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# THE WALL STREET JOURNAL.

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

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Last week: DJIA 26447.05 ▼ 11.26 0.04% NASDAQ 7788.45 ▼ 3.2% STOXX 600 376.41 ▼ 1.8% 10-YR. TREASURY ▼ 1 14/32, yield 3.227% OIL \$74.34 ▲ \$1.09 EURO \$1.1523 YEN 113.71

## What's News

### Business & Finance

**T**he collapse of Toys "R" Us has rivals fighting over billions of dollars in holiday sales now up for grabs, and is also likely to make it harder for last-minute shoppers to obtain some of the year's hottest toys. A1

◆ Private-equity firms are on track to raise a record amount for infrastructure investing in 2018. A1

◆ The climb in yields on long-term U.S. government debt call into question the durability of the long bull market for stocks. B1

◆ Auto lenders are pulling back on the zero-interest financing offers that had become widespread for much of this decade. B1

◆ The Pentagon plans to scrutinize the supply chains of U.S. aerospace and defense companies to find gaps and weaknesses in the nation's military readiness. B2

◆ Teamsters members voted down a new contract with UPS, but union leaders said the turnout was too low to reject the contract. B3

◆ HSBC hired longtime Goldman banker Peter Enns as the global head of its financial-institutions group, a senior appointment. B6

### World-Wide

◆ With the Supreme Court fight over, Republicans and Democrats head toward the midterm elections driven by conservatives' passion to shape the federal judiciary and by the #MeToo movement. A1, A4, A6

◆ Pompeo reported progress, but no immediate breakthrough, on slow-moving denuclearization talks after meeting with North Korean leader Kim. A1

◆ Interpol's president, whose wife reported him missing in China last week, has resigned after authorities there said he was being investigated. A9

◆ Brazil's Bolsonaro and Haddad will face each other in a presidential runoff Oct. 28 after finishing first and second in Sunday's vote, according to an exit poll. A9

◆ A U.N. scientific panel warned that rapid and far-reaching changes are needed to avert catastrophic climate change. A12

◆ A Republican operative and opposition researcher solicited and raised at least \$100,000 from donors as part of an effort to obtain what he believed to be emails stolen from Hillary Clinton. A8

### JOURNAL REPORT

#### Financial-Advice Fees Finally Fall

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## Brazilian Conservative Leads First Round of Presidential Vote



**STARK CHOICE:** Supporters of Brazil's presidential candidate Jair Bolsonaro, a retired army captain, celebrated Sunday as he took a commanding lead over Fernando Haddad, the leftist former São Paulo mayor, and other candidates in the first round of voting. A9

## Infrastructure Investment Booms

BY MIRIAM GOTTFRIED

Pregin.

Leading the charge are KKR & Co., Stonepeak Infrastructure Partners and I Squared Capital, which each raised about a \$7 billion investment vehicle this year.

The numbers are set to swell even more as the total doesn't include the \$5 billion raised so far by Blackstone Group LP in the initial phase of its planned \$40 billion infrastructure fund.

Meanwhile, two infrastructure powerhouses, Global Infrastructure Partners LLC and Brookfield Infrastructure Partners LP,

which raised \$15.8 billion and \$14 billion funds, respectively, in 2016, are already targeting new pools of about \$20 billion each.

Institutional investors such as pension funds have been allocating more money to infrastructure, attracted by its reputation for steady returns, which typically fall between safer fixed-income securities and riskier private equity.

That is especially appealing with interest rates still near historically low levels and equity prices close to all-time highs.

Achieving those returns,

however, is no slam dunk. A lot of cash is chasing a limited number of opportunities, which has led to worries that infrastructure funds will struggle to find places to put their billions to work or pay too dearly to do so.

But private-equity officials argue that technological change in telecommunications and energy and the need to upgrade aging railways and other transportation assets create more than enough demand for their capital.

The U.S. is the largest mar-

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## Retailers Dash to Fill Void Left by Toys 'R' Us Collapse

BY PAUL ZIOBRO

The collapse of Toys "R" Us Inc. has its rivals fighting over billions of dollars in holiday toy sales now up for grabs, and is also likely to make it harder for last-minute shoppers to get their hands on some of the year's hottest items.

Walmart Inc., Target Corp. and other chains are setting aside more floor space for toys in hundreds of stores. A chain that usually operates Halloween pop-up shops is opening dozens of temporary Toy City stores. Even Amazon.com Inc.

is planning to distribute toy catalogs to shoppers visiting its Whole Foods stores, according to toy manufacturers.

While other general retailers are looking to increase their toy sales, no store can completely replace Toys "R" Us in providing the broad selection of toys and reliable supply of hot products on shelves in the days before Christmas, said toy makers and analysts.

The toy superstar could stock up late into the season because it could afford to carry unsold inventory into the next year. Large mass-market

retailers are focused on selling down the items so they aren't left with extra stock.

"The other guys don't plan the business to have inventory at the end of the year," said Neil Friedman, a former Toys "R" Us president.

The result across retailers will likely be a selection focused on the most popular items and the best-known brands, with supplies dwindling during the final week, industry executives and analysts said. And that is when shoppers flock to buy toys, despite efforts by retailers to pro-

Please turn to page A8

### A Nobel Prize Is Great—But How About a Free Parking Spot?

\* \* \*

Some universities sweeten the award with extras; a house with free beer for life

BY MELISSA KORN

Life really changed for J. Fraser Stoddart the day he won a share of the 2016 Nobel Prize in chemistry.

Dr. Stoddart, a Northwestern University chemist, learned from the school's parking director that in honor of the award he was getting a reserved parking spot closer to his office—at no



charge.

"The system here went from not really treating Fraser Stoddart very well to going overboard, literally within hours," the professor said.

Being named a Nobel laureate comes with recogni-

tion for breakthrough lifetime achievements,

money, a gold medal and a trip to Stockholm. For some win-

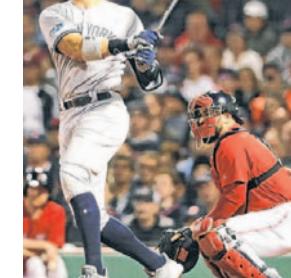
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#### 9-YEAR-OLD WITH A NIKE DEAL

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## U.S. Cites Progress In North Korea

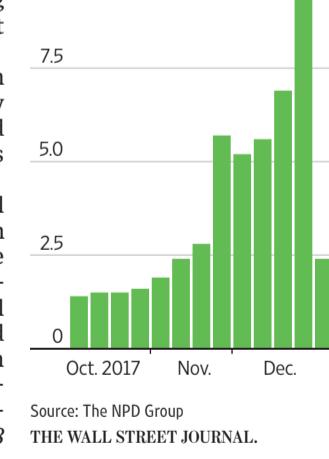
10.0%

7.5%

5.0%

2.5%

0

Source: The NPD Group  
THE WALL STREET JOURNALBy Courtney McBride  
in Seoul and Michael R. Gordon in Washington

After their lunch in Pyongyang, Mr. Kim declared, "It's a very nice day that promises a good future, for both countries."

On Twitter, President Trump described the meeting as "good" and alluded to the prospect of another summit with Mr. Kim, saying, "I look forward to seeing Chairman Kim again, in the near future." Still, in a nod to difficult issues that remain, a U.S. official traveling with Mr. Pompeo said "it's going to be a long haul."

Mr. Pompeo told reporters Monday morning in Seoul that the countries are pretty close to finalizing terms for a second summit between Messrs. Trump and Kim.

Asked when an announcement should be expected, he said it was "hard to know. Sometimes that last inch is hard to close. But we're getting pretty close."

Mr. Pompeo said the most important development is that

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# U.S. NEWS

THE OUTLOOK | Bob Davis

## China Tariffs Not Short-Term Strategy



**WASHINGTON**—While the White House is progressing on trade deals with allies including Canada, Mexico, Korea and Europe, its dispute with China looks increasingly intractable, with tariffs between the world's two largest economies likely cemented in place for years.

In other trade fights, President Trump used tariffs as leverage to reach deals.

Threatening car tariffs helped convince Canada and Mexico to concede to U.S. demands for a new North American Free Trade Agreement, the president boasted. "Without tariffs, we wouldn't be talking about a deal," he said Oct. 1 in the Rose Garden.

China is different. Tariffs aren't simply a negotiating tactic for the U.S., but a way to change economic incentives.

The Trump trade team believes U.S. firms need protection from a predatory Chinese state, which Mr. Trump says coerces U.S. companies to fork over technologies and subsidizes Chinese firms to expand globally.

Using tariffs to make it more expensive for companies to export from China, Trump trade warriors figure, will encourage foreign firms to take their know-how out of the country.

This isn't a short-term

strategy. "We have changed the paradigm," U.S. Trade Representative Robert Lighthizer said last month. "We have tariffs in place, and the president is not going to let this go along when you have forced transfer of intellectual property."

So far, the U.S. has imposed tariffs on about half of the \$505 billion that the nation imported from China in 2017. Mr. Trump has threatened to hit the other half with levies too.

**F**or the first half of this year, Treasury Secretary Steven Mnuchin and his allies tried to cut deals with the Chinese that focused mainly on China buying more U.S. goods. Doing so, this camp argued, could address Mr. Trump's complaints about the \$375 billion trade deficit with China. The president rejected the Chinese offers, undermining Mr. Mnuchin with the Chinese and strengthening Mr. Lighthizer's hard-line position in White House trade fights.

Now the U.S. team is more unified, but only because they are pushing for the kinds of changes sought by Mr. Lighthizer.

They include reducing the role of state-owned firms in China's economy, allowing U.S. firms to get majority stakes in businesses in China

### Paying the Bill

Consumer goods get hit harder as U.S. levies tariffs on more Chinese imports.

#### Share of tariffs on Chinese imports

	Intermediate goods	Capital goods	Consumer goods	Others*
1st round \$50 billion in tariffs	53%	42	1	5
2nd round \$200 billion in tariffs	50%	25	24	1
3rd round* \$267 billion in tariffs	15%	44	40	1

\*Threatened, but not carried out yet.

Note: Numbers don't equal 100% due to rounding. 'Others' includes transport equipment

Source: USIT via Peterson Institute for International Economics

THE WALL STREET JOURNAL.

and dropping pressure on U.S. tech firms to reveal their secrets. These are the types of changes that China finds most difficult to accept.

China is a "socialist market economy," said Zhang Xi-

**S**ome Wall Street analysts said the trade fight won't have much economic impact.

angchen, China's representative to the World Trade Organization, in July. "For those who speculated that China would change and move onto a different path...that was their wishful thinking."

President Trump is plan-

ning to meet Chinese leader Xi Jinping at the Group of 20 leaders' summit in Buenos Aires at the end of November. A failure there, says Myron Brilliant, the U.S. Chamber of Commerce's executive vice president, is bound to mean that the U.S. goes ahead with plans to increase tariffs on a tranche of \$200 billion of Chinese goods from 10% to 25%. It could also lead to Mr. Trump making good on his threat of tariffs on another \$250 billion worth of imports from China, if he hasn't imposed them beforehand.

Some Wall Street analysts said the trade fight won't have much economic impact. Jesse Edgerton, a JPMorgan analyst, likens tariffs to a tax. A 25% tariff on \$500 billion of Chinese goods produces \$125

billion in costs. Some of those costs will be absorbed by Chinese exporters, while some will be borne by U.S. importers and U.S. consumers.

In a \$20 trillion U.S. economy, JPMorgan figures it should be manageable. It forecasts tariffs would reduce U.S. output growth by just 0.1 percentage point in 2019 and 0.3 percentage point in China. The Chinese, JPM expects, will respond by stimulating their domestic economy and cheapening their currency.

**O**thers argue the impact could be deeper. Seth Carpenter, a UBS analyst, says tariffs hit U.S. manufacturing hard, especially newer firms which depend on China for components and as an export destination.

A lengthy trade war could tip the U.S. into recession, he said.

Tariffs have a kind of inertia, says Derek Scissors, an American Enterprise Institute China expert. Once they are put in place, companies and countries eventually adjust to them by shifting investment and policies. Removing the tariffs rejiggers the trading system again. Even if Mr. Trump should lose the 2020 election, he figures, tariffs could remain in place.

"Both parties are anti-China, and that's the way protectionism works," he said.

## ECONOMIC CALENDAR

**Wednesday:** The U.S. Labor Department releases September producer-price index data. PPI, a measure of the prices businesses receive for their goods and services, declined a seasonally adjusted 0.1% in August from a month earlier. Another month of weakness could signal a cementing trend of sluggish business price increases. Economists surveyed by The Wall Street Journal forecast a 0.2% rise in PPI.

**Thursday:** The U.S. Labor Department releases September's consumer-price index. U.S. consumer prices rose for a fifth straight month in August, though the pace of annual increases eased for the first time this year. From a year earlier, prices rose 2.7%, a slightly slower growth rate than the 2.9% annual gain recorded in the prior two months. Economists surveyed by The Wall Street Journal expect consumer prices climbed 0.2% in September from a month earlier and 2.4% from a year earlier.

**Friday:** The U.S. Labor Department releases September import-price data. In August, prices for goods imported to the U.S. declined, driven by a drop in oil prices. Economists surveyed by The Wall Street Journal forecast import prices rose 0.2%.

The University of Michigan releases its preliminary October U.S. consumer-sentiment index. The September consumer-sentiment index rose to 100.1 from 96.2 in August. Economists surveyed by The Wall Street Journal forecast consumer sentiment clocked in at 100.0 in October.

## Investing In Projects Takes Off

**C**ontinued from Page One ket for energy-infrastructure assets, which by and large aren't owned by the government. The energy industry's fracking revolution and the country's shift to being a net exporter of natural gas, as well as the boom in green-energy projects, have created new opportunities for investment. KKR said in July it had agreed to acquire Discovery Midstream Partners, which gathers and processes natural gas, for about \$1.2 billion through a newly formed joint venture with energy company Williams Cos.

The digital revolution, meanwhile, has attracted attention to U.S. telecommunications assets like cell towers and data centers. In June, Brookfield agreed to buy 31 of AT&T Inc.'s data centers in a deal worth \$1.1 billion.

The firms with the largest funds argue that their growing scale creates opportunities by giving them access to deals smaller funds couldn't do. Blackstone is looking at assets that enable it to invest at least \$1 billion, including several publicly traded companies, according to a person familiar with the buyout firm's strategy.

The fundraising spree comes despite a lack of progress on infrastructure legislation in Washington. President Trump, a Republican, campaigned on the promise of a \$1 trillion plan for U.S. infrastructure and rolled out a proposal earlier this year. The initiative faced congressional



An Italian train station. In April, private-equity firm GIP purchased Italy's second-largest high-speed train operator, known as Italo.

opposition from the outset, largely because it would require states and cities to come up with their own money for improving highways, airports and water systems.

The White House has since shifted its focus to other priorities such as trade. In July, Stonepeak announced that DJ Gribbin, formerly Mr. Trump's top infrastructure adviser, would join the firm as a senior operating partner.

Funds such as those run by

Stonepeak and Blackstone, which are primarily concentrated in North America, said they would likely focus more on energy and telecommunications than on transportation, much of which falls into the public-asset category.

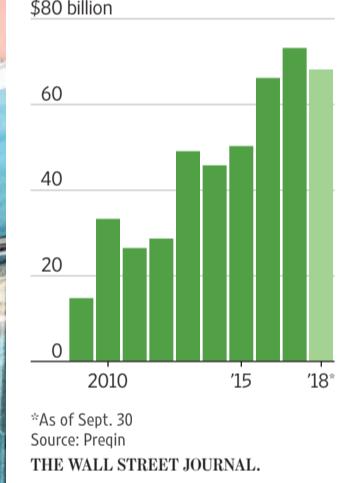
In the U.S., privatizing public assets like toll roads, bridges and airports has long been difficult because of cheap funding alternatives such as municipal debt and the challenges of navigating local politics. But other

spheres of the infrastructure market are flourishing, deal makers said.

"If you want to privatize a toll road in a major urban city in the U.S., that becomes a very difficult transaction to do," said Robert Palter, co-leader of the global capital projects and infrastructure practice at consulting firm McKinsey & Co. "If you talked about a different variety of infrastructure such as acquiring private ports or railroads, those are deals that are get-

ting done."

Governments outside the U.S. are more open to private capital, giving firms such as GIP, Brookfield and KKR with global funds the opportunity to privatize assets there. GIP bought three U.K. airports, two of which it still owns, and transformed their terminals into shopping malls. Many large transportation deals abroad involve assets that aren't government owned. In April, GIP purchased Italy's second-largest high-speed



\*As of Sept. 30

Source: Prequin

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train operator, known as Italo, for €1.98 billion (\$2.3 billion).

Some still hold out hope that the funds will be put to use fixing the U.S.'s problem-plagued public-transportation systems.

"In the end, the reality is that U.S. infrastructure is still woefully maintained," said Mark Weisdorf, former chief executive of the infrastructure-investments platform at J.P. Morgan Asset Management, who now runs a strategic-consulting firm. "Eventually stuff gives and things happen. That catalyst may still come."

There have been some examples of U.S. public-private partnerships. Carlyle Group LP is investing in the redevelopment and expansion of Terminal 1 at New York's John F. Kennedy International Airport, for example.

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## U.S. WATCH

### MICHIGAN

#### Governor Targeted In Flint-Water Suit

Residents and businesses affected by the lead-contaminated water crisis in Flint are asking a judge to reinstate Republican Gov. Rick Snyder and other Michigan officials as defendants in a class-action lawsuit.

Lawyers said Sunday that an amended complaint includes evidence not in the original lawsuit. They say it shows Mr. Snyder and his staff knew about health risks for months before making an official announcement.

Judge Judith Levy dropped Mr. Snyder and others from the case in August, saying the 2016 suit didn't claim he knew of

risks when the city switched to Flint River water in 2014. The corrosive water caused lead to leach from old plumbing. The new complaint also alleges the administration's delayed response may have been racially motivated.

Snyder spokesman Ari Adler said the administration doesn't comment on pending litigation.

—Associated Press

### OHIO

#### City of Columbus Skips Holiday

The city of Columbus, Ohio, called off its observance of the divisive holiday that honors its namesake.

Ohio's capital city, population

860,000, will be open for business Monday after observing Columbus Day probably "for as long as it had been in existence," said Robin Davis, a spokeswoman for Democratic Mayor Andrew Ginther. City offices will close instead on Veterans Day, which falls on Nov. 12 this year.

The decision to stop observing the holiday wasn't spurred by the national movement to abolish Columbus Day in favor of Indigenous Peoples Day as a way of recognizing victims of colonialism, Ms. Davis said. Columbus Day marks the Italian explorer's arrival in the Americas on Oct. 12, 1492.

"We have a number of veterans who work for the city, and there are so many here in Columbus," she said. "We thought

it was important to honor them with that day off."

Ms. Davis also said the city doesn't have the budget to give its 8,500 employees both days off.

—Associated Press

### DELAWARE

#### Passengers and Pilot Survive Copter Crash

Police in Delaware say no one was injured after a helicopter that was carrying four people crashed in a farm field.

Delaware State Police said the crash occurred shortly after 1:30 p.m. on Sunday. The craft came down on

# Limo Crash Kills 20 In Upstate New York

By JIMMY VIELKIND AND JOSH BARBANEL

LATHAM, N.Y.—Twenty people were killed when a limousine blew through a stop sign, hitting two pedestrians and a parked car near a popular roadside tourist destination outside of Albany, in the deadliest U.S. transportation accident in nine years, authorities say.

All of the 17 passengers as well as the driver of the 2001 Ford Excursion limousine were killed, and two pedestrians who were hit also died, New York State Police said Sunday. A National Transportation Safety Board team arrived Sunday to investigate the accident.

"Twenty fatalities is just horrific," NTSB Chairman Robert Sumwalt said. "This is the most deadly transportation accident in this country since 2009." Mr. Sumwalt was referring to the 2009 crash of Colgan Air Flight 3407 outside Buffalo, which killed 50 people. Earlier this year, 17 people were killed when a tour boat capsized in Missouri during a sudden storm.

State Police First Deputy Superintendent Christopher Fiore on Sunday declined to give details about the victims' identities until autopsies were completed and relatives had been notified. At a news conference in the Albany suburb of Latham, he said the victims were all adults.

He declined to comment on whether the vehicle was speeding or if the passengers were wearing seat belts. Mr. Fiore said state law requires a limousine's driver and front-seat passengers to wear seat belts, but not passengers in the rear.

The limousine passed through the stop sign at the intersection of two state roads around 1:55 p.m. Saturday, then crashed into an unoccupied Toyota Highlander in the parking lot of Apple Barrel Country Store and Cafe in Schoharie, about 30 miles west of Albany.

Schoharie County Sheriff Ron Stevens said the intersection had been recently redesigned but "there have been accidents there" in the past. The limousine was traveling downhill on Route 30, where the posted speed limit is 50 miles an hour, before it reached the intersection.

Jessica Loden Kirby, managing director at the Apple Barrel, said customers in the parking lot were among the casualties.

New York Gov. Andrew Cuomo gave condolences to families of the victims, commended first responders and said he had directed state agencies "to aid in this investigation and determine what led to this tragedy."

# Vatican Blasts Pope Allegations

By FRANCIS X. ROCCA

ROME—A senior Vatican official denounced what he called the "monstrous accusation" that Pope Francis ignored reports of sexual misconduct by a favorite U.S. cardinal. But he also confirmed that the cardinal had already been under disciplinary measures when the pope took office.

Cardinal Marc Ouellet, head of the Vatican's office for bish-

ops, on Sunday called claims that the pope knew of allegations against then-Cardinal Theodore McCarrick yet made him an important adviser in the U.S. church "calumny and defamation."

He acknowledged, however, that when the pope took office in 2013 the cardinal had already been punished over widespread rumors he had been sexually active with seminarians. That is a key element in the argument that the

pope must have known about his past.

An investigation later found credible evidence that the cardinal had sexually abused a teenager in the early 1970s, and in July he became the first man to give up the title of cardinal in nearly a century.

The accusations by Archbishop Carlo Maria Viganò in August have rocked the church and shaken faith in the pontiff's credibility.

Archbishop Viganò claimed

that Pope Benedict XVI, Pope Francis' predecessor, privately disciplined the cardinal. Pope Francis disregarded the sanctions and gave the cardinal great influence over the appointment of U.S. bishops, the envoy claims. Pope Francis hasn't responded to the allegations.

In an open letter to Archbishop Viganò, Cardinal Ouellet acknowledged that Cardinal McCarrick had been restricted from travel and

public appearances and told to lead a "discreet style of life of prayer and penitence" because of rumors about his behavior.

The restrictions didn't amount to formal sanctions signed by the pope, Cardinal Ouellet stated. But he wrote that he and another Vatican cardinal had written letters to Archbishop Viganò and the preceding envoy to the U.S. reaffirming the "conditions and restrictions" that then-Cardinal McCarrick "had to obey."

# Catholics Torn as Abuse Wears on Their Faith

By IAN LOVETT

Megan McCabe was born into a Catholic family, attended Catholic high school and college, and now teaches at a Catholic university. But the 32-year-old didn't attend Mass for more than a month following the August release of a Pennsylvania grand-jury report that documented more than 1,000 cases of sexual abuse by clergy in the state.

"I had a moment when I felt like this institution doesn't have any goodness in it," said Ms. McCabe.

The sexual-abuse scandals that have rocked the church

Though polls show church attendance sharply dropped in the wake of the scandal, Ms. McCabe doesn't remember talking about it much at school or at home.

Now, as a professor of religious studies at Gonzaga University in Spokane, Wash., she is confronting the church's history of abuse as an adult.

"It just hit me—the level of coverup," she said of her reaction to the Pennsylvania report. "That's what felt worse to me."

Her mother-in-law, Marybeth Brown, has been going to Catholic mass since she was a child, though she struggles to explain why she has continued amid the recent scandals.

The 63-year-old remembers questioning what she should do when the priest at her Orange County, Calif., parish—where she had all four of her children baptized—was removed in 2001 amid allegations that he had affairs with adult women and abused teenage girls.

It was "a huge kick in the gut," she said, but she stuck with the church.

Not all Catholics are having crises of faith.

"The mediocre Catholics are the ones shying away from the church," said Grace Ruiz, 46, after a recent service in Artesia, Calif., where a bishop addressed the scandal from the altar. "All these things don't only happen to Catholics. They just highlight the Catholics."

But many of the strongest reactions in churches have come from worshipers outraged by what they have learned about sexual abuse, or by how their leaders have responded.

The first Sunday after the Pennsylvania report was released, Mary Bradford—a lifelong Catholic—walked out of her Annapolis, Md., church, angry that the priest asked parishioners to pray for the church before he mentioned the victims of sexual abuse.

The family has kept attending, but Ms. Bradford, 38, recently suggested to her husband that they look at other denominations.

"The message I'm receiving still seems to be, 'How do we make sure everyone stays in the church?'" she said. "Part of me is like, geez, maybe the church needs to start over."

*For some devoted Catholics, decisions that were once a given are now agonizing.*

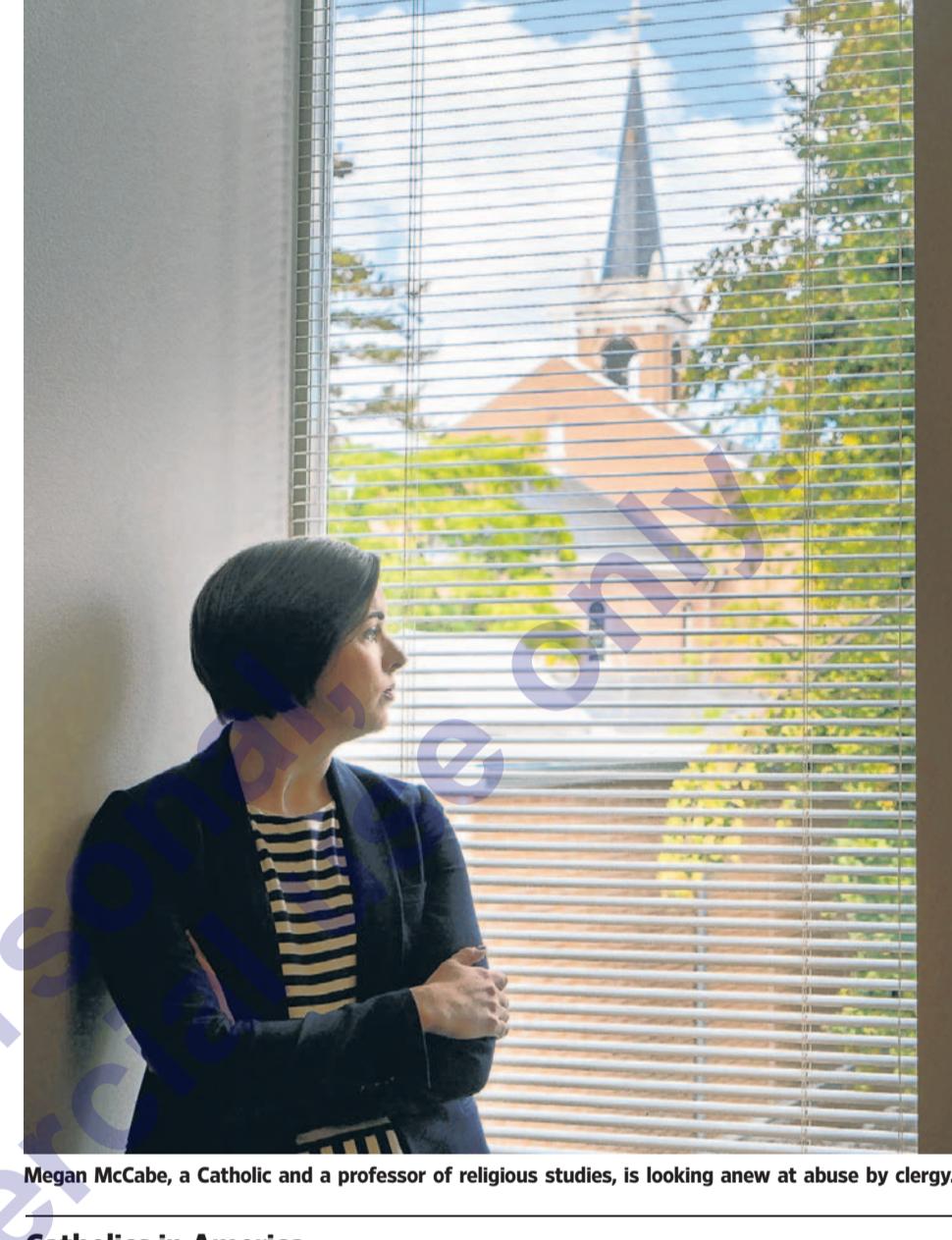
this year have left some of the country's most devoted Catholics questioning how to reconcile their longtime faith with the realities of the institution they rely on to channel it. For them, decisions that were once a given—like whether to attend mass, send their kids to Catholic school or even have their children baptized—have suddenly become agonizing.

There were 74.3 million Catholics in the U.S. as of 2017, down from 81.6 million just two years earlier, according to the Center for Applied Research in the Apostolate, a nonprofit at Georgetown University. A Pew Research Center survey released last week found 72% of them approve of Pope Francis's job performance, the lowest of his pontificate and down 12 points since the start of the year. More than 60% of American Catholics think he is doing a fair or poor job handling the sexual-abuse issue.

"Our people still do believe in God," Archbishop Thomas Wenski, of Miami, said to his priests last month. "But they don't believe in us."

Ms. McCabe was in high school outside Boston in 2002 when the broad extent of sexual abuse in the church was reported for the first time.

"The message I'm receiving still seems to be, 'How do we make sure everyone stays in the church?'" she said. "Part of me is like, geez, maybe the church needs to start over."

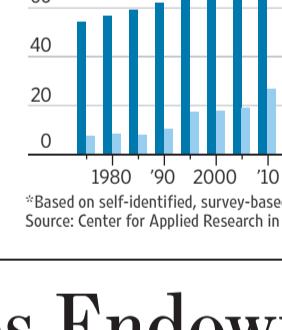


Megan McCabe, a Catholic and a professor of religious studies, is looking anew at abuse by clergy.

## Catholics in America

Snapshots of the faithful over the past several decades

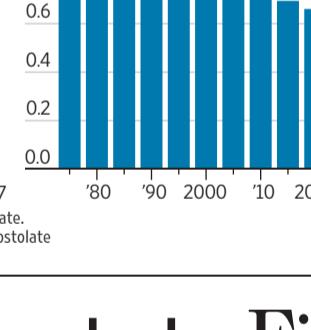
### Population of Catholics\* and those who've left the faith



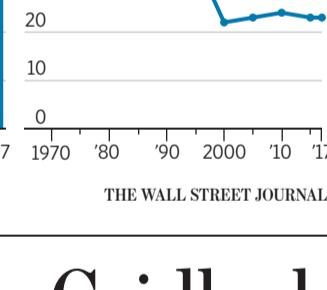
\*Based on self-identified, survey-based estimate.

Source: Center for Applied Research in the Apostolate

### Infant baptisms



### Catholics who attend mass weekly



RAJAH BOSE FOR THE WALL STREET JOURNAL

# Massachusetts Candidate Eyes Endowments to Fix Gridlock

By DOUGLAS BELKIN

Massachusetts is home to some of the best colleges and universities in the world—and some of the worst traffic jams.

A Democratic gubernatorial candidate is betting residents of the Bay State will be willing to tax the former to alleviate the latter.

Jay Gonzalez is building his long-shot campaign around a levy on the endowments of nine private schools that would create revenue to invest in public transportation and relieve Boston-area congestion, among other things. Boston drivers spend 14% of their time driving in congestion, the worst of any U.S. city, according to the INRIX, a transportation-analytics company.

The 1.6% annual tax, which would be levied only on private, nonprofit schools with endowments that exceed \$1 billion, would generate nearly \$1 billion, including \$563 million from Harvard University and \$210 million from the Massachusetts Institute of Technology.

"I think it's fair to ask the wealthiest among us—including major institutions that have accumulated enormous wealth in part thanks to their exemption from taxation—to contribute to our greater community," Mr. Gonzalez said.

The idea has been kicking around Massachusetts progressive circles for at least a decade, but it has met resistance. Critics argue that taxing endowments would undermine the brainpower engine that

gives Massachusetts a competitive advantage.

The state's colleges employ more than 100,000 residents, spend more than \$9 billion in salaries and personnel expenses and bring in \$2.5 bil-

lion in research funding each year, according to Richard Doherty, president of the Association of Independent Colleges and Universities in Massachusetts, which opposes the tax.

"Taxing endowments is bad

for students, bad for our economy and bad for Massachusetts," Mr. Doherty said. "The Pandora's box of endowment taxes was opened by the Congress in December."

Last year, President Trump and the Republican-led Congress passed a 1.4% annual tax on investment income earned by private-college and university endowments with at least 500 students and at least \$500,000 in investments per student. The change was driven by congressional Republicans, who say colleges that build up large, tax-favored endowments should use more of that money to reduce tuition and support low-income students.

Across the U.S., 97 colleges and universities have endowments of at least \$1 billion, according to a 2017 study by the National Association of College and University Business Officers and Commonfund, an asset-management firm. The federal tax will cost Harvard around \$43 million, according to recent endowment totals—8% of what Mr. Gonzalez is proposing, since he wants to tax the entire endowment.

Republican Gov. Charlie Baker, who leads Mr. Gonzalez by 27 points less than six weeks before the election, condemns his opponent's plan.

"When President Trump pro-

posed this idea, I thought it was a bad idea then, and I still think it's a bad idea," Mr. Baker said last month.

Harvard owns 214 acres of land across Cambridge, Mass., but pays taxes on just 22—those not used for educational purposes, according to the city. The school's endowment is now at \$37 billion. A capital campaign just raised \$9.6 billion more.

In addition to \$6 million in property taxes, Harvard in fiscal 2018 sent Cambridge \$4.1 million in something called payments in lieu of taxes, according to the school. The institution paid an additional \$11.5 million to the city of Boston.

"The University believes strongly in the rationale behind the tax exemption and is proud of the work that underlies it," the school said in a statement.

Marc McGovern, the mayor of Cambridge, said the school should do more.

"Maybe it made sense hundreds of years ago to exempt these institutions from paying taxes but no one envisioned endowments in the billions of dollars," said Mr. McGovern. a Democrat.

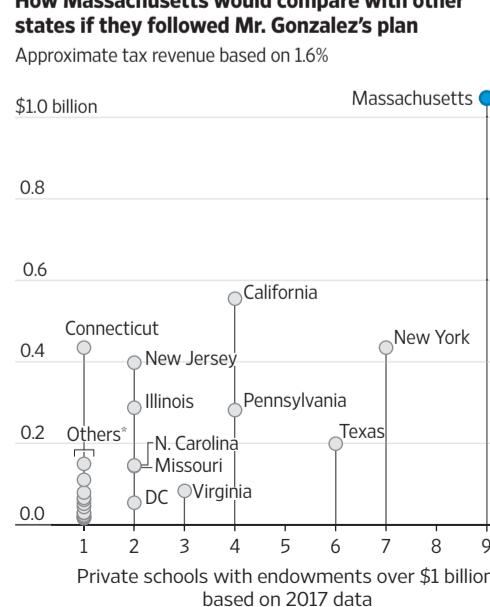
"It is now time that those who have the most do more to support those who need it," Mr. McGovern said.

## Gain Some, Lose Some

In Massachusetts, Democratic gubernatorial candidate Jay Gonzalez wants to tax private colleges and universities 1.6% on endowments exceeding \$1 billion in a year.

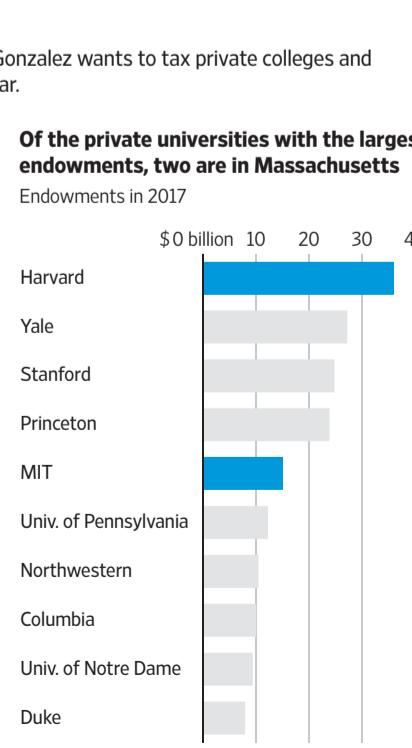
### How Massachusetts would compare with other states if they followed Mr. Gonzalez's plan

Approximate tax revenue based on 1.6%



### Of the private universities with the largest endowments, two are in Massachusetts

Endowments in 2017



THE WALL STREET JOURNAL.

## U.S. NEWS

# Political Debates Shake Up the Workplace

The Kavanaugh hearings left employees looking for common ground

The confirmation battle over Brett Kavanaugh may be over, but the way it careened out of Washington and through the daily lives of Americans has left lasting marks.

*By Chip Cutter, Vanessa Fuhrmans and Julie Jargon*

Jeremy Brandt, chief executive of WeBuyHouses.com, a Dallas-area company with more than 260 employees, watched employees go from observing the battle to having both "healthy" and "unhealthy" conversations about the hearings. Some, he says, turned into political proselytizing. At least once he had to step into a heated debate to advise workers to "tone things down."

The nation's offices, factory floors and break rooms, which have grown unusually rife with political discussion, have closely felt the impact of the Kavanaugh debate, according to interviews with dozens of working men and women. The stew of politics and gender made the moment notably personal. Some who normally shy away from politics felt compelled to weigh in. Many people ultimately found themselves seeking ways to navigate the debate and find common ground.

"At the end of the day, it's not about the Kavanaugh hearings at all," says Mr. Brandt, whose company buys, renovates and sells homes around the country. "It's about people's personal experiences and how they relate that back to the hearings."

At the heart of many discussions was the dueling Senate testimonies of now-Justice Kavanaugh and Christine Blasey Ford, a research psychologist who accused the Supreme Court nominee of a sexual assault dating to when both were teenagers.

Wendy Patrick, a criminal lawyer in San Diego, Calif., says many people in the legal world want to discuss Justice Kavanaugh, but some are fearful of offending anyone and talk about it discreetly during lunch or after work.

"There are time, place and manner restrictions about how we talk about it. It's very hushed. Everyone is caucusing among like-minded peers," says Ms. Patrick. "It does divide colleagues in the workplace."

Sharpening the moment, the hearings fell around the one-year anniversary of the #MeToo movement, launched when allegations of sexual harassment and assault emerged about Hollywood mogul Harvey Weinstein.



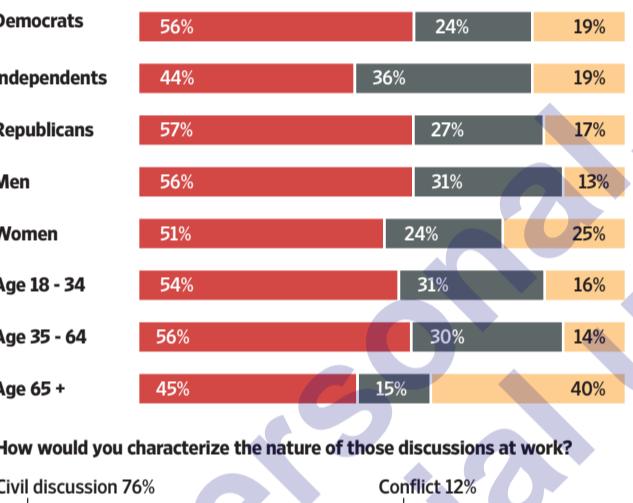
KRISTEN MANN FOR THE WALL STREET JOURNAL

The battle over Brett Kavanaugh's confirmation frequently came up at meetings for marketing executive Lisa Sirkin Viele.

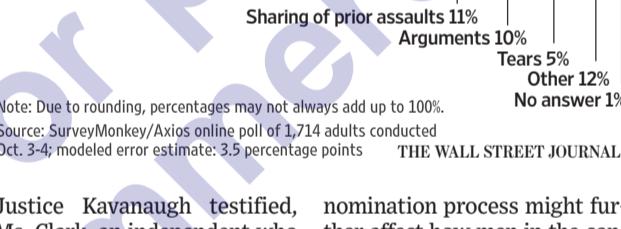
## Office Debates

The battle over Brett Kavanaugh's Supreme Court confirmation spilled over into many workplaces.

### Has the Kavanaugh nomination to the Supreme Court prompted any discussion among people where you work?



### How would you characterize the nature of those discussions at work?



Note: Due to rounding, percentages may not always add up to 100%.

Source: SurveyMonkey/Axios online poll of 1,714 adults conducted Oct. 3-4; modeled error estimate: 3.5 percentage points

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personal time in the coming days. It was the day the Federal Bureau of Investigation wrapped a probe of the Kavanaugh allegations, and she felt everyone could use the time "to breathe."

"Normally we're a chatty bunch, but this time, everyone kind of looked defeated," she says.

Some but not all of Ms. Leibtag's staff had united behind Dr. Ford. One colleague with friends in Justice Kavanaugh's social circles believed his denials. She, too, thought it a good idea to give everyone a little time off, Ms. Leibtag says.

Lisa Sirkin Viele, a marketing executive in Indianapolis, says roughly a third of her staff of 22 people actively followed the Kavanaugh debate for days. "Every meeting I've been in, the subject's come up," she said on the day of the hearings. A week later, most employees had dropped the subject and put their heads down on projects, if only because work felt like one thing they could control, she says.

Traditionally, many people have avoided heated political debates at work. "You get on the freeways and highways, and you don't know what you're going to get. At least at work, people have decided they want it to be civil," says Eric Flamholz, professor emeritus of the University of California, Los Angeles Anderson School of Management.

That division is eroding, especially as younger workers feel emboldened to demand that their employers reflect their view of the world and as people turn away from other outlets, such as church or social clubs, where such discussions once took place. Companies in

cluding Google and Facebook Inc., among others, have been disrupted by political debates over President Trump, free speech and other issues.

On Friday, Facebook CEO Mark Zuckerberg attempted to calm employees upset by the appearance of its top global policy executive, Joel Kaplan, at the congressional hearing for Judge Kavanaugh, his longtime friend, while also reminding them that they needed to respect diverse views.

Kat Cole, chief operating officer and president of North America for Focus Brands Inc., which owns Cinnabon, says the day after Dr. Ford's testimony, two employees in their 20s stepped into her office in Atlanta and, in tears, revealed they had also been the victims of sexual assault. A female executive later confided in Ms. Cole about her experience as well.

"It was very hard for me to not cry," Ms. Cole says, adding that as employees return to work this week, corporate leaders have a duty to maintain an "open door, an open heart and an open ear."

"Anything that affects us, I believe, as humans at home, in a major way, is bound to show up either directly or indirectly in the workplace," she says.

Fred Dunbar, CEO and president of Common Cents Planning Inc., a wealth-management firm in Glen Mills, Pa., says he's still trying to keep political debate to a minimum at the office. With four women and three men on staff, both Republicans and Democrats, political talk is discouraged. It's a practice he extends to clients.

*'There are time, place and manner restrictions about how we talk about it.'*

"I'd say, 'Listen, if we get off on that, and it's an hour appointment, I'm going to lose 20 minutes,'" he says.

Jim Houser, who owns Hawthorne Auto Clinic, a car repair shop in Portland, Ore., with his wife, says his 13 employees come from different religious and political backgrounds and don't talk about Justice Kavanaugh openly at the shop.

"People just come to work and they're very professional and stick to what they're doing," he says.

He felt the impact nonetheless. One female employee told Mr. Houser and his wife, privately, that the hearings brought back painful memories of being sexually assaulted years ago. She wanted the couple to know she might leave the office at times to take a breather.

*—Lauren Weber contributed to this article.*

# Ripples From Confirmation Fight to Test Chief Justice

BY BRENT KENDALL AND JESS BRAVIN

**WASHINGTON**—Brett Kavanaugh's confirmation to the Supreme Court gives Chief Justice John Roberts a historic opportunity to lead a firmly conservative court. But it also presents a considerable challenge for a chief justice tasked with steering through national political turbulence that threatens to chip away at the court's legitimacy.

Saturday's 50-48 Senate vote capped a three-month battle that cast the court in a political light to a degree unseen since Bush v. Gore, the 5-4 ruling that decided the 2000 presidential election.

The chief justice hasn't spoken publicly about the Kavanaugh situation, but he has warned periodically that the intense politicization of judicial confirmations has harmed the court.

"We don't work as Democrats or Republicans, and I think it's a very unfortunate perception that the public might get from the confirmation process," Chief Justice Roberts said at a New England Law-Boston event in 2016. The near party-line split on recent confirmations "increases the danger that whoever comes out if it will be viewed in those terms," he said.

That could be especially



Supreme Court Chief Justice John Roberts, right, administered the constitutional oath to Judge Brett Kavanaugh on Saturday in Washington as his family looked on.

true for Justice Kavanaugh, whose contentious confirmation process was made more explosive by allegations of sexual misconduct from decades earlier, which he vehemently denied, and a fight over the contours of a reopened FBI probe. He broke with the usual decorum before the Senate Judiciary Committee, criticizing Democrats directly and alleging his treatment was due in part to anger over President Trump's election.

That rhetoric cost him support from 98-year-old retired Justice John Paul Stevens, and it led Justice Kavanaugh to pen an op-ed asserting that his momentary anger wouldn't carry over into his judging.

