, made many acquisitions in the Atlanta area where the series was shot.

Mr. Trujillo, who was born in 1981 and raised in Tampa, Fla., describes "estate sale-ing" in Atlanta suburbs lined with mid-century duplex and colonial homes identical to the ones inhabited by "Stranger Things" characters. They sought out houses that hadn't been renovated. In some of these time capsules, everything was for sale, down to the contents of the kitchen junk drawer. The popularity of "Stranger Things" sometimes helped the production team gain early access to estate sales.

For every famous "Star Wars" toy that appears in "Stranger Things," there are many more obscure tchotchkes, such as the wooden napkin holder on one family's kitchen table. Those, along with hold-over decor from the '60s and '70s, helped give sets a more authentic "life layer," Mr. Trujillo says.

In some cases, however, the designers and the Duffer Brothers gave themselves permission to go full tilt. The first episode involves scenes set in the ultimate symbol of 1984: a video-game arcade. Rather than replicate it inside a studio, they built one in a former laundromat in an Atlanta-area strip mall that had gone to seed. They loaded it with neon lights, a disco ball and games such as Dragon's Lair and Dig Dug.

Reincarnating the arcade was an opportunity "to go over the top while still staying true to that world," Mr. Trujillo says, "because they were just ridiculously over-designed spaces."

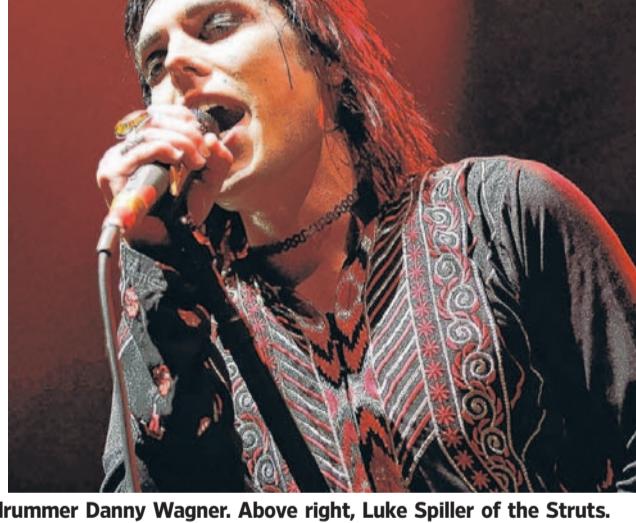
ROCK

Continued from page A11
extensive record collection, their grandfather, an accordion-player on the polka scene. Jake Kiszka first got into classic acts like Jimi Hendrix and Eric Clapton and the band followed. The group took its name from an 86-year-old Frankenmuth musician, Greta Van Fleet, who plays the dulcimer. "It's a little piece of home that we can travel with," Josh Kiszka says.

It isn't just Greta Van Fleet giving classic, guitar-driven rock a modern twist. Tyler Bryant & the Shakedown are playing to bigger crowds, recently opening shows for AC/DC and Guns N' Roses. The band's new album, due Nov. 3, features tighter, punchier songs—a decision it made after playing a 25,000-capacity venue with AC/DC and realiz-



Greta Van Fleet: from left, band manager Aaron Frank, singer Josh Kiszka, guitarist Jake Kiszka and drummer Danny Wagner. Above right, Luke Spiller of the Struts.



L-R: MATT ROTH FOR THE WALL STREET JOURNAL; PAUL MORIGI/GETTY IMAGES

ing they needed bigger-sounding material.

The Struts, whose singer Luke Spiller channels Queen's Freddie Mercury, delivers '70s-style rock with sing-

long choruses; they're touring with Foo Fighters. "From Day One, our ambition has always been to compete with the biggest pop or hip-hop acts," Mr. Spiller says.

No one thinks it will be easy for 20-somethings playing classic rock music to achieve a level of stardom on par with Drake or Taylor Swift.

Today, streaming services mint stars, not radio stations. But rock fans don't stream nearly as much as hip-hop fans do: Greta Van Fleet's "Highway Tune," for example, has under 7 million streams on Spotify compared with female rapper Cardi B's recent hit "Bodak Yellow (Money Moves)" with 146 million. Talented, upstart musicians who in previous eras might have tried to be rock stars have embraced rap, says David Jacobs, a music-industry lawyer. Meanwhile, the few recent bands to explode, like Imag-

ine Dragons and Twenty One Pilots, are considered pop as much as rock. Many of rock's most critically acclaimed new names are indie-oriented or female acts such as The War on Drugs and Courtney Barnett.

What separates Greta Van Fleet, Mr. Trunk says, is the considerable promotional machinery behind them.

With their retro sound, youthful energy and good looks, Greta Van Fleet could appeal to three key demographics, Mr. Flom says: Older "classic-rock Dads" who tune into rock radio shows and attend classic-rock concerts; younger male fans curious about 1960s and 1970s rock, soul and funk; and young women who, in the past, have helped mainstream rock bands become pop stars.

Greta Van Fleet's rise to stardom started when tour manager Mike Barbee discovered them at a cookout in Frankenmuth in Septem-

ber 2012. He courted the Kiszka boys' parents for months. As his charges gained local notoriety, he reluctantly agreed to hand them to a more experienced manager—Aaron Frank, whose family runs a major U.S. concert promotion company—a move that led to WME's Mr. Geiger and eventually, Mr. Flom.

For Mr. Flom, who signed '80s rock bands like Zebra, Twisted Sister and Skid Row, Greta Van Fleet represents a return to his rock roots. Mr. Flom took Greta Van Fleet's song "Highway Tune" to David Dorn, senior director of Apple Music, who helped it onto the streaming services' playlists, where the song immediately gained traction. In April, Apple Music named Greta Van Fleet a "new artist of the week."

Greta Van Fleet's backers are having them play smaller venues to hone their chops even if they can get booked in bigger ones. "You

need to give people the, 'I saw them at the Troubadour,'" Mr. Geiger says.

Minutes before a packed show earlier this month at Baltimore's Ottobar club, the band drank beers and hung out with Mr. Flom in a small green room as Mr. Flom made jokes about infamous "tour riders" from pop-music history. Josh took sips of whiskey from a plastic cup. They performed an hour-long set full of songs the crowd—a mix of 30- and 40-something things and younger fans—had never heard before.

During soundcheck hours before, guitarist Jake Kiszka briefly played "Mary Jane's Last Dance," by Tom Petty, who had died the day before. With so many of rock's pioneers dying, Greta Van Fleet's music provides a reassuring continuity, music executives say. "What's going to happen when all of that [classic rock] is gone?" Jake Kiszka says. "What is going to fill that void?"

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LIFE & ARTS

AN APPRECIATION | By Jim Fusilli

Ambassador for the Big Easy

Fats Domino, who died Tuesday, showed his love for New Orleans in his music, bringing the city's vibrancy into listeners' homes

FATS DOMINO BROUGHT the sound of New Orleans into the homes of millions of American teenagers during the 1950s with his brand of rollicking R&B and boogie-woogie-tinted piano playing; his sweet growl of a voice, often conveyed with an accent that reflected his Lower Ninth Ward roots; and his ample charm and charisma. When he sang "Yes, it's me and I'm in love again" to open his 1956 hit "I'm in Love Again," the line came across like a cheery pronouncement from an old friend. Antoine "Fats" Domino died Tuesday night at his home in Harvey, La. He was 89.

Most of Mr. Domino's familiar crossover hits in the late 1950s were written and arranged with Dave Bartholomew, who produced "Ain't That a Shame," "I'm in Love Again," "Blue Monday," "I'm Walkin,'" "Whole Lotta Lovin'" and "I Want to Walk You Home" as well as "Blueberry Hill," a big-band-era number that the two men whipped into an international rock 'n' roll favorite. Each of those singles was in the top 10 on Billboard magazine's hit-singles chart that measured overall sales and radio play. Mr. Domino did even better among African-American music consumers: With the exception of "Whole Lotta Lovin'," which peaked at No. 2, every one of those hits reached the top of Billboard's R&B singles chart.

The son of a French Creole violinist, Mr. Domino was born in New Orleans. His brother-in-law, Harrison Verrett, taught him to play piano; a banjoist, Verrett worked with New Orleans legends Kid Ory and Papa Celestin. In 1947, the 19-year-old Mr. Domino joined the Solid Senders, a local combo led by Billy Diamond. It's said that Diamond dubbed the portly Domino "Fats" because he reminded him of great pianists Fats Waller and Fats Pichon. Thus it was fitting that Mr. Domino's first brush with national recognition came in 1949 with "The Fat Man," which is



Fats Domino (1928-2017) in 'Jamboree' (1957). His hits included 'Blue Monday,' 'Whole Lotta Lovin'' and 'Blueberry Hill.'

said to be the first rock 'n' roll single to sell in excess of a million copies. Six years later, he had his first top 10 crossover hit with "Ain't That a Shame." His version might have done even better if Pat Boone, a white pop singer, hadn't released a tepid version aimed at the mainstream.

In 1963, Mr. Domino's relationship with Imperial Records, for whom he recorded his many hits, ended when the label was sold. In what now seems a wrong-headed plan, his new label instructed Mr. Domino to record in Nashville without Mr. Bartholomew. He continued to work, but his peak pe-

riod had ended. By 1980, he decided to stop touring and remain in his beloved New Orleans. An influence on Elvis Presley and the Beatles, in 1986 he was among the 10 inaugural inductees to the Rock 'n' Roll Hall of Fame and a year later received a Grammy Lifetime Achievement Award. Though he

performed now and then, particularly at the New Orleans Jazz and Heritage Festival, Mr. Domino faded into the backdrop, though his singles retained their power to spark joy.

When Hurricane Katrina struck New Orleans in 2005, Mr. Domino was determined to ride out the storm, but when the levees broke, his home was flooded. Mr. Domino; his wife, Rosemary; and other family members retreated to an upper floor and were rescued by Harbor Police. Someone who hadn't heard he had been spared spray-painted "R.I.P. Fats You Will Be Missed" on the front of his white-brick house.

Mr. Domino's survival was greeted with relief and a measure of joy amid the shock and sorrow following the storm. The National Medal of Arts he was awarded by President Bill Clinton was lost in the flood, but President George W. Bush traveled to New Orleans to greet Mr. Domino and replace the medallion. Musicians honored him, notably at a 2007 tribute concert at the New Orleans House of Blues that featured local luminaries Art Neville, Dr. John, Irma Thomas, Allen Toussaint and members of Mr. Domino's band, and with "Goin' Home: A Tribute to Fats Domino," an album featuring versions of his hits by, among others, Elton John, Norah Jones, B.B. King, Willie Nelson, Randy Newman, Robert Plant and various artists from New Orleans. Mr. Domino performed sporadically, and in 2012 made a cameo appearance in the HBO series "Treme," singing a muted but touching version of "Blueberry Hill."

Thus, some five decades after his last smash hit, Mr. Domino's re-emergence confirmed that he still had a hold on the affection and admiration of music fans.

Mr. Fusilli is the Journal's rock and pop music critic. Email him at jfusilli@wsj.com and follow him on Twitter @wsjrock.

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How Jose Altuve Makes His Size Work

The 5-foot-6 Astros star has become one of the best hitters in baseball by punishing the pitchers that throw the hardest

BY BRIAN COSTA

THERE IS ARGUABLY no harder task in sports than hitting a major-league fastball. That's especially true for the fastest of fastballs, many of which now exceed 100 mph. Yet the player who excels at this more than any other isn't some towering slugger. At first glance, he looks more like a Little Leaguer.

Jose Altuve, the 5-foot-6 star second baseman for the Houston Astros, has become one of the best hitters in baseball by punishing the pitchers that throw the hardest. He is batting .433 on pitches clocked at 94 mph and above this season, including the playoffs, the highest mark among qualified hitters.

For years, his diminutive height—which puts him among the shortest MLB players on record—has been talked about as a disadvantage that he has somehow managed to overcome. But amid Houston's run to the World Series, this aspect of Altuve's brilliance raises another possibility: His pint-sized frame may actually work to his benefit.

With such a short-lever swing, he can get the barrel onto the ball much faster than the average hitter, a critical advantage when milliseconds are at a premium.

"He's not real tall, so his arms are a little shorter and he's able to get to a lot of pitches," Astros hitting coach Dave Hudgens said. "It's not a disadvantage for him."

Altuve's bat is like his physique: short and stocky. He uses a 33-inch Victus-made bat, about an inch shorter than the typical length, with a thinner handle and thicker barrel than many other bats.

Jared Smith, a Victus co-founder, said most players attempting to use such a bat would shatter it too often, because the thinner handle is more vulnerable to breaking. But Altuve's quickness to the ball with the barrel allows him to use the added thump the thickness gives him without the downside.

"He's so short to contact," Smith said. "If you watch where his hands start and the swing path to contact, it's amazing."

The effect is a punchy swing that is almost as much of an outlier as the 27-year-old Altuve himself. At a time when hitters are more tolerant than ever of whiffing as they take big swings for the fences, Altuve strikes out only about 13% of the time, less often than all but a dozen players. His .346 batting average was the highest in the majors during the regular season.

The combination makes him



RONALD MARTINEZ/GETTY IMAGES

Astros star Jose Altuve is batting .433 on pitches clocked at 94 mph and above this season, including the playoffs, the highest mark among qualified hitters.

kryptonite for the modern pitcher, who relies heavily on power in pursuit of strikeouts.

Consider Altuve's first at-bat of the postseason, in which Boston Red Sox ace Chris Sale needed only one more strike to strike him out. Sale challenged him with a 97-mph fastball. Altuve hit it for a home run, his first of three in that game.

"He's able to put the barrel to the ball better than anybody else I've ever seen," Astros pitcher Collin McHugh said.

None of this was even remotely conceivable to the scouts who first happened upon Altuve as a teenager in Venezuela. At the time, Altuve said he was 5-foot-5 and 145 pounds, 20 pounds lighter than his current listed weight. Many major-league teams then had academies in Venezuela, which had become a significant source of talent. Only the Astros offered him a contract, and it was hardly a show of confidence. He signed in 2006 for a relatively paltry \$15,000.

"It was really hard to believe

that a guy like that was going to make it to the big leagues," Altuve said. Even after he signed, he said he faced skepticism within the organization because of his size. "They didn't think I was going to make it," he said.

There may be something to the idea that the hitters best suited to counter pure strength are the ones who appear the least physically imposing.

Hitters listed at 5-foot-9 or shorter are batting .280 on 94-mph-plus pitches this year, 28 points higher than the rest of the league. That category of pitches represents the upper tier of velocity, with the average MLB fastball clocking in at just under 94 mph.

By contrast, New York Yankees slugger Aaron Judge, a hulking figure at 6-foot-7 and Altuve's primary competitor for the AL MVP award, hit just .259 on such pitches.

Of course, a shorter path to the ball is not enough by itself. For Altuve, who went 1 for 4 in Hous-

ton's Game 1 loss, it is how that works in tandem with his explosiveness and hand-eye coordination.

Astros pitcher Lance McCullers, who works out with Altuve in the offseason, said, "He's extremely fit and can do things that—I'm not going to say 'that normal-sized athletes can do,' but that's kind of the reality of it."

Altuve's ability to hit the fastest pitches begs the question: Why don't pitchers simply avoid throwing him those pitches? To some extent, they have tried in the postseason, only to watch him adapt and beat them anyway. Altuve's home runs in the last two games of the ALCS came on a 90-mph changeup and an 86-mph slider.

The Dodgers aren't overly reliant on fastballs to begin with. They threw them less frequently than all but six other teams this year. But some pitchers still try to overpower Altuve because they want to.

"If you throw 98 (mph), it's not

like you're going to come into the game and throw 91 because he hits fastballs well," said Dodgers reliever Luis Avilan. "You go to your strength, and maybe he's going to make a mistake."

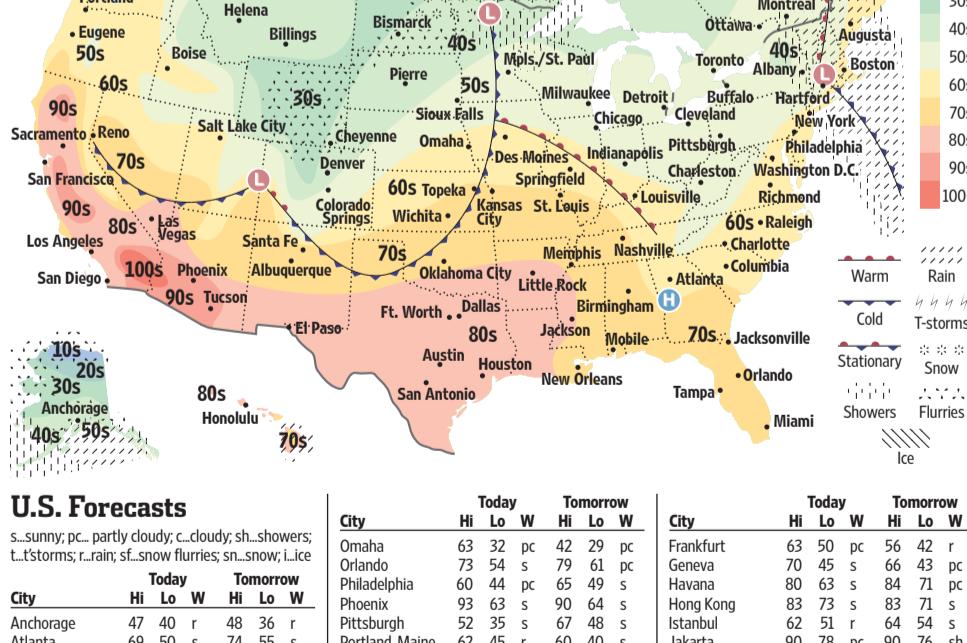
That, however, has been a losing proposition for many pitchers, this year more than ever. Through the ALCS, Altuve was batting .400 in the playoffs with a .500 on-base percentage and five home runs. He is the engine that powers one of the best offenses ever assembled.

He is also a physical rarity, which might help facilitate his greatness, might make it merely more remarkable and certainly obscure it.

"Everyone always talks about his size," McCullers said, "and that's the first headline: 'Jose Altuve is small and great.' I think it should just be 'Jose Altuve is great.' We're watching a Hall of Fame player in front of us, and all we talk about is how small he is."

—Ben Cohen contributed to this article.

Weather



U.S. Forecasts

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

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

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Boise 64 40 s 63 40 s

Boston 61 46 sh 62 46 s

Burlington 54 44 r 58 42 pc

Charlotte 64 42 s 72 48 s

Chicago 56 46 pc 49 38 c

Cleveland 54 40 s 67 52 pc

Dallas 86 52 s 60 38 pc

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Las Vegas 86 61 s 83 60 s

Little Rock 50 52 s 56 33 r

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The WSJ Daily Crossword | Edited by Mike Shenk



TURNING IN | By Heidi Moretta

Across

- 1 Memory problem
4 Novak Djokovic's homeland
10 Miles away
14 Co. that founded NBC
15 Does the Bing thing
16 Sail stretcher
17 Fluids drawn in an alien's prenatal test?
19 Bean on the moon
20 Home of the Swift and Voltaire craters
21 Fremantle fellow
23 Slips of the pen?
25 Tomb raider's worry
26 Kin of percussion caps?
30 Tussle
33 Soda jerk's creations
34 Ring count
35 Its nuclear program is the subject of the Joint Comprehensive Plan of Action
36 Victors in the Battle of Dun Nechtain
37 Shooting match?
38 On behalf of
39 Real cross
40 Fresh
41 Accommodations for statues of the Apostles?
44 Fillers of slips caps?
45 Browbeats
49 City between Milan and Venice
51 2013 film that won the Best Animated Feature Oscar
52 First-rate
53 Royal in a mauve sari?
55 Leaves home?
56 Vivacious quality
59 Combine
60 Cheer production
61 Dostoyevsky novel
62 Dumbstruck reaction

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42 Lets fly
43 Stanwyck's "The Strange Love of Martha Ivers" co-star
44 Browbeats
45 Browbeats
46 Levine's predecessor at the Boston Symphony Orchestra
47 Modernize
48 Nastily disparaging
49 Brewmaster's collection
50 Neutral color
51 2013 film that won the Best Animated Feature Oscar
52 First-rate
53 Royal in a mauve sari?
54 Play for a chump
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OPINION

The Republicans' Donner Party



We are in the foothills of the same tax mountains that Congress crossed on the way to tax reform in the 1960s and 1980s, and the Republicans are starting to sound like members of the

Donner Party in 1846. Overwhelmed by snowstorms in the Sierra Nevadas, some in the feuding Donner Party's wagon train ate the dead to survive. History regards them with ambivalence.

