THE WALL STREET JOURNAL.
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Technology
**SEC Chairman Warns on Rush to Cryptocurrencies**

By Dave Michaels
245 words
12 December 2017
The Wall Street Journal
J
B4
English


WASHINGTON -- Wall Street's top regulator on Monday raised alarms about the money flooding into bitcoin trading and other cryptocurrency markets, warning the red-hot corner of less-regulated finance is burning with risk for retail investors.

Securities and Exchange Commission Chairman Jay Clayton issued a statement spelling out his concerns about bitcoin, which the agency doesn't regulate, and other deals that piggyback off excitement about the cryptocurrency. The SEC has come down particularly hard on initial coin offerings, in which startups raise money -- sometimes by soliciting bitcoin -- from investors in exchange for giving them a new digital coin that may be traded or grow in value.

"The world's social media platforms and **financial markets** are abuzz about cryptocurrencies and initial coin offerings," Mr. Clayton said. "There are tales of fortunes made and dreamed to be made. We are hearing the familiar refrain, 'this time is different.'"

Mr. Clayton's alert came on the same day the SEC intervened to halt a $15 million initial coin offering that it said should have been conducted under the regulator's longstanding rules for securities sales.

A person familiar with Mr. Clayton's thinking said he voiced his views now because the run-up in bitcoin's price has captivated retail investors and because the commission's prior statements on bitcoin and ICOs have generated substantial interest.



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**Hooray for Bitcoin (but Don't Buy It)**

By Lawrence Baxter
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A17
English


The price of bitcoin broke $19,000 last week, and traders and speculators are giddy. Fortunes are being made. But in the long run, the smart bet is against bitcoin, for at least four reasons.

First, bitcoin is too **volatile** to be a reliable store of value. National currencies rest on the real productivity and fiscal capacity of citizens. With bitcoin there is no there there -- only some kind of euphoric trust. But this trust is undermined by hackers who have breached bitcoin repositories.

Second, the bitcoin community is using breathtaking amounts of electricity -- about as much as all of Denmark, according to one recent estimate. The currency is built so that recording transactions, and thereby generating new bitcoin, requires solving complex mathematical problems. This keeps bitcoin scarce, but it also means that massive server farms are tasked with essentially wasteful calculations. When environmentalists begin to understand this, there will be a firestorm.

Third, the currency is a vehicle for criminal transactions and for avoiding government restrictions on moving capital. This is why bitcoin has been so popular in Venezuela and China, and why such countries are cracking down.

Fourth and most important, bitcoin is on a collision course with sovereign states. Bitcoin was founded on a libertarian ethos, and its proponents zealously resist licensing and regulation. Taken to its logical conclusion, this philosophy would entail the elimination of central banks.

So far, the volume of actual bitcoin transactions has been minuscule. Western governments are dozing. But if bitcoin ever grew to critical mass, politicians around the world would wake up.

King Philip IV of France once could not repay his debts to his bankers, the Knights Templar. So in 1307 he had their leaders arrested on trumped-up charges and then burned at the stake. No modern sovereign will give up the power of the purse without a similar fight, if perhaps a less bloody one.

At the first serious (and likely coordinated) move by governments to regulate or bank the digital currency, bitcoin's price will crash to zero. Panicked owners will rush to exit and the bubble will burst. Bitcoin futures and options may just as well be based on pixies and fairies. Nothing will be able to save them. Speculators will depart for the next lunacy, leaving behind the greater fools to wonder where their supposed wealth went and demand that government do something about it.

All the same, the bitcoin bubble is doing some good. How can this be? The high price of bitcoin, though wildly fluctuating, is attracting attention to the underlying platform, called blockchain. This technology could revolutionize future transactions of many kinds, providing secure execution of "smart contracts," as well as fast, efficient claims processing that eliminates expensive middlemen.

Eventually those platforms will be stable and secure. But it will take a lot longer than the frenzied bitcoin market suggests. Before this frontier is reached, bitcoin itself -- neither stable nor secure -- will have crashed to zero.

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Mr. Baxter is a law professor at Duke University, where he also co-directs the Global **Financial Markets** Center.

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**Business Watch**

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J
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MACY'S

Chairman's Exit

Completes Transition

Macy's Inc. Executive Chairman Terry Lundgren will retire next month from the board, completing a transition of leadership for the department-store operator announced nearly 18 months ago.

Mr. Lundgren's retirement will be effective on Jan. 31, Macy's announced Friday. The board named Chief Executive Jeff Gennette as chairman.

Mr. Lundgren left the chief executive post in March after serving in the role since 2003. Before becoming CEO, he was president and chief merchandising officer.

Following Mr. Lundgren's retirement, the board will have 10 directors, the company said. Marna Whittington will remain as lead independent director.

Mr. Lundgren said he is confident the company "has the strategies, resources, talent and leadership to capitalize on the fundamental shifts in consumer shopping patterns we have all experienced."

-- Aisha Al-Muslim

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BOSTON HERALD

Tabloid Seeks

A Purchaser

The owner of the Boston Herald newspaper has filed for chapter 11 bankruptcy and is putting itself up for sale, with a $5 million starting offer from GateHouse Media Inc.

The feisty tabloid, which dates to 1846, cited the growth of alternative media and erosion of ad revenue for the need to seek bankruptcy protection.

GateHouse intends to buy the newspaper free and clear of pension and retiree health and welfare obligations, according to an affidavit signed by Jeffrey Magram, chief operating officer of Herald Media Holdings Inc.

-- Peg Brickley and Becky Yerak

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PEPSICO

**Nasdaq** Wins Listing

From the Big Board

PepsiCo Inc. said it would transfer its stock-exchange listing from the New York Stock Exchange to the **Nasdaq** later this month, in a big win for the **Nasdaq Stock Market** as it builds its data business.

PepsiCo, which has a market capitalization of about $165 billion, is one of the largest companies to change exchanges recently and joins Kraft Heinz Co., which jumped ship from the NYSE in 2012.

Under Chief Executive Officer Adena Friedman, **Nasdaq** has focused on building advanced marketplace technology and information analytics.

-- Austen Hufford



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**Bitcoin Futures Start, Site Falters**

By Alexander Osipovich, Gabriel T. Rubin and Paul Vigna
1,285 words
11 December 2017
The Wall Street Journal
J
A1
English


The first bitcoin futures started trading Sunday, sparking a swift run-up in the price of the digital currency as the exchange provider's website experienced outages from heavy traffic.

Trading of the hotly anticipated U.S. bitcoin futures began at 6 p.m. Eastern Time Sunday on an exchange run by Cboe Global Markets Inc., while its larger rival CME Group Inc. plans to introduce its own bitcoin futures a week later.

The bitcoin contract expiring in January opened at $15,000 and spiked to $16,660 within the first six minutes of trading, an 11% surge. Prices later dropped, then rebounded and the contract was trading at $18,220 at around 10:30 p.m., according to data from Cboe. About 1,000 contracts changed hands in the first three hours of trade.

The exchange halted trading for two minutes at 8:31 p.m. due to **volatility**, said a spokeswoman for Cboe. The exchange operator can impose such halts after a 10% price swing.

The price of bitcoin itself was at $16,559.24, according to CoinDesk. The price climbed 8% to $15,740.25 in the first seven minutes after the futures contract started trading.

Interest in the futures caused problems for Cboe's website. "Due to heavy traffic on our website, visitors to www.cboe.com may find that it is performing slower than usual and may at times be temporarily unavailable. All trading systems are operating normally," a Cboe spokeswoman said.

The launch of bitcoin futures represents a milestone for the digital currency. But the new market could be roiled by hacks, technical snafus or manipulation schemes.

One risk is that the underlying markets for bitcoin are largely unregulated and have a troubled history. Mt. Gox, once the largest bitcoin exchange, collapsed in 2014 after being robbed of more than $470 million of bitcoin. Other bitcoin exchanges have faced criminal charges of money laundering.

"The Bitcoin cash markets are immature, and hardly seem the epitome of robustness," Craig Pirrong, a finance professor at the University of Houston, wrote in a blog post.

The launch of bitcoin futures comes as a confluence of economic, financial and cultural developments has spurred a rise of more than 1,500% this year in the price of the digital currency. Regulators in countries such as Japan have given stamps of approval to trading bitcoin. Surging stock markets have made investors hungrier for riskier plays.

Meanwhile, consumers have grown more comfortable with sending and receiving money digitally from their phones, even when a bank isn't involved. This has made it easier for individual investors to pile into bitcoin and they, in turn, have pushed it into the cultural mainstream.

The singer Katy Perry recently posted a picture of herself on Instagram talking with Warren Buffett and said she asked him about cryptocurrencies (she didn't reveal his advice). CBS's "Big Bang Theory" -- the top-rated show on U.S. television -- devoted a recent episode to a story revolving around bitcoin.

All this puts bitcoin's recent ascent in a different category from gyrations witnessed in prior years. "I'm still wrapping my head around cryptocurrency being cool now," said Neeraj Agrawal, the 29-year-old director of communications at Washington, D.C.-based Coin Center, a nonprofit cryptocurrency research and advocacy organization. "It doesn't feel natural for crypto to be cool because of how nerdy it is."

Indeed, many people buying bitcoin today aren't quite sure how it works. Bitcoin was designed by a small clique of coders as a stateless, digital alternative to traditional money. Users trade over a network of decentralized computers -- underpinned by software known as the blockchain that creates an immutable, public transaction ledger -- eliminating middlemen such as banks, governments and central banks.

But the experience of buying bitcoin has changed to become friendlier for investors. Cryptocurrency-related apps have adopted the look and feel, as well as ease of use, of popular payments services such as Venmo, said Scott Harkey, head of the payments practice at consulting firm Levvel LLC.

The digital wallet operated by Coinbase in early December became the most-downloaded app in Apple Inc.'s store, above YouTube, Gmail and Facebook. There are 8.75 million monthly active users of the mobile app globally, according to Apptopia, which tracks downloads.

"To the early adopters, it doesn't matter," Mr. Harkey said of the ease with which investors can trade bitcoin. "To the next segment of population now investing in crypto, they're the ones that got more comfortable with the idea given the broader drive of third parties interacting with their money."

For all that, bitcoin has been the best-performing asset in **financial markets** in 2017. Part of the reason may have to do with supply and demand. Bitcoin is created, or "mined," at a preset, steady pace. There are about 16.7 million bitcoin outstanding; mining will stop when the total reaches 21 million, expected to occur around 2140.

So growing interest in bitcoin driven by its rising price results in greater demand, while the supply doesn't expand at a similar rate. That leads to higher prices.

Bitcoin futures could help damp some of the market's **volatility**, by drawing in more buyers and sellers.

But the launch of bitcoin futures has cast a spotlight on the market's shaky foundations. Bitcoin exchanges were plagued with glitches in recent weeks, even as the price of the virtual currency soared to records -- passing $17,000 on Thursday, from just $968.23 at the start of the year, according to CoinDesk.

For their futures products, CME and Cboe are betting that a handful of bitcoin exchanges are sufficiently reliable and trustworthy to support a derivatives market.

Still, recent mishaps have raised questions about whether bitcoin exchanges are ready for prime time. On Nov. 29, heavy trading sparked by bitcoin breaking through $10,000 the previous evening caused outages at Bitstamp and GDAX, among other exchanges.

All five bitcoin exchanges working with CME or Cboe have taken steps to embrace regulation and anti-money-laundering laws. Their representatives said the industry had matured. "Exchanges that weren't up to a certain standard, due to incompetence, have died out," said Bitstamp Chief Executive Nejc Kodric .

Some critics warn that unscrupulous traders could push around the price of bitcoin on the bitcoin exchanges.

The bitcoin exchanges partnering with CME and Cboe account for a narrow slice of the market. That means a manipulator wouldn't need to move the price of bitcoin world-wide, just on a small number of exchanges.

CME's four partner exchanges together handle roughly 10% of daily global bitcoin volume, according to coinhills.com, though they account for around a third of bitcoin trading in dollars, which CME argues is the more important measure.

CME says it has taken steps to combat manipulation. The index that underpins its futures contract is based on trades executed over a one-hour period each day, with anomalous trades tossed out. CME also is working to add more bitcoin exchanges to its index, a CME spokeswoman said.

Cboe's contract uses a price determined in a daily auction at Gemini. Gemini data show its daily auction volumes this year have averaged $1.3 million -- a drop in the bucket of global bitcoin trading, which runs into the billions of dollars daily. Gemini's auction process also has failed to produce a price several times in recent months, on lightly traded weekends or holidays.

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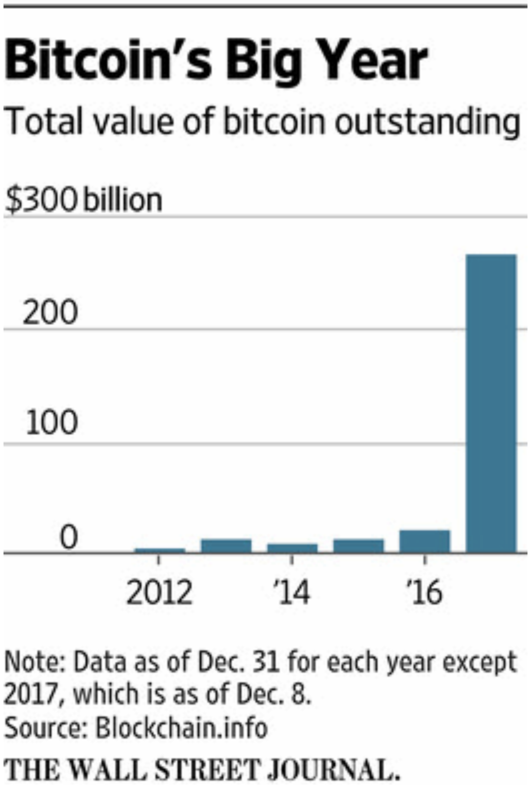
Telis Demos and Peter Rudegeair contributed to this article.



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**U.S. News: In Polls, Economy Is a Bright Spot for Trump**

By Eli Stokols
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11 December 2017
The Wall Street Journal
J
A4
English


Although President Donald Trump's overall approval ratings have dropped to the lowest point of his presidency, he is getting significantly higher marks in one important area: his handling of the economy.

With the U.S. unemployment rate holding at a 17-year low, hiring strong and the **stock market** hitting regular records, Mr. Trump is getting stronger reviews from the public on the economy, with 42% approving and 37% disapproving, according to the most recent Wall Street Journal/NBC News survey, conducted in late October.

That stands in stark contrast to his overall approval rating, which dropped last week to 32%, the lowest point of his 11-month presidency, according to a Pew Research Center poll. His disapproval rating of 68% in the same survey was also a new high.

The WSJ poll showed the president with a 38% approval rating, his lowest to date in this poll, while 58% disapproved of his overall performance.

A Gallup survey from November showed the president's approval rating for his handling of the economy at 45%, eight points ahead of his overall approval number, which sagged to 37%.

"He's a political contortionist in that he has high economic numbers and very low personal approval ratings. That's almost impossible to do," said Peter Hart, a veteran Democratic pollster.

On Friday, the White House celebrated the December jobs report that showed the economy gaining 228,000 jobs in November.

"President Trump's bold economic vision continues to pay off," White House Press Secretary Sarah Huckabee Sanders said in a statement that also referenced an increase in manufacturing jobs since the president took office. "As we continue to unleash the American economy from unnecessary regulation and taxes, we look forward to seeing more reports like this, showing a healthy and thriving jobs market for the American people."

The president expects to sign a final version of the GOP's $1.4 trillion tax overhaul before the end of the year. White House political director Bill Stepien, who didn't respond to a request to comment, has expressed confidence in the past that strong economic numbers, especially in the states Mr. Trump won in 2016, will be enough to help him overcome other political liabilities.

"The issues that drove the 2016 election -- change Washington and fix the economy -- continue to break President Trump's way. Today's strong economy is a bulwark for the party in power as it faces the electorate next year in congressional elections,"" said Bill McInturff of the Republican polling firm Public Opinion Strategies. Mr. McInturff directs the Journal/NBC News poll with Democrat Fred Yang.

Mr. Hart isn't so sure. He pointed to a recent focus group he conducted with North Carolina voters. He said they were less willing to forgive Mr. Trump's sometimes controversial behavior amidst a strong economy than they were with President Bill Clinton two decades earlier.

"During the Clinton impeachment, people said, 'Look, the economy is doing fine.' They weren't in a mood to pursue impeachment," Mr. Hart said. "What's different now is the country is looking for an equilibrium and the president keeps the country constantly on edge. There's never enough of a lull for voters to get their breath and say, 'I'm comfortable.' And that's why Trump doesn't get the full political benefit of the economic growth."

Some administration allies have been trying to impress upon the president and his communications team that he would be in a stronger position if he created fewer distractions with his tweets, according to people familiar with those conversations.




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The New York Times

Business/Financial Desk; SECTB
**The Fed Signals A Rate Increase. But Then What?**

By BINYAMIN APPELBAUM
1,331 words
11 December 2017
The New York Times
NYTF
Late Edition - Final
1
English


WASHINGTON -- The Federal Reserve is expected to end the year by raising its benchmark interest rate for just the fifth time since the financial crisis, as it continues to slowly unwind its post-crisis stimulus campaign. But pressures are building that could prompt the Fed to start moving a little more quickly.

Robust job creation in November is the latest sign of stronger economic growth, and it comes as Republicans are preparing a $1.5 trillion tax cut that President Trump has described as economic ''rocket fuel.''

The Fed is widely expected to acknowledge the strength of the economy by increasing its benchmark rate by one quarter of a percentage point on Wednesday, after its final policy meeting of the year. Investors, however, already are looking beyond that decision. They want to know what comes next and whether the Fed, which will soon have a new chairman and several new governors, will deviate from the patient approach of the current Fed chairwoman, Janet L. Yellen.

The Fed predicted in September that it would increase rates three times in 2018 and two more times in 2019. On Wednesday, the Fed is also scheduled to release a new round of economic projections. Some Wall Street analysts expect stronger growth will push the Fed to add at least one rate increase in each of those years.

''Most F.O.M.C. members had not built tax reform into their September projections, and progress has been much more rapid than they (or we) expected,'' Seth Carpenter, chief United States economist at UBS, wrote in a research note, referring to the Fed's policymaking arm, the Federal Open Market Committee.

He said the Fed was likely to predict faster growth, less unemployment -- and more rate increases.

The pace of increases has broad implications for the economy. The Fed held interest rates at a low level after the financial crisis to stimulate economic growth by encouraging investors to take risks and consumers and businesses to borrow money. By increasing rates, it is reducing those incentives.

The Fed is trying to keep growth at a sustainable pace. It does not want the economy to grow so fast that it drives inflation above 2 percent a year, and it does not want to stall the economy and cause a recession.

The first step is the easy one. The Fed has clearly signaled that it plans to raise rates on Wednesday. A measure of investor expectations derived from asset prices put the odds of an increase at 100 percent.

''I think conditions are supportive,'' Jerome H. Powell, the Fed governor who is awaiting confirmation as the Fed's next chairman told the Senate Banking Committee at a hearing last month. Still, Mr. Powell said, there must be a vote. ''We need to go ahead and have the meeting.''

The future is more difficult to predict. Fed officials already expected the economy to keep growing in 2018, and unemployment to keep falling. But economic reports in recent months have exceeded expectations, including Friday's estimate by the Commerce Department that employers added 228,000 jobs in November. That has raised the possibility that the economy is continuing to gain strength.

**Financial markets** have also shrugged off the Fed's efforts to tighten borrowing conditions. Rates on many loans have declined since the Fed's most recent rate increase, in June, and credit terms have loosened.

On the other hand, inflation remains oddly sluggish, up just 1.6 percent over the 12 months ending in October. That has prompted a debate among Fed officials. Most, including Ms. Yellen, expect inflation and wages to rise as worker availability dwindles. But a minority sees no harm in patience.

''Is there really a hurry to raise rates?'' Charles Evans, president of the Federal Reserve Bank of Chicago, asked in a recent interview. He said he worried the Fed was undermining expectations that it would take the necessary steps to raise inflation back up to its 2 percent target, which it has undershot for six years. ''What if we just decided to wait until the middle of the year and if we saw inflation pick up, then we could do something? I would say at the moment I think the current decision is really a judgment call.''

The pending tax cut is a complicating factor. Monetary policy influences economic conditions gradually. In adjusting interest rates, the Fed must anticipate the evolution of those conditions. It also faces political pressure from Republicans who do not want the benefits of their tax legislation to be offset by faster rate increases.

Mr. Powell tiptoed gingerly around tax cut questions at his confirmation hearing. He said that the Fed had not attempted to estimate the impact of the bills passed by the House and the Senate, and that it would not to seek to forecast that impact until the legislation became law.

''We will incorporate, when it's done, fiscal changes that are made,'' he said.

The presidents of some of the Fed's regional reserve banks have offered their own forecasts, generally in line with the consensus among independent economists that tax cuts would be likely to increase both economic growth and inflation by a modest amount in the short term.

Because some Fed officials think the economy is already growing at a pace that is likely to increase inflation over time, they have said that faster growth would not be welcome.

''I'm not in favor of tax stimulus at the current time because the economy doesn't really need it,'' William C. Dudley, president of the Federal Reserve Bank of New York, said late last month.

Economists at Goldman Sachs analyzed the Senate version of the tax cut using the Fed's economic model and concluded that it would add about 0.25 percentage points to economic growth for a few years, which could cause the Fed to raise rates by an additional half a percentage point above current projections.

Proponents of the tax plan argue that it will deliver a larger increase in economic growth, both in the short term, by increasing spending, and in the long term, by increasing investment.

But Fed officials have expressed skepticism about such forecasts. The government is planning to leave more money in taxpayers' pockets, and some of that money is likely to be spent. But most economists expect the benefits will be tempered by a large increase in the federal debt, driving up interest rates. The congressional Joint Committee on Taxation estimated in 2014 that every dollar of increased federal borrowing reduced private sector investment by about 15 to 50 cents.

Some proponents of the tax plan argue that interest rates will not rise, increasing the benefit. But Mr. Powell at his confirmation hearing indicated that he shared the conventional view.

Regarding the increase in the federal debt, he said, ''Either taxes will have to go up to pay for that, or you'll have even more debt, and that will crowd out private capital and private investment.''

The Fed is unlikely to give a complete account of its thinking on Wednesday.

Fed officials want to avoid taking sides in the final stages of the congressional battle over the tax cuts. The House and Senate are still in the process of reconciling the differences in their tax bills. Ms. Yellen, who is expected to step down in February, will hold her final scheduled news conference after the announcement, but she may defer questions about the future to her successor.

''Her comments will likely not be very interesting,'' said David Donabedian, chief investment officer of CIBC Atlantic Trust Private Wealth Management. ''She certainly does not want to stir the pot.''

Follow Binyamin Appelbaum on Twitter @bcappelbaum.

Jerome H. Powell, during his confirmation hearing to be the next Federal Reserve chairman, succeeding Janet L. Yellen. (PHOTOGRAPH BY TOM BRENNER/THE NEW YORK TIMES) (B2)

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The New York Times

THE WEEK AHEAD
Business/Financial Desk; SECTB
**Nafta Talks on Tap; A Vote on Net Neutrality**

By THE NEW YORK TIMES
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11 December 2017
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English


Here's what to expect in the week ahead:

TRADE

More Nafta talks, but not with the top negotiators.

The members of the North American Free Trade Agreement gather again in Washington this week to discuss the future of the trade pact. Negotiations have been tense, but two things may take the pressure off this time: The countries are not describing these so-called "intersessional" talks as an official negotiating round and they are expected to focus on making progress on areas of agreement, including digital trade and customs, rather than the most tendentious issues. The next official Nafta negotiating round will be held in Montreal from Jan. 23 to 28. Ana Swanson

W.T.O. members will gather in Argentina.

Officials from the 164 members of the World Trade Organization converge on Buenos Aires this week for a ministerial conference, their first such high-level meeting in two years. While the body is close to announcing an agreement on curbing government fishing subsidies, expectations are low for it to make significant progress in advancing free trade. Instead, the focus will probably be on the posture of the United States under the Trump administration, which has expressed skepticism about the effectiveness of the W.T.O. and similar international organizations. Ana Swanson

ECONOMY

Inflation is rising, slowly.

The Labor Department will release data on Wednesday on consumer prices for November. The low rate of inflation has been a persistent economic mystery in recent months, as falling unemployment and rising economic growth have failed to push up prices. The period of weakness could be nearing its end -- economists surveyed by Bloomberg expect the report on Wednesday to show that prices rose 2.2 percent in November from a year earlier, above the Federal Reserve's target of 2 percent. But the steadier "core" measure of inflation, which excludes **volatile** food and energy prices, has remained more muted. Ben Casselman

Fed expected to increase key interest rate.

Janet L. Yellen will most likely oversee her last major decision as Federal Reserve chairwoman on Wednesday. The Fed's policymaking committee, which meets Tuesday and Wednesday, is widely expected to announce an increase in its benchmark interest rate for a third time this year. The expected decision would lift the rate to a range of 1.25 to 1.5 percent. The Fed has been raising rates despite the weakness of inflation because unemployment has fallen to a low level and job growth remains strong. After the Fed's policy announcement, Ms. Yellen will hold her final news conference as Fed chairwoman. She plans to leave the Fed in early February. Binyamin Appelbaum

TAXES

Congress sets a single public meeting to discuss tax bill.

The lone public conference committee meeting on the proposed tax cut legislation will be held in the Capitol on Wednesday afternoon, when Republicans and Democrats from the House and Senate will gather to publicly debate a bill that the G.O.P. hopes to get to President Trump's desk by the end of the year.

The meeting, which begins at 2 p.m., is expected to feature Democrats airing their grievances against the legislation and Republicans espousing the merits of the proposals that have passed the House and Senate. Lawmakers are required to have one such public gathering, but most of the real negotiating about the final details of the tax plan will take place among Republicans behind closed doors. Alan Rappeport

ECONOMY

Analysts watch for European economic indicators.

Mario Draghi, the president of the European Central Bank, is not expected to make any major announcements on monetary policy when he holds his last news conference of the year on Thursday in Frankfurt. In late October, the central bank announced a significant reduction in its stimulus measures for the eurozone economy, and it would be a surprise if Mr. Draghi signaled any further steps so soon. But analysts will be paying close attention to the latest estimates for growth and inflation by the central bank's economists, which may offer clues about policymakers' view of the eurozone economy. Jack Ewing

Bank of England likely to maintain current interest rate.

The Bank of England was widely expected to keep its benchmark interest rate steady on Thursday after it raised its main rate last month for the first time in a decade. That rate increase to 0.5 percent came as the central bank tried to strike a balance between moderate growth and rising prices, particularly as the value of the pound has declined sharply in the 18 months since Britain's vote to leave the European Union, a process known as Brexit. Chad Bray

TECHNOLOGY

The F.C.C. is expected to repeal net neutrality.

The Federal Communications Commission will vote on Thursday on a proposal to repeal landmark broadband regulations known as net neutrality, rules that ensure an open internet. The plan, put forth by the commission's chairman, Ajit Pai, is expected to pass on a 3-to-2 party line vote. The reversal of the Barack Obama-era rules would free broadband providers to create new pricing tiers for the delivery of web content to consumers and to charge for faster and better quality video streaming. Mr. Pai has proposed that the broadband companies reveal their business practices and that the Federal Trade Commission police the industry for anticompetitive behavior. Cecilia Kang

ECONOMY

A look at retail's strength at the start of the holiday season.

On Thursday, the Census Bureau is scheduled to report retail sales in November. The sales data will indicate whether the Thanksgiving holiday shopping blitz at the end of the month was as strong as many industry estimates predicted it had been. Retail sales rose in October, reflecting a robust economy and high consumer confidence. Michael Corkery

MARKETS

'Quadruple witching' is coming. But don't be scared.

Investors shouldn't fear the so-called quadruple witching on Friday. The third Friday of the final month of every quarter brings the expiration of four types of derivative contracts: **stock index** futures, **stock index** options, single-stock futures and single-stock options. (Options give buyers the right to buy or sell stocks at predetermined prices in the future, while futures contracts obligate the buyer to purchase an asset at a set price and date.) Investors are warned that **volatility** can increase during a quadruple witching as traders adjust their positions. Yet despite the ominous-sounding name, **volatility** hasn't picked up on such occasions in recent years. The Chicago Board Options Exchange**Volatility** Index, otherwise known as Wall Street's fear gauge, or VIX, has declined more than half the time on such days since 2015, according to FactSet. Stephen Grocer

Janet L. Yellen
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**Business News: U.S. Firms Boosted November IT Hiring**

By Angus Loten
262 words
11 December 2017
The Wall Street Journal
J
B6
English


U.S. employers hired more information-technology workers last month, signaling strong demand by businesses across all sectors of the economy to leverage digital capabilities and other tech tools wherever possible, CompTIA reported Friday.

The number of new IT positions at companies outside of the technology sector rose by an estimated 243,000 jobs in November, after dropping by 77,000 the previous month, the tech trade group said.

For the year, IT jobs have grown by 223,000, following a series of ups and downs since January.

"There is a degree of uncertainty and **volatility** in the monthly occupation-level data," said Tim Herbert, the group's senior vice president for research and market intelligence. "The trend line over time is the more important indicator," he said.

The results are based on an analysis of the latest Bureau of Labor Statistics data, released Friday.

It shows nonfarm payrolls across the board rose by a seasonally adjusted 228,000 last month, a slight downturn from October, The Wall Street Journal reported. Unemployment held steady at 4.1%.

Jobs posting for IT project managers also rose in November, while software developers, computer systems engineers, architects and analysts were down. So far this year, employers have posted an estimated 2.1 million jobs for IT positions.

Separately, jobs within the IT sector rose by 8,100, driven by an upturn in hiring at IT and software-services firms and computer, electronic and semiconductor manufacturers.



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THE WALL STREET JOURNAL.
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**Wealth Management (A Special Report) --- Where to Put Your Money in the Next Year: Three financial advisers offer their thoughts on the opportunities -- and risks -- for 2018**

By Daisy Maxey
1,432 words
11 December 2017
The Wall Street Journal
J
R4
English


With 2017 coming to a close, can investors expect another stellar year for stocks? Not so fast.

The **Dow Jones Industrial Average** surpassed 24000 points this year thanks to solid earnings, steady economic growth, subdued inflation and a careful Federal Reserve. Next year, market watchers say, tax reform, possible pro-growth initiatives from the Trump administration and an improving global economy could all prolong the current **bull market** in stocks, though likely at a more muted pace.

There are risks, however, that could upend this upbeat scenario. These include increased **stock-market volatility**, an unexpected spike in inflation or geopolitical turmoil.

The Wall Street Journal spoke at length with three financial advisers about how investors can prepare: Shannon Eusey, founder and chief executive officer at Beacon Pointe Advisors in Newport Beach, Calif.; Ted Neild, president and chief investment officer at Gresham Partners in Chicago; and Paul Pagnato, founder and chief executive officer at PagnatoKarp in Reston, Va.

Here are edited excerpts of that conversation:

WSJ: What do you expect for markets next year?

MS. EUSEY: We believe the economy and the developed markets should continue their steady advance in 2018. However, the markets are priced for perfection and we think any disappointing news will increase **volatility**.

The reason for the continued growth is that profits are strong. Employment continues to be strong. But that hasn't translated into higher inflation. These all point to steady growth. We aren't seeing any signs of recession soon.

We're at historic lows in terms of **volatility**. So if we see any signs of an uptick of inflation, unemployment or any geopolitical concerns, we will see increased **volatility**.

MR. PAGNATO: We expect higher **volatility**. This year, the **S&P 500** didn't have a single day when it was up or down more than 2%. That's incredibly low **volatility**. We expect the increased **volatility** to come from the central banks reducing the liquidity from the system. We feel domestic equities could see single-digit returns, primarily driven by a global synchronized economy, continued earnings growth and outside surprises to come from tax reform.

We do expect some deregulation to occur, particularly in the financial industry, which would be a positive tailwind to the markets.

MR. NEILD: The economy's fundamentals are fairly positive. We just completed two consecutive quarters where GDP growth was over 3%.

We're finally getting to a stronger fundamental place from a corporate earnings perspective. And, unlike earlier years in the cycle, what we're seeing now is revenue growth. So this isn't just about productivity and cost cuts. We're seeing some headroom for earnings to grow because top-line revenue is growing.

Never say never, but it would be really hard for **volatility** not to increase. Think about all the geopolitical risk in the world today. The markets are shrugging off things that they probably shouldn't shrug off. And there is a sense of complacency out there that is a little bit troubling.

WSJ: Should investors cut back on stocks or boost their cash?

MS. EUSEY: Investors with a short time horizon should consider taking some money off the table if they don't think they can weather a market correction.

Cash positions for us are a passive byproduct of where valuations are, not an active decision to de-risk the portfolio. So cash will be raised as we can't find value in this market environment.

MR. PAGNATO: Valuations have been elevated for some time. And investors would have been penalized if they would have sold and went to cash. So we would not reduce equity exposure unless the client's portfolio is unbalanced.

MS. EUSEY: We're not raising cash solely based on valuation, but we want make sure every investment that we invest in has a margin of safety to the intrinsic value of the company. We are still finding value in the market in certain spaces.

MR. NEILD: Stocks are expensive. U.S. stocks, the **S&P 500**, more specifically, is trading around 18 times forward-four-quarter earnings -- which, if you look at historical perspectives, is well above average. But investors should recognize that high valuations are a notoriously bad predictor of market corrections.

WSJ: How should investors position fixed-income portfolios amid expected rate increases?

MR. PAGNATO: Investors should not abandon fixed income. We feel it is important to continue to maintain the discipline and have exposure there. The Federal Reserve raising short-term rates doesn't necessarily mean long-term rates will go up. We view bonds that are longer term as a hedge against a potential market correction or decline in equity markets.

MR. NEILD: We continue to recommend that either they avoid fixed income or hold near the bottom of the allowable range that's consistent with their broader investment policy parameters.

WSJ: Which **stock-market** sectors do you prefer now?

MS. EUSEY: Sectors that should relatively outperform if [President Donald Trump's] pro-growth initiatives go through are financials and materials. Other cyclicals, such as energy, should also benefit.

MR PAGNATO: Banks will benefit from the tax-policy changes, deregulation and higher interest rates. A great way to invest in the banking sector is through preferred stocks. Technology should continue to deliver above-average earnings and sales growth in sectors like retail, automobile, energy, hospital, hospitality, transportation and leisure. It is those companies that are digitizing, that are embracing the technologies that are quickly rising to the top.

WSJ: What's the biggest risk investors face in 2018?

MS. EUSEY: Equity valuations are stretched. The S&P cyclically adjusted price/earnings ratio is at 32, above where it was in 1929. The only time it has been higher was 1999.

MR. NEILD: You have elevated valuations across multiple markets. It's not just isolated equity markets.

MR. PAGNATO: The biggest risk is if we get an inverted yield curve [when long-term rates are lower than shorter term]. The last nine times the yield curve has inverted, we've gone into a recession.

WSJ: How much should investors allocate to foreign?

MS. EUSEY: We are recommending increases in that asset class. Parts of Southern Europe may still have underlying problems, but overall, the economies are improving there. The longer time horizon a client has for emerging markets, the better off they are, because the demographics are changing in a positive fashion.

MR. PAGNATO: We're recommending the average investor put 35% in foreign investments. Emerging markets are trading around 12 times earnings, whereas the U.S. is 18, 19.

MR. NEILD: We have a significant portion of our clients' portfolios allocated to international. In a traditional equity portfolio today, well over half. At the core, valuations in the U.S. are more stretched than in other places in the world.

 

WSJ: What effects will the corporate tax cut have on the economy and for investors?

MR. NEILD: There will be a positive effect on earnings for many publicly traded and privately owned businesses. It will have a significant effect on the perception of market valuations. In theory, companies will have additional capital for investment and hiring, but there is no requirement to deploy capital in this manner. But it could have a substantial beneficial impact on **stock-market** levels.

MR. PAGNATO: We are advising business clients to be on the lookout for any potential business expenses that can be escalated into the 2018 tax year. [The lower corporate tax rate] will be a stimulus for the economy. Consumers will have more discretionary income to spend. Businesses will have more cash flow and net income. This will lead to increased distributions to shareholders and more capital to reinvest in the business.

MS. EUSEY: While it should increase business and consumer confidence, the positive impact on the overall economy will likely be marginal at best. Corporations have quite a bit of cash. To spur economic growth, corporations will need to reinvest in their companies.

Will they take the profit for themselves as bonuses, or pay dividends, buy back shares, or will they hire, pay higher wages and make capital investments?

We haven't seen increased profits in recent years necessarily being used to grow businesses by investing in people or capital.

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Ms. Maxey is a Wall Street Journal reporter in New York. Email her at daisy.maxey@wsj.com.



Document J000000020171211edcb00020

THE WALL STREET JOURNAL.
U.S. EDITION

**Hispanic Entrepreneurs Need Tax Reform**

By Steve Cortes and Javier Palomarez
500 words
11 December 2017
The Wall Street Journal
J
A17
English


The two of us are good friends, and as leaders in the Hispanic business community, we have a lot in common. We don't always see eye to eye: As a Republican and a Democrat, we disagreed strongly in 2016. But we both recognize that Congress must enact meaningful tax reform.

