

# THE WALL STREET JOURNAL.

DOW JONES | News Corp \*\*\*\*\*

MONDAY, SEPTEMBER 25, 2017 ~ VOL. CCLXX NO. 72

WSJ.com

★★★★ \$4.00

Last week: DJIA 22349.59 ▲ 81.25 0.4% NASDAQ 6426.92 ▼ 0.3% STOXX 600 383.22 ▲ 0.7% 10-YR. TREASURY ▼ 17/32, yield 2.262% OIL \$50.66 ▲ \$0.22 EURO \$1.1948 YEN 111.99

## What's News

### Business & Finance

Lending to companies with heavy debt loads has surged by more than half this year, raising fears among some investors that a key corner of the financial markets is overheating. A1

◆ Mashable is leaning toward a sale of the new-media company and has held talks with German broadcaster ProSiebenSat.1. B1

◆ Uber is pushing to meet with the London regulator that said it couldn't operate in the city, as it also prepares a legal appeal. B1

◆ Two investment funds are calling for new leadership at housewares retailer Tuesday Morning. B1

◆ China's Canyon Bridge reached a deal to buy U.K. chip designer Imagination for \$742.2 million. B3

◆ Chinese cyberattacks on German manufacturing and tech firms have prompted Berlin to help companies harden their defenses. B4

◆ Kroger is launching a website to let local suppliers pitch niche products directly to buyers at the grocer's 2,800 stores. B5

◆ Fox's "Kingsman" led the box office and became one of the rare sequels to outgross its predecessor in its opening weekend. B5

◆ BlackRock's victory in a California lawsuit could make it more difficult for investors to sue ETF managers over warnings. B10

◆ Bank stocks rebounded last week as bond yields rose on expectations of a Fed rate rise in December. B10

### World-Wide

◆ Merkel's alliance won the German election, virtually assuring her a fourth term as chancellor, but a steep drop in support for the center-right bloc and an anti-immigrant party's surge signaled political turbulence ahead. A1, A10, A11

◆ Republican leaders face a nearly insurmountable path this week to repealing the ACA after Sens. Collins and Paul signaled they are unlikely to back the effort. A1

◆ Healthcare.gov will be shut down for 12 hours on nearly every Sunday during ACA enrollment season. A4

◆ North Korea warned that a missile attack on the U.S. mainland had become "inevitable," while Iran's leader said Tehran would bolster its ballistic-missile program. A8

◆ Trump replaced his travel ban with a new, more targeted version that bars U.S. entry by certain nations of eight countries. A4

◆ Puerto Rico's mayors met with the governor to report the full scope of Hurricane Maria's devastation. A3

◆ The death toll from last week's earthquake in Mexico climbed to 319. A13

◆ A Berkeley student group canceled a week of appearances by right-wing speakers on the California campus. A3

◆ Kushner used a personal email account to correspond with White House colleagues, his attorney confirmed. A3

◆ A gunman opened fire at a church near Nashville, Tenn., killing one woman and injuring seven people. A2

CONTENTS Opinion A19-21

Business News B35 Outlook A2

Crossword A18 Sports A18

Head on Street B11 Technology A4

Journal Report R1-8 U.S. News A2-6

Life & Arts A15-17 Weather A18

Markets B11-12 World News A8-13

39136>

0 78908 63141 1

Copyright 2017 Dow Jones & Company. All Rights Reserved

## Rising Right Dents Merkel's Win



German Chancellor Angela Merkel addressed supporters Sunday after exit polls that showed her center-right bloc won the election.

## Vote Reflects Europe Turn

By MARCUS WALKER

BERLIN—Germany's election result confirms the overriding trend of European politics in the past year: the crumbling of the Continent's established parties in the face of voter anxiety over economics and identity.

Angela Merkel's center-right Christian Democrats were projected to come in first Sunday with around 33%

of the vote, their lowest share of the post-World War II era. The center-left Social Democrats were projected to win just under 21%, their worst result since the prewar era. Germany's two long-dominant parties, which have governed together in a "grand coalition" since 2013, lost support to an array of opposition groups including the anti-immigration Alternative for Germany.

The fragmented vote mirrors this year's elections in other Continental European

countries including France and the Netherlands. Established parties have suffered steep losses, especially on the center left, and voters have turned to upstarts on the nationalist right, the anticapitalist left or the liberal center.

The upheavals partly reflect the fallout of a decade marked by economic, security and immigration crises that have tested the cohesion of the European Union. The future direction of the

Please see EUROPE page A11

### Parties with the largest share of votes in Germany's election



\*Including Bavarian sister party  
Source: Federal Returning Officer interim results with 100% of constituencies reporting

◆ Vote puts Merkel in tough spot..... A10

◆ Nationalists gain voice..... A11

Anti-immigrant party surges in German election as establishment weakens

By ANTON TROIANOVSKI

BERLIN—Chancellor Angela Merkel's conservative alliance won the German election, but a steep drop in its support and an anti-immigrant party's surge signaled political turbulence ahead for Europe's largest economy.

Her center-right bloc's victory on Sunday, projected at about 33% to 21%, over the center-left Social Democrats means that Ms. Merkel is virtually assured of a fourth term as chancellor.

But the election result signaled a sudden turn for a political system whose relative stability has underpinned the European Union in recent years as it lurched from crisis to crisis. The center grew weaker and an unpredictable new force rose on the right, delivering a historic setback for the country's mainstream. Polls and interviews showed that Ms. Merkel's decision to allow hundreds of thousands of refugees and migrants to enter Germany in 2015 loomed over the election.

Ms. Merkel's Christian Democrats and their Bavarian sister party saw their worst result since 1949, losing around a fifth of the 41.5% support they garnered just four years ago. The Social Democrats suffered their worst election since World War II. The establishment's troubles came despite a healthy economy providing

Please see ELECT page A10

## GOP Health Push Hits More Snags

By LOUISE RADNOFSKY AND KRISTINA PETERSON

WASHINGTON—Senate Republican leaders appeared to face a nearly insurmountable path to reviving their repeal of the Affordable Care Act, after Sen. Susan Collins said she couldn't envision voting for the bill and fellow GOP Sen. Rand Paul outlined tough demands for his support.

"It's very difficult for me to imagine a scenario where I would end up voting for this bill," Ms. Collins, of Maine, said Sunday on CNN. Later, on CBS, she added: "It is hard for me to envision getting to 'yes' on this bill because my con-

cerns are so fundamental."

Republican senators are making a last-ditch attempt to pass legislation striking much of the 2010 health law popularly known as Obamacare, under parliamentary rules that put a Saturday deadline on any such action being done with only GOP votes. Sunday night, the bill's authors circulated changes to the legislation that experts said appeared largely designed to win over more conservative lawmakers.

The bill by Sens. Bill Cassidy of Louisiana and Lindsey Gra-

Please see GOP page A4

◆ Trump's new travel ban cites eight nations..... A4

## Game Day Protests Spread as Trump Feud Escalates



ON THE FIELD: NFL players responded en masse at games Sunday after the president said athletes who demonstrate should be fired. Above, Buffalo Bills players kneel during the national anthem. A6, A18

### INSIDE



### SEINFELD GETS SERIOUS ABOUT BEING FUNNY

LIFE & ARTS, A15



### HACKING POSES DISCLOSURE QUESTION

BUSINESS & FINANCE, B1



### THE DEBATE OVER GOING CASHLESS

JOURNAL REPORT, R1

## An Empowered Miss Muffet Spawns a YouTube Empire

Accountant's updated nursery rhymes—Jack and Jill make it—go viral

By ERIC BELLMAN

CHENNAI, India—Like many Indians, B.M. Krishnan grew up with both local and Western nursery rhymes. Even as a child, he figured the English ones just didn't make much sense.

The tale of the downfall of Humpty Dumpty—universally and perplexingly portrayed as a giant egg with limbs—still upsets him.

"It is saying something cannot be fixed, cannot be repaired. That is not something you tell a child," Mr. Krishnan complains. "Why should



Humpty in recovery

ending for the fragile freak of nature and in the process stumbled on a curious content concoction that has fueled the takeoff of an unlikely media empire.

The company he works for, ChuChu TV Studios, is now the source of some of the internet's most viral videos. It is attracting billions of eyeballs with content few would have pegged as click bait—rewritten nursery rhymes.

Today, more than 200 programmers, animators and musicians sit shoulder to shoulder in the ChuChu office churning

Please see RHYME page A14

## Risky Loans Surge In U.S., Overseas

By CHRISTOPHER WHITTALL

What some see as froth in the market isn't confined to the U.S.

In Europe, recent loans offer fewer investor safeguards than in the past. This year, 70% of the region's new leveraged loans are known as covenant-lite, according to LCD.

Covenants are the terms in a loan's contract that offer investor protections, such as limits on borrowers' ability to take on more debt or invest in a project.

Even though default levels are low now and global growth has been picking up, the lending boom could prove troublesome when market conditions change or the economy slows.

"If feels like the market is getting frothy," said Henrik Johnsson, co-head of global debt-capital markets at Deutsche Bank AG. "We're overdue a correction."

Before the financial crisis, the boom in leveraged loans was one of the signs of markets overheating. As the crisis intensified in 2008, investors in U.S. leveraged loans lost nearly

Please see DEBT page A2

◆ Eric Morath: Real wages power ahead, for now..... A2

◆ Heard on the Street: Don't get flattened by the Fed... B11

# U.S. NEWS

THE OUTLOOK | By Eric Morath

## Real Wages Power Ahead, For Now



You probably can't tell from looking at your paycheck, but hourly wages in the U.S. are racking up solid gains. That is, if you take very low inflation into account.

Average wage growth has been steady, unspectacular and below historic norms for several years. But workers have been able to stretch their paychecks further because inflation is so low.

Real wages for nonsupervisors, which take inflation into account, topped \$22 an hour this year, the best inflation-adjusted reading since 1973, according to Labor Department data. The nonsupervisory figure covers about 70% of the workforce and excludes managers who are more likely to receive bonuses, stock options and other forms of non-wage compensation.

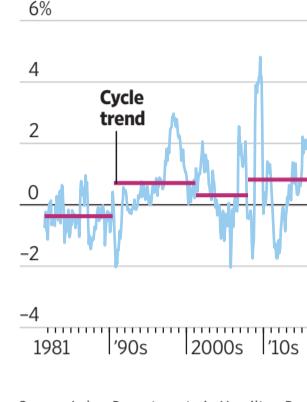
In the past decade, real-wage growth has been stronger than during the economic cycles of the 1980s, 1990s and early 2000s, according to a paper the Brookings Institution's Hamilton Project released Sunday. Inflation-adjusted wages have increased at a 0.82% annual rate since the recession began in late 2007. In contrast, real wages declined in the 1980s, and rose at 0.71% and 0.31% rates, respectively, in the cycles of the 1990s and early 2000s.

Raises were far more robust in those expansions, but

### Uneven Gains

Inflation-adjusted earnings have risen faster since 2007 than in previous business cycles, but gains mostly flowed to higher earners.

#### Real earnings growth, change from a year earlier



Source: Labor Department via Hamilton Project

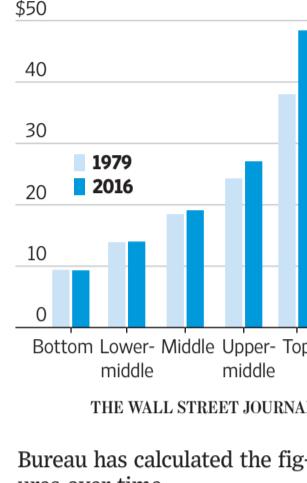
they didn't go as far because inflation was higher.

"I don't know why we have to apologize for nominal wage growth," said Carl Tannenbaum chief economist at Northern Trust. "At the end of the day it's real wage growth that allows us to buy our bread."

Other measures of income tell a similar story. Median household income last year was \$59,039, up an inflation-adjusted 3.2% from the previous year, on top of a 5.2% gain in 2015. The 2016 level surpassed the previous peak reached in 1999, though historical comparisons using this metric are tricky because of changes in the way the Census

Bureau has calculated the figures over time.

#### Hourly earnings in 2016 dollars by earnings quintile



THE WALL STREET JOURNAL.

wages adjusted slowly to a surprising inflation surge in the 1970s and early 1980s, meaning paychecks didn't go as far. In recent years, there has been an inflation surprise of another kind. The consumer-price index, the Labor Department's inflation gauge, is on pace to rise less than 2% this year for the fifth straight year.

That has happened only three times in the previous 103 years, and each overlapped with a recession.

Prices have been rising more slowly than expected, and that is allowing workers to stretch their paychecks further. Big declines in oil and gasoline prices have been especially helpful.

Some economists argue that productivity itself is being mismeasured and see rising real wages as evidence that it is stronger than the numbers show.

Another factor: For many years, workers were getting a shrinking share of the income earned by business, which put downward pressure on real wages. Since the recession, the worker share has stabilized between 56% and 58% of business income, which could be helping to diminish downward pressure on inflation-adjusted wages.

But not everyone is enjoying the real wage pickup. Real wages for the top fifth of earners rose 27% from 1979 to 2016, according to the Hamilton paper. However, real

wages for those in the bottom 20% declined slightly during that time.

Workers have less bargaining power due to a decline in unionization, increased foreign competition and the reluctance of workers to move for better-paying jobs, said Jay Shambaugh, director of the Hamilton Project and former economic adviser to President Barack Obama.

The forces driving real wages might be shifting. Firmer inflation caused real wages to slip in August from their July peak. They could ease further in the coming months if gasoline prices remain elevated in the wake of hurricanes striking the South. But that might be countered by a tightening labor market, which could lead to bigger nominal raises.

That is happening now in places like Denver, which has the seventh-lowest unemployment rate, 2.4% in July, among nearly 400 metro areas in the U.S. The starting wage for servers and other staff at the Crazy Caterer, a Denver food-service company, has increased to \$15 an hour from \$12.50 an hour two years ago, owner Kim Velasquez said.

Some employees working at weddings and corporate events earn as much as \$22.50 an hour. "I pay bonuses and have given raises," she said, "but it doesn't seem to be enough."

### ECONOMIC CALENDAR

#### TUESDAY: Federal Reserve Chairwoman Janet Yellen

speaks to the National Association for Business Economics in Cleveland, days after the Fed announced plans to begin shrinking its bond portfolio next month. Ms. Yellen might address the Fed's decision to roll back its stimulus campaigns and plans to raise short-term rates this year.

#### WEDNESDAY: The Commerce Department releases its report on August's U.S. durable goods orders.

The data, which measure orders for big-ticket items such as refrigerators and bulldozers, will offer a snapshot of business investment, which has picked up in recent months.

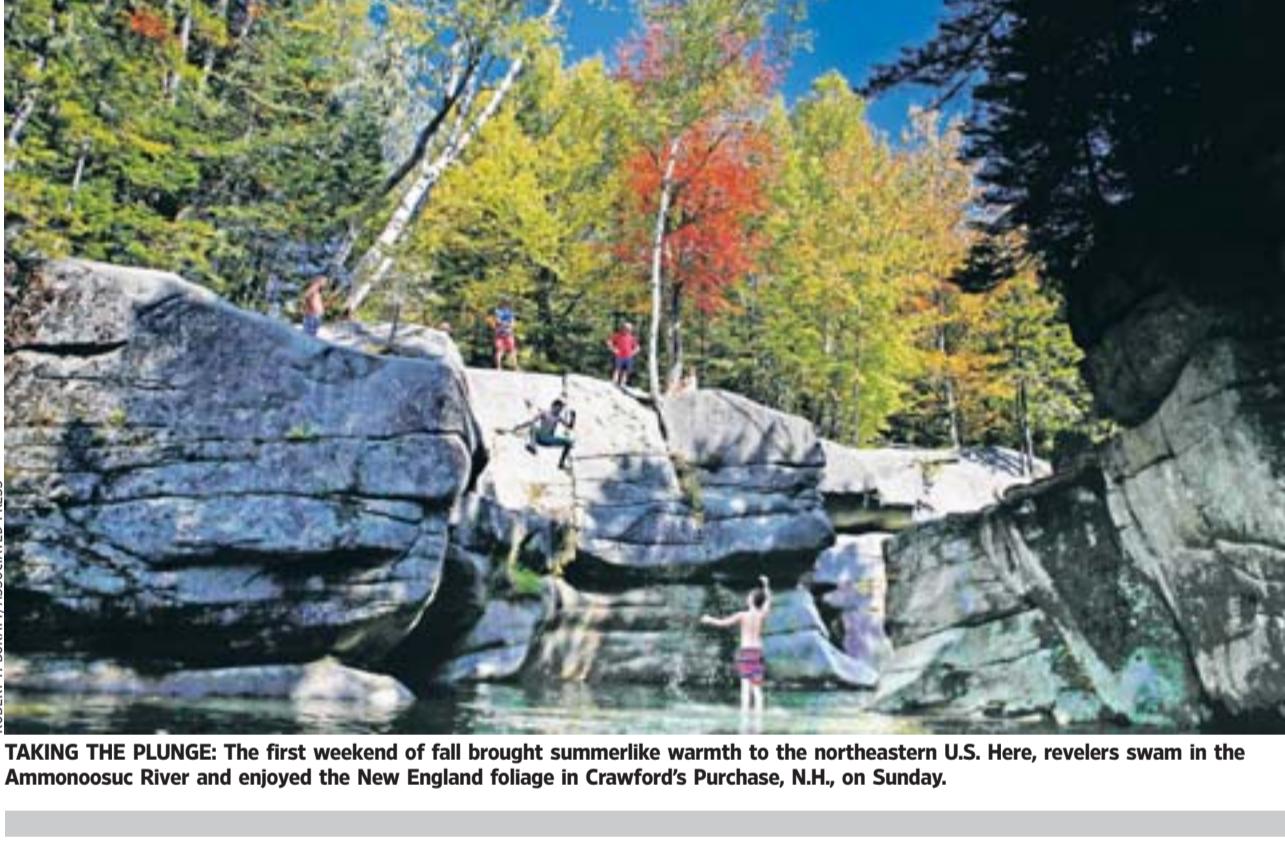
#### THURSDAY: The Commerce Department is set to release its third estimate on gross domestic product in the second quarter.

The agency's most recent reading showed the country's economy growing at its most robust pace in more than two years in the quarter, driven by solid consumer spending and business investment. Some forecasters expect growth remains at about the same pace in the current third quarter.

#### FRIDAY: The Commerce Department releases its August personal income report.

Even while American incomes and consumer spending rose at a swift clip in July's report, the Federal Reserve's preferred inflation gauge weakened, remaining below the central bank's 2% inflation target. Economists will closely watch Friday's report for signs of renewed pricing strength. Economists surveyed by The Wall Street Journal forecast a 0.2% increase in personal income for August.

## Summer Hangs On as the Season Changes



**TAKING THE PLUNGE:** The first weekend of fall brought summerlike warmth to the northeastern U.S. Here, revelers swam in the Ammonoosuc River and enjoyed the New England foliage in Crawford's Purchase, N.H., on Sunday.

## DEBT

Continued from Page One  
30%, according to the S&P/LSTA Leveraged Loan Index.

Regulators are noticing. In its last quarterly report, the Bank for International Settlements noted the growth of covenant-lite loans and pointed out that U.S. companies are more leveraged than at any time since the beginning of the millennium. That could harm the economy in the event of a downturn or a rise in interest rates, said the Switzerland-based central-bank group.

The leveraged-loan market has long been favored by private-equity firms raising cash to fund company takeovers. Investment banks arrange the loans and typically parcel them out.

Now, investors are jumping in because central-bank stimulus has pushed down bond-market returns. In the U.S. alone, investors have poured \$16.9 billion into loan funds this year, taking total assets to a record \$141.2 billion at the end of August, according to Thomson Reuters Lipper.

Some fund managers argue that current demand for loans and bonds is justified by the benign economic environment.

Mike Freno, global head of fixed income and multiasset at Barings, said that while there are some troubled sectors such

as retail, overall the companies in his loan portfolios aren't showing "excessive leverage." Economic fundamentals are "very supportive," he said.

Loans to fund buyouts from private-equity firms are still well below where they were before the crisis. So far this year, U.S. loan issuance for leveraged buyouts is 34% lower than it was in 2007. While leveraged-buyout activity is rising in Europe, volumes are less than a quarter of their 2007 peak.

But some are uncomfortable with increasing levels of leverage.

That is particularly true in the U.S., where nearly a third of loans to private-equity-backed companies this year are leveraged six times or more, according to LCD's calculations of companies' debt to earnings before interest, taxes, depreciation and amortization.

That is despite 2013 guidelines from U.S. regulators, including the Federal Reserve, on loan underwriting stating that leverage of more than six times "raises concerns for most industries."

Five of the six largest new loans backing leveraged buyouts this year have exceeded those levels, according to Dealogic and Moody's Investors Service.

The largest was a \$3.15 billion loan taken earlier this year by Team Health to fund Blackstone Group LP's lever-

### On a Roll

While the volume of leveraged loans is up, changing market conditions could become troublesome for the lending boom.

#### Total leveraged-loan issuance, through Sept. 15 of each year

\$500 billion



Europe

U.S.

#### Average leverage of private-equity-backed loan deals\*

7 times



Europe

U.S.

#### Share of leveraged loans without traditional investor protections†

80%



Europe

U.S.

\*Through August. Leverage is measured by debt to earnings before interest, tax,

depreciation and amortization. †Through Sept. 15

Source: LCD, S&P Global Market Intelligence

aged buyout of the health-care provider. In January, Moody's estimated that Team Health's leverage was at around 7.5 times.

Moody's estimated that insurance broker USI Insurance

Services had leverage of just above eight times following its

takeover by KKR & Co. and

Caisse de dépôt et placement du Québec that was followed

by the issuance of \$2 billion in leveraged loans.

Blackstone declined to comment, while KKR and Caisse de dépôt didn't respond to requests for comment.

In Europe, the pipeline for leveraged loan deals still to be sold was €7.6 billion (\$9.1 billion) in August, according to LCD, the highest level in seven years.

Covenant-lite, or "cov-lite" loans, long the standard in the U.S., barely existed in Europe before the financial crisis. But loan terms are now "more aggressive here in Europe," said Christopher Kandel, a partner at law firm Latham & Watkins LLP, citing provisions giving borrowers greater flexibility to pay out dividends or incur additional debt.

Other corners of the market are showing signs of overheating. High-yield bonds, another source of funding for riskier companies, are trading at their highest levels since before the financial crisis.

"If you get a spike in default rates, you're patently not getting compensated in high yield," said Zak Summerscale, head of credit fund management for Europe and Asia Pacific at Intermediate Capital Group.

Beth Maclean, a portfolio manager at Pacific Investment Management Co., said she has been reducing risk by favoring larger and better capitalized loans with higher ratings.

"We are seeing increasing risks across the board in the loan market in Europe and the U.S.," she said.

### CORRECTIONS & AMPLIFICATIONS

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

#### THE WALL STREET JOURNAL

(USPS 664-880)

(Eastern Edition ISSN 0099-9660)

(Central Edition ISSN 1092-0935)

(Western Edition ISSN 0193-2241)

Editorial and publication headquarters:

1211 Avenue of the Americas,

New York, NY 10036

Published daily except Sundays and general holidays. Periodicals postage paid at New York, NY, and other mailing offices.

Postmaster:

Send address changes to The Wall Street Journal, 200 Burnett Rd., Chicago, IL 60601.

All advertising published in The Wall Street Journal is subject to the applicable rate card, copies of which are available from the Advertising Services Department, Dow Jones & Co. Inc., 1211 Avenue of the Americas, New York, NY 10036. The Journal reserves the right not to accept an advertiser's order. Only publication of an advertisement shall constitute final acceptance of the advertiser's order.

Letters to the Editor:

Fax: 212-416-2891; email: [wsjtrs@wsj.com](mailto:wsjtrs@wsj.com)

#### NEED ASSISTANCE WITH YOUR SUBSCRIPTION?

By web: [customercenter.wsj.com](http://customercenter.wsj.com)

## U.S. NEWS

# Puerto Rico Tells of Maria's Devastation

Island's mayors bring reports to governor of destroyed houses, ruined infrastructure

BY JOSE DE CORDOBA

SAN JUAN, Puerto Rico—The full scope of Hurricane Maria's devastation of Puerto Rico began to emerge as many of the island's 78 mayors, some of them cut off since the storm, met this weekend with Gov. Ricardo Rosselló for the first time bringing reports of ruined homes and destroyed infrastructure.

Four days after the storm, Mr. Rosselló said the number of refugees in government shelters around the island numbered around 15,000.

At least 10 people have died as a result of the hurricane, the second major storm to wallop the U.S. territory within the past two weeks. Mr. Rosselló said it would take a long time for Puerto Rico to return to any sort of normalcy as it deals with the aftermath of Hurricane Maria, the worst storm to hit the island since 1928.

Government engineers continued to monitor a dam on Guanatoca Lake in the northwestern part of the island which has suffered a breach. An unknown number of people among the 70,000 who live in the area have been evacuated, the governor said Sunday.

Jose Gerena Polanco, the mayor of the town of Florida, said that in his area, bridges have been destroyed and more than 200 people lost the roofs on their homes.



CAROL GUZMÁN/ZUMA PRESS

Hurricane Maria was the worst storm to hit Puerto Rico since 1928. Above, a home in Arecibo that was damaged by flash floods.

Oscar Santiago, the mayor of Vega Alta, a town on Puerto Rico's north coast, said his municipality was pounded by 20-foot waves. Two bridges were destroyed, and more than 100 families lost the roofs of their houses. He said many people had refused to evacuate, and even now were staying in the ruins of their homes, using wood and zinc sheets scrounged from the de-

bris to build new temporary roofs.

Mr. Rosselló said late Sunday he still had not been able to establish contact with six municipalities, down from 20 that were incommunicado on Saturday.

The government was trying to restore electricity by transporting diesel fuel and generators to transmission towers to bring them back on line.

Throughout the island, Puerto Ricans struggled to cope with the absence of power that has plunged the island into almost total darkness. Mr. Rosselló said only about 25% of the island's telecommunications system was working.

Mr. Rosselló said the country's electric grid would take a long time to restore. The government would concentrate on bringing power to the coun-

try's heavily damaged hospitals. Rather than repair and reopen all the hospitals, Mr. Rosselló said the government would seek to consolidate medical care.

Jennifer Gonzalez, who as Puerto Rico's resident commissioner is a nonvoting member of the U.S. House, said Sunday it would take billions of dollars to get the island back on its feet.

"The devastation in Puerto Rico I believe has set us back 20 or 30 years," said Ms. Gonzalez. She said top congressional leaders have been very understanding of the island's plight.

Puerto Rico's government doesn't yet have a cost estimate for the reconstruction, but the governor said it would surely be "north of the \$7 billion to \$8 billion" cost of repairing the damage brought by Hurricane Georges in 1998.

On Sunday, National Guard troops rolled out to a working class barrio in San Juan to hand out water and military-style rations to long lines of people waiting in a broiling sun.

Holding his ration of four bottles of drinking water and two meals, Pedro Donis, 45 years old, said people in the neighborhood lacked food and water, and were getting desperate. "Things are going to take time," he said. "But thank God I'm alive."

Irma Fuentes, a community leader, said people in the neighborhood were helping each other get through the crisis. She said the biggest problem was the piles of garbage festering in the street.

"We have to clean this up so we don't get any epidemics," she said. "There are still a lot of flooded streets."

Pointing to the soldiers giving out the supplies from the back of a military truck, Ms. Fuentes said she was very happy with the U.S. government's response.

"Look what America is giving," she said. "In my house I have American and Puerto Rican flags, side by side."

## Island's Power Woes Were Decades in the Making

BY ARIAN CAMPO  
FLORES AND JOSÉ DE CÓRDOBA

TOA BAJA, Puerto Rico—As residents grapple with power outages across the entire island, the task of turning the lights back on falls to an electrical utility saddled with rickety infrastructure, workforce reductions and financial troubles so deep it declared a form of bankruptcy in July.

Earlier this month, Hurricane Irma sideswiped the island, knocking out power to about 70% of the customers of the Puerto Rico Electric Power Authority, or Prepa. The utility had made significant strides in restoring electricity when Hurricane Maria struck Wednesday, wiping out power to 100% of its customers.

Ricardo Ramos, chief executive of Prepa, said that it could take months for power to be restored across the island.

"This is a major disaster, we have lost 100% of our energy, there has been a lot of flooding," Gov. Ricardo Rosselló said Sunday.

Residents are bracing for an

uncomfortable slogan. "People don't think there will be light until after Christmas," said Mara López, a resident of Toa Baja, near San Juan. Electricity "here is really unstable. It's a system that has not been well-maintained, and every time the wind blows, it falls."

The prolonged loss of power and disruption to businesses "could delay the economic recovery of the island," said Rick Donner, vice president and senior credit officer at Moody's Investors Service. Puerto Rico is contending with a decadelong recession, declining population and \$73 billion in debt. A federal board is overseeing its finances, and in May, the island declared what amounts to the largest-ever U.S. municipal bankruptcy.

Two months later, the federal board voted to place Prepa, which has \$9 billion of debt, in bankruptcy as well. The move was aimed at helping advance plans to modernize the utility and turn it from a government-owned monopoly into a regulated private utility.

Calls and emails to a spokesman for Prepa weren't returned, though Puerto Rico's telecommunications system was hobbled by Maria. Periodic updates on the utility's Twitter feed highlight its efforts to assess damage and begin restoring power.

Prepa's problems have been decades in the making. Early in its history, it earned praise for powering Puerto Rico's industrialization efforts in the 1940s and 1950s. But over time, it became less efficient, energy analysts say.

Its generating plants, which rely on imported oil for about 60% of their energy production, are mostly obsolete and require major upgrades or outright replacement, said Miguel Soto-Class, president of the Center for a New Economy, a nonpartisan think tank in San Juan that has done in-depth analyses of the utility's finances.

Power outages are common. A fire at one of the utility's plants in September triggered a blackout across the island that left many customers without power for days.



Power across Puerto Rico was cut by Hurricane Maria. Experts say it could take months to restore.

Yet prices are high. In April, Prepa's average rate was 20.1 cents per kilowatt-hour, down from 25 cents in 2013 but still close to double the average mainland U.S. rate of about 12 cents, according to Moody's.

Island residents have complained in recent years about the lengths to which they must go to keep their electric bills in check. Some said they limited use of air conditioners as much as they can tolerate.

Others said they shut off circuit breakers, except for the

one controlling the refrigerator, before heading to work.

For years, Prepa enjoyed easy access to bond markets and borrowed regularly, accumulating enormous debt. Yet it failed to make important capital investments, such as transitioning to natural gas from oil to generate power, analysts say. Analysts say the money went to a bloated payroll, among other things.

When the island sank into recession, Prepa's finances suffered even more, as busi-

ness and residential demand for power declined. The exodus of Puerto Ricans to the continental U.S. is shrinking the island's population, depleting the utility's customer base.

And austerity measures that the utility implemented as it headed toward bankruptcy resulted in cuts to the workforce it now needs to make repairs.

Given that President Donald Trump declared a major disaster in Puerto Rico, the utility could receive federal funds to help finance repairs.

## 'Free Speech Week' Is Scrubbed at Berkeley

BY ZUSHA ELINSON

BERKELEY, Calif.—The week of appearances by right-wing speakers on the campus of the University of California, Berkeley, dubbed "Free Speech Week," has been canceled by the student group sponsoring the event, the university said.

But right-wing provocateur Milo Yiannopoulos still appeared on campus Sunday and blamed the university for collapse of the four-day event.

"Despite the machinations of every component of the Berkeley and UC Berkeley administration, we showed up," he wrote in a Facebook post.

Dan Mogulof, a spokesman for UC Berkeley, said, "Claims that this is somehow the outcome desired by the campus are without basis in fact." He added: "The university was prepared to do whatever was necessary to support the First Amendment rights of the student organization."

The original announcement of the event spurred more than 60 professors at the school to



JUSTIN SULLIVAN/GETTY IMAGES

Provocateur Milo Yiannopoulos appeared on the campus on Sunday, sparking protests.

sign a petition urging students and teachers to boycott campus during the four days. A group called By Any Means Necessary had promised to shut down the speeches with demonstrations.

Bryce Kasamoto, who calls himself an establishment Republican, is the spokesman for the Berkeley Patriot, the campus group that was responsible for the event.

The university said the group hasn't been meeting

deadlines for submitting the proper paperwork, while the group blamed the school for "bureaucratic stonewalling."

Meanwhile, the list of advertised speakers, which was supposed to include former White House adviser Steve Bannon and conservative commentator Ann Coulter, dwindled by the day. Some said they hadn't been invited in the first place.

On Friday, Mr. Kasamoto directed questions to an attorney for the group. "If this had been any other speakers, they would not have received this much trouble," said Marguerite Melo, the group's attorney.

Ms. Melo said the group has filed a complaint with the Justice Department, calling on the federal government to investigate the university.

The Justice Department didn't immediately return a request for comment.

Mr. Mogulof, the university spokesman, said the school had done everything it could to help facilitate the event, including planning to spend nearly \$1 million on security.

## Kushner Used His Personal Email To Message White House Staffers

BY TED MANN  
AND REBECCA BALLHAUS

WASHINGTON—President Donald Trump's son-in-law and adviser, Jared Kushner, used a personal email account to correspond with colleagues in the White House, his attorney confirmed Sunday.

Mr. Kushner exchanged fewer than 100 emails from his personal account with White House colleagues, said Abbe Lowell, his lawyer. Mr. Kushner forwarded those that concerned official business to his email address at the White House, Mr. Lowell said.

Mr. Lowell issued a statement after Politico reported Sunday that Mr. Kushner had used the personal account, a revelation that quickly drew comparisons from Democrats to the criticism from Mr. Trump and his fellow Republicans of then-Secretary of State Hillary Clinton's use of a private email server to handle both official and personal business.

Mr. Trump made the investigation of Mrs. Clinton's email procedures a central talking

point in their competition for the presidency. Mr. Trump, along with congressional Republicans and others, such as then-FBI Director James Comey, said Mrs. Clinton was reckless in mingling personal and official business.

"Mr. Kushner uses his White House email address to conduct White House business," Mr.

exchange by sending an email to his personal, rather than his White House, address," Mr. Lowell said. "All nonpersonal emails were forwarded to his official address and all have been preserved in any event."

The revelation of a private email account brought sharp criticism from Democrats and veterans of Mrs. Clinton's campaign.

"Lock him up?" wrote Jesse Ferguson, formerly a Clinton campaign senior spokesman, on Twitter—a reference to the "Lock her up!" chants that were hallmarks of Mr. Trump's campaign rallies.

Mrs. Clinton used a private email server during her tenure at the State Department, amassing thousands of messages, some of which were later deleted. She has said that only personal messages were deleted and all records relevant to her official responsibilities were turned over to the government.

There was no indication from the Politico account or Mr. Lowell's statement that Mr. Kushner made use of a private server.

## U.S. NEWS



Arrivals at New York's John F. Kennedy International Airport. In June, the Supreme Court allowed a modified version to take effect.

# Travel Ban Cites 8 Nations

Trump's new order places limits on Chad, Venezuela and North Korea, removes Sudan

BY LAURA MECKLER

WASHINGTON—President Donald Trump on Sunday issued a new ban on entry to the U.S. that applies a range of restrictions on nationals from eight countries, including new targets Chad, North Korea and Venezuela.

The new restrictions also apply to five of the six countries covered by the previous travel ban—Iran, Libya, Syria, Yemen and Somalia. The African country of Sudan was subject to the original ban but dropped under the new version after officials concluded that Sudan meets its vetting standards.

The previous order expired on Sunday. The new rules take effect on Oct. 18. Countries that were subject to an earlier version will operate under the

old rules until then.

The new rules vary by country, with some nations facing outright travel bans and others subject to more limited restrictions. In most cases, though, the vast majority of potential travel to the U.S. will be banned.

"As president, I must act to protect the security and interests of the United States and its people," Mr. Trump wrote Sunday.

The new order reflects painful lessons learned following intense criticism of two previous versions. Mr. Trump's first executive order, issued after just a week in office, touched off widespread confusion in airports, protests and a judicial rebuke. The second version, in March, allowed for a phase-in, but it too was put on hold by the courts almost immediately before the Supreme Court allowed a modified version to take effect.

Administration officials were hoping for a calmer reception this time. For the first time, officials applied a set of

objective standards to every nation to determine which countries pose a threat.

Officials also hope the new list will overcome charges that Mr. Trump's order was an unconstitutional Muslim ban, thinly disguised. This time, two non-Muslim countries were included—though neither stands to be affected by the new rules in a significant way. North Korea allows few people to enter the U.S. to begin with, and a White House official noted that any North Korean refugees would be eligible for waivers. Venezuela's restrictions are being applied only to certain government officials and their families, while most other countries face sweeping prohibitions.

"The number of Venezuelans and North Koreans affected is vanishingly tiny. It's still a Muslim ban," said Omar Jadwat, who brought several of the court challenges for the American Civil Liberties Union.

Trump administration officials say just the threat of a travel ban persuaded more

than a half-dozen countries to change their policies and are now cooperating more fully with the U.S. in vetting their citizens.

The new restrictions have no set end date. Rather, restrictions will be added or removed at any time as conditions change, officials said. The new rules apply only to prospective visa applicants—not current visa holders.

Mr. Trump and his supporters said the original travel ban was needed to keep potential terrorists from entering the U.S. Critics pointed to Mr. Trump's campaign promise to ban Muslims from entering the U.S. and said the executive order was driven by unconstitutional prejudice.

Under the order, two countries—North Korea and Syria—are subject to a ban on travel for people seeking to migrate to the U.S. and on those who just want to visit. Some exceptions were made for other countries.

—Louise Radnofsky contributed to this article.

# Healthcare.gov To See Outages During Sign-ups

BY MICHELLE HACKMAN

The Trump administration plans to shut down healthcare.gov, a website consumers use to sign up for Affordable Care Act insurance, for 12 hours on nearly every Sunday during the coming ACA enrollment season.

The outages, which the administration says are needed for maintenance, will occur from midnight through noon on every Sunday other than Dec. 10. This year's enrollment season—which the administration has shortened from three months to six weeks—will run from Nov. 1 through Dec. 15 for the 38 states that use the federal online marketplace.

News of the planned outages surfaced just as Sen. John McCain (R., Ariz.) announced his opposition to an 11th-hour Republican move to repeal the ACA in the Senate, likely sinking the effort.

The administration has come under fire from supporters of the ACA, who say it is taking intentional steps to undermine the law's performance. Over the last four open-enrollment periods, weekends generally brought higher traffic to healthcare.gov than weekdays, with

one weekend accommodating about one million customers.

The administration also sharply curtailed spending on advertising it and on groups that help people shop for policies. This year, it plans to spend \$10 million to advertise open enrollment, down from \$100 million last year.

A statement from the federal Centers for Medicare and Medicaid Services, which administers the ACA, said the shutdowns are needed to perform website maintenance. An agency spokeswoman, Nicole Black, said the schedule is being provided in advance this year as a heads-up for enrollment assistants.

"Maintenance outages are regularly scheduled on Healthcare.gov every year during open enrollment," the statement says.

Critics said the weekend outages will come when consumers most often find time to browse for health plans. "It's clear that even if Republicans continue to fail to repeal the Affordable Care Act, that the Trump administration will go to any lengths to sabotage the law," said Brad Woodhouse, campaign director for Protect Our Care, an ACA advocacy group.



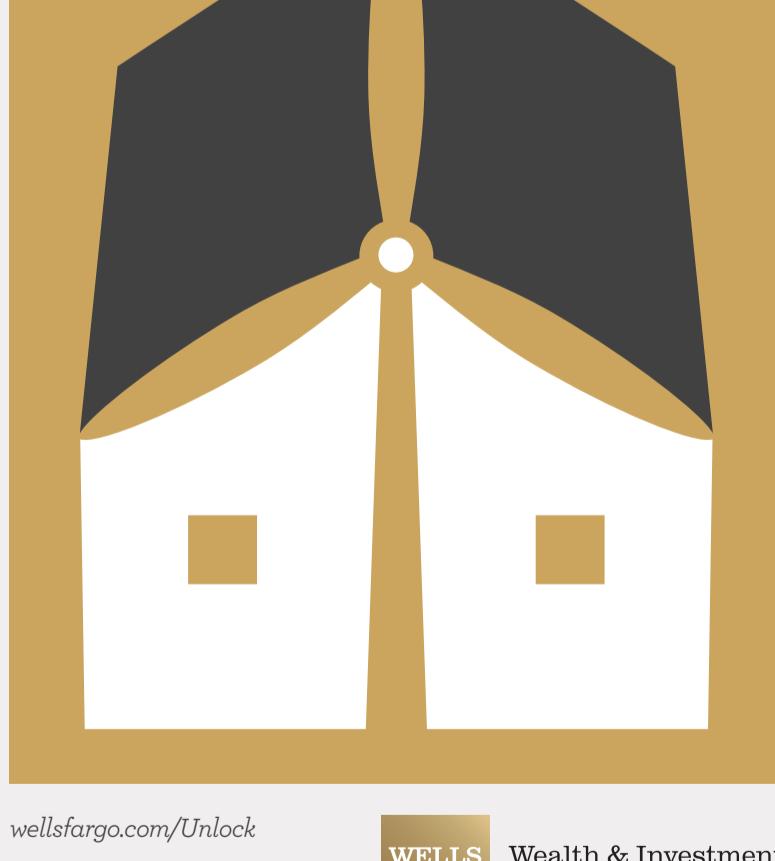
The HealthCare.gov website sells Affordable Care Act insurance.

ANDREW HARNIK/ASSOCIATED PRESS

Bringing non-traditional investments into the mix can help energize your portfolio.

We call a realization like this an Unlock.

At Wells Fargo Wealth & Investment Management, our expertise lies in identifying diverse ways to strengthen our clients' holdings, balancing non-traditional investments with more conventional options. It's insights like these that have led us to become one of the largest investment and wealth management providers in the country.



wellsfargo.com/Unlock

Investment and Insurance Products: NOT FDIC Insured ▶ NO Bank Guarantee ▶ MAY Lose Value

Wells Fargo Wealth and Investment Management, a division within the Wells Fargo & Company enterprise, provides financial products and services through bank and brokerage affiliates of Wells Fargo & Company. Brokerage products and services offered through Wells Fargo Clearing Services, LLC, a registered broker-dealer and non-bank affiliate of Wells Fargo & Company. Bank products are offered through Wells Fargo Bank, N.A.

© 2017 Wells Fargo Bank, N.A. All Rights Reserved.

CAR-0717-03514

## GOP

Continued from Page One

ham of South Carolina would set "block grants" of federal funding for each state to use for health care, including the Medicaid program for the poor.

The revised text of the bill gives states broad authority to make changes to coverage mandated under the ACA, and they no longer must seek a waiver to roll back some of those requirements, which was in the earlier text of the bill, health analysts reviewing the new bill said.

No Senate Democrats are expected to support the legislation, meaning the bill's sponsors must cobble together 50 votes from among the 52 Senate seats they control. That has been a monthslong struggle between the party's more centrist and conservative senators.

Republican Sen. John McCain of Arizona indicated his own vote was out of reach Friday. With room for no more defections beyond Mr. McCain and Ms. Collins, party leaders had focused on winning back Mr. Paul, who has opposed the Graham-Cassidy effort but who was believed to be open to negotiating.

Republican Sen. John McCain of Arizona indicated his own vote was out of reach Friday. With room for no more defections beyond Mr. McCain and Ms. Collins, party leaders had focused on winning back Mr. Paul, who has opposed the Graham-Cassidy effort but who was believed to be open to negotiating.

"Unfortunately, the Graham-Cassidy bill basically keeps most of the Obamacare spending, almost all of the spending, and just reshuffles it and block grants it to the states," said Mr.

Paul, of Kentucky. "They could remove the block grants from it and then we could vote on what we actually all agree on."

Conversations continued over the weekend about ways to settle the various objections raised by GOP senators.

A White House official said

Sunday the administration was

trying to assess whether there was a way to meet Mr. Paul's concerns; officials also don't see a clear way to secure the support of Sen. Lisa Murkowski of Alaska. Ms. Murkowski, Mr. McCain and Ms. Collins were the three GOP senators who voted down a July bill aimed at toppling swaths of the ACA.

**Sen. Rand Paul has opposed the bill but was believed to be open to negotiating.**

Ms. Murkowski has said she is evaluating how the bill would affect Alaska, a low-density state with high health-care costs.

Under the revised text, states may roll back coverage of maternity and mental health care, that must now be offered in plans. States could also allow insurers to charge higher premiums to people with pre-existing health conditions and to older consumers without needing an approved waiver, which was in the earlier bill text.

Under the earlier proposal, states had to maintain an ACA protection that limited the out-of-pocket maximums consumers have to pay, according

to analysts who reviewed the revised legislation. The new text would let states end the limit on out-of-pocket maximums. That could pave the way for more bare-bones health plans with high deductibles, health analysts said. No minimum leave of coverage would have to be provided, they said.

The updated legislative text also included a Trump administration analysis showing that states overall would make out better under the GOP bill than under current law through 2026, based on what the analysis said would be savings from some states no longer having to match the ACA's expansion of Medicaid.

Based strictly on block-grant funding, states overall would receive less money than under the ACA, the Trump administration said.

The nonpartisan Congressional Budget Office is expected to release an official estimate of the bill's effects early this week, though it isn't clear how detailed the assessment will be.

GOP leaders are using a process tied to the budget that enables them to pass legislation with a simple majority. The current budget expires Saturday.

Health-care lobbying groups have argued that the earlier version of the GOP bill would leave states with too little funding to operate health systems and that it would undo ACA protections. The big trade groups representing insurers, hospitals and physicians issued a joint statement Saturday opposing the bill.

"The Senate should reject it," said the signatories, which included America's Health Insurance Plans and the Blue Cross Blue Shield Association, the American Hospital Association and American Medical Association.

Republican Sen. Ted Cruz offered his own criticism of the earlier bill, saying Sunday he and other conservative senators were holding out.

The bill's backers said they remain hopeful of winning sufficient support. "We're moving forward. We'll see what happens next week," Mr. Graham said on ABC.

—Stephanie Armour,

Ted Mann and Laura Meckler contributed to this article.



YURI GRIPAS/REUTERS

Sen. Susan Collins at the U.S. Capitol in July.

WE ARE NOT IN THE HOTEL BUSINESS

WE ARE IN THE JAW-DROPPING BUSINESS

THE SPINE-TINGLING BUSINESS

THE HOLY S\*\*\* BUSINESS.

WE ARE THE FOUNTAINS OF BELLAGIO.

THE ICONIC BOXING RING OF MGM GRAND.

WE ARE SOME OF THE WORLD'S

MOST RENOWNED RESTAURANTS,

SHOWS, NIGHTCLUBS, AND CASINOS.

ALL FOUNDED ON THE BELIEF THAT

HUMANS ARE BORN WITH A NEED TO BE ENTERTAINED.

THAT'S WHY EVERYTHING WE CREATE

IS DESIGNED TO AWE.

TO ASTONISH. TO INSPIRE.

WE ARE NOT JUST A HOSPITALITY COMPANY.

WE ARE 77,000 MEN AND WOMEN,

IN 27 GLOBAL DESTINATIONS,

WITH ONE MISSION:

TO ENTERTAIN THE HUMAN RACE.

