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What's News

Business & Finance

Great Wall Motor's push to go global is being spurred by tricky realities closer to home, where it faces sliding profits, thorny government regulation and red-hot competition in its core segment. **A1**

♦ **Lego** said sales slowed by 5% in the first half, its first revenue decline in 13 years and triggering plans for 1,400 job cuts. **A1**

♦ **United Technologies** agreed to buy airplane-parts maker Rockwell Collins for \$23 billion, in the biggest-ever aerospace deal. **B1**

♦ **Citigroup** created a separate services group within its investment-banking coverage of the industrials sector and named two global co-heads to oversee it. **B6**

♦ "Angry Birds" maker Rovio Entertainment plans to list shares with the Nasdaq Helsinki affiliate. **B1**

♦ **Schneider Electric** has agreed to take control of British engineering software provider Aveva. **B3**

♦ **Facebook's WhatsApp** will eventually charge companies to use some future features in the two free business tools it started testing this summer. **B4**

♦ **Germany's Merck** put its consumer-health unit on the block to focus its health-care activities on developing prescription drugs. **B5**

♦ **Publisher Tronc** acquired the Daily News, a nearly century-old New York City tabloid. **B3**

World-Wide

♦ **Congress returns** from its summer break and will have to grapple with keeping the federal government open, paying U.S. creditors and passing a hurricane-aid bill. **A1**

♦ **Pyongyang's recent** string of missile and nuclear tests has brought the U.S. closer to its allies in Tokyo and Seoul. **A1**

♦ **The Trump administration** is ending DACA and gave Congress until March 5 to pass legislation to replace it. **A6**

♦ **Putin warned** that any delivery of weapons by the Trump administration to Ukraine's government could inflame hostilities. **A3**

♦ **Insurers face** a deadline to file 2018 prices for health insurance sold through ACA. **A7**

♦ **Syria pushed** Islamic State out of Deir Ezzour, the extremist group's most important remaining stronghold. **A4**

♦ **Trump's warning** that the U.S. may halt trade with countries doing business with North Korea was seen as a direct shot at China. **A4**

♦ **Venezuela's humanitarian crisis** looms large as Pope Francis arrives in Colombia. **A5**

♦ **Hurricane Irma** grew into a Category 5 storm, taking aim at the northern Leeward Islands and potentially the U.S. by the weekend. **A5**

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WORLD NEWS

Why Xi Refuses to Go Ballistic on North Korea



CHINA'S WORLD

By Andrew Browne

SHANGHAI—At a moment when Xi Jinping desperately craves stability, Northeast Asia is in turmoil.

The escalating nuclear crisis on the Korean Peninsula presents Mr. Xi with an acute challenge just weeks ahead of a Communist Party Congress expected to return him to power for another five-year term.

Kim Jong Un is playing him, as he does U.S. President Donald Trump, by ignoring admonishments and warnings from Beijing and Washington alike.

The North Korean dictator set off his country's most powerful nuclear explosion yet over the weekend. The timing could hardly have been worse for Mr. Xi, who was preparing to lead a Chinese-hosted summit of major emerging economies.

The summit was intended to bolster Mr. Xi's international standing ahead of the pageantry of next month's

Congress. Instead, Mr. Kim made a mockery of the Chinese strongman by exposing Beijing's inability to rein in its neighbor's nuclear ambitions.

If Mr. Kim is calculating that Mr. Xi won't risk precipitous action against him ahead of the 19th Party Congress, he's likely correct.

North Korea has become a wild card for Mr. Xi, and it grates on the Chinese leader to be toyed with, no less than it angers Mr. Trump.

But this is a critical moment of leadership transition for Mr. Xi, and Mr. Kim knows it. The Chinese president seeks elevation to the pantheon of Chinese Communist greats along with Deng and Mao. Some speculate Mr. Xi wants a setup that would enable him to extend his tenure beyond five years.

Any missteps ahead of the Congress could open Mr. Xi to attack from the many enemies he's made and derail his legacy.

There is plenty more the Chinese president could do to punish Pyongyang and put Mr. Kim in his place, from expelling North Korean workers to cutting off the country's oil and food lifelines.

However, the dangers of reacting forcefully at this moment are too great for Mr. Xi.

From his perspective, the most obvious peril is squeez-

ing North Korea so hard it eventually collapses, spilling desperate refugees across the border into an area of China with a large and potentially restless ethnic Korean population.

Worse, such a scenario, likely bringing down the Pyongyang regime, would be precisely the outcome that Washington seeks. It could bring U.S. and South Korean troops up to the border, where they would command the gateway to China's industrial heartland and routes to the capital.

Thus, Mr. Xi would be surrendering the impressive gains he has made in his first term in a geopolitical contest with the U.S. for influence in East Asia.

Bending to U.S. pressure on North Korea is politically unacceptable. Mr. Xi's "China Dream," after all, is about restoring Chinese pride after a century of foreign humiliations.

There are even perverse benefits to Beijing from Mr. Kim's nuclear brinkmanship: It keeps the U.S. military pinned down in Northeast Asia, and to the extent that it casts doubt on Washington's resolve to defend South Korea and Japan—would Mr. Trump risk San Francisco for Seoul or Tokyo?—it drives a wedge between the U.S. and its two key Asian allies.

Furthermore, letting North Korea go would give encouragement to political



FRED DUFOUR/AGENCE FRANCE PRESSE/GETTY IMAGES

Xi Jinping wants stability for a Communist Party Congress.

forces in China that Mr. Xi spent his first term ruthlessly crushing—dissidents, human-rights activists and others who might read in Mr. Kim's demise a message about the vulnerabilities of their own socialist leaders.

The party's prestige is on the line. Among the People's Liberation Army, in particular, North Korea still evokes a revolutionary nostalgia; Mao's son died in the 1950-53 Korean War, in which Chinese forces fought

the Americans to a standstill, a proud boast to this

day.

The upshot is that Mr. Xi, on the brink of his greatest political triumph, looks impotent in the face of Mr. Kim's increasingly audacious provocations. The weekend's suspected thermonuclear blast just 50 miles from the border rattled windows on the Chinese side and raised official alarms about nuclear contamination.

During his first five years in office, President Xi proved to be a master of control.

His Asia policy has followed a pattern: swiftly

ratcheting up tensions with U.S. friends and allies—Japan, Vietnam, the Philippines—then abruptly de-escalating. By switching on and off the threat of force, Mr. Xi enhanced Beijing's position in the region. His strategy at times has made the U.S. look weak, while burnishing his standing back home with an audience appreciative of China's ascendancy.

However, in the countdown to the 19th Party Congress, Mr. Xi requires stability more than adventure to safeguard the legacy he's built and secure his future dominance. He has taken regional flash-points off the boil, most recently standing down in a territorial dispute that brought Chinese and Indian troops face-to-face in Bhutan. At the same time, he's tamed disruptive forces threatening the domestic economy and subdued political foes.

Now, Mr. Kim threatens to unleash chaos on China's doorstep.

The crisis calls for Chinese action; as ever, the road to Pyongyang runs through Beijing. The irony is that the most activist Chinese leader on the global stage since Mao is paralyzed by domestic politics at a moment when his intervention is urgently required. Mr. Xi risks a coronation with the region in flames.



A marketing push in the U.S. failed to deliver growth.

LEGO

Continued from Page One
ready for global launch. He said the organizational heft also made it difficult to connect with retailers.

"The car has gone off road and landed in a ditch and now we have to pull it out and get it back up to speed again," he said.

Mr. Knudstorp, who served as CEO from 2004 until the end of 2016, acknowledged his share of the blame for the recent trouble. A former kindergarten teacher and McKinsey consultant, Mr. Knudstorp was

and 600 of the job losses will come from its headquarters in Billund.

The company will also simplify its management structure and reporting lines.

Lego's recent travails are in contrast to its go-go growth around the world earlier this decade. Sales were bolstered by a bevy of movie-themed toy sets and licensing revenue tied to two popular Lego films, as well as strong sales in mature markets like the U.S. and Europe and in new markets like China.

Riding that wave, Lego has challenged Barbie maker Mattel for the title of world's largest toy maker by sales.

Despite that run, Lego's revenue growth has been slowing since 2015, after demand for its bricks slowed. On Tuesday, the toy maker said revenue for the six months to June 30 fell to 14.9 billion Danish kroner (\$2.38 billion) from 15.7 billion kroner a year earlier.

The results present a big challenge for incoming CEO Niels B. Christiansen, who Lego last month appointed to the top job. Mr. Christiansen, 51 years old, is the former boss of the Danish industrial group Danfoss A/S. He will succeed current Chief Executive Bali Padda next month.

During his nine years heading Danfoss, Mr. Christiansen is credited with making operations more efficient and agile, investing in research and development and digital capabilities, and boosting sales organically and through acquisitions.

(Mr. Christiansen isn't related to Lego's controlling Kristiansen family.)

Lego traces its roots to 1932 when a Danish carpenter began making wooden toys in his workshop in Billund. The company remains in family hands, with a 75% stake currently controlled by Kjeld Kirk Kristiansen, a grandchild of the founder.

the first person outside Lego's controlling family to lead the company. He took over after Lego sales had slowed sharply and heavy debt threatened bankruptcy.

He refocused the company on its brick sets, and scaled back on the array of watches, clothing, dolls and other merchandise the company had rolled out.

Initially, he also cut jobs, outsourced manufacturing and simplified the company's management structure.

He subsequently boosted staff to keep up with resurgent demand—and the expectation it would continue to boom. Between 2012 and 2016, Lego added 7,000 new employees.

"This investment has not materialized into a good harvest," he said.

To pivot this time around, he said Lego will cut about 8% of its 18,200 workforce by the end of the year. Between 450

JEEP

Continued from Page One
auto maker.

Great Wall said in late August that it is considering a possible acquisition of Jeep, and possibly all of Fiat Chrysler. It declined to comment for this article.

Based in China's Hebei province, Great Wall is still a minnow by global standards. The world's biggest car companies—General Motors Co., Toyota Motor Corp. and Volkswagen AG—each produced 10 times as many vehicles as Great Wall last year.

China's top producer, Shanghai Automotive Industry Corp., also eclipsed its local rival, building 6.5 million cars, though most of those were copies of foreign autos built via joint ventures with GM and Volkswagen.

Unlike state-run auto makers such as Shanghai Auto, Great Wall has focused solely on building its own brand.

Founded in 1984 as a pickup and later sedan maker, it has transformed itself over the past few years into a sport-utility-vehicle specialist. The company's Haval marque accounted for 87% of the company's 2016 unit sales, up from 25% in 2009.

In recent years Great Wall also began focusing on the China market. Exports last year were just 1.5% of total sales, down from 43% a decade earlier, when the company exported in relatively small volumes to developing markets such as Africa and the Middle East.

Ms. Lewis said the China market was growing quickly at the time that local auto makers could afford to disregard exports, and the popularity of SUVs has soared in China over the past few years. Moreover, Great Wall spotted the trend early, establishing itself as the country's top SUV maker.

Last year, Great Wall's sales topped one million cars for the first time. In a country where most domestic auto brands struggle to make money, the



Great Wall's Haval SUV slipped to fourth among the top Chinese brands in the first half of 2017.

company reported a record \$1.6 billion profit on \$15 billion in sales. But that was likely the high-water mark in terms of China auto-sector growth: Car sales increased 16%, but are unlikely to top 5% growth from 2017 onward, officials predict, as the market enters a "new normal" of slow expansion.

For Great Wall, this year's slowdown coincided with much stiffer competition in the SUV market from foreign and domestic rivals, resulting in flat unit sales in the first half of 2017, and halved profits. Haval slipped to No. 4 among the top-selling Chinese auto brands, according to researcher LMC Automotive, having been second previously.

The company has fought back by launching a new premium brand called Wey in April designed to boost profitability, and unveiling a second generation of its flagship H6 SUV, which accounted for 54% of all Great Wall sales last year. It remains China's best-selling SUV, but its lead has been eroded by an increasingly strong lineup of rivals.

With China market saturation on the horizon, Great

Wall and other domestic auto makers must start giving foreign markets newfound attention, said Yale Zhang, managing director of consulting firm Automotive Foresight. A foreign acquisition, like Great Wall's pitch for Jeep, would be the quickest way.

Of more immediate concern, however, are new government regulations requiring auto makers to start building electric cars, and imposing tough efficiency standards on gasoline models.

That is a headache when your specialty is gas-guzzling SUVs.

"If you have a high sales share of big vehicles, it's going to be tough for you to meet the standard," said He Hui of the International Council on Clean Transportation.

Beijing requires auto makers to achieve a fleet fuel-efficiency standard of 5 liters per 100 kilometers—equivalent to 2.1 gallons per 100 miles—by 2020. The H6 burns twice that much gas.

Great Wall failed to meet the government's less-stringent fuel-efficiency requirements in 2016, official documents show.

The government hasn't yet imposed penalties on auto makers that miss fuel-efficiency targets, but pressure is mounting, said Ms. He.

Mr. Zhang said the solution is for Great Wall to start building electric vehicles in volume to improve the fleet's fuel efficiency and satisfy new government quotas mandating EVs.

Great Wall already makes a pure-electric sedan, the C30, but its sedans aren't popular:

It sold only 6,000 in the first half of 2017. The company would need to build about 40,000 C30s next year to satisfy the quota.

In that context, the recent decision to buy 25% of Hebei Yigomo Motors Co., an electric-car maker based in Great Wall's home province, looks like a smart play, according to Ms. Lewis.

That partnership could help Great Wall to skirt the regulatory dangers, leaving it to focus on more important matters: rebooting its SUV profit, and landing Jeep.

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Dow Jones Publishing Company (Asia)
25/F, Central Plaza, 18 Harbour Road,
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Andrew Dowell, Asia Editor
Troy McCullough, Senior News Editor, Asia
Darren Everson, International Editions Editor

Hugo Restall, Editorial Page Editor
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Or email: MarkRogers@wsj.com

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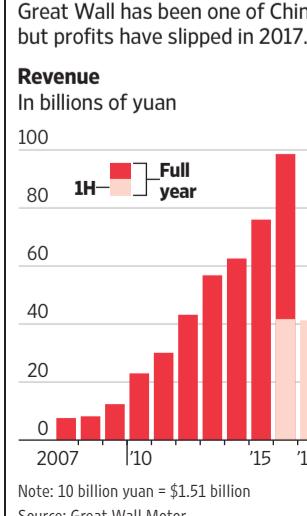
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Profit Engine

Great Wall has been one of China's most profitable auto makers, but profits have slipped in 2017.

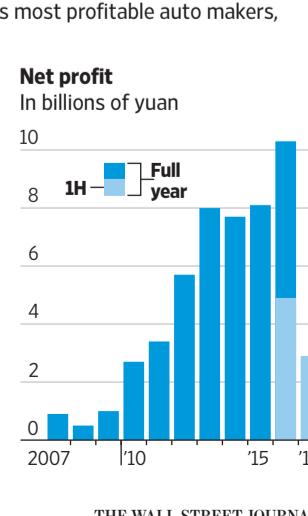
Revenue

In billions of yuan



Net profit

In billions of yuan



WORLD NEWS

Putin Warns U.S. Against Arming Ukraine

Russian leader says delivery could inflame hostilities, expand the conflict zone

By JAMES MARSON

MOSCOW—President Vladimir Putin said that any delivery of weapons by the Trump administration to Ukraine's government could inflame hostilities and cause Russia-supported separatists to expand the theater of conflict.

The comments on Tuesday are the Kremlin's starker warning yet about the potential consequences of any deliveries, and underscore the dilemma the White House faces as it considers sending weapons.

Kiev has fought a three-

year war against a separatist movement in eastern Ukraine that Russian and Western officials say is fomented and directed by Moscow and supported by direct Russian military interventions. Russia says the separatists are independent actors and denies its military supports them.

"If American weapons reach the conflict zone, it's hard to say how the declared republics will react," Mr. Putin told reporters on a visit to China. "Perhaps they [the separatists] will send the weapons they have to other zones of the conflict, which is sensitive to those who are causing problems for them."

The Pentagon and U.S. State Department have drawn up plans to supply Ukraine with antitank missile and other weaponry and are seeking ap-

proval from the White House, according to U.S. officials.

The front lines of the conflict, which has cost some 10,000 lives, have been largely set in place by two peace agreements, although fighting continues at a handful of hot spots. Little progress has been made on the political parts of the agreements, which envision the reintegration of the breakaway territories into Ukraine.

The U.S. has backed Ukraine with financial support and some equipment, such as short-range radar and night-vision goggles. But the Obama administration didn't send weapons amid opposition from European leaders nervous about deepening the conflict.

Mr. Putin said Tuesday that any weapons deliveries wouldn't change the situation, and would only cause more



President Vladimir Putin at a news briefing in Xiamen, China.

deaths. Ukrainian officials say that deliveries would deter Russia from any attempts to advance further.

Relations between Russia and the U.S. have deteriorated

mats, the Russian president said that the Kremlin could require the U.S. to reduce further the number of diplomats in Russia from 455 to 300, which he said was equivalent to the number of diplomats that Russia has accredited in the U.S., not including those at the United Nations.

"But we won't do it yet," he said. "We'll see how the situation develops."

Asked whether he was disappointed with President Donald Trump, whose administration has maintained a hawkish line on Russia despite Mr. Trump's call for better ties during the election campaign, Mr. Putin responded that the question was naive. "He's not my bride, and I'm not his bride, his groom. We are statesmen. Each country has its interests," he said.

Russia Unveils Controversial Statues

By THOMAS GROVE

MOSCOW—As Confederate statues come down in the U.S., Russia is resurrecting figures from its own thorny past.

Soviet statues tumbled precipitously during the breakup of the U.S.S.R. But under President Vladimir Putin and his project to restore Russia's status as a great power, monuments to the often painful Soviet and monarchic history have been rising again.

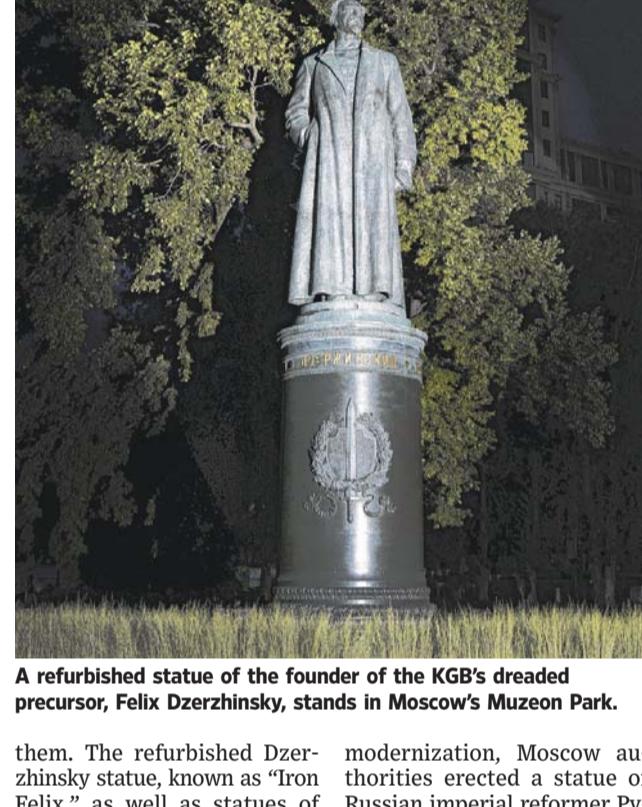
On Tuesday, city leaders in Kirov, 500 hundreds of miles east of Moscow, unveiled a statue of Felix Dzerzhinsky, a Bolshevik revolutionary and the founder of the Cheka, the dreaded Soviet secret police, later known as the KGB.

In Mr. Putin's Russia, memory is selective. Backers see the statue as a tribute to a man who helped build a formidable intelligence service. But it has angered the descendants of those persecuted: Dzerzhinsky oversaw the Red Terror, the execution of hundreds of thousands of citizens during Russia's 1917-1922 Civil War, often without trial.

"Anyone who has experienced this dark chapter of our country's history can't be indifferent about someone who created the Cheka," said Ariadna Kozina, an activist who was raised on her father's stories of serving in a prison camp. "The U.S. may be pulling down its statues, but this is the glorification of all the wrong parts of the past."

While embracing the Soviet era, Mr. Putin and others have adopted a sometimes ambivalent approach to figures like dictator Joseph Stalin, acknowledging their crimes but leaving room to honor them. The Russian leader argued in the case of a massive Dzerzhinsky statue brought down in Moscow that maintaining such monuments was "about respect for every period of our history."

The country has found space in exile for some of



A refurbished statue of the founder of the KGB's dreaded precursor, Felix Dzerzhinsky, stands in Moscow's Muzeon Park.

them. The refurbished Dzerzhinsky statue, known as "Iron Felix," as well as statues of Stalin and Vladimir Lenin, the Soviet Union's founder, are in a park along the Moscow River, once known as the Park of the Fallen Heroes.

Russia's new monuments often serve as signals as officials shape the country's view of itself as self-reliant, traditional and anti-Western. Stalin, despite his role in terrors that killed millions, has seen his star rise with several new statues in the past few years.

A 50-foot statue of Prince Vladimir, the 10th-century monarch credited with bringing Christianity to Russia, was erected across from the Kremlin last year. At the opening ceremony, Mr. Putin praised the prince's embrace of traditional values.

Likewise, in 2012, when Mr. Putin's government was flirting with the idea of economic

modernization, Moscow authorities erected a statue of Russian imperial reformer Pyotr Stolypin, who advocated land and market reforms for Russia's peasants.

Under Mr. Putin, Russia's security service, now known as the FSB, has grown more powerful, placing more focus on figures like Dzerzhinsky.

In Kirov, backers of the statue praised him as an influential figure who deserved to be honored, despite his infamy.

"Dzerzhinsky established all of this and the code of the Chekist has remained," Vladimir Zhuravlev, a member of Kirov's city council, told local media.

But memories of repression still touch a nerve. In June, Mansur Magdeyev, chairman of an organization for victims of Soviet repression, said he wrote to Mr. Putin, asking him to halt the erection of the statue, but received no reply.

"We are the children of the

repressed," said Mr. Magdeyev, whose uncle was shot in the Siberian city of Irkutsk in 1937. "We remember history differently than the way it is taught in propaganda."

Kremlin spokesman Dmitry Peskov said he was unaware of any response to Mr. Magdeyev's request.

Local activists say more than 1,300 residents of Kirov have some personal or family connection to the mass murders carried out under Communist rule, either in the repressions overseen by Dzerzhinsky or in Stalin's Great Terror, a wave of arrests and executions carried out by the Soviet secret police in the late 1930s.

Restoring Dzerzhinsky to a place of honor reminds Mr. Magdeyev of the whitewashing of history by Soviet textbooks.

One local woman, who said her father was killed by secret police in 1937 justified her support for the statue by pointing to the Soviet narrative that emphasizes Dzerzhinsky's work on behalf of orphans.

Like Confederate generals, the figure of Dzerzhinsky has been a stand-in for larger conflicts in Russian history. "Iron Felix" once stood in what is now Moscow's Lubyanka Square, across from the KGB headquarters.

It was removed and defaced after a failed putsch by Communist hard-liners that led to the collapse of the Soviet Union in 1991. Since then, Russia's Communist Party, the country's second most popular, has been pushing to restore it to its former place.

Monuments to Soviet soldiers of World War II have also been defaced in Eastern European countries.

But in Russia, many favor the restoration of Soviet era statues, pollsters say. "It's a result of the Putin policy," said Lev Gudkov, the head of Leva Center, Russia's top independent pollster. "People want to reconnect to the idea of Russia as a great power."

ECB Signal on Ending Stimulus Is Expected

By TOM FAIRLESS

FRANKFURT—The European Central Bank is walking a tightrope as it prepares for its most momentous decision in years: How to wind down its giant bond-buying program without derailing the eurozone's economic recovery.

With the region's economy finally showing some vigor after years of painfully slow growth and political tensions there fading, ECB President Mario Draghi is expected to signal as soon as Thursday's policy meeting that the bank will start winding down its €2.3-trillion (\$2.7-trillion) stimulus program, known as quantitative easing or QE.

It isn't entirely clear yet whether Mr. Draghi will send that message on Thursday or do so in October. Either way, ECB officials have indicated that the QE program would continue for another few months and be phased out by the middle of 2018.

Investors are on edge, ready to unload eurozone government bonds and buy the euro currency as soon as the central bank clearly signals the retreat is coming.

ECB officials have given no fresh policy signals since late June, when Mr. Draghi roiled financial markets by suggesting in Sintra, Portugal, that QE's days might be numbered, noting that less stimulus would be needed as the economy accelerates.

The ECB's stimulus policy "does not fit at the moment with the state of the economy," said Claudia Broyer, an economist with Allianz in Frankfurt.

She expects QE, running at €60 billion a month, to come to an end by the middle of next year.

The hypersensitivity of financial markets is making ECB officials cautious, however, and could delay their exit plans. They are eager to avoid repeating the policy error four

years ago of the Federal Reserve, which triggered a sharp rise in U.S. government bond yields when it announced its own withdrawal from QE.

Even before the ECB has clearly signaled its intentions, the euro has been surging, rising more than 12% against the dollar over the past five months. A strong euro complicates the ECB's job because it makes the region's exports more expensive in world markets and reduces the price of imports, weighing on economic growth and inflation.

ECB officials "have really been wrong-footed" by the euro's recent rise, said Martin Lück, chief German strategist at BlackRock in Frankfurt.

European Central Bank officials have indicated QE would end by mid-2018.

Another headache is the Fed, which holds its own policy meeting in two weeks. The euro's rise against the dollar partly reflects investors' belief that the Fed won't raise interest rates as aggressively as they once thought. U.S. inflation has softened unexpectedly, and President Donald Trump seems less likely to push through bold spending plans that might require tighter monetary policy.

The ECB "clearly expected the new U.S. government to do more in terms of economic expansion, which would have made the exchange rate less of a worry," said Mr. Lück.

Eurozone inflation remains weak. It rose to 1.5% in August from 1.3% the previous month, but is unlikely to move much higher over the next two years, echoing weakness in the U.S. and Japan.

Merkel Dials Down Tone on Ending Turkey's EU Bid

By ANDREA THOMAS

BERLIN—German Chancellor Angela Merkel said European Union leaders should decide whether to suspend or end membership talks with Turkey at its summit next month, backtracking from her call to end accession talks.

Speaking to the lower house of parliament in the final debate ahead of the Sept. 24 general election, Ms. Merkel said the bloc's leaders should debate on the issue at the EU summit next month, as any public disagreement would bolster Turkish President Recep Tayyip Erdogan amid concerns in Europe over Turkey's crackdown on political dissent.