As of this hour, the distinguished senator from Tennessee, Bob Corker, was last seen on television saying he would never vote for Donald Trump

Advice for the tender: Do not let yourself be blown over by Donald Trump's tweets.

again, and the nation's president was counter-tweeted that Mr. Corker "couldn't get elected dogcatcher," an insult not only to Mr. Corker but to dogcatchers, who I'd guess are part of Mr. Trump's base.

That morning spat under his belt, Mr. Trump traveled later to Capitol Hill for lunch with Senate Republicans. Thirty minutes later, Arizona GOP Sen. Jeff Flake stood on the Senate floor and delivered his cri de coeur about not wanting to be "complicit" in a long bill of particulars having to do with the "degradation of our politics."

Mitch McConnell has become Washington's own Solo-

Welcome to the club, Mr. Flake, and further congratulations for rediscovering the wheel.

It's no news that Mr. Trump's goal in life is to be the whip-snapping lion tamer of his own circus, that the Beltway press is happy to perform their roles, or that CNN will give Mr. Corker a perch to snarl at the man with the whip.

And one more thing: Hard as it is for some to absorb, it's no longer news that in 2016 more than 60 million Americans voluntarily voted the lion tamer into the U.S. presidency after watching him perform his act in public for more than 16 months.

His opponent was Hillary Clinton, whose campaign, along with the Democratic National Committee, was revealed this week to have paid for the opposition research of Fusion GPS, which produced the salacious dossier filled with *kompromat*—compromising info—about Mr. Trump, such as allegedly hiring Russian hookers in Moscow to defile a bed. Somehow, the dossier leaked.

No less than the revered FBI was "complicit" in this fantastic dossier gambit by continuing its own relationship with Christopher Steele, the former spy who produced the document.

So who could disagree with Sen. Flake? Politics still ain't beanbag.

The press is now writing that Republicans face a "dilemma"—whether to join the Corker-Flake ring or remain "silent" in the interests of "job security."

Mitch McConnell has become Washington's own Solo-



Pioneers in the Sierra Nevadas.

leagues on eliminating the egregious state and local tax deduction, or that the bill will add a fourth marginal tax bracket to punish "the wealthy."

Then word leaked of a possible limit on annual 401(k) contributions, and responding to these vapors, the president tweeted "There will be NO change in your 401(k)."

Those who remain confused about how Washington works in reality should pay attention to what Ways and Means Chairman Kevin Brady, the House's tax-writing chief, did Wednesday.

He said, matter-of-factly, that adjustments to the treatment of 401(k)s are still on the table. "We are continuing discussions with the president," Mr. Brady said.

Translation for sensitive political types: Do not let yourself be blown over by Mr. Trump's tweets. Do not make a mountain out of every Trumpian tweetful.

Opinions vary on whether Mr. Trump's attacks on fellow Republicans are impolitic or unappreciated genius. It isn't genius. Lyndon Johnson and Bill Clinton raged volcanically inside the White House at opponents while embracing the honorable gentlemen in public. They knew that subjecting a senator to public insults will produce payback later on a policy or bill the president dearly wants.

Let us end on optimism, if not sweet reason. Permanently cutting the public's taxes heals all wounds. Donald Trump and Bob Corker will discover that truth the day they make possible the president's signature on the Tax Reform Act of 2018.

Write henninger@wsj.com.

BOOKSHELF | By Garrett M. Graff

Shangri-La In the Woods

Inside Camp David

By Michael Giorgione

(Little, Brown, 307 pages, \$28)

Judging from Rear Adm. Michael Giorgione's new history of Camp David, it's not hard to see why the current occupant of the White House has steered clear of the place. Mr. Giorgione, who was the 17th commanding officer of Camp David, describes the presidential retreat in rural Maryland in starkly rustic terms. As he relates in "Inside Camp David," the 200-acre mountain escape was never meant to be luxurious.

Mr. Giorgione, who served Presidents Bill Clinton and George W. Bush, points out that Camp David is a private sanctuary—not a vacation home. Every president "vacations" somewhere else. Camp David, instead, serves as perhaps the one place on earth where the commander-in-chief can pretend he's still an ordinary person, albeit one protected by Marines, served by Navy stewards and followed around by an aide carrying the nuclear codes.

The camp—officially known as Naval Support Facility Thurmont—is kept pristine by a crew of Seabee engineers and maintenance staff. As Mr. Giorgione explains, it's home to more than 20 cabins—including Aspen, the president's lodge—all made of rough-hewn oak and painted a moss green. It also has a gym and a conference facility, as well as a health clinic, its own fire department, a mess hall and a hangar for Marine One, the presidential helicopter. It even has a chapel, which gets its own dedicated chapter in "Inside Camp David," whose broad survey also includes

Dwight Eisenhower's three-tee golf green; the cabin where Egyptian president Anwar Sadat stayed during Jimmy Carter's marathon 1978 Middle East peace negotiations; even the roads where Barack Obama taught Malia to drive.

The camp's modern origins date to World War II, when security needs and fuel rations necessitated a new presidential retreat close to D.C. Franklin Roosevelt settled on a mothballed Works Progress Administration site, known as Camp #3, in the Catoctin Mountains. When it became FDR's camp—he christened it "Shangri-La," after the promised land in James Hilton's novel "Lost Horizon"—only the presidential cabin had indoor plumbing. The rest of the staff relied on latrines.

Mr. Giorgione relates how interest has waxed and waned with each successive president. Harry Truman, a man of the open plains, hated Shangri-La—complaining of how the trees closed in around him. (He went to Key West instead.) Eisenhower first visited with the intention of closing it down, only to fall hard for the Catoctin Mountains. He renamed it after his grandson, David. When John F. Kennedy became president, he decided to keep the name, partly in gratitude for Ike's counsel following the Bay of Pigs fiasco in 1961. It's stuck ever since.

Working at the camp, as Mr. Giorgione did, affords one an up-close look at the First Family, an intimacy in which the commanding officer can sometimes develop friendships with presidents and observe them at their most human. Occasionally there are fires to put out—real and metaphorical. Mr. Giorgione describes one wintry day when he was called to

President Eisenhower had planned to close Camp David when he first visited, but he soon grew attached. He even had a golf green built.

Aspen to meet with a military aide during a Clinton visit. Standing inside the main living space as the fireplace roared, the president opened a door to the patio as another visitor entered through the front, and a rush of air stoked the fire. "Time stood still," Mr. Giorgione says, as the room filled with smoke and his eyes locked with Mr. Clinton's. Luckily, Mr. Giorgione and his staff were able to quickly dissipate the smoke before anything caught ablaze.

Still, life tends to slow down at Camp David, where the chief mode of transportation is the golf cart—the presidential cart, of course, being Golf Cart One. As Mr. Giorgione explains, the banality of daily life often surprises those who work there. "Marines walk the patrol in February at two a.m. and it's freezing cold, shockingly quiet, and very lonely," he writes. "The crew replants flowers because the deer got into them. After a while, a natural frustration sets in." Yet it has also served as a venue for a number of pivotal moments in American history. It's where FDR and Winston Churchill plotted D-Day and where the younger Bush convened his war council the weekend after September 11 to chart a path forward after the terror attacks.

While the White House and even Air Force One have spawned multiple books, Camp David—isolated and private—has drawn only scant historical attention in recent years, including a slim 1995 volume by reporter W. Dale Nelson, with a foreword by the camp's namesake, David Eisenhower. Yet even as other recent books—like Kate Andersen Brower's rollicking romp through the private quarters of the White House "The Residence"—have exposed the dirty laundry of First Families past, the secrets in Mr. Giorgione's book are of the decidedly PG variety, as when Russian president Vladimir Putin forgot to bring his slippers to a 2003 visit with Mr. Bush, and one of the crew was dispatched to Wal-Mart to purchase a new pair.

Instead of a tell-all, "Inside Camp David" is a biography written by a protective family member. Mr. Giorgione carefully avoids giving away security or operational details. He never mentions the underground bomb shelter, for example—not even to chuckle over the controversy of when Richard Nixon decreed that a swimming pool was to be built right atop the emergency site. In that way, the book seems just the presidential memoir America needs right now. As Mr. Giorgione says, "One of the great gifts of Camp David is the complete absence of politics." At a time of great teeth-gnashing and division, he makes it possible to read a 70-year history of American presidents without once considering their political foibles.

Yet in the end, Mr. Giorgione's examination of the "spirit" of Camp David leaves the reader a bit frustrated. The book makes clear that, to outsiders, there's a certain almost unknowable quality to the place. Even when the retreat is laid bare by one who has worked there, Camp David still remains private and intimate, with its secrets held close.

Mr. Graff is the author, most recently, of "Raven Rock: The Story of the U.S. Government's Secret Plan to Save Itself While the Rest of Us Die."

Richard Cordray's Surprising Admission

By Darren McKinney

The U.S. Senate voted Tuesday to repeal the Consumer Financial Protection Bureau's rule prohibiting arbitration clauses in financial contracts. The Treasury Department and the Office of the Comptroller of the Currency had both weighed in with warnings about the rule's effects—criticisms that prompted a surprising admission from CFPB Director Richard Cordray. The Treasury projected that the rule would have generated an additional 3,000 federal class-action lawsuits over five years, costing businesses \$500 million to defend plus \$330 million in payments to plaintiffs' lawyers. The CFPB had denied those costs would be passed on to consumers in higher interest rates. But the comptroller's analysis of the CFPB's data found an 88% chance that the total cost of credit would increase and estimated the likely increase at almost 3.5 percent.

Many banks haven't been requiring arbitration clauses.

age points. "That means a consumer, living week to week, could see credit card rates jump from an average 12.5 percent to nearly 16 percent," acting Comptroller Keith Noreika wrote in an op-ed for the Hill. Mr. Noreika urged the Senate to "vacate" the rule, as the House had already done. Here's where things got in-

teresting. In response to the comptroller's analysis, Mr. Cordray fired off a letter to Sen. Sherrod Brown of Ohio, the Senate Banking Committee's ranking Democrat, insisting the criticism is "mistaken and unfounded."

Perhaps inadvertently, however, Mr. Cordray let slip a broader truth—that contrary to the argument of the rule's supporters all along, consumers are not being forced to sign contracts with mandatory arbitration clauses to access financial services.

"We know," Mr. Cordray wrote, "that roughly half of the credit card market does not have arbitration clauses in their agreements. If the OCC review were correct, it would mean that these banks are operating at a substantial competitive disadvantage." He

added that the CFPB had surveyed a "random sample" of 141 community banks, and found only 7% of them use arbitration agreements.

To sum up, the head of the CFPB now admits that roughly half of big banks that issue credit cards, and nearly all smaller banks that provide checking accounts, do not require their customers to sign contracts with mandatory arbitration clauses. So how in the world did the CFPB ever conclude it needed to impose itself on a sound and functioning market—a market in which consumers have plenty of choices and banks that don't require arbitration are free to advertise themselves as such?

Mr. McKinney is director of communications for the American Tort Reform Association.

OPINION

REVIEW & OUTLOOK

Democrats, Russians and the FBI

It turns out that Russia has sown distrust in the U.S. political system—aided and abetted by the Democratic Party, and perhaps the FBI. This is an about-face from the dominant media narrative of the last year, and it requires a full investigation.

The Washington Post revealed Tuesday that the Hillary Clinton campaign and Democratic National Committee jointly paid for that infamous “dossier” full of Russian disinformation against Donald Trump. They filtered the payments through a U.S. law firm (Perkins Coie), which hired the opposition-research hit men at Fusion GPS. Fusion in turn tapped a former British spook, Christopher Steele, to compile the allegations, which are based largely on anonymous, Kremlin-connected sources.

Strip out the middlemen, and it appears that Democrats paid for Russians to compile wild allegations about a U.S. presidential candidate. Did someone say “collusion”?

This news is all the more explosive because the DNC and Clinton campaign hid their role, even amid the media furor after BuzzFeed published the Steele dossier in January. Reporters are now saying that Clinton campaign officials lied to them about their role in the dossier. Current DNC Chair Tom Perez and former Chair Debbie Wasserman-Schultz deny knowing about the dossier arrangement, but someone must have known.

Perhaps this explains why Congressional Democrats have been keen to protect Fusion from answering dossier questions—disrupting hearings, protesting subpoenas and deriding Republican investigators. Two of Fusion’s co-founders invoked their Fifth Amendment rights last week rather than answer House Intelligence Committee questions, and Fusion filed a federal lawsuit on Friday to block committee subpoenas of its bank records.

The more troubling question is whether the FBI played a role, even if inadvertently, in assisting a Russian disinformation campaign. We know the agency possessed the dossier in 2016,

and according to media reports it debated paying Mr. Steele to continue his work in the runup to the election. This occurred while former FBI Director James Comey was ramping up his probe into supposed ties between the Trump campaign and Russians.

Two pertinent questions: Did the dossier trigger the FBI probe of the Trump campaign, and did Mr. Comey or his agents use it as evidence to seek wiretapping approval from the Foreign Intelligence Surveillance Court of Trump campaign aides?

Congressional investigators need to focus on the FBI’s role, and House Speaker Paul Ryan was correct Wednesday to insist that the bureau comply with Congress’s document demands “immediately.” Mr. Sessions has recused himself from the Justice Department’s Russia probe, but he and Deputy AG Rod Rosenstein can still insist on transparency. Mr. Ryan should also reinstall Intelligence Chair Devin Nunes as lead on the Russia investigation, since it appears the Democratic accusations against him were aimed in part at throwing him off the Fusion trail.

All of this also raises questions about Special Counsel Robert Mueller’s investigation. The Fusion news means the FBI’s role in Russia’s election interference must now be investigated—even as the FBI and Justice insist that Mr. Mueller’s probe prevents them from cooperating with Congressional investigators.

Mr. Mueller is a former FBI director, and for years he worked closely with Mr. Comey. It is no slur against Mr. Mueller’s integrity to say that he lacks the critical distance to conduct a credible probe of the bureau he ran for a dozen years. He could best serve the country by resigning to prevent further political turmoil over that conflict of interest.

The American public deserves a full accounting of the scope and nature of Russian meddling in American democracy, and that means following the trail of the Steele dossier as much as it does the meetings of Trump campaign officials.

Did the bureau use disinformation to trigger its Trump probe?

OPINION

Climate Alarmists Use the Acid-Rain Playbook

By Rupert Darwall

A majority of scientists might say a scientific theory is true, but that doesn't mean the consensus is reliable. The science underpinning environmental claims can be fundamentally wrong—as it was in one of the biggest environmental scares in recent decades.

The parallels between the two environmental frenzies are many, but the stakes are much higher now.

The acid-rain alarm of the 1970s and '80s was a dry run for the current panic about climate change. Both began in Sweden as part of a war on coal meant to bolster support for nuclear power. In 1971 meteorologist Bert Bolin wrote the Swedish government's report on acid rain to the United Nations. Seventeen years later he became the first chairman of the Intergovernmental Panel on Climate Change.

There are many parallels between acid rain and global warming. Each phenomenon produced a U.N. convention—the 1979 Geneva Convention on Long-Range Transboundary Air Pollution in the case of acid rain, and the 1988 Framework Convention on Climate Change. And each convention led to a new protocol—the 1985 Helsinki Protocol and the 1997 Kyoto Protocol. Public alarm surrounding acid rain was far more intense, especially in Germany, where popular reaction to media stories about acid rain reached a pitch of hysteria not yet seen with global warming. A 1981 *Der Speigel* cover story featured an image of smokestacks looming over a copse of trees with the title "The Forest Is Dying."

The most striking parallels are the role of scientific consensus in underpinning environmental alarm and the way science is used to justify cuts in emissions. The emission of sulfur dioxide into the atmosphere "has proved to be a major environmental problem," Bolin wrote in his 1971 report. National scientific academies across North America and Europe were in complete agreement. "We have a much more complete knowledge of the causes and



STEPHEN ST. JOHN/GETTY IMAGES/NATIONAL GEOGRAPHIC RF

Signs in front of the U.S. Capitol on Earth Day 2000.

consequences of acid deposition than we have for other pollutants," a report by the National Academy of Sciences' National Research Council said in 1981. According to the NRC, the circumstantial evidence was "overwhelming." Many thousands of lakes had been affected, rivers were losing salmon, fisheries in the Adirondacks were in a bad way, red spruce were dying, and pro-

duction from Canadian sugar maple trees had been affected. Acid rain was a scientific slam dunk.

Politicians duly parroted what the scientists told them. "Acid rain has caused serious environmental damage in many parts of the world," President Jimmy Carter wrote in his 1979 environmental message to Congress. He signed an agreement with Canada to establish five acid-rain working groups, and Congress set up a 10-year National Acid Precipitation Assessment Program, which went by the catchy acronym Napap.

To Canadian anger, President Ronald Reagan was more skeptical than his predecessor. The head of Canada's Federal Assessment and Review Office accused Mr. Reagan of "blatant efforts to manipulate" the science being done by the working groups. A formal note of protest from Ottawa pointed to the more than 3,000 scientific studies on acid rain yielding "sufficient scientific evidence" for policies to cut emissions.

Vice President George Bush promised Canada that if elected president, he would act on the problem. But as acid-rain cap-and-trade legislation was making its way through Congress, the Environmental Protection Agency encountered a major problem. Napap's draft report concluded that the science was wrong. Yes, power-station emissions make rain more acidic—rain is naturally acidic, and more so during thunderstorms—but changes to ecosystems, the report said, were mainly caused by changes in land use. The felling of trees and

the burning of stumps in the Adirondacks had reduced the acidity of the forest floor. After conservationists put a stop to it, the soil gradually returned to its previous acidity.

Rather than admit it had the science wrong, the EPA set about suppressing the inconvenient findings. The Napap report was delayed until after key provisions of cap-and-trade legislation had been agreed to in Congress. As outlined in a 1992 article in *Reason*, the EPA then waged a dirty-tricks campaign to discredit Edward C. Krug, a soil expert and the leading dissident Napap scientist. It assembled a group of compliant scientists to conduct a sham peer review and conclude that Mr. Krug was a bad scientist. The episode ended with an assistant administrator of the EPA, William Rosenberg, apologizing to Mr. Krug to avoid a threatened libel action.

To this day, the zombie science of acid rain lives on at the EPA's website, which falsely states that acidification of soil, streams and lakes is caused by emissions from power stations. The EPA reckons the annual cost of anti-acid-rain measures in the U.S. will reach \$65 billion in 2020, but it no longer claims that the money will prevent ecosystem damage. Now it just claims to be improving public health.

In its approach to the science of global warming, the EPA under current Administrator Scott Pruitt couldn't offer a greater contrast with the acid-rain coverup perpetrated by the EPA during the late '80s and early '90s. Instead of attacking dissident scientists, Mr. Pruitt's proposal to hold red-team/blue-team appraisals would put dissenters on the same footing as consensus-supporting scientists. This will enable proper debate between both camps to reveal the strengths and weaknesses of the scientific consensus on global warming.

Open debate is as crucial to science as it is to democracy. Capping sulfur-dioxide emissions is an economic pinprick compared with the multitrillion-dollar cost of cutting emissions of carbon dioxide. If people's way of life is to be forcibly changed in an expensive attempt to decarbonize society, at the very least it should be done with their informed consent.

Mr. Darwall is author of "Green Tyranny: Exposing the Totalitarian Roots of the Climate Industrial Complex" (*Encounter*, 2017).

The Case for Keeping Janet Yellen

By Alan S. Blinder

President Trump will soon make a nomination that is hugely consequential, to him and to literally every American: his choice for the next chair of the Federal Reserve Board.

Of the issues relevant to the decision, one stands out: Who is likeliest to continue our economy's remarkable streak of growth and job creation even as the Fed "normalizes" its monetary policy? If he or she succeeds, the good times will continue to roll. If not, we could all be in trouble.

The Fed can't fix every economic ailment. But macroeconomically, the U.S. is terrific right now.