WELCOME TO THE SHOW



**MGM RESORTS  
INTERNATIONAL®**

**Mlife**  
REWARDS

**B**  
BELLAGIO

**Aria**

**Vdara**

**MGM GRAND**  
LAS VEGAS

**THE SIGNATURE  
AT MGM GRAND**

**MANDALAY BAY**

**DELANO**  
LAS VEGAS

**PARK MGM**

**Mirage**

**NEW YORK  
NEW YORK**  
LAS VEGAS HOTEL & CASINO

**LUXOR**

**Excalibur**

**CIRCUS  
CIRCUS**

**Beau Rivage**

**GOLD STRIKE**

**Borgata**

**MGM GRAND**  
DETROIT

**MGM**

**MGM**

**MGM**  
MACAU

## U.S. NEWS

# Trump's Feud With Athletes Escalates

NFL players kneel, skip national anthem; president urges fans to boycott games

BY ANDREW BEATON  
AND MATTHEW FUTTERMAN

Players around the National Football League demonstrated before games Sunday as part of an escalating feud between President Donald Trump and the professional sports world.

The number of protests surged far beyond anything the NFL has seen before, with players on every team making gestures of some sort at stadiums around the country.

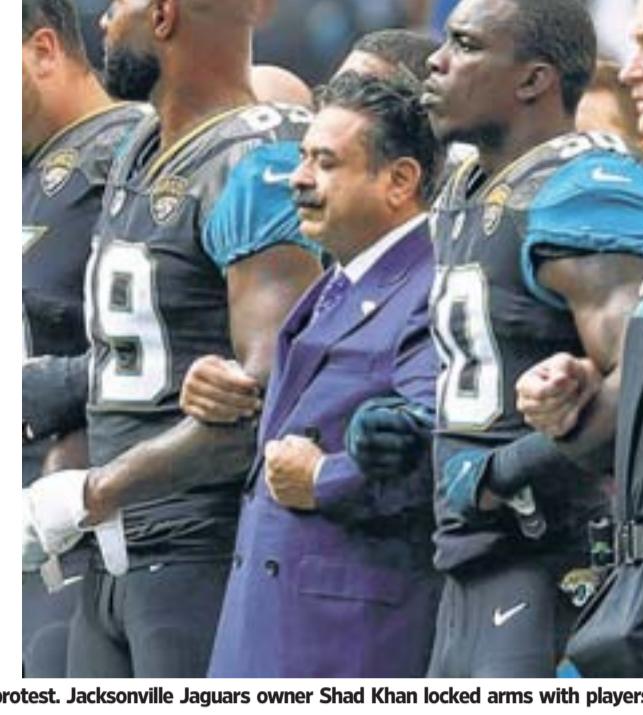
Some players knelt for the national anthem, while others interlocked arms. Three teams so far—the Pittsburgh Steelers, Seattle Seahawks and Tennessee Titans—didn't take the field at all for the national anthem. The Titans in a statement said the "players jointly decided this was the best course of action" and "the absence of our team for the national anthem shouldn't be misconstrued as unpatriotic."

The events effectively represented a leaguewide expression, as many owners gave support to their players and even stood with their teams before the game.

The actions were in response to a series of statements and Twitter posts through the weekend in which Mr. Trump blasted



President Donald Trump encouraged NFL owners to fire players who protest. Jacksonville Jaguars owner Shad Khan locked arms with players.



EVAN VIEGELASS/ASSOCIATED PRESS (LEFT); PAUL CHILDS/ACTION IMAGES/REUTERS

respect for the NFL, our great game and all of our players, and a failure to understand the overwhelming force for good our clubs and players represent in our communities."

The developments on Sunday extended a feud Mr. Trump has been waging since Friday against athletes in multiple sports who have criticized him.

On Saturday morning, Mr. Trump declared that he had withdrawn an invitation for the National Basketball Association champion Golden State Warriors to visit the White House, after star guard Stephen Curry, among others, had expressed reluctance to attend a ceremony with the president. Mr. Trump was quickly denounced by other prominent athletes, including LeBron James of the Cleveland Cavaliers. "U bum," Mr. James tweeted at the president.

Within the NFL, there is disagreement about whether the protests are appropriate. Dallas Cowboys owner Jerry Jones has indicated he doesn't want his players to demonstrate, saying the anthem is "not the place to do anything other than honor the flag." The Cowboys play on Monday night.

But several NFL owners who donated to Mr. Trump's inauguration, including New England Patriots owner Robert Kraft and Jacksonville Jaguars owner Shad Khan, have criticized Mr. Trump's comments.

◆ Jason Gay: 'Stick to sports' is over. .... A18

NFL players for not respecting the flag and encouraged owners to fire those who protest. On Sunday, the president tweeted that fans should boycott the league if the protests continue.

The origins of the clash date to last year, when Colin Kaepernick—at the time the quarterback for the San Francisco 49ers—refused to stand for the national anthem to call attention to police brutality in the U.S., particularly in communities of color. Mr. Kaepernick is unsigned this year and many players have argued that own-

ers are effectively blackballing him because of his political views.

The controversy comes at a unique moment for the NFL, which is by far the country's most popular sport but is grappling with declining television ratings and heightened concerns about concussions. The protests risk further alienating some fans and potentially making their broadcast partners—who pay the league billions of dollars annually—nervous about the implications.

In August, CBS Sports Chief

Executive Sean McManus said demonstrations last year contributed to the dip in ratings.

NFL Commissioner Roger Goodell, who has the power to discipline players and serves at the pleasure of the league's 32 owners, spent much of Saturday communicating with owners, coaches and players. His message was primarily that management needed to do all it could to show support for players, according to a person familiar with the matter.

A league executive also said players on the teams that re-

mained in the locker room for the anthem wouldn't be fined, even though NFL rules say they could be if they aren't on the field for it, as is required.

The NFL is a sports and marketing juggernaut, a \$14 billion-a-year machine that produces the most valuable content on television. However, Mr. Goodell has staked his reputation on a plan to increase revenues to \$25 billion during the next decade.

In a statement, Mr. Goodell called Mr. Trump's comments "divisive" and said they "demonstrate an unfortunate lack of

Robert Lighthizer this past week backed a preference for government-to-government consultations and negotiations to resolve disputes rather than binding solutions imposed by an arbitrator.

As for Nafta talks in general, he said they were "moving at warp speed but we don't know whether we're getting to a conclusion."

## Nafta Talks Likely to Intensify as U.S. Pushes Agenda

BY WILLIAM MAULDIN  
AND PAUL VIEIRA

OTTAWA—The Trump administration plans to take aim at the areas of the North American Free Trade Agreement it finds most objectionable during the third round of talks that kicked off in Ottawa over the weekend.

"At this point in the negoti-

tions, more challenging issues will start taking center stage, and the U.S. remains committed to advancing and negotiating substantial changes to Nafta for an agreement that benefits all Americans," John Melle, the U.S. chief Nafta negotiator, said in a statement to The Wall Street Journal.

Mr. Melle didn't elaborate.

"We are all putting text on

the table at this point," Steve Verheul, Canada's chief Nafta negotiator, told reporters Saturday as he entered the negotiating rooms, adding he expects talks to intensify. The third-round talks started on Saturday and run until Wednesday.

According to people familiar with the Trump administration's Nafta strategy, the

U.S. moves at the Ottawa round seek to bring in the "America First" theme championed by President Donald Trump, including rolling back international arbitration and other forms of dispute resolution enshrined in the current version of the pact. The Trump administration has expressed strong reservations about such binding arbitration decisions,

seeing them as an erosion of national sovereignty.

Such proposals aren't likely to face opposition from only Canada and Mexico—they also are causing an uproar at home in the U.S. business community and among members of Congress in both parties, according to the people familiar with the matter.

U.S. Trade Representative

Robert Lighthizer this past week backed a preference for government-to-government consultations and negotiations to resolve disputes rather than binding solutions imposed by an arbitrator.

As for Nafta talks in general, he said they were "moving at warp speed but we don't know whether we're getting to a conclusion."

## NOT ALL BRICKS ARE CREATED

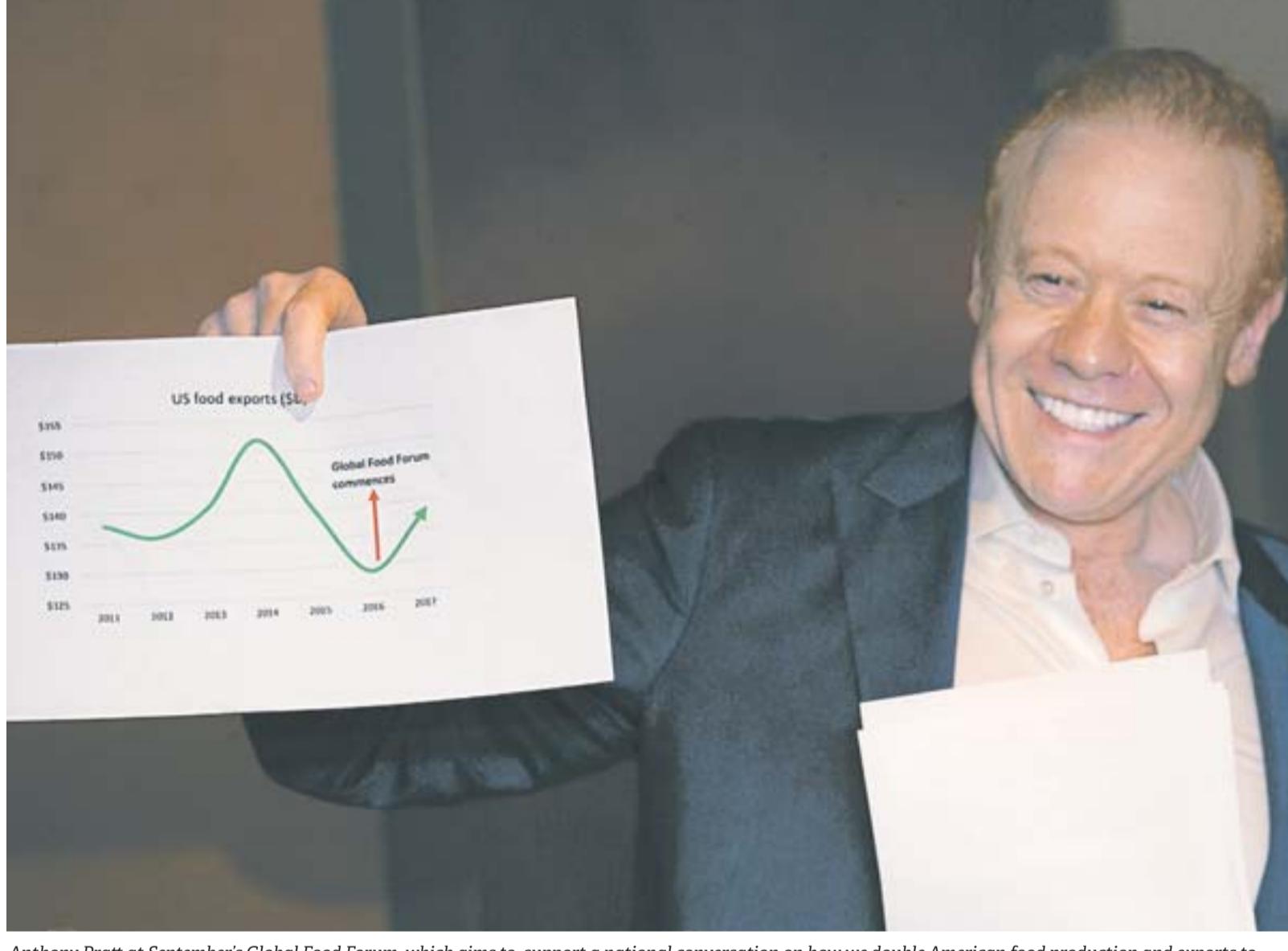


NewBrick delivers the classic beauty of traditional clay brick, with enormous advantages in weight, ease of use, environmental impact, system cost, and energy efficiency. It's becoming the choice of forward-thinking architects, builders, contractors, developers, and homeowners.

To learn more visit [newbrick.com](http://newbrick.com) or call 1-833-NEWBRIK.

**NEWBRICK®**  
by dryvit

# Congratulations to America's Farmers and Food Processors!



Anthony Pratt at September's Global Food Forum, which aims to support a national conversation on how we double American food production and exports to create millions of American jobs.

**After recent years of decline, American food exports are up over 9 percent compared to last year**

- Dairy exports are up 25%
- Beef exports are up 16%
- Thank you to President Trump, Secretaries Ross and Perdue for getting beef into China for the first time since 2003

## Export Food, Not Jobs !



Pratt Industries is one of the largest corrugated box manufacturers in the United States.  
Our boxes save money and save the environment.

[www.prattindustries.com](http://www.prattindustries.com)

# WORLD NEWS

## North Korea, Iran Offer New Tests for U.S.

President Trump is confronting outbreaks on both fronts after U.N. meetings

The Trump administration confronted burgeoning foreign-policy dilemmas over the weekend following a ballistic missile test by Iran and new threats from North Korea.

President Donald Trump on Sunday returned to Washington

By Farnaz Fassihi at the United Nations, Ben Kesling in Iraq and Aresu Eqbali in Tehran, Iran

ton to grapple with outbreaks on both fronts after a week of meetings at the United Nations, where controversy surrounded actions by Pyongyang and Tehran, as well as Washington's response.

At the annual U.N. gathering of world leaders, due to wind down on Monday, officials spent days trying to quell the rising animosity and urged talks—to little avail.

North Korea's Foreign Minister Ri Yong Ho warned on Saturday that a missile attack on the U.S. mainland had become "inevitable," while Iran's leader said his country would bolster its air, land, and marine capabilities, including missiles, "whether you like it or not."

Mr. Trump, in turn, derided North Korean leader Kim Jong Un as "Little Rocket Man," and blamed a 2015 international nuclear deal with Iran for allowing it to pursue ballistic missile technology.

South Korea's national security council met Sunday on options to address the North Korean crisis, according to the Yonhap news agency, while North Korean state media reported that tens of thousands gathered in the Kim Il Sung square in the capital city in a protest against Mr. Trump.

In Iran, leaders said they



A crowd gathered Saturday for an anti-U.S. rally in Kim Il Sung Square in Pyongyang. The country's foreign minister warned a missile attack on the U.S. had become "inevitable."

had tested a new medium-range ballistic missile, after unveiling it in defiance of U.S. criticism over its disputed nuclear program. State television on Saturday showed images of the Khoramshahr missile's disengaging warhead, calling it the country's third such missile capable of traveling some 1,240 miles.

President Hassan Rouhani vowed that his country would continue to bolster its ballistic-missile program, amid rising tensions with the U.S. "We won't ask anybody's permission to defend our people," he said.

Mr. Trump commented on both developments on Twitter, saying of the North Korean official's threat: "If he echoes thoughts of Little Rocket Man [Kim Jong Un], they won't be around much longer!"

On Iran, Mr. Trump blamed the 2015 nuclear agreement, which he has criticized for fall-

ing short of addressing Iran's non-nuclear military programs. The pact was designed to place controls on the country's nuclear program, which international inspectors have said it is succeeding in doing.

Mr. Trump has threatened repeatedly to pull out of the agreement, and was urged by international officials throughout the U.N. meetings not to do so.

Meanwhile, eight U.S. aircraft on Sunday flew close to the North Korean coastline, while remaining in international airspace, the Pentagon said, adding it was the farthest north of the demilitarized zone between North Korea and South Korea that American warplanes have flown since Pyongyang started testing ballistic missiles and nuclear weapons in the 1990s.

"This mission is a demonstration of U.S. resolve and a clear message that the presi-

dent has many military options to defeat any threat," Pentagon spokeswoman Dana White said.

In the U.S. air operation east of North Korea, eight planes including Air Force B-1 Lancer bombers and F-15C Eagle fighter escorts flew off the east coast of North Korea, the Pentagon said.

The U.S. air mission underscored "the seriousness with which we take DPRK's reckless behavior," said Ms. White, referring to North Korea by its acronym.

Two B-1 bombers flew from the U.S. territory of Guam, home to two U.S. military bases, including Andersen Air Force base and its fleet of B-1 bombers.

Mr. Kim in August threatened to launch a missile attack on the island of Guam, located roughly 3,800 miles west of Hawaii and 2,100 miles south-southeast of Pyongyang, though he ratcheted back that threat days later.

### Small Earthquake Is Detected Near Nuclear Test Site

An earthquake struck North Korea on Saturday afternoon in the same mountainous location as the country's sixth nuclear test earlier this month, according to earthquake monitoring agencies in China, South Korea and the U.S.

The Chinese Earthquake Administration initially said the tremor, which struck at 4:29 p.m. Beijing time, was the result of a "suspected explosion."

It put the magnitude at 3.4. South Korea's meteorological agency differed in its initial assessment, saying it believed the earthquake was natural. The U.S. Geological Survey measured the magnitude at 3.5.

All three agencies said the earthquake struck in the area in North Hamgyong Province where North Korea has conducted nuclear tests. "We cannot conclusively confirm at this time the nature (natural or human-made) of the event," The USGS said on its website.

Late Saturday, the China Earthquake Networks Center, part of the China Earthquake Administration, said in a post on an official social-media feed that further research showed the earthquake was natural and not the result of an explosion.

On Sept. 3, a test of what Pyongyang said was a hydrogen bomb in the same area set off a magnitude-6.3 quake. A magnitude-4.6 quake followed a short while later, likely the result of a cave-in, Chinese authorities said.

—Josh Chin

THE EXPERIENCE TO DELIVER SOUND ADVICE.  
THE TEAM TO MAKE IT HAPPEN.

 <b>\$3,100,000,000</b> Senior Secured Credit Facilities Joint Lead Arranger and Bookrunner August 2017	 <b>\$116,800,000</b> Senior Secured Credit Facilities Sole Lead Arranger and Bookrunner August 2017	 <b>\$300,000,000</b> 4.00% Senior Notes due 2022 Joint Book-Running Manager July 2017
 <b>\$161,000,000</b> Senior Secured Credit Facilities Joint Lead Arranger and Bookrunner July 2017	 <b>\$100,000,000</b> 3.750% Senior Unsecured Notes due 2024 Joint Placement Agent June 2017	 <b>\$1,250,000,000</b> 3.550% Debentures due 2027 Joint Book-Running Manager April 2017



A Syrian rebel stood guard at an oil well in 2012. Despite actively battling Islamic State, the Syrian government also buys oil and gas from the terror group, according to U.S. and European officials.

## U.S.-Backed Forces Seize Gas Plant From Militants

BY RAJA ABDULRAHIM

U.S.-backed forces said Sunday they were advancing through eastern Syria after seizing the Conoco gas plant there from Islamic State, striking a blow to the terror group's dwindling finances, which rely heavily on its control of Syria's oil and gas fields.

The Conoco plant, one of the most important in the country, is capable of producing nearly 450 tons of gas a day, according to the local activist monitoring group Deir Ezzour24. The Kurdish-led Syrian Democratic Forces, backed by U.S.-led coalition airstrikes, are racing against the regime of President Bashar al-Assad for territorial gains in Syria's east.

Islamic State militants planted improvised explosive devices—meant to cause a maximum amount of damage—in the plant before the SDF took control Saturday, said Omar Abu Leila, who heads Deir Ezzour24. The group has activists on the ground in oil-rich Deir Ezzour province, where the plant is located.

The Conoco plant was one of the most important sources of financing for Islamic State, an SDF spokesman said. The

extremist group sold fuel produced there to Iraqi buyers and the Syrian regime, according to Deir Ezzour24.

Its loss is another blow to Islamic State's dwindling revenue sources. At the height of its power two years ago, the militants were raking in the majority of their money from oil and gas production, supplemented by ransom from kidnappings, taxes and looting.

*Loss of the plant is a heavy blow to the dwindling finances of Islamic State.*

Islamic State's revenue has fallen 80% in the past two years, according to the IHS Conflict Monitor.

The U.S.-backed SDF has been battling Islamic State for months in its de facto Syrian capital of Raqqa, in a neighboring province. But when Russia-backed regime forces began capturing swaths of Deir Ezzour from Islamic State in recent weeks, the SDF launched a simultaneous operation in the

province, which holds many of Syria's oil and gas fields.

The Kurds want Deir Ezzour's wealth as a bargaining chip that could help them secure greater autonomy in Syria. The Assad regime, meanwhile, needs Deir Ezzour's resources to repair a shattered economy and address daily power outages which plague the entire country.

Commanders with the Kurdish militia that dominates the SDF have said they won't allow the Assad regime to benefit from the battle against Islamic State. "Our goal is to prevent the regime from taking the areas of oil which will enable it to regain control of the country like it was before" the start of the 2011 antigovernment uprising, Delsos Derrik, an SDF commander, said last month.

Despite actively battling Islamic State, the Syrian government also buys oil and gas from the terror group, according to U.S. and European officials. The regime also has been accused for years by antigovernment opposition and Western countries of enabling the terror group's spread across Syria.

Regions Securities® is focused on providing small- to large-cap companies high-quality service and advice from talented, relationship-oriented bankers. That means your business gets our dedicated "A Team" every time. Our capital markets experience and deep resources enable you to receive creative, customized solutions tailored to meet your company's strategic and financial objectives. From capital raising in the debt and equity markets to mergers and acquisitions advice, our bankers can set things in motion for your company. It's time to take the next step and get the attention you and your company deserve.

Terry Katon | Executive Managing Director  
Capital Markets  
terry.katon@regions.com

Ward Cheatham | Executive Managing Director  
Corporate Banking  
ward.cheatham@regions.com

regions.com/securities

REGIONS  
SECURITIES

Corporate Banking | Capital Markets & Advisory Services  
Comprehensive Financing Solutions | Industry Expertise

Investment, Annuities and Insurance Products  
Are Not FDIC Insured | Are Not Bank Guaranteed | May Lose Value  
Are Not Insured by Any Federal Government Agency  
Are Not a Condition of Any Banking Activity

Banking products and services, including lending, financial risk management, and treasury and payment products, are offered by Regions Bank.

Deposit products are offered by Regions Bank, Member FDIC.

© 2017 Regions Bank. All rights reserved. Regions Securities is a registered service mark of subsidiaries of Regions Financial Corporation. Regions, the Regions logo and Regions Securities are registered trademarks of Regions Bank and are used by its affiliates under license. The LifeGreen color is a trademark of Regions Bank.

Regions activities and Merger and Acquisition advisory services are provided by Regions Securities LLC, 1180 W. Peachtree St. NW, Suite 1400, Atlanta, GA 30309, 404-279-7400. Member FINRA and SIPC.



# Accelerating Global Financial Inclusion

What would you do if your only option was a loan from a high-cost lender or the sale of a household asset to pay for an unexpected expense? Access to quality, affordable financial services — especially savings — can be that safety net. Yet an estimated 2 billion people must make do with financial services that are expensive, inconvenient, insecure or unsuited to their needs. That's why *financial inclusion* — chronicled on Multipliers of Prosperity, MetLife Foundation's award-winning content hub — is the first step toward financial health for low-income people around the world.

## Discover the stories behind the push for global financial inclusion.

Head to Multipliers of Prosperity to meet the people on the front lines, and learn about the innovations from Bangladesh to the Blue Ridge Mountains that are moving the needle on financial health.



For more on how we are accelerating financial inclusion around the world,

**visit [multipliersofprosperity.com](http://multipliersofprosperity.com)**

## WORLD NEWS

# ELECT

Continued from Page One  
nearly full employment and pre-election approval ratings for Ms. Merkel of above 60%.

The nationalist Alternative for Germany, known as the AfD and founded less than five years ago, vaulted over the 5% hurdle for seats in Parliament with some 13% of the vote. It will become the first party with positions well to the right of Ms. Merkel's center-right bloc to sit in the national legislature in more than 50 years. The party wants to weaken European integration, describes Germany's Muslim minority as a "great danger" and says the country should reduce its focus on Holocaust remembrance.

"We will tolerate xenophobia as little as we tolerate racism, but we simply don't have it," party co-chairman Jörg Meuthen said.

The AfD's success underscores the antiestablishment mood and the shrinking of the political center seen in recent years across the West.

"A great new challenge lies before us: the entry of the AfD into the German Bundestag," Ms. Merkel told supporters after saying she was slightly disappointed with the result. "We want to win back AfD voters by solving problems, by taking in their concerns and in part their fears, and especially through good policy-making."

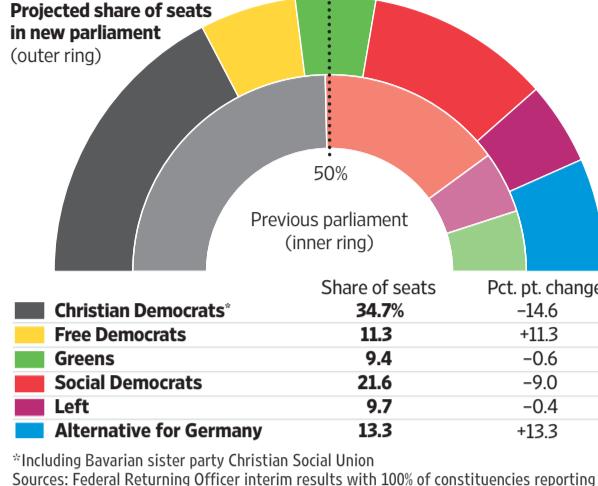
Ms. Merkel faces another challenge in forming a government. Lacking a majority in Parliament, she will need to build a governing coalition. The Social Democrats, who served as her junior governing partner for the past four years, said after the results came in on Sunday night that they would refuse to govern in Ms. Merkel's shadow once again.

In part because of the AfD's success, Ms. Merkel only has one other option: creating a three-way coalition with the pro-business Free Democrats, who received about 11%, and the environmentalist Greens, who won about 9%.

The coalition-building process could drag on, as Ms. Merkel and other party leaders

### Weaker Hold

Germany's mainstream parties turned in their worst performances in decades, and Angela Merkel's Christian Democrats will need to form a coalition to govern.



\*Including Bavarian sister party Christian Social Union

Sources: Federal Returning Officer interim results with 100% of constituencies reporting (seats, current vote share); German Parliament (historic elections)

### A Chancellor's Political Journey

Angela Merkel was born on July 17, 1954, in Hamburg, West Germany. Shortly afterward, her parents resettled in East Germany. In the 1970s and 1980s, Ms. Merkel studied physics at the University of Leipzig and later at the Academy of Sciences of the German Democratic Republic in Berlin, where she obtained her Ph.D.

After the fall of the Berlin Wall in 1989, Ms. Merkel joined

the new pro-democracy Democratic Awakening movement, later absorbed into the CDU.

At the first all-German elections in December 1990, Ms. Merkel was elected a member of the lower house. When Wolfgang Schäuble took over the CDU chairmanship after a bruising defeat for the party in 1998, he appointed her parliamentary leader.

In 2005, Social Democratic Chancellor Gerhard Schröder called an election. Ms. Merkel led the CDU ticket, won and negotiated the formation of a "grand coalition" with the Social Democrats.

—Bertrand Benoit

hammer out the new government's position on EU integration, immigration and other issues in their coalition talks.

Europe will be eagerly awaiting the result as French President Emmanuel Macron prepares to seek deeper political ties among the 19 countries that use the euro and the EU grapples with how to respond to the continuing flow of African migrants.

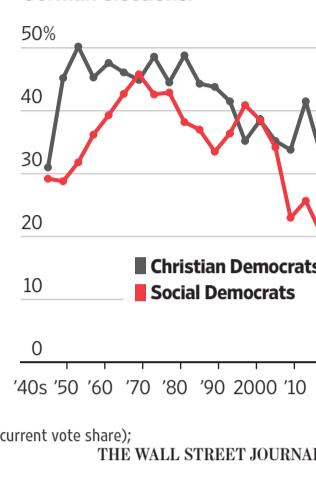
The Free Democrats want more fiscal discipline in the eurozone and a tougher line on migrants, while the Greens are significantly more liberal on both issues. Squaring their divergent positions is likely to prove very challenging for Ms. Merkel if she pursues an un-

precedented three-way coalition with those two parties. Her conservative Bavarian sister party, the Christian Social Union, is also likely to push back against the Greens' influence.

"We made the mistake of leaving our right flank somewhat open," Bavarian Premier Horst Seehofer said, suggesting that Ms. Merkel's move toward the center had abandoned conservative voters to the AfD.

Exit polls and interviews showed that two years after the height of the refugee crisis, voter unease with Ms. Merkel's immigration and refugee policy hung over the election. An exit poll released by ARD public television found that 90% of voters said re-

### Share of votes won in German elections:



THE WALL STREET JOURNAL.

# Vote Puts Merkel In a Tough Spot

BY BERTRAND BENOIT AND WILLIAM BOSTON

BERLIN—German voters handed Angela Merkel a disappointing victory on Sunday, forcing her into what will be one of her most delicate balancing acts since she took power 12 years ago.

While the chancellor finished first and is all but guaranteed to head the next government for a fourth term, she scored her party's worst result since 1949, losing more than one million voters to the right-wing Alternative for Germany, or AfD, according to pollster Infratest-Dimap.

Within minutes of the first exit polls flashing on TV screens across the country, leaders of her conservative party were calling on her to rethink a centrist course they said had alienated former supporters.

"We've made the mistake that we left an open flank on our right on immigration and on security," said Horst Seehofer, Bavaria's state premier and chairman of the Christian Social Union, Ms. Merkel's sister party in the southern state.

"We must close this vacuum."

This is something Ms. Merkel could find hard to do.

Given the election results, Ms. Merkel must build a coalition to govern.

But she has no option for a center-right majority, and her current coalition partner, the Social Democratic Party, has announced it would go into opposition. The only coalition possible for Ms. Merkel appears to be an uncontested alliance with the pro-business Free Democrats, or FDP, and left-leaning Greens, which scored about 11% and 8.9% Sunday respectively, according to early estimates released by ARD public-sector broadcaster.

As head of such a government, Ms. Merkel would have to chart a path between the demands of her increasingly restless party, the misgivings of the FDP on such issues as surveillance, and the liberal views of the Greens on immigration and the environment.

"Merkel's control on her party is very much diminished," said Jackson Janes, president of the American Institute for Contemporary German Studies at Johns Hopkins University.

As chancellor, Ms. Merkel ignored many conservative taboos. Her decision to open borders to hundreds of thousands of refugees in late 2015 nearly broke her party apart.

While the refugee crisis has since receded, pollsters said the election was a delayed indictment of that decision. An early analysis of the vote by Infratest-Dimap showed some 67% of Ms. Merkel's Christian Democratic Union supporters who didn't vote for the party this time named Ms. Merkel's refugee policy as the reason, the institute said.

Ms. Merkel said Sunday night that "we want to win back AfD voters by solving problems, by taking in their concerns and in part their fears, and especially through good policy-making."

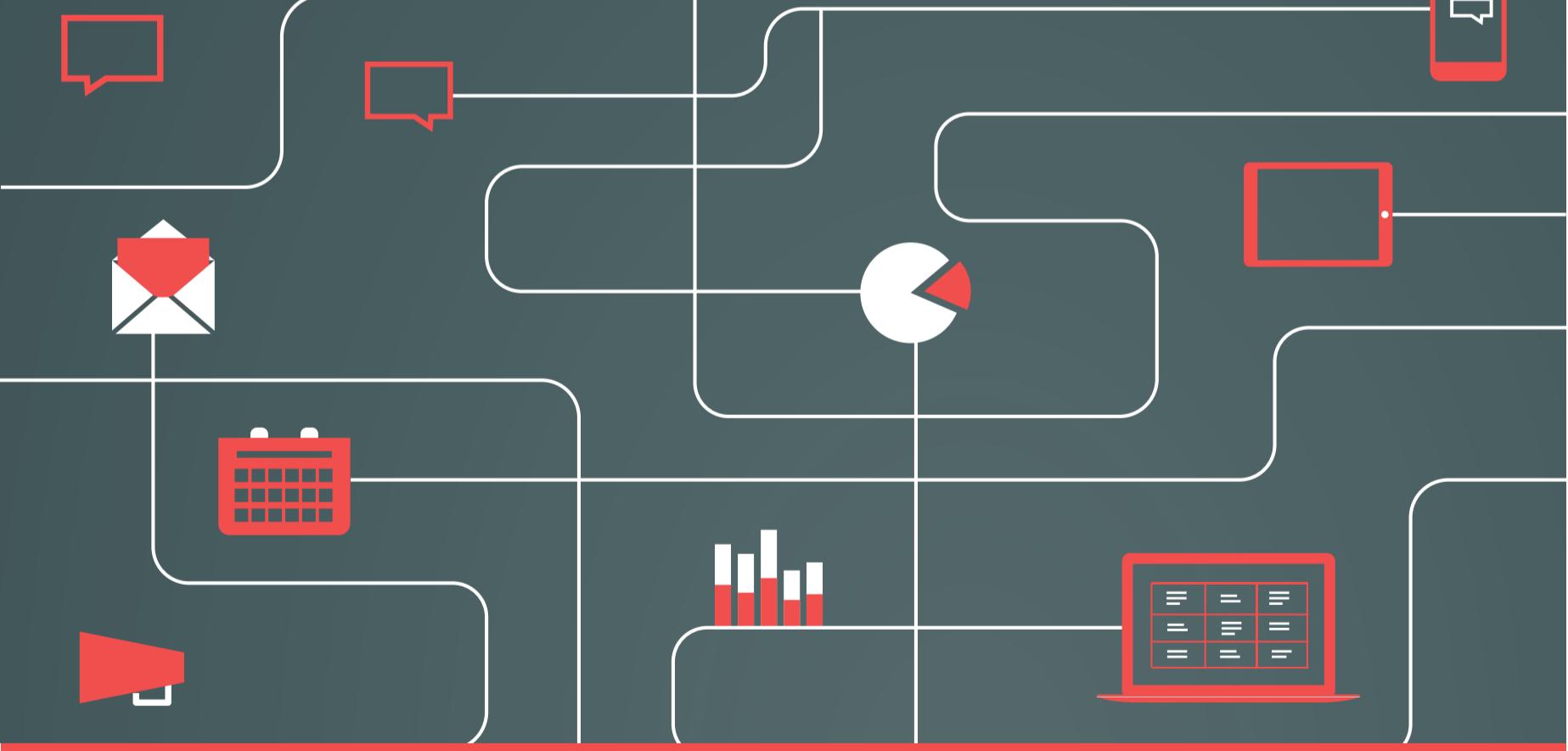
—William Wilkes contributed to this article.



PHILIP GUELLAND/EP/SHUTTERSTOCK

Horst Seehofer, leader of the CSU, Ms. Merkel's sister party

# MESSAGING MATTERS.



## Explore CMO Today.

Stay in control of the trends in the chaotic marketing industry with CMO Today, your definitive hub on how mobile and social technologies are transforming the business and what media companies are doing to keep up.

Sign up now at [WSJ.com/CMOnewsletter](http://WSJ.com/CMOnewsletter)

Sponsored by

**Deloitte.**

THE WALL STREET JOURNAL.

Read ambitiously

## WORLD NEWS

# German Nationalists Gain a New Voice

AfD wins first seats in Parliament, as strong showing in election jolts country's politics

BY ANTON TROIANOVSKI  
AND ZEKE TURNER

BERLIN—An antiestablishment, nationalist party won a foothold in Germany's parliament on Sunday, delivering one of the biggest jolts to the country's political establishment in the postwar era and sending its multiparty system into uncharted waters.

Alternative for Germany, or AfD, which wants to limit European integration, cut back on immigration and lessen Germany's focus on Holocaust remembrance, captured around 13% of the vote in an election that saw eroding support for mainstream parties, projections based on early results showed.

That means that for the first time in more than half a

century, a party will enter the national legislature that holds views well to the right of the center-right bloc led by German Chancellor Angela Merkel, whose Christian Democrats won the most votes Sunday. Parties must win 5% of the vote to seat representatives in the German Bundestag.

Backers reacted with jubilation in a Berlin nightclub the party rented out to celebrate the results. "We are going to chase down Ms. Merkel," Alexander Gauland, who co-led the AfD ticket, said on Sunday night, "and get our country back for the people."

The AfD remains a cultural lightning rod in Germany. Demonstrators gathered outside the AfD election-night venue, forcing party organizers to defensively close off the second-floor balcony. "Xenophobia isn't an alternative," read one protester's banner. "Don't repeat history!" read another.

AfD's success echoes the rise of nationalist parties else-

her conservative party to shift to the right, to address concerns about immigration and security that helped drive support for the Alternative for Germany, known by its German initials AfD.

Conservative leaders elsewhere in Europe, including the Netherlands, Austria and the U.K., have adopted tougher policies and rhetoric on immigration to fend off populist challengers to their right. Ms. Merkel didn't do that during the German election campaign, and she conceded Sunday night she had paid a price. "We didn't manage to fully assuage the concerns that people have" about illegal immigration and the security of external borders, she said in a post-election debate with other German party leaders.

The AfD, which won close to 13% nationwide, thrived particularly in Germany's economically disadvantaged east, where it was the most



Volunteers counted mail-in ballots in Hamburg during the general election on Sunday.

where in Europe. The German political mainstream will now have to decide whether to continue trying to isolate the AfD, ignore it or engage in hopes of defusing its antiestablishment message. "We will have to see if German democracy is able to deal with this kind of party," said Gero Neugebauer,

a political scientist at Berlin's Free University.

Some analysts said that the AfD benefited from the pariah status bestowed upon it by other parties in the election campaign, allowing it to cast itself as the one party taking on the Berlin elites.

Exit polls showed the AfD

did particularly well in the former East Germany and among men, blue-collar workers, and the unemployed.

Nearly two-thirds of its supporters said they voted AfD because of disappointment with the other parties, according to an exit poll released by broadcaster ARD.

AXEL HEIMKEN/AGENCE FRANCE PRESSE/GETTY IMAGES

Sandra Blümke, a 37-year-old businesswoman in Berlin, said she voted for the AfD because she was fed up with the established parties' handling of the migration crisis. "New people have to get to power," she said. "We can't bring people into the country when we aren't able to take care of our own."

Alice Weidel, the other co-leader of AfD ticket, said the party's initial goal in Parliament would be to launch an investigative committee to look into Ms. Merkel and "all the legal breaches" she allegedly committed. AfD politicians say Ms. Merkel broke the law by allowing refugees from the Middle East and Africa to enter Germany in 2015; the government says the actions were legal.

The party's direct influence on policy will be limited. It would need one-quarter of Bundestag members to support its Merkel investigation before it can be undertaken, and all other parties have pledged not to work with it.

## EUROPE

Continued from Page One

EU and its major nations is now up for grabs in a fluid contest between internationalists and nationalists, incumbents and insurgents.

The outcome makes it likely that Germany, Europe's economic powerhouse, will become more difficult to govern. Long and difficult negotiations are now expected between Ms. Merkel, the left-leaning Greens, and the pro-business Free Democrats. An unwieldy coalition may struggle to agree on the major challenges facing the European Union's most populous nation, from immigration to its scandal-hit auto industry to how to stabilize the euro currency zone.

Ms. Merkel has governed for 12 years as a pragmatic centrist. She is likely to come under pressure from many in

popular party among male voters. "That's consistent with a broader trend of radical-right parties connecting with those groups in many countries," says Matthew Goodwin, professor of politics at the University of Kent, U.K.

The election showed that Germany is becoming more like other European countries, where nationalist, anti-establishment parties are often significantly stronger than the AfD is in Germany.

For decades, Germany's taboos against nationalist rhetoric have kept far-right parties out of the national parliament. Support for the AfD rose during the campaign despite its controversial views on history. Leading candidate Alexander Gauland said Germans "have the right to be proud of the achievements of German soldiers in two world wars."

The party's program calls for less guilt about Germany's past, including toning

### Peak Populism?

Opinion-poll support for antiestablishment parties in Europe\*



\*Composite measure tracking support for AfD (Germany), National Front (France), 5 Star Movement (Italy), Unidos Podemos (Spain), PVV (Netherlands) and FPÖ (Austria)  
Source: Harui Shinya, Nomura

THE WALL STREET JOURNAL.

down Germany's focus on remembering the Holocaust, a position that drew condemnation from Jewish groups.

"The election result is a sign

that old social norms against

perceived extremism in Germany are weakening," said Mr. Goodwin.

Most AfD voters appear to have backed the party as a reaction against what is widely viewed as stifling consensus of the grand coalition. Only 31% of AfD voters backed the party out of "conviction," while 60% voted for it out of "disappointment" with other parties, according to an exit poll for state broadcaster ARD.

The AfD reached a peak of around 15% support in polls last year, boosted by the migration crisis of 2015-16 in which around a million refugees and other migrants from the Middle East and South Asia came to Germany. The party's support fell to around 8% this year as the migration crisis faded. The AfD's popularity rose again during recent weeks, however.

The Social Democrats' failed candidate for chancellor, Martin Schulz, denounced

Ms. Merkel on state TV for erasing all policy differences between them. The consensus-seeking chancellor's "systematic refusal of politics" alienated voters and boosted the AfD, Mr. Schulz said. Ms. Merkel denied the charge.

Rising support for fringe parties was predicted in Germany four years ago after Ms. Merkel's Christian Democrats formed their second grand coalition with the Social Democrats. That bipartisan government, critics warned, would give voters who strongly oppose Ms. Merkel nowhere to turn but the extremes.

Ms. Merkel remains personally popular with about two-thirds of German voters, even though her party's share of the vote declined. She has no clear successor. That suggests that the Christian Democrats, one of the parties that has shaped modern Europe, may suffer further erosion after her fourth and what is expected to be her final term.

FIND YOUR GREATER.

Drive innovation. Expand into new markets. Support local communities. Whatever the next opportunity, we have the financial expertise, insights and technology

to help you seize it. Our proven perspective will move you confidently ahead.

Call 866.803.5857 or visit [northerntrust.com/Opportunity](http://northerntrust.com/Opportunity)

ACHIEVE GREATER



NORTHERN  
TRUST

INVESTING \ BANKING \ TRUST & ESTATE SERVICES \ WEALTH PLANNING \ FAMILY OFFICE

Member FDIC. © 2017 Northern Trust Corporation.

## WORLD NEWS



Kurds packed a stadium in Erbil in support of an independence referendum. Proponents say the group no longer believes in a unified Iraq.

# Kurd Vote Raises an Alarm

By ISABEL COLES  
AND ALI NABHAN

ERBIL—Kurds are expected to vote Monday in support of a referendum that could bring them closer to independence from Iraq, riding a wave of nationalism that has drowned out concerns from the international community.

Inside the semiautonomous region, one man is swimming against the tide.

Branded a traitor, businessman Shaswar Qadir is the only Kurdish figure to run a campaign against the referendum, taking on leaders in the region who have fought for an independent state since the breakup of the Ottoman Empire in 1918.

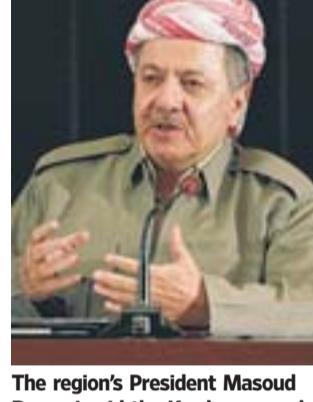
His following is tiny by comparison. But the 38-year old political upstart has given voice to widely held concerns about the timing and reper-

cussions of a vote that western powers have warned will undermine the war against Islamic State, spell the end of Iraq and destabilize the entire region.

The Kurds no longer believe in a unified Iraq, proponents of the referendum say. They are prepared to "pay any price for freedom" from a country that has inflicted genocide on them, the region's President Masoud Barzani told a crowd of more than 20,000 on Friday.

It's not only Baghdad that opposes the referendum. The effort also has riled Iraq's neighbors, Iran and Turkey, as well as the U.S., which has been one of the Kurds' firmest allies.

Still, the Kurds have rebuffed an alternative proposed by Western powers to facilitate talks with Baghdad on all matters of concern, including the future of their relation-



The region's President Masoud Barzani said the Kurds are ready to 'pay any price for freedom.'

ship. Kurdish leaders say they have exhausted dialogue and will now settle for no less than a clear road map to independence.

"This is not a risk-free process" said Hoshyar Zebari, one of the referendum's main

backers. "We have calculated the risk."

Although the vote will not automatically deliver statehood, Kurdish leaders say a strong "yes" would give them a mandate to initiate divorce proceedings with Baghdad, culminating in an amicable separation years from now.

Like the overwhelming majority of Iraq's Kurds, Mr. Qadir says he too dreams of statehood, but doesn't believe the referendum will advance their cause. Many Kurds fear it could have the reverse effect, endangering what the Kurds have gained over decades of armed struggle and diplomacy.

"This unrecognized and untrusted referendum will not help us," Mr. Qadir said. Talks with Baghdad and the Kurds' allies should come first, he adds.

—Nour Malas in Istanbul contributed to this article.

## NEW ZEALAND

### Small Party Set to Be Coalition Kingmaker

New Zealand faces an anxious wait to see which of its major political parties can form a government after a hotly contested election Saturday failed to deliver a clear result.

The leader of the populist New Zealand First party, Winston Peters, will be in the position to decide whether to give the current center-right government a fourth term or empower a resurgent center-left Labour Party, which rocketed back into contention with a new leader.

The campaign divided the South Pacific nation of nearly five million between those who have benefited from the ruling National Party's nine-year stewardship of the economy, which has outpaced most other developed nations, and others who feel they have been left behind.

Mr. Peters, who served as a deputy prime minister in a former National government, is expected to speak with both National and Labour before deciding which to support.

Under the country's German-style mixed-member proportional system, adopted in 1996, New Zealanders vote for a preferred party as well as a candidate to represent their electorate in the 120-seat Parliament.

Immigration was one of the biggest policy differences between the two major parties.

New Zealand First takes an especially tough line on immigration.

—Ben Collins

## FRANCE

### Senate Elections Are Hit for Macron

French President Emmanuel Macron's centrist party suffered its first electoral blow Sunday, as traditional conservatives dominated Senate elections.

The results are a hit for Mr. Macron as he embarks on a labor-law overhaul he hopes will invigorate the economy.

Truckers plan to block highways on Monday.

Mr. Macron could still pass his revamp. The lower house of Parliament has the final say in legislation over the Senate, and lawmakers from the center-right Les Républicains party support many of Mr. Macron's pro-business policy plans.

—Associated Press

## LIBYA

### U.S. Airstrikes Kill 17 ISIS Militants

U.S. airstrikes killed 17 Islamic State militants in Libya, the U.S. military said. The six "precision airstrikes" on Friday hit an Islamic State desert camp about 50 miles southeast of Sirte, the U.S. Africa Command said.

The camp was used "by ISIS to move fighters in and out of the country; stockpile weapons and equipment; and to plot and conduct attacks," it said.

The strikes were carried out in conjunction with the Libyan military and aligned forces, the U.S. Africa Command said.

—Associated Press



WOOL-GATHERING: Cooking-show presenter Mary Berry walked sheep across London Bridge to open the annual wool fair Sunday.

EDDIE KEOGH/REUTERS

# Gold American Eagles

Government Issued

Exclusive  
AT-COST OFFER

ONLY  
**\$115<sup>00</sup>**  
ea

Nationwide Coin & Bullion Reserve announces the release of 2,500 congressionally authorized, fully backed by the U.S. Government, \$5 gold coins at the incredibly low price of only \$115.00 each.

If you had \$25,000 in gold in 2001 at \$290 per ounce you would have over \$100,000 at today's gold prices. Numerous experts are now predicting gold at \$5,000 an ounce. Your \$25,000 could be worth \$125,000 in the near future. This at-cost offer for American citizens might be your final opportunity to own government gold free of dealer mark up. Due to extremely limited supplies we must adhere to a lifetime limit of ten coins per household, absolutely no exceptions.

Nationwide Coin & Bullion Reserve has set these beautiful U.S. Government gold coins for immediate public release and cannot guarantee sufficient inventory to supply current demand. This at-cost public offer will sell out immediately. Overage orders might be cancelled and your checks returned uncashed. Ordering now might be your last chance to own these magnificent government issued gold coins at this level. Order now to avoid disappointment.