In its present form, the tax code creates a burdensome barrier that inhibits innovators from launching new companies and prevents existing businesses from growing. Small-business owners regularly name regulations and taxes as their two biggest obstacles for growth. The Trump administration has already embarked on a policy of broad regulatory relief. Reducing the onerous tax burden is the final step to creating a pro-growth environment.

Today small business faces an almost confiscatory tax scenario, because most are taxed as individuals and face a top rate of 39.6%. Throw in state and local taxes and many Latino startups surrender over half their income to government. Home Depot co-founder Bernie Marcus wrote in the Hill newspaper last month, "I believe that if the Home Depot started today, overtaxation would have prevented it from achieving its current success."

Fortunately, help is on the way. The House's tax-reform bill drops the business tax rate to 25% and for small enterprises it lowers the rate to just 9% on the first $75,000 of income. It's hard to overstate how consequential this kind of policy can be for Hispanic opportunity.

Hispanics are incredibly entrepreneurial. Today there are about 4.4 million Hispanic-owned businesses in the U.S., and this year they are projected to contribute $700 billion to the American economy. These businesses are growing at twice the rate of all U.S. companies, according to the U.S. Hispanic Chamber of Commerce. Data from American Express also show a 224% increase in Latina-owned businesses between 1997 and 2015.

Now that the House and Senate have passed tax bills that put growth first, we recommend they take two further steps. First, advance through conference quickly so that the American people can reap the benefits of economic acceleration sooner. Second, make the final bill as pro-small-business and pro-employer as possible, so that the recent economic momentum -- seen in optimistic CEO surveys, rising consumer confidence, and a record-shattering **stock market** -- only grows.

To keep the American Dream a reality, Congress needs to expedite this substantive tax reform. This catalyst can ignite success among all Americans, and particularly within our community, the fastest-growing and most industrious in the U.S. The right policies, combined with a growing economy, could create a new wave of prominent Hispanic entrepreneurs and businesses. And everyone would benefit from such empowerment.

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Mr. Cortes, a Fox News contributor, served on the Trump campaign's National Hispanic Advisory Council. Mr. Palomarez is president of the U.S. Hispanic Chamber of Commerce.



Document J000000020171211edcb00006

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
**A Brexit Breakthrough That Isn't**

By Richard Barley
486 words
9 December 2017
The Wall Street Journal
J
B11
English


[Financial Analysis and Commentary]

The U.K. is hailing a Brexit breakthrough. It is more a small step toward confronting even bigger political, financial and economic issues.

After six months of talks, the agreement between the U.K. and the European Union struck Friday settled a few thorny issues largely on the EU's terms. The U.K. will pay for hefty financial obligations to the EU, and the two sides agreed to respect each other's citizens' rights.

A fudge on the future of the border between Ireland and Northern Ireland has postponed one of Brexit's hairiest obstacles.

Now starts the discussion on even bigger issues related to the future U.K.-EU relationship.

This is where the consequences are still hard to predict for the economy and **financial markets**.

A lack of an agreement, of course, would have been worse news for markets. The pound, the key Brexit barometer, gained earlier this past week as expectations of a deal built and is now up 9% this year against the U.S. dollar.

U.K. government bond yields rose Friday, too, as the risk of a breakdown in talks and a shock to the economy has fallen.

Friday's agreement should pave the way for the two sides to negotiate a transitional agreement that buys time to deal with talks on trade, rather than leaving the U.K. facing an abrupt exit in March 2019.

Brexit uncertainty has dogged the U.K. economy, which has missed out on the strong global growth this year.

Greater confidence among businesses and consumers about Brexit could help the U.K. benefit more from the uplift among its biggest trading partners. But answers to huge questions, especially on London's status as a financial hub, remain as uncertain as ever.

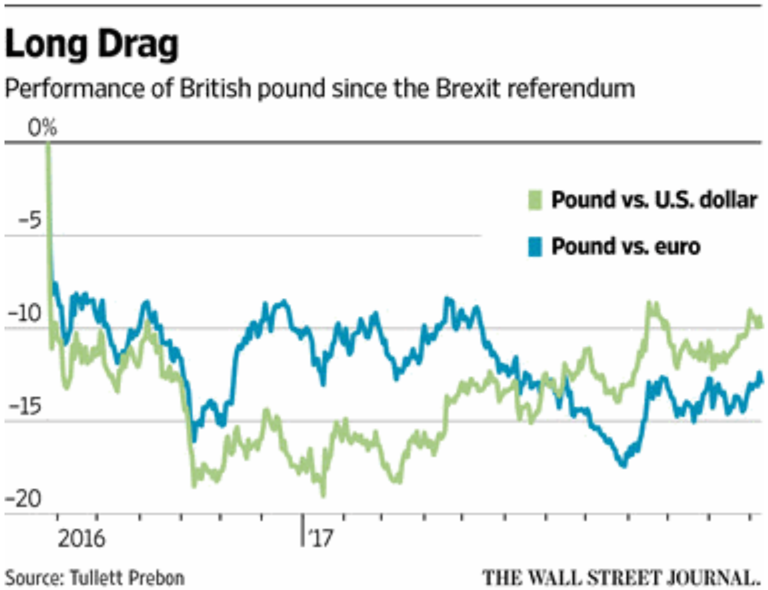
Ultimately, the U.K. has still to decide what it wants for the future. Close alignment with the EU will limit its ability to strike trade deals elsewhere.

European Council President Donald Tusk proposed Friday that for the transition period, the U.K. should be bound by the EU's rules while having no input into them.

Were that to be the ultimate endpoint for the U.K. outside the EU, it is a position that is unlikely to please either those who voted to leave or to remain.

The Irish border question is far from being solved, too; it is likely to return as a key issue in determining Brexit. The hard decisions thus lie ahead. So it is perhaps fitting that the pound, trading just below $1.35 and 1.15 euros, is close to where it was in the immediate aftermath of the June 2016 vote.

There has been progress, but not that much progress. There is still a long way to go on the road to Brexit.

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THE WALL STREET JOURNAL.
U.S. EDITION

**Bitcoin Futures Ready to Roll Out --- Intense interest in the new, risky market is seen by brokers; wild rides are likely**

By Alexander Osipovich
639 words
9 December 2017
The Wall Street Journal
J
B1
English


The first U.S. bitcoin futures are being launched this weekend, a development that will let risk-loving traders make leveraged bets on bitcoin, amplifying their wins and losses in an already **volatile** asset.

The start of the futures contracts will also let investors add bitcoin to their portfolios through the same electronic brokerages they use to trade stocks and options. And futures will allow people who think bitcoin is overpriced to "short" it -- bet its price will fall.

"Cryptocurrency is already so **volatile**," said Aitan Goelman, a former head of enforcement at the Commodity Futures Trading Commission. "If you're futurizing it, it's like adding rocket fuel to the **volatility**."

Brokers say retail investors have shown intense interest in the new market. The first U.S. bitcoin futures are set to start trading Sunday on an exchange run by Cboe Global Markets Inc., while CME Group Inc. plans to launch a rival contract on Dec. 18 at its Chicago Mercantile Exchange.

"We're seeing more calls coming in and asking for information and confirmation that we plan to support this product than for any futures launch in recent history," said Nick LaMaina, a senior vice president at TradeStation, an online brokerage that plans to support both exchanges' products.

Trading bitcoin futures doesn't involve holding units of the digital currency. Instead, a futures contract is a bet on what the price of the underlying asset will be when the contract expires. The first bitcoin futures contract that Cboe plans to list expires the afternoon of Jan. 17, 2018.

So if you think bitcoin will rise by mid-January, you can buy the contract, or go "long." If you're **bearish** on bitcoin, you can sell it, or go short.

To do this, you need to set up a futures brokerage account and put some cash in it. This is called margin by futures traders, and it is the key to making those leveraged bets that can result in either supersize profits or losses.

Every futures contract has its own minimum margin requirement. Exchanges demand greater margin for more **volatile** contracts, which forces traders to put more cash down to place riskier bets.

For instance, to buy or sell CME's main crude-oil futures contract, traders must post about 4% of the value of the contract. Bitcoin is so **volatile** that CME is requiring traders to post 35%.

Suppose Cboe's bitcoin futures are trading at $10,000. Cboe has a minimum initial margin of 44%, so to buy one contract -- representing one bitcoin -- you would need to post $4,400 in your brokerage account. (In fact, you may need to post a bit more than that, because brokers can charge extra margin beyond the exchange minimums.)

After that, if Cboe bitcoin futures jumped to $11,000, your long position would profit and your broker would shift $1,000 into your account. So you would enjoy a 23% return on your initial investment of $4,400 -- more than double the 10% move in the market.

On the flip side, suppose Cboe's bitcoin futures fell to $9,000 instead. Then your broker would take $1,000 from your account. Thus a 10% drop in the market would become a 23% negative return for you.

If bitcoin futures fell far enough, you could lose the whole $4,400 and owe additional money to your broker.

There are some built-in protections. For instance, both CME and Cboe will have circuit-breakers for their bitcoin futures that freeze the market if it swings up or down 20% in a day.

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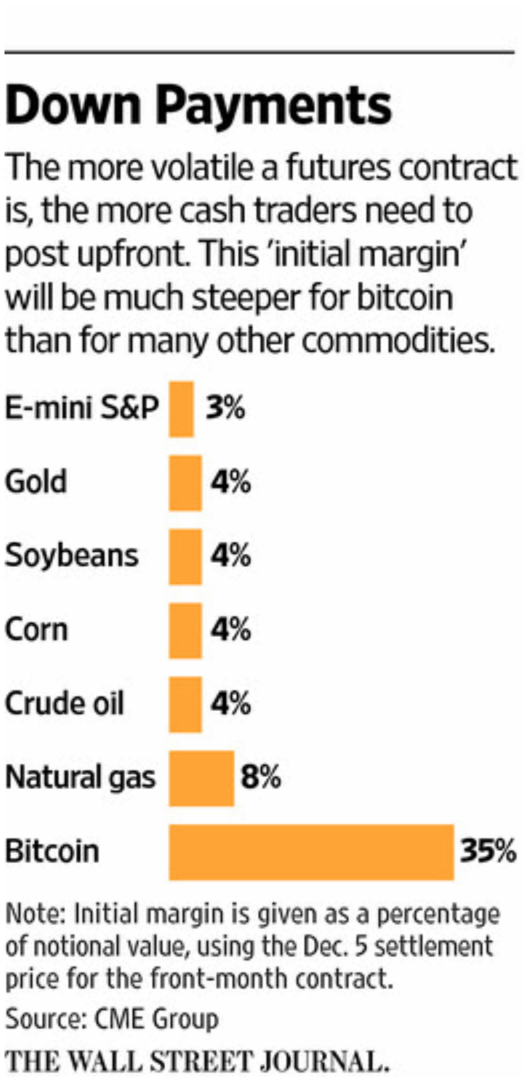
Gabriel T. Rubin contributed to this article.

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THE WALL STREET JOURNAL.
U.S. EDITION

**Hiring Growth Powers Economy --- Employers boosted payrolls in November, adding to evidence of expansion's strength**

By Eric Morath
1,069 words
9 December 2017
The Wall Street Journal
J
A1
English


WASHINGTON -- The U.S. economy is hitting milestones not seen in more than a decade, marked by robust hiring that has led to low unemployment and a sustained pickup in output.

Labor Department data Friday showed nonfarm payrolls rose a seasonally adjusted 228,000 in November -- the record 86th straight month of expansion -- after a 244,000 gain in October. Steady hiring has in turn driven the unemployment rate down to 4.1% for two straight months, holding at a 17-year low.

That would put economic output on track for a third straight quarter of near 3% growth, a breakout, for now at least, from a long period of 2% growth. The economy hasn't delivered three straight quarters of growth at or above 3% since a period from mid-2004 to early 2005.

The economy has stumbled at other points in the eight years since the recession ended and might do so again, but it appears at the moment to be on especially firm footing.

Hiring slowed after hurricanes in August and September but has powered back. Meanwhile business investment is accelerating, stocks have hit records, consumer confidence remains strong, and the rest of the global economy is on an upswing. Economic growth accelerated in Europe during the summer months and Japan is experiencing its longest sustained expansion in 16 years.

"Globally everyone is running in the same direction," said Gregory Daco, economist at Oxford Economics. "That sets up global growth in 2018 to be the best since the crisis."

Investors greeted the latest jobs news as another sign the economy is advancing at a robust and sustainable pace. The **Dow Jones Industrial Average** closed up 117.68 points Friday, or 0.49%, at 24329.16.

One gray mark in Friday's report was wage growth. Average hourly earnings for private-sector workers increased five cents last month after declining in October. Wages were up 2.5% from a year earlier in November -- near the same lackluster pace maintained since late 2015.

The low jobless rate might mean workers are finally getting the bargaining power to start demanding and winning higher wages, though longer-run forces are helping to hold wages in check. Well-paid baby boomers are being replaced by lower-earning millennials and the development of a global labor market means factory workers in Ohio compete with those in China.And still soft inflation makes it hard for companies to pass along wage increases to customers.

Sparkhound LLC, a Baton Rouge, La., technology company that helps clients migrate their data to cloud storage, is hiring, including recently doubling the size of its more-than 50-person Houston office.

General Manager Dave Baxter said the company is seeing pressure to raise wages for workers with technology skills -- but it is having difficulty passing along cost increases to clients, especially because its services are sold as a cost-saving technology.

To respond, Sparkhound focuses most of its hiring on less experienced workers, who command lower salaries, and partners five or six of those workers with a seasoned veteran.

"Baton Rouge is a tough market to find experienced people," Mr. Baxter said. "We're trying to get some folks fresh out of school."

It is hard at this point to pinpoint how much of the apparent economic uptrend can be attributed to policies coming out of Washington and how much is due to other factors. The Trump administration points to its efforts to cut taxes and pare back business regulation. But other factors -- such as long-delayed economic recoveries in Japan and Europe -- are also likely independently at play.

Some executives say tax cuts will help if they happen.

Laurel Highland Total Communications, a cable and phone company that operates in rural areas of Pennsylvania, has kept its staff lean in recent years in response to a lackluster economy in the region and burdensome regulations, said Chief Executive Jim Kail. The company is looking to add a few workers to its 65-person staff.

"If the corporate rates go down, that frees up a lot of cash. We'd be looking to hire and make investment in equipment," Chief Executive Jim Kail said.

Megan Greene, economist at Manulife Asset Management, doubts the tax plan will boost economic growth in the longer run. Business investment incentives, she notes, phase out after five years.

"It could be a short-term sugar hit that will stoke the **stock market**, but not set us up for sustainable growth moving forward," she said.

In the near-term, a combination of low unemployment and modest wage growth and inflation is likely to keep the Federal Reserve on a path of gradually pushing up short-term interest rates, including another rate increase at the Fed's next policy meeting next week.

Central bankers could become more inclined to push rates up at a slightly faster pace next year if the job market keeps cranking out strong monthly gains. In September, Fed officials forecast the unemployment rate would end this year at 4.3%, and end next year at 4.1%, meaning the job market has already hit the milestones officials thought would take an additional year to reach.

"The Fed has to be cognizant of the fact that if we run employment at 4%, inflation could rise above their 2% target," said Gus Faucher, economist at PNC Financial Services. "If they let unemployment get too low, they may have to raise rates more aggressively, and that risks causing a recession."

Another risk is that **financial markets** overheat even as the real economy seems to be on strong and sustainable footing.

The unemployment rate was last below 4% in late 2000, just as a technology bubble was entering its last phases. A recession began in March 2001.

A broad measure of unemployment and underemployment that includes Americans stuck in part-time jobs or too discouraged to look for work ticked up to 8% in November, but remained near the lowest level since 2006. Meanwhile, the share of the population between 25 and 54 years old that has a job, 79%, touched the highest level since the recession ended in 2009.

Those figures suggest there are relatively few Americans left to be drawn off the sidelines of the labor market.

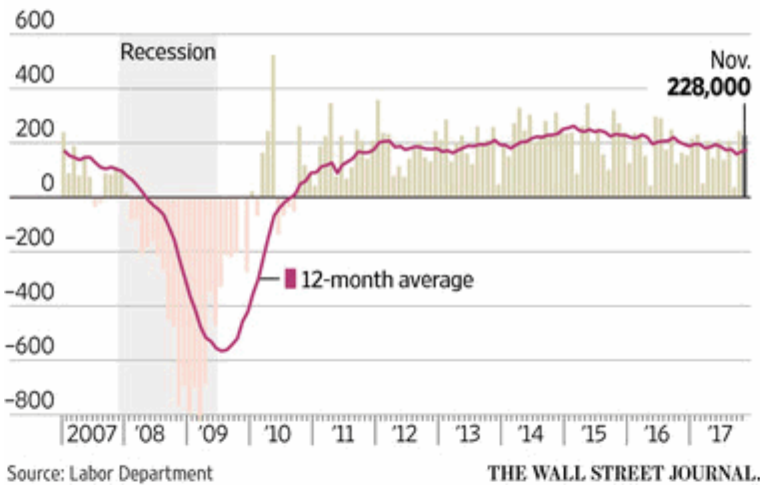
 

## Consistent Improvement

Employers are steadily adding jobs more than eight years into the expansion, helping push unemployment to a 17-year low.

**Total nonfarm jobs**

Change from a month earlier, in thousands of jobs




## Waiting on Wages

The unemployment rate reached 4.1%, the lowest level since 2000. But wage growth remains subdued.

**Unemployment rate**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Document J000000020171209edc90002s

 

The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
**U.S. Jobs Report Helps Keep S.&P. 500 Pointing Up**

By THE ASSOCIATED PRESS
846 words
9 December 2017
The New York Times
NYTF
Late Edition - Final
5
English


Stocks rose Friday following a better-than-expected U.S. jobs report, and the strong finish pushed the **Standard & Poor's500 index** to its third straight weekly gain despite some weakness earlier in the week.

The gains were widespread, and telecom and health care stocks helped lead the way. Overseas markets were also higher after negotiators hit a breakthrough in the United Kingdom's efforts to leave the European Union.

The **S&P 500** rose 14.52 points, or 0.6 percent, to finish at 2,651.50, another record. The **Dow Jonesindustrial average** gained 117.68, or 0.5 percent, to 24,329.16, and the **Nasdaq composite** rose 27.24, or 0.4 percent, to 6,840.08.

The U.S. jobs report, which is the economic highlight of each month, showed that employers added 228,000 jobs last month and the unemployment rate remained at a low 4.1 percent. It's the latest evidence that the U.S. economy continues to improve, in sync with the rest of the world.

Paychecks, though, have not been getting much bigger, and hourly wages rose less last month than economists expected. Higher pay would help workers spend more, but it could also lead to higher inflation.

"The way risk markets are looking at it is it's very much a Goldilocks environment: still muted or low inflation and very positive growth," said Erin Browne, head of asset allocation at UBS Asset Management.

She said that it's encouraging that an area of strength in the job market is the manufacturing industry. It's an indication that companies are spending more on equipment and other things to grow, something that economists had been waiting years to see.

The jobs report is the last major piece of economic data before the Federal Reserve meets next week to discuss interest rate policy. Most economists expect it to approve the third increase in short-term rates for the year.

Biotechnology stocks helped lead the market, and health care stocks in the **S&P 500** rose 1.1 percent for one of the biggest gains of the 11 sectors that make up the index.

Alexion Pharmaceuticals jumped $7.68, or 7.2 percent, to $114.46 for the biggest gain in the **S&P 500** following a report from The New York Times that an activist hedge fund has bought shares in the company and pushed it to do more to lift its **stock price**.

Technology stocks in the **S&P 500** rose 0.4 percent. The industry has been the market's biggest winner this year, but it had stumbled recently as investors moved out of tech stocks and into companies seen as benefiting more from Washington's push to overhaul the tax code, such as financial companies and retailers. The pullback was short-lived, and tech stocks erased their losses for the week.

Another potential source of worry for investors dissipated after Congress passed a spending bill that will prevent a government shutdown this weekend. The deal keeps the government running only until Dec. 22, though, when another deadline looms.

Stock markets in Europe climbed after negotiators reached a key agreement that allows talks to continue to the next stage for the United Kingdom to leave the European Union. Investors are hoping for a smooth exit that does not disrupt global trade.

In Germany, meanwhile, political parties agreed to open talks that could renew Chancellor Angela Merkel's governing coalition. That helped Germany's DAX index gain 0.8 percent. The FTSE 100 in London rose 1 percent, and France's CAC 40 gained 0.3 percent.

Japan's Nikkei 225 index jumped 1.4 percent, the Hang Seng in Hong Kong gained 1.2 percent and South Korea's Kospi rose 0.1 percent.

The price of oil continued to recover from its sharp loss in the middle of the week. Benchmark U.S. crude gained 67 cents to settle at $57.36 per barrel. Brent crude, the international standard, rose $1.20 to $63.40 per barrel. That helped energy stocks in the **S&P 500** rise 0.9 percent.

Natural gas added a penny to $2.77 per 1,000 cubic feet, heating oil gained 3 cents to $1.93 per gallon and wholesale gasoline added 2 cents to $1.72 per gallon.

Gold slipped $4.70 to settle at $1,248.40 per ounce, silver rose 2 cents to $15.82 per ounce and copper added a penny to $2.98 per pound.

The yield on the **10**-**year Treasury** note held steady at 2.37 percent.

The dollar ticked up to 113.51 Japanese yen from 113.13 yen late Thursday. The euro dipped to $1.1768 from $1.1774, and the British pound slipped to $1.3398 from $1.3465.

CHART: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Friday. (Source: Reuters)

Document NYTF000020171209edc90004z

 

The New York Times

BREAKINGVIEWS
Business/Financial Desk; SECT
**Focus on Shareholders Holds Back U.S. Wage Growth**

By GINA CHON and CHRISTOPHER BEDDOR
450 words
9 December 2017
The New York Times
NYTF
The New York Times on the Web
English


Corporate America's shareholder-first ethos is holding back wage growth. The United States economy added a healthy 228,000 jobs in November, which was more than expected, but wage growth remained tepid. President Trump claims the Republican tax bill will lead to big raises, but most companies plan to spend any profit on buybacks and dividends.

The economy appears to be at full employment with a jobless rate of 4.1 percent, but that hasn't put pressure on pay yet. Average hourly wages were up 2.5 percent in November from a year earlier, the same pace that has prevailed for more than two years, the Bureau of Labor Statistics said Friday. Most analysts think the numbers virtually ensure that the Federal Reserve will raise interest rates by another quarter point next week, but a Goldilocks economy of modest wage growth should keep further tightening gradual and reassure markets.

Gary Cohn, Mr. Trump's chief economic adviser, told CNBC on Friday that tax cuts would usher in a long period of wage growth. The White House Council of Economic Advisers has said the proposed corporate rate cut to 20 percent from 35 percent, combined with full expensing for capital investments, would increase average household income by at least $4,000 a year after a decade.

Try telling that to the C suite. Many executives view repaying investors as a higher priority than increasing wages or hiring. Honeywell, Coca-Cola, Amgen and others have said they will use any tax windfall in part to increase dividends, buy back shares and repay debt. Hilton's chief executive echoed those comments on Thursday. A Business Roundtable survey of chief executives released Tuesday showed a slight drop in projected hiring for the next six months.

Companies are also worried about angering activist investors, who push to increase shareholder value through cost cuts and deals. Procter & Gamble, General Electric and Whole Foods are among the companies targeted this year. Activist campaigns at companies with a market value of at least $10 billion jumped by 66 percent in the first half of 2017 from the same period last year, according to ActivistMonitor.

Mr. Trump himself has made shareholder moves a barometer of his success. On Wednesday, he bragged that even before the growth that will come with tax cuts, the **stock market** ''has hit record highs 81 times since our election victory.'' When the market is king, workers tend to come last.

Gina Chon is Washington columnist, and Christopher Beddor is a columnist at Reuters Breakingviews. For more independent commentary and analysis, visit breakingviews.com.

Document NYTF000020171209edc900045

THE WALL STREET JOURNAL.
U.S. EDITION

**U.S. News: Weak Wage Growth Could Fluster Fed**

By Harriet Torry
343 words
9 December 2017
The Wall Street Journal
J
A4
English


The robust November employment report leaves Federal Reserve officials on track to raise short-term interest rates next week but complicates their decisions on the pace of increases next year and beyond.

The red-hot labor market could add to the case for picking up the pace of rate increases, coming on top of solid economic growth, rising stock prices and tax cuts on the horizon. But continued modest wage growth and low inflation could argue for continuing to move very gradually, or even more slowly.

Fed officials are likely to raise their benchmark short-term rate next week by a quarter-percentage point to a range between 1.25% and 1.5%.

In September, they penciled in three similar moves in 2018, two in 2019 and one in 2020. They will release updated projections on Wednesday.

"Weakness in wages is what catches the eye," said Michael Feroli, chief U.S. economist for JPMorgan Chase & Co., pointing to the 2.5% annual increase in average hourly earnings. He said he sees about even odds that Fed officials will move more aggressively and raise rates four times next year due to the economic boost fueled by tax cuts.

Labor market gains have produced little acceleration in wage growth or inflation, underscoring a puzzle that complicates Fed policy decisions.

The Fed targets 2% annual inflation but has undershot that goal for the best part of 5 1/2 years. Its preferred inflation gauge, the price index for personal-consumption expenditures, was 1.6% higher in October than one year earlier, and just 1.4% higher with **volatile** food and energy prices stripped out.

Market participants are "reaching a bit of a decision point" about the expected path of rates next year, said Aaron Kohli, a fixed-income strategist at BMO Capital Markets, adding that investors will be watching Wednesday's release of the November consumer price index as closely as the Fed statement and projections.



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THE WALL STREET JOURNAL.
U.S. EDITION

**The Intelligent Investor: On the Random Walk, Collect a Few Orphans**

By Jason Zweig
864 words
9 December 2017
The Wall Street Journal
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B1
English


When just about everybody is using index funds to invest in the **stock market**, maybe you should think about thinking differently.

Over the 12 months ended Oct. 31, investors withdrew $218 billion from U.S. stock funds run by active stock pickers, while adding $273 billion to passive market-tracking mutual funds and exchange-traded funds, according to Morningstar Inc.

With more shares in the hands of people buying them regardless of whether they are cheap, the **stock market** feels increasingly unmoored from the classic bargain hunter's credo of "buy low, sell high." Many analysts and fund managers worry that this automated market could drive stocks to perilous heights.

However, the evidence that index funds are responsible for driving up stock prices is surprisingly thin.

Active mutual funds own nearly twice as much of the shares of hot companies like Alphabet Inc., Amazon.com Inc. and Facebook Inc. as passive funds do, according to research firm FactSet.

What's more, bitcoin is up more than 50% in a week, and index funds are nowhere to be found in the explosive run-up of the digital currency.

So, it's far from certain that passive funds are as dangerous as their critics contend.

Still, even if you keep most of your money in index funds, you may well buy a few stocks on the side. According to the Federal Reserve, 14% of households directly owned shares in at least one stock in 2016, up slightly from three years earlier.

Even Burton Malkiel, the Princeton University economist whose 1973 book, "A Random Walk Down Wall Street," spelled out the case for index funds, has put "a quarter to a third" of his money in individual stocks, if only "because it's fun."

An academic study found in 2008 that wealthier individual investors who directly owned only one or two stocks outperformed those who are more diversified by about 2 percentage points annually and up to nearly 6 percentage points when the stocks weren't in the **S&P 500**.

So, instead of just buying Amazon.com or Apple Inc., you might consider putting a small amount of money into "orphan stocks" that aren't held by index funds.

A company can be orphaned for several reasons, says Michael Venuto, co-founder of Toroso Investments LLC, a research and asset-management firm in New York.

It might no longer have enough stock outstanding to accommodate large investors. Some companies' shares have limited voting rights. A spinoff, carved out of a larger firm, often hasn't yet attracted a following.

At **S&P 500** companies, index funds hold an average of 17% of shares outstanding, according to FactSet; in the Russell 3000 index, encompassing thousands of smaller stocks, index funds hold an average of 16%.

Yet passive funds hold less than 5% of shares outstanding at 311 companies in the Russell 3000. Among those underowned by index funds: Daily Journal Corp., International Game Technology PLC, Lennar Corp.'s Class B shares, Maui Land & Pineapple Co., Pilgrim's Pride Corp., Southern Copper Corp., Speedway Motorsports Inc. and Viacom Inc.'s Class A shares.

What's more, most index funds and ETFs shun stocks with total market values below $100 million; many don't touch anything smaller than $250 million. Such microcap stocks trade too thinly for most big funds to own them.

An index fund of stocks not owned by any other index funds doesn't appear to exist, although it probably wouldn't be a bad investment idea.

"The companies that aren't in the ETFs have absolutely been abandoned," says Jim Boucherat, a portfolio manager at Pacific View Asset Management in New York, which oversees more than $70 million in microcap stocks.

He says many microcaps are trading close to book value and often for as little as four times the cash their businesses generate, fractions of what the stocks favored by index funds sell for.

Owning microcap stocks is not for the chicken-hearted.

In 2008, the smallest 10% of U.S. stocks lost 44%, including dividends, while the biggest 10th lost 36%, according to data from Dartmouth College finance professor Kenneth French. The next year, the tiniest U.S. stocks gained 45%, while the biggest went up 24%.

So far this year, microcaps have underperformed megacaps by nearly 7.5 percentage points.

Overall, since 1926, microcaps have outperformed the biggest stocks by an average of more than 3 percentage points annually, although some of that would have been eaten up by higher trading costs.

In a speech in 1963, the great investor Benjamin Graham said that "a minority of investors" can "get significantly better results than the average."

Graham added, "Their method of operation must be basically different from that of the majority of security buyers. They have to cut themselves off from the general public and put themselves into a special category."

The bigger and more popular index funds become, the harder that is. For investors who can be picky and patient, it might also turn out to be more lucrative.



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Business Day; Economy
**After 7 Years of Job Growth, Room for More, or Danger Ahead?**

By BEN CASSELMAN
1,371 words
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English


The economy's vital signs are stronger than they have been in years. Companies are posting jobs faster than they can find workers to fill them. Incomes are rising. The **stock market** sets records seemingly every month.

The latest evidence of the revival came Friday, when the Labor Department reported that American employers added 228,000 jobs in November. The unemployment rate held steady at 4.1 percent, the lowest since 2000. Job growth has slowed since its peak in 2014 but remains remarkably steady: For the first time on record, employers have added jobs every month for more than seven years — 86 months, to be precise.

"It's a really, really strong economy," said Tom Gimbel, chief executive of LaSalle Network, a staffing firm in Chicago. "Companies really want to take advantage of the economy, so they want to hire and get while the getting's good."

That strength could also pose challenges, particularly in light of the $1.5 trillion tax cut that Congress could pass as early as this month. Economists expect the tax bill to provide at least a modest lift to the economy — but they are not sure that's a good idea.

With unemployment so low and the economy fundamentally healthy, a tax cut could lead the economy to grow too quickly, pushing up inflation and forcing the Federal Reserve to raise interest rates faster than planned.

"It's a very poorly timed fiscal stimulus," said Joseph Song, an economist at Bank of America. "It kind of raises the risk of a boom-bust cycle."

For now, however, the figures present a political opportunity for President Trump, who ran for office on a promise to revive the American economy.

Economists almost universally say Mr. Trump has had little to do with the rebound, which began long before he was elected and has not accelerated meaningfully since he took office. But with unemployment low and wages beginning to creep upward, voters may be more inclined to give credit.

Sarah Huckabee Sanders, the White House press secretary, said on Friday that the jobs report was evidence that "President Trump's bold economic vision continues to pay off."

Wherever the credit lies, workers are benefiting from an economy that is delivering broad-based gains in income and employment for the first time in at least a decade. Groups that were left behind in the early stages of the economic recovery, such as African-Americans and people without a college degree, have seen their unemployment rates drop sharply in recent years.

And although wage growth remains disappointing, household income — which reflects not only hourly pay rates but also how many people have jobs and how many hours they are working — has shown strong gains, particularly for poorer households.

Companies in nearly every sector are reveling in the best opportunities they have seen in years. Improving global growth is giving a lift to manufacturers, which have added jobs for four straight months. Rising incomes and strong consumer confidence helped retailers, whose payrolls grew at the fastest pace since January despite the shadow of rising online sales. Even the fall hurricanes, which led to a short-lived slowdown in hiring in September, are now helping employment as Texas and Florida rebuild. The construction sector added 24,000 jobs in November.

So as far as the business climate, “maybe it’s not quite the best ever, but it’s pretty close to the best ever,” said Mike Bolen, chief executive of McCarthy Building Companies, a commercial construction company with offices across the country.

“Typically, we’ll have one region that’s really hot and one region that’s really slow, and right now, all five regions are just cooking,” he added. “Everything’s busy.”

Business could get even busier soon. The Republican tax plan aims to encourage business investment by cutting corporate taxes, which could increase demand for the big projects — hospitals, airports, office building — that make up a big part of McCarthy’s business. In fact, Mr. Bolen said, many clients are already making plans on the assumption that the legislation will pass.

“A lot of people are making decisions this year assuming that it’s going to happen,” Mr. Bolen said. “If it doesn’t happen, I think you’ll see some people pull back.”

The challenge for McCarthy, as for other builders, is finding the workers for their projects. A couple of years ago, Mr. Bolen said, job seekers would line up outside the gates of construction sites, hoping for a chance to work. Today, McCarthy is having so much trouble finding qualified workers that it is building a 10-acre training center outside of Houston and hiring staff members to teach construction skills.

“It’s a really big deal now, probably a bigger deal than I’ve ever seen it, and I don’t see it getting better,” Mr. Bolen said. “We are spending a lot of money and effort trying to train up the unskilled portion of our work force.”

The question vexing many economists is why, if labor is as scarce as Mr. Bolen and other executives claim, workers are not seeing bigger increases in their paychecks. McCarthy has raised pay, especially for people with specialized skills. But over all, wage growth remains restrained. Average hourly earnings were up 2.5 percent in November from a year earlier, only a bit faster than the rate of inflation.

“It’s still just creeping higher,” said Brett Ryan, an economist at Deutsche Bank in New York. “Wage growth is just not taking off the way we’ve seen in the past.”

That picture could change. Other measures of earnings, for example, show faster growth. And according to an analysis by Ian Shepherdson, chief economist for the forecasting firm Pantheon Macroeconomics, wages are rising faster in regions where the unemployment rate is lowest. That suggests that pay growth could accelerate if the unemployment rate continues to fall in 2018 as Mr. Shepherdson expects.

Companies are feeling more pressure to raise pay. For the first time in six years, chief executives surveyed by Business Roundtable, a coalition of big corporations, reported that labor expenses were their biggest cost pressure in the fourth quarter.

Catherine Barrera, chief economist of the online job site ZipRecruiter, said wages would pick up when workers gained the confidence in the economy to demand raises — and to change jobs if they do not get them. There are signs that could be happening. Nearly 9.5 million workers quit their jobs voluntarily in the third quarter, the most since 2001.

“If people are feeling really confident and comfortable with the labor market, they’re going to be more likely to seek that next opportunity,” Ms. Barrera said. “When we see that type of confidence, that’s when wages will grow.”

Rising pay would be good news for workers. But it could cause concern at the Federal Reserve, where policymakers have been gradually raising rates and paring the Fed’s bond holdings in a bid to keep inflation in check.

The Fed is all but certain to raise interest rates at its meeting next week, and has signaled plans to do so three times next year as well. But if inflation starts to pick up, the Fed could be forced to act more quickly than it wants, with unpredictable effects on **financial markets** and the economy.

“You could be looking at a combination in the summer of stronger growth, unemployment at 3.5 percent and still falling, and wage growth picking up as well,” Mr. Shepherdson said. “That requires a fairly substantial adjustment to markets.”

Follow Ben Casselman on Twitter: @bencasselman.

* Fed’s Evans Questions March Toward Higher Interest Rates

 

* Yellen Says Economic Expansion Has Gained Strength

* Trump Sells ‘Rocket Fuel’ Tax Plan as Economy Strengthens

* Will a Corporate Tax Cut Lift Worker Pay? A Union Wants It in Writing

A United Parcel Service driver in Seattle looking for a package inside his truck. E-commerce is fueling jobs at warehouses and delivery companies, though employment in the conventional retail sector also picked up in November. | David Ryder/Reuters

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**Streetwise: Growth Still Beats Value in Stock Fight**

By James Mackintosh
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Critics of the Trump tax plan accuse Republicans of a giveaway to billionaires, but the **stock market** gets more granular: Which billionaires? The immediate conclusion was that the winners were the Wall Street elite and the losers the Silicon Valley elite, as bank shares soared and tech stocks tumbled last week.

Under the surface there are two much deeper changes under way, and the important question is whether the tax plan marks the start of a long-run shift in prospects for stocks or was merely a trigger for an overdue rotation.

The scale of the rotation itself was phenomenal. Over the five days up to Monday, cheap U.S. stocks beat those with faster earnings growth by 3.7 percentage points, the most in such a period since the 2007-09 recession ended in the summer of 2009. Investors again began looking for value in the market, rather than paying up for expensive go-go growth stocks.

It is easy to assume this was purely about a lower corporate-tax rate. The biggest growth stocks are multinational tech companies that have ruthlessly exploited international tax dodges, so they won't gain much from a lower headline rate.

Alphabet, the parent of Google, set aside just 18% of pretax income to pay taxes so far this year, already below President Donald Trump's hoped-for 20% corporate rate.

