

THE WALL STREET JOURNAL.

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WSJ.com

★★★★ \$4.00

DJIA 25250.55 ▼ 89.44 0.4%

NASDAQ 7430.74 ▼ 0.9%

STOXX 600 359.31 ▲ 0.1%

10-YR. TREAS. ▼ 6/32, yield 3.163%

OIL \$71.78 ▲ \$0.44

GOLD \$1,226.40 ▲ \$8.30

EURO \$1.1580

YEN 111.77

What's News

Business & Finance

The federal deficit widened in the fiscal year ended Sept. 30 amid higher government spending and flat revenue following the 2017 tax cut. **A1**

◆ Sears's chapter 11 filing brings the curtain down on a once-great company that succumbed to competition and to unorthodox management strategies. **A1, A6**

◆ Icahn will challenge plans to take computer company Dell public again. **B1**

◆ Fidelity said it will store and trade digital currencies for hedge funds and other professional investors. **B1**

◆ Shares of small U.S.-focused firms are suffering their worst rout in years. **B1**

◆ Major indexes fell, led down by growth stocks. The Nasdaq was off 0.9% and the Dow slid 89.44 points, or 0.4%, to 25250.55. **B1**

◆ Bank of America said third-quarter profit rose 32%, as higher interest rates and last year's corporate tax cut continued to lift bank earnings. **B1**

◆ Delta has agreed to join an Airbus data-analysis network, becoming the first big U.S. carrier to use it. **B2**

◆ VW's Porsche walked back comments by its finance chief that fueled speculation about a possible IPO to include other luxury-car names. **B3**

◆ Former Fed chief Yellen said Trump's attacks on the central bank could be counterproductive if they cause investors to doubt its commitment to keeping inflation in check. **A2**

World-Wide

◆ Saudi Arabia weighed a new public response to confront accusations its agents killed a Saudi dissident journalist, as Trump dispatched Pompeo to the kingdom and investigators searched the presumed crime scene in Istanbul for clues. **A1**

◆ Executives from some of Wall Street's biggest institutions pulled out of a Saudi business conference. **A7**

◆ Harvard's longtime admissions dean defended the school's recruiting on the first day of a trial accusing the university of discriminating against Asian-American applicants. **A3**

◆ A plan to avert an Assad-government offensive against the last major rebel-held area in Syria stumbled when the main extremist group failed to leave a proposed buffer zone. **A9**

◆ The pharmaceutical industry is signaling resistance to a Trump administration plan to require that the list price be included for most drugs in TV ads. **A2**

◆ Sen. Elizabeth Warren released the results of a DNA analysis indicating strong evidence she has Native American ancestry. **A4**

◆ Three weeks before midterm elections, Democratic candidates across the country are shattering fundraising records. **A4**

◆ The Air Force was still assessing catastrophic damage at a Florida base five days after Hurricane Michael. **A3**

◆ Died: Paul Allen, 65, co-founder of Microsoft. **A2**

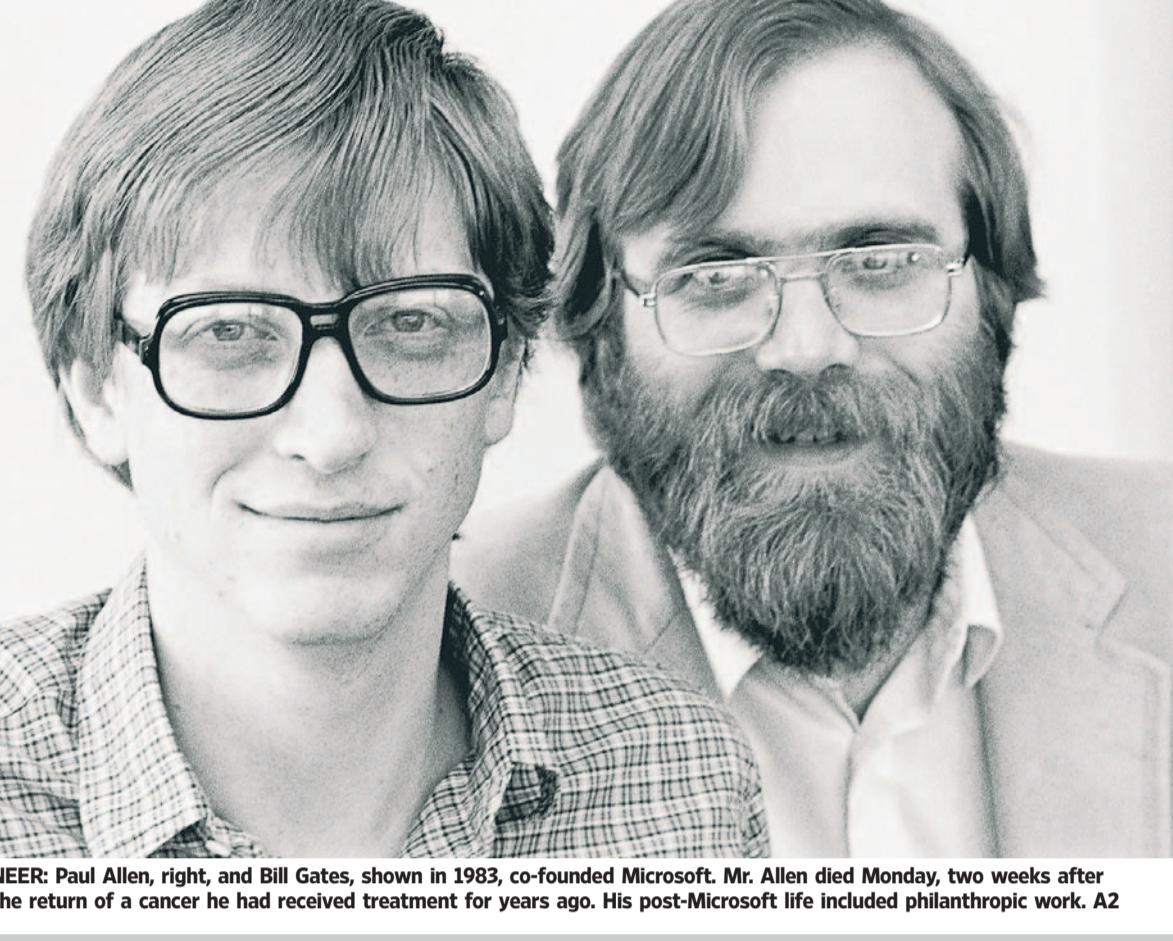
CONTENTS Opinion A15-17
Business News B3-5 Sports A14
Capital Journal A4 Streetwise B1
Crossword A12 Technology B4
Head on Street B11 U.S. News A2-7
Life & Arts A11-13 Weather A12
Markets B11-12 World News A8-10

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Microsoft Co-Founder Paul Allen Dies at 65

DOUG WILSON/CORBIS/GETTY IMAGES



TECH PIONEER: Paul Allen, right, and Bill Gates, shown in 1983, co-founded Microsoft. Mr. Allen died Monday, two weeks after revealing the return of a cancer he had received treatment for years ago. His post-Microsoft life included philanthropic work. **A2**

Boardroom Drama Bedevils CBS

BY KEACH HAGEY
AND JOE FLINT

CBS Corp. sought to turn the page on a tumultuous stretch when it said last month that Leslie Moonves was stepping down as chairman and chief executive amid sexual-harassment accusations and that the media company was settling litigation with its controlling shareholder.

Instead, the boardroom drama continued. On Sept. 25, the company said its lead independent director, Bruce Gordon, was stepping down, surprising many people close to

the company. He quit over the decision to name an interim chairman, feeling it sidelined his role and compromised the board's ability to recruit a strong CEO who might want the chairman title, said people familiar with the matter.

Another director, William Cohen, also left the board, because he was upset at the portrayal of him in the press as a

staunch supporter of Mr. Moonves, the people said.

Meanwhile, the investigation the board launched into Mr. Moonves's alleged misconduct and CBS's company culture is also examining the conduct of

individual board members during the saga, including Mr. Gordon, the people familiar with the matter said. All directors have been interviewed in the probe, the people said. Even the law firm working for the board is now a protagonist.

The upheaval could have significant implications for the broadcaster. The two open board slots won't be filled, the people familiar with the matter said.

Mr. Gordon was among the directors who sued controlling shareholder National Amusements Inc., led by Shari Redstone, to strip it of voting control and block a merger

with sister company Viacom Inc. The litigation was settled last month. Mr. Cohen was a supporter of Mr. Moonves, who resisted a merger. Given these stances, their absence could make a merger more likely, some analysts said.

Mr. Moonves's possible payout also hangs in the balance. He stepped down as part of the settlement in September, but whether he gets his severance depends on the results of the investigation. The board must examine the flow of information among Mr. Moonves, directors and a law firm working

Please turn to page A8

Sears, Once Retail Colossus, Enters Painful New Era

BY SUZANNE KAPNER

For much of the 20th century, Sears defined American retailing with catalogs and department stores that brought toys, tools and appliances to millions of homes.

By the time Sears Holdings Corp. limped into bankruptcy on Monday, the once-great company was shriveled and sickly. Decades earlier, it had been dethroned by Walmart Inc. as the biggest U.S. retailer.

Then it was crippled by a chief executive with unorthodox strategies, and Amazon.com Inc., an endless online catalog that sucked profits out of the business.

Sears said in court papers it faces "catastrophic consequences" if it can't repair its unraveling supply chain. Some 200 vendors have stopped shipping goods to its stores in the past two weeks, and it faces potential liens if it can't pay logistics companies owed millions of dollars over the coming weeks, Sears said in its filing.

The company's lenders have agreed to provide \$300 million in bankruptcy financing and its longtime leader, Edward Lampert, is in discussions to

provide another \$300 million to keep the retailer in business through the holidays. Mr. Lampert's hedge fund, ESL Investments, is also exploring a bid for about 400 of the most profitable Sears and Kmart stores, Sears said.

Sears, which merged with rival Kmart in 2005, has struggled through seven years of losses and hundreds of store closures under Mr. Lampert.

Its unraveling has erased \$30 billion in shareholder wealth from an April 2007 peak and more than 200,000 jobs.

"It's an American tragedy and it need not have happened," said Arthur Martinez, who was CEO of Sears from 1995 to 2000.

For much of its 125 years, Sears was a pioneer, launching brands like Kenmore appliances and Craftsman tools. It shipped a catalog to nearly every U.S. home and created its own credit card to spur sales. After World War II, it followed people to the suburbs, helping build the malls

Please turn to page A6

◆ Top shareholder banks on bankruptcy filing A6

◆ A catalog of fond memories, from readers' recollections A6

On the Ground to Inspect Storm's Damage



HARD HIT: President Trump and first lady Melania Trump inspected hurricane damage in Lynn Haven, Fla., on Monday. With them, from left, were Homeland Security Secretary Kirstjen Nielsen, Florida Gov. Rick Scott, Lynn Haven Mayor Margo Anderson and FEMA Director Brock Long. **A3**

Deficit Swells as Tax Cuts Take Bite

BY KATE DAVIDSON

WASHINGTON—The U.S. government ran its largest budget deficit in six years during the fiscal year that ended last month, an unusual development in a fast-growing economy and a sign that—so far at least—tax cuts have restrained government revenue gains.

The deficit totaled \$779 billion in the fiscal year that ended Sept. 30, up 17% from \$666 billion in fiscal 2017, the Treasury Department said

Monday. The deficit is headed toward \$1 trillion in the current fiscal year, the White House and Congressional Budget Office said.

Deficits usually shrink during economic booms because strong growth leads to increased tax revenue as household income, corporate profits and capital gains all rise. Meantime, spending on safety-net programs like unemployment insurance and food stamps tends to be restrained.

In the last fiscal year, a dif-

ferent set of forces was at play as economic growth sped up. Interest payments on the federal debt and military spending rose rapidly, while tax revenue failed to keep pace as the Republican tax cuts for both individuals and corporations kicked in.

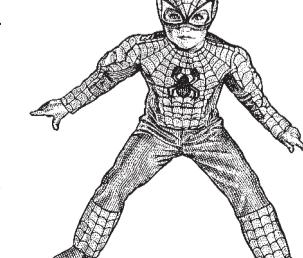
"The deficit is absolutely higher than anyone would like," Kevin Hassett, chairman of the Council of Economic Advisers, said last week. He said the administration's budget for next

Please turn to page A2

'I'm Batman.' One Week Later: 'No, Spider-Man!'

* * *

For parents, yearly challenge is buying right Halloween costume



It's Spider-Man. Maybe.

Angela Rubin was thrilled with her efficiency for buying her daughter an "Elsa" costume for Halloween when it was on sale in July. At 4 years old, Maggie was obsessed with the princess from the movie "Frozen."

Then Maggie fell in love with Owllette, a television superhero. "She comes to me all

sheepish and says, 'Mommy, I want to change my Halloween costume,' like she was dropping out of school," Ms. Rubin said. "What am I going to do, refuse?"

Hordes of parents are haunted by their children's indecision over what to wear on one of their favorite days of the year. Those who wait until the last minute take the risk

Please turn to page A10

INSIDE



SOMETHING FISHY IN FAKE MEAT



U.S. WOMEN RULE ON ROAD TO WORLD CUP

LIFE & ARTS, A11

SPORTS, A14

U.S. NEWS

Drug Firms Balk at Price-Disclosure Ads

BY STEPHANIE ARMOUR

The pharmaceutical industry is signaling resistance to a Trump administration plan to require that the list price be included for most drugs in television ads, setting the stage for a protracted fight over a proposal with broad bipartisan support.

The standoff escalated Monday when the Pharmaceutical Research and Manufacturers of America—the pharmaceutical industry's main trade group, or PhRMA—announced that major drugmakers would voluntarily include price-related information in television ads by directing consumers to websites where they can find information on list prices and costs.

That action falls short of a rule, also formally proposed Monday by the Department of Health and Human Services, to mandate the disclosure of list prices in television ads, rather than referring consumers elsewhere for information.

The proposal is a marquee element of President Trump's blueprint to lower drug prices. It would require the price to be cited in a text statement, and would include drugs covered by Medicare and Medicaid for medicine with a list price of more than \$35 a month.

The agency is taking comment on whether the requirement should go beyond television to include ads in radio, magazines, websites, social-networking sites, and newspapers.

"List prices matter to American patients," HHS Sec-

retary Alex Azar said Monday in a speech announcing the proposal. Regarding the industry's voluntary step, he said, "Placing information on a website is not the same as

Trade group agrees to direct consumers to websites but move falls short of Trump plan.

putting it right in an ad, and it's taken them five months since the president's blueprint to start skating to where the puck is going."

The price proposal has already been contentious. The feud over disclosing prices has

emerged as a symbol of the battle over health costs, although many consumer groups predict that the rule would do little to lower costs.

Drugmakers oppose the mandate, saying that providing only the list price would confuse and mislead consumers, who may think they have to pay more than they actually would.

The list price is the figure initially set by the drugmaker. But it is different than what consumers generally pay, because it doesn't take into account rebates, discounts and insurance payments.

Critics also say the rule runs afoul of the First Amendment free-speech protections, and that a legal challenge is likely.

Mr. Azar said requiring the

list price would be an incentive to drive down pricing.

"The drug industry remains resistant to providing real transparency around their prices, including the sky-high list prices that many patients pay," Mr. Azar said in a statement, adding that the action was a "small step in the right direction." Mr. Azar formerly headed the North American division of drugmaker Eli Lilly & Co.

Lawmakers from both parties have also pushed for disclosure of list prices in the barrage of consumer ads about drugs now airing.

"The more transparency we can have in drug pricing, the better," said Susan Collins (R., Maine). "But it's complicated, because the list price isn't often what the consumer pays.

It's an unbelievably opaque system."

The Senate in August passed bipartisan legislation that would give HHS \$1 million to implement rules that require drug-pricing disclosure in direct-to-consumer ads. The measure was sponsored by Sens. Dick Durbin (D., Ill.) and Chuck Grassley (R., Iowa).

"More information gives transparency to the transaction, it empowers patients, and will help give American consumers a break and start to slow down the skyrocketing cost of prescription drugs," Mr. Durbin said.

PhRMA said Monday its voluntary effort would help patients make more informed decisions. They will also create a website with information about cost and financial help.

Microsoft Co-Founder Paul Allen Dies

BY JAY GREENE

Paul Allen, the billionaire co-founder of Microsoft Corp. who went on to invest his fortune in ventures from the Seattle Seahawks to brain research to the arts, died Monday, two weeks after revealing

OBITUARY
PAUL ALLEN
1953-2018
the return of a cancer he had received treatment for years ago. He was 65 years old.

Mr. Allen's holding company, Vulcan Inc., announced his death.

Mr. Allen rose to fame as a pioneer in personal computing. In 1975, he joined with his high-school friend Bill Gates to found Microsoft, a software company that in the ensuing decades went on to dominate the PC industry.

"I am heartbroken by the passing of one of my oldest and dearest friends," Mr. Gates said in a statement. "Paul was a true partner and dear friend."

In a story that has become part of Silicon Valley lore, Mr. Allen raced to share with Mr. Gates an article about a computer called the MITS Altair 8800 that appeared in the January 1975 issue of Popular Electronics magazine. Mr. Gates, a student at Harvard University at the time, dropped out to start the new software company with his friend.

"Personal computing would not have existed without him," Mr. Gates said.

Mr. Allen was Microsoft's chief technology officer when he left in 1983 after being diagnosed with Hodgkin lymphoma. As Microsoft's shares grew in value, Mr. Allen, like Mr. Gates, became a billionaire. He used that fortune to build his own business empire through Vulcan, which he founded and served as chairman. He invested in cable companies such



Paul Allen after the Seattle Seahawks won the National Football Conference title in 2014.

as Charter Communications Inc. and the Hollywood studio DreamWorks SKG.

Mr. Allen was fascinated by science. He created the Allen Institute for Brain Science, to help better understand how the brain works, as well as the Allen Institute for Cell Science, to study complex cells in order to advance biomedical research.

And he became a philanthropist, giving away more than \$2 billion. Some of those gifts, through the Paul G. Allen Philanthropies, included funds addressing climate-change challenges, the Zika virus and other pandemics, and homelessness.

Mr. Allen had joined Mr. Gates and Berkshire Hathaway Inc. investor Warren Buffett in a pledge to give away vast sums of their fortunes. Mr. Allen's is estimated at about \$20 billion, according to Forbes.

Mr. Allen used his considerable wealth to become influential in sports. In 1988, about

two years after Microsoft's initial public offering, Mr. Allen purchased the NBA's Portland Trail Blazers for \$65 million, he wrote in his memoir, making him the youngest owner in major American professional sports at 35 years old.

Less than a decade later, in 1996, Mr. Allen bought his second major team: the NFL's Seahawks. The team reached the Super Bowl three times, winning in February 2014 in a 43-8 rout over the Denver Broncos.

Sometimes called the "accidental billionaire," Mr. Allen earned a second fortune through his real-estate investments just north of downtown Seattle.

His investments, though, didn't always turn out well. After leaving Microsoft, Mr. Allen pursued a strategy he dubbed "Wired World," in which he pumped billions of dollars into a bevy of companies he thought would benefit from the tech boom. The port-

folio tanked when the tech bubble burst in 2000, leading Mr. Allen to write off some of his investments entirely.

Mr. Allen was an accomplished guitarist. He built a recording studio on his yacht, and one of his bands, Paul Allen and The Underthinkers, released an album in 2013 featuring Mr. Allen alongside performers such as Ann and Nancy Wilson of Heart and Joe Walsh of the Eagles.

He included his collection of Jimi Hendrix memorabilia as he opened a rock 'n' roll museum in Seattle in 2000. It has since added science-fiction artifacts, also from Mr. Allen's collection, and was renamed the Museum of Pop Culture.

Mr. Allen revealed two weeks ago that non-Hodgkin lymphoma, which he had fought in 2009, had returned.

"My brother was a remarkable individual on every level," his sister and former Vulcan executive Jody Allen said.

Spending on military programs also rose last year by 6%, or \$32 billion, while Social Security costs climbed 4%, or \$39 billion. Government spending as a share of GDP declined, but federal revenue fell even more—to 16.5% of GDP last year from 17.2% in the previous year—pushing the deficit higher.

Administration officials said the year-end deficit figure is smaller than they had projected earlier this year. They also said it would take some time for the benefits of tax cuts to filter into the budget and boost revenue.

White House budget director Mick Mulvaney said Monday the growing economy was "an important step toward long-term fiscal sustainability."

"Going forward, President Trump and this administration will continue to work with Congress to make the difficult choices needed to bring fiscal restraint, which, when matched with increasing revenue, will reduce our deficit," he said.

Rep. Nancy Pelosi of California, the Democratic leader, said: "Republicans have exposed their true agenda in budget after budget: add trillions to the deficit, and then use those deficits to justify slashing the Medicare, Medicaid and Social Security that seniors and families rely on."

To restrain deficit growth, the president's last two budgets called for trillions of dollars in cuts to programs including food stamps, disability benefits, welfare and student loans.

U.S. WATCH

CALIFORNIA

Judge Dismisses Suit Against Trump

A federal judge in California dismissed a lawsuit brought by Stormy Daniels against President Trump that accused him of defaming her in a tweet.

U.S. District Judge S. James Otero in Los Angeles ruled on Monday that the former adult-film star, whose real name is Stephanie Clifford, must pay Mr. Trump's legal fees in the case.

Michael Avenatti, Ms. Clifford's attorney, said he would appeal the ruling.

The defamation lawsuit centered on Mr. Trump's response to a sketch-artist's rendering of a man who Ms. Clifford said warned her not to speak about her alleged affair with Mr. Trump. Mr. Avenatti distributed the sketch over social media on April 17. Mr. Trump tweeted the following day, "A sketch years later about a nonexistent man. A total con job, playing the Fake News Media for Fools (but they know it!)."

Ms. Clifford argued in the defamation suit that the tweet attacked the veracity of her account and suggested she was falsely accusing someone of committing a crime against her.

Judge Otero said Mr. Trump was entitled to voice opinions about Ms. Clifford and respond to her allegations, noting that she had styled herself as his public adversary.

—Joe Palazzolo

ECONOMY

Retail Spending Shows Weakness

American consumers reined in their spending at restaurants and department stores in September, resulting in the second straight month of weak spending as the holiday season approaches.

Sales at retail stores and restaurants rose a seasonally adjusted 0.1% in September, the Commerce Department said Monday. That undershot economists' expectations for a 0.7% month-over-month increase and matched the rate of spending in August. Retail sales rose 0.6% in July.

Hurricane Florence, which made landfall in coastal North Carolina in mid-September, may have muddied the data. Economists attributed a sharp drop in dining out to the storm. Sales at food services and drinking places fell 1.8% last month, the category's steepest month-over-month drop in nearly two years.

—Harriet Torry

REGULATION

CFPB to Define 'Abusive' Practices

A federal regulator plans to explain what it considers to be "abusive" practices by companies selling financial services, a move aimed at giving a clearer idea of what behavior would get companies into trouble.

Mick Mulvaney, the Consumer Financial Protection Bureau's acting director, said Monday the bureau is working on a regulation defining how it views unfair, deceptive or abusive acts or practices, known as Udaap.

Companies have long complained that the CFPB's Udaap approach was overly broad and nuanced, making what would trigger an enforcement action less predictable.

Mr. Mulvaney, speaking to a conference of mortgage bankers in Washington, said that actions that constitute "unfair" and "deceptive" are well established.

"But to my knowledge, I don't think 'abusive' is nearly as well established in the law."

He said the regulation would aim to remove uncertainty about what the term means.

—Yuka Hayashi

CENTRAL BANK

Yellen Sees Risk In Trump Remarks

Former Federal Reserve Chairwoman Janet Yellen said President Trump's attacks on the central bank could be counterproductive if they cause investors to doubt the Fed's commitment to keeping inflation in check.

Ms. Yellen said Monday at the annual convention of the Mortgage Bankers Association that she didn't think the central bank or her successor as Fed chairman, Jerome Powell, would be influenced by Mr. Trump's criticism last week, in which he said the Fed had "gone crazy" in its campaign to slowly raise short-term borrowing costs.

That comment came amid the biggest sell-off in stock prices in more than seven months.

Ms. Yellen said Mr. Trump was entitled to express his view about monetary policy. "There's no law against that," she said. "But I don't think it's wise."

—Nick Timiraos

Federal Deficit Has Widened

Continued from Page One
fiscal year will take "a much more aggressive stance" on curbing federal spending.

Democrats blamed the tax cuts for the growing deficit.

"A deficit of this magnitude in an economy this strong is historically unprecedented," said Jason Furman, chairman of the Council of Economic Advisors in the Democratic administration of President Obama.

Trump administration officials said that the tax cuts are driving faster economic growth, which will eventually lead to big increases in tax revenue.

Higher government spending and flat revenue combined to drive the deficit to 3.9% of gross domestic product, up from 3.5% of GDP the year before.

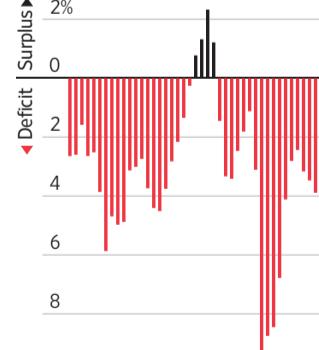
By comparison, the last time the jobless rate was below 4%, in 2000, the U.S. ran a budget surplus of 2.3% of GDP. Revenue that year rose 11% from a year earlier. And in 1969, when the jobless rate last touched 3.7%, the U.S. ran a budget surplus equal to 0.3% of GDP. Revenue was up 22% that year.

Annual economic output grew 5.4% between the second quarter of 2017 and the second

Red Ink

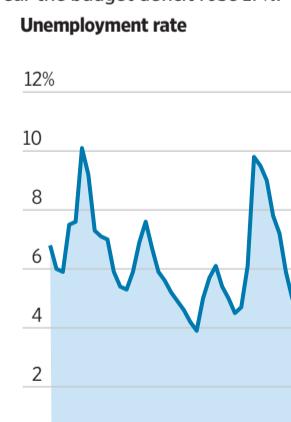
The U.S. budget usually improves during times of strong growth and low unemployment. But last fiscal year the budget deficit rose 17%.

Federal budget surplus/deficit as a percentage of GDP



Sources: Office of Management and Budget (budget); Labor Department (unemployment)

Unemployment rate



Note: Fiscal years end Sept. 30
THE WALL STREET JOURNAL

throughout the year and they were able to send less to the IRS because of the tax rate cuts.

Last fiscal year, income taxes withheld for individuals rose 1% but corporate tax receipts fell 31%—both reflecting the broad tax overhaul enacted in December. Individual rates were reduced by varying amounts across income thresholds while the corporate tax rate was faded as the tax cuts took effect.

Starting in February, paycheck withholding was reduced, lowering individual income tax collections to reflect changes in tax rates that will leave most households paying less for 2018 than in 2017. Also, businesses make estimated tax payments

quarter of 2018, not adjusted for inflation. Government revenue for the fiscal year rose 0.4% to \$3.3 trillion through September, also not adjusted for inflation.

The 2018 fiscal-year results include three months—October, November and December—before the new tax law took effect, likely providing a boost to the overall revenue picture that faded as the tax cuts took effect.

At the same time, government spending rose 3% last year, to \$4.1 trillion. Rising interest rates and the amount of total debt outstanding drove up federal interest

U.S. NEWS

Harvard Admissions Go on Trial

BY NICOLE HONG
AND MELISSA KORN

BOSTON—Harvard University's longtime admissions dean defended the school's recruitment of prospective students in the first day of a landmark trial accusing Harvard of discriminating against Asian-American applicants.

On Monday, lawyers for the plaintiffs focused on internal documents showing Harvard sends targeted letters to high-school students who score well on the PSAT, encouraging them to apply. The score thresholds vary by race.

Different test scores were used to recruit various ethnicities, plaintiffs say.

In a recent admissions year, white students in 20 underrepresented states—which Harvard calls “sparse country”—received a recruitment letter if they scored 1310 or higher out of a possible 1600 on the combined verbal and math components, according to the plaintiffs' exhibit. In all U.S. states, Asian-American women had to score at least 1350 to receive a letter, while Asian-American men had to score at least 1380.

The PSAT is considered a preview of how a student may score on the SAT.

Black, Hispanic and Native American high-schoolers nationally who scored at least 1100 received a letter, the

plaintiffs' exhibit showed. Students who qualify for these letters are twice as likely to be admitted as students who don't qualify, according to a handbook provided to Harvard's alumni interviewers.

William Fitzsimmons, Harvard's admissions dean since 1986, defended the policy by saying the letters to white students in more rural states help the school recruit from areas where students may be less aware of Harvard. “We do everything we can to reach out to a much broader range of people,” he testified.

Mr. Fitzsimmons said the lower thresholds for underrepresented minorities take into consideration how the “rather stark economic differences and opportunities” those students face may affect their ability to score higher on standardized tests.

A lawyer for the plaintiffs said a white student in a state like Nevada would receive a Harvard recruitment letter if he or she scored 1310 on the PSAT, while an Asian student in the same state with the same score wouldn't, amounting to what he called racial discrimination. Mr. Fitzsimmons denied the allegation.

The trial stems from a lawsuit filed in 2014 by Students for Fair Admissions, a nonprofit whose members include Asian-Americans rejected by Harvard. The group is run by conservative legal strategist Edward Blum, who has funded other challenges to racial preferences in college admissions.

At opening statements Monday, the two sides sharply



Harvard's campus on Monday, as the trial kicked off. A judge will decide whether its admissions practices violate federal law.

disagreed—even about the central dispute of the trial.

Adam Mortara, a partner at Bartlit Beck Herman Palenchar & Scott LLP who is representing the plaintiffs, said the future of affirmative action and the benefits of diversity weren't on trial, noting that the plaintiffs supported diversity on campus.

“This trial is about what Harvard...is doing to Asian-American applicants and how far Harvard has gone in its zeal to use race in its admissions process,” he said.

William Lee, a WilmerHale partner representing Harvard, said the plaintiffs' stated purpose is to “eliminate all con-

sideration of race in college admissions,” which he called an attack on diversity in higher education. Race is never the reason a student is admitted or rejected from Harvard, he said, adding the school considers race as one of many factors, in line with Supreme Court precedents.

Vietnamese-American students at Harvard are expected to testify about how the consideration of race helped them in the admissions process. The students' lawyers say Harvard seeks to cultivate diversity within each racial group, as the label “Asian-American” encompasses a range of ethnicities and backgrounds.

Air Force Surveys Damage After Storm

BY SCOTT CALVERT
AND JON KAMP

TYNDALL AIR FORCE BASE, Fla.—The Air Force was still assessing catastrophic damage at this Gulf Coast base five days after Hurricane Michael, and military officials said normal operations wouldn't resume soon.

Every house had significant roof and siding damage, and some sustained more significant structural failures, Tyndall officials said on the base website. The flight line was devastated, hangars were stripped, its marina vanished and a drone runway sustained severe damage. Numerous other structures, including Tyndall Elementary School, were in bad shape.

“It's going to take time to recover,” Air Force Secretary Heather Wilson said at a news briefing Sunday on the base, standing against a backdrop of mangled trees.

Hurricane Michael, which struck the coast Wednesday with 155-mile-an-hour winds and a powerful ocean surge, was responsible for at least 18 deaths in Florida, Georgia, North Carolina and Virginia, and the toll was likely to climb.

The scale of the devastation was clear Monday. Sheets of metal and other debris were strewn about. Roofs of ranch-style houses were missing tiles, and some had gaping holes. A huge aircraft hangar had lost much of its metal roof.

The House Armed Services Committee was concerned about an unknown number of F-22 jet fighters that sustained damage when Michael wrecked hangars where they were parked, a staff member said Monday. The committee is awaiting an initial damage report on Tyndall, including an explanation for why the planes weren't piloted to safety ahead of the storm, the staffer said.

“We have a sense of how they look physically, but until we get into them and really power them up, [we won't] have a good sense of what kind of damage was done,” said Air Force Chief of Staff Gen. David Goldfein on Sunday.

President Trump visited the Florida Panhandle on Monday, praising recovery efforts while noting the storm “literally wiped out” some homes.



A destroyed gate at Tyndall Air Force Base in Florida in the aftermath of Hurricane Michael.

Trump to Ask for Disaster Funding

President Trump toured hurricane-torn areas of Florida and Georgia on Monday, declaring that “nobody has seen anything like this” as crews continued to restore power and residents grappled with the devastation.

“Many of these people have no—they have no homes,” Mr. Trump said after arriving at Eglin Air Force Base in the Florida Panhandle. “Some of them have no trace of a home. You wouldn't even know it. It just got blown right off the footing.”

He said he would ask Con-

gress for disaster funding, though no amount was given. Mr. Trump emphasized the main priority is providing food, water and safety for residents, and said utility crews were working hard to restore electricity. Florida Gov. Rick Scott, who joined him, said, “We have a lot of work to do.”

Hurricane Michael slammed into Florida as a Category 4 storm on Oct. 10, initially packing 155 mile-per-hour winds, and continued north to Virginia, leaving nearly 20 people dead and hundreds of thousands of homes and businesses without electricity.

Mr. Trump on Monday singled out the work of first responders and law enforcement.

But the fallout from the storm continued to mount. Florida news outlets reported on growing frustrations and some looting. In tiny Mexico Beach, which was virtually flattened, three residents remained unaccounted for, police said Monday, down from about 30. The storm badly damaged Verizon Communications Inc.'s wireless network, leading to criticism from state officials about spotty service.

Reporters trailing Mr. Trump flew over Panama City and Mexico Beach and observed thousands of uprooted trees stacked in uneven rows and homes with roofs ripped open or missing completely.

—Alex Leary

Gen. Goldfein praised Tyndall leaders for safely evacuating 11,000 people from the base and getting some planes aloft more than 48 hours before the storm, as Michael quickly developed into one of the most potent hurricanes ever to hit the U.S. There were no deaths or injuries on the base, where 93 airmen rode out the storm, officials said.

Some base residents said they left with almost nothing and since then have been unable to retrieve important items or check on their homes. Col. Brian Laidlaw, 325th Fighter Wing Commander, issued a letter Monday saying he would provide guidance over the next day on when and

how residents could access the base temporarily.

Army retiree Jeremy Goosey, who lived in a rented duplex on the base with his wife and two children, welcomed Col. Laidlaw's message. His family is staying with his wife's parents at their apartment in nearby Panama City. He said it irks him he can't drive to his house.

“My concern is the preservation of those items that survived the storm, not waiting until the mold gets in and destroys what we actually have left,” he said.

Lindsay Vaughn said all she knows is that aerial photos show a roof still covers the home she shares on base with

her airman husband and their two young children.

“We honestly do not have any idea what condition our home is in, what our belongings are like,” she said Monday as the family drove to Texas to visit relatives. Tyndall's black bears are another cause for concern, she said: “They are going to have a heyday on base.”

Gen. Goldfein said it was possible some Air Force personnel wouldn't return to the base but instead would be sent to other duty stations permanently. Col. Laidlaw said it would likely be “a couple of weeks before we can start to get back our power.”

—Ben Kesling

contributed to this article.



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U.S. NEWS

Election Likely to Extend, Not Close, Divides

**CAPITAL JOURNAL**

By Gerald F. Seib

With exactly three weeks to go before a crucial midterm election, the country seems headed toward a vote that will both confirm and extend its current political divides. It's a story line that carries echoes of the 2016 presidential election—and one that could bring the same kind of bitter aftermath.