"Relations with Turkey are of great importance. I will therefore advocate for us to adopt decisive actions but that we act jointly and talk with our European partners," said Ms. Merkel, who polls predict to be the front-runner with a 13-percentage-point lead over her rival Social Democrats—currently junior coalition partner in the government.

"Nothing would be more astonishing than if we in Europe publicly fall out over how to

deal with Turkey in plain sight of President Erdogan. This would dramatically weaken the European position and I can only advise against this."

Ms. Merkel's challenger from the center-left Social Democrats, Martin Schulz, in a television debate with the chancellor on Sunday said he would end accession talks with Turkey if he became chancellor.

Ms. Merkel was first more careful in her response to the surprise announcement. But toward the end of the debate she said she was also in favor of ending the membership talks, which her conservative parties hadn't supported when they were taken up in 2005.

The comments prompted European Commission spokesman Margaritis Schinas to stress that such a decision wasn't for Germany alone but for member states to take.

"We are very concerned with the developments as they're unfolding," he said Monday.

Mr. Erdogan's spokesman also criticized the Germans' comments.

"It is not a coincidence that our President Erdogan and Turkey were central to yesterday's debate between Merkel

and Schulz," spokesman Ibrahim Kalin tweeted on Monday.

"Attacking Erdogan-Turkey, in a fashion disregarding Germany and Europe's main and immediate problems, is a reflection of the narrowing horizons in Europe."

Strained relations between Germany and Turkey feature high in the election campaign.

Recent arrests of German citizens for what Berlin says are political reasons have angered the German government, which reacted by issuing a travel advisory for the country and threatening cuts in aid.

During the lower-house debate, Ms. Merkel also called North Korea's nuclear tests a "flagrant breach of international conventions" and said additional sanctions would be

urgently needed.

But she also warned a military reaction from the West would be the wrong response. "There can only be a peaceful and diplomatic solution for which we, however, have to make every possible effort," she said.

European foreign ministers at their meeting this week are expected to discuss additional sanctions against Pyongyang, a move that U.S. President Donald Trump supported during a phone call with Ms. Merkel on Monday. "Europe has an important voice in the world and it must use this voice," she said.

U.S. Ambassador to the U.N. Nikki Haley on Monday called for "the strongest possible measures" against North Korea at an emergency meeting of the United Nations Security Council.

Divisions remain on how to respond to North Korea's provocations, with the U.S., France, Germany, the U.K., Japan and South Korea calling for sanctions while China and Russia are emphasizing direct talks.

—Emre Peker in Brussels and Erdem Aydin in Istanbul contributed to this article.



Chancellor Angela Merkel confers with Defense Minister Ursula von der Leyen in parliament.

JOHN MACDOUGALL/AGENCE FRANCE PRESSE/GT/GETTY IMAGES

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Strained relations between Germany and Turkey feature high in the election campaign. Recent arrests of German citizens for what Berlin says are political reasons have angered the German government, which reacted by issuing a travel ad-

WORLD NEWS

Syria Presses ISIS in Remaining Outpost

Race to retake Deir Ezzour pits Damascus and its allies against the U.S.-led coalition

The Syrian army broke Islamic State's three-year siege of the eastern city of Deir Ezzour on Tuesday, state media said, laying the groundwork for a battle to retake the extremist group's most important remaining stronghold and the lucrative oil fields it controls there.

By Maria Abi-Habib
in Beirut and Nour Alakraa in Berlin

The regime overcame fierce resistance by Islamic State to make the significant advance, opposition activists said. Syrian military units moved in from the western side of Deir Ezzour province and linked up with another brigade inside one of two government-held enclaves inside the provincial capital. The second enclave remains besieged.

"Army units, which have been advancing from the west side of [Deir Ezzour] province, have met with the garrison of the 137th Regiment this afternoon, breaking the siege imposed on the city for more than three years," re-



Syrian troops and pro-government fighters stand outside the city of Deir Ezzour, the most important remaining ISIS stronghold.

SANA/ASSOCIATED PRESS

ported the state-controlled Syrian Arab News Agency or SANA.

As Islamic State's hold over Syria dwindles, there is a race to retake Deir Ezzour, pitting the Syrian military and its allies against the U.S.-led coalition and the ground force it backs—the Syrian Democratic

Forces. Whoever assumes control over the province's oil fields will have one of the biggest bargaining chips as Syria's war, in its seventh year, winds down.

The U.S. hopes to both capture Islamic State leaders and intelligence in the province to unravel the extremist group's

networks and glean information about any plans for future attacks in the West.

The advances in Deir Ezzour are a boon to the Damascus regime, which the opposition and its international supporters have accused of failing to battle Islamic State in the past and focusing in-

stead on fighting rebels.

But as the weakened rebels increasingly become nonactors in the conflict, the regime has been thrust into greater confrontation with Islamic State.

The gains bring the Syrian army closer to the key city of Mayadeen in Deir Ezzour

Cambodia Charges Opposition Leader

Associated Press

PHNOM PENH, Cambodia—Cambodia's opposition leader was formally charged with treason for allegedly conspiring with the U.S. to topple the government and he could face up to 30 years in prison if convicted.

Kem Sokha had been expected to lead his Cambodia National Rescue Party in next year's election in a strong challenge against the ruling Cambodian People's Party of Prime Minister Hun Sen, who has held power for three decades. The opposition party has denied the treason allegation, saying the charge is politically motivated.

Kem Sokha's Sunday arrest came as a media crackdown was getting under way. Some radio stations, among the few mass media to carry voices critical of the government, were shut down for alleged regulatory breaches and the English-language Cambodia Daily, also independent of the government, was forced out of business after being presented with a huge but disputed tax bill.

Phnom Penh Municipal Court spokesman Ly Sophana said Tuesday that Mr. Kem Sokha was charged following a thorough investigation, including interrogation and examination of the evidence. The crime is punishable by 15 to 30 years in prison.

A statement issued by the court said Mr. Kem Sokha secretly conspired with a foreign country to carry out an act harmful to the social order, which could cause unrest. It said he had been carrying out his plan since 1993 to topple the government.

Speaking to 4,000 Cambodian garment factory workers on Sunday, Mr. Hun Sen said Mr. Kem Sokha had colluded with the U.S. and warned the opposition party it could be dissolved if it defended him. He provided no proof for his claim.

The government appeared to have based part of its claim against Mr. Kem Sokha on a video clip that showed the opposition leader giving a speech in which he described a grassroots political strategy to challenge Mr. Hun Sen with U.S. support.

The clip, which was released by the government Sunday, was published on YouTube by the Australia-based Cambodia Broadcasting Network in 2013. In it, Mr. Kem Sokha says the U.S. hired university professors and experts in America and Canada "to advise me on [a] strategy to change the leadership" in Cambodia.

Trump's Threat Puts China Trade at Risk

By KATE DAVIDSON

WASHINGTON—President Donald Trump's stern warning that the U.S. may halt trade with countries doing business with North Korea was seen as a direct shot at China, the regime's biggest trading partner.

But China is America's largest single trading partner as well, highlighting how difficult it would be for the Trump administration to follow through on its threat.

North Korea sent 83% of its exports, valued at about \$2.34 billion, to China in 2015, consisting of such items as coal briquettes, according to data compiled by MIT's Observatory of Economic Complexity. Going the other way, China was the source of about 85% of North Korea's imports, such as refined petroleum, synthetic fabric, delivery trucks, soybean oil and broadcasting equipment, the data show.

China's goods-and-services trade with the U.S., meanwhile, totaled nearly \$650 billion in 2016, figures from the U.S. Trade Representative's office show.

China produced more than one-fifth of the total goods the U.S. imports, from cellphones and computers to furniture and footwear.

After Canada and Mexico, China is the U.S.'s third-largest goods-export market, which totaled nearly \$170 billion in 2016. Top American exports to China include planes and helicopters.

Because the trade volume is so heavy, some analysts say



The U.S. wants to punish the regime headed by Kim Jong Un, center, by targeting its trade partners.

KCNA/AGENCE FRANCE PRESSE/GETTY IMAGES

severely restricting trade with China would be nearly impossible to implement without wreaking havoc on the U.S. economy, leading some analysts to dismiss the threat as not credible.

"We think there is little prospect of Trump carrying out his threat to stop all trade with any country doing business with North Korea," given that the U.S. imported \$479 billion of goods and services from China last year," Capital Economics analyst Andrew Kenningham said in a note Monday.

At the same time, Mr. Trump has made trade a focus of his administration, saying the U.S. trade deficits with China and other countries are the result of unfair trade deals that also hurt

American factories and workers.

What exactly could be affected by a move to restrict Chinese trade? In 2015, 63% of the computers the U.S. imported came from China, along with 29% of imported telephones, 49% of furniture imports, 73% of broadcasting equipment, 53% of leather footwear, 79% of mattresses and 39% of knit sweaters, just to name a few categories of goods, according to MIT's OEC project.

In terms of exports, China received 26% of all planes and helicopters the U.S. exported that year, as well as 55% of soybean exports and 18% of auto exports.

If those imports were suddenly cut off or severely restricted, businesses would have to scramble to find alternative

suppliers, and could face higher costs as well. American exporters and multinational corporations—such as farmers, aerospace companies, car makers and Hollywood movie studios—could be shut out of one of the world's biggest markets.

At an emergency meeting of the United Nations Security Council on Monday, U.S. Ambassador to the United Nations Nikki Haley doubled down on the administration's warning that economic consequences were on the table as it weighs how to respond to Pyongyang's escalated nuclear threats.

"We will look at every country that does business with North Korea as a country that is giving aid to their recklessness and dangerous nu-

clear intentions," she said.

China has ramped up its trade with North Korea, which increased 6% last year and now accounts for about 93% of North Korea's overall trade, according to an annual report from the Korean Trade-Investment Promotion Agency.

North Korea's other top trading partners include Russia, Thailand, Philippines, Pakistan and India, which is the U.S.'s ninth-biggest trade partner.

More likely, and more feasible, than cutting off trade with such countries are new unilateral sanctions on firms and individuals in other countries the U.S. determines are helping North Korea's weapons program, Eurasia Group analysts Scott Seaman and Evan Medeiros said in a note on Monday.

"More Chinese firms will be in the crosshairs, especially if Washington perceives Beijing as not responding forcefully enough to North Korea," they wrote, but said the U.S. will still be reluctant to sanction large Chinese banks given the risks of a strong negative reaction from Beijing.

China, in response, could move to reduce its crude oil exports to North Korea for a limited time and support U.S.-led efforts for tighter sanctions on Pyongyang.

Such moves would follow a series of efforts from the Trump administration to increase trade pressure on China, including directing aides to explore the prospect of sanctioning Beijing for the "unfair" acquisition of American intellectual property.

ASIA

Continued from Page One

On Tuesday, North Korea issued a defiant response to the U.S.'s attempts to impose new sanctions for its latest nuclear test, saying it wasn't cowed by the Trump administration's warnings and hinting at an unspecified "counteroffensive."

A statement attributed to a spokesman for North Korea's Ministry of Foreign Affairs said Mr. Trump's warnings last month of "fire and fury" showed that it was the U.S. that was "begging for war"—not North Korea, as U.S. ambassador to the United Nations

Nikki Haley said Monday during an emergency Security Council meeting.

Following a summit of leaders of emerging economies in China on Tuesday, Russian President Vladimir Putin said resolving the tensions over

North Korea will require that all the parties engage in dialogue and warned that continued talk of a military solution could result in a catastrophe. North Koreans, he said, "will eat grass but they will never abandon their nuclear program."

He said that his trip to Seoul, while previously scheduled, was meant to demonstrate to Pyongyang that the U.S. relationship with South Korea "will not be shaken."

Prominent members of

three major South Korean opposition parties, and some fringe politicians in Japan, have called for their respective countries to consider developing their own nuclear weapons—for years, a taboo idea—amid questions about whether the U.S. would be willing to protect Seoul or Tokyo as North Korea hones its ability to threaten the U.S. homeland.

Those concerns, Adm. Swift said Tuesday, were unfounded. While acknowledging an array of voices in South Korea and Japan, he said that the U.S. military was working more closely than ever before with its South Korean and Japanese counterparts.

"It's very difficult to understand exactly what Kim Jong Un is trying to achieve, but if he's trying to separate the alliances and the allegiances that we have in the region, from where I sit, it's having the opposite effect," Adm. Swift said. "From a military-to-military perspective, I don't see any change in the personal and professional relationship."

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Prominent members of

the South Korean Defense Minister Song Young-moo said Monday the redeployment of U.S. tactical nuclear weapons was one of several possible responses to North Korea's nuclear threats, though it wasn't the policy of the Moon administration.

Since North Korea's nuclear test on Sunday, an increasing number of South Korean opposition lawmakers have called on the Seoul government to reintroduce U.S. tactical nuclear weapons that were withdrawn from the peninsula in 1991.

Asked about Mr. Trump's apparent criticism of his South Korean counterpart, Adm. Swift said he had no insights into the policy conversations in Washington, but said that there was "complete lockstep" between the two countries' militaries.

Defense Minister Song

Young-moo said Monday the redeployment of U.S. tactical nuclear weapons was one of several possible responses to North Korea's nuclear threats, though it wasn't the policy of the Moon administration.

On Tuesday, South Korean Foreign Minister Kang Kyung-wha told lawmakers during a hearing: "The government has never considered this."

Adm. Swift said the U.S. was open to sending more strategic assets to the Korean Peninsula, including the deployment of aircraft carriers,

though he said that U.S. naval forces could project power no matter where they were in the region.

He also said that the U.S. government would continue to consult with the South Korean government before taking any military action. "There is no daylight" between the two sides, Adm. Swift said.

Last month, Mr. Moon said in a speech that the U.S. would need Seoul's consent for any military action on the Korean Peninsula.

—Kwanwoo Jun and Eva Dou contributed.

YONHAP NEWS/NEWS.COM/ZUMA PRESS

WORLD NEWS



ANDREW MEDICHINI/ASSOCIATED PRESS

Black crosses adorned with Venezuelan flags and the names of those killed in antigovernment protests are held in St. Peter's Square. Bottom, Mr. Maduro holds a cross given to him by Pope Francis.

Venezuela Looms as Pope Visits Region

Bishops, activists urge Pope Francis to chastise Maduro when he visits Colombia

Heilyn Rojas, a 21-year-old Venezuelan student, left her country last year, tired of the crime and food shortages back home. She fled to neighboring Colombia in search of a better life.

By Anatoly Kurmanov
in Caracas, Venezuela,
and Francis X. Rocca
in Vatican City

Now, on the eve of Pope Francis' five-day visit to Colombia, she stands among many Venezuelans, including bishops and opposition leaders, who hope the pontiff will chastise Venezuelan President Nicolás Maduro for his role in the nation's economic collapse and its deep political strife.

Vatican intervention in international political conflicts is rare. Pope John Paul II, who was Polish, was credited with helping to mobilize Poland's Solidarity movement and give momentum to the fall of communism in Central and Eastern Europe.

Pope Francis, an Argentine

well, instead of dying of hunger," Ms. Rojas said.

Venezuela—whose economy has shrunk by a third since 2013, sparking a humanitarian crisis—looms large as Pope Francis arrives on Wednesday in neighboring Colombia, where tens of thousands of Venezuelan migrants have fled.

Top Venezuelan bishops plan to greet the pope in Colombia, hoping to convey in person the gravity of the country's situation.

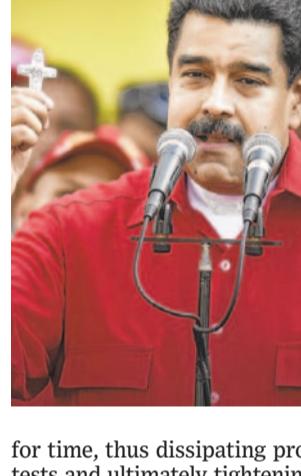
In a letter published last week, the leader of Venezuela's opposition-controlled congress urged the pope to demand that Mr. Maduro allow humanitarian aid, release political prisoners and respect human rights. "Every day that passes costs another life," wrote Speaker Julio Borges. "We can't wait."

Many Venezuelans are angry over the Vatican's failed attempt to broker a truce between the opposition and Mr. Maduro's envoys during talks late last year. The talks broke down after his government failed to implement its promises. Just over half of Venezuelans believe the church is working to solve the country's problems, down from 62% before the talks, according to a June poll from Caracas-based Consultores 21.

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But a Vatican spokesman played down the likelihood that the pope would speak publicly about Venezuela during his trip to Colombia. That trip is likely to emphasize reconciliation and human rights after that country's recently ended civil war.

The opposition and some clergy blamed the Vatican for allowing Mr. Maduro to stall



CARLOS BECERRA/BLOOMBERG NEWS

for time, thus dissipating protests and ultimately tightening his grip on the country.

"The Vatican's diplomacy sinned with naivety. They came unprepared," said the Rev. Francisco Virtuoso, rector of Caracas's Andrés Bello Catholic University and a prominent critic of Mr. Maduro's government. "The government exploited this to the full."

A senior Vatican official told The Wall Street Journal that the Vatican had been aware of

the risks involved in the negotiations, but believed the deepening strife in Venezuela justified its attempt to help.

"It was the government that broke [the rules], not the Vatican," Cardinal Jorge Urosa of Caracas, who has taken a lead role in the standoff, told the Journal.

Since then, Venezuela's Catholic hierarchy, one of the country's few remaining independent institutions, has stepped up its public criticism of Mr. Maduro, calling on his government to restore an independent legislature and halt the killing and imprisonment of protesters and opposition leaders.

The bishops denounced a July vote—widely condemned as rigged—to approve a new, handpicked assembly that is sidelining the opposition-controlled legislature and plans to grant Mr. Maduro greater powers. During the vote, the bishops' conference tweeted a prayer to the Virgin Mary to "free our country from the clutches of communism and socialism."

Mr. Maduro accuses the lo-

cal church hierarchy of joining the political opposition to topple his government and claims the pope supports him, disagreeing with critics including Vatican Secretary of State Cardinal Pietro Parolin.

Critics have suggested the pope, who has appeared publicly with some of Mr. Maduro's left-wing allies such as Bolivian President Evo Morales and shares some of their political views, might be holding back out of ideological sympathy.

"I'm a Catholic, but I think that seeing the pope doing these sorts of things pushes me away from the church," said Rocksaneth Aguilar, a Venezuelan advertising agent who moved to Colombia last year. "The pope is a communist at heart who doesn't want to get involved in Venezuela."

A Vatican spokesman declined to comment on why the pope hasn't openly criticized Mr. Maduro.

—Lorena Bornacelli in San Cristobál and Mariana Martínez in Caracas contributed to this article.

Irma Threatens The Caribbean

BY ARIAN CAMPO-FLORES

Hurricane Irma grew into a Category 5 storm as it churned through the Caribbean, taking aim at the northern Leeward Islands and potentially the continental U.S. by the weekend.

The National Hurricane Center called Irma, whose maximum sustained winds increased to 180 miles an hour, "potentially catastrophic." Irma is the strongest hurricane ever recorded in the Atlantic basin outside the Caribbean Sea and the Gulf of Mexico, the hurricane center said.

The storm's center was about 225 miles east of Antigua and on track to pass over or near a string of islands, including St. Kitts and Nevis, by Tuesday night or Wednesday morning.

A hurricane warning covered an area stretching from the island of Montserrat to the U.S. territory of Puerto Rico. Forecasters said Irma is expected to remain a powerful Category 4 or 5 hurricane during the next few days.

Puerto Rico Gov. Ricardo Rosselló declared a state of emergency and activated the National Guard on Monday.

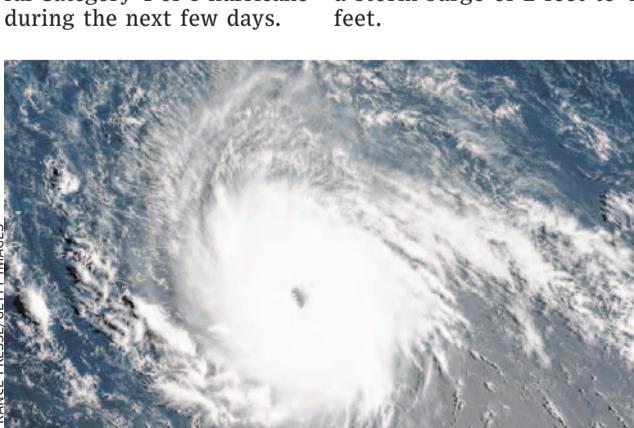
In Florida, which faces the possibility of a direct strike from the storm, Gov. Rick Scott on Monday declared a state of emergency in all of the state's 67 counties.

"Hurricane Irma is a major and life-threatening storm," he said in a news release. "I urge all Floridians to remain vigilant."

Across the northern Leeward Islands, the U.S. and British Virgin Islands and Puerto Rico, Irma is expected to dump 8 inches to 12 inches, with isolated instances of 18 inches, according to the National Hurricane Center. The rainfall could trigger life-threatening flash floods and mudslides.

The northern Leeward Islands face a potential storm surge of 7 feet to 11 feet, as well as large, destructive waves, forecasters said.

The northern coast of Puerto Rico could experience a storm surge of 2 feet to 4 feet.



A satellite image shows Hurricane Irma on Tuesday.

MYANMAR

U.N. Says 123,000 Rohingya Have Fled

A massive influx of Rohingya refugees fleeing recent violence in Myanmar has pushed aid services in Bangladesh to the brink, with established camps already beyond capacity, aid workers said.

The U.N. refugee agency said 123,000 refugees have fled western Myanmar since Aug. 25.

The agency is pleading for assistance, saying it needs more land so it can set up new camps to accommodate refugees arriving hungry, traumatized and in need of medical assistance.

A Rohingya Muslim whom the Associated Press reached by telephone said she and thousands of fellow villagers driven from their homes by the violence in Myanmar are stuck along the coast, hoping to flee to Bangladesh by boat.

The military has said nearly 400 people, most of them insurgents, have died in clashes. Security forces responded to the attacks with days of "clearance operations" the government says were aimed at rooting out insurgents it accuses of setting fire to Rohingya villages.

—Associated Press

EUROPE

Eurozone Growth Seen Easing Slightly

The eurozone economy appears to be slowing slightly, although it remains on course for its strongest year since 2010, business surveys indicate.

The currency area has been one of the positive surprises for the global economy this year, as it outpaced the U.S. in the first quarter and accelerated further in the three months to June.

However, an early indicator of activity points to a modest easing of growth in the third quarter, which ends this month.

WORLD WATCH



A Rohingya child is carried through rice fields after his family crossed the border into Bangladesh.

Data firm IHS Markit on Tuesday said its composite purchasing managers index for the eurozone was unchanged at 55.7 in August. That was below the preliminary estimate of 55.8, and the average reading for the second quarter. A reading above 50 signals an increase in activity, while a reading below signals a decline.

Figures on retail sales for July released Tuesday by the European Union's statistics office also point to a moderation of growth. Sales were down 0.3% from June, having risen in each month since the start of the year.

—Paul Hannon

GUATEMALA

Another Top Court Rules Against Morales

Guatemala's Supreme Court approved a petition from the attorney general's office to strip immunity from President Jimmy Morales, bringing the leader one step closer to a potential trial for

alleged election finance violations.

The motion from prosecutors will now go to the country's Congress, where it requires a two-thirds vote to allow the president to be prosecuted. Congress must vote on installing a commission to begin investigating the charges by early next week.

The court's 11-2 vote also approved stripping the immunity of officials from the country's two leading political parties, who also stand accused of illicit campaign funding.

Mr. Morales and the other accused politicians say they are innocent.

"I have always defended the rule of law, judicial norms and the independence of powers," Mr. Morales said in a statement after Monday's ruling.

The ruling marks the latest chapter in a gathering political crisis fueled by investigations of Mr. Morales's campaign and fraud charges against members of his family. Guatemalan prosecutors are conducting the probes with the aid of the International Commission Against Impunity in Guatema-

temala, or Cicig.

Created a decade ago by agreement between the United Nations and Guatemala's government, the Cicig supports local prosecutors' investigation of the country's endemic corruption and organized crime networks. It has jailed numerous top politicians and enjoys broad support within Guatemala.

In recent weeks, Mr. Morales tried to have the head of the Cicig, Colombian prosecutor Iván Velásquez, kicked out of the country, sparking an outcry. The move came only days after the Cicig and Guatemala's attorney general, Thelma Aldana, submitted the petition to the Supreme Court to have Mr. Morales's immunity stripped.

Mr. Morales's attempt to kick out Mr. Velásquez caused an international outcry. The U.S. government, the U.N., and several human-rights groups all came out in support of the Colombian prosecutor. A Guatemalan court, the constitutional court, reversed Mr. Morales's order.

—Dudley Althaus

U.S. NEWS

President Rescinds ‘Dreamers’ Program

Trump orders end of protections for young immigrants; Congress ‘do your job,’ he tweets

By LAURA MECKLER

WASHINGTON—President Donald Trump's administration said Tuesday it was ending a five-year-old program that protects undocumented immigrants who entered the U.S. as children from deportation and gave Congress until March 5 to pass legislation to replace it.

Attorney General Jeff Sessions announced the policy shift, reiterating his long-held belief that former President Barack Obama, a Democrat, had overstepped his executive authority in creating the Deferred Action for Childhood Arrivals program in the first place.

The policy was implemented unilaterally to great controversy and legal concern after Congress rejected legis-

lative proposals to extend similar benefits,” Mr. Sessions said. “In other words, the executive branch, through DACA, deliberately sought to achieve what the legislative branch specifically refused to authorize.”

Permits given under the program are good for two years, and the protections will remain in force until they expire, officials said. Current participants whose permits expire before March 5, 2018, will be able to renew their status if they file applications by Oct. 5.

But if Congress fails to act before then, people, called Dreamers, who are now in the program will begin to see their permits expire beginning in March, meaning they will no longer be able to legally work and they will be eligible for deportation. Officials said no new applications filed after Tuesday would be processed.

Mr. Trump, a Republican, signaled that he hopes Congress will replace the program, which was created by



A man, left, applying for DACA employment renewal in California.

Department of Homeland Security, which administers the program, also pointed to Mr. Sessions' conclusion that the program was unconstitutional.

In a letter to DHS Acting Secretary Elaine Duke sent Monday, Mr. Sessions argued that the program had been created without proper authority and after “Congress’ repeated rejection of proposed legislation that would have accomplished a similar result.”

“Such an open-ended circumvention of immigration laws was an unconstitutional exercise of authority by the executive branch,” he wrote.

Mr. Trump’s decision represented a victory for conservatives who have long argued against the program, both because they saw it as an overreach of executive authority and because it offers what they consider amnesty to illegal immigrants.