TOLL FREE 24 HOURS A DAY • 7 DAYS A WEEK  
**1.877.817.1220**  
NATIONWIDE  
COIN & BULLION RESERVE

Call Today!  
KEY CODE: WJN-170909  
VISA MASTERCARD CHECK  
MINIMUM ORDER 5 COINS

"Your \$25,000  
Could be Worth  
**\$125,000**"



SPECIAL ARRANGEMENTS  
NOW AVAILABLE FOR ORDERS OVER \$50,000

Prices subject to change due to fluctuations in gold market. Prices will remain at dealer cost. Coins enlarged to show detail.

## WORLD NEWS

# China Tests a New Kind of Class Struggle

Communist Party to monitor quality of ideology instruction at universities as President Xi moves to solidify his control

By TE-PING CHEN

BEIJING—China may have poured billions into making its universities more globally competitive, but its idea of a quality education is guided more than ever by the Communist Party.

A drumbeat that has accelerated ahead of October's twice-a-decade Party Congress, President Xi Jinping's campaign to rein in civil society, online media and speech has extended to the classroom.

Top universities seen as insufficiently rigorous in their ideological work are being shamed. Professors who speak out are punished. The government is sending observers to nearly 2,600 universities to monitor mandatory ideology classes, which include staples like "Mao Zedong thought."

"What they most want to see is whether what you're saying is in line with the official demands on ideology and values," said Xiao Wei, who will be sitting in on classes in Shanghai this fall as part of a group of some 100 professors examining the quality of ideological education in the city. "They also want to understand how effective [the classes]



Students at a graduation ceremony at Fudan University in Shanghai in June

are," said Mr. Xiao, a professor of Marxism at Shanghai's elite Fudan University.

Since the 1989 Tiananmen Square protests, the party has kept colleges on a tight leash, fearing a reprise of student-led demonstrations. Nevertheless, there had been some room to deal with sensitive topics in the classroom. Under Mr. Xi,

that narrow space is closing.

For years in his class on China's Cultural Revolution at Beijing's prestigious Tsinghua University, Tang Shaojie played "red" songs from the era and showed the movie "Nineteen Eighty-Four" based on George Orwell's novel. The goal, he told students, was to teach them

what brainwashing looked like, former students said.

Mr. Tang told them it was a sign of academic freedom that Tsinghua allowed him to teach the class, said Aaron Feng, who took it in 2015 and is now studying at Vanderbilt University.

The class was canceled this fall. Tsinghua didn't respond

here to party leadership," and that—amid increasing collaboration with Western universities and more Chinese students studying abroad—China should develop its own vision of education guided by its unique history.

Along with attempts to improve lessons come warnings against stepping out of line. Students at Sun Yat-sen University in southern China arrived this year to find new instructions affixed to classroom walls telling them not to criticize party leadership; their professors were advised to do the same.

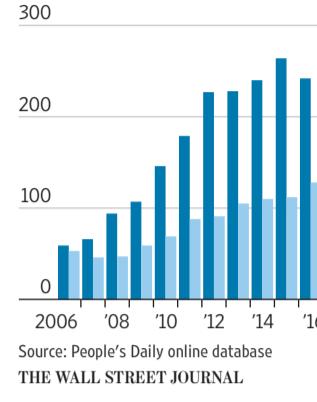
Since the February release of a State Council document calling for stronger party leadership in schools, at least 30 top-tier universities have tapped university presidents to also take on the role of deputy party secretary. Such joint appointments had taken place before, but the pace has accelerated in recent months.

"There's no question the party is exerting stronger control over universities," said Elizabeth Perry, Henry Rosovsky Professor of Government at Harvard University, who studies Chinese higher education. "We've seen a real backtracking."

### Hot Topics

Research projects funded by the Chinese government's National Social Science Fund

■ On Marxism-Leninism  
■ Party history, party-building



Source: People's Daily online database

THE WALL STREET JOURNAL

to questions about why.

"It's not enough just to have economic development," said Mr. Xiao of Fudan University. "You need a sense of values and morals."

The shift in the classrooms comes as Mr. Xi moves to extend his dominance ahead of the Party Congress, a conclave set to anoint him for a second five-year term.

Mr. Xi in December declared that universities should become "strongholds that ad-

## Mexico Quake Survivors Feel Aftershocks

By ROBBIE WHELAN  
AND DUDLEY ALTHAUS

MEXICO CITY—Even as the death toll from last week's earthquake climbed to 319, tens of thousands of people who survived the disaster in central Mexico were dealing with a new challenge: the gnawing uncertainty of not knowing when, if ever, they will be able to return to their homes.

Rescue teams still held out hope on Sunday of finding survivors five days after the 7.1-

magnitude quake, which claimed some 181 lives in Mexico City, parts of which sit on an ancient lake bed that amplifies the shaking.

At a collapsed office block in the capital's Roma neighborhood, dogs were still detecting life under the rubble early Sunday, local media reported. The building was one of about 40 that collapsed in Mexico City when the quake struck Tuesday afternoon.

"The priority is to continue with search-and-rescue

tasks...at all points where there is the possibility of finding people alive," Mexico City Mayor Miguel Angel Mancera said at a news conference. "We have the hope of finding people alive."

On Sunday, aftershocks continued from the 8.1-magnitude quake that hit the southern states of Oaxaca and Chiapas on Sept. 7, killing almost 100 people. A 6.1-magnitude aftershock in Oaxaca early Saturday was strong enough to set off the earthquake alarms and be felt in Mexico City, spark-

ing panic and briefly halting rescue work but causing no further damage in the capital.

Last Tuesday's quake, centered much closer to Mexico City, has had relatively few aftershocks, the biggest of which was magnitude-4, said Carlos Valdés, director of the National Center for Disaster Prevention.

The tremor caused serious damage to at least 3,000 buildings in Mexico City, Mr. Mancera said, leaving thousands of families homeless and many structures uninhabitable.



People gathered in the streets of Mexico City, the capital, on Saturday following aftershocks to last Tuesday's earthquake.

## Catalan Secession Push Persists As Spain Moves to Block the Vote

By JEANNETTE NEUMANN

MADRID—Spanish authorities' efforts to stop Catalonia's independence referendum by arresting separatist leaders and confiscating ballots appear to have diminished the prospect that millions of Catalans will formally vote on Oct. 1, but that doesn't mean a crisis has been averted.

Leaders on both sides of the bitter divide expect hundreds of thousands of separatists to protest if they aren't able to cast their vote. Pro-independence leaders might declare Catalonia an independent republic regardless of how any vote unfolds, they say, presenting Spain with its worst political impasse in decades and leaving the country even more torn about the future of the rebellious region.

Since Catalonia's leaders announced the independence referendum this month, the central government in Madrid has staged an all-out effort to stop the vote.

It successfully petitioned a Spanish court to suspend the balloting while it weighs its legality, and seized control of most of Catalonia's finances to prevent the spending of public funds on the referendum.

Last week, Spanish police arrested 14 people allegedly involved in planning the referendum on charges of disobedience, malfeasance and misappropriation of public funds.

After those arrests brought nearly 40,000 people to the streets of central Barcelona, prosecutors asked a top court to investigate the demonstrators for alleged sedition.

"A contingency plan—that's

ment of Prime Minister Mariano Rajoy could embolden secessionist leaders to declare Catalonia an independent republic, even if the vote itself is largely squelched.

In anticipation of such protests, the central government announced plans on Friday to send extra police to Catalonia "to maintain order," it said. A police union spokesman said 4,000 additional officers would be dispatched to Catalonia. If Catalan leaders do declare independence, Madrid could move to replace regional government officials, although that is viewed as a last resort.

Catalonia's President Carles Puigdemont, a leader of the pro-independence movement, has likened the government and police actions to those of an authoritarian state. He pledges to hold the vote despite pressure from Madrid.

Mayors from around four-fifths of Catalonia's nearly 950 municipalities have said they support the referendum and are willing to allow Catalan authorities to use municipal facilities as polling stations. In response, prosecutors launched an investigation against the mayors and began to call them in last week to testify about their plans.

what's left of the referendum,"

Spain's Deputy Prime Minister Soraya Sáenz de Santamaría told journalists on Friday.

Even if a large-scale, organized vote doesn't take place, leaders on both sides say pro-independence forces could still cobble together a makeshift ballot. They also expect separatists to take to the streets in mass protests against the outlawing of the referendum.

A protracted period of mobilization against the govern-

ment of Prime Minister Mariano Rajoy could embolden secessionist leaders to declare Catalonia an independent republic, even if the vote itself is largely squelched.

In anticipation of such protests, the central government announced plans on Friday to send extra police to Catalonia "to maintain order," it said. A police union spokesman said 4,000 additional officers would be dispatched to Catalonia. If Catalan leaders do declare independence, Madrid could move to replace regional government officials, although that is viewed as a last resort.

Catalonia's President Carles Puigdemont, a leader of the pro-independence movement, has likened the government and police actions to those of an authoritarian state. He pledges to hold the vote despite pressure from Madrid.

Mayors from around four-fifths of Catalonia's nearly 950 municipalities have said they support the referendum and are willing to allow Catalan authorities to use municipal facilities as polling stations. In response, prosecutors launched an investigation against the mayors and began to call them in last week to testify about their plans.

what's left of the referendum,"

Spain's Deputy Prime Minister Soraya Sáenz de Santamaría told journalists on Friday.

Even if a large-scale, organized vote doesn't take place, leaders on both sides say pro-independence forces could still cobble together a makeshift ballot.

In anticipation of such protests, the central government announced plans on Friday to send extra police to Catalonia "to maintain order," it said. A police union spokesman said 4,000 additional officers would be dispatched to Catalonia. If Catalan leaders do declare independence, Madrid could move to replace regional government officials, although that is viewed as a last resort.

Catalonia's President Carles Puigdemont, a leader of the pro-independence movement, has likened the government and police actions to those of an authoritarian state. He pledges to hold the vote despite pressure from Madrid.

Mayors from around four-fifths of Catalonia's nearly 950 municipalities have said they support the referendum and are willing to allow Catalan authorities to use municipal facilities as polling stations. In response, prosecutors launched an investigation against the mayors and began to call them in last week to testify about their plans.

what's left of the referendum,"

Spain's Deputy Prime Minister Soraya Sáenz de Santamaría told journalists on Friday.

Even if a large-scale, organized vote doesn't take place, leaders on both sides say pro-independence forces could still cobble together a makeshift ballot.

In anticipation of such protests, the central government announced plans on Friday to send extra police to Catalonia "to maintain order," it said. A police union spokesman said 4,000 additional officers would be dispatched to Catalonia. If Catalan leaders do declare independence, Madrid could move to replace regional government officials, although that is viewed as a last resort.

Catalonia's President Carles Puigdemont, a leader of the pro-independence movement, has likened the government and police actions to those of an authoritarian state. He pledges to hold the vote despite pressure from Madrid.

Mayors from around four-fifths of Catalonia's nearly 950 municipalities have said they support the referendum and are willing to allow Catalan authorities to use municipal facilities as polling stations. In response, prosecutors launched an investigation against the mayors and began to call them in last week to testify about their plans.

what's left of the referendum,"

Spain's Deputy Prime Minister Soraya Sáenz de Santamaría told journalists on Friday.

Even if a large-scale, organized vote doesn't take place, leaders on both sides say pro-independence forces could still cobble together a makeshift ballot.

In anticipation of such protests, the central government announced plans on Friday to send extra police to Catalonia "to maintain order," it said. A police union spokesman said 4,000 additional officers would be dispatched to Catalonia. If Catalan leaders do declare independence, Madrid could move to replace regional government officials, although that is viewed as a last resort.

Catalonia's President Carles Puigdemont, a leader of the pro-independence movement, has likened the government and police actions to those of an authoritarian state. He pledges to hold the vote despite pressure from Madrid.

Mayors from around four-fifths of Catalonia's nearly 950 municipalities have said they support the referendum and are willing to allow Catalan authorities to use municipal facilities as polling stations. In response, prosecutors launched an investigation against the mayors and began to call them in last week to testify about their plans.

what's left of the referendum,"

Spain's Deputy Prime Minister Soraya Sáenz de Santamaría told journalists on Friday.

Even if a large-scale, organized vote doesn't take place, leaders on both sides say pro-independence forces could still cobble together a makeshift ballot.

In anticipation of such protests, the central government announced plans on Friday to send extra police to Catalonia "to maintain order," it said. A police union spokesman said 4,000 additional officers would be dispatched to Catalonia. If Catalan leaders do declare independence, Madrid could move to replace regional government officials, although that is viewed as a last resort.

Catalonia's President Carles Puigdemont, a leader of the pro-independence movement, has likened the government and police actions to those of an authoritarian state. He pledges to hold the vote despite pressure from Madrid.

Mayors from around four-fifths of Catalonia's nearly 950 municipalities have said they support the referendum and are willing to allow Catalan authorities to use municipal facilities as polling stations. In response, prosecutors launched an investigation against the mayors and began to call them in last week to testify about their plans.

what's left of the referendum,"

Spain's Deputy Prime Minister Soraya Sáenz de Santamaría told journalists on Friday.

Even if a large-scale, organized vote doesn't take place, leaders on both sides say pro-independence forces could still cobble together a makeshift ballot.

In anticipation of such protests, the central government announced plans on Friday to send extra police to Catalonia "to maintain order," it said. A police union spokesman said 4,000 additional officers would be dispatched to Catalonia. If Catalan leaders do declare independence, Madrid could move to replace regional government officials, although that is viewed as a last resort.

Catalonia's President Carles Puigdemont, a leader of the pro-independence movement, has likened the government and police actions to those of an authoritarian state. He pledges to hold the vote despite pressure from Madrid.

Mayors from around four-fifths of Catalonia's nearly 950 municipalities have said they support the referendum and are willing to allow Catalan authorities to use municipal facilities as polling stations. In response, prosecutors launched an investigation against the mayors and began to call them in last week to testify about their plans.

what's left of the referendum,"

Spain's Deputy Prime Minister Soraya Sáenz de Santamaría told journalists on Friday.

Even if a large-scale, organized vote doesn't take place, leaders on both sides say pro-independence forces could still cobble together a makeshift ballot.

In anticipation of such protests, the central government announced plans on Friday to send extra police to Catalonia "to maintain order," it said. A police union spokesman said 4,000 additional officers would be dispatched to Catalonia. If Catalan leaders do declare independence, Madrid could move to replace regional government officials, although that is viewed as a last resort.

Catalonia's President Carles Puigdemont, a leader of the pro-independence movement, has likened the government and police actions to those of an authoritarian state. He pledges to hold the vote despite pressure from Madrid.

Mayors from around four-fifths of Catalonia's nearly 950 municipalities have said they support the referendum and are willing to allow Catalan authorities to use municipal facilities as polling stations. In response, prosecutors launched an investigation against the mayors and began to call them in last week to testify about their plans.

what's left of the referendum,"

Spain's Deputy Prime Minister Soraya Sáenz de Santamaría told journalists on Friday.

Even if a large-scale, organized vote doesn't take place, leaders on both sides say pro-independence forces could still cobble together a makeshift ballot.

In anticipation of such protests, the central government announced plans on Friday to send extra police to Catalonia "to maintain order," it said. A police union spokesman said 4,000 additional officers would be dispatched to Catalonia. If Catalan leaders do declare independence, Madrid could move to replace regional government officials, although that is viewed as a last resort.

## WORLD NEWS

# Swiss Reject Pension Steps

BY BRIAN BLACKSTONE

ZURICH—Swiss voters rejected a government-backed proposal to shore up the national pension system in part by raising the retirement age for women and increasing taxes.

It was the second time this year that Swiss voters have given the thumbs down to a government initiative. In February, voters in a referendum rejected a plan to change the country's corporate tax system to put it more in line with European Union rules.

According to preliminary figures released on Sunday by the federal government, the pension-reform plan was voted down 53% to 47%. It had been passed by parliament in March.

Voters also failed to approve an increase in value-added taxes to partially pay for the changes.

In Switzerland, many laws



mean more money is being paid out by the national pension system than is coming in.

Despite the increased uncertainty created by the pair of referendum votes, the results don't appear to threaten the wealthy economy's outlook in the near term. Growth has been moderate in recent years and unemployment low. Switzerland has low levels of government debt compared with the U.S., Germany and other advanced economies. Its government is able to sell its debt at low and even negative interest rates.

In short, the government probably has the financial muscle to meet greater old-age spending requirements.

Other developed countries such as the U.S., Germany and Japan face similar demographic trends that put long-term pressure on government finances.

Election-office members sorted ballots in Zurich on Sunday.

must be approved by the public in referendums, particularly if they involve changes to the constitution.

The changes would have increased the retirement age for women from 64 to 65, putting it in line with the retirement

age for men, and would have increased value-added taxes among other changes to the system.

Supporters said the changes were needed because higher life expectancies and a lower number of workers per retiree

# Italy's 5 Star Chooses Moderate Candidate

BY GIOVANNI LEGORANO

RIMINI, Italy—The antiestablishment 5 Star Movement on Saturday anointed 31-year-old Luigi Di Maio, one of its most moderate leaders, as its candidate for premier in Italy's national elections next year.

The choice of Mr. Di Maio, deputy speaker of Italy's chamber of deputies, was expected. "You gave me a great responsibility," Mr. Di Maio said from the party's annual meeting in Rimini. "But all together we can do it."

Italy must hold parliamentary elections by next May. The choice of Mr. Di Maio could help draw voters wary of the 5 Star Movement's more maverick ideas, such as calling a referendum on Italy's membership in the euro, but who are angry at establishment politicians.

Fueled by discontent about

the country's economic performance and promising wholesale change, the movement founded by comedian Beppe Grillo obtained a quarter of the votes when it first ran in parliamentary elections in 2013. Last year, it won local elections in Rome, Turin and elsewhere.

"Over these years we have seen lots of governments, also of technocrats, who had the skills but not the political sensitivity [for the needs of people]," Mr. Di Maio told The Wall Street Journal on Sunday. "So we have seen laws only aimed at shoring up fiscal accounts but which destroyed the life of millions of Italians."

The 5 Star Movement currently receives support of about 27% in polls asking Italians whom they would support in an election. That puts them neck and neck with the ruling Democratic Party.

## IN DEPTH



B.M. Krishnan, seated, and ChuChu Chief Executive Vinoth Chandar.

## RHYME

*Continued from Page One*  
out videos that get more views on YouTube than the official channels of Beyoncé, Coldplay or "The Tonight Show Starring Jimmy Fallon." It has become one of the 25 most-watched YouTube channels in the world.

One of ChuChu's first viral hits was Jack and Jill. In Mr. Krishnan's version, the duo gets a sort of pep talk, recovers and then heads back up the hill to fetch a pail of water.

"Jack and Jill, with a strong will, went again up the hill," starts the new verse.

"I thought 'let's take away the negativity.' It should not de-motivate people," said Mr. Krishnan, 47, creative head at ChuChu TV. "My songs should do better than that."

In ChuChu's rendition, Humpty Dumpty is healed and stops sitting on the wall. "Baa Baa Black Sheep" adds white and brown sheep to the flock and becomes a tale about sharing with the less fortunate. "Little Miss Muffet" is a song about female empowerment and "Ring Around the Rosie" is about appreciating nature.

Children are the most avid clickers on YouTube and when they like something they watch it repeatedly. YouTube estimates family and learning content registers more than one billion views a day.

ChuChu previously helped companies build and maintain websites. It started to dabble in YouTube content in 2013, when it turned to Mr. Krishnan. He was the accountant at the time, but had always dreamed of directing a movie. In the office he was known as a scholar and storyteller who had a great memory for ancient tales in Tamil.

By looking at YouTube traffic numbers, the company could see videos of nursery rhymes were getting millions of clicks. The problem was viewers had hundreds of options. ChuChu needed to find a way to stand out.

It started picking off the most-searched and watched titles, such as, "Twinkle Twinkle Little Star" and "Row Row Row Your Boat." Then it began getting input from viewers around the world.

Someone suggested "Little Miss Muffet," which Mr. Krishnan updated last year. After being frightened off her tuffet, Ms. Muffet of 2016 is reminded of powerful women and gets a pep talk in a new chorus: "Oh Dear Muffet. You are not a puppet. Be brave and face your day." She returns to befriend the spider and share her curds and whey.

"Times have changed. It should not be the case that girls are afraid," said Mr. Krish-

nan. "They should be tough."

Viewers also warned ChuChu about the supposed dark meanings behind some nursery rhymes.

Mr. Krishnan investigated rhymes that may have centuries-old, political and pagan origins. "Ring Around the Rosie," goes one popular but unproven theory, is about the black plague. Humpty Dumpty, some say, could be about a cannon that fell off the ramparts around the town it was supposed to be protecting in the 17th century. While commonly portrayed as an egg, the verse doesn't say so explicitly.

Some are too dark to even try to fix, Mr. Krishnan said. Some think "Mary, Mary, Quite Contrary" might be about the murders and miscarriages of Queen Mary I of England, which is why Mr. Krishnan doesn't want to do it. "I can't come to terms with that rhyme."

Mr. Krishnan has two sons and has tried to raise them using nursery rhymes and stories that contain lessons. He recites one in Tamil that teaches children how to recognize when monsoon rains are coming. He grew up in a tight community where elders shared stories all the time and fears the tradition may be lost as youngsters turn to television and other screens.

It isn't an accident that ChuChu videos are often as over the top as Bollywood dance numbers. Many of its animators and musicians worked in the film industry. Chief Executive Vinoth Chandar, who writes music, is following in the footsteps of his father, one of the Tamil-language film industry's most prolific composers. He tries to pack videos with music and movement to keep children interested.

ChuChu has attracted more than 10 billion views, with the U.S. as the largest single source of traffic—an important distinction as ads played in the U.S. pay more.

So popular are the videos that a team of employees is now assigned to spend time sifting through thousands of flagged comments from potty-mouthed trolls as well as garbled messages from children pounding on keyboards.

Mr. Krishnan is working on a version of "Georgie Porgie" where Georgie makes up with the girls. He wants to add verses to "I'm a Little Teapot" to teach about other things, like how pizza is sliced.

His dream is that children who grew up on his take on the classics will sing them to their children. ChuChu fans are already posting videos of this happening.

"I would love to see our changed version of the rhymes used by others," he said. "Of course, even our rhymes could be rewritten."

■ Health Report – By J. Page

## How a Chicago Doctor Shook Up the Hearing Aid Industry with His Newest Invention

New nearly invisible digital hearing aid now costs over 80% less!

Chicago — Board-certified Ear, Nose, and Throat physician Dr. S. Cherukuri has done it once again with his newest invention of a medical-grade, ALL-DIGITAL, affordable hearing aid.

This new digital hearing aid is packed with all the features of \$2,250 competitors at a mere fraction of the cost. Now most people with hearing loss are able to enjoy crystal clear, natural sound — in a crowd, on the phone, in the wind — without suffering through "whistling" and annoying background noise.

### Digital Hearing Aid Outperforms Expensive Competitors

This sleek, fully programmed, light-weight, hearing aid is the outgrowth of the digital revolution that is changing our world. While demand for "all things digital" caused most prices to plunge (consider DVD players and computers, which originally sold for thousands of dollars and today can be purchased for less), the cost of a digital medical-grade hearing aid remains out of reach.

Dr. Cherukuri knew that many of his patients would benefit but couldn't afford the expense for these new digital hearing aids. Generally they are *not* covered by Medicare and most private health insurance plans.

The doctor evaluated the high-priced digital hearing aids on the market, broke them down to their base components, and then created his own affordable version — called the MDHearingAid®, which has a virtually invisible, lightweight appearance.

### Affordable Digital Technology

Using advanced digital technology, MDHearingAids automatically adjust to your listening environment — prioritizing speech and de-emphasizing background noise. Experience all of the sounds you've been missing at a price you can afford. This doctor-designed and approved hearing aid comes with a full year's supply of long-life batteries. It delivers crisp, clear sound all day long and the soft flexible ear domes are so comfortable you won't realize you're wearing them.

### Try It Yourself at Home 45-Day Risk-Free Trial

Of course, hearing is believing and we invite you to try it for yourself with our RISK-FREE 45-day home trial. If you are not completely satisfied, simply return it within that time period for a full refund of your purchase price.

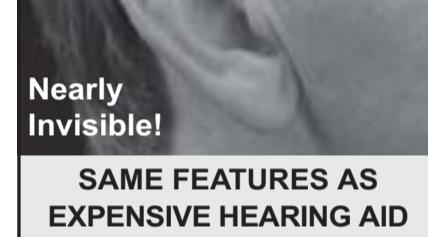
### Buyers Agree, "MDHearingAid is the Best Digital Value!"

"I am hearing things I didn't know I was missing. Really amazing. I'm wearing them all the time."  
— Linda L., Indiana

"Almost works too well. I am a teacher and hearing much better now."  
— Lillian B., California

"I have been wearing hearing aids for over 25 years and these are the best behind-the-ear aids I have tried. Their sound rivals that of my \$3,000 custom pair of Phonak® eXtra digital ITE."  
— Gerald L., New York, NY

"I would definitely recommend them to my patients with hearing loss."  
— Amy S., Audiologist, Indiana



### Nearly Invisible!

### SAME FEATURES AS EXPENSIVE HEARING AID COMPETITORS

- ✓ Mini behind-the-ear hearing aid with thin tubing for a nearly invisible profile
- ✓ Automatic Dual Directional Microphones and Adaptive Noise Suppression help you focus seamlessly on the conversation, not the noise around you
- ✓ Feedback Cancellation eliminates whistling
- ✓ Wide Dynamic Range Compression makes soft sounds audible and loud sounds comfortable
- ✓ Telecoil setting for use with compatible phones, & looped environments like churches
- ✓ 4 Programs, Volume Control Button and in-ear voice prompts so you can communicate confidently, even in the most challenging listening environments

Features vary by product

### Can a Hearing Aid Delay or Prevent Alzheimer's and Dementia?

A study by Johns Hopkins and the National Institute on Aging suggests older individuals with hearing loss are significantly more likely to develop Alzheimer's and dementia over time than those who retain their hearing. They suggest that an intervention — such as a hearing aid — could delay or prevent this by improving hearing!

**MDHearingAid®**

For the Lowest Price Plus FREE Shipping

Call Today

**1-800-738-6593**

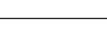
**Phone Lines Open**

**24 Hours EVERY DAY**

**or visit:**

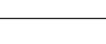
**www.TryMDHearingAid3.com**

**Use Offer Code HG99 to Get FREE Batteries for a Full Year!**



45-DAY  
RISK-FREE  
TRIAL

Proudly assembled  
in America!



BBB

# GREATER NEW YORK

## Mugshots Give Officials a Close-Up

Arrests of politicians at protests come with few surprises and ample publicity

When Councilman Brad Lander was arrested during a 2015 rally to support workers at a Brooklyn carwash, he ran into an acquaintance at the police station: The local precinct commander, who stopped by to exchange pleasantries as he was being booked.

By Mara Gay,  
Mike Vilensky  
and Zolan  
Kanno-Youngs

"It was a friendly arrest," Mr. Lander said. "It was easy for them, it was easy for us."

Getting arrested for civil disobedience has long been a way for New York's Democratic officials to show solidarity with activists and bring attention to their causes. But these run-ins with the law often are orchestrated affairs that can be different from conventional arrests, according to interviews with lawmakers, organizers and police officials.

Police often are notified ahead of time to expect arrests. Elected officials may have personal relationships with the department taking them into custody. And then, of course, there are the news cameras.

"Getting arrested for a cause is a rite of passage," said state Sen. Brad Hoylman, a Manhattan Democrat who has twice been arrested while protesting.

"That has to be part of their résumé," a police official said.

The New York phenomenon has ramped up since Republicans took control of the federal government in January. City Council Speaker Melissa Mark-Viverito, a Democrat, was arrested last week along with Rep. Adriano Espaillat and two other members of Congress at an immigration-related protest outside Trump Tower.

"In any movement for jus-



Politicians arrested at protests include City Councilman Jumaane Williams in January and Speaker Melissa Mark-Viverito last week.

### Being Detained Has Its Advantages

Getting arrested has proved to be a helpful political move in New York City in some cases, even boosting campaigns.

Bill de Blasio, a Democrat, was struggling to gain name recognition during his 2013 bid for mayor when he was arrested while protesting the clo-

sure of a Brooklyn hospital. The media coverage of his arrest helped boost his profile.

Other mayoral candidates at the same protest—former Rep. Anthony Weiner and former City Comptroller John Liu—weren't arrested, and Mr. de Blasio's apparent willingness to be booked was cheered by activists.

Other politicians who have been detained said the experience could be eye-opening even

if they had planned to be arrested.

When state Sen. Brad Hoylman of Manhattan was arrested during a protest in New York City, the Democrat was put in a typical holding cell for six hours with detainees who were there for other reasons.

"That was educational," he said. "There were some surly types in that cell."

—Mara Gay

the arrests, Mr. Davis said.

"All of it is choreographed," said Bronx Councilman Ritchie Torres, who was arrested in 2014 rallying to improve labor conditions for airport workers.

Most arrested for such minor offenses will be given a "desk appearance ticket," a process for offenders who aren't deemed a threat. For

civil disobedience call for less aggressive tactics and shorter bookings than more serious crimes, no matter who is being arrested, said police spokesman Stephen Davis.

For civil-disobedience offenses such as obstructing traffic, police will often issue warnings telling protesters they will be detained before carrying out

the arrests, Mr. Davis said.

"All of it is choreographed," said Bronx Councilman Ritchie Torres, who was arrested in 2014 rallying to improve labor conditions for airport workers.

Most arrested for such minor offenses will be given a "desk appearance ticket," a process for offenders who aren't deemed a threat. For

politicians, who generally don't have extensive criminal records, the charges typically will be dismissed in court if the defendant isn't arrested again in the following months.

One police-union official, Ed Mullins, said officers sometimes will delay an arrest until a politician has had the chance to protest.

Elected officials defended the tactic, saying it could be helpful to a cause even if their experiences were different from other people detained by police.

Like others arrested by the NYPD during large protests on minor charges, elected officials usually are put into zip ties in lieu of handcuffs.

"They are tight though, I'll tell you that," said Councilman Jumaane Williams, a Brooklyn Democrat who said he has been arrested on civil-disobedience charges so many times he has lost count.

## Mayor Fills Hospital System CEO Job

By Mara Gay

Mayor Bill de Blasio has chosen a new official to lead New York City's sprawling, fiscally troubled public-hospital system.

Mitchell Katz, currently director of the Los Angeles County Health Agency, will lead the system known as NYC Health + Hospitals, a de Blasio administration official told The Wall Street Journal.

The New York City agency has been without a permanent chief executive officer since Ram Raju stepped down last November. Stanley Brezenoff, who first served as CEO in the 1980s, has been serving as interim CEO.

NYC Health + Hospitals oversees 11 public hospitals and serves more than 1.3 million people every year, many of them with low incomes who may not be able to afford treatment elsewhere.

Mr. de Blasio last year launched an overhaul of NYC Health + Hospitals aimed at closing a \$1.8 billion budget gap projected for 2020. The central part of the plan involves refocusing the system from an in-

Mr. Katz from the Los Angeles County Health Agency will run NYC Health + Hospitals.

patient model to an outpatient one, which health officials say would deliver better care and save money.

Dr. Katz said he plans to continue that work. He said he oversaw a similar transition in Los Angeles County, where he has been credited with helping to rein in large budget deficits.

Before going to Los Angeles in 2011, he served for 13 years as Director and Health Officer of the San Francisco Department of Health.

The Affordable Care Act had been critical in allowing Dr. Katz to turn around budget deficits in Los Angeles County, he said.

Dr. Katz is likely to start his new role late this year. The appointment must be confirmed by the NYC Health + Hospitals board.



DR. MITCHELL KATZ



Sondra Radvanovsky performs in the title role of Bellini's 'Norma' at the Metropolitan Opera.

## Old Operas Get New Twist at Met

By Charles Passy

When the Metropolitan Opera opens its season Monday night, it will return to a work that has been in its repertoire since 1890—Bellini's "Norma." The production, however, won't be a familiar one.

Instead, the company will present what it says is an "evocative" new take on the opera, created by the Scottish director Sir David McVicar and featuring such prominent singers as Sondra Radvanovsky and Joyce DiDonato.

"I was very interested in doing a new 'Norma' if we could cast it correctly," says Peter Gelb, the Met's general manager.

The company won't reveal the production's exact cost, but notes that a new staging of a work runs anywhere from \$1.5 million to \$4.5 million. No matter the expense, Mr. Gelb says that for the Met to remain as "alive and vibrant" as ever, "it's absolutely necessary to inject new productions of core repertoire each season."

Such is the dilemma the Met continually faces.

Beyond "Norma," the company will offer four other new opera productions in 2017-18, including: Puccini's "Tosca" and Mozart's "Così fan tutte," along with the Met premiere of Thomas Adès's "The Exeter-

Please see OPERA page A14B



"First Republic not only cares about their communities, they care about the future of the kids in those communities."

COMMON SENSE MEDIA

James Steyer, Founder and Chief Executive Officer



FIRST REPUBLIC BANK

It's a privilege to serve you®

(855) 886-4824 | [firstrepublic.com](http://firstrepublic.com) | New York Stock Exchange symbol: FRC

MEMBER FDIC AND EQUAL HOUSING LENDER

## GREATER NEW YORK

# Garment District Torn Over Zoning

Business alliance seeks end to rules preserving manufacturing space; industry has concerns

BY KEIKO MORRIS

Jobs in Midtown's Garment District have grown in sectors from food services to professional business services during the past year, while office rents have increased and the neighborhood's rapidly multiplying hotels boast some of the highest occupancy rates in Manhattan, a new study shows.

And yet the neighborhood's economic growth is being held back, according to officials with the Garment District Alliance, the authors of the study.

They blame a 30-year-old zoning restriction that preserves space for the apparel manufacturing sector, which continues to decline. Apparel-related production jobs fell to 4% of the neighborhood's private employment last year from 5% in 2015, according to the study.

"You have a Midtown Manhattan location, the best regional transportation anywhere in the city of New York, and class B and class C office stock that is highly desired by the business-services sector and is technically held off the market," said Barbara Blair, president of the Garment District Alliance, a business improvement district funded by property owners and businesses. "We want the restrictions lifted, period."

A controversial proposal announced earlier this year by the New York City Economic Development Corp. to end zoning protections within portions of the Midtown neighborhood is on hold as the city studies a set of recommendations released in August by a committee of Garment District manufacturers, property owners and fashion-industry businesses.

City officials formed the committee after the proposal



Apparel wholesale jobs decreased slightly, to 14,285, in Manhattan's Garment District between 2000 and 2016, a study showed.

**68%**

Decline from 2000 to 2016 in jobs related to apparel manufacturing

of the preservation requirements to some mechanism providing long-term, affordable garment-manufacturing space in the neighborhood.

Many apparel-related businesses said the lifting of the zoning restriction without a strong program to help manu-

facturers stay in the district would accelerate their decline and threaten the city's broader fashion industry, a fixture of New York's identity and a magnet for young creative workers.

"We continue to believe that before we change the zoning and the protections for manufacturing that exist now, we need another way to keep manufacturers up and running in Manhattan," Borough President Gale Brewer, who headed the committee, said in a statement.

The longer the zoning-preservation mandate remains, the Garment District Alliance as well as some of its allies on this issue warn, there will be missed economic opportunities and money left on the table as the apparel production in the neighborhood continues to decline.

Between 2014 and 2017, average starting rents for office

space in the Garment District have risen 24% to \$52.64 a square foot, according to the business-improvement district's study. But the district's starting office rent trails surrounding neighborhoods such as Hudson Yards, where the average starting rent is \$79 a square foot.

The organization's study revealed that total private employment in the district jumped 50% between 2000 and 2016 to 134,159 jobs.

The professional and business-services sector, which includes advertising, architectural, engineering and technology firms, increased 168% between 2000 and 2016, the most recent year available. That sector's workforce of almost 49,000 makes up a third of the district's private-sector positions.

Apparel wholesale jobs de-

creased only slightly, to 14,285, during the period. But apparel-related manufacturing jobs fell 68% to 5,538.

Advocates for preserving some apparel-manufacturing space in the district said they are under no illusions that manufacturing will return to previous levels under the continued pressures of globalization.

Yet, while the sector in the Garment District is small and fragile, its high-skilled, diverse specialties have made the area a prototyping center, where any garment with any embellishment imaginable can get made, said Joe Ferrara, president of Ferrara Manufacturing and chairman of the New York Garment Center Supplier Association.

"This is an incubator for small brands and launch brands," he said.

## GREATER NEW YORK WATCH

JERSEY SHORE

### Swimmer Caught In Rip Current Dies

A swimmer pulled from the rough waters at a New Jersey beach has died, authorities said.

The 34-year-old Piscataway man was with his family at Seven Presidents Oceanfront Park in Long Branch when he entered the water shortly after 5 p.m. Saturday. He apparently got caught in a rip current, one of several spawned by Hurricane Jose as it passed well east of the New Jersey coast.

The man was pulled from the water a short time later and taken to a hospital, where he died.

—Associated Press

COURTS

### Anthony Weiner Faces Sentencing Monday

Former Democratic Rep. Anthony Weiner is set for sentencing Monday for sending obscene material to a 15-year-old girl.

Federal prosecutors have asked for a sentence of slightly more than two years behind bars because of the seriousness of the crime, in which Mr. Weiner sent adult pornography to the teen and got her to take her clothes off for him on Skype.

Mr. Weiner's attorneys contend he is a changed man who finally has learned his lesson, calling his compulsive sexting a "deep sickness" best treated without time in prison.

—Associated Press

NEW JERSEY

### Hard Landing in Field Leaves Pilot Uninjured

A pilot escaped injury Sunday when his experimental aircraft made a hard landing in a soybean field, authorities said.

The pilot was the only one aboard the single-engine Aerotrike Safari plane when it went down in Hopewell Township.

—Associated Press

## THE LUXURY TECHNOLOGY SHOW 2017

OCT. 4<sup>TH</sup> · THE METROPOLITAN WEST · 639 WEST 46TH ST.

MEDIA SPONSOR

THE WALL STREET JOURNAL.



### EXCLUSIVE INVITATION FOR WSJ READERS

Preview and acquire the latest electronics for home & business!

See product debuts from automotive, home theater, wearable tech & more.

Guests Use Promo Code: WS2017 for 50% Off Admission

Admission Price: \$95 per Guest

Approved Press & Industry Execs receive complimentary admission.

Guests RSVP to [TheLTS.com/VIP](http://TheLTS.com/VIP)

Press & Media RSVP to [PR@noycom.com](mailto:PR@noycom.com)

Exquisite Cuisine Provided by: **Scarpetta**

Signature Cocktails & Fine Wine shall be provided by **Vidalco Int'l.**

A silent auction shall benefit the **Red Cross** for ongoing hurricane relief efforts.

PRESENTING SPONSORS:

**DASSAULT SYSTEMES**

**ShadeCraft**

PARTIAL LIST OF BRANDS SHOWCASING:

**MOEN**

**Echobox**

**LEXUS**

**TIDALFORCE**

**Vi PERSONAL TRAINER**

**DORMIGO**

**Classica Massaggio**

**MARCAUDIO SOTIA**

Almost Heaven Saunas • Beaugeste • Como Audio • Gama Aviation • Godiva HiMirror • Hisense • Kano Computing • Lift Foils • Mobilize Rescue Systems Nuheara • Soundfloat • Symantec • Thiel Audio • Tidal Force • TOTO

**THELTS.COM**

### Muslim-Americans Celebrate Culture and Country



UNITED: Women marched with the American flag in the Muslim Day Parade in Manhattan on Sunday.

## OPERA

Continued from page A14  
minating Angel."

That equates to a sizable investment in an era when the company has faced financial challenges, running a deficit as high as \$21.9 million in its 2014 fiscal year. The nonprofit company says it is on track to balance its budget this year.

The season will feature 224 performances of 26 works and runs through May.

Adding another wrinkle to the equation: When a production replaces a long-established one, there is a risk it won't be as well received by critics and audiences alike.

Such was the case when the Met's previous "Tosca" bowed in 2009, taking over for a beloved version created by director Franco Zeffirelli, well-known for his work in both opera and film. Alex Ross, the reviewer for the New Yorker magazine, called it "an uneven, muddled, weirdly dull production that interferes fatally with the working of Puccini's perfect contraption."

Still, there are many reasons why a company opts to replace a production, even one that has been a mainstay for decades. As Mr. Gelb indicates with

"Norma," sometimes it can be because there are singers who merit a new staging. In other instances, it simply can be because a production's sets and costumes turn threadbare.

There also is a desire to take classic works and give them a fresh spin. Consider the Met's new version of "Così fan tutte" that is set to open March 15. It places Mozart's opera in a setting inspired by Coney Island during the 1950s.

New productions of core repertoire each season keep the Met 'alive and vibrant.'

"Così" director Phelim McDermott says what is true with theater should be true with opera: "The reason Shakespeare is still around is those plays stand up to being reinterpreted."

To a certain extent, there also is a business rationale for embracing new productions. While they bring with them considerable upfront costs, they tend to attract larger audiences, even when they suffer bad reviews.

The Met notes that during

the last five seasons, new productions have drawn audiences of 79% to 84% capacity annually. By contrast, established productions during that same period have drawn audiences of 69% to 77%.

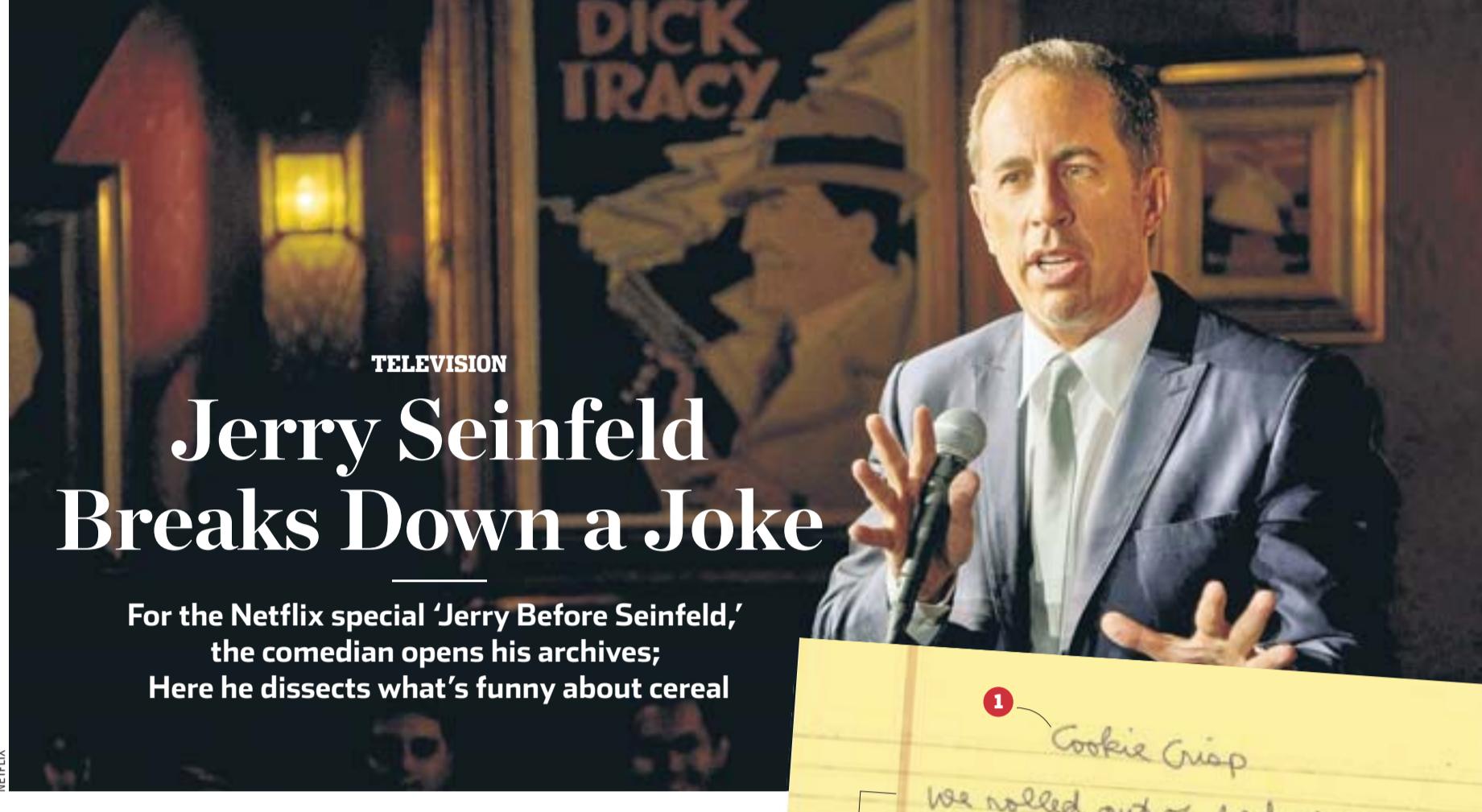
Moreover, new productions are often largely funded by donors who like attaching their names to something that is sure to get attention. Certainly, it is more attractive than paying for day-to-day expenses. "What donor wants to say that they paid for toilet paper?" says Fred Plotkin, a former Met employee who is now a consultant to opera companies.

Which isn't to say the Met is looking to fill its calendar with as many new productions as possible. If anything, this season's five new ones signify a retrenchment. In the past decade, the Met has done as many as eight.

Part of the reason, Mr. Gelb explains, is that new productions require more rehearsal time, which can be difficult to arrange given the Met's busy schedule. But he doesn't deny that cost also plays a role, as evidenced by the fact the company scrapped a planned new staging of Verdi's "La Forza del Destino."

"That was a production that didn't have funding," he says.

# LIFE & ARTS



TELEVISION

## Jerry Seinfeld Breaks Down a Joke

For the Netflix special 'Jerry Before Seinfeld,' the comedian opens his archives; Here he dissects what's funny about cereal

NETFLIX

BY JOHN JURGENSEN

**USING A BIC** ballpoint pen, Jerry Seinfeld composes all his jokes on sheets of yellow legal paper, as he's done since 1975 when he first tried his hand at stand-up comedy. He kept every joke, organized alphabetically, but never intended for anyone to see the pages.

"I don't want to say embarrassed, but they were a very private thing for me," Mr. Seinfeld says.

"I don't want people to know how much work I put into it. I just think it's more fun when it seems off the cuff."

The 63-year-old comedian opened up his archives when he made a one-hour special for Netflix. It's the first result of a deal he struck with the streaming service that includes a future special and his interview series "Comedians In Cars Getting Coffee," which previously ran on Sony's streaming site Crackle.

"Jerry Before Seinfeld," released on Netflix last week, is a stand-up set that doubles as his oral history of an initiation into the comedy life.

The show was shot in a tiny club in Manhattan, the Comic Strip, where Mr. Seinfeld sharpened his skills nightly but hadn't performed in 30 years.

He tells stories of that incubation phase and delivers jokes written in the years leading up to his first appearance on Johnny Carson's "Tonight Show" in 1981, eight years before the premiere of "Seinfeld."

Though music stars routinely play hits from their back catalog, it's rare for stand-ups to resurrect vintage material.

The observations in some of Mr. Seinfeld's old jokes defy aging—his free-range childhood in the 1960s, socks escaping from the laundry, the improbable power of the Notary Public—but it was challenging to get that material back into shape for the new special, he says.

"When a bit is your act and your act is your life, you know every letter of every word. Every note of inflection and timing. And I had forgotten it all. I had to re-learn it."

In a recent interview, Mr. Seinfeld broke down elements of a joke written in his formative years that resurfaced in "Jerry Before Seinfeld."

### Breaking Down 'Cookie Crisp'

1. Long before "Seinfeld" showed a lineup of cereal boxes in Jerry's kitchen, the comedian was tickled by breakfast foods, especially the sugary brands. "Cereal. It's just one of the funnest things. It's candy masquerading as food. What a racket," he says.

