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What's News

Business & Finance

United Technologies agreed to buy airplane-parts maker Rockwell for \$23 billion, in the biggest-ever aerospace deal. **A1**

♦ Novartis CEO Jimenez is stepping down in January after a tumultuous eight years at the helm of the Swiss drug company. **B1**

♦ BlackRock is pushing cross-selling as it uses its growing heft after a string of acquisitions and an investor shift to index funds. **B1**

♦ The Pentagon will likely be forced to rely on Russian-made rocket engines through 2024 or later. **B1**

♦ China declared initial coin offerings illegal, sending the prices of the leading digital currencies tumbling. **B1**

♦ Reckitt said four top executives are leaving, pushing down shares of the consumer-goods company. **B3**

♦ Carlyle won a lawsuit alleging the buyout firm didn't do enough to save a financial-crisis-era bond fund. **B10**

♦ The Labor Day weekend is expected to be the lowest-earning for movie studios in almost 20 years. **B6**

♦ A subsidy to Boeing from Washington state didn't violate international trade rules, the WTO decided. **B6**

♦ Investors in Asia and Europe moved into haven assets and sold stocks after North Korea's nuclear test. **B9**

♦ Bank stocks fell in August as rates slipped. Some say lenders may fall further. **B10**

♦ Publisher Tronc acquired the Daily News, a New York City tabloid. **B2**

World-Wide

♦ Congress is set to grapple with passing a hurricane-aid bill, raising the debt limit and keeping the federal government open as it returns from summer break. **A1**

♦ South Korea warned that North Korea appears to be preparing to test another ICBM and the U.S. told the U.N. that Pyongyang is "begging for war." **A1, A6**

♦ Trump is expected to delay the termination of the DACA program, which protects young, undocumented immigrants. **A1**

♦ Texans returning to flood-damaged homes face the threat of toxic pollutants in the air and water. **A2**

♦ Florida's governor declared a state of emergency in the entire state in advance of Hurricane Irma. **A2**

♦ State regulators are struggling to make decisions about health-insurance pricing and coverage amid uncertainty about the ACA. **A3**

♦ The U.S.-led coalition battling Islamic State in Syria said a stranded convoy has drawn other fighters, turning them into easy targets. **A7**

♦ Guatemala's high court approved a petition to strip immunity from President Morales, who is accused of illicit campaign funding. **A7**

♦ Most German viewers polled said Merkel won a debate with rival Schulz. **A16**

♦ Frankfurt officials successfully defused a World War II-era bomb. **A16**

♦ Canada is taking a tough line in the second round of talks on revising Nafta. **A5**

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U.S. Ambassador to the United Nations Nikki Haley, right, spoke on Monday at the U.N. with her Chinese counterpart, Liu Jieyi.

North Korea Crisis Heats Up

South Korea warned Monday that North Korea appears to be preparing to test another intercontinental ballistic missile, and the U.S. told the United Na-

strongest possible measures" against North Korea at an emergency meeting of the Security Council. The U.S. is circulating a resolution for new sanctions this week that it wants to schedule for a vote on Sept. 11, she said.

"The time for half-measures in the Security Council is over," Ms. Haley said. "The time has come to exhaust all diplomatic means before it's too late."

New sanctions could target North Korea's revenues from textile exports, prohibit North Koreans from working overseas and ban oil supplies to

the government and military, Security Council diplomats said.

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

China's U.N. ambassador, Liu Jieyi, made no mention of additional sanctions. He focused instead on China and Russia's proposal for North Korea to suspend its military and nuclear program in exchange for the U.S. suspending military exercises in the Ko-

rean Peninsula, to pave the way for direct negotiations—an approach Ms. Haley called "insulting."

The U.N. debate came as South Korean Maj. Gen. Jang Kyung-soo, acting deputy minister for national defense pol-

Please see KOREA page A6

Rising Peril

♦ Gerald F. Seib: Hard truths govern crisis A4

♦ Trump's threat puts China trade at risk A6

♦ Nuclear test spurs investors' flight to safety B9

Congress Returns To Tense Session

By MICHAEL C. BENDER
AND KRISTINA PETERSON

WASHINGTON—Congress returns Tuesday from its summer break and, in a test of the uneasy alliance between President Donald Trump and Senate Republicans, will have to grapple with keeping the federal government open, paying U.S. creditors and passing a hurricane-aid bill.

The list is long, and the time is short. The Trump administration is asking for approval of \$7.85 billion to begin paying for the recovery from Hurricane Harvey, with a House vote scheduled for Wednesday. Congress also must keep the government running after current funding expires by Oct. 1, as well as raise the U.S. borrowing limit or risk defaulting on the nation's debt.

Adding to the tension, the House and Senate are in session at the same time for just 12 days in September, and Messrs. Trump and Senate Majority Leader Mitch McConnell haven't met in weeks.

The president invited the Kentucky Republican and other GOP leaders to Bedminster, N.J., during his working vacation last month, but they were unable to coordinate schedules, according to people familiar with the planning.

Mr. Trump over the August recess repeatedly criticized Republican lawmakers over Please see TRUMP page A4

♦ Canada takes tough line in Nafta talks A5

First Class

The planned acquisition of Rockwell Collins by United Technologies would be the fourth-largest deal so far this year.

Acquirer	Target	Announced	Value, excluding debt
Johnson & Johnson	Actelion	Jan. 26	\$31.4 billion
Essilor International	Luxottica Group	Jan. 16	24.4
Becton Dickinson	C.R. Bard	April 23	23.7
United Technologies	Rockwell Collins	Sept. 4	23
Atlanta	Abertis	May 15	17.9

Sources: Dealogic; the companies

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United Technologies Sets Rockwell Deal

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.

It 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 planes are likely to be worth decades of business for the component makers such as United Technologies and Rockwell.

Farmington, Conn.-based Please see DEAL page A5

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

The deal would be the big-

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

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P&G PROXY FIGHT PITS MENTOR VS. PROTÉGÉ

Former CFO sides with activist investor Peltz against his old colleagues

BY SHARON TERLEP AND DAVID BENOIT

CINCINNATI—Clayton Daley gave 35 years of his professional life to Procter & Gamble Co., rising to finance chief and then grooming his successor, Jon Moeller.

Now, the mentor and his former protégé are on opposing sides of a boardroom fight over how best to reinvigorate P&G, a consumer-products giant that at one time boasted brands in nearly every aisle of the supermarket.

In a challenge of P&G leadership, Mr. Daley was hired this summer to help win a board seat for activist investor Nelson Peltz, who believes the maker of Tide and Pampers isn't moving fast enough to revive sales and profits. The company said Mr. Peltz would disrupt its progress and has cast Mr. Daley, who retired at the end of 2008, as too long out of touch to be taken seriously.

With an announcement scheduled for Tuesday, Mr. Trump is expected to delay the program's termination for as long as six months, two White House officials said, to give Congress time to approve legislation that would achieve the same goals.

The Deferred Action for Childhood Arrivals program, or DACA, offers two-year per-

P&G, which has a market value of about \$235 billion, is the largest company to ever face such a proxy fight.

The battle has upended longstanding relations between Mr. Moeller, chief financial officer, and Mr. Daley, who last spoke with his former colleague over lunch this summer at the private Queen City Club.

Mr. Moeller said Mr. Daley told him he was considering "becoming an enemy of the company." Mr. Daley denied that in an interview: "I told him, 'I don't want to become an enemy of the company,'" he said.

Whatever was communicated, Mr. Daley was hired as an adviser by Mr. Peltz's Trian Fund Management LP to aid in the activist's quest. Both sides are courting investors who are set to decide at the company's Oct. 10 shareholder meeting. Trian's blueprint to revamp P&G is due out this week and, among Please see PELETZ page A8

Battle Looms Over Immigration

BY LAURA MECKLER
AND MICHAEL C. BENDER

WASHINGTON—President Donald Trump's move to end a program that protects young, undocumented immigrants sets up a six-month scramble among Republicans who want to save the protections, others who want to kill them and still others who hope to use the program's future as a bargaining chip for other goals such

as funding for the proposed border wall with Mexico.

With an announcement scheduled for Tuesday, Mr. Trump is expected to delay the program's termination for as long as six months, two White House officials said, to give Congress time to approve legislation that would achieve the same goals.

The Deferred Action for Childhood Arrivals program, or DACA, offers two-year per-

mits that provide safe harbor from deportation and the chance to work legally. Under the likely administration plan, existing permits would still be good until their expiration dates, and those whose permits are expiring in the next six months would have the chance to renew them for two years, according to one person familiar with the planning. But after the six-month delay, no

Please see DACA page A4

They scream, bite and are messy,' but only dogs, cats are more popular

BY CLARE ANSBERRY

Anyone thinking of adopting Scooter should know a few things about him first.

He is a bully and he bites. When he's bored or anxious, he plucks out his own feathers.

Arrr! It turns out that parrots—the most popular pets behind dogs and cats—aren't always man's best friend.

All of which makes Dawn

Martine's job extra tough. She runs the Parrot Education Adoption, Rehoming League, or Pearl, a nonprofit rescue organization that does its best to find new homes for unwanted birds, including Scooter.

"They scream, bite and are messy," says Ms. Martine, who has 12 parrots, including two Moluccan cockatoos, the loudest parrot on Earth, whose

Please see PARROT page A8

INSIDE



CALVIN KLEIN'S LUXURY MAKEOVER

U.S. NEWS

Waters Ebb, But Texans Face Threats

BY DOUGLAS BELKIN
AND TAWNELL D. HOBBS

HOUSTON—Water is subsiding in flooded neighborhoods, the mayor is insisting Houston "is open for business" and shelters are emptying out, but Texans returning to flood-damaged homes face plenty of obstacles: the threat of toxic pollutants in the air and drinking water, and even hungry, dislocated animals seeking shelter.

On Monday, authorities lifted an evacuation order in Crosby, site of an Arkema Inc. chemical plant about 25 miles northeast of Houston. Containers of chemicals, which are unstable if not kept refrigerated, started igniting Thursday after power outages cut off cooling systems. On Sunday, the company said it decided to purposely ignite the remaining inventories of the chemical.

But concerns about the long-term environmental damage to the region remained high, and the Houston Health Department is overwhelmed. The two employees who routinely test the city's waterways aren't sufficient to quickly monitor the storm's effects across Houston's vast network of bayous, said Loren Raun,

chief environmental science officer for the health department.

"It's too big of a problem," Ms. Raun said. "We really need to be sampling everywhere."

Floodwaters also have inundated at least five toxic-waste Superfund sites near Houston, and some may be damaged, though Environmental Protection Agency officials have yet to assess the full extent.

One of Ms. Raun's chief concerns is the threat of toxic pollutants from Houston's runoff reaching downstream ecosystems, contaminating the soil and entering the air through evaporation.

The city's main waterway, the Buffalo Bayou, channels runoff from the surrounding 102 square miles into the Houston Shipping Channel. Those waters eventually make their way to the Gulf of Mexico, she said.

That is why Ms. Raun emailed EPA officials Friday to request help in taking and testing water samples near Superfund sites. An EPA official replied Friday to say he had forwarded her request to the agency's Regional Emergency Operations Center.

In the meantime, Houston



Volunteers removed drywall and insulation from the water-damaged home of Julia Lluvia on Monday in Houston.

Health Department air-inspection teams will begin to fan out Tuesday to monitor air quality around the city's petroleum and chemical manufacturers, targeting roughly 100 of the largest locations first, according to Donald Richner, senior project manager for the bureau of pollution control and prevention within the health department's environmental division.

"We'll start with them, because when they have a problem, it's usually bigger than anyone else's," Mr. Richner said.

About 2,800 evacuees re-

mained in Houston's megashelter at the NRG Center on Monday—from a high of about 10,000, according to a spokeswoman at the convention center. Victims are being consolidated from other smaller shelters, and many others have returned home.

Houston Mayor Sylvester Turner said much of the city was getting back on track after Labor Day, some 10 days after Hurricane Harvey made landfall.

"Anyone who was planning on a conference or a convention or a sporting event or a concert coming to this city, you can still come," the

mayor told CBS on Sunday. "We can do multiple things at the same time."

Harvey slammed into Texas on Aug. 25 as a Category 4 hurricane, but it brought the worst flooding to Houston and other areas as a tropical storm. The rain totaled nearly 52 inches. On Monday, the Houston Chronicle reported that the number of people missing or dead in connection with the storm was now 75.

In some storm-ravaged areas, people worried about thefts. In others, residents were facing a different kind of intruder.

"We have everything from snakes to alligators to fire ants," said Lach Mullen, spokesman for the Office of Emergency Management in Fort Bend County, southwest of Houston.

"Even though evacuation orders have been lifted, people have to be wary of new occupants in their homes. They don't want to occupy the same space as you; they will leave on their own when they can," he said.

—Melanie Evans contributed to this article.

◆ Drones play a big role in Harvey recovery efforts..... B7

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◆ Drones play a big role in Harvey recovery efforts..... B7



In Port Arthur, Texas, volunteers loaded up supplies on Sunday. Many in areas hit hard by Harvey have come forward to help.

east and the Gulf of Mexico to the south. The city, with its refinery-based economy, attracts residents of neighboring towns such as Nederland and Port Arthur for school, shopping and work.

Port Arthur, about 20 miles south of Beaumont, was especially hard hit by the floodwaters of Harvey, which first made landfall in Texas as a hurricane on Aug. 25. While Beaumont also experienced

Florida Is Preparing For Hurricane Irma

Florida Gov. Rick Scott declared a state of emergency in all of the state's 67 counties in advance of Hurricane Irma, which was approaching islands in the northeastern Caribbean on Monday.

Irma grew into a powerful Category 4 storm Monday and was forecast to begin buffeting Caribbean islands on Tuesday.

Mr. Scott said that because many of the storm models have Florida in Irma's path, he advised residents to take time to make preparations. The governor said the state of emer-

gency allows emergency-management officials to act swiftly. Models put any Irma landfall in the U.S. as happening this weekend at the earliest.

"This hurricane has the potential to be a major event for the East Coast. It also has the potential to significantly strain FEMA and other governmental resources occurring so quickly on the heels of Harvey," Evan Myers, chief operating officer of AccuWeather, said Monday.

Emergency officials warned that Irma could dump as much as 10 inches of rain, unleash landslides and dangerous flash floods and generate waves as high as 23 feet in the Caribbean, when it hits Tuesday.

—Associated Press

flooding, a crippling water shortage has been the city's most severe repercussion in the storm's aftermath.

"We're resilient," said Beaumont Mayor Becky Ames. "Everyone has great attitudes

about it. Everyone is helping everyone."

Officer Carol Riley, a spokeswoman for the Beaumont Police Department, said it was still unclear how many residents of the city of

roughly 118,000 were still without water as of Monday.

But even those homes with running faucets will have to boil water to ensure potability until it is cleared by state regulators, Ms. Riley said.

City officials said Saturday that pumps are in place to refill water at the local water plant where it is being treated before it is pumped into the city. This is only a temporary solution until water along the Neches River recedes and two water-intake facilities can be assessed for damage.

Officials don't know when full water services will resume, Ms. Riley said, though floodwaters have been steadily receding in the area.

Beaumont residents, though they're suffering a grave inconvenience, feel a sense of gratitude," said Dan Maher, the food bank's 52-year-old executive director. "They feel obliged to give back...because they sense others have it much worse."

Flood Damage Delays the Start of School Year

BY TAWNELL D. HOBBS
AND MELISSA KORN

HOUSTON—Neatly printed fliers welcoming each student back to the start of school sat on tables in a classroom at A.G. Hilliard Elementary School in northeast Houston, but the students won't be there anytime soon.

The campus took on 4 feet of water in some areas and, during a visit Saturday, desks sat in puddles alongside sodden books.

The past week has been a time of harsh reckoning and

frantic planning for school officials across southeast Texas, as administrators assessed the toll Harvey took on buildings and the storm's impact on at least one million schoolchildren.

The walk through Hilliard Elementary provided a glimpse into the work ahead, as dozens of districts scrambled to reopen as soon as Tuesday. Desks and file cabinets were strewn across the school's gymnasium, displaced by the rush of water and then stranded when the flooding subsided.

District officials said flooring and walls will have to be

removed, and waterlogged books and supplies replaced. It could be several months before the school is reopened, they said.

"This is a heartfelt tragedy for many of us," said Wanda Adams, president of the Houston Independent School District Board. "It's going to take a lot of money to restore these schools."

The district, with roughly 218,000 students, was still assessing damage over the weekend and didn't yet have a cost estimate of the work needed.

By Saturday, more than 200 of its 288 schools had some water intrusion, with at least 50 suffering extensive damage, according to Houston ISD Chief Operating Officer Brian Busby. Between 10,000 and 12,000 students enrolled in schools that need extensive repairs, like Hilliard, will be relocated.

The district, the nation's seventh largest, was scheduled to start classes Aug. 28. It now expects to open Sept. 11, though Superintendent Richard Carranza left open the possibility the first day could be postponed further.

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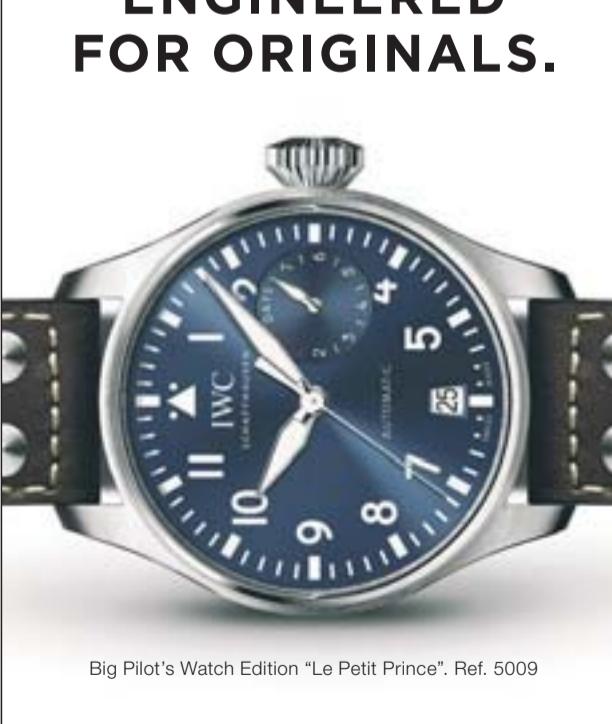
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SCHAFFHAUSEN

WEDNESDAY: The Commerce Department releases its July **U.S. international trade** report. The trade gap narrowed sharply in June, as a strengthening global economy pushed up demand for American exports.

THURSDAY: European Central Bank officials in Frankfurt could discuss a key topic for investors: How to wind down the **ECB's giant bond-buying program**, known as quantitative easing.

The Labor Department releases revised data on second-quarter **U.S. productivity and costs**. Productivity growth has been lackluster since the recession, one factor economists use when attempting to explain the recently sluggish wage growth. The second-quarter figures released in August showed U.S.

worker productivity picked up modestly in the second quarter, but showed little sign of a breakout. Economists surveyed by The Wall Street Journal estimate productivity rose at a 1.3% seasonally adjusted annual rate in the second quarter, up from an originally reported 0.9% growth pace.

FRIDAY: China releases **trade data** (release time is Thursday evening in the U.S.). Economists estimate that exports rose about 6% from a year earlier in August, moderating from July's 7.2% growth, while imports likely climbed 10%, down from July's 11% increase.

That would bring the country's trade surplus to about \$48.3 billion last month, widening from July's \$46.74 billion.

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U.S. NEWS

Trump's Man in the West

Interior chief Zinke wins backing of locals in his review of federal protection of lands

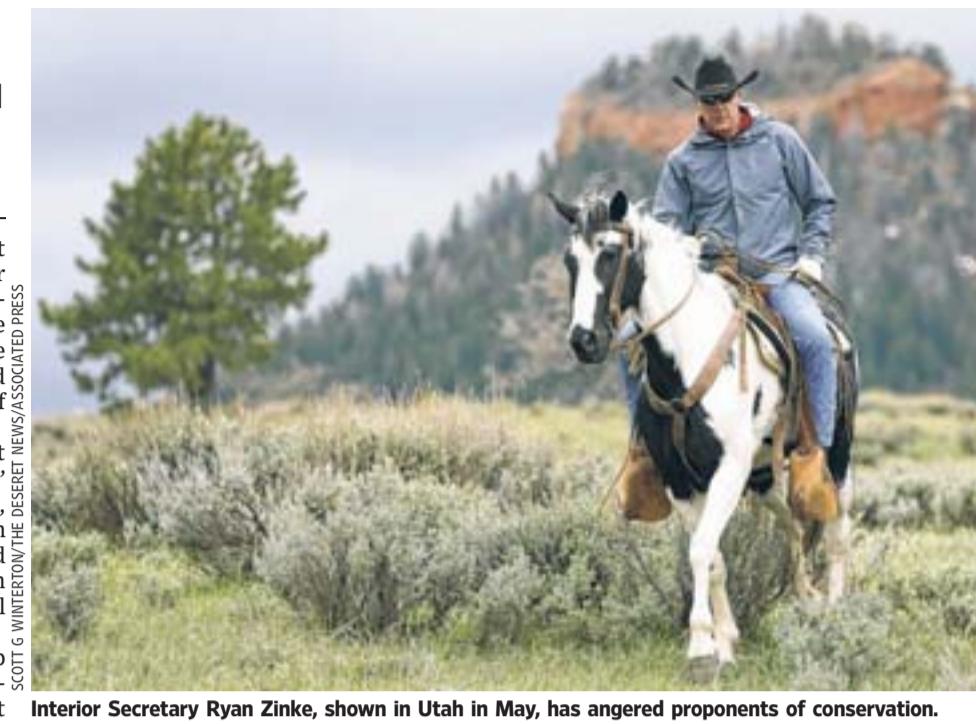
BY JIM CARMON

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



Interior Secretary Ryan Zinke, shown in Utah in May, has angered proponents of conservation.

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 by former Presidents Bill Clinton and Barack Obama—for possible downsizing or elimination.

On Aug. 24, Mr. Zinke sent the president his recommendations. Mr. Zinke suggested several monuments 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.

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 Saege, 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 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 are intended to include a group he says that has been ignored by federal policy makers.

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 Cas-

cade-Siskiyou National Monu-

ment 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.

Loggers and ranchers cried

foul, saying the expanded

monument would limit their

operations. Before meeting

with anyone, the interior sec-

retary opted to do what he of-

ten does—explore on foot.

Along the way, he greeted

hikers. Exchanges were mostly

amicable, 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?"

Insurers Face Deadline on Rates

BY ANNA WILDE MATHEWS

A deadline for insurers to file 2018 prices for health insurance sold through Affordable Care Act exchanges arrives Tuesday, but state regulators are 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 hefty rate increases.

According to actuarial firm Milliman Inc., at least 32 states have requested that insurers prepare alternative premiums for different scenarios. Most of those states are still

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 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 dead-

line, 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-Sep-

tember cutoff. Other big insurers have said they are consid-

ering leaving more exchanges.

A Senate committee is set to begin hearings Wednesday

on legislation intended to sta-

bilize the exchanges created

under the 2010 law. Any bill is

likely to include funding for

cost-sharing payments.

32

states requesting different premiums for various scenarios

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.

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U.S. NEWS

Hard Truths Govern the North Korea Crisis



CAPITAL JOURNAL

By Gerald F. Seib

There is no good news about North Korea's nuclear program, only hard truths. In the wake of Pyongyang's weekend nuclear-weapons test—its biggest ever—here

are three of those truths:

Ideally, the U.S. would enter this new phase of the confrontation in harmony with its key allies, but that isn't the case.

Tougher economic sanctions on North Korea are a necessary weapon now, but aren't likely to be sufficient. Ultimately, there probably

is no choice except returning to diplomacy to contain this crisis.

This new phase arrives because of North Korea's underground test Sunday of what may have been a hydrogen bomb, as well as signs it now is preparing for yet another test of an intercontinental ballistic missile. On one level, a bigger underground explosion doesn't change the nature of the challenge. It was, says one former national-security official, merely "a bigger boom."

Yet the test underscores the relentless nature of North Korea's nuclear advances—and crystallizes those three hard truths. Let's deal with them in turn:

Problems with the allies. It would be hard to pick a worse time for a fight with South Korea, the country on the front line confronting North Korea, yet that is what President Donald Trump has done. He told ad-

visers late last week he wants to withdraw from the five-year-old bilateral trade agreement with South Korea.

None of the presidential advisers involved in the discussion wanted to take that step, said a person familiar with the discussion. Word leaked out, straining the South Korean relationship. Two days later, the North Koreans exploded their nuclear device. Then relations with Seoul were strained further by a presidential tweet accusing South Korea of "appeasement" of North Korea.

Meantime, a planned visit to Washington this week by Japanese Finance Minister Taro Aso was canceled after the minister made what seemed to be a remark justifying Adolf Hitler's motives in ruling Nazi Germany.

Ties with China are tense because of trade disputes as well as public criticism from Mr. Trump of China's failure to rein in Pyongyang. In sum, relations with the three most

important countries in confronting North Korea are less than ideal.

The limits of sanctions. Right now, the Trump administration's focus, understandably, is on imposing tougher economic sanctions to force North Korea to feel significant new pain.

These sanctions, expected to be codified at the United Nations, are likely to focus on curtailing energy supplies to North Korea, and to impose unilateral American penalties on countries and companies that continue to trade with the North. There also may be an attempt to limit the activities of North Korean diplomats. The most potent step would be for China to agree to cut off shipments of oil to North Korea.

Yet there are limits to what sanctions can accomplish. Six decades as a pariah state have forced North Korea to develop an elaborate black-market system for acquiring what it needs. A defector told

Japan's Kyodo News Service earlier this summer that North Korea covertly receives oil from Russian suppliers through Singapore brokers.

Moreover, no country on Earth is better conditioned for handling pain than North Korea, which has long deprived its own people of basic goods. "I think you can hurt them a little bit," says Kurt Campbell, a former assistant secretary of state for East Asian and Pacific affairs who now is chairman of the Asia Group, an advisory firm. "But remember this is a country that made it through a famine" in the 1990s that may have killed two million of its own people.

The need for diplomacy. Most experts simply don't think a pre-emptive military strike on North Korea is feasible, because it would trigger a conflict that could leave millions of South Koreans dead. Unless China can somehow

arrange a regime change in North Korea, sanctions likely will need to be combined with a more robust military encirclement to further cut off North Korea from the outside world to make its leader, Kim Jong Un, see the wisdom of charting a new course. But even if that succeeds, a diplomatic track will be needed to negotiate that new course and the rules for enforcing it.

The most urgent need is to negotiate an end to North Korea's missile and weapons tests. Various approaches have been tried over the years, most notably six-party talks involving the U.S., China, Russia, Japan and South Korea with the North.

The results disappointed, mostly because of North Korean chicanery. The best hope for a different outcome now lies in the possibility that North Korea's actions have at last hardened international—and particularly Chinese—resolve to make this time different.

DACA

Continued from Page One
new permits or renewals would be issued.

Administration officials cautioned that Mr. Trump's decision wasn't yet final. It was unclear how forceful Mr. Trump would be in calling for legislation or what parameters he might set.

Mr. Trump's timing was tied to a threat by a coalition of 10 states to sue the administration over the program. They set a deadline of Tuesday. Immigration hard-liners argue that the program, created by former President Barack Obama, represented an unconstitutional overreach of executive authority.

The program, created in 2012, offers young people brought to the U.S. as children a reprieve from deportation and work permits. Since then, nearly 800,000 people have enrolled.

Meantime, on Monday, Washington state and New York state officials threatened a suit if Mr. Trump ends the program.

Immigrants-rights advocates and many Democrats continued to press Mr. Trump to save the program. But they also were looking ahead to the legislative effort to pass some version of the proposed Dream Act, which would provide a path to citizenship for roughly the same group covered by DACA.

Democrats are in the minority in both houses of Congress but hold some power in the looming debate, too. Their votes will be needed for legislation this fall, including a spending bill necessary to keep the government open. They could be in position to insist on protections for the Dreamers, as people under the program are widely known.



Supporters of the Deferred Action for Childhood Arrivals program, or DACA, demonstrated Sunday in front of the White House.

Rep. Joaquin Castro (D., Texas) noted that many Republicans said that their only complaint was with the way the program was created. "For all the members of Congress over the past 5 years who said DACA should've been done 'legislatively' here's your chance," he said over the weekend on Twitter.

On Friday, House Speaker Paul Ryan also called for Congress to protect the young people who fall under the DACA program.

Sen. James Lankford (R., Okla.) said Monday that Congress needs to act. "It is right for there to be consequences for those who intentionally entered this country illegally.

However, we as Americans do not hold children legally accountable for the actions of their parents," he said.

While many Republicans are open to the idea of passing legislation that would protect Dreamers, others oppose any move that they see as rewarding parents for breaking the law and potentially spurring additional illegal immigration.

"Ending DACA now gives chance 2 restore Rule of Law. Delaying so [Republican] Leadership can push Amnesty is Republican suicide," Rep. Steve King (R., Iowa) said on Twitter.

In Congress, several versions of the Dream Act are

pending or under discussion. Some Republicans are hoping they can persuade Democrats to pair passage with funding for Mr. Trump's border wall, but Democratic leaders say they would resist that deal.

Rather, Democrats hope that Republicans will agree to adopt some version of the Dream Act without conditions, and are considering ways to force a vote on the matter as part of debate over a defense-policy bill or perhaps the short-term spending bill, both of which are expected to be considered in the coming weeks.

In 2010, the Dream Act passed the House, then controlled by Democrats, but fell

five votes short of the 60 needed in the Senate. Five Democrats joined most Republicans in voting no.

Pressure to keep the program has come from corporations, educational leaders and the young people themselves, who have found themselves in a state of limbo since Mr. Trump campaigned last year on a promise to end the program.

"If I lose my DACA, it's basically going back into the shadows and not being able to do anything. It's pretty nerve-racking," said Eduardo Vazquez, 18 years old, who said he came to the U.S. from Mexico when he was 2 years old with his mother.

He is now a freshman on full scholarship at George Mason University in Virginia but said his aid depends on having legal status. If he loses DACA, he said he feared he would have to pay tuition as if he were an international student.

Mr. Trump ran for president on a promise to crack down on illegal immigration and to kill the DACA program, calling it an "unconstitutional executive amnesty." As president, he softened his view. He allowed the program to continue and called it "one of the most difficult subjects" he had to deal with because "you have these incredible kids."

—Leslie Brody contributed to this article.

TRUMP

Continued from Page One
Twitter, blaming them for the failure to repeal the health-care law. His tweets underscored the party's inability to pass major legislation, despite 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 the looming high-stakes bills that already face little room for error in either chamber.

"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 Con-

gress 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 in 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

Nominee to Run NASA Faces Hurdles

GOP Rep. Jim Bridenstine, named Friday as President Donald Trump's choice to head the National Aeronautics and Space Administration, would face tough policy, personnel and political challenges in an era of booming commercial space ventures if he is confirmed by the Senate.

The nomination of the former Navy aviator and three-term Oklahoma lawmaker, which was expected, comes amid uncertainties about 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 better coordinate military and civilian space programs. But

the White House and congressional Republicans began to fray before the August recess, as the Senate struggled to overhaul the health-care law.

Mr. McConnell, a fastidious, 30-year veteran of the Senate, often prepared note cards with

the result, according to industry officials and former NASA managers, could restrict his options in running the agency.

In Congress, Mr. Bridenstine has supported greater emphasis on tracking orbital debris as companies contemplate unprecedented numbers of low-earth-orbit satellites.

The nomination prompted criticism from Republican Sen. Marco Rubio and Democratic Sen. Bill Nelson, both of Florida, who focused on Mr. Bridenstine's partisan background and lack of management experience as drawbacks.

—Andy Pasztor

points he wanted to make during phone calls with the president. Mr. Trump was more casual, starting conversations with several minutes of chatter about the day's headlines or what he had seen on TV, the kind of banter he used as a

businessman with VIPs, according to people familiar 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 bill," 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.



SUE OGROCKI/ASSOCIATED PRESS

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the kind of banter he used as a

U.S. NEWS

Canada Takes Tough Line in Nafta Talks

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

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 keen 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.

Canada's Liberal government laid out its Nafta objectives just days before the first round of talks began in Washington, pledging to make the North American trade pact more "progressive" by beefing up provisions dealing with the environment and labor.

Foreign Minister Chrystia Freeland, who has shown in the past she is willing to walk out of unfavorable trade talks, says Nafta should have provisions related to the environment that would prevent a country from intentionally weakening climate-change policies to attract investment. That is raising eyebrows in Washington, where the Trump administration has moved to exit from the Paris climate agreement.

Canada is also pushing for international labor standards that would not only put pressure on Mexico, but also the U.S. One provision, included in a previous Canadian trade pact with Chile, would push for gender equality in the labor force.

Canada's tough stance is

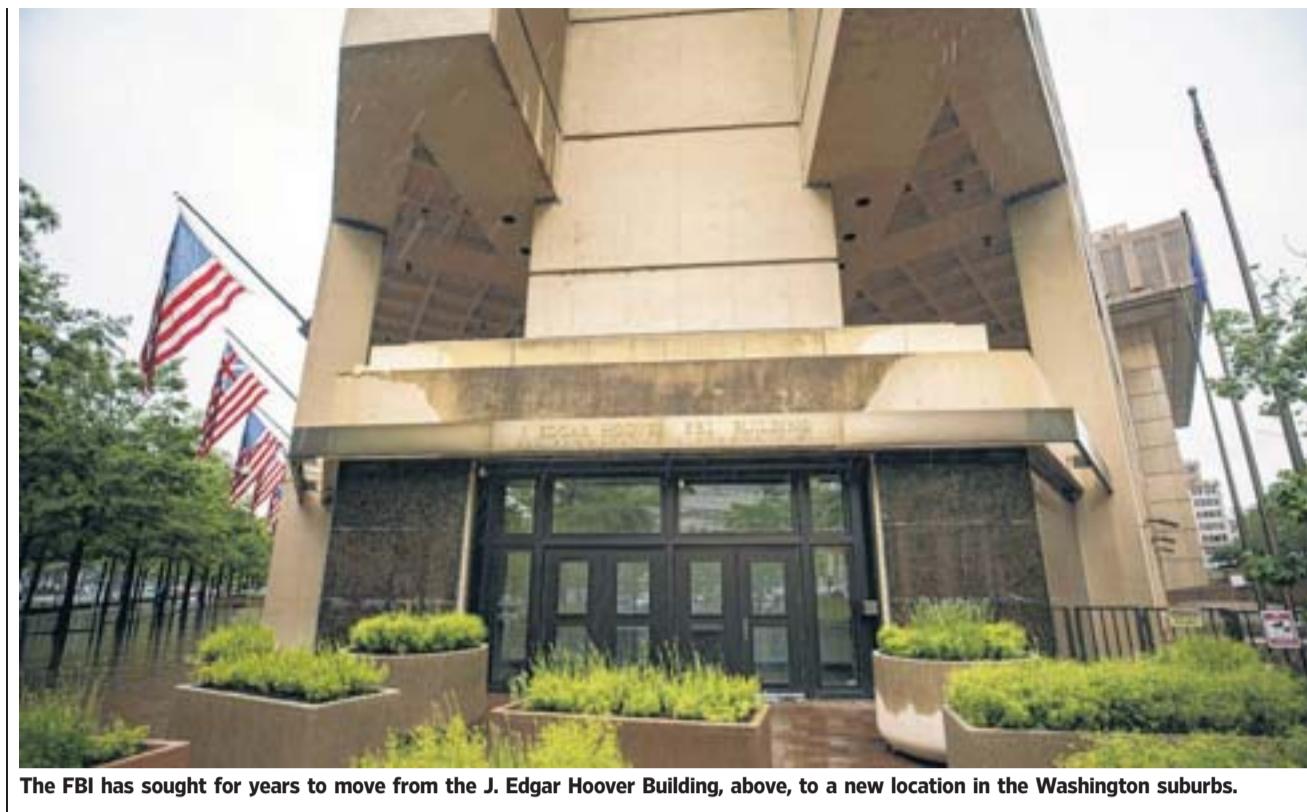
Ottawa's stance on labor and the environment may pose a test for others.

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 slinging 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



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

Canceled FBI Deal Stirs Confusion

Lawmakers, developers raise concerns over move to call off plans for new headquarters

BY ALEXA 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 for the project in the 2017 federal budget, Michael Gelber, then acting commissioner of the GSA's Public Buildings Service, said last month. 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 for the new FBI headquarters, said at the Senate hearing that a congressional appropriations committee had pledged to address the funding 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 devolution 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.

Several teams of property developers—which included such major companies 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 in the industry 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.

"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 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, Va.

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.

—Ted Mann contributed to this article.



United Technologies is acquiring Rockwell Collins, whose Manchester, Iowa, plant is shown above.

DEAL

Continued from Page One

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

Rockwell specializes in cockpit displays and communications 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 Otis elevators and is open to reviewing whether to break up in the coming years after the company pares its debt levels and squeezes out some \$500 million in expected cost savings, the people said. There isn't a decision on whether any split will happen, they cautioned.

The cost savings are expected to come from eliminating the expenses of being a public company for Rockwell

and duplicative sales expenses, but aren't expected to mean significant workforce cuts, the people said.

Mr. Hayes has proved willing to make large changes in the past. He took over as CEO in November 2014 and by July 2015 had reached a deal to sell the company's Sikorsky helicopter division.

Several Wall Street analysts 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.

As reports of the merger talks became public, financial analysts have said they don't expect significant antitrust issues, given that United Technologies and Rockwell make different airplane parts.

Aside from regulators, the companies may have to sell the deal to their customers, where there has been tension already.

Pratt & Whitney has struggled with production and the reliability of its new geared-turbofan jet engine that powers Airbus A320neo single-aisle planes. Airbus plane deliveries this year are running behind because of a dearth of engines.

Regarding a potential Rockwell deal, an Airbus spokesman recently said the airplane

maker hoped "that any potential M&A would not distract [United Technologies] from their top operational priority."

United Technologies officials have said they expect the problems to be resolved this year and were expecting to meet engine delivery commitments.

While United Technologies has long eyed Rockwell, talks first began between the CEOs in May, according to some of the people familiar with the matter. While the companies don't see major hurdles to closing the deal, they don't expect the airplane makers to be happy with the combination and plan to start making their case for why it would be beneficial starting Tuesday, the people said.

Boeing and Airbus have also been nudging their way into the aftermarket business to capture some of the profit from selling and servicing parts—putting them on a collision course with suppliers such as United Technologies.

—Robert Wall

contributed to this article.



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WORLD NEWS

Trump's Threat Puts China Trade at Risk

Warning on Pyongyang partners leaves U.S.'s top single business associate in crosshairs

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 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



The U.S. wants to punish the North Korean regime headed by Kim Jong Un, center, for its nuclear ambitions by targeting its trade partners, of which China is the largest.

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 on 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. im-

ported 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 alternate suppliers, and could face higher costs as well. American exporters and multinational corporations—such as farm-

ers, 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 nuclear 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.

KOREA

Pyongyang Speeds Its Arms Research

North Korea's six nuclear tests since 2006 have been part of a program to develop nuclear-tipped missiles that can threaten the U.S. and its allies.

Each of Pyongyang's tests has shown progress toward that goal.



sure Pyongyang to make more provocative moves.

Beijing's main concern is to prevent a collapse of the North Korean economy, which could trigger a flood of refugees into northeastern China and potentially lead to a united, U.S.-friendly Korea hosting American troops.

"China will never allow chaos and war on the [Korean] Peninsula," Mr. Liu told the Security Council on Monday.

On Sunday, U.S. Defense Secretary Jim Mattis urged Pyongyang to heed calls from the U.S. and other members of the Security Council to step back its nuclear escalation, and warned North Korea that any attack on the U.S. or its allies would trigger a massive military response.

