

# THE WALL STREET JOURNAL.

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## What's News

### Business & Finance

**October's stock-market rout** deepened, sending the Dow into the red for the year and putting the Nasdaq down more than 10% from its recent high. The Nasdaq sank 4.4%, while the Dow and the S&P 500 fell 2.4% and 3.1%, respectively. **A1**

◆ **Tesla reported** a record quarterly profit as increased production of its Model 3 sedan halted a seven-quarter stretch of red ink. **A1**

◆ **AT&T's show-business assets** outshined its larger telecom divisions, boosting earnings despite a record slump in satellite-TV subscriptions. **B1**

◆ **Ford's net fell 37%** amid sharply lower results in China and Europe, trouble spots that are complicating the firm's turnaround plans. **B2**

◆ **Microsoft's cloud service** is decelerating, but the firm is making up for it through an offshoot of the business that mixes in its software sales. **B3**

◆ **NBC News is expected** to drop Megyn Kelly's morning show and her future with the network is in doubt, people familiar with the matter said. **B1**

◆ **New York sued Exxon Mobil**, accusing it of misleading investors about the risks climate-change regulations pose to its business. **B3**

◆ **Boeing said** its business is booming, thanks to strong demand for commercial jets and new defense projects. **B3**

◆ **Two Wells Fargo executives** went on leave after the OCC cited them in regulatory warnings. **B10**

◆ **Forest City's ex-CEO** plans to oppose a deal to sell the firm to Brookfield. **B10**

### World-Wide

◆ **A series of bombs** in manila envelopes with similar address labels were sent to Barack Obama, Hillary Clinton and other prominent Democrats, setting off a manhunt for the terrorist behind what officials believe was a targeted attack. A bomb was also found at CNN. **A1**

◆ **Saudi Arabia's crown prince** called Khashoggi's killing hideous and struck a conciliatory tone with Turkey, in his most forceful bid to move beyond the crisis and mend strained ties with the U.S. and Ankara. **A1, A7**

◆ **Apple CEO Cook issued** the tech giant's strongest call yet for U.S.-wide data-protection regulation, saying personal information has been "weaponized." **B1**

◆ **A federal jury found** an Adidas executive and two others guilty on fraud charges in a college-baseball corruption trial. **A3**

◆ **African-American voters** are emerging as a crucial factor in the Democratic Party's fight for key Senate seats and governors' mansions. **A4**

◆ **Officials at the DHS and HHS** weren't given advance notice of the "zero tolerance" immigration policy, a government report said. **A3**

◆ **The EPA will stop** using letter grades on some of its environmental-permitting reviews, calling the process antiquated. **A6**

◆ **Iraq's new prime minister** was sworn in after lawmakers approved a majority of his cabinet, passing the first test of his leadership. **A8**

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# U.S. NEWS

CAPITAL ACCOUNT | By Greg Ip

## Some Pacts Are Unfair to U.S.

Last week, the Trump administration announced it was quitting the global treaty that governs mail delivery, calling it unfair to the U.S. Another episode of Trump vs. the World? Yes, but in this case probably justified—and therein lies a lesson.

President Trump's frequent threats to tear up the pacts governing U.S. relations with the world are often met with a full-throated defense of the global rules-based order. Yet many of the pacts that make up that order have features that disadvantage the U.S., sometimes for reasons that have become obsolete.

The **Universal Postal Union** is an excellent example. Founded in 1874 and now an agency of the United Nations, the UPU ensures that when a post office delivers a letter to another country, the receiving post office carries it to its local destination.

Originally, post offices did this free. Then in 1969, UPU members began negotiating "terminal dues," fees that post offices pay their foreign counterparts for costs incurred delivering their mail. Post offices in richer countries charged their developing-nation brethren lower dues to help them out.

The cost of this arrangement became apparent as China rose to become the world's dominant supplier of factory goods. The UPU classifies China as a developing country, so the U.S. Postal Service can't charge its Chinese counterpart the full cost of delivery. Americans can order small manufactured products such as CDs, DVDs, small electronics and dietary supplements from China at a lower cost, including delivery, than from

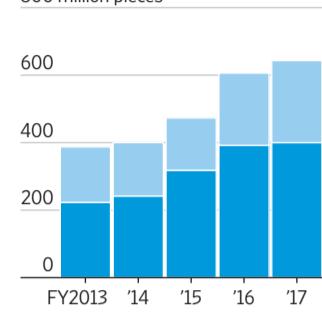
### Postage Due

A growing volume of foreign packets has imposed steep losses on the U.S. Postal Service.

#### U.S. Postal Service inbound international mail\*

Subject to UPU-determined fees\*

800 million pieces

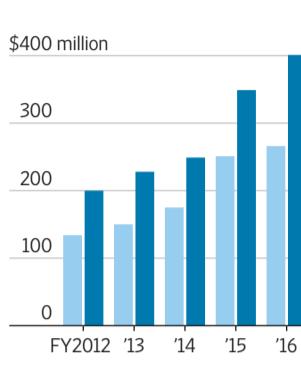


\*Weighing 4.4 pounds or less. †Universal Postal Union terminal dues

Note: Fiscal years end Sept. 30.  
Sources: Postal Regulatory Commission (mail); Government Accountability Office (cost/revenue)

#### U.S. Postal Service cost and revenue from inbound international mail

Revenue Cost



made little progress, says Scott Paul, president of the Alliance for American Manufacturing, which advocates for U.S. steelmakers: "China is perfectly happy to enter into a lot of dialogue as long as there aren't actual commitments that are binding or actionable." Steel tariffs were Mr. Trump's response.

Since the North American Free Trade Agreement came into force in 1994, foreign auto makers have used loopholes in its rules of origin to shoehorn ever more non-North American content into Mexican-assembled cars. The renegotiated pact addresses that.

**A**s with the UPU, the U.S. has grown frustrated with the World Trade Organization's inability to cope with the rise of China. U.S. Trade Representative Robert Lighthizer complains other countries use the WTO's dispute settlement mechanism to bat down American trade remedies even as the WTO fails to curb China's distortionary and discriminatory behavior. The U.S. is now blocking appointments to the WTO's top appeals panel, which could bring its work to a halt.

The jury is out on whether Mr. Trump's approach to these problems hurts or helps. He doesn't help his case by alienating potential partners, such as by imposing tariffs on steel and aluminum imports from allies to deal with a Chinese problem.

At a minimum, though, he has forced the rest of the world to take American gripes seriously. On Tuesday the UPU said it commissioned a report it hopes resolves U.S. complaints. And the European Union recently proposed a sweeping reform of the WTO. The Trump administration's response so far has been tepid; now that it is being listened to, it needs to reciprocate.

plained Robert Taub, chairman of the Postal Service's overseer, the Postal Regulatory Commission.

The UPU may be an especially clear-cut example, but similar irritants exist in many international arrangements. The U.S. has traditionally overlooked them for the sake of international cooperation and the welfare of its allies, who in

*The postal treaty is a clear example of rules that unfairly give China an advantage.*

turn have little incentive to change the status quo.

Mr. Trump has sought to change that.

Steel manufacturers have long suffered from global excess capacity, much of it in China. In search of a solution, the U.S. and other major economies formed the Global Forum on Excess Steel Capacity in 2016. It

**CORRECTIONS & AMPLIFICATIONS**

Ruiz Food Products Inc. is based in California, and its manufacturing facility in Texas produced taquitos that were recalled. A Business News article Tuesday about food recalls incorrectly said the company is based in Texas.

Thomas Nelson published Bob Goff's "Everybody, Always," No. 10 on the Nonfiction E-Books list for the week ended Oct. 14. The Best-Selling Books chart in Saturday's Review section incorrectly listed Zondervan as publisher.

**Alabama timber broker** Skip Steed's last name was misspelled as Stead in a Page One article Oct. 10 about depressed timber prices in the South.

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

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## U.S. NEWS

CLOCKWISE FROM LEFT: BRENDAN McDERMID/REUTERS, BEBETO MATHEWS/AP, MARK LENNIHAN/AP



Adidas executive James Gatto, left, former consultant Merl Code, top right, and aspiring sports agent Christian Dawkins were found guilty over payments made to families of high-school basketball players.

# Adidas Executive Convicted of Fraud

BY REBECCA DAVIS O'BRIEN

A federal jury in Manhattan found an **Adidas AG** executive and two others guilty on fraud charges stemming from payments to families of top-ranked high-school basketball players, a verdict that could have far-reaching implications for efforts to root out corruption in college sports.

Jim Gatto, director of global sports marketing at Adidas, was convicted on all three counts he faced: wire fraud and conspiracy to commit wire fraud in connection with the University of Louisville, and wire fraud in connection with the University of Kansas. Former Adidas consultant Merl Code and aspiring sports agent Christian Dawkins were convicted on the two counts they faced, related to Louisville. They weren't charged in the Kansas case.

Prosecutors from the Manhattan U.S. attorney's office alleged that the three men bribed the recruits' families to induce them to attend Adidas-sponsored universities, including Louisville and Kansas. The victims of the schemes, prosecutors alleged, were the universities themselves, which awarded the players athletic scholarships not knowing they were ineligible under National Collegiate Athletic Association rules because of the payments.

At trial, lawyers for the defendants argued that while their clients violated NCAA rules, they weren't intending to defraud the schools, but help

them by drawing top talent to their basketball programs. Mr. Gatto "thought he was helping, not committing federal wire fraud," his lawyer said in closing arguments last week. "This was a win-win-win."

A lawyer for Mr. Dawkins, Steven Haney, expressed disappointment with the outcome but respected the jury's verdict. "Christian turned down the opportunity to testify against others and can hold his head high knowing he fought the case and faced it like a man," Mr. Haney said. Lawyers for Mr. Gatto and Mr. Code didn't respond to requests for comment.

*The trial was the first to emerge from a probe of alleged corruption in college basketball.*

Evidence and testimony in the three-week trial—including recordings of wire-tapped phone calls and accounts of co-conspirators who pleaded guilty to related crimes—shed light on a sordid underbelly of college basketball, with secret exchanges of cash among apparel companies, coaches, sports-talent managers and players' families.

It also showed how efforts by the NCAA and universities to police amateurism rules in college athletics can miss their mark, even as they subject the athletes to incredible scrutiny.

The defendants didn't testify at trial, and their lawyers didn't put on witnesses. But throughout the trial, the defense argued that while the payments amounted to violations of NCAA rules, they didn't amount to federal crimes.

Some basketball observers scoffed at the notion that schools like Louisville, which reap millions from their basketball programs, could be considered victims of the schemes.

The charges sidelined several players and upended careers: Storied Louisville coach Rick Pitino was essentially fired last fall after he was implicated in the Adidas scheme, although he was never charged. Mr. Pitino, who has denied wrongdoing, was among at least a half-dozen coaches named in the trial in connection with alleged efforts to pay athletes' families.

Adidas wasn't accused of wrongdoing. In a statement following the verdict, the German company said it had cooperated with the investigation and had strengthened its internal processes. "We look forward to continuing to work with the NCAA and other stakeholders...to improve the environment around college basketball."

The trial was the first to emerge from a yearslong probe of alleged corruption in college basketball. Charges were unsealed last fall against 10 people, with allegations of bribery at some of the country's most dominant basketball programs, prompting widespread calls for rule changes.

## Agencies Didn't Get Notice on Migrants

BY ANDREW DUEHREN

Officials at the Departments of Homeland Security and Health and Human Services weren't given advance notice of the Trump administration's "zero tolerance" immigration policy, leaving them struggling to accommodate children separated from their parents, according to a new government report.

The report, released Wednesday by the nonpartisan Government Accountability Office, is the latest to detail the bureaucratic problems of the Trump administration's initiative earlier this year to prosecute all adults who enter the U.S. illegally. Because the government can't hold children in criminal custody, it separated thousands of children from their parents in May and June, drawing widespread criticism from members of both parties before President Trump rolled back the policy.

Staffers at the Office of Refugee Resettlement, which was responsible for hosting many of the children, had noticed an increased number of children separated from their parents before Attorney General Jeff Sessions' April 2018 commitment to the zero-tolerance policy but were told they shouldn't prepare for a greater influx of children.

In November 2017, according to the report, ORR officials were instructed not to plan for a continued increase in the number of separated children because the government didn't have a policy of separating parents from their children, even though they had noticed the stark increase.

Like another previous internal government account of the Trump administration's family separation policy, the GAO report describes how different federal agencies struggled to keep track of and ultimately reunify children separated from their parents. The absence of a central database about the migrants was a key factor in complicating and slowing the reunification of families.

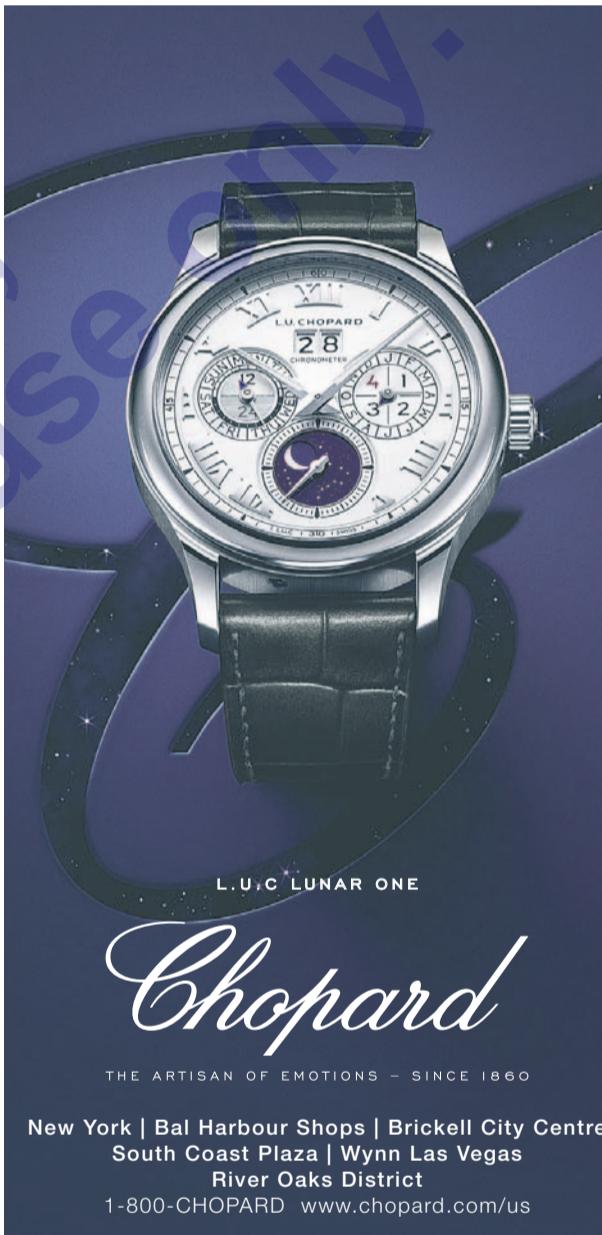
Rep. Frank Pallone, the New Jersey Democrat who requested that GAO investigate the matter, wrote in a statement that the Trump administration's reunification efforts were lackluster and "chaotic."

Katie Waldman, a Department of Homeland Security spokeswoman, wrote that the departments "have worked tirelessly" to reunite parents with their children and defended the administration's zero-tolerance approach.



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## U.S. NEWS

# Democrats Try for More Black Voters

By REID J. EPSTEIN

MILWAUKEE—African-American voters are emerging as a crucial factor in the Democratic Party's fight for Senate seats and governors' mansions.

Some of the tightest statewide contests in this year's midterm elections are Senate races in the Midwest, Florida and Tennessee. In each of them, Democrats' hopes rely heavily on their ability to turn out African-American voters.

That demographic is traditionally Democratic. And yet a falloff in African-American support was an important and overlooked factor in Hillary Clinton's 2016 loss to Donald Trump. If those vote totals remain depressed, the party's hill to climb becomes much steeper.

The party has 10 senators up for re-election in states Mr. Trump carried. To take control of the Senate, it must save all of them and flip a net of two Republican-held seats.

Democratic and Republican

officials involved in congressional races generally believe Democrats will win a House majority and Republicans will retain control of the Senate, though officials in both parties caution that in the age of President Trump, public opinion can be volatile. With less than two weeks before Election Day, events could still change the result in a number of close races.

Democrats' shortcomings among African-American voters spelled big trouble in the last presidential election. Take Wisconsin. In 10 majority-black zip codes on Milwaukee's north side, Mrs. Clinton won about 24,000 fewer votes than Barack Obama did in 2012. Mr. Trump won the state by 22,748 votes.

Mrs. Clinton won majority-black zip codes there and elsewhere, but her margins consistently fell short of those Mr. Obama racked up against Mitt Romney. Her winning margin in the majority-black areas trailed Mr. Obama's by 21% in Wisconsin, 11% in Michigan, 14% in Indiana, 15% in Missouri and 18% in Ohio, according to **TargetSmart**, a Democratic political analytics firm. Each state is home to a Senate Democrat facing re-election Nov. 6.

"When people say, 'Why didn't we show up to vote?'" in 2016, "I say, 'Why didn't the candidates show up?'" said Mandela Barnes, a 31-year-old African-American Milwaukeean who is the Democratic nominee for lieutenant governor of Wisconsin. "We had the luxury of Barack Obama in 2012. After that, there was no kind of gathering, no kind of organizing."

Democrats have nominated African-American candidates for several statewide offices, including governor's races in Florida and Georgia, which have drawn millions of dollars from donors outside those states.

Party operatives have shown up in some places the Clinton campaign ignored, and they have built get-out-the-vote infrastructure intended to last past the election. Two super PACs, **Priorities USA Action** and **Senate Majority PAC**, have launched an online ad campaign using images of white nationalists in Charlottesville, Va.

Mr. Trump has exhorted blacks to vote for his party because of U.S. economic gains during his presidency. "We're asking...all African-American voters to honor us with their support this November," the president said two weeks ago in Ohio. "I think we're going to



*'I wouldn't [have voted in 2016] because of the people who were running, the choices. I felt like both of them would have done more harm to folks in our community than good.'*

Keisha Robinson, 41, Community Organizer with daughter Joann Robinson, 25, Canvasser



*'Mental health issues are definitely important. Health care is going to be one of the biggest issues, I think, coming up in the near future that we need to pay attention to.'*

William Sims, a founder of The National Association for Black Veterans and Center for Veterans Issues

WAYNE LAWRENCE FOR THE WALL STREET JOURNAL (3)

get the African-American vote."

In Wisconsin, Republicans say even if Democrats resurrect Obama-era black turnout, the GOP has gained in rural areas that were Democratic bastions before 2016. The state GOP's goal is to hold those gains and raise its margin in black areas to 15% from 11% won in 2016, said Gerard Randall, chairman of the state party's African-American Advisory Council.

He said Republicans aim to appeal to black voters by touting the party's support of the state's school voucher program, which allows poor children to use taxpayer money to attend private schools.

Asked if the coming election is more or less important than past congressional contests, 60% of African-Americans say more important, according to an October Wall Street Journal/NBC News poll. The figure is way up from 40% who said "more" in August.

Democratic appeals to black voters hit on policy issues including criminal justice reform, maintaining Affordable Care Act protections and creating jobs in black communities. In Wisconsin, Sen. Tammy Baldwin's campaign reminds voters she sponsored legislation that would forbid federal employers and contractors to ask job applicants about their criminal history on job applications.

State-by-state, Democrats are trying to build on the enthusiasm.

An eight-year-old Detroit nonprofit called Good Jobs Now, focused on voter turnout in black neighborhoods, used to operate only in the months just before elections. Branden Snyder, a former deputy field director for Mrs. Clinton's campaign, heads the group now and plans to keep it running year-round, past Michigan Democratic Sen. Debbie Stabenow's re-election race against Republican John James.

In Missouri, Democratic Sen. Claire McCaskill has opened an office in Ferguson, the St. Louis suburb that sparked the Black Lives Matter movement after an unarmed teenager was killed by a police officer in 2014. It is the first field office in Ferguson for a Democrat running statewide in Missouri since Mr. Obama's campaign opened one in 2008.

Ms. McCaskill's GOP opponent is state Attorney General Josh Hawley.

In Indiana, Cordelia Lewis-Burks, an African-American who is vice chairman of the Indiana Democratic Party, has urged statewide candidates to hire more black officials for their campaigns. "You can't send some major kid into an African-American community and expect to have an impact with black folks," she said. "They will not even open the door for you." Democratic Sen. Joe Donnelly is in a close race there against Mike Braun, a Republican who is a former state legislator.

In Wisconsin, where Democratic Sen. Baldwin is seeking re-election, the director of her campaign in Milwaukee, Sheila D. Cochran, has a wall map

allowed to vote as long as they have a valid form of identification, such as a driver's license. "These people can vote," the spokesman said.

In Wisconsin, since Gov. Scott Walker and his fellow Republicans took control of the state government in 2011, they have enacted a law requiring voters to have state-issued identification bearing their current address. Democrats say that unfairly targets inner-city blacks, who are less likely to have a long-term fixed address. Mr. Walker is seeking a third term this November against Democrat Tony Evers, the state superintendent of public instruction.

Mr. Randall, the chairman of the Wisconsin GOP's African-American Advisory Council, said state Republicans have made efforts to increase black turnout. "I'm going to throw the B.S. flag down on the Democrats' charge that there's an effort under way to suppress African-American voters," he said. "That's just not true."

When Mrs. Clinton didn't visit Wisconsin during the 2016 campaign, misinformation filled the void. Asked what she knew about Mrs. Clinton before not voting in 2016, Joann Robinson, 25, said: "That she owned some slaves." That false rumor spread on the internet from a passage in Mrs. Clinton's 1996 book "It Takes a Village" about prison laborers who worked at the Arkansas governor's mansion.

Janice Agnew, 45, said she "didn't know nothing about Hillary Clinton." Keisha Robinson, 41, said she "heard a lot of negative things about her."

The three work for **Black Leaders Organizing for Communities**, or BLOC, one of a handful of local progressive organizing groups formed or augmented since 2016 to create permanent political infrastructure in black neighborhoods.

Executive Director Angela Lang said BLOC began by asking black Milwaukeans about local issues such as speed bumps before broaching electoral politics. "We really started to shift what civic engagement looks like," Ms. Lang said. "It's not just voting a couple times a year. It needs to be a year-round organizing effort."

In some neighborhoods where BLOC organized, voter turnout for the state's August primary for governor jumped 60% from 2014, the last midterm year.

During a canvass on North 34th Street, BLOC organizer Rick Banks asked Tasha Holmes, a 44-year-old who helps people fighting foreclosure, if she planned to vote for Sen. Baldwin and Rep. Moore.

Ms. Holmes said she backed the congresswoman but was unsure about the senator.

Ms. Moore "walks the street. You see her every day. I've caught her in the grocery store," Ms. Holmes said. "I haven't run into Tammy Baldwin."

Ms. Holmes said she will probably vote for Ms. Baldwin because she is the Democratic Senate candidate. "But is she my first choice? No, she's not."

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with the lowest-turnout blocks highlighted in yellow. "Those are the wards that I worry about," she said. Campaign literature pictures Ms. Baldwin hugging Rep. Gwen Moore, a fixture of the city's black political community.

Ms. Baldwin's Republican opponent, State Sen. Leah Vukmir, appeared at a rally Wednesday with Mr. Trump in Mosinee, a Wisconsin town far from the state's black population. Ms. Baldwin plans to campaign with Mr. Obama on the north side of Milwaukee on Friday.

Democrats say the GOP strategy on black voters in some places is to prevent them from voting.

In Georgia, Secretary of State Brian Kemp put a hold for review on 53,000 voter regis-

tration applications because they violated the state's "exact match" verification process, which requires the voter information to be identical to information on file with motor-vehicle or Social Security records.

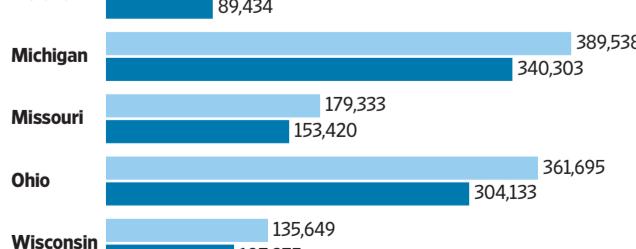
Some of the registrations were placed on hold for errors such as a dropped hyphen in a name. About 70% of registrations put on hold are from African-Americans, according to the **Associated Press**, while 32% of the state's population is black.

Mr. Kemp, who is the Georgia GOP nominee for governor, blamed a voter registration organization that used to be run by his Democratic opponent, Stacey Abrams, for improperly submitting voter registration forms. His campaign spokesman said everyone who submitted an application will be al-

## Getting Out the Vote

African-American voter turnout is key to Democrats' Senate hopes in the midterms. In 2016, Hillary Clinton won majority-black districts but by less than Barack Obama did four years earlier.

### Votes in majority-black ZIP codes in select Midwest battleground states



Source: TargetSmart

THE WALL STREET JOURNAL.

## U.S. NEWS

# Texas Town Frays After School Shooting

BY DAN FROSCH  
AND TAWNELL D. HOBBS

SANTA FE, Texas—At a September school-board meeting in this rural town, a group of families stood before a lectern to recite the names of loved ones killed in a school shooting last May.

But when Scot Rice—whose wife, Flo, was shot five times that day and survived—also began to read the names of those injured, board President J.R. “Rusty” Norman interrupted to tell him his allotted time was up.

“There’s dead bodies between me and you,” Mr. Rice retorted, as two police officers approached him.

“Let him speak!” shouted the crowd of victims’ families. Mr. Rice was permitted to continue.

Santa Fe was unified in grief after a student opened fire on its lone high school on May 18, killing 10 and wounding 13. But fissures have widened in this community of 13,400 in recent months.

Victims’ families have accused the Santa Fe Independent School District of doing too little to help them recover and of being insensitive to safety concerns, among other issues. While officials said they’ve tried to be responsive, the frustration has turned political, with some families calling to oust the superintendent and backing new candidates in next month’s school-board election.

Relationships between parents and school districts are often rocky soon after mass shootings. But the continuing acrimony in this conservative town about 35 miles southeast of Houston has been particularly intense.

District spokeswoman Patti Hanssard said the board and the district wanted to work with parents and “restore the

culture of trust.” She cited recent changes including metal detectors, more police officers and mental-health counselors.

Victims’ families said it isn’t enough. Some said they have barely heard personally from administrators since the days following the shooting, leaving them without adequate assistance as they try to manage extended leaves of absence from work or to care for wounded children.

Sonia Lopez shuttled her 16-year-old daughter Sarah Salazar, who was shot multiple times in the shoulder, to aquatic therapy 30 minutes away three times a week, until the sessions covered by insurance recently ran out. Ms. Lopez left her job

**‘They just want all this stuff swept away,’ said the husband of a teacher who died.**

to assist her daughter and is relying on family and donations to help pay the bills. She is trying to get the insurer to approve more sessions.

Meantime, Ms. Lopez said the school district “should be able to help out,” adding that “this happened while in school, while under their care.”

Flo Rice, a substitute teacher, said when she called the district for help with workers’ compensation insurance, nobody called her back.

Ms. Rice, who was in a wheelchair and now walks with a cane from wounds in both legs, later met with an administrator. The insurance hasn’t paid for disabled-accessible modifications to her home, and she says she was told there was nothing the school could do.

After the heated school-board meeting in September, where some families made critical comments, video footage posted on the district’s website was edited to exclude them. Steve Perkins, whose wife Ann, a substitute teacher, was killed in the shooting, said he was “appalled” to find his statement was among those deleted.

“They just want this stuff swept away,” he said.

Ms. Hanssard said the school district leaves out public comment in video of meetings in the “best interest of student confidentiality.”

Parents have also taken issue with how the school handled threats since the shooting. Last month, principal Rachel Blundell told parents in a letter about a text message from “individuals” that included “threatening comments against a group of students.”

Later, an internal email from Ms. Blundell that contained more details leaked onto social media. It said one student sent another student names of those they wanted to kill. In that email Ms. Blundell encouraged teachers to “distract students from talking about it.”

Ms. Blundell’s office referred a request for comment to Ms. Hanssard, who said the school was committed to constant communication on student safety.

Some victims’ families are backing two school-board candidates, Jessica Hagewood and Tina Longcoy, who have said safety, bullying and greater accountability are paramount issues. Those families said their political activism is driven by exasperation that, months after the attack, they feel they still have to fend for themselves.

“I felt like I was put in a raft and set adrift,” Ms. Rice said. “There was just no one there for me.”



**Substitute teacher Flo Rice, top, uses a cane after being wounded in both legs in the school shooting and needed disabled-accessible modifications to her home. Sarah Salazar, left, with her mother, Sonia Lopez, was shot multiple times in the shoulder. Ms. Lopez says the insurance coverage has run out for aquatic therapy sessions to aid her daughter's recovery.**

## Nasdaq Takes Steep Fall

Continued from Page One us asking, ‘What is this? What should we do?’” Mr. Grant said.

The steepness of Wednesday’s late-day tumble renews questions that have cropped up this month about the health of the global economy and leaves investors pondering whether the nine-year rally is at a turning point. Few investors are predicting a recession in the near term, but some are debating whether the market will withdraw further under pressure from higher interest rates, softening global growth expectations and continued political tumult.

The Nasdaq Composite tumbled 329.14 points to 7108.40, pushing it 12% below its Aug. 29 record and into correction territory for the first time since February 2016. The index, which is still up 3% for the year, joins transportation, small-capitalization, bank and biotechnology stocks in correction territory as investors have broadly sold riskier assets in recent weeks.

The Dow industrials fell 608.01 points, or 2.4%, to 24583.42, and the S&P 500 declined 84.59 points, or 3.1%, to 2656.10. The Dow is 8.4% below its Oct. 3 record and down 0.5% for the year, while the S&P 500 is off 9.4% from its Sept. 20 peak and down 0.7% for the year.

“It just really felt like people were throwing in the towel today,” said Rob Bernstein, a managing director in equity trading at Credit Suisse Group. “It’s going to be interesting to

see what happens tomorrow.”

Investors will be keeping an eye on the market response to Wednesday evening’s major earnings releases. Shares of Tesla Inc., Microsoft and Ford Motor Co. rose in after-hours trading on their results, potentially boosting sentiment for Thursday’s session. But Advanced Micro Devices Inc. slumped following its latest report, a setback that could add to recent pressure on the semiconductor sector.

Wednesday’s session was the opposite of Tuesday’s in many ways, with stocks opening little changed before tumbling in the afternoon. A day earlier, the Dow industrials had fallen nearly 550 points early in the day only to erase most of that decline by the close.

Analysts said the continued whipsaw trading reflects the unsettled condition of markets around the world, with pockets of weakness again morphing

into a far-reaching sell-off.

While declines started in names such as AT&T, they eventually spread to companies like industrial conglomerates including GE, which slumped 4.1%.

“It just seemed like once we saw the intraday turn and it didn’t trigger buying, it all unraveled,” said Frank Cappelleri, executive director and senior equity sales trader at brokerage Instinet in New York.

Worries about global growth and peaking corporate earnings have recently buffeted stocks around the world, along with commodities. Highflying internet and technology shares have been among the hardest hit. Investors have flocked toward the technology sector for years because of the group’s ability to consistently expand sales regardless of global economic growth, but recent trade tensions between the U.S. and China and signs that earnings might be peaking have hurt the

market’s leaders.

While many of those technology shares are still sitting on sizable gains for the year, investors have said their protracted slump reflects heightened concern about whether their outsize sales increases can continue. The powerful drops are also a sign that some investors expect a slower rate of earnings and economic growth in the future to shuffle the market’s leaders.

Growth stocks like tech do really well when everything is accelerating and tend to do so well when things decelerate,” said Jerry Brakman, chief investment officer of First American Trust.

Weakness in the housing and auto sectors of the U.S. economy is increasingly worrying some analysts fearing a slowdown, and data Wednesday showed sales of new homes in the U.S. fell for the fourth month in a row in September.

Meanwhile, data from an index of preliminary eurozone purchasing managers suggested on Wednesday the regional economy grew at its slowest pace in over two years in October.

While some investors had hoped steady earnings data could stabilize major indexes, analysts said the market is increasingly finding sources of angst when given more information.

That could be a continued challenge on Thursday, which will be one of the busiest days of the third-quarter earnings season featuring 80 S&P 500 companies.

In Asia early Thursday, Japan’s Nikkei Stock Average was down 3.1%, South Korea’s Kospi was down 2.1%, Hong Kong’s Hang Seng was off 1.9%, the Shanghai Composite was down 2.4% and the Shenzhen Composite was down 2.9%.