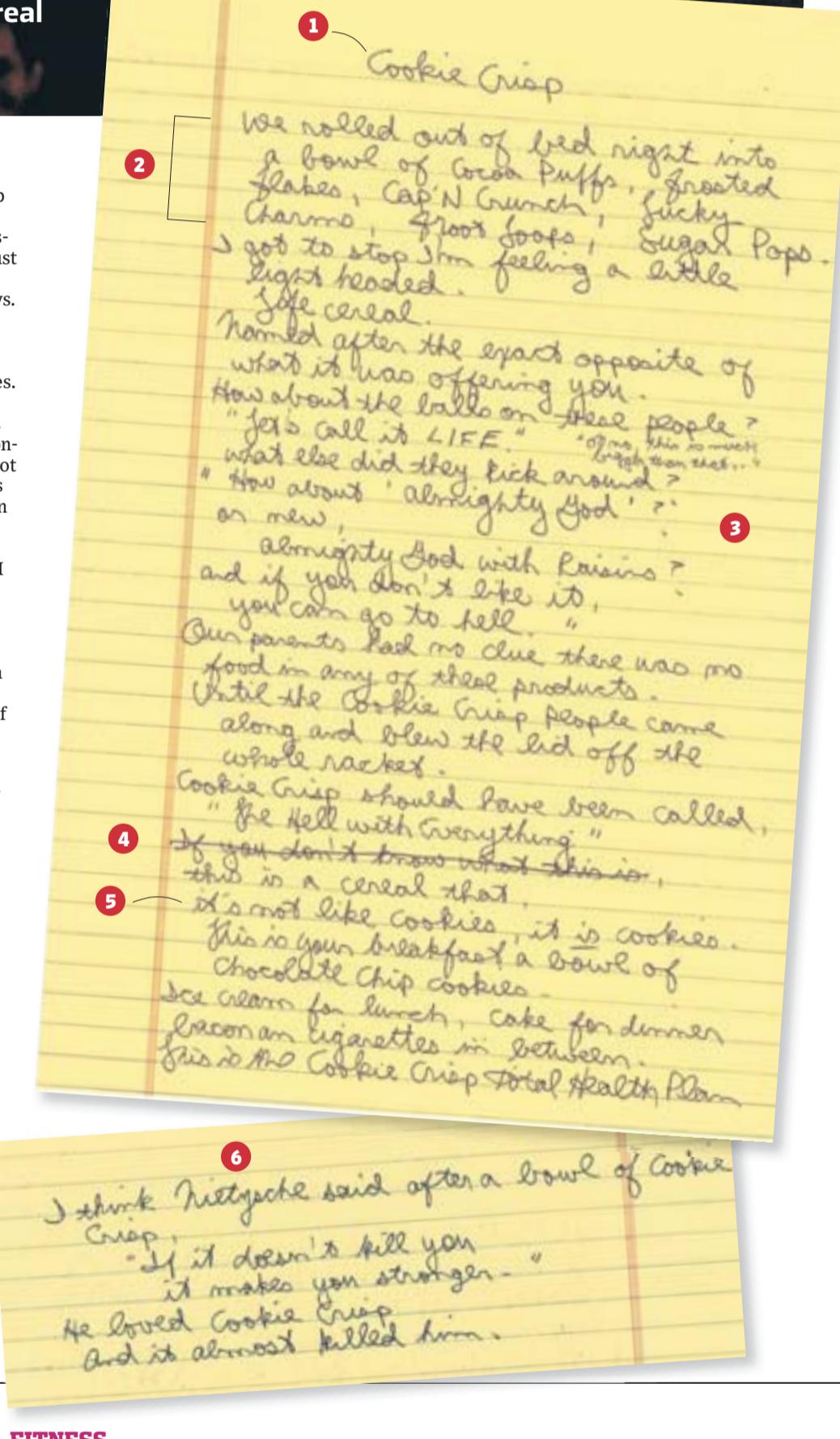
2. On stage, he ticks off brands. "You want things that are just fun to say. It's fun to say Cocoa Crisp and Fruity Pebbles. It's not fun to say Oat Bran." He hits a high note on the last word, which comes out as a strangled shriek. "Pops has a consonant strength that Froot Loops does not have. Frosted Flakes? Soft. Sugar Pops is on the end and not by coincidence. I plan that out."

3. Of his cursive handwriting, he says, "I love penmanship. I love writing with a pen. I feel like I'm painting."

4. Crossed out lines will sometimes survive in performance (this line pops up in the "Jerry Before Seinfeld" version) but such edits illustrate a painstaking part of the creative process. "You're always trying to trim everything down to absolute rock, solid rock. I will sit there for 15 minutes to make it one syllable shorter."

5. The whole bit hinges on this line—"It's not like cookies, it is cookies," Mr. Seinfeld says. "There's a brevity and a rhythm and an insanity to that. When you're writing stand-up, you're looking for something that you can wield like a syntactical weapon." There's also an element of surprise: "You make it a little shorter than the audience thinks it's going to be. When I say, 'It's not like cookies,' they don't think this joke is going to end in three more words."

6. Mr. Seinfeld got excited about featuring a 19th century German existentialist in his bit. "If I can get a joke that refers to Nietzsche, it's like shooting an arrow into the sun." But the average audience member's sketchy knowledge of the philosopher made the set-up wobbly, so the comedian spiked it. "There's a lot of places you can use that joke, but in a nightclub it's not going to cut it. It was a dream that died on the page.



FITNESS

## GYMS GO FROM WORKOUT TO TAKE-OUT

BY RACHEL BACHMAN

**SEAN POTTER** gets his pork chops where he does his push-ups.

Mr. Potter, a member of the CrossFit New England gym in Natick, Mass., is part of a growing group of exercisers picking up prepared food where they work out. His favorite service, Paleo Power Meals, delivers freshly made breakfasts, lunches and dinners twice weekly to a refrigerator at CrossFit New England. When not on the road for work, Mr. Potter buys several meals a week, such as the "all-natural" Berkshire pork chop with red and green peppers, balsamic glaze and mashed cauliflower. Other members order ahead, and leave workouts lugging bags bulging with entrees.

Mr. Potter, who is married and has three children, explains why he started relying on

the gym for healthy meals, particularly lunches. "No. 1, spending time with my family is more important than cooking meals for the week," the 40-year-old software salesman says. "No. 2, spending time at the gym is more important than going out to lunch."

For years, companies have delivered stocks of enticing meals to customers' homes. The services are finding a new market in time-strapped people seeking healthy, preservative-free servings, often packed in a single plastic container. To minimize delivery costs, many companies drop the meals off in a place that customers frequent: the gym.

Healthy packaged meals are popping up everywhere from Tone House, a Manhattan studio where a sports-conditioning class costs \$40, to Energy Fitness in Paducah, Ky., where the meals are popular with food-loving millennials as well as budget-conscious

Please see FIT MEALS page A17



At CrossFit New England, above, in Natick, Mass., members can pick up healthy prepared food, such as the Paleo Power Meal favored by Ben Bergeron, right, co-owner of the gym and a coach.

## LIFE & ARTS



WHAT'S YOUR WORKOUT? | By Jen Murphy

# Inspired to Sweat

Hawaii's culture and natural beauty led Jeff Ammerman to Kiakahi, an intense workout

**SOME PEOPLE TURN** to spirituality when they hit hard times. Jeff Ammerman turned to fitness. "Sunday beach workouts are my church," he says. "It's my spiritual reset and network of support." Mr. Ammerman, 37, had been living a "rocker party" lifestyle on Oahu, struggling with depression and alcohol. In 2015 he moved to Maui hoping for a fresh start. A personal vacation planner for Westin Maui Resorts, he overheard a resort concierge talking about Kiakahi.

Kiakahi workouts fuse Polynesian cultural practices with functional movement. A typical session might start with an oli, or a Hawaiian chant, follow with various kolo, or crawls, and sprints in the ocean, and end with the instructor blowing on a conch shell.

Mr. Ammerman showed up for a free community workout on Sugar Beach in September 2016 and was greeted by an instructor jumping out of the ocean with a huge rock in his hands. "I was immediately sold," he says.

Mr. Ammerman is 6-feet-2 and at the time weighed 250 pounds. "I struggled," he says. "I couldn't run more than 25 yards on the sand without thinking of giving up." But he says the instructors' encouragement and outdoor setting kept him motivated. "I had tried spin classes and CrossFit, but it's really hard to be indoors here," he says.



Top, Mr. Ammerman and a partner work with a laau as part of their Kiakahi workout. Below, he and teammates run through the surf carrying a pohaku.

Mr. Ammerman was born on Oahu but spent his teens and 20s in California and says he lost touch with Hawaii's culture. "Every workout speaks to the cultural message of respecting the land or people and understanding the true meaning of aloha," he says. "It sets a tone of gratitude and appreciation."

As he got more fit, Mr. Ammerman began going to Uprising, a functional workout at a field run by some of the Kiakahi instructors. "It's like Kiakahi, but with a Cross-

Fit edge, and you have to wear shoes," he says. In August, Mr. Ammerman, along with some of his Uprising and Kiakahi friends, participated in the Spartan Ultra Beast, a race that covers 26 miles and has 60-plus obstacles throughout the course.

Mr. Ammerman has dropped to 215 pounds and is now training to run the Maui Marathon Relay on Oct. 15 with some of his workout friends. "I never imagined when I went to that first beach workout I'd find a family," he says. "I train

not just for me but to make them proud because they believe in me."

### The Workout

Two-hour Kiakahi sessions incorporate ropes, sandbags, medicine balls, jump rope, pohaku, or rocks, and laau, or long wooden sticks.

The workout is broken into four parts. The first involves various crawls that warm up the muscles and might even include somersaults and frog hops. The second part uses laau, which Mr. Ammerman might push and pull with a partner or throw at a target. Hakoko, or Hawaiian play fight, involves partner drills and movements like squats and lunges. Workouts end with kaula, or ropes, which work the arms and core and challenge balance. He says one of the toughest drills involves carrying sandbags through thigh-high waves. "The instructors always run with us and if they finish ahead, they come back and run alongside you for encouragement," he says.

Four nights a week he attends Uprising workouts at a local field. The group might run stadium stairs 100 times, then rotate through stations of kettle bells, jump ropes, sled pulls, burpees and medicine ball throws. He goes to 24 Hour Fitness three times a week and will lift weights and run 3 miles on the treadmill. Once or

twice a week he does a P90X yoga and ab workout at home after a beach run.

### The Diet

Breakfast is occasional and light. "It depends on if I'm working," Mr. Ammerman says. "I usually grab a banana after I run." He has sushi for lunch. Uprising finishes at 6:30 p.m. and his drive home can take up to an hour. "I'm too lazy to cook when I get home," he says. "I usually just pick up something healthy and easy."

He routinely hits the salad bar at a local grocery store and tosses together greens, broccoli, eggs, chicken, cucumbers and strawberries or raisins and tops it with balsamic vinaigrette. He used to eat sweets every day. His weakness is chocolate peanut butter Häagen-Dazs. "I would eat an entire container in one go," he says. "Now I try to make a pint last over the course of a week or two. I have four or five bites and set a date of when I'm allowed to dig back in." He says he still drinks alcohol, but in moderation.

### The Gear & Cost

Mr. Ammerman wears Inov-8 X Talon 212 sneakers for trail running (retail \$115) and or Nike Flex Experience RN 6 sneakers (\$65) for the gym or road running. He buys Virus compression apparel. He pays \$40 a month for his membership at 24 Hour Fitness and \$60 a month for Uprising workouts. Kiakahi workouts are free.

Must use coupon code **accusave**

**\$199.99**  
[zvox.com](http://zvox.com)

Reg. \$249.99—use coupon code "accusave" and save \$50\*

## Can't Hear Voices On TV?

Our AccuVoice® Speaker uses hearing aid technology to make TV dialogue crystal clear.

Can't hear dialogue on TV? You're not alone. Today's TVs have tiny speakers with weak sound. Our new AccuVoice® Speaker uses advanced computer algorithms to lift voices out of background sounds. Dialogue is incredibly clear, even at low volumes. Only 17" wide, it fits anywhere. Hookup is simple – one connecting cord. Room-filling home theater sound, with the clearest voices we've heard on any speaker, at any price. Read our amazing consumer reviews on [amazon.com](http://amazon.com).

"Great for folks who have trouble hearing the TV." CNET

**ZVOX®**  
Great Sound. Made Simple.

800-946-2152

30-Day Home Trial | Free Shipping | [zvox.com](http://zvox.com) | [amazon.com](http://amazon.com)

\* ZVOX & AccuVoice are registered trademarks of ZVOX Audio.

\*ORDER AT [AMAZON.COM](http://AMAZON.COM) OR [ZVOX.COM](http://ZVOX.COM)

HAIR LOSS?  
THINNING HAIR?  
The LASERBAND Has You Covered!

**HOW HAIRMAX WORKS**

HairMax delivers nourishing laser light energy to your hair follicles to treat hair loss, reverse the thinning process, restore your hair's natural growth cycle and stimulate fuller, denser hair growth.

**FDA CLEARED**

**CLINICALLY PROVEN**

HairMax laser devices are proven to regrow hair with an over 90% success rate. Men and women in clinical studies experienced an average increase in hair count of 129 new hairs per sq. inch.

**INNOVATIVE TECHNOLOGY**

HairMax leads all other devices with 3 elements for efficacy including patented hair parting teeth, laser intensity and laser density to provide a highly effective hair loss treatment.

**START To Regrow Your Hair TODAY!**

**15% OFF ANY LASER DEVICE**  
+ FREE 4 PC. Hair Care Bundle & U.S. Shipping  
Promo Code REGROW15WS Exp. 10/07/2017

**1.800.9REGROW | HAIRMAX.COM**

Lexington International, LLC • 1040 Holland Drive, Boca Raton, FL 33487 • +1.561.417.0200

\*HairMax laser devices are indicated to treat Androgenetic Alopecia, and promote hair growth in males who have Norwood Hamilton Classifications of IIa to V and in females who have Ludwig (Savin) I, II, II, or III patterns of hair loss and who both have Fitzpatrick Skin Types I to IV. Laser Light Avoid Direct Eye Exposure. + Valid only on orders made through HairMax.

This  
is  
Not  
Your  
Grandfather's  
Office  
Chair

**X-CHAIR**

**30 DAY Risk Free Trial | FREE Shipping | \$100 off**

Free footrest with code: FreeFootrest

BuyXchair.com | 844-4-XCHAIR | Corporate Discounts Available

### A Buddy's Positive Influence



Workout buddies can motivate us for a 5 a.m. gym session and push us to run that extra mile, but they can also affect our choices outside the gym, says Tony Maloney, an exercise physiologist and fitness center manager at the National Institute for Fitness and Sport in Indianapolis. "I always ask people, 'What does your power circle of friends look like?'" he says. "We often act like the people we hang out with." Mr. Maloney says people who overcome an addiction, such as alcoholism, typically change their friends. "When you make a positive change and others don't, it can bring out their insecurities," he says. "Rather than rise up and support you, they might try to bring you down." Being in a community that cares about exercise, nutrition, sleep, career and family can be inspiring, he says, and people who discover fitness often pick up the healthy habits of their personal trainers or workout partners and friends. "Instead of having three drinks at a bar after a workout, you might go for a juice or grab a healthy dinner," he says.

AMANDA ENNIS FOR THE WALL STREET JOURNAL

## LIFE & ARTS

### ART REVIEW

# A Rare Visit From a Family of Kings

BY JUDITH H. DOBRZYNSKI

Dallas

**'GATHER AROUND,** that I may tell you what will happen to you in days to come," Jacob tells his sons in Genesis. Gather around, I add, that I may tell you what will happen if you visit "Zurbarán: Jacob and His Twelve Sons, Paintings From Auckland Castle" at the Meadows Museum.

You will be visually thrilled by these life-size paintings; see Francisco de Zurbarán (1598-1664) in a new light; discover his inspirations for this series; grasp much about his working methods; witness the toll of time on paint; recall a biblical story important to the Abrahamic religions; and learn the intriguing backstory of this cycle and why it (indeed, any series by Zurbarán, who made several) has come to the U.S. for the first time.

These paintings date to the 1640s—near the end of the Spanish Golden Age—but they are unlike most Zurbarán works. They are naturalistic, but not as mystical, sculptural or intense. His palette here is more colorful; his lighting less dramatic. They feature not Christ, saints or monks, but Old Testament figures. And their commissioner is unknown, not an ecclesiastical patron; some speculate that they may have been intended for export to the New World.

They all disappeared until the 1720s, when they turn up in London, owned by a Jewish merchant. In 1756, Richard Trevor, the prince-bishop of Durham in northern England, won all but two of the 13 at auction (Joseph, which he soon purchased privately, and Benjamin, which would pass into the collection at Grimsthorpe Castle in Lincolnshire).

Trevor hung them, along with a copy he commissioned of Benjamin, in Auckland Castle's dining room. At the time, neither Catholics nor Jews had full civil rights in England. Trevor had argued on behalf of Jews in Parliament and, by displaying art featuring the an-



The Zurbarán paintings and other works hanging in Auckland Castle's dining room. This exhibition marks the first time the series has traveled to the U.S.

cient tribes of Israel produced in Catholic Spain, he made a statement about religious tolerance to his powerful dinner guests.

There the paintings remained for more than 250 years (except for an exhibit in London and Madrid in 1994-95). In 2012, the commissioners of the Church of England sold them and the castle to British investor and collector Jonathan Ruffer, who grew up in once thriving, but now depressed northern England. Mr. Ruffer is restoring the castle and developing a museum of faith there—thus creating the opportunity for this exhibition.

In the main gallery, Zurbarán's series looks glorious against green wallpaper that replicates Trevor's. Jacob, grandson of Abraham, and bent with age, leans on a cane. Arrayed around him are his sons. Each one dominates a bucolic landscape. Each one is uniquely dressed, shod and posed. Each one communicates the "blessing" Jacob

conferred to him on his deathbed. Yet with all their disparate personalities, they form a cohesive whole.

Judah—king and father of kings—faces the viewer regally, wearing a crown and an elaborately brocaded, fur-collared coat and holding a star-topped scepter. Issachar—"a strong donkey," in Jacob's words—walks in profile, very simply dressed and bearing a burden on his back, his donkey in tow. Zebulun—a sailor—holds an anchor and barge pole and wears striped, cropped pants that indicate his success.

The most stunning is Asher—whose "food shall be rich." He is a ruddy-cheeked farmer, in profile, nonetheless dressed in richly patterned, brilliantly colored garb. Set in a wheat field, he carries a basket of bread, perhaps subtle reference to Jesus in the Holy Eucharist.

The others once were likely as vivid. Benjamin, in the 18th-century copy, also on display here, wears rose trousers, decorated

with yellow bows, that have faded unevenly in the original. His handsome, half-shaded face is grayish in the original, not fleshy pink as in the copy. And Joseph—he of the coat of many colors—is cloaked now in tan and gray. Once, it was lavender and his black leggings were emerald green.

Visitors will learn this because

the paintings actually left England

a year ago, shipped to the conser-

vation labs of the nearby Kimbell

Art Museum. There, technical anal-

ysis revealed the paint loss and

much about Zurbarán's working

methods. There are few examples

of pentimenti, for instance, an indi-

cation that the works were well

planned before being executed by

Zurbarán and his workshop. On the

other hand, there are some "late-

stage edits," according to conserva-

tor Claire Barry. Zurbarán added

more bread to Asher's basket, for

example, and he filled out Zebu-

lun's face, which had been thinner,

gaunter, a bit like Issachar's.

Scholars knew that Zurbarán looked to prints by other artists for gestures, costume elements and other inspirations. The new research shows more connections, adding "The Twelve Apostles" by Martin Schongauer (c. 1445-1491) to works by Dürer, Jacques de Gheyn II and Philip Galle.

Many of those prints and engravings, as well as the analytical discoveries, are on view in side galleries here. They greatly enrich the visitor experience and make "Zurbarán: Jacob and His Twelve Sons" a many-splendored thing.

**Zurbarán: Jacob and His Twelve Sons, Paintings From Auckland Castle**

Meadows Museum, through Jan. 7, 2018

*Ms. Dobrzynski writes about culture for many publications and blogs at [www.artsjournal.com/realecleararts](http://www.artsjournal.com/realecleararts).*

## FIT MEALS

*Continued from page A15*  
seniors who live alone, says Sharon Hales, the gym's general manager.

About 25% of Energy Fitness's members buy Megafit Meals, prepared in nearby Benton, Ky., which the gym displays in a cooler. Offering healthy meals helps members stick to weight-loss and fitness goals, Ms. Hales says.

"If they leave our club and they go through a drive-thru and eat unhealthy food, they're just spinning their wheels," she says.

A typical lunch or dinner from these services costs between \$8 and \$14 if picked up at a gym. (Delivery can add \$30 or more for multiple-meal orders going long distances on dry ice or in insulated packages.) Fans point out that the meals don't cost much more than grass-fed beef or organic vegetables at a grocery store—and spare them the shopping, food prep and clean-up.

These meals often have labels detailing how much protein, carbohydrates and fat they contain—along with calories and ingredients. Some meals are vegan or vegetarian, or comply with low-carb plans such as the Paleo diet or Whole 30, in which people exclude sugar, grains, dairy and other foods for 30 days.

Life Time, a 127-location health-club chain based in Chanhassen, Minn., is re-

vamping and relaunching its Meals to Go service. What used to be a few basic items—chicken enchiladas and wraps—is expanding to about 30 options including steak chimichurri with roasted vegetables and tuna togarashi.

The club's members are "trying to avoid carbs and sugar and are really seeking

overall health: preparing healthy meals and sharing them with friends or family.

"I think it's a mistake for us to fall into that narrative that it's hugely difficult and takes tremendous effort, because it really doesn't," Dr. Freedhoff says.

Many fitness-industry leaders acknowledge that eating choices play a larger role in weight loss than exercise. The U.S. Army is planning to bring healthy foods into fitness centers, including sandwiches, salads and box breakfasts.

"In some cases our dining facilities are a distance away from a fitness center, so sometimes soldiers have to choose between working out and eating breakfast," says Tim Higdon, Healthy Army Communities program manager. "This allows them to accomplish both."

The changes could arrive in some fitness centers as soon as next spring, he says.

Bonnie Lefrak, chief executive of the Fitness Asylum, a studio with three Massachusetts locations, has tried half-a-dozen prepared-healthy-meal services and says they help her have something nourishing amid a hectic schedule.

"I know if I get hungry, then I'm eating off my kids' plates. I call those 'momnivores,'" Ms. Lefrak says. She started offering meals from New York-based Kettlebell Kitchen at her location in Hudson, Mass. She says she asks members at events: How many of you like to cook? "Not a lot of hands are going up," she says.

Nationwide research underscores that notion, and the challenge for meal-kit services that arrive with ingredients and a recipe. Baltimore-based Terra's Kitchen mostly delivers meal kits but CEO Mike McDevitt says prepared foods make up 16% of sales, a share that's rising quickly.

"There are these two markets," the Fitness Asylum's Ms. Lefrak says, "and the one with the already cooked food is going to win."



Harissa chicken, above, is among the new meal options from Life Time's LifeCafe.



A refrigerator stocked with meals to go at CrossFit New England.



## THE OPEN ROAD

### J.C. LEYENDECKER



Acclaimed illustrator.  
Classic Americana.  
Rare advertisement.  
This original oil by the  
famed American illustrator  
J.C. Leyendecker celebrates  
the rich history of the energy  
and automobile industries  
in the United States. Painted

in 1942, the work was a special commission for an advertising campaign by the gasoline company Amoco. Leyendecker's charming subject perfectly captures America's lasting love affair with fast cars and the open highway in this ode to the "romance of the road." Circa 1942.

Signed (lower left). Canvas: 21" h x 37" w. Frame: 28 1/8" h x 44" w. #30-6722

**m.s.rau antiques**

Antiques • Fine Art • Jewelry LLC

630 Royal Street, New Orleans, Louisiana • 877-677-2801 • [ws@rauantiques.com](mailto:ws@rauantiques.com) • [rauantiques.com](http://rauantiques.com)

Since 1912, M.S. Rau Antiques has specialized in the world's finest art, antiques and jewelry. Backed by our unprecedented 125% Guarantee, we stand behind each and every piece.

# SPORTS

NFL | By Jason Gay

## Trump's Sports Radio-Style Weekend

The president enters the fray over protests in the NFL—and takes on the NBA champion Golden State Warriors as well

 Believe me, my friends, I wanted to "stick to sports" this weekend.

After the prior week of ESPN madness, I was eager to get back to the goofy. You know: My usual, meaningless sports insanity, with a couple of spelling errors and grammatical mistakes sprinkled in for fun.

Maybe, for a column, I'd take my kids to the annual meatball-eating contest at the Feast of San Gennaro in Little Italy. Meatball eating is basically a sport, and Tony Danza was set to host. Maybe I'd write about the men's road cycling world championships in Norway, which the remarkable Slovak Peter Sagan won for the third year in a row. You know how I love me some bike racing and Peter Sagan. I could write about that stuff until your eyes fall out.

But then, on Friday night, the president of the United States drove a monster truck onto the sports world's front lawn, and blasted the horn until he woke up the entire neighborhood.

In a loud, impossible-to-miss speech, Donald Trump assailed NFL players who have been protesting during the national anthem, referring to a player who does so as a disrespectful "son-of-a-bitch" and goading team owners to fire anyone who took a knee. He also lamented what he sees as football's over-penalizing of aggressive hits—an odd choice at a moment where there is widening scientific concern about the long-term impact of head injuries.

"They're ruining the game!" Trump said. "They want to hit."

He didn't stop with Alabama. By now, you know that the president spent the weekend on his Magic Twitter Machine taking on not only the NFL, but the NBA. He revoked a White House invitation to the Golden State Warriors to celebrate their basketball title, an apparent reaction to star Steph Curry's lack of interest in going. He again urged NFL owners to fire protesting players. He further mocked the league for allegedly declining ratings and attendance, and urged fans to boycott if the protests continued.

The president basically took American professional sports in 2017 and set its pants on fire. And it wasn't long before Trump was getting blowback from athletes, coaches, owners, and leagues for being unnecessarily divisive. His remarks were condemned not just by his usual detractors, but also by people who voted for him, campaigned for him, and contributed to him.

Even New England Patriots



MATT DUNHAM/ASSOCIATED PRESS

Baltimore Ravens players kneel down during the playing of the national anthem before a game against the Jacksonville Jaguars at Wembley Stadium in London.

owner and loyal Trump friend Bob Kraft said he was "deeply disappointed" by Trump's NFL commentary. Fox's Terry Bradshaw offered this exquisite Terry Bradshaw-ism: "I think our president should concentrate on serious issues like North Korea."

The protests, meanwhile, only widened—on Sunday, more NFL players took a knee than ever before. The Pittsburgh Steelers—hardly a bunch of rosé-sipping coastal media elites—passed on the "Star-Spangled Banner" entirely, choosing to stay in the locker room. So did both sides of the Tennessee Titans-Seattle Seahawks game.

The Warriors acknowledged the White House disinvite. Then the 2017 championship-winning University of North Carolina men's basketball team announced that they, too, would not be going to the White House.

So you can see, it's been going really well.

No matter what side you fall on, I think we can all agree that "Stick to Sports" is officially dead as a reasonable expectation in the American sports landscape in 2017. I've always thought "Stick to Sports" was a ridiculous ask—politics have forever been entangled in sports. It's really an absurd ask now, as the nation's highest elected official has turned athletes

and athlete activism—and let's be specific here, this is activism by athletes who are largely African-American—into his latest rhetorical target. A president who shortly after taking office tweeted that "Peaceful protests are a hallmark of our democracy. Even if I don't always agree, I recognize the rights of people to express their views" has decided these protests (which have been tolerated by their employers) have gone too far, and is using the power of his office to put pressure on everyone involved, including fans.

The president has plenty of supporters on this issue. I don't dispute that. This is a jet fuel topic for him and anyone who wants a quick burst of attention. Long before Donald Trump repurposed the presidency into a morning sports radio talk show, there were a great many Americans who did not agree with the athlete protests, which began last season with former 49ers quarterback Colin Kaepernick taking a knee during the anthem to protest issues affecting the African-American community, including what he viewed as unequal treatment by law enforcement. This rancor predates Trump's victory, and I am certain that there are plenty of people who think the president is right on, and I have the hate mail to prove it. (I read all my hate mail out loud to my cat, using a cat voice.)

But a protest isn't a popularity contest. Trump, a creature of television, is habitually obsessed with ratings, and seems to equate success or failure with Nielsen points and how many people can be stuffed into a stadium. There's a case to be made that Trump's railing about NFL ratings and attendance declines—"WAY DOWN" he wrote in all-caps—is factually wrong (ratings are down only mildly, for a variety of factors, and attendance last year was the NFL's highest in a decade, and 2017 is tracking to match it thus far), but that whole discussion is irrelevant, anyway.

A protest, by definition, is always going to challenge the status quo. It is designed to cause agitation and discomfort, and maybe even cost protesters their jobs, and, in extreme cases, their lives. It isn't the People's Choice Awards. "This ain't never been popular," the author Ta-Nehisi Coates tweeted about protests over the weekend, citing, among other unpopular-in-their-time American protests, the Alabama bus boycotts, the March on Washington, and Muhammad Ali's refusal to enlist during Vietnam.

This is hard, painful stuff. And that's the other thing: We can either sit here on the surface of this topic and bicker glibly on social media, or we can drill deeper into

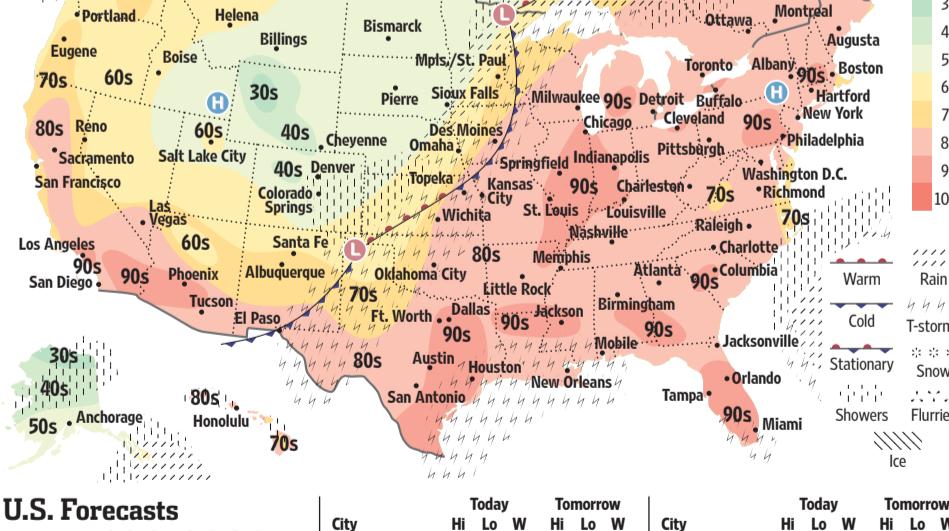
what it's really about. To make this about Trump actually does a disservice to the protesters, because these protests are not a referendum on Trump. They're not about the flag, or the anthem, either. This has always been a protest intended to provoke a much broader and harder-to-have conversation about racial and other mistreatment in this country, and what all of us can do to get better. That's a conversation that a number of high-profile athletes in this country want to have—and, because of the elevated place we give in this country to athletes, and all the patriotism we've wrapped around our sporting events, they now have a platform and our attention.

It's also a conversation that a president of the United States can have a constructive role in, but after this weekend, I'm not sure he's eager. "Son of a bitch"? What is going on?

This is exactly where we are now. Today, I would have loved to have given you a play-by-play of the meatball-eating contest, or the bike race, or even a Jets game. (They won!) Politics are exhausting, especially now, and I'd have loved to have to steered clear of them and stuck to sports.

But politics have barged down the door. And they look like they're going to stay for a very long while.

### Weather



### U.S. Forecasts

S...sunny; pc...partly cloudy; c...cloudy; sh...showers; t...storms; 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	52	42	r	54	44	pc
Atlanta	86	68	s	88	68	s
Austin	91	72	c	88	72	t
Baltimore	88	66	s	82	69	pc
Boise	65	46	pc	69	47	s
Boston	81	64	pc	79	64	pc
Burlington	89	65	s	88	65	s
Charlotte	87	67	pc	87	68	s
Chicago	91	67	s	90	64	pc
Cleveland	91	66	s	90	66	s
Dallas	92	75	pc	91	75	c
Denver	53	39	c	63	42	pc
Detroit	89	66	s	88	66	s
Honolulu	88	73	s	88	74	s
Houston	90	74	t	89	73	pc
Indianapolis	90	67	s	91	69	s
Kansas City	84	63	t	71	58	t
Las Vegas	80	61	s	84	64	s
Little Rock	88	68	pc	89	69	pc
Los Angeles	92	65	s	93	63	s
Miami	91	77	pc	90	76	c
Milwaukee	86	66	pc	86	59	s
Minneapolis	70	59	r	65	49	c
Nashville	89	67	s	90	67	s
New Orleans	86	74	t	89	73	pc
New York City	86	71	s	81	70	pc
Oklahoma City	83	63	t	72	58	r

City	Today	Hi	Lo	W	Tomorrow	Hi	Lo	W
Amsterdam	65	51	pc	64	50	sh		
Athens	80	60	r	77	66	t		
Baghdad	107	75	s	109	76	s		
Bangkok	91	77	t	88	78	t		
Beijing	80	65	pc	72	53	c		
Berlin	59	51	sh	64	53	pc		
Brussels	67	49	pc	65	48	sh		
Buenos Aires	75	49	s	62	49	sh		
Dubai	102	82	s	102	84	s		
Dublin	62	47	pc	51	pc			
Edinburgh	62	48	r	64	50	pc		

City	Today	Hi	Lo	W	Tomorrow	Hi	Lo	W
Frankfurt	66	48	pc	67	47	sh		
Geneva	68	52	t	67	49	pc		
Havana	88	70	pc	88	72	pc		
Hong Kong	90	83	t	91	81	s		
Istanbul	78	68	pc	78	66	c		
Jakarta	90	74	t	90	77	t		
Jerusalem	79	63	s	79	63	c		
Johannesburg	81	57	c	78	46	s		
London	64	53	c	67	54	pc		
Madrid	85	54	s	82	55	s		
Manila	91	78	t	86	78	t		
Melbourne	60	42	r	64	48	s		
Mexico City	75	58	pc	75	59	pc		
Milan	72	58	pc	71	55	pc		
Moscow	57	43	pc	52	36	c		
Mumbai	87	76	pc	87	78	t		
Paris	65	53	sh	69	51	pc		
Rio de Janeiro	82	67	pc	84	68	pc		
Riyadh	100	70	s	100	71	s		
Rome	74	55	pc	73	57	t		
San Juan	89	80	sh	89	79	sh		
Seoul	84	66	s	84	65	pc		
Singapore	88	79	pc	88	77	pc		
Sydney	81	57	pc	71	59	s		
Taipei	96	79	pc	98	79	pc		
Tokyo	78	68	pc	78	70	s		
Vancouver	62	54	r	65	51	s		
Warsaw	62	52	pc	68	48	pc		
Zurich	68	48	pc	66	46	pc		

City	Today	Hi	Lo	W	Tomorrow	Hi	Lo	W
Albuquerque	82	65	pc	81	70	pc		
Atlanta	86	68	s	88	68	s		
Baltimore	88	66	s	82	69	pc		
Boise	65	46	pc	69	47	s		
Boston	81	64	pc	79	64	pc		
Burnett	89	65	s	88	65	s		
Charlottesville	87	67	pc	87	68	s		
Chicago	91	67	s	90	64	pc		
Cleveland	91	66	s	90	66	s		
Dallas	92	75	pc	91	75	c		
Denver	53	39	c	63	42	pc		
Detroit	89	66	s	88	66	s		
Honolulu	88	73	s	88	74	s		
Houston	90	74	t	89	73	pc		
Indianapolis	90	67	s	91	69	s		
Kansas City	84	63	t	71	58	t		
Las Vegas	80	61	s	84	64	s		
Little Rock	88	68	pc	8				

## OPINION

# Ray Dalio and the Market's Pulse

By Andy Kessler

Has Ray Dalio lost the pulse? The founder of the \$160 billion hedge fund Bridgewater Associates is all over the place spouting his management philosophy of radical transparency. He has been making TV appearances, attending conferences, and whenever possible plugging his new book, "Principles." There's even a TED talk touting his "believability-weighted idea meritocracy"—whatever that means. And now Mr. Dalio is trying to bust into China to manage even more money.

The investment whiz lives and manages by a set of principles that employees have to memorize. The list is filled with gems you might encounter at a silent yoga retreat. "Most problems are potential improvements screaming at you." Or this reworked cliché: "While most others seem to believe that pain is bad, I believe that pain is required to become stronger."

Speaking of pain, Bridgewater is losing money this year. Through July its flagship fund is down 3%, while the market is up more than 10%. Does this transparency stuff even work? Bridgewater videotapes every meeting and arms workers with iPads filled with apps like the emotion-relief Pain Button and the co-worker-rating Dot Collector. Mr. Dalio must figure that only under these conditions will employees tell the truth

instead of what he wants to hear. Maybe this is all a distraction. But you've got to be a little cuckoo to run a giant hedge fund, and I think Mr. Dalio is crazy like a fox.

The core of investing is quite simple: Determine what everyone else thinks, and then figure out in which direction they are wrong. That's it. No one tells you what they think. You've got

### The core of investing: Figure out what everyone thinks and how they're wrong.

to feel it. That's why Wall Streeters say things like, "We are lowering our above consensus expectations earnings estimates." It's all about figuring out what is priced into a stock right now. That's the pulse of the market, the collective mind meld aggregated into stock prices. I know from experience this is the hardest part of running a hedge fund. You can find the greatest story ever, but if everyone already knows it, there's no money to be made.

And the pulse changes with each government statistic, each daily ringing of cash registers and satellite images taken of parking lots. That's why stocks trade every day. Real-world inputs and the drifting pulse drive

the psychotic tick of the stock market tape. Once you feel the pulse, then and only then can you figure out how everyone's wrong about tomorrow, next month or next year. And believe me, they're always wrong. Stocks rarely tread water.

How do you find that pulse? It's hard enough to invest your IRA. Can you image managing \$160 billion? Wall Street analysts have earnings estimates that no one trusts. There are whisper numbers and the chaos of message boards and tweets.

It's best to survey your own people. That's why Bridgewater has some 1,700 employees. A friend of mine learned you have to take a Myers-Briggs personality test before Bridgewater bothers to interview you. He was told he was "not right for the job." But it turns out that only a tiny handful of employees make any of the investment decisions anyway.

Clearly Mr. Dalio doesn't trust them, so he tries to remove their biases surgically, hence the radical transparency and the illusion of a meritocracy. Mr. Dalio doesn't care about employees' opinions or ideas; he just wants to take their pulse to figure out what the market already knows. Or as he puts it: "The biggest mistake most people make is to not see themselves and others objectively."

This is not uncommon. I once visited the Wall Street offices of a well-known hedge fund guy you see on TV. He pulled me aside, pointed to his employees, and said, "You see these people? They might as well be holograms." He made every buy-and-sell decision himself.

Mr. Dalio is a great success story. His terrific returns attracted \$160 billion in assets. But these things work until they don't work. Wall Street is littered this year with the roadkill of busted hedge funds. Pine River, Passport and Greenlight are downsizing involuntarily, meaning investors are redeeming their money from funds with awful returns. Others, like Seth Klarmann's Baupost, are returning money because of "limited investment opportunities."

Too much capital is often a burden. There are only so many good investment ideas out there, and it's late in this cycle. Mr. Dalio's principles are unique but probably not applicable to many other businesses. As he says: "Truth—more precisely, an accurate understanding of reality—is the essential foundation for any good outcomes." Here's a truth: If Bridgewater has lost its mojo, Mr. Dalio would be smart to manage a much smaller pot of money rather than torture his employees.

Mr. Kessler writes on technology and markets for the Journal.

## Out of the Rubble in Mexico



AMERICAS  
By Mary  
Anastasia  
O'Grady

In an almost supernatural coincidence, Tuesday's 7.1 magnitude earthquake in Mexico hit on the 32nd anniversary of a devastating 8.0 tremor that practically flattened Mexico City.

The 1985 quake was far more powerful than last week's and was followed by several significant aftershocks. It is estimated that it claimed as many as 10,000 lives.

But since Mexico City sits on a large Jell-O-like lake bed, any serious ground shaking sets the whole metropolis jiggling. Plus, the epicenter of Tuesday's earthquake was much closer to the capital than the larger one was three decades ago. There are now more than 300 dead across all the affected Mexican states. With hundreds still missing, that toll is likely to go higher.

Last week's tremor was a reminder that scientists still face considerable challenges in anticipating shifts below the earth's surface. The big one in '85 emanated from an offshore fault. A magnitude 8.1 quake that struck 54 miles off the coast of Chiapas state on Sept. 7 was the largest to hit Mexico in 100 years. At least 90 people died across the south of the country.

Logically, experts expected the next quake to originate offshore as well. "Instead," Erik Vance explained, writing

from Mexico City in *Scientific American* on Thursday, "the earth broke in the interior mountains, 35 miles below the surface, not far from where a large plate of crust has sunk deep down into molten rock."

This may have been what made the fallout in the capital much different than in previous events. "A taller structure that experts would have expected to fall in a slower, swirling 1985-style quake" did better this time around. It was the "short and squat" building "vulnerable to a closer quake with faster seismic waves" that collapsed. It is also possible that "reverberating waves" piled up in the valley and formed a "powerfully vibrating wedge where the damage was worst," Mr. Vance wrote, adding that "experts in Mexico are studying this now."

Tuesday's quake brought unfathomable grief to families across central and southern Mexico. A private Mexico City elementary school called Colegio Enrique Rébsamen was demolished. First responders and volunteers rushed to the scene to dig for the little victims and their teachers, working through the night, all day Wednesday and into Thursday before officials finally admitted that hope of finding a group of students alive had been misplaced. At least 21 children and five adults are known dead.

In the town of Atzala in Puebla state, the roof of St. James the Apostle Church fell down, killing 11 people who were attending a baptism, including the 2-month-old baby.

Yet for every story of demoralizing loss in this crisis, Mexicans have written many more stories of undying determination and triumph. The contrast with 1985—when chaos reigned as government failed its most basic duties—is worth noting. Lives were saved and order restored more quickly last week because there is dramatically more liberty in Mexico today.

### After the earthquake, freedom helps the country meet the challenge of recovery.

Through most of the 20th century a closed, corporatist economy dominated Mexican life. The system impoverished the nation beyond the merely material. The one-party state of the Institutional Revolutionary Party, or PRI, strangled civil society. Philanthropy was rare. Foreign competition was unheard of, limiting local innovation. The government controlled newsprint, and thus newspapers as well as television and radio. The winner of each presidential election, every six years, was decided by the incumbent PRI president. The political class was largely unaccountable, and when the ground shook in 1985, it showed.

The '85 earthquake is often cited by political scientists as uneconomical. In the 1850s buying a slave cost more than most people made in a year. The slave, and his family if he had one, needed a place to live as well as food and clothing and care when sick or old. Showing a bit of regional bias, my grandfather said that in the North an employer could hire newly arrived immigrants, pay them a pittance, and then let them go when they were too old or sick to work.

A few years ago, before the current assault on Confederate statues, people were up in arms about the public display of the Confederate flag. In the 1930s, the flag was hardly ever displayed in the South. I would attribute that to a song popular in the postbellum South, "The Conquered Banner." The lyrics were an 1865 poem by Father Abram Joseph Ryan, a Confederate army chaplain who became known as "poet laureate of the postwar South."

During my boyhood in the 1930s, hardly anybody displayed Confederate flags.

born out of wedlock was increasing, some blamed slavery. But in the 1930s the vast majority of American black families were intact.

My maternal grandfather, who died when I was 14, recalled playing with slave children when he was a child. Like most Southern families, his owned no slaves. In addition to being ethically opposed to slavery, he found it

the end of the Mexican Revolution and the start of a national evolution toward modernity. In the midst of the turmoil, ordinary people, though they had almost no resources, began forming search brigades, digging with their hands, and organizing for survival. It was the day the curtain dropped, de facto, on the authoritarian PRI.

This time around, both the federal and city governments were ready. Not every building and utility was properly retrofitted, but much of the capital and its infrastructure held up. Emergency crews were supplied, trained and organized. Some 115 people have been pulled from the wreckage.

In 1985 President Miguel de la Madrid initially refused international assistance. Last week Mexico readily accepted the expertise of foreign recovery teams from the U.S., Japan, Israel and elsewhere.

A vibrant civil society has been out in front. Businesses, domestic and international, have donated hotel rooms, meals and transportation. Non-governmental organizations and neighborhood groups are supporting rescue operations. Volunteers bring food to workers, form human chains that pass building debris out of the way, and offer assistance on social media.

Mexicans are mourning their dead. But a freer nation is also proud to have risen to this challenge with confidence. Thirty-two years ago it would not have seemed possible.

Write to O'Grady@wsj.com.

## When Slavery Was a Living Memory

By William Lloyd  
Stearman

The present focus on symbols of slavery reminds me of growing up in the 1930s, when some 100,000 former slaves were still alive in the U.S. One of the few times I heard any mention of slavery was in connection with the Federal Writers Project, a New Deal program that published a booklet of interviews with ex-slaves.

What struck me was the variety of experiences. At one extreme was the border-state slave who was allowed to work for neighbors and keep the money he earned. At the other extreme were slaves from large plantations, beaten and abused by oppressive overseers.

Civil War veterans were also still around in the 1930s. None would say the war was about slavery. The Union veterans said they fought to

preserve the Union, and the Confederates to defend against the Northern invasion of Southern states.

In the late 1960s, when the American black family structure had begun to crumble and the number of babies

During my boyhood in the 1930s, hardly anybody displayed Confederate flags.

born out of wedlock was increasing, some blamed slavery. But in the 1930s the vast majority of American black families were intact.

My maternal grandfather, who died when I was 14, recalled playing with slave children when he was a child. Like most Southern families,

his owned no slaves. In addition to being ethically opposed to slavery, he found it

uneconomical. In the 1850s buying a slave cost more than most people made in a year. The slave, and his family if he had one, needed a place to live as well as food and clothing and care when sick or old. Showing a bit of regional bias, my grandfather said that in the North an employer could hire newly arrived immigrants, pay them a pittance, and then let them go when they were too old or sick to work.

A few years ago, before the current assault on Confederate statues, people were up in arms about the public display of the Confederate flag. In the 1930s, the flag was hardly ever displayed in the South. I would attribute that to a song popular in the postbellum South, "The Conquered Banner." The lyrics were an 1865 poem by Father Abram Joseph Ryan, a Confederate army chaplain who became known as "poet laureate of the postwar South."

The last stanza exhorted: "Furl that banner . . . unfold it never." Robert E. Lee strongly agreed. In 1869 he wrote of his desire to "obliterate the marks of civil strife, to commit to oblivion the feelings engendered."

Only in the 1950s did the greatly proliferated flag become a symbol of opposition to desegregation, with the flag design even appearing on beach towels and bikinis. Father Ryan and Gen. Lee would have been appalled by this base exploitation of the old Conquered Banner. And African-Americans, who have every reason to be offended by the flag, understandably delight in its increasing disappearance from public view.

Mr. Stearman is author of "An American Adventure, From Early Aviation Through Three Wars to the White House" (Naval Institute Press, 2012).

BOOKSHELF | By Marc Levinson

## The Cowboy Capitalist

J.C. Penney

By David Delbert Kruger  
(*Oklahoma*, 346 pages, \$29.95)

Many American entrepreneurs have obsessed over how to make good use of their wealth. The money of steel tycoon Andrew Carnegie built 1,689 public libraries. Julius Rosenwald, the genius behind Sears, Roebuck, devoted much of his fortune to funding schools for African-American children in the rural South. Oil magnate John D. Rockefeller gave vast sums to medical research, higher education and Baptist missions. For James Cash Penney, the obsession was farming. As David Delbert Kruger shows in "J.C. Penney: The Man, the Store, and American Agriculture," the famed merchant's devotion to his rural roots brought not just commercial success but also meaning in life.