"I know that my tone was sharp, and I said a few things I should not have said," Justice Kavanaugh wrote in The Wall Street Journal.

Repeated audience outbursts during the Senate's final Kavanaugh vote, as well as

the protests in the halls of Congress and in front of the Supreme Court, underscored the raw emotion over the Kavanaugh nomination. Stark political divisions over the court, and American governance more generally, have caught the justices' attention, worrying at least some of them.

"Every single one of us has an obligation to think about what it is that provides the court with its legitimacy, to think about how we can be not

so politically divided as some of the other political institutions in the nation," Justice Elena Kagan said during a Friday appearance with Justice Sonia Sotomayor at Princeton University.

For Chief Justice Roberts, a George W. Bush appointee, Justice Kavanaugh's elevation provides a fifth vote to place a conservative imprint on the law. Many conservatives are itching to move forward on that agenda—and fast—even if it means a steady dose of rulings that five conservatives adopt over four angry or anguished liberal dissents.

The chief justice has tended to favor a more incremental approach and a broader consensus when possible.

Over the years he has played two roles—at times moderating his position in ways that attract votes from the left, and at others embracing strongly conservative positions.

But within that calculus is another factor: Chief Justice Roberts's role as steward of the federal judiciary.

"He does have a sense of history and of how the court will be judged," said University of Illinois law-school dean Vikram Amar. "It may fall on Roberts to be even more of a self-conscious brake on the court than he was before."

The new justice isn't the

only one who has turned up the heat on the court, which has been a political football since Justice Antonin Scalia died in 2016 and Republicans prevented President Obama from installing Judge Merrick Garland as a replacement.

That seat went to Justice Neil Gorsuch, who continued to rattle Democrats after taking the high bench. He joined with Senate Majority Leader Mitch McConnell (R., Ky.) for visits to universities, spoke at the Trump International Hotel in Washington and dined with Texas Sen. John Cornyn and other Republican leaders.

On the left, Justice Ruth Bader Ginsburg inserted herself directly into the 2016 election in a manner unheard of for a justice. She called Mr. Trump a "faker" in one interview, drawing criticism from across the spectrum and leading her to express regret for "ill-advised" comments.

Adding to the challenges for Chief Justice Roberts, the Supreme Court's latest term, which ended in June, was particularly bruising and divisive.

For the moment, there are relatively few hot-button cases on the court's current docket. But it won't be long before the chief justice must decide how far, if at all, to accommodate a liberal minority that represents a constitutional vision at odds with his own.



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## U.S. NEWS

# Court Fight Energizes Both Sides

*Continued from Page One*  
reopened FBI probe have energized voters from both parties. Republicans have been invigorated by their goal of reshaping the federal judiciary, and the women's "#MeToo" movement has fueled a rise in female Democratic candidates.

President Trump, at a Kansas rally after the Senate vote on Saturday, portrayed Democratic attacks on Justice Kavanaugh and the tactics of those protesting his nomination in Washington as emblematic of what would come from giving Democrats control of Congress.

"Just imagine the devastation they would cause if they ever obtain the power they so desperately want and crave," the Republican president said.

Democrats portrayed Republican handling of the sexual-assault allegations, which Justice Kavanaugh has denied, as an illustration of the GOP's win-at-all-costs attitude.

"All of these angry people out there, they know that it is the people who are sitting in the Senate that they've elected who are making these decisions," said Sen. Mazie Hirono (D., Hawaii), a leading Kavanaugh critic, on CNN Sunday. "And they're going to go to the polls and they're going to vote differently."

Analysts said that based on polls, the Kavanaugh fight in the short term likely improves Republicans' chances of keeping control of the Senate and reduces their odds of keeping their House majority. The fight for the Senate is being waged mostly in states where the president and his court pick are popular, while the House battleground is mostly suburban districts more opposed to the president.

"Our energy and enthusiasm was lagging behind theirs until this," said Senate Majority Leader Mitch McConnell



Senate Majority Leader Mitch McConnell just before Saturday's final vote on Judge Brett Kavanaugh.

(R., Ky.) on CBS Sunday.

Democratic activists, who organized demonstrations around the Capitol while the Senate met Saturday, said they hope to turn the energy from the streets to the ballot box—especially among women.

"This confirmation process has been an all-out war on women," Linda Sarsour, an organizer of the 2017 Women's March, held a day after Mr. Trump's inauguration, said in a fundraising email Friday. "We have to fight harder than ever to win the Senate."

Over the longer term, the Kavanaugh fight could reinforce an alignment of the parties that has been accelerated by the Trump presidency: The Republican Party's core constituency increasingly is centered on white men, while the Democratic Party is home to many people of color and a rising share of female voters.

A record number of women are running for office up and down the ballot—the overwhelming majority of them as Democrats—and many women have turned to political activism for the first time in response to the 2016 election.

A September Wall Street Journal/NBC News poll found that women want Democrats

rather than Republicans to control Congress, by 58% to 33%. Men favored Republican control by 47% to 44%.

Women were more likely to oppose the nomination of now-Justice Kavanaugh. Even before a hearing where Christine Blasey Ford testified about her claims that he sexually assaulted her when they were teenagers, the Journal/NBC poll found 28% of women supported his nomination while 42% opposed.

**The Kavanaugh fight could reinforce an alignment accelerated by this presidency.**

men, 41% supported and 33% opposed. The judge denied the claims.

"I really think this is going to drive women out to the polls in unprecedented numbers," said Katie Hill, a Democratic House candidate in California.

Some Republicans argue that women were already so mobilized in opposition to Mr. Trump that the Kavanaugh episode probably didn't add

much to their ranks. The Kavanaugh confirmation fulfilled one of the most important 2016 promises that drove GOP voters to Mr. Trump, especially evangelical conservatives.

"Christian conservatives will feel like Trump upheld his end of the bargain," said GOP pollster Whit Ayres. Meanwhile, "Democratic enthusiasm in the midterms will go even higher, if that's possible."

The National Republican Congressional Committee is seeing a surge in low-dollar donations. The amount raised in the first week of October was more than four times that raised a month earlier.

The nonpartisan Cook Political Report since late September has downgraded Republicans' chances of winning House races in 13 districts. There are 15 GOP-held House districts that Cook rates as likely to go Democratic or leaning that way. Another 29 are considered tossups. Democrats need a net gain of 23 seats to win the majority.

Meanwhile, the Cook report upgraded Republican chances in three Senate races but downgraded them in three others since late September.

—Kristina Peterson and Julie Bykowicz contributed to this article.

# Tropical Storm Poses Threat To Gulf Coast

By JON KAMP

A tropical storm formed Sunday in the Caribbean and is forecast to strengthen to a hurricane that could threaten Florida's Gulf Coast by midweek, the National Hurricane Center said.

Tropical Storm Michael was located near Mexico's Yucatán Peninsula late Sunday and heading toward the Gulf of Mexico. The hurricane center's current forecast track shows the storm is expected to strengthen further and could hit the Florida Panhandle as a Category II hurricane on Wednesday, packing maximum-sustained winds of 100 miles an hour.

"Michael is forecast to be a hurricane when it reaches the northeastern Gulf Coast by midweek, and the risk of dangerous storm surge, rainfall, and wind impacts continues to increase," the hurricane center said in a late Sunday forecast.

Florida Gov. Rick Scott declared a state of emergency Sunday for counties in harm's way. He warned the storm could strengthen further, with winds potentially reaching

Category III strength, and that storm surge could pose a widespread threat far from where Michael makes landfall.

"This storm will be life-threatening and extremely dangerous," the governor said at a press conference.

The timing and trajectory of the storm could change as it heads north. While forecast models broadly expect the storm to reach hurricane strength, models have varied views on the storm's forward speed, meaning there was still uncertainty Sunday about when it might reach the U.S. coast.

The current forecast cone from the hurricane center put all of the northwest Florida coast at risk, from Pensacola to a coastal area west of Ocala. This region is "especially vulnerable to storm surge, regardless of the storm's exact track or intensity," the hurricane center said.

The tropical storm could dump up to 12 inches of rain in isolated areas of western Cuba as it passes by, raising the threat of life-threatening flash floods, the center said.



A tropical storm was near Mexico's Yucatán Peninsula Sunday.

**Turmoil.** Gravity finally reasserted itself in the markets this week after the U.S. announced tariffs on \$50 billion of Chinese goods and China promised to retaliate with tariffs of its own. The question for the U.S. economy is when and how hard the escalating conflict will hit the auto industry.

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April 12, 2018 5:24 a.m. ET SHARE

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## We manufacture prescription opioids, and we'll continue our work to address the opioid crisis.

Helping patients by making medicines is what we do at Purdue Pharma, and it was the principle upon which physician brothers founded the company. We are currently developing medications to help patients dealing with cancer and central nervous system disorders, while continuing our historic focus on pain management.

Our company makes OxyContin®. While opioid pain medication can help patients with acute and chronic pain when other treatment options are inadequate, we are aware of the risks opioid pain medicines can create: even when taken as prescribed, they carry risks of addiction, abuse, and misuse that can lead to overdose and death. Earlier this year we ended our practice of promoting opioid medications to prescribers through sales representatives.

Because we are deeply concerned about the toll the opioid crisis is having on individuals and communities across the nation, we think it is important to share some of the measures we support to help address the prescription and illicit opioid abuse crisis.

- We support initiatives to limit initial opioid prescriptions to no more than seven days. This will help limit unnecessary exposure to opioids and reduce the number of unused opioids that might end up in the wrong hands.
- We advocate that prescribers and pharmacists consult state Prescription Drug Monitoring Program (PDMP) databases, which track controlled substance prescriptions in a state, before writing or dispensing any opioid prescription. Studies suggest that PDMPs can help reduce the number of prescriptions written for opioids and that PDMP use is associated with a reduction in pain medications received for nonmedical use from multiple doctors.<sup>1,2</sup> To aid in this effort, we provided funding to the National Association of Boards of Pharmacy to enable states to connect to a platform and share PDMP data with other states at no cost, which complemented the company's early efforts of advocating for PDMP use.
- We encourage increased adoption of electronic prescribing of controlled substances to help reduce diversion. Unlike traditional paper prescriptions, electronic prescriptions can't be copied or stolen, and they're more difficult to alter or forge.<sup>3,4</sup>
- We urge everyone to learn more about safer storage of prescription opioids to reduce the likelihood of diversion and misuse. Medication Guides for opioids include information about safe storage and what to do with any remaining or unused pills after someone stops taking them.
- We joined the Prescription Drug Safety Network, a public-private initiative created by EVERFI, to support school-based prevention education efforts, and we encourage additional organizations to join as well.

America's opioid crisis is the result of multiple factors. We believe that everyone involved — physicians, healthcare leaders, drug manufacturers, drug distributors and retailers, policymakers, law enforcement, and public health officials — need to come together to drive meaningful solutions forward. While no single intervention alone will solve this crisis, partnerships, determination, and innovative approaches are steps in the right direction.



[www.purduepharma.com](http://www.purduepharma.com)

<sup>1</sup> Bao Y, Pan Y, Taylor A. Prescription drug monitoring programs are associated with sustained reductions in opioid prescribing by physicians. *Health Affairs (Project Hope)*. 35(2016)1045–1051. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5336205/>. Accessed July 12, 2018.

<sup>2</sup> Ali MM, Dowd W, Classen T. Prescription drug monitoring programs, nonmedical use of prescription drugs, and heroin use: evidence from the National Survey of Drug Use and Health. *Addictive Behaviors*. 69(2017)65–77.

<sup>3</sup> DrFirst. The evolving EPSCS landscape: A prescription for stopping opioid abuse. Retrieved from: [https://go.drfirst.com/hubfs/2016-03-24/2h8klr/8842/141586/EPSCS\\_Whitepaper\\_DrFirst\\_3.2016.pdf](https://go.drfirst.com/hubfs/2016-03-24/2h8klr/8842/141586/EPSCS_Whitepaper_DrFirst_3.2016.pdf).

<sup>4</sup> Thomas CP, et al. Prescribers' expectations and barriers to electronic prescribing of controlled substances. *J Am Med Inform Assoc* 2012;19:375e381. doi:10.1136/amiajnl-2011-000209.

## U.S. NEWS

# GOP Operative Raised \$100,000 For Clinton Emails

**WASHINGTON**—A veteran Republican operative and opposition researcher solicited and raised at least \$100,000 from donors as part of an effort to obtain what he believed to be emails stolen from Hillary Clinton, activities that remain of intense interest to federal investigators working for special counsel Robert Mueller's office and on Capitol Hill.

By Byron Tau, Dustin Volz and Shelby Holliday

Peter W. Smith, an Illinois businessman with a long history of involvement in GOP politics, sought and collected the funds from at least four wealthy donors as part of the plan to obtain Mrs. Clinton's stolen emails from hackers just weeks before election day in 2016, according to people familiar with the matter and documents reviewed by The Wall Street Journal.

Mr. Smith's effort to find what he believed were some 33,000 deleted emails Mrs. Clinton said were personal was first reported by the Journal in a 2017 story, but the extent of his planning went far beyond what was previously known. Mr. Smith died 10 days after describing his efforts to a reporter for the Journal.

The documents and people familiar with the matter depict a veteran political operative with access to wealthy donors and deep connections in Republican politics on a single-minded quest to find incriminating information about Mrs. Clinton even after government officials warned of

Russian involvement in U.S. politics. People familiar with the investigations described Mr. Smith's activities as an area of expanding interest.

Mr. Smith went to extraordinary lengths to ensure the privacy and secrecy of his projects, according to emails and court records reviewed by the Journal and a person familiar with the matter.

One email showed the anti-Clinton funds referenced as donations that were to be sent to a D.C.-based scholarship fund for Russian students.

Mr. Smith often communicated with associates using a Gmail account under the name "Robert Tyler" that both he and several others had access to, according to emails and a person familiar with the matter. He sometimes asked associates to communicate with him by writing a note and saving it the draft folder of the account, according to correspondence reviewed by the Journal.

He also had one phone number that he used for sensitive matters and a commercially available encrypted email account. Hard drives that Mr. Smith's estate turned over to federal investigators were also encrypted, according to people familiar with the matter.

According to an email in the "Robert Tyler" account reviewed by the Journal, Mr. Smith obtained \$100,000 from at least four financiers as well as a \$50,000 contribution from Mr. Smith himself. People familiar with Mr. Smith's financial transactions confirm there were donations.

The email, dated Oct. 11, 2016, in the "Robert Tyler" ac-



Funds were collected from donors as part of a plan to obtain Hillary Clinton's stolen emails just weeks before the 2016 election.

count, included the subject line "Wire Instructions—Clinton Email Reconnaissance Initiative" and was addressed to Mr. Smith. The writer, who identified himself as "ROB," said: "This \$100k total with the \$50k received from you will allow us to fund the Washington Scholarship Fund for the Russian students for the promised \$150k." The Journal couldn't determine if such a fund actually exists.

"The students are very pleased with the email releases they have seen, and are thrilled with their educational advancement opportunities," the email read. Because multiple people had access to the "Robert Tyler" email account, it couldn't be determined who sent the email to Mr. Smith.

The email about obtaining the pledges came just days after WikiLeaks and the website DCLeaks began releasing

emails damaging to Mrs. Clinton's campaign and four days after the U.S. government publicly warned that Russia was attempting to interfere in the U.S. election through the hacking and release of stolen emails and doing so at the di-

**Peter W. Smith, left, went to extraordinary lengths to keep his projects a secret.**

rection of the Kremlin's "senior-most officials." Russia denies interfering in the election.

The activities of Mr. Smith—who died in May 2017 at 81—remain an active area of interest to investigators, according to people familiar with the investigation. An au-

topsy report said he had killed himself in a Minnesota hotel room. Mr. Smith left behind carefully prepared documents including a statement, which police deemed a suicide note, that read: "NO FOUL PLAY WHATSOEVER," according to the Chicago Tribune.

In addition to giving hard drives to the House and Senate intelligence committees, which are also investigating election interference by Russia, Mr. Smith's estate has given documents to Mr. Mueller's team, people familiar with the matter said. Associates of Mr. Smith have been interviewed by investigators or summoned before a grand jury as recently as this summer, according to court records reviewed by the Journal.

Mr. Szobocsan is seeking repayment from Mr. Smith's estate for the legal costs he has accrued, according to court records. He and an attorney representing him didn't respond to requests for comment.

The focus from investigators on Mr. Smith's quest to obtain Mrs. Clinton's emails may be especially significant because Mr. Smith had implied in conversations with people in his circle and others he tried to recruit to help that he was working with retired Lt. Gen. Mike Flynn, at the time a senior adviser to then-candidate Donald Trump, the Journal has reported.

## FROM PAGE ONE

## Retailers Rush to Fill Toy Void

Continued from Page One  
mote shopping earlier by offering discounts.

The dynamic played out last year with "LOL Surprise! Big Surprise!," a giant ball filled with 50 smaller items, which was a top seller. Toys "R" Us held back much of that inventory until December, selling the item for \$10 more than the \$69.99 suggested retail price and adding more product closer to Christmas, said Isaac Larian, founder of MGA Entertainment Inc., which makes the product. Other retailers, he said, had already blown through their allotment, with Walmart even selling it for \$59.

Toys "R" Us did \$2 billion in sales during the last two months of 2017, including more than \$1.4 billion in December alone, a person familiar with the matter said.

To prepare for a post-Toys



Retailers are looking to boost their toy sales this holiday season following the collapse of Toys 'R' Us.

"R" Us holiday, Mattel Inc. pored over data, analyzing which closed locations may have had better sales of Barbie accessories or Hot Wheels tracks and reallocating that product to nearby retailers.

"This year more than ever, getting the right toys in the right stores at the right quan-

tities at the right time is going to be the game," Mattel Chief Commercial Officer Steve Totzke said. "The companies that do it best—the manufacturers and retailers—are going to win the season."

He said some retailers are also committing to carrying big-ticket items, like its \$200 Barbie

Dreamhouse, in stores after the holidays, as opposed to prior years when they would aim to sell it out before year's end.

Several toy manufacturers say Target has been the most aggressive in going after the dispersed Toys "R" Us business. Later this month, Target plans to add up to 500 square feet of

toy retailing in more than 500 of its stores—half of which are within 5 miles of a closed Toys "R" Us. It will borrow space from its CD, DVD and book sections to offer a bigger selection of ride-on toys, outdoor-play toys and other items.

Target's chief merchant, Mark Tritton, said the retailer placed final purchases with manufacturers at the end of August. Its toy inventory is already higher than last year and will continue to increase in the coming weeks, with about 80% of it in "tried and true" items.

"There's going to be the same amount of traffic, but it's going to be in less places," Mr. Tritton said. "We're crazy not to think that's going to be an opportunity."

Walmart is expanding its toy section as well, especially at stores near former Toys "R" Us stores. In addition, Walmart plans to stock those stores with more toys throughout the season, said Anne Marie Kehoe, the retailer's vice president of toys.

"The plan is to be in stock on the best items all the way through Christmas," she said.

An Amazon spokeswoman declined to comment.

Other retailers going after

toys are Kohl's Corp., which is now selling Lego sets; J.C. Penney Co., which plans to distribute a toy catalog; and FAO Schwarz, which is re-emerging with a new flagship New York City store. Even the investors that control Toys "R" Us in bankruptcy say they plan to eventually revive the brand and reopen stores.

The ghost of Toys "R" Us looms large at Party City Corp.'s attempt to go after the toy business. Inside a former Toys "R" Us location in Rockaway, N.J., Party City is pairing its typical Halloween pop-up store, Hallowen City, with a new concept, Toy City. Soon after Oct. 31, the costume racks will give way to a broader toy section.

The goal at this and 54 other planned Toy City locations is to carry the most popular toys and sell out by the time it is time to pack up in early January, said Party City President Ryan Vero.

"We want the winners of the season," Mr. Vero said inside the store where the former tenant's backward "R" is still visible. "Being a pop-up, our goal is not to carry products out of the store."

stars, including Alvarez Road, Lee Road, McMillan Road, Perlmuter Road and Segre Road. A few streets are still available for Nobel Prize recipients, a spokeswoman said.

An early morning call from Sweden doesn't warrant parking prizes at other big-name universities, including Columbia, Princeton and Stanford.

Frances Arnold woke up Wednesday to news that she had won a Nobel Prize in chemistry. The provost at the California Institute of Technology, where Dr. Arnold is a professor of chemical engineering, bioengineering and biochemistry, sent a congratulatory note to the Caltech community.

Dr. Arnold "has changed the way we think about things and the way we do things" with her work on protein chemistry and biotechnology, the note said. Even so, a campus spokeswoman said, no free parking.

On Wednesday, Dr. Arnold said in an email that she already had a parking spot with her name. It costs her \$960 a year.

"There are just too many Nobel Laureates at Caltech for them to pass out parking spots so easily!" Dr. Arnold said.

## The Perks Of a Nobel Prize

Continued from Page One  
neters, it also brings free parking. Prize recipients at universities including Brown, Duke and the University of Southern California have won prime spots—many marked, "Reserved for Nobel Laureate."

The Nobel Prize—9 million Swedish krona this year, or slightly more than \$1 million—is quite a windfall. But most awards are split among two or three people. After taxes, U.S. winners take home a purse in the low six figures.

With campus parking spots in high demand, and seemingly always in short supply, these asphalt rectangles are particularly valuable real estate.

USC gave Arieh Warshel a reserved spot right near the school's chemistry building where he worked. The university president mentioned the free space less than three min-

utes into a news conference the day Dr. Warshel won the 2013 Nobel Prize for chemistry.

The University of California, Berkeley, was a pioneer in the free parking field. The school set aside a space for poet Czeslaw Milosz, who asked for one after winning the Nobel for literature in 1980.

UC Berkeley's eight current Nobel laureates, the winner of the Fields Medal in mathematics and the chancellor hold the only reserved parking spots, out of about 5,500 on campus, said Seamus Wilmot, the school's director of parking and transportation. The chancellor, though, has to pay for hers.

The parking perquisite has evolved into a point of pride. Duke University professor Robert Lefkowitz shared a Nobel in 2012 for chemistry, and the school honored him with a personalized basketball jersey.

His colleague, Paul Modrich, became a Nobel laureate in 2015, also in chemistry. Dr. Modrich shared the prize with Aziz Sancar, a professor at the University of North Carolina at Chapel Hill. And the stakes were raised at a news conference the day it was announced.

UNC Chancellor Carol Folt

said she had told Dr. Sancar she was sure the Nobel was great, but "I've got even better news." Then she let him know he was getting free parking for life.

"He laughed and said, 'Well, I have an even bigger surprise for you. I don't drive,'" Dr. Modrich said at the news conference. Dr. Sancar's wife, now an emeritus professor of biochemistry and biophysics at UNC, uses the spot instead.

"Duke, at that point, was shamed," said Dr. Lefkowitz,

who afterward got a reserved parking spot on campus, as did Dr. Modrich.

Dr. Lefkowitz said he keeps his BMW in a space that is "literally the closest that it could be" to his office. He saves about \$1,500 a year in parking fees—a nice gift, but he had really wanted a toilet. A private bathroom, he said, was "a true mark of having arrived, in any hierarchy."

Kyoto University bypassed parking spots altogether. It hired a driver for Tasuku

Honjo, who last week won a share of the Nobel Prize in physiology or medicine for his work on cancer therapies. The school also gave Shinya Yamanaka a driver after he won a share of the 2012 Nobel, in the same field. The service is "for security reasons," a university spokesman said.

Danish scientist Niels Bohr may have gotten one of the most novel awards a few years after winning the 1922 Nobel Prize for physics: free beer for life.

The founder of Carlsberg, the Danish brewer, left his house as a lifetime residence "for a deserving man or woman within the fields of science, literature or art." Dr. Bohr, known for his model of the hydrogen atom, moved in with his family in 1931, after the previous resident died.

The house came with an inexhaustible supply of the pilsner, company spokesman Kasper Elbjørn said, both in bottle and on tap.

The Lawrence Berkeley National Laboratory in Berkeley, Calif., has for decades named streets for its winners. The hilly 202-acre facility is dotted with signs for a dozen such



Arieh Warshel's parking spot at the University of Southern California.

GUS RUEA/UNIVERSITY OF SOUTHERN CALIFORNIA

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## WORLD NEWS

## Conservative Leads in Brazilian Vote

Bolsonaro gets 46% of tally but falls short of percent needed for outright presidential win

By SAMANTHA PEARSON  
AND LUCIANA MAGALHÃES

RIO DE JANEIRO—An ex-army captain turned presidential candidate, Jair Bolsonaro, took a commanding lead in Brazil's presidential vote Sunday, positioning himself to take the presidency of the world's fourth-largest democracy in a second round of voting in three weeks.

Mr. Bolsonaro, 63 years old, a staunch defender of Brazil's past dictatorship who has alienated some of the electorate with offensive comments about women and gay people, clinched 46% of the vote, shy of the majority he needed to win outright with 99% of votes counted Sunday night.

But he swamped the second-place finisher, Fernando Haddad of the leftist Workers' Party, who had 29%. A force for much of this century, the Workers' Party is now tarnished by a graft scandal and Brazil's deepest recession during its tenure in power. The founder, former President Luiz Inácio Lula da Silva, is now in prison.

Sunday's outcome raises the stakes in what has already been a campaign marked by protests and violent outbursts, dividing friends and family members over whom they believe to be the "least worst" candidate to lead Latin America's biggest nation.

Mr. Haddad's supporters say he is the only option left to defend Brazil's young democracy and ensure respect for basic human rights. Mr. Bolsonaro's followers say their man will impose order in a country where crime and widespread corruption have turned people against government institutions.

"Our country is on the brink of chaos and we cannot take one more step to the left," said Mr. Bolsonaro after the result, speaking in a video published on Facebook. "We have everything to be a great nation."

He could have won outright on Sunday, he said, if it weren't for a series of prob-



Leading presidential candidate Jair Bolsonaro with supporters. He describes the country as on the brink of chaos. Below, his top opponent, Fernando Haddad.

lems at polling booths, including long lines that prompted elderly voters to forgo voting.

Meanwhile, Mr. Haddad called on other parties to join him in the second round in "defense of democracy" to defeat Mr. Bolsonaro. "We don't carry guns—we will use the force of our argument to defend Brazil and its people," he said, flanked by members of his Workers' Party.

But in Rio de Janeiro, like across much of Brazil, many voters are determined to back Mr. Bolsonaro.

"First and foremost, the government needs to stop stealing from the country," said Bruno Norte, 40, a pilot from Rio's glitzy Copacabana neighborhood.

He sees Mr. Bolsonaro as the president who can crack down on criminals both in Congress and on the streets.

Mr. Bolsonaro plans to loosen gun laws for self-defense and give police "carte blanche" to kill suspected criminals in Brazil, now the most murderous country in the world, with 175 homicides a day. Even on Brazil's tourist-friendly Copacabana beach, crime is rampant, with mutilated body parts recently washing up on the white sands, as gang wars rage in



NELSON ANTONIO/ASSOCIATED PRESS

nearby slums.

While analysts said that a victory this month by Mr. Bolsonaro was still not certain, one thing was clear from Sunday's vote: the defeat of Brazil's political center. Geraldo Alckmin of the large centrist PSD party got less than 5% of

the vote. It is the first time since 1989 that the party will be absent from the final round of voting, marking the failure of centrist politicians to win over voters who are desperate for change.

Despite Mr. Bolsonaro's lead position on Sunday, supporters

### First Round Results

Share of votes won by each Brazilian presidential candidate



Note: with 99% of vote counted  
Source: Superior Electoral Tribunal  
THE WALL STREET JOURNAL

children to stop them from turning gay, argued that women deserve lower salaries than men and said minorities must "bow to the majority or simply disappear."

Eduardo Trindade, 37, a history teacher, said he was scared for the future of his country. "It's dangerous to have a president who thinks like him," he said.

Mr. Haddad, a former São Paulo mayor, replaced Mr. da Silva as candidate at the last minute after the popular party founder was banned from running from his prison cell, where is serving a 12-year sentence for corruption. The university professor, who is a lawyer and economist, has promised to reverse recent austerity measures and introduce measures to help the poor.

But many voters fear the Workers' Party would plunge the economy back into recession. Economists blame the party's interventionist policies and spending for the country's budget deficit and crippling 2014-2016 recession.

Mr. Bolsonaro, meanwhile, has proudly stated he knows nothing about economics. He has put his trust in University of Chicago-trained economist Paulo Guedes.

## Interpol Says Its President Quit

The president of Interpol, whose wife reported him missing in China last week, has resigned after Chinese authorities announced he was under investigation, the international police organization said.

Meng Hongwei's resignation Sunday came hours after China's Central Commission for Discipline Inspection said

By Stacy Meichtry  
in Paris and Eva Dou  
in Beijing

Mr. Meng was under investigation by the country's National Supervisory Commission, without specifying the allegations.

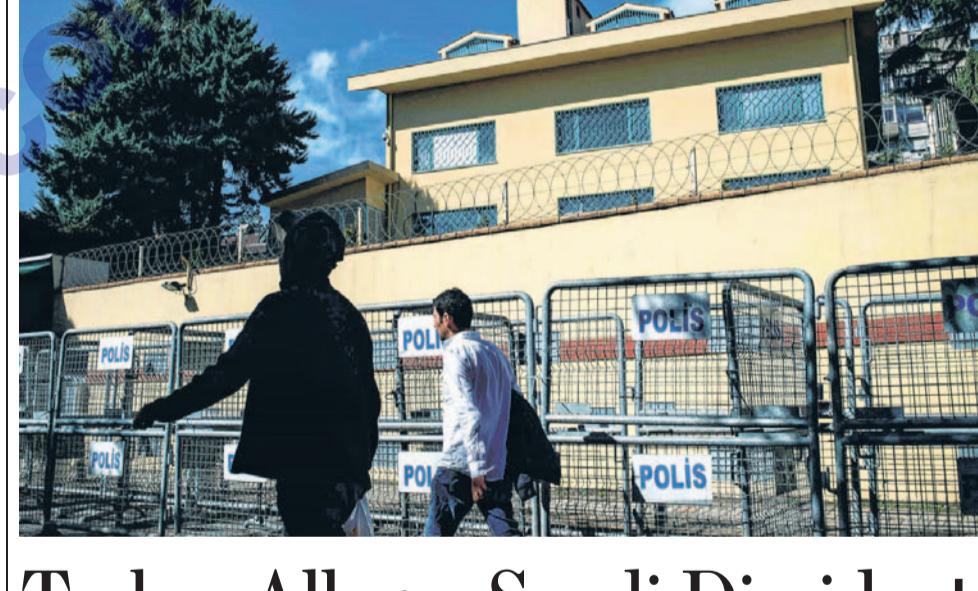
Interpol had called on Beijing to clarify Mr. Meng's status after French officials said Mr. Meng's wife contacted

**Meng Hongwei, president of Interpol since 2016, was the first Chinese citizen to hold that position.**

them on Thursday to say she hadn't heard from her husband since late September when he left Interpol's headquarters in France for a trip to China.

Scores of senior Chinese officials have disappeared temporarily in recent years as part of a high-priority anticorruption drive, with some being released later without explanation and others being sentenced to long prison terms.

Mr. Meng's absence represented a quandary for Interpol, an agency that specializes in tracking suspects and missing people across international



YASIN ARKAL/AGENCE FRANCE PRESSE/GETTY IMAGES  
The Saudi consulate in Istanbul. Turkish police say they believe missing journalist Jamal Khashoggi, right, was killed inside.

## Turkey Alleges Saudi Dissident Was Slain

BY DAVID GAUTHIER-VILLARS  
AND MARGHERITA STANCATI

ISTANBUL—Police in Istanbul have concluded a missing

Saudi dissident journalist was

killed in his country's consulate

in the city and his body

possibly removed from the

building in pieces, two Turkish

officials briefed on the case

said.

Saudi authorities on Sunday

dismissed the allegations as

"baseless." Riyadh has said

the journalist, Jamal Khashoggi,

a fierce critic of the Saudi

government, left the consulate

shortly after entering it on

Tuesday.

The escalating dispute over

Mr. Khashoggi's disappearance

could further inflame relations

between the rival powers,

which are competing for influence

in the Muslim world.

Turkish President Recep

Tayyip Erdogan said Sunday he

was following developments

and waiting to hear Turkish

prosecutors' investigative findings,

saying: "We will share with the world whatever re-

sults come out."

An adviser to Mr. Erdogan, Yasin Aktay, told Turkish television it was clear Mr. Khashoggi didn't exit the consulate in a "normal way."

Mr. Khashoggi, 59 years old, went to the consulate around 1 p.m. on Tuesday, according to Turkish authorities and his fiancée, Hatice Cengiz, who accompanied him to the entrance of the building.

Ms. Cengiz said Mr. Khashoggi had still not left the consulate when it closed for the day and she alerted Mr. Aktay, the Erdogan adviser.

One of the Turkish officials, who declined to be named, said police would release evidence to support their assessment that Mr. Khashoggi was killed inside the consulate building in Istanbul's Levent business district.

"We're not sure how that happened, but we believe Mr. Khashoggi's body didn't leave the consulate intact," the official said.

The Saudi consulate said Saudi investigators arrived in Istanbul over the weekend to assist in the probe.

Saudi Arabia's King Salman and his powerful son Crown Prince Mohammed bin Salman have pushed to liberalize their conservative country while overseeing a crackdown on dissidents with hundreds of arrests.

Mr. Khashoggi, once regarded as close to the Saudi establishment, applauded new social reforms—such as the decision to allow women to drive—but spoke out about what he said was a shrinking space for free speech.

Fearing he would be arrested or banned from traveling, Mr. Khashoggi moved to Washington, D.C.

"Every time I hear about another arrest or about a friend who is travel banned, I am grateful I am here," he told The Wall Street Journal in May.

The allegations surrounding Mr. Khashoggi's disappearance come against a backdrop of tense relations between Ankara and Riyadh, which have worsened since Mr. Erdogan backed Qatar in a dispute with Saudi Arabia last year.

In Saudi Arabia, Mr.

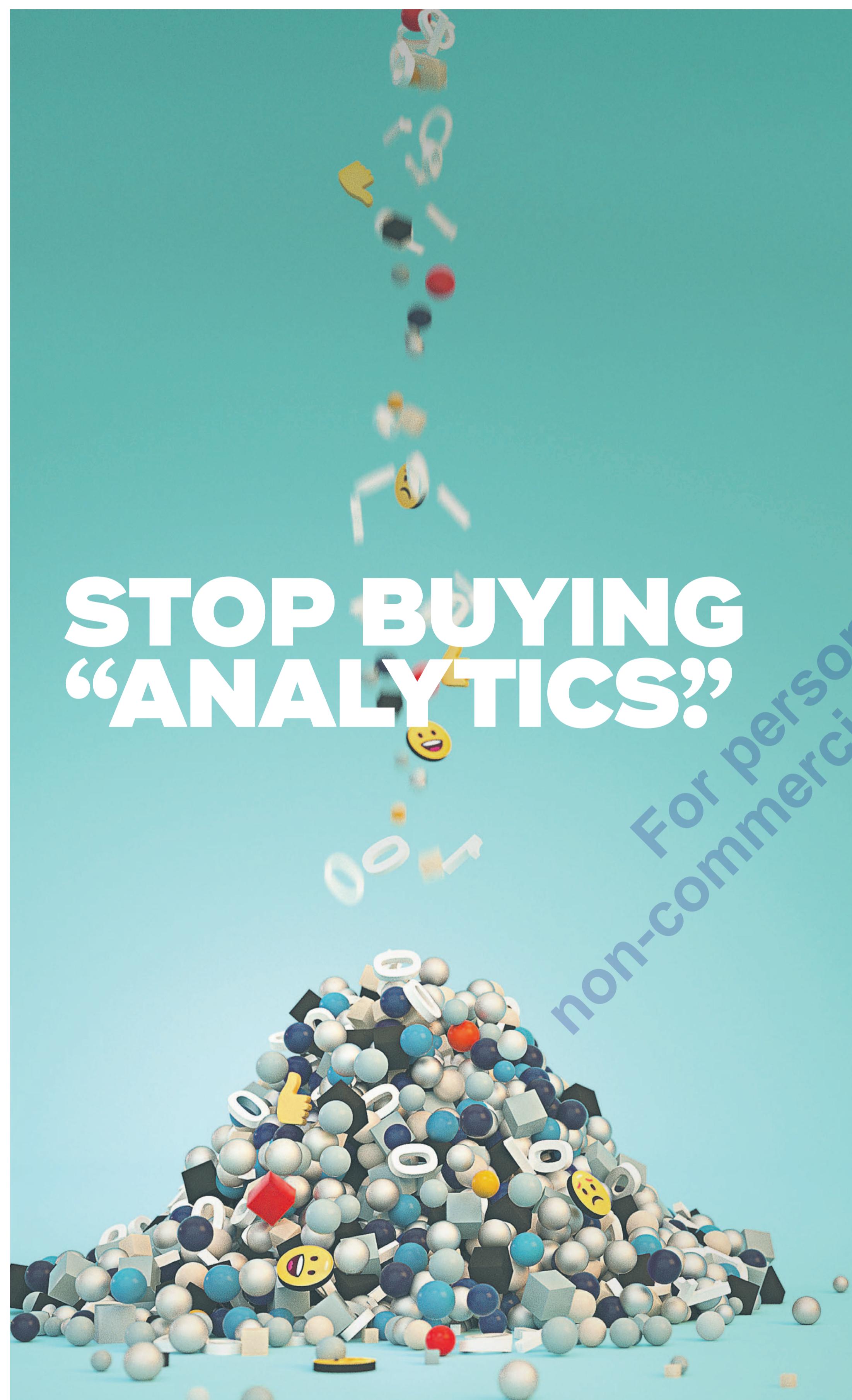
Khashoggi's criticism of the monarchy put a strain on his personal life, alienating him from his family members, many of whom remained in Saudi Arabia. He and his Saudi wife soon agreed to divorce.

He met his Turkish fiancée, Ms. Cengiz, a Ph.D. student, at a conference in Turkey in the spring. A few months later the pair agreed to marry and Mr. Khashoggi bought an apartment in Istanbul.

At least once he met the ambassador, Prince Khalid bin Salman—a son of the Saudi monarch—and asked for his help to have a travel ban on one of his children lifted, according to a friend of Mr. Khashoggi.

On Sept. 28, the Friday before his disappearance, Mr. Khashoggi went to the consulate in Istanbul to request paperwork related to his divorce proceedings. At around 1 p.m. on Tuesday, he left his two phones with his fiancée and entered the consulate building to pick up the papers.

—Peter Wonacott contributed to this article.



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## WORLD NEWS

# China Gives Economy a Jolt

By CHAO DENG

BEIJING—China's central bank is freeing up nearly \$175 billion to get commercial banks to boost their lending and pay off short-term borrowings, the latest effort by Beijing to lift growth in a slowing economy as its trade fight with the U.S. escalates.

The People's Bank of China said in a statement Sunday that it would reduce the amount of reserves most commercial banks are required to hold by 1 percentage point, effective Oct. 15.

The move comes as the U.S. has imposed tariffs on \$250 billion of Chinese goods and has vowed additional import taxes on \$257 billion of products.

Chinese leaders are eager to get ahead of any potential economic impact of the trade spat and boost confidence in a flagging stock market, economists say. Stocks in Shanghai have sunk about 15% since the beginning of the year, while the yuan has weakened by more than 9% against the U.S. dollar since mid-April.

The central bank said the cut will free up 1.2 trillion yuan (\$174.72 billion) in total. Of that, 450 billion yuan (\$65.52 billion) will be for banks to repay short-term debt due this month and 750 billion yuan will be released into the financial market. Big Chinese banks will face a reserve-requirement ratio of 14.5%, down from 15.5% currently.

The cut in the reserve-re-



**Work on a Beijing assembly line in August. U.S. tariffs are taking a toll on Chinese manufacturing.**

quirement ratio, coming after a weeklong holiday on the Chinese mainland, was widely expected. Chinese leaders have already lowered banks' reserve-requirement ratios three times this year, and rolled out fiscal measures such as reducing individual income taxes and urging local governments to boost infrastructure spending.

"In the current trade-war situation, they don't want to be seen with a weak economy," Ding Shuang, an economist at Standard Chartered, said of policy makers' intentions. "They are very serious about the growth target this year."

The latest round of U.S. tariffs on \$200 billion of Chinese goods took effect last month. At the beginning of

next year, the Trump administration plans to raise tariffs on these products to 25% from 10% currently.

The punitive measures are taking a toll on Chinese manufacturing. Privately owned makers of cars, machinery and other products stopped expanding in September as export orders dropped, while output by large, state-owned manufacturers weakened.

Economists also expect the U.S. tariffs on Chinese goods to weigh on China's export sector by next year. Fitch Ratings last month lowered its 2019 China growth forecast to 6.1%, citing concerns about trade tensions with the U.S.

—Grace Zhu and Lingling Wei contributed to this article.

## Loosening the Reins

In hopes of stimulating the economy, China reduced the amount of money that banks must keep in reserve.



Source: Wind Information  
THE WALL STREET JOURNAL.

## Thai Boys' Soccer Team Is Back in the Game



**ON THE ROAD:** The 12 boys and soccer coach from Thailand, whose rescue from a flooded cave riveted the world's attention, played a friendly match in Argentina.

## U.S. Cites Progress in Pyongyang

*Continued from Page One*  
"both the leaders believe there's real progress that can be made, substantive progress can be made at the next summit."

The U.S. and North Korea "will be having more frequent and higher-level working-group discussions than we've had in some time," he said.

Stephen Biegun, special representative for North Korea, told reporters, "Last night I issued an invitation to my counterpart to meet as soon as possible. We're actually working on specific dates and location."

Mr. Pompeo said inspections would occur "as soon as we get it logically worked out." The secretary declined to identify the organization that would perform such inspections.

The secretary now heads to Beijing for the final stop on his four-country tour, where he will meet Foreign Minister Wang Yi and State Councilor Yang Jiechi.



**North Korean leader Kim Jong Un met in Pyongyang with Secretary of State Mike Pompeo.**

Diplomacy stalled after the June summit in Singapore between Messrs. Trump and Kim over what U.S. officials felt was inadequate progress by Pyongyang toward giving up its nuclear weapons and North Korea's objections that Washington was not moving fast enough to improve relations.

As a way to energize negotiations, South Korean President Moon Jae-in has promoted the idea of issuing a symbolic statement declaring

an end to hostile relations on the Korean Peninsula.

The question for the U.S. is whether such a declaration should serve as a major theme at the next summit and, if so, what denuclearization and confidence-building steps U.S. officials should demand in return.

Developing a "lasting and stable peace regime" on the Korean Peninsula was one of four goals Messrs. Trump and Kim agreed to in June, along

with establishing new relations; denuclearization; and recovering the remains of U.S. service members missing as a result of the Korean War, which concluded in an armistice 65 years ago.

The State Department said that Messrs. Pompeo and Kim agreed Sunday to instruct working-level teams from each country to meet soon and to "intensify discussions" to resolve remaining issues from the Singapore summit.

## U.N. Climate Study Urges Drastic Steps

By TIMOTHY PUOKO

Rapid, far-reaching changes to almost every facet of society are needed to avoid catastrophic climate change, reforms far beyond anything governments are either doing or planning to do, according to a report from a United Nations-led scientific panel.

The Intergovernmental Panel on Climate Change made the pronouncement as part of its assessment of climate change and efforts to mitigate its impact. The study came as a response to the more than 190 signatory nations to the 2015 Paris climate accord. The Trump administration announced last year its intent to pull out of the accord.

A failure by countries to meet voluntary targets to limit global warming to "well below" two degrees Celsius, or 3.6 degrees Fahrenheit, would be devastating for some ecosystems and raise sea levels to flood many major cities and some entire countries, among other risks, the report says.

The IPCC's process brings together several scientists as lead authors to assess the scientific, technical and economic data available on whatever climate-change-related topic they're covering. Some of that is peer-reviewed research, but the work also includes some non-peer-reviewed work by governments and industry.

Typically, hundreds of scientists review the drafts IPCC authors put together, and government negotiators also have a

say in their conclusions, a practice that has drawn criticism from scientists in the past. While a large body of scientific work concludes emissions cause global warming, some dispute those conclusions.

The IPCC report finds meeting the carbon-reduction goals would require dramatic changes in how citizens get energy, how industries make everyday products, and how cities are designed.

To meet the goals of the Paris agreement and reduce other risks, 2010 levels of global carbon dioxide emissions would need to be halved by 2030, and effectively end by around 2050, the IPCC report says. Global emissions are not

shrinking, and rose last year to record levels after several years of remaining flat—despite emissions cuts in the U.S., U.K. and some other countries, according to the International Energy Agency.

The IPCC was the subject of controversy in a 2009 dispute, after the release of hacked emails led to questions over its methodology. A series of independent investigations, following the hack, allowed the institution to claim vindication.

## WORLD WATCH

### WEST BANK

#### Two Israelis Killed, Gunman Flees

A Palestinian gunman on Sunday shot and killed two Israelis and injured another before fleeing the scene at a West Bank industrial park, the Israeli military said.

The military called the shooting a terrorist attack and said the assailant, a 23-year-old from a nearby Palestinian town, was an employee of the factory where the assault took place.

—Dov Lieber

### INDONESIA

#### 5,000 Are Feared Missing After Quake

Christians dressed in their tidiest clothes attended Sunday services in the earthquake- and tsunami-damaged Indonesian city of Palu, seeking answers as the death toll from the twin disasters breached 1,700 and officials said they feared more than 5,000 others could be missing.