North Korea said in a statement Monday that its most recent missile launch on Aug. 29—the first to fly over Japan in nearly a decade—was a "curtain-raiser to its resolute countermeasures" against the U.S.'s recently concluded annual military exercises. It didn't elaborate on what the coming countermeasures would be.

North Korea's ramped-up weapons testing—and the war of words between Mr. Trump and North Korean leader Kim Jong Un—has strained ties between the U.S. and South Korea, a close ally that is home to 28,500 U.S. troops and would be on the front lines of any military conflict on the Korean Peninsula.

South Korea's Mr. Moon found himself the target of criticism from Mr. Trump on Twitter for pursuing what the U.S. president described as Seoul's "appeasement with North Korea"—an apparent reference to Mr. Moon's calls for closer economic cooperation and high-level talks with Pyongyang.

The U.S. has previously made clear military action was an option, but sees it carrying massive risks. An overt attack on North Korea—whether to target its facilities or military—could ignite a war that could kill millions of people on the Korean Peninsula. Mr. Mattis has warned that a military solution would be "tragic on an unbelievable scale."

—Jeremy Page, Eva Dou, Kwanwoo Jun, Min Sun Lee and Anton Troianovski contributed to this article.

North Says It Could Cripple U.S. Grid

BY PETER LANDERS

North Korea's threats against the U.S. now include a tactic long discussed by some experts: an electromagnetic pulse, or EMP, triggered by a nuclear weapon that would aim to shut down the U.S. electricity grid.

North Korea's state news agency made a rare reference to the tactic in a Sunday release in which the country said it was able to load a hydrogen bomb onto a long-range missile. The bomb, North Korea said, "is a multi-functional thermonuclear nuke with great destructive power which can be detonated even at high altitudes for super-powerful EMP attack."

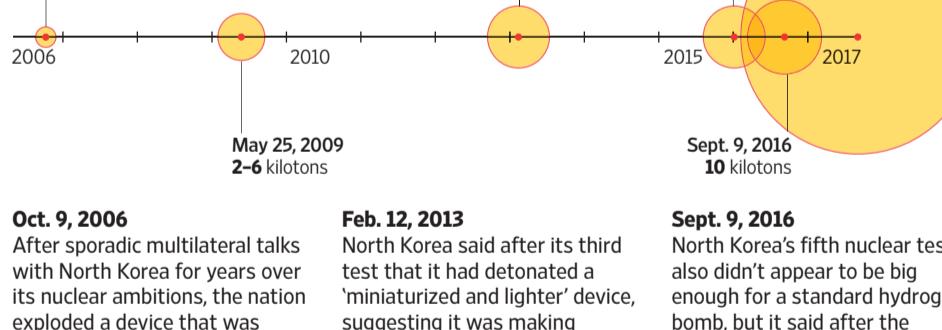
The idea of an EMP attack is to detonate a nuclear weapon tens or hundreds of miles above the earth with the aim of knocking out power in much of the U.S. Unlike the U.S. atomic bombs dropped over Hiroshima and Nagasaki in 1945, such a weapon wouldn't directly destroy buildings or kill people. Instead, electromagnetic waves from the nuclear explosion would generate pulses to overwhelm the electric grid and electronic devices in the same way a lightning surge can destroy equipment.

In a worst-case scenario, the outages could last months, indirectly costing many lives, since hospitals would be without power, emergency services couldn't function normally, and people could run short of food and water.

Skeptics generally acknowledge that an EMP attack would be possible in theory, but say the danger is exaggerated because it would be difficult for an enemy to calibrate the attack to deliver maximum damage to the U.S. electrical grid.

Still, now that North Korea is specifically threatening an EMP attack, further attention is likely to be given to how the damage might be minimized.

Strength, in kilotons, of North Korea's six nuclear tests



Oct. 9, 2006

After sporadic multilateral talks with North Korea for years over its nuclear ambitions, the nation exploded a device that was widely viewed as a partially successful test of a nuclear bomb.

2006

Feb. 12, 2013

North Korea said after its third test that it had detonated a 'miniaturized and lighter' device, suggesting it was making progress toward having a bomb small enough to mount on a long-range missile.

2013

May 25, 2009

North Korea's second nuclear test was viewed by experts as successful. It came soon after Pyongyang fired a long-range rocket that landed in the Pacific Ocean and was viewed to be a missile test.

2009

Jan. 6, 2016

North Korea said its next nuclear detonation was the first test of a hydrogen bomb, a more powerful device than a standard atomic weapon. Experts said the explosion was too small to have been a hydrogen-based device, but may have been boosted with hydrogen.

2016

Sept. 3, 2017

North Korea said its latest nuclear test was of a hydrogen bomb that can be mounted on a long-range missile. Experts are now evaluating those claims.

2017

Sept. 9, 2016

North Korea's fifth nuclear test also didn't appear to be big enough for a standard hydrogen bomb, but it said after the explosion it was now able to produce nuclear warheads for missiles 'at will.'

2016

Sept. 3, 2017

North Korea said its latest nuclear test was of a hydrogen bomb that can be mounted on a long-range missile. Experts are now evaluating those claims.

Earlier in the day North Korea published photos of leader Kim Jong Un inspecting what it called a hydrogen bomb.

—By Alastair Gale

THE WALL STREET JOURNAL.

Sources: U.S. Geological Survey; South Korean government

dissuaded from its illegal behavior and for a peaceful solution to the conflict to be reached," her spokesman said.

Russia's U.N. ambassador, Vassily Nebenzia, said his country would study the U.S. proposal but added that the history of council actions against Pyongyang has shown that "resolutions solely relying on sanctioning North Korea have not worked."

Ms. Haley warned the U.S. would view any country doing business with North Korea as providing aid "to theirreckless and dangerous nuclear in-

tentions," echoing Mr. Trump's warning Sunday that the U.S. is considering ending trade relationships with countries that trade with North Korea.

A spokesman for China's Foreign Ministry said Monday that such a move would be "neither objective nor fair." He said China is meeting its obligations under Security Council resolutions and isn't solely responsible for its neighbor's behavior.

The North Korean nuclear test came as Chinese President Xi Jinping was preparing for a summit of major emerging

economies. At the summit on Monday, leaders of the Brics countries—Brazil, Russia, India, China and South Africa—said they "strongly deplore" the test. A statement expressed concern for the continuing tensions and urged they be resolved through "peaceful means and direct dialogue."

Analysts say China's leadership is unlikely to take strong actions on its own, such as cutting oil supplies to North Korea, out of concern that they could cause the country's economy to collapse or pres-

WORLD NEWS

Ruling Is Blow to Guatemala President

BY DUDLEY ALTHAUS

Guatemala's Supreme Court approved a petition on Monday from the country's 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 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 after Monday's ruling.

The ruling marks the latest chapter in a political crisis fueled by investigations of Mr. Morales's campaign. Guatemalan prosecutors are conducting the probes with the aid of the International Commission Against Impunity in Guatemala, or Cicig. The Cicig supports local prosecutors' investigations into corruption. It enjoys broad support within Guatemala.

In recent weeks, Mr. Morales tried to have the head of the Cicig kicked out of the country, sparking an outcry.

A Guatemalan court, the constitutional court, reversed Mr. Morales's order. Mr. Morales has said the head of the Cicig has overstepped his authority and that his actions are politically motivated.

Mosul Takes Small Steps Forward

Now that security forces have driven Islamic State from Mosul, money changer Ayman Younis is back in business, helping traders buy imports from Turkey.

By Asa Fitch in Mosul, Iraq, and Maria Abi-Habib in Beirut

It is just one of the signs that the economy in Iraq's second-largest city is coming back to life after three years under the extremists, who stifled private business by controlling trade and restricting who could take part in it—and were known to execute independent money changers.

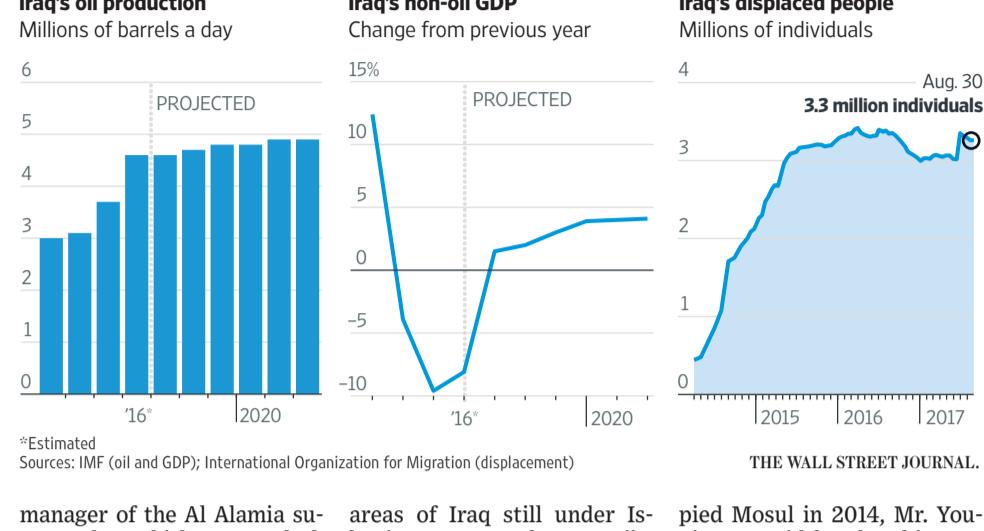
Many challenges lie ahead, from demining to rebuilding, and the overarching sentiment in the northern Iraqi business community is far from positive. Many business owners are putting off investment decisions as they wait for the bulk of reconstruction to begin.

But Iraq's resurrection of its cities is shifting into gear. Some residents are returning to Mosul, and businesses are welcoming the revived demand for their goods.

"They are trying to establish a foothold," said Mus'ab Mohammed, 30 years old, the

In Recovery

The International Monetary Fund expects growing oil output to lift Iraq's economy, and other sectors are expected to grow as the country rebuilds and people return home.



manager of the Al Alamia supermarket, which reopened after Iraqi forces took control of the area early this year. Al Alamia is now fully stocked with food and household goods, many of which were unavailable under Islamic State.

Irqi forces have driven the extremists from Mosul, and on Thursday Prime Minister Haider al-Abadi declared the nearby town of Tal Afar "fully liberated." The only significant

areas of Iraq still under Islamic State control are Hawija, a rural area between Baghdad and Mosul, and the mostly desert region around the Qaim border crossing with Syria.

Around 834,000 residents of Mosul were displaced, out of a pre-Islamic State two million, but as of Thursday around 30% had returned, according to the U.N.'s International Organization for Migration.

When the extremists occu-

pied Mosul in 2014, Mr. Younis, 45, said he shut his currency exchange and focused on self-preservation. For those years, there were "only some narrow-minded people controlling you," he said. "Now there is government and law. Hopefully things will be better."

The challenges are significant. Many neighborhoods were leveled by fighting. Business owners complain that se-

curity is still shaky. Consumers have little to spend. Industrial areas where Islamic State manufactured weapons have been destroyed.

Mr. Abadi's government estimates the reconstruction will cost more than \$100 billion over the next 10 years. Even before rebuilding begins, Iraqi leaders face the more pressing demands of how to finish off Islamic State and help the 3.26 million people who fled the conflict.

Several international efforts aim to aid reconstruction. The World Bank's International Finance Corp. is helping train members of Iraqi boards of directors on global best practices. Some Iraqis promoted business opportunities at a July conference in London. Now, Iraqi officials and business leaders are looking to a donor conference set for January in Kuwait to provide a boost.

Mosul's chamber of commerce reopened recently. But Yousif Gaddawi, the chamber's deputy head, said until government salaries are restored, most residents won't have much money to spend. "To get back to business, we need the government's capabilities, which are limited now," he said.

—Ali A. Nabhan contributed to this article.

Stalled Convoy Baits Trap for Islamic State

By MARGHERITA STANCATI

The U.S.-led coalition battling Islamic State said a convoy of militants stranded in Syria has proved an unexpected boon, drawing other fighters from the extremist group seeking to reach the buses into the open and turning them into easy targets.

The buses, which were supposed to transport hundreds of Islamic State fighters and their families to a town in eastern Syria near the Iraqi border from the Lebanese border in southwestern Syria,

have been stuck for nearly a week after U.S. airstrikes blocked them from reaching their destination. They were being evacuated under a controversial deal brokered by the Iran-backed Lebanese militant group Hezbollah that the U.S. opposed.

"It has been quite lucrative for the coalition because of all the assets that ISIS has put toward it," said the coalition spokesman, U.S. Army Col. Ryan Dillon. "They have exposed themselves as part of this event, and we were able to capitalize on it," he said. "It

presented an opportunity for the coalition to strike and remove several ISIS fighters and resources from the battlefield."

The buses were en route to Deir Ezzour province in eastern Syria, one of last remaining strongholds of Islamic State.

U.S. airstrikes cratered a road and destroyed a bridge to prevent the convoy from advancing and have repeatedly targeted Islamic State fighters trying to reach the buses. Col. Dillon said so far, some 85 militants and more than 40 vehicles

have been hit by airstrikes. The strikes also targeted artillery systems, pickup trucks mounted with weapons and a tank.

Over the weekend, the convoy split up, with six of the 17 buses that originally left the Lebanese border turning back into Syrian-government controlled territory outside Deir Ezzour province. They stopped near the Syrian village of al-Sukhnah, said the coalition, which continues to monitor the 11 stranded buses. The coalition has refused to strike the buses directly because

there are women and children on board. About 300 Islamic State fighters and 300 of their relatives evacuated Syria's mountainous border area with Lebanon after the Lebanese army and Syrian government forces backed by Hezbollah launched simultaneous but separate offensives against the group from both sides of the border.

"We know where they are right now. ISIS wants to continue to put fighters and resources to rescue them, and we will continue striking them," Col. Dillon said.

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IN DEPTH

PARROT

Continued from Page One
piercing scream can be heard up to 5 miles away. "My daughter asked why I couldn't rescue fish instead."

Fish might be less of a commitment. Unlike goldfish, parrots live up to about 60 years. There are reports of parrot centenarians. Owners are advised to include them in their wills.

Bird lovers try to inform potential owners of what they are getting into and help them with problem behavior. Barbara Heidenreich, the Austin, Texas, author of *The Parrot Problem Solver* and owner of Good Bird Inc., offers webinars, workshops and videos that discuss parrots' phobias, potty training and petting preferences.

A professional parrot trainer, zoo consultant, and past president of the International Associa-

tion of Avian Trainers and Educators, Ms. Heidenreich assisted authorities in New Zealand, where a very rare kakapo parrot named Sirocco was captured on a YouTube video attacking a sanctuary visitor and trying to mate with his head. Using positive reinforcement, Ms. Heidenreich redirected Sirocco's affections to a Croc shoe instead.

Pittsburgh-based Pearl, which doesn't have a sanctuary and relies on volunteers, has taken in 60 birds, placed 40 of them and has 18 available for adoption, according to board member Laura Fickley. 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 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 re-

moving 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 at least 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 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.

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 bred canaries. He stopped breeding birds two years ago, realizing he was contributing to the glut 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-

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

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 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.

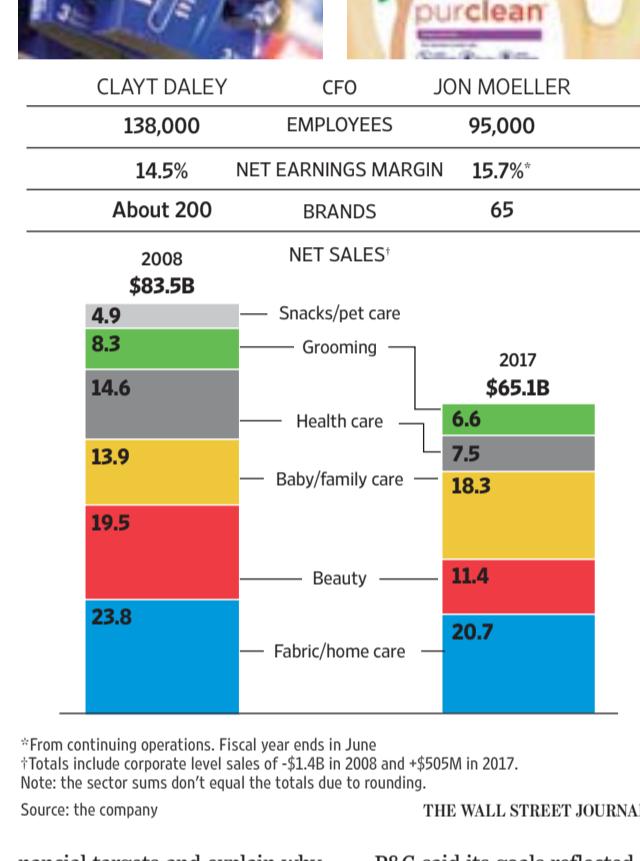
Procter's Progress

P&G outpaced rivals and the broader market last decade, but it has changed CEOs three times since the recession, with mixed results.

Total shareholder return under each CEO vs rivals and the broader market



A Tale of Two Eras



THE WALL STREET JOURNAL.

PELTZ

Continued from Page One
its points, will be criticism of the company's connection with millennials, said people familiar with the plan.

"The only word I can use that is appropriate is, 'disappointing.' There are many other things I could say, but that's the word I'll use," P&G Chief Executive David Taylor said of Mr. Daley's new allegiance. "To be working against the company, the board, the folks who supported him while he was here."

There was a time when the idea of a longtime company insider siding with an activist investor was shocking. But activists have come to tap industry experts to help create and legitimize plans they use to win over shareholders.

This year, Jana Partners LLC hired experts to push Whole Foods Market Inc. to sell itself and to shake up the board at Tiffany & Co. Elliott Management Corp. tapped a former Arconic Inc. executive for its board fight at the automotive and aerospace-parts maker.

A lot of attachment

Mr. Daley said his intentions were noble: "I dedicated 35 years of my life to this company and still feel a lot of attachment." P&G has become too insular, bureaucratic and accepting of mediocrity, he said, and Mr. Peltz can help spur change. "As a retired executive, it's been very frustrating for the last eight years to see what's going on there," he said. "I want to help."

Mr. Moeller, 53 years old, said P&G and the consumer-products world have changed too rapidly for even well-informed outsiders to fully understand. He said he agreed with Trian's assessment of P&G's past problems, but he believes neither Mr. Daley nor Trian can chart a better course.

"The world has changed completely, the way business is done has changed completely and the company has changed completely," said Mr. Moeller, who has worked with three P&G CEOs as finance chief. "You don't stay on top of those things by reading reports or even sitting on boards."

After Mr. Daley's retirement at the end of 2008, he and Mr. Moeller used to meet socially a few times a year. That ended in 2012, when Mr. Daley told his protégé that he had spoken



Former Procter & Gamble Co. finance chief Clayton Daley, seated, and activist investor Nelson Peltz.

with investor William Ackman, who was challenging P&G's leadership at the time.

Mr. Daley said he declined to join Mr. Ackman's campaign. "I tried very hard to exit and stay out of the way and give Jon Moeller his space," said the 65-year-old resident of Longboat Key, Fla.

The two men continue to speak highly of one another. "Of all of P&G's many problems, Jon Moeller is not one of them," Mr. Daley said. And Mr. Moeller compliments Mr. Daley's prowess during his tenure as CFO. Yet as the former colleagues campaign in public and during one-on-one meetings with investors and institutional shareholders, one thing is clear: This is war.

Head to head
The proxy fight has divided P&G's employees and its sprawling alumni network, according to current and former executives. Many are loyal to Mr. Taylor, who like Mr. Moeller is a low-key executive who spent decades climbing the corporate ladder. Others say they are frustrated with Mr. Moeller's more democratic approach, say people who know both men. They each rose through the finance ranks

at P&G, starting out in the accounting departments of P&G factories and advancing to headquarters.

"There are a lot of employees in this area whose retirement and well-being depends on how P&G does. You can't live here and not get drawn into it," said Jim Russell, a portfolio manager at Bahl & Gaynor Investment Counsel in Cincinnati. The firm advises many hundreds of P&G retirees, he said, both former executives and those from the rank-and-file.

P&G's shares have underperformed the S&P 500 and its competitors for the past 10 years. They have returned about 8.1% to investors over the past 12 months, including dividends, compared with a 16% return for the S&P 500.

"I've been contacted by more former executives who have offered to help in this investment, by a multiple, than ever before," said Mr. Peltz, whose past targets included DuPont Co. and H.J. Heinz Co. "I chose Clayt to work with because he has the stature, credibility and knowledge to really shape P&G."

Mr. Daley's hard-charging, often blunt, style contrasts with Mr. Moeller's more democratic approach, say people who know both men. They each rose through the finance ranks

nancial targets and explain why P&G would miss projections.

As growth slowed, P&G was forced to shrink. In 2012, it launched a \$10 billion cost-cutting program that eliminated 24,000 jobs and 14 factories. It sold off dozens of brands, including Pringles snacks, Iams pet food and Duracell batteries. In 2015, P&G agreed to sell 43 beauty brands, including some like Clairol and Wella that it had bought a decade earlier. Since Mr. Taylor took over as chief executive in November 2015, he has promised to cut another \$10 billion in annual expenses by 2021.

Trian has questioned what the cost cuts have yielded for investors.

The Gillette business, which accounts for 10% of sales but 16% of P&G's profits, has become a drag. Sales in the business have declined in recent years, and such online upstarts as Dollar Shave Club and Harry's have chipped away at its U.S. market dominance. P&G responded this year with broad price cuts in the U.S., breaking from Gillette's strategy of new features coupled with higher prices.

"There was an underestimation of the consumer interest in that type of a proposition," Charles Pierce, who took over P&G's grooming business in 2015, said in an interview. "Once we saw what was going on there we made some big, big interventions."

Mr. Daley said he doesn't need to be an insider to understand how P&G has stalled. He has studied the company's financial reports, he said, listened in on analyst calls and stayed in touch with current executives.

The company's own goals are evidence of trouble, Mr. Daley said. In a recent filing, P&G outlined three-year targets—2.8% organic sales growth, 4.7% operating profit growth and a 6% increase in per-share earnings—that he said were well below what the company should be delivering.

"Those goals mean the management and the board of directors have accepted mediocrity," Mr. Daley said. He also argued that P&G shouldn't have sold the beauty brands—evidence, he said, that the company wasn't capable of managing smaller, trendy brands.

P&G said its goals reflected a realistic, long-term approach to growth, and that Trian was pushing short-term share gains at the expense of long-term progress. It noted the company total shareholder return has outpaced the S&P 500 and its peers since Mr. Taylor became chief executive. A yearslong effort to pare P&G's bureaucracy has taken hold, executives said.

"We're at the point where the nose is lifting and we're going up," Chief Brand Officer Marc Pritchard said. "A big derailment is the last thing we need."

The two sides have particularly clashed over the structure of P&G's management, which Trian said remained slow and bureaucratic.

Costly campaigns

The campaigns for shareholder votes have been costly. P&G, which has hired investment banks, is spending at least \$35 million. Trian, which owns roughly \$3.3 billion of P&G stock, is spending about \$25 million.

Mr. Taylor held a town hall meeting to rally P&G staff on Aug. 3. "You delivered what we committed without an asterisk," he said to the applause of hundreds of employees.

Last week, Trian released a video of Mr. Daley saying it was "simply time to do something different."

The public fight follows months of private negotiations between Mr. Peltz and P&G's board, which is stocked with business leaders including the chief executives of American Express Co. and Hewlett Packard Enterprise.

Mr. Peltz, age 75, said he needed to perform work that could be done only from inside the P&G boardroom. Mr. Taylor and other directors have refused to give their support, saying Mr. Peltz wasn't proposing new ideas and that his style of activism would disrupt the progress already being made. Mr. Peltz said he planned to support Mr. Taylor if he wins a seat.

"You look at what he says and it sounds all wonderful: 'I love the company, I want to see it do better,'" said Mr. Taylor, P&G's chief executive. "But if you just want to help, wouldn't you come in with your plan and lay it out?"

GREATER NEW YORK



Parade Safer, Less Spirited

Some lament tighter security and smaller crowds at Brooklyn's J'Ouvert celebration

BY ZOLAN KANNO-YOUNGS

Ernest Layne stood on Empire Boulevard in Brooklyn early Monday with mixed emotions as hundreds of steel pan players and costumed dancers began marching under the sun for the first time in the history of J'Ouvert, the borough's traditionally predawn parade.

For years, participants gathered at about 2 a.m. and marched through Brooklyn from 4 a.m. to 10 a.m. to celebrate the start of Carnival and the emancipation of slaves on the Caribbean Island of Trinidad. On Monday it began at 6 a.m.

Mr. Layne, a regular attendee of J'Ouvert since it began in Brooklyn in the 1980s, said he understood the later start time and new security checkpoints were needed after several attendees were killed in the area in recent years.

Heightened security seemed to work. The New York Police Department reported no major crime near the festival on Monday, although three people were shot the night before the parade within 5 miles of J'Ouvert.

Still, Mr. Layne said the smaller crowd was proof that moving J'Ouvert to the daytime hours

hurt the celebration.

"It's totally controlled. It's not a culture thing anymore," Mr. Layne said as he stood under a portrait tacked to a telephone pole of a 22-year-old woman who was fatally shot during the parade last year. "A lot of these kids messed it up with the guns and the killing," he said.

Mayor Bill de Blasio announced the new security precautions, which includes 12 checkpoints along the 2-mile route, more police officers and streetlight poles. Two people were killed last year, and a lawyer for Gov. Andrew Cuomo, Carey Gabay, was slain during a gang shootout in 2015.

Gang members often have used the parade, which typically attracts about 250,000 to the Crown Heights neighborhood, to confront rivals. The official crowd size this year wasn't immediately known.

On Sunday at 11:16 p.m., one man was shot in the chest in Crown Heights, Officer Arlene Muniz said. He was transported to Kings County Hospital in critical condition.

At about 5 a.m. on Monday, two men, aged 34 and 38, walked into Brooklyn hospitals with minor gunshot wounds, Officer Muniz said. Police determined the shootings weren't related to J'Ouvert, she added.

Around the same time, police began giving the steel bands permission to start practicing. Hundreds of officers were sta-



tioned along the parade route. Some participants and spectators expressed frustration as police screened them with metal detectors at the checkpoints.

"I'm totally disappointed," said Grace King, 27, noting it was the smallest crowd at J'Ouvert she's seen since she began coming in 1999. "We all want it to be safe and there are a few bad apples but you cannot kill the culture like that."

Spectator Anthony Edwards, of Flatbush, wearing a Trinidadian flag around his head, didn't let the lower turnout slow him down. He danced along to the bands as they warmed up. "It seems more safe, actually," he said. "Everybody has fun."

A spokesman for Mr. de Bla-

sio said the mayor would assess the impact of the tighter security, as did Jumaane Williams, a City Council member who attended J'Ouvert.

"This is the least amount of people I've seen in many, many years," said Mr. Williams. "I think we have to find kind of a medium, I guess, and review what happened here."

Community members also patrolled the J'Ouvert route on Monday to de-escalate possible brewing tensions. Andre Mitchell, a community activist, directed his "violence interrupters" to patrol checkpoints to scout for potential conflicts. He said it was clear J'Ouvert was safer than it had been in years—even if it didn't have the same festive atmosphere.

"I have to be honest when I say it's a different feel," he said. "It may take away from the authenticity. But you can still enjoy yourself and you don't have to worry about being in some kind of violence."

Shortly before 5 p.m., near the route of the West Indian Day Parade in Brooklyn—a separate event that started after the J'Ouvert parade—a man was shot in the torso, police said. It wasn't clear whether the shooting was directly related to the festivities. The victim, whose name wasn't immediately released, was expected to survive, and no arrest had been made, police said.

—Leslie Brody

contributed to this article.

Sen. Menendez Heads to Trial In New Jersey

BY KATE KING
AND THOMAS MACMILLAN

The trial of New Jersey Sen. Bob Menendez, who remains popular among Democrats in the state more than two years after his indictment on bribery and corruption charges, presents prosecutors with the tricky task of persuading jurors to convict a sitting senator based largely on circumstantial evidence.

The case against the 63-year-old Democrat is set to begin Wednesday in U.S. District Court in Newark. Prosecutors have accused him of accepting nearly \$1 million in gifts and campaign contributions from his friend, Florida ophthalmologist Salomon Melgen, in exchange for political favors, including intervening in a Medicare billing dispute involving Mr. Melgen's business and helping secure visas for his girlfriends.

Mr. Menendez has denied the corruption charges, arguing that he was simply helping a longtime friend. He has maintained an active public schedule in his home state, where recent polls by Monmouth and Rutgers universities show his job approval and favorability ratings, despite dipping after his indictment, holding steady over the past two years.

New Jersey-based public-relations executive Karen Kessler said a lack of understanding about the details of the case, coupled with the senator's strong name recognition and fundraising prowess, have so far insulated his reputation from major damage.

"He's in a leadership role in the Senate and that matters a lot to people in New Jersey," Ms. Kessler said. "And when you're able to raise money, a lot of Democrat officeholders, Democrat public officials, Democrat activists are willing to give you a break because that's a sign of political strength."

Prosecutors have filed a 29-page brief outlining their case against Mr. Menendez. The document asserts that the senator in 2006 began accepting gifts from Mr. Melgen, including luxury travel packages on Mr. Melgen's private jet and donations of hundreds of thousands of dollars to Mr. Menendez's election campaign and a

political-action committee supporting him.

"Although Menendez did not pay Melgen back for the lavish gifts in money, he did pay him back using the currency of his Senate office to take official action to benefit the South Florida doctor," the brief states.

Prosecutors also likely will emphasize that Mr. Menendez didn't disclose the gifts he received from Mr. Melgen. Mr. Menendez has said it was an oversight, but the prosecution probably will seek to convince jurors that the two-term senator was trying to cover up wrongdoing, said Robert Mintz, a former federal prosecutor.

Mr. Menendez's defense team on Thursday denounced the prosecutors' brief as an effort to influence the jury ahead of the trial. The senator "is confident that when all the facts are heard, he will be vindicated," said Mr. Menendez's attorney, Abbe Lowell.

The defense likely will emphasize that prosecutors haven't presented a smoking gun or cooperating witness in the case. With no emails or recordings spelling out an explicit quid-pro-quo arrangement, the case against Mr. Menendez relies largely on circumstantial evidence, Mr. Mintz said.

Sen. Bob Menendez, a Democrat, is facing bribery and corruption charges, which he denies.

A decision last year by the U.S. Supreme Court overturning the corruption conviction of former Virginia Gov. Bob McDonnell, a Republican, might also bolster the defense. The ruling narrowed the scope of what constitutes corruption.

Mr. Menendez "clearly deserves a fair trial, but we believe these are incredibly serious issues that he's been accused of," said Jordan Libowitz, communications director for the campaign-watchdog group Citizens for Responsibility and Ethics in Washington. "When people are in positions of power within Congress, it can be easy for them to take benefits that they would not otherwise get."

Building Manager Charged With Harassing Ex-Tenant

BY LESLIE BRODY

A property manager for a Queens building that displayed Nazi and Confederate imagery in the lobby was arrested Sunday on charges of harassing a recent tenant.

Neal Milano, who is 70 years old, was arrested on charges of stalking and harassing a 43-year-old woman while she lived in the 48-unit building, a New York Police Department spokesman said on Monday.

The woman said he followed her at least 20 times from last September through July, and at least once he scared her by pulling on her arm, police said.

Neither Mr. Milano nor his lawyer could be reached for

comment.

Mr. Milano is property manager of a condominium building that is under investigation by New York City's Commission on Human Rights, which is examining whether tenants suffered from an allegedly hostile environment.

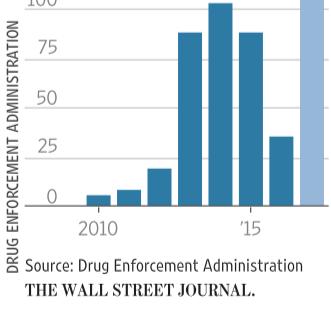
The lobby included a cartoon of an African-American next to the words "The Original Jim Crow." A swastika also was on display.

Jacob Laufer, attorney for the condominium board in the Sunnyside neighborhood, previously has said the accusations against the condominium were false. He said the board had approved the images in the lobby to reflect U.S. history and victory in World War II.



On the Rise

Kilograms of methamphetamine seized by the Drug Enforcement Administration's New York division



Source: Drug Enforcement Administration

THE WALL STREET JOURNAL

Full Speed Ahead for Commuters



PHEW: Normal Penn Station service is set to resume on Tuesday. Above, riders on the first day of the 'Summer of Hell' that wasn't.

By CORINNE RAMEY

Mexican traffickers are supplying the New York City area with methamphetamine, attempting to create new clients in what historically has been a weak market for the drug.

"The Mexican cartels have been sending loads up to New York and telling traffickers, 'See if you can get customers,'" said James Hunt, special agent-in-charge of the Drug Enforcement Administration's New York division. "They want to create an addict population."

The DEA's New York division so far this year has seized more methamphetamine than in any other year in the past decade. Meth, a stimulant often taken in the form of a white powder or pill, has been more widely used in other regions, particularly the West and Midwest.

But in the Northeast, the drug largely hasn't taken off for unexplained reasons.

Through August, the DEA's New York division seized 106 kilograms (234 pounds) of meth in the state, up from 34 kilograms in all of last year. While seizures increased through 2014, in the following two years they decreased, as traffickers focused on heroin laced with fentanyl, officials said. This year, supply of the drug has returned, Mr. Hunt said, though there isn't yet any indication that dealers are selling it successfully in the region.

There are two categories of meth manufacturers, Mr. Hunt said: regional dealers who work in home laboratories and make small batches, and large labs in Mexico.

For Mexican traffickers, meth makes financial sense.

"It's very easy and cheap to make and they get a good return," Mr. Hunt said.

Meth cases pursued by New York City's Office of the Special Narcotics Prosecutor typically involve the drug originating in Mexico, a spokeswoman said.

Last week, law-enforcement officials said they seized 1,300 pounds of wax candles laced with \$1 million worth of methamphetamine. The five defendants planned to convert the drug to crystal meth, federal prosecutors said.

Lawyers for three of the defendants declined to comment or didn't respond to requests for comment. "What happened may not be exactly what the complaint said," said an attorney for another defendant, Jose Luis Gonzalez-Solis. A lawyer for Santos Minjarez said it was important to note his client

was presumed innocent.

While methamphetamine use hasn't been widespread in the New York City area, one population that does use the drug is some gay men, according to law-enforcement and health officials. Meth has been part of the gay club scene in New York City for years, said Will DeWitt, a doctor at Callen-Lorde Community Health Center. Gay men of all ages and races take the drug because it is stimulating, increases libido and is disinhibiting, he said.

Tim Brennan, medical director of the Addiction Institute at Mount Sinai, said while more people are seeking treatment for opioid addiction, he hadn't seen an increase in meth users. "Compared to other cities and towns, New York City has been spared much of the methamphetamine problem," he said.

GREATER NEW YORK

Unions Battle Developers Over Safety Training

By LAURA KUSISTO
AND MARA GAY

Construction unions in New York City, one of organized labor's last bastions in the U.S., are clashing with developers over a spate of construction accidents.

The unions are advocating new rules in the city that they say would protect construction workers. But opponents argue that a bill now before the City Council is a play for market share by organized labor.

The fight comes as unions throughout the country have seen their power wane. The share of American workers in unions fell to the lowest level on record in 2016, and in New York City construction companies are turning to nonunion workers for some of their projects.

The latest version of the bill before the council would require all construction workers to receive 59 hours of safety training, an increase from the 10-hour standard set

by federal regulations.

Councilman Jumaane Williams, the Brooklyn Democrat who sponsored the bill, pointed to an increase in workplace accidents in the city. "There are people who are actually dying," Mr. Williams said. "We're not doing enough."

In New York, construction-related accidents increased to 435 in 2015 from 128 in 2011, according to the most recent data available from the city's Department of Buildings. Building activity also increased during that time.

Opponents acknowledge that construction safety should be improved across the board but say the bill as written penalizes nonunion firms. The measure would allow workers to use previous training toward the required 59 hours, a provision that opponents say would essentially exempt union workers.

"We agree on the importance of increasing construction safety for all workers," said John Banks, president of the Real Estate Board of New York. "It is wrong to advance legislation under that guise that puts thousands of nonunionized construction workers out of a job."

Roughly three-quarters of construction sites where fatalities occurred in New York state in 2014 and 2015 were nonunion, and twice the number of safety violations were found at nonunion sites than at union sites in 2014, according to a January 2017 report

by the New York Committee for Occupational Safety and Health.

"No one in this industry or in the city was standing up and addressing this epidemic of fatalities," said Gary LaBarbera, president of the Building and Construction Trades Council, an umbrella group for the city's construction unions.

Developers say more accidents occur on nonunion sites because there are more of them. There is little compre-

hensive data on union versus nonunion market share in the city.

U.S. Rep. Gregory Meeks (D., N.Y.), who represents an area with a lot of minority workers, said he opposed the bill in its current form. "The way the bill is written as far as training, it does not state who is paying for it," Mr. Meeks said. "Individuals who would lose out are minority businesses and minority workers."

The bill has significant support in the New York City Council. Developers and unions have increased pressure on lawmakers in recent days, leaving the final version of the City Council bill in flux. It could undergo revisions, including reducing the number of hours required and the exemption for previous training.

Mr. Williams said he expects the bill will see a vote by the end of the year.



Manhattan Hospital-Apartments Project Makes Progress

By KEIKO MORRIS

The developer behind a planned conversion of historic former hospital buildings in upper Manhattan cut a deal to secure a construction loan to restore and transform the beaux-arts structures into apartments.

Delshah Capital has entered into a nonbinding contract for a \$130 million construction loan, paving the way for the conversion of five buildings at 30 Morningside Drive into 205 rental apartments, according to the company. Delshah is expected to close on the financ-

ing with lender Square Mile Capital by November.

"This deal is a huge deal for Delshah Capital," said its founder and chief executive, Michael Shah. "I see [the] Morningside Heights market as a submarket in Manhattan where there is still a lot of room for gentrification and rental growth."

The \$260 million project encompasses five buildings that were built around the late 19th and early 20th centuries and were once part of Mount Sinai St. Luke's campus overlooking Morningside Park. Two of the buildings have

been landmarked and one served as an ambulance stable, Mr. Shah said. The company purchased that portion of the hospital's campus for \$11.5 million in 2016.

The loan comes at a time when construction financing is difficult for developers to obtain. The rental market also has shown some signs of softening, with landlords offering more concessions, though rents remain high. Mr. Shah said he is taking a long view of this investment, though at the moment free-market rents might not be growing very much.

"If you look at the multifam-

ily market in Manhattan over a 10-year period, rents tend to grow 5% to 6% year over year with certain slowdowns," he said. "If you take the longer-term view, it's always good with multifamily in Manhattan."

The Morningside Heights conversion project is among the latest makeovers of medical buildings in the city. A joint venture of Rudin Management Co. and Global Holdings Group turned the former St. Vincent's Hospital Manhattan site into the Greenwich Lane, a 199-unit condominium complex in the West Village.

Coming up with plans to

adapt the buildings for Delshah's project was complicated because the hospital campus was built under a zoning variance and as a community facility, Mr. Shah said. Delshah, and a team that included the conversion project's main designer, CetraRuddy, designed a residential complex that complies with residential codes, he said.

The complex, expected to be completed by the end of 2019, will have studios, one-, two- and three-bedroom apartments with rents ranging from \$3,000 to more than \$6,000 a month, Mr. Shah said.

GREATER NEW YORK WATCH

REAL ESTATE

Hudson Yards Tower Gets \$1.5 Billion Loan

The developer of the Hudson Yards complex on Manhattan's West Side has hit another milestone with a financing package for its flagship office building that increases the total amount of money it has raised for the first phase of the sprawling project to more than \$18 billion.

A venture led by Related Cos. has closed a \$1.5 billion construction loan for 50 Hudson Yards from a group of banks from Asia, Europe and the U.S.