Mr. Sessions and his allies were unable to persuade Mr. Trump to kill the program at the outset of his term, and Mr.

Trump’s administration has approved tens of thousands of new applications and renewals since taking office.

Rather, its demise came in response to the threat of litigation by 10 conservative states, led by Texas Attorney General Ken Paxton.

Mr. Paxton, a Republican, warned in June that if Mr. Trump didn’t kill the program on his own by Tuesday, the states would take the matter to court. Specifically, they said they would seek to amend a lawsuit filed in 2014 that successfully challenged Mr. Obama’s effort to expand the program to cover parents of U.S. citizens and others.

Many legal experts, including some who support the program, predicted that a conservative judge would agree with the states that the program was unconstitutional.

In announcing the program’s end, officials said they preferred to have it “wind down” in an “orderly fashion,” rather than have it struck down by the courts.

Canceled Deal for FBI Headquarters Stirs Confusion

By ALEX CORSE

The sudden July decision to cancel a multimillion-dollar search for a new Federal Bureau of Investigation headquarters has baffled lawmakers and raised doubts among developers about seeking government business.

The FBI has sought for more than a decade to move from the old J. Edgar Hoover Building and build a new, more secure headquarters in the Washington suburbs. Officials seemed poised to pick a developer when the General Services Administration, which oversees federal real estate, said in July that it decided in consultation with the FBI to cancel the search.

The GSA said it pulled the plug because of a shortfall in funds Congress had appropriated for the project, but others who followed the project have raised doubts. “I personally don’t think we know the real reason why they terminated that contract because the explanations don’t really add up,” Maryland Democratic Sen. Ben Cardin said in an interview.

The GSA and the FBI had requested \$1.4 billion in funds for the project in the 2017 budget, said Michael Gelber last month, then acting commissioner of GSA’s Public Buildings Service. Congress set aside \$523 million in May, leaving a shortfall of \$882 million, Mr. Gelber said at a hearing by the Senate Committee on Environment and Public Works on Aug. 2. Mr. Cardin, whose state was a potential home to the new FBI headquarters, said at the Senate hearing that a congressional appropriations committee had pledged to address the funding



The FBI has sought for years to move from the J. Edgar Hoover Building, above, to a new location in the Washington suburbs.

shortfall in coming years.

A GSA spokesman said in a statement that “moving forward with this procurement absent full funding puts the Government at risk for cost escalations and further devaluation of the J. Edgar Hoover Building.” The FBI and GSA jointly decided to cancel the project, Richard Haley, assistant director of the FBI’s Finance Division, said at the Senate hearing.

The GSA had proposed to pay for the new headquarters in part by swapping the Hoover building with a contractor chosen for the job. The contractor would redevelop the prized site on Washington’s

Pennsylvania Avenue after building a new FBI campus in suburban Washington.

Several teams of developers—which included such large developers as Silverstein Properties, Vornado Realty Trust and Lerner Enterprises—had spent millions of dollars preparing bids, estimated people familiar with the project.

The cancellation of one of the biggest government projects in recent years has left some warning about long-term damage. “It probably makes people think twice before bidding on another large, complicated project,” said Garth Beall, manager at Renard Development, which had secured

the right to acquire and develop a potential site for the project. Mr. Beall said the firm had spent over \$5 million and approximately seven years trying to attract the FBI to Greenbelt, Md.

President Donald Trump has ties to some New York developers involved in the search. The president named Steven Roth, chairman and chief executive of Vornado, to the recently disbanded President’s Advisory Council on Infrastructure. The Trump Organization holds 30% stakes in two office buildings controlled by Vornado: at 1290 Sixth Avenue in Manhattan and 555 California Street in San Francisco.

Mr. Trump has known Larry Silverstein, chairman of Silverstein Properties, for years.

“I think developers will remain interested, but they’re certainly going to be more suspicious knowing what happened in the past,” said Sen. Cardin. His state of Maryland is home to two of the three proposed sites for the new, approximately 11,000-employee headquarters, in Greenbelt and Landover. The third option was in Springfield, in suburban Virginia.

For now, the GSA is working with the FBI to meet the bureau’s short-term needs for leased spaces around Washington and to evaluate other

options to procure a new headquarters, Mr. Gelber said at the recent Senate hearing. Sen. John Barrasso (R., Wyo.), said the Senate Committee on Environment and Public Works, which he heads, would likely hold another hearing before the end of the year.

The GSA has spent approximately \$20 million on the project, Mr. Gelber said.

Because the FBI’s current headquarters isn’t big enough to house all employees, the GSA currently uses costly short-term leases for some FBI headquarters employees, scattered in about a dozen Washington-area locations. The government could save tens of millions in annual lease payments by moving the FBI to a larger headquarters, Mr. Haley said at the Senate hearing.

Meantime, the headquarters building is in such bad condition that netting hangs along the facade so that falling concrete chunks don’t hit passersby on the sidewalk.

One former federal official who worked on the project said the administration may have decided that scrapping the existing plan could be a way to buy time as the new Trump administration takes stock of its responsibilities at the GSA.

But local officials involved in the process say they remain unclear what happened—and what happens now. Jeff McKay, supervisor of Fairfax County, where the Virginia site is located, said: “I have no explanation for why, out of nowhere, you just pull the plug.” He added, “I think it damages GSA’s future ability to work with the private sector.”

—Ted Mann contributed to this article.

TRUMP

Continued from Page One
controlling both chambers and the White House for the first time since 2007.

Both House and Senate Republicans said Mr. Trump’s attacks on his own party won’t help them quickly pass high-stakes bills that already face little room for error.

“It’s a little unhealthy, quite honestly,” Rep. Kevin Cramer (R., N.D.), a longtime Trump supporter, said, pointing out the party’s slim 52-48 majority in the Senate. He particularly questioned Mr. Trump’s attacks on Republican Sens. Jeff Flake and John McCain at an August rally in Phoenix.

“You have a small margin, and punching two of them in the nose in their home state makes it pretty difficult” to pass a Republican agenda in the Senate, Mr. Cramer said.

Among the pressing issues are funding for the children’s health insurance and a federal flood insurance program, which both expire Sept. 30.

Looking ahead, the president is expected to give Congress a six-month deadline to pass legislation to replace a program that shields from deportation immigrants brought to the U.S. as children. And

Mr. Trump’s top advisers have promised to deliver a bill overhauling the tax code by mid-November, said a person familiar with the discussion.

Many lawmakers expect at least some of the Harvey aid to be added to a measure raising the debt limit, which is a difficult vote for many Republican lawmakers. While hurricane aid is broadly supported, some influential conservatives have raised concerns about pairing it with the debt limit.

“Our obligation is to assist those impacted by this great flood, but it’s past time the swamp waters in DC begin receding as well,” Rep. Mark Walker (R., N.C.), chairman of the Republican Study Committee, a group of more than 150 House Republicans, said at a statement Monday.

Democrats have said they want to find a bipartisan path on both issues.

“Providing aid in the wake of Harvey and raising the debt ceiling are both important issues and Democrats want to work to do both,” Senate Minority Leader Chuck Schumer (D., N.Y.) and House Minority Leader Nancy Pelosi (D., Calif.) said in a joint statement.

The relationship between the White House and congressional Republicans began to fray before the August recess, as the Senate struggled to

Lawmaker Picked To Lead NASA

Republican Rep. Jim Bridenstine, named as President Donald Trump’s choice to head the National Aeronautics and Space Administration, faces tough policy, personnel and political challenges repositioning the agency in an era of booming commercial space ventures.

The decision Friday to nominate the former Navy aviator and three-term Oklahoma lawmaker, a move that had been expected, comes amid lingering uncertainties surrounding the White House’s broad space goals. A space-policy council, headed by Vice President Mike Pence, is just getting organized to provide direction for the Pentagon, NASA and other agencies.

Mr. Bridenstine, a strong supporter of private space endeavors such as minerals mining on the moon, has encouraged use of the council to



SUE OGROCKI/ASSOCIATED PRESS

better coordinate military and civilian space programs. But the result, according to industry officials and former NASA managers, could restrict his options in running the agency.

Mr. Bridenstine has supported greater emphasis on tracking orbital debris as various companies contemplate launching unprecedented numbers of low-earth-orbit satellites. He also has advocated the importance of using NASA missions to the moon as steppingstones to developing a host of technologies required for deep-space probes.

—Andy Pasztor

with their discussions.

As it became clear Mr. McConnell couldn’t summon enough Republican votes to repeal the Affordable Care Act, the Senate majority leader stopped responding to the president’s chitchat, the people familiar said.

“Mitch?” the president said when Mr. McConnell fell silent in one call. “Are you there?”

Mr. McConnell waited a beat, then responded. “Yes, Mr. President. Back to the ball,” according to those familiar with the talks.

The repeal measure failed by one vote, raising the stakes on the performance of lawmakers who return this month to significant fiscal matters.

“If they don’t get something done that is substantial,” former Sen. Judd Gregg said of fellow Republicans, “they are going to have a horrific experience in the next election.”

Many Republicans who faced constituents during the August recess found many who sided with Mr. Trump and faulted party leaders for keeping the president from enacting his agenda.

While Mr. Trump’s attacks on lawmakers may have resonated with some voters, they are unlikely to help lawmakers deliver results, especially in the Senate, current and former Republican officials said.

“I do not think this strategy will further his ability to build the legislative consensus he needs to address major issues like tax reform and infrastructure,” said former Sen. Kelly Ayotte (R., N.H.). “When it comes to counting individual votes, it would be better for the president to work cooperatively with them and the members of his party.”

The most significant bill written and passed by Congress this year imposed sanctions on Russia—despite concerns raised by the White House.

Some lawmakers worry about diminished prospects for their re-election if the much sought-after tax overhaul meets the same fate as the failed health-care bill.

“If we can’t even do that, then nothing will get done before 2018,” said Rep. Tom Rooney (R., Fla.).

The U.S. Chamber of Commerce, the business lobby group, is already preparing an ad campaign aimed at pressuring mostly House Republicans to move on a tax rewrite.

Mr. Trump’s tactics could have an impact, said former Rep. Mickey Edwards (R., Okla.), if the president’s supporters pressure Republicans to support his agenda.

—Janet Hook contributed to this article.

U.S. NEWS



Interior Secretary Ryan Zinke, shown in Utah in May, has angered proponents of conservation, who have called him a tool of industry.

Trump's Man in the West

BY JIM CARLTON

ASHLAND, Ore.—On a dirt road high on a mountain near here, the interior secretary unfolded his 6-foot-2-inch frame out of a black Suburban one morning recently and started shaking hands with a group of ranchers in cowboy hats.

"The president has made it clear—I work for you," Ryan Zinke told the ranchers, who had gathered to tell him their grazing operations would be hurt by a recent expansion of Cascade-Siskiyou National Monument.

The appearance by a top federal official was well-received. "No one has come out here before," said rancher Jeremy Kennedy. "We finally have a voice."

Mr. Zinke's July 15 visit was part of a fact-finding trip the secretary has undertaken since President Donald Trump directed him in May to review 22 land monuments and five ocean preserves—most created or expanded under Presidents Bill Clinton and Barack Obama—for possible downsizing or elimination.

On Aug. 24, Mr. Zinke sent the president his recommendations in a report that hasn't yet been made public. Mr. Zinke suggested several monu-

ments would face potential downsizing, after saying in a statement that he would "provide a much-needed change for the local communities who border and rely on these lands for hunting and fishing, economic development, traditional uses, and recreation."

Mr. Zinke, 54 years old, a former Navy SEAL commander who joined the Trump cabinet after serving as a GOP congressman from Montana, said he wants to tip the balance of who gets heard on land-use decisions more in favor of rural people whose jobs often are affected by the decisions.

"The president directed me to give America a voice, [and] a lot of the anger has been that they haven't had a voice," the secretary said in an interview.

But Mr. Zinke has infuriated environmentalists and other proponents of more conservation, who call him a tool of industry. They say his other actions to expand drilling on public lands and in offshore waters from Alaska to the Gulf of Mexico are payback to backers of his congressional campaign, which have included oil and gas companies. They also accuse him of stacking the Interior Department with industry executives and lobbyists.

"If you look at the decisions

he has made, they have been for single use," said Chris Saeger, executive director of the Western Values Project, a conservation group based in Mr. Zinke's hometown of Whitefish, Mont. "He is opening more land for oil and gas development."

The secretary said his goal is to manage public lands under the principle of multiple uses including industry, as he said was put forth by Gifford

The secretary said his goal is to manage public lands under multiple uses.

Pinchot, who was appointed the first chief of the U.S. Forest Service in 1905. Mr. Zinke said his meetings with ranchers, loggers and others who make their living off the land are intended to include a group he says has been ignored by federal policy makers in recent decades.

He added that he meets with all sides on various issues, including environmentalists. "Everyone we meet, there's more in common than

differences," he said.

At 112,000 acres, the Cascade-Siskiyou National Monument is far smaller than some others, but no less divisive, as Mr. Zinke found on his visit here in late July. Mr. Clinton designated 52,000 acres as a national monument in 2000. An additional 13,000 acres were added in recent years through private land acquisitions.

In the week before he left office, Mr. Obama added 47,000 acres to the refuge—extending it into part of Northern California—after environmentalists lobbied for wider protection in an area they say is vulnerable to impacts from climate change, among other things.

Loggers and ranchers cried foul, saying the expanded monument would limit their operations. Before meeting with anyone, the interior secretary opted to do what he often does—explore on foot.

Along the way, he greeted hikers by saying "Hi, I'm Ryan" and offering his hand. Exchanges were mostly amiable, except this one: "I know your boss is not a fan of the environment, or a fan of the planet," Dan Roper, a 34-year-old local environmental activist, said to Mr. Zinke at the end of the trail. Mr. Zinke shot back, "Who said that?"

Regulators then have until Sept. 20 to complete their reviews and approve rates. Insurers are due to sign final federal contracts to offer plans by Sept. 27.

Some insurers said they are moving forward with plans to participate in the 2018 marketplaces but holding off on final decisions until the late-September cutoff.

"We're keeping our options open," said David Holmberg, chief executive of Highmark Health, which sells exchange coverage in Pennsylvania,

Canada Is Taking Tough Nafta Line

MEXICO CITY—The latest challenge to renegotiating the North American Free Trade Agreement is coming from an unexpected direction: Canada.

By William Mauldin, Paul Vieira and Dudley Althaus

For months, President Donald Trump has pointed the finger at Mexico as the source of U.S. trade deficits in North America, and U.S. officials are pushing for new provisions in the 23-year-old trade pact that would make it harder for Mexican manufacturers to send goods to the U.S. duty free.

But in the second round of talks for overhauling Nafta, running through Tuesday in Mexico City, it is Canada that appears to be giving the U.S. the most difficulty at the negotiating table, according to people familiar with the negotiations.

The soft-spoken neighbor to the north has avoided sling-ing rhetorical barbs or political warnings at its partners, in contrast to the tweets of Mr. Trump or public comments of President Enrique Peña Nieto of Mexico.

But Ottawa has introduced new provisions on labor and the environment that may struggle to gain traction in Washington, and the Canadian negotiators have balked at supporting some less-controversial language that they agreed to in Trans-Pacific Partnership, the unratified 12-nation trade deal that Mr. Trump exited in January, the people say.

Canada's tough stance is seen partly as a defensive strategy to notch some wins in case it needs to agree to tough

requests made by the Trump administration in Nafta, including removing a dispute-resolution system that allows one Nafta country to challenge another's tariffs. The country is also in parallel talks with the U.S. on softwood lumber, and officials in Ottawa are eager to defend their system for supporting dairy farmers, criticized by U.S. lawmakers from dairy states.

"We are just defending our interests," Canada's chief negotiator, Steve Verheul, said at the talks late Sunday.

But the country's approach may prove difficult for the U.S. and Mexico, which are seeking to wrap up talks as early as December or January, ahead of election seasons that have a potential to sour trade talks among the three countries.

Besides Canada, Mexico is also sending a tough political message: It won't accept U.S. trade proposals or government policy that hurts the country's interests. "I've said it and I will reiterate it: We won't accept anything that affects our dignity as a country," Mr. Peña Nieto said on Saturday.

Mexican Foreign Minister Luis Videgaray said last week he will halt negotiations if Mr. Trump starts the process of pulling out of Nafta. Mexican officials have also said privately that they won't discuss proposals that include tariffs or quotas as well as anything that restricts trade above and beyond the rules both countries already face in the World Trade Organization.

"No Nafta is better than a bad Nafta," one person close to the Mexican government said.



AARON P. BERNSTEIN/REUTERS

Deadline Looms for Health Insurers to File Rates

BY ANNA WILDE MATHEWS

A deadline for insurers to file 2018 prices for health insurance sold through Affordable Care Act exchanges arrived Tuesday, but state regulators were still struggling to make decisions about pricing and coverage amid uncertainty in federal health policy.

The upshot is confusion in what is typically an orderly, regimented regulatory process for reviewing insurance offerings that will go on sale to consumers on Nov. 1.

States are taking different approaches, based on their best guesses about what Congress and President Donald Trump's administration might do regarding the health-law marketplaces, though several state regulators said in inter-

views that they are leaning toward approving hefty rate increases.

According to actuarial firm Milliman Inc., at least 32

states requesting different premiums for various scenarios

states have requested that insurers prepare alternative premiums for different scenarios.

Most of those states are still holding off on a final decision on which rates to choose.

"The uncertainty makes it very difficult to navigate, and it's not going away," said Eric

A. Cioppa, superintendent of the Maine Bureau of Insurance.

Insurer Anthem Inc. has said it would stop offering exchange plans under Obamacare, as the law is known, in Maine next year if the federal government stops payments known as cost-sharing reduction subsidies.

Those payments, which Mr. Trump, a Republican, has threatened to halt, reimburse insurers for money they advance to reduce health-care costs for low-income ACA enrollees.

A White House spokesman said the president "is working with his staff and his cabinet to consider the issues raised by these payments."

Anthem, which already has announced retreats from several exchanges, declined to

comment.

After federal officials pushed back an earlier deadline, insurers are supposed to submit their rate filings for 2018 exchange plans to state and federal regulators by Tuesday.

Regulators then have until Sept. 20 to complete their reviews and approve rates. Insurers are due to sign final federal contracts to offer plans by Sept. 27.

Some insurers said they are moving forward with plans to participate in the 2018 marketplaces but holding off on final decisions until the late-September cutoff.

"We're keeping our options open," said David Holmberg, chief executive of Highmark Health, which sells exchange coverage in Pennsylvania,

West Virginia and Delaware. "There has to be a clear set of rules for 2018 for us to participate."

Other big insurers, including Molina Healthcare Inc., have said they are still considering leaving more exchanges. Health Care Service Corp., a major exchange insurer, said in a statement it has filed proposed rates in all of the states it is serving that account for the uncertainty around the cost-sharing payments, but it "will make final decisions in late September" about the scope of its offerings.

A Senate committee is set to begin hearings Wednesday on legislation intended to stabilize the exchanges created under the 2010 law, which will be tough to pass in time to affect the 2018 marketplaces.

Any bill is likely to include funding for cost-sharing payments.

The Congressional Budget Office estimates that if the payments end, insurers would decline to offer exchange plans in regions representing about 5% of the U.S. population next year and would raise premiums on average about 20% on the middle-tier "silver" plans. The cost-sharing subsidies are tied to silver plans.

Maryland's insurance commissioner, Al Redmer Jr., recently approved steep rate increases.

But the rates didn't include an extra bump for the potential loss of the federal cost-sharing payments, Mr. Redmer said. "The law is the law, and we have to assume it won't change," he said.

U.S. WATCH

TEXAS

FEMA Backs Loans To Help After Storm

Texas cities are getting some help to focus on reconstruction after Hurricane Harvey, subsequently downgraded to a tropical storm, brought floods and damaged homes across the region.

The Federal Emergency Management Agency approved loans to help keep struggling cities operating after the storms.

Texas Gov. Greg Abbott announced the approval on Twitter, saying the loans are critical to providing services in some communities. It is an early step in a cleanup effort that is beginning with people leaving emergency shelters.

More than 50,000 people are in government-paid hotels.

FEMA officials also are weighing

other options, like mobile homes.

The storm is blamed for at least 60 deaths in 11 counties. Harris County, which is home to Houston and saw the worst flooding during the storm, reported 30 confirmed deaths as of Monday evening.

—Associated Press

ECONOMY

Aircraft-Order Drop Weighs on Factories

Orders at U.S. factories declined sharply in July, driven by a drop in aircraft orders.

Orders for manufactured goods fell 3.3% to a seasonally adjusted \$466.4 billion in July, marking the steepest drop since August 2014, the Commerce Department said Tuesday.

Economists surveyed by The

Wall Street Journal predicted orders would fall 3.2%. Orders in June were revised to a 3.2% increase from an initial estimate of a 3% increase. Excluding transportation, orders were up 0.5% and have increased for two consecutive months. Excluding defense, another volatile category, orders fell 3.7%. Orders for nondurable goods, which include products like fuel and drugs, increased 0.4% to \$237.4 billion.

—Sarah Chaney

WESTERN WILDFIRES

Weather a Hindrance As Parks Threatened

Firefighters across the West struggled with wind-driven flames, heat and dry conditions as wildfires bore down on two popular national parks.

The dozens of fires burning across the Western U.S. and Canada have blanketed the air with choking smoke from Oregon, where ash fell on the town of Cascade Locks, to Colorado, where health officials issued an air-quality advisory.

A 14-square-mile fire in Montana's Glacier National Park emptied its busiest tourist spot as wind gusts drove the flames

toward the doorstep of an iconic lodge. Lake McDonald Lodge, a 103-year-old hotel, sits on a lake as the famed Going-to-the-Sun-Road begins its climb up the Continental Divide. Fire crews got bad news Monday: The wind had shifted and gusts were driving the fire down the mountain-side toward the lake's shores.

Outside California's Yosemite National Park, a wind-fueled fire made its way deeper into a grove of 2,700-year-old giant sequoia trees. Officials said the fire had gone through about half the grove but hadn't killed any trees.

Elsewhere in Northern California, a fire destroyed 72 homes and forced the evacuation of about 2,000 people from their houses. The fire has burned 14 square miles in the community of Helena about 150 miles south of the Oregon line.

—Associated Press



A pedestrian in Missoula, Mont., fending off wildfire smoke.

creased for two consecutive months. Excluding defense, another volatile category, orders fell 3.7%.

Orders for nondurable goods, which include products like fuel

U.S. OPEN

Sharapova Rethinks Her Exit Strategy

BY TOM PERROTTA

In 2016, before the results of a drug test banned her from tennis, Maria Sharapova thought about the end of her career. She would play until the U.S. Open of 2017 and then walk away at age 30, her playing days complete no matter the results on court.

These days retirement isn't in her mind. After a 15-month suspension she's competing again and, at the U.S. Open, played better than anyone expected. Her loss on Sunday put her out of the tournament after four rounds, but leaves her hopeful for the immediate future.

"It's been a really great ride in the last week," Sharapova said.

Next for Sharapova: She's going to promote her autobiography in various spots next week, including New York, Cleveland and Los Angeles. The book reveals that Sharapova had planned to retire from tennis as soon as this year. Now, though, she plans on going as long as possible. The book cites her 15-month suspension as a big part of the reason.

Sharapova, who tested positive for meldonium, a cardiac supplement, said Sunday that her time away from the game changed her view.

"When I was in my middle 20s, I didn't think that my body would be ready to compete at such a level," she said. "And I just got a completely new appreciation of what the body can do at 30 years old, or past 30 years old."

Sharapova's representative team claims she has lost little, in terms of income, with her sponsorships. One watch company, Tag Heuer, declined to renew its deal when it ended. Most sponsors—including Nike, Evian and Porsche—have kept their contracts with her.

As for her support, in tennis there's a mixture between those who have no complaints, and others who are still cynical about her suspension. Caroline Wozniacki, a former No. 1, lashed out about Sharapova's treatment at the Open considering she wasn't ranked high enough for direct entry into the main draw.

"Someone who comes back from a drugs sentence and, you know, performance-enhancing drugs, and all of a sudden gets to play every single match on center court, I believe is a questionable thing to do," Wozniacki said. "It doesn't set a good example."

Sharapova brushed that idea aside in her response.

"I don't make the schedule," she said. "I'm a pretty big competitor. If you put me out in the parking lot of Queens in New York City, I'm happy to play there. That's not what matters to me."



Sharapova has no plans to retire.

Continued from Page One

40 of them and has 18 available for adoption, according to board member Laura Fickley. Most are from owners who are no longer willing or able to care for them. Pearl relies on its website and informational booths at local pet shops, sometimes bringing well-behaved ambassador parrots.

Volunteers talk about what parrots are like, explaining why they are naturally messy and destructive. In the rain forest, they chew on nuts and seeds and fling them.

In homes, they've been known to break out of their cage by removing the bolt and peck off the computer keys on a keyboard and drop them on the floor. They shred wood, including picture frames and furniture, and chew electrical

cords, paper and curtains.

They need a minimum of 10 to 12 hours of sleep each day. Sleep-deprived parrots can be mean. So can a cramped parrot. A green wing macaw, with a wingspan of 47 inches, needs a cage the size of a queen mattress.

Potential adopters must fill out applications and take basic care classes. They are told not to smoke in front of their birds or burn scented candles because birds are very sensitive to air quality. Cooking in Teflon pans is discouraged, as is Febreze air freshener. Their homes are inspected to identify potential hazards, such as ceiling fans, and to make sure interested owners aren't hoarders. Pearl once helped rescue 160 cockatiels from one home.

Advanced behavior classes are required for anyone adopting larger parrots. Nutrition 101 is advised. Many people think birds are supposed to

eat seeds because that is what people put in their outside bird feeders. Indoor birds don't get as much exercise and can get fat from seeds, putting stress on their hollow bones and leading to potential damage to kidneys and livers. Some people feed birds Cheerios and Doritos and peanut butter crackers. That's a no-no.

Edward Moats chops fresh vegetables and bakes whole-grain bird bread for his nine birds. He bred birds for 27 years, inspired by his grandmother, Myrtle, who lived on a farm and bred canaries. He stopped breeding birds two years ago, realizing he was contributing to the overpopulation of unwanted birds and is now on the Pearl board.

A certified avian specialist, he takes in special-needs parrots, including those who are blind and amputees, or have severe behavior problems. Parrots can develop phobias, re-

SPORTS



Yasiel Puig, right, celebrates a walk-off hit with teammates Chris Taylor, left, and Clayton Kershaw.

MARK J. TERRILL/ASSOCIATED PRESS

MLB

Can the Dodgers Be Great?