The Russell 1000 Value index of cheap stocks is dominated by domestically oriented or physical-asset-owning sectors where it is harder to avoid taxes, including financial services, health care and utilities. All would see a tax cut.

Yet taxes are only part of the story. Just as important are the correction of short-term excesses in the market and the potential acceleration of the economy, and so of interest-rate rises.

One indicator that taxes weren't the only thing that matters comes from looking at cheap and expensive stocks within sectors. Andrew Lapthorne, head of quantitative equity research at Societe Generale, says value stocks also beat pricey stocks by the most since 2009 within sectors, and there is no decent tax explanation for why cheap financials or techs should beat expensive financials or techs.

"This was a value rotation," he says.

It seems obvious that the Senate tax approval was the trigger, but the market was ready for some froth to be blown off the biggest gainers.

Excess enthusiasm was obvious in growth stocks, and particularly the "FANG" group of Facebook, Amazon, Netflix and Google, up an average 59% this year by the start of this month. The **S&P 500** tech sector was up 39% before the selloff began, and had an unusually rapid and smooth period of gains toward the end of its rise. One popular measure of short-term momentum, the relative strength index, showed the S&P tech sector at its most overbought since at least 1990 late last month.

The best hope for those who like value stocks would be a shift to faster U.S. growth and inflation. Mr. Trump's economic team insist that tax cuts will feed through into higher wages, which in turn should boost inflation and prompt the Federal Reserve to raise rates more quickly. Even if critics are right that the White House calculations make no sense, the Fed is already planning to keep lifting rates, the labor market is tight, inflation is close to the target 2% and commodity prices have been rising since the summer. Investors still believe in low inflation for a very long time, but it is easy to see why that might change and push up bond yields.

This matters to tech and value stocks because tech and other growth companies tend to have their earnings far in the future.

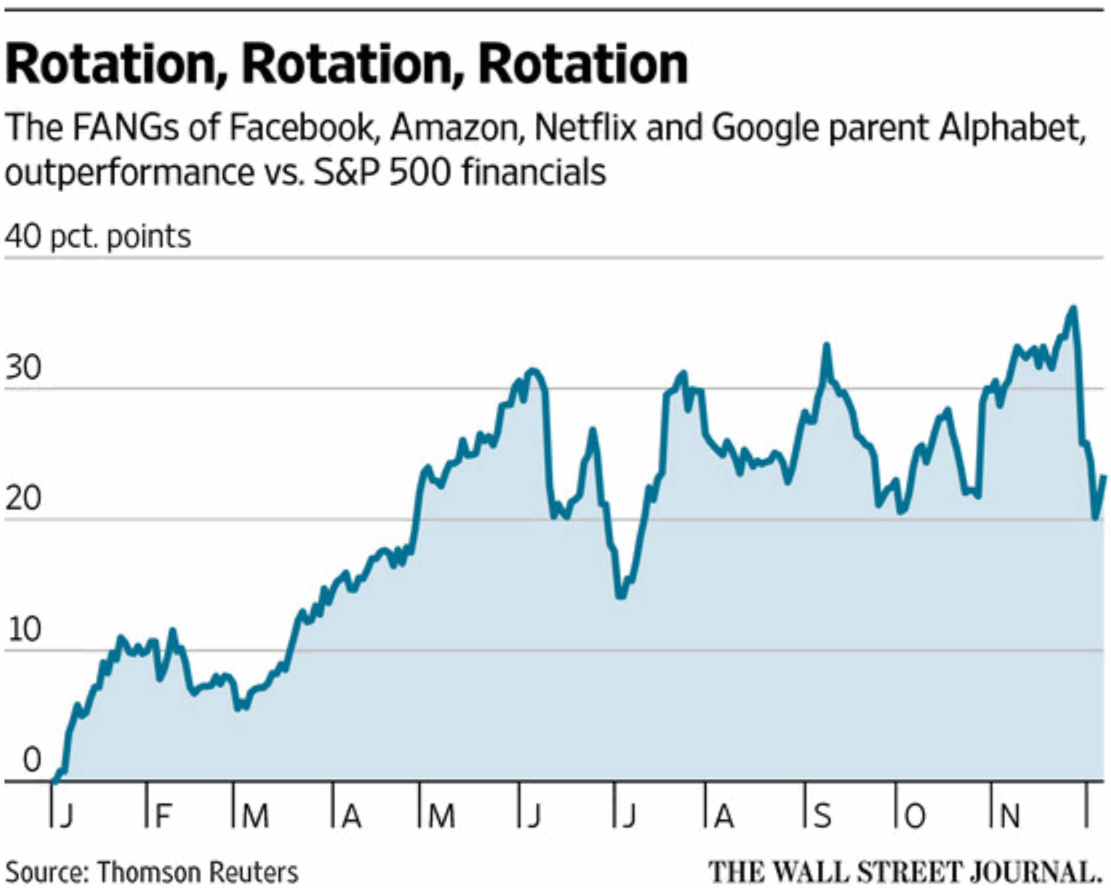
With higher rates, future earnings discounted back to today look less valuable, while the long-term problems faced by old-economy companies become less important as the focus shifts to how much they will make in the short term.

In other words, higher rates ought to make growth less appealing and value more appealing, all else equal.

Last week's tumble happened without any pickup in investors' inflation expectations, with Treasury bonds implying just 1.88% inflation over the next decade.

If the market comes to believe in inflation, it would create a fundamental reason for value to start performing.

Without that, the depressing truth for value investors is that the market's obsession with new technology has probably had only a brief interruption.

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The New York Times

Business/Financial Desk; SECTB
**Tech and Industrials Snap S.&P. 500's Losing Streak**

By THE ASSOCIATED PRESS
557 words
8 December 2017
The New York Times
NYTF
Late Edition - Final
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English


Stock indexes perked higher in the United States on Thursday following a nearly weeklong lull, and the **Standard & Poor's 500**-**stockindex** rose for the first time in five days.

Industrial and technology companies helped lead the way, as broad swaths of the market climbed. Nearly two stocks rose for every one that fell on the New York Stock Exchange, and the price of crude oil clawed back some of its sharp loss from Wednesday.

The **S**.**&P**. **500** rose 7.71 points, or 0.3 percent, to 2,636.98 and snapped its longest losing streak since March. Losses through that span were modest, though, with the index down only 0.7 percent.

The Dow Jones industrials average rose 70.57, or 0.3 percent, to 24,211.48, and the **Nasdaq composite** gained 36.47, or 0.5 percent, to 6,812.84.

The gains were a return to form for a **stock market** that earlier had been driving higher on expectations that Washington will push through an overhaul of the tax system. The Senate passed its proposal over the weekend, and its plan would create slightly different winners and losers among corporate taxpayers than the House of Representatives' version. This week, investors have been trying to shift to the areas of the market they see ultimately benefiting the most.

Stocks may continue to drift until investors get more clarity on what the final tax proposal will be, said Tom Stringfellow, chief investment officer at Frost Investment Advisors.

''The market has already been bid up on anticipation of this, and the real test will be what do both houses come up with and what is put on the president's desk to sign,'' he said.

Also, a strengthening global economy and climbing corporate earnings are supporting stock prices. ''We have seen so many positives flow through, from Europe to Asia to global trade,'' Stringfellow said. ''It's just those wild cards out there,'' such as a potential conflict with North Korea, that worry investors.

Technology stocks were some of the market's better performers, shaking off an uncharacteristic weak stretch. The industry stumbled earlier this week on expectations that it will benefit less from lower tax rates than financial companies, retailers and other areas of the market.

Tech stocks in the **S**.**&P**. **500** rose 0.6 percent, and they trimmed their loss for the week to 0.3 percent. They are up nearly 36 percent for the year, double the **S**.**&P**. **500**'s gain.

Energy stocks recovered some of their losses from a day earlier as the price of oil ticked higher.

Benchmark United States crude added 73 cents to settle at $56.69 per barrel and recovered a chunk of its $1.66 loss from Thursday. Brent crude, the international standard, rose 98 cents, or 1.6 percent, to $62.20 a barrel in London. That helped energy stocks in the **S**.**&P**. **500** rise 0.3 percent.

More evidence that the job market is strengthening also arrived after a government report showed that fewer workers filed for unemployment benefits last week.

CHART: The **S**.**&P**. **500 Index**: Position of the **S**.**& P**. **500 index** at 1-minute intervals on Thursday. (Source: Reuters)

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The New York Times

Business/Financial Desk; SECT
**DealBook Briefing: Bitcoin Surges Past $16,000**

2,213 words
8 December 2017
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NYTF
The New York Times on the Web
English


Good Thursday. Here's what is happening:

Morgan Stanley has fired Harold Ford Jr. for misconduct.

Bob Iger might stay at Disney a little longer.

Bitcoin Surges Past $16,000

Like what you see? Get the DealBook Briefing in your inbox each morning . Here's the sign-up.

Morgan Stanley has fired Harold Ford Jr. for misconduct.

The Associated Press reports:

Morgan Stanley on Thursday fired former Congressman Harold Ford Jr. following allegations of misconduct.

HuffPost reported Thursday that a woman alleged that Ford forcibly grabbed her one evening in Manhattan, engaging in harassment and intimidation. The incident took place several years ago and there are emails that confirm the interaction, HuffPost reported.

''He has been terminated for conduct inconsistent with our values and in violation of our policies,'' Morgan Stanley said in a statement.

In a tweet Ford denied the allegations. ''This simply did not happen. I have never forcibly grabbed any woman or man in my life,'' Ford wrote.

Ford joined Morgan Stanley in 2011 as a managing director. He was a Democratic congressman for Tennessee.

If you thought bitcoin had been **volatile** before...

Take a look at its move over the past 40 hours.

Late Tuesday one bitcoin traded around $11,700. Since then it has surged more that 60 percent, crossed eight millennial markers, and briefly surpassed $19,000.

The cryptocurrency has retreated since crossing $19,000 and was recently trading above $16,500.

Bitcoin was valued at less than $1,000 at the start of the year and has gained more than 15,000 percent so far this year.

Bob Iger might soon have a new reason to stay at Disney.

As Brooks Barnes put it in the NYT, the executive who replaces Mr. Iger as Disney's C.E.O. when his contract is up in 2019 may be Mr. Iger himself.

This time, the reason is that if Disney clinches a deal to buy huge chunks of 21st Century Fox, Mr. Iger would be needed to oversee integration of the operations.

Andrew adds:

I'm hearing that Rupert Murdoch is worried that if Mr. Iger were to leave in 2019, his replacement might not be as invested in the combined company and the various people who would join Disney.

Of course, staying longer also means that Mr. Iger wouldn't be able to run for president, as some expect him to. Cue gossip among media executives about whether this is a power play by Mr. Murdoch ...

All this highlights Disney's succession problem. News reports have said that James Murdoch, Fox's chief executive, who could join Disney, may eventually step up. (That idea isn't among the formal negotiating points between Disney and Fox.)

Don't forget Comcast: The cable giant is still talking with Fox (though Disney is in the lead). Bloomberg says Comcast's real targets are international assets like Fox's stakes in the Star media empire in India and the British broadcaster Sky.

And here's a lighter take on the Disney-Fox talks, courtesy of Paul Pendergass, formerly DealBook's "Jack Flack" columnist.

How much would a government shutdown cost...

About $6.5 billion a week, according to a report from S&P Global analysts. That would shave roughly 0.2% off fourth quarter gross domestic product each week the government is closed.

Congress faces a midnight deadline Friday to avert a partial government shutdown.

The House is scheduled to vote Thursday on a bill that would fund the government through Dec. 22. But drama built earlier this week over whether the House would have pass legislation to avert a shutdown as conservative members voiced their oposition.

The latest: House Speaker Paul Ryan suggested to the Associated Press that House Republicans have enough votes even if all Democrats vote against the measure. Representative Mark Meadows, Republican of North Carolina and chairman of the hard-line House Freedom Caucus, said the group will likely provide the Republican leadership with the needed votes.

What about the debt ceiling? The threat of a shutdown comes as the government runs up against its debt limit. Writes Beth Ann Bovino, S&P Global's chief U.S. economist:

"The dim shutdown scenario pales in comparison to a debt ceiling impasse. Congress suspended the limit through Dec.8, 2017. However, the debt limit will be reset on Dec. 9, and the Treasury Department will then have to begin taking its usual "extraordinary measures." Unless the debt ceiling is raised, the government will run out of money next spring, according to the Congressional Budget Office. Were this to happen, the seemingly even more implausible scenario of the Treasury being left with insufficient funds to meet it financial obligations would be a catastrophic one, albeit man-made."

Treasury Secretary Steven Mnuchin told Congress Wednesday that he will start using the "extraordinary measures" at noon on Friday.

UnitedHealth leads more upheaval in health care.

UnitedHealth's $4.9 billion takeover of a physician group from DaVita may not be as big as CVS's deal for Aetna. But it highlights how fast traditional boundaries in health care are dissolving.

UnitedHealth has been disrupting the industry for a long time. It already owns a pharmacy benefit manager and an outpatient services provider. Now the DaVita division will give it a doctor network.

Reed Abelson of the NYT quoted Craig Garthwaite, a health economist at Northwestern's Kellogg School of Management, on integration:

"There's no chance that the existing companies, be they hospital or insurers, have the right configuration of assets to be successful" at turning health care into a business where the parties are able to produce better outcomes at a lower cost, he said.

Critics' corner

 

Brooke Sutherland and Max Nisen write, "Steady diversification with small deals is the kind of strategy that can win this race." (Gadfly)

Charley Grant writes, "With cheap credit readily available and UnitedHealth's sparkling long-term returns as an inducement, the recipe for succeeding in health care is pretty clear." (Heard on the Street)

Extra credit: Barclays and Goldman Sachs will each lend CVS $20 billion as part of the Aetna takeover, the kind of big deal lending that was traditionally the province of JPMorgan Chase, according to the WSJ.

Is the tax overhaul starting to fray at the seams?

A lot is still being changed. And not everything is going well.

While Senate Majority Leader Mitch McConnell is open to keeping more generous state and local tax deductions, a deal with Senator Susan Collins of Maine to help prop up the Affordable Care Act has been all but rejected by House Republicans, potentially jeopardizing her final vote.

Meanwhile, Republicans are looking at cuts to social welfare programs like Social Security, Medicaid and Medicare to help pay for the bill -- unpopular moves that would come ahead of the 2018 midterm elections.

"Holy crap, what's this?": That's what Greg Jenner, a former top tax official in George W. Bush's Treasury Department, said of the tax legislation to Politico, describing how the new rules could be gamed.

How the business world is responding

Some analysts increasingly see no reason for investors to put more money into the **stock market** because of the tax legislation, since companies probably won't spend as much on buybacks as people think.

Meanwhile, Citigroup says that it expects a $20 billion hit to its profits under the proposal, though it still plans to return some $60 billion to investors over the next three years.

But one of the private equity world's biggest moguls is OK with the bill:

The Washington flyaround

· House Republican leaders believe they have the votes to avert a government shutdown. (Politico)

· Behind President Trump's decision to recognize Jerusalem as the capital of Israel: frustration from supporters like Sheldon Adelson. (NYT)

· Michael Flynn told a former business associate that economic sanctions would be "ripped up" in the Trump administration's first days, according to a whistle-blower. (NYT)

· Senator Elizabeth Warren is in the same camp as Mr. Trump on megadeals, an alliance that puts more pressure on big mergers. (Breakingviews)

Tech's big giants are turning on each other.

Spats like the one between Alphabet and Amazon -- in which YouTube was pulled from Amazon's Fire TV and Echo Show devices, and Amazon then appeared to stop selling Alphabet's Nest devices -- highlight a rise in the stakes as these companies battle for consumers' minds and money.

It's consumers who may lose out, the media analyst Dan Rayburn told the WaPo.

But Shira Ovide of Gadfly thinks that, in at least one case, tech companies should do more backbiting. She's urging Twitter and Snapchat to team up against Facebook:

Snapchat's rocky road in its first nine months as a public company has some echoes to Twitter's rocky road since its initial public offering in 2013. It's scary out there for each company on its own.

Who hacked Uber? A 20-year-old Florida man appears to have led the breach that resulted in the theft of millions of riders' data -- and then have been paid to keep quiet, according to Reuters.

 

Alexa, run my life: Katherine Bindley of the WSJ tried to see how much of her life she could outsource to Amazon products and services. Among her conclusions: "No matter how well the Echo Look functions, posing for it every morning is stressful."

The latest in sexual misconduct news.

Time named "the silence breakers" -- women and men who spoke about harassment and assaults they suffered from powerful men -- as its person of the year. (NYT)

Democratic senators including Chuck Schumer and Kirsten Gillibrand of New York have called upon Al Franken to resign. He could announce his plans to step down today. (The Hill)

Six women have filed a class-action lawsuit against the Weinstein brothers and several business associates. (NYT)

The venture capitalist Justin Caldbeck, who has been accused of misconduct, tweeted support for #MeToo. It didn't go over well. (Quartz)

The buyer of that controversial Leonardo painting is revealed.

It wasn't a famous art collector like Steve Cohen who paid $450.3 million at auction last month for "Salvator Mundi." It was a little-known Saudi prince with no history as a major art buyer, Bader bin Abdullah bin Mohammed bin Farhan al-Saud.

From David Kirkpatrick of the NYT:

Prince Bader splurged on this controversial and decidedly un-Islamic portrait of Christ at a time when most members of the Saudi elite, including some in the royal family, are cowering under a sweeping crackdown against corruption and self-enrichment.

As it happens, Prince Bader is a friend and associate of the leader of the purge: the country's 32-year-old crown prince, Mohammed bin Salman.

Bitcoin: now above $14,000.

And it's still rising. That has Wall Street keeping a close eye on the digital currency and associated technologies like the blockchain.

But Bitcoin is being hoarded like virtual gold, and that has downsides.

Here's what Brian Armstrong of Coinbase told the NYT:

"It's probably a little bit too focused on the price or people trying to make money," Mr. Armstrong said last week. "The thing I'm passionate about with digital currency is the world having an open financial system."

Roger Goodell has a new contract. What's next?

The N.F.L. finally agreed to give him a new $200 million deal, though nearly all that money is tied to financial targets. Something of an uneasy peace has descended upon the league's owners: Jerry Jones of the Dallas Cowboys had briefly threatened to sue over the negotiations.

More from Ken Belson of the NYT:

The committee had been working since May on the new contract, which would take effect in March 2019. The owners were eager to finish the deal before talks to renegotiate the league's labor and media deals begin in earnest in the next couple of years.

Caveat: The N.F.L. is far from in the clear. Ratings are still falling, critics are still worried about player safety and some fans are still incensed about player protests.

Revolving Door

Fraser Robinson, the top Uber deal maker who negotiated the company's investment from Saudi Arabia last year, has stepped down. (FT)

 

Quote of the Day

''This is nothing more than a calculated move by Philippe to oust me from the company, and limit my role going forward.''

-- Shari Redstone, in an email to Viacom associates, referring to Philippe Dauman, her main rival for control of her father's Viacom media empire.

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Business/Financial Desk; SECTB
**Bitcoin Has Exploded in Value, but What Comes Next?**

By NATHANIEL POPPER
1,148 words
8 December 2017
The New York Times
NYTF
Late Edition - Final
3
English


SAN FRANCISCO -- Bitcoin has been in a **bull market** like few the world has ever seen.

At the beginning of the year, the price of a Bitcoin was below $1,000. It hit $5,000 in October, then doubled by late November. And on Thursday, less than two weeks later, the price of a single Bitcoin rose above $20,000 on some exchanges, according to Coinmarketcap.

The latest price spike has been credited to signs that Wall Street companies plan on bringing their financial heft into the market.

At the current cost, the value of all Bitcoin in circulation is about $300 billion. To get a sense of how big that is, all the shares of Goldman Sachs are worth about $90 billion.

The gains have been driven by several other factors -- perhaps the most important being the irrational mentality that can take over in speculative bubbles.

But most people buying Bitcoin are doing so in the belief that others will want it even more in the future. The gains, though, have many people, even Bitcoin believers, anticipating a big crash.

Bitcoin used to be all about libertarians and black-market trade. Are those still driving the price?

The fringe communities that drove Bitcoin in its early years are playing a much less important role in the current rally.

Many investors have said the most important factor driving the current enthusiasm is the entry of hedge funds and other institutional investors.

The path for large investors has been smoothed by the Chicago Mercantile Exchange and Chicago Board Options Exchange, which have been racing to roll out Bitcoin futures contracts. Most banks are already signed up with these exchanges and consequently can immediately begin trading the contracts. The options exchange has said it plans to start trading on Sunday.

It is still unclear how the arrival of Bitcoin futures will influence the demand for the digital tokens.

With a futures contract, banks can bet on the price of Bitcoin without holding the underlying Bitcoins. This is expected to bring many new players into the market who don't want to deal with the complications of holding Bitcoins.

But the futures contract will also allow investors to short Bitcoin, or bet on the price's going down, which has been hard to do until now. Some analysts think this could put downward pressure on the price. Other market participants have worried that Bitcoin futures could spread the risks of Bitcoin into the rest of the financial system.

People still use Bitcoin and other virtual currencies to make ransom payments and buy illegal goods online, including synthetic opioids. But that activity has been on the wane since the authorities shut down some of the largest online black markets this year.

What role are smaller investors playing in the virtual currency markets?

Individual investors have been just as active as large investors.

Nowhere has the phenomenon of ordinary people buying virtual currencies been more visible than in South Korea, where several exchanges have storefronts to help new customers. This is all the more remarkable because just a year ago, Koreans showed almost no interest in these markets.

Small Japanese investors have also been investing in Bitcoin. They have been encouraged by laws passed this year that essentially legalized Bitcoin and allowed Bitcoin exchanges to get regulatory licenses.

In the United States, most small-time investors have gone to the San Francisco company Coinbase, which provides a Bitcoin brokerage service, similar to Charles Schwab, as well as an exchange for larger investors. Coinbase now has more account holders than Schwab, and it has struggled to keep up with the growth.

China used to be the most active country for Bitcoin trading and mining, but the authorities there have cracked down this year.

What are the dangers of getting into this market?

Many of the largest exchanges, including in South Korea, are essentially unregulated. The lack of oversight means that no one is checking that the exchanges are properly securing their customers' money or that large players are not able to manipulate the price. One of the largest exchanges in the world, Bitfinex, has been hacked numerous times and provides little transparency about where it is keeping its money.

Even regulated exchanges, like Coinbase in the United States, have not been battle tested like larger financial institutions, and their operations have gone down at key moments.

Once people buy Bitcoin or other virtual currencies, they are often targeted by hackers who have become experts at penetrating Bitcoin accounts. Bitcoin "wallets" are vulnerable to new kinds of attacks that are not a problem for ordinary financial accounts.

Most important, in contrast to money in a bank account, when a Bitcoin is gone there is essentially no way to get it back and no insurance covering its loss.

Are more people using Bitcoin to pay for things?

When Bitcoin was released in 2009, it was described as a new kind of electronic cash.

Recently, though, many programmers working on Bitcoin have said the system in its current form is not a particularly good way to pay for things. They argue that it is best designed to serve as a sort of scarce commodity, like digital gold, allowing people to keep their money outside the control of governments and companies.

Many people who want to use virtual currencies for online payments are looking to Bitcoin competitors, like Bitcoin Cash and Monero.

What role are the other virtual currencies playing in this frenzy?

Earlier this year, **bullish** sentiment was focused on Ethereum, a virtual currency network that is more adaptable than Bitcoin. The price of Ether, the virtual currency on the Ethereum network, has continued to rise in recent months, but not as fast as Bitcoin.

Many investors were also putting their money into custom virtual currencies released by entrepreneurs in so-called initial coin offerings. These new virtual currencies have generally been designed to serve as the internal payment mechanisms on new software the entrepreneurs are building.

This fall, though, regulators have signaled that they are planning to crack down on coin offerings.

Where did virtual currencies come from, and how do they work?

The Bitcoin software was released in early 2009 by a mysterious creator who went by the name of Satoshi Nakamoto. The search is still on for the true identity of Satoshi.

The software released by Satoshi set out the basic rules for Bitcoin and the computer network on which it lives. Unlike other forms of money, which are controlled by governments and financial institutions, Bitcoin operates on a decentralized network of computers that no one institution controls. For more details, see our Bitcoin explainer.

 

This is a more complete version of the story than the one that appeared in print.

Follow Nathaniel Popper on Twitter: @nathanielpopper

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THE WALL STREET JOURNAL.
U.S. EDITION

**Bitcoin's Wildest Rise Yet: 40% in 40 Hours**

By Paul Vigna and Steven Russolillo
1,017 words
8 December 2017
The Wall Street Journal
J
A1
English


Bitcoin mania reached new highs Thursday as the price of the digital currency jumped about 40% in 40 hours, smashing through five separate $1,000-barriers and surging past $16,000.

At one point Thursday, the price briefly jumped above $19,000 on some exchanges, before quickly retreating. At 5 p.m. in New York, bitcoin was trading at $16,109, up 17% for the day before it bounced above $17,000 again in evening trading.

Even for bitcoin, which is notoriously **volatile**, the upward lurch was jarring, astounding outsiders and thrilling those who have piled into the digital currency in recent weeks. The rally has been sparked by the collision of bitcoin's sudden faddish reputation and the anticipation of institutional investors entering the market for the first time.

"They are on the main stage now," said Charles Hayter, the CEO of research firm CryptoCompare.

Bitcoin crossed the $15,000 milestone Thursday morning just shy of 6 a.m. New York time and a few hours later surpassed $16,000. This was about 40 hours after it first crossed the $12,000 level.

The most recent moves brought bitcoin's year-to-date gain to about 1,560%. For skeptics, that only is proof bitcoin is a massive bubble.

"It's clear that people are putting money in simply because they think other people are going to put in money," said Tim Swanson, the founder and research director at Post Oak Labs, a San Francisco-based advisory firm. "We're seeing the actual illustration of speculation. Somebody should take a snapshot of this and put it in the dictionary."

The gains were even causing alarm among some bitcoin proponents. "I'm 90% certain this is a bubble," said Stephen Pair, the CEO of BitPay, a firm that facilitates bitcoin payments for businesses. "I just don't know if it reverses itself at $20,000 or $100,000."

Even though he was anxious about the gains, Mr. Pair said he was also seeing growth at his own firm. BitPay's revenue has quadrupled this year, he said, and the firm this week announced a $30 million fundraising round to help manage the growth.

Still, Mr. Pair said he wasn't sure what was pushing the price up so dramatically right now. "It's not something we are necessarily happy about," he said. "I don't like this crazy unsustainable **volatility**."

Neither do some big banks. Many are balking at offering customers access to derivatives that will be based on bitcoin, largely because of the currency's **volatility**.

Plenty of investors aren't scared off, though. Bitcoin's momentum has drawn in new buyers, many of whom are regular folks attracted by talk of huge gains.

"Two of my members bought houses," with the money they have made from bitcoin this year, said Brian Hoffman, the CEO of OpenBazaar, an online retail site that uses bitcoin. "When you've got friends and family buying cars and buying houses, it becomes very enticing to get in."

Daily trading volumes have been above 400,000 for most of the past week, well above an average of around 250,000 for much of the year, according to cryptocurrency services firm Blockchain.info.

Wednesday and Thursday's gains were so stunning they had bitcoin specialists struggling to explain them. Sheer momentum remains the biggest driver to many.

Beyond this, there are some internal developments related to bitcoin. One was the release Wednesday of a software program called Lightning Network that is designed to increase bitcoin's transaction capacity, something that has been limited. That could help increase the flow of bitcoin trading.

Another is the looming launch of bitcoin futures by CME Group and Cboe Global Markets. Trading of these contracts, expected within the next two weeks, holds the promise of bringing more institutional investors into the bitcoin market because it would allow them to hedge their exposures and bet against the price of the currency.

Currently, it is difficult to make such wagers or protect holdings of bitcoin from price swings. This has kept many bigger investors out of the bitcoin market.

And then there were explanations that sound silly, but underscore the mania surrounding bitcoin: an online game called CryptoKitties.

Launched over the weekend, this online game allows players to bid for computer-generated images of cats. Bids are made using ethereum, a virtual currency similar to bitcoin.

While the game seems insignificant, OpenBazaar's Mr. Hoffman said it quickly went viral and could be construed as one of the first mainstream applications of cryptocurrencies. CryptoKitties said the highest bid topped $100,000.

"Within my team, nobody is talking about anything else," Mr. Hoffman said.

No matter how crazy an explanation sounds, anything that indicates the bitcoin network may be able to reach a larger scale in terms of capacity and utility is viewed as a positive for the currency and its price.

Meanwhile, bitcoin is also entering new markets. A year ago, Japan and South Korea were minor in terms of bitcoin transaction volume. Now, Japan alone comprises about 60% of all bitcoin trading.

South Koreans have also rushed into bitcoin, pushing the price on exchanges in that country even higher than on U.S. ones. On Bithumb, the largest exchange in Korea, bitcoin on Friday morning in Seoul was trading at $20,280, well above where it was trading in the U.S.

Traders say the younger generation in Korea is playing a prominent role in driving the price higher there.

"Koreans have been more comfortable with technology and digital assets for longer than most," said Arthur Hayes, founder and chief executive of BitMEX, a bitcoin-derivatives exchange in Hong Kong.

Such interest is growing despite questions about just how bitcoin works and security issues around it.

Bitcoin's price shrugged off news Wednesday of the theft of nearly $70 million worth of bitcoin from a cryptocurrency-mining service called NiceHash following a security breach.



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**Banking & Finance: Little Correlation in Stock Sectors**

By Chelsey Dulaney
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7 December 2017
The Wall Street Journal
J
B10
English


U.S. stock-sector movements haven't been this disjointed in nearly two decades.

The three-month correlation between **S&P 500** sectors last week fell to 18%, near its lowest ever, according to a report from Credit Suisse.

The bank's equity derivatives team said the "extreme sector dispersion" is being driven by investor rotation in and out of sectors this year.

Last week's slip in sector correlation came as some investors moved out of technology stocks, which had been one of the hottest S&P sectors this year, and into beaten-down financial and energy stocks.

Correlations are often at their highest during periods of market stress because investors tend to buy and sell broad swaths of stocks based on news headlines or risk sentiment, rather than company news or fundamentals.

Correlations spiked during the 2008 financial crisis and again after China devalued the yuan in August 2015.

But correlations have been declining over the past few years amid relative market calm.

Sector correlations slid further after the November 2016 U.S. presidential election as investors began to bet on potential winners and losers of President Donald Trump's economic plans.

The **S&P 500**'s sector correlation has fallen to its lowest since 2001, when traders were sorting out the collapse of the tech bubble, Credit Suisse's data show.

Its reading below 20% contrasts with one of around 80% in 2015.

Correlations are measured on a scale of 100% to minus-100%. A reading of 100% means prices are moving perfectly together, while minus-100% means prices are moving in opposite directions. A reading of zero means there is no relationship.

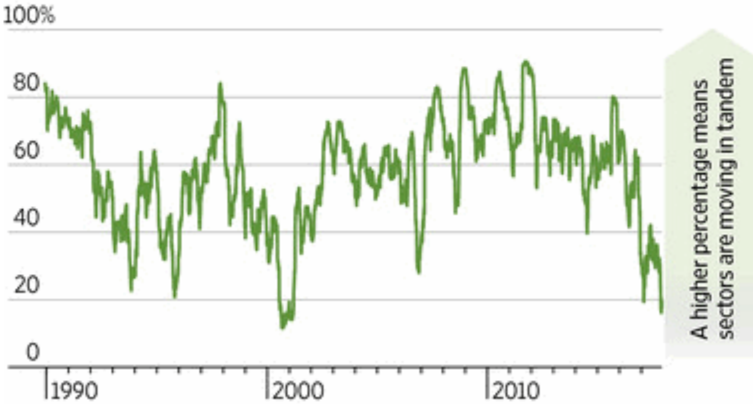
Low market correlations are typically good news for active equity managers, who find it easier to make money betting on specific companies or trends when stocks aren't all moving together.

Mutual-fund managers appear to already be benefiting from this year's correlation breakdown.

Roughly 49% of large-cap mutual-fund managers are beating their benchmarks this year, compared with 19% last year, according to a recent report from Goldman Sachs Group Holdings Inc.

## Growing Apart

The correlation between S&P 500 sectors is near its lowest level ever.




Note: Correlations for three-month periods, last ended Monday
Source: Credit Suisse
THE WALL STREET JOURNAL.

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
**Drop in Price of Oil Keeps A Drifting Market in Check**

By THE ASSOCIATED PRESS
959 words
7 December 2017
The New York Times
NYTF
Late Edition - Final
2
English


Stocks in the United States took another small step backward on Wednesday after a plunge in the price of oil dragged down shares of energy producers. The losses overshadowed gains for technology companies and other areas of the market.

The **Standard & Poor**'**s500 index** dipped by a fraction of a point, down 0.30 to 2,629.27, and it's down just 0.5 percent so far this week. But even those modest movements could count as notable in a year that's been unusually calm and easy for investors. It was the fourth straight loss for the index, the first time that has happened since March.

The **Dow Jonesindustrial average** fell 39.73 points, or 0.2 percent, to 24,140.91, the **Nasdaq composite** rose 14.16, or 0.2 percent, to 6,776.38 and the Russell 2000 index of small-cap stocks lost 7.88, or 0.5 percent, to 1,508.88.

Stocks have been mostly drifting lower this week following a strong run for markets this year. The ups and downs have come as the Senate and House of Representatives try to iron out differences in their proposals to overhaul the tax system, and investors shift their portfolios toward companies that stand to benefit most from lower rates.

"It looks like we topped out last week and we've been rolling a bit," said Phil Orlando, chief **equity market** strategist at Federated Investors. "The reality is we had a phenomenal run here, and we looked a little overbought in my mind. So I wouldn't at all discount a little bit of a correction here of 2 or 3 percent."

The market, which is still up more than 17 percent for the year, is also in a relatively quiet period, Orlando said. Companies have finished reporting how much profit they made in the summer, and fourth-quarter reports won't start again in earnest for more than a month. That can lead to a drifting market.

The market's biggest movers were energy stocks, which sank with the price of oil. Benchmark U.S. crude fell $1.66 to settle at $55.96 per barrel. Brent crude, the international standard, lost $1.64 to $61.22 a barrel.

That led to a 1.3 percent loss for energy stocks in the **S&P 500**, the sharpest drop among the 11 sectors that make up the index. Oil company Newfield Exploration fell $2.12, or 6.9 percent, to $28.44 for the biggest loss of any stock in the **S&P 500**.

Companies in the dental industry were also weak, hurt by fears that their industry is the next that Amazon will upend. Patterson Companies lost $1.51, or 4.2 percent, to $34.81, and Henry Schein fell $3.52, or 5 percent, to $67.58.

Analysts at Morgan Stanley cut their financial estimates for the companies on signs that Amazon has gotten access to a key dental equipment maker and may line up others in coming years, among other factors.

On the winning side was DaVita, which jumped to the biggest gain in the **S&P 500** after UnitedHealth Group said it will buy DaVita's medical group, which serves patients through nearly 300 medical clinics, for $4.9 billion in cash. DaVita gained $8.27, or 13.6 percent, to $69.20.

Technology stocks also rose, and they recovered some of their losses from earlier in the week.

The main drivers for the **stock market** much of this year have been the improving global economy and a resulting jump in profits for businesses. A report on Wednesday implied that the U.S. job market continues to strengthen.

Private employers added 190,000 jobs last month, according to a report from payroll processor ADP. Economists see the report as a relatively good indication of what the more comprehensive federal government's jobs tally will show.

That report arrives on Friday, and it will be one of the last pieces of major economic data released before the Federal Reserve's meeting next week on interest rates. Most economists expect the Fed to raise rates, which would be the third increase of the year.

Treasury yields sank as prices for government bonds rose. The yield on the **10**-**year Treasury** note dropped to 2.33 percent from 2.35 percent late Tuesday.

In markets overseas, Asian stocks slumped. Japan's Nikkei 225 index lost 2 percent for its worst day since March. The Hang Seng in Hong Kong dropped 2.1 percent, and South Korea's Kospi lost 1.4 percent.

In Europe, markets trimmed their losses as the day progressed. Germany's DAX dropped 0.4 percent, and France's CAC 40 ended little changed. The FTSE 100 in London rose 0.3 percent.

The dollar dipped to 112.28 Japanese yen from 112.62 yen late Monday. The euro fell to $1.1793 from $1.1816, and the British pound slipped to $1.3375 from $1.3442.

In the commodities markets, natural gas rose a cent to $2.92 per 1,000 cubic feet, heating oil fell 5 cents to $1.86 per gallon and wholesale gasoline dropped 6 cents to $1.66 per gallon.

Gold ticked up by $1.20 to $1,266.10 per ounce, and silver fell 11 cents to $15.96 per ounce. Copper recovered a fraction of its sharp loss from the day before and rose 2 cents to $2.96 per pound.

CHART: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Wednesday. (Source: Reuters)

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**Wall Street Takes Aim At Market-Data Sales**

By Dave Michaels
636 words
7 December 2017
The Wall Street Journal
J
B1
English


WASHINGTON -- Some of Wall Street's biggest banks, asset managers and high-speed trading firms have united in a battle over a shared adversary: stock exchanges and the profit they earn from selling market data.

A group of 24 firms -- including Morgan Stanley, Vanguard Group and Virtu Financial Inc. -- have asked the Securities and Exchange Commission to rein in prices that exchanges charge for data packages offering the most detail about market activity. In recent years, exchanges have sought to boost profits by slicing and dicing the torrent of electronic orders that pour through their systems.