—Akane Otani contributed to this article.

## Tesla Posts Record Profit

Continued from Page One search firm Loup Ventures.

The Model 3, priced starting at \$46,000, is Mr. Musk’s bet that he can transform the company from a niche luxury brand into a legitimate competitor against the world’s largest auto makers. Tesla’s two existing cars, the Model S sedan and Model X sport-utility vehicle, typically sell for around \$100,000.

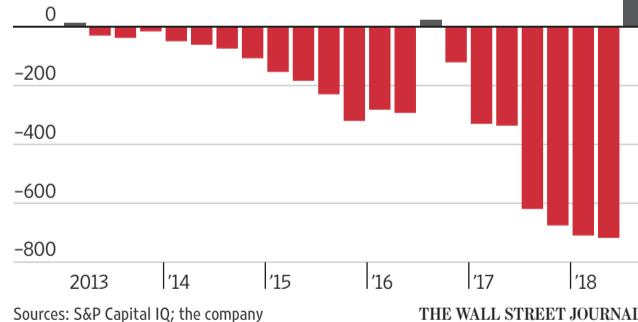
Mr. Musk’s vision of the future of transportation had sent shares soaring to give Tesla a market value rivaling General Motors Co. But his struggles in bringing out the Model 3 during the past year and his sometimes erratic behavior have raised questions about the company’s ability to execute.

Most notably, Mr. Musk said in Twitter messages in early August that he had secured funding to take Tesla private. The surprise announcement sent shares soaring only to later plummet as it became clear a deal wasn’t completed.

The Securities and Exchange Commission filed a lawsuit claiming Mr. Musk misled investors and sought to get him banned from being a director or officer at any publicly traded company. Mr.

### Turn for the Better

Tesla’s quarterly profit/loss



Sources: S&P Capital IQ; the company

clined to comment.

Tesla’s profit in the latest quarter of \$1.75 a share trounced the average estimate for a loss of 99 cents by analysts surveyed by FactSet. Shares soared nearly 11% in af-

ter-hours trading to about \$320. Before the earnings report, the stock had fallen 14% over the past year.

In the latest period, improvements in sales volume and profit margins of the Model 3 helped Tesla generate more cash than analysts had

expected. Tesla’s free cash flow rose to \$881 million, compared with a negative \$740 million during the second quarter. Analysts had expected free cash flow of \$191 million during the third quarter.

Tesla’s cash on hand rose to \$3 billion at the end of September from \$2.2 billion three months earlier. That could buttress Mr. Musk’s argument that Tesla doesn’t need to raise more cash to fund its growth, although accounts payable rose to \$3.6 billion from \$3 billion at the end of the June.

The company said it expects its cash to remain about “at least flat” during the fourth quarter, even as it repays \$230 million in debt due in November. It also expects sales of the Model 3 this quarter to exceed the 55,840 it delivered during the third quarter, and it said combined sales of the Model S and Model X are on track to finish the year at a total of 100,000 vehicles.

The company was operating at an exhausting pace to churn out a record 80,142 vehicles during the third quarter, after a year of struggle during which Tesla missed several self-imposed deadlines to increase production of the Model 3.

The vehicle began assembly in July 2017, and Tesla finally reached the long-promised goal of making 5,000 Model 3s in a single week during the last seven days of June. The company aimed to build on that pace but ultimately averaged 4,300 Model 3s a week, excluding planned downtime, during the period.

**Mr. Musk has pledged to introduce a Tesla compact sport-utility vehicle.**

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## U.S. NEWS



FROM TOP: SHANNON STAPLETON/REUTERS; TAMY ALVAREZ/SOUTH FLORIDA SUN-SENTINEL/ASSOCIATED PRESS

An explosive device was found at CNN's offices in the Time Warner Center in New York, above, and at Rep. Debbie Wasserman Schultz's office in Sunrise, Fla., below.

## Bombs Mailed to Targets

*Continued from Page One*

bring those responsible for these despicable acts to justice," President Trump said. Mr. Trump, a Republican, added: "We have to unify and send one very clear and strong message that acts of political violence of any kind have no place in the United States of America."

At a rally Wednesday night in Wisconsin, Mr. Trump condemned political violence and called for a more civil political discourse. He said the nation must "stop treating political opponents as being morally defective," and blamed the news media for "negative and false attacks."

Mr. Trump has repeatedly called for the jailing of his opponents, particularly Mrs. Clinton—crowds at his rallies routinely chant "lock her up." At a rally in Houston on Monday, Mr. Trump referred to the Democrats as "a mob." Last week, he praised a Republican congressman who during his campaign body-slammed a reporter.

The top Democratic leaders in Congress criticized the president's comments earlier Wednesday. In a joint statement, Rep. Nancy Pelosi of California and Sen. Chuck Schumer of New York said Mr. Trump's words "ring hollow" unless he reverses "his statements that condone acts of violence."



The Secret Service said it had initiated a criminal investigation into the packages sent to Mr. Obama and Mrs. Clinton, both of whom receive Secret Service protection. Mr. Obama is protected as a former president, and Mrs. Clinton remains under protection as a former first lady.

Bombing incidents remain relatively uncommon in the U.S., falling 24% to 335 incidents last year from the year before, according to federal data. In March, a serial bomber terrorized Austin, Texas, leaving two people dead and several injured before blowing himself up.

The FBI said it was working with other law enforcement agencies. The federal Bureau of Alcohol, Tobacco, Firearms and Explosives, which has technical expertise on such matters, is also part of the investigation as is the Joint Ter-

**Police warned businesses to be on the lookout for suspicious packages.**

rorism Task Force.

On Tuesday night, the Secret Service recovered a single package containing an explosive device at a checkpoint outside the Chappaqua, N.Y., home of Bill and Hillary Clinton. The package was addressed to her, according to the Secret Service. Secret Service agents then discovered another package addressed to Mr. Obama early Wednesday in Washington, D.C.

Both packages were identified during mail-screening procedures, and neither reached Mr. Obama or Mrs. Clinton.

The New York Police Department then warned businesses, urging security and mailroom staff to be on the lookout for suspicious packages, according to a senior law-enforcement official. The NYPD said that the suspicious packages might contain protruding wires, excessive or missing postage stamps, strange odors and oily stains on wrappers.

NYPD officials were in the CNN mailroom in Manhattan's Time Warner Center advising staff on the warning signs when they found a package addressed to John Brennan, director of the Central Intelligence Agency under Mr. Obama. The package contained a pipe-bomb and white powder, according to Police Commissioner James O'Neill.

It wasn't clear why the device found at CNN was addressed to Mr. Brennan.

Mr. Brennan has been a pub-

lic critic of Mr. Trump. The president has said he is among those he holds responsible for the special counsel investigation into alleged Russian interference in the 2016 election.

Wednesday morning, bomb squads were dispatched to the Sunrise, Fla., office of Ms. Wasserman Schultz, a former chairwoman of the Democratic National Committee. A pipe bomb was found there in a package addressed to former Attorney General Eric Holder, who worked for the Obama administration, the FBI said.

The package didn't reach its intended address and was rerouted to Ms. Wasserman Schultz's office, which was given as the return address, the FBI said.

"I am deeply disturbed by the way my name was used," Ms. Wasserman Schultz said in a statement. "We will not be intimidated by this attempted act of violence."

A suspicious package intended for Ms. Waters in Washington was intercepted at a congressional mail facility in Maryland, the lawmaker said Wednesday. The FBI later confirmed it was also investigating a second package addressed to the lawmaker.

Ms. Waters is one of Mr. Trump's harshest critics on Capitol Hill and has made headlines for calling for the president's impeachment. Earlier this year, she encouraged her supporters to harass Trump administration officials in response to the policy that led to the separation of children from parents at the border.

*Natalie Andrews, Dan Frosch, Rebecca Ballhaus and Byron Tau contributed to this article.*

## U.S. WATCH

### ECONOMIC DATA

#### New-Home Sales Fall As Inventories Swell

Sales of new homes in the U.S. slumped for the fourth consecutive month and inventories swelled to the highest level in years, suggesting the housing market is falling deeper into a weak stretch.

Purchases of newly built single-family homes—a relatively narrow slice of all U.S. home sales—fell 5.5% to a seasonally adjusted annual rate of 553,000 in September, according to fresh data from the Commerce Department. This is the slowest rate in about two years. Meanwhile, inventory rose to a 7.1 months' supply, the highest level since March 2011.

—Sharon Nunn

### COURT OF APPEALS

#### Tax-Free Housing for Clergy Is Challenged

A lawyer for religious groups on Wednesday defended in federal court a 64-year-old tax break that grants priests, rabbis and imams tax-free housing allowances—costing the Treasury hundreds of millions of dollars a year.

A district judge in Wisconsin last year sided with a group that backs the separation of church and state, ruling that the law discriminates against other taxpayers and violates the Constitution "because a reasonable observer would view the statute as an endorsement of religion."

On Wednesday, the two sides argued the case before the Seventh Circuit Court of Appeals in Chicago.

The tax break, commonly called the parsonage exemption, reduces federal revenue by \$700 million a year, according to estimates from Congress's Joint Committee on Taxation.

—Erica Snow

### CENTRAL BANK

#### Fed Report Sees Optimism, Concerns

Businesses said they were still optimistic about the economy's growth trajectory, but indicated concerns that tariffs would continue to push up costs, according to a Federal Reserve report released Wednesday.

The majority of the Fed's 12 districts reported modest to moderate economic growth at the beginning of fall, the Fed said in its latest roundup of anecdotal information about regional economic conditions known as the beige book. The report was based on data collected on or before Oct. 15 and highlighted uncertainties, particularly among manufacturers, regarding the impact of labor shortages and trade disputes.

—Sarah Chaney and Kate Davidson

## Some Project Reviews Won't Get EPA Grades

BY TIMOTHY PUO

The Environmental Protection Agency will stop using letter grades on some of its environmental-permitting reviews, calling the process antiquated.

The move is the latest step by the Trump-era EPA to simplify the federal permitting process, especially for highways, bridges and other infrastructure projects.

Since the Reagan administration, the agency has used letter grades on preliminary environmental-impact statements on infrastructure projects it reviewed for other agencies.

But Trump officials determined those agencies didn't need the grade, and found that at times they had focused more on targeting a better grade than on doing a substantive review.

Lawyers familiar with the law that guides the process, the National Environmental Policy Act of 1970, said they didn't expect the change to be major. They did, however, raise questions about how easily policy makers and citizens would be able to spot problem projects without the letter grade.

"I'm not concerned," Andrew Wheeler, acting administrator of the Environmental

Protection Agency, told The Wall Street Journal. "I think at the end of the day the substance will be better. So the public will be better served by a more thorough review and better information."

Environmentalists had concerns about the ramifications for public oversight. Scott Slesinger, a NEPA expert at the Natural Resources Defense Council, said the draft environmental assessments and review comments by the EPA can often be hundreds of pages, and putting a letter grade on them is helpful in getting public attention.

A failing letter grade "is an incredibly bad red flag for everybody, so I can see how some people would want it to go away," said Rafe Petersen, a partner and NEPA expert at Holland & Knight LLP, a law and lobbying firm.

A memo this week from Mr. Wheeler's staff said eliminating the letter grade would help end the perception that the grades often get inconsistently applied.

Getting rid of the grade could be helpful when the permitting process is working well, lawyers said. But sometimes agencies disagree during that process, and the letter grade can be useful to flag troubled projects for White House attention, lawyers said.

## Democrats Enlist Vets in House Bid

BY BEN KESLING

Democrats have seized on a campaign strategy that they believe combines the best of patriotism with progressive bona fides: enlisting military veterans to run for Congress in the midterms Nov. 6.

Jon Soltz, chairman of VoteVets, a political-action committee dedicated to pushing military Democratic candidates, is surveying dozens of midterm contests to help candidates with funding to match GOP-aligned campaign spending. Republicans counter that time spent in uniform can't mask that candidates are still Democrats and will face tough contests in red districts in their bid to retake the House.

A bipartisan PAC called With Honor, which supports veteran candidates from both parties, has tracked 199 veterans, including incumbents, running for the House this year. Whether they succeed will depend on striking the right balance between staying above the fray and sling some partisan mud.

Democrats need a net gain of 23 House seats to regain control of the chamber, meaning they will need to win some districts that President Trump won in 2016.

Mr. Soltz, an Army vet, has focused recently on a last-minute effort in a southern Minnesota race between Democrat Dan Feahan, an Army vet and



Democrat Dan Feahan talks to a voter after a candidate forum.

former Pentagon official, and Republican Jim Hagedorn, whose father was a House member from the state. "We need someone who doesn't look like a career politician, who can cross over veteran appeal with someone who looks a little bit political," he said.

Also on Mr. Soltz's radar: Kentucky's Sixth Congressional District, where Marine Corps pilot Amy McGrath is campaigning on military themes against conservative incumbent Andy Barr. In Colorado's Sixth District, Rep. Mike Coffman, a Republican, has

held the seat since 2009 and relied on his own Marine Corps service to repel challengers—but this time he is running against Democrat and Army combat vet Jason Crow in a tight race.

Military service doesn't necessarily translate to the best candidate for office, said Matt Gorman, spokesman for the National Republican Congressional Committee.

"Service is a component that we admire on both sides, but ultimately it comes down to their positions," he said. "The first and foremost thing

is who can best represent the district."

That highlights a potential liability for vet candidates: being labeled as one-trick ponies, with their military records as the sum of their qualifications.

Polling done in April by With Honor shows 67% of likely voters say that vets are more likely to put the interests of their country ahead of party, though that same polling shows 58% of voters think party affiliation is the most important trait in a candidate.

Democrats' vet-centric strategy is endorsed at the top, with the Democratic Congressional Campaign Committee, the House Democrats' campaign arm, focusing resources on 19 vets who are among the nearly 100 candidates in its "Red to Blue" program that aims to flip the House. They are positioning veterans in some Republican strongholds, modeling on the success of Democratic Rep. Conor Lamb, who in March won an upset special election in a Pittsburgh-area district that Mr. Trump had carried by 20 percentage points.

The president's influence hangs over elections across the country, and they will in part be a referendum on his performance. He has a 47% job approval rating, his highest as president, and a 49% job disapproval rating, according to a WSJ/NBC poll out this week.

## WORLD NEWS

## Trump's Big Saudi Bet Poses a Dilemma

Jamal Khashoggi's killing complicates effort to make stronger ties pay off

BY PETER NICHOLAS  
AND REBECCA BALLHAUS

In the run-up to President Trump's trip to Saudi Arabia last year, senior White House aide Jared Kushner and Crown Prince Mohammed bin Salman spoke nearly every day.

Mr. Kushner, the president's son-in-law, worked to lock in Saudi pledges and make certain Mr. Trump wouldn't come away embarrassed from his maiden trip overseas, a person familiar with the matter said.

At the conclusion of the two-day trip to Riyadh, Mr. Kushner and the White House believed Saudi Arabia had delivered, with commitments to combat terrorism and to make billions of dollars in U.S. investments.

The May 2017 trip was a major foreign-policy gamble with roots in the previous year's presidential transition. It arose from a hope that the Trump White House could improve ties with the kingdom and reap considerable rewards.

But the killing of Saudi dissident Jamal Khashoggi at the hands of Saudi operatives has made that bet riskier and confronted Mr. Trump with a dilemma: how to punish the kingdom without jeopardizing an alliance he has spent two years cultivating.

Mr. Trump has hinted at reprisals against Riyadh, and the State Department restricted travel by 21 unnamed Saudi government officials. But the U.S. response stands to fall short of what some allies have demanded, potentially opening a fresh rift with other foreign capitals. The president and other top officials have also avoided antagonizing Saudi leaders, stressing the importance of preserving a U.S.-Saudi relationship they say



Saudi Crown Prince Mohammed bin Salman, center, attending the Future Investment Initiative conference on Wednesday in Riyadh with other Middle Eastern leaders.

SAUDI ROYAL PALACE/EPA-EFE/REUTERSTOCK

had frayed under Democratic President Barack Obama.

In an interview with The Wall Street Journal on Tuesday, Mr. Trump said he wanted to believe Prince Mohammed's denial of any foreknowledge of Mr. Khashoggi's death.

"They've been a very good ally," Mr. Trump said. "They've been a tremendous investor in our military equipment and other things. They buy tremendous amounts of things from our country....So I certainly want to believe him."

Complicating Mr. Trump's efforts has been a steady stream of information about Mr. Khashoggi's disappearance from Turkish officials, who have repeatedly contradicted Saudi assertions about what happened.

"It's a very sad situation and, obviously, poorly handled from beginning to end," Mr. Trump said in the interview.

Prince Mohammed, in his first public remarks about Mr.

Khashoggi's killing, called it "a hideous incident" and pledged to cooperate with Turkish authorities.

As Mr. Trump navigates the crisis, his approach has drawn particular scrutiny from Democrats because of his business history with the kingdom. At an August 2015 campaign rally, he said: "Saudi Arabia, I get along with all of them. They buy apartments from me. They spend \$40 million, \$50 million."

In the months after his election, Mr. Trump's Washington hotel received roughly \$270,000 in payments linked to Saudi Arabia as part of lobbying efforts by the Gulf kingdom, according to Justice Department records.

At the same time, Mr. Trump has frequently blamed Saudi Arabia for the Sept. 11 attacks, in which 15 of the 19 hijackers were Saudi nationals. An independent commission tasked with investigating the

attacks concluded that allegations about Saudi officials' role were unsubstantiated.

In the interview with the Journal, Mr. Trump said he was "always critical of President Bush for attacking Iraq. I said, 'Iraq did not knock down the World Trade Center. They

relations, people familiar with the matter said.

Mr. Kushner became an early conduit to Prince Mohammed, both 30-something men in positions of great influence and power. Former officials described a close, personal relationship between the two men.

Some people in the U.S. national-security apparatus bristled at Mr. Kushner's role, believing the secretary of state or national security adviser would be the proper channel to Prince Mohammed, according to a former administration official. Others, including former national security adviser Gen. H.R. McMaster, were more supportive of the arrangement, if initially skeptical that Saudi Arabia would deliver, people familiar with the matter said.

During his visit to Washington last year, Prince Mohammed met privately with U.S. officials at the Pentagon to discuss terrorism. Some officials believed he focused too heavily on Iran, and Gen. McMaster spoke up, reminding the prince that none of the Sept. 11 hijackers were Iranian, a person familiar with the meeting said.

As Saudi ties strengthened, U.S. officials other than Mr. Kushner also began dealing more with Prince Mohammed, among them Gen. McMaster and Secretary of State Mike Pompeo, people familiar with the matter said. Gen. McMaster hosted the prince for dinner at his home last year, they said.

But Mr. Khashoggi's killing introduced troubling complications. An Oct. 10 phone call between Prince Mohammed and Messrs. Kushner and Bolton was tense, with the Americans urging the prince to conduct a transparent inquiry and to get the facts out quickly, people familiar with the call said.



Saudi King Salman, right, and Crown Prince Mohammed met members of the Khashoggi family Tuesday.

## Prince Aims To Ease Tensions

Continued from Page One

The prince said he wouldn't let the incident "drive a wedge" between Turkey—one of the region's most powerful military forces—and Saudi Arabia. "This wedge won't take place," he said, sitting on a panel at the Future Investment Initiative, a Saudi business conference dubbed "Davos in the Desert." Many Western executives boycotted the event over Mr. Khashoggi's death.

Prince Mohammed also met Mr. Khashoggi's son Salah on Tuesday to express condolences.

After Mr. Khashoggi left the kingdom last year, the Saudi government banned his son from leaving the country. It wasn't known whether the government has lifted the travel ban on the son in the wake of his father's death.

The crown prince said Wednesday that Saudi Arabia would cooperate with Turkish authorities to complete the investigation and bring the perpetrators to justice. "We will prove to the world that both governments are cooperating to punish any criminal and any wrongdoer and that justice will ultimately take its course," he said.

In their phone call, Prince Mohammed and Mr. Erdogan

discussed necessary steps the two countries would jointly take to address the Mr. Khashoggi's case, according to a Saudi government statement and Turkish state media.

Prince Mohammed's comments came after Mr. Erdogan on Tuesday contradicted Saudi explanations that Mr. Khashoggi was killed accidentally in a brawl at the consulate, leveling his strongest accusations at Saudi authorities.

Adding to the pressure on Prince Mohammed, President Trump said on Tuesday he didn't rule out the royal's possible involvement.

**The Khashoggi crisis is the latest flashpoint between Turkey and Saudi Arabia.**

"He's running things and so if anybody were going to be, it would be him," he told The Wall Street Journal.

The Trump administration has pressed for answers in Mr. Khashoggi's death, while also defending the U.S.-Saudi relationship.

One U.S. official said Prince Mohammed in his Wednesday appearance seemed to be trying to steer between an acknowledgment of the international condemnation and a signal of confidence about his place as the presumed successor to his father.

While Saudi royal family

members who served in the U.S. recognize how serious the issue is, those close to the prince in Saudi Arabia are "more certain this will pass," this official said.

The State Department didn't react to Prince Mohammed's public appearance. Meanwhile, Central Intelligence Agency Director Gina Haspel, who traveled to Turkey this week as part of an administration investigation, was expected to return to Washington by Thursday.

The Khashoggi crisis has become the latest flashpoint between Turkey and Saudi Arabia, which are competing for influence in the Middle East.

There is no indication the Saudi monarch is prepared to push his son aside, in defiance of a Turkish pressure campaign that has leaked evidence to maximize damage on the kingdom's standing. Mr. Erdogan demanded on Tuesday that high-ranking officials also be held accountable.

The Saudi government has repeatedly maintained Prince Mohammed had no knowledge of the operation and King Salman tasked his son with overhauling Saudi Arabia's intelligence agency, an indication he wouldn't face direct repercussions.

So far, Saudi authorities detained 18 men in connection with the death and dismissed two senior officials close to the crown prince.

—David Gauthier-Villars  
in Istanbul, Summer Youssef  
in Dubai and Nancy S. Youssef  
in Washington  
contributed to this article.

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## WORLD NEWS

# Migrant Caravans Press On to U.S.

Thousands determined to reach the border in search of a better life; if God allows it'

BY JOSÉ DE CÓRDOBA  
AND SANTIAGO PÉREZ

HUIXTLA, Mexico—A caravan of thousands of mostly Honduran migrants collapsed makeshift tents in this southern Mexican town and set off before dawn Wednesday on their long journey to the U.S., as thousands more of their countrymen made their way across Guatemala with the same goal.

The migrants are part of a surge in migration from Honduras in recent weeks as growing numbers of people join multiple caravans that allow them to travel safely together and avoid paying smugglers' fees.

The caravans have become a hot issue in the U.S. ahead of midterm elections next month, as President Trump calls them a national emergency and tries to cast Democrats as weak on border security.

The Huixtla group departed initially from San Pedro Sula, Honduras, on Oct. 12, and have marched some 500 miles to Mexico's southern Chiapas state, an average of about 40 miles a day, both by foot and hitching rides from trucks and cars. Their closest entry point, McAllen, Texas, 1,000 miles away, would take about three more weeks to reach at the current pace.

Estimates vary widely over how many people have entered



Honduran migrants en route to the U.S. make their way at dawn to Mapastepec from Huixtla, where thousands had rested for a day.

Guatemala en route to the U.S. Father Mauro Verzeletti, the director of a Scalabrinian Missionary-run shelter in Guatemala City where 200 slept on Tuesday night, said there are 11,500 migrants. Others say there are fewer.

Some 1,700 migrants filed asylum applications, Mexico's government said on Tuesday.

Father Verzeletti said the migrants were traveling in large and small groups, many now through Guatemala's thick Petén jungle, which he said aren't as protected by security and migration agents from Mexico and Guatemala.

That route leads to a migrant shelter in Tenosique, a city in Mexico's Tabasco state that is now sheltering more

than double its 200-person capacity, said an international migration worker.

"This is a massive phenomenon. It has no precedent in the history of Central America," Father Verzeletti said.

In Huixtla, meanwhile, the caravan of what the town's mayor said was 6,000 people departed after resting a day from their grueling journey in search of a better life.

A long line of people from young men to grandmothers and families pushing baby strollers or carrying small children walked like silent ghosts on the highway heading north. On stops along the way, local church and volunteer groups lined the road handing out everything from water and

bananas to clothes.

Alejandro García, 22, a fruit seller from the Honduran capital, Tegucigalpa, carried his 1-year-old daughter Eilly in a pouch bag as he tried to hail a ride. Mr. García said he left home because extortion payments to gangs ruined his livelihood and is headed to the U.S. via the Mexican border city of Tijuana.

"If God allows it," Mr. García said.

By midday, hundreds from the Huixtla group arrived in the town of Mapastepec, 40 miles away, where they planned to bed down for the night. Exhausted, they slept in the town square and wherever they could find shade from the broiling sun.

Some of the migrants plan to request asylum. Others, doubting their chances, plan to enter the U.S. illegally. If unsuccessful, some said they would try to stay in Mexico.

"Honduras is going to lose all its people, everybody is going to the U.S.," said Dyana Avila, 24, an unemployed street vendor from San Pedro Sula who was traveling with her 52-year-old father.

"We hope God will make Trump change his mind, and let us in," she said.

Within the caravan were three entertainers from Tegucigalpa, the United Clowns Of Laughter. "We are cheering up the kids," said Kimberly Olivares, one of the three-person troupe.

## CENTRAL BANKS

**Bank of Canada Raises Interest Rate**

The Bank of Canada raised its key interest rate by a quarter-percentage-point to 1.75%, as a resolution on a new North American trade pact and easing concerns over household debt gave policy makers more confidence in the economic outlook.

In a policy statement that accompanied the rate decision, the central bank said interest rates will need to rise to a neutral level, which is estimated between 2.5% and 3.5%, to achieve its inflation target of 2% over the long term.

The central bank's statement didn't repeat previous language about taking a gradual approach to rate increases.

—Kim Mackrael

## IRAQ

**New Prime Minister Forms Government**

Iraq's new prime minister was sworn in after lawmakers approved a majority of his cabinet, passing the first test of his leadership and giving the country a government five months after elections.

The parliament approved 14 of the 22 ministers nominated by Prime Minister Adel Abdul-Mahdi after some lawmakers complained they needed more time to vet the nominees because some were suspected of corruption. Several key posts, including the ministers of the interior and defense, haven't been agreed upon.

Mr. Abdul-Mahdi, a Shiite independent, was nominated to form a government in a compromise between competing factions after inconclusive elections in May.

—Ghassan Adnan and Isabel Coles

# French Weigh Push for Arabic in Schools, Not Mosques

BY STACY MEICHTRY  
AND NICK KOSTOV

PANTIN, France—Every Sunday, parents in this working-class neighborhood just north of Paris bring their children to a small school operated by the local mosque. Half of the three-hour lesson is devoted to learning Arabic, the other half to learning the Quran.

Now President Emmanuel Macron's government is considering giving parents a secular alternative to that intertwining of Arabic and Islam by producing more of France's public schools to offer children as young as age 6 Arabic lessons—without religious content.

France is home to one of the world's biggest Arab diasporas, but only a fraction of the country's public schools have the resources to offer Arabic courses. Instead, tens of thousands of children attend classes partly funded by Arabic-speaking countries, ac-



A Syrian refugee teaches an Arabic class at a mosque near Paris.

cording to the government. Countless others attend private schools linked to mosques, where instruction ranges between teachers with a clear command of Arabic and those who don't fully understand the language and encourage rote memorization of Quranic verses.

The idea of teaching Arabic

across the public school system touches a nerve in France, a country that jealously guards the classroom as an incubator for its particular brand of colorblind, religion-free republicanism. The first public spaces where France banned the wearing of headscarves were its schools for fear the Muslim garb was

blurring the country's strict separation of church and state.

"We've made Arabic into an object of fear and now people in France struggle to see it as something positive," said Karima Taibi, 32, who shuttles her 9-year-old daughter to private Arabic classes twice a week at a cost of €250 (\$288) a year.

For senior French officials, the absence of Arabic in most public schools has had the unintended consequence of fueling *communautarisme*, a term the French use to describe the social divide between France's Muslim-minority community and the rest of the country.

"We're questioning the way in which Arabic is taught today, in separate structures with communautarian tendencies," Education Minister Jean-Michel Blanquer recently told French radio.

Much of France's Muslim population flocked to the country after its rule of North African colonies crumbled in

the 1950s and 60s. Many live in banlieues like Pantin, suburbs at the edge of cities where unemployment and crime tend to run high.

"Arabic courses have become for Islamists the best means of attracting youth in their mosques and schools," Hakim El Karoui writes in "The Islamist Factory," a study published in September by the Institut Montaigne think tank.

Radical preachers wield their seeming knowledge of Arabic to impress younger generations, Mr. El Karoui writes. His writings resonate in the government, where he has been advising the education minister to train a corps of Arabic teachers imbued with republican values as a counterweight.

But in some areas of France where Muslim minorities are heavily concentrated, local officials fear Mr. El Karoui's ideas will backfire, deepening the cultural divide.

"Nobody integrates," said

Robert Ménard, mayor of the southern town of Béziers. "Teaching Arabic will create more ghettos."

For now, part of the demand for Arabic instruction is being met by the governments of Algeria, Morocco and other former French colonies that send teachers to France and pay their salaries through a program the French government created decades ago.

More than 40,000 children in France attend such classes, which have a degree of government oversight. It is harder to pinpoint how many students attend Arabic courses at mosques or religious schools.

At the Centre Culturel Islamique Bangladais, a mosque north of Paris in the town of Stains, Balayei Khan, a 22-year-old instructor from Bangladesh, said he doesn't fully understand the Arabic he teaches. Instead, he shows students how to pronounce words without comprehending them.

## FROM PAGE ONE

## ashes are scattered at Disney

Continued from Page One

needed to suck them up.

Disney custodians say it happens about once a month.

"Anyone who knew my mom knew Disney was her happy place," said Jodie Jackson Wells, a business coach in Boca Raton, Fla., who in 2009 smuggled a pill bottle containing her mother's ashes into Walt Disney World.

Once inside, Ms. Wells helped spread ashes on the platform of It's a Small World near a head-spinning bird, a moment in the ride that always made her mother laugh. Later in the day, overcome with grief, Ms. Wells hopped over the barricade surrounding the lawn outside Cinderella's castle and ran across the grass, flinging them as she crossed. "I had two fistfuls of the ashes and I literally leapt like I was a dancer," she said.

Current and former custodians at Disney parks say identifying and vacuuming up human ashes is a signature and secret part of working at the Happiest Place on Earth. It is grisly work for them, but a cathartic release for the bereaved, who say treating Disney parks as a final resting place is the ultimate

tribute to ardent fans.

Human ashes have been spread in flower beds, on bushes and on Magic Kingdom lawns; outside the park gates and during fireworks displays; on Pirates of the Caribbean and in the moat underneath the flying elephants of the Dumbo ride. Most frequently of all, according to custodians and park workers, they've been dispersed throughout the Haunted Mansion, the 49-year-old attraction featuring an eerie old estate full of imaginary ghosts.

"The Haunted Mansion probably has so much human ashes in it that it's not even funny," said one Disneyland custodian.

A Disney spokeswoman said, "this type of behavior is strictly prohibited and unlawful. Guests who attempt to do so will be escorted off property."

Disney does everything it can to keep morbid thoughts out of its parks. When Walt Disney World began installing personalized commemorative bricks in 1994, the company banned the words "In Memory Of," worried they would remind guests of death.

Caryn Reker of Jacksonville, Fla., remembers her father growing emotional while watching the Wishes fireworks show outside the ice-cream parlor on Disney World's Main Street. When time came for her to spread his ashes, in 2006, she opted to do it in numerous spots around the area.

"It's a sweet way to giggle and remember—he's here... and there... and a little over there."



Jodie Jackson Wells spread some of her mother's ashes outside Cinderella's castle.

. . . yep, there, too," she wrote in an email. She returned to Disney World last week to spread the ashes of her brother, an Epcot enthusiast who died this year.

Alex Perone, an actor from Saratoga Springs, N.Y., described an emotional roller coaster when he took the ashes of his mother, Sandie Perone, to Walt Disney World this past June. Immediately after spreading them in a Magic Kingdom flower bed, he went on It's a Small World.

"I was still crying. That song is playing over and over again, and there are those happy little animatronic things," he said. "I remember thinking, 'This is weird.'"

Smugglers say getting the

ashes past security is easy if they are transported in prescription-pill bottles or makeup compacts. Others hide Ziploc bags at the bottom of a purse or knapsack.