BY JARED DIAMOND

As the Los Angeles Dodgers enter the home stretch of their quest for the winningest campaign in baseball history, Jeff Nelson understands their situation perhaps better than anybody on the planet. A standout reliever from 1992 through 2006, Nelson pitched for two of the most dominant teams of his or any other generation: the 1998 New York Yankees and the 2001 Seattle Mariners.

The former finished with 114 regular-season victories and blitzed the competition in the playoffs en route to a World Series sweep, earning the reputation as one of the greatest collections of players ever assembled. The latter fared even better from April through September, matching the 1906 Chicago Cubs' all-time record with 116 wins.

But conversations about the best teams on baseball ever rarely include the '01 Mariners, unless to lament—or mock—what happened next.

The Mariners failed in October that year, losing in the American League Championship Series to the Yankees with a defeat that forever sent them to the waste-basket of disappointments and missed opportunities. They blew a late-inning lead in Game 4, a contest in which Nelson threw 12/3 scoreless innings. That night, so sure of the series' eventual outcome, Nelson recalls staying out until 6 a.m.

"You can say I played on a team that won 116 games," Nelson said in a recent interview. "But we didn't finish it off. We didn't win the World Series, so what does it matter?"

Consider Nelson's experience a word of warning for the 2017 Dodgers, a powerhouse looking to become the first team since those Mariners to top the 110-win mark.

Regardless of how this next month unfurls, whether the Dodgers beat Seattle's performance or not, they will head into the post-season facing only two possible paths: Either win the World Series and polish off a season for the ages, or fall short and watch it all go for naught.

It might sound unfair, but the 2001 Mariners know the feeling well, and it continues to haunt them 16 years later.

Paul Abbott, a Seattle starter who went 17-4 that season, said that he tries to keep a positive outlook and remember that the Mariners "were a part of history" and "did something that was pretty special." Ultimately, however, Abbott admits that he can't escape the fact that "it still stings that we're not going to be talked about as one of the best teams because we didn't win the World Series."

In other words: Hey, Dodgers—no pressure.

"If you're going to be one of the greatest teams of all-time, you probably have to win it all," said Ed Sprague, a utility man for the '01 Mariners who now works in the Oakland Athletics organization.

In other sports, regular-season excellence tends to correlate with titles. The team with the best overall record has won half the championships since the NBA moved to its current playoff format in 1984. The top regular-season team has won 49% of the Super Bowls since the NFL-AFL merger in 1970.

The 2007 New England Patriots and 2015-16 Golden State Warriors feel like such choke jobs because teams that good rarely falter.

It doesn't work that way in baseball, which features a playoff structure that declares a victor by distilling a 162-game marathon into a month-long sprint. Billy Beane, the longtime A's executive,

once described the post-season as a "gauntlet of randomness."

The numbers support that view: The team with the best regular-season record has won the World Series less than 23% of the time since the introduction of the wild card in 1995.

Three of the six teams ever to reach 110 wins went home without a ring, including the 2001 Mariners.

"In a short series, anything can happen," said Edgar Martinez, the longtime Mariners' designated hitter who now works as the team's hitting coach.

"In baseball, you just never know. I don't see [the '01 loss] as a failure."

The 2001 Mariners won 116 games but are rarely mentioned as one of baseball's great teams.

that we could do."

When the playoffs begin, the Dodgers will face loads of pressure and expectations, almost certainly dealing with more intense scrutiny than the Mariners encountered.

They play in the nation's second-largest media market and haven't won a championship since 1988. They have the highest payroll in the major leagues and have claimed four straight division crowns—with a fifth on its way—without winning a single pennant. Clayton Kershaw, the best pitcher in the sport, has posted a 4.55 ERA in 18 playoff appearances, a fact that will no doubt come up a few times this October.

But Nelson says the added pressure could wind up helping the Dodgers. He pointed to his time in 1998 with the Yankees, a franchise that subscribes to a "championship-or-bust" mentality and had an owner in George Steinbrenner who made it abundantly clear that 114 wins didn't matter without a championship. With the Mariners, a team that has never made the World Series, Nelson said he didn't always feel that.

"It was a huge difference because of two different cities," Nelson said. "In New York, we had to keep the pedal to the metal because of pressures from the outside."

For now, the Mariners players say the Dodgers should just remain focused on winning in September in an effort to go into the playoffs feeling confident. That hasn't been happening lately: Los Angeles entered Monday's action having lost eight of its last nine games, its worst stretch of the season.

The Mariners wouldn't mind if the Dodgers even lose a few more before October. They may not have won the World Series, but they did win 116 games—a record they would like to keep.

FROM PAGE ONE

PARROT

Continued from Page One

40 of them and has 18 available for adoption, according to board member Laura Fickley. Most are from owners who are no longer willing or able to care for them. Pearl relies on its website and informational booths at local pet shops, sometimes bringing well-behaved ambassador parrots.

Volunteers talk about what parrots are like, explaining why they are naturally messy and destructive. In the rain forest, they chew on nuts and seeds and fling them.

In homes, they've been known to break out of their cage by removing the bolt and peck off the computer keys on a keyboard and drop them on the floor. They shred wood, including picture frames and furniture, and chew electrical

cords, paper and curtains. They need a minimum of 10 to 12 hours of sleep each day. Sleep-deprived parrots can be mean. So can a cramped parrot. A green wing macaw, with a wingspan of 47 inches, needs a cage the size of a queen mattress.

Potential adopters must fill out applications and take basic care classes. They are told not to smoke in front of their birds or burn scented candles because birds are very sensitive to air quality. Cooking in Teflon pans is discouraged, as is Febreze air freshener. Their homes are inspected to identify potential hazards, such as ceiling fans, and to make sure interested owners aren't hoarders. Pearl once helped rescue 160 cockatiels from one home.

Advanced behavior classes are required for anyone adopting larger parrots. Nutrition 101 is advised. Many people think birds are supposed to



Scooter, a lesser sulphur-crested cockatoo.

fusing to leave their cage, and suffer panic attacks, and other mental-health problems due to unstable home life.

Lucy, one of his parrots, had been through several foster homes. "She carried a lot

of baggage," he says, and she screamed a lot.

Ms. Martine has been working with Charlie, a blue-and-gold macaw, who sent two previous owners to the emergency room, one with a piece of his earlobe missing and the other who lost part of her tongue after trying to kiss Charlie through the bars of his cage. She makes a point of including him in her routine, trying to socialize him. She took him to a parade on a leash. He loves noise and fireworks.

"We take them everywhere," she says of the family birds. Caesar, an umbrella cockatoo, is especially social. Ms. Martine's husband brings him along to Planet Fitness and the grocery store, places that wouldn't usually allow pets. He has never been questioned. "They just assume he's an emotional-support bird," she says.

Ms. Martine says as chal-

lenging as parrots are, they are also loving and smart. She got her first bird, a little cockatiel, when she was 14. "It sat at the pet store for three years. I begged my dad to get it for me."

She named the parrot Lunch because she also had a cat that spent a lot of time staring at the bird. Ms. Martine taught Lunch to whistle. Lunch also learned to sing the theme to the TV show "Fantasy Island."

She taught another bird, who had a piercing scream, to quack instead. "He would scream, I would quack. He would scream, scream, scream. I would quack, quack, quack. Finally he quacked," explains Ms. Martine.

She is still working with Scooter, a lesser sulphur-crested cockatoo whose owner could no longer take care of him. "I'm trying to teach him to be a nice bird," she says.

LIFE & ARTS

ART

Videogames Take On a Life

Ian Cheng blends art and artificial intelligence in his first solo show at New York City's MoMA PS1

BY KELLY CROW

WHAT IF A VIDEOGAME could play itself? New York artist—and cognitive scientist—Ian Cheng has riddled out an answer that is winning over researchers and art lovers alike.

Mr. Cheng, whose first museum solo show, "Ian Cheng: Emissaries," is on view at New York's **MoMA PS1** through Sept. 24, has spent the past three years developing software that simulates animated games—with backdrops that include an ancient village nestled against a rumbling volcano, a teeming wildflower field and a spare, sandy atoll. The key distinction is that he has populated his scenes with foliage and figures who twitch and fight and feed each other in real time with no predetermined outcomes, an endless unspooling of artificial intelligence in beta mode.

At one point during the volcano simulation, Mr. Cheng said that he watched a group of villagers gang up on an outlier, kill him, drag his body into the center of town and urinate on him. "There was no algorithm for that," he said. "It was horrifying, but it felt like a revelation since they had

not been told to do anything like that." In another simulation, he watched a pack of dogs encircle a man and repeatedly lick him, a man's-best-friend response that was also unscripted.

The Museum of Modern Art said it was so impressed by Mr. Cheng's work that it bought the trio of his simulations before the last one was even finished. Major collectors of video art like Dusseldorf's Julia Stoschek have also bought early editions. New York's Gladstone Gallery added the artist to its roster on Tuesday.

Starting Sept. 22, Pittsburgh's Carnegie Museum of Art will show his latest simulation, "Emissary Sunsets The Self." In a fresh twist, curator Eric Crosby said that the Carnegie gallery's overhead lights will be synced to match the day-or-night scenario unfolding on the piece's 13-foot-long LED screen.

"A lot of artists are working in response to a digital landscape, but he's innovating in that space," Mr. Crosby said. "He's invented an entirely new art form with its own rules and norms."

Fans of HBO's rebelling-robots show "Westworld" will relate to the anything-goes uncertainty that pervades Mr. Cheng's works, but the artist said he isn't striving for a hyper-realistic setting. In-



A scene from Ian Cheng's 'Emissary Forks at Perfection,' above. The exhibit, below, is on through Sept. 24. And the artist, left.



CLOCKWISE FROM TOP: IAN CHENG/PILAR CORRIAS/STANDARD OSLO; IAN CHENG/MOMA PS1; PRESLEY ANN/PMC

stead, his programming allows characters to convulse and collide in mutations that look like software glitches. In the lush-garden game, he once watched an old-fashioned red telephone glom onto a nearby palm tree, a combination he calls a "self-made sculpture."

Growing up in Los Angeles as the son of graphic designers, the 33-year-old artist said he always wanted to work within the nexus of cognitive science and art. He earned a dual degree at the University of California at Berkeley and worked afterward at George

Lucas's visual-effects and animation studio, Industrial Light & Magic. Instead of fawning over "Star Wars" characters, he gravitated to the company's research and development division, where he said researchers were toying with new ways to simulate natural phenomena like whirlpools.

Later, after art school at Columbia in New York and jobs with established artists like Paul Chan and Pierre Huyghe, he began experimenting, creating the volcano scenario in early 2015. The only narrative direction he gave was to create a trembling threat in the

volcano, a shaman-leader who is coded to ignore it and the shaman's daughter who is tasked with alerting her father to the impending eruption—but who often gets distracted by fellow villagers offering her food or a place to sleep or whatever daily-ritual the others want to enact in the moment. Mr. Cheng said he relished the godlike control he initially had over these characters and the surprising pride he felt once he let randomness intervene.

"Art is my way of playing with people's nervous systems, to seduce them but also unsettle

them," he said.

Peter Eleey, chief curator at MoMA PS1, said the work also raises intriguing questions for museums or collectors who want to store or study Mr. Cheng's work for the long term.

Since his pieces operate like a computer program instead of a film, there is nothing to archive—only software to start up or update as the artist sees fit.

"At night, we turn the projectors off, but the piece itself keeps running," Mr. Eleey said. "When we come in each morning, the Petri dish is transformed."

MY RIDE | By A.J. Baime

BIG LOVE FOR A TINY, TINY CAR

Ralph Hough, 74, the deputy mayor of Oro-Medonte, Ontario, on his microcars, as told to A.J. Baime.

The week before I married my wife Wendy in 1962, we bought our first microcar, a Messerschmitt. We lived in England at the time and we went on our honeymoon in this car. Later we toured Europe in it, and in 1964 visited the Messerschmitt factory in Regensburg, Germany, right around the time the company stopped producing these vehicles.

Back then, microcars were called bubble cars, and they were quite popular, most notably the Messerschmitt (like ours) and the BMW Isetta. These vehicles first appeared in the early 1950s, not long after World War II, when resources like steel and fuel were scarce. (Messerschmitt built fleets of German military planes during the war.) Bubble cars made sense. They were efficient, did not use a lot of raw materials, and unlike scooters, protected riders from the weather.

Today, we have six Messerschmitts and one BMW Isetta, and we host a festival on our property called Micro North every June. We get 40 to 50 oddball cars from all over the northern States and Canada. This year's party was extra special because it was the 25th year. It also marked the 55th year since my wife and I bought our first microcar, and

our 55th wedding anniversary. We collect these cars because of the sentimental, because we had such memorable adventures in them when we were young.

The red car you see pictured here is a three-wheeled 1955 Messerschmitt KR175. It has a 175-cc motor that is bolted right to the car's frame with no rubber engine mounts, so the vehicle is a real boneshaker. It is kind of a hybrid between a car and a scooter, in that it has handlebars and a motorcycle-style gear shifter, plus carlike foot pedals. It cruises comfortably at about 50 mph. At a constant speed of 30 mph, it could probably get close to 100 miles a gallon.

I bought this Messerschmitt from an owner in Montreal approximately 20 years ago, and it was a real basket case. I used parts from five other Messerschmitts in the restoration. I have no idea how much the vehicle cost because I have purposely avoided adding up the bills.

My wife and I have had wonderful adventures in microcars with other microcar fans. We like to do our part to keep these vehicles on the road so future generations can enjoy them too.

Contact A.J. Baime at Facebook.com/ajbaime.



Ralph and Wendy Hough in their Messerschmitt in Ontario, more than a half-century after they took their first Messerschmitt on their honeymoon.

JENNIFER ROBERTS FOR THE WALL STREET JOURNAL

OPINION

REVIEW & OUTLOOK

A Missed Warning on the McCain?

The U.S. Navy has found and identified 10 sailors who died last month when a guided-missile destroyer crashed into a tanker in the Pacific, and one service member hadn't reached his 21st birthday. An investigation continues, though a 2015 report that received little attention compounds questions about whether the military has the resources to equip sailors for war.

The USS John S. McCain's collision happened in a busy shipping lane near Singapore, and several theories have been offered. One is a cyber attack, though there is no obvious evidence so far. A Chinese newspaper pounced to suggest that it's unsafe for the Navy to operate in the area, and how convenient for Beijing's purposes. The Navy has released few details but relieved the commander of the Seventh Fleet, Vice Admiral Joseph Aucoin, who was scheduled to step down within weeks.

The McCain incident follows a fatal crash earlier this summer involving the USS Fitzgerald, which cost seven lives and the ship's commanding and executive officers their posts. A ship careened into a South Korean fishing boat in May. The USS Antietam somehow ran aground in Tokyo Bay in January; the Navy fired the commanding officer in that incident, too. The common denominator is the Pacific, and many ships in the Seventh Fleet region are "forward deployed." The McCain, Fitzgerald and Antietam are all home-ported in Japan.

The question is how so many events could unfold in a year in one command, and a 2015 Government Accountability Office report now regrettably looks prescient. The report describes how ships home-ported abroad have weathered particularly tough deterioration in recent years, while budgets have tightened and the size of the force has decreased. The Navy relies on an overseas presence that allows ships to show up anywhere within days or even hours.

A 2015 report highlights the stress on ships and crews based abroad.

This is great for deterrence.

But this requires a rapid tempo of operations. GAO found that ships home-ported in the U.S. spent 69 days a year deployed under way, on average, between 2004 and 2012. Ships based overseas in places like Spain or Japan spent 111 days under way. U.S.-based ships are supposed to spend about 40% of their 27-month cycle deployed or available, with the rest in maintenance or training.

Japan-based cruisers and destroyers, on the other hand, are slated to spend 67% of their two year cycle deployed or ready to go, and only 33% in maintenance. The accruing deferred maintenance, the report notes, could shorten a ship's life, even as the Navy has too few ships.

Unlike U.S.-based ships, the planning cycle for ships based in Japan also does "not include a dedicated training period" that allows crews to hone their skills for competency at sea. The quick turnarounds create what GAO calls a "train on the margins" approach. This means "crews train while under way" or sometimes in the few days in between.

It isn't clear what the Navy has done since the report's findings, and the point is not to blame the dysfunction entirely on the service. Funding and priorities are dictated by 535 politicians in Congress. The military has been subject to erratic budgets that make building new ships or other large projects difficult and more costly. Many of the politicians who complain about misspent money at the Pentagon have created a much more expensive mess.

The armed forces have an honorable tradition of relieving top brass after a failure, and more government institutions could benefit from such accountability. As for President Trump and Congress, perhaps this autumn they can take a break from feuding about a border wall—and pass a more stable appropriations bill to give American sailors the equipment and training they need for their crucial missions.

The Free-Speech Battles of Berkeley

For all semester in America has begun, and the University of California at Berkeley is back at the epicenter of the free-speech wars. Last weekend saw 13 arrests as Antifa activists bloodied their outnumbered foes in the city streets, and conservative journalist Ben Shapiro, former White House aide Steve Bannon and alt-right parvenu

Milo Yiannopoulos are scheduled or have been invited to speak on campus this month. Stage set, Chekhov's gun on the table.

The university's new chancellor, Carol T. Christ, has vowed to restore free speech on campus, saying in August that it was "critical for the Berkeley community to protect this right." Resilience is "the surest form of safe space," she told students, and "we would be providing you less of an education" if "we tried to protect you from ideas that you may find wrong, even noxious."

Yet Berkeley Mayor Jesse Arreguin has already asked the university to cancel controversial speakers. He said last week the city must be "very careful that while protecting people's free-speech rights, we are not putting our citizens in a potentially dangerous situation and costing the city hundreds of thousands of dollars fixing the windows of businesses."

Mr. Arreguin also suggested that conservative speakers were "just a target" for radical activists "to come out and commit mayhem on the Berkeley campus and have that potentially spill out on the street." Yet the risk comes not from the peaceful speakers but from masked and armed censors.

The mayor pressures the university to cancel controversial speakers.

Meanwhile, Ms. Christ is schooling the mayor on the First Amendment. The chancellor believes allowing the speeches to continue as scheduled is the university's legal obligation and spokesman Dan Mogulof told us she is prepared to spend hundreds of thousands of dollars on security to protect speakers and attendees.

Ms. Christ is off to a good start, but the pressure to capitulate will increase as the semester goes on. In the student newspaper recently, Berkeley resident Sarah Cordette accused the chancellor of "giving institutional support to white supremacists" and exposing students to "mental and emotional damage." You can imagine what the faculty is saying.

Past administrators were so intimidated by student protesters that the university installed a \$9,000 emergency exit in the chancellor's office, which soon became known as an "escape hatch." And when Mr. Yiannopoulos tried to speak on campus last February, Antifa activists threw Molotov cocktails, used commercial-grade fireworks as grenades, shattered windows and set fires, causing about \$100,000 in damage.

A major like Mr. Arreguin has a duty to maintain public order, and no doubt his job would be easier if no one controversial ever spoke at Berkeley. But a democracy needs the free exchange of ideas, and universities abandon a social duty if they aren't venues for that exchange. Mr. Arreguin should be standing in support of Ms. Christ rather than caving in to the violence of the radical left.

Navigating ObamaCare

One of the more evidence-free claims on the left is that the Affordable Care Act worked brilliantly before Republicans tried to dismantle it. Witness the claim last week that the Trump Administration is trying to tank the law's exchanges, which are struggling from lack of consumer choice and affordability, not from a lack of government marketing.

Health and Human Services announced Thursday that the agency will alter the funding structure for ObamaCare "navigators." These are the community outfits the Obama Administration paid to steer folks through the Affordable Care Act's subsidies and penalties. Last year the Obama Administration handed out \$62.5 million in grants for open enrollment for 2017, and the period arrives again in November.

The Trump Administration will tie grants to performance, and this is a classic government jobs program. One grantee took in \$200,000 to enroll a grand total of one person. The top 10 most expensive navigators collected \$2.77 million to sign up 314 people, and it would have been much cheaper to offer to pay all of their premiums for a year.

All told, the navigators last year enrolled about 81,000 people, less than 1% of the total. In fairness to the navigators, it would be tough to sell any product that millions of people are paying fines to avoid buying.

HHS will reduce funding for enrollment advertising—television ads, for example—to \$10 million from \$100 million last cycle. The new budget is about the figure for promoting Medi-

The administration tries to cut back on advisers who do little advising.

care Part D and Medicare Advantage, HHS has noted. The money will be directed to targeted campaigns such as emails and texts.

Critics accuse the Trump Administration of trying to sabotage the exchanges, and it's amusing to imagine that the problem with ObamaCare is that not enough people have heard about it. Navigators will receive funding based on enrollment goals; a grantee that enrolled 50% of projections will receive 50% of last year's funding. More than \$36 million will be paid out. So those who are competently enrolling people will still receive funding, and why pay those who aren't?

Last year's marketing blitz—double the \$50 million spent in 2015—produced no bump in enrollment, so classify as bogus the complaint that such moves "will create chaos in the health marketplaces," as Democratic Leader Nancy Pelosi claimed in a statement last week. Individuals who want to sign up for ObamaCare can find Healthcare.gov easily enough, and the website lists a number for staffed call centers.

Another false contention is that this won't save taxpayer money because much of the funding comes from fees on insurers, as if that isn't a tax passed onto consumers and individuals that will end up in larger taxpayer subsidies.

HHS is in the unenviable position of having to manage a broken law that the GOP failed to repeal, and the agency has an obligation to direct resources to their best use. There are more urgent health-care priorities than informing the public about insurance that Americans know is available but may not want or can't afford.

Does Trump Want A Nuclear Japan?

By Walter Russell Mead

As the North Korean nuclear crisis continues to deepen, the stakes are slowly becoming clearer. This isn't only about the threat Pyongyang poses to its neighbors or even to the U.S. mainland. Kim Jong Un is challenging the foundations of the American position in East Asia. In the process he has exposed a deep divide in American thinking, laying bare the hard choices Washington may soon be forced to make.

Close observers have long understood that North Korea's belligerence and nuclear buildup are pushing Japan toward fielding its own nuclear weapons. No non-nuclear power in the world is nearer to a nuclear capacity than Japan.

Many analysts believe it would take Tokyo only months to go from deciding to nuclearize to having the weapons. In the ensuing chaos, it's likely that South Korea and Taiwan would follow suit, with at least Taiwan receiving quiet help from Japan.

Elite Japanese opinion is perceptibly shifting in favor of the nuclear option. Conservative nationalists there have long believed that a nuclear arsenal would allow Japan to resume its place as an independent great power, freed at last from its post-1945 dependence on the U.S.

The Japanese public has been deeply skeptical, but North Korean threats and missile overflights—combined with doubts about American commitment and reliability—are leading more people to think the unthinkable.

The effort to get China to put its weight behind stopping North Korea is predicated on these assumptions. The theory is that China's interest in blocking Japanese and Taiwanese nuclearization is great enough to enlist Beijing in an all-out campaign to stop Pyongyang.

Logical as the concept may be, it is a hard sell. Although some Chinese experts understand that the U.S. presence in Asia advances their interests, others are so buoyed by China's economic growth and dismissive of Japan that they would rather focus on reducing American power in the region.

Neither the U.S. nor China should look to Russia, which benefits from the North Korean crisis, for much help checking the Kim regime. Moscow wouldn't greatly mind a nuclear Japan, whose rise would reduce American influence, promote a more "multipolar" international system and check China.

In this scenario Russia's influence in Asia would increase, with China and Japan competing for its favor.

The Trump administration appears divided. Some analysts, almost certainly including all of the top White House advisers, believe America's interests are best served by maintaining the status quo in the Pacific—prevent

ing the nuclearization of Japan and others by providing them reliable protection under the U.S. nuclear and conventional umbrella.

Others, who may include President Trump, might see the nuclearization of East Asia not as a defeat, but as a victory for U.S. foreign policy. China's geopolitical ambitions would be contained by a nuclear Japan, South Korea and maybe Taiwan. Washington could remove troops from Korea and cut the defense budget, while letting allies pay the costs of containing China.

The alternative is a status quo in which the U.S. pays most of the bills to defend the Pacific against China, risks war with countries like North Korea and must further "bribe" its allies by promoting purportedly job-destroying cheap imports from countries like South Korea. This option doesn't seem all that attractive to Mr. Trump's "America First" voters.

It might please the 'America First' crowd. But retreat from Asia won't bring peace.

Yet standing aside in East Asia would also represent a clean break with American strategic thought after World War II. For decades the U.S. has guaranteed the status quo in places like East Asia while providing "international public goods" like the sea power that has kept the oceans open to all.

Americans have kept the peace at a sustainable cost. It's no longer clear that U.S. public opinion supports this long-term strategy; neither Trump Republicans nor Bernie Sanders Democrats seem to think in these terms.

But American retreat in the Pacific would more likely lead to arms races and military confrontation than to peaceful development. Beijing's ambitions in the South China Sea threaten the security of trade routes on which Japan depends. North Korea's drive for bigger bombs, and the intercontinental missiles to deliver them, would only continue.

The North Korean crisis presents the U.S. with two deeply undesirable alternatives. On the one hand, Washington can abandon seven decades of national strategy and risk growing instability in Asia; on the other, it can risk an ugly and dangerous war with a vicious and unprincipled opponent.

The Trump administration is trapped in a strategic dilemma with no easy escape. The allegedly crazy Kim regime has managed to put the U.S. in a tight corner. We must hope that Mr. Trump's White House can succeed where so many of its predecessors have failed badly.

Mr. Mead is a fellow at the Hudson Institute and a professor of foreign affairs at Bard College.

LETTERS TO THE EDITOR

FGM Is Abuse, 'Culturally Sensitive' or Not

Kristina Arriaga has her facts wrong ("Cutting Young Girls Isn't Religious Freedom," op-ed, Aug. 28). Neither I (nor Mayer Morganroth) are representing the doctor in the Michigan case. I am consulting with the religious group in an effort to strike the proper constitutional balance between religious freedom and the rights of children.

Ms. Arriaga purports to quote an interview in which she says I advocated the "pricking [of] the girls' clitoris." I have never advocated a pricking of the clitoris, but rather a benign, sterilized, symbolic pinprick in the hood covering the clitoris, which is much like the foreskin of the penis.

This is what I said in the interview: "I am categorically opposed to

Googlers: How Free Do You Feel to Express Your Views?

Regarding the Aug. 22 letter from Scott Williams, which states that James Damore's "most dishonest claim is that his views were suppressed"; the writer's rationale for this absurd statement is that Mr. Damore's letter was freely circulated at Google and he wasn't forced to delete it.

This is a perfect example of muddled leftist thinking. Did the writer miss the part where Google fired the guy? What message does that send, I wonder, to anyone else at Google thinking of expressing a different point of view?