Precise predictions are folly in this volatile environment, of course, but here's the lay of the land at the moment:

Some trend lines are improving for Republicans, but there still appears to be enough anti-Trump sentiment and grass-roots Democratic anger to flip control of the House to the Democrats. President Trump's job-approval ratings are improving but still low by historical levels; that, plus a highly energized corps of white suburban women and a wave of well-financed candidates combine for a positive picture for Democrats.

On top of that, the least appreciated force benefiting Democrats is the wave of more than 40 incumbent House Republicans who are vacating their seats, leaving a wide array of districts open. "It's hard to protect the House when you leave the door unlocked," says Bill McInturff, a Republican poll-



Early voting for the midterm election began in Georgia on Monday. Voters, above, cast ballots at the Municipal Building in Augusta.

MICHAEL HOLAHAN/THE AUGUSTA CHRONICLE/ASSOCIATED PRESS

ster who co-directs The Wall Street Journal/NBC News poll.

Meantime, the geography of the parallel race for control of the Senate is reversed. Much as the national picture favors Democrats, the state-by-state picture favors Republicans, and the dynamic there has shifted more in their direction.

The harsh reality for Democrats in the race for control of the Senate is that many of the states where they have to prevail are solid red states with a lot of pro-Trump sentiment. And states such as Texas and Tennessee, sites of Democratic upset dreams that seem to be

fading, were always destined to snap back more in Republicans' direction as voters return to their home base.

Those basic realities now have been supplemented by GOP grass-roots anger at the way Brett Kavanaugh was treated during his confirmation hearings for the Supreme Court. "Not to make excuses, but it was always a tough map for Democrats in the U.S. Senate," says Democratic pollster Fred Yang, Mr. McInturff's partner in the Journal/NBC News poll. "Maybe it's gotten a little bit harder because of what happened in the last two weeks."

If this all sounds familiar—a national picture that favors

Democrats, a state-by-state picture that favors Republicans—it's because that's precisely what unfolded in the 2016 presidential race. Democrat Hillary Clinton won the popular vote by almost three million votes, yet dropped the key states needed to actually win in the Electoral College.

This year, it isn't hard to imagine a scenario in which Democrats win more votes nationally to win control of the House, yet can't prevail in the key states needed to control the Senate. Moreover, because of the way congressional districts are drawn, Democrats will almost certainly win a lower percentage of actual House

seats than their national vote total would suggest.

That's an outcome that would make Democrats even angrier. They already feel their toehold of power in Washington that simply isn't commensurate with their overall national strength.

That's one reason you already hear some Democrats complaining that the Senate, like the Electoral College, apportions too much power to lightly populated interior states, thereby robbing power from more populous coastal states. Changing those parameters would require nothing less than a change in the Constitution, leaving Democrats little choice but to

fume and wait for 2020.

Meanwhile, Democrats' anger at their inability to either advance the nomination of Obama Supreme Court nominee Merrick Garland in 2016, or to stop the Kavanaugh nomination in 2018, already is driving Republicans closer to President Trump in reaction. Even Republicans who don't particularly like the president now seem more likely to view him as a kind of shield against what they have taken to calling a Democratic "mob."

A ll told, it's a formula for not only divided government in Washington for the next two years, but a bitterly divided political system.

Some big caveats are in order, of course. It's impossible to predict what could happen between now and Nov. 6 to change the picture described above.

Still, fundamentals are fundamentals, and they are pointing to a split verdict. President Trump's low job approval and all those empty Republican House seats give Democrats an advantage. Democrats are raising money at record levels, and their turnout during primary elections suggests an exceptionally motivated party base.

Meantime, though, Republicans are closing the enthusiasm gap thanks to the Kavanaugh effect, and economic confidence is soaring, which inevitably helps the incoming president's party.

So there are signs of a Democratic wave, but not the tsunami some expected a couple of months ago. The body politic is divided, by region and gender, and above all over President Trump. That seems unlikely to change.

Governor Seeks Sex-Assault Probe

By KATE KING

NEWARK, N.J.—New Jersey Gov. Phil Murphy said he asked a former state attorney general to conduct an independent investigation into his administration's hiring of a former campaign staffer who had been accused of sexual assault.

Mr. Murphy, a Democrat, said Monday that he also asked the current attorney general to investigate the way sexual-assault cases are handled by law enforcement. Possible changes could involve extending the civil statute of limitations in sexual-assault cases, which is two years in New Jersey, as well as strengthening law-enforcement procedures and training, he said.

"Survivors of sexual misconduct who have stepped forward and into the light deserve our support for their bravery," Mr. Murphy said at a press conference.

Katie Brennan, chief of staff at the state's housing agency and a former volunteer for the governor's election campaign, accused former campaign staffer Albert Alvarez of sexually assaulting her in Jersey City in April 2017. Ms. Brennan took her allegations to local police, prosecutors—who investigated and declined to charge Mr. Alvarez last year—and high-ranking members of the administration before speaking publicly in a Wall Street Journal article published Sunday.



New Jersey Gov. Phil Murphy's administration hired a former campaign staffer who had been accused of sexual assault.

Mr. Alvarez's attorney has said his client denies the allegations of sexual assault. Mr. Alvarez, who directed outreach to Muslim and Latino communities for the Murphy campaign, was hired as chief of staff at the New Jersey Schools Development Authority after Mr. Murphy's election. Mr. Alvarez resigned Oct. 2 after the Journal contacted him for comment. He and his attorney didn't respond to a request to comment Monday.

The governor and his wife, Tammy Murphy, scheduled a call with Ms. Brennan for Monday afternoon and plan to meet with her in person in the future, he said. The Murphys

have also asked the director of the state Division of Equal Employment Opportunity and Affirmative Action to review how the state handles allegations of sexual misconduct.

New Jersey Republicans have called for an investigation into Mr. Alvarez's hiring. The state Senate minority leader, Tom Kean Jr., and Republican Sen. Kristin Corrado have also called for legislative reforms to make it easier for sexual-assault victims to pursue criminal and civil cases.

The legislature's Democratic leadership also called Monday for legislative action.

Mr. Murphy said he felt confident that the state's rules

and procedures were followed after Ms. Brennan brought her allegation to his administration in the spring, but that her experience showed the "rules of the road" aren't sufficient.

Members of Mr. Murphy's transition team, including his chief of staff, knew about a sexual-assault allegation against Mr. Alvarez but hired him after learning that prosecutors had declined to charge him. Mr. Murphy said Mr. Alvarez shouldn't have been hired.

Ms. Brennan told the governor's chief counsel about her alleged assault in March and emailed Mr. Murphy and his wife directly in June asking to speak with them about a "sensitive matter" that happened during the campaign. She didn't explicitly mention her assault allegation in the email, and Mr. Murphy referred her request to his campaign's attorney.

On Monday, Mr. Murphy said he learned of Ms. Brennan's sexual-assault allegation only on Oct. 2. He said confidentiality concerns stopped his staff from telling him about the accusation.

Mr. Murphy said he asked Peter Verniero, a former New Jersey attorney general who is now in private practice, to conduct an independent investigation of Mr. Alvarez's hiring. "This will be a real investigation designed to encounter the truth of what happened, wherever it leads," Mr. Murphy said.

Senator Releases DNA Test Results

BY KRISTINA PETERSON AND REBECCA BALLHAUS

WASHINGTON—Sen. Elizabeth Warren released the results of a DNA analysis on Monday indicating "strong evidence" she has Native American ancestry in a high-profile effort to refute President Trump's assertion that she has been lying about her family history.

In a sign of intensifying preparation ahead of a possible 2020 presidential run, Ms. Warren (D., Mass.) unveiled a website and video highlighting an analysis from Carlos Bustamante, a professor of biomedical data science and genetics at Stanford University, that found while the vast majority of her ancestry is European, she likely had a Native American ancestor from six to 10 generations ago.

Ms. Warren's critics say that her Native American heritage is in the distant past. Mr. Trump mocked her for claiming the connection, often referring to the senator as "Pocahontas"—the name of a 17th-century Native American woman.

Mr. Trump, when asked about Ms. Warren's DNA test Monday, said: "Who cares?"

"I hope she's running for president because I think she'd

be very easy," Mr. Trump said. He said Ms. Warren would "destroy our country" and "make our country into Venezuela."

Ms. Warren in a tweet on Monday reminded Mr. Trump that he had pledged at a Montana rally to write a \$1 million check to the charity of her choice if "you take the test and it shows you're an Indian."

Mr. Trump had made the \$1 million pledge as part of a scenario in which, if he were debating her in a hypothetical 2020 race, he would ask her to take a DNA test.

On Monday, Mr. Trump said he would give the \$1 million he pledged to charity only if he could do the test himself, though he added that it would "not be something I will enjoy."

The Cherokee Nation criticized Ms. Warren's use of a DNA test to demonstrate her ancestry, saying the tests are "useless to determine tribal citizenship."

Ms. Warren had said earlier Monday that she wasn't claiming to be part of a tribe.

"I'm not enrolled in a tribe and only tribes determine tribal citizenship. I understand and respect that distinction, but my family history is my family history," she said in a video released Monday.

Democratic Candidates Rake In Cash for November Races

By JULIE BYKOWICZ

Three weeks before midterm elections, Democratic candidates across the country are shattering fundraising records, reports show.

At least 60 Democratic House candidates raised more

than \$1 million in the three months ended Sept. 30, according to the Democratic Congressional Campaign Committee. Only three Democratic House candidates reached that milestone in the third quarter of 2014, Federal Election Commission data show.

Matt Gorman, a spokesman for the National Republican Congressional Committee, said "there's no doubt the Democratic base is energized and raising large sums of money." But he said incumbent Republicans are holding their own. "Like horseshoes and hand grenades," he said, "it's enough to be close."

Federal candidates were due to file their latest FEC reports before midnight Monday, covering July, August and September. Early filings and reports from party officials pointed to

record Democratic hauls powered by small donors. Some of the most striking reports: Texas Senate hopeful Beto O'Rourke, who raised \$38 million, and California House can-

didate Andrew Janz, who brought in \$4.4 million.

Mr. Janz is one of eight House candidates who raised more than \$3 million in the quarter, according to the DCCC. ActBlue, a fundraising platform that works exclu-

sively with Democrats, reported \$385 million in donations to Democratic candidates and causes in the third quarter, more than it saw in the entire 2014 midterms cycle.

Virginia's John Foust was one of the three Democratic House candidates to raise more than \$1 million in the third quarter of 2014. He lost to Rep. Barbara Comstock by 16 points. This year, Ms. Comstock's Democratic opponent, Jennifer Wexton, said she raised more than \$2.6 million in the same period, and polls show her significantly ahead.

Ms. Comstock's campaign hadn't filed its FEC report by Monday evening.

Democratic House candidates had booked more than \$122 million in TV commercials between the end of July

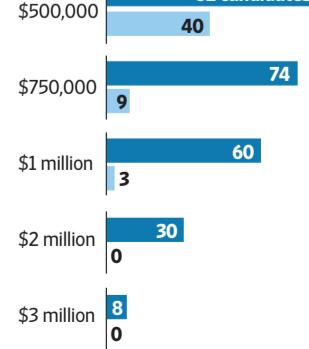
and Election Day, compared with about \$67 million for the GOP House candidates, according to figures provided to The Wall Street Journal by a political media tracker. GOP groups such as the Congressional Leadership Fund, a super PAC tied to House Speaker Paul Ryan, are helping to narrow that gap, the figures show.

Democrat Antonio Delgado, challenging Republican Rep. John Faso in New York's 19th congressional district, raised \$3.8 million last quarter. Mr. Delgado began airing general-election ads on broadcast TV in mid-July, according to Kantar Media/CMAG. Mr. Faso, who raised just over \$1 million last quarter, aired his first broadcast ads around Sept. 5.

—Reid J. Epstein contributed to this article.

Blue Boost

Number of Democratic candidates whose third-quarter fundraising exceeded:



Sources: Democratic Congressional Campaign Committee (2018); Federal Election Commission (2014)

THE WALL STREET JOURNAL.

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U.S. NEWS

Top Shareholder Banks On Bankruptcy

By LILLIAN RIZZO

Sears Holdings Corp. controlling shareholder Edward Lampert spent years keeping the retailer out of bankruptcy court. Now a \$300 million lifeline and a speedy chapter 11 sale may be his best chance at keeping control of its remains.

Early Monday, Sears filed for bankruptcy protection after years of struggle and relentless losses. Sears said in court papers it faces catastrophic consequences if it can't keep merchandise flowing to the company's stores and warehouses.

Some 200 vendors have stopped shipping goods to its stores in the past two weeks and it faces potential liens if it can't pay logistics companies owed millions of dollars over the coming weeks, Sears said in court papers. A similar scenario helped fell Toys "R" Us Inc., whose vendors tightened

terms and stopped shipping products just before the holidays last year.

Mr. Lampert seems determined to avoid that fate. The financier's hedge fund, **ESL Investments**, is slated to provide a \$300 million bankruptcy-financing package to help keep the retailer in business through the holidays. ESL Investments also is in discussions to bid for about 400 of the most profitable Sears and Kmart stores, Sears said on Monday.

At its peak, the company Mr. Lampert put together from the 2004 merger of Sears, the store "where America shops" and big-box retailer Kmart, operated more than 2,300 stores. That number had dwindled to fewer than 700 by Sears's Monday filing.

Sears said it would close 142 unprofitable stores near the end of the year, with liquidation sales expected to begin shortly. The closings are in ad-

dition to 46 stores that are expected to close by November.

Currently, the company operates 687 Sears and Kmart stores. It employs about 68,000 people.

Sears owes its lenders and bondholders more than \$5 billion and interest payments

Edward Lampert
seems determined to
avoid the same fate
as Toys 'R' Us.

alone are costing the retailer \$440 million a year. The bankruptcy filing came before Sears was required to repay \$134 million in loans later Monday.

Roughly 400 stores have positive earnings and are believed to be viable, court papers show.

"A successful sale of these viable stores as a going concern not only will save Sears and Kmart, but also the jobs of the tens of thousands of employees," said Robert A. Riecker, the company's chief financial officer, in court papers.

The company had lined up a \$1.875 billion bankruptcy-financing package a few days ago, the bulk of which pays off existing loans, including \$300 million in new money besides Mr. Lampert's similar injection. The funding is being provided by Sears's bank lenders, including **Bank of America**, **Wells Fargo & Co.**, and **Citibank**.

Even with this aid, a speedy bankruptcy process is needed, company lawyers said Monday. The company is seeking to hold a sale for its assets in January, and wrap up the bankruptcy process in March.

"Sears has been struggling for some time," said Ray Sch-

rock, the Weil Gotshal & Manges LLP attorney representing Sears, at a hearing Monday afternoon in White Plains, N.Y., before U.S. Bankruptcy Judge Robert Drain. "It's hard to find a company that tried so very hard to avoid chapter 11."

As part of the bankruptcy filing Mr. Lampert has stepped down from his role as chief executive but remains chairman. Sears said it had created an office of the CEO and appointed Mohsin Meghji, managing partner of its restructuring advisory firm M-III Partners, as chief restructuring officer.

Sears received court approval to begin using the so-called new-money portion of its bankruptcy financing. The loan will be used toward keeping stores open, paying employees and other standard measures.

Mr. Lampert's plan could meet resistance.

Sears "isn't so much a melting ice cube as it is a puddle," said Andrew Dietderich, the attorney representing investor **Fairholme Capital Management LLC**, managed by Bruce Berkowitz. Fairholme owns about \$330 million of face value in some of Sears's unsecured bonds.

Mr. Dietderich told the court that Fairholme plans to talk with other creditors about looking into transactions between Sears and ESL while the retailer was under Mr. Lampert's ownership.

"Everything I have done as an investor in Sears Holdings has been with the goal of helping the company and its people succeed," Mr. Lampert said in a statement provided by ESL Investments. An ESL attorney during the hearing said Fairholme signed off on all transactions that took place.

—Jennifer Smith
contributed to this article.

Sears Enters a New Era

Continued from Page One
that moved retailing away from Main Street. It was the first major chain to build parking lots and open its doors on Sundays.

Sears "helped spread the American automobile culture," said Vicki Howard, a retail historian at the University of Essex in England.

The Sears catalog tapped into the desires of a budding consumer culture, bringing items that were once the province of city life to the rural population, such as men's suits, vacuum cleaners and a "Stradivarius model" violin. "I dreamed a lot with that catalog," said 64-year-old Frank Szafranski of San Diego, who scoured it for James Bond toys and G.I. Joe dolls when he was a child. "You could find anything there."

Many Americans still live in Sears kit houses, so named because they were purchased via the catalog and delivered in pieces by railroad.

Sears's reach went beyond selling homes and the things Americans put inside them. It created Allstate Insurance Co. and the Discover credit card. In Chicago in 1973, it opened the 110-story Sears Tower, then the world's tallest building; it was renamed the Willis Tower in 2009.

But Sears was distracted by shifting strategies and struggled over the years to compete, first with big-box retailers like Walmart and then with online shopping sites like Amazon.com. It merged in 2005 with Kmart, which was headed by a hedge-fund manager, Mr. Lampert, whose unorthodox retail strategy of cutting spending on advertising, inventory and store improvements would hasten Sears's decline.

"Eddie inherited a difficult situation, but he made the operating performance worse," said Steven Dennis, a Sears executive for nearly a decade until he left in 2003. "He cut costs in places that hurt the company and didn't reinvest in the stores."

Since 2008, Sears has closed or sold nearly 1,700 outlets, including 60% of Sears stores and 75% of Kmart, according to AggData. As sales fell, Mr. Lampert shed units such as the Craftsman brand and Sears Canada, which liquidated last year. On Monday, Sears said it would close 142 more stores this year.

"Everything I have done as an investor in Sears Holdings has been with the goal of helping the company and its people succeed," Mr. Lampert said in a statement on Monday, when he resigned as CEO.

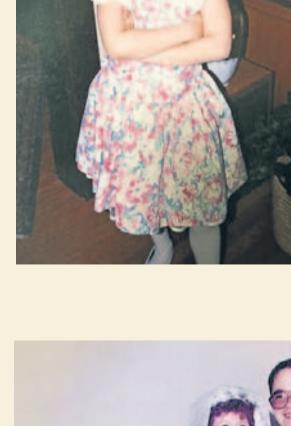
"We chose transformational rather than traditional strategies," he said. "Some efforts gained traction while others did not, and there were external factors that have severely hurt the company."

Mr. Lampert said his hedge fund will continue to press for Sears to emerge from bankruptcy in a stronger position. "I invested so much of my time and money in the company because I believe Sears has a future," he said.

Sears's troubles were fully exposed as smartphone shopping supplanted trips to the mall and the industry slid into

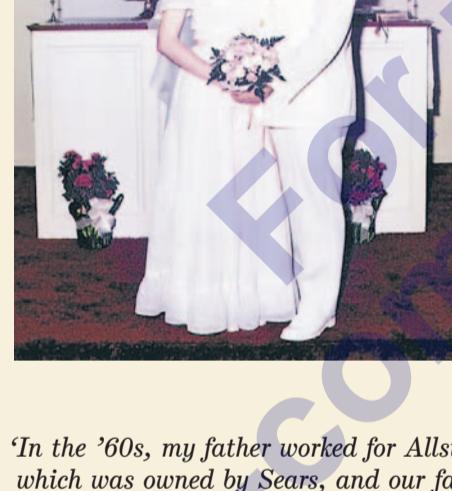
A Catalog of Fond Memories

The once-dominant retailer touched the lives of many over the years. Readers recall a special dress, a red bicycle, even a workplace encounter that led to marriage.



Definitely the catalog—thumbing through that before school started was a huge deal. We also used to get my Easter dress there (complete with hat and shoes). Sears was the spot my grandmother took me for winter boots every year and a snowsuit. We also used to go to buy my Grandpa's work-boots there. We were there at least 5 or 6 times a month from 1988-2004 when my grandmother relocated to Florida. Fond memories at Sears.'

—JACQUELINE CONDRON, 34, BOSTON



I met my wife while working at Sears in Birmingham, Alabama in 1981. I was a salesperson in the Auto Center when the HR Manager asked me to train a new employee. It was love at first sight for me (it took a bit longer for her), and we married two years later. We still grin like idiots every time we see one of the remaining stores.'

—DENNIS WARD, 58, BOULDER, COLO.



The Christmas Shop and a flower girl dress my Mom bought for me when I was 10 years old. I thought it was the most beautiful dress ever. We didn't have a lot of money, but that dress made me feel like a princess.'

—KYRA DWYER, 49, FAIRFIELD, CONN.

In the '60s, my father worked for Allstate Insurance, which was owned by Sears, and our family got a 10% discount, so all clothes, shoes, toys—everything—was purchased at Sears. My favorite memory was on my 8th birthday, I was getting a new bike which I could pick out. I picked out a beautiful Red 1 speed, and I got to ride it home through the neighborhoods staying off any big streets while my father slowly followed behind me. Google Maps says Sears was 1.1 mile from my house, but I thought I was riding forever to get home. I had that bike for 10+ years, and it later became known as the "Red Bomb" I still have a picture of me with that bike.'

—JIM SAUER, 61, AUSTIN, TEXAS

*Compiled by Patrick Thomas.
More memories of readers at WSJ.com.*

tumult. Earlier this year, Toys "R" Us Inc. closed all of its 879 stores after filing for bankruptcy. Yet the U.S. economy is strong, and consumer spending is boosting sales at Walmart, Best Buy Co. and Home Depot Inc., chains that are thriving in part from the Sears retreat.

There might have been no Sears at all if Richard Sears, a 19th-century railway agent, hadn't received an unwanted shipment of watches. He sold the watches to station agents up and down the rail line and then teamed with Alvah Roebeck, a watchmaker, to form a Chicago mail-order watch business in 1893 called Sears, Roebeck & Co.

The founders weren't the ones to make Sears a retailing powerhouse, though. By the early 1900s, the duo had left Sears, and Julius Rosenwald, a supplier of men's suits, was in charge.

Mr. Rosenwald expanded the Sears catalog into dry goods, durables, medicine, hardware and furniture. Under him, Sears became "a full-

fledged working economy unto itself," according to "The Big Store," a 1987 history. Among his innovations was the "satisfaction guaranteed or your money back" policy.

Sears opened its first store in Chicago in 1925. A decade later, its combined store sales surpassed those of its catalog. In one 12-month period from that era, Sears was opening a new store on average every three days.

Mr. Dennis, the former executive, said Sears was "the first Everything Store," borrowing a phrase that has become synonymous with Amazon. Unlike other department stores, Sears focused on hard-line goods like dishwashers, televisions and tool sets. Its clothing was more utilitarian than fashionable, with an emphasis on bluejeans and work shirts. It was where parents took children to get outfitted for the new school year.

Frank Christian, who worked at Sears for nearly 30 years starting in 1967, remembers customers lined up outside the

Peekskill, N.Y., store, waiting for it to open. "Some days were so busy there were lines at registers going into the main aisles," the 67-year-old said.

Industry executives say Sears planted the seeds of its demise nearly 40 years ago, when it diversified from socks into stocks with the 1981 purchases of the Dean Witter Reynolds brokerage firm and real-estate firm Coldwell Banker.

"That was their first mistake," said Allen Questrom, a retired retail executive who ran numerous companies including rival J.C. Penney Co. "They took their eye off the ball." By 1985, when Sears launched the Discover card, it had become one of the largest U.S. consumer lenders; 60 million people carried one of its credit cards.

Sears returned to its roots in the 1990s, shedding most of its financial operations, including Dean Witter and Allstate. But another challenge was brewing.

Big-box stores like Walmart, Target and Home Depot were easier to shop in than

Sears, and they were rolling out in strip centers closer to where people lived. "Sears didn't take the threat seriously enough," said Mr. Martinez, the former Sears CEO. He took steps to shore up the chain, including closing the catalog, which he said was a money loser. "It loomed large in American history, but it wasn't an economic proposition," Mr. Martinez said.

Kmart, too, had been a trailblazer, with roots dating to 1899, but by the early 2000s it was struggling. It filed for bankruptcy protection in 2002 and was taken over by Mr. Lampert, who had bought its distressed bonds.

Mr. Lampert had also been acquiring Sears stock, and his rationale for combining the two centered on solving Sears's mall dilemma. "If you have the greatest store and it's not where the customers are, that's a problem," Mr. Lampert said when the deal was announced.

After the deal closed in 2005, the combined company started converting some

stores into a new format, Sears Essentials. But the stores failed to deliver the expected sales bump, people familiar with the situation said.

It was the start of what would become a familiar pattern: Mr. Lampert would green-light a project, then quickly shut it down if returns didn't materialize. That applied to investments other executives saw as necessary, such as store upgrades: Some stores had holes in the floors, broken fixtures and burnt-out lights.

Mr. Lampert would slash advertising, then goods wouldn't sell, according to former executives. He would limit how much merchandise buyers could purchase, and stores would be left with empty shelves and outdated products, these people said.

The company cycled through three CEOs before Mr. Lampert himself took the reins in 2013. He ran the company from Florida, conducting meetings via teleconference and visiting its Hoffman Estates, Ill., headquarters once or twice a year, the former executives said.

Mr. Lampert was an early believer that the internet would change how people shopped, and he tried to capitalize on the trend, according to a person familiar with his thinking.

Sears in 1999 was one of the first retailers to launch a website and later to offer in-store pickup of online orders. Still, Sears's online sales accounted for only 12% of revenue in its most recent fiscal year, compared with 24% for Macy's Inc., according to eMarketer, a research firm.

No matter which levers Mr. Lampert pulled, Sears racked up hefty losses. Its last profitable year was 2010. Since then, cumulative losses have totaled \$11 billion, and its annual sales have dropped nearly 60% to \$16.7 billion.

As the business deteriorated, the CEO spun off divisions including the Lands' End clothing brand and sold stores to a real-estate investment trust Sears created to fund operations.

Because the spinoffs were to shareholders, of which Mr. Lampert is the largest, the transactions exposed him to criticism of self dealing. A spokesman for Mr. Lampert's hedge fund says he received the same terms as other shareholders and the deals raised billions of dollars for the company.

Vendors, concerned about the downward spiral, began demanding upfront payment in cash, further squeezing liquidity. "The business was eroding so quickly, it felt as if nothing we did could make a difference," said a Sears executive who left in 2017.

The bankruptcy filing threatens to put many of roughly 70,000 Sears employees out of work and throw the financial security of its 100,000 pensioners into doubt. It also leaves many shoppers without a go-to store.

Gloria Chavez of Berwyn, Ill., opened her Sears credit card in 1977 and bought everything there, from appliances to clothes for her three sons. The 66-year-old said she wouldn't know where to go if Sears disappeared. "It's been around forever," she said.

—Lillian Rizzo, Patrick Thomas and Erica Snow contributed to this article.

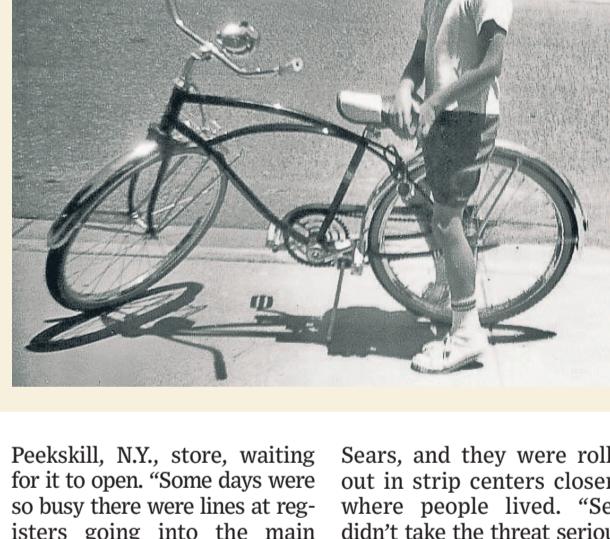


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WORLD NEWS

More CEOs Shun Saudi Showcase Event

JPMorgan, Blackstone chiefs cancel plans over dissident journalist's disappearance

The star-studded desert conference was supposed to celebrate Saudi Arabia's arrival on the global financial stage.

By Liz Hoffman, Emily Glazer and Dawn Lim

Instead it has become a high-stakes test for Wall Street and corporate titans weighing the potential profits from dealings with the kingdom against the risk of a public backlash, as grisly allegations that the Saudi government murdered dissident journalist Jamal Khashoggi threaten to derail the summit.

On Sunday and early Monday, three of Wall Street's most powerful executives—JPMorgan Chase & Co. Chief Executive James Dimon, BlackRock Inc. CEO Laurence Fink and Stephen Schwarzman, the chief of private-equity giant Blackstone Group LP—pulled out of the event, ratcheting up the pressure on their peers.

As of midday Monday, executives from Goldman Sachs Group Inc., Bank of America Corp., Citigroup Inc. and HSBC Holdings PLC were still planning to attend the conference, set to begin on Oct. 23. Ken Moelis, a banker who advised the Saudi government on its efforts to take the national oil company public, will also be present, a spokeswoman confirmed. So will David Bonderman, a co-founder of private-equity firm TPG, which counts the Saudi government as an investor, according to a person familiar with the matter.

Some Saudi officials have come to see the conference as a loyalty test of sorts. One financial executive, when confirming his attendance with a senior Saudi official via text message this week, received a heart emoji in response.

Conference organizers on Monday declined to comment



A security official holding barriers as Saudi Arabian officials arrive Monday at the country's consulate in Istanbul, where dissident journalist Jamal Khashoggi was last seen alive.

on the cancellations and indicated the event would go forward as planned.

Wall Street firms have cozied up to the Saudi government and its 33-year-old crown prince, Mohammed bin Salman, who has been the public face of the oil-dependent kingdom's efforts to reinvent itself as a premier financial and investment hub.

Last year's inaugural conference, dubbed "Davos in the Desert," was a coming-out party for that pivot and was widely attended by Western executives. Backing out of the event this year could put Wall Street firms on the outs with the kingdom for years to come.

The stakes are especially high for JPMorgan and Blackstone. Saudi Arabia's sovereign-

wealth fund last year committed \$20 billion to Blackstone's infrastructure fund, which could be as big as \$40 billion. JPMorgan, a Saudi business partner for more than 80 years, has advised the kingdom on numerous deals, including a recent purchase of Tesla Inc. stock and the now-stalled initial public offering of national oil company Saudi Aramco.

Over the weekend, as pressure mounted on the Saudi government to explain Mr. Khashoggi's whereabouts, Messrs. Schwarzman, Dimon and Fink discussed among themselves whether to back out of the event, according to people familiar with the matter. They also pressed conference organizers to cancel or postpone it, the people said.

Other executives at JPMorgan and BlackRock also reached out to officials at the U.S. Treasury Department over the weekend to ask them to lean on the Saudis to cancel or

Backing out of the event could put firms on the outs with the kingdom for years.

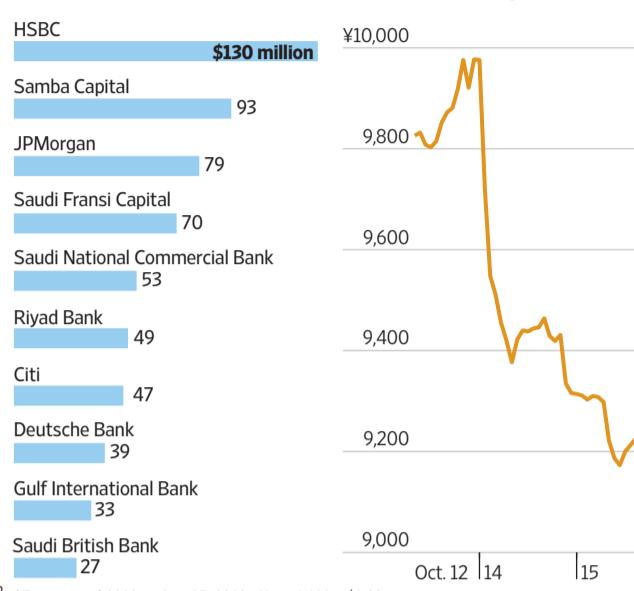
reschedule the conference, some of the people said.

On Sunday, Mr. Dimon decided to withdraw and got word to BlackRock and Blackstone, whose executives announced Monday morning

Arab Ambitions

Banks have earned relatively small fees from Saudi clients so far, but they're jockeying for an expected windfall. Shares of SoftBank, whose Vision Fund has \$45 billion of Saudi backing, fell Monday as worries about the Kingdom swirled.

Fees earned from Saudi clients*



*Fees earned 2010 to Oct. 15, 2018. Note: \$100 = \$0.89

Sources: Dealogic (fees); SIX (SoftBank)

SoftBank's share price



ture Investment Initiative conference, Prince Mohammed unveiled a 10,000-square-mile development zone. "I'm really dazzled," Mr. Schwarzman said at a panel discussion there.

The crown prince has endeared himself to Western executives through a carefully cultivated charm offensive that involved embracing limited reforms. During a visit to the U.S. last spring, Prince Mohammad visited Goldman Sachs's then-CEO, Lloyd Blankfein, who posed for a photo and joked on Twitter about their matching beards.

Executives of Goldman and SoftBank Group Corp.—which has raised \$45 billion from the Saudis for an investment fund—have been in touch with, and likely will take their cues from, U.S. government officials, people familiar with the matter said. Absent a finding that the Saudi government was responsible for Mr. Khashoggi's disappearance, they and others are likely to attend.

Riyadh Is Weighing Response

Continued from Page One explanation comports with comments Mr. Trump made Monday, after speaking to Saudi King Salman: "It sounded to me like maybe these could have been rogue killers," the president said.

Saudi Arabia has denied the accusation and said Mr. Khashoggi left the consulate alive, soon after arriving.

Mr. Trump said he had a 20-minute phone call early

Monday with King Salman, who "firmly denied any knowledge" of what happened to the missing journalist. The president suggested Saudi agents could have been operating without the Saudi government's knowledge. He dispatched Secretary of State Mike Pompeo to Saudi Arabia to meet the king and visit "other places if necessary" including Turkey.

Mr. Trump's comments, coupled with Mr. Pompeo's trip to Saudi Arabia and a joint Saudi-Turkish investiga-

tion were widely seen as an indication of a possible deal among U.S., Saudi Arabia and Turkey to prevent further diplomatic damage.

"It looks like some sort of middle ground agreement will be reached," said Ali al-Ahmed, director of The Institute for Gulf Affairs, a Washington-based think tank often critical of the Saudi monarchy.

"The Saudis will blame their people for taking unauthorized action and promise to put them through their justice system."

Mr. Khashoggi's disappearance has tested the Trump administration's efforts to make the kingdom the linchpin of its Middle East policy, based in part on a shared antagonism toward Iran.

Both Saudi Arabia and Turkey have sent signals they were seeking to avoid direct confrontation over an incident that has drawn widespread international concern and congressional pressure on the White House.



Secretary of State Mike Pompeo departed for Saudi Arabia Monday.

Mr. Trump also said King Salman had assured him that Saudi Arabia and Turkey were "working hand in hand, very closely on getting to the bottom of what happened."

Mr. Trump has cited denials by associates and allies, at times in the face of evidence to the contrary. He repeatedly has noted Russian President Vladimir Putin's denials of U.S. intelligence agencies' conclu-

sions that Moscow interfered in the 2016 U.S. election. When Republican Senate candidate Roy Moore was accused last fall of molesting and assaulting teenage girls, Mr. Trump said of the allegation: "He totally denies it."