When ash residue is discovered on a ride, Disney workers tell guests they must shut down due to "technical difficulties." Then, a manager rides alone through the attraction looking for any ash piles while colleagues may hand out "Fast Passes" to assuage guests who must leave before the custodians turn up with their high-powered vacuums. One former Disney employee said she and others got in trouble after they coined their own term for the

ash cleanup: "Code Grandma."

Sgt. Daron Wyatt, a spokesman for the Anaheim Police Department, said spreading ashes without permission is a misdemeanor, but said the park's on-site sergeant couldn't recall any arrests being made.

It's likely many ashes never get spotted by park employees. None of the families interviewed by The Wall Street Journal believe workers noticed them in the act.

Shanon Himebrook, a 41-year-old state-government employee from Kansas City, Mo., grew up making summer trips to Disney World with her father, a worker at a plastic factory in Indiana.

At Disney, "he wasn't my tired, graveyard-shift Dad," she said. "He was, 'Let's get you the Mouse ears! Let's get your name stitched in it!' It's like, 'I love this dad! Can we stay forever?'"

Ms. Himebrook spread his ashes earlier this year near the park gates.

Marty Lurie, an Amazon.com Inc. employee in San Bernardino, Calif., took the ashes of his father's partner, Robin Milnes, to Disney World in eight baggies hidden at the bottom of a camera bag in 1996. His father, who had been in a depression following Mr. Milnes's death from AIDS, came along but was reluctant to join in.

To cheer him up, Mr. Lurie had the group stop for photos with characters including Mickey Mouse and Goofy, posing with the camera bag containing Mr. Milnes's ashes center stage in each picture. He even took the ashes on rides. "You want to go on this ride, Robin?" he'd ask the bag.

His father, who died in 2010, got in on the fun. "He wound up having the time of his life," said Mr. Lurie.

Kym Pessolano DeBarth, a 47-year-old optometrist-office worker from Northfield, N.J., dumped a small amount of her mother's ashes in the water underneat her It's a Small World. "I didn't want to clog the filter," she said. In December, she'll return to the park to commemorate the 15th anniversary of her mother's death. "Instead of going to a grave," she said, "I go to Disney World."

# GREATER NEW YORK

## Skelos Draws Four-Year Prison Term

Former powerful Republican state senator was convicted of corruption crimes

BY CORINNE RAMEY

Dean Skelos, the former majority leader of the New York state Senate, was sentenced Wednesday to four years and three months in prison for public corruption during a hearing in which the judge penalized the once powerful lawmaker for what she called false testimony.

Mr. Skelos, a Nassau County Republican, was convicted of public-corruption crimes after a retrial in July. A federal appeals court vacated his first conviction after the U.S. Su-

preme Court narrowed the definition of some public-corruption crimes.

On Wednesday, U.S. District Judge Kimba Wood said she would have sentenced Mr. Skelos, 70 years old, to four years—one year less than his previous five-year term—due to his age and ailing health. But “giving false testimony must be punished,” she said, explaining the additional three months. She also fined Mr. Skelos \$500,000.

Mr. Skelos, looking pained, said he was remorseful, particularly for the harm he said he had caused his family.

He talked about his health issues, including depression and hearing problems—“The dog ate my other hearing aid today,” he told the judge—and his role as a caretaker for



Dean Skelos, center, told the judge he suffers from health issues.

his grandchildren.

“I apologize with all my soul, your honor,” Mr. Skelos said, in front of a Manhattan

federal courtroom that included many relatives.

Judge Wood sentenced his 36-year-old son, Adam Skelos,

who was convicted of the same crimes, to four years in prison during a separate proceeding Wednesday afternoon. After the first trial, Judge Wood had imposed a 6½-year penalty on the younger Mr. Skelos.

During the trial, federal prosecutors argued that the elder Mr. Skelos had won jobs and payments for Adam Skelos by threatening companies that relied on the state for legislation, contracts and other benefits.

When Dean Skelos took the stand in his own defense, he claimed he had asked long-time friends for favors only to help his troubled son.

On Wednesday, prosecutors asked Judge Wood to hand down a stiffer sentence than her previous one, citing Dean Skelos’s testimony.

“We believe he deceived

and misled, and at times flat-out lied to the jury,” Assistant U.S. Attorney Thomas McKay said.

Prosecutors had argued Dean Skelos should serve a sentence of at least 6½ years because of his conduct on the stand.

Robert Gage, a lawyer for Dean Skelos, asked for a sentence of no more than two years, noting his client’s declining health, legislative accomplishments and caretaking responsibilities for his grandchildren.

“Dean takes responsibility for his own actions,” Mr. Gage told the court.

Judge Wood said she would request Dean Skelos be assigned to a prison in Florida so he could be near his grandchildren.

## NYPD ‘Bomb Truck’ Is on the Job as Scare Hits City

BY ZOLAN KANNO-YOUNGS

New York City police were already inside the Time Warner Center in Manhattan on Wednesday, guiding CNN’s mailroom staff on how to identify signs of a suspicious package when such an envelope was found, containing a pipe bomb and white powder.

It was time for the police to roll in the total containment vessel, a vehicle resembling a small cement mixer that is known as the “bomb truck.”

New York Police Department officers, wearing bomb-safety suits, loaded the small explosive device onto a suspended net inside a white sphere on the back of the truck, according to a senior law-enforcement official.

The net limited the movements of the pipe bomb, which was taken to an NYPD facility in Rodman’s Neck in the Bronx, the official said.

“What we do is put the bomb over there and [the sphere is] made to buckle out during an explosion and contain it,” the senior official said.

If the bomb exploded, small vents in the white chamber would allow pressure to escape, while any shrapnel would be contained.

The truck is a crucial piece



The NYPD brought in its total containment vessel after a suspicious package was found at CNN’s offices in the Time Warner Center.

of a broad security response by the NYPD after the explosive was identified. Several packages containing pipe bombs were sent to prominent

Democrats, including former President Clinton’s and former Secretary of State Hillary Clinton’s house in Westchester County and former President

Obama’s residence in Washington, D.C. A suspect hasn’t yet been identified.

“The NYPD Bomb Squad

saw with their own eyes a live bomb and got it out of here so no one could be hurt,” Mayor Bill de Blasio said on CNN on Wednesday night.

When an explosive device

arrives at the facility in Rodman’s Neck, the police have options: They can examine the device for investigative purposes, disassemble the bomb using a device that shoots high-pressure water at it, or detonate it.

In the case of the device sent to CNN, the NYPD and the FBI must work around potentially hazardous white powder that also was in the package. The police were planning to move the device to an FBI laboratory where it will be analyzed.

The NYPD had been on scene at the Time Warner Center as a result of a counterterrorism initiative that directs officers to teach business staff how to spot potential threats, said Deputy Commissioner of Counterterrorism and Intelligence John Miller.

After the Secret Service informed the NYPD that one of the devices was sent to the Obama residence, the police deployed officers to private-sector businesses to advise mailroom and security staff on “what to look for, what the characteristics are” and give “tips on handling of specific packages,” he said.

“Suffice it to say it appears that an individual or individuals sent out multiple similar packages,” Mr. Miller said.

## Under Indictment, Rep. Collins Is Elusive on Campaign Trail

BY JIMMY VIELKIND

ELMA, N.Y.—There were denunciations of global elites, cheers for gun rights and U.S.A. chants. Speakers talked of the importance of keeping the 27th Congressional District red, and warned the Democrats would impeach Donald Trump if they take control of the House.

It was clear that Wednesday’s “Red Tide Rising” rally—headlined by former Trump adviser Steve Bannon—aimed to build support for GOP Rep. Chris Collins. But it had one notable absence: The congressman himself, who is under federal indictment.

Mr. Bannon and other speakers didn’t talk about Mr. Collins in depth, but instead urged voters to the polls by describing the larger stakes.

“This midterm that’s going to happen on Nov. 6 is just not any midterm: It is Donald J. Trump’s first re-elect,” Mr. Bannon said.

His visit is a sign that Re-



A recent poll showed Rep. Chris Collins, right, topping Democrat Nate McMurray by three points, within the margin of error.

publicans see trouble in what should be a safe seat. The district, which spans eight counties between the suburbs of Buffalo and Rochester, contains 40,000 more registered Republicans than Democrats.

Voters backed Mr. Trump by a wider margin than any other congressional district in the state. However, a poll released last week showed Mr.

Collins leading Democrat Nate

McMurray by three points—with

within the survey’s margin of error.

Indeed, Mr. Collins has been

running something of a stealth

campaign since he was ar-

rested Aug. 8 and charged in

federal court in Manhattan

with participating in an in-

sider-trading scheme.

He pleaded not guilty and

initially suspended his cam-

paign. But a month later, he

said he would stand for elec-

tion to a fourth term. His trial

is scheduled to start in 2020.

But the congressman has

skipped debates and hasn’t

publicly advertised campaign

for a hospitality company, Mr. McMurray said in an interview that he has focused his campaign on “kitchen-table economics” and supports a system of single-payer health care.

He also has talked about Mr. Collins, who owned a manufac-

turing business and was Erie County executive before his election to the House in 2012.

“The last thing we need is

to give ourselves a self-in-

flicted black eye by giving this

man another chance,” Mr. Mc-

Murray said. “A man with

nothing to hide doesn’t hide.”

Mr. Langworthy and others

said Mr. Collins is focusing on

the district’s more rural pre-

cincts and other areas of his

“wheelhouse,” such as gun-

rights organizations.

The rally with Mr. Bannon

seemed to fit that category: A

crowd of mostly men, some

wearing “Make America Great

Again” hats and holding “Jobs

Not Mobs” signs, packed the

garage of the Jamison Road

Volunteer Fire Co.

“Will voters choose a liberal Democrat who is going to side with Andrew [Cuomo] and [California Rep.] Nancy Pelosi, or are they going to vote for a proven, conservative Republi-

cian who is going to stand with the president and support his policies?” Chris Grant, an ad-

viser to the Collins campaign, said in an interview.

Mr. McMurray bristles at

this. He said his only contact with Mr. Cuomo, the Democratic governor, came when Mr. Cuomo tried to get him to

exit from the race.

While national Democrats look more seriously at the contest—Democratic National Committee Chairman Tom Perez recently visited—Mr. McMurray said he doesn’t support Mrs. Pelosi as Democratic House leader, and has faulted the Democratic Party for its focus on “niche issues.”

“I’m not voting for their agenda, I’m going to vote for what’s right,” Mr. McMurray said.

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## GREATER NEW YORK

# MTA Chief Isn't Eyeing the Exit

BY PAUL BERGER  
AND JIMMY VIELKIND

Joe Lhota says he isn't going anywhere.

The Metropolitan Transportation Authority chairman, whose future has been the subject of speculation as the agency has slogged through a difficult year, said Wednesday he hadn't considered leaving his post.

"My term ends on June 10, 2021," Mr. Lhota said at a news conference.

During the past year, Mr. Lhota has steered the MTA through crisis while sparring with New York City Mayor Bill de Blasio and parrying allegations of conflicts of interest over his business ties.

Some of his associates had wondered how much longer he would remain after the Nov. 6 election, when Gov. Andrew Cuomo, who appointed him, is expected to win a third term.

"Many people say that, when the election's over, Joe is going to go elsewhere," one MTA board member said in an interview earlier this month.

Mr. Lhota thought about resigning earlier in the year, according to people familiar with the matter.

He spoke with the Cuomo administration about stepping down after a February story in Politico.com highlighted Mr. Lhota's potential conflicts of interest related to his paid board seat on the company that owns Madison



MTA Chairman Joe Lhota, shown in September, has overseen an \$800 million subway-rescue plan.

pay more for its upkeep.

Mr. Lhota has been criticized, however, for holding paid positions outside his MTA chairmanship, which in recent years has been a full-time role. The agency doesn't pay him the token \$1 annual salary announced at his hiring, according to an MTA spokesman. But Mr. Lhota has kept his full-time job as a senior official at a major hospital network, NYU Langone Health, with a salary of \$1.6 million and duties that include lobbying.

He also held paid positions on several boards, including the company that owns Madison Square Garden, which pays him a minimum of \$160,000 annually.

Mr. Lhota has said he delegates day-to-day MTA responsibilities to handpicked senior officials and that, as a per-diem worker, he is allowed to hold paid outside positions. He says that he recuses himself when there is a conflict of interest. Watchdog groups have lodged complaints with state oversight bodies which, so far, have come to naught.

Some in the business community hope Mr. Lhota will stay longer. "He has really restored a level of trust in the MTA that hadn't been there for a while," said Kathryn Wylde, who runs a nonprofit promoting the city's business interests. "People should stay off his case because we need him."

## GREATER NEW YORK WATCH

NEW JERSEY

## Letter Threatens Candidate's Children

New Jersey Republican congressional candidate Jay Webber received a letter threatening him and his seven children, his campaign disclosed Wednesday.

An envelope containing the letter, along with a torn-up "Webber for Congress" sign, was delivered to Mr. Webber's place of business on Tuesday, the campaign said. "You BETTER hope that you don't win! Or Else," the letter said. "How many kids do you have...? Unlucky 7."

The Webber campaign said it referred the matter to law enforcement. "Criticizing a candidate on the issues is part of politics," Mr. Webber said in a tweet. "Threatening my children is not."

Mr. Webber, a former state party chairman who currently serves in the New Jersey Assembly, is running in the state's 11th Congressional District. He faces Democrat Mikie Sherrill, a former Navy helicopter pilot and federal prosecutor.

"This is absolutely appalling," Ms. Sherrill said of the threat in a tweet. "I condemn this in the strongest terms."

—Joseph De Avila

MANHATTAN

## Bodies of 2 Women Found in the Hudson

The bodies of two women were found taped together and floating in the Hudson River near the Upper West Side, according to a law-enforcement official.

Someone called police Wednesday at about 2:40 p.m. to report the bodies floating near West 72nd Street and Riverside Park in the Manhattan neighborhood, the official said.

Police arrived at the scene to find the bodies duct-taped together.

The official said the identities of the two women are still unknown. The city's medical examiner is investigating.

—Zolan Kanno-Youngs

# Virus Kills Seven Children in New Jersey Facility

BY MELANIE GRAYCE WEST

Seven children have died from a severe viral outbreak at a Passaic County medical center, the New Jersey Department of Health said Wednesday.

In all, there are 18 confirmed pediatric cases of adenovirus at Wanaque Center for Nursing and Rehabilitation in Haskell, N.J. The for-profit facility provides treatment to medically fragile children. There are 92

pediatric long-term care beds, state data show.

During a news conference Wednesday, Shereef Elnahal, New Jersey's commissioner of health, said the illnesses were concentrated in the facility's respiratory unit and the date of symptom onset for the first patient was Sept. 26.

Wanaque Center first notified the state about a respiratory illness on Oct. 9, Dr. Elnahal said. How the virus got to

the facility, its source and the mechanism of how it was spread can be difficult or impossible to know, he said, as is pinpointing when an outbreak starts.

"Our attention is squarely focused on making sure that further cases are minimized in terms of the risk and that we are getting treatment and the right care to all of those affected," Dr. Elnahal said.

"We are obsessed with try-

ing to figure out what happened," New Jersey Gov. Phil Murphy said.

Normally, an adenovirus, which is easily spread through touch, coughing or sneezing, would cause a mild illness with cold-like symptoms in otherwise healthy people. Health officials said that the #7 strain of adenovirus at the Wanaque Center is dangerous to people with weakened immune systems.

The state, with the assis-

tance of the Centers for Disease Control and Prevention, is investigating the outbreak.

The children, who all died this month, ranged in age from toddler to young adult, Dr. Elnahal said.

The Wanaque Center on Wednesday issued a statement that said the facility is working with disease-control authorities to implement protocols to treat affected individuals and prevent the spread of infection.

A President's Lecture Series Event  
during Presidential Inauguration Week

10.29

# New Models for Education

Pratt President Frances Bronet in Conversation with Cathy N. Davidson

How can higher education be transformed? How can students be better equipped for a changing world?

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# LIFE & ARTS

THE MIDDLE SEAT | By Scott McCartney

## If Only Flights Were Like Sports Events

Comparing a ticket to fly and a ticket to a baseball game drives home just how little freedom fliers have



**Is a seat at a golf tournament similar to a seat on an airplane? Airlines want consumers to think so, but they add many restrictions to their tickets.**

**A**irline executives love to equate their tickets to concert or sports tickets. "When you go to a concert, if you have a better seat, you expect to pay more," United Airlines President Scott Kirby said in an interview explaining new fees to reserve seat assignments.

It's an outlandish comparison, really, and a cover for restrictions on customers that would never fly in other industries. Sure, location matters and refunds aren't allowed once you buy a ticket to a ballet performance or football game, just like they aren't allowed for all but the most expensive commercial flights. But the similarities end there.

Unlike those events, airline tickets can't be resold or given to someone else if you can't use the ticket. Changes bring a \$200 penalty. Event tickets have a price printed on them. The price of an airline seat varies wildly and fluctuates by the minute. And you don't really buy a specific seat with an airline—you can be bumped or moved if the airline wants to.

Imagine showing up at a World Series game at Fenway Park and having the usher tell you the Red Sox gave your seat to someone else.

This faulty comparison airlines often make raises a fundamental question: What exactly is an airline ticket? You're not buying a seat. You're buying transportation—a contract to get you from one city to another as the airline wants. And the "ticket" comes with pages and pages of rules that work in the airline's favor.

### Is That the Ticket?

How airline tickets compare with a ticket to the World Series (or don't):

World Series	Airline Ticket
Can resell	Can't resell
Can give to friend	Can't give to friend
You purchase specific seat	You could get moved to a worse seat
Won't get bumped from game	Might get bumped from flight
Price printed on ticket	Price changes constantly
Tickets pricier closer to field	Tickets pricier closer to cockpit
Nonrefundable	Most are nonrefundable
National anthem	Preflight safety briefing
Potentially enjoyable	Potentially miserable

The most pernicious of those rules is the change fee, which airline executives admit isn't to cover the minimal cost of altering a reservation but to discourage business travelers from buying cheap tickets and switching flights to fit their changing schedules. Same with restrictions on reselling tickets and changing names. They're all to force corporate customers into higher fares.

The inflexibility has long grated on travelers, and leaves many wondering why airlines penalize their customers so aggressively.

"I can't think of another business that charges for something that doesn't seem to have value or seem to have a reason associated with it," Jon Battle, a Dallas retiree, says of change fees.

Some ticket rules have loosened over time, airlines note, such as requirements for Saturday-night stays. But others have grown into expensive consumer issues.

Reservation cancellation and change fees totaled \$2.8 billion for U.S. airlines in the 12 months ending June 30, according to the Bureau of Transportation Statistics. They make up a big chunk of airline profits.

There have been a few recent efforts to make tickets more consumer-friendly, particularly with change fees, with little success so far. A recent proposal in Congress to have the Transportation Department assess whether airline change fees are reasonable and proportionate to the service provided was removed from the final version of the Federal Aviation Administration reauthorization. Airlines lobbied against any possible limits, with American Airlines chief executive Doug Parker saying he'd eliminate any nonrefundable ticket changes if change fees were restricted.

"We, like the baseball team, like the opera, would say, 'We're sorry, it was nonrefundable,'" Parker

said in September, according to the Associated Press. Yet unlike the baseball team or opera, the airline wouldn't let you resell or give away a ticket.

One move that has stuck: Frontier Airlines slashed its \$99 change fee last month. Now if you make a change 90 days or more before departure, Frontier won't charge a change fee, but will collect any fare difference.

United's Mr. Kirby made his concert comparison when discussing new fees to reserve plain coach seats—with no extra legroom—that happen to be closer to the front of the plane. United announced in August it would start charging the fees for "preferred" seats by the end of the year. Other airlines, including American and Delta, do the same. Somehow being closer to the cockpit is, in airline thinking, like being in the orchestra section.

About all it really means is you deplane a couple of minutes earlier. The fees, on the other hand, force travelers, including families, to pay to reserve seats in advance. Fewer seats can be reserved for free. If you want seats together, you increasingly must pay fees.

Mr. Kirby acknowledges concerts aren't a perfect analogy. He says airlines need the rules and restrictions to separate leisure passengers, who are more price-sensitive, from business travelers, who are willing to pay more for seats booked closer to departure.

"For us, the same seat is a different product because of the flexibility inherent in being able to use that seat," he says.

Were airlines to set a fixed

price for seats and sell out the flight, the price for leisure customers would be about double, Mr. Kirby says. "Everyone is better off with the structure we have in place," he says.

If airlines allowed name changes on tickets, or let people sell or give tickets away like event tickets, speculators would buy up flights and push the cost higher.

Online travel agencies might make a market in popular flights, or ticket-selling services like StubHub might get into the airline business.

"The policies are designed to effectively preserve the integrity of the pricing structure," Mr. Kirby says.

With name changes, by the way, there is no security issue: TSA only wants the names of people on a flight hours before departure to be vetted against government databases. Name changes are allowed on group reservations at many airlines.

Southwest is the lone U.S. airline that doesn't charge change fees and thinks it benefits with higher revenue by making life a little easier for travelers. Andrew Watterson, Southwest's chief revenue officer, says passengers changing plans isn't a problem as long as they realize they're buying a new flight at a new price.

Adding a \$200 change fee on top of a new fare, he suggests, is "gouging someone in their moment of need." Mr. Watterson contends ticket penalties are a relic of a bygone era when airlines couldn't predict demand for each flight as accurately. "Why should you penalize the customer," he asks, "because we, as management, are doing a poor job?"

### MUSIC REVIEW

## FOR THE KINKS, IT TOOK A 'VILLAGE'

BY ALLAN KOZINN

**WHEN THE KINKS** assembled in 1968 to work on their sixth studio album, they believed that the disc would be their last. That may seem strange now that the album, "The Kinks Are the Village Green Preservation Society," is regarded as one of their most satisfyingly imagined and executed. An expansive new 50th-anniversary reissue, due Oct. 26 from Sanctuary/ABKCO/BMG, makes that point and helps explain it, over 11 discs—five CDs, plus vinyl replicas of the stereo and mono LPs, a Swedish version with a different track list, and three singles—that offer the album's stereo and mono mixes, singles from the time, demos, outtakes, alternate mixes, vocal-free backing tracks, and live performances.

By 1968, though, the Kinks had been unable to tour the U.S. for three years, thanks to a musicians' union ban, and they were battling to overcome their reputation as a singles band, at a time when the album was ascendant. They had also recently split with their longtime record producer, Shel Talmy, but saw that as an opportunity. Henceforth, Ray Davies, the Kinks' principal composer and singer, would direct the sessions.

A more conventional group might have examined the market

and tried to adapt. But Mr. Davies, having skewered trend-following and conformity in the Kinks' 1966 hit "Dedicated Follower of Fashion," had his own ideas. Instead of embracing the psychedelia that still enthralled many rock fans or the new vogue for longform blues explorations, Mr. Davies drew on vaudeville, cabaret, jazz and Baroque music to create a song cycle about an English village and some of its odder inhabitants.

Mr. Davies countered his potential audience's politics, as well.

With student protests in the news and revolution (however hyperbolically) in the air, his "Village Green" songs argued for the preservation of a post-Victorian, prewar England. The title song, which serves almost as a theatrical prelude, presents a parade of quaintly named organizations devoted to saving traditional aspects of English life and culture (including Tudor houses, variety shows, and both Sherlock Holmes and his nemesis, Moriarty) and opposing newfangled ones (skyscrapers, office blocks). The rest of the album portrays some of the village's more striking inhabitants, among them a rebel biker ("Johnny Thunder"), a prostitute ("Monica"), a witch ("Wicked Annabella") and a magical, Buddha-like feline ("Phe-

nomen Cat").

Mr. Davies had been meditating on these things for several years—indeed, the album's real heart is "Village Green," a leftover from the Kinks' previous album, "Something Else," that had appeared only on a 1967 French EP. Alternately jaunty and bittersweet—classic Davies bipolarity—the song introduces a semi-autobiographical protagonist musing about the country town of his youth and confessing that he misses everything about it: "the village green / And all the simple people / ...The church, the clock, the steeple / ...the morning dew / Fresh air and Sunday school," and, not least, his sweetheart, Daisy, whom he left behind when he decided to seek fame in the big city.

Still, Mr. Davies being the kind of songwriter he is, his nostalgia is tempered by acidic observation. Glimmers of sarcasm animate lines like "We are the Office Block Persecution Affinity / God save little shops, china cups and virginity," in the title song. Takers of family and vacation photos are satirized in "Picture Book" and "People Take Pictures of Each Other." And "Do You Remember Walter" honors memories of a school friend who Mr. Davies imagines is fat, married and always early to bed.

Upon its release, the album was the commercial failure the Kinks expected it to be. But it showed them a way forward; most of their projects through the mid-1970s were concept albums with theatrical underpin-



'The Kinks Are the Village Green Preservation Society,' which has been reissued for its 50th anniversary, showed the band a way forward.

nings, and when those proved popular—particularly "Arthur (Or the Decline and Fall of the British Empire)" (1969), "Lola Versus Powerman and the Moneygoround, Part One" (1970) and "Preservation" (1973-74)—listeners backtracked to "Village Green Preservation Society" and accorded it belated classic status.

Mr. Davies periodically tinkers with it. Previously unheard remakes of a few songs, intended to be grafted onto "Preservation," but unused in the end, are in the new set, as are performances by Mr. Davies

of several songs with orchestra and choir—and minor lyric retouching—recorded in concert in 2010.

Mr. Davies has lived in the U.S. since 1997; his 2013 memoir is called "Americana," and his last two albums are called "Americana" and "Our Country—Americana Act II." But perhaps it's not too late for him to transform his song cycle about a fantasy English village into the stage musical it deserves to be.

Mr. Kozinn writes about music for the Journal.

## LIFE &amp; ARTS



CLOCKWISE FROM TOP LEFT: © MARK GROTJAHN/NAGOSIAN (2); DAVID CROTTY/PATRICK MCNULTY AGENCE

## ART &amp; AUCTIONS

# After a Record Sale, an Artist Changes Course

The Los Angeles painter's new work comes to Gagosian; 'one of the best examples of how much power an artist can wield'

BY KATERINA ANG

**WHEN THE GAVEL** came down at Christie's contemporary art sale in May 2017, a painting by Mark Grotjahn had sold for \$16.8 million.

The price for "Untitled (S III Released to France Face 43.14)," full of feathery red, black and yellow lines and part of the Los An-

geles artist's "Face" series, was roughly double what his work had ever fetched at auction. By then, however, he had moved on.

"I was sick of relying on the face for composition and wanted to find a way of working where I strictly dealt with colors and textures," says Mr. Grotjahn, who counts David Geffen and the Museum of Modern Art among his collectors. Viewers in New York

will see the results of his creative shift when "New Capri, Capri, Free Capri," opens on Tuesday at Gagosian's West 24th Street gallery.

Billed as the artist's largest-ever display of new work, the show marks the 50-year-old's change in style. A breakthrough came when he started experimenting with scraping leftover paint off a canvas and then spreading chunks back onto the work—a process that felt indulgent at first.

"I did not enjoy the struggle," he says, but "after long enough, there's a different kind of dexterity and muscle memory as the work becomes significantly free."

Mr. Grotjahn's new, earth-toned

works range in size from 23-by-19 inches to a cardboard-on-linen painting nearly 6 feet tall. Several in the series include an almond-shaped motif that appeared in some of his earlier work.

The Broad in Los Angeles is acquiring some of the "Free Capri" pieces. "There's a sense of openness and freedom that seem apparent in these paintings, though they still have the same rigorous sensuality about them," says Joanne Heyler, the museum's founding director.

Mr. Grotjahn has come a long way since an early show where he only sold one \$3,500 painting. His works in the Gagosian show are priced from \$750,000 to \$5 million.

At the same time, he possesses an unusual amount of commercial independence. At a time when blue-chip galleries can make an artist's career and demand exclusivity, he works with four galleries in the U.S. and is known to occasionally cut out dealers by selling directly to collectors.

"He is a very unique case but also one of the best examples of how much power an artist can wield at the highest reaches," says Natasha Degen, who leads the art-market studies department at the Fashion Institute of Technology. "Clearly, enough money is being made that Gagosian is going to overlook the fact that there are multiple parties involved."

"It doesn't bother me," says Larry Gagosian, whose 16 galleries include locations in Paris, London, Geneva and Hong Kong. "We've developed a bit of a shorthand over the years for how he wants

Paintings from Mark Grotjahn's 'Free Capri' series, above, will be on view at Gagosian's West 24th Street gallery in New York. The artist, below right, with gallery owner Larry Gagosian, below left.

things handled."

Sam Orlofsky, a Gagosian director who began working with Mr. Grotjahn over a decade ago, attributes the artist's market ascent to his prowess as a poker player. "He has a super-intense sense of risk-taking and knows how to gauge someone's appetite," Mr. Orlofsky says.

**\$16.8 million**

Sale price for Mark Grotjahn's 'Untitled (S III Released to France Face 43.14)'

Mr. Grotjahn is tight-lipped about the commercial aspect of his career. But he still talks about poker, which he now rarely plays, with the vocabulary of the art dealer he once was.

"There are moments of clarity where you read the table," he says. "One person's pain threshold is very different from another's, and it's really helpful to gather that information to take advantage of a situation."

Ultimately, prices and market strategies aren't what makes Mr. Grotjahn tick, Mr. Gagosian says. "What excites him is what's going on in the studio every day."



## MIDDLE SEAT MAILBOX

## QUESTIONING THE AIRLINES' EXIT STRATEGY

Middle Seat columnist Scott McCartney answers reader questions about travel.

**Q** If there is priority boarding, why not priority exiting?  
—Michael Weinstein, Brooklyn N.Y.

**A:** In a sense, there is. That's the only plausible airline argument for the value of a "priority" or "preferred" seat closer to the front of the plane. If you pay extra to sit closer to the front, the only real perk you get is leaving the plane ahead of the folks behind you.

I'm not sure you could ever enforce a "stay seated while people with priority exiting go first" regime. You see flight attendants try that on late-arriving flights—stay seated so the people with tight connections can hustle off first. Some passengers politely comply. Many want off as fast as

they can. Some have legitimate reasons: They may be late for meetings or have people waiting to pick them up.

Airlines have developed all kinds of boarding regimes with groups, lines, stanchions and rigid instructions. And yet boarding a plane is often still chaos—pushing and shoving, people stepping in front of each other. Exiting a plane is typically far more orderly. We all line up to leave one row after the next.

It's a reminder that before airlines made a business of selling priority, boarding row-by-row was a lot tidier. And that if airlines truly started selling priority exiting, that would make flying something even less fun.

**Q** I had a Delta business class seat booked yesterday (LAX-ATL) at 9:30 a.m. I checked in on my phone the night before, but woke up in

the middle of the night feeling sick and emailed my assistant to cancel the ticket. She called Delta but was unable to cancel—first they told her it was because I had checked in, and then they told her it was because I had boarded the flight....Delta said the only way they would process a refund is if I showed up at the airport (that day) to sign an affidavit and prove I was in L.A. Have you ever heard of anything like this?

—Jason R. Wolff, Los Angeles

**A:** No, I haven't. But this certainly falls into a category too familiar to all of us: Madding, ridiculous airline rules designed to defy common sense.

It's disturbing that somehow Delta's system decided you boarded the plane when you didn't. It's even more bewildering that Delta couldn't reasonably, logically correct its mistake without making it your problem. You, from

your sick bed, need to go to the airport and sign an affidavit? How many lawyers does it take to dream up such customer-friendly procedures?

I asked Delta to investigate what really happened and why. The response was a statement: "We apologize to the customer as we identified him as 'on board' as well as mistakenly requested him

to physically disprove his claim. We understand 'life events' happen and our current policy allows customers to notify us of an issue and to apply the value of the ticket to future travel."

Got a question for Scott? Write him at [middleseat@wsj.com](mailto:middleseat@wsj.com). Subscribe to the Middle Seat newsletter at [wsj.com/newsletters](http://wsj.com/newsletters).



GETTY IMAGES/STOCK

## LIFE &amp; ARTS

## ARCHITECTURE REVIEW

## A Shrine to Honor Service



AERIAL IMPACT SOLUTIONS (2)

BY JULIE V. IOVINE.

*Columbus, Ohio*

**GIVING MEANINGFUL** shape to monuments and memorials in this disputatious era is no easy task. The new National Veterans Memorial and Museum gets as close as may be possible.

Designed by Brad Cloepfil of Allied Works Architecture, the building conjures a light-and-dark silhouette of a drum bound by concrete straps that seem to whip with concentrated force. It feels dynamic, more threshold to a rite of passage than staid monument.