Penney became a legend in American business almost by accident. Born on a Missouri farm in 1875, he found his calling in 1898, when he became a store clerk in Colorado. The store was called Golden Rule, and the philosophy of its owners was to sell a broad array of merchandise at fair prices, cash only, to small-town residents desperate for consumer goods. Golden Rule treated its managers as partners, and in 1902 the company offered Penney a partnership in a new store in Kemmerer, Wyo. He did so well there that he soon bought the entire operation. In 1914, the headquarters of the J.C. Penney Co., as it was by then known, moved to New York, but nearly all the stores were in small towns in farm country. By 1917, it was the largest department-store chain in the United States.

But the previous year, a life insurer had told Penney that overwork had made him a high-risk customer, and he responded by transforming his life. At age 41, he stepped aside as president of his company. Freed of responsibility for day-to-day operations but still chairman of the board, he traveled the country, visiting the small towns where the J.C. Penney Co. owned stores or was considering opening one. His travels opened his eyes to a new calling, one that meshed tightly with his deep Christian beliefs. "It seemed to me that nearly everywhere I went farmers stood in need of better cattle," Penney recalled later. For the rest of his life, he devoted heart and soul to making life better for people down on the farm.

This is where Mr. Kruger picks up the story. If you want to know about retailing, this isn't the book for you; the author has nothing to say about merchandising or inventory control. Instead, he takes us through Penney's lesser-known ventures in livestock breeding, dairy production and farm improvement. For his last five decades, until his death in 1971, these efforts, far more than the dry-goods business, absorbed the retail magnate's attention. He understood improving the lives of rural Americans as a form of Christian service. As Mr. Kruger puts it, "the Golden Rule became a conviction Penney never outgrew."

When a life insurer told James Cash Penney that overwork put him at risk, he stepped down as president of his company and toured the country.

Penney's farming ventures began in 1921, when he bought 720 acres near Hopewell Junction, N.Y., hired a veteran breeder and worked with him to select the best Guernsey cattle he could find. Emmadine Farm would operate for more than 30 years, supplying breeding stock to small farmers around the country and eventually furnishing a large commercial dairy.

Four years later, Penney purchased 120,000 acres in northeast Florida, intending to create a utopian community where committed, morally upright families could build a future on 20-acre plots, living rent-free for a year and using buildings and equipment provided by Penney to grow their first crop before deciding whether to buy the land. He hired experts who encouraged the farmers to be self-sufficient and advised them on when and how to plant vegetables and fruit trees. Initially, Penney Farms flourished, but then disaster struck: crop prices collapsed, the farmers moved away and in 1930 Penney's own fortune was wiped out. The following year, the entrepreneur was hospitalized following a nervous breakdown.

By 1933, he was well enough to resume his practice of traveling the country to visit J.C. Penney stores. The chain now had more than 1,500 outlets, and Penney stopped in dozens of small towns from Iowa to Nevada. Often he gave no advance notice, startling managers and customers alike as he walked in the door. "Penney hoped his personal interactions would improve the morale of not just local employees but also the agrarian residents who made up his customer base," Mr. Kruger writes.

Seeing his hard-pressed customers up close inspired Penney to return to his agrarian dreams, this time acquiring farms near his Missouri birthplace as his finances recovered. One farm raised Aberdeen-Angus cattle. Another bred draft animals, and others specialized in Hereford cattle and hogs. At most of the properties, Penney owned the land but took on a promising young farmer as his partner in the livestock operation. Even so, Penney was intimately involved in the details, offering advice about which animals to buy, meeting local farmers who wished to mate his bulls to their cows, and, in old-fashioned suit and tie, attending each farm's livestock sales. A photograph from 1938 captures Penney showing off Limestone Valley Gold Dust, a prize donkey, in a pen built inside a Missouri store.

Not all of these ventures succeeded: In his enthusiasm for breeding better mules, Penney failed to foresee how quickly tractors would make mules unwanted, and a prized Hereford bull turned out to have a gene that caused dwarfism, destroying the value of Penney's herd. Yet Penney persisted in chasing his dream. In 1962, at the age of 87, he bought a New York farm to breed Angus cattle. He hid the purchase from his wife, who thought he should retire.

Mr. Kruger's book offers us a memorable portrait of an extraordinary capitalist. Penney kept going strong until 95, when a series of accidents took their toll. A few months before his death he had fallen on a New York sidewalk while trying to catch a bus to his office. The company would gladly have provided a limousine, but that wasn't the way J.C. Penney traveled.

Mr. Levinson's most recent book is "An Extraordinary Time: The End of the Postwar Boom and the Return of the Ordinary Economy."

## OPINION

### REVIEW & OUTLOOK

## The Politicization of Everything

**H**ealthy democracies have ample room for politics but leave a larger space for civil society and culture that unites more than divides. With the politicization of the National Football League and the national anthem, the Divided States of America are exhibiting a very unhealthy level of polarization and mistrust.

The progressive forces of identity politics started this poisoning of America's favorite spectator sport last year by making a hero of Colin Kaepernick for refusing to stand for "The Star-Spangled Banner" before games. They raised the stakes this year by turning him into a progressive martyr because no team had picked him up to play quarterback after he opted out of his contract with the San Francisco 49ers.

The NFL is a meritocracy, and maybe coaches and general managers thought he wasn't good enough for the divisions he might cause in a locker room or among fans. But the left said it was all about race and class.

All of this is cultural catnip for Donald Trump, who pounced on Friday night at a rally and on the weekend on Twitter with his familiar combination of gut political instinct, rhetorical excess, and ignorance. "Wouldn't you love to see one of these NFL owners, when somebody disrespects our flag, to say, 'Get that son of a bitch off the field right now, out, he's fired. He's fired,'" Mr. Trump said Friday.

No doubt most Americans agree with Mr. Trump that they don't want their flag disrespected, especially by millionaire athletes. But Mr. Trump never stops at reasonable, and so he called for kneeling players to be fired or suspended, and if the league didn't comply for fans to "boycott" the NFL.

## Restoring Due Process on Campus

**T**he Education Department announced Friday it is formally rescinding its guidance on how colleges and universities should adjudicate sexual assault under Title IX, ending a policy that denied basic due process to accused students and was often used to silence dissenting voices on campus.

Eschewing the rule-making procedures required by the Administrative Procedure Act, the Obama Administration imposed this far-reaching policy through a 2011 "Dear Colleague" guidance letter, providing additional clarification in 2014.

In contrast, Education Secretary Betsy DeVos withdrew the guidance only after she had spent months carefully considering the perspectives of all parties affected by the Title IX regime. Her listening campaign will continue as she solicits public comment on a new draft rule.

On Friday the Education Department also provided schools with a Q&A outlining how they should handle allegations of sexual assault, misconduct and harassment in the interim. It addresses the most minimal fairness issues, which speaks volumes about the Obama-era directives. The agency's Office for Civil Rights felt the need to explicitly require these provisions for clarification.

For instance, the department now says, Title IX investigators should be free from bias and conflict of interest, and they should consider both incriminating and exculpatory evi-

### Finally, an end to the dreaded 2011 'Dear Colleague' letter.

dence. Imagine that. Accusers shouldn't be given preferential treatment over the accused during the adjudication process, and training

materials and investigative techniques shouldn't include gender-based stereotypes or generalizations.

The Q&A also directs schools to ensure they are respecting the legal rights of

students and faculty, including free speech. Title IX has often been used to silence controversial speakers and opinions, based on the questionable claim that uncomfortable speech is tantamount to harassment.

Though it's hard to believe, this summer Northwestern University professor Laura Kipnis endured a Title IX investigation over "Unwanted Advances," her book criticizing the Title IX system. As part of the probe, Title IX officials pressured her to answer more than 80 questions about the manuscript, including queries about her sources, arguments and editorial choices. This kind of bullying to serve political goals should be unacceptable in a free society.

Mrs. DeVos's critics want the public to believe you're either with victims of sexual assault, in which case you must support the 2011 Title IX regime, or you're siding with rapists. That's a false choice. Mrs. DeVos deserves credit for protecting the rule of law and restoring Title IX to its original mission: protecting students from provable cases of gender discrimination.

## Merkel dämmerung

**G**erman voters on Sunday returned Angela Merkel to her fourth and almost certainly final term as Chancellor. But they also handed the bronze medal—which was the only prize in real contention—to a protest party in a muted plea for more competition.

Exit polls pegged Mrs. Merkel's center-right Christian Democratic CDU/CSU alliance at around 33% of the vote, down eight percentage points from her win four years ago. Her coalition partners in the center-left Social Democratic Party (SPD) waddled in at an abysmal second-place with around 20%. The seat count in the Bundestag will take time to tabulate, but Mrs. Merkel will again control a plurality in the parliament.

The biggest change is that the right-wing Alternative for Germany (AfD) party finished third, with more than 13% of the vote. Once a wonky professors' protest party against the euro, the AfD has transformed into an anti-immigration, nationalistic echo of France's National Front. Its entry into the Bundestag marks the first time Germans have put a far-right party in parliament in decades.

This is a very German protest vote: safe. The AfD struggled for most of the campaign season, and its home-stretch surge owes to two factors. A television debate between Mrs. Merkel and her SPD challenger, Martin Schulz, this month highlighted how little the two major parties compete with each other. And polls showing Mrs. Merkel steamrolling her opponents reassured voters they could cast a ballot for the AfD without handing the party real power.

The message is that Germans want competition. The AfD draws support from voters on both left and right who are disillusioned with 12 years of Mrs. Merkel's bland-as-she-goes

leadership, and with the SPD's failure to oppose her for eight of those years when it formed coalitions with her.

**Merkel wins again but Germans show a desire for more choices.**

This election result gives Berlin a chance to deliver the competitive politics voters want. Strong fourth- and fifth-place finishes for the free-market Free Democrats (FDP) and the Greens, winning just over

and just under 10% respectively, will allow Mrs. Merkel to divorce the SPD and form a coalition with the two smaller parties. The SPD seems ready to push her in that direction instead of being gulled into another coalition.

Berlin could offer more than a browbeaten "ja" to whatever scheme for European Union fiscal integration French President Emmanuel Macron dreams up. Germans deserve a vigorous debate on EU reform. More conservative members of Mrs. Merkel's own party, who will have to find her replacement in four years, would relish the opportunity.

If the FDP enters a coalition government, Berlin also might have a shot at tax reform. Expect only marginal progress here, but the party could push Mrs. Merkel beyond the paltry €15 billion (\$17.93 billion) in personal-tax rate cuts she promised in the campaign.

This election is no sea change. Mrs. Merkel's unimaginative grip on German politics is still strong, all the other parties are weak, and Germans don't like big shake-ups.

But Germany is entering the twilight of the Merkel era—call it Merkeldämmerung—and it's time to consider what comes next. That means policies to meet the demographic and competitive pressures bearing down on Germany, and politics that delivers meaningful debate. If Germany can't have the reforms while Mrs. Merkel is in office, its politicians can set the stage for them in the future.

### Everybody loses in the Trump-NFL brawl over the national anthem.

He also plunged into the debate over head injuries without a speck of knowledge about the latest brain science, claiming that the NFL was "ruining the game" by trying to stop dangerous physical hits. This is the kind of rant you'd hear in a lousy sports bar.

Mr. Trump has managed to unite the players and owners against him, though several owners supported him for President and donated to his inaugural. The owners were almost obliged to defend their sport, even if their complaints that Mr. Trump was "divisive" ignored the divisive acts by Mr. Kaepernick and his media allies that injected politics into football in the first place.

Americans don't begrudge athletes their free-speech rights—see the popularity of Charles Barkley—but disrespecting the national anthem puts partisanship above a symbol of nationhood that thousands have died for. Players who chose to kneel shouldn't be surprised that fans around the country booed them on Sunday. This is the patriotic sentiment that they are helping Mr. Trump exploit for what he no doubt thinks is his own political advantage.

American democracy was healthier when politics at the ballpark was limited to fans boozing politicians who threw out the first ball—almost as a bipartisan obligation. This showed a healthy skepticism toward the political class. But now the players want to be politicians and use their fame to lecture other Americans, the parsons of the press corps want to make them moral spokesmen, and the President wants to run against the players.

The losers are the millions of Americans who would rather cheer for their teams on Sunday as a respite from work and the other divisions of American life.

I'm a Stanford alum from the 1950s and Mr. Berkowitz's piece resonates with me, while also prompting some warm memories of sharing those required (and often dreaded) courses.

Though some of my classmates, primarily from private high schools, had already been introduced to a number of the philosophers, many also shared my more insular education. The emphasis at my San Francisco public high school was directed at ensuring admission to colleges by adhering to boiler plate curricula, for which I have always been grateful. Western civilization, the required freshman course at Stanford then, universally prompted moans along with our eventual reluctant confessions of wonderment over our predictably expanded worlds.

Perhaps I'm an anomaly, but I still salute Western civ for guaranteeing my interest and curiosity in the world beyond all types of borders. Had I been permitted to make my own selections as a freshman, I undoubtedly would have missed a stellar opportunity to look outside of my little box. For insular me, liberal arts was a gift.

VILMA KENNEDY PALLETTE  
Santa Clara, Calif.

## LETTERS TO THE EDITOR

### There Is Much to Learn From the Liberal Arts

The commentary by Peter Berkowitz ("What's the Point of a Liberal Education? Don't Ask the Ivy League," Sept. 16) is disappointing in its reliance on a misinformed caricature of Ivy League and other leading institutions. Mr. Berkowitz's argument is that the only way an institution educates its students about the aims of a liberal arts education is through specific courses on that topic. This represents a narrow view and advances a basic misunderstanding of liberal education.

Brown University, for example, provides all new students with a "Guide to Liberal Learning" and asks new students to complete an online module that reinforces this material. Even more important, faculty advisers help students chart academically rigorous courses of study that hone their abilities to think critically, read closely and understand complex problems through the lenses of different disciplines in the arts and sciences. It is through the process of acquiring these skills that students come to fully understand and appreciate the value of a liberal education.

CHRISTINA PAXON  
President, Brown University  
Providence, R.I.

### ESPN Should Eschew Politics, Cover Sports

to all employees. Mr. Gay and ESPN missed the call.

MICHAEL MOSKOWITZ  
Carlsbad, Calif.

As a political independent who voted for Bill Clinton and Barack Obama, I've cut the cord with ESPN not because it covers political issues as they relate to sport, but because that coverage is exclusively an echo chamber for the progressive left. Controversial subjects are seemingly always characterized as examples of racism. There is no fact checking or investigation, and certainly no conservative perspective for consideration. Superficial and racially charged commentary is Jemele Hill's calling card, but she is hardly alone at the network. There may be other and better reasons for ESPN's decline in viewership, but my reason is its liberal bias.

DEAN SCARAFONI  
Manchester-by-the-Sea, Mass.

### School Discipline Disparities and Education

Jason L. Riley's "Another Obama Policy Betsy DeVos Should Throw Out" (Upward Mobility, Sept. 13) presents a jarring misconception of school discipline and racial inequity in our nation's schools.

Research makes clear that students

of color are frequently disciplined for nonviolent conduct that white students are not disciplined for—things like violating school dress code and cellphone policies, or behavior that is subjectively interpreted as defiance or insubordination. This has a particularly alarming impact on black girls, who experience harsher disciplinary interventions in large part due to implicit biases about acceptable behavior for girls. These experiences undermine children's opportunities to learn and reach their full potential in the safe, supportive environment that every student deserves.

Mr. Riley also promotes fallacies about harsh discipline and academic performance. What we now know is

that restorative practices and other alternatives to exclusionary discipline provide educators with more effective methods to increase student performance and improve school climate while keeping kids where they belong—in the classroom.

As a lawyer with more than 20 years in the fight for racial justice and students' rights and a mother of four, I am deeply concerned about the false narrative that Mr. Riley puts forth. The consequences of discipline disparities in our schools are severe. Policy makers must do all they can to address these disparities and ensure the doors of opportunity and educational equity remain open for all students.

CATHERINE V. BEANE  
YWCA USA  
Washington

Jason Riley is right to criticize civil-rights activists for insisting that racial differences in suspension rates must be the result of racism, rather than differences in behavior. As a Brookings Institution report noted in March, "black students are also more likely to come from family backgrounds associated with school behavior problems" such as "single-parent families." Poverty, which disproportionately affects blacks, is also associated with higher rates of misconduct in school, as the National Center for Education Statistics noted in 2007.

A major 2014 study in the Journal of Criminal Justice by Professor John Paul Wright and others concluded that the racial gap in suspensions isn't due to racism at all and is "completely accounted for by a measure of the prior problem behavior of the student."

HANS BADER  
Arlington, Va.

### Pepper ... And Salt

THE WALL STREET JOURNAL

your pride or shame from your tribe and clan. Since the Enlightenment, however, modern civilization has been constructed on the idea that a person's true identity is defined after birth by the choices he or she makes and the actions he or she takes.

Those who obsess over genealogy and "identity politics" are reverting to primitive tribalism.

BARRY MILLIKEN  
New York

Letters intended for publication should be addressed to: The Editor, 1211 Avenue of the Americas, New York, NY 10036, or emailed to [wsj.ltrs@wsj.com](mailto:wsj.ltrs@wsj.com). Please include your city and state. All letters are subject to editing, and unpublished letters can be neither acknowledged nor returned.



"Fischler here is in charge of matters I'll simply never comprehend."

## OPINION

# Does Medicaid Spur Opioid Abuse?

By Allyssia Finley

**F**orty-one state attorneys general are investigating drug manufacturers and distributors for fanning the opioid epidemic; several have already sued. The allegation is that Big Pharma used deceptive marketing to hook millions of Americans on prescription painkillers, which served as gateway drugs to more potent opioids like heroin and fentanyl.

But government health-care programs are among the biggest suppliers of prescription painkillers. The attorneys general ought to be investigating how Medicaid may help promote opiate abuse and addiction.

Wisconsin Sen. Ron Johnson this summer highlighted a correlation between the ObamaCare Medicaid expansion and opioid overdoses. Data from the Centers for Disease Control and Prevention show that overdose deaths per capita rose



Dominick Reuter/AP Getty Images

a few expansion states, most notably West Virginia. What's more, the disaggregated data show that the disparity between expansion and nonexpansion states with similar demographics and geography increased markedly after 2013. Between 2010 and 2013, overdose deaths rose by 28% in Ohio and 36% in Wisconsin. Between 2013 and 2015, they climbed 39% in Ohio, which expanded Medicaid, but only 2% in Wisconsin, which did not.

Overdose deaths aren't the only measure of opioid abuse. Another is hospital and emergency-room admissions. According to the Agency for Healthcare Research and Quality, the number of opioid-related inpatient hospital stays nationwide (among states submitting data) that were paid for by Medicaid increased by about 40% between the fourth quarters of 2012 and 2014—about four times the rate of growth in Medicaid enrollment. Patient stays covered by private insurance increased 4% during this period.

Hospital and emergency-room admissions after 2013 likewise increased

more in expansion states than in nonexpansion states with similar demographics and geography. It's true that opioid-related visits by the uninsured dropped in many expansion states. But that can't entirely account for the increase in Medicaid-paid hospitalizations. Between 2012 and 2014, emergency-room visits by Medicaid patients in Ohio doubled; enrollment increased 10%. But visits by the uninsured and Medicaid beneficiaries combined increased 40% during this period, which suggests an overall increase of use among low-income populations.

So what could help explain the apparent association between Medicaid and opioid abuse? For one, Medicaid patients may be more likely to be prescribed opioids—twice as likely, according to two studies, as privately insured individuals. A recent study by Express Scripts Holding found that about a quarter of Medicaid patients were prescribed an opioid in 2015.

State Medicaid programs also favor generics over more expensive

branded painkillers with abuse-deterring formulas. According to the Express Scripts study, generics accounted for 90% of Medicaid opioid medication claims. Large doses of oxycodone, methadone and fentanyl can be obtained cheaply with a Medicaid card and resold for a nice profit on the black market. Sen. Johnson's review of recent open-source court files and news articles turned up 261 defendants who had been convicted of improperly using Medicaid cards to obtain prescription opioids.

Many states in recent years have set up databases to identify patients at risk for abuse based on the number of prescriptions they fill and pharmacies they visit. But often providers, particularly in emergency rooms where many Medicaid patients seek treatment, don't have time to check the databases, examine patients for abuse, perform follow-up consultations, or consider alternative analgesics or physical therapy.

These problems have become even more acute following the expansion. Many primary-care providers won't see Medicaid patients because of the low reimbursement rates, so emergency rooms have been inundated with patients. The wait to see a specialist can last months. Many Medicaid beneficiaries suffering from pain or substance abuse may not be getting the treatment they need.

ObamaCare defenders claim scaling back Medicaid would harm patients who suffer from substance abuse. But data on opioid overdoses and hospital admissions suggests state Medicaid programs aren't providing effective treatment. Perhaps a rollback is what the doctor ordered.

*Ms. Finley is an editorial page writer at the Journal.*

# A Nafta Exit Would Be a Rotten Deal

By Thomas J. Donohue

**I**magine the scene a year from now: The U.S. unemployment rate is climbing. Crops in the heartland are rotting. Consumer prices are rising. Manufacturers are moving abroad. This vision isn't so far-fetched when you consider the increasingly precarious state of play in the effort to modernize the North American Free Trade Agreement.

Nafta supports millions of American jobs, and with thoughtful updates it could create millions more. Renegotiations with Canada and Mexico launched in August, but the White House continues hinting it may withdraw the U.S. from the trade agreement altogether. These threats must be taken seriously. Quitting Nafta would be an economic, political and national-security disaster.

**Hundreds of thousands of U.S. jobs would be lost, especially in heartland states that backed Trump.**

How might the calamity unfold? Say the Trump administration pushes ideas that are opposed vociferously by the U.S. business and agriculture communities, as well as by the Canadian and Mexican governments. Such proposals might be to end the agreement's investment protections, add strict rules on domestic content, or impose a five-year sunset clause.

Those proposals would all but guarantee that negotiations break down—in which case, American officials insist, they will start to pull the U.S. out of the existing deal. That is within the White House's authority: Any of the three Nafta parties may withdraw from the agreement at six months' notice, which the president is empowered to provide.

Mexico would respond immediately, perhaps starting with its applied most-favored-nations tariff on grains, which ranges from 15% to 20%. That's the hefty duty now levied on corn, wheat and other products from countries such as Argentina and Brazil. In contrast, Nafta allows American farmers to sell crops to Mexico duty-free. If Mexico slashed the external tariff to zero, it would be able to substitute billions of dollars in South American products for U.S. ones. Even if food from the U.S. remained slightly cheaper, years' worth of harsh rhetoric has left Mexicans furious and willing to pay more to send a message.

That's only one example of the broad and powerful effect pulling out of Nafta would have. Fourteen million American jobs depend on trade with Canada and Mexico, which are by far the U.S.'s largest export markets. Our North American neighbors buy more than \$600 billion in U.S.-manufactured goods each year, more than the next 10 largest markets combined.

Thanks to Nafta, virtually all North American trade is tariff-free. After withdrawing from the deal, tariffs on all products would snap back to an average of 3.5% for the U.S., 4.2% for Canada, and 7.5% for Mexico—a terrible deal for all three countries.

The increased tariffs would hit American consumers and exporters in the pocketbook, but the losses would accumulate well before that. Supply chains would shift away from the U.S., as Canada and Mexico looked to their other free-trade partners, in Europe and Asia, for manufactured goods and food.

Hundreds of thousands of American jobs would be lost, and that's a conservative estimate. Heartland states that voted for President Trump would be hurt most, and angry voters would know exactly whom to blame.

Beyond the trade retaliation and economic fallout, cooperation between the U.S. and Mexico in other areas would fall off. Today the two countries work closely on antiterror and antinarcotics efforts, and Mexico helps limit Central American migration northward. These efforts would end overnight.

In light of these well-established facts, you'd think that threats to withdraw from Nafta—or proposals that inevitably would kill the deal—should be off the table. But they aren't. So here's an unequivocal warning: Undermining Nafta would be a grave and costly mistake that would hurt the very farmers, manufacturers, workers and families this White House purports to protect. Americans should do everything necessary to avert this grievous self-inflicted wound.

*Mr. Donohue is president and CEO of the U.S. Chamber of Commerce.*

## Overdoses and hospital visits have grown far more in states that took the ObamaCare expansion.

twice as much on average between 2013 and 2015 in states that expanded Medicaid than those that didn't—for example, 205% in North Dakota, which expanded Medicaid, vs. 18% in South Dakota, which didn't. That's particularly striking since the energy boom boosted North Dakota's economy and employment.

ObamaCare defenders note that the disparity in overdose fatalities appears to have begun around 2010—but due largely to sharp increases in

## Without Columbus, There Would Be No Latinos

By Jennifer C. Braceras

**T**he collective impulse to tear down statues and rename buildings to meet modern sensibilities is growing stronger by the day. Earlier this month a statue of Christopher Columbus in New York's Central Park was vandalized with graffiti that read "hate will not be tolerated" and a creepy warning that "#somethingscoming." The following day, protesters gathered at the city's Columbus Circle to demand that a statue of the explorer there, which stands atop a 76-foot column, be removed.

Foes of Columbus, including Melissa Mark-Viverito, speaker of New York's City Council, say the explorer's likeness is offensive to oppressed peoples. "There obviously has been ongoing dialogue and debate in the Caribbean—particularly in Puerto Rico, where I'm from," Ms. Mark-Viverito said last month, knocking Columbus for the "oppression and everything he brought with him."

Ms. Mark-Viverito might want to

take a closer look. Puerto Rico celebrates Columbus not once but twice each year: on the federal holiday in October and again on Nov. 19, or Día del Descubrimiento (Discovery Day), which commemorates Columbus's arrival in Puerto Rico during his second trans-Atlantic voyage.

**Last year a Puerto Rican city put up a monument to the explorer taller than the Statue of Liberty.**

While folks on the mainland wring their hands over whether to take monuments to Columbus down, Puerto Rico is putting them up. Last year the city of Arecibo inaugurated a Columbus monument taller than the Statue of Liberty. The 350-foot statue, a gift to the U.S. from sculptor Zurab Tsereteli, was rejected by New York, Boston, Miami, Cleveland, Fort Lauderdale, Fla., and—maybe the biggest insult—Columbus, Ohio.

Columbus was born in Italy, but he sailed under the Spanish crown. Without Columbus and the Spanish colonization of the Western Hemisphere that followed, Latinos as a people would not exist.

Latin Americans have, thus, long celebrated the day that Columbus landed in the New World as Día de la Raza, or Day of the Race. The word "raza" isn't meant in a Darwinian or bigoted sense. It refers to what the Mexican thinker José Vasconcelos called the "cosmic race" that incorporates people of all skin colors and physical characteristics in a culture that includes Spanish, native and African traditions. Día de la Raza is a universal celebration of a people and a world made possible because of the courage of Christopher Columbus. By honoring the explorer, Latin Americans honor their own place in the world and proclaim that they, as much as any other people, built the societies of the Western Hemisphere.

Recognizing the importance of Columbus Day to Latinos, President Reagan in 1988 instituted national Hispanic Heritage month, which begins Sept. 15 and culminates just after Columbus Day. Two weeks from now, on Columbus Day weekend, millions of Latinos and Italian-Americans will honor the explorer with parades on Oct. 8 and Oct. 9, respectively.

Such commemorations do not absolve Columbus of his flaws or imply forgetting his missteps. The explorer, like most historical figures, was far from perfect. But much of the anti-Columbus rhetoric is based on old propaganda from the English and Dutch aimed at demonizing their Spanish-Catholic rivals. In the 1920s, the Ku Klux Klan picked up these mischaracterizations as a way to delegitimize immigrants, particularly Catholics. Those who denigrate Columbus today in the name of "tolerance" only feed this bigoted narrative.

Ms. Mark-Viverito would do well to remember that tributes to Columbus honor not merely one man but the shared Latino heritage of all the Americas.

*Ms. Braceras is a lawyer and writer in Boston.*

## A Grand Bipartisan Bargain on Tax Reform

By Edward Kleinbard

**A**s Republicans take on tax reform, they seem hell-bent on repeating the tactical mistakes they made during their attempts at health-care reform. Again GOP policy makers have cloistered themselves to develop a bill whose prospects will hang by a thread in the Senate. Yet there is a powerful bipartisan grand bargain in corporate tax policy waiting to be struck.

Democratic and Republican policy makers agree that the corporate tax system is irredeemably broken. They even concur on the broad direction of a replacement system—lower rates and fewer loopholes. But the two parties are far apart on the most important issues in corporate tax reform: what exactly the new corporate

tax rate will be, and whether companies can write off their business investments in the year those investments are made.

Democrats are stuck at a corporate rate around 28% and do not want to permit full expensing of all capital investment. House Speaker Paul Ryan's original "blueprint" for reform featured a 20% corporate rate and a tax on imports, the border-adjustment tax. Companies would lose the ability to deduct interest, but could write off their business investments in the year they're made. These moves would eliminate the distorting effects of taxes on decisions about how much to invest and how to finance those investments, but expensing reduces revenue and does not by itself translate into a lower effective tax rate.

To reset the competitiveness of the U.S. tax system, corporate tax reform must be permanent and revenue-neutral. The \$1.5 trillion in incremental deficits just approved by

**A levy on carbon would satisfy Democrats, while Republicans would get far lower corporate rates.**

the Senate would actually cut into growth, because interest costs on new debt crowd out private investment. Senate parliamentary rules also prohibit permanent legislation that adds to the deficit from being passed by a simple majority. That's why the border-adjustment tax, which would raise an additional \$1 trillion a year, was a centerpiece of the original blueprint—and why its early death was so significant.

Republicans are between a rock and a hard place. Growth comes from a permanent low corporate tax rate, not one that expires in 10 years. The GOP should embrace a new revenue-raiser that can attract moderate Democrats without undercutting the economic benefits of reform.

The answer? A carbon tax, which raises revenue, satisfies long-term economic efficiency and environmental goals, and is as important to Democrats as corporate tax rate reduction is to Republicans.

Most Republican politicians hate the idea of a carbon tax, even though some distinguished conservatives, like Arthur Laffer and George Shultz, support it. And progressive Democrats would never agree to revenue-losing corporate

tax reform. Both sides should hold their noses and work toward major corporate tax reform financed in part with a carbon tax.

The Congressional Budget Office and staff from the Joint Committee on Taxation concluded in a 2016 report that a tax of \$25 per metric ton of carbon would raise about \$1 trillion over 10 years, neatly filling the hole left by the death of the border-adjustment tax. What's more, economists from all political persuasions agree that a carbon tax is a well-targeted response to the long-term "externalities" of carbon emissions.

Earlier this year Democratic Sens. Sheldon Whitehouse and Brian Schatz proposed a trade along these lines, but their plan is politically infeasible. They want a carbon tax rate that starts at \$49 a ton and ratchets up annually, and their suggested 29% corporate tax rate is unresponsive to the needs of Republicans and many business leaders. This doesn't mean a deal can't be reached. The parties need to embrace face-to-face negotiations—not Republican leaders holed up in the White House trying to get corporate tax reform done without a single Democratic vote.

An attractive grand bargain is waiting to be struck across two vitally important policy issues. Who knows? Perhaps working together along these lines will remind leaders in both parties that real legislative progress requires accepting some policies you find distasteful, to accomplish goals that are nearer to your heart.

*Mr. Kleinbard, a law professor at the University of Southern California, was chief of staff of Congress's Joint Committee on Taxation (2007-09).*

## THE WALL STREET JOURNAL.

PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

Rupert Murdoch  
Executive Chairman, News Corp

Gerard Baker  
Editor in Chief

Matthew J. Murray  
Deputy Editor in Chief

DEPUTY MANAGING EDITORS:

Michael W. Miller, Senior Deputy;

Thorold Barker, Europe; Paul Beckett,

Washington; Andrew Dowell, Asia;

Christine Glancy, Operations;

Jennifer J. Hicks, Digital;

Neal Lipschutz, Standards; Alex Martin, News;

Shazna Nessa, Visuals; Ann Podd, Initiatives;

Matthew Rose, Enterprise;

Stephen Wisniewski, Professional News

Paul A. Gitot, Editor of the Editorial Page;

Daniel Henninger, Deputy Editor, Editorial Page

WALL STREET JOURNAL MANAGEMENT:

Suzi Watford, Marketing and Circulation;

Joseph B. Vincent, Operations;

Larry L. Hoffman, Production

DOW JONES  
News Corp

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

Telephone 1-800-DOWJONES

---

# THE NEW #1

## AND WE'RE JUST GETTING STARTED

---



# TELEMUNDO

THE **NEW STANDARD** IN HISPANIC MEDIA



#1 PRIMETIME  
2016 - 2017 SEASON  
SPANISH-LANGUAGE WEEKDAY

---

### THE NEW HOME OF THE FIFA WORLD CUP™

---

# BUSINESS & FINANCE

© 2017 Dow Jones & Company. All Rights Reserved.

\* \* \* \*

THE WALL STREET JOURNAL.

Monday, September 25, 2017 | B1

Last Week: S&P 2502.22 ▲ 0.08% S&P FIN ▲ 2.64% S&P IT ▼ 0.67% DJ TRANS ▲ 1.66% WSJ\$IDX ▲ 0.54% LIBOR 3M 1.329 NIKKEI 20296.45 ▲ 1.94%

Ride-hailing service was blindsided by decision that it was unfit to serve city

BY SAM SCHECHNER

After a stinging regulatory rebuke from the city of London, **Uber Technologies** Inc. is seeking to negotiate.

The ride-hailing company is pushing to meet the London regulator that on Friday said it would refuse to reissue Uber's operating license there. At the same time, it is preparing a legal appeal and rallying its users in London to build support. It will be allowed to

operate as usual during the appeal, a process that could take months.

Uber once had an approach to transport regulation that its former chief executive called "principled confrontation." More recently, it has softened its approach, particularly in Europe.

Still, it was blindsided by London's announcement Friday that it was unfit to operate in the city. The agency, Transport for London, cited what it called a general lack of corporate responsibility, specifying Uber's approach to reporting serious crime and driver background checks, among other issues. Uber has contested the authority's de-

scription of its shortcomings.

The company circulated an online petition asking users to call on London to back down. As of Sunday afternoon, the petition had garnered more than 640,000 supporters.

Given the high-profile nature of the standoff with London, and the importance of London's market size for Uber, the stakes are especially high. London accounts for about 5% of Uber's global base of customers who use the service at least once a month.

Any concessions to London could set a precedent, potentially locking Uber into providing them to other municipalities around the world. That could add to costs at a

time when Uber is trying to narrow its large losses.

Uber is likely to reach out to Transport for London as early as Monday to try to set up a meeting to help determine what the authority's specific complaints are, and how Uber could resolve them, according to a person close to the company. Uber hasn't had any direct contact with the transport authority or the London mayor's office since Friday's announcement, but is eager to talk, that person said.

The mayor's office oversees the transport authority, and Mayor Sadiq Khan has said he backs the decision to withhold the operating license.

"While we haven't been asked to make any changes, we'd like to know what we can do. But that requires a dialogue we sadly haven't been able to have recently," Tom Elvidge, Uber's general manager in London, said in a statement that Uber provided by email.

Uber said it hasn't had success in setting up a meeting with Mr. Khan since he was elected. The company said it has only met with senior staff at Transport for London one time this year, despite multiple attempts to set up meetings.

At the one meeting, officials told Uber they couldn't

Please see UBER page B2

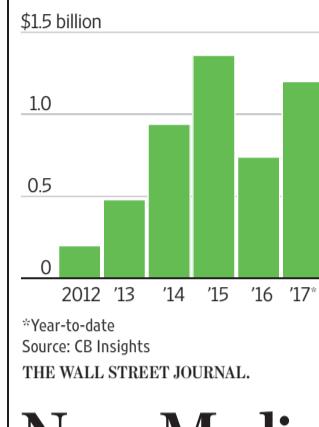
See more at [WSJMarkets.com](http://WSJMarkets.com)

Cautious Venture

Capital keeps flowing to digital media.

Venture funding for U.S. digital-media firms

\$1.5 billion



\*Year-to-date

Source: CB Insights

THE WALL STREET JOURNAL.

## New-Media Company Mashable Eyes Sale

BY LUKAS I. ALPERT  
AND SUZANNE VRANICA

The new-media company **Mashable** is about to test how much "pivoting to video" pays off.

The U.S. company, known for its mix of technology and pop-culture stories, has for months been looking to raise capital from a strategic investor but is now leaning toward an all-out sale, people familiar with the matter said. Mashable has had extensive discussions with German television broadcaster **ProSiebenSat.1**, the people said.

It is possible another suitor could emerge. U.S. media company Viacom Inc. also explored a deal but isn't engaged in talks, one of the people said.

Mashable laid off about 30 employees last year, curtailed the scope of its written-news reporting and shifted resources into video. That preceded a wave of similar moves by media outlets seeking faster digital advertising growth as their business models come under stress. Many have used the phrase "pivot to video" to explain the shift.

By some measures, the change has paid off for Mashable: Its revenue increased 36% to \$42 million in 2016, while the site posted a net loss of \$10 million, people familiar with its financials said. It is targeting \$50 million this year and might break even. Video views have soared on YouTube, Facebook and other platforms.

But the real test is how much of a premium someone would pay for part—or all—of the company.

"We made big changes and Please see VIDEO page B2

## Fast-Food Chain White Castle Brings Its Trademark Sliders to China



CRAVINGS: White Castle has rarely ventured outside the U.S., but now it is betting on Chinese diners' appetite for Western food with two restaurants in Shanghai. B2

## Tuesday Morning CEO Targeted by Activists

BY DAVID BENOIT

Two investment funds are calling for new leadership at discounted housewares retailer **Tuesday Morning** Corp., the latest in a series of activist campaigns targeting chief executives.

**Jeereddi Partners** LLC and **Purple Mountain Capital Partners** LLC, which together own 2.4% of Tuesday Morning's shares, are urging it to replace Chief Executive Steven Becker, according to a letter to the company re-

viewed by The Wall Street Journal. Their candidate to replace him is the former CEO of **Signet Jewelers** Ltd. and **Francesca's Holdings** Corp., Michael W. Barnes.

The letter says the board wouldn't consider Mr. Barnes or hear out their ideas. The funds are preparing to publicly nominate him and Purple Mountain founder James Corcoran to the board. They argue the stock, which closed Friday at \$2.40, could be worth more than \$20. Its market cap currently stands

at just over \$100 million.

For its fiscal year ended in June, the company's adjusted loss before interest, taxes, depreciation and amortization was \$2.8 million, compared with a \$30.3 million profit in the prior year.

Mr. Becker has said Tuesday Morning is restructuring its operations and supply chain to boost efficiency, blaming the loss partly on costs from that work. It has forecast sales gains this year.

Shares of the Dallas company are down by more than

50% this year amid broader retail industry struggles. They have fallen from more than \$20 in the past few years.

The proposed nominees would "inject instability and disruption at the very moment that Tuesday Morning is executing against operational priorities intended to drive improved top and bottom line performance," Tuesday Morning Chairman Terry Burman said in a statement.

Activists are calling for CEO change more often and have succeeded this year at

such firms as **American International Group** Inc. and **Arconic** Inc.

Mr. Becker took over as chief executive in 2015. Three years before, he had become chairman after his then-activist hedge fund called for an earlier CEO to be fired.

In their letter, Jeereddi and Purple Mountain echoed Mr. Becker's own arguments when his now-dissolved fund criticized a drop in earnings and the stock price. Then, the company almost immediately fired CEO Kathleen Mason.

KEYWORDS | By Christopher Mims

## Should U.S. Require Breach Disclosure?

There are two things we can count on in the wake of the Equifax breach, already credited with exposing a majority of American adults to the possibility of identity theft. The first is that more and potentially worse breaches are in our future. The second is that companies will need to be prodded toward smarter cybersecurity practices and faster reporting of breaches.

Details of the breach—which Equifax said it discovered in late July—have only recently been revealed by the credit-reporting company and by **Mandiant**, the cyberforensics firm it hired. However, the enormous loss of data appears to have been the result of an unpatched vulnerability, which allowed hackers to roam freely inside Equifax's computer network for more than four months. (In a report, Equifax said it "took efforts" to fix the

compromised system.)

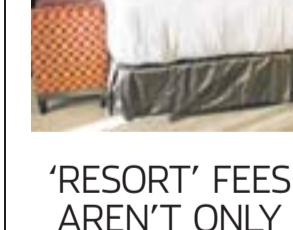
The Federal Trade Commission and the Federal Bureau of Investigation are investigating, and the first of what is expected to be a wave of lawsuits by state attorneys general has already been filed. But punishing Equifax isn't the same as minimizing the impact of similar disasters. For that, we are going to need something anathema to the tech industry and especially companies that have been hacked: transparency.

It isn't coming voluntarily. There is already a patchwork of data-breach disclosure laws passed by 48 different states, yet none have been strong enough to get companies in line. Newly proposed federal regulations could be, if they can get bipartisan support.

"Equifax has had a very poor response and I'm disappointed in them," says Rep.

Please see MIMS page B4

## INSIDE



### 'RESORT' FEES AREN'T ONLY FOR RESORTS

— TRAVEL, B3



### FRENCH BANKS ARE BRIGHT SPOT IN EUROPE

— LENDING, B10

STATE STREET GLOBAL ADVISORS SPDR

BECAUSE \_\_\_\_\_ HAPPENS.

Gridlock in Congress can cause volatility. The SPDR S&P 500 ETF (SPY) is the only ETF with an average trading volume of 15 million shares per hour, for unmatched liquidity. Learn why it matters at [spdrs.com/SPYliquidity](http://spdrs.com/SPYliquidity)

Source: Bloomberg Finance LP, average trading volume year to date as of 4/30/17. ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs net asset value. ETF shares may not readily trade in all market conditions.

Brokerage commissions and ETF expenses will reduce returns. Past performance is not a guarantee of future results. SPDR® S&P 500® ETF Trust, a unit investment trust, is listed on NYSE Arca, Inc. SPDR®, S&P and S&P 500 are registered trademarks of Standard & Poor's Financial Services LLC (S&P).

and have been licensed for use by State Street Corporation. No financial product offered by State Street or its affiliates is sponsored, endorsed, sold or promoted by S&P, ALPS Distributors, Inc. (fund distributor); State Street Global Advisors Funds Distributors, LLC (marketing agent).

SPY

LIQUIDITY  
RESILIENCY  
PERFORMANCE

IBG-23968

Not FDIC Insured • No Bank Guarantee • May Lose Value

Before investing, consider the funds' investment objectives, risks, charges and expenses. To obtain a prospectus or summary prospectus, which contains this and other information, call 1.866.787.2257 or visit [www.spdrs.com](http://www.spdrs.com). Read it carefully.

## INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

A	F	MGM Grand Detroit....B3
Alibaba Group Holding.....R7	Finup Credit.....R7	P
Amazon.com.....B5	G	ProSiebenSat.1 MediaB1
Ant Financial Services Group.....R7	General Motors.....B7	R
Apple.....B3	Goodfish Group.....R4	Remgro.....B7
Aston Martin Lagonda.....R4	I	S
AT&T.....B2	Imagination Technologies Group.....B3	Sanofi.....B11
B	InterContinental Hotels Group.....B3	SBE Entertainment Group.....B3
Bank of America.....R5	J	Shay Murtagh Precast.....R4
BASF.....R4	Jacksonville Jaguars...A6	Siemens.....R4
Bayerische Motoren Werke.....R4	K	Société Générale.....B10
BlackRock.....B10,R5	Kraft Heinz.....B7	T
BNP Paribas.....B10	Kroger.....B5	Telia.....B7
C	Ladenburg Thalmann Asset Management..R5	Tencent Holdings.....R7
Caesars Entertainment.....B3	L'Oréal.....B11	Time Warner.....B2
Canyon Bridge Capital Partners.....B3	M	Uber Technologies.....B1
China Rapid Finance...R7	Mandiant.....B1	Unilever.....B1
Clift Hotel.....B3	Marriott InternationalB3	W
E	Mashable.....B1	Wells Fargo.....R5
Equifax.....B1,B10	McDonald's.....B2	White Castle.....B2

## BUSINESS & FINANCE

# Shanghai Tests the Slider

White Castle hopes rising taste for beef, smaller portions will bring in customers

BY WAYNE MA IN BEIJING AND AND LIZA LIN IN SHANGHAI

Xu Man had never eaten at a **White Castle**. But she saw the 2004 buddy film "Harold & Kumar Go to White Castle" and was eager to sample its iconic hamburgers when the American chain opened a store just off Shanghai's popular Nanjing Road shopping district.

"I'm going to come again," said Ms. Xu, 19, after polishing off two sliders. "I can eat three burgers here, whereas I can only eat one at McDonald's."

White Castle is betting on China's curiosity for Western food, rising beef consumption and a trend toward smaller portions to make the case for expansion here. It opened two stores in Shanghai this past summer and hopes to eventually open more.

"We were really intrigued by the opportunities in China, and think that it's the future," said Jamie Richardson, a vice president of the privately held company based in Columbus, Ohio.

Founded in 1921, White Castle was one of the first fast-food chains, and is widely credited with inventing the slider—small hamburgers that can be gobbled in a few bites.

Like other fast-food chains that have moved into the Chinese market, White Castle is making some concessions to local tastes. In addition to its beef hamburgers, the menu includes a meatless Spicy Tofu burger made from mapo tofu, a Sichuanese classic, as well as a Cherry Duck slider made with smoked duck drenched in a cherry sauce.

And you won't find the



White Castle opened two stores in Shanghai this summer.

stand-alone "white castles" with crenelated roofs in China.

The store near Nanjing Road is in the retail space of a refurbished traditional Shanghai building, and the other one is in a mall—choices that reflect Shanghai's high commercial real-estate prices and the need to draw in foot traffic.

Inside, the stores look more like diners, with blue booths, fancy lamps, wooden wall panels and soft lighting.

Decor isn't the only upscale feature—so is the price. Burgers retail for 13 yuan (\$1.99) versus 80 cents in the U.S.

That compares with 7.5 yuan for the base hamburger at McDonald's in Shanghai. The combo meals here, which typically include three sliders, a drink and french fries, start at 42 yuan, while McDonald's combo meals are usually under 30 yuan.

Consumers "might be puzzled that the price is as high as it is," said Ben Cavender, a Shanghai-based retail analyst at China Market Research Group. Repeat visits may also be a challenge as their novelty wears off and customers become frustrated with White Castle's limited menu, Mr.

Cavender added.

Mr. Richardson said White Castle's pricing in China reflects costs and its "desired position in the marketplace."

Larger U.S. rivals McDonald's Corp. and Yum China Holdings Inc.—which operates KFC and Pizza Hut—already fiercely compete against each other and smaller Chinese chains. The market for dining out also is shrinking as more consumers turn to food-delivery apps for their meals.

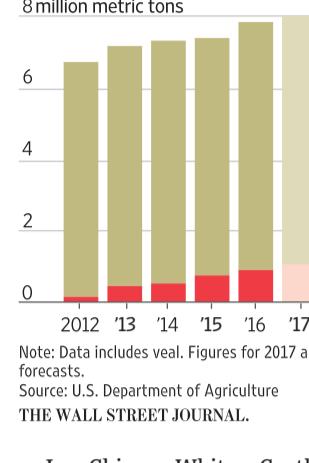
Unlike McDonald's and Yum China, which are publicly traded and franchised, White Castle is a closely held family business and owns all but one of its 385 restaurants across 12 states.