Let's hope it's "she." The term of the incumbent Federal Reserve chair, Janet Yellen, ends in February. The three main alternatives in President Trump's mind appear to be, in alphabetical order, Jerome "Jay" Powell, a current Fed governor; John Taylor, a monetary economist from Stanford; and Kevin Warsh, a former Fed governor.

I am privileged to count all four candidates among my friends. They are all serious, knowledgeable people who understand the Fed and have the nation's best interest at heart. Two of them, Ms. Yellen and Mr. Taylor, are distinguished economists—highly germane to the Fed's current challenge. Two of them, Mr. Taylor and Mr. Warsh, have been praised by this newspaper.

But Janet Yellen stands head and shoulders above the rest, because she is least likely to err either by hitting the monetary brakes prematurely or by staying on the brakes too long. Either mistake could end the economic winning streak.

Ms. Yellen's extensive experience on the Federal Open Market Committee began when I was the Fed's vice chairman in 1994 and she joined the board as a governor. The two of us became the house "doves" on a fairly hawkish committee dominated by Alan Greenspan. We weren't doves because we wanted higher inflation—we didn't. We wanted continued growth, more job creation and lower unemployment. It worked well then, though most of the credit goes to Mr. Greenspan, not us. A similarly dovish strategy is working again today, with Janet Yellen at the helm.

Ms. Yellen returned to the Fed in 2004 as president of the Federal Reserve Bank of San Francisco, where she served with distinction for about

six years. In that position, she not only displayed an abundance of good judgment but sounded early warnings (alas, not heeded) about the shenanigans that eventually led to the financial crisis. One of her main concerns was that a financial ruction could impede, if not destroy, growth.

In December 2010, Ms. Yellen moved back to Washington as vice chair of the Fed Board of Governors. By then the Great Recession was over, but the economy was still in the doldrums. Chairman Ben Bernanke, shoulder to the wheel, was trying to boost growth, and Ms. Yellen instantly became a key ally. The name of the game then was the same as now: preventing the Federal Open Market Committee from turning hawkish prematurely.

One of the board's most prominent hawks at the time was Mr. Warsh. He had earned well-deserved kudos for helping Mr. Bernanke through the acute stage of the crisis. But by 2009—yes, 2009!—he was already worrying that the Fed's extraordinary monetary policies would lead to high inflation. When Mr. Warsh left the Fed in 2011, CNBC's Larry Kudlow lamented the loss of "hard-money hawks."

Meanwhile, Mr. Taylor was perhaps the leading academic critic of virtually everything the Bernanke Fed did to spur growth. Like Mr. Warsh, he feared the Fed was sowing the seeds of future inflation. He also objected to central-bank purchases of mortgage-backed securities as interfering with the market's allocation of credit. No one knows what would have happened if the Fed had followed the hawkish policies recommended by Messrs. Taylor and Warsh, but it wouldn't have been good.

Fortunately, the Bernanke-Yellen philosophy prevailed and was phenomenally successful. The economy flourished, the unemployment rate has been 5% or lower for two years, and inflation has remained low. That particular hawk-dove debate reflected honest differences of opinion. But Ms. Yellen was right, and Messrs. Taylor and Warsh were wrong.

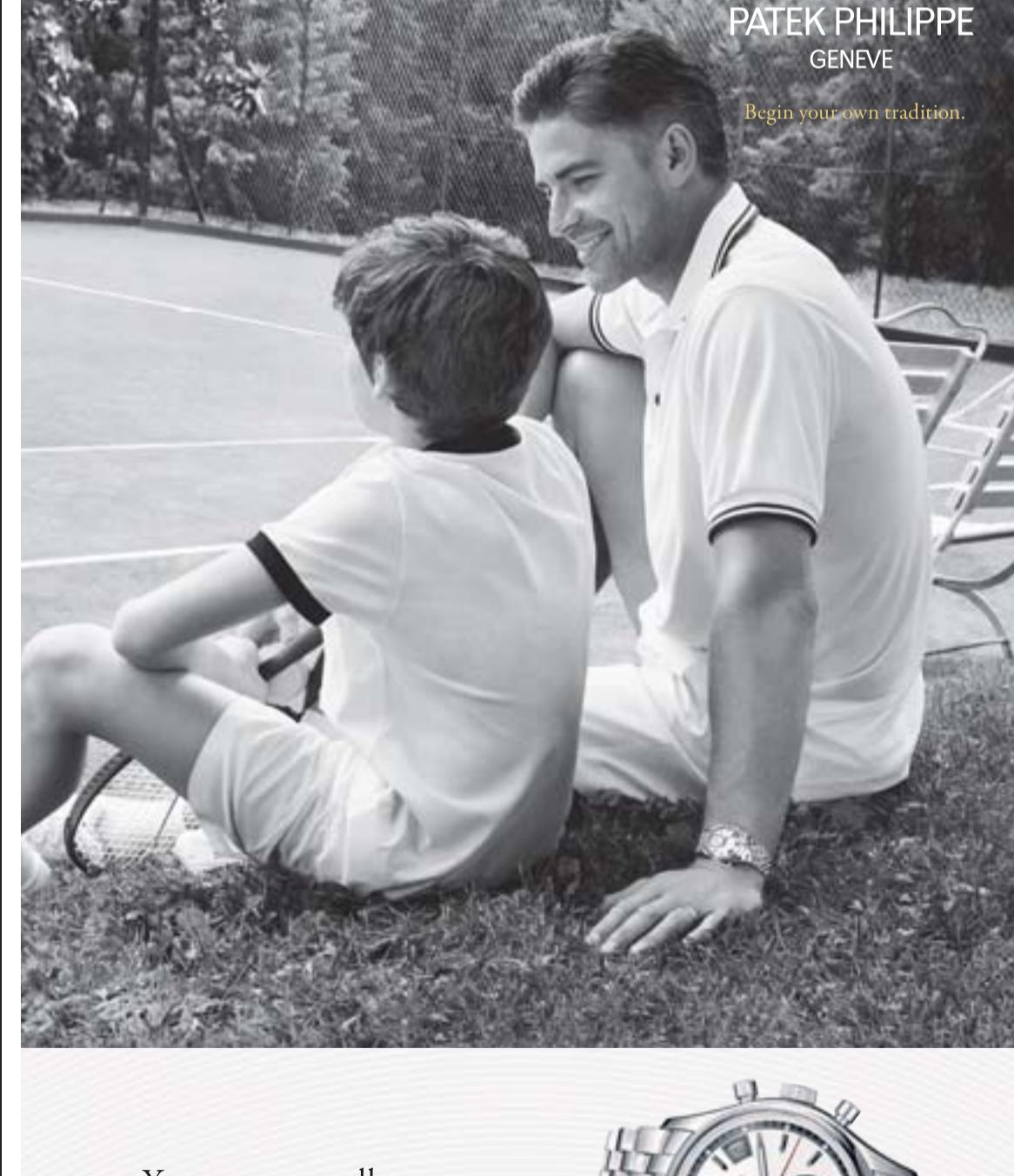
By the time Janet Yellen became chair in February 2014, the central bank's main job was extricating itself from the hyper-expansionary policies left over from the Great Recession. Monetary policy had to get back to normal. But how? Very gradually, because if the Fed switches from the accelerator to the brake too abruptly, it can damage growth. Ms. Yellen was the perfect person for the job, which she has managed superbly so far, despite continued hawkish objections. But the job isn't over.

The Fed cannot fix every economic ailment. But macroeconomically, things are pretty terrific right

now. Both unemployment and inflation are extremely low, the Dow broke through 23,000 without blinking, and the expansion is in its 100th month. According to the National Bureau of Economic Research, only two expansions in U.S. history lasted longer. The fabled Kennedy-Johnson boom of the 1960s ran 106 months—a mark we seem likely to break. The amazing Clinton boom of the 1990s lasted 120 months. But even that historic record is within reach if we can keep things going past June 2019.

If that happens, history will record the Obama-Trump boom as the longest ever. The person best-equipped to make that happen is Janet Yellen.

Mr. Blinder is a professor of economics and public affairs at Princeton University and a visiting fellow at the Brookings Institution. He was formerly vice chairman of the Federal Reserve.



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WORLD NEWS

South Sudan Peril Puts U.S. in Bind

Haley arrives to assess support as food crisis, civil war threaten to destabilize region

BY MATINA STEVIS-GRIDNEFF

NAIROBI, Kenya—When U.S. Ambassador to the United Nations Nikki Haley arrived in South Sudan on Wednesday to assess how U.S. aid is being spent, she walked into a humanitarian disaster that threatens U.S. security interests.

Nearly a third of South Sudan's population of 12 million has been displaced in the six years since U.S. policy makers, Washington think tanks and Hollywood stars like George Clooney fostered its creation. Now, this nascent nation is collapsing in real time, spawning a crisis that has drawn comparisons to the 1994 Rwanda genocide.

The White House has signaled it could scale back its hefty annual financial assistance to increase pressure on President Salva Kiir's government. The U.S. has spent some \$10 billion to support South Sudan since independence and pays more than a quarter of all international aid to the country each year.

"We are disappointed by what we are seeing," Ms. Haley told local radio on Wednesday. "This is not what we thought we were investing in. What we thought we were investing in is a free and fair society where people could be safe, and South Sudan is the opposite of that."

Ms. Haley's harsh words for South Sudan's government came as she stressed the U.S. predicament: Withdrawing aid would most likely aggravate the humanitarian disaster.

"We are not going to give up on the South Sudanese people," she said on Wednesday. "We are here to fight for them, we are here to help, to do whatever we have to to make peace and security become a permanent part of



Nikki Haley spoke with a U.N. official in Juba on Wednesday, when the U.S. envoy said the South Sudanese people wouldn't be abandoned.

South Sudan."

Ms. Haley was caught up in a small manifestation of the country's massive problems on Wednesday, when she had to be evacuated from a U.N. camp for displaced people she was visiting in Juba after a demonstration against Mr. Kiir became volatile, the Associated Press reported.

The rhetoric by Ms. Haley marks a contrast with the situation in July 2011, when a U.S.-backed independence referendum promised peace and a new state after decades of civil war with Sudan's Khartoum government.

Recent years have seen the revival of civil war, sparking a famine that put 100,000 on the verge of dying of starvation.

Echoing Ms. Haley, diplomats and experts have blamed the country's leaders for the unfolding crisis.

At independence, Mr. Kiir and Riek Machar, of the dominant Dinka and smaller Nuer

tribe respectively, shared power, as president and vice president. The deal fell apart, and by 2013 the country collapsed into conflict. Mr. Machar took to the bush and became a rebel leader.

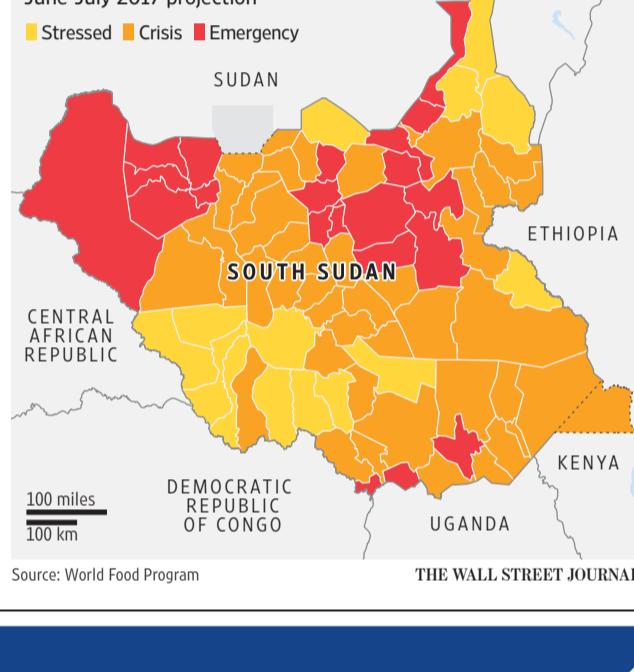
A U.S.-backed power-sharing agreement between the two men, intended to ease tribal tensions through shared state institutions after a three-year civil war, took effect in April 2016, and Mr. Machar rejoined the government. The accord collapsed after three months.

Ethnic cleansing, for which government troops are mostly blamed, has become so widespread that the U.N. has warned the country could soon descend into genocide.

"The scope and expansion of the conflict has never been worse," said Adama Dieng, the U.N. secretary-general's special adviser for the prevention of genocide. "The country is fragmenting everywhere and its social fabric is disintegrating."

Hungry for Peace

Severe food shortages, mostly caused by continued fighting, are devastating half of South Sudan.



BRAZIL

Congressional Vote Spares Temer a Trial

Lawmakers voted against putting President Michel Temer on trial on corruption charges, keeping him at the helm even as the chances of approving some of his promised economic reforms dwindle ahead of next year's presidential election.

Mr. Temer faced removal from office if the vote went against him.

Mr. Temer needed 172 votes, including abstentions and absences, in the 513-seat Chamber of Deputies to avoid trial in Brazil's supreme court—a count he achieved even as voting continued on Wednesday.

—Paulo Trevisani and Jeffrey T. Lewis

BRAZIL

Central Bank Cuts Main Interest Rate

The central bank cut its benchmark interest rate to near its lowest level ever to boost a feeble economy that has begun to recover despite political paralysis in Latin America's largest nation.

The bank trimmed its Selic rate to 7.5% from 8.25%. A rapid slowdown in price increases has allowed the bank to cut the Selic from 14.25% over the past year. Annual inflation was 2.5% in September, well below the bank's target of 4.5%.

—Paulo Trevisani and Jeffrey T. Lewis

UNITED KINGDOM

Growth Sped Up In Third Quarter

The economy accelerated in the third quarter, according to a preliminary estimate Wednesday, strengthening expectations that the Bank of England may raise interest rates as soon as next month.

The Office for National Statistics said U.K. gross domestic product expanded 0.4% in the third quarter compared with the previous three months, an annualized rate of 1.6%.

—Jason Douglas and Wiktor Szary



Joy
Optimism
Contentment

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Hint: It's not actually stocks or bonds. What people really invest in is what they hope to get out of life. To help them get there, you can't just approach investing from one point of view. We prefer to cross-pollinate and aggregate many points of view, to form our best point of view. So our clients might just get what they want out of life. Or they could get even more. invesco.com/MoreOutOfLife

BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Thursday, October 26, 2017 | B1

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S&P FIN ▼ 0.49%

S&P IT ▼ 0.34%

DJ TRANS ▼ 1.62%

WSJ \$IDX ▼ 0.18%

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NIKKEI (Midday) 21742.98 ▲ 0.16%

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Texas Power Producers Push Merger Talks

By DANA MATTIOLI

Vistra Energy Corp. and Dynegy Inc., two big independent power producers, are in advanced talks to combine.

The Texas power companies, which have been in on-and-off talks since at least the spring, could announce a deal as soon as next week, people familiar with the matter said. As usual, such talks could fall apart before a deal is reached.

Dynegy's market value was \$1.2 billion at the start of trading Wednesday. But including debt, the companies combined are worth more than \$20 billion as both have enterprise values exceeding

\$10 billion. Vistra had a market value of \$8.4 billion.

Dynegy shares surged 17% to close at \$10.78 on Wednesday after The Wall Street Journal reported on the advanced talks, while Vistra jumped 3.8% to \$20.32.

The Journal reported in May that Vistra had made a takeover approach to Dynegy and the power companies were in preliminary talks.

Dynegy is a wholesale power producer with 50 plants in 12 states around the country, producing enough energy for some 25 million homes. Customers include utilities and municipalities.

The Houston-based com-

pany also has a retail business that provides electricity to about 963,000 residential customers in Illinois, Ohio and Pennsylvania, according to its annual report.

Dallas-based Vistra operates Luminant, which produces and sells power on the open market, and retail-electricity provider TXU Energy, which serves about 1.7 million residential and business customers in Texas.

Tacking on Dynegy's power stations would broaden Vistra's footprint to the Midwest, Northeast and other parts of the country.

Dynegy has a colorful history that includes a merger

flirtation with Enron Corp. on the eve of the energy trader's bankruptcy and its own subsequent chapter 11 case.

Vistra also has a notable past. Investors including private-equity firms KKR & Co. and TPG bought a predecessor, TXU Corp., for \$32 billion at the height of the leveraged-buyout boom that preceded the financial crisis. The deal was the largest LBO in history and a hallmark of buyout firms' big-ticket purchases in those years.

TXU filed for chapter 11 protection in 2014 with \$42 billion in debt after a decline in power prices upended its business. The operations that

now form Vistra were spun out last October, a milestone in one of the largest corporate bankruptcies in history.

The utility sector has been active despite a broader slowdown in deal making, as a slump in power prices has prompted some companies to bulk up through mergers.

In August, private-equity firm Energy Capital Partners signed a deal to buy Calpine Corp. for \$5.5 billion. In the same month, Sempra Energy reached a deal to buy Oncor, another TXU descendant, for \$9.45 billion, snatching the power-transmission company away from Warren Buffett's Berkshire Hathaway Inc.

Energized

Share performance on Wednesday, minute-by-minute

25%

20

15

10

5

0

-5

10 a.m. noon 2 3 4

Source: FactSet

THE WALL STREET JOURNAL.

Bond Funds Sound Retreat From Puerto Rico

Sales surge following Hurricane Maria, as creditors that had held out cut their losses

Franklin Resources Inc., one of Puerto Rico's largest creditors, sold hundreds of millions of dollars of the island's bonds in recent days, part of an exodus of investors hurt by accelerating losses in the wake of recent hurricanes.

By Matt Wirz,
Andrew Scurria
and Heather Gillers



Hurricane Maria only worsened Puerto Rico's dire financial situation. Workers repaired a storm-damaged road on the island last week.

A swath of mutual funds and hedge funds that held on to a portion of Puerto Rico's roughly \$70 billion of bonds even after the island started bankruptcy proceedings last year are now throwing in the towel. That includes Franklin Mutual Advisers LLC, a Short Hills, New Jersey-based unit of Franklin Resources, which has sold its entire \$294 million stake in Puerto Rico general obligation bonds, people familiar with the matter said.

Bonds with a total face value of \$8.24 billion have changed hands this month through Monday, more than in any full month since the beginning of 2015, according to Municipal Securities Rulemaking Board data.

The only time trading approached that level was July 2015, after Puerto Rico's then-governor said the island's debts were "not payable."

Puerto Rico bonds since 2014 have attracted a variety of distressed-debt investors, especially hedge funds, because of the bonds' relatively cheap prices in otherwise red-hot debt markets. Some of those funds are now selling. Varde Funds and Merced Capital recently sold their holdings of \$172 million in municipal bonds backed by Puerto Rico's tax collections to other existing bondholders, according to bankruptcy-court documents and a person familiar with the matter.

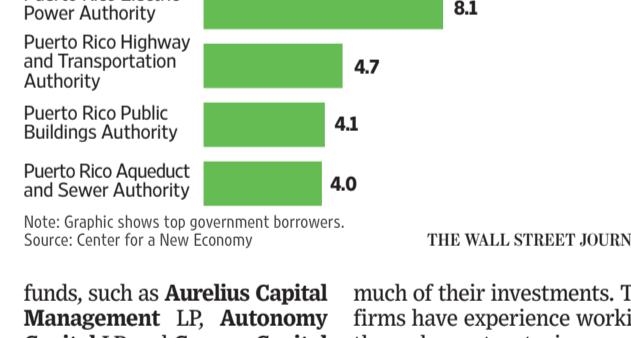
Franklin, widely known under its Franklin Templeton brand, has been the second-largest mutual-fund holder of Puerto Rico bonds, after OppenheimerFunds Inc. The two mutual funds have been part of a group of large Puerto Rico creditors fighting to recover some portion of their investments through a court-supervised restructuring.

Franklin Resource's main municipal-bond-fund arm, based in San Mateo, Calif., also owned general obligation bonds and other types of Puerto Rico debt worth more than \$1 billion at the end of the second quarter, according to data from Morningstar Inc. It is unclear whether any of those investments have changed.

Most mutual-fund managers are averse to keeping defaulted bonds through lengthy restructurings, and many sold their Puerto Rico bonds to hedge

On the Hook

Borrowing backed by Puerto Rico's government funds, sales taxes, and various public agencies make up the bulk of the island's debt.



Note: Graphic shows top government borrowers.
Source: Center for a New Economy

without swamping the market.