According to the architect, it takes no cues from familiar historic memorials. Though echoing with the suggestion of arches, its form is distinct—altogether appropriate for an institution that celebrates neither battles nor wars, losses nor victories but the myriad individuals from every walk of life who have stepped up to serve our country. The vision of U.S. Sen. John Glenn, who believed children needed to learn more about ethics and community engagement, is the country's first national museum dedicated to the idea of service.

Mr. Cloepfil, who is known for architecture with an assured phys-



The new National Veterans Memorial and Museum, designed by Brad Cloepfil of Allied Works Architecture, which opens Saturday

icality that's also subtly textured—as in the Clyfford Still Museum in Denver, with its rough-hewn, board-formed concrete, and the ceramic-tile-clad Museum of Arts and Design in New York—has here executed a building with a much larger and more powerful presence than its actually quite modest 53,000 square feet.

Visitors can approach the museum, lifted atop a small hill overlooking the Scioto River, either from a staircase leading up from the street or from a large parking

lot (soon to be redeveloped into a mixed-use complex within a new neighborhood with the museum as anchor). The path becomes a ramp that sweeps past the entrance up to an open-air amphitheater on the roof. The front door is notably inconspicuous, tucked into a corner of a glass wall.

The architect describes following the ramp as processional, but that suggestion of formality and hierarchical symmetries is misleading. Instead—and more gracefully—the easy slope feels like a

gentle reveal as the building merges into the larger landscape to become part of the skyline. The roof itself includes a lawn you can walk on. The surrounding seven-acre park was designed by the landscape firm OLIN, and includes a stand of trees arranged as a meditation space with a reflecting pool and water wall made with Ohio limestone and river rocks.

The building's unflashy facade that appears to be wrapped in loosely woven bands of concrete is in fact a feat of extreme sophistication that would not have been possible 20 years ago. The crisscrossing bands are not attached to some underlying armature, but the structure itself poured from self-consolidating concrete that makes for a smooth, unblemished surface. The bands form three elliptical rings, each in its own orbit, overlapping to create both the outer walls of the building and interior walls for the exhibition galleries. In place of windows, irregular-shaped openings taper down to four square feet or stretch up to 300 square feet as if the building could breathe.

Once inside, the raw-concrete curves of the interwoven concentric walls, visible for the full two-story height of the building, embody an elemental energy providing the backdrop to the in-

stallations by Ralph Appelbaum Associates.

Where the architecture goes for the universal through abstraction, the exhibitions achieve the same by homing in on the individual and the everyday. The complementary strength of the Cloepfil design resides in its spartan simplicity. There are no bronze and marble finishes. Walls are either the same smooth concrete of the exterior or painted gray; the metal display cases look almost as rusty as the footlockers on exhibit. The only splashes of color are found in a multicolored glass wall on the upper-level mezzanine, where doors open onto the roof amphitheater. The glass is colored in stripes according to various campaign medals, from the blue and gray of the Civil War to the blue, yellow, red and white of the global war on terrorism.

The emotionally charged materials contained by and combined with this serene but animated space move one both physically and psychologically on an uplifting path toward a better understanding of how essential service is to perpetuating the life of the communities we cherish and that make up our nation.

*Ms. Iovine reviews architecture for the Journal.*

## EXHIBITION REVIEW

## STATIONS OF A SOLDIER'S LIFE

BY EDWARD ROTHSTEIN

*Columbus, Ohio*

**IT DOESN'T TAKE long before you feel a catch in your throat. It comes on soon after you enter the \$75 million National Veterans Memorial and Museum, which opens Saturday here near the Scioto River. At first, having followed a circling walkway from the parking lot you are simply impressed at how the building, designed by Allied Works Architecture, manages to be grand without being grandiose; its tilting arcs of supporting concrete seem caught mid-oscillation around walls of glass. Once you enter the 53,000-square-foot interior, you again follow a circling passage through the main exhibits, which include 14 sets of displays—stations in the lives of American veterans**

The opening display—"A Nation Called"—is a stage-setter, including George Washington's declaration that "every Citizen" of the new nation "owes not only a portion of his property, but even of his personal services to the defense of it." But the catch comes in the second display, "Why We Serve," where we begin to glimpse the nature of those demands. After reading about "a range of motives" for enlisting, we come upon the copy of a letter written by Leon Allen Bauer on Nov. 24, 1964, while serving in Vietnam; it was left at the Vietnam Veterans Memorial in Washington (as were several other documents here). He addresses his two daughters, ages 4 and 1, as if in valediction before a battle:

"Dear Liz & Sue," he begins, "Don't be afraid of your future—it will be there waiting for you when you are ready for it. Just be the girls that you are, be good to each



BRAD FEINKOPF

Inside the new National Veterans Memorial and Museum; its exhibits were created by Ralph Appelbaum Associates

other and love your Mother and me in your own ways, be yourselves every day in every thing that you do."

Bauer continues: "There are many things that need to be done no matter how much we dislike to do them." He goes on to explain his ideals and his devotion to the country and ends: "Be good my little children. Love, Your Daddy."

Bauer, we learn, was killed in action the following September.

It doesn't matter that the Vietnam War inspired controversy. It doesn't matter if those ideals were ever clouded. This is not a historical museum in which we are asked to understand causes, second-guess judgments, or examine American history (though we do get a sense of national scale from a timeline that runs along-

side the displays and we learn that in 2017 there were 1,315,609 U.S. military personnel worldwide, active in 162 countries). This is also not a war museum guided by materiel and strategy and context. This is a museum about the lives of those who served out of duty and belief; it explores their commitments and sacrifice.

It was envisioned by the Marine veteran, astronaut and Ohio Sen. John Glenn, which explains its location. It was brought to life by the Columbus Downtown Development Corp., part of continuing development of the surrounding area. Its exhibits were created by Ralph Appelbaum Associates, a firm that has set standards for museological language, translating abstract ideas

into personal experience. This museum has few artifacts, but many stories. As a building, it is abstract, far different from the "man on horseback" memorials of the 19th century. But its content—powerful and affecting—is intimate while still being devotional in its portrayal of national service.

The overarching narrative is the veteran's life, beginning with "Leaving Home" ("The last day together you fight back tears every second..." is one wife's comment). The next section, "Taking the Oath," focuses on the surprising power of the formal declaration of allegiance, which, as interviews with veterans explain, serves as a kind of touchstone during their later trials. Then we are led through explorations of jobs done,

locations deployed to, combat endured, struggles with civilian life, and accounts of many still devoted to national or community service.

Brief accounts of unusual veterans go back to the Revolutionary War (Peter Francisco, for example, who was called by Washington a "One-Man Army," or Deborah Sampson, who served while disguised as a man). We also get to know 25 living veterans more intimately, through tautly edited video accounts. Brian Vargas, a second-generation Marine, deployed to Iraq in 2006, recalls his near-death in an attack. John Flinn, who fought in Vietnam, notes that after such an encounter, you start to feel that "death ain't got nothing on me." But later, we learn, he was so distraught at hostility encountered on returning home, he quickly changed out of uniform. At varied times, narrators choke up at memories; at times, you do as well. These men and women become impressive, not just for what they did or saw or suffered, but for what they have become.

There are flaws: The second-floor memorial hall seems chintzy after everything leading up to it, and too much cross-checking is required to get a clear sense of the featured individuals. The overall approach is *too ahistoric*; how did the military experience and its effects change over the centuries? But now, when the experience of military service is alien to the majority of Americans, this museum offers some recompense. And in our politically riven time, its achievement is extraordinary for the understanding it both demonstrates and inspires.

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

## SPORTS

DODGERS VS. RED SOX | By Jason Gay

# The Case for the World Series Nap

Four hours. Nine innings. 12 pitchers. Our sports columnist on the nightmare of baseball (and basketball) bedtimes.



Why are you reading this crummy sports column?

You're supposed to be sleeping. Getting a nap in. Two naps, truthfully.

One nap so you can stay up to watch NBA basketball. Then another nap so you can stay up to watch the World Series.

On Monday, the Journal ran a front-page story from my sports colleague Ben Cohen about the NBA's insomnia season. The league's shiniest talent (the Golden State Warriors and the Los Angeles Lakers, now with LeBron James) is clustered out West, meaning a lot of 10:30 p.m. ET starts, and a lot of post-1 a.m. ET finishes.

Did you see the big fight in the Laker-Rockets game the other night? No, you did not. You were fast asleep, dreaming about playing golf with pizza-making robots.

Then there's the World Series. These games start at a more reasonable time for East Coasters, 8:09 p.m. ET or something, but baseball games now last longer than Springsteen farewell shows. The Red Sox and Dodgers played for nearly four hours (3:52) over nine innings in Game 1 Tuesday.

Four hours. Nine innings. And the Red Sox, 8-4 winners, didn't even need to hit in the bottom of the ninth.

Baseball has been making noise about trying to accelerate the pace of play. The trouble is game management. You ever have nightmare family games of Monopoly that lasted all night? That's what baseball games have become. There is tinkering atop tinkering, adjustments atop adjustments. On Tuesday Boston and Los Angeles combined to throw 12 pitchers. Twelve!

I get it: It's the World Series. The stakes couldn't be higher. Part of the reason the Red Sox and Dodgers got here is through using specialists to get quick, critical outs.

But is this a selling point? Has anyone ever come back from a World Series game and had this exchange:

*Hey, you got to go to a World Series game? That's amazing!*

*Yes, and I saw 12 pitchers!*

**TWELVE PITCHERS!** How cool is that?

None of this makes a difference to whine about right now. Even though I've already shown my alarming clout in the MLB—you saw the Dodgers ditched their garbage sweatshirts for handsome jackets for Game 1; maybe it had to do with the autumn cold, but I'm going to delude myself they read my column—baseball isn't going to make a change in the next week. I'm not going to re-propose the



CLOCKWISE FROM TOP: JOHN CETRINO/ERA/EFE/REX/Shutterstock; DAVID J. PHILLIP/AP/MATT SLOCUM/AP

Above, Red Sox manager Alex Cora takes the ball from pitcher Chris Sale in Game 1 of the World Series on Tuesday. Below, left, Dodgers pitcher Clayton Kershaw relaxes at Fenway Park.



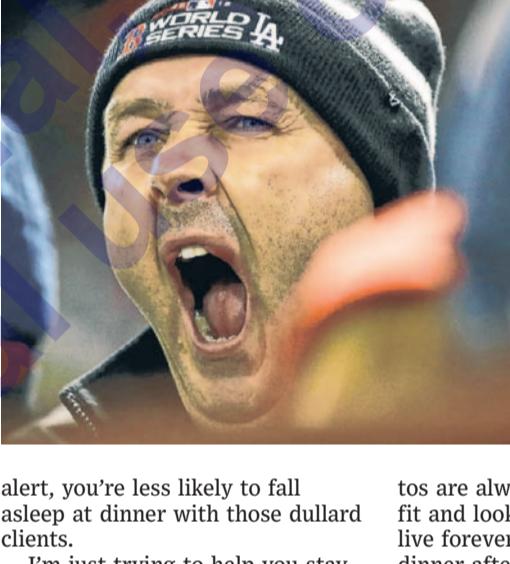
"Catch-Up Rule" from those NYC academics—I'm still navel-deep in hate mail on that one, thanks very much.

We need to focus on achievable goals, and this means: napping.

I'm on record as being

thoroughly pro-nap. I promote them, I take them, I likely even cause them, a few of you probably dozed off five paragraphs ago.

There are all kinds of cognitive motivations to nap: Your brain gets a rest, you awake energized and



alert, you're less likely to fall asleep at dinner with those dullard clients.

I'm just trying to help you stay awake for the World Series. Honestly, I'm not really worried about you missing NBA games right now. Nobody needs to watch the NBA in October; it's like Christmas shopping in March.

For your baseball naps, it helps if you're a bona fide Red Sox or Dodgers fan. Gives your naps more legitimacy.

I recommend full transparency. Put your head down on a table and get a solid 45. Tell the bosses you

They're tired of how their world is supposed to revolve around the sleep patterns of pasty, self-absorbed East Coasters.

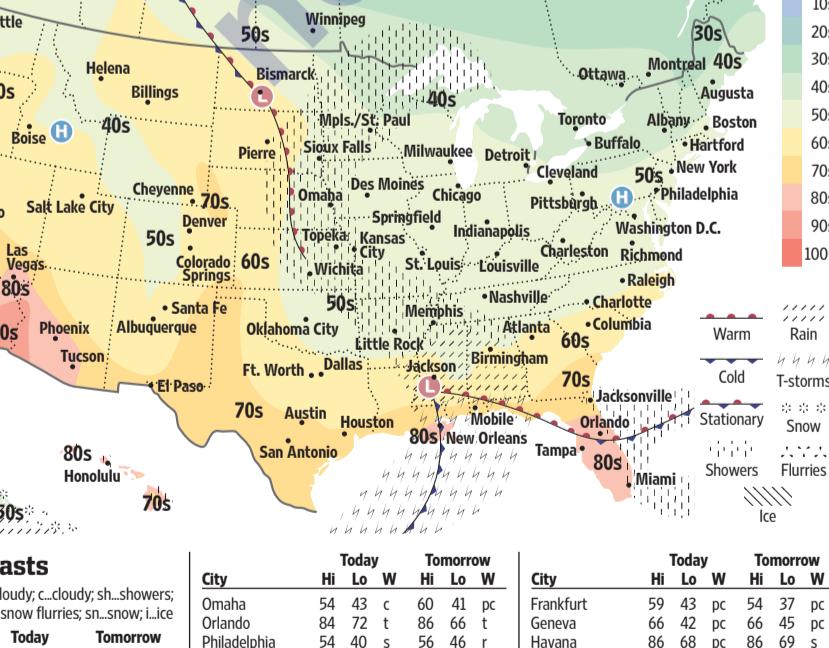
Oh, boo-hoo-hoo, West Coasters. Nobody cares. You have beautiful weather, ocean and mountains and it's really easy for you to get to Hawaii. You went surfing this morning and you're going skiing on Saturday and you might stop for pinot at that adorable winery on the way home. Your Instagram photos are always beautiful and you're fit and look like you're going to live forever. Plus you can go out to dinner after the World Series games end. And now you have LeBron James.

I hate you, West Coast.

(I'm OK with Central Time Zone people—it's a reasonable one hour, no big deal. Mountain Time Zone—I don't know what that is. It sounds illegal.)

Please indulge us terrible East Coast snobs on this one. We're a little cranky. There's another long night of baseball ahead—and honestly, we need a nap.

## Weather



## U.S. Forecasts

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

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

City Today Hi Lo W Tomorrow Hi Lo W

Anchorage 45 40 r 48 40 c

Atlanta 61 50 r 59 51 r

Austin 70 52 pc 79 55 s

Baltimore 55 40 s 54 46 r

Boise 66 49 pc 71 49 pc

Boston 51 33 s 51 42 pc

Burlington 42 31 pc 45 31 pc

Charlotte 59 43 pc 53 44 r

Chicago 53 43 pc 52 42 c

Cleveland 52 39 pc 54 41 c

Dallas 64 52 c 73 55 s

Denver 67 42 pc 68 45 pc

Detroit 52 39 s 54 41 c

Honolulu 87 76 sh 87 76 pc

Houston 70 53 pc 74 55 s

Indianapolis 53 41 pc 50 39 r

Kansas City 52 42 c 59 42 pc

Las Vegas 84 60 s 84 61 s

Little Rock 56 48 r 63 47 pc

Los Angeles 83 61 s 86 63 s

Miami 86 76 sh 88 75 pc

Milwaukee 54 43 pc 52 44 c

Minneapolis 52 43 sh 52 41 sh

Nashville 59 49 sh 57 45 r

New Orleans 80 63 t 70 60 c

New York City 52 40 s 53 45 pc

Oklahoma City 58 45 c 70 49 s

## International

Today Hi Lo W Tomorrow Hi Lo W

City

Amsterdam 58 50 c 54 41 r

Athens 64 52 s 70 58 s

Baghdad 91 69 p 66 58 pc

Bangkok 92 78 t 93 78 t

Beijing 61 41 pc 56 36 s

Berlin 54 43 c 54 38 pc

Brussels 75 52 p 69 50 t

Dubai 94 80 s 94 81 pc

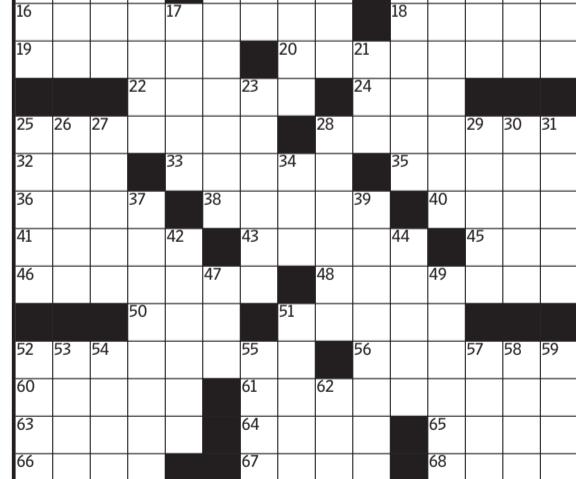
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## The WSJ Daily Crossword | Edited by Mike Shenk



## CAN DO | By Harold Jones

- |                                     |                                       |                                                  |
|-------------------------------------|---------------------------------------|--------------------------------------------------|
| <b>Across</b>                       | 22 Demand from a trial witness        | 45 Linked up                                     |
| 1 Indication of reckless driving?   | 24 Watch kids                         | 46 Bodily catalysts                              |
| 5 "I'm sorry to say..."             | 25 Fit for wagering, as a poker chip? | 48 Fit for limiting, as salaries?                |
| 9 Call at home                      | 28 Middle Kingdom amulets             | 50 Site of sites                                 |
| 13 Dolby Cinema rival               | 32 "Warzone" musician                 | 51 Put on again                                  |
| 14 Painter                          | 33 Row of pawns, e.g.                 | 52 Fit for occupying, as a den in the woods?     |
| Thomas of the Hudson River School   | 35 Package part                       | 56 Harder to read, perhaps                       |
| 15 Work on a wall                   | 36 Doesn't guzzle                     | 60 Out of bed                                    |
| 16 Fit for fumigating, as a belfry? | 38 Heart, e.g.                        | 61 Not fit for rating highly, as Nadia Comaneci? |
| 19 16 tablespoons                   | 40 Stellar phenomenon                 | 63 Die array                                     |
| 20 Fit for praising, as a sermon?   | 43 "David Copperfield" heroine        | 64 Do some weaving                               |
|                                     |                                       | 65 Subtracting                                   |

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

66 Plug	27 November birthstone
67 Went through channels?	28 Point of view
68 Pronto, while operating	29 Fat Man, for one
<b>Down</b>	30 Miter joint feature
1 Name meaning "faithful"	31 Bluish gray
2 Significant sign	34 Clutch component
3 Broccoli __	37 Get high for a spell?
4 Quinella cousin	39 For the immediate future
5 Where to see the La Quebrada cliff divers	42 Lipstick mishaps
6 High hit	44 Canaries' owner
7 Much-praised name	47 Fall back
8 Look to be	49 Historic records
9 Like the Tapanuli orangutan	51 Freshen
10 Many a Middle Easterner	52 Shindig
11 Founder	53 Make out
12 Fashionista's read	54 On the summit of
13 Dolby Cinema rival	55 Huggies competitor
14 Painter	57 "Yeah, right!"
Thomas of the Hudson River School	58 Anna's sister in "Frozen"
15 Work on a wall	23 Neon fish
16 Fit for fumigating, as a belfry?	25 Entourage
17 Dragster booster	26 Gibson garnish
18 Phone reading	27 Previous Puzzle's Solution
19 16 tablespoons	MOMMA PLATA GRR ALIAS ALIMATE KITCHENZINCE END EVER DEAD DORAGGS RESAVES POSIT MEN PROTOZOA ULCER BABY ZITA TAWN FIR BABY ZITA TAWN OMIT NEW WELSH SEMESTER BAN GIZMOS TIE DASHOFF SEE SMOKEY MENDS

## Previous Puzzle's Solution

MOMMA PLATA GRR ALIAS ALIMATE KITCHENZINCE END EVER DEAD DORAGGS RESAVES POSIT MEN PROTOZOA ULCER BABY ZITA TAWN FIR BABY ZITA TAWN OMIT NEW WELSH SEMESTER BAN GIZMOS TIE DASHOFF SEE SMOKEY MENDS

## OPINION

## The October Surprise Arrives

WONDER LAND  
By Daniel Henninger

It looks as if the 2018 election's October Surprise is about to arrive—from Honduras. There they are—all 7,000 or so of them meandering across Mexico, on television 24/7 and the front pages every day. Unavoidably, everyone is forced to shape an opinion about it. Unavoidably, it's political.

Most media coverage runs on two joined tracks. One, the caravan is a human tragedy. Two, Donald Trump and the Republicans are, needless to say, on the wrong political side of the tragedy.

Does this sound familiar?

That's right, the October Surprise in its media and political particulars sounds similar to the September Surprise—the Kavanaugh nomination hearings.

The Senate Judiciary Democrats dropped the Christine Blasey Ford bombshell late in the process to drive a wedge between Republicans and female voters. It backfired.

The Democrats reduced all the complexities of a Supreme Court nomination to mandatory expressions of sympathy for a human tragedy. For many Americans, as summarized on the Senate floor by Sen. Susan Collins, the Democratic effort to force her and the rest of the country into making this impossible Sophie's Choice was just too much. Due process still matters.

The left's reductionist Kavanaugh strategy enraged and

energized a sleepy Republican electorate, whose interest in the midterms now effectively matches the Democrats'.

Early voting patterns are flicker as a predictor of final results, but the consistency of the trend reported this week by NBC News and TargetSmart is striking. Early voting by GOP-affiliated voters is running ahead of Democrats in seven key states: Arizona, Florida, Georgia, Indiana, Montana, Tennessee and Texas. Early-voting Democrats lead only in Nevada. This pattern is the opposite of assumptions about relative levels of enthusiasm.

Another tea-leaf metric associated with midterm election outcomes is presidential approval. In early September, when Democrats were involved in the normal phase of the Kavanaugh hearings, President Trump's approval average on Real Clear Politics was at its lowest level since March—40.6%. On Sept. 18, simultaneous with the nation's daily doses of Ford versus Kavanaugh, Mr. Trump's approval began to climb. It now sits at a 44.1% average. It just hit 47% in the Wall Street Journal/NBC News poll.

Now come the Hondurans. The Senate Judiciary Democrats didn't create the caravan, though a query about who did to Dianne Feinstein's staff couldn't hurt. Whoever on the international left put up the money, Democrats in tight re-election races—say, Claire McCaskill in Missouri or Joe Donnelly in Indiana—have to be asking: Whose idea was this?

Conventional wisdom would hold that a migrant wave landing on the U.S. border around

Election Day would revive the public-relations debacle the Trump administration endured with the family-separation mess in Texas this summer.

Nor is any effort being spared this week to convey the impression that just as the Republicans last month were anti-woman, this month they're anti-immigrant.

Here is the headline the New York Times ran atop its front-page story/editorial

### The politics of the migrant caravan sound a lot like the Kavanaugh fiasco.

Tuesday: "Trump Escalates Use of Migrants as Election Ploy. Stoking Voters' Anxiety With Baseless Tale of Ominous Caravan." Or the Washington Post's front page the same day: "For Trump and GOP, a bet on fear, falsehoods."

Is a sitting president, two weeks from a midterm election and probable Democratic control of the House, exploiting this event for political ends?

Well golly gee, and welcome to Mayberry, Aunt Bee. For the truly faint of heart, we'd also note Mr. Trump's ethanol-usage payoff to corn farmers this month.

Unfortunately for the Democrats, the Honduran caravan is the Kavanaugh nomination all over again. (A second one with thousands is forming now in Guatemala.) It's a massive event that forces voters to think about immigration, an issue Democrats thought had

been weaponized this summer against Republicans.

To borrow an old Marx Brothers joke, the question about the caravan for voters is: Who are you going to believe, media or your own eyes? Tens of millions of Americans have been staring for a week at the images of this caravan and asking: What exactly are we expected to do when it arrives in Texas?

Amid his hyperbolic commentary, Mr. Trump has said one indisputably non-false thing: Our immigration laws are "a disgrace." And the responsibility for that disgrace, back at least to the 1980s, is bipartisan.

This summer's media-drenched family-separation fiasco taught a lot of people, if nothing else, that the federal bureaucracies simply cannot process this volume of people who just, you know, show up.

The Democratic left's well-publicized answer to that complex, overwhelmingly difficult reality is twofold: Create sanctuary cities and abolish ICE—U.S. Immigration and Customs Enforcement. In other words, do less than nothing.

Amid whatever is "normal" in our politics anymore, voters have had to process two overwhelming pre-election events: the Kavanaugh nomination and now these migrant caravans heading toward the U.S. With each, the Democrats reduced their political proposition for voters to just one thing: We care. For a lot of people, I suspect, saying only that you care won't be sufficient reason to earn their vote.

*Write henninger@wsj.com.*

## America's Midterm Referendum

By Karl Rove

"I am on the ticket because this is also a referendum about me," President Trump said at a Mississippi rally on Oct. 2. He is correct: Every midterm election is to some degree about the Oval Office's occupant.

With rare exceptions—FDR in 1934, Bill Clinton in 1998 and George W. Bush in 2002—the party in power loses ground in the midterms both in Congress and down the ballot. Voters almost always seek to provide a check on the incumbent party, prod it to deliver on its promises, or both.

Republicans received good news this week as a new Gallup poll pegged Mr. Trump's job approval at 44%, up 6 points in the past month. That's near his all-time Gallup high of 45% after the June summit with North Korea's Kim Jong Un. The new NBC/Wall Street Journal poll puts the president's approval at 47%, a record high in that survey for his time in office. Mr. Trump's cumulative third-quarter Gallup rating was 41.2%. That's about where Ronald Reagan and Bill Clinton were at this point in their first terms. Yet voters hammered both presidents in the midterms that followed. Republicans lost 26 House seats in 1982 and Democrats shed 54, and their majority, in 1994.

Still, Mr. Trump is likely to preside over a rare midterm gain in the Senate. This is the

most favorable Senate map for the party in the White House since senators were first popularly elected in 1914. Twenty-six Democrat-held seats are on the ballot, compared with just nine Republican seats. Ten of the Democrats' seats are in states Mr. Trump carried in 2016, and most key Senate races are being fought where Mr. Trump's approval ratings are higher or much higher than his national average.

### Voters will judge not only Trump but Feinstein, Schumer and Pelosi.

Still, the White House must be shrewd if Republicans are to expand their Senate edge and keep the House majority or at least minimize losses. A recent private poll in a state with a major Senate race found 38% of voters approve of Mr. Trump and his policies, while 43% disapprove. But there's a third group of voters: 16% dislike Mr. Trump personally but favor his policies. To win in many contests, Republican candidates must not only hold the crowd that likes everything about the president but also corral most of the half-happy voters who are pleased with Mr. Trump's results but not how he handles himself.

If Democrats fail to win the 23 seats needed to capture the House, or even if they end up with a narrow majority, it will also reflect poorly on Nancy Pelosi's leadership. She can raise money, but the minority leader hasn't given House Democrats a governing mes-

This suggests Mr. Trump should consider holding fewer rallies and making more substantive moves in the campaign's final two weeks. He may mock the idea of "acting presidential," but he tends to rise in voters' estimation when they see the White House engaged in actual policy-making.

GOP candidates must also deepen their own profiles, distinguishing themselves from the president—as Florida gubernatorial hopeful Ron DeSantis, a Trump acolyte, has done in opposing oil drilling in the Sunshine State's waters.

The midterms aren't only about Mr. Trump. If Democrats lose ground in the Senate, much blame goes to Sens. Chuck Schumer and Dianne Feinstein. As minority leader, Mr. Schumer failed to create an effective loyal opposition, and as ranking Democrat on the Judiciary committee, Mrs. Feinstein all but singlehandedly stoked a surge of conservative interest in the election—though it was already under way—by utterly mishandling Justice Brett Kavanaugh's confirmation. This election is a referendum on them, too.

If Democrats fail to win the 23 seats needed to capture the House, or even if they end up with a narrow majority, it will also reflect poorly on Nancy Pelosi's leadership. She can raise money, but the minority leader hasn't given House Democrats a governing mes-

sage other than to proclaim: "I am a master legislator."

After spending north of \$120 million advocating Mr. Trump's impeachment, you'd think Tom Steyer could get at least one new Democratic senator elected who favors impeachment. Memo to the California zillionaire: It ain't gonna be Rep. Beto (a/k/a Robert Francis) O'Rourke. If Mr. Steyer fails, his vanity campaign will have imploded before it reaches the starting gate.

Some Democrats now hint Republicans may lose fewer than 37 seats—the average number the majority party has given up in midterms when the president's approval is under 50%.

"I happen not to believe that there's going to be this great blue wave," said Sen. Bernie Sanders Sunday. Democratic National Committee Chairman Tom Perez now says, "I don't use the term 'Blue Wave.'" Either they believe this will boost Democratic turnout, or they're nervous and trying to lower expectations. I bet the latter.

Either way, Mr. Trump isn't alone. The midterms are a referendum on several politicians—and all will face consequences for failure.

*Mr. Rove helped organize the political-action committee American Crossroads and is the author of "The Triumph of William McKinley" (Simon & Schuster, 2015).*

## Zero Hour for the Islamic Republic

By Danny Danon

I ran has long been a subject of intense discussion during the United Nations General Assembly. But in years past the world lacked the leadership and political will to confront Tehran over its nuclear ambitions and support for terrorism. This year is different. With the regime facing political unrest at home and escalating sanctions from abroad, the international community can block its expansionist and dangerous designs.

The Iranian leadership is beleaguered. It faces protests that directly challenge its legitimacy. Iranians are outraged that their leaders have funneled the billions of dollars their government received from the nuclear agreement to support terrorist proxies. Protesters are shouting "Death to Palestine"—repudiating the regime's anti-Israel elimina-

tionism—and "Leave Syria and think of us."

Financial pressure from U.S. sanctions has compounded this domestic turmoil, as companies around the world end their commercial dealings with Iran. The value of the Iranian rial has plum-

meted, while Iran's oil exports have fallen 25% since June. In November a second round of sanctions will target the backbone of Iran's economy, its oil and gas sectors.

When the General Assembly convened in September, President Trump advised the international community to join the U.S. in isolating the regime. Israeli Prime Minister Benjamin Netanyahu revealed

the existence of a new nuclear site constructed in violation of the nuclear agreement. He invited the International Atomic Energy Agency, or anyone with a smartphone, to inspect the site: latitude 35.5022, longitude 51.2997.

Yet some European countries continue exploring ways to skirt U.S. sanctions and maintain business ties with Iran. One strategy is to issue a "blocking statute" that threatens businesses that comply with U.S. sanctions. Another is to continue transactions with Iran through a newly created financial entity. But such schemes won't save the regime.

German banks have already rejected over 80% of transaction payments from Iran, and it will take months for Russian or Chinese firms to backfill lost revenue from the exodus of foreign investment.

The world must not be fooled into believing that normalizing relations with Tehran

will improve global security. Iran has tens of thousands of soldiers and proxy forces in Syria. It is actively engaged in a proxy war in Yemen. It recently provided short-range ballistic missiles to Shiite forces in Iraq. This summer it attempted to bomb an opposition rally in Paris. Europe should stand fast with the U.S. Wishful thinking and appeasement will not keep the Continent safe.

With more consequential U.S. sanctions approaching, now is the time to support the Iranian people's demand for change and increase the pressure on their rulers. The world may soon have the opportunity to free itself of this evil regime, and I call on my colleagues at the U.N. to join the U.S. and Israel in standing against its regional adventurism and global terrorism.

*Mr. Danon is Israel's ambassador to the U.N.*

BOOKSHELF | By Nicholas Reynolds

## The Southern Theater

## The Tango War

By Mary Jo McConahay  
(St. Martin's, 320 pages, \$29.99)

There are many books about World War II in Latin America, but precious few pull the various strands together coherently into one volume. With "The Tango War: The Struggle for the Hearts, Minds and Riches of Latin America During World War II," Mary Jo McConahay has produced a riveting account of the region during the war years. Though she focuses mostly on the 1930s and '40s, her story spans many decades. The task is daunting—the strands are disparate, unruly—yet for the most part she succeeds, taking great pains to show that, far from being a backwater, the region was of vital importance to both sides of the war.