The firms say the SEC should impose a rule forcing exchanges to reveal their profit margin for market-data products, as well as the number of clients that buy them. The SEC has taken a hands-off approach to exchanges' customized market-data products. Instead, it has focused on regulating the quality of the consolidated tape, a less complete picture of market activity that is generally shown to investors trading on retail brokerage platforms.

"For-profit exchanges enjoy an oligopoly over the dissemination and sale of market data," the firms say in their request, submitted to the SEC on Wednesday. An SEC spokesman declined to comment on the firms' request.

Securities laws require exchanges to distribute market data on terms that are "fair and reasonable" and nondiscriminatory. The group of brokers, traders and asset managers argue exchanges' published rules don't disclose enough to judge whether the price increases conform with legal standards.

"They tend to be rote descriptions of what the product is, the amount of the increase and a lot of boilerplate justification," said John Ramsay, chief market policy officer for IEX Group Inc., an exchange that doesn't sell its market data. IEX is one of the companies that signed the letter to the SEC.

**Nasdaq**, Cboe Global Markets Inc. and Intercontinental Exchange Inc., the owner of the New York Stock Exchange, have countered that market-data pricing is fair and that no trader is obligated to purchase faster and more comprehensive order data.

Some studies have found sizable increases in traders' market-data bills as exchanges introduced richer views of market data. A trader needing the fastest connection to the most detailed order data pays about $182,775 a month in 2017, up from $72,150 a month in 2012, according to Healthy Markets Association, a coalition of investment managers.

Wall Street brokers such as Morgan Stanley and Citigroup Inc. have waged a legal battle with exchanges over market-data prices. In June, an SEC administrative law judge ruled for exchanges and against the brokers' trade association.

The brokers appealed the decision to the full three-member SEC, which hasn't ruled on the appeal.

The rule-making request also asks the SEC to require that exchanges disclose how much revenue they earn from the sale of consolidated-tape data, which only shows the latest trade and best current price for stocks.

Exchanges should also be required to seek public comment before they raise prices for consolidated-tape data, the letter says.

The SEC has rarely acted in recent years on rule-making requests filed by investors or companies. But brokers have won the support of the U.S. Treasury Department for their cause, a factor that could affect how the SEC responds. The Treasury Department recommended in October that the SEC scrutinize exchanges' market-data offerings more closely because the business "is not fully competitive."

The companies that signed the rule-making request also include Bloomberg LP, Citadel Securities, Citigroup Inc., E*Trade Financial Corp., Fidelity Investments, Hudson River Trading LLC, Charles Schwab Corp., TD Ameritrade Inc., T. Rowe Price Group Inc. and UBS Group AG.



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Heard on the Street
**The Great Tax-Windfall Surprise**

By Justin Lahart
471 words
6 December 2017
The Wall Street Journal
J
B16
English


[Financial Analysis and Commentary]

The biggest winners of the Republican tax plan are corporations. How they actually spend their windfall could jolt the economy and surprise markets.

Companies can do four things with their cash: Invest it; give it to shareholders; hold it; or pay workers more. In practice they do all of these things in varying amounts, depending on the economy.

Stock investors are betting the plan will boost profits. The **Dow Jones Industrial Average** added more than 700 points in the past week as the proposal moved closer to reality. Small wonder, considering that the plan would boost profits by lowering the corporate tax rate to 20% from 35%.

Most economists agree, saying companies will allow most of the savings to flow through to the bottom line, with something around 20% to 25% going to employees.

The tax plan's proponents, such as Treasury Secretary Steven Mnuchin, argue otherwise, saying the bulk of the corporate tax cut will end up in workers' pockets.

Bond investors also don't appear to agree with Mr. Mnuchin's view. Over the past weeks, the **10**-**year Treasury** yield has risen all of 0.05 percentage point to 2.38%. If investors thought more money was about to slosh into the labor market, pushing up wages and potentially inflation, it ought to have gone up by more.

But here it is worthwhile to pause and consider what the economy looks like at the moment. The unemployment rate, at 4.1%, is already extremely low, and even a moderately growing economy could drop it well below 4% next year. Wage growth, while low, has begun showing signs of life, not least on company conference calls, where mentions of "wage pressures" are on the rise. To the extent that the tax plan boosts growth over the next year -- and odds are that it will create some sort of boost -- demand for labor will only pick up faster.

Companies might also respond to rising demand by investing their tax gains in capital equipment and the like. Over time, that ought to boost productivity, allowing them to produce more with fewer workers. But only over time; it takes awhile to get equipment built and put in place. Before that, it is workers who build and set up new equipment: The first-order effect of increased capital spending isn't more productivity, but more employ-ment.

One result of the tax bill is that wages may finally get a boost. In response, companies could accept lower profit margins, which could send down stocks. Or they could try to raise prices, which, if successful, would spur inflation, sending interest rates higher and hurting stocks.

Investors may regret their enthusiasm for the tax bill.




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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
**S.&P. Extends Losing Streak as Tech Rally Wilts**

By THE ASSOCIATED PRESS
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4
English


Another afternoon fizzle for stocks left the **Standard & Poor**'**s500 index** with its third straight loss on Tuesday.

The market seemed like it was headed for a gain in the morning, after technology stocks recovered from one of their few stumbles this year. But the tech rally lost momentum as the afternoon went on, and losses for telecom stocks and utilities helped cement the **S&P 500**'s longest losing streak in nearly four months.

The **S&P 500** fell 9.87 points, or 0.4 percent, to 2,629.57. It had been up 0.3 percent in the morning, and it marked the second straight day where an early rally ended up petering out.

The **Dow Jonesindustrial average** lost 109.41, or 0.5 percent, to 24,180.64, and the **Nasdaq composite** fell 13.15, or 0.2 percent, to 6,762.21. Losers outnumbered winners on the New York Stock Exchange by nearly two to one.

The market's ups and downs have come as investors sift through Congress' twin proposals to revamp the tax system. The Senate and House of Representatives are trying to reconcile their respective versions before sending it to President Donald Trump for his approval, and investors are trying to figure out which industries and companies will come out as winners and losers from it.

After leading the market for most of this year, technology stocks moved into the losers' column recently. Technology companies already pay some of the lowest effective tax rates of companies in the **S&P 500**, so they have less to gain from the proposal.

Tech stocks in the **S&P 500** began to stumble last week as expectations ramped up for the tax overhaul and as investors shifted into companies that stand to benefit most from lower rates, such as financial companies. It culminated in a loss of 1.9 percent for **S&P 500** tech stocks on Monday, the first trading day after the Senate passed its version of the tax overhaul. The Senate's proposal to keep the alternative minimum tax for all companies also hurt tech stocks.

It's a rare stumble for the tech industry, which had climbed twice as much as the **S&P 500** in the first 11 months of the year. And that attracted buyers.

Chip makers and internet companies led the market on Tuesday, and technology stocks in the **S&P 500** rose 0.2 percent. It was the only sector of the 11 that make up the index to rise, though it had been up as much as 1.4 percent earlier in the day.

Micron Technology rose $1.31, or 3.3 percent, to $41.21 for the largest gains in the **S&P 500**.

"I don't think this is the beginning of the end for tech," said Brian Nick, chief investment strategist at Nuveen. "Tech is going to be supported by very strong earnings, which is ultimately what's going to drive the market next year."

The rest of the market, though, was down on Tuesday. Telecom stocks fell 1.8 percent for the sharpest loss among the index's sectors. A day earlier, it had the market's strongest gains. Utilities, industrial companies and retailers were also weak.

Edison International slumped $10.26, or 12.8 percent, to $70 for the biggest loss in the **S&P 500**. Wildfires are raging outside Los Angeles, and investors are guessing the damage could result in losses for the company's Southern California Edison electric utility subsidiary.

In Europe, markets were down modestly as negotiations continued for the United Kingdom's pending departure from the European Union.

France's CAC 40 dipped 0.3 percent, and Germany's DAX fell 0.1 percent. The FTSE 100 in London lost 0.2 percent.

In Asia, Tokyo's Nikkei 225 index slipped 0.4 percent, Hong Kong's Hang Seng index dropped 1 percent and the Kospi in South Korea gained 0.3 percent.

In the bond market, Treasury yields fell as **bond prices** rose. The yield on the **10**-**year Treasury** note dropped to 2.35 percent from 2.37 percent late Monday.

The dollar ticked up to 112.62 Japanese yen from 112.60 yen late Monday. The euro dipped to $1.1816 from $1.1855, and the British pound fell to $1.3442 from $1.3471.

Benchmark U.S. crude rose 15 cents to settle at $57.62 per barrel. Brent crude, the international standard, gained 41 cents to $62.86 a barrel in London.

Natural gas fell 7 cents to $2.91 per 1,000 cubic feet, heating oil rose 2 cents to $1.91 per gallon and wholesale gasoline gained 3 cents to $1.72 per gallon.

Gold slipped $12.80 to settle at $1,264.90 per ounce, silver lost 31 cents to $16.07 per ounce and copper dropped 14 cents to $2.95 per pound.

CHART: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Tuesday. (Source: Reuters)

Document NYTF000020171206edc600087

 

The New York Times

Business/Financial Desk; SECTB
# Why the Fed, Baffled by Low Inflation, Is Ready to Raise Rates

By BINYAMIN APPELBAUM
1,282 words
6 December 2017
The New York Times
NYTF
Late Edition - Final
2
English


The Federal Reserve is poised to raise its benchmark interest rate next week, at its final meeting of the year, as the economy continues to gain strength and the unemployment rate continues to fall.

But it's not a straightforward decision.

The problem is inflation. Prices continue to rise more slowly than the Fed regards as healthy. This year is on a pace to be the sixth straight with inflation below the Fed's 2 percent target, a sign of continuing economic weakness. It also limits the Fed's ability to reduce borrowing costs during a future economic downturn.

This will be a key issue for the Fed board and, in particular, its next chairman to wrestle with. On Tuesday, Jerome H. Powell, President Trump's nominee to lead the Fed, moved closer to taking the top spot when the Senate Banking Committee approved his nomination, 22 to 1. His confirmation now moves to the full Senate for a vote, which has not yet been scheduled.

Most Fed officials, including Mr. Powell, a current member of the board, are ready to move on rates. While they don't completely understand why inflation is low, they are confident that it will rise as the economy continues to grow -- as employers seeking workers are forced to offer higher wages.

Other Fed officials want to wait to raise rates, saying they see evidence that the economy still needs help from the central bank. The Fed's benchmark rate is in a range between 1 percent and 1.25 percent, and they would like to keep it there until inflation gained strength.

The New York Times spoke with a pair of Fed officials, one on each side of the issue. The interviews were conducted last week; officials are not allowed to comment publicly on monetary policy in the week before a meeting of the Federal Open Market Committee.

Benchmark Rate

Charles L. Evans, president of the Federal Reserve Bank of Chicago: I've been looking at the data, and the data have not been strongly indicating that we should continue with a rate increase. I do worry that inflation expectations have not yet moved up in a noticeable way that I think is on the path to being more consistent with 2 percent. I'm going to be listening to everybody, but I don't think that the call is obvious at this point.

Robert S. Kaplan, president of the Federal Reserve Bank of Dallas: Whether we're at full employment, we'll know in hindsight, but I believe we're going to continue to take slack out of the labor market. I'm very aware that we're undershooting inflation, but my team believes we're going to get to 2 percent in the medium term. It may be slower and more uneven than people expect, but from a risk management point of view, I think it would be wise to take the next step. I'm being very careful in the way I'm saying it because I continue to believe that removal of accommodation should be done in a gradual and patient way.

Inflation

Mr. Kaplan: I am a strong believer that cyclical pressures are building and, as we continue to take slack out of the labor market, they'll continue to build. The issue is, there's a headwind in terms of inflation: technology-enabled disruption. What do I mean? Yes, of course, technology is replacing people, and that has been going on for a long time. Increasingly, though, consumers have more use of technology to shop for goods and services at lower prices -- that's accelerating. And a third thing is the emergence of new models for selling goods, manufacturing goods or distributing goods.

The obvious ones you think of are Uber vs. taxis, Amazon vs. retail, Airbnb vs. hotels. But every business is facing disruption. What we're finding is increasingly businesses lack pricing power. Even since I've been sitting in this seat, I talk to maybe 30 C.E.O.s a month, and some businesses that had pricing power two years ago are now telling me stories that they're in the middle of a price war.

Mr. Evans: One of the things that make me nervous is that longer-term inflation expectations have moved down over the last few years. I think that makes it more challenging to get inflation up to 2 percent. I think everybody is mindful that you don't want inflation to get out of hand. Having said that, we've now gotten to the point where low inflation as an objective is extremely credible. We've gained a lot of credibility, and I don't think markets or the public are expecting central bankers to let inflation get out of hand. I think we've got a bit of a reverse problem. We haven't demonstrated with our actions that 2 percent isn't a ceiling.

Wages

Mr. Evans: Any economist is going to ask, ''Well, did you offer to pay more to get people to take those jobs?'' And there's usually a smile, but that's not the first, second or third thought that comes to mind. They go out and recruit a little more heavily. There's an assumption that maybe there are some people on the sidelines who can come in. I'm not really sure that's the case. They have been coming in over the last two years and that's been helpful, but that slack has largely been reduced. It does seem as if we keep on pushing on demand, they might push up wages and we might get more inflation. That was the case in the '70s.

Mr. Kaplan: So companies are replacing people with technology. Older workers are getting bought out, and the work force is getting younger. And you've got to segment this by educational attainment. If you've got a college education and you're in a high-skilled job, I actually think you've got pretty good negotiating capability for wages. If you've got a high school education or less, what I've been seeing -- and this is more anecdotal, and we need to be doing more research on this -- it is highly likely that your job is either getting restructured or eliminated and you don't have the educational background to easily move, unless you get retrained, which is an easy thing to say but a very hard thing to do.

**Financial Markets**

Mr. Kaplan: If we could call a timeout right now and ask if you see imbalances, I've said that they're manageable right now. But I do know that it pays to monitor these things very carefully at this stage in the cycle. All I'm pointing out is that we need to be on our toes. I don't see overheating, but I think as we continue to take slack out of the labor market, we could well see imbalances build.

Mr. Evans: I do take seriously that if we have overly accommodative policy -- even in an attempt to get inflation up to our objective -- then we're somehow providing the means for the financial sector to lever up a bit, particularly if we don't have the right prudential standards in place. It just seems to me that it would be much better if we used our other tools, supervision, that would allow our monetary policy tools to address our inflation and employment goals.

Follow Binyamin Appelbaum on Twitter: @bcappelbaum.

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The New York Times

Washington; SECT
**Fed's Evans Questions March Toward Higher Interest Rates**

By BINYAMIN APPELBAUM
1,403 words
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NYTF
The New York Times on the Web
English


CHICAGO -- Charles L. Evans, president of the Federal Reserve Bank of Chicago, isn't convinced that the Fed should raise its benchmark interest rate in December, as many expect it will.

Other Fed officials, including the chairwoman, Janet L. Yellen, favor a rate increase, and **financial markets** regard it as a lock. But Mr. Evans is worried about the slow pace of inflation. He says the Fed needs to show it is serious about driving inflation back up to its target 2 percent annual pace.

''Is there really a hurry to raise rates?'' he asked in an interview. ''What if we just decided to wait until the middle of the year and if we saw inflation pick up, then we could do something? I would say at the moment I think the current decision is really a judgment call.''

The interview was conducted last week; Fed officials are not allowed to comment publicly on monetary policy in the week before a meeting of the Federal Open Market Committee.

In questioning whether the Fed is doing enough to revive the economy, Mr. Evans is reprising a role he has played repeatedly since the financial crisis. At times, he has succeeded in persuading his colleagues to do more. It remains to be seen whether he will again prove prescient in his concerns, or whether inflation will rebound in the months ahead.

The conversation has been edited for brevity and clarity.

How goes the economy?

I think the economy is doing very well. I think it continues to show strength. The second half is looking like very good growth: 2.5 to 3 percent growth. And this is to be measured against our assessment that sustainable growth is more like 1.75 percent. So 2.5 to 3 percent is very strong growth, which should continue to lead to improved labor market activity.

Unless something structural improves to increase trend growth, we're going to be decelerating to something under 2 percent -- and that will still be a pretty good economic picture.

Should the Fed raise its benchmark interest rate in December?

I've been looking at the data, and the data have not been strongly indicating that we should continue with a rate increase. I do worry that inflation expectations have not yet moved up in a noticeable way that I think is on the path to being more consistent with 2 percent. I'm going to be listening to everybody, but I don't think that the call is obvious at this point.

Why does inflation remain below the Fed's 2 percent annual target?

One of the things that makes me nervous is that longer-term inflation expectations have moved down over the last few years. I think that makes it more challenging to get inflation up to 2 percent. I think everybody is mindful that you don't want inflation to get out of hand. Having said that, we've now gotten to the point where low inflation as an objective is extremely credible. We've gained a lot of credibility, and I don't think markets or the public are expecting central bankers to let inflation get out of hand. I think we've got a bit of a reverse problem. We haven't demonstrated with our actions that 2 percent isn't a ceiling.

What steps should the Fed take to strengthen inflation expectations?

I think our policy moves to date have been thoughtful and reasonable. We've increased our funds rate objective by 100 basis points. Maybe it's time to stop and see whether inflation expectations are going to move in line with our 2 percent objective. And if the judgment was that we're still likely to be underrunning our 2 percent objective, maybe we would stop briefly and assess for more information, maybe wait until mid-2018.

Janet Yellen has said that until this year, the weakness of inflation has not been surprising. You've described a longer-term problem.

If we'd said four or five years ago, ''What's going to be the hardest thing -- getting unemployment down to our objective or getting inflation up to our objective?'' I think a lot of people would have said that inflation was going to be easier.

But my point is really more about the future dilemmas that we're going to be facing. At some point, something is going to happen and we're going to need to address a downturn or a weakness in the economy. I worry that as we get down to the zero lower bound and we have to trot out other tools, we're going to be relying on the public and markets to believe we're going to follow through and get inflation up to 2 percent. If we don't live up to it this time, I think it's even harder to get that message across and our tools would not be as effective. I look at the Bank of Japan, and they have struggled for decades with this type of credibility issue.

You've also suggested that concerns about financial stability are not a good reason to raise interest rates. Why not?

I do take seriously that if we have overly accommodative policy -- even in an attempt to get inflation up to our objective -- then we're somehow providing the means for the financial sector to lever up a bit, particularly if we don't have the right prudential standards in place. It just seems to me that it would be much better if we used our other tools, supervision, that would allow our monetary policy tools to address our inflation and employment goals.

Are those other tools strong enough?

There are few really good examples of macroprudential policies that central banks have brought out over time. I think in spite of that, what the regulators do in talking to the institutions is really very helpful, and those are the tools we need to pursue. We have to have a culture of reasonable regulatory approaches that are balanced so that businesses and consumers can go out and meet their needs. It's not uncomplicated, but that's what goes with the territory.

Does the Trump administration's aversion to regulation lead you to think that you may need to lean more heavily on raising rates?

I know that the president is going to make some appointments to the Federal Reserve Board. I'm confident that that board will look at everything carefully and implement what I think are appropriate policies. I think that's the way policy has to be made and proceed. That's where the authorities lie. I'm hopeful that good, quality people will be put in place that look at the risks.

You've served on the Fed's policymaking committee for the last five years with Jerome H. Powell, Mr. Trump's nominee as the next Fed chair. What are your impressions?

I've always enjoyed and benefited from working with Janet Yellen, and I thought she was just an extremely outstanding Fed chair. But presidents get to come in and make their appointments, and I think Jay will be extremely good. He's been involved in everything for the last five years. He's got a lot of knowledge. He also knows something about our quirkiness. I think that's a benefit.

You've recently suggested that it's time for the Fed to start thinking about how it will respond to the next downturn.

I think what we need to at least consider is, what should the strategic framework look like going forward? For me, the take-away is we really need to work on these things. We need to get to the point where we understand the frameworks.

Is that happening?

I think we're having discussions about this. This takes the form of various parties saying, ''We should talk about this.'' The minutes periodically will talk about a special memo. I don't think anything has risen to the point where

 

I'd say, "Yes, this is a long discussion about the alternative strategy for the future." I think it would be natural for the Fed chair, particularly a new Fed chair, to entertain discussions like that.

Follow Binyamin Appelbaum on Twitter: @bcappelbaum.

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**Banking & Finance: Finance Watch**

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BITCOIN

ICE Chief Says NYSE

Is Wary on Currency

The owner of the New York Stock Exchange is taking a wait-and-see approach to bitcoin, even as two of his main competitors prepare for the launch of futures markets based on the fast-rising cryptocurrency.

"We may be stupid for not being first on that," Intercontinental Exchange Inc. Chairman and Chief Executive Jeffrey Sprecher told a financial conference in New York Tuesday.

But Mr. Sprecher voiced doubts about the wisdom of being the first U.S. exchange to offer bitcoin futures. Chicago-based Cboe Global Markets Inc. is set to start trading bitcoin futures on Sunday, while CME Group Inc. is following a week later.

Futures contracts could shake up the bitcoin market by providing an easy way to "short" the digital currency, to bet that its price will fall.

Mr. Sprecher said the bitcoin market is dominated by buyers, not sellers, and it was unclear who would short bitcoin when given the chance. Bitcoin sellers, including "algorithmic guys," could seize upon the launch of futures to exit big bitcoin positions, the ICE CEO said.

That could lead to blowback against futures exchanges, he added. "I look at that and just say, is that going to work out well for me as a venue?" Mr. Sprecher said.

Mr. Sprecher also suggested that the underlying exchanges where bitcoin is traded are "not particularly transparent" and that it was premature to use them as the basis for a new futures contract.

-- Alexander Osipovich

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ENERGY

Crude Prices Rise

Before Supply Data

**Oil prices** settled higher Tuesday as traders and investors took a break from selling and turned their focus from OPEC's output deal to supply and demand.

U.S. crude futures gained 15 cents, or 0.3%, to $57.62 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, rose 41 cents, or 0.7%, at $62.86 a barrel on ICE Futures Europe.

Investors and analysts are looking ahead to weekly U.S. production data from the Energy Information Administration, due Wednesday. Analysts and traders surveyed by The Wall Street Journal forecast that crude inventories fell 2.4 million barrels last week -- a sign that the oil glut that has weighed on the market is shrinking. The increase came a day after both benchmarks tumbled as speculative investors liquidated **bullish** positions.

-- Alison Sider

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MASTERCARD

Another $4 Billion

In Buybacks Cleared

Mastercard Inc.'s board approved a $4 billion share-repurchase plan, the company said, to take effect after its current $4 billion buyback is finished.

The global payments company said the current program has $1.5 billion remaining. Mastercard's board also declared a quarterly cash dividend of 25 cents a share, a 14% increase from the previous 22 cents a share. It will be paid on Feb. 9 to shareholders of record of its class A common stock and class B common stock as of Jan. 9.



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THE WALL STREET JOURNAL.
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**Aetna CEO in Line for $500 Million Payout --- Bertolini to benefit from hefty increase in value of stock if CVS deal succeeds**

By Dana Mattioli, Anna Wilde Mathews and Nathan Becker
801 words
6 December 2017
The Wall Street Journal
J
B1
English


Aetna Inc. Chief Executive Mark T. Bertolini is set to pocket roughly half a billion dollars when he leaves his company if it successfully merges with CVS Health Corp.

If the $69 billion deal between the pharmacy chain and health insurer goes through, Mr. Bertolini stands to benefit from a sizable increase in the value of the stock and rights he owns because of the premium CVS is paying for Aetna. His combined payout is expected to be about $500 million, according to people familiar with the matter, a review of Aetna filings, and analysis from compensation-research firm Equilar Inc.

Most of Mr. Bertolini's projected payout is tied to stock or rights he already held that jump in value with the deal. At the agreed-upon $207-a-share deal price, more than $230 million is expected to come from already-vested stock-appreciation rights Mr. Bertolini holds for Aetna shares. Additionally, Aetna common stock he owns would be valued at roughly $190 million at the deal price. Some of the payout will be in CVS shares, because the acquisition was structured as 70% in cash and 30% in stock. A fluctuation in the value of CVS shares, which fell 4.6% Monday, could change the value of the payout. CVS fell a further 1%, or 68 cents, to $71.01 on Tuesday.

Between $60 million and $85 million of his estimated payout is tied to Mr. Bertolini's so-called change-in-control package. That payment is triggered if he is terminated when the company sells itself, according to Aetna filings.

CVS Chief Executive Larry Merlo has been tapped to run the combined company, and Mr. Bertolini won't have an operational role.

Equilar conducted a study of the biggest change-in-control payments in merger agreements from 2005 to mid-2015 for companies that changed hands and had at least $5 billion in yearly revenue. Mr. Bertolini's change-in-control payment at $60 million would have been the 10th-biggest when ranked within that data set; at $85 million, it would have been fifth-biggest. The CEO of another high-profile acquisition target, Time Warner Inc.'s Jeff Bewkes, stands to receive a change-in-control package of about $80 million if AT&T Inc.'s purchase of Time Warner succeeds, according to Equilar.

Aetna's stock is now valued at nearly six times what it was when Mr. Bertolini became chief executive in November 2010, and the company's revenue is up about 85%. Still, shares of all major health insurers have done well over the period that Mr. Bertolini ran Aetna, fueled by strong results and growing enrollment in their Medicare and Medicaid plans. Shares of the five major insurers have risen multiple-fold during the time frame, led by UnitedHealth Group Inc. and Aetna with roughly 500% gains, compared with a 121% advance in the **S&P 500**.

In October of this year, before The Wall Street Journal reported CVS was in talks to buy Aetna, its shares were trading at roughly $160. CVS's deal to buy Aetna at $207 a share is 29% above that price.

"Because of a combination of the length of his tenure, large equity grants early on a lower **stock price**, and [Aetna's] current **stock price**, he's accrued quite a bit of equity that makes his total walkaway value much larger than what we've seen in other cases," said Courtney Yu, Equilar's director of research.

Mr. Bertolini, 61 years old, has long been viewed as an empire builder, not a seller. His substantial payout comes largely because he was a large stakeholder in his own company, where he started in 2003 as head of specialty products.

He is one of the highest-profile leaders in managed care, known partly for sharing his personal health-care experiences after a skiing accident. He drew attention outside the industry for boosting the incomes of Aetna's lowest-paid workers by as much as one-third a few years ago; he asked Aetna executives at the time to read economist Thomas Piketty's book about wealth inequality.

To be completed, the CVS-Aetna deal will have to pass regulatory muster.

In what might be a sign of investor nervousness about the prospects for approval, Aetna shares closed at $178.69 on Tuesday, a steep discount to the agreed-upon price.

If the deal goes through, Mr. Bertolini won't have an executive role at the combined company, but he will have a seat on its board of directors.



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**Tech Could Hold Clues for Market --- Top sector of 2017 will remain key if stocks are to continue their climb into 2018**

By Ben Eisen
431 words
6 December 2017
The Wall Street Journal
J
B15
English


Investors are looking to technology stocks as a sign of where the market is headed next.

The **S&P 500** tech sector rebounded 0.2% Tuesday, making it the only grouping in the index to rise on Tuesday as the broader benchmark dropped 0.4%.

The year's best-performing stock category had been the worst in recent days.

The **S&P 500** tech sector dropped 1.9% in the previous session.

Over the five days through Monday, the tech-heavy **Nasdaq Composite** Index had lagged behind the **S&P 500** by 2.95 percentage points, which is the most for any five-day stretch since 2009, according to Bespoke Investment Group.

Underperformance by tech-focused indexes has in the past been a leading indicator for the market.

The **Nasdaq** 100, for example, "has tended to lead upside and downside in the market over the years," said Michael Oliver of Momentum Structural Analysis, in a research note.

He pointed to underperformance at the end of 2015 and beginning of 2016, when stocks tumbled.

Of course, the **stock market** could continue to rise in the absence of a boost from tech stocks.

There is a lot of optimism among investors about a tax-code overhaul that is making its way through Congress, which could reduce the corporate income-tax rate to as low as 20%.

The companies poised for a large profit boost from the bill, such as those in the financial and telecommunications sectors, have been rallying in recent days, and may continue to help the market.

Plus, analysts say that investors have been selling tech stocks in part because they are using the cash to invest in cheaper cyclical stocks that benefit from accelerating economic growth.

But weakness in the tech sector, which makes up more than one-fifth of the **S&P 500**, is already weighing on the broader market.

The S&P had climbed as much as 0.9% in Monday morning trade as investors bought stocks on optimism over tax reform.

But the index pared all of its gains throughout the day as losses in the tech sector accelerated. The index closed the session down 0.1%.

That was the first session since January 2000 that the **S&P 500** jumped more than 0.5% to a multiyear high and then reversed to close with losses, according to Jason Goepfert of Sundial Capital Research.



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THE WALL STREET JOURNAL.
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**Management Top 250 (A Special Report) --- Management Top 250: A ranking of U.S. companies the Drucker Institute**

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6 December 2017
The Wall Street Journal
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R4
English


The Management Top 250 ranking, developed by the Drucker Institute, measures corporate effectiveness by examining performance in five areas: customer satisfaction, employee engagement and development, innovation, social responsibility, and financial strength. The ranking is based on an analysis of 37 data inputs provided by 12 third-party sources.

The five areas are weighted nearly equally in calculating a score that is the basis of the ranking. Not all data inputs are available for all companies in the ranking; companies are excluded from the ranking if fewer than two data inputs are available for any of the five areas.

The Management Top 250 includes the top U.S. companies from a universe of 693 publicly traded companies that were included in a Drucker Institute study. To be included in the study universe, companies met these criteria: they were listed in the Fortune 500, had stock that was a component of the **S&P 500 index**, or had a **stock-market** capitalization of $10 billion or more when snapshots were taken for the Drucker study in September and October 2016. Financial data inputs were updated as of June 30, 2017; all other data inputs were updated during the first half of 2017.

The Management Top 250 includes U.S. companies, as well as companies that have principal executive offices outside the U.S. but are listed in the Fortune 500 or have stock that is a component of the **S&P 500**.

A detailed explanation of the methodology is at http://on.wsj.com/top-250-methodology.

(See accompanying illustration -- WSJ Dec. 6, 2017)



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The New York Times

The Conversation
Opinion
**Is Trump Crazy Like a Fox or Plain Old Crazy?**

By GAIL COLLINS and BRET STEPHENS
1,935 words
5 December 2017
05:45 AM
NYTimes.com Feed
NYTFEED
English


Gail Collins: Bret, I've had a lot of these conversations over the years, but I cannot remember ever starting one by asking whether you think the president is off his rocker. In the real, mentally ill sense.

Bret Stephens: Um, was he ever on his rocker, Gail?

Look, I've gone back and forth on this question. If you look up old interviews he conducted 20 or 30 years ago (check out this video of his testimony to a congressional committee in 1991), what you find is a much more coherent thinker and verbally acute speaker than the man he is today. I'm not expert enough to say at what point mental decline slides into senility or dementia, but there's clearly been a decline.

Gail: Agree. But a lot of that is just arrogance. If you'd told the younger Donald Trump he was a future president of the United States, I doubt he'd have bothered to be coherent back then, either.

Plus in that congressional testimony he was reading prepared remarks, which always work better for him. Only problem is now he's so full of himself he can't stick to the script.

Bret: There's also the matter of his emotional state. Again, I'm in no position to make a diagnosis but I'm not alone in suspecting that he meets most of the criteria for narcissistic personality disorder. And the frequently unhinged and spasmodic tweets suggests a guy who isn't in control of himself.

Then again, some of his tweets are slyly funny. He has a capacity for answering questions in a reasonably coherent way. And there's no getting away from the purely instrumental benefits he derives with his seemingly insane tweets. He baits his critics. He delights his fans. And he debases the currencies of civility and normal politics to the point where we are all sinking to his level.

Gail: One part of the disconnect in his behavior is longstanding. He always was a guy who could sit down with people who were in theory his adversaries and be very pleasant and agree with everything they said. And then walk away as if it had never happened. So now we see Trump with the Democrats, having dinner and toasting the Dreamers, and then the next day he's screaming about them being soft on immigration and weak on crime.

He's also always had a problem remembering inconvenient facts. But if we're now dealing with a guy who seriously believes that the voice on that "Access Hollywood" tape is not really his, that's super scary.

Bret: I doubt he really believes that. Or rather, this is a guy whose entire career has been dedicated to two timeless propositions. First, that there's a sucker born every minute. Second, that the truth is whatever he can get away with.

Whether he's crazy or not, it's important for his opponents to presume he isn't. His behavior has a certain pattern, and those patterns can be politically effective. Speaking of which, what do you make of his latest claim that the F.B.I.'s reputation is "in tatters"?

Gail: Bottom line: never a good plan for a president to denounce the F.B.I. Also, when he starts yowling that James Comey was helping Hillary Clinton, I just sort of fall off a mental cliff.

One of the ironies of the last week has been the way Trump's behavior managed to almost completely obliterate attention on the big tax bill. Which I guess is going to become law.

Can we take a short break from the mental health of our chief executive to talk about it? What do you think?

Bret: I know we're all supposed to be passionate about it, one way or another, but I'm reserving judgment. This is another "We have to pass the bill so that you can find out what is in it" kind of deal of the sort that Republicans complained so bitterly about during the Obamacare debate.

Gail: The scene was indeed very similar in a number of ways to the Obamacare finale. However, I feel impelled to point out that the health care bill had tons of public hearings and committee meetings. There seems to be a rule in this Congress that the more important the bill, the more you have to hide it from the public. Even the concealed-carry gun bill that's zooming through the House never got a public hearing.

But go ahead, about taxes —

Bret: That's true. We are in white-water rapids legislative territory here. But about this bill. Things I like: A lower corporate tax rate and a vehicle for repatriating capital back to the United States. Generally lower tax rates for all income brackets. A higher alternative minimum tax threshold. The opening of Alaskan hinterlands for oil and gas drilling. The tax break on (usually small) "pass through" companies. The increase in the child tax credit. The near elimination of the estate tax, which I've always considered immoral.

Things I don't: the possibility of a fourth tax bracket, which could push tax rates above 50 percent for people who live in places like, er, Manhattan. The elimination of the health insurance mandate, which I might have supported in a broader health care reform but seems like a way of gutting the current system without reforming it. The "Harvard tax" on large university endowments, which may have the satisfaction of sticking it to liberals but damages great universities that are crown jewels of our society.

Look, most of our readers aren't going to agree with me on any of this. But the markets on which many of our readers depend through their IRAs and 401(k)s are cheering. And all that corporate profitability will work its way through a private economy that seems to be booming again.

Gail: The thing that scares me most — and I could not be more surprised this is my big worry — is the way the bill sends the deficits skyrocketing. Normally, deficits do not figure on my list of top 50 concerns.

But I have two great fears. One is that the economy is going to become seriously overheated. We already have a very low unemployment rate, a shortage of new immigrant families to expand the younger population, and a **stock market** that's hitting historic peaks every day, much to our president's delight. I'm afraid a new surge — fueled by the government spending money — is going to pop the bubble and push us toward a really mean recession.

The other is that Republicans are already looking at said deficit, licking their chops and preparing to cut entitlements. You've already got the president talking about how "we're looking very strongly at welfare reform." By which he presumably means those two huge programs he swore he'd never touch during the election.

But then we've already pretty much agreed that nothing Donald Trump says counts for anything.

Bret: We have got to be careful about calling Social Security benefits an "entitlement," as readers sometimes remind us. We paid for them, after all.

Gail: Yeah, that's why we're entitled. But I take your point. Go ahead.

Bret: I guess it all depends on what kind of reform we get. We have a system that expected us to die in our 60s that's now overstretched as we live into our 80s. That will need to change somehow and better to do it before we reach a crisis.

Gail: Yeah, we've really let the government down with all this … living.

I vote for a long-term fix by raising the current cap on payroll taxes. But that can be a debate for another time. Go ahead.

Bret: On the economy overheating and combusting, well, we haven't had a recession for almost eight years, so we are overdue. On the other hand, we had a very slow and weak recovery, so I'm not complaining about sustained 3 percent growth after all these years. The truth is: Nobody knows when the next recession will hit, or how hard it would be (and anyone who claims to is a liar).

 

What I do know is that if the economy does do well, Trump will claim, and the G.O.P., will get, the credit. And I don't see Democrats taking that politically into account. Too many eggs in the impeachment basket, methinks. Which makes me wonder: Where do you think Robert Mueller and the Russia investigation go from here?

Gail: I am sad to admit that Mueller doesn't confide in me. Obviously, there's a lot of evidence about people in the Trump campaign talking with the Russians when they shouldn't have, about everything from the Obama sanctions to Israel. But the big issue is whether the investigation provides evidence that the Russians conspired with the Trump campaign to influence the outcome of our election. It seems pretty clear to me they did, but proving it is another matter.

Certainly something to look forward to in the new year. What's your bet?

Bret: The cover-up is usually the crime, and with Trump's tweet suggesting he knew Flynn had lied to the F.B.I, and now his desperate backpedaling, we have what seems to me a clear-cut case of obstruction of justice, assuming you don't believe the president is ipso facto above the law.

Gail: Good old obstruction of justice.

Bret: I don't think anyone really knows whether there was collusion during the campaign, but that's why we've empowered a special counsel to find out. My conservative friends keep saying that this is a fishing expedition and that Mueller should be fired because he's "too close" to the F.B.I. Why don't we just let him do his job?