The new buyers paid as little as 65 cents on the dollar in this first bout of selling, betting that they would recover much more once Puerto Rico recovered economically.

When Puerto Rico began restructuring its debt last year in the U.S.'s largest-ever municipal bankruptcy, investors holding different types of Puerto Rico bonds split into factions, battling the island's government and each other to get better treatment. Franklin and Oppenheimer had been seen as power brokers in the process because they owned big chunks of the island's different types of bonds.

The recent selling began this spring as the island's government and federal oversight board took a tougher stance with creditors in its bankruptcy process. Hurricane Maria, and comments by President Donald

Please see BONDS page B2

much of their investments. The firms have experience working through restructurings, and some analysts said they owned so many Puerto Rico bonds that it would have been difficult to quickly liquidate their holdings

Pay Is Less Of a Secret In Millennial Workforce

By KELSEY GEE

Managing a generation of young people inclined to share relationship statuses and meal photos on social media requires employers to adjust the way they approach compensation, experts say.

"Pay and promotions are not secretive topics anymore," says Mary Ann Sardone, who consults with large employers on compensation issues and leads the workforce-rewards practice at benefits consultant Mercer, a unit of Marsh & McLennan Cos.

"Companies are spending more time ensuring their pay decisions are fair and highlighting career paths under the assumption that the information is going to be widely shared," she said.

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INSIDE

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TRACK YOUR TURKEY FROM FARM TO STORE

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HEARD ON THE STREET | By Nathaniel Taplin

Prepare Yourself for an Imperial China

For most of its history, China was an empire led by a single paramount leader, backed by a powerful and opaque bureaucracy. Over the past 20 years, bureaucracy was alive and well, but most big political and economic decisions were reached by consensus.

No more, it seems. On Wednesday, President Xi Jinping, the most powerful Chinese leader in decades, unveiled a new leadership team with no clear successor.

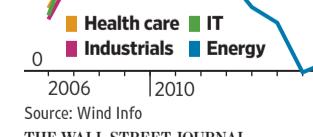
That doesn't necessarily mean Mr. Xi will stick around as Communist Party head past 2022 when he should step down by previous convention, but it does mean he will likely be running the show for quite some time.

In his keynote congress speech, Mr. Xi said China's

primary task is now to satisfy the people's increasing demands for a "wonderful" life in the face of incomplete and unbalanced development. Mr. Xi also strongly reaffirmed the role of state enterprises atop the economy and said that China should become a rich, strong and modern socialist nation by midcentury.

What does all this mean? First, it isn't just about growth anymore—social concerns will be a higher priority now that China is already on the cusp of becoming a "moderately prosperous" society, according to Mr. Xi. Welfare spending will rise, meaning a higher fiscal deficit, and environmental enforcement will increase. And with state firms favored under Mr. Xi, the private sector may be called upon more to fund this, potentially through higher corporate taxes.

Broad Range



Source: Wind Info

THE WALL STREET JOURNAL.

Unlike previous leaders, Mr. Xi has the clout to implement his will: forced closures of polluting, mostly privately owned factories caught analysts off-guard this year and have helped force steel and aluminum prices higher. Foreign investors may find opportunities in burgeoning services sectors such as health care—one of the few

sectors in which returns on assets for listed Chinese firms haven't sharply fallen in recent years. Mr. Xi specifically cited services as an area that should open up more to foreign investment.

A rising fiscal deficit paired with stronger support for big state firms may mean an even narrower spread between highly rated Chinese corporate bonds and sovereign debt.

Finally, China will continue becoming more assertive abroad, meaning higher military spending by wary Asian neighbors and the U.S.

Mr. Xi seems destined to stick around for much of this. Deng Xiaoping, who oversaw China's early economic reforms, had a famous maxim for a modernizing China: "Hide your strength, bide your time."

For both China and Mr. Xi, the time for hiding is over.

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Amazon to Unlock Doors for Deliveries

BY LAURA STEVENS

Amazon.com Inc. wants you to open the door to your delivery courier—even when you aren't home.

The company on Wednesday introduced a connected door-lock and security-camera system to let package carriers, guests and eventually dog walkers in and out of customers' houses, all controlled via an app.

Dubbed "Amazon Key," the new \$249.99 system allows consumers to control and monitor deliveries and other services remotely.

"This is not an experiment for us," said Peter Larsen, vice president of delivery technology at Amazon. "We think this is going to be a fundamental way that customers shop with us for years to come."

Amazon Key plays to the online retail giant's package-delivery ambitions, enabling indoor drop-offs to customers as the company handles more of its own shipments.

Already the company has added lockers and apartment-building package hubs. In-home delivery is a natural next step.

A consequence of the rise in e-commerce is that "theft is certainly a problem," said John Haber, who works with retailers on supply-chain issues as chief executive of consultancy Spend Management Experts.

Theft is particularly pronounced during the holiday season, when some thieves dubbed "porch pirates" go from door to door stealing gifts.

But it remains to be seen whether consumers are ready to open their doors to strangers. Transportation industry experts said that most people are likely to balk at the idea, at least at first.

"People have a difficult

time letting cleaning people into their house if they haven't been properly vetted," said Ivan Hofmann, a former FedEx Corp. executive and transportation-industry consultant.

Still, he added, that is how innovation works: "You have to try things that no one else has tried and see what works."

In the beginning, the Amazon Key system will allow in-home deliveries only from Amazon Logistics, the company's delivery network. When an Amazon delivery-service provider brings a package to the door, he or she scans the label with a phone before requesting entry to the home. The system unlocks the door automatically—without a code—and turns on the security camera as the delivery person opens the door and sets the package down inside. After leaving, the delivery person taps the phone again to relock the door.

The package recipient gets notifications throughout, including a time-stamped log and the possibility to watch a live video of the delivery or a recording afterward. The recipient can also block the ability to enter the home through-out the process.

"We knew that peace of mind was going to be critical here," Mr. Larsen said.

Customers also can use the app to generate codes for guests to enter, and the system will eventually add access for service providers like dog walkers and maids.

The Amazon Key package includes the new Amazon Cloud Cam security camera and a smart lock made by partner companies. For now, it is only available to Prime members, something the company said helps add value to the \$99 annual subscription fee. The service will initially be available in 37 cities, starting Nov. 8.



In-home delivery comes as Amazon handles more of its own shipments.



Storm damage in Utuado, Puerto Rico. Response to the disaster caused by Hurricane Maria has fallen under congressional scrutiny.

U.S. Steps In at Puerto Rico Utility

BY ANDREW SCURRIA

U.S. officials supervising Puerto Rico's finances are installing an emergency manager at the island's public electricity utility, in an attempt to course-correct a disaster response that has come under congressional scrutiny.

Puerto Rico's financial oversight board is appointing the emergency manager to take over the public electricity monopoly, known as Prepa, with an eye toward eventual privatization, according to people familiar with the matter. The maneuver would largely wrest control of the utility away from its board and Gov. Ricardo Rosselló.

More than a month after Hurricane Maria knocked out

power to all of Prepa's customers, service has been restored to roughly one-quarter. Prepa's decisions in the wake of the storm, including its use of a tiny Montana-based firm to rebuild power lines, have raised concerns among members of Congress about how the utility was managing federal disaster-relief funds.

The federal oversight board, which Congress created last year, responded by tapping Noel Zamot, its top official for economic revitalization, to assume control of Prepa's reconstruction.

But the governor is expected to resist ceding control of Prepa, saying in a Wednesday afternoon statement that managing public corporations such as Prepa "rests exclusively

on democratically elected officials appointed under the law of Puerto Rico."

The situation is the latest struggle between the governor and the oversight board over Puerto Rico's financial rehabilitation. Before Maria hit, the two sides were tangling in court over whether the board could order furloughs of public employees and impose other austerity measures.

The oversight board has argued that Prepa should be transitioned from a public monopoly to a regulated utility to spur investment in its plants and lower costs for rate payers. The utility is a flashpoint in the island's fiscal crisis because power costs are a drag on economic growth.

Lawmakers are scrutinizing spending decisions. Members

of Congress from both parties are calling for investigations into a \$300 million contract awarded to **Whitefish Energy Holdings** LLC, a two-year-old company that had two full-time employees when the storm hit last month. Oklahoma-based **Cobra Acquisitions** won a \$200 million contract.

Mr. Rosselló said Tuesday that after Hurricane Irma hit, the government had reached out to contractors and of those, Whitefish was the only one that didn't require substantial cash upfront. He said he ordered the island's Office of Management and Budget to review Prepa's contracting of repair crews and to report its findings to the Puerto Rico comptroller.

—Arian Campo-Flores contributed to this article.

BONDS

Continued from the prior page

Trump hinting at debt forgiveness, upended bondholders' calculus. Prices of general obligation bonds sold by the Franklin Mutual Series have been cut in half since May and now trade around 30 cents on the dollar, according to data from the Mu-

nicipal Securities Rulemaking Board. Then came Hurricane Maria in September and the humanitarian and economic devastation left in its wake.

The precipitous drop in prices has piqued the interest of some investors who have avoided Puerto Rico.

AllianceBernstein Holding LP sold the last of its Puerto Rico bonds in 2014 believing the island's debt load was unsustain-

able, making default inevitable, says Joe Rosenblum, the investment firm's director of municipal research. "The prices are so low that it makes us ask the question whether we're at the right levels to get back in."

But even at current valuations AllianceBernstein remains concerned about the risk that politics in Puerto Rico and in Washington will undermine bondholders.

The Senate on Tuesday passed legislation that extends emergency credit to Puerto Rico, and Mr. Trump has criticized corruption in Puerto Rico and questioned how long the federal commitment to disaster relief should last.

"You can run as many spreadsheets as you want but how do you interpret the politics around it," Mr. Rosenblum says.



The HealthCare.gov website, which details health-insurance options under the Affordable Care Act.

ACA Premiums Set to Jump

BY ANNA WILDE MATHEWS

Some consumers who get health insurance through the Affordable Care Act exchanges next year will face sharp premium increases and have fewer insurer options, though federal premium subsidies mean that others will be able to get cheaper coverage.

The federal HealthCare.gov website posted new details Wednesday about what plans will be available for 2018 under the health law. Open enrollment starts on Nov. 1.

Avalere Health, a consulting firm, said premiums on middle-tier silver-level exchange plans are set to rise by an average of 34% in the 39 states that use HealthCare.gov, based on the new data. The average increase for bronze plans is 18%, and for richer, gold coverage, it is 16%.

The rate increases were partly driven by the Trump administration's decision to halt federal cost-sharing reduction payments that reimburse insurers for covering low-income enrollees' health costs, said Caroline Pearson, a senior vice

age in just 56 of the 143 regions in states where it sells individual insurance, down from "virtually all" of them this year, and said it now expects the ACA plans to be profitable in 2018, albeit still short of its targeted 3%-to-5% margins.

The business will be "relatively break-even" in 2017, said Chief Executive Joseph R. Swedish.

Mr. Swedish highlighted questions around federal cost-sharing payments as an important factor in Anthem's decision to exit exchanges. The Trump administration has now halted those payments, which reimburse insurers for reducing health costs of low-income enrollees.

president at Avalere.

The rate increases will be

felt most strongly among people who don't get subsidies. According to HealthCare.gov, a 40-year-old man in Richmond, Va., who isn't eligible for subsidies will be able to choose from two bronze plans, with an average monthly premium of \$345, and can consider two silver options, at an average premium of \$460. There is only one exchange insurer, **Cigna Corp.**, in Richmond.

Last year, a similarly situated man had 14 bronze options, with an average premium of \$276, and 15 silver plans, with the average premium at \$322. There were four exchange insurers.

In 2007, Purdue and three of its executives pleaded guilty in federal court to criminal charges of misleading the public about the addictive qualities of OxyContin between 1995 and 2001. Purdue and the executives agreed to pay \$634.5 million in government penalties and costs to settle civil litigation.

Around the same time, Purdue agreed to pay \$19.5 million to settle similar allegations made by 26 states and the District of Columbia.

Purdue has been at the center of recent litigation seeking to hold makers and distributors of opioids accountable for widespread drug addiction.

Patrick Semansky/Associated Press

Photo: AP

BUSINESS NEWS

Coke Gains From New Diet Soda

By JENNIFER MALONEY AND AUSTEN HUFFORD

Coca-Cola Co.'s newest diet soda helped the company keep its soda volume flat in the latest quarter as it attempts to expand its portfolio of beverages and hold on to customers who are abandoning sugary drinks.

Coca-Cola Zero Sugar, which the Atlanta company rolled out in the U.S. in August after introducing it last year in the U.K., replaced Coke Zero. Both are sweetened with aspartame and acesulfame K, though Zero Sugar is formulated to taste more like the original Coke.

On Wednesday, the company said the new drink had performed well in its third quarter, increasing its volume in the high single digits. The company plans to roll out Zero Sugar to the rest of its key markets by early next year.

In a call with analysts, Chief Executive James Quincey acknowledged that Zero Sugar has cannibalized some sales of Coke Light and original Coke, "but in the net, there is additional volume and additional consumers coming back into the franchise."

Coke's overall beverage volumes in the quarter were flat world-wide as growth in developing markets essentially offset weakness in developed markets.

The company saw 1% volume growth in its juice and dairy products as well as its tea and coffee drinks. Soda growth was flat, while volume for water and sports drinks fell 1%.

In all, Coke reported earnings of \$1.45 billion, or 33 cents a share, up from \$1.05 billion, or 24 cents a share, a year earlier.

On an adjusted basis, earnings grew to 50 cents a share from 49 cents. Revenue fell about 15% to \$9.08 billion, largely as a result of the bottling divestitures. Adjusted revenue grew 4%.

Boeing Presses to Meet Demand

Plane maker had record deliveries in latest quarter, but orders keep piling up

By DOUG CAMERON

Boeing Co. said Wednesday that demand for its single-aisle jets could merit a further rise in production beyond the 35% increase already envisaged by the end of the decade.

Higher output of its 737 and the improved profitability of its 787 twin-aisle planes have helped Boeing's share price almost double over the past year, as the company channeled most of the extra cash to shareholders in the form of buybacks and increased dividends.

Boeing Chief Executive Dennis Muilenburg said the 737 was already sold out until the end of the decade, and there was pressure from customers to boost monthly output beyond the 57 jets envisioned in 2019. Boeing recently boosted output by five jets to 47 a month and plans to add another five to the rate next year.

The bullish outlook came as Boeing reported forecast-beating quarterly earnings and gave a modest boost to its profit and cash-flow guidance for the year.

However, its shares de-



Boeing reported forecast-beating quarterly earnings. A production facility in Renton, Wash.

day said the unit had \$3.6 billion in sales in the third quarter, little changed from a year earlier, but provided no further update on plans for the business.

The push into services has irked many Boeing suppliers, who rely on the segment for their profits. United Technologies revealed Tuesday that it doesn't make any money on new parts sold to Boeing, just on spares.

Boeing said profit for the third quarter fell to \$1.85 billion from \$2.28 billion in the year-earlier period, which included a large tax gain. The latest quarter included \$329 million in extra costs for the KC-46A Pegasus refueling tanker, adding to the roughly \$1.5 billion in charges already booked for the program.

Per-share earnings declined to \$3.06 from \$3.60 but were \$2.72 after stripping out certain pension items, 6 cents ahead of consensus estimates. That marked the sixth quarter in a row Boeing outpaced expectations as it tallied a record 202 commercial-airliner deliveries in the period.

Sales rose 2% to \$24.3 billion.

The company also added 10 cents a share to the midpoint of its full-year profit guidance and another \$250 million in operating cash flow.

On Wednesday, Boeing shares fell 2.9% to \$258.42.

clined as the company booked another charge on its military-tanker program and offered few details on how it plans to reach aggressive targets it has set for its services business.

Boeing has orders for 5,700 commercial jets representing seven years of output at planned production rates. Rapid growth in passenger and freight traffic, especially in developing markets, has fueled optimism that the long-standing boom-and-bust cycles of the jet industry are smoothing.

One market Boeing isn't focusing on is for smaller jets

seating 100 to 150 passengers, a segment targeted by a planned partnership between Airbus SE and Bombardier Inc. "Recent changes in the marketplace, discussions between Airbus and Bombardier, don't change our plans," Mr. Muilenburg said on a quarterly call.

He continued to rail against consolidation elsewhere in the aerospace industry, notably the planned combination between United Technologies Corp. and Rockwell Collins Inc. announced last month.

"Until proven otherwise, we remain skeptical," he said of a

deal that would unite two of Boeing's largest suppliers, potentially reducing its own leverage to cut its costs and boost profit margins.

Boeing in July created a separate services unit, projecting sales this year as high as \$14.5 billion and margins of as much as 15.5%, well ahead of its core plane-making and defense units.

The company aims to double its market share of selling spares and services and boost revenue from the business to \$50 billion over the next several years.

The company on Wednes-

mostly resolved.

Mr. Foote's appointment may clear up some, but not all, questions around who could one day succeed Mr. Harrison, who has an undisclosed health condition that limits his travel and requires him to frequently use an oxygen tank.

While Mr. Foote is a clear No. 2, Citi analyst Christian Wetherbee said he may not be the long-term answer to succeed Mr. Harrison.

CSX Hires New Operating Chief in Shake-Up

By PAUL ZIOBRO

CSX Corp. is shaking up its management ranks, replacing several top executives and bringing in a new operating chief from one of Chief Executive Hunter Harrison's past railroading stops.

The changes come as the railroad, one of two major operators east of the Mississippi River, has been working to fix services issues after Mr. Harri-

son took over the company earlier this year and revamped its operations.

On Wednesday, CSX said James Foote is joining as chief operating officer and will take over all duties overseen by longtime CSX executives Cindy Sanborn, who currently serves as COO, and Fredrik Eliasson, currently chief sales and marketing officer. Both CSX executives will resign next month.

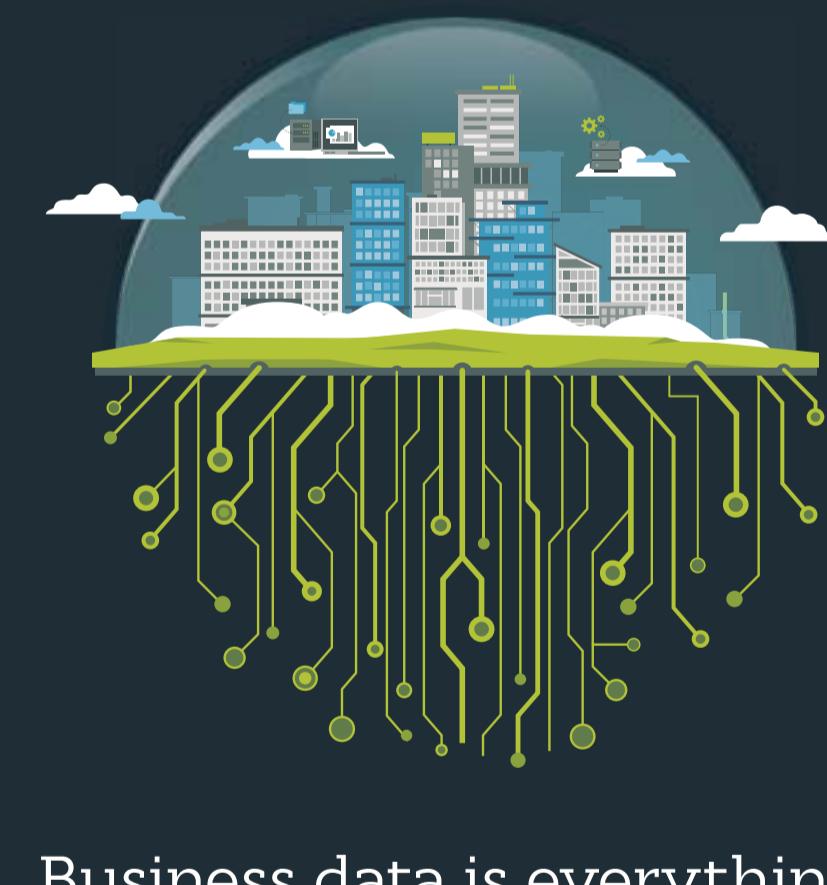
Mr. Foote, 63 years old,

served as head of sales and marketing at Canadian National Railway Co. during Mr. Harrison's stint turning around the railroad from 2003 until 2009. More recently, he served as CEO of Bright Rail Energy, which is developing a product to help existing locomotives run on natural gas.

