

# THE WALL STREET JOURNAL.

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DJIA 25191.43 ▼ 125.98 0.5% NASDAQ 7437.54 ▼ 0.4% STOXX 600 354.06 ▼ 1.6% 10-YR. TREAS. ▲ 8/32, yield 3.166% OIL \$66.43 ▼ \$2.93 GOLD \$1,233.40 ▲ \$12.20 EURO \$1.1471 YEN 112.44

## What's News

### Business & Finance

**V**olatility returned in force to the stock markets, sending the Dow down almost 550 points before it erased nearly all of those losses in the session's final hours. The blue chips ended 0.5% lower. The S&P 500 and the Nasdaq shed 0.6% and 0.4%, respectively. A1

◆ **The selling began** after Caterpillar and 3M revealed in their third-quarter reports mounting risks that spooked investors. A1

◆ **Oil prices tumbled** to a two-month low, hurt by the prospect of rising supply and concerns about global economic growth. B1

◆ **Overseas investors**, traders and central bankers are buying fewer Treasurys, a potential turning point for the \$15 trillion market. B1

◆ **McDonald's is still struggling** to attract more U.S. customers, but it eked out quarterly sales gains on higher prices for its food. B1

◆ **Endeavor Energy** is exploring a sale that could value the private Texas oil fracker at more than \$10 billion. B13

◆ **United Technologies** sought to reassure investors that its core businesses are doing well even as its Rockwell deal hangs in limbo. B2

◆ **Harley-Davidson said** U.S. sales would remain weak through 2019, as it implements a new growth strategy. B3

◆ **Gucci posted robust sales**, reporting no signs of a pullback by China's big-spending shoppers. B3

◆ **Vacuum maker Dyson** said it plans to build electric cars in Singapore. B4

### World-Wide

◆ **Trump escalated** his attacks on Fed Chairman Powell, saying the head of the nation's central bank threatened U.S. economic growth and appeared to enjoy raising interest rates. A1

◆ **The U.S. has taken** diplomatic action against 21 Saudi officials believed connected to the killing of Khashoggi. Turkey's Erdogan challenged Riyadh's explanation. A6

◆ **The EU took** the unprecedented step of rejecting Italy's draft budget as incompatible with the bloc's rules on fiscal discipline. A7

◆ **A new migrant caravan** is forming in Guatemala that would follow in the wake of a group already moving toward the U.S.-Mexico border. A16

◆ **Malicious code** used in a cyberattack against a petrochemical plant in Saudi Arabia has been linked by U.S. researchers to Russia. A6

◆ **Lawyers for Harvey Weinstein** and his accusers are in the early stages of an effort to reach a settlement of all civil suits against him. A3

◆ **Republicans are attempting** to turn a vague tax-cut promise floated by Trump into a campaign plank as they look to keep their House majority. A4

◆ **Police deployed** counter-terrorism units to places affiliated with Soros's organization after an explosive device was found at his suburban New York home. A4

◆ **Sandra Day O'Connor**, the first woman appointed to the Supreme Court, announced she has been diagnosed with dementia. A4

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# U.S. NEWS

## Volatility Rattles Investors

*Continued from Page One*  
battered markets this month left many money managers, analysts and traders struggling to gauge when the brunt of the selling will end. Many also were perplexed by how quickly—and unexpectedly—stocks recovered from the worst of their losses Tuesday.

When Matt Forester, chief investment officer of BNY Mellon's Lockwood Advisors in King of Prussia, Pa., woke up early Tuesday, U.S. stock futures were tanking. He took a flight to Seattle and was surprised what he found when he got off the plane.

"I landed an hour ago and now we've almost completely rebounded," Mr. Forester said. "I have no idea what happened."

The recent flare-up in market volatility has prompted Thomas di Galoma, managing director and head of Treasury trading at Seaport Global Holdings, to ar-

rive at his New York office before sunrise every day.

"I get in at 4 a.m. just so I can focus myself on what's going on," he said.

Few believe the economy, particularly in the U.S., is on the precipice of a recession. Yet many said that the synchronized growth that drove stocks globally to records last year appears to have passed its peak.

Major indexes in Shanghai, Japan and Hong Kong slumped Tuesday after Chinese officials moved to ramp up financing for private businesses, the latest step to try to stabilize the country's financial markets.

Tepid outlooks from Caterpillar and 3M added to the dark mood. Caterpillar said it would need to raise prices for most of its machines and engines next year to offset rising materials costs, as well as tariffs, while 3M lowered its earnings forecast for the year.

Some money managers said they have been fielding more questions than usual from clients asking what they should do with their portfolios. "Clients are needing a little bit more reassuring," said Chris Cordaro, chief investment officer of wealth management firm Re-

gentAtlantic in Morristown, N.J., who said the tone of the conversations has become more worried in recent weeks.

Meanwhile, some investment firms took to social media to encourage people not to make any impulsive moves. "When #markets are choppy, have a plan for #volatility," Fidelity Investments tweeted around noon.

To be sure, many experts be-

**Money managers said they have been fielding more questions than usual from clients.**

lieve the U.S. economic expansion—the second longest on record—still has room to run. Corporate earnings reports are expected to rise at a healthy clip in the third quarter, with analysts projecting S&P 500 companies to post growth of 20% from the year-earlier period, according to FactSet.

But some investors have viewed recent warnings from companies such as construc-

tion-goods supplier Fastenal Co., paints and coatings maker PPG Industries Inc. and now Caterpillar and 3M as signs that profits could take a hit from the tariff standoff between the U.S. and China.

Others have grown increasingly worried about weakness in the housing and auto markets, which have come under pressure as rising borrowing costs have crimped the affordability of big-ticket items.

"All of a sudden, markets have a whole host of things to worry about," Mr. Forester said. "The global synchronized recovery has started to morph into a synchronized slowdown."

The Dow Jones Industrial Average slid 125.98 points, or 0.5%, to 25191.43. Tuesday's losses put the blue-chip average closer to erasing all of its gains for the year and on course to notch its biggest one-month slide since August 2015, when fears about China's growth stalling drove stocks around the world lower.

The S&P 500 fell 0.6% to 2740.69, extending its losing streak to five straight trading sessions, while the Nasdaq Composite shed 0.4% to 7437.54.

Meanwhile, commodities plunged on a dimmer global

growth outlook, sending U.S. crude oil and copper prices sliding. U.S. crude for December delivery slumped 4.2% to \$66.43 a barrel. Copper—widely considered a barometer for global growth—tumbled 1% for October delivery, logging its sixth loss in eight trading sessions.

Investors poured money into government bonds and other assets that tend to perform well during volatile stretches. The yield on the benchmark 10-year U.S. Treasury note settled at 3.166%, down from 3.196% Monday but well off its low for the day. Yields fall as bond prices rise.

Shares outside the U.S. took another hit, with the Stoxx Europe 600 falling 1.6% to a fresh 52-week low. In Asia, major benchmarks in Shanghai, Japan, South Korea and Taiwan each lost 2% or more.

"If China is slowing, and Europe is slowing, does that mean that the U.S.—the one strong engine of growth this year—slows more than expected next year?" asked Kate Warne, investment strategist at Edward Jones in Des Peres, Mo.

—Daniel Kruger  
and Corrie Driebusch  
contributed to this article.

## U.S. WATCH

WASHINGTON ARCHDIOCESE

### Possible Coverup of Abuse to Be Probed

The attorney general for the District of Columbia said Tuesday his office was investigating whether the Archdiocese of Washington covered up allegations of sexual abuse of children.

The civil probe by Karl Racine is the latest escalation of scrutiny of sexual misconduct associated with the Roman Catholic Church. More than a dozen attorneys general have opened criminal and civil probes of abuse by Catholic clergy following a damning Pennsylvania grand-jury report in August.

Mr. Racine's office has faced pressure to open its own inquiry since the resignation earlier this month of Washington's archbishop, Cardinal Donald Wuerl, who stepped down amid accusations about his handling of molestation complaints.

Mr. Racine said his civil investigation was focusing on whether the archdiocese violated the district's law governing charities. Church officials said Tuesday they would cooperate with the investigation.

—Jacob Gershman

FEDERAL RESERVE

### Bostic Sees Growth, Need for Rate Rises

Atlanta Fed President Raphael Bostic offered an upbeat take on the economy Tuesday and said he believes the central bank should press ahead with interest-rate increases to keep the expansion moving forward.

"Unless the data talk me out of it, I view a continued, gradual removal of policy accommodation as appropriate until we get to a neutral policy rate," Mr. Bostic said in the text of a speech to be given in Baton Rouge, La.

—Michael S. Derby

GLOBAL POSTAL SYSTEM

### U.S. Gripe Prompts Review of Discounts

A Trump administration threat to pull out of a global mail system over its discounted shipping rates from China could spur a change in those rates as early as April, the head of the United Nations agency that oversees the system said.

The U.S. last week started a yearlong process to withdraw from the 144-year-old Universal Postal Union because it had failed to eliminate international discounts. Those discounts, aimed at helping developing countries, have continued to apply to China even as it has grown to become the world's second-largest economy.

The UPU, which is now holding previously scheduled council meetings, commissioned a report Tuesday that is the first step toward fast-tracking new rates, Director General Bishar Hussein said in an interview.

—Heidi Vogt

SANDY HOOK MASSACRE

### Shooter's Writings Ordered Released

Some of the Sandy Hook Elementary School shooter's personal belongings, including journals containing stories about hurting children and a spreadsheet ranking mass murders, must be released to the public because they aren't exempt from open-record laws, the Connecticut Supreme Court ruled Tuesday.

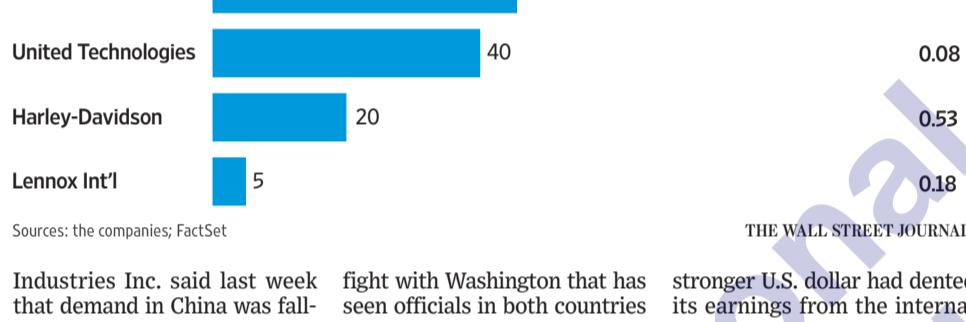
The writings could provide insights into the thinking of the shooter, Adam Lanza.

—Associated Press

## Reporting for Duty

The expected impact of 2018 tariffs remains just a fraction of companies' costs of goods sold but executives warn that tariff impacts could more than double next year.

### 2018 tariff costs for selected companies



Sources: the companies; FactSet

Industries Inc. said last week that demand in China was falling due to lower spending on cars. China's economic growth of 6.5% in the third quarter was its weakest pace since the financial crisis.

"We see other signs of slowing in China; the automotive build rates are down significantly and that has a knock-on effect," 3M Chief Executive Michael Roman said. 3M reported slower sales growth across most of its business lines in the third quarter.

Caterpillar executives said they expect strong business in China next year. Chinese officials have said the government is prepared to spend more on infrastructure if growth slows, a development that analysts said could boost Caterpillar's machinery sales there.

China's economic troubles are due in part to the trade

fight with Washington that has seen officials in both countries apply tit-for-tat tariffs to hundreds of billions of dollars in bilateral trade. Lennox International Inc., a maker of heating and cooling systems, said Monday that it would move some production out of China to avoid those hurdles.

"I'm not sure Chinese tariffs are going to be short-term and so we are taking action to sort of avoid the tariffs by moving to Southeast Asia and other low-cost countries that can meet our requirements," Lennox Chief Executive Todd Bluedorn said.

Scott Wine, chief executive of boat-and-motorcycle maker Polaris Industries Inc., warned this week of "more severe" costs if the Trump administration implements more duties on Chinese goods.

Harley, meanwhile, said a

stronger U.S. dollar had dented its earnings from the international sales the company is increasingly relying on to drive growth. Milwaukee-based Harley said the stronger dollar cost it \$7.4 million in the latest quarter.

3M and other manufacturers have raised prices to offset rising costs. Caterpillar said it would raise prices on most machines and engines by as much as 4% next year. Last week, paint maker PPG Industries Inc. and consumer goods giant Procter & Gamble Co. said they were raising prices to reflect higher commodity costs. United Technologies Corp., which makes Pratt & Whitney jet engines and Otis elevators, said on Tuesday it would continue to raise prices across its portfolio next year if tariffs were still in place.

"Ultimately, these tariffs can

Congress with making sometimes-unpopular decisions, such as when to raise rates. Before Mr. Trump, the last president to publicly call for lower interest rates was George H.W. Bush. He blamed Alan Greenspan's decision not to keep rates lower after the 1990-1991 recession for contributing to his defeat in 1992.

White House attacks on the Fed could take on more significance if they are echoed by lawmakers, because the Fed ultimately answers to Capitol Hill. That hasn't occurred since Mr. Trump took office.

"I am generally impressed with Chairman Powell's leadership," said Rep. Jeb Hensarling (R, Texas), the chairman of the House Financial Services Committee, in an interview Tuesday. He said the Fed's current interest-rate trajectory seems to be headed in a good direction."

Mr. Trump said he views tar-

iffs, which have been a centerpiece of his "America First" economic and trade agenda in his first two years in office, as a negotiating tactic.

The U.S. this year imposed tariffs on steel, aluminum, washers and solar panels, as well as tariffs on an additional \$250 billion of Chinese imports. Some businesses have supported the tariffs, but many have said they hurt their profits and could lead to higher prices for customers.

On Mr. Cohen, Mr. Trump said the lawyer who served him for more than a decade, was "like a public relations person" who "represented me on very small things."

In August, Mr. Cohen pleaded guilty to charges including campaign-finance violations and said Mr. Trump had ordered him to arrange payments to two women during the campaign.

## CORRECTIONS & AMPLIFICATIONS

**Sensata Technologies Holding PLC (ST)** was incorrectly omitted from the Biggest 1,000 Stocks tables published from March 29 to Oct. 20.

**As of Sept. 28**, the one-year return of **Union Street Partners Value Fund Advisor Class (USPFX)** was 16.2%. The fund's return was incorrectly given as 19.5% on Oct. 8 in the Investing in Funds report's Category Kings table, Large-Cap Value category.

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

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President Trump speaking with Journal reporters on Tuesday.

too quickly," Mr. Trump said just before he pushed a red button on his desk, summoning an iced cola delivered to him on a silver platter.

Mr. Trump said that higher interest rates added to the national debt and would act as a drag on economic growth. He said he preferred to take the savings from lower interest rates to pay down the debt. "I'd like to pay amortization and start reducing debt," he said. "But how do you do that when he keeps raising interest rates on you?"

With the economy expanding solidly, unemployment falling and inflation running at the Fed's 2% target, the Fed has been gradually raising rates to guard against the risk of unsustainable growth, which could show up in the form of higher inflation or financial bubbles.

Asked why he thought Mr. Powell was raising rates, Mr. Trump paused, then said, "He was supposed to be a low-interest rate guy. It's turned out that he's not."

The Fed has enjoyed relative independence in setting policy because it is charged by

the Republican president's caustic comments about Mr. Powell came as Mr. Trump repeatedly described the economy in personal terms. He referred to economic gains during his time in office as "my numbers," saying, "I have a hot economy going." He described his push for growth as a competition with former President Obama's record, saying that increases in growth under his Democratic predecessor were skewed because of low interest rates.

In the 30-minute interview in the Oval Office, Mr. Trump also touched on his approach to tariffs, the controversy unfolding over the death of Saudi Arabian dissident Jamal Khashoggi, his eagerness to pass a second tax cut and his thoughts on his former attorney, Michael Cohen.

Asked an open-ended question about what he viewed as the biggest risks to the economy, Mr. Trump gave a single answer: the Fed.

"To me, the Fed is the biggest risk, because I think interest rates are being raised

## U.S. NEWS

# Weinstein In Talks To Settle Civil Suits

BY CORINNE RAMEY  
AND JONATHAN RANDLES

Lawyers for Harvey Weinstein and women who have accused him of sexual misconduct are working with insurance companies and the New York attorney general's office in an attempt to reach a sweeping settlement of all civil suits pending against the disgraced producer and his former film studio, according to people familiar with the matter.

Mediation sessions are scheduled for two days in early November, the people said, making it the largest effort to date to resolve more than a dozen sexual-misconduct legal actions faced by Mr. Weinstein around the globe. Also expected at the mediation are lawyers for Miramax and Weinstein Co. co-founder Bob Weinstein, who have been named as defendants in some lawsuits, the people said.

A major goal of the talks, which are still in early stages, is to create a victims fund.

At stake is if, and how much, some of the more than 80 women who have accused Harvey Weinstein of sexual harassment or assault will be compensated. Whether Mr. Weinstein's alleged victims would be paid has been an open question since the business of Weinstein Co., the studio he co-founded with his brother, began to deteriorate last year. The studio filed for bankruptcy in March.

The negotiations include lawyers representing many parties with different interests and may not result in a settlement. The current gulf among the parties is huge, said the people familiar with the matter, with the alleged victims' lawyers asking for more than \$100 million and the insurers offering to pay a fraction of

**Mediation has been scheduled, but parties are as much as \$100 million apart.**

that. Among the challenges is how to compensate women who accuse Mr. Weinstein of abuse but haven't filed legal claims, the people said.

Settling civil lawsuits would limit legal expenses that could eat into payments to Mr. Weinstein's alleged victims. The alleged victims' claims could also face legal obstacles, including statute of limitations issues, making settling early a pragmatic option for all involved.

Any possible settlement of civil suits wouldn't impact the criminal charges that Mr. Weinstein, who has pleaded not guilty, faces in state Supreme Court in Manhattan.

A spokeswoman for Attorney General Barbara Underwood said the office's civil rights lawsuit, which was filed in February, remains active and the investigation is ongoing.

Lawyers who filed two proposed class-action suits and who are also expected to attend the mediation session didn't respond to requests for comment. A judge dismissed the suits but the lawyers have said they plan to file revised versions.

A spokesman for lawyer Elie Shiloh, who represents Mr. Weinstein, said, "We are actively defending ourselves against claims made against Mr. Weinstein."

Mr. Weinstein has denied all allegations of nonconsensual sex.

Insurance companies including Chubb and Travelers Cos. have filed their own lawsuits against Mr. Weinstein, arguing their policies don't cover his legal expenses. A Chubb spokesman declined to comment. A Travelers spokesman said the company doesn't comment on pending litigation.

Lawyers for Bob Weinstein and Weinstein Co. declined to comment. A lawyer for Miramax didn't respond to a request for comment.



The Anchorage metro area, which includes more than half Alaska's population, is expected to emerge from its multiyear downturn by early 2019.

ASH ADAMS FOR THE WALL STREET JOURNAL (2)

# Alaska Awakens From Recession

State's annual checks to residents jump 60% due to oil-price rise, end of a political standoff

By JIM CARMAN

ANCHORAGE, Alaska— Brooks Range Petroleum Corp., a small independent oil producer here in Alaska's biggest city, is planning to boost its workforce to more than 300 people next year, up from about 50 this year and just 15 people in 2016, according to Chief Executive Bart Armfield.

Such hiring sprees aren't big news in a U.S. economy with the lowest unemployment rate in nearly 50 years. But they are in Alaska, which has been stuck in a recession for the past three years while the rest of the U.S. has enjoyed the biggest boom in a generation.

Battered by low oil prices and fiscal turmoil in state government, Alaska's unemployment rate reached a high of 7.3% earlier this year, about 3 percentage points above the national rate. Its September rate of 6.5% was still the highest of the states, according to the Bureau of Labor Statistics.

Now, the Last Frontier state is finally poised to join the rest of the U.S. economy, thanks to a recovery in oil prices and political compromises in the state capital, Juneau.

The change was evident one day earlier this month, as the long days started to shorten and the leaves changed colors. Residents were busy shopping at storefronts covered in signs advertising a type of sale unique to Alaska: discounts tied to annual oil royalty checks that go to every man, woman and child, which increased 60% this year.

The Anchorage metropolitan area—which represents more than half the state population of 740,000—will exit from recession by the first quarter of 2019, according to a



Jasmin Smith, unemployed for two years until 2017, now teaches a business class in Anchorage.

forecast by the Anchorage Economic Development Corp. It is likely Alaska as a whole will follow soon after, given Anchorage's role as a key economic indicator of the state, said Bill Popp, the group's CEO.

The Alaskan economy has benefited from the settlement of a multiyear fight between Gov. Bill Walker and the Legislature over budget issues, including how to use the \$65 billion Alaska Permanent Fund, an investment fund fueled primarily by oil royalties. In 2016,

Mr. Walker cut in half to \$1,000 the dividend checks Alaskans receive from the fund, to help the cash-strapped state government fund services including public safety.

Mr. Walker's decision to cut that dividend has been a key criticism of two challengers—Republican Mike Dunleavy and Democrat Mark Begich—who have been seeking to unseat the political independent next month. On Friday, Mr. Walker said that he would suspend his re-election bid amid low support.

Alaska wasn't the only oil-

## Thawing Economy

The rise in oil prices has lifted employment prospects in the Last Frontier state.

### Alaska North Slope crude prices      Unemployment rate\*



\*Seasonally adjusted  
Sources: Refinitiv (crude); Bureau of Labor Statistics (rate) THE WALL STREET JOURNAL.

dependent state hit hard by the fall in oil prices four years ago. North Dakota, Wyoming and Louisiana all have had slowdowns. But Alaska fell the hardest and has been the slowest to recover.

Oil and gas represent about 27% of Alaska's gross domestic product, versus 2% of the national GDP. The price for a barrel of Alaska's North Slope crude fell from more than \$100 a barrel in 2014 to as low as \$27 in 2016. Prices have since slowly rebounded to more than \$80.

Oil companies have said they are planning as much as a \$20 billion investment in development and production costs of expanded fields in the



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# California Officials Probe Fire At Oakland Housing Complex

By ZUSHA ELINSON

California authorities were investigating the cause of an overnight fire in Oakland at a housing complex under construction, the latest blaze at new residential developments in the city that have been the target of arsonists.

The five-alarm fire that tore through a West Oakland town-home development Tuesday morning marks the fifth time that a residential construction project has gone up in flames in the area in a little over two years. Investigators have determined that three of those

blazes were the work of arsonists who have yet to be caught and whose motives remain unknown.

"We do not know whether this fire was caused by an arsonist," said Oakland Mayor Libby Schaaf at a Tuesday press conference. "But we do know that arsonists have been trying to burn down housing projects in Oakland."

New residential projects have sprouted up in Oakland, where housing prices have soared in recent years, fueled by the Bay Area tech industry. The housing boom in Oakland—which was at one time San Francisco's affordable neighbor—has sparked a fight over gentrification.

Investigators are looking into whether the blaze that took 90 firefighters to contain is connected to a separate report of an attempted arson at another nearby construction project around the same time, said Oakland Fire Chief Darin White.

In July, a group of Oakland business leaders announced a \$300,000 reward for any tips that lead to the arrest of those behind the fires, while the city launched a new tip line. Federal officials last year released a video that showed a hooded man scaling a construction project in the neighboring city of Emeryville and then hurrying away before it erupted in flames.

Phil Kerr, chief executive of City Ventures Homebuilding LLC, said his firm was building 124 homes and had sold 50 with about 40 families planning to move in around the holidays.

Construction will continue on part of the project that wasn't touched by flames, Mr. Kerr said.



The West Oakland complex was the fifth residential construction project to go up in flames in the area in a little over two years.

## U.S. NEWS

# Re-Election Gets Tougher for McCaskill

Democratic senator, swimming upstream in a Republican state, is in a razor-thin race

BY NATALIE ANDREWS

ARNOLD, Mo.—Sen. Claire McCaskill stood in front of a group of about 25 voters and volunteers in her campaign office here last week and told them her re-election race could come down to the number of people in the room.

Ms. McCaskill, the sole elected statewide Democrat in this increasingly conservative state, faces her toughest fight yet as she seeks to win a third term. She is facing Republican Attorney General Josh Hawley and his approach of tying himself to President Trump, who won the state in 2016 by more than 18 percentage points. Polls in recent weeks show the race at a statistical tie.

"It is closer than a hangnail," Ms. McCaskill said.

The day before, Mr. Hawley pulled his large red bus—emblazoned with his face and Ms. McCaskill's—into this city of roughly 20,000 south of St. Louis and bordering the Mississippi River. The 38-year-old Stanford and Yale graduate made his pitch while holding his young sons.

"We have got a huge choice in this election," he said, contrasting Mr. Trump's vision of the U.S. with that of the national Democratic Party.

Ms. McCaskill's past formula has been winning in the population centers around St. Louis and Kansas City and picking up enough votes in rural areas to stave off a Republican opponent. That may be tougher this



Sen. Claire McCaskill, shown at a campaign office last week in Arnold, Mo., is in a tight race against Republican Josh Hawley.

year, said Jennifer Duffy, the Senate analyst at the nonpartisan Cook Political Report.

"She is struggling with those rural voters, who no longer believe she is a moderate," she said, pointing to her votes against President Trump's Supreme Court nominations. "Her votes against both [Justice Neil] Gorsuch and [Justice Brett] Kavanaugh are the reasons why."

Ms. McCaskill said she opposed Justice Kavanaugh over his positions on money in campaign finance. Progressive women in Missouri, for their

part, have expressed frustration that Ms. McCaskill is pushing her centrist views and not taking stronger positions backing abortion rights.

Senate Republicans see the race as a chance to increase their 51-49 majority in the chamber, or provide a buffer in case of a GOP loss in another state. Democrats need a net gain of two seats to retake control of the chamber, a prospect that has dimmed recently as Republican polling improved.

The contest in Missouri has become one of the most expensive in the country, with out-

side groups spending more than \$57.3 million.

More than \$30 million is being spent in opposition to Ms. McCaskill, while \$21.2 million goes to opposing Mr. Hawley, according to an analysis by the nonpartisan Center for Responsive Politics. Ms. McCaskill has outraised Mr. Hawley, pulling in \$30 million to his \$8 million as of Sept. 30 disclosure reports.

Mr. Hawley's Democratic critics paint him as overly ambitious. He was elected attorney general in 2016 and campaigned on a promise to serve

out his term, they remind voters, even running an ad showing people climbing a ladder from attorney general to senator and promising not to become one of them.

As attorney general, he joined 19 other states in a pending lawsuit aimed at overturning the Affordable Care Act, which would include ending protections for people with pre-existing conditions. Ms. McCaskill has focused her message on that issue.

In a debate in St. Louis last Thursday, Ms. McCaskill called the lawsuit "reckless" because

there is no GOP back-up plan in the works. "He is willing to score a political point for the ideology of being against Obamacare and allow people to pay a price when they don't have that protection," Ms. McCaskill said.

Mr. Hawley countered by saying he would force insurance companies to still cover people with pre-existing conditions, although he was unclear on how he would do that.

Both candidates are reaching out to voters in Jefferson County, just south of St. Louis, which has become a bellwether in recent Senate elections. Voters in recent decades have selected a Democrat for Senate four times and a Republican five times.

"How Jefferson County goes will be how the state goes," said state Rep. Dan Shaul, a Republican representing a portion of the county. "And I think how the state goes, the United States Senate will go."

Ms. McCaskill, 65, is trying to build up support in rural areas by citing her opposition to tariffs, highlighting her Missouri roots and through her work to save rural post offices.

"What we have in Missouri, we have some pretty strongly held opinions on the two ends, but we got a bunch of people in the middle," she said in a brief interview. "They want to make sure you work hard, that you have integrity and that you're independent."

McCaskill supporters almost unanimously describe her as a "fighter" and said not to count her out of a tough race. The senator herself told supporters at a union hall last week that she planned to fight like a "scalded cat" until Election Day.

## Ex-Justice O'Connor Has Dementia

BY JESS BRAVIN

WASHINGTON—Sandra Day O'Connor, the first woman appointed to the Supreme Court and its most influential justice for much of her tenure, announced Tuesday she has been diagnosed with dementia and is withdrawing from a post-retirement career that extended her influence from the classroom to the White House.

"As this condition has progressed, I am no longer able to participate in public life," said Justice O'Connor in a statement released by the Supreme Court. "Since many people have asked about my current status and activities, I want to be open about these changes, and while I am still able, share some personal thoughts," she said.

The greatest legacy she hoped to leave, she said, was a renewed commitment to civics education, her principal cause since stepping down from the high court in 2006.

Justice O'Connor, 88 years old, said her dementia's cause was "probably Alzheimer's disease"—the same affliction that claimed her husband, John, and the president who appointed her, Ronald Reagan.

"It is a real downer. First Dad, then Mom," Scott O'Connor, eldest of the justice's three sons, said in an email to The Wall Street Journal. "She is at peace and not suffering any signs of depression, thankfully."

Justice O'Connor was an Arizona state judge in 1981 when President Reagan, fulfilling a



Former Justice Sandra Day O'Connor, the first woman appointed to the Supreme Court, wielded outsize influence during her tenure.

campaign pledge to break the male monopoly on the high court, selected her to succeed retired Justice Potter Stewart.

"How fortunate I feel to be an American," she said Tuesday. "As a young cowgirl from the Arizona desert, I never could have imagined that one day I would become the first woman justice on the U.S. Supreme Court."

During her 24-year tenure, Justice O'Connor frequently wielded the court's deciding vote, with a pragmatic ap-

proach and a knack for compromise that reflected the broader American mainstream more than it appealed to ideological theorists of the left or right.

Confirmed unanimously by the Senate, Justice O'Connor immediately prompted changes in the formerly all-male institution; most obviously, the traditional courtesy title of "Mr. Justice" was dropped, in favor of "Justice" alone. Donning a leotard, she inaugurated an aerobics class for female law clerks.

Justice Kavanaugh's writings suggest skepticism of those opinions as well as others where Justice O'Connor sought middle ground, including some dealing with the proper role of religion in government activities.

Her other impacts were more substantive. Although she had told Mr. Reagan she considered abortion "personally abhorrent," she joined Justices Anthony Kennedy and David Souter to write the controlling opinion in *Planned Parenthood v. Casey*, a 1992 case that sought middle ground by upholding several state restrictions on the procedure while affirming the "essential holding" of *Roe v. Wade*, the 1973 decision recognizing a constitutional right to terminate pregnancy.

Likewise, in 2003, when the Supreme Court considered two separate affirmative-action programs at the University of Michigan, Justice O'Connor voted to strike down the undergraduate admissions formula as too focused on race, while writing the majority opinion upholding the law school's more individualized consideration of race among other characteristics.

Under today's court, those two decisions may be in jeopardy. The July retirement of Justice Kennedy, who since Justice O'Connor's retirement typically held the swing vote, saw the court's conservative bloc solidify with Justice Brett Kavanaugh's nomination and confirmation in a 50-48 vote by the Senate.

Justice Kavanaugh's writings suggest skepticism of those opinions as well as others where Justice O'Connor sought middle ground, including some dealing with the proper role of religion in government activities.

## Police Add Security Around Soros Groups

BY ZOLAN KANNO-YOUNGS  
AND DAN FROSCH

The New York Police Department deployed counterterrorism units to places affiliated with George Soros's organization, a day after an explosive device was found in the mailbox of his suburban New York home.

NYPD Commissioner James O'Neill said on Tuesday a unit of officers armed with long-range guns and explosive-detection equipment was on patrol outside places operated by Open Society Foundations, Mr. Soros's network of aid groups, and the billionaire philanthropist's Upper East Side apartment.

"What we've done out of an abundance of caution is make contact with people from the Soros organization," Mr. O'Neill said. The NYPD deployed its Critical Response Command to locations in the city, he said.

An employee of Mr. Soros's home in New York's Westchester County called police on Monday after opening a package dropped off in a mailbox and finding "an explosive device," according to the Bedford Police Department. A police bomb squad then contained and detonated the device, police said.

The Bureau of Alcohol, Tobacco, Firearms and Explosives, the FBI and the Bedford Police are investigating the incident. Mr. O'Neill said the NYPD is investigating whether

others in New York City affiliated with Mr. Soros were targeted.

"We are conducting an investigation at and around a residence in Bedford, N.Y.," the FBI's New York office said in a tweet. "There is no threat to public safety."

Mr. Soros, who was born in Hungary and fled after Nazis came to power there, sends hundreds of millions of dollars to aid groups, academic programs and pro-democracy initiatives in the country. He has given more than \$32 billion to support Open Society Foundations in more than 100 countries around the world.

In the U.S., where Mr. Soros is a major contributor to liberal and Democratic causes, he is a lightning rod for conservatives. Open Society has supported efforts to overhaul immigration policies and the criminal-justice system and funded mentoring programs for black and Latino young men. It has supported activists working on issues raised by the Black Lives Matter movement.

Mr. Soros, who is Jewish, has also been a frequent target of anti-Semitic smears.

"George Soros deplores violence of any kind, and urges politicians across the political spectrum to tone down their rhetoric," a spokeswoman for Open Society Foundations said. "Words have consequences, and we bear responsibility to create a more civil way to discuss our political differences."

## GOP Hopes to Work Trump Tax-Cut Vow Into Midterms

BY RICHARD RUBIN

WASHINGTON—Republicans are attempting to turn a vague tax-cut promise floated by President Trump into a campaign plank as they try to hang onto their majority in the House of Representatives.

Days after Mr. Trump suggested an imminent middle-class tax cut that Congress doesn't have the votes or time to pass this year, the top tax lawmaker in the House said he is working on it and tied any action to future GOP control of Congress.

"We will continue to work with the White House and Treasury over the coming weeks to develop an additional 10% tax cut focused specifically on middle-class families

and workers, to be advanced as Republicans retain the House and Senate," said Rep. Kevin Brady (R., Texas), chairman of the House Ways and Means Committee.