The 82-year-old King Salman is the ruler of Saudi Arabia. But his son, Prince Mohammed, is effectively the country's day-to-day leader,

and has overseen a succession of recent campaigns targeting perceived dissidents at home and abroad.

Suspicion that Saudi Arabia played a role in the journalist's disappearance has led a growing list of Western executives and advisers to announce they were pulling out of a premier three-day conference set to start in Riyadh on Oct. 23.

Meanwhile, King Salman ordered the Saudi public prosecutor to head a probe to determine responsibility for who was responsible for Mr. Khashoggi's death, one of the people said.

Meantime, Turkish authorities said they had reached an agreement with Saudi Arabia to search the kingdom's consulate in Istanbul for the missing journalist.

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WORLD NEWS

Berlin Clans Clash Over Drugs, Turf

BY BOJAN PANCEVSKI

BERLIN—On a rainy morning in a cemetery last month, Berlin's hidden underworld briefly emerged from the shadows.

Nidal Rabih, one of the German capital's most notorious criminals, had been killed by unidentified shooters days earlier, and his funeral drew nearly 2,000 mourners from across the country. Scores of police officers watched as bearded, beefy men in tracksuits and crew cuts filed by. Luxury cars with tinted windows ferried older men to the graveside.

Refugees and asylum seekers are about 2% of Germany's population of 82 million but 8.5% of all crime suspects in 2017, according to police statistics. They made up 14% of suspects for unlawful killing and assault, and a similar proportion of robbery suspects.

Most prominent Berlin clan members say they live off state benefits, authorities say, but their empires span illegal activities such as prostitution and drugs. More recently, the families have branched into legal ventures including property, gambling, fitness studios and restaurants, said Martin Hikel, the mayor of Neukölln, a blue-collar but rapidly gentrifying community that is home to several criminal clans and a burgeoning avant-garde club scene.

Since the 2015 refugee crisis that saw nearly two million mostly Middle Eastern asylum seekers enter Germany, the clans have been recruiting young refugees to act mainly as street-level drug dealers, said Mr. Hikel, a member of the center-left Social Democratic Party.

"The clans have systematically been recruiting refugees for the dirtiest jobs, such as selling drugs in parks and the subway," said Thomas Spaniel, an organized crime expert with Berlin's criminal police.

As part of the nationwide push against criminal clans, police on Wednesday launched a vast operation in Berlin and the surrounding region, searching 19 properties linked to a Chechen crime ring. The previous day, investigators shut down a drug-selling operation in the capital led by two Lebanese citizens, confiscating 3 kilograms of heroin.

In perhaps the most spectacular recent raid, authorities in July seized 77 apartments owned by welfare-supported members of the Remmo family.

Issa Remmo, the family's 51-year-old patriarch, arrived from Lebanon in the 1980s as a refugee and has 15 siblings and 13 children in Germany. One of his sons is currently on trial for the murder of a rival family member, who was beaten to death with baseball bats. Another rel-

and hierarchies, several such families turned into criminal enterprises, the study found.

Today, about a dozen predominantly Arab and Kurdish families with an estimated 1,000 criminal members dominate the German capital's organized-crime scene, police say, and have expanded to other parts of the country. The vast majority of these families' members, like Germany's immigrant population in general, aren't involved in crime.

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Issa Remmo, center, the head of a Lebanese family that has been investigated for money laundering, attends the Berlin funeral of Nidal Rabih, a gang enforcer slain in a public park. Below, workers under police protection paint over a mural depicting Mr. Rabih.



Arab and Kurdish crime families are fighting violently for control in Germany.

ment authorities in Berlin and around the country, Mr. Rabih's slaying was the last straw, prompting an intensified crackdown on organized crime, with raids, arrests and indictments ramping up in recent weeks.

"A broad-daylight murder in a popular park packed with families is a whole new category," said Martin Pallgen, spokesman of Berlin's interior ministry.

The violence—and the authorities' pushback—has drawn attention to Germany's burgeoning ethnic crime clans. Security officials, politicians and researchers say these groups represent an immediate security concern as well as a warning about what can happen when migrants fail to integrate into their host societies.

In the 1980s, thousands of Arabs and Kurds from Lebanon and parts of Turkey sought asylum in Germany. Unlike guest workers invited to the country, these often stateless people weren't allowed to work, instead receiving basic benefits and in many cases not integrating into their new society.

According to a 2017 government study of organized crime, some of the families stuck by tribal and Islamic codes of justice, spurning the state and its laws. Insulated from society, governed by their own rules

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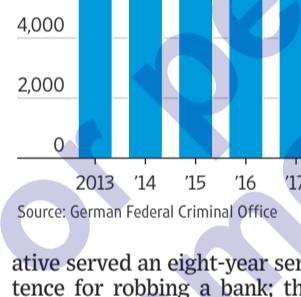
Mob Rule

Organized crime in Germany is increasingly the preserve of foreign nationals...

Organized crime suspects

German citizens

Non-German citizens



ative served an eight-year sentence for robbing a bank; the €9.8 million (\$11.3 million) loot was never recovered.

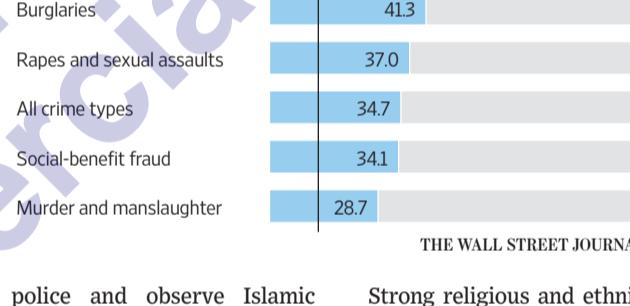
In a rare interview in July, Mr. Remmo said he knew nothing of the seized properties. "Construction and gastronomy—this is my business," Mr. Remmo told the BZ newspaper. A lawyer for his family didn't respond to a request to comment.

As Mr. Remmo and his relatives attended Mr. Rabih's funeral, an imam urged the unruly crowd to stop shouting, refrain from altercations with

...and foreigners also make up a disproportionate share of crime suspects in general.

Share of foreign nationals among crime suspects, 2017

12.8% Foreign nationals in overall population



THE WALL STREET JOURNAL.

police and observe Islamic rites. A small group of veiled women stood separately.

"Only pigs, not men, would massacre a father in front of his children," said one mourner who gave his name as Sami. "They will pay."

Sami, who said he had shared a prison cell with Mr. Rabih, said new gangs were disturbing Berlin's criminal equilibrium. "Now it's like New York here: Chechens, Kurds, Albanians, Russians, Moroccans, Turks, Gypsies," he said. "Everyone wants their share."

Strong religious and ethnic identities have helped families from Lebanon ward off outside scrutiny and enforce loyalty, according to Ralph Ghadban, a German-Lebanese scholar who wrote a book about the criminal families.

"The clans see our liberal democratic society as something to be plundered. Yet even discussing crime and ethnicity was off-limits until recently," said Mr. Ghadban, who blames political correctness for a failure to dismantle the gangs.

Mr. Hikel, Neukölln's mayor,

said authorities had allowed the clans to establish a parallel society that rejects German norms and values, initiates young children into crime, and encourages intermarriage to strengthen cohesion.

"We have literally ignored these people for 30 years and now we have a huge problem on our hands," Mr. Hikel said. "They are heavily armed...and have amassed wealth—we need to stop them before they legalize it."

Recently some families have moved into legitimate areas, including the music business. Bushido, a major rap star of Tunisian origin, was until recently managed by a member of the Abu Chaker family, one member of which was convicted in connection with a spectacular 2010 attack and robbery on a poker tournament in a luxury Berlin hotel.

In an interview last month, Bushido said he had broken ties with his former business partner following violent quarrels. The rapper said he has since switched allegiance to a member of a rival family: the Neukölln clan of Mr. Remmo.

The clans feed on their own notoriety. "Kids see the gangsters driving Mercedes and sporting Rolexes. They want to be like them," said Hamed Khamis, a former gang member turned author. Anti-Semitism, antigay views and misogyny are promoted as values, he added.

Better integration and tougher policing can only do so much. Many police officials say the justice system is ill-equipped to tame the gangs.

"If we find €100,000 on a gangster officially living off benefits we need to prove he earned it with crime, and that's difficult," said Benjamin Jendro, spokesman for the GdP police union. "His Porsche or his house are registered in the name of an aunt in Lebanon. Even when they get convicted they get out in a couple of years. It's frustrating."

Cast Changes

Fewer than half of the 11 members on CBS's board were on it at the start of last month.

CBS board National Amusements-affiliated

	Before Sept. 9	Sept. 10-25	Now
Shari Redstone	●	●	●
Robert Klieger	●	●	●
Martha Minow	●	●	●
Gary Countryman	●	●	●
Linda Griego	●	●	●
Bruce Gordon	●	●	
William Cohen	●	●	
Leslie Moonves	●		
David Andelman	●		
Joseph Califano Jr.	●		
Leonard Goldberg	●		
Doug Morris	●		
Arnold Kopelson	●		
Charles Gifford	●		
Richard Parsons			
Candace Beinecke			
Barbara Byrne			
Susan Schuman			
Strauss Zelnick			
Brian Goldner			

Continued from Page One

for the board to see whether the former CEO misled the board or stymied the probe. If so, he could be deemed as fired for cause and lose \$120 million in possible severance, according to his contract and the terms of the settlement at the time of his ouster. Mr. Moonves has denied allegations that he sexually assaulted or harassed women and harmed the careers of those who rebuffed him.

All of this is playing out as the board searches for a permanent chief executive. Long-time Chief Operating Officer Joe Ianniello is the acting CEO.

As part of CBS's settlement with National Amusements in September, six CBS board members were replaced. Mr. Gordon remained, and the settlement secured his place on the board through 2020, which is why his departure two weeks later caught his fellow directors off guard.

Although National Amusements, which has nearly 80% voting stakes in each of CBS and Viacom, agreed under the

settlement not to push a merger of the companies for two years, a merger could still take place if two-thirds of CBS board members not affiliated with National Amusements agree to it. The departures of Messrs. Gordon and Cohen leave the board with 11 people and reduce the number of independent directors who would have to vote for such a transaction from eight to six.

Guggenheim Securities analyst Michael Morris said that the board changes "could increase the potential that independent board members revisit a possible recombination with Viacom."

Mr. Gordon was upset over the decision to name veteran media executive Richard Parsons interim chairman of the board late last month and expected to play a more prominent role in the wake of the board shake-up, the people familiar with the matter said. He was also miffed that National Amusements and CBS went back on their announced intentions that the chairman post would be kept open until the company named a new permanent chief executive, they said.

Mr. Parsons is likely to be made permanent chairman in December, though no official decision has been made, one of the people said.

Messrs. Gordon, Cohen and Parsons didn't respond to re-

quests for comment.

CBS declined to comment for this article.

When rumors that media organizations were looking into allegations against Mr. Moonves began to swirl late last year, Mr. Gordon tapped Michael Aiello, chairman of the corporate department of the law firm Weil Gotshal & Manges LLP, to look into it.

Mr. Aiello's role was complicated. The independent directors of CBS had earlier tapped him for advice when Ms. Redstone renewed her interest in exploring a Viacom-CBS merger. The directors and Mr. Moonves were skeptical of such a deal and wound up aligned in the legal fight against Ms. Redstone and National Amusements. Mr. Aiello represented the independent directors in that suit. Now he was being asked to probe any possible minefields in Mr. Moonves's past.

During a January phone call between Mr. Aiello and Mr. Moonves to discuss the rumors, Mr. Moonves told Mr. Aiello about an allegation from a woman in Los Angeles who had filed a complaint with police in the fall of 2017 stemming from an incident in the 1980s, according to the people familiar with the matter.

Mr. Moonves also told Mr. Aiello an actress requested a job in exchange for staying si-

lent about her alleged experience of sexual harassment from him, people familiar with Mr. Moonves's thinking said.

Mr. Aiello then held a call with the board's nominating and governance committee to brief them on the conversation with Mr. Moonves, said people familiar with the matter. The lawyer said there had been accusations against Mr. Moonves, but that they were unsubstantiated and not a cause for concern, some of the people said. The Los Angeles Police Department ultimately dropped its probe because the statute of limitations had passed.

Some directors wouldn't have supported Mr. Moonves and the suit against National Amusements had they known about the specific allegations, people familiar with their thinking said.

Mr. Aiello believes he didn't withhold information about Mr. Moonves from the board, according to people familiar with his thinking. Reached by phone, Mr. Aiello said he couldn't discuss his conversation with Mr. Moonves or what he told the directors, citing attorney-client privilege.

People familiar with board matters at CBS said it is unlikely the Weil law firm would continue to do work for CBS or its independent directors. Weil's general counsel, Mindy Spector, declined to comment.

FROM PAGE ONE

Turmoil

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Unless we act now!

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Please help us Mr. President!

Sincerely,



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WORLD NEWS

Germany Deports Man Convicted in 9/11 Attack

A Moroccan man convicted of helping Mohamed Atta and the other Hamburg-based Sept. 11, 2001, suicide pilots as they plotted attacks on New York and Washington was deported from Germany to his homeland.

German authorities confirmed that Mounir el Motassadeq was aboard a plane that had taken off from Frankfurt airport in the evening.

El Motassadeq was convicted of membership in a terrorist organization and accessory to the murder of the 246 passengers and crew on the four jetliners used in the 9/11 attacks in 2001.

"It's a good feeling to know that Mr. Motassadeq is out of the country," Hamburg's Interior Minister Andy Grote said.

Earlier in the day, he had been taken from a Hamburg prison to Frankfurt airport.

El Motassadeq was released shortly before completing his 15-year sentence on the condition that he agreed to be de-

ported to Morocco. That would allow Germany to rearrest him if he ever returned.

It wasn't clear what awaited him in Morocco.

El Motassadeq was convicted of being part of the so-called Hamburg cell, including Atta and fellow Sept. 11 pilots Marwan al-Shehhi and Ziad Jarrah.

German courts ruled that el Motassadeq was aware the three planned to hijack and crash planes, even though he might not have known specifics of the plot. They said el Motassadeq helped "watch the attackers' backs and conceal them" by helping them keep up the appearance of being university students paying tuition and rent and transferring money.

El Motassadeq acknowledged training at an al Qaeda camp in Afghanistan but insisted he knew nothing of his friends' plans to attack the U.S.

—Associated Press



Mounir el Motassadeq, convicted of helping the Sept. 11 attackers, is led to a German police helicopter in Hamburg.

JENS SCHLUETER/FEAR/SHUTTERSTOCK

Syrian Rebels Hold Out in Final Enclave

BY SUNE ENGEL RASMUSSEN

A plan to avert an offensive by the Assad government against the last major rebel-held area in Syria stumbled Monday when the main extremist group failed to leave a proposed buffer zone as part of a deal to demilitarize the region.

However, Russia may still prevent Syria's President Bashar al-Assad from launching an assault to retake Idlib, a province in northwestern Syria, as Moscow now appears eager to avoid a fight and instead find a political settlement to end the Syrian war and cement its growing role as a power broker in the Middle East.

Russia and Turkey—which fears an attack on Idlib will send hundreds of thousands of

A Vital Border Crossing Reopens

boon to the nations' troubled economies. Syria's economy has been devastated by more than seven years of war and Jordan faces its own economic crisis.

Before the crossing was closed in 2015, goods worth billions of dollars annually passed by trucks through the trade route between countries such as Turkey, Lebanon and the Persian Gulf states. The conflict halted most of that trade.

In July, Syria backed by

Russia regained control of the crossing after a military offensive followed by a series of deals in which opposition fighters surrendered control over the southwest provinces.

The opening marks the first time since 2015 that Syria has access to a border, aside from the one with Lebanon. Since the war began in 2011, the regime lost control of its borders with Iraq and Turkey.

—Nazih Osseiran

Syria and Jordan reopened a border crossing between the two countries, more than three years after the vital commercial gateway linking several Middle East economies was closed due to the Syrian war.

The reopening of the Nassib crossing could be an economic

civilians fleeing toward Turkish territory—agreed last month to create a roughly 10-mile buffer zone between territory controlled by opposition and government forces in Idlib. Thousands of rebels have fled to the province as Mr. Assad has

gradually retaken a large portion of the country.

The deal required all heavy weaponry and radical militants to be moved by Monday out of the buffer zone, which will be supervised by Russian and Turkish troops.

tremist groups control more than half of the province and the biggest part of the proposed buffer zone.

HTS in recent days has toned down its resistance to the deal, but has refused to give up fighting or disarm. By Monday's deadline, its militants had not left the demarcated area, one of the conditions of the Russian-Turkish deal, according to the U.K.-based Syrian Observatory for Human Rights.

Russia and Turkey are intent on making the agreement work. Last week, Russian Foreign Minister Sergei Lavrov said Moscow would allow for a couple of days' delay in setting up the demilitarized zone.

Russia's agreement with Turkey in Idlib has put it at odds with the Assad govern-

ment. Mr. Assad has repeatedly vowed to retake control of the entire country, and has called the agreement between Russia and Turkey a "temporary measure" before returning Idlib to government control.

In a news conference Monday, Syrian Foreign Minister Walid al-Moallem said the national army was deployed near Idlib, ready to attack if the rebels didn't withdraw. The Syrian government, however, needs support from the Russian air force to retake Idlib.

In recent days, HTS has softened its opposition to the demilitarization plan and, according to a member of the group in Idlib, is negotiating with Turkey as to whether to comply.

—Nazih Osseiran contributed to this article.

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WORLD WATCH



SYLVAIN THOMAS/AGENCE FRANCE PRESSE/GETTY IMAGES

A ROAD BECOMES A RIVER: A collapsed bridge in Villegailhenc in southern France, where floods tore through several towns after an overnight storm, killing at least 12 people, authorities said.

ITALY

Government Backs Budget Proposal

Italy's government late Monday approved a draft budget law for next year, confirming expansionary measures that could lead to a fast-rising deficit.

The government, a coalition of the antiestablishment 5 Star Movement and the far-right League, has rattled financial markets in the past month with its budget plans, with investors demanding higher interest rates to buy the country's bonds.

The full draft budget law will be sent to the Italian Parliament by Saturday. Lawmakers will need to approve it by year's end.

The measures included in the draft law are set to widen the budget deficit to 2.4% of gross domestic product, in defiance of European Union rules that require a shrinking deficit.

—Giovanni Legorano

CHINA

Ex 'Bad Bank' Boss Accused Over Bribes

A former Communist Party chief and ex-head of China's largest "bad bank" will be prosecuted for using his position for personal gain after being swept up in President Xi Jinping's crackdown on corruption.

China's graft agency accused Lai Xiaomin, former chairman of China Huarong Asset Management Co., of squandering state assets, illegally organizing public banquets, engaging in sexual dealings with women and taking bribes.

Mr. Lai, who was also expelled from the party and public office, couldn't be reached to comment Monday. Since late 2012, China's anticorruption campaign has targeted hundreds of senior government, military and business officials, with many sentenced to long prison terms.

—Chao Deng

RUSSIA

Orthodox Church Breaks With Leader

The Russian Orthodox Church decided to sever ties with the leader of the world-wide Orthodox community after his decision to grant Ukrainian clerics independence from the Moscow Patriarchate.

Metropolitan Hilarion said the Russian church's Holy Synod resolved to "break the Eucharistic communion" with the Istanbul-based Ecumenical Patriarchate of Constantinople.

Under the leadership of Ecumenical Patriarch Bartholomew I, the patriarchate last week removed its condemnation of leaders of schismatic Orthodox churches in Ukraine. The decision marked a step toward establishing an ecclesiastically independent—or autocephalous—church in Ukraine.

—Associated Press

FROM PAGE ONE

Halloween: A Time to Be Fickle

Continued from Page One

there won't be any of the hot-test get-ups left.

But buy or make a costume too early and fickle kids change their minds. The tricky question of timing adds to the agita of a high-drama holiday, when photo-taking frenzies, fake blood and excessive sugar often combine in ghastly ways.

Ms. Rubin, who lives on New York's Long Island, says she learned not to get Halloween garb more than a month in advance. The worst part was her husband had warned her against doing so, she said, and "He's going to love my saying I was wrong. In print."

While some parents are pushovers, others won't budge after a purchase. Fiona Bradley, who has children aged 3 and 4 in Glen Ridge, N.J., ful-

filled their requests for Spider-Man and mermaid outfits weeks ago. "If you want to dress up, that's what's available," she said. "I'm not a very nice mom."

Meredith Gordon, a Los Angeles blogger, said her children, now 7 and 11, were so consumed by costume debates she ruled nobody could mention Halloween until Oct. 1.

"If you went out and purchased every costume your kids said they definitely, absolutely wanted, it would drive you insane," she said. "The one I buy is what you're wearing. It's like a marriage, you're committed. You're going to need a lawyer or a body bag to get out of it."

On cross examination, she admitted if her children truly begged for a dress-up divorce, she might relent. "I could become the Liz Taylor of Halloween costumes," she said.

Many parents mourn for simpler days when lots of children just threw on old white sheets to be ghosts. They see Halloween as a victim of holiday creep, much as Christmas commercials pop up months in

advance and Valentine's Day cards have to be made for every classmate in kindergarten.

But retailers see monster sales. Costumes, candy, cards and decorations for Halloween are projected to hit \$9 billion across the country this year, according to the National Retail Federation. This year it expects sales of \$1.2 billion for children's costumes alone.

Some parents say indecision about what to wear is the most aggravating in the preschool years. Tovah Klein, author of "How Toddlers Thrive"

and director of the Barnard College Center for Toddler Development in New York, says young children love to pretend and live in the present, with little sense of time or specific dates on the calendar.

"For the adults, it's a holiday, but for a child imagining being something else is something that comes from within and changes from moment to moment," she said. "It's one of the beautiful clashes between the young child's world and the parent's world."

Tears and tantrums are also



A Halloween parade in Monterey Park, Calif., in 2016. Parents know kids can change their minds about who they want to be.

a scary possibility. Leonela Vaccaro Padron, a lawyer in New York City, says her 3-year-old daughter cried when she discovered she wasn't the only aspiring Elsa. "I think she is probably going to be Elsa and then she'll see somebody dressed up as something else she likes, like Wonder Woman, and get upset," Ms. Vaccaro Padron said. "Or she'll see something else she likes and I won't have the costume and it will be a disaster."

Part of the challenge is that children know about buying online. "She'll want something and she'll be like, Just order it from Amazon," Ms. Vaccaro Padron said.

Her husband has tried to teach their daughter about supply chains, stressing that it takes many different people working hard to make, package and deliver something. "It's crazy raising kids in this environment where anything seems so accessible," she said.

Some parents have used sneaky workarounds. One bought four options for one child and plans to return the

three that aren't worn. Others swap last year's leftovers with neighbors.

Last-minute reversals take spontaneous problem-solving. Ann Givens, in New York City, said her son Nicholas was determined to be Iron Man when he was 4 but then refused to put on his costume. "We convinced him to put on sunglasses and go as Robert Downey Jr. instead," she said.

Those who go the homemade route can get carried away. Indrani Sen, also in New York City, says she and her husband keep making that mistake in dressing up their son Jasper, now 6.

He "usually says something vague like 'Spinosaurus!'" she said. "And then we proceed to spend several nights constructing some enormous unwieldy cardboard thing which the little guy deigns to wear for like 2.5 minutes while we frantically snap photos. Then he trick-or-treats in his skeleton PJ's and my husband and I carry the cardboard carnage of the costume around all evening, vowing not to do the same again."

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GREATER NEW YORK

Bus Shelters Closed After S.I. Collapse

Inspections are set to take a week, with any repairs completed by the end of the month

BY PAUL BERGER

More than one-third of New York City's bus shelters, or about 1,400, were cordoned off on Monday for safety inspections after the roof of one shelter fell in.

No one was injured in the incident, which occurred at a vacant shelter on Staten Island on Oct. 5, according to a spokesman for advertising company JCDecaux Group.

The France-based international advertising agency operates about 3,500 bus shelters in New York City. The company inherited the shelters in 2015 after acquiring Spanish advertising firm Cemusa.

JCDecaux had inspected a separate set of 1,000 bus shelters during the past week and found that about 30 of them had the same corroded bolts believed to have caused the roof of the Staten Island shelter to swing down, said George Arzt, a spokesman for JCDecaux.

Those shelters were repaired and have since reopened, Mr. Arzt said.

"The company decided to cordon off the remaining shelters, while the inspections continue," he said.

Jon Orcutt, a spokesman for advocacy group Transit-Center, said the company should have acted more quickly instead of waiting more than one week before cording off shelters.

A spokesman for Mayor Bill de Blasio referred questions about the delay to JCDecaux. Mr. Arzt said the firm

had acted "prudently and quickly."

"There has been no other incident, and no one has been hurt, and the company's decision to cordon off shelters until they are inspected was designed to ensure that no one could be injured until the inspections and repairs are completed," he said.

A 2012 investigation by New York City's comptroller found that JCDecaux's predecessor, Cemusa, had failed to adequately oversee the inspection and maintenance of its shelters. JCDecaux took on the maintenance and inspection function in-house, Mr. Arzt said.

Bus ridership in New York City has been on the decline for about a decade. Average weekday local ridership fell to 1.884 million riders in 2017, a decrease of 5.7% from 2016, according to MTA figures.



A worker checked the bolts Monday on a Manhattan bus shelter.

rying. "The real challenge is only one out of five bus stops has a shelter to begin with," he said.

The design of the Staten Island shelter—on the corner of Van Duzer Street and Victory Boulevard—is the same as about 2,500 shelters built between 2006 and 2012, Mr. Arzt said.

Shelter inspections are expected to take a week, with any repairs slated to be completed by the end of this month, Mr. Arzt added.

"We will hold the contractor accountable for making these fixes expeditiously," said Alana Morales, a spokeswoman for the city's transportation department.

"We agree with their current actions and will monitor to make sure the shelters are inspected and returned to operation in a safe manner," she added.

NYPD Looks for Brawlers

BY ZOLAN KANNO-YOUNGS

The New York Police Department is looking to arrest a dozen participants captured on video in a brawl that erupted Friday night shortly after the leader of a far-right group spoke at a Republican club in Manhattan.

The fight broke out after Gavin McInnes, a right-wing commentator, re-enacted the 1960 assassination of the leader of Japan's socialist party, then gave a speech at the Metropolitan Republican Club.

Nine of the 12 people sought by police are members of the "Proud Boys," a group led by Mr. McInnes that describes itself as "Western chauvinist," police said. The Southern Poverty Law Center has designated the Proud Boys a hate group.

Gavin McInnes, a right-wing commentator who leads the 'Proud Boys,' spoke at a GOP club.

Investigators also are seeking to arrest two members of the antifascist group Antifa who clashed with the nine Proud Boys suspects, according to NYPD Chief of Detectives Dermot Shea. A third member of Antifa—which is known for confronting, sometimes violently, anyone they suspect is racist, anti-Semitic or fascist—is wanted for robbing a backpack from one of the Proud Boys, police said. Police are still looking to identify the Antifa members, he said.

The fight occurred while police officers riding scooters escorted the Proud Boys south on Park Avenue on the Upper East Side around 8:20 p.m. Four Antifa members, masked and wearing all black, tried to confront the Proud Boys on 82nd Street, Mr. Shea said.

At a Monday news conference, the NYPD played a video allegedly showing one member of Antifa hurling an object believed to be a bottle and the Proud Boys rushing over and throwing punches. Officers responded to the incident in 38 seconds, but the perpetrators fled in different directions, said NYPD Chief Terence Monahan.

East Side Storm Plan Draws Residents' Ire

BY KATIE HONAN

Residents on Manhattan's East Side say they recently were blindsided when New York City officials drastically changed a plan to protect the island from East River flooding, adding \$700 million to the cost of the project and proposing the shutdown of a large park for more than three years.

Community members and designers had worked on a plan for five years to build a wall along a section of the East Side to protect it from storm surges.

Since last spring, residents had been waiting for news on an environmental study before the plan could move forward. But in September, officials from the New York City Department of Design and Construction, the Parks Department and Mayor Bill de Blasio's office announced a major overhaul of the project.

Trevor Holland, chairman of the parks and waterfront committee from Manhattan's Community Board 3, said last week at a meeting for residents to discuss the changes with city officials that the long-term closure of East River Park will be detrimental to surrounding neighborhoods. He also criticized the city for not being transparent about the changes.

"Here we are today with a completely new design," he said. "How did we get to this point after almost five years?"

The original project, known as the East Side Coastal Resiliency Project, outlined flood-protection measures from East 25th Street to Montgomery Street along the East River. It received millions of dollars in funding through a program called Rebuild by Design, a competition from the U.S. Department of Housing and Urban Development that started months after superstorm Sandy struck the city in 2012. The program also received private funds for major infrastructure projects.

The East Side project was selected as one of the contest winners in 2014, and HUD has allocated \$338 million to the plan. New York City kicked in more than \$400 million.

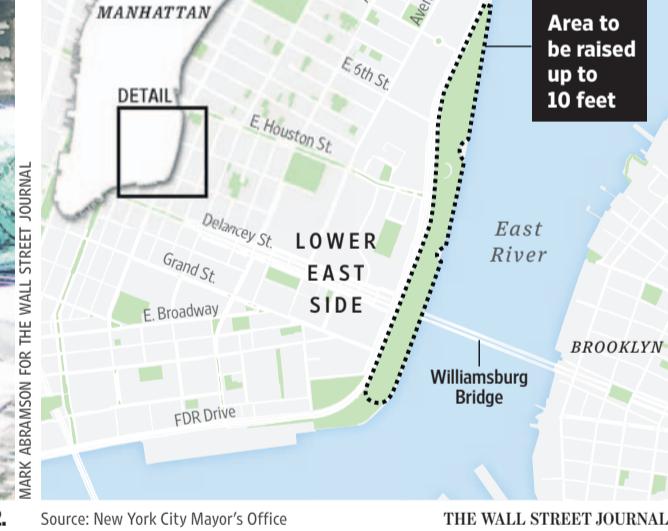
Under the city's changes, the wall, initially planned to run next to the FDR Drive, is now slated to be closer to the water. The plan also would raise East River Park by up to 10 feet. The green space,



A new proposal would raise East River Park by up to 10 feet and close it for 3½ years. The city expects the project to be finished by 2023.



The Lower East Side flooded after superstorm Sandy hit in 2012.



Source: New York City Mayor's Office

THE WALL STREET JOURNAL.

which runs from Montgomery Street to East 12th Street, will close for 3½ years.

Jamie Torres Springer, the first deputy commissioner at DDC, said at last week's meeting that the city realized it needed to make changes while going through a value-engineering study to see where to cut costs. But instead, officials changed the bulk of the project and increased the price tag by \$700 million, bringing the total cost to more than \$1.4 billion. The city will pay the additional money.

The mayor's office said the city evaluated unexpected construction challenges along the

FDR Drive, which forced the changes. New leadership at the DDC, including Mr. Torres Springer and Commissioner Lorraine Grillo, also led officials to re-evaluate the previous plan, according to Seth Stein, a mayoral spokesman.

The original plan required the closure of a lane of traffic on the FDR Drive at night for four years. The new plan cuts the time needed to close a lane to two years, Mr. Torres Springer said.

It also would move potentially disruptive construction noise farther away from homes, he said. "I also hope you respect that we're trying

to deliver flood protection for the community," Mr. Torres Springer said during the public meeting.

The city expects to complete the project by 2023, which is earlier than the original plan.

"The study brought us back to the table and with Commissioner Grillo's guidance, we found ways to alter the design to do it faster and with additional benefits for the community," Mr. Stein said.

Two Manhattan neighborhoods, the Lower East Side and the East Village, were flooded with up to 8 feet of water from the East River dur-

ing superstorm Sandy. Water rushed into Con Edison's power plant on 14th Street and Avenue D, causing an explosion and knocking out power to much of lower Manhattan.

At the community meeting, residents questioned why their park needed to be raised when it could just be redesigned to absorb flooding.

"If you're building East River Park up, then that water's going to be like a channel coming down," said Billie Cohen, a 40-year Lower East Side resident. "To start this project again after five years, it's not a design problem, it's an engineering problem."

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GREATER NEW YORK

'King Kong' Holding His Own in Broadway Debut

By CHARLES PASSY

The big gorilla may be poised to rake in the big bucks on Broadway.

"King Kong," the musical based on the novel connected to the 1933 classic movie, grossed \$832,524 through the week ending Sunday, according to the show's producers.

The musical started previews Oct. 5 and opens Nov. 8.

The figure puts "Kong" well below such long-running hits as "Hamilton," "The Lion King" and "Wicked," which can gross anywhere from \$1 million to slightly above \$3 million weekly.

But "Kong" posted the sales for a six-show week rather than the standard eight. Moreover, industry professionals note that the production is in its early stages, with less than two full weeks of preview per-



The titular ape is 20 feet high and weighs 2,000 pounds.

plenty of positive reaction. "The buzz is, 'Oh my God, that ape,'" she said.

Still, a lot is riding on that ape, which the show's production team said is 20 feet high and weighs 2,000 pounds, and is brought to life "through an innovative mix of robotics, puppetry and stagecraft."

The musical, whose producers include Carmen Pavlovic of the stagecraft company Global Creatures and Broadway veteran Roy Furman, is being capitalized at a cost of up to \$36.5 million, according to a filing with the U.S. Securities and Exchange Commission.

By contrast, "Be More Chill," the ballyhooed off-Broadway musical that is moving to Broadway later this season, is expected to cost \$9 million.

There is more to "King Kong" than just an ape, of

course.

Jack Thorne, the playwright and screenwriter best known for his work recently on the Tony Award-winning "Harry Potter and the Cursed Child," wrote the show, with musical contributions from Marius de Vries (score) and Eddie Perfect (songs).

"King Kong" hasn't had a completely smooth run during previews.

Last week, a performance was interrupted for 25 minutes when an air hose that "operates some internal mechanisms in the Kong puppet got damaged," said a spokesman for the show. "Future shows will not be affected by the issue," he added.

Theater professionals said the show's sales could continue to grow, particularly because spectacle-laden productions often appeal to non-

English speaking tourists, who are a key segment of the Broadway market.

Of course, such shows also have flopped, with "Spider-Man: Turn Off the Dark" being the most noteworthy recent example.

"It always comes down to storytelling. If they miss that [aspect], the show is always going to miss," said Joe Christopher, a vice president with RWS Entertainment Group, a New York-based company that specializes in theater and live events.

"King Kong" is one of a number of shows slated to open in the coming weeks as Broadway heads into the height of the fall season. "The Ferryman," a play that won acclaim in London, is off to a solid start in previews. Last week, it grossed \$693,826 over seven performances.

GREATER NEW YORK WATCH

IMMIGRATION

Judge Orders Release Of Honduran Toddler

A judge on Monday ordered the immediate release of a 2-year-old Honduran boy who was separated from his father at the U.S.-Mexico border more than five months ago, calling the separation "the most cruel of all cruelties."

The boy, only identified as D.J.C.V. at a hearing in federal court in Manhattan, is expected to be freed from the custody of the Office of Refugee Resettlement and reunited with his father.

The father is only identified as Mr. C in court documents because of the threats he has received from gang members in Honduras, said his lawyers at the Center for Constitutional Rights.