Mr. Harrison said the new executive's deep understanding of and experience with his so-called precision scheduled

railroading philosophy was a key reason for adding Mr. Foote as his top lieutenant.

Mr. Harrison's network changes led to widespread delays and congestion for most of the summer months, leading to a hearing before federal railroad regulators earlier this month. The CEO blamed some of the problems on pushback from some employees as well as derailments. He has said the service issues have been



Business data is everything. Protect it well.

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Researchers Sidestep the Editing of DNA

The targeting of ribonucleic acid may raise fewer scientific and ethical risks

BY AMY DOCKSER MARCUS

Researchers said they created a new Crispr-based system to edit RNA instead of DNA in human cells, offering a way around some of the ethical and scientific challenges associated with editing the genome and helping advance a new avenue to potentially treat diseases.

Scientists at the Broad Institute of MIT and Harvard repurposed the Cas13 enzyme in the Crispr system to target and correct disease-causing mutations in RNA in cells. The new RNA-editing system, which the scientists have dubbed Repair, allows the editing of individual RNA letters, correcting a common mutation known to play a role in a number of diseases. They described their research in a paper published in *Science* Wednesday.

Crispr, which stands for clustered regularly interspaced short palindromic repeats, serves as the immune system of bacteria and is used to defend against viral attacks.

RNA, or ribonucleic acid, is a molecule and is found in all cells. It serves as a messenger,



A student makes a measurement during a popular Crispr workshop at the Genspace lab in New York City earlier this year.

carrying the DNA's instructions to the cells for making the proteins that are essential for life. Scientists have long believed RNA to be a good therapeutic target, but initial work using the Crispr system has focused on another enzyme, Cas9, and

on making edits in DNA, which cause permanent changes to a person's genome.

Unlike with DNA, cells constantly produce more RNA. As a result, RNA editing carries potentially fewer scientific and ethical risks. For one

thing, if "off-target" changes occur, a key area of concern in editing DNA, the RNA edits are potentially reversible. Understanding of the biology of many diseases is also rapidly changing, and RNA editing allows scientists to revise the

therapy more easily as more research is done.

"Crispr editing of RNA creates more opportunities for things we can do therapeutically," said Elizabeth McNally, director of the Center for Genetic Medicine at Northwest-

ern University's Feinberg School of Medicine, who wasn't involved in the study but is working on efforts to use the Crispr system to treat forms of muscular dystrophy and other conditions.

Scientists have been looking for ways to modulate RNA to treat diseases. Last month, Alnylam Pharmaceuticals, which said it spent 15 years developing its therapy, reported positive results in a trial of a so-called RNA-interference drug, patisiran, which stops production of a disease-causing protein to treat a rare nerve disorder, familial amyloid polyneuropathy. If approved by the Food and Drug Administration, patisiran would be the first commercial product based on RNA interference.

Crispr offers another approach.

In nature, there are many different Cas13 enzymes that bacteria use to target and cut RNA as part of its defense system. Omar Abudayyeh, one of the co-first authors of the Science paper, said the researchers spent more than 18 months studying different Cas13 enzymes to find the most effective to adapt for RNA editing in human cells.

The scientists eventually chose a Cas13 enzyme from the Prevotella bacteria, then combined it with a protein called ADAR2.

User Count Clouds Social-Media Race

BY GEORGIA WELLS

Social-media companies Twitter Inc. and Snap Inc. are locked in a popularity contest—but it is hard to rank them because they differ on how reach with users is best measured.

Facebook Inc., their bigger rival, reports the number of users who check in at least once a month, currently 2.01 billion, and those who use its platform at least once a day, 1.32 billion.

But Twitter and Snap's Snapchat, which battle to be considered the second-biggest network, each picks only one of the metrics—and it isn't the same one.

Twitter, which has been around longer than Snapchat, reports how many monthly users it has. When the company releases third-quarter earnings on Thursday, analysts surveyed by FactSet expect it to post 0.5% growth in monthly users to 329.6 million.

Snap, which first released its user figures in February ahead of its initial public of-

ferring, discloses the number of daily users of its network.

A Snap spokesman said daily usage is a better reflection of engagement. At last count, Snap had 173 million daily users.

Twitter has hinted at its daily use. In late 2016, to provide metrics beyond stagnant monthly-user growth, Twitter told investors its daily users had grown 7%, without revealing the raw number. In the following three quarters, Twitter updated its daily-user growth, and flagged it again to investors.

That prompted the Securities and Exchange Commission to query Twitter as to why it wasn't providing the actual number.

Twitter said in a letter to the SEC in June that releasing its daily users could cause "confusion when comparing the company with other companies," such as Facebook, that calculate daily users differently.

A spokeswoman for Twitter declined to comment on why the company hasn't released its number of daily users.

Nintendo Game Is Crossing to Phones

BY TAKASHI MOCHIZUKI

TOKYO—Nintendo Co. will introduce a smartphone version of its "Animal Crossing" game, a move that could expand profit from its mobile business.

The free-to-play game, which will include an option to pay a small amount of money to speed up game play, will be available from late November, the Kyoto-based company said on Wednesday.

It is designed for Apple Inc.'s iPhones and smartphones running the Android operating system from Google parent Alphabet Inc.

First introduced in 2001 for the Nintendo 64 console, the "Animal Crossing" franchise has attracted a wide range of consumers, especially women and children who might otherwise not play games on dedicated hardware.

Rather than shooting enemies or trying to get to the next level, players enjoy slow living in a virtual village through an avatar by catching bugs, growing flowers or getting mortgages from a raccoon.

Nintendo has released six



The company is looking to expand profit from its mobile business.

titles from the franchise and sold more than 30 million copies as of March 31, 2017, the company said.

In the smartphone version of the game, called "Animal Crossing: Pocket Camp," players can build campgrounds.

Since moving into smartphone games in 2016, Nintendo has released three apps:

"Miitomo," "Super Mario Run"

and "Fire Emblem Heroes."

So far, they have made up a relatively small part of the company's business. In the fiscal year ended March 2017, Nintendo earned less than ¥20 billion (\$176 million) from the smartphone games out of ¥489 billion in total revenue,

Chief Executive Tatsumi Kimishima said at an analyst briefing in April.

Analysts said life-simulation games are well suited to smartphones and predicted

"Animal Crossing" would boost Nintendo's mobile revenue.

"We expect the app would earn ¥18.8 billion by March next year and ¥48 billion between April 2018 and March 2019," said Macquarie Capital Securities analyst David Gibson.

DeNA Co. is Nintendo's partner in the smartphone game business.

Fans have been waiting for the "Animal Crossing" since Nintendo first mentioned it in April 2016.

Ayumi Maehara, who sells gift catalogs in Tokyo, said "Animal Crossing" is the only game she has ever played—and that was when she was a child. The 26-year-old, who prefers to see movies or listen to music in her leisure time, said she was interested in the "Animal Crossing" smartphone game.

"I begged my parents many times for a Nintendo GameCube console and an 'Animal Crossing' game for a Christmas present when I was 10 years old," she said. "That was all the game experience I have had. I love what I can do in the game, like collecting cute furniture."

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TECHNOLOGY

Cloud Deal Pairs Google, Cisco

BY RACHAEL KING

Google and **Cisco Systems** Inc. on Wednesday said they are combining their technology to help corporate customers more easily develop software for the cloud.

The two companies need a boost in the corporate computing market amid increasing competition from cloud-computing pioneer **Amazon.com** Inc. and corporate-tech veteran Microsoft Corp.

Much like how Google's Android makes it possible to run mobile apps on a variety of smartphones and devices, the two companies' software will make it possible for businesses to create apps that run in their own data centers and on Google's servers, creating a hybrid cloud.

Until recently, big cloud providers were like walled

gardens and different tools were used to create code for private data centers.

Google, a unit of **Alphabet** Inc., is contributing cloud-development expertise and tools that run on the Google Cloud Platform, a suite of services for the cloud including computing, storage, databases and analytics. Cisco is bringing networking, security and infrastructure technologies to the mix. Both companies are using open-source technologies to give customers more

flexibility. "It really does help companies avoid lock-in," Cisco Chief Executive Chuck Robbins said in an interview. Mr. Robbins is counting on new cloud services to help turn around Cisco by moving further away from its legacy hardware. Cisco's customers are increasingly using cloud services instead of investing in hardware for their own data centers.

Google Cloud Chief Executive Diane Greene is leading the company on an uphill battle in the market for corporate computing power and storage accessed online. While Google is an internet giant, it is a relatively small player in business computing, ranking fourth in cloud infrastructure services in 2016 with only 2.3% market share, according to a September report from research firm Gartner Inc.

The two companies have been working together for much of the past year developing software and working with corporate customers on requirements, Ms. Greene said. They plan to offer early access for a few customers in the first half of 2018. The software will be more widely available in the second half of next year, she said.

Google is trying to attract corporate customers using its cloud-development expertise and popular software that was initially developed to manage its own search engine. Cisco has relationships with large corporate customers forged over decades along with expertise in hyperconverged systems that combine computing, storage and networking.

The partnership is similar to the way Cisco rival Dell Technologies Inc. works with customers to build cloud software. Dell's unit, Pivotal, makes it easier for companies to get started developing software, acting like an operating system for the cloud.



Blockchain technology is being used to track turkeys from four Texas farms to Cargill processing lines and on to grocery stores.

A Digital Trail for Turkeys

BY JACOB BUNGE

Agricultural conglomerate **Cargill** Inc. aims to harness the technology underlying bitcoin to let shoppers trace their turkeys from the store to the farm that raised them.

Cargill is test-driving a digital tool called blockchain that structures data into a series of records that can't be changed or removed. The cloud-based data can be shared across a network of computers, and securely added to by various participants.

Some food-company executives say such records could be faster and simpler to use than the industry's current framework, which relies on software systems as well as paper records. Besides Cargill, other companies are also exploring blockchain technology to track foods or ingredients.

It is an example of the food

world looking to adopt technologies honed in Silicon Valley and Wall Street, with the aim of making the U.S. food system more efficient. Agriculture companies such as **Mon-santo** Co. and **DowDuPont** Inc. have spent hundreds of millions of dollars to acquire startups that crunch data sets to help farmers better manage crops and machinery.

The digital currency bitcoin was the first application built on blockchain, but the financial industry is also exploring it as a way to potentially trim billions of dollars in transaction and processing costs. Blockchain is also being evaluated for use managing health-care records and processing insurance claims.

In the food industry, a blockchain-based approach could make recalls faster and better pinpoint where affected products wound up, though much

depends on ingredient suppliers, food manufacturers, distributors, retailers and food-service companies adopting a common system and standardizing data.

In a pilot program for its Honeysuckle White brand, Minnesota-based Cargill has used blockchain to build a series of

links that will help track individual turkeys from four Texas farms to Cargill's processing lines and ultimately to grocery stores. Each turkey in the program will bear a tag with a code that consumers can punch into a website, which will take them

to a website detailing the farm that raised it.

"It's bringing the digital supply chain to life," said Debra Bauler, chief information officer for Cargill's North American protein business.

Cargill and other food companies see broader potential for the technology. In August, International Business Machines Corp. said it formed a consortium with food makers such as Dole Food Co. and Tyson Foods Inc. and retailers including Kroger Co. and Wal-Mart Stores Inc. to figure out where blockchain can improve food safety and reduce waste.

Darrell Glaser, a farmer based in Rogers, Texas, who raises turkeys for Cargill and is participating in the program, said he hopes it will reconnect an increasingly urban U.S. population with the rural areas and farmers that produce the country's food.

PATRICK T. FALLON/BLOOMBERG NEWS
Cisco CEO Chuck Robbins.

gardens and different tools were used to create code for private data centers.

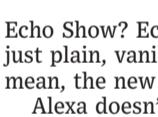
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Until recently, big cloud providers were like walled

New Echo: Still in First Place

BY JOANNA STERN



"Alexa, which Echo should I buy? Echo Dot, Echo Spot? Echo Look, Echo Show? Echo Plus? Or just plain, vanilla Echo—I mean, the new one?"

Alexa doesn't have these answers ("Sorry, I don't know that"), but after testing the new \$100 Echo—herein referred to as "the Echo"—I have some.

1. The Echo is the smart-speaker sweet spot. It's the one to buy if you're just trying out the idea of living with an always-on microphone. There is nothing quite like the simplicity that started it all. No screens or cameras—just bark your commands at Alexa, and "she" will talk back.

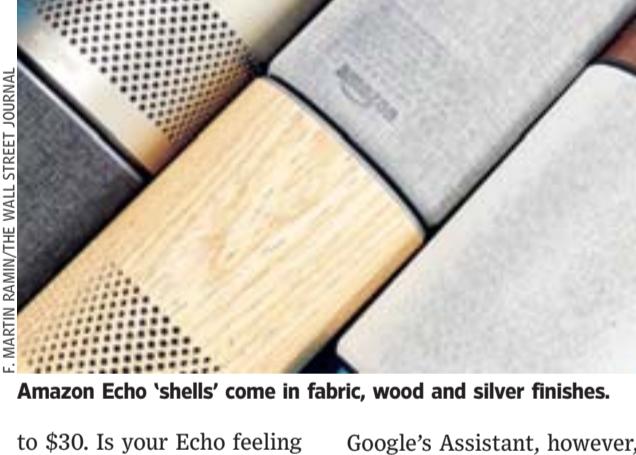
2. If you're one of the millions of people who bought the original Echo, no need to upgrade. The new Echo is a lot like the old Echo, just prettier, with slightly better mics and sound.

3. Software, not hardware, is the source of speaker smarts. And since that software mostly lives in the cloud, not on the device, we can upgrade speakers less frequently than we upgrade our PCs.

Three years since its debut, the Echo's new hardware may not appear that different, but the world around it is. While some remain cautious about placing always-listening microphones in their homes, many millions of people are now comfortable talking to Amazon's cylindrical computer. They ask it to do everything from warming up the car to planning scuba dives.

This new cylinder, boosted by a lower price and Alexa's evolving smarts, is enough to maintain Amazon's lead.

Best thing about the Echo's hardware? You can change its clothes—yes, like a Barbie doll. You can choose from six different outfits (sorry, decorative "shells") or order extra ones for \$20



F. MARTIN RAMIREZ/THE WALL STREET JOURNAL
Amazon Echo 'shells' come in fabric, wood and silver finishes.

to \$30. Is your Echo feeling relaxed? Sandstone. Sophisticated? Oak finish, for sure. Of course, Google's Home had similar fashion sense at its debut last year.

There are actual engineering improvements, too. The speaker is about half the size of the original (going from tennis-ball can to Jif jar), yet it's just as loud—still adequate to fill a kitchen or bedroom. To really hear the difference between the old and new speakers, I had to listen to a few songs side by side. The new Dolby signal processor does deliver a crisper tone.

Now with seven mics, Alexa's ears have gotten better—but again, not drastically. The new Echo seemed quicker to light up to my voice in quiet environments.

The real reason to buy an Echo has nothing to do with good looks or mics. It's all about invisible Alexa. In the AI-assistant race against Google and Apple, Amazon has kept its early lead in some key areas:

A deep ecosystem. With over 25,000 voice apps, or "skills," and multiple hardware partners integrating Alexa, Amazon's AI platform has become the most advanced voice operating system. Google has made some headway with third-party apps, but Alexa still has the edge with more news, ride-hailing, to-do list and kitchen-friendly apps.

Google's Assistant, however, does excel at answering random questions better. Come on, Alexa, you should know wool doesn't go in the dryer.

A smarter smart home. Amazon still has Google beat in smart-home control. Case in point: Alexa devices work with more connected thermostat brands than Google Home does. If you are especially interested in smart home, check out the \$150 Echo Plus. It has all of the new Echo's refinements, plus built-in wireless technology for home control without the need for third-party hubs.

A stream of new features. Earlier this month, Echoes got the ability to recognize multiple voices; your voice becomes a password. When I want to reorder breath mints, Alexa knows me and doesn't ask for a PIN. Back in May, Amazon turned Alexa into a telephone operator: You can call others with the Alexa app or with an Echo. In June, Alexa got the ability to name different kitchen timers (one for the Brussels sprouts, one for the chicken). Reminder: Google Home has a number of these features as well. And Siri still can't set multiple timers.

If you're looking for a way to experience Alexa, or to bring other Echoes into your house, the new Echo is arguably the best way—at least until December, when the Echo Spot shows up.

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MANAGEMENT

The Quest to Make Cadillac Hum Again

President Johan de Nysschen looks toward growth in China as he confronts the auto brand's falling U.S. market share

By MIKE COLIAS

Johan de Nysschen became an auto-industry rock star while helping transform Volkswagen AG's Audi brand into a luxury powerhouse in the U.S. from late 2005 to mid-2012. He next moved to

BOSS TALK Nissan Motor Corp.'s Infiniti brand, before General Motors

Co. came calling in 2014 with another rebuilding project: Cadillac.

Now president of Cadillac, Mr. de Nysschen viewed the challenge as "the pinnacle of my career." One-third of the way through what he views as a decadelong project, the journey has been less than smooth as Cadillac's U.S. market share has sagged and the company awaits new models to round out a threadbare product portfolio.

Mr. de Nysschen, 57 years old, aims to mold Cadillac in the image of BMW and other luxury brands. That means creating a better dealership experience and ending big consumer incentives such as end-of-month discounts that often fueled sales.

His strategy also included relocating Cadillac two years ago from Detroit to Manhattan's Soho neighborhood, the better to give the brand an identity separate from GM.



STEPHANIE AARONSON/THE WALL STREET JOURNAL

But disentangling Cadillac's operations from Detroit has proved frustrating at times. In 2015, Mr. de Nysschen jokingly described his first year running Cadillac as "the longest five years of my life."

There is a bright spot, though: Cadillac sales are booming in China. In an interview, Mr. de Nysschen said he is counting on growth in China to expand Cadillac beyond its home market for the first time.

Edited excerpts:

The Wall Street Journal: You had a great run at Audi and were just starting to make progress at Infiniti when you

took the job to rebuild Cadillac. Why?

Mr. de Nysschen: Cadillac is a truly iconic luxury brand, one with a 115-year pedigree. To have the opportunity to steer that back to greatness was an opportunity you couldn't say no to. And General Motors has the resources, both in technical engineering and financial, to push the transformation.

WSJ: Three years in, Cadillac continues to lose U.S. market share. What's holding you back?

Mr. de Nysschen: An important part of the plan is globalization. For us, the top priority was China. In China, it's

How I Work

Favorite Cadillac model of all time?

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The one rule of social media every CEO should know?

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volume, then so be it.

WSJ: How hard is it to change the perception of Cadillac?

Mr. de Nysschen: People might still be thinking about Cadillac as they would have 15 or 20 years ago. The current vehicles are full of product substance equal to our peers. The challenge now is to build awareness of that excellence, and ensure it is complemented by the retail experience. But great brands are not built overnight. It will take time.

WSJ: Given the long time horizon, how do you keep your people motivated?

Mr. de Nysschen: It starts by making sure everybody understands the vision and the long-term aims for the brand and the tactical execution.

That cascades down to individual goals and objectives that people are held accountable to. As long as we're able to demonstrate that we're making progress on those, it's easy.

WSJ: The New York move was meant to give Cadillac autonomy from GM. How's that going?

Mr. de Nysschen: We are semi-autonomous. We don't just do what we feel like. The issue was to ensure that, in those areas [including marketing

and retail strategy] that Cadillac needed 100% mindshare, those discussions took place among people who are invested in the brand. If you didn't change the location, the meetings wouldn't change, the faces wouldn't change and probably the outcomes wouldn't change.

WSJ: Cadillac is touting Super Cruise as the industry's first hands-free driving system. Should that help the brand image?

Mr. de Nysschen: It begins to resuscitate Cadillac's heritage of innovation.

WSJ: When we get fully autonomous cars, will people care as much about luxury brands built on their reputation for performance?

Mr. de Nysschen: We don't envisage producing Cadillacs with no driving controls. A Cadillac will always be an exhilarating driving experience. But, when you'd like to have the car do the driving for you, our vehicle will offer that opportunity. True luxury means the ability to choose.

