The New York Times

Business Day
Tesla's Market Surge Has Even Fans Looking for Feet of Clay

By NEAL E. BOUDETTE
1,301 words
11 April 2017
09:01 PM
NYTimes.com Feed
NYTFEED
English

In the past four weeks, exuberant investors have driven up the share price of Tesla, putting the upstart in the league of car companies that have been in the business for a century.

But there are others who think Tesla, for all its potential, has become an overpriced investment — and something of a risky play in the near or medium term, given the challenges of turning battery-powered cars into mass-market products.

Among the skeptics are some of Tesla's biggest fans.

Take Dennis Pascual, a tech industry consultant in Long Beach, Calif., and owner of two Teslas — a Model S sedan and a two-seat Roadster, the first car Tesla put on the road. He is such a fan, in fact, that he has put down deposits to buy two Model 3 compacts once Tesla starts making the car later this year.

He also owns some Tesla stock, but is not about to buy more.

"It's a little pricey for me to jump back in," he said, speaking by phone from his Model S. "Right now, I think we're in a hold."

Moreover, he worries about Tesla's ability to carry out the bold expansion plans it has for this year and next. Tesla's high-profile chief executive, Elon Musk, has said the company expects to begin production this summer on its first mass-market offering, the Model 3, ramping up to 5,000 cars a month by the end of the year and driving output to several hundred thousand cars over the course of 2018.

"They really need to deliver, and that has me concerned," Mr. Pascual said, who has worked at start-up companies and has years of experience in the technology business. "I'm **bullish** long term, but yes, I'm worried. I'm always worried about companies executing."

Tesla's market surge has been extraordinary. Since March 13, its shares are up 25 percent, in a period when the **Standard & Poor's 500-stockindex** has declined slightly.

Along the way, the market value of Tesla, which sold fewer than 80,000 cars last year and does not yet generate steady profits, has grown to $50 billion — roughly equal to that of General Motors, which sold more than 9.8 million vehicles worldwide and earned $9.4 billion. (On Tuesday, Tesla closed at $308.71, a decline of 1.2 percent, pushing it slightly below G.M. in market capitalization a day after surpassing it.)

That Tesla and G.M. are comparably valued is "totally inexplicable," Michael J. Jackson, the chief executive of the dealership chain AutoNation, said on Tuesday at an auto-industry conference in New York. He added that Tesla "is either one of the great Ponzi schemes of all time" or will somehow work out for investors.

The run-up was fueled in part by some encouraging signs that Tesla's Model 3 is proceeding on schedule. Early this year the company began production of batteries at its gigantic new plant in Nevada, known as the

Gigafactory. Then it announced that Model 3 production would start in July, despite concerns among some analysts that the debut would be delayed until late this year.

A smooth Model 3 rollout could propel Tesla to new heights. It has customer deposits of $1,000 for close to 400,000 orders of the new model, which is priced at $35,000, making it affordable to far more buyers than Tesla's existing models, which go for $90,000 with options.

There have been other positive notes. In March, Tesla reported a loss of $121 million in the fourth quarter of 2016, but that was smaller than its loss in the same period of the previous year. And on April 2, the company announced it had delivered more than 25,000 cars and sport utility vehicles in the first quarter, a year-on-year rise of about 69 percent, prompting investors to pile into the stock.

"The market seems to be thrilled," said David Whiston, an equity analyst at Morningstar. "The thinking seems to be that this could be the next Amazon or Apple, and people want to get in early."

Adding to this enthusiasm seems to be a belief in Mr. Musk's vision of the future. He is trying to revolutionize the auto industry with Tesla, which has jumped ahead of traditional automakers in both battery-powered cars and self-driving technology. At the same time, he is promising to bring affordable renewable energy to homes with SolarCity, which merged with Tesla last year, and commercialize the heavens with SpaceX, a separate company he founded.

Tesla, in Mr. Musk's view, is more than a carmaker. It is leading the shift to renewable energy — on the road and at home.

While Mr. Musk's vision has captured the imagination of both car buyers and investors, the company's financial situation is less compelling. Tesla has reported losses in each of the past five years, and must invest heavily to achieve his goals. It had $3.4 billion in cash at the end of 2016, but some $7 billion in debt after the SolarCity acquisition. It has debt payments coming due in 2018, 2019 and 2021. Problems or delays in Model 3 production could make it harder to meet its obligations.

Tesla soon will bolster its coffers by raising an additional $1 billion through offerings of stock and debt. Last month, it struck a deal in which a Chinese internet giant, Tencent Holdings, acquired a 5 percent stake.

"Right now, nobody seems to care about balance-sheet risk," Mr. Whiston said. "The market doesn't seem to be concerned about cash-flow risk. People are looking at the potential, and the old-fashioned analysis of fundamentals aren't seen as important."

Another question overshadowed by Tesla's stock surge is whether the company can make the big leap to making, shipping, selling and servicing a half a million cars a year — a fivefold increase in production of cars that are made out of thousands of parts and components.

"All you need is a problem with one part to delay the Model 3," said Karl Brauer, a senior editor at Kelley Blue Book.

Producing a half a million cars a year in one plant will not be easy even without such problems. Other car plants in the United States typically make only 200,000 to 300,000 vehicles a year.

Pete Cordaro, the owner of a vending-machine company in Connellsville, Pa., drives a 2015 Model S and loves the car. Mr. Cordaro is such a fan, in fact, that he has put down deposits to buy two Model 3s once they are available.

But the stock? He is not sold on it. He said he knew well from his own business how important a sound financial footing was.

"I think there's too much enthusiasm in the market like with any growth company," Mr. Cordaro said. "I think it's a bubble."

* G.M. Takes a Back Seat to Tesla as America's Most Valued Carmaker

* Tesla Has Something Hotter Than Cars to Sell: Its Story

* Tesla Gives the California Power Grid a Battery Boost

* Elon Musk Has Trump's Ear, and Wall Street Takes Note

Dennis Pascual in his Tesla Model S in the driveway of his home in Long Beach, Calif. An owner of two Teslas, he nonetheless said that the company's stock was "a little pricey." | Andrew Cullen for The New York Times | Elon Musk, Tesla's chief executive, at a ceremony in Dubai in February announcing the opening of a new regional headquarters. | Karim Sahib/Agence France-Presse — Getty Images

Document NYTFEED020170412ed4c000p1

The New York Times

Business Day; DealBook
Toshiba Casts Doubt on Its Ability to Stay in Business

By JONATHAN SOBLE and PAUL MOZUR
1,334 words
11 April 2017
05:08 AM
NYTimes.com Feed
NYTFEED
English

Toshiba , a pillar of the modern Japanese economy whose roots stretch back to the country's industrial stirrings in the 19th century, warned on Tuesday that a disastrous foray into nuclear power may have crippled its business beyond repair.

In a **stock-market** filing in Japan, Toshiba said losses associated with Westinghouse Electr said losses associated with ic, its troubled American nuclear power subsidiary , had created "substantial uncertainty" over its ability to continue as a going concern. The declaration lifts the stakes as Toshiba seeks outside investors for its coveted microchip business, a portion of which it is selling off to raise cash and stave off disaster.

Toshiba 's uncertain fate represents another blow for a country that has seen its dominance in a range of technologies eclipsed by rivals in South Korea and China.

Few companies have embodied Japan's industrial might like Toshiba , whose products run the gamut from hair dryers to giant gas-fired electricity turbines, as well as nuclear reactors. But it has faced a spate of recent stumbles in core businesses as well as a scandal over falsified profits that came to light in 2015.

Toshiba said it hoped the planned sale of shares in its chip division, its crown jewel, would alleviate the uncertainty over its future. While Toshiba has not said exactly how much of the business it will sell, even a minority stake is expected to be worth several billion dollars.

Any stability, though, would come at a price. Toshiba would be parting with parts of its most profitable asset and giving a competitor — very likely a foreign one — a foothold in the market for flash memory drives, where Japan has managed to retain some of its long-held edge.

"We will do what we can to avoid being delisted from the stock exchange," Satoshi Tsunakawa , Toshiba's chief executive, said at a news conference after apologizing to shareholders for Toshiba 's latest worrying turn. The company reported financial details for the quarter that ended in December after multiple delays and disputes with its auditors.

The financial problems are mounting.

The auditors have refused to certify Toshiba 's accounts — a highly unusual signal of doubt about the company's ability to recover its financial health. Toshiba still has the support of its banks, which would be saddled with huge losses if the banks were to push the company into bankruptcy by calling in loans. But the auditors are, in effect, saying that Toshiba may need to undertake a more radical overhaul to ensure its survival.

Toshiba has already admitted defeat in nuclear power.

Westinghouse filed for Chapter 11 bankruptcy protection in the United States last month, and Toshiba took a loss of more than $6 billion as it wrote down the value of the subsidiary, which it acquired in 2006 to further ambitions to become a world-leading nuclear-energy provider. Spiraling costs at American reactor projects , the upheaval caused by the 2011 Fukushima meltdown in Japan and competition from shale oil and gas output have hurt the company.

The chip sale will, in some ways, be more painful.

Pioneered by Toshiba nearly 40 years ago, so-called NAND flash memory has become one of the critical building blocks of modern electronics, essential to storing data in smartphones and other gadgets. And Toshiba has kept the business profitable while competitors outside Japan have elbowed into the market and competed for its customers.

The identities of the bidders for shares of the chip business have not been made public. But people with knowledge of the process say as many as a dozen companies from the United States, South Korea and Taiwan have approached Toshiba with proposals.