The child has been living with a New York foster family, Assistant U.S. Attorney Brandon Waterman said at the hearing. The father, who arrived with the toddler at the border on April 30, spent five months in a detention center.

—Associated Press

CRIME

Man Gets 75 Years For Killing Girlfriend

A man convicted of killing his girlfriend in New Jersey before fleeing to North Carolina with their infant daughter has been sentenced to 75 years in prison.

Arturo Alomas will have to serve a minimum of 85% of his sentence. The 35-year-old Mr. Alomas was convicted in August of killing 26-year-old Trenice Johnson in her apartment in Elizabeth, N.J., on Easter Sunday 2016.

The Union County prosecutor's office and Elizabeth police, along with the North Carolina State Highway Patrol teamed up to apprehend Mr. Alomas in North Carolina. The couple's infant daughter was with Mr. Alomas and was unharmed.

Ms. Johnson was murdered as she returned from celebrating her birthday, authorities said. She was found choked to death with a plastic bag over her head and her arms and legs bound with duct tape, they said.

—Associated Press

Met Exhibit Showcases 17th-Century Dutch Masters



GOLDEN AGE: A man viewed two paintings by Johannes Vermeer during a preview Monday of 'In Praise of Painting: Dutch Masterpieces at The Met.' The exhibit, featuring 67 works of art, opens Tuesday at the Metropolitan Museum of Art and runs through Oct. 4, 2020.

JUSTIN LANE/EPA-EFE/REX SHUTTERSTOCK

Homeless Advocates Have Sit-Down With City Officials

BY KATIE HONAN

New York City officials met with homeless advocates on Monday, two weeks after one of their members confronted Mayor Bill de Blasio at his Brooklyn gym about his administration's record on housing.

Vocal-NY, a nonprofit organization that works on issues including housing, is calling for 10% of the units in the mayor's housing plan, which

aims to create and preserve 300,000 affordable apartments over a decade, to be earmarked for homeless New Yorkers. Currently, the plan sets aside 5%.

Nathylin Flowers Adesegun, who works with the organization, asked the mayor about committing to more housing as he worked out at the Park Slope YMCA two weeks ago. The encounter was taped by Vocal-NY and quickly

went viral.

There are currently more than 60,000 people living in shelters across New York City, including Ms. Adesegun.

During the encounter, she asked Mr. de Blasio, a Democrat, to "look me in the eye" and say why he can't set aside more housing for the homeless.

"I'm in the middle of doing my workout," he told her, according to the video. "Sorry, I can't do this now."

Multiple media outlets reported on the exchange, and Paulette Soltani, a housing campaign coordinator with Vocal-NY, said she believed the gym visit was what got them Monday's meeting.

Mr. de Blasio didn't attend, but the group met with senior city officials from the Department of Housing Preservation and Development, the Department of Social Services and the mayor's office.

"They did a lot of listening, but they told us they couldn't commit to anything in the meeting," Ms. Soltani said.

Jaclyn Rothenberg, a spokeswoman for Mr. de Blasio, said the mayor's affordable-housing plan and proposals for the homeless are the most "aggressive" in the city's history.

"We've helped nearly 100,000 people avoid or move out of shelter with housing assistance, and almost 10% of the apartments created and preserved through our plan are dedicated to homeless New Yorkers," she said in a statement.

When asked about the proposal for more housing, Mr. de Blasio has said that his administration is focused on preventive measures, including legal assistance to avoid evictions, and rental vouchers.

But Ms. Soltani said building more housing is a more reliable way to get people out of shelters.

"There's no way to justify why City Hall won't commit such a modest number to rehouse people," she said. "It's truly a modest ask."



land parks advocacy



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LIFE & ARTS

BY ANNE MARIE CHAKER

Burgers, chicken and hot dogs dominate the fast-growing, \$684 million market for plant-based meat alternatives. Fish? Not so much.

That is starting to change as upstart companies invest in new ingredients, machinery and technologies that promise to make imitation tuna, salmon and shrimp smell, taste and appear more...fishy.

Heather Collins, a Denver marketing consultant, was surprised by the vegan "smoked salmon" from Sophie's Kitchen that she purchased a few months ago for a family gathering that included a vegetarian cousin.

"It had the smoked flavor, and it even had that slimy texture," she says. The salmon never made it to the family dinner, Ms. Collins says. She ate it all herself.

Texture is the Holy Grail when it comes to finding plant-based alternatives that mimic meat, and fish has proved particularly difficult to get right.

Most efforts at faking seafood in the past used soy or wheat gluten, investors and food analysts say. Textural subtleties, such as the flakiness of the meat or the snap of shrimp, were often absent.

"The manufacturing technologies were not there," says Dan Altschuler Malek, senior venture partner at New Crop Capital, which has investments in 30 animal-protein replacement companies.

In 2013, Ocean Hugger Foods co-founder and chef James Corwell decided to explore the possibility of using Roma tomatoes in place of raw tuna. Tomatoes, he says, contain glutamic acid, an amino acid that is responsible for savory flavors found in meat.

Getting tomatoes to look and taste as close as possible to tuna took dozens of tweaks over five years—from the variety of tomato used to the consistency of the marinade, says Ocean Hugger Chief Executive David Benzaquen.

The result, Ahimi, launched last year. Its meaty texture stems from a proprietary manufacturing process—a "trade secret," Mr. Benzaquen says—that enhances the savory quality of the tomato with five ingredients, including soy sauce, sugar and sesame oil.

The product, sold to chefs for use in raw-fish dishes like sushi, is now in 100 restaurants and cafeterias, including 51 Whole Foods stores across the U.S. It comes in stacks of frozen, marinated, half-tomato "fillets" that can be cut similarly to raw tuna, says Mr. Benzaquen.

Katie Ratz, a 28-year-old high-school teacher in Vancouver, British Columbia, who gave up fish two years ago, recently tried it at a restaurant that serves the cubed imitation meat raw in "poke" dishes.

"The fleshy texture was dead-on," she says.

Ocean Hugger is now working on an eggplant-based eel called Unami



FOOD

Fish: The Final Frontier in Fake Meat

Companies are using new ingredients, machinery and technologies to make imitation tuna and salmon that taste, smell and appear just like the real deal



that will launch next month. In early 2019, Sakimi, a carrot-based salmon, will be introduced.

Sophie's Kitchen uses konjac, a fibrous Asian root vegetable with a rubbery texture, to make its smoked salmon and more popular faux canned tuna, called Toona. When combined with pea starch, konjac can be turned into different kinds of seafood imitations, from shellfish to fish fillets, says Chief Executive Eugene Wang. Pea protein is dialed up or down for varying degrees of textural density.

Technology is aiding companies' mission. Good Catch, co-founded in 2016 with New Crop Capital, is building a manufacturing facility in Heath, Ohio, with specialized,

Clockwise from top, Sophie's Kitchen's vegan 'smoked salmon,' Ocean Hugger's Ahimi, and Good Catch's tuna-like burger.

high-moisture extrusion machines similar to those used for canned cat food, says co-founder Eric Schnell. Its 3.3-ounce packages of tuna-like products will enter the market early next year.

Even with the new advances, companies face an upstream swim. Many consumers don't have a problem with eating fish, which gets rave reviews from doctors and nutritionists for being relatively low in fat while loaded with nutrients, including vitamin D and



CLOCKWISE FROM TOP: SOPHIE'S KITCHEN; OCEAN HUGGER FOODS; HA LAW/GOOD CATCH FOODS

omega-3 fatty acids.

"Fish has traditionally been one of the last things that people would give up," says Seth Tibbott, founder of Tofurky.

Many people who squirm at the idea of eating chicken or beef, don't have the same problem with fish, Mr. Tibbott says. "Farm animals have legs and seem more like us," he says.

Still, those in the fake-fish business say the potential market for fish alternatives has been underes-

timated, as vegetarian foods become more mainstream and consumers increasingly consider commercial fishing practices and mercury levels found in fish.

When out in a group at a restaurant, one vegetarian can affect the choices of a whole table, says Mr. Benzaquen, of Ocean Hugger. "That person is going to dictate what the entire group orders." If a restaurant doesn't provide exciting alternative options, he says, they may lose tables.

Though strict vegetarians account for just 3% of the population, 37% of people say they order vegetarian meals at restaurants at least some of the time, according to a 2016 online survey of 2,015 adults conducted by Harris Poll for the non-profit Vegetarian Resource Group.

Even major meat companies are hedging their bets and making investments in plant-based meat. Tyson Foods now owns slightly more than 5% of Beyond Meat, and Maple Leaf Foods last year acquired plant-protein companies including Lightlife Foods and Field Roast Grain Meat Co.

And while sales of plant-based fish substitutes are minuscule—amounting to about 1% of the entire meat-substitutes category—they grew 19% to \$9.3 million in the past year, according to a recent Nielsen study conducted for the Good Food Institute, a Washington nonprofit that advocates for alternatives to conventional animal agriculture.

That number is expected to skyrocket in 2019, says the institute's senior marketing manager Caroline Bushnell, with the growing popularity of plant-based foods and new entrants in the category.

Fake-seafood makers hope they can have the same impact in frozen-foods sections and canned-tuna aisles as plant-based milks have had in dairy cases. Plant-based milks are now 13% of total milk sales, according to the Nielsen study.

"It seemed like nobody was tackling it," says Dominique Barnes, chief executive of New Wave Foods, which plans to introduce plant-based shrimp to restaurants and food-service clients in 2019.

But substituting animal proteins for imitation versions can come with nutritional trade-offs, companies say.

Three ounces of raw yellowfin tuna contain 21 grams of protein, according to the U.S. Department of Agriculture's National Nutrient Database. A 3-ounce serving of Ocean Hugger's Ahimi contains 1 gram of protein.

Sophie's Kitchen has tried adding omega-3 oils to its product, using everything from flax to chia, to get a more similar nutritional profile to fish. But the taste was medicine-y, says Mr. Wang, the CEO. The company is continuing to look at possibly adding omega-3 from algae.

"The product was designed to be a textural replacement," says Mr. Wang. "We hope down the road it can be a nutritional replacement, too."

YOUR HEALTH | By Sumathi Reddy

BABIES' SLEEP LINKED TO LOWER OBESITY RISKS

COMBATING HIGH childhood obesity rates is a vexing problem: Diets and other interventions often don't work, and when they do the effects aren't long-lasting.

Now, some researchers are attacking the problem at the newborn stage with an unlikely target: sleep.

Newborns whose parents received advice and hands-on education about sleep had about half the risk of developing obesity by ages 3½ and 5, compared with children whose parents didn't get the sleep instruction, according to a study published in the American Journal of Clinical Nutrition in August.

"It really does look quite promising in this context, and it should be investigated further because it was a very brief intervention and it has these really quite incredible long-term effects," says Rachael W. Taylor, director of the Edgar Diabetes and Obesity Research Centre at the University of Otago, New Zealand, and first author on the study.

The findings are similar to those in a Pennsylvania study published in JAMA medical journal in August, which focused on education for new parents that included sleep as one component.

In the New Zealand study, the researchers recruited about 800

women in the later stages of pregnancy and divided them into four groups. In one group, expectant parents attended education sessions on strategies to help babies fall asleep on their own. Nurses made home visits three weeks after the babies were born. "They were really trying to promote getting the babies to learn to settle themselves to sleep,"

says Dr. Taylor. "This was very much to prevent sleep problems from developing in the first place."

The families were offered more help at 6 months of age but only about a quarter

said they needed it.

For a second group, nurses educated parents on nutrition and physical activity—but not sleep—before the babies were born and until they were 18 months old.

A third group of parents got education on both sleep and nutrition. A fourth group was the control group and received only government health visits that are standard in New Zealand.

By the ages of 2 and 3½, the babies whose parents had the sleep instruction either alone or in combination with nutrition education had half the risk of obesity as the other groups. By age 5, the effect was slightly stronger.

One unexplained surprise: The children of parents who received instruction on sleep had higher obesity rates by age 5 than the control group.

Also, the researchers didn't see a change in sleep duration between the four groups, so they aren't sure what to attribute the lower obesity rates to. "The main evidence in the observational literature linking sleep and obesity is sleep duration," Dr. Taylor says. But that's difficult to measure accurately in young children, she notes. For this study, the researchers had babies wear accelerometers to detect motion and also used questionnaires for the parents.

Its findings are similar to those in the recent JAMA study. In that trial, about half of 279 first-time mothers in Pennsylvania received home visits from nurses four times over the course of a year for education on babies' feeding, sleep,

play and emotional regulation. The other half were randomly assigned to a control group that had the same number of nurse visits, but focusing on safety.

The researchers looked at the rate of overweight and obese babies at 1, 2 and 3 years of age. The babies in the control group, with only safety instruction, had more rapid weight gain, a strong predictor of later obesity, says Jennifer Savage, a co-author on the study and director of the Center for Childhood Obesity Research at Penn State University.

Unlike the New Zealand study, in the Pennsylvania study the researchers found that the babies' sleep duration did increase in the other group, and they had a shorter bedtime routine. "The whole premise was trying to teach parents responsive parenting skills and have them practice those with the hypothesis being that by being more responsive a child is able to learn to self-regulate," Dr. Savage says.

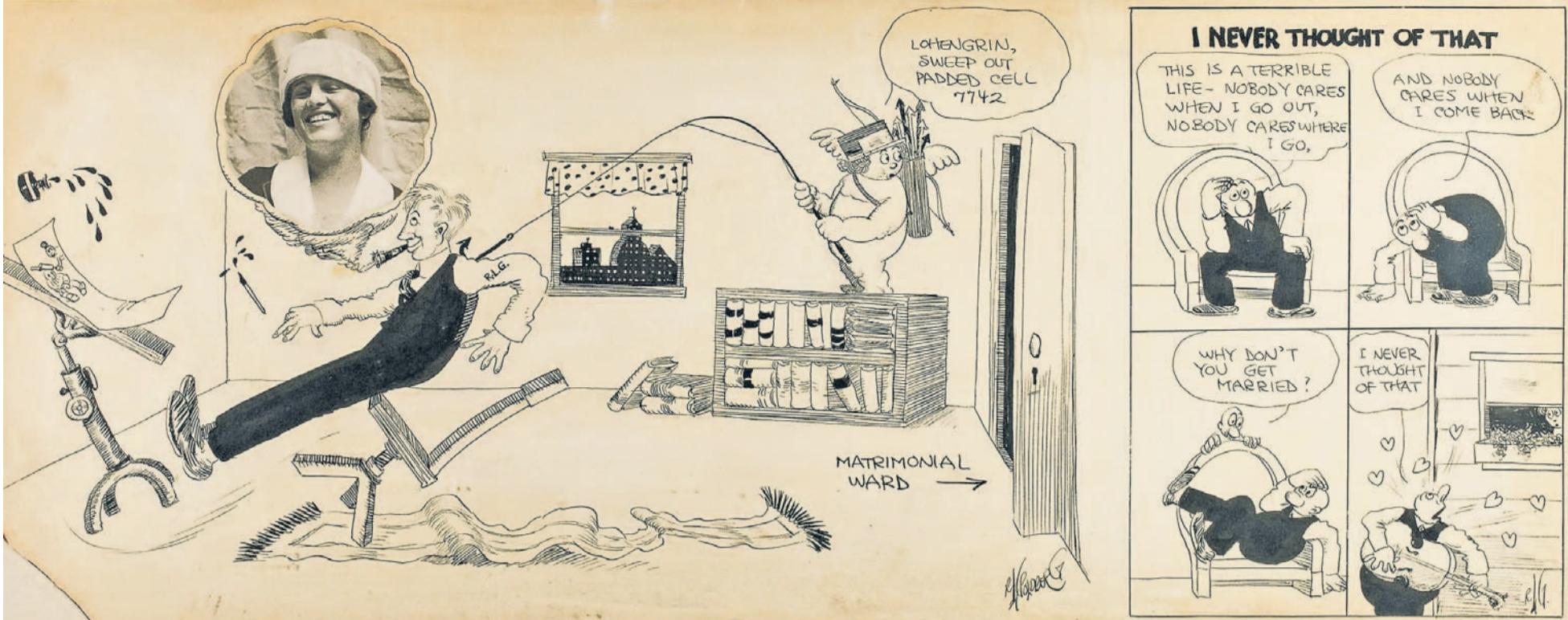
While it's unclear how better sleep leads to lower obesity rates, one theory is that if a baby is waking less throughout the night he or she may be consuming fewer calories in nighttime nursing or bottles, says Jodi A. Mindell, a psychology professor at Saint Joseph's University in Philadelphia who specializes in children's sleep. Another is that less disruptive sleep may affect metabolism in the short- and long-term.



GETTY IMAGES/STOCKPHOTO

Sleep instruction resulted in more positive parenting strategies, research suggested.

LIFE & ARTS



EXHIBITION REVIEW

The Machinery Of Humor

BY EDWARD ROTHSTEIN

Philadelphia **IF, AS THE SCIENCE**-fiction writer Arthur C. Clarke once asserted, any sufficiently advanced technology is indistinguishable from magic, at "The Art of Rube Goldberg"—an entrancing new exhibition at the National Museum of American Jewish History—we see that any sufficiently antique technology can also be magical. The technology here is that of simple mechanics; the magic partly comes from it being used in Dadaist fashion. An automatic back-scratcher is constructed using an umbrella, a dwarf and a mallet. A fly swatter is activated using carbolic acid, a head of garlic and a trout. A method of escaping bill collectors assembles a tailor, a hatrack and a cabbage. And linking these elements are pulleys, ramps and levers.

Rube Goldberg contraptions, every one.

Literally. But the cartoonist Rube Goldberg (1883-1970) reached such renown that his name entered the dictionary as an adjective in the 1960s: Rube Goldberg machines typically use extremely complex means to accomplish something simple. For 30 years there have also been competitions to create working Rube Goldberg machines, which now inspire millions of views on YouTube. They use elementary parts and, like the cartoons, inspire amazement at the inventiveness, the absurdity of the project, and the incongruity of the result.

There is a mild-mannered example at the show's entrance: You place a ball in a cup attached to a bicycle wheel and turn it until the ball falls, rolling down ramps and through gates, ultimately lighting a bulb and moving a pen across a sheet of paper: a rudimentary Rube Goldberg cartoon-making machine.

The difference is that Rube Goldberg never built his inventions; most are unbuildable. And this exhibition, said to be the first sur-

veying his work since 1970, shows them as part of a career that produced some 50,000 cartoons of varied styles. Artifacts were gathered by his granddaughter Jennifer George, who also helped create a jam-packed book counterpart. The show was conceived by Creighton Michael; its curator is Max Weintraub. Designed to travel, after closing on Jan. 21 it will move to the Evansville Museum of Arts, History, & Science, in Indiana, and then to the Queens Museum, in New York. It includes drawings, toys, videos (including a snippet of the first "Three Stooges" movie, which Goldberg worked on) and a play area in which children learn about ramps and levers and then move on to more elaborate constructions.

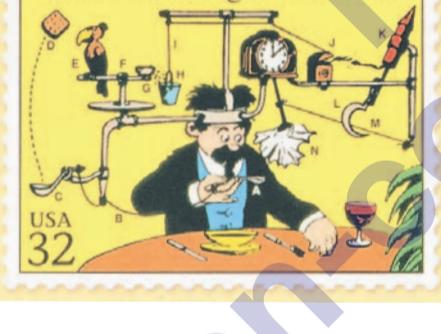
Rube, we learn in this largely chronological presentation, was the child of German-Jewish immigrant Max Goldberg—a "flamboyant" character who worked as a

erable impatience. In a series of "Foolish Questions," a person engaged in a perfectly obvious task is encountered by a too-inquisitive observer. "Pickin' flowers, Lucy?" asks a passerby of a young woman gathering blossoms. "No, you simple-minded piece of cream cheese," she replies, "I'm filling the coal scuttle with apple sauce."

Not everything is that brittle; there are some tender images. The early cartoons are almost vaudevillian with marital jest, but in "I Never Thought of That (Portrait of Irma on Wedding Day)" (1916) he is a cigar-smoking cartoonist, dreamily dragged off by Cupid, as a photograph of his wife-to-be, Irma Seeman, rises above in a cloud of cigar smoke.

But Goldberg's imagining of the social world's machinery, playfulness, imagination and cynicism accompany one another. In a 1923 Popular Science article, he mentions his idea for a folding umbrella: "I still have hopes of inventing something useful." But his cartoon inventions really mock invention. And he himself hardly needed any of them. By the 1920s, he was immensely wealthy, earning \$125,000 in 1928 (more than \$1.7 million today). He threw grand parties in his New York mansion; a photo shows him beaming in a group that includes George Gershwin and Groucho Marx.

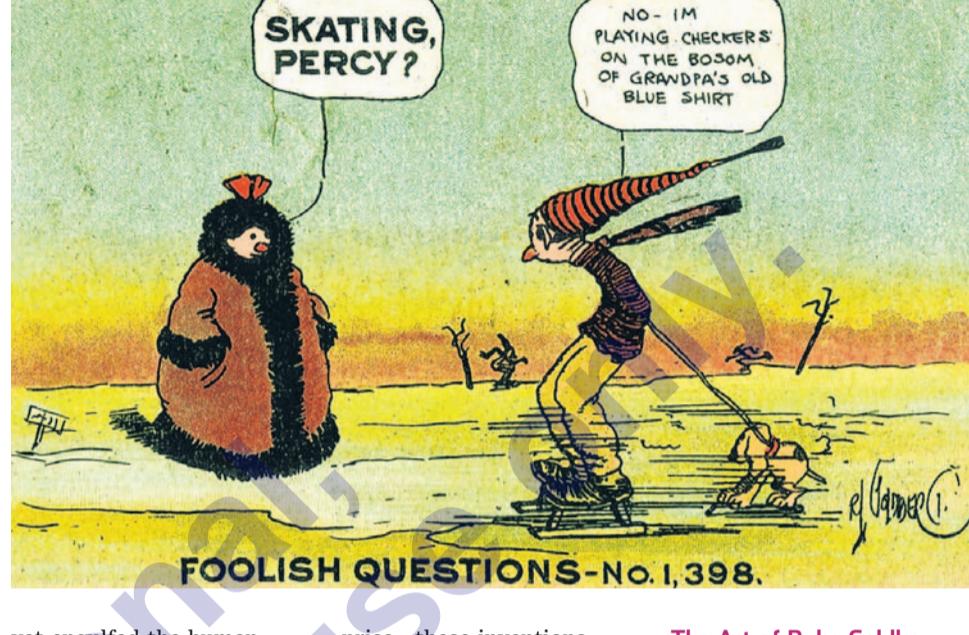
What then is the contemporary allure of these mechanisms? In part, they remind the Technorati of their past. Today, you can't tell how anything works by looking at it; there often are no moving parts. The Rube Goldberg extravaganzas on YouTube are celebrations of the opposite: Everything moves and everything is visible. But the cartoons are more surreal: They are impossible. They often include exotic creatures (a monkey, a seal, caterpillars). People (a stenographer, a "boss," a hapless husband) are also entwined in the chain reaction. These machines were satirical images of a world in which invention seemed to promise transformation,



bank appraiser (his tools are shown) and was a "political operative" in San Francisco, becoming, as we see from his badge, Chief of Police. Rube had other interests; he executed an astonishing pen-and-ink copy of a lithograph, "The Old Violinist," in 1895, at the age of 12.

At his father's insistence, he trained in mine engineering at the University of California at Berkeley, but artistry took over. He seemed to view the social world as a phantasmagorical mechanism, running on posture and pretense. One cartoon, "Amusement Park" (c. 1920), shows a roller coaster twisting wildly as figures and vehicles tumble off—an image, he implies, applicable both inside and outside the park. There are hints, too, of what must have been his consid-

Rube Goldberg's 'I Never Thought of That (Portrait of Irma on Wedding Day)' (1916), above; 'Foolish Questions' postcard (c. 1910), below; and 'Bell-Buoy, Soup Spoon, Golf' (c. 1938-41), bottom; United States Postal Service stamp of 'Rube Goldberg's Inventions,' below left



yet engulfed the human. Created between the eras of Sinclair Lewis and F. Scott Fitzgerald—a tumultuous period of aspiration, industrialization, social realignment and urban enter-

prise—these inventions were partly counter-images to the American dream. The irony is that they were fashioned with such love and care, they have survived as celebrations of it.

The Art of Rube Goldberg
National Museum of American Jewish History, through Jan. 21, 2019

Mr. Rothstein is the Journal's Critic at Large.



DECADENT DECO ART DECO BAR

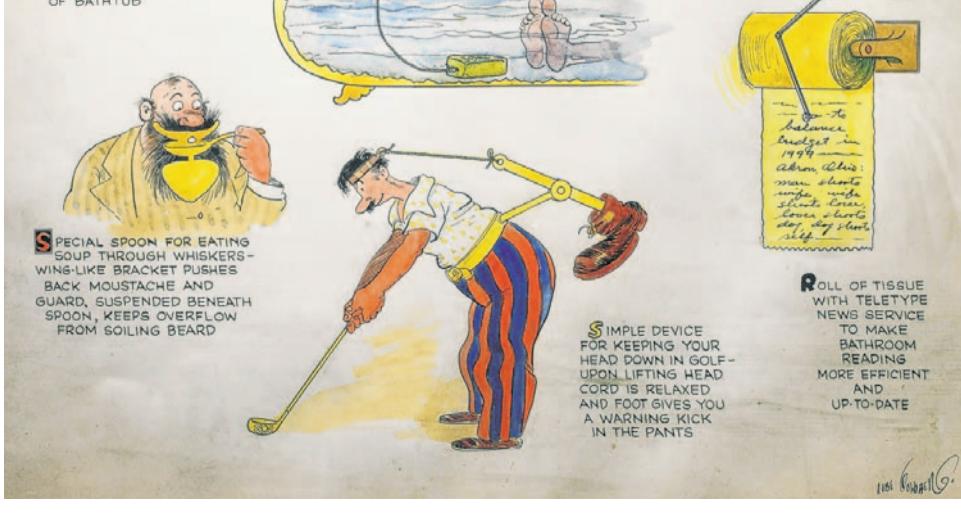
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SPORTS

FOOTBALL | By Jason Gay

The NFL Is Back. Don't Tell You Know Who.

With new stars and improved ratings, a politicized sport enjoys a comeback season. Is a White House tweet looming?



Is football back? No, I don't mean that one-sided Wisconsin-Michigan contest in Ann Arbor on Saturday night. I'm never going to hear the end about that terrible loss, and I deserve it. I predicted the world would end if Wisconsin failed to win, but it appears to still be spinning, sadly.

Good for Michigan fans—and I appreciate how good-natured they've handled my annual torrent of taunting. I'm sure they'll be happy this Badger has to spend all Monday listening to Wolverines talk about how great Michigan is, though, come to think of it, that's pretty much every day around here.

But when I ask "Is football back?"—I don't mean college football.

I mean the NFL. It wasn't so long ago that the NFL was The Sport Everyone Loved to Beat Up On, even more so than baseball. Wasn't football doomed? It was violent, losing ratings and its pre-game anthem ceremony was a lightning rod of national controversy.

The NFL was offending half of America before opening kickoff—and then the other half of America was offended at that half for being offended, until finally, President Trump intervened and tried to unite the country. Just kidding! The Prez piled on too, sensing an issue with political traction, milking the NFL's inertia on anthem policy into a referendum on patriotism.

I never thought I'd see the day in which a Republican president was bashing the buttoned-up NFL as if it was a leftist food co-op, but there we were.

Remember when outraged fans were taking their season tickets and grilling them like pork chops? Remember when poor Vice President Mike Pence forced himself to sit through 19 whole seconds of an Indianapolis Colts game? That was barely a year ago.

Now it's 52 or so weeks later and the NFL can lay claim to at



Patriots tight end Rob Gronkowski gives a stiff arm to Chiefs defensive back Ron Parker during Sunday night's game.

least a modest revival. Did you watch the New England Patriots beat the Kansas City Chiefs 43-40 on Sunday night? A defensive standoff, it was not. There was one punt. That's right: ONE PUNT. And it was by KC. The Patriots punter could have shown up in a chicken costume and boat shoes and it wouldn't have mattered. In the end, New England reasserted itself as the AFC's alpha team, and while I'm waiting for forensic analysis of the videotape, I believe I saw the Grumpy Lobster Boat Captain, Bill Belichick, crack a smile. Or at least an upbeat grimace.

This wasn't an anomaly. I've been quick to trash the NFL for uninspired games, but it's been pretty good this year! It feels like every

weekend features at least two to three games that creep up to Must-See status. Even Thursday Night Football has been pretty zesty! I used to not let the cat watch Thursday Night Football.

Not this year. I'm in! The cat's in! And we're not alone. Last week the Journal's Joe Flint and Andrew Beaton reported that ratings through the NFL season's first five weeks were up 3%—not a giant number, but a nifty uptick at a moment where the numbers are plunging for basically everything on television. The Patriots/Chiefs contest was the highest-rated Sunday night game in more than a year.

Flint and Beaton also reported that a curious amount of ratings

growth is coming from audience members over 50 years of age—that is, the segment of the audience said to be most alienated by the league and its pregame anthem controversy.

In other words: the crowd that made a big point of saying it isn't watching football is now watching more football. It's like finding a vegetarian in the kitchen at 3 a.m., going to town on a Philly cheesesteak.

Why the switcheroo? Well, it starts with good games. But as Flint and Beaton pointed out, there is a new energy in the league, from Kansas City's delightful phenom quarterback Patrick Mahomes to New York Giants running back Saquon Barkley (a bright spot on a crummy team) to

the entire undefeated Los Angeles Rams operation, led by their 9-year-old coach. The Cleveland Browns may have lost Sunday, but they're also pretty good. I repeat: THE CLEVELAND BROWNS ARE PRETTY GOOD.

It probably also helps that in the off-season, the NFL decided to ban defense. OK that's not completely true, but the league is going out of its way to protect its key talent, in particular quarterbacks, who must now be handled like baby birds in their first week of life. There are a lot of grumpy, hardwired-to-hurt linebackers running around wondering what they're supposed to do anymore—the Chiefs can lay at least part of the blame for their loss on a defender who let go of Tom Brady, fearful of a penalty—but I'm OK about protecting the handsome devils, especially since audiences enjoy scoring.

Games evolve. Does anyone really tune into a football game wanting to see the quarterback's limp body carted off the field? If NFL players can't see the upside of protecting the biggest stars in the league, I don't know what to say.

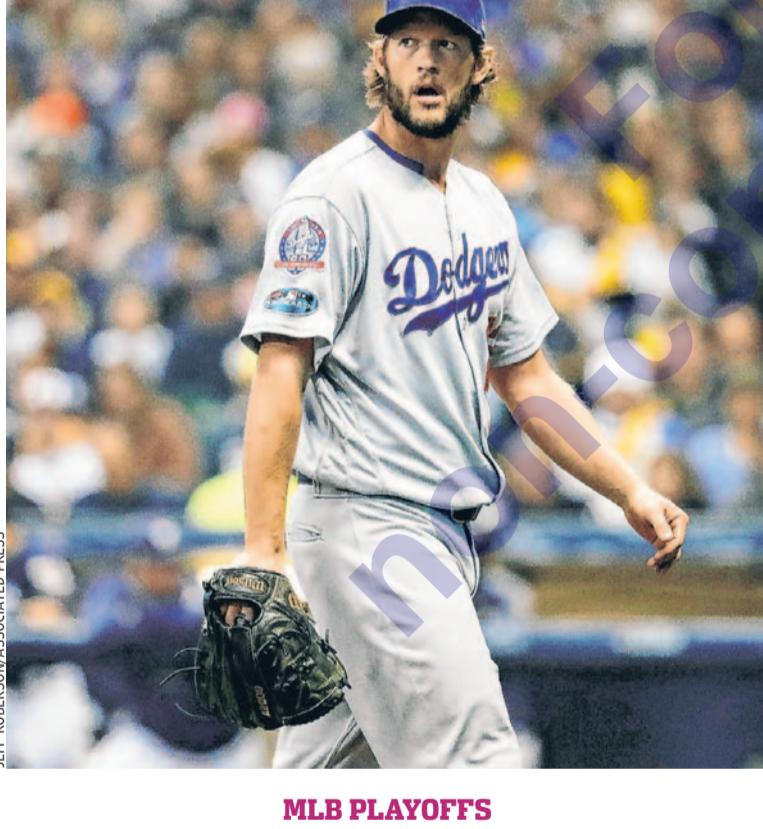
Meanwhile, the president has been strangely quiet. Too quiet, really. Trump may have followed football on "60 Minutes" on Sunday, but he lately hasn't been using the First Twitter to rail on the NFL. This could change at any moment, of course. If the a.m. gang on "Fox & Friends" gets fired up about football, look out.

I want to be clear: football remains a sport facing gathering clouds, clouds that have nothing to do with the White House. If the game is undone, it will be undone by matters of player safety and liability.

But it's nice to have a little bit of buzz back in the game Americans undeniably still like, despite everything.

See you Thursday night? It's...2-4 Denver versus...1-5 Arizona.

OK, no, that sounds really terrible. Let's literally do anything else. I'll even watch Michigan.



MLB PLAYOFFS

OCTOBER COOLS OFF HOT ACES

BY BRIAN COSTA AND JARED DIAMOND

IN THE ALTERNATE UNIVERSE known as the regular season, Clayton Kershaw and David Price are among the best pitchers of their generation. Between them, they have four Cy Young awards, 296 career wins and 4,128 career strikeouts. Their current contracts guarantee them a combined \$432 million.

Yet a lingering question hangs over both league championship series, one that could determine the matchup in the World Series next week: What exactly goes wrong for two of baseball's most accomplished pitchers in October?

Kershaw, the 30-year-old Los Angeles Dodgers ace, found himself in a familiar scene after Game 1 of the NLCS on Friday night, glumly struggling to explain another night of October struggle. He

allowed five runs in a loss to the Milwaukee Brewers while lasting just three innings, the shortest postseason start of his career.

Price, 33, has instilled so much angst in Boston Red Sox fans about his pitching in the playoffs that he received a standing ovation at Fenway Park on Sunday simply for not being awful. He allowed four runs in 4½ innings, but Boston slugged its way to a 7-5 win over the Houston Astros to tie the ALCS at one game apiece.

It was the first time in Price's 11 postseason starts that his team won the game. "Baby steps," he said.

Since both debuted in the 2008 playoffs, Kershaw and Price have combined for a 4.70 postseason earned-run average, which is about 68% higher than their combined regular-season mark.

It has been a decade of October role reversals, from pitchers that worry opposing hitters to pitchers

Clayton Kershaw took the loss for the Dodgers in Game 1 of the NLCS.

that worry their own fans. And it has left the pitchers as baffled as anyone.

When asked on Saturday what he has learned about pitching in the postseason, Price said, "I don't know. That's a tough question. I don't really have an answer."

The old idea that some players are inherently clutch or not—possessing an ability to rise to the occasion, or fall, that can be predictive of future postseason success—has largely been debunked by analytics. Postseason performance is not necessarily indicative of a repeatable skill—or of a lasting deficiency, for players who underperform.

In the past decade, the idea that performing under pressure is both a skill unto itself and a teachable skill has gained greater traction within front offices. The use of sports psychology has gone from an early experiment among a few forward-thinking teams to a widespread best practice.

More than two-thirds of MLB teams list a mental skills coach or equivalent on their front office directories, and several others use related consultants. No fewer than 26 of the 30 teams have at least one person tasked with coaching players on the mental aspect of the game.