The rest of the money for the \$3.8 billion tower—the largest in the complex—is being provided by Related and its partners on 50 Hudson, Oxford Properties Group and Mitsui Fudosan America Inc., Related said.

The 2.9 million-square-foot building is expected to be completed in 2022.

Hudson Yards comprises more than 18 million square feet of mixed-use development with about 4,000 residences and more than 100 shops and restaurants. The plan also includes 14 acres of public space and a 750-seat public school.

—Peter Grant

ECONOMY

Employment Is Up, But Gains Are Uneven

The number of employed New Yorkers rose to its highest level since the recession, but swaths of the state continue to struggle with a shrinking labor force, according to a report released Monday by the state comptroller.

More than 9.1 million New Yorkers were working in 2016—the most since 2008, according to the report.

All regions saw the unemployment rate drop sharply from 2011 to 2016. But in half of the 10 regions studied, the number of people working also declined during that period.

Declining labor-force participation has been a hallmark of the recovery across the country and can reflect workers giving up on searching for jobs because of lackluster wage growth, a dearth of suitable skills, drug abuse or other factors.

New York state has fared worse than most places. The labor force grew 0.7% from 2011 through 2016, compared with a national increase of 3.6%.

The areas that saw the labor force contract primarily were outside of major cities. Workers also may be leaving these areas or the state altogether in search of better opportunities.

"Statewide, employment is growing and unemployment shrinking. But ensuring good job opportunities for all New Yorkers remains a challenge," said State Comptroller Thomas DiNapoli.

—Laura Kusisto

NEW JERSEY

Man Drowns at Wildwood Beach

A Pennsylvania man drowned while swimming in the ocean in Wildwood over the weekend, police said.

Lifeguards went into the water to rescue several swimmers in distress and once back on shore they discovered the Middletown, Pa., man was missing. It happened at about 12:50 p.m. on Sunday.

Surfers found the man's body about two hours later, police said. Police, fire and beach patrol units had been searching for the man.

—Associated Press

EMERGENCY

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LIFE & ARTS

FASHION

Calvin Klein Tests Luxury Line's Staying Power



CLOCKWISE FROM TOP LEFT: CALVIN KLEIN (2); GETTY IMAGES (4); BILLY FARRELL AGENCE

BY RAY A. SMITH

ON OPENING night of New York Fashion Week Thursday, Calvin Klein is hoping to prove that its much-lauded new luxury line is more than just a one-hit wonder.

If asked to quickly name a few hot luxury fashion brands, the average customer wouldn't have mentioned Calvin Klein. But now, the nearly 50-year-old label better known for its midprice signature underwear and jeans sold at Macy's and Lord & Taylor is working hard to win over the Barneys shopper too.

Calvin Klein Inc. hired acclaimed fashion designer Raf Simons last year to lead what its chief executive Steve Shiffman calls a "creative revolution," overhauling everything from its clothes to its logo, now officially in all caps and in a new custom font called "Klein."

The designer's debut runway show for the brand's highest-end ready-to-wear collection in February drew widespread raves from critics and retailers.

Now as the label mounts its second show under Mr. Simons, Mr. Shiffman will have to prove it can sustain the buzz.



The American fashion industry is counting on Calvin Klein to give a much-needed boost to fashion week, which this year suffered a blow when some of its biggest draws—Proenza Schouler, Rodarte, Thom Browne and Altuzarra—opted to show in Paris instead. Meanwhile, the

global fashion industry is closely watching to see how the revival of an iconic American brand plays out.

"Raf and I share many common goals, but one is to see Calvin

Klein become one of the world's great brands as we move into the future," said Mr. Shiffman, a veteran of Calvin Klein's parent company PVH Corp., who also spent seven years as a Calvin Klein executive before becoming CEO in 2014.

Mr. Simons said he valued Mr. Shiffman's leadership and knowledge of the brand: "He and I have a wonderful ongoing exchange, and I am grateful for his support and understanding of my role and creative vision," Mr. Simons said by email.

Calvin Klein started his company in 1968 with business part-



The 2017 ad campaign for the fragrance Obsessed features photos of model Kate Moss from 1993.

ner Barry Schwartz. Through minimalist clothing and, especially, savvy marketing, Mr. Klein turned it into one of the hottest fashion brands of the 1980s and 1990s. Calvin Klein, Ralph Lauren and Donna Karan ruled American fashion then, household names with businesses and cachet that rivaled those of famous designers in Europe.

Mr. Klein understood that sex sells early on, titillating audiences with provocative commercials, like the one featuring a 15-year-old Brooke Shields purring "You want to know what comes between me and my Calvins? Nothing," in 1980. There was the 1989 Obsession fragrance ad featuring a nude couple on a swing, and the racy underwear ads in the 1990s starring a shirtless Marky Mark and a topless Kate Moss.

In more recent years, the brand has chugged along but lost its status as a leading fashion voice, despite some attempts to strengthen its high end.

Mr. Shiffman tapped Mr. Simons, whose luxury-fashion bona fides include a 3½ year run as creative director of Christian Dior and seven years as creative director at Jil Sander. Mr. Simons' job is to give Calvin Klein the high-fashion credibility that has eluded it since its visionary founder stepped away from the company after selling it to PVH in 2003.

"When I walked into the job, I had to acknowledge we really weren't winning at the luxury level," Mr. Shiffman said. "It's great [from a] public relations aspect. But at the same time, I'm a businessman, and I want to make it a business."

Having a stronger high-end business will "set the tone" for the brand's more affordable lines, Mr. Shiffman says. He hopes the company can grow from about \$8.5 billion in global sales to \$10 billion, as the aesthetic refresh at the top trickles down.

While the bulk of sales growth will continue to come from the company's midprice jeans and underwear, which he described as "incredibly important" to the brand, he envisions more sales coming from the higher-end collection than in the past.

Maintaining a strong luxury-end image and a mass reputation at the same time is a tricky feat that few big fashion brands have managed.

Please see CALVIN page A11

HEALTH AND WELLNESS

BARGAINING OVER HOW TO TREAT CANCER



BY LUCETTE LAGNADO

WHEN A DOCTOR and a patient discuss treatments, is it a conversation or a negotiation?

Surgeons at Memorial Sloan Kettering Cancer Center in New York are enlisting techniques taught at Harvard Business School to advise men facing tough decisions about prostate cancer.

Behfar Ehdai liked giving his prostate-cancer patients hopeful news: While they had a low-grade version of the illness, they wouldn't need immediate treatment, let alone major surgery. Instead, they could be monitored through a process known as active surveillance. But Dr. Ehdai, a surgeon at Sloan Kettering, found that many men insisted on having radical surgery or radiation—treatments that sometimes had devastating side effects.

"It was very frustrating," Dr. Ehdai said. "They didn't see active surveillance as a viable option."

In recent years, a growing body

of evidence indicates that men with low-grade early-stage prostate cancer don't need radical treatment, such as removing or radiating the prostate. The medical consensus is that active surveillance often is the appropriate treatment for small early tumors. Yet despite the data showing that this approach is safe, about 50% of eligible men don't get it either because they turn it down or their physicians don't embrace it. Medical experts say many men have been overtreated, as their cancers probably posed little immediate danger.

Dr. Ehdai worried that too many patients were making the wrong decision. While surgery or radiation can be effective for early prostate cancer, potential side effects include sexual dysfunction, urinary incontinence and bowel problems.

Dr. Ehdai confided his frustration to his research mentor and the two men decided to search outside the institution and even outside medicine for experts in behavioral

Please see HEALTH page A10

LIFE & ARTS



WHAT'S YOUR WORKOUT? | By Jen Murphy

She's Sticking With Field Hockey

After playing the sport in college, a designer finds the game she loves in the middle of New York

NINA CHENG may design feather earrings and fur-covered iPhone cases, but don't call her girly. The founder of Wild and Woolly accessories isn't scared of grass-stained knees or bruised shins when she plays the sport she loves, field hockey.

Ms. Cheng knows how to handle a stick. She played field hockey, ice hockey and lacrosse in high school and one year of Division I field hockey at Colgate University, in Hamilton, N.Y., as well as a season with the Hampstead and Westminster Hockey Club in London.

When she transitioned from college to her professional career in Manhattan in 2008, she joined a gym.

"I found it frustrating to be around people purely working out for vanity," she says. She tried group classes but balked at the price. "A lot of classes cost \$40 for 40 minutes, and the workouts, like spinning, were so stationary. I'd rather be doing something more dynamic and exhilarating."

Craving the camaraderie of college sports, Ms. Cheng, 31, joined the Greenwich Field Hockey Club in New York City, and took up squash, a sport she played her senior year of college. Ms. Cheng



says both sports challenge her hand-eye coordination. But she particularly likes the skills challenge of field hockey.

"It's a very three-dimensional sport," she says. "You can only use one side of the stick, but you can do so much with it, like lift the ball into the air or do a dribble move and lift the ball over your opponent's stick. You don't get that creativity in spin class."

The Workout

Ms. Cheng plays coed pickup field hockey games with her club once a week at James J. Walker Park in Greenwich Village. Playing forward like she does can be exhausting. She keeps running most of the game.

Plus, she says, "you're constantly in a crouched position, so you really work your glutes and core. If I haven't cross-trained that

Nina Cheng plays pickup games at James J. Walker Park in New York's Greenwich Village neighborhood once a week.

week, I'm extremely sore after a game." On weekends she goes to a park to practice dribbling, shooting and stick work.

She plays pickup games year-round and usually competes in regional and national competitions as well. The pickups games move indoors for games during winter months.

Ms. Cheng was playing squash two to three times a week, but since launching Wild and Woolly last September once every two weeks is the norm. "Squash is a great way to be social in New York City," she says. She meets friends before or after work for 45-minute games. "I have more lower-body strength, so squash helps work my upper body," she says.

She uses a longboard skateboard to commute around Manhattan and tries to go kitesurfing three to four times a year.

The Diet

Ms. Cheng starts her day with tea and eggs she gets from her mother, who lives in Milford,

Adults often forget how to play, says Cedric Bryant, chief science officer for the American Council on Exercise in San Diego.

"Physical activity becomes structured and something we associate with work, rather than fun," he says. "Group sports or activities, like volleyball, soccer and flag football, make exercise fun again for adults and being part of a team helps keep people accountable."

Participating in group sports at work can be a good form of team building. "A fun, competitive atmosphere is a great place to show how people communicate or deal with conflict," Dr. Bryant says.

He cautions that adults need to check their egos at the door, particularly when it comes to coed sports. "Men are typically larger and stronger, so females may need to push themselves harder to compete, which can increase their fitness or set them up for injury if they don't listen to their bodies," he says. "On the flip side, if a guy feels a woman is outplaying him, that childlike need to show off can kick in and he might overexert himself and risk injury. At the end of the day, it's important to remember it's just a game."

Conn. "My mom has chickens, so I have a nonstop supply of eggs," she says. She eats lunch at home, usually steamed vegetables with olive oil and Sriracha.

She dines out most nights. "I love good food and have an eat-something-delicious-and-work-off-the-calories-later mentality," she says. Her favorite splurges are malty beers, the ricotta and beet donut at the Doughnut Project and the black label burger from Minetta Tavern. She has a pint of Sambazon açai sorbet almost nightly. She takes collagen supplements.

The Gear & Cost

Her JDH X79 TT Low Bow stick retails for \$395. Her Dita turf shoes cost \$65. She wears Nike tennis skirts (\$50). Club dues are \$10 a game.

The Playlist

"I don't like music with a lot of lyrics," she says. Techno and electro-pop bands like Berlin are on her workout playlist.

HEALTH

Continued from page A9
economics and psychology.

"It was a very left-field idea to say let's use behavioral economics to help a doctor explain to a patient what is important," said Andrew Vickers, a biostatistician who advises Dr. Ehdaie on his research. "But we knew that this was a problem and that surgeons weren't dealing with it. Doctors often use the completely wrong words."

Dr. Ehdaie's wife, who has an M.B.A., thought an expert in negotiation theory might help. After hearing about a Harvard Business School professor named Deepak Malhotra who specializes in tough negotiations, Dr. Ehdaie emailed him in December 2013.

Professor Malhotra says he was intrigued. He also believed that many doctor-patient conversations were in fact negotiations—and that doctors had no idea how to negotiate. He had co-authored an article with his brother, an emergency physician, in the Harvard Business Review which said doctors and hospitals had "a dearth of negotiation skills and acumen."

The professor traveled to Manhattan in 2014 to observe Dr. Ehdaie with his patients. The two hammered out pointers adapted from negotiation theory that doctors could use. For example, Dr. Ehdaie, like many surgeons, would first tell newly diagnosed prostate-cancer patients about surgery as a treatment option, and then discuss radiation; he left active surveillance for last.

Professor Malhotra advised flipping the order. "Instead of going on and on about surgery, and then going on and on about radiation, you give the prominence and salience to active surveillance" he said. The rejiggering was critical to making surveillance—not surgery—the "default option."



It also was important to explain what active surveillance entailed. While the cancer is left untreated, patients follow a rigorous program of MRI's, tests and biopsies. Dr. Ehdaie told his patients he would see them every six months. But far from being reassured, patients worried "the cancer could spread in six months."

Professor Malhotra advised reframing the time period. The doctor should emphasize that a patient's cancer was growing very slowly, if at all, and it would be safe for him to see them in about five years. But under active surveillance, he would examine them every six months—making some patients feel they were being closely monitored. Finally, Professor Malhotra advised giving patients a concise message to keep in mind when talking with family

and friends who might "start questioning" the decision.

As Dr. Ehdaie changed his approach, he saw striking results. Nearly all his patients began accepting active surveillance and rejecting aggressive treatments.

That set the stage for a study on the business-school techniques. The study had two goals: to determine whether the approach could be taught to other doctors, and to discover if it improved active-surveillance rates at Sloan Kettering.

The initial challenge was getting half-a-dozen busy cancer surgeons to participate. That is why the study was built around a one-hour lecture. Five surgeons attended a talk by Dr. Ehdaie with Professor Malhotra on hand. The number of patients who chose active surveillance afterward was tracked.

Among the participants was Pe-



Dr. Behar Ehdaie, left, consulted with Professor Deepak Malhotra, above, for help in negotiating with cancer patients about treatment decisions.

ter Scardino, who was Sloan Kettering's chairman of surgery for more than a decade. Dr. Scardino was an early believer in active surveillance—back when many physicians didn't embrace it. Five to 10 years ago, he said, it was hard to get patients on board.

Another hurdle: Active surveillance isn't risk-free. Dr. Scardino tells patients "it is possible the cancer could get out of control before we realize it." But he notes that surgery and radiation also have risks, including "urinary incontinence and impotence, so it isn't a question" of an alternative without risk.

The Harvard Business School pointers have brought "more clarity and definition and concise thinking" to how doctors discuss these risks with patients, Dr. Scardino said.

In a report published in June in the journal European Urology, the Sloan Kettering team, along with Professor Malhotra, analyzed the decisions of 1,003 prostate-cancer patients eligible for active surveillance. When they compared 761 patients in a two-year period before the doctors were taught the Har-

vard methods, with 242 patients who were counseled with the business-school pointers, they found the percentage that chose active surveillance rose to 81% from 69%. In other words, there was a decrease of 30% in "the risk of unnecessary curative treatment."

Richard Saler, a patient of Dr. Ehdaie who was diagnosed with low-grade prostate cancer in 2014, admits he is "a worrier" and was inclined to have surgery. "My mindset was 'Get it out, cut it out,'" he recalled. He spoke with Dr. Ehdaie and recalls when the doctor said, "I would be happy to do your surgery"—but he wouldn't advise it. After carefully reviewing the data on treatments, Mr. Saler chose active surveillance. Mr. Saler, who has an M.B.A., didn't realize his doctor was using classic negotiating tactics and said the conversations with Dr. Ehdaie "never feel like a negotiation."

"It is not supposed to feel like a negotiation," Dr. Ehdaie said. "You want to empower patients to make the best decisions for themselves." Professor Malhotra wrote about the experience with Sloan Kettering in a chapter in his book "Negotiating the Impossible."

James Eastham, chief of the urology service at Sloan Kettering, said his department incorporates Professor Malhotra's techniques. "Acceptance rates have increased significantly," he said. About 90% of eligible Sloan Kettering prostate-cancer patients now select active surveillance.

David Miller, a professor of urology at the University of Michigan in Ann Arbor, said Dr. Ehdaie is changing how doctors can talk to prostate-cancer patients. He wonders if the approach can work beyond Sloan Kettering. "The challenge is how do you bring Deepak Malhotra to care settings in rural parts of the United States," he said. "What happens at Memorial isn't necessarily what happens" in clinics across the country.

LIFE & ARTS

EXHIBITION REVIEW

Many Octaves of Meaning

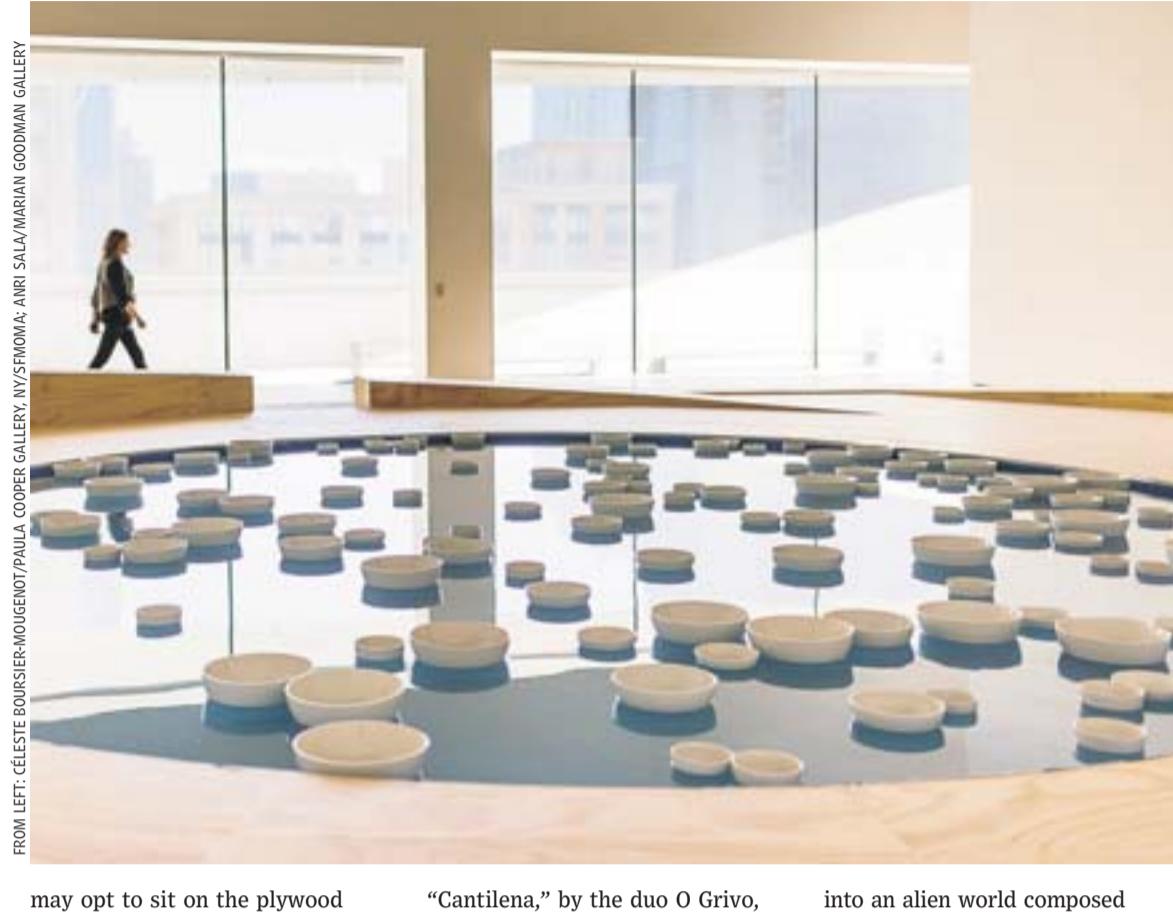
BY DAVID MERMELSTEIN

San Francisco

THERE AREN'T many museum shows that can honestly claim to be fun for all ages, but "Soundtracks" at the San Francisco Museum of Modern Art is surely one of them. This sprawling exhibit of some 25 works, all from this century and most constructed after 2010, occupies the museum's entire seventh floor, along with some spaces elsewhere in the building and, in one case, even outside it.

The concept of sound as exhibited art may stretch some people's notions of the form (even in the precincts of a modern-art museum), but along with the rise of video as art, sound, too, has increasingly found itself not just welcomed but displayed in galleries originally constructed as showcases for static visual art. Still, this show, conceived by Rudolf Frieling, curator of media arts at SFMOMA, marks a major turning point in the embrace of sound as museum-worthy art. And not just because of the exhibition's scale. It's the wide variety of concepts, materials, intent and expression that really distinguishes what's on display.

Ultimately, "Soundtracks" can be considered a meditation on sonic possibilities. The show's depths, while not always immediately apparent, are abundant and striking, should one wish to consider them. But here's an alternative: "Soundtracks" can be enjoyed, thoroughly and satisfactorily, on an entirely superficial level. Visitors may enter its many discrete areas, appreciate a work's immediate impact, and move on. What child won't be delighted on seeing Céleste Boursier-Mougenot's "Clinamen v. 3," essentially a wading pool filled with immaculate porcelain bowls of various sizes clinking as they gently collide? At its most innocent, the work is both visually engaging (blue water, white china) and sonically attractive (think wind chimes). Older museumgoers



may opt to sit on the plywood platform that encircles the pool and find a moment's serenity in the "music" being made. And someone really curious might consider the work's Latin title and ponder its real, if abstruse, physical and philosophical properties.

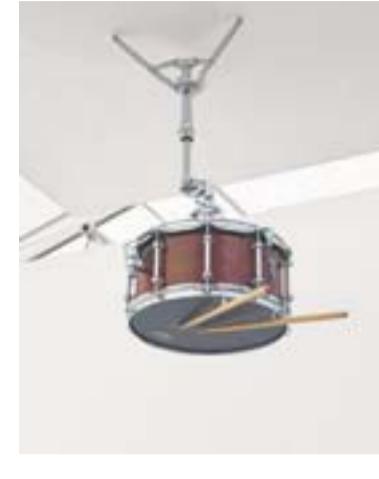
Though Mr. Boursier-Mougenot's work may linger longest in the memory, "Soundtracks" greets visitors with two works that are bound to exert their own grip. Anri Sala's "Moth in B-flat," a snare drum mounted upside down on the ceiling with sticks that appear to be played by invisible hands, could have escaped from a tony magic club. Yet a clever idea lies beneath: Vibrations produced by unheard playback cause the drumsticks to move, producing audible sounds—a conceptual as well as physical inversion, as it were.

"Cantilena," by the duo O Grivo, looks like a massive Tinkertoy set come alive—rods, discs and wires all animated by hidden electric motors produce a beguiling cacophony certain to mesmerize any passerby. Two works by Amalia Pica also spark amusement. The first, "Eavesdropping," places on a wall an array of drinking glasses perpendicular to the viewer; the second, "Switchboard (Pavilion)," finds a wooden roomlike structure studded with empty tin cans connected by yards of crisscrossed string. It's unclear whether either has an integrated sonic component, even as both clearly suggest the prospect of sound.

Pleasures of a different sort await those who enter the exhibit's darker corners. "New Urban Spaces Series #4: 'Compact Forest Proposal'" by Brian Eno lures visitors

into an alien world composed largely of string lights and ambient music emanating from 10 asynchronous CD players. The effect is utterly transporting, and those who enter knowing nothing of what's inside will encounter an additional surprise, revealed gradually to unsettling effect. Camille Norment's "Lull" haunts in a different way, as an upside-down microphone swings pendulum-like over a spotlighted amplifier, producing feedback that distorts an endlessly looped lullaby performed by the Ethiopian-born, Swedish singer Sofia Jernberg.

Conversely, Rafael Lozano-Hemmer's "Last Breath," which carries an implicit chill, operates in a brightly lighted space. Bookending a length of white respirator tubing are a motor and a brown paper bag. As the motor pumps air through the tubing, the bag inflates and deflates,



Céleste Boursier-Mougenot's 'Clinamen v. 3,' left, and Anri Sala's 'Moth in B-Flat,' above

mimicking the labored breathing of a hospital patient, while nearby, on video, the avant-garde composer Pauline Oliveros, who died last year, breathes directly into a paper bag. Sharing the same gallery are three orbs from Mr. Lozano-Hemmer's less macabre "Sphere Packing" series, their surfaces covered in ear buds emitting muffled sounds similar to what one hears on a cheap radio when navigating between stations. In fact, each contains the complete works of a single composer—in this case Mozart, Wagner and Cage—played simultaneously in an impossible tangle.

This show's chief achievement, earned in near equal measure through cheek and intelligence, is that sound can stake a real claim to belonging in a museum's traditionally silent galleries. True, pure sound remains best appreciated in a concert hall or jazz club. But when combined with other elements (visual, tactile, etc.), the aural can exert as potent a pull on our imagination as anything we see.

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

Soundtracks

San Francisco Museum of Modern Art, through Jan. 1, 2018

CALVIN

Continued from page A9
aged successfully. Mr. Simons is known as a conceptual, modernist designer but has little experience appealing to a wide audience. Some of his more daring looks from the February show featured removable, transparent plastic overlays that were reminiscent of retro couch covers. Others had jarring chunky "varsity sleeves" resembling slouchy legwarmers, but for arms.

Mr. Shiffman made Mr. Simons chief creative officer, meaning the designer oversees all Calvin Klein lines, including home, jeans, underwear, the more-affordable men's and women's lines and the highest-end collection, plus advertising and marketing. Only Calvin Klein himself had that much control. Before Mr. Simons came on board, responsibilities were divided among various people. Mr. Shiffman made the change in the hopes of sending a consistent brand message from the merchandise sold at Barneys to that sold at Macy's.

A women's cotton-satin overcoat from the high-end collection is priced at \$2,495, compared with \$298 for a mélange wool blazer coat in the main line. High-rise straight-leg jeans cost \$495 for the higher-end collection, compared with \$69.50 to \$128 for men's straight-leg jeans in the main line, and \$69.50 to



Top, Mark Wahlberg in a 1993 billboard ad. Below, Brooke Shields and Calvin Klein, 1981.

\$148 for women's.

One of Mr. Simons' first moves was rebranding. The highest-end collection, once called Calvin Klein Collection, is now CALVIN KLEIN 205W39NYC, a nod to the address of the New York-based company's headquarters. "It's a whole mouthful," Mr. Shiffman said, with a laugh. Internally, "we've already abbreviated it. We call it CALVIN KLEIN 205 or 205 collection. Everybody's going to interpret it in their own way."

The 205 collection includes a new, high-end jeans line called CALVIN KLEIN JEANS ESTABLISHED 1978 in a nod to the company's original jeans launch. It was the sleeper hit of the February runway show, largely because of the patches on

the back of the jeans featuring a silhouette of Brooke Shields posed in her famous 1980s jeans ads. The collection also includes a high-end underwear line.

Since Mr. Simons's February show, the 205 collection is being carried in 500 retail locations world-wide, including upscale online retailers like Net-a-Porter.

"It's the first time we've carried the brand ever, or at least in many, many years," said Daniella Vitale, chief executive of Barneys New York, which will stock the CALVIN KLEIN 205W39NYC men's and women's apparel collections in its 14 full-priced stores and online. The collection will neighbor women's labels like Balenciaga and Saint Laurent, and Prada and Valentino for men. Barneys will also be the first and only retailer to carry CALVIN KLEIN 205W39NYC handbags for fall.

The retailer plans to devote its Madison Avenue store windows to the collection during fashion week as well as the cover of its new women's mailer to customers; the back cover of its men's mailer will highlight the new underwear.

As the strategy for Calvin Klein ramps up, Mr. Shiffman's office will move from another floor to the office next to Mr. Simons' in coming months. "You want to have a quick conversation," said Mr. Shiffman, when it comes to decision-making. "Not everything needs to be this formalized meeting."



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SPORTS

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 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.

Sharapova's new autobiography reveals that she had planned to retire from tennis as soon as this year. Now, though, she plans on going as long as possible.

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."

Around tennis, there is 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.

Sharapova brushed that aside. "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. All that matters to me is I'm in the fourth round. Yeah, I'm not sure where she is."

Wozniacki lost in the second round.



MARK J. TERRILL/ASSOCIATED PRESS

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

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 collection 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 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 wastebasket of disappointments and missed opportunities. They blew a late-inning lead in Game 4, a contest in which Nelson threw 1 2/3 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, they will head into the postseason facing only two possible

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

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.

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." Ultimately, however, Abbott admits 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.

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 postseason 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.

Looking back, the Mariners say they don't know what they would change about how they approached the playoffs. They just ran into the wrong opponent at

the wrong time.

When the playoffs begin, the Dodgers will almost certainly deal with more intense scrutiny than the Mariners did.

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. With the Mariners, a team that has never made the World Series, Nelson said he didn't always feel that.

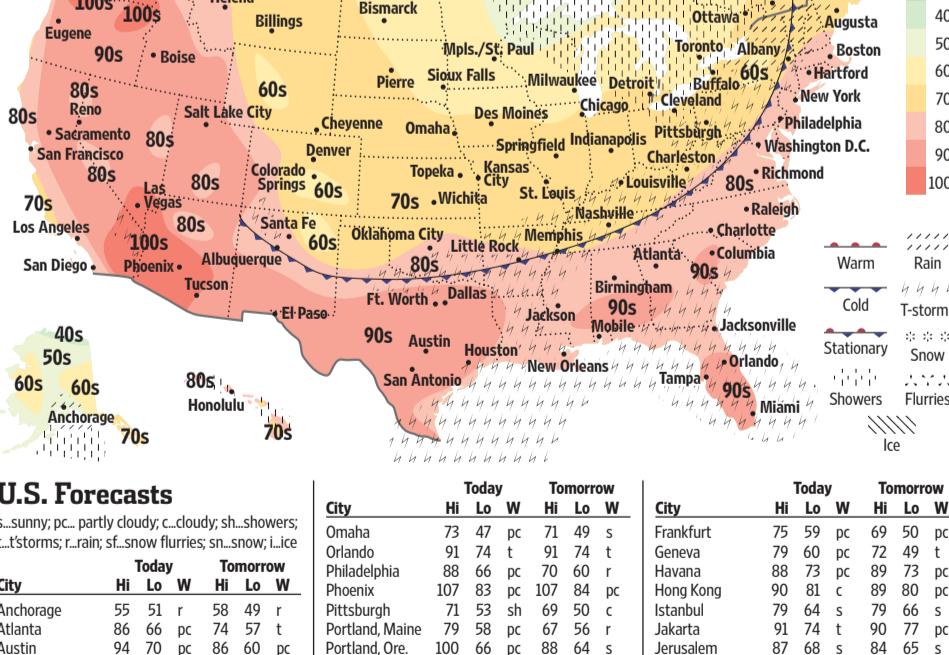
"It was a huge difference because of two different cities," Nelson said. "In New York, we had to keep the pedal to the metal because of pressures from the outside."

For now, the Mariners players say the Dodgers should just remain focused on winning in September 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.



Sharapova has no plans to retire.

Weather



U.S. Forecasts

S=sunny; pc=partly cloudy; c=cloudy; sh=showers; t=tstorms; r=rain; sf=snow flurries; sn=snow; l=ice

Today Hi Lo W Tomorrow Hi Lo W

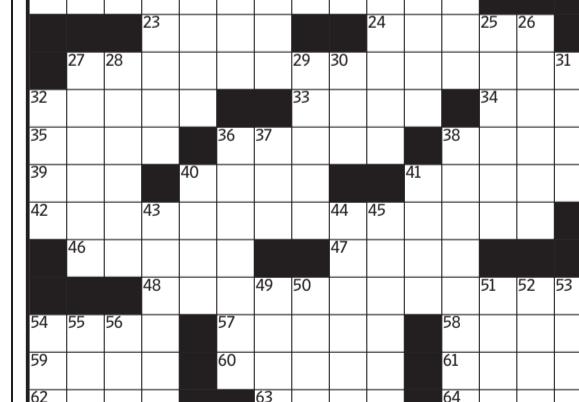
City	Hi	Lo	W	Hi	Lo	W
Anchorage	55	51	r	58	49	r
Atlanta	86	66	pc	74	57	t
Austin	94	70	pc	86	60	pc
Baltimore	87	66	pc	70	57	r
Boise	98	66	pc	99	67	s
Boston	85	65	s	72	63	r
Burlington	74	56	r	70	57	sh
Charlotte	89	67	pc	75	56	t
Chicago	70	50	pc	66	51	pc
Cleveland	75	53	sh	69	51	pc
Dallas	95	67	pc	85	63	s
Denver	73	50	pc	81	54	s
Detroit	72	50	pc	67	50	pc
Honolulu	85	71	pc	86	74	pc
Houston	92	74	pc	86	63	pc
Indianapolis	75	51	pc	68	51	pc
Kansas City	75	48	pc	71	49	s
Las Vegas	106	81	pc	101	78	pc
Little Rock	81	59	t	77	54	s
Los Angeles	84	68	pc	86	66	pc
Miami	91	80	t	92	79	t
Milwaukee	69	50	pc	65	51	pc
Minneapolis	64	49	pc	65	50	pc
Nashville	77	57	t	51	51	pc
New Orleans	89	74	t	85	69	t
New York City	86	66	pc	70	60	r
Oklahoma City	81	56	pc	79	56	s

International

Today Hi Lo W Tomorrow Hi Lo W

City	Hi	Lo	W	Hi	Lo	W
Amsterdam	71	57	c	64	55	c
Athens	86	71	s	84	70	s
Baghdad	116	81	s	116	84	s
Bangkok	92	80	t	92	80	t
Beijing	86	64	c	88	61	s
Berlin	71	54	pc	67	53	t
Brussels	73	58	c	63	52	s
Buenos Aires	62	50	c	62	52	s
Dubai	106	88	s	106	91	s
Dublin	63	49	pc	62	52	pc
Edinburgh	63	47	r	62	48	p

The WSJ Daily Crossword | Edited by Mike Shenk



NOT SCHOOL SUPPLIES | By Alice Long

- Across**
- 1 Courage
 - 5 Prayer ender
 - 9 House, to Javier
 - 13 Workplace watchdog org.
 - 14 Boggy areas
 - 16 The yoke's on them
 - 17 Lusty look
 - 18 Pizzeria serving
 - 19 Well-ordered
 - 20 Pocketknives, humorously
 - 23 Out of the wind, nautically
 - 24 Hot room at the spa
 - 27 Dictators
 - 32 Terrific time
 - 33 Scott Turow book
 - 34 Band booster
 - 35 ___ concern (unimportant)
 - 36 Wrote bad checks
 - 38 Vivacious style
 - 39 Gun owners' org.
 - 40 Reasonable
 - 41 Cold shower?
 - 42 Identifiable DNA sequences
 - 43 Out of the wind, nautically
 - 44 Hot room at the spa
 - 45 Powerful speakers
 - 46 Niels Bohr and Tycho Brahe, for two
 - 47 Principal
- Down**
- 1 Course activity
 - 2 Manipulative person
 - 3 Kojak's first name

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

29 Tribe symbol

30 End for ethyl or methyl

31 Catch sight of

32 Big Ben sound

33 German emperors

34 Corp. abbr.

35 Is inconspicuous

36 Flight part

37 Tattoo artist's canvas

38 Lieutenant's subordinate

39 Leisurely pedestrian

40 Pot boosters

41 Bounding stride

42 Old Italian coin

43 Casualness

44 Annoy

45 "Citizen Kane" prop

46 General assemblies?

47 Pop

48 Butler at Wayne Manor

49 Psychology subject

50 Split base

51 Burner setting

52

OPINION

Bring Back the Work Ethic



MAIN
STREET
By William
McGurn

Don't try telling Bob Funk the American Dream is dead. Or selling him on the gloomy tropes endlessly recycled this past Labor Day weekend: 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 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.

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 unfamiliar with the fundamentals of work, from knowing how to dress and showing up on time to taking direction from a boss.

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

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.

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 nonnuclear 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.

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

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—preventing 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 does not seem all that attractive to Mr. Trump's "America First" voters.

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 is 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.

When We Sent Rock Stars to Space

By Jerry Cianciolo

Chuck Berry's longest tour hasn't ended—which is surprising, since the legendary rocker died in March. Actually it's Berry's signature song, "Johnny B. Goode," that's on tour, traveling through the Milky Way at 30,000 miles an hour for at least another few billion years.

Berry's 1958 classic is among the 27 musical selections mounted on Voyager 1, the NASA spacecraft launched 40 years ago Sept. 5. The songs were etched onto the "Golden Record," a gold-plated copper disk, encased in electroplated metal with a half-life of 4.5 billion years. Carl Sagan, the late astronomer who compiled the far-out album, worked with dozens of advisers, critics and musicologists to choose the 90 minutes of music. He viewed the effort as "a creditable attempt to convey human emotions" to the cosmic crowd.

What to include on Earth's

Greatest Hits was hotly debated. In addition to "Johnny B. Goode," three American songs are included—none by Elvis Presley, Bob Dylan or Frank Sinatra. So what made the cut?

First there is a wordless monologue called "Dark Was the Night" by 1920s blues singer

Forty years ago NASA launched Voyager 1—and 27 musical picks.

Blind Willie Johnson. Timothy Ferris, who helped produce the Golden Record, called it "one of the most fundamentally moving pieces of music ever recorded." Also included is Louis Armstrong's "Melencholy Blues," which ethnomusicologist Alan Lomax singled out as the best example of African-Americans' rediscovering their musical voice. The fourth entry is a Navajo night chant used to initiate

boys and girls into the tribe's ceremonial life.

Half the Golden Record's music is Western, opening with a movement from Bach's Second Brandenburg Concerto and moving on to parts of Beethoven's Fifth Symphony and Mozart's "The Magic Flute." The other half ranges from Senegalese percussion, to Solomon Islander pan pipes, to a reflective 2,500-year-old Chinese song called "Flowing Streams."

Although some groups like Jefferson Starship volunteered their tunes—which Sagan politely declined—not every selection was easily accessible. Robert E. Brown, then the director of the Center for World Music in Berkeley, Calif., had put atop his world's greatest list an Indian raga called "Jaat Kahan Ho." But Ann Druyan, who served on Sagan's committee, couldn't locate a recording of the song and pleaded for an alternative. When Brown refused, an exasperated Ms. Druyan began

Mr. Cianciolo is chief editor at Emerson & Church Publishers in Medfield, Mass.

BOOKSHELF | By Michael S. Roth

The Liberal Arts Are Marketable

A Practical Education

By Randall Stross
(Redwood, 291 pages, \$25)

You Can Do Anything

By George Anders
(Little, Brown, 342 pages, \$27)

College students returning to their campuses for more reading, writing and arithmetic may find they're not doing all that much of the first two—unless you count messages that come in 140-character chunks or disappear soon after finding their recipient. Breadth of study and deep critical thinking, once thought to be the crowning achievements of American higher education, now strike fear into the hearts of many parents and policy makers, who view them as luxuries or distractions. Instead they clamor for a greater emphasis on quantitative reasoning, involving ever increasing amounts of data. Students and families worry less

about being on the "right side of history" than about being on the wrong side of the great economic divide between winners and losers.

Undergraduates today often crave narrow specialization in fields that they imagine will be of immediate interest to employers. Although many still sign up for classes in literature, history and philosophy, the percentage choosing to major in the humanities or social sciences

(apart from economics) has been declining. Looking at these trends, a contrarian might conclude that this is an especially good time to choose a major that allows for the development of skills and experiences that set one apart from the hordes clutching STEM degrees. Buy low, sell high.