Here is what we know. The former national security adviser lied to the F.B.I. He appears to have been directed to make contact with the Russians by the president's son-in-law, who may have been speaking on his father-in-law's behalf. One former campaign aide who lied to the F.B.I. appeared to have no role in the campaign other than to establish contacts with the Russians. The former campaign chairman was, at a minimum, vulnerable to Russian blackmail on account of his allegedly illicit business ties with a corrupt Ukrainian president. The president of the United States kept bending over backward to make nice to Vladimir Putin and does so to this day. This president also had longstanding ambitions to do business in Russia. The president's son held a meeting with Russian figures in hopes of finding dirt on Hillary Clinton.

Fire? Maybe not. But we are dying of smoke inhalation.

Gail: Plus we know from an upcoming book written by two more of his former aides that Trump inhaled enough fast food every day to clog the arteries of a rhinoceros. Bottom line, Bret, is we're going to be having a whole lot of interesting discussions as we move into 2018. If the smoke doesn't get to us first.

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Doug Mills/The New York Times

Document NYTFEED020171205edc5002pe

THE WALL STREET JOURNAL.
U.S. EDITION

**Banking & Finance: Bitcoin Futures Trading Starts Next Week**

By Alexander Osipovich
388 words
5 December 2017
The Wall Street Journal
J
B12
English


The first U.S. bitcoin futures will start trading next week, as dueling Chicago futures exchanges seek to cash in on surging investor interest in the digital currency.

Cboe Global Markets Inc.'s new bitcoin futures will go live at 5 p.m. Central Time on Dec. 10, with the first full day of trading set for Dec. 11, the firm said Monday.

That gives Cboe ahead start on CME Group Inc., its larger crosstown rival, which plans to launch its own bitcoin futures on Dec. 18. The Commodity Futures Trading Commission on Friday allowed both exchange operators to go forward with bitcoin futures.

Cboe is working with online brokerages to allow retail investors to start trading its bitcoin futures as soon as possible, a spokeswoman for the company said.

Bitcoin futures would allow traders to bet on rises and falls in the digital currency, similar to the way oil, corn or gold futures work.

The emergence of bitcoin futures could make it easier for both Wall Street banks and small investors to trade bitcoin.

A huge price run-up this year has sparked intense investor interest in bitcoin, which soared to more than $11,800 at one pointon Sunday, up more than 12-fold from the beginning of 2017, according to CoinDesk. The currency was trading at $11,510.54 late Monday.

Still, many financial institutions remain wary of bitcoin due to its **volatility**, uncertain regulatory status and lingering association with illicit activity. Skeptics call it a bubble.

Announcements by Cboe and CME that they would seek to launch bitcoin futures were seen as a vote of confidence in the digital currency.

Cboe was the first to unveil its plans, in August, while CME followed in October.

The race between the two rivals could determine which exchange establishes the dominant bitcoin futures contract. CME is the world's largest exchange company, with a market capitalization of $51 billion and roots in the mid-19th century.

Cboe, valued at $14 billion, was founded in 1973 as the Chicago Board Options Exchange. Its first trading floor was a space that had once been the smoking lounge for the Chicago Board of Trade -- an exchange that is now part of CME.



Document J000000020171205edc500026

THE WALL STREET JOURNAL.
U.S. EDITION

**SEC Cyber Unit Alleges Scam In Coin Offering**

By Paul Vigna
449 words
5 December 2017
The Wall Street Journal
J
B1
English


The Securities and Exchange Commission on Monday announced its first-ever enforcement action by its new cyber unit against an initial coin offering, alleging a Canadian company violated U.S. securities laws in raising $15 million through this new, red-hot area of finance.

Charges against the company, described by the agency as a "scam" run by a "recidivist Canadian securities law violator," were brought by the unit as it looks to crack down on potential abuse in the cryptocurrency arena.

The SEC alleged that PlexCorps violated securities laws by marketing and selling up to $15 million worth of cryptocurrencies, also called PlexCoins, to investors in the U.S. and elsewhere.

The commission also charged Dominic Lacroix and Sabrina Paradis-Royer, the company's founders, in connection with the sale.

The SEC said it had obtained an emergency court order to freeze the assets of PlexCorps and the two individuals.

In July, the **Financial Markets** Administrative Tribunal of Quebec banned PlexCorps and Mr. Lacroix from all investment-related activities targeted at Quebec residents. In October, Quebec's Superior Court declared the company and Mr. Lacroix in contempt of court, finding the defendants continued to market and solicit investments in PlexCorps.

The company, Mr. Lacroix and Ms. Paradis-Royer couldn't immediately be reached for comment. A Facebook page for PlexCorps was active as recently as Friday.

The action against PlexCorps indicates the SEC's interest in pursuing potential fraud in the mushrooming area of digital coin offerings. Private firms have raised more than $3 billion this year by selling new cryptocurrencies, according to research firm CoinDesk.

This area of finance is largely unregulated, and many companies involved aren't based in the U.S. or say that the offerings aren't open to U.S. investors.

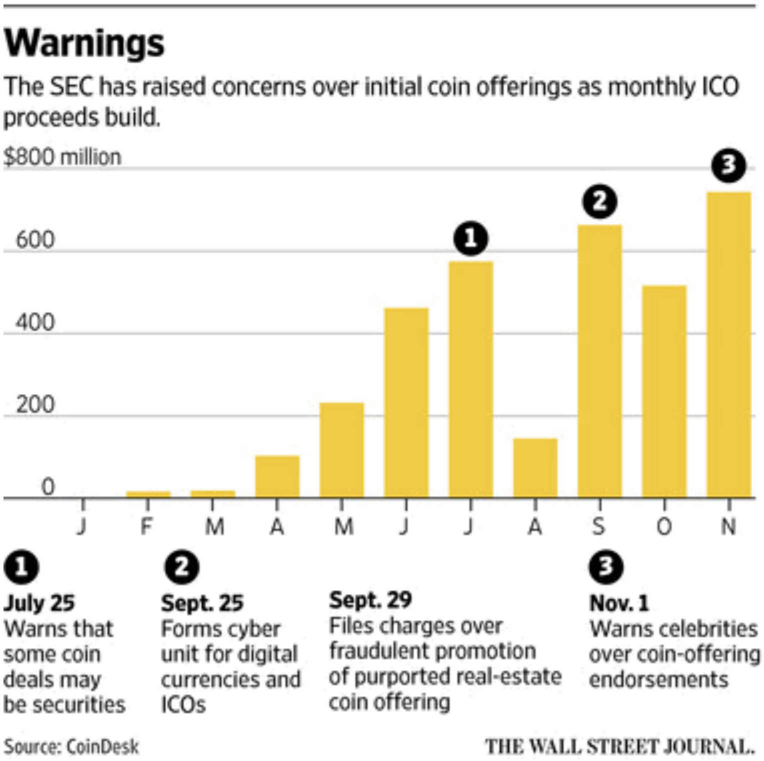
Initial coin offerings don't typically offer equity in a company issuing them. Rather, the offerings are more like crowdfundings, usually offering buyers of digital tokens the right to use them at some future date to buy a product or service the company plans to develop.

The SEC has said it is focused on the prospects for fraud in such sales as well as the possibility that startups will sell tokens that should be registered as securities.

The commission formed its cyber unit in September to focus on the area of cryptocurrencies.

In the PlexCorps action, the SEC alleged the company promised investors that their money would be going toward development of a new cryptocurrency along with related products.

Investors were also promised a return of 1,354% over 29 days on their investment.

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Document J000000020171205edc50001k

Business/Financial Desk; SECTB

# Tech Shares Hammered As Tax Revamp Progresses

By THE ASSOCIATED PRESS
674 words
5 December 2017
The New York Times
NYTF
Late Edition - Final
6
English


A modest move for the Standard & Poor's 500-stockindex on Monday masked some dramatic changes roiling underneath the surface of the markets.

Telecom shares, banks and other areas of the market that stand to benefit the most from Washington's drive to cut corporate tax rates jumped. At the same time, technology stocks slumped and gave up a chunk of the gains that have made them the best-performing part of the market by far this year.

The New York Stock Exchange was nearly evenly split between stocks that rose and fell, and the split in performance left the S.&P. 500 close to where it began the day. It dipped 2.78 points, or 0.1 percent, to 2,639.44.

The Dow Jonesindustrial average rose 58.46, or 0.2 percent, to 24,290.05, and the Nasdaq composite index fell 72.22, or 1.1 percent, to 6,775.37.

The crosscurrents swept through the market on the first day of trading after the Senate narrowly approved its bill to revamp the tax system. Indexes initially jumped on expectations that lower tax rates would help corporate profits pile up higher, and the S.&P. 500 was up as much as 0.9 percent in morning trading.

Lower tax rates would help increase profits for companies, which have been reporting resurgent earnings growth this year thanks to the improving global economy.

Telecommunications companies pay some of the highest effective tax rates among the big companies in the S.&P. 500, so they stand to reap some of the biggest rewards of lower rates. Telecom stocks in the index jumped 1.6 percent, tied for the biggest gain of the 11 sectors in the index.

Financial stocks, which analysts also expect to be winners from the tax overhaul, climbed 1.6 percent as well.

Technology companies will most likely get less of a lift. They typically pay the lowest effective tax rates of the 11 sectors in the S.&P. 500, analysts said.

Tech stocks in the index dropped 1.9 percent, lagging far behind the rest of the market. It is a very different position for the sector, which has nearly doubled the performance of the S.&P. 500 this year. Those strong gains led some skeptics to say that tech stocks had become too expensive.

''It's not that the tax bill is negative for tech companies,'' said Ernie Cecilia, chief investment officer at Bryn Mawr Trust. ''It's just less positive for it than for other areas. The message is that although tax reform seems to be a positive, we have to see how that will play out on individual companies and industries.''

Adding to the uncertainty is the work that remains for the tax overhaul to become law. The Senate and House of Representatives still need to iron out differences in their proposals, and Mr. Cecilia warned that stocks could see more ups and downs as details come out about which companies will most benefit.

In Europe, markets rallied as negotiations continued for Britain's exit from the European Union. The French CAC 40 jumped 1.4 percent, and in Germany, the DAX surged 1.5 percent. The FTSE 100 in London rose 0.5 percent.

In the bond market, the yield on the 10-year United States Treasury note edged a fraction of a point higher to 2.37 percent, and the price fell to 9829/32.

Benchmark United States crude oil slumped 89 cents to settle at $57.47 a barrel. Brent crude, the international standard, fell $1.28 to $62.45 a barrel in London.

Gold dipped $4.50 to settle at $1,274.30 an ounce, silver lost 2 cents to $16.37 an ounce, and copper was close to flat at $3.09 a pound.

CHART: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Monday. (Source: Reuters )

Document NYTF000020171205edc500057

 

THE WALL STREET JOURNAL.
U.S. EDITION

**Firms Press for Tax Breaks --- Business lobbyists say Senate plan to keep corporate AMT would undercut tax overhaul**

By Theo Francis and Richard Rubin
1,082 words
5 December 2017
The Wall Street Journal
J
A1
English


Technology, banking and other industries mounted a new round of lobbying Monday to save a wide range of tax breaks following the last-minute switch in the federal tax overhaul by the U.S. Senate.

The Senate on Saturday decided to keep a corporate alternative minimum tax, or AMT, a move that gave the senators $40 billion over a decade to use on other priorities, according to the official estimate.

The move blindsided CEOs and business groups, who acted quickly on Monday to try to persuade legislators to kill or modify the provision, arguing that keeping it would undercut several goals of the legislation, including fostering investment in the U.S.

The corporate AMT is a parallel system with low rates and fewer breaks that kicks in if a variety of tax breaks bring a firm's regular tax bill too low. Currently, the corporate AMT of 20% rarely applies, since most corporations face a higher 35% tax rate and benefit from breaks eligible under both systems.

With a proposed 20% corporate rate, many companies could end up in the AMT -- and lose some of their tax breaks in the process.

Business lobbyists argue that keeping the corporate AMT would make it harder for tech companies to claim tax credits for research and development spending and forbanks to claim credits for investing in troubled U.S. areas. It also could undermine the international-tax structure Republicans created elsewhere in the same bill, undercutting incentives to put intellectual property in the U.S., tax experts say.

The provision is "hugely problematic," said Jennifer McCloskey, director of government affairs at the Information Technology Industry Council, whose members include Amazon.com Inc., Apple Inc. and Alphabet Inc. "We will be working to see it resolved this week."

A Congressional aide familiar with the legislative change said it is unlikely the alternative minimum tax would have the dramatic effect that critics fear, since the Joint Committee on Taxation pegged its savings below the value of the R&D tax credit. Other tax experts, in contrast, warn the $40 billion estimate could prove too small.

The House and Senate hope to reconcile competing versions of the tax overhaul and pass a final bill by Christmas.

The corporate pushback is getting results. House Majority Leader Kevin McCarthy (R., Calif.) said Monday that negotiators from the House and Senate needed to remove the corporate AMT.

The U.S. House's tax-overhaul bill, passed Nov. 16, would eliminate the corporate AMT. Earlier drafts of the Senate bill would have as well, but changes to the version adopted in the early hours of Saturday morning preserved it.

The discovery of the change sparked consternation among corporate lobbyists and trade associations over the weekend, including among members of the influential Business Roundtable, a trade association of chief executives at some of the biggest U.S. companies.

Most of the overhaul was drafted without taking an alternative minimum tax into account, and so could conflict with it, tax experts concluded. For example, the Senate bill initially preserved the New Markets Tax Credit, which incentivizes projects in distressed areas and then reduces banks' tax bills. The retention of the corporate AMT reversed that, said Michael Novogradac, managing partner of Novogradac & Co., a San Francisco accounting firm that specializes in the credit and similar breaks. "I know it's got to harm some. And it may harm many," he said.

As emails flew, trade groups issuing statements broadly praising the Senate bill began to also raise concerns about the alternative minimum tax -- and then urged action to reverse the decisions.

"You really have to scratch your head at an effort like this that would negatively impact research and development in the U.S.," said Linda Moore, CEO of TechNet, a trade association that includes top officials at Oracle Corp., Cisco Systems Inc., Visa Inc., and Microsoft Corp.

On Monday, than two days after applauding the Senate for passing the tax bill, the U.S. Chamber of Commerce called the reinstatement of the AMT "a very unpleasant surprise," saying it would prove more harmful under the overhaul than in current law.

"This cannot be the intended impact from a Congress who has worked for years to enact a more globally competitive tax code," Caroline Harris, its chief tax counsel, wrote on the trade group's website. "The U.S. Chamber wants tax reform to be as pro-growth as possible, and that means repealing the AMT."

In a letter to the lawmakers who will hash out differences between the House and Senate bills, an Intel Corp. executive warned against maintaining the alternative minimum tax, writing on behalf of the R&D Credit Coalition and its 100-plus members.

"Maintaining the corporate AMT will add the complexity of dealing with two tax systems and will penalize companies that engage in research," wrote Ronald Dickel, Intel's vice president of finance and director of global tax.

Much of the R&D tax break goes to giant firms. Among **S&P 500** companies reporting a combined $3.1 billion in tax benefit from the credit in 2016, roughly 85% went to 20 corporations, mostly in the technology, pharmaceutical and defense industries, according to an analysis by financial-data firm Calcbench.

Last year, Alphabet reported a $483 million benefit from research tax credits, while Intel reported nearly $300 million, according to Calcbench. In the year ended Sept. 30, Apple reported $678 million. Intel declined to comment. Apple and Alphabet didn't immediately respond to requests for comment.

But smaller companies benefit as well, including a number of farm- and construction-equipment makers that belong to the Association of Equipment Manufacturers, said Kip Eideberg, vice president of public affairs and advocacy for the trade association.

The corporate AMT's effects are also worrying banks that hold municipal bonds, said Neil Barr, head of the tax department at Davis, Polk & Wardwell LLP in New York. The interest on that debt, normally tax-free, would effectively become taxable.

Retaining the corporate AMT would also alter the new features of the international tax system that Senate Republicans wrote, Mr. Barr said. For example, companies that were counting on lower tax rates on foreign profits or profits from intangibles such as patents wouldn't get them.

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Doug MacMillan contributed to this article.



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THE WALL STREET JOURNAL.
U.S. EDITION

**U.S. News --- CAPITAL JOURNAL: Republicans Feel Triumph, Fear a Debacle**

By Gerald F. Seib
857 words
5 December 2017
The Wall Street Journal
J
A4
English


In the era of President Donald Trump, when up can be down and down can be up, it's no surprise that the Republicans' hour of great accomplishment also is their hour of great peril.

That is precisely where things stand as a new week dawns upon a thoroughly changed political landscape. Washington's tectonic plates shifted twice last week, first when Special Counsel Robert Mueller announced a guilty plea from a now-cooperative former Trump national security adviser, Mike Flynn, and then when the Republican Senate passed the party's top legislative priority, a giant tax cut.

(And by the way, passage of a tax bill by the full Congress, which now seems nearly assured in coming days, was always the highest priority for most GOP leaders, outstripping even repeal of the Affordable Care Act.)

The Republican establishment's bargain with Mr. Trump always has been essentially this: It is worth putting up with his excesses and an undercurrent of mutual mistrust because ultimately he would promote and then sign the Republicans' long-sought tax cut. The benefits of the latter would outweigh the dangers of the former.

Now the test of that proposition begins. Will it go well or badly for the GOP? Let's look at the two potential scenarios for the party:

The Positive Scenario:

The tax cut and its benefits for American businesses extend and solidify already-robust economic and job growth. The prospect, and ultimately the reality, of greater business investment send positive ripple effects into wage growth. All that builds a firmer footing beneath a booming **stock market**.

Politically, the tax bill erases 11 months of doubts about Republicans' ability to govern effectively and washes away the party faithful's memories of failed efforts to undo the health law, known as Obamacare, and the concurrent exposure of deep intraparty divisions.

Moreover, it's clear that Mr. Trump's barbs directed at senior members of his own party -- Senate Majority Leader Mitch McConnell, Sens. John McCain, Jeff Flake and Bob Corker, and House Speaker Paul Ryan -- don't get in the way of the GOP uniting for something really important. The idea that Republicans can repeat that feat in 2018 on health and infrastructure doesn't seem so far-fetched.

In short, the first year of the Trump presidency suddenly looks a lot better, which sets the table nicely for the 2018 midterm elections. Republican plans to make Democratic House leader Nancy Pelosi rather than Mr. Trump the unpopular face of the election year succeed. Republicans suffer some losses in House races but retain control of Congress.

Meanwhile, the Mueller investigation picks off a few more figures around Mr. Trump but never quite proves either collusion with Russians or a presidential effort to obstruct justice. Mr. Trump manages to avoid stirring the pot with Twitter rants that actually make his case worse, and the inquiry wraps up early next year having struck blows but no fatal damage.

The Negative Scenario:

Middle-class Americans revolt against the tax bill, concluding that they agree with Democrats that the rich and corporations are the real beneficiaries, not them. Middle America also is frightened and then appalled by the tax bill's coming boost to the national debt, and Trump voters decide the party and the president they supported in 2016 don't share their common-sense aversion to running up big bills and leaving them for the kids.

Meantime, a failure to agree on a new spending bill forces a government shutdown just before Christmas, and the GOP fails to put the blame off on Democrats. That instantly sullies Republicans' newfound reputation for governing effectively.

Corporate leaders don't make the kinds of job-creating investments Republicans predict. Meanwhile, the tax cut's stimulative effect overheats an economy already near full employment, pumps up an overextended **stock market** and compels the Fed to keep raising interest rates. The bubble bursts.

The Obamacare infrastructure also collapses in 2018, and Republicans now are the party bearing the blame for health-market chaos.

Something bad for Republicans happens in Alabama's special Senate race next week. Either a victory by party nominee Roy Moore, who takes on those party leaders who disowned him over allegations of sexual misconduct involving teens, which he has denied, or a shocking Deep South victory by his opponent cascades into momentum for Democrats in 2018.

Mr. Mueller uses information from Mr. Flynn and others to carry his inquiry deep into the Trump circle. Two potential nightmare scenarios for the White House emerge: Trump world financial entanglements with Russians gave the Kremlin leverage over the eventual president, and it's shown Mr. Trump obstructed justice to stop investigators from finding out. Mr. Trump, feeling the pressure from Mr. Mueller, becomes ever more defensive and wedded to conspiracy theories that he vents on Twitter, as he did over the weekend. Impeachment by a Democratic House becomes a possibility.

Either scenario is entirely plausible, which says plenty about today's **volatile** climate.



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THE WALL STREET JOURNAL.
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**Banking & Finance -- Streetwise: Traders Beware, a Reckoning Awaits**

By James Mackintosh
742 words
5 December 2017
The Wall Street Journal
J
B12
English


Bitcoin has been the ideal proving ground for investment's most powerful advice: caveat emptor, or buyer beware.

Individuals who lose money day trading a cryptocurrency hyped as a way to avoid central bank meddling can hardly expect to appeal to governing institutions when things go wrong. Watchdogs have intervened occasionally to restrict money laundering. But financial regulators have mostly steered clear.

Regulators are unlikely to sit on the sidelines much longer, and that is a shame. People duped into putting a small amount of bitcoin into a worthless initial coin offering or persuaded to day trade bitcoin on margin are taught important lessons in trust and security.

Aside from a change of heart on consumer protection, there are two decent reasons for them to interfere, both of which would have potentially catastrophic results for the survival of bitcoin and other digital currencies.

The first and most important is the danger to the financial system as it becomes entangled with bitcoin. Those links are just starting to be developed, with dozens of new funds pitching bitcoin to mainstream investors, while futures contracts will next week open bets on bitcoin to ordinary speculators.

The top 1,000 or so cryptocurrencies are valued at $350 billion, and if they all went to zero tomorrow banks would barely notice.

To get a sense of the scale, if bitcoin repeats this year's rise next year it would be valued at more than all Canadian-listed companies, or half the market value of all London stocks.

Still, size alone isn't the danger. When bubbles have burst in the past, the effects depended both on their size and how much they relied on debt. The far-bigger dot-com bubble popped in 2000 with nasty results for the **stock market**, but the lack of leverage helped the U.S. economy avoid the standard definition of a recession, as it didn't shrink for two consecutive quarters.

If bitcoin crashes soon it won't be a big problem. But the more the traditional financial system interacts with bitcoin, the more of a danger it will pose, as speculators borrow dollars to bet on bitcoin moves.

There is another danger, perhaps even more serious from the point of view of the central banks and regulators: Bitcoin might not crash. If the speculative fervor in the cryptocurrency is merely the precursor to it being widely used as an alternative to the dollar, it will threaten central banks' monopoly on money.

Bitcoin can't carry out enough transactions speedily enough to become a true currency, but modifications to the code or another cryptocurrency might succeed. No central banker could allow that to happen, both because she would be out of a job and because it would be economically disastrous.

Bitcoin enthusiasts tend to worry about the inflationary effects of central bank money printing, despite the absence of any significant inflation in the eight years since the Federal Reserve started to pump up its balance sheet. There is an irony in the fact that bitcoin creation is running at about 4% a year, while the Fed has begun to shrink the U.S. monetary base.

For enthusiasts, bitcoin's widespread use would be a welcome digital return to the 19th-century gold standard. Central bankers are more realistic, recognizing that it is politically impossible for authorities to ignore a crisis. The gold standard was suspended repeatedly by the U.K. whenever it became too onerous. The U.S. went further in the Great Depression, banning private holdings of gold coins and bullion for decades after its 1933 devaluation of the dollar.

Central bankers, says Tony Yates, an economist and former Bank of England official, "are taking [bitcoin] seriously because they don't want to lose control of the money supply."

Central banks can't print bitcoin, so if the world switches away from fiat currencies, they would be unable to create new money to alleviate a crisis.

If bitcoin ever threatens to become a runaway success, governments won't stand by and watch the currencies they issue wither.

The in-between outcome would be that bitcoin fails as a currency and finds a role as an alternative to gold, instead. If that is all bitcoin becomes, regulators will be less worried. Unfortunately for speculators, they should be less excited about it, too.



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THE WALL STREET JOURNAL.
U.S. EDITION

**MoneyBeat: Some Big Days for Dow**

By Chelsey Dulaney
326 words
4 December 2017
The Wall Street Journal
J
B11
English


The **Dow Jones Industrial Average**'s latest milestone was facilitated by some of the largest daily gains in the index's 120-year history.

The Dow added an average of 0.16% a day in the six weeks between its first close above 23000 in October and its close above 24000 on Thursday. That is the fourth-biggest daily percentage gain between milestones in the history of the index.

The Dow's latest 1,000-point addition -- the fifth such climb of the year -- was achieved in just 30 days.

The Dow and other U.S. stock indexes such as the **S&P 500** and **Nasdaq Composite** Index have surged this year amid an acceleration in global growth, soaring consumer confidence and optimism about a potential U.S. tax overhaul working its way through Congress that investors say would juice corporate profits.

While big gains from technology firms have been driving forces behind other indexes' record runs, the Dow's rally has been largely built on industrial titans such as aviation giant Boeing Co. and conglomerate 3M Co.

Boeing has driven roughly 20% of the Dow's overall point gains this year, while 3M has contributed 10%.

The Dow gives the largest weights to the priciest stocks, instead of the companies with the largest market capitalization. That has given Boeing and 3M -- which are the most and third-most expensive stocks, respectively -- a bigger impact on the overall index.

Dow milestones are becoming easier to reach as the index keeps climbing and the percentage gain required to rise 1,000 points keeps falling.

The Dow gained 4.3% as it moved between 23000 and 24000, for example, less than half what it took to climb from 10000 to 11000 in 1999.

But the size of the average daily gain is an indication that it was an impressive feat nonetheless.



Document J000000020171204edc40001y

THE WALL STREET JOURNAL.
U.S. EDITION

**A Tax Holiday Could Ripple Far --- If the GOP makes it easier for U.S. firms to bring cash home, financial markets may feel the effect**

By Mike Bird
891 words
4 December 2017
The Wall Street Journal
J
B10
English


A provision in the GOP tax plan giving U.S. companies a one-time cut for repatriation of earnings and cash held overseas could ripple through **financial markets**, including currencies, foreign savings vehicles and dollar funding for global banks.

The details of a final tax plan remain unclear, as the Senate bill passed early Saturday morning still needs to be reconciled with the House bill passed in November. But the vast sums of cash held abroad by large U.S. corporations such as Apple Inc. and Microsoft Corp. are a tantalizing target for the Internal Revenue Service and companies themselves, as they could use that money for investing at home -- or, simply to return to eager shareholders through buybacks or dividends.

However, questions remain about precisely how the trillions of dollars in U.S. corporate profits are stashed overseas -- and how a potential sudden mass repatriation of that cash could warp markets.

The balance of U.S. corporate earnings held overseas by Russell 1000 companies reached $2.6 trillion in 2016, according to data consultancy Audit Analytics, a figure that has more than doubled since 2009.

Much of that money is likely already held in dollars, though researchers aren't sure how much. And if companies abruptly bring that cash home, it could mean a sudden shift in currency markets and a potential run on the instruments where the money is currently parked.

Even a small portion of the total pile could amount to hundreds of billions of dollars' worth of euros, yen, Swiss francs and other currencies being exchanged for greenbacks, leaving those currencies in line for a sudden fall.

"Even though I do think most of the money is in dollars, even if 25% is not dollars we're talking about flows that are going to be of the order of a minimum of $1.5 trillion, maybe as high as $2 trillion," said Steven Englander, head of research and strategy at Hong Kong hedge fund Rafiki Capital. "And 25% of that is a decent chunk."

Goldman Sachs researchers believe that around 20% of the total is probably held in currencies other than dollars, but others suggest a higher figure. The nondollar portion could be as high as 40%, according to researchers at Bank of America Merrill Lynch.

The Senate Republican tax plan proposes a one-time 14.5% tax on earnings held overseas, which would then be regarded as repatriated. The House bill suggests a 14% tax. Currently, companies returning such a cash hoard to the U.S. would be hit with the 35% U.S. corporate-tax rate.

"The terms under which they're going to be able to repatriate are not as favorable as they wanted, but they're the best they're going to get. Any future change is going to be for the worse," Mr. Englander added. That means companies are likely to act fast, which could distort markets in the short term.

Several analysts have looked to 2004's Homeland Investment Act for clues as to what might happen. The one-time tax break for repatriations came into force the following year, and after declining in 2002, 2003 and 2004, the dollar rose around 13% in 2005.

But even if the majority of the cash is already in dollars, as many analysts expect, the potential market reactions may not stop there.

A chunk of U.S. corporate cash trapped overseas is invested in offshore U.S. dollar money-market funds. A 2016 Deutsche Bank study based on 12 companies with some of the largest overseas cash balances suggested that around 25% of the total was held in cash or cash equivalents, a category including money-market funds.

As companies return cash to the U.S. -- even just to onshore money-market funds -- a previously reliable source of greenback funding for global banks could shrink.

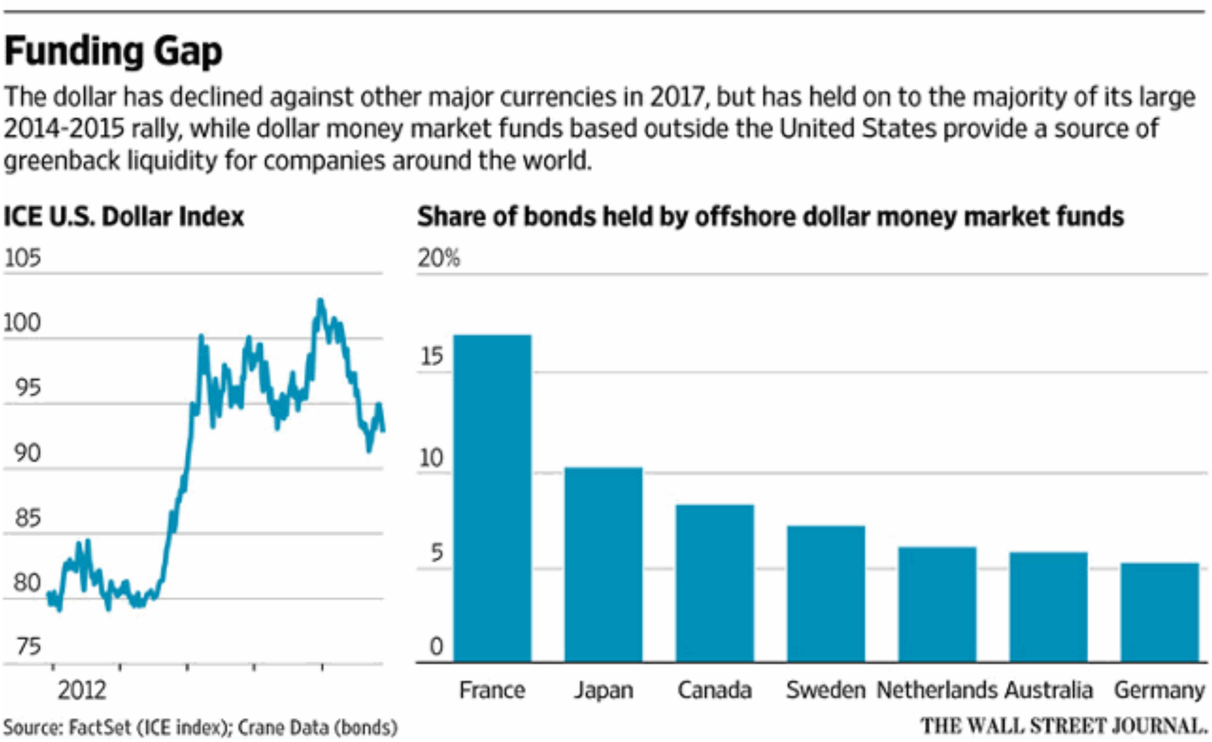
During the final quarter of 2016, when new U.S. money-market rules, which also reduced dollar funding to global banks, took effect, the euro-dollar cross-currency basis -- a measure of the cost of borrowing dollars in exchange for euros -- blew out to its widest levels on record.

"The reshoring of cash could put increased pressure on dollar funding markets overseas, widening the cross-currency basis," said Gennadiy Goldberg, U.S. strategist at TD Securities. "Some of the recent move may be due to year-end pressures, but we don't expect to see a reversal."

Other analysts believe repatriation may actually fall on U.S. assets, as money flows out of high-quality U.S. bonds. Though money is located outside the U.S. for tax purposes, it can be used to buy U.S. government and corporate debt.

"To me it looks like the majority of the cash and cash equivalents are actually held in the U.S." said Margaret Kerins, head of fixed-income strategy at BMO Capital Markets, who conducted an analysis of the financial statements of the 10 companies with the largest overseas cash piles.

Ms. Kerins added that U.S. Treasurys and corporate debt had the potential to be most negatively affected by the change.

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THE WALL STREET JOURNAL.
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Heard on the Street
**Economy Still Has Room to Grow**

By Justin Lahart
471 words
4 December 2017
The Wall Street Journal
J
B12
English


[Financial Analysis and Commentary]

The evidence that the U.S. economy has been accelerating is thinner than the headlines shout. But with the rest of the world economy improving and a possible tax-cut jolt coming soon, the good news is there is room for a pickup in growth.

In the years since the financial crisis, the U.S. economy has been in a deep rut. Growth averaged just 2.1% a year from the end of the recession to the first quarter of this year, making it the most tepid expansion on record.

But lately GDP has perked up, growing at a 3.1% rate in the second quarter and 3.3% in the third. Put that together with steady hiring and an ebullient **stock market**, the economy looks very strong.

But much of the strength in GDP over the past two quarters wasn't actually the result of stronger domestic demand. Instead, the growth was driven by a narrowing of the trade deficit and an increase in inventories, both of which will likely prove temporary. Absent trade and inventory swings, demand grew at an average rate of 2.4% over the past two quarters, matching the average pace over the previous four quarters.

Meanwhile, hiring, though strong, has been slowing since 2015. And the **stock market**'s rise has been driven not so much by U.S. economic growth as an increase in valuations and a pickup in profits from overseas.

The **S&P 500** trades at 18.4 expected earnings, compared with 16.8 times at the start of the year. And in the third quarter, earnings at companies in the **S&P 500** with greater than half their sales abroad were up 13.4% from a year earlier, according to FactSet, compared with 2.3% for companies with less than half their sales abroad.

Overseas economies have been looking better all year. The surprise is that hardly any countries are struggling. Deutsche Bank economist Torsten Slok points out that the International Monetary Fund forecasts only six of 192 countries will register an economic contraction next year. That would be the fewest on record.

The global economic environment counts as good news for the U.S. It should continue to bolster companies' overseas profits, and it could push up U.S. growth. Similarly, the tax cut, if it passes, would increase companies' profits and would provide a boost of around 0.3 percentage point to GDP growth next year, according to a preliminary analysis by Bank of America Merrill Lynch.

These effects mean U.S. growth should stay healthy but not accelerate too much from here.

With all of the optimism, it is worth watching just where the growth comes from.


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THE WALL STREET JOURNAL.
U.S. EDITION

**Investing in Funds & ETFs: A Monthly Analysis --- Monthly Monitor: U.S.-Stock Funds Push 2017 Gains to 17% but Foreign Funds Beckon**

By William Power
466 words
4 December 2017
The Wall Street Journal
J
R2
English


Stock-fund investors on average are riding double-digit gains as the 2017 finish line approaches.

The question remains: How long will this stretched-thin **bull market** last?

The average diversified U.S.-stock fund registered a total return of 2.6% in November and now boasts a 17.4% gain for the year to date, according to Thomson Reuters Lipper data. International-stock funds continue to rise as well, up 0.8% in November, to push their year-to-date gain to nearly 25%.

Emerging-markets funds in particular have had a good year, up more than 30%.

The U.S. **stock market** continues to be boosted by solid earnings gains by large companies. Even though many analysts fret about the high valuations for U.S. stocks -- and many are advising that investors redirect more money to overseas markets -- the skepticism hasn't ended the market's string of record highs yet.

Tech stocks, particularly large ones, are dominating.

"It has been quite a bit of a one-sided market performance. Tech and health care have been carrying the weight throughout the year," says Omar Aguilar, chief investment officer for equities at Charles Schwab Investment Management in San Francisco.

Leading the way among stock-fund sectors is science and technology, up 37% this year, including a 1.5% gain in November.

Mr. Aguilar says that the other dynamic has been dollar deprecation, which has helped the economy and large-cap multinational stocks.

"We started the year by proposing that people needed to move more money internationally and reallocate from the U.S.," he says. "We still believe that is the case. The U.S. is already at the end of the [economic] cycle." That said, he says he remains optimistic that it will be a positive year for stocks in 2018, both in the U.S. and overseas. And, he says, "I'm more optimistic than six weeks ago" because of recent economic data.

Bond funds up 3.1% for 2017

Bond funds fell modestly on the month. The Federal Reserve is likely to raise short-term interest rates again in December during its midmonth policy meeting. But so far, investors have taken the Fed's measured rate-increase actions as a sign of confidence in the economy.

Funds focused on intermediate-maturity, investment-grade debt (the most common type of fixed-income fund) were down 0.2% in November, to put their year-to-date gain at 3.1%.