MANAGEMENT

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PAY

Continued from page B1

Roughly one-third of U.S. workers ages 18 to 36 say they feel comfortable discussing pay with their co-workers, more than any other age group and about four times the rate among baby boomers, ages 53 to 71, according to a survey of 1,000 employees conducted by personal-finance firm Bankrate Inc.'s TheCashLorette.com. Nearly half of the millennials surveyed say they talk about compensation with their friends, compared with 36% of Americans overall.

When Cameron Feenstra received a job offer this summer from Prattle Analytics, a St. Louis-based research firm, the first thing the 22-year-old did was call his sister. Although he was willing to take a below-market salary for the chance to work at a fast-growing startup, Mr. Feenstra wanted to ensure that his offer of \$42,000 was a fair annual salary for his role as a junior quantitative analyst.

After talking about salaries

with friends and family, and consulting anonymous career and salary-sharing websites such as Glassdoor, Mr. Feenstra decided to negotiate for more money, even though it was his first real job in the field.

"People who don't ask around never learn how to negotiate, because they don't know where everyone else is" in terms of salary as a refer-

Nearly half of the millennials say they discuss compensation with friends.

ence point, Mr. Feenstra said. He got a pay bump to \$45,000 before accepting the offer.

The attitude shift has put greater pressure on employers to explain why some workers are paid more than others and to formalize compensation and promotion practices, said Kristina Launey, a partner at law firm Seyfarth Shaw LLP, which specializes in labor and em-

ployment issues.

A rash of new city and state ordinances in Philadelphia, New York City and Massachusetts bar hiring managers from asking job candidates about their salary history, pressuring companies to be more transparent about what they are willing to pay for many roles.

Bill MacMillan, Prattle co-founder and chief technology officer, said he is accustomed to requests like Mr. Feenstra's. But keeping the 19-person startup on good financial footing while offering competitive-enough salaries to retain talented workers is a delicate balance, he added.

"I have great people, so I would love to pay them lots and lots of money," said Mr. MacMillan. Instead, he said, the firm explains to job seekers that while their salary may start at a below-market level, their performance and pay will typically be reviewed at least twice a year—at which point he and other managers can be "aggressive" with raises for top performers.

Since Mr. Feenstra began working at Prattle, he has discussed his pay with several of his colleagues. The chats have given him an idea of what to expect when discussing future raises, such as when his boss reviews his performance later this year.



Cameron Feenstra says 'People who don't ask around [about compensation] never learn how to negotiate.'

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Wisconsin B-School Alters Course

By KELSEY GEE

The Wisconsin School of Business reversed course on a plan to suspend admissions to its full-time M.B.A. program while it reviews the school's business strategy, officials said Wednesday.

"We have heard from our community of students, alumni, and friends; therefore, we are going to stop further discussion of the one-year suspension of the full-time MBA. We moved too quickly without the broad consultation and discussion that our stakeholders can and should expect," wrote dean Anne Massey in an update on the Madison school's website.

The decision comes one week after associate dean Don Hausch informed the school's roughly 200 full-time M.B.A. students that administrators were evaluating whether to shutter the program.

The proposal touched a nerve among the school's more than 42,000 students and alumni, some of whom said they first learned of the administration's plan from a Wall Street Journal story last Friday.

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BUSINESS NEWS



The management at Opel is being pushed to accelerate efforts toward returning to profitability as Europe's booming car market starts to plateau. An Opel plant in Poland.

Peugeot's Mr. Fixit Turns to Opel

Tavares presses for change at unprofitable German brand he acquired from GM

By WILLIAM BOSTON

BERLIN—After fixing a French car manufacturer long derided by the industry as an eternal also-ran, Carlos Tavares is turning his attention to the business General Motors Co. could never fix.

Mr. Tavares, who on Wednesday unveiled another quarter of solid growth at **PSA Group**, maker of Peugeot and Citroën cars, is turning up the pressure on Opel, the unprofitable German brand he acquired from GM this summer.

Over the past three years, the 59-year-old native of Portugal has taken PSA from near death to Europe's most profitable maker of mass-market cars. The acquisition in August of GM's European businesses Opel and Vauxhall hoisted the French car maker into the No. 2 spot in Europe by sales behind Volkswagen AG.

Mr. Tavares hasn't wasted time in moving to improve returns. In response to sluggish sales of some Opel and Vauxhall models, Peugeot said it would

cut nearly a quarter of the 1,800 employees at Vauxhall's Ellesmere Port plant in the U.K.

Peugeot said it would be in "a better position to consider future investments" in the Vauxhall business once the terms of any post-Brexit trade deal between the U.K. and the European Union become clear.

Mr. Tavares has also been pressing the German management at Opel to accelerate efforts to return to profit as Europe's booming car market is beginning to plateau.

Since the acquisition closed in August, Peugeot and Opel managers have been working on a restructuring plan that German labor leaders warn could put thousands of Opel engineers out of a job.

Peugeot's path to profitability was painful.

After Mr. Tavares took control in 2013, the company was bailed out by the French government and Chinese auto group **Dongfeng Motor Group**, now its two biggest shareholders. Peugeot, running big losses amid mounting labor costs and falling sales, slashed jobs and production to cut costs, skidding past a looming bankruptcy.

But the efforts paid off. On Wednesday, Peugeot reported a 31% rise in third-quarter revenue

Toyota Cuts Target For Mexican Factory

Toyota Motor Corp. is scaling back its Mexico production plans.

The company said Wednesday that it would halve its production target to 100,000 Tacoma pickup trucks at its new plant in Guanajuato, Mexico. Toyota will spend \$700 million to complete the plant, which is under construction, instead of the originally planned \$1 billion.

The reduced production target

means Toyota can get Tacomas rolling off the line more quickly. The plant will produce its first trucks in 2019. Its initial target was for the first half of 2020.

"We don't have enough trucks," said Didier Leroy, a Toyota executive vice president of the reduced production target. Two other truck plants, in San Antonio and Baja California, Mexico, are at capacity, but Toyota is still leaving dealers hungry for more, he said. Toyota estimates it needs 100,000 more Tacomas to meet demand, he said.

This is the second major

change to Toyota's plan for the plant. In August, Toyota said Corolla sedans that were slated for production in Guanajuato would instead be built at a U.S. plant in a joint venture with Mazda Motor Corp. Toyota is currently looking for a location for that operation.

Separately, Toyota said it would expand a revamped manufacturing process that it uses for its core sedan models world-wide to light trucks, such as SUVs and pickups.

—Sean McLain

in Tokyo and

Chester Dawson in Detroit

to €15 billion (\$17.64 billion), driven by strong growth in all regions except China and healthy demand for its new Peugeot 3008 and 5008 sport-utility vehicles. The revenue includes two months of business from the Opel Vauxhall division. Without Opel Vauxhall, Peugeot sales rose 7% to €12.2 billion in the quarter. Peugeot didn't report third-quarter profit. On a call with analysts, Jean-Baptiste de Chatillon, the company's finance chief, said losses at Opel Vauxhall would weigh on Peugeot's earnings in the second half of the year, saying, "The recovery plan will kick off beginning in 2018."

Peugeot's shares closed down 1.6% at €20.06 on the Paris Euronext exchange on Wednesday.

The company's share price has nearly quadrupled since Mr. Tavares was appointed chief executive in November 2013.

With Peugeot's core business profitable again, Mr. Tavares embarked on an expansion strategy earlier this year, acquiring GM's German Opel unit and its British Vauxhall subsidiary for €2.2 billion.

After years of losses at Opel, GM Chief Executive Mary Barra pulled the plug on the

German business after running it for more than 80 years. On Tuesday, GM said it took a \$2.3 billion charge related to the sale of Opel Vauxhall.

Peugeot sells 35 new cars per employee, compared with 30.4 for an Opel or Vauxhall employee, according to a recent study by Ferdinand Dudenhöffer, head of the Center for Automotive Research at Duisburg-Essen University. He said that Opel would need nearly 5,000 fewer employees if its factories were as productive as Peugeot's French plants.

—Max Bernhard

contributed to this article.

BUSINESS WATCH

UBER TECHNOLOGIES

Riding-Hailing Firm Faces Suit Over Pay

Still reeling from charges of sexism and sexual harassment by a former software engineer, **Uber Technologies Inc.** now faces a lawsuit from three engineers who allege the ride-hailing firm systematically underpaid women and minorities.

The suit, filed in California Superior Court in San Francisco, adds to the legal and public relations woes facing Uber.

In the suit, the engineers, Ana Medina, Roxana del Toro Lopez and Ingrid Avendaño, claim Uber's so-called stack ranking of workers from lowest performing to highest set "arbitrary cutoffs" for similarly skilled workers and ultimately skews in favor of men and white and Asian employees. Ms. Lopez, Ms. Avendaño, who have left Uber, and Ms. Medina, who is still an employee, seek back pay for themselves and others in their situation, according to the suit.

An Uber spokesman declined to comment. An attorney for Ms. Medina and the other engineers said they were not available for comment.

—Greg Bensinger



to Sept. 30, in line with analysts' expectations. Adjusted operating profit, a measure which strips out one-time items, increased 7% to £2.47 billion, beating expectations of £2.42 billion. Net profit jumped 50% to £1.21 billion because of lower costs related to a \$20 billion asset-swap deal with Novartis, which hurt the same period last year.

—Denise Roland

Walgreens' \$30.15 billion in revenue beat a \$29.93 billion forecast.

GLAXOSMITHKLINE

Drugmaker to Weigh Bid for Pfizer Unit

GlaxoSmithKline PLC will consider a bid for **Pfizer Inc.**'s consumer-health business should the U.S. company put it up for sale, Chief Executive Emma Walmsley said Wednesday, leaving the door open to a potential deal that would further expand the U.K. company's portfolio of pharmacy staples.

Pfizer earlier this month said

it was exploring a sale or spin-off of its consumer-health business, which analysts have said could fetch more than \$10 billion. Glaxo's consumer-health arm is one of the world's largest, with revenue of £7.19 billion (\$9.44 billion) last year.

Glaxo two years ago expanded its consumer-health business by combining it with **Novartis AG**'s consumer-health unit in a joint venture controlled by the U.K.-based company.

Glaxo said revenue rose 4% to £7.84 billion in the three months

to Sept. 30, in line with analysts' expectations. Adjusted operating profit, a measure which strips out one-time items, increased 7% to £2.47 billion, beating expectations of £2.42 billion. Net profit jumped 50% to £1.21 billion because of lower costs related to a \$20 billion asset-swap deal with Novartis, which hurt the same period last year.

—Denise Roland

WALGREENS BOOTS ALLIANCE

Results Top Consensus

Walgreens Boots Alliance Inc. reported fourth-quarter profit and revenue beat expectations.

Earnings for the latest quarter fell to \$802 million, or 76 cents per share, from \$1.03 billion, or 95 cents per share in the year-earlier period. Adjusted earnings-per-share were \$1.31, above the FactSet consensus of \$1.21. Revenue rose to \$30.15 billion from \$28.64 billion, above the FactSet consensus of \$29.93 billion.

The results include costs related to the company's **Rite Aid Corp.** deal, Walgreens said. Ownership of the Rite Aid stores is expected to transfer in phases, with a spring 2018

—Emma Court

Borrowing Benchmarks | WSJ.com/bonds

Money Rates

Key annual interest rates paid to borrow or lend money in U.S. and international markets. Rates below are a guide to general levels but don't always represent actual transactions.

Inflation

Sept. index level Aug. 17 Sept. 16

U.S. consumer price index

All items 246.819 0.53 2.2

Core 252.941 0.19 1.7

International rates

Latest Week ago -52-Week High Low

Prime rates

U.S. 4.25 4.25 4.25 3.50

Canada 3.20 3.20 3.20 2.70

Japan 1.475 1.475 1.475 1.475

Latest Week ago -52-Week High Low

U.S. government rates

Discount 1.75 1.75 1.75 1.00

Federal funds

Effective rate 1.1700 1.1700 1.2000 0.3500

Latest Week ago -52-Week High Low

Policy Rates

Euro zone 0.00 0.00 0.00 0.00

Switzerland 0.50 0.50 0.50 0.50

Britain 0.25 0.25 0.25 0.25

Australia 1.50 1.50 1.50 1.50

Overnight repurchase

U.S. 1.14 1.20 1.38 0.15

Treasury bill auction

4 weeks 1.005 0.995 1.300 0.240

13 weeks 1.105 1.090 1.180 0.340

26 weeks 1.245 1.240 1.245 0.475

Week Latest High Low

High 1.3125 1.3125 1.3125 0.5625

Low 1.0000 1.0500 1.1600 0.2400

Bid 1.1600 1.1600 1.1700 0.3000

Offer 1.1700 1.1700 1.1900 0.3200

Week Latest High Low

Secondary market

Fannie Mae 30-year mortgage yields

30 days 3.540 3.441 3.865 2.987

60 days 3.573 3.463 3.899 3.021

October 25, 2017

Week Latest High Low

High 27.270 1.366 0.244

Low 104.770 1.506 0.257

Value Traded Open Implied Settle Change Interest Rate

DTCC GCF Repo Index

Treasury 1.150 27.270 1.366 0.244

MBS 1.159 104.770 1.506 0.257

Open Implied Settle Change Interest Rate

DTCC GCF Repo Index Futures

Treasury Oct 98.850 0.005 4427 1.150

Treasury Nov 98.860 unch. 6378 1.140

Treasury Dec 98.710 -0.005 1988 1.290

Open Implied Settle Change Interest Rate

Notes on data:

U.S. prime rate is the base rate on corporate loans posted by at least 70% of the 10 largest U.S. banks, and is effective June 15, 2017. **Other prime rates** aren't directly comparable; lending practices vary widely by location. **Discount rate** is effective June 15, 2017. **DTCC GCF Repo Index** is Depository Trust & Clearing Corp.'s weighted average for overnight trades in applicable CUSIPs. Value traded is in billions of U.S. dollars. **Federal-funds rates** are Tullett Prebon rates as of 5:30 p.m. ET. **Futures on the DTCC GCF Repo Index** are traded on NYSE Liffe Ltd.

Sources: Federal Reserve; Bureau of Labor Statistics; DTCC; SIX Financial Information; General Electric Capital Corp.; Tullett Prebon Information, Ltd.

Sprint, T-Mobile Silent on Deal Talks

By RYAN KNUTSON

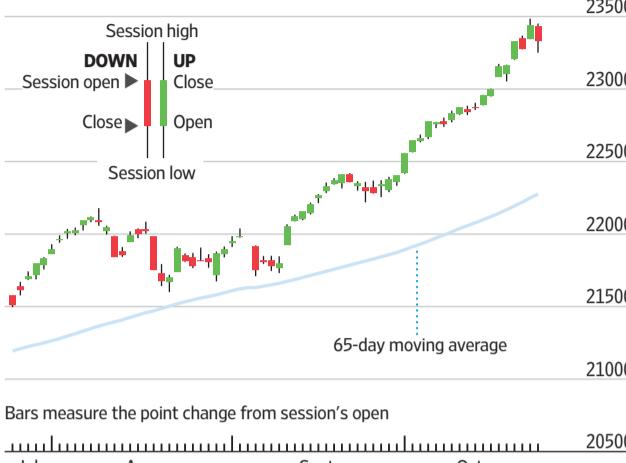
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MARKETS DIGEST

EQUITIES

Dow Jones Industrial Average

23329.46 ▼112.30, or 0.48%
High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open
Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

S&P 500 Index

2557.15 ▼11.98, or 0.47%
High, low, open and close for each trading day of the past three months.



65-day moving average

Nasdaq Composite Index

6563.89 ▼34.54, or 0.52%
High, low, open and close for each trading day of the past three months.



65-day moving average

Major U.S. Stock-Market Indexes

	Dow Jones		Latest		52-Week		YTD		% chg	
	High	Low	Close	Net chg	% chg	High	Low	% chg	3-yr. ann.	
Industrial Average	23451.51	23251.11	23329.46	-112.30	-0.48	23441.76	17888.28	28.2	18.0	11.6
Transportation Avg	9958.51	9767.69	9790.09	-161.42	-1.62	10038.13	7967.02	22.9	8.3	4.5
Utility Average	748.16	737.47	746.34	-3.03	-0.40	754.80	625.44	12.5	13.1	8.5
Total Stock Market	26605.03	26351.05	26493.79	-130.03	-0.49	26697.94	21514.15	19.9	13.8	9.1
Barron's 400	689.31	680.53	685.44	-4.52	-0.65	691.35	521.59	27.8	13.9	9.9

Nasdaq Stock Market

Nasdaq Composite	6600.64	6517.93	6563.89	-34.54	-0.52	6629.05	5046.37	25.0	21.9	13.5
Nasdaq 100	6087.58	6011.24	6055.04	-25.18	-0.41	6122.61	4660.46	24.6	24.5	14.4

Standard & Poor's

500 Index	2567.40	2544.00	2557.15	-11.98	-0.47	2575.21	2085.18	19.5	14.2	9.2
MidCap 400	1829.80	1808.09	1820.54	-10.65	-0.58	1834.29	1476.68	20.2	9.6	9.7
SmallCap 600	911.19	899.77	906.82	-4.33	-0.48	918.72	703.64	24.7	8.2	12.0

Other Indexes

Russell 2000	1500.42	1482.53	1493.48	-6.94	-0.46	1512.09	1156.89	24.0	10.0	10.1
NYSE Composite	12406.20	12280.31	12336.58	-68.42	-0.55	12430.52	10289.35	17.2	11.6	5.2
Value Line	543.82	536.97	540.32	-3.50	-0.64	545.98	455.65	14.9	6.7	4.2
NYSE Arca Biotech	4177.41	4095.05	4117.78	-44.93	-1.08	4304.77	2834.14	37.3	33.9	8.3
NYSE Arca Pharma	550.73	545.64	547.50	-4.32	-0.78	560.52	463.78	12.7	13.7	1.6
KBW Bank	102.04	100.36	101.11	-0.49	-0.48	101.60	73.36	35.3	10.2	13.4
PHLX® Gold/Silver	83.65	82.30	82.61	-0.90	-1.07	96.72	73.03	-3.3	4.8	2.8
PHLX® Oil Service	130.44	128.20	129.84	-0.42	-0.32	192.66	117.79	-18.4	-29.4	-19.1
PHLX® Semiconductor	1242.21	1216.99	1229.27	-16.11	-1.29	1245.38	802.88	48.6	35.6	26.2
CBOE Volatility	13.20	10.99	11.23	0.07	0.63	22.51	9.19	-21.1	-20.0	-11.3

\$Philadelphia Stock Exchange

Sources: SIX Financial Information; WSJ Market Data Group

Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 5,000 shares.

Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	% chg	After Hours	High	Low
SPDR S&P 500	SPY	18,577.8	255.65	0.36	0.14	256.50	255.21	
Principal US Mega-Cap	USMC	4,200.0	25.01	-0.04	-0.17	25.01	25.01	
General Electric	GE	4,042.5	21.55	0.05	0.23	21.79	21.42	
Ford Motor	F	3,828.2	12.04	...	unch.	12.09	12.02	
Van Eck Vectors Gold Miner	GDX	3,622.1	22.78	-0.05	-0.22	22.87	22.71	
Vipshop Holdings ADR	VIPS	3,573.4	8.01	0.04	0.50	8.01	7.97	
iShares MSCI Japan ETF	EWJ	3,457.5	57.67	...	unch.	57.69	57.65	
Bank of America	BAC	3,235.6	27.66	0.03	0.11	27.69	27.61	

Percentage gainers...

Buffalo Wild Wings	BWLD	595.3	121.00	19.85	19.62	125.55	101.00	
Westport Fuel Systems	WPRT	29.0	3.58	0.23	6.87	3.58	3.35	
Quotient Ltd.	QTNT	11.0	5.50	0.31	5.97	5.99	5.19	
Teradyne Inc	TER	150.6	41.25	2.13	5.44	41.45	39.00	
Agnico-Eagle Mines	AEM	39.7	45.80	1.85	4.21	46.25	43.95	

...And losers

Nutrisystem	NTRI	56.1	51.60	-6.70	-11.49	58.30
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BIGGEST 1,000 STOCKS

How to Read the Stock Tables		Footnotes:	
The following explanations apply to NYSE, NYSE Arca, NYSE MKT and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq OMX BXSM (formerly Boston), Chicago Stock Exchange, CBOE, National Stock Exchange, ISE and BATS.		I-New 52-week high. I-New 52-week low. d-Dividends lost in the most recent four quarters. FD-FIRST day of trading. D-Does not meet continued listing standards. If-Late filing g-Temporary exemption from Nasdaq requirements. t-NYSE bankruptcy. v-Trading halted on primary market. WJ-In bankruptcy or receivership or being reorganized under the Bankruptcy Code, or securities assumed by such companies.	
The list comprises the 1,000 largest companies based on market capitalization. Underlined quotations are those stocks with large changes in volume compared with the issue's average trading volume.		Boldfaced quotations highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.	
Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.			