Indonesia's disaster agency said many more could be buried, especially in Palu neighborhoods where more than 3,000 homes were damaged or sucked into deep mud when the Sept. 28 quake caused loose soil to liquefy.

—Associated Press

velop "a fully coordinated, unified view of how to proceed" with respect to North Korea. He will travel to Beijing for meetings on Monday.

Mr. Moon last month spent three days in Pyongyang in meetings with Mr. Kim. Mr. Moon has been anxious to advance progress, but his room to maneuver has been limited.

The U.S. won't agree to ease sanctions until the North Koreans carry out major steps toward denuclearization, and Pyongyang has balked at giving the U.S. an inventory of its nuclear arsenal and programs. So Mr. Moon has been advocating a peace declaration at every turn.

"This is basically a political statement that announces the end of hostile relations" that would be intended to "lead to more denuclearization measures from North Korea," Mr. Moon told the Council on Foreign Relations during his visit to the United Nations last month.

The Korean War ended with an armistice in 1953, concluded by China, North Korea and the U.S.-led United Nations Command, leaving to diplomats the task of how to establish something more durable than a tense truce between two heavily armed sides.

Mr. Pompeo later Sunday flew to Seoul, and he and Mr. Moon spoke briefly in front of reporters ahead of their meeting. Mr. Pompeo declined to specify details of the talks with Mr. Kim, but said the two had "a good, productive conversation."

"As President Trump said, there are many steps along the way and we took one of them today," Mr. Pompeo said. "It was another step forward. So this is, I think, a good outcome for all of us."

Mr. Pompeo said it was important for him to "come straightaway" to Seoul following his meeting with Mr. Kim. South Korea has "been an incredibly important part of the success that we have all had to date for what we all hope to be the denuclearization, the change in relationship here on the peninsula," he told Mr. Moon.

In talks with Japanese Prime Minister Shinzo Abe in Tokyo on Saturday, Mr. Pompeo said he aims to de-

# GREATER NEW YORK

## Congestion-Pricing Plan Gains Traction

More politicians warm to proposal as way to raise billions needed for subway upgrades

BY JIMMY VIELKIND  
AND PAUL BERGER

New York City subway problems are so bad that a contentious plan for motorists to pay to drive in certain parts of Manhattan is resurfacing.

Congestion pricing is the "only realistic option" to secure the tens of billions needed to pay for subway upgrades, Gov. Andrew Cuomo said last week.

Republican Marc Molinaro, who is challenging the Democratic governor in his bid for a third term, called the idea of tolling vehicles that enter Manhattan south of 96th Street "an appropriate step" if more is done to contain the system's capital and operating costs. Even Republican Staten Island Borough President James Oddo, who once voted against congestion pricing, is now open to it.

Sam Schwartz, a former New York City traffic commissioner, said he is more optimistic about congestion pricing's legislative chances because 2019 isn't an election year, and lawmakers may be more willing to tackle a controversial issue. Mr. Schwartz said the subway is in worse shape than in the late 1970s, but unlike then, the streets are also choked by



**Opponents say charging drivers to enter parts of Manhattan would be hard on middle-class commuters from the outer boroughs, Long Island and other suburbs.**

proliferating vehicles. "The best thing that can happen for this is for our elected officials to get stuck in traffic," he said.

Andy Byford, the president of New York City Transit, is seeking support to fund a \$40 billion, 10-year plan to modernize and upgrade the subway, which has been plagued by delays and falling ridership. Mr. Byford says he is agnostic as to how the funds are raised.

Legislators didn't act this year on a larger congestion-pricing plan but as part of the current state budget they approved roughly \$400 million from a surcharge on for-hire

vehicles such as taxis, Uber and Lyft entering the most traffic-choked parts of Manhattan.

A congestion charge on vehicles could raise a further \$1 billion for the Metropolitan Transportation Authority, which runs the subway. Advocates are calling on Mr. Cuomo to include a congestion toll in his proposed state budget next year, if he is re-elected.

Congestion pricing, which has been implemented in cities like Stockholm and London to ease traffic, is contentious because drivers object to paying for something that has been free.

Representatives for Assembly

Speaker Carl Heastie, a Bronx Democrat, and Senate Democratic leader Andrea Stewart-Cousins, who represents parts of Westchester County, have said they would consider various options, including congestion pricing, to raise money for the MTA.

Senate Majority Leader John Flanagan, a Republican from Long Island, doesn't support additional fees on commuters.

Assemblyman David Weprin, a Queens Democrat, said congestion pricing wouldn't raise enough money for the MTA and he would prefer a gasoline tax. "There are a lot of proposals we should be considering

before we consider charging middle-class people who drive into Manhattan," he said.

Opinions on the traffic-reduction plan are more rooted in geography than party. Democrats and Republicans representing vehicle-dependent areas in the outer boroughs and on Long Island have been opposed. Officials representing constituents who are more dependent on subways and buses have been more vocal supporters.

Some lawmakers have suggested raising income taxes on the highest earners, a favored course of Democratic Mayor Bill de Blasio, as an alternative

to congestion pricing. Mr. Cuomo on Thursday dismissed the idea as "political blather."

Mr. Cuomo signaled that he would make congestion pricing a priority in the coming legislative year. Last year was the first time he said the "time has come" for congestion pricing, and he convened an advisory panel called Fix NYC, which included Mr. Schwartz and former MTA Chairman Tom Prendergast, to recommend solutions.

Mr. Prendergast noted that it has taken other cities several attempts to secure new transit funding. "Very rarely, if ever, was it captured the first time."

## Mayor Seeks Hybrid Car That Isn't a Squeeze

BY KATIE HONAN



Being the tallest mayor in New York City's history has its shortcomings.

Mayor Bill de Blasio's administration learned that recently as it searched for smaller eco-friendly cars to replace the fleet of larger hybrid SUVs used to chauffeur him around. Most hybrid vehicles don't have the space to accommodate the mayor's 6-foot-5-inch frame.

"We're in the process of looking at alternative hybrid car options, which turn out to be quite a bit more limited for a guy his size," his spokesman, Eric Phillips, said in an email.

Mr. de Blasio is already driven in a hybrid Chevy Tahoe, but his office would like something even more fuel-efficient and smaller, the spokesman said. The mayor is often criticized for his near-daily car rides to the YMCA gym in Brooklyn, miles from his home at Gracie Mansion.

Alistair Weaver, the vice president and editor in chief of car website Edmunds.com, said the energy savings come with a trade-off. "Hybrid cars always gravitate toward smaller, lighter cars, rather than large SUVs," he said, noting that the large cars would need more electricity to lug them around.

Mr. Weaver said hybrid technology is moving toward larger cars for practical reasons, and not just for politicians. "It's about coming up with a vehicle that is as efficient as possible."

Joseph P. Viteritti, the chair of the urban policy and planning department at Hunter College and the author of "The Pragmatist: Bill de Blasio's Quest to Save the Soul of New York," said how the mayor gets around illustrates larger priorities.

"I think it's symbolic," he said, especially as Mr. de Bla-

sio has taken on climate-change initiatives, like divesting the city's pension funds away from fossil fuels.

His security detail has to factor in safety and practicality when figuring out how he travels. "And he's a target—he's a very big target," Mr. Vitetti said.

When Mr. de Blasio took office in 2014, the mayoralty grew by nearly a foot. His predecessor, Mayor Michael Bloomberg, who served for 12 years, is 5 feet 8 inches tall. The closest New York City mayor in height to Mr. de Blasio was John Lindsay, who served from 1966 to 1973 and stood 6 feet 4 inches tall.

The mayor's administration recently had to check if another set of wheels would work for him. In July, the day before the city planned to launch a new bike-sharing program on the Rockaway Peninsula in Queens, a representative from the city Department of Transportation called the Pace bike company to ask if its blue and white bikes could fit a 6-foot-5-inch man, a Pace spokeswoman said.

Mr. de Blasio rode a bike on the boardwalk at the launch. The mayor's administration

## Condo Buyers Demand Deep Discounts

BY JOSH BARBANEL

It is deal time for buyers looking to purchase an apartment in one of New York's new condominium buildings, many with high ceilings, large windows and a whiff of glamour, brokers said.

As sales of new apartments have stalled this year, many developers are cutting asking prices and agreeing to go even lower—at a pace not seen in years, brokers said.

"Everybody today comes in and expects a discount," said Ziel Feldman, chairman and founder of HFZ Capital Group, who has half a dozen condo and co-op projects on the market.

The overall market in Manhattan is in a correction, brokers and developers said, as the supply of new apartments is increasing in many neighborhoods. The third quarter is usually a peak period for apartment sales, but new development sales plummeted in this year's third quarter, down more than 30% compared with the same quarter in the previous three years, according to an analysis of sales records by The Wall Street Journal.

Mr. Feldman said many new developments haven't been priced to the current market. Still, if a building is "unique and competitively priced, you sell very well," he said.

In more deals, developers are also agreeing to pick up closing costs, including the city and state transfer taxes of 1.825% usually paid by new condo buyers to close a deal, according to brokers and real-estate lawyers.

Brokers who bring buyers to some buildings are being offered enhanced commissions of 4%, higher than the standard 3% in the industry.

Discounting is also on the rise. According to figures compiled by listing site StreetEasy.com, the share of listings in new buildings with price



**At 100 Barclay in lower Manhattan, the five sales listed in 2018 averaged a discount of more than 10%.**

cuts of at least 5% has grown steadily during the past five years, to 8.7%, the highest figure since at least 2012.

In Brooklyn, the share of such listings rose sharply this year and reached a peak 12.3%, the highest since at least 2012. The StreetEasy figures count listings in buildings open five years or less, and include some resale listings, too.

Though some buildings still report solid sales activity, many buyers are making demands for deep discounts or simply waiting on the sidelines, brokers said. "Not all buyers appreciate the level of discount they can get today and are hoping prices will drop further," said Pamela Liebman, president of the Corcoran Group.

Vickey Barron, an agent at Compass who has represented developers and buyers, said a lot of the pressure for cuts is coming from agents who are pushing too far. "They don't know when to stop and some buyers are losing out on an opportunity," she said.

### Let's Make a Deal

Share of listings in new developments with price cuts of 5% or more



Note: Includes all listings in new buildings open five years or less.

Source: StreetEasy.com

THE WALL STREET JOURNAL.

count grew steeper during the past year or so, according to listings on StreetEasy.

The five sales listed in 2018 averaged a discount of more than 10%. A four-bedroom on the 20th floor with 10-foot-high ceilings and a 30-foot-long living room was listed for \$10 million and sold in August for \$8.13 million, an 18.7% discount.

A few weeks ago, Extell Development Co. opened model apartments for 1010 Park Avenue, a narrow, 16-story building going up on the site of a community house of a landmark church on Park Avenue near East 85th Street. It cut the overall asking prices on the 11 apartments there by 10.4%, according to a filing with the state attorney general.

Many in the industry see the slowdown as a healthy shift, especially in the long term. Frances Katzen, a broker with Douglas Elliman, said there was a time when there was "shock and horror" when a developer cut prices, but no longer. "It bodes well for the market," she said.

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## GREATER NEW YORK

# Violinist Finds a Quieter Route

BY CHARLES PASSY

In her decadeslong career, the violinist and contemporary-music specialist Monica Germino has worked alongside major composers, co-founded an international ensemble and performed at venues worldwide.

But in recent years, her life has been derailed by a disorder that connects in the most direct way to her profession: Ms. Germino has hyperacusis, a sensitivity to sound.

The violinist's solution? She is going the quiet route, performing music specifically written for her with the auditory condition in mind, and asking audiences to join her on the journey.

On Monday and Tuesday, Ms. Germino, who is based in Amsterdam, will offer the U.S. premiere of "Muted," a piece co-commissioned by the New York Philharmonic with four other musical organizations, at National Sawdust, the Brooklyn venue that specializes in innovative work.

"It's born out of necessity," said Ms. Germino of the piece. But at the same time, "something incredible can happen" musically from such circumstances, she said.

The connection to the Philharmonic stems from the fact that it is currently honoring the Dutch composer Louis Andriessen, who is a fellow countryman of Jaap van Zweden, the orchestra's newly installed music director. Mr. Andriessen, who is married to Ms. Germino, is one of four composers who contributed to "Muted."

But it is another contributing composer, New York-based Michael Gordon, who came up with the idea for the work. When he learned in 2016 that Ms. Germino had stopped performing altogether because of her disorder, "I said, 'You can play quiet music. We'll write you the quietest piece ever written,'" Mr. Gordon recalled.

Ms. Germino helped the process along by using special



Monica Germino performs on a frame violin, which is quieter than a traditional one. She has hyperacusis, a sensitivity to sound.



A traditional violin can be adapted with the use of mutes, devices that cause the strings to vibrate less.

violins that are designed to play at a softer level or adapting a traditional violin with the use of mutes—essentially, a device that causes the strings to vibrate less. She has also had a new instrument, dubbed a whispe violin,

made for her.

The composers involved explain that "Muted" isn't necessarily difficult for audiences to hear. Mr. Gordon said concertgoers just need to pay closer attention. He likens it to stepping into a dimly lit room and

adjusting your eyes until you can see clearly once again.

While Ms. Germino may have found a way to adapt to her situation, she is far from the only musician to contend with hyperacusis, which is often associated with exposure

to loud sound. Indeed, musicians are "fundamentally at higher risk" for the condition, said Bryan Pollard, founder and president of Hyperacusis Research, a U.S. nonprofit organization.

At its most extreme, the condition can cause those who suffer from it to experience pain when they hear noise or certain sounds, say experts. Ms. Germino said in her case, she is just "very sensitive" to loudness.

But she had been advised by auditory professionals to quit playing or wear earplugs, lest she risk damaging her hearing. Neither of those options proved suitable, so that led to her current solution.

Regardless of her condition, Ms. Germino thinks there may be a broader benefit to turning down the volume and seeing the value in the quiet.

"We are so swamped with sound and overstimulated," she said.

## GREATER NEW YORK WATCH

NEW YORK CITY

## Food-Scrap Recycling Expansion Is on Hold

New York City has put expansion of its organics collection program on hold because not enough people are participating in the often-smelly chore of setting aside their table scraps, spoiled food and grass clippings.

The city began its pilot program five years ago with a goal of turning hundreds of thousands of tons of such leftovers into compost, gas or electricity.

But the city collected only about 13,000 tons from residential customers last year, and found that the 3.5 million people in the program are only separating around 10% of their potential scraps.

Officials say the city still wants to expand the program to all 8.5 million city residents, but right now is focused on making the system more efficient and getting more people to pitch in.

—Associated Press

CONNECTICUT

## State Gets \$30 Million For Water Projects

The state of Connecticut has received more than \$30 million in federal funding to help finance community-based water infrastructure projects, including those involving drinking water and municipal sewage.

Democratic Gov. Dannel P. Malloy says the state plans to leverage the federal money along with state funds "as we continue to make needed upgrades to our drinking water and wastewater infrastructure."

He says "significant strides" have been made over the past eight years to improve the state's overall water quality.

Connecticut this year created its first State Water Plan, which attempts to balance the needs of public water supply, economic development, recreation, and ecological health. The \$30 million is coming from the U.S. Environmental Protection Agency's Clean Water and Drinking Water State Revolving Loan Fund.

—Associated Press



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# LIFE & ARTS

## FASHION

# The 9-Year-Old With a Nike Deal

Brands enlist Instagram 'mini-influencers' such as Dear Giana to reach the digitally savvy, diverse members of Generation Z

BY RAY A. SMITH

**O**ne of fashion's "It" girls is actually a girl. Not a young woman. Not a teen. A girl.

Giana, known to her 22,800 Instagram followers as Dear Giana, is a photogenic 9-year-old artist and fashion enthusiast with an elfin frame and a marketing heft that brands want to harness.

Through her street-style flair and fashion drawings displayed on an Instagram account her mom runs, Giana has corralled fans, including art galleries, Vogue.com, streetwear fashion blog Highsnobiety and Nike. The sneaker and apparel giant collaborated with Dear Giana on three T-shirts to be released Oct. 11, the International Day of the Girl.

"It's very cool, for sure," said Giana during a recent interview, where she had on Nike Air Force 1 sneakers and Nike socks.

Giana is among the stylish pre-teens made famous by social media and anointed mini-influencers or mini-creatives. Their ascent comes as marketers are striving to reach Generation Z, the roughly 67 million individuals born roughly between 1997 and a few years ago. They have about \$44 billion in purchasing power, according to Mintel. Thanks to social media, members of Gen Z can see a staggering array of merchandise, and pinpoint precisely the clothes and shoes they want to wear, even if their parents are still paying for them. Gen Z also is the most racially diverse generation in American history: Almost half are a race other than non-Hispanic white.

"They already hold much influence, particularly due to their unprecedented digital access and resources, which is prompting them to try things while they are young that weren't possible for past generations of kids," said Meredith Hirt, senior insights writer at Cassandra, a research firm specializing in young consumers. "Children don't have to wait until they grow up to be influential, ...which is causing brands across all industries to take notice."

For 33% of 7-to-12-year-olds in the U.S., clothing ranks second behind technology in categories they consider worthy of splurges, according to Cassandra, showing that pre-teens are focused on fashion and nearly as interested in it as millennials are. Clothing ranked second for 36% of 13-to-20-year-olds. "We've noticed a rise in car makers targeting parents through their kids," Ms. Hirt added, "recognizing that kids and tweens are in-



CLOCKWISE FROM TOP LEFT: DEAR GIANA; G. YONG; JUSTIN CLEMENS FOR THE WALL STREET JOURNAL

**Instagram fashionista Giana, far right, and with her mother and manager, Gena, right, has been making art, above, for several years and had her first exhibition as a second-grader.**

fluent and have sway as to what their parents decide to buy."

Nike's director of communications for North America, Jenna Golden, wrote in an email, "We feel that Dear Giana is such an inspiration for young girls everywhere." The company declined to disclose financial terms of its contract with her. Earlier this year, Nike worked with eight young "athlete influencers" and asked each to design children's versions of one of the company's shoes.

Trend forecaster WGSN, which has tracked Giana since she entered the scene two years ago, labeled her the "next leading mini-creative" in a recent report. Giana has a gap-toothed smile, dark bangs and loves sunglasses. She is of Filipino and Mexican ancestry and lives with her parents and two younger siblings in Dallas. Gena, her mother and manager, asked that the family's last name be withheld for security reasons. "It's just to keep her safe," Gena said.

The fashion industry, perennially in search of the new, has a complicated history with youth. In 1980, Calvin Klein drew criticism for ads with a 15-year-old Brooke Shields. About a decade ago, 11-year-old Tavi Gevinson became famous for her fashion blog. In 2011, fashion line Miu Miu tapped actor Hailee Steinfeld, then 14, to star in its ads. Today, 14-year-old actor Millie Bobby Brown is a fashion

muse. Spotlighing children raises concerns about exploitation and privacy. This year, Vogue pledged to stop using models under 18; some modeling agencies said they would cease using models younger than 16. Last year, two luxury conglomerates, LVMH, which owns Louis Vuitton, and Kering, which owns Balenciaga and Gucci, banned models under 16.

While fashion's highest levels took steps to keep children out of the limelight, social media offered them an entirely new platform. The pre-teen market took off in 2010 with the launch of Instagram. Ms. Hirt, of Cassandra, said a few years ago J.Crew commissioned Sydney Keiser, a blogger from Milford, Ohio, to design a special collection for children. At the time, Ms. Keiser was 4. J.Crew came across her paper reconstructions of red-carpet dresses on her mother's Instagram account.

Parents who post images of their children's handiwork can find themselves being contacted by brands or talent scouts scouring Instagram for the next potential star. That's how Giana was discovered. According to her mother, Giana started to show an artistic bent at age 3, when she would tackle coloring-book pages with watercolors or stage "art shows" with little rock formations in the backyard.

At 5 or 6, Giana was pulling pictures from her mother's copies of Vogue and customizing them with crayons, pencils and markers. Gena started posting images of her daughter's efforts on Instagram. In 2016, when Giana was a second-grader, a children's clothing brand called même proposed hosting her first art exhibit in Seattle, Gena

said. Giana displayed more than 40 works in the show and was on her way. Drawing pictures and styling streetwear looks that catch fire online comes naturally, Giana said. "I just did what I like...I just buy some clothes and wear it how I want to wear it," Giana said. Giana loves what she is doing. Giana said her mother "never forced me to do anything. She just let me do what I wanted to do."

In the two years since Giana's first art show, there have been three more, including one with Nike. Streetwear-style blogs like Hypebeast and fashion and entertainment news sites like Complex have taken note of the pint-size cool girl who is a fan of Supreme, Louis Vuitton, and Virgil Abloh of Off-White. Brands are asking Giana to wear their clothes and accessories and post about them.

After discovering Giana on Instagram, Highsnobiety published an interview with her in December. "Even more than here's this little girl that wears pretty cool clothes, it's the fact that she wants to be an artist and has an outlet to reflect her creativity," said Jian DeLeon, Highsnobiety's editorial director. "The fact that she's doing a Nike collaboration is truly mind-blowing."

Vogue.com asked Giana to illustrate looks from New York Fashion Week in February and captured her at work in a video. "Vogue saw that 'Giana wasn't playing dress-up, she actually had something to say and share with the world,'" fashion news editor Monica Kim said. Giana's passion for streetwear and her art encourages other children to be creative while inspiring adults too, said Erin Rechner, senior kidswear editor at WGSN. "They're looking to her for new, fresh inspiration."

To keep Giana from taking all the attention too seriously, her parents "limit how much stuff that we tell her," Gena said. "We're keeping her grounded." Her father, Anthony, is a creative director. Gena says their daughter still has household chores, such as making her bed and cleaning her room.

This year, the family hired an agent, Jeffrey Klein, director of the influencers division at Photogenics, a Los Angeles talent agency. In an email Mr. Klein wrote that he is wrapping up deals for Giana with "major brands for design collaborations to drop in 2019 and as far out as Spring 2020."

## BOOKS

# AFTER 'HEAVEN,' A SEQUEL

BY ELLEN GAMERMAN

**AS PUBLISHING** propositions go, this one was fairly straightforward.

Take "The Five People You Meet in Heaven," Mitch Albom's best-selling spiritual fable, and update it by sending five new people into the afterlife. The result: a sequel built on a market-tested idea.

"It definitely gives us a hook in the world of book publishing and marketing and trying to rise above the noise," said Karen Rinaldi, Mr. Albom's editor at HarperCollins.

While the sequel has potential for big business, Mr. Albom said his reason for writing it is personal. He called the book his way of processing the past three years, when he experienced the deaths of both his parents and a 7-year-old Haitian orphan he had come to view as his child.

Of all his novels, "Five People" is the one readers ask him about the most. "I hear people saying, 'You said it was the first stage of heaven—what's the second?'" he said.

With "The Next Person You Meet in Heaven," out on Tuesday, Mr. Albom tries to answer that question, putting the same fictional twist on faith that made the original a hit 15 years ago.

The sequel centers on 30-year-old newlywed Annie, entering heaven after a hot-air balloon accident. As with the 2003 novel, the five people

waiting for her reveal their influence over her life in ways she hadn't realized.

One of them is Eddie, an amusement-park maintenance worker who died rescuing her from a broken ride in "The Five People You Meet in Heaven." For Eddie, Annie becomes "the next person" of the sequel's title.

Mr. Albom, whose books have sold more than 39 million copies, said he hasn't ruled out another stage of heaven—and a third book in the franchise.

When the author, who is Jewish, was asked why he chooses nominally Christian characters for his "Heaven" books, he paused. "As opposed to?" he asked. He said he hadn't thought about the characters' religions while he was writing the novels, which both are prefaced with reminders that the works are fiction.

The 60-year-old Detroit writer has appeared at corporate gatherings, religious venues and other stops on the speaking circuit thanks partly to the mass appeal of his first "Heaven" book.

The original "Heaven" followed "Tuesdays with Morrie," his 1997 nonfiction best-seller that examined mortality and the meaning of life. His longtime agent David Black recalled that publishers were unsure what to think when they learned that Mr. Albom, a writer for the Detroit Free Press, wanted to write fic-

tion for his high-stakes follow-up. The novel, which tapped into the "Morrie" fan base, became a best-seller. (Mr. Albom's writing continues to appear in the Detroit Free Press, including a recent column on Brett Kavanaugh.)

Asked to explain the success of the first "Heaven" book, Bob Miller, the former Hyperion publisher who championed it, pointed in part to its title, which neatly answered the question of what happens when you die. "It is one of the great titles of all time," he said.

The sequel is published by HarperCollins, which like The Wall Street Journal is owned by News Corp.

Mr. Albom has dedicated "The

Next Person You Meet in Heaven" to Chika Jeune, an orphan from Haiti who was diagnosed with a brain tumor and came to Detroit in 2015 to live under the care of the author and his wife. Mr. Albom, who travels frequently to Port-au-Prince to run an orphanage there, embarked on an international quest to find a treatment for the girl's disease in the months that followed. Chika died in April 2017. The couple has no biological or adopted children.

The new book deals tangentially with the death of a child when a character in the afterlife is reunited with a lost baby. "I think the line is, 'She felt utterly complete and utterly vacant, which is what having and losing a child is like,' and that's exactly how I feel," Mr. Albom said.

"I've never been more fulfilled in my life and I've never felt more empty in my life."

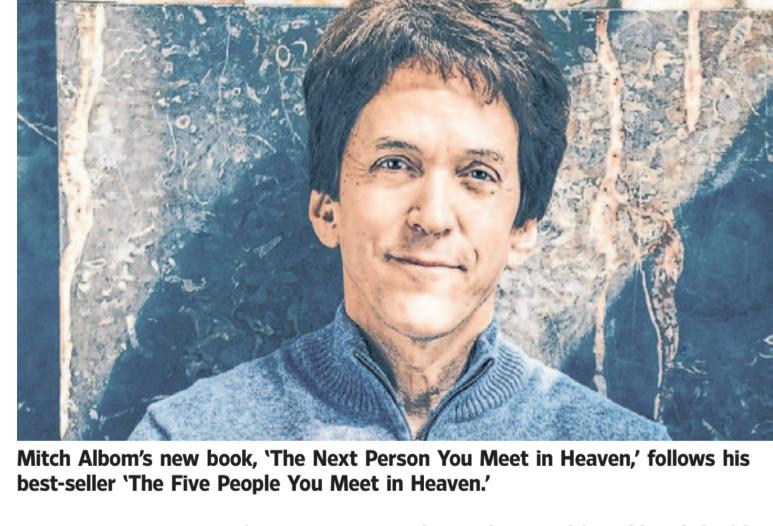
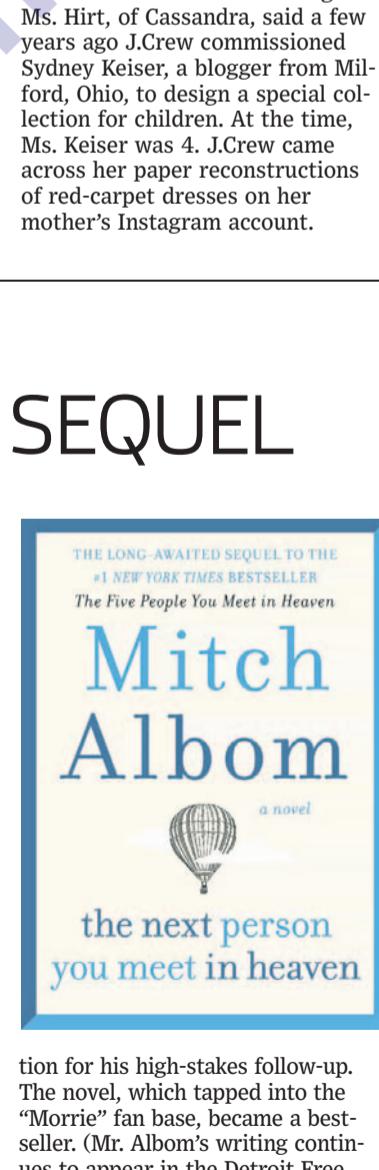
He said he admits every child to

the orphanage himself and decides who to turn away based on need. "You have to play Solomon," he said, adding that the 10 or 15 children who are rejected for each one admitted "haunt my memories for a long time."

The writer, who also founded S.A.Y. Detroit, an umbrella group for nine charitable operations in the city, said he would pay for the higher educations of the orphanage's 47 children. He said he hopes they attend college in the U.S. and return to Haiti to do good there.

Though his personal faith offers no universally accepted view of heaven, Mr. Albom believes in the afterlife. "I think it's somewhat like I've described," he said. "I think that you will get to see the people that you loved and be with them again, and I think that they will be able to unlock some of the secrets and things you didn't know about."

CHRIS ARACE FOR THE WALL STREET JOURNAL



Mitch Albom's new book, 'The Next Person You Meet in Heaven,' follows his best-seller 'The Five People You Meet in Heaven.'

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## LIFE &amp; ARTS

## ART &amp; AUCTIONS

# Collectors Get Fired Up for Ceramics

Pottery takes center stage at London's Frieze art fair and auctions; 'there's a lot of cross-pollination going on'



Ceramic, clay and terra-cotta pieces by Fausto Melotti, above, Pablo Picasso, below, and Kathy Butterly, bottom.

BY KELLY CROW

**ASIAN COLLECTORS** have long prized porcelain vases as much as paintings, but until recently, art lovers elsewhere largely treated ceramics like a second-class craft. Now, the global art market is trying to elevate clay art into the realm of the blue chip.

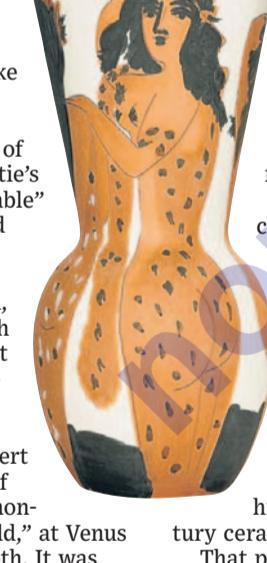
Christie's and Phillips for the first time added stand-alone auctions of 20th-century and contemporary ceramics to their high-profile set of evening sales in London with examples by artists like Paul Gauguin, Lucio Fontana and Thomas Schütte. All but three of the 36 pieces in Christie's \$4 million "Un/Breakable" sale on Tuesday found buyers.

Across town at the art fair Frieze London, which overlapped with the week's auctions, at least half a dozen galleries also offered ceramic works in their booths, including Robert Arneson's 1983 bust of his wife Sandra Shannon-house, "Woman in Gold," at Venus Over Manhattan's booth. It was priced at \$650,000.

The fair concluded Sunday.

Elsewhere this season, Gagopian's gallery in Geneva has a "Fire and Clay" show running until Dec. 15 that includes potters Shio Kusaka, who is based in Los Angeles, and Ron Nagle, who is from San Francisco. In New York, the Museum of Arts and Design just opened an exhibit of apocalyptic ceramics by Los Angeles's Sterling Ruby. It runs through March.

Pablo Picasso's granddaughter, Marina Picasso, gave the contemporary ceramics market a jolt when she enlisted Sotheby's to sell off a portion of her inherited trove of the artist's playful pottery. Collectors over the course of three sales bought every ceramic piece, in some cases paying six-figure sums that would have been unthinkable a decade ago. Richard Attenborough's estate sale of Picasso ceramics at Christie's two years ago stoked a similar buy-it-all frenzy, with a Picasso vase selling for \$909,407.



The canny push from auction houses also comes at a time when collector confidence remains highest in the middle of the market, where pieces typically sell for between \$500,000 to \$5 million, as opposed to the trophy top of the market, where pieces can top \$100 million, according to the auction-tracking firm ArtTactic's Contemporary Art Market Confidence Report issued Tuesday.

Trophies are still selling at Sotheby's, though: On Friday, its sale of part of New Jersey management consultant David Teiger's estate included a \$12.4 million Jenny Saville, "Proposed," that reset the record for a living female artist at auction.

The mood has nudged collectors to bolster ceramic pieces for dozens of artists like Peter Voulkos, whose 1958 stoneware abstract, "Rondena," sold at Phillips last December for \$915,000, over its \$500,000 high estimate. The sale also established a new auction high bar for a 20th-century ceramic made by a U.S. artist.

That price still pales in comparison with the \$38 million paid for a Chinese ceramic at auction—Sotheby's sold a Northern Song-era vessel for washing paintbrushes—but the overall recalibration could expand the collector base.

Watch for prices to rise for modern ceramists like George Ohr—the self-proclaimed "Mad Potter of Biloxi"—as well as post-war potters Lucie Rie and Hans Coper. Their works have long been funneled into decorative-art sales alongside lamps and sofas, rather than with paintings and other fine art. But Christie's expert Leonie Mir said such designations are blurring because younger contemporary collectors don't sift or rank artworks strictly by medium anymore.

Neither do contemporary artists like Ai Weiwei, who incorporates all sorts of materials in his work. Among his recent installations: Room-size piles of hand-painted porcelain sunflower seeds and river crabs.

"There's a lot of cross-pollination going on," said Meaghan Roddy, a senior international specialist at Phillips, who sold the river crabs, or "He Xie," for \$793,000 on Friday. Here's a look at



four artists from Frieze Week who got creative with clay.

## PABLO PICASSO

Picasso started making earthenware plates and bowls in the 1940s as a breezy summer pastime, but he stuck with it for the rest of his life—eventually making more than 600 types of pieces. On Tuesday, Christie's top lot was a 1950 terracotta "Large Vase With Veiled Women" that sold for \$526,175, slightly over its \$520,000 low estimate.

But there are signs that collectors are starting to flip his pottery like they do his paintings: Christie's also sold his 1950 "Tripod (A.R. 125)" vase depicting his mistress, Francoise Gilot, for \$195,000—but the seller paid Sotheby's \$272,060 for it only two years ago.

## FAUSTO MELOTTI

Fausto Melotti initially gained fame in the 1930s for making wiry, geometric sculptures, but after his Milan studio was destroyed during

World War II, he turned in grief to terra-cotta. He started making clay scenes with tiny figures often separated as if living on separate floors.

Today, Melotti's quivering metal sculptures have sold for as much as \$665,000, but Christie's reset his clay record Tuesday by selling 1959's "The Chalks," for \$416,975.

## KATHY BUTTERLY

New York artist Kathy Butterly has spent the past couple of decades crumbling clay into forms that appear to topple, yet don't. She has used nail polish as a glaze, sometimes firing her pieces dozens of times and risking destruction in the process, according to her dealer James Cohan, who has a solo show of her work, "Thought Presence," up through Oct. 20 in

became instant art-world history and certainly marks the first time in auction history that a work of art automatically shredded itself after coming under the hammer."

Since the act, dealers have surmised that the winning bidder, who remains anonymous, likely scored an unexpected windfall, since collectors tend to pay a premium for works that carry notoriety or a memorable story. In the long run, the work's value could easily double, dealers said, and its value is unlikely to dissipate.

Banksy has emerged as the impish Andy Kaufman of the art world, but he keeps his identity shrouded in mystery. He started out spray-painting in his native Bristol, in southwest-



Banksy's work, half-shredded.

ern England, in the 1990s, and has since gained international acclaim for politically charged street art—which often pops up unannounced—across the world.

Several of his artworks have been removed from buildings and sold at auction, while his 2010 documentary, "Exit Through the Gift Shop," was nominated for an Academy Award.

Messages left with his London publicist, Jo Brooks, weren't immediately returned Sunday.

"Girl With Balloon," is one of Banksy's most recognizable works, but it wasn't his first to fetch more than \$1 million. In 2008, "Keep It Spotless," a Damien Hirst painting Banksy defaced, sold for \$1.87 million at a Sotheby's charity event in New York.

—Kelly Crow and Michael Wright

New York. On Friday in London, Phillips's \$3.3 million sale included her 7-inch piece, "Overgrown," that sold for \$21,160. It was priced to sell for up to \$20,000.

## BETTY WOODMAN

Betty Woodman, who died earlier this year, studied pottery in New York in the late 1940s, but after that she spent time in Tuscany, where she gained a reputation for creating vases that looked like they'd been deconstructed and pinned to the wall. In 2006, Woodman was the first living ceramist to get a retrospective of her work at the Metropolitan Museum of Art, and since then her market has started to tick upward. On Friday, Phillips sold her 2007 "Balustrade Relief Vase 07-4" for \$61,850, tripling its high estimate.

## UP NEXT

# 'A SPIRITUAL PATHWAY' AT THE GUGGENHEIM

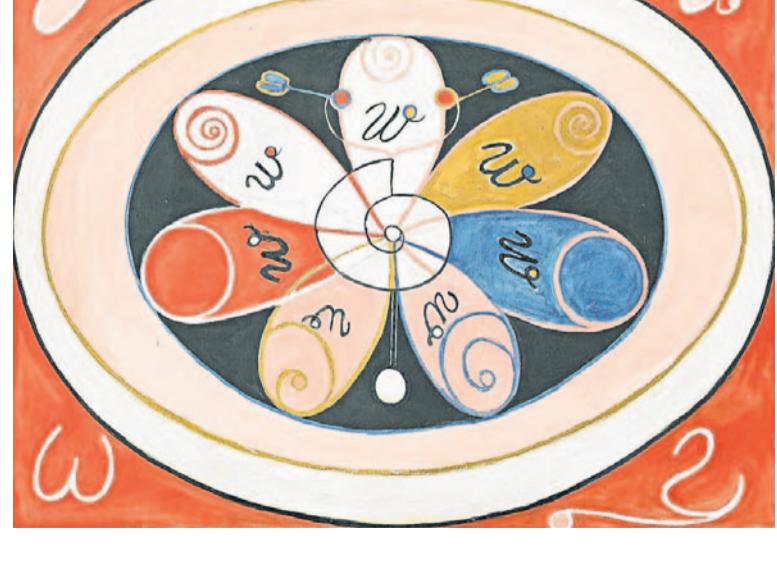
BY CARYN JAMES

**AS EARLY AS 1906**, the Swedish painter and mystic Hilma af Klint was filling canvases with circles, spirals and areas of pure color. While her contemporaries Kandinsky and Mondrian became lionized, she made similar breakthroughs in relative obscurity. She ordered that her work not be shown publicly for 20 years after her death, hoping it would reach a more receptive audience.

Many decades after she died, in 1944, the Guggenheim Museum in New York is opening the first major retrospective of her work in the U.S., "Hilma af Klint: Paintings for the Future."

Highlights of the exhibition include "Paintings for the Temple" (1906-1915), a series of 193 works, some of them 10 feet high, that Af Klint made at what she said was the urging of a spectral voice called Amaliel.

"The subject is the cycle of life, from birth to old age, a monumental theme that she has undertaken on this monumental scale," says Tracey Bashkoff, the Guggenheim curator who organized the show. Af Klint, she says, created art "to offer people a spiritual pathway" to a



higher plane.

Among the exhibition's 160 artworks and notebooks are many reconciling science with the abstract, including "Evolution" (1908), a series of paintings with organic shapes, and "The Atom Series" (1917), watercolors of cubes, triangles and stars.

The artist's fame has been growing. In Olivier Assayas's 2016 film "Personal Shopper," Kristen Stew-

art's character, who believes she can contact the spirit world, is obsessed with af Klint. "I wanted to establish that my character was not nuts," Mr. Assayas says, "but maybe involved in a journey that is as valid as was the painting of one of the 20th century's great artists."

"Hilma af Klint: Paintings for the Future" opens Friday at the Guggenheim Museum, 1071 Fifth Ave., New York; [guggenheim.org](http://guggenheim.org)

## LIFE &amp; ARTS



ART REVIEW

# 'Bruegel': Enduring Fascination

The wit, humanism and technical skill of his work have long made him a favorite both of connoisseurs and the general public

BY A.J. GOLDMANN

Vienna

**LOOK VERY CLOSELY** at Pieter Bruegel the Elder's "Christ Carrying the Cross" (1564) and you will find, in the lower left-hand corner, a minuscule spider sitting in the center of her web. The presence of the arachnid hidden in this large painting suggests Bruegel's method of weaving sprawling and intricate webs of images through which the artist invites our eyes to wander endlessly.

"Christ Carrying the Cross" is one of the dozen works that make up the Vienna Kunsthistorisches Museum's unparalleled trove of Bruegel paintings. As we near the 450th anniversary of the artist's death, the museum has assembled the largest-ever exhibition devoted to the Flemish master (c. 1525/30-1569), with roughly 90 works that are divided almost equally among paintings, drawings and prints.

The Kunsthistorisches' impressive collection is filled out by 15 additional wood-panel paintings, lent by museums and collections throughout Europe and the U.S.

Representing nearly three-quarters of Bruegel's extant output as a painter, these 27 masterpieces take center stage here and represent a tremendous feat for the four curators: Sabine Pénöt, of the museum's Netherlandish and Dutch paintings division; Manfred Sellink, general director and head curator of the Royal Museum of Fine Arts in Antwerp, Belgium; Elke Oberthaler, head of the paintings conservation studio at the Kunsthistorisches; and Ron Spronk, a professor of art history at Queen's University in Kingston, Ontario.

The combination of wit, humanism and artistic precision that informs Bruegel's work has long made him a favorite both of connoisseurs and the general public. Two of his most famous 20th-century admirers were W.H. Auden and Andrei Tarkovsky. Auden's "Musée des Beaux Arts" (1938) contains a memorable meditation on "Landscape With the Fall of Icarus" (c. 1558), although the painting that the poet saw in Brussels is now considered to be a copy of a lost Bruegel (and hence not included in this show). The Russian filmmaker's "Solaris" (1972) contains a haunting sequence where cropped details from "The Hunt-

ers in the Snow (Winter)" (1565), one of the Kunsthistorisches' treasures, tumble forth as a powerful montage.

The ironic, all-too-human attitude to which Auden drew attention and the insistently narrative one highlighted by Tarkovsky help explain the enduring fascination with Bruegel. His acute, often-humorous understanding of human folly informs the encyclopedic tableaux he is best known for, including the ribald "Children's Games" (1560) and "The Battle Between Carnival and Lent" (1559). His carnivalesque and grotesque sense of the world even spills into his biblical scenes, including "The Tower of Babel" (1563), "The Conversion of Saul" (1567) and "The Suicide of Saul" (1562), which are all in the Kunsthistorisches collection.

This exhibit stresses Bruegel's creative method over interpretations of his work, and it places emphasis on his extraordinary technical skill. Sections are devoted to curious objects depicted in his paintings and to the tools and techniques that he used, down to his finger and palm prints. With the newly unveiled online portal [www.insidebruegel.net](http://www.insidebruegel.net), you can inspect 11 of the Vienna paintings—as well as infrared and X-ray images—in exceptionally crisp de-

tail. Zoom in on the church tower at the end of the long alley in "Children's Games" and those background details appear as a complete street scene in its

own right. Zoom out and you are sent hurling back through the picture until the minutiae resume their existence as tiny specks.

Among the important and varied loans are "The Adoration of the Magi" (1564) from the National Gallery in London and "Winter Landscape With a Bird Trap" (1565) from the Royal Museums of Fine Arts in Brussels. The Prado in Madrid has also sent its top Bruegel, "The Triumph of Death" (after 1562), a monumental portrait of anguish



Pieter Bruegel the Elder's 'Children's Games' (1560), top; 'The Tower of Babel' (1563), above; and 'The Haymaking' (1565), below



that seems to prefigure Picasso's "Guernica." It has an even-grimmer immediacy after a fresh restoration that removed a murky yellow varnish. Close by, one finds "Dulle Griet" (1563), another disturbing vision on loan from the Museum Mayer van den Bergh in Antwerp. This saturated panel, also newly cleaned, shows a scene of almost Bosch-like horror in which a band of women attacks and loots hell itself.

A much gentler, and more familiar, view of Bruegel is found in his renderings of the seasons, with their lolling farmers, returning herds, skating children and foraging villagers. The Kunsthistorisches owns half of the series of six large panels that Bruegel painted for an Antwerp merchant in 1565. The addition of "Haymaking," from the Lobkowicz Collections in Prague—the painting representing June and July—makes this the most complete showing of the cycle in over 350 years.

Of the two other "Seasons" panels, "Spring" has been lost; "The Harvesters," depicting mid-summer, one of the greatest works in the Metropolitan Museum of Art's holdings, was too fragile to make it to Vienna. The same holds true for "Netherland-

ish Proverbs" (1559), the crown jewel of Berlin's Gemäldegalerie collection and arguably the most important Bruegel painting not included in this show. Another significant work, "The Sermon of St. John the Baptist" (1566), in the collection of the Museum of Fine Arts in Budapest, was denied permission to travel outside of Hungary at the very last minute. An empty space marks where it was to hang, and the crowded forest scene is included in the

beautiful exhibition catalog. Yet even if such absences are felt, this stunning and unprecedented exhibition allows the viewer to immerse himself in Bruegel's rich universe more fully than ever before.

Mr. Goldmann writes about European arts and culture.

**Bruegel**

Vienna Kunsthistorisches Museum, through Jan. 13, 2019

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NFL

# BREES SET FOR RECORD

BY ANDREW BEATON

Saints quarterback Drew Brees enters Monday night's game against the Redskins 201 yards shy of breaking Peyton Manning's record for career passing yards. What's just as remarkable as surpassing Manning's total of 71,940 yards is how differently Brees has reached that mark.

In short: Brees has done it by throwing short.