Whether Kershaw and Price have any mental tendencies that work against them is impossible to know for sure, but the recurring nature of their playoff woes makes them harder to dismiss as happenstance. There is at least some reason to believe that the more it has come to define them, the harder it has been to stop.

Speaking of Kershaw, Dodgers manager Dave Roberts told a group of Los Angeles reporters Saturday, "He's very conscious of certain narratives out there." Price said himself Sunday, "I deserve those narratives."

Kershaw has had his moments, including the seven dominant innings he threw in Game 1 of the 2017 World Series. But in 26 playoff appearances, he has a 4.26 ERA, the fifth-worst among the 51 pitchers to throw at least 75 postseason innings.

He will pitch again in Game 5 on Wednesday, while Price is in line to start a potential Game 6 on Saturday. The regular season, as ever, will feel like a distant world.

SOCER

U.S. Women Are Back To Defend World Cup

BY RACHEL BACHMAN

Frisco, Texas **PERHAPS AN HOUR** after the U.S. Women's Soccer team beat Jamaica 6-0 on Sunday at Toyota Stadium to qualify for the 2019 World Cup, someone handed Megan Rapinoe a phone.

She turned its video camera on herself and began jumping while chanting, "We're going to France! We're going to France!"

Rapinoe, the veteran U.S. forward, pogo-sticked over to teammate Alex Morgan, who was talking to a cluster of reporters.

Morgan didn't miss a beat, facing the camera and adding a "what?"

"We're going to France!"

The scene served as a European tour announcement for performers at the peak of their game. The celebration materialized spontaneously, as much of the U.S. women's attack seems to, yet it took years to create.

Two years after flaming out in the quarterfinals of the Rio Olympics, the U.S. women have looked every bit the world's No. 1 team in steamrolling the field of the eight-team Concacaf Women's Championship. They face Canada in Wednesday's Concacaf Championship final—a somewhat anticlimactic game, since both teams have qualified for the World Cup by finishing in the top three of this tournament.

"We're not satisfied," veteran defender Becky Sauerbrunn said. "We know that we've got more levels to get to, and especially we want to get to them before the World Cup. We're definitely not getting too high on ourselves. We know that it only takes one game to kind of be put back into your place."



Alex Morgan, center, celebrates after scoring a goal against Jamaica.

COOPER NEILL/GETTY IMAGES

OPINION

What Hillsdale Can Teach Harvard

MAIN STREET
By William McGurn

On Monday in federal court, Harvard denied charges that it discriminates against Asian-Americans in the same way it once discriminated against Jews. Race, its lawyer insisted, was just one of many factors considered, and it could only help an applicant's chances of admission, not hurt them.

On the substance, this is a dubious proposition. Students for Fair Admissions, which brought the lawsuit, has produced considerable evidence that Harvard uses various means to exclude Asian-Americans even when they are more qualified academically and have better records of extracurricular activities than other accepted students. These means include suspiciously lower ratings given Asian-Americans for personality traits such as "kindness" and "likability."

The Harvard pretense is that it is possible to favor one race without discriminating against others. A 2009 Princeton study demonstrates otherwise. It found that an Asian-American applicant to an elite university has to score 450 points higher on the SAT to get in than a black applicant, 270 points higher than a Latino one and 140 points higher than a white one.

For all this, Harvard does have an argument here. In a

footnote in its motion for summary judgment, the university says "this case involves a private university, which has a weighty academic-freedom interest, protected by the First Amendment, in choosing its students, and in determining how they are educated (including through the judgment about the educational benefits following from a diverse student body)." Translation: we should be free to decide whom we admit and whom we don't.

Just one teensy problem. It's called the Title VI of the Civil Rights Act of 1964, and it "prohibits discrimination on the basis of race, color or national origin in any program or activity that receives Federal funds or other Federal financial assistance." Harvard receives millions from the feds each year, directly through grants as well as indirectly via federal financial aid.

All of which puts two fundamental principles in conflict. The first is that people should not be discriminated against because of their race. The second is that private institutions should be left to run their own shops without the feds telling them how to do it.

Can these principles be reconciled? Tiny Hillsdale College suggests they can. Back in the 1970s the federal government demanded the Michigan-based college begin counting its students by race and sex as a condition of the federal loans some of its students received.

For an institution whose founding charter made it the first college in the nation to

declare itself open to all students "irrespective of nation, color, or sex," and which boasted a long and noble history of color-blind admissions, this was insulting. In 1956, for example, its undefeated football team refused an invitation to the Tangerine Bowl rather than comply with official demands that the college not field its black players.

Give up federal dollars, and you can run your admissions the way you want.

Like Harvard, Hillsdale believes it knows best how to run its school. Unlike Harvard, it made a tough decision to stand on this principle. To avoid the regulatory strings that come with federal dollars, in 1985 Hillsdale decided to forgo all federal dollars—including financial aid for its students.

To put this in perspective, Hillsdale today has about 1,500 students, charges roughly \$27,000 tuition for a first-rate liberal-arts education, and has a modest endowment of near \$600 million. Harvard's endowment clocks in at \$39 billion. If little Hillsdale can give up taxpayer dollars to remain true to its principles, surely big, wealthy Harvard can.

As NYU law professor Richard Epstein points out, one effect of Title VI today is to make liars out of our most elite institutions of higher

learning. In an article for the Hoover Institution's Defining Ideas, Mr. Epstein says Harvard would like to argue that its interest in diversity justifies discriminating in favor of some races and against others. But it fears attacking the Civil Rights Act, and is skittish about making its case forthrightly because the opening words of Title VI state that "no person" should be subject to racial discrimination. Mr. Epstein's solution would be to repeal Title VI and let schools admit or exclude whomever they want.

"If Harvard wants to sacrifice academic merit for diversity, let it," he says. The Asian-American students excluded would have many other choices. And the whole process would be more honest.

Of course, the likelihood that Title VI will be scrapped in our lifetimes is almost nil. Which leaves the Hillsdale option as the only practical alternative for colleges and universities that wish to stand on their own values and mission statements. If Harvard truly believes diversity trumps merit, it should say so proudly—and be willing to give up the federal dollars that are the only reason it is now forced to defend itself in federal court.

Hillsdale President Larry Arnin says he's more than ready to help. "Any time anyone from Harvard would like to see how a college can maintain its autonomy and its values," he says, "our door is open."

Write to mcgurn@wsj.com.

Don't Ditch Riyadh in a Fit of Righteousness

GLOBAL VIEW
By Walter Russell Mead

The murder (if that's what it was) of Jamal Khashoggi in the Saudi Consulate in Istanbul, Turkey, was a horror in itself, and a greater horror still in what it threatens to unleash. The Muslim Brotherhood, Turkey's President Recep Tayyip Erdogan and the ayatollahs of Iran are huddled over the corpse, hoping to turn a political profit from the death of an innocent man.

Mr. Khashoggi was a thorn in the flesh of the hyperactive crown prince of Saudi Arabia, Mohammad Bin Salman, a man who faces a concatenation of problems the likes of which the House of Saud has rarely seen. Iran, hostile, arrogant and ambitious, has ruthlessly carved a "Shia crescent" from Baghdad through Damascus to Beirut. A gusher of American oil and natural gas has diminished OPEC. Turkey, sympathetic to the Muslim Brotherhood and harboring dreams of restoring its old Ottoman glory, seeks to displace Saudi Arabia as the voice of the Sunni world. Russia has reasserted itself in the region. And inside Saudi Arabia, a growing population with high expectations demands more opportunity and better governance from a traditional monarchy largely unprepared for the 21st century.

It was out of this turmoil

and fear that the MBS phenomenon emerged. At home and abroad, the Saudis attempted a series of frenzied initiatives, including a war in Yemen and the privatization of Aramco, to improve their position. Meanwhile, MBS stroked gullible American elites into the belief that he was a democrat.

It worked for a while; gullibility is America's most plentiful natural resource. But after Mr. Khashoggi's death, even the most naive observer can see that the crown prince is at best a modernizing autocrat, using dictatorial power to drag his country into the future: Peter the Great, not Thomas Jefferson. At worst, he could end like Phaethon, the Greek demigod who lost control of his horses while foolishly trying to drive the chariot of the sun.

The Saudi transformation is not going smoothly. Aramco's privatization has been delayed and the ambitious Vision 2030 goals for economic renewal seem increasingly elusive. MBS's foreign policy looks more chaotic than inspired, and the blunder in Istanbul was not the first false step. The arrest of Lebanese Prime Minister Saad Hariri last year and the failed diplomatic standoff with Qatar were not the strokes of a master. Nor is the kingdom's ill-planned and poorly executed Syria strategy or its intervention in Yemen, which has created a humanitarian disaster without notably advancing Saudi interests.

The Khashoggi affair is more of the same. But more

Khashoggi's murder must be condemned. But Saudi Arabia still serves U.S. interests.

not an authoritarian caterpillar metamorphosing into a liberal butterfly. But neither are Turkey and Iran. And on crucial issues, U.S. and Saudi interests are aligned. The U.S. wants to ensure that no single power, inside or outside the Middle East, has control over the world's oil spigot. That means Saudi Arabia must remain independent and secure.

There are two things the U.S. should not do. One is sweep Mr. Khashoggi's murder under the rug. His disappearance has damaged Saudi Arabia's standing, including in Congress. Mr. Pompeo needs to deliver a clear message that this behavior weakens and ultimately endangers the alliance. He should not be deterred by

Saudi threats. Like the American Confederates who overestimated the power of King Cotton in the 1860s, the Saudis tend to overestimate King Oil's power today.

But to do what the Iran-deal chorus and the Erdogan and Muslim Brotherhood apologists want—to dissolve the U.S.-Saudi alliance in a frenzy of righteousness—would be an absurd overreaction that plays into the hands of America's enemies. It could also stampede the Saudis into even more recklessness. France was not expelled from the European Community or NATO in 1985 when its agents sank the Greenpeace ship Rainbow Warrior, killing an innocent man in the process.

Without lionizing, ostracizing or enabling MBS, Mr. Pompeo needs to get to the heart of the matter: Saudi insecurity. To restore balance and sobriety to its foreign policy, Saudi Arabia needs to calm down, and only the U.S. can provide the assurances to make that possible. Among other things, this entails coordinating with the Saudis (and the Israelis) on a policy aimed at containing Iran and stabilizing the region. It also involves encouraging the economic transformation the Saudis seek at home. Even as he responds with appropriate gravity to a serious provocation, Mr. Pompeo must give Saudi authorities the confidence that sober and sensible policies will bring continuing American support for the kingdom's independence and reform.

itself, a tax on pollution doesn't guarantee reductions, so any carbon pricing policy must include enforceable limits to ensure emissions are cut as much as the science demands. As the work of the Nobel Prize-winning economist William Nordhaus makes clear, pricing carbon is a much cheaper way of hitting climate goals than command-and-control regulations.

Scientists, investors and philanthropists also are exploring ways to remove carbon dioxide directly from the atmosphere. It's a challenge, but a system that pays a bounty for carbon soaked out of the sky would spur a race to develop and commercialize this promising concept.

Some people would get rich, and that's OK. If video-games and iPhone apps can create wealth, so can saving the world.

Mr. Krupp is president of the Environmental Defense Fund.

The problem is dire, but the solution isn't command and control.

by 2030—but only if rain forests are more valuable alive than dead. California is considering a proposal to create incentives that enable this while setting the global standard for social and environmental safeguards. My organization, the Environmental Defense Fund, is also working with landowners on strategies that allow them to contribute to the solution and profit from it.

• Slow deforestation and restore damaged forests. Properly managed woodlands help avoid emissions by not burning the trees and also draw carbon dioxide from the atmosphere through photosynthesis. Forests could deliver a quarter or more of the carbon emissions reductions needed

• Stop letting companies pollute for free. In most of the world, there is no economic incentive for corporations to reduce pollution. But if they had to pay every time they put a ton of emissions into the atmosphere, they'd find creative ways to reduce pollution. By

the way you want.

Some people would get rich, and that's OK. If video-games and iPhone apps can create wealth, so can saving the world.

Mr. Krupp is president of the Environmental Defense Fund.

BOOKSHELF | By Daniel Todman

The Dutch Dead End

The Battle of Arnhem

By Antony Beevor

(Viking, 459 pages, \$35)

Early in the afternoon of Sept. 17, 1944, the sky over the Netherlands filled with aircraft. Before long hundreds of gliders and thousands of paratroopers were descending on drop zones in a great curve around the cities of Eindhoven, Nijmegen and Arnhem. This was the start of Operation Market Garden, the subject of the latest book by the British military historian Antony Beevor.

Market Garden was meant to lay a path for a decisive blow into Germany before the end of 1944. Three Allied airborne divisions (two American, one British) were dropped, with the aim of seizing the crossings over the waterways that cut across the eastern Netherlands. This would allow British armored units, thrusting forward 60 miles in three days, to leap over the lower Rhine at Arnhem. From there, they would be able to threaten parts of Germany, including the key industrial area of the Ruhr, or attempt an even deeper blow toward Berlin.

In "The Battle of Arnhem," Mr. Beevor underscores that Market Garden, planned in haste, was spurred on by the determination of Field Marshal Bernard Montgomery, the commander of the British 21st Army Group, to dominate Allied strategy in Northwest Europe. It was a reaction to what he regarded as prevarication on the part of the Supreme Allied Commander, Gen. Dwight Eisenhower: "prevarication" in this case meaning not giving Montgomery exactly what he wanted. The mission, however, was badly flawed from the start.

As should have been apparent by 1944, large-scale airborne operations came with high risks, but this one could only succeed if everything had gone right: Any intermediate failure put the most distant-dropped formation, the 1st British Airborne Division, in danger not just of defeat but of destruction. Allied planners underestimated the degree to which German ground forces had recovered from their calamitous defeat in Normandy and the speed and aggression with which they would react to the airborne incursion.

Market Garden, which relied on lightly equipped airborne infantry and a rapid advance along a narrow corridor, abandoned much of the winning formula that Montgomery's men had developed after D-Day—a deliberate advance supported by overwhelming firepower—in favor of a more chaotic battle that played to the strengths of the otherwise disadvantaged Germans. The result: disaster. A combination of inadequate force concentration, bad luck and poor command decisions prevented Allied forces from quickly and completely securing the crucial bridges at Nijmegen and Arnhem. When the ground advance reached the former, a difficult battle was required to capture the crossing.

By the time the Allies were ready to proceed toward Arnhem, the 1st British Airborne Division had lost its tenuous hold on the Arnhem road bridge and was being forced back into a fiercely contested area at Oosterbeek on the north side of the Lower Rhine. Efforts to reach and reinforce this pocket simply chewed up more troops. Just over 1,000 British paratroopers were evacuated on Sept. 26. Market Garden had ruined an entire division of elite troops, at a time when British fighting power was already being affected by a shortage of infantrymen.

Operation Market Garden was doomed by bad luck, inadequate force concentration and poor command. The attack ended in disaster.

This story is well known, thanks not least to the 1977 film of Cornelius Ryan's 1974 book "A Bridge Too Far." Nonetheless, Mr. Beevor retells it well, drawing on recent scholarship that has deepened our understanding of many topics (including intelligence and radio communications) related to the campaign. There were actually several interlinked battles proceeding simultaneously, and Mr. Beevor conveys a clear sense of what was happening in each fight and the knock-on consequences for the others. What's more, the compressed time scale and limited strategic scope of Market Garden ideally suit the author's testimony-rich approach.

Mr. Beevor is a highly accomplished architect of what the American literary scholar Samuel Hynes calls "battlefield gothic": the nightmarish horrors and absurdities of combat which themselves become a badge of authenticity for war stories. A rabbit, badly burned by an air strike, hops piteously across the road. An officer hit by tracer shells, his wounds smoking, begs his men to shoot him. They hand him his pistol and he does the job himself. Another has to wipe his air-operator's brains off the equipment before he can call for air support. The Germans play dance music through a loudspeaker to get the British to listen to their propaganda, so paratroopers shoot down their attackers to a soundtrack of Glenn Miller's "In the Mood." The author maintains a tradition, established by Ryan, of including multiple international perspectives. The fight for the bridges involved not only American, British, Polish and German servicemen but also Dutch soldiers, collaborators, resistance fighters and civilians. All are well-represented here.

One of the most striking disjunctions is between the viciousness of the close-quarter fighting and the willingness of both sides to allow military and civilian medics to continue their work. Allied prisoners were generally fairly treated and not—as had happened when the SS fought the Canadians in Normandy in early June 1944—subject to post-battle execution. Mr. Beevor points out that, as the Allied armies closed in, there were good reasons for German officers to demonstrate that they were "honorable" warriors, especially in comparison to the barbaric Russians.

More of this sort of analysis would have been welcome. In his acknowledgments, Mr. Beevor remarks that publishing another book on a well-known campaign can only be justified by bringing new source material to light. Many readers will enjoy his vivid descriptions of combat, but these leave little room to dissect the cultural, technological or geographic factors that determined the fighting and how it was remembered. Given Mr. Beevor's experience working with firsthand accounts, no one could be better placed to explore these topics. Had he done so, "The Battle of Arnhem" might have challenged readers to think about how we know what happens in war. It would have been all the more enthralling as a result.

Mr. Todman teaches at Queen Mary University of London and is the author of "Britain's War: Into Battle, 1937-1941."

OPINION

REVIEW & OUTLOOK

The U.N.'s Doomsday Climate Clock

Have we reached peak alarmism on climate change? The question occurs after the muted reaction last week to the latest forecast from the United Nation's Intergovernmental Panel on Climate Change. In case you hadn't heard we're all doomed, yet the world mostly yawned. This is less complacency than creeping scientific and political realism.

The U.N. panel says the apocalypse is nigh—literally. According to its calculations, global carbon emissions must fall 45% by 2030—twice as much as its earlier forecasts—and the world must wean itself entirely off fossil fuels over three decades to prevent a climate catastrophe that will include underwater coastlines and widespread drought and disease.

These reductions are “possible within the laws of chemistry and physics,” said the report’s co-author Jim Skea, and that’s a relief. But he added: “Doing so would require unprecedented changes,” and the report said some methods “are at different stages of development and some are more conceptual than others, as they have not been tested at scale.”

* * *

Also not tested over time are the panel’s climate models, which are sensitive to forecasts of population growth, ocean currents and radiative forcing, among myriad scientific variables that are not well understood. The IPCC’s forecasts keep changing because climate models are still in an early stage of development.

Amid the Paris climate conclave of 2015 the IPCC predicted that two degrees of warming over pre-industrial levels would prevent Armageddon. Now after further study the IPCC has lowered its safety line to 1.5 degrees.

According to the IPCC, two degrees of warming would destroy all coral reefs while a 1.5 degree temperature increase would wipe out around 90%. About 80 million people could be affected by rising sea levels if temperatures rise by two degrees versus 70 million with 1.5 degrees of warming. Some 350 million city dwellers could experience a water shortage if temperatures increase by 1.5 degrees and 411 million if they rise by two.

In other words, humanity is doomed under the IPCC’s models no matter what we do. Nonetheless, the IPCC is urging immediate, drastic and large-scale economic changes that would affect everything from the kinds of cars people drive to foods they eat. Millions of acres of farmland would have to be converted into forests or plastered over with solar panels.

Some \$2.4 trillion in annual investment in climate mitigation and adaptation—about 2.5% of world GDP—would also be needed over the next two decades. Yet as economist Bjorn Lomborg noted in these pages last week, the IPCC estimated a few years ago that unmitigated global warming in 60 years would cost between 0.2%

Maybe predicting the apocalypse isn’t the best political strategy.

and 2% annually of world GDP. So we’re supposed to spend more as a share of GDP now than the problem will cost in 60 years when the world would have far more resources to cope with it?

Perhaps the sheer implausibility of these remedies helps to explain why the reaction to the U.N. report was so muted. Why turn the entire global economic system upside down if we’re all doomed anyway?

The IPCC also recommends a carbon tax to spur more investment in renewables and embryonic and expensive technologies to capture carbon from the atmosphere. On cue, Exxon Mobil last week pledged \$1 million as political penance to promote a carbon tax, which the company knows would be passed onto consumers.

A carbon tax is in theory the best way to combat the climate externalities of fossil fuels. And we might support a carbon levy if it were offset by the elimination of other taxes—such as the income tax. But the left wants a carbon tax in addition to all current taxes to control more of the private economy.

This explains the frequent political backlash to carbon taxes where they’ve been tried. After Australia’s Labor Party implemented a \$23 per ton carbon tax in 2012, conservatives rode to power on a campaign of repeal as electricity and gasoline prices soared. Canadian provincial governments including Alberta’s New Democratic Party Premier Rachel Notley are protesting Justin Trudeau’s carbon tax proposal.

Not that these carbon taxes would make an iota of a difference according to the IPCC’s models. Most carbon taxes are around \$20 per ton. Yet the panel estimates a global carbon price of between \$135 to \$5,500 per ton—which would increase the cost of gas by between \$1.20 to \$49 per gallon—would be required to keep warming below 1.5 degrees Celsius. Europe is also proving the limits of its carbon sacrifices, as renewables fail to meet expectations and even the green believers in Germany increase their use of coal.

* * *

President Trump has been chastised far and wide for withdrawing from the Paris climate pact. But U.S. carbon emissions have declined by 14% since 2005 thanks to the boom in shale fracking as cheap natural gas has replaced coal as the top fuel source for electricity generation. This is the result of market forces and private innovation, not the political control of global investment and consumption that the U.N. says is necessary.

If the U.N.’s catastrophists are right, then the only real salvation will come from technological breakthroughs such as better batteries or carbon capture or nuclear power. Meantime, governments should focus on growing their economies and bolstering living standards so we can better afford to cope with whatever challenge the world brings.

We’re All Native Americans Now

Any doubt that Elizabeth Warren plans to run for President ended Monday when the Massachusetts Senator released a DNA analysis indicating that she probably does have some trace of distant Native American ancestry.

The former Harvard professor went so far as to unveil a website and video featuring an analysis by Stanford professor Carlos Bustamante, who said that while Ms. Warren is mainly European she likely has some Native American ancestry “in the range of 6-10 generations ago.”

This makes her between 1/64th and 1/1024th Native American, which barely spares her the humiliation of not having any after she had listed herself as Native American on federal forms filed by Harvard and Penn law schools

where she had worked. On the other hand, she also looks silly for making so much of so little. As Americans are learning as the costs of genetic testing fall, nearly all of us have multiple ethnic and racial backgrounds. Ms. Warren tried to make an identity politics virtue of a genetic banality.

Credit on this point goes to Donald Trump, who mocked Ms. Warren’s genetic boast and no doubt prompted her to get the truth out before the 2020 campaign begins. Ms. Warren now says Mr. Trump should make good on his boast to write a \$1 million check to charity if Ms. Warren proved she had Native American blood.

Write the check, Donald. You’ll look gracious, and you’ll have an amusing talking point and photograph that will last the entire 2020 campaign.

Democrats for Big Money

Democrats are still expressing confidence that they’ll retake Congress in November, and perhaps they will. One reason for their optimism is the gusher of campaign money coming their way this year, and notice how you don’t hear liberals complaining about the corrupting power of money in politics.

Democrats are rolling in cash as liberal interest groups, unions and rich liberals are fired up, while business lobbies hedge their bets in case Nancy Pelosi is the next Speaker. Mrs. Pelosi remembers who gives—and who doesn’t.

The abortion-rights lobby is dumping cash into House races, including a recent \$1 million ad buy from NARAL that targets GOP Members in swing districts such as Peter Roskam in Illinois and Kevin Yoder in Kansas. (The GOP agenda “harms and silences women,” the ad says.) Planned Parenthood said last month the group will spend \$20 million on voter turnout.

Then there are billionaires like Mike Bloomberg, who is spending \$80 million to turn the House and another \$20 million to make Chuck Schumer Senate Majority Leader. And don’t forget Tom Steyer, the West Coast impeachment campaigner who plans to spend more than \$100 million through various proxies. Mr. Steyer is spending more than \$5 million alone for Andrew Gillum, the progressive Democrat running for Governor in Florida.

Texas Senate candidate Beto O’Rourke, known mostly for gushing media profiles, announced an extraordinary fundraising total of

Whatever happened to the corrupting influence of billionaires?

\$38.1 million last quarter. He’s been dining out on the fact that he doesn’t take donations from political action committees, which can spend on his behalf without his approval. Mr. O’Rourke’s windfall shows how much national Democrats want to defeat Senator Ted Cruz, who is still leading in the polls.

Money isn’t destiny in politics but it does have consequences. It has helped House Democrats expand their list of targeted seats as more than 60 of their candidates raised more than \$1 million in the last quarter. That money edge is forcing less-flush Republicans to practice political triage and cut off some incumbents who are trailing in the polls.

The money flood also exposes the liberal canard about the threat to democracy from “dark money.” Donations to candidates and parties must be reported, and Democrats benefit as much as Republicans from groups that do issue advertising and can in some cases keep their donations secret. How do you think liberals know enough to complain about the campaign donations of the Koch brothers or Las Vegas businessman Sheldon Adelson?

We believe campaign spending is a form of political speech, but remember this year’s cash boom the next time Democrats bemoan *Citizens United* as the Supreme Court decision that destroyed democracy. Democrats will cash all of Mr. Bloomberg’s checks and anyone else’s this year. And if progressives win control of Congress, their best friend will have been their supposed biggest enemy: money in politics.

OPINION

LETTERS TO THE EDITOR

The Dollar and U.S. Manufacturing’s Future

In “To Bring Back U.S. Manufacturing, Get the World to Dump the Dollar” (op-ed, Oct. 8) John Mueller is correct that the role of the U.S. dollar as a global reserve currency entails costs for the U.S. trade balance. There are also benefits for the U.S. from its currency’s broad use in other countries. However, the use of our currency for foreign-exchange reserves abroad is only one of many factors—low savings, competition with countries that have low wages and low environmental standards, technological change, persistent government indebtedness—that keep the trade balance in deficit and can hurt some U.S. sectors such as manufacturing.

Moreover, Mr. Mueller’s solution to trade foreign dollar reserves in exchange for U.S. gold wouldn’t alleviate this problem but would make it worse. If holders of U.S. dollars abroad are given gold at a rate that makes them happy to part with such dollars, it would only create a greater incentive going forward to hold more U.S. dollars, which in addition to their desirable qualities as a currency now will entail the possibility of a future gold exchange.

Furthermore, retiring the money from this transaction would be deflationary. Mr. Mueller himself alludes to this danger. But while bad for the U.S. economy, it would make the dollar more, not less, desirable, exacerbating the Triffin Dilemma.

While not identical, Mr. Mueller’s policy would be similar to that under

taken by Great Britain after World War I when the U.K. returned to the gold standard at the pound’s prewar parity. This tying of the pound to gold made the pound more overvalued, lowered the trade balance and ushered in deflation and slow growth.

WILLIAM MILES
Wichita State University
Wichita, Kan.

Mr. Mueller argues that ending the U.S. dollar’s status as the world’s chief reserve currency will help America “to re-industrialize”—thus implying that America has de-industrialized. The facts don’t support this implication.

Real industrial output in the U.S. today is near the all-time high that it reached just before the 2007-09 recession and, except for plunging in 2008-09, has steadily risen over the past three decades. In 2018 real industrial output is 69% higher than it was in 1987. U.S. industrial capacity has also steadily risen; it is now at an all-time high and 86% larger than it was in 1987.

Mr. Mueller rightly calls on Americans to reject the Trump administration’s protectionism. But by lending credence to one of the president’s favorite myths that as Americans, “we don’t make anything anymore,” Mr. Mueller needlessly fuels protectionists’ fervor.

PROF. DONALD J. BOUDREAU
George Mason University
Fairfax, Va.

The Economy and Long-Term Common Wealth

Regarding David R. Henderson’s “A Nobel Economics Prize for the Long Run” (op-ed, Oct. 9): Nobel Prize winner William D. Nordhaus believes we should institute a carbon tax. I would go even further.

When you tax something, you get less of it. We want people to have more income, and regardless of one’s views on climate change, we all want less pollution. Perhaps we should consider abolishing the corporate tax or personal income tax and replace them with pollution taxes. In addition, we could sweep away all the complex subsidies, incentives and disincentives applied to different energy sources and let the pollution tax move us to a cleaner environment.

It’s true that pollution taxes would be set at arbitrary, politically driven levels rather than being market driven, but so are our current income-tax rates and energy policies.

BOB ALEXANDER
Bedford, Mass.

Mr. Henderson notes Paul M. Romer’s ideas relating the structure

of incentives to innovation using the profoundly crucial role patent policy has played in pharmaceutical innovation. But in the 21st century governments have countered the otherwise positive impact of patents with all manner of pharmaceutical price controls. This is no more dramatic than in Japan, which has solid patent policy but counters the effects by controlling prices that would otherwise allow market returns to be put back into innovation.

With its super-aging society—80-plus is its fastest-growing demographic—one might expect Japan to employ Mr. Romer’s calculations for the right incentive structure regarding both patent and pricing policy for the pharmaceutical innovation it needs. If healthier aging through innovation is a solution for Japan’s demographic age challenges, Mr. Romer’s insights would teach that public-policy controls on funding of that innovation is detrimental to its long-term economic needs.

MICHAEL W. HODIN
CEO, Global Coalition on Aging
New York

OPINION

Democrats Abandon the Constitution

By David B. Rivkin Jr.

And Lee A. Casey

Brett Kavanaugh's appointment to the Supreme Court has sparked a firestorm of outrage and recrimination on the left. Some attacks seem aimed at intimidating the justices into supporting progressive causes. "The Court must now prove—through its work—that it is worthy of the nation's trust," Eric Holder, President Obama's attorney general, tweeted Oct. 6.

Yet the attacks go beyond ideology. Detractors of Justice Kavanaugh and President Trump are denouncing the Constitution itself and the core elements of America's governmental structure:

The Kavanaugh battle lost, they claim the Electoral College, Senate and judiciary are illegitimate.

• **The Electoral College.** Mr. Trump's opponents claim he is an illegitimate president because Hillary Clinton "won the popular vote." One commentator even asked "what kind of nation allows the loser of a national election to become president." The complaint that the Electoral College is undemocratic is nothing new. The Framers designed it that way. They created a republican form of government, not a pure democracy, and adopted various antimajoritarian measures to keep the "demos" in check.

The Electoral College could be eliminated by amending the Constitution. But proposing an amendment requires two-thirds votes in both

houses of Congress, and the legislatures of three-fourths, or 38, of the states would have to ratify it.

• **The Senate.** The complaint here is that the 50 senators who voted in Justice Kavanaugh's favor "represent" fewer people than the 48 who voted against him. But senators represent states, not people.

Equal Senate representation for the states was a key part of the Connecticut Compromise, along with House seats apportioned by population. The compromise persuaded large and small states alike to accept the new Constitution. It was so fundamental that Article V of the Constitution—which spells out the amendment procedure—provides that "no State, without its Consent, shall be deprived of its equal Suffrage in the Senate." That means an amendment changing the structure of the Senate would require ratification by all 50 states.

• **Judicial independence.** Commentators who disapprove of the Supreme Court's composition have urged, as one law professor put it, "shrinking the power of the courts to overrule our citizens' democratic decisions." Some suggest limiting and staggering the justices' terms so that a vacancy would come up every other year, ensuring that the court follows the election returns. That could be achieved via constitutional amendment, but it would go against the Framers' wisdom. As Madison wrote in Federalist No. 78, life tenure for judges is "the best expedient which can be devised in any government, to secure a steady, upright and impartial administration of the laws."

Some of Justice Kavanaugh's detractors have demanded that if Democrats take the House next month, they open an investigation into the sex-crime allegations Sen-



A protester outside the Supreme Court, Oct. 6. ROBERT SCHMIDT/AFP/GTY IMAGES

ate Democrats failed to substantiate. But although Congress has wide oversight powers with respect to the executive branch, it has no such oversight authority over the judiciary. The only way the House can legitimately investigate a sitting judge is in an impeachment proceeding.

And Justice Kavanaugh cannot be impeached for conduct before his promotion to the Supreme Court. Article III provides that judges "hold their Offices during good Behavior," so that a judge can be removed only for "high Crimes and Misdemeanors" committed during his term in office.

That puts inquiry into allegations about Justice Kavanaugh's conduct as a teenager and young adult well outside Congress's investigative authority, along with any claims that he misled the Judiciary Committee. Such claims could be reviewed only as part of a criminal investigation

by federal prosecutors based on a referral from the Senate, the only body that may decide whether his testimony contained "material" misrepresentations. For the House to inquire into this matter would impermissibly encroach on the Senate's advice-and-consent power.

Michael Barone has observed that "all procedural arguments are insincere." Those who now complain about the undemocratic nature of the Electoral College and the Senate were quite content when their party seemed to have a lock on the former and held a large majority in the latter. And it is the Supreme Court's countermajoritarian character that made possible the decisions, such as *Roe v. Wade* and *Obergefell v. Hodges*, that progressives now fear are at risk of being overturned or pared back.

There's one thing the left could do to make the Supreme Court more liberal without amending the Con-

stitution. Some have suggested a return to Franklin D. Roosevelt's "court packing" plan, which sought to expand the court to as many as 15 justices. Nothing in the Constitution prevents Congress from expanding the Supreme Court's membership. Article III merely establishes a Supreme Court; it does not say how many justices it should have. Congress has altered the number of justices by statute several times, most recently in the Circuit Judges Act of 1869, which expanded the court from seven members to nine. But this would require a president and House and Senate majorities willing to go down this path, likely at considerable political cost. In other words, progressives would have to win elections. And if they did that, they'd be able to change the court without making it bigger.

The anger and disappointment of Justice Kavanaugh's opponents is understandable, as would be that of his supporters if the vote had gone the other way. They are perfectly entitled to pursue political remedies, including using his appointment as a campaign issue. They also are entitled to pursue amendments to the Constitution that would make our system of government more responsive to the popular will. What they cannot do is overturn the Connecticut Compromise guaranteeing each state equal representation in the Senate, or launch unconstitutional investigations or impeachment of a sitting Supreme Court justice. The Constitution protects all of us, even Supreme Court justices.

Messrs. Rivkin and Casey practice appellate and constitutional law in Washington. They served in the White House Counsel's Office and Justice Department under Presidents Reagan and George H.W. Bush.

Currency Manipulation Isn't Among China's Trade Sins

By Jason Furman

The Trump administration is railing against Chinese currency manipulation without any regard for the yuan's actual ups and downs. Yes, the numbers superficially back Treasury Secretary Steven Mnuchin's warnings: The yuan has dropped about 10% against the dollar since mid-April, effectively offsetting the impact of U.S. tariffs on Chinese goods. But this doesn't prove that China is defying the laws of market economics. In fact, Beijing is doing precisely the opposite.

One law of economics: Fiscal expansions and monetary contractions strengthen currencies. The U.S. raised spending and cut taxes more than \$200 billion in 2018. It's the only major economy undertaking this type of fiscal expansion. At the same time, the Federal Reserve has been raising interest rates and selling off assets. Meantime, interest rates are still stuck at zero or below in Europe and Japan. They are hovering below 1% in the United Kingdom. It is no surprise, then, that

America's currency has strengthened by an average of more than 7% against those of its trading partners since April. The yuan is only one of many currencies left weakened against the dollar.