Wednesday, October 25, 2017

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COMMODITIES

WSJ.com/commodities

Futures Contracts

Metal & Petroleum Futures

	Contract						Open interest
	Open	High	Low	Settle	Chg	Interest	
Copper-High (CMX) -25,000 lbs.; \$ per lb.	3.1700	3.1760	3.1610	3.1715 -0.0150	.660		
Oct	3.1985	3.2030	3.1440	3.1830 -0.0150	173,274		
Gold (CMX) -100 troy oz.; \$ per troy oz.	126.90	127.50	126.90	127.40 .040	.234		
Dec	127.80	128.10	127.20	127.90 .070	392,827		
Feb'18	128.40	128.50	127.10	128.20 .070	74,670		
April	128.00	128.00	128.00	128.07 .070	16,065		
June	129.10	129.10	128.00	129.01 .080	12,306		
Dec	130.20	130.60	130.80	130.40 1.00	10,788		
Palladium (NYM) -50 troy oz.; \$ per troy oz.	985.00	985.00	985.00	985.20 -3.10	1		
Oct	961.90	968.00	948.35	958.10 -3.10	29,706		
March'18	947.20	958.55	940.25	949.40 -2.90	3,620		
Platinum (NYM) -50 troy oz.; \$ per troy oz.	921.20	921.20	921.20	924.00 1.20	6		
Jan'18	926.90	926.90	914.50	926.70 1.20	69,047		
Silver (CMX) -5,000 troy oz.; \$ per troy oz.	16.890	16.945	16.890	16.868 -0.039	110		
Dec	16.960	17.050	16.810	16.925 -0.041	142,668		
Crude Oil, Light Sweet (NYM) -1,000 bbls.; \$ per bbl.	52.56	52.57	51.89	52.18 -.29	601,728		
Jan'18	52.75	52.77	52.13	52.43 -.24	298,794		
Feb	52.85	52.85	52.29	52.59 -.20	120,462		
March	52.92	52.92	52.39	52.71 -.16	237,670		
June	52.78	52.80	52.38	52.72 -.08	200,659		
Dec	51.95	51.98	51.63	51.94 -.05	257,203		
NY Harbor ULSD (NYM) -42,000 gal.; \$ per gal.	1.8291	1.8389	1.8031	1.8182 -.0039	32,574		
Dec	1.8292	1.8395	1.8035	1.8183 -.0041	120,730		
Gasoline-NY RBOB (NYM) -42,000 gal.; \$ per gal.	1.7334	1.7429	1.7004	1.7348 .0193	43,601		
Nov	1.6887	1.6959	1.6588	1.6861 .0127	147,648		
Natural Gas (NYM) -10,000 MMBtu; \$ per MMBtu.	2.991	2.999	2.913	2.919 -.055	24,446		
Dec	3.153	3.156	3.076	3.082 -.053	274,960		
Jan'18	3.273	3.275	3.199	3.203 -.054	202,045		
Feb	3.276	3.278	3.201	3.205 -.055	83,878		
March	3.230	3.231	3.162	3.165 -.051	174,458		
April	2.990	2.994	2.962	2.967 -.022	128,611		

Agriculture Futures

Corn (CBT)-5,000 bu.; cents per bu.							
Dec	352.50	355.25	350.50	351.00	-.175	773,983	
March'18	366.50	369.25	364.50	365.25	-.150	313,717	
Oats (CBT)-5,000 bu.; cents per bu.							
Dec	279.25	282.75	275.50	276.25	-.75	5,044	
March'18	278.25	281.00	276.00	276.50	.25	1,824	
Soybeans (CBT)-5,000 bu.; cents per bu.							
Nov	97.75	98.25	97.25	97.50	... 189,070		
Jan'18	98.00	99.75	98.75	98.25	.50	273,148	
Soybean Meal (CBT)-100 tons; \$ per ton.							
Dec	314.80	317.80	314.30	315.40	1.20	138,481	
Jan'18	317.00	319.80	316.50	317.50	1.10	91,503	
Soybean Oil (CBT)-60,000 lbs.; cents per lb.							
Dec	34.35	34.69	34.46	34.20	34.26 -.08	161,737	
Jan'18	34.48	34.83	34.39	34.43	-.04	95,196	
Rough Rice (CBT)-2,000 cwt.; \$ per cwt.							
Nov	1163.50	1188.00	1160.00	1166.50	6.00	3,278	
Jan'18	1192.50	1214.00	1191.00	1197.00	6.00	6,318	
Wheat (CBT)-5,000 bu.; cents per bu.							
Dec	438.00	443.00	433.75	435.50	-.250	271,880	
March'18	455.75	460.75	452.00	453.75	-.225	111,671	
Wheat (MPLS)-5,000 bu.; cents per bu.							
Dec	619.50	624.75	617.00	621.50	1.75	35,926	
March'18	632.00	636.50	629.50	633.25	1.25	24,510	
Cattle-Feeder (CME)-50,000 lbs.; cents per lb.							
Oct	155.150	155.500	154.700	154.850	-.275	2,422	
Jan'18	155.000	157.100	154.575	154.500	154.350 -.025	11,473	
Cattle-Live (CME)-40,000 lbs.; cents per lb.							
Oct	113.750	114.300	112.800	113.025	-.600	2,349	
Dec	119.375	120.475	118.825	119.075	-.450	140,943	
Hogs-Lean (CME)-40,000 lbs.; cents per lb.							
Dec	63.875	64.675	63.675	64.475	.450	114,731	
Feb'18	68.575	69.775	68.425	69.600	.950	50,190	
Lumber (CME)-110,000 bd. ft.; \$ per 1,000 bd. ft.							
Nov	439.00	441.20	434.60	439.70	-.90	2,598	
Jan'18	430.10	434.20	428.30	432.60	-.110	3,695	
Milk (CME)-200,000 cts.; cents per lb.							
Oct	16.61	16.71	16.60	16.60	-.01	3,798	
Nov	16.03	16.23	15.98	16.13	.18	4,614	
Cocoa (ICE-US)-10 metric tons; \$ per ton.							
Dec	2,083	2,112	2,064	2,079	-.5	94,958	
March'18	2,088	2,114	2,071	2,085	-.4	100,654	
Coffee (ICE-US)-37,500 lbs.; cents per lb.							

Currency Futures

Japanese Yen (CME)-¥125,000; \$ per 100¥							
Nov	.8786	.8818	-.8761	.8801	-.0012	2,583	
Dec	.8799	.8833	-.8768	.8814	-.0013	272,574	
Canadian Dollar (CME)-CAD 100,000; \$ per CAD							
Nov	.7888	.7900	-.7805	.7807	-.00		

BANKING & FINANCE

In Europe, Rates Are Focus

By JON SINDREU

Investors are preparing for the European Central Bank to give them all the complex details of how it will end its bond-buying program. But there is one crucial piece of information they truly care about: When will interest rates start going up?

ECB policy makers have repeatedly said they won't start raising rates until "well past" the point when purchases have stopped, even if inflation were to suddenly jump. That means divining the date of the last purchase is a focus for money managers across the world.

Many analysts now forecast that the ECB will say Thursday that the purchases will end next September, an extension of about nine months from the current target. The central bank is expected to cut its purchases in half to €30 billion (\$35.3 billion) a month.

Yet if ECB President Mario Draghi says the speed of the taper is either faster or slower than expected, investors will adjust their rate projections to match, reshaping the entire bond market.

In the eurozone, rates have stayed pegged at minus-0.4% for a year and a half and if Mr. Draghi says the speed of the taper is faster than expected, bonds could fall and the global rally propelling stocks to records could be derailed. If rates aren't so predictable anymore, analysts said, financial markets could leave behind years of historically subdued volatility.

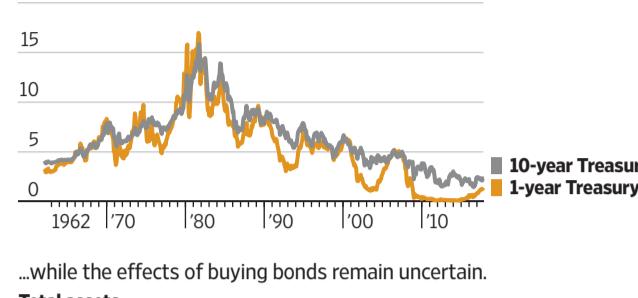
In a speech in June, Mr. Draghi's hints about a faster-than-expected reduction of bond buying gave markets a jolt. Yields on the 10-year German government bond shot up to 0.570%, their highest in 18 months, and the euro gained about 2% against the U.S. dollar. German yields have since come back down, closing at 0.479% on Wednesday.

The reaction was down to new expectations of future in-

How Central Banks Steer the Bond Market

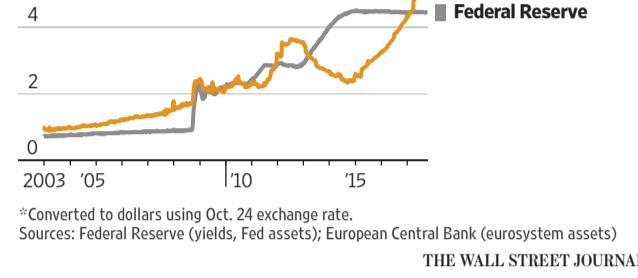
Short-term interest rates are the main driver of long-term rates...

Yields, monthly



...while the effects of buying bonds remain uncertain.

Total assets



*Converted to dollars using Oct. 24 exchange rate.

Sources: Federal Reserve (yields, Fed assets); European Central Bank (eurosystem assets)

THE WALL STREET JOURNAL

terest rates, market derivatives called overnight index swaps suggest. After his statement, those derivatives showed that investors brought forward their expectation of a rate rise to December 2018 or earlier.

They now suggest rates might stay where they are until around March 2019.

The central bank is expected to cut its purchases in half to €30 billion.

Once the ECB's taper calendar is clear, "I would expect the market to focus on the next step, which is the process towards rate normalization," said Andrew Bosomworth, head of portfolio management for Pacific Investment Management Co. in Germany.

This means Mr. Draghi's carefully chosen words will carry most of the ECB's policy might going forward, money managers said, potentially exposing bond markets to more volatility.

In the U.S., the Federal Reserve has already been down this road. In 2013, talk by policy makers about reversing bond buying sent yields on the 10-year Treasury note above 3% from about 1.9%.

By contrast, bond markets have remained mostly unruffled this month, as Fed officials started unwinding \$10 billion of the \$4.5 trillion asset portfolio they accumulated after the 2008 financial crisis—a policy known as quantitative easing, or QE—in a bid to stoke growth and inflation. Money managers were initially jittery about the effects of this untested experiment, but most say they are now unconcerned.

"QE was much more impactful when it was implemented than when it will be

done."

undone," said Myles Bradshaw, head of global aggregate fixed income at Amundi SA, Europe's largest money manager by assets. "Because [the Fed's moves] have been so clearly disconnected from actual interest-rate policy, it's not as dramatic."

Bank of America Merrill Lynch strategist Athanasios Vamvakidis called the Fed's balance-sheet reduction "a sideshow to the hiking cycle," in a recent note to clients. Rates in the U.S. have been rising since 2015.

This issue gets to the core of a long-running debate for economists: Did central bankers' bid to stimulate the economy by buying bonds work, and how? If it was central banks' demand for bonds that was successful in reducing borrowing costs, then surely reversing QE could suddenly push them up again.

But if QE's impact was just on market sentiment, as many investors now believe, the unwinding might have a much smaller effect.

A raft of research from economists and central banks estimates that QE lowered 10-year sovereign-bond yields by about 1 percentage point in the U.S. and U.K. and by half a percentage point in the eurozone. There is debate, though, on what exactly was pushing those yields lower. Was it the bond buying itself or just the fact that such all-out policies are a way to persuade investors that rates will stay low for very long?

"It's mostly about sentiment," said Charlie Diebel, head of rates at Aviva Investors.

The importance many investors are attaching to signals about the direction of interest rates, more than the size of a central bank's balance sheets, could suggest the actual bond buying had a smaller effect than once anticipated.

♦ ECB's extreme measures still send out ripples..... B13

How Draghi's Pledge Helped the Eurozone

By PAT MINCZESKI AND CHRISTOPHER WHITTALL

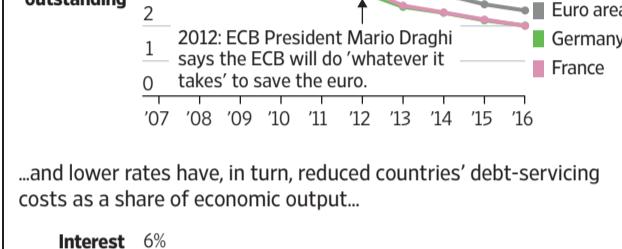
The European Central Bank is likely to scale back its bond purchases Thursday. But all of that buying—the ECB has been doing it since March 2015—has already helped reshape eurozone bond markets and given a needed boost to the finances of southern European countries.

Countries have effectively refinanced their big debt piles at lower rates, and they have also borrowed for longer terms, locking in those good deals.

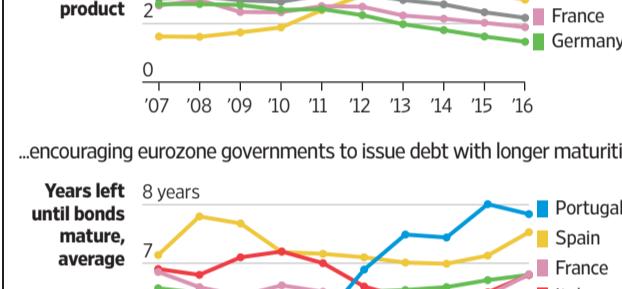
"From a debt-service-cost point of view, Italy is in great shape now because during this low-interest-rate environment, they've been busy borrowing away," said Laurence Mutkin, global head of G-10 rates strategy at BNP Paribas SA.

What It Took

Borrowing costs have declined across the eurozone...



...and lower rates have, in turn, reduced countries' debt-servicing costs as a share of economic output...



...encouraging eurozone governments to issue debt with longer maturities.



Sources: BNP Paribas (rates, payments); national ministries of finance and treasury agencies (maturity)

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Visa's Earnings Rise 11% as Partnerships Aid Results

Visa Inc. reported an 11% rise in profit for its fiscal fourth quarter, adding fuel to a robust rally this year for the card company's stock.

Earnings were \$2.14 billion for the quarter, or 90 cents a share, beating analysts' estimates of 85 cents a share. Net operating revenue rose 14% from a year earlier to \$4.86 billion, boosted by a 10% rise in payments volume as consumer card-based spending in

By AnnaMaria Andriots and Allison Prang

the U.S. and abroad continues to rise.

The San Francisco-based company forecast robust growth for the fiscal year that began Oct. 1. Finance chief Vasant Prabhu said that Visa's 2018 fiscal-year outlook is for adjusted earnings-per-share

growth at the high end of a midteens percentage range.

Visa shares ended up 1% at \$109.49 on the New York Stock Exchange Wednesday, pushing the stock's rise this year to about 40%. The company's stock price—which is up about 40% for the year—has helped fuel a rise in the Dow Jones Industrial Average, which crossed the 23,000 threshold this month.

Chief Executive Al Kelly

said on the earnings call that several drivers of growth contributed to the company's strong performance over the past year. Strong economies have resulted in increased consumer spending and the addition of Visa Europe to the company's lineup, which Visa finished acquiring in June 2016, has also helped to boost transaction activity on the Visa network. Before the acquisition, Visa Europe was a

separate entity that was owned by banks and other financial firms.

Visa has also benefited from new partnerships that kicked in last year, most notably with **Costco Wholesale** Corp. The store's credit card switched from running on the **American Express** Co. network to Visa in June 2016. **USAA**, one of the country's largest issuers of debit and credit cards, switched to Visa from **Master-**

card

Inc. last year. Visa, while a card company at its core, has been investing in partnerships that expand its reach as a payments company—a strategy meant to ensure that the firm will remain a leader in consumer spending even if fintech firms or other payment types grab more market share. In July, it extended its partnership with PayPal Holdings Inc. in Europe.

Saudi Fund Sets a Lofty Asset-Growth Goal

By MARGHERITA STANCATI AND MAUREEN FARRELL

RIYADH, Saudi Arabia—The kingdom's sovereign-wealth fund, a key engine of its plan to diversify the economy, laid out new targets for growth, saying it aims to nearly double the value of assets it manages to around \$400 billion by 2020.

That sum includes the expected proceeds from the planned initial public offering of up to 5% of state-owned oil giant Saudi Arabian Oil Co., known as Aramco.

The listing, slated for next year, could raise as much as \$100 billion, Saudi officials have said.

The Saudi fund, called the Public Investment Fund, held assets valued at roughly \$224 billion as of September, it said in a document released on Wednesday.

It had previously struggled to calculate the value of its holdings, estimating them to be between \$200 billion and \$300 billion.

The fund has made a series of high-profile investments and announcements since Saudi Arabia unveiled its long-term plan for an economic overhaul last year.

On Wednesday, it committed as much as \$20 billion to a \$40 billion **Blackstone Group** LP vehicle that will primarily invest in U.S. infrastructure. It has invested \$3.5 billion in **Uber Technologies** Inc., and committed \$45 billion to a technology fund led by **SoftBank Group** Corp.

The Saudi government, un-

der the leadership of Crown Prince Mohammed bin Salman, wants the fund to create sources of income outside of oil by investing at home and abroad.

In recent months, it announced it will participate in several big infrastructure projects in Saudi Arabia, including a \$500 billion futuristic urban-

development project presented this week. The fund said it would be a key investor in the planned city, dubbed Neom.

Up from an average of 3% over the past few years.

The fund will focus on job creation and encouraging its partners to do more in Saudi Arabia, said Mr. Rumayyan, speaking during an investment conference it organized in Riyadh.

In tune with the Saudi government's goal of creating

more jobs for Saudis in the private sector, the fund aims to create 20,000 new jobs by 2020 through investments in sectors including real estate, technology and entertainment.

That would help increase the fund's contribution to Saudi Arabia's gross domestic product to 6.3% from 4.4% today.

Carlyle Taps Co-CEOs in Its Plan for Succession

By MIRIAM GOTTFRIED

Carlyle Group LP is elevating two executives to top leadership roles at the private-equity firm, as co-founders David Rubenstein and William Conway step back from day-to-day operations.

Kewsong Lee, 52 years old, and Glenn Youngkin, 50, will become co-chief executives and join Carlyle's board, the Washington firm announced Wednesday.

Mr. Lee will focus on Carlyle's corporate private equity, global credit and capital-markets businesses, in addition to corporate strategy. Mr. Youngkin will oversee the firm's real estate, energy and infrastructure businesses.

Together, the two will have "full responsibility, authority and accountability for the firm's performance," Carlyle said. The changes will take place in January.

Messrs. Rubenstein and Conway, currently co-CEOs and 68, will become co-executive chairmen. Daniel D'Aniello, 71, Carlyle's current chairman and another co-founder of the firm, will assume the role of chairman emeritus and continue to serve on the board.

Carlyle is the latest big private-equity firm to promote younger leaders and make succession plans clearer as their founders age.



MARKETS

Market Calm Extends to China

Stocks globally are placid, but traders also see intervention from Beijing as playing role

The placid trading that has swept global markets this year has reached an unlikely destination: China.

Once synonymous with large daily swings, Chinese stock markets are having one of their calmest stretches ever. The Shanghai Composite Index, which tracks the fourth-biggest global stock market by market value, has moved more than 1% on 10 trading days this year. That is down from 65 times for all of 2016 and 141 times in 2015.

The past 30 trading days, coinciding in part with the 19th National Congress of the Communist Party, have been the least volatile of any 30-day period since the Shanghai Stock Exchange reopened in the early 1990s, according to an analysis of FactSet data.