Foxconn of Taiwan, the assembler of Apple iPhones and other electronics that has big manufacturing operations in mainland China, is among the bidders, according to a person familiar with the matter who asked not to be identified because he was not authorized to discuss it.

None of the early suitors is from Japan — a remarkable turnabout for a country that controlled the majority of the market for many kinds of microchips a generation ago. It is also noteworthy because Japanese companies have frequently banded together to rescue flailing domestic rivals rather than let them fold or be acquired by foreigners.

The Japanese government may cobble together a Team Japan offer, consisting of small financial contributions from multiple companies and a larger investment by a state-controlled bank or investment fund, according to a person familiar with deliberations. But the response from potential participants, who would have to explain the spending to shareholders, has been tepid.

"It is fundamentally unthinkable that the Industry Ministry would intervene and take some kind of action," Hiroshige Seko, the industry minister, said at a news conference on Tuesday, further damping expectations.

Other potential investors include the American microchip makers Western Digital and Broadcom and SK Hynix of South Korea.

For Foxconn, an investment in Toshiba would be the second recent foray into the often politically fraught world of corporate Japan. Last year Foxconn acquired control of Sharp , the maker of flat-screen television displays, for $3.5 billion. In doing so it overcame a rival bid from an investment fund backed by the Japanese government.

Toshiba 's microchip business is seen as a more valuable asset than a business in TV screens. Japan — despite having pioneered LCD, or liquid crystal displays — has lost most of its market share in TV screens to South Korea and China.

Samsung of South Korea has overtaken Toshiba in NAND, but Toshiba remains the world's second-biggest producer, with a global share of just under 20 percent, according to market research groups. Analysts say Toshiba 's technology, commonly used in smartphones and USB drives, remains at the cutting edge.

One analyst, Mark Newman, of Sanford C. Bernstein, argued in a report that Toshiba 's memory business remained valuable enough that selling it amounted to "selling the crown jewels to pay next month's rent."

Toshiba sees little choice.

Its Westinghouse-related write-off left its balance sheet perilously thin. And though the business is profitable, staying competitive in microchips is notoriously expensive. Toshiba spends $3 billion to $4 billion a year on research and development and capital investments in its chip division, costs it can no longer afford on its own.

The choice of partners, though, may be a difficult process.

Japanese politicians and industry leaders have fretted over Chinese investors' buying advanced chip production technology; semiconductors and memory are a major priority of China's industrial policy.

It is not clear whether Foxconn's close relationship with China will undermine its bid. Although Foxconn is based in Taiwan, it has experience in attracting subsidies from the Chinese government to build large-scale production operations in China.

It would be easy for Foxconn to take technology from Toshiba and manufacture it more cheaply in China. Such a move could drive down pricing for memory, a boon for Apple and low-cost Chinese smartphone makers. But it would also propel China forward in its long push to become internationally competitive in semiconductors.

The worry is that Foxconn "would build huge fabs in China," said Mr. Newman, referring to semiconductor fabrication plants. "The jobs would move to China from Japan, and furthermore China would go after market share at the expense of crushing industry economics, so the U.S., Taiwan, Korea, Japan all get hurt substantially by this arrangement.”

Jonathan Soble reported from Tokyo and Paul Mozur from Hong Kong.

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One of the better-known suitors for Toshiba’s chip unit is Hon Hai Precision Industry, also known as Foxconn. | Kim Kyung Hoon/Reuters

Document NYTFEED020170411ed4b002p9

International New York Times

business
Toshiba Casts Doubt on Its Ability to Stay in Business

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Document INHT000020170411ed4b0000u

The New York Times

Breakingviews
Business Day; DealBook
Tesla's Rise on a Wave of Shareholder Optimism

By ANTONY CURRIE
494 words
11 April 2017
02:58 PM
NYTimes.com Feed
NYTFEED
English

Tesla's shareholders have driven off into La-La Land.

By the close on Monday they had charged up market value of the company to $50.9 billion, taking it just ahead of General Motors to become America's largest automaker. That implies that investors think Tesla's chief executive, Elon Musk, will outdo even some of his biggest cheerleaders' expectations.

For all his success, though, Mr. Musk has also routinely missed production targets in recent years. Even so, Tesla now trades at some 28 times estimated earnings in 2020. By then Mr. Musk expects to be producing one million cars a year, up from around 100,000 in 2017.

That will require a huge ramp-up in production, which is no easy feat. Also, that valuation multiple suggests Tesla will either keep growing quickly or else generate pretax margins around the 30 percent that Silicon Valley stalwarts Apple and Google achieve rather than the 10 percent that counts as decent in the auto industry — or maybe both.

It's hard to see that happening, at least without major setbacks along the way.

Long-term guesstimates from Morgan Stanley's auto analysts show a standard-looking car company — and they have been among Tesla's most **bullish** followers. They don't see output reaching one million cars until around 2027. By 2030, they reckon the company's pretax margin could be about 14 percent, with some $11 billion of profit.

Another way to assess these numbers is to discount the projected 2030 earnings back to this year at a rule-of-thumb 10 percent annual rate. Tesla's current valuation is about 18 times that discounted profit figure.

It's a somewhat arbitrary analysis, but it may hint at what some investors are hoping for. Take Apple in 2004. Back then, the future iPhone maker was trading at just 65 percent of expected earnings this year, discounted back. In other words, Steve Jobs unleashed growth that blew projections away.

If Mr. Musk is riding another wave of consumer change — a shift toward electric cars — it could be less drastic than the smartphone revolution and still pay off for Tesla's investors.

That's possible. By 2030, a quarter of the miles driven in the United States could be in self-driving electric cars, according to the Boston Consulting Group. Mr. Musk faces plenty of competition, though. His backers seem to be assuming he will always have the run of the road.

Antony Currie is an associate editor at Reuters Breakingviews. For more independent commentary and analysis, visit breakingviews.com.

* G.M. Takes a Back Seat to Tesla as America's Most Valued Carmaker

Elon Musk, the chief executive of Tesla, speaking at an event in Dubai in February. Tesla overtook General Motors to become the biggest American automaker by value on Monday. | Karim Sahib/Agence France-Presse — Getty Images

Document NYTFEED020170411ed4b006mx

THE WALL STREET JOURNAL.
U.S. EDITION

Ahead of the Tape
Tables Are Turning on Small Caps

By Steven Russolillo
436 words
11 April 2017
The Wall Street Journal
J
B1
English

Small-cap stocks, which sizzled after the election, have fizzled ever since. That has less to with the Trump bump losing steam and more about the global growth outlook brightening.

Smaller stocks -- those with market values that typically don't exceed a few billion dollars -- have trailed the overall market in recent months, a sharp reversal from what transpired immediately after the election. The Russell 2000 is barely positive so far this year, underperforming the **S&P 500** and **Nasdaq Composite** by more than 4 and 8 percentage points, respectively.

Part of this is mean reversion. Small caps surged more than 11% in November alone. And the vast majority of that gain came between the election and Thanksgiving. That is when many traders bet President Donald Trump's tax cuts and infrastructure-spending plans would be most beneficial to smaller companies, which tend to be less reliant on exports and more domestically focused than larger firms. Though the Russell 2000 has tread water recently, it is still the top-performing major index since the election.

The main factor behind the recent weakness is earnings growth. And as earnings season kicks off this week, a key change is should play out: Domestically oriented companies aren't expected to grow as rapidly as those that derive more of their revenue from overseas.

A team of analysts at RBC Capital Markets led by Jonathan Golub project that **S&P 500** companies with more global exposure are expected to report twice the earnings growth as companies that are more domestically focused. RBC divided each **S&P 500** sector in half by how much sales each company generates outside the U.S.

Earnings for the companies in the bottom half of foreign-sales exposure are projected to increase 3.3% from a year ago. By comparison, earnings for those with the highest exposure to foreign revenue are estimated to jump 9.9%. The spread between the two is on track to be the highest in five years and positive for only the third consecutive quarter after being in the red for the prior four years.

Small caps benefited when the U.S. economy grew at a faster rate than most of the world following the recession. The Russell 2000 has outperformed the **S&P 500** by about 50 percentage points in the current **bull market**, which has stretched into its ninth year. But if earnings are a true barometer of the market's performance, don't be surprised if small caps' recent weakness continues.

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Document J000000020170411ed4b0000s

The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
With Market 'Just Biding Time,' Indexes Inch Up

By THE ASSOCIATED PRESS
663 words
11 April 2017
The New York Times
NYTF
Late Edition - Final
9
English

Stock indexes eked out marginal gains Monday after news of several corporate deals helped lift the market.

Energy stocks led the gainers as the price of crude oil rose for the fifth day in a row. Phone companies were the biggest laggard. Gold fell, and the dollar weakened versus the yen and the euro.

''There's not a lot of impetus to move markets today,'' said David Schiegoleit, managing director at the Private Client Reserve at U.S. Bank. ''The market is just biding time until we get more data.''

The **Standard & Poor's 500-stockindex** gained 1.62 points, or 0.1 percent, to close at 2,357.16. The **Dow Jonesindustrial average** rose 1.92 points, or 0.01 percent, to 20,658.02. The **Nasdaq composite** index added 3.11 points, or 0.1 percent, to 5,880.93.

Bond prices rose. The **10-year Treasury** yield fell to 2.36 percent, from 2.38 percent late Friday.

The major indexes dipped soon after the market opened on Monday but moved into positive territory by midday. They spent much of the afternoon drifting between small gains and losses.

No major economic reports are due to be released this week, although the next cycle of company earnings reports kicks off on Wednesday.