Another law of economics explains why China's currency has slid somewhat more against America's than the euro or the yen. Tariffs depreciate the currencies of countries they're imposed on, because decreasing imports lowers demand for the exporter's currency. China's retaliatory tariffs have an offsetting effect. Yet the U.S. imports more from China than it exports, so its tariffs are levied on a larger base. Rising oil prices have compounded the downward pressure on its currency.

Regardless of whether Beijing put its thumb on the scale, U.S. policy and shifting economic fundamentals have weakened the yuan against the dollar. And it's worth noting that there are no direct signs of such manipulation.

The Treasury Department's definition of currency manipulation includes three criteria. First, a country

has to maintain a current-account surplus above 3% of gross domestic product. The last time China exceeded this threshold was in 2010. Though China's current-account balance swings significantly over time, it generally has continued a dramatic

fall that began in 2008, dropping to a projected 0.7% of GDP in 2018, according to the International Monetary Fund. This is well below Treasury's threshold and about half the level from a year ago.

Second, a country has to persist in a one-sided intervention—buying dollars to weaken its exchange rate.

Yet China currently is selling dollars to prop up its exchange rate in the face of downward pressure, as it did in 2015 and 2016. Beijing's overall

policy in recent years has been aimed more at stabilizing the exchange rate than attempting to set it at any particular value. This means China is currently working to slow the yuan's depreciation—precisely the opposite of the currency-manipulation charge.

The only one of Treasury's three criteria for currency manipulation that China currently meets is a bilateral goods surplus of more than \$20 billion. But this criterion is widely regarded as economic nonsense. The bilateral trade imbalance is related more to the U.S. domestic-savings deficit and global supply chains than to China's trade or exchange-rate policy. The Treasury measure also ignores services, in which the U.S. has a surplus.

Consider that when China imports chips and screens from other Asian countries, and assembles the components before exporting finished products to the U.S., the entire value of the goods is debited from the U.S.-China bilateral balance. A fixed-dollar threshold also makes little sense when America's trading partners

vary so much in size. The same \$20 billion value applies to China's \$13 trillion GDP and Switzerland's \$700 billion economy. Regardless, under Treasury's rules a trade manipulator must meet all three criteria. China clearly does not.

The U.S. stands on solid ground in pushing China to adopt a more transparent, rule-based economic system. Much of Beijing's policy toward inbound investment violates international norms. But when it comes to China's exchange rate, the U.S. has gotten its wish but now is complaining about the result. These days, President Trump is likelier than Chinese President Xi Jinping to extol the value of a weak currency. But Mr. Trump's cheap talk has been much less potent than his combination of deficit spending and tariffs, which created the strong dollar he is lamenting.

Mr. Furman, a professor of practice at the Harvard Kennedy School, was chairman of the White House Council of Economic Advisers, 2013-17.

The American Arsenal Is Vulnerable to Cyberattacks

By Brian E. Finch

Modern American military history is replete with examples of poorly designed weapons. Submarine torpedoes failed to explode after hitting Japanese ships. M16 rifles only could be counted on to jam in the middle of a firefight in Vietnam. Pentagon planners have since spent countless hours and billions of dollars to create acquisition programs that wring the bugs out of U.S. arms before they reach the hands of soldiers and sailors.

Despite the hard work, the U.S. still fields weapons systems with dramatic weaknesses. A new Government Accountability Office audit this month indicates that huge swaths of American firepower could be rendered inert by software flaws. There are solutions to the cyber weak-

nesses plaguing our arsenal, but bureaucratic inertia at the Defense Department is hampering their implementation. Faster action is needed to clear the logjam and harden America's weapons before it's too late.

The GAO could not have been clearer about the threat: "A successful attack on one of the systems the weapon depends on can potentially limit the weapon's effectiveness, prevent it from achieving its mission, or even cause physical damage and loss of life." American ships, airplanes, combat vehicles, satellites and other systems have design flaws that leave them vulnerable to debilitating cyberattacks. Meanwhile, the Pentagon is growing more reliant on automation and artificial intelligence.

The threat is far from hypotheti-

cal. Over the past decade, adversaries such as China and Russia have electronically stolen the technical plans for essentially every major project undertaken by the U.S. military, including the advanced Patriot missile system, the littoral combat ship and the F-35 Joint Strike Fighter. With those blueprints, rivals can try to take over U.S. weapons.

They can also try to fool critical military subsystems. Iranian interference with global positioning systems is suspected to be behind the capture of an American drone in 2011 as well as the 2016 "navigational error" that led to the detainment of a U.S. Navy patrol boat.

In 2015 Congress directed the Pentagon to develop plans to mitigate the cyber vulnerabilities of its weapons systems. In response, the Pentagon has been conducting vul-

nerability evaluations, but the GAO found the evaluations limited in scope and in need of monitoring and coordination.

U.S. firepower could be crippled by software flaws. The Pentagon has been slow to respond.

The Pentagon has to pick up the pace dramatically and deploy measures to improve the cybersecurity posture of its weapons systems significantly. One such example is the Comply to Connect program, which Congress directed the military to implement in 2016. C2C tracks which devices are connected to Pentagon

networks and assesses if those devices pose a security risk, allowing military officials to decide whether to upgrade each device's security or remove it from the network.

C2C is no "moonshot" program. It was piloted by the Marines and Air Force at least five years ago, with terrific results that led to sporadic implementation in pockets of the Pentagon. In each case, C2C tools enabled cybersecurity officials to identify thousands of previously undetected network-connected devices quickly and remove them or bring them into compliance with security requirements. Meanwhile, the Department of Homeland Security has successfully installed its version of C2C, the Continuous Diagnostics and Mitigation program, on nonmilitary systems across the U.S. government.

Yet the Pentagon remains slow in deploying the C2C across all systems, so much so that Congress was forced to reissue its directive to implement the program in the latest defense authorization bill.

Centralizing cybersecurity programs for weapons systems in a single office would also be helpful, along with ensuring programs like C2C cover more devices as the "of Things" grows.

Securing weapons systems for the sprawling behemoth that is the Pentagon is a massive undertaking, but it must become a top priority. Anything less will put Americans in uniform at risk.

Mr. Finch is a partner at Pillsbury Winthrop Shaw Pittman LLP, where he is a leader of the firm's cybersecurity team. His clients include cybersecurity vendors that may support the U.S. Defense Department under Comply to Connect.

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Notable & Quotable: PC

Yascha Mounk writing for the Atlantic, Oct. 10:

If age and race do not predict support for political correctness, what does? Income and education.

While 83 percent of respondents who make less than \$50,000 dislike political correctness, just 70 percent of those who make more than \$100,000 are skeptical about it. And while 87 percent who have never attended college think that political correctness has grown to be a problem, only 66 percent of those with a postgraduate degree share that sentiment.

Political tribe—as defined by the authors—is an even better predictor of views on political correctness. Among devoted conservatives, 97 percent believe that political correctness

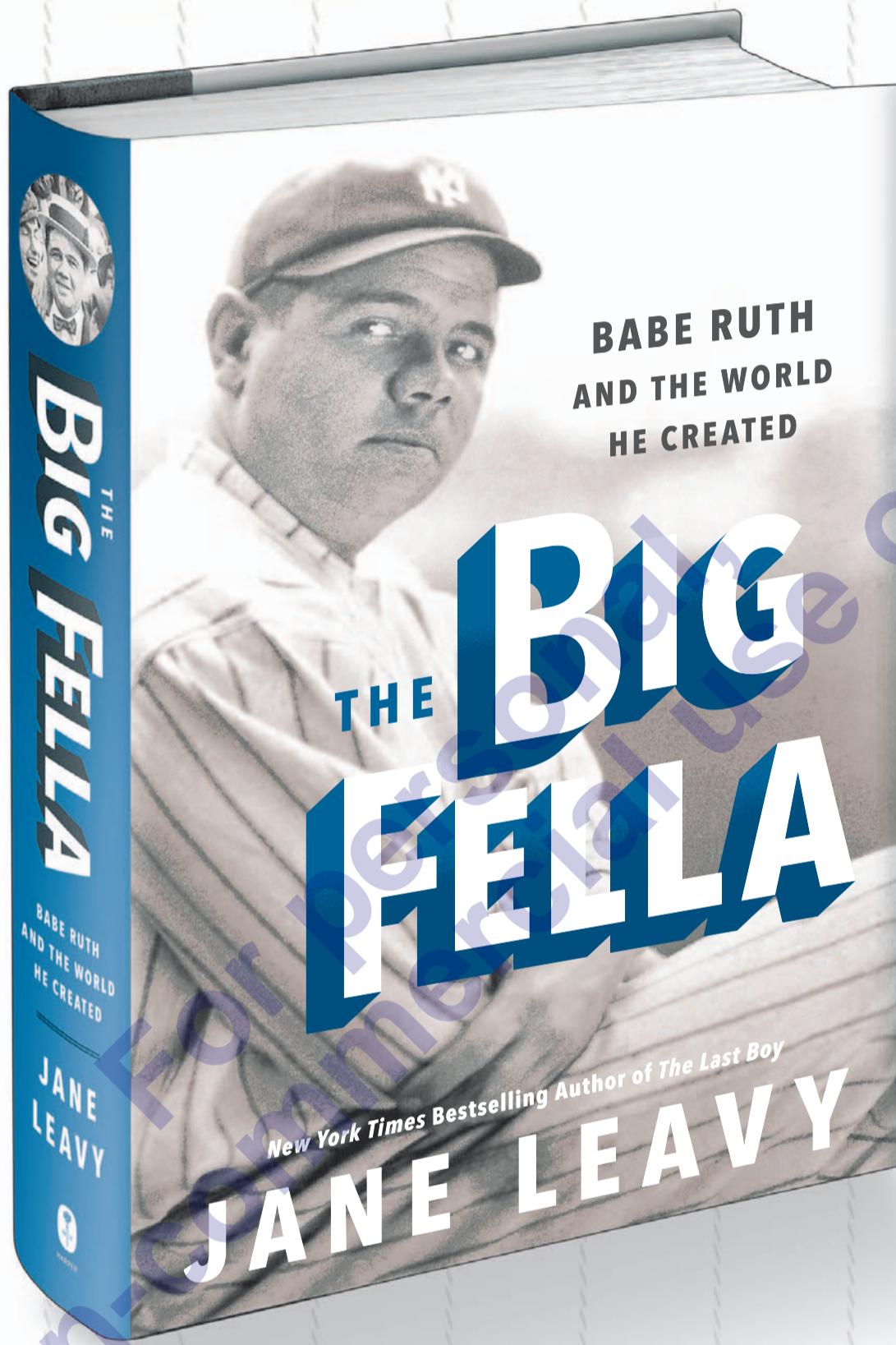
is a problem. Among traditional liberals, 61 percent do. Progressive activists are the only group that strongly backs political correctness: Only 30 percent see it as a problem.

Compared with the rest of the (nationally representative) polling sample, progressive activists are much more likely to be rich, highly educated—and white. They are nearly twice as likely as the average to make more than \$100,000 a year. They are nearly three times as likely to have a postgraduate degree. And while 12 percent of the overall sample in the study is African American, only 3 percent of progressive activists are. With the exception of the small tribe of devoted conservatives, progressive activists are the most racially homogeneous group in the country.

THE SULTAN OF SWAT. THE GREAT BAMBINO. THE DEFINITIVE BIOGRAPHY.

"An American icon brought to life."

-Booklist (starred)



"Entertaining and colorful...."

Leavy's captivating biography reveals Ruth as a man who swung his bat with the same purposeful abandon that he lived his life." —*Publishers Weekly (starred)*

**"Does the world need another biography of Babe Ruth?
If it's this one, then the answer is an emphatic yes."**

-Kirkus Reviews (starred)

"This is Babe Ruth off the diamond and out of uniform,

a very flawed human being, but still very much a hero, a man who could lift an army of beggars and wannabes onto his back and carry them to their dreams."

—BILL JAMES, baseball writer



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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Tuesday, October 16, 2018 | B1

Small Caps Hit By Rising Yields

Shares of U.S.-focused firms are slumping, forcing investors to reassess their longstanding bets

By AKANE OTANI

Shares of small, U.S.-focused firms are suffering their worst rout in years, removing another pillar of support for the nine-year bull market as it faces heightened turmoil.

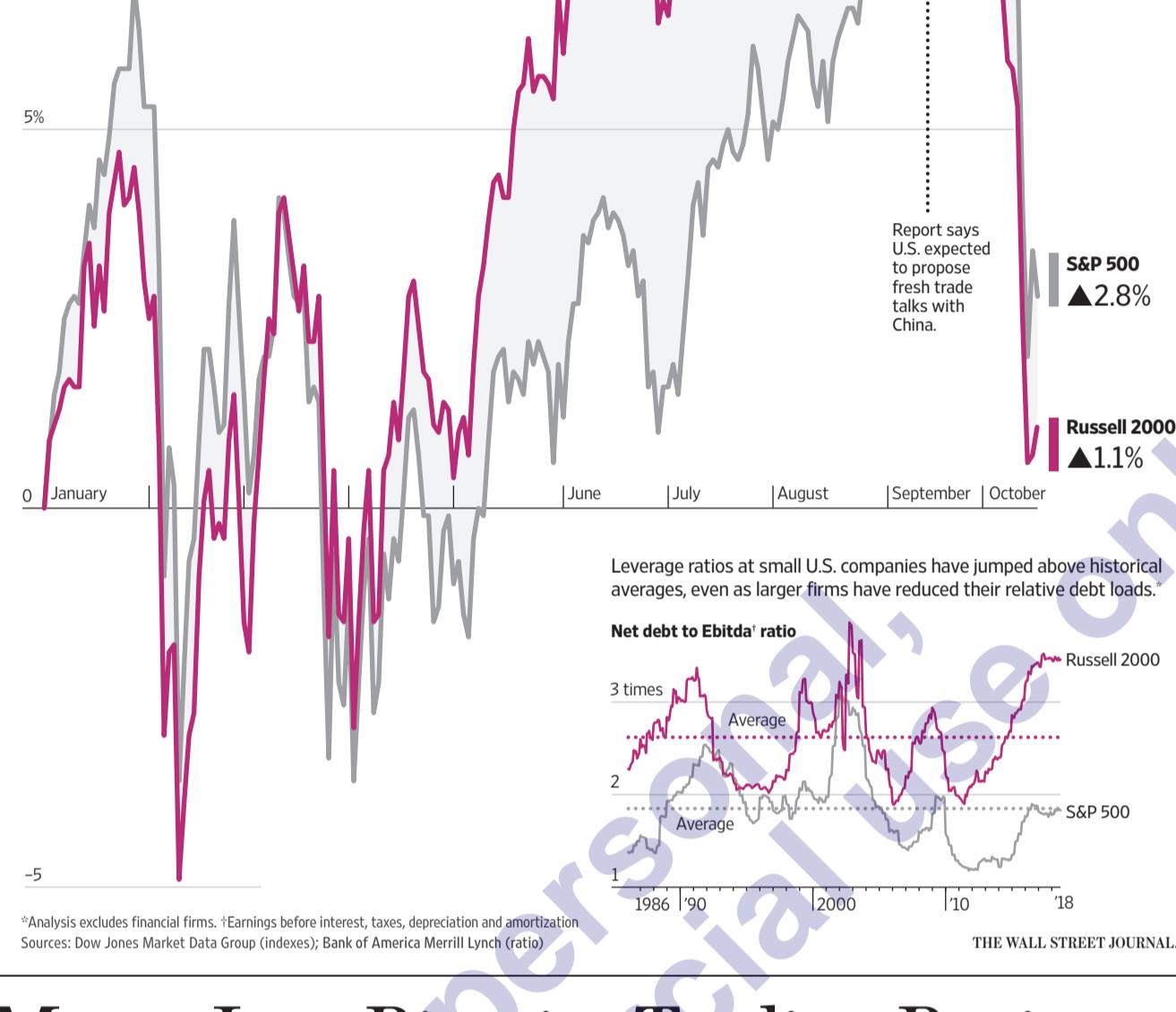
As government-bond yields have climbed to multiyear highs, investors are being forced to reassess longstanding bets—including in small caps, emerging markets and technology stocks—that are faltering after thriving for years in a low-rate environment.

That has resulted in an unusual situation where both large and small caps are falling in tandem. After hitting records throughout August, the Russell 2000 index of small-capitalization stocks has slumped, last week entering correction territory—a drop of at least 10% from a previous high—for the first time since 2016.

The index, which rose 0.4% on Monday, is down 8.5% in October alone, on course for its biggest one-month decline since January 2016. In comparison, the S&P 500 has lost 5.6% and the tech-heavy Nasdaq Composite has shed 7.7%, on course for its worst one-month stretch since January 2016.

The widespread drops across shares of varying in-

Please turn to page B2



^aAnalysis excludes financial firms. ^bEarnings before interest, taxes, depreciation and amortization. Sources: Dow Jones Market Data Group (indexes); Bank of America Merrill Lynch (ratio)

Fidelity Moves Into Bitcoin-Trading Business

By JUSTIN BAER

Fidelity Investments said it will store and trade bitcoin for hedge funds and other professional investors, becoming one of the first Wall Street giants to step into this volatile corner of the financial world.

Most large financial-services firms have resisted the idea of trading digital currencies because of concerns about risk, regulations and stability. The price of bitcoin has plunged roughly 67% since its peak last December, partially reflecting doubts about the practical use of a currency that isn't sponsored by any government.

Bitcoin observers said Fidel-

ity's move will lend the cryptocurrency world some mainstream credibility and potentially remove some obstacles for buyers and sellers.

"It's a milestone for crypto assets," said Gil Luria, director of research at DA Davidson and a longtime follower of bitcoin.

The new business Fidelity announced Monday, Fidelity Digital Asset Services LLC, will allow money managers, family offices and other institutional clients to trade bitcoin and ether. It intends to expand into additional assets in the future, said Tom Jessop, Fidelity's head of corporate-business development.

The firm for now has no

plans to extend the trading of bitcoin to retail customers, Mr. Jessop said.

The business has about 100 employees, including dedicated client-services representatives, he said. It is setting up accounts for some new clients and will open more broadly early next year. Fidelity plans to execute trades through several digital-currency exchanges and platforms.

Fidelity may seem like an unlikely evangelist for digital currency: The firm, for years best known for its slate of mutual funds and star stock pickers, operates brokerage and retirement-services businesses that directly reach millions of

Americans. Fidelity has more than \$2 trillion in assets under management and \$5 trillion in assets under administration.

Chief Executive Abigail Johnson, however, has been interested in cryptocurrencies, and has pushed her company to explore ways to connect her company and the fledgling asset class. Early steps included experiments with mining virtual coins and using digital ledgers to execute trades.

Fidelity executives expect other Wall Street players to follow Fidelity and bring more institutional investors to the cryptocurrency markets.

Many of Fidelity's peers, including the large custody banks

and securities firms that trade and safeguard stocks, bonds and other securities, are more interested in blockchain, the decentralized platform on which bitcoin runs. Far fewer have explored dealing more directly with the currencies themselves.

"There's a hurdle for institutional investors," Mr. Luria said. "Everything else they invest in, they can do fundamental analysis on it. Stocks, bonds, real estate, commodities—those are things they can analyze. That's still hard to do for crypto assets. As long as that's the case, investors are going to have a hard time embracing this category."

Dell and the special committee of its board didn't respond to requests for comment.

The special committee of its board representing DVMT shareholders previously said it examined several alternatives and determined the current offer maximizes value.

The deal has been unpopular with shareholders since it was announced. Holders of around 20% of DVMT—including Mr. Icahn, fellow activist Elliott Management Corp., some teams at BlackRock Inc. and others—were already considering rejecting it. Please turn to page B4

STREETWISE | By James Mackintosh

Yuan Falls, but Beijing Isn't Pushing It Down



The U.S. is due to decide imminently whether to designate China a currency manipulator. While it isn't expected to apply the label on this go around, the yuan has fallen more than 9% against the dollar since it last considered the move in April.

Tensions between the two nations have been building since then. It is tempting to think China must be actively pushing its currency down in an attempt to offset the effect of the 10% tariffs being imposed on its exports to the U.S. by President Trump. It is also tempting to want to punish China for what Vice President Mike Pence earlier this month called currency manipulation in a long list of Chinese policies in breach of free and fair trade. Both are mistaken.

Arguably the yuan should have weakened more. It is being pushed down by a slowing economy and easier monetary policy at the same time the dollar is being

pushed up by the supercharged U.S. economy and higher interest rates. U.S. tariffs should lead to a weaker yuan and stronger dollar, too, even in a free market.

To simplify: "When bad things happen to a country, the currency goes down," said Alan Ruskin, global co-head of foreign-exchange research at Deutsche Bank.

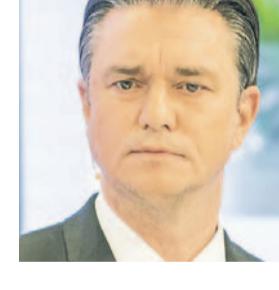
The effects of the strong dollar are obvious everywhere, with major emerging-market currencies—Mexico's peso aside—falling even more than the yuan against the greenback this year. The yuan is down a barely noticeable 2.3% against the currency of the next-largest economy, the euro. The true issue this year is the strong dollar, not the weak yuan.

If anything, China has been preventing its currency from falling further. China's central bank has recently pushed up the cost of borrowing for offshore speculators.

Please turn to page B2

◆ Heard on the Street: A fight over the yuan brews..... B11

INSIDE



PORSCHE PUTS IPO TALK IN REVERSE

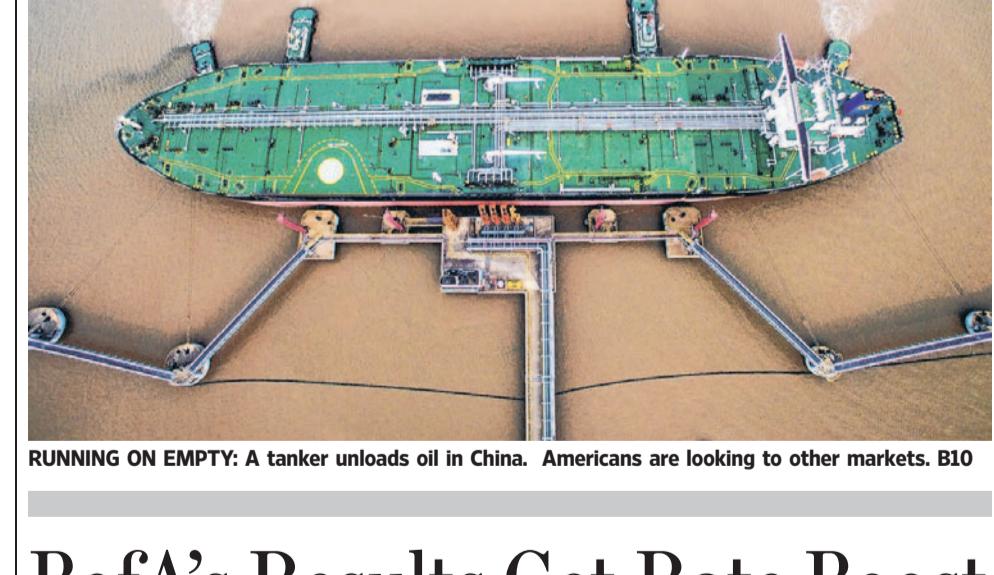
AUTOS, B3



CLIMATE CHANGE IS PERIL TO BEER

ENVIRONMENT, B5

U.S. -China Spat Disrupts Global Oil Trade



RUNNING ON EMPTY: A tanker unloads oil in China. Americans are looking to other markets. B10

BofA's Results Get Rate Boost

By RACHEL LOUISE ENSIGN

Bank of America Corp. said Monday that third-quarter profit rose 32%, as higher interest rates and last year's corporate tax cut continued to lift bank earnings.

Quarterly profit at the Charlotte, N.C., bank, the second largest in the U.S. by assets, was \$7.167 billion, compared with \$5.424 billion a year earlier. Per-share earnings were 66 cents. Analysts

polled by Refinitiv had expected 62 cents.

Revenue was \$22.78 billion, from \$21.84 billion a year earlier. Analysts had expected \$22.67 billion.

Earnings continue to benefit from last year's U.S. corporate tax cut as well as interest rates. Rising rates are typically good for banks because the companies turn a profit on the difference between what they pay on deposits and what they collect on loans. In September,

the Federal Reserve raised its benchmark rate, the eighth time it has done so since it started raising rates in late 2015.

Profit rose in all of the bank's major business segments but was up the most in its retail-banking and wealth-management units.

Banks have been able to

Please turn to page B2

◆ Heard on the Street: BofA should seize the moment. B11

Carl Icahn Challenges Dell Stock Purchase

By CARA LOMBARDO

Carl Icahn is gearing up for another battle with Michael Dell.

The activist investor, who fought Mr. Dell when he took his namesake computer company private in 2013, will challenge plans to take it public again.

Mr. Icahn on Monday disclosed he has boosted his stake in shares that track Dell Technologies Inc.'s interest in VMware Inc. to 8.3%. He said in a letter that he plans to vote against Dell Technologies' plan to buy the stock—known by its ticker, DVMT—and encourage other shareholders to do the same.

The move represents a serious challenge to a deal that is meant to streamline Dell's complicated ownership structure and return the company to the public markets. Several other investors are already unhappy with the proposal, which Dell and investment firm Silver Lake announced in July, and Mr. Icahn's public opposition lengthens the odds of winning shareholder approval.

Mr. Icahn argues that the current deal, which would allow tracking-stock holders to exchange each share for 1.3665 shares of what will become a newly public Dell, or \$109 in cash, significantly undervalues DVMT stock.

"I firmly believe Dell and Silver Lake are trying to capture \$11 billion of value that rightly belongs to us," he said in an open letter to other shareholders. Mr. Icahn said he believes DVMT is worth approximately \$144 a share, based on recent DVMT and VMware share prices. On Monday, DVMT closed up 0.5% at \$95.

Dell and the special committee of its board didn't respond to requests for comment.

The special committee of its board representing DVMT shareholders previously said it examined several alternatives and determined the current offer maximizes value.

The deal has been unpopular with shareholders since it was announced. Holders of around 20% of DVMT—including Mr. Icahn, fellow activist Elliott Management Corp., some teams at BlackRock Inc. and others—were already considering rejecting it. Please turn to page B4

INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

A	ESL Investments.....A6	F	Muzak.....B4	N	National Amusements.....A1
AirAsia Group.....B2	Fairholme Capital Management.....A6	P	Netflix.....B11	S	Sears Holdings.....A1 A6
Airbus.....B2	FedEx.....B5	G	Pandora Media.....B4	T	Silver Lake.....B1
Alphabet.....B5	Fidelity Investments.....B1	H	Porsche Automobil Holding.....B3	V	Sirius XM Holdings.....B4
Amazon.com.....A1, A6, B11	G	I	Prudential Financial.....B5	W	Spotify Technology.....B4
Anheuser-Busch InBev.....B5	Goldman Sachs Group.....B2	J	Sears Holdings.....A1 A6	X	Superdry.....B3, B11
Apple.....B4	H	K	Silver Lake.....B1	Z	Tesco.....B11
Asclexis Pharma.....B4	I	L	Sirius XM Holdings.....B4	A	Viacom.....A1
B	JPMorgan Chase.....B11	M	Microsoft.....A2	B	VMware.....B1
Bank of America.....A6, B1, B11	Lamborghini.....B3	N	Mood Media.....B4	C	Volkswagen.....B3
BeiGene.....B4	Marks & Spencer Group.....B11	O	Morgan Stanley.....B2	D	Walmart.....A1 A6
BlackRock.....B1	Marsh & McLennan.....B5	P	Wells Fargo.....A6, B11	E	Wells Fargo.....A6, B11
Boeing.....B2	MetLife.....B5	Q		F	
Bugatti.....B3	Microsoft.....A2	R		G	
CBS.....A1	Mood Media.....B4	S		H	
Citibank.....A6	Morgan Stanley.....B2	T		I	
D		U		J	
Dell Technologies.....B1		V		K	
Delta Air Lines.....B2		W		L	
E		X		M	
easyJet.....B2		Y		N	
Eli Lilly.....B4		Z		O	
Elliott Management.....B1				P	

INDEX TO PEOPLE

A	Hall, Jill Carey.....B2	P	Parsons, Richard.....A8
Aguilar, Omar.....B2	Hammes, Gary.....B2	Q	Pichai, Sundar.....B5
Aiello, Michael.....A8	Hoyle, Henry.....B10	R	
Altschuler Malek, Dan.....A11	Iannelli, Joe.....A8	Ratz, Katie.....A11	
B	Icahn, Carl.....B1	Redstone, Shari.....A1	
Barker, Ed.....B3	Jessop, Tom.....B1	Riecker, Robert A.....A6	
Barnes, Dominique.....A11	Johnson, Abigail.....B1	S	
Baweja, Bhana.....B12	Lampert, Edward.....A1, A6	Schnell, Eric.....A11	
Bushnell, Caroline.....A11	Luria, Gil.....B1	Schrock, Ray.....A6	
C	Mccormick, Mark.....B11	Setser, Brad.....B10	
Cohen, William.....A1	McDaniel, Matt.....B5	Sparks, Michael W.....B10	
Collins, Heather.....A11	McDonald, Peggy.....B5	Sutherland, Euan.....B3	
Corwell, James.....A11	Meghji, Mohsin.....A6	T	
D	Meschke, Lutz.....B3	Tibbott, Seth.....A11	
Dell, Michael.....B1	Moonves, Leslie.....A1	U	
E	Moran, Mike.....B5	Tiftik, Emre.....B12	
Ellinghorst, Arndt.....B3	Morris, Michael.....A8	W	
F	Mould, Russ.....B3	Wang, Eugene.....A11	
Fontaine, Marc.....B2	Moynihan, Brian.....B2	Y	
G - H	Gordon, Bruce.....A1	Yi, Gang.....B11	

China Isn't Behind Fall By Yuan

Continued from the prior page

tors wanting to bet against the yuan, too, even as it loosened restrictions on bank lending domestically. And as Nicholas Lardy, senior fellow at the Peterson Institute for International Economics, said, it has mostly been setting its daily fix—where trade starts each day—slightly stronger.

"The Chinese have been doing quite a bit to slow down the rate of depreciation," Mr. Lardy said.

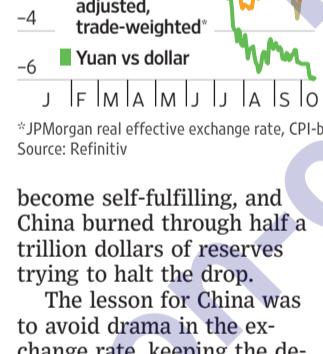
Why would China want to keep its currency stronger? In the long run because it has been trying to encourage more consumption, which is helped by having a stronger currency. Lots of exports are nice to have, but workers want cheap imports and foreign travel, too.

In the short run, the incentive is to avoid panic. In 2015, China made a mistake by suddenly devaluing the currency, prompting speculators to pile in to bet against the yuan—and domestic companies to unwind the huge bets they had made on the yuan rising. The fall began to

Not Your Grandfather's Yuan

China has long stood accused of intentionally weakening its currency against the dollar, but it now seems to be doing the opposite.

Performance since the beginning of the year



*JPMorgan real effective exchange rate, CPI-based

Source: Refinitiv

become self-fulfilling, and China burned through half a trillion dollars of reserves trying to halt the drop.

The lesson for China was to avoid drama in the exchange rate, keeping the decline in check and restricting outflows of money. So far, it has worked, with currency reserves down only 2% from January's peak.

This is manipulation but not the sort that the U.S. worries about. Worse, if China did as the U.S. wants and decided to intervene to push the yuan up, it would have perverse and unwelcome effects on the U.S. bond market.

To understand, consider

how China used to hold its currency down by building up foreign-exchange reserves—something that was obviously manipulation.

When dollars flowed into the country, either from investment or from its trade surplus, the central bank recycled them back into U.S. Treasurys rather than let the yuan rise.

This made China's exports more competitive until its wages rose and held down U.S. interest rates.

If China were to intervene to strengthen its currency now, it would mean selling U.S. Treasurys or at least not rolling over maturing holdings, and selling the dollars

for yuan. With markets already on high alert over rising bond yields, adding to the selling pressure on Treasurys wouldn't be welcome.

Finally, the entire U.S. approach is odd. The Treasury's tests label countries as currency manipulators only if they are deliberately weakening their currencies, not if they are deliberately

strengthening them. If we cared about free markets, as Mr. Pence claimed, both should be seen as equally bad.

Mr. Pence is right that there is no proper free market in the yuan. But if there was, it would most likely be falling even faster than it has been.

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BUSINESS NEWS

Porsche Taps Brakes On Talk of Listing

BY WILLIAM BOSTON

BERLIN—Porsche AG, the sports car maker owned by **Volkswagen AG**, reined in its finance chief on Monday after he fueled speculation that the company was discussing a potential listing of a super luxury group combining Porsche, **Lamborghini**, **Bugatti** and Bentley that could value the group at up to €70 billion (\$81 billion).

In a statement, Porsche sought to walk back the comments, rejecting “speculation” about a possible listing of some or all of the company.

“Porsche does not currently have any plans to pursue a (partial) initial public offering. The Stuttgart-based sports car manufacturer denies all re-

according to media reports.

Mr. Meschke also said he had raised the issue with the Porsche family, Volkswagen's biggest shareholder, and with Volkswagen executives, adding that any decision about an IPO rested with Porsche's parent Volkswagen, according to the reports.

He appears to have spoken in such detail that analysts and investors considered his comments a clear indication that Volkswagen was, in fact, seriously discussing a potential listing of its most valuable brands—something many analysts have urged the group to consider.

“We believe that a separate listing (preferably as a spin off) of Porsche AG is one of the most obvious and logical ways for VW Group to unlock value,” said Arndt Ellinghorst, London-based automotive analysts at Evercore ISI, in a note to clients on Monday.

Analysts have long com-

plained that through its conglomorate structure grouping more than a dozen brands and businesses, the market sharply undervalues Volkswagen. Mr. Ellinghorst suggested that if the company were to spin off minority stakes in various brands and businesses Volkswagen's market value could rise to €150 billion from around €70 billion today.

“The VW Group is a story of locked up value,” Mr. Ellinghorst said.

That is why investors latched onto the Porsche CFO's comments on Monday, driving Volkswagen shares up more than 3.5%, outperforming the broader Dax index of German blue chips listed on the Frankfurt Stock Exchange.

Volkswagen is also preparing its trucks business, Traton AG, for a listing, but it has yet to set a date for the offering. Volkswagen transformed the trucks business into a separate wholly owned stock company to prepare it for a potential listing.

When asked by reporters about a possible listing of all or part of Porsche, Mr. Meschke said a luxury car group combining Volkswagen brands

Porsche, Lamborghini, Bentley and Bugatti, would be worth many times more than Ferrari, which went public in 2015 and is worth about €19 billion. He said a valuation of the Porsche-led luxury group of €60 billion to €70 billion “doesn't sound like a stretch,”

Porsche CFO Lutz Meschke's comments fueled speculation about the car maker's plans.

ports to the contrary that claim an IPO is in progress,” the company said.

Porsche CFO Lutz Meschke made the comments on the sidelines of a media event at Porsche on Friday, but they weren't reported until Monday. Porsche didn't deny that Mr. Meschke made the comments nor did it claim he had been misrepresented in reports.