Let's see: "Should I freely express my opinions and ideas which, if they don't happen to reflect my company's liberal party line, will most likely cost me my job—or should I just keep my mouth shut?"

If that's not suppression, I don't know what is.

ESTELLE SHAY

Riverside, Calif.

The brilliant Mr. Damore should have realized that $(X + X) > (X + Y)$.

DAVID J. GROSS

St. Augustine, Fla.

female genital mutilation" (FGM) and argued that if the symbolic pinprick is adopted "it will help protect young girls and it will help protect religious rights." You wouldn't know that reading the op-ed.

The symbolic pinprick is modeled on the Jewish tradition when a non-Jewish child has been secularly circumcised and then converts to Judaism. The pinprick itself, like cosmetic ear piercing, has no medical benefits or harm. But it is less intrusive than procedures practiced by some groups, while protecting the constitutional right of its religious practitioners.

ALAN M. DERSHOWITZ

Cambridge, Mass.

While federal law bans FGM, only 25 U.S. states specifically outlaw the procedure, making local prosecution difficult. Ohio doesn't statutorily forbid FGM. The Ohio Public Safety Department instead published "A Guide to Somali Culture" for first responders and law enforcement to achieve "cooperation, understanding, mutual respect, and harmony" with Columbus's Somali immigrants. The guide devotes more than four pages to the Somali-Muslim cultural-religious practice of FGM.

Instead of criminalizing FGM to protect little girls, the American Civil Liberties Union prefers culturally sensitive outreach to the Somali community. Would society permit such blatant child abuse from non-Muslim parents? Why do Muslims get a pass? We need to make it clear to new immigrants that Americans do not tolerate child abuse in the form of FGM.

KRISTINE M. SEVERYN, PH.D., R.P.H.

Dayton, Ohio

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OPINION

Tax Consumption Through a VAT, and Voilà

By John H. Cochrane

Soon the Trump administration and congressional leaders will unveil their tax-reform proposal. Reports indicate the proposal will include some reductions in corporate and personal rates and the end of some tax deductions. But true reform is likely to be stymied by the usual interests, by those who see the tax code primarily as a way to transfer income to or from favored or disfavored groups, and by politicians who dole out deductions, exemptions and subsidies to supporters.

If the administration and Congress drop the income tax, it won't be difficult to achieve 3% growth.

So if the process stays its normal course, don't expect the complex and dysfunctional U.S. tax code to change much. But if America's leaders were to attempt a really fundamental reform, they could break the political logjam. Changes must be simple, understandable and attractive to voters. And only fundamental reform paired with deregulation can hope to raise economic growth to 3% or more.

The best way to do this is to eliminate entirely the personal- and corporate-income tax, estate tax and all other federal taxes, and to implement instead a national value-added tax—essentially a national sales tax.

MAIN STREET
By William McGurn

Don't try telling Bob Funk the American Dream is dead. Or selling him on the gloomy tropes that wages for working Americans are doomed to stagnate forever, that upward mobility for the Ordinary Joe is a thing of the past, that the two-thirds of the population lacking a bachelor's degree are condemned to the fringes of American prosperity, and so on.

Over breakfast at Manhattan's Warwick Hotel, his cowboy hat on the seat beside him, the man from Oklahoma makes clear he buys none of it. "My boss told me 50 years ago there's a person for every job and a job for every person," he says. "That's still true."

Formally, Mr. Funk is chairman, CEO and founder of Express Employment Professionals, one of the nation's largest job agencies. Informally, he sees himself as a man who makes a living by giving people hope—that is, by matching workers looking for

Much of the current tax mess results from taxing income. Once the government taxes income, it must tax corporate income or people would incorporate to avoid paying taxes.

Yet the right corporate-tax rate is zero. Every cent of corporate tax comes from people via higher prices, lower wages or lower payments to shareholders. And a corporate tax produces an army of lawyers and lobbyists demanding exemptions.

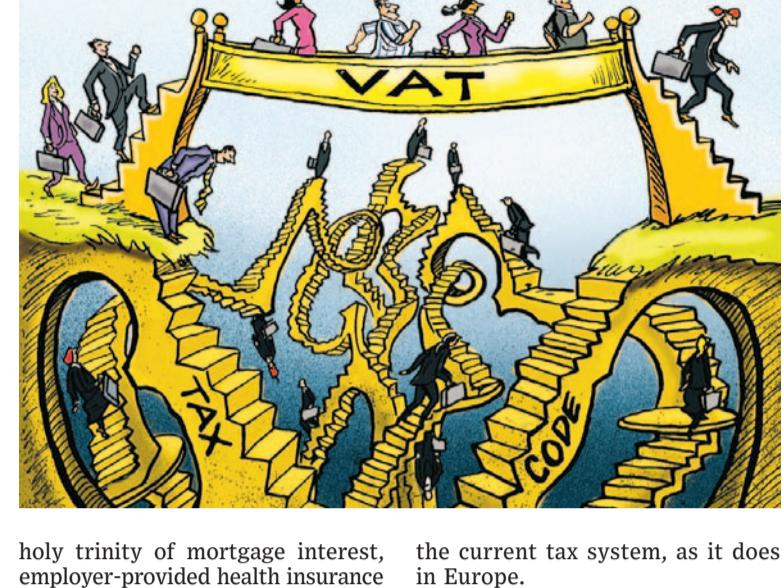
An income tax also leads to taxes on capital income. Capital-income taxes discourage saving and investment. But the government is forced to tax capital income because otherwise people can hide wages by getting paid in stock options or "carried interest."

The estate tax can take close to half a marginal dollar of wealth. This creates a strong incentive to blow the family money on a round-the-world cruise, to spend lavishly on lawyers or to invest inefficiently to avoid the tax.

The U.S. tax code tries to limit this damage with a welter of complex shelters: 401(k), 526(b), IRA, HSA, deductions for corporate investment, and complex real-estate and estate-tax shelters.

Taxing something and then offering complex shelters is a sure sign of pathology. But by taxing cars, houses and boats when people or companies buy them, all this complexity can be thrown out. With a VAT, money coming from every source—wages, dividends, capital gains, inheritances, stock options and carried interest—is taxed when it's spent.

A reformed tax code should involve no deductions—including the



isolation. By measuring how the tax and transfer system work together, politicians could get better taxes and more effective redistribution.

The U.S. also needs an integrated social-insurance program: Send checks to needy people, yes, but also monitor the amount they get from all government sources, including college financial aid, health insurance, energy assistance, Medicare, Medicaid, Social Security, unemployment insurance, food stamps, farm programs, housing and so on.

Even without reforming the programs, it's necessary at least to measure their total effect to calibrate accurately any tax-based redistribution.

What about the tax rate? Well, if the federal government is going to spend 20% of gross domestic product, the VAT will sooner or later have to be about 20%. Tax reform is stymied because politicians mix arguments over the rates with arguments over the structure of taxes. This is a mistake. They should first agree to fix the structure of the tax code, and later argue about rates—and the spending those rates must support.

Is all of this unrealistic? No. Sometimes when little steps are impossible, big jumps are feasible. It is unrealistic to think that tweaks to the current system will produce a big change from the status quo.

Now is the time. If American democracy cannot fix this tax code, economic stagnation and debt crisis or massive spending cuts await.

Mr. Cochrane is a senior fellow at Stanford University's Hoover Institution and an adjunct scholar at the Cato Institute.

holy trinity of mortgage interest, employer-provided health insurance and charitable deductions. The interest groups for each of these deductions are strong. But if the government doesn't tax income in the first place, these deductions vanish without a fight.

In these and other ways, if Congress and the president drop the income tax in favor of a VAT, or another simple consumption tax, they can break the political logjam and achieve a dramatic pro-growth reform.

It is essential that the VAT be uniform, and it is best to carve that in stone at the outset. Trying to transfer income or subsidize people and businesses by charging different rates for different goods or organizations will again muck up the tax system. And it is essential that the VAT replace rather than add to

the current tax system, as it does in Europe.

What about progressivity? It is easy to make a value-added tax progressive: In place of current exemptions, send everyone a \$10,000 check.

Or people could receive a refund according to how much they spend,

similar to income-tax refunds. Taxpayers could get a full refund for the first \$10,000, half for the next \$10,000, and so forth.

Electronic record-keeping makes this straightforward—it's just a big debit- or credit-card reward—and everyone would have an incentive to report purchases rather than to hide income.

But the chaos in U.S. income redistribution is as great as the anarchy in the tax code. Tax discussions fall apart because the redistributive influence of each change is assessed in

Bring Back the American Work Ethic

good jobs with employers looking for good workers.

Along the way he also served as chairman of the Kansas City Federal Reserve Bank.

By and large the employers he works with are small and medium-size companies with fewer than 250 employees. Most of the jobs Express fills are temporary positions in offices or light industry. Since he started the firm in 1983, he says, he's helped find jobs for 6.5 million people.

But Mr. Funk points out that 62% of the "temporary" workers he places end up being hired to stay on full-time. "Try before you buy," he calls it—and says that goes for the worker too. "It's the greatest feeling in the world to help someone who wants to work find a good job," he says.

This experience gives Mr. Funk some definite—and timely—notions about getting ahead in today's America. Like everyone else, he talks about education and skills. But what he means by these words may be a little different from how they are used in the Harvard Business Review.

Start with skills. Hard skills and experience, he says, are only half the

equation, and not the important half. He shares a small brochure his company puts out summarizing a recent survey of employers. "So many people do not realize how important the soft skills are to unlocking job opportunity," he says.

'There's a person for every job and a job for every person,' says Bob Funk.

In order, the survey found the top five traits employers look for are as follows: attitude, work ethic/integrity, communication, culture fit, critical thinking.

Drugs are a huge problem today, with many would-be employees putting themselves out of the running when they fail drug tests. A certified truck driver can start at \$55,000 to \$60,000 a year, for example, but no one's going to hire you if you do drugs.

If all this sounds old-fashioned, it is—and Mr. Funk isn't ashamed of it. So many people, he says, are unfamil-

iar with the fundamentals of work, from knowing how to dress and showing up on time to taking direction from a boss. At a time when employers are complaining they can't find the people they need, Mr. Funk says being honest and having the right attitude will help you stand out from the pack.

Nor does Mr. Funk look down his nose at so-called McJobs: "Those low-paying, entry-level jobs," he says, "are good training for the soft skills you need for upward mobility." It's also far better than falling into the trap in which people end up losing their appetite for work because they become too comfortable with government benefits meant to be temporary.

And while education is vital, Mr. Funk says the most important thing for most people is the ability to be trained—which starts with basic competence in reading, writing and arithmetic. Mr. Funk also says institutions such as Oklahoma's CareerTech, which works with local employers to train people for jobs that actually exist in their communities, are probably a better investment for many people than college.

As for Washington, instead of rewriting trade deals or pushing increases in the minimum wage, Mr. Funk says a real pro-worker agenda would focus on relieving the burdens on employers from laws like Dodd-Frank and ObamaCare, which fall heavy on the small and medium-size companies he works with: "If we could clear some of these burdens out of the way, I believe businesses would bust open and create many more jobs."

Plainly the path to the middle class for Americans lacking college degrees has changed. No one today can expect to start in, say, a Chrysler factory at 18 and remain till 65 with steady pay raises along the way.

But Mr. Funk insists good jobs are out there, though people may have to knock on a few more doors to find the right one.

"I've helped a lot of people find jobs in my life," he says. "And I've learned that if you are honest, have a strong work ethic, and stay off drugs, there's a great future for you out there."

Write to mcgurn@wsj.com.

Reports That 'Privacy Is Dead' Have Been Greatly Exaggerated

By Lawrence Cappello

Needs broke last month that the Justice Department had demanded DreamHost, a Los Angeles tech company, turn over information on more than a million visitors to a website that coordinated anti-Trump protests—some of which turned violent.

Although the feds had a search warrant signed by a District of Columbia Superior Court judge, DreamHost refused to comply, arguing that the order raised First Amendment questions and could have a chilling effect on political expression.

Immediately the Justice Department felt pressure from its right and left flanks. Fox News libertarian Andrew Napolitano noted there are "very serious constitutional problems" with the order. His sentiments were startlingly similar to those of anti-Trump outlets like CNN and the Huffington Post.

Two days before DreamHost's chal-

lenge to the warrant was to be heard in court, the Justice Department announced it would seek a significantly scaled-back warrant. According to the government's lawyers, the department initially was unaware of "the extent of visitor data" it was requesting, and had "no interest in records relating to the 1.3 million IP addresses."

Chief Judge Robert E. Morin approved the new warrant on Aug. 24, but also added extra privacy "protections."

The government must now submit an amended report on what data it's collecting and explain how it will protect the identities of "innocent visitors" to the website. All IP addresses will be excluded, and any data deemed irrelevant to the case will be sealed by the court and inaccessible to any other government agency.

Some privacy advocates are still grumbling, but DreamHost published a blog post after the hearing in which it praised the decision as a "clear victory" for user rights.

The U.S. Constitution's First Amendment gets a small win, and privacy maintains a pulse in the digital age. This revised order strikes a much-improved balance between privacy rights and the interests of the Justice Department. Episodes like these can be useful reminders that the relationship between privacy and free speech has a rich heritage in America's political history.

In 1956 Alabama's attorney general pressed a state court judge to make public all of the National Association for the Advancement of Colored People's membership lists and employee rosters—complete with home addresses. The NAACP appealed to the U.S. Supreme Court. In *NAACP v. Alabama* (1958), Justice John Marshall Harlan II proclaimed a unanimous court had "recognized the vital relationship between the freedom to associate and privacy in one's associations."

The ruling's core tenets were upheld two years later in *Bates v. City of Little Rock*, when Arkansas tried the same membership-list tactic. The Alabama opinion continued to be cited in the 1960s, when the high court offi-

cially recognized a constitutional right to privacy for the first time in American history.

As for the DreamHost controversy: The tens of thousands of protesters who took to the streets on Inauguration Day aren't entitled to absolute

A Washington, D.C., judge strikes the balance in an investigation of riots on Inauguration Day.

privacy. Any argument to that end would be ludicrous. More than 200 were arrested on charges of rioting, and the Justice Department has the authority to gather evidence in the interest of pursuing their convictions in a court of law. Those who choose to express their political views in a public setting forfeit certain reasonable expectations of anonymity—especially if they are violent.

But that wasn't the issue here.

Americans express their political be-

liefs in a variety of ways. Some make financial contributions to organizations they support. Some attend private gatherings. Some are still honing their opinions and choose to stay informed by visiting a website or two.

The Justice Department's original demand obliterated those distinctions. It demonstrated an unnerving ignorance of the fundamental relationship between privacy and free expression.

Judge Morin has signaled that he intends to play an active role in supervising how the evidence is used, and the Justice Department investigation will no doubt move slowly. DreamHost has turned over the requested data, but investigators can't begin mining them until the company decides if it wants to file an appeal.

Alan Westin, perhaps the most influential privacy scholar of the 20th century, admitted in a 2003 interview that while he appreciates the role of privacy advocates who push for a "total privacy solution," he would "never want to live under their regimes."

The goal, for reasonable minds at least, is balance. The competing values of privacy and law enforcement, in the end, "need to be brought into some kind of harmony." That all parties involved in the DreamHost case are debating that balance is a step in the right direction.

Faced with the latest news about a political hacking scandal or a corporate-data breach, many Americans have developed a troubling tendency to shrug their shoulders and remark knowingly that "privacy is dead." The DreamHost fight shows it's still alive, and the fight for it can foster a search for reasonable solutions. It also provides a rare opportunity, in these polarizing times, for left and right to come together.

Mr. Cappello, a visiting professor of history at CUNY Queens College, is a lecturer for Thinkolio, a public-lecture series in New York.

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Executive Chairman, News Corp

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Matthew J. Murray
Deputy Editor in Chief

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EDITORIAL AND CORPORATE HEADQUARTERS:
1211 Avenue of the Americas, New York, N.Y. 10036

Telephone 1-800-DOWJONES

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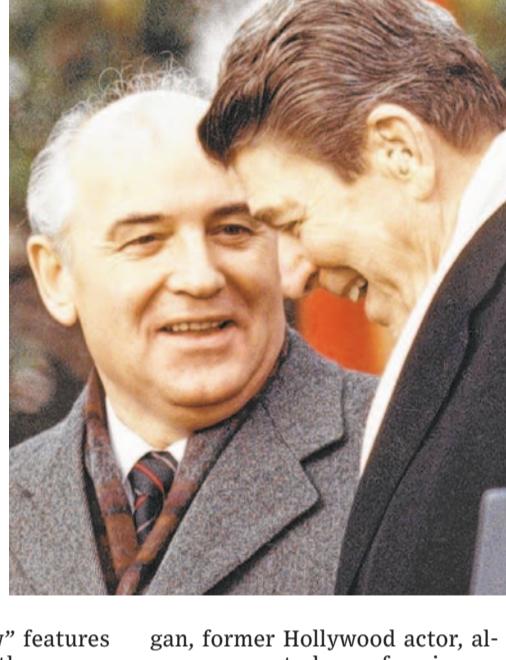
TELEVISION REVIEW | By John Anderson

Performer in Chief

WHAT KIND OF CRAZY '80s flashback would feature Lyn Nofziger, David Gergen and Mr. T? That would be "The Reagan Show," which takes a provocative and amusing look at President Ronald Reagan's use of television to sell economic plans, missile treaties and, mostly, himself. The Reagan White House, we're told, created five times as much footage as the five previous administrations (shot by the U.S. Naval Photographic Unit). Which makes a certain amount of sense given that the leading role on what was called "White House TV" was being played by a leading man.

Directed by Sierra Pettengill and Pacho Velez, "The Reagan Show" is what you could call a kinder, gentler assessment of a president whose use of media was thoroughly calculating—though one would have to go back to Eisenhower to find a Commander in Chief who didn't spin his television coverage as much as possible. The not-so-hidden subtext, of course, is the implied contrast between Reagan's relatively benign cultivation/manipulation of the medium and the kind used by the current occupant of the White House. When we watch our 40th president promise to "make America great again," the effect is more than a little unnerving—something like reverse *déjà vu*.

Created entirely out of archival footage, "The Reagan Show" features no voiceover and only the occasional subtitle, augmented with news clips and snatches of interviews with such bygone news stars as David Frost. While Rea-



President Reagan receiving a Thanksgiving turkey in 1983, above; Mikhail Gorbachev with President Reagan in 1987, left

gan, former Hollywood actor, always seems to be performing when a camera is rolling, he's less guarded after the official "moment" is concluded. "Take that, Mr. Gorbachev," he dead-

pans, following an address intended for Soviet audiences. (The charisma war he waged with the Soviet leader during their on-off arms negotiations constitutes a large and fascinating part of the program.) And the true Reagan seems to shine through in those moments that were edited out of the official "WHTV" segments—the jokes that don't work, Nancy Reagan's horrified reaction at having to do a photo-op on

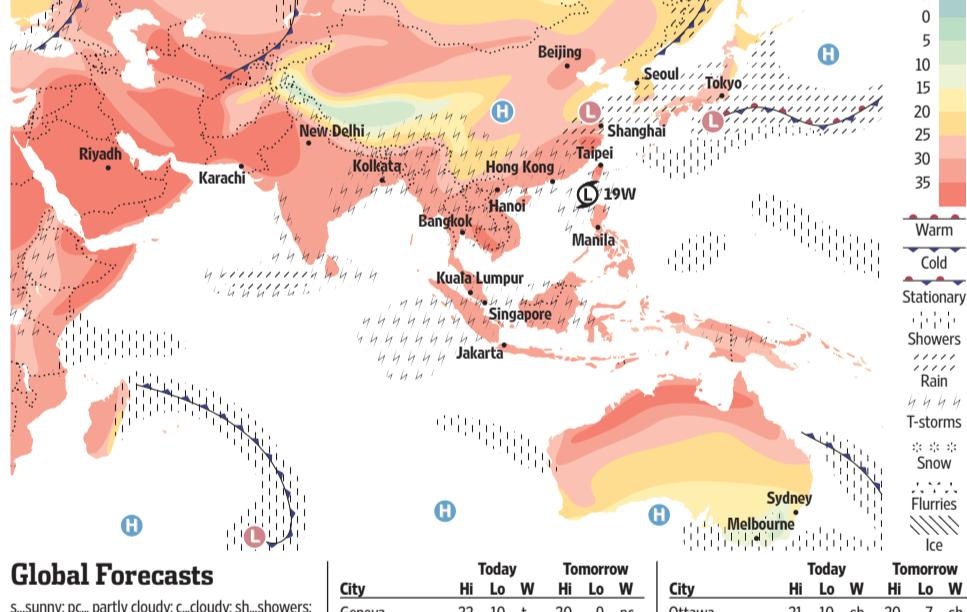
horseback, the Thanksgiving turkey who tries to make a pre-pardon getaway. Then there's Reagan's repeated massacre of John Sununu's name while making a campaign spot for the then-gubernatorial candidate.

One of the more disorienting moments involves an admission Reagan makes during his farewell interview with David Brinkley on Dec. 21, 1988. Brinkley asks the president whether his years as an

actor had helped him in the White House. Reagan smiles warmly. "There have been times in this office," he says, "when I've wondered how you could do the job if you hadn't been an actor." It's far from a warm and fuzzy thing to say. But as "The Reagan Show" repeatedly reveals, it's all about the delivery.

The Reagan Show
Aired Monday, 9 p.m. EDT, CNN

Weather



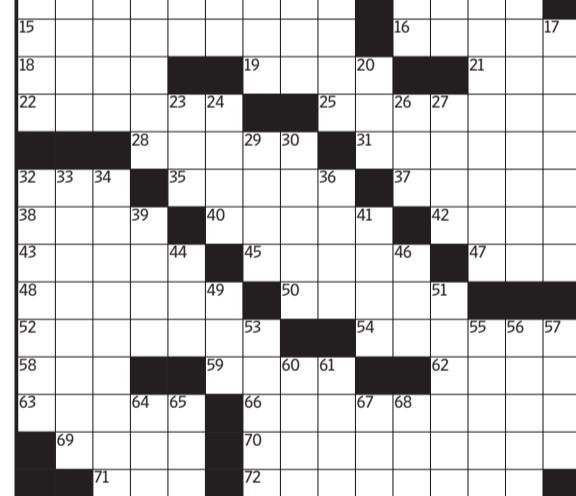
Global Forecasts

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	18	12	c	18	13	pc
Anchorage	15	9	r	15	9	c
Athens	29	21	s	29	21	s
Atlanta	23	13	t	24	14	s
Bahrain	46	28	s	44	27	s
Baltimore	21	14	r	23	13	pc
Bangkok	33	27	t	34	27	t
Beijing	32	16	s	33	17	s
Berlin	21	11	t	18	11	pc
Bogota	21	8	pc	20	9	r
Boise	37	19	s	33	19	s
Boston	24	18	r	23	14	r
Brussels	18	11	c	18	13	pc
Buenos Aires	18	11	pc	19	10	pc
Cairo	34	23	s	33	23	s
Calgary	29	10	s	31	13	s
Caracas	32	25	pc	32	25	pc
Charlotte	23	13	t	24	12	s
Chicago	19	11	pc	20	11	pc
Dallas	30	17	s	30	18	s
Denver	27	12	s	30	13	s
Detroit	20	10	pc	19	10	sh
Dubai	41	32	s	41	32	s
Dublin	17	11	pc	16	10	r
Edinburgh	16	9	pc	15	9	r
Frankfurt	21	9	pc	19	11	pc

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

© AccuWeather.com

The WSJ Daily Crossword | Edited by Mike Shenk



SAND BOX | By Jim Page

Across			
1	With 9-Across, high-rise feature	31	Park place?
9	See 1-Across	32	Skyping need
12	Very near	33	With 45-Across, hurricane-prone area, and a clue to this puzzle's edges
13	Blockhead	34	Tubes in a studio
15	Very near	35	Like some communities
16	Blockhead	36	Town on Long Island's southern shore
18	It makes the bed	37	Pizza chain, informally
21	Hung in there	38	Santiago
22	It's brought to order	39	Cherokee
25	It's brought to order	40	Phony
26	It's brought to order	41	Landing State Pk. location
27	It's brought to order	42	Foal's father
28	It's brought to order	43	Barbershop item
29	It's brought to order	44	See 35-Across
30	It's brought to order	45	Boola Boola" singer
31	It's brought to order	46	Phantom
32	It's brought to order	47	It's brought to order
33	It's brought to order	48	Hole in the head
34	It's brought to order	49	Valued strings
35	It's brought to order	50	Jellyfish delivery
36	It's brought to order	51	Recited
37	It's brought to order	52	Consumes conspicuously
38	It's brought to order	53	"Starpeace" artist
39	It's brought to order	54	Potpie veggies
40	It's brought to order	55	Tibia's place
41	It's brought to order	56	Drug trafficker
42	It's brought to order	57	1994 Italian film nominated for the Best Picture Oscar
43	It's brought to order	58	Foal's father
44	It's brought to order	59	Go back to square one
45	It's brought to order	60	Phantom
46	It's brought to order	61	With 72-Across, roll to one side, e.g.
47	It's brought to order	62	Shaman, e.g.
48	It's brought to order	63	It's brought to order
49	It's brought to order	64	It's brought to order
50	It's brought to order	65	It's brought to order
51	It's brought to order	66	It's brought to order
52	It's brought to order	67	It's brought to order
53	It's brought to order	68	It's brought to order
54	It's brought to order	69	It's brought to order
55	It's brought to order	70	It's brought to order
56	It's brought to order	71	It's brought to order
57	It's brought to order	72	It's brought to order

► Solve this puzzle online and discuss it at WSJ.com/Puzzles.

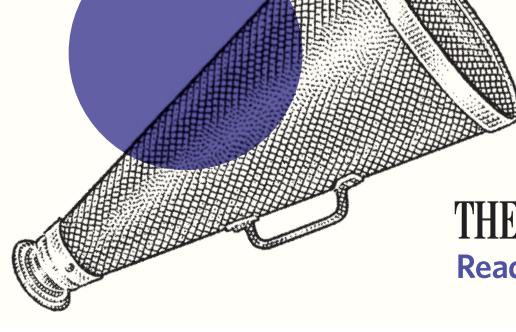
Down	
1	Christensen of TV's "Parenthood"
2	Luxuriates
3	Stein and Hemingway in Paris, e.g.
4	Traveling through
5	Bordeaux bestie
6	Beach shades
7	"Beetle Bailey" dog
8	Tree exudation
9	High school dept.
10	Golf's "Big Easy"
11	Puts up with
12	With 32-Down, it's used in a rebound shot
14	Industrious
17	With 57-Down, drift
20	Record
23	DDE's 1942 command
24	Soundly defeat
26	Decline
27	Way around London
29	Katharine Hepburn's acting gamut, according to Dorothy Parker
30	"La Classe de Danse" artist
32	See 12-Down
33	Firefly features
34	Temporary suspensions
36	Punny pup
39	Lindy's hop?
41	Goes downhill
44	Big house
46	TV premiere of Oct. 11, 1975
49	Sales team member
51	Music's Maher
53	Franklin's belief
55	Cologne divider
56	Heartsick one
57	See 17-Down
60	Resort near Park City
61	Pass over
64	Dernier
65	Above, in odes
67	Extraction target
68	Disco guy on "The Simpsons"

Previous Puzzle's Solution



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THE WALL STREET JOURNAL.