As a journalist, Ms. McConahay has written extensively about Latin America for some 30 years, often wondering about the prelude to the events she was covering. She eventually discovered that during World War II "a shadow war for the Western Hemisphere [had] reverberated in

every country . . . in Latin America" as the Axis and the Allies competed for popular support, natural resources and military advantage. "Each side," she tells us, "closely shadowed the steps of the other, like dancers in a tango."

Foreign emigrants had been settling in South America by the thousands beginning as early as the turn of the 20th century, mostly in search of economic opportunity. Many Japanese settled in Peru to work in the cotton industry. The coffee trade drew Germans to Central America. Other emigrants established themselves in Argentina, Brazil, Colombia, Ecuador and Venezuela—countries that were strategically located near the Panama Canal and shipping lanes in the Caribbean and South Atlantic.

By comparison, there were few North Americans in these countries. But there were plenty of North American interests, not only in establishing military bases but also in raw materials such as rubber and oil. Henry Ford set up his own rubber plantations in the Amazon in the 1920s to guarantee a steady supply to the American automotive industry. Meanwhile German and Italian airlines expanded their range to span the continent, facilitating a de facto intelligence network that reached almost as far north as the Panama Canal, setting off alarm bells in Washington.

Once hostilities broke out, tensions intensified. There was a sense in Washington that the entire Western Hemisphere was to be exploited and defended—especially on account of the vital raw materials as well as the sea and air corridors along which they moved. There was a corresponding fear the Axis countries had a fifth column in South America that might undermine American interests. By contrast, the Axis goals were arguably more modest: mostly to deny regional resources to their enemies and to maintain ties to their expatriate communities.

## In Latin America, the Axis and the Allies competed for popular support, natural resources and military advantage.

And so the war years saw initiatives to influence public opinion and gather information. There was the exercise of soft power: The Nazis provided stories for regional publications, some even appearing to be signed by Hitler himself. They also sent the beautiful film star Hilde Krüger to live among the Mexican ruling class as a sort of cultural icon. The U.S. countered by sending Hollywood stars such as Rita Hayworth and Errol Flynn to tour the continent as "Goodwill Ambassadors." Walt Disney produced films like "Saludos Amigos," celebrating the friendship between north and south. There was also old-fashioned espionage, as German spies sent information on Allied shipping back to the Fatherland to help its navy find and sink cargo ships. Even the British got into the act, stirring up largely unwarranted North American fears of Nazi aggression. This wasn't difficult to do, and the U.S. reacted with defensive measures, deploying FBI counterspies throughout the hemisphere.

Ms. McConahay is a seasoned storyteller. Her stories are gripping, especially when she dives deep into little-known waters. She tells us how Peruvians of Japanese origin were interned as enemy aliens and shipped off to the U.S., some to be sent back to a mother country they had never known. She recounts the achievements of a small squadron of Mexican airmen that flew for the Allies in the Pacific late in the war, ferrying aircraft over vast stretches of open water and making bombing runs over Luzon and Formosa. She memorializes the 25,000 Brazilian soldiers who helped breach the Gothic Line during the bitter fighting on the Italian Peninsula in 1944 and 1945. And she laments the fate of the more than 900 Jewish refugees on the St. Louis, the ship that in 1939 sailed toward safety from Nazi Germany but was forced to turn back when most of its passengers were not permitted to land in Havana.

When the author turns her focus onto the postwar years, however, her arguments can feel strained. It's not clear, for instance, that the relocation and internment of enemy aliens during World War II is "the taproot" of the controversial rendition programs enacted following 9/11. Ms. McConahay also occasionally casts her net too deep for historical context. For example, she tells a compelling story about the struggle between a German U-boat and an Allied merchantman in international waters in the South Atlantic and gives readers a blow-by-blow account from each side. It's a fascinating tale, a tango at sea, but the number of pages spent on this tale is disproportionate to its significance to the events on the continent. Similarly, the author goes into considerable background detail about some of the Nazi war criminals who wound up in South America. This is a natural topic for her to cover, but she ought to have placed more emphasis on what happened after these criminals arrived in South America.

In all, Ms. McConahay has produced an enjoyable, well-researched and well-documented book. It will take its place on my shelf among my books about World War II and, I expect, stay there for a long time.

*Mr. Reynolds is the author of "Writer, Sailor, Soldier, Spy."*

## OPINION

## REVIEW &amp; OUTLOOK

## Trump Flunks Fed Politics

**D**onald J. Trump is a real estate man, so naturally he prefers low interest rates. But he's also President, and publicly mau-mauing the Federal Reserve to keep rates low as he has been doing will lead to the opposite of what he wants. This is Fed Politics 101.

"Every time we do something great, he raises the interest rates," Mr. Trump said Tuesday in an interview with our Journal colleagues, referring to Fed Chairman Jay Powell. "He was supposed to be a low-interest-rate guy. It's turned out that he's not."

\* \* \*

Now, who would say such a thing about Mr. Powell? None other than Mr. Trump's Treasury Secretary, Steven Mnuchin, who supervised the Fed Chairman's selection in 2017. As we reported at the time, Mr. Mnuchin told Mr. Trump to select Mr. Powell in substantial part because he could be more easily influenced than other candidates. Mr. Trump could have taken other advice.

The truth is that no Fed Chairman can afford to be seen by markets to be taking interest-rate dictation from the White House, and when they do it typically ends in tears. See Arthur Burns under Richard Nixon and G. William Miller under Jimmy Carter. Alan Greenspan and Ben Bernanke were also too cozy politically with administrations in power, but that influence was mostly behind the scenes.

Poor Mr. Powell has the harrowing task of managing the transition from the largest experiment in monetary-policy history. Mr. Bernanke and later Janet Yellen enjoyed the ride down to near-zero short-term rates and unprecedented bond-buying to keep long-term rates artificially low. The policy pushed investors into riskier assets such as stocks even though it didn't do much for a real economy that grew slowly during the Obama Administration.

Growth and animal spirits have revived with Mr. Trump's policy mix of tax reform and deregulation. Now Mr. Powell has to manage the more treacherous monetary road back to normalcy, and Mr. Trump's public battering won't make the Chairman's job any easier. The Fed has signaled it will raise short-term rates again in December, the fourth time this year. Mr. Powell won't want to look like he's backing down under political pressure—even if economic events suggest he should.

A better criticism of the Fed would be that

it should have unwound its massive bond portfolio first and faster than it has. That would have loosened the Fed's control over the long-term bond market, encouraging an earlier adjustment out of risk assets before the Fed also began raising rates.

Now the Fed is doing both at the same time, with more risk for asset prices and greater political risk for the Fed. See Wednesday's rout in equity prices that are now near the formal correction territory of a 10% decline in recent weeks.

Shrinking the Fed's bond portfolio first and more rapidly is the policy that former Fed Governor Kevin Warsh recommended before Mr. Trump considered him as a finalist for the Fed Chair along with Mr. Powell. But Mr. Mnuchin preferred Mr. Powell, and the President went along with "a low-interest rate guy."

Fed politics aside, the substantive question is whether Mr. Trump is right that the central bank is too tight. We've thought not to this point, as short-term rates are still at or below the rate of inflation. Rates should rise from their historic lows in an economy that is growing by nearly 4%.

Yet there are some signs of slower growth, in particular in housing. New single-family home sales fell 5.5% in September and are down 13.2% from a year ago. Some of this is hurricane-related but housing affordability is also an issue as mortgage rates rise. Business and consumer confidence are still high but are worth watching if stock and other asset prices continue to fall.

The bigger economic risk is slower growth abroad, which Mr. Trump should care about though he professes not to. Faster U.S. growth and rising interest rates are drawing capital from other markets. Mr. Trump's tariffs are also hurting trade flows and causing companies to delay some investment. Border taxes are never a free lunch, no matter what White House adviser Peter Navarro tells Mr. Trump.

White House economics chief Larry Kudlow says Mr. Trump is merely offering his opinion on the Fed, not issuing an order to Mr. Powell. No doubt the President is also deflecting blame from the White House for any economic slowdown. Mr. Trump needs a foil more than even most politicians. All of which is good reason for the Fed to ignore the President and focus on getting its policy right—whether or not that means raising rates in December.

## The Eyes of Oklahoma

**A** constant democratic struggle is protecting the public from professional guilds that use government power to block competition. A ballot measure in Oklahoma next month would make it easier for patients to get vision care, if voters can overcome the medical lobby.

State Question 793 would amend the Oklahoma constitution to let optometrists conduct eye exams and write prescriptions in a Walmart, Costco or other retailer. Under current law, if optometrists want to practice in a retail environment, they must have a physical wall cutting off their office from the sales floor. Oklahoma also bars the sale of glasses or contact lenses in stores where optical products are less than half of income.

Opponents have raised some \$1.5 million, nearly all of it from the Oklahoma Association of Optometric Physicians and various optometrists and eye doctors in the state. They point to a provision in the ballot measure that lets retailers "limit" the practice of optometrists, claiming this means corporations can dictate

the scope and quality of patient care. Proponents of SQ 793 say the only limitation would prevent optometrists from performing front-of-the-eye surgery outside of a medical office. No matter where they practice, optometrists would still have to meet state licensing requirements and health and safety standards.

Under the status quo, anyone who wants but lacks 20/20 vision is beholden to optometrists and ophthalmologists. They conduct full eye examinations that provide vision prescriptions and broader disease screening and preventive care. Walmart, Target, Costco and others that support SQ 793 have committed to providing the same comprehensive screening.

These retailers also often offer cheap walk-in appointments for patients' vision needs—a big deal in a state where low-income patients can end up waiting months for an appointment at an optometrist's office. Like the residents of 47 other states, Oklahomans should have the option to get care for their eyes at more places than doctor's offices.

## The Politics of Pipe Bombs

**W**ednesday brought ugly news that bomb-like devices had been mailed to Barack Obama, Hillary Clinton and Eric Holder, which followed the discovery Monday of a pipe bomb in the mailbox at the Westchester County, N.Y., home of George Soros, the billionaire funder of liberal political causes. Apparent explosive devices were also discovered Wednesday at the New York office of CNN, as well as at a district office of Florida Democrat Debbie Wasserman Schultz.

The motives of the sender aren't known, though the devices suggest a pattern that could make them related. The urgent burden now is on the FBI, the Secret Service and the U.S. Postal Service to find the culprit.

Let's hope the FBI does a better job than it did in 2001 when anthrax-laced letters killed several Americans. The FBI spent years hounding an innocent man before settling on a federal researcher who committed suicide in 2008 after learning he'd be charged. Especially so close to an election, the public should discount unconfirmed leaks about suspects or motives.

Close to an election there are also attempts to blame the devices on intemperate political rhetoric, especially from Donald Trump. We doubt this, and we doubt it in the same way we never believed the attack on Steve Scalise and other Republicans as they were playing baseball in Virginia in 2017 was the fault of Bernie Sanders, though the man guilty of the shooting ram-

page was a Bernie volunteer.

On Wednesday Mr. Trump condemned the act of sending the devices and said that "in these times, we have to unify. We have to come together, and send one very clear, strong, unmistakable message that acts or threats of political violence of any kind have no place in the United States of America."

That wasn't good enough for Democratic leaders Chuck Schumer and Nancy Pelosi, who issued a joint statement saying Mr. Trump's "words ring hollow until he reverses his statements that condone acts of violence." As if this is a moment to settle political scores.

Mr. Obama offered a better message in Tucson in 2011 when he paid tribute to those killed by the madman who also wounded Rep. Gabby Giffords. Mr. Obama said the lack of civility in politics wasn't to blame—and he cautioned against a political impulse to "lay the blame for all that ails the world at the feet of those who happen to think differently than we do."

If we want to make America less vulnerable to violence, we'd do better to look past the political rhetoric and insist on exacting a higher price from those who choose violence. Those who burn universities because they don't like the speaker, white supremacists who seek out and engage in brawls, or masked protesters breaking shop windows—they all deserve the full sanction of the law. The priority now is to find the person responsible—and then ensure the offender spends a long time in prison.

All those who choose violence need to be held accountable.

## LETTERS TO THE EDITOR

## How Does Biology Count in Identity Politics?

Regarding Daniel Henninger's "What Is Elizabeth Warren?" (Wonder Land, Oct. 18): The more we learn from the left about identity politics, the more confused we get. Masha Gessen, writing for the New Yorker (Notable & Quotable, same day), chastises Sen. Warren for "reinforcing one of the most insidious ways in which Americans talk about race: as though it were a measurable biological category." Is it the position of the left that nature has no relevance when compared with nurture? If race isn't a measurable biological category, was Sen. Warren justified in identifying herself as Native American because she believed she was? If Asian-Americans trying to get admitted to Harvard self-identify as African-Americans, should they have better odds of acceptance? A white woman, Rachel Dolezal, who passed herself off as African-American was condemned by African-Americans as a fake. But if race isn't biologically linked, we have no way of knowing if her critics were legitimate.

The left argued for years that no one chooses to be gay—each person

is born with a sexual identity. Now the left argues that sexual identity is something everyone can choose and change as preferences change. If biology recedes as a determining factor of race, gender and sexual orientation, why do we still need to gather demographic-category data that the left uses for racial- and gender-based preference purposes? The left needs to share more about what, if any, biological factors are germane in identity politics. Can we Deplorable-Americans respectfully request media reconsideration of our label?

SEAN NAPLES  
Asheville, N.C.

What has Elizabeth Warren ever done for her "people"? Why are so many Native Americans still living in poverty on reservations where they cannot own homes (on what was their own land)? Why are Native Americans at the very bottom of the pecking order, vastly overshadowed by illegal immigrants? Sen. Warren should strive to elevate the status of her "ancestors."

SAMUEL FRAZER  
Fort Myers, Fla.

## In Defense of Efficient, Modern Leaf Blowers

Regarding Adrienne Bernhard's "Leaf Blowers Are Loud, Ugly and Dangerous" (op-ed, Oct. 19): Once again, we have someone asking for the removal of a working tool for the working man. Leaf blowers and other outdoor power-equipment products are ubiquitous because they work. They save labor and time when clearing sports fields, parking lots and garages and other large spaces, and the leaf blower is important to the landscaper who is paid by the job in communities with rigorous zoning on leaf pickup and removal. They also save water, helping clean surfaces without having to use potable water from a hose. They help people with physical limitations maintain their own properties, such as my 85-year-old mother who would be quite challenged with a rake. Instead, she uses her small, electric leaf blower to clear her steps and walkway of debris and leaves. Those are the practical

realities of the need for this valuable tool.

The author points to an outdated 2011 study to indict all leaf blowers. These products are regulated by the federal government and the state of California, and they are the cleanest and quietest they've ever been—75% quieter than those used a decade ago, with emissions reduced by as much as 80%.

She suggests getting rid of "leafy trees and green lawns" altogether. How is that promoting sustainability? Trees and ordinary turfgrass are brilliant at sequestering carbon, producing oxygen, capturing and filtering precious rainfall, collecting dust and particulate matter and reducing heat. Green spaces are not just something pretty to look at.

KRIS KISER  
President and CEO  
Outdoor Power Equipment Institute  
Alexandria, Va.

## Calpers Takes the Long, but Apolitical, View

Paul Atkins's "California Public Employees Vote Against Pension Fund Activism" (op-ed, Oct. 19) about the California Public Employees' Retirement System (Calpers) and sustainable investing is wildly off the mark. The Calpers board's most important social issue is our funded status. If we don't deliver on investment returns, we put the benefits of our members at risk, and California's public agencies will have to shoulder more costs in budgets that are already stretched. We focus on not letting our partners down by doing our best to deliver strong investment returns over the long term.

This means understanding and managing the risks and opportunities that can affect returns, including environmental and social ones that could drive our portfolio companies into underperformance when undetected or not appropriately managed. Despite Mr. Atkins's contention, morality doesn't dictate our investment decision-making and requests for greater disclosure. We strive to be the best investor we can be by thor-

oughly understanding and prudently managing the full spectrum of risks and opportunities. In Mr. Atkins's own words, anything less would be a dereliction of fiduciary duty.

Calpers needs to deliver not just for a quarter, but sustainably over decades, to meet liabilities that go out a generation and more. That is our focus.

BRAD PACHECO  
Calpers  
Sacramento, Calif.

Paul Atkins's statement, "Mandating politicized corporate disclosures doesn't align with the SEC's mission to protect investors and facilitate capital formation" isn't nearly broad enough. The use of federal regulatory agencies to advance the political agenda of a group, or party, is tantamount to weaponizing those agencies to circumvent laws passed by our elected representatives—or to invent new ones without congressional input. This is the swamp at its deepest, and a big part of why Donald Trump was elected president.

JIM BARBER  
Mesa, Ariz.

## Sicker Hospital Patients Need More Nurses on Hand

In your editorial criticizing the Massachusetts Nurses Association ("Bad Bedside Manner in Massachusetts," Oct. 18), you fail to consider the great changes that have impacted nursing care. Hospitalized patients are now much sicker and therefore make greater demands on nursing care. Half of coronary bypass patients are now discharged within five days. Hip-replacement surgery is frequently an outpatient procedure. Whoever is in a hospital bed desperately needs it.

Couple this with the burden of data entry. I have been a physician for more than 40 years. In the pre-computer era, nurses entered such data that was necessary for patient care. Now that computers have made it possible to store virtually unlimited data, nurses are tasked to do just that. In the past, one nurse in an operating room was sufficient. Now, two nurses are routine: one who actually helps the physicians in the room and the other to enter data. This is considered progress.

DANIEL ALLAN, M.D., FACS  
Las Cruces, N.M.

Sens. Chuck Grassley and Joni Ernst must be kidding when they invoke consumer choice as a reason to make E15 gasoline available all year ("Trump Gives Farmers a Jolt of Fuel," op-ed, Oct. 17). Real consumer choice would exist if motorists could readily buy pure gasoline for their cars and gas-powered tools. Instead we're forced to use the inferior, ethanol-adulterated fuel mandated by politics.

CARL RYAN  
Estero, Fla.

## Pepper ... And Salt

THE WALL STREET JOURNAL



"We'll have to go back.  
We forgot the credit card scanner."

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## OPINION

# The Day the Evil Empire Retreated

By Otto Reich

**T**he Cold War began to end on Oct. 25, 1983—something no one could have imagined only years before. The international situation was bleak when Ronald Reagan assumed office in 1981. The Soviets enjoyed a military, propaganda and nuclear strategic advantage. They controlled Eastern Europe and had invaded Afghanistan, while funding Marxist “wars of national liberation” across four continents. Moscow directed a global network of propagandists to persuade witting or naive Westerners into supporting anti-American disarmament campaigns.

**The Cold War began to end 35 years ago when Ronald Reagan ordered the liberation of Grenada.**

The West had been immobilized by the Brezhnev Doctrine, declared after the bloody Soviet suppression of an anticommunist uprising in Czechoslovakia in 1968. It said that once a country became Marxist-Leninist, the process became irreversible. The Soviet army would enforce it.

“Vietnam syndrome” also weighed down the West. This was the notion that since America’s military in-

volved in Southeast Asia had not succeeded, the U.S. should no longer influence events around the world through the use of military force. It enabled America’s enemies to mount bold challenges to U.S. influence in the Caribbean Basin, a strategic “third border.” In the Caribbean island nation of Grenada, the Soviets and their cat’s paw in the Western Hemisphere, Fidel Castro’s Cuba, were building a militarized socialist society. They also were constructing a massive airfield for military purposes, while stating publicly it was for commerce and tourism. They planned to expand communist ideology and totalitarianism to other islands in the Eastern Caribbean as they simultaneously undermined governments throughout the Americas.

Then Oct. 25, 1983, happened. President Reagan—declining to consult major allies, confronting fierce criticism from Congress and the media, facing opposition from some in his administration, and with little more than a weekend’s planning—ordered U.S. military forces to join law-enforcement units from neighboring English-speaking island nations and invade Grenada. Only six years later, in 1989, the Soviet empire began to disintegrate, finally disappearing in 1991. This lib-



U.S. soldiers visit with residents of Grenada, October 1983.

erated hundreds of millions of people in two dozen nations from oppression. The U.S.S.R. did not end because of the invasion of Grenada alone, but the shock of Reagan’s decisive action to the Soviet political, military and ideological organism was pivotal.

Grenada’s crisis started in 1979. Maurice Bishop, a young revolutionary with an affinity for Castro, overthrew the elected government and suspended the constitution. While Bishop imposed a radical socialist re-

gime on the island, Cuba began building a massive airfield out of all proportion to the island’s needs. This drew America’s attention.

Soon a national-security concern became an emergency. On Oct. 19, 1983, Bishop’s even more radically Marxist deputy, Bernard Coard, seized power, executing Bishop and some cabinet officials. The British governor-general alerted the outside world to the imminent outbreak of civil war. Caught in the middle were some 800 American students attending medical school on the island.

Meanwhile, neighboring governments, led by the indomitable Dominica Prime Minister Mary Eugenia Charles, appealed for U.S. intervention to forestall the spreading bloodshed. Reagan responded: “What kind of country would we be if we refused to help small but steadfast democratic countries in our neighborhood to defend themselves against the threat of this kind of tyranny and lawlessness?”

Operation Urgent Fury commenced on Oct. 25. Despite minimal planning, the invasion succeeded after four days of heavy fighting. Nineteen American servicemen were killed and 115 wounded; the medical students were evacuated. With constitutional authority on the island restored, U.S. troops began with

drawing Nov. 2, only eight days after they landed.

Reagan’s critics condemned his use of military force without congressional consent and said the students had never been in danger. But news reports showing the rescued students profusely thanking U.S. paratroopers and Marines undermined these claims. Upon returning to U.S. soil, some students descended the aircraft steps, knelt, and kissed American ground.

The U.S. also achieved a stunning intelligence haul, seizing thousands of documents detailing how to construct a communist police state. U.S. forces discovered arms caches capable of equipping a 10,000-man force—some in crates labeled “Cuban Economic Office, Grenada.” Among those captured and eventually deported were nearly 800 Cubans, 49 Sovi-

ets, 10 East Germans, three Bulgarians, 15 North Koreans and 17 Libyans. Quite a throng of “tourists and merchants.”

Vietnam syndrome and the Brezhnev Doctrine perished in Grenada, replaced with a renewed American spirit that robustly confronted the Soviet Union and its proxies around the world. The liberation of Grenada—the first time American military force was used to roll back a communist government—transfigured the posture of the U.S. following the “malaise” of the Carter years. It demonstrated Reagan’s resolve to reclaim the U.S. role as the world’s premier defender of freedom.

Yet many Americans fail to appreciate that there was nothing inevitable about the collapse of Berlin Wall or the demise of international communism. It required leadership, courage and vision by a president determined to restore America’s legitimate influence. Oct. 25 is celebrated as Grenada’s Thanksgiving Day. Americans also can give thanks, for that day the Evil Empire began to retreat.

**Mr. Reich has served as an assistant secretary of state, U.S. ambassador to Venezuela and special envoy for Western Hemisphere affairs.**

## NBA Players Don’t Need College

By Andrew Zimbalist

Last week the National Basketball Association loosened its decade-old restriction on drafting elite players directly from high school. The president of the G League, the NBA’s developmental division, announced it will allow franchises to recruit 18-year-old players at an annual salary of \$125,000. After a year, they can be promoted to the big league. Starting with the 2019-20 season, the revision will let the nation’s best young players pass over college on their way to the pros.

The rule change is a response to criticism of the “one and done” maneuver, in which talented players spend only a year in college before entering the NBA draft. Pressure to change the rule increased last April when a collegiate-athlet-

**Relaxing the rules that force young men to spend a year in higher ed before going into pro basketball.**

ics commission led by Condoleezza Rice called for a list of reforms to college basketball’s rules. The group advised the NBA to change its early-draft ban—for the professional league’s sake but also to simplify the incentives facing colleges and their students.

The problem is that players seeking a one-and-done path to the NBA don’t come to college to pursue a degree. For them, playing for a top program at a school like Kentucky is merely a way to boost their draft prospects while waiting out the league’s ban on direct high-school recruitment. The presence of such players—who inevitably become leaders on their college teams—may have helped spread the underemphasis on academics that already afflicts too many student athletes.

The NBA claimed to be bolstering collegiate education when it first mandated a one-year hiatus between high school and the big league in 2005. Lewis Katz, former owner of the Nets, gave an impassioned speech during a collective-bargaining session lauding the value of a college education for players.

The players union, which I represented at the meeting, recognized that the owners didn’t really care about education. Rather, they wanted recruits to develop in more-practical ways: an extra year of maturity, exposure to the national media, and the experience of an intermediate level of competition.

The new NBA policy would preserve all of these goals while ameliorating the problems of one-and-done. It serves no one’s interest to force a scholastically underprepared or uninterested basketball star to adopt a false identity as a college student.

The new policy still has some shortcomings. First, the NBA hasn’t stipulated how many positions will be open at \$125,000. Today an average of nine to 18 players typically take the one-and-done route in a given year, and many more could benefit from an earlier start in the professional league. The existing rules already let 18-year-olds play for the G League—but for a base salary of only \$35,000. The new approach will provide a more robust income for a few players, but it won’t alter the landscape much unless more players receive attractive salaries.

What’s more, the entire G League may be too small to relieve a significant amount of pressure from college athletics. Consider that the league has 27 teams for the NBA’s 30, while Major League Baseball’s 30 teams are served by more than 150 minor-league affiliates. The average major-league team spends some \$20 million a year on its minor-league player-development system. Meantime, the NBA has outsourced its players’ development to colleges. If the superstar high-schoolers now headed for \$125,000 salaries were allowed to go directly to the NBA, their minimum first-year pay would be nearly \$900,000, and they would be one year closer to the higher earnings free agency will bring.

College basketball shares the blame for this state of affairs. The National Collegiate Athletic Association could use its own rules to make receiving an education the priority of college athletics. To reduce the number of one-and-done players, the NCAA could reinstate its old rule banning first-year students from varsity-level competition. It also could forbid teams to

reoffer a scholarship slot vacated by students after a single year of play, reopening the slot only after that player’s class had graduated.

Unfortunately the NCAA and its members have a history of choosing commercial success over educational integrity—and laying the blame on others like the NBA.

*Mr. Zimbalist is chairman of the economics department at Smith College and co-author with Donna Lozano and Gerry Gurney of “Unwinding Madness: What Went Wrong With College Sports and How to Fix It.”*

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## WORLD NEWS

# NATO Grapples With Logistical Hurdles

Exercise tests alliance's ability to move soldiers, equipment by road, rail and water

BY DANIEL MICHAELS

**BRUSSELS**—U.S. Adm. James Foggo has spent months planning for NATO's largest exercise since the Cold War. His first target: getting all 50,000 troops in place by the time drills start on Thursday.

Moving forces from 30 countries to Norway for the Trident Juncture maneuvers has been almost as big an endeavor as the exercises themselves. Ten thousand vehicles, 250 aircraft and 65 ships were dispatched, with most of the materiel directed to southern Norway.

Getting everything in place "is a serious logistics challenge," said the U.S. admiral, who is commanding the exercises and usually oversees the North Atlantic Treaty Organization's joint-force operation in Naples, Italy.

NATO Secretary-General Jens Stoltenberg said on Tuesday that all forces are in place for the start of the monthlong exercises.

President Trump has repeatedly browbeaten NATO's European members for not spending enough on defense. A more immediate problem is that Europeans struggle to move equipment they already have.

Logistics capabilities that were second nature during the Cold War have deteriorated. Mobility impediments include narrow rail and road tunnels, varying gauges of rail track and legal restrictions on shipping ammunition across borders. Many European road-and rail-bridges are too low for hulking military vehicles to drive under or too weak to support a convoy of 100-ton battle tanks, officials say.

The mobility drive parallels the alliance's effort to rebuild its arsenals, prompted by Russia's seizure of Crimea from Ukraine in 2014. Military spend-



Dutch soldiers depart Eindhoven Airport for NATO's Trident Juncture exercises in Norway. Some 50,000 troops are expected to be in place by the time drills begin Thursday.

REMKO DE WAAL/EPA-EFE/REX SHUTTERSTOCK

ing by NATO's European members has risen 14% in constant dollars since hitting a post-Cold War low around 2014.

The campaign to restore logistic capabilities includes both military equipment, such as modular bridges, and civilian infrastructure including ports and waterways, officials say. Improving mobility can be more nettlesome than buying arms because of the civilian element. Politicians rarely associate railcars and customs regulations with national defense, yet they can be critical. And since NATO is a coalition, big exercises vital to battle-readiness require international cooperation.

"People underestimate the logistics of combat," said Elisabeth Braw, an associate fellow at the Royal United Services Institute, a think tank in London. "We're still far behind Russia in moving large numbers of troops."

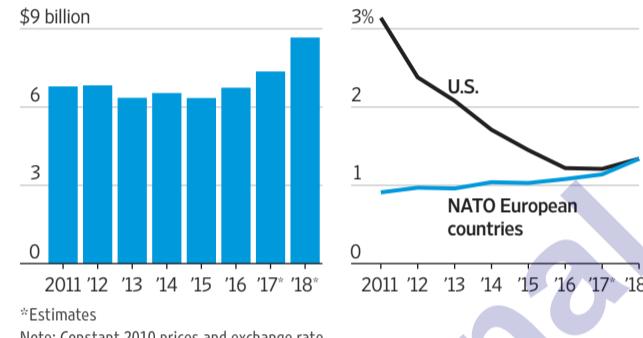
A case in point: The British Army sent more than 70 armored personnel carriers and

## Building Bridges

Global defense-infrastructure spending by NATO's European members is rising, and as a share of defense spending is now on par with the U.S.'s, which has been declining since the Iraq war ended.

### Global defense-infrastructure spending

By NATO European countries



\*Estimates

Note: Constant 2010 prices and exchange rate

Source: NATO

roads, driving in groups of nine and spaced 20 minutes apart to avoid congestion along the 1,500-mile trip.

Smoothing logistics doesn't just mean moving troops to a battle zone or exercise. It could also deter attacks, says retired Lt. Gen. Ben Hodges,

who spent four years rebuilding mobility capabilities as commander of U.S. Army forces in Europe. He worries that Russia or some other adversary might be more adventuresome if they believe NATO can't respond quickly.

"The Russians would have to believe the alliance has the capability to defeat anything they can bring about," said Gen. Hodges, who retired in December. Fast action, he said, would ensure "our politicians have options other than a liberation campaign."

After Crimea's seizure, NATO and its members realized how far their logistics capabilities had atrophied as alliance territory expanded. A

dozen ex-communist countries had joined since 1999, pushing NATO's eastern border much nearer Russia. Yet NATO planners had "zero knowledge" of their physical infrastructure such as bridges, a NATO official said. To remedy that, the official said, NATO launched a survey involving "an enormous amount of work."

Officials also identified hundreds of regulations around Europe that can slow troop movements. Efforts are beginning to change statutes, which restrict peacetime transportation but would be suspended in wartime.

Europe's next step will be arranging trucks, ships and railcars that can be summoned on short notice, officials say.

Gen. Hodges said buying transport equipment has the advantage of being less controversial than acquiring weapons. "We're not asking for more German tanks. We're asking for more German trains," he said. "Just go buy them."

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# BUSINESS & FINANCE

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## Apple CEO Urges Action on Data Misuse

**Tim Cook calls for more protection against 'weaponized' personal information**

BY SAM SCHECHNER  
AND EMRE PEKER

BRUSSELS—**Apple** Inc. Chief Executive Tim Cook issued the technology giant's strongest call yet for U.S.-wide data-protection regulation, saying individuals' personal information has been "weaponized."

Mr. Cook's call came in a sharply worded speech before a privacy conference organized by the European Union, which in May enacted the General Data Protection Regulation in a bid to both improve user rights and bolster the 28-member bloc's power as a global rule-maker. Mr. Cook told the audience of EU privacy regulators that the U.S. should enact a comprehensive federal privacy law that follows their example.

"Our own information—from the everyday to the deeply personal—is being

weaponized against us with military efficiency," Mr. Cook said. "Today, that trade has exploded into a data-industrial complex."

Mr. Cook's comments underscore how he is trying to insulate his company—the largest Silicon Valley firm by market capitalization—from rivals including Facebook Inc. and Alphabet Inc.'s Google that have grappled with recent scandals involving access to personal information. It also shows how increasingly important it is for tech firms to make their case directly before

EU privacy regulators, who are now empowered to issue fines of up to 4% of a company's world-wide annual revenue.