Randall Stross's "A Practical Education: Why Liberal Arts Majors Make Great Employees" is meant to persuade recruiters to hire liberal-arts grads, while George Anders's "You Can Do Anything: The Surprising Power of a 'Useless' Liberal Arts Education" is meant to inspire students to recognize how a multifaceted undergraduate experience can aid them in the workplace. Both books are filled with stories like that of Josh Sucher, a Bard graduate who translated lessons from cultural anthropology into market research for Etsy. Mr. Anders calls him an "anthropologist in action," who uses his skills of observation to more effectively connect artists and potential buyers.

Mr. Stross's book is based on a narrow sample: Stanford alumni with degrees in the humanities and social sciences. This elite university is among the most selective in the country, admitting less than 5% of those who apply. Sure, one might say, its graduates will do pretty well no matter what they study in school. If they have trouble landing in the very best private-equity firm or start-up, they can use the school network to make connections that lead to good jobs. Even the wealthy neighborhood is a resource. One story features Jessica Moore, who cultivated influential connections for jobs by baby-sitting in affluent Palo Alto, Calif.

Liberal arts majors have the skills to translate their studies of history, philosophy and politics into impressive career trajectories.

Mr. Stross is well aware that his sample is narrow but presents his anecdotes about non-engineering Stanford grads as being meant to show "the skeptical what is possible." Interspersed among these stories of enterprising young alumni are short chapters on the history of Stanford, highlighting the institution's longstanding struggle to offer both a practical education and a broad, flexible one. People interested in the history of education will find these sections illuminating, but for many readers this, too—like the rest of the book—will prove too parochial.

That said, it's certainly true that many people find ways to add value to enterprises that at first glance seem to have little to do with their undergraduate majors. They have learned to learn, to productively reframe stories, to cultivate teamwork and to communicate in compelling ways. Skills like these—"power skills," in business-speak—are what students in the liberal arts develop, and this is why Messrs. Stross and Anders find so many examples of young people translating their studies in history, philosophy or political science into value for others—and impressive career trajectories.

Mr. Anders introduces readers to students from a wide variety of schools who have made their "useless" educations powerful indeed. Emory Zink, a graduate of Indiana University, majored in French and comparative literature; Morningstar appreciated her combination of analytic and narrative skills, and today she is a bond-fund analyst with a storytelling flair. Of course, she did also go to business school.

Adventurous possibilities abound in today's economy, says Mr. Anders. Sure, technology is eliminating jobs, and increased automation can be scary. But innovation creates the need for even more people who can imagine the ways in which technology can be put in the service of individuals and communities. "The big societal challenge for the modern world doesn't involve how rapidly engineers create new technology," Mr. Anders writes. "The great point of strain involves how rapidly the skeptics and the hesitant can absorb each new wave." Liberal-arts grads, he suggests, will be especially adept at helping translate technological innovation into everyday uses because they have studied and practiced the "nuanced feat of changing people's minds."

Mr. Anders wants his book to be a practical resource and, like Mr. Stross, provides many instructive examples. Readers should feel permitted to sample them rather than plow through them all. And though I suspect that the authors would agree with bromides about the importance of failure, there are no real failures here. Instead they emphasize that the intensity students bring to their studies—combined with the ability to translate that intensity into other areas—is more important than choosing a so-called practical major. And it remains important for a lifetime. "Strong grounding in the humanities or social sciences," Mr. Anders writes, "doesn't have an expiration date." As another academic year begins, these books are salutary reminders that what is learned on campus should have its greatest value beyond the university.

Mr. Roth is the president of Wesleyan University and the author of "Beyond the University: Why Liberal Education Matters."

OPINION

REVIEW & OUTLOOK

Options for Removing Kim Jong Un

North Korea conducted its sixth nuclear test on Sunday, detonating a bomb 10 times more powerful than its last test a year ago. The South Korean government says Pyongyang is also preparing its third test of an intercontinental ballistic missile. The tests underscore how much U.S. intelligence has underestimated the North's nuclear progress, which will soon make American cities vulnerable to attack.

The standard refrain of foreign-policy experts is that the world has no good options other than war or acquiescence. The policy default, repeated by the Trump Administration, is pleading with China to coerce North Korea into giving up its nuclear program, despite evidence that Chinese leaders don't want to help and Kim Jong Un may not take their orders.

A military strike has to be a last resort because it might lead to a larger war that could kill tens of thousands in South Korea and Japan, including U.S. troops. But the U.S. does have other options. Washington can put severe pressure on North Korea and the Kim Jong Un regime. To understand how, take the standard tool kit of statecraft, sometimes summed up by the acronym Dimefil: diplomatic, information, military, economic, finance, intelligence and law enforcement.

• **Diplomatic.** The U.S. can put far more pressure on countries to cut or restrict ties with North Korea. While the regime preaches an ideology of self-reliance, it needs international ties to raise hard currency and source the raw materials and technology it needs.

• **Information.** Defectors are already sending information into the North about the outside world. The U.S. and its allies can expand that effort and encourage elites to defect or stage an internal coup.

• **Military.** Building up missile defenses and conventional forces will diminish the North's ability to use nuclear blackmail. Deploying tactical nuclear weapons to South Korea would make the threat to retaliate against a nuclear strike more credible.

• **Economic.** Donald Trump tweeted Sunday that the U.S. is considering sanctions against anyone who does business with North Korea. The regime uses networks of Chinese traders to evade sanctions and also to conduct more legitimate business. Applying sanctions to these networks could curtail the North's trade.

• **Financial.** The U.S. can cut off North Korea's access to financial intermediaries that conduct transactions in U.S. dollars. In June the U.S. applied secondary sanctions to the Bank of Dandong, a Chinese bank. Larger Chinese banks should suffer a similar fate if they continue to facilitate trade with North Korea.

The U.S. has never used all of its tools to topple the North Korean regime.

• **Intelligence.** The Proliferation Security Initiative begun under the George W. Bush Administration tracked and intercepted the North's weapons exports. The program could be enlarged to block other exports forbidden under United Nations sanctions.

• **Legal.** A U.N. Commission of Inquiry in 2014 reported evidence of human-rights abuses in the North's huge network of prison camps. China and Russia have shielded the Kim regime from prosecution at the International Criminal Court for these crimes against humanity. Pressure for accountability will further isolate the North and encourage elites to defect.

The North is especially vulnerable to pressure this year because a severe drought from April to June reduced the early grain harvest by 30%. If the main harvest is also affected, Pyongyang may need to import more food while sanctions restrict its ability to earn foreign currency. Even in a normal year, the North needs to import about 500,000 tons of grain.

While the regime survived a severe famine in the 1990s, today the political consequences of a failed harvest would be severe. More North Korean awareness of the outside world has fostered cynicism about the government, and about half the population is engaged in some form of private enterprise. Traders openly flout the laws because they bribe corrupt officials. The army was once the most desirable career path; now soldiers are underpaid and underfed. North Koreans will not simply accept starvation as they did two decades ago.

Withholding food aid to bring down a government would normally be unethical, but North Korea is an exceptional case. Past aid proved to be a mistake as it perpetuated one of the most evil regimes in history. The U.N. says some 40% of the population is undernourished, even as the Kims continue to spend huge sums on weapons. Ending the North Korean state as quickly as possible is the most humane course.

* * *

Ideally regime change would mean Korean reunification under the Seoul government. But Beijing is likely to resist that outcome, preferring to keep the North as a buffer state under its control. That would still offer North Koreans a better life and end the nuclear threat. We should send the message to coup plotters that as long as they give up their nuclear weapons and missiles they would not be punished.

The Trump Administration rightly refuses to accept North Korea as a nuclear power, but the U.S. and its allies have never used all of their options short of a military strike to stop that from happening. The U.S. could still bring down Kim Jong Un before he becomes a global nuclear menace, but time is running out.

Trump's Korean Trade Folly

A big problem with Donald Trump's protectionist trade agenda—and far from the only one—is that it contradicts his purported geopolitical goals.

The latest example is Mr. Trump's threat, widely reported on the weekend, to withdraw from the U.S.-South Korea trade pact.

Mr. Trump has long opposed the deal with Seoul that was signed by George W. Bush in 2007, renegotiated at the margins by Barack Obama in 2010 and passed by a GOP Congress in 2011. The agreement, which reduced 95% of the tariffs on goods and opened the market for U.S. services, has been an economic boon to both countries. But Mr. Trump is fixated on the \$27.7 billion bilateral U.S. trade deficit in goods in 2016, despite a

\$10.9 surplus in services. The trade deficit is relatively small and economically meaningless in any event.

Protectionist threats undermine U.S. geopolitical goals.

But even if you ignore the economic harm from unilateral U.S. withdrawal, the political damage would be worse. You don't have to be Henry Kissinger to see the folly of threatening a key ally economically

at the same time you are asking that ally for support against North Korea's burgeoning nuclear-missile arsenal (see nearby).

Mr. Trump fairly criticizes South Korea for "talk of appeasement with North Korea," but why should the South trust the U.S. military commitment if an erratic U.S. President can't be trusted to keep a mere trade pact? The winner would be the North's Kim Jong Un.

The Free-Speech Battles of Berkeley

Fall semester has begun, and the University of California at Berkeley is back at the epicenter of the free-speech wars.

The mayor pressures the new chancellor 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 mayor 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.

LETTERS TO THE EDITOR

Debating Trump's Pardon for Sheriff Arpaio

Regarding your editorial "The Arpaio Pardon" (Aug. 28): While the prudent course for Sheriff Joe Arpaio would have been to follow Judge Murray Snow's directives to the letter, Joe has never been known for prudence. Judge Snow ordered the sheriff to cease illegally using race in making traffic stops but then overstepped. Judge Snow ordered Mr. Arpaio to cease the legal detaining of probable illegal immigrants for ICE even with legal stops. That went against a Supreme Court decision favoring the Arizona law. Mr. Arpaio chose to continue following the state and federal guidelines which brought the criminal contempt charge.

The prosecution was careful to lowball the charge so it could justify a trial without a jury, knowing full well it would never impanel a jury with enough votes to convict the sheriff.

Liberals complain the pardon didn't meet Justice Department guidelines, one of which states the individual should have served five years of his sentence. Crafty, since his possible max was six months. They complain he hasn't admitted his crime or shown remorse. That would never happen. Joe doesn't think he was wrong.

JIM BARBER
Mesa, Ariz.

Since I came home from the Army in 1970, I have been patiently waiting 47 years for the federal government to enforce immigration control. Sheriff Arpaio enforced the immigration laws, something the feds steadfastly refused to do.

B.J. KHALIFAH
Grosse Pointe Park, Mich.

Republicans will cease as a viable movement if they continue to sacrifice their own on the altar of political correctness. What potential supporter would trust them?

President Trump made one of the gutsiest moves I've witnessed in politics in a couple of decades when he pardoned the good sheriff. No other Republican would have dared get in front of that lynch mob, especially not this early in his term. Love him or hate him, the man has more guts than all the rest of the elected officials in Washington combined.

BILL GLASSCO
Tiverton, R.I.

Sheriff Arpaio's conviction arguably arises out of a politicized prosecution. Disagreements over Sheriff Arpaio's tactics were resolved by voters, as they should have been.

If President Trump believes that Sheriff Arpaio was the subject of a politicized prosecution and politicized judicial decisions, such as the indefensible decisions regarding presidential executive orders in immigration, a pardon would seem to be a good use of the president's constitutional prerogatives.

STEPHEN UNGAR
North Hills, N.Y.

I disagree with Mr. Arpaio's belief that "the Obama Justice Department relished his prosecution." Any reasonable citizen who supports America's justice system (as flawed as it is) would relish his prosecution. Most important: President Trump has graciously rewarded a supporter of his. This is a major step toward anarchy.

ALETA WILSON
Coronado, Calif.

"Pardoning Mr. Arpaio sends a message that law enforcers can ignore court orders and get away with it."

Yes sir, next thing you know, liberal mayors will start ignoring immigration laws with impunity.

RAY MARTIN
Ridgefield, Conn.

You Can't Insure Illness That's Already There

Craig Blinder ("Insurers Are Still Denying Treatments for Pre-existing Conditions," op-ed, Aug. 23) asserts that an achievement of the ACA was its "prohibition on denying insurance coverage to patients with pre-existing conditions." The statement is a non sequitur. By definition, it is impossible to insure against something that has already happened, such as a pre-existing condition. One can only insure against matters that haven't yet occurred, but for which a reasonably knowable (actuarial) probability of future occurrence can be assessed.

Although in a compassionate society it may be morally sound to care for people with known medical needs and who otherwise cannot afford treatment, to speak of insurance coverage of pre-existing conditions does violence to the precise use of language and camouflages the actual policy argument being advocated. What Dr. Blinder wants is the socialization of the costs of caring for people with pre-existing conditions. He wants the taxpayers to pick up

No Good DUI Impairment Test for Marijuana Is Likely

Ethan Siegel and Alex Berezow are right to identify marijuana-impaired driving as a significant national highway safety problem, but no equivalent will ever exist for marijuana or any other drug like the familiar 0.08 BAC for alcohol ("We Need a DUI Test for Marijuana," op-ed, Aug. 23).

This is because, unlike for alcohol, for other drugs there is no close relationship between tissue levels and impairment. The search for a tissue level that defines impairment for marijuana or other drugs is illusory. Moreover, it is not possible to determine when marijuana was last used because of the drastic differences in the metabolism of edible versus smoked products and because chronic marijuana users show deficits in driving skills after three weeks of abstinence.

There are good ideas available right now. Test all drivers arrested for impairment, not just for alcohol but also for marijuana and other commonly used drugs. Use Administrative License Revocation to immediately remove from the road drug-positive drivers identified as impaired. Use the zero tolerance per se standard for illegal drug use. But don't delay effective action now on marijuana-impaired driving in the hopes that there will be a blood test for "marijuana intoxication."

ROBERT L. DUPONT,
President
Institute for Behavior and Health, Inc.
Rockville, Md.

the tab. As a moral issue, such a policy may be justified, though reasonable people can disagree. Honest debate, however, requires calling a spade a spade.

THEODORE A. GEBHARD
Arlington, Va.

The unintended consequence of "utilization management" is that nameless, faceless employees of an insurance company, who are often not even doctors and who have never met, let alone treated the patient, are determining what drugs and treatments sick people can receive. In other words, the employees of insurance companies are, in effect, practicing medicine, even though they are not licensed to do so, and if licensed, they are usually not licensed in the jurisdiction where the patient lives.

We have a court case in Arizona (*Murphy v. Board of Medical Examiners*) in which the medical director of Blue Cross Blue Shield had concluded that surgery recommended by an insured's physician was not "medically necessary." The medical director, who had never treated the patient, was admonished by the Board of Medical Examiners for making an inappropriate medical judgment. On appeal, the Arizona Court of Appeals concluded that he had "substituted his medical judgment" for that of the insured's treating physicians. Yet all over the country employees of insurance companies continue to do the same thing every day, in countless cases in which most insureds don't have the financial ability to contest. This is the fundamental problem with "utilization management"—insurance company personnel are making medical judgments without being licensed or qualified to do so.

The problem isn't limited to people with pre-existing conditions. The increasing use of utilization management by insurance companies raises critical public policy issues that need to be addressed by legislation at both the federal and state levels.

LOU STAHL
Phoenix

Pepper ... And Salt

THE WALL STREET JOURNAL



"He's been feeling much better since we switched from saline to bourbon."

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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 our 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.

By Erwin Chemerinsky
And Howard Gillman

During the past year appearances by controversial speakers on college campuses have led to a string of tense, sometimes violent, incidents. As students return to school, administrators will again face the challenge of protecting freedom of speech while ensuring safety for their students, staff and faculty. We offer this checklist to help them prepare for the difficult issues that are sure to arise.

1. Disseminate a clear statement of free-speech values and create opportunities to teach the campus community about free speech. Senior administrators at colleges and universities need to communicate with their communities the vital importance of freedom of expression and academic freedom for higher education. At a minimum, they must state that all ideas and views can be expressed, no matter how controversial or offensive, and must explain why a university can't fulfill its core purpose without this freedom.

2. Publish a clear statement supporting the presence of controversial

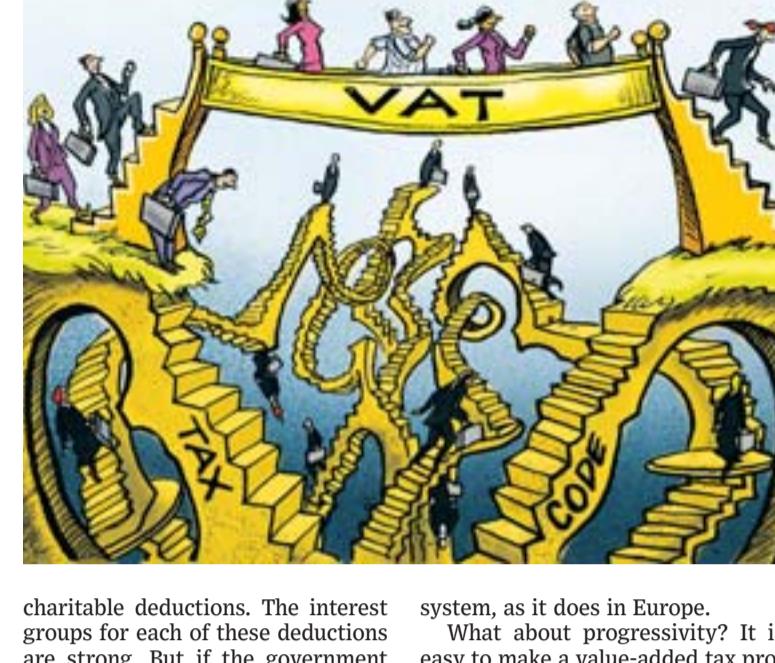
Much of the current tax mess results from taxing income. Once the government taxes income, it must tax corporate income or people would incorporate to avoid paying taxes. Yet the right corporate tax rate is zero. Every cent of corporate tax comes from people via higher prices, lower wages, or lower payments 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.

Today'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 holy trinity of mortgage interest, employer-provided health insurance, and



CHAD CROWE

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

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 is 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.

A Free-Speech To-Do List for College Administrators

Campus officials can no longer assume this is obvious and therefore unnecessary. Our experience is that too many students, faculty and administrators lack familiarity with basic principles of free expression and academic freedom. Because protection of offensive speech comes naturally to few, campuses should supplement strong free-speech statements with online resources and educational programming that allow all members of the community to develop a better understanding of the issues. For example, schools can include a discussion of free-speech issues at their freshman orientation programs.

But freedom of expression is never absolute. Some speech—such as true threats and harassment and interfering with the speech of others—is not protected. Campuses can enact regulations that ensure ample opportunities for communication while preventing interference with the teaching and research of faculty and students.

2. Publish a clear statement supporting the presence of controversial

speakers before particular incidents occur. Speakers should never be excluded because of their views, but campus officials also need to explain that it is completely appropriate, and indeed desirable, for students and faculty to express disagreement

Set clear, neutral rules and support the rights of controversial speakers before a crisis begins.

with speakers they find objectionable. There can be nondisruptive protests at events, statements of objection through the media, and counter-events that highlight different messages. As the old saying goes, the answer to speech we don't like is more speech.

3. Devise and publicize transparent and neutral procedures for approving events. Campuses typically require advance permission for use of their facilities. There is no free-speech

right for groups to demand unconditional access to limited campus venues at a time of their choosing. But the procedures and the criteria for receiving such approval must be clear, stated in advance and applicable to all. Otherwise such fair limitations could be abused.

4. Ensure everyone's safety. Campuses need to prepare security assessments that ensure adequate protection for controversial speakers and their audiences. A campus might insist on venues that make it easier to prevent protesters from blocking access to the event, and it might require tickets or university identification to minimize the chances of disruption. Speakers in uncontrolled venues on campus public spaces have no right to speak without interruption or rebuttal from a gathering audience, but they do have a right to be protected from violence or threats of violence.

5. Put in place rules that prohibit disrupting the speech of others during authorized campus events—with disciplinary measures when appropriate.

Campuses undermine free speech by not responding adequately to those who disrupt others when they are exercising their First Amendment rights. Administrators must defend against the heckler's veto, where the reaction of the audience can silence the speaker. This does not mean that every minor disruption be treated with severe sanctions. That would also chill speech. But severe or persistent efforts by students to prevent the expression of certain views should be treated as a serious violation of codes of student conduct.

In our roles as university officials, we are aware of the difficulty many campuses face regarding free speech. Careful messaging and planning before crises develop can make a huge difference.

Mr. Chemerinsky is dean of the University of California, Berkeley School of Law. Mr. Gillman is chancellor of the University of California, Irvine. They are authors of "Free Speech on Campus," recently published by Yale University Press.

Reports That 'Privacy Is Dead' Have Been Greatly Exaggerated

By Lawrence Cappello

News 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 challenge 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 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 officially 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 are not entitled to absolute privacy. Any argument to that end would be ludicrous. More than 200

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 is 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.

THE WALL STREET JOURNAL.

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Notable & Quotable: Dogs

From the abstract of "I Walk My Dog Because It Makes Me Happy: A Qualitative Study to Understand Why Dogs Motivate Walking and Improved Health," published by the International Journal of Environmental Research and Public Health, Aug. 19:

The strength of the dog-owner relationship is known to be correlated with dog walking, and this qualitative study investigates why. Twenty-six interviews were combined with auto-ethnography of dog walking experiences. Dog walking was constructed as "for the dog," however, owners represented their dog's needs in a way which aligned with their own....

Owners reported deriving positive outcomes from dog walking, most notably, feelings of "happiness," but these were "contingent" on the perception that their dogs were enjoying the experience.... Perceptions and beliefs of owners about dog walking were continually negotiated, depending on how the needs of the owner and dog were constructed at that time. Complex social interactions with the "significant other" of a pet can strongly motivate human health behaviour. Potential interventions to promote dog walking need to account for this complexity and the effect of the dog-owner relationship on owner mental wellbeing.

WORLD NEWS

Kenya Ruling Is Seen as Africa Watershed

High court invalidation of the presidential vote is the first of its kind on the continent

BY JOE PARKINSON

The ruling by Kenya's Supreme Court to annul last month's presidential election marks a new threshold for democracy in Africa and a new front in a battle of ideas over resurgent authoritarianism elsewhere on the continent.

The verdict comes as the contest between political systems in Africa has become more intense than at any moment since the Cold War. Emboldened democrats are jostling with a rising cadre of autocratic technocrats who argue that Western-style democracy has failed to produce a large and sustained rise in living standards.

Kenya's institutions struck a symbolic blow for the rule of law on Friday, as top judges upheld an opposition challenge alleging the Aug. 8 poll, which authorities initially declared was won decisively by President Uhuru Kenyatta over Raila Odinga, was marred by irregularities. Mr. Kenyatta has grudgingly accepted the court's call for a rerun, reassuring supporters he will win a second poll.

Kenya now moves into uncharted territory, holding another expensive and potentially divisive ballot on Oct. 17. But the ruling has made history.

It is the first of its kind in Africa and only the fourth time globally that courts have overturned presidential poll results after Austria, the Mal-



A supporter of presidential candidate Raila Odinga sits on a street sign relabeled to refer to Supreme Court Chief Justice David Maraga.

dives and Ukraine.

As party leaders returned to campaign mode, many in Nairobi spoke of their pride in a verdict that has spotlighted the independence of the country's institutions and for now helped narrow bitter political divides.

One social-media campaign has called for a Nairobi street to be renamed after Chief Justice David Maraga, a Seventh-day Adventist known for his personal integrity.

"I'm a Kenyatta supporter, but now I'm happy because I know I can trust my court," said Ayub Keman, a 34-year-old driver from Nairobi, after

a packed service in Parkland Baptist church in the capital's Westlands district, on Sunday. "If we win the second round or not, Kenya's democracy has been strengthened."

Analysts said the decision would reverberate far beyond the East African nation's borders, galvanizing independent institutions on a continent where judges are often seen as being under the thumb of executive powers.

The acceptance of the verdict by Mr. Kenyatta—the son of the country's first post-independence leader—would also burnish his democratic credentials and be watched

closely by the strongmen rulers in neighboring states.

"In all my years studying Africa, this news from Kenya is one of the biggest moments," said Alex Vines, head of the Africa program at U.K. think tank Chatham House. "Its implications for the rule of law across the continent are massive: it will embolden courts far beyond Kenya's borders," he said.

Recent years have seen a drumbeat of democratic advances.

Yet the pockets have come in tandem with the rise of authoritarian-minded rulers in nations like Rwanda and Ethiopia.

opia.

Yet transnational polling suggests African voters still overwhelmingly prefer democracy. In a November survey of more than 53,000 people in 36 countries, 67% said democracy was "always preferable" to the alternative, according to Afrobarometer, a polling and research firm.

Only 11% saw presidential dictatorship or one-party rule as a viable option.

Kenya's Supreme Court ruling comes after a decade of slowly rebuilding confidence in the nation's judiciary since 2007's postelection violence left some 1,200 people dead. A

new constitution in 2010 demanded reforms of the judiciary and other public institutions.

Still, the decision shocked Kenyans, including opposition leader Mr. Odinga, who had launched an unsuccessful legal challenge to the result in the 2013 election, which he lost to Mr. Kenyatta.

It also raised questions over the role of international observers, including former Secretary of State John Kerry, who called the election broadly free and fair and urged Mr. Odinga to concede.

"I know how it feels to lose," Mr. Kerry said shortly after the poll, referring to 2004 election loss to George W. Bush. "But you have to move on," he said.

Kenya's move to rerun rather than move on has won praise from Western capitals, but the country's institutions will now face new challenges.

Tensions between the party leaders are rising, with Mr. Kenyatta criticizing the court's decision and Mr. Odinga vowing to supporters that he would not share power. Some analysts have warned that the rerun has raised the chance of a violent crisis.

Others say Mr. Maraga's judgment has sent a clear message to national leaders that the judiciary is above the political fray.

"The decision is momentous and it challenges the narrative that comes from the continent is that there's undemocratic practices and authoritarian drift," said Comfort Ero, Africa director of the International Crisis Group. "It's not clear that other countries will follow suit, but now the continent has a template."

Siberia Is Primed for Digital Era

BY JAMES MARSON

IRKUTSK, Russia—As President Vladimir Putin drives this country to leap into the digital age, the low temperatures and powerful rivers of Siberia have become an asset for one well-placed company.

Here in southern Siberia, energy-and-aluminum giant En+ Group has entered the data-storage market, feeding on industrial-scale power plants for equipment that runs hot and needs to be kept cool.

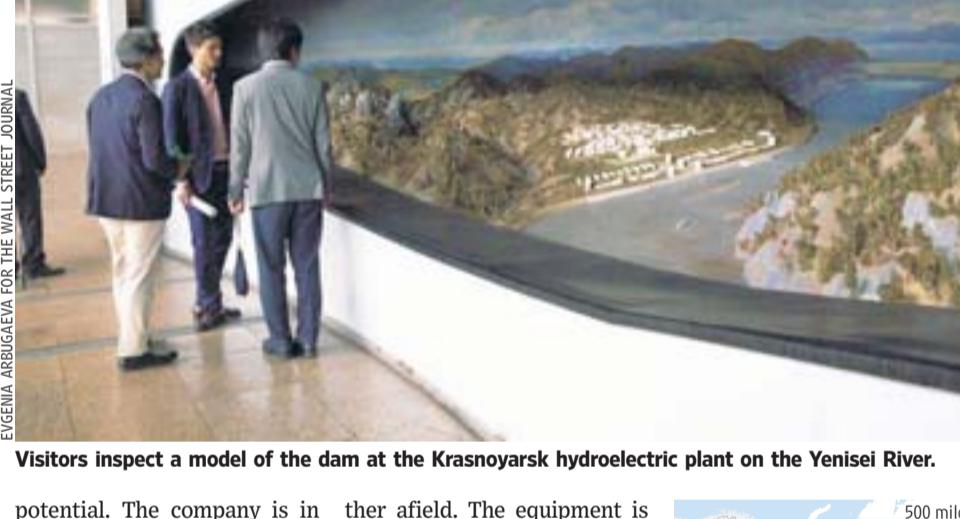
"It's the ideal location," said Chief Executive Maxim Sokov. "Power is cheap, and the cooling is free."

Siberia's rivers have for decades generated electricity for Russia's aluminum industry, the second-largest after China's. With electricity output exceeding demand, En+ is harnessing the excess, establishing a center here in May that it envisions as the first in a network of modules under the brand "Clouds of Siberia."

Mr. Putin has called for the Russian economy to go digital, and demand is increasing from state bodies that handle the data of Russia's gigantic bureaucracy.

En+ isn't the only company hoping to capitalize on Soviet-era infrastructure in the digital era. Rosenergoatom, the state nuclear-power generator, said it is planning to open a data center at its Kalinin Nuclear Power Station, northwest of Moscow, in 2018.

En+, which is considering an initial public offering, according to people familiar with the matter, is also looking at export



Visitors inspect a model of the dam at the Krasnoyarsk hydroelectric plant on the Yenisei River.

potential. The company is in talks with Chinese, South Korean and Japanese companies to store their data, according to Aleksander Sgrebny, who heads the En+ data-center drive.

A link to China, just a few hundred miles from Irkutsk, would fit Russia's broader economic strategy of providing goods and services to its neighbor's growing economy amid tensions with the West.

Mr. Sgrebny said the company is also talking to financial institutions, research institutes and bitcoin miners, which use power-hungry computers to generate the digital currency.

Data centers tend to be built near the sources of demand, but improved network speeds and computing infrastructure mean companies can look fur-

ther afield. The equipment is best kept in rooms at around 70 degrees—often requiring expensive, energy-intensive cooling systems. Iceland, too, is touting its cheap energy and cool climate as natural advantages for its own data centers.

In Irkutsk, the average annual temperature is just above freezing. Even in the summers the world's largest freshwater lake, Baikal, acts like a cooling system, Mr. Sgrebny said.

En+ says all the necessary infrastructure is in place for Clouds of Siberia, and that it will charge 25% to 40% less than its rivals in Moscow, where land and electricity are more expensive.

The company, controlled by billionaire tycoon Oleg Deripaska, generates around 8% of

Russia's electricity. Its power assets include four huge, Soviet-era hydroelectric plants along the Angara River, which passes through Irkutsk, and the Yenisei River, which cuts through central Russia and empties into the Arctic Ocean.

The power plants can produce about twice as much as is used, leaving plenty of cheap electricity available that the company wants to monetize.

Russia since the war.

"The idea is to create the conditions for Brazil to be able to grow for a longer period on a more sustainable basis," he said.

Brazil's government has pushed through a series of market-friendly reforms since May 2016.

—Samantha Pearson and Paulo Trevisani

GERMANY

World War II Bomb Successfully Defused

Frankfurt police on Sunday gave the all-clear after disarming a World War II era "blockbuster" bomb that prompted the evacuation of more than 60,000 residents in the country's financial capital, the largest evacuation in

Germany since the war. "It's done! The bomb has been successfully disarmed!" Frankfurt police announced on their Twitter feed after about four hours of work removing detonators from the bomb and two days of clearing a downtown area with a radius of nearly a mile.

Officials appealed to citizens anxious to return to their homes to be patient, allowing authorities time to first return the elderly and infirm to their homes, as well as newborn babies and patients to hospitals that had been cleared over the weekend.

Officials believe the bomb is an HC 4000, a type dropped by Britain's Royal Air Force during the war, and also known as a "blockbuster."

—William Boston

Migration Upends New Zealand Vote

BY BEN COLLINS

WELLINGTON, New Zealand—A tightening election race in this U.S. ally has its roots in anxiety over immigration and the rise of a leader who wasn't even her party's first choice when campaigning began more than a month ago.

New Zealand votes Sept. 23 on whether Bill English's National party should remain in government after nearly nine years or be replaced by the opposition Labour Party headed by Jacinda Ardern, a 37-year-old former president of the International Union of Socialist Youth.

A recent voter poll put support for Labour at its highest level in more than a decade—at 43 points, while the National Party fell to 41 points. It raises the prospect of an upset win for Ms. Ardern, who succeeded Andrew Little as leader of the center-left party at the start of August, when it lagged behind Mr. English's conservatives by more than 20 points.

It has also made the prospect of a hung Parliament more likely, which would thrust smaller parties like the populist New Zealand First into the role of kingmakers.

Ms. Ardern's rapid ascent owes much to tapping into growing unease about affordability, particularly among young voters, and feeding off a global immigration backlash.

Economic growth in New Zealand—a member of the Five Eyes spy network, which also includes the U.S., the U.K., Australia and Canada—has outpaced other developed nations in recent years, yet many people say they aren't benefiting.

At the same time, record house prices—fanned by low interest rates and demand from new mi-

grants—are putting property ownership out of reach.

Annual net migration is at a record high. It hit 72,400 in the year to July, fanning criticism that the center-right National government, which has held power since 2008, has fueled economic growth with this influx. While gross domestic product accelerated at 3% in the year through March, GDP per capita grew by less than 1% and had even contracted late last year.

Ms. Ardern wants to cut the annual net migration figure by up to 30,000 people a year to help more New Zealanders find work and own homes, as well as to take the pressure off infrastructure—especially in the commercial capital Auckland, which is often clogged with traffic.

A recent analysis from the Economist Intelligence Unit found Auckland and Wellington—two of the country's biggest cities—had become as expensive as Shanghai, China's priciest city.

"Housing poses something of an Achilles' heel for the government because it's been in power for nine years and hasn't really been able to get a grip on the problem," said Raymond Miller, a political scientist at the University of Auckland.

While many commentators, including Prof. Miller, think it is likely the National Party will hold on to power in a minority coalition with NZ First, Ms. Ardern's policies are finding favor, especially with younger voters, who are in the thrall of what the local media have dubbed "Jacindamania."

"It goes beyond personal appeal and she represents a growing mood for change," Prof. Miller said.



Labour Party leader Jacinda Ardern takes a selfie with schoolchildren in Christchurch. She wants to reduce net migration.

WORLD WATCH

GERMANY

Viewers Say Merkel Won TV Debate

German Chancellor Angela Merkel spent much of a 90-minute debate on Sunday parrying attacks from her center-left challenger Martin Schulz, but many of his challenges were subtle digs at her handling of specific issues rather than alternatives to her worldview.

Mr. Schulz, a former president of the European Parliament, said, for example, that Ms. Merkel was right to keep the borders open for refugees in 2015 but should have coordinated her actions better with other European countries.

A poll after the debate by ARD public television found 55%

of respondents believed Ms. Merkel had been more convincing, compared with 35% for Mr. Schulz. —Anton Troianovski

BRAZIL

Finance Chief Looks For Economic Reform

Finance Minister Henrique Meirelles expects Congress to pass major economic reforms by year-end despite recent political upheaval, saying he is confident the Latin American country has put its populist days behind it.

The government's flagship reform to Brazil's generous pension system could be passed as early as November, Mr. Meirelles said, while he also hopes to overhaul the country's bankruptcy law and tax system by

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—William Boston

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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

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BlackRock Pushes Cross-Selling

The world's biggest money manager seeks to use growing heft in pursuit of business

BY SARAH KROUSE
AND EMILY GLAZER

Many of Wall Street's largest banks paid BlackRock Inc. for help in passing the Federal Reserve's annual stress tests last year, but not **J.P. Morgan Chase** & Co. A campaign to fill that gap is part of a cross-selling push at the world's largest money manager.

BlackRock has spent much of the past year trying to interest J.P. Morgan, a big trading partner and technology client, in the services of a small

business known as Financial Markets Advisory, according to people familiar with the effort. That unit has struggled to match the money it made after the 2008 financial crisis, when it assisted banks with a variety of regulatory and financial headaches.

BlackRock's embrace of cross-selling demonstrates how the giant money manager is using its expanding heft and reach in the financial world.

Top executives targeted J.P. Morgan partly because of the existing relationship between the two financial giants.

BlackRock is also J.P. Morgan's second-largest shareholder. Several meetings have yet to result in a new assignment, the people said.

It is unclear why J.P. Mor-

gan hasn't hired the firm in that capacity. A spokesman for the bank declined to comment.

BlackRock is well positioned to sell multiple products to its customers because it has a wider range of services than many rivals and has interlocking relationships with many of the world's largest financial firms as one of their largest shareholders and clients. A growing internal program helps coordinate interaction between the firm's businesses and its large existing clients.

The New York company is now triple the size it was during the financial crisis, with \$5.69 trillion in assets under management. That surge is due largely to a string of acquisitions and an unprecedented investor shift to lower-

cost, passively managed funds that track market indexes.

The growth of cheaper funds has put pressure on revenue, prompting BlackRock to pitch existing clients on other business lines like advisory work and technology where it can collect extra fees. BlackRock also is searching for ways to replace revenue lost to the decline of traditional pension plans and aging baby boomers who are withdrawing their life savings from retirement plans.

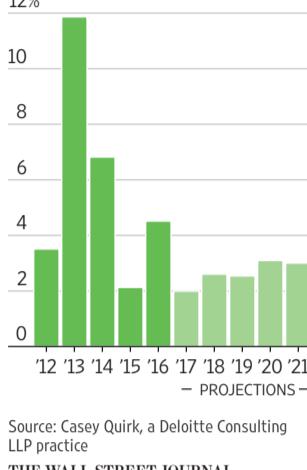
The company's revenue dropped about 2% in 2016, although many rivals experienced deeper drops, and BlackRock's revenue rose 5.7% during this year's second quarter to \$2.97 billion.

"The biggest fear asset

Please see SELL page B2

Under Pressure

Global asset-management revenue, year-over-year growth



Source: Casey Quirk, a Deloitte Consulting LLP practice

THE WALL STREET JOURNAL.

Novartis CEO Ends Turbulent Tenure

BY DENISE ROLAND

Novartis AG Chief Executive Joe Jimenez is stepping down in January after leading the Swiss pharmaceutical company through a tumultuous eight years marked by expired patents and intensifying scrutiny on drug pricing in the U.S.

He will be succeeded by Vas Narasimhan, Novartis's global head of drug development and chief medical officer.

Mr. Jimenez, 57 years old, joined the company in 2007 and became its CEO in 2010. He will remain available to Novartis in an advisory capacity until the end of August of next year, when he will retire, the company said.

He presided over the patent expirations of Diovan for hypertension and cancer drug Gleevec, both of which generated several billion dollars annually at peak. When a drug patent expires, cheaper copycats can enter the market, sharply eroding sales.

To replace that lost revenue, Mr. Jimenez bet on a series of would-be blockbusters that have met with mixed success.

Cosentyx, for certain rheumatological conditions and psoriasis, generated annual revenue of \$1.1 billion last year, having been launched in 2015.

Mr. Jimenez's other big bet, Entresto for heart failure, was met with resistance from doctors reluctant to switch patients onto a new drug as well as reimbursement barriers from insurers. That is changing as doctors gain more experience with Entresto and insurers gradually adopt more permissive policies, but those initial hurdles have hampered the drug's growth.

Although Novartis launched Entresto shortly after Cosentyx, the heart drug's 2016 revenue came to just \$170 million.

He also bet big on a new form of cancer treatment that re-engineers a patient's immune cells to make them more vigorous at fighting tumors. Last week, Novartis became the first company to win the Food and Drug Administration's approval for such a therapy, which is known as CAR-T, though questions remain over whether insurers will balk at the treatment's \$475,000 price tag.

Novartis Chairman Joerg Reinhardt credited Mr. Jimenez with rejuvenating the company's drug pipeline and navigating the patent expirations of the company's two largest products.

"We anticipate a smooth transition as Joe built a strong leadership team and mentored his successor," he said. The board considered both internal and external candidates for the role, he told reporters.

U.S. Grapples With Launchpad Delay

Pentagon switch from Russian-made rocket engines to domestic alternative takes longer than expected



A United Launch Atlas V rocket lifted off in Cape Canaveral, Fla., last year. United Launch, the Pentagon's chief rocket supplier, uses some Russian-built engines.