Wednesday, September 6, 2017 | B1

Yen vs. Dollar 108.7770 ▼ 0.86% **Hang Seng** 27741.35 ▲ 0.004% **Gold** 1335.30 ▲ 0.82% **WTI crude** 48.84 ▲ 3.28% **10-Year JGB yield** 0.003% **10-Year Treasury yield** 2.084%

Big Aerospace Deal Is Set

United Technologies to acquire Rockwell for \$23 billion; merger will reshape market

Industrial conglomerate United Technologies Corp. reached a deal to buy airplane parts maker Rockwell Collins Inc. for \$23 billion, in the biggest aerospace deal in history.

By David Benoit,
Dana Mattioli
and Thomas Gryta

Both companies' boards have approved a deal in which United Technologies will pay \$140 a share in cash and stock, the companies said late Mon-

day. Rockwell investors will get \$93.33 a share in cash and the remaining \$46.67 in United Technologies stock.

The price is an 18% premium to where Rockwell traded before word of a potential deal first surfaced early last month, and 30% above where the stock ended in July.

The deal would be the biggest aerospace deal ever, followed by United Technologies' 2012 acquisition of Goodrich Corp. for about \$16.5 billion, according to Dealogic.

The transaction promises to reshape the market for aerospace parts and could be a harbinger of a breakup of United Technologies in the years following integration, according to people familiar

with the company's plans.

Rockwell is expected to give United Technologies a larger presence, and more leverage, in its business supplying Boeing Co. and Airbus SE as the aerospace industry ramps up for a new generation of jets. Those new jet plans are likely to be worth decades of business for the component makers such as United Technologies and Rockwell.

Farmington, Conn.-based United Technologies already owns one of the world's biggest makers of jet engines, Pratt & Whitney, and an aerospace division that also makes parts such as wheels and landing gear.

Rockwell specializes in cockpit displays and communica-

tions systems for passenger jets and the military. In April, the Cedar Rapids, Iowa, company closed its roughly \$6 billion acquisition of B/E Aerospace Inc., a maker of plane seats and interiors.

United Technologies Chief Executive Greg Hayes will remain as CEO of the combined company, and Rockwell chief Kelly Orthberg will run a new business known as Collins Aerospace that will combine the parts businesses, the companies said.

The increased focus on aerospace for United Technologies could trigger further portfolio changes, the people said. The company also makes Carrier air conditioners and

Please see DEAL page B2



Rovio introduced the 'Angry Birds' mobile game in 2009.

'Angry Birds' Firm Hatches IPO Plan

By DAVID GAUTHIER-VILLARS

Rovio Entertainment Oy, the Finnish company behind the "Angry Birds" mobile game and film franchise, plans to list shares on the stock market—a litmus test for an industry known for its erratic performance.

Shareholders hope the initial public offering in Helsinki will value Rovio at a premium to rivals and give it a price tag of about €2 billion, or roughly \$2.38 billion, people familiar with the matter said.

The company said in a written statement Monday that its planned IPO would involve a share issue of €30 million, as well as the sale of existing shares by majority owner Kaj Hed, the uncle of Rovio co-founder Niklas Hed, and other shareholders.

Mr. Hed, who owns about 70% of Rovio, intends to remain majority shareholder after the IPO, the people familiar with the matter said. In 2011, when "Angry Birds" mobile games were among the most popular worldwide, Rovio envisioned listing its shares on the Nasdaq Stock Market in New York. This time, the elder Mr. Hed has opted for Nasdaq's affiliate in Finland because he is eager to keep the company rooted in the Nordics, one of the people said.

Rovio didn't respond to a request for comment.

Rovio said in its statement that the planned listing would enable the company to pursue its growth strategy, including through acquisitions, and gain more flexibility to remunerate its employees.

Mobile games account for about one-third of the larger videogame sector—which generated roughly \$100 billion in revenue last year.

Tech giants have been eager to take control of money-spinners capable of producing hit titles with hundreds of millions of regular users. Tencent Holdings Ltd.'s deal last year for Supercell Oy valued the Finnish mobile-game maker and its staff of about 200 at

more than \$10 billion.

But fickle players have caused some hit mobile games to collapse in the charts, making their publishers a hard sell to individual investors.

When Activision Blizzard Inc. bought King Digital Entertainment PLC last year, the maker of Candy Crush was straining to repeat the success of its blockbuster series, and the \$18-a-share offer was well below the company's IPO price of \$22.50.

Rovio itself has been on a roller coaster in recent years, going through several cost-cutting rounds and management changes.

The company could have a steadier trajectory on the stock market because it has diversified revenue streams thanks to the film franchise, analysts said. The company has also made good progress in harnessing new formats that allow players to download games free and buy virtual goods that help them advance to new skill levels, they said.

"In addition to leveraging the success of the Angry Birds movie and related merchandise and games sales, Rovio has also invested heavily in improving the monetization of its content through paid services and also advertising," said Jack Kent, an analyst with the IHS Markit consultancy.

In the first six months of the year, the company has said its revenue shot up 94% to €152.6 million. Earnings before interest, taxes, depreciation and amortization rose to €39.9 million from €11 million a year earlier.

Founded in Espoo, near Helsinki, in 2003, Rovio surged in 2009 with the launch of "Angry Birds." By 2011, the game was widespread.

But then the industry shifted. Rovio used to charge people a dollar or two to download each game, but competitors shifted to the "free-to-play" model, in which the games are free to play but upgrades cost money.

—Razak Musah Baba contributed to this article.



Verizon Up credits can be used to see Lady Gaga perform. Program participants must grant Verizon access to web-browsing histories.

Verizon Wants to Get Personal

Wireless carrier to offer credits for movies and concerts, but asks to see browsing data in return

By RYAN KNUTSON

A new Verizon Communications Inc. rewards program, Verizon Up, provides credits that wireless subscribers can use for concert tickets, movie premieres and phone upgrades.

Even though the U.S. Congress earlier this year dismantled tough privacy regulations on telecommunications providers, Verizon still wants customers to opt in to its most comprehensive advertising program, called Verizon Selects. Data collected under the program is shared with Oath, the digital-media unit Verizon created when it bought AOL

izon's effort to build a digital advertising business to compete with web giants Facebook Inc. and Alphabet Inc.'s Google, which often already possess much of the same customer information.

Even though the U.S. Congress earlier this year dismantled tough privacy regulations on telecommunications providers, Verizon still wants customers to opt in to its most comprehensive advertising program, called Verizon Selects. Data collected under the program is shared with Oath, the digital-media unit Verizon created when it bought AOL

and Yahoo.

Since access to data from customers could make it easier to tailor ads to their liking, Verizon hopes the information will help it gain advertising revenue to offset sluggish growth in its cellular business. While it added more than 600,000 wireless subscribers in the latest quarter, the gains came during a period of intense competition that forced it to revive unlimited-data offerings and sacrifice the revenue it generated from pricier plans and overage fees.

Verizon's core wireless business generated \$89 billion

in revenue in 2016—a 2.7% drop from 2015. Meanwhile, its digital advertising unit brings in roughly \$7 billion a year. Verizon has about 4% of the U.S. digital advertising market this year, compared with 41% for Google and 20% for Facebook, according to eMarketer.

Wireless competitor AT&T Inc. faces similar challenges as it also tries building an ad-targeting program around its new video services.

Verizon—the U.S.'s largest carrier, with more than 114 million subscribers—has been experimenting with targeted

Please see DATA page B4

Decade After Crisis, 'Black Swans' Clipped

By JON SINDREU
AND LAURENCE FLETCHER

In the wake of the global financial crisis, fear of such "black swan" events drove some investors into hedge funds that offered protection should markets plunge. But the swans have yet to return, and such strategies have fallen out of favor.

The patience of many investors has run out after losing money during the intervening years of mainly benign market conditions. According to data by CBOE Eurekahedge, those who invested in these tail-risk funds—those designed to steer clear of sudden slumps—when their performance peaked in September 2011 would have by now lost 55% of their money.

Some big names in asset management have been hit, leaving only a handful of funds that promise outsize returns should markets go into a tailspin.

Those left say that a decade after the financial crisis be-

gan, people have forgotten its lessons just as market risks are building. Market volatility is near record lows and stock markets remain resilient, but entering September, typically the weakest month of the year for the U.S. stock market, many investors and traders are looking over their shoulders.

The term black swan was popularized by writer and academic Nassim Nicholas Taleb to describe extreme events that are difficult to predict and more likely to happen than forecast.

Historically high stock valuations, increased consumer leverage and extraordinary central-bank stimulus are among the factors that some money managers believe make a black-swan event more likely than at any time since the financial crisis, which sent stock, credit and commodity markets plummeting.

However, critics point to evidence suggesting that buy-

Please see FUND page B2

GOLD PRICES CLIMB AS TENSIONS RISE

MARKETS, B6



GOLD PRICES CLIMB AS TENSIONS RISE

MARKETS, B6

Please see FUND page B2

MARKETS, B6

Please see FUND page B2



GOLD PRICES CLIMB AS TENSIONS RISE

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GOLD PRICES CLIMB AS TENSIONS RISE

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GOLD PRICES CLIMB AS TENSIONS RISE

MARKETS, B6

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GOLD PRICES CLIMB AS TENSIONS RISE

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The Volatility Index pit at the Chicago Board Options Exchange.

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ing insurance is always a losing strategy in financial markets.

As the crisis peaked in 2008, **Universa Investments** LP made returns of above 100% for its clients.

Nine years later, "I don't see anyone out there doing what I do," said founder Mark Spitznagel, who defined what he does as "sort of like gold on steroids."

There is no set definition for how far markets must fall before the drop can be labeled as a black-swan event.

Funds like Mr. Spitznagel's, which Mr. Taleb advises, mainly use put options to protect against significant moves lower. A put is an option to sell a security at a particular price, usually within a limited period, so they benefit when the security's price drops below that "strike" price. Investors can buy cheap out-of-the-money options with a strike price way below where the security currently trades.

Tail-risk funds also invest in gold and other assets perceived as safe that usually rally when other markets collapse.

But recently, markets have mainly climbed as central banks continue to flood them with funds and the global economy expands. The CBOE Volatility Index, known as Wall Street's "fear gauge," fell to its lowest intraday level ever in July and remains near historic lows. The S&P 500 has been on a smooth road higher since early 2009, while the bull run in bonds continues unabated.

Those results have hit these investors hard. Tail-risk funds are down 6.3% this year through July, according to data group eVestment, and have lost money in four of the five preceding years.

London hedge fund **Man Group** PLC launched the AHL Tail Protect Fund in 2009 and has lost 45% since then, according to Man Group. **Capula Investment Management** LLP's Tail Risk Fund, one of the biggest in the sector with \$3.7 billion under management, is down 6.7% this year,

according to an investor letter reviewed by The Wall Street Journal. The fund made 11% in 2011 but lost 14% the following year and ran up further losses in three of the four years following. Representatives of Man Group and Capula declined to comment.

Many others have given up. **AXA Investment Managers** wound down its tail-risk fund several years ago.

While there are still inflows into these funds, according to eVestment, many of those left in the game have changed the meaning of what they consider a "tail risk." Rather than focusing on black-swan events, they now offer cheaper insurance against less extreme—but more common—stock sell-offs.

Swiss wealth manager **Unigestion** SA shut down a tail-risk-focused fund in 2010 but now runs a strategy to protect against bumpy days in the market. Recently, Unigestion bought the Japanese yen and sold the Korean won, a currency pair that would move apart considerably if the market becomes more fearful.

"The protection will be less significant," Unigestion's head of cross asset solutions, Jérôme Teiletche, said. "But the cost will be less significant as well."

It costs money to roll over put options, and if they aren't triggered, they aren't earning anything back.

Protecting against volatility can provide returns if timed properly, but over the long term it is a losing strategy, according to a raft of academic papers and market analysis. It is similar to taking an insurance policy on your car or home. On average, it is the insured, rather than the insurer, that loses money.

AQR Capital Management LLC calculates that black-swan events need to happen, on average, at least once every decade for tail-risk strategies to break even. The fund defines such an event as a 20% drop in the S&P 500 in one day.

But the last time the stock market suffered such a plunge was 27 years ago, on Black Monday, Oct. 19, 1987.

Mr. Spitznagel said the problem is that most funds just aren't bold enough to lose a lot of money when markets are calm.

As reports of the merger

between United Technologies and Rockwell Collins

last year, the two companies

have said the deal makes more sense if it provides a path to splintering the conglomerate.

Last year, United Technologies' aerospace and jet-engine businesses had about \$29.4 billion in revenue, while its other businesses brought in about \$28.7 billion.

Rockwell Collins had sales of about \$5.3 billion in the fiscal year ended in September. B/E Aerospace added another \$2.9 billion.

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BUSINESS NEWS



A Schneider operation in Gujarat, India. With its latest deal, the company is adding to in-house capability as automation spreads.

Industrial Software Melded

France's Schneider to roll assets into Aveva in exchange for 60% of combined company

By BEN DUMMETT
AND NICK KOSTOV

France's Schneider Electric SE has agreed to take control of British engineering software provider Aveva Group PLC, the latest move by an industrial giant toward writing the software that will run the factories and machines of the future.

Under the deal, announced in a joint statement Tuesday, Schneider will fold its software assets into Aveva's operations and pay the U.K. company more than £550 million (\$710.4 million) in exchange for a 60% stake in the combined entity, in a so-called reverse takeover. Aveva would also distribute £100 million to

shareholders following the deal's completion.

Fearing disruption from tech startups and Silicon Valley giants, the companies are combining their software operations to add heft as manufacturing adopts more automation. Other companies, including General Electric Co. and Robert Bosch GmbH, have been working on digitizing their own manufacturing processes, and developing software platforms and automation tools to sell to other industrial players.

Schneider has already targeted U.K. software companies in the past to bolster its industrial-software business. In 2013, it agreed to acquire Invensys PLC for £3.31 billion to better compete against rivals such as Siemens AG, Mitsubishi Electric Corp. and Rockwell Automation Inc. The combination would offer it opportunities to cut costs and access new customers.

"Through increased scale and complementary footprint the transaction will generate synergies that will benefit customers and shareholders alike," said Jean-Pascal Tricoire, Schneider's chief executive.

The planned transaction is similar to the structure of the companies' previous attempt to merge their industrial-software businesses in July 2015. Then, Schneider had agreed to combine its software assets with those of Aveva and pay £550 million in exchange for a 53.5% stake in the enlarged group. However, the deal collapsed after the two sides couldn't agree on final terms.

Spun out of the University of Cambridge in 1967, Aveva provides engineering software to owners, operators and engineering contractors that operate in the power, oil-and-gas, marine and paper and pulp sectors, among others. It employs more than 1,700 people

across 30 countries. Its other main markets include power, petrochemical and chemicals.

The deal comes at a time when Aveva is trying to reduce its reliance on the slowing oil-and-gas and marine markets. For the year ended March 31, Aveva boosted revenue by 7% to £215.8 million from the prior year, benefiting in part from currency moves. Discounting that, revenue was down 3.8%.

Schneider's software is used to help manage manufacturing processes, design tools and train plant crews. It serves industries ranging from transportation to its largest market of food and beverages and pharmaceuticals, which generates about 16% of the company's annual software revenue.

The combination will give Aveva greater access to the U.S. market, where Schneider's software business generates almost half of its annual sales.

New York Tabloid Is Sold to Tronc

By LUKAS I. ALPERT

Tronc Inc. has acquired the Daily News, the nearly century-old New York City tabloid, giving the publisher of the Los Angeles Times and Chicago Tribune a presence in the three largest cities in the U.S.

No cash will change hands in the deal, but Tronc has agreed to assume all operating costs, debt and pension liabilities for the gritty urban daily that was once the country's largest circulating newspaper but has faded in recent years as readers and advertisers have shifted online.

"As part of the Tronc portfolio, the New York Daily News will provide us with another strategic platform for growing our digital business, expanding our reach and broadening our services for advertisers and marketers," Tronc Chief Executive Justin Dearborn said in a statement.

As part of the deal, Tronc will acquire the News's printing press in Jersey City, N.J., and 49.9% of the 25-acre parcel of land on which it sits.

A person familiar with the matter said the deal will result in publications like the Hartford Courant and Morning Call of Allentown, Pa., being printed at the plant, resulting

in additional cost savings for Tronc.

The deal marks a homecoming of sorts for the News, which had previously been owned by Tribune Co., an earlier incarnation of what is now Tronc.

Tribune Co. sold the Daily News in 1991 and the newspaper was acquired two years later out of bankruptcy by real-estate tycoon Mortimer Zuckerman, owner of Boston Properties.

In 2015, Mr. Zuckerman put the paper up for sale but later pulled it off the market when a suitable buyer couldn't be found.

"Mort has always believed in investing in quality journalism. He profoundly cherished the Daily News as the hometown newspaper of the greatest city in the world," Eric Gertler, Mr. Zuckerman's nephew, who had recently served as the paper's co-chairman and publisher, said in a memo to staff Monday.

With splashy photos and screaming headlines, the Daily News has long had a prominent place in New York's media scene with its mix of political, celebrity and sports news, famed for front-page headlines like "Ford to City: Drop Dead" and its historic coverage of the "Son of Sam" killings.



The owner of the Los Angeles Times adds the Daily News.

Two More Law Firms Set Merger, Extending Trend

By SARA RANDAZZO

As law firms feel continued pressure to expand or risk perishing, another tie-up of midsize law firms is coming together.

Chicago-based Arnstein & Lehr LLP is merging with East Coast firm Saul Ewing LLP, the two firms announced Tuesday, to form a more than 400-attorney partnership with strengths in bankruptcy, litigation, finance and real estate.

The deal is one of the largest in the legal industry this year. In June, 250-lawyer New York-based firm Chadbourne & Parke LLP combined with international firm Norton Rose Fulbright. Also, 530-attorney U.S. firm Womble Carlyle is set to merge with slightly larger U.K. firm Bond Dickinson in the fourth quarter.

In the face of stagnant demand for legal services, many firms have turned to mergers to boost market share and stay competitive. There were 52 combinations announced in the U.S. in the first half of the year, according to legal consultancy Altman Weil, topping previous midyear highs. Many of the deals this year have included one international firm, and the majority involves ac-

quisitions of firms with 20 or fewer attorneys.

The latest deal is purely domestic. Arnstein & Lehr brings offices in Illinois and Florida, joining with 11 Saul Ewing offices predominantly in the Northeast. The new firm will be branded as Saul Ewing Arnstein & Lehr.

Some of the firms' clients

Talks took six months and were expedited by what the firms call a shared culture.

include advisory firm Willis Towers Watson, engineering firm Thornton Tomasetti and commercial-real-estate company ShopCore Properties.

The merger results from six months of talks between the firms' leaders, which started after the two were introduced through a law-firm consultant a year ago.

Saul Ewing managing partner Barry Levin, who will lead the combined firm, said market forces have made it increasingly necessary to have a bigger footprint. Ten years

ago, he said, having 275 lawyers "was right in the bull's-eye of the definition of a mid-size law firm," but today it hardly qualifies as such.

A shared culture between the firms helped make the deal attractive, which "sounds corny, but it's true," said Jeff Shapiro, who was chairman of Arnstein & Lehr until the deal. "I've seen too many firms merge, then essentially unmerge if they didn't fit."

Founded in 1893, Arnstein & Lehr has long specialized in business, litigation, local government, tax-and-estate planning, and real estate.

The firm also has expertise on advising players in the EB-5 visa program, which awards visas to wealthy foreigners who invest in qualified U.S. projects.

Saul Ewing, which brings 262 attorneys and a similar number of staff to the combination, focuses on the energy, insurance, higher-education and life-sciences sectors. The firm represents more than 100 colleges and universities.

Demand for large law firms' services was up 1.4% in the first half of the year, according to a survey from Wells Fargo Private Bank's Legal Specialty Group.



BOUYGUES
FIRST-HALF 2017
RESULTS

SHARP IMPROVEMENT
IN GROUP
PROFITABILITY

CONSOLIDATED
KEY FIGURES

SALES
€m

15,162 +3%

CURRENT
OPERATING PROFIT
€m

385 +€179m

NET PROFIT
ATTRIBUTABLE
TO THE GROUP
€m

240 +€268m

NET DEBT¹
€m

4,265 -€89m

(1) At June 30, 2017

• BACKLOG FOR THE CONSTRUCTION BUSINESSES AT A RECORD LEVEL

• GROWTH IN COMMERCIAL AND FINANCIAL RESULTS AT BOUYGUES TELECOM

• OUTLOOK FOR 2017 CONFIRMED

There was a sharp improvement in Group profitability in the first half of 2017.

The current operating margin increased, driven by good performances at Bouygues Telecom and TF1. Net profit attributable to the Group also improved. Excluding exceptional items, it was up €171 million.

Furthermore, commercial momentum continued in all the Group's business activities.

- The backlog in the construction businesses reached a record €31.2 billion at end-June 2017, up 5% year-on-year. On August 31, 2017, Colas announced the signature of an agreement to acquire the Miller and McAsphalt group, a major road construction player in Ontario and a leader in bitumen distribution in Canada. This acquisition will enable Colas Canada to expand its geographical coverage by increasing its presence in Ontario and considerably increasing its bitumen storage and distribution capacity across Canada.

- Bouygues Telecom had 13.6 million mobile customers at end-June 2017, representing 645,000 new adds since end-December 2016. In addition, 133,000 new fixed customers joined Bouygues Telecom in the first half of 2017, taking the total number of customers to 3.2 million. FTTH contributed close to two-thirds of net growth in the second quarter of 2017.

OUTLOOK

First-half results confirmed the target of an improvement in Group profitability in 2017:

- The current operating margin in the construction businesses should continue to improve.

- Bouygues Telecom expects to reach an EBITDA margin slightly above 25%. Furthermore, the rate of transfer of towers to Cellnex will speed up in the second half of 2017 (around €220 million of non-current income related to Cellnex expected in 2017).

For 2018 and beyond:

- TF1 expects to hold the annual average cost of programs^a for its five freeview channels at €980 million over the 2017-2019 period and achieve €25-30 million of recurrent savings^b. TF1 should also improve its profitability, with a double-digit current operating margin target in 2019.

- Bouygues Telecom confirms its target of €300 million in free cash flow in three years' time.

(a) Excluding sporting events (b) Excluding cost of programs

Consult the full press release and results presentation on bouygues.com
Investor Relations: investors@bouygues.com

@GroupeBouygues

Photo credits: Augustin Détienne/Capa Pictures. Architect: RPBW

BOUYGUES



Saul Ewing managing partner Barry Levin, left, with Arnstein & Lehr Chairman Jeff Shapiro

Facebook Aims to Reap WhatsApp Fees

Instead of running ads, messaging service would charge businesses for use

BY DEEPA SEETHARAMAN

Facebook Inc. is getting ready to earn back some of the \$22 billion it spent to buy the messaging service WhatsApp three years ago.

WhatsApp will eventually charge companies to use some features in the two free business tools it started testing this summer, WhatsApp's chief operating officer, Matt Idema, said in an interview.

The new tools, which help businesses from local bakeries to global airlines talk to customers over the app, reflect a different approach to monetization compared with other Facebook products, which rely on advertising.

"We want to put a basic foundation in place to allow people to message businesses and for them to get the responses that they want," Mr. Idema said. "We do intend on charging businesses in the future."

The free WhatsApp Business



IMAGO/ZUMA PRESS

WhatsApp is testing a way for small businesses to field customer questions or send them updates.

app allows small businesses to field customer questions or send them updates. Larger companies can do the same with another free tool that lets them plug directly into the WhatsApp platform. WhatsApp is also rolling out verified profiles for businesses so its one billion

daily users can distinguish between a person and a business.

Companies in Brazil, Europe, India and Indonesia are testing the free services, including **KLM Royal Dutch Airlines**. Users must "opt in" to be contacted by a business, a WhatsApp spokeswoman said.

Mr. Idema declined to describe the paid features or say when they would make their debut. "We don't have the details of monetization figured out," he said.

The business tools being tested, expected to be detailed in a blog post Tuesday, are an

other sign of Facebook's intention to cash in on messaging as it grapples with a slowdown in revenue growth from its core service, news feed.

Facebook owns two of the world's most popular messaging apps, WhatsApp and Facebook Messenger, and Chief Executive Mark Zuckerberg predicts that messaging could yield dividends for the company within five years.

In July, Facebook started showing advertisements inside Messenger, sandwiched between users' conversations when they open the app. The strategy is similar to how Facebook monetizes the news feed and Instagram, the photo- and video-sharing app it bought for \$1 billion in 2012.

Mr. Idema didn't rule out that WhatsApp could show ads to users at some point but said the focus was now on connecting businesses and users. Last year, WhatsApp started sharing its user data with Facebook, a step to improve Facebook's ad targeting and friend suggestions.

Regions where WhatsApp is popular haven't been as lucrative for Facebook's advertising business. In the second quarter,

Facebook generated \$19.38 per user in the U.S. and Canada but only \$2.13 per user in Asia. India is WhatsApp's largest market, with 200 million monthly active users out of 1.3 billion globally.

One business taking part in WhatsApp's commercial project is Indian health-care startup 1mg, which sells prescription medications online. The Gurgaon-based company began working with WhatsApp to talk to users after they have submitted orders, co-founder Gaurav Agarwal said.

If an order sent to 1mg lacks necessary details, like documentation of a prescription, 1mg staff can send customers a message via WhatsApp's tool for larger companies, asking them to provide an image of the document. Chats from the company appear on customers' phones as coming from WhatsApp verified users.

"It's much easier than through SMS or our app," said Mr. Agarwal, referring to sending text messages or alerts. He said 1mg's fulfillment rate for such orders has nearly doubled since implementing the pilot.

—Newley Purnell contributed to this article.

DATA

Continued from page B1

advertising programs for at least five years. Verizon Up, launched in August, is the latest incarnation of its rewards program. Verizon doesn't say how many people have enrolled in Up or Selects.