''There are a lot of things coming up on the horizon, with earnings, Fed-speak and things like that,'' Mr. Schiegoleit said. ''In terms of everything else, the market is in a wait-and-see mode.''

Several oil industry stocks got a boost from rising crude prices. Hess climbed $1.92, or 4 percent, to $49.97. Transocean, an oil rig operator, rose 32 cents, or 2.6 percent, to $12.75.

Benchmark crude oil added 84 cents, or 1.6 percent, to $53.08 a barrel in New York. Brent crude, the standard for international **oil prices**, gained 74 cents, or 1.3 percent, to $55.98 a barrel in London.

Traders bid up shares in several companies announcing deals. Among them were the trucking companies Swift Transportation and Knight Transportation, which agreed to combine in an all-stock deal. Swift shareholders will own a majority of the company, which will be called Knight-Swift Transportation Holdings. Swift's shares added $4.75, or 23.7 percent, to $24.77. Knight gained $4.10, or 13.4 percent, to $34.75.

The whiff of a potential company sale also drew investors to buy up shares in Whole Foods Market. The company's stock jumped 10 percent after Jana Partners bought an 8.8 percent stake in Whole Foods. Three Jana employees plan to run for spots on the board and seek a review of options for the company, including a potential sale. Whole Foods was the biggest gainer in the **S.&P. 500**, adding $3.10 to close at $34.17.

A management change and a brighter outlook helped lift Rent-A-Center shares. The company said Mark Speese, its founder and chairman, would return as its chief executive. Mr. Speese has been the company's interim chief for the last three months. Rent-A-Center also issued an optimistic 2018 forecast. The stock climbed 69 cents, or 7.2 percent, to $10.29.

Major stock indexes overseas were mixed. Germany's DAX dropped 0.2 percent while France's CAC 40 lost 0.5 percent. Britain's FTSE 100 was flat.

Gold for April delivery finished down $3.20, to $1,251.10.

In currency trading, the dollar fell to 110.94 yen, from 111.15 late Friday. The euro strengthened to $1.0596, from $1.0588.

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

CHART: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Monday. (Source: Reuters | By The New York Times)

Document NYTF000020170411ed4b0005g

The New York Times

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By BILL VLASIC
1,241 words
10 April 2017
08:57 PM
NYTimes.com Feed
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English

DETROIT — By almost every measure, General Motors has been on a roll.

Its bellwether pickups and sport utility vehicles have hit the sweet spot in a record-setting American market for two years. The company is steadily increasing profits and revenue. And President Trump has vowed to ease regulations and put cars at the forefront of his crusade to add manufacturing jobs.

In short, G.M. has come a long way from a near-death experience eight years ago, when it filed for bankruptcy and needed a $49 billion government bailout. But apparently investors have yet to be convinced that G.M., the nation's largest automaker, has put its troubled past behind it.

In a sign of how the industry's future is being reimagined, the electric-car maker Tesla passed G.M. on Monday as America's most valuable auto company.

With its stock gaining more than 3 percent for the day to $312.39, Tesla has a market capitalization of $50.9 billion, just a hair ahead of G.M.'s.

While the rise of Tesla is based on prospects rather than profits, G.M. is being dogged by its checkered history, and a perception on Wall Street that its days as a dominant force are over.

G.M. is working hard to establish its own bona fides in automotive innovation, developing home-grown technology, acquiring or investing in Silicon Valley companies with promising approaches to self-driving or ride-hailing systems, and bringing a new electric car, the Chevrolet Bolt, to market.

"We are spending money on the future, whether it is in mobility, autonomous vehicles, artificial intelligence or electrification," said Mark L. Reuss, G.M.'s executive vice president for product development.

Yet the moves have so far failed to impress investors. The company's shares are about 13 percent lower than they were when Mary T. Barra became chief executive in early 2014. And now an activist shareholder, the hedge fund Greenlight Capital, is pushing for a financial restructuring to unlock more of the company's value.

G.M. is hardly alone in being outshone by Tesla among investors. A week earlier, another century-old Detroit icon, Ford Motor, fell behind Tesla in market value. And Fiat Chrysler, the parent of the third Detroit automaker, is so uncertain of its own future that it is actively seeking a merger partner.

But G.M. epitomizes both the frustration attached to the old American auto industry, and the determination to prove the skeptics wrong over the long term.

A G.M. spokesman played down the company's loss of its title as the most valuable American automaker. "We have a track record of strong financial performance, with a great outlook for 2017," the spokesman, Tom Henderson, said on Monday. "We'll stay focused on delivering outstanding results, generating strong cash flows and investing capital where it will drive the highest returns."

Still, G.M. executives know that investors worry whether the company owes its recent success mostly to a strong domestic market, buoyed by low **oil prices** that have indulged car buyers' tastes for big, profitable sport utility vehicles — conditions that could be at risk if the economy falters.

“No one is going to believe we are for real until we successfully go through a downturn, and go through it well,” Mr. Reuss said at a company event last week. “We have to prove it.”

The company has taken some drastic steps recently to shed the baggage of past decades, when its desire to be the world’s biggest automaker seemed to be its driving ambition.

G.M. has methodically scaled back its international operations by exiting the Russian market, ending manufacturing in Australia, and agreeing to sell off its long-struggling European division, maker of the venerable Opel and Vauxhall lines.

Moreover, the company has pared back incentives it once relied on to reduce bloated inventories, and eliminated factory shifts to better align production with demand.

The newfound discipline, along with a consistent flow of new models, has helped G.M. outperform the United States market so far this year. Through March, its sales are up slightly less than 1 percent, while the industry over all is down 1.5 percent.

The company is also aggressively updating older models and adding new ones. Its Buick division, for example, will take the wraps off new versions of its midsize Regal sedan and Enclave S.U.V. at media previews this week for the New York Auto Show. And the battery-powered Bolt has been on sale for months, while Tesla is still gearing up to produce its first mass-market electric car, the Model 3.

Yet despite the expectations that G.M. will increase earnings and sales this year, the company suffers by comparison with Tesla, which has rarely made a profit but has huge potential to grow.

Industry analysts see the race for **stock market** value as a competition tilted in favor of the little electric automaker that produces a fraction of the vehicles made by the big Detroit manufacturer.

“Tesla is viewed as a high-tech start-up driven by lots of stock speculation, while G.M. is an old-line industrial business with lots of institutional investors,” said Michelle Krebs, an analyst with the firm Autotrader.

The frustration with G.M.’s share price led Greenlight Capital, the hedge fund overseen by the billionaire investor David M. Einhorn, to propose creating two classes of stock — one that pays a dividend on the company’s core business, and a second that tracks its growth in ventures such as autonomous vehicles and ride-hailing services.

G.M.’s board rejected the proposal, but the hedge fund — which owns about 3 percent of the company’s stock, according to the automaker — has promised to take the fight to the annual meeting, likely to be held in June.

The meeting could become a forum for Ms. Barra to defend the company’s step-by-step strategy to innovate, while it continues to refine its older, core operations.

Mr. Reuss, who has worked for G.M. for more than 30 years, said the company was taking a long view of its destiny, while at the same time defending its market share in North America and China.

“Years ago, G.M. was fixated on the next quarter or the next year — and not the next 10 years,” he said.

For now, the company can ill afford to allow a stagnant American market, or its costly restructuring efforts overseas, to crimp its momentum. Even the smallest setback could depress its market value — and allow Tesla to pull further ahead.

“They have no choice but to keep focusing on what makes money, and that’s selling pickup trucks and S.U.V.s,” Ms. Krebs said.

* Trump, Easing Emissions Rule, Vows to Expand Auto Jobs

* General Motors, Considering Exiting Europe, Talks About Selling Opel

* Profitable Pickups May Be in Cross Hairs of Trump Border Tax

* Silicon Valley Dominating Self-Driving Tech? Motor City Says Not So Fast

Mary T. Barra, center, the chief executive of General Motors, at an event with President Trump and auto industry leaders in Michigan last month. | Jonathan Ernst/Reuters | The all-electric Chevrolet Bolt EV at the Seoul Motor Show in Goyang, South Korea. | Kim Hong-Ji/Reuters

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THE WALL STREET JOURNAL.
U.S. EDITION

Markets & Finance -- CFO Journal: Nonvoting Rights Questioned

By Richard Teitelbaum
761 words
10 April 2017
The Wall Street Journal
J
B9
English

No vote, no index. FTSE Russell said it won't add Snap Inc. or other companies with nonvoting shares to its major stock benchmarks when it updates them in June.

The issue of voting rights is raising the ire of some shareholders' rights advocates because founders and executives often end up with far more votes than shares. That has put index firms in the spotlight.

FTSE Russell issued a statement last week in response to concerns about stocks with no voting rights, such as the Class A shares Snap sold in March. The firm plans to consult with investors and other stakeholders over the next few months about whether to include companies with no voting rights in its indexes.

Current index members with nonvoting shares could be affected depending on the feedback that FTSE Russell receives in its discussions. "It is possible that the future eligibility of existing securities, or the investment weighting assigned to them, may change," FTSE Russell said.

Changes could affect companies like Alphabet Inc. The technology giant's Class C shares, which carry no voting rights, are already included in various FTSE and Russell indexes, according to FactSet. So are its Class A shares, which do carry voting rights.

Alphabet is controlled by co-founders Larry Page and Sergey Brin and Executive Chairman Eric Schmidt through Class B shares that have 10 votes each.

"We as an index provider need to come to a decision on what the policy is," said FTSE Russell spokesman Tim Benedict. The firm said it plans to announce the results of its consultations in July.

Other companies with nonvoting share classes include Under Armour Inc. and Zillow Group Inc.