By ANDY PASZTOR

Technical and funding challenges will force the Defense Department to rely on Russian-manufactured rocket engines at least through the middle of the next decade, several years longer than originally anticipated.

Despite bipartisan demands from Congress to quickly phase out the RD-180 engines on national-security grounds, it is proving harder than many lawmakers ex-

pected to secure an equally reliable domestic replacement. Government and industry officials said United Launch Alliance, the Pentagon's primary rocket provider, likely will continue flying some 1990s-vintage Atlas V boosters with Russian-built engines through 2024 or 2025.

Other people familiar with the details said United Launch—a joint venture between **Lockheed Martin** Corp. and **Boeing** Co.—might

have to extend the timeline as far out as 2028.

The delay raises the question of whether the U.S. military will have to use more of the Russian engines amid tensions between the two nations. It also has important implications for the cost and timing of Pentagon space programs, the health of the military-industrial base and the growth of the commercial space sector.

Gen. David Goldfein, the Air Force chief of staff, told

lawmakers this year that replacing RD-180s "as soon as possible" has to be balanced with two other priorities: maintaining access to space and promoting competition among launch providers.

United Launch, entrepreneur Elon Musk's Space Exploration Technologies Corp., and commercial startup Blue Origin LLC—founded and run by **Amazon.com** Inc. Chief Executive Jeff Bezos—are racing to develop their own versions of less-costly, more-

capable rockets using only U.S.-made engines. The outcome of that competition partly depends on how quickly United Launch is able to pivot away from the more expensive Atlas V and the RD-180 engines that power its lower stage.

The Russian engines blast most Air Force communications and navigation satellites into orbit. Launches of Falcon 9 rockets built by SpaceX, as Mr. Musk's com-

Please see ENGINE page B4

Digital-Coin Mania Takes a Hit in China

By PAUL VIGNA

Chinese regulators on Monday declared initial coin offerings illegal, dealing a blow to the latest financial-markets mania and sending the prices of the two leading cryptocurrencies, bitcoin and ether, tumbling.

The move by China, which included a call for fundraising activities through the digital tokens to "cease immediately," follows a recent warning by the U.S. Securities and Exchange Commission that it may treat the coins as securities. That potentially opens these unregulated offerings to greater oversight.

The regulatory maneuvering occurs as fears have grown about initial coin offerings, which have captured investors' imagination like dot-com

startups once did years ago. Paris Hilton on Sunday tweeted about a coin offering. Boxer Floyd Mayweather has promoted two separate offerings. Tim Draper, a founder of the Silicon Valley venture-capital firm Draper Fisher Jurvetson, has said two of his coin holdings could bring about a "sea change as big as the internet."

Coin offerings this year have raised nearly \$1.5 billion, up from \$256 million last year, according to research site CoinDesk. Of offerings that have gained since their launch this year, the coins have jumped nearly 28 times in value, on average, according to data from research firm Smith & Crown.

But the latest market gold

rush also has produced its Please see COIN page B2

BANKING, BIO

INSIDE



CHINA'S SMALL LENDERS PULL BACK

BANKING, BIO

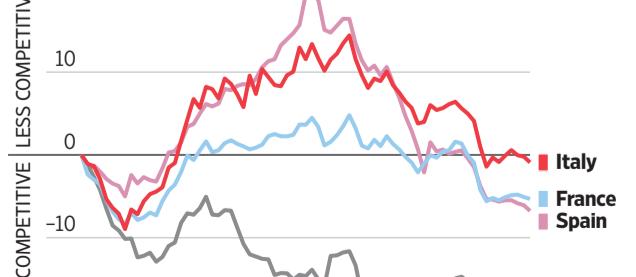
STREETWISE By James Mackintosh

Weak Pay Rises Pose Europe Risk

Labor's Lost Love

Eurozone countries have started to regain lost competitiveness relative to Germany by increasing productivity and offering smaller wage rises, but have a long way to go.

Change since first-quarter 1999 in competitive costs*



*European Central Bank measure of exchange rate adjusted for unit labor costs

Source: ECB

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Reijtenbagh, Louis	B10
Roberts, Alan	B10
Rosenbluth, Todd	R2,R8
Rostan, Scott	R7
Ryan, Kyle	R7
T	
Silapachai, Komson	R4
Simpson, Iain	B3
Singh, Gurveen	B3
Soros, George	B12
W	
Wan, Yulia	B10
Warther, Stewart	B12
Webb, Richard	R2
White, Jason	R1

BUSINESS & FINANCE

Nissan to Launch New Electric Car

By SEAN MCCLAIN

TOKYO—Nissan Motor Co. was a path breaker in electric vehicles for the mass market, but for nearly seven years the masses mostly ignored it.

This week, Nissan hopes to inspire car buyers to turn to their new Leaf.

On Tuesday in the U.S., the company will release a revised version of its Leaf all-electric car that will travel farther on a charge and add autonomous-driving features while keeping the relatively low price of the current model, which starts at \$30,000.

"We have high expectations for the new Leaf," Nissan Chief Executive Hiroto Saikawa told shareholders in June, describing it as the core of the company's strategy to persuade average customers to adopt next-generation vehicles.

For all the hype about electric vehicles, they still represent only roughly 1% of the global market, according to International Energy Agency estimates. That isn't what Nissan expected when it introduced the inaugural version of the Leaf in December 2010.

At the time, Carlos Ghosn, the head of the alliance that includes Nissan and Renault SA, predicted the two companies would sell a cumulative 1.5 million electric vehicles by 2016, led by the Leaf. He also predicted that electric vehicles would account for 10% of global sales by 2020.

The actual cumulative figure to date: 490,000.

What happened? Low gasoline prices were one factor keeping a lid on demand for environmentally friendly vehicles, but the original Leaf had its own problems. Its range, even after updates, was only 107 miles on a full charge, making it ill-suited

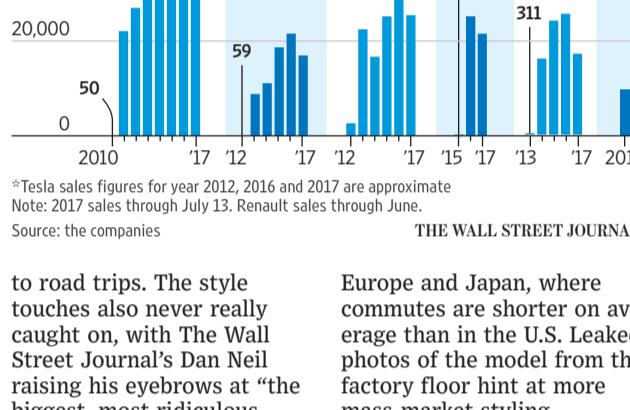


The auto maker's all-electric vehicle is largely overshadowed by brands like Tesla.

Slowing Down

Sales of Nissan's Leaf have slowed as the number of electric cars overall has grown.

Annual sales of major electric models since their launch date



*Tesla sales figures for year 2012, 2016 and 2017 are approximate

Note: 2017 sales through July 13. Renault sales through June.

Source: the companies

to road trips. The style touches also never really caught on, with The Wall Street Journal's Dan Neil raising his eyebrows at "the biggest, most ridiculous headlamps since the invention of fire" and a rear end he compared with a "soosed diaper."

The new model is designed to address those issues. Although Nissan hasn't released the improved range figures, it says the new Leaf will alleviate range anxiety in

Europe and Japan, where commutes are shorter on average than in the U.S. Leaked photos of the model from the factory floor hint at more mass-market styling.

The vehicle will also come equipped with Nissan's ProPilot autonomous driving suite, which can navigate the vehicle within a single lane and in stop-and-go traffic. The new Leaf will be the first model to get Nissan's self-parking system. And Nissan has hinted it will per-

form more like an electric car than the old Leaf, which was tuned to resemble a conventional gasoline-powered family car.

The focus on performance points to Nissan's biggest threat, one it didn't face in 2010: a mass-market car from Tesla Inc. Tesla has begun production of its \$35,000 Model 3 sedan, a vehicle that has more than double the range of the current Leaf and a cool factor that has eluded Nissan, with a 0-60 mph time of around five seconds.

Around half a million people put down a \$1,000 deposit to reserve the Model 3. Meanwhile, Tesla's Model S, which starts at around \$70,000, is already selling nearly as many vehicles as the Leaf, despite the higher price.

"Now if people think of electric cars, they think of Tesla," said Julie Boote, an auto analyst at Pelham Smithers Associates. "It must be disappointing for [Nissan]."

Speaking at the June shareholder meeting, Mr. Ghosn said Nissan has sold far more electric vehicles than Tesla over the years, "despite the outsized media coverage it receives."

SELL

Continued from the prior page
political upheaval. In Italy, the populist 5 Star Movement is running equal with the governing Democratic Party, and Spain has a minority government after the rise of the far left.

"The central bank is in a very challenging situation," said Jean-Claude Trichet, Mario Draghi's predecessor as head of the ECB. "Most of the other member states must re-establish their own relative competitive position within the euro area, which means they must have their own unit labor costs and national inflation less dynamic [lower] than Germany's. So German inflation is a de facto cap for other countries."

There are fiscal implications, too: With inflation low, high government debt in the weaker eurozone countries is even harder to bear.

For now, the ECB is helped by the cyclical pickup in the economy, which has been growing at the same pace as the U.S. over the past year and should withstand a cutback in quantitative easing.

But it wants growth to be balanced, so there is no repeat of the last crisis.

And many economists think it is just a matter of time before wages take off.

Angel Gurria, secretary-general of the Organization for Economic Cooperation and Development, says the Phillips curve isn't broken. "It's taking a little longer to react in a predictable way," he said at the Ambrosetti Forum in Italy over the weekend, but even in Japan he detects localized increases in wages in areas with labor shortages.

Plenty of reasons are advanced for the failure of wages to grow more strongly as unemployment has plummeted: workers more worried about their jobs than their pay following recession; expectations of low inflation; globalization; immigration; and, in the U.S., hidden unemployment in the form of workers who have given up looking for work.

It is possible that Germany, the U.S. and Japan will all find that the mystery of missing wages was merely a delay, and the models used by central banks will start working again as tight labor markets lead to accelerating wage gains.

But if those pay increases don't materialize, it will be still harder for the eurozone establishment to prevent populist resentment from bubbling up in the region's weaker economies. Those include Italy, one of the world's biggest bond markets. What looks like abstruse economic theory will rapidly turn into hard financial fact if Italy's elections go the wrong way and its bond market sours.

Some have attracted scrutiny for more-aggressive tactics. Employees at Wells Fargo & Co., in efforts to reach lofty sales goals, opened as many as 2.1 million accounts without customers' knowledge, sparking public and political outcries as well as numerous investigations. Wells Fargo updated that number Thursday, saying around 3.5 million accounts were "potentially unauthorized."

BlackRock doesn't sell money-management products directly to individuals. Instead it works with large companies and financial firms, some of which market BlackRock's funds to investors. It also offers those firms technology, regulatory and risk-manage-

ment advice, giving BlackRock several chances to sell additional services to the same clients. Its cross-selling approach worked early last year in the case of St. Louis money manager Ascension Investment Management.

The company hired BlackRock, which already managed some of its assets, to help it move \$125 million out of a fixed-income fund and invest in other asset classes. It exchanged two-thirds of the roughly 1,200 bonds it held in the fund for shares in three iShares fixed-income exchange traded funds also offered by BlackRock, Ascension Investment executives said.

Another cross sale happened in July when a customer

of BlackRock's risk management and technology system, Arizona State's University's endowment, hired BlackRock to take on an additional role as the organization's chief investment officer.

The internal group at the center of many of these cross-selling efforts at BlackRock is known as the strategic partner program and helps manage relationships between the firm and big clients. The program includes about 100 of the firm's biggest clients including sovereign-wealth funds and pension funds such as the Teacher Retirement System of Texas as well as banks including Deutsche Bank AG and Credit Suisse Group AG, the people said.

Tronc Buys New York Daily News

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 country.

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.

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.

Even The Price Suits You!

Every dedicated suit-wearer knows that Hong Kong's master tailors have an enviable reputation for quality, efficiency and price. The only not-inconsiderable snag is that they are ordinarily in Hong Kong whereas most of us ordinarily are not. Seekers after the finest Hong Kong tailoring need not worry any longer. Mr Raja M Daswani, master craftsman and Hong Kong's finest and most respected bespoke tailor, *Raja Fashions* now travels to the United States every two months.

On each visit, Team Daswani takes over hotel suites in all of the United States' major cities, so any of us can make an appointment and get the full Hong Kong Monty practically without jet setting to the far-east. The measurements are done by Mr. Raja and his men here and mailed to Hong Kong along with a series of digital photos of you from every angle. Often, your suit will be started on by a tailor, 8,500 miles away before you've even left the hotel. You can then have it shipped by courier within four weeks if it is urgent or wait for a second fitting when the Raja team hits your town again a few weeks later.

It is often said that American clothing chains have much to fear from Mr. Daswani! His dedication to bespoke suiting borders on the fanatical. And both his company's quality and pricing are truly shocking—in the pleasantest possible way for customers, if not for Mr. Daswani's competition over here.

We are talking \$59 for a custom made shirt, \$399 for a fully lined, made-to-measure suit in a lightweight wool or linen, to \$490 for 100 percent wool, entirely hand finished suit in a British cloth, with every refinement from hand-made buttonholes to knee lining and double thickness pockets.

Even the most expensive possible Raja Daswani suit, made in deluxe cashmere wool for \$2500 comes in at something like a third of the price of the 5th Avenue equivalent.

In other words, customers can now buy two bespoke, custom cut and hand-stitched suits, made from fine

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Even The Price Suits You!

Every dedicated suit-wearer knows that Hong Kong's master tailors have an enviable reputation for quality, efficiency and price. The only not-inconsiderable snag is that they are ordinarily in Hong Kong whereas most of us ordinarily are not. Seekers after the finest Hong Kong tailoring need not worry any longer. Mr Raja M Daswani, master craftsman and Hong Kong's finest and most respected bespoke tailor, *Raja Fashions* now travels to the United States every two months.

British or Italian cloth and measured by a master tailor for the price of one off-the-peg, chain store suit.

Indeed, making an appointment with Raja Daswani's team is almost the archetypal no-brainer. Why would any American lover of the classic suit NOT?

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BOCA RATON, FL | Sep 20th-21st | Hilton Boca Raton Suites

BOSTON, MA | Oct 1st-3rd | The Westin Copley Place

BUFFALO, NY | Sep 11th-12th | Embassy Suites by Hilton Buffalo

CHARLOTTE, NC | Sep 27th-28th | Embassy Suites by Hilton Charlotte Uptown

CHICAGO, IL | Oct 1st-3rd | Palmer House A Hilton Hotel

CINCINNATI, OH | Sep 21st-22nd | Hilton Cincinnati Netherland Plaza

CLEVELAND, OH | Sep 13th-14th | Hyatt Regency Cleveland at The Arcade

COLUMBUS, OH | Sep 23rd-24th | The Westin Columbus

DALLAS, TX | Sep 29th-30th | The Westin Park Central

DENVER, CO | Sep 27th-28th | Embassy Suites by Hilton Denver Tech Center

DETROIT, MI | Sep 15th-16th | Westin Book Cadillac Hotel

HOUSTON, TX | Sep 24th-26th | The Westin Galleria Houston

INDIANAPOLIS, IN | Sep 17th-18th | Embassy Suites by Hilton Indianapolis North

IRVINE, CA | Sep 10th-12th | Embassy Suites by Hilton Irvine Orange County Airport

LOUISVILLE, KY | Sep 19th-20th | Hyatt Regency Louisville

LOS ANGELES, CA | Sep 6th-7th | InterContinental Los Angeles

BUSINESS NEWS

Kroger Braces for Amazon

Grocer needs to show it can defend its turf against online power; results due on Friday

BY HEATHER HADDON

Kroger Co. is looking for a sales bump to show investors and analysts it can withstand **Amazon.com** Inc.'s rapid advance in the grocery business.

Shares in the largest U.S. supermarket by store count and sales have slid 35% this year, erasing over \$7 billion in value. Investors are watching whether Kroger and other grocers can hold on to customers after Amazon's takeover of Whole Foods Market Inc. The company reports second-quarter results on Friday.

Deep-discounting European chains and online grocers are also threatening Kroger's market share.

Food retail stocks are off nearly 20% this year, according to FactSet.

Kroger has been confronting the multitude of headwinds by slashing prices on staples, adding online ordering options and meal kits in some stores, and investing in technology to better market



Shares of supermarket giant Kroger have fallen 35% this year, erasing over \$7 billion in value.

war recently.

Analysts will be watching on Friday to see whether food prices are rising now. Retailers typically react to rising inflation by raising prices in their stores. But increasingly competition in the grocery industry could keep some from doing so this time.

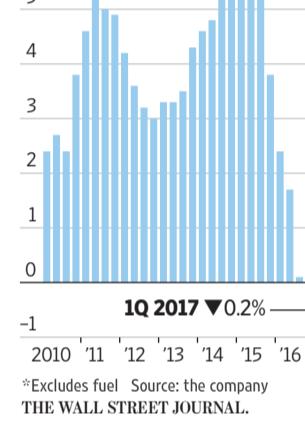
Kroger's same-store sales declined in the past two quarters after 13 years of quarterly growth. Analysts expect the Cincinnati-based company's second-quarter earnings on Friday to show a slight rise in same-store sales. Analysts polled by Thomson Reuters expect a 3% revenue increase to \$27.5 billion from a year earlier.

Earnings per share are expected to fall slightly, and some analysts still expect Kroger to revise down its full-year guidance in the months to come as it seeks to defend its share of the nearly \$800 billion U.S. grocery market.

"A bounce may prove fleeting," Jefferies analyst Christopher Mandeville said. "The

Falling Fortunes

Kroger's same-store sales have fallen in recent quarters due to food-price deflation and rising competition.



*Excludes fuel. Source: The company

THE WALL STREET JOURNAL.

grocery landscape is not getting any easier."

Amazon marked its takeover of Whole Foods last month by cutting prices on many staple foods and mar-

keting Whole Foods branded products on its website. The online offerings could threaten Kroger's attempts to market more of its own natural and organic products.

A Kroger spokeswoman said customers have become loyal to the company's store-brand natural goods. Last year, shoppers spent \$16 billion on those products, representing about 14% of the company's total sales.

"We're very proud of the role we've played in making natural and organic products more affordable and accessible to all customers, especially for shoppers on a budget," she said.

Investors will also be looking for updates on Kroger's efforts to sell groceries online. By the end of the year Kroger plans to allow consumers to order their groceries online for pickup in 1,000 of its stores.

The grocer is also testing delivery through the third-party Shipt Inc. service and Uber drivers in some markets.

Reckitt Says Four Of Its Top Leaders Will Depart Firm

BY SAABIRA CHAUDHURI

On the Way Out

- ◆ Darrell Stein, information-technology head
- ◆ Deborah Yates, head of human resources
- ◆ Frederic Larmuseau, developing markets chief
- ◆ Roberto Funari, in charge of category development

weaker than analysts expected since it agreed to be acquired by Reckitt in February.

Reckitt confirmed Monday that Darrell Stein, Reckitt's information-technology head will leave on Oct. 1. Mr. Stein will be succeeded by PepsiCo Inc. executive Seth Cohen, currently the beverage company's chief information officer for Europe and Africa. Reckitt didn't provide details about the departure.

Deborah Yates, head of human resources, is leaving at the end of the year. She is returning to her native Australia to be with her aging parents, according to the person familiar with the matter. She will be succeeded by Gurveen Singh, Reckitt's head of human resources for developing markets.

Frederic Larmuseau, Reckitt's developing-markets head, is leaving at the end of the year as well. He is taking on the chief-executive job of privately held JAB Holdings coffee unit Jacobs Douwe Egberts. Reckitt didn't disclose a successor for Mr. Larmuseau.

Roberto Funari, who leads category development—a role that involves working with retailers to drive sales—is also leaving at the end of the year, according to Reckitt. The company hasn't named his successor. None of the four departing executives responded immediately to requests for comment.



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TECHNOLOGY

WSJ.com/Tech

Apple Tries To Open Up On AI Efforts

Tech giant is forced to grapple with penchant for secrecy as firms seek to woo talent

BY TRIPP MICKLE

The battle for artificial-intelligence expertise is forcing Apple Inc. to grapple with its famous penchant for secrecy, as tech companies seek to woo talent in a discipline known for its openness.

The technology giant this year has been trying to draw attention—but only so much—to its efforts to develop artificial intelligence, or AI, a term that generally describes software that enables computers to learn and improve functions on their own.

Apple launched a public blog in July to talk about its work, for example, and has allowed its researchers to speak at several conferences on artificial intelligence, including a TED Talk in April by Tom Gruber, co-creator of Apple's Siri voice assistant, that was posted on YouTube last month.

Talking up transparency is unusual for a company whose chief executive, Tim Cook, once joked that it is more secretive than the Central Intelligence Agency.

The shift is driven by AI's growing importance in areas like self-driving cars and voice assistants such as Siri. Rivals including Alphabet Inc., Microsoft Corp. and Facebook Inc. have been racing for years to gather talent in the field—largely by recruiting Ph.D. students and professors from university computer-science programs.

Those academics say they

want to join companies but still publish regularly, present research and discuss their work.

"We come from a community where we share ideas and get credit for it and a lot of us would be very unhappy to give that up," said Noah Goodman, a Stanford University professor of computer science. He works with a research division of Uber Technologies Inc. where he enjoys those perks.

Indeed, many big tech companies have embraced academia's relative transparency. They have aggressively recruited top researchers over the years such as Yann LeCun of New York University, who joined Facebook in 2013, and Geoffrey Hinton of the University of Toronto, who joined Alphabet's Google unit in 2013.

Most Apple revenue comes from products like the iPhone or iPad, which are held in strict secrecy before their launch to protect innovations, and "overcoming that [culture] is difficult," said Jack Clark, who heads strategy at OpenAI, a nonprofit, artificial-intelligence research group. He added that Apple's blog was a positive step for the company.

An Apple spokesman declined to comment on Mr. Clark's remarks.

To date, the company has published portions of four peer-reviewed research papers on its blog, the Apple Machine Learning Journal. The three posts published this year are attributed to the Siri team and don't name any individual researchers the way academic papers commonly do.

At a San Francisco conference in March on using AI in autonomous vehicles, Apple research scientist Charlie Tang gave a presentation on robotics—but the photo he showed



Apple's shift is driven by AI's growing importance in areas like self-driving cars and voice assistants.

was from Google. He didn't specifically mention any of Apple's work.

"We want to open communication with the [artificial intelligence] community," Mr. Tang said in an interview afterward before directing questions about that strategy to Apple executives.

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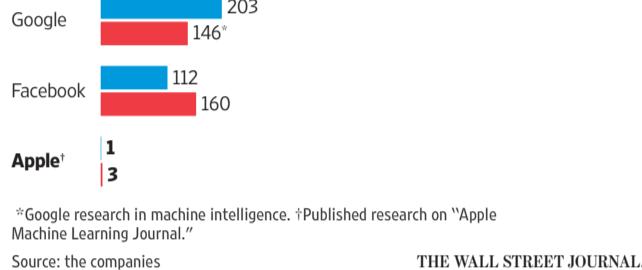
Though guarded about products, Apple is a long-standing member of industry standards groups like the World Wide Web Consortium and has contributed to open-source projects over the years.

Competitive concerns are one reason companies might want to be careful about discussing AI work. But Dr. Goodman of Stanford said companies generally don't need to worry about losing their competitive edge because the algo-

The AI Arms Race

Apple is a latecomer among tech companies publishing AI-related research.

Number of company research papers



*Google research in machine intelligence. †Published research on "Apple Machine Learning Journal."

Source: the companies

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rithms published in papers only work with proprietary data and remain essentially locked.

Apple's continued restraint has stoked skepticism about its pledged transparency and doubts about its ability to recruit researchers. Tom Austin, an analyst in AI at research firm Gartner Inc., said Apple would struggle to "succeed with a strategy that's bottled up."

Apple in October named Carnegie Mellon University professor Ruslan Salakhutdinov as its director of AI research. He joined Carlos Guestrin, a University of

Washington professor whose company Apple acquired in August 2016.

Dr. Salakhutdinov announced at an artificial-intelligence conference in December that Apple intended to be more open and would start publishing. Cornell University Library published that month Apple's first research paper since Dr. Salakhutdinov's arrival on improving graphic recognition.

Microsoft Research, Google and Facebook AI Research each have published more than 100 papers on artificial intelligence topics since January.

Google Builds Tech Team In China

Alphabet Inc.'s Google is ramping up its presence in China, hiring engineers to specialize in one of technology's hottest corners: artificial intelligence.

By Alyssa Abkowitz
in Beijing and
Liza Lin in Shanghai

The Silicon Valley behemoth has recently posted at least four AI-related jobs on its career site in Beijing, including a technical lead to develop a team to work on natural-language processing, data compression and other machine-learning technologies. Two of the jobs are related to machine learning in Google's cloud-computing operation.

Google Cloud currently doesn't operate in China. The company would need a local partner and special licenses to establish the business here.

AI involves computers that learn from the information they process. China, with hundreds of millions of people connected to the internet and few qualms about privacy, is seen as having advantages over the U.S. as a place to advance parts of the technology.

"China has a lot of data

from mobile payments, gaming, social, search and news," said Kitty Fok, China managing director at consulting firm IDC. "Technology companies like Google are keen to learn what's going on and getting large amounts of data to create AI algorithms is very important to them."

There are nearly 60 positions available in Beijing and Shanghai combined on the company's careers webpage. A person familiar with the positions said Google is focused on improving its algorithms.

—Yang Jie contributed to this article.

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ENGINE

Continued from page B1
pany is called, start at less than \$83 million for the military, more than 40% below traditional United Launch prices.

The Boeing-Lockheed venture expects to have a new engine fully tested by 2019 and a replacement rocket, called Vulcan, certified to carry Pentagon payloads by 2022 or 2023. But a spokeswoman for United Launch said some Atlas V missions are slated to continue beyond that point, at least through "the mid-2020s," until Vulcan demonstrates its dependability.

That is much later than what many lawmakers and industry officials envisioned three years ago, when Congress began wrestling with the problem of phasing out Russian hardware. The move was prompted by the Kremlin's annexation of Crimea and fomenting of civil war in eastern Ukraine.

Originally, Air Force generals and Pentagon brass said the switch to all-domestic boosters could be completed as soon as 2020.

United Launch said it in-

tended to cut development time to "half the normal span" of nearly a decade.

Since then, costs and engi-

neering hurdles have

stretched that timetable. At

all times, the Pentagon

wants a minimum of two

separate rocket families for

guaranteed access to space.

Developing and test flying such a powerful new engine historically has cost about \$1 billion, with a price tag of roughly three times that much for an entirely new rocket and enhanced ground

support systems. Excluding

engine-development costs,

launch spending is expected

to eat up nearly half of the

Air Force's total 2018 pro-

curement budget of roughly

\$3.4 billion for unclassified

space programs.

For United Launch, it isn't clear what portion of devel-

opment costs the Pentagon

ultimately will cover. United

Launch has said it is deter-

mined to cut costs.

SpaceX is four years late



A model of a Russian RD-180 rocket engine in Moscow in 2015.

Deal Tried to Block 'Rogue Marketing' Of Space Advances

U.S. dependence on Russian rocket engines stretches back more than two decades, to an era when Washington and Moscow reached historic agreements to prevent proliferation of space technology after the Soviet Union's collapse.

In 1995 Lockheed Martin Corp. kicked off a joint venture with Russian entities to offer launch services to commercial-satellite operators world-wide. The U.S. company provided marketing and management expertise, while Russians supplied Proton rockets, launch pads and industrial support.

After years of negotiations, both sides sought to keep Russian scientists and engineers, along with their secrets, away from regimes hostile to both nations. "What we feared and urgently attempted to prevent was the rogue marketing of

flying a bigger derivative of its current Falcon 9 rocket, called the Falcon Heavy, powered by 27 engines. The maiden launch is now scheduled for late 2017. Mr. Musk said earlier this year that because of structural issues raised by the number of engines, it "ended up being way harder to do Falcon Heavy than we thought."

Part of a Blue Origin rocket exploded on the ground earlier this year, de-

laying a new, methane-fueled engine the company plans to use itself and hopes to sell to United Launch. Blue Origin officials say they have duplicate hardware to alleviate testing delays.

The spokeswoman for the joint venture said it has 22 contracts for Atlas V launches, not all of which are military, and has "more than 30 engines" either on hand or in the pipeline from Russia.



Ambition, Upgraded

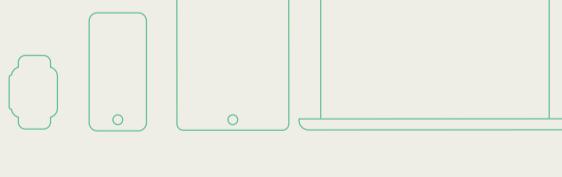
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BUSINESS NEWS



'The Hitman's Bodyguard' led lackluster box-office results. This Labor Day weekend is expected to be the lowest-earning since 1998.

'Bodyguard' Stays on Top

Rough summer
moviegoing season
ends with a very slow
holiday weekend

Associated Press

LOS ANGELES—With no new wide releases, Hollywood basically took the Labor Day weekend off and put an end to what's expected to be the lowest-earning summer moviegoing season since 2006—the last time the industry saw a sub-\$4 billion summer.

Things weren't as apocalyptic as analysts suggested going into the weekend, which had the potential to be the worst since 1992, but that is hardly cause for celebration. While

official numbers for the four-day weekend won't be available until Tuesday, studio estimates and projections expect that in total this Labor Day weekend will be the lowest-earning since 1998.

"There's no sugar coating the fact that this was a very slow Labor Day weekend," said Paul Dergarabedian, the senior media analyst for comScore. "This was a fitting end to a rough summer."

Some did make it out to the multiplexes over the holiday weekend, though. According to studio estimates on Sunday, the R-rated actioner, "The Hitman's Bodyguard," topped the charts for a third weekend with \$10.3 million. The Samuel L. Jackson and Ryan Reynolds pic has earned a total of \$54.9

million from North American theaters.

In second place was the horror spinoff "Annabelle: Creation," from Warner Bros., which added \$7.3 million, bumping its domestic total to \$89 million.

The Weinstein Company took spots three and four, with the crime drama "Wind River" in third with \$5.9 million, and the animated family film "Leap!" in fourth with \$4.9 million.

However, the company's new opener, the long-delayed period romance "Tulip Fever," wilted on release. Playing in 765 locations, the R-rated drama starring Alicia Vikander and Dane DeHaan, earned only \$1.2 million.

Steven Soderbergh's "Logan Lucky" rounded out the top five with \$4.4 million.

Audiences did have a few unconventional options to choose from this weekend, including a 40th-anniversary re-

release of Steven Spielberg's sci-fi classic "Close Encounters of the Third Kind" and an IMAX-only run of the pilot episode of Marvel's "Inhumans." Neither made a significant splash, though.

"Close Encounters of the Third Kind" earned \$1.8 million from 901 locations, while "Inhumans" took in \$1.5 million from 393 North American IMAX screens in advance of its Sept. 29 premiere on ABC.

Still, Mr. Dergarabedian noted that both smartly took advantage of a quiet weekend and added money to the bottom line.

And as Hollywood looks to forget the dismal summer of 2017, which will likely cap out with just over \$3.8 billion, there is a bright spot on the horizon in the form of a red balloon and a homicidal clown as "It" prepares to break records when it hits theaters next weekend.

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Legal Notices

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BANKRUPTCIES

IN THE UNITED STATES BANKRUPTCY COURT FOR THE DISTRICT OF DELAWARE

In re: MODEL REORG ACQUISITION, LLC, et al.: Chapter 11 Case No. 17-11794 (CS) Debtors.^x

NOTICE OF (I) COMMENCEMENT OF CHAPTER 11 CASES; (II) IMPOSITION OF AUTOMATIC STAY; AND (III) HEARING TO PREPARE THE PREPACKAGED JOINT CHAPTER 11 PLAN OF REORGANIZATION OF MODEL REORG ACQUISITION, LLC AND ITS AFFILIATED DEBTORS AND DEBTORS IN POSSESSION AND RELATED MATTERS.

COMMENCEMENT OF THE CASES

PLEASE TAKE NOTICE that on August 26, 2017 (the "Petition Date"), Model Reorg Acquisition, LLC, a Delaware limited liability company and its affiliated Debtors (*the "Debtors"*) filed bankruptcy petitions under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") with the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"), thereby commencing their chapter 11 cases (collectively, the "Chapter 11 Cases").^x The Debtors, their respective addresses, Chapter 11 numbers, and their federal tax identification numbers are listed on Exhibit 1 hereto. You may be a creditor of the Debtors. This notice lists important deadlines. You may want to consult an attorney to protect your rights. You will not receive notice of all documents filed in these Chapter 11 Cases. All documents filed with the Bankruptcy Court are available for inspection at the Office of the Clerk of the Bankruptcy Court at 824 Market Street, 3rd Floor, Wilmington, Delaware 19801, or are available at no charge online at <http://dm.epic11.com/mergermania>.

NO ENTITLEMENT TO VOTE ON THE PLAN

In accordance with the terms of the Plan and the Bankruptcy Code, no Holders of any Claims of Interest, in the Debtors are entitled to vote on the Plan. All Holders of such Claims and Interests are entitled: (i) Unimpeded under the Plan, and are therefore presumed to accept the Plan pursuant to section 1126(f) of the Bankruptcy Code, or (ii) not receiving any distribution under the Plan, and are therefore, deemed to reject the Plan pursuant to section 1126(g) of the Bankruptcy Code.

OPTION TO RECEIVE RELEASED STOCKHOLDER CONSIDERATION

In accordance with the terms of the Plan and the Bankruptcy Code, all Interests in Perfumania Holdings, Inc. ("Perfumania") shall be cancelled on the Effective Date of the Plan. Holders of Interests in Perfumania are not entitled to vote on the Plan because they will not receive or retain any property under the Plan in account of such Interests, and are deemed to have rejected the Plan pursuant to section 1126(g) of the Bankruptcy Code.

Each Holder of an Interest in Perfumania shall have the opportunity to receive \$2.00 per share consideration in exchange for granting the Stockholder Release, which is set forth below and in Article 9.5 of the Plan.

CREDITORS MAY NOT TAKE CERTAIN ACTIONS

The filing of the Chapter 11 Cases automatically stay certain collection and other actions against the Debtors or the Debtors' property. If you do not accept the Plan, you may not take any action in violation of the Bankruptcy Code, unless authorized. Common examples of prohibited actions include: (i) contacting the Debtors to demand repayment, (ii) taking action against the Debtors to collect money owed to creditors or to take property of the Debtors, (iii) terminating or changing the terms of existing contracts or agreements, and (iv) starting or continuing foreclosure actions or repossession. A creditor who is considering taking action against the Debtors or the Debtors' property should review section 362 of the Bankruptcy Code and may wish to seek legal advice. The staff of the Bankruptcy Court's Clerk's Office cannot give legal advice.

COMBINED HEARING ON THE APPROVAL OF THE DISCLOSURE STATEMENT AND TO CONFIRM THE PREPACKAGED JOINT CHAPTER 11 PLAN OF REORGANIZATION OF MODEL REORG ACQUISITION, LLC AND ITS AFFILIATED DEBTORS

The Debtors filed the Prepackaged Joint Chapter 11 Plan of Reorganization of Model Reorg Acquisitions, LLC and Its Affiliated Debtors and Debtors in Possession (as may be amended, the "Plan"). As noted above, holders of Claims against the Debtors and Holders of Interests in the Debtors are not entitled to vote on the Plan because all classes of Claims and all classes of Interests are either Unimpeded under the Plan, and thus presumed to accept the Plan, or are receiving no recovery under the Plan. Those classes of Interests that are not Unimpeded under the Plan, the Plan may be confirmed by the Bankruptcy Court without the Debtors soliciting votes on the Plan.

The Bankruptcy Court has scheduled a combined hearing (the "Combined Hearing") to (i) approve the adequacy of the Disclosure Statement relating to the Plan (the "Disclosure Statement"), and (ii) confirm the Plan under the Bankruptcy Code, and has established the deadlines and procedures described herein. The Plan under the Bankruptcy Code is available at <http://dm.epic11.com/mergermania>.

COMBINED HEARING DATE AND TIME

The Combined Hearing will be held at 10:00 a.m. on October 6, 2017 (Prevailing Eastern Time) before the Honorable Christopher S. Sontchi, United States Bankruptcy Judge for the District of Delaware, in the United States Bankruptcy Court for the District of Delaware, 5th Floor, 824 Market Street, Wilmington, Delaware 19801, at which the Bankruptcy Court will consider: (i) approval of the Disclosure Statement pursuant to section 1125 of the Bankruptcy Code, and (ii) confirmation of the Plan. The Combined Hearing may be continued from time to time without further notice other than the announcement of the adjourned date(s) at the Combined Hearing, or any continued hearing, or in the event of any such hearing.

OBJECTION DEADLINE AND PROCEDURES

Objectors, if any, to (a) the approval of the Disclosure Statement, or (b) confirmation of the Plan must file in writing a written objection to the Plan, or otherwise object to the Plan, no later than the applicable deadline, the name of the objecting party and the amount and nature of the Claim of such Entity in each applicable Chapter 11 Case or the amount of Interests held by such Entity in each applicable Chapter 11 Case; (iv) state with particularity the legal and factual bases and nature of any objection to the Plan and, if practicable, a proposed modification to the Plan that would resolve such objection; and (v) be filed contemporaneously with a proof of service, with the Bankruptcy Court and served so that it may be actually received no later than 4:00 p.m. on September 28, 2017 (Prevailing Eastern Time) (the "Objection Deadline") by the parties set forth below: (i) the Debtors, Model Reorg Acquisition, LLC, 35 Sawgrass Drive, Suite 2, Bellport, New York 11713 (Attn: Michael W. Katz; Alfred R. Palani); (ii) counsel to the Debtors, Skadden, Arps, Slate, Meagher & Flom LLP, Four Times Square, New York, NY 10036-6522 (Attn: Lisa Lauktis) and 500 Boylston Street, Boston, Massachusetts 02116 (Attn: J. Gregory Millroe); (iii) Raquelle L. Kaye and One Rodney Square, 920 N. King Street, Wilmington, Delaware 19801 (Attn: Anthony Clark); (iv) Office of the United States Trustee for the District of Delaware, J. Caleb Boggs Building, 844 King Street, Suite 2207, Lockbox 35, Wilmington, DE 19801 (Attn: Sarah McCullum; Bryn Keilson); (v) counsel to Wells Fargo Bank, National Association, as administrative agent and collateral agent under the Debtors' prepetition Secured Credit Facility and post-petition Secured Credit Facility, 230 Park Avenue, New York, NY 10169-0075, (Attn: Daniel F. Florillo; Chad B. Simon); and (vi) the Debtors' top twenty (20) largest creditors on each of their bankruptcy petitions, or, if any official committee of unsecured creditors has been appointed, counsel to such committee.

Committee of unsecured creditors has been appointed, counsel to such committee and may be overruled.

OBETRAN COPIES OF THE DISCLOSURE STATEMENT AND PLAN

Any party in interest wishing to obtain a copy of the Disclosure Statement, the Plan, or other pleadings filed by the Debtors in the Chapter 11 Cases may obtain them online at <http://dm.epic11.com/mergermania> or may request such copies at the Debtors' expense by contacting Epic Bankruptcy Solutions, LLC ("Epic"), 488-457-6672 or +1 (503) 597-7716 (international callers). The Plan Supplement will become available on or before September 21, 2017. Any party in interest wishing to review the Disclosure Statement or the Plan may also review such documents during regular business hours (9:00 a.m. to 4:30 p.m. Eastern Time, weekdays, except legal holidays) at the Bankruptcy Court, 824 Market Street, 3rd Floor, Wilmington, Delaware 19801.