Democrats see the GOP's rush to promote a new tax idea in the final weeks of the campaign as a tacit acknowledgement of flaws in the tax law they passed last year.

"This empty rhetoric is an admission by Donald Trump that his tax law only helps corporations and the donor class," said Sen. Ron Wyden (D., Ore.).

Republicans had hoped to

make last year's tax cuts—a sweeping reduction in individual and business tax rates—the centerpiece of their mid-term campaigns.

Despite strong economic growth, the tax law hasn't proved as popular as Republicans thought it would be. Middle-class households did benefit from last year's tax law, but many taxpayers barely noticed the individual tax cuts that were implemented through lower paycheck withholding in February.

Democrats have said they would roll back pieces of the 2017 tax law, though they are unlikely to make major changes with Mr. Trump in office. Senate Democrats proposed paying for infrastructure spending by reversing parts of the tax cut that benefits high-income households. They would reduce the estate-tax exemption, set the top individual tax rate back at 39.6%

from its current 37% and raise the corporate tax rate to 25% from 21%, though still below the 35% that existed before the new law.

"I'm going to call it a second-chance tax cut. They had

*The new cut would be revenue neutral, the president said, but he didn't explain how.*

an opportunity to benefit the middle class when they rushed through their big tax bill last December," said Rep. Lloyd Doggett (D., Texas).

Although some GOP candi-

dates are running on the tax law, many have concentrated more on immigration. Mr. Trump has veered from the tax message, too, at one point tossing a tax speech aside and declaring it "boring."

Mr. Trump said in an interview Tuesday that the bill would be revenue neutral—that is, not a net tax cut—but he wouldn't say how that would happen. Republicans had talked about last year's tax bill being revenue-neutral but abandoned that idea because of the political difficulty of the trade-offs involved.

"We have a way," he said. "We're going to announce it at the time. But we think we can make it revenue neutral based on certain things."

In past administrations, a

presidential statement would often mark the end of a policy process, the conclusion of a considered study of pros and cons. In the Trump administration, the policy process sometimes works the other way around.

If Congress tries to turn this idea into law, they would have to figure out how to define middle-class and whether to consider payroll taxes when measuring a 10% cut.

"This is money that comes back because it's money that's going to be spent buying cars, hopefully cars made in the U.S.A., by the way," he said.

—Alex Leary contributed to this article.

## 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.



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<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).

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## WORLD NEWS

## U.S., Turkey Take Action on Slain Saudi

Washington to issue travel bans as Ankara vows to call out any senior Saudis involved

The U.S. has taken diplomatic action against 21 Saudi officials believed connected with the killing of dissident journalist Jamal Khashoggi, a public expression of disapproval that came as the kingdom's powerful crown prince appeared at an investment conference that opened under a cloud.

The monarchy came in for

*By Peter Nicholas and Courtney McBride in Washington and Margherita Stancati in Riyadh*

new criticism in Turkey and Washington on Tuesday. In Washington, President Trump said Saudi Arabia bungled the handling of Mr. Khashoggi's killing from "beginning to end," though he made clear he doesn't want to cancel lucrative U.S. contracts with the kingdom in reprisal.

In an interview with The Wall Street Journal in the Oval Office, Mr. Trump gave a harsh assessment of Saudi Arabia in light of Mr. Khashoggi's death, saying he was convinced King Salman didn't know about the killing in advance. Asked about Prince Mohammed bin Salman's possible involvement, Mr. Trump said: "Well, the prince is running things over there more so at this stage. He's running



Turkish President Recep Tayyip Erdogan, speaking to lawmakers in Ankara, disputed Saudi Arabia's version of Mr. Khashoggi's killing.

things and so if anybody were going to be, it would be him."

Secretary of State Mike Pompeo said the Saudi officials singled out for U.S. action included "those in the intelligence services, the royal court, the foreign ministry, and other Saudi ministries," though he didn't identify any by name. They will be subject to visa revocations and special screening

procedures meant to keep them out of the U.S., though Mr. Pompeo said further action against those individuals and others is possible as U.S. officials learn more.

"These penalties will not be the last word on this matter from the United States," Mr. Pompeo said. "We will continue to explore additional measures to hold those responsible ac-

countable."

The U.S. action came on the same day Turkish President Recep Tayyip Erdogan challenged an explanation from Saudi Arabia in which the government said Mr. Khashoggi died in a brawl on Oct. 2. Mr. Erdogan said the killing in the Saudi consulate in Istanbul was premeditated and conducted by 15 operatives from Riyadh.

"All the responsible people, from the lowest to the highest rank, should be uncovered and held accountable before the law," Mr. Erdogan told lawmakers from his ruling party, adding that it wasn't possible "to put the blame on a few security and intelligence officials."

In defiance of the increasing international pressure, Prince Mohammed attended the invest-

ment conference, in his first public appearance since the crisis erupted. He was scheduled to address the conference Wednesday morning.

Prince Mohammed and King Salman also met with two relatives of Mr. Khashoggi and "expressed their sincerest condolences," Saudi state news agency SPA reported on Tuesday.

Among them was Mr. Khashoggi's son Salah, one of the journalist's four adult children and the only one in Saudi Arabia. After Mr. Khashoggi left the kingdom last year, the Saudi government banned his son from leaving the country in an apparent effort to put pressure on the critic, people familiar with the matter said.

Saudi officials didn't respond to requests for comment. It wasn't known whether the government had lifted the travel ban on the son in the wake of his father's death. He couldn't be reached for comment.

The Saudi government said on Tuesday that the kingdom had taken measures to "uncover the truth and hold people responsible accountable."

In the U.S., Mr. Pompeo said the State and Treasury departments are reviewing whether to apply the Global Magnitsky Human Rights Accountability Act to those involved in Mr. Khashoggi's death, as many lawmakers demanded. The law allows the imposition of severe financial sanctions against human-rights violators.

*—David Gauthier-Villars in Istanbul contributed to this article*

## Summit Opens With a Prince, Fewer Kings of Industry

BY RORY JONES  
AND NICOLAS PARASIE

RIYADH, Saudi Arabia—The kingdom's premier business conference opened as scheduled on Tuesday, missing the star power of Western executives who canceled over a Saudi journalist's death but packing a surprise: an unexpected visit from Crown Prince Mohammed bin Salman.

The event, the Future Investment Initiative, once again served as a forum for promoting Saudi investment and Prince Mohammed's modernization plans. But the gathering was stripped down from last year's inaugural session as the kingdom wrestled with corporate and diplomatic fallout in the wake of allegations that the Saudi government was involved in Jamal Khashoggi's Oct. 2 death in the Saudi consulate in Istanbul.

"Everybody is talking about it," said Henry Fernandez, chief executive of MSCI Inc., a U.S.-based markets-index com-



Future Investment Initiative attendees take selfies with Crown Prince Mohammed bin Salman, center.

piler, speaking of Khashoggi's death. Despite that, he said the conference remained focused on "engagement [with Saudi Arabia], not divestment."

Crown Prince Mohammed—under intense scrutiny for any role he may have played in Mr. Khashoggi's death—appeared at the conference Tuesday afternoon, taking a seat next to King Abdullah II of Jordan. Attendees stood to see him and there was a smattering of applause from the mostly Saudi audience.

The 33-year-old later took selfies with attendees and walked around the conference alongside Prince Al Waleed bin Talal, the billionaire Saudi investor whom the prince imprisoned last year in the Ritz-Carlton hotel—the same venue as this week's conference.

A spokesman said the crown prince may speak on a panel on Wednesday titled "How will visionary leadership transform the Arab world into

a global economic powerhouse?"

Regional heads of state including Pakistani Prime Minister Imran Khan and Jordan's King Abdullah stood in for the lost star power of dozens of business and government officials who canceled.

The latest cancellation, on Tuesday, was among the heaviest blows: SoftBank Group Corp.'s Masayoshi Son, whose Japanese financial firm had partnered with Saudi Arabia to create the \$92 billion Vision Fund and catapult the kingdom into the big leagues of global investors. Mr. Son and Prince Mohammed shared a stage last year at the conference to extol the futuristic wonders of a city the prince planned to build, called Neom.

The reaction over Mr. Khashoggi's death threatens to derail Prince Mohammed's plan to re-engineer the kingdom's economy to make it less reliant on oil. The event is the prince's most visible effort to attract international investments by presenting the country as a business-friendly place that embraces new technologies.

The event drew more than 3,000 investors, business leaders and advisers, according to the event app, but attendees also estimated hundreds had withdrawn. Many Western dropouts were replaced by representatives from Russia, Asia and the Arab world.

Shahid Kazi, chief executive of Dubai-based consultancy ValuStrat, said executives who

canceled "may have put a dampener [on the event] and may have disappointed people. But I wouldn't say it [the event] isn't useful. The Saudis are all here. That's who we really want to meet."

At last year's conference, Prince Mohammed announced Neom, a \$500 billion futuristic city, and multibillion-dollar deals with private equity giant Blackstone and British entrepreneur Richard Branson's space-travel business. The Saudi prince also promised to promote a more tolerant form of Islam.

The deal announcements on Tuesday involved a series of nonbinding memorandums of understanding around the traditional Saudi industry of oil production.

*—Ian Talley*

## Experts Trace a Cyberattack to Russia

BY DUSTIN VOLZ

Malicious computer code used in a cyberattack against a petrochemical plant in Saudi Arabia has been linked by U.S. researchers to a research institute owned by the Russian government.

The malware used in the intrusion, which gained control over a safety shut-off system, was widely suspected to be built by a so-called nation-state actor when it emerged publicly last year. But the new research, published on Tuesday by FireEye Inc., is the first to link the attack to Russia, whose digital probing of critical infrastructure over the past couple of years, including the U.S. energy grid, has alarmed Western intelligence officials.

In a blog post, FireEye said that a hack that led to the de-

ployment of the malware, known as Triton, was supported by the Central Scientific Research Institute of Chemistry and Mechanics, described as a government-owned institution located in Moscow. It connected testing of the Triton malware to a suspected Russian hacking group dubbed TEMP.Veles and directly to a specific, but unnamed, professor at the institute.

The safety shut-off system affected at the Saudi petrochemical plant was considered critical to defending against catastrophic events.

"What seems to be clear here is the Russian government has a strong hand behind this and was heavily involved," said John Hultquist, director of intelligence at FireEye. "It affirms the concern that the Russians could get

into the safety systems, which are sort of the last line of defense for a lot of these facilities."

The Russian Embassy in the U.S. didn't immediately respond to a request for comment.

*The hack into a Saudi petrochemical facility was allegedly backed by a Moscow institute.*

FireEye declined to name the victim of the attack, but other experts, including researchers at the cyber firm Dragos Inc., have previously said a facility in Saudi Arabia was among the victims targeted by Triton.

The Triton attack, first disclosed by cybersecurity firms last December, was considered unprecedented, viewed as the first report of hackers breaching the safety system at an industrial plant.

Schneider Electric, a French multinational that makes the targeted shut-off system, known as Triconix, conducted additional analysis in January that found Triton was able to manipulate Schneider devices' memory and run unauthorized programs by leveraging a previously unknown bug.

*—Robert McMillan contributed to this article.*



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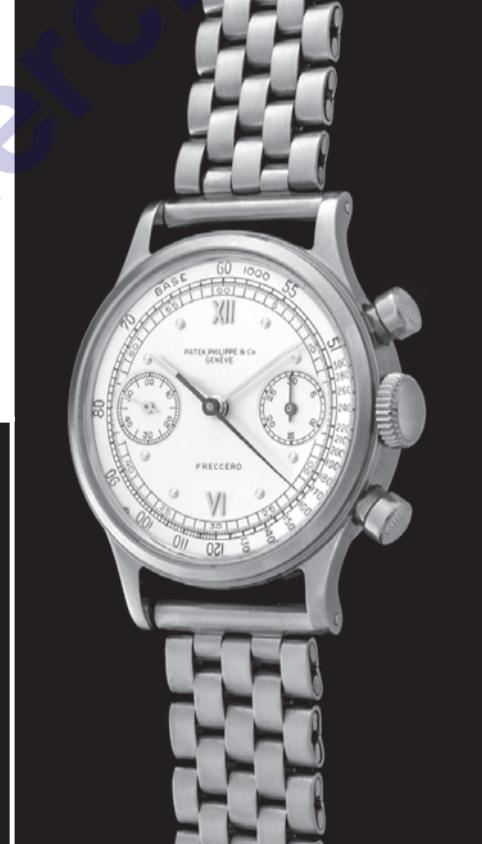
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## WORLD WATCH

HURRICANE WILLA  
Category 3 Storm  
Hits Mexican Coast

Hurricane Willa tore into Mexico's Pacific coast late Tuesday with 120-mph winds and heavy rainfall bringing the threat of flooding.

The eye of the storm made landfall around 9 p.m. ET, near Isla del Bosque in Sinaloa state, the U.S. National Hurricane Center said. Willa reached the coast as a Category 3, the first major hurricane in a busy Pacific season to make landfall in Mexico.

The storm is expected to weaken rapidly over mountainous terrain and dissipate Wednesday over northern Mexico, the hurricane center added.

Luis Felipe Puente, national head of civil protection, said Tuesday afternoon that more than 4,250 people in vulnerable areas had evacuated to shelters or homes of friends and relatives.

—Anthony Harrup

## JAPAN-CHINA

Technology Rivalry  
Shadows Summit

Japan and China may be getting cozier, but competition in technology is keeping tensions fresh as Prime Minister Shinzo Abe heads to meet President Xi Jinping in Beijing on Friday.

The leaders are likely to toast improved ties after Beijing, occupied by its trade fight with the U.S., dialed back anti-Japanese rhetoric and Mr. Abe sought allies in defense of free trade.

Yet Japanese government and business leaders express views in line with Vice President Mike Pence's recent depiction of China as a nation that seeks technological dominance "by any means necessary" including "forced technology transfer [and] intellectual property theft."

China is "making unacceptable demands and seeking to exclude foreign businesses," said a top Japanese official.

One response, the official said, would be to block Chinese tech companies from global markets.

Japan is studying restrictions on Chinese network-equipment makers Huawei Technologies Co. and ZTE Corp. ahead of the rollout of next-generation technology meant to speed up mobile-phone data. Some in the industry say Tokyo is looking for ways to ensure top mobile-phone providers can avoid Chinese equipment, in line with policies already in place in the U.S.

—Peter Landers

## CANADA

Central Bank Expected  
To Raise Rates

The Bank of Canada is widely expected on Wednesday to raise its benchmark overnight interest rate by a quarter of a percentage point in response to solid economic growth and a new trade pact with the U.S. and Mexico.

Economists from 10 out of 11 primary dealers of Canadian government securities said that they anticipate the Bank of Canada will increase the key rate to 1.75% on Wednesday, up from the current level of 1.50% and marking the fourth increase since mid-2017.

—Kim Mackrael

Family  
Recipes Get  
Makeovers

Continued from Page One

young man subjected his relatives to pungent vegan-friendly "nutritional yeast" instead of cheese in an eggplant Parmesan. "We try to embrace his changes," says 53-year-old John Bucci of his son's tinkering. "But some of them don't smell good."

Millennial foodies want to make "home-cooked meals that look like restaurant fare," says Emily Contois, a media studies professor at the University of Tulsa. "They want to make it Instagrammable while honoring their roots and the memory." Social media provides motivation to experiment with jazzed up dishes and can help persuade younger cooks that they can pull off higher-level culinary feats.

Ms. Bennett, whose mother was born in Mexico, has also updated a family recipe for entomatadas, which are fried tortillas covered in tomato sauce and filled with ingredients such as chicken or cheese. Ms. Ben-

## WORLD NEWS

## EU Rejects Italy's Deficit Budget

The European Union took the unprecedented step Tuesday of rejecting Italy's draft budget as incompatible with the bloc's rules on fiscal discipline, escalating a battle between Europe's establishment and populists in Rome.

By Laurence Norman  
in Brussels; Giovanni Legorano in Rome  
and Christopher Whittall in London

Following a meeting of the European Commission—the EU's executive arm—Commission Vice President Valdis Dombrovskis said the Italian government was "openly and consciously going against commitments made" to drive down the country's debt and deficit levels.

The Italian government's effort on Monday to explain why it had planned its budget in breach of rules was unconvincing, Mr. Dombrovskis added.

The government—a coalition of the antiestablishment 5 Star Movement and the nationalist League—vowed after Mr. Dombrovskis' rejection to press ahead with its budget, which includes plans to cut taxes and expand welfare and pension entitlements, insisting the economy needs a fiscal boost.

The battle is the new front line in disputes pitting the EU's political mainstream against rebels across Europe that have gained voter support following the region's economic and migration crises.

Insurgent movements in Italy and elsewhere want to loosen EU constraints on member countries. Victory in the budget battle would bolster



ALESSIA PIERDOMENICO/REUTERS/COMMERCIAL NEWS

the League and 5 Star ahead of European Parliament elections in May, a contest in which populist movements around Europe hope to make gains.

Italy, a founding member of the EU and Europe's fourth-biggest economy, is testing whether a rebel government can defy the bloc's rules and skirt pressure from financial markets to back down.

Investors have dumped Italy's government bonds and bank stocks repeatedly since the League and 5 Star agreed to govern together in May. Italy's combination of high government debt and chronically weak economic growth make it vulnerable to capital flight.

The extra yield that investors demand to hold 10-year Italian bonds over safe German bonds hit 3.3 percentage points last week, the widest gap in more than five years. That has battered shares in Italy's banking sector, which is heavily exposed to its national debt.

However, markets remain far more stable than during the eurozone debt crisis of 2010-2012. Back then, the spread between Italy and Germany peaked at 5.6 percentage points.

Most investors expect Rome and Brussels ultimately to reach a compromise over the budget. Plus, today's economic backdrop is better than before. Italy's economy is expected to

grow by around 1% in 2018, in contrast to its sharp contraction during the debt crisis.

League and 5 Star leaders have brushed aside investor pressure to compromise over the budget. The Commission had hoped that this pressure, coupled with its courting of Italy's pragmatic finance minister, Giovanni Tria, would nudge Rome into compliance.

"Markets love Italy more than some European institutions do," 5 Star leader Luigi Di Maio said.

He predicted "weeks of strong exchanges with the European Commission, but both the Commission and the markets will come to understand

that this is a government that believes in what it is doing."

The Commission has much to lose. Failure to stop a flagrant breach of agreements on fiscal discipline would weaken economic-governance rules created after Europe's debt crisis that are already tarnished by the waiving of regulations for France. Some member countries have indicated they believe the Commission has already been too lenient with Italy.

Officials also know that disciplinary proceedings against Italy will play into the hands of 5 Star and League politicians, who routinely paint Brussels as a remote bureaucracy hostile to the needs of ordinary Italians.

Under the EU's protracted procedures, Italy has three weeks to submit a revised budget and the Commission then has three weeks to respond. The budget fight could thus come to a head in early December. That will likely be a sensitive time for Italy, since the European Central Bank has said it plans by the end of 2018 to cease its bond purchases, which have been vital in moderating Italy's borrowing costs.

If Italy refuses to adopt a compliant budget, the resulting EU disciplinary proceedings could lead to fines equal to 0.2% of Italy's gross domestic product and the freezing of some funding. Those fines can grow over time if Italy continues to defy Brussels.

Defiance toward Brussels has lifted the Rome government's popularity. Over 60% of Italy's electorate support the League or 5 Star, according to recent polls. A similar share of voters say they back the draft budget.

## WTO Members to Address Trump's Criticism

President Trump's complaints about the World Trade Organization have prompted American allies to seek ways to overhaul the body before the U.S. protest effectively cripples the global commercial arbiter by the end of next year.

By Jacob M. Schlesinger in Washington, Paul Vieira in Ottawa and Emre Peker in Brussels

In the broadest such effort, Canada is hosting a summit opening on Wednesday with a dozen other partners to build support for changes addressing Washington's criticisms, including concerns that the WTO doesn't do enough to publicize and penalize trade distorted by government subsidies and weak intellectual-property protections, practices seen as particularly common in China.

The Trump administration also complains the WTO gives too much flexibility to developing countries to skirt rules that apply to more advanced economies, and has been too slow to update rules for digital commerce.

Some of Washington's arguments resonate with other members. "If the WTO is not reforming itself, it risks becoming irrelevant, and that would be a disaster," the European Union's trade chief, Cecilia Malmstrom, told reporters this month.

While the meetings are intended to accelerate the first serious WTO restructuring debate in a quarter century, summit participants don't expect decisions from the two-day session.

That is in part because neither the U.S. nor China—the two largest WTO members and the main protagonists in the tensions within the body—were invited. That leaves uncertain the question of whether the slow-moving organization can reach consensus on changes demanded by the U.S. at the pace the U.S. wants.

The members are working against an informal deadline of December 2019. That is when the WTO legal system will grind to a halt unless the Trump administration lifts its veto blocking appointment of new judges to the Geneva court mediating trade disputes among its 164 members.



STEPHANIE LECOCQ/EPA-EFE/REUTERSTOCK

The EU's Cecilia Malmstrom says the WTO needs overhauls.

Washington has used its veto power to cut the size of the seven-judge court down to three members, the bare minimum needed to hear a case.

The terms of two of those remaining judges expire Dec. 10, 2019. If they aren't replaced, the WTO's "appellate body" will effectively shut down, leaving the organization's dispute-settlement powers in limbo.

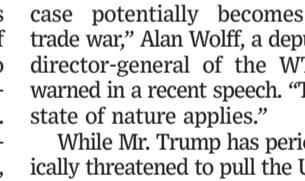
Under that scenario, "every

## Less Trade

The World Trade Organization is cutting its growth forecast for global trade, as new import curbs spread around the world.

## Growth in world trade volume from a year earlier

6%



Source: WTO

THE WALL STREET JOURNAL.

tion's 1995 founding. The U.S. was the driving force behind the WTO's creation during the heyday of globalization, pushing for common, enforceable rules governing international commerce.

Mr. Trump has repudiated the longstanding American establishment consensus favoring commercial globalization.

The EU and Canada have released their own blueprints for WTO revision, and European Commission President Jean-Claude Juncker signed a joint statement with Mr. Trump at a July White House meeting pledging to "work closely together with like-minded partners to reform the WTO and to address unfair trading practices." Japan has been active as well, facilitating a push to update global trade rules with the U.S. and EU on the sidelines of a WTO gathering in December.

This week's Ottawa meeting will include a diverse range of members, including Australia, Mexico, Kenya and Singapore.

Canadian Trade Minister Jim Carr said in an interview that his strategy was to start the discussion with "middle powers," to "maximize the chances of building up a critical mass that can be rolled out to others."

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MICHAEL SANTORO

nett adds fish sauce, chars the tomatoes and uses heirloom varieties instead of standard ones. Before posting the dish on Instagram, she creates a scene with bright ceramics, salads and spices. "I don't just plop it on a plate and call it a day," she says.

Michael Santoro, a 26-year-old financial analyst in New York, is giving his family recipes a similar makeover. He tries to make his Italian grandfather's Old World dishes look "more sexy" on his girlfriend's Instagram feed, he says. Recently, he purchased freeze-dried zucchini blossoms and stuffed the orange flowers with cheese rather than simply frying them like his family did growing up. Cacio e Pepe got an upgrade with fresh pasta and a 24-month aged Parmesan—both luxuries that his family didn't splurge on when he was a kid. When making clams, Mr. Santoro adds Calabrian chili peppers and breadcrumbs, and presents them on the half shell for more visual appeal. "Chef Michael Back in Action" said one Instagram caption for a recent home-cooked meal.

Navigating new-age changes to family favorites can be tricky territory. Morgan Thompson, a

sometimes, she hopes her relatives don't notice. "I don't always tell my grandma what's in it," she says. Other times, she realizes her adaptations will raise an eyebrow. When she posted a photo on Instagram of her vegan stuffing—a re-creation of her grandmother's recipe using vegetarian "Better Than Bouillon" instead of chicken stock—she hashtagged it #grandmasgonalecturemeonyourgodmadeanimals.

Mr. Bucci's son, 22-year-old college student William, made the odoriferous eggplant Parmesan last year on a trip home to Maine. The younger Mr. Bucci says his aim was to make a vegan version of his dad's chicken Parmesan, without the meat or cheese, while keeping "the significant roots of my family recipe." He had researched recipes on social media and served his dish alongside his dad's traditional one.

After smelling the distinct nutty scent of the nutritional yeast, which is often used as a substitute for cheese in vegan recipes, the elder Mr. Bucci took a pass on his son's creation. He also declined to eat his son's vegan shepherd's pie, made with sweet potato and lentils instead of meat. Says the younger Mr. Bucci, "I

wouldn't say [my dad] thought I was butchering it, but something pretty close to that."

Joe Daly, a 28-year-old who works at a nonprofit in New York, has been experimenting with his mother's roast chicken recipe, which "was fine but not that exciting," he says. He prefers making it in a sous vide machine, immersing the meat in precisely heated water to ensure even cooking. "It's so tender...and you can't possibly overcook it," he adds.

He sometimes cooks for friends who post a lot on Instagram, and they have influenced his culinary ambitions. "My friends have been experimenting with sous vide," he says. "There's a culture of documenting your cooking and sharing it [via social media] with your friends," he says.

His mother, Anne Fishel, a Boston psychologist, has little interest in such gadgetry. "I try to keep my cooking as low tech as possible," she says. When her other son gave her a food scale as a holiday gift, "at first, I didn't know what to do with it," she says. "I'm a little slapdash."

Still, her son's culinary experiments have inspired her to tackle some new dishes herself. "Fish tacos are now part of my repertoire," she says.

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# Banker Exposed A Scandal

*Continued from Page One*  
became public. Its star CEO has resigned.

The revelations have ignited soul-searching in Europe about the cost incurred by some of its banks to survive the global financial crisis, especially how they welcomed flows of thinly monitored money from countries with weak rule of law. Regulators increasingly wonder whether their defenses against criminal money are broken.

The Department of Justice has started a criminal investigation and the Treasury Department and Securities and Exchange Commission are also investigating. Following Danske's September release of a report on its internal investigation, shareholders are bracing for the possibility of a huge fine. The bank says it still doesn't know whose billions moved through the remote branch over nearly a decade.

From his home in the English countryside, Mr. Wilkinson, 47, said he had no idea of the scale when he first began poking into his bank's dealings. He described himself as disillusioned.

"If you wanted to launder money all you need to do is find an obscure branch in a bank with a good name," he said. "And nobody is going to ask you any questions."

A Wall Street Journal review of internal bank documents, including memos and client records, plus interviews with dozens of officials and bankers involved with Danske's Estonian operations reveals how a multi-billion-dollar money-laundering pipeline remained open for years, and how a midlevel career banker, fixated on detail, finally brought it down.

"We want to make it absolutely clear that this case in no way reflects the bank we want to be," Danske said in a written statement after being asked about the Journal's findings. "We will do everything it takes to ensure that we never find ourselves in the same situation again."

## 'Good, Easy Money'

Danske in late 2006 said it would acquire Finland's Sampo Bank and absorb its million customers. The deal included a subsidiary in Estonia based in a six-story former factory with an unhappy history. Hitler's military produced radios in it before the Soviets repurposed it for tank parts. After communism's collapse, a bank moved in.

During a 2006 visit, Russian Central Bank Deputy Chairman Andrei Kozlov, who was conducting a crackdown on money laundering, complained to Estonian officials that the bank, which had changed hands a couple of times, was servicing customers suspected of financial wrongdoing. Three months later, he was gunned down as he left a soccer match. A Russian court ruled it was a contract killing ordered by a businessman displeased with his laundering crackdown.

Danske's agreement to buy the bank came two months later. Mr. Wilkinson, an Oxford graduate who had traveled the Nordics, joined soon after.

The markets department he led on the corner of the fourth floor traded currency and bonds, called "flow business." Some European banks were in fragile shape—Danske had state help—but its Estonia branch reported strong profits.

Ninety percent of them, an internal memo would later explain, came from a department on the third floor serving a customer type Mr. Wilkinson had never dealt with before, termed nonresident depositors. Most were Russian. Many yanked incoming money out of their accounts within days of its arrival, sometimes hours.

Mr. Wilkinson managed market transactions related to those customers. "Good, easy money," he called it.

His first hint of unease came five years into the job, as his colleagues rushed to take their summer 2012 holidays. A young junior account manager asked for help wrapping up paperwork on a British client.

The client—listed in the U.K. as Lantana Trade LLP—was registered next door to a suburban London hardware store, according to documents. They show it moved \$480 million through the

Estonian branch in five months.

When Mr. Wilkinson downloaded the business's records, what he saw made no sense. "Net Assets," said a filing it made to Companies House, the British registrar that collects company data: "0.00."

A simple clerical error, Mr. Wilkinson said a bank compliance officer reassured him weeks later, adding that Danske had asked Lantana to submit a new, correct version to Companies House. He forgot about it.

A year later, in September 2013, a senior bank official said Lantana was no longer a client, Mr. Wilkinson said. He added that another official told him one of Lantana's owners was a relative of Vladimir Putin, which was denied by a spokesman for the Russian president. Lantana couldn't be reached.

"It sat in the back of my head that there was something that wasn't quite right," Mr. Wilkinson said.

### 'The Alpha Male'

Danske's returns from Estonia helped power the rise of a tall, gray-haired banker several rungs above Mr. Wilkinson, who championed the Estonian branch before the board.

Thomas Borgen, then in charge of international banking for Danske, impressed others with his ramrod posture and soothing intonation, colleagues recalled. "He's extremely charismatic...unquestionably the alpha male in the room," said an adviser to a board member.

The Estonian branch's profits were a point of pride during a European business slump. "This was his baby," the adviser said.

In 2010, Danske CEO Peter Straarup grew concerned about the high level of Russian transactions. Barron's magazine had contacted the bank about the possible involvement of its Estonian branch in a North Korean arms-smuggling case in Thailand. Months later, Mr. Straarup asked Mr. Borgen: Was he comfortable with the exposure to nonresident clients? Mr. Borgen, according to a person who attended the meeting, said he hadn't come across any cause for concern.

Mr. Straarup declined through a spokesman to comment, and Mr. Borgen didn't respond to requests for comment.

Russia's central bank kept a blacklist of hundreds of thousands of individuals barred from Russia's banking sector on suspicion of financial crimes. Many of them were popping up as clients of the Danske branch next door in Estonia, the Russian central bank complained to Estonia's banking supervisor, the Financial Supervision Authority.

Estonia's FSA had just two employees to conduct money-laundering reviews. The maximum fine for money laundering equaled a few hours' profits at the branch. And European Union directives discouraged Estonian inspectors from entering the bank building without permission from their Danish regulatory counterparts. Denmark's FSA oversaw it because it was a branch rather than a subsidiary.

The Estonian regulators, despite their limited jurisdiction and resources, raised red flags, mailing about six letters to Denmark's FSA between 2007 and 2014. The complaints became caustic as years went by.

One Estonian FSA letter "is brutal...close to the worst I have ever read...and I have read some harsh letters," a Danske compliance officer emailed a colleague.

Denmark's FSA says it raised the Estonian regulators' concerns with Danske Bank and was assured that the bank regularly sent people to check the branch and they found no problems.

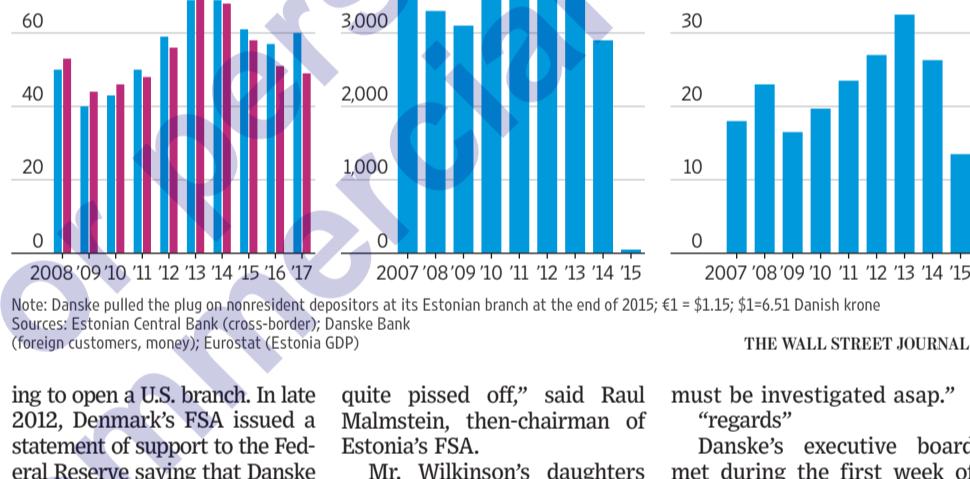
Danske, meanwhile, was hop-



Howard Wilkinson found filings that suggested money laundering by clients of Danske Bank.

### Little Place, Big Money

More than €500 billion in cross-border payments entered tiny Estonia between 2008 and 2017, with a similar amount exiting. The country's GDP for the same period was only €184.9 billion.



Note: Danske pulled the plug on nonresident depositors at its Estonian branch at the end of 2015; €1 = \$1.15; \$1=6.51 Danish krone

Sources: Estonian Central Bank (cross-border); Danske Bank (foreign customers, money); Eurostat (Estonia GDP)

ing to open a U.S. branch. In late 2012, Denmark's FSA issued a statement of support to the Federal Reserve saying that Danske followed correct anti-money-laundering procedures.

Danske's anti-money-laundering chief later emailed colleagues about issues at the Estonian branch, saying: "The Danish FSA has helped the Bank in a critical situation. They are now very worried that any situation may arise."

Danske and the Federal Reserve declined to comment when asked about the exchange.

In 2013, Mr. Borgen, the charismatic chief of international banking, became Danske's CEO. "People were in awe of" him, a person close to the board said. "He was producing these enormous returns."

At a meeting that year of the European Banking Authority, with top officials from across the Continent present, a shouting match erupted, said people familiar with the session. The Estonians yelled that criminal Russian money was washing through their country, and Denmark was doing little to stop it.

"In simple terms, we were

quite pissed off," said Raul Malmstein, then-chairman of Estonia's FSA.