Manning spent his career in Indianapolis and later Denver airing the ball downfield. During the course of his career, his passes traveled 8.7 yards past the line of scrimmage on average, according to Stats LLC. In 11 of his 17 seasons, his average air yards were above the league average. All of that added up to a career total that broke the record of another quarterback who loved to throw it down field: Brett Favre.

Brees, who started in San Diego before reaching stardom in New Orleans, has approached Manning's mark with an opposite approach. In 15 of Brees's last 16 seasons, his air yards were below the league average. His average throw has gone 7.5 yards past the line of scrimmage. That means Manning's typical pass went 16% farther.

But Brees's short throws came with a clear upside. He was able to complete them with unusual ease. Brees led the league in completion percentage in four seasons and in yards per game six times.

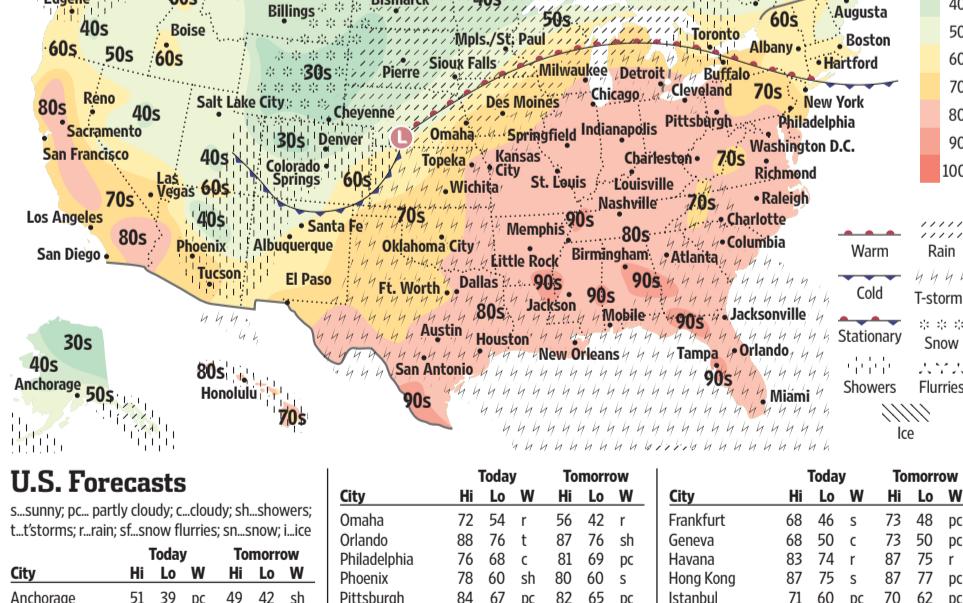
The most extreme example of Brees's short-range precision came a year ago. His passes traveled, on average, 6.4 yards past the line of scrimmage—one of the shortest in the entire league and the shortest of Brees's career. It also produced a record-breaking campaign: He set a new season-long record by completing 72% of his passes.



Saints quarterback Drew Brees

## Weather

Shown are today's noon positions of weather systems and precipitation. Temperature bands are highs for the day.



## International

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	61	46	pc	65	47	s
Athens	76	61	t	75	62	pc
Baghdad	101	71	t	101	71	s
Bangkok	92	78	pc	93	78	pc
Beijing	70	46	s	62	39	pc
Berlin	58	40	s	67	47	pc
Brussels	62	42	t	71	46	s
Buenos Aires	83	58	t	84	58	s
Dubai	101	86	s	104	84	s
Dublin	61	54	sh	64	51	pc
Edinburgh	60	55	sh	62	52	pc

# SPORTS



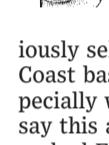
(L) ELSA/GETTY IMAGES; (R) ADAM GLANZMAN/GETTY IMAGES

Aaron Judge, left, walked out of Fenway Park on Saturday cranking 'New York, New York.' Red Sox star Mookie Betts, right, is a leading MVP candidate.

YANKEES VS. RED SOX | By Jason Gay

## The Series of Insufferableness

As the Red Sox and Yankees play in the ALDS, our columnist apologizes to the rest of the country



Has it really been 14 seasons since the Red Sox and Yankees last met in the postseason? I'm sorry, America! I'd forgotten how obnoxiously self-absorbed this East Coast baseball rivalry can be, especially when it lands in October. I say this as an obnoxiously self-absorbed East Coaster. Seriously: Do you read this column? I'm every bit as awful as this playoff series.

Isn't Boston vs. New York technically the World Series? Does anything matter once this American League Divisional Series wraps? Are there actually other cities involved in the baseball playoffs? Los Angeles? Cleveland? Colorado, you say? Colorado has a baseball club? Since when? 1993? That's adorable.

At the moment, the Red Sox and Yankees—aka Only Two Clubs That Really Matter—are tied 1-1 in this crackling best-of-five brawl, with Game 3 Monday night in the Bronx. It's all anyone can talk about in New York, besides themselves. In Boston, the mood is the same. They've actually stopped talking about the Patriots for five seconds up in New England. It's super weird.

But that's what happens when the Red Sox and Yankees square off for Innings that Count. Civic aggression roils; self-regard gets pumped into the water supply; all perspective is lost. It's Narcissus vs. Narcissus. Two cities that think they invented sports, blocking out the rest of the planet and choking on the fumes of their own nostalgia.

We tell total strangers—unsolicited—exactly where we were when Bucky Dent hit his home run in 1978, like anyone not from Boston or New York cares where we were when Bucky Dent hit his home run.

YOU: *Oh, you were sitting in eighth grade detention. Wow, that's fascinating.*

The books say they haven't met in the postseason since Boston's wackytown 2004 comeback from 0-3, but I have a hard time believing it. I feel the Red Sox and Yankees meet 900 times a year, no matter what. Their games are all eight hours long, and run until two in the morning at least. The self-mythologizing is comical. Haven't there been like 47 documentaries about the 0-3 comeback? That thing has been covered more than the moon landing.

I bet the rest of America is sick of our garbage. I bet if you live in another baseball town, Red Sox vs. Yankees isn't the least bit interesting. I bet it's like hearing the neighbor's dogs bark at each other.

WOOF! ROOF! WOOF! 27 RINGS!

ROOF! WOOF! LOU PINIELLA!!

ROOF! WOOF! PEDRO TACKLES ZIMMER!!

I'm not going to get defensive, and tell you that East Coast cities like Boston and New York are actually misunderstood, that we're, in fact, humble and sweet. Nah. The rest of you have us pegged: we're special. We do not understand places where people are nice, the trains are reliable and the real es-

tate is affordable. You don't want to sit next to us at a dinner or on an airplane.

And don't get me started on the media. Usually the media pretends there's no such thing as East Coast Sports Bias, that the leaders of all the major sports media outlets don't get together every August in Nantucket and plan all the East Coast sports media coverage for the year. Let me give it to you straight: We totally get together on Nantucket in August and plan the East Coast sports media coverage for the year.

(And when I say "East Coast media bias," I really mean Boston and New York. Not Washington, D.C. Nobody in New York or Boston cares about Washington, D.C. It's basically Antarctica, with funny-haircut politicians. And don't give me some fancy nonsense term like "Acela Corridor." "Acela Corridor" is just something people say on cable news to sound clever, which is silly, since no one in the history of cable news has ever sounded clever.)

Alright, I guess I should talk about the actual Red Sox/Yankees series. That's what any Boston and New York fan who reads this column is saying right now: JUST TALK ABOUT THE SERIES, YA JOURNAL SPORTS DINGBAT!

It's tied at one; I already told you that. The team that wins two more pushes on to the American League Championship Mid-October Clambake, or whatever its called—it's basically unnecessary since

this round is the only one that counts. I don't even know who is playing in the other American League Division Series. I think it's Cleveland and...Fort Lauderdale?

Yankees fans have to be feeling pretty good. Winning Game 2 at Fenway Park puts the Sons of Steinbrenner in a strong position as the series rolls back to New York. Gary Sanchez, who had fewer hits for the Yankees than I did this season, rewarded manager Aaron Boone's faith with two home runs in Game 2. Aaron Judge walked out of Fenway late Saturday cranking Sinatra's "New York, New York" from a portable speaker, like a wrestling heel.

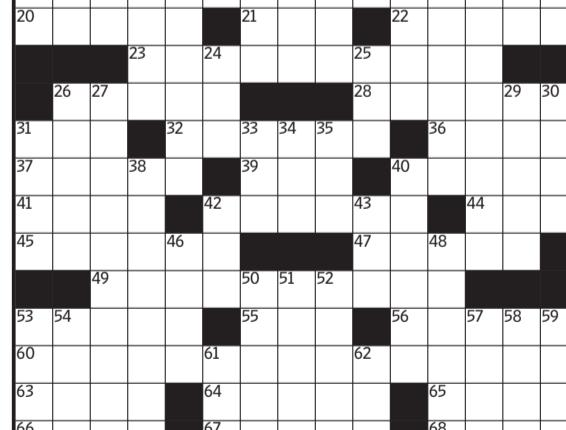
We thought Judge was a super nice guy! New York is sinking into his bones.

Meanwhile, Boston's bullpen is already under heavy use, and Red Sox fans are freaked. How do Red Sox fans feel about their bullpen? Well, imagine getting on a plane, and a hamster is the pilot. That's pretty much how they feel about the bullpen. The Red Sox are the most anxious 108-game winning team in baseball history.

I want it to go the distance. It's really a shame this series isn't best of seven, or best of 17.

For the rest of the U.S., it's a shame it isn't over already. Then again, look at us: we're a big, noisy country that likes to yell at each other. This series is perfect. Red Sox versus Yankees may not be the baseball we want, but it's the baseball we deserve.

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



TATTOO YOU | By Zhouqin Burnikel

## Across

- 1 Machu Picchu's land
- 2 GM tracking system
- 3 "Rashomon" director
- 4 Comprehension
- 5 Greek X
- 6 Asian capital city
- 7 Welcome at the door
- 8 Bit of celery
- 9 Long stretch of time
- 10 Tree surgeon's tool
- 11 Shrewd bargain
- 12 Moisturizing additive
- 13 Tavern sign gas
- 14 War-torn Syrian city
- 15 Cheshire Cat feature
- 16 Geese formation
- 17 Alamos, New Mexico
- 18 Biggest city on the Big Island
- 19 Showed on TV
- 20 Quarterback Jared Goff's team
- 21 Sunflower product
- 22 Out of bed
- 23 "A Fish Called Wanda" Oscar winner
- 24 Folded French food
- 25 Geese formation
- 26 Country that shares a long border with Argentina
- 27 Grapevines
- 28 Capital of Turkey
- 29 Moisture
- 30 Incredibly bargain
- 31 Moo pork
- 32 Dangers
- 33 Soprano solo
- 34 State of uncertainty
- 35 Factor of every prime number
- 36 Golfer's goal
- 37 Children's TV character portrayed by Bob Keeshan
- 38 Stationary
- 39 Bee bunch
- 40 Six-time All-Star Moises
- 41 Incredibly bargain
- 42 Plaines, Illinois
- 43 "Rashomon" director
- 44 Otherwise
- 45 Student driver's paper
- 46 Run up, as debt
- 47 Quoted as a source
- 48 Columbia Pictures parent company
- 49 1980s "Meet the Press" host
- 50 Personal affront
- 51 Friend of Harry and Hermione
- 52 Tattoos, slangily, sported by the four longest Across answers
- 53 Pasture
- 54 Hitchhike
- 55 Popeye, for example
- 56 Off-road wheels, for short
- 57 Pioneering TV producer
- 58 Country south of Azerbaijan
- 59 Steakhouse choices
- 60 Lacking sense
- 61 Dorothy, to Em and Henry
- 62 Broken down
- 63 Post-gym woe
- 64 Keep in reserve
- 65 Otherwise
- 66 Run up, as debt
- 67 Quoted as a source
- 68 Columbia Pictures parent company
- 69 SpaceX founder Musk
- 70 Rashomon director Kurosawa
- 71 Long of "The Best Man"
- 72 Expressed wonder
- 73 Quarterback who famously knelt during the anthem in 2016
- 74 Keep in reserve
- 75 Run up, as debt
- 76 Otherwise
- 77 Quoted as a source
- 78 Columbia Pictures parent company
- 79 Rashomon director Kurosawa
- 80 Long of "The Best Man"
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- 93 Run up, as debt
- 94 Otherwise
- 95 Quoted as a source
- 96 Columbia Pictures parent company
- 97 Rashomon director Kurosawa
- 98 Long of "The Best Man"
- 99 Expressed wonder
- 100 Quarterback who famously knelt during the anthem in 2016



The contest answer is ANIMATION. As suggested by the "Central Casting" title, taking the middle letters of each word in each of the five movie titles in the puzzle, in order, spells the contest answer.

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

## OPINION

## Lessons From an '80s Trade War

INSIDE  
VIEWBy Andy  
Kessler

An extra two grand for a Harley Hog because of steel tariffs? We can't be wimps in the world of trade, but tariff wars are never good. I would know: I was in the middle of one. In the mid-1980s, when Donald Trump was in casino mode and hosting prizefights, the Japanese were knocking out U.S. memory-chip makers. Hitachi instructed salesmen to "quote 10% below their price. If they requote, go 10% again. Don't quit until you win." The company later claimed it was never official policy, but the Japanese controlled 90% of the market for some crucial chips. Something had to be done, right? Well, no. Bear with me.

In early 1986, President Reagan's Commerce Department cited Section 301 of the Trade Act of 1974 and ruled that the Japanese were selling chips below cost. The administration threatened dumping duties of up to 146% on Japanese memory chips. Never mind the oversupply and industry recession. To avoid duties, Japan came to the table and signed an agreement to limit exports and increase U.S. market share in Japan. Sounds like the current tariff tiff with China?

Here's where things got weird. The chip recession con-

## OPINION

## REVIEW &amp; OUTLOOK

## The Next Kavanaugh Stakes

**A**nyone who thinks the brawl over Brett Kavanaugh and the Supreme Court ended with his confirmation by the Senate on Saturday might want to listen again to Chuck Schumer's floor speech. The Minority Leader made clear that Democrats are going to use accuser Christine Blasey Ford as a campaign prop from here to November and beyond.

That may have been the Democratic plan all along once they learned of Ms. Ford's accusation: Hold it for weeks, spring it as close to the election as possible, and if it doesn't defeat Mr. Kavanaugh then use it to mobilize Democratic turnout. Perhaps that will work, and if it does Democrats will feel their delay-and-destroy strategy was worth it. Republicans should call out this behavior for how Democrats would govern if they take Congress.

\* \* \*

Meantime, Senate Republicans held together and prevented a Supreme Court defeat that would have been a political disaster. Judge—now Justice—Kavanaugh deserves the most credit for refusing to withdraw and fighting for his seat under enormous pressure.

By forcefully defending his integrity and repudiating the Democratic strategy, he gave GOP Senators the confidence to stand with him. He would have been defeated had he played it as meekly as his critics now say in retrospect that he should have. Credit to Donald Trump too for standing by his nominee.

Majority Leader Mitch McConnell somehow managed to keep his conference together except Alaska's Lisa Murkowski. Susan Collins opposed ObamaCare repeal, but Mr. McConnell understands you never know when you might need every vote with a 51-vote majority. The Maine Senator's confirmation speech was the finest moment of this Congress and in any confirmation fight in many years.

Democrats won't forgive Mr. McConnell for denying Barack Obama's nominee Merrick Garland a hearing in 2016 pending the presidential election. But he was doing what Democrats would also have done, and what Chuck Schumer explicitly said in 2007 that they would do when Democrats held the Senate during the last year of George W. Bush's Presidency.

Mr. McConnell's legacy now includes a new conservative majority on the Supreme Court, as well as some 26 new appellate judges, substantial deregulation and tax reform. He has done more policy with a narrow Senate majority than any leader we can recall. Had John McCain not defected on health care, he might have even repealed most of ObamaCare. More than a few people on the "anti-establishment" right owe Mr. McConnell an apology.

As for the new Court majority, Democrats are predicting doom, but our guess is that it will be more cautious than they fear. The Justices

## Jamal Khashoggi's Fate

**T**he shocking report that dissident Saudi journalist Jamal Khashoggi may have been killed in his country's consulate in Istanbul and his body secretly removed from the building is a story that the government in Riyadh isn't going to be able to ignore or dismiss with a mere denial.

The Journal reported Sunday that Turkish police believe Mr. Khashoggi was killed inside the Saudi consulate after he entered on Oct. 2 and never left. Saudi authorities say he left the building, but Mr. Khashoggi's fiancée says he never emerged and she alerted Turkish authorities the same day. The Saudis deny any foul play but the Kingdom's interna-

### A Saudi journalist is said to have died in his country's consulate.

tional reputation is on the line here.

Mr. Khashoggi was once part of the Saudi establishment but gradually became a critic of Saudi King Salman and his son, Crown Prince Mohammed bin Salman. The Crown Prince wants to modernize the Kingdom but he has used authoritarian methods that include the arrest of political opponents. Mr. Khashoggi moved to Washington, D.C., last year because he feared arrest or a travel ban, and he has been writing a column for the Washington Post.

The Saudi reformers have allies in Washington, but they will lose them if they aren't transparent about Jamal Khashoggi's fate.

## The Political Distortion of Language

**A**merican political discourse gets worse by the day, a lesson we've seen firsthand again this weekend. The Twitter mob on the political left is claiming that our Saturday editorial headline, "Susan Collins Consents," was intended as a sly "rape joke."

The editorial praised Maine Senator Collins for her thoughtful speech on Friday explaining her support for Brett Kavanaugh's Supreme Court nomination. We said her thorough consideration was an exemplary case of fulfilling the Senate's "advice and consent" duty under the Constitution. Senators are supposed to offer their advice and then offer or withhold their consent for a presidential nominee. The editorial mentioned advice and consent no fewer than six times.

Yet for some on the political left the editorial wasn't about the Senate's constitutional duty or praising Sen. Collins. They said we were making fun of rape. A reporter named Emily Stewart even wrote a story about the headline for Vox, the left-wing website, saying "it seems like a rape joke" and calling it an "apparent double-entendre."

Ms. Stewart may be angling for a job at the New York Times alongside Maggie Haberman, a reporter who retweeted something from someone named Rosa Goldensohn that "It's a play on words, get it? With rape." This is the political culture that New York Times reporters like Ms. Haberman marinate in and promote.

Like several readers in our comments sec-

### The left turns a headline about the Constitution into a 'rape joke.'

tion, our first reaction was that these people should get their minds out of the gutter. But the distortion of our headline is worse than that and reflects the left's corruption of language to serve its political ends.

The left-wing mob doesn't want to credit Senator Collins with making a considered judgment, or our endorsement of her speech as praise for the correct way the Senate should behave in assessing a nominee. The mob wants to interpret everything through the prism of identity politics and accuse opponents of condoning or laughing at sexual assault. As George Orwell said of the propagandists of his day, these people want to manipulate language to distort its meaning to make their opponents seem illegitimate.

This debases political debate and it also diminishes the seriousness of sexual assault. The #MeToo movement has exposed real injustice and inexcusable, sometimes criminal, behavior by men in power. Harvey Weinstein and Bill Cosby deserve their punishment. But as sexual assault has become a media obsession and now a political weapon of the left, we are watching it devolve too often into the mad psychology of mob justice.

Something like this happened with the Brett Kavanaugh nomination when mere accusation, without corroborating evidence, was said to be enough to disqualify him from the Supreme Court. The good news is that the left failed to defeat him, as it won't succeed in twisting the plain language of the Constitution into a rape joke.

### Lessons from the confirmation fight as Election Day nears.

themselves say that the dynamics at the Court change each time a new colleague joins them, and often in surprising ways.

Chief Justice John Roberts will become the swing vote, and he is an incrementalist who will not want to overturn precedents willy-nilly. With the politics surrounding the Court so polarized, he might be more

cautious than warranted on issues where the Court needs to clear up its own indecision. One of those issues is the constitutionality of racial preferences, about which former Justice Anthony Kennedy continued the legal hair-splitting of Sandra Day O'Connor. Justice Kavanaugh is likely to join the other four conservatives.

Another area ripe for the Court to be heard again is the Second Amendment. Cities and states have been willfully defying the Court's *Heller* and *McDonald* rulings with gun bans and other regulation, and liberal lower courts are upholding the laws. The Court needs to set clearer limits on the kind of regulation that is constitutional.

The real source of Democratic grief is less what the new Roberts majority might do than what it won't. For some years at least, the Supreme Court is unlikely to be the left's alternative legislature for its policy agenda. A conservative majority won't bar arbitration if Congress hasn't done so, won't create new rights that aren't in the Constitution, and will be more skeptical of executive-branch rewrites of Congressional statutes.

The paradox is that over several years this could reduce the political tempers over the Supreme Court. The reason nominations have become so contentious isn't merely because the country is politically divided. It is because progressives have used the courts as a political pile-driver on abortion rights, same-sex marriage, and the death penalty, among other controversial issues. Democrats will now have to achieve their goals the old-fashioned way—by winning elections.

\* \* \*

Which brings us back to Mr. Schumer's use of Justice Kavanaugh to rally voters in November. The stakes are high, especially for the courts. If Democrats retake the Senate, no Donald Trump nominee will be confirmed for the Supreme Court and perhaps not the appellate circuits. Democratic Rep. Jerrold Nadler, who would be Judiciary Chairman if Democrats retake the House, says he will investigate Justice Kavanaugh for perjury and reopen the sexual-assault probe. He means it.

We doubt this is what most Americans want from Congress, but it is where the Resistance will drive Democrats. The ugly Kavanaugh confirmation has awakened many complacent Republicans to the methods of the American left. Those methods will be in charge if Democrats control Congress.

\* \* \*

George Anagnos (Letters, Oct. 4) doesn't understand the constitutional requirement for prompt action by the Senate to vote the president's nominee for the Supreme Court up or down.

## LETTERS TO THE EDITOR

### Social Engineering Via Cost-Benefit Fiddles

Regarding your editorial "A New Cost-Benefit Regulation Test" (Oct. 2): Cost-benefit analysis typically compares two states of the world—with and without a policy initiative, to see if the putative policy will improve the economic welfare of society. The generation of electricity with traditional (coal) power systems releases a variety of pollutants to the atmosphere which negatively impact environmental quality and human health. One particularly pernicious pollutant is mercury. The state-of-the-art technology in the control of mercury emissions from power plants not only reduces mercury emissions but also those of some of the other pollutants in the emission streams of utilities. Thus the counterfactual state of the world reflects, among other effects, reductions in a vector of pollutants besides mercury. Including the value of the reductions in all the components of that vector isn't "shenanigans," "double- or even triple-counted." It is common sense because even though these co-pollutants weren't targeted by the policy, they are part of the change in resource allocation that will impact society, in this case, in a positive manner.

What if the controls as a byproduct were to create some harm, for example, adding to a pollutant stream? Would that change not also be included in the analysis?

TAYLER H. BINGHAM  
Raleigh, N.C.

What regulators ought to take into

account is the regulatory ratchet, the powerful tendency of regulation to beget more regulation. Regulations such as the EPA's mercury rule almost inevitably cause a large, diffuse group to incur costs that it otherwise wouldn't have incurred. Bearing these costs will strike members of this group as a problem about which "someone ought to do something." If the "problem" is sufficiently salient, it will fuel calls for a "solution," but the proposed solution will rarely take the form of repealing the regulation that caused the problem. Typically, it will take the form of additional regulation.

The call for such a solution might come from the ranks of the cost-bearers, but it is more likely to come from their self-appointed advocates, among them journalists, commentators and pundits. In any event, these people will provide political support for additional regulation. Even regulation skeptics may embrace additional regulation as a second-best solution to the problem. In the political arena, additional regulation is likely to defeat repeal. Of course, this additional regulation will almost inevitably cause a large, diffuse group to incur costs it otherwise wouldn't have incurred. Regulation usually functions like a ratchet, so regulators ought to take that into account when assessing its likely costs.

PROF. MARK R. LEE  
University of San Diego  
School of Law  
San Diego

### Washington, We Have a Citizenship Problem

If not being able to identify Benjamin Franklin is a measurement of a threat to American democracy ("Ben Franklin Who?", Review & Outlook, Oct. 4), we have been in trouble for a long time. A headline on the New York Times front page on April 4, 1943, read: "Ignorance of U.S. History Shown by College Freshmen; Survey of 7,000 Students in 36 Institutions Discloses Vast Fund of Misinformation On Many Basic Facts, Survey Finds Many College Freshmen Weak on Knowledge of United States History." On the multiple-choice test, half identified Walt Whitman as an American bandleader, having confused him with Paul Whiteman; and most thought Will James was Jesse James's brother. The great American historian Pauline Maier said

SOL GITTLEMAN  
Lexington, Mass.

Scientist and author Carl Sagan may have said it best: "You have to know the past to understand the present."

JONATHAN L. STOLZ  
Williamsburg, Va.

To learn, our students have to be taught. That's the missing piece.

DAVE RITGER  
Naples, Fla.

### Hamilton on a Timely Nomination Response

George Anagnos (Letters, Oct. 4) doesn't understand the constitutional requirement for prompt action by the Senate to vote the president's nominee for the Supreme Court up or down.

Article II, Section 2, Clause 2 (the Nomination and Appointment clause) is explained by the authors of the Constitution in Federalist 66 (Alexander Hamilton writing as Publius). The Senate's role is limited to prompt action: "There will, of course, be no exertion of choice on the part of the Senate. They may defeat [the] choice of the Executive . . . but they cannot themselves choose—they can only ratify or reject the choice of the President." This is so even if there is another nominee available who is "in their es-

timation more meritorious."

Judge Merrick Garland was nominated on March 16, 2016, fully seven-and-a-half months before the presidential election. The nomination of John Marshall for chief justice of the Supreme Court illustrates our Founding Fathers' principle that proximity to an election isn't a basis for inaction. Lame-duck President John Adams (a Federalist) nominated Marshall six weeks after the 1800 presidential election day. In obedience to the constitutional mandate, the Senate ratified Marshall's nomination by acclamation a mere 36 days before the inauguration of Thomas Jefferson of the Democratic-Republican Party. Marshall administered the oath of office to Jefferson.

ROBERT DE PORRES-RAS  
Oak Brook, Ill.

### U.S. Lumber Exporters Are Hurt by China Trade Tiff

Mark Louchheim is correct that a large portion of U.S. exports consists of commodities for multiple markets ("Trump is Right About China Trade," op-ed, Oct. 3). However, the U.S. hardwood industry depends on exporting our most common species of hardwood lumber: red oak. Approximately every third red-oak board that is sawed has, until recently, been sold to China, primarily for use in its household-furnishings markets. China is the only significant user of red oak outside of the U.S. The Chinese tariff is now 10%, and unless a deal is reached the rate will rise to 20% next year. Our industry risks losing our only significant export market for red oak and the largest single overseas market for all other species of U.S.-produced hardwood lumber.

MARK HOPPER  
Durham, N.C.

Daniel Henninger is only half right that "The Kavanaugh Standard" of belief of an accusation of heinous behavior is enough to destroy an innocent person (Wonder Land, Sept. 27). Past, present and future applications of the Kavanaugh Standard have shown, and will show, it only applies to accusers of innocent conservatives who get in the way of progressive power, not to the Mary Jo Kopechne, Juanita Broaddricks or Paula Joneses.

BRUCE ZISKIN  
Rancho Santa Fe, Calif.

### Pepper ... And Salt

THE WALL STREET JOURNAL



"Yeah, it's the New World,  
but we found a ton of ticks . . ."

### Cult of the European Union

Regarding Walter Russell Mead's "A Nasty Brexit Threatens the West," Global View, Sept. 25) on Britain's effort to leave the EU: It strikes me how closely the nation's struggles are to an individual trying to leave a cult.

KEVIN A. CAPPIS  
Corona del Mar, Calif.

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

## OPINION

# George Soros's March on Washington

By Asra Q. Nomani

**S**ome 200 protesters march across the lawn of the U.S. Capitol to the foot of the south wing. Inside, the U.S. Senate is wrapping up its debate, hours before the Saturday afternoon vote to confirm Justice Brett Kavanaugh. Members of the crowd rush up the steps, unfurl professionally printed banners, stand defiantly, and pump their fists in the air.

"Whose house?" they shout.

"Our house!" they answer.

By the time of the vote, they've moved across the street to the Supreme Court building. After getting word of the vote, again they rush the steps. Two women climb the statues

**Saturday's protests and unlawful disruptions were brought to us by a well-funded network.**

flanking the steps—"Contemplation of Justice" and "Authority of Law"—for more fist-pumps.

On the steps, Bob Bland, a co-founder of the Women's March, silently sends a thumbs-up signal to another leader, later boasting: "We took the Supreme Court." On Friday the Women's March had tweeted out a photo of Sen. Susan Collins, who cast the deciding vote for Justice Kavanaugh, with "Rape Apologist" written across her image.

In a series of tweets and rally comments, President Trump described the crowd as "an angry left-wing mob" of "professional protesters who are handed expensive signs"

and "paid for by [George] Soros and others." Mr. Trump's detractors accused him of engaging in conspiracy theories, and even of anti-Semitism against Mr. Soros, a billionaire donor to liberal causes. Yet he has a point. Many Americans genuinely oppose Mr. Trump and Justice Kavanaugh. I am a liberal feminist whose views on abortion and same-sex marriage align with the Democratic Party's. Yet while most demonstrators are not paid for their efforts, the protests at the Capitol Saturday, and the ones that have included stalking lawmakers inside and outside their offices, are organized by groups of which Mr. Soros is an important patron.

I started following the money for the "resistance" when it was born, hours after Election Day 2016. I have organized my findings in a spreadsheet I have made public. At least 50 of the largest organizations that participated as "partners" in the Jan. 21, 2017, Women's March had received grants from Mr. Soros's Open Society Foundations or similar funds in the "House of Soros," as his philanthropic empire was once called internally. The number of Soros-backed partners has grown to at least 80. At least 20 of the largest groups that led the Saturday anti-Kavanaugh protests have been Open Society grantees.

On Saturday I also studied the fine print on the signs as protesters waved them defiantly at the Capitol and the high court. They came from a familiar list of Democratic interest groups that have received millions

from Mr. Soros: the American Civil Liberties Union, the Leadership Conference on Civil and Human Rights, Planned Parenthood, NARAL Pro-Choice America, the Center for Popular Democracy, Human Rights Campaign and on and on. MoveOn.org, a Democratic organizing and lobbying



AFP/GETTY IMAGES

The 'Contemplation of Justice' statue at the Supreme Court, Oct. 6.

group founded with Soros money, sent its army of partisan followers regular missives that led them to a Google form to ask for train tickets and places to stay.

Under a ginkgo tree on the East Lawn of the Capitol, Center for Popular Democracy field marshals put protesters through a "training" Saturday morning. "Are you ready to be arrested?" she asks. "Yes!" the crowd shouts, although one woman asks quietly: "For what?"

"If not," the field marshal orders, "stand in line for the visitor's gallery so an experienced protester can go inside and yell." One organizer hands out tickets to the Senate visitors gallery for the express purpose of violating the law. That they did—the proceedings were repeatedly interrupted by shrieks from the gallery.

The agitators even have help with their handmade signs. Across the street from the Supreme Court, a woman uses supplies provided by UltraViolet Action to write, in Spanish:

"No more rapists in power."

Back on the Capitol lawn, people from Megaphone Strategies, a public-relations firm founded by former Obama adviser Van Jones, manage interview requests from USA Today and other news outlets. Women's March lieutenants exchange T-shirts for completed "Legal Support Sheets" with information in case of arrest.

Suddenly everyone stands to walk in unison to the Capitol steps. When they arrive, the few Capitol Police officers on the scene silently watch them. The protesters walk up the stairs—though they don't "storm" them, as the leaders have claimed. There are no barricades, no phalanx of armed police.

Rethink Media created a "social media strategy sheet" back in August for anti-Kavanaugh protesters. One talking point: "Kavanaugh was hand-picked by dark money groups and their billionaire backers." Rethink Media is itself a Soros grantee, and

Saturday's protests and unlawful disruptions were part of a well-funded, orchestrated network that books buses, hotel rooms and churches for such agitation.

MoveOn.org wrote a guide, "How to Bird Dog"—harass officials in public places—in the spring of 2017, in preparation for town-hall meetings during a congressional recess. Over the past year, I have dialed in to MoveOn.org's Sunday evening phone calls where they plan the operations and tell their "troublemakers" how to corner lawmakers. I still get alerts for their planning sessions. The last ones have been to #stopKavanaugh.

MoveOn.org announced that its call the night after Justice Kavanaugh's confirmation would feature Ana Maria Archila, the Colombia-born sexual-assault victim who cornered Sen. Jeff Flake in a Senate elevator last month while a confederate screamed "Look at me!" She is co-executive director of the Center for Popular Democracy. Her salary was listed as \$156,333, with a bonus of \$21,378, in a recent Internal Revenue Service 990 form.

What I have pieced together is an open secret but one that journalists tend to avoid. Many (including me) sympathize with the liberal causes Open Society champions. Some have been paid Open Society Fellows or grantees. And many are put off by conservative anti-Soros rhetoric, which gets truculent at times.

Mr. Soros, much like the Koch brothers, funds causes he cares about. There's nothing wrong with that, but democracy is better served if we follow the money on the right and left and find solutions where they are likeliest to lie: in the middle.

Ms. Nomani is a former Wall Street Journal reporter.

## To Bring Back U.S. Manufacturing, Get the World to Dump the Dollar

By John D. Mueller

**D**onald Trump promised to "make America great again," but he might make America Great Britain. To re-industrialize the U.S. economy, President Trump must avoid the mistake that de-industrialized Britain: namely, he must end the dollar's role as the world's chief reserve currency.

A century ago when Britain began to lose its place as the world's leading power, it was suffering economic maladies today's Americans will find familiar: declining exports, large government deficits, and a huge amount of foreign debt. The British pound's role as the world's chief reserve currency was a major driver of this economic decline.

John Maynard Keynes promoted the British pound's use as the world's reserve currency, writing in 1913 that replacing gold with foreign-exchange reserves was a step toward "the ideal currency of the future." But it didn't take long for the markets to prove that currency reserves are not a foolproof form of savings. The monetary system Keynes recommended was established throughout Europe after a 1922 conference in Genoa, but it col-

lapsed in 1931 at the onset of the Depression.

French economist Jacques Rueff described the fatal weakness of foreign-exchange reserves in a 1932 lecture. He explained that when a monetary authority accepts dollar or sterling claims for its official reserves rather than gold, purchasing power "has simply been duplicated," so that, for example, "the American market is in a position to buy in Europe, and in the United States, at the same time." In other words, when a foreign nation accepts repayment in U.S. dollars it increases its money supply without diminishing the U.S. money supply, allowing both countries' central banks to lend in dollars.

This credit "duplication" is not only inflationary in the reserve-currency country and any country whose currency is tied to the reserve currency; it also necessarily causes the average price of goods to rise faster in the reserve-currency country than among its trading partners. This is why Britain's and America's manufacturing industries lost their competitiveness as exporters, resulting in deindustrialization.

This so-called Triffin Dilemma, though first described by Rueff, was

named around 1960 for the Belgian-American economist Robert Triffin, who described the post-World War II unraveling of the Bretton Woods gold-exchange system. Under the gold standard, the world-wide increase in monetary gold equaled the world's net exports. The problem of

### America's role as provider of the international reserve currency has driven up the price of American goods.

the Triffin Dilemma is that every additional dollar of foreign-exchange "reserves" must be matched by an equal deficit in the reserve-currency country's net exports—that is, by net imports.

The glut of reserve currencies made the 20th century a period of intense inflation. The average price of British goods increased 72-fold from 1900 to 2000, while U.S. prices rose 18-fold over the same period. These increases far outpaced inflation in other major export countries that did not provide international reserve currencies. The prices of

German, Japanese and Chinese goods all have fallen compared with U.S. exports.

Tariffs and other forms of protectionism can't restore America's export competitiveness. They invite retaliation, inhibit trade, and raise prices even higher. The uncompetitive U.S. price level is effectively a tariff on American goods. Thinking that another tariff will help American workers makes no more sense than believing one can heal the injuries of a pedestrian hit by a car by backing up over the victim.

The Triffin Dilemma can't be solved without a monetary reform that ends the dollar's use as the world's chief reserve currency. Here's a deal that could place Mr. Trump in Alexander Hamilton's league: Persuade America's sovereign creditors that the U.S. will convert every penny of foreign dollar reserves into long-term government-to-government debt, to be paid off in gold over, say, 30, 40 or 50 years. Hamilton's plan paid off the debt from the American Revolution by the mid-1830s. The gradual repayment of all outstanding official foreign dollar reserves would reverse America's industrial decline by restoring the price competitive-

ness of U.S. manufacturing.

The most essential step would be establishing a schedule for paying off the outstanding dollar reserves, which would require long-term planning and consensus between the White House and Congress. But if a payment schedule were finally set, it would remove the deflationary threat of foreign dollar reserve liquidation overhanging the U.S. market. Then the beginning of the actual payments would set in motion the relative price changes necessary to reverse the reserve-currency curse.

Like Mr. Trump, Hamilton's contemporaries originally thought his glaring character flaws far outweighed his virtues. But after the formerly penniless immigrant managed to make a fortune for his adopted country, even those who had been his worst political enemies found it in their interest to carry out his plan for decades. Today, young people whistle the songs not from "Jefferson" but "Hamilton." There will be no whistling of tunes from "Trump" if he makes America Great Britain.

Mr. Mueller directs the economics and ethics program at the Ethics and Public Policy Center.

By Thomas Hegghammer

**J**ihadist terrorism until recently had Europe on the defensive. Now the continent is getting tough and fighting the threat with measures that would have been unthinkable six or seven years ago.

The old notion that Europe is weak on terrorism gained traction in the mid-2010s. Between 2015 and 2017, some 350 people were killed by jihadists across Europe. Terrorism rose to the top of polls of public concerns, and criticism of European counterterrorism capabilities grew explicit. A PBS "Frontline" investigation into the 2016 Brussels attacks revealed "a scale of dysfunction remarkable in the annals of modern

counterterrorism." Many wondered if Europe was up to the task of defending itself.

But the continent stepped up in a way that many observers, including me, didn't foresee. European countries poured money into counterterrorism and improved intelligence sharing. They also initiated a qualitative overhaul involving radical new measures that had previously been considered politically off-limits.

Preventing citizens from going off to places like Syria to fight was once considered legally difficult. Many European law-enforcement agencies now prosecute anyone merely planning to go abroad to join a jihadist group. Jihadist recruitment organizations proliferated in Northern Europe

until the early 2010s because authorities struggled to pin them to crimes. Around 2013, however, governments started cracking down. Firebrand clerics also found themselves treated more severely. Britain extradited the London-based sheikh Abu Qatada to Jordan in 2013 and shipped the hard-line Finsbury Park Mosque Imam Abu Hamza to the U.S., where he was sentenced to life in prison in 2015.

Censorship of extremist internet material, once seen as both unfeasible and authoritarian, is now common and has significantly reduced the availability of jihadist propaganda. A new European Union law imposes fines on internet companies that fail to remove extremist material within 60 minutes. The censorship

may not be limited to digital materials. This year a European Parliament special committee recommended that member countries "ban and remove all religious literature within their territory that incites to violent and terrorist acts."

### Long seen as weak, the continent in recent years has hardened its defenses against jihadists.

France passed a law in 2017 making it easier to shut down radical mosques. Austria closed seven mosques and deported 60 imams this year. Italy has deported 313 extremists since 2015. Britain stripped more than 100 suspected Islamist militants of their citizenship in 2017. These measures come on top of a substantial increase in terrorism-related arrests and convictions across the continent.

Last but not least is the increased willingness to use military force against jihadist groups outside Europe. The anti-Islamic State coalition deployed to Iraq in 2014 had a large European component, and some countries have sent special forces to Iraq to detain or kill their own citizens fighting alongside Islamic State.

These new practices have been accompanied by more-aggressive rhetoric, reminiscent of the Bush administration after 9/11. In his speech after the Paris attacks in November 2015, then-President François Hollande declared that "France is at war," and in 2017 Foreign Minister Florence Parly

said: "If jihadists die in the fighting, then I'd say it's for the best."

This hardening of European attitudes toward terrorism didn't happen overnight. It's part of a longer trend that began after 9/11 and accelerated starting in 2012, when European foreign fighters started going to Syria in large numbers. We should not exaggerate its repressive character. Torture and other egregious practices aren't on the table, and the hard measures have been accompanied by many soft programs to prevent and mitigate violent extremism. The hardening is also uneven, with France adopting a tougher approach than countries like Sweden. Still, the changes are substantial and amount to a paradigm shift in European counterterrorism.

It's still early, but the new approach appears to be working. There are fewer European jihadsts fighting on foreign battlefields. Domestic attacks and casualties are substantially down in 2018—not because plotting has decreased, but because authorities are foiling more attempts. For the longer term, the main challenge will be preventing militants who come out of prison from regrouping.

Europe's struggle with jihadism is far from over. The new, more muscular approach poses serious questions about civil liberties, minority rights and radicalization in prisons. But Europe can no longer be described as soft on terrorism.

Mr. Hegghammer is a senior research fellow at the Norwegian Defense Research Establishment (FFI) and author of "Jihad in Saudi Arabia: Violence and Pan-Islamism since 1979."

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# BUSINESS & FINANCE

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## U.S. Stocks Near a Pressure Point

Rising Treasury yields increase likelihood investors will pull back from shares

BY MICHAEL WURTHORN  
AND SAM GOLDFARB

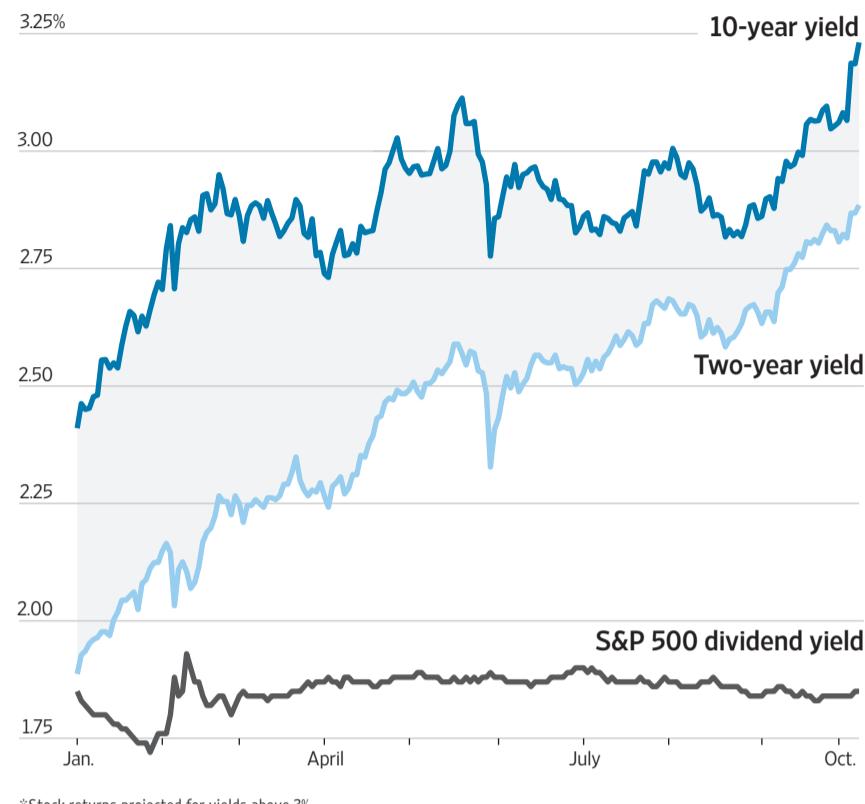
Yields on long-term U.S. government debt abruptly moved higher last week, calling into question the durability of the more-than-nine-year-old bull market for stocks.

A booming U.S. economy and investors' desire to put their money in riskier assets, such as stocks and corporate bonds, have sent bond prices tumbling. That in turn has pushed the yield on the benchmark 10-year U.S. Treasury note, the backbone of borrowing costs for consumers, corporations and governments, to 3.23%.

A strong economy is generally good for stocks. But if yields continue to march higher, investors may start to pull back from riskier assets since they are being better compensated for holding risk-free ones. Higher borrowing costs also could cool the pace

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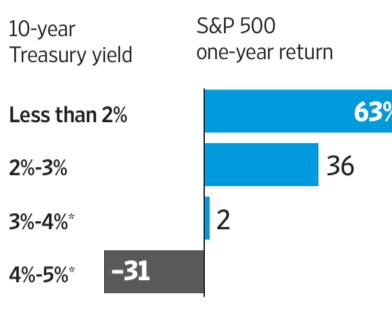
U.S. government-bond yields have surged this year, while the S&P 500 dividend yield has mostly been flat.



\*Stock returns projected for yields above 3%.

Sources: Tullett Prebon Information (bond yields); FactSet (S&P 500 dividend yield); Standard & Poor's, Federal Reserve, Haver Analytics, Credit Suisse (average returns); EPFR Global (flows)

Average trailing one-year returns for S&P 500 on days the 10-year yield rose, 2014-present



## No-Interest Loans for New Cars Dry Up

BY ADRIENNE ROBERTS

Car buyers on the hunt for a 0% financing deal are going to have to look harder.

Auto lenders are pulling back on the no-interest financing offers that had become widespread in new-car ads and dealer showrooms for much of this decade. Cheap financing reinvigorated the U.S. auto industry's sales following the recession, helping to keep monthly payments affordable and draw buyers from the used-car market, where lending rates are usually higher.