For every \$300 customers spend on their Verizon bills, they receive one Up credit, which can be used for rewards such as **Uber** rides, four free months of **Apple** Music or chances to win tickets to see performers such as Lady Gaga.

Verizon makes it clear during the sign-up process what data consumers are giving up: information about their demographics and interests, what

websites they visit, what apps and features they use and their location.

The disclaimer quickly drew criticism: Adam Levin, a consumer advocate and founder of data-security firm Cyber-Scout, warned in a column on HuffPost that the "hidden cost of Verizon's 'free' rewards program is your data." In an interview, he asked: "When you think about it, do you really want somebody to know that much about your life?"

Deli Meeks, a 26-year-old forklift operator in Atlanta, said he doesn't mind Verizon accessing his data. A lot of companies track information, and it helps make advertising more useful, he said.

Mr. Meeks used his first reward to secure two tickets to a preseason National Football

League game between the Baltimore Ravens and Buffalo Bills.

Google, Facebook and other internet firms possess similar data about their users and disclose it in their privacy policies. But Verizon must walk a more delicate line.

Telecom companies are required by federal law to take precautions when it comes to customer data.

"Some of our competitors, they have exactly the same thing, it's just buried in the terms and conditions of the service," Diego Scotti, Verizon's chief marketing officer, said of the information tech companies collect. "We are not hiding anything."

Google and Facebook declined to comment.

Verizon's program allows

customers to opt out of data-sharing after they have signed up for Verizon Up, but the company can keep the data for three years.

Mr. Scotti said he hopes customers will appreciate the upfront disclosures and that the rewards program will make Verizon customers more loyal.

But the extra precaution might stifle Verizon's ability to expand the program, said Craig Moffett, an analyst at **MoffettNathanson LLC**. "This just highlights how thorny privacy issues can be for telecom operators," he said. "If they are going to be held to a higher standard than Google and Facebook, either by statute or simply by convention, then it will be very hard for them to effectively compete."



VERIZON MAKES IT CLEAR WHAT DATA CONSUMERS ARE GIVING UP.

RICHARD B. LEVINE/LEVINE ROBERTS/NEWSCOM/ZUMA PRESS



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MANAGEMENT

WORKAROUNDS

When It's OK to Be A Workaholic

For those who love what they do, being a workaholic isn't all that unhealthy, new research suggests.

Workaholism by its very name suggests detriment to one's physical and mental health, and the American psychologist Wayne Oates, who coined the term nearly 50 years ago, likened it to substance abuse. Yet research on workaholism has been inconclusive so far, in part because it is hard to distinguish the consequences of merely working long hours from actual work addiction.

A study published in the current issue of *Academy of Management Discoveries* not only finds health differences among people who work long hours and those who compulsively work to excess. Researchers also found differences between workaholics who enjoyed their work and those who didn't.

In the study, employees at an international financial-consulting firm were asked to fill out questionnaires on their work hours, relationships at home and work, as well as their sense of well-being and any stress-related complaints, such as trouble sleeping or headaches.

They also had to score such statements as "It is hard for me to relax when I am not working on something" and "At my job, I feel strong and vigorous." After-

Workaholism by its very name suggests detriment to one's physical health.

ward, 763 employees took part in medical screenings for risk factors for more serious problems, such as heart disease and diabetes.

Researchers found no indication that simply working long hours led to stress-related ailments or more serious risk factors, such as high blood pressure.

And while the results showed a link between workaholism and stress-related physical complaints, only workaholics who described themselves as unengaged or feeling trapped in their work appeared at risk for more serious health disorders.

"That's where the real surprise came up for us," said Lieke ten Brummelhuis, an assistant professor at Simon Fraser University's Beedie School of Business near Vancouver and one of the study's authors. "Engagement is the key."

Prof. ten Brummelhuis and her co-authors speculate that job-loving workaholics appeared healthier because they tended to avail themselves of support on the job and at home when they needed it.

The lesson for employers, she said, is that they may be better off finding ways to help employees feel enthusiastic about their jobs rather than encouraging them to stay connected to work round the clock.

As for workaholics, they should ask themselves why they work so hard. "If it is out of love for the job, go for it," she says. "If not, alarm bells need to sound."

—Vanessa Fuhrmans

Sent Abroad? Plan Your Return Now

A hard landing can await an expatriate manager headed home; some firms help soften the re-entry

By JOANN S. LUBLIN

Taking an overseas assignment can vault your management career into the next level and test your skills in unfamiliar territory. But coming home can be the hardest part.

Companies typically provide expatriates with local housing subsidies, cross-cultural training and other perks. Few employers,

though, address what happens when that expat is ready to return—a fact that partly explains why one-quarter of returning executives jump ship within two years, recruiters and researchers estimate.

Employees who have successfully made the return trip credit advance planning, disciplined networking and sponsors back home. To better manage the transition, some companies work to plan managers' return roles even before they leave. But some experts warn it's still largely up to the individual.

"So much depends on the executive in question taking ownership for their repatriation," says Daniel R. Smith, a managing director of recruiters Raines International Inc.

Cosmetics giant L'Oréal SA invites repatriated U.S. staffers to go through orientation and integration programs as if they were brand-new hires. The idea is "to feel reintegrated into the company," says Jacob Bonk, a human-resources executive for its U.S. unit in New York.

Upon returning from four years in China, Mr. Bonk went through the first-day orientation last year alongside about 25 new staffers. Joining the new hires felt "a bit funny," Mr. Bonk recalls, but after living outside the U.S. for so long, "you're basically a new employee again."

Mr. Bonk's new boss also urged him to spend time rebuilding his U.S. network; in his first month back, he met



ANNIE TRITT FOR THE WALL STREET JOURNAL

'You're basically a new employee again.'

Jacob Bonk, a human-resources executive for L'Oréal in New York

face-to-face with 50 colleagues.

Both companies and individuals are advised to give extra thought to their return roles before they fly overseas. "Begin with the end in mind," says Stewart Black, a professor of management practice at Insead business school and veteran expatriate researcher.

For instance, Mr. Black suggests finding out which leadership skills your employer wants you to develop during a foreign stint. "If your company does not know how they will utilize you or your hard-won international experience before you leave, the odds they will miracu-

lously discover the answer just before your return are not good," he says.

To ensure that Monsanto Co. will benefit from skills developed abroad, the seed and pesticide maker identifies potential return positions before people move overseas, according to Bridget Walsh, a global talent mobility manager.

Monsanto says its approach has lowered attrition; some 7% of repatriates leave within two years, down from approximately 13.5% a decade ago, according to the company.

Ernst & Young LLP gives departing expats a 10-page survival guide and a mobility

adviser to help keep their careers on track while abroad.

Despite such assistance, the company doesn't guarantee specific jobs following international assignments, says Andrew Walker, Ernst & Young's global mobility leader.

When British drugmaker GlaxoSmithKline PLC hired Marc Speichert in January as global chief digital officer, working in Warren, N.J., interviewers told him to expect a three-year foreign assignment and described possible opportunities after his subsequent return to the U.S. He will relocate to the U.K. in 2018.

Sanket Akerkar, a Micro-

BUSINESS WATCH

JBS

Owners' Plea Bargain Comes Under Review

Brazilian Attorney General Rodrigo Janot said Monday that the owners of meatpacking giant **JBS** SA may have omitted evidence in a plea bargain they signed earlier this year with authorities.

Prosecutors are reviewing a recording in which two unnamed witnesses referenced "very grave" misconduct involving federal prosecutors and the Supreme Court, Mr. Janot said in a televised news conference. The alleged misconduct wasn't included in a \$33 billion settlement signed by JBS's parent company, **J&F Investimentos**, in which executives Joesley and Wesley Batista avoided jail time.

"The result of this could be the total loss of benefits," Mr. Janot said.

In an emailed statement, J&F said it acted in good faith.

"The precipitated interpretation given to the material turned in by the [J&F] executives themselves to the attorney general's office will be quickly clarified," the company said.

—Paul Kiernan

MERCK

Drugmaker Weighs Sale of Health Unit

Merck KGaA put its consumer-health unit on the block Tuesday in a move that will focus its health-care activities on the riskier business of developing prescription medicines.

Darmstadt, Germany-based

Merck is considering options for its consumer-health operations, including a full or partial sale, or strategic partnership, the company said. A final decision hasn't been made.

The move is a bet on Merck's growing pipeline of prescription drugs for diseases like cancer and multiple sclerosis. Merck has struggled to launch lucrative new drugs in recent years, though it has confidence in its current development pipeline, forecasting new drugs could generate more than €2 billion, or over \$2.38 billion, in annual revenue by 2022.

"We have continued to transform Merck...over the last years into a leading science and technology company," Chief Executive Stefan Oschmann said.

Merck's consumer-health unit makes over-the-counter drugs

and generated sales of €860 million in 2016 from a portfolio of 10 core brands that serve more than 40 markets. Citi analyst Peter Verdult estimated it could fetch a price of €1.8 billion to €2.7 billion from a full sale.

Drugmakers face pressure to scale up consumer-health businesses amid a wave of consolidation in the segment. In 2015, GlaxoSmithKline PLC and Novartis AG pooled their consumer-health businesses into a Glaxo-controlled joint venture. France's Sanofi SA swallowed Boehringer Ingelheim GmbH's consumer-health unit last year.

A sale of the consumer-health unit would focus Merck's health-care arm purely on prescription medicines. Earlier this year, Merck sold its biosimilars business—which developed generic versions of biologically

made drugs—to Fresenius SE in a deal worth up to €670 million.

Merck's other operations, which sell laboratory supplies and high-tech materials for items like smartphone screens, could cushion the company from the ups and downs of developing new drugs. It has bulked up both businesses through acquisitions in recent years.

"We view this as a sensible capital-allocation decision, reflecting both increasing confidence in the pharma pipeline and prioritization of investment elsewhere across group," said Mr. Verdult in a note to clients.

Merck said proceeds from any transaction would be used to help meet its financial targets.

The company isn't affiliated with U.S.-based **Merck & Co.**

—Denise Roland

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FINANCE & MARKETS



Food-delivery firm Blue Apron had a high-profile initial public offering in June on the New York Stock Exchange.

Why Index Funds Stay Out of IPOs

Some experts think the limited presence of new listings in ETFs could change

By ARI I. WEINBERG

Index funds have made their presence felt in a big way in every corner of the stock market except one: initial public offerings.

What would it take to change that?

Only a limited number of index funds and exchange-traded funds have moved to quickly include certain shares just after their IPOs—largely depending on the size and availability of the offering and the size of the company.

By design, however, the freight train of assets that is still moving into index funds tends not to find its way into shares offered in IPOs. This is because, as their name implies, these types of funds are built to track indexes, and indexes themselves generally do not include shares of IPOs on day one. Stocks found in indexes must fit established criteria for inclusion based on metrics such as public float, geography, market cap, industry, valuation and dividends.

IPOs, meanwhile, by their nature, involve companies that have no trading histories and that tend to offer investors

much less information compared with more-established publicly traded companies.

Index firm MSCI Inc., for example, generally requires at least three or four months of trading before a new stock can be considered for an existing or new index. There are exceptions. Large stocks, based on relative market cap within a specific segment, for example, can be included in an MSCI index as soon as 10 days after an IPO, with an announcement about the pending inclusion made on day one of the stock's initial offering if the company is expected to meet marketcap and trading requirements.

CRSP U.S. Equity Indexes, used by many Vanguard index funds and ETFs, publishes similar criteria for both standard inclusion and for "Fast Track" inclusion of IPO shares, as do S&P Dow Jones Indices and FTSE Russell, among others. Index methodologies usually include an annual or semiannual "reconstitution," wherein eligible stocks are swapped in (or out) based on published criteria. IPOs, including splits and spinoffs, can be special cases for quicker inclusion.

The existence of such index rules, however, hasn't barred all index-fund managers from the new-issue market. For example, some index funds can participate in IPOs or buy a stock before it enters the index, should the manager deem

it necessary for tracking. Again, that would really only be the case for large, liquid IPOs, including spinoffs.

Recently, a possible sticking point for more inclusion of IPOs in index funds emerged. In the IPO of Snapchat parent Snap Inc., the shares had no voting rights. While a handful of public companies have dual-class shares that award super-voting to insiders—such as Alphabet, Facebook and several family-controlled media companies—Snap's IPO was the first to offer no voting shares to the public.

Exchange-traded funds designed to invest in IPOs have had a mixed record.

After consultation with clients, index firms S&P Dow Jones Indices and FTSE Russell said this summer that they would limit inclusion of companies with dual-class shares in their indexes. MSCI's consultation closed on Aug. 31. In January, a coalition of major investors, including index-fund giants BlackRock and State Street Global Advisors, called for a ban on dual-class stock.

So far, major players directly involved in the IPO mar-

ket, including startups, investment professionals and regulators, aren't pushing for IPO shares to be included in index funds from day one, in part because there is less IPO activity in general these days.

In addition, startups have many other attractive options for attracting investment these days. Some argue that for company founders and early investors, the benefits of being a public company have receded in comparison with the massive increase of the private capital markets, including venture capital, private equity, sovereign wealth and family offices.

Some market professionals believe the limited presence of IPOs in ETFs could change. For instance, more index funds could decide to buy IPOs sooner than their current rules allow, or index providers could systematize a process for both broad-based and sector index funds to participate at the onset of a new issue.

ETFs designed to invest in IPOs have had a mixed record. These rules-based funds aren't as strict on index inclusion for new issues as the institutional index firms—MSCI, FTSE Russell, S&P Dow Jones and CRSP—which are mindful of the trillions of dollars of investor money that tracks their indexes or uses them as benchmarks. Including an IPO

on the first day of a listing, or very soon after, could push a

torrent of money to a stock that doesn't have the liquidity or capacity to support it.

The \$14.4 million Renaissance IPO ETF (IPO), which can hold IPO shares as soon as five trading days after listing and until their 500th trading day, has experienced \$19.2 million in outflows since its late 2013 launch. The performance demonstrates the challenge of investing in IPOs. It has underperformed the Mid-Cap Growth category on a three-year annualized basis (a return of 4.7% compared with 6.9%), but is up 26.8% this year compared with 13.7% for the category, says Morningstar. It has a 0.6% expense ratio.

The \$860 million First Trust US Equity Opportunities ETF (FPX) tracks the IPOX 100 index of the largest new offerings over their first 1,000 trading days. According to Morningstar, the 11-year-old fund has outperformed Large-Cap Growth over the past 10 years annualized, 11.1% compared with 7.9%, but has underperformed in 2017, 14.1% compared with 18.2%.

Both managers also offer IPO ETFs for non-U.S. securities. First Trust International IPO ETF (FPXI) has just \$20.6 million in assets and Renaissance International IPO ETF (IPOS) has \$2.3 million.

Mr. Weinberg is a writer in Connecticut. He can be reached at reports@wsj.com.

Citigroup Creates a Services Division

By BEN DUMMETT

Citigroup Inc. has created a separate services group within its investment-banking coverage of the industrials sector and appointed two global co-heads to oversee the new division amid a flurry of dealmaking in the payments-processing sector in Europe and the U.S.

Jean-Baptiste Petard is expected to join Citi in December as global co-head of the independent services division, according to a memo announcing the new structure.

A seasoned investment banker, Mr. Petard was most recently at UBS Group AG, where he oversaw the Swiss bank's investment-banking operations for business services, transportation and logistics in Europe, the Middle East and Africa. At Citi, he will be based in London, focusing on clients in the business and payment services sectors in EMEA.

Mr. Petard will share global co-head duties for the new services division with Citi veteran Chad Hoeft, who will continue his coverage focus on the security, facilities-management and travel-services sectors.

Mr. Hoeft joined Citi in 1998, and has spearheaded Citi's coverage of the services sector in North America for the past several years.

He remains based in New York.

Mr. Petard's appointment and his base in London underscore the potential of lucrative advisory work for investment banks amid a consolidation of the payments sector that is under pressure to cut costs and invest in new technologies to address the rise of mobile payments.

In one of the more recent high-profile cross-border deals, Vantic Inc., a big Ohio-based payments company, last month agreed to acquire U.K. payments processor Worldpay Group PLC for £8 billion (\$10.4 billion) in cash and stock.

In another deal last month, buyout firms Blackstone Group LP and CVC Capital Partners struck a deal to acquire Pay-safe Group PLC, another online-payments processor based in the U.K.

Mr. Petard will report to Manuel Falco, who oversees corporate and investment banking for EMEA, and Wes Walraven, Citi's London-based global co-head of industrials investment banking.

Mr. Hoeft will continue to report to Mr. Walraven.

Gold Shines as Tensions Rise

By AMRITH RAMKUMAR

Gold prices continued to rise, as the latest U.S. response to a North Korea nuclear test and comments from a Federal Reserve official urging caution on raising rates pushed investors toward the haven asset.

Gold for December delivery was up 0.9% at \$1,342 a troy ounce early Tuesday afternoon on the Comex division of the New York Mercantile Exchange. Prices have climbed to their highest level in almost a year recently as tensions between the U.S. and North Korea have escalated and many investors have become skeptical that the Fed will raise rates one more time this year amid sluggish inflation.

On Tuesday, President Donald Trump tweeted that he is allowing Japan and South Korea to buy "a substantially increased amount" of military equipment from the U.S. That came after South Korea warned Monday that North Korea appears to be preparing to test another intercontinental ballistic missile and U.S. ambassador to the U.N. Nikki Haley called for "the strongest possible measures" against North Korea.

North Korea said it conducted a sixth and significantly larger nuclear test on Sunday. The tensions have supported gold in recent sessions because many investors favor the precious metal dur-

ing times of geopolitical uncertainty.

Also on Tuesday, Fed governor Lael Brainard said in a speech that the U.S. central bank should be cautious about raising short-term interest rates further until policy makers are confident of overcoming the "persistent failure" to reach 2% inflation. The comments supported gold prices by adding to existing doubts about the Fed raising rates for a third time in 2017. Gold often struggles to compete with yield-bearing assets like Treasurys when borrowing costs rise.

"It's a perfect environment right now for gold to see some higher levels," said Bob Haber-

korn, senior market strategist at RJO Futures.

A weaker dollar also supported gold prices, as the dollar-denominated metal becomes cheaper to foreign buyers when the U.S. currency falls. The WSJ Dollar Index, which tracks the dollar against 16 other currencies, was down 0.5% early Tuesday afternoon.

Among base metals, copper for December delivery was recently up 1.2% at \$3,155 a pound. Global economic growth has pushed prices for the industrial metal to three-year highs, and strong manufacturing data out of China—the world's largest copper consumer—last week has also buoyed the metal.



Gold prices have climbed to their highest level in almost a year.

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FUND NAME GF AT LB DATE CR NAV YTD -%RETURN- YTD 12-MO 2-YR

Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866 Fax No: 65-6835-8865, Website: www.cam.com.sg, Email: cam@cam.com.sg CAM-GF Limited OT MUS 08/31 USD 31.07/6.35 2.9 -3.7 7.1

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FINANCE & MARKETS

The Myth of Stock-Market Tops

BY MARK HULBERT

Many investors are trying to pinpoint the exact day on which the bull market eventually reaches its top. My advice to them: Stop.

I say that not because it is difficult to predict when the stock market changes direction—though that is true, too. But there's an additional reason: Stock-market tops typically are a gradual rolling-over by the market rather than a sharp trend reversal. Some market averages will hit their peak months before or after others, and individual sectors can behave differently than the market as a whole.

In other words, the top doesn't occur on just one single day, or even in one week or one month. Even if you successfully predict the precise day, or week or month, on which a particular market average hits its top, you can still lose money—or leave a lot of it on the table—because other market averages and sectors likely aren't at their peaks.

A gradual process

This is an important insight not just for market historians. With the stock market up more than 300% from its March 2009 lows, and with the economy in its ninth year of recovery from the latest recession, many investors worry that a bear market is overdue.

Rather than anxiously trying to determine the exact day when to shift out of stocks, they should instead view market tops as a gradual process in which equity exposure is slowly and deliberately reduced over time.

Take the 2007 bull-market top. The most widely followed market benchmarks, such as the Dow Jones Industrial Average and the S&P 500 index, hit their highs on Oct. 9 of that year, and that is the date that most market timers record as the "top" of the 2002-07 bull market. Yet the Russell 2000 index, a widely used proxy for the small-cap sector, registered its top on July 13, three months prior. The Dow Jones Utility Average topped out even earlier, on May 21. And some sectors began



ANDREW BANNECKER

their bear markets even longer before; the SPDR S&P Regional Banking ETF, for example, hit its bull-market high in December 2006.

What this means: Pinpointing that Oct. 9 top wouldn't have been very helpful unless you were investing in the S&P 500. In the event you were investing in the average small-cap, utility or regional bank, among others, you would have lost money if you had waited until Oct. 9 to sell.

Perhaps the most spectacular example of a divergence at a market top, however, came when the internet bubble burst. Though the S&P 500 topped out on March 24, 2000, and didn't hit bottom until October 2002, the average small-cap value stock actually rose during that bear market, according to data from University of Chicago professor Eugene Fama and Dartmouth professor Ken French. So small-cap value investors left a lot of money on the table by going to cash during the 2000-2002 bear market.

Divergences this stark and spread out aren't unusual at market tops, according to David Aron-

Multiple Peaks

When several market averages/sectors hit their bull-market highs in what was considered the October 2007 market top

S&P 500
Oct. 9, 2007

DJIA
Oct. 9, 2007

Dow Jones Transportation Average
July 19, 2007

Russell 2000 index
July 13, 2007

Dow Jones Utility Average
May 21, 2007

SPDR S&P Regional Banking ETF
Dec. 29, 2006

Sources: HulbertRatings.com
THE WALL STREET JOURNAL.

son, a former finance professor at Baruch College and now president of Hood River Associates, a research firm that uses machine learning to enhance stock-market trading systems. "The process of topping out can take a really long period of time, evolving over a year or more," he told me in an interview.

Take the end of the bull market in the early 1970s, for example. Though the S&P 500 didn't hit its high until January 1973, major divergences "started to manifest as early as the spring of 1971," nearly two years prior, he says.

In contrast, Mr. Aronson adds, "market bottoms tend to be sharper." The bottom at the end of the 2007-09 bear market is a good case in point: Virtually all major averages hit their bear-market lows on March 9, 2009. Most individual sectors did so also, and those that didn't mostly hit their bottoms only a few days before or after.

As Mr. Aronson argues in a just-published book, "bottoms are easier to identify, in real time, than tops."

The narrow focus

Instead of trying to pinpoint the day of a particular market's average top, therefore, you might want to focus on the prospects for the individual stocks or mutual funds that you own. Bragging rights for calling the top of this or that market benchmark mean little if your stocks or funds start declining months before that top.

One helpful focus would be on internal market divergences between different sectors of the market. A healthy market is one in which most stocks are participating. As divergences emerge and become more pronounced, odds increase that the stocks you own may suffer even if the major market averages such as the Dow and S&P continue rising.

To the same token, you need to be alert to the possibility that your individual stocks will continue to rise even if the major averages begin a major decline.

It's worth noting in this regard that some potentially worrisome divergences have materialized in recent months, according to Hayes Martin, president of Market Extremes, an investment consulting firm that focuses on market turning points. In an email to me, he pointed out that there have been some significant divergences among groups that historically have been reliable "coal-mine canaries," such as small banks, which peaked on March 1, and smaller-cap stocks, which have been "battered" since late July. This suggests to him that we are probably in a long-term topping process.

Mr. Aronson agrees, though he says it's unclear from his work whether the coming top will precede a major bear market or something of more intermediate-term significance. Regardless, these divergences suggest that risk is elevated. We may want to focus more on which stocks or funds we would want to sell to reduce our equity exposure rather than what we'd buy to increase it.

Mr. Hulbert is the founder of the Hulbert Financial Digest and a senior columnist for MarketWatch. He can be reached at reports@wsj.com.



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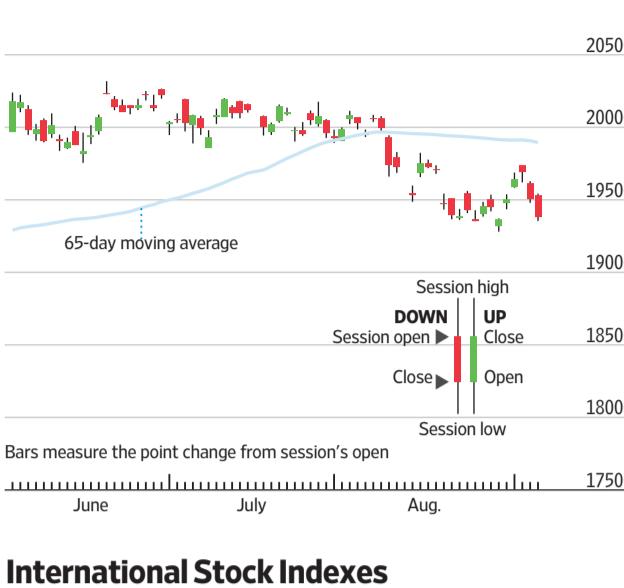
PERU CAMBODIA VIETNAM

MARKETS DIGEST

Nikkei 225 Index

19385.81 ▼122.44, or 0.63%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

STOXX 600 Index

373.71 ▼0.47, or 0.13%

High, low, open and close for each trading day of the past three months.



S&P 500 Index

Data as of 12 p.m. New York time

Last 23.86 24.71

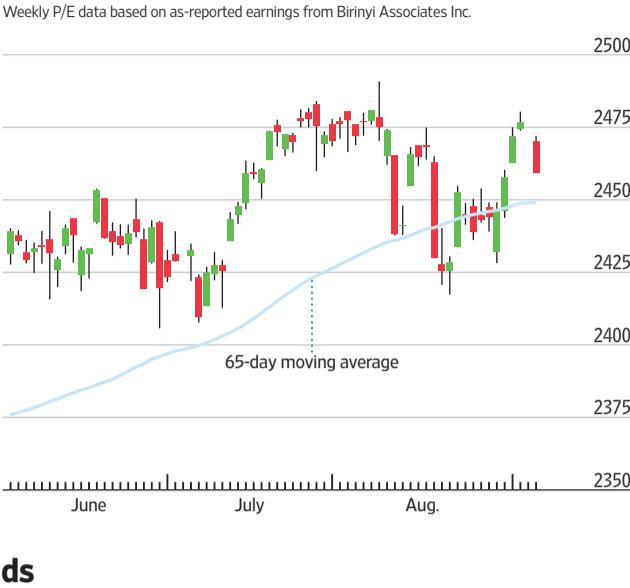
Year ago 18.85 18.57

Trailing P/E ratio 2.00 2.11

All-time high: 2480.91, 08/07/17

2459.42 ▼17.13, or 0.69%

High, low, open and close for each trading day of the past three months.