Facebook admitted in March that it had allowed information of up to 50 million users to be given to Cambridge Analytica, a political data firm. Earlier this month, The Wall Street Journal reported that Google had exposed the private data of hundreds of thousands of users of its Google+ social network. Google chose not to disclose the issue earlier this year, after noting the potential for

regulatory blowback in an internal memo. Google says it didn't disclose the issue in part because it had no evidence the data were misused.

Apple has argued that because it makes the bulk of its money by selling devices, rather than advertising, it has far less incentive to exploit its customers' data. But Mr. Cook went further on Wednesday, likening the underlying data-collection practices of the targeted online-advertising world—a business worth tens of billions of dollars a year—to surveillance. It is language

more common from privacy activists than tech CEOs.

"These scraps of data, each one harmless enough on its own, are carefully assembled, synthesized, traded and sold," Mr. Cook said. "This is surveillance. And these stockpiles of personal data serve only to enrich the companies that collect them. This should make us very uncomfortable."

Apple gets relatively better marks from privacy activists and regulators in Europe because it says it anonymizes and limits much of the data it

Please turn to page B4

## NBC Close To Ending Megyn Kelly Show

BY JOE FLINT

NBC News is expected to pull the plug on Megyn Kelly's morning show, and the TV anchor's future with the network is in doubt, people familiar with the matter said.

Ms. Kelly has been under fire for remarks she made on the Tuesday edition of "Megyn Kelly Today" in which she questioned why using blackface for a Halloween costume was necessarily racist or insensitive.

There was an immediate backlash to Ms. Kelly's remarks both from within and outside NBC, a unit of Comcast Corp. Some black NBC News talent were critical of her comments and Ms. Kelly apologized later Tuesday and again during Wednesday's broadcast. NBC News extensively covered the controversy on Tuesday's "Nightly News" and Wednesday's "Today" programs.

The story didn't end there, however. NBC News Chairman Andy Lack chided Ms. Kelly Wednesday during a town hall meeting of staffers.

Mr. Lack told staffers: "I condemn those remarks," adding "there is no place on our air or in this work place for them," according to a person at the meeting. He said the network "will sort through this with Megyn."

Ms. Kelly's show, which airs in the 9 a.m. hour, is likely to end in the imminent future, a person close to the situation said. It is possible that Ms. Kelly won't have new episodes for the rest of the week and a new team could be on the air by Monday.

The tensions between Ms. Kelly and NBC News could ultimately lead to her departure, this person said.

An NBC News spokesman declined to comment.

Ms. Kelly, who was wooed away from Fox News in 2017 with a three-year deal valued at \$69 million, hasn't delivered the ratings the network wanted. A Sunday evening magazine show hosted by her was short-lived and "Megyn Kelly Today" has a much smaller audience than the 9 a.m. hour of "Today" hosted by Al Roker and Tamron Hall did.

About a month ago, Ms. Kelly approached Mr. Lack about possibly finding a new role at NBC News. When she came to NBC, she indicated she felt she was done with politics and was looking to do more lifestyle reporting.

The transition, though, has been rocky at best. A person close to Ms. Kelly said she doesn't just want to do soft news in the morning.

Tensions between Ms. Kelly and NBC News brass, particularly Mr. Lack, have been brewing for some time, people familiar with the matter said.

Ms. Kelly's aggressive coverage of the #MeToo movement has also rubbed some at NBC News the wrong way, people at the network said. She hasn't shied from harassment stories involving NBC News personalities including Tom Brokaw and former "To-



## AT&T Gets Lift From TV Channels

BY DREW FITZGERALD

**AT&T** Inc.'s new show-business assets outshined its larger telecommunications divisions in the latest quarter, boosting earnings despite a record slump in satellite-television subscriptions.

The Dallas company's third-quarter profit rose to \$4.72 billion, helped by customer growth in its cellphone business, more subscribers at HBO and growing distribution revenue from its slate of Turner TV channels.

But the company lost a record 359,000 DirecTV satellite customers in the quarter, which dwarfed 13,000 video-subscriber additions at U-verse and 49,000 new customers at DirecTV Now, a bundle of channels offered online.

DirecTV Now's growth slowed sharply after the service signed up several hundred thousand new customers in prior quarters. Some of that owed to a new strategy to avoid chasing bargain-hunting customers who use the service for a few months to follow a particular TV series or sport.

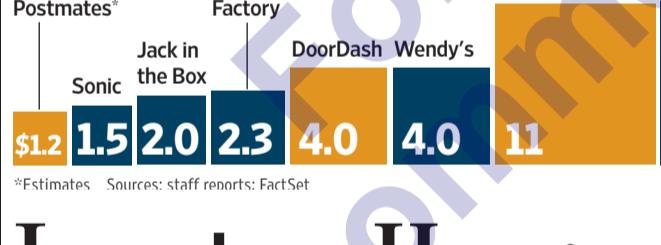
"We're taking a more tailored, data-driven approach," AT&T Communications Chief Executive John Donovan said on a conference call with analysts, referring to DirecTV Now. "We've learned a lot from our two million customers about customer behavior and price elasticity."

Shares in AT&T fell 8.1% to \$30.36 on Wednesday. The stock is off 22% this year.

AT&T's core wireless business gained a net 69,000 subscribers on postpaid phone plans, which many investors consider a barometer for wireless.

Please turn to page B2

Some delivery businesses are valued higher than the restaurant chains to which they offer their services.



\*Estimates Sources: staff reports; FactSet



THE WALL STREET JOURNAL.

## Investors Hunger for Food Delivery

BY HEATHER HADDON  
AND JULIE JARGON

Restaurant and grocery delivery companies are the latest feeding frenzy for investors, who are betting that appetites for food brought to homes and workplaces will keep growing.

Venture-capital firms have invested \$3.5 billion in food and grocery delivery services so far this year, more than triple the amount they invested in all of 2017, accord-

ing to PitchBook.

**Instacart** Inc. last week secured a \$600 million investment that raised the grocery delivery company's valuation to \$7.6 billion from \$4.4 billion. Founder Apoorva Mehta said in an interview that the company expects to go public. Food-delivery service **Postmates** Inc., valued at around \$1.2 billion, has interviewed banks for roles on an initial public offering, The Wall Street Journal reported last week.

**DoorDash** Inc. is valued at \$4 billion after receiving its latest round of funding in August, matching **Wendy's** Co., the world's third-largest hamburger chain, whose burgers DoorDash delivers. Shares in Grubhub Inc., which went public in 2014, are up 53% this year.

UberEats, the food delivery unit of Uber Technologies Inc., is credited with what bankers estimate will be \$20 billion of Uber's proposed \$120 billion

valuation if it goes public as planned early next year. UberEats on Tuesday said it expects to expand into new cities, enabling it to offer delivery to 70% of the U.S. population by the end of the year, up from 50% now.

Investors and food industry leaders expect delivery to boom as people gravitate toward more convenient ways to eat and as delivery services promote the use of mobile apps

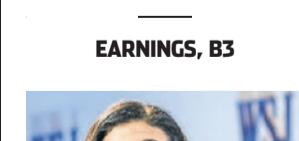
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### INSIDE



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SANDBERG IS GLUM ON WOMEN'S GAINS

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### HEARD ON THE STREET | By Paul Davies

## Barclays Cruises as Deutsche Bank Spins



The diverging fates of **Barclays** and **Deutsche Bank** have one simple connection: the amount of cheap funding they can offer investment-banking clients.

U.K.-based Barclays is enjoying a strong recovery in investment-banking revenue this year, boosted significantly by the financing it can give to trading clients. Germany's Deutsche Bank, by contrast, is hobbled by its own high cost of funding, which makes it less attractive to clients.

The lesson for investors from Wednesday's third-quarter results isn't so straightforward. For Barclays, the pace of improvement is likely to slow next year. It has loosened the reins on its balance sheet—a trick it will struggle to repeat.

At Deutsche, the high funding cost is a problem that is

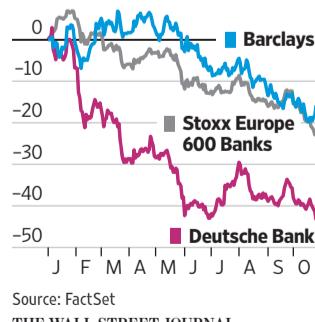
mostly out of the German bank's hands. Much of it comes down to investor and client confidence. That isn't a good place to be, and Wednesday's results didn't help: Another drop in group revenue sent Deutsche's share price down 4.8%. Barclays rose 3%.

For both, equities-trading revenue illustrates the deeper story. Volatile markets have made equities a bright spot this year. U.S. banks' combined revenue grew 18% in the first nine months from the same period last year. Barclays beat U.S. rivals with revenue up 36% in dollar terms, while Deutsche Bank's equities revenue is down more than 10%.

Part of this is where they do business—Barclays is big in the U.S., Deutsche is biased toward lackluster Europe. But their respective abilities to entice clients with cheap funding is a big factor, too, particularly with hedge funds,

### Sink or Swim

Share-price and index performance



Source: FactSet

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often the most active and profitable customers.

Barclays said growth was strong in prime finance, as this area is known, with client balances 11% bigger than last year. Barclays expects to keep growing in this area because attracting clients with funding is the first step, after which it hopes they will use

the bank for a growing share of their trading activity.

However, this year was the big step change for Barclays, as new people have joined and more balance-sheet capacity has been added. Those resources won't keep growing, and next year's revenue gains are very unlikely to beat U.S. rivals by anything to the same degree.

Deutsche said prime-finance revenue was significantly lower, hit by higher funding costs. In prime finance as elsewhere (transaction banking, for example), Deutsche says it has won back clients it lost in late 2016. The trouble is they aren't doing as much with the bank as Deutsche hoped—and that is in part because it is more costly to deal with than rivals.

From here, Barclays should start leveling off into its cruising altitude, but Deutsche is still struggling to get out of its tailspin.

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## AT&amp;T's Earnings Increase

Continued from page B1 less profitability. The company added 481,000 net prepaid phone subscribers. Total domestic prepaid and postpaid subscribers reached 93.9 million, up from 93.6 million in the previous quarter.

That followed similarly

## Lost Signal

AT&T's DirecTV satellite unit has struggled.

## Quarterly change in subscribers



Source: the company

THE WALL STREET JOURNAL.

## Delivery Of Food Is Hot Dish

Continued from page B1 among people who call in to place restaurant orders. Takeout and delivery will represent 15% of restaurant sales a decade from now, estimates Mizuho Securities restaurant analyst Jeremy Scott, up from about 5% now.

"Delivery is not a fad," said David Mell, managing director at RBC Capital Markets.

Some investors say the rush into these outfits is reminiscent of bets heaped on meal-kit companies in recent years. Many makers of meal-kits—boxes of preportioned ingredients and recipes mailed to customers or bought in stores—have struggled to retain customers or even stay in business.

Others say delivery companies don't have the same hurdles as meal-kit companies, such as the need to build big warehouses to assemble meals or the challenge of sending perishables through the mail.

Still, there are other challenges. Customer loyalty largely lies with the food provider, not the delivery service. Many grocery chains run their own online pickup operations, and could eventually offer delivery services themselves.

"The market feels frothy,"

strong results at rival Verizon Communications Inc., which on Tuesday said it netted 295,000 new postpaid phone connections over the same period. Most cellphone carriers have avoided offering deep discounts on wireless plans this year and have reported stronger profits as a result.

Phone plans and internet service still power most of AT&T's profit, though the company has invested aggressively in advertising and entertainment.

In June, it spent more than \$80 billion for the owner of the Warner Bros. studios and a slate of popular TV channels such as CNN, HBO and TBS. AT&T renamed the business WarnerMedia.

The three months that ended Sept. 30 were the media giant's first full quarter under the telecom company's ownership. Operating income at HBO climbed 11% because of subscriber growth and rose 13% at the Turner TV unit thanks to stronger revenue from subscription fees charged to cable and satellite providers.

AT&T's overall profit rose to \$4.72 billion, or 65 cents a share, from the \$3.03 billion, or 49 cents a share it earned a year earlier without WarnerMedia. Revenue rose to \$45.74 billion from \$39.67 billion.

Chief Executive Randall Stephenson told investors in September that pay-TV subscriber losses seemed to be flattening.

said Ian Sigalow, a partner at venture-capital firm Greycroft, which invested in food delivery companies that later sold and has considered investing in restaurant-delivery companies.

Some investors expect a wave of consolidation. "Investors are doubling and tripling down on their bets to fuel a front-runner," said Brita Rosenheim, an investor and consultant to food technology startups. "Ultimately I don't think there will be much room for small players to succeed."

Delivery companies say carrying food for well-known restaurant and supermarket chains gives them access to established customers that are more reliable than the pool of people that tried meal-kit subscriptions in recent years.

"Having McDonald's on the

app provides a bit of familiarity for the consumer," said Liz Meyerdirk, global head of business development for UberEats, which started delivering for McDonald's Corp. last year and Subway this month.

Grubhub this year began delivering for Yum Brands Inc.'s Taco Bell and KFC restaurants in the U.S. Yum has given Grubhub a foothold in cities where delivery wasn't popular, said Grubhub Finance Chief Adam DeWitt. The company plans to report earnings on Thursday.

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Delivery companies say carrying food for well-known restaurant and supermarket chains gives them access to established customers that are more reliable than the pool of people that tried meal-kit subscriptions in recent years.

"Having McDonald's on the

## BUSINESS &amp; FINANCE

## Ford Hurt by Weak Overseas Sales

By MIKE COLIAS

**Ford Motor** Co.'s third-quarter net income fell 37% amid sharply lower results in China and Europe, trouble spots that are complicating Chief Executive Jim Hackett's turnaround plans.

The weaker results led Ford to back away from a target set this spring of an operating margin of 8% by 2020, but the company reconfirmed its full-year profit outlook this year of \$1.30 to \$1.50 a share.

The nation's No. 2 auto maker posted unexpectedly strong results in North America, where it sold a richer mix of pricey trucks and sport-utility vehicles in its home U.S. market.

That helped push revenue up about 3%, to \$37.6 billion, easily surpassing analysts' expectations.

Ford shares, which have been trading near a decade low, rose 7% in aftermarket trading, to \$8.87, down 35% for the year, as of Wednesday's close.

Bob Shanks, Ford's chief financial officer, told reporters on Wednesday that tariff-re-



The auto maker posted strong results in North America, thanks to a mix of pricey trucks and SUVs.

lated costs and an unexpected erosion of results in Europe and China prompted the company to retreat from its 2020 margin report. Mr. Shanks didn't specify a new timeline for hitting that goal but said Ford would continue to work toward it.

Mr. Hackett had earlier this year accelerated the 8% margin target by two years, citing bet-

ter-than-expected progress on its cost-cutting efforts. Ford posted a 6.1% operating margin for 2017.

Ford's third-quarter profit decline comes amid mounting impatience among investors and analysts about Mr. Hackett's turnaround plan. Some analysts have pressed for more details about future cost cuts and a previously disclosed \$11

billion, multiyear restructuring.

Ford posted net profit of \$1 billion for the July-to-September period, as the weak performance overseas offset gains in North America and the company's in-house lending arm.

The company posted adjusted earnings per share of 29 cents for the third quarter, edging over the average analysts' forecast of 28 cents.

## Tesla Reliability Rank Falls

By CHESTER DAWSON

DETROIT—Electric-car maker Tesla Inc. tumbled in Consumer Reports' latest reliability rankings, along with several other domestic brands, as U.S. auto makers rush to roll out new technologies that have made their vehicles more glitch-prone than rivals.

Tesla slid six spots, landing it third from the bottom of 29 brands this year, in the magazine's closely watched new-car reliability survey.

The company's newest plug-in vehicle, the Model 3, earned an "average" rating—consistent with last year's prediction—but Consumer Reports yanked its recommended endorsement from the Model S sedan for the second time in four years, citing owner-reported issues ranging from problems with the door handle to the newly standard air suspension.

The Model X sport-utility vehicle also fared poorly this year, ranking among the worst performers in the nearly 300 models reviewed in this year's report. The influential magazine pointed to continuing problems with the falcon-wing doors and the center display screen as contributors to its "much-worse-than-average" predicted reliability rating.

Despite Consumer Reports' findings, Tesla continues to increase sales of its luxury electric cars and excitement over the Model 3 has pushed the company's market value to rival General Motors Co.

## Slipping Differential

Domestic brands were all in the bottom half of Consumer Reports' latest vehicle reliability rankings, trailing many European and Asian rivals

Rank Change*	Brand	Range of predicted reliability scores (brand average in circles)
18	Ford	45
19	Buick	44
20	Lincoln	43
21	Dodge	40
22	Jeep	40
23	Chevrolet	39
24	Chrysler	38
25	GMC	37
26	Ram	34
27	Tesla	32
28	Cadillac	32

\*From last year

Source: Consumer Reports

cies" in the earliest production models, the representative said.

Detroit car makers had a difficult year, with not a single domestic brand making the top half of the rankings and several makes, including Buick, Chevrolet and Chrysler, falling multiple notches.

GM, Ford Motor Co., and Fiat Chrysler Automobiles NV are each going through a heavy new-car launch period, where they are introducing a lot of new technologies to the market, such as eight-speed transmissions and more sophisticated multimedia systems, said Jake Fisher, director of auto testing at Consumer Reports.

Continued from page B1 day" anchor Matt Lauer.

Mr. Lauer was fired for inappropriate behavior with a colleague and Mr. Brokaw was accused of unwanted advances in an article in the Washington Post. Mr. Lauer apologized but contested some accounts of his behavior, while Mr. Brokaw denied the allegations.

More recently, Ms. Kelly weighed in on the decision by NBC News to pass on a story about allegations of harassment by movie mogul Harvey Weinstein by Ronan Farrow. Mr. Farrow ended up publishing the story at the New Yorker and it won a Pulitzer Prize. Mr. Weinstein has denied ever forcing himself on anyone.

NBC News has said the story as presented to them wasn't suitable for air. However, the network's decision to punt the story has been scrutinized in media circles. Ms. Kelly went so far as to suggest on her show that the network hire an outside investigator to probe the decision process on not airing the story.

"There's the question of the faith and confidence of the public in the reporting of NBC on matters involving itself. For me, as a lawyer, it's always better if you just send it outside. And then people can have more faith in it," Ms. Kelly said on her show six weeks ago.



Venture-capital firms have invested \$3.5 billion in food and grocery delivery services this year.

JASON HENRY FOR THE WALL STREET JOURNAL


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## BUSINESS NEWS

# Cloud Business Slows at Microsoft

BY JAY GREENE

**Microsoft** Corp.'s cloud service is decelerating, but the company is making up for it through an offshoot of the business that mixes in its software sales, a key strategy for competing with market leader **Amazon.com** Inc.

That strategy, called hybrid computing, in which customers run some software in their own data centers but also use cloud services, fueled a 28% jump in Microsoft's server products and cloud-services revenue in its fiscal first quarter.

The cloud-computing business, called Azure, grew 76%—still healthy but the slowest pace since Microsoft began regularly disclosing the percentage gains about three years ago. Microsoft doesn't disclose revenue figures for the business, but Stifel Nicolaus analyst Brad Reback estimated Azure revenue totaled \$2.69 billion for the quarter.

Azure's size makes it difficult to maintain past growth rates, finance chief Amy Hood said in an interview Wednesday. "This is still a big business, and it's still growing very quickly," she said.

By comparison, Amazon's market-leading cloud-infrastructure business grew 49% in its previous quarter to \$6.11 billion.

Microsoft's Intelligent Cloud segment, which includes Azure and server products, grew 24% to \$8.57 billion, analysts' expectations. "This absolutely shows Microsoft's hybrid-cloud strength," Mr. Reback said.

Overall, revenue rose 19% to \$29.08 billion.

Net income grew 34% to \$8.82 billion. On a per-share basis, the company reported profit of \$1.14. Analysts had expected 96 cents on \$27.92 billion in revenue.

Microsoft stock, down 5.4% to \$102.32 at the market's close Wednesday, gained nearly 3% after hours as revenue and profit easily topped Wall Street's forecasts.

One of the biggest areas of growth came from Microsoft's gaming business, where revenue jumped 44%. Ms. Hood singled out the massive hit game "Fortnite" for driving that performance. Xbox software and services revenue jumped 36%—about half coming from "Fortnite," she said.

Microsoft saw little fallout from the chip shortages longtime partner **Intel** Corp. disclosed last month as it struggled to meet the demand for PCs. Intel has worked to keep chips available for costly computers that often run the most expensive versions of Windows, and that has helped keep revenue high, Ms. Hood said.

Revenue in the More Personal Computing segment, which includes Windows and Xbox, increased 15% to \$10.75 billion. The Productivity and Business Processes segment, which includes the Office franchise, gained 19% to \$9.77 billion.

The performances of Azure and Office have fueled Microsoft's return to the shortlist of highest-valued U.S. public companies. Its shares have climbed about 19% in 2018, and its market capitalization of \$785.56 billion trails only Apple Corp. and Amazon.

## Cloudy Conditions

The growth of Microsoft's Azure cloud-computing service has decelerated as the business approaches an estimated \$10 billion in annual revenue.

### Azure revenue growth, change from a year earlier



# Boeing Boosts Financial Outlook

Jet, defense demand spurs the firm to raise its profit and revenue forecasts for full year

BY ANDREW TANGEL  
AND DOUG CAMERON

**Boeing** Co. said its business is booming, thanks to strong demand for commercial jetliners and new defense projects.

The world's largest aerospace company by sales on Wednesday reported forecast-beating profit for the third quarter and raised its revenue and earnings outlook for the year.

Shares in Boeing gained ground after an investor call, with the stock closing up 1.3% as the company reassured shareholders that a more aggressive approach to bidding on some defense deals wouldn't hurt its closely watched cash flows. The stock, the largest component on the Dow Jones Industrial Average, has advanced 20% this year.

Boeing is racing to meet global demand for commercial aircraft. Global passenger traffic rose 6.8% annually through August of this year, the company said, while cargo traffic increased 4% over that period.

Chief Executive Dennis Muilenburg expressed confidence in the commercial jetliner market, despite challenges facing some low-cost carriers as fuel bills grow.

"The airline industry is very healthy overall, across all of the different types of business models including low-cost carriers," he said during a call with analysts and reporters.

Boeing expects to bring in as much as \$100 billion in revenue for the entire year, up \$1 billion from a previous forecast. The company's backlog of orders has risen \$17 billion this year to \$491 billion, representing some 5,800 commercial aircraft that have yet to be delivered.

Plane deliveries remain on track for the rest of 2018 even



A Boeing plant in South Carolina. The company has a backlog of 5,800 commercial aircraft that have yet to be delivered.

though Boeing has wrestled with a supplier bottleneck for single-aisle 737s, the company's top moneymaker. Unfinished planes of that model have stacked up at one of Boeing's factories near Seattle.

Operating margin for Boeing's commercial aircraft division rose to 13.2%, up over 3 percentage points from the previous year as the company closes in on its midteens goal.

Chicago-based Boeing also booked a \$691 million charge related to planned investments in two recent Pentagon contracts, as it works to grab more potential business in what executives say is a potential \$60 billion market for the company's defense training jet and refueling drone.

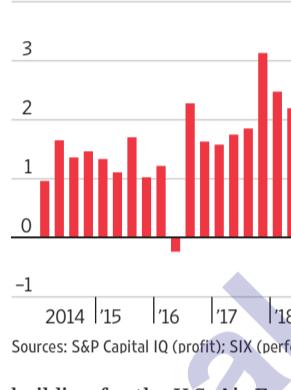
Boeing has reinvigorated its defense business, winning a trio of Pentagon contracts in recent weeks after the unit's sales declined for four years.

Boeing has struggled in the past to deliver defense projects on time and on budget, including aerial tankers it is

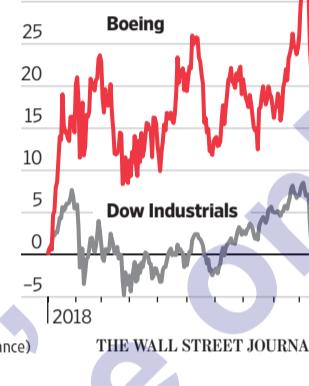
## Flying High

Boeing's order backlog has grown amid robust demand for jets.

### Quarterly profit



### Share and index performance



building for the U.S. Air Force. It reported \$176 million in charges related to the tankers in the quarter, adding to more than \$3 billion in cost overruns for that program.

Overall for the quarter, Boeing reported earnings of \$2.4 billion, or \$4.07 a share, up 31% from \$1.8 billion, or \$2.99 a share, for the year-earlier

period. Revenue increased 4% to \$25 billion.

Boeing also raised its 2018 profit outlook, saying it expects to earn between \$16.90 and \$17.10 a share, up from a prior forecast for earnings as high as \$16.60 a share.

The company's overall operating margin fell 2 percentage points to 8.9% in the quarter.

## Competitors Brace For Defense Battle

Defense-industry executives are girding for a cost fight with **Boeing** Co.'s resurgent military and space unit.

The aerospace company took a charge of almost \$700 million in the latest quarter to cover extra investment after its recent contract wins for a Navy drone, a new Air Force trainer jet and helicopters used to protect nuclear missile bases.

Rivals have questioned whether they could make a profit at the prices Boeing has set. Lockheed Martin Chief Executive Marillyn Hewson said this week that her company would have incurred a loss of more than \$5 billion if it had matched Boeing's winning bids on programs expected to be worth about \$24 billion.

—Doug Cameron



The state's attorney general said the company deceived investors when it said it was managing the risks of climate regulation.

# New York Sues Exxon Over Climate Change

BY CORINNE RAMEY  
AND BRADLEY OLSON

The state of New York sued **Exxon Mobil** Corp. on Wednesday, accusing the oil giant of misleading investors about the risks that climate-change regulations pose to its business.

The lawsuit, filed in state Supreme Court in Manhattan, said that for years Exxon told its investors that it adequately accounted for greenhouse-gas regulations by applying a so-called proxy cost—an estimate of the effects of future events such as climate regulations—to its business planning and investment decisions.

In reality, Exxon applied either a lower proxy cost or no cost at all, the lawsuit claims.

"Exxon built a facade to deceive investors into believing that the company was managing the risks of climate-change regulation to its business when, in fact, it was intentionally and systematically underestimating or ignoring them, contrary to its public representations," New York Attorney General Barbara Underwood said in a statement.

"The company looks forward to refuting these claims as soon as possible and getting this meritless civil lawsuit dismissed," Exxon spokesman Scott Silvestri said in a statement.

In 2015, the New York attorney general's office began an investigation into the matter, for which Exxon produced more than three million pages of documents. The Securities and Exchange Commission also looked into whether the oil gi-

ant misled investors about its accounting practices and climate-change risks, but ended the probe earlier this year without penalizing the company.

The New York suit alleges Exxon executives, including former chairman and chief executive Rex Tillerson, knew for years that the company was using a second set of proxy costs, from undisclosed internal guidance, that were lower than the ones publicly disclosed.

Mr. Tillerson couldn't be reached for comment.

The attorney general's office is requesting damages to correct what the lawsuit says are inaccurate past representations and to change its practices going forward.

"Through its fraudulent scheme, Exxon in effect erected a Potemkin village to create the illusion that it had fully considered the risks of future climate-change regulation and had factored those risks into its business operations," the lawsuit said.

In one instance, the suit claims, Exxon failed to apply appropriate proxy costs to oil-sands projects in Canada, which led to the company understating the projects' long-term impact to its cash-flow forecasts by more than \$25 billion.

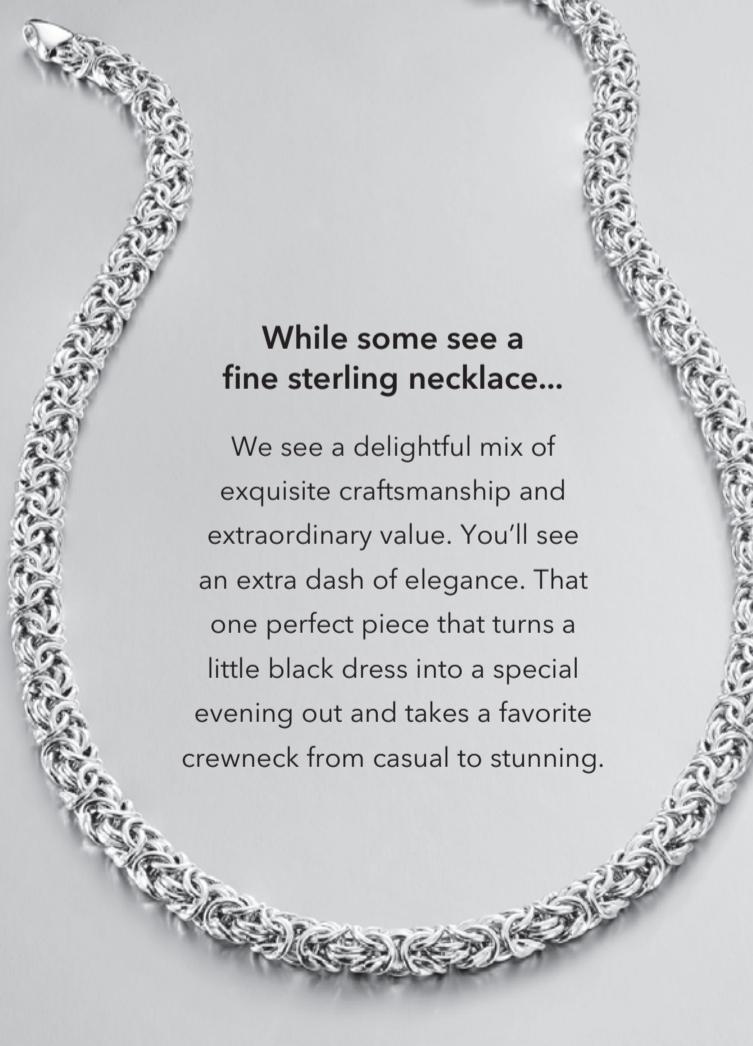
"These baseless allegations are a product of closed-door lobbying by special interests, political opportunism and the attorney general's inability to admit that a three-year investigation has uncovered no wrongdoing," Mr. Silvestri said.

—Patrick Thomas

contributed to this article.

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## TECHNOLOGY

WSJ.com/Tech

REUTERS  
No new games have been given the go-ahead in China since March, when a reorganization of regulatory agencies began to unfold.

# Game Freeze Stretches On

**Industry fears China's halt on approving sales of new titles will extend into next year**

By SHAN LI

BEIJING—Chinese video-game companies, beset by a halt in new-game approvals, are expecting the freeze to stretch into next year in a blow for a business that had been a money spinner.

Regulators haven't green-lighted the sale of new titles since March, when a government reorganization started. With that shuffle apparently completed, game developers expected approvals to resume this month; but after months of lobbying officials for answers, some company executives have become pessimistic.

"Everybody's totally in the dark," said Iain Garner, co-founder of game publisher **Another Indie**. He said the next Lunar New Year, which falls in February, "is the earliest we're all hoping for."

The regulatory standstill in the world's biggest videogame market has cost game companies roughly \$1.4 billion, or about \$200 million a month, in lost revenue, said Joost van Dreunen, head of games-analyst firm SuperData Research Inc.

**Tencent Holdings** Ltd. and **NetEase** Inc., which raked in billions in revenue by importing world-wide hits including "World of Warcraft" and developing their own games such as "Honor of Kings," have watched their shares plummet.

NetEase's American depositary receipts fell more than 35% this year. Tencent shed over \$200 billion in market value from its January peak and blamed a poor second quarter on the games issue.

Smaller players, which release the bulk of new titles, said they are getting squeezed as well and are turning to other markets.

The State Administration of Press and Publication, which regulates videogames, and its overseer, the Propaganda Department, didn't respond to requests for comment, nor did Tencent. NetEase declined to comment.

In the absence of an official explanation, game companies are spinning their own theories. Some think the government is using the delay to bring to heel a lucrative industry with wide influence over Chinese youth. President Xi Jinping has tightened controls over the internet and wants all media to increase content promoting the Communist Party. Under these conditions, executives said, companies must fall in step with the government.

"China is absolutely OK to gut one of its industries," as long as "they are keeping control of power," Mr. Garner said. After four years, he moved Another Indie from the Chinese port city of Xiamen to Taiwan, leaving one game awaiting approval. "It just got very scary," he said.

Earlier this month, regulators shut down a temporary

approval process for new games known as the "green channel," according to game

## Losing Streak

Shares of Tencent and NetEase have taken a hit this year.



Note: NetEase trades in New York and Tencent in Hong Kong  
Source: SIX

THE WALL STREET JOURNAL.

executives. Through the channel, companies were granted permission to charge for new titles during a one-month testing period. However, only big companies such as Tencent were invited to submit titles through that process, and only a handful of games were ever approved, executives said.