Mr. Wilkinson's daughters had finished opening their presents on Christmas 2013 when, in the holiday calm, a thought buried deeply away came to mind. Had Lantana—the London business that moved millions through the Estonian bank while listing its assets as zero—properly amended its filing to U.K. authorities, as he'd been told 18 months before?

**'Dear Sirs: The bank may...have committed a criminal offense,' an employee wrote.**

The day after Christmas, Mr. Wilkinson spent another pound to download Lantana's amended filing. On the third page, Lantana said that as of May 31, 2012, its bank accounts held £15,689, equal to about \$20,500. Bank records showed it had close to \$1 million on deposit with Danske that day.

Lantana had replaced one lie with another. Worse, some of Mr. Wilkinson's colleagues probably knew, he guessed. "At that point there's a problem, and the question is how big is the problem," he said.

The next morning, Mr. Wilkinson emailed four Danske officials with the subject "Whistleblowing disclosure — knowingly dealing with criminals in Estonia branch."

"Dear Sirs," he wrote. "The bank may itself have committed a criminal offence.... There has been a near total process failure."

Mr. Wilkinson imagined Danske's executives would investigate, make changes, and they'd all share a pleasant handshake. Two days later, a bank executive dashed off a terse response on his phone to Wilkinson: "Thanks for drawing our attention to this. It

must be investigated asap." "regards"

Danske's executive board met during the first week of 2014, now with Mr. Borgen as CEO. The Christmas whistleblower email was discussed, but board members weren't provided a copy and it didn't cause much alarm, according to two people familiar with the meeting.

The board had other incoming items. JPMorgan Chase & Co. had ceased clearing dollars for the Estonian branch over money-laundering concerns at nonresident accounts. Also, with the financial crisis fading, European banks had less appetite for taking on risky clients. The Estonian branch had proposed a freeze on some new clients deemed too risky, according to a Danske PowerPoint document.

Mr. Borgen offered an alternative plan, said people close to the board: Sell the branch.

Two days after that meeting, Danske management received another email from Mr. Wilkinson. He had checked three more clients. All three had filed false assets and income reports to the British authorities, he wrote.

In Estonia, the Englishman's campaign infuriated co-workers: "We're not the police," a branch executive snapped in one heated meeting, Mr. Wilkinson recalled.

One day around February 2014, Estonian government inspectors barged in, without permission from Copenhagen, and pulled thousands of documents. They sent Danske Bank a scathing, 340-page report listing lengthy violations.

It was in Estonian. It wasn't translated into English or Danish for another three years.

Danske management did order an internal audit team to do some digging. A report it prepared was damning. A summary said the Estonian branch wasn't able to identify the true source of funds—a basic banking requirement—and "therefore acts against [anti-money-laundering] legislative principles."

The draft report said the branch's head of international

banking, who helped oversee nonresident accounts, told auditors his employees weren't recording the true owners of the companies because "it could cause problems for clients if Russian authorities request information." The banker couldn't be reached for comment.

In March 2014, Mr. Wilkinson checked what 12 additional Danske clients had reported to British authorities. Each moved millions but reported scant income or assets. Mr. Wilkinson made a total of four complaints. He didn't find a single Danske client that correctly reported its income where it was registered.

It took a phone call to break Mr. Wilkinson's zeal.

The audit team's draft report was being watered down under pressure, an auditor called to tell him. The bank's auditing chief wouldn't give him a copy.

The report would permanently remain a draft. If it was made final, Denmark's banking supervisor would have access.

In April 2014, a colleague told Mr. Wilkinson that Estonian branch management had been listening to recordings of his calls with auditors.

He resigned. "I've decided it's time to do something else," he emailed management.

Seconds later, he sent an email he had pre-written to Danske's chief risk officer: If Danske didn't report the false accounts to Estonian police, then he would.

Three hours later, the officer responded: "I can assure you that the issues you have raised are receiving a huge amount of attention both locally and in Copenhagen."

Danske Bank's top legal officer hired a consulting firm to investigate allegations. The hiring decision was overturned by two executive-board members.

In June, the board of directors met. Mr. Borgen had told colleagues two banks were considering buying Danske's Baltic portfolio, including the Estonian branch. Let the business carry on a bit longer, he said.

Board members swallowed their misgivings, according to people familiar with the session.

### 'My Own Small Bit'

Danske didn't find a buyer for the Baltic business. In 2015, the last correspondent banks still processing U.S. dollar transactions for the Estonian branch said they would stop, on money-laundering concerns. Late that year, Danske pulled the plug on its nonresident business.

In early 2017, Danish newspaper Berlingske published reports describing Danske Estonia money-laundering schemes. In September 2017, Danske opened an internal investigation.

As Danske's investigators, based partly on Mr. Wilkinson's tips, combed through stacks of transaction records, the scale of the money flows remained a mystery. After a year of work, the investigators had managed to review less than half of the branch's 15,000 clients.

"The vast majority of these customers have been deemed suspicious," Danske said in the September report of its internal investigation.

The investigators determined that the branch had handled €200 billion, equal to \$233 billion, in largely suspicious transactions. They were unable to figure out who owned the lucrative nonresident companies that banked there. Those clients' money has long since vanished into a labyrinth of offshore companies around the globe.

The internal investigation mostly exonerated top management, including Mr. Borgen. It accused dozens of low-level employees of wrongdoing.

Mr. Borgen said he would resign as CEO nonetheless. "Danske Bank has failed to live up to its responsibility," he said. "I deeply regret this."

Mr. Wilkinson was following events from the kitchen table of his countryside home. Even he was flabbergasted by the scale. "Surreal," he says.

If he filed any whistleblowing claims to the SEC, there is the possibility under U.S. law he could collect a portion of any fine against the bank. His lawyer declined to comment on whether he has spoken with U.S. or European law enforcement, citing Estonian bank-secrecy laws.

These days, the Englishman looks after his daughters. Sometimes in the evenings, he occupies his mind with a Bletchley Park cipher puzzle book, named after the team of World War II codebreakers that cracked Germany's secret Enigma encryption.

"I've done my own small bit," he said.



Thomas Borgen, right, led Danske Bank and championed its unit in Estonia. He resigned after the report of an investigation.

MADS CLAUS RASMUSSEN/SCANDPIX/AGENCE FRANCE PRESSE/GETTY IMAGES

# GREATER NEW YORK

## Debate Fires Up Cuomo and Molinaro

Governor says his rival is a Trump 'mini-me'; Republican claims the incumbent is tainted

BY JIMMY VIELKIND

Gov. Andrew Cuomo went full-bore against his Republican challenger Marc Molinaro Tuesday during a televised debate in which both men threw accusations of corruption and talked over each other about mass transit, taxes and health care.

Mr. Cuomo is seeking a third term as governor, and has campaigned by touting his record—including infrastructure upgrades—and attacking President Trump and other national Republicans. The governor called Mr. Molinaro a "mini-me" and "acolyte" of the president.

Mr. Molinaro, the Dutchess County executive who has held government positions since he was a teenager, has criticized Mr. Cuomo for the criminal convictions of two former top lieutenants—Joe Percoco and former SUNY Polytechnic Institute President Alain Kaloyeros—on federal charges.

Mr. Molinaro is trailing by more than 20 points in polls and, as of two weeks ago, had \$9 million less in his campaign war chest than Mr. Cuomo. The debate was a unique chance for Mr. Molinaro to gain equal



Republican Marc Molinaro, right, and Gov. Andrew Cuomo, left, sparred on Tuesday over corruption accusations and a slew of issues.

development and energy contracts, and Mr. Kaloyeros was found guilty of rigging the bids on high-tech facilities built by SUNY Poly.

Mr. Cuomo responded by attacking a job that Mr. Molinaro's wife, Corinne Adams, had with Tinkelman Bros. Development Corp., which has contributed to Mr. Molinaro's campaigns. Ms. Adams did marketing for a project that received tax breaks from Dutchess County's Industrial Development Agency. Democrats in the Dutchess County Legislature have called for a probe; Mr. Molinaro said his wife was hired on the merits and didn't influence any county actions.

"I understand about Joe Percoco. This is about you and me," Mr. Cuomo said. "No one's saying I did anything wrong. They're saying you took a kickback."

The candidates also spoke about medical marijuana (both say the state's program should be expanded), a system of single-payer health care in New York (neither have embraced it) and funding for the Metropolitan Transportation Authority. Mr. Molinaro said more should be done to cut costs at the agency; Mr. Cuomo said that position is unrealistic and that billions more are needed to upgrade New York City's subways.

## Neighbor's Home Searched in Killing

BY ZOLAN KANNO-YOUNGS

Investigators have identified evidence potentially linking a neighbor to the killing of a 70-year-old woman found with her throat slit in her Upper West Side apartment, the New York Police Department said.

Police searched the home of the neighbor after identifying her as a "person of interest" in the homicide of Susan Trott, NYPD Chief of Detectives Dermot Shea said at a news conference Tuesday.

"We believe the answers are within that building," Chief Shea said, adding that police are reviewing video footage from the building on

West End Avenue near West 95th Street.

Investigators have located the neighbor and are still processing the collected evidence to build enough probable cause to arrest her, another senior law-enforcement official said.

Police found the body of Ms. Trott, a longtime copywriter and advertising executive, inside her 14th-floor apartment on Sunday.

Ms. Trott and the neighbor weren't close, the senior official said. "It's not like they had an ongoing relationship," the official said. "If they didn't live in the same building, they could [have been] strangers."

Ms. Trott was "creative and

energetic," but also could be "confrontational," said Lew Young, 60, another neighbor who said he had interacted with Ms. Trott in their apartment building.

*The 70-year-old victim was found dead in her Upper West Side apartment.*

"There were people who found it difficult to deal with her because she was opinionated and determined when she thought something was right,"

tered the U.S. illegally and a \$1.5 trillion tax bill that curbed the deductibility of state and local taxes—a provision that Mr. Cuomo estimates will cost New Yorkers \$14.3 billion in savings this year. Mr. Molinaro has spoken out against the deductibility limits.

"Do you support Donald Trump?" Mr. Cuomo asked five times in a row. Mr. Molinaro said he supports the president's economic policies. He then challenged Mr. Cuomo's

ties to Mr. Trump, a longtime real-estate developer who contributed \$64,000 between 2000 and 2009 to Mr. Cuomo's campaigns.

An early squabble came over corruption. Mr. Molinaro alluded to the convictions of Messrs. Percoco and Kaloyeros, and accused the governor of presiding over "the most corrupted state government in America." Mr. Percoco was found guilty of taking bribes from people seeking state de-



Democrat Ned Lamont, left, and Republican Bob Stefanowski

By JOSEPH DE AVILA

Republican Bob Stefanowski and Democrat Ned Lamont are locked in a tight race for governor in Connecticut, according to a Sacred Heart University and Hearst Connecticut Media Group poll released Tuesday.

Mr. Lamont, a cable television entrepreneur, leads Mr. Stefanowski, a former business executive, 39.5% to 36.1%. The poll surveyed 501 likely voters and has a margin of error of plus or minus 4 percentage points.

Oz Griebel, an independent candidate, received 8.4% support in the poll.

Mr. Lamont's lead over Mr. Stefanowski has shrunk in recent weeks. A similar poll from September had Mr. Lamont leading 43.1% to 36.9%.

"We believe this race will continue to move in Stefanowski's direction as voters realize that Ned Lamont's policies are the same ones that put our state in its current position," a spokesman for the Stefanowski campaign said.

The state's economy has performed sluggishly in recent years, and the next governor will have to close a \$4.4 billion budget gap during the next two fiscal years.

A spokeswoman for the Lamont campaign didn't immediately return a request for com-

ment. Mr. Lamont has said Mr. Stefanowski's plan to phase out the state income tax is irresponsible and would produce painful spending cuts and property tax increases.

Other polls have shown Mr. Lamont with a larger advantage. A Quinnipiac University survey released earlier this month showed Mr. Lamont leading by 8 percentage points. The Cook Political Report rates the race as a tossup.

Current Gov. Dannel Malloy, a Democrat, declined to run for a third term.

Mr. Stefanowski is winning the fight for unaffiliated voters. Voters who don't belong to any party favor Mr. Stefanowski 43.2% to 24%, according to Tuesday's poll.

Some 22% of voters said the state's high tax burden is the most important issue when deciding who will get their vote, according to the poll.

Nearly two-thirds of likely voters said they support raising taxes on millionaires if the state can't fix its budget problems by cutting spending, the poll showed.

Support for highway tolls was split along partisan lines. About two-thirds of Democrats said tolls would be an effective way to pay for highway improvements, the poll said. Some 62% of Republicans disagreed.

## A Speakeasy Without the Spirits Pops Up

BY CHARLES PASSY

New York City has plenty of places to enjoy a cold beer or even the most rarefied of whiskeys. It is now about to get a watering hole of an altogether different sort. Namely, a booze-free bar.

Listen Bar, a pop-up establishment, opens Wednesday in Brooklyn's Williamsburg neighborhood for a four-night run. The concept is billed as a space that features all of a bar's traditional offerings—from the late hours to the "sassy bartenders"—but simply without the alcohol.

And it aims to appeal to New Yorkers who have given up alcohol but feel stigmatized when they order a booze-free drink at a bar, proprietors say.

"It's a market that's really underserved," said Listen Bar founder Lorelei Bandrovski, a former advertising copywriter who now works as a business consultant.

Ms. Bandrovski said the short-term establishment, situated at 109 S. Sixth St., is a



Matt Bray tended the alcohol-free bar at Listen Bar in Williamsburg.

test for a permanent one she hopes to open in Brooklyn next year. She declined to reveal the budget for the pop-up.

Ms. Bandrovski enlisted several prominent bartenders

and mixologists in the city, including Jack McGarry of the Dead Rabbit and Pamela Wiznitzer of the Henry at Life Hotel, to design the booze-less offerings.

The drinks, priced from \$10 to \$13, are designed to be more complex and "grown-up" than the overly sweet mocktails found on many bar menus in town, Ms. Bandrovski said.

An example of Listen Bar's offerings is the Time Travel, featuring a mix of spices with smoked honey and Thomas Henry's Slim Tonic, a boutique tonic water.

Thomas Henry brand ambassador Chockie Tom, who created the cocktail, said alcohol-free drinks shouldn't be seen as inferior in quality.

"I think it's just another way to enjoy flavors," she said.

Some in the bar world find the idea of an alcohol-free establishment hard to fathom.

"It's more of a gimmick," said Michael Dounoulis, general manager of Soho Cigar Bar, which is known for its extensive whiskey selection.

Spirits have their place in moderation and a bar isn't the same without booze, Mr. Dounoulis said. "You don't say, 'Cheers,' with a glass of juice," he added.

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## GREATER NEW YORK

METRO MONEY | By Anne Kadet

# Bagpipes, Urdu? After-School Options Abound



Kids these days! Not long ago, options for private, after-school instruction typically were limited to basics such as tennis and piano lessons. But in 2018, New York City kids are learning to DJ, make sushi, build robots and direct documentary films. On Manhattan's West Side, they're mastering Urdu, and on the East Side, lightsaber fitness. In Brooklyn, they're learning the art of glass-blowing.

At Frolic, a Manhattan school where kids learn about dogs, children in its \$850, 10-class "puppy raiser" program are studying how to train a service animal. Last week, students attended a welcome party for the yellow Lab puppy they'll be working with at the school. The children oohed and aahed when Director Vanessa Marin paraded the pup into the playroom and announced her name. "It's Tesla, like the car," she said.

The children practiced staying calm and attaching the puppy's leash. Tesla, in turn, practiced chewing her service-dog vest and tried to eat a pee pad. When Tesla is 14 months old, she will be turned over to the nonprofit Guide Dog Foundation, where she will be trained by professionals to be a Seeing Eye dog and then placed with a blind person.

"I think she's going to do really well," declared 12-year-old student David Simpson.

He says the program is teaching him how to socialize his new sheepadoodle, Nash. His parents know their way around dogs and probably could show him the basics, he says, "but not as well as me, since I did this."

New York, service-dog training is just the start. Solomon Liou, founder and chief executive officer of KidPass, an online platform

that lets members sample children's classes around the city, says his service partners with 2,000 providers offering 20,000 different classes and activities. He believes this represents just 25% of a growing market.



**At Frolic, a Manhattan school where children learn about dogs, Vanessa Marin, above, introduced a puppy named Tesla to a class. Below, Ruby Dukach-Altman listened during an after-school class in comedy improv offered by performing-arts school Creative Stage.**



sure, when it comes to her 9-year-old son, to "keep up with the Joneses," she says. "You find out so-and-so is doing circus performance and say, 'Well, I want my kid to play the bagpipes.'"

Ms. Bender, whose Manhattan school offers courses in comedy improv, costume design and filmmaking, says her two-hour classes typically require two or three instructors—an accomplished theater professional earning up to \$70 an hour, and a co-teacher or assistant paid up to \$30 an hour. Classes usually are capped at 12 students, with each paying \$500 for an 11-class series.

In Hell's Kitchen on Manhattan's West Side, kids are indeed learning to play the bagpipes—wheezing their way through traditional marches, jigs and hornpipes. But their ranks are slim.

While there is room for 10 students, the class usually draws three to four, says Jessie Reilly, associate director of education and community programming for the Irish Arts Center, which organizes the class. The bagpipes are difficult and no matter how good you get, they still sound like bagpipes.

"They're so loud, no one wants to host the class," she says. "We've been kicked out of numerous rental studios."

**B**ut like many nonprofits offering kids classes, the center's goal is simply to promote the arts and hopefully break even, Ms. Reilly says.

Others see big opportunity in the after-school scene. At the start of the year, architect Gregory Okshteyn launched Playday, a storefront space with classes that operate like a yoga studio. Parents buy a 10-pack of sessions and use the school's online reservation system to pick and choose from a variety of classes ranging from "celebrity embroidery" to hip-hop dance. There even is a stencil class based on the works of Banksy.

Class ideas often are suggested by his 7-year-old daughter and 11-year-old son, says Mr. Okshteyn, who teaches architecture, Ping-Pong and chess. "They are perfect barometers."

Playday is growing fast. After launching in Long Island City, Queens, Mr. Okshteyn opened a second location near Gramercy Park in Manhattan in September and is preparing a third in Tribeca.

With city schools tightly focused on testing and the basics, he says, demand for after-school fun will only increase. "Not all children love soccer," he says. "There needs to be alternatives."

*anne.kadet@wsj.com*

## GREATER NEW YORK WATCH

## HEALTH

## Virus Kills 6 Children, Sickens 12 at Center

A severe viral outbreak at a New Jersey rehabilitation center for "medically fragile children" has left six youngsters dead and 12 others sick, the state Health Department said Tuesday.

There have been 18 cases of adenovirus at the Wanaque Center for Nursing and Rehabilitation in Haskell, about 30 miles northwest of New York City, the New Jersey Health Department said.

The strain afflicting the children usually is associated with acute respiratory illness, according to the Centers for Disease Control and Prevention.

The Health Department didn't release the ages of the victims or discuss the severity of the illness in the other dozen cases.

The six deaths occurred this month, according to Health Department spokeswoman Donna Leusner. The facility was instructed not to admit new patients until the outbreak ends, and the Health Department said the number of new cases appears to be decreasing.

Gov. Phil Murphy said he is "heartbroken" about the deaths.

—Associated Press

## NEW JERSEY

## Business District Fire Leaves 100 Homeless

More than 100 people are homeless after a fast-moving fire ripped through the business district of a New Jersey town, destroying multiple establishments.

Firefighters remained on the scene Tuesday, hours after the blaze broke out in the basement of a luncheonette in downtown Dover on Monday afternoon, officials said.

The fire, fed by natural gas, spread quickly to surrounding structures in the Morris County town, they said.

No one was hurt, but six businesses were destroyed and two buildings collapsed.

Dover Mayor James Dodd said the community has been developing the downtown area and the fire couldn't have come at a worse time.

—Associated Press

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**DIANE LANE**

**RULES ON 'HOUSE OF CARDS' & 'THE ROMANOFFS'**

10/24/18

## Developers Pull Plug On Observation Wheel

The investors in a proposed 630-foot-high observation wheel on Staten Island announced Tuesday they aren't moving forward with their plan.

The New York Wheel was first proposed in 2012 as a major attraction on the Staten Island waterfront, but construction on the project stalled more than a year ago.

Lead partners Lloyd Goldman and Jeffrey Feil told The Wall Street Journal in September that they were close to leaving the project after Mayor

Bill de Blasio's administration declined to support a \$380 million tax-exempt bond sale that would have allowed them to restart the stalled project. On Tuesday, the developers declared the project dead.

The city will work with the Staten Island community to find another use for the location, which is near the St. George Terminal for the Staten Island Ferry, said a spokeswoman for New York City's Economic Development Corp.

—Katie Honan

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# LIFE & ARTS

## FILM

## On Screen, Watergate Is Still Unfolding

A new documentary sheds light on the political scandal that has long fascinated moviemakers

BY DON STEINBERG

**W**hen director Charles Ferguson set out to make a comprehensive documentary on the Watergate political scandal, he had to decide how to present information from more than 3,000 hours of President Richard M. Nixon's once-secret office tape-recordings.

Mr. Ferguson, who won an Oscar for his 2010 documentary, "Inside Job," edited transcripts of the recordings for length and clarity, without adding or changing words. The audio quality is poor and the President and his men frequently rambled. So he had actors dramatize them.

"I could have played the tapes themselves, but that would have inflicted a great deal of pain upon the audience," Mr. Ferguson says.

"Watergate, or: How We Learned to Stop an Out of Control President," assembles new interviews with key players and hours of vintage footage into a six-episode film that airs on the History Channel Nov. 2-4.

It looks back at events that be-



gan with the June 1972 break-in at Democratic National Committee headquarters in the Watergate complex in Washington. The fallout led to Nixon's resignation in August 1974.

Mr. Ferguson never alludes to current-day events while presenting the story of a U.S. president under investigation, lashing out at the media, the Justice Department and the FBI.

"I felt that the best way that a treatment of Watergate could help people think about the current situation was simply to show what really happened then," Mr. Ferguson said.

Douglas Hodge, a Tony Award-winning British actor who once played Willy Wonka in a stage musical, portrays President Nixon. The small cast filmed scenes in a replica of the Oval Office built on an abandoned air base in England.

Watergate dramatizations are nothing new. Like Abraham Lincoln and Elvis Presley, Richard Nixon has become a recurring on-screen character, and the Watergate scandal an American fable. Below, a look at how each decade has cast a new cinematic light on the subject.

### 1970s: What Just Happened?

"All the President's Men" (1976)

Long before the book and film about the scandal, Robert Redford thought the principal drama in Watergate was the investigation by Washington Post reporters Bob Woodward and Carl Bernstein. While the reporters were working on the 1974 book that became the basis of the film, Mr. Redford suggested that they make themselves the main characters. Envisioning "All the President's Men," as a detective-story film, Mr. Redford enlisted William Goldman ("Butch Cassidy and the Sundance Kid") to write the Oscar-winning screenplay. The 1976 film, starring Mr. Redford (left) and Dustin Hoffman (at typewriter) as the reporters, inspired a generation of journalists.

**What We Learned:** How the names in the news, such as White House Counsel John Dean, Chief of Staff H.R. Haldeman and political operative Donald Segretti, all fit together. And how the burglary was among a series of misdeeds by CREEP, the Committee to Re-Elect the President.



President Nixon at his desk in June 1972, the month that a break-in at the Watergate complex in Washington unleashed a political scandal. He resigned two years later. For decades, filmmakers have dramatized the tale on screen.

### 1980s: Nixon Under Analysis

"Secret Honor" (1984)

Director Robert Altman's "fictional meditation" aims to reveal the character of Richard Nixon. In a one-man show as the ex-president, actor Philip Baker Hall performs an 87-minute soliloquy. He dictates his fictional memoir into a tape recorder, working his way through a bottle of Chivas Regal, with a loaded revolver on the desk. He reveals that he cooked up Watergate so he could resign and avoid worse catastrophe. He says he had risen to power starting in 1945 as a puppet of an organization called the "Committee of 100," which demanded that he continue the war in Vietnam indefinitely. It was all to fund mob-connected business interests, including heroin trade with China. Unwilling to sacrifice more American lives, he chose the "secret honor" of resigning in disgrace.

**What We Learned:** That demons drove President Nixon. This fictional portrait depicts him as delusional, resentful, and power-mad—and the product of hard-scrabble roots. He grew up poor in a Quaker family. He lost two brothers to childhood illnesses. He acted, played piano and worked as a teenage carnival barker.

### 1990s: Watergate Becomes Nostalgia

"Dick" (1999)

Here's Watergate as a 1970s pop-culture meme, along with purple bell bottoms and Jackson Five singles. "Dick" occasionally parodies "All The President's Men" directly. Kirsten Dunst and Michelle Williams play ditzy 15-year-olds who witness part of the break-in while sneaking out to send fan mail to teen idol Bobby Sherman. Amid the cover-up, they're brought into the White House,

where Ms. Williams sings Olivia Newton-John into the President's tape recorder (the 18 minutes famously erased). When they prank-call the Washington Post, they become the secret source known in real-life investigations as "Deep

Throat." The cast includes Dan Hedaya as President Nixon (above), Harry Shearer as G. Gordon Liddy and Will Ferrell as Bob Woodward.

**What We Learned:** The comedy is goofy but plays off real events. It provides new explanations for everything from John Dean's congressional testimony to Nixon's Soviet arms-control agreement.

### 2000s: Politics as Entertainment

"Frost/Nixon" (2008)

Ron Howard's film, written by Peter Morgan, takes liberties dramatizing the 1977 interviews of President Nixon by British TV host David Frost. The movie sets up a kind of prizefight between the master manipulator, Frank Langella as Nixon, and the out-of-his-depth entertainer. The ex-president expected puffed-up questions but Mr. Frost (Michael Sheen) turns the tables, prodding President Nixon to admit he participated in a cover-up and let the country down. In real life, Nixon

didn't confess to a cover-up.

**What We Learned:** By the 2000s, politics was becoming TV entertainment, and these interviews had helped start that. Mr. Frost made Mr. Nixon a business partner, paying him \$600,000 (and, though the film doesn't mention it, 20% of profits from the interviews).

### 2010s: New Revelations

"Mark Felt: The Man Who Brought Down the White House" (2017)

Mark Felt, former No. 2 man at the FBI, confessed in 2005 that he was

Deep Throat. His story took more than a decade to reach movie screens as a political thriller. Mr. Felt, played by Liam Neeson, is shown as the consummate G-man, in line to become FBI boss. But when Director J. Edgar Hoover dies in 1972, the administration installs loyalist L. Patrick Gray as acting director instead. Mr. Gray and the president's men pressure Mr. Felt's team to end its Watergate investigation, leading him to leak information to the press. In a subplot that echoes Mr. Neeson's role in the 2008 thriller "Taken," Mr. Felt is searching for his daughter, who has run away to a hippie commune.

**What We Learned:** The White House had suspected Mr. Felt early on. He leaked information to Time magazine as well as the Washington Post. He also never said "follow the money"—as Deep Throat does in "All The President's Men." Whether he brought down the White House by himself is debatable, but the story shows you shouldn't make enemies of powerful "good guys" who know too much.

### THE BURNING QUESTION | By Heidi Mitchell

## WHAT'S THE BEST WAY TO TAKE NOTES?

### Laptop vs. Paper

On digital devices, incoming messages and other notifications are distracting. True, at an average of 30-to-40 words a minute, a keyboarder will likely take more complete notes, but a longhand writer (averaging 20 or so words a minute) will tend to paraphrase, which is helpful in the learning process. "When you paraphrase you are filtering the information and putting your own stamp on it, understanding it," Dr. Kiewra says. Laptop note-takers, he adds, may get stuck if the speaker draws a graph, though they could pull out a smart phone and take a photo; a writer can simply sketch it out.

While the psychology professor doesn't know anyone who uses one of the major systems of shorthand, he says most people ultimately come up with their own ways to accelerate writing, by dropping vowels or creating symbols for commonly used words. "Longhand writers also do something called 'signaling' in their notes," says the professor. "They might bold words or use all capitals, write in the margins, draw arrows, create a hierarchy. There is a lot more thinking going on than verbatim typing allows."

The act of writing longhand and organizing helps the writer reach abstract conclusions and store the material in the brain, he says.



If you're taking notes in a class or meeting, some tips can make them more useful.

Studies have shown that students who type notes in class perform worse on conceptual questions than those who use pen and paper. But typing isn't a deal breaker as long as typists go over their notes and follow certain methods for processing the information, Dr. Kiewra says.

### Serious Strategies

Whether typing or writing, people tend to be pretty poor at note-taking, taking down only about a third of relevant information, Dr.

Kiewra says. While typing may result in too much information, writing in longhand may lead to missing the big points.

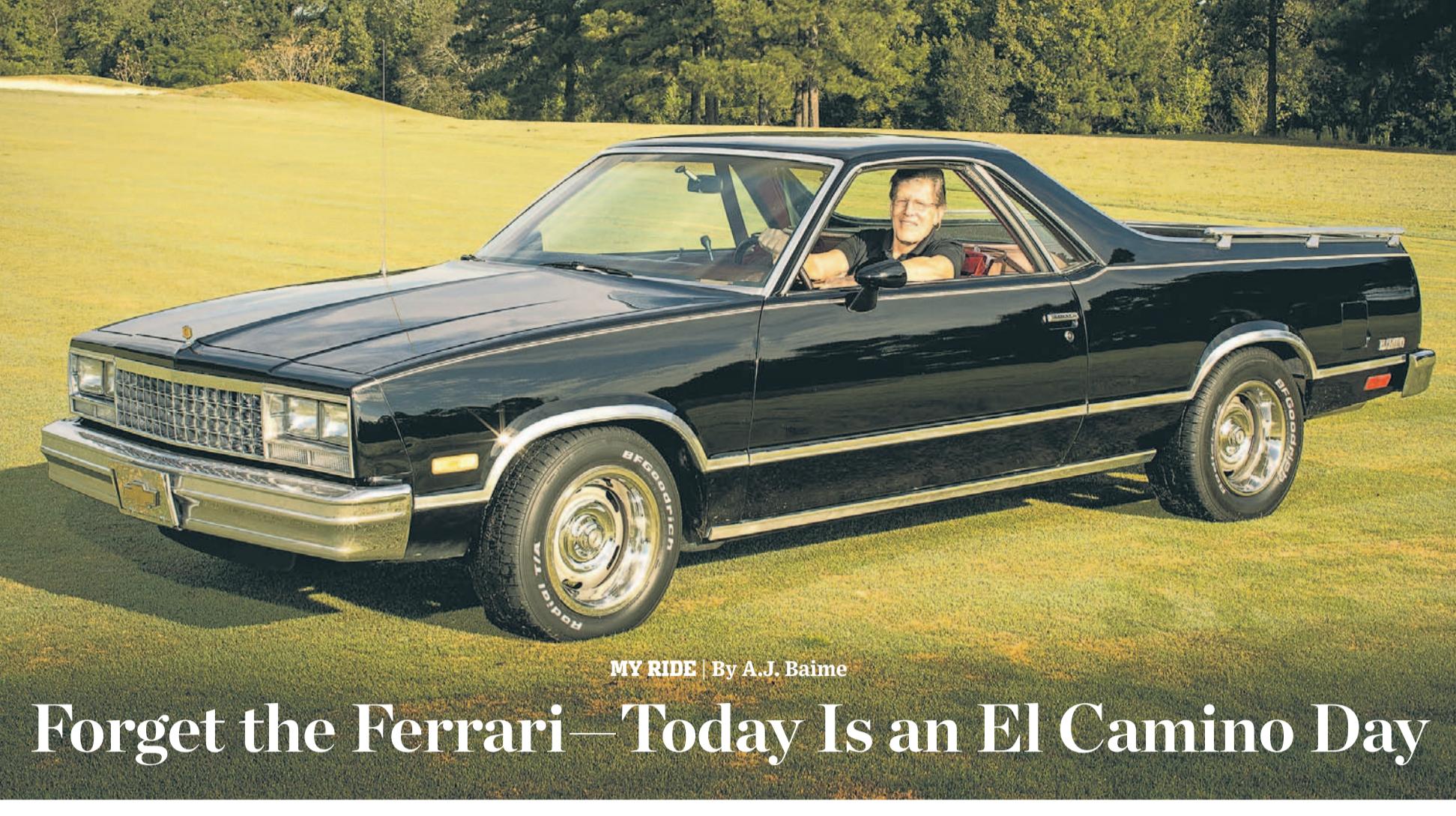
To avoid these pitfalls, Dr. Kiewra created a study method he calls SOAR (Select Organize Associate Regulate). After taking complete notes, the writer "selects" important information: This can mean taking lots of notes on a keyboard then editing them down, or highlighting points in written notes. Either way, "starting with more notes is better, because people tend to be overly selective," leaving out important learning tools such as examples, he says.

The next step is to organize those notes, in order to easily grab critical details and see bigger themes. These notes often look like a matrix, with topics across the top, categories along the side, and details and examples in the cells, he says. Then comes "associating," in which you look over the notes and try to make connections to your own experience or create a memory trick to sear salient points into your brain. The final step is to "regulate": Go over the organized notes and see if they make sense and lead to a deeper understanding. This SOAR method, he says, can help whether you're taking a history class or processing what just happened in a major meeting.

### Old-School Transcribers

Even if you record an interview or lecture, transcribing word-for-word isn't enough to result in deep processing, Dr. Kiewra says. Though studies show the act of taking notes by typing or longhand helps with memory retention, they should be thought of as raw ingredients that can help reach a deeper understanding of the material later on, he says: "If you don't do anything with the notes you took in the moment, they are basically useless."

## LIFE &amp; ARTS



MY RIDE | By A.J. Baime

## Forget the Ferrari—Today Is an El Camino Day

*Chuck Grantham, a book publisher from Raleigh, N.C., on his 1985 Chevrolet El Camino, as told to A.J. Baime.*

I never had any kids. I worked, I raced cars, I jumped out of airplanes and I guess I ran out of time. Today, my cars are like my kids. I would not call myself a big-time collector, but I have a Ferrari F430, a Mercedes-Benz AMG, a Porsche and a Cadillac Eldorado. Every morning I come into my garage and I say to myself, "What am I going to drive to work today?"