Overseas, the burger chain has had several false starts. In the 1980s and 1990s, it opened one store each in Singapore, Malaysia and Japan with local partners, but those restaurants never took off.

Mr. Richardson said the decision to enter China was more than three years in the making and came after Lisa Ingram—a great-granddaughter of White Castle founder Billy Ingram—became chief executive in 2015.

## Where's the Beef?

Beef consumption is growing in China as incomes rise.



Note: Data includes veal. Figures for 2017 are forecasts.  
Source: U.S. Department of Agriculture

## INDEX TO PEOPLE

B	Khan, Sadiq.....B2		
Bettencourt, Liliane..B11	L	Pillai, Ajit.....B3	
Blancato, Phil.....R5	R	Racine, Karl.....B3	
C	Carter, Richard John...R4	S	Richardson, Jamie.....B2
D	Donnelly, Mike.....B5	M	Langevin, Jim.....B4
Dörsam, Alexander....B4	O	Lewis, James.....B4	
G	Goldstein, Jeff.....B5	P	Lieu, Ted.....B4
H	Inkster, Nigel.....B4	W	Li Keqiang.....B4
I	Kathrein, Reed.....B10	U	Loeb, Daniel.....B11
K	Peterson, Doug.....B3	U	Lythgoe, Tony.....R7



London authorities deemed Uber unfit to operate in the city.

## UBER

Continued from the prior page  
discuss the license renewal, Uber said. As a result, people close to Uber said the company is still in the dark about what it could specifically do to address the authority's concerns.

A person close to London's mayor said Mr. Khan has consciously avoided meeting with any parties involved in the Uber case, including the company and black-cab unions, to stay out of what he considers a regulatory process.

**People close to Uber say it is in the dark about what it can do to address concerns.**

Transport for London declined to comment beyond its statement on Friday. It cited the appeal process.

Uber's offer to negotiate is one of the strongest signals of a recently changing public stance from a company that is facing a series of scandals, probes and board infighting—often brought on by allegations of an aggressive corporate culture, directed both internally and externally.

Now the company is being forced to change its behavior in multiple arenas at once—its

governance, how it treats its drivers, and its approach toward local laws.

"The truth is that there is a high cost to a bad reputation," said Chief Executive Dara Khosrowshahi in an email to staff about the London decision on Friday.

After a bad run of confrontations in Europe and Asia, the company in 2015 embarked on a push to negotiate new deals with cities to create jobs in return for looser rules.

At that time, former CEO Travis Kalanick gave a speech in Munich saying he wanted to "establish a new partnership with EU cities."

Later that year, after fierce opposition in France and other countries, the company reversed course in much of Europe to its service that uses drivers without professional licenses.

Since then, however, the company has continued to run into problems in multiple cities—including London—over questions of safety and increasingly over the treatment of its drivers.

Like many car-hailing companies, Uber says its drivers are independent contractors, but some drivers say they should be entitled to some workers' rights, such as a minimum wage and sick pay.

This week, Uber is expected to argue its appeal to a court ruling in London last fall that two of its drivers are entitled to workers' rights.

—Wiktor Szary contributed to this article.

## VIDEO

Continued from the prior page  
it wasn't easy, but we are extremely happy where we are. We consider it success by any measure," Greg Gittrich, Mashable's chief content officer, said of the company's shift toward video production. "Any further investment will help us unlock growth much faster than we could organically."

Mashable, which has raised \$46 million in capital, was valued at \$250 million in its last fundraising round in 2016, people familiar with the matter said.

Assuming a steady multiple—the ratio of its valuation to its revenue—its valuation now would top \$300 million, not factoring in any premium for acquiring control.

If the company fetches a disappointing price, it would be a signal of skepticism about the prospects of digital-media firms.

The industry—which features bigger competitors such as BuzzFeed, Vox Media and Vice Media and smaller, independent outfits such as Mic, Refinery 29, Bustle and Mashable—was flying high a few years ago as the digital ad market looked promising and capital poured in. Traditional media companies were hungry to invest in these players, as they lost young audiences on the TV dial.

But the high valuations placed on these companies came with high expectations from investors: rapid revenue growth and the promise of lucrative exits one day via an initial public offering or sale.

Since the surge in investment, digital-ad spending has been flowing to tech giants Facebook and Google, meaning there is less money to go around for publishers. Facebook and Google are expected to take in a combined 63% of U.S. digital ad dollars in 2017, according to eMarketer.

Many traditional media companies—including BuzzFeed investor Comcast Corp., Vice investor Walt Disney Co. and Group Nine backer Discovery Communications Inc.—have already placed significant bets.

Turner, whose parent Time Warner Inc. has a pending merger with AT&T Inc., is an investor in Mashable but hasn't pursued a buyout of the company, the people familiar



Shooting a video with science celebrity Bill Nye, left, at Mashable offices in New York last year

with the matter said.

New investment into the sector has gravitated toward bigger companies that are in later stages of their investment cycles, showing less appetite for bets on new players.

The number of U.S. digital-media deals has fallen from 109 in 2015 to a projection of 64 this year, according to CB Insights, with 80% of the money expected to come in Series D investment rounds or later.

"Downward pressure in the

ad market and the upward pressure of VC expectations are really coming to a head right now," said an executive at a large venture-capital firm with several investments in digital-media companies.

To be sure, many of these companies have a lot going for them, with growing young audiences and the ability to adapt their operations to cater to new platforms like Facebook's video initiatives.

They are also adapting their business models. BuzzFeed

## Downturn

Less money is going to early-stage digital media companies

### Dollar share for U.S. digital-media firms



\*Year-to-date

Source: CB Insights

THE WALL STREET JOURNAL.

and Vox Media recently moved to selling automated ads on their sites in a bid to juice revenue, after years of relying mostly on their own custom brand studios to churn out higher-cost native ads, which are harder to scale. When BuzzFeed raised an additional \$200 million from Comcast last year, the firm's valuation of \$1.7 billion was roughly flat with the previous funding round, a signal of some of the changing winds affecting digital media.

**synchrony BANK**

Want Great Rates + Safety?  
It's a day at the beach.

12-MONTH CD

1.50% APY\*

\$2,000 minimum opening deposit

Relax with an award-winning product from Synchrony Bank.

Visit us at [synchronybank.com](http://synchronybank.com) or call 1-800-753-6870 to get started.

\*Annual Percentage Yield (APY) is accurate as of 9/21/17 and subject to change at any time without notice. A minimum of \$2,000 is required to open a CD and must be deposited in a single transaction. A penalty may be imposed for early withdrawals. Fees may reduce earnings. After maturity, if you choose to roll over your CD, you will earn the base rate of interest in effect at that time. Visit [synchronybank.com](http://synchronybank.com) for current rates, terms and account requirements. Offer applies to personal accounts only.

© 2017 Synchrony Bank

Member FDIC

## BUSINESS NEWS

# Supplier To Apple In Buyout

BY JULIE STEINBERG

**Canyon Bridge Capital Partners LLC**, a China-backed investment firm whose planned acquisition of a U.S. semiconductor company was scuttled earlier this month, has reached a deal to buy a U.K.-based chip designer for £550 million (\$742.2 million).

Canyon Bridge said late Friday it will acquire **Imagination Technologies Group PLC**, a small but important **Apple Inc.** supplier, in an all-cash deal for 182 British pence a share, a 42% premium to Imagination's Friday closing price.

To soothe any concerns that the deal may raise among British authorities, Canyon Bridge said it would maintain Imagination's U.K. headquarters and indicated it had no plans to cut jobs or change Imagination's management.

Imagination, which put itself up for sale in June, doesn't manufacture chips itself. It had been supplying Apple with graphic-processing units, which power videos and other animations on smartphones and computers. Imagination in April said Apple would stop using Imagination's technology in its devices, which sent shares plummeting. Imagination said at the time that Apple was working on its own designs for such technology.

Canyon Bridge's plan to buy Imagination comes after its deal to acquire Portland, Ore.-based Lattice Semiconductor Corp. was rejected by U.S. President Donald Trump. The companies had appealed to Mr. Trump to overrule a negative recommendation by the Committee on Foreign Investment in the U.S., a multiagency panel that screens foreign takeovers for national-security concerns.

—Kate O'Keeffe  
and Ben Dummett  
contributed to this article.

# 'Resort' Fees: Not Only for Resorts

Add-on charges crop up in places like Rapid City, S.D.; guests pay for their 'free' Wi-Fi

BY CHRIS KIRKHAM

When Ajit Pillai checked into the Crowne Plaza Times Square in New York last month with his family, he was surprised to learn he would have to pay a \$30 "resort fee" for each of the four nights of his trip.

He had grown accustomed to such fees at Las Vegas casinos and beachfront resorts, but didn't expect to see the charge at a relatively modest, \$260-a-night hotel in congested Midtown Manhattan.

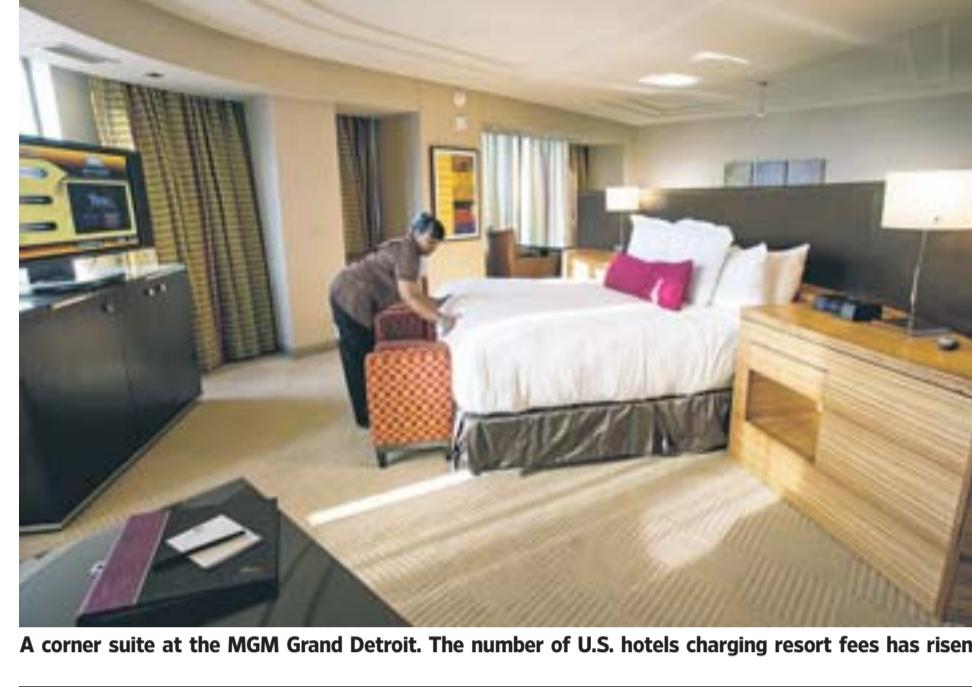
A hotel employee told him the fee was for two free drinks at the bar, the gym and a newspaper.

"It didn't really have anything you would affiliate with a resort," said Mr. Pillai, a maxillofacial surgeon from Brookfield, Wis.

**InterContinental Hotels Group PLC**, which owns the Crowne Plaza hotel brand, and the hotel's management group declined to comment on the fee. The hotel's website says the "daily service fee" is meant to "enhance the overall guest experience."

Resort fees tacked on to the advertised price of a hotel have long been a source of frustration in tourist destinations like Hawaii and Florida, where they ostensibly cover the cost of perks such as poolside cabanas or spa access. Now they are increasingly cropping up at hotels in big cities and even less-glitz locales including Spokane, Wash., and Rapid City, S.D. Lower-priced chains such as Best Western and La Quinta Inns & Suites now add them to room charges at hotels near attractions like Disneyland or water parks.

Hoteliers say the fees go toward amenities such as "free" Wi-Fi, pools or gym access,



BRYAN MITCHELL/BLOOMBERG NEWS

A corner suite at the MGM Grand Detroit. The number of U.S. hotels charging resort fees has risen.

### Online Hotel Listings Can Run the Gamut

The fees can range from \$8.65 a night at a South Dakota La Quinta Inn Suites, to \$20 at the **MGM Grand Detroit** and **Harrah's North Kansas City** casino.

The Federal Trade Commission in 2012 and 2013 sent warning letters to more than 40 hotel operators and travel sites saying some of them weren't advertising the resort fee as part of the total price for a room. The agency warned that it "may take action to en-

force" any violations of consumer protections.

Online hotel listings on company and third-party sites run the gamut.

Some advertise only the room rate, then add the resort fee to the total price when a customer is checking out. Others list charges only for the room and "taxes and fees," and note elsewhere that resort fees will be charged upon check-in.

In a study released earlier this year, the FTC concluded that not fully advertising the total room rate upfront, including resort fees, harms consumers because they must

spend more time searching for the fees "or make an incomplete, less-informed decision that may result in a more costly room."

The American Hotel and Lodging Association declined to comment but has said in the past that resort fees "are fully disclosed up front and clear to the consumer at the time of booking, and remain transparent to the consumer," a practice it says is "aligned with" the FTC's guidance in 2012.

The FTC hasn't publicly taken action against any major hotel operators since its warning letters were issued.

while consumer groups and research by the U.S. Federal Trade Commission say separating such fees from advertised room rates hurts consumers.

The fees have attracted the attention of attorneys general in 46 states and the District of Columbia, who since last year have been investigating the way the industry advertises resort fees.

"We want the lodging busi-

nesses to simply present their full and accurate pricing right upfront, so the consumer can see what a room will cost them," said D.C. Attorney General Karl Racine, who is leading an investigation with Nebraska Attorney General Doug Peterson.

Their probe includes **Marriott International Inc.**, according to court filings. In a statement, Marriott said it fully discloses resort fees and has been cooperating with the D.C. attorney general's request.

The number of hotels

charging resort fees is up by 26% since last year and average resort fees have risen by 12% to \$21.05 a night, according to data from [www.resortfeechecker.com](http://www.resortfeechecker.com), a website that gathers data on resort fees and other mandatory charges by hotels. Nightly fees range from an average of about \$30 a night in Las Vegas to \$8.68 a

night in Daytona Beach, Fla.

Cities with the biggest growth in hotels with resort fees over the past year are major urban markets such as New York, Los Angeles and San Francisco, as well as smaller beach markets such as Sarasota, Fla., and St. Petersburg-Clearwater, Fla., according to the site.

A study from Bjorn Hanson, a clinical professor at New York University's hospitality program, estimates that fees and surcharges at U.S. hotels will total \$2.7 billion this year, a 35% increase from five years ago.

The American Hotel and Lodging Association, a trade group for the hotel industry, says resort fees aren't a common practice. In recent years about 4% to 7% of hotels across the U.S. charged such fees, a figure the group said has remained steady since 2000.

Paul English, co-founder of travel search site Kayak.com who now runs a travel site called Lola.com, said he was caught off guard by a \$28 nightly "urban facility fee" upon checking in at the **Clift Hotel** in San Francisco last month.

He told the hotel staff he didn't need the services covered by the fee—Wi-Fi, a discount at the restaurant and use of the gym—but he was told the fee was mandatory.

In a statement, **SBE Entertainment Group**, which co-owns the Clift, said customers who book directly through the company's website get a "detailed preview of the cost, including any fees," throughout the booking process.

Mr. English said he booked the hotel through Lola.com, and wasn't aware of the fee until check-in. He said search sites such as Kayak or booking sites like Expedia.com have little control over the advertised prices, because they rely on hotels to supply information such as the room rate. The hotel industry has countered that third-party travel sites should improve disclosure of such fees.



# WHEN THE BELL RINGS, COME OUT SWINGING.

E\*TRADE was created so you could do just that. We always believed in the democratization of investing. That's why we made trading technology available to everyone. And we haven't let up—The Original Place To Invest Online is all about giving you the access, tools, and support you need to make Wall Street your street. That bell?

That bell is an invitation. Ding. Ding. Ding.

DON'T GET MAD GET  
**E\*TRADE**®

The Original Place To Invest Online

Securities products and services are offered by E\*TRADE Securities LLC, member FINRA/SIPC.  
© 2017 E\*TRADE Financial Corporation. All rights reserved.

# Germany Combats Hackers From China

Government steps in to help small, midsize firms bolster defenses amid wave of attacks

BY WILLIAM WILKES

BERLIN—A wave of attacks by Chinese hackers on Germany's cutting-edge manufacturers is raising alarm in Berlin and prompting the government to step in to defend the country's competitive edge.

The small and midsize companies that make Germany an export powerhouse have landed in the crosshairs of foreign hackers attracted to the companies' valuable but often poorly protected intellectual property, German intelligence officials warn.

Some 65% of German manufacturing and technology companies were hit by cyberattacks in 2016, compared with 62% in the U.S. and 50% in the U.K., according to insurer Hiscox Ltd. Germany's BfV domestic intelligence agency estimates that German companies lost €55 billion (\$66 billion) to espionage, sabotage and data theft last year, up from €51 billion in 2015.

Spooked by the losses, the German government is moving to shield companies from state-backed hackers and criminal gangs, offering to pay to harden the defenses of Germany's most vulnerable com-



WOLFGANG RATTAY/REUTERS

Deutsche Telekom detected 30,150 cyberattacks from China this month. CEO Timotheus Höttges, on screen.

panies. Industry groups are also reaching out to members about the threat.

"The German economy is the focus of industrial espionage," Hans-Georg Maassen, head of Germany's domestic intelligence agency, said in July. "Attacks have increased over the last two years."

Two years ago, the U.S. and China signed an agreement not to support hacking aimed at industrial espionage. But despite high-level discussions, German officials have yet to secure a similar deal. The Group of 20 nations, which includes China

and Germany, announced a pact against commercial cyberespionage in 2015.

In June 2016, a delegation led by German Chancellor Angela Merkel flew to Beijing for talks on the matter. While Chinese officials led by Premier Li Keqiang told Ms. Merkel that Beijing would protect German companies' intellectual property in China, they didn't agree to stop hacking.

As Chinese attacks on U.S. companies have eased, Germany has become a bigger target, according to Nigel Inkster, senior adviser to the Interna-

tional Institute for Strategic Studies in London.

In a faxed statement, China's Ministry of Foreign Affairs said it was unaware of the German allegations but reiterated Beijing's official position that it "resolutely opposes" cyberhacking in every form.

"If the relevant parties have definitive evidence of hacking attacks, they can provide it to the Chinese side and we will handle it according to the law," the statement said. It added that "baseless accusations and speculation are not only unprofessional, they also do nothing

to solve the problem."

German companies lead the world in advanced-manufacturing patents, with 3,917 filed last year versus 1,410 by U.S. and 860 by Japanese companies, according to the World Intellectual Property Organization. The world's third-largest exporter spends 2.9% of gross domestic product on research and development, a higher percentage than the U.S. and the U.K. do, according to the most recent figures from the Organization for Economic Cooperation and Development.

Large multinationals can afford to protect their property. Not so the more than 3.5 million small and midsize businesses—known collectively as the Mittelstand—that produce more than half of Germany's economic output and sell the tools, parts and components that power factories around the world, experts say.

"The ignorance at smaller firms is extreme," Alexander Dörsam, head of information-technology security at computer-security firm Antago GmbH, said. "The founders of the company are often its leaders. They are older and don't understand the technology."

China has long fed its voracious appetite for German technology via Chinese regulations and directives that force foreign investors to share knowledge with local partners and by acquiring German businesses.

But China's spy agencies also have joined the hunt, counterintelligence officials here say.

Deutsche Telekom AG, Germany's largest telecommunications company, said it detected 30,150 cyberattacks from China so far this month, with Russia the second-largest source at 7,661 attacks.

Chinese state-backed hacking of Western companies is conducted by the cyberwarfare units of the People's Liberation Army or China's Ministry of State Security intelligence agency, according to Western intelligence agencies and security companies.

Chinese companies used to be able to direct the PLA or MSS to hack into Western competitors, according to James Lewis, director of the Strategic Technologies Program at the Center for Strategic and International Studies in Washington. In the wake of Beijing's crackdown on businesses using intelligence resources, companies can still put in a request for a target to be hacked but no longer can assign tasks to the teams directly, Mr. Lewis said.

Germany's domestic intelligence agency said in May it had evidence the APT-10 Chinese hacker group—also known as Menupass Team and Stone Panda—was behind a recent hacking campaign against German high-tech companies.

—Josh Chin contributed to this article.

## MIMS

*Continued from page B1*  
Jim Langevin (D., R.I.), one of the members of Congress behind the new regulatory push. "As good corporate citizens I believe Equifax owes much more transparency to consumers."

Equifax didn't respond to requests for comment.

Many firms share information with each other through cybersecurity back channels, but participation is entirely voluntary. That is one reason the European Union passed the General Data Protection Regulation, going into effect in May 2018, which will force companies that do business in the EU and the U.K. to promptly disclose when personal data is breached.

U.S. lawmakers are urging Congress to follow suit. Rep. Langevin reintroduced the Personal Data Notification and Protection Act, first proposed by President Obama in 2015. Co-sponsors include Rep. Ted Lieu (D., Calif.) and Rep. Carol Shea-Porter (D., N.H.). All three are members of the bipartisan Congressional Cybersecurity Caucus.

Meanwhile, Republican lawmakers are gearing up for hearings that will surely include grilling Equifax executives, but have yet to call for regulations. House Energy and Commerce Committee Chairman Greg Walden (R., Ore.) has said that until those fact-finding hearings are complete, he doesn't want to pre-emptively put forward legislation.

Many companies and analysts object to proposed legislation, in part because they

believe that should it come to pass, companies would prioritize compliance—following the letter of the law and appearing to do the right thing—rather than dealing with the fast-moving problem of cybersecurity, says Andrea O'Sullivan, program manager of the technology policy program for the pro-market Mercatus Center at George Mason University.

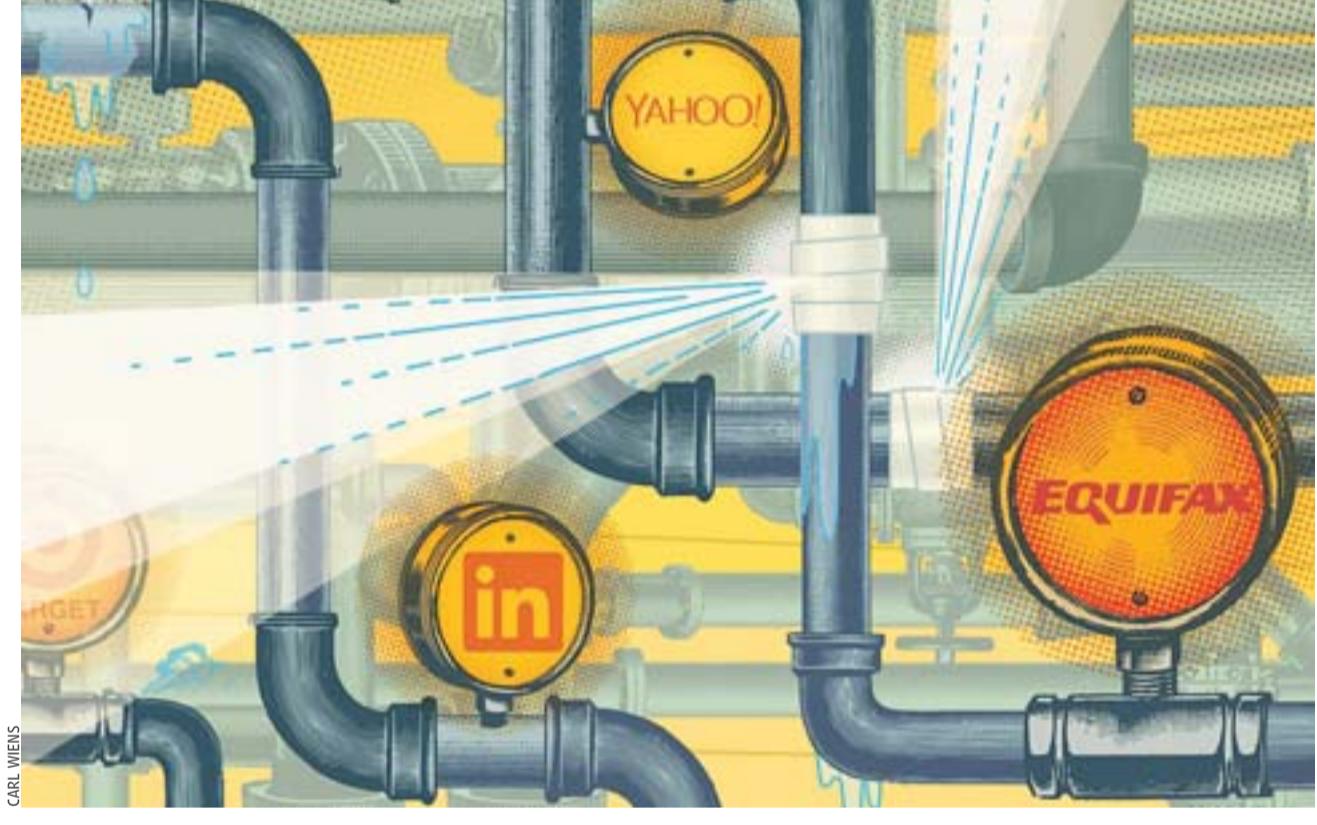
Companies don't want to be embarrassed or face increased costs of having to disclose when data is leaked, and there is also a concern that should companies be forced to report every breach, it could lead to "data breach fatigue," where regulators are overwhelmed and the public throws up its hands at a problem that feels too pervasive to fix.

Transparency could give companies herd immunity. Existing voluntary breach reporting systems allow companies to share data on the nature of cyberattacks as soon as they occur. If reporting were mandatory, more companies could be quicker to defend against new attack vectors and new bad actors.

And, needless to say, strong cybersecurity is quickly becoming a selling point for savvy financial businesses.

Even regulation-averse politicians have cause to support a data-breach disclosure law at the federal level, says Rep. Langevin. It would simplify the issue for businesses by pre-empting the patchwork of 48 state laws, dating to 2003, that currently govern what companies have to do in the event of a breach of personal data.

Rep. Langevin argues that had it been in place already,



the Personal Data Notification and Protection Act would have had a direct impact in the case of the Equifax hack, and in previous hacks that inspired the bill.

Under this proposed legislation, Equifax would have had to disclose its breach within 30 days—not the six weeks it took—to the FTC and the Department of Homeland Security, which would become central clearinghouses for breach information.

Companies that fail to meet the requirements would face a raft of penalties, including

fines of as much as \$1 million per violation. They would be liable for civil penalties in law suits from states' attorneys general, with no limit on the damages that could be recovered if a company is found to have acted willfully or intentionally.

Even absent such efforts at the federal level, the coming EU regulations will force many large U.S. companies to get better at cybersecurity and, more important, improve their data collection and storage policies, says Charlie Wedin, a partner at international law

firm Osborne Clarke. "What compulsory breach notification is doing is putting this on the board agenda, and they're focusing on this like never before," he says.

What we really need to do is start treating data safety with the same seriousness we apply to airplane and automobile safety.

This could happen with a one-two punch of regulatory and market-based solutions. Forced to buy car insurance, we make certain economic decisions about how, what and when we drive. Meanwhile,

seat-belt laws have saved millions of lives. Along these same lines, mandatory disclosure would force companies to think more about their security in the first place—and even consider buying cyber insurance. And damage done by irresponsible companies could be minimized.

When Equifax was breached, hackers got birth dates, Social Security numbers and other hard facts about most of us. These data have the power to ruin our financial lives, so it is time we all took interest in its protection.

# WELCOME BACK!

STARTING TONIGHT  
**THE FIVE**  
RETURNS to **5 PM ET**

**HANNITY**  
RETURNS to **9 PM ET**



**FOX NEWS**  
channel

## MEDIA & MARKETING

### Kroger Site Pitches Niche Brands

BY HEATHER HADDON

**Kroger** Co. is launching a website allowing local suppliers to pitch niche products directly to buyers at the grocer's 2,800 stores, a response to rival Whole Foods Market's moves to be more conventional.

Cincinnati-based Kroger currently features local brands at stores in 35 states, but executives at the largest U.S. grocer plan to expand the offering to lure any Whole Foods shoppers dissatisfied following its recent takeover by **Amazon.com Inc.**

The market value of Kroger and other retailers has been pinched by Amazon's foray into the grocery business.

"They got a lot of publicity for not doing much. It's time to tell our story," said Mike Donnelly, Kroger executive vice president of merchandising and procurement, of the Whole Foods deal.

A Whole Foods spokeswoman declined to comment.

Whole Foods is centralizing its purchasing to become more efficient and profitable. The effort was under way before Amazon bought the country's largest natural and organic grocer, but the deal has presented a catalyst as the e-commerce giant helps to standardize prices and other practices.

Local suppliers have worried about being able to continue displaying their products on Whole Foods shelves as they have fewer opportunities to pitch their products to individual stores or regions.

Whole Foods has said that local brands remain a priority for the company, and its purchasing changes will improve store mix. "Local suppliers and products are crucial to the success of the company," the company said.

# 'Kingsman' Rules the Box Office

Sequel grosses more than its predecessor, while new 'Lego' movie fails to click

BY ERICH SCHWARTZEL

Two of Hollywood's latest attempts at creating lucrative, sequel-spawning franchises hit theaters this weekend to mixed results.

"*Kingsman: The Golden Circle*" became the rare sequel to outgross its predecessor in its opening weekend, collecting an estimated \$39 million in first place in the U.S. and Canada. The second installment in the series about a group of dapper secret agents grossed an additional \$61 million in overseas markets, a 63% improvement over the original's international opening.

The weekend's other major new release, "*The Lego Ninjago Movie*," disappointed in third place with \$21.2 million. "*Ninjago*" is a less expensive installment in Warner Bros.' "*Lego Movie*" franchise, but its opening is nonetheless far below the two other debuts for the property.

Different as they are, "*Kingsman*" and "*Lego Ninjago*" are exhibits in Hollywood's overall drive to create franchise properties that generate sequels and fan interest over many years.

The first "*Kingsman*" collected a strong \$414 million in world-wide grosses in 2015, raising the prospect of the property getting the franchise treatment from its studio, Twentieth Century Fox.

Its director, Matthew Vaughn, has "created a universe that people want to spend time in," said Chris Aronson, Fox's president of domestic distribution. The studio's owner, 21st Century Fox, and News Corp., parent of The Wall Street Journal, share common ownership.

The original "*Kingsman*" ultimately grossed \$128 mil-



Channing Tatum and Halle Berry in 'Kingsman: The Golden Circle,' the second installment in a series about a group of dapper secret agents.

#### Estimated Box-Office Figures, Through Sunday

FILM	DISTRIBUTOR	SALES, IN MILLIONS			WEEKEND CUMULATIVE % CHANGE
		\$39	\$39	--	
1. <i>Kingsman: The Golden Circle</i>	Twentieth Century Fox	\$39	\$39	--	
2. <i>It</i>	Warner Bros.	\$30	\$266.3	-50	
3. <i>The Lego Ninjago Movie</i>	Warner Bros.	\$21.2	\$21.2	--	
4. <i>American Assassin</i>	Lions Gate	\$6.3	\$26.2	-58	
5. <i>Home Again</i>	Open Road	\$3.3	\$22.3	-36	

\*Friday, Saturday and Sunday Source: comScore

lion domestically, a solid figure but not one that means the film took the country by storm, said Mr. Aronson. The sequel's opening this weekend, about 10% higher than the original's, signals a healthy afterlife that has brought more fans to the property, he said. The "*Kingsman*" sequel had a production budget of \$104 million and was co-produced by Mr. Vaughn's Marv Films.

The performance of "*Lego Ninjago*," though, demonstrates a liability of the franchise model: franchise fatigue. Warner Bros. has now released three *Lego* movies since 2014, and "*Ninjago*" is the second one this year.

The original "*Lego Movie*" opened to \$69 million and ultimately grossed a hit \$258 million. The spinoff "*Lego Batman Movie*," released last February, made its debut to \$53 million and ultimately made a strong \$176 million.

"*Lego Ninjago*," with a production budget of \$65 million, targeted a more narrow demographic of moviegoers than previous installments, said Jeff Goldstein, head of distribution at the Time Warner Inc.-owned studio.

The core audience for "*Ninjago*" was young boys, said Mr. Goldstein, which cuts back on moviegoers at late-night screenings who padded results for previous "*Lego*" movies.

"I'd hoped we'd get a broader audience," he said.

In its *Lego* films, Warner is trying to fashion a franchise that includes spinoffs and more specialized titles, rather than a series of movies that

follow a continuous narrative. Still, the weak opening of "*Ninjago*" could spell trouble for the property's next installment, "*Lego Movie 2*," which comes out in 2019.

The weekend's other new wide release, the social-media horror movie "*Friend Request*," disconnected from audiences with a measly \$2.4 million.

"*It*" continued to pull in strong grosses, bringing its three-week total to \$266 million. The Stephen King adaptation is now the highest-grossing horror film of all time, passing "*The Exorcist*," which made \$193 million when it was released in 1973.

When grosses are adjusted for inflation, though, "*The Exorcist*" appears hard to beat. Its lifetime gross translates to about \$983 million in today's dollars—enough to make it the ninth-highest grossing film of all time, according to Box Office Mojo.



## We've opened the door to more opportunity.

ORIX USA is expanding to build stronger communities.

With our recent acquisition of Lancaster Pollard, ORIX USA is more deeply invested in the seniors housing and healthcare markets than ever before. Together with RED Capital Group and Boston Financial Investment Management, new possibilities in healthcare, seniors, multifamily and affordable housing are wide open. Learn more at [orix.com/lancasterpollard](http://orix.com/lancasterpollard).



# Results may vary.

## 1. Seeking

- A An education I can afford
- B Small class sizes
- C Diverse peer group
- D A variety of courses
- E All of the above

## 2. for

- A A strong alumni network
- B A great job out of school
- C One-on-ones with professors
- D Prestigious degree
- E All of the above



Find the right fit with the  
WSJ/Times Higher Education  
College Rankings

---

The WSJ/THE College Rankings evaluate schools based on factors important to parents and prospective students—outcomes, resources, engagement and diversity.

---

**Read our full rankings and special report  
on September 27.**

**2018**  
**COLLEGE**  
**RANKINGS**

**WSJ** | **THE**

**THE WALL STREET JOURNAL.**  
Read ambitiously

## BUSINESS WATCH



The Tennessee factory makes the GMC Acadia, seen in 2016, and the Cadillac XT5 crossover SUV.

GENERAL MOTORS

### Tennessee SUV Plant To Lose Shift, Jobs

**General Motors** Co. will lay off several hundred workers at a sport-utility vehicle plant in Tennessee, a sign that the slowdown in the broader car market is spreading to once-hot SUVs.

GM notified employees at its Spring Hill, Tenn., assembly plant Friday that the company will lay off the overnight shift because of "moderating" sales of the two crossover SUV models built there. About 1,000 people work on that shift, though some might be able to transfer to other parts of the operation, which also makes engines and other components, a GM spokesman said.

"Although crossovers now make up a larger share of the automotive industry, overall volumes are moderating," GM said in its notice. "We believe the best way to react...is to reduce output."

The factory makes the GMC Acadia and Cadillac XT5 crossover SUVs. Both vehicles are part of many new or overhauled SUVs that GM is counting on to drive U.S. sales and profit growth as demand for passenger cars continues to wane.

U.S. vehicle sales have cooled this year after a seven-year

growth spurt and two straight years of record volumes.

—Mike Colias

officials to get or keep business. Its subsidiary in Uzbekistan pleaded guilty.

Telia on Friday said Swedish authorities would prosecute a number of former employees and bring legal proceedings against the company for a disgorgement.

—Samuel Rubenfeld

TELIA

### Payment to Settle Uzbek Bribery Claims

Swedish telecom **Telia** Co. agreed to pay nearly \$1 billion to U.S. and Dutch authorities to settle allegations that the company and a subsidiary paid about \$331 million in bribes in Uzbekistan.

Telia, which is partly owned by the Swedish state, said the resolution brings to an end all known corruption investigations into the company. It remains part of a broader probe by U.S. authorities into corruption in Uzbekistan.

Telia agreed on Thursday to pay a total of \$965 million in penalties and fines, the criminal portion of which will be equally split between the U.S. and Dutch authorities.

The total penalty amount also includes a \$457 million disgorgement to the Securities and Exchange Commission.

The Stockholm-based firm entered into a deferred-prosecution agreement in the U.S. charging the company with conspiracy to violate the Foreign Corrupt Practices Act, which bars the use of bribes to foreign

authorities.

In exchange, Unilever will give Remgro its spreads business in South Africa, Botswana, Lesotho, Namibia and Swaziland—which it says is valued at 7 billion rand—along with a cash sum of 4.9 billion rand.

Earlier this year, Unilever fended off an unwelcome \$143 billion acquisition approach from **Kraft Heinz** Co.

—Saabira Chaudhuri

UNILEVER

### Deal Gives Control Of South African Unit

**Unilever** PLC on Friday said that it is swapping its Southern African spreads business for full control of its South Africa subsidiary in a deal valued at 11.9 billion South African rand (\$898 million).

South African investment holding company **Remgro** Ltd. will sell back its 25.75% stake of Unilever South Africa (Pty) Ltd. to Unilever, giving the company full control of that business.

In exchange, Unilever will give Remgro its spreads business in South Africa, Botswana, Lesotho, Namibia and Swaziland—which it says is valued at 7 billion rand—along with a cash sum of 4.9 billion rand.

Earlier this year, Unilever fended off an unwelcome \$143 billion acquisition approach from **Kraft Heinz** Co.

—Saabira Chaudhuri

## Jeans re-imagined

Rohan Jeans may look like regular jeans, but in terms of performance they are the opposite.

Made from a sophisticated fusion of cotton and advanced modern synthetics, they're softer, lighter, stretchier, quicker drying and more durable.

Clever details include two hidden security pockets, one just the right size for a passport.

They're available in a classic fit or a more contemporary tapered leg fit.

Perfectly normal jeans, just much cleverer.



Men's Jeans Tapered Leg

### How to buy

Visit [rohandesigns.com](http://rohandesigns.com) and enter **US88** at the Basket Page or call **800 334 3750** and quote **US88**

The price you see is the price you pay. Rohan pays the duty, and shipping is free on orders of \$75 or over. Your new jeans will be shipped from the UK, and should be with you within 7-10 business days. Imported.

**Rohan**®

FOR EVERY JOURNEY

This offer is valid on Men's Jeans Classic in Mid Denim and Dark Denim (product code 04399) and Men's Jeans Tapered Leg in Dark Denim (product code 04341) only. This offer may not be used against a previous purchase and cannot be used in conjunction with any other offer or discount. Offer expires 31 October 2017. Offer code US88.



## CREATING NEW DYNAMISM FOSTERING A SHARED FUTURE

**21** ECONOMIC LEADERS      **800** CEOs      **1** SUMMIT

Unparalleled opportunities for global business executives to engage world leaders and high-level government officials

Topics include:

FUTURE OF  
GLOBALIZATION

NEW FRONTIERS  
FOR TRADE

WORKERS AND JOBS  
OF TOMORROW

Invited speakers include:

DAVID ABNEY  
UPS

ROBERT E. MORITZ  
PwC

PHILIPP RÖSSLER  
WEF

DAVID L. CUNNINGHAM  
FedEx

Join us at the APEC CEO Summit  
Da Nang, Viet Nam / 08-10, November, 2017

For information or to request an invitation,  
visit [apeccceosummit2017.com.vn](http://apeccceosummit2017.com.vn)

Knowledge Partner | **pwc**

Platinum Sponsors | Abbott

THE REAL LIFE COMPANY

CreditEase

ExxonMobil

FedEx

Express

FEDEX

Freightliner

UPS

WALMART

Gold Sponsors | citi

DOW

DHL

GE

J.P.Morgan

Moody's

Pfizer

RUSAL

SANOFI

WALMART

Premier Media  
Partners

Bloomberg

CNN

TIME | FORTUNE

THE WALL STREET JOURNAL

Read Ambitiously

General Media  
Partners

America  
REUTERS

CHINA  
DAILY

CAIXIN

The New York Times

## ROSS + SIMONS

celebrating our 65th anniversary of fabulous jewelry



Our Byzantine times  
three sterling necklace

What could possibly be better than a timeless sterling silver Byzantine necklace? Three of our best-selling strands strung together in a chic layered design! A big look that clearly defines modern elegance.

**\$175**

Plus Free Shipping

Sterling Silver Three-Strand Byzantine Necklace

18" length. Polished sterling silver. Springring clasp.

Also available in 20" \$195

Ross-Simons Item #889581

To receive this special offer, use offer code: **THREE9**

1.800.556.7376 or visit [www.ross-simons.com/THREE](http://www.ross-simons.com/THREE)

## CLOSED-END FUNDS

Listed are the 300 largest closed-end funds as measured by assets.

Closed-end funds sell a limited number of shares and invest the proceeds in securities. Unlike open-end funds, closed-ends generally do not buy their shares back from investors who want to cash out their holdings.

**a-The NAV** and market price are as of yesterday's close. **b-The NAV** is fully diluted; **c-NAV** is as of Tuesday's close. **d-NAV** is as of Wednesday's close. **e-NAV** assumes rights offering is fully subscribed. **f-Rights** offering in process.

**g-Rights** offering announced. **h-Lipper** data has been adjusted for rights offering. **j-Rights** offering has expired, but Lipper data not yet adjusted. **k-NAV** as of previous day. **o-Tender** offer in process. **v-NAV** is converted at the commercial rate. **w-Convertible Note-NAV** (not available for all funds). **x-Y-NAV** and **y-Z-NAV** are in Canadian dollars. **z-NAV** and **zz-NAV** are in Canadian dollars. **AA-NAV** that the information is not available or not applicable. **NS** signifies fund not in existence of entire period.

**12-month yield** is computed by dividing income dividends paid (during the previous twelve months) for periods ending at month-end or during the previous fifty-two weeks for periods ending at any time other than month-end) by the latest month-end market price adjusted for capital gains distributions.