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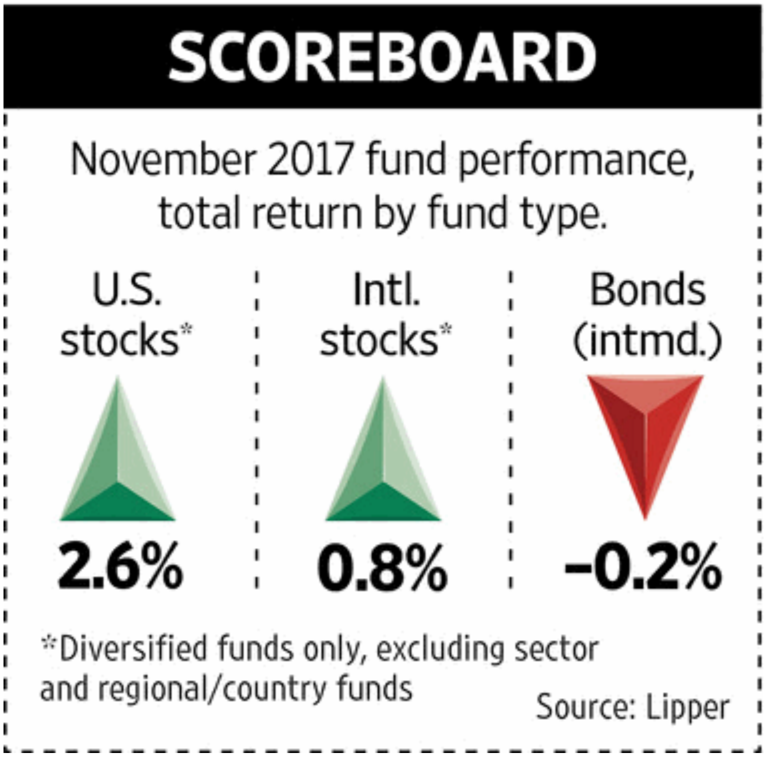




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THE WALL STREET JOURNAL.
U.S. EDITION

**Overseas Buying Gives U.S. Stocks New Lift**

By Michael Wursthorn and Riva Gold
843 words
4 December 2017
The Wall Street Journal
J
A1
English


Foreign-investor money is pouring into the U.S. **stock market** at the fastest clip in years, ending a long period of selling and providing a fresh boost to a more than eight-year rally.

Overseas buyers have put $66.4 billion into U.S. stocks this year through September in their biggest buying spree since 2012, according to the most recently available data compiled by Deutsche Bank. Such buying was particularly robust heading into the fall, when investors bought $26.3 billion of stock in September.

This interest marks a sharp reversal after four straight years of outflows, when these investors pulled billions of dollars out of shares of U.S. companies.

Growing foreign-investor interest in U.S. stocks has helped keep the long rally going, despite concerns this year over policy gridlock and valuations that some say look stretched.

The **Dow Jones Industrial Average** last week powered through 24000, notching its fifth major milestone this year on renewed optimism about a tax cut and faster economic growth.

The Dow edged slightly lower Friday after falling more than 350 points earlier in the session. The steep decline followed reports that former national security adviser Michael Flynn was cooperating with the special-counsel probe into potential links between the Trump campaign and the Kremlin during last year's election.

Gains throughout November still pushed both the Dow and S&P positive for an eighth consecutive month.

And there are signs that foreigners aren't done buying. Allocations to U.S. equities among global fund managers recently surveyed by Bank of America Merrill Lynch rose in November -- but remain below the historical average.

"We're very much making the case to our clients to have more exposure to the U.S. market," said Michael Russell, a portfolio manager in London for Hermes Fund Managers.

After focusing on emerging markets this year, Mr. Russell said a strong U.S. economic and corporate backdrop supports putting more money into U.S. stocks, especially financial stocks that can benefit from deregulation and an improving economy.

Overseas investors could become an increasingly important factor for the U.S. **stock market** when other drivers of the long rally have been fading away.

Corporate buybacks peaked in 2015 and have been falling since. U.S. stock mutual funds have been experiencing steady outflows, and aging baby boomers have been pulling money out of stocks in favor of safer investments like bonds as they approach retirement.

Even with their recent buying, foreign investors own only about 14% of the U.S. **stock market**, according to a report compiled last year by the Treasury Department and Federal Reserve Bank of New York. Analysts closely track foreign purchases, in part because they have signaled a market top in the recent past.

Overseas buying peaked in 2000 and 2007, with foreign investors piling into the U.S. market just before big selloffs. Some analysts say that could be a result of a "home bias" for foreign investors that creates challenges to investors who want to swiftly moving in and out of the U.S. market. The U.S. also tends to be a more defensive place to invest if there are concerns about a global downturn.

"That has been the historical pattern and that in itself is worrying," said Torsten Slok, chief international economist at Deutsche Bank. "As a leading indicator, it is something we are watching."

Still, many investors in Europe, Asia and the Middle East seem to be buying U.S. stocks for much of the same reasons as domestic investors, analysts say.

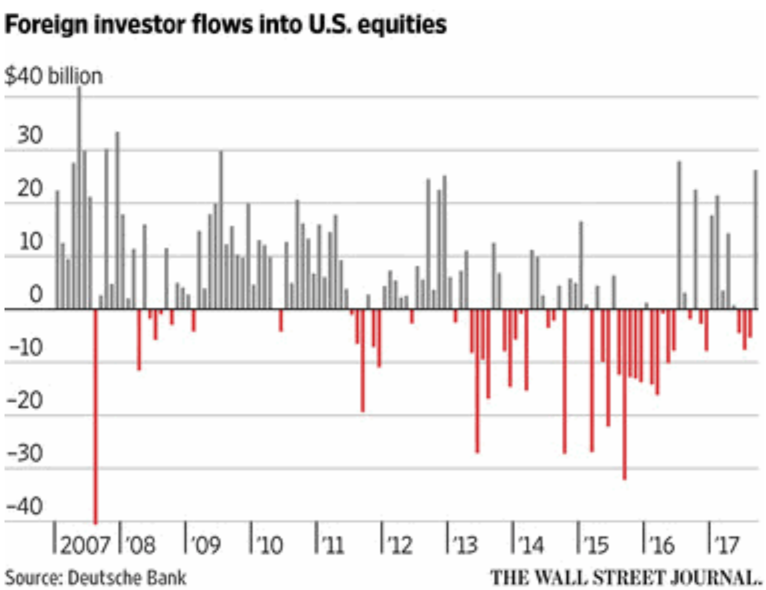
U.S. companies boast some of the best profit growth in the developed world. Stocks in the **S&P 500** are on track for earnings growth of 10.8% in 2017 and an additional 10.7% in 2018, according to CFRA Research.

Those numbers could be stronger if Congress enacts a proposed tax overhaul that cuts the corporate tax rate.

By comparison, earnings in the Stoxx Europe 600 increased 1.7% in the third quarter from a year ago, according to Thomson Reuters data, dragged down in part by a stronger euro that makes exports less competitive and sales to the U.S. worth less when translated back to euros. The weakening dollar, meanwhile, lifts U.S. exports.

While growth in Asia, Europe and much of the rest of the world has been picking up, the U.S. economy shows few signs of slowing down. The Commerce Department said Wednesday that U.S. GDP expanded at a 3.3% annual rate in the third quarter, adjusted for inflation and seasonality. It was the strongest quarter in three years and exceeded forecasts.

The U.S. **stock market** "has high-quality earnings, a good growth outlook, and a lot of the backdrop is more positive," said Edward Park, investment director at Brooks Macdonald in London, who has been adding to his holdings in U.S. equities this year.

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THE WALL STREET JOURNAL.
U.S. EDITION

**Investing in Funds & ETFs: A Monthly Analysis --- Options Trading: The VIX Riddle, Decoded --- The stock market's volatility measure has taken on a life of its own, and it's not always helpful**

By Simon Constable
927 words
4 December 2017
The Wall Street Journal
J
R5
English


The VIX is the label people commonly use for the recently renamed Cboe Volatility Index. What else it is isn't always clear to investors.

The problem is that the VIX has become something of a Rorschach inkblot, with people projecting meaning into the index that perhaps isn't there, such as signs of an impending market crash.

People outside the options industry ascribe powers to the index that it never had, says Pravit Chintawongvanich, head of derivatives strategy at Macro Risk Advisors in New York. It is, he says, nothing more than a measure of expected volatility in the stock market. It is not a broad measure of risk in the market or a reliable indicator of the market's direction.

Misunderstanding the VIX isn't helpful to investors. But don't despair. Here's what you need to know.

What exactly is the VIX? It is a measure of how volatile the broad stock market, the S&P 500, is expected to be over the next 30 or so days. A higher VIX means investors expect more volatility. A lower VIX means investors expect less volatility.

The VIX figure comes from a complicated options-market calculation (the Black-Scholes formula) that helps answer the question of how much investors are willing to pay to buy insurance against a market drop, in the form of options. When the VIX is higher, it means people are willing to pay more. That's why it is known as the "fear gauge."

Why isn't the threat of a nuclear confrontation pushing up the VIX? The escalating war of words between the U.S. and North Korea simply hasn't registered enough with investors to show up as more than an occasional blip in the VIX.

This is a good example of what the VIX doesn't do. While the index is a fear gauge in the sense that it measures the level of concern today about possible market volatility in the near term, it isn't a measure of every risk that might affect share prices at some point.

"We are just going through a period of extremely low volatility, and all the VIX does is measure how volatile the markets are going to be," says Mr. Chintawongvanich.

Indeed, though volatility flared on Friday, the VIX is now about as low as it has ever been. In the year through October, the index averaged 11.2. That compares with an average of 19.5 since 1990.

Does the VIX measure complacency? The VIX tends to be low when the recent and current volatility of the market are low, suggesting a placid market may lull many investors into a sense of security about the near future. It's the same as with any insurance -- flood insurance is cheap when there are rarely floods.

"The longer it's been since the market has had a significant pullback, the more complacent people have been, and the VIX does indicate that," says Russell Rhoads, director of product advancement, global derivatives, at Cboe Global Markets (parent of what used to be called the Chicago Board Options Exchange, or CBOE).

In this sense the VIX is something of a trailing indicator, even though it measures expectations. Mr. Rhoads notes that the VIX remained elevated through 2009, in the wake of the global financial crisis, even though the market was going gangbusters through most of that year and didn't see a major pullback after March.

Does a low VIX portend a market top? The evidence says not necessarily. The argument that it does is based on the idea that when investors lose their skepticism and become complacent, it is often a sign that the major indexes are reaching a peak, and perhaps a pullback is in the offing.

"VIX at 10 is a historically low level going back 30 years," says Dan Wantrobski, director of research at Janney Capital Markets and the firm's technical analyst. But he points out that in the mid-1990s the VIX dipped below 10 a few times, and the market didn't crash.

Later that decade, in 1999, amid the euphoria of the dot-com bubble, the VIX rarely dipped below 20, averaging around 24 for the year, an elevated level historically. But the following year the tech bubble popped and stocks took a dive.

"It's not extremely useful as a primary indicator" of the market's direction, says Mr. Wantrobski.

Name games: There's room for some confusion among investors between today's VIX and an earlier VIX that now goes by another name. The current VIX, launched in 1993, measures the expected **volatility** of the **S&P 500**. Before that, a **volatility** index for the S&P 100, launched in 1990, was known as the VIX. It now goes by the name VXO.

And one more thing to keep in mind: The stocks in the S&P indexes change with the changing fates of companies and the emergence of new ones. For instance, Apple Inc. wasn't always in the **S&P 500** like it is now. That means that the expected **volatility** is based on a set of stocks that changes over time.

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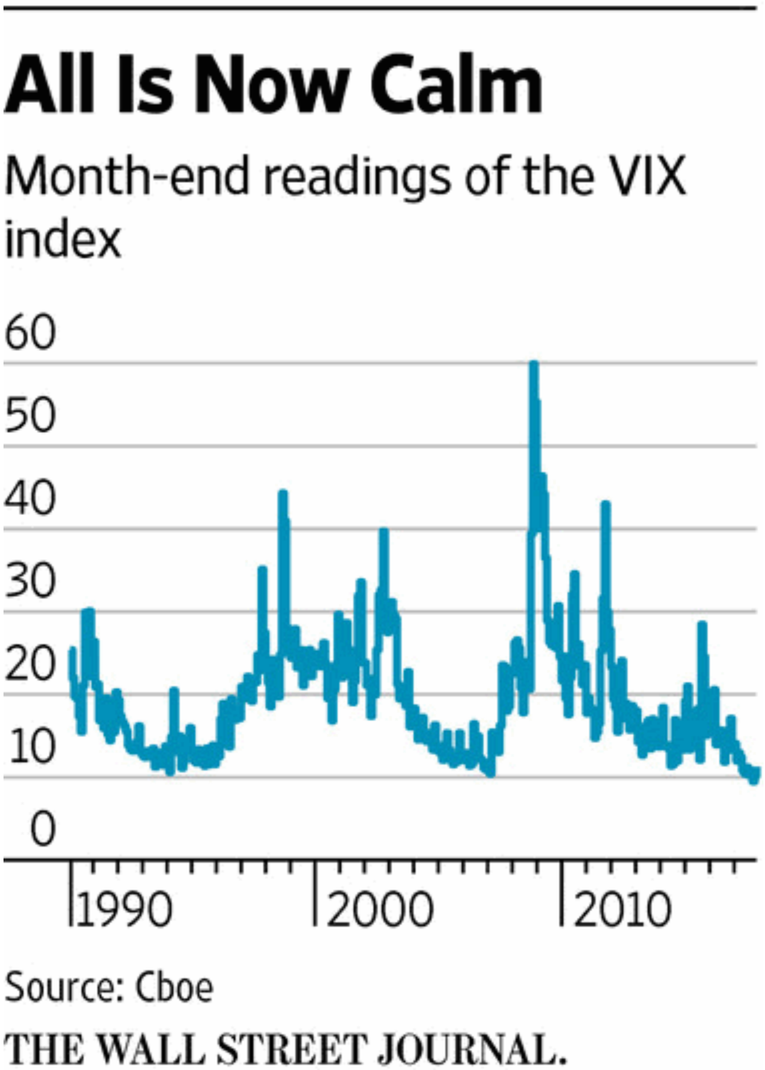


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THE WALL STREET JOURNAL.
U.S. EDITION

**Investing in Funds & ETFs: A Monthly Analysis --- Sector Strategy: Large-Cap Growth Funds Dominate in 2017, Up 29% --- Solid earnings bolster several U.S. sectors, though many overseas stocks do even better**

By Daisy Maxey
961 words
4 December 2017
The Wall Street Journal
J
R12
English


Mutual funds focused on U.S. large-cap stocks are holding on to strong, steady gains in 2017, though their performance still trails that of some international-stock categories.

The average diversified U.S.-stock mutual fund has gained 17.4% this year through November, according to Thomson Reuters Lipper data, buoyed by low interest rates, solid earnings and hopes for pro-growth economic actions from the Trump administration.

While the funds are on track to beat last year's average gain of 10.8%, U.S. stocks had investors jittery for a time on Friday, with the **Dow Jones Industrial Average** down 350 points at one point as the latest reports swirled about former national security adviser Michael Flynn, just a day after the Dow had its biggest one-day gain of the year. But the Dow closed down just 40.76 points by day's end Friday.

Growth has trounced value this year, as measured through November: U.S. large-gap growth funds, which invest in companies with strong earnings gains, have surged 28.9% this year. That compares with a 14.1% gain for value funds, or those that look for beaten-down stocks, a chore in a **bull market**.

The key has been an increase in price/earnings ratios and strong earnings growth, particularly across some of the faster-growing areas of the **stock market**, such as technology, says Malcolm Smith, head of international equity at J.P. Morgan Asset Management.

**Volatility** in the U.S. **stock market** spiked Friday but had been persistently low this year, and stocks sectors had been moving independently of one another. Correlations -- when sectors move in lockstep -- have declined to levels not seen since the 1990s, says Ann Holcomb, a portfolio manager at T. Rowe Price Group. Low interest rates and policy changes out of Washington, including tax overhaul, should support further upside for U.S. shares, she says.

Still, T. Rowe Price is cautious as valuations are extended against a backdrop of modest economic growth and uncertainty about Washington's policy efforts, she says.

With the market's strong performance this year, few investors have been seeking a hedge. As such, the worst-performing diversified U.S.-stock fund groups this year have been those that bet against the market or seek to provide a cushion against its risks.

Dedicated short-bias funds, which take a net short position in the market, were the worst-performing, with a 22.7% loss on average.

Up until last week at least, many investors thought U.S. valuations were stretched thin, leading them to look overseas. International-stock funds have gained 24.8% on average so far this year, according to the Lipper data, with international small-stock and midcap growth-stock funds up 31.4% and international multicap growth-stock funds ahead 27.8%.

Stock funds focused on the Asia-Pacific region have outpaced others in the non-U.S. category. China-region funds rallied 42.8% this year through November, while Pacific ex-Japan funds surged 36.8% and India-region funds shot up nearly 37.5%.

Broad emerging-markets funds also have outperformed most other fund categories, with a 30.2% gain.

"For international markets, it's about companies starting to deliver on earnings growth," says Mr. Smith. Some of the restructuring of banks and other companies in Europe has taken longer than in the U.S., he says.

"We're starting to see the fruits of reforms coming now, particularly in Europe," he says. What's more, he adds, "some of the stimulus that's been put in place, particularly in areas like China, has been very successful."

Among mutual funds that focus on particular stock sectors, science and technology funds have far outpaced others. Even there, however, it has paid to invest globally. Global science and technology funds have surged 44.9% this year, outpacing all other mutual-fund categories, while U.S. science and technology funds have risen 37.3%.

In contrast, the energy sector, which was a top performer last year, has been a drag on funds this year, partly because a surge in U.S. oil production has weighed down **oil prices** this year.

The worst performers among sector stock funds are those that invest in energy master limited partnerships, down 10.5%, and natural resources, down 8.5%. Technologies such as horizontal drilling and fracking have disrupted the energy industry, leading to increased production capacity and causing investors to worry that any **oil price** gains will be limited, says Mr. Smith.

Indeed, some shareholders are questioning whether some big energy firms will be able to sustain their dividends at current rates given changing industry dynamics, he says.

Mutual-fund investors, meanwhile, have redeployed assets to take advantage of the strong run by international shares. They pulled $147.1 billion from U.S.-stock mutual funds this year through September, while adding $58 billion to world-stock mutual funds over the same period, according to the Investment Company Institute.

And as investors embrace low-cost passive management, much of the money flooding out of mutual funds is being reinvested in exchange-traded funds, with a significant portion of that also flowing to international ETFs.

U.S.-stock ETFs took in $107 billion this year through September, compared with nearly $121.4 billion for world-stock ETFs, says the ICI.

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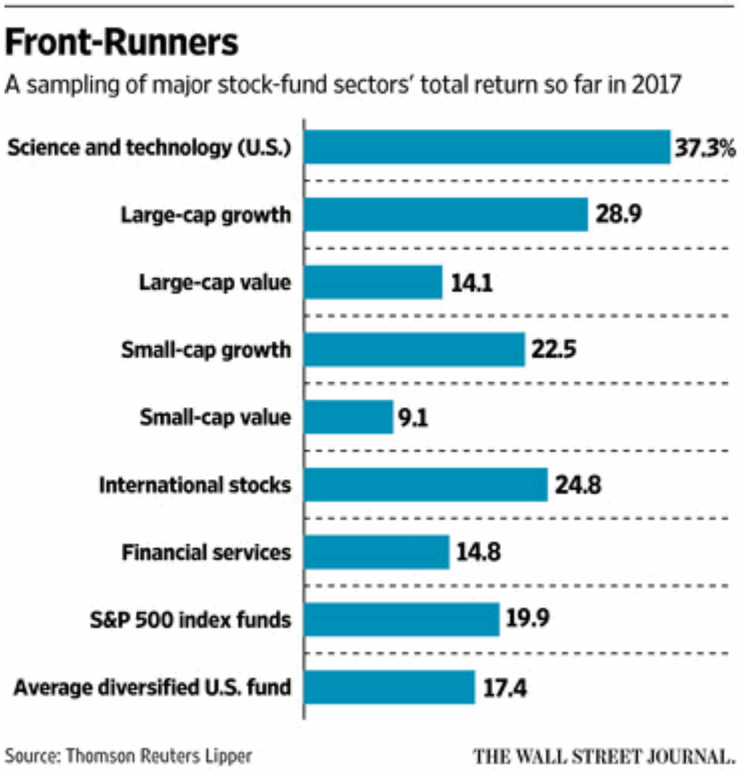




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THE WALL STREET JOURNAL.
U.S. EDITION

**Investing in Funds & ETFs: A Monthly Analysis --- Fundamentals of Investing: No-America Portfolio: Two Big Investors Make the Bold Case --- Both say U.S. stocks have become too pricey to be worth it for a while**

By John Coumarianos
940 words
4 December 2017
The Wall Street Journal
J
R4
English


Should you own no U.S. stocks at all? Two big institutional investors argue precisely that.

Excluding roughly half the world's **stock market** from your portfolio is an extreme recommendation, and few advisers would agree with going this far. But it is worth examining the argument for zero U.S. stocks at a time when many advisers agree that at least some additional foreign exposure is warranted.

Perched on opposite coasts of the U.S., Research Affiliates in Newport Beach, Calif., and Boston-based Grantham Mayo Van Otterloo, or GMO, have the same dim view of U.S. stock valuations. They say U.S. stocks are too expensive for their returns over the next seven to 10 years to beat inflation by much, if at all. That's a grim forecast, as stocks have produced average annual returns of 6 to 7 percentage points above inflation over long periods. Here's a closer look at their outlooks.

Research Affiliates:

'Spicy food' is worth it

In a recent paper, Jim Masturzo and Jonathan Treussard of Research Affiliates created a graph depicting the expected returns and expected **volatility** of various asset classes, and of various portfolios consisting of different mixes of those asset classes.

Next, the authors focused on one of the portfolios in the middle of the graph that anticipates 10% **volatility**, because, they argue, it reflects the moderate risk many investors would choose if given a similar range of choices.

It turns out that this 10%-**volatility** portfolio has just 28% of its assets in stocks. Moreover, that includes 19% in emerging-markets stocks and 9% in developed-country foreign stocks. In other words, "today's diversified portfolio does not invest in U.S. equities at all," say Messrs. Masturzo and Treussard, who use a metaphor of spicy food to characterize their preferred portfolio of non-U.S. stocks.

"Like adding spice to a meal, adding asset classes beyond traditional core stocks and bonds to an investment portfolio can induce uncomfortable reactions, starting with the occasional heartburn," but it's worth it, the study says.

Research Affiliates estimates that developed-country foreign stocks will deliver around a 5% real annualized return over the next decade, while emerging-markets stocks will deliver around 6% annualized. Large-cap U.S. stocks, by contrast, are poised to deliver around a real 0.4%, while small-cap U.S. stocks are likely to deliver 0.6%, the firm says.

The Research Affiliates stock-valuation model has three inputs -- dividend yield, cash-flow growth and the cash-flow multiple. The last metric is the most speculative, and assumes a reversion to the long-term mean of the Shiller price/earnings ratio, a measure of share price relative to the past decade of average, inflation-adjusted earnings.

GMO:

Just say no to the **S&P 500**

Members of GMO's asset-allocation committee, James Montier and Matt Kadnar, recently came to similar conclusions as the analysts at Research Affiliates.

In an August 2017 paper, they argued that at current share prices, putting money into an **S&P 500 index** fund is more speculation than investment.

GMO breaks down **stock-market** returns into four components -- dividend yield, earnings growth, profit margin and P/E multiple.

Over long periods, dividends and earnings drive returns, while margin and multiple changes can drive short-term returns. Since 1970, almost all of the **S&P 500**'s annualized real return of 6.3% has come from dividends and earnings growth. Only 0.60 percentage point -- less than 10% -- of that return has come from margin and multiple changes. Since 2007, however, margin and multiple expansion have contributed slightly more than half of the index's 13.6% annualized real return.

Messrs. Montier and Kadnar say their approach is similar to the Shiller P/E, but they try to account for the cyclicality of earnings in different ways.

Of course, there's no natural law that says today's high margins must revert to their long-term norm in seven years, which is GMO's working assumption.

Indeed, the firm's chief strategist, Jeremy Grantham, has argued that margins may take decades to contract to their long-term mean. But GMO's forecast is useful in showing why continued high returns are unlikely, for they would require still further margin and multiple expansion. An investor assuming the returns of the past seven years can persist must also think that a Shiller P/E multiple of 30 can go higher.

In fact, the only other times it has been higher since 1880 was on its precrash runs to 34 in 1929 and to 44 in 2000.

Not only do U.S. stocks likely offer poor future returns, but so do their counterparts in developed foreign countries, in GMO's opinion. However, Messrs. Montier and Kadnar conclude that if one must own stocks, then one should own foreign stocks.

International large-cap stocks are poised to lag behind inflation by 1.2 percentage points annually for the next seven years, GMO forecasts, but it figures they will outpace U.S. large-caps by about 3 percentage points annually. GMO expects emerging-markets stocks to do better still, outpacing inflation by 2 percentage points annually.

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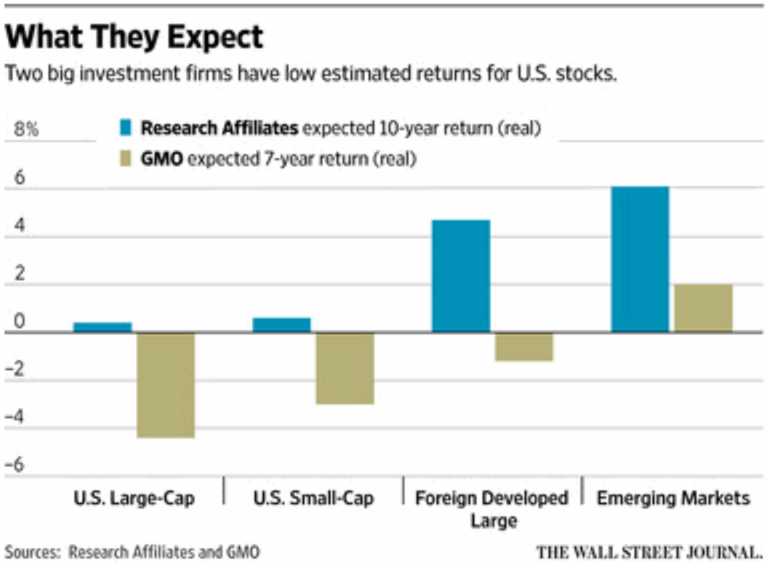




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THE WALL STREET JOURNAL.
U.S. EDITION

**Investing in Funds & ETFs: A Monthly Analysis --- What to Consider Before You Dash Into Cash --- In this bull market, many investors wonder if it's time to take money off the table -- and where to put it**

By Michael A. Pollock
1,178 words
4 December 2017
The Wall Street Journal
J
R1
English


As stocks continue to march mostly higher, many investors are asking the same question: Isn't this a good time to sell stocks and put more of my portfolio into cash?

The broadly simple answer, many financial experts say, is that taking some money off the table could make sense for anyone who needs it soon. But, they add, it might be a really bad idea for those who have a long-term investment horizon and are mainly just worried about another market correction.

But that's the simple answer. Individual investors still need to figure out how much cash -- meaning uninvested assets in a portfolio, as well as low-interest holdings like a bank savings account -- does it make sense to have. In addition, where should an investor park that cash? And what's the best way to build cash without sabotaging a long-term investment strategy?

Any move to raise cash should be based on needs and be consistent with the goals of a long-term financial plan, not done in reaction to each twitch and turn in the markets, professionals say.

"There have been many times during this **bull market** when people have said for any number of reasons that now was the time to take money off the table -- and it turned out that it wasn't," says David Kelly, chief global strategist at J.P. Morgan Asset Management.

Here are some questions to consider before building a lot of cash in a portfolio:

1. Valuations are high, so why not shift from stocks into cash now?

Investors generally get better returns by buying stocks more aggressively after a major market downdraft and then by reducing equity risk when valuations have risen a lot, says David Giroux, who manages T. Rowe Price Capital Appreciation Fund (PRWCX). With U.S. stock valuations now above long-term averages, he says, it might make sense to trim stockholdings tactically.

But tactical strategies carry more risk than investors may realize. A key problem is that doing them effectively requires being right about both when to take money out of stocks and when to go back into the market, notes Peter Andersen, chief investment officer at Fiduciary Trust Co., Boston.

Although short-term interest rates are rising -- with high-yield bank savings paying 1% to 2% -- putting a lot into cash could pose an opportunity loss if the stock rally continues.

"This is a tough enough business anyway, and [by trading tactically] you may be stacking the deck against yourself," Mr. Andersen says.

2. Is there a prudent way of taking some money off the table?

Base the decision about how much cash to raise on expected needs for perhaps six months, says Kate Stalter, co-owner and senior adviser at Better Money Decisions, in Albuquerque, N.M. An investor also should consider selling some equity holdings if the actual allocations in a portfolio have moved out of line with the targets set by an investor's financial plan, she adds. So, if the plan called for holding 60% in stocks, and the rally has pushed an investor's equities allocation significantly above that, trim the equities back to 60% and deploy the cash elsewhere.

An alternative strategy, says fund manager Mark Travis, might be doing the opposite of buying by dollar-cost averaging -- which involves putting a set amount of money into stocks or a mutual fund each month, regardless of market conditions. In this case, an investor might raise cash gradually as markets advance by automatically selling a set amount of assets monthly.

Mr. Travis, who oversees Intrepid Capital Fund (ICMBX), likes to change his fund's allocations gradually, letting the cash position drift up or down depending on the trends in market valuations.

3. Where is the best place to park cash?

Use two separate parking places, says Paul Gaudio, a wealth-planning strategist at Bryn Mawr Trust's Princeton, N.J., office. One of those is inside an investment portfolio, representing the cash an investor might use to buy more stocks or bonds or to cover fees and taxes. â€‹In portfolios he oversees, that cash usually represents a modest 5% or less of the total, though Mr. Gaudio has increased cash for some clients and plans to revisit the cash question with them toward the end of the first quarter of 2018.

The second parking spot should be an account where an individual wants to keep funds in reserve for any planned or extraordinary expenses, Mr. Gaudio says. Bank accounts are one option, but an investor might put some money into a money-market fund or a short-term U.S. Treasury security, he says.

4. How can an investor decide when to redeploy cash into stocks?

Instead of waiting for a market correction and then trying to figure out whether it's a good time to reinvest, develop a plan for buying stocks in advance, says Spuds Powell, managing director of Los Angeles-based advisory firm Kayne Anderson Rudnick. Leaving the decision until stocks are plummeting is a bad idea, because many people become paralyzed by worry that the bottom will be a lot farther down, he says.

Work out a strategy with an adviser that if a broad market average were to fall by a certain percentage, the adviser would reinvest a set portion of the cash in a portfolio in stocks. People who manage their own holdings in a brokerage account could accomplish the same thing by simply placing limit orders that would trigger purchases when prices dropped by a specified amount.

5. Still, the temptation to bail out will always be there. Could some investment strategies make it easier to have the discipline to hold less cash?

Just as limit orders could be useful for planning when to buy, they also can offer protection against an abrupt market correction, notes Mr. Gaudio of Bryn Mawr Trust. Such an order in a brokerage account might trigger the sale of stocks or exchange-traded funds if prices fell by a certain percentage or to a specified price point, limiting the risk of further losses.

But keep in mind that such sales could trigger capital gains and might prove self-defeating if stocks dip, but then rebound strongly shortly afterward, Mr. Gaudio adds.

A solution used by Mr. Powell of Kayne Anderson Rudnick is to design a portfolio, or a portion of a portfolio, that distributes a steady flow of income each month from a combination of interest payments and dividends. "When people see that regular stream of income, it goes a long way toward eliminating the anxiety some have about the market," Mr. Powell says.

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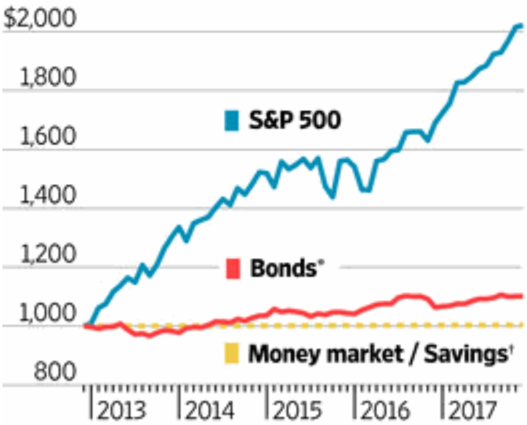
Mr. Pollock is a writer in Ridgewood, N.J. He can be reached at reports@wsj.com.

## Lost Opportunity

Interest rates have risen, but over time, investors have done much better in the stock market. Comparing returns on $1,000 invested at year-end 2012.




*iShares broad-bond ETF, symbol AGG

†Money market is $1,005 and savings $1,004

Sources: FactSet (S&P 500, AGG); FDIC (national rate)

THE WALL STREET JOURNAL.

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Document J000000020171204edc40001g

THE WALL STREET JOURNAL.
U.S. EDITION

**Investing in Funds & ETFs: A Monthly Analysis --- Exchange-Traded Funds: Eurozone-Focused ETFs Finally Have Their Year --- Here are several funds to consider to ride the gains in German stocks and broader Europe**

By Gerrard Cowan
1,034 words
4 December 2017
The Wall Street Journal
J
R6
English


After a tumultuous few years, U.S. investors are piling into Europe.

It has been a great year for exchange-traded funds that focus on eurozone stocks, a sector in which many ETFs have notched returns of more than 20%. As good a year as U.S. stocks have had, the MSCI Europe Index and the MSCI EMU Index (European Economic and Monetary Union) for the year-to-date through November were up 19% and 23.7%, respectively, compared with a gain of 18% for the MSCI USA Index.

Many European companies have strong earnings and are undervalued versus American peers. Political concerns have calmed, particularly since Emmanuel Macron's defeat of Marine Le Pen in the French election.

In addition, the euro has strengthened against the dollar, boosting U.S. investors' returns, while the European Central Bank's ultra-accommodating monetary policy has supported broader economic stability by keeping bond yields low.

U.S. investors can tap eurozone stocks through three broad categories of exchange-traded funds, according to Daniel Sotiroff, an analyst in Morningstar's passive-strategies research team. First, a number of funds provide access to companies across multiple or all eurozone countries.

Major names in this category include iShares MSCI Eurozone ETF (EZU), a $15 billion fund that was up 28.3% this year through November, and SPDR Euro Stoxx 50 ETF (FEZ), a $4.4 billion fund with a return of 26.5%.

These funds could attract investors who want a multinational European exposure, but wish to limit it to the eurozone, says Mr. Sotiroff. For example, an investor might have a **bearish** view on the U.K. as the country's exit from the European Union draws closer.

Second, there are ETFs that invest in stocks in particular eurozone countries, such as France or Germany. This could be attractive for a number of reasons, says Tushar Yadava, an investment strategist in BlackRock Inc.'s iShares unit, which has a range of eurozone-focused ETFs, from broad funds like EZU to country-specific vehicles. Individual countries are often strong in particular sectors, he says.

For example, investing in iShares MSCI Germany ETF (EWG) could be a good way of accessing "consumer discretionary" companies like Adidas or Daimler.

Additionally, some investors might simply wish to play on a particular country's success. Germany's economic growth has outpaced that of the broader eurozone, says Garrett Paolella, managing director at Horizons ETFs Management US, which runs Horizons DAX Germany ETF (DAX), a $17.28 million fund that is up 28.23% for the year to date.

The DAX fund tracks the DAX Index of Germany's largest companies, whose members are major exporters, meaning investors derive a benefit from global growth as well.

And then there are funds that take a broader look at Europe, investing in eurozone equities along with stocks in the U.K., Switzerland and other countries that don't use the euro. Mr. Sotiroff points to Vanguard FTSE Europe ETF (VGK) and iShares Core MSCI Europe ETF (IEUR) as standout examples. For most investors, he says, these funds are "the better way to go," offering greater diversity across different countries and currency zones while still providing access to major, non-U.S. names.

"You're getting pretty broad access across the entire market spectrum," he says.

The currency factor is key for investors in European stocks, whatever option they choose. If a currency is strengthening against the dollar, that could provide U.S. investors with an additional tailwind: When they convert their returns back into dollars, their buying power could gain a boost, on top of whatever increase has been seen in the underlying equities.

The reverse, of course, is also true.

This helps explain much of the investor interest in the eurozone this year, according to Mr. Yadava.

While EZU has generated returns of 28.3%, the currency-hedged version -- HEZU, with about $1.92 billion in assets -- is trailing, up about 16%. HEZU had net inflows this year of about $611 million as of Nov. 27, says Mr. Yadava, compared with the net inflows of $5.5 billion in EZU.

The decision whether to hedge depends on the preferences of the individual investor, says Arne Noack, head of exchange product development at Deutsche Asset Management in the Americas for Deutsche Bank, which runs both Xtrackers MSCI Eurozone Hedged Equity ETF (DBEZ) and the unhedged Xtrackers Eurozone Equity ETF (EURZ), as well as Xtrackers MSCI Europe Hedged Equity Fund (DBEU), which includes non-eurozone equities.

There could be a tactical benefit, depending on the investor's view of a currency's performance. Investors should do some additional research to see whether hedging a particular currency makes tactical sense.

Additionally, investors should consider that over very long periods, currency gains tend to balance out, Mr. Noack says.

Still, for some investors, hedging might be attractive for its ability to damp the **volatility** of a portfolio.