The El Camino is the car with which I have had the longest connection. It started 32 years ago, when I bought my first one. I drove it for 15 years and it died, so I bought a second one and drove that one for 15 years. It was a fire-breather with loud mufflers. I loved the shape of it, and I loved the functionality.

Was it a car? A pickup truck? It was both. In fact, when Chevrolet launched this model way back in 1959, the sales line was, "More than a car—more than a truck."

Chevy built this model for roughly 30 years. Today it is a cult classic. There are not that many of them

left, but you can buy good ones for pretty cheap if you look around.

The car you see here I bought two years ago. My second El Camino was on its last legs, and I found a small dealership about 50 miles from where I live that specialized in these cars. I drove down there with my business partner.

When I walked into the dealership, I saw about a dozen El Caminos. The first one I laid eyes on was an exact replica of the beat-up one I was currently driving, only it was in better shape. So I traded my old El Camino for it, plus \$5,000.

After three decades of El Camino ownership, I decided to make this one a celebration of all the work I did over the years with my other ones. I replaced the chrome, got new carpet and did some work on the engine.

You know how people have idiosyncrasies—the things they love that do not always make much sense to others? El Caminos are mine.

Contact A.J. Baime at [Facebook.com/ajbaime](https://Facebook.com/ajbaime).

**Chuck Grantham sits in his 1985 Chevrolet El Camino in Southern Pines, N.C. He has owned El Caminos for 32 years. He did some work to refurbish the interior, below. He puts descriptive license plates on his cars. His Ferrari's says 'FASSST.' This car's is self-explanatory, left.**



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## UP NEXT

## THE LATEST IN NETFLIX'S YOUNG-ADULT PUSH

BY JOHN JURGENSEN

**FROM AGES 6** through 15, Kiernan Shipka played Sally, Don Draper's gimlet-eyed daughter on "Mad Men"—an Emmy-winning television series that was decidedly not intended for viewers her age.

Now 18, she is stepping into a lead role with "Chilling Adventures of Sabrina," premiering Friday on Netflix. Its mashup of horror, comedy and high-school drama is aimed primarily at an audience of her peers.

"As someone who grew up on a show with a fan base that was largely 30-plus," Ms. Shipka says, "there is a part of me, deep down, that's very excited to make something people my age are super-pumped about."

"Sabrina" is part of a growing franchise of Archie Comics-based TV shows, starting last year with "Riverdale," a contemporary take on the escapades of Archie, Betty, Veronica and Jughead.

Both series were developed and executive produced by Roberto Aguirre-Sacasa, the chief creative officer for Archie Comics. As a writer, he incorporated plotlines from other genres to freshen the characters, including one series that brought a zombie plague to Archie's hometown.

"Riverdale" airs on the CW, and "Sabrina" was also developed for that broadcast network before Netflix picked it up. The streaming service has made a push into young-adult programming, including licensing past seasons of "Riverdale." It ordered 20 episodes of "Sabrina," which are being released in two parts.

As the title character on "Sabrina," Ms. Shipka is half-mortal, half-witch, wrestling with whether to sign her name in blood during a "dark baptism" and pack off to the Academy of Unseen Arts—a decision that would take her away from her boyfriend and other loved ones.

Despite the just-in-time-for-Halloween supernatural elements, "Sabrina" is a cauldron for relatable issues, Ms. Shipka says, including female empowerment and the pressure adults put on young people.

"There's so much of this that is analogous to the teenage experience. A lot of times you're told you have only one option or the other," she says. "This is about growing up and deciding your own path."

"Chilling Adventures of Sabrina" begins streaming Friday on Netflix.

Ross Lynch and Kiernan Shipka in "Chilling Adventures of Sabrina," a new TV series that mashes up horror, comedy and high-school drama.



NETFLIX

## LIFE &amp; ARTS

## CULTURAL COMMENTARY

# A Zombie Classic Gets a New Life

George A. Romero's 'Night of the Living Dead' is 50 years old this month

BY DAVID MERMELSTEIN

**THE MOST SHARPLY** etched genres achieve their proportions by way of just a few seminal examples. And horror movies are no exception. The gnarled roots go deep, with "Dracula" and "Frankenstein"—both from 1931—certainly elemental. Ditto the silent version of "Phantom of the Opera" (1925) starring Lon Chaney in his most macabre role. But not all horror milestones spring from the distant past. Take George A. Romero's "Night of the Living Dead," which is 50 years old this month.

To mark the occasion, Fathom Events is screening an extraordinary 4K transfer of the movie in roughly 600 U.S. theaters on Oct. 24 and 25. (The film will also screen internationally through the first half of November.) And those otherwise engaged on those dates—perhaps a monthly witches' coven or satanic prayer circle—can watch the picture in the comfort of their own haunted houses thanks to the Criterion Collection, which in February released a double-disc Blu-ray package featuring the same transfer and a host of bonus features.

The transfer, which was supervised by Romero not long before his death at age 77 last year, comes as a revelation, because this black-and-white movie is mostly known via appalling prints. A lamentable oversight led to its falling into the public domain immediately after release in 1968, and so most who watched the picture inextricably linked its independent spirit, low-budget locations and crude effects with poor image quality and muddy sound.

In fact, Romero's influential first feature—which he not only directed, but also co-wrote, shot and cut—is well lighted, carefully blocked and never claustrophobic. And anyone who thinks he already knows this film but hasn't seen the new transfer is in for a shock almost as startling as when those zombie hands start clawing through the wooden barricades that the movie's hero, Ben (a charismatic Duane Jones), hastily erected in the farmhouse where most of the action takes place. The plot, though, remains thin. Seemingly from nowhere, hulking zombies threaten an unsuspecting population. The beasts are slow and dull, deriving strength only in numbers. Their human victims ought to retain the advantage, yet their frac-



A scene from George A. Romero's 'Night of the Living Dead' (1968); Romero not only directed, but also co-wrote, shot and cut the film.

tiousness undermines any superiority—disunited they fall. And therein lies the drama.

"Night of the Living Dead" is not, strictly speaking, the first zombie movie. Among others, "White Zombie" (1932), starring Bela Lugosi, and "I Walked With a Zombie" (1943), directed by Jacques Tourneur of "Cat People" fame, preceded it. Indeed the word zombie, which previously carried Caribbean connotations, is never even spoken by Romero's characters; the creatures are referred to as flesh-eating ghouls instead.

Yet even if not by design, "Night of the Living Dead" gave audiences something new, and enduring, to fear: reanimated corpses insatiable in their cannibalistic appetites. And Romero did something else as well. He fundamentally altered a genre

mostly associated with exotic settings—occasionally the tropics but more typically a vaguely medieval Europe that hadn't entirely abandoned its superstitious past—by re-

The iconic horror movie is being re-released in select theaters in a 4K transfer

locating the story to an epicenter of banality, Middle America. He transported Transylvania to Pennsylvania. (The film was shot outside Pittsburgh, where Romero ran company making commercials and industrial films, and no attempt was made to

conceal production locations.)

In addition to laying the foundation stone of Romero's career in horror films—he was 28 years old when "Living Dead" was released and was still writing and directing well into this century—the picture's ethos lodged in the collective imagination, spawning all manner of imitators. Beyond the straight cinematic rip-offs (too numerous to count) stand more original progeny, everything from Danny Boyle's polished "28 Days Later" (2002) to the hit television series "The Walking Dead," which just began its ninth season on AMC, an inconceivable notion in 1968. And without Romero's film there could be no parodies, like the surprisingly entertaining "Shaun of the Dead" (2004) or "Pride and Prejudice and Zombies" (2016), based on a book from 2009

that combines aspects of Jane Austen's classic 1813 novel with tropes Romero helped establish.

Movie lovers may disagree about the film's, and Romero's, effect on popular culture. Its fans will insist that "Night of the Living Dead" changed horror for the better by making scare fare more relatable to audiences and thus that much more potent. The picture's detractors, far fewer in number, see things differently, blaming it for helping start the drift toward graphic gore in mainstream cinema. Either way, the film altered how horror was both conceived and perceived in the last decades of the 20th century, and its dark shadow still shows no signs of receding.

Mr. Mermelstein writes for the Journal on film and classical music.

## OPERA REVIEW

## 'MARNIE': A THIEF'S SECRETS

BY HEIDI WALESON

**New York** **TO APPRECIATE** Nico Muhly's opera "Marnie," which had its U.S. premiere on Friday at the Metropolitan Opera, the commissioner of the work, you have to be willing to be unmoored. With its whispering, overlapping choruses and unsettled orchestra, Mr. Muhly's music reflects the slippery world of the troubled protagonist, a liar and a thief who trusts no one and doesn't know why.

The premise of the opera's source materials—Winston Graham's 1961 novel and Alfred Hitchcock's 1964 film adaptation—seems quaint today: Marnie's criminal tendencies and, most important, sexual frigidity were caused by childhood trauma and could be "cured" through Freudian analysis. Mr.

Muhly and his librettist, Nicholas Wright, have skillfully critiqued that assumption while leaving the basic arc of the story intact. In their opera, Marnie has every reason to feel betrayed and assaulted because she is, at every turn. The story is set in the late 1950s, and all the men Marnie encounters feel they have the right to put their hands on her, or worse. As embodied by the remarkable Isabel Leonard, Marnie refuses to be a victim, however; her most vivid characteristic is ferocious self-control. With her rich yet keenly focused mezzo-soprano, Ms. Leonard makes a magnetic, complex heroine. You might not like Marnie, but you have to respect her.

The psychological-thriller plot is deftly laid out in quick, snapshot scenes. Marnie has a pattern: She adopts a new name and hair color, gets a job, steals the company's cash, and then repeats the process in another city. She gives the money to her unpleasant mother (a

gravely-voiced Denyce Graves), who doesn't know about Marnie's crimes but tells her she's bad; we don't know why. At a new job, she is caught stealing by the owner, Mark Rutland, who blackmails her into marriage and tries to rape her on their honeymoon. Mark, sung with authority by baritone Christopher Maltman, is a very 1950s mix of aggression and sentimentality. He apologizes to Marnie, bribes her to see an analyst (where a version of the childhood trauma is revealed), and tries to conceal her past crimes. But, finally, Marnie's salvation is not through a man or analysis; it is the discovery that her mother betrayed her, and that she can free herself.

Mr. Muhly's choruses powerfully conjure up Marnie's sense of the world as a place of constant threat. In Act I, as the ensemble sings "All night long, the guilty hear malevolent voices," words like "judgment" and "discovery" jump out of their muttered, layered phrases, and the unstable harmonies seem to slide over one another. At a party, as the guests gossip about Marnie, short motifs get a propulsive, repetitive energy reminiscent of the music of John Adams. Four Shadow Marnies (Deanna Breiwick, Disella Lárusdóttir, Rebecca Ringle Kamarei, Peabody Southwell) amplify Marnie's presence in a kind of murmuring Renaissance quartet. The orchestra

plays with extremes to create tension, setting high, twittering woodwinds against groaning brass. Mr. Muhly also supplies arresting orchestral voices for the main characters, most notably a sinuous oboe for Marnie and the muted trumpet for Terry, Mark's brother, that matches the spiteful menace conveyed by the countertenor Iestyn Davies. The solo vocal writing is also skillful, establishing undercurrents of emotion without showiness.

Michael Mayer's production presents the world through Marnie's eyes. Sliding panels swiftly alter the configuration of the set, and the gauzy, indistinct projections are as slippery as the music. (Julian

Crouch and 59 Productions designed the set and projections; Kevin Adams did the complementary lighting.) Only Marnie wears real color. Her stunning period dresses by Ariane Phillips leap out in brilliant hues of yellow, pink, blue and green. There's even a formal orange gown with a silver-lined cape ("Balenciaga," she says). The Shadow Marnies also get bright frocks and coats. Mr. Mayer's efficient direction keeps Marnie aloof from the chattering crowds around her, whether in an office or at the pub. However,

the fox hunting scene, in which Marnie's beloved horse falls on a jump and has to be shot, required too much suspension of disbelief, since everyone, except for a pile of undulating dancers—presumably the fox and the hounds, choreographed by Lynne Page—was standing still. A mere shadowy projection of galloping horse legs couldn't match the driving force of the narration.

The large and excellent supporting cast included Anthony Dean Griffey as the vengeful Mr. Strutt, bent on exposing Marnie's crimes; the boy soprano Guri Gurevich, a surrogate child for Marnie's mother; and Janis Kelly as Mark and Terry's domineering mother. Additional notable cameos came from Ian Kozlara as Derek, another of Marnie's assailants; Stacey Tappan as Dawn, a co-worker; and Ashley Emerson and Will Liverman as a poker-playing couple with an agenda. The Met Chorus was impressive, and conductor Robert Spano, making his Met debut, held all the forces together while capturing the sinister yet seductive instability of Mr. Muhly's score.

Ms. Waleson, the author of "Mad Scenes and Exit Arias: The Death of the New York City Opera and the Future of Opera in America" (Metropolitan), writes about opera for the Journal.

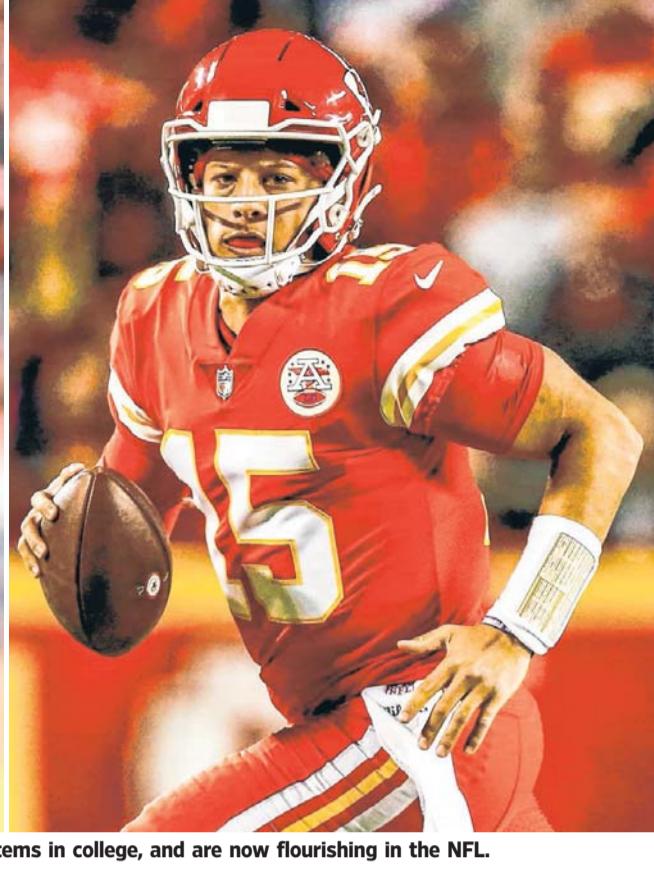


Clockwise from above left: Isabel Leonard as Marnie and Christopher Maltman as Mark Rutland; Ms. Leonard (seated) with Disella Lárusdóttir, Peabody Southwell, Deanna Breiwick and Rebecca Ringle Kamarei as the Shadow Marnies; Mr. Maltman and Ms. Leonard (center)



KEN HOWARD/MET OPERA (2)

## SPORTS



Jared Goff (Los Angeles Rams), Baker Mayfield (Cleveland Browns) and Patrick Mahomes (Kansas City Chiefs) thrived in 'Air Raid' systems in college, and are now flourishing in the NFL.

CLOCKWISE FROM LEFT: COREY SILLIVAN/ICON SMI/ZUMA PRESS; GREGORY SHAMUS/GETTY; DAVID EULITT/GETTY; IOWA WESLEYAN

## FOOTBALL

## The Tiny College That Changed the NFL

The Air Raid offense has infiltrated professional football. It traces its roots back to Iowa Wesleyan.

BY ANDREW BEATON

## MIKE LEACH'S trailer was putrid.

It was 1989, and Leach was making \$12,000 a year to coach the offense of Iowa Wesleyan's football team. The nicest thing about his trailer home was the waist-high grass outside. Inside was a broken shower, a constantly overflowing toilet and a long-hanging ceiling fan that nearly decapitated Leach and his wife. The walls, floor and ceiling were covered in a bright red shag rug. The suffocating dust and mildew invigorated his asthma.

That disgusting trailer is where Leach helped change the course of football history.

His time in tiny Mount Pleasant, Iowa, at a school with an irrelevant football program, is highly relevant to football history—and modern football. The record books of college football are still littered with the name Iowa Wesleyan, the school that spawned an offense called the "Air Raid."

The Air Raid moved over the years from the fringes of college football to some of the biggest programs in the country. But NFL coaches hated it, criticizing its principles and the quality of football players it produced.

The naysayers have gone quiet because, 30 years later, the Air Raid has taken over the NFL.

Scoring in the NFL is at an all-time high, spread schemes have invaded the league and it's impossi-

ble to look at the quarterbacks of the future without seeing Leach's past. Patrick Mahomes, Jared Goff and Baker Mayfield thrived in those systems in college, and they are flourishing in the NFL because of a newfound willingness to incorporate the ideas cultivated in Leach's trailer.

"There are Air Raid concepts all over the NFL," says Leach, now the coach at Washington State. "Go back to when we were at Iowa Wesleyan. It looks quite similar."

Hal Mumme wasn't thrilled with the prospect of coaching Iowa Wesleyan. Mumme was a high-school coach in Texas and couldn't place Iowa on a map. Every college he actually wanted to coach for said "no." He was told two things about Iowa Wesleyan: He'd have to take a pay cut of about \$20,000 a year and the team he would inherit was the worst anyone had ever seen.

He was sold.

Coaching at the college level offered something he coveted: being able to handpick his players. And he needed a lot of them. When Mumme arrived on campus, there were only two returnees. One was the punter.

He also had to fill out the staff. One candidate was a recent law school graduate with limited coaching experience whose last job was in Finland. His name was Mike Leach, and he was the only coach desperate enough to take a job in Mount Pleasant and move into a trailer. "I had never been to Fin-

## land," Leach says. "Or Iowa."

The pair of obscure coaching savants shared an infatuation with the BYU offenses that were revolutionary for their emphasis on passing the ball. They crisscrossed the country looking for players with that in mind. They wanted athletes who could take advantage of all the space on a football field. The most important player in their overhaul came to them by accident. Dustin Dewald had played quarterback under Mumme at Copperas Cove High School and was good enough to play as a freshman at Stephen F. Austin. Then he quit

the sport, moved to play golf at Tarleton State University and one day went to see his former coach and congratulate him on getting the Iowa Wesleyan job. That's when Mumme made his big pitch.

"How about moving to Iowa with me?" Mumme asked. "Coach Mumme is a pretty good salesman," Dewald says. But something surprising happened in their first season. The Tigers, who went 0-10 in 1988, went 7-4 in 1989. Their offense, which spread the field and passed the ball so much everybody told them it couldn't work, was actually

working.

Their unexpected epiphany came in the most unexpected of places. Mumme and Leach were in Florida to recruit and visited the Orlando Thunder, a team in the World League of American Football, where they watched a practice led by coach Don Matthews, a legend of the Canadian Football League.

One particular drill astounded them. It was called Bandit. It was a frenetic exercise designed to prepare the team for two-minute drills during games, when the offense needs to move quickly down the field. The offense and defense took separate sides of the field, like in a real game, and engaged in a fast-paced frenzy like they had never seen before.

"That's our answer," Mumme told Leach. "That's not going to be a two-minute offense. That's going to be our offense."

Mumme and Leach climbed the coaching ladder, eventually going to Kentucky together. Leach became the head coach at Texas Tech in 2000 and is now at Washington State. Other coaches began incorporating their tactics, and their disciples spread throughout the game.

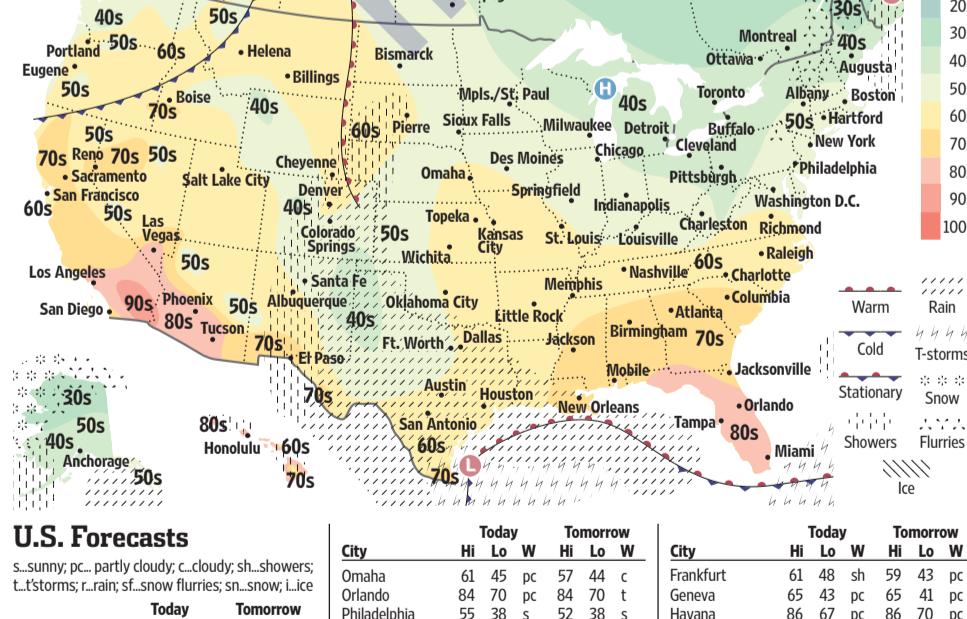
After leaving Iowa Wesleyan, Dewald wasn't showered with offers to play professional football. He started a home-building company with his family.

Dewald's modern successors have different careers. They're the best young NFL quarterbacks.



Mike Leach, center, and Hal Mumme, right, during their time at Iowa Wesleyan.

## Weather



## U.S. Forecasts

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

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## OPINION

## Let's Vote on a China Cold War



BUSINESS WORLD

By Holman W. Jenkins Jr.

Coherence may finally be raising a semi-welcome head when it comes to the Trump trade agenda. Gary Cohn was last seen in Bob Woodward's book snatching off President Trump's desk a letter ending the South Korea free trade deal and yet in a public forum recently Mr. Cohn gave a defense of the administration's policy on China: "If we are not getting paid specifically by the Chinese for what we have invented and the Chinese are just stealing it and knocking it off, the global economy, globalization doesn't work."

Christopher Balding, a Western economist who soured on China's evolution firsthand from living there, was first to notice (and applaud) elements in the U.S.-Mexico trade deal aimed at excluding China from the North American auto market.

Larry Kudlow let the cat out of the bag this week when the presidential adviser said tariff negotiations with China are dead in the water.

Business leaders who expect the China trade dispute to end the way the Mexican and Canadian disputes did had better wake up. It won't be over soon. When a tariff is announced on Chinese production, expect it to stay on forever. By now, the

U.S. has imposed initial duties on about half of China's exports to the U.S.—worth \$250 billion. More are coming.

U.S. companies are starting to be publicly pressured to reduce their reliance on Chinese suppliers and markets. Vice President Mike Pence, in a speech this month, applauded unnamed U.S. business for turning away from the China market if it requires surrendering to Beijing's technology theft agenda, adding, "More must follow suit." Apple has been laughing off Mr. Trump's demands for factories in the U.S. Maybe it shouldn't.

It's been a strange few weeks in this regard. Bloomberg News produced a detailed and elaborate account of China's sneaking hidden components into U.S. motherboards. All the U.S. companies named in the story issued stringent denials.

Then there's the odd matter of Broadcom and its latest U.S. acquisition target, CA Technologies. In response to Trump pressure, Broadcom has redomiciled in the U.S. but remains a China-influenced company. CA's roll-up business model has made it the sole-source supplier of legacy software used in U.S. banks, hospitals and power companies. A Defense Department letter criticizing the sale is reportedly a forgery. Yet if the Trump administration means what it says, the transaction is exactly the kind that might seem suspect. Look for a resurrection of the long-defunct Coordinating

Committee for Multilateral Export Controls, which once applied a stern hand to U.S. and allied companies to curb commercial technology flows to America's adversary in the last Cold War.

But with one difference—last time we had a debate, Arthur Vandenberg and all that.

Maybe it's time for the Trump administration to lay out for the American people just how thoroughly it intends to shake up the hugely important U.S.-China economic relationship.

### The administration needs a mandate to rip up the relationship with Beijing.

By one view, China is becoming the worst enemy of its own development. It doesn't need our help. Its surveillance and social-control agenda likely will deter its best minds from staying in China or coming back from a foreign university. The Soviet Union, in the 1980s, thought with enough bureaucratic imperative and enough stealing it could keep pace with the U.S. It couldn't.

Under Xi Jinping, China seems increasingly confused about output and value—more high-speed railways to nowhere, more towering buildings with nobody inside.

A traditional free-trade view would say if China wants

to chase away foreign investment, China pays the cost, not the U.S. If China wants to tax its people to subsidize steel, solar panels and auto parts for export, we would be wise to pocket these handouts to our consumers and businesses and focus our resources elsewhere. When your adversary insists on shooting himself in the foot, let him. China's avid pursuit of artificial intelligence worries Western experts but is likely to be employed mainly in destroying the creativity and initiative of its own people.

If the Trump boom has proved anything, meanwhile, it's proved that American prosperity is still made at home. A better answer to China's perverse ambitions would be to focus on renewing our own economic dynamism, building up our military and alliances, dealing with the fiscal challenge of our welfare state. These priorities are likely to guarantee American success in the coming century, not following Xi Jinping down the path of seeking foreign scapegoats for failure and heavy-handed intervention at home.

Tempted by the potentialities of technology to create the thoroughly modern totalitarian state with himself at the center, Mr. Xi is rapidly undermining the openness that lifted China out of poverty. His personal ambition—not any political necessity—seems to be driving the show. That's a mistake the U.S. does not need to emulate.

## Congress Can Stand Up to the Saudis



POLITICS &amp; IDEAS

By William A. Galston

Hypocrisy, wrong" narrative. "You don't bring a bone saw to an accidental fistfight," he said, raising the possibility of canceling the Saudi arms deal.

Tennessee Sen. Bob Corker, chairman of the Foreign Relations Committee, said he thought Crown Prince Mohammed bin Salman had directed the killing. If so, he pointed out, Magnitsky Act sanctions should be targeted at the crown prince and other senior members of the chain of command. Sen. Tillis even entertained the possibility of pressuring King Salman to designate a new successor.

It fell to South Carolina Sen. Lindsey Graham to rebut the president head-on. "Our values are more important than money and jobs," he said. America's moral voice, he added, is "more important to the world than anything." That's the way U.S. presidents used to talk—and often act.

In fairness, Mr. Trump is not the first president to make the U.S.-Saudi relationship a high priority. But while previous presidents were dealing with cautious, aging kings who ruled by consensus within their extended family, Mr. Trump is confronted with a reckless young crown prince who has shouldered aside family rivals to reach the top.

Since taking command, Mohammed bin Salman has arrested the prime minister of Lebanon, detained leading

Saudi officials—including members of his own family—for a ransom estimated at \$100 billion, and enacted a severe crackdown on journalists and regime critics. Beyond his country's borders, he has instigated a blockade of Qatar and plunged into a no-win war in Yemen, triggering what the United Nations secretary-general calls the world's worst

### Even if Trump won't affirm American values, lawmakers should do so.

humanitarian crisis. The World Health Organization says each week witnesses 10,000 new cholera cases, and the U.N. estimates that as many as 14 million Yemenis are at risk of starvation.

President Trump appears unfazed by all this. In an interview with the Washington Post, he praised the crown prince as a strong leader who has "very good control" and can "keep things under check," adding "I mean that in a positive way." If maintaining control is the ultimate test of political leadership, it seems, all means to this end are within the pale.

Of course, Mr. Trump won't distance himself voluntarily from the country he regards as the linchpin of his Middle East policy. The ques-

tion is whether Congress can apply enough pressure to effect meaningful change.

Yemen is the place to start. The sale of U.S. arms to the Saudis is enabling Mohammed bin Salman's ill-judged intervention. The Saudi claim that American precision-guided missiles would reduce civilian casualties has not been borne out. It is not clear that the Saudis care very much about these casualties, though it is occasionally useful for them to pretend that they do. Congress could invoke the Arms Export Control Act, pass a joint resolution disapproving additional arms sales, and dare the president to veto it.

An additional option, not exclusive of the first, is exercising the old-fashioned power of the purse. In its next defense authorization bill, Congress could limit the use of appropriated funds for Yemen-related operations. Without U.S. refueling missions and other support activities, the Saudi military effort eventually would grind to a halt.

This exercise of congressional responsibility would have a dual purpose: to end U.S. complicity in a moral and humanitarian disaster, and to send a credible message to Saudi leaders that the U.S. will no longer give them a blank check in the region—nor for their dismal domestic record on human rights.

## Opportunity Is Coming to a City Near You

By Steve Glickman

The federal government's most powerful economic weapon is the tax code, and its most pressing problem is the ailing American Dream. Enter "opportunity zones," economically distressed communities where new investments can receive preferential tax treatment. The incentives were quietly inserted into last year's tax-reform bill. Treasury Secretary Steven Mnuchin recently predicted they could prompt \$100 billion in private investment to low-income communities.

Treasury released its first round of opportunity-zone regulations on Friday. Tapping \$6.1 trillion in potential capital gains, according to the Economic Innovation Group, opportunity zones could reshape capital markets and reinvigorate dozens of major American cities. Tax benefits for patient capital infusions will encourage U.S. taxpayers to capitalize real-estate projects, infrastructure and busi-

nesses in America's heartland. This includes the offer of tax-free profits for investments held at least a decade.

Opportunity zones sound a bit like Jack Kemp's enterprise zones or President Clinton's empowerment zones. But they're far more ambitious. I co-founded and led the Economic Innovation

The rollout of new tax incentives should prompt investment.

Group, which developed the concept and structure of opportunity zones and worked to pass it. The old zones were responsible for less than \$2 billion in small-business incentives across fewer than 200 zones. Today's program aims to drive hundreds of billions of private dollars into more than 8,700 designated zones covering nearly 12% of the U.S. and 35 million people. Even if Mr. Mnuchin's conser-

vative estimate is right, that translates to an average of more than \$7,300 in investment for each household in these communities.

Several investors, such as Decennial Group, EJF Capital and Somera Road, have already formed "opportunity funds," each targeting \$500 million or more in capital. Many entrepreneurial fund managers are eager to join them. Yet institutional investors, major wealth managers and the largest investment banks remain on the sidelines.

They're waiting for comprehensive guidance from the Treasury Department. Congress created the map for the opportunity-zone marketplace, but Treasury must fully implement the rules of the road. The administration's preliminary regulations are a step in the right direction, allowing investors and fund managers to answer some threshold questions, including what kind of gains receive the incentive (capital), how funds are certified (Form 8996), and how

long investors can shield their tax-free profits (until 2047).

Treasury also provided investors with more flexibility, including a 31-month timetable for opportunity funds to deploy capital into large real-estate development projects. It also published more-accommodating definitions for identifying investible businesses and property. Nevertheless, many questions remain unanswered. Foremost is whether Treasury will allow funds to recycle and reinvest capital from asset to asset as Congress intended. That's a critical feature for scalable business investment through portfolio funds.

The Trump administration's guidance will shape opportunity zones for years to come, determining whether the new capital flows will live up to their transformative potential.

Mr. Glickman is founder and CEO of Develop LLC, which advises on investing in opportunity funds and the opportunity-zone marketplace.

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BOOKSHELF | By Robert W. Merry

## A President In His Time

## The Rise of Andrew Jackson

By David S. Heidler and Jeanne T. Heidler  
(Basic, 433 pages, \$32)

The turbulence surrounding Andrew Jackson's life, much of it attributable to his own temperament and actions, followed him into history and swirls around him even today. Probably no figure in America's presidential pantheon has endured more controversy in the afterlife, and few have had their historical standing fluctuate so wildly.

For more than a century after his 1845 death, Jackson's name stirred adulation, bolstered by biographies such as James Parton's three-volume "Life of Andrew Jackson" (published just before the Civil War), which portrayed him as the quintessential figure of the country's "combative-rebellious period." Later, with the publication of Frederick Jackson Turner's famous thesis about the importance of the frontier to American development, Jackson became its personification—"the best which the new West could breed in the way of capable and self-reliant individualism," as the historian Vernon L. Parrington wrote in the 1920s. By 1948, when Harvard's Arthur Schlesinger Sr. crafted the first survey of historians on presidential rankings, Jackson resided at No. 6.

Then came the 1975 publication of Michael Paul Rogin's "Fathers and Children: Andrew Jackson and the Subjugation of the American Indian." Rogin excoriated Jackson for his brutal treatment of Native Americans—not least, advocating the relocation of the Cherokees along what is now referred to as the Trail of Tears—but also argued that these actions stemmed from profound character flaws. He portrayed Jackson as a man out of control—blustery, crude, shallow of mind, hypersensitive to slights and quick to respond with violence. That view took root, and in the current century we've seen it enter the popular culture. The musical "Bloody Bloody Andrew Jackson," which opened on Broadway in 2010, depicted the man as "a childish, temper-prone teenager who wants what he wants when he wants it," as Jackson biographer Jon Meacham has written. Soon the call went up to strip Jackson's visage off the \$20 bill.

In "The Rise of Andrew Jackson," David S. Heidler and Jeanne T. Heidler essentially take the Rogin view. The Heidlers, who in 2010 published a sensitive and luminous biography of Jackson's great rival Henry Clay, here trace Jackson's life through his 1828 presidential election, when he won his first presidential term. To their credit, they carefully avoid the common fatuity of judging historical figures by today's prevailing standards: In raising questions about his actions toward Indians and toward his slaves, they place such matters firmly in the context of 19th-century attitudes. Similarly, the authors' account of Jackson's rise is anchored in the political turmoil of his day, with his foibles viewed through the same prism used by his contemporaneous enemies.