Source: Lipper

Friday, September 22, 2017

Fund (SYM)	NAV	Prem	Ttl
	Close	/Disc	Ret
CohSteer Opprtunity Fd <b>FOF</b>	13.82	13.15	-4.8
Cornerstone Strategic CLM	13.33	14.69	+10.2
EtrnVnc TaxAdvisory EVT	22.57	21.9	-2.6
Gabelli Dividend & Incm GDV	23.78	22.05	-7.3
Gabelli Equity Trust <b>GAB</b>	6.38	6.41	+0.5
Gerl American Investors <b>GAM</b>	42.06	35.50	-15.6
Guggenheim Enf'd <b>GPM</b>	8.65	8.46	-2.2
HnckJohn TxAdv <b>HTD</b>	26.22	25.43	-3.0
Liberty All-Star Equity USA <b>LSE</b>	6.60	5.96	-9.7
Royce Micro-Cap <b>RMT</b>	10.07	8.94	-11.2
Royce Value Trust <b>RVT</b>	16.92	15.37	-9.2
Source Capital <b>SOR</b>	43.36	39.93	-9.2
Tri-Continental <b>TV</b>	28.48	25.26	-11.3
<b>U.S. Equity Funds</b>			
Adams Natural Rsrcs Fd <b>PEO</b>	22.49	19.36	-13.9
AllInzGfj Eq Intrest <b>NIJ</b>	14.38	13.24	-7.9
AlpnGiblPrpRop <b>AWP</b>	7.18	6.52	-9.2
ASA Gold & Prec Metals <b>ASA</b>	13.57	11.98	-11.7
BirkRk Enh Cap Inc <b>CII</b>	16.31	15.39	-5.6
BirkRk Enh Cap Inc <b>BGR</b>	14.82	13.47	-9.1
BlackRock Eq Div Tr <b>BDK</b>	9.64	9.01	-6.5
BlackRock Enf'd <b>BOE</b>	14.39	13.51	-6.1
BirkRk Eq Inv <b>BGY</b>	7.00	6.53	-6.7
BlackRock Health Sci <b>BME</b>	32.15	32.05	+2.6
BlackRock Rcs Comm Str <b>BCX</b>	9.98	8.81	-11.7
BlackRock Science & Tech <b>BST</b>	21.16	24.35	-6.8
BlackRock Utility & Infra <b>BUL</b>	21.17	21.03	-0.7
<b>U.S. Bonds</b>			
First Tr MLP & Enf'd Inc <b>FLP</b>	14.68	15.00	+2.2
Gabelli Hlth & Well Cr <b>GRX</b>	11.40	10.09	-11.5
Gabelli Utility Tr <b>GUT</b>	5.42	7.01	+2.93
GAMCoGiblGoldRscsCln <b>GGN</b>	5.51	5.61	+1.8
Goldman Sachs MLP Inc <b>GMZ</b>	9.15	NA	5.3
Goldman Sachs MLP Energy <b>GEI</b>	6.74	NA	2.6
John Hancock Finl Opns <b>BTO</b>	34.76	35.07	+0.9
John Hancock Finl Opns <b>FEI</b>	19.11	18.40	-3.7
First Tr MLP & Enf'd Inc <b>FLP</b>	14.68	15.00	+2.2
Gabelli Hlth & Well Cr <b>GRX</b>	11.40	10.09	-11.5
Gabelli Utility Tr <b>GUT</b>	5.42	7.01	+2.93
GAMCoGiblGoldRscsCln <b>GGN</b>	5.51	5.61	+1.8
Goldman Sachs MLP Inc <b>GMZ</b>	9.15	NA	5.3
Goldman Sachs MLP Energy <b>GEI</b>	6.74	NA	2.6
John Hancock Finl Opns <b>BTO</b>	34.76	35.07	+0.9
John Hancock Finl Opns <b>FEI</b>	19.11	18.40	-3.7
First Tr MLP & Enf'd Inc <b>FLP</b>	14.68	15.00	+2.2
Gabelli Hlth & Well Cr <b>GRX</b>	11.40	10.09	-11.5
Gabelli Utility Tr <b>GUT</b>	5.42	7.01	+2.93
GAMCoGiblGoldRscsCln <b>GGN</b>	5.51	5.61	+1.8
Goldman Sachs MLP Inc <b>GMZ</b>	9.15	NA	5.3
Goldman Sachs MLP Energy <b>GEI</b>	6.74	NA	2.6
John Hancock Finl Opns <b>BTO</b>	34.76	35.07	+0.9
John Hancock Finl Opns <b>FEI</b>	19.11	18.40	-3.7
First Tr MLP & Enf'd Inc <b>FLP</b>	14.68	15.00	+2.2
Gabelli Hlth & Well Cr <b>GRX</b>	11.40	10.09	-11.5
Gabelli Utility Tr <b>GUT</b>	5.42	7.01	+2.93
GAMCoGiblGoldRscsCln <b>GGN</b>	5.51	5.61	+1.8
Goldman Sachs MLP Inc <b>GMZ</b>	9.15	NA	5.3
Goldman Sachs MLP Energy <b>GEI</b>	6.74	NA	2.6
John Hancock Finl Opns <b>BTO</b>	34.76	35.07	+0.9
John Hancock Finl Opns <b>FEI</b>	19.11	18.40	-3.7
First Tr MLP & Enf'd Inc <b>FLP</b>	14.68	15.00	+2.2
Gabelli Hlth & Well Cr <b>GRX</b>	11.40	10.09	-11.5
Gabelli Utility Tr <b>GUT</b>	5.42	7.01	+2.93
GAMCoGiblGoldRscsCln <b>GGN</b>	5.51	5.61	+1.8
Goldman Sachs MLP Inc <b>GMZ</b>	9.15	NA	5.3
Goldman Sachs MLP Energy <b>GEI</b>	6.74	NA	2.6
John Hancock Finl Opns <b>BTO</b>	34.76	35.07	+0.9
John Hancock Finl Opns <b>FEI</b>	19.11	18.40	-3.7
First Tr MLP & Enf'd Inc <b>FLP</b>	14.68	15.00	+2.2
Gabelli Hlth & Well Cr <b>GRX</b>	11.40	10.09	-11.5
Gabelli Utility Tr <b>GUT</b>	5.42	7.01	+2.93
GAMCoGiblGoldRscsCln <b>GGN</b>	5.51	5.61	+1.8
Goldman Sachs MLP Inc <b>GMZ</b>	9.15	NA	5.3
Goldman Sachs MLP Energy <b>GEI</b>	6.74	NA	2.6
John Hancock Finl Opns <b>BTO</b>	34.76	35.07	+0.9
John Hancock Finl Opns <b>FEI</b>	19.11	18.40	-3.7
First Tr MLP & Enf'd Inc <b>FLP</b>	14.68	15.00	+2.2
Gabelli Hlth & Well Cr <b>GRX</b>	11.40	10.09	-11.5
Gabelli Utility Tr <b>GUT</b>	5.42	7.01	+2.93
GAMCoGiblGoldRscsCln <b>GGN</b>	5.51	5.61	+1.8
Goldman Sachs MLP Inc <b>GMZ</b>	9.15	NA	5.3
Goldman Sachs MLP Energy <b>GEI</b>	6.74	NA	2.6
John Hancock Finl Opns <b>BTO</b>	34.76	35.07	+0.9
John Hancock Finl Opns <b>FEI</b>	19.11	18.40	-3.7
First Tr MLP & Enf'd Inc <b>FLP</b>	14.68	15.00	+2.2
Gabelli Hlth & Well Cr <b>GRX</b>	11.40	10.09	-11.5
Gabelli Utility Tr <b>GUT</b>	5.42	7.01	+2.93
GAMCoGiblGoldRscsCln <b>GGN</b>	5.51	5.61	+1.8
Goldman Sachs MLP Inc <b>GMZ</b>	9.15	NA	5.3
Goldman Sachs MLP Energy <b>GEI</b>	6.74	NA	2.6
John Hancock Finl Opns <b>BTO</b>	34.76	35.07	+0.9
John Hancock Finl Opns <b>FEI</b>	19.11	18.40	-3.7
First Tr MLP & Enf'd Inc <b>FLP</b>	14.68	15.00	+2.2
Gabelli Hlth & Well Cr <b>GRX</b>	11.40	10.09	-11.5
Gabelli Utility Tr <b>GUT</b>	5.42	7.01	+2.93
GAMCoGiblGoldRscsCln <b>GGN</b>	5.51	5.61	+1.8
Goldman Sachs MLP Inc <b>GMZ</b>	9.15	NA	5.3
Goldman Sachs MLP Energy <b>GEI</b>	6.74	NA	2.6
John Hancock Finl Opns <b>BTO</b>	34.76	35.07	+0.9
John Hancock Finl Opns <b>FEI</b>	19.11	18.40	-3.7
First Tr MLP & Enf'd Inc <b>FLP</b>	14.68	15.00	+2.2
Gabelli Hlth & Well Cr <b>GRX</b>	11.40	10.09	-11.5
Gabelli Utility Tr <b>GUT</b>	5.42	7.01	+2.93
GAMCoGiblGoldRscsCln <b>GGN</b>	5.51	5.61	+1.8
Goldman Sachs MLP Inc <b>GMZ</b>	9.15	NA	5.3
Goldman Sachs MLP Energy <b>GEI</b>	6.74	NA	2.6
John Hancock Finl Opns <b>BTO</b>	34.76	35.07	+0.9
John Hancock Finl Opns <b>FEI</b>	19.11	18.40	-3.7
First Tr MLP & Enf'd Inc <b>FLP</b>	14.68	15.00	+2.2
Gabelli Hlth & Well Cr <b>GRX</b>	11.40	10.09	-11.5
Gabelli Utility Tr <b>GUT</b>	5.42	7.01	+2.93
GAMCoGiblGoldRscsCln <b>GGN</b>	5.51	5.61	+1.8
Goldman Sachs MLP Inc <b>GMZ</b>	9.15	NA	5.3
Goldman Sachs MLP Energy <b>GEI</b>	6.74	NA	2.6
John Hancock Finl Opns <b>BTO</b>	34.76	35.07	+0.9
John Hancock Finl Opns <b>FEI</b>	19.11	18.40	-3.7
First Tr MLP & Enf'd Inc <b>FLP</b>	14.68	15.00	+2.2
Gabelli Hlth & Well Cr <b>GRX</b>	11.40	10.09	-11.5
Gabelli Utility Tr <b>GUT</b>	5.42	7.01	+2.93
GAMCoGiblGoldRscsCln <b>GGN</b>	5.51	5.61	+1.8
Goldman Sachs MLP Inc <b>GMZ</b>	9.15	NA	5.3
Goldman Sachs MLP Energy <b>GEI</b>	6.74	NA	2.6
John Hancock Finl Opns <b>BTO</b>	34.76	35.07	+0.9
John Hancock Finl Opns <b>FEI</b>	19.11	18.40	-3.7
First Tr MLP & Enf'd Inc <b>FLP</b>	14.68	15.00	+2.2
Gabelli Hlth & Well Cr <b>GRX</b>	11.40	10.09	-11.5
Gabelli Utility Tr <b>GUT</b>	5.42	7.01	+2.93
GAMCoGiblGoldRscsCln <b>GGN</b>	5.51	5.61	+1.8
Goldman Sachs MLP Inc <b>GMZ</b>	9.15	NA	5.3
Goldman Sachs MLP Energy <b>GEI</b>	6.74	NA	2.6
John Hancock Finl Opns <b>BTO</b>	34.76	35.07	+0.9
John Hancock Finl Opns <b>FEI</b>	19.11	18.40	-3.7
First Tr MLP & Enf'd Inc <b>FLP</b>	14.68	15.00	+2.2
Gabelli Hlth & Well Cr <b>GRX</b>	11.40	10.09	-11.5
Gabelli Utility Tr <b>GUT</b>	5.42	7.01	+2.93
GAMCoGiblGoldRscsCln <b>GGN</b>	5.51	5.61	+1.8
Goldman Sachs MLP			



## BANKING & FINANCE

# Court Deals Setback to ETF Investors

BlackRock turns back lawsuit claiming inadequate warnings in fund documents

BY SARAH KROUSE

Investors could have a more difficult time suing exchange-traded fund managers for misrepresenting risks following a California court decision in favor of ETF giant **BlackRock** Inc.

A group of investors who lost money during a wild day of ETF trading in 2015 accused BlackRock's iShares unit of leaving out certain warnings about what could go wrong in fund documents. BlackRock said in court documents that its warnings were adequate.

Because of the way ETF shares are created and sold, those investors were unable to link their holdings to a specific registration statement

that they said misrepresented certain risks and therefore couldn't sue, according to San Francisco Superior Court Judge Curtis E.A. Karnow.

In his ruling Sept. 18, the judge said investors who purchase securities after they are first issued are unable to sue under a specific section of securities law.

The case showcases the evolving legal and regulatory infrastructure surrounding the relatively nascent ETF market as the products gain popularity and are tested by market events, according to fund lawyers. Globally, ETFs hold \$4.2 trillion in assets, up from less than a trillion a decade ago. BlackRock's iShares unit is the biggest ETF provider in the world, with \$1.5 trillion in assets at the end of June.

The court's decision could limit investors' ability to sue ETF providers for leaving out or misrepresenting risks in fund registration statements

in the future, these lawyers say.

If the decision stands, "no retail investor will ever be able to sue for a false registration statement or prospectus" for ETFs, said Reed Kathrein, an attorney for the investors at Hagens Berman Sobol Shapiro LLP. He said he plans to appeal the decision.

While ETFs share some similarities with mutual funds, their structure and mechanics are distinct and subject to different rules. ETFs trade on exchanges like stocks and typically track the performance of indexes. They have some tax and trading advantages over mutual funds and have pulled in hundreds of billions of dollars in investor cash in recent years.

But the same structure that has made ETFs popular trading and investing products also makes it impossible for individual investors to track when the shares they own

were issued and for fund providers to see who owns them in real time, industry experts and lawyers say. Shares in mutual funds are purchased from fund managers themselves.

ETF providers first create and redeem shares in their

*The court's decision could limit investors' ability to sue ETF providers.*

funds in large blocks with authorized participants in exchange for baskets of securities. This is referred to as the primary market and shares are then sold to individual investors and others in the "secondary market."

The investors who brought the class-action suit against BlackRock lost money on Aug. 24, 2015, when large stock share-price declines triggered a wave of trading halts and dozens of ETFs traded at sharp discounts to the sum of their holdings.

"The court's decision could limit investors' ability to sue ETF providers.

and misleading when the shares were first sold in the primary market," BlackRock said in court documents.

Investors in the California case unsuccessfully argued that shares they bought after the publication of fund sales documents that they say omitted certain risks should be covered by that material.

Other courts could interpret current regulations differently, fund lawyers say.

"It's a very interesting precedent," to apply the standard of linking a specific security to a particular registration statement to ETFs, said Jay Baris, chair of Morrison & Foerster LLP's investment management practice.

There are other avenues for ETF investors to sue investment managers, but one such option requires proving that the money manager intended to mislead investors, which is a more difficult standard to meet, fund lawyers say.

## Shares of Lenders Are on the Rebound

BY AKANE OTANI

Don't look now, but bank stocks are staging a comeback.

The KBW Nasdaq Bank Index of large U.S. commercial lenders rose 3.2% last week, jumping past the broader S&P 500.

Boosting the index's allure was a rise in bond yields. Treasury yields have climbed in recent sessions as investors increasingly believe the Federal Reserve will raise rates in December.

The yield on the benchmark 10-year U.S. Treasury note ended the week at 2.262%, compared with 2.202% the previous Friday.

On Wednesday, the Fed's dot plots showed that 12 of 16 central bank officials expected one more rate increase this year and three next year. The revelation surprised some investors. A streak of soft inflation data this summer had many investors and analysts doubting how quickly the Fed could raise rates.

Investors now see a 73% chance of one or more additional rate increases by the end of the year, according to federal-funds futures tracked by CME Group, compared with a roughly 50-50 split before the Fed's meeting.

Renewed bets on higher rates could give bank stocks a fresh boost. Expectations that President Donald Trump would slash taxes and loosen regulations pushed financial stocks higher in the months after the election. This year many of those Trump trades unwound or reversed as uncertainty grew about the course of policy changes in Washington.

## French Banks Outshine Europe's Top Brass

BY NOEMIE BISSEUR

PARIS—France's biggest banks have rediscovered their mojo by becoming boring.

When Pascal Augé, an investment banker at **Société Générale** SA, was transferred to the French lender's cash-management unit—which helps companies manage their cash flow—he was surprised: "For years, cash management wasn't considered as a very sexy business," said Mr. Augé, who now heads Société Générale's global transaction and payment-services unit. "But we rediscovered the virtues of that business with the crisis."

Now, a few years later, the decidedly unfashionable business generates nearly as much revenue for the bank as securities trading.

Société Générale and cross-town rival **BNP Paribas** SA have emerged from the financial crisis, the eurozone debt crisis and long years of European economic stagnation as two of the continent's strongest banks—and two of the few able to withstand the invasion from U.S. investment banks in Europe.

Société Générale had a return on equity of 9.5% in the first half of the year and BNP Paribas 10.6%, making them among the most profitable banks in Europe.

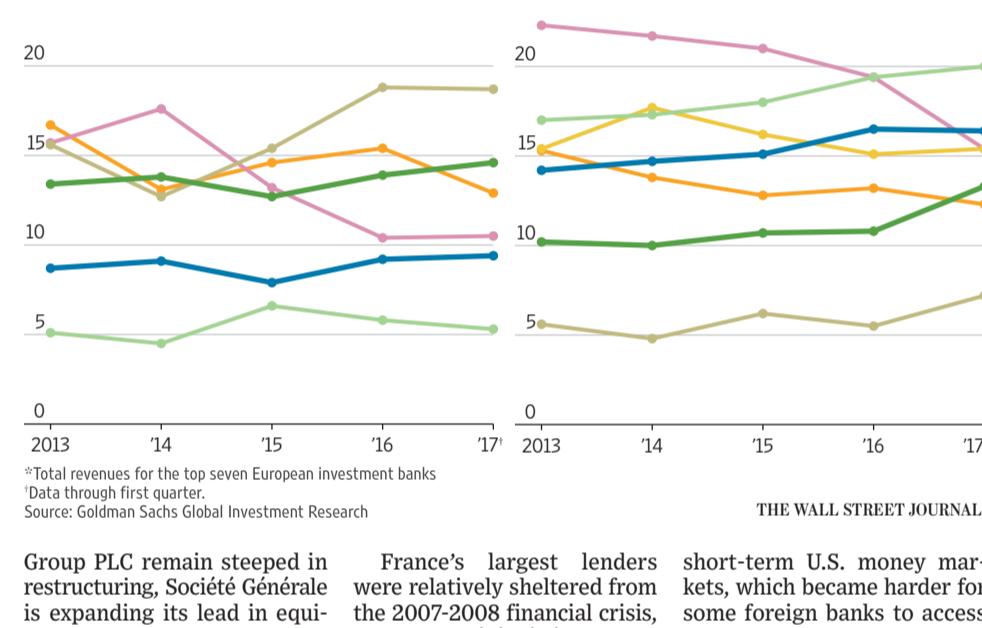
Part of their success has come from using dull but important service businesses, such as handling cash and securities, to attract clients they can upsell to investment banking and trading. The French lenders also have benefited from having long had a focus on corporate banking. France's big corporate sector has remained comparatively strong through years of economic stagnation on the continent.

While European powerhouses such as Deutsche Bank AG, Credit Suisse Group AG and Royal Bank of Scotland

### Standing Out

French banks Société Générale and BNP Paribas are gaining market share\* from European rivals.

**Net revenues from fixed income, currencies and commodities**



\*Total revenues for the top seven European investment banks

Data through first quarter.

Source: Goldman Sachs Global Investment Research

Group PLC remain steeped in restructuring, Société Générale is expanding its lead in equities trading and BNP Paribas is growing its fixed-income business.

Société Générale saw its market share in equities in Europe rise to 16.4% in 2017 from 14.2% in 2013, while BNP Paribas' market share in fixed income rose to 14.6% from 13.4% in the same period, according to a recent study by Goldman Sachs Group Inc.

based on the revenue of the top seven European investment banks.

Meanwhile, Credit Suisse's equities market share fell to 15.4% from 22.3% in Europe, and Barclays PLC's fixed-income market share dropped to 12.9% from 16.7%.

"Unusual suspects continue to outshine" investment banks, Goldman Sachs analysts noted.

France's largest lenders were relatively sheltered from the 2007-2008 financial crisis, despite Société Générale's embarrassing €4.9 billion (\$5.85 billion) loss from rogue trader Jérôme Kerviel in 2008. Investment bank Natixis also ran into trouble in 2009 due to wrong bets on complex derivatives, eventually forcing the government to orchestrate a merger between its two parent companies.

Most French banks specialized in trading stocks, rather than the fixed-income products that were most hurt during the financial crisis. And more of their business came from traditional banking activities with corporate clients, not investment banking.

The sovereign-debt crisis of 2010-2012 hit them harder. French lenders were hurt especially by their dependence on

short-term U.S. money markets, which became harder for some foreign banks to access during the crisis. Franco-Belgian lender Dexia SA ultimately had to be bailed out.

Crédit Agricole SA booked losses totaling more than €5 billion over five years before selling off its Greek banking arm Emporiki to domestic rival Alpha Bank for just one euro in 2013. BNP Paribas wrote down €900 million of goodwill related to its Italian unit BNL in the face of tougher regulation.

The sovereign-debt crisis forced France's surviving banks to find new funding in capital markets and through corporate and institutional deposits, and to restructure their corporate and investment-banking business.

"We believe in the strength of our diversified business model," said BNP's Mr. Gérardin.

French banks also remain largely focused on European markets.

"We don't want to be a merger and acquisition bank in the U.S. and Asia, that's not our core business," said Didier Valet, Société Générale deputy chief executive officer.

# Equifax: Answers to Questions From Potential Victims

BY DAISY MAXEY

Two weeks after **Equifax** Inc. disclosed a breach that possibly exposed the personal data of 143 million Americans, potential victims still have many questions.

A number of readers have written to Wall Street Journal reporters and editors asking a variety of questions about the data breach and how they can protect themselves and their families.

Here, answers and advice on some of the most common reader questions.

**How do I protect my children from any fallout?**

Most children under 18 are unlikely to have a credit report unless they have been named as a user on a credit card by a parent or guardian, for example, or have been the victim of identity theft, experts say.

Still, parents should check to see if their child has a credit report, experts say. Because of the scope of this breach—where a trove of Americans' personal information, including names, addresses, dates of birth and Social Security numbers

were exposed—if a report does exist, consider freezing it. There were 15,496 identity-theft complaints to the Federal Trade Commission in 2016 concerning children and teens—those age 19 and under—which represents about 4% of all identity-theft complaints for the year.

If parents have concerns that their child's information has been used to obtain credit, Equifax directs them to write to its minor child department. Information can be found at its website. ([https://www.freeze.equifax.com/Freeze/jsp/SFF\\_FrzMinorChild.jsp](https://www.freeze.equifax.com/Freeze/jsp/SFF_FrzMinorChild.jsp))

Of the other credit-reporting firms, TransUnion offers an online form to help determine whether a child may be an identity-theft victim at its website (<https://www.transunion.com/fraud-victim-resource/child-identity-theft>). After an investigation, the company will notify the parent or guardian of the results via email, a spokesman for the firm said.

Experian advises those who suspect that their child is a victim of identity theft to contact the firm to find

out if a credit report already exists in the child's name. If a report does exist, it suggests considering options such as a credit freeze.

The Federal Trade Commission offers information on how to prevent and combat child identity theft. (<https://www.consumer.ftc.gov/articles/0040-child-identity-theft>) Some

tips: Contact each credit-reporting company and place a fraud alert.

**I've tried freezing my credit file online but have been unsuccessful and the phone lines are jammed. What should I do?**

Keep trying. The websites and telephone lines of the credit-reporting firms have been overwhelmed by requests to freeze consumers' credit files. Equifax is experiencing a high volume of requests for security freezes and has had some technical issues, a spokesman said. It is working to add capacity to handle the volume for both the online and call center requests, he said.

The Equifax breach has also put a big demand on the other firms. At TransUnion, "the unprecedented number of consumers contacting us after the Equifax announcement has impacted our ability to respond to consumers as we would like," a spokesman for the firm said. The company has added agents and kept its call center open through the weekend and authorized overtime, he said.

"The volume will die down," John Ulzheim, a credit expert who formerly worked at Equifax and Experian, "multiple-factor authentication along with other extensive security measures" are used to ensure data privacy, a spokesman said. A PIN alone won't provide access to a credit report, she added; to remove a freeze, the consumer must also provide identifying information.

**I've frozen my credit. How secure is the personal identification number I have been assigned?**

Equifax generates PINs for its credit-freeze service randomly, a spokesman said, a practice that has been put in place since the hack. The company had been generating PINs using the date and time when a credit freeze was put in place, details that some consumers worried were so simple they could prove vulnerable. No PINs were exposed in the recent breach, Equifax has said.

Consumers who wish to change their existing Equifax PIN may call (866) 349-5191. They must verify their identity, and a new PIN will be sent to their address of record via U.S. mail, an Equifax spokesman said.

TransUnion takes a number of precautions to ensure that PINs received during a credit freeze process are secure, but it can't provide details due to security concerns, a spokesman said. At Experian, "multiple-factor authentication along with other extensive security measures" are used to ensure data privacy, a spokesman said. A PIN alone won't provide access to a credit report, she added; to remove a freeze, the consumer must also provide identifying information.

**How long should unfreezing my credit file take**

Equifax will waive all charges for placing or removing a security freeze on an Equifax credit file as of Sept. 9, 2017, through Nov. 21, 2017, and consumers who paid for a security freeze starting at 5 p.m. Eastern time on Sept. 7, 2017, will receive a refund, a spokesman said. Consumers may request a freeze be lifted at Equifax's website ([https://www.freeze.equifax.com/Freeze/jsp/SFF\\_PersonalID-Info.jsp](https://www.freeze.equifax.com/Freeze/jsp/SFF_PersonalID-Info.jsp)) or by calling 800-685-1111 or (for New York residents) 800-349-8850 or by submitting a request in writing.

### and how much will it cost?

Each state specifies the fee to place or lift a credit freeze along with other requirements, such as the identification processes required. The fees apply only if a consumer places a freeze as a proactive measure and isn't a confirmed fraud victim. For more information on states' requirements and fees, visit the following page on TransUnion's website. (<https://www.transunion.com/credit-freeze/credit-freeze-information-by-state>)

Equifax will waive all charges for placing or removing a security freeze on an Equifax credit file as of Sept. 9, 2017, through Nov. 21, 2017, and consumers who paid for a security freeze starting at 5 p.m. Eastern time on Sept. 7, 2017, will receive a refund, a spokesman said. Consumers may request a freeze be lifted at Equifax's website ([https://www.freeze.equifax.com/Freeze/jsp/SFF\\_PersonalID-Info.jsp](https://www.freeze.equifax.com/Freeze/jsp/SFF_PersonalID-Info.jsp)) or by calling 800-685-1111 or (for New York residents) 800-349-8850 or by submitting a request in writing.

# HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: [heard@wsj.com](mailto:heard@wsj.com)

## The Stock Market's Hidden Juice

One common sign of trouble ahead is people borrowing heavily to buy equities.

Investors should be worried then that stocks are being supported by record amounts of margin debt, according to research released last week from the Bank for International Settlements.

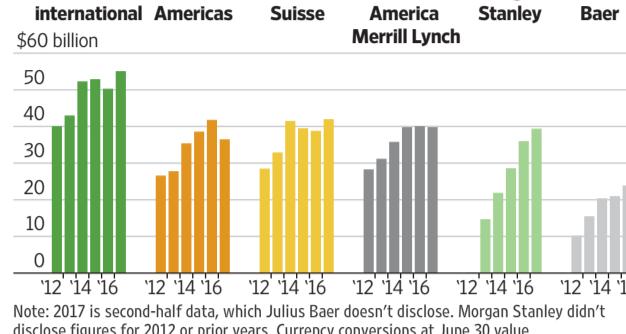
These kinds of loans secured against stocks have often proved dangerous because when share prices fall, borrowers are forced to sell.

In the U.S., margin debt is more than three times the level ahead of the 2008 crisis and is greater even than its peak in 2000 before the dot-com crash, according to the bank.

However, lending volume alone isn't a clear indicator of risk because equity values have increased, too. In the U.S., lending as a share of market capitalization has been relatively steady for the past four years, most recently at 2.12%. But that level is much higher than the period before 2007 and above even the dotcom-era peak of 2.05%.

### Margin Makers

Loans secured against marketable securities



Note: 2017 is second-half data, which Julius Baer doesn't disclose. Morgan Stanley didn't disclose figures for 2012 or prior years. Currency conversions at June 30 value.

Source: the companies

Swiss private banks, which have among the biggest margin lending operations, have grown this business significantly. Credit Suisse has doubled its volume since 2006 to about \$42 billion, while Julius Baer's has grown by five times to \$24 billion, although it got a big boost from its takeover of Bank of America-Merrill Lynch's international wealth business in 2013.

UBS, with about \$92 bil-

lion, has also seen strong growth, but an accounting change in 2012 makes it hard to say exactly how strong.

While overall growth appears to have slowed, that is partly due to a decline among Asian investors in 2015 and 2016, which is masking strength elsewhere.

The Chinese market crash in 2015 shattered investor confidence across Asia, according to bankers. But while Asian lending went back-

ward, U.S. loans continued to grow, including at Morgan Stanley, Bank of America Merrill Lynch and UBS's American wealth arm.

Rich clients' desire to borrow against stocks has been stoked by the low interest rates and rising stock markets. It is attractive for banks, too. Lending against shares is seen as less risky than mortgages. Also, if the borrowed money is invested with the bank, that lifts assets under management.

The banks themselves all say that while lending looks high, their own approach is conservative and the competition for clients is less aggressive than in the past. But neither the banks nor their investors have a full view of leverage across the system and the risk that may pose.

Equities have to fall 20% to 30% before margin loans are underwater. That protects the banks but doesn't stop a wave of selling to repay debt when a downturn comes. That could spell real pain for everyone else.

—Paul J. Davies

### OVERHEARD

The stock market has fallen in love again with China's beleaguered state-owned steel titans, which are up roughly 60% since the dark days of early 2016 due to higher steel prices. But China's banks don't share investors' enthusiasm.

Maybe that is because state banks are being asked to convert loans they made to the steelmakers into their now inflated stocks. Only two of the 10 agreements signed so far have moved forward.

The banks agreed to the swaps beginning in 2016—when steelmakers were gasping for air and share prices were far lower—following much arm-twisting by Beijing. Meanwhile, Chinese real estate, the main driver of steel demand, is slowing again.

Westerners often assume Beijing's control over state firms is nearly absolute, but it turns out that corraling powerful state-owned firms isn't so simple. Don't be surprised if banks keep dragging their feet until steel-company shares are much lower.

## Don't Get Flattened By the Fed

The Federal Reserve is telling investors it will flatten the yield curve. They should listen.

Last week, policy makers stuck to a projection that they will raise their target range on rates by another quarter point this year. But they also lowered their median projection of where they think rates will eventually be to 2.75% over the longer run versus their June forecast of 3%.

That matters to the bond market because Treasury yields reflect investors' expectation of what overnight rates will average across the maturity of Treasurys, plus the "term premium," the extra yield investors demand for the risk of lending over a longer term. Historically, term premiums have been positive but lately have been negative.

Based on the Fed's projected rate path and current term premiums, the 10-year Treasury yield seems about right.

Nor should yields rise much as the Fed raises rates, because those rate increases would only raise the average level of short-term rates over the 10-year's maturity slightly.

Average rates over shorter maturities, such as for the two-year Treasury, would rise more. The Fed's projections suggest the yield curve will flatten.

The Fed's expected rate path might not come true. Low inflation could lead it to raise more slowly. High inflation could do the opposite. And even if the Fed turns out to have been right, an increase in term premiums could alter the curve's shape. But for now, investors should be careful not to get flattened.

—Justin Lahart

## Death of World's Richest Woman Begins Stock Scramble

The death of the world's richest woman may—eventually—trigger the unwinding of anachronistic cross-shareholdings between three of Europe's largest companies. Investors are likely to end up with more money.

Liliane Bettencourt, whose father founded cosmetics giant L'Oréal in 1907, died Thursday at the age of 94. Her daughter and grandchildren already controlled her 33% stake, worth €39.1 billion (\$47 billion).

The death starts a six-month countdown until the expiration of a "memorandum of agreement" between the Bettencourts and Nestlé, L'Oréal's other key share-

holder. The packaged-food behemoth has owned a chunk of L'Oréal since 1974, when Ms. Bettencourt sought a co-investor to protect her company from a rumored wave of state takeovers.

The memorandum, struck in 2004, bars either side from lifting its stake and binds them to act as one party. A clause barring them from selling shares expired in 2009. Nestlé did sell a 6% slug back to L'Oréal in 2014, but reaffirmed most elements of the memorandum and confirmed that its remaining 23% stake was "strategic."

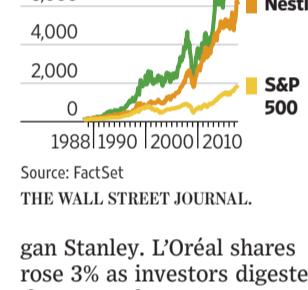
But now Nestlé has a new chief executive, Ulf Mark

Schneider, who is under pressure from investors to shake up the company. Activist Daniel Loeb of Third Point has been particularly vocal since announcing a \$3.5 billion investment in June. He wants the L'Oréal stake sold.

The most likely outcome is that Nestlé sells its remaining €27.3 billion stake back to L'Oréal, following the pattern trialed in 2014. L'Oréal can afford it comfortably enough as long as it sells its €11.8 billion stake in pharmaceutical giant Sanofi.

The buybacks would boost L'Oréal's earnings per share by 15.5% at the current share price, assuming a 1.5% cost of new debt, calculates Mor-

### Looking Good



Source: FactSet

THE WALL STREET JOURNAL.

gan Stanley. L'Oréal shares rose 3% as investors digested the news of Ms. Bettencourt's death Friday morning. Nestlé, would probably also plow the proceeds into

its buyback program, but its huge size is such that the impact would be less dramatic: Morgan Stanley figures Nestlé's earnings per share would rise by 5%, all else being equal.

This underlines the challenge facing Mr. Loeb's investment: On 23 times earnings, the share price is baking in a lot of reform at a company so large that even €27.3 billion of buybacks barely move the needle.

Ms. Bettencourt's death marks the end of an era—and opens the door to shareholder-friendly maneuvers at some of Europe's most storied companies.

—Stephen Wilmot

## MARKETS

### THE TICKER | Market events coming this week

#### Monday

Earnings expected\*

Estimate/Year Ago(\$)

Red Hat **0.67/0.55**

Refinan., prev. down 9%

2nd qtr. sec. est. up 1.0%

2nd qtr., third est. up 1.0%

#### GDP deflator

2nd qtr. sec. est. up 1.0%

2nd qtr., third est. up 1.0%

EIA status report Previous change in stocks in millions of barrels

Crude oil up 4.6

Gasoline down 2.1

Distillates down 5.7

Durable goods orders July, previous down 6.8%

Aug., expected up 0.8%

Earnings expected\* Estimate/Year Ago(\$)

Jabil **0.62/0.28**

Thor Industries **1.94/1.57**

New-home sales July, previous 571,000

Aug., expected 595,000

Earnings expected\* Estimate/Year Ago(\$)

Cintas **1.29/1.26**

Darden **0.99/0.88**

FactSet **1.89/1.69**

IHS Markit **0.53/0.45**

Micron Tech. **1.82/(0.05)**

Nike **0.48/0.73**

Wednesday

Mort. bankers indexes

Purch., prev. down 11%

Initial jobless claims Previous 259,000

Expected 275,000

Earnings expected\* Estimate/Year Ago(\$)

Accenture **1.46/1.31**

BlackBerry **0.00/0.00**

Conagra **0.40/0.61**

McCormick **1.06/1.03**

Vail **(1.81)/(1.80)**

Thursday

U.Mich. consumer index Sept., prelim. 95.3

Sept., final 95.3

Personal income July, previous up 0.4%

Aug., expected up 0.2%

Personal spending July, previous up 0.3%

Aug., expected up 0.1%

Friday

Chicago PMI Aug., previous 58.9

Sept., expected 58.5

Short-selling reports Ratio, days of trading volume of current position, at Aug. 31

NYSE 5.9

Nasdaq 5.1

Consumer confidence Aug., previous 122.9

Sept., expected 119.7

New-home sales July, previous 571,000

Aug., expected 595,000

Earnings expected\* Estimate/Year Ago(\$)

Cintas **1.29/1.26**

Darden **0.99/0.88**

FactSet **1.89/1.69**

IHS Markit **0.53/0.45**

Micron Tech. **1.82/(0.05)**

Nike **0.48/0.73**

Wednesday

Mort. bankers indexes

Purch., prev. down 11%

Earnings expected\* Estimate/Year Ago(\$)

Jabil **0.62/0.28**

Thor Industries **1.94/1.57**

New-home sales July, previous 571,000

Aug., expected 595,000

Earnings expected\* Estimate/Year Ago(\$)

Cintas <b

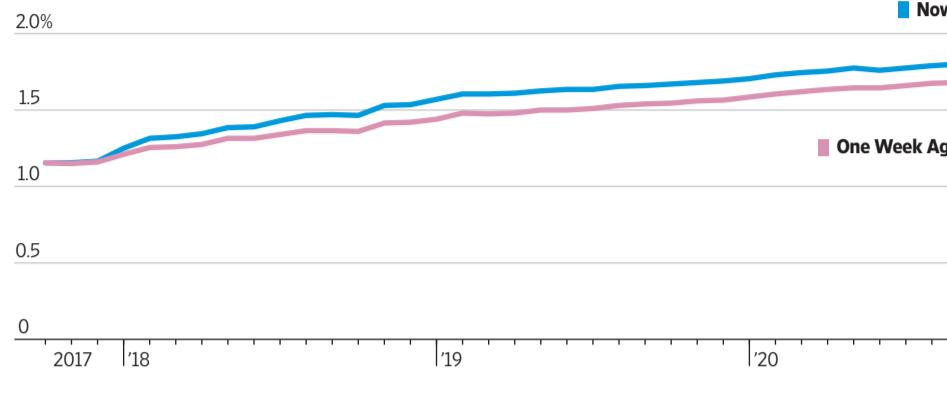
# MARKETS

THE DAILY SHOT | By Lev Borodovsky and Akane Otani

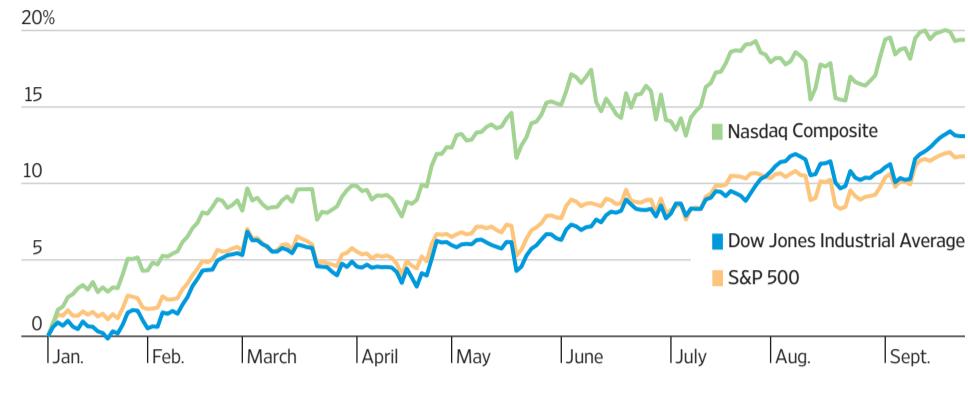
## Sunny Views, Cloudy Skies

Economic commentary has lately taken on a bullish tone, what with Europe and even Japan showing signs of strengthening. Eight years in, the U.S. expansion is broadly perceived as robust. Traders are betting the Federal Reserve will raise interest rates again in December. Yet beneath the surface, it's far from clear that the economy has as much momentum as might be implied by the Dow's run this month of nine straight gains, including its 42nd record of 2017.

Rate implied by Fed funds futures



Index performance, year to date

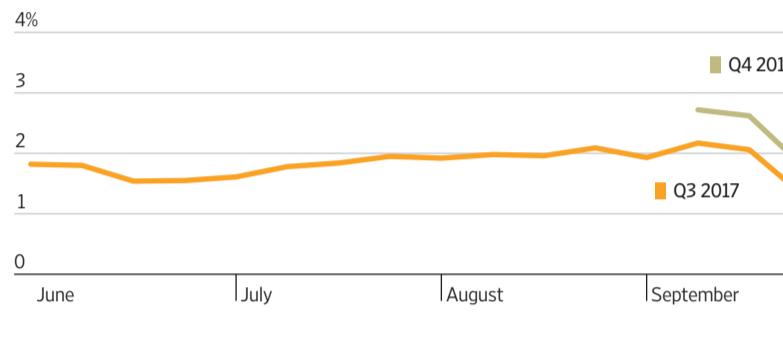


Third-quarter growth estimates provided by the Federal Reserve banks in New York and Atlanta have tailed off sharply following strong starts.

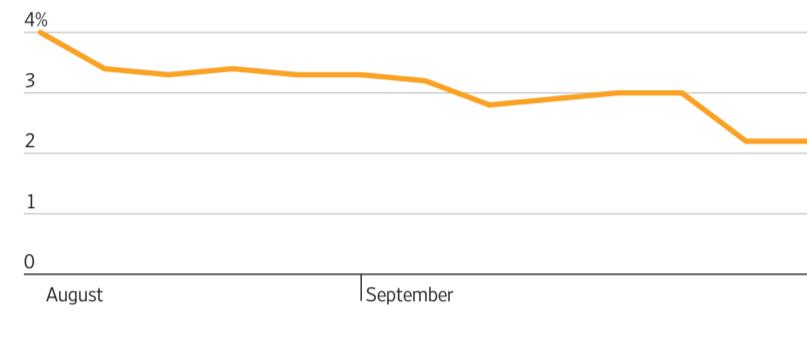
Retail sales and industrial production have been weak as well. In general, 'soft' data such as sentiment continues to paint a ruddier picture than 'hard' data using numbers.

Adding to the uncertainty, a string of hurricanes—most prominently Harvey, which battered the Gulf Coast energy industry—is making economic forecasting even less precise. October, historically the meanest month for stocks, could be a doozy.

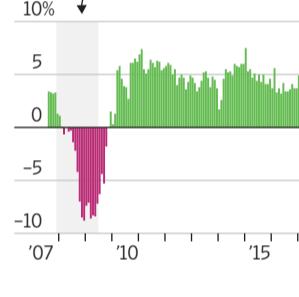
New York Fed Nowcast model prediction for Q3 and Q4 2017 GDP growth



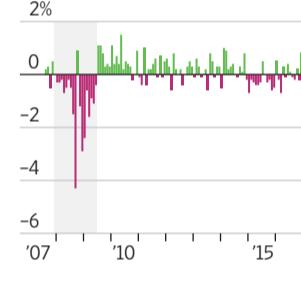
Atlanta Fed GDPNow Q3 2017 GDP growth forecast



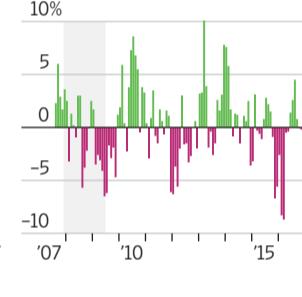
Retail sales excluding gasoline stations, percentage change from a year earlier\*



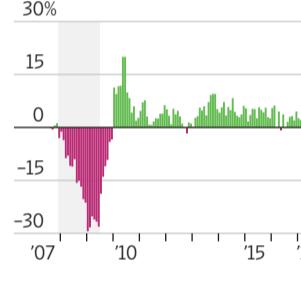
Industrial production index, monthly change\*



Gas and electric utilities' output, percentage change from a year earlier



Production of durable consumer goods, percentage change from a year earlier



WSJ subscribers can get  
The Daily Shot—  
a chart-by-chart briefing  
on markets and economics—  
sent to their email  
each morning. Subscribe at  
[wsj.com/newsletters](http://wsj.com/newsletters)

\*Seasonally adjusted

Sources: Chicago Board of Trade (Fed funds futures); WSJ Market Data Group (Dow, S&P 500, Nasdaq); Federal Reserve Bank of New York (Nowcast); Federal Reserve Bank of Atlanta (GDPNow); Federal Reserve Bank of St. Louis (industrial production, retail sales, utilities)

THE WALL STREET JOURNAL.

You were looking to retire by the water.

Better yet, above it.

Captain of your own floating home.

That would be retiring like a boss.

That would also be tough without a plan.

**WHEN INSPIRATION HITS,  
MAKE YOUR MONEY MOVE.**

U.S.  
BONDS  
AGG

INT'L  
STOCKS  
IEFA

U.S.  
STOCKS  
IVV

iShares®  
by BLACKROCK®

**Build for your future with iShares Core ETFs.**

At 1/10th the cost of typical mutual funds, iShares Core ETFs can help you keep more of what you earn.<sup>1</sup>

**INSPIRED TO BUILD.**

[iShares.com/build](http://iShares.com/build)

1. Source: BlackRock and Morningstar, as of 12/31/16. Comparison is between the average Prospectus Net Expense Ratio for the iShares Core Series ETFs (0.08%) and the average Prospectus Net Expense Ratio of active open-end mutual funds (1.17%) available in the U.S. on 12/31/16. Visit [www.iShares.com](http://www.iShares.com) or [www.BlackRock.com](http://www.BlackRock.com) to view a prospectus, which includes investment objectives, risks, fees, expenses and other information that you should read and consider carefully before investing. Investing involves risk, including possible loss of principal. Buying and selling shares of ETFs will result in brokerage commissions. The iShares funds are distributed by BlackRock Investments, LLC (together with its affiliates, "BlackRock"). © 2017 BlackRock. All rights reserved. iSHARES and BLACKROCK are registered trademarks of BlackRock. All other marks are the property of their respective owners. 242264

# THE FUTURE OF FINANCE

© 2017 Dow Jones & Company. All Rights Reserved.

THE WALL STREET JOURNAL.

Monday, September 25, 2017 | R1

## Should We Move to a Mostly Cashless Society?

The role of cash in the U.S. economy is shrinking, thanks to technology that allows for so many other ways to pay for things.

American consumers used cash in 32% of all retail transactions in 2015, down from 40% in 2012, according to the Federal Reserve's most recent survey of payment choices. Cash accounted for just 9% of the value of payments by consumers in 2015, down from 14% in 2012.

But it's one thing for consumers to choose to use less cash. It's another for governments to dramatically reduce its supply. Supporters say that would crimp criminal activity, among other benefits, because criminals rely so heavily on cash transactions. But others worry that the impact on people who depend on cash for legal activities would be too high a price.



ISTOCKPHOTO/GETTY IMAGES

YES

### It Would Mean Less Crime And Greater Fed Flexibility

BY KENNETH S. ROGOFF



IT IS HIGH TIME FOR governments in the U.S. and other countries with advanced economies to accelerate the move that has long been under way toward a smaller role for cash.

The payoff: reductions in crime and tax evasion, and greater flexibility for the Federal Reserve to stimulate the economy when necessary.

Although there are a number of approaches the U.S. government could take, an obvious and relatively benign way to start would be to gradually phase out large-denomination notes, of say \$50 and above, over a period of five to seven years, after a period of study and public comment.

Let's look at where we are now. Currency use continues its long decline, thanks mainly to ever-improving alternatives including contactless payment cards.

Please see CASHLESS YES page

**Dr. Rogoff** is the Thomas D. Cabot professor of public policy at Harvard University, former chief economist at the International Monetary Fund and co-author of "The Curse of Cash: How Large-Denomination Notes Aid Crime and Tax Evasion and Constrain Monetary Policy." He can be reached at [reports@wsj.com](mailto:reports@wsj.com).

NO

### It Would Hurt All Those Without Bank Accounts

BY JAMES J. MCANDREWS



THE U.S. WON'T BECOME mostly cashless anytime soon, and that is a good thing, because millions of Americans depend on cash to keep themselves afloat financially.

As alternatives ranging from debit and credit cards to E-ZPass and others continue to grow in popularity, many consumers can lead a mostly cashless life if they so wish without facing too many inconveniences.

Others aren't so lucky. According to the 2013 U.S. Survey of Consumer Finance, about 7.5% of American households don't have bank accounts. Cash is an important way for them to participate in the economy—to receive wages and to buy goods from a variety of sellers. Until the U.S. has a financial system that serves these people, cash is vital.

But what if we just phased out \$50 and \$100 bills? Would that harm

Please see CASHLESS NO page

**Mr. McAndrews** is an economist and fellow at the Wharton Financial Institutions Center and the former director of research at the Federal Reserve Bank of New York. He can be reached at [reports@wsj.com](mailto:reports@wsj.com).

## INSIDE

### What We Know About Financial Bubbles

They aren't necessarily bad things

R2

### ETF Strategists' Rising Clout

Centrally managed portfolios have a big impact

R5

### Warning Signs on the Global Economy

Former Bank of England governor sees trouble in high debt levels

R6

growth of middle-class borrowing

R7

### It's Easier Than Ever to Be a Swindler—and Victim

Former scam artist Frank Abagnale Jr. on how consumers put themselves at risk every day

R8

### AT WSJ.COM/LEADERSHIPREPORT

#### A Shakeup in Startup Funding

Initial coin offerings offer an alternative to venture capital

#### CFTC Hopes to Transform How It Monitors Markets

Looking to blockchain technology

Currency's central role might ease

R6

### A Gap in China's Economy: Consumer Credit Ratings

Lack of a single standard limits



Fulfillment  
Experiences

### WHAT DO PEOPLE really INVEST IN?

Growth stocks? Global bonds? High-dividend strategies? Those are investments. But what people really invest in is what they hope to get out of life. And helping people get there takes focus—the kind that operates without distraction or competing interests. The undiluted focus we bring to managing money means people might just get what they want out of life. And maybe even more.

[invesco.com/MoreOutOfLife](http://invesco.com/MoreOutOfLife)

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE  
Invesco Distributors, Inc.

## JOURNAL REPORT | THE FUTURE OF FINANCE

# What We Know About Financial Bubbles

Here's a surprising idea: Bubbles aren't necessarily bad things

BY JON HILSENRATH

IN AN INTERVIEW with The Wall Street Journal in 2002, Charles Kindleberger, a retired Massachusetts Institute of Technology economics professor and author of the book "Manias, Panics and Crashes," confessed to feeling a sense of schadenfreude for having predicted the technology bubble that burst two years earlier. His next worry, the 91-year-old economist said, was housing.

"If I was 30 years younger," he said, "I'd write a small book on Fannie Mae and Freddie Mac."

Mr. Kindleberger would die a year later, the world seeming to have learned nothing about the financial bubbles he documented, dating all the way back to a boom and bust in Dutch tulips—yes, flower bulbs—in 1636. Within four years of his death, the U.S. housing market would come crashing down and the government would bail out Fannie and Freddie, the two housing-finance giants, among many other financial institutions caught up in the crisis.

With the crash, Mr. Kindleberger's fascinations with bubbles would become the obsession of regulators, central bankers, financiers and economists chastened into learning lessons from the past.

What do we know now about bubbles? Where do they come from? How can they be prevented from happening and wrecking the livelihoods of so many?

Markus Brunnermeier, an economics professor at Princeton University, has picked up the baton from Mr. Kindleberger, adding some mathematical rigor to the late MIT professor's historical explorations. As

Mr. Kindleberger had surmised, bubbles tend to emerge around technological innovation—whether that be the advent of canals and railroads in the 1800s, the internet in the 1990s or credit instruments like collateralized debt obligations in the 2000s, says Mr. Brunnermeier. Uncertainty around the impact of these innovations can lead to speculation and aberrant pricing.

In that respect, Mr. Brunnermeier says, bubbles aren't necessarily bad things. They can drive investment into ripe new areas of the economy. "Without the bubble," he says, "some things would never get off the ground."

Indeed, an observer might ask, where would we be today without Amazon and Google?

### Role of debt

But bubbles can be toxic and destructive when investment in new areas is fueled by debt. "We find that the severity of the economic crisis following the bursting of the bubble is less linked to the type of asset than to the financing of the bubble," Mr. Brunnermeier concluded in a 2015 examination of bubbles dating back to the 1600s. "Crises are most severe when accompanied by a lending boom and high leverage of market players, and when financial institutions themselves are participating in the buying frenzy."

For example, the bursting of the tech bubble led to 6.3% U.S. unemployment rate in 2002, while the bursting of the housing bubble led to a 10% unemployment rate in 2009. Household and financial-institution credit soared during the latter bubble, but not so much the former. Borrowers found themselves sitting on assets with falling values, and were forced to sell or default, creating a spiral of further asset-value declines. Credit, a lifeblood of in-



Debt-fueled bubbles can be destructive, as the U.S. housing bust showed.

vestment and spending, dried up, feeding the spiral.

Because credit plays such a central role propagating the most dangerous bubbles, regulators have directed most of their attention in the postcrisis era to financial-system interventions. Until the housing crisis in 2007-2009, the prevailing view in Washington was that financial institutions were best left to manage themselves. Since 2009, the Federal Reserve and other regulators have set up elaborate systems to ensure that big banks are resilient, with more capital and less dependence on short-term funding that might flee at the first sign of trouble.

By some measures, the world looks more resilient today. U.S. financial sector debt has fallen to \$15.7 trillion in June from \$18.0 trillion in 2008, according to the Fed.