Greg Pilarowski, head of law firm Pillar Legal and former general counsel to Chinese game company Shanda Interactive Entertainment Ltd., said the Chinese government has a "love-hate relationship" with the game industry.

"These companies have been extremely successful, and the games have been leading revenue generators," Mr. Pilarowski said. But, he said, games attract a huge audience of young people, prompting hand-wringing about how much time children devote to their devices.

This month, state broadcaster China Central Television aired two segments on consecutive days focused on game addiction among youth.

Big companies such as Tencent and NetEase have enough cash and popular games to ride out a drought. Combined, those two companies roll out about 100 titles a year, analysts said. In 2017, about 14,000 games were released in China; so far this year, the tally is fewer than 5,000, the analysts said.

The government reorganization initiated in March was supposed to streamline approvals, handing primary oversight of videogames previously split between two agencies to just one, the new State Administration of Press and Publication. Some responsibilities may still fall under the Ministry of Culture and Tourism.

Companies now aren't sure whom to call in the agency, several executives said. A senior executive at one company said that although his sources told him the reorganization was completed in September, he has heard nothing from the regulators.

If approvals were in the pipeline, the bigger companies with relationships with the government would likely get a nod from regulators before approvals officially restart, said an executive who recently left a major game company. The continuing silence, he said, means it is highly unlikely the freeze will end this year.

—Chunying Zhang  
in Shanghai  
contributed to this article.

# Daimler Targets China Ride Hailing

By TREFOR MOSS

SHANGHAI—Daimler AG and Zhejiang Geely Holding Group Co. will form a premium ride-hailing company in China, using the German auto maker's Mercedes-Benz cars and electric vehicles made by Geely, the companies said.

A partnership between the Chinese car maker and Daimler has looked likely ever since Geely Chairman Li Shufu amassed a 9.7% stake in Daimler in February, becoming its largest shareholder. Geely owns Sweden's Volvo Car Group.

Daimler builds cars in China with another local auto maker, state-run **BAIC Motor** Corp., making mobility services an obvious business in which to collaborate with Geely. The new ride-hailing service, which will be a 50-50 joint venture, is expected to begin operations in 2019, the companies said.

Geely offers a ride-hailing service called CaoCao, but it

remains small compared with **Didi Chuxing**, which outlasted Uber Technologies Inc. in a costly battle for control of the Chinese ride-hailing market.

The ride-hailing service will be part of Geely's "transformation from a vehicle manufacturer into a global automotive-technology group," Geely President An Conghui said.

"It's a smart move for Geely to collaborate with Daimler to play this new game," said Bill Russo, founder of Shanghai consultancy Automobility. Geely taps into a prestigious brand and a technology pipeline, while Daimler gets access to a large mobility-services market, he said.

"With Geely Group, we have found an excellent partner to expand our mobility services in China," said Klaus Entemann, chief executive of Daimler's financial-services unit, following the signing of a memo of understanding at Daimler's Stuttgart headquarters.

TATIANA ZENKOVICH/FEDE/REX/SHUTTERSTOCK  
For China's Geely, it is a step from manufacturing into auto technology.

# Snap Fills Business, Strategy Positions

By GEORGIA WELLS

Snap Inc. lured the head of global advertising sales at **Amazon.com** Inc. to be its new business chief, filling a vacancy left by the departure of influential former strategy chief Imran Khan.

Jeremy Gorman, who spent more than six years in ad sales at Amazon, joins Snap as chief business officer as the company struggles to keep people using its product regularly.

The Snapchat parent in August reported its first quarterly decline in daily users following a troubled redesign.

Mr. Khan exited a month later, joining a string of executives in finance, sales and product to leave the company.

Snap also hired Jared Grusd, chief executive of the

Huffington Post, as its new strategy chief, effectively splitting the role left behind by Mr. Khan.

Snap CEO Evan Spiegel announced the hires in an email Wednesday to employees.

"We have an immense amount of running room to grow globally through the billions of people who do not yet use Snap," Mr. Spiegel said in the email.

Snap has struggled to live up to investors' expectations since a splashy public debut in March 2017. It has yet to establish itself as a formidable online-ad competitor to either Facebook Inc. or Alphabet Inc.'s Google, and has repeatedly fallen short of analysts' expectations for revenue and users. Snap reports third-quarter earnings on Thursday.

## Cook Urges Action on Data Laws

*Continued from page B1*  
collects on users. But the company also generates revenue from digital searches across its devices by collecting licensing fees of more than \$5 billion annually from Alphabet to make Google the default search engine on browsers across Apple devices, according to analysts.

Some privacy advocates were also alarmed earlier this year when Apple started complying with a Chinese law that required it to store sensitive encryption keys locally. Apple said it would store the keys in a secure location and retain control over them and hasn't created any back doors to access customer data.

"This issue is the goose that laid the golden egg for Apple," said Talal Shamoon, chief executive of Intertrust Technologies Corp., a data-rights-management company supportive of more privacy regulation that sued Apple in 2013 over patent infringement. He said the company can push this issue forward because it believes in the cause and depends on hardware sales rather than advertising like some of its tech peers. Plus, it's good for shareholders and puts "their competitors in a corner," he said.

Unlike Europe, the U.S. doesn't have a single piece of

VIRGINIA MAYO/ASSOCIATED PRESS  
Apple CEO Tim Cook's call came in a sharply worded speech before a privacy conference organized by the European Union.

privacy legislation, said he was encouraged by Microsoft, Apple and others' support of regulation. "Too often we've heard companies whose business models depend on intrusive and opaque collection of user data claim that any changes to the status quo will radically undermine American innovation," Sen. Warner said in response to Mr. Cook's speech. "Apple and others demonstrate that innovation doesn't have to be a race to the bottom when it comes to data protection and user rights."

Facebook Chief Executive Mark Zuckerberg also defended his company's targeted advertising model in a prerecorded video address, saying that Facebook's goal is to offer a service to as many people as possible, and his service is paid for by advertising. "You don't need thousands of dollars to connect with people who use our services," Mr. Zuckerberg said.

But, in what appeared to be a pre-emptive swipe at rivals, Mr. Cook in his speech said companies often voice public support for data regulations but they lobby behind closed doors to weaken any initiative. A spokeswoman for Google and a spokeswoman for Facebook declined to comment specifically on that point.

"Technology is and must always be rooted in the faith people have in it," the Apple chief said. "We also recognize not everyone sees it that way—in a way, the desire to put profits over privacy is nothing new."

—Tripp Mickle contributed to this article.

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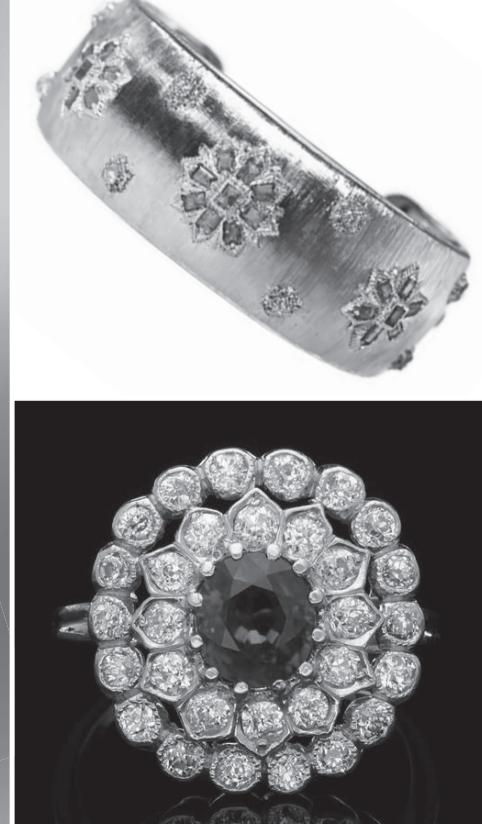
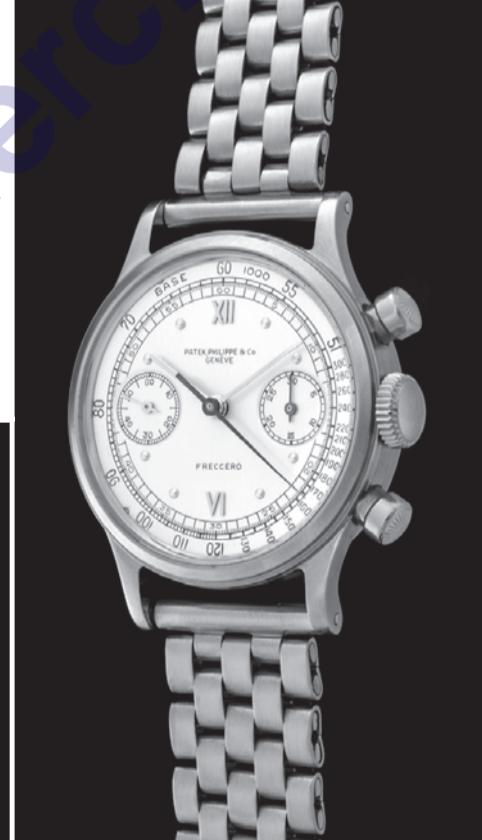
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## MANAGEMENT

# Sandberg Assesses Gender Equality

Facebook executive says progress has 'dragged to a halt' despite #MeToo efforts

By DEEPA SEETHARAMAN AND EMILY GLAZER

Women remain underrepresented within companies at every level, Facebook Inc. Chief Operating Officer Sheryl Sandberg and other senior leaders said—despite the #MeToo movement.

Progress has "dragged to a halt," said Ms. Sandberg, founder of LeanIn.Org, who spoke at a San Francisco event hosted by The Wall Street Journal on Tuesday. "We're at a really critical moment—a really critical moment where we need to invest in leadership."

Women are entering the U.S. workforce in the highest numbers in decades, but gender parity isn't improving, Ms. Sandberg said. Only about one in five senior leaders is a woman, and one in twenty-five is a woman of color, according to the fourth annual Women in the Workplace survey from LeanIn.Org and McKinsey & Co.

That is almost unchanged from the first survey in 2015. Central to the problem: hiring and promotions.

In the past year the #MeToo movement has thrown into focus how sexual pressure has pervaded the workplace.

Now, companies are more



Facebook's operating chief urges treating all colleagues equally.

aggressively grappling with how sexual harassment impedes women's ability to scale the corporate ladder. In U.S. corporations, 35% of women and 55% of senior women surveyed said they experienced harassment—from sexist jokes to inappropriate touching—at some point in their careers.

**Netflix** Inc. Chief Executive Reed Hastings said stories are more powerful than statistics in highlighting the pervasive nature of sexual harassment. For example, he said, a female employee at Netflix endured harassment from one col-

league for about two years. It took another employee to report the behavior, after which the harasser was fired. When the harassed employee was asked why she hadn't reported it, she said: I like my job.

Sexual harassment also happens outside the office.

"You'd be amazed at the things that happen on our aircraft," said Oscar Munoz, CEO of **United Continental Holdings** Inc. Employees, notably flight attendants, are subject to harassment from passengers—but the airline is limited in actions it can take after the

fact, he said. Regulations bar cameras on airplanes, so incidents can boil down to "he said, she said."

Management experts and executives say harassment also can occur in workplaces where men are perceived to be in charge and women sidelined, making it tougher for them to ask for raises and promotions. This is particularly true for women of color, who start at a disadvantage relative to men and white women, according to executives and the survey.

Companies also have to consider—and counteract—the unintended consequences of the #MeToo movement, executives said. Ms. Sandberg mentioned a post-#MeToo survey in which nearly half of male managers said they feel skittish about having a meeting alone with a woman. Men are also more hesitant about going on work trips or having dinner alone with female colleagues.

**P&G** Corp. CEO Geisha Williams said, "Why should you be worried about going out with a woman or a woman mentee for dinner or lunch?"

Ms. Sandberg's suggestion: Treat all colleagues equally. If managers are uncomfortable having dinners alone with women, they should stop having dinners alone with men as well. "Group lunches for everyone," she said.

—Michelle Ma contributed to this article.

# Walmart Signaled Split With Synchrony

By ANNAMARIA ANDRIOTIS

For nearly two decades, **Synchrony Financial** was the exclusive issuer of Walmart Inc. credit cards. The Connecticut-based bank stationed dozens of employees in Walmart's headquarters city of Bentonville, Ark., some of its executives lived in the same gated community as their Walmart counterparts, and employees would hit the same golf course and hunt quail together.

That came crashing down in July, when Walmart told Synchrony it was switching to **Capital One Financial** Corp. Walmart executives had grown irritated because, among other issues, they wanted Synchrony to share more of the cards' revenue and approve more applicants, according to people familiar with the situation.

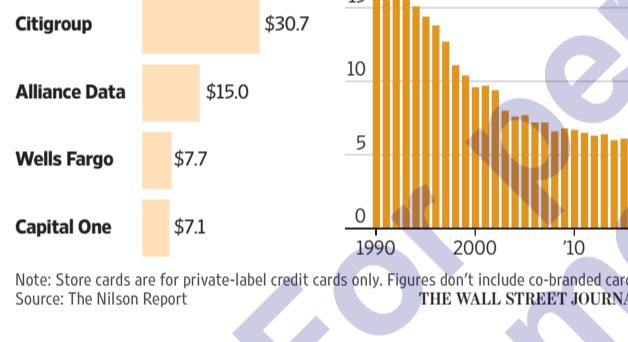
The breakup was the latest reminder of how the once-pervasive business of store credit cards is changing and forcing issuers such as Synchrony and Citigroup Inc. to rewrite their playbooks. Store cards were already slumping as many traditional mall retailers, like J.C. Penney Co. and Macy's Inc., lose popularity. Sears Holdings Corp., which filed for bankruptcy protection last week, was one of the first department stores to roll out its own credit card decades ago.

As those retailers shrink, banks are scrambling to compete for card agreements with a handful of big, successful merchants like Amazon.com Inc. and Costco Wholesale Corp. And those companies, like Walmart, are finding they can demand bigger concessions from card companies.

## Leading the Retreat

Synchrony is the largest issuer of store credit cards, but store cards represent a shrinking share of purchases.

### U.S. store-card issuers by 2017 balances outstanding



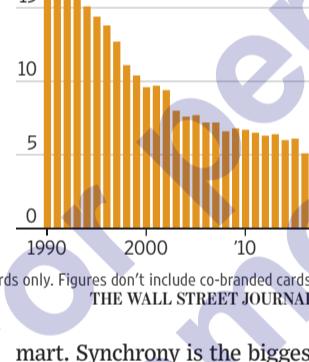
Costco, for example, in 2016 ended a yearslong partnership with American Express Co. Amazon has been advocating for lower interchange fees, which merchants pay when customers shop with credit cards.

Another challenge: Large banks have ramped up rewards programs for other cards, siphoning off potential customers for store cards.

It is a big turn for an industry that gave birth to credit cards. Store cards, which can be used only at specific retailers, were one of the first credit cards in the U.S. Until the 1960s, they accounted for the majority of credit-card purchase volume; last year, they accounted for less than 5%, according to trade publication the Nilson Report.

Few other banks are intertwined with a merchant as Synchrony has been with Wal-

### Store cards' percentage of U.S. credit-card purchase volume



mart. Synchrony is the biggest issuer of store credit cards in the U.S., and as of June, Walmart accounted for roughly \$10 billion, or 19%, of Synchrony's retail card balances. That includes store cards that can be used only at Walmart and so-called co-branded cards, which carry a store's logo but can be used almost anywhere.

Synchrony said it "worked very hard" during discussions with Walmart and "negotiated in good faith." The bank said it "continues to diversify into growth areas," noting a recent deal with PayPal Holdings Inc. and other partnerships.

"While we always want to renew our relationships and the loss of the Walmart program is unfortunate, we view the situation as an outlier," a spokeswoman said.

Walmart declined to comment on its relationship with

Synchrony but said it is focused "on delivering great value to our customers."

When Synchrony approached Walmart last fall to renew its contract, Walmart executives balked, according to people familiar with the matter.

Synchrony revised its offer, but Walmart issued a formal request for other bids late last year, the people said. It was the first time Walmart had done so, they said.

There had already been warning signs.

Walmart had expected to get more revenue from the deal in previous years, but loan losses cut into the amount the retailer was receiving, according to people familiar with the matter. Losses stood at roughly 9% of outstanding balances on Walmart cards this spring, one of the people said.

Last year, Walmart began offering loans from financial-technology firm Affirm Inc. to some shoppers as an alternative to Synchrony cards. That came after Walmart told Synchrony it should approve more applicants, a person familiar with the matter said.

Synchrony said it "worked very hard" during discussions with Walmart and "negotiated in good faith." The bank said it "continues to diversify into growth areas," noting a recent deal with PayPal Holdings Inc. and other partnerships.

"While we always want to renew our relationships and the loss of the Walmart program is unfortunate, we view the situation as an outlier," a spokeswoman said.

Walmart declined to comment on its relationship with

# UPS Expects Robust Holiday Shipping



**United Parcel Service** Inc. is counting on a big boost in shipping capacity to avoid logjams in its network during the peak holiday shipping season, and the delivery giant is raising prices to help offset those investments.

To handle the surge in packages driven by online shoppers, UPS is building more automated

sortation hubs, including its third-largest U.S. facility, which just opened in Atlanta.

To offset costs, UPS is pushing up prices on domestic deliveries and adding surcharges on oversize packages. In the U.S. business, revenue per piece rose 4.8% in the third quarter, the fastest growth since 2011.

Overall, UPS posted a profit of \$1.51 billion, or \$1.73 a share, up from \$1.26 billion, or \$1.44 a share, a year earlier. Excluding restructuring costs, adjusted earnings were \$1.82 a share, in line with analysts' estimates. The company backed its guidance for the year.

—Paul Ziobro

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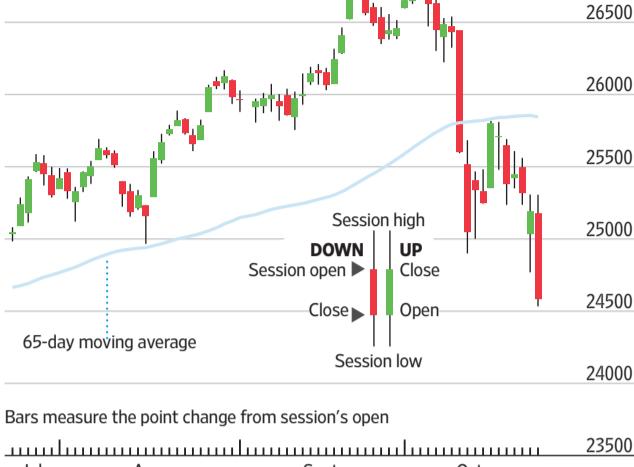
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## S&amp;P 500 Index

**2656.10** ▼ 84.59, or 3.09%  
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Bars measure the point change from session's open  
 \*Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

## Nasdaq Composite Index

**7108.40** ▼ 329.14, or 4.43%  
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## Major U.S. Stock-Market Indexes

	Dow Jones		S&P		Nasdaq Stock Market					
	High	Low	Latest Close	Net chg	% chg	High	Low	52-Week % chg	YTD % chg	3-yr. ann.
Industrial Average	25306.23	24533.19	<b>24583.42</b>	-608.01	-2.41	26828.39	23271.28	5.4	-0.5	11.7
Transportation Avg	10306.69	9887.18	<b>9905.13</b>	-331.89	-3.24	11570.84	9440.87	1.2	-6.7	6.1
Utility Average	758.42	737.78	<b>753.65</b>	16.61	2.25	774.47	647.90	1.0	4.2	8.2
Total Stock Market	28231.94	27278.42	<b>27316.07</b>	-894.46	-3.17	30390.61	26493.79	3.1	-1.3	8.4
Barron's 400	689.96	661.32	<b>661.92</b>	-27.87	-4.04	786.73	661.92	-3.4	-6.9	7.2

## Other Indexes

	Russell 2000	1527.71	1468.46	<b>1468.70</b>	-57.89	-3.79	1740.75	1463.79	-1.7	-4.4	8.0
NYSE Composite	12290.24	11957.13	<b>11969.74</b>	-317.71	-2.59		13637.02	11969.74	-3.0	-6.6	4.4
Value Line	535.25	516.96	<b>517.16</b>	-17.47	-3.27		593.57	517.16	-4.3	-8.0	3.3
NYSE Arca Biotech	4802.06	4431.45	<b>4432.75</b>	-343.58	-7.19		5400.34	4045.25	7.6	5.0	8.9
NYSE Arca Pharma	581.15	561.60	<b>562.37</b>	-18.60	-3.20		598.21	516.32	2.7	3.2	1.6
KBW Bank	96.60	93.65	<b>93.87</b>	-2.88	-2.98		116.52	93.87	-7.2	-12.0	8.6
PHLX® Gold/Silver	69.91	67.85	<b>68.04</b>	-1.46	-2.10		92.08	61.92	-17.6	-20.2	6.5
PHLX® Oil Service	131.78	123.57	<b>123.66</b>	-6.87	-5.26		170.18	123.66	-4.8	-17.3	-11.7
PHLX® Semiconductor	1207.33	1144.73	<b>1146.41</b>	-81.20	-6.61		1449.90	1146.41	-6.7	-8.5	18.8
Cboe Volatility	26.38	20.40	<b>25.23</b>	4.52			21.83	37.32	9.14	124.7	20.4

\$ Nasdaq PHLX

Sources: SIX Financial Information; Dow Jones Market Data

## Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 50,000 shares.

## Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	% chg	After Hours	High	Low
SPDR S&P 500	SPY	25,785.9	266.26	0.94	0.35	273.77	264.75	
Advanced Micro Devices	AMD	22,923.3	17.91	-4.88	-21.41	23.67	17.05	
Invesco QQQ Trust I	QQQ	8,789.2	166.71	1.37	0.83	173.37	165.09	
Regions Financial	RF	6,224.2	15.57	0.11	0.71	15.69	15.46	
Microsoft	MSFT	5,649.5	105.08	2.76	2.70	107.24	98.58	
Enterprise Pdts Partners	EPD	5,600.5	26.70	...	unch.	27.76	26.57	
General Electric	GE	5,457.7	12.24	0.07	0.58	12.43	12.15	
Ocwen Financial	OCN	4,329.1	3.67	...	unch.	3.67	3.67	

## Percentage gainers...

Knowles Corp.	KN	98.4	15.67	1.95	14.21	16.29	13.72
Tesla	TSLA	3,890.3	322.75	34.25	11.87	332.00	285.00
Xilinx	XLNX	454.2	77.00	7.96	11.53	78.01	66.63
Chevron	CC	89.2	34.21	2.38	7.47	34.21	31.83
Mellanox Techs	MLNX	55.5	70.00	4.02	6.09	71.00	65.98

## ...And losers

Advanced Micro Devices	AMD	22,923.3	17.91	-4.88	-21.41	23.67	17.05
Align Technology	ALGN	598.4	235.00	-55.83	-19.20	301.03	215.50
CURO Group Holdings	CURO	53.1	21.50	-1.37	-5.99	22.87	21.00
Unum Group	UNM	85.4	32.00	-2.00	-5.88	36.14	32.00
PTC Inc.	PTC	66.7	80.00	-4.60	-5.44	86.96	75.11

## Trading Diary

Volume, Advancers, Decliners  
 NYSE NYSE Amer.

Total volume\* 1,079,039,758 11,877,033

Adv. volume\* 139,511,329 1,656,144

Decl. volume\* 932,417,272 10,217,938

Issues traded 3,090 307

Advances 682 91

Declines 2,341 208

Unchanged 67 8

New highs 25 ...

New lows 483 28

Closing tick 170 7

Closing Arms\* 1.99 2.67

Block trades\* 7,334 129

Nasdaq NYSE Arca

Total volume\* 2,848,749,747 417,916,759

Adv. volume\* 392,528,144 94,643,044

Decl. volume\* 2,443,956,869 321,701,420

Issues traded 3,173 1,361

Advances 482 281

Declines 2,628 1,067

Unchanged 63 13

New highs 20 14

New lows 561 415

Closing tick 56 1

## COMMODITIES

WSJ.com/commodities

## Futures Contracts

## Metal &amp; Petroleum Futures

	Contract		Open	High	Low	Settle	Chg	Open interest
	Open	High	hi lo	Low	Settle	Chg	interest	
<b>Copper-High (CMX)</b> -25,000 lbs.; \$ per lb.								
Oct 2,7495	2,7555	2,7495	2,7465	-0.0005	264			
Dec 2,7610	2,8040	2,7430	2,7575	-0.0005	117,780			
<b>Gold (CMX)</b> -100 troy oz.; \$ per troy oz.								
Oct 1231.60	1231.60	1228.50	1227.80	-5.60	80			
Dec 1233.80	1238.00	1228.30	1231.10	-5.70	375,687			
<b>Feb'19</b> 1239.40	1243.00	1234.30	1237.20	-5.70	56,096			
June 1253.30	1255.20	1247.70	1249.40	-5.80	15,129			
Aug 1260.00	1260.00	1255.10	1255.30	-5.80	2,782			
Dec 1271.80	1271.80	1269.50	1267.60	-5.90	5,314			
<b>Palladium (NYM)</b> -50 troy oz.; \$ per troy oz.								
Dec 1127.00	1127.00	1108.70	1112.30	-10.50	24,568			
<b>March'19</b> 1116.80	1116.80	1100.00	1104.10	-9.90	4,203			
<b>Platinum (NYM)</b> -50 troy oz.; \$ per troy oz.								
Dec 830.70	832.10	830.40	830.90	-3.50	62			
<b>Jan'19</b> 836.30	839.70	827.80	831.50	-3.90	67,990			
<b>Silver (CMX)</b> -5,000 troy oz.; \$ per troy oz.								
Oct 14,665	14,665	14,660	14,611	-0.117	3			
Dec 14,775	14,830	14,660	14,676	-0.117	158,215			
<b>Crude Oil, Light Sweet (NYM)</b> -1,000 bbls.; \$ per bbl.								
Dec 66.20	67.72	66.05	66.82	0.39	476,388			
<b>Jan'19</b> 66.33	67.84	66.22	66.96	0.34	211,529			
Feb 66.42	67.92	66.35	67.06	0.30	115,665			
March 66.52	68.00	66.49	67.16	0.27	170,225			
June 66.76	68.09	66.71	67.29	0.27	175,065			
Dec 65.86	67.09	65.86	66.39	0.18	218,513			
<b>NY Harbor ULSD (NYM)</b> -42,000 gal.; \$ per gal.								
Nov 2,2467	2,2743	2,2305	2,2521	.0037	51,767			
Dec 2,2478	2,2753	2,2314	2,2529	.0030	128,766			
<b>Gasoline-NY RBOB (NYM)</b> -42,000 gal.; \$ per gal.								
Nov 1,8339	1,8620	1,7973	1,8223	-0.145	49,018			
Dec 1,8310	1,8587	1,7939	1,8193	-0.151	131,188			
<b>Natural Gas (NYM)</b> -10,000 MMBtu.; \$ per MMBtu.								
Nov 3,216	3,250	3,159	3,166	-0.046	48,895			
Dec 3,288	3,314	3,215	3,227	-0.056	249,932			
<b>Jan'19</b> 3,356	3,382	3,282	3,290	-0.063	247,515			
Feb 3,264	3,290	3,199	3,201	-0.059	113,116			
March 3,035	3,053	2,986	2,988	-0.045	228,075			
April 2,733	2,739	2,700	2,700	-0.035	151,934			

## Agriculture Futures

<b>Corn (CBT)</b> -5,000 bu.; cents per bu.								
Dec 369.50	369.75	367.75	368.25	-2.00	764,298			
<b>March'19</b> 381.50	381.75	380.00	380.50	-2.00	399,180			
<b>Oats (CBT)</b> -5,000 bu.; cents per bu.								
Dec 296.25	297.00	290.50	291.75	-5.25	5,207			
<b>March'19</b> 288.00	288.50	283.75	284.25	-4.50	1,749			
<b>Soybeans (CBT)</b> -5,000 bu.; cents per bu.								
Nov 855.75	856.75	850.00	850.25	-7.25	190,750			
<b>Jan'19</b> 869.00	870.50	863.25	863.50	-7.50	252,316			
<b>Soybean Meal (CBT)</b> -100 tons; \$ per ton.								
Dec 310.50	310.90	305.30	306.10	-4.60	162,976			
<b>Jan'19</b> 312.70	312.90	307.40	308.30	-4.50	111,805			
<b>Soybean Oil (CBT)</b> -60,000 lbs.; cents per lb.								
Dec 28.72	28.81	28.54	28.61	-1.15	179,279			
<b>Jan'19</b> 28.95	29.04	28.77	28.83	-1.16	115,026			
<b>Rough Rice (CBT)</b> -2,000 cwt.; \$ per cwt.								
Nov 1080.50	1094.50	1075.00	1085.50	3.50	1,803			
<b>Jan'19</b> 1103.00	1116.00	1093.50	1106.00	3.00	5,879			
<b>Wheat (CBT)</b> -5,000 bu.; cents per bu.								
Dec 51.00	51.75	49.75	49.50	-9.50	232,861			
<b>March'19</b> 52.95	53.75	51.75	51.75	-9.50	122,839			
<b>Wheat (KC)</b> -5,000 bu.; cents per bu.								
Dec 507.75	509.50	495.50	497.00	-10.00	152,089			
<b>March'19</b> 534.25	534.25	521.50	523.00	-10.25	82,991			
<b>Wheat (MPLS)</b> -5,000 bu.; cents per bu.								
Dec 585.25	586.00	578.00	578.50	-6.50	33,643			
<b>March'19</b> 593.50	594.00	585.75	586.25	-7.00	21,584			
<b>Cattle-Feeder (CME)</b> -50,000 lbs.; cents per lb.								
Oct 155,000	155,275	154,550	154,625	-4.50	2,443			
<b>Cattle-Live (CME)</b> -40,000 lbs.; cents per lb.								
Oct 113,100	113,775	112,700	113,275	.500	3,473			
Dec 117,450	118,675	117,100	118,350	1.200	121,063			
<b>Hogs-Lean (CME)</b> -40,000 lbs.; cents per lb.								
Dec 55,100	57,525	55,100	57,525	3.00	99,927			
<b>Feb'19</b> 61,875	64,425	61,800	64,425	3.00	44,278			
<b>Lumber (CME)</b> -110,000 bd. ft.; \$ per 1,000 bd. ft.								
Nov 313.80	315.40	303.60	304.30	-9.00	990			
<b>Jan'19</b> 312.40	314.00	302.10	303.00	-11.30	2,168			
<b>Milk (CME)</b> -200,000 lbs.; cents per lb.								
Oct 15,53	15,54	15,48	15,50	1.50	3,891			
Nov 15,11	15,16	14,73	14,90	-20	5,260			
<b>Cocoa (ICE-US)</b> -10 metric tons; \$ per ton.								
Dec 2,190	2,228	2,133	2,137	-50	91,569			
<b>March'19</b> 2,212	2,240	2,152	2,155	-53	77,159			
<b>Coffee (ICE-US)</b> -37,500 lbs.; cents per lb.								
Dec 121.10	124.35	120.00	120.25	-85	113,242			

## Source: SIX Financial Information



## BANKING &amp; FINANCE

# Barclays Investment Bank Gains

By MARGOT PATRICK

**LONDON—Barclays PLC** Chief Executive Jes Staley said the bank's effort to win market share from Wall Street banks is starting to pay off.

His defense of the bank's trans-Atlantic diversification strategy came as the bank reported better investment-banking profit and a group return above targets in the third quarter.

"There's been a comment that European investment banks can't compete with U.S. investment banks. I just point out that for four quarters in a row we have gained market share," Mr. Staley told journalists on a call.

Mr. Staley is trying to fight off activist shareholder **Sherborne Investors**, which wants

Barclays to free up capital from investment banking or find other another way to improve returns.

Barclays said Wednesday that its third-quarter net profit rose to £1 billion (\$1.3 billion) from £583 million in 2017, helped by lower loan impairments. Its return on tangible equity was 11.1% in the first nine months of 2018 and 10.2% in the third quarter, above a 10% target.

Barclays shares rose 3% Wednesday.

The shares have slumped this year as questions linger over whether Mr. Staley's U.S.-U.K. diversification plan will work. The bank's units include a U.K. retail bank, a New York- and London-based investment bank and a large credit-card business. Mr. Staley, a JPMor-

gan Chase & Co. veteran, repeated his view Wednesday that having diverse businesses can help Barclays withstand economic cycles.