But as interest rates rose, the cost of such deals has increased, pinching profits for car makers that finance vehicles through their lending arms and must pay the difference to keep the rate at zero for the customer. With U.S. auto-industry sales slowing, car companies are turning to other types of sales incentives, such as cash rebates and discount lease rates, to lure buyers to showrooms, dealers and industry analysts say.

"For a long time, everything was 0%," said Adam Lee, chairman of Lee Auto Malls, a dealership chain in Maine. At first, buyers could find 0% finance deals on 48-month car loans, and then auto lenders started extending those deals to 60-month loans and eventually 72-month loans, he said. "There are fewer and fewer of those deals now," Mr. Lee added.

In September, the percentage of new cars financed with an interest rate of 1% or less fell to 5.3% for the month, down from 8.2% in September 2017 and 11.7% in September 2016, the year U.S. auto sales peaked, according to market research firm J.D. Power.

No-interest loans have become even scarcer, accounting for 3.4% of all new-car financing in September, down from 9.1% two years ago, J.D. Power said.

Overall financing rates on new-car loans also have crept up over the past couple of years, although they remain well below 2008 levels. The average financing rate for a new-car purchase was 5.75% in the second quarter, up from 4.82% two years ago when auto sales were at their strongest, according to Experian Automotive.

"You're definitely seeing the entire industry pulling back," said Jack Hollis, general manager of Toyota North America, of the scaling back of interest-free auto loans. "Obviously, interest rates rising is a reality in the marketplace, and

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## Banks Brace for Downside of Higher Rates

BY BEN EISEN  
AND CHRISTINA REXRODE

Banks have enjoyed a profit boost from rising interest rates over the past couple of years. But now those higher rates could turn into a drag.

Higher rates enable banks to charge more on loans. But they also can hit the banks' mortgage businesses, since the higher interest payments could make some consumers think

twice about buying a home or refinancing. What's more, rising rates are forcing banks to start paying some depositors more.

The yield on the benchmark 10-year Treasury note, which is tied to commonly used mortgage rates and many other borrowing costs, recently hit a fresh seven-year high. The Federal Reserve has lifted its key policy rate three times this year, with one more

increase expected in 2018.

For years, as the Fed kept interest rates near zero, banks blamed superlow rates for crimping their ability to make money. Now that rates are rising, banks are finding their effect is more nuanced.

At the start of a rate-raising cycle, banks can usually increase the rates they charge on loans before raising the rates they pay on deposits. But as the rate-raising cycle moves

into its later stages, some analysts and investors are concerned about the newfound pressure that may put on bank margins, undoing some of the profit boom that followed the central bank's rate increases over the past three years.

"The benefits of rising rates will probably run their course later this year into next year," said Gerard Cassidy, an analyst at RBC Capital Markets. "Over time, rising rates will work

against the banks."

The rate environment is an important topic as banks begin reporting results on Friday for the July-to-September period. Bank stocks have been in a funk this year. The KBW Nasdaq Bank Index is roughly flat, far underperforming the 8% rise in the S&P 500. Goldman Sachs Group Inc. and Morgan Stanley are down more than 10% this year, while Citigroup

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## Superhero Spinoff and Gaga Set Record

BY ERICH SCHWARTZEL

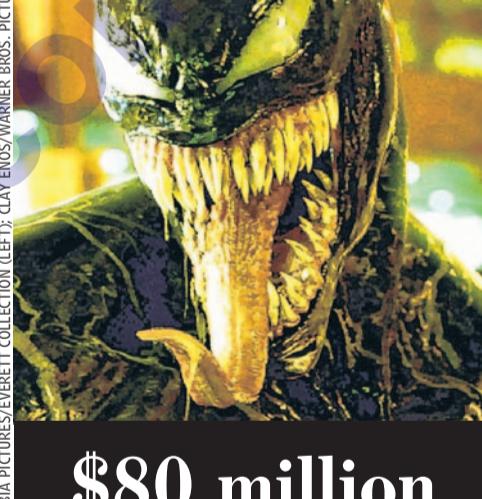
LOS ANGELES—Two new hit movies—"Venom" and "A Star Is Born"—gave Hollywood its best-ever October showing at the box office over the weekend.

"Venom," a superhero spinoff starring Tom Hardy, collected a robust \$80 million in first place, unseating the October opening record set by the \$55.8 million debut of "Gravity" in 2013.

Bradley Cooper's update to the show-business myth "A Star Is Born" followed with \$42.6 million in second place, a solid start for a modestly budgeted drama that has drawn rave reviews from critics.

After several relatively quiet weeks at the box office,

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\$80 million



\$42.6 million

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## Pentagon Set to Audit Defense Supply Chains

By DOUG CAMERON

The Pentagon plans to scrutinize the supply chains of U.S. aerospace and defense companies to find gaps and weaknesses in the nation's military readiness.

U.S. intelligence agencies will help with the sweeping review of domestic supply chains, said Ellen Lord, the Pentagon's chief weapons buyer, to make sure they are ready to aid U.S. forces on short notice.

"We will audit," Ms. Lord told reporters as the Pentagon rolled out a White House-commissioned report that revealed hundreds of risks in the defense-manufacturing sector, from reliance on foreign suppliers to shortages of domestic workers.

A spokesman for the company's defense arm said it "remains confident in the overall health and performance of our supply chain and works closely with our supplier partners to ensure that we manage risk and deliver on our collective commitments to our customers."

The Pentagon is concerned about industry's ability to boost production of weapons and supplies during a conflict.

**Boeing** Co., one of its biggest contractors, has struggled recently to expand output of commercial jetliners, showing that supply-chain issues can hurt even the best-resourced

companies.

Shortages of parts ranging from metal castings to printed circuit boards have hampered U.S. manufacturers' ability to handle surging demand.

Boeing, the Pentagon's second-biggest contractor by contract value, has had to park dozens of partially completed jetliners near its factories in Washington state while it awaits parts to finish them. One of its main contractors, Spirit AeroSystems Holdings Inc., wasn't able to deliver finished fuselages on time because of problems with around a dozen of its own small suppliers.

Boeing has said it plans to catch up in the final quarter and meet its full-year delivery target for 737 jets.

A spokesman for the company's defense arm said it "remains confident in the overall health and performance of our supply chain and works closely with our supplier partners to ensure that we manage risk and deliver on our collective commitments to our customers."

Continued from the prior page

the arrival of "Venom" and "A Star Is Born" led an industrywide weekend tally of \$174.5 million, a record for October.

Sony Corp.'s Sony Pictures Entertainment, which released "Venom," had a lot riding on the "Spider-Man" spinoff.

Sony has the rights to several Marvel comic-book characters not controlled by Walt Disney Co., which bought Marvel Studios for \$4 billion in 2009 and has since produced a hugely successful series of movies starring its superheroes.

Marvel has rewritten the

playbook for Hollywood stu-

dios, all of which now pursue big-budget franchises to anchor their slate of releases.

To establish its own franchise, Sony has been building out its roster of superheroes in recent years, and had a hit when it co-produced "Spider-Man: Homecoming" with Marvel last year. Another "Spider-Man" feature, "Spider-Man: Into the Spider-

Verse," will follow in December.

The "Venom" opening is a validation of the appeal of characters in the "Spider-Man" universe," said Steven O'Dell, Sony's president of international distribution.

"Venom" collected an additional \$125 million from overseas markets.

If "Venom" is an example of

the franchise-focused new Hollywood, "A Star Is Born" is something of a throwback to star-driven, song-and-dance storytelling.

The drama, starring Lady Gaga as a singer who finds stardom and romance with an alcoholic crooner (Mr. Cooper), is the fourth iteration of the Hollywood love story. It was released by AT&T Inc.'s Warner Bros.

The movie's soundtrack, featuring new songs by Lady Gaga, was No. 1 in the music section of Apple's iTunes Store on Sunday.

About two-thirds of the movie's opening-weekend audience was older than 35, an indication that the film is attracting an older crowd that will keep filling seats in the weeks to come, said Warner distribution chief Jeff Goldstein.

"This is a movie that's going to be around for months, through awards season," said Mr. Goldstein.

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of the economic expansion.

The challenge for stock investors is gauging the point at which higher yields will cause a significant reversal.

Last week's jump in the yield on the 10-year U.S. Treasury dashed a five-day run of gains for the Dow Jones Industrial Average, its longest streak since mid-July. Tech stocks that have propelled markets higher this year were hit particularly hard.

Even so, major U.S. stock indexes still have solid year-to-date gains; the Dow industrials are up 7%, while the tech-heavy Nasdaq Composite Index has risen 13%.

Stock indexes have defied

rising yields for some time. In

little more than two years, the

yield on the 10-year Treasury

has more than doubled, climbing to today's level from a trough of 1.36% in summer of 2016. During that time, the Dow industrials gained more than 8,000 points.

"The market has been able to withstand yields in the low-3% range because the economy has been solid and earnings have been strong," said Leo Grohowski, chief investment officer at BNY Mellon Wealth Management.

During previous cycles of interest-rate increases, a 5% yield on the 10-year Treasury usually was the inflection point for stocks, according to Credit Suisse data analyzing stock-market returns over the past 54 years. But after a decade of near-zero interest rates and other easy-money policies, this rate cycle has been unlike any other, forcing investors to reset expectations.

The closer the yield gets to 3.5%, the bigger the risk to "investors' ability to call this stock market reasonably valued," said BNY's Mr. Grohowski.</

## BUSINESS NEWS

# Juul Taps Veteran Of White House Amid FDA Scrutiny

BY JENNIFER MALONEY

**Juul Labs** Inc. has hired a former White House adviser to join its leadership team, one of several ex-federal officials or regulators added by the e-cigarette startup this year as it tries to head off a potentially ruinous government crackdown on its products.

Surging teen use of the company's slim e-cigarette devices has set off debate in Washington and around the country about whether Juul is hooking more children on nicotine than it is helping adult smokers quit. The Food and Drug Administration has threatened to ban the flavored liquids that account for most of Juul's sales.

The San Francisco company, which was valued at \$16 billion when it completed a financing round that raised \$1.25 billion this summer, has been ramping up its lobbying efforts and snapping up government insiders.

Last week the company hired Josh Raffel, a former communications official in the White House who worked closely with Jared Kushner and Ivanka Trump. Mr. Raffel developed a reputation there as a key crisis manager.

Mr. Raffel, who started this past Wednesday, will serve as vice president of corporate communications and won't be doing lobbying work for the company. Other hires this year include Jerry Masoudi, a former chief counsel for the FDA, as its chief legal officer; Spencer Morrison, a 30-year FDA veteran, as director of risk mitigation and compliance; and Jim Esquea, a former assistant secretary at the Department of Health and Human Services, as the top in-house lobbyist.

FDA Commissioner Scott Gottlieb has accused e-cigarette manufacturers including

## Lobbying Efforts

Juul has ramped up its spending but lags behind traditional tobacco companies. 2018 spending, in millions:

**Atria Group**

\$4.91

**Philip Morris International**

\$3.0

**Reynolds American**

\$1.21

**Juul Labs**

\$0.33

Source: Center for Responsive Politics  
THE WALL STREET JOURNAL.

Juul of treating soaring use among teens "like a public relations challenge." Last month, the FDA conducted a surprise inspection of Juul's corporate headquarters.

"There's an elaborate lobbying campaign in Washington pushing back on the actions we're doing," Dr. Gottlieb said in a recent interview. The message the commissioner has heard from Juul allies is that "the data don't warrant aggressive action at this point. I disagree," Dr. Gottlieb said. He plans to meet soon with Juul representatives.

Juul says its products are intended to help adult cigarette smokers switch to a less harmful alternative. "We completely agree that actions are necessary, and we are committed to being part of the solution," a company spokesman said. "Juul strongly believes that any amount of underage usage is too much. We will continue to work with FDA, lawmakers, public health advocates and others to keep Juul out of the hands of young people."



Teamsters President James P. Hoffa, holding the yellow sign, urged UPS workers at a Detroit Labor Day parade to approve a contract. JIM WEST/ZUMA PRESS

# UPS, Union to Resume Talks

BY PAUL ZIOBRO

Teamsters members voted down a new contract with **United Parcel Service** Inc., but the union's leadership said the turnout was too low to reject the contract. Both sides said they would return to the negotiating table ahead of the holiday season.

Preliminary voting results showed that 54.3% of votes cast opposed the five-year deal that represents 243,000 drivers, package sorters and other workers, the International Brotherhood of Teamsters disclosed Friday. Another pact representing 11,000 UPS Freight workers was also rejected, with 62.1% of votes cast opposing that deal.

The Teamsters issued a statement saying the union considered the larger contract ratified despite the vote tally. Under union rules, a nationwide contract needs to be re-

jected by two-thirds of ballots when less than half of members cast a vote. The union

said 44% of members voted, and the final tally was 42,356 in favor and 50,248 opposed.

"Not enough members covered by the National Master UPS Agreement exercised their right to vote," the union said. "And as we saw in the 2016 U.S. Presidential election, winning the popular vote does not necessarily win the election when the Constitution requires you to win the Electoral College vote. As Teamsters, we too must abide by the rules in our Constitution. Thus, the National Master UPS Agreement has been ratified."

Although they declared the larger contract ratified, union leaders said they would reopen talks with the company. "We will be going back to the company to talk to them about some additional changes," said Denis Taylor, co-chairman of

the Teamsters negotiating committee.

Talks will also resume on other smaller contracts, including the one representing UPS Freight workers, where enough members voted to reject the deal. A number of other regional and local agreements were also voted down.

A UPS spokesman said the company "will meet with the Teamsters leadership in the near future to discuss next steps regarding the agreements." A contract extension is in place for the deal that expired in July and the company said it doesn't expect operations to be disrupted.

"The Teamsters' negotiating committee and UPS developed fair agreements that reward UPS employees for their contributions to the company's success, including improved wages, benefits and job creation," company spokesman Steve Gaut said.

The votes show a deep rift in the ranks, dealing a blow to the Teamsters leadership and UPS that tried to sell its rank and file on the contracts.

The vote adds a layer of uncertainty to UPS operations as it heads into the critical peak period, when the amount of packages flowing through its network jumps.

The tentative deal, reached between the company and union leaders in July, faced a campaign from a Teamsters faction that objected to a two-tier wage system for drivers and starting wages that will soon trail those offered at Amazon.com Inc.

"Our members spoke loud and clear," said Sean O'Brien, a Teamsters leader in Boston who opposed the deal. "This contract is clearly concessionary and the leadership should listen to the membership and go back and get what our members deserve."

# Target to Launch New Brand Of Inexpensive Toiletries

BY KHADEEJA SAFDAR

Target Corp. is wading into a new territory: \$1 toiletries.

The Minneapolis-based retailer said it is planning to launch a new brand for consumer staples called Smartly with more than 70 products, including razors, toilet paper and dish soap, mostly priced under \$2.

The products will be offered at stores and online in mid-October.

Mark Tritton, Target's chief merchandising officer, said the new line of consumer staples is an attempt to compete with generic brands at drugstores and discount chains. "It's about showing people that I don't have to go to Aldi or I don't have to go to Dollar General to find what I'm looking for," he said in an interview.

Smartly is the latest step by the retailer to offer shoppers more competitive prices.

company reported its best quarterly results in more than a decade.

Since Mr. Cornell announced his spending plan last year, the company has been shedding some of its stalwart brands and launching new ones. Stocking exclusive merchandise is part of his strategy to fend off competition from Amazon and other chains. Private-label

brands also tend to be more profitable for retailers.

In the past two years, Target has created 20 brands, mostly in the apparel and home categories. Over the summer, it launched its first electronics brand called Heyday with items such as headphones and speakers, all priced under \$60.

Target said Smartly is priced, on average, about 70% less than traditional brands, such as Procter & Gamble Co. labels like Tide, Gillette and

Charmin. The new line will be Target's second generic brand for toiletries, undercutting prices on its Up & Up brand by about 50%.

"Am I saying we're looking to replace a key brand like Tide with Smartly? Absolutely not," said Mr. Tritton.

Smartly products are sold in small quantities, such as a single roll of paper towels, to capture Gen-Z and millennial shoppers, including college students or 20-somethings who are starting their first jobs.

Target's market research has shown these shoppers aren't as loyal to well-known brands.

Most millennials are cost-conscious and more likely to try new products, but they are also looking for items that are pitched as healthy and good for the environment, said David Garfield, head of the consumer-products practice at consulting firm AlixPartners.

"It's been a challenge for store brands and private labels to offer value, but also enough of the other attributes," he said.

In mid-October, Smartly items will be sold alongside other products in their respective aisles and available to buy online through Target's restock program, which lets shoppers fill a box of goods and pay a flat shipping fee. The company said it plans to make room for Smartly by removing the lowest-performing items in each product category.

Meanwhile, the market for generic consumer staples has become more crowded. Last year, Brandless, a San Francisco-based startup, began selling staples such as fluoride-free toothpaste and dish soap, priced at \$3. The German grocer Aldi has also been opening more locations in the U.S. and gaining traction by selling a pared-down selection at rock-bottom prices.

—Sarah Nassauer contributed to this article.

## Price Check

How some of Target's new line of Smartly products compare with its current store brand and Walmart's.

### Paper Towels

		Equivalent for 50 full sheets
Smartly (Target)	\$0.59/100 half sheets	\$0.59
Up & Up (Target)	\$0.99/40 full sheets	1.24
Great Value (Walmart)	\$0.98/140 half sheets	0.70

### Razors

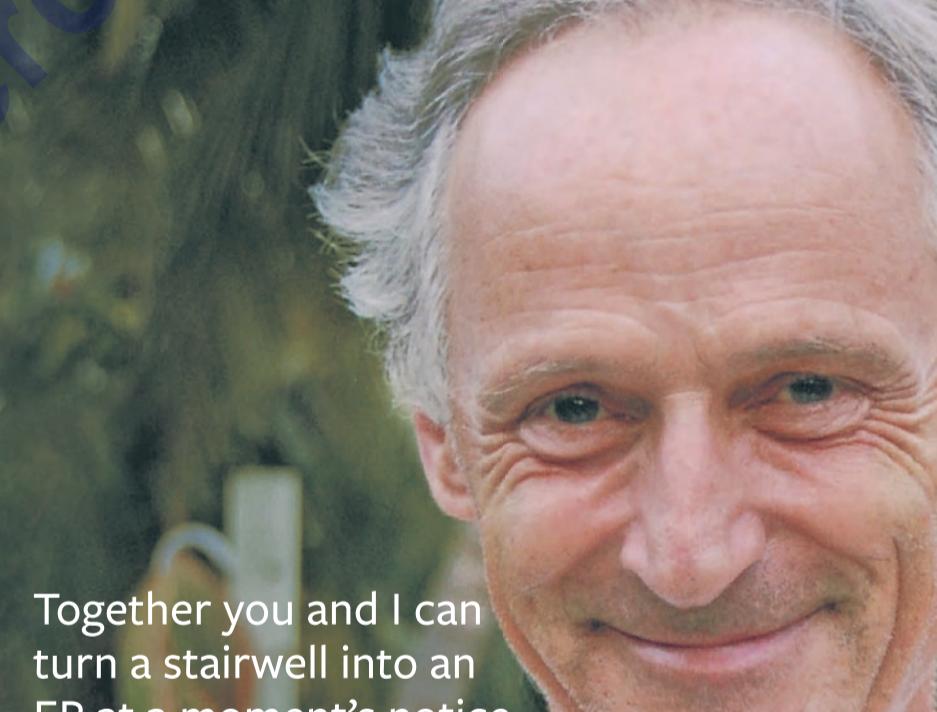
		Equivalent for 12 razors
Smartly (Target)	\$0.99/5 razors	\$2.38
Up & Up (Target)	\$1.89/12 razors	1.89
Equate (Walmart)	\$0.97/5 razors	2.32

### Laundry Detergent

		\$4.49
Smartly (Target)	\$4.49/100 oz.	
Up & Up (Target)	\$6.49/100 oz.	6.49
Great Value (Walmart)	\$6.28/100 oz.	6.28

Note: List price in most stores

Source: the companies; Field Agent



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## TECHNOLOGY

WSJ.com/Tech

PERSONAL TECHNOLOGY | By David Pierce

 Most nights, I settle on the couch about 8 p.m. looking for a TV show to watch. My options are preposterously good—this is the Golden Age of Television, after all. Yet there I am, futzing with remotes, launching apps and scrolling past show after show. Then I watch “The Office” for the umpteenth time.

Why keep heading back to Dunder Mifflin? Because finding something better requires three remotes, a couple of set-top boxes and half a dozen apps including Hulu, Netflix and HBO Go.

Television used to be simple. You'd turn on the set, flip between a few channels and decide on the best available option. As TV moves to the web, we need a new guide. It needs search and sorting and personalization built in. And it wouldn't hurt if it was all easier to do from one simple remote...or even my phone.

I went in search of a great clicker, and a great source of things to click on. Turns out, both are harder to find than I thought.

I've been testing the \$100 Caavo Control Center, which aims to simplify all your content-delivery systems into a single interface. You plug as many as four devices into the Control Center, then operate them all with Caavo's skinny black remote. Most universal remotes require complicated setup, but I plugged in a Roku, an Xbox, a Fire TV and a Chromecast, and was spinning through them with the Caavo in about 10 minutes. It successfully whittled all my devices, cables and remotes down to one. That's worth \$100 by itself, if you ask me.

**C**aavo charges \$2 a month if you want its more ambitious service: acting as a sort of content switchboard. On Caavo's text-heavy interface you get recommendations for things to watch and search.

Caavo uses machine-vision tech to actually understand what's on the screen as you're navigating your streaming boxes, so it can make sure its commands are working. It also remembers what you're watching, and can use that data to build cross-platform watch lists.



Some technologies send video from streaming apps to the TV.

letting you jump from one show to another on a completely different box with a click or two.

Lots of universal remotes purport to do something similar. Logitech's Harmony lineup is familiar to any home-theater obsessive, and you can even buy a device like the Sideclick to attach to an existing remote and give it more controls. But Caavo is easier and more elegant than the others I've tested.

In 2015, Apple Chief Exec-

utive Tim Cook declared, “The future of TV is apps.” Unfortunately, he was right. Apps make sense when they contain wholly different experiences, but the current state of TV is like downloading a separate Instagram app for each account you follow.

I tracked my own habits over a few weeks and found myself watching stuff from more than a dozen sources, from Netflix and Hulu to Twitch and Twitter. No service, not even Caavo, offers

search or recommendations across all of those.

You might be able to search on your Roku to see if a show is playing on Hulu, Netflix and/or Amazon, but it's a lot harder to find things that might be lurking in cable-channel apps such as HGTV or more sprawling video repositories such as YouTube without going to them. And have you ever heard of Tubi? Pluto TV? Yahoo View? They're all free, and actually full of stuff you might want to watch.

Android users, the Google Play Movies & TV app offers similar features.

So far, the best system I've found is an app called Reelgood—and it doesn't cost anything. It helps users find shows and movies across several dozen services, and offers useful recommendations. Recently redesigned, it's become the place I start whenever I want to watch anything.

Yet even Reelgood doesn't track some services I use, such as YouTube TV and Sling. Facebook Inc. has ambitions to create high-quality content through Facebook Watch and Instagram's IGTV.

YouTube already offers original content, as does Twitter. Everyone from Walt Disney Co. to CollegeHumor is launching streaming services of their own.

More streaming content is great news, but all that content won't matter to me if I can't find it. Until we get a real TV guide for the internet age, this so-called future of TV feels a lot like wandering through the Blockbuster shelves back in the day, always searching for the perfect thing but never quite finding it.

## Telecom Firms Square Off to Buy Spectrum in 5G Race

BY STU WOO  
AND DAPHNE ZHANG

A new battle for cellular airwaves is under way as governments around the world start to auction off spectrum for mobile coverage that could power nearly instant video downloads and help run factories, control gadgets and navigate driverless cars.

Countries have long sold airwave rights for cellular service within their borders but places such as Britain and Spain this year held their first major auctions for radio frequencies needed to make so-called 5G cellular networks, which could be much faster than today's mobile networks, a reality. Italy made a splash earlier this month with a blockbuster sale—spinning off nearly \$7.55 billion of frequencies to several big European carriers, including Telecom Italia SpA and Vodafone Group PLC.

In June, South Korean mobile operators snapped up \$3.26 billion of spectrum there. Next month, the Federal Communications Commission plans to hold the first major U.S. auction for 5G-friendly airwaves.

The frequencies sold at these auctions are the ones that governments and carriers expect to be crucial for a broad rollout of 5G, which promises to eventually replace today's fastest 4G networks.

The broad contours of how 5G will work, once it is fully



A Vodafone 5G booth at a tech fair in Germany this year. The firm is jockeying for 5G spectrum.

operational, are starting to emerge, and some industry executives and analysts are skeptical of its potential, saying the technology might not be much different than today's 4G. U.S. carriers plan to roll out their first iterations of 5G networks in a few cities in the next three months.

Cellular airwaves are a public resource akin to a lake that provides water to businesses and homes. Governments reserve chunks of spectrum for everything that requires wireless connectivity: radio and television broadcasts, satel-

lites, military communications, Wi-Fi, Bluetooth and even remote controls and garage-door openers.

Only a limited amount of airwaves is suitable for cellular service, so wireless providers such as **Verizon Communications** Inc. and AT&T Inc. fiercely compete for them. In general, a wireless carrier with more spectrum can provide faster service and serve more people compared with a rival with less spectrum. It also can base advertising campaigns around that fact.

Demand for 5G airwaves, or

spectrum, even in this early stage, is heating up. Auctions—including for 3G and 4G and potentially in a decade for 6G—typically sell 10- or 20-year leases to airwaves, so if a carrier misses out now, it might have to wait a decade or two for its next chance.

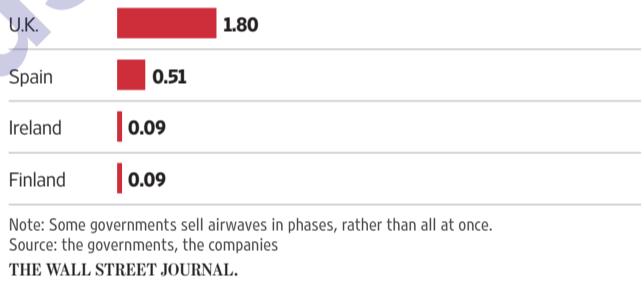
“If you don't have spectrum, you can't provide wireless service,” said Steve Blythe, who heads spectrum strategy for Orange, a French carrier that operates throughout Europe and Africa.

Governments typically hold

auctions to lease channels of

## Battle for Bandwidth

Recent government auctions for 5G-friendly airwaves, by total value raised



Note: Some governments sell airwaves in phases, rather than all at once.  
Source: the governments, the companies

THE WALL STREET JOURNAL.

airwaves to wireless carriers, and proceeds go into government coffers.

In the Italian auction that ended last Tuesday, the government reaped more than double the revenue it had forecast, drawing criticism from one prominent carrier.

Four wireless carriers essentially bought 200 chunks of airwaves that they coveted for 5G networks. But instead of auctioning off individual packages, the Italian government said that wireless carriers had to purchase one of four big bundles. Two bundles featured 80 chunks of airwaves each, and two packages had 20 chunks each.

Bidding for the two larger packages was fierce. In the end, the carriers spent €6.55 billion (\$7.55 billion) in the auction—more than double the

€2.8 billion that the Italian government had written into its budget.

Vodafone, which operates in more than 20 countries and is the world's No. 2 wireless carrier by subscribers, won one of the 80-chunk packages, spending €2.4 billion in the overall auction. But the high price it forked over caused grumbling at the London headquarters.

“Auctions should be designed to balance fiscal requirements with the need for investment,” said Vodafone Chief Executive Nick Read, in a written statement. He warned against future “artificial auction constructs.”

A spokesman for Italy's ministry of economic development, which conducted the auction, declined to comment.

—Eric Sylvers in Milan contributed to this article.

## German Social-Media App Wins Battle Against Trolls

BY GEORGIA WELLS

BERLIN—When German social-media app Jodel was five months old, its founder Alessio Avellan Borgmeyer noticed a potential problem: While more people were logging on, a small number of users weren't the community he had hoped to attract. They were posting offensive comments and pressuring other users to submit naked photos.

Apple Inc. also saw a problem. The naked photos violated its rule on sexual content, and in early 2015 it kicked **Jodel Venture** GmbH out of its app store for a week.

The ban prompted Mr. Borgmeyer to take steps that many social-media firms have been reluctant to adopt. He banned nudity, prominently displayed the app's rules and introduced bans on racism, sexism, bullying and insults. He encouraged positivity among the community and empowered users to police each other's behavior, giving unpaid moderators the authority to ban troublemakers.

Now Jodel is populated with

local chatter, earnest job advice and parenting tips. Bad actors are quickly driven away.

Jodel is also back on the Apple app store, where among iPhone users in Germany ages 16 to 24, it is the fifth most-popular social-media app, ac-

cording to App Annie, behind Facebook's WhatsApp, Facebook, Facebook's Messenger and Pinterest.

“One person can spoil the vibe,” Mr. Borgmeyer said. “They can destroy the community for everyone else.”

Jodel is a small startup with about 30 employees, but it is grappling with the same dilemma of how to moderate user behavior that dogs social-media behemoths Facebook Inc. and Twitter Inc. They are con-

stantly pulled between those who criticize these platforms for allowing hateful posts, and those who complain about the sites curtailing free speech and making inconsistent decisions about what should be allowed.

Mr. Borgmeyer said he chose to prioritize inclusion over free speech, and embraced the app's role as the arbiter of what is acceptable.

Organized around news feeds that display content only from users within about 6 miles, Jodel serves as an anonymous neighborhood messaging board for its users. Mr. Borgmeyer wanted the anonymity to help anyone feel welcome and make it easier to talk, like a “slightly tipsy bar.”

After Apple banned the app in 2015, Jodel started selecting users to serve as moderators and built software to detect abuse. It introduced rules that prohibit insults based on race, ethnicity, gender, religion, sexual orientation, disability—or “anything else.” The app had restrictions before the ban, but they were buried in the settings section.

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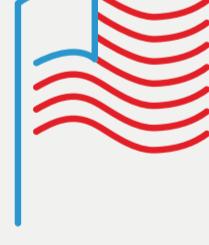
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## BANKING &amp; FINANCE

# Crypto Fraud Feeds Rise in CFTC Fines

BY GABRIEL T. RUBIN

WASHINGTON—Enforcement actions and fines by the federal derivatives-market regulator ticked up in the past fiscal year, buoyed by cryptocurrency cases, spoofing schemes and settlements dating to the financial crisis.

The Commodity Futures

Trading Commission reported taking more enforcement actions in fiscal 2018, which ended Sept. 30 and is the first full fiscal year under Trump-appointed leadership.

The agency also levied about \$900 million in civil monetary penalties, higher than the yearly amount in five of the eight years of the Obama administration. The increase follows a year-over-year decline in fiscal 2017, which some Democrats and consumer groups criticized.

"They've tried to clarify some of their emphases—we know that cryptocurrency fraud is an issue, manipulation, insider trading is an issue, and they're very focused on spoofing," said Gary DeWaal, special counsel at Katten Muchin Rosenman LLP and a former CFTC enforcement lawyer.

The increase is likely to contrast with the Securities and Exchange Commission's fiscal-year numbers, which officials have played down ahead of their release. The SEC is the federal government's other markets regulator.

consumers to buy before rates potentially go higher, many would-be buyers already dealing with sky-high home prices are becoming wary of taking on a mortgage.

So far this year, mortgage volume has fallen at Wells Fargo, JPMorgan Chase & Co., Bank of America Corp. and other big lenders, according to research group Inside Mortgage Finance.

The refinancing business, which buoyed banks in the



J. Christopher Giancarlo says 'enforcement during this last year has been among the most vigorous in the history of the CFTC.'

CFTC Chairman J. Christopher Giancarlo trumpeted the commission's enforcement numbers in a speech this week in Minneapolis. After offering a disclaimer that "you can't get a complete picture" with numbers alone, he argued that "enforcement during this last year has been among the most vigorous in the history of the CFTC."

officials have issued similar caveats about the limits of statistics in capturing the agency's record.

In the past fiscal year, the CFTC filed five times as many cases related to spoofing, a form of market manipulation that distorts prices, as any previous year.

It also won a court case establishing the precedent

that cryptocurrencies are commodities, allowing the regulator to police those markets as it does other commodity markets.

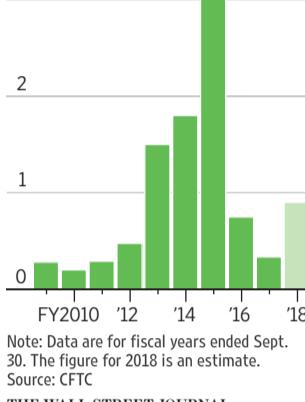
The SEC will release its figures for the 2018 fiscal year later in the year. Total fines ordered through SEC enforcement activity fell 7.2% in 2017 to about \$3.8 billion, the lowest total since 2013,

according to SEC figures.

In a September speech, SEC enforcement co-director Stephanie Avakian didn't say how the 2018 totals will differ from prior years. But she suggested they could fall again, partly due to Supreme Court decisions that have curbed the SEC's ability to recoup funds for burned investors.

## Uptick

Commodity Futures Trading Commission enforcement fines, yearly



Note: Data are for fiscal years ended Sept. 30. The figure for 2018 is an estimate.

Source: CFTC

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## Banks Find Rate Rises Can Pinch

Continued from page B1

Inc. has fallen 2.7% and Wells Fargo & Co. has dropped 12%.

Banks, of course, are finding they can charge more for many products as rates rise. The average rate on a home-equity line has risen to 6.18% from 4.75% in December 2015, when the Fed began the rate-raising cycle, according to Bankrate.com, a personal-finance website. The average rate on a credit card rose to 17.4% from 15.78%.

Another benefit from higher rates: Banks can earn more on the securities they hold. As those investments mature, the banks can often reinvest in them at higher rates.

But banks are preparing for the downside of higher rates, too. The average rate on a 30-year fixed-rate mortgage is 4.71%, according to Freddie Mac data released Thursday, up from 3.95% at the beginning of the year. Already, some mortgage lenders have raised their rates to 5% or more as the 10-year Treasury yield keeps rising.

While that could spur some

years after the financial crisis, is perhaps most vulnerable to rising rates. Mortgage origination volume is expected to fall 6% this year, driven by a 24% drop in refis, according to the Mortgage Bankers Association.

As rates keep rising, banks are also finding they may need to start ramping up what they pay savers. Banks tend to try to keep deposit rates low for as long as customers will tolerate it, and so far many customers have been accommo-

dating. The average rate on a money-market deposit account, a widespread type of savings account, was 0.1% right before the Fed started raising rates, according to Bankrate.com. The average rate is now at 0.2%, even though the Fed has raised rates 2 percentage points since December 2015.

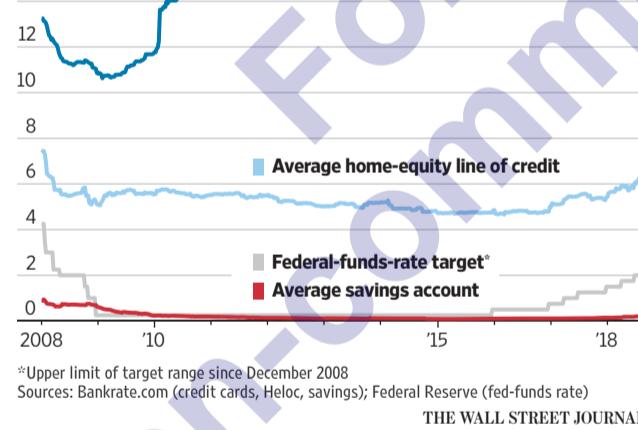
But smaller banks and online-only institutions have been raising their rates, a move that some analysts believe may put even more pressure on larger banks to pay up. And banks have been more willing to raise deposit rates for customers with large accounts or who are more likely to take their business elsewhere, such as business clients or wealth-management customers.

"Deposits were sticky for so long that it felt like it was structural," said Jim Vogel, an interest-rate strategist at FTN Financial. "But as competition heats up and as people realize that maybe they do have enough money in the bank, they are looking for better yields."

Banks are also having to pay up in the capital markets. One benchmark for their short-term borrowing, the three-month U.S. dollar London interbank offered rate, has climbed to 2.41%, from about 0.5% when the Fed first raised rates in 2015.

## Left Behind

Banks have been quick to raise the rates they charge on loans but slower to raise what they pay on deposits.



\*Upper limit of target range since December 2008

Sources: Bankrate.com (credit cards, Heloc, savings); Federal Reserve (fed-funds rate)

THE WALL STREET JOURNAL

## MiMedx Kept Cheaper Products Out of Its Offerings to VA Hospitals

BY GRETCHEN MORGENSEN

**MiMedx Group**, a maker of amniotic-tissue products, is a major supplier to government-run hospitals and says its products help heal wounded service members and veterans.

But an examination of the embattled company's dealings with Veterans Affairs hospitals and those run by the Defense Department shows that MiMedx's sales to these entities came at a high cost to taxpayers. According to former employees and company product

from donated placental tissues. The company's practices are under investigation by the Justice Department, Department of Veterans Affairs and Securities and Exchange Commission, The Wall Street Journal has previously reported.

The company's relationships with health-care providers at government-run hospitals also are under scrutiny. Last month, a grand jury in Savannah, Ga., heard testimony about financial ties between MiMedx and a surgeon at the Dwight D. Eisenhower Army Medical Center in Fort Gordon, Ga., according to a person familiar with the matter.

The investigation, which hasn't been previously reported, is being conducted by the Defense Criminal Investigative Service, a unit of the Defense Department.

Mr. Petit and three other former executives engaged in "conduct detrimental to the business or reputation of the company," MiMedx said last month, noting that it has acted to recover the executives' previously paid compensation and stock awards.

In a statement, William Weinreb, a lawyer for the executives, said: "the company effectively accused, tried, and convicted them of unspecified inappropriate conduct without first giving them notice of the 'charges' or a fair and meaningful opportunity to respond."

The U.S. government was a

### Firm Sought Defense Business

MiMedx Group has long courted the Veterans Administration and Defense Department. Clyde A. Hennies, a retired U.S. Army major general, is a consultant for MiMedx and has promoted its products in federal hospitals.

In an interview, he said he works for the company because "regenerative medicine has a terrific positive impact on military readiness." He declined to say how much the company

big purchaser of MiMedx products; in 2015, the most recent year in which the company broke out federal sales, it reported that 26% of its revenue came from these sources.

Former employees say the company's questionable practices toward federal hospitals were more extensive than previously known.

For example, MiMedx had one set of product offerings for federal customers and others for private hospitals and doctors' offices, internal documents show. At Veterans Affairs and Defense Department hospitals, for example, MiMedx didn't offer the small sizes of two popular products it offered elsewhere. As a result, these

pays him.

In Savannah, Ga., a grand jury has heard testimony about MiMedx's ties to Eric D. Martin, a vascular surgeon at the Dwight D. Eisenhower Army Medical Center. Investigators are trying to determine whether Dr. Martin received compensation from the company without proper clearance.

Dr. Martin has made presentations promoting MiMedx products, according to former employees and internal documents reviewed by The Wall Street Journal. In recent years, Dr. Martin has been a big user of MiMedx products, especially

accounts had to buy bigger, more expensive offerings for smaller treatments, former employees said.

To treat the smallest wounds, MiMedx offered government hospitals nothing smaller than a 16-millimeter disk-shaped EpiFix graft costing \$895. Private hospitals, however, were offered a 14-millimeter disk for \$313.

MiMedx marketing materials say the 14-millimeter graft fits more than half of all diabetic foot ulcers, a common wound. Not offering the 14-millimeter graft to federal hospitals increased product waste and raised taxpayers' costs, former employees said.

Federal contractors are sup-

posed to offer government buyers more advantageous pricing than commercial customers receive.

A similar dynamic governs the sales of another MiMedx product, a dehydrated EpiFix injectable. The smallest size offered to federal hospitals is 40 milligrams, costing \$725. Private doctors, meanwhile, were offered a 20-milligram unit of EpiFix for \$225, internal documents show.

MiMedx declined to comment on these examples. Former employees say government-run hospitals were unaware of the company's pricing practices.

Unlike other manufacturers of amniotic-tissue products,

MiMedx doesn't report its financial arrangements with health-care providers. Under a 2013 law, drug companies must report to a government agency payments made to medical professionals for research, consulting, speaking fees and travel costs.

Earlier this year, the Journal identified at least 20 doctors who had recently received money, MiMedx shares or stock options from the company for research, consulting or other activities.

The company has said it doesn't need to disclose its payments under the law, citing the nature of its products.

Company sales representatives were required by Mr. Petit to host lunches and dinners with doctors, meetings he called "healing reviews." An internal MiMedx spreadsheet reviewed by the Journal and provided to federal investigators shows hundreds of company meals hosting thousands of doctors over 10 months in 2016.

VA rules note that accepting meals from companies or fees to speak about a product are among the "financial relationships that may be incompatible" with health-care providers' obligations to put patients first.

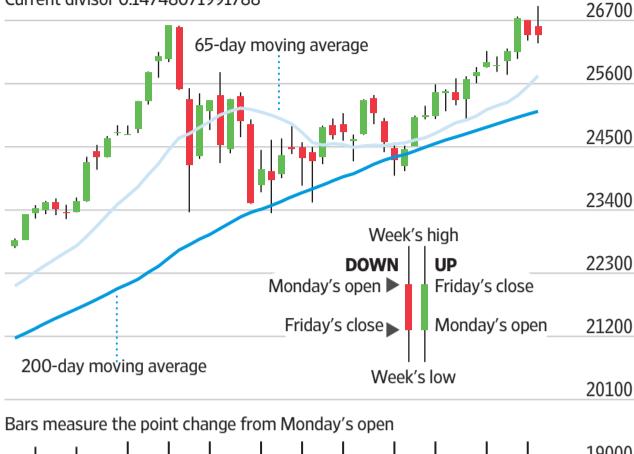
MiMedx and Mr. Petit declined to comment on the healing reviews.

—Lisa Schwartz contributed to this article.

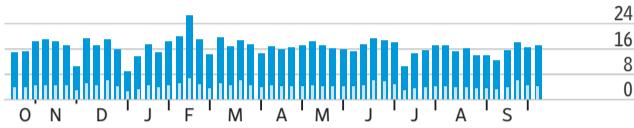
## MARKETS DIGEST

## Dow Jones Industrial Average

**26447.05** ▼11.26, or 0.04% last week  
High, low, open and close for each of the past 52 weeks



Current divisor 0.14748071991788  
Bars measure the point change from Monday's open



\*Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

## S&amp;P 500 Index

**2885.57** ▼28.41, or 0.97% last week  
High, low, open and close for each of the past 52 weeks

Financial Flashback  
The Wall Street Journal, October 8, 2005

BP PLC said it agreed to sell petrochemical business Innovene Inc. to Ineos, a private British-based chemicals group, for \$9 billion.

## New to the Market

## Public Offerings of Stock

## IPOs in the U.S. Market

Initial public offerings of stock expected this week; might include some offerings, U.S. and foreign, open to institutional investors only via the Rule 144a market; deal amounts are for the U.S. market only

Expected pricing date	Filed	Issuer/business	Symbol/primary exchange	Shares (mil.)	Pricing Range(\$)	Pricing Low/High	Bookrunner(s)
10/10	8/27	Livent	LTHM	20.0	18.00/ BofA ML, GS, 20.00 Credit Suisse		
10/10	9/14	Osmotica Pharmaceuticals	OSMT	8.3	14.00/ Jefferies, Barclays, 16.00 RBC Cptl Mkts		
10/11	9/14	Allogene Therapeutics	ALLO	16.0	16.00/ GS, JPM, 18.00 Cowen & Co, Jefferies		
10/11	9/14	Anaplan	PLAN	15.5	13.00/ GS, MS, 15.00 Barclays		
10/11	9/17	Equilium	EQ	4.7	14.00/ Jefferies, 16.00 Leerink Prtnrs, Stifel		

## Lockup Expirations

Below, companies whose officers and other insiders will become eligible to sell shares in their newly public companies for the first time. Such sales can move the stock's price.