"It doesn't make sense to exclude companies that are well run," said Zillow finance chief Kathleen Philips, especially if there is no evidence that the lack of voting rights hurts performance.

Companies are generally eager to be included in a market index because doing so increases their investor base, according to Ben Johnson, director of exchange-traded fund research at Morningstar Inc. "From the point of view of Snap, I'm sure they are desperate to get on the other side of the velvet rope," he said.

Spokeswomen for Snap and Under Armour declined to comment. Alphabet didn't respond to an email and phone call.

Still, more nonvoting shares are in the pipeline. IAC/InterActiveCorp. shareholders approved a nonvoting share class last year, but the company said it won't issue stock until it resolves a lawsuit challenging the move. A company spokeswoman declined to comment.

Facebook Inc. last year proposed the issuance of a nonvoting class of stock and is also the subject of a lawsuit to prevent it from doing so. A Facebook spokeswoman declined to comment.

Big investors have begun to weigh in on the topic, since in many cases they are required to hold the stocks in an index.

"We are increasingly troubled by the rise of nonvoting and low-voting shares," said Arianna Stefanoni Sherlock, a spokeswoman for index-fund giant Vanguard Group in an email. "These structures contradict our fundamental belief that shareholders' economic interests and voting rights should be aligned."

Some governance experts caution against excluding companies from indexes based on voting rights, noting how the precipitous decline in stock listings over the past 20 years has diminished the pool accessible to investors.

"Recent regulations have discouraged many private companies from making their equity available to the public," said Lori Ryan, director of the Corporate Governance Institute at San Diego State University. "The ability to separate economic offerings from voting rights allows control-oriented founders to make shares available to the public."

FTSE Russell, which is owned by London Stock Exchange Group PLC, maintains thousands of major indexes under the FTSE and Russell names. They are used by asset managers and others to gauge performance and determine which securities go into certain exchange-traded funds. The company said more than $10 trillion is benchmarked to FTSE and Russell indexes.

Each year, FTSE Russell adds firms to its Russell indexes and removes them based on characteristics like market capitalization. The additions and deletions are disclosed starting in June. FTSE indexes are generally reviewed quarterly or semiannually.

FTSE Russell and rival MSCI Inc. excluded shares of Snap, parent of messaging app Snapchat, from accelerated inclusion in some of their broad **stock-market** indexes after the company's initial public offering because they failed to meet certain market criteria.

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THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Quarterly Analysis --- News Challenge: Funds and Investing: Test Your Smarts...on Bitcoin

By Rob Curran
1,179 words
10 April 2017
The Wall Street Journal
J
R18
English

Corrections & Amplifications

The programmers who generate bitcoin are currently rewarded with 12.50 bitcoins when they confirm a record of transactions, called a block. A quiz about bitcoin in Monday's Investing in Funds & ETFs report incorrectly said the reward is $12.50.

(WSJ April 11, 2017)

(END)

As the world's monetary systems teetered on the edge in late 2008, some computer whizzes sought a digital solution. As Lehman Brothers lay dying, a math-based, completely digital means of exchange known as bitcoin was born.

A few months after the white paper that defined it, bitcoin went quietly into operation. As with the internet itself, bitcoin's first adopters were mostly the highly computer-literate and the highly criminal, followed by speculators. The image of the "digital gold" was first tarnished by association with online drug bazaars such as Silk Road and a massive theft called Mt. Gox, and later by price crashes.

This year, bitcoin returned to the headlines. Its dollar-denominated price hit a record in March amid speculation that the Securities and Exchange Commission would approve a bitcoin exchange-traded fund. In March, the SEC ruled against it, then rejected another ETF, from lower-profile firm SolidX, citing the same concerns about the lack of transparency and regulation in bitcoin markets. But bitcoin's price remains above $1,000.

Even without the ETF, investors are enticed by bitcoin's record run and a sense that, nearing its 10th birthday, the cryptocurrency is here to stay. But how much do you know about bitcoin? Let's find out:

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1. Who, or what, is known by the words Satoshi Nakamoto?

A. The pseudonym of the individual who invented bitcoin.

B. A California computer engineer whomight have played a role in the invention of bitcoin, but denies it.

C. A collection of computer scientists that jointly launched bitcoin.

D. Nobody really knows, but possibly all of the above.

ANSWER: D. Bitcoin's inventor has scrupulously remained behind a pseudonym that he or she uses for public statements. There have been multiple people fingered as "the" Satoshi Nakomoto, but none conclusively. And nobody has made a public statement under that name for years.

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2. In the world of bitcoin, what is the blockchain?

A. The company that owns bitcoin.

B. The software on which bitcoin works.

C. A chunky gold necklace popularized by Mr. T.

D. The time-stamped ledger that records all bitcoin transactions.

ANSWER: D. Whatever happens with the value of bitcoin, the blockchain will be remembered as the most significant innovation in finance in the past couple of decades. The blockchain is what IBM, which sells a version of it for commercial accounting, has called a "shared, distributed ledger." It is like a massive version of one of those collaborative Excel spreadsheets that anyone in the office can jump aboard.

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3. What, according to Satoshi Nakamoto's October 2008 white paper, is bitcoin made of?

A. Digital signatures.

B. Internet cloud particles.

C. Pixels.

D. Silicon.

ANSWER: A. What you buy is effectively two sets of numbers. One is a private key, the number that only you -- the new owner of the bitcoin -- can know, and the other is the public key, which is the address of your wallet, much like a PayPal address. To send your bitcoin to someone else, you sign with your private key.

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4. Which of these had the biggest percentage gains in 2016?

A. The **S&P 500 index**.

B. Shares of detention-center operator CoreCivic.

C. Bitcoin.

D. Copper.

ANSWER: C. Bitcoin's five-year chart is as zigzag as they get, with a gentle slope leading to a peak in 2014 (around $1,200), and then a drop during 2015 and 2016 to as low as $170 before a rally in late 2016 and early this year back above $1,300.

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5. Who had a bitcoin-ETF application rejected by U.S. regulators?

A. Mark Zuckerberg.

B. Satoshi Nakamoto.

C. Cameron and Tyler Durden.

D. Tyler and Cameron Winklevoss.

ANSWER: D. The Winklevosses won a large settlement from Facebook in 2010 and sunk a large amount of the winnings into bitcoin and bitcoin projects. The twins filed for SEC approval of their fund in 2014. On March 10, the SEC rejected the ETF on the grounds that there were no regulated exchanges. "It sort of feels like they're putting the ETF in a Catch-22 situation," says Jesse Powell, CEO of bitcoin exchange Kraken. "where to be traded on a regulated exchange you have to be traded on a regulated exchange."

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6. What is Bitcoin Investment Trust and what happened after the SEC ruling?

A. The Winklevosses' next ETF.

B. An ETF-like fund that trades over the counter on the Pink Sheets.

C. An exchange-traded note that trades on the Nordic **Nasdaq**.

D. Warren Buffett's bitcoin company.

ANSWER: B. A funny thing happened on the way to the SEC's rejection of the ETF: The longstanding Bitcoin Investment Trust started acting more like the de facto ETF that some people had predicted it would be all along. The fund averted SEC oversight with an unorthodox design in which primary shares are issued only to high-net-worth investors who must hold them for a year and then sell only on the Pink Sheets. The structure caused dissonance between the price of bitcoin and the fund's shares. But as trading in the fund grew ahead of the anticipated Winklevoss launch, the spread between bitcoin and the shares on the electronic Pink Sheets narrowed.

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7. In bitcoin nomenclature, what is a hard fork?

A. 10,000 bitcoin.

B. Potential split in the bitcoin network.

C. A method of storing bitcoin.

D. German potato delicacy with a crust that's difficult to penetrate with a fork.

ANSWER: B. Michael Moro, chief executive of bitcoin market maker Genesis Trading, says everyone in the bitcoin network would like to tweak the underlying software to speed up transactions, which were once instant but have slowed because of high demand. There's a divide on how to get there, says Mr. Moro. Miners -- the independent programmers who solve the math riddles embedded in bitcoin transactions -- want to update software unilaterally so they can process more transactions simultaneously. Software developers and bitcoin users and owners want to solve the problem in a way that's not so potentially lucrative for miners.

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8. What will happen in 2140 if bitcoin markets keep growing at this pace?

A. The Winklevoss twins will be the world's richest men.

B. Bitcoin will stop working.

C. Miners will start their own ETF.

D. The last bitcoin will be created by miners.

ANSWER: D. When Satoshi Nakomoto launched bitcoin, it had a circumscribed size limit. To prevent the miners from eroding the value of the currency, the reward for "solving a block" of bitcoin would be halved every four years or so. It is now at $12.50 a block. In about 123 years, the rewards will dry up completely.

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Document J000000020170410ed4a00001

THE WALL STREET JOURNAL.
U.S. EDITION

Bonds Flash Warning Signs --- Booming debt sales reflect investors' skepticism of faster economic growth

By Ben Eisen, Chris Dieterich and Sam Goldfarb
1,047 words
10 April 2017
The Wall Street Journal
J
A1
English

Investors are buying record volumes of new bonds, signaling that many remain skeptical about the prospects for faster economic growth and are reluctant to move on from a strategy that has worked for years.

Companies and governments in emerging markets sold $178.5 billion of dollar-denominated debt in the first three months of the year, the best first quarter on record, according to data provider Dealogic. U.S. companies with junk-bond ratings issued $79.6 billion, double from a year earlier.

Highly rated U.S. companies also issued $414.5 billion of debt during the first three months of the year. That was a record for any quarter.