Americans shouldn't put all their eggs in the European basket, says Matthew Bartolini, head of SPDR Americas Research at State Street Global Advisors, which runs FEZ and a number of other European funds, such as SPDR Stoxx Europe 50 ETF (FEU).

He argues that for many investors, it could make sense to place a broader international fund at the core of their non-U.S. holdings, such as SPDR Portfolio World ex-US (SPDW), and then overlay this with smaller investments in ETFs that look to specific regions.

Mr. Sotiroff agrees, saying investors should aim for global diversification. Even then, "anything could happen tomorrow," he says, noting the continuing concerns over the future of the common currency.

"Lots of things could happen in the future with the euro, or the politics in some of its member countries," he says. "That's the uncertainty you deal with as a stock investor."

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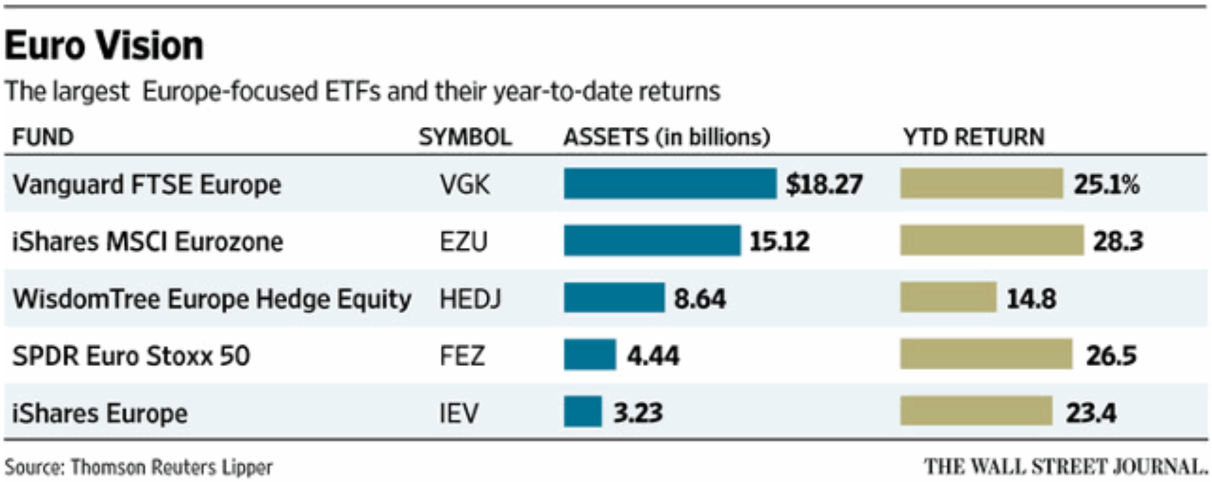




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THE WALL STREET JOURNAL.
U.S. EDITION

**U.S. News: U.S. Watch**

372 words
4 December 2017
The Wall Street Journal
J
A2
English


MICHIGAN

Veteran Congressman

Won't Run for Seat

Democratic Rep. Sander Levin of Michigan announced Saturday he won't run for re-election next year after more than three decades in Congress.

Mr. Levin said that after his term ends, he will join the University of Michigan's Gerald R. Ford School of Public Policy.

Mr. Levin, 86, arrived in the House in 1983 and became a leading Democratic voice on tax and trade issues. He joined the tax-writing House Ways and Means Committee in 1987.

-- Kristina Peterson

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FEDERAL RESERVE

Policy Fails to Tamp

Risk-Taking: Group

The Federal Reserve's rate increases don't appear to have cooled **financial markets** and may not therefore be having much impact on the U.S. economy, the Bank for International Settlements said Sunday.

In its quarterly report, the BIS said that despite the four increases in short-term policy interest rates since the end of 2015, asset prices suggest investors are just as willing to take on risk as before, if not more so.

The BIS has long warned that interest rates are too low, fueling a dangerous buildup of debt.

-- Paul Hannon

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VIRGINIA

Police Response to

Protest Is Criticized

Police in Charlottesville, Va., failed to control violence during white nationalist protests in August resulting in "disastrous results," according to an independent report commissioned by the city released Friday that called the police response "inadequate and disconnected."

In the 220-page report, Timothy J. Heaphy wrote that poor planning, bad orders and general incompetence exacerbated violent clashes that exploded at the "Unite the Right" rally of hundreds of white nationalists on Aug.

12. While the report addressed two other events, it focused on the August event in which a woman was killed when an alleged Nazi sympathizer drove his car into a crowd of counterprotesters.

City Manager Maurice Jones said while Charlottesville doesn't agree with all of the report, it is an important step in helping move forward. "We, and our law enforcement partner in the Virginia State Police, undoubtedly fell short of expectations, and for that we are profoundly sorry," he said in a statement.

-- Cameron McWhirter



Document J000000020171204edc400029

THE WALL STREET JOURNAL.
U.S. EDITION

**Investing in Funds & ETFs: A Monthly Analysis --- Saving for Retirement: Now in 401(k)s: Alternative Investments --- Hedge funds, real estate and other assets are finally breaking into some retirement plans**

By Bailey Mccann
907 words
4 December 2017
The Wall Street Journal
J
R4
English


Hedge funds, private equity and real estate have had a tough time breaking into the individual retirement market.

But, while plan sponsors are cautious, alternative-asset managers are starting to make some headway.

In recent years, alternative investments such as hedge funds, private-equity and real-estate firms have all made a push to be included in 401(k)s and other defined-contribution retirement plans.

The companies argue that the active-management and long-duration strategies they offer add necessary diversification to portfolios that have become largely defined by passive investments in recent years.

That message has been received by wealth managers looking for new options for some of their private clients. But it has been a tougher sell with sponsors of 401(k) and defined-contribution plans.

Employees with access to 401(k)s and defined-contribution plans typically get a menu of low-cost passive funds to choose from for their retirement savings. Adding alternatives to the mix gives investors new options. Still, the products typically come with higher fees, require more work on the plan's part, and demand more from the investors in terms of the effort it takes to understand how the investments work.

"The necessary education required for alternative investments is a challenging headwind for plan sponsors," says Peter Ferrise, director of investments for PNC Retirement Solutions. PNC Retirement provides a range of services for the individual retirement market, including help with investments. Mr. Ferrise has seen interest in alternatives from retirement-plan sponsors, but adds that plan sponsors are often at a loss about how best to explain alternatives to plan participants.

This disconnect tracks with what the retirement team at BlackRock Inc. is seeing in its defined-contribution group.

"There is a distinction between alternative assets and alternative strategies," says Nick Nefouse, managing director and head of Defined Contribution Investment Strategy at BlackRock. "Alternative assets are here, they are in menus. Moving the conversation to specific alternative strategies and understanding what they do is harder."

In this educational vacuum, target-date funds have emerged as a popular vehicle for cautious plan sponsors. Target-date funds are age-based funds that are designed to get more conservative as an individual gets closer to retirement age.

"The structure allows for the kind of asset-bundling sponsors typically want to see to achieve diversification," says Stace Hilbrant, managing director of 401k Advisors LLC. Mr. Hilbrant says that with a target-date fund, plan sponsors can manage some of the common risks associated with alternatives, including liquidity constraints and **volatility** in returns, by creating a diverse investment pool that looks more like a pension portfolio.

Real-estate investment trusts, or REITs, and interval funds, which are funds that periodically buy back fund shares instead of trading on public exchanges, have also gained traction with plan sponsors and wealth managers.

These two types of investments pool together exposure to more-illiquid asset classes like private equity and real estate, while maintaining a cash position alongside those investments so investors can come and go from the funds without running into roadblocks.

Private-equity investment firms, meanwhile, including Pantheon LP and Partners Group, have created products that provide exposure to private equity while tamping down fees by including certain performance thresholds before performance fees are charged.

Kevin Albert, a partner at Pantheon, is involved with the company's efforts in the defined-contribution business. He says performance-based pricing has been popular with fee-conscious plan sponsors. They see the need for new sources of diversification.

"People understand the problem of shrinking public markets," he says. "If you're only invested in index products, you're missing out on the vast majority of small and midsize businesses and the tech unicorns, which are staying private." Mr. Albert adds that while "401(k) investors used to have access to the broad economy of the U.S., that's just not true anymore."

Technology, by enabling broader access to fund disclosures and educational material necessary to understand alternatives, is also removing some barriers to alternative investing. Platforms like Artivest, which provide wealth managers with access to interval funds and other private funds, have used new technology to build an infrastructure around alternatives similar to what wealth managers are used to seeing with mutual funds and exchange-traded funds.

"Interest in alternatives from wealth managers has picked up significantly in the past 12 months," says Artivest CEO James Waldinger.

"We've noted a shift in how alternatives are viewed," Mr. Waldinger says. "Previously these funds were seen largely as an option but an esoteric one. Now, wealth managers view alternatives as viable investment."

Kirk Chisholm, wealth manager and principal at Innovative Advisory Group, agrees with Mr. Waldinger. When Mr. Chisholm works with investors, he says he likes to focus the discussion on portfolio outcomes and education. He doesn't want the conversation to get caught up in how certain asset classes are perceived, he says.

"Risky investments," Mr. Chisholm says, "are the ones where you, the investor, don't understand what the risks are and what you could lose."

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THE WALL STREET JOURNAL.
U.S. EDITION

Technology
**Venture Capital Breathes Easier on Taxes --- Overhaul clears up uncertainty over fate of carried interest; compromise is praised**

By Scott Martin
498 words
4 December 2017
The Wall Street Journal
J
B4
English


The Senate's passage of a proposed overhaul to the U.S. tax code caps a period of uncertainty for the tech industry, spurring a sigh of relief from venture-capital investors.

In the months leading up to the landmark bill, Silicon Valley was rife with uncertainty over how new provisions would treat partnership profits at venture firms and the taxation of employee stock options. Investors feared that changes to the carried-interest deduction, which is the roughly 20% share in the profits enjoyed by general partners of venture firms, would have weakened the incentives for taking risks on investment in private companies.

"Six months ago, there were a bunch of proposals that felt hostile to the entrepreneurial ecosystem and seemed targeted to harm the innovation economy -- we seem to have avoided most of them," said Venky Ganesan, managing director at Menlo Ventures and former chairman of the National Venture Capital Association.

The GOP tax plan, which passed 51-49 in the Senate on Saturday, was a big victory for Republicans, lowering the corporate tax rate to 20% from 35%. The tax measures, which also provide for a one-time tax cut to U.S. companies for repatriation of earnings and cash held overseas, stand to boost **financial markets**.

It will still require House and Senate reconciliation of the different versions, which lawmakers aim to do before Christmas.

"Chairman [Kevin] Brady actually came out here and listened," said Don Dixon, managing director at Trident Capital, of the House Ways and Means Committee chairman's commitment to talk with Silicon Valley.

Codified treatment of carried interest as long-term capital gains requiring a three-year holding period, versus a one-year holding time, is seen by many venture-capital investors as a reasonable compromise, particularly amid concerns over removing the deduction altogether.

"We want to encourage the long-term investing that leads to disruptive innovation," said Bob Ackerman, managing director of venture firm Allegis Cyber, via email.

Long-term holding requirements for the deduction might not be ideal in all situations, as some startups reach liquidity in a shorter period.

"About 20% of deals get sold in less than three years," Mr. Dixon said.

Carried interest wasn't the only thing at stake for Silicon Valley, as startup employees faced a potential tax on unvested stock options. Now lawmakers propose deferring taxes until a liquidity event such as if the startup gets acquired or holds an initial public offering.

Initially there were worries that employees would become liable for taxes without a liquidity event, said Reza Zadeh, founder of Palo Alto, Calif.-based Matroid, a machine-learning startup.

"This change regarding option taxation is likely to be helpful to startups," Mr. Zadeh said. "It will help us recruit world-class talent and let those employees share in our success."

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THE WALL STREET JOURNAL.
U.S. EDITION

**3M Helps Dow Reach Its Latest Milestone**

By Chelsey Dulaney
194 words
4 December 2017
The Wall Street Journal
J
B11
English


When the **Dow Jones Industrial Average** closed above 24000 last week, industrial giant 3M Co. was in the driver's seat.

3M, which makes a variety of products such as Post-it notes and backup-camera monitors, contributed 171 points since the index first closed above 23000 in October, according to WSJ Market Data Group.

The jump from 23000 to 24000 has been one of the more widely shared Dow rallies this year. 3M and UnitedHealth Group both added more than 150 points, while two more stocks added at least 100 and an additional eight companies contributed at least 40 points.

Shares of 3M have surged to records since a better-than-expected earnings report in October. The company has touted investments in higher-growth technology sectors such as semiconductors and data centers. Some of the recent Dow milestones have been driven by big gains from just a handful of companies. The jump from 21000 to 22000 was supported by a 370-point contribution from Boeing, for instance. This time, the aviation giant added 115 points.



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THE WALL STREET JOURNAL.
U.S. EDITION

**Investing in Funds & ETFs: A Monthly Analysis --- News Challenge: Funds and Investing: Test Your Smarts on...Real Estate**

By Jane Hodges
1,103 words
4 December 2017
The Wall Street Journal
J
R14
English


Real estate is an important component of the U.S. and global economies. For many Americans, homeownership doubles as a first investment. Beyond a primary residence, investors also can buy into the commercial real-estate market: Office buildings, multifamily housing, hospitals, parking lots, storage facilities, retail properties, call centers, distribution hubs, hotels and restaurants form a sector with its own economic ups and downs.

In 2016, the **S&P 500** recognized real estate as its own sector, separating it from financial services where it had been buried for years -- a move some view as a portent of more real-estate investment to come and that others view with indifference. Currently, real estate accounts for less than 5% of the **S&P 500** by market cap.

How much do you know about real estate -- and real-estate investing? Let's start with a few basics (but we assure you, they will get harder).

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1. How do investors participate in the real-estate sector?

A. Mutual funds and ETFs

B. Stocks

C. As direct owners/landlords

D. All of the above

ANSWER: D. Many investors inadvertently own real estate. Broad-themed mutual funds typically allocate a portion of their holdings to real estate. They own it directly, too, sometimes in the form of an exchange-traded fund. You can buy stock in home builders or REITs. You also can buy investment properties for income, and in some cases you can carry these properties within an IRA. Some argue that owning a primary home makes the average investor "overweight" in real estate, so portfolio allocations to real estate need not comprise a large percentage of holdings.

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2. What is a REIT?

A. Real-estate investment trust

B. Real-estate investment tax

C. Real-estate insurance tariff

D. Real-estate investor trade

ANSWER: A. Real-estate investment trusts are investment vehicles that contain securitized portfolios of commercial properties such as office buildings, apartment buildings, retail sites, hotels, storage facilities, parking garages, data centers, even cannabis farms. You can buy shares (typically called units) in a REIT, or invest indirectly since REIT units are often found within mutual-fund portfolios or in target-date funds.

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3. True or false: Real estate is a countercyclical sector.

ANSWER: It depends. Real estate's fortunes usually rise in a **bullish** economy, since indicators such as high employment and a strong regional economy can push up demand and prices for housing, office space, storage, retail and other real estate. But some financial advisers and fund managers consider real estate "countercyclical" since it can zig when the rest of the economy zags. For example, even in a slow economy, consumers still need housing (they may opt to rent an apartment from a REIT, rather than buy a new home) and will continue to shop.

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4. Which commercial real-estate subsector is least prosperous now?

A. Multifamily housing

B. Industrial

C. Office

D. Retail

ANSWER: D. Retail ranks last among six commercial categories both in its investment and development prospects, says a joint report on the 2018 commercial real-estate market from PricewaterhouseCoopers (PwC) and the Urban Land Institute.

Now, some history questions:

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5. What were typical residential mortgage terms before the creation of the Federal Housing Administration (FHA) and the Federal National Mortage Association (Fannie Mae) in the 1930s?

A. 3.5% down with a 30-year payoff

B. 20% down with a 20-year or 30-year payoff period

C. 50% down with a 10-year payoff

D. 0% down, interest-only loans with a 30-year payoff period

ANSWER: C. Before the creation of the FHA and Fannie Mae, it was hard for the average American to come up with a 50% down payment and then pay off the remaining 50% of a home's value in only a decade; at that time, the homeownership rate was below 49% (versus the current rate of 63.9%, according to U.S. Census data).

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6. How did real estate contribute to the most recent financial crisis and related recession?

A. Lenders relaxed standards and under-wrote loans that wouldn't fly today

B. Banks knowingly and unknowingly sold mortgage securities containing unsound assets, and ratings firms failed to accurately rate real-estate debt sold to the secondary market

C. Investors speculated on housing and homeowners

D. All of the above

ANSWER: D. All of the above. You can read all about it in the Financial Crisis Inquiry Commission's 2011 report. For a more fun look at what happened, watch the movie "The Big Short."

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7. During the real-estate bubble, which economist was known as "Dr. Doom"?

A. Robert Shiller, author of "Irrational Exuberance" and co-developer of the Case-Shiller Home Price Index

 

B. Nouriel Roubini, NYU professor, formerly an economist advising the White House Council of Economic Advisers

C. Karl Case, the late professor/researcher who co-developed the Case-Shiller Home Price Index

D. Ben Bernanke, former Fed chairman, now a Brookings Institution economist

ANSWER: B. Nouriel Roubini, a global macroeconomist, boasts the title "Dr. Doom" for his prognostications about the 2008 real-estate and credit-market meltdowns. He is predicting more economic drama.

And some market questions:

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8. What foreign country's investors are buying the most U.S. commercial real estate?

A. China

B. Canada

C. Germany

D. Japan

ANSWER: B. Canada, according to research from JLL Research and Real Capital Analytics. During the first half of 2017, Canada accounted for 30% of all foreign investment in U.S. commercial real estate, followed closely by China (21%), Singapore (15%) and Germany (7%).

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9. What U.S. city has the lowest rate of apartment vacancy?

A. New York

B. Seattle

C. San Francisco

D. Boston

ANSWER: A. New York has a 1.9% vacancy rate, tightest in the U.S., followed by Boston (2.6%), San Francisco (2.8%), Los Angeles (2.9%), Seattle (3%) and Washington, D.C. (3.8%), says National Real Estate Investor.

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10. Which commercial real-estate approach isn't recommended in 2018?

A. Take advantage of demand for new housing

B. Bet on property price appreciation

C. Invest in "experiential retail"

D. Senior housing

ANSWER: B. Investors are advised to look at cash flow from income as a source of benefit rather than property-value appreciation, according to the PwC-Urban Land Institute report on commercial real estate.

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THE WALL STREET JOURNAL.
U.S. EDITION

**Crude-Oil Prices Keep Churning Higher --- Extension of production cutbacks raises hopes market can maintain footing**

By Alison Sider and David Hodari
697 words
2 December 2017
The Wall Street Journal
J
B12
English


Oil prices rose a day after the Organization of the Petroleum Exporting Countries and other big producers agreed to continue limiting output for an additional nine months.

The move raises hopes that crude prices will continue to climb out from a three-year slump.

U.S. crude prices on Friday gained 96 cents, or 1.7%, to $58.36 a barrel on the New York Mercantile Exchange, their second-highest settlement of the year. Brent, the global benchmark, rose $1.10, or 1.8%, to $63.73 a barrel on ICE Futures Europe.

Oil prices nudged only slightly after the extension was first announced Thursday. While most expected that the output limits would be kept in place, doubts crept into the market in the final days before the meeting amid signs that Russia was reluctant to commit to such a long extension.

"I think we have a little bit of a relief rally," Lila Murphy, portfolio manager at Federated Investors, said of Friday's trading.

U.S. data showing that oil output jumped 3% from August to September may have also damped enthusiasm.

In Vienna on Thursday, OPEC and its allies, a coalition of other major producers led by Russia, agreed to continue holding oil off the market through the end of 2018. The group first agreed a year ago to reduce global supply by nearly 2% in an effort to rein in a glut that has weighed on the market since 2014. The accord had been set to expire in March.

The extension was widely anticipated, and the market's reaction has been tepid compared with a year ago, when the announcement of production cuts pushed prices up about 9%. "It's pretty much what was expected, a rollover until the end of the year," said Thomas Pugh, commodities economist at Capital Economics. "Anything more than that and they would have risked bringing on more U.S. supply, anything less and prices would have collapsed."

Sentiment in the oil market has shifted significantly in recent months, and oil prices have climbed to their highest levels since 2015.

When the deal was first announced in 2016, many were skeptical that it would bring a meaningful supply reduction, pointing to OPEC members' history of cheating and exceeding production quotas. Many feared that even if higher prices materialized, they would just spur an onslaught of production from U.S. shale producers, thwarting OPEC's efforts.

Investors remained doubtful for much of the year. Between February and June, oil prices tumbled more than 20%.

But compliance with the deal has been stronger than many expected. At the same time, global economic growth has lifted demand, while escalating tensions in the Middle East have raised the prospect of supply disruptions. The price of oil for delivery in the near future has risen above prices further out, which indicates that the market has tightened and discourages market participants from socking away more oil and allowing the glut to rebuild.

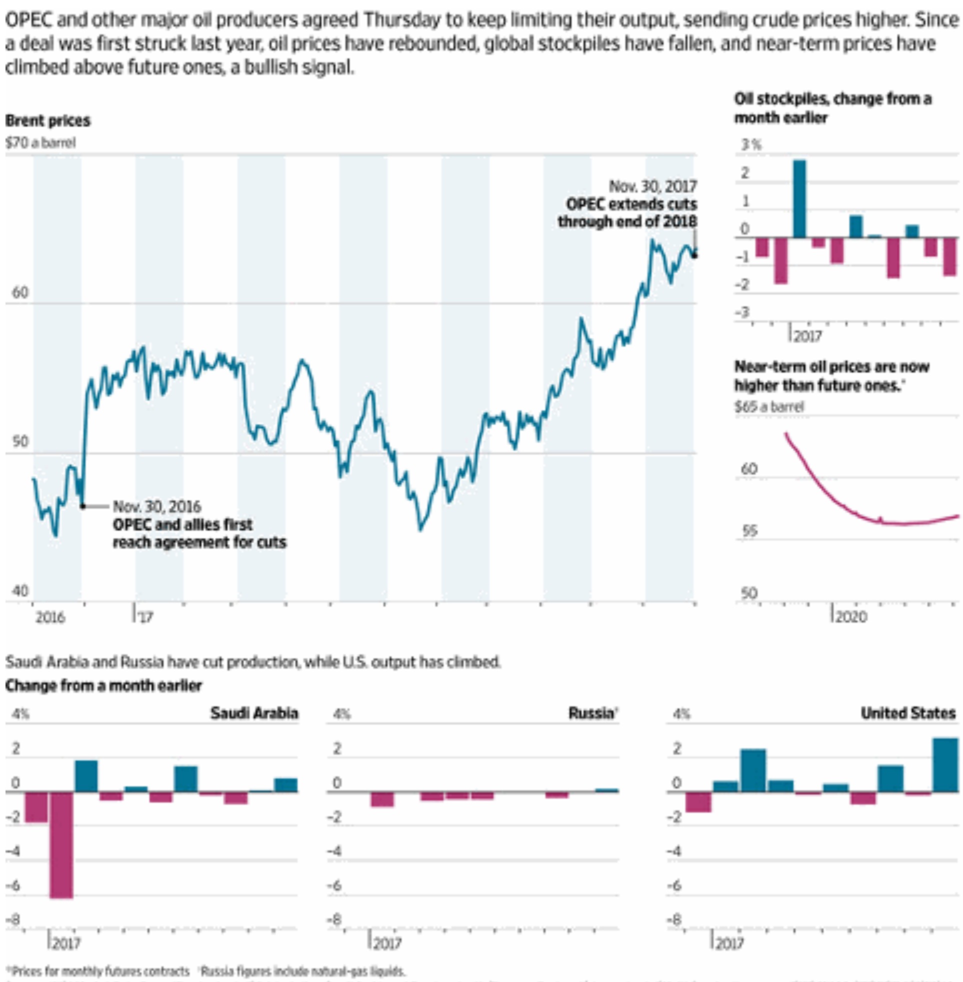
"OPEC's decision comes against a backdrop of an oil market that has already rebalanced," analysts at Morgan Stanley said.

Investors have become more confident that the restraint by OPEC and its allies is helping to keep prices at a level that both energy companies and producing nations can live with.

The prospect that U.S. producers will flood the market with crude continues to linger over the market. Saudi Arabia Energy Minister Khalid al-Falih described shale growth this year as manageable and moderate, and said he expects 2018 to be similar.

Some analysts say that the Saudis have underestimated shale's threat. U.S. oil production jumped by 290,000 barrels a day in September, an increase of 3% from August, a sign that companies were quick to respond when U.S. prices climbed back above $50 a barrel.

"We think that Khalid al-Falih's comments today suggest he may misunderstand what U.S. producers are capable of at current price levels," Barclays analysts wrote in a note late Thursday.

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THE WALL STREET JOURNAL.
U.S. EDITION

**GOP Falls in Line Behind Tax Bill**

By Richard Rubin, Siobhan Hughes and Kristina Peterson
931 words
2 December 2017
The Wall Street Journal
J
A1
English


WASHINGTON -- The Senate was poised to pass sweeping revisions to the U.S. tax code early Saturday after Republicans navigated a thicket of internal divisions over deficits and other issues to place their imprint on the economy.

The bill, which included about $1.4 trillion in tax cuts, would lower the corporate tax rate from 35% to 20%, reshape international business tax rules and temporarily lower individual rates. It also touched other Republican goals, including opening the Arctic National Wildlife Refuge to oil drilling and repealing the mandate that individuals purchase health insurance, punching a sizable hole in the 2010 Affordable Care Act. But some goals, like repealing the alternative minimum tax, fell by the wayside in last-minute wrangling.

"In the end it all came together and we're pretty excited about what we've been able to accomplish for the American people," Senate Majority Leader Mitch McConnell (R., Ky.) said in an interview Friday. "We've got a corporate rate at 20% that we think makes us competitive in the world again and provided substantial middle income tax relief."

The GOP was expected to deliver 51 votes in support of the measure, with one Republican, Sen. Bob Corker of Tennessee, expected to move against the bill because of worries it will expand budget deficits. No Democrat was expected to vote for the bill.

Senators began voting on amendments late Friday night and that continued into early Saturday. They defeated, 29-71, an attempt by Sen. Marco Rubio (R., Fla.) and Mike Lee (R., Utah) to expand the child tax credit for low-income families, which would have been paid for by setting the corporate tax rate at 20.94%.

The bill's passage, should it occur, would mark a legislative victory for Republicans and President Donald Trump. He has made the tax overhaul a centerpiece of his economic policy goals, particularly a rewrite of business taxes, which he has argued make the U.S. uncompetitive internationally. The bill could also give lawmakers something to stump on in 2018 midterm elections.

The House and Senate would still need to reconcile competing versions of the bills, something they hope to do by Christmas. The House and Senate bills overlap in many ways, and lawmakers expressed optimism about getting a final deal done.

"The bills are not all that different," Mr. McConnell said. "We tried to move ours somewhat in the House direction."

Senate Republicans called their bill an economic booster shot, their best chance to create faster sustained growth and higher wages. But it comes with risks. Congress's own nonpartisan analysis found that the economic benefits would be modest and fade over time. The Joint Committee on Taxation determined that the tax cuts wouldn't pay for themselves, as Republicans have long promised. Instead the analysis found they would increase deficits by $1 trillion over a decade.

Investors for now are more excited about the prospect of lower corporate taxes than about the risks associated with larger government deficits. The **Dow Jones Industrial Average** rose 673.60 points for the week, or 2.86%, to 24231.59. Yields on **10**-**year Treasury** notes, which might be expected to rise if bond investors were worried about deficits, remain comfortably low, below 2.5%.

The vote approached after a week of long hours and frantic rewriting and deal-making. The GOP tax effort wobbled late Thursday after the JCT analysis raised concerns about deficits and an attempt to add deficit countermeasures in the bill failed to clear parliamentary rules. Mr. McConnell and his team salvaged the measure with a series of last-minute deals.

Sens. Steve Daines (R., Mont.) and Ron Johnson (R., Wis.) won bigger tax breaks for pass-through businesses such as partnerships and S corporations. Sen. Jeff Flake (R., Ariz.) secured more aggressive depreciation rules to encourage business investment after 2022.

Sen. Susan Collins (R., Maine) scored a $10,000 deduction for property taxes, an expanded but temporary deduction for people with large medical expenses and a promise of future bipartisan health-care legislation to mitigate the effects of repealing the individual health insurance mandate. "This bill will provide much-needed tax relief and simplification for lower- and middle-income families, while spurring the creation of good jobs and greater economic growth," Ms. Collins said.

To help pay for some of those changes, Republicans increased a planned new tax on companies' stockpiled foreign profits to 14.5% for cash and 7.5% for illiquid assets, up from 10% and 5% in the previous version. Senate Republicans abandoned other goals. They preserved the alternative minimum tax instead of repealing it. They backed off a plan to abolish the estate tax. They retained seven tax brackets instead of collapsing them into three as planned. And after years of warning about the rising national debt and promising a tax overhaul that would be revenue-neutral, they chose to proceed despite warnings the measure would add to deficits in the long run.

Democrats blasted the bill, calling it an unacceptable giveaway to corporations and the wealthy. They also criticized last-minute Republican adjustments. Lawmakers were set to release the final changes -- moving around hundreds of billions of dollars -- hours before the last vote.

"To quote the president, what got us here is the worst of Washington. If you want to see swamp 101, look at the process of this tax bill," Sen. Mark Warner (D., Va.) said in a statement.

## Reconcile This

The House and Senate tax bills differ in some important ways which will need to be sorted out in a conference committee of lawmakers from both chambers before final passage.

| | House bill | Senate bill |
|---|---|---|
| Top individual rate | 39.6% | 38.5% |
| Number of individual tax brackets | Four | Seven |
| Estate tax | Expands exemption to about $11 million a person, repeals in 2025 | Expands exemption to about $11 million a person, no repeal |
| Corporate rate | 20% | 20% |
| Corporate tax rate reduction starts | 2018 | 2019 |
| Top pass-through rate | 25% with significant caveats | Below 30% |
| State/local deduction | Preserves for property tax up to $10,000. Ends for income tax | Preserves for property tax up to $10,000. Ends for income tax |
| Medical expense deduction | Eliminates | Expands temporarily |
| Student-loan interest rate deduction | Eliminates | Preserves |
| Personal exemption | Eliminates | Eliminates |
| Standard deduction | Nearly doubles | Nearly doubles |
| Individual alternative minimum tax | Eliminates | Retains with bigger exemption |
| Child tax credit | $1,600 a child | $2,000 a child |
| Expirations | Key credit expires after 2022 | Individual tax cuts expire after 2025 |
| Business investments | Full expensing, expires after 2022 | Full expensing, phases out after 2022 |

Note: Senate details subject to final changes
Sources: U.S. House and U.S. Senate

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The New York Times

WEALTH MATTERS
Business/Financial Desk; SECTB
**Still Wary In a Trump Economy**

By PAUL SULLIVAN
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Some of President Trump's least controversial tweets involve him boasting about the **stock market**. It has certainly done well since he was elected a year ago, with the **Dow Jonesindustrial average** up more than 30 percent in that time.

On Thursday, the Dow hit a milestone when it closed above 24,000 for the first time, prompting Mr. Trump to take to Twitter again. "**Stock Market** hits new Record High. Confidence and enthusiasm abound," he wrote. "More great numbers coming out!"

Few would have predicted a year ago that the market would do so well. Investors who had the fortitude to stay in have benefited mightily by the increase. But the wary ones put their money in more secure assets.

Right before Mr. Trump was elected, I wrote a column on what a Trump presidency would mean for the economy. Most of the people I interviewed were nervous, and they were making defensive moves in their investments -- away from equities and into hard assets like real estate -- or putting plans in place to weather a downturn.

Michael Sonnenfeldt, a New Yorker who made his fortune in real estate, is the chairman of Tiger 21, an investment club for very wealthy people. When I talked to him last year, he revealed the uncertainty investors were facing.

"The combination of potential interest rate shocks and a China implosion and the geopolitical situations with Russia, China, Iran, the Middle East, ISIS, and the difficult political situation in the U.S. with the most challenging, strangest presidential election we've had in our lifetime -- it all adds up to many generic concerns," he said at the time.

So how did the market rocket past expectations, and how should investors plan for 2018?

Mr. Trump is not unique among presidents for taking credit for a strong **stock market** and the broader economy. Most do it, if they can -- just as surely as they try to skirt responsibility when there is a slump.

But the last 12 months of great returns lack the euphoria a person might expect after an increase in the Dow of nearly 30 percent.

Advisers say that is because many individual investors remain afraid that the eight-year **bull market** is going to collapse, while others struggle to separate Mr. Trump's harsh political language from the strong fundamentals of American companies.

Individual investors are still seeking safe havens. One measure is bond funds, assets that help defend against a downturn. According to Yardeni Research, money continues to flow into bond funds.

"We've had a year of record-low **volatility**, strong returns and strong macroeconomic indicators," said Michael O'Sullivan, chief investment officer for international wealth management at Credit Suisse. "But politically -- we're in a political recession. People have difficulty squaring the two."

The firm's global wealth report, released in November, showed that the world had grown wealthier in the last 12 months and not just at the top of the economic pyramid.

"The markets are focused very much on the business cycle, which is picking up," Mr. O'Sullivan said. "That's been a positive surprise, given how badly many people would have said the economy would have fared."

In other words, the **stock market** is rising not because of Mr. Trump but in spite of him.

"Our view continues to be that politicians are not as important to investing as they would like investors to believe," said Richard Bernstein, chief executive and chief investment officer of Richard Bernstein Advisors, an investment advisory firm. "That's always been our working model."

Mr. Bernstein said corporate fundamentals remained strong. "Corporate profits remain healthy, liquidity remains abundant, and investors generally remain scared of stocks," he said.

If presidential tweeting has not been driving the **stock market**, what should individual investors look for in equities? Analysts said investors should start by separating the political noise from the signals companies were sending out.

For one, any corporate tax cut is not necessarily a short-term gain for the **stock market**. Edward J. Perkin, chief equity investment officer with Eaton Vance, said a tax cut could actually result in a short-term drop in stock prices. And the companies that have been driving the **stock market**'s growth, like health care and technology firms, will not benefit as much from a tax cut as smaller domestic companies that had not been able to take advantage of the loopholes and deductions under the current tax system.

Other analysts argue that the prospect of tax cuts ceased being a factor in this rally a few months into Mr. Trump's presidency, when he and the Republican Congress failed to repeal the Affordable Care Act.

"Corporate tax cuts are not priced into the market, because there is still skepticism toward the legislative process," said John Lynch, chief investment strategist at LPL Financial.

For 2018, analysts are predicting that the **stock market** will continue to do well but with greater swings.

"I always love corporate profits," Mr. Lynch said. "We can all get really geeky with these valuation measurements, but if you think about it, we have record profits growing slightly above historical rates. The Fed is tightening policy, and we're still growing. That's a pretty good recipe for equity investors."

Anthony Roth, chief investment officer of Wilmington Trust, said one difference in his strategy was a plan to use more active managers who pick stocks and to cut passively managed index funds. He said Wilmington Trust's research showed that active managers were outperforming the market as a whole.

Or put another way: The skill that an active manager has is valuable in an environment when tweets about politics and people rattle less sophisticated investors.

Today, Mr. Sonnenfeldt said, he and the 580 members of Tiger 21, who have an average net worth of about $100 million, have nearly three-quarters of their money in private equity, real estate and publicly traded stocks.

Over the last year, he said, the group's concern has not been with the political environment but with interest rates and wondering how long they will stay as low at they are. The group remains **bullish** on the advantages that American businesses have, like lower energy and transportation costs, over competitors in other countries.

So what could end the **stock market**'s run?

CTBC Bank USA put that question to affluent investors in California, New Jersey and New York, all blue states that would be affected by a loss of deductions for state and property taxes. The poll found that they remained confident about the economic and investment landscape, but that they feared a political threat like a conflict with North Korea or a large terrorist attack in the United States.

"The only thing we worry about is this geopolitical risk," said Noor Menai, president and chief executive of CTBC Bank USA. "Nothing gets amplified. Markets take it in stride."

Yet Mr. Menai said seasoned financial services professionals and institutional investors had a distinct advantage over individual investors.

"We've been through three crises over the past 25 years, and each time the market has reconstructed itself," he said. "Over time, the insiders such as me have come to understand what the hype is versus what can happen."

But individual investors do not have that knowledge. They still get scared about investing in a rising **stock market** because they fear it's going to collapse. When that happens, said Judith Ward, a senior financial planner at T. Rowe Price, she asks clients to focus on what they can control.

For example, if they are near retirement and cannot weather a 20 or 30 percent drop in their assets, she said, they should invest more conservatively.

"There is anxiety and uncertainty about the political climate, but my sense is people are looking at their personal situation and asking how is all of this going to impact them," she said. And that, she said, can be summed up in one question: "How long can this **bull market** last?"

I'll bet you won't find that answer in a tweet.

The New York Stock Exchange on the morning after President Trump's election in 2016. The market has risen significantly since. (PHOTOGRAPH BY JUSTIN LANE/EUROPEAN PRESS AGENCY) (B2)

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The New York Times

Business/Financial Desk; SECTB
**Markets Falter After Flynn Plea, Then Rebound Amid Tax Bill Movement**

By THE ASSOCIATED PRESS
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Wall Street took investors on a turbulent ride on Friday as stock indexes took a steep slide that knocked 350 points off the **Dow Jonesindustrial average** before the market eventually clawed back most of its losses.