Lockup expiration	Issue date	Issuer	Symbol	Offer price(\$)	Offer amt (\$ mil.)	Through Friday (%)	Lockup provision
Oct. 8	April 11, 18	Zuora	ZUO	14.00	177.1	51.1	180 days

Sources: Dealogic; WSJ Market Data Group

## IPO Scorecard

Performance of IPOs, most-recent listed first

Company SYMBOL	Friday's close (\$)	% Chg From IPO date/Offer price	1st-day close	Company SYMBOL	Friday's close (\$)	% Chg From Offer price	1st-day close
ARYA Sciences Acquisition	10.17	1.7	...	Guardian Health	29.20	53.7	-9.3
<b>ARYAU</b> Oct. 5/\$10.00				<b>GH</b> Oct. 4/\$19.00			
ChaseSerg Technology Acquisition	10.04	0.4	...	Kodiak Sciences	10.43	4.3	2.7
<b>CTACU</b> Oct. 5/\$10.00				<b>KOD</b> Oct. 4/\$10.00			
Collier Creek Holdings	10.15	1.5	...	Upwork	20.99	39.9	-0.9
<b>CCH</b> Oct. 5/\$10.00				<b>UPWK</b> Oct. 3/\$15.00			
Edtech Holdings Acquisition	10.03	0.3	...	CooTek	9.10	-24.2	-3.6
<b>EDTXU</b> Oct. 5/\$10.00				<b>CTK</b> Sept. 28/\$12.00			
Elastic	70.00	94.4	...	Gritstone Oncology	12.37	-17.5	-13.1
<b>ESTC</b> Oct. 5/\$36.00				<b>GRTS</b> Sept. 28/\$15.00			

Sources: Dow Jones Market Data; FactSet Research Systems

## Other Stock Offerings

Secondaries and follow-ons expected this week in the U.S. market

None expected this week

## Off the Shelf

"Shelf registrations" allow a company to prepare a stock or bond for sale, without selling the whole issue at once. Corporations sell as conditions become favorable. Here are the shelf sales, or takedowns, over the last week:

Issuer/Industry	Takedown date/Registration date	Deal value (\$ mil.)	Registration (mil.)	Bookrunner(s)
-----------------	---------------------------------	----------------------	---------------------	---------------

<b>KemPharm</b>	Oct. 5	\$25.0	...	RBC Cptl Mkts
Healthcare	Oct. 3/16			
<b>Histogenics</b>	Oct. 5	\$17.0	...	Canaccord Genuity, BTIG
Healthcare	March 16/17			
<b>Azure Power Global</b>	Oct. 4	\$185.0	...	Credit Suisse, Barclays, HSBC, SG Corp/Invest.
Utility & Energy	Aug. 31/18			
<b>Monmouth Real Estate Investment</b>	Oct. 4	\$120.0	...	BMO Cptl Mkts, JPM, RBC Cptl Mkts
Real Estate/Property	Aug. 2/18			
<b>AtriCure</b>	Oct. 4	\$76.9	...	JPM, Piper Jaffray
Healthcare	June 17/16			
<b>Acasti Pharma</b>	Oct. 4	\$16.6	...	Oppenheimer
Healthcare	March 6/18			
<b>Select Income REIT</b>	Oct. 3	\$454.8	...	Citi, BofA ML, MS
Real Estate/Property	Oct. 2/18			
<b>Innovative Industrial Properties</b>	Oct. 3	\$104.0	...	Ladenburg Thalmann, Compass Point Rsrch & Trding, BTIG
Real Estate/Property	June 18/18			
<b>Kala Pharmaceuticals</b>	Oct. 3	\$61.9	...	JPM, BofA ML, Jefferies
Healthcare	Aug. 9/18			
<b>Willdan Group</b>	Oct. 3	\$52.5	...	Wedbush Secs, Roth Cptl Ptnrs
Construction/Building	April 18/17			
<b>Malvern Bancorp</b>	Oct. 3	\$25.0	...	Sandler O'Neill & Ptnrs
Finance	Aug. 16/17			
<b>GW Pharmaceuticals</b>	Oct. 2	\$300.2	...	GS, MS, JPM, Cowen & Co
Healthcare	April 17/17			
<b>Apollo Commercial Real Estate Finance</b>	Oct. 2	\$226.6	...	GS, DB, JPM
Real Estate/Property	May 4/18			
<b>Epizyme</b>	Oct. 2	\$86.3	...	Jefferies
Healthcare	April 5/18			

Sources: Dow Jones Market Data; FactSet Research Systems

## International Stock Indexes

Secondaries and follow-ons expected this week in the U.S. market

None expected this week

## Commodities and Currencies

Secondaries and follow-ons expected this week in the U.S. market

None expected this week

## Off the Shelf

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Sources: Dow Jones Market Data; FactSet Research Systems



## MARKETS

# Treasury Prices Fall Following Jobs Data

BY DANIEL KRUGER

U.S. government bond prices fell after the Labor Department said the economy continued to add jobs and the unemployment rate fell to the lowest level since the Vietnam War.

The yield on the benchmark 10-year yield rose to 3.227%, the highest closing level since May 2011, up from 3.196% Thursday. The 30-year Treasury yield climbed to 3.396%, its highest since July 2014. Yields rise as bond prices fall.

Yields rose after the Labor

Department said on Friday that the unemployment rate fell in September to

3.7%, the lowest since 1969, and that employers added 134,000 positions to payrolls. While the jobs added last month were fewer than the 180,000 consensus forecast, investors attributed the decline in hiring to widespread flooding in North and South Carolina caused by Hurricane Florence.

Investors said strong data about the service sector Wednesday and the decline in the unemployment rate could be a signal employers are having difficulty filling positions. The Institute for Supply Management on Wednesday said its nonmanufacturing index rose to 61.6 in September, the highest reading on record going back to 2008. A reading above 50 indicates activity is expanding across service and other industries, while a number below 50 signals contraction.

"Rates are going to go higher—there's no two ways about it," said Thomas di Galoma, managing director and head of Treasury trading at Seaport Global Holdings.

In addition to the strong economy, investors said there is no shortage of developments that are coming together to depress demand for the safety of government bonds. U.S. government bond yields have been rising gradually since late August, following the decision by Turkey's central bank to raise interest rates, quelling growing concerns that instability in that economy could cause trouble for European banks that have made loans there.

Investors also point to the strength of the dollar relative to the euro and Japanese yen, which has pushed up the cost to hedge currency risk for overseas investors who might otherwise want to buy Treasury debt at the highest yields since 2011.

In addition, demand for longer-term Treasury debt may have declined after the mid-September expiration of a tax benefit that encouraged corporations to invest in their pension funds. Pension investors tend to buy safe, long-term debt to match the maturities to future liabilities.

While yields have risen, the market's mechanism for measuring future inflation expectations has remained stable at about 2.1 percentage points for the next 10 years.

The gauge, known as the 10-year break-even rate, is calculated from the difference of the yields on benchmark U.S. government 10-year notes and 10-year Treasury Inflation-Protected Securities.



MIKE HUTCHINGS/REUTERS

Deaths in South African mines rose for the first time in a decade last year. Workers at Sibanye Gold last year, which has had 24 of this year's toll of 65 deaths.

# Gold Miners Pay a High Price

BY ALEXANDRA WEXLER  
AND THANDI NTOBELA

JOHANNESBURG—South African gold miners have literally dug themselves into a hole, with the world's deepest mines threatening the safety of workers and the companies' ability to make money.

**COMMODITIES** Powered for decades by the cheap labor of apartheid, the country's deepest gold mines dive nearly 12,000 feet below the earth's surface—and have provided nearly half of the gold bullion and jewelry ever produced.

But as miners have dug ever deeper to retrieve what remains of the world's largest gold deposits, they have faced an economic and moral problem: Gold at these depths is costlier and more dangerous to mine.

South Africa's three largest gold miners by market capitalization reported collective losses of about \$543 million last year, as global gold prices remain almost 40% below their 2011 highs. Costs of mining an ounce of gold in South Africa are high compared with the global average. And the human toll is mounting, too.

Deaths in South African mines rose for the first time in a decade last year, climbing 21% to 88 from 73 a year earlier. So far in 2018, 65 workers have died, including 24 deaths at **Sibanye Gold** Ltd., South Africa's largest gold producer.

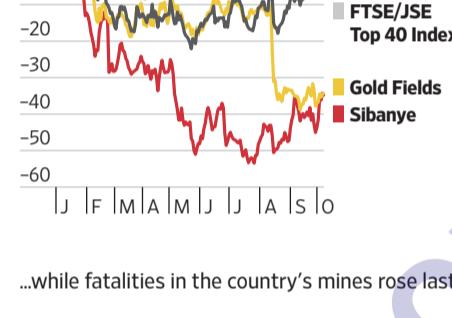
Unions say the deaths are due to a lack of investment in health-and-safety equipment and infrastructure. "What is happening is a crime against humanity as people are forced by economic conditions to work in dangerous conditions with no accountability on the part of management," said Joseph Matshunja, president of South Africa's Association of Mineworkers and Construction Union.

Fatalities are inevitable, analysts say, because of the sheer number of people working underground. "It's very easy for stakeholders to sit on the side and criticize business, [but] we've engineered out many of the risks," said Neal Froneman, chief executive of Sibanye, which employs nearly 65,000 people across its South African gold and platinum operations. "Most of our fatalities are due to behavioral issues, where people knowingly break rules. In mining, that one slip up can be fatal."

## Losing Luster

Shares of South Africa's biggest gold miners have fallen...

### Share-price and index performance\*



...while fatalities in the country's mines rose last year for the first time in a decade.

250 deaths



\*Through Friday. †2018 through Sept. 25.

Sources: SIX (shares, gold price); Minerals Council South Africa (fatalities)

In a June 11 incident at a Sibanye mine, five miners entered an abandoned section of a mine shaft and died. Fifteen days later, a worker at another Sibanye mine entered the path of a scraper and died.

Legacies of apartheid—the system of white-minority rule that ushered young black people toward unskilled jobs—are contributing to the industry's demise. Mining companies

**South Africa has slid from being the world's No. 1 gold producer in 2007 to No. 8.**

likely couldn't have dug so deep without South Africa's abundant cheap labor; and it is nearly impossible to mechanize older operations at current depths with the type of ore they are extracting.

Compounding the problem, young workers emerging from school today often lack the necessary skills for more technical jobs, industry experts say.

"The biggest problem really

is the quality of education in the mining sector," said Wlady Altermann, head of the geology department at the University of Pretoria. "People, especially poorly skilled and not educated, make mistakes."

Since 2007, South Africa has slid from being the world's No. 1 gold producer to No. 8, with production tumbling 45% and the number of employees in the gold sector down by one-third. In the same period, mine workers' total earnings doubled, further hurting profitability. Last year, 75% of gold mines operating in South Africa were unprofitable, according to the Minerals Council South Africa.

Companies including the world's No. 3 gold producer, **AngloGold Ashanti** Ltd., are shifting operations from South Africa. The company sold two of its three remaining operational underground gold mines there earlier this year and is focusing more heavily on mining elsewhere on the continent.

"We're still trying to run up the escalator," Srinivasan Venkatakrishnan said in August, just before stepping down as chief executive of AngloGold to take over the Indian mining company **Vedanta Resources**

...as gold prices continue to trade almost 40% below their 2011 highs...

### Front-month Comex gold price, weekly\*



Gold Corp. and **Newmont Mining** Corp., the world's biggest gold producers, to mine in other jurisdictions, from the U.S. to Australia to Peru.

Johannesburg-based **Gold Fields** Ltd., the world's No. 8 gold producer, has established a mechanized-mining training program at South Deep, its one remaining South African asset and the country's only fully mechanized gold mine. But South Deep is losing around 3 million rand (\$203,024) a day, the company said in August.

"We are training a lot of people in the classroom, and the training facilities are getting some good results, but our ability to translate that into the workplace is somewhat absent," Nick Holland, Gold Fields CEO, said in August. The company also said then that it expects to let go 1,100 employees and about 460 contractors at the mine, or about 28% of its workforce there.

Workers are left with difficult choices. Sibongile Ntobela worked in road construction before joining South Africa's **Harmony Gold Mining** Co. as an engineering assistant at the Great Noligwa mine.

"The salary is much better," said the 39-year-old, who holds a trade certificate in electricity. "However, considering the level of danger that we are expected to work under, I'd say that we deserve more."

PLC. "The problem is the escalator is speeding up."

It is safer and less expensive for companies such as **Barrick**

## Currencies

U.S.-dollar foreign-exchange rates in late New York trading

Country/currency	Fri in US\$	YTD chg %	Country/currency	Fri in US\$	YTD chg %		
<b>Americas</b>			<b>Europe</b>				
Argentina peso	.0264	37.8415	103.4	Czech Rep. koruna	.04472	22.360	5.1
Brazil real	.206	3.8376	15.9	Denmark krone	.1544	6.4747	4.3
Canada dollar	.7727	1.2942	2.9	Euro area euro	1.1523	.8679	4.2
Chile peso	.001479	67.600	9.8	Hungary forint	.003549	281.79	8.8
Ecuador US dollar	1	1 unch	Iceland króna	.008768	114.05	10.2	
Mexico peso	.0531	18.8313	-4.3	Norway krone	.1211	8.2598	0.6
Uruguay peso	.03050	32.7900	13.9	Poland złoty	.2676	3.7371	7.4
Venezuela b. fuerte	.000004248519.9501	2402951.2	Russia ruble	.01502	66.588	15.4	
			Sweden krona	.1103	9.0623	10.7	
			Switzerland franc	1.0083	.9918	1.8	
			Turkey lira	.1630	6.1333	61.6	
			Ukraine hryvnia	.0356	28.0810	-0.2	
			UK pound	1.3115	.7625	3.0	
			<b>Middle East/Africa</b>				
Bahrain dinar	2.6525	.3770	-0.03	Egypt pound	.0559	17.910	0.7
Israel shekel	.2755	3.6300	4.3	Kuwait dinar	3.2931	.3037	0.7
Oman rial	2.5970	.3851	0.03	Qatar rial	.2746	3.641	-0.2
Saudi Arabia riyal	.2666	3.7509	0.01	Taiwan dollar	.03233	30.930	4.3
South Africa rand	.0677	14.7766	4.96	Thailand baht	.03048	32.810	0.7
			Vietnam dong	.00004286	23332	2.7	

Close Net Chg % Chg YTD Chg

WSJ Dollar Index 90.24 -0.12 -0.13 4.96

Sources: Tullett Prebon, Dow Jones Market Data

## THE TICKER | Market events coming this week

### Monday

Columbus Day Bond market is closed, but stock market remains open.

### Tuesday

Short-selling reports Ratio, days of trading volume of current position, at Sept. 14

NYSE 5.2

Nasdaq 3.9

### Wednesday

Mort. bankers indexes

Purch., previous up 0.1%

Refinan., prev. down 0.1%

EIA status report Previous change in stocks in millions of barrels

Crude oil up 8.0

Gasoline down 0.5

Distillates down 1.8

Producer price index

All items, Aug. down 0.1%

Sept., exp. up 0.2%

Core, Aug. down 0.1%

Sept., expected up 0.2%

Wholesale inventories

July, previous up 0.6%

Aug., expected up 0.8%

Earnings expected\*

Estimate/Year Ago(\$)

Fastenal **0.67/0.50**

Initial jobless claims

Previous 207,000

Expected 210,000

EIA report: natural gas

Previous change in stocks in billions of cubic feet

up 98

Consumer price index

All items, Aug. up 0.2%

Sept., expected up 0.2%

Core, Aug. up 0.1%

## MARKETS

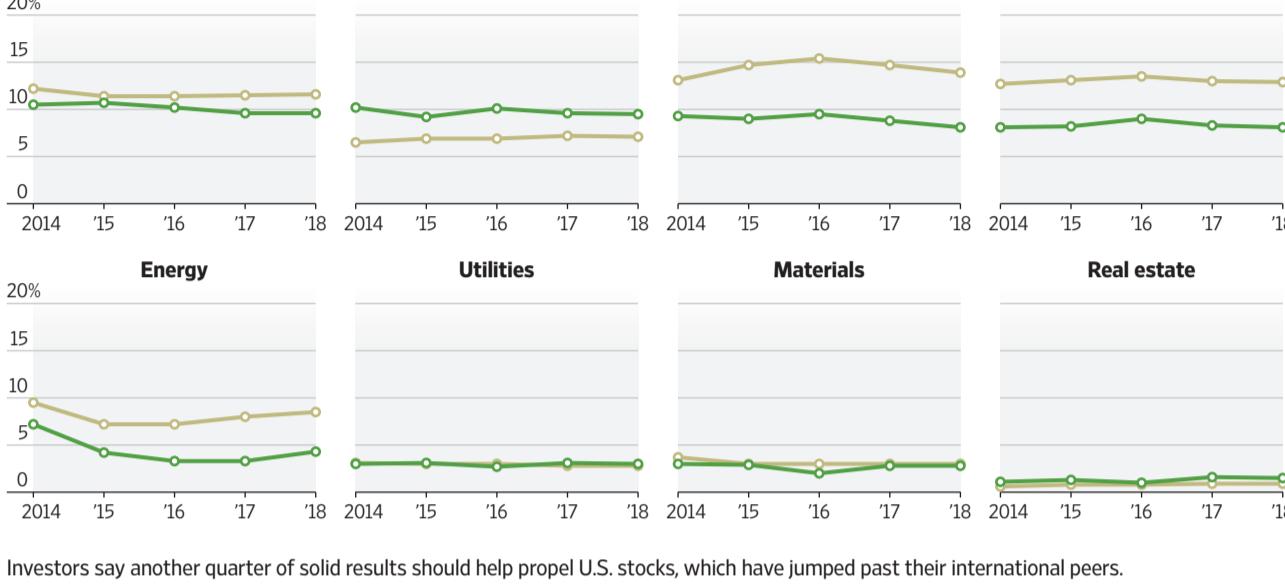
## Earnings Season Looms as the Next Stock Catalyst

By Akane Otani and Tristan Wyatt

The third-quarter earnings season kicks off in earnest Friday, with JPMorgan Chase & Co., Wells Fargo & Co., Citigroup Inc. and PNC Financial Services Group Inc. scheduled to post results. Investors are hoping another quarter of double-digit growth will help stabilize stocks following a rocky stretch of trading.

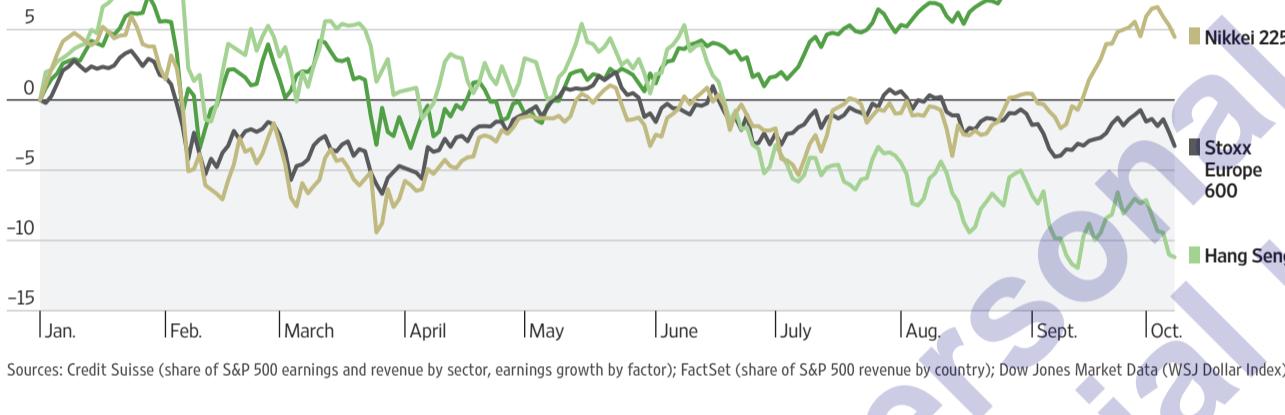
Technology and financial companies have accounted for the biggest share of the S&P 500's overall **earnings growth** in recent years. But when it comes to **revenue growth**, health care and consumer staples have been the biggest contributors.

Note: 2018 as of first half of year



Investors say another quarter of solid results should help propel U.S. stocks, which have jumped past their international peers.

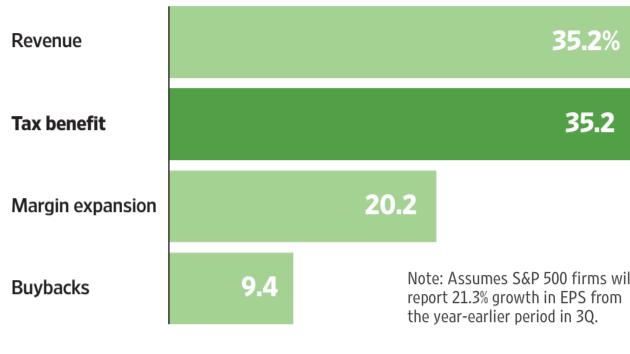
## Year-to-date index performance



Sources: Credit Suisse (share of S&amp;P 500 earnings and revenue by sector, earnings growth by factor); FactSet (share of S&amp;P 500 revenue by country); Dow Jones Market Data (WSJ Dollar Index); SIX (indexes)

As was the case in the second quarter, tax cuts are expected to account for a hefty chunk of earnings growth. But analysts are reassured by the fact that revenue is also expected to be a major driver of earnings.

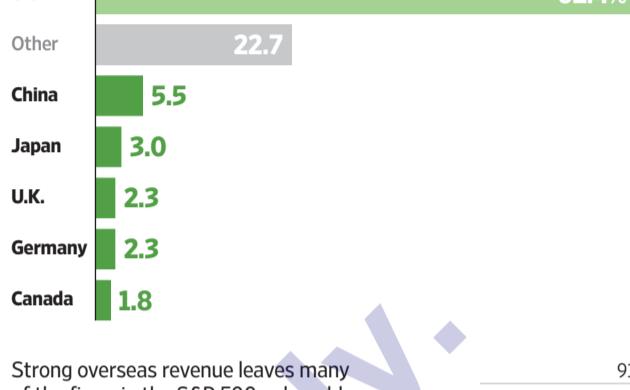
## Share of 3Q earnings growth that is expected to be driven by each factor



Note: Assumes S&amp;P 500 firms will report 21.3% growth in EPS from the year-earlier period in 3Q.

One thing analysts say they will be watching for is how often companies mention tariffs hurting their profits. More than one-third of the S&P 500's revenue comes from outside the U.S.

## Share of S&amp;P 500's revenue generated by each country



Strong overseas revenue leaves many of the firms in the S&P 500 vulnerable to currency swings. A stronger dollar makes multinationals' goods more expensive to buyers outside the U.S., potentially crimping profits.

## WSJ Dollar Index



THE WALL STREET JOURNAL.

## HEARD ON THE STREET

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FINANCIAL ANALYSIS &amp; COMMENTARY

[WSJ.com/Heard](http://WSJ.com/Heard)

## Third-Party Sales Key to Amazon

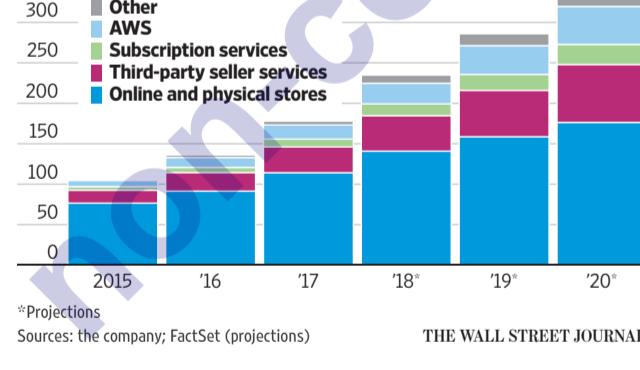
**Amazon.com**'s business of selling goods for others may be a growing hassle, but the e-commerce giant has strong reasons to stay in the game.

Amazon warned some of its customers on Friday that their email addresses were shared with one of the company's third-party sellers, in violation of the company's policies. That came just weeks after The Wall Street Journal reported that Amazon was investigating some of its own employees for leaking data to third-party sellers in exchange for bribes. Amazon reportedly also has been hit with a cease-and-desist letter from eBay claiming that some of Amazon's sales reps have used legally questionable tactics to recruit eBay sellers to Amazon's own marketplace.

Third-party sales—the stuff other merchants sell over Amazon's platform—have become a vital business for Amazon. Revenue from third-party-seller services

## Buddy Up

Amazon's annual revenue per segment



has been growing at a rate faster than the company's own online sales. Third-party sales now comprise about 18% of Amazon's total revenue, and analysts expect that contribution to grow to 21% by 2020, according to FactSet.

They also play a major role in Amazon's rapidly expanding bottom line. Third-

party sales are more profitable than Amazon's typical retail sales as they don't involve inventory and other related charges. Brian Nowak of Morgan Stanley estimates about 20% margins on earnings before interest, taxes, depreciation and amortization for Amazon's third-party transactions compared with less than 5% for typical retail

sales. That makes Amazon's third-party business at least as important as its rapidly growing AWS cloud segment.

Amazon's stock price has surged more than 60% this year—by far the best performance against any of the other tech giants. That has come as the company has managed the rare feat of accelerating the growth of its already massive business while also fattening up its bottom line. The third-party business has played a significant role in both.

It will have to continue. Wall Street expects Amazon's total revenue to grow 32% this year to a record \$235 billion while operating income is projected to more than double to nearly \$11 billion.

Amazon strikes fear into the hearts of many businesses. The irony of its runaway success of late is that it depends on the success of others as well.

—Dan Gallagher

## Unilever Bows to the Power of Stock Indexes

Such is the power of stock-market indexes that even the most aggressive activist investors should be wary of taking them on.

Funds that track or try to beat U.K. stock indexes won a fight Friday when Unilever said it was withdrawing its proposal to unify its shareholder bases, currently divided between the U.K. and the Netherlands, into a single Dutch share class. The plan set off a shareholder rebellion when investors realized that ditching the U.K. share class would also mean leaving the FTSE 100 index.

It didn't help that Unilever's reasons for the change were vague. Following an abortive takeover bid from Kraft Heinz last year, the company argued that a single share class would give it more flexibility to do big deals at a time of convulsive industry change.

If it wanted to sell its food business, for example, it would like to have the option of a spinoff, which would be simpler with a single share class.

Yet it doesn't have any such plans and the dual-share structure wasn't problematic when Unilever sold its margarine business to KKR last year. The structure

has been around, seemingly without controversy, ever since the megamerger of Lever Brothers with Margarine Unie in 1929.

Yet, index-fund managers, or active managers who invest in companies in the FTSE indexes, perceived a cost: They would need to sell or at least reduce a core holding and Unilever has a stellar long-term record.

Unilever needed 75% of its voting U.K. shareholder base to approve the move. Its decision to pull the vote suggests it wasn't confident it could get there.

Mining giant BHP Billiton, with shareholder bases in London and Sydney following the 2001 merger of Australia's BHP and the Anglo-Dutch Billiton, is likely watching closely. Paul Singer's Elliott Management has been trying to get the group to consolidate in Sydney. Unilever's about face has shown the risks of such plans.

Indexes matter more than they should, particularly as more investors turn to index-linked products. Companies should still go ahead with sensible simplification, but they can't forget indexes' power.

—Stephen Wilmot

## Comcast Has Reason Not to Sell Hulu

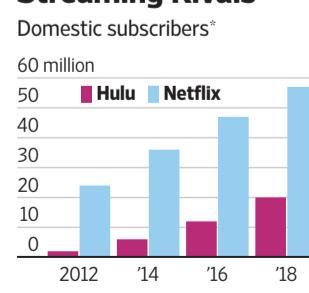
After all the bidding and counterbidding between Comcast and Walt Disney this year, the final and most obvious deal is for Comcast to sell its 30% stake in Hulu to Disney. Such a transaction is eminently logical: Comcast could cut the debt it is taking on from its \$40 billion deal for Sky, Europe's largest pay-TV group. And Disney would get almost complete ownership of Hulu.

But Comcast has good reasons to hold on to Hulu, one of which is simply to annoy Disney.

With Disney's acquisition of 21st Century Fox assets, it now owns 60% of Hulu. (AT&T owns the remaining 10% through its acquisition of Time Warner.) Analysts

## Streaming Rivals

Domestic subscribers\*



estimate that Comcast's stake is worth as much as \$5 billion, and owning it would give Disney nearly total control over Hulu.

In some ways, that handover would make sense: A service that was created as a

partnership between Fox, Disney, and Comcast has changed radically with the Fox-Disney deal. It is now an enterprise controlled by two media companies whose relationship is chiefly one of rivalry and animosity.

Wouldn't Comcast rather get out and focus its energy and money on its new acquisition in Europe instead? The answer is no—for several reasons.

First, Comcast enjoys a stream of passive revenue from the NBC content that runs on Hulu. It isn't clear that it could license that content elsewhere.

Second, by staying at Hulu, Comcast slows down Disney's move to streaming, which threatens its business.

If Disney had total control of Hulu, with its 20 million U.S. subscribers, it wouldn't need a new big streaming platform. As things stand, it isn't in Disney's interests to invest too heavily in a platform from which Comcast benefits.

Third, Hulu gives Comcast access to critical data about consumer viewing preferences and subscriber trends. The Hulu data is valuable for understanding the threat to its core cable business. It could also be useful for moving more aggressively into streaming down the road.

Finally, with Hulu, Comcast can remain a thorn in Disney's side. That is a value not to be underestimated.

—Elizabeth Winkler

## OVERHEARD

Maybe you shouldn't crank this one up to 11.

Iconic British amp maker Marshall has come up with one of those ideas that makes you wonder how often they get out. The company had the brilliant strategic insight that people like to drink beer when they listen to music. So it launched three branded brews: Amped Up Lager, Full Stack IPA and Jim's Treble.

"Whether you are at [a] gig,

rocking out or just enjoying a great album with friends. Marshall craft beer is as loud as our amplifiers with the attitude to match," the company said in a press release.

Luckily, Marshall is merely lending its name to the beer, outsourcing the brewing. Drinkers had better hope the result is better than the panned Marshall smartphone launched a few years ago and later discontinued.

# INVESTING IN FUNDS & ETFs

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Third-quarter 2018 fund performance, total return by fund type. More on R2.

U.S. stocks*	Intl. stocks*	Bonds (intmd.)
5.2%	0.3%	0.1%

\*Diversified funds only, excluding sector and regional/country funds

Source: Lipper

OLIVER MUNDY

## WINNERS' CIRCLE

## Small-Stock Managers Still Top the Charts

BY SUZANNE MCGEE

"I HAVEN'T BEEN nearly optimistic enough—that's been my problem," says Alex Ely.

Mr. Ely, manager of **Delaware Smid Cap Fund** (DFCIX), is the No. 1 stock-fund manager after outpacing the managers of the other small-cap and midcap growth mutual funds that once again dominated The Wall Street Journal Winners' Circle rankings. For the 12 months ended Sept. 30, Mr. Ely's fund posted a return of 58.7%. (The name of the fund, which has \$1.67 billion in assets under management, uses "Smid" to mean small and midcap.)

Back in the second quarter, the fund came less than a quarter of a percentage point from winning then, too, with a gain for that rolling 12-month period of 43.9%.

Still, Mr. Ely figures that this is just the start of something good.

"We believe we are in the early innings of a significant expansion in the equity markets," he contends. "People generally are too negative about the markets. They are worried about the

end of the expansion of a cycle; worried that valuations are too high."

For his part, Mr. Ely increasingly thinks that valuations are "fair" and that there are significant opportunities as many big industries undergo upheavals. "If you can be early, in a company that is a major leader in one of these trends," he says, "there are lots of prospects for you to make outsize profits...as these big businesses find better ways of doing things."

In his view, that is what is really driving the outperformance of small-cap stocks that has been such a feature of the market for most of 2018.

In every Winners' Circle contest, we identify those actively managed U.S. stock funds that have at least \$50 million in assets and a record of at least three years, and highlight the fund with the best performance over the previous 12 months, based on data from Morningstar Inc.

It is not common for a single category of funds to dominate the top dozen funds or so in the rankings quarter after quarter. But that is what has happened this year, when it has been small, growth-oriented stocks, all the way.



WINNER: Alex Ely, +58.7%



RUNNER-UP: Amy Zhang, +51.9%

their larger counterparts (which frequently already had found ways to cut their effective corporate tax burdens) and have strategic value as merger and acquisition targets as big companies have cut back on internal research and development spending.

That doesn't mean that the small-cap arena won't be a volatile one, even for top managers like Mr. Ely and Ms. Zhang.

"Companies don't grow in a straight line, but we use market volatility as our friend; as a chance to buy more of good companies on market weakness," Ms. Zhang says.

Mr. Ely says a correction is possible at any time, and that—based on historical trends—a bear market in small-caps could hit in the next two to four years. That still doesn't worry him. That correction, he says, "will be very similar to that of 1990-91, a softer one, that doesn't disrupt the positive secular trends." He also notes that small stocks have already endured one bear market, at least on a relative basis, lagging far behind the S&P 500 in 2015 and 2016.

For now, Mr. Ely and Ms. Zhang

Please turn to page R12

Even now, after many small-caps were in the red for September, the top-performing managers in the Winners' Circle remain unflappable.

"I think there are still a lot of tailwinds for small-caps," says Amy Zhang, manager of the \$2.3 billion **Alger Small Cap Focus Fund** (AO-FIX), which came in second, with a return of 51.9%.

"They are insulated from the trade war, and protected from interest rates rising" since smaller companies tend to carry less debt. (Ms. Zhang also seeks out those businesses that are less dependent on the capital markets when hunting for new investment ideas.) Smaller companies also benefited from the tax overhaul to a greater extent than

## JOURNAL REPORT | INVESTING IN FUNDS &amp; ETFS

ASK ENCORE | GLENN RUFFENACH

# How to Test Out Your Retirement Town

When relocating, our advice is to evaluate a community like a climber tackling Mount Everest

You recently wrote about the merits of moving to a small town in retirement. My wife and I hope to relocate, and we are trying to narrow our list of possible destinations. Have you written about the process of visiting and evaluating a community? Is there a better or best way to do this?

It takes some time, but the best way to do this is to think about Mount Everest.

As you probably know, one way climbers tackle Everest is to do so in stages. They will ascend to a particular height, spend a brief time there and return to base camp. Then, they will climb to the previous height a second time and remain for a longer period. Climbers repeat this process at ever-higher altitudes, as they acclimate themselves to the mountain's thin air. A similar process works well with retirement destinations.

The first trip might last a week. It will give you a chance to drive through neighborhoods, dine at local restaurants and get an initial impression. Assuming that the first trip is promising, the second trip should last two or three weeks and take place during a different time of the year. At this point, it helps to talk with real-estate agents and prospective neighbors.

Finally, if you think you have found your retirement home, book a short-term rental and visit for two or three months. If you still like the community, put up the "For Sale" sign back home.

Yes, this is a lengthy and potentially expensive process. But few decisions in retirement are more painful than discovering you have settled in an area that proves to be something quite different from what you imagined.

As one expert on retirement migration told us: "Visit South Florida when the mosquitoes are out and the temperatures are high—not just in February. Or visit when tourists don't come, when the towns go back to their native residents. Some people will do that and decide this is not the place for them."

\* \* \*

In reviewing my benefits statement from the Social Security Administration, I notice that there are some years where my Social Security earnings and Medicare earnings are different for the same year, some by as much as \$40,000. I called Social Security, and they told me to call the Internal Revenue Service. The accountant who did our taxes back

Mr. Ruffenach is a former reporter and editor for The Wall Street Journal. His column looks at financial issues for those thinking about, planning and living their retirement. Send questions and comments to [askencore@wsj.com](mailto:askencore@wsj.com).



It's best to explore a potential retirement town in stages, just as a climber does.

then is no longer available. Any thoughts?

This question serves as an important reminder: the need to check, annually, your Social Security Statement. This document projects what your monthly benefit will be at various ages and, equally important, includes your earnings history—as far back as high school, in all likelihood. As this question indicates, some people discover that their wages, as listed on the statement, appear to be missing or incorrect. Such problems, if not fixed, could reduce your payments in retirement.

(If you haven't already, you can create an account—"my Social Security"—on the Social Security Administration's website to review and download your statement. Go to: [ssa.gov/myaccount](http://ssa.gov/myaccount).)

As for this particular case... The best first step is to review your records and work history, says Andy Landis, author of "Social Security: The Inside Story." Your Social Security Statement, as your question indicates, has two columns with details about your earnings: your taxed Social Security earnings and your taxed Medicare earnings. You might have held a job, at some point, in which your earnings weren't taxable for Social Security (some teachers in some states, for instance, don't pay Social Security taxes) but were taxable for Medicare. In that event, Mr. Landis notes, your earnings record would show all your wages for a particular year

in the Medicare column—but zero wages under the Social Security column.

In short, perhaps some of your work was for a government entity that wasn't taxed by Social Security, but was by Medicare.

Another possibility, Mr. Landis says, is that your earnings in one or more years exceeded the Social Security taxable ceiling. Then the Social Security column would show the maximum taxable amount (\$128,400 this year), but the Medicare column, with no ceiling, would show all of your earnings.

If none of these explanations help, the second step would be to contact the Social Security Administration (and *not* the IRS) with an "earnings discrepancy" issue, Mr. Landis says. Normally that means the person is missing a year of earnings or has extra earnings that aren't theirs (called "scrambled earnings" inside the agency). You can find instructions about this and what records you might need (W-2s, tax returns) on your Social Security Statement. The number to call: 1-800-772-1213. Or you can make an appointment to visit your local Social Security office.

\*\*\*

And speaking of Social Security...here's a new tool that can help with "claiming" decisions.

From time to time, I like to highlight tools and products that can help people plan for and

## Popular Towns

In 2016, the cities that gained the most residents age 60 and older were:

### Net migration\*

Henderson, Nev.	<b>2,341</b>
San Antonio	<b>2,306</b>
Scottsdale, Ariz.	<b>1,834</b>
Mesa, Ariz.	<b>1,793</b>
Las Vegas	<b>1,320</b>
Gilbert, Ariz.	<b>1,256</b>
Surprise, Ariz.	<b>1,131</b>
Raleigh, N.C.	<b>1,113</b>
Eugene, Ore.	<b>1,088</b>
Peoria, Ariz.	<b>1,046</b>

\* The number of people moving into the city from another state minus the number moving out of the state.

Source: SmartAsset

THE WALL STREET JOURNAL.

make the most of retirement. One of the best I've come across of late is Open Social Security ([opensocialsecurity.com](http://opensocialsecurity.com)).

Developed by Mike Piper, who writes the Oblivious Investor blog (one of my favorites), this free calculator helps individuals and couples decide when to claim Social Security benefits to generate "the most total spendable dollars over your lifetime." Users enter their marital status, gender, date of birth and "primary insurance amount," the amount of your monthly benefit at "full retirement age," as defined by the Social Security Administration. (That figure can be found on your Social Security Statement.)

With that information, the calculator recommends a specific filing strategy, including the date and age when you should first claim benefits, and provides a chart with year-by-year benefit amounts. The website includes a good description about how the calculator works—and there is even a link to the coding that Mr. Piper used to create the calculator.

Mr. Piper acknowledges that his tool, for the moment, doesn't account for every circumstance that an actual person or couple might face. (Example: Older adults with young children can't calculate a "best" claiming strategy, although Mr. Piper is working on that.) Overall, though, Open Social Security does a great job of simplifying one of the toughest and most important financial tasks in later life. Well worth your time.

# Financial Advice Gets Less Pricey

Continued from the prior page  
own investments.

But "there is significant change occurring, and the types of changes we see point to lower fees," says Devin Ryan, brokerage analyst at JMP Securities LLC.

Here's a closer look at the factors that are starting to drive down the cost of investment advice.

### Technology opens up options

From robo advisers to digital tools that make human advisers more efficient, technology will keep disrupting the industry's way of doing business.

Traditional advisers are still at the top of the heap, but robo advisers are slowly gaining share. Cerulli Associ-

ates estimates that the robo-advice industry had more than \$200 billion in assets at the end of 2017—up from \$80 billion a year earlier—and will have \$600 billion by the end of 2022, eating into the \$20.3 trillion asset base of traditional brokerage firms.

So, even the biggest firms have given in to pressure to modernize their wealth-management operations with lower-cost options in order to be more competitive.

Financial firms are exploring other types of tech, too. Morgan Stanley in particular has invested big in artificial intelligence meant to let brokers take on more business by freeing them from certain daily tasks, such as automating some client communication on volatile days. The idea: By boosting efficiency, firms and advisers can make up for a lower-fee future by taking on a higher volume of accounts.

### More scrutiny from heirs

Traditionally, the investment-advice business has been built on relationships, and fees have lacked trans-

parency, says Mr. Ryan of JMP Securities.

But that will change as the children of boomers inherit their assets, a transfer of wealth estimated at \$30 trillion, Mr. Ryan says.

When an heir receives an inheritance, he or she will review the parent's adviser relationship, Mr. Ryan says. Younger investors in particular are often more comfortable with digital advice than a human, a reality that will prompt some advisers to cut fees to remain competitive.

"Millennials are asking a lot more questions about 'what you're doing for me,'" says Ms. Valentine.

At Voya Financial Inc.'s Voya Financial Advisors, roughly 2,100 advisers charge up to around 1.5% of assets, says Tom Halloran, president of the Voya unit. But some have started charging 0.9%, he says, to be more competitive and retain customers considering lower-cost alternatives.

When Morgan Stanley late last year launched its robo adviser with a fee of 0.35% annually, executives said that it was meant to attract a new generation of clients. Many of these new clients are likely to be the children of existing customers now positioned to inherit significant wealth.

Meanwhile, executives at Morgan Stanley have lowered the maximum fee that human advisers can charge clients to 2% of assets from 2.5%.

### New arrangements for services

As advisers work to justify asset-management fees of 1% or more, many are pitching clients on their ability to offer financial advice that goes beyond investment allocation.

Some say they can handle taxes, advise on business, prepare clients for retirement years and plan for their children's educations, as well as deliver more specialized services. For instance, Mr. Halloran says Voya advisers are being trained to work with clients who have children with special needs.

Still, some experts warn that investors will want their advisers to offer those services a la carte, letting clients pay for what they want and leave what they don't, Ms. Valentine says.

"Going forward, there will be greater pressure to prove value, and [advisers] will have to have reasons to substantiate their fee," Ms. Valentine says.

**Ms. Beilfuss is a Wall Street Journal reporter in New York. Email her at [lisa.beilfuss@wsj.com](mailto:lisa.beilfuss@wsj.com).**

## QUARTERLY MONITOR | WILLIAM POWER



# U.S.-Stock Funds Rose 5.2%, Outpacing Globe, but Money Continues to Flow to Bonds

In baseball terms, 2018 is shaping up as a winning season for mutual-fund investors, but not necessarily with a parade.

With three months to go, investors still have a shot at double-digit annual gains, on average, for their U.S.-focused stock funds, riding the wave of strong economic reports. Still, everyone is waiting for the long bull market to tire, so many keep hedging their bets with a healthy dose of bond funds.

The average U.S.-stock fund had a total return of 5.2% in the third quarter, according to Thomson Reuters Lipper data. That puts the year-to-date gain at 8.8%—though replicating the 2017 average gain of 18.3% seems unlikely.

Still, the U.S.-fund gains are drubbing the returns from overseas investments, as trade disputes weigh more heavily on companies based abroad. International-stock funds were up just 0.31% on average in the quarter, to put the year-to-date loss at 2.4%.

"The difference in the U.S. versus the international markets widened again in the quarter, and the same thing for growth [stocks] versus value," says Thomas Martin, senior portfolio manager at Global Investments in Atlanta. Stocks of small-cap growth companies, which are generally more domestic than large companies, had a rocky September but are still holding on to large gains for the year.

That rally has kept many managers of small-stock mutual funds at the top of the list of best-performing funds over the past 12 months (see the Winners' Circle results on today's cover).

Investors sent a net \$62.23 billion to bond-focused mutual funds and exchange-traded funds in the quarter, according to Investment Company Institute estimates. In contrast, U.S.-stock funds had a net outflow of \$51.1 billion; international funds took in a modest \$83 million.

Despite their inflows, the average bond fund hasn't hit a home run. Funds focusing on intermediate-maturity, investment-grade debt were up 0.12% in the quarter, and are down 1.6% for the year so far.

Something has to give in the contrast between U.S. and international stock performance, says Andrew Slimmon, senior portfolio manager at Morgan Stanley Investment Management in Chicago. "Is the rubber band going to stretch further or are you going to see some snapback, and see international—especially emerging markets—recoup some of that performance?"

"I'm definitely in the camp that these markets are ripe for reversal in terms of doing better on the upside relative to the U.S., especially emerging markets," he says.

Emerging-markets funds are down 9.3% this year on average, according to the Lipper data, including a decline of 2.4% in the third quarter.

Meanwhile, the interest in bonds, says Mr. Slimmon, is a positive for stocks. Most bull markets end with a greed phase, which isn't the case now.

"It tells me this thing is going to last longer than people think," he says.

### A final word, from Mark Twain

A quote for this month from the brilliant American writer, who was also a cursed investor: "OCTOBER: This is one of the peculiarly dangerous months to speculate in stocks in. The others are July, January, September, April, November, May, March, June, December, August, and February."

**Mr. Power is a Wall Street Journal news editor in South Brunswick, N.J. Email him at [william.power@wsj.com](mailto:william.power@wsj.com).**

## FOLLOW THE MONEY

Third-quarter 2018 flow of investor cash by fund type, in billions\*

U.S. stocks	Intl. stocks	Bonds
<b>-\$51.1</b>	<b>\$0.8</b>	<b>\$62.2</b>

\*Estimated mutual-fund/ETF flows through 9/26

Source: Investment Company Institute

Advisory fees that are based on assets under management, broken down by client size

**Fees**

■ Less than 0.75% ■ 0.75% to 0.99% ■ 1.00% to 1.24% ■ 1.25% to 1.49% ■ 2.00% to 2.49% ■ 2.50% or more

■ 1.50% to 1.74% ■ 1.75% to 1.99% ■ 2.00% to 2.49% ■ 2.50% or more

# Introducing a new class of international investments.

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<sup>1</sup>Brookings Institute, "The Unprecedented Expansion of the Global Middle Class."

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## JOURNAL REPORT | INVESTING IN FUNDS &amp; ETFS

## ETF Terminology, in English

Exchange-traded funds have a vocabulary all their own. Here's a guide for the curious investor.