When asked by reporters about a possible listing of all or part of Porsche, Mr. Meschke said a luxury car group combining Volkswagen brands

Porsche, Lamborghini, Bentley and Bugatti, would be worth many times more than Ferrari, which went public in 2015 and is worth about €19 billion. He said a valuation of the Porsche-led luxury group of €60 billion to €70 billion “doesn't sound like a stretch,”



Superdry, known for a logo accompanied by Japanese characters, sells apparel including hoodies. Recent warm weather hurt demand.

Clothing Brand Feels Heat

BY DAPHNE ZHANG AND ADAM CLARK

Shares in **Superdry PLC** plunged 21% on Monday after the British clothing brand warned hot weather in Europe and the U.S. had hit demand for its jackets and sweats.

The brand, known for its eponymous logo accompanied by Japanese characters, generates 45% of its annual sales from cold-weather clothing. But it said unseasonably hot weather in the U.K., continental Europe and on the East Coast of the U.S. over the summer and autumn so far had significantly affected demand.

Superdry said it expects profit to be hit by about £10 million (\$13 million) because of the warm weather. It said full-year profit would now be heavily influenced by its performance in the second half of the fiscal year.

The company also said Monday that currency hedging had failed to provide the pro-

tection expected, resulting in approximately £8 million of additional foreign-exchange costs.

The double financial hit prompted some investors to sell, helping send Superdry's stock to its lowest level since January 2015. The stock, down by more than half over the past 12 months, closed 21% lower in London.

“Superdry's weather-related profit warning could raise significant questions over the true strength of the retailer's brand,” said Russ Mould of broker AJ Bell. “Superdry must deliver a solid performance if it is to win over doubters.”

The company said it is seeking to address its reliance on autumn and winter clothing by expanding into dresses, skirts and women's tops. It also said it was moving into new market segments such as sport products, giving the company's global consumers broader choices.

Superdry last month re-

Weather Blues

Superdry's share price fell 21% amid a profit warning related to the effects of warmer weather.

£10.50



Source: SIX

THE WALL STREET JOURNAL.

aimed at younger, more fashion-driven customers.

“Superdry is a strong brand with significant growth opportunities...but we are not immune to the challenges presented by this extraordinary period of unseasonably hot weather,” said Chief Executive Euan Sutherland.

Founded in 1985 in the English spa town of Cheltenham under the name Cult Clothing, the company launched its Superdry brand in 2003. For the fiscal year ended in April, the company reported group revenue of £872 million and net profit of £53.3 million.

The brand, which has 246 stores, including 30 in the U.S., has proved particularly popular with shoppers in their teens and 20s.

Chief Financial Officer Ed Barker said Superdry will soon open an e-commerce platform in the U.S. as well as several new bricks-and-mortar stores in the New York, Los Angeles, Washington and Orlando, Fla., markets.

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As of 9/30/18, Balanced Fund Class I Shares Morningstar Ratings™ in the Allocation – 50% to 70% Equity Funds category: 5 stars out of 703 funds, 5 stars out of 619 funds and 5 stars out of 450 funds, for the 3-, 5-, and 10-year periods, respectively. Global Life Sciences Fund Class I Shares Morningstar Ratings™ in the Health Funds category: 3 stars out of 129 funds, 3 stars out of 120 funds and 4 stars out of 97 funds, for the 3-, 5-, and 10-year periods, respectively. Global Technology Fund Class I Shares Morningstar Ratings™ in the Technology Funds category: 4 stars out of 181 funds, 3 stars out of 173 funds and 4 stars out of 139 funds, for the 3-, 5-, and 10-year periods, respectively. Forty Fund Class I Shares Morningstar Ratings™ in the Large Growth Funds category: 4 stars out of 1258 funds, 4 stars out of 1129 funds and 3 stars out of 818 funds, for the 3-, 5-, and 10-year periods, respectively.

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receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. Ratings may vary by share class. Ratings based on risk-adjusted returns. © 2018 Morningstar, Inc. All Rights Reserved.

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TECHNOLOGY

PERSONAL TECHNOLOGY | By David Pierce

Pixel 3 Upgrades the Android World

The age of the annual upgrade is about over. For decades, the only way to get the latest and greatest in tech was to buy new stuff: a new computer with that color screen, a new version of "Halo." Now "Fortnite" drops new characters every few weeks and your Alexa speaker gets smarter pretty much constantly.

When Google announced the new Pixel 3, the latest in the company's lineup of smartphones designed to compete with Apple iPhones and Samsung Galaxy phones, it marketed the phone's many nifty new features. Its camera knows when you're smiling! It screens your calls! Then it revealed the best news of all: Most of what makes the Pixel 3 great is also headed to older Pixels—and likely to other Android devices as well.

Google really only restated the obvious: Hardware doesn't really matter anymore, especially since most devices have more power than we're using. It might again when we start wearing AR glasses and hailing self-flying cars, but for now, software is everything.

If you're in the market for a new phone, the Pixel 3 is the best Android device on the

market. It even bests the iPhone in a number of important ways. If you're not looking for a new device—and if you bought a phone in the past year or so, why would you?—you should still be glad the Pixel 3 exists. Because it'll probably make your phone better, too.

Pick a size

Pixel 3 actually refers to two devices. There's the slick 5.5-inch handset that's a bit smaller and lighter than the iPhone XS, and there's the behemoth 6.3-inch XL version. (They start at \$799 and \$899, respectively.) Other than screen and battery sizes, the

Pixel 3 and Pixel 3 XL are identical.

The Pixel 3 may not be hardware focused, but I do like the way the phone looks and feels. It's not quite the dense, glassy gem the iPhone is, but it's soft and inviting. Otherwise, this waterproof, headphone jack-less rectangle ticks a lot of boxes:

- * **Processor:** Fast
- * **Screen:** Vivid
- * **Camera:** Better than ever, especially for selfies
- * **Battery life:** Usually not dead before bedtime
- * **Fingerprint reader:** On the back where I like it

Strangely enough, my favorite part of the new phone



The Google Lens feature turns the camera into a search box.

might be its wireless charging accessory: Google's \$79 Pixel Stand turns the phone into a Google Home of sorts, displaying helpful information and taking voice commands while it fills up.

Helping hand

There's no more important Pixel feature than Assistant, Google's chatty virtual helper. It can take a selfie, answer questions, start music, show weather and calendars, turn off the lights, open settings, find an app and lots more. On the Pixel 3, it can even screen your calls: Tap a button and Google picks up the call for you, letting the person know you aren't available and transcribing on your screen what they say in return. It's impressive, and deeply weird.

When the Assistant meets the Pixel's camera, the phone really shines. There's Google Lens, the feature that essentially turns the camera into a search box—it figures out what's in the frame and tells you more about it.

The Pixel 3 has a Photo-booth mode, which is supposed to snap a shot when you're smiling or making a silly face. It's cool when it works, but too inconsistent.

Even sans all the fancy features, the Pixel 3 takes terrific photos and video.

holders want to cash out at a lower price than he feels is fair. Dell, which has been meeting with investors in an effort to sell the deal, has said its offer is final. As shareholder dissatisfaction simmered, Dell interviewed several banks about the possibility of a straight initial public offering, which it saw as a backup option should the current deal fail, the Journal reported last month. But Mr. Icahn and other DVMT shareholders have dismissed it as an empty threat.

Mr. Icahn also said in his letter he is considering making a competing partial bid to buy DVMT shares, should some

known as much for its corporate products such as storage, servers and security software. Its majority stake in VMware is seen as its most promising asset.

DVMT was created to help finance Dell's 2016 purchase of storage pioneer EMC. Dell went private in a roughly \$25 billion leveraged buyout in 2013 by Mr. Dell and Silver Lake.

In Mr. Icahn's several-month clash with Dell at the time, the buyout group eventually marginally increased the price and added a dividend, prompting Mr. Icahn to relent.

he did more research, according to people familiar with the matter.

He recently boosted his position from 1.2%.

P. Schoenfeld Asset Management LP, which owns a much smaller DVMT stake, said in a letter made public Oct. 5 that the consideration should be increased by 20%. Mr. Icahn would be unlikely to support a deal even at that price, the people said.

Mr. Icahn also said in his letter he is considering making a competing partial bid to buy DVMT shares, should some

investors voiced concerns privately to him, no other large shareholder came forward and

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Chinese Drugmaker Sticks With IPO Plan

BY JOANNE CHIU
AND PREETIKA RANA

Seeing Red

Shares of three biotechnology companies in Hong Kong have sunk below their listing prices.

Change since IPO

Ascletis Pharma Aug. 1, 2018

-57%

BeiGene Aug. 8, 2018

-30%

Hua Medicine Sept. 14, 2018

-12%

Source: FactSet
THE WALL STREET JOURNAL.

BeiGene Ltd. have fallen since they began trading in August. BeiGene, which has offices in China and the U.S. and is also listed on the Nasdaq Stock Market, had raised \$903 million.

Separately, shares of Shanghai-based **Hua Medicine**, which went public in Hong Kong in September and is focused on diabetes treatments, have fallen 12%.

"Anytime you have companies without earnings, people value them based on sentiment," said Ian Woo, managing director of C-Bridge Capital, a health-care-focused private-equity firm based in Shanghai. He said investors are still trying to understand the Chinese biotech sector and how to value the companies.

Biotech stocks listed on the Nasdaq—the main global hub for such listings—have fared comparatively better, slipping about 5% since August.

Innovent is moving forward with its IPO after a rough week for global markets. Chinese stocks, among the biggest losers in last week's market selloff, fell further Monday. Stocks in China and Hong Kong have broadly lost more than a fifth of their value since January.

Innovent is planning to sell 326 million new shares and begin trading Oct. 31.

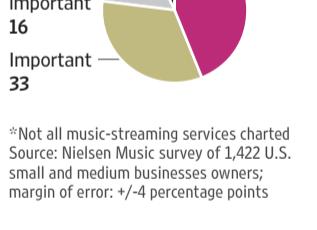
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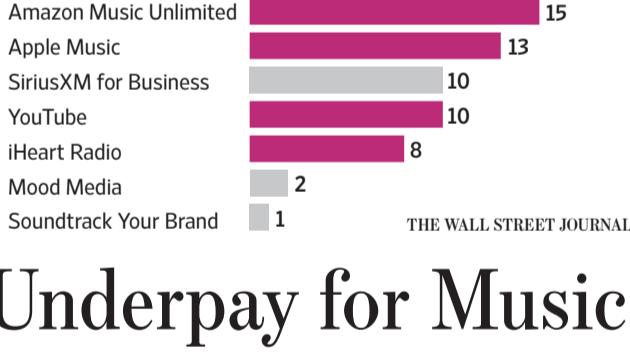
The Hong Kong shares of cancer-drug developer

Background Music

Few business owners understand the legal aspects of playing background music but say it's vital.

U.S. business owners that think playing background music is important to their business

* Not all music-streaming services charted
Source: Nielsen Music survey of 1,422 U.S. small and medium businesses owners;
margin of error: +/- 4 percentage points

Share of U.S. business owners paying to play background music

THE WALL STREET JOURNAL.

Retailers Underpay for Music

BY ANNE STEELE

LOS ANGELES—Luis Ulloa keeps his Spotify account blasting at his Blackbird Pizza Shop, which he opened late last year in a former punk-rock clothing store on Melrose Ave.

The neighborhood native pays the standard \$9.99 a month for his account, which he and his employees use to play punk tunes throughout the workday.

He has never heard that businesses are supposed to pay licensing fees to play music—or that Spotify's terms of service specify that the music is for noncommercial use.

"Everybody does it like this," says Mr. Ulloa, who has worked in the restaurant business for 25 years.

Services like Spotify and Apple Music have returned the music business to growth by getting consumers to pay again after years of rampant piracy. But those same services are being used in violation of usage policies in commercial settings like coffee shops and small retail stores at an estimated cost of \$2.65 billion each year to artists, labels and publishers, according to a new report from Nielsen Music.

The report was commissioned by Soundtrack Your Brand, a former subsidiary of Spotify Technology SA previously known as Spotify Business that sells a music-streaming service for businesses.

The findings highlight a

complication of the rapid rise of streaming as more people choose to pay for access to vast catalogs of music instead of owning it. They also may point toward a growth opportunity for the music industry—if the market for music in these businesses can be properly captured.

While large retail chains with big budgets use in-store music providers like Mood Media Corp. (formerly known as Muzak), there are around 21 million smaller businesses globally that use consumer

services without authorization, according to the report. It surveyed small and medium businesses across the U.S. and six countries in Europe.

Pandora Media Inc., Sirius XM Holdings Inc. and Soundtrack Your Brand, in which Spotify is still a key investor, offer music-streaming service options for businesses in the U.S. costing around \$25 to \$35 a month. Still, many businesses are using \$9.99-a-month subscriptions to Spotify or Apple Inc.'s Apple Music, whose terms of service offer only personal, noncommercial uses.

As the music industry re-

bounds from an era of piracy among consumers, the commercial market represents a largely untapped site of growth, according to Stockholm-based Soundtrack Your Brand, which has been discussing the report's findings with record labels and other rights holders.

Playing music in businesses or other public settings requires permission from some of those rights holders, but technology has sometimes gotten ahead of existing licensing mechanisms.

To play music from CDs, radio or live, most businesses in the U.S. are supposed to obtain a license from a performance-rights organization representing songwriters, who are entitled to compensation when music they have composed is played in a public setting.

The two biggest such organizations in the U.S., ASCAP and BMI, offer "blanket" licenses that pay songwriters and music publishers based on estimates of how often their work gets played in public.

To stream music, a business is supposed to pay for a subscription that includes the right to play it in a public setting; subscription services like Mood Media and Soundtrack Your Brand typically cover such rights.

The terms of service on Apple's iTunes Store, for instance, don't permit commercial uses of songs downloaded from the site.

BUSINESS NEWS

Google Defends Chinese Search Plan

BY DOUGLAS MACMILLAN

Google's chief executive defended his company's plan to explore a search engine tailored for users in China despite concerns that would mean complying with the country's strict internet censors.

In his most extensive public remarks on the topic, Sundar Pichai said entering China in some ways aligns with the company's mission to provide information to the world's population, since one-fifth of those people reside in China. Even complying with China's censors, he said, Google would be able to deliver search results to more than 99% of queries and in some cases deliver more helpful results than users currently get from local search engines.

The comments, during an onstage interview Monday at a Wired technology conference in San Francisco, followed reports several weeks ago about Google's secret China search project that sparked a backlash from human-rights advocates and Washington lawmakers, who warn the effort could aid a repressive regime.

Google, a unit of **Alphabet Inc.**, also faces pressure from its own employees to do only work that adheres to the company's values. In August, hundreds of employees signed a letter asking Google to give rank-and-file workers a voice in the ethics-review process and the ability to opt out of working on certain projects.

Google decided in 2010 to withdraw its search engine from China to protest government censorship and attempts to hack into the Gmail accounts of Chinese human-rights activists. Google co-founder Sergey Brin then described the government as having the "earmarks of totalitarianism" of the Soviet Union, where he was born.

Companies with better-off plans weigh a transfer of retiree obligations to insurers

BY TATYANA SHUMSKY

U.S. corporate pensions are at the highest funded level since the financial crisis, which could lead more companies to turn over to insurers the responsibility for paying retirees, pension consultants say.

Higher funding levels mean corporate sponsors get a better deal when transferring retiree obligations to insurers, so many firms are finding this to be the perfect time to transfer the risks associated with carrying pension plans.

Defined-benefit pension plans of S&P 500 companies were in aggregate 91% funded at the end of September, according to research released Monday by Goldman Sachs Asset Management. That is the highest level since the end of 2007, when these plans were 108% funded, according to the report. Nearly one-quarter of the plans are now either fully funded or overfunded, the report said.

Having a highly funded pension plan "makes transferring the risk more affordable," said Peggy McDonald, senior vice president and actuary at Prudential Retirement, which takes over portions of corporate pensions. "A plan sponsor that's only 80% funded is going to have to put in more money than one that's better funded."

She explained that a company must fully fund the parts of the plan it wishes to transfer and then pay a fee to the insurer.

A run-up in interest rates is one of two drivers bolstering pension plans' financial standing.

Higher rates translate into lower pension-plan liabilities. Plan managers use today's interest rates to calculate how much money they need to put into their pension plans every



FedEx Corp. in May transferred about \$6 billion in pension liabilities covering about 41,000 retirees to MetLife Inc.

year so that they can afford to pay out promised benefits in the future.

Higher rates mean the plans can expect to earn more on their investments and therefore require smaller annual contributions from the corporate sponsor.

Pension plans are also on firmer footing as a result of increased contributions from corporate sponsors sparked by the new U.S. tax law.

Many companies scrambled to top up their pensions ahead of a mid-September deadline that allowed them to claim a higher tax deduction by counting the contributions toward the prior calendar year and therefore the old tax regime.

"This is really a unique situation of the stars aligning for funded levels to rise," said Mike Moran, chief pension strategist at Goldman Sachs Asset Management.

As funding levels rise, plan managers typically look for av-

enues to reduce the risk associated with carrying that plan, Mr. Moran said.

The risk can be sizable.

Companies record their pension obligation as a liability on the balance sheet, but the amount changes each year to reflect shifts in interest rates and the value of the plan's investments, among other factors.

This can expose the company to swings in the stock and credit markets.

"The volatility in funded status has impacts on earnings and cash flow—it's like a volatile debt that you have on your balance sheet," said Prudential's Ms. McDonald.

This volatility and the fading role of pension plans in corporate retirement programs are enticing more finance chiefs to consider transfers.

Roughly two-thirds of U.S. corporate defined-benefit pension plans are either frozen or closed to new entrants, she

said.

Higher mandatory pension insurance costs are another incentive for chief financial officers to consider transferring pension obligations.

Companies are required to pay insurance premiums to the Pension Benefit Guaranty Corp., a federal agency that acts as a backstop to insolvent plans.

"Keeping participants in the plan is very expensive from a PBGC coverage perspective," said Matt McDaniel, a partner at consulting firm Mercer, a unit of **Marsh & McLennan Co.** "This makes transferring participants to an insurer relatively more attractive."

U.S. companies transferred \$23.3 billion in pension obligations to insurers in 2017. That figure is forecast to reach between \$25 billion and \$30 billion in 2018, according to data from Mercer.

International Paper Co. is among the companies to take

the plunge.

The Memphis, Tenn., paper and packaging maker this month struck its second pension transfer deal in as many years with a unit of **Prudential Financial Inc.**

The insurer will take over pensions for 23,000 of International Paper's retirees, taking on responsibility for about \$1.6 billion in pension payments. The deal will reduce the company's pension plan liabilities by 13%.

Last year, International Paper turned over responsibility for \$1.3 billion of its pension liabilities covering 45,000 retirees.

A spokesman from International Paper didn't respond to a request for comment.

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Climate Change Holds Risks For Brewers, Study Shows

BY ROBERT LEE HOTZ

Brewers including Anheuser-Busch InBev SA, Molson Coors Brewing Co. and Carlsberg A/S are taking steps to maintain supplies of barley, the main crop used in beer, amid climate change. A new study suggests their preparations might not be enough.

The study comes at a time

Efforts to maintain barley supplies might not be enough, researchers say.

of upheaval for the beer industry, which generated \$111 billion in sales in the U.S. alone last year. Fewer Americans are drinking beer, while thousands of U.S. breweries have opened in the past decade, putting pressure on big beer makers.

To increase barley's resilience, farmers have been tinkering with the crop for thousands of years, genetic analysis of seeds has shown. Farmers and brewers in recent years have been trying to develop hardier forms.

"We have seen there are changes that are already happening," said Jess Newman, director of U.S. agronomy at AB InBev, which is testing new barley strains and monitoring crop conditions among its 4,500 growers.

Some industry officials say such efforts should prove sufficient to protect the crop. "We don't see an impending calamity with beer," said Chris Swersey, supply-chain specialist at the Brewers Association, which represents about 4,500 small craft breweries.

In the new study, the researchers built five models of climate change, from least severe to most severe.

In the best-case scenario, crop yields actually rose as much as 90% in certain areas, including regions of China and the U.S., but those increases weren't enough to offset poor harvests world-wide.

In the worst case, global barley crops dried up, beer prices doubled on average, and beer drinking generally dropped. The volume of beer quaffed in China, the world's biggest consumer of beer, could fall by 10%, while dropping in the U.S. by as much as 20%, the researchers said.

The authors found barley yields could fall 3% to 17% across the globe by the end of the century, depending on the severity of climate change.

Most barley is used for animal feed, with only about 17% of the crop used for brewing. That means falling yields could have a disproportionate impact on beer production, making a cold beer costlier and harder to come by, the researchers said in the study, published Monday in the journal *Nature Plants*.

"We made the assumption that farmers may be able to adapt to gradual changes, but it may be harder to adapt to

gradual changes," said Steven Davis, the study's senior author, who studies the environmental impacts of trade at the University of California, Irvine. To model such extreme events, the researchers identified droughts and heat waves that might occur simultaneously during growing seasons.

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The authors found barley yields could fall 3% to 17% across the globe by the end of the century, depending on the severity of climate change.

Most barley is used for animal feed, with only about 17% of the crop used for brewing. That means falling yields could have a disproportionate impact on beer production, making a cold beer costlier and harder to come by, the researchers said in the study, published Monday in the journal *Nature Plants*.

"We made the assumption that farmers may be able to adapt to gradual changes, but it may be harder to adapt to

gradual changes," said Steven Davis, the study's senior author, who studies the environmental impacts of trade at the University of California, Irvine. To model such extreme events, the researchers identified droughts and heat waves that might occur simultaneously during growing seasons.

The study comes at a time

Efforts to maintain barley supplies might not be enough, researchers say.

of upheaval for the beer industry, which generated \$111 billion in sales in the U.S. alone last year. Fewer Americans are drinking beer, while thousands of U.S. breweries have opened in the past decade, putting pressure on big beer makers.

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EQUITIES

Dow Jones Industrial Average

25250.55 ▼89.44, or 0.35%
High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

July Aug. Sept. Oct. 23500
25250.55 ▼89.44, or 0.35%

*Weekly P/E data based on as-reported earnings from Birnvi Associates Inc.

S&P 500 Index

2750.79 ▼16.34, or 0.59%
High, low, open and close for each trading day of the past three months.



July Aug. Sept. Oct. 2600
2750.79 ▼16.34, or 0.59%

*Weekly P/E data based on as-reported earnings from Birnvi Associates Inc.

Last Year ago
Trailing P/E ratio 22.58 21.00
P/E estimate * 16.39 19.39
Dividend yield 2.19 2.24
All-time high 26828.39, 10/03/18



July Aug. Sept. Oct. 2600
2750.79 ▼16.34, or 0.59%

*Weekly P/E data based on as-reported earnings from Birnvi Associates Inc.

Nasdaq Composite Index

7430.74 ▼66.15, or 0.88%
High, low, open and close for each trading day of the past three months.



July Aug. Sept. Oct. 7200
7430.74 ▼66.15, or 0.88%

*Weekly P/E data based on as-reported earnings from Birnvi Associates Inc.

Last Year ago
Trailing P/E ratio 24.75 26.19
P/E estimate * 19.98 21.15
Dividend yield 1.01 1.10
All-time high: 8109.69, 08/29/18



July Aug. Sept. Oct. 7200
7430.74 ▼66.15, or 0.88%

*Weekly P/E data based on as-reported earnings from Birnvi Associates Inc.

Major U.S. Stock-Market Indexes

	Latest		52-Week		YTD		% chg	
	High	Low	Close	Net chg	% chg	High	Low	3-yr. ann.
Dow Jones								
Industrial Average	25482.42	25243.88	25250.55	-89.44	-0.35	10.0	2.1	13.8
Transportation Avg	10600.97	10485.20	10553.97	64.68	0.62	7.1	-0.5	8.7
Utility Average	731.08	722.76	726.35	2.74	0.38	774.47	647.90	-1.2
Total Stock Market	28620.01	28325.52	28376.62	-127.72	-0.45	7.0	2.5	10.5
Barron's 400	714.93	705.97	710.23	1.14	0.16	786.73	676.86	3.5
Nasdaq Stock Market	7500.93	7400.07	7430.74	-66.15	-0.88	12.2	7.6	15.1
Nasdaq 100	7144.16	7047.47	7068.67	-88.54	-1.24	15.6	10.5	17.0
S&P								
500 Index	2775.99	2749.03	2750.79	-16.34	-0.59	7.6	2.9	10.8
MidCap 400	1891.74	1867.43	1879.14	7.89	0.42	2050.23	1801.29	3.3
SmallCap 600	976.50	960.70	970.53	5.15	0.53	1098.36	889.94	6.9
Other Indexes								
Russell 2000	1562.30	1537.55	1553.09	6.42	0.41	1740.75	1463.79	3.4
NYSE Composite	12519.12	12408.70	12425.68	-13.74	-0.11	13637.02	12177.70	0.5
Value Line	547.13	540.57	543.85	1.72	0.32	593.57	533.26	0.2
NYSE Arca Biotech	4910.50	4841.01	4855.10	-57.82	-1.18	5400.34	4045.25	13.6
NYSE Arca Pharma	576.80	571.31	571.97	-0.57	-0.10	598.21	516.32	3.6
KBW Bank	101.21	99.83	99.98	-0.50	-0.50	116.52	97.59	0.5
PHLX® Gold/Silver	71.64	70.01	70.45	1.18	1.70	92.08	61.92	-18.2
PHLX® Oil Service	146.09	142.29	144.69	0.88	0.62	170.18	127.61	4.6
PHLX® Semiconductor	1255.97	1237.49	1241.82	-11.75	-0.94	1449.90	1218.66	1.4
Cboe Volatility	22.89	19.47	21.30	-0.01	-0.05	37.32	9.14	114.9

\$ 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	After Hours % chg	High	Low
SPDR S&P 500	SPY	10,144.5	273.88	-0.52	-0.19	275.78	273.75
AT&T	T	7,135.3	32.34	-0.02	-0.06	32.46	32.27
Intel	INTC	3,506.8	44.35	-0.18	-0.40	44.77	44.35
iPath S&P 500 VIX ST Fut	VXX	2,810.9	34.95	0.44	1.27	35.00	34.25
Tenet Healthcare	THC	2,657.7	25.62	...	unch.	25.62	25.33
Bank of America	BAC	2,643.8	27.80	-0.12	-0.43	28.12	27.79
Freeport-McMoRan	FCX	2,443.7	12.81	-0.02	-0.16	13.00	12.81
Wells Fargo	WFC	2,395.9	53.20	-0.04	-0.08	53.34	52.82

Percentage gainers...

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
SendGrid	SEND	155.6	35.35	4.42	14.29	37.00	30.93
Encompass Health	EHC	58.6	79.83	5.50	7.40	79.83	74.33
Cronos Group	CRON	1,053.8	12.45	0.71	6.05	12.70	11.52
Adobe	ADBE	476.5	249.80	11.79	4.95	252.75	238.00
Global X Uranium ETF	URA	50.5	13.39	0.54	4.20	13.39	12.85

...And losers

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
India Global Cap	IGC	1,031.1	4.65	-0.61	-11.60	5.43	4.64
Finisar	FNSR	67.5	16.47	-0.81	-4.69	17.32	16.42
Campbell Soup	CPB	65.1	36.35	-1.45	-3.84	37.86	36.35
Twilio CIA	TWLO	338.7	73.75	-2.38	-3.13	77.00	72.19
Royal Gold	RGLD	57.2	77.49	-1.33	-1.69	80.14	77.49

Trading Diary

Volume, Advancers, Decliners

	NYSE	NYSE Amer.
Total volume*	821,078,217	12,435,231
Adv. volume*	470,549,092	7,455,515

COMMODITIES

WSJ.com/commodities

Futures Contracts

Metal & Petroleum Futures

	Contract				Open	High	Low	Settle	Chg	Open interest
	Open	High	Low	Settle	Chg					
Copper-High (CMX) -25,000 lbs.; \$ per lb.										
Oct 2,8010 2,8305 ▲ 2,7815	2,7805 -0.015	594								
Dec 2,8085 2,8390 2,7720	2,7885 -0.010	116,239								
Gold (CMX) -100 troy oz.; \$ per troy oz.										
Oct 1222.40 1232.30	1222.40	8.30	1,258							
Dec 1221.20 1236.90	1220.40	1230.30	8.30	373,345						
Feb'19 1226.80 1242.60	1226.80	8.40	57,260							
April 1238.10 1248.30	1238.10	8.40	17,293							
June 1238.60 1254.80	1238.60	8.40	14,681							
Dec 1258.90 1272.90	1258.90	8.80	5,376							
Palladium (NYM) -50 troy oz.; \$ per troy oz.										
Dec 1061.00 1083.60	1059.60	1078.20	17.40	23,402						
March'19 1055.00 1077.90	1055.00	1073.20	17.30	1,837						
Platinum (NYM) -50 troy oz.; \$ per troy oz.										
Oct 844.80 845.30	844.80	842.50	6.30	39						
Jan'19 843.70 854.50	841.70	846.30	6.30	72,165						
Silver (CMX) -5,000 troy oz.; \$ per troy oz.										
Nov 14,590 14,750	14,590	14,676	0.091	711						
Dec 14,625 14,805	14,615	14,727	0.092	160,387						
Crude Oil, Light Sweet (NYM) -1,000 bbls.; \$ per bbl.										
Nov 72.06 72.70	70.85	71.78	0.44	187,390						
Dec 71.91 72.53	70.70	71.61	0.43	422,709						
Jan'19 71.79 72.40	70.61	71.53	0.45	193,556						
March 71.85 72.14	70.46	71.39	0.45	171,797						
June 71.50 71.84	70.22	71.11	0.41	181,615						
Dec 69.80 70.15	68.63	69.47	0.32	224,465						
NY Harbor USLD (NYM) -42,000 gal.; \$ per gal.										
Nov 2,349.0 2,353.3	2,303.2	2,325.7	.0044	89,320						
Dec 2,343.5 2,354.5	2,305.4	2,328.1	.0049	105,664						
Gasoline-NY RBOB (NYM) -42,000 gal.; \$ per gal.										
Nov 1,957.6 1,968.0	1,914.0	1,944.3	.0023	82,916						
Dec 1,956.4 1,967.0	1,913.0	1,943.1	.0027	110,068						
Natural Gas (NYM) -10,000 MMBtu.; \$ per MMBtu.										
Nov 3,218 3,273	3,177	3,242	.081	159,565						
Dec 3,275 3,330	3,236	3,310	.084	202,410						
Jan'19 3,353 3,409	3,318	3,389	.083	234,942						
Feb 3,274 3,318	3,249	3,301	.063	106,892						
March 3,109 3,140	3,090	3,109	.021	232,876						
April 2,742 2,772	2,735	2,754	.008	161,041						

Agriculture Futures

	Open	High	Low	Settle	Chg	Open interest
Corn (CBT) -5,000 bu.; cents per bu.						
Dec 373.00	378.50	371.75	378.25	4.50	819,715	
March'19 385.00	390.50	383.50	390.25	4.50	358,328	
Oats (CBT) -5,000 bu.; cents per bu.						
Dec 287.50	307.00	▲ 283.75	300.25	12.25	4,366	
March'19 277.75	293.50	▲ 277.25	288.50	10.50	1,237	
Soybeans (CBT) -5,000 bu.; cents per bu.						
Nov 867.00	892.00	863.50	891.50	24.00	293,990	
Jan'19 881.00	906.25	878.00	905.75	24.00	210,079	
Soybean Meal (CBT) -100 tons; \$ per ton.						
Dec 316.90	327.30	314.60	327.00	10.10	187,134	
Jan'19 317.80	328.50	315.80	328.40	10.40	95,642	
Soybean Oil (CBT) -60,000 lbs.; cents per lb.						
Dec 29.40	29.78	29.31	29.76	.37	196,005	
Jan'19 29.63	30.01	29.54	30.00	.37	114,474	
Rough Rice (CBT) -2,000 cwt.; \$ per cwt.						
Nov 1060.00	1075.50	1051.00	1075.00	6.50	3,630	
Jan'19 1086.00	1095.50	1068.00	1092.50	5.00	3,677	
Wheat (CBT) -5,000 bu.; cents per bu.						
Dec 518.50	526.00	514.75	525.00	7.75	227,148	
March'19 538.75	544.50	535.25	543.75	6.25	120,723	
Wheat (KC) -5,000 bu.; cents per bu.						
Dec 524.50	532.50	521.75	531.75	7.50	152,549	
March'19 549.00	556.25	545.75	555.50	7.25	75,087	
Wheat (MPLS) -5,000 bu.; cents per bu.						
Dec 559.75	602.25	591.50	600.50	4.50	33,576	
March'19 602.25	609.75	599.00	608.25	6.00	19,513	
Cattle-Feeder (CME) -50,000 lbs.; cents per lb.						
Oct 154.700	155.325	153.775	155.100	.400	4,309	
Jan'19 149.600	150.700	148.675	150.525	.775	23,861	
Cattle-Live (CME) -40,000 lbs.; cents per lb.						
Oct 112.175	113.675	112.050	113.375	1.050	12,065	
Dec 116.300	118.150	116.050	117.975	1.800	122,964	
Hogs-Lean (CME) -40,000 lbs.; cents per lb.						
Dec 55.250	57.600	55.250	56.750	1.750	101,194	
Feb'19 62.475	64.775	62.475	63.900	1.675	39,950	
Lumber (CME) -110,000 bd. ft. \$ per 1,000 bd.						
Nov 324.10	328.60	321.20	325.20	5.10	2,052	
Dec 320.11	322.70	329.10	322.70	5.60	1,118	
Milk (CME) -200,000 lbs., cents per lb.						
Oct 15.60	15.60	15.58	15.60	-.01	4,082	
Nov 15.80	15.81	15.68	15.72	-.04	4,859	

Interest Rate Futures

	Open	High	hilo	Low	Settle	Chg	Open interest

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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.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.