Elsewhere, however, danger signs loom. Nonfinancial borrowing in the U.S. as a share of output was higher last year than in 2007, according to the Bank for International Settlements.

ments. And credit to output in China soared to 258% in 2016 from 145% in 2007.

### Bitcoin speculation

China is on Mr. Brunnermeier's list of potential bubble worries. Digital currencies, too, such as bitcoin and its rival, ethereum. Prices for both soared over the past year but have come down in recent weeks as China has cracked down on speculation in these assets.

Just as the internet boom of the 1990s or the canal and railroad booms of the 1800s propagated a proliferation of startups—some of little economic value—so, too, has the cryptocurrency boom. The website coinmarketcap.com lists 1,097 distinct cryptocurrencies, many of which have no market value.

Economics, it seems, has not changed the human instinct to chase new ideas to sometimes illogical places. Regulators just hope that when the next bust happens, they will have built a financial system

### This Time It's Different

A brief history of investment bubbles

#### 1634-37

**TULIPS** | Prices for tulip bulbs take off in the Netherlands, including the creation of a futures market and sales on credit.

#### 1720

**MISSISSIPPI and SOUTH SEA STOCKS** | Speculation and scandal in the shares of companies tied to growing global trade volumes.

#### 1830s and 1840s

**RAILS and COTTON** | U.K. and U.S. financial panics set off after booms in railway stocks and credit, in addition to cotton.

#### 1920s

**U.S. STOCKS** | U.S. stock bubble culminates in Black Tuesday in October 1929, marking the onset of the Great Depression.

#### 1980s and 1990s

**JAPANESE STOCKS and REAL ESTATE** | Japanese authorities pricked a bubble, leading to a lost decade for the economy.

#### 1990s

**INTERNET STOCKS** | Speculative frenzy in dotcom companies leads to modest recession, contained by absence of heavy lending associated with the boom.

#### 2000s

**U.S. HOUSING** | U.S. home prices boom associated with mortgage innovations, leading to global recession.

Sources: Charles Kindleberger's "Manias, Panics and Crashes"; Markus Brunnermeier

THE WALL STREET JOURNAL.

that can bear it.

**Mr. Hilsenrath** is a reporter for The Wall Street Journal in Washington. Email: [jon.hilsenrath@wsj.com](mailto:jon.hilsenrath@wsj.com).

## Cashless Yes

Continued from the prior page  
less payments and person-to-person payment networks such as Venmo.

Yet there are three dozen \$100 bills in circulation for every man, woman and child in the U.S. If you don't have three dozen, or any, you're not alone. Only a fraction of paper currency can be accounted for in surveys of consumer and business holdings. So where is all that missing cash? Most of it is in the underground economy, where it fuels criminal activity and business that goes untaxed.

In the underground economy, cash plays a big, well-established role for which there is no remotely perfect substitute in terms of liquidity and universal acceptance. That's why reducing the supply of cash, particularly large bills, would reduce crime and tax evasion.

Without any \$50 or \$100 bills available, why wouldn't criminals and tax evaders simply switch to smaller bills? Consider this: \$1 million in \$100 bills weighs 22 pounds; the same amount in \$20s would weigh 110 pounds, and take up a large suitcase instead of a small briefcase, making transport more difficult. Criminals and tax evaders also need to hide their cash. If you just have \$100,000 to hide, the size of the bills hardly matters. But for wholesale crime and tax evasion—which are rampant—it is a big deal.

The concern that an absence of large bills would compel organized crime to involve legitimate businesses in the use of false invoices and bogus checks to pay for criminal transactions is overblown. This might happen on a very small scale, but not to an extent that would come close to outweighing the larger beneficial effect on crime.

### Monetary policy

Another advantage of eliminating large bills would be the effect on monetary policy. The Federal Reserve should be able to implement negative nominal interest rates vastly more effectively in the absence of large bills, which could prove quite important as a stimulative tool in the next financial crisis.

The biggest obstacle to deeply negative interest rates is the concern that they would cause big institutional investors to bail out of negative-rate Treasury bills and bonds and move that money into physical cash, to preserve its value. That would blunt the stimulative impact of the negative rates.

Getting rid of \$50s and \$100s would dis-

courage such hoarding, because transporting, storing and protecting cash is costly. In general, it will be easier for the Fed to take steps to stem a run into cash if it has already become marginalized in legal use.

There are several problems with the alternative idea of raising the inflation target so that the resulting higher interest rates would give the Fed more room to lower rates in a crisis without going negative. Among the biggest: Ditching the Fed's longstanding commitment to low inflation would destabilize financial markets. Longer term, higher inflation would result in more frequent adjustment of prices and wages, lessening the impact of Fed policy throughout the cycle. Moreover, with the effects of cuts muted, the Fed would still quickly run out of ammunition in a crisis. And yes, inflated \$100s would become more like smaller bills over time, but that would simply spark calls for printing larger denominations.

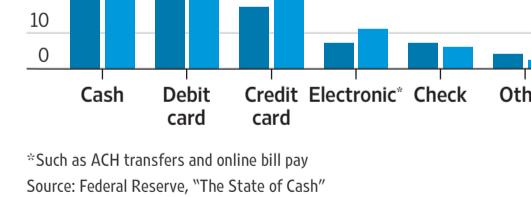
### Few will notice

The phasing out of large bills should have relatively little impact on the vast bulk of the population, who make little use of \$100s. For those who rely on cash because they don't have bank accounts, efforts to bring them into the banking system would help. If countries ranging from Sweden to India can efficiently provide free debit accounts to low-income individuals, so too can the U.S.

Abandoning cash entirely would be folly into the foreseeable future, for reasons of privacy, the need for cash in the wake of disasters like hurricanes, and the convenience of cash for small payments. But a society that uses far less cash is inevitable and desirable.

### Cash Is King...for Now

Cash was the most frequently used form of payment for retail transactions in the Fed's latest report, but its share declined. Transactions by payment type:



\*Such as ACH transfers and online bill pay

Source: Federal Reserve, "The State of Cash"

## Cashless No

Continued from the prior page  
these people? It would at least make life more difficult for them, and others. And, while it might help reduce certain types of crime and tax evasion because of the reliance of much criminal underground activity on large-denomination bills, it would fuel a different kind of crime: It would draw many legitimate businesses into criminal activity, because organized crime would forcibly involve them in noncash criminal transactions to get around the absence of large bills.

### A noncriminal need

Surveys that reveal most people hold little cash don't reflect the urgent demands for high-denomination bills that many people have on occasion. For example, people seeking medical procedures they want to keep secret; the immigrant day laborer who sends cash to family in his home country; the wealthy homeowner after Hurricane Harvey who seeks to assist neighbors and restore her property.

These uses of high-denomination currency are extremely high-value to the individual and society. We would lose a lot if we eliminated the bills that can meet these urgent, and sometimes desperate, needs. Then there are the everyday uses of large bills. Day laborers, for instance, are paid in cash and pay their rent the same way.

Legitimate businesses, meanwhile, would be put at risk. Imagine a thief has stolen a valuable collection of art and arranged to sell it to the mafia. Today, the mob could pay the

thief in \$100s and there would be no record of the transaction. But in the absence of large bills, the mob needs another payment option that still obscures its involvement, and one way to do that is to draw in a third party through the use of fraudulent invoices.

The mob would force a legitimate business to write a check to the thief, disguised as a payment for an invoice from a nonexistent company for services that were never actually rendered. The legitimate business wouldn't lose that money—the mob would deposit that amount in the business's account, disguised as a payment for goods or services. But the business would be guilty of criminal activity that could ultimately destroy it.

The mob can force companies to do this by threatening violence, or by threatening to expose a company's noncompliance with zoning laws or employment of undocumented workers. There are other ways for the mafia to deal with an absence of large bills, but I believe this scenario would be common.

### Raise inflation

There is a way to achieve the results promised by phasing out large bills—disrupting criminal activity and giving the Fed more leeway in its interest-rate policy—without also abruptly disrupting legitimate economic activity and creating unwilling new criminals: Raise the inflation target.

A higher inflation target would be followed by a higher inflation rate, which would be accompanied by higher nominal interest rates. That would give the Fed more room to cut rates without having to resort to negative nominal rates, removing the danger of negative rates causing a run to cash.

A higher inflation rate also would mean the real values of \$50 and \$100 bills would decline more quickly—meaning criminal activity would be disrupted by the need to transport, store and exchange many more bills. Of course, this also would impose that same inconvenience on the legitimate uses of large bills. But while a higher inflation rate would accelerate the need for more bills to complete transactions, that would still happen over a much longer time frame than the phaseout of large bills envisioned in this discussion, giving people much more time to adjust.

Whether we achieve a mostly cashless society sooner or later should be left to technological advancement. As all the uses of cash can be met in better ways, people will adopt those alternatives over time; to rush adoption of inferior alternatives would be a mistake.

### Where It Goes

Share of cash transactions by category

Food and personal-care supplies	52%
Auto and vehicle related	16
Gifts and transfers to people	11
General merchandise	9
Entertainment and transportation	4
Medical, education, personal services	3
Government and nonprofit	3
Housing related	1
Financial, professional, misc. services	1

THE WALL STREET JOURNAL.



### Follow The Experts »

This Journal Report doesn't stop here. Join us online with The Experts—a group of industry, academic and cultural thinkers who weigh in on the latest issues raised in this and future reports. Read what they have to say at [WSJ.com/Experts](http://WSJ.com/Experts).

◆ "Why Higher Interest Rates Are Going to Really Hurt Today's Elderly," by Kent Smetters, professor at the Wharton School and blogger at [KentOnMoney.com](http://KentOnMoney.com).  
◆ "The Four Most Important Financial Lessons I Will Teach My Daughter," by Patrick Lach, associate professor of finance at Bellarmine University and founder of Lach Financial in Louisville, Ky.  
◆ "Is Value Investing Dead? It Depends on How You Measure It," by Welsey R. Gray, CEO and CIO of Alpha Architect, a quantitative asset manager based near Philadelphia.

The Journal Report welcomes your comments—by mail, fax or email. Letters should be addressed to Lawrence Rout, The Wall Street Journal, 4300 Route 1 North, South Brunswick, N.J. 08852. The fax number is 609-520-7256, and the email address is [reports@wsj.com](mailto:reports@wsj.com).

THE JOURNAL REPORT  
For advertising information  
please contact Katy Lawrence at 212-416-4119  
or [katy.lawrence@wsj.com](mailto:katy.lawrence@wsj.com)

### REPRINTS AVAILABLE

FULL PAPER: The entire Wall Street Journal issue that includes the Future of Finance report can be obtained for \$10 a copy. Order by:  
Phone: 1-800-JOURNAL  
Fax: 1-413-598-2259  
Mail\*: Future of Finance  
Dow Jones & Co.  
Attn: Back Copy Department  
84 Second Ave.  
Chicopee, Mass. 01020-4615  
REPRINT OR LICENSE ARTICLES: To order reprints of individual articles or for information on licensing articles from this section:  
Online: [www.djreprints.com](http://www.djreprints.com)  
Phone: 1-800-843-0008  
Email: [customreprints@dowjones.com](mailto:customreprints@dowjones.com)  
\*For mail orders, do not send cash. Checks or money orders are to be made payable to Dow Jones & Co.



# I CAN TURN WEATHER AND TWEETS INTO HIGH-YIELD RETURNS.

With **IBM Cloud and Systems**, bankers are able to combine transactions with structured and unstructured data to detect previously invisible patterns and create new financial products. All in a secure, compliant environment. Learn more at [ibm.com/you](http://ibm.com/you)

This is banking to the power of IBM.

**you<sup>IBM</sup>**



**IBM**  
®

## JOURNAL REPORT | THE FUTURE OF FINANCE

# Brexit Uncertainty Crimps Investment Plans

Looming split from EU leads some companies to change or postpone U.K. projects

BY NINA TRENTMANN

JOHN NEILL IS FACING some tough decisions.

The chairman of **Unipart Group** Ltd., a closely held logistics, manufacturing and consulting firm in Oxford, England, with annual revenue of \$1 billion, is about to decide on his capital-spending plans for the next five to 10 years.

But Britain's planned exit from the European Union is making that task more challenging. "We haven't made that decision yet, and it has been made more difficult by the uncertainty," Mr. Neill says.

Fifteen months after the June 2016 Brexit vote, many British and international companies say they lack crucial information about the future relationship between the U.K. and the EU, one of its most important trading partners. As a result, some have delayed spending decisions or changed their U.K. investment plans.

According to the Office of National Statistics, business investment by British companies and local subsidiaries of multinationals was broadly unchanged in the second quarter from a year earlier, at £43.8 billion, or about \$59.2 billion.

But Mark Carney, governor of the Bank of England, warned last month that uncertainty about the country's relationship with the EU is weighing on business investment. The central bank says it now expects investment in the U.K. economy to be 20% lower in 2020 than what it had been forecasting before the referendum.

The British Chambers of Commerce, which represents more than 75,000 businesses in the U.K., says investment by some of its member companies has declined, especially in the service sector, the backbone of the British economy.

"We see subdued business investment, across the board," says Suren Thiru, head of economics at the BCC.

In the car industry, production investment fell to £1.6 billion in 2016 after averaging around £2.5 billion annually in previous years, according to the Society of Motor Manufacturers and Traders, an industry body. In the first six months of this year, less than £500 million has been committed.

"Companies are waiting for the outcome of the [Brexit] negotiations," says Terry Scuoler, head of the EEF, a British manufacturers' association.

Some businesses, however, are taking a more proactive approach. Greg McDonald, founder of **Goodfish Group** Ltd., which makes machines and injection-molded parts for the car industry, is setting up a plant in Slovakia that he expects to be operational in 2019. His three U.K. factories might soon be outside the EU's single market and customs union, Mr. McDonald says, so he decided to follow some of his customers to Eastern Europe.

"I have invested too much money to wait and see what is happening," Mr. McDonald says. He plans to invest around £2 million in the new site—money that without Brexit he says he likely would have spent in the U.K.

For some companies, looking outside the U.K. isn't an option. "Our brand stands for Britishness," says Andy Palmer, chief executive of **Aston Martin Lagonda** Ltd., an auto maker based in Gaydon, England. "Making the car somewhere else could alienate some of our customers."

Yet Brexit may affect the car maker's investment decisions in other ways, he says. Two months before the refer-



MATTHEW LLOYD/BLOOMBERG NEWS

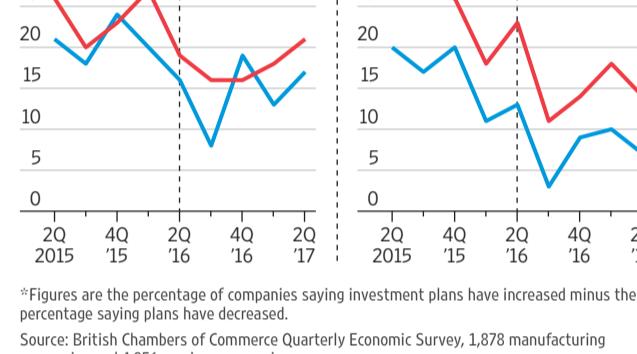
A Siemens unit put off plans to expand output of wind-turbine blades in Hull, England, for export to Europe and other countries.

### Brexit Effect?

The net percentage\* of surveyed British companies saying their investment plans for plant and machinery or training have increased

■ Plant & machinery ■ Training

Manufacturing companies



\*Figures are the percentage of companies saying investment plans have increased minus the percentage saying plans have decreased.

Source: British Chambers of Commerce Quarterly Economic Survey, 1,878 manufacturing companies and 4,856 services companies

ering extending its rotor-blade production in Hull in northeast England to export to Europe and other countries. That plan has been postponed until there is more clarity on Brexit, a spokeswoman says.

Of course, not all companies are willing to speak openly about their investment plans in the wake of Brexit, says Ulrich Hoppe, director general of the German-British Chamber of Industry & Commerce in London. "Many firms keep a low profile," he says. "Brexit plays a role, but companies don't necessarily want to talk about it."

Other firms simply state the obvious: that it is just too early to tell how Brexit will affect them. "We simply don't know what the impact of Brexit will be," says Richard John Carter, managing director for the U.K. and Ireland at German chemical company **BASF SE**, though he concedes the referendum hasn't helped him in discussions with the board in Germany.

The U.K. government recently asked big companies to sign an open letter in support of its Brexit strategy—the let-

ter was leaked to the press after some businesses refused to sign it—and says a decision by **BMW AG** to manufacture a new electric Mini at an existing plant in Oxford is proof that investing in the U.K. remains attractive.

And indeed, in a few instances, the Brexit vote has led to U.K. investments that might not have happened otherwise. Ciaran Murtagh, managing director of Irish firm **Shay Murtagh Precast** Ltd., a maker of precast concrete products, bought a factory near Derby, England, for £4.5 million after the Brexit vote. Mr. Murtagh says he plans to invest an additional £2 million in the coming 18 months.

Because the U.K. is his most important market, he didn't want to risk losing out in case of potential trade barriers between Ireland and the U.K., he says. "We bought the factory because of Brexit," he says.

Ms. Trentmann is a news editor for CFO Journal in London. Email her at [nina.trentmann@wsj.com](mailto:nina.trentmann@wsj.com).

## Maximize the Impact of Your Employee Health Program



American Heart Association®

life is why™



Visit [www.heart.org/workplacehealth](http://www.heart.org/workplacehealth) to learn more and enroll today.



The American Heart Association's new Workplace Health Achievement Index is a national continuous quality improvement program called for by its CEO Roundtable. It assesses and recognizes the health of the workplace and the workforce.

**Because good health is good business.**

## JOURNAL REPORT | THE FUTURE OF FINANCE

# The Growing Popularity and Clout of ETF Strategists

Centrally managed portfolios have big impact on how money moves in the ETF market

BY ASJYLYN LODER

THE MORNING AFTER Donald Trump's surprise victory in November, **BlackRock** Inc. quickly sold millions of dollars of shares in an emerging-markets exchange-traded fund, sales that rippled through thousands of client accounts totaling about \$1 billion.

BlackRock simultaneously blasted emails out to thousands of financial advisers, explaining the change in a trade note written during stress tests conducted in the weeks leading up to the election.

"We didn't think it was going to happen, but we ran the scenario and we were ready," says Greg Weiss, head of BlackRock's U.S. managed-accounts business. "We knew what we were going to do and why."

Centrally managed ETF portfolios such as BlackRock's—run by managers who invest in ETFs to maximize returns, and typically sold through financial advisers or brokerage plat-

ing point. ETF issuers like BlackRock and Vanguard offer do-it-yourself advice free because they make money by basing the portfolios on their own ETFs.

### Undergoing a revival

Whatever it's called, the growth of actively managed ETF portfolios has turned passive investing on its head.

ETFs have been growing at a record pace this year as more savers forsake active money managers in favor of low-cost index tracking funds. Yet with more than 3,000 ETFs listed in the U.S., picking the right ETFs and the right mix can be a difficult task that investors increasingly are willing to hand over to someone else.

The ETF managed-accounts industry is enjoying a resurgence following two high-profile setbacks. The first involved **Good Harbor Financial LLC**, once one of the largest ETF strategists. It grew so large that by 2014 some traders claimed to have figured out how to predict some of its

tors yanked \$900 million from the Vanguard Growth ETF, the most since January 2008. The iShares Core MSCI EAFE ETF, which buys European stocks, took in \$540 million, at the time its third-largest inflow.

The flows illustrate how large model managers can telegraph shifts in market sentiment. The industry has gotten better at managing large trades, and Wells Fargo is careful not to telegraph its moves to the market beforehand, says Paul Roettger, ETF trading manager at the firm.

"Seven or eight years ago, you'd see a lot more dislocation of prices due to people just blasting out trades into the market," he says.

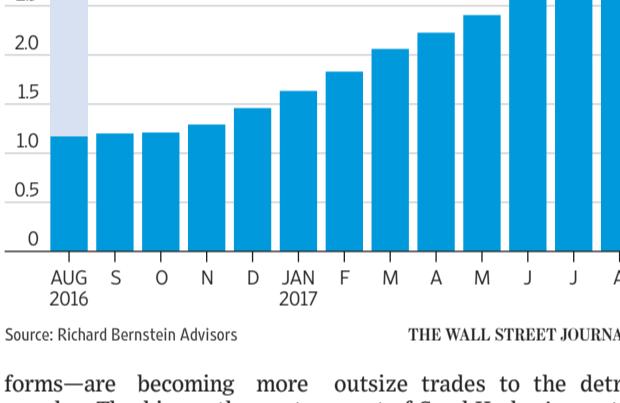
*Ms. Loder is a staff reporter for The Wall Street Journal in New York. Email her at [asjylyn.loder@wsj.com](mailto:asjylyn.loder@wsj.com).*



CHRISTOPHER GODFREY/BLOOMBERG NEWS

### Outsourced ETF Investing

Investors are increasingly outsourcing ETF selection to portfolio managers such as Richard Bernstein Advisors, which has seen assets in its ETF strategies grow rapidly



Source: Richard Bernstein Advisors

THE WALL STREET JOURNAL.

forms—are becoming more popular. The bigger they get, the more influence they have on how money moves in the \$3 trillion ETF marketplace. Suddenly influxes of new cash, abrupt surges in trading volume and apparent turnabouts in market sentiment sometimes lead back to a handful of portfolio managers in this fast-growing corner of the industry.

"When you see these massive flows, it's more than likely because a manager like me has decided to make a change within their portfolios," says Phil Blancato, chief executive of **Ladenburg Thalmann Asset Management** Inc.

### How big?

No one knows how big the business is, in part because there's little agreement on how exactly to define it. Also known as ETF strategies, ETF managed accounts or ETF model portfolios, the business broadly refers to money managers who use ETFs to build investment portfolios instead of, or in addition to, individual stocks and bonds.

Mark Wiedman, who runs BlackRock's iShares ETF business, estimates that as much as 12% of the \$150 billion investors poured into iShares ETFs this year through the end of July came through ETF model portfolios.

Morningstar Inc. counts about \$100 billion invested in strategies that invest at least half of their assets in ETFs, but reporting is voluntary and excludes portfolios that don't meet that definition but still have significant ETF holdings. BlackRock reports \$5 billion in ETF models that meet Morningstar's criteria, but there are additional assets in portfolios that don't, said Mr. Weiss.

Morningstar also doesn't capture ETF models from big brokerage and advisory firms, many of which don't report information to the fund researcher but are big players in the market. **Wells Fargo & Co.**, for example, has more than \$20 billion in ETF portfolios, and **Bank of America Merrill Lynch** has more than \$50 billion, both far larger than the biggest strategists reporting to Morningstar.

Complicating any accounting are so-called paper portfolios, which are impossible to track. Paper portfolios refer to financial advisers who put their own spin on asset allocation, using a model as a start-

outsize trades to the detriment of Good Harbor's reputation. A bigger black eye was the collapse of F-Squared Investments, which ran one of the largest ETF strategies in the U.S., with \$28.5 billion invested in mid-2014. Less than six months later, the firm agreed to pay \$35 million to settle charges it defrauded investors by touting false performance records, according to the U.S. Securities and Exchange Commission. The firm filed for bankruptcy in 2015.

More recently, however, the industry has gotten a boost from the rise of passive investing and the rapidly changing business of financial advice. In particular, Obama-era regulations requiring advisers to act in the best interests of clients has fueled a push toward inexpensive and broadly diversified portfolios.

"A fully allocated ETF portfolio is a very easy way to make sure our clients' investments and objectives are in line with each other," says Patty Loepker, head of research-directed advisory at Wells Fargo. The firm's ETF portfolios are growing at the fastest rate in five years, she says.

### Smooth trading

As the strategies grow, portfolio managers must move carefully to keep their outsize trades from roiling the market. Using old-school methods like instant messaging and conference calls, they often work with market makers and issuers to ensure trading goes smoothly, belying the image of ETF trading as an anonymous high-frequency game.

When Ladenburg Thalmann decided in July to buy \$17 million of a FlexShares ETF (TLTE) that invests in emerging-markets stocks, the firm consulted with the issuer days before making the investment, and relied on a market maker to make the trading run smoothly, says Mr. Blancato.

On July 25, volume in the FlexShares ETF spiked to 13 times its one-year average, while the share price moved just 20 cents, a decline of less than half a percentage point.

Market insiders credited changes in the Merrill Lynch ETF models with a series of massive trades that rolled through several popular ETFs in late January. The Vanguard Short-Term Bond ETF drew \$1.27 billion in new cash, its biggest single-day gain. Inves-

Diana Gokool Diaz, CFP®  
Municipal Trading



## FORTUNE MAGAZINE RANKS US 3RD-BEST WORKPLACE FOR WOMEN.

## AND 5TH BEST OVERALL.

## THE MORE YOU KNOW, THE MORE WE MAKE SENSE.

We don't just take care of our 7 million clients. We take care of our own. It's why we've been ranked #1 by [wealthmanagement.com](http://wealthmanagement.com) 20 times. And why our financial advisors are so robustly supported by our home office staff of 6,000. Well-served associates equal well-served clients. Maybe it's time you got to know Edward Jones.

Visit [edwardjones.com/knowmore](http://edwardjones.com/knowmore)

From FORTUNE, October 1, 2017. ©2017 Time Inc. Used under license. FORTUNE and Time Inc. are not affiliated with, and do not endorse products or services of, Edward Jones.

Edward Jones®

## JOURNAL REPORT | THE FUTURE OF FINANCE

# The Dollar Will Keep Dominating. But...

Some wonder if the currency's role in the global economy might loosen a bit

BY IRA IOSEBASHVILI

IS THE DOLLAR about to get taken down a peg?

The U.S. currency has been the most important in the world for decades. Central banks hold the bulk of their reserves in dollars. The currency is involved in 9 out of every 10 transactions in the \$5.1 trillion-a-day foreign-exchange market. Oil, sugar and almost all other commodities are priced in dollars.

Now some economists and analysts think Washington's political dysfunction and growing push for isolation may loosen the dollar's central role in the global economy.

Let's be clear: The experts don't think the world will simply drop the dollar. But, they say, the state of U.S. politics could spook investors and central banks enough to pare their dollar-denominated holdings and seek shelter elsewhere. Those fears are reflected in part by the dollar's big declines in 2017, to its lowest level in nearly 2½ years.

"We are closer to a loss of confidence in the dollar," says Ben Cohen, a professor of international political economy at the University of California, Santa Barbara. If the dollar's status were to change, he says, "the most likely explanation would be a failure of domestic policy."

### A high-status history

Even an incremental decline in the dollar's global status could have ripple effects in the U.S. and abroad. Demand for dollar-denominated Treasurys has helped keep U.S. interest rates low. A diminished dollar would likely pressure rates upward, making borrowing more costly and weighing down economic growth. Americans traveling abroad would find their dollars buy less, even as foreigners enjoying stronger currencies snap up more U.S. assets such as real estate. Companies and nations that had avoided transaction costs by conducting business in dollars would face higher expenses on everything from cross-border investment to tourism, as they

increasingly buy and sell currencies.

The dollar has enjoyed its privileged position since World War II, when central banks agreed to link exchange rates to the U.S. currency instead of gold, leading to them hold dollars in reserve instead of the metal. The first serious rival to the dollar's dominance came in 1999, with the birth of the euro. Europeans heralded the single currency as a new rival to the dollar when it was introduced, but its status was dimmed by a 2010 financial crisis that stoked fears that Greece, and perhaps other countries, would leave the euro.

The most immediate current concern about the dollar surrounds the remote but catastrophic possibility of a U.S. government default if lawmakers can't agree on raising the debt ceiling. Congress recently approved a three-month extension of the government's borrowing limit. But that sets the stage for another showdown at year's end, and a number of House Republicans have indicated a preference for tying the debt-ceiling extension to spending cuts or other causes.

Some economists also worry that the prospect of new protectionist measures could stymie U.S. trade and lessen the dollar's influence overseas. Likewise, concerns are growing that the U.S. retreat from global leadership, starting with the Trump administration's more-skeptical view of global trade agreements and pullback from the Paris climate accord, could augur poorly for the dollar.

Other scenarios that could shake investor confidence would include President Donald Trump squabbling with longstanding U.S. allies or ratcheting up tensions with enemies such as North Korea, Mr. Cohen says.

There's little consensus on what an exodus from the dollar would look like, and how it would play out in markets. The last currency to give up top-dog status was the pound, which accounted for some 60% of global trade at the start of the 20th century and lost its spot after Britain's economy was ravaged by two world wars.

Few see such a path for the dollar. A wholesale flight out of the dollar

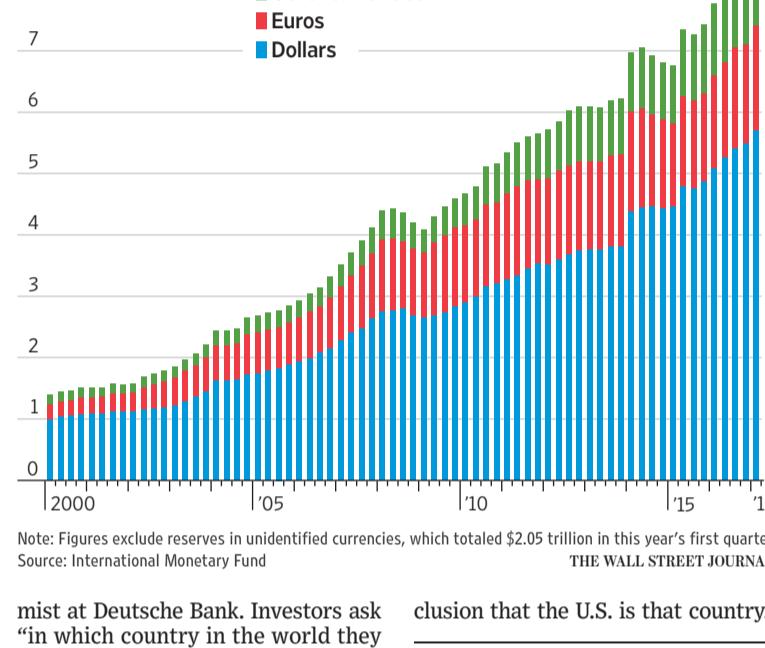


ALEX WONG/BLOOMBERG NEWS

Washington politics may undermine the dollar's global role. A recent debt-ceiling deal extends only to year's end.

### National Treasures

The combined official foreign-exchange reserves of countries of the world by currency. Quarterly data.



Note: Figures exclude reserves in unidentified currencies, which totaled \$2.05 trillion in this year's first quarter.  
Source: International Monetary Fund

THE WALL STREET JOURNAL.

mist at Deutsche Bank. Investors ask "in which country in the world they are most likely to get their money back on government bonds," says Mr. Slok, "and still come to the conclusion that the U.S. is that country."

**Mr. Iosebashvili is a Wall Street Journal reporter in New York. Email [ira.isebashvili@wsj.com](mailto:ira.isebashvili@wsj.com).**

# Warning Signs About the Global Economy

The former governor of the Bank of England says total debt is troublesome

BY MERVYN KING

A DECADE AGO, the global financial crisis was under way. A year later, the banking system of the industrialized world was on the verge of collapse. Before those events, I told a gathering of business leaders in London, "Excessive leverage is the common theme of many financial crises



LOUIS LANZANO/ASSOCIATED PRESS

Lehman Brothers employees leaving in 2008. The financial crisis built for more than a year before markets broke.

much misplaced investment remains to be written off.

Rising interest rates will reveal the true state of balance sheets that has been concealed by accounting rules that allow loans to be valued at their full value, provided those loans are currently being serviced. We shall see the force of what economist Joseph Schumpeter described as "creative destruction," an inevitable part of economic growth in a prosperous capitalist economy. That force is now needed to correct the misplaced pattern of investments induced by faulty market signals such as inappropriate exchange rates and excessively low interest rates.

As we have seen many times over the past century—from the financial crisis at the outbreak of the First World War to the events of 2007–08—markets sometimes wake up to the true position at the last moment, and then seemingly small events can trigger a sharp change in sentiment and asset values. A few unconnected defaults could lead to a reappraisal of the effective leverage of the financial system. Although banks are better capitalized than a decade ago, they are still vulnerable to runs.

And foreign banks are still heavily reliant on short-term dollar funding. That will lead to increasing pressure on the Federal Reserve to enter into swap agreements. Understandably, the Federal Reserve is reluctant to make open-ended and indefinite commitments of that kind. So, governments will need to think carefully about the regulation of short-term liabilities of their banks denominated in U.S. dollars.

We cannot know whether the process of writing down debt will, as we emerge from the excesses of the financial crisis, undermine the normal forces generating economic growth. And there will be plenty of investment opportunities for those able to spot the companies and sectors in which expansion will occur, and plenty of pitfalls for the unwary who think we are merely recovering from an unusually long but traditional business-cycle downturn. Over the next decade, our economic journey will take us along an interesting and bumpy road.

**Lord King, governor of the Bank of England from 2003 to 2013, is a professor at New York University and author of "The End of Alchemy," published by W.W. Norton in paperback in March. He can be reached at [reports@wsj.com](mailto:reports@wsj.com).**

### Crisis? What Crisis?

Markets have failed to anticipate troubles in the past. In 2008 the one-year London interbank offered rate was quiet before chaos erupted on Wall Street.



Source: WSJ Market Data Group

anxious to raise interest rates to more-normal levels, both to rebalance economies and to create room to cope with unexpected downturns in the future.

But after 10 years of relative stagnation, we could be in for a bumpy decade ahead, because of the only immutable law of economics—double-entry bookkeeping. If asset values fall, then so too must total liabilities.

For companies and banks, their assets are the future stream of earnings discounted back to the present, while their liabilities are the amounts owed to creditors (often short-term debts fixed in money terms) and the

### Credit Check

Some measures of debt are higher today than before the financial crisis. Total borrowing by the U.S. nonfinancial sector as a percentage of GDP:



Source: Bank for International Settlements

residual value of equity.

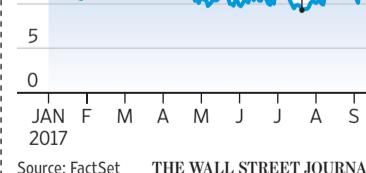
So, as interest rates rise, the discount rate will increase and asset prices will fall relative to incomes. A squeeze on the value of total liabilities falls initially on the value of their equity, making it more difficult to borrow. But it also increases the likelihood that some companies and banks will default on their debts. We could see a sequence of defaults in different sectors of the economy and in different countries.

### Revealing the truth

Up until now, extraordinarily low interest rates mean that many bor-

### Traders Un vexed

But markets have been generally calm this year. VIX, the CBOE Volatility Index, has mostly stayed in a narrow range indicating little expectation of volatility:



Source: FactSet THE WALL STREET JOURNAL.

rowers have been able to continue to service their debt when in fact there is little prospect that the full value of the loan will be repaid. When the Bank of England conducted its first stress test of the U.K. banking system in 2013, we found that expected losses on loans were much higher than stated provisions.

Unsustainably low interest rates over a long period have led to a significant imbalance in economies around the world. Whether excess capacity in the export sectors of Germany and China, or excess investment in residential and commercial property in the U.S. and U.K.,

## JOURNAL REPORT | THE FUTURE OF FINANCE

# Gap in China's Economy: Consumer Credit Ratings

Lack of recognized single standard limits growth of borrowing among nation's rising middle class

BY CHUIN-WEI YAP

SAUL FINE, a Tel Aviv-based psychologist, used to help Israel's military develop personality and integrity tests for its soldiers. Now, he's helping a small Chinese financial-technology company conduct tests of consumers' fitness as borrowers.

Mr. Fine's work with Beijing-based Finup Credit Co. is part of a scramble to plug a gap in China: The world's second-largest economy doesn't have a widely accepted system to gauge creditworthiness among a fast-expanding middle class with growing paychecks, a hunger for consumer products and little or no credit history.

Chinese household debt is growing rapidly, outpacing broad credit growth every year since 2013 and reaching 38 trillion yuan (\$5.7 trillion) by the end of the second quarter of this year. But household debt remains relatively low by global standards, at about 44% of gross domestic product, and the absence of a widely used standard of creditworthiness

cent massive data breach at Equifax, one of the big U.S. credit-reporting companies. "To my mind the data breaches are inevitable when you have such a high profile," he says. "I think what sets the established players apart is, ironically, their transparency. I am not so sure that if something similar was to happen in China we would find out about it quite so quickly."

Chinese regulators in January 2015 invited eight companies, including Ant and Tencent, to design the commercial component of a "social credit" system the Communist Party has said it wants to put in place nationwide by 2020. The system would assign scores to people—based on both financial and social activity, from loan repayment to shopping habits and volunteer activity—that would affect their access to credit and to various government services.

But so far, no company has been licensed to develop the commercial portion of the system.

"A license can't be issued as none of the eight so far has met the standards for the personal-credit preparatory work," Wan Cunzhi, head of credit regulation at the People's Bank of China, said in April. The central bank didn't respond to requests for comment for this article.

### Paving the way?

Regulators in March set up a new clearinghouse, Wanguan, to centralize the processing of online payments. Analysts say the government-controlled agency, by making payment platforms share transaction information, could pave the way for a national credit-scoring system.

Meanwhile, Ant's Sesame Credit has a head start on its competition. Launched in 2015, Sesame derives a person's credit score—which the individual can view on Ant's popular Alipay payment platform—by mining data on the consumer's e-commerce activity and other online behavior. Higher ratings confer perks such as waived deposits at some hotels and faster security screening at Beijing's airport.

Tencent completed tests on its system in early August, though the company is taking a more cautious approach, a person familiar with the matter says. There's no certainty internally if its scores, which are based more on users' social-media interaction than on e-commerce activity, would be more reliable than other systems, the person says.

There are small credit bureaus in major cities including Beijing and Shanghai, but they have never gained traction and often lack access to borrowers' financial data. Such bureaus reach only a third of Chinese borrowers, compared with 90% of borrowers in the U.S. reached by credit bureaus there, according to consulting firm Oliver Wyman.

### Accuracy concerns

Some experts are concerned about the accuracy and privacy of the data used to generate credit scores in China, as well as the lack of a clear process to challenge scores and have them redressed.

"Without independent validation of the models or the right to challenge and address the underlying data, Chinese citizens are at risk of inappropriate discrimination," Mr. Lythgoe says.

But lenders, borrowers and credit-scoring developers are all pressing ahead.

In November last year, Liu Qi, Finup Credit's chief executive officer, struck up a friendship with Mr. Fine at an industry conference in New York. Mr. Liu saw in him a key to Chinese markets.

In May, Finup launched tests designed by Mr. Fine, giving its customers a means to estimate the likelihood of default among borrowers. "We've taken note of the work done by various payment platforms, but we're also developing our own way," Mr. Liu says.

When Cai Kaining, a 52-year-old Shanghai state em-

ployee, wanted a home-renovation loan earlier this year, he turned to his smartphone. It took him one meeting with a Finup representative and a 10-minute questionnaire—designed by Mr. Fine—to get a 110,000 yuan (\$16,500) loan.

"I wasn't even sure I wanted to borrow," Mr. Cai says. "But it was so convenient that I did."

*Mr. Yap is a Wall Street Journal reporter in Hong Kong. He can be reached at [chuin-wei.yap@wsj.com](mailto:chuin-wei.yap@wsj.com). Alyssa Abkowitz in Beijing contributed to this article.*



China is looking to consumer spending for growth, but household debt is low by global standards.

## Equity investment totals have reached \$66 trillion worldwide.

In the U.S. alone, equity markets have grown more than 180% since 2009. With that much at stake – for individuals as well as institutions – mutual funds, retirement funds and endowment funds need a way to manage the risks of stock market fluctuations. CME Group gives investment professionals the tools they need to address market exposure. This is how the financial industry can offer investors the right balance between risk and reward. This is how the world advances. Learn more at [cmegroup.com/finance](http://cmegroup.com/finance).

 CME Group



CME Group is a trademark of CME Group Inc. The Globe logo is a trademark of Chicago Mercantile Exchange Inc. All other trademarks are the property of their respective owners.

Copyright © 2017 CME Group. All rights reserved.

## JOURNAL REPORT | THE FUTURE OF FINANCE

# It's Easier Than Ever to Be a Swindler—and Victim

Former scam artist Frank Abagnale Jr. on the ways consumers put themselves at risk every day

BY HENRY WILLIAMS

IF YOU ARE STILL paying by check, you might be putting your life savings at risk. That's the warning from Frank Abagnale Jr.

Anyone who has seen the face of a check you write from your checking account or wealth-management account could draft on that account tomorrow, he says.

His name might seem familiar. From 1965 to 1970, he ran a series of scams—posing as a lawyer, a doctor, a pilot—before getting arrested and spending five years in prison. In the 2002 biographical movie

"Catch Me If You Can," he was played by Leonardo DiCaprio.

He attributes his success as a scam artist to his youth. "I was just 16 years old," he says. "I had no fear of consequences."

Mr. Abagnale now puts his skills to use teaching FBI agents around the country about cybercrime, identity theft and fraud. "Frank has a unique ability" to communicate, says the special agent in charge of the FBI's Charlotte, N.C., field office, John Strong, who has worked with Mr. Abagnale on multiple occasions. "The guy is a genius."

Mr. Abagnale also serves as an ambassador for AARP's Fraud Watch Network, giving public presentations on the latest scams involving identity theft and other consumer crimes.

He spoke to The Wall Street Journal about his life as a swindler, his life after serving four years in federal prison, and now, at age 69, how he thinks consumers are putting themselves at risk. Here are edited excerpts.

### It's easier now

**WSJ:** How much of what you did came down to confidence?

**MR. ABAGNALE:** People always said "You are brilliant, you are a genius," but I was just 16 years old. If I was in New York, standing out in front of a bank with a \$500 forged check, I didn't say to myself, "Here's the plan, I'm going to go in, if they do this I'll do this. If they do



GLOBE PHOTOS/ZUMA PRESS

Frank Abagnale Jr.'s years as a young swindler were portrayed by Leonardo DiCaprio in the 2002 movie 'Catch Me If You Can.'

this, I'll do this." I would just go in and everything was ad-libbed. Had I been a little older, I probably wouldn't have done half the things, because I would have rationalized that they wouldn't work.

**WSJ:** Have social media, the internet and cellphones made it harder to assume someone's identity and commit fraud?

**MR. ABAGNALE:** No, I always tell people what I did 50 years ago as a teenager is now 4,000 times easier to do today. Technology breeds crime—it always has and it always will. There's always going to be people willing to use technology in a negative, self-serving way. So today it's much easier, whether it's forging checks or getting information. People go on Facebook and tell you what car they drive, their mother's name, their wife's maiden name, children's name, where they're going on vacation, where they've been on vacation. There's nothing you can't research in a matter of a couple of minutes and find out about someone.

**WSJ:** What do you think of the evolution of consumer protections during your life after crime?

**MR. ABAGNALE:** I don't think we've done a lot to really protect consumers. Back in the 1970s, before I ever wrote a book or anyone knew who I was, I did a series of public-service ads for the Department of Justice that were really well written, and very well done. I recently testified with the U.S. Senate about the Federal Trade Commission, and the fact is these things aren't done anymore. There are no public-service ads, and if there are bank-statement stuffers added, they're selling some product of the bank.

If an airline tomorrow had a forged check for \$250,000 and [a bank] didn't pay it, there is omission insurance, so their insurance company will give them back \$200,000 minus their \$50,000 deductible. They'll write off half of that off their income tax, and then they will take the rest of it back into their operating budget. But if a mom and pop own a dry cleaner and someone embezzles or steals \$175,000 from them and they don't get their money back, they're out of business. They're ruined.

**WSJ:** Has the Consumer Financial Protection Bureau helped?

**MR. ABAGNALE:** That agency has

really not done much to protect the consumer. What they've done is gone out and found a lot of [wrongdoing at] financial institutions and banks and brought in a lot of money to the Treasury, but they haven't done a lot to help the actual consumer from being a victim. If they wanted to really help the consumer from being a victim, they would be doing a lot more trying to educate the consumer.

[In response, David Mayorga, a CFPB spokesman, said the bureau's accomplishments include "nearly \$12 billion in relief for more than 29 million harmed consumers."]

**WSJ:** Many baby boomers are retiring with a lot of accumulated wealth. Are they at particular risk?

**MR. ABAGNALE:** The most common scam right now is called the grandparents scam. They go on Facebook and they see who the grandparents are, they see who the grandson is dating. The typical call will come in on your caller ID as, for example, the NYPD. You see the police department is calling, because they can easily manipulate the software that controls caller ID. You pick up the phone, the guy says, "This is so-and-so at the New York City Police Department, and we have arrested your grandson this evening and he was driving while intoxicated. He needs to post bail in the next two hours or he will have to spend the weekend in jail." You wouldn't believe how many millions of grandparents fall for that, until you explain the scam to them.

**Dangerous checks**

**WSJ:** Could you do what you did then today?

**MR. ABAGNALE:** It's a thousand times easier.

Back then, when I forged checks, I had to find a Heidelberg printing press. That press was \$1 million. It was 90 feet long and 18 feet high. It required three skilled printer operators. I built a scaffolding on the side of the press to eliminate the other two positions, and as a teenager I was able to run the length of the press and operate it.

Today, one simply sits down, opens a laptop and says, "Who's my victim today?"

What's interesting to me is that it used to be a forger, a guy that was skilled. He knew how to alter checks, forge checks, counterfeit checks—a more sophisticated criminal. But today, when we look at a lot of the check forgery going on, it's street gangs that used to deal in stolen guns and narcotics. It's a lot easier to go out and forge checks. There's a lot more money to be made, and a lot less serious time to spend in jail if you're caught.

**WSJ:** What is to stop someone from just making their own checks and stealing your account details?

**MR. ABAGNALE:** Absolutely nothing.

Think about this: You go into a convenience store today and write a check for \$9. You have to hand the clerk the check with your name and address, phone number, your bank's name and address, your account number at your bank, the routing number into your account. That's your wiring instructions. Your signature that's on the signature card at your bank. And then the clerk has written down your state driver's license number on the front and your date of birth. You don't get the check back. You can get an image of the check; the physical check goes to [the store's] warehouse, where eventually, six months from now, they will destroy it.

In the meantime, anyone who would see the face of that check—from the clerk who took it at the counter to the one that made the night deposit—could draft on your bank account tomorrow, would have all the drafting instructions. Or they could go online [and order checks] that look exactly like your checks, but put their name on it and put your account number on it. So every check they write gets debited against your account. It's so simple to do.

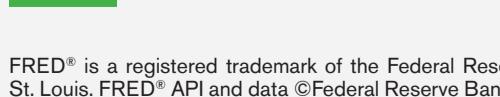
It's amazing to me that people are writing \$9 checks from their wealth-management account, their private banking account, and giving them to some stranger in a store.

**Mr. Williams is a deputy editor for The Wall Street Journal in New York. He can be reached at [henry.williams@wsj.com](mailto:henry.williams@wsj.com).**

## GDP, CPI, Jobs Reports—right at your fingertips.

Economic Data from the Fed is now available right in thinkorswim®. With this advanced feature, you can easily compare and analyze a wide variety of macro data to make more informed trades.

Our same great service with a new, lower price of \$6.95 per online equity trade.  
Open and fund an account and trade commission-free for 60 days.



Visit [tdameritrade.com/thinkorswim](http://tdameritrade.com/thinkorswim) to learn more.

FRED® is a registered trademark of the Federal Reserve Bank of St. Louis. The Economic Data tab uses the FRED® API but is not endorsed or certified by the Federal Reserve Bank of St. Louis. FRED® API and data ©Federal Reserve Bank of St. Louis. 2016. All rights reserved. By using the FRED® data, you are agreeing to be bound by the FRED® API Terms of Use, available at [research.stlouisfed.org/fred\\_terms.html](http://research.stlouisfed.org/fred_terms.html). TD Ameritrade, Inc., member FINRA/SIPC. © 2017 TD Ameritrade.