International Stock Indexes

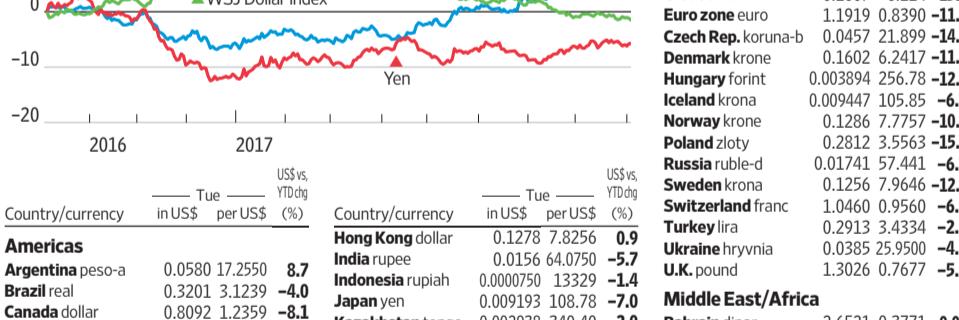
Data as of 12 p.m. New York time

Region/Country	Index	Close	Net Chg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2836.60	-12.19	-0.43	2386.93	2881.15	12.2		
	MSCI EAFE	1932.42	0.03	0.002	1471.88	1956.39	12.6		
	MSCI EM USD	1084.59	1.25	0.12	691.21	1087.78	36.6		
Americas	DJ Americas	593.29	-4.03	-0.67	503.44	599.20	9.8		
Brazil	Sao Paulo Bovespa	72208.63	79.80	0.11	56459.11	73179.53	19.9		
Canada	S&P/TSX Comp	15073.53	-118.07	-0.78	14319.11	15943.09	-1.4		
Mexico	IPC All-Share	50559.86	-265.91	-0.52	43998.98	51772.37	10.8		
Chile	Santiago IPSA	3897.16	-13.44	-0.34	3120.87	3945.90	20.9		
U.S.	DJIA	21806.92	-180.64	-0.82	17883.56	22179.11	10.3		
	Nasdaq Composite	6378.95	-56.38	-0.88	5034.41	6460.84	18.5		
	S&P 500	2459.42	-17.13	-0.69	2083.79	2490.87	9.9		
	CBOE Volatility	12.39	2.26	22.31	8.84	23.01	-11.8		
EMEA	Stoxx Europe 600	373.71	-0.47	-0.13	327.02	396.55	3.4		
	Stoxx Europe 50	3036.18	-6.07	-0.20	2720.66	3279.71	0.9		
France	CAC 40	5086.56	-17.41	-0.34	4310.88	5442.10	4.6		
Germany	DAX	12123.71	21.50	0.18	10174.92	12951.54	5.6		
Greece	ATG	812.85	3.97	0.49	548.72	859.78	26.3		
Israel	Tel Aviv	1392.31	1.76	0.13	1346.71	1490.23	-5.3		
Italy	FTSE MIB	21737.69	-52.93	-0.24	15923.11	22065.42	13.0		
Netherlands	AEX	515.46	-0.81	-0.16	436.28	537.84	6.7		
Russia	RTS Index	1100.83	9.00	0.82	953.12	1196.99	-4.5		
Spain	IBEX 35	10179.80	-63.40	-0.62	8512.40	11184.40	8.9		
Switzerland	Swiss Market	8869.56	5.10	0.06	7585.56	9198.45	7.9		
South Africa	Johannesburg All Share	56144.80	-168.05	-0.30	48935.90	56896.89	10.8		
Turkey	BIST 100	108872.99	-1137.50	-1.03	71792.96	110530.75	39.3		
U.K.	FTSE 100	7372.92	-38.55	-0.52	6654.48	7598.99	3.2		

Region/Country	Index	Close	Net Chg	% chg	52-Week Range	Low	Close	High	YTD % chg
Asia-Pacific	S&P/ASX 200	5706.20	4.20	0.07	5156.60	5956.50	0.7		
China	Shanghai Composite	3384.32	4.73	0.14	2980.43	3384.32	9.0		
Hong Kong	Hang Seng	27741.35	1.09	0.004	21574.76	28094.61	26.1		
India	S&P BSE Sensex	31809.55	107.30	0.34	25765.14	32575.17	19.5		
Indonesia	Jakarta Composite	5829.98	16.24	0.28	5027.70	5915.36	10.1		
Japan	Nikkei Stock Avg	19385.81	-122.44	-0.63	16251.54	20234.01	1.4		
Malaysia	Kuala Lumpur Composite	1769.63	-3.53	-0.20	1616.64	1792.35	7.8		
New Zealand	S&P/NZX 50	7777.40	-30.82	-0.39	6664.21	7879.46	13.0		
Philippines	PSEI	8049.35	14.15	0.18	6563.67	8072.75	17.7		
Singapore	Straits Times	3251.26	20.29	0.63	2787.27	3354.71	12.9		
South Korea	Kospi	2326.62	-3.03	-0.13	1958.38	2451.53	14.8		
Taiwan	Weighted	10617.84	47.97	0.45	8902.30	10617.84	14.7		
Thailand	SET	1620.42	1.31	0.08	1406.18	1620.42	5.0		

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Key Rates

	Latest	52 wks ago
Liber		
One month	1.23111%	0.51656%
Three month	1.31722	0.84067
Six month	1.45500	1.25006
One year	1.71456	1.56133
EuroLibor		
One month	-0.40071%	-0.37400%
Three month	-0.37329	-0.32400%
Six month	-0.30771	-0.26014%
One year	-0.21029	-0.07643%
Euribor		
One month	-0.37200%	-0.37200%
Three month	-0.32900	-0.30300%
Six month	-0.27400	-0.19700%
One year	-0.16100	-0.05400%
Yen Libor		
One month	-0.04264%	-0.05814%
Three month	-0.03093	-0.02850%
Six month	-0.00707	-0.00164%
One year	0.10186	0.09329%
Eurodolars		
One month	1.33000%	1.23000%
Three month	1.37000	1.27000
Six month	1.57000	1.47000
One year	1.82000	1.72000
Prime rates		
U.S.	4.25%	3.50%
Canada	2.95	2.70
Japan	1.475	1.475
Hong Kong	5.00	5.00
Policy rates		
ECB	0.00%	0.00%
Britain	0.25	0.25
Switzerland	0.50	0.50
Australia	1.50	1.50
U.S. discount	1.75	1.00
Fed-funds target	1.00-1.25	0.25-0.50
Cash money	3.00	2.25
Oversight repurchase rates		
U.S.	1.13%	0.49%
E		

THE PROPERTY REPORT

European Mall Operators Are Upbeat

Demographics, design and relative scarcity have helped Continent weather downturns

BY ESTHER FUNG

As in the U.S., the retail world in Europe has been turned upside down by the brave new world of shopping that enables you to buy practically anything while sitting in your pajamas at the computer or waiting in line with your phone.

But the pain to European retail landlords has been less severe.

Shares of listed European retail real-estate companies have fallen but not as far as their U.S. counterparts. Values of European malls and shopping centers continue to rise in some European markets while they are falling throughout the U.S.

The U.S. landscape is pockmarked in many regions by empty and near-empty shopping centers. In Europe, there are fewer such "dead malls," analysts say.

"Europe is not the U.S.A.," said Paris-based commercial-property company **Unibail-Rodamco SE**, in a first-half earnings-presentation in July.

Why not?

The main reason that analysts cite is that Europe didn't experience the retail-development boom that the U.S. did in the 30 years leading up to the 2008 crash.

In the U.S., there are 24 square feet of retail space for every man, woman and child in the country compared with five square feet in the U.K., four in France, and three in Spain and Italy, according to data from the International Council of Shopping Centers.

"It's a completely different scale," said David Ironside, chief investment officer of LaSalle Investment Management's continental European business. LaSalle's private-equity group owns 242 retail assets in U.K. and continental Europe. "You don't get into a distressed zone that quickly in Europe."

But there are other reasons besides moderate supply that explain why European landlords have been more sheltered from the retail storm. These reasons are now being studied closely by retail investors, developers and lenders as they look for opportunities



The Arenas shopping center in Barcelona, Spain. Retail-property investors have favored politically stable countries whose economies and populations are still growing.

and risks on both sides of the Atlantic.

One factor buffering European landlords is mall layout. Shopping centers in Europe are typically anchored by a grocery store, rather than a department store, which tends to be the norm in the U.S. Grocery stores bring in a lot of foot traffic. Department stores have been among the biggest victims of online shopping.

U.S. malls and shopping centers also are being hit harder by a recent spate of retailer contractions and failures. Department stores such as Macy's, J.C. Penney and Sears have announced closures of more than 400 stores across the U.S. since August 2016, hurting many secondary malls that are struggling to find replacement tenants.

Retailers in Europe currently are healthier, in part because many of the weaker ones failed during the financial upheaval between 2008 and 2009 and between 2011 and 2013, said Hemant Kotak, analyst at Green Street Advisors.

sors.

"We had a cleansing process in the last downturn and what survived were the better concepts and the ones with the better financial positions," said London-based Mr. Kotak.

One of the retailers that filed for bankruptcy in 2012 is fashion chain Peacocks, which was subsequently sold to another retail group that has since expanded Peacocks' stores.

Not every European landlord is doing better than those in the U.S. Some top U.S. mall companies, like Simon Property Group and GGP Inc., are popular with retailers and are recording rent growth and low vacancy rates comparable to the numbers being chalked up by leading European landlords.

Some trends in Europe aren't as promising as in the U.S. For example, Europe's population growth has been lackluster, which doesn't bode well for future increases in retail sales.

Still, investors are keenly aware of the advantages of Eu-

rope. In the 12 months ended in July, the FSTE NAREIT Equity Regional Malls Index, which tracks seven mall REITs in the U.S., skidded 32%.

During that same period, the Stoxx Europe Total Market Retail REITs, which tracks net returns of seven mall landlords in the region, declined a more-modest 11%.

Sales of U.S. shopping centers also have fallen sharply.

Volume totaled 670 million square feet between 2015 and the end of June this year, according to an analysis of deals in excess of \$10 million by data firm Real Capital Analytics. By comparison, some 790 million square feet traded hands between 2012 and 2014, Real Capital said.

In Europe, deal activity increased to 627 million square feet in the 18 months ended in July, up from 559 million square feet in the previous period, Real Capital said.

Investors particularly are hungry for shopping centers in Germany, Spain, Italy and the Netherlands, which are politi-

cally stable and whose economies are still growing.

In March, U.K.-based Intu Properties PLC acquired Xanadu shopping center in Madrid and its management company for €530 million (\$630 million).

Klepierre SA, the second-largest pan-European REIT and the largest to specialize in shopping centers, acquired a shopping mall in Spain's Mucia area for €233 million, and is redeveloping Hoog Catharijne, a mall in Utrecht, the Netherlands. In April, Klepierre opened 16,000 square meters (172,250 square feet) of new shops and restaurants in Hoog Catharijne and is scheduled to deliver more space in subsequent phases in November, March and 2019.

"We will continue to buy shopping centers in big cities and get rid of the ones in small cities where demographics are decreasing," said Jean-Marc Jesting, chairman of Klepierre's executive board, in an interview. The France-based landlord is looking at

shopping centers in the top three to five cities in each country in the eurozone where the population is growing and in areas connected to public transportation. "We don't like suburban retail," Mr. Jesting said.

Supply has been kept in check in Europe partly because city planners have protected downtown shopping areas from suburban competition. In many places, people prefer to take public transportation, bike or walk, weakening demand for malls with large parking lots.

The one exception in Europe that faces a cloudier outlook is the U.K., which has more online shopping than countries on the Continent and faces uncertainties from Brexit. A weakening pound that has yet to fully flow through to consumers could exacerbate pressures on them, especially if the housing market remains lackluster and interest rates rise, said Green Street Advisors in a report in August.

Big Landlord Pushes a Clicks-and-Bricks Strategy

BY PETER GRANT

At **Unibail-Rodamco SE**, Europe's largest listed commercial-property owner, autumn is the season for thinning its shopping-center herd.

Every October and November, senior management at Europe's largest mall company take a tough look at their far-flung properties to see how they are fitting into their vision for bricks-and-mortar shopping in a world of growing competition from online shopping. That vision is all about concentrating on quality locations and store design instead of quantity.

"This is when we make the decisions: They're big enough, or let's grow them or they don't meet our requirements and therefore we put them on the disposal list," said Christophe Cuvillier, Unibail-Rodamco's chief executive, in an interview with The Wall Street Journal.

Like other big retail landlords in Europe, Unibail is faring better these days than its embattled U.S. counterparts in terms of stock-market performance. Part of this is due to structural differences in Europe, such as the fact that the U.S. is "over-stored," with six times more retail space per capita than Europe and that European shopping centers rely less on department stores and more on supermarkets.

But European retail landlords also are fighting headwinds with operations like Unibail's annual cull of weak performers. The company, which owns 71 shopping centers in close to a dozen European countries, has disposed of more than €3 billion (\$3.6 billion) of retail assets in the past four years, reflecting its "cut throat" approach to getting



the chief executive of FNAC, a retail unit of PPR Group.

Mr. Cuvillier says he sees a bright future for what he calls "experience shopping," an activity that combines shopping with dining and entertainment. Online shopping will never substitute for the social and consumer experience of visiting a store, especially one that is well designed, he said.

"The size of your brand on an iPad or computer is exactly the size of any other brand," he pointed out. "Therefore it's very difficult as a brand to differentiate yourself because you're mixed with everybody else."

Stores also have other advantages: Retailers can interact with customers face to face and get immediate responses to new products. Consumers returning items they bought online are more likely to make additional purchases, something they can't do dropping a package in the mail, he said.

But the cost of designing, building and maintaining an experience store is high. As a result, retailers are becoming increasingly selective about locations, Mr. Cuvillier said. That is why Unibail has been jettisoning mediocre properties and concentrating on a few locations "where the brands have to be," he said.

That is also why Unibail has an €8.1 billion pipeline of future projects, including expansions and renovations of existing shopping centers and new ones such as an 80,000-square-meter (861,100-square-foot) mall in Wroclaw, Poland, that is scheduled to open later this year. It is 97% pre-leased with tenants including Calvin Klein, Tommy Hilfiger and Adidas, according to the company.

"The best retailers want to expand," Mr. Cuvillier said.

ting its portfolio right, said Mike Prew, a Jefferies analyst, in a report earlier this year.

The company also is focused on getting its retailer mix right and rotates at least 10% of its tenants in its shopping centers each year. This can be expensive in countries such as France, where tenants have more rights and often have to be bought out by landlords.

But the cost is worth it, analysts say. "The bigger is better streamlined portfolio is outperforming competitor and national metrics," Mr. Prew wrote. "The eviction costs of decanting tenants to bring in superior retailers [are] paying

off."

To be sure, some investor caution about European retail landlords is merited. The full impact of online retail is far from clear. For example, a relatively new risk facing Unibail and other European landlords is the growing volume of food being sold online, a threat to their supermarket tenants.

Europe also faces more political uncertainty than the U.S., as demonstrated by the recent terrorist attack in a popular Barcelona shopping district. "The threat of further terrorist attacks could negatively affect footfall in shopping centers," said a Morgan Stanley report on the Euro-

pean property sector published in August.

But Unibail's financial results this year have been solid. The company's shopping centers are about 95% occupied. Their revenue in the first half of 2017 was €670 million, up 4.1% from the same period last year, according to the company. Unibail's retail tenants saw sales growth of 2.7% this year through May, more than double the rise of national sales indexes in the countries where the company's centers are located.

Unibail also has tried to stay in front of changes in the retail and technologies sector. It hosted the first Apple store

in Continental Europe close to a decade ago and, more recently, leased space to Tesla outlets in its shopping centers in Sweden and France.

Unibail malls have updated Wi-Fi and charging stations and provide retailers a steady stream of information on shopping activities of visitors.

At the helm of the company is Mr. Cuvillier, who was brought in as chief operating officer six years ago by the company, which took on its current form in 2007 when Unibail Holding SA of France purchased Rodamco Europe NV of Holland. He had been one of France's online-commerce pioneers particularly as

MARKETS

U.S. Stocks Fall on Korea Tensions

Investors flock to havens such as U.S. Treasurys and gold; Nikkei and Kospi slip

By MIKE BIRD
AND MICHAEL WURSTHORN

U.S. stocks fell as fresh threats from North Korea, following the country's test of its most powerful nuclear bomb yet, weighed on major indexes.

The Dow Jones Industrial Average fell 259 points, or 1.2%, to 21,728

EQUITIES around midday. The S&P 500 declined 1%, while the Nasdaq Composite shed 1.4%.

Investors moved into haven assets, sending gold and U.S. Treasury prices higher. Meanwhile, the CBOE Volatility Index, a measure of expected swings in the S&P 500, jumped more than 29%.

Falling bond yields pressured shares of financial companies in the S&P 500, sending the sector down 2.1% around midday and making it the index's biggest laggard. Among the decliners: Goldman Sachs Group dropped 3.3%, while Bank of America fell 3.1%.

Investors looked beyond equities for safety.

U.S. government bonds strengthened, sending the yield on the 10-year Treasury note down to 2.084% by midday, according to Tradeweb, from 2.157% on Friday. Gold prices rose 0.8% to \$1,335.30 a troy ounce by midday.

"There is no solid game plan as to what we can do with North Korea," said Larry Adam, Deutsche Bank Wealth Management's chief investment officer. "People are getting nervous about that."

The U.S. told the United Na-



Property and banking stocks rose in Hong Kong on strong earnings from developer China Vanke. Its shares rose 3% in Hong Kong.

tions that North Korea was "begging for war" and called for "the strongest possible measures" against Pyongyang.

North Korea, meanwhile, appears to be preparing to test another intercontinental ballistic missile, South Korea said late Monday.

Market reactions to the continuing tensions between the U.S. and North Korea have been relatively muted in recent weeks, but market strategists warn the latest salvo of threats increase global uncertainty.

Selloffs last month were short lived, as robust company earnings and steady economic

data helped both the Dow industrials and the S&P 500 to hit their fifth consecutive month of gains.

"It seems the gravity [of the situation] has lifted to another level," said David de Garis, a senior economist at National Australia Bank. "This situation doesn't look like it is going to subside."

The Stoxx Europe 600 closed down 0.1%. South Korea's Kospi ended the day down 0.1%, despite a gain for index heavyweight Samsung Electronics.

Japan's Nikkei Stock Average closed down 0.6% after a 0.9% fall on Monday, as buying

of the yen, a traditional haven asset, accelerated during Asian trade.

Hong Kong's Hang Seng Index and Australia's S&P/ASX 200 both rose less than 0.1%.

Buying of property and banking stocks in Hong Kong was stoked by earnings from developer China Vanke, which reported a 47% rise in the value of new home sales from a year earlier in January-August. Shares in China's biggest property developer gained 3% in Hong Kong.

U.S. crude-oil prices jumped Tuesday and gasoline prices slid, as shuttered refineries and other oil infrastructure

continued to restart in the wake of Hurricane Harvey.

"The healing from Harvey has begun for energy markets," analysts at TAC Energy wrote in a client note Tuesday.

U.S. crude futures rose 2.8% to \$48.62 a barrel on the New York Mercantile Exchange.

Harvey knocked out more than 20% of U.S. refining capacity, stoking fears of a nationwide fuel shortage and causing crude supplies to build up in storage.

The renewed demand from refiners is supporting crude prices, said Ehsan Ul-Haq, director at consultancy Resource Economist Ltd.

Dollar Falls as Fed Signals Caution

By CHELSEY DULANEY

The U.S. dollar fell Tuesday as investors dissected policy signals from global central bankers.

The WSJ Dollar Index, which measures the U.S. currency against 16 others, was down 0.4% at 85.28 by midday in New York.

In a speech Tuesday, U.S. Federal Reserve governor Lael Brainard said the U.S. central bank should be cautious about raising interest rates amid the economy's "persistent failure" to reach its 2% inflation target.

Central bankers and investors have been puzzled by the recent slowdown in U.S. inflation, a potential obstacle to the Fed's plans for tightening policy.

Markets are now pricing in just a 42% chance that the Fed will raise rates again this year, according to **CME Group** data.

Expectations that U.S. rates will remain lower, compounded by political turmoil in Washington, have weighed on the dollar this year.

"About the only positive things that can be said for the U.S. dollar is that its tumble over the past few months has been severe," Scotiabank analysts said in a research note.

"The U.S. dollar may have to consolidate or correct before additional, significant losses can follow."

Other Fed officials, including Dallas Fed President Robert Kaplan, are scheduled to speak this week.

The European Central Bank and Bank of Canada are also holding meetings this week.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: heard@wsj.com

Uptick for Smartwatches Ahead

Wind Up

Global unit sales of wearable devices, quarterly



Sources: IDC

THE WALL STREET JOURNAL

as it started at \$399 (about \$550 in today's dollars) and only worked with a Mac computer. Expanding the compatibility to Windows and lowering the base price juiced the business significantly; iPod sales exploded from 939,000 units in fiscal 2003 to 4.4 million the following year.

Smartwatch makers probably won't see that kind of jump so quickly, but most are moving in the right direction, targeting introductory prices of \$300 or less while adding more functions. New devices from both Fitbit and Garmin add more health-tracking features as well as the ability to pay for transactions.

How each company will do over the next year remains to be seen, and the stakes are different for each. Apple doesn't report watch sales, but that business is expected by analysts to account for just 2% of the com-

pany's total revenue for the fiscal year ending in September, according to FactSet. Garmin's high-end Fenix watches have been among the strongest parts of its business of late, but the company is also diversified with other businesses such as navigational gear for boats and airplanes.

Fitbit, meanwhile, is almost entirely dependent on wearable devices. The Ionic watch launching in October will need to play a big role in helping the company return to growth following a year of sales declines.

Fitbit's stock price had jumped about 5% since its announcement through Friday, though the shares are still about one-fifth what they were worth before the company launched its first smartwatch called the Blaze in early 2016. That should at least leave much less value to burn.

—Dan Gallagher

Pharma Breakthrough Is Worthy of Attention

A major clinical breakthrough at two large pharmaceutical companies didn't get much attention from Wall Street. That means opportunity for investors.

Xarelto, the clot-prevention drug jointly owned by **Bayer AG** and **Johnson & Johnson**, was shown to significantly cut the risk of stroke, heart attack, amputation or death for patients with severe atherosclerosis, or blockage in the arteries. Patients who took Xarelto in combination with aspirin experienced a 24% decline in those serious events,

compared with patients who took just aspirin, the current standard of care. The trial was halted early due to Xarelto's efficacy.

The data, which were presented last month at a medical conference, are "about as good as it gets," according to Dr. Pete DiBattiste, head of cardiovascular research and development at Johnson & Johnson. Yet neither Bayer nor Johnson & Johnson shares have rallied since the data were unveiled.

Xarelto is already a blockbuster—analysts expect \$4 billion in sales at Bayer and \$2.4 billion at J&J from the drug in 2017, according to FactSet. And the firms will need regulatory approval to convert the data into expanded sales, which will take time. And Wall Street does ex-

pect significant growth in Xarelto sales—to about \$9 billion in total by 2020.

Still, there is a strong chance that Xarelto could sell better than most expect as the latest data significantly expand Xarelto's market potential. Bayer said on a call with analysts that as many as 30 million new people may become eligible for the treatment, and this is a treatment that goes on indefinitely. The number of patients could further expand when more data come out next year.

The drug is likely to be especially profitable because Bayer and J&J aren't likely to need a major investment in their sales forces to reach the new patients. And, since Xarelto would be an add-on to an existing aspirin regimen, those new patients won't need to switch from another drug.

Meanwhile, Johnson & Johnson and Bayer trade at 17 and 14 times forward earnings, respectively. Those valuations are in line with recent history, but analysts expect earnings growth on the order of 7% annually for the next three years for both firms. It should be possible for both companies to clear that bar.

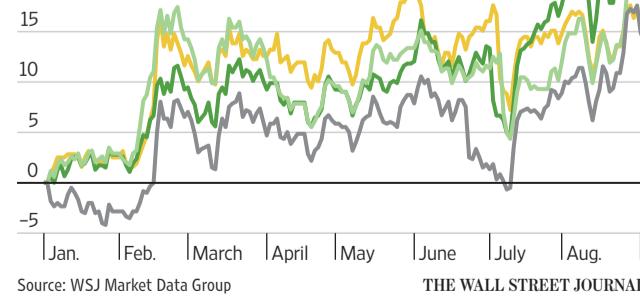
Stock markets are mostly efficient. But every now and then, a major development happens without much fanfare. Investors should take notice.

—Charley Grant

China's Big Banks Have Credibility Gap

Class Act

Share-price performance



Source: WSJ Market Data Group

THE WALL STREET JOURNAL

those of smaller rivals. That should mean easy profits, but the big banks' average return on assets was just over 1% in the first half, partly thanks to high operating costs, and partly because of still-high loan-impairment charges.

Together with declining

fee income, poor profitability is harming banks' capital positions. With little to add to retained earnings, bank capital levels are growing slowly. Their assets, meanwhile, are growing fast as they expand their loan books. The net effect is that their capital ratios—bank capital divided by

risk-weighted assets—are declining. Bank of China's core equity Tier 1 capital adequacy ratio fell to 11.8% from 12.3% a year earlier.

More optimistically, banks' bad-loan positions seem to be improving—although again, the good news is qualified. The improvement is partly a game of numbers: Total loans have been growing faster than bad loans. Moreover, big banks have found creative ways to dispose of soured debt. Bank of China has been securitizing some of its bad loans, while others have carried out debt-for-equity swaps or just transferred them into off-balance-sheet entities.

Chinese bank stocks are up 17% so far this year, and now trade at 0.9 times book value on average. Anyone hoping they can push higher still should take a closer look below the surface.

—Anjani Trivedi

OVERHEARD

Returns from assets that stir the emotions—classic cars, fine wines, ultra-high-end homes and the like—have been mediocre for half a decade now. Last year a portfolio of these so-called passion assets typically held by the super-rich appreciated by just 1.2%, according to Coutts, a London-based private bank.

Since 2006, when Coutts started tracking the series, the average annual return has been 5.3%, net of holding costs. But

almost all the money was made before 2012. Classic cars have fared best—up 14.2% a year on average—but even these have lost momentum, with prices down 10.4% in 2016.

Cumulative returns on these alternative assets are now lagging behind those on stocks. This is to be expected: Stocks come with dividends, whereas the dividend collectibles pay is that of a consumer good—the enjoyment and use provided by ownership.