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OBJECTION DEADLINE AND PROCEDURES

Objectors, if any, to (a) the approval of the Disclosure Statement, or (b) confirmation of the Plan must file in writing a written objection

BUSINESS NEWS



A catastrophe claims specialist learns to operate a drone.

Drones Play Major Role in Harvey Recovery Efforts

BY ANDY PASZTOR

For drone users, Hurricane Harvey is likely to be the event that propelled unmanned aircraft to become integral parts of government and corporate disaster-recovery efforts.

In the first six days after the storm hit, the Federal Aviation Administration issued more than 40 separate authorizations for emergency drone activities above flood-ravaged Houston and surrounding areas. They ranged from inspecting roadways to checking railroad tracks to assessing the condition of water plants, oil refineries and power lines.

That total climbed above 70 last Friday and topped 100 by Sunday, including some flights prohibited under routine circumstances, according to people familiar with the details. Industry officials said all of the operations—except

said relying on drones can help a wide range of industries pinpoint and repair damage, adding that “it’s in everybody’s interest that they get up and running” as quickly as possible.

Before the devastation throughout southern Texas, lawmakers and trade groups representing drone manufacturers specifically urged the FAA to adopt policies providing swift regulatory exemptions in the event of emergency applications.

Since the FAA began clearing the way for unmanned aircraft around Houston, people familiar with the details said at least one company has received the green light to survey coastal damage using drones operating beyond the sight of ground-based pilots. Such flying techniques are strictly banned under normal rules governing commercial operations.

On Sunday, an FAA spokeswoman said she didn’t have a detailed breakdown of the latest authorization totals.

To reduce delays and bureaucratic processes, the FAA has issued some single, blanket authorizations to fly different types of drones for various missions across the same designated airspace.

Despite FAA flexibility, drone industry groups have called for further easing of rules. A trade association called the Small UAV Coalition on Friday said some of its members already are helping “ensure continuous communication capabilities for first responders and the public.” But unmanned aircraft also have “immense potential” to assist with “delivering food, water and medical supplies,” the group said.

To protect the multitude of government helicopters and manned aircraft that initially responded as Hurricane Harvey pummeled large chunks of the state, the FAA slapped a temporary but extensive no-fly zone over Houston. All drone operations were prohibited without specific FAA approvals.

“They’re being used in a lot of different ways we’ve been talking about for a long time,” said Brian Wynne, president of the Association for Unmanned Vehicle Systems International, the leading trade group.

Now that recovery efforts are under way, Mr. Wynne

for a handful flown by media outlets—were conducted in conjunction with, or on behalf of, local, state or federal agencies.

One person familiar with the details said certain applications were processed within hours, an unusually fast turnaround for federal safety regulators accustomed to days or weeks of analysis for such decisions.

The scope and pace of approvals—advocated by drone proponents as essential tools to help search-and-recovery teams during natural emergencies—likely will boost momentum for longer-term industry and congressional drives to open up more air-space for broader commercial applications.

“They’re being used in a lot of different ways we’ve been talking about for a long time,” said Brian Wynne, president of the Association for Unmanned Vehicle Systems International, the leading trade group.

Now that recovery efforts are under way, Mr. Wynne

is easier access to cheap financing.

SÃO PAULO—The holding company of troubled Brazil meatpacker **JBS** SA said it sold its paper-pulp maker Eldorado Brasil Celulose SA to Netherlands-based **Paper Excellence** for 15 billion reais (\$4.8 billion).

The transaction is expected to take up to 12 months to be completed, the companies said.

Eldorado was one of the assets owned by **J&F Investimentos**, the holding company that belongs to the family of brothers Wesley Batista and Joesley Batista, who have admitted to bribing government officials for several years in exchange for favors, includ-

ing easier access to cheap financing.

JBS Chief Executive Officer Wesley Batista is under pressure from shareholders who want to remove him from the helm of the meatpacker. His brother resigned earlier this year as JBS chairman.

Through their family holding company, J&F, the brothers have agreed to pay a 10.3 billion reais fine to sign a leniency agreement with Brazilian prosecutors.

Paper Excellence, mean-

while, opened its first cel-

lulose plant in 2007 in Meadow

Lake, Canada, and has since

been buying more plants

both in Canada and Europe,

according to a statement.

This announcement is neither an offer to purchase nor a solicitation of an offer to sell Shares (as defined below). The Offer (as defined below) is made solely pursuant to the Offer to Purchase, dated September 5, 2017, and the related Letter of Transmittal, and any amendments or supplements to such Offer to Purchase or Letter of Transmittal. Purchaser (as defined below) is not aware of any state where the making of the Offer is prohibited by any administrative or judicial action pursuant to any valid state statute. If Purchaser becomes aware of any valid state statute prohibiting the making of the Offer or the acceptance of the Shares pursuant thereto, Purchaser will make a good faith effort to comply with that state statute or seek to have such statute declared inapplicable to the Offer. If, after a good faith effort, Purchaser cannot do so, Purchaser will not make the Offer to, nor will tenders be accepted from or on behalf of, the holders of Shares in that state. Except as set forth above, the Offer is being made to all holders of Shares. In any jurisdiction where the securities, “blue sky” or other laws require the Offer to be made by a licensed broker or dealer, the Offer will be deemed to be made on behalf of Purchaser by one or more registered brokers or dealers that are licensed under the laws of such jurisdiction.

Notice of Offer to Purchase

All Outstanding Shares of Common Stock

of

Kite Pharma, Inc.

at

\$180.00 Net Per Share in Cash

by

Dodgers Merger Sub, Inc.

a wholly-owned subsidiary of

Gilead Sciences, Inc.

Dodgers Merger Sub, Inc., a Delaware corporation (“Purchaser”), is offering to purchase all outstanding shares of common stock, par value \$0.001 per share (“Shares”), of Kite Pharma, Inc., a Delaware corporation (“Kite”), at a price per Share of \$180.00, net to the holder in cash, without interest (the “Offer Price”) upon the terms and subject to the conditions described in the Offer to Purchase, dated September 5, 2017 (together with any amendments or supplements thereto, the “Offer to Purchase”), and in the related Letter of Transmittal (together with any amendments or supplements thereto, the “Letter of Transmittal”) and, together with the Offer to Purchase, the “Offer”). The Offer is being made for all outstanding Shares and not for options to purchase Shares or other equity awards. Purchaser is a direct wholly-owned subsidiary of Gilead Sciences, Inc., a Delaware corporation (“Gilead”).

The Offer is being made in connection with the Agreement and Plan of Merger, dated as of August 27, 2017 (together with any amendments or supplements thereto, the “Merger Agreement”), among Kite, Gilead and Purchaser, pursuant to which, after the completion of the Offer and the satisfaction or waiver of certain conditions, Purchaser will be merged with and into Kite, and Kite will be the surviving corporation and a direct wholly-owned subsidiary of Gilead (such merger, the “Merger”). At the effective time of the Merger, each Share issued and then outstanding (other than (i) any Shares held by Kite or in Kite’s treasury and any Shares owned by Gilead, Purchaser or any other direct or indirect wholly-owned subsidiary of Gilead, which will be canceled and retired and shall cease to exist and no consideration shall be delivered in exchange therefor, and (ii) any Shares owned by Kite stockholders who have properly exercised and not effectively withdrawn their respective demand or otherwise lost their respective rights to appraisal under Section 262 of the General Corporation Law of the State of Delaware (the “DGCL”)) will be canceled and converted automatically into the right to receive the Offer Price. As a result of the Merger, Kite will cease to be a publicly-traded company and will become wholly-owned by Gilead. Under no circumstances will interest be paid on the purchase price for Shares, regardless of any extension of the Offer or any delay in making payment for Shares. The parties to the Merger Agreement have agreed that, upon the terms and subject to the conditions specified in the Merger Agreement, the Merger will become effective as soon as practicable after the consummation of the Offer, without a meeting of Kite’s stockholders to adopt the Merger Agreement, in accordance with Section 251(h) of the DGCL. Accordingly, if the Offer is consummated, Purchaser does not anticipate seeking the approval of Kite’s remaining public stockholders before effecting the Merger. The Merger Agreement is more fully described in the Offer to Purchase.

Tendering stockholders who have Shares registered in their names and who tender directly to Computershare Trust Company, N.A. (the “Depositary”) will not be obligated to pay brokerage fees or commissions or, except as set forth in the Letter of Transmittal, transfer taxes on the purchase of Shares by Purchaser pursuant to the Offer. Stockholders who hold their Shares through a broker or bank should consult with such institution as to whether it charges any service fees or commissions.

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT ONE MINUTE AFTER 11:59 P.M., EASTERN TIME, ON OCTOBER 2, 2017 (SUCH DATE, OR ANY SUBSEQUENT DATE TO WHICH THE EXPIRATION OF THE OFFER IS EXTENDED, THE “EXPIRATION DATE”), UNLESS THE OFFER IS EXTENDED OR EARLIER TERMINATED.

The Offer is conditioned upon, among other things, (a) the Merger Agreement not having been terminated in accordance with its terms (the “Termination Condition”) and (b) the satisfaction of:

- (i) the Minimum Tender Condition (as described below);
- (ii) the HSR Condition (as described below); and
- (iii) the Governmental Impediment Condition (as described below).

The Offer is not subject to a financing condition. The Minimum Tender Condition requires that the number of Shares validly tendered and not validly withdrawn, together with any Shares then beneficially owned by Gilead and its subsidiaries, equals one Share more than 50% of the sum of (i) the total number of Shares outstanding at the time of the expiration of the Offer, plus (ii) the total number of Shares that Kite would be required to issue upon conversion, settlement, exchange or exercise of all options, warrants, rights or securities outstanding at the time of the expiration of the Offer (being understood that Kite stock options and Kite restricted stock units canceled or assumed, as the case may be, pursuant to the Merger Agreement shall not be included in such calculation) that are convertible, exchangeable or exercisable into Shares (whether then outstanding or for which the conversion, settlement, exchange or exercise date has already occurred, but in any event without duplication). The HSR Condition requires that any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder (the “HSR Act”), shall have expired or otherwise been terminated. Under the Merger Agreement, Gilead and Kite have each agreed to file a Premerger Notification and Report Form under the HSR Act with the Federal Trade Commission (the “FTC”) and the Antitrust Division of the U.S. Department of Justice (the “Antitrust Division”) in connection with the purchase of Shares in the Offer and the Merger. The Offer may not be consummated until the expiration of a fifteen (15) day waiting period following the filing, unless the waiting period is earlier terminated by the FTC and the Antitrust Division. If the fifteen (15) day waiting period expires on a Saturday, Sunday, or legal public holiday, the waiting period is automatically extended to the end of the next day that is not a Saturday, Sunday, or legal public holiday. If within the fifteen (15) day waiting period either the FTC or the Antitrust Division issues a request for additional information and documentary material, the waiting period with respect to the Offer would be extended until ten (10) days following the date of substantial compliance by Gilead with that request, unless the FTC or the Antitrust Division terminates the additional waiting period before its expiration. The Governmental Impediment Condition requires that there be no legal, temporary restraining order, preliminary or permanent injunction or other order issued by any governmental body of competent jurisdiction or law or other legal prohibition in effect which prohibits or makes illegal the acquisition of or payment for Shares pursuant to the Offer or the consummation of the Merger. The Offer is also subject to other conditions as described in the Offer to Purchase (collectively, the “Offer Conditions”). See Section 13—“Conditions of the Offer” of the Offer to Purchase.

After careful consideration, the Kite board of directors has, subject to the terms and upon the conditions set forth in the Merger Agreement, unanimously: (i) approved the Merger Agreement and declared it advisable for Kite to enter into the Merger Agreement, (ii) approved the execution, delivery and performance by Kite of the Merger Agreement and the consummation of the transactions contemplated thereby, including the Offer and the Merger, (iii) resolved that the Merger shall be effected under Section 251(h) of the DGCL, and (iv) resolved to recommend that the stockholders of Kite accept the Offer and tender their Shares to Purchaser pursuant to the Offer.

The Merger Agreement contains provisions to govern the circumstances in which Purchaser is required to extend the Offer and in which Gilead is required to cause Purchaser to extend the Offer. Specifically, the Merger Agreement provides that Purchaser shall (and Gilead shall cause Purchaser to) extend the Offer (i) if, as of the then-scheduled Expiration Date, any Offer Condition is not satisfied and has not been waived by Purchaser or Gilead, to the extent waivable by either of them, for additional periods of up to 10 business days per extension to permit such Offer Condition to be satisfied; and (ii) from time to time for any period required by any legal requirement, any interpretation or position of the SEC or its staff or the NASDAQ Global Select Market applicable to the Offer. Notwithstanding the foregoing, in no event will Purchaser be required to extend the Offer beyond December 27, 2017 (such date, including as it may be extended pursuant to the terms of the Merger Agreement, the “End Date”) or the earlier termination of the Merger Agreement, and in no event will Purchaser be permitted to extend the Offer beyond the End Date or the earlier termination of the Merger Agreement without Kite’s prior written consent.

The purpose of the Offer and the Merger is for Gilead and its affiliates, through Purchaser, to acquire control of, and the entire equity interest in, Kite. Following the consummation of the Offer, subject to the satisfaction or waiver of the conditions set forth in the Merger Agreement, Gilead and Purchaser intend to effect the Merger. No appraisal rights are available to holders of Shares in connection with the Offer. However, if the Merger is consummated, a stockholder of Kite that has not tendered its Shares in the Offer will have rights under Section 262 of the DGCL to dissent from the Merger and demand appraisal of, and obtain payment in cash for the “fair value” of, that stockholder’s Shares.

On the terms and subject to the conditions of the Merger Agreement and the applicable rules and regulations of the SEC, Purchaser expressly reserves the right to (i) increase the amount of cash constituting the Offer Price, (ii) waive any Offer Condition (to the extent permitted under applicable Legal Requirements (as defined in the Merger Agreement)) and (iii) make any other changes in the terms and conditions of the Offer that are not inconsistent with the Merger Agreement. However, without the consent of Kite, Gilead and Purchaser are not permitted to (i) decrease the Offer Price, (ii) change the form of consideration payable in the Offer (provided that nothing in the Merger Agreement shall limit the ability of Gilead and Purchaser to increase the cash consideration payable in the Offer), (iii) decrease the maximum number of Shares sought to be purchased in the Offer, (iv) impose conditions or requirements to the Offer in addition to the Offer Conditions, (v) amend, modify or waive the Minimum Tender Condition, the Termination Condition, the HSR Condition or the Governmental Impediment Condition, (vi) otherwise amend or modify any of the other terms of the Offer in a manner that adversely affects any holder of Shares in its capacity as such, (vii) terminate the Offer or accelerate, extend or otherwise change the Expiration Date except as provided in the Merger Agreement, or (viii) provide any “subsequent offering period” (or any extension thereof) within the meaning of applicable SEC rules and regulations.

Any extension, waiver or amendment of the Offer or termination of the Offer will be followed, as promptly as practicable, by public announcement thereof, such announcement in the case of an extension to be issued no later than 9:00 a.m., Eastern Time, on the next business day after the previously scheduled Expiration Date.

For purposes of the Offer, Purchaser will be deemed to have accepted for payment, and thereby purchased, Shares validly tendered, and not properly withdrawn, prior to the expiration of the Offer if and when Purchaser gives oral or written notice to the Depositary of Purchaser’s acceptance for payment of such Shares pursuant to the Offer. Upon the terms and subject to the conditions of the Offer, payment for Shares accepted for payment pursuant to the Offer will be made by deposit of the aggregate Offer Price for such Shares with the Depositary, which will act as paying agent for the tendering stockholders for the purpose of receiving payments from Purchaser and transmitting such payments to the tendering stockholders. **Under no circumstances will interest be paid on the Offer Price for Shares, regardless of any extension of the Offer or any delay in making payment for Shares.**

In all cases, payment for Shares tendered and accepted for payment pursuant to the Offer will be made only after timely receipt by the Depositary of (a) certificates for such Shares (“Share Certificates”) or timely confirmation of the book-entry transfer of such Shares (“Book-Entry Confirmations”) into the Depositary’s account at The Depository Trust Company (“DTC”) pursuant to the procedures set forth in the Offer to Purchase, (b) a Letter of Transmittal, properly completed and duly executed, with any required signature guarantees (or, in the case of a book-entry transfer, an Agent’s Message (as defined in the Offer to Purchase) in lieu of the Letter of Transmittal) and (c) any other documents required by the Letter of Transmittal. Accordingly, tendering stockholders may be paid at different times depending upon when Share Certificates Book-Entry Confirmations with respect to Shares are actually received by the Depositary.

Shares tendered pursuant to the Offer may be withdrawn at any time prior to the expiration of the Offer and, unless theretofore accepted for payment by Purchaser pursuant to the Offer, may also be withdrawn at any time after November 4, 2017, which is the 60th day after the date of the commencement of the Offer.

For a withdrawal of Shares to be effective, a written or facsimile transmission notice of withdrawal must be timely received by the Depositary at its address set forth on the back cover of the Offer to Purchase. Any such notice of withdrawal must specify the name of the person having tendered the Shares to be withdrawn, the number of Shares to be withdrawn and the name of the record holder of the Shares to be withdrawn, if different from that of the person who tendered such Shares. The signature(s) on the notice of withdrawal must be guaranteed by an Eligible Institution (as defined in the Offer to Purchase), unless such Shares have been tendered for the account of any Eligible Institution. If Shares have been tendered pursuant to the procedures for book-entry transfer as set forth in the Offer to Purchase, any notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawn Shares and must otherwise comply with DTC’s procedures. If certificates representing the Shares to be withdrawn have been delivered or otherwise identified to the Depositary, the name of the registered holder and the serial numbers shown on such certificates must also be furnished to the Depositary prior to the physical release of such certificates.

All questions as to the form and validity (including time of receipt) of any notice of withdrawal will be determined by Purchaser, in its sole discretion, which determination shall be final and binding, subject to the rights of tendering stockholders to challenge Purchaser’s determination in a court of competent jurisdiction. No withdrawal of tendered Shares shall be deemed to have been properly made until all defects and irregularities have been cured or waived. None of Gilead, Purchaser or any of their respective affiliates or assigns, the Depositary, the Information Agent (listed below), or any other person will be under any duty to give notification of any defects or irregularities in any notice of withdrawal or incur any liability for failure to give such notification. Withdrawals of tendered Shares may not be rescinded, and any Shares properly withdrawn will be deemed not to have been validly tendered for purposes of the Offer. However, withdrawn Shares may be retendered by following one of the procedures for tendering Shares described in the Offer to Purchase at any time prior to the expiration of the Offer.

The information required to be disclosed by paragraph (d)(1) of Rule 14d-6 under the Securities and Exchange Act of 1934, as amended, is contained in the Offer to Purchase and is incorporated herein by reference.

Kite has provided Purchaser with Kite’s stockholder list and securities position listings for the purpose of disseminating the holders of Shares information regarding the Offer. The Offer to Purchase and related Letter of Transmittal will be mailed to record holders of Shares whose names appear on Kite’s stockholder list and will be furnished to brokers, dealers, commercial banks, trust companies and similar persons whose names, or the names of whose nominees, appear on the stockholder list or, if applicable, who are listed as participants in a clearing agency’s security position listing for subsequent transmittal to beneficial owners of Shares.

The receipt of the Offer Price for Shares in the Offer or consideration for Shares in the Merger will be a taxable transaction for U.S. federal income tax purposes. Stockholders should consult with their tax advisors as to the particular tax consequences of the Offer and the Merger to them. For a more complete description of the principal U.S. federal income tax consequences of the Offer and the Merger, see the Offer to Purchase.

The Offer to Purchase, the related Letter of Transmittal and Kite’s Solicitation/Recommendation Statement on Schedule 14D-9 (which contains the recommendation of the Kite board of directors and the reasons therefor) contain important information and should be read carefully and in their entirety before any decision is made with respect to the Offer.

Questions and requests for assistance may be directed to the Information Agent at the address and telephone numbers set forth below. Requests for copies of the Offer to Purchase and the related Letter of Transmittal, the notice of guaranteed delivery and other tender offer materials may be directed to the Information Agent or to brokers, dealers, commercial banks or trust companies. Such copies will be furnished promptly at Purchaser’s expense. Except as set forth in the Offer to Purchase, neither Purchaser nor Gilead will pay any fees or commissions to any broker or dealer or any other person for soliciting tenders of Shares pursuant to the Offer.

The Information Agent for the Offer is:

Innisfree®

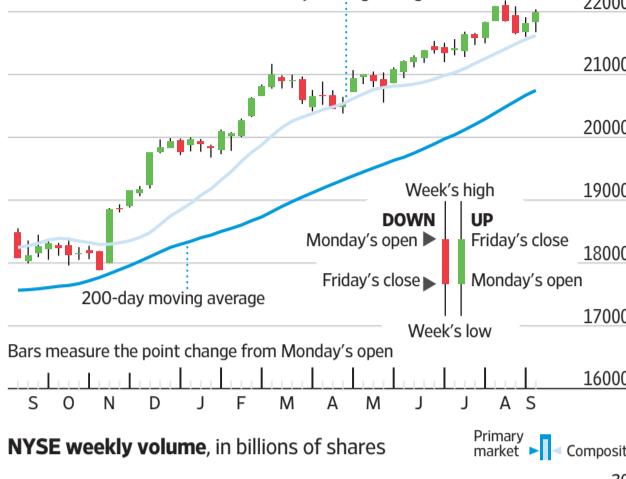
MARKETS DIGEST

Dow Jones Industrial Average

21987.56 ▲ 173.89, or 0.80% last week
 High, low, open and close for each of the past 52 weeks

Trailing P/E ratio 19.89 20.05
 P/E estimate * 18.53 17.96
 Dividend yield 2.36 2.53
 All-time high 22118.42, 08/07/17

Current divisor 014523396877348



Bars measure the point change from Monday's open

S O N D J F M A M J J A S

16000 17000 18000 19000 20000 21000 22000 23000 24000 25000

NYSE weekly volume, in billions of shares



Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

Major U.S. Stock-Market Indexes

	High	Low	Latest Week Close	Net chg	% chg	Low	Close (●)	High	% chg	YTD % chg	3-yr. ann.
Dow Jones											
Industrial Average	22038.97	21763.58	21987.56	173.89	+0.80	17888.28	● 22118.42	18.9	11.3	8.7	
Transportation Avg	9396.39	9086.38	9356.02	222.27	+2.43	7755.40	● 9742.76	17.7	3.5	3.6	
Utility Average	750.32	738.85	740.95	-5.53	-0.74	625.44	● 748.16	10.1	12.3	9.5	
Total Stock Market	25656.38	25083.45	25624.67	387.24	+1.53	21514.15	● 25692.25	13.5	10.1	7.0	
Barron's 400	647.85	630.22	647.40	13.07	+2.06	521.59	● 661.93	16.3	7.6	6.2	

Nasdaq Stock Market

Nasdaq Composite	6449.65	6228.73	6435.33	169.69	+2.71	5046.37	● 6435.33	22.6	19.5	12.0	
Nasdaq 100	6009.61	5785.22	5987.90	165.37	+2.84	4660.46	● 5988.6	24.8	23.1	13.6	

Standard & Poor's

500 Index	2480.38	2428.20	2476.55	33.50	+1.37	2085.18	● 2480.91	13.6	10.6	7.3	
MidCap 400	1740.11	1695.87	1737.79	28.82	+1.69	1476.68	● 1791.93	10.1	4.6	6.5	
SmallCap 600	847.40	821.78	847.05	19.40	+2.34	703.64	● 876.06	11.2	1.1	8.0	

Other Indexes

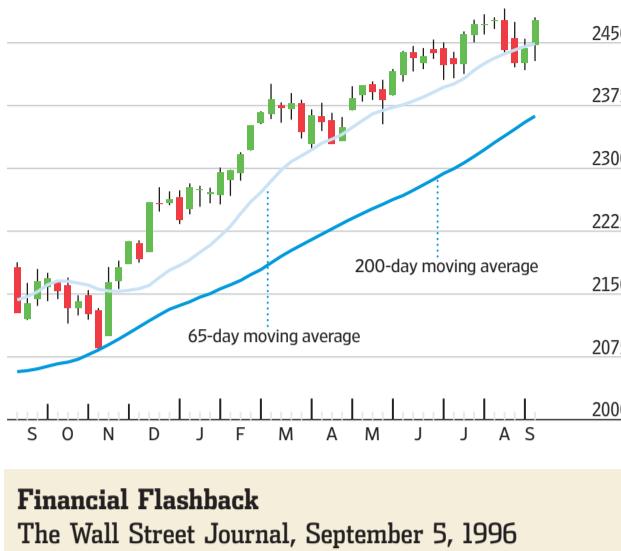
Russell 2000	1413.86	1371.80	1413.57	36.12	+2.62	1156.89	● 1450.39	12.9	4.2	6.4	
NYSE Composite	11934.97	11728.98	11918.08	106.05	+0.90	10289.35	● 12000.02	9.8	7.8	2.6	
Value Line	519.17	505.93	518.88	9.15	+1.80	455.65	● 533.62	6.6	2.5	1.0	
NYSE Arca Biotech	4246.99	3961.79	4232.90	348.95	+8.98	2834.14	● 4232.90	30.2	37.7	10.6	
NYSE Arca Pharma	531.91	519.16	528.61	8.15	+1.57	463.78	● 549.2	1.4	9.8	0.3	
KBW Bank	94.50	92.16	93.68	-0.51	-0.55	69.71	● 99.33	29.1	2.1	9.4	
PHLX Gold/Silver	90.92	86.65	90.54	4.72	+5.50	73.03	● 101.55	-6.3	14.8	-4.0	
PHLX Oil Service	123.06	119.00	122.46	0.49	+0.40	117.79	● 192.66	-21.5	-33.4	-25.4	
PHLX Semiconductor	1124.66	1070.08	1119.34	38.84	+3.59	768.37	● 1138.25	38.7	23.5	20.2	
CBOE Volatility	14.34	10.02	10.13	-1.15	-10.20	9.36	● 22.51	-15.4	-27.8	-5.4	

\$Philadelphia Stock Exchange

S&P 500 Index

2476.55 ▲ 33.50, or 1.37% last week
 High, low, open and close for each of the past 52 weeks

Trailing P/E ratio 23.86 24.71
 P/E estimate * 18.85 18.57
 Dividend yield 2.00 2.11
 All-time high: 2480.91, 08/07/17



200-day moving average

20-day moving average

65-day moving average

2000 2100 2200 2300 2400 2500

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BANKING & FINANCE

Carlyle Wins Suit Over Crisis Bond Fund

Liquidator alleged firm should have started selling assets before vehicle failed in 2008

BY MARGOT PATRICK

A judge ruled in favor of Carlyle Group LP Monday in a lawsuit alleging the buyout firm didn't do enough to save a financial-crisis-era bond fund.

In March 2008, mortgage-bond fund Carlyle Capital Corp., or CCC, collapsed when it couldn't keep financing a \$23 billion bond portfolio of Fannie Mae and Freddie Mac bonds. Investors in the fund lost their entire \$945 million in capital.

CCC's liquidators in Guernsey, where the fund was incorporated, sued Carlyle Group and several officials alleging they failed in their duties and should have started selling the fund's assets months before it failed.

Funding for the lawsuit came from a burned Carlyle investor, Louis Reijtenbagh.

A trial last year in Guernsey's Royal Court spanned six months and brought Carlyle executives, including co-founder Bill Conway, to the tiny English Channel island to testify.

On Monday, the judge struck down the liquidators' arguments, saying CCC got caught in unforeseeable events.

She said the suggestion that Carlyle and CCC officials should have done anything significantly different is being "wise with hindsight."

"CCC failed because the depth of the weaknesses in the financial markets was so great that those weaknesses came to threaten, not merely the profits of major investment and commercial banks, but their very viability, and hence to cause a systematic withdrawal of what had previously been a very normal, stable and reliable form of finance," the



Carlyle's Bill Conway was among executives who testified.

Chase & Co. Within a few months, a full-blown financial crisis was under way and Lehman Brothers collapsed.

The fund had been listed on Euronext in July 2007, at the tail end of a boom for private-equity groups and hedge funds raising "permanent capital" on stock exchanges that didn't need to be returned to investors. Conditions in the U.S. housing market were already turning, and within a matter of weeks CCC was struggling to stay afloat.

In August 2007, with its own reputation on the line, Carlyle Group had to lend CCC money to make margin calls. The liquidators argued CCC's directors and managers should have considered selling its entire portfolio at that time. They alleged that Carlyle executives refused to have CCC sell assets or restructure that summer because they didn't want to jeopardize an investment by an Abu Dhabi government fund in Carlyle Group.

The trial provided glimpses

into the inner workings of Carlyle Group and its dealings with powerful investors that include countries and giant pension funds. The Guernsey court heard how Angola's central bank and rich families lined up to invest in CCC, in some cases as part of broader investment deals with the private-equity group.

Some Carlyle Group executives privately expressed misgivings about CCC listing in July 2007 when markets were turbulent, the court heard.

The fund took out short term loans for around 30 times its equity to buy ultra-safe Fannie Mae and Freddie Mac bonds, aiming to make 12% annual returns from the relatively low-yielding assets. The bonds were considered implicitly guaranteed against default by the U.S. government. But turbulent markets and worries over the U.S. housing market led CCC's lenders to demand more collateral for the loans, and CCC couldn't keep up.

Bank Stocks Flash Alert, Following Rates Downward

BY CORRIE DRIEBUSCH

U.S. bank stocks dropped in August as interest rates slipped, and some money managers say lenders have further to fall.

The reason: The yield on the 10-year Treasury note is back down to where it was in mid-November, shortly after the election, but bank shares are above where they were then.

That could be a warning sign, some analysts and investors say, that there is still too much optimism priced into shares of financial companies.

Such stocks have benefited from hopes for looser regulation under the Trump administration and from passing their Federal Reserve stress tests, which won big U.S. banks the ability to buy back stock and

The difference between the yield on the two-year Treasury note and the 10-year was at 0.812 percentage point late Friday, below the 1.21-percentage-point differential on Nov. 10, a day after the presidential election, and near its smallest since 2007.

The KBW Nasdaq Bank index of large U.S. lenders fell 3.1% in August but closed the month up 14% since Nov. 10.

"I was a little surprised banks aren't down more," Mr. Wiggs said. "We should be a bit more cautious."

Daniel Genter, chief executive officer of RNC Genter Capital Management, an investment-management firm in Los Angeles, said he has been decreasing his position in financial stocks, saying that as the yield curve flattens, banks will likely need stronger deposit growth in order to maintain their profitability levels. "That's going to be a challenge," he said.

The big question now for banks is the U.S. economy. While the global economy continues to hum along, there are some cracks in the U.S. Household debt reached a record last quarter, inflation remains stubbornly low and gross-domestic-product growth has been choppy.

Those concerns have contributed to the decline in the 10-year yield, which ended July at 2.292% and finished 2016 at 2.446%.

Still, not everyone is so dour about the outlook for bank stocks.

Michael Mattioli, portfolio manager at Manulife Asset Management, said he isn't as bullish on bank stocks as he has been in the past and said he has trimmed his bank-stock exposure since the election. Yet he still believes there could be some upside to the group.

"There's a lot more things that can go right for banks than can go wrong," he said, such as a change to lenders' capital requirements or a tax overhaul.

3.1%

August decline in KBW Nasdaq index of big U.S. banks

distribute dividends. Strong earnings reports have lifted large banks' price-to-book valuations since November as well.

"People are hanging onto bank stocks hoping for a regulatory reprieve," said Justin Wiggs, managing director in equity trading at Stifel Nicolaus. "But from an operating standpoint, there are obviously concerns for banks," he said, referring to falling bond yields.

On Friday, the yield on the 10-year Treasury settled at 2.157% and is down 0.289 percentage point year to date.

The recent declines have narrowed the gap between long- and short-term rates, which doesn't bode well for banks, which earn money on the difference between what they pay on deposits and what they charge to lend money.

Eye on the Divide

The slimming differential between Treasury notes doesn't bode well for banks despite rising share prices since the election.

The gap between long- and short-term rates is narrowing again.

Bank stocks fell in August, but remain well above their pre-election levels.

KBW Nasdaq Index

Sources: Ryan ALM (yield); FactSet (stocks)

China's Smaller Lenders Pull Back

BY CHAO DENG

BEIJING—The future is dimming for smaller Chinese banks, as moves by Beijing to curb financial risks force these lenders to back off from a wave of financial experimentation that had given them new ways to expand.

In recent years, regulators kept interest rates in the interbank market relatively low, allowing lenders to borrow cheaply from one another. Smaller banks, without the substantial deposit pools of their larger brethren, seized the opportunity to raise funds that they plowed into higher-yielding investments, making money on the difference in interest.

Smaller lenders facilitated a shuttling of capital between banks, as well as to securities and insurance firms. This opened up new financing channels in China's economy, which was one way Beijing had hoped to encourage growth. However, borrowers that benefited from smaller banks' newfound capital often had riskier profiles: They were players more likely to pay higher interest rates on loans, including property developers and already heavily indebted local governments.

The loans the smaller banks took from their peers were often short term, requiring frequent refinancing and raising the risk of a potential funding crunch because investments that banks made often had longer maturities.

"Small, medium-sized banks brought in competition but also risk," said Yulia Wan, an analyst at Moody's Investors Service. "The more layers of different types of products, the less transparent the system got."

Economists have long warned about China's use of debt to fuel economic growth. As the financial system grew increasingly convoluted, it became harder for regulators to assess companies and banks' true liabilities and ensure banks set aside enough capital to guard against risk.

Regulators have raised interest rates in the interbank market twice this year, making it more costly for banks to borrow from their peers. Recently, it also began scrutinizing short-term instruments that smaller banks have issued in the interbank market.

"From the regulators' point of view, banks haven't been in-



China Merchants Bank's sales of wealth products to other lenders were down 61% in the first half.

Putting on the Brakes

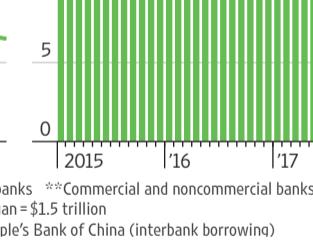
Smaller Chinese banks' expansion has slowed as Beijing forces them to dial back borrowing from other lenders.

Total asset growth at smaller, regional lenders*



*Growth at joint-stock and city commercial banks Note: 2017 is only through July; 10 trillion yuan = \$1.5 trillion Sources: Wind Info (total asset growth); People's Bank of China (interbank borrowing)

Interbank borrowing**



**Commercial and noncommercial banks Sources: Wind Info (total asset growth); People's Bank of China (interbank borrowing)

novating but finding tricky ways to get around rules," said Qiang Liao, an analyst with Standard & Poor's.

The tightening has hurt smaller, often regional lenders. Their assets, which include loans and investments, grew by 13% in July from a year earlier, roughly half the pace of their expansion in early 2016, according to data provider Wind Information Co.

Banks overall are dialing back their interbank exposure, according to China's banking regulator, which said interbank borrowing by commercial banks fell 1.8 trillion yuan (\$275 billion) during the first half of the year, a drop of 2.3% from the end of last year. The China Banking Regulatory

Commission didn't give a total or offer historical figures but said it was the first drop since 2010.

Asset growth at China's five largest banks has been slower than at smaller banks, at an annualized 9% in July, but steadier, according to Wind Information Co.

Large banks are weathering the regulatory tightening better, as they often act as lenders to small banks and stand to benefit from higher rates in the interbank market. Industrial & Commercial Bank of China Ltd., the nation's largest lender by assets, said its interest income from extending credit to peer lenders surged 75% in the first half compared with a year earlier.

Meanwhile, net interest margins—the spread between what banks charge on loans and what they pay for deposits—have fallen at smaller and midsize banks. At China Minsheng Banking Corp., the measure of profitability fell to 1.4% in the first half from 1.74% last year. The midsize lender said it reduced interbank borrowings by 17% during the first half of the year.

At Bank of Ningbo Co., a small city bank in the province of Zhejiang, net interest margin also fell sharply. Its interbank borrowings were down 26% during the first half of the year.

With reduced access to cheap funding, smaller banks are finding it harder to expand.

China Citic Bank Corp., a midsize lender, is even retrenching slightly. Last week, it posted a 4.7% decrease in assets at the end of June compared with half a year earlier.

The bank said it hasn't relied heavily on business in the interbank market, although finding new sources of funding is a challenge. "It's difficult to further expand proprietary deposits," said Fang Heying, the lender's vice president.

At midsize China Merchants Bank Co., sales from wealth-management products to other lenders declined 61% from a year earlier in the first half.

Grace Zhu contributed to this article.

Ernst & Young's Revenue Increases 6%

BY MICHAEL RAPORT

Ernst & Young recorded global revenue of \$31.4 billion in its latest fiscal year, up 6% from the previous year in U.S. dollar terms, the Big Four accounting firm said Monday.

Revenue in the year ended June 30 rose 7.8% when measured in local-currency terms, the way major accounting firms prefer to measure their growth.

Last year, revenue at Ernst & Young, which brands itself as EY, rose 3.4% in U.S. dollar terms and 9% in local-currency terms, EY said.

EY said its revenue growth in the latest year had been aided by its investments in increased hiring and advanced technologies like analytics, artificial intelligence and robotics. EY's workforce grew by 7.3% during the year to more than 247,000, and the firm now employs 18,000 data and analytics professionals.

Growth was also boosted by increased demand for the firm's work among companies seeking help in coping with the continued slow-growing global economy and the rapid pace of technological and business change, EY said.

"It's clear just that businesses need our services," said Mark Weinberger, EY's global chairman and chief executive, in an interview. "I think the demand for digital and data strategies and operating improvements, the demand to use that in growth across the world, will continue."

EY and other major accounting firms are international networks of private partnerships that disclose only their revenue, not their earnings.

The firm's U.S. revenue rose 6.7% in the latest year. Geographically, the firm's strongest growth came in the Asia-Pacific region, where revenue rose 11.3% in local-currency terms. Emerging-markets revenue rose nearly 9%.

As in the past several years, EY's consulting businesses showed much stronger growth than its more-mature core auditing business. Revenue at the firm's transaction advisory services unit jumped 15.5% in local-currency terms, and advisory revenue rose 10.4%, compared with a 4% revenue increase in the insurance unit, which handles auditing. Revenue in EY's tax-services business rose 7.9%.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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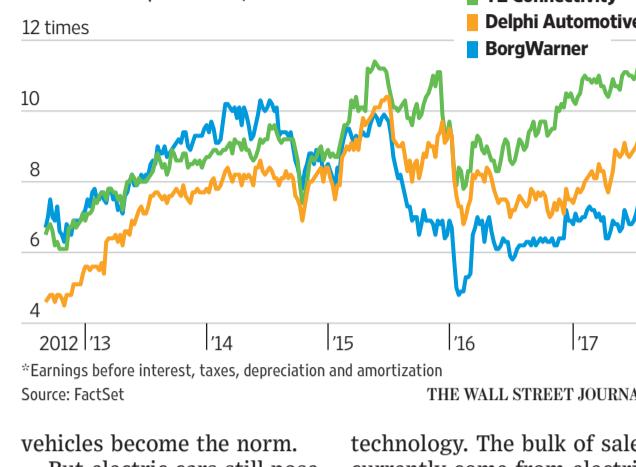
Delphi Auto Could Be a Tech Play

Looking for a play on the future of the car without taking a punt on a cash-hungry Silicon Valley venture like **Tesla**? The smart option could be hiding in plain sight: Detroit-based parts supplier **Delphi Automotive**.

Spun out of **General Motors** in 1999 and radically trimmed during a bankruptcy process between 2005 and 2009, Delphi has had a rocky history even by automotive-industry standards. Perhaps this explains the current management team's attention to future-proofing the portfolio. Having sold its low-growth air-conditioning unit in 2015, in May it announced a split: Delphi's engine-focused powertrain business will be spun off to investors.