BY ARI I. WEINBERG

WHEN IT COMES to exchange-traded funds, the most difficult part for investors may not be deciding which strategy to pursue. It may be understanding the language that describes those strategies.

Smart beta. Multifactor. Quantitative. Self-indexed. What do any of those even mean?

In the interest of bringing the ETF world and the English-language world together, here are some common terms, and what they refer to.

◆ **Smart beta:** Mostly a marketing term, a play on the financial term "beta," which measures a security's volatility relative to a benchmark, usually one representing an entire market, geography or sector.

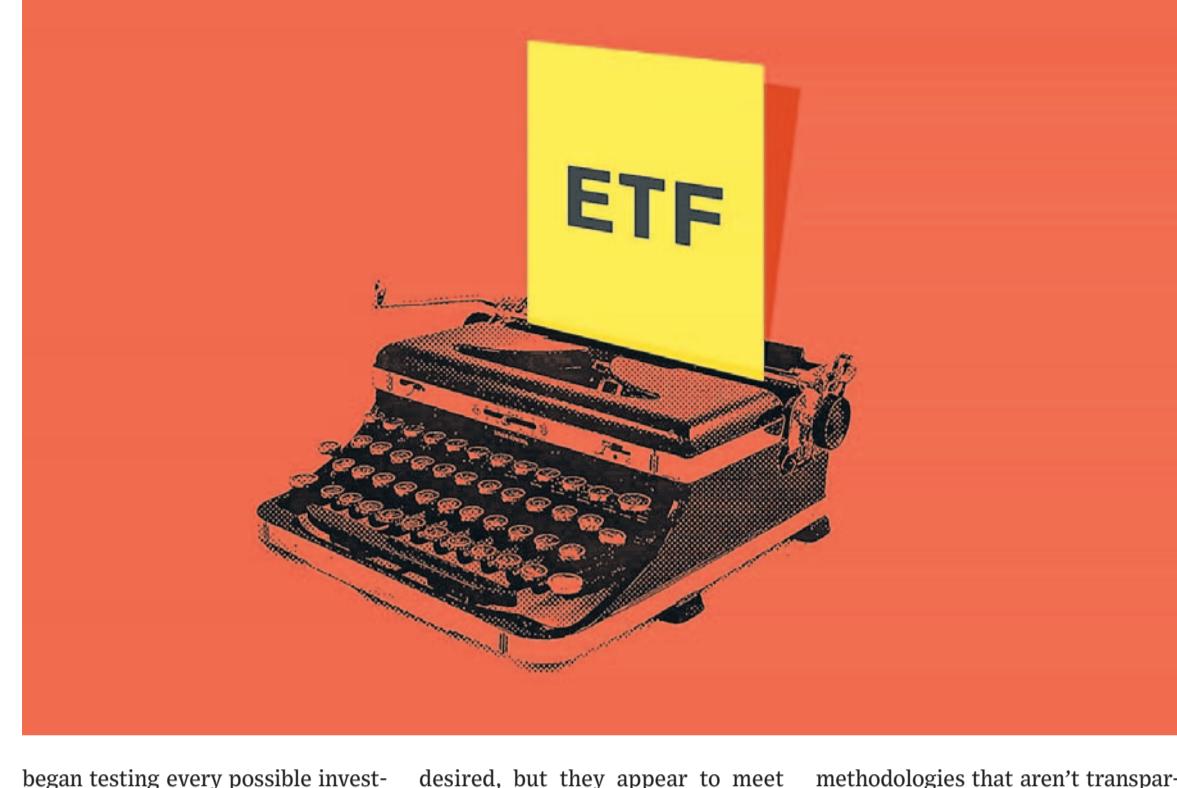
Because there was never an agreed-upon definition in the ETF world, however, smart beta has come to represent any ETF that weights holdings by something other than just market capitalization. That includes not only funds that weight holdings based on factors such as a company's size, book value and trading momentum, but also those focused on a security's volatility, dividends or corporate earnings quality—or any other investing idea.

"The term has been a constant source of confusion among investors," says Michael Venuto, chief investment officer and co-founder of New York-based Toroso Investments. "It lumps in too many things."

Morrison Warren, a partner at Chapman & Cutler LLP, tells investors: "Lean on the prospectus or summary prospectus. Check the index. Read the white paper."

◆ **Factor:** Attributes of a security that indicate it has the potential to provide a higher risk-adjusted return than the overall market. Early on, attributes such as size, value and momentum were identified as factors that could lead to outperformance, which gave rise to index funds and eventually ETFs that weighted holdings based on such attributes.

However, with endless computing power and limitless data, academics



OLIVER MUNDAY

began testing every possible investment statistic for a link to returns, and factor investing evolved into a zoo, University of Chicago economist John Cochrane said in a 2011 address.

Research Affiliates, an early adopter of fundamental investing, has gone so far as to declare that most so-called factors can be ignored. "The sheer variety seems to serve the purposes of publication for [academic] tenure and product creation more than better investor outcomes," Research Affiliates partners Jason Hsu and Vitali Kalesnik wrote in 2014.

◆ **Multifactor:** A stock strategy that attempts to derive returns by including more than one factor. Some of the ETFs that engage in this strategy are fixed, meaning they try to constantly exploit the same two factors; others, such as the \$139 million Oppenheimer Russell 1000 Dynamic Multifactor ETF (OMFL), try to shift with the economic tides by weighting value, momentum, quality, low volatility and size based on economic expansion, slowdown, contraction and recovery. How should multifactor ETFs be used? "Carefully," said ETF.com's Laura Crigger in a May article that analyzed the over 300 ETFs in the FactSet "multifactor" universe. "Their performance leaves something to be

desired, but they appear to meet their promises when it comes to lower volatility and risk reduction," she wrote.

◆ **Tilt:** A more-roundabout way into factor investing that starts with a market-cap-weighted index, and then slightly overweights stocks in the index with certain characteristics. In the case of the \$1.3 billion FlexShares Morningstar U.S. Market Factor Tilt Index Fund (TLT) from Northern Trust, there is a "tilt" toward small-cap and value stocks. The term "tilt" is also used by active managers to describe a preferred style of investing such as value or growth, says Mr. Venuto.

◆ **Quantitative:** A strategy in which technology and mathematical formulas drive investment decisions.

"It's a lot of different things," writes diligence consultant Tom Brakke at his blog the Research Puzzle. In fact, some say the term could be used to describe any fund that tracks an index.

While factor investing rules the roost in this category, quantitative strategies also include "the emergent areas of artificial intelligence (AI) and machine learning," says Mr. Brakke, which have led to two actively managed "AI powered" equity ETFs. At their core, however, many quantitative strategies employ

methodologies that aren't transparent, as opposed to published index methodologies that can be tested and replicated (though few try).

◆ **Self-indexed:** Asset managers, attempting to remove as many costs as possible from their investment strategies, are sidestepping name-brand index firms, such as S&P Dow Jones Indices, MSCI or FTSE Russell, and bringing out comparable products without licensing fees. This is how Fidelity Investments brought out several zero-expense-ratio funds in August. Mr. Warren says, however, that the SEC is taking a deeper look at the role of index firms, including self-indexers, and related disclosures.

◆ **Leveraged and Inverse and Inverse Leveraged:** These types of products generally use core holdings (think the S&P 500) and futures contracts or swaps to provide daily multiple returns of an individual index or sector. Because they reset every day—the goal is to magnify a single day's returns, long or short, every day—the results can be confusing, and long-term investors are advised to stay away. According to research firm XTF, leveraged ETFs run from 1.25 times to 4 times; inverse ETFs attempt to deliver minus 1 time the daily index performance, while inverse leveraged ETFs can run from minus 0.5 time to minus 4

times. Got it?

◆ **Thematic:** A step beyond industries and sectors, thematic investing is the flavor du jour in ETF land, especially for equities in up-and-coming industries. Often but not exclusively index-based, thematic investing looks across sectors for companies that are being affected by a market shift or disruptive technology such as robotics or AI. Funds in this arena include **ARK Genomic Revolution Multi-Sector** ETF (ARKG) and the \$1.9 billion **First Trust Cloud Computing** ETF (SKYY). Proponents say thematic funds can be a cheap and easy way to harness an emerging trend or innovation, but pay attention to the range of holdings and weights.

◆ **Hedged:** A general term to imply some level of risk control, often using short selling, options, futures or swaps. A few years ago, ETFs that attempted to capture international equity returns while eliminating short-term currency fluctuations were all the rage. Now, the hot trend is fixed-income products that manage interest-rate and duration risk.

Then there are the old reliables, but even they are getting harder to define:

◆ **Active:** This term generally implies an old-fashioned investment strategy, where managers research and pick securities to try to outperform a benchmark index or manage downside risk. Unfortunately for investors seeking clarity, a series of ETFs from Goldman Sachs Asset Management dubbed ActiveBeta might leave some questioning what "active" really means. The ETFs in this case engage in a multifactor strategy combining value, momentum, quality and low volatility.

◆ **Passive:** A catchall term for index-tracking funds and ETFs, "passive" is also used to describe other products and strategies that generally remove day-to-day discretion by a fund manager. The barrier between active and passive for ETFs is breaking down, however. In this summer's proposed ETF Rule, the Securities and Exchange Commission said it would no longer differentiate between active and passive fund applications.

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## The Pros and Cons of a New Kind of ETF

The third generation of exchange-traded funds is 'active ETFs.' Here is what investors need to know about them.

BY MICHAEL A. POLLICK

THERE IS A new exchange-traded fund in town, and it could have advantages over older funds.

Actively managed ETFs, available in increasing numbers from a range of investment companies, combine the most desirable features of actively managed mutual funds and index funds. They charge lower management fees than most actively managed mutual funds and trade through the day, like other ETFs. But, unlike traditional ETFs, they follow a focused objective other than tracking an index. Their portfolios can change daily as their managers buy and sell securities to take advantage of market moves.

Actively managed ETFs first appeared about 10 years ago, but with an insignificant amount of assets. Now, Morningstar lists 263 ETFs as actively managed. These have \$66 billion in total assets, albeit a small corner of the more than \$3.6 trillion ETF market in the U.S. The bulk of ETF assets are in fixed-income funds.

But actively managed ETFs also are more complex than their predecessors. With other ETFs, the portfolio changes little and infrequently. In an actively managed ETF, the manager or managers can change the portfolio on any given day.

Here are things investors need to understand about active ETFs before plunging in.

### 1. What exactly are actively managed ETFs?

They are a third generation of ETFs. The earliest ETFs sought to match the returns of a market index by owning a basket of securities similar to the index. The second wave, "smart beta" funds, aimed to beat the broad market by tweaking instead of mirroring index holdings—owning only stocks of companies in the index that consistently boost dividends, for example.

Next came actively managed ETFs, which also try to beat the market. Instead of relying only on an alternative

as "active" in their names. If the description states that an ETF doesn't closely follow an index or benchmark, it's probably active.

"Investors deserve choices," says Todd Rosenbluth, who heads ETF and fund research at data provider CFRA. "Now they have more."

### 2. Where will I see them?

Most investor money in actively managed ETFs so far has flowed into fixed income. Among some of the more popular strategies in this sector are funds that focus on very-short-maturity bonds, aimed at investors who want more income than they could get from a money-market fund.

Pimco Enhanced Short Maturity Active ETF (MINT), with \$10 billion in assets, is one of the largest.

Active ETFs in equities are less common so far, largely because of a regulatory requirement that ETF portfolios must be disclosed daily, which scares off managers who don't want their strategies exposed.

But more actively managed equities ETFs have been appearing. In February, Vanguard launched six.

Some newcomers offer outlier strategies. San Francisco-based EquBot in June offered its **AI Powered International Equity ETF** (AIQ), which invests in non-U.S. developed markets. It uses IBM's Watson supercomputer and artificial intelligence to sort through millions of public filings, news releases and social-media posts to find those with the best capital-appreciation prospects.

### 3. Will I see them in my 401(k)?

Not yet, and probably not soon.

Companies that sponsor 401(k) plans typically are cautious about adding newer

strategies to menus of funds available to participants because of concerns about pushing up administrative costs and because of the perceived risk of including strategies that haven't been thoroughly time-tested. Many active ETFs are less than three years old.

### 4. Why would I want to buy them?

Anyone who likes active management and owns mutual funds could trim portfolio expenses by adding active ETFs. While mutual funds often charge more than one full percentage point a year of assets in management fees, many active ETFs charge 0.3 to 0.7 point.

Active ETFs provide access to specialized and uncommon strategies. **ARK Innovation** ETF (ARKK) focuses on companies that disrupt markets with new technologies, such as 3-D printing and gene therapy.

Another outlier is **Vanguard U.S. Liquidity Factor** ETF (VFLQ), which owns stocks that trade less often.

While there is "some degree

of risk" in owning such stocks, Vanguard says that the approach offers capital-appreciation potential because lower-liquidity stocks can be slower to react to constructive news, says John Ameriks, who heads Vanguard's quantitative equity group.

### 5. Are they better for certain strategies?

Maybe for bonds. "With rates rising in the U.S., investors who hold a passive, fixed-income ETF could be exposed to a lot of risks, including interest-rate risk," says Patrick O'Connor, who heads ETFs globally at Franklin Templeton.

"Because an active bond ETF doesn't have to track an index, its manager isn't forced to own risks for which investors aren't being adequately compensated."

Some advisers believe an active ETF is a better way of investing in emerging-markets stocks, a survey by Brown Brothers Harriman found. Because emerging markets trade less efficiently, it is thought that an active manager can

find undervalued securities more easily there than in developed markets and beat an index, says Shawn McNinch, an ETF specialist at the firm.

### 6. Why wouldn't I want to buy them?

People who already own purely passive ETFs would end up paying more in management fees if they invest in active ETFs. Equity index funds from Charles Schwab and State Street charge as little as 0.03 point in fees. Active ETFs likely will draw more investors away from mutual funds than from passive funds, says Brian McCormick, ETF analyst at Commonwealth Financial Network.

Active ETFs also aren't for investors who hate research. Analyzing one thoroughly requires about the same due diligence as looking at a traditional mutual fund, says Michael Iachini, who heads manager research for Charles Schwab Investment Advisory.

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## Tracking Exchange-Traded Portfolios

Performance figures are total returns for periods ended Sept. 28; for largest exchange-traded funds and other portfolios, ranked by asset size.

Fund	Symbol	Assets (\$billions)	Volume (000s)	Expense ratio	Launch date	September	3rd-qtr	1-year
SPDR S&P 500 ETF	SPY	280.33	69,834.5	0.09	01/22/93	0.6	7.7	17.8
iShares Core S&P 500 ETF	IVV	165.13	5,172.2	0.04	05/15/00	0.6	7.7	17.9
Vanguard Tot Stk Mkt Idx ETF	VTI	106.58	1,797.0	0.04	05/24/01	0.2	7.1	17.6
Vanguard 500 Index ETF	VOO	104.43	360.9	0.04	09/07/10	0.6	7.7	17.9
Invesco QQQ	QQQ	74.10	27,640.5	0.20	03/10/99	-0.3	8.6	28.6
Vanguard Developed Markets Idx ETF	VEA	71.27	8,478.5	0.07	07/20/07	0.7	1.1	2.7
iShares MSCI EAFE ETF	EFA	70.67	36,030.6	0.32	08/14/01	0.9	1.3	2.7
iShares Core MSCI EAFE	IEFA	59.31	9,619.8	0.09	10/18/12	0.6	1.1	3.1
Vanguard Emg Mkts Stk Idx ETF	VWO	58.18	13,852.6	0.14	03/04/05	-1.3	-1.7	-3.1
iShares Core US Aggregate Bond ETF	AGG	55.99	4,883.9	0.04	09/22/03	-0.7	0.01	-1.3
iShares Core S&P Mid Cap ETF	IJH	50.48	1,091.7	0.07	05/22/00	-1.1	3.8	14.1
iShares Russell 2000 ETF	IWM	49.84	22,945.2	0.05	05/22/00	-2.4	3.6	15.2
iShares Core MSCI Emerging Markets	IEMG	49.12	14,524.2	0.14	10/18/12	-0.8	-1.4	-0.9
iShares Core S&P Small Cap ETF	IJR	46.94	4,448.2	0.07	05/22/00	-3.2	4.8	19.1
iShares Russell 1000 Growth ETF	IWF	44.53	1,033.3	0.20	05/22/00	0.6	9.1	26.1
Vanguard Value ETF	VTY	44.12	1,068.5	0.05	01/26/04	0.6	7.3	13.6
Vanguard Growth ETF	VUG	38.08	511.9	0.05	01/26/04	0.4	7.8	22.7
iShares Russell 1000 Value ETF	IWD	37.64	1,922.7	0.20	05/22/00	0.2	5.7	9.3
Vanguard Total Bond Market ETF	BND	36.02	2,576.9	0.05	04/03/07			

## JOURNAL REPORT | INVESTING IN FUNDS &amp; ETFS

## MONEY MANAGEMENT

# What to Do if Your Robo Adviser Closes

Investors should know, because they are likely to face more closures as heavyweights Fidelity and Vanguard fight for business

BY BAILEY MCCANN

**WHAT HAPPENS** when a robo adviser closes?

Lots of investors have had to deal with this question lately, and still more are likely to soon.

A popular product with investors, robo advisers are a mix of algorithms and human planning that match customers with portfolios of inexpensive index and exchange-traded funds. The portfolios are then managed and periodically rebalanced, for low or no fees, by computer programs.

Assets with robos have grown to more than \$200 billion, according to the research firm Backend Benchmarking. But consolidation has taken place since this niche industry's start roughly a decade ago. While some independent robos such as Wealthfront Inc. or Betterment have been able to scale up, others have closed or merged with other organizations in the face of competition from bigger competitors such as **Vanguard Group** and **Fidelity Investments**. And when robos close, customers usually are faced with a headache.

Some robos that are closing will sell clients' investments

and refund their money, which can lead to lower overall performance. There can be tax implications if users realize gains when their portfolios are sold, forcing them to pay taxes on those returns.

In other cases, clients of robos that are closing can be given the option of moving to a self-directed account with the custodian company. But one of the big selling points of a robo adviser is that portfolios are created and managed for you—and that isn't the case in a self-directed account.

Over the summer, there were a few high-profile closures. In August, **UBS Group AG** closed its SmartWealth platform, a robo adviser for British clients, after just two years, citing limited interest. Customers were given notice that their investments would be sold and refunded over a 30- to 60-day window. In July, another robo, Hedgeable, said it would no longer accept deposits. Hedgeable gave its users the option of moving to a self-directed account at custodian Folio Investments Inc., or selling their investments. Folio is working on launching its own robo-advisory service, but until it is ready for prime time, users from Hedgeable



Over the summer, UBS closed its SmartWealth platform, a robo adviser for British clients.

MICHAEL LIMINA/BLOOMBERG NEWS

are in self-directed accounts.

Hedgeable's robo platform was focused on actively managed funds, and the company struggled to compete with powerhouse passive platforms that offer free or low-cost exchange-traded funds. Thus, former Hedgeable users are also confronted with a unique problem—finding another robo that offers active management. Robo platforms that use

passive funds are more common, and customers of one that closes shouldn't have difficulty finding a similar product because there isn't much difference among the providers with passive portfolios.

When a robo closes, "it's not a great user experience, that's for sure," says Backend Benchmarking research analyst David Goldstone. In addition to being forced to sell or

accept a possibly unrelated replacement service, there can be unexpected tax implications that providers don't always make clear, Mr. Goldstone says. Users who realize gains when their portfolios are sold will have to pay taxes on those returns in the current tax year. "There is also the potential that these users don't reinvest if this is their first account, which is not good for anyone."

Investors should also ask an accountant about how they might offset any capital gains if they do sell and start over.

For displaced customers who want to try something new, hybrid advisers have become a popular option. Hybrid advisers are a mix of automated investing and wealth planning. Usually there are more investment strategies available than with robo advisers, and the staff are there to talk through how to plan for college savings or retirement.

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## Largest Taxable-Bond Funds

Data provided by LIPPER

Total returns are for periods ended Sept. 28 and are final; assets are through Aug. 31, and include all share classes.

Fund Name	Symbol	Assets (\$ millions)	Performance (%)				
			Sept.	3rd-qtr	1-yr	3-yr*	5-yr*
Vanguard Tot Bd;Adm	VBTLX	199,440.3	-0.5	0.03	-1.2	1.3	2.1
Vanguard Tot Bd II;Inv	VTBIX	162,128.6	-0.5	0.02	-1.3	1.2	2.0
PIMCO:Income;Inst	PIMIX	113,345.1	0.2	0.6	1.0	5.8	5.7
Vanguard Tot Itl Bd;Adm	VTABX	111,026.9	-0.3	-0.2	2.2	2.9	3.7
Met West:Total Return;I	MWTIX	73,834.6	-0.6	0.04	-1.0	1.4	2.3
PIMCO:Tot Rtn;Inst	PTTRX	70,033.3	-0.6	0.1	-1.5	2.2	2.3
Vanguard Sh-Tm Inv;Adm	VFSUX	59,612.1	-0.1	0.6	0.3	1.7	1.8
Dodge & Cox Income	DODIX	57,106.1	-0.1	0.6	-0.1	3.1	3.1
iShares:Core US Agg Bd	AGG	56,280.2	-0.7	0.01	-1.3	1.3	2.1
Vanguard Sh-Tm Bd;ETF	BSV	51,223.4	-0.2	0.2	-0.4	0.6	1.0
DoubleLine:Tot Rtn;I	DBLTX	49,046.0	-0.4	0.2	0.2	1.8	2.9
Lord Abbett Sh Dur;F	LDLFX	40,111.3	0.1	0.5	1.0	2.3	2.1
Fidelity US Bd;IP	FXNAX	39,876.6	-0.6	0.1	-1.3	1.2	2.1
American Funds Bond;A	ABNDX	38,964.1	-0.6	-0.1	-1.8	1.2	2.0
Fidelity Str Adv Cre Inc	FPCIX	38,046.9	-0.4	0.1	-1.0	2.4	2.6
BlackRock:Str Inc Opp;I	BSIIK	36,267.3	0.04	0.4	0.8	2.8	2.8
PGIM Tot Rtn Bond;Z	PDBZX	35,663.1	-0.7	-0.04	-0.9	2.8	3.4
Templeton Gl Bond;Adv	TGBAX	35,000.1	1.6	1.0	-2.1	3.7	1.8
iShares/Boxx SIG Corp	LOD	33,976.1	-0.3	1.1	-1.9	3.1	3.7
Fidelity Total Bond	FTBFX	32,196.0	-0.4	0.3	-0.6	2.7	2.9
Vanguard Int-Tm Bd;Adm	VBILX	31,778.9	-0.7	0.2	-2.0	1.2	2.4
Vanguard Int-Tm Inv;Adm	VFIDX	29,138.5	-0.5	0.6	-1.4	2.1	2.9
JPMorgan:Core Bond;R6	JCBUX	28,959.8	-0.6	0.03	-0.9	1.4	2.2
T Rowe Price New Inc	PRCIX	28,352.8	-0.5	0.1	-1.2	1.5	2.2
Vanguard Infl-Prot;Adm	VAIPX	28,310.5	-1.0	-0.8	0.3	1.9	1.3

\*Annualized N.A.=not applicable, fund is too new

## SPOTLIGHT | CLOSED-END FUNDS

### CLOSED-ENDS IN AN ETF WRAPPER

Closed-end funds are gaining popularity as a menu option for exchange-traded funds.



which it invests to help reduce gaps in pricing, for example with share buybacks to lift the value of its shares. "Our goal with the ETF is to

get the best yields, just as we do with our institutional fund," says Leah Jordan, vice president at Saba Capital. "The ETF structure allows us to open up our strategy to a wider range of investors."

CEFS recently passed its first anniversary. As of May 30, it had a distribution yield of 8.29% and a cumulative return since inception of 11.7%, a top performer in the closed-end ETF category.

Another ETF provider, Amplify ETFs, offers an option for passive investors that can be used as a core part of a portfolio. **YieldShares High Income** ETF (YYY) tracks the ISE High Income Index of the highest-yielding closed-ends.

Both ETFs have taken steps to mitigate issues that might affect yields, such as rising rates. Brian Giere, director at Amplify ETFs, says index investing can help insulate income-generating parts of a portfolio because the broad index won't be as severely affected during a rising-rates environment as would exposure to a single fund.

—Bailey McCann

## Equity investment totals have reached more than \$70 trillion worldwide.

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## JOURNAL REPORT | INVESTING IN FUNDS &amp; ETFS

## FIXED-INCOME INVESTING

## How to Find Decent Yields on Savings

Big banks are still paying virtually nothing on savings despite the Fed's rate rise of a cumulative 2 percentage points. Here are some simple, safe solutions.

BY ERIC UHLFELDER

**IF YOU HAVEN'T** checked in a while, yields on savings accounts at the big money-center banks have barely budged since the financial crisis—still generally below 0.2%.

But many investors may wrongly assume there are no better yields to be had in safe and liquid fixed-income products. There are.

Even before last week's interest-rate spike, "it's not hard to find quality, liquid alternatives that are paying 1.6% to 1.8%," says Ron Weiner, a partner and managing director of RDM Financial Group (at HighTower Advisors), a financial advisory firm with \$880 million of assets under management. "Further," he adds, "the more one can earn with cash, the less risk an investor then must take to achieve, say, a targeted return of 6% to 8% on one's entire portfolio."

The problem is that with many customers at large, brand-name institutions bundling their banking services—including direct deposits from their jobs that can build up savings—there is a habit of accepting the status quo. But this can be costly now that interest rates are finally rising

off their historic lows. Mr. Weiner says that even many high-net-worth individuals, who tend to build up cash positions, aren't aware of substantially higher cash yields that are now available.

There are three ways to realize higher yields on liquid accounts that one should always maintain to pay bills, meet unexpected expenses and store profits swept out of the market. One is to set up savings accounts at smaller local banks; a second is funding online savings accounts at solid financial institutions; and the third is allocating cash into money-market mutual funds.

According to Ari Socolow, who owns and manages the website BestCashCow.com—a clearinghouse of what banks across the country are paying on savings—smaller, local institutions and big-name online savings accounts have tended to pass on rising rates to customers to help attract assets.

In the New York metropolitan area, Apple Bank for Savings is paying a tidy 1.6% on accounts holding \$2,500 or more. And Mr. Socolow says there are even better rates available in large cities across the country. Investors are insured by the Federal Deposit Insurance Corp. up to \$250,000.

Short-term CDs are also a source of quality yields. But be mindful of the difference between bank-issued versus brokerage-issued CDs. At large national banks, CDs frequently pay only modest yields. Currently, a three-month CD offered by **JPMorgan Chase & Co.** is yielding just 0.02%. But brokerages like **Morgan Stan-**

## Where the Yields Are

Select online savings products with highest yields\*

	Annual Percentage Yield (APY)
CIBC Bank USA	<b>2.10%</b>
HSBC Direct	<b>2.01%</b>
VirtualBank (Iberiabank)	<b>2.01%</b>
Marcus by Goldman Sachs	<b>1.90%</b>
Barclays Bank Delaware	<b>1.90%</b>
American Express National Bank	<b>1.90%</b>

\*Criteria: Online banks with low minimum investments, assets of at least \$25 billion and which have been in business for at least 15 years.

†Criteria: Local banks with low minimum deposits, assets of at least \$1 billion, haven't changed bank format since before 2000 and their public filings suggest secure capitalization and a low percent of nonperforming assets.

Source: BestCashCow.com

ley also offer a three-month CD paying 2%, distributed through large banks like Chase.

Online savings accounts have been around for years, having received a boost in the aftermath of the financial crisis when financial institutions petitioned for bank status to help rebuild their capital base. Big familiar names include American Express National Bank, Marcus (the online savings account of **Goldman Sachs**) and Barclays Bank, all of which are paying 1.9%.

## An old alternative

Before the financial crisis, money-market mutual funds typically paid more than savings accounts. But with the adoption of stricter rules on money markets, including repricing of shares below their par value (typically \$1) if the prices of underlying investments decline, such money-markets products have be-

Select local savings banks with highest yields†

	APY	Where accounts are available
Banesco USA	<b>2.02%</b>	Florida, PR
CNB Bank of Pennsylvania	<b>2.02%</b>	NY state
Northfield Bank	<b>2.00%</b>	NJ, NY
Cross River Bank	<b>1.92%</b>	NJ
Live Oak Bank	<b>1.80%</b>	NC

THE WALL STREET JOURNAL.

come less visible. But they still exist.

According to Greg McBride, chief financial analyst at Bankrate.com, which tracks yields of various financial products, banks' own money markets at large institutions basically yield the same as their savings yields. Still, for investors who want to maintain assets in existing brokerage accounts, mutual-fund versions of money markets yield much more than their bank versions and offer one-day liquidity. Investors aren't FDIC-insured, but Mr. McBride says investing in such prod-

ucts offered by well-established financial-management firms is fairly secure, because these institutions "will move heaven and earth to preserve the \$1 NAV on their retail money funds, since they would suffer significant reputational risk and loss of assets to competitors if they ever 'broke the buck.'"

Morningstar scanned its database of more than 1,000 money-market mutual funds for The Wall Street Journal. The Journal then sorted this list by those managing at least \$100 million, having been in business for at least

five years, and requiring a minimum investment of no more than \$3,000.

Based on trailing seven-day yield (as of the end of August), the top 10 money markets were paying between 1.85% and 2.11%. These are offerings of well-established asset managers, including Vanguard, Invesco, Schwab and Alliance Bernstein.

## A better mind-set

While some customers may balk at making an effort to earn an extra percentage point or two, Mr. Socolow thinks there is more at stake. He believes this is a matter of improving one's mind-set, focused on all the ways capital leaks and unnecessarily underperforms throughout one's portfolio.

"Plugging these holes can collectively add up over the long run without increasing risk," Mr. Socolow says.

And you don't need to give up an account and services of a large bank you may have been at for years. It's easy to set up wiring instructions to shuttle cash back and forth between banks and brokerages to get the best of all worlds.

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## As Rates Rise, So Do These Stocks

BY DEREK HORSTMAYER

## Rate Reactions

Average annual return by mutual-fund focus over the five rate-increase periods in the past 30 years

## Conventional investments

## Nonconventional investments

## Large-Cap

**11.51%**

## Small-Cap

**15.13%**

## Value and Defensive

**10.12%**

## Growth and Cyclical Industries

**14.77%**

## Dividend-Focused

**9.55%**

## Nondividend

**14.93%**

year in returns over the five rate-increase cycles (15.13% versus 11.51%).

## Why be 'defensive'?

Similarly, mutual funds focused on growth stocks and cyclical industries held an edge of 4.65 percentage points a year over value and defensive stocks during the rate-increase cycles. And finally, mutual funds that focus on dividend-paying companies underperformed mutual funds focusing on nonpayers by 5.38 percentage points over the past five rate-increase cycles.

It should be noted that funds focused on small-caps, growth stocks and nonpayers of dividends did come with slightly elevated levels of volatility over those same rate-increase cycles, compared with their safer counterparts. But in finance, the bigger rewards do tend to come with the bigger risks.

With the Fed showing no signs of letting up on rate increases for the next year, it may be the riskier types of funds, rather than those that invest in safe, dividend-paying and large-cap stocks, that deliver the bigger rewards.

**Dr. Horstmyer**, a finance professor at George Mason University's Business School in Fairfax, Va., can be reached at [reports@wsj.com](mailto:reports@wsj.com).

\*March 1988–March 1989; December 1993–April 1995; June 1999–July 2000; December 2003–July 2007; December 2015–present

Source: Morningstar

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## When bulls prevail

The Fed tends to raise rates at times when it thinks the economy shows signs of overheating. But while rates are rising and the economy is still growing at a healthy rate, it isn't uncommon for a general bullishness about stocks to prevail. Over the past five rate-increase cycles, in fact, the S&P 500 averaged 13.2% a year, well above its historical average of 9.6%.

This excess performance, meanwhile, is most concentrated in the types of companies one would expect to do

well in a booming economy—smaller businesses and those in cyclical industries. In fact, a look at the performance of all mutual funds over the past 30 years, partitioned by the focus of the fund, shows that if you were to hold an average small-cap mutual fund as opposed to a large-cap fund, you would have gained an extra 3.62 percentage points a

year.

Examining the five periods over the past 30 years when the Federal Reserve raised rates, in fact, shows that large, dividend-paying, safe companies may be the ones you want to avoid. And with the market participants betting that the Fed will incrementally raise interest rates another percentage point over the next year, this advice could be especially timely.

## Small-Cap Fund Looks for More

The Fed tends to raise

rates at times when it thinks

the economy

shows

signs

of

overheating.

But while

rates

are

rising

and

the

economy

is

still

growing

at

a

healthy

rate,

it

isn't

uncommon

for

a

general

bullishness

about

stocks

to

prevail.

Over

the

past

five

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## JOURNAL REPORT | INVESTING IN FUNDS &amp; ETFs

## ALTERNATIVE INVESTMENTS

# Ready to Invest in Commodities? Not So Fast.

A strong dollar and the weak demand in China and elsewhere have depressed prices, and fund investors are feeling it. There might not be a turnaround soon.

BY DAN WEIL

NOW MAY NOT BE the time to invest in commodities. At least not if you're looking for a short-term profit.

That's because the asset class has performed poorly over the past four months—and experts don't anticipate much of a rebound in coming months.

After rising 4% from the beginning of the year through May 24, the Bloomberg Commodity Index has since dropped 5% as of Oct. 5. Fund investors are feeling it: Lipper's natural-resources funds category squeaked out a 0.4% return for the third quarter, while gold-oriented funds specifically slid 16% and are down 22% for the year to date. (Gold itself is down 8%).

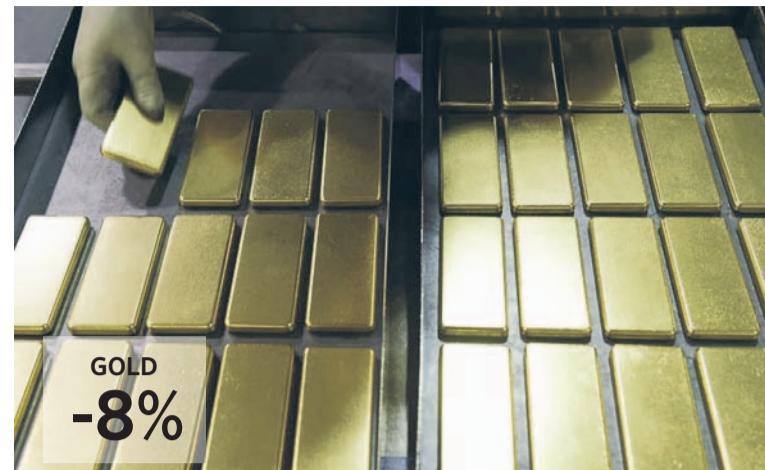
A strong dollar and weak demand overseas, particularly in China, have depressed commodities. Many commodities are priced in dollars, so when the currency is strong it makes commodities more expensive for foreign buyers in their own currencies.

"We think the trend is soft heading into year-end. Agriculture and metals are both under pressure," says Rob Haworth, senior investment strategist with U.S. Bank Wealth Management. "The real problem is that the dollar will continue to be a headwind."

**Dollar dominance**

Mr. Haworth expects the dollar to stay strong through year-end as the Federal Reserve raises interest rates once more this year, which would mark the fourth boost of 2018. Higher interest rates lift the dollar by making fixed-income investments denominated in dollars more attractive.

Sluggish economic growth overseas also will keep a lid on commodity prices, Mr. Haworth and others



say. "We had synchronized global growth last year," he says. "Now we have flat to slower growth for the rest of the world." For example, the European Central Bank recently lowered its estimate for eurozone GDP growth to 2% for this year and 1.8% for 2019.

**Can U.S. growth keep up?**

Even in the U.S., economists expect growth to decelerate from the 4.2% annualized pace it registered in the second quarter. More than 60 economists surveyed by The Wall Street Journal predict growth will slow through the first quarter of 2019, when they see it hitting 2.4%. Slow growth means tepid demand for commodities.

The most popular commodity for individual investors is gold. The metal's 8% drop this year through Oct. 5 puts it at \$1,201 an ounce. "Historically, gold has been an inflation hedge," says Karim Ahamed, an investment adviser at HPM Partners in Chicago. "So you might expect that people would be concerned with the inflation rate in the current environment and thus invest in gold." But that hasn't happened. The consumer-price index climbed 2.7% in the 12 months through August, compared with 1.9% for the 12 months through August 2017.

Gold also generally benefits from global turmoil, with investors flocking to it as a haven, Mr. Ahamed notes. But that too hasn't happened this year. "So what gives?" he asks. First, there's the dollar's strength, he says. The Bloomberg Dollar Index has climbed 7% since Feb. 1. The currencies of China and India, the two biggest consumers of gold, are particularly weak, making gold more expensive there and damping demand.

Rising U.S. interest rates also have hurt gold, because the metal doesn't pay any income, making it less appealing than investments that do, Mr. Ahamed says.

Base metals, such as copper, also are slumping. Copper has dropped 16% from the beginning of the year through Oct. 5, to \$2.75 a pound.

China has been the largest consumer of industrial metals over the past 30 years, Mr. Ahamed says. But China's economy has slowed in recent years; in the second quarter of this year it grew 6.7% from a year earlier, compared with a 6.9% expansion for all of last year. Also, the government is shifting to focus more on the consumer sector and less on the manufacturing sector.

"China propelled the last boom in commodities, from the 1990s through 2008, and that doesn't seem likely to repeat," says Amanda Agati, co-chief investment strategist at PNC Financial Services Group.

Meanwhile, bountiful supply and weak demand have hurt agricultural commodity prices, experts say. China's tariffs on U.S. soybeans also have had an impact. Soybean prices have slid 10% this year through Oct. 5, to \$8.69 per bushel.

**There is more optimism on oil than other commodities.**

Experts are a bit more optimistic about oil than they are about other commodities. Most of them see crude fluctuating in a narrow range in coming months. Economic sanctions against Iran and social turmoil in Venezuela are likely to limit production in those countries, supporting prices. But rising output in the U.S. will weigh on prices, experts say.

Sandy Fielden, director of research for commodities and energy at investment research firm Morningstar, goes further than most, pronouncing himself "bullish" on oil.

He sees U.S. production leveling off because of restraints in the Permian Basin. Research indicates producers there are close to productivity limits. And Mr. Fielden doesn't expect demand to decline.

But like others, he is bearish on commodities overall. "It now looks like the world economy is on top of the cycle," Mr. Fielden says. "So if emerging markets weaken and we have trade disputes, there's not too much headway for commodities."

**Mr. Weil is a writer in West Palm Beach, Fla. He can be reached at [reports@wsj.com](mailto:reports@wsj.com).**

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## JOURNAL REPORT | INVESTING IN FUNDS &amp; ETFS

# 5 Big Mistakes With Repaying Student Loans

The No. 1 problem: Students and families are confused about who they owe, how much they owe and when they owe it

BY CHERYL WINOKUR MUNK

OVER THE NEXT few months, many 2018 college graduates and their families will have to start making payments on student loans.

Graduates are typically given a six-month grace period to find a job and start earning income, meaning the bill is coming due for many of them beginning in November.

With that in mind, here are some of the biggest mistakes parents and students make with student-loan repayment—and how to avoid them.

**1. Payment-related confusion** While students are in school and during the grace period before repayments are due, it can be easy for students and families to lose sight of who they owe, how much they owe and when they owe it—especially if they have taken out a combination of federal and private student loans over several years.

A 2017 survey of 1,040 college students by College Ave Student Loans, a private student-loan provider, found that 35% of seniors were unsure how much they would owe on their coming monthly student-loan bill. This can lead to issues with repayment and budgeting, experts say.

To avoid confusion—and late pay-

ments—students are advised to make a list of all their loans and loan servicers, keeping in mind that the company that provided the loan may not be the same company servicing the loan. Students should then create a simple spreadsheet with basic information such as each servicer's name, address, phone number and website, says Tori Berube, vice president of college planning and community engagement at the NHHEAF Network Organizations, which helps New Hampshire families plan and pay for college.

The spreadsheet also should list when each loan payment is due and the amounts of the respective payments, Ms. Berube says.

Federal and private student-loan servicers contact borrowers directly with loan and payment information, but families sometimes miss or misplace these communications. Families may have to do some legwork to be sure they have properly accounted for all borrowed funds, experts say. For information on federal-loan servicers and loans, families can visit nslds.ed.gov, click on Financial Aid Review, and log in with the username and password they created when they first applied for financial aid. For information about private loans, students can reach out directly to their loan company or to their school's financial-aid office if they are aren't sure which company to contact.

Students also can request a free copy of their credit report, which lists all outstanding loans, Ms. Berube says. They can get a free copy of their credit report every 12 months from each of the three credit-reporting companies via annualcreditreport.com.

## 2. Failing to update contact information or education status

Many students list their parents' address or a school email as part of



OLIVER MUNDAY

their contact information for loans. But when they move or change email addresses—as students often do after graduation—they sometimes forget to tell their loan servicers.

If students and families don't report contact-information changes to their loan servicers, they risk missing important communications about their monthly payments, which increases the likelihood that they will fall behind on payments, says Elaine Rubin, a communications specialist at Edvisors, a provider of free information on paying for college and financial aid. Once that happens, it can be hard to catch up, she says.

It's also important for students to notify their loan servicers if they return to school at least half time, because their loans, in most cases, will be eligible for a deferment, Ms. Berube says.

## 3. Missing opportunities to reduce student-loan debt

Families don't always take

advantage of opportunities to pay down student debt sooner—even though doing so would result in them paying less overall, experts say.

There are a number of ways students and families can save on student loans. For instance, they may receive interest-rate incentives for enrollment in automated-payment plans, says Melissa Shoemaker, customer experience manager of strategy and planning at the Pennsylvania Higher Education Assistance Agency, a national provider of student-financial-aid services.

Students also could pay more on their loans than is owed each month—with special focus on paying down loans with the highest interest rates or balances—by rounding up their monthly payment, applying large sums of money such as tax refunds when they can or paying half the amount twice monthly so the borrower effectively makes 13 monthly payments a year instead of 12, Ms. Shoemaker says. Doing so would reduce the amount of interest

they pay overall.

**4. Not asking for help** Students and families who are struggling financially don't always ask for help when they need it. That can be a critical mistake, experts say, because delinquency can lead to default.

Students who can't afford to make payments, or who want to know what their options are should that ever happen, should contact their loan servicer, says Rick Castellano, a spokesman for Sallie Mae, a private student-loan provider. Loan servicers may be able to offer a temporary interest-rate reduction, he says, or provide information on income-driven repayment plans or loan consolidation.

"Students and their families should understand that there are resources available to help through their struggles," Mr. Castellano says.

## 5. Falling for student-loan repayment scams

In recent years, federal and state regulators have cracked down on student-loan debt-relief scams, but bad apples persist and consumers need to recognize warning signs. Experts advise students to steer clear of any company that charges an upfront fee to purportedly lower their debt or forgive it quickly. Students and families also should be wary of companies that call or email out of the blue, claiming to be associated with the government or a loan servicer. They should never give out sensitive personal information such as their Federal Student Aid—or FSA>ID to a third party; that's an automatic red flag that something is amiss, says Ms. Rubin of Edvisors.

"You don't have to pay for help to lower your monthly payments, consolidate your loans or understand your options for loan forgiveness," she says. Students and families can review their federal student-loan repayment options at StudentAid.gov/repay. For private student loans, they should contact the loan servicer directly. There is no cost for these services.

If a third party is offering a debt-relief opportunity that sounds too good to be true, it probably is, Ms. Rubin says.

**Ms. Winokur Munk** is a writer in West Orange, N.J. She can be reached at [reports@wsj.com](mailto:reports@wsj.com).

## FUND RESULTS

Lipper's A-to-Z quarterly mutual-fund and ETF listings, and other tables, are free at [WSJ.com/FundsAnalysis](http://WSJ.com/FundsAnalysis).

## SAVING FOR COLLEGE | CHANA R. SCHOENBERGER

# What's New With Fafsa? It's Mobile, for Starters

Also: We answer readers' questions about '529' college-savings accounts that are funded by the students' grandparents

We again asked experts to help us answer questions about saving and paying for college, in particular financial aid and the tax-advantaged, state-sponsored "529" educational accounts.

\* \* \*

### What should we know about this year's Fafsa?

Fafsa, the Free Application for Federal Student Aid, is the government form that students must fill out if they want their colleges to consider them for financial assistance. (Some schools also require a more-detailed financial form, the College Board's CSS Profile.) The time to file the Fafsa for the 2019-20 school year is now; the application period started Oct. 1, and some aid is awarded on a first-come, first-served basis, according to Savingforcollege.com.

This year, the federal Education Department, which administers the Fafsa, launched a redesigned fafsa.gov site and a new app, MyStudentAid, which lets families complete the form on a mobile device, says Chris Jennings, the director of financial aid at the Fashion Institute of Design and Merchandising in Los Angeles and a member of the investment board of California's state 529 plan, ScholarShare.

The Fafsa site notes that if you downloaded the app before Oct. 1, you must download an update to access the 2019-20 Fafsa form. The site has been redesigned so that its features will present correctly on mobile devices.

Regardless of how the Fafsa is accessed, the key point is to try, experts say.

"What's most important for students and parents who are looking to secure loans, grants and scholarships from federal, state or college sources, is to access and complete the Fafsa form on time," Mr. Jennings says. Students should fill out the form even if they think they won't qualify for aid because they could be wrong, he says. (Colleges and states all have their own deadlines; the Fafsa site lists them.)