The booming debt sales reflect a strong investor appetite for higher-yielding bonds as the U.S. economy lumbers toward its ninth year of expansion but remains in slow-growth mode. These bonds offer more yield than low-risk government bonds, in which rates have rarely been lower. They also are viewed as less risky than stocks, especially by investors who consider valuations stretched.

"The old trade has worked really well, so you need overwhelming evidence before people will abandon something that has worked," said Mohamed El-Erian, chief economic adviser at Allianz SE.

The hunt for yield appeared to be falling out of favor right after the presidential election. Investors bid up stocks, commodities and other riskier assets geared to global growth, betting that President Donald Trump's stimulus plans would boost the economy. Consumer sentiment climbed to its highest in more than a decade, according to the University of Michigan.

Better growth could lead to higher inflation and tighter monetary policy, both of which are the main threats to the value of bonds because they erode the fixed returns over time.

Investors fled bonds, worried that a more-than-three-decade rally was ending. Bond mutual and exchange-traded funds world-wide saw $18.1 billion in outflows during the week after Mr. Trump's election, the largest exodus since May 2013, according to fund tracker EPFR Global. Another $22 billion moved out of bonds over the next five weeks.

But that proved to be a blip before bond investors returned forcefully this year. They have pumped more than $112 billion into bond funds since the end of December through April 5.

The strong appetite for bonds shows how hard it is for investors to shake the assumption that the economy can do any better than muddle along as it has for years, with U.S. real gross domestic product growing less than 3% a year.

Lackluster growth also would likely mean the Federal Reserve would keep interest rates relatively low, economists say. That belief was reinforced when the U.S. Labor Department on Friday reported that nonfarm payrolls rose by only 98,000 in March, a slowdown from earlier this year.

The yield grab hasn't just been in bonds. Also rising have been stocks prized for paying dividend income that is more attractive when rates are low. Shares of **S&P 500** utility companies have climbed 5.1% over the past three months, second only to rapidly growing technology shares.

Investors poured a net $2.5 billion into U.S. junk-bond funds in the week ended Wednesday, the most since December. Emerging-market debt funds have collected new money for 10 consecutive weeks, according to Bank of America Merrill Lynch. Meanwhile, U.S. stock funds had $14.5 billion of outflows during that week, the most in well over a year.

A definitive exit from the current low-rate environment seems "several years down the road," said Steven Oh, global head of credit and fixed income at PineBridge Investments.

That backdrop has investors willing to pay lofty prices for riskier debt, even if it has bottom-of-the-barrel credit ratings. BWAY Holding Co, a privately owned maker of plastic and metal containers, sold $2.7 billion of bonds last month to help fund an acquisition. BWAY was able to sell eight-year unsecured bonds with a 7.25% interest rate despite its low junk rating.

That is "extremely aggressive" for a company with its financial profile, Mr. Oh said.

A spokesman for BWAY declined to comment.

Investors demanded 3.93 percentage points more than going Treasury rates to own high-yield bonds, according to Bank of America Merrill Lynch index data. That is less than half the spread in February 2016, when the **stock market** bottomed after a selloff.

Some investors think the hunt for yield is on borrowed time and could fall flat if economic growth either accelerates or drops off dramatically.

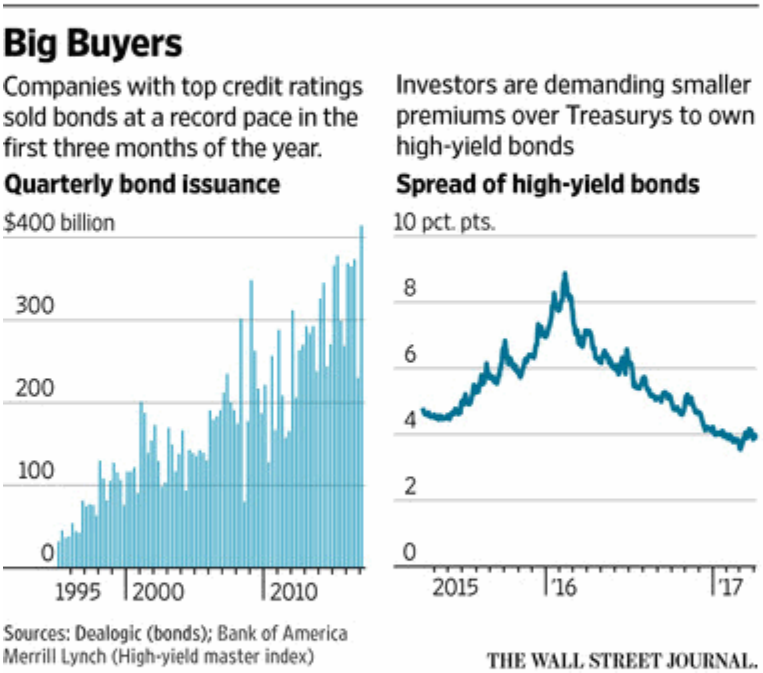
Unconventional monetary policy of super low or negative interest rates in much of the developed world is being "stretched to its limits," Mr. El-Erian wrote last year. There could be faster growth if governments enact fiscal policies that stimulate their economies, he said, or there could a drop-off in growth that might lead to recession if these policy efforts fail.

Those who think the economy may be heating up say inflation could lead to higher rates. The Fed's preferred measure of inflation, the personal-consumption expenditures price index, topped the central bank's 2% target for the first time in five years in February. Inflation would diminish the value of outstanding bonds.

But if the economy falls into recession, that would also be a problem for bonds. Negative growth would hurt corporate balance sheets, spurring waves of defaults and outflows from bond funds.

David Lafferty, chief investment strategist at Natixis Global Asset Management, contends that retirement-age investors and pension funds will provide steady demand for bonds. That demand could ease any selloff in the bond market even as the Fed aims to ratchet rates higher in the years ahead.

"There is this theory that once rates go back up that investors will have this big rotation out of bonds and into stocks," Mr. Lafferty said. "What that misses is that the bond market has a built-in, self-correcting mechanism which is that as yields back up, they become more attractive to more investors."



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THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Quarterly Analysis --- Portfolio Strategy: Investing in a 'Winner Takes All' Economy --- More than ever, investors need total-market exposure to avoid creating a portfolio of losers

By Mark Hulbert
1,138 words
10 April 2017
The Wall Street Journal
J
R11
English

Index funds are going to become even harder to beat than they already are.

That is because we are increasingly becoming a "winner take all" economy dominated by a relatively few big players. Since no one has shown the ability to determine in advance who these winners will be, much less predict when one era's winners will stumble and be eclipsed by the next generation's, owning all stocks is the only realistic strategy for avoiding owning a portfolio of losers.

"Networking effects" are driving the winner-take-all economic shift, according to Geoffrey Parker, a professor of engineering at Dartmouth College.

These effects come into play, Prof. Parker says, whenever a company's users create value for other users. An illustration is Apple Inc.'s dominance of the smartphone industry: As more people buy iPhones, the more developers want to develop apps for those phones. And the more good iPhone apps there are, the more people want to buy those phones. These networking effects create a "virtuous cycle" in which one, or perhaps a handful of companies, eventually dominates the competition.

Networking effects themselves aren't new, Prof. Parker notes. But in the past, they were constrained by high transaction costs. To use another phone analogy, from a century ago, growth of the early telephone network at first was slow because it was expensive to add new users, and placing a call required a human intermediary. Fast forward to today, Prof. Parker says, and "transaction costs are plummeting, allowing network effects to become paramount."

This virtuous cycle shows up particularly in a widening of profit margins at dominant firms. That is because, as Prof. Parker points out, "a lot of the cost structure of networked firms is fixed." So just as these dominant firms' revenue is growing as they attract more users, their profits margins are expanding markedly as well.

Investors are clearly betting that Snap Inc. will be one of the next big winners.

At its initial public offering price on the New York Stock Exchange in early March, the company known for its popular disappearing-message app Snapchat was trading at a sky-high price-to-sales ratio of almost 50.

That was higher than any other large-company IPO in U.S. history, according to Jay Ritter, a finance professor at the University of Florida (defining a large company as having at least $200 million in inflation-adjusted sales). And Snap today is trading even higher than where it came to market.

Note carefully that the shift toward a winner-take-all economy merely makes it possible that Snap will live up to the huge growth expectations implicit in its high price/sales figure -- not probable.

In fact, Prof. Ritter points out, the shift actually makes it likely that Snap will fail to generate the profits necessary to justify a $20 billion valuation, since by definition there are more losers than winners in the winner-take-all economy.

In any case, the winner-take-all shift has been accelerating in recent years. Take the percentage of total income at publicly traded U.S. corporations that is earned by the top 100 firms. This percentage grew to 52.8% from 48.5% between 1975 and 1995, according to research conducted by finance professors Kathleen Kahle of the University of Arizona and Rene Stulz of Ohio State. Over the subsequent 20 years, it mushroomed to 84.2%.

That means that the overwhelming majority of publicly traded corporations in the U.S. earn either modest profits or actually lose money.

A related development is the drop in the number of publicly traded firms. It peaked at more than 7,500 in the late 1990s, according to Profs. Kahle and Stulz, and by 2015 stood at 3,766.

Indeed, the professors wonder if we may be witnessing the coming to pass of a forecast made in 1989 by Harvard Business School's Michael Jensen, who predicted the "demise of the public corporation."

There are a host of broader implications of these developments for economic policy makers as well as long-term consequences for investors. Harry Deangelo, a professor of finance and business economics at the University of Southern California, says that in a winner-take-all economy, it is more important than ever to invest in a portfolio of all stocks. Only in that way can you be assured of owning the winning companies' stocks and not a basket of mediocre or losing companies, he says.