Management expects sales at this "SpinCo" to grow by about 5% a year for the next couple of years. Engines need to be increasingly sophisticated to meet ever more exacting emissions standards, and car makers will apply lots of hybrid approaches before fully electric

Fork In the Road



*Earnings before interest, taxes, depreciation and amortization
Source: FactSet

THE WALL STREET JOURNAL.

vehicles become the norm.

But electric cars still pose a long-term existential challenge to the SpinCo, and the uncertainty surrounding the pace of transition may limit the multiple at which it trades. This is a key reason for the spinoff, which will leave behind a company focused entirely on electric systems and software.

This "RemainCo" should then act as a good proxy for developments in automotive

technology. The bulk of sales currently come from electrical systems. Yet Delphi's RemainCo also has stakes in rapidly growing niches, such as the radar and camera systems that help drivers reverse, park and stay in their lane. Such gizmos will eventually make cars autonomous; Delphi is a "systems integrator" for the driverless-car project formed last year by **BMW**, Intel and sensor specialist **Mobileye**.

Delphi's stock jumped 11% on the day it announced the spin and has continued to rise since. The valuation boost inherent in the deal, which will likely close early next year, is now probably priced in. If the SpinCo ends up at an earnings multiple similar to that of powertrain specialist **BorgWarner**, while the RemainCo is re-rated in line with electronics group **TE Connectivity**, the two companies' combined enterprise value would be about \$29 billion, in line with Delphi's current valuation.

Yet this calculation may underestimate the upside to come at the RemainCo. An electronics company focused almost purely on rapidly digitizing automotive applications will be a real rarity. As the acquisitions of Mobileye by Intel and **Harman** by Samsung over the past year have shown, big tech wants a piece of the car industry. Without the burden of its engine business, Delphi could become its next target.

—Stephen Wilmot

OVERHEARD

Can the bursting of the cryptocurrency bubble be far away? You know a market frenzy has turned surreal when **Paris Hilton** joins in: The celebrity took to Twitter on Sunday to back a new currency called Lydian.

But just hours later, Chinese regulators put a damper on the fun, issuing a ban on initial coin offerings. ICOs work like IPOs, except that instead of an equity stake in a company, investors walk away with virtual coins they can use in the future to buy the company's products or services. This year ICOs have raised more than \$1 billion world-wide, with China—one of the big cryptocurrency players—leading the way.

Regulators' move sent bitcoin sliding as much as 8%, which one can only hope is a sign of people being jolted into considering whether the ICO craze makes sense. It might seem like enough that the cryptocurrencies it has given us this year include the likes of the Useless Ethereum Token.

The Clock Is Ticking For the ECB

There is only so long a difficult conversation can be avoided.

The European Central Bank has been emphasizing persistence and patience on its monetary policy. But with the path of the ECB's bond-purchase program set only until the end of December, the pressure to lay out plans for 2018 is building.

The stumbling block for the ECB is the euro, which has risen steeply. That is likely to dent the ECB's new inflation forecasts, making communication about policy trickier. Many other developments, however, point toward a eurozone that no longer needs the ECB to hold the accelerator to the floor.

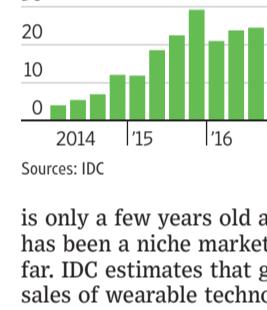
Growth remains robust, and financial conditions have stayed loose despite the stronger euro. Still, the account of the ECB's July meeting showed the sensitivity of markets to the slightest shift in communication. Even silence can move markets, however. ECB President Mario Draghi steered clear of talking about monetary policy at all in his much-awaited speech at Jackson Hole in August, but the euro rose, topping \$1.20.

Patience on policy also bears risks. While the euro's rise has drawn a lot of attention, other markets have been calmer. The 10-year German government-bond yield, at 0.38%, is well off its highs for the year—which looks odd in the face of stronger growth. There could yet be a tantrum to come for bonds, and an ECB that appears too cautious now could store up trouble.

The ECB might play for time in September, but that will put the focus on October: The lull in bond markets can't last. —Richard Barley

Smartwatches Have Uptick in Store as Makers Get Savvier

Wind Up



is only a few years old and has been a niche market so far. IDC estimates that global sales of wearable technology totaled 110.5 million units over the 12-month period ended June 30. That is about

7% of the number of smartphones sold in that time. Furthermore, only a portion of that is smartwatches as IDC also counts fitness bands and other wearable devices in that mix.

A range of lower prices and more functions should raise their appeal. There is some precedent for that. The iPod sold lightly in its first two years 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 functions. New devices from Fitbit and Garmin add more health-tracking features as well as the ability to pay for transactions.

Apple doesn't report watch sales, but that business is expected by analysts to account for just 2% of the company'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 diversified with 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 has jumped about 5% since its announcement, 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

MARKETS

THE TICKER

Market events coming this week

Tuesday	
Factory orders	up 3.0%
June, previous	up 3.0%
July, expected	down 3.2%
Earnings expected**	
Estimate/Year Ago(\$)	
Hewlett Packard Enterprise	0.26/0.49
Wednesday	
Mort. bankers indexes	
Purch., previous	down 3%
Refinan., prev.	down 2%
EIA status report	
Previous change in stocks in millions of barrels	
Crude oil	down 5.4
Gasoline	up 0.0
Distillates	up 0.7
ISM non-mfg index	
July, previous	53.9
Aug., expected	55.2
Int'l trade deficit in billions	
June, previous	\$43.6 bil.
July, expected	\$44.6 bil.
Earnings expected**	
Estimate/Year Ago(\$)	
Guidewire	0.39/0.39
HD Supply	0.64/0.85

*FACTSET ESTIMATES EARNINGS-PER-SHARE ESTIMATES DON'T INCLUDE EXTRAORDINARY ITEMS (LOSSES IN PARENTHESES) • ADJUSTED FOR STOCK SPLIT; NOTE: FORECASTS ARE FROM DOW JONES WEEKLY SURVEY OF ECONOMISTS

Thursday

Initial jobless claims		
Previous	236,000	
Expected	241,000	

EIA report: natural gas

Previous change in stocks in billions of cubic feet		
	up 30	

Productivity

2nd qtr. first est.		
up 0.9%		
2nd qtr. rev. est.	up 1.3%	

Unit labor costs

2nd qtr. first est.		
up 0.6%		
2nd qtr. rev. est.	up 0.4%	

Earnings expected**

Estimate/Year Ago(\$)		
Donaldson	0.52/0.46	

Friday

Consumer credit

June, prev.		
up \$12.4 bil.		
July, exp.	up \$14.5 bil.	

Wholesale inventories

June, previous		
up 0.7%		
July, expected	up 0.4%	

Earnings expected**

Estimate/Year Ago(\$)		
Kroger	0.39/0.47	



Hewlett Packard Enterprise displayed a device at a Germany conference in March. The technology company reports quarterly results on Tuesday.

104.57

The number of points that Apple added to the Dow Jones Industrial Average in August, accounting for more than all of the blue-chip index's 56.98-point rise

Dow Likes Them Apples

The largest U.S. company by market value lent a helping hand to the stock market last month.

Shares of **Apple Inc.** climbed more than 10% in August, making the tech giant the best performer among the Dow Jones Industrial Average's 30 components. Apple added 104.57 points to the price-weighted blue-chip index.

The Dow finished August up just 56.98 points for the month.

When tech stocks sold off in June, Apple stumbled and remained in a funk for much of the summer. But on Aug. 1, the company reported strong earnings, which were lifted by iPad and Mac sales. Apple jumped 4.7% the following session, playing a leading role in

propelling the Dow past 22,000 for the first time.</

MARKETS

Stock Investors Hedge as Autumn Nears

A typically choppy season for market has participants readying for a bout of volatility

By GUNJAN BANERJI

U.S. stock investors have been unfazed this year by everything from North Korean missile launches to the congressional debt ceiling deadline.

Now, as the most turbulent season for equities looms, hedging activity and money flows indicate that investors are starting to doubt that markets can only climb higher.

Some have protected against losses from this year's biggest winners. The number of bearish versus bullish options on the tech-heavy PowerShares QQQ Trust exchange-traded fund reached a two-year high in August. The most held contracts on a popular ETF that tracks high-yield bonds are bearish.

Some are wagering groups that have struggled, like small-cap companies, will continue to post losses. Speculators' net bearish futures positions on Russell 2000 index stocks last month reached the highest level since 2008, data from the Commodity Futures Trading Commission show.

People yanked funds from U.S. stocks for 10 straight weeks through Aug. 23, the biggest such streak in 13 years, according to data from Bank of America Merrill Lynch.

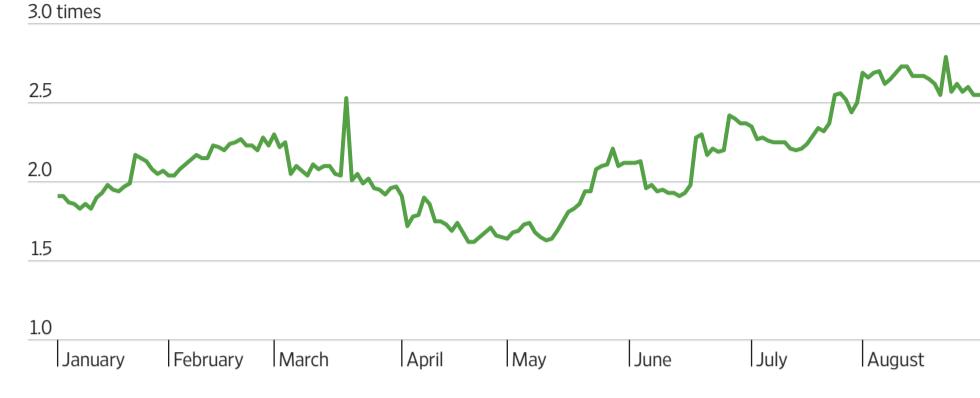
"We've gone from a period of potential complacency to one of caution over the last few weeks," Stewart Warther, New York-based derivatives strategist at BNP Paribas said in an interview in August.

After a stretch when political risks were largely ignored, investors are growing increasingly wary of them in recent weeks, Mr. Warther said.

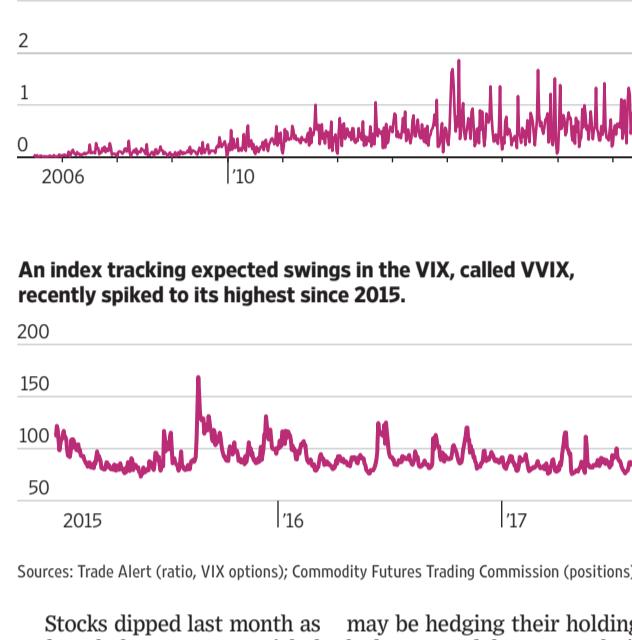
Taking Precautions

Hedging activity is picking up as the most volatile season for U.S. stocks gets under way.

The ratio of bearish options to bullish ones has climbed on the tech-heavy PowerShares QQQ Trust.



Trading of options on the CBOE Volatility Index, or VIX, surged to a record in August.

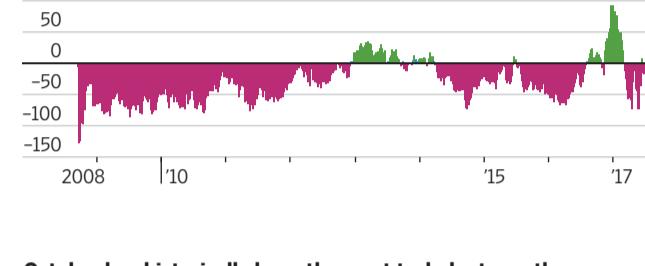


An index tracking expected swings in the VIX, called VVIX, recently spiked to its highest since 2015.

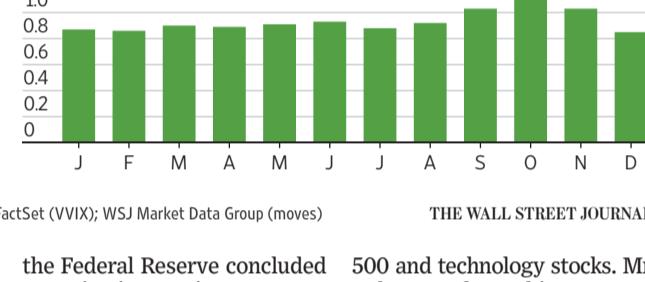


Sources: Trade Alert (ratio, VIX options); Commodity Futures Trading Commission (positions); FactSet (VVIX); WSJ Market Data Group (moves)

Speculators' net positions on Russell 2000 index stocks were the most bearish since 2008.



October has historically been the most turbulent month.



THE WALL STREET JOURNAL.

week, while the CBOE Volatility Index, which tracks volatility in stocks and is called VIX, fell 10% last week, its third consecutive week of declines.

Meanwhile, the U.S. dollar has already unwound its post-election gains and Treasury prices have risen, pushing yields down, according to a Barclays PLC August note.

This could be because hedging hasn't always paid off.

"The things we expect to react don't always react reliably" in selloffs, wrote Pravit Chintawongvanich, New York-based derivatives strategist at brokerage Macro Risk Advisors, in an Aug. 24 note.

Hedges on a high-yield bond fund were "nearly useless" in August 2015, he wrote, even as the S&P 500 tumbled 10% within just four days. In January 2016, when the benchmark equity index plummeted 10%, "VIX hedges were disappointing," he wrote.

Still, during the 16-day U.S. government shutdown in 2013, the fear gauge VIX soared as high as 20 from 13.

The VIX recorded some outside moves relative to the S&P 500 in August. The two are typically inversely correlated. Recently, a measure of expected swings in the gauge itself, known as VVIX, hit the highest level since August 2015, when U.S. equity markets swooned after China devalued the nation's currency.

Political news appears to be triggering market moves and has led to increased volatility, although it remains low relative to history, said Tobias Hekster, the Chicago-based co-chief investment officer of True Partner Advisor, which manages \$350 million in volatility strategies.

"For the first time people got scared about a political impact," said Mr. Hekster. "In the past, we've had a lot of political grandstanding. This year, it looks like it's going to be worse."



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INVESTING IN FUNDS & ETFS

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day, September 5, 2017 | R1

INSIDE

NEED TO KNOW

Your Robo Adviser Is More

Active Than You Think

Robo advisers aren't always passively mimicking the allocation of assets on the global market. And that can make a big difference.

R4

INVESTING FOR RETIREMENT

Ask Encore: Where to Get Social Security Answers

Readers write us to say that one of their biggest needs is for a simple, clear resource about options for benefits. Here is where to get it.

R5

SAVING FOR COLLEGE

What's the Best College-Savings Account?

This month's Q&A column homes in on whether a "529" account, a brokerage or savings account, or a UGMA is the best bet for financing college.

R7

PHILANTHROPY

After Hurricane Harvey, How to Detect Charity Scams

Crowdfunding is the latest way that some scam operators are trying to take advantage of well-meaning people after a disaster. Plus: Our guide to how charitable needs evolve over time after the initial rush.

R7

INITIAL PUBLIC OFFERINGS

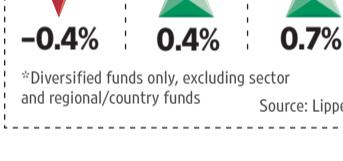
Index Funds Steer Clear Of the IPO Market

Only a limited number of index funds and ETFs have shown interest in new stock issues. But some experts think that might start to change.

R8

SCOREBOARD

August 2017 fund performance, total return by fund type. More on R2.



*Diversified funds only, excluding sector and regional/country funds

Source: Lipper

TIPS TO REMEMBER WHEN BUYING FOREIGN STOCKS

Non-U.S. stock funds are outperforming their American rivals, and it isn't too late to jump in. Here's how to do it right.

BY MICHAEL A. POLLICK

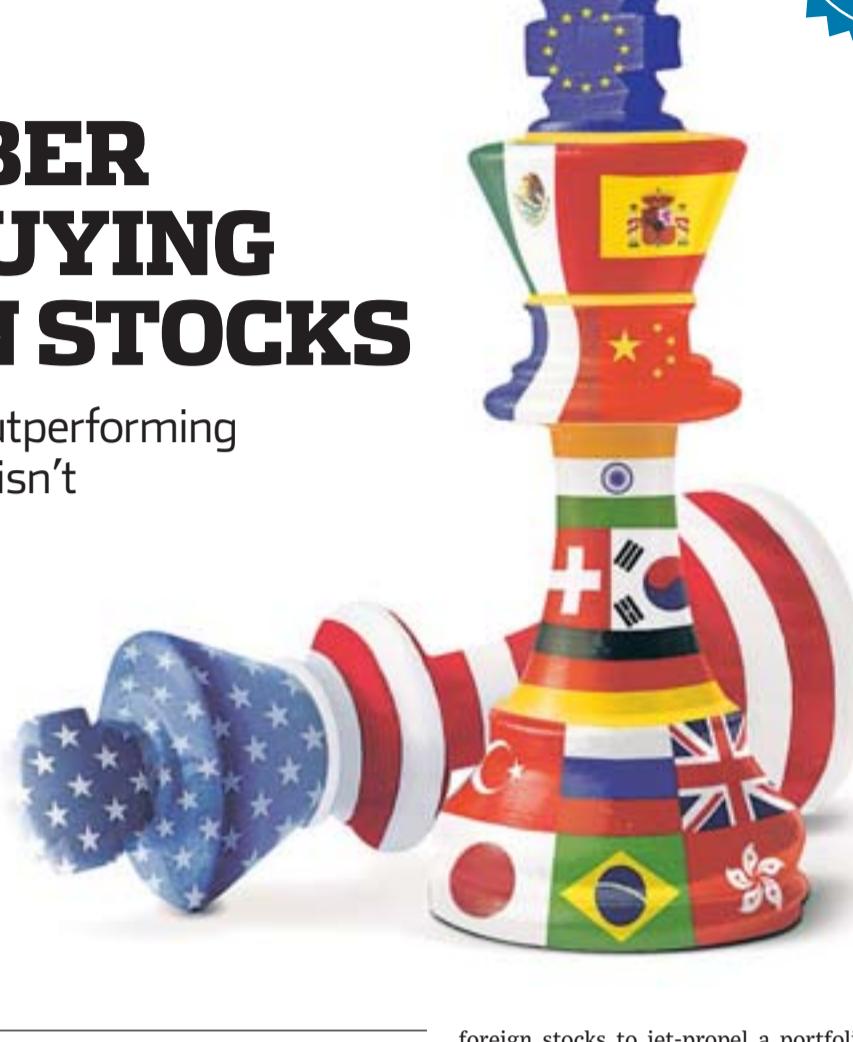
WITH HELP FROM a weaker dollar and a rebound in overseas economies, long-suffering investors in foreign stocks are finally seeing a payoff.

So far this year, mutual funds and exchange-traded funds that own European stocks are up more than 18%, compared with a gain of just 9.1% in the average diversified U.S.-stock fund. Emerging markets have surged even more, by around 26%. It is all a turnaround from years of disappointment for investors who heeded the standard advice to keep some money in foreign markets, including within their 401(k)s.

Is it too late to jump on that speeding foreign train? No, market professionals say. But those who are thinking about leaping aboard should be aware of the things people often get wrong when deploying money overseas.

Navigating foreign markets is considerably more challenging than owning a U.S.-focused portfolio, says Jason White, a foreign-equity specialist at mutual-fund manager **T. Rowe Price**. Think of it as playing "an away game," he says.

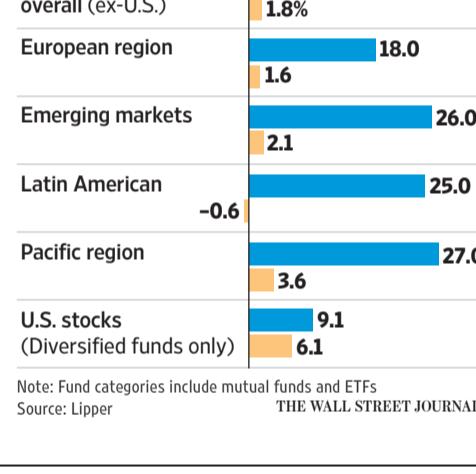
He and other professionals suggest starting simple, with a broadly diversified mutual fund or ETF, and not buying hot single-country funds. Be realistic about results—don't expect



LINDSAY HOLMES

Stock Tournament

International-stock funds are ahead in 2017, but the U.S. still dominates over the 10 years.



Note: Fund categories include mutual funds and ETFs

Source: Lipper

foreign stocks to jet-propel a portfolio. And avoid buying a fund hedged against currency moves; that can limit your returns and diversification.

Here are more tips from the experts about traveling abroad with a portfolio:

I. TAKE IT SLOW

While it is unlikely that European and emerging-markets stocks will continue to surge as strongly in the months just ahead, their outlook is as bright as it has been in a long while, says Kate Moore, chief equity strategist at money manager **BlackRock Inc.** Major global economies are growing in sync at a "good clip," Ms. Moore says. Although investors have flocked to Europe this year, inflows so far haven't nearly made up for the roughly \$100 billion that exited European stocks in 2016, she adds.

The upward move could last awhile; past bull markets in foreign stocks have run as long as seven or eight years, says Matthew Peter-

Please turn to the next page

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

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.

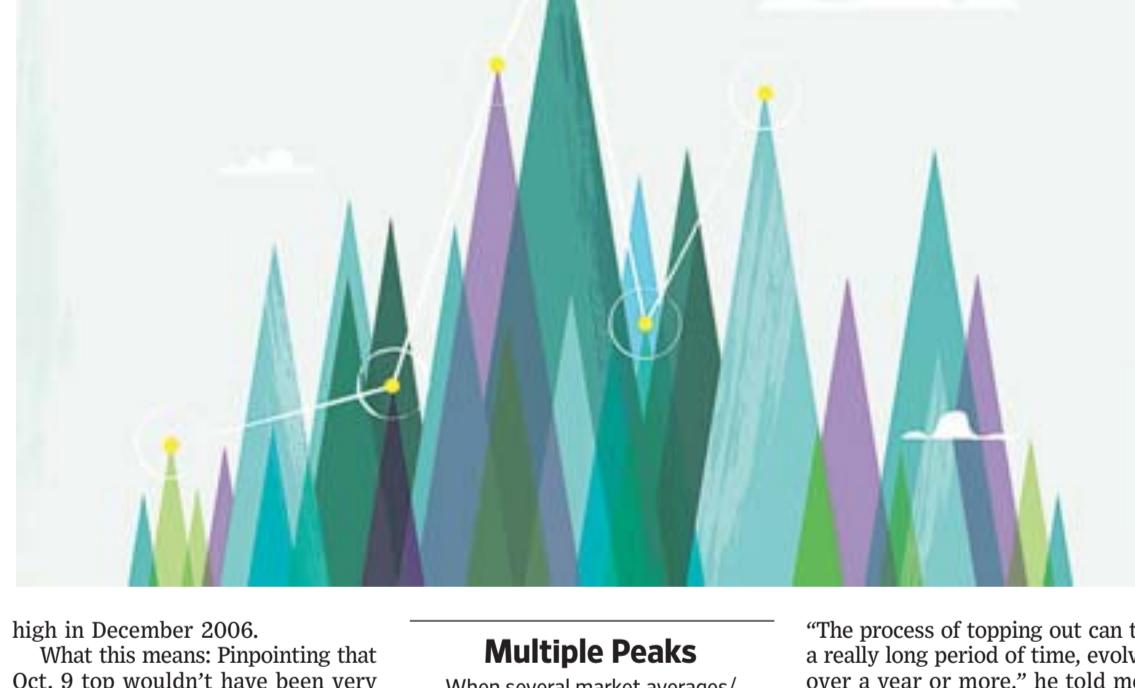
I say that not because it is difficult to predict when the stock market changes direction—though that is true, too. But there's an additional reason: Stock-market tops typically are a gradual rolling-over by the market rather than a sharp trend reversal. Some market averages will hit their peak months 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 their bear markets even longer before; the SPDR S&P Regional Banking ETF, for example, hit its bull-market



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

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: Hulbert Ratings.com

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"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.

By 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.

What's the good in calling an index's peak if your stocks start falling months before?

Mr. Hulbert is the founder of the Hulbert Financial Digest and a senior columnist for MarketWatch. He can be reached at reports@wsj.com.

JOURNAL REPORT | INVESTING IN FUNDS & ETFS

NEWS CHALLENGE: FUNDS AND INVESTING

Test Your Smarts on...Overseas Stocks

BY VICTOR REKLAITIS

A LOT OF STRATEGISTS have beaten the drum for non-U.S. stocks this year, and venturing overseas looks smart so far.

The broad **Vanguard Total International Stock** ETF (VXUS) was up about 18% in 2017 through August, comfortably ahead of the 10% gain scored by a comparable all-American play, **Vanguard Total Stock Market** ETF (VTI).

Many strategists have been recommending foreign equities largely because of their lower valuations. Even with this year's big gain, VXUS still might look more fetching to bargain hunters than VTI, as the international fund trades at 15 times forward-year earnings versus VTI's multiple of 20.

Regardless of whether your investments bleed red, white and blue or not, how much do you know about overseas stocks? Let's find out:

1 Which of these funds isn't one of this year's 10 biggest winners among foreign, single-country equity ETFs?

- A. VanEck Vectors Poland ETF
- B. KraneShares CSI China Internet ETF
- C. iShares MSCI Brazil Small-Cap ETF
- D. Global X MSCI Nigeria ETF

ANSWER: D. The Nigeria fund was up more than 25% in the first eight months of this year, but the top 10 ETFs gained more than 45%, according to research firm XTF.com's data on U.S.-listed, country-specific, non-leveraged funds.

2 True or false: Some 56% of global-fund managers say they are "overweight" eurozone stocks, meaning that they have tilted their portfolios toward them.

ANSWER: TRUE. That fact comes from Bank of America Merrill Lynch's August survey, and the bank says that percentage is above a long-term average.

3 True or false: Indexing pioneer Jack Bogle changed his tune this year after saying for decades that U.S. stocks and bonds are the best investments.



total Stock Market ETF.

- A. 12.1% and 11.5%
- B. 7.9% and 14.2%
- C. 6.1% and 8.2%
- D. None of the above

ANSWER: B. While the international ETF is topping the all-American fund this year, it is a different story over a longer time frame.

8 True or False: French stocks soared on April 22 after markets-friendly candidate Emmanuel Macron won the first round of that country's presidential election, but the CAC 40 benchmark now stands below its April 21 close.

ANSWER: TRUE. The French equity index remains up for the year, with a gain of more than 4% at the end of August, but it has given up ground as analysts highlight the new president's stumbles.

9 Which two FTSE 100 Index components are the U.K. gauge's best performers so far this year?

- A. Worldpay Group PLC and Antofagasta PLC
- B. International Consolidated Airlines Group SA and Unilever PLC
- C. London Stock Exchange Group PLC and Rolls-Royce Holdings PLC
- D. None of the above

ANSWER: A. Payments processor Worldpay soared after U.S. rival Vantiv Inc. announced plans to acquire it, while miner Antofagasta has climbed as metals prices rally.

10 True or false: Some 39% of global-fund managers say they're "overweight" emerging-markets stocks, meaning that they have tilted their portfolios toward them.

ANSWER: TRUE. Bank of America Merrill Lynch's August survey described that percentage as above a long-term average.

Mr. Reklaitis is a markets writer for MarketWatch in London. Email him at vrek@marketwatch.com.

France's Emmanuel Macron was smiling in April. So were investors. Did it last? Question No. 8.

ANSWER: FALSE. Vanguard founder Bogle continues to back staying stateside, saying the American economy is the world's most diversified and most likely to do well in the long run.

4 True or false: South Korea's main equity benchmark turned negative for the year as North Korea's saber-rattling intensified in recent weeks.

ANSWER: FALSE. The Kospi Composite Index has pared its year-to-date gain, but it still was up about 17% at the end of August.

5 Fill in the blank: While the Stoxx Europe 600 Index achieved an all-time closing high in 2015, the main equity benchmarks in Shanghai and Tokyo hit their records in ___ and ___, respectively.

- A. 2007 and 1989
- B. 2015 and 2013

- C. 2011 and 1999
- D. None of the above

ANSWER: A. The Shanghai Composite Index and Nikkei Stock Average both have been roughly cut in half since hitting those peaks.

6 Which fund isn't one of this year's 10 biggest losers among foreign, single-country equity ETFs?

- A. iShares MSCI Russia Capped ETF
- B. Global X MSCI Pakistan ETF
- C. iShares MSCI Mexico Capped ETF
- D. iShares MSCI Qatar Capped ETF

ANSWER: C. The Mexico fund rose nearly 30% through August.

7 Fill in the blank: The annualized five-year total return for the Vanguard Total International Stock ETF is ___ versus ___ for the comparable U.S.-only play, the Vanguard To-

Foreign Stocks Are Paying Off

Continued from the prior page

son, chief wealth strategist at the LPL Financial unit of **LPL Financial Holdings** Inc. "If you think we are at the beginning of a cycle where international is going to outperform U.S. markets, then we are very early in that cycle," he says.

But when adding foreign-stock mutual funds or ETFs, it is best to move gradually, professionals say. Global stocks may be overdue for a pullback. Using a dollar-cost-averaging approach—such as adding a little to positions every month—could reduce the risks of getting whipsawed by a reversal.

2. DECIDE ON A STRATEGIC ALLOCATION

Although non-U.S. stocks represent about half the market capitalization of global indexes, many U.S. investors have only modest foreign holdings, if any. Advisers generally suggest putting around a third of the equity portion of a portfolio into non-U.S. assets.

At Harris Financial Group, in Richmond, Va., managing director Jamie Cox is recommending a foreign allocation of two-thirds of the stocks an investor owns. "U.S. stocks aren't over-, over-overvalued, but you are getting to the point where expected returns on the earnings potential of companies are going to be hard to justify unless the economy really ramps up," he says.

Still, the foreign allocation should reflect an investor's willingness to cope with the added complexity, says T. Rowe Price's Mr. White. While U.S. stocks aren't less risky, "in the U.S., you are dealing with one currency and a single set of regulators, and you don't usually have time-zone or language issues." That is not the case in foreign equities, he notes.

3. STAY REAL ABOUT RESULTS

It might seem that adding a booming foreign fund now will supercharge a port-

folio's performance over the next year or so. But there is a risk that foreign markets could cool off, cautions Richard Webb, chief investment officer at Pittsburgh-based Marbury Wealth Management LLC. That might happen if investor expectations about foreign corporate earnings prove overly optimistic, he says.

But it is still worth adding foreign exposure now, particularly for people who don't have much, he adds. Despite the potential for greater volatility in foreign stocks, adding them to a portfolio of U.S. stocks can reduce a portfolio's overall volatility, Mr. Webb says.

European stocks are about 10% more volatile than the S&P 500, but the European market's different composition—including more cyclical industrial and mining stocks—can help offset gyrations in U.S. equities, says Eddie Perkin, chief equity investment officer at Eaton Vance Management, Boston.

4. KNOW THE NUANCES OF INDEXING

The advantages of index investing—mainly lower fees and a stronger likelihood of hitting benchmarks—are well known to U.S. investors. But picking the right foreign index fund or ETF requires other considerations as well.

Foreign ETFs—particularly those that focus on large-cap stocks—may not give investors as much exposure to domestic growth in European or emerging markets as they expect, says Todd Rosenbluth, director of ETF and mutual-fund research at data provider CFRA. Most are weighted by market cap, and their largest holdings could be multinationals such as **Nestlé** SA and **Samsung Electronics** Co., which get much of their revenue from the U.S.

For foreign ETFs that offer purer plays on overseas economies, consider one that owns midcap and small-cap stocks. One that CFRA recommends is **iShares MSCI EAFE Small-Cap** (SCZ), which holds more than 1,600 securities and charges

0.40% of assets in expenses. A similar ETF with lower expenses is **Vanguard FTSE All-World ex-US Small-Cap** ETF (VSS), which owns nearly 3,500 non-U.S. stocks and charges just 0.13%.

Many advisers prefer active managers for overseas exposure, believing that fund firms with "boots on the ground" abroad can turn up hidden growth opportunities.

But it is rare to see consistent, lasting outperformance by active funds, which also commonly charge expense ratios of more than 1% of assets annually, as much as 10 times the expense ratios of some ETFs.

5. DON'T PLAY THE CURRENCY GAME

When the dollar weakens—as it has this year—stocks denominated in other currencies can gain relative value. Some investors now may be thinking of buying protection against any rebound in the dollar that would erode gains. It is possible to do that through a fund or ETF that hedges away currency movements.

With a boost from the euro's gain so far this year against the dollar, U.S. investors with an unhedged holding of European stocks have a nearly 18% return, on paper. The same position, if hedged against currency movements, would be up only about 4%, says Mr. Perkin of Eaton Vance.

The dollar's drop followed a surge that had left the U.S. currency expensive by historic measures, says Paul Quinsee, global head of equities at J.P. Morgan Asset Management. While its recent move has corrected some of that, "our view broadly is that there is about an equal chance of strength or weakness [in the dollar], longer term, from here," Mr. Quinsee adds.

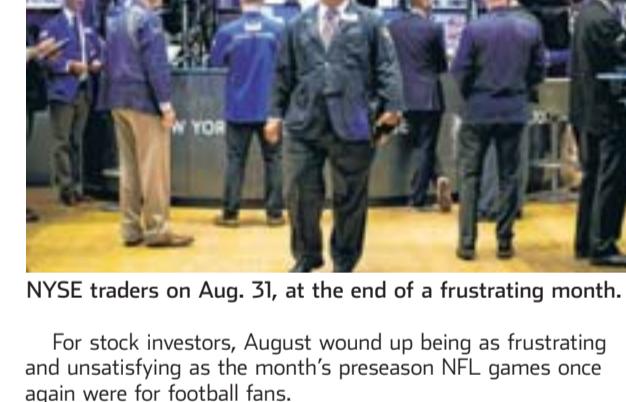
That might make any wager involving the dollar a gamble.

Mr. Pollock is a writer in Ridgewood, N.J. He can be reached at reports@wsj.com.

MONTHLY MONITOR | WILLIAM POWER



Bond Funds Beat Stock Portfolios In a Jittery Month



NYSE traders on Aug. 31, at the end of a frustrating month.

For stock investors, August wound up being as frustrating and unsatisfying as the month's preseason NFL games once again were for football fans.

Market averages ticked higher to their latest records during the month, but gains were muted by political tension, energy-sector declines stemming from Hurricane Harvey and the summer lull in trading. In the end, U.S.-stock funds fell slightly.

Instead, many investors turned to the safety of government bonds.

The average diversified U.S.-stock fund had a negative total return of 0.4% for August, trimming the year-to-date average gain to 9.1%, according to Thomson Reuters Lipper data on mutual funds and exchange-traded funds. That cleared the way for even more outperformance by international-stock funds, which continued their 2017 outperformance against their American counterparts—up 0.4% for the month and now showing a robust 19% total return for the year to date.

Bond-fund investors also had a month to crow, with a 0.7% gain for funds focused on intermediate-maturity, investment-grade debt (the most common type of fixed-income fund).

Demand for bonds often occurs in tandem with utility stocks, because of their sought-after dividends, and that was the case in August, too. Utility-focused funds shone relative to the overall stock market, adding 2.3%, to push their year-to-date gain to nearly 15%.

Mr. Power is a Wall Street Journal news editor in South Brunswick, N.J. Email him at william.power@wsj.com.



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◆ "Why You May Want to Leave a 401(k) With a Former Employer," by George Papadopoulos, a fee-only wealth manager in Novi, Mich.

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Sectors are defined by the Global Industry Classification Standard (GICS).

¹Source for A.I. Revenue Forecast: IDC

²Source: McKinsey Global Institute, "Artificial Intelligence: The Next Digital Frontier"

³Expense ratio data as of 8/22/2017. Based on a comparison of total expense ratios for U.S. technology sector-level ETFs with similar holdings and investment objectives, within the universe of 46 U.S. ETFs in the Morningstar technology category.

⁴FTEC expense ratio, .084%. Expense ratio is the total annual fund operating expense ratio from the fund's most recent prospectus.

Because of their narrow focus, sector investments tend to be more volatile than investments that diversify across many sectors and companies.

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JOURNAL REPORT | INVESTING IN FUNDS & ETFS

NEED TO KNOW

Your Robo Adviser Is More Active Than You Think

You don't always get the same portfolio, though it might look it, from different robo advisers

BY JOHN COUMARIANOS

ROBO ADVISERS aren't as mindless or interchangeable as their name makes them sound.

The idea behind these vehicles is to save investors money through simplicity and automation. Robo advisers put together portfolios of inexpensive index funds, and then keep the allocations steady via computer programs or algorithms. The implicit understanding is that a human over-

ferent from each other.

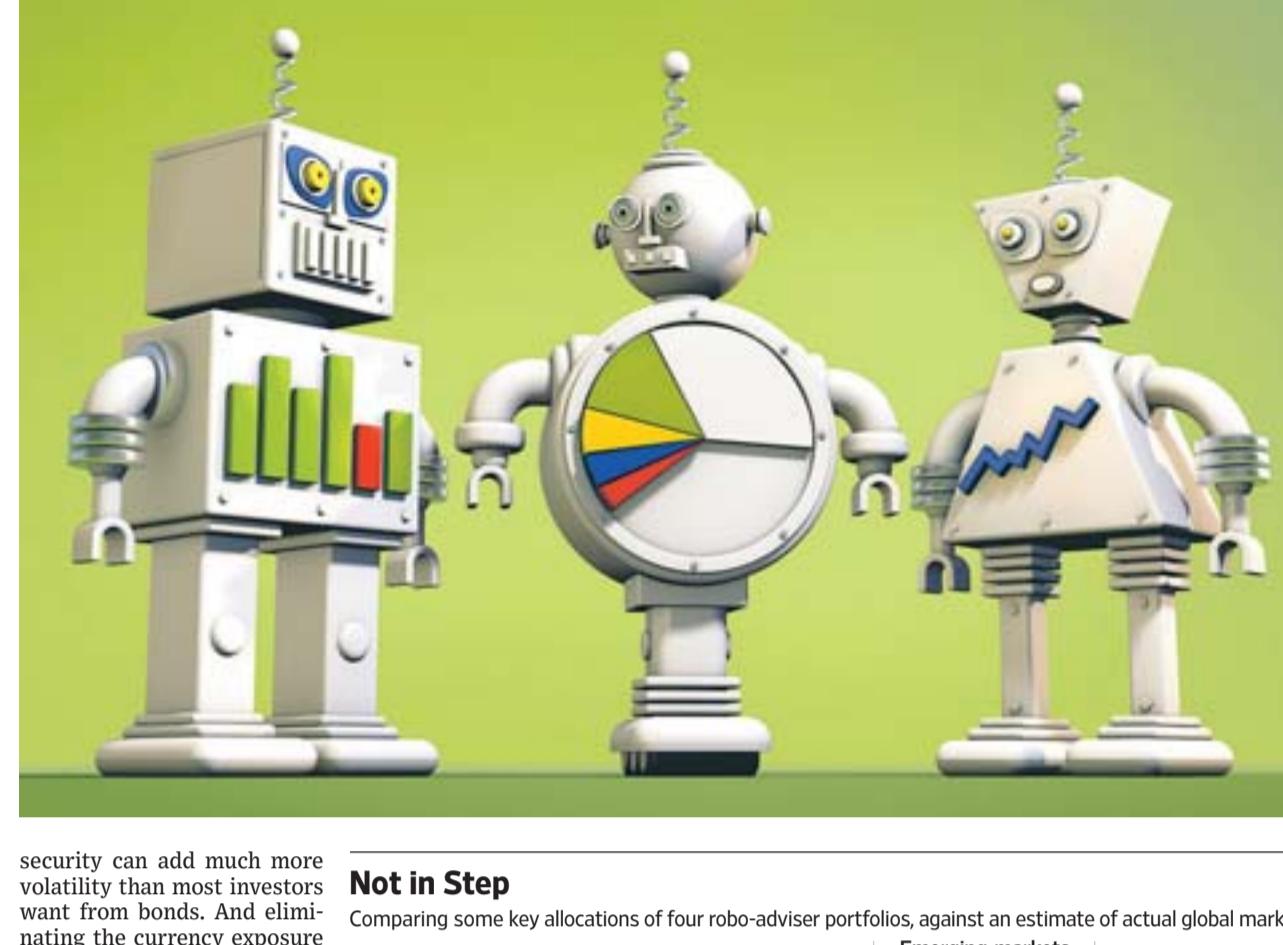
Investors should be aware of the choices that their robo adviser is making, and understand what those choices might mean for their portfolio's performance. With that in mind, we compared the offerings from four of the larger robo advisers, which have 60% to 80% stock exposure, to see how their choices varied from the composition of the global markets.