The market stumbled after Michael Flynn, the former national security adviser, pleaded guilty to lying to the F.B.I. and said he would cooperate with the inquiry into Russian meddling in the presidential election.

That raised concerns among traders that the White House's legislative agenda, including a tax overhaul under debate in Congress, could be at risk. Those jitters were allayed somewhat by early afternoon, when Senate Republicans signaled they had enough votes to push forward on the tax legislation.

The **Standard & Poor's 500**-**stockindex** fell 5.36 points, or 0.2 percent, to 2,642.22. The index still ended the day with its best week since mid-September. The **Dow Jonesindustrial average** slid 40.76 points, or 0.2 percent, to 24,231.59. The **Nasdaq composite** lost 26.39 points, or 0.4 percent, to 6,847.59. The Russell 2000 index of smaller-company stocks gave up 7.12 points, or 0.5 percent, to 1,537.02.

The indexes, which hit record highs earlier this week, had been little changed before Mr. Flynn's plea deal was announced.

"The losses that we saw right when the Flynn information came out -- the market just hit an air pocket," said Phil Orlando, chief equity strategist at Federated Investors.

The technology sector, an investor favorite since the beginning of the year, accounted for some of the biggest losses on Friday. Qorvo shares fell $2.37, or 3.1 percent, to $74.21.

Qualcomm stock declined 1.3 percent after Bloomberg News reported that Broadcom, a rival chip maker, would not make a new offer for the company until next year. Qualcomm stock shed 85 cents to $65.49. Broadcom shares lost $6.38, or 2.3 percent, to $271.56.

Shares in several airlines traded lower as industrial stocks declined.

Shares of American Airlines Group fell $1.49, or 3 percent, to $49, while Alaska Air Group stock gave up $2.26, or 3.3 percent, to $66.91.

Ulta Beauty shares slid 4.1 percent after Ulta, a beauty products retailer, issued a disappointing forecast for the current quarter that overshadowed solid third-quarter results. The stock dropped $9.13 to $212.58.

Investors welcomed news that Blue Apron, a meal kit maker, had named a new chief executive. Blue Apron has struggled since its initial public offering in June. The stock rose 24 cents, or 8 percent, to $3.23.

A pickup in crude oil priced helped lift energy stocks, giving the sector the biggest gain in the **S&P 500**.

Shares of the oil and gas producer Apache Corp. also posted the big gain among **S**.**&P**. **500** companies, climbing $2.39, or 5.7 percent, to $44.22.

Benchmark United States crude New York rose 96 cents, or 1.7 percent, to settle at $58.36 a barrel. Brent, the international standard, added $1.10, or 1.8 percent, to close at $63.73 a barrel.

Heating oil picked up 4 cents to $1.94 a gallon. Natural gas gained 4 cents to $3.06 per 1,000 cubic feet.

**Bond prices** were stable, with the yield on the **10**-**year Treasury** at 2.36 percent.

The dollar fell to 112.09 yen from 112.53 yen on Thursday. The euro weakened to $1.1889 from $1.19.

Gold added $5.60, or 0.4 percent, to $1,278.80 an ounce.

Major stock indexes in Europe closed lower. In Germany, the DAX fell 1.2 percent and in France, the CAC 40 lost 1 percent. The FTSE 100 was down 0.4 percent in Britain.

Indexes in Asia were mixed. The Nikkei 225 rose 0.4 percent in Japan, while in Hong Kong, the Hang Seng slipped 0.4 percent. The Kospi fell less than 0.1 percent in South Korea. In Australia, the S.&P./ASX 200 gained 0.3 percent.

CHART: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Friday. (Source: Reuters)

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**Two Exchanges Are Cleared to Launch Bitcoin Futures**

By Alexander Osipovich
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The U.S. Commodity Futures Trading Commission said it would allow two major Chicago exchanges to launch bitcoin futures.

The Friday announcement paves the way for the start of bitcoin futures on CME Group Inc. and Cboe Global Markets Inc. in the coming weeks -- a potentially huge step in the evolution of the digital currency, making trading bitcoin easier for Wall Street banks and small investors alike.

CME said its bitcoin futures would launch Dec. 18. Cboe said it would shortly announce the start date for its new bitcoin contract.

After "extensive discussions" in recent weeks, the two exchanges made significant changes to their proposals at the regulator's request, the CFTC said.

Those included steps to reduce the risk of market manipulation. The agency said it expects CME and Cboe to closely monitor trading in their partner bitcoin exchanges, and to assist the CFTC in surveillance of those marketplaces.

Still, CFTC Chairman J. Christopher Giancarlo warned investors of bitcoin's notorious **volatility**.

"Market participants should take note that the relatively nascent underlying cash markets and exchanges for bitcoin remain largely unregulated markets over which the CFTC has limited statutory authority," he said in a statement. "There are concerns about the price **volatility** and trading practices of participants in these markets."

CME and Cboe used "self-certification," declaring to the CFTC that the new contracts are in accordance with relevant laws and regulations.

The agency has the power to block a self-certified contract, but otherwise it goes forward.

Both exchanges self-certified their bitcoin futures on Friday. Under agency rules, that means trading could start as soon as Monday.

Bitcoin futures would allow traders to bet the price of the digital currency will rise or fall, as they can with commodities such as oil, corn and gold.

Market proponents argue that this could reduce **volatility** in the underlying market, by allowing an easy way to "short" bitcoin -- that is, bet its price will fall. Futures would also allow Wall Street banks and other big financial players to hedge against a price collapse.

Bitcoin futures could also clear the way for the eventual launch of an exchange-traded fund tied to the digital currency. In March, the Securities and Exchange Commission rejected a bid to list the first bitcoin ETF on a U.S. exchange, in part due to concerns that the underlying markets weren't sufficiently regulated.

But it could soon be possible to create an ETF based on bitcoin futures, in the same way that oil ETFs hold oil futures rather than actual barrels of crude.

"It's a very helpful step in the formation of an ETF on bitcoin," said Chris Concannon, president and chief operating officer of Cboe.

The CFTC also said on Friday that the tiny Cantor Exchange had self-certified a bitcoin binary option -- a derivative that offers a different way to be on bitcoin prices. The exchange is owned by Cantor Fitzgerald LP, a prominent brokerage and investment-banking group. The Wall Street Journal first reported on Cantor's plans Wednesday.

Invented less than a decade ago, bitcoin has attracted intense investor interest this year, largely because of an extraordinary price surge. It cracked the $10,000 mark Tuesday, after having started the year at $968.23, according to CoinDesk.

Skeptics call it a bubble, and bitcoin remains tarnished by its lingering association with money laundering and other illicit activity.

The "cash exchanges" where bitcoin is traded -- not to be confused with futures exchanges like CME -- have also suffered repeated hacks, outages and flash crashes.

The CFTC said CME agreed to tighten a key requirement for its bitcoin futures, reining in the ability of traders to magnify their wins or losses.

To buy or sell futures, traders must open a margin account with their brokerage and put down cash to partly cover the value of the contracts. Initially, CME had floated a minimum margin requirement of 25% to 30%. But on Friday CME said it was raising that to 35% -- a move that could dial back some of the riskiness of trading bitcoin futures.

CME is the world's largest exchange company, with a market capitalization of more than $50 billion. Its announcement in October that it would aim to introduce bitcoin futures was a major vote of confidence in the digital currency.

After that announcement came out, CME "fielded hundreds of calls and emails" from various customers interested in trading bitcoin futures, it said in a regulatory filing on Friday.



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**Virtual Spenders Are Rare**

By Georgi Kantchev and Steven Russolillo
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English


The owner of a three-bedroom house in south London, a vineyard and a "fully vegan" tattoo parlor are among a rush of prospective sellers offering to accept bitcoin as payment.

But so far, few are buying, in a dearth that may have been made worse by the currency's recent surge and could hamper its development as a regular currency.

In September, Daniel Roy advertised his three-bedroom home in Peckham, south London, for sale for GBP 1.65 million ($2.2 million) or offers of over 500 bitcoin. Because the value of bitcoin has more than doubled since September, anyone offering 500 bitcoin now would be spending more than GBP 3.5 million.

"I'll be honest, we haven't had anyone approach us to buy it in bitcoin," said Becky Munday, managing director of the real-estate broker marketing the property.

The lack of bitcoin offers underscores a conundrum that buyers and sellers in the virtual currency have faced for years, one that has been exacerbated after its 1,000% rise in value this year and by its high **volatility**.

Bitcoin's increased use as a tradable security makes it harder for it to take off as the payment system of the future it was designed to be.

As bitcoin powered through $11,000 this week, analysts questioned why anyone would pay for something in bitcoin now, when it could be worth 10% or 20% more within days.

"Right now I'm really just seeing people put a small amount of discretionary money into bitcoin, take a flier on it, ride it out and hope for the best rather than use it in the real world," said John Spallanzani, chief macroeconomic strategist at GFI Securities LLC.

That raises the question of whether bitcoin and other cryptocurrencies will be widely used in payments and transactions soon, or if they will merely exist as trading vehicles for investors.

Bitcoin's success has also increased the cost of using the currency, swelling the number of trades on a network that can process only several transactions a second. That has created bottlenecks, and users who want to expedite orders have to offer a higher fee to the "miners" who get paid to maintain the network.

Alden Wicker, a 31-year-old freelance journalist in New York, said that she had purchased 0.008 bitcoin from a bitcoin ATM at a local bodega in Brooklyn. But she has no plans to use it to buy anything and just wanted to get in on the action after "being unable to avoid news about it," she said.

Around 2013, when bitcoin was having its first flirtation with the mainstream, a number of businesses, including Microsoft Corp., and Dell Inc., experimented with accepting the virtual currency. For most, bitcoin sales never made up more than 1% of overall sales.

Bitcoin's use as a transactional currency may even be falling. In the third quarter of this year, Bitcoin was accepted at just three of the top 500 global online merchants, down from five last year, according to an October report by Morgan Stanley.

The lack of spending may be sapping enthusiasm.

Shannon Idzikowska, owner of Fifth Dimension Tattoo and Piercing, which describes itself as London's "premier fully vegan studio," said she was pitched the idea of accepting bitcoin by a representative of a startup company who dropped into the parlor one day. But she has yet to be paid in bitcoin to apply any ink.

"It sounds like a good idea," she said. "But it all depends on other people as well."



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**Business News: Foreign Firms Fret About Tax Plans --- Some experts say steps benefiting U.S. companies could violate trade rules**

By Robert Wall, Nina Trentmann and Natalia Drozdiak
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1 December 2017
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Corrections & Amplifications

Alvarez & Marsal Taxand LLC, a tax-advisory firm, was incorrectly called a law firm in a Business News article Friday about how U.S. tax-overhaul proposals affect foreign companies.

(WSJ Dec. 2, 2017)

The Senate tax-overhaul package would curb tax deductions on debt carried by U.S. affiliates of multinationals as well as U.S. companies. A Dec. 1 Business News article about how U.S. tax-overhaul proposals affect foreign companies incorrectly said U.S. firms were excluded.

(WSJ Dec. 16, 2017)

(END)

Tax overhaul proposals winding their way through Congress look great for U.S. corporations. For foreign firms, not so much.

A lot will change between what is currently in separate drafts in the House and Senate and whatever ends up on President Donald Trump's desk -- if anything at all. But Republican senators and representatives are coalescing around the broad strokes of a plan that many expect will be a big tax boon to American business. Recent momentum on a deal has fueled successive days of **stock-market** highs.

The legislative proposals could slash American firms' headline corporate tax, from 35% to 20%, though the Senate on Wednesday considered a more modest reduction. The proposals also simplify rules governing tax provisions and write-offs in a way that is expected to help dozens of industries, including big U.S. multinationals that do lots of cross-border trade and tech firms with piles of cash overseas.

All that is potentially good news for international companies that pay U.S. taxes, too. But a lot of fine print in the two bills is also raising alarm among foreign executives.

"I suspect that most foreign groups doing business in the U.S. will be negatively affected," said Stef van Weeghel, global tax policy leader at PricewaterhouseCoopers LLP.

The following considers elements of the tax rewrite being tracked by foreign executives.

Excise Tax

The House version would impose an excise tax of as much as 20% on imported goods or services a foreign company sells in the U.S. via its local subsidiary. Companies would be able to choose to avoid the excise tax on their U.S. unit; but in return all income from U.S. sales would be taxed stateside, in addition to accruing tax, in some cases, in a company's home jurisdiction.

The measures -- if they make it into law -- could conflict with bilateral tax agreements and contravene World Trade Organization rules, tax experts say.

Foreign auto makers could take a big hit, said Albert Liguori, a tax expert at law firm Alvarez & Marsal Taxand LLC. Some of that would be mitigated by all the new plants European and Asian firms have built in the U.S. "It depends on how much import versus export they have," he said.

'Base Erosion'

In the Senate version, payments to foreign parents or affiliates could trigger a minimum tax of 10%. Proponents say that would help raise money from foreign firms that the U.S. is giving away in other tax cuts, and it also helps make domestic suppliers more competitive, they say.

The excise and so-called base erosion taxes introduce a border-based taxation system that would be a big new navigational hazard for multinational companies.

"No other country has something like that," said Christian Kaeser, global head of tax at German conglomerate Siemens AG and chair of the International Chamber of Commerce Commission on Taxation.

Deduction for U.S. Unit

The Senate version would curb the tax deductions multinationals can take on debt carried by their U.S. affiliates. That would water down a current incentive to load American units up with debt. U.S. companies wouldn't face such a constraint on the deduction for interest payments.

Foreign Airlines

A proposed amendment to the Senate version could raise costs for some foreign airlines. Airlines generally aren't subject to U.S. income tax even for their American activities. The amendment would eliminate that exclusion for foreign airlines whose own markets aren't served significantly by U.S. carriers. Abu Dhabi-based Etihad Airways said the proposed amendment "is widely agreed to be inappropriate under U.S. law and contrary to several international agreements."

Repatriation Holiday

Both chambers propose a one-time tax break for U.S. companies to repatriate profits earned overseas. The House version proposes a one-time corporate tax rate of 14% for repatriated cash, while the Senate is proposing 10%. The tax would also apply if the cash is kept abroad. While foreign firms aren't directly hit by this, they are suddenly at a big -- albeit temporary -- disadvantage to their American competitors, who will suddenly have unfettered access to new funds at low tax rates.



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REVIEW & OUTLOOK (Editorial)
**Alaska Drilling Dividend**

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Republicans aren't advertising it, but a pro-growth bonus in the Senate tax cut bill is that it finally opens up a small part of the Arctic National Wildlife Refuge (ANWR) for oil and gas drilling. Like the rest of the tax bill, Republicans can pass it with a GOP-only majority of 50.

Or put to it another way, Lisa Murkowski's ship has come in. The Alaska Senator chairs the Energy and Natural Resources Committee, which in early November passed legislation 13-10 (with West Virginia Democrat Joe Manchin joining Republicans) requiring the Interior Department to offer drilling rights leases in ANWR's coastal plain within 10 years. The Budget Committee wrapped this into the broader tax reform that the Senate is expected to pass as soon as Friday. Whether or not this accounts for Ms. Murkowski's support for the tax bill, it is a net benefit for Alaska and the U.S.

The arguments for Arctic drilling are as coldly obvious as the tundra ice, starting with the fact that ANWR offers a potentially large new supply of oil at minimal environmental cost. Alaska contains 192 million acres of parks, refuges, wilderness areas and nature preserves. ANWR makes up 19.5 million acres of this, and 92% of that 19.5 million can't legally be touched.

But as part of a deal to enlarge ANWR in 1980, a Democratic Senate set aside one barren, frozen strip of coastal land for exploration. Modern innovations such as horizontal drilling mean that only about 2,000 acres will even be necessary for drilling. That equals 0.0001% of the refuge and is a scant 60 miles away from the existing trans-Alaska pipeline.

Green groups have misrepresented the ANWR debate, flashing posters of protected refuge mountains rather than the tiny, moon-like landscape where the drilling will take place. Alaskans hardly want to despoil the land, but they want the jobs and tax revenue that would come from more oil development. This is especially important to the state as drilling in current areas winds down.

The U.S. Geological Survey estimates this sliver of land contains at least 10.4 billion barrels of recoverable oil and 8.6 trillion cubic feet of natural gas, and these estimates are probably conservative. By comparison, Alaska's second-biggest oil field, Kuparuk, holds about 2.5 billion barrels. News of the ANWR lease proposals also comes amid a revival in global **oil prices** to more than $60 a barrel. The Trump Administration will have to reassure oil and gas companies that the government will honor its contracts, especially after the Obama Administration's shameful treatment of Shell in the Arctic Sea, but the first step is allowing the lease sales.

Republicans have been trying for decades to make good on Congress's ANWR drilling promise, but Democratic filibusters have blocked it in the Senate. Republicans have been as close as 57 votes, only to see Democratic leaders arm-twist no votes.

Democrats are upset that Republicans are using budget reconciliation to pass ANWR with 50 votes. But the lease sales will raise millions of dollars for the federal government, so it is rightly viewed as a budget provision under Senate rules. If Democrats cared all that much about Alaska drilling, they could have cooperated with Republicans on the tax bill to win some concessions. Instead they bet that Republicans would fail, a bet they appear to be losing. The same goes for eliminating the state-and-local tax deduction that will hurt high-tax states run by Democrats.

A majority of Americans support oil drilling that can be done in an environmentally safe way. That will be born out if the feds sell leases and drilling in ANWR begins. This is one more growth dividend from tax reform.

(See related letter: "Letters to the Editor: Some Inconvenient Truths of Wind and Solar" -- WSJ Dec. 8, 2017)



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**Repo Market Makes a Postcrisis Comeback --- Banks return, playing a large role in the resurgence of a sector that once froze**

By Jon Sindreu
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An obscure but vital corner of **financial markets** that was at the center of the financial crisis is making a comeback.

Investors and banks use repurchase agreements, or repos, to borrow large amounts of short-term cash safely, by selling a security and pledging to buy it back at a slightly higher price in the near future. On the other side of that trade, it provides cash-rich asset managers with a safe place to put money.

This market played a central role in the crisis, when it froze as investors questioned the safety of the securities being lent.

Post-2008 regulations made it more expensive for banks to get involved, further denting a market that relies on these institutions to act as middlemen.

Now banks are beginning to return to that role while investors need safe places to store their cash.

Repos are one of several markets that played a role in the financial crisis that are now making a comeback nearly a decade on. Volumes in synthetic collateralized-debt obligations are edging up, while the leveraged loan market has boomed.

In the year through October, U.S. repo volumes outstanding were up 6.1% from a year earlier to $1.8 trillion, according to recent Federal Reserve figures, which exclude a segment of the market that is estimated to amount to an additional $1.6 trillion.

In Europe, the International Capital Market Association estimates volumes climbed 12% in the year through June, bringing the size of the market to 6.5 trillion euros ($7.7 trillion).

Still, the increasingly buoyant market has its challenges.J.P. Morgan Chase & Co. recently exited from the business of clearing repo trades for third parties, leaving Bank of New York Mellon Corp. alone in this role in the U.S.

The market could also face a crucial test in Europe at year-end, when big banks shrink their books ahead of reports to regulators.

Bankers say since the financial crisis, the repo market has played a role in stabilizing markets.

"Repos were 2008's smoking gun," said Michael Manna, head of fixed-income financing trading at Barclays.

After 2008, the market became a key channel for the Fed and the European Central Bank to deliver monetary stimulus, by offering cash in exchange for securities.

It has allowed banks to borrow money safely even when market panic stymied other credit markets, such as during the eurozone's sovereign-debt crisis and last year's Brexit vote.

The new regulations also have forced investors to deposit more cash as security when they trade, and repos are a natural place to store those funds safely.

"It's almost gone from sinner to savior," Mr. Manna said.

One big factor behind the re-emergence has been the return of banks.

In the postcrisis world, every time a bank does business it is required to hold more capital and liquidity to cushion potential losses, which makes lending more expensive.

"The cheapest, lowest-yielding asset for banks to cut was the repo," said Greg Markouizos, global head of fixed-income finance at Citigroup. "That had a tremendous and disproportionate effect on the market."

In recent years, some banks have perfected ways to reduce the size of their books that don't involve lending less.

That includes better coordination among trading desks. So when one desk has extra cash in its hands, for example, it can reach out to other desks that can make use of it, rather than having to borrow it.

"Dealers have done their homework in adapting their business model," said Nicola Danese, European head of fixed-income financing at J.P. Morgan Chase.

The market now faces a big test as European banks reduce their balance sheets for their year-end reports.

On Dec. 30 of last year, repo markets fell into disarray and investors couldn't find a place to store their money. Borrowing rates using German and French government bonds as collateral fell to minus 4.9% and minus 5.3%, respectively, which meant market participants were being paid record amounts to borrow.

This was the latest example of an issue that has been ailing the market: Investors often struggle to find enough U.S. Treasurys and German bunds where they can safely park their money.

The Fed and the ECB's bond-buying programs have made things worse by sucking government debt out of the market.

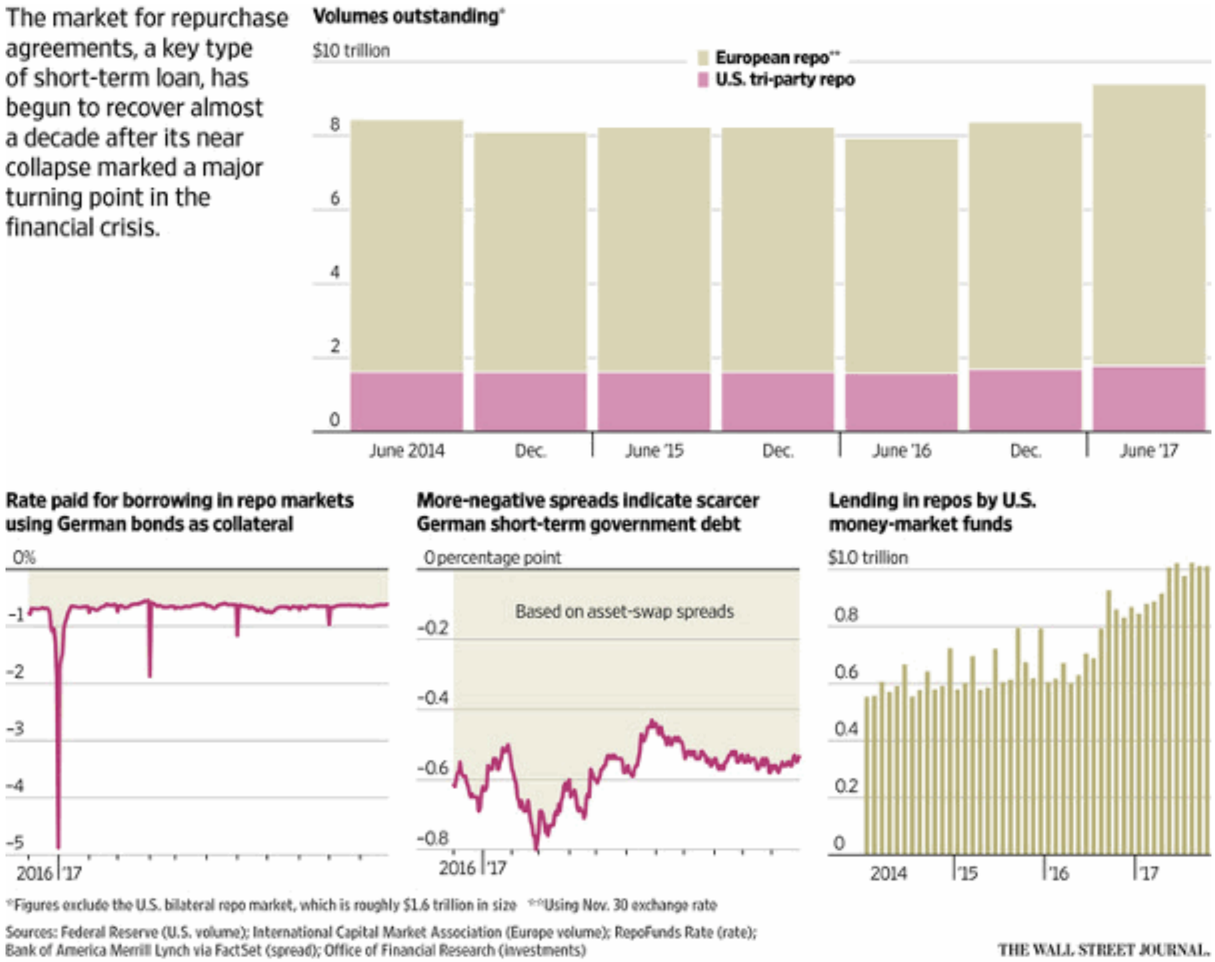
Repo markets can often alleviate these issues -- because they allow an investor who owns a government bond to temporarily pass it along to someone who needs it more -- but lately they have often been unable to do so.

Bankers and officials are hoping last year's disruption won't be repeated in 2018. The Fed has stopped rolling over some of its $4.5 trillion asset portfolio and the ECB has allowed investors to borrow back some of the bonds it purchased by pledging cash in exchange.

Data suggest that while the hunger for German bunds remains strong, it has eased.

"We won't see a repeat of the crisis of last year, but it could still be disrupted in the last day," said Godfried De Vidts, chairman of the European repo and collateral council at ICMA.

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The New York Times

National Desk; SECTA

**Cheering On President, Investors Push the Markets to New Heights**

By LANDON THOMAS Jr.
1,209 words
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The New York Times
NYTF
Late Edition - Final
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English


One of the longest **stock-market** booms in history continued its gravity-defying ascent Thursday, with investors cheering the prospect of deep corporate tax cuts and the rollback of government regulations under President Trump.

The **Dow Jonesindustrial average** eclipsed yet another milestone, closing Thursday above 24,000 for the first time. And the **Standard & Poor**'**s500 index** logged its 13th straight month of gains, the longest such streak in history.

Stock markets have been going up, more or less without interruption, since March 2009, the end of the acute phase of the global financial crisis. This eight-and-a-half-year **bull market** is now the second-longest in history, behind only the rally that lasted from 1987 until 2000.

Investors are embracing Mr. Trump's pro-corporate presidency, marked by the promise of lower taxes, the installation of former industry executives in key government agencies, and the repeal or relaxation of rules and regulations that have made it hard for some big businesses to expand without fear of interference from Washington.

Indeed, the view is taking hold that Mr. Trump, in so aggressively promoting policies aimed to stoke the economy and **financial markets**, has unleashed animal spirits -- largely absent under President Barack Obama -- that are now reflected in ever rising consumer confidence indicators and a willingness to embrace risk in the **stock market**.

''It comes down to psychology, and the psychology today is that everything is awesome,'' said Charlie Bilello, a **stock market** historian at Pension Partners. ''Jobs have grown for 85 straight months, you have growth in corporate earnings, and you have tax cuts.''

This week's rally was sparked by a smattering of good news. Strong economic signals showed consumer confidence at a nearly 17-year high. Retailers posted promising results as the holiday shopping season kicked into gear. And it wasn't just the Dow. The Standard & Poor's 500 was up 0.82 percent on Thursday and closed at 2,647.58. The **Nasdaq composite** finished up 0.80 percent.

More than anything, enthusiasm about life being more pleasant for corporate America is propelling stocks. This week, investors were thrilled by the signs that a normally dysfunctional Washington is coalescing around a tax-cut package that would go straight to the bottom line of businesses and their owners.

Of course, there is no guarantee the tax-cut package will become law. That is a potential tripwire for markets.

''If the tax reform doesn't get done, I think there will be a pretty sharp correction,'' said Bruce Van Saun, chief executive of Citizens Financial Group, one of the largest banking companies in the northeastern United States.

Mr. Van Saun said stock markets could plunge as much as 15 percent if the tax cut was derailed in Congress. ''I think it's quite pivotal right now,'' he said. ''The businessperson has an expectation that this will get done.''

In a year of **stock market** records, hitting the 24,000 mark is not the most historic. This was the fifth 1,000-point milestone for the Dow this year; it first hit 20,000 on Jan. 25. The latest large round number -- surpassed after the Dow jumped 1.3 percent Thursday -- arrived barely a month after the previous landmark.

These milestones, of course, are arbitrary. Passing a round number in a particular index isn't itself significant.

But the ease with which the barrier was cleared highlights the extent to which investors are willing to look past geopolitical uncertainty and pricey stock valuations and bet that the market will keep going up.

"People are assuming this is normal -- but it is not," Mr. Bilello said. "The relationship between risk and reward has broken down."

Is this a bubble that's about to pop? Investment experts are divided.

Skeptics point to the fact that many stocks, especially in the technology sector, are at historically high levels. Investors, they note, are relying on debt to amplify their returns. And a tulip-style mania has sent the price of the digital currency Bitcoin soaring.

But even more investors are **bullish**. Sure, valuations are high, but in contrast to 2000, when Silicon Valley was littered with companies without business models, today's tech behemoths -- including Facebook and Amazon -- are fundamentally sound. And a round of tax cuts could further fatten corporate profits. As for Bitcoin, if it crashes there is no direct reason it should necessarily drag down stocks.

Market participants say one of the distinguishing features of this long run is its ability to keep climbing a so-called wall of worry. Investors have suffered numerous frights, such as Britain's voting to leave the European Union, geopolitical fears in North Korea and political turmoil in Washington, but they have jumped back into the market after each stumble.

Ed Yardeni, an independent **stock market** strategist, has identified 58 of these small market panics since 2009. This year, he has not seen a single one.

"This is starting to feel like a melt-up," Mr. Yardeni said, describing a feverish state of a **bull market** when investors discard all fears. "The market has climbed a wall of worry, but now it seems as if there is nothing to worry about."

That, Mr. Yardeni said, is itself something to worry about, because investors are throwing caution to the wind.

According to Mr. Bilello, the stock analyst, a typical year will include three or four **stock market** corrections. In 2017, there have been none. The worst swoon this year was a 3.3 percent fall between March 2 and April 19.

Such a relentless -- and smooth -- rise in stocks is very unusual.

Several unprecedented factors might be helping the rally, analysts say. For the first time ever, an American president is actively promoting a **stock market** surge. Mr. Trump has tweeted often about the **stock market**, including eight times this week alone.

A president's boasting about the market doesn't mean it should keep going up. But at these high levels, psychology becomes a critical factor that can move stocks higher.

That could mean your brother-in-law praising his portfolio at a cocktail party -- or the president of the United States speaking more broadly to his 43 million followers on Twitter.

It doesn't hurt that there has never been a time when the global economy has been growing so strongly while central banks kept interest rates so low.

Traditionally, bull markets come to an end when, after a sustained period of growth, inflation forces central banks to raise rates.

Now, with inflation stagnant and the lingering anxieties of the 2008 financial crisis fading, investors are not ready to contemplate the end of the party.

For example, the latest missile scare from North Korea, after so many previous flare-ups, barely caused investors to bat an eyelid.

"I used to call my clients fully invested bears," said Mr. Yardeni, the investment strategist. "Now they are giddy bulls -- how could they not be?"

People outside the New York Stock Exchange. On Thursday, the **Dow Jones industrial average** closed above 24,000 for the first time. (PHOTOGRAPH BY SPENCER PLATT/GETTY IMAGES) (A13)
 

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**Economy, Markets Rev Up --- Consumer spending, home sales and business investment show rising optimism**

By Josh Mitchell and Nick Timiraos
1,028 words
1 December 2017
The Wall Street Journal
J
A1
English


The U.S. economy is headed into the final stretch of 2017 powered by one of the sturdiest periods of growth in its nine-year expansion, a vigor that is helping drive **stock-market** indexes to new highs.

The **Dow Jones Industrial Average** on Thursday jumped 331.67 points, or 1.39%, to 24272.35, crossing the 24000 threshold just 30 trading days after passing 23000. Consumer spending, home sales and business investment are among several recent indicators exhibiting economic strength.

"Not only do I think the economy's in good shape today, I think the economic expansion is going to continue for some time," New York Fed President William Dudley said in an interview with The Wall Street Journal Thursday.

Investors are also cheering the prospect of more economic fuel in the form of potential tax cuts.

Consumer spending, a key ingredient in economic growth, grew 0.3% in October from the prior month after rising 0.9% -- the quickest pace in eight years -- in September, the Commerce Department said Thursday. The spending figures suggested the economy entered the fourth quarter growing at a slightly slower pace than in previous months but still well above the roughly 2% annual average pace of the overall expansion.

Gross domestic product grew at a 3.1% annual rate in the second quarter, 3.3% in the third, and many economists estimate it is growing between 2.5% and 3% in the fourth quarter.

The last two economic expansions were derailed when asset prices overheated -- tech stocks in the late 1990s and real estate in the mid-2000s. Investors aren't fretting about that at this point. An index of market **volatility**, dubbed the "fear gauge," has been hovering near its lowest levels on record.

The booming **stock market** has lifted household spirits and in turn their willingness to spend more and save less. The national saving rate stood at 3.2% in October, just a touch above September's 3% figure, which was the lowest rate of savings since November 2007.

But robust growth raises complex questions about the $1.4 trillion tax cut the Senate began debating Thursday. Republicans see strong consumer spending as an outgrowth of improved business and household confidence associated with the prospect of lower taxes, in addition to lighter government regulation. Others wonder whether tax cuts are needed at all when the economy is already picking up.

"I think what they're doing is just throwing a big can of gasoline on a fire that's already quite hot, and it just doesn't make any sense," said Ian Shepherdson, economist at Pantheon Macroeconomics.

Economists warn that low saving rates give Americans less of a financial cushion should the economy hit a rough patch down the road. A range of other measures in recent days add to evidence of an economy still enjoying a good run of momentum. New-home sales rose in October to a 10-year high, and contracts signed for existing homes rebounded strongly in October after several months of declines. Consumer confidence has also risen for five straight months to a 17-year high, according to the Conference Board.

October's spending increase reflected higher spending on goods like prescription drugs, as well as on services like airfares for foreign travel, the Commerce Department said. It added that spending and income data in recent months have been skewed by hurricanes Harvey and Irma, which tore through Texas and Florida this summer. The Commerce Department said the storms affected the data for August and September, though it couldn't say by how much.

Mr. Shepherdson said if the economy performs over the next year as it did this year, unemployment will likely fall from the already low level of 4.1% in October to 3.5% at the end of 2018, a rate not seen since the late 1960s. Fed officials project that the economy can safely handle unemployment of between 4.5% to 4.8% without stoking a bout of crippling inflation. A rate much below that could entice the Fed to raise interest rates more quickly than planned to prevent an unwanted pickup in inflation.

"We don't really need fiscal stimulus from an economic perspective," Mr. Dudley said at an event in New York on Monday. In the interview with The Wall Street Journal Thursday, he added, "this is an above-average economic environment."

For now, broad measures of inflation are restrained, a sign the economy isn't overheating. The Fed's preferred inflation gauge, excluding **volatile** food and energy categories, rose 1.9% in October at a three-month annual rate, according to Thursday's Commerce Department report. That is below the Fed's 2% inflation target. It stood 1.4% higher than one year earlier. Overall prices, including food and energy, were up 1.6% from a year earlier in October, down from September's 1.7%.

Fed Chairwoman Janet Yellen told lawmakers on Wednesday that the Fed wouldn't necessarily try to prevent the economy from growing faster, as long as it doesn't stir inflation in the process. She wouldn't say whether she believed changes in the tax code would do that.

"Look, we welcome strong growth. The Fed is not trying to stifle growth," Ms. Yellen told Congress's Joint Economic Committee. "We're worried about trends that could push inflation above our 2% objective."

Economists at Goldman Sachs expect the tax plan to boost growth by 0.2 percentage point in 2018 next year, raising GDP to 2.5%, and that the unemployment rate will fall to 3.7% next year and 3.5% by the end of 2019, which would be the lowest level since 1969.

With the unemployment rate headed to such a low level, "if Congress stimulates the economy more, the Fed will have no choice but to respond to that with more hiking than they would have done," said Derek Kaufman, a former senior executive at hedge fund Citadel LLC.



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**Banking & Finance: Getting There Took Just 30 Trading Days**

By Chris Dieterich
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English


It took only 30 trading sessions for the 30-member Dow to ascend to 24000 from October's 23000 mark. That makes it the third-fastest run from one millennium marker to the next.

A relentless rally in U.S. stocks this year has resulted in the highest number of 1,000-point milestones in the 121-year history of the Dow. No other year has seen more than two such round-number marks. The Dow managed its latest feat by averaging an advance of 0.14% a day over the past six weeks.

Of course, 1,000-point milestones are easier to come by as blue chip stocks advance into rarefied air.

The Dow's 4.3% march to 24000 from 23000 by definition sets the record for the smallest percentage gain required to move 1,000 points. For example, the climb from 10000 to 11000 equated to a 10% rise. An additional rise of 4.2% will carry the Dow to 25000.

Even so, when measured by percentage per day, a metric that better reflects the work the index did to reach each record, the latest run was the fourth-fastest on record.

Recall that Dow is a price-weighted measure, meaning the bigger the **stock price**, the larger the sway for a particular component, and vice versa. In its current form, Boeing, with a price near $277 a share, carries about 15 times more influence than General Electric at around $18 a share.

That is different from indexes such as the **S&P 500**, which are weighted by components' market capitalizations.



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