A number of factors help to explain the muted trading, ranging from record-low stock

volatility in the U.S. to a stable economic backdrop in China. Institutional investors, known for a longer-term focus, are taking on a greater share of trading in Chinese markets.

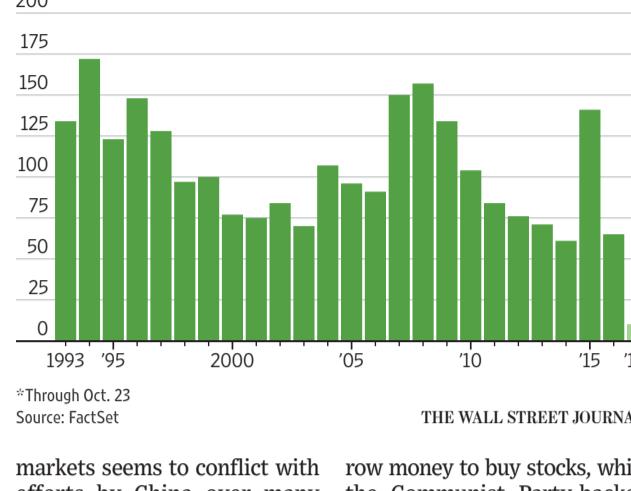
Perhaps most important, many investors and traders say Beijing has taken on a more muscular role in markets, following a spectacular market boom and bust in 2015. Securities regulators have called many brokerages and funds over the past year, urging them to say publicly they were bullish about stocks and to refrain from selling shares, market participants say. Some traders cite the price-supporting effect of the "national team" of state investment funds, which they say steps in to buy shares when prices fall.

The developments have left China's armies of retail investors increasingly disillusioned. While lower volatility can serve the government's goal of projecting an image of stability, it can sharply reduce the opportunities for quick profits that many traders depend on.

The perception of increased state involvement in stock

Trade Winds Die Down

Shanghai Composite's number of 1% daily moves each year



*Through Oct. 23

Source: FactSet

THE WALL STREET JOURNAL

markets seems to conflict with efforts by China over many years to open its economy and markets to the rest of the world. Chinese President Xi Jinping said in his congress-opening speech last week that markets would continue to play a "decisive" role in the allocation of resources.

Beginning in late 2014, Chinese authorities made it easier for ordinary investors to bor-

row money to buy stocks, while the Communist Party-backed People's Daily contended the market's rise was part of China's "grand development strategy." Months later, after the market suddenly slumped by over 40%, the securities regulator clamped down on such margin trading. It also imposed a six-month ban on share sales by major corporate shareholders and a temporary halt for

initial public offerings.

Some restrictions remain: Big shareholders are forbidden from making large block share sales. Although IPOs have resumed, long-discussed reforms to make them easier have been delayed. Market rules still prevent stocks moving up or down by over 10% each day.

Since 2015, traders say Beijing has also used the "national team"—large state-backed companies—to help steady markets by buying shares when the market falls sharply and selling when it rises.

This year's subdued volatility doesn't mean China's markets have truly modernized, said Michael Pettis, a finance professor at Peking University. He said that the quality of financial information still needs to improve. "Real value investing requires corporate transparency, high quality of data and predictable government behavior," said Mr. Pettis. "In China, none of these is easily available yet."

—Yifan Xie in Shanghai
and Steven Russolillo
in Hong Kong

Strong Factory Data Lift Yields

BY AKANE OTANI

Treasury prices slipped Wednesday, sending the yield on the 10-year note to its highest level since March, after data showed the

CREDIT MARKETS country's manufacturers on a strong footing.

The yield on the 10-year Treasury note settled at 2.444%—the highest closing level since March 20—compared with 2.406% Tuesday. Yields rise as bond prices fall.

Data showed demand for long-lasting U.S. factory goods rose again in September, with new orders for durable goods rising a seasonally adjusted 2.2% in September from a month earlier, the Commerce Department said Wednesday.

Economists surveyed by The Wall Street Journal had expected new orders to rise by 0.8%.

The data signaled strength among manufacturers heading into the fourth quarter, analysts said, weakening demand for government bonds, whose prices tend to rise when investors are less certain about the economic environment.

"We've had a continuation of decent growth data around the world," said James Athey, senior investment manager at Aberdeen Standard Investments. That has helped keep Treasurys in a relatively narrow range for much of the year despite ebbs and flows in investors' confidence around policy changes in Washington, he said.

Meanwhile, speculation around a potential change in leadership at the Federal Reserve continued to swing the markets, some analysts said.

Bond yields closed above 2.4% for the first time in more than five months Tuesday as some investors considered the possibility that President Donald Trump would tap a hawkish candidate for Fed chairman. Mr. Trump has narrowed the list of candidates to Fed governor Jerome Powell and Stanford University economics professor John Taylor, a person familiar with the matter told The Wall Street Journal.

Some analysts and economists say a Fed led by Mr. Taylor, who has criticized the central bank's easy-money policies put in place after the financial crisis, may take a more

Speculation around a potential change at the Fed continued to swing markets.

aggressive approach to raising interest rates—something that could send bond yields higher.

The yield on the two-year Treasury note, which tends to be more sensitive to rate expectations, notched its sixth advance in eight sessions Wednesday, settling at 1.608%, compared with 1.575% Tuesday.

"Markets are clearly set to deal badly with anyone other than [Fed Chairwoman Janet] Yellen if and when the president announces his candidate," said Jim Vogel, interest-rates strategist at FTN Financial, in a note Wednesday.



Shares of Chipotle Mexican Grill fell 15%—their worst day in five years—after the chain missed forecasts and said it would open fewer locations than expected.

Blue Chips Drop Broadly on Weak Profits

BY AMRITH RAMKUMAR

AND RIVA GOLD

A raft of downbeat earnings sparked broad declines in U.S. stocks Wednesday, sending the Dow industrials down 112 points in their worst day since early September.

Results from American companies have generally been solid, investors and analysts said. But after several quarters of strong earnings, some caution that expectations are high, which could limit gains in stocks.

Wednesday's markets

"Big beats don't surprise people anymore," said Mohit Bajaj, director of ETF trading solutions at WallachBeth Capital. "The downward pressure is much stronger," he said.

The Dow Jones Industrial Average closed down 0.5% at 23329.46 after shedding 191 points earlier in the session. The S&P 500 declined 11.98 points, or 0.5%, to 2557.15, with all 11 of its major sectors post-

The Nasdaq Composite shed 34.54 points, or 0.5%, to 6538.89.

Roughly 36% of the S&P 500

has reported earnings as of late

Wednesday, and 74% of those

Retreating

Shares of Chipotle Mexican Grill posted their biggest one-day drop since 2012, weighing on the S&P 500 along with Advanced Micro Devices.



ing losses. Both indexes had their worst session since Sept. 5.

The Nasdaq Composite shed 34.54 points, or 0.5%, to 6538.89.

Roughly 36% of the S&P 500

has reported earnings as of late

Wednesday, and 74% of those

have beat expectations

compared with the five-year average of 69%, according to FactSet.

Still, relatively weak earnings from some firms Wednesday led investors to take profits because of the market's almost uninterrupted run this year, said Youself

At &T, Boeing and Dr Pepper Snapple Group also traded lower after the firms released results.

Government bond investors largely focused on the outlook from central banks.

The yield on the 10-year

Treasury note rose to 2.444%

Wednesday—its highest close

since March—from 2.406%

Tuesday amid speculation about who the next Federal Reserve chairman will be. Yields rise as prices fall.

Treasurys extended losses after

data was released showing

demand for long-lasting U.S.

factory goods remained robust

last month.

Advanced Micro Devices

tumbled 1.92, or 13%, to 12.33,

after the chip maker forecast

margins to remain flat and revenue to decrease in the current

quarter.

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MARKETS

ECB's Extreme Measures Still Ripple

Central banks first acted to protect own economies; now, they are rolling back efforts

By BRIAN BLACKSTONE

The European Central Bank is expected to decide Thursday whether to scale back its nearly three-year-old asset-purchase program, a potential milestone for global central banking.

Yet smaller central banks in Europe have been forced in recent years to take their own extreme measures to protect their economies. They printed hundreds of billions of dollars of their currencies and used them to buy stocks, bonds and cash around the world, supporting global asset markets in the process. They have already started scaling back some of these efforts.

Switzerland

The ECB's decision in January 2015 to launch a program of bond purchases, known as quantitative easing, or QE, hit its neighbors hard, none more than Switzerland. Yet the rich Alpine country appears to be one of the earliest beneficiaries of the ECB's expected tapering of those purchases, with a weaker franc boosting exports.

Like other European countries outside the eurozone, Switzerland is heavily influenced by ECB policies affecting exchange rates, exports and inflation. Switzerland cut its deposit rate into negative territory in December 2014 and unexpectedly abandoned a longstanding floor on the euro's value against the franc one week before the ECB decision.

A further reduction in the deposit rate to minus 0.75% wasn't enough to keep the euro from plunging as much as

How Europe's Small Central Banks Weathered ECB Bond Buys

Switzerland cut its deposit rate into negative territory and abandoned a floor on the euro's value against the franc one week before the ECB's launch of QE in 2015. Yet the Swiss National Bank had to intervene in a big way in currency markets.

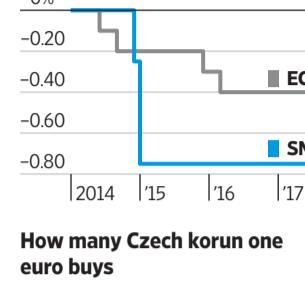
The Czech koruna's value rose in the aftermath of the ECB's decision, forcing the Czech National Bank to spend vast sums intervening in currency markets.

Denmark's policy makers reacted quickly in 2015, cutting their already negative deposit rate, suspending bond issuance and intervening in the foreign-exchange market in order to keep the euro's rate within 2.25% of 7.46 kroner.

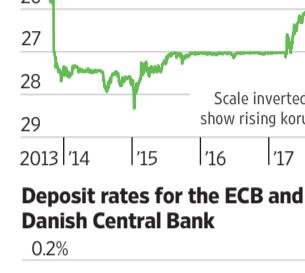
\$1 = 21.67 korun; 6.30 kroner; 0.99 Swiss franc

Sources: the central banks (rates, reserves, intervention amounts); Thomson Reuters (korun); Tullet Prebon (Swiss francs); Eurostat (house prices)

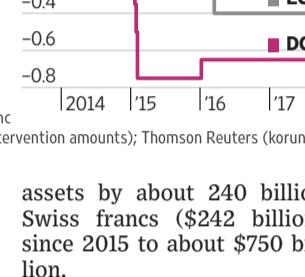
Deposit rates for the ECB and Swiss National Bank



How many Czech korun one euro buys



Deposit rates for the ECB and Danish Central Bank



\$1 = 21.67 korun; 6.30 kroner; 0.99 Swiss franc

Sources: the central banks (rates, reserves, intervention amounts); Thomson Reuters (korun); Tullet Prebon (Swiss francs); Eurostat (house prices)

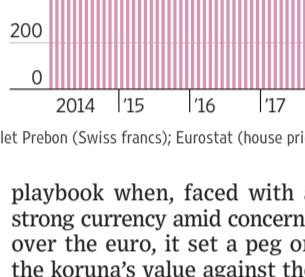
How many Swiss francs one dollar and euro buy



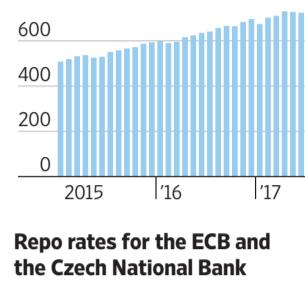
Currency intervention amounts, by month



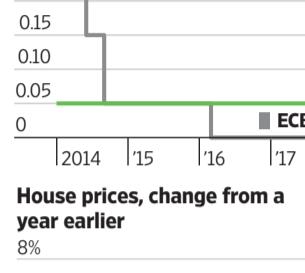
Danish foreign-exchange reserves



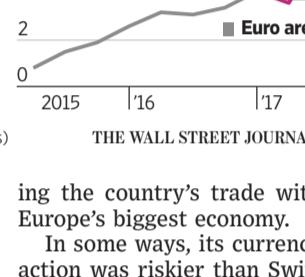
Swiss National Bank's foreign-currency reserves



Repo rates for the ECB and the Czech National Bank



House prices, change from a year earlier



THE WALL STREET JOURNAL.

without causing the same disruptions as Switzerland. Czech policy makers telegraphed the move well in advance of formally dropping the peg in April and haven't intervened since May.

In August, the Czech central bank raised interest rates, a rarity in Europe and beyond in recent years. Economists at ING Bank call another rate increase next month a "done deal."

Denmark

The Danish central bank faced a different dilemma from that of its Swiss, Czech and other counterparts because it doesn't have an inflation mandate. Rather, its sole responsibility is to keep its currency, the krone, in a tight exchange-rate band against the euro.

Policy makers there reacted quickly to the ECB's launch of QE, slashing their already negative deposit rate to minus 0.2% days before the announcement and reducing it further in subsequent weeks to minus 0.75%. Last year, they nudged it to minus 0.65%.

They also suspended bond issuance and intervened in the foreign-exchange market, all with the aim of keeping the euro's rate within 2.25% of 7.46 kroner.

Denmark's economy has strengthened since early 2015. Its central bank expects economic growth of 2.3% this year, followed by 1.8% next year and 1.7% in 2019. "This implies that the Danish economy will be in a boom with larger pressure on production capacity and labor resources," it said last month.

But it isn't out of the woods. Low interest rates prompted a boom in the housing market—particularly in its largest city, Copenhagen—as some home buyers' mortgage rates turned negative, meaning they were paid to borrow.

playbook when, faced with a strong currency amid concerns over the euro, it set a peg on the koruna's value against the euro in November 2013.

The ECB's asset-purchase program put upward pressure on the Czech peg, which was set at about 27 korun to the euro. It rose after that decision, forcing the central bank to spend vast sums intervening in currency markets to weaken the koruna.

The Czechs had a particular problem: trade with Germany, which the central bank calls crucial. A weaker euro made Czech products less price competitive in Germany, threatening

the country's trade with Europe's biggest economy.

In some ways, its currency action was riskier than Switzerland's because the koruna doesn't have the same haven status as the franc.

That exposed the Czech central bank to significant currency losses if the peg failed. Yet the Czechs largely weathered the storm, and while the inflation rate sank after the ECB launched QE, it gradually increased to 2.7%, within the Czech central bank's target of 2% with a 1-percentage-point band on each side.

And they were able to exit their peg earlier this year

HEARD ON THE STREET

Email: heard@wsj.com

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Express Scripts Only Looks Cheap

Selling Season

Express Scripts' price to forward earnings ratio



That customer is set to become a competitor. Anthem announced it will form its own pharmacy-benefit manager once the contract ends in two years.

Generating growth will be a challenge, even after ignoring the Anthem loss. The company is targeting annual adjusted Ebitda growth of 2% to 4% a year in its core business through 2020. Total third-quarter claims were down 1% from a year ago.

The competitive picture could darken further. Express Scripts Chief Executive Tim Wentworth addressed "recent speculation and rumors about potential disruption" in the industry on a conference call Wednesday. While he reiterated confidence in the business model, investors are worried Amazon.com will soon enter the pharmacy business. Amazon has made no announcement on the topic.

—Charley Grant

Express Scripts is a pure stand-alone pharmacy-benefit manager. The company is now working to diversify itself—Express Scripts announced the acquisition of medical-benefit manager eviCore for \$3.6 billion earlier this month. That deal is expected to be accretive to earnings next year after it closes, but it is unclear by how much.

Meanwhile, employee turnover in key roles is an issue. Express Scripts announced that James Havel would become finance chief effective Wednesday. He is the fifth CFO since 2012. The company also faces a slew of government inquiries into topics such as drug pricing and the opioid crisis, including two new investigations from state attorneys general revealed in the company's latest quarterly filing with the Securities and Exchange Commission.

Winning investors back won't be easy. And doing so will take more than a low earnings multiple.

—Charley Grant

OVERHEARD

Bitcoin isn't for the faint of heart. Neither is technical analysis.

Still, one analyst believes marrying the two can help explain the cryptocurrency's surge this year.

J.C. Parets, founder of Eagle Bay Capital and author of the All Star Charts blog, reckons a pattern called the Fibonacci sequence is the key to bitcoin's twists and turns.

"The levels match up so perfectly that it's hard for some to believe that this is simply normal behavior," he wrote on his blog on Wednesday.

Critics say such studies enable analysts to distort charts to tell whatever story they want.

Bitcoin recently traded around \$5,500 after topping \$6,000 a few days ago.

Should it fall further, Mr. Parets suggests buying.

When it comes to bitcoin, he wrote in his blog, "the path of least resistance here is higher, in my opinion, regardless of what the underlying asset may be."

Good News At AMD Can Hurt Intel

Intel is so big that rival **Advanced Micro Devices** can hardly dent its business, but good news at AMD can make investors question their optimistic outlook for the chip giant.

That has been the situation since AMD launched a new server processor chip called Epyc over the summer. AMD doesn't break out sales for this product line, but third-quarter sales in its enterprise, embedded and semicustom segment beat Wall Street's estimates by 10%. AMD credited Epyc and predicted Tuesday that the server processor would increase to a "sizable portion" of revenue next year.

That isn't much compared with Intel, which will likely sell more than \$18 billion of chips into its data-center segment this year. The segment containing AMD's Epyc business will likely generate a little more than \$2 billion, and most of that still comes from the processors the company designs for videogame consoles. Epyc could have a sizable impact on AMD next year by generating \$500 million in sales and still just represent about 2% of Intel's competing business.

The problem for Intel is that it can't afford to give up much. Analysts are expecting the company's data-center sales to accelerate next year following a slowdown this year.

Third-quarter results slated for Thursday are expected to show data-center revenue rising about 6% year over year compared with a 9% gain in the second quarter.

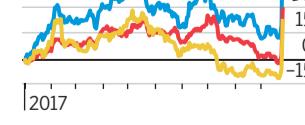
Intel's dominant share means that any gains for AMD and other rival processors are losses for Intel.

—Dan Gallagher

India's Boost to State-Owned Banks Can't Afford to Fail

Booster Shot

Share-price performance



Source: FactSet

banks' bad-loan burden has constrained their ability to lend more to thriving individuals and businesses. That has hampered credit growth across the economy, which has dropped to record lows.

Still, cleaning out bad loans remains a big challenge. In recent years, India's central bank has periodically pushed programs to review banks' asset quality and deal with the growing number of delinquent companies.

In May, the government gave the central bank more power to force banks to deal with souring loans.

The challenge now is that banks are recognizing more bad-debt charges, but the growth in their nonperforming loans isn't slowing. Nor are they decisively cutting off lending to zombie companies. The longer it takes for banks to seriously grapple with the bad-loan problem,

the higher their eventual losses will likely be.

Investor money has poured into Indian markets this year on the belief that Prime Minister Narendra Modi's government is the real deal when it comes to reform. To date, though, Mr. Modi has been better at making blockbuster announcements. Sorting out India's banks and their soured loans holds the key to so much that India's government needs to achieve, from buoying growth to improving infrastructure and reducing poverty. Investors should watch closely whether this particular lifeboat sinks or floats.

—Anjani Trivedi

India has finally sent its flailing state-owned banks the big lifeboat they need. Investors should jump aboard cautiously.

The country's finance ministry said late Tuesday that it would inject 2.11 trillion rupees (\$32.4 billion) to recapitalize heavily indebted public-sector banks over the next two years. Investors cheered the aid, which is equivalent to 1.5% of India's gross domestic product.

State Bank of India, the country's largest bank, rose as much as 27% on Wednesday, with the sector as a whole jumping more than 30%.

The move to shore up the



Forty-five years ago, a dialogue was opened between the U.S. and China. That dialogue, affirmed by a symbolic gift of two pandas, has led to an unprecedented period of growth between our two nations—diplomatically, culturally and economically.

Twenty-four years ago, we were a small airline in Southern China with a mission to see things differently and share our dreams. Today, HNA Group is a global Fortune 500 company focused on tourism, logistics and financial services with approximately \$145 billion in assets and over \$90 billion in annual revenues. We employ 410,000 employees around the globe, including 45,000 people in the United States.

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