Monday, October 15, 2018

	Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg				
A	ABB	ABB	21.09	-0.17	Americorp	AWK	88.00	0.27	BarrickGold	ABX	12.70	0.23	BauschHealth	BHC	24.68	0.02	Darden	DRI	106.74	-0.02	Ferrari	RACE	115.01	-1.29	MurphyOil	MUR	35.50	-0.22
B	ADT	ADT	7.72	0.20	Ameriprise	AMP	135.74	-0.04	CapitalOne	COF	60.95	-0.24	CardinalHealth	CAH	51.53	-0.10	Deer	DE	148.45	0.03	FlatChrysler	CFL	16.22	0.07	Mylan	MLY	32.37	-0.19
C	AES	AES	14.84	0.19	Ametek	AME	72.26	-0.54	Carlisle	CSL	107.02	0.91	Carlyle	CG	207.05	0.47	DellTechs	DVMT	95.00	0.50	Puritan	PUR	22.99	-0.16	IncomeCorp	NA	61.11	0.02
A	Aflac	AFL	48.32	-0.23	Amphenol	APH	84.37	-0.37	Bechtel	BTX	100.00	-0.01	BectonDicksn	BDX	238.31	-4.31	Baird	BAL	51.84	-0.21	DeltaAir	DAL	51.84	-0.21	MidCap	MDP	11.01	-0.01
B	AGNC Inv	AGNC	17.82	0.06	AnalogDevices	ADI	83.90	-0.27	BechtelBldg	BBL	205.00	-1.77	AnalystGen	ANLY	9.94	0.08	Berkley	BKR	17.63	-0.01	Benthos	BTHS	17.30	-0.01	BankHolding	BH	56.39	-0.30
C	ANGI Homew	ANGI	18.91	-0.30	AndeavorLog	ANDX	46.47	-0.94	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	18.86	-0.01	BechtelCoat	BCL	121.86	-1.13	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13
A	ABBV	ABBV	88.19	-1.51	Andiamo	ANR	17.48	-0.16	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
B	AbbottLabs	ABT	73.36	0.11	Anteris	ANTM	26.78	-4.03	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
C	Abbomed	ABMD	372.08	-12.70	Anteris	ANTM	26.78	-4.03	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
A	Accenture	ACN	157.92	-1.52	Apache	APA	44.57	-0.56	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
B	ActivationBliz	ATVI	75.67	-2.25	ApogeeLmgt	APOL	31.15	0.09	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
C	Adobe	ADBE	238.10	-18.06	Apple	AAPL	217.36	-4.75	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
A	AdvantxDev	ADP	166.93	1.81	AppMaterials	AMAT	33.43	-0.26	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
B	AdvMkDevices	ADMK	26.26	-0.08	Appartgroup	ATR	102.15	0.50	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
C	Aegon	AEG	6.05	-0.08	Apptv	APTIV	73.65	-0.67	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
A	AerCap	AER	53.15	0.46	Apptv	APTIV	73.65	-0.67	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
B	Aetna	AET	196.94	-0.27	Apptv	APTIV	73.65	-0.67	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
C	AffiliatedMgns	AMG	124.67	0.63	AppldGmgt	APOL	31.15	0.09	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
A	AigilentsTech	A	65.63	-0.61	ArchCapital	AGC	27.66	-0.16	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
B	AigilocsEagle	A	37.98	0.69	ArchDaniels	ADM	49.04	0.21	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
C	AirProducts	APD	156.10	-1.73	ArchDaniels	ADM	49.04	0.21	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
A	AkamaiTech	AKAM	63.30	0.30	AristaNetworks	ATRA	20.83	-0.01	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
B	AlaskaAir	ALK	61.86	0.29	AtanodeCoat	ATRN	46.20	-0.01	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
C	Albemarle	ALB	96.05	0.96	AtapTech	ATPN	100.47	-1.16	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
A	Alcoa	AA	35.34	-0.33	Assurant	AIZ	102.30	-0.07	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
B	AlexandraEst	ARE	121.06	1.02	AtstraZeneca	AZT	37.47	-0.02	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
C	AlexionPharm	AALN	121.49	-0.45	AttheCoat	ATH	47.86	0.20	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
A	AlignTech	ALGN	31.73	-0.07	AttheCoat	ATH	47.86	0.20	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
B	Alkermes	ALKS	41.52	-0.12	AttheCoat	ATH	47.86	0.20	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
C	Allegany	AY	6.04	-0.73	AttheCoat	ATH	47.86	0.20	BechtelCoat	BCL	121.86	-1.13	Andiamo	ANR	17.48	-0.16	Bentley	BNTY	11.01	-0.01	BechtelCoat	BCL	121.86	-1.13				
A	Allergan	AGN	83.83	-0.06	Autoliv</td																							

FINANCE & MARKETS

Trade Dispute Disrupts Oil Sales to China

As Beijing turns down U.S. exports, American producers find other takers of its product

BY GEORGI KANTCHEV
AND REBECCA ELLIOTT

U.S. oil exports to China have slowed to a trickle amid the trade spat between Washington and Beijing, in an abrupt reversal that is upending global crude trade flows and forcing American producers to find new buyers.

China was the biggest buyer of U.S. crude oil in the first half. But in August, U.S. crude exports to China, the world's largest oil importer, fell to zero, according to tanker-tracking data surveyed by

COMMODITIES by The Wall Street Journal.

In September, only 30,000 barrels a day of U.S. oil went to China, down from an average of more than 350,000 barrels in the year until July.

As China turns down American oil, U.S. producers have found new markets and overall oil exports haven't fallen significantly.

But the changes have scrambled the global oil trade, with Russia and Saudi Arabia moving in to replace U.S. oil in China. American producers, in turn, are displacing other producers from its new markets. The situation also is hitting the profits of some shipowners, as the long and lucrative route from the U.S. to China dries up.

So far, Beijing hasn't placed tariffs on U.S. crude oil, even as it has imposed them on American liquefied natural gas. Analysts say that the escalating clash over trade between the two nations is the main reason behind the fall in imports.

For China, "putting a dent in U.S. oil exports takes aim at one of the indicators most trumpeted by the Trump administration: U.S. energy dominance," said Jason Bordoff, di-



The U.S. exports nearly 2.6 million barrels a day of crude, up from 500,000 barrels daily in December 2015, according to the EIA.

rector of the Center on Global Energy Policy at Columbia University and a former energy official in the Obama administration.

President Trump has pushed for increased energy exports, including when meeting foreign leaders, not least as one way to shrink America's trade deficit.

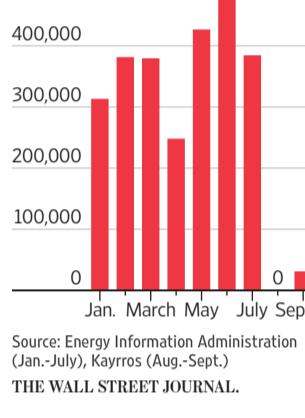
Chinese companies may also be taking a pragmatic approach, limiting their purchases of U.S. oil in case the trade battle escalates further and tariffs are applied.

"If I buy a tanker of U.S. crude it takes 45 days to get it to China, I don't want to find out midway that U.S. oil is now sanctioned," said Amy Myers Jaffe, an energy expert at the Council on Foreign Relations in Washington.

Chinese customs have stopped breaking down oil-imports data in March. Major Chinese oil companies, including CNPC, Sinopec and Cnooc, didn't reply to requests for comment. CNPC's listed subsidiary, PetroChina, declined to comment.

Down to Zero

U.S. crude oil exports to China have dropped off amid an ongoing trade spat



Source: Energy Information Administration (Jan.-July), Kayros (Aug.-Sept.)

THE WALL STREET JOURNAL

uefied petroleum gas also have ground to a halt.

Tanker-tracking companies rely on satellites and sophisticated computer models to monitor the ships, and their conclusions are widely used in the oil industry.

Trade frictions between Washington and its major partners already have reshaped the flow of other U.S. exports, including soybeans and pork.

U.S. exports of soybeans to China fell \$1 billion in August after Beijing slapped a 25% tariff on the product. But much of that lost trade has gone to countries like Argentina and Brazil. Even Iran has been buying up U.S. soybeans, emerging as the biggest buyer of the crop in August, according to Bimco, the world's largest shipowners association.

As less U.S. crude flows to China, other oil heavyweights are taking America's place, cementing longer-term relationships.

Saudi Arabian oil exports to China jumped by 258,000 barrels a day in August, while Russian exports jumped by nearly

200,000 barrels a day, according to tanker tracker Kpler.

U.S. exporters don't expect trade tensions to reduce global appetite for their product. They are instead finding new customers.

The shale revolution unleashed vast reserves of new U.S. energy, driving crude production to a record 11.2 million barrels daily this month, according to the U.S. Energy Information Administration. Export growth has helped spur that increase since 2015 when Congress abolished a 40-year-old ban on shipping American oil to most international buyers.

The U.S. now exports nearly 2.6 million barrels a day of crude, up from 500,000 barrels daily in December 2015. Oil flows to India, Hong Kong, Australia and Denmark. Even Georgia, sandwiched between big oil producers Russia and Azerbaijan on the Black Sea, took a shipment of U.S. crude last year.

—Lin Zhu
contributed to this article.

Crude Prices Rise As U.S., Saudi Threats Mount

Oil prices closed higher Monday on the back of mounting threats between the U.S. and Saudi Arabia over the suspected killing of a dissident Saudi journalist.

Light, sweet crude for November delivery rose 44 cents, or 0.6%, to \$71.78 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, gained 35 cents, or 0.4%, to \$80.78 a barrel.

Prices have recently been pulled lower by negative market data, including climbing crude supplies in the U.S. and downward revisions to demand growth by the Organization of the Petroleum Exporting Countries and the International Energy Agency.

However, growing tension between the U.S. and Saudi Arabia are providing some support to the market as another perceived risk to global supply.

President Trump said the U.S. would impose "severe punishment" on Riyadh if an investigation implicates the Saudi government in the case of Jamal Khashoggi, who disappeared after he entered the Saudi consulate in Istanbul on Oct. 2.

The tit-for-tat threats between the U.S. and the Saudis are "giving rise to new uncertainty for the oil market," according to analysts at Commerzbank.

Turkish officials have said they have audio and video recordings showing Mr. Khashoggi was killed inside the consulate.

On Sunday, the Saudis vowed to retaliate against any punitive measures from Washington.

—Christopher Alessi
and Stephanie Yang

More Bad News for Florida's Juice

BY JULIE WERNAU

Florida's orange groves are recovering. But that is unlikely to save the long troubled market for frozen concentrated orange juice.

The number of boxes containing Florida citrus is expected to hit 79 million in the 2018 to 2019 season, a 76% increase from last year's production of about 45 million boxes, according to the U.S. Department of Agriculture.

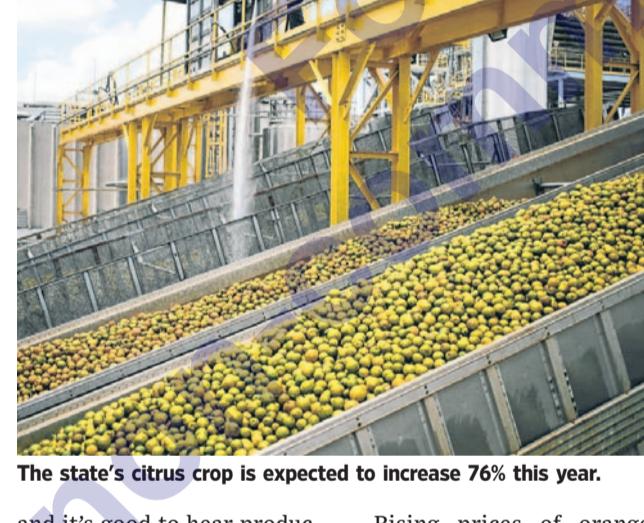
That is good news for farmers but not for orange-juice futures contracts, which rely on crops grown in Florida, as opposed to California oranges that are mostly grown for eating.

The higher supply for a product that is suffering from decreasing demand has led to prices of orange-juice futures slumping 13.5% to \$1.4485 a pound since August.

The falling market highlights the industry's struggles. Last year, an incurable disease that devastated Florida groves, along with Hurricane Irma, led to a shortage of oranges from the state.

The scarcity sent prices of Florida oranges surging. Orange-juice makers said the price rise led them to sell juice in smaller containers—a move that further deterred American consumers who are already drinking less orange juice.

"It's been a very difficult year for growers no doubt,



The state's citrus crop is expected to increase 76% this year.

and it's good to hear production for this season is expected to be up," said Michael W. Sparks, chief executive of Florida Citrus Mutual, an industry group. "Growers continue to show resilience and a commitment to replant and get the industry back on its feet."

Sales haven't improved. In the four weeks through Sept. 29, the total number of orange-juice gallons sold fell 6.4% from a year earlier, as prices increased 2.2%.

For the whole season that runs through the end of September, sales are down 4.9% from the prior season, continuing a multiyear trend of shrinking demand.

Rising prices of orange juice found in supermarkets can actually depress futures prices because higher retail prices typically lower consumer demand for the products tied to those contracts.

Last year, as prices for Florida oranges moved to highs, some of the country's biggest orange-juice sellers shrank packaging.

Pepsi Co.'s Tropicana shifted from a 59-ounce to a 52-ounce bottle, following a similar move by its competitor, Coca-Cola Co.'s Simply Orange.

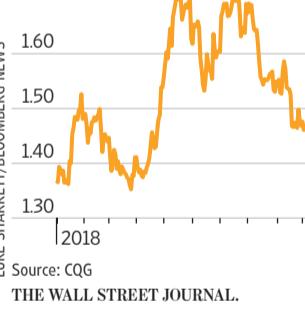
The new packaging increases prices for consumers on a per-ounce basis.

Florida also faces in-

Squeezed Out

Orange-juice futures are sliding as the market anticipates a recovery in Florida.

Frozen concentrated orange-juice futures prices



Source: CQG

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creased competition from regions like Brazil, which has solidified its dominance in the orange-juice market in recent years.

While crops were dwindling in Florida last year, Brazil produced one of the largest orange crops on record. The discrepancy led orange-juice makers to import juice from Brazil and Mexico, mixing it with Florida juice—a trend they are likely to continue, some in the industry say.

All this spells bad news for the frozen concentrated orange juice market, with Florida's recovering groves only serving to push down futures prices.

IMF Warns of Risks in China's Debt Markets As Popularity Booms

BY MIKE BIRD

China's \$12 trillion bond market is becoming more popular with foreign investors, but sharp swings in trading volumes could present a risk to the country's financial stability, according to the International Monetary Fund.

Trading activity in the world's third-largest bond market closely tracks volumes in China's market for repurchase agreements—or repos—where banks, investors and financial firms pledge securities to borrow cash for short periods, often overnight.

According to the IMF's October 2018 Global Financial Stability Report, trading volumes of Chinese government and corporate bonds have been far more volatile than in the U.S. That is likely because most bond purchases in China were financed with borrowed money. In 2017, repo borrowing was 15 times the size of average daily trading volumes in the Chinese bond market, twice as high as the peak level recorded in the U.S.

Over the past few years, Chinese bond trading slumped whenever the cost of short-term borrowing rose. Activity surged when interest rates fell. Bond-trading volumes have fluctuated by as much as 200% in a year, according to the IMF report, following that pattern.

"This procyclical link between bond trading and financial conditions represents a significant vulnerability in China's financial markets," wrote IMF financial-sector expert Henry Hoyle.

The concern is that bond-market liquidity could rapidly dry up if interest rates shift quickly, making it difficult for financial institutions to sell assets or roll over their repo loans to fund themselves.

A vicious circle could result if higher demand for short-term borrowing pushes rates higher and further reduces liquidity, according to Mr. Hoyle.

China's bond market has become increasingly important to international investors, who be-

came this year the biggest buyers of Chinese government debt.

Brad Setser, an economist at the Council on Foreign Relations, noted that foreign demand for Chinese bonds exceeded foreign demand for U.S. bonds in the second quarter of 2018.

The share of the Chinese bond market held by overseas investors is still relatively small, or below 3%, according to the China Central Depository & Clearing Co. Interest

Global investors are becoming more active buyers of the country's bond offerings.

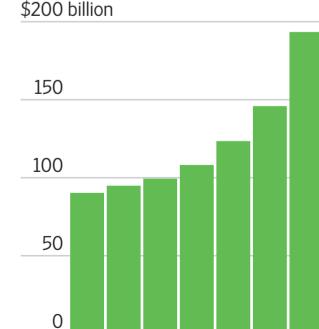
has grown with the prospect of the bonds' inclusion in major debt indexes.

The IMF's report suggests the growing presence of foreign investors might be a calming influence on the Chinese bond market's trading volatility, but the wild activity is something to keep an eye on for would-be buyers from overseas.

Increasing Interest

A rising amount of central bank foreign-exchange reserves are denominated in Chinese yuan.

Official reserves denominated in yuan



Source: International Monetary Fund

THE WALL STREET JOURNAL

A New Exchange Looks to Profit From Fear

BY GUNJAN BANERJI

Just after the stormiest week for U.S. markets in months, investors may get a new way to bet on Wall Street fear.

Miami International Holdings Inc., a small but rapidly growing exchange operator, won regulatory approval on Friday for options on an index that tracks expectations for U.S. stock volatility. The measure, called SPIKES, competes head-to-head with the already established Cboe Volatility Index, known as the VIX.

The approval comes after both the S&P 500 and Dow Jones Industrial Average capped their worst weeks since March.

The VIX shot up in popularity over the past decade. But unusual activity and manipulation claims have dogged it this year, leading to lawsuits against its operator, Cboe Global Markets Inc. The company has taken steps to change VIX derivatives trading.

Six-year-old MIAx says SPIKES is a more efficient and transparent way to track ex-

pected stock volatility. A key difference will be that trading options on SPIKES will be completely electronic. The VIX remains heavily reliant on an old-school trading floor at Cboe's headquarters in Chicago. SPIKES also is designed to disseminate a level every 100 milliseconds. A level for the VIX is generated every 15 seconds.

Another big difference is that SPIKES is based on options prices on the biggest S&P 500 exchange-traded fund, the SPDR S&P 500 ETF Trust, known as SPY. The VIX

is determined by prices of options on the S&P 500 index itself—contracts that can only be traded on Cboe.

SPIKES "is not the first attempt by a competitor to launch a VIX-like product," said a Cboe spokesman in an email. "As seen last week, the marketplace turns to VIX options and futures for opportunities to manage uncertainty and risk."

Princeton, N.J.-based MIAx says there is interest in its exchange, MIAx Options, from a number of options-trading firms.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: heard@wsj.com

A Fight Brews Over China's Yuan

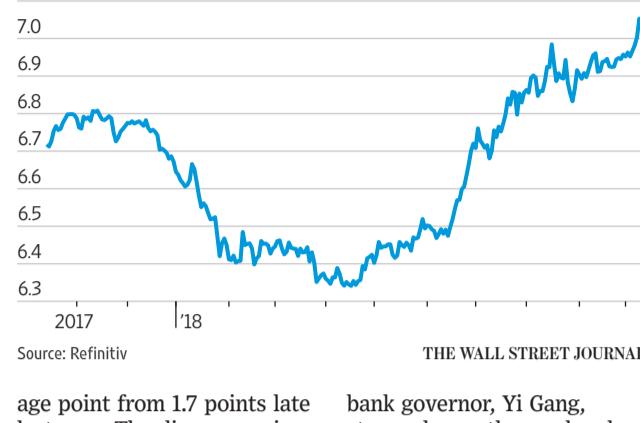
Investors and Beijing are gearing up for a fight over the yuan, with hedge funds betting the currency will fall below 7 to the dollar for the first time in more than a decade and Beijing essentially saying "No way."

China's yuan stands at 6.9225 against the dollar, 1% above the psychologically important level of 7. The yuan last traded at that level in 2007, when the Chinese economy was far smaller and its currency was rising rather than falling. The one-year foreign-exchange forward contract on offshore yuan briefly spiked above 7 last week.

There is nothing magical about that number, but it seemed to be the do-not-cross line when China's central bank defended its currency in 2016. This time around, Beijing may find it harder to hold that line because interest rates in the U.S. are rising while China needs to ease to counter the economic slowdown at home. The difference between China's 10-year government bonds and the comparable U.S. Treasury note has shrunk to half a percent-

Unlucky Seven

One-year forward exchange rate, dollar against offshore yuan



Source: Refinitiv

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age point from 1.7 points late last year. The divergence in the two countries' monetary policies mean the gap will continue to narrow or reverse so that U.S. bonds yield more than Chinese. That draws money into dollars and out of yuan, pushing up the dollar against the yuan.

The 7 level is especially important now because China is under pressure from the U.S. not to depreciate its currency to offset the impact of trade tariffs. China's central-

bank governor, Yi Gang, stressed over the weekend that the country wouldn't engage in competitive devaluation. Another concern for China is capital flight. The yuan depreciation in 2015 sent billions flowing out of the country, and China's central bank eventually needed to spend around \$1 trillion of its foreign-exchange reserves to defend the yuan.

Hedge funds share none of those worries and see the yuan as vulnerable. Beijing

has made clear that this view is unacceptable. The interbank lending rates on the offshore yuan in Hong Kong spiked last week, an indication that Chinese authorities have tried to squeeze out the shorts by making it more expensive to borrow the yuan.

But speculators don't seem deterred. Three-month 25-delta risk reversal on the dollar versus the offshore yuan—a gauge of bearish versus bullish bets—has stayed higher. A higher number means investors are willing to pay more for bearish bets on the yuan versus the dollar.

China's capital controls, tightened after 2016, seem to be working well this year, as capital outflows are minimal even though the yuan has dropped 10% against the dollar since February. Foreign inflows into China's bond and stock market, in part because they have recently been included in popular indexes, also has helped. But as China's housing market—a major investment for Chinese—starts to feel a little shaky recently, the real test is ahead.

—Jacky Wong

OVERHEARD

You may have thought the **Superdry** clothing brand was Japanese, given its abundant use of Japanese script.

But in fact, the first Superdry store was in London, where the company is listed. Its Englishness shone through in a profit warning Monday featuring extensive discussion of the weather.

The company bemoaned "unseasonably hot weather conditions in the U.K., Continental Europe and the East Coast of the USA" that hit sales of its autumn and winter products. This bodes ill for the crucial winter months and its shares tumbled.

Unhelpful weather is the latest in a long list of problems to have hit Superdry's U.S. business.

The U.S. has been something of a graveyard for British retailers. **Tesco**, the largest U.K. supermarket chain, and **Marks & Spencer**, the largest clothing chain, both have tried and failed to expand in the U.S. Maybe Superdry thought masquerading as a Japanese brand would help.

Oil Markets Can't Ignore Saudi Threat

Relax—this isn't 1973. But don't relax too much.

Oil prices ticked higher over the weekend when the Saudi Press Agency put out an ominous statement from an unidentified senior official threatening a hard response to actions the U.S. might take in response to the suspected murder of journalist and U.S. resident Jamal Khashoggi. It said Saudi Arabia would "respond with greater action."

But memories of 45 Octobers ago, when the "oil weapon" was unsheathed by Arab oil exporters led by Saudi Arabia and crude prices quadrupled, bear no resemblance to today's reality. For one, that embargo is acknowledged to have backfired in the long run. For another, the White House is bending over backward to defuse the situation with President Trump dispatching Secretary of State Mike Pompeo to Riyadh and even suggesting to journalists on Monday that "rogue killers" might have been behind the alleged murder.

Mr. Trump needs Saudi Arabia more than usual at the moment. With Iran sanctions getting tighter, Venezuela's production collapsing and oil prices hitting a four-year high before last week's tumble, the only meaningful spare capacity today is from the Gulf kingdom.

A figure close to the Saudi royal court wrote that the market couldn't "rule out the price jumping to \$100 and \$200 a barrel or maybe double that figure."

That isn't in the cards, but even a less accommodative Saudi response to any shortfall with Iran could put upward pressure on prices in coming months.

—Spencer Jakab

Bank of America Should Seize the Chance to Boost Growth

Bank of America could afford to be a bit bolder—not that it has to.

The lender has long been known to analysts as one that does particularly well in a rising-rate environment. Its large and loyal deposit base shields it somewhat from competition on the funding side, while rates on its credit card and business loans adjust upward quickly.

This is playing out now as the Federal Reserve continues to raise rates. Bank of America on Monday said third-quarter profit jumped 32% from a year earlier on a 4% rise in revenue, both results beating expectations.

Slowdown

Bank of America's growth of loans and leases from a year earlier



Source: the company

Bank of America's net interest margin was 2.42%, up from 2.38% the previous quarter and 2.36% a year before. Total deposits rose 5%

from a year earlier. The company said its sensitivity to higher rates actually increased since the previous quarter.

Slowing lending growth is a concern, though, as are the bank's somewhat lackluster investment-banking results. Total loans, including some runoff assets left over from years past, were basically flat from a year earlier. Core loans rose by 3%, slowing from 5% growth in the second quarter. Loans in the consumer unit were up a respectable 6%, but business-unit loan growth was slow at just 2%. Chief Financial Officer Paul Donofrio said this is

partly because large corporate clients are flush with cash thanks to tax cuts.

Bank of America also has lost ground to rivals such as **JPMorgan Chase** in investment banking. The good news is that management recognizes this and wants to step things up. "I know we can do better. This is about re-energizing our teams and engaging our clients better," Mr. Donofrio said Monday.

Bank of America's risk-averse culture has served it well under Chief Executive Brian Moynihan, who has been in place since 2010. The company doesn't need to shed its "responsible growth"

mantra to hire a few more investment bankers or to go after a few new corporate clients. With things coming up its way on interest rates, it can afford such a move.

Investors can afford to be a bit more optimistic, too. Bank of America's shares, at 1.18 times book value, are reasonably priced and significantly cheaper than those of rivals such as JPMorgan and **Wells Fargo**. They can head higher if the bank just keeps doing what it has been—riding the wave of higher rates while controlling costs. Any new growth drivers it develops would be icing on the cake.

—Aaron Back

MARKETS

Treasurys Weaken As Shares Decline

By DANIEL KRUGER

Prices of U.S. government bonds declined as stocks fell only modestly. The yield on the benchmark 10-year Treasury note rose to 3.163% from 3.140% Friday.

CREDIT MARKETS Bond yields rose when prices fall.

Yields climbed as U.S. stocks calmed after notching their sharpest weekly drops in months on Friday. The fall in stocks was precipitated in part by a sharp climb in Treasury yields, which reached multi-year highs earlier this month.

The 10-year Treasury yield is roughly 0.75 percentage point higher now than it was at the end of last year. The yield on the two-year note, which settled Monday at 2.861%, has climbed almost 1 percentage point. Some analysts said their climb is forcing investors to reassess the value of companies, while also making bonds increasingly attractive compared with stocks.

The rise in yields in recent weeks has been fueled by improving expectations for U.S. growth, along with easing of

geopolitical tensions on trade with Canada and Mexico. Concerns also eased about the potential for contamination from turmoil in emerging markets.

The U.S. economy grew at a 4.2% annualized pace in the second quarter, and the Federal Reserve Bank of Atlanta's GDP Now forecast suggests the economy expanded at a 4% rate in the third quarter.

In one sign of investors' increasing expectations for growth, the gap between the yields on two- and 10-year government notes has widened to 0.302 percentage point from 0.2 percentage point in August.

AUCTION RESULTS

Here are the results of Monday's Treasury auctions. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

13-WEEK AND 26-WEEK BILLS

Applications \$133,171,905,500 \$112,023,599,600

Accepted bids \$45,000,425,500 \$39,000,054,600

*noncomp \$1,057,807,500 \$814,405,600

*foreign noncomp \$224,000,000 \$500,000,000

Auction price (%) 99.426194 98.779083

(2.27%) (2.41%)

Coupon equivalent 2.31% 2.47%

Bid at clearing yield accepted 41.44% 22.33%

Cusip number 912796Q19 912796R44

Both issues are dated Oct. 18, 2018. The 13-week bills mature on Jan. 17, 2019; the 26-week bills mature on April 18, 2019.

U.S. Stock Indexes Extend Slide

By MICHAEL WURSTHORN

Shares of **Netflix**, **Amazon.com** and other rapidly growing companies fell, resuming a stock-market pullback that has shaved billions of dollars of value from one of investors' most popular trades.

Growth and momentum stocks, the linchpin of the 9%-year bull market, led the broad index lower.

Investors, meanwhile, moved into sectors of the stock market that have more attractive valuations and tend to be more durable in challenging economic conditions, such as consumer-staples and real-estate companies.

A combination of sharply rising bond yields and continuing trade fears has stirred investors to reassess valuations and cut riskier stocks from their portfolios.

The declines extended a rout last week that had sent the S&P 500 down 4%, its biggest weekly loss since March, raising further questions as to whether pricey tech stocks can continue to dominate the stock market.

Even after several days of selling, tech stocks are trading at 17 times future earnings, more than the S&P 500's multiple of 16 times, according to FactSet.

"Cost pressures emerged, there's trouble in the emerging markets such as China and rates have had a huge move in a very short period of time," said Lew Piantedosi, director of growth investing at Eaton Vance. "The names getting hurt the worst have been the names that have done the best" this year, he added.

The S&P 500 fell 16.34 points, or 0.6%, to 2750.79, extending its losses for the month to 5.6%. The Dow Jones Industrial Average slipped 89.44 points, or 0.4%, to 25250.55. The tech-heavy Nasdaq Composite fell further, shedding 66.15 points, or 0.9%, to 7430.74.

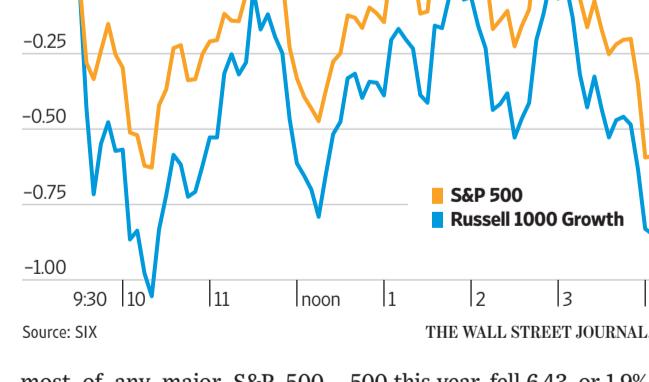
Tech stocks fell 1.6%, the



An Amazon.com store in New York. Shares of highflying Amazon slid \$27.66, or 1.5%, to \$1,760.95.

Losing Momentum

Growth stocks resumed their pullback on Monday, pulling the S&P 500 lower.

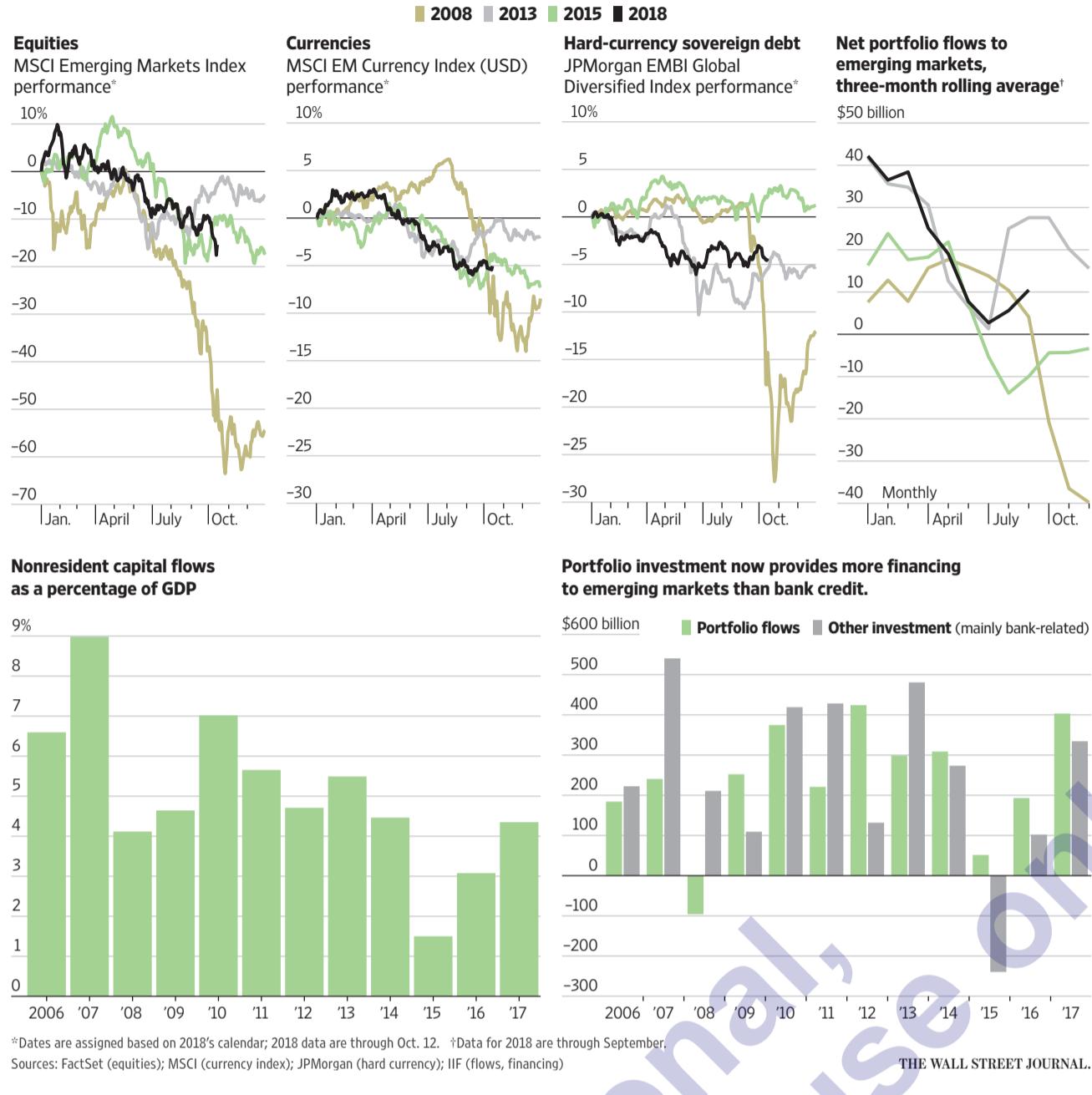


MARKETS

New Investors Rattle Emerging Markets

By CHRISTOPHER WHITTALL

The currencies, stocks and bonds of developing economies have tumbled this year, making it among the past decade's worst selloffs.



*Dates are assigned based on 2018's calendar; 2018 data are through Oct. 12. †Data for 2018 are through September.

Sources: FactSet (equities); MSCI (currency index); JPMorgan (hard currency); IIF (flows, financing)

Across equity and currency markets, this year's selling looks sharper than the so-called taper tantrum of 2013, when the belief that the Federal Reserve would trim its bond purchases pushed U.S.

rates higher, hurting emerging-market debt. Losses in hard-currency bonds, or those denominated in foreign currencies such as dollars, were heavier compared with today. In 2018, those assets denomina-

nated in local currencies are faring worse.

Another crucial difference this time around is that a handful of countries are bearing a large part of the selling. This year, Turkey, Argentina

and Venezuela have accounted for around 35% of the widening gap between emerging-market bond yields and Treasurys, according to Bhanu Baweja, deputy head of global macro strategy at UBS.

"In mainstream emerging markets, there are very few countries that are on the precipice of a crisis. That's down to one very simple thing: You don't have massive external debt," said Mr. Baweja.

Emerging economies' reliance on foreign money has diminished compared with a decade ago. In 2017, overseas capital flows to emerging markets equaled 4.35% of gross domestic product compared with almost 9% in 2007, according to the Institute of International Finance. That makes these economies less vulnerable to a withdrawal of foreign cash.

Turkey, one of the countries investors are most worried about, has foreign debts that the IMF calculates at around 53% of GDP in 2017.

"Emerging markets are much more robust right now in terms of foreign flows," said Emre Tiftik, deputy director of global capital markets at the IIF.

The source of the cash flowing into emerging markets has also changed. Asset managers buying up bonds and stocks now provide more cash to emerging economies than bank lending. Before the financial crisis, banks lent far more money.

That means losses from rising defaults in emerging markets will be shared by asset managers and the banking system. That reduces the chances of a systemic crisis, but could hurt pension pots. Also, bank loans tend to be longer term, while funds can usually move in and out of investments quickly, potentially leading to greater volatility.

The drop-off in foreign fund flows to emerging markets has been just as abrupt as during the taper tantrum, according to data from the IIF.

As in 2013, flows were running at a high level before the start of the latest crisis. The rolling three-month average net flows came to over \$40 billion in January, underscoring just how bullish investors had been coming into the year. The question now is whether those flows turn negative in the coming months, as in 2008 and 2015. If they do, that could presage further pain for emerging-market assets.

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