Another consequence of the shift is greater **volatility** at the level of the individual stock. A single misstep by an erstwhile winner can have an outsize influence by triggering an exit of previously loyal users -- which could in turn lead to an "unvirtuous cycle" downward. Dartmouth's Prof. Parker illustrates this point by asking us to imagine what would happen to Apple's stock if its next iPhone release is a flop.

The typical stock's exaggerated vulnerability to even slight changes in the way the wind is blowing is also illustrated by the growing percentage of the **stock market**'s combined value that comes from intangibles. According to Ocean Tomo, a firm that focuses on intellectual property, 84% of the **S&P 500**'s market value now comes from intangible assets. In 1975 it was just 17%.

Another reason to own all stocks: According to Martin Lettau, a finance professor at the University of California, Berkeley, even though the typical individual stock has become more **volatile** in recent years, the overall market hasn't. This is because individual stocks' greater volatilities offset each other, Prof. Lettau says, with the bigger zigs of one stock balancing out the larger zags of another. As a consequence, he says, investors today need to own a much larger number of stocks than investors in previous generations to construct a stock portfolio that is no more **volatile** than the overall market.

The easiest way to become adequately diversified, of course, is by investing in an index fund.

Index funds also are the cheapest ways for individual investors to do that. Schwab recently lowered the expense ratio on its ETF that is benchmarked to the entire U.S. **stock market**, Schwab U.S. Broad Market ETF (SCHB). It now costs just 0.03% a year, or $3 per $10,000 invested. Vanguard's Total **Stock Market** ETF (VTI), is only barely behind with an expense ratio of 0.05%.

Mr. Hulbert is the founder of the Hulbert Financial Digest and a senior columnist for MarketWatch. He can be reached at reports@wsj.com.

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THE WALL STREET JOURNAL.
U.S. EDITION

Equities -- Ahead of the Tape Nothing to Fear but Markets' Lack of Fear

By Steven Russolillo
487 words
10 April 2017
The Wall Street Journal
J
B9
English

Very little seems to spook **financial markets** these days. That itself is a cause for concern.

Last week alone, a subway blast in Russia killed several people, a truck drove into pedestrians in Stockholm and the U.S. military launched dozens of missiles at a Syrian air base.

Those three events normally would at least send some tremors through markets. Instead, stocks barely budged.

Traders for years have been conditioned not to overreact to geopolitical events. Dips following incidents such as the invasion of Crimea in 2014, the Paris terror attacks in 2015 and the Turkish coup attempt last year quickly turned into buying opportunities. The **S&P 500** was higher after all three of them within five trading sessions.

But the latest reaction, or lack thereof, was even more pronounced last week. **S&P 500** futures fell 16 points late Thursday night immediately after news broke of the U.S. missile attack. A few minutes after trading opened Friday morning, though, stocks were higher.

"Investors have developed a complacency toward these kinds of events," said Andrew Brenner, head of international fixed income for National Alliance Capital Markets. "When you see these movements, there just isn't any follow-through."

Much of that has to do with the current stage of the market cycle. Sam Stovall, chief investment strategist at CFRA Research, found investors are much more likely to shrug off these types of events in good times rather than bad.

In bull markets since World War II, 13 of these so-called market shocks have prompted the **S&P 500** to drop about 5% on average, taking nine days to bottom, according to Mr. Stovall.

By comparison, when other exogenous shocks have happened during bear markets, the **S&P 500** has dropped 17% on average, with these pullbacks lasting about two months before bottoming.

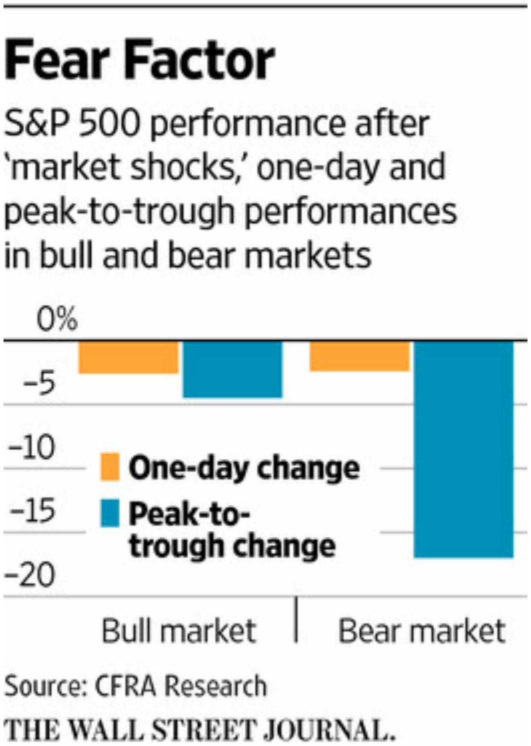
This isn't to say that the recent calm will last forever. Students of market history know that periods of low **volatility** last until they don't.

And markets have been eerily quiet of late, with **volatility** at historically low levels. The CBOE's **Volatility** Index, the VIX, averaged 11.7 in the first quarter, the lowest start to a year in its history.

How Syria plays out and what role it has on **financial markets** is obviously un-known at this point. But when geopolitical turmoil arises, "investors shoot first and ask questions later," Mr. Stovall said. "And the question they often ask is 'Will this lead to recession?' If not, that's more reason to buy the dip."

In the ninth year of a **bull market**, there isn't much that fazes investors, geo-politics included. But it only takes one whopper of an exogenous shock to change that.

This time certainly won't be different.



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THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Quarterly Analysis --- Exchange-Traded Funds: Why Commodity-Index Investing May Be Futile --- Buying an index of commodities and holding it doesn't pay off as neatly as it does with stocks

By Simon Constable
870 words
10 April 2017
The Wall Street Journal
J
R6
English

Investments that track broad stock indexes have become the favorite of many investors and analysts for long-term returns that are hard to beat. But index tracking hasn't done so well in the commodities market.

Stock investments that track indexes such as the **S&P 500** have reliably rewarded long-term investors. For example, since January 1970, investors who held the **S&P 500** for at least 12 years would always have had positive returns including dividends, says Sam Stovall, chief investment strategist at CFRA Research.

Commodity indexes haven't provided that same kind of "significant persistent level of return over time," says Amanda Agati, an investment strategist at PNC Institutional Asset Management in Philadelphia. For instance, major broad indexes of commodities have registered negative returns over the past 10 years. And commodities tend to be more **volatile** than stocks, Ms. Agati says.

The upshot: Simply betting that commodity indexes inevitably will rise over the long term won't work, Ms. Agati says.

That is important for investors in exchange-traded products that track the broad commodity indexes, such as iPath Bloomberg Commodity Index Total Return exchange-traded note (DJP), iShares S&P GSCI Commodity-Indexed Trust (GSG) and Elements Linked to the Rogers International Commodity Index-Total Return ETN (RJI).

Why is it that, in general, commodities don't cut it for index investing? Here are some reasons.

1. Unlike for stocks, the influence of technology on commodities is deflationary.

Consider the massive profits generated by tech companies like Facebook Inc. and Alphabet Inc. New technology has helped power big gains in those stocks. And technology has helped fuel gains in stocks outside the tech sector, as well, by improving the productivity of many companies. But technology generally has had the opposite effect on commodities.

"In the long run, there is a downward bias in prices because of technology," says Mayer Cherem, sector specialist for opportunistic investments at Pacific Alternative Asset Management Co., or Paamco, in Irvine, Calif. That's because new, improved ways of extracting oil and minerals or growing crops boost production, putting downward pressure on prices.

Mr. Cherem points to the rapid development of shale-oil production in the U.S. in recent years, thanks to new technologies, which has helped increase the supply of natural gas and oil and depressed their prices.

Likewise, he cites growth in the production of foodstuffs such as wheat and corn, for which per-acre yields have shot up over the years.

2. The ultimate users of commodities aren't the same as the buyers of stocks.

Stock prices are driven entirely by investors. But the same isn't so for commodity prices.

In the commodity markets, the participants include not only investors but also the producers and buyers of the commodities, and the actions of all of them affect prices. Farmers, for instance, must sell their crops.

This can mean that after bumper crops, inventories can rise to levels that will flatten prices for extended periods.

Worse still, because commodity markets typically have many sellers that can't individually influence the price, there is sometimes a tendency for all to want to maximize production, which pushes prices lower.

3. Commodities are inherently cyclical.

Most commodities roll through regular boom-and-bust cycles.

For instance, in 1998 crude-**oil prices** dropped to a low around $11 a barrel. Then they soared to a record $147 a barrel in 2008. They hit $26 in February last year. The reason for this cyclicality in commodities is that when the prices for materials and foodstuffs are high the producers step up output.

Eventually the higher production swamps demand and pushes prices lower. When prices get low enough, producers cut back. That allows demand to catch up to production, and prices start climbing again.

4. Storage costs.

When investors buy commodities, they sometimes end up paying for the cost of storage.

For example, the cost of storage is baked into a futures contract for 1,000 barrels of crude oil. "You are basically buying the futures five bucks above the spot price," says Mr. Cherem, using a theoretical example in the oil market.

Those costs eat away at any profits, or worsen any losses.

5. The results don't look great.

The record shows that all these factors have combined to make long-term investment in commodity indexes a losing proposition over the past decade.