An account of Andrew Jackson's early life and rise in politics—seen through the prism of his most bitter contemporary enemies.

But theirs was a dark prism, built of partisan rancor, and the result here is a deprecatory portrait. Jackson, write the Heidlers, "possessed little political skill and a poor temperament for political life." His handlers, they tell us, created "an irresistible force out of a man whose sole claim on the public's affections derived from a thirty-minute battle on the banks of the Mississippi River." (The reference is to the Battle of New Orleans in January 1815.) How did they do this? By perpetrating "the first instance of deliberate image building and mythmaking and of skillful manipulation of public perception and popular opinion."

Having articulated their theme (and insulted Jackson voters in the process), the authors describe how those handlers became puppet masters to the rough-hewn man who, left to his own devices, would have lacked the intellect and disposition needed to politically exploit his New Orleans victory. That interpretation isn't utterly devoid of veracity. It's true that Jackson's political operatives, particularly John Eaton and Martin Van Buren, possessed a rare degree of political brilliance, manifest in the potent political machine they built during the 1828 election cycle. And they often had to rein in their cantankerous leader when he became agitated at some real or perceived slight. Further, even a narrative that takes its tone and attitude from Jackson's most fervent enemies, as this one does, inevitably reveals abundant shards of truth.

But it isn't the whole truth. Indeed, the Heidlers' portrait is significantly at odds with the most recent major Jackson biographies—those by Robert V. Remini (three volumes, 1977, 1981 and 1984), H.W. Brands (2005) and Mr. Meacham (2008). Those works certainly didn't ignore any of the general's flaws, follies or outrages, but they showed them to be part of a complex human being possessing admirable traits and attributes of character, compassion, and even heroism along with defects.

These more robust biographies made clear that Jackson's military and political successes are attributable in large measure to the man himself. They also demonstrated a greater interest in the historical effects of Jackson's actions. Thus while the Heidlers decry the brutality of Jackson's army at the Battle of Horseshoe Bend on the Tallapoosa River in 1814, Mr. Brands puts into perspective that assault against the Creek Indians, who had, in effect, taken the British side in the War of 1812. "It was," he writes, "the decisive victory in the climactic struggle for what was then the American Southwest.... Andrew Jackson seized the prize for which six generations of Euro-Americans and Native Americans had been fighting."

Further, the Heidlers fault the Jacksonites for nasty political tactics in the 1828 election against John Quincy Adams and his administration ally, Henry Clay, and suggest that similar tactics from Adams and Clay were merely retaliatory. But Marquis James, who won a Pulitzer Prize for his two-volume Jackson biography of the 1930s, wrote that in the campaign "the art of character assassination attained a perfection as yet unsurpassed." He added: "In this the Adams people were by a good margin the busiest practitioners."

The Heidlers are fine historians; their Clay biography is rich in detail and literally vibrant. Clearly in the epic political struggle between Clay and Jackson, Clay is their man. They have rendered here a picture of Jackson that seems pretty close to what that great Kentuckian would have written back in the day.

Mr. Merry is the author of books on American history, including "A Country of Vast Designs: James K. Polk, the Mexican War, and the Conquest of the American Continent."

## OPINION

## REVIEW &amp; OUTLOOK

## Battle of the Statehouses

**W**hile the battle for Congress is the main event this election, the fight for control of 36 governorships may be as consequential for American politics. Opposition to Barack Obama's policies galvanized conservatives during the 2010 midterms and ushered in GOP control of statehouses from Arkansas to Wisconsin. In 2010 Republicans held majorities in 15 legislatures and 24 governorships. Today the GOP controls 32 legislatures and 33 governorships.

The result has been a remarkable record of reform and economic revival in many states. Eight years of conservative governance have bolstered state budgets and economies. (See the nearby chart on job growth.) But this year Democrats are riding anti-Donald Trump sentiment in a bid to sweep most of the big state governorships and many legislative chambers and move in a far different policy direction. The stakes are worth highlighting.

Start with tax reform. In 2011 Michigan Republicans replaced the state's onerous business tax with a flat 6% corporate rate while eliminating myriad carve-outs. The Wolverine State has led the Great Lakes region in GDP growth over the last seven years as business investment has surged, prompting other states in the Midwest to cut taxes to compete.

Indiana Republicans slashed the state's corporate rate to 5.75% from 8.5% in 2011 and plan to reduce it to 4.9% by 2022. Republicans in Ohio have cut the state income tax by 16% across the board and reduced the top marginal rate to 4.997% from 5.925%.

Iowa has long been the New Jersey of the Midwest with the nation's highest corporate rate and a punishing 8.98% top income rate. Republicans this year made the Hawkeye State more competitive by putting the top income tax rate on a path to 6.5% by 2023. Over the next three years, the state's 12% corporate rate is set to decline to 9.8%—assuming GOP Gov. Kim Reynolds isn't defeated. Her Democratic opponent Fred Hubbell has warned President Trump's trade brawls may compel him to hit pause on the tax cuts.

Other Democratic candidates are more candid about their tax ambitions. Tallahassee Mayor Andrew Gillum has endorsed a 2.25 percentage-point increase in Florida's 5.5% corporate rate to finance free college tuition. Ohio's former Attorney General Richard Cordray has called for "distributing the overall tax burden according to one's ability to pay."

Wisconsin schools Superintendent Tony Evers wants to soak the rich to increase education spending. He is also campaigning to repeal Gov. Scott Walker's collective-bargaining reforms, which required public workers to pay more for their benefits, mandated annual union certification votes and prohibited employers from collecting dues.

The reforms have saved taxpayers billions of dollars and broken the government union monopoly. Membership in the Wisconsin Education Association Council has fallen by 60% since 2011. Republicans in Wisconsin are likely to keep con-

trol of at least the state Assembly, but Mr. Evers could give government unions a lift by refusing to enforce the reforms.

Also at risk are right-to-work laws in Wisconsin and Michigan, which give employees the choice of whether to belong to a union. If Democrats seize control of Lansing, public pension reforms that have shifted new workers into defined contribution plans could also wind up in the dustbin.

This year's Democratic candidates are also more hostile to education choice than those of yore. Mr. Gillum wants to starve charter schools of funding and wind down the state's private-school tax credit scholarship program that benefits more than 100,000 poor kids. Enrollment has nearly quadrupled during Republican Rick Scott's eight years as Governor.

Mr. Evers has called for rolling back Milwaukee's private-school voucher program, which was launched in 1990 and expanded significantly under former Democratic Gov. Jim Doyle. Mr. Cordray has vowed to make charters adhere to the same regulations as traditional public schools. That means union labor agreements.

Meantime, Democrats are marching in unison behind Medicaid expansion. Seventeen states including Florida, Georgia, Wisconsin and Kansas have resisted ObamaCare's not-so-grand bargain of expanding Medicaid eligibility to 133% of the poverty line in return for the feds funding 90% of the costs for new enrollees.

Democrats say states are forgoing free cash, but higher Medicaid costs are starting to squeeze public services and will crush state budgets during the next economic downturn when revenues decline and enrollment increases. Insurers that administrate benefits are rationing treatment due to paltry government payments.

Republican legislators in non-expansion states may eventually buckle to political pressure. Kansas's GOP legislature last year passed a bill to expand Medicaid that was vetoed by former Gov. Sam Brownback. Even if Republican legislatures resist, Democratic Governors could try an end-run as Louisiana's John Bel Edwards and Alaska's Bill Walker have done.

Courts are theoretically a check on executive lawlessness, but Democratic Governors could pack state judiciaries like Barack Obama did the D.C. Circuit Court of Appeals. The next Governor of Florida will replace three of the state Supreme Court's seven justices who are retiring this year. Recall how a liberal majority on the Pennsylvania Supreme Court this year struck down the GOP legislature's Congressional map as a partisan gerrymander and redrew it in a way that gives Democrats a shot at gaining five House seats. Redistricting for Congress and legislatures will also begin after 2020.

American politics ebbs and flows, and a change of parties after eight years is hardly unusual. The difference this year is that America's national political polarization has notably filtered down to most states. A wholesale change in statehouses will mean a dramatic move to the policy left in much of the country.

## States of Job Creation

Total percentage job growth over select years

	2001-2007	2011-2017
Florida	13.9%	17.4%
Michigan	-6.6	11.6
Ohio	1	4.6
Wisconsin	2	8
Illinois	2.9	3.9

Source: Bureau of Labor Statistics

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## Sandra Day O'Connor's Witness

**S**andra Day O'Connor announced Tuesday that she has been diagnosed with dementia that is "probably Alzheimer's disease," and this is one more service she has rendered her country.

Millions of Americans know the special pain of a loved one with dementia, and tens of millions more will in future decades. It can be traumatic to admit even to close relatives, much less to the world, that you are suffering from this terrible affliction. To see the famous jurist, the first woman on the U.S. Supreme Court, bravely face such a trial will no doubt help others do the same.

The Commission wants Rome to deliver a budget deficit equal to no more than 0.8% of GDP next year, a commitment made by the previous Italian government. In theory that discipline should matter to an Italian government whose debt is more than 130% of GDP. But elections have consequences, and one result of the winning coalition of the right-wing League and vaguely left-wing 5-Star Movement is a new budget with a deficit of 2.4% of GDP annually for the next few years.

Other European governments and their taxpayers—and investors—have cause to be wary about parts of the Italian plan. Tens of billions of euros in new spending are slated for welfare handouts and public works that Italy can't deliver without waste and corruption. None of this will boost economic growth, potentially leaving other eurozone countries to bail out an insolvent Italian state down the road.

The 88-year old Justice endured the burden of being a caretaker for her late husband John during his bout with Alzheimer's, so she knows what is to come. Justice O'Connor said she will now retire from public life, in which she has been notably active since her retirement from the High Court in 2006. She has advocated for better civics education and against elections for judges, including on these pages.

Other famous Americans—former President Ronald Reagan and actor Charlton Heston—also told the world of their Alzheimer's, and perhaps such public witness will spur some young geniuses to find the cure.

But other parts of the Italian budget deserve support—in particular the two-rate flat tax proposed by League leader Matteo Salvini, which is the best shot at supply-side tax reform Italy has had in recent memory. As a first step toward this reform, the 2019 draft budget cuts the rate on small firms to 15% from 24%, with the top rate on larger companies to fall to 20% in the future.

No one at the European Commission seems able to distinguish between tax cuts that increase incentives for growth and spending that doesn't. Part of the Brussels demand has been that Italy raise the value-added tax rate to 25% in 2021 from 22% today. Europe's budgeters must have missed the economic research suggesting that balancing the books by raising taxes is self-defeating as slower growth weighs on revenue.

The two sides will now descend into political and bureaucratic wrangling. The main risks are that Brussels imposes a fine of 0.2% of GDP or that Rome is forced to abandon the pro-growth flat tax. In either case, Rome could say with reason that unelected European bureaucrats are thwarting the will of Italian voters. If Brussels really wants to win a budget fight, it should worry less about dubious fiscal targets and more about policies that help Italy grow.

## LETTERS TO THE EDITOR

## Drug-Price Transparency Helps Consumers

Regarding your editorial "Trump's Drug Price Bust" (Oct. 19): It is surprising that the Journal's editorial board would criticize an effort to bring down drug prices—a burden on many Americans' budgets—through introducing transparency and competition.

President Trump's proposal to require drug companies to include their list prices in TV ads has been criticized by the pharmaceutical industry not because it represents government overreach—government rules requiring consumer information are ubiquitous—but because it would help inject real competition into drug markets, which is every big incumbent firm's worst fear.

You note that America's thriving market for generic drugs means generic alternatives are often dramatically cheaper than branded medicines. That's precisely the point: Today patients may go to their doctor and ask for a branded drug that they saw advertised, without knowing that it has a sky-high list price. Under our proposal they will know it may be more expensive—and know to ask if there is a less costly alternative.

Saying list prices don't matter only moves us further away from a world in which drug companies actually compete on their prices—as companies do in every other industry. And Americans who face high drug costs know list prices do matter. In high-deductible plans, many patients pay the full list price of the product until they meet their deductible, which can be thousands of dollars. Meanwhile, every Medicare Part D plan uses coinsurance for high-cost drugs, requiring patients to pay a percentage of the list price.

HHS has the authority to require

the disclosure of these prices through the Social Security Act, which gives the agency the power to make rules that help administer the Medicare and Medicaid programs in a manner that minimizes unreasonable expenditures.

There is hardly a more conservative way to restrain federal health spending and patients' out-of-pocket costs than by using transparency to empower consumers and spark real competition. Fans of the free market should be frustrated with today's drug-pricing system—and pleased with the president's bold disruptive plans.

ALEX M. AZAR II  
Secretary of Health  
and Human Services  
Washington

The pharmaceutical industry spends \$6 billion a year to flood the airwaves with drug commercials. Studies show these ads steer patients to the most expensive brand-name drug. The average American sees nine such ads every day. Instead of telling the whole story, Big Pharma prefers to keep consumers in the dark about the real costs of the drugs.

That's why I support HHS's decision to move forward with my bipartisan proposal of last year to require disclosure of "list prices" in drug ads. These prices directly impact patient out-of-pocket spending, including—deceptively—through higher insurance premiums, which rise to account for increasing drug costs.

Putting prices in drug ads will not solve all the problems associated with Big Pharma's price gouging, but it is a reasonable first step.

SEN. DICK DURBIN (D., Ill.)  
Springfield, Ill.

## History of the Trump Handbook Is Very Clear

Either William A. Galston is trolling his readers about "Trump's Grim Handbook for Governance" (Politics & Ideas, Oct. 17) or else he's a satirical genius.

Rule 1: The end always justifies the means—"It doesn't matter, we won." Has Mr. Galston forgotten former Sen. Harry Reid's lies about Mitt Romney's tax returns?

Rule 2: Deny everything. Two words: the Clintons.

Rule 3: Caricature your adversaries. Sounds like President Obama.

Rule 4: Arouse supporters and deepen divisions. Anybody remember "the Chicago rules"? How about Joe Biden's: "They gonna put y'all back in chains"?

Rule 5: Be feared or loved? Is it really obvious that President Trump's man-crush for Kim Jong Un is more odious than President Obama's was for the Castros?

This isn't an exercise in "what-aboutism." It illustrates that the Trump rules didn't materialize *ex nihilo*. They have precedents, and those lamenting the loudest today were rarely heard when the precedents were being set.

JONATHAN S. HARBUCK

Birmingham, Ala.

It's hard to defend President Trump from Mr. Galston's litany of

## New Thinking Needed About Funds for Homeless People

I spent seven years in Washington directing the federal Interagency Council on Homelessness under President George W. Bush and was interested to read your editorial "Jack Dorsey's Homeless Mugging" (Oct. 15) regarding the San Francisco referendum to increase resources for homelessness through an increase in the city's business gross-receipts tax.

As a longtime homeless advocate during a time in which we more than doubled federal spending on homelessness, I'd say San Francisco Mayor London Breed has it right: There is no correlation between simply increasing homeless spending and improvement in outcomes.

When I met in my federal capacity with one of her predecessors, Gavin Newsom, we agreed that new resources were important, but only when invested in new ideas that challenged the entrenched status quo.

Mr. Dorsey has it right—the mayor was elected to solve the problem. Mr. Dorsey and his fellow corporate best and brightest, including his detractor, Marc Benioff, should step up and offer the mayor what she needs most—new ideas that will solve the problem. Dollars alone won't end the long misery. Investments in a strategy informed by business principles and practices, oriented to performance and results, will.

PHILIP F. MANGANO

Boston

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.

## Pepper ... And Salt

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"Well I'll be—  
you are the boss of me."

## Europe's Growth Problem in Italian

There's little new in the budget battle roiling Rome—but when did that ever stop the European Commission? The mandarins of Brussels on Tuesday issued an unprecedented demand that Italy rewrite its bad budget in line with Brussels' bad fiscal principles. The tangle contributed to a sell-off in global equities.

The Commission wants Rome to deliver a budget deficit equal to no more than 0.8% of GDP next year, a commitment made by the previous Italian government. In theory that discipline should matter to an Italian government whose debt is more than 130% of GDP. But elections have consequences, and one result of the winning coalition of the right-wing League and vaguely left-wing 5-Star Movement is a new budget with a deficit of 2.4% of GDP annually for the next few years.

Other European governments and their taxpayers—and investors—have cause to be wary about parts of the Italian plan. Tens of billions of euros in new spending are slated for welfare handouts and public works that Italy can't deliver without waste and corruption. None of this will boost economic growth, potentially leaving other eurozone countries to bail out an insolvent Italian state down the road.

But other parts of the Italian budget deserve support—in particular the two-rate flat tax proposed by League leader Matteo Salvini, which is the best shot at supply-side tax reform Italy has had in recent memory. As a first step toward this reform, the 2019 draft budget cuts the rate on small firms to 15% from 24%, with the top rate on larger companies to fall to 20% in the future.

No one at the European Commission seems able to distinguish between tax cuts that increase incentives for growth and spending that doesn't. Part of the Brussels demand has been that Italy raise the value-added tax rate to 25% in 2021 from 22% today. Europe's budgeters must have missed the economic research suggesting that balancing the books by raising taxes is self-defeating as slower growth weighs on revenue.

The two sides will now descend into political and bureaucratic wrangling. The main risks are that Brussels imposes a fine of 0.2% of GDP or that Rome is forced to abandon the pro-growth flat tax. In either case, Rome could say with reason that unelected European bureaucrats are thwarting the will of Italian voters. If Brussels really wants to win a budget fight, it should worry less about dubious fiscal targets and more about policies that help Italy grow.

PHILIP F. MANGANO

Boston

## OPINION

# Your Doctor Needs Your Trust

By Lisa DeAngelis

**M**ost people have heard of the Hippocratic oath, but not so many know the Maimonides Prayer for the Physician. It calls on doctors to do everything they can to preserve life, and adds something wise: "Grant that my patients may have confidence in me and in my art, and follow my directions and my counsel."

Trust in the physician's integrity is foundational to the doctor-patient relationship, especially when lives are at risk. Patients at Memorial Sloan Kettering Cancer Center, where I am the acting physician-in-chief, depend on us to lead them through their darkest hours, from routine biopsies to experimental clinical trials.

## Memorial Sloan Kettering participates in commercial research, but not at the expense of patient care.

That's why it's so upsetting to the thousands of dedicated physicians, nurses, scientists and staff at MSK when that trust is called into question. Over the past few weeks, questions have been raised about our policies regarding financial relationships with other health-care companies, and the disclosure of those relationships. It is now essential that we restate our values for our patients and our entire community.

Our patients come first. We are committed both to delivering the best cancer care today and developing better treatments for tomorrow, which requires making our research



ISTOCK/GETTY IMAGES

publicly available in the most ethical manner possible. We work with companies to develop effective treatments, but we are unwavering in our commitment to prioritize patients' needs. To that end, we are conducting a full review of our disclosure policies, our CEO stepped down this month from two external corporate boards, and we have instituted a moratorium on our board members' involvement with hospital-affiliated startups.

Modern medicine is changing rapidly. Some experts, including Carnegie Mellon's Vivek Wadhwa, believe the field will advance more in the next decade than it did in the past century. Research, powered by changing technology, is responsible.

Research isn't something that happens in labs to satisfy doctors' curiosity or answer abstract questions. To succeed, it requires collaboration and trust among patients, physicians and developers.

It takes remarkable courage and trust to volunteer to receive a new treatment. In 1973, parents entrusted Memorial Sloan Kettering's Dr. Richard O'Reilly with their child, who

suffered from severe combined-immunodeficiency disorder—the same illness that afflicted the famous "Boy in the Bubble." The parents were willing to work with doctors on a pioneering procedure. Their trust changed history: It resulted in the first successful bone-marrow transplant from an unrelated donor.

The drive to commercialize medical research need not conflict with patient care or trust; in fact, it should be rooted in those values. Our doctors and researchers seek new advances to improve and save lives. This approach is patient-centric and every bit as innovative as modern medicine itself. But the significant cost of medical research, most of which isn't covered by federal funding, makes collaboration essential with companies that take medical advances from the lab to the patient. Breakthrough after breakthrough has come from work with pharmaceutical companies, partnerships with funders, and the commercialization of intellectual property.

MSK doctors and researchers play an important role in this process, helping new drugs and vaccines

move through the approval process. One study from the New England Journal of Medicine rated us among the most successful nonprofits in getting treatments approved. In the past 30 years, research conducted at MSK has produced 10 drugs approved by the Food and Drug Administration, including Neupogen, which has transformed the experience of chemotherapy by allowing cancer patients to stay at home and avoid infections that require constant use of antibiotics. Our research has also revolutionized cancer care through countless clinical trials for novel therapies. From personalized medicine to the creation of new standards of care, these trials help treatments reach patients faster.

MSK isn't alone. Research institutions across the country are working to bring their own breakthrough discoveries to market. Many have robust technology-development offices dedicated to this purpose.

When this yields profit, the inventors benefit. But patients gain even more. Profits are reinvested in research, creating a cycle in which the medical discoveries of today fund new discoveries in the future.

Delivering pioneering treatments to overcome cancer remains a core mission. On the left sleeve of our white coats, MSK doctors wear an emblem of an arrow pointing straight up, toward the future. Three cross bars represent our commitment to patient care, education and research. These guiding principles compel us to investigate new therapeutics, collaborate with industry and bring discoveries to market on behalf of the millions who urgently need them.

*Dr. DeAngelis is acting physician-in-chief at Memorial Sloan Kettering Cancer Center.*

## A Fire Chief Burned by Progressive Piety



Kelvin Cochran was raised in Shreveport, La., in the 1960s and recalls always having the same answer when adults would quiz him about what he wanted to be when he grew up.

"I told them that

I did not want to be poor, because we were very poor; that I wanted a family, because my dad had left my mother; and that I wanted to be a firefighter," he explained in a 2017 interview. When Kelvin was 5, he returned from church with his family one Sunday and saw a neighbor's home ablaze. "I saw the firefighters, and I was smitten on that day. I knew that I wanted to be a firefighter."

Mr. Cochran went on to fulfill all those childhood ambitions and much more. He's been married for more than three decades and has adult children. He became Shreveport's first black fire chief in 1999, and in 2008 he was appointed the fire chief of Atlanta. A year later, President Obama tapped him for U.S. fire administrator, the highest office in the nation for a firefighter. Mr. Cochran was lured back to Atlanta in 2010 by then-Mayor Kasim Reed, who praised the fire chief for "dramatic improvements in response times and staffing" and "much-deserved national recognition."

Even when Mr. Cochran isn't on the job, he's trying to save people. He's a deacon at his Baptist church in Atlanta, where he helps youngsters stay out of trouble and leads a men's Bible study. In 2013 he turned his lesson plans into a book, "Who Told You That You Were Naked?," a reference to what God says to Adam in the Book of Genesis. Self-published and written on Mr. Cochran's own time, the book explains how the Bible's teachings can help men become responsible husbands and fathers.

But when it was publicized in November 2014 that a brief section of the 162-page book that deals with

sexual morality is critical of homosexual conduct, Mr. Reed suspended Mr. Cochran for 30 days without pay from his \$172,000-a-year job, pending an internal investigation. In the end, the city found no evidence that Mr. Cochran had discriminated against gay employees or anyone else. Nor was there any evidence that Mr. Cochran's religious views affected his leadership of the fire department. No matter. At the end of the suspension, the mayor fired the fire chief.

According to Mr. Reed, Mr. Cochran was removed from his post not because of the book's content but because he wrote it without first getting permission. Mr. Cochran found that explanation implausible and promptly filed a lawsuit. He didn't believe he was dismissed for violating protocol. He believed that the mayor objected to his religious beliefs and traditional views on sex and marriage. Mr. Cochran suspected that if he had written a book on, say, rock climbing or sea turtles, he would have kept his job.

The mayor's own statements at the time would seem to confirm Mr. Cochran's suspicions. Mr. Reed, a

young and ambitious Democrat who was looking to establish his progressive bona fides, said publicly that "the material in Chief Cochran's book" is "not representative of my personal beliefs" and is "inconsistent with the administration's work to make Atlanta a more welcoming city for all of her citizens—regardless of their sexual orientation, gender, race and religious beliefs."

### Atlanta's mayor gave Kelvin Cochran the sack for self-publishing a religion-themed book.

Yes, city employees in Atlanta are required to seek permission for outside work, but Mr. Cochran's attorneys argued that those rules are intended to guard against moonlighting, not writing a book at home on weekends. A federal court in Atlanta agreed. Last December, U.S. District Judge Leigh Martin May ruled that the city violated Mr. Co-

chran's constitutional rights when it fired him for not getting permission to write his book. "The potential for stifled speech far outweighs an unsupported assertion of harm," wrote Judge May. "This does not pass constitutional muster." The only approval Mr. Cochran needed was the First Amendment's.

Last week, after four years of litigation, the city agreed to settle the case and pay its former fire chief \$1.2 million. Mr. Cochran told me in an interview Monday that he was pleased with the outcome and looked forward to getting on with his life. "The First Amendment rights that are assured in our Constitution have been upheld," he said.

But his saga is a sad reminder of the hostility that progressive politicians and other government officials are directing at people of faith who dare to voice unfashionable opinions. The bakers, florists and fire chiefs who support same-sex marriage are permitted to shout it from the rooftops. The ones who don't support it are expected to shut up, or risk having their lives destroyed. Welcome to progressivism in practice.

## Behind the Brussels-Rome Dispute

By Marcello Minenna

**T**he budget showdown between Rome and Brussels came to a head Tuesday. The new Italian government, formed from insurgent political parties, had proposed a deficit equal to 2.4% of gross domestic product next year. The European Commission said that's too high and gave Italy three weeks to submit a new budget. Yet a 2.4% deficit is still well under the 3% ceiling set by the Maastricht Treaty. Why is Brussels imposing a much tighter limit?

Because European bureaucrats have changed the way they measure member states' budgets. The new formula is deeply misleading.

The sovereign debt crises that started in early 2010 prompted Brussels to revisit the Maastricht criteria,

on the theory that a crude deficit cap of 3% and a debt limit of 60% might leave too much wiggle room during booms and too little during downturns. The commission instead considered the "structural budget balance," excluding one-off items such as natural-disaster response and the so-called cyclical component of the public budget—meaning both the tendency of social spending to increase in economic downturns and of revenues to rise in booms.

Brussels could then set country-specific targets and impose a plan to meet them. For Italy, the commission demands a reduction in the structural part of the deficit equal to 0.6% of GDP. The Italian government's provides for an increase in the structural deficit equal to 0.8% of GDP. That gap is the source of the current controversy.

What the commission won't admit is that this entire method rests on guesswork. To calculate a "structural" deficit, one needs to determine how much of the deficit arises from cyclical factors. To figure out where a country is in the economic cycle, one needs to estimate an output gap—the difference between current GDP and potential GDP at full employment, full capital utilization and no inflationary pressures.

The estimate of this output gap is the source of divergence between Rome and Brussels, and Brussels' estimates make little sense. The commission's spring forecast predicts a positive output gap of 0.5% for 2019, meaning Brussels believes Italy will achieve economic output 0.5% higher than a full-employment, full-utilization level next year. That's optimistic, to put it mildly. Brussels believes Italy will perform above potential, even as the unemployment rate has been in

double digits for years. The commission's estimate for a positive Italian output gap is nearly the same as its estimate of Germany's positive output gap next year (0.6%), while Germany has experienced annual economic growth around 2% recently and has unemployment below 4%.

### How can the EU reject a budget well within the Maastricht Treaty's limits?

The flaw lies in the commission's method for estimating key variables in calculations for the output gap, such as productivity and above all the nonaccelerating wage rate of unemployment, or NAWRU. Brussels is almost certainly taking too dim a view of economic potential when it estimates the NAWRU. The 2018 estimate for Italy's NAWRU is 9.9%, which is less than 1 percentage point below the actual unemployment rate—and suggests that Italy could never hope to reduce its unemployment rate below that high level without significant inflation.

Rome uses different estimates to calculate its output gap in line with unique characteristics of the Italian labor market. Although it hasn't publicly disclosed its NAWRU estimate, it's probably around 8.5%. Brussels has admitted in the past that Italy's own estimates of its output gap might be more accurate, which would argue for giving Rome more fiscal flexibility under the commission's own budget rules.

*Mr. Minenna is a Ph.D. lecturer at the London Graduate School in Mathematical Finance.*

# Saudi Probe Is Not a Job For the U.N.

By David B. Rivkin Jr.  
And Lee A. Casey

**T**he murder of Jamal Khashoggi has justly triggered international outrage. Yet calls for a United Nations-led investigation are neither justified nor prudent.

Those urging the U.N. to investigate argue that with so much at stake, no sovereign state can be trusted to conduct a full and fair probe. And there is a potential for bias—by the Saudis, whose officials are implicated; by Turkey, a rival of Riyadh; and by the U.S., the Saudis' longstanding strategic partner. The same is true of many other states, including Britain, France and Germany, all of which have economic and strategic interests in the region.

### An international inquiry would set a dangerous precedent for the U.S.

But this objection proves too much. There are numerous instances in which countries have been accused of terrible crimes, including torture and extrajudicial killings. The list includes the U.S. and every other permanent member of the Security Council. This standard would disqualify virtually every U.N. member.

The general rule is that sovereign states both have the authority and the obligation to put their own houses in order by investigating and prosecuting alleged offenses. Only in the most extreme circumstances can an international inquiry be justified—such as when the state concerned is incapable of undertaking the investigation, or when the alleged offenses rise to the level of widespread international crimes, for which international law prescribes individual criminal responsibility.

The classic examples are war crimes and crimes against humanity, neither at issue here. The murder of a specific person has very rarely been the subject of an international investigation, as in the case of former Lebanese Prime Minister Rafik Hariri's 2005 assassination. Syrian and Hezbollah involvement was suspected, and the Lebanese government was unable to conduct an investigation free of interference. Beirut thus agreed to the Security Council resolution establishing an independent investigative commission. Yet that probe was shunned by most intelligence services and failed to bring to justice any high-level culprits.

In this instance, Saudi Arabia is fully capable of investigating Khashoggi's death and has the greatest interest in the matter. Khashoggi was a Saudi national; so, it appears, are his killers. There is obvious concern about the fairness of a Saudi investigation because of the potential involvement of high-level officials close to the royal family, and the conflicting Saudi explanations have been justifiably criticized. Yet the kingdom has been a respected member of the international community and surely understands a whitewash would severely damage its standing.

Turkey, too, has legitimate interests here. If Riyadh officially sanctioned Khashoggi's killing in its Istanbul consulate, it would be an abuse of the diplomatic rights Turkey affords another sovereign under treaty. The U.S. and other Western powers can and should support and assist both Riyadh's and Ankara's investigations.

The U.S. has a strong interest in preserving international legal norms, grounded in the 1648 Treaty of Westphalia, which recognize the nation-state as the highest authority and establish rules that apply equally to all states. There is a determined movement to undermine this traditional system in favor of a supranational authority. These efforts have frequently targeted America, including its operations in Afghanistan and Iraq, renditions, interrogations and drone strikes. These matters have elicited condemnations at the U.N. and demands for international investigations. The U.S. has properly opposed such demands because it can and does investigate the allegations itself.

This leaves us with only one solution, as Secretary of State Mike Pompeo put it a few days ago: "We're going to give them"—the Saudis and the Turks—"the space to complete their investigations of this incident, and when they issue their reports, we'll form our judgment about the thoroughness, depth and the decisions they make about accountability connected to that."

*Messrs. Rivkin and Casey practice appellate and constitutional law and have argued before international legal bodies, including the International Criminal Tribunal for the Former Yugoslavia and the International Court of Justice.*

## THE WALL STREET JOURNAL.

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## WORLD NEWS

# Another Caravan Gathers in Guatemala

New dynamic at work as migrants band together to avoid hiring traffickers

BY SANTIAGO PÉREZ  
AND JOSÉ DE CÓRDOBA

HUIXTLA, Mexico—Even as a caravan of thousands of Honduran migrants makes its way across southern Mexico, another caravan is forming in its wake.

Thousands of Honduran migrants gathered in a Guatemalan city near the border with Honduras Tuesday to prepare for a new caravan that would follow in the footsteps of a larger group currently marching to the U.S.-Mexico border, posing a fresh challenge to Guatemalan and Mexican authorities seeking to contain a surge in mass migration.

Church-run charities assisting migrants and activists say as many as 2,500 Hondurans who crossed into Guatemala in recent days have gathered in the city of Chiquimula, near the border with Honduras. But estimates of the size of the new group vary widely, from that number down to a few hundred, according to Francesca Fontanini, spokeswoman for the Americas region for the United Nations office on refugees.

The migrants say they plan to head to Ciudad Tecum Uman, the Guatemalan border town that was overwhelmed by a larger group of migrants who rushed into Mexico over the weekend.

Some 5,000 migrants are already marching northward in Mexico's southern Chiapas state, according to Mexican authorities, while close to 1,700 Hondurans who requested asylum have been sent to a shelter run by Mexican migration authorities in the city of Tapachula, near the border with Guatemala. Hundreds of them traveled with children and babies.

Migrant-charity workers say the rise of new caravans could



Honduran migrants taking part in a new caravan toward the U.S. hold Honduran and Guatemalan flags on Monday in Quezaltepeque, near Chiquimula, Guatemala.

ORLANDO ESTRADA/AGENCE FRANCE PRESSE/GETTY IMAGES

## On the Move

The caravan of migrants that started its journey in San Pedro Sula, Honduras, had made it to Huixtla, Mexico as of Tuesday. A second caravan was forming in the Guatemalan city of Chiquimula.



Central America since an April caravan was thrust into the public eye by President Trump, said Adam Isacson, a researcher at the Washington Office on Latin America.

"This offers a low-cost alternative" to paying a smuggler, Mr. Isacson said.