\* \* \*

My parents "superfunded" five years of gifts in a 529 for me and for each of my three children a few years ago. Now that my children are approaching withdrawals, we're considering transferring ownership of the plans from my dad to me for ease of paying tuition and so we aren't penalized on the Fafsa. Since I've already received my gift allowance for the coming years, will the transfer of the ownership of my children's 529s from my dad to me trigger a gift tax?

"Generally, transferring ownership of a 529 plan shouldn't lead to gift taxes or generation-skipping transfer taxes," says Mark Kantrowitz, the publisher of Savingforcollege.com. That is mainly a problem when you switch the beneficiary to the younger generation. And the "superfunding"—which allows someone to fund a 529 with up to five years of contributions at once, without it counting toward their lifetime gift-tax exclusion limit—doesn't matter, because the grandparents could have made the gifts to any 529 in the student's name, he says.

Be aware, however, that the state where your parents live might recapture any state income-tax benefits they received when they started the accounts. "Eleven of the 34 states with state income-tax deductions or tax credits on contributions to the state's 529 plan limit the state income-tax deduction to the account owner of the 529 plan, and may recapture those deductions if the account owner changes for a reason other than death," he says.

\* \* \*

*My late wife and I set up 529s for our two grandchildren, which will now cover all their college expenses plus graduate school. Now that I am in my 80s, should I transfer ownership of the 529s to my daughter, who is their mother? If so, are there tax consequences?*

Switching from a grandparent-owned 529 account to a parent-owned one can help your student with financial aid in a major way, Mr. Kantrowitz says. That's because withdrawals from grandparent-owned 529s for educational expenses are considered untaxed income to the student, which can greatly reduce a financial-aid award. Withdrawals from a parent-owned account aren't counted as student income.

But if you have enough money in the 529 to pay for school outright, it doesn't matter who owns it because you won't need financial aid.

Still "it is a good idea to add a successor owner to 529 accounts owned by grandparents, so in the event of disability or death, another adult can step in," says James DiUlio, director of Wisconsin's 529 program and chairman of the College Savings Plans Network, an association of state administrators who run 529 plans.

"There should be no tax consequences for a change in account ownership, if the beneficiary doesn't change," Mr. Kantrowitz says. Note that some states might recapture state income-tax benefits if you change account owners or move the plan out of state; check your plan's rules.

\* \* \*

Have a college-finance question in general? We'll be answering some of them in future Investing in Funds & ETFs reports. Write to [reports@wsj.com](mailto:reports@wsj.com).

## Largest Stock and Balanced Funds

Total returns are for periods ended Sept. 28. All data are final. Assets are through Aug. 31.

Performance data include both share prices and reinvested dividends.

Fund Name	Symbol	Assets (\$ millions)	September	3rd-qtr	1-year	3-year*	5-year*
Vanguard TSM Idx;Adm	VTSAX	749,278.0	0.2	7.1	17.6	17.1	13.4
Vanguard 500 Index;Adm	VFIAX	450,184.3	0.6	7.7	17.9	17.3	13.9
Vanguard Tot StkInv	VGTSX	354,380.1	0.3	0.5	1.5	9.9	4.4
SPDR S&P 500 ETF	SPY	274,953.8	0.6	7.7	17.8	17.2	13.8
Vanguard Instl Indx;Inst	VINIX	236,789.4	0.6	7.7	17.9	17.3	13.9
American Funds Gro;A	AGTHX	198,378.0	0.7	5.0	22.3	19.0	14.6
Fidelity 500 Idx;Pr	FUSVX	165,093.4	0.6	7.7	17.9	17.3	13.9
iShares:Core S&P 500	IVV	164,448.0	0.6	7.7	17.9	17.3	13.9
American Funds EuPc;R6	RERGX	163,461.8	-0.5	-0.8	1.5	9.9	6.2
Fidelity Contrafund	FCNTX	135,373.1	0.1	6.7	24.7	19.3	15.5
American Funds Bal;A	ABALX	134,353.5	0.3	3.3	8.9	11.1	9.2
American Funds Inc;A	AMECX	109,594.5	0.2	2.9	5.0	10.0	7.6
Vanguard Dev Mkt;ETF	VEA	109,533.6	0.7	1.1	2.7	9.8	4.9
American Funds Wash;A	AWSHX	109,365.4	0.7	5.8	14.0	16.1	12.2
Vanguard Wellington;Adm	VVWEX	105,747.8	0.3	4.8	8.4	11.2	9.1
American Funds CIB;A	CAIBX	104,614.9	0.6	1.6	0.9	7.3	5.5
Vanguard Md-Cp Idx;Adm	VIMAX	103,272.1	-0.5	4.7	13.4	13.8	11.7
American Funds Flnv;A	ANCFX	101,418.8	0.8	4.6	13.8	17.0	12.9
American Funds CWGI;A	CWGIX	98,996.5	0.3	1.2	6.8	12.0	8.1
Vanguard Sm-Cp Idx;Adm	VSMAX	97,587.7	-1.5	4.8	16.7	16.3	11.5
American Funds ICA;A	AIVSX	97,380.5	1.4	4.8	13.5	15.8	12.3
Vanguard Gro Idx;ETF	VUG	86,449.5	0.4	7.8	22.7	18.6	15.2
American Funds NPer;A	ANWPX	85,820.9	-0.1	3.9	13.5	15.0	11.0
Vanguard EM St Idx;ETF	VWO	81,444.6	-1.3	-1.7	-3.1	10.1	3.0
Franklin Cust;Inc;A1	FKINX	77,338.6	unch.	1.7	2.2	9.0	5.2
Dodge & Cox Stock	DODGX	74,759.0	0.2	6.5	13.7	17.3	12.7
Vanguard Value Idx;ETF	VTX	74,213.7	0.6	7.3	13.6	15.9	12.4
Invesco QQQ Trust 1	QQQ	73,959.3	-0.3	8.6	28.6	23.3	20.0
Vanguard Ext Mkt;Adm	VEXAX	71,390.8	-1.7	4.4	16.1	16.2	11.4
iShares:MSCI EAFE ETF	EFA	71,233.5	0.9	1.3	2.7	9.2	4.3
Vanguard PRIMECAP;Adm	VPMAX	69,341.7	0.5	9.6	23.0	21.4	17.3

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**Category Kings in 22 Realms** Data provided by LIPPER

Top-performing funds in each category, ranked by one-year total returns (changes in net asset values with reinvested distributions) as of Sept. 28; assets are as of Aug. 31. All performance numbers are final.

**Best and Worst**

Total return for the best- and worst-performing stock, bond and mixed mutual-fund categories; for period ended September 28; ranked by 3rd-quarter returns.

**Best Performers**

Fund Third-quarter 12-month

Health & Biotech	10.0%	19.8%
Large-Cap Growth	7.6	25.0
S&P 500	7.6	17.4
Small-Cap Growth	7.5	27.3
Multicap Growth	7.4	22.9
Large-Cap Core	7.0	15.7
Midcap Growth	6.9	21.9
Large-Cap Value	5.9	10.6

**Worst Performers**

Fund Third-quarter 12-month

Gold Oriented	-15.5%	-21.1%
Emerging Markets	-2.7	-4.0
Pacific Region	-2.6	1.8
Emerging-Market Local-Currency Debt	-2.0	-7.7
Long-Term U.S.	-1.0	-2.5
Intermediate U.S.	-0.5	0.1
General & Insured Muni	-0.2	0.5
Intermediate Muni	-0.2	-0.2

Source: Lipper

**Large-Cap Core**

Symbol Assets (\$millions) 3rd-qtr (%) YTD 1-yr 5-yr\* 10-yr\*

Amer Cent:Foc DG;Inv	ACFOX	100.5	7.9	26.6	33.4	16.6	11.7
CIBC Atlas Disc Eq;Inst	AWEIX	1,047.5	9.8	15.5	24.4	14.5	12.6
iPath ETN LgeEx S&P	SFLA	0.7	10.4	13.7	24.1	21.1	N.A.
RBB:SGI US Lw Vol Eq;I	SILVX	448.4	8.3	15.3	23.7	13.4	N.A.
Fidelity Momentum Factor	FDMO	98.9	8.2	14.2	23.4	N.A.	N.A.
Gotham Enh S&P 500;Inst	GSPFX	3.5	8.0	13.4	23.0	N.A.	N.A.
Vanguard PRIMECAP;Adm	VPMAX	69,341.7	9.6	14.6	23.0	17.3	14.1
Jensen Quality Gr;I	JENIX	6,859.2	8.7	13.9	22.8	14.8	11.9
GMO:Quality;III	GQETX	7,238.2	10.4	14.1	22.7	15.1	12.3
SPDR S&P 1500 Momen TILT	MMTM	32.1	8.4	13.8	22.1	14.4	N.A.

Category Average: 1,208.0 7.0 8.8 15.7 12.1 10.8

Number of Funds: 783 762 735 581 454

**Multicap Core**

Symbol Assets (\$millions) 3rd-qtr (%) YTD 1-yr 5-yr\* 10-yr\*

Miller Opportunity;C	LMPDX	1898.9	10.5	22.3	28.7	13.6	12.2
Bretton Fund	BRTNX	32.7	9.2	13.4	26.4	10.0	N.A.
M&Var:Rtnl Dy Brnd;Inst	HSUTX	29.0	7.1	15.7	23.8	7.1	9.8
TrimTabs All Cusp US F-C	TTAC	126.2	7.1	13.2	22.9	N.A.	N.A.
Meridian Contrarian;Leg	MVALX	718.6	5.8	14.0	22.7	13.0	11.2
Federated MDT Acc;Inst	QIAQX	221.9	7.9	14.8	22.6	13.7	10.4
American Funds AMCP;A	AMCPX	67,485.4	5.8	14.6	21.5	13.6	12.9
Nuveen LC Core;I	NLCIX	863.1	6.2	13.8	21.2	14.7	N.A.
Victory:VShs US MF MV	VSMV	12.0	10.1	11.7	20.9	N.A.	N.A.
Smith Lg Cap Core;Inst	BSLGX	51.2	6.9	11.8	20.7	14.4	10.6

Category Average: 1,682.8 5.7 7.6 14.1 11.1 10.4

Number of Funds: 816 787 775 564 404

**Midcap Core**

Symbol Assets (\$millions) 3rd-qtr (%) YTD 1-yr 5-yr\* 10-yr\*

CB Select;I	LBDFX	179.2	8.5	32.3	43.5	17.8	N.A.
RBB:Mtly SM Cap Gro;Inv	TMFGX	333.9	6.9	10.8	23.9	12.0	N.A.
JOHCM US Sm-MC Eq;Inst	JODMX	8.0	5.3	12.7	20.0	N.A.	N.A.
Walden Mid Cap	WAMFX	53.0	7.4	9.8	18.9	11.6	N.A.
Boston Trust Midcap	BTMFX	66.9	7.4	10.0	18.7	11.8	12.5
Boston Trust SMID Cap	BTSMX	78.1	5.4	9.5	18.4	11.1	N.A.
Walden Mid Cap	WASMX	56.9	5.2	9.4	18.0	10.8	N.A.
Frst Tr Srs:AQA Eqty;A	AQAAX	50.3	4.6	7.6	17.7	N.A.	N.A.
CRM:Mid Cap Val;Inst	CRIMX	593.3	3.5	11.6	17.7	12.0	10.8
Destinations SMC Eq;I	DSMFX	832.2	4.9	12.3	17.3	N.A.	N.A.

Category Average: 773.7 3.9 5.4 10.9 9.4 10.4

Number of Funds: 455 446 439 313 208

**Small-Cap Core**

Symbol Assets (\$millions) 3rd-qtr (%) YTD 1-yr 5-yr\* 10-yr\*

Perkins Discovery	PDFDX	26.2	14.2	52.3	47.9	11.6	12.5
AMG Mg Emerg Opps;N	MMCFX	206.0	5.6	20.5	25.5	12.5	13.5
RBB:Altair Small Comp	349.3	6.0	19.2	24.3	N.A.	N.A.	N.A.
Bernzott US Sm Cap Val	BNZVX	80.6	10.9	17.8	24.0	13.0	N.A.
Champlain Small Co;Inst	CIPNX	1,949.8	6.1	20.5	22.9	N.A.	N.A.
Paradigm:Optpy Fund	POFOPX	14.5	3.8	16.8	22.4	11.2	10.6
Oak Dyn Sm Cap;I	ORSIX	30.6	6.6	15.7	21.9	N.A.	N.A.
TIAA-CREF:Qnt SMCE;Inst	TSMWX	741.7	5.7	13.4	21.4	N.A.	N.A.
Touchstone:Small Co;A	SAGWX	1,300.4	7.8	14.2	21.2	12.3	11.8
BNY Mellon:SMC Mt-St;M	MMCMX	375.0	4.4	13.4	20.9	12.2	N.A.

Category Average: 599.8 3.0 8.0 12.0 9.8 10.7

Number of Funds: 1,010 999 993 691 500

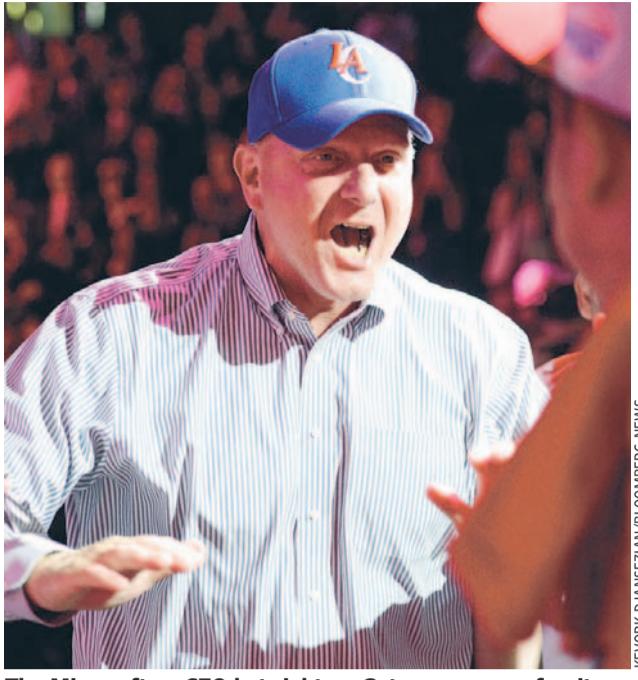
**Health & Biotech Funds**

Symbol Assets (\$millions) 3rd-qtr (%) YTD 1-yr 5-yr\* 10-yr\*

Invesco S&P H Cre	PSCH	1158.1	9.5	42.8	51.5	24.1	N.A.
Invesco DWA Health	PTH	293.5	12.8	36.9	46.0	18.1	14.9
SPDR S&P Hlth Care Equip	XHE	122.0	12.6	37.7	41.1	23.0	N.A.
Eventide Hlthcare & LS;I	ETIHX	871.4	9.7	32.0	38.4	20.0	N.A.
iShares:US Med Dev ETF	IHI	2,900.9	13.4	31.2	36.6	22.6	15.3
Fidelity Sel Md Tch & Dv	FSMEX	5,900.5	14.3	34.8	36.3	22.9	16.0
iShares:US HC Prvd ETF	IHF	905.6	13.8	27.7	35.5	18.3	16.4
Fidelity Sel Health Care	FSHGX	1,064.1	16.0	26.3	34.9	18.6	16.7
Janus Obesity	SLIM	11.6	5.3	24.5	34.7	N.A.	N.A.
Alger:Health Sci;A	AHSAX	220.8					

## JOURNAL REPORT | INVESTING IN FUNDS &amp; ETFS

## BEST BET/WORST BET



The Microsoft ex-CEO bet right on Gates, wrong on furniture.

BEST BET  
Leaving Stanford for MicrosoftINVESTMENT  
Leaving schoolGAINS  
A billion-dollar career

When Mr. Ballmer entered Harvard in 1973, he thought about being a physicist or a mathematician. But after stints at the student newspaper and managing the football team, his mind was fixed on business.

He then got into Stanford Graduate School of Business, but deferred admission to get some work experience. Once he was there, in his first year he got offers from the summer programs of three consulting firms, an investment bank, Progressive Insurance and Ford.

Then a Harvard friend, Bill Gates, called and said, "We kind of need a business guy."

Mr. Ballmer went to Seattle to interview for the job—a visit that coincided with the start of a vacation for Mr. Gates. Mr. Ballmer drove his friend to the airport in Mr. Gates's own car. Afterward, while Mr. Gates was on a boat with friends, they negotiated on a ship-to-shore radio.

"He was on an open speaker, and his friend was like, 'Hey, Bill, just give him what he wants. You need this vacation,'" Mr. Ballmer says. "We managed to work things out."

Working it out included Mr. Ballmer finishing what would be his only year of graduate school, then joining Microsoft with an 8.75% ownership stake in the company.

**THE TAKEAWAY:** "If you find something that you're really excited about," he says, "go do it."

Mr. Ballmer says Mr. Gates was "the smartest guy I had ever met" and the company, though small, was a leader in an emerging field that excited him. So, he went for it.

"You've got to find something that's consistent with how you want to live, but also [that] you can get excited about what you're doing every day," he says. "When I was in school, that wasn't my attitude. It was about building my résumé. And it was a key lesson learned for me."

WORST BET  
Selling Microsoft stock to get into furnitureINVESTMENT  
Tens of millionsLOSSES  
Hundreds of millions in future valuation

In the late '80s, when Microsoft's stock was slacking, Mr. Ballmer bought about \$50 million of shares to show he was still committed. His wealth was all tied up in Microsoft stock, so he had to borrow money to make the purchase.

A few years later, a friend mentioned an opportunity to get into the furniture business. Mr. Ballmer had two thoughts: He liked the idea, and he wanted to pay off the debt he'd taken on to buy the extra stock. He sold tens of millions of dollars of Microsoft stock to do both.

Mr. Ballmer and his friend bought Marker Brothers, a furniture retailer in Los Angeles, and Breuners, a chain in San Francisco. The companies later went bankrupt, and Mr. Ballmer's investments went more or less to zero, save for some money made on the companies' real estate.

The bigger loss, though, is what would have happened to the money if he'd left it in Microsoft stock. "If you look at those two things," Mr. Ballmer says, "I can't tell you how many hundreds of millions of dollars that probably would cost me."

**THE TAKEAWAY:** Stick with what you know. Mr. Ballmer says the root of the problem was that he didn't know the furniture business.

"I know Microsoft, and then I blew some of that off," he says. "I didn't know the furniture business, but I went into that. Stick with what you know. Or really dedicate yourself to learning something new."

Though he has made a few other investments that have paid off modestly through the years, such as Twitter, Mr. Ballmer says he keeps his money in Microsoft stock and in S&P index funds.

"Unless it has something to do with my passion around philanthropy or sports," he says, "I just stick to my knitting."



## SPOTLIGHT | ETFMG ALTERNATIVE HARVEST

## A MARIJUANA ETF IS IN THE RIGHT SPOT

As marijuana-related stocks rally, the only U.S.-listed ETF focused on the industry, **ETFMG Alternative Harvest** (MJ), has surged in recent weeks. At the end of September, the fund was up 59% from its low for the year in mid-August and 23% so far this year.

Todd Rosenbluth, director of ETF and mutual-fund research at financial-research firm CFRA, says that while marijuana stocks in general have performed well in recent months, this ETF stands out for providing diversified exposure to the sector. The \$560 million ETF tracks an index of global stocks in the legal cultivation and production of cannabis, the Prime Alternative Harvest Index. Top holdings include Tilray Inc., Aurora Cannabis Inc., Canopy Growth Corp., Cronos Group Inc. and GW Pharmaceuticals PLC.

"The lack of ETF supply, plus changes in the ETF's back-office team, resulted in the fund trading at a notable premium" to net asset value in mid-September, says Mr. Rosenbluth. "However, the differential has since narrowed," he says, adding a note of caution for the future: "Investors tend to gravitate to thematic ETFs once the performance stands out, yet unfortunately a compelling long-term theme does not always result in future performance success."

One roadblock to cannabis funds is wariness by custody banks and broker-dealers that hold an ETF's assets and execute trades, says Kip Meadows of Nottingham Management, which helps launch ETFs. Rather than a legal issue, these firms are hesitant "for reasons of institutional reputation."

—Tanzeel Akhtar

## Ballmer's Best And Worst Shots

WHEN STEVE BALLMER ran Microsoft Corp., he was happy to choose between executive A and B. But judging engineer X against engineer Y? Above his pay grade.

Now, as owner of basketball's Los Angeles Clippers, he takes a similar approach. He can choose company brass—a coach and leaders in the front office. But he won't try picking between two journeymen players himself. In fact, he has learned a lot about selecting talent from his organization's vetting process.

Before the Clippers bet on a player, they do things like talk to coaches, parents, former teammates, opponents, people who pass out towels in the locker room. They scan the player's social-media presence.

"As a basketball team, we do far more detailed reference checks on any player we're going to draft or trade for than we ever did on anybody we ever hired at Microsoft," Mr. Ballmer says. "It's a new lesson I've learned in terms of how you think about and recruit not only players but executives."

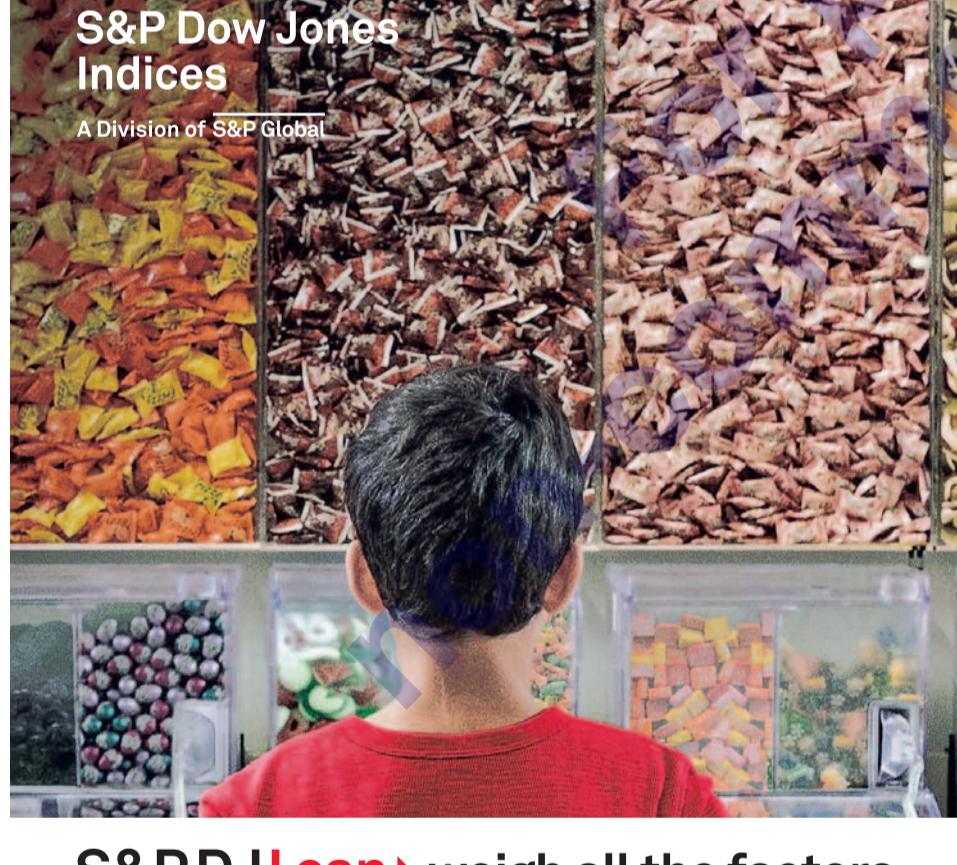
With sports, there's maximum transparency. "We're making a bet every day on players, on coaches," he says. "And there is a way to measure: How many games do you win, did you win a championship, did you get the key player you wanted in free agency? Everybody has visibility to how you did."

Here, Microsoft's ex-CEO talks about some of the best and worst bets he made before entering the world of sports.

Mr. Kornelis is a writer in Seattle. He can be reached at [reports@wsj.com](mailto:reports@wsj.com).

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## JOURNAL REPORT | INVESTING IN FUNDS &amp; ETFS

## FUNDAMENTALS OF INVESTING

# The Dark Side of High Consumer Confidence

The data suggest that when confidence readings move up, stocks may move down

BY MARK HULBERT

**THE LATEST READING** of U.S. consumer confidence from the Conference Board—the highest in 18 years, and within shouting distance of a record—would certainly appear to be good news for both the economy in general and the stock market in particular.

Upon digging more deeply, however, a more troubling picture emerges.

The notion that high levels of consumer confidence are a good thing hardly seems objectionable, of course, since the consumer is widely recognized as the linchpin of the U.S. economy. William R. Emmons, lead economist at the Federal Reserve Bank of St. Louis's Center for Household Financial Stability, estimates that 83% of total economic growth since 2009 has been fueled by household spending.

Lynn Franco, the Conference Board's director of economic indicators, said when the latest figure was released that the high level of consumer confidence "should continue to support healthy consumer spending, and should be welcome news for retailers as they begin gearing up for the holiday season."

So far, so good.

## Troubling history

Our first indication that this good-news story may be a silver lining within a dark cloud is realizing that the consumer-confidence index hit its all-time high—144.7—in early 2000, just as the internet-stock bubble was about to burst. Far from signaling continued improvement in the economy and more stock-market gains, that high reading was fol-

lowed in short order by an economic recession and a severe bear market.

While the current reading—138.4—isn't quite as high as it was in early 2000, it is still higher than 98% of all monthly readings since 1967, when the index was created.

The index's reaching a record high just before a recession and bear market is just one data point, of course. But it is consistent with the general pattern that emerges from my analysis of the historical data: High consumer-confidence readings more often than not have been followed by below-average stock-market returns, and low readings have tended to be followed by above-average market gains.

Consider, for example, the S&P 500's return following the 5% of confidence readings that were the highest: Over the subsequent three months, its average return was a loss of 1.1%; over the full year

following these high readings, the S&P 500 lost an average of 3.7%.

That contrasts with average three-month and 12-month gains of 3% and 15.5% following the 5% of readings that were the lowest.

## The upside-down

Meir Statman, a professor of finance at Santa Clara University, told me in an interview that he isn't surprised by this result. That's because as long as two decades ago he noted an inverse correlation between consumer confidence and the stock market's subsequent return.

To be sure, he quickly hastened to point out, the statistics underlying this inverse correlation aren't so strong as to amount to a guarantee that the stock market will perform poorly in coming months. He said we shouldn't base any asset-allocation decision solely on this one statistical pattern (or *any* one pattern, for that matter). Nevertheless, he said, "to the extent one draws a conclusion from the current CCI read-

ing, it would be negative for the stock market."

Prof. Statman added that the strongest statistical pattern he found in the consumer-confidence data is between a given month's reading and how the stock market had performed in the months and years prior. As the stock market goes up, in other words, so does consumer confidence, and as the market declines, so does confidence.

A high reading, therefore, tells you more about what has come before than about what is coming. And to the extent it does foretell the future, its message is just the opposite of what most think it would be.

Some investors who pay attention to consumer sentiment focus on the University of Michigan's consumer-sentiment index, another widely followed measure of consumer confidence. While its latest reading isn't quite at the same extreme as the CCI, its message is essentially the same: The University of Michigan index for September was higher than 90% of monthly readings since 1952.

In other words, consumer confidence is near record high levels no matter how you measure it.

## One comforting thought

You may find some short-term solace, however, in discovering that, according to research by Jack Schanep, editor of TheDowTheory.com, consumer confidence typically "reaches a peak some four to five months on average before the stock market peaks, and a recession follows 12 months on average after that."

So even if September's consumer-confidence index readings turn out to represent a peak for this market cycle, the bull market could very well last until the beginning of 2019, with a recession not starting until the latter part of next year.

**Mr. Hulbert is the founder of the Hulbert Financial Digest and a senior columnist for MarketWatch. He can be reached at [reports@wsj.com](mailto:reports@wsj.com).**

# Small-Cap Fund Wins, Up 58.7%

Continued from page R1

are far more interested in the fundamentals of the companies that they expect to drive their portfolio returns than they are in the macro environment.

One of Mr. Ely's big winners was **Weight Watchers International** Inc., a stock he bought at \$23 and began to sell as it hit \$90. He liquidated the position as the shares neared \$100, but started to repurchase them as the price has fallen again. The company is changing its legal name to WW International Inc. as it emphasizes "healthy eating," not just dieting, and—crucial to Mr. Ely—has shifted its business to a mobile platform, helping clients and employees connect online. "Its market is now global."

He expects that **Take-Two Interactive Software** Inc. will continue to be a big winner, based on the same theme of individuals changing the way they interact and opting to connect online. In this case, those people are gamers, and Mr. Ely says he doesn't want to underestimate the addictive value of games created by highly educated software engineers.

We're consuming health care in a different way, and Mr. Ely thinks companies like **BioTelemetry** Inc., whose stock has more than doubled over the past 12 months, will continue to grow along with the use of its mobile cardiac-monitoring devices.

Ms. Zhang seeks to identify companies with a large competitive moat and the potential to see their revenue growth double over the next three to five years.

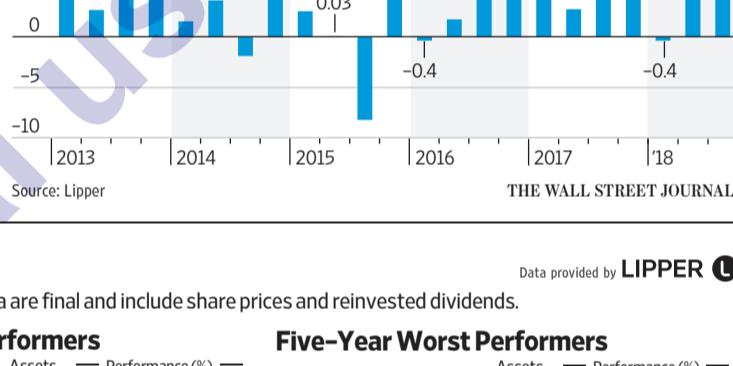
She has found interesting candidates in health care, including **Veeva Systems**, a cloud-computing business delivering solutions to pharmaceutical and life-sciences companies. "People didn't believe that they could grow as fast as they have; that [customer relationship management] was going sideways," she says. Veeva has rolled out a series of successful products, has more on the way and is starting to move beyond life sciences, she notes. "They have no debt, high-quality revenues and high margins."

While there are justifiable doubts about the worth of active management, Ms. Zhang says she likes her fund's chances as she continues to pit her stock-picking skills against small-cap index funds. "The small-cap world is a very fertile one for active management," she says.

**Ms. McGee is a writer in New England. She can be reached at [reports@wsj.com](mailto:reports@wsj.com).**

## The Score at the Quarter

U.S.-stock funds were up 5.2% in the third quarter, the ninth gain in the past 10 quarters. Average total return (U.S. diversified funds).



Source: Lipper

THE WALL STREET JOURNAL.

## Winners and Losers

Best- and worst-performing stock funds for the periods ended Sept. 28; assets as of Aug. 31 and include all share classes. Performance data are final and include share prices and reinvested dividends.

### Third-Quarter Best Performers

Assets (\$ millions) — Performance (%) —

Fund Name	Assets (\$ millions)	Sept.	3rd-qtr	1-year
Direxion:Gold Mid Br 3X	151.7	-1.1	62.5	52.0
Direxion:J Mnr Bear 3X	62.0	0.5	56.0	39.7
Direxion:Hlthrc Bull 3X	169.2	8.4	46.9	47.1
iPath ETN Gbl Carbon A	10.8	0.6	44.4	22.8
Direxion:Aero & Def Bl3X	68.5	14.1	40.7	65.0
ProShares:US Gold Minrs	3.3	-0.5	39.8	36.1
ETFMG Alternative Hrvst	457.0	19.2	34.8	30.6
ProShares:UP Nasdaq Bio	38.1	-1.2	33.2	14.3
iPath Bloomberg NatGas A	0.8	27.7	31.0	-56.4
Direxion:Transport Bl3X	7.6	1.6	30.6	36.8
VelShs 3x Invrs Silver	16.3	-4.3	30.4	30.5
Direxion:Industrls Bl 3X	7.2	6.0	29.6	25.8
ProShares:Ult Hlth Cr	152.2	5.0	29.4	36.2
ProShares:Ult Dow30	507.8	5.4	29.0	57.0
Direxion:Pharm&Med Bl 3X	5.6	-1.3	28.7	N.A.
Direxion:Tech Bull 3X	793.8	-0.9	25.4	87.2
ProShs II:UIS Silver	21.5	4.9	25.3	36.2
ProShares:UltP QQQ	3,869.3	-1.7	24.7	86.4
Nysa Srs Tr:Nysa Fund	3.0	4.8	23.0	59.4
Direxion:S&P 500 Bull 3X	927.9	1.2	22.6	47.7
ProShares:UltPro S&P500	1,414.0	1.2	22.5	47.7
ProShares:Ult Nasdaq Bio	371.9	-0.6	21.9	13.8
ProFunds:Health Care:Inv	53.9	3.7	21.4	26.6
Direxion:MSCI Mex Bl 3X	4.9	4.3	21.3	-26.9
Highland:Long/Sh Hc:Z	52.6	16.8	20.9	31.5
ProFunds:Sh Pr Mtls:Inv	7.1	0.3	20.6	23.8
ProFunds:Pharmaceut:Inv	10.8	-1.1	19.1	11.2
ProShares:Ult Cons Sv	32.4	1.8	18.8	62.1
ProShares:Ultra Dow30	423.0	3.6	18.8	38.2
ProFunds:UltraDow 30:Inv	39.2	3.6	18.7	37.3

### Third-Quarter Worst Performers

Assets (\$ millions) — Performance (%) —

Fund Name	Assets (\$ millions)	Sept.	3rd-qtr	1-year
VelShs Dly 2x VIX ST ETN	513.8	-15.5	-50.9	-77.1
Direxion:Gold Mid Bl 3X	1,141.7	-2.7	-47.1	-59.2
Direxion:Jr Mnr Bull 3X	718.1	-5.2	-45.8	-58.5
ProShs:UltVIX STF ETF	593.1	-11.6	-40.4	-64.6
Direxion:CSI Ch Int Bl2X	66.2	-8.3	-35.2	-34.0
ProShares:Ult Gold Minrs	7.6	-1.0	-32.9	-39.1
Direxion:5 M Id Bl 2X	3.8	-2.0	-30.2	-49.6
ProShares:UPS Nasdaq Bio	2.6	-0.2	-29.2	-38.4
ProShs:UltVIX ST Fut ETF	146.0	-7.6	-28.2	-32.9
VelShs 3x Long Silver	292.0	2.6	-28.1	-42.3
iPath ETN SP500 VIX STA	968.0	-7.5	-28.0	-32.3
iPath ETN SP500 VIX ST B	107.8	-7.5	-28.0	N.A.
VelShs VIX ShTrm ETN	12.5	-7.5	-28.0	-32.3
ProFunds:Prec Metals:Inv	19.6	-1.4	-27.1	-34.9
UBS E-TRACS MR2xL ISE Hb	4.2	-18.1	-24.8	-14.3
ProShares:UltP Sht Dow30	191.1	-5.3	-23.4	-45.8
ProShares:UltP Sht Dow30	191.1	-5.3	-23.4	-45.8
ProShares:UIS Hlth Cr	0.8	-4.9	-23.1	-31.9
Direxion:Hblrs&Sup Bl3X	46.9	-18.1	-23.0	-22.7
Direxion:Tech Bear 3X	27.5	0.1	-22.9	-58.8
ProShares:UltP Sht QQQ	604.6	0.9	-22.2	-57.8
ProShs II:Ult Silver	192.9	-5.2	-21.6	-32.3
iPath Bloomberg Cocoa A	27.6	-13.1	-21.1	-4.2
iShares:MSCI Turkey	386.8	19.2	-20.9	-40.7
ProShares:UIS Nasdaq Bio	27.9	0.2	-19.8	-24.0
Direxion:S&P 500 Bear 3X	292.2	-1.3	-19.1	-40.9
ProShares:Ult P Sh S&P500	471.1	-1.2	-19.1	-40.8
ALPS Sprott Gold	134.5	-1.3	-19.1	-23.7
ETFMG Prime Junior Silvr	48.9	-3.9	-19.0	-26.5
Rydex:Precious Metls:Inv	40.7	-0.9	-18.8	-22.5</

## JOURNAL REPORT | INVESTING IN FUNDS &amp; ETFS

## PORTFOLIO STRATEGY

# The Good (and Some Bad) of Balanced Funds

For investors with neither the time nor inclination to rebalance their portfolios, the funds typically hold 60% stocks, 40% bonds

BY DAN WEIL

"BALANCED" mutual and exchange-traded funds—which invest in both stocks and bonds—get less attention than their single-minded brethren.

With their typical allocations of 60% stocks and 40% bonds, balanced funds give investors exposure to both markets, and provide automatic rebalancing at times when big moves in either or both markets can push fund weightings out of whack.

"The managers do it themselves," Russ Kinnel, director of manager research at investment information firm Morningstar, says of the funds' flexibility for rebalancing. "Some have target allocations [for stocks and bonds], and some make macro calls" that change the allocations as well.

Balanced funds on average posted annualized returns of 7.6% for the 12 months through Aug. 31, and 6.2% for 10 years, according to Morningstar. The S&P 500 index posted returns of 19.7% and 10.96% during those periods.

Here are some advantages and downsides of balanced funds to keep in mind.

## THE PROS

Diversification is the key benefit that balanced funds offer. The equity portion aims to generate strong returns, while the bond portion's mission is to curb risk and produce income. The reduction of volatility that bonds can provide is important because investors in pure stock funds often react to the ups and downs of the market in counterproductive ways, buying high and selling low.

"Most people can't think of enough good choices to put in their portfolio," says Chris Cordaro, chief investment officer at RegentAtlantic, a wealth-management firm in Morristown, N.J., "so they put in what they like best, which is usually stocks that have gone up the most."

Periodic rebalancing of investment allocations is always recommended. But "most people are pretty lazy" when it comes to this task, Mr. Cordaro adds. That is why, he says, balanced funds "are the best funds to use if you only have enough assets to buy one fund."

The diversification keeps investors from hyper-focusing on underperforming elements

◆ Performance table of largest stock and balanced funds... R8

of the portfolio," says Tom Frederickson, a financial adviser in New York. "They are less likely to move in and out, trying to time the market, and more likely to stick with the fund for a long time." He has one client whose only mutual fund is a balanced fund, **Vanguard Wellington** (VWELX), and "she's quite pleased," he says.

Another advantage: Balanced funds offer tax efficiency. An investor who sells stocks or bonds that have appreciated since their purchase to rebalance his or her portfolio will face a capital-gains tax. But cash inflows to balanced funds often allow them to minimize security sales, Mr. Cordaro says. "So they can rebalance more tax-efficiently and lower transaction costs."

Balanced funds also have reasonable expenses, experts say. The average annual expense ratio for the 1,568 balanced mutual funds and ETFs tracked by Morningstar is 1.03%, and it is less than 0.3% for a number of top funds.

## THE CONS

To be sure, balanced funds have disadvantages, too. First, "you lose flexibility on allocation," Morningstar's Mr. Kinnel points out. "Maybe when you started off, 60-40 was good. But maybe now you want 70-30 or 50-50," he says referring to stock and bond percentage allocations.

When you're an investor in a balanced fund, you can't change the fund's weighting yourself. So you either have to sell the fund or buy an additional balanced fund, one with an allocation closer to what you prefer. Target-date funds use a balanced approach and come with a variety of allocations based on the projected date of retirement for the funds' investors. As the date for each fund approaches, the allocations gradually shift from a heavy stock concentration to a heavy bond concentration.

Ken Mahoney, CEO of Mahoney Asset Management in Chestnut Ridge, N.Y., says that the typical 60-40 balanced fund isn't appropriate for most investors under the age of 50, because it doesn't generate enough return by retirement. A 20% to 25% bond weighting is more appropriate for someone 40 years old, he says.

Experts also criticize balanced funds for typically avoiding international stocks and bonds, high-yield bonds, small-cap stocks and midcap stocks. While the funds call themselves "balanced," they usually feature little in the way of stocks or bonds outside of mainstream markets. This can be problematic at a time when U.S. corporate and Treasury yields are low and domestic stock valuations are high.

Finally, not every management firm is skilled at handling

both stock and bond portfolios. "You certainly need to be careful that you get a good one," Mr. Kinnel says. "Otherwise you're better off buying equity and fixed-income funds separately."

Among the balanced funds Mr. Kinnel recommends, Vanguard Wellington, **Vanguard Wellesley Income** (VWINX) and **Dodge & Cox Balanced Fund** (DODBX) offer wide diversification. And with expenses totaling 0.25% and 0.22%, respectively, he says, "you're getting active management with index-like fees." The Wellington fund allocates more to stocks, and the Wellesley fund more to bonds. Dodge &

Cox, meanwhile, has proved itself an adept manager of both stocks and bonds, Mr. Kinnel says. A lot of its fixed-income positions are in corporate bonds, providing a nice research overlap with its equity

side, he says.

Mr. Cordaro likes **DFA Global Allocation 60/40** (DG-SIX) because it's broadly diversified, including international assets. It also has short-maturity bonds, which he favors in

today's rising-interest-rate environment; and the expense ratio is low at 0.28%.

**Mr. Weil** is a writer in West Palm Beach, Fla. He can be reached at [reports@wsj.com](mailto:reports@wsj.com).



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## IN TRANSLATION

## SOFR



and other interested parties looked into creating indexes of vital borrowing costs with the idea of replacing Libor. SOFR (pronounced so-fer) is one of those new rates. It measures the cost of borrowing money from one day to the next when the borrower pledges Treasuries as security.

In June 2017, the Alternative Reference Rate Committee of the New York Federal Reserve chose the SOFR as its preferred alternative to Libor and announced that it would start publication of the rates this year.

Because SOFR rates are based on actual transactions processed through Fixed Income Clearing Corp., they are less prone to manipulation. The rates are weighted by the amounts borrowed.

Whether or not SOFR eventually replaces Libor, financial-markets pros likely will be hearing much more about it as banks decide whether to use it in loan contracts.

—Simon Constable

Separately, financial regulators

## JOURNAL REPORT | INVESTING IN FUNDS &amp; ETFS

NEWS CHALLENGE: FUNDS AND INVESTING

## Test Your Smarts on...Market Manias

BY RYAN VLASTELICA

ONE OF THE famous truisms about investing comes care of Jesse Livermore, the securities analyst who said there is nothing new on Wall Street: "There can't be, because speculation is as old as the hills."

The history of finance is filled with frenzies, frauds and flops. And euphoric investors tend to wind up with a bucket of cold water in the face. How much do you know about market manias? Here's a quiz to test your knowledge.

**1.** What is often considered one of history's first speculative bubbles occurred more than 350 years ago, and revolved around this unexpected item.

- A. French Champagne
- B. Indian saffron
- C. Chinese jewelry
- D. Dutch tulips

ANSWER: D. Tulip Mania transfixed the public in the 1630s, when formal futures markets introduced the ability to trade contracts based around tulip bulbs. It is estimated that at the peak of the frenzy, a bulb was worth as much as 10 times the average annual salary of a skilled worker.

**2.** While many manias sent obvious warning signals in hindsight, some of history's greatest minds have gotten swept up in them. The South Sea bubble brought financial ruin to this famous scientist.

- A. Isaac Newton
- B. Galileo Galilei
- C. Nicolaus Copernicus
- D. Charles Darwin

ANSWER: A. Newton was one of many investors dazzled by South Sea Co. shares, which jumped nearly 10-fold between January and June of 1711, only to plummet between June and September—about as good a proof of gravity as an apple falling from a tree. Afterward, he is said to have mused, "I can calculate the motions of heavenly bodies, but not the madness of people."

**3.** Many manias arise from new technologies, as investors bet that fast growth and adoption will justify out-of-control valuations. In the U.K. in the 1840s, this technology became a bubble.



years ago. One online retailer in particular has remained the go-to example. It sold:

- A. Luxury watches
- B. Audio equipment
- C. Pet supplies
- D. Gardening equipment

ANSWER: C. Pets.com was one of the most high-profile early internet startups. Its sock-puppet mascot became a Thanksgiving Day parade float. The company didn't stay afloat for long, however.

**8.** During the dot-com era, the Fed's Alan Greenspan famously used this phrase to describe the investing environment.

- A. Over-caffeinated markets
- B. Jaw-dropping euphoria
- C. Ecstatic equities
- D. Irrational exuberance

ANSWER: D. He said that in December 1996. While prescient, it was also early. Markets wouldn't top for another three years.

**9.** Bitcoin and other cryptocurrency-related investments have been widely cited as a modern mania. A common term in the crypto universe is ICO. It means:

- A. Immediate call overlay
- B. Initial coin offering
- C. Infinite crypto optimization
- D. International cash opportunity

ANSWER: B. ICOs essentially function as a kind of crowdfunded initial public offering.

**10.** The 1950s and 1960s, a strong period for the U.S. economy, weren't immune from bubbles and manias. One crash involved this popular pastime.

- A. Drive-in theaters
- B. Hula Hoops
- C. Bowling
- D. TV broadcasts

ANSWER: C. Stock of Brunswick Corp. climbed nearly 1,600%. According to Charles Schwab, industry analysts at the time expected every American to spend an average of two hours bowling every week.

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