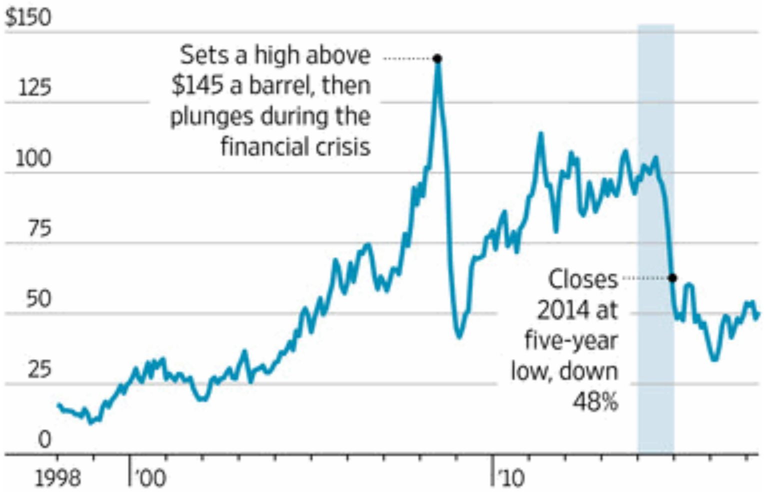
Three broad indexes of commodity prices -- the Bloomberg Commodity Index, the Dow Jones Commodity Index and the S&P GSCI Index -- all had negative annualized returns over three, five and 10 years through the end of March, according to data from Bloomberg and S&P Dow Jones Indices.

"It is not the buy-and-hold investment that the **S&P 500** is," says Jack Ablin, chief investment officer at BMO Private Bank in Chicago.

Mr. Constable is a writer in New York. He can be reached at reports@wsj.com.

Boom and Bust

Oil futures are an example of how commodities can be a rough ride.



Note: month-end prices

Source: SIX Financial

THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Quarterly Analysis --- Quarterly Monitor: U.S.-Stock Funds Rose 4.8% in the Quarter

By William Power
610 words
10 April 2017
The Wall Street Journal
J
R2
English

The **stock market**'s raw numbers are screaming "frenzy," but investors appear too smart for that.

In the first quarter, major market indexes climbed to records -- including the first close over 20000 and then 21000 for the **Dow Jones Industrial Average** -- which resulted in the average diversified U.S.-stock fund registering a healthy total return of 4.8%. However, investors are showing caution, turning again to tried-and-true bond funds, judging by the latest fund-flow statistics.

An estimated net of nearly $112 billion flowed to mutual funds and exchange-traded funds that invest in bonds, based on Investment Company Institute data. In contrast, an estimated $34.5 billion went to U.S.-stock funds in the quarter.

The measured reaction shows investors are "trying to look at the world in a more balanced way," says Charlie Reinhard, chief portfolio strategist at MainStay Investments in New York. "They're trying to be cautious and careful."

It was a different story at the end of 2016, after the presidential election, when money flowed strongly to stock funds -- and out of bonds -- on a bet that a Trump administration would usher in a stronger economy and that interest rates would be heading higher. That zest for stocks has cooled, but rates indeed are rising under the direction of the Federal Reserve, as it also shrinks its portfolio of mortgage and Treasury securities.

The gains in U.S.-stock funds, as tracked by Thomson Reuters Lipper, were roughly in line with the market, in a quarter when the **S&P 500 index** rose 5.5% and the Dow advanced 4.6%.

"It was a very good first quarter," says Mr. Reinhard. "We ended the quarter very close to the highs, despite the health-care [law] setback that took place late in the quarter. We saw gains on the surface, while under the surface there was a little bit of a rotation away from the Trump 'reflation' trade."

For the rest of the year, "we don't expect gains to be as robust as in the first quarter, and we don't expect as smooth a ride as the first quarter. We think it's more likely to see single-digit returns per annum with bouts of **volatility**."

Health/biotech funds were up 10.9% in the quarter, after the health-care bill was pulled.

Gold-oriented funds rose 9.9%, but that was surpassed by Latin American funds, up 13.1%, as investors reconsidered postelection expectations of a major shift in trade policy.

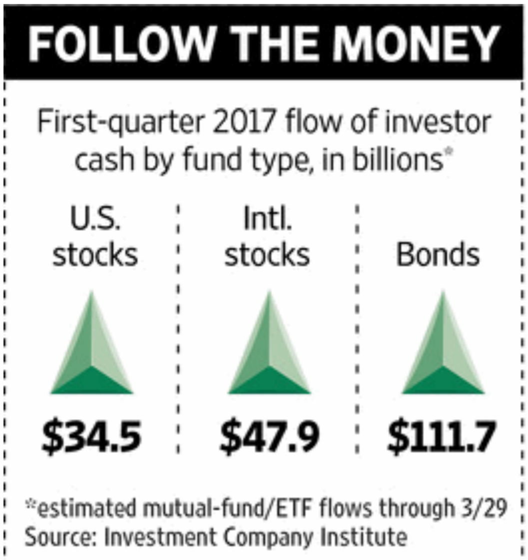
Overall, foreign-stock funds advanced 8.0%, after getting drubbed by U.S.-stock funds in 2016 (by 10.8% to 0.7%). There was an estimated net inflow to foreign-stock funds of $47.9 billion in the quarter.

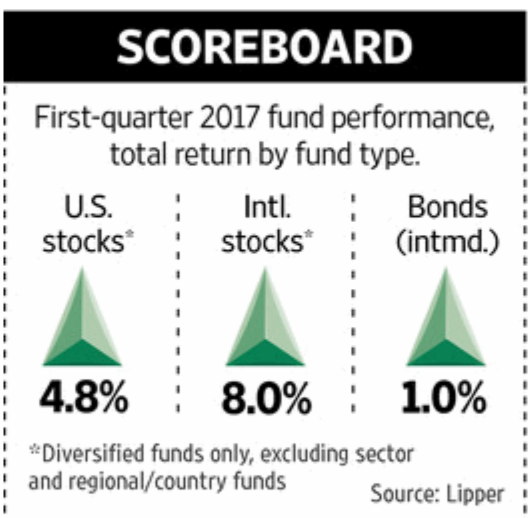
Bond funds were up modestly in the first quarter. Funds focused on intermediate-maturity, investment-grade debt, the most common type of fixed-income fund, rose 1%.

April hasn't started too gleefully as far as investors' buying mood, however. Stock funds for the week ended April 5 absorbed their biggest net outflows of 2017, says Patrick Keon, senior research analyst at Thomson Reuters Lipper.

"The Fed's action in regard to its balance sheet," he writes, "will create uncertainty (will the action be drastic or gradual?), which is always a negative for the equity markets."

Mr. Power is a Wall Street Journal news editor in South Brunswick, N.J. Email him at william.power@wsj.com.





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The New York Times

THE WEEK AHEAD
Business/Financial Desk; SECTB
Open Forum With Yellen, and a Venezuela Deadline

By THE NEW YORK TIMES
773 words
10 April 2017
The New York Times
NYTF
Late Edition - Final
2
English

Here's a look at what's coming up this week.

ECONOMY

Yellen will field questions as the Fed looks to keep raising rates.

Janet Yellen, the Federal Reserve chairwoman, heads to the University of Michigan on Monday for an event billed as a conversation with the economist Susan M. Collins, the dean of Michigan's school of public policy. Ms. Yellen will also take questions from the audience. Ms. Yellen has about 10 months left in her term as the Fed's chairwoman. She has said the Fed hopes to continue raising interest rates this year. The Fed also indicated last week that it would like to start reducing its huge investment holdings by the end of the year. Binyamin Appelbaum

Venezuela is supposed to pay $3 billion on its debt. Will it?

Venezuela is due to make $3 billion in payments on its debt by Wednesday, another test for the country to stay solvent in the face of political unrest and low **oil prices**. Most bond analysts think Venezuela will manage to scrape up the cash, though few consider that a sure thing. The state oil company PDVSA must come up with $2.55 billion in cash, while Caracas must pay an additional $437 million in interest due on its sovereign bonds. PDVSA is suffering from collapsing oil production because of its inability to pay service companies and underinvestment in its oil fields and refineries. But the company promises to pay. The Supreme Court stripped Congress of its powers last week, but then reversed itself, in the latest sign of political instability that makes bond holders nervous. Clifford Krauss

AUTO INDUSTRY

Carmakers will show off new models in hope of shaking off doldrums.

Automakers will unveil new models at media previews this week for the New York auto show, as the industry tries to reinvigorate sales in the United States that have gone flat after two record years. The two biggest American manufacturers, General Motors and Ford Motor, plan to show off redesigned sport utility vehicles in hopes of capitalizing on consumer demand for larger models. Other companies, like Honda, are seeking to bolster their environmental credentials with electric-powered cars. While official media previews are set for Wednesday and Thursday, carmakers have scheduled a number of media events throughout the week to draw attention to the latest additions to their lineups. Bill Vlasic

BANKING

Big lenders will report first-quarter results.

Some of the nation's biggest banks will report first-quarter results this week, starting with JPMorgan Chase, Citigroup and Wells Fargo on Thursday. Investors will look for signs of strengthening in the housing market and signals of stress on their credit card and auto businesses, which have enjoyed a long period of low defaults. Wells Fargo is expected to update analysts on the bank's efforts to overhaul its retail operations after the phony-account scandal. Michael Corkery

ECONOMY

A possible uptick in retail sales for March.

Retail sales probably rose 0.3 percent in March, according to data compiled by Bloomberg. The Commerce Department will release last month's figures on Friday morning. The slight uptick follows a 0.1 percent rise in February. Rachel Abrams

Consumer prices are expected, too.