The new caravans could be drawing inspiration from the current caravan in southern Mexico. Last weekend, Mexican police tried to stop the large group from entering the country, saying they would only allow in between 150 and 200 asylum seekers a day. But the majority sneaked across the border in makeshift rafts.

Mexico's government has said it won't use force against illegal migrants, but warned that those who don't follow Mexico's immigration laws won't achieve their objective of reaching the U.S.

Maria Amparo Acevedo, a worker at a migrant shelter on the outskirts of Chiquimula, said Tuesday that smaller groups of Honduran migrants, ranging from 30 to 160 people, had been arriving at the shelter over the last few days, with several of them leaving Monday night to join what they de-

scribed as bigger groups.

In Mexico, meanwhile, hundreds of bone-tired migrants from Honduras sprawled on the streets and central square of the southern Mexican village of Huixtla, looking for shelter from a merciless sun as they waited to resume a long march to the U.S. Personnel from Mexico's Red Cross treated migrants for foot blisters and dehydration as salsa music blared from nearby speakers.

Mayor José Luis Laparra said the town has spent about \$9,000 for food, water, medical help and security. He expects a lot more caravans to come down the pike.

"Another 3,000 more migrants are coming. They see that when they get together they can't be stopped," he said.

—Robbie Whelan in Mexico City contributed to this article.

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Wednesday, October 24, 2018 | B1

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## McDonald's Relies on Price Boosts

By JULIE JARGON

**McDonald's** Corp. is still struggling to attract more U.S. customers but it eked out sales gains in the latest quarter by charging more for its food.

The company has been trying to revive traffic growth in the U.S. by upgrading restaurants, serving hamburgers made with fresh rather than frozen beef and offering drinks for a dollar. The chain also has been trying to make its food healthier by removing preservatives from its burgers.

However, the 2.4% third-quarter growth in same-store sales in its home market—roughly in line with analysts' expectations—was driven largely by menu price in-

creases, rather than traffic gains. The higher prices were prompted in part by a 3% rise in commodity costs for the quarter.

Globally, the restaurant chain did better, beating expectations for same-store sales growth with a 4.2% increase, resulting in its 13th consecutive quarter of same-store sales growth globally.

"The strength in markets outside the U.S. is encouraging when considering broader concerns about slower economic growth," said Baird analyst David Tarantino.

Shares in McDonald's rose 6.3% to \$177.15 on Tuesday.

U.S. franchisees, who own roughly 95% of the company's more than 14,000 restaurants

in the country, say the only way to grow is to attract more customers.

But rival fast-food chains have been stealing share from McDonald's in the morning hours, which account for about 25% of the chain's U.S. sales, by offering low-priced breakfast meals.

McDonald's also is losing out to food purchases for at-home consumption.

"It continues to be a battleground. It's a market-share fight on traffic," McDonald's Chief Executive Steve Easterbrook told investors on Tuesday. "We want to do better at breakfast."

The company said it plans to introduce new breakfast items later this year and to of-

fer more regional breakfast deals.

A group of some 400 franchisees met recently to discuss forming an independent association to address concerns about profitability. The franchisees say they are worried about not seeing a return on their investment from efforts to remodel restaurants, which the company is accelerating.

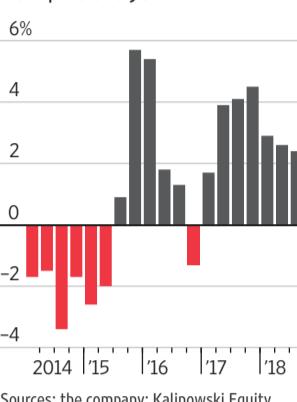
Some stores have been completely rebuilt while others have been upgraded with features such as touch-screen order kiosks, mobile-order pickup areas and digital menu boards at the drive-through.

Mr. Easterbrook said the company is open to discussing

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### Grudging Gains

McDonald's quarterly U.S. comparable-store sales, change from previous year



Sources: the company; Kalinowski Equity Research  
THE WALL STREET JOURNAL.

## Oil Sinks On Supply, Economy Worries

By STEPHANIE YANG AND CHRISTOPHER ALESSI

Oil prices tumbled to a two-month low on signs of rising supply and as fears about slowing global growth prompted investors to abandon risky assets.

Light, sweet crude for December delivery settled down \$2.93, or 4.2%, to \$66.43 a barrel on the New York Mercantile Exchange, marking its biggest one-day loss since July. Brent, the global benchmark, dropped 4.2% to \$76.44 a barrel.

The recent losses are a sharp reversal from earlier this month, when declining Iranian supply and strong demand sent oil prices soaring to a four-year high. Traders said Tuesday's losses were exacerbated by speculators unwinding long positions they had built up for much of this year.

"I think this was part of a global meltdown...and bad positioning," said Scott Shelton, a broker at ICAP PLC. "There's been a pretty large liquidation today. We generally went into a free fall."

The crude market has fallen 13% from its highs this month as U.S. supplies have increased and global demand growth has been called into question.

On Tuesday, UBS analysts said they expect oil-demand growth to slow in 2019 due to higher prices and weaker economic growth. Earlier this month, both the International Energy Agency and the Organization of the Petroleum Exporting Countries lowered their global demand-growth estimates for this year and next.

"There seems to be growing concern about demand growth that's underpinned by the equity markets and the economic outlooks," said Gene McGillian, research manager at Tradition Energy.

Meanwhile, Saudi Energy Minister Khalid al-Falih told a Russian news agency Monday Please turn to page B13

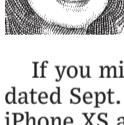
## Gucci Prospects in High Style Despite Fears of Trade Flare-Up



ITALIAN DRESSING: The designer's quarterly revenue rose 35% to \$2.41 billion, beating analysts' expectations but signaling a slowdown compared with boom times that began in 2016, when growth regularly topped 40%. Tensions between Washington and Beijing failed to deter big-spending Chinese shoppers. Mannequins in Miami. B3

PERSONAL TECHNOLOGY | By Joanna Stern

## Cheaper iPhone XR Strikes the Right Number



Dear reader, I'm not going to say I told you so but ... I told you so.

If you missed my letter dated Sept. 18—aka my iPhone XS and XS Max review—I instructed iPhone buyers to wait until the October release of the more affordable iPhone XR.

Now, after nearly a week of testing the XR, I can confirm that it's the "just right" iPhone for most people. In fact, it has the best feature-to-price ratio of any iPhone possibly ever, and given that Apple's lineup now has as many choices as the cereal aisle, that has never been

more important. Allow me to recap:

◆ iPhone XS Max (Starts at \$1,100): the giant version of the XS with a 6.5-inch screen, the biggest yet on an iPhone.

◆ iPhone XS (Starts at \$1,000): the upgrade to the 5.8-inch iPhone X from last year. (RIP, original iPhone X.)

◆ iPhone XR (Starts at \$750): the new model with a 6.1-inch screen. It looks like the XS models but has a lower-quality screen and fewer camera features.

◆ iPhone 7 (Starts at \$450) and iPhone 8 (Starts at \$550): the older iPhone models with fingerprint sensors and fatter bezels.

Scan that list and you



The iPhone XR and XS Max.

can't help but notice the \$250 gap between XS and XR. The long-held iPhoneconomics theory is that when you spend more, you get proportionately more, but the XR defies that.

Sure, there are some XR

trade-offs, including a lower-contrast, lower-resolution LCD screen and a single camera on the back. But I barely noticed the differences in everyday use.

Actually, after using the XR, I believe the XS has a bigger trade-off—namely, shorter battery life. When weighing the two options, decide what features you care about most. And keep in mind that, for most people, the "XS" stands for X...S...ive. Don't spend more for a psychological trick.

### What's the Same

The XR, XS and XS Max are the tech equivalent of fraternal triplets. They share the same all-screen designs,

new A12 Bionic processors and front-facing camera systems to enable unlocking of the phone with Face ID.

Face ID is faster and more reliable than the fingerprint scanner. If you're upgrading from an older model, you'll get used to the lack of a home button in no time—though it may take longer to get used to the notch at the top of the phone.

### What's Worse: Screen

You really have to be looking at the XS or XS Max's OLED screen and the XR's LCD screens side by side to notice that the XS screens are sharper, have better contrast, deeper blacks and

Please turn to page B4

## Roundup Setback Doesn't Faze Bayer

Bayer AG's \$63 billion acquisition of Monsanto Co. this year made the German drug and chemicals company the world's biggest supplier of crop seeds and pesticides—and brought it thousands of lawsuits alleging Monsanto's Roundup herbicide causes cancer.

By Sara Randazzo, Jacob Bunge and Ruth Bender

But Bayer has a history of fighting big-ticket litigation and has seen much worse. So officials are projecting calm, even after a judge Monday rejected Bayer's request to reverse an August jury verdict against the company in the first Roundup case to go to trial.

Like other pharmaceutical giants, Bayer has for decades battled mass tort lawsuits in the U.S. alleging its drugs and medical devices sicken or kill people. Bayer has typically denied liability. In legal circles, the company has developed a reputation for negotiating when it feels the situation requires that approach, but fighting back and pushing to trial when it believes it can win, even if it takes years to play out.

"We have quite a bit, I would say, of experience in U.S. product litigation," Bayer Chief Executive Werner Baumann told investors in August, soon after a San Francisco Please turn to page B2

## Foreigners Cut Back Purchases Of Treasurys as Sales Increase

By DANIEL KRUGER AND IRA IOSEBASHVILI

Overseas investors, traders and central bankers are buying fewer Treasurys, a potential turning point for a \$15 trillion market at the center of global finance and economics.

Foreigners increased Treasury holdings by \$78 billion in the first eight months of 2018. That is just over half of what they bought during the same period last year and accounts for a much smaller share of Treasury issuance, as the government steps up the size of regular bond auctions to fill a growing U.S. budget gap.

Foreign buyers now hold 41% of outstanding Treasury debt, their lowest share in 15 years, down from 50% as recently as 2013, according to U.S. Treasury data.

So far, U.S. yields remain low historically, debt funding remains broadly available and many foreign purchasers retain large stakes. China and Japan still both own more than \$1 trillion of U.S. debt, according to the U.S. data, and there are few signs Treasurys are losing their cachet as the world's most widely traded, extensively held safe securities. Treasury yields serve as a reference rate for mortgages,

bonds and other borrowing.

Yet it is clear that the foreign pullback has helped fuel a bond sell-off this fall, which has driven the 10-year yield to 3.17% and has shaken the nine-year-long rally in U.S. stocks, and that continuing reductions in foreign appetite could further unsettle financial markets.

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## McDonald's Relies on Price Hikes

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with its franchisees what it can do better.

McDonald's said that this year it expects to add 600 new restaurants and log about \$2.5 billion in capital expenditures. Of that amount, \$1.6 billion will be for the U.S., up from the \$1.5 billion it forecast in July.

The company said half of all McDonald's restaurants in the U.S. are expected to be upgraded by year-end in what it characterizes as the largest construction project in the chain's history.

Closures or disruptions due to construction have resulted in lost sales for many restaurants, according to franchisees.

McDonald's finance chief Kevin Ozan acknowledged that the pace of remodeling has

been aggressive and said the company is working to minimize the amount of time restaurants are closed for remodeling.

A report from research firm Gordon Haskett also found that once an upgrade to a restaurant had been completed, customer traffic increased considerably.

McDonald's revenue fell 6.7% from the year-earlier quarter to \$5.37 billion on the continued sale of restaurants to franchisees.

The company, which is based in Oak Brook Ill., has spent the past few years moving its business model toward one based on franchisees, which it said provides a more stable and predictable revenue stream.

The company's third-quarter profit fell 13% to \$1.64 billion, with per-share earnings falling to \$2.10 from \$2.32 a year earlier.

Excluding a prior-year gain and restructuring and impairment charges, earnings per share increased 19% and beat analyst expectations.

—Allison Prang contributed to this article.

## Roundup Woes Don't Faze Bayer

Continued from page B1

jury found in favor of a groundskeeper who said he developed non-Hodgkin lymphoma from exposure to the company's glyphosate-based herbicides.

Bayer has argued that glyphosate, the main chemical in Roundup, doesn't cause cancer and has been reviewed and approved in more than 160 countries.

The company said Monday it would appeal the verdict.

The company also faces actions from some 24,300 plaintiffs over Bayer's best-selling blood thinner Xarelto.

Another 17,000 claims are pending over its discontinued permanent birth-control implant Essure

and 2,700 over its long-term birth control device Mirena.

Bayer denies liability and is fighting the suits.

The Monsanto deal added

claims from at least 8,700 plaintiffs targeting its flagship weedkiller Roundup.

The jury's \$289 million award in August sliced billions of dollars from Bayer's valuation.

Although a judge reduced that award Monday to \$78.5 million, the court rejected Bayer's request to reverse the August verdict, sending Bayer shares down more than 11%.

Bayer gained attention for

its innovative defense approach in the early part of the last decade, when it developed a two-pronged legal strategy

involving a cholesterol-lowering drug called Baycol.

The company settled with plaintiffs it believed had legitimate

injuries, including muscle

breakdown, or had died from

using Baycol. But it fought

weaker claims aggressively.

The common wisdom at the time among big pharmaceutical companies was to settle fast.

That allowed companies to avoid putting cases in the hands of unpredictable juries.

But settling product-liability

cases had shortcomings.

For pharmaceutical companies, "if you just settle them,

there'll be the next one in line,

and it's an endless list," said John Beisner, a defense lawyer at Skadden, Arps, Slate, Meagher & Flom LLP who specializes in mass-torts cases.

Bayer won the first Baycol case to go to trial, in Corpus Christi, Texas in 2003. It settled some 3,100 out of more than 14,000 claims over Baycol for \$1.16 billion without admission of liability after winning several more trials.

*The company's stand on Monsanto claims reflects its innovative approach to defense.*

maining cases were either dropped by plaintiffs or dismissed. Before the first court win, analysts had estimated \$10 billion in payouts.

Since Baycol, both plaintiffs and defense lawyers say pharmaceutical companies, including Bayer, have taken a tougher stance on resolving mass torts.

Bayer's strategies will be

tested with the Roundup litigation, which, unlike those involving prescription drugs, questions the safety of a product on store shelves and found in millions of homes.

A Bayer spokesman said while each case is unique, the scientific and regulatory records of a product play a big part. In the Roundup litigation, he said, "Bayer is confident in both of these factors because its glyphosate-based products are among the most-studied of their kind, and the four decadelong body of scientific research confirms they are safe when used as directed, and that glyphosate is not carcinogenic."

Defending everyday products can also be more difficult than defending drugs, experts say, because it is harder for the company to argue any risk is worth the potential upside.

With the Roundup cases, said lawyer Mark Lanier, who has opposed the firm in other litigation, it is theoretically "harder to say...we gave you non-Hodgkin's lymphoma, but without it, it would have been harder to pull those weeds out of your lawn."

## Lockheed Rides Rise in Military Sales

By DOUG CAMERON

Lockheed Martin Corp. eased concerns Tuesdays about the defense industry's growth prospects, heading toward what many analysts expect will be a peak for U.S. military spending next year.

The world's largest defense contractor forecast its revenue would rise by as much as 6% in 2019 from \$53 billion this year as it boosts production of missiles and F-35 combat jets.

Lockheed also played down its exposure to arms sales to

Saudi Arabia.

Lockheed has benefited

from a two-year increase in

military spending that has

added \$75 billion for equipment and services to the U.S. budget.

Pentagon leaders have

said they need to improve

military readiness and launch

new programs in areas such as hypersonic missiles and cybersecurity.

However, President Trump

last week signaled potential

across-the-board spending cuts next year. After the com-

pany's alleged the kingdom ordered the killing of journalist Jamal Khashoggi in its Istanbul consulate on Oct. 2. Mr. Trump said the planned arms deals are vital for American companies and jobs. "I'd rather keep the million jobs, and find another solution," he said at the industry roundtable.

Lockheed finance chief Bruce Tanner said the company didn't know when it might receive an order for Thaad missile-defense systems from Saudi Arabia that the U.S. government is brokering.

Lockheed had previously said it expected a contract, which analysts have estimated could

be worth \$10 billion this year. Mr. Tanner said Lockheed expects to make about \$500 million in sales to the kingdom next year and \$900 million in 2019.

Lockheed, which is based in Bethesda, Md., said it expects its closely watched operating cash flow to be stable at around \$7 billion in each of the next three years. The company reported a forecast-beating profit of \$1.47 billion for the just-ended quarter, compared with \$963 million a year earlier, with per-share earnings rising to \$5.14 from \$3.32.

Its order backlog rose to \$109 billion.

Mr. Tanner said Lockheed continued to work with the U.S. government on an estimated \$28 billion in potential long-term deals with Saudi Arabia.

Mr. Tanner has resisted calls to curb U.S. arms sales to Saudi Arabia after Turkish of-

fers

concerns about the impact of U.S. weapons on civilians in Syria.

Mr. Tanner said the company is continuing to work with the U.S. government on potential deals for F-35 fighter jets and other aircraft.

Lockheed has also been working on potential deals for F/A-18 Hornets and other aircraft.

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## BUSINESS NEWS

## Chinese Shoppers Splurge on Gucci Gear

By MATTHEW DALTON

PARIS—Gucci posted robust sales in the third quarter, reporting no signs of a pull-back by China's big-spending shoppers.

The results, published Tuesday by Gucci parent Kering SA, offered some relief from the gloom about China that has hovered over the luxury industry in recent months. Luxury shares have been hit hard by fears that a slowing Chinese economy and trade tensions between Beijing and Washington will lead well-heeled Chinese to shut their wallets. Chinese shoppers are the luxury industry's most important clientele, accounting for a third of all global sales.

"Everyone is waiting for the materialization of these tensions," said Jean-Marc Duplaix, Kering's chief financial officer. "We don't see it at this point."

Mr. Duplaix said spending on Gucci by Chinese shoppers world-wide, at home or abroad, exceeded the rate seen in the first quarter, and was a touch lower than in the second quarter. Spending growth by Chinese shoppers inside China in the third quarter exceeded rates in the first two quarters of the year, he said.

Gucci's revenue rose 35% to €2.1 billion (\$2.41 billion) in the quarter, Kering said. That exceeded analysts' expectations but also signaled a slowdown compared with the Gucci boom that began in 2016, when quarterly growth regularly topped 40% as the label became one of fashion's best-performing brands. Spending by Chinese shoppers, however, has been growing at the same clip as before. "We are on par or maybe slightly above the growth rate we had in mind," Mr. Duplaix said.



DAVID W CERNY/REUTERS

**Motorcycle enthusiasts at a Harley-Davidson event in Prague earlier this year. The company's challenges include a recall it issued Tuesday for recent-model motorcycles.**

## Harley Expects Tough Road Ahead

**Motorcycle maker predicts weak sales through 2019 as it seeks younger buyers**

By BOB TITA  
AND MICAH MAIDENBERG

**Harley-Davidson Inc.** said U.S. motorcycle sales would remain weak through 2019, as company executives implement a new growth strategy focused on younger riders.

Executives called for patience Tuesday as Harley rolls out new models and expands programs to increase ridership, particularly among younger city-dwellers.

Harley is pursuing this new segment to try to offset a core customer base of aging riders who are buying fewer new motorcycles. The company is on course this year to log its fourth straight year of lower sales in the U.S., its largest market.

"It's not a quick fix," Chief

Executive Matt Levatich told analysts during a conference call. "We have a tough couple of years to get through until some of these products start to become tailwinds for the company."

In another issue that will weigh on the company's earnings this quarter, Harley on Tuesday announced a recall of 238,300 recent-model motorcycles world-wide because of a clutch issue.

The company expects to take a \$35 million charge related to the recall.

Shares in Harley-Davidson fell 2.2%, or 86 cents, to \$37.87 on the New York Stock Exchange on Tuesday.

Harley this summer revealed plans to introduce 16 new motorcycle models by 2022. Many of the new bikes will be targeted at parts of the motorcycle market that Harley currently doesn't serve, including electric motorcycles, racing-style sport bikes and touring motorcycles capable of operating on paved and unpaved roads.

Harley expects the new modes will add as much as \$1.5 billion to annual revenue over five years.

Harley reported that retail sales of motorcycles in the U.S. declined 13% in the third quarter from a year earlier to 36,220 motorcycles. In the first three quarters of the year, sales were down 10% from the year-earlier period.

"We expect a continuing challenge in the U.S. motorcycle industry into next year," Chief Financial Officer John Olin said.

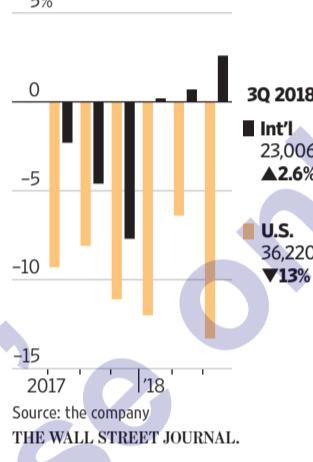
Harley said that tariffs could cost the company about \$120 million next year, with the majority of that coming from European Union tariffs on U.S.-built bikes exported to Europe. The company plans to move production of motorcycles destined for the European market out of the U.S. to avoid the EU tariff, levied earlier this year in retaliation for U.S. tariffs this year on European steel and aluminum.

The company expects tariffs

17% increase in revenue during the quarter.

### Low Rider

Harley-Davidson motorcycle sales, change from previous year



Source: the company

THE WALL STREET JOURNAL.

The company shipped 51% more touring bikes, typically the company's most expensive models. Shipments of lower-priced cruiser-type bikes fell 7% from a year earlier.

The favorable mix of higher-margin bikes pushed up Harley's operating margin for the quarter to 5.8% from 1.8% last year. The company said that it still expects wholesale motorcycle shipments of 231,000 to 236,000 the year, unchanged from previous guidance.

Harley earned a profit of \$113.9 million, or 68 cents a share, in the third quarter, up from \$68 million, or 40 cents a share, a year earlier. After excluding some manufacturing costs, Harley said it earned 78 cents a share, compared with the 53 cents a share predicted by analysts.

Revenue from motorcycles and related products totaled \$1.12 billion. Analysts had predicted \$1.07 billion.

## Dunkin' Takes On Starbucks

By JULIE JARGON

**Dunkin' Brands Group Inc.** is trying to undercut what rival Starbucks Corp. charges for a signature product: quality espresso.

The Canton, Mass., chain on Wednesday said revamped lattes, cappuccinos and Americanos are the biggest change to Dunkin's drinks menu since it started serving espresso 15 years ago with simpler machines.

Dunkin' wants customers to see it as cheaper than Starbucks and just as good. The company dropped the "Donuts" from its name last month and is also encroaching on Starbucks's turf by selling cold-brew coffee in its shops and bottled iced coffee in grocery stores.

Starbucks has generated lackluster sales growth in recent quarters in the U.S., and competition to sell high-quality coffee is intensifying. The price of a 16-ounce hot latte at a Dunkin' in Baltimore, where the chain has been testing the new drinks, is \$3.59, with tax, compared with \$4.19 for the same-size drink at a nearby Starbucks.



**The chain's new espresso cups**

"There's no reason to go to Starbucks anymore," said Tony Weisman, Dunkin's marketing chief.

Going up against Starbucks could be a big challenge for Dunkin', which always has been known more for its smooth coffees than a bold drink like espresso.

Dunkin' has been remodeling its stores with cold-brew taps and drive-through lanes for mobile orders.

Like Starbucks, the chain has struggled to attract new

customers. Dunkin's U.S. same-store sales grew by 1.4% in the second quarter, as an increase in average checks offset a decrease in traffic.

The company is scheduled to report third-quarter results on Thursday.

Dunkin' has lagged behind in espresso sales as the category became the fastest-growing kind of coffee in cafés in recent years.

The new espresso beverages will be served at Dunkin's more than 9,200 U.S. stores in bright orange cups to distinguish them from other Dunkin' drinks in white or clear cups.

The company hopes the drinks will help it boost business in the afternoon, which has proved challenging for both Dunkin' and Starbucks.

The company is investing \$100 million in the U.S. in the next year, more than half of it in restaurant technology, including espresso machines. Franchisees have committed even more money to the upgrades.

Dunkin' wouldn't say how much franchisees are contributing or how much the new machines cost.

## Wireless Unit Bolsters Verizon

By SARAH KROUSE

**Verizon Communications Inc.** added to its pool of wireless phone subscribers in the third quarter while pressing forward with its bet that it is better to focus on building a faster network than trying to own the content that flows through it.

The largest U.S. wireless carrier by subscribers added a net 295,000 new phone connections during the period, after adding a net 199,000 of those customers in the prior quarter.

Revenue from Verizon's wireless unit—its largest—grew, but the carrier reported declines in its wireline and Oath media and advertising businesses. It also acknowledged that it is unlikely to meet longer-term targets set for Oath.

Verizon has put building a faster, 5G network at the center of its long-term strategy. It faces intense competition for subscribers in a saturated wireless market. To woo customers who pay for unlimited data plans, the company has promoted its mix-and-match plans.

Verizon topped some Wall Street estimates of its phone subscriber growth. Wells Fargo analysts expected it to add a net 200,000 postpaid phone subscribers during the quarter.

Shares rose about 4% Tuesday, to \$57.21.

Verizon had 116.8 million wireless connections at the end of September, compared with 116.5 million at the end of June.

Quarterly revenue in the Oath business, which houses AOL, Yahoo and other brands, was \$1.8 billion, down about 7% from the same period a year

## Prepared to defend at any moment

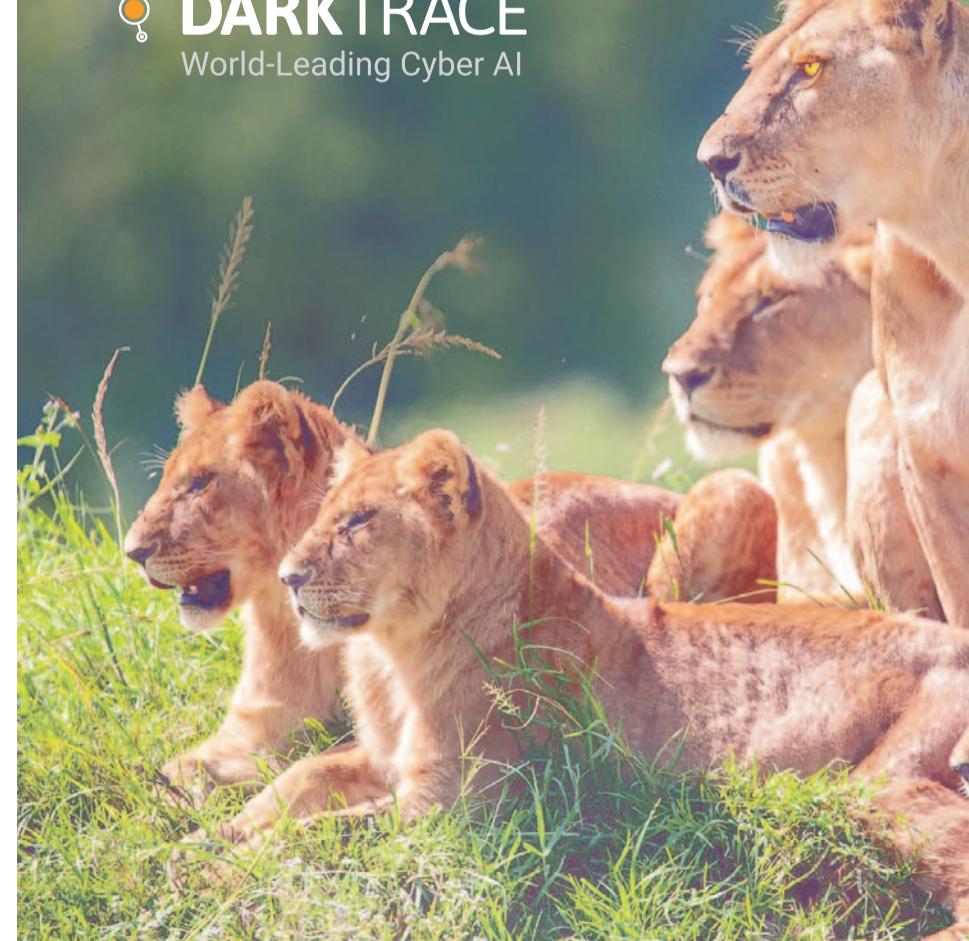
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## TECHNOLOGY

# Earnings Hopes Fuel Tesla Shares

By TIM HIGGINS

Tesla Inc.'s shares soared on Tuesday after it announced plans to report quarterly results sooner than expected, fueling speculation that it has good news to deliver.

Investors are anticipating the coming quarterly report with even more suspense than usual because Chief Executive Elon Musk has promised the electric-car maker would record a net profit and positive cash flow for the three-month period, based on his belief that Tesla could recharge its money-losing operations by sustaining strong output of its Model 3 sedan.

Investors had expected the results to come next week or later, but Tesla late Monday said it would release its third-quarter financial report after the markets close Wednesday.

Tesla's share price, which as of Monday had fallen by nearly a third from its high this year, jumped nearly 13% during Tuesday trading to close at \$294.14.

"Game theory suggests the early/surprise reporting is good news," Adam Jonas, an analyst for Morgan Stanley, said in a note to investors Tuesday. "Why would Tesla pull forward the introduction of adverse news into the market now?"



**CEO Elon Musk has promised the car maker would post a third-quarter net profit and positive cash flow.**

Analysts broadly have been less confident than Mr. Musk of Tesla's ability to deliver a profit. They were estimating on average a net loss of 95 cents a share for the latest quarter based on generally accepted accounting principles, according to a survey by FactSet. That compares with a loss of \$3.70 a share in the third quarter last year. Revenue is expected to rise to \$6.1 billion, according to FactSet, from \$2.98 billion a year earlier.

Analysts expect Tesla to report an adjusted loss of 3 cents a share in the latest period compared with \$2.92 a share a year earlier, according to FactSet on Tuesday.

If Mr. Musk's prediction bears out, it would be the third quarterly net profit in Tesla's 15-year history. Tesla eked out a \$22 million profit in the third quarter of 2016, and \$11.2 million in the first quarter of 2013. It has never reported an annual profit.

Tesla earlier this month said total vehicle deliveries in the third quarter reached 83,500, a sharp rise from more than 26,150 vehicles a year earlier, thanks to sustained production of the Model 3 this summer. It said it delivered 55,840 Model 3s in the period.

The vehicle, priced lower than other Tesla models, is the cornerstone of Mr. Musk's bet to transform Tesla from a niche luxury brand into a mass-vehicle manufacturer.

email were crisper."

#### What's Worse: Camera

The XR has the same great wide-angle camera as the XS phones, but lacks the second telephoto lens for true optical zoom. Only once this week was I bothered by that: when I spotted the evil squirrel who has been eating through the pumpkins on my front stoop. I caught it orange-handed, but when I moved in to snap a picture, it scurried away.

With just one camera, Ap-

ple still enables Portrait Mode—the setting that tries to mimic SLR cameras by applying artificial blur around a subject. Instead of using the two cameras, Apple uses software tricks to try to distinguish the main subject from the background. It worked OK, but in some cases it looked fake and blurred the wrong thing. And it doesn't work on animals.

Nope, no professional-looking shots of dogs, cats or—as I tested in the video above—farm animals. This is

a deal breaker for me, as I snap tons of photos of my son and dog together.

#### What's Better: Battery and Design

I've long knocked Apple for sacrificing battery life in the name of phones that can double as razors.

That's why I was surprised to find that, thanks to its lower-resolution screen and big battery, the XR has the longest battery life of any iPhone I've tested in recent memory.

The company faces a tough challenge breaking into an auto

# Dyson Picks Singapore For Car-Making Entry

By DAPHNE ZHANG

LONDON—Dyson Ltd., best known for its high-end vacuum cleaners, said Tuesday it plans to build electric cars in Singapore, aiming to make its mark on the auto industry in fast-growing Asian markets.

The closely held British company said a manufacturing facility would be built by 2020 and that its vehicles—set to compete against electric-car pioneer Tesla Inc. and other major auto makers—would go on sale the following year.

Dyson, which makes a range of household appliances, unveiled plans to expand into car making last year, pledging to commit £2 billion (\$2.6 billion) to the project, including £200 million on U.K.-based testing and research-and-development facilities.

Dyson already has 1,100 employees at three manufacturing sites in Singapore, which it noted has bilateral trade deals with China, India, U.S. and the European Union.

"Singapore is central to our future and we expect to more than double our team there," Chief Executive Jim Rowan said in an email to staff Tuesday.

The company faces a tough challenge breaking into an auto

industry dominated by players with deep pockets and years of car-making know-how. But Dyson has made a mark around the globe by fusing innovative engineering and design to provide fresh takes on everyday appliances such as vacuum cleaners, fans and hand dryers.

The company has said it plans to rely on those credentials in developing electric vehicles, and that it won't collaborate with other car makers. Dyson already makes components necessary to build vehicles, such as high-speed motors and batteries.

Company founder James Dyson has been a vocal supporter of the U.K. leaving the EU, and some politicians criticized the decision to manufacture cars in Asia. Ian Murray, a Labor Party member, said Mr. Dyson had failed "to put his money where his mouth is and invest in British manufacturing."

Dyson, which put its U.K. head count at 4,800, said its decision wasn't related to Brexit.

Last year, Dyson's revenue rose 40% to £3.5 billion, with earnings before interest, tax, depreciation and amortization climbing 27% to £801 million. The company said growth was particularly strong in Asia.

# The XR Is An iPhone Surprise

Continued from page B1  
richer colors—even when you hold them off axis.

In everyday use, I rarely noticed the difference nor did I spend time thinking "Gosh, I wish the text of this

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I was constantly surprised at how much juice I had left when I'd look at the battery meter. In general it lasted one to two hours longer than the XS and XS Max. In my video-streaming tests, the XR played Netflix for nearly 13 hours, along with the XS Max. Meanwhile, the XS lasted just 10.5 hours. An Apple spokesperson said the phones are optimized for everyday use.