Mr. Staley since December 2015 has overseen a yearslong

*The bank says it has increased investment banking market share four quarters in a row.*

restructuring of the British lender while fending off outside pressures, including U.S. investigations over financial-crisis-era business and an effort in Britain to prosecute the bank over two fund raisings in 2008.

On Wednesday, he said the third-quarter results were the second set of "clean" results since that largely complete restructuring and that Barclays could now invest for growth. Costs increased in the quarter, in part to keep digitizing the bank.

In a presentation to analysts, Mr. Staley said the bank intends to pay a 6.5 pence dividend this year, double that of last year. He kept potential share buybacks in the future but said it is still the plan to return more excess capital.

Investment banking, revenue was flat in the quarter but equities and fixed-income trading surged as much as 35%. Yet overall returns were well below those in Barclays's other main units, with a return on tangible equity of 7%.

Sherborne started building a 5% Barclays stake last year, so far registering paper losses on it. Founded by investor Edward Bramson, the activist firm has said little publicly about its wishes for Barclays, but in August said it was talking to the bank about capital usage, earnings quality and costs, and would give investors an update in October.

Mr. Staley said he would meet with Mr. Bramson in the next couple of weeks. But he doesn't see any big strategy changes. "I don't believe the time is now to consider a new restructuring," Mr. Staley said.

Mr. Staley said Barclays is prepared for a worst-case scenario when the U.K. leaves the European Union and that U.S. revenue will likely help offset any ill effects.

# Wells Fargo Places Two Executives On Leave

By EMILY GLAZER AND ROBERT BARBA

Two top executives of **Wells Fargo & Co.** went on leave from the bank after the Office of the Comptroller of the Currency cited them in regulatory warnings, people familiar with the matter said.

Wells Fargo said Wednesday the leaves for Hope Hardison, chief administrative officer, and David Julian, chief auditor, stemmed from the continuing regulatory reviews of the sales practices in its retail bank. It said the executives would no longer be part of its operating committee.

The OCC recently sent individual letters to Ms. Hardison and Mr. Julian that expressed concerns about their failure to oversee problems at the bank, people familiar with the matter said. It is rare for individuals to receive such letters, the people said.

Ms. Hardison and Mr. Julian didn't immediately respond to requests for comment.

The regulator had sent the bank a similar letter last year. The Wall Street Journal previously reported. In that letter, the OCC said Wells Fargo had willingly harmed its customers and repeatedly failed to correct problems. Months later, the bank settled with the OCC and

\$1B

Amount of the bank's settlement related to improper charges.

# Trading Revenue Weighs on Deutsche Bank

By JENNY STRASBURG

**Deutsche Bank AG's** long struggle to make money shows little sign of easing.

Slumping investment banking and trading revenues took another bite out of profitability at the German lender in the third quarter as it faces growing pressure to cut costs and stabilize earnings.

The bank's shares ended at a record closing low of €8.87 in Frankfurt. They have fallen 10% this month and 44% this year. In New York, shares ended down 6.5% Wednesday. European banks are expected to lag behind their U.S. peers, according to analysts, as continental banks kicked off earnings season Wednesday. The broader Euro Stoxx Banks index is trading at its lowest level since October 2016.

Germany's largest lender said third-quarter profit fell 65% to €229 million (\$263 million). Net revenue fell 9% to €6.2 billion from a year earlier, roughly in line with analysts' expectations.

Still, Chief Executive Christian Sewing said the bank is "on track" to make a full-year profit. Deutsche Bank had said it expected full-year revenue to be flat from last year, but on Wednesday it changed that projection to "slightly lower."



ARMANDO BABANI/EPA-EFE/REX/SHUTTERSTOCK

Chief Executive Christian Sewing, center, says the bank is on track to make a full-year profit.

Analysts had expected Deutsche Bank's companywide profit to fall in the third quarter while it slashes expenses following another management overhaul.

But one big persistent concern from investors and analysts is that Deutsche Bank's intentional steps to shrink the bank will spiral into uncontrolled revenue loss, and Wednesday's results aren't

likely to stem those concerns. Executives said Deutsche Bank is winning business, but for the most part that isn't materially showing up in results, especially compared with competitors' performance.

Investment-banking revenue declined 13% from a year earlier to €3 billion. The lender suffered 15% declines in both fixed-income and equities sales and trading revenues

from a year earlier. Its other two primary business units, commercial and retail banking and asset management, also suffered quarterly revenue declines of 3% and 10%, respectively.

Skepticism about Deutsche Bank's long-term rein on costs—a challenge that has haunted it for years—surfaced again Wednesday. Chief Financial Officer James von Moltke

said the bank is on track to meet cost targets of €23 billion and €22 billion, respectively, for 2018 and 2019. But he backed away from a previous €21 billion target for 2021, saying executives want to focus on near-term goals. "We hope to do better," but to move to a different, cost-income target for 2021, he said. The comments spurred more questions about Deutsche Bank's confidence in its projections.

Citigroup Inc. analysts on Wednesday cited "weak core divisional profitability" in Deutsche Bank's earnings, noting that the investment bank "is still losing market share (which we fear will continue)." The lender's retail-banking profits have also been disappointing, hurt by higher investment spending in the business, the analysts said.

Deutsche Bank is also trying to shed capital-consuming legacy assets, fix outdated technology and repair thorny relationships with regulators who have repeatedly criticized its compliance and systems controls. Deutsche Bank's long fight to make money means it has less cash to spend on crucial fixes than most competitors, particularly U.S. banks that have poached business from European banks at home and abroad.

the Consumer Financial Protection Bureau for \$1 billion.

Wells Fargo has spent two years dealing with fallout from revelations that branch employees opened potentially millions of fake accounts without customer authorization.

Wells Fargo is under pressure to show it is responding to regulators' concerns. Wednesday's announcement could signal the bank is still dealing with problems related to consumer sales practices and that regulators are unhappy with its progress fixing them.

"We have become more customer-focused, made significant leadership and board changes, strengthened risk management and controls, simplified the organization, and invested in our team members," Chief Executive Timothy Sloan said in a statement.

Kimberly Bordiner, executive audit director, will become acting chief auditor. The company said it would conduct an internal and external search for the role. The bank said that David Galloorese, head of human resources, will report to Mr. Sloan and will join the operating committee. Jim Rowe, head of stakeholder relations, also will report to Mr. Sloan.

# Forest City's Ex-CEO to Oppose Sale to Brookfield

By CARA LOMBARDO

**Forest City Realty Trust** Co.'s former chief executive, the son of one of its founders, plans to publicly oppose a deal to sell the nearly 100-year-old property empire and urge other shareholders to do the same, according to people familiar with the matter.

Albert Ratner, who controls nearly 1% of Forest City's stock, is preparing to send a public letter arguing that a deal to sell Forest City for roughly \$6.8 billion to **Brookfield Asset Management Inc.** was ill-conceived and that the

company could have a higher value in the future, according to a draft of the letter reviewed by The Wall Street Journal.

His opposition challenges a deal already on shaky ground after Forest City's board narrowly endorsed it in a 7-to-5 vote. Shareholders, including two activist investors who have already agreed to support the deal, are set to vote on the transaction Nov. 15.

Mr. Ratner is a member of the well-known family that started Forest City and that also includes New York real-estate developer Bruce Ratner.

Toronto-based Brookfield agreed in July to buy Forest City for \$25.35 a share, or \$11.4 billion including Forest City's debt. The price represented a 26.6% premium to Forest City's stock price before reports surfaced that the two were in talks.

Forest City's residential and commercial portfolio includes landmark properties such as the headquarters for the New York Times. It attracted Brookfield partly because it is concentrated in growing urban markets including Boston, San Francisco and Dallas.

Albert Ratner, 90 years old,

says in his letter that the split board agreed to the deal "at the wrong price, at the wrong time, through a flawed process." He argues that based on the company's own net-asset-value analysis, shareholders could receive 48% more on a discounted basis for their shares if they waited roughly 26 months, when tax restrictions stemming from the company's 2016 conversion to a real-estate investment trust expire. That is similar to arguments made by the dissenting directors, according to the company's recently filed proxy.

Directors who supported the deal argued it is the best option given that estimated future values aren't guaranteed, according to the proxy.

Mr. Ratner, who served as CEO from 1975 to 1995 and is a co-chairman emeritus, writes that the company shouldn't have initiated a sale process so soon after overhauling its board and making other changes meant to improve its stock price such as converting to a REIT and cutting costs and debt. He also notes the proxy indicates the board was deadlocked at 6-6 before Chief Executive David LaRue changed his vote.

## Mutual Funds

Data provided by LIPPER

Top 250 mutual-funds listings for Nasdaq-published share classes by net assets.

e=Ex-distribution. f=Previous day's quotation. g=Footnotes x and s apply. j=Footnotes p and r apply. v=Footnotes x and e apply. k=Recalculated by Lipper, using updated data. p=Distribution costs apply. l=Total assets.

Redemption charge may apply. s=Stock split or dividend. t=Footnotes p and r apply. u=Footnotes x and e apply. x=Ex-dividend. z=Footnote x, e and s apply. NA=Not available due to incomplete price, performance or cost data. NE=Not released by Lipper; data under review. NN=Fund not tracked. NS=Fund didn't exist at start of period.

Wednesday, October 24, 2018

Fund	Net NAV	Chg %	YTD % Ret	Fund	Net NAV	Chg %	YTD % Ret	Fund	Net NAV	Chg %	YTD % Ret	Fund	Net NAV	Chg %	YTD % Ret
American Century Inv	16.54	-1.98	7.2	EmMktCorEq	18.66	-0.49	-18.4	Freedom2030 K	16.77	-0.35	-4.5	IntlInst r	57.39	-1.21	-15.0
American Funds Cl A	12.43	-0.30	-1.31	IntlCoreEq	12.43	-0.36	-5.1	Freedom2035 K	14.06	-0.36	-5.1	IntlEq	17.28	-0.56	-13.8
AMCtIA p	12.37	-1.21	1.8	SmSmtCo	18.19	-0.38	-17.6	Freedom2040 K	9.85	-0.27	-5.3	Invesco Funds A	10.31	-0.20	-4.9
AMUtlA p	40.37	-0.84	0.3	IntSmVa	18.84	-0.54	-17.6	Balance	21.83	-0.48	-0.1	Jordan Hancock Instl	10.31	-0.20	-4.9
BalA p	26.42	-0.42	-1.5	BluCr	17.93	-0.63	-3.2	ShortT	9.89	-0.20	2.0	DispValMC	21.38	-0.70	-8.3
BondA p	12.40	+0.00	-2.0	BluCr	17.93	-0.63	-3.2	TotRt	9.90	+0.03	-1.5	JPMorgan Funds	21.38	-0.70	-8.3
CapBla p	57.58	-0.76	-6.1	US CoreEq	20.68	-0.74	-3.2	Principa Investors	NA	NA	NA	MidCap	11.00	-0.36	-5.0
CapWGrA	46.39	-1.32	-7.9	Contrak	12.45	-0.50	3.3	DivInflst	NA	NA	NA	PIMCO Funds Instl	13.86	+0.04	-2.4
EpacA p	47.22	-1.37	-13.6	DivInflt	10.02	-0.40	0.4	PIMCO Funds Instl	NA	NA	NA	PIMCO Funds Instl	13.86	+0.04	-2.4
FdmBlnp	59.28	-1.89	-1.6	DivInflt	12.44	-0.51	3.2	Price Funds	NA	NA	NA	Price Funds	NA	NA	NA
Gwtha p	50.15	-2.06	1.2	DivInflt	18.34	-0.90	2.8	Principa Investors	NA	NA	NA	Principa Investors	NA	NA	NA
Hl TrA p	10.10	-0.22	2.1	DivInflt	7.61	-0.02	1.1	Principa Investors	NA	NA	NA	Principa Investors	NA	NA	NA
ICAA p	38.51	-1.24	-2.3	DivInflt	10.26	-0.28	-1.5	Principa Investors	NA	NA	NA	Principa Investors	NA	NA	NA
IncoA p	22.08	-0.29	-3.5	DivInflt	10.81	-0.03	1.7	Principa Investors	NA	NA	NA	Principa Investors			

## MARKETS

# Housing, Eurozone Data Lift Treasurys

Reports provide further evidence economic growth is slowing globally

BY AKANE OTANI

**CREDIT MARKETS** The yield on the benchmark 10-year U.S. Treasury note settled at 3.122%, compared with 3.166% Tuesday.

Yields, which fall as bond prices rise, declined overnight after IHS Markit reports showed manufacturing activity in the eurozone, Germany and France expanded at a slower pace than analysts had expected in October.

Treasury yields then fell further after Commerce Department data showed sales of new U.S. homes fell 5.5% in September, notching their fourth consecutive monthly decline and far surpassing the 0.6% drop that economists surveyed by The Wall Street Journal had expected.

Taken together, the data added to a recent streak of tepid economic reports, driving

up demand for Treasurys, which investors tend to scoop up when the growth outlook appears more uncertain.

"The Fed's rising interest rates may be more harmful for economic growth than they thought, chiefly because of its effect on long-term interest rates and hence mortgage rates," said Chris Rupkey, managing director and chief financial economist at MUFG.

The Federal Reserve's beige book report, a roundup of anecdotal information about regional economic conditions, showed Wednesday that businesses have growing concerns about tariffs pushing up their production costs.

**AUCTION RESULTS**

Here are the results of Wednesday'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.

**FIVE-YEAR NOTES**

Applications	\$89,826,730,200
Accepted bids	\$39,000,005,200
*noncompetitively	\$41,390,200
*foreign noncompetitively	\$100,000,000
Auction price (rate)	99.525382 (2.977%)
Interest rate	2.875%
Bids at clearing yield accepted	48.65%
Cusip number	9128285K2

The notes, dated Oct. 31, 2018, mature on Oct. 31, 2023.

**TWO-YEAR FRNs**

Applications	\$63,109,118,500
Accepted bids	\$19,000,368,500
*noncompetitively	\$37,118,500
Spread	0.045%
Bids at clearing yield accepted	88.76%
Cusip number	9128285H9

The floating-rate notes, dated Oct. 31, 2018, mature on Oct. 31, 2020.



Sales of new U.S. homes fell 5.5% in September, notching their fourth consecutive monthly decline. Economists expected a 0.6% drop.

HELEN H. RICHARDSON/THE DENVER POST/GETTY IMAGES

# Risk Returning to Leveraged Buyouts

BY MIRIAM GOTTFRIED AND RYAN TRACY

Four years after a government crackdown on the leveraged-buyout market, risky loans are making a comeback.

Nearly 13% of LBOs in the first nine months of 2018 were financed with debt equating to at least seven times the target company's earnings before interest, taxes, depreciation and amortization, or Ebitda, according to S&P Global Market Intelligence's LCD. That is more than double the level in all of last year and is on track to be the highest since 2014, when 13.5% of deals crossed that threshold and regulators began to crack down on leverage exceeding six times Ebitda.

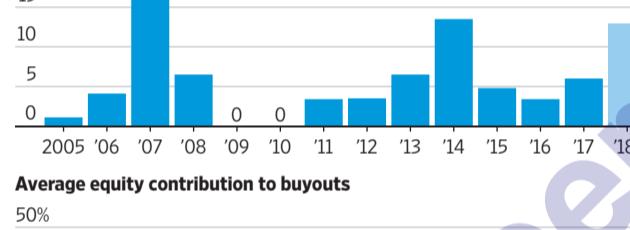
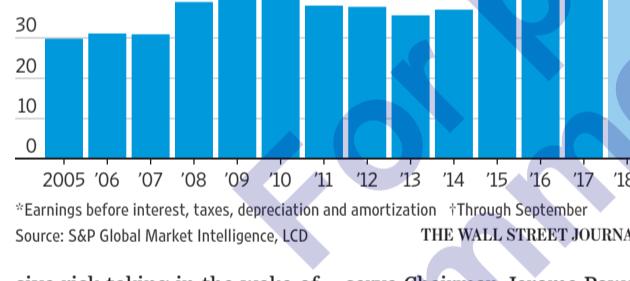
In another sign of growing risk, the amount of cash private-equity firms are putting into buyouts is falling. Their average equity contribution was 39.6% in the first nine months, also the lowest since 2014.

In a typical LBO, a buyout firm acquires a company mainly with borrowed money, with a goal of selling it later at a profit. The jump in deals that carry extra amounts of debt comes amid a surging economy and generally buoyant financial markets, which have fueled risk appetite, and as Washington takes a less aggressive approach to regulating Wall Street.

It is a big change from just a few years ago. In 2014, regulators brought the hammer down on banks stepping outside federal guidelines for underwriting leveraged loans—shorthand for borrowings by highly indebted companies. Those guidelines had been put in place in 2013 to curb excess-

**Big Borrowers**

Risky loans to fund leveraged buyouts are making a comeback

**Percentage of leveraged buyouts done at seven times Ebitda\* or higher.****Average equity contribution to buyouts**

\*Earnings before interest, taxes, depreciation and amortization †Through September

Source: S&P Global Market Intelligence, LCD

sive risk taking in the wake of the financial crisis.

Among other things, they discouraged banks from participating in takeovers in which debt is above six times Ebitda, a common proxy for cash flow. When banks didn't follow regulatory guidelines, they sometimes got slapped with warnings, as Credit Suisse Group AG did in 2014.

The Federal Reserve and the Office of the Comptroller of the Currency, the two key agencies overseeing bank lending, had struck a more sanguine tone since President Trump was elected and began to dismantle a number of Obama-era regulations—though that may be changing.

"That market has evolved really significantly since before the crisis," Federal Re-

serve Chairman Jerome Powell said at a press conference last month. "The banks take much less risk than they used to," he said, adding that they hold far fewer loans on their balance sheets than they once did.

His counterpart, Comptroller Joseph Otting, said last week that nonbank lenders are taking more risks. "Banks have really kind of stayed on the rails," Mr. Otting said.

But on Wednesday, after The Wall Street Journal published a story on the increase in highly leveraged deals, the Fed signaled growing concern, taking the unusual step of releasing remarks by a staffer to a private industry conference.

"There may be material loosening of terms and weaknesses in risk management of the leveraged-loan market,"

Todd Vermilyea, a senior associate director in the Fed's regulatory division, said to the Loan Syndications and Trading Association in New York. "Some institutions could be taking on risk without the appropriate mitigating controls."

He said the Fed is taking a closer look at risk-management practices.

Some industry officials point to a ruling last year by a government auditor that called the legitimacy of the lending guidelines into question, and said the Fed and the comptroller's office didn't follow the proper legal process for establishing them. The auditor's ruling "makes it much harder" for regulators to question banks' lending practices, former Comptroller Thomas Curry said in an interview.

Bankers say regulators are now less focused on a borrower's precise leverage and are more concerned with the general health of the company and banks' overall "safety and soundness." The bankers and buyout-firm officials add that many of the deals with higher borrowing levels involve strong companies in more stable sectors such as health care and software. Meanwhile, the appetite for debt among yield-starved investors is ravenous, enabling banks to quickly parcel out the loans to others who then assume the risk.

Whatever the cause, banks have been feeling freer to do deals they might have shied away from just a year ago. KKR & Co.'s \$5.6 billion buyout of Envision Healthcare Corp. is among the most highly indebted of the big buyouts this year, with borrowings of over seven times Ebitda. At least eight regulated banks helped finance the deal.

# SEC Keeps Study On Speed-Bump Trading Under Wraps

BY CEZARY PODKUL

The Securities and Exchange Commission won't release a study of the impact of brief delays in stock trading on market quality and pricing that investors have been expecting for two years.

The SEC committed in June 2016 to complete the study when it reinterpreted one of its rules to allow so-called speed bumps that briefly pause trades before relaying them to exchanges for execution. The move allowed IEX Group Inc. to become the first exchange to offer a trading venue that slows the speed of trading.

IEX argued that the 350-microsecond delay helps prevent rapid-fire traders from racing ahead of typical investors and unfairly profiting off of their speed advantage. That claim was disputed by high-tech trading firms that warned the speed bump could increase trading costs for investors.

In late June, shortly after the two-year window expired for the SEC to complete the study, The Wall Street Journal filed a public-records request to obtain a copy. The agency responded on Oct. 16 with a heavily redacted, 18-page document, "Report on the Effects of IEX's Intentional Access Delay on Market Quality, Including Price Discovery."

A spokesman for the SEC declined to share any of the study's findings and said the agency has no "immediate plans to release it to the public" because it deems the re-

port internal.

The SEC has premised policy actions on in-house economic studies before and has publicly issued studies after rules became effective to assess how well they worked. But the agency also has discretion to withhold records it deems to be part of the "deliberative" rule-making process.

The Modern Markets Initiative, a Washington organization,

Some firms warned the brief pause in trades could raise costs for investors.

tion representing high-frequency-trading firms, also expected the study to be public. "It's in the public interest for this information to come out," said Kirsten Wegner, the group's chief executive.

In June, SEC economist Edwin Hu published a study that looked at the impact of IEX's speed bump on trading quality. The study, which doesn't represent the views of the SEC or its commissioners, found a decrease in trading costs for some stocks.

A spokesman for IEX said the exchange doesn't know the findings of the SEC report but expects the results to be similar to Hu's study, which IEX lauded as a validation of its business model.

—Dave Michaels contributed to this article.

# Increased Fuel Demand Helps Send U.S. Oil Prices Higher

BY DAN MOLINSKI AND CHRISTOPHER ALESSI

U.S. oil prices rose Wednesday, recouping some of their huge losses from a day earlier after government data showed

an increase in

**COMMODITIES** U.S. fuel de-

mmand and an

accompanying drop in inventories of gasoline and diesel.

Light, sweet crude for December delivery ended 39 cents, or 0.6%, higher at \$66.82 a barrel on the New York Mercantile Exchange. Brent crude, the global benchmark, ended 0.4% lower at \$76.17 a barrel.

Oil prices had fallen by 4.2% on Tuesday, their biggest one-day drop in more than three months, caused by volatility in broader financial markets that steered investors away from riskier assets. Also pushing prices lower were assurances from top Saudi Arabia officials that it can and

will produce as much oil as the global market needs as Iran exports decline due to U.S. sanctions.

But oil prices were able to rebound Wednesday despite continued stock-market losses, after the Energy Information Administration said U.S. stockpiles of gasoline and distillate fuels fell by a combined 7.1 million barrels last week, and that demand rose by 141,000 barrels a day, to 9.3 million barrels a day. U.S. oil production stayed flat last week at 10.9 million barrels a day.

The EIA's data wasn't all bullish, as it also showed crude-oil inventories climbed for a fifth straight week.



The Energy Information Administration says crude-oil inventories climbed for a fifth straight week.

NICK OXFORD/REUTERS

# MARKETS

# Moves in Lockstep Suggest Risk Ahead

BY AMRITH RAMKUMAR

Riskier assets such as stocks and commodities are moving in unison as the market selloff deepens, a worrying sign for some analysts who think more turbulence lies ahead.

Lockstep moves are a worrying sign because they signal excessive optimism or fear in markets. They mean investors are largely buying or selling holdings all at once rather than weighing fundamental information like earnings or supply and demand. Rising correlations also often presage more drastic moves in either direction.

The rolling correlation between the S&P 500 and MSCI All Country World ex U.S. index has increased to 0.95 for the first time since February's market selloff, according to Dow Jones Market Data, which looked at time spans of 20 days. The correlation between the S&P 500 and S&P GSCI commodities index has climbed to 0.8.

Correlation is measured on a scale of minus-1 to 1. A reading of minus-1 means two assets are moving perfectly in opposite directions, while a correlation of 1 means they are moving perfectly in tandem.

"The setup is for a little bit more pain," said François Bourdon, global chief investment officer of Fiera Capital. "We think there's a little more downside, especially for the hot segments of the market."

Stocks in the U.S. and globally fell again on Wednesday, with highflying internet and technology shares among the worst performers. Some investors worry that the recent sales growth that boosted those stocks will be unsustainable as interest rates increase and the Chinese economy weakens.

Many commodities that are the building blocks of con-

struction, such as copper and nickel, also dropped, though U.S. oil prices rebounded. U.S. crude had tumbled alongside stocks a session earlier, closing at a two-month low Tuesday on signs of rising supply and global growth fears.

The higher correlations recently mark a shift from earlier this year, when the link between U.S. stocks and other investments had essentially disappeared. Major equity benchmarks such as the S&P 500 had surged ahead of many global stocks and commodities—assets that are more sensitive to the growth outside the U.S.

Now, the sudden return of lockstep moves could indicate that tightening U.S. monetary policy and slower global growth will push riskier investments even lower.

Risky assets and markets deemed safer are moving in opposite directions more frequently. The correlation between the S&P 500 and gold has fallen to minus-0.8 in recent sessions for the first time in a year. The relationships between stocks and other safer assets such as Treasurys and the dollar have also been negative for much of October.

Bond prices and the WSJ Dollar Index jumped Wednesday, with analysts continuing to retreat from stocks and commodities.

That trend reinforces the view of some market watchers that investors will continue to favor so-called havens and dump riskier options.

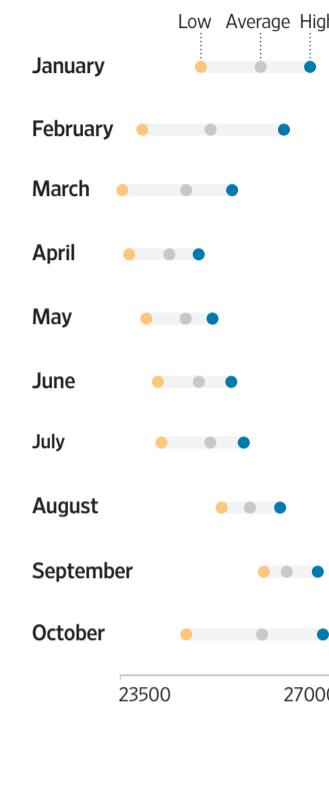
Despite the recent volatility, bullish investors and analysts believe positive earnings and economic data will become the focal points of markets again. And a resolution in the trade fight between the U.S. and China could also help stabilize price swings.

Meanwhile, it is worthwhile for investors to continue watching the relationships across the different markets.

Stocks and commodities have fallen in tandem this month on worries about global growth.



The Dow Jones Industrial Average has traded in a larger range this month.



Global stocks and commodities have become more correlated with the S&P 500, while gold and Treasurys haven't.



Sources: Factset (index performance); Dow Jones Market Data (Dow range, correlation)

James Benedict /THE WALL STREET JOURNAL.

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

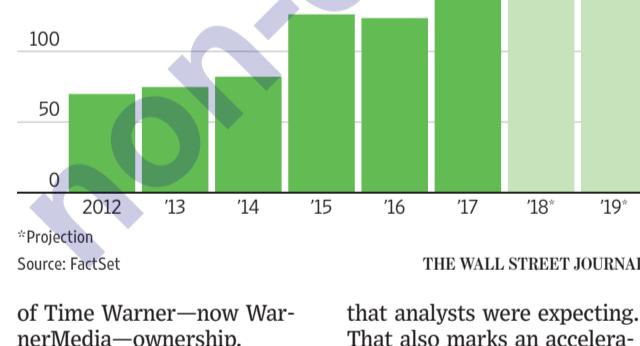
WSJ.com/Heard

Email: heard@wsj.com

## AT&T Weighed Down by Worries

### Greater Liability

AT&T's total debt



isn't certain. A report by consultancy MoffettNathanson pointed out that, amid all the self-congratulatory headlines, "virtually every single part of legacy AT&T is shrinking."

The company has taken on enormous debt now, too, with a balance sheet levered to 3.9 times earnings before interest, taxes, depreciation and amortization—a "shocking level of debt for a company where Ebitda and revenues are shrinking even when GDP is growing," as MoffettNathanson put it.

AT&T Chief Executive Randall Stephenson said the company is on track to get to the "2.5x debt-to-Ebitda range" by the end of 2019.

Yet AT&T has also announced it will launch a direct-to-consumer streaming service in late 2019, taking advantage of its new media assets.

Doubling down on that content makes sense, but competing with Netflix, Hulu, Amazon.com and Disney's soon-to-launch streaming service means AT&T may have trouble locking in subscribers.

It also hinges on the DOJ's appeal of the merger failing. Investors should stay wary.

—Elizabeth Winkler

that analysts were expecting. That also marks an acceleration from the same quarter last year, when it lost 251,000 subscribers.

There was better news in the mobile business, where AT&T gained a net 69,000 domestic postpaid phone subscribers instead of losing 22,000 as analysts had forecast, though it fared poorly compared with rival Verizon Communications.

Whether the Time Warner assets can really reverse the business's long-term decline

### OVERHEARD

One reason industrial stocks have had such a strong couple of years: the collapse of General Electric shares.

So theorizes Jay Van Sciver, industrials analyst at Hedgeye Risk Management. In a note published Wednesday, he says the sustained stock weakness of GE, until recently the S&P 500's largest industrial component, caused a headache for more than just the conglomerate's shareholders, who are down about 60% over the past two years.

"Investors that hadn't looked at a S&P 500 benchmarked industrial sector might not realize how important that 'weight' was to the sector," he wrote. GE's deflating stock thus forced managers to allocate to other stocks with smaller weights in the index, such as Deere, Boeing, or Caterpillar, which fell 7.6% Tuesday after reporting earnings.

That pushed valuations higher, resulting in higher risk across portfolios.

"Thanks, Mr. Immelt," said Mr. Van Sciver, referring to GE's former chief executive, Jeff Immelt.

## Tesla Results Hit the Bull's-Eye

As promised, Tesla CEO Elon Musk delivered profits for his shareholders.

Third-quarter results smashed Wall Street expectations. Revenue was \$6.8 billion, and adjusted profit was \$2.90 a share. Thanks largely to stretched accounts payable, Tesla even generated record free cash flow of \$881 million.

The stock rocketed higher after hours, and the results should be good enough to reduce short-term fears over the company's solvency.

But before investors get too excited, a history lesson is in order: Tesla earned a profit and generated positive free cash flow in the third quarter of 2016. After that, the red ink returned for seven consecutive reporting periods.

It is unlikely that Tesla will be able to sustain a similar dry spell and still maintain its premium valuation.

Wall Street analysts expect a full year of profit next year and a whopping \$30 a share in adjusted earnings by 2022, according to FactSet.

Selling cars at a profit will get harder, though. Tesla recently unveiled cheaper versions of the Model 3—a development that is likely to boost deliveries but reduce operating margins.

Starting in January, U.S. buyers will receive a reduced federal tax credit for Tesla vehicles. Generating cash is more important than ever, though—Tesla still has more than \$10 billion in debt and \$3.5 billion in accounts payable on its books.

Tesla would be wise to take advantage of its surprisingly strong quarter to raise as much equity capital as possible given those obligations.

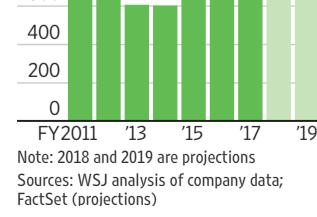
Just being in a position to do that is quite an accomplishment for Tesla and Mr. Musk after a year of relentless drama.

—Charley Grant

## Apple's Cheaper iPhone Expected to Have Biggest Payoff

### Call Option

iPhone's average selling price for fiscal years ended in September



a price of \$749.

All three models offer mostly the same advancements in terms of processor

speed and features such as Face ID, though the cheaper XR uses an older display technology and it has one less camera lens. Analysts still expect it to be the biggest seller of the new models. According to consensus estimates from Visible Alpha, Apple is expected to sell about 80.5 million units of the iPhone XR in the current fiscal year, compared with 40.3 million units for the supersized XS Max and 25.6 million units for the XS.

That would appear to make it difficult for Apple to keep boosting the iPhone's average selling price, which in turn

has been a key driver of the company's growth over the past year. But Apple's more complicated rollout this year—with three new iPhone models at three different memory configurations—easily obscures a notable price bump by adding more higher-priced devices to its lineup.

This year's XR will likely play a similar role as last year's iPhone 8. Analysts believe it was the top-selling model of that cycle. The iPhone XR's starting price of \$749 is about 7% higher than the iPhone 8's starting price.

All of that can help Apple continue its upselling strat-

egy. When the company reports fiscal year-end results next week, the figures should reflect an average iPhone selling price for the year of about \$755—a company record and up 16% from the previous year. Analysts currently expect that to grow to about \$775 for the current fiscal year, according to FactSet.

Apple is still overly reliant on the iPhone, which accounts for more than 60% of the company's total business. It is an encouraging sign, then, that its customers need the iPhone, too, and will keep paying up for it.

—Dan Gallagher