Consumer prices in the United States have risen steadily through the year as clothes, rent and other household costs have gotten more expensive. The Labor Department will release figures for March on Friday morning. In February, consumer prices rose just 0.1 percent, on a seasonally adjusted basis, after falling gas prices offset increasing prices elsewhere. Rising costs, combined with the continued growth in the economy and job market, have made raising interest rates an easier decision for the Federal Reserve. Conor Dougherty

Some closings for Good Friday.

The offices of some governments and some markets will close early or completely for Good Friday. In the United States, bond markets will close at noon and equity markets will not open. The federal government, however, will operate on a normal schedule. In Europe, stock and bond markets will be closed for the day. Zach Wichter

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

The state oil company PDVSA must come up with $2.55 billion in cash, and Caracas must pay $437 million in interest. (PHOTOGRAPH BY CARLOS GARCIA RAWLINS/REUTERS); Wells Fargo is expected to provide an update on changes in its retail operations in the wake of its phony-account scandal. (PHOTOGRAPH BY MAX WHITTAKER FOR THE NEW YORK TIMES)

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THE WALL STREET JOURNAL.
U.S. EDITION

Markets & Finance: First Trust's ETFs Are Unsung Force

By Asjylyn Loder
533 words
10 April 2017
The Wall Street Journal
J
B9
English

Some of the biggest action in exchange-traded funds last month took place in two little-known First Trust ETFs.

The biggest trader? First Trust Advisors LP itself.

The trading was triggered by a rebalancing of the $2.5 billion First Trust Dorsey Wright Focus 5 ETF. The fund tracks a Dorsey, Wright & Associates index that analyzes recent market trends for signs of momentum, buying sectors and industries with the most substantial recent gains. It owns just five ETFs at a time, all picked from the First Trust lineup.

Last month, energy stocks dropped out of the index, while the banking sector gained favor, reflecting its postelection rally. The shift prompted the Dorsey Wright ETF to sell one First Trust ETF and buy another.

As a result, assets in a First Trust ETF that buys bank stocks swelled 34-fold in March to $910.6 million, marking the six-month-old fund as one of the most-successful recent launches in the ETF industry. During the month, First Trust Energy AlphaDEX ETF, which invests in energy companies, lost almost two-thirds of its assets.

Dorsey Wright, now a unit of **Nasdaq** Inc., has long been a favorite among investment advisers. Some follow its strategy without using the Dorsey Wright ETF, buying and selling the underlying First Trust ETFs themselves.

First Trust created the ETF in 2014 because customers wanted the popular Focus 5 strategy packaged into one product, said Ryan Issakainen, senior vice president and ETF strategist with First Trust. Bundling the ETFs saves investors the trouble of rebalancing themselves and offers some tax benefits. First Trust also offers a second Dorsey Wright ETF that makes many of the same trades.

But analysts have questioned the Dorsey Wright ETF for its high fees, market-roiling trades and subpar returns.

"There are significant benefits for First Trust for launching products that fit into this strategy, but some investors don't necessarily know what they're buying," said Todd Rosenbluth, director of ETF and mutual-fund research for CFRA, a consulting firm.

It has been one of First Trust's most successful ETFs. It is also one of its most expensive because First Trust charges investors both for the Dorsey Wright ETF and for the five First Trust ETFs it owns, pushing the total cost to $89 a year for every $10,000 invested. The average investor in an index-tracking stock ETF pays $20, according to Morningstar.

The ETF's trading also stokes interest in First Trust's other ETFs. Its recent purchase of the First Trust **Nasdaq** Bank ETF made the new fund more appealing to investors who won't buy small, thinly traded products.

While funds of funds are common in the mutual-fund industry, they are relatively rare in ETFs, accounting for 191 U.S. funds with combined assets of $35 billion out of a $2.8 trillion market, according to XTF, a market-analytics firm. Some of the ETFs, especially leveraged equity funds, buy ETFs from several issuers while others invest only in in-house products.

Chris Dieterich contributed to this article.

Document J000000020170410ed4a0000t

THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Quarterly Analysis --- Spotlight / WisdomTree Bloomberg U.S. Dollar Bullish Fund: The Anti-Bitcoin ETF

By Ari I. Weinberg
528 words
10 April 2017
The Wall Street Journal
J
R16
English

Regulators' rejection in March of two proposed bitcoin exchange-traded products was a reminder that there are currency exchange-traded products out there already that offer much that a bitcoin fund wouldn't -- currency diversification and an underlying market with enormous liquidity and regulatory oversight.

The Securities and Exchange Commission rejected a proposed listing of Winklevoss Bitcoin Trust, from Tyler and Cameron Winklevoss, and later turned down a proposed bitcoin product backed by SolidX Management LLC. The SEC cited the lack of regulation of the bitcoin market as a stumbling block to the proposed listings.

In contrast, national currencies and much of the trading in the markets for them are extensively regulated, and they provide much greater liquidity than the bitcoin market. And there is no shortage of exchange-traded products for people who want to invest in those markets. At the end of March, there were 24 exchange-traded products listed in the U.S. that invest in single currencies or currency derivatives and nine that invest in baskets of currencies or derivatives, holding a total of $2.9 billion of assets, according to research firm XTF.

Funds that invest in a basket of currencies, like the $193 million WisdomTree Bloomberg U.S. Dollar **Bullish** Fund (USDU), provide diversification for investors who don't want to bet on the movement of a single currency. USDU is an actively managed exchange-traded fund benchmarked to the Bloomberg Dollar Total Return Index. The fund holds currency forwards that bet on the dollar's movement against a trade-weighted basket of currencies that includes the euro, yen, Canadian dollar, Mexican peso, British pound, Australian dollar, Swiss franc, South Korean won, Chinese yuan and rupee.

The fund was down 3% year-to-date through March but returned 5.5% annualized over three years, according to research firm Morningstar Inc. It has a 0.50% expense ratio.

"We initially viewed this holding as a tactical play on a strong dollar," says Matthew Krajna, senior portfolio manager for Nottingham Advisors in Amherst, N.Y.

Now, he says, the firm views the fund as more of a long-term holding to provide diversification for clients' portfolios. He says investors have to be mindful to take gains or minimize loses by selling shares when appropriate, because the fund doesn't provide income in the form of yield or dividends that would help cushion losses in the share price.

Another option for investors interested in diversified currency exchange-traded products is the $736 million PowerShares DB US Dollar Index **Bullish** Fund (UUP). It has more assets and trades more than USDU, but its holdings are more concentrated: Nearly 60% of its exposure is to the euro. UUP was down 1.9% year-to-date at the end of last month but returned an annualized 6.5% over the past three years.

The Bloomberg Dollar Total Return Index, down 3.4% in 2017 through March, was up an annualized 6.1% over the past three years.

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THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Quarterly Analysis --- Spotlight / Permanent Portfolio: Time for a Bad-News Mutual Fund Again?

By Daisy Maxey
464 words
10 April 2017
The Wall Street Journal
J
R9
English

The $2.8 billion Permanent Portfolio (PRPDX) seeks to shelter investors in all types of weather, but investors seem to like it most when the rains come.

The conservative mutual fund, launched in 1982, is based on the idea of a permanent portfolio put forward by Harry Browne, the late author, investment adviser, and 1996 and 2000 Libertarian presidential candidate. He advocated a portfolio divided equally among U.S. stocks, long-term Treasury bonds, cash and gold -- assets that would perform well in different economic environments.

Permanent Portfolio, which Mr. Browne helped to create, veers somewhat from that original vision, however. It seeks to invest 35% in cash and cash equivalents, longer-term U.S. Treasurys and investment-grade corporate bonds of varying maturities and durations; 30% in stocks -- half in aggressive-growth stocks and half in real-estate and natural-resources stocks; 20% in gold; 10% in Swiss francs and bonds; and 5% in silver.

The portfolio generally is rebalanced or adjusted within 90 days when assets in one or more categories are 25% above or below their targeted allocation.

Investors seeking shelter piled into the fund after 2008 when it lost just 8.6% as the **S&P 500 index** shed 37%, according to Morningstar Inc. Its assets shot up to $17.8 billion in 2012, their peak, from $3.4 billion at the end of 2008.

But in 2013, as the **S&P 500** surged 30% and the diversified Permanent Portfolio slid 2.3%, investors apparently tired of standing under an umbrella in the sunshine. They pulled a net $6.6 billion from the portfolio, which has experienced net outflows every year since, according to Morningstar.

"People typically performance-chase," says Michael Cuggino, who has been managing the fund since 2003. The fund's outflows have declined each year, and it has experienced only slight outflows so far this year, he notes.

With an eight-year **bull market** possibly growing weary, the volume and intensity of discussions with prospective investors, and those who were with the fund before and are reconsidering it, have increased, Mr. Cuggino says. Investors still see value in equities, but more are beginning to think about what's coming next, he says.

Over the 10 years through March, the fund has gained 4.7% each year on average, according to Morningstar.

"The Permanent Portfolio is more than a little different from Harry Browne's portfolio," says William Bernstein, an investment manager at Efficient Frontier Advisors in Eastford, Conn. Mr. Browne's portfolio can be executed with low fees, he says. Permanent Portfolio charges management fees of 0.78%.

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THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds & ETFs: A Quarterly Analysis --- Spotlight / iShares Core MSCI Emerging Markets: Investors Check In to This ETF, but Don't Want to Leave

By Gerrard Cowan
375 words
10 April 2017
The Wall Street Journal
J
R6
English

In the emerging-markets sector, there is an exchange-traded fund that has never experienced a day in which more money flowed out of it than in.

That ETF is BlackRock Inc.'s iShares Core MSCI Emerging Markets