The XR's six bright color options make it seem like it belongs in a candy store,

#### NOTICE OF SALE

NOTICE OF FORECLOSURE & PUBLIC SALE OF PERSONAL PROPERTY ASSETS OF TECH SOL, LLC & TIKOO SOLUTIONS, LLC (aka TECHNOLOGY SOLUTIONS) UNDER THE UNIFORM COMMERCIAL CODE

PLEASE TAKE NOTICE THAT on November 8, 2018, at the hour of 11:00 a.m. Central Time, Simon Group Holdings II, LLC, as perfected, secured creditor ("Secured Creditor") of Tech Sol, LLC and Tikoo Solutions, LLC (also known as Technology Solutions) ("Obligors") will hold a public foreclosure sale at the former offices of Technology Solutions set forth below under Section 9-610 of the Uniform Commercial Code of all of the remaining personal property collateral pledged to Secured Creditor, including, without limitation, office equipment, inventory, remaining accounts receivable and pre-paid assets, books and records, remaining general intangibles, and remaining intellectual property, contract rights and all other personal property assets, other than any collateral specifically excluded by Secured Creditor in its discretion. Obligor's remaining assets relate to a telecom services contractor for Secured Creditor and its internet, including fiber and cable installations, digital conversions, and wireless installation and maintenance businesses.

The sale will be held on a "where is, as is" basis, without any representations and warranties, express or implied. There is no warranty relating to title, possession, quiet enjoyment, access or the like in this foreclosure disposition. Secured Creditor intends to offer the assets in one lot. Secured Creditor reserves the right to establish other reasonable bidding procedures and to have potential bidders demonstrate their ability to perform and close to the reasonable satisfaction of Secured Creditor. Secured Creditor reserves the right to credit bid or to increase any credit bid price at the public sale. Secured Creditor also reserves the right to adjourn, continue or cancel the public sale without further notice. Qualified bidders may be permitted to submit written bids in advance or participate in the public sale via conference call.

Any parties interested in further information about these assets should contact the Secured Creditor as set forth below or appear at the foreclosure sale at the time and date set forth above.

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SECURED CREDITOR'S COUNSEL: EDWIN HERBERT, ESQ., 335 E. MAPLE, BIRMINGHAM, MI 48009, (313) 662-3507, eherbert@simongroupholdings.com

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#### Investment Banking Positions

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Java/JavaEE backend incl object-relational map-

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tools incl Jira; continuous integration tools incl

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Req's 1 yr exp w/ Scala & Python;

Frontend tools incl HTML/JS, Javascript, AngularJS, Bootstrap, Tem-

plate Engine incl FreeMarker & Smarty; data

visualization tools incl D3.js w/compatible mid-

dle layer; Web svr/s incl Nginx, Apache,

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#### Associate

Morgan Stanley Services Group Inc. seeks As-

## BUSINESS NEWS

# A Pixar Founder To Leave Disney

BY ERICH SCHWARTZEL

LOS ANGELES—Ed Catmull, the co-founder of Pixar Animation Studios and a leading architect of Walt Disney Co.'s recent success in family animation, is leaving the company at the end of this year, the company said.

As president of Walt Disney Animation Studios and Pixar, Mr. Catmull, 73 years old, is responsible for leading the studios that is behind some of the most beloved animation titles of the past several years, including "Toy Story," "Frozen," "Inside Out" and "Up."

Though not well-known among everyday fans, Mr. Catmull has had a hand in shaping Disney's successful animation studios and in overseeing franchises like "The Incredibles" and "Finding Nemo." Such films are the core element of Disney's approach to the entertainment business, which allows the company to release a movie and then turn its characters into revenue generators through toys, sequels and theme-park attractions.

Mr. Catmull joined Lucasfilm Ltd. in 1979 to lead the "Star Wars" company's computer division after several years working in cinema technology. In 1986, he co-founded Pixar with Apple Inc. co-founder Steve Jobs and animation guru John Lasseter.

Disney acquired Pixar for \$4 billion in 2006, at which point Mr. Catmull became president of Walt Disney Animation Studios and Pixar. Mr. Lasseter became the chief creative animation executive at Disney. He took on a more public role than Mr. Catmull and was known to pitch future movies at fan conventions.

Mr. Catmull will stay on as an adviser to Disney through July 2019.

# Nestlé Investors' Disquiet Grows

BY SAABIRA CHAUDHURI

**Nestlé** SA's chairman is facing mounting opposition from some shareholders who say the former chief executive isn't helping his successor's efforts to reinvigorate growth at the world's largest packaged-foods maker.

The maker of Nescafe coffee and Purina pet food has been under pressure since activist investor Daniel Loeb's **Third Point** LLC disclosed a \$3.5 billion stake in the company last year and called for changes.

A recent survey of investors by Exane BNP Paribas, a research firm, indicates dissatisfaction extends beyond Third Point, suggesting the hedge fund could find support if it pushed Nestlé further.

Exane analyst Jeff Stent said the survey was conducted independently and wasn't commissioned by Nestlé, Third Point or anyone else.

Of respondents, 65% said they would vote against the re-election of Chairman Paul Bulcke, if Third Point cam-

## Gauging Shareholder Views

A survey of Nestlé investors indicates 65% would vote against the re-election of Chairman Paul Bulcke

How would you vote if Third Point put forward Jan Bennink as a candidate for the Nestlé board?

For	75%
Against	25%

If Third Point campaigned against the re-election of Nestlé Chairman Paul Bulcke, how would you vote?

For	35%
Against re-election	65%

Do you believe that CEO Mark Schneider has sufficient freedom to operate?

Yes	79%
No	21%

What is your view on the pace of Nestlé's change program?

About right	37%
Too slow	63%

Do you believe that Nestlé should be more active on the disposals front?

Yes	80%
No	20%

Source: Exane BNP Paribas survey of clients conducted Sept. 21 to Oct. 4. Of 61 respondents, 67% were current Nestlé investors.

paigned against him, 80% said they thought Nestlé should be more active on disposals and 70% said the company should sell its stake in **L'Oréal** SA, which Third Point has repeatedly campaigned for.

The survey, conducted over the past month, had 61 respondents, 67% of whom said they were current Nestlé shareholders. Full results, reviewed by The Wall Street Journal, were just shared with those who took the survey.

Respondents only represent a fraction of Nestlé's 160,000 registered investors, and 95% of shareholders voted in favor of Mr. Bulcke at the last vote.

Nestlé declined to comment. A Third Point spokeswoman said the firm has "no present plans to oppose Mr. Bulcke," who became chairman last year after eight years as CEO.

Third Point would like its adviser on the Nestlé stake, Jan Bennink, a former Royal

Numico NV and Sara Lee Corp. executive, to be added to the board, said people familiar with the matter. The firm declined to comment on whether it would nominate him.

Growth slowed sharply during Mr. Bulcke's tenure as chief executive, which some former executives attribute to strategic missteps and tough economic conditions.

"Bulcke is associated with a failed strategy," said Dan O'Keefe, who as head of the

global-value team at Artisan Partners oversees a \$300 million position in Nestlé. "You send a certain tone when the architect of that strategy sits at the top of the organization. By putting someone else in that role you send a strong signal externally and internally that you aren't wedded to the past."

In the Exane survey, 41 of the 61 respondents said they would like to see Nestlé sell its U.S. frozen-foods business.

## BUSINESS WATCH

**UNION PACIFIC****Railroad to Lay Off 500 Employees**

**Union Pacific** Corp. plans to lay off about 500 employees before the end of the year, the first of several rounds of job cuts as the railroad implements a new operating plan to turn around its performance.

The company, one of two major freight railroads in the Western U.S., has struggled this year with congestion and service issues that have depressed its profits.

The Omaha, Neb.-based company also plans to eliminate 200 contract positions according to an internal memo reviewed by The Wall Street Journal. The job cuts will occur across the railroad network. Union Pacific had a little more than 42,000 em-

ployees as of June 30, including 6,300 nonunion workers. The job cuts will affect both types of positions.

The layoffs were announced as part of other restructuring moves ahead of the company's earnings announcement on Thursday.

—Paul Ziobro

**REFINERY29****Publisher Cuts Staff As It Misses Target**

**Refinery29**, the media and entertainment company focused on millennial women, is laying off more than 40 full-time employees as the publisher falls short of its revenue target for the year.

The layoffs account for about 10% of the company's total workforce, according to a person



A Refinery29 art installation, part of 29 Rooms New York 2018.

familiar with the matter. Most of the cuts will come from the company's product, engineering and video divisions, according to another person.

In a memo to staff, Justin

Stefano and Philippe von Borries, Refinery29's co-chief executives, said they have identified areas where the company's resources can be better directed.

—Benjamin Mullin

**Pfizer****Drugmaker Creates Venture With Bain**

**Pfizer** Inc. and private-equity firm **Bain Capital** LP said they have formed a company to develop drugs for disorders of the central nervous system.

Pfizer, which earlier this year said it would stop trying to discover new drugs for disorders such as Alzheimer's disease and Parkinson's disease, said it is contributing a portfolio of pre-commercial neuroscience assets to the new company, called **Cerebral Therapeutics** LLC.

Bain said funds affiliated with Bain Capital Private Equity and Bain Capital Life Sciences have committed \$350 million to the new company and can provide more capital if needed.

—Colin Kellaher

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# THE PROPERTY REPORT

## Youth Hostels Reshape Identity for U.S.

Hospitality companies target space between dorm setting and boutique hotel

By MENGQI SUN

London-based hospitality group Generator opened its first U.S. property in Miami Beach last month, placing its dorm-room-like accommodations outside Europe for the first time.

Just don't call them youth hostels.

While Generator has been operating for 23 years and has 13 locations in popular European destinations like Paris, Barcelona and Amsterdam, its research of the U.S. market found that the term hostel is a turnoff to many American guests.

"The hostel thing doesn't describe us that way," said Alastair Thomann, chief executive of **Generator Group**, noting that its Miami property has more private rooms than the dorm-room settings with bunk beds usually associated with youth hostels. "We're in the space in between hostel and cool boutique hotels."

The moves reflect a broader shift in the fast-growing hostel industry away from its barebones past. Traditional hostels are adding more private rooms while some established hotel brands are shrinking their room size and putting more focus on bars and food to target millennials, betting young travelers would pay a higher price for the hostel culture and experience.

"I think this is a natural evolution for the hostel, and it has just really grown in the past five years," said David Eisen, director of hotel intelligence at HotStats.

Youth travelers are big business. According to the World Tourism Organization, a specialized agency of the United Nations, travelers ages 15 to 29



accounted for an estimated 23% of all international travelers in 2015 and spent a total of \$286 billion in 2014. Generator last year had more than two million guests globally.

As these properties become more popular and professional, Mr. Thomann said the number of corporate travelers is growing especially fast.

Generator, which is owned by London-based real estate investment firm **Queensgate Investments LLP**, isn't the only one embracing this market and putting less emphasis on the word "hostel."

Freehand, a New York-based brand run by hotel company **SydeLL Group** in partnership with private-equity investor Ronald Burkle, has upscale youth hostels in Los Angeles, New York and Chicago. Its first property opened in Miami Beach in 2012, but since then it has focused more on business travelers and private rooms, while decreasing the number of shared accommodations.

Hilton on Tuesday launched its first urban microbrand, called Motto by Hilton, which



Chief Executive Christopher Nassetta once referred to as a "hostel on steroids" at a forum in New York last year.

The brand will have hostel-like characteristics, such as smaller guest rooms compared with the core Hilton brand, the company said. But it isn't a hostel and guests wouldn't be sharing rooms with people they don't know, Hilton said. The brand is counting on "hy-

percharged food and beverage opportunities" to make up for the lower rates, Phil Cordell, Hilton's global head of new brand development, said earlier this year.

"Although Hilton won't be opening hostels, we have been looking at the market to understand what opportunities there may be for a leading hospitality company," Mr. Cordell said in an email.

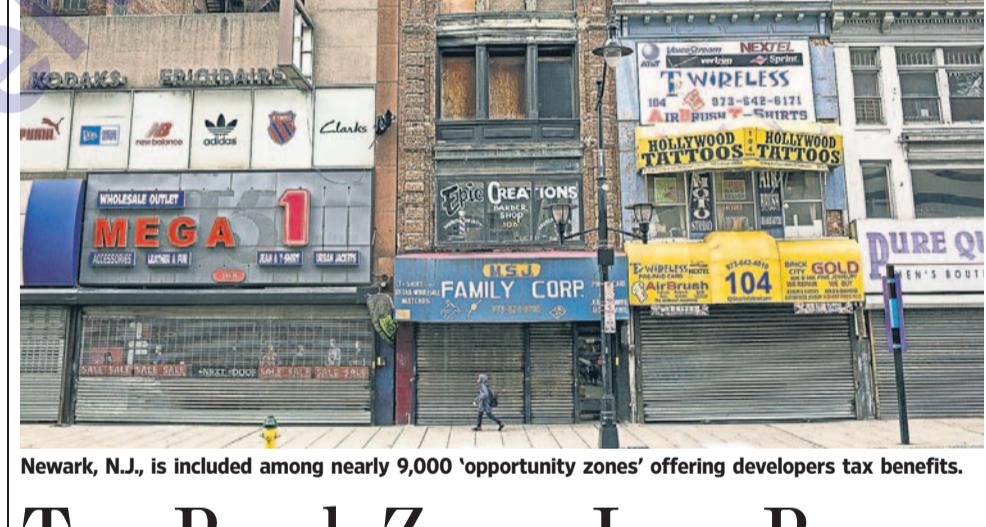


**Hospitality group Generator, which has 13 locations in popular European destinations, recently opened its first U.S. property. The Miami Beach lodging offers dorm-style accommodations with bunk beds and a pool to draw young tourists, though the company also sees the availability of private rooms appealing to corporate travelers.**

erty's opening party.

The company said it expects to open another location in the Dupont Circle in Washington, D.C., next year.

As more hotels and real-estate investors announce these projects, Generator isn't concerned, saying they have found the attention helpful at this stage. "It would be different in 5-10 years" if the market is saturated, Mr. Thomann said.



Newark, N.J., is included among nearly 9,000 'opportunity zones' offering developers tax benefits.

## Tax-Break Zones Lure Buyers

By PETER GRANT

Developer Moe Ebrahimi paid \$720,000 last year for a San Diego site where he planned to build apartments. He expected to own it for years, believing the neighborhood would gentrify.

But this year, Mr. Ebrahimi put the land up for sale with an asking price of \$1 million.

The developer shifted tactics after learning that anyone buying his property would be eligible for lucrative tax benefits. That is because his land resides in one of the nearly 9,000 "opportunity zones" across the U.S. meant to stoke economic development in low-income areas. "My friends and I were high-fiving," he said. "This was a jackpot."

Tens of thousands of other U.S. property owners like Mr. Ebrahimi stand to benefit from

a section of last year's tax overhaul. These tax provisions have become a focus of the real-estate industry.

Anyone who makes a qualified investment in an opportunity zone can defer capital gains from an unrelated investment. What's more, any gains realized on a zone investment are tax-exempt if held for at least 10 years.

The Treasury Department last week proposed long-awaited guidelines that give investors enough certainty to begin the process. Billions of dollars have started piling into new real-estate funds targeting opportunity zones.

Even before Treasury's announcement, sales activity had picked up in opportunity zones. Eager investors studied maps and bought property, anticipating that prices would rise when the new funds put

the money to work.

Sales of development sites in opportunity zones nationwide have jumped 80% in the first three quarters of 2018, compared with the same period last year, according to data firm Real Capital Analytics. Owners have marked up asking prices for land in some zones by more than 50%, market participants say.

This has been especially true in parts of Oakland, San Diego, Phoenix, Atlanta, Portland, Ore., and other growing cities where real-estate speculation had been stirring even before the program started.

In cities that have opportunity zones and are on Amazon.com Inc.'s shortlist as potential sites for its second headquarters—like Newark, N.J., and Pittsburgh—speculators have had twice the incentive to buy.

## Real-Estate Debt Funds Swell

By PETER GRANT

Private-equity firms with real-estate debt funds have amassed record sums for construction loans, bridge loans and other types of risky debt, the latest sign that new money is piling up to lend for real estate.

This wave of new capital is heightening concerns that lending standards may slip as firms compete to put new money to work, and that some

of the weaker borrowers may not be able to repay loans.

Investment firms used to be smaller players in the market. But when big banks cut back their real-estate lending after the financial crisis and housing market bust, debt funds and other nonbank lenders stepped into the void.

The loan volume from these funds and other alternative lenders rose 40% last year to nearly \$60 billion, according to Green Street Advisors.

Real-estate debt funds now have \$57 billion to invest, a new high, according to data firm Prequin.

Now, many traditional lenders have started to ramp up lending again. At the end of the second quarter, there was a record \$4.17 trillion in commercial real-estate debt held by all lenders, with 52.4% of that held by banks and thrifts, according to the Federal Reserve and data firm Trepp LLC.

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# MEET WHAT'S NEXT

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## NEW HIGHS AND LOWS

The following explanations apply to the New York Stock Exchange, NYSE Arca, NYSE American and Nasdaq Stock Market stocks that hit a new 52-week intraday high or low in the latest session. % CHG-Daily percentage change from the previous trading session.

Tuesday, October 23, 2018

Stock		52-Wk % Hi/Lo Chg		Stock		52-Wk % Hi/Lo Chg		Stock		52-Wk % Hi/Lo Chg		Stock		52-Wk % Hi/Lo Chg		Stock		52-Wk % Hi/Lo Chg		Stock		52-Wk % Hi/Lo Chg					
Stock	Sym	52-Wk %	Hi/Lo Chg	Stock	Sym	52-Wk %	Hi/Lo Chg	Stock	Sym	52-Wk %	Hi/Lo Chg	Stock	Sym	52-Wk %	Hi/Lo Chg	Stock	Sym	52-Wk %	Hi/Lo Chg	Stock	Sym	52-Wk %	Hi/Lo Chg				
<b>Highs</b>				ArmourRes	ARR	20.15	-1.0	CarriageSvcs	CSV	19.20	-1.8	GpAvAvalAcq	AVAL	6.91	-1.7	LakelandFin	LKFN	41.53	-0.9	NewLinkGenetics	NLNK	2.01	-2.0	RingEnergy	REI	7.31	-6.3
AllotComms	ALLT	6.56	0.6	Arotech	ARTX	2.60	-1.8	CastlightHealth	CSLT	2.20	3.8	GuarantyBncp	GBNW	24.83	0.8	LaredoPetrol	LPI	5.74	-4.5	Nordson	NDSN	24.65	-0.9	RoadrunnerTrans	RRTS	0.42	-6.9
Amarin	AMRN	21.93	9.3	ArrowElec	ARW	66.57	-0.4	CatchMarkTimber	CTT	8.96	-0.1	ElevateCredit	ELVT	6.33	1.5	HSE Equipment	HEES	23.46	-4.8	LasVegasSandz	LVS	52.61	-2.8	NorthernTrust	NTRS	117.48	-3.2
AudioCodes	AUDC	12.17	23.9	AschfordHosp	AHT	5.14	-1.3	AssemblyBioSci	ASMB	22.18	-1.6	EmergeEnergy	EMES	2.38	-12.5	HainCelestial	HAIN	24.11	1.1	Lazard	LAZ	39.71	-3.0	PolymerTech	MCFC	8.82	-2.9
AutolusTherap	AUTL	34.22	-6.6	AssociatedBarc	ASB	22.14	0.5	CenterStateBank	CFSL	23.84	-2.2	EncoreCapital	ECPG	27.42	-2.5	Halliburton	HAL	34.63	-2.2	Leggett&Platt	LEG	37.07	0.8	NovaMeasuring	NVMI	22.56	-2.7
BioSpecificsTech	BTSC	65.39	0.8	AssadBancWt	ASBW	2.95	-0.7	CentralGarden	CENT	31.74	-0.4	Endologix	ELGX	1.35	-7.5	HolozymeTherap	HALO	15.04	0.6	Lenmar	LEN	32.81	2.5	RoyalBkScotlnd	RY	73.72	0.3
Endocyte	ECTY	23.60	0.1	AscendIndustries	ASTE	33.44	-2.9	CentralPacIn	CPI	24.13	-0.4	EnChile	ENIC	4.88	-1.1	HancockJaffeeLabs	HJU	1.84	-11.2	Lennar A	LEN	38.94	3.4	NymoxPharm	NYMX	1.49	7.5
Evertec	EVT	25.89	1.0	AtCapitalBchs	ACBI	15.25	0.1	CentrusEnergy	CEU	2.01	5.0	EnPro	EFOI	1.27	-6.2	HancockWhitney	HWC	40.08	1.0	Leggett&Platt	LEG	37.07	0.8	RushEnt A	RUSA	32.55	-1.0
Fauquier	FBS	26.90	-1.0	AltisAir	AAWW	50.42	-2.2	CenturyAluminum	CENX	9.18	-0.5	Equimark	EQ	9.18	-0.2	HeritageCommerce	HERB	21.00	1.1	LifeWayFoods	LFLW	2.01	6.8	RushEnt B	RUSHB	32.75	-1.5
FirstCapital	FCAP	46.29	5.3	AvadelPharm	AVDL	3.95	-2.0	CenturyCasinos	CNTY	6.25	-3.4	EstarGroup	ESGR	182.79	-1.7	Enbridge	ENFG	21.99	-2.5	HartleHanks	HHS	39.26	-2.4	NorthfieldBanc	NRBK	14.03	0.4
GTy Tech Wt	GYTHW	1.75	27.1	AveryDenison	AVY	92.64	-4.7	CenturyComm	CCS	20.41	2.5	Entegrain	ENTG	25.50	0.2	HainCelestial	HAIN	27.58	-1.5	Oasis	OLE	5.07	-3.1	RosehillRscs	ROSE	5.07	-2.7
GritstoneOncology	GRITS	16.79	0.9	Avinger	AVGS	0.87	-0.7	ChaparralEnergy	CHAP	14.71	-1.1	Entergy	ENTG	24.22	-0.2	Hartford	HLD	45.02	0.2	Taxitainer	TGH	61.48	1.0	RoselineRscs	ROSEU	5.07	-2.1
HorrmelFoods	HRL	42.58	1.8	Avinger	AVGS	0.87	-0.7	CentralGarden	CENT	31.74	-0.4	EnergyR Bds	EAB	22.69	0.4	HaynesInt'l	HAYN	12.59	-0.1	RoyalBkScotlnd	RY	73.72	0.3	ThirdPointReins	TPRE	10.70	-2.1
ImprimisPharm	IMMY	3.80	5.0	AxaltaCoating	AXTA	24.04	-0.8	ChemicalFin	CHFC	47.00	-1.3	EnergyMS Bds	EMB	22.17	-1.2	HennedyAdvers	HNA	12.59	-0.1	RushEnt A	RUSA	32.55	-1.0	ThorIndustries	THO	72.14	-0.2
KearlLifeSci	KZB	26.86	-4.2	AscendBancWt	ASBW	2.95	-0.7	CentralGarden	CENT	31.74	-0.4	EnterpriseBn	EBT	26.96	2.3	Herdings	HERL	15.04	0.6	RushEnt B	RUSHB	32.75	-1.5	Tor Industries	TOR	18.50	-1.7
LambWeston	LW	78.35	1.3	AtCapitalBchs	ACBI	10.27	-0.4	CentralPacIn	CPI	24.13	-0.4	EnterpriseBn	EBT	26.96	2.3	HancockJaffeeLabs	HJU	1.84	-11.2	Lennar A	LEN	38.94	3.4	TowerIndustries	TOWR	18.75	-2.8
MSG Networks	MSGN	28.13	0.3	BankOZK	OZK	24.49	-1.1	CloudPeakEnergy	CLE	2.06	-2.8	EnterpriseBn	EBT	26.96	2.3	HancockJaffeeLabs	HJU	1.84	-11.2	Lennar A	LEN	38.94	3.4	TowerIndustries	TOWR	18.75	-2.8
StudioCity	MSC	18.50	...	BankOZK	OZK	24.49	-1.1	CloudPeakEnergy	CLE	2.06	-2.8	EnterpriseBn	EBT	26.96	2.3	Herdings	HERL	15.04	0.6	RushEnt A	RUSA	32.55	-1.0	TowerIndustries	TOWR	18.75	-2.8
Telephone&Data	TDS	33.33	2.6	BankOZK	OZK	24.49	-1.1	CloudPeakEnergy	CLE	2.06	-2.8	EnterpriseBn	EBT	26.96	2.3	Herdings	HERL	15.04	0.6	RushEnt B	RUSHB	32.75	-1.5	TowerIndustries	TOWR	18.75	-2.8
TrinityMerger	TMX	9.87	0.2	BankOzK	OZK	24.49	-1.1	CloudPeakEnergy	CLE	2.06	-2.8	EnterpriseBn	EBT	26.96	2.3	Herdings	HERL	15.04	0.6	RushEnt A	RUSA	32.55	-1.0	TowerIndustries	TOWR	18.75	-2.8
Verizon	VZ	57.47	4.1	BankOzK	OZK	24.49	-1.1	CloudPeakEnergy	CLE	2.06	-2.8	EnterpriseBn	EBT	26.96	2.3	Herdings	HERL	15.04	0.6	RushEnt B	RUSHB	32.75	-1.5	TowerIndustries	TOWR	18.75	-2.8
WEC Energy	WEE	70.99	-0.4	BankOzK	OZK	24.49	-1.1	CloudPeakEnergy	CLE	2.06	-2.8	EnterpriseBn	EBT	26.96	2.3	Herdings	HERL	15.04	0.6	RushEnt A	RUSA	32.55	-1.0	TowerIndustries	TOWR	18.75	-2.8
WE Energies	WE	70.99	-0.4	BankOzK	OZK	24.49	-1.1	CloudPeakEnergy	CLE	2.06	-2.8	EnterpriseBn	EBT	26.96	2.3	Herdings	HERL	15.04	0.6	RushEnt B	RUSHB	32.75	-1.5	TowerIndustries	TOWR	18.75	-2.8
<b>Lows</b>				BankwellF	BWF	29.67	-0.7	CommTech	COMM	24.55	-0.5	Corporation	CORP	27.00	-2.4	Centurion	CNTY	19.70	-4.8	FirstAmer	FA	21.28	-0.3	HostessBrands	HWB	10.27	-0.1
ABB	ABB	20.50	-1.0	BankwellF	BWF	29.67	-0.7	CommTech	COMM	24.55	-0.5	Corporation	CORP	27.00	-2.4	Centurion	CNTY	19.70	-4.8	FirstAmer	FA	21.28	-0.3	HostessBrands	HWB	10.27	-0.1
ACCO Brands	ACCO	9.59	-0.5	BankwellF	BWF	29.67	-0.7	CommTech	COMM	24.55	-0.5	Corporation	CORP	27.00	-2.4	Centurion	CNTY	19.70	-4.8	FirstAmer	FA	21.28	-0.3	HostessBrands	HWB	10.27	-0.1
AGCO	AGCO	51.21	-2.1	BankwellF	BWF	29.67	-0.7	CommTech	COMM	24.55	-0.5	Corporation	CORP	27.00	-2.4	Centurion	CNTY	19.70	-4.8	FirstAmer	FA	21.28	-0.3	HostessBrands	HWB	10.27	

## BIGGEST 1,000 STOCKS

**How to Read the Stock Tables**  
The following explanations apply to NYSE, NYSE Arca, NYSE American and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq BX (formerly Boston), Chicago Stock Exchange, Cboe, NYSE National and Nasdaq ISE. The list comprises the 1,000 largest companies based on market capitalization.

**Underlined quotations** are those stocks with large changes in volume compared with the issue's average trading volume.

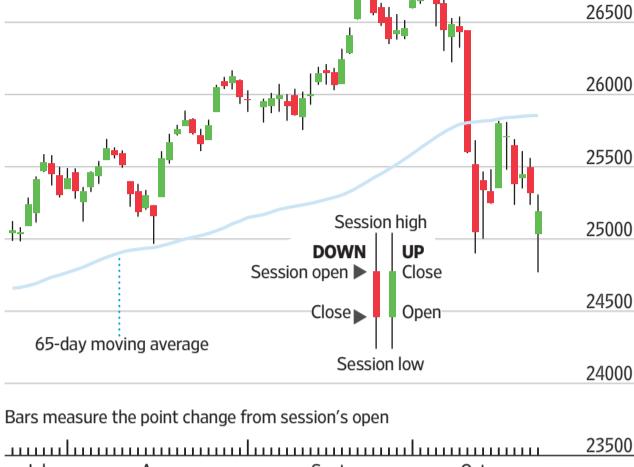
**Boldfaced quotations** highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

## MARKETS DIGEST

## EQUITIES

## Dow Jones Industrial Average

**25191.43** ▼125.98, or 0.50%  
High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open  
Current divisor 0.14748071991788

\*Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

## S&amp;P 500 Index

**2740.69** ▼15.19, or 0.55%  
High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open  
65-day moving average

\*Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

## Nasdaq Composite Index

**7437.54** ▼31.09, or 0.42%  
High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open  
65-day moving average

\*Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

## Major U.S. Stock-Market Indexes

	High	Low	Latest Close	Net chg	% chg	High	52-Week Low	% chg	YTD % chg	3-yr. ann.
	Dow Jones	Industrial Average	Transportation Avg	Utility Average	Total Stock Market	Barron's 400	Nasdaq Composite	Nasdaq 100	MidCap 400	SmallCap 600
<b>Dow Jones</b>	25307.70	24768.79	<b>25191.43</b>	-125.98	-0.50	26828.39	23271.28	<b>7.5</b>	1.9	<b>12.6</b>
Industrial Average	10323.38	10064.34	<b>10237.02</b>	-198.74	-1.90	11570.84	9440.87	<b>2.9</b>	-3.5	<b>7.3</b>
Transportation Avg	747.75	733.85	<b>737.04</b>	-4.98	-0.67	774.47	647.90	<b>-1.6</b>	1.9	<b>7.4</b>
Utility Average	28349.29	27706.71	<b>28210.53</b>	-166.29	-0.59	30390.61	26493.79	<b>6.0</b>	1.9	<b>9.5</b>
Total Stock Market	693.97	676.73	<b>689.79</b>	-6.55	-0.94	786.73	676.86	<b>-0.02</b>	-3.0	<b>8.7</b>
Barron's 400	2753.59	2691.43	<b>2740.69</b>	-15.19	-0.55	2930.75	2557.15	<b>6.7</b>	2.5	<b>9.7</b>

## Nasdaq Stock Market

Nasdaq Composite	7472.58	7260.13	<b>7437.54</b>	-31.09	-0.42	8109.69	6556.77	<b>12.7</b>	7.7	<b>13.9</b>
Nasdaq 100	7149.13	6933.56	<b>7118.67</b>	-22.54	-0.32	7660.18	6037.87	<b>17.1</b>	11.3	<b>15.5</b>

## S&amp;P

S&P	500 Index	2753.59	2691.43	<b>2740.69</b>	-15.19	-0.55	2930.75	2557.15	<b>6.7</b>	2.5	<b>9.7</b>
	MidCap 400	1856.56	1814.51	<b>1844.73</b>	-18.42	-0.99	2050.23	1801.29	<b>0.7</b>	-2.9	<b>8.6</b>
	SmallCap 600	961.02	938.07	<b>954.45</b>	-7.49	-0.78	1098.36	889.94	<b>4.8</b>	1.9	<b>11.4</b>

## Other Indexes

Russell 2000	1537.16	1501.04	<b>1526.59</b>	-12.91	-0.84	1740.75	1463.79	<b>1.7</b>	-0.6	<b>9.4</b>
NYSE Composite	12343.46	12108.44	<b>12287.44</b>	-87.32	-0.71	13637.02	12177.70	<b>-0.9</b>	-4.1	<b>5.4</b>
Value Line	539.09	525.50	<b>534.63</b>	-4.46	-0.83	593.57	533.26	<b>-1.7</b>	-4.9	<b>4.5</b>
NYSE Arca Biotech	4838.77	4633.75	<b>4776.33</b>	-14.14	-0.30	5400.34	4045.25	<b>14.7</b>	13.1	<b>11.6</b>
NYSE Arca Pharma	583.14	573.95	<b>580.97</b>	-1.19	-0.20	598.21	516.32	<b>5.3</b>	6.6	<b>2.7</b>
KBW Bank	97.33	94.61	<b>96.75</b>	-0.32	-0.33	116.52	96.75	<b>-4.8</b>	-9.3	<b>9.7</b>
PHLX® Gold/Silver	71.09	69.14	<b>69.50</b>	0.47	0.68	92.08	61.92	<b>-16.8</b>	-18.5	<b>7.3</b>
PHLX® Oil Service	132.56	128.66	<b>130.53</b>	-5.03	3.71	170.18	127.61	<b>0.2</b>	-12.7	<b>-10.1</b>
PHLX® Semiconductor	1234.37	1189.13	<b>1227.61</b>	-6.59	-0.53	1449.90	1218.66	<b>-1.4</b>	-2.0	<b>-21.5</b>
Cboe Volatility	24.66	20.18	<b>20.71</b>	1.07	5.45	37.32	9.14	<b>85.6</b>	87.6	<b>12.7</b>

\$ Nasdaq PHLX

Sources: SIX Financial Information; Dow Jones Market Data

## Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 50,000 shares.

## Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	% chg	After Hours High	Low
SPDR S&P 500	SPY	14,486.2	273.86	0.25	<b>0.09</b>	274.13	271.74
Hartford TR Bd	HTRB	3,250.0	38.45	-0.10	<b>-0.26</b>	38.45	38.45
iShares MSCI Emg Markets	EEM	3,033.5	39.68	0.02	<b>0.05</b>	39.82	39.64
Invesco QQQ Trust I	QQQ	3,002.7	173.40	0.13	<b>0.08</b>	173.60	171.46
AT&T	T	2,987.7	33.05	0.03	<b>0.09</b>	33.20	32.86
WisdomTree Japan Hdg Eqty	DXJ	2,599.8	53.11	...	<b>unch.</b>	53.11	52.61
iShares China Large-Cap	FXI	2,539.2	39.89	...	<b>unch.</b>	40.04	39.87
Twitter	TWTR	2,536.8	28.79	0.02	<b>0.07</b>	28.94	28.65

\*Primary market NYSE, NYSE Arca, NYSE Amer. or NYSE Arca only. (TRIN) a comparison of the number of advancing and declining issues with the volume of shares rising and falling. An Arms of less than 1 indicates buying demand; above 1 indicates selling pressure.