How they compare

Vanguard Group's Vanguard Personal Advisor Services (PAS) is as simple as it gets. It consists of a mixture of four underlying index funds tracking U.S. stocks, foreign stocks, U.S. bonds and foreign bonds. However, the allocations don't precisely match the makeup of the global market.

Around 40% of the Vanguard stock allocation is in international stocks, while they make up roughly half of the \$60 trillion global market. The foreign-bond exposure also falls short of the global asset portfolio. Foreign bonds make up 60% of the \$80 trillion world-wide market, but only around 30% of the Vanguard debt allocation.

Of course, there are good reasons to avoid foreign bonds. For example, the foreign-currency exposure gained from investing in any foreign



RICHARD BORGE

We compare the offerings from four of the larger robo advisers.

seer won't be making choices about how the funds are managed.

But there's a crucial step here that isn't always obvious. Algorithms manage the portfolios, but they don't choose what goes into the portfolios in the first place. People do. That means the robo advisers aren't always passively mimicking the allocation of assets on the global market; human managers are often making active bets on certain sectors, and those bets can make products from different advisers sharply dif-

ferent from each other. Investors should be aware of the choices that their robo adviser is making, and understand what those choices might mean for their portfolio's performance. With that in mind, we compared the offerings from four of the larger robo advisers, which have 60% to 80% stock exposure, to see how their choices varied from the composition of the global markets.

So, mimicking the global bond market with a more purely passive portfolio is fraught with difficulties. But avoiding those difficulties or neutralizing them involves an

security can add much more volatility than most investors want from bonds. And eliminating the currency exposure with forward currency contracts, as the Vanguard foreign-bond fund used in the portfolio does, can get expensive when foreign bonds yield more than domestic bonds.

Comparing some key allocations of four robo-adviser portfolios, against an estimate of actual global markets

Not in Step

Comparing some key allocations of four robo-adviser portfolios, against an estimate of actual global markets

	International stock*	Emerging-markets stocks*	International bonds†
Vanguard Personal (PAS)	40.0%	8.0%	30.0%
Betterment	50.0	8.2	45.0
Wealthfront	39.0	17.7	38.0
Schwab Intelligent Portfolios	44.0	9.3	27.6
Actual global markets (est.)	47.0	13.0	62.0

Note: Stock calculations count REITs as stocks. *Percentage of stock allocation †Percentage of bond allocation

Sources: Vanguard, Betterment, Wealthfront, Charles Schwab and Morningstar

THE WALL STREET JOURNAL.

active bet or a deviation from the constitution of global asset markets.

A Vanguard spokesperson says that the company adds international exposure for diversification but stops when adding more doesn't bring any benefits.

Among the robo advisers, **Betterment** has the international-stock exposure that most closely matches the global market, 50% of its equity allocation. Betterment also puts 8.2% of its equity allocation into emerging markets, close to the emerging-markets share of the MSCI All Country World Index. On the bond side, Betterment had 45% of its allocation in international bonds—the highest of all the portfolios we examined.

Betterment says that it does offer more international exposure than the average do-it-yourself investor. It also encourages active bets in small-cap stocks and so-called value stocks that trade with lower price/earnings and price/book ratios. With regard to bonds, the firm has less international exposure than the global market would dictate because of the currency risk.

Wealthfront has the second-highest foreign-bond exposure, 38% of its debt allocation. It's also noteworthy that all of Wealthfront's allocation to foreign bonds is in emerging-markets bonds via the J.P. Morgan USD EM Bond ETF, which owns bonds denominated in U.S. dollars and doesn't impose currency risk on its shareholders. That's clearly an active bet on emerging-markets debt.

Typically, only investors with a value bent, who suspect both stocks and bonds are overpriced, are holding cash.

If the markets continue to rally, the Schwab portfolios could lag behind. Of course, if markets decline, Schwab's offerings could outperform their competitors.

Charles Schwab's Schwab Intelligent Portfolios.

SPOTLIGHT | ISHARES CORE MSCI EAFE

GOOD TIMING FOR A CHEAPER OVERSEAS ETF



Fed, which should result in a better backdrop for EAFE equities relative to U.S. equities," says Komson Silapachai, vice president of research and portfolio strategies at Sage Advisory Services in Austin, Texas. "And corporate earnings have recovered, especially in Europe and Japan."

That small-cap exposure has lifted IEFA to an 18.7% gain in 2017, compared with 17.8% for EFA, according to Morningstar. Other funds investing in non-U.S. developed markets include the \$60 billion **Vanguard FTSE Developed Markets** ETF (VFA) at 0.08% and the \$10.9 billion **Schwab International Equity** ETF (SCHF) at 0.06%, while iShares might be looking to compete with itself even further, launching **iShares Core MSCI Developed Markets** ETF (IDEV), including Canada, for 0.07% in March.

Currency-hedged versions of developed-market equity ETFs are also available, as well as an EAFE ETF from SSGA that limits holdings of companies with fossil-fuel reserves.

—Ari I. Weinberg

Europe on sale! The Far East for less!

A deal down under!

Get more for less was the message when BlackRock cut expense ratios on many of its iShares Core exchange-traded funds nearly a year ago. The marketing worked, and investors responded by sending nearly \$17.9 billion into an ETF for non-U.S. stocks, **iShares Core MSCI EAFE** ETF (IEFA)—ranking it third in net new assets since. Going head-to-head with similar developed-market equity ETFs from Vanguard and Schwab, the \$33 billion fund benefited from European economic tailwinds and exposure to 2,500 international stocks, including small-caps, as well as its 0.08% annual expense ratio.

The iShares fund is the lower-cost version of the \$78 billion **iShares MSCI EAFE** ETF (EFA), which by comparison holds only large-cap and midcap stocks, and costs 0.33%. (EFA stands for Europe, Australasia and Far East; neither fund holds U.S. or Canadian stocks.)

"International central banks continue to pursue more accommodative policy relative to the

market," says Komson Silapachai, vice president of research and portfolio strategies at Sage Advisory Services in Austin, Texas.

IEFA's 18.7% gain in 2017 is the best among the three major developed-market equity ETFs.

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JOURNAL REPORT | INVESTING IN FUNDS & ETFS

ASK ENCORE | GLENN RUFFENACH

Where to Get Clear Answers About Social Security

Also: responses to questions on Medicare and how to allocate investment portfolios



Please recommend a resource that clearly and plainly explains the various options for Social Security benefits. I turned 62 in October 2016.

We receive more questions about Social Security than almost any other topic. And that's strangely reassuring. It makes me think that people, first, are taking the time to make sense of an all-too-complicated program, and second, are recognizing how large a part these benefits will play in their lives.

Consider: Almost half (48%) of married couples age 65 and older receive 50% or more of their income from Social Security. Even for workers in the top 20% of lifetime earners, Social Security benefits for individuals born in the 1950s and 1960s are projected to replace fully one-third of earnings, according to the Congressional Budget Office and the Investment Company Institute.

If you are entering the Social Security maze, I first would turn to "Social Security Made Simple" by Mike Piper. This relatively short book (109 pages) is the best plain-English guide on the market. Mr. Piper, a certified public accountant who also writes the Oblivious Investor blog (obliviousinvestor.com), does a great job of walking readers through the mechanics of the program and explaining how various claiming options work. (Note: The Oblivious blog features several excerpts from the book.)

If you want to cover all the bases, I would combine Mr. Piper's book with either of the following two books: "Get What's Yours: The Revised Secrets to Maxing Out Your Social Security," by Laurence J. Kotlikoff, Philip Moeller and Paul Solman; and "Social Security: The Inside Story," by Andy Landis. Make sure you get the latest editions of each, which include the big changes in Social Security rules in 2015-2016.

Where Mr. Piper's book is brief and to the point, the Kotlikoff and Landis books (each more than 300 pages) dive into, and actually make sense of, the maddening minutiae of Social Security. Again, if you pair the Piper book with either of these, you can't miss.

* * *

I am 45 years old, self-employed and in good health. Here's my asset allocation (all tax-deferred): 40% in domestic stocks and 30% in international stocks (all through exchange-traded funds); 20% in U.S. bonds; and 10% in cash. My question: Is that allocation too simple?



SONIA PULIDO

Not at all. But please keep in mind that this question should take a back seat to others.

Simplicity is certainly a virtue when it comes to investing. Your nest egg has four pieces; many people do nicely with just one, a target-date fund. These products, which typically consist of several underlying mutual funds, are designed for people planning to retire at, or near, a specific point in time. Such funds gradually adjust their asset allocation (fewer stocks, more bonds) as the date approaches.

For instance, individuals planning to retire in about 20 years reasonably could invest all their dollars in the **Vanguard Target Retirement 2035** fund (VTTHX). This single product consists of four underlying funds: a total U.S. stock-market index fund (currently about 47% of holdings); a total international-stock index fund (32%); a total U.S. bond-market index fund (15%); and a total international-bond index fund (6%).

Simplicity, though, misses the point. It doesn't matter a great deal if you're invested in one fund or a dozen. What matters are diversification, risk, fees and constancy.

In other words, are your dollars invested across a range of assets? Are you comfortable with the amount of risk in your portfolio? (Put another way, could you stomach, with your particular asset allocation, a 50% drop in the S&P 500?) Are you keeping investment fees and taxes (when the time comes) as low as

possible? And are you sticking with a thought-out plan—or are you forever tweaking your investments and second-guessing yourself?

Again, your portfolio, simplicity-wise, is fine. Although we could debate some of the particulars. For instance, at age 45, you might not need 10% of your holdings in cash. But keep these other issues—asset mix, risk, fees and a stay-the-course attitude—top of mind.

* * *

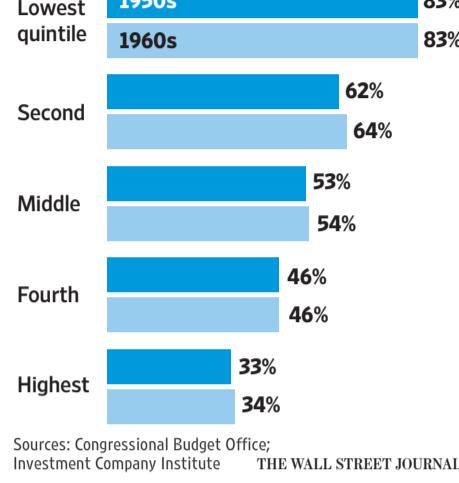
I'm approaching age 65, and I'm confused about when I can sign up for Medicare and when coverage takes effect. Can you explain the rules?

Medicare, for better or worse, has several different enrollment periods. The one tied to a person's 65th birthday is known as the "initial enrollment period." At first glance, this particular window gives you lots of time to sign up for benefits. But the date you need to keep in mind is when your coverage actually begins.

In all, the initial enrollment period gives you seven months to join Medicare without penalty: the three months before your birthday month, your birthday month, and the three months after your birthday month. So, let's say you turn 65 in February 2018. That means you could sign up for Medicare without penalty as early as Nov. 1, 2017, and as late as May 31, 2018. If you miss enrolling during this window, you

Income in Retirement

For workers born in the 1950s and 1960s who claim benefits at age 65, Social Security payouts are projected to replace the following percentages of earnings for these income groups:



Sources: Congressional Budget Office; Investment Company Institute THE WALL STREET JOURNAL.

could face higher premiums—for life—for Medicare Parts B and D.

Again, the key is when coverage actually begins. If you enroll during the three months before your birthday month, your coverage will begin on the first day of your birthday month. In our example, a person with a birthday in February will see coverage begin on Feb. 1 if she or he signs up for Medicare in November, December or January. But if you enroll during your birthday month or later, your coverage could be delayed by as much as three months. (Go to medicare.gov and search for: when will my coverage start.)

The risk is that you end up with a gap in protection. For instance, if your medical benefits at work end when you hit 65—and if you delay signing up for Medicare until late in your initial seven-month window—you could easily find yourself without health insurance for two or three months.

The lesson is clear, says the aforementioned Mr. Moeller, author of "Get What's Yours for Medicare": "Make sure your current health coverage doesn't end before your Medicare coverage begins."

Mr. Ruffenach is a former reporter and editor for The Wall Street Journal. His column examines financial issues for those thinking about, planning and living their retirement. Send questions and comments to askencore@wsj.com.

SPOTLIGHT | VOLATILITY FUNDS

HOW SOME VIX-RELATED FUNDS COULD GO 'POOF'

Some exchange-traded funds related to the CBOE Volatility Index, or VIX, could vanish just when traders might want them most.

The VIX, also known as the fear gauge, measures the cost of buying insurance against a drop in the broad market. At issue are funds that seek to profit when short-term VIX futures contracts fall in value. The VIX itself isn't an investible product and the VIX futures don't exactly track the VIX, but they are strongly correlated.

The prospectus for the first fund, **VelocityShares Daily Inverse VIX Short-Term ETN** (XIV), states that the exchange-traded note could be liquidated "if the intraday indicative value is equal to or less than 20% of the prior day's closing indicative value."

Put another way, if the note's value declines 80% in a single day, "the fund goes 'poof,'" Peter Tchir, managing director of global macro at New York-based Brean Capital, wrote in a recent report. "Although the VIX going from 8 to 14.4 doesn't seem that insane, it would be an 80% move in the index," he writes. (There would need to be an 80% move in short-term VIX futures, too, for the fund to go bust.)

The other fund is **ProShares Short VIX Short-Term Futures** (SVXY), and it essentially has a similar story.

"[A] single-day or intraday increase in the level of the fund's benchmark approaching 100% could result in the total loss or almost total loss," states the prospectus.

Tracking Exchange-Traded Portfolios

Performance figures are total returns for periods ended Aug. 31; for largest exchange-traded funds and other portfolios, ranked by asset size.

Fund	Symbol	Assets (\$billions)	Volume (000s)	Expense ratio	Launch date	August	YTD	1-year
SPDR S&P 500 ETF	SPY	245.64	98,324.8	0.09	01/22/93	0.3	11.9	16.1
iShares Core S&P 500 ETF	IVV	124.39	4,844.0	0.05	05/15/00	0.3	11.9	16.2
Vanguard Total Stock Market Index Fund	VTI	81.98	3,384.4	0.04	05/24/01	0.2	11.2	16.0
iShares MSCI EAFE ETF	EFA	78.65	20,118.9	0.33	08/14/01	-0.1	17.1	17.6
Vanguard 500 Index ETF	VOO	71.77	546.1	0.04	09/07/10	0.3	11.9	16.2
Vanguard FTSE Emerging Markets ETF	VWO	62.02	20,190.8	0.14	03/04/05	3.1	24.6	21.4
Vanguard FTSE Developed Markets ETF	VEA	60.65	8,558.4	0.07	07/20/07	0.1	18.2	18.1
PowerShares QQQ Nasdaq 100	QQQ	53.22	37,467.5	0.20	03/10/99	2.0	23.9	26.7
iShares Core S&P Aggregate Bond ETF	AGG	50.18	5,308.4	0.06	09/22/03	0.9	3.7	0.5
iShares Core S&P Mid-Cap ETF	IJH	39.06	695.0	0.09	05/22/00	-1.5	5.2	12.3
iShares iBoxx \$ Inv Grade Corp Bond ETF	LQD	38.63	4,549.4	0.15	07/22/02	0.7	5.8	1.5
iShares Core MSCI Emerging Markets	IEMG	36.78	10,986.0	0.17	10/18/12	2.2	27.5	23.5
iShares Russell 1000 Growth ETF	IVWF	36.60	1,362.9	0.20	05/22/00	1.8	19.0	20.6
iShares Russell 2000 ETF	IWM	36.56	27,296.4	0.20	05/22/00	-1.3	4.4	15.0
iShares MSCI Emerging Markets Index Fund	EEM	35.89	61,327.7	0.72	04/07/03	2.2	27.8	23.8
iShares Russell 1000 Value ETF	IWV	35.68	1,460.6	0.20	05/22/00	-1.2	4.7	11.4
Vanguard Total Bond Market ETF	BND	35.61	1,696.7	0.05	04/03/07	0.9	3.8	0.4
Vanguard REIT ETF	VNQ	34.61	3,212.7	0.12	09/23/04	-0.3	3.6	-1.3
SPDR Gold Shares	GLD	34.42	11,768.8	0.40	11/18/04	3.5	12.9	-0.2
iShares Core MSCI EAFE	IEFA	33.64	3,752.0	0.12	10/18/12	0.1	17.9	18.5

†Expense charge is a maximum of 8 cents a share. ‡Assets are estimated. N/A.= Not applicable. Fund is too new.

Note: Total returns are based on the change in the net asset values, not changes in market prices. Net asset values can vary from market prices, which therefore can reflect a premium or discount to the net asset values.

Source: Thomson Reuters



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JOURNAL REPORT | INVESTING IN FUNDS & ETFS

Category Kings in 16 Realms

Top-performing funds in each category, ranked by year-to-date total returns (changes in net asset values with reinvested distributions) as of Aug. 31; assets are as of July 31. All data are preliminary.

Large-Cap Core

	Assets (\$ millions)	Total return (%)				
		Aug	YTD	1-yr	5-yr*	
Amer Cent:Foc DG;Inv	21.6	2.3	24.9	21.3	14.1	
GMO:Quality;VI	8,433.1	1.5	22.5	21.6	14.2	
Direxion:Billionaire Id	13.6	0.9	21.5	21.4	N.A.	
BlackRock:LC Foc Gr;A	1,213.4	0.7	20.3	24.7	15.0	
BNY Mellon:Foc Eq Op;M	490.8	-0.1	20.1	27.0	15.5	
Goldman:Hdg Indus VIP	35.0	1.0	19.5	N.A.	N.A.	
Pear Tree:Quality;Ord	124.5	1.4	18.8	17.3	12.5	
iPath ETN LgEx S&P	2.1	0.3	17.2	23.6	24.9	
American Tr Allegiance	24.6	2.5	16.7	19.1	9.8	
Natixis:US Eq Opp;A	916.9	0.5	16.7	19.7	17.2	
Category Average:	924.0	0.2	11.1	15.1	13.0	
Fund Count	725	894	839	815	663	

Large-Cap Value

	Assets (\$ millions)	Total return (%)				
		Aug	YTD	1-yr	5-yr*	
DoubleLine:Sh En CAPE;I	4,282.8	0.8	15.1	21.0	N.A.	
Natixis:VN Select;Y	143.4	1.1	14.8	16.3	15.4	
Barclays ETN+ShillerCAPE	77.2	0.6	14.0	20.4	N.A.	
MassMutual Sel:Fc Vt;I	716.1	-0.3	11.4	21.7	14.8	
Pioneer Disc Val;A	582.7	-0.4	11.2	19.9	11.5	
Deutsche CROCI EqDv;A	1,082.5	1.1	10.6	13.9	11.1	
Oakmark Fund;Inv	18,290.2	-0.6	10.4	21.2	15.1	
T Rowe Price Value	24,804.6	-0.4	9.8	14.9	14.6	
Amer Cent:Inc&Gro;Inv	2,093.7	0.5	9.5	12.7	12.7	
Frost Value Eqty;Inst	119.4	-1.2	9.4	12.3	12.4	
Category Average:	464.6	-0.9	6.0	13.2	12.2	
Fund Count	418	486	460	449	351	

Large-Cap Growth

	Assets (\$ millions)	Total return (%)				
		Aug	YTD	1-yr	5-yr*	
Transam:Cap Growth;I	790.6	2.7	36.0	28.8	19.7	
Morg Stan l:Growth;A	3,901.6	2.8	35.3	28.2	19.6	
Baron Fifth Ave Gro;Inst	180.8	1.7	32.3	27.4	16.3	
Value Line Lg Co Fc;Inv	267.7	3.0	31.8	25.7	17.0	
Touchstone:LC Gro;Inst	210.8	2.5	31.8	28.9	16.2	
Touchstone Inst:Snd Gr	2,317.3	2.2	30.8	23.3	13.3	
Touchstone Sel Gro;Y	2,482.0	2.2	30.6	23.0	13.1	
Columbia:Select LCG;Z	4,332.2	1.3	30.4	20.0	15.9	
Edgewood Growth;Inst	10,261.4	0.8	29.3	29.2	19.3	
Marsico Inv Fd:Focus	553.6	1.6	28.0	22.0	13.4	
Category Average:	908.1	1.5	20.7	20.0	14.3	
Fund Count	605	714	678	654	531	

Midcap Core

	Assets (\$ millions)	Total return (%)				
		Aug	YTD	1-yr	5-yr*	
CB Select;IS	27.7	1.2	25.1	24.2	N.A.	
Tarkio	83.7	-0.3	19.5	33.8	18.0	
Guggenheim Insider Snt ETF	71.5	0.8	17.5	16.8	12.7	
Guggenheim S&P Spin-Off ETF	197.6	0.2	13.9	18.4	14.6	
Guggenheim MC Core ETF	196.1	0.5	13.2	18.4	14.9	
JPMorgan:McEq;R6	2,853.5	-0.1	12.9	14.8	N.A.	
Fidelity Adv SS MC;I	2,428.6	0.5	11.6	16.5	12.5	
Aberdeen:US MdCp Eq;Inst	1.6	-0.1	11.5	13.1	N.A.	
Govt Street MdCp	47.7	-0.2	11.2	16.1	13.4	
Sterling:SpM Dmd Opps;I	9.6	-0.4	11.1	N.A.	N.A.	
Category Average:	1,023.0	-1.0	6.2	11.7	12.5	
Fund Count	430	431	415	398	268	

Midcap Value

	Assets (\$ millions)	Total return (%)				
		Aug	YTD	1-yr	5-yr*	
Fidelity Low-Prcd Stk	38,220.6	0.2	10.1	15.0	12.6	
Neuberger MC Int V;Inv	95.1	-0.9	9.9	17.2	14.2	
Nuveen Mid Cpt Value;I	108.6	-0.3	8.4	13.7	14.0	
Principal:MCV II;R-6	1,371.2	-0.7	8.1	15.2	N.A.	
Ancora Special Optpy;I	16.9	-2.4	7.6	11.4	14.7	
Vanguard MC Val Idx;ETF	15,427.0	-1.2	7.4	12.6	15.0	
Hennessy:Cnrt MdCp;Inst	991.5	-0.5	6.8	10.9	12.0	
GW:GS MidCap Val;Inst	597.5	-0.7	6.6	15.9	N.A.	
Nuance Mid Cap Val;Inst	359.1	-0.2	6.5	16.8	N.A.	
Am Beacon:MC Val;Inv	645.9	-1.4	6.5	16.6	13.8	
Category Average:	329.9	-1.8	3.7	11.6	12.6	
Fund Count	168	198	187	181	137	

Midcap Growth

	Assets (\$ millions)	Total return (%)				
		Aug	YTD	1-yr	5-yr*	
Baron Partners Fund;Rtl	2,061.7	0.7	28.3	25.2	17.7	
Tocqueville:Opportunity	76.8	3.5	27.6	24.3	13.6	
Renaissance IPO ETF	14.2	1.4	26.8	25.5	N.A.	
BlackRock:MC Gro;A	794.6	1.1	24.8	22.6	16.8	
Harbor:Mid Cap Gro;Inst	388.2	1.0	23.3	20.1	13.5	
Virtus:KAR Mid-Cap Gr;A	91.0	1.7	22.7	18.3	11.2	
PowerShares DWA NASDAQ	37.5	2.0	22.5	25.1	14.2	
Baron Focused Gro;Inst	185.5	2.6	22.1	17.8	11.0	
PowerShares Russ MdCp PG	79.9	1.8	21.8	19.8	12.4	
J Hancock II:MC Stk;NAV	1,621.7	0.6	20.9	18.0	13.8	
Category Average:	347.9	0.4	14.8	15.7	12.7	
Fund Count	339	407	395	387	318	

Science and Technology

	Assets (\$ millions)	Total return (%)				

JOURNAL REPORT | INVESTING IN FUNDS & ETFs

SAVING FOR COLLEGE | CHANA R. SCHOENBERGER

What's the Best College-Savings Account Choice?

A '529' account, saving in a brokerage or savings account, or a UGMA? Experts weigh in.

We again answer readers' latest questions on saving and paying for college, with the help of experts.

* * *

What's the best type of account to use when saving for college—a "529," a brokerage or savings account, or a UGMA?

"If saving for college is the goal, then a 529 plan will usually be the best option for four key reasons," says Kyle Ryan, a certified financial planner who is head of advisory services at Personal Capital, a digital wealth manager based in San Carlos, Calif.

These state-sponsored accounts, which invest in mutual funds, offer tax-free growth and withdrawals when used for qualified higher-education expenses, Mr. Ryan says. Each state has a plan, and many also offer state-tax benefits to residents who open a local account.

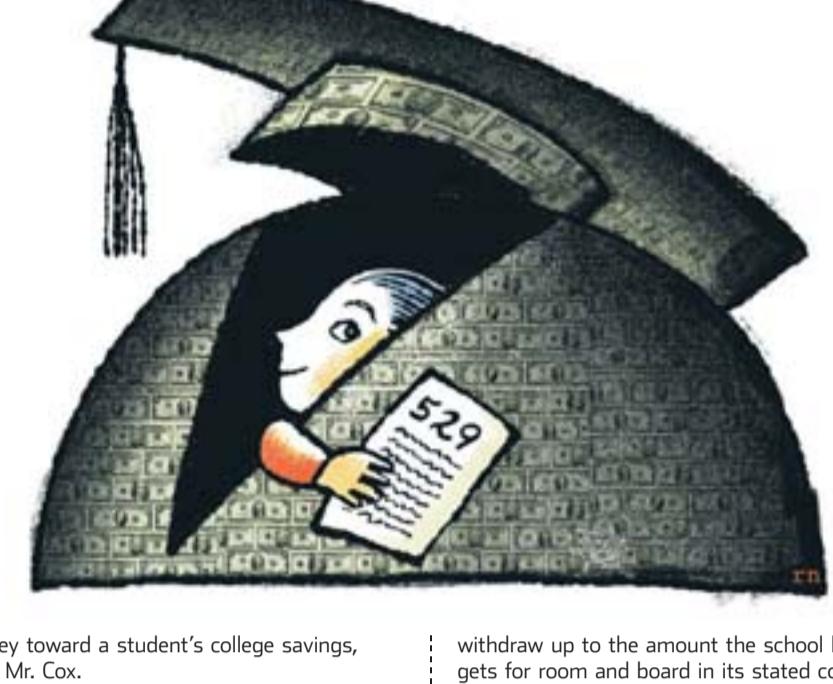
The accounts are controlled by the designated owner and, when owned by a parent, are considered parental assets when calculating financial-aid eligibility, Mr. Ryan says. Fees are typically low, which matters especially over a long period, such as the decades it takes to save for college.

Brokerage accounts offer more investment choices than most 529s. Parent-owned brokerage accounts don't grow tax-free, however.

As for UGMA (Uniform Gifts to Minors Act) or UTMA (Uniform Trusts for Minors Act) accounts, not only are they taxable, but also they're considered assets of the student for financial-aid purposes, which means the student could receive a lower amount of aid, says Kevin Cox, chief operating officer at Ascensus College Savings, based in Newton, Mass. And unlike 529s, which always are controlled by the owner, UGMA and UTMA accounts become the student's property when he or she reaches age 18—which means those funds can be used for whatever the student chooses, even if it isn't college, he says.

The other good thing about 529s is they have "flexibility of investment choices that usually suit both the sophisticated investor and the novice," and some plans make it easy for family members and friends to contribute

HAVE A COLLEGE-FINANCE QUESTION IN GENERAL? We'll be answering them in future Investing in Funds & ETFs reports. Write to reports@wsj.com.



money toward a student's college savings, says Mr. Cox.

A 529 can be passed around among family members, since you're allowed to change the beneficiary to nearly any relative of the original beneficiary. And while the amount you can contribute is capped, the maximum amount allowed in the account ranges from \$235,000 to \$500,000, Mr. Cox says.

That may be enough to pay for school and potentially leave some money in the account for a younger sibling or cousin.

* * *

Is there a certain age by which you have to distribute funds from a child's 529 account if you don't change the beneficiary?

No. There are no beneficiary age restrictions, Mr. Cox says, "so you do not need to distribute the funds at any certain age."

* * *

What is the qualified room-and-board allowance for a graduate student?

Each school publishes its cost of attendance including room and board; this is the maximum you can withdraw from a 529 as a qualified expense. "You'll have flexibility on where you can live, but you'll only be able to

withdraw up to the amount the school budgets for room and board in its stated costs," Mr. Ryan says.

* * *

Is there any way to set up tax-advantaged college savings plans for unborn children, such as our future great-grandchildren?

Not directly. An account needs the Social Security number of a living beneficiary to be set up. But you can set up an account for another relative, including yourself, and change the beneficiary to a new great-grandchild after the child is born, Mr. Cox says.

* * *

I am an American citizen and have grandchildren who are Canadian citizens and live in Canada. Can I participate in the 529 plan for each Canadian child while I live in the U.S. and file a U.S. tax return?

If each grandchild has a U.S. Social Security number or tax ID, then yes, you can set up a 529 account for them even if they don't live in the U.S., Mr. Ryan says. If not, you won't be able to do so.

* * *

Can I have my parents gift \$140,000 to me

(representing five years of gifts from two people, for tax purposes) and let it grow tax-free indefinitely with the intention of using it myself to take self-enrichment classes when I retire? If so, is there any restriction on me becoming the owner (and remaining the beneficiary) if they die before I use it?

Yes, you can do this. But note that "it is unlikely that self-enrichment classes would end up costing anywhere near this amount," Mr. Ryan says. Any money you don't use for education and later withdraw will be subject to both ordinary income tax and a 10% penalty, but only on the portion of the withdrawal that represents gains.

* * *

Can 529 funds be applied to student-loan payments?

It is a frequently asked question, and the answer usually is no. "Student-loan payments are not qualified higher-education expenses," says Mr. Cox.

There is, however, one exception. According to Mr. Ryan: "The only exception is if the college expense was incurred this year, this same college expense was paid with a loan this year and then a withdrawal was taken from the 529 to pay the loan this year." It is an uncommon situation, he points out, because a family wouldn't be likely to take out a loan if 529 funds were available for the student to use.

* * *

If a grandparent opens a 529 in his or her name and later enters a nursing home, can Medicaid take that money for the senior's care?

This will depend on the state in which you live, Mr. Ryan says. Because the owner of the account—the grandparent—still has access to that money, "some states still consider 529 assets as countable when testing for Medicaid eligibility," he says.

You can avoid this problem by setting up an account for a grandchild with someone else as the owner (perhaps the child's parent, which is the most efficient way to set it up for financial-aid eligibility purposes).

You could also change the ownership of a 529 account you've already established for a grandchild, but "there could be Medicaid qualifications issues based on the 'look-back' rules in Medicaid which can go back up to five-plus years," Mr. Ryan says.

PHILANTHROPY



IN TRANSLATION

GARP

In a recent report—"The Death of Value?"—Wall Street powerhouse **Goldman Sachs** poses an important question about an out-of-favor investing style.

Its conclusion seems to be that value investing isn't dead. Rather, it has morphed into a stock-picking strategy known as GARP, or "growth at a reasonable price."

From 1940 to 2007, "the simple strategy—buying stocks with the lowest valuations and selling those with the highest—realized a theoretical gain in seven out of every 10 years," the Goldman report says. Over the past decade, that strategy resulted in "a cumulative 15% loss."

In other words, growth investing—buying stocks of fast-growing companies—did well, while value investing—buying stocks priced modestly—didn't.

"Investors get excited about growth and they do pay up for it," says Scott Rostan, chief executive of New York financial-education company Training the Street. But sometimes investors pay too much.

Step forward, GARP.

"A hybrid [of the two investing styles] is a great way to describe it," Mr. Rostan says. "It has the growth aspect, but it has the discipline of a value investor."

The trick is to find companies that are growing quickly but aren't trading at expensive valuations.

Goldman suggests this: Look for companies expected to have annual sales growth of more than 10% in 2017 and 2018, and with market valuations (plus any debt) of less than 7.5 times revenue.

—Simon Constable

How to Detect Disaster-Relief Scams

Crowdfunding can be used for fraud after disasters like Harvey

BY VERONICA DAGHER

THOMAS BLANEY, treasurer of the Breezy Point Disaster Relief Fund, has seen both the good and the bad that can follow a disaster such as Hurricane Harvey.

Mr. Blaney, who lost his Breezy Point, N.Y., vacation home in superstorm Sandy in 2012, helped establish the fund to assist victims whose primary homes were destroyed by the storm. The fund has distributed more than \$2 million to residents in need and raised funds for community projects.

But, Mr. Blaney says, the fund was also the target of a scam that preyed on people's desire to help Sandy victims. After an acquaintance said he had made a \$500 online donation to the fund, Mr. Blaney checked the fund's online donation account but found no record of it. An online search led him to another like-sounding entity called the Breezy Point Fund, complete with pictures of the demolished neighborhood and a donation link.

Turns out, the site was run by scammers based in Florida, and the acquaintance had inadvertently made his donation on that site. Mr. Blaney reported the scam to the New York state attorney general and the site was shut down soon after, he says.

Philanthropy experts say Mr. Blaney's experience is fairly common. Scammers will often strike in the immediate aftermath of a disaster to seize on the charitable outpouring, they say, so would-be donors should do due diligence before giving to charity.

Scam watch

Social media has emerged as some of the most fertile ground for scammers, says Daniel Borochoff, president of CharityWatch, an organization that monitors nonprofit groups. Fake Facebook pages

dedicated to a cause or blogs and websites that purport to tell the story of a suffering victim are among the most common.

One of the newest venues for charitable scams: crowdfunding campaigns.

With these campaigns, people go through crowdfunding sites to create their own pages to raise money for personal causes and big bills like medical costs.

But unlike public charities that are required to disclose their finances annually with the Internal Revenue Service, someone who runs a crowdfunding campaign isn't required to disclose how they use the raised funds, says Mr. Borochoff.

As a result, don't assume that a site or post about a suffering family is legitimate, he says. Mr. Borochoff says to give only to individuals who you know are in real need.

And even if they are victims of a disaster like Hurricane Harvey, they may have already raised plenty of support or may be entitled to insurance



RICK WALKER/REUTERS

A condominium complex in Rockport, Texas, after Harvey struck.

money or victims' compensation funds and are just trying to get more than they might really need, he says.

Instead, Mr. Borochoff says, it is best to give through a well-run nonprofit organization whose caseworkers can determine if an individual is a bona fide disaster victim who needs aid.

Check out the charity

While technology can be used by bad actors, it can also be used to decipher which charities are legitimate or not.

Search on websites such as Charity Navigator, GuideStar

and the Better Business Bureau's Wise Giving Alliance to find out how long the charity has been in existence and learn about its programs. (Each site has already created a list of charities that are helping with the Hurricane Harvey relief effort.)

Donors can also go to the IRS website to see if a charity is registered. An organization that has been approved by the IRS as a tax-exempt charity won't have dot-com or dot-biz domain address; it will only have a dot-org domain.

Another factor to check out: whether a charity has a record of success in a disaster-af-

fected region.

Deborah Segal, vice president of Fidelity Charitable, a donor-advised fund that was founded by mutual-fund company **Fidelity Investments**, says donors can look at an organization's website or contact the organization's staff for information about its work in a disaster zone. For example, she says, the American Red Cross has local chapters in Texas and has experience providing shelter and food to disaster victims.

Immediate support may be better implemented by national or international organizations able to assemble resources from unaffected areas, she says. The majority of national organizations work with local charities and can ensure that your contributions are supporting those that best know an affected community, she says.

However, if a local charity has checked out as legitimate and is still functional after a disaster, donors should feel comfortable giving directly to them, Ms. Segal says.

Ms. Dagher is a reporter for The Wall Street Journal in New York. Email her at veronica.dagher@wsj.com.

CHARITABLE NEEDS TEND TO EVOLVE AFTER DISASTERS

After a disaster like Hurricane Harvey, determining what people need and when they need it is a key part of effective philanthropy, charitable-giving experts say. In fact, the wrong donation at the wrong time may do more harm than good.

Here is what disaster victims likely need now, a month and a year from now.

What do people need when a disaster first hits?

Survivors often need basic necessities most urgently, but that doesn't mean you should send clothes or cases of water, says Eileen Heisman, chief executive of National Philanthropic Trust.

Charities that are already operating in the affected areas provide those items, she says. In-kind donations are often referred to as "the second disaster" because they pile up and take attention and resources away from survivors. If you want to help, send monetary donations,

volunteer or donate blood, she says.

What do people need a month after?

Ms. Heisman still recommends cash

because it allows survivors or on-the-ground charities to buy items in the

community and boost the local economy.

You can also see if local organizations, particularly those providing shelter, have any "wish lists." Many charities are leveraging online resources, like Amazon Wish Lists, to fulfill victims' needs, she says.

Some organizations have also established separate funds that are designed to address the medium-term and longer-term recovery of affected areas, says Deborah Segal, vice president of Fidelity Charitable. For example, she says, the Center for Disaster Philanthropy has a Hurricane Harvey Recovery Fund that is expected to put its resources toward rebuilding as well as meeting the needs of young children, supporting mental health

and boosting damaged agricultural sectors. (CDP's disaster philanthropy hotline: 202-595-1026.)

Houston Mayor Sylvester Turner and Harris County Judge Ed Emmett have co-founded a Hurricane Harvey Relief Fund that is being administered by the Greater Houston Community Foundation (which is at 713-333-2200.)

What do people need after a year?

"Unfortunately, in the age of the 24-hour news cycle, attention moves away from the disaster and its victims fairly quickly, and the community feels forgotten," Ms. Heisman says. Committing to the long-term recovery effort is essential to rebuilding a community.

Some ways to help when others have moved on: Make monthly or weekly donations or, if you're local or able to travel easily, volunteer on a regular basis.

—Veronica Dagher

JOURNAL REPORT | INVESTING IN FUNDS & ETFS

INITIAL PUBLIC OFFERINGS

Why Index Funds Steer Clear of the IPO Market

Some experts think that may start to 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 1. 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 1 of the stock's initial offering if the company is expected to meet market-cap 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.

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 August 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 market, including startups, investment professionals and regulators, aren't pushing for IPO shares to be included in index funds from Day 1, 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 0.60% expense ratio.

The \$860 million First Trust US Equity Opportunities ETF (FPX) tracks the



A high-profile IPO in June on the New York Stock Exchange, for food-delivery firm Blue Apron.

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% com-

pared 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.

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