## Trading Diary

Volume, Advancers, Decliners

	NYSE	NYSE Amer.



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## COMMODITIES

WSJ.com/commodities

## Futures Contracts

## Metal &amp; Petroleum Futures

	Contract	Open	High	hilo	Low	Settle	Chg	Open
	Open	High	hilo	Low	Settle	Chg	interest	Open
<b>Copper-High (CMX)</b> -25,000 lbs.; \$ per lb.	2,7690	2,7690	2,7340	2,7470	-0.0270	564		
Oct 2,7690	2,7690	2,7340	2,7390	2,7580	-0.0275	116,317		
<b>Gold (CMX)</b> -100 troy oz.; \$ per troy oz.	1224.80	1237.80	1224.80	1233.40	12.20	65		
Dec 1225.10	1243.00	1224.50	1236.80	12.20	370,857			
<b>Feb'19</b> 1231.30	1248.90	1230.60	1242.90	12.30	55,805			
Jun 1246.30	1260.70	1245.20	1255.20	12.40	15,207			
Aug 1250.70	1261.10	1250.70	1261.10	12.20	2,652			
Dec 1269.90	1274.40	1269.90	1273.50	12.20	5,350			
<b>Palladium (NYM)</b> -50 troy oz.; \$ per troy oz.	1109.90	1137.30	1104.40	1122.80	15.10	24,253		
Dec 1097.60	1128.40	1107.40	1114.00	14.80	3,718			
<b>Platinum (NYM)</b> -50 troy oz.; \$ per troy oz.	821.00	834.90	820.00	832.40	13.40	50		
Jan'19 824.90	838.20	820.00	835.40	12.90	68,740			
<b>Silver (CMX)</b> -5,000 troy oz.; \$ per troy oz.	14.585	14.840	14.540	14.793	0.206	60		
Oct 14.585	14.840	14.540	14.793	0.206	158,286			
<b>Crude Oil, Light Sweet (NYM)</b> -1,000 bbls.; \$ per bbl.	69.52	69.66	65.74	66.43	-2.93	489,092		
Jan'19 69.66	69.76	65.94	66.62	-2.87	210,538			
Feb 69.77	69.84	66.11	66.76	-2.81	115,451			
March 69.85	69.85	66.26	66.89	-2.78	175,297			
June 69.94	70.04	66.48	67.08	-2.72	180,928			
Dec 68.95	68.95	65.69	66.21	-2.55	223,103			
<b>NY Harbor UlSD (NYM)</b> -42,000 gal.; \$ per gal.	1.9103	1.9132	1.8236	1.8368	-0.0699	56,259		
Nov 1.9082	1.9125	1.8204	1.8344	-0.0706	127,634			
<b>Natural Gas (NYM)</b> -10,000 MMBtu.; \$ per MMBtu.	3.137	3.240	3.111	3.212	0.074	79,512		
Dec 3.209	3.308	3.183	3.283	0.069	236,097			
<b>Jan'19</b> 3.283	3.376	3.257	3.353	0.063	243,715			
Feb 3.207	3.280	3.182	3.260	0.049	110,743			
March 3.010	3.065	2.993	3.033	0.021	227,887			
April 2.712	2.739	2.699	2.735	0.019	150,728			

## Contract

Open	High	hilo	Low	Settle	Chg	Open	
Open	High	hilo	Low	Settle	Chg	interest	
<b>Corn (CBT)</b> -5,000 bu.; cents per bu.	369.25	372.50	368.00	370.25	.75	768,674	
Dec 381.50	384.75	380.25	382.50	.75	394,455		
<b>Oats (CBT)</b> -5,000 bu.; cents per bu.	295.50	298.00	293.75	297.00	1.50	5,127	
Dec 285.75	289.00	285.75	288.75	2.00	1,757		
<b>Soybeans (CBT)</b> -5,000 bu.; cents per bu.	857.50	862.75	851.00	857.50	-1.00	205,057	
Jan'19 871.25	876.25	865.00	871.00	-1.50	250,023		
<b>Soybean Meal (CBT)</b> -100 tons; \$ per ton.	312.40	312.40	310.00	310.70	-2.10	166,954	
Jan'19 314.50	314.50	312.10	312.80	-2.20	110,165		
<b>Soybean Oil (CBT)</b> -60,000 lbs.; cents per lb.	29.17	29.19	28.72	28.76	-39	177,611	
Jan'19 29.47	29.47	28.95	28.99	-40	116,047		
<b>Rough Rice (CBT)</b> -2,000 cwt.; \$ per cwt.	1077.50	1103.50	1070.00	1082.00	-1.50	1,984	
Jan'19 1097.50	1121.50	1097.50	1103.00	-50	5,702		
<b>Wheat (CBT)</b> -5,000 bu.; cents per bu.	508.00	511.25	505.25	509.00	1.00	228,959	
Dec 528.25	531.00	524.75	529.25	1.75	121,147		
<b>Wheat (KCO)</b> -5,000 bu.; cents per bu.	508.50	510.00	502.50	507.50	-25	153,026	
Dec 534.00	535.50	528.25	533.25	.75	81,999		
<b>Wheat (MPLS)</b> -5,000 bu.; cents per bu.	585.00	587.50	583.50	585.00	-50	32,894	
Dec 594.50	597.00	592.50	593.25	-1.50	20,855		
<b>Cattle-Feeder (CME)</b> -50,000 lbs.; cents per lb.	155.350	155.350	154.750	155.075	-575	2,631	
Oct 151.675	151.725	149.600	150.850	-875	26,300		
<b>Cattle-Live (CME)</b> -40,000 lbs.; cents per lb.	112.850	112.975	111.900	112.775	-205	4,268	
Dec 118.000	118.050	116.675	117.150	-925	121,224		
<b>Hogs-Lean (CME)</b> -40,000 lbs.; cents per lb.	53.750	55.400	53.375	54.525	1.350	99,214	
Feb'19 60.825	61.975	60.375	61.425	1.125	43,444		
<b>Lumber (CME)</b> -110,000 bd ft.; \$ per 1000 bd ft.	318.50	319.80	312.90	313.30	-5.10	1,012	
Nov 318.20	320.30	320.30	314.30	314.30	-5.70	2,075	
<b>Milk (CME)</b> -200,000 lbs., cents per lb.	15.53	15.53	15.49	15.50	-03	4,005	
Oct 15.43	15.43	15.06	15.10	-32	5,296		

## Agriculture Futures

Open	High	hilo	Low	Settle	Chg	Open
Open	High	hilo	Low	Settle	Chg	interest
<b>Cocoa (ICE-US)</b> -10 metric tons; \$ per ton.	2,206	2,208	2,153	2,187	-33	93,317
Dec 2,224	2,226	2,175	2,208	-27	78,113	
<b>Coffee (ICE-US)</b> -37,500 lbs.; cents per lb.	117.65	121.65	116.35	121.10	3.45	115,287
March'19 121.35	125.35	120.20	124.85	3.40	76,912	
<b>Sugar-World (ICE-US)</b> -112,000 lbs.; cents per lb.	13.82	13.91	13.68	13.81	-01	391,112
May 13.94	14.02	13.82	13.94	-02	155,698	
<b>Sugar-Domestic (ICE-US)</b> -112,000 lbs.; cents per lb.	25.28	25.28	25.10	25.12	-16	2,693
Jan 25.28	25.28	25.10	25.12	-16	2,693	
<b>Denbury Resources (CME)</b> -10,000,000; \$ per ton.	25.79	25.79	25.65	25.65	-1,061	
March 25.79	25.79	25.65	25.65	-1,061		

## Interest Rate Futures

Open	High	hilo	Low	Settle	Chg	Open
Open	High	hilo	Low	Settle	Chg	interest
<b>Treasury Bonds (CBT)</b> -\$100,000; pts 32nds of 100%	2,206	2,208	2,180	2,180	12.00	917,683
Dec 2,224	2,226	2,208	2,208	12.00	917,683	
<b>Treasury Notes (CBT)</b> -\$100,000; pts 32nds of 100%	137.20	138.160	137.050	137.180	13.00	360
Dec 137.310	138.160	137.050	137.180	13.00	360	
<b>5 Yr. Treasury Notes (CBT)</b> -\$100,000; pts 32nds of 100						



## MARKETS

# Texas Fracker Considers Possible Sale

**Endeavor Energy Resources** LP is exploring a sale that could value the big private Texas oil fracker at more than \$10 billion, people familiar with the matter said.

By Sarah Kent,  
Ben Dummett  
and Dana Mattioli

The company is working with **JPMorgan Chase & Co.** and **Goldman Sachs Group Inc.** to sound out buyers, the people said.

A transaction, should one occur, would be the biggest in a wave of recent deals focused on the Permian Basin in West Texas and New Mexico, the engine of U.S. crude production growth in recent years.

Endeavor was founded by Autry Stevens, a Texas wildcatter who has drilled aggressively in the region for more than five decades. Drilling rights on Permian Basin land have sold for more than \$70,000 an acre. Endeavor has more than 300,000 acres.

As crude prices crashed in 2014, Endeavor tapped debt markets and used partnerships to work its way through the bust. The company signed multiyear deals with **Exxon Mobil Corp.** in 2014 and 2015 to develop some of its acreage.

In recent years, Endeavor has hired seasoned industry

veterans to help run the company, including Charles Meloy as chief executive and Lance Robertson as chief operating officer. Both had worked for large exploration-and-production companies. Endeavor has also begun to report well and production results quarterly. The company produced about 64,000 barrels a day in the second quarter, according to an August announcement.

It isn't clear who might be interested in buying Endeavor, but big oil companies like Exxon Mobil, **Chevron Corp.** and **BP PLC** have been eager to gobble up such assets, and with oil prices rising are expected to generate more cash than they have in years in 2018. They have been raising spending to boost production of shale assets and pursuing sizable deals. BP, for example, in July agreed to pay \$10.5 billion for BHP Billiton Ltd.'s onshore oil-and-gas assets in the U.S. Endeavor had sought an initial public offering, but those plans have stalled amid concerns about tepid investor appetite for oil-and-gas stocks, the people said. An IPO hasn't been ruled out, but a sale appears more likely if the company is valued in line with recent transactions in the area, some of the people said. A smaller asset sale is also possible, the people said.



A tanker prepares for the first shipment from Inpex's offshore Ichthys project. The project and others may help feed Asian demand. INPEX

## Japan's Inpex Ships Natural Gas

By MAYUMI NEGISHI

TOKYO—Japan's top oil and gas producer, **Inpex Corp.**, has begun shipping liquefied natural gas from its \$40 billion project off the coast of Australia, a long-delayed milestone in Tokyo's push to secure more sources of fuel.

Inpex said Tuesday it sent the first LNG shipment to Japan from the Ichthys project, the biggest single overseas investment by resource-poor Japan.

The project and others may help feed Asian demand for LNG as China has curbed its

purchases from the U.S. as part of their trade conflict.

Originally slated to cost \$34 billion with a 2016 start date, the Ichthys project comprises an offshore gas field, a 553-mile pipeline and liquefaction facilities in Darwin, Australia. There the gas is super-chilled and turned into a liquid that can be carried on a ship to Japan or other markets.

The project is expected to increase production to 8.9 million tons a year over the next two to three years. That is equivalent to about 10% of Japan's current LNG imports.

It is heartening news for

China, which sees sudden rises in demand for LNG during the winter months. While about 70% of Ichthys LNG is now contracted by Japanese customers, supply from the project could help relieve some pressure in a tightening market, smarting from China's decision last month to levy a 10% tariff on LNG from the U.S.

Japan has encouraged the development of a global market for trading LNG similar to the longstanding one for crude oil, so that countries can deal more flexibly with shifts such as the U.S.-China trade conflict. Japan has already been

increasing purchases of U.S. LNG and could step up the pace in light of the Chinese tariffs.

Climate-change concerns will spur demand for LNG, which can replace coal in generating electricity, said Japan's minister of economy, trade and industry at a conference in Nagoya, Japan, on Monday.

"Rising Chinese demand means tighter supply and demand for LNG in the 2020s," said the minister, Hiroshige Seko.

Inpex owns 62% of Ichthys LNG. France's **Total SA** holds 30%.

## Other Markets' Woes Are Boon to Gold Prices

Gold prices rose to their highest level since July, as a sharp decline in stocks fueled demand for safe assets.

Gold for October delivery settled up 1% at \$1,233.40 a troy ounce Tuesday on the Comex division of the New York Mercantile Exchange.

Stocks tumbled around the world Tuesday on fresh fears about the health of China's economy and a number of geopolitical concerns.

Some investors buy gold during times of uncertainty, believing it will hold its value better than other assets when markets turn rocky. Volatile stock markets have helped boost gold around 2.9% since September.

The Japanese yen is another popular destination for nervous investors, and the dollar fell 0.3% against the yen on Tuesday, trading at ¥112.44 late in New York.

—Ira Iosebashvili



sure," said Bob Yawger, director of the futures division at Mizuho Securities USA.

Analysts also expect government data to show that crude-oil stockpiles increased for the fifth week in a row in a report due Wednesday from the U.S. Energy Information Administration. On average, analysts and traders surveyed by The Wall Street Journal forecast a 2.5 million barrel build for the week ended Oct. 19.

The American Petroleum Institute, an industry group, said late Tuesday that its own data for the week showed a 9.9 million-barrel increase in crude supplies, a 2.8 million-barrel fall in gasoline stocks and a 2.4

million-barrel decrease in distillate inventories, according to a market participant.

"It's hard to really get out there and find a bullish situation here," Mr. Yawger said.

Peter Hahn, co-founder of quantitative research firm Bridgeton Research Group, said oil prices were hit by selling from major algorithmic trading strategies on Tuesday as well as fundamental investors.

"Today was kind of a triple whammy," Mr. Hahn said.

Hedge funds and other speculative investors have been scaling back their bullish bets over the past few months. According to the Commodity Futures Trading Commission, net

long positions held by money managers fell to the lowest level of 2018 last week and have fallen for six straight weeks.

Still, traders said many potential supply risks are still on the horizon.

Mr. Falih's pledge comes amid escalating tensions between Saudi Arabia, the world's largest exporter of crude, and the West over the killing of Saudi dissident journalist Jamal Khashoggi. Analysts and experts have speculated that if the U.S. and other Western nations were to enact sanctions on Saudi Arabia, the kingdom could impose an oil embargo that would send prices higher.

long positions held by money managers fell to the lowest level of 2018 last week and have fallen for six straight weeks.

But investors in the currency market expect the euro to rise against the dollar as the European Central Bank begins raising interest rates next year, making the euro more attractive to yield seekers.

By contrast, many believe the dollar's value largely reflects monetary-policy expectations in the U.S.: The Federal Reserve has raised rates eight times since 2015, and policy makers have penciled in four more increases by the end of 2019.

As a result, hedging dollars is expensive: Foreign investors must pay 3% on an annualized basis to hedge against fluctuations of the dollar.

is right now."

A worry for investors has been the U.S. budget deficit, which stands at its widest level in six years after tax cuts and other fiscal-stimulus measures enacted by the White House in 2017.

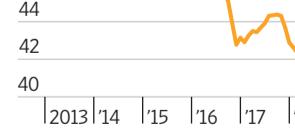
Moody's Investors Service expects the budget gap to grow to 8% of gross domestic product by 2028 from less than 4% now, further weakening the U.S. fiscal position.

Adding to the chatter about U.S. bonds: Some central banks, sovereign-wealth funds and global investors may be shedding dollars as they attempt to diversify their holdings, while others may have deemed their dollar reserves sufficient to weather the risk of economic turmoil.

The dollar's share of global foreign-exchange reserves fell to 62.5% in the second quarter, its lowest level in five years, data from the International

### Less Demand

The share of foreign ownership of U.S. Treasury debt has been declining.



Source: U.S. Treasury Department

high cost of reducing the currency risk of holding U.S. assets, a move known as hedging. A U.S. 10-year note yields about 2.7 percentage points more than German debt with a similar maturity, an unusually large margin.

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## Treasurys Advance As Investors Move Money to Havens

By DANIEL KRUGER

U.S. government bonds rallied Tuesday as investors sought safety amid worries about China's economy, Italy's debt and corporate earnings.

The yield on the benchmark 10-year Treasury note fell to 3.166% from 3.196% Monday.

The yield fell as low as 3.111% before paring declines as stocks rebounded in afternoon trading.

Yields fall as bond prices rise.

Yields declined early in the session as stocks fell around the world, with investors confronting resurgent fears that trade tensions between the U.S. and China could be taking a toll on the world's second-largest economy.

The People's Bank of China late Monday moved to support financing for private firms, after the government had attempted in recent months to rein in the country's shadow banking and credit sectors.

The central bank's move followed the government's weekend proposal to cut personal income taxes.

Also weighing on yields were concerns about plans by the antiestablishment government in Italy to boost fiscal spending by increasing borrowing to fund a larger budget deficit.

The decision raises fears of a showdown between the Italian coalition and European Union officials, who would like the government to remain within the EU's spending strictures.

Lackluster outlooks from industrial giants **3M Co.** and **Caterpillar Inc.** added to the dark mood Tuesday, boosting the appeal of government debt. 3M lowered its earnings forecast for the year, while Caterpillar said it would have to raise prices for most of its machines and engines next year to offset rising materials costs, as well as the impact of tariffs.

The guidance demonstrates that U.S. companies are "susceptible to some of the trade tensions," said Ian Lynen, head of U.S. government bond strategy at BMO Capital Markets.

Investors are also starting to become concerned about how the economy will perform

as the Federal Reserve's rate increases push the central bank's benchmark overnight rate above inflation, Mr. Lynen said.

Fed officials forecast that they will raise rates four more times by the end of next year. Officials are trying to prevent the economy from overheating while also preventing inflationary pressures from taking root.

Investors are concerned about comments from Fed officials that they could raise rates above the neutral level, which neither promotes nor

*The Italian government's plan to increase borrowing worries investors.*

restricts growth, said Victoria Fernandez, chief market strategist at Crossmark Global Investments.

One challenge for the Fed is that officials aren't sure where a neutral rate actually lies.

"When the Fed comes out and says they're not sure how high they're going to go, that starts making investors nervous," Ms. Fernandez said.

### AUCTION RESULTS

Here are the results of Tuesday's Treasury auctions. All bids are awarded at a single price at the market-clearing price. Rates are determined by the difference between that price and the face value.

#### FOUR-WEEK BILLS

Applications	\$114,316,546,800
Accepted bids	\$40,000,154,900
"noncompetitively"	\$1,034,004,200
"foreign noncompetitively"	\$0
Auction price (rate)	99.82438%
Coupon equivalent	(2.180%)
Bids at clearing yield accepted	2.214%
Cusip number	912796QK8

The bills, dated Oct. 25, 2018, mature on Nov. 23, 2018.

#### EIGHT-WEEK BILLS

Applications	\$85,735,915,500
Accepted bids	\$25,000,105,500
"noncompetitively"	\$88,917,500
"foreign noncompetitively"	\$17,000,000
Auction price (rate)	99.67300%
Coupon equivalent	(2.180%)
Bids at clearing yield accepted	2.218%
Cusip number	912796UE7

The bills, dated Oct. 25, 2018, mature on Dec. 18, 2018.

#### TWO-YEAR NOTES

Applications	\$101,489,720,300
Accepted bids	\$38,000,195,100
"noncompetitively"	\$42,732,300
"foreign noncompetitively"	\$100,000,000
Auction price (rate)	99.99035%

## MARKETS

# Volatility Sets Up a Boom in Buybacks

BY CORRIE DRIEBUSCH

There is a silver lining to this month's gyrations in the stock market: Companies can buy back more of their own shares.

The amount of shares that companies are allowed to repurchase depends on recent trading volumes. Under Securities and Exchange Commission rules, a company's repurchase of shares on any given day can't exceed 25% of its stock's average daily trading volume over the past four weeks.

That is good news for equity investors who saw falling stock prices in October. The S&P 500 is poised for its worst month since August 2015. But while share prices have slid, trading volumes have rebounded, with the market turmoil spurring investors to get in and out of positions.

In September, 6.7 billion shares changed hands on average each day, according to Dow Jones Market Data Group. That is slightly under the year-to-date average of 6.8 billion shares a day. In general, trading levels in recent years have fallen because of a lack of volatility in stocks.

But volumes jumped in October as the market swooned. An average of roughly 7.9 billion shares changed hands across exchanges each day this month through Friday. In the week ended Oct. 12, volumes rose to an average 8.8 billion shares a day.

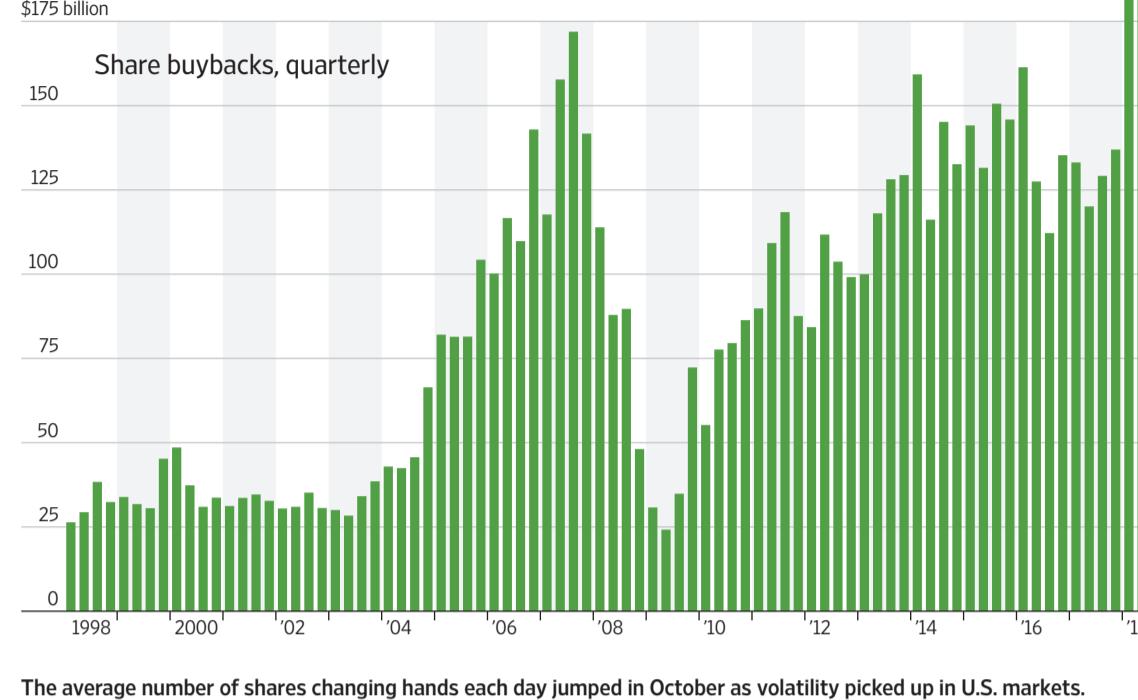
This opens the door for companies to aggressively buy back their own shares—a potential big boost for stock prices.

Right now, many companies are in the middle of a buyback blackout. Corporations are typically restricted from repurchasing shares in the period leading up to when they report quarterly earnings.

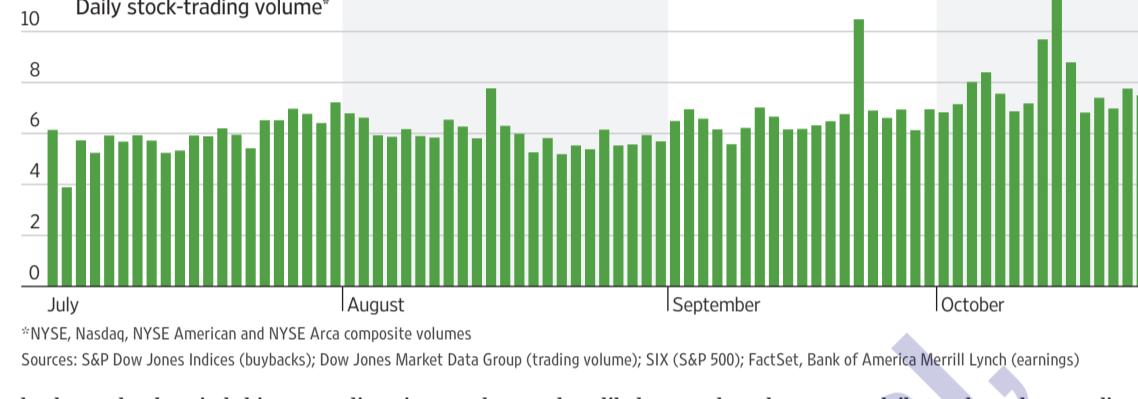
However, with earnings season coming to a close, and that restriction soon lifting, these companies are positioned to resume share repurchases at a faster clip—all thanks to the selloff that brought about higher volumes.

Around Labor Day and the

**Share repurchases among S&P 500 companies have jumped this year and are on track to top a record set in 2007.**



The average number of shares changing hands each day jumped in October as volatility picked up in U.S. markets.



\*NYSE, Nasdaq, NYSE American and NYSE Arca composite volumes

Sources: S&P Dow Jones Indices (buybacks); Dow Jones Market Data Group (trading volume); SIX (S&P 500); FactSet, Bank of America Merrill Lynch (earnings)

back-to-school period this year, trading across the market was slow, according to Justin Wiggs, managing director in equity trading at Stifel Nicolaus. "Now, it's interesting," he said. "It's bound to be most meaningful for midsize or smaller companies."

These companies are most affected by the rule tying buy-back activity to volumes. For instance, corporations whose shares change hands eight mil-

lion times a day are less likely to be affected by a short-term volume boost than a small-cap company that sees on average two million shares traded daily, according to Mr. Wiggs.

Among the companies that could benefit is **Harley-Davidson Inc.** At the end of the third quarter, 21.3 million of the

shares Harley-Davidson's board had authorized the company to repurchase remained. In Sep-

tember, the average daily stock-trading volume for Harley-Davidson's was 1.8 million shares, according to FactSet. That jumped to 2.5 million shares a day in October, FactSet data show. A spokesman for Harley-Davidson didn't return requests for comment.

Another potential beneficiary is **Jefferies Financial Group Inc.**, which authorized millions of shares for repur-

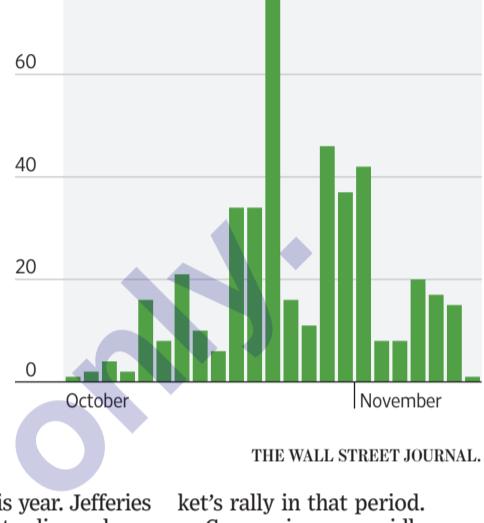
chase earlier this year. Jefferies had an average trading volume of 1.8 million shares a day in September; so far this month that average has jumped to 2.7 million shares a day, according to FactSet. A Jefferies spokesman declined to comment.

In the nine years since the financial crisis, share buybacks have risen significantly, and some analysts say this has helped support the stock mar-

The S&P 500 has fallen in October, a drop that coincides with restrictions on corporate buybacks.



Dozens of the index's companies are scheduled to report earnings on several coming trading days.



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ket's rally in that period.

Companies are rapidly coming out of the buyback blackout period. The bulk of corporate-earnings results are typically reported by mid-November. That means the stock-market stimulant could be just around the corner. By the end of October, about two-thirds of the S&P 500 will have released results for the third quarter, according to FactSet.

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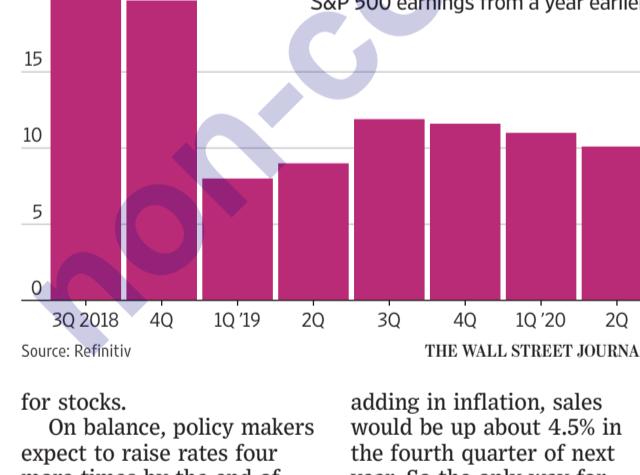
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# Goldilocks Could Be Bear for Stocks

Investors spend a lot of time worrying about what might happen if the Federal Reserve gets the economy wrong. Maybe they should worry about what might happen if the Fed gets it right.

The Fed has been raising rates steadily and, with the economy strong and unemployment at 3.7%, more increases seem like a foregone conclusion. It is a situation that gives rise to two obvious risks. One is that Fed policy makers' current pace of tightening—they have been increasing rates every other meeting—will end up being more than the economy can bear. The other is that they aren't tightening fast enough, putting the economy at risk of overheating. In either case, the eventual outcome would be a downturn.

Obviously, Fed policy makers would like to strike the correct balance. Their projections show how they think that might happen, so investors should consider what those projections, if they came true, would mean



for stocks.

On balance, policy makers expect to raise rates four more times by the end of next year. The economy will slow, with gross domestic product up 2.5% on the year in the fourth quarter of 2019. The unemployment rate will drift a bit lower to 3.5%, and inflation will come in at 2%.

What is the outlook for companies under that scenario? If their demand grows about as fast as the economy,

adding in inflation, sales would be up about 4.5% in the fourth quarter of next year. So the only way for profits to grow at a faster clip would be for profit margins to expand.

That seems like a bad bet. Even after adjusting for the effects of this year's tax cut, profit margins for companies in the S&P 500 are historically quite high. Then consider how hard it would be to contain, much less cut, labor

costs with an unemployment rate at 3.5%.

But while Wall Street analysts' revenue expectations are in keeping with the Fed's projections, they expect earnings will grow 11.6% in next year's fourth quarter, according to Refinitiv. Judging by stocks' relatively high valuations—the S&P 500 is trading at 16 times expected earnings—investors also have heady expectations for profits.

Meanwhile, interest-rate futures imply that investors think the Fed will have raised rates only three more times, rather than four, by the end of next year. The only way it seems like that could happen is if the economy—and therefore profits—fares worse than the Fed expects.

So not only do earnings expectations seem high, but rate expectations are low relative to the Fed's projections. Both those things present a challenge to valuations. If the central bank is right about the economy, things could go quite wrong for the stock market.

—Justin Lahart

## OVERHEARD

### McDonald's Gets Special Sauce Abroad

One reason people love McDonald's is because they know what they're getting.

In May, 116-year-old Gibson Brands filed for bankruptcy protection, undone by its focus on heavy, overpriced guitars riddled with gadgets. It is serving as a cautionary tale for rival Fender Musical Instruments.

Last month, billboards in the London underground started featuring pictures of Fender's electric guitars as part of an international marketing effort led by Nike alumnus Evan Jones. Upscale guitar makers rarely advertise this way because experienced players already know the brand.

In a study released last week, Fender said 50% of beginner players are women. The company's new, urban, sweat-free ads try to appeal to a diverse pool of under-40s who dabble in music ranging from indie to hip-hop and could reasonably afford its cheaper range of \$600 guitars.

Maybe the guitar has golden years ahead of it after all.

# Caterpillar Investors Sense Trouble Despite Record Profit

## Cat Scratched

Caterpillar share price



Source: SIX

THE WALL STREET JOURNAL.

Caterpillar didn't raise its adjusted profit guidance for 2018, for one thing. Analysts' forecasts compiled by FactSet indicated they were clearly expecting a boost.

The midpoint of the company's guidance was \$11.50 a share on Tuesday morning, below the consensus analyst forecast of \$11.64.

There are other problems on the horizon. A strong dollar is starting to hamper U.S. multinationals of all sorts. Recently imposed tariffs also have begun to bite: Caterpillar said they are expected to raise material costs by \$100 million to \$200 million in the final six months of the year. The company also said freight costs are rising due to supply-chain challenges. Caterpillar plans to raise prices on certain machines and engines to help offset these issues.

Signs that key economies are starting to wobble could present a serious obstacle to that plan, though. China, for example, reported the weakest third-quarter GDP growth since the financial crisis.

Yet Wall Street analysts have penciled in a bright medium-term future. For instance, analysts' consensus calls for \$64.2 billion in revenue and \$14.15 a share in adjusted earnings by 2020, according to FactSet. Those projections are up 18% and 21% from their 2018 estimates, respectively. This rosy outlook is now at risk, and so is Caterpillar's share price, already down about 25% in less than one month.

After that sell-off, the stock trades at less than 10 times forward earnings estimates, but that shouldn't tempt bargain hunters just yet. Companies with cyclical earnings, such as Caterpillar, often fetch low earnings multiples when earnings are at record levels. A low multiple won't offer much safety if this is almost as good as it gets.

Plenty of multinational companies now face creeping doubts despite sterling quarterly results. The consequences for a stock such as Caterpillar are just a lot more severe than most when investors sense that tipping point.

—Charley Grant

Over the past five years, McDonald's has managed a total shareholder return of 117%, compared with 75% for the S&P 500. After years of trailing a broad index of restaurant stocks, it has now closed the valuation gap and fetches a relatively rich 21.8 times projected earnings over the next 12 months.

With rumbles at home and a reliance on foreign markets that remain iffy, this rally looks overcooked.

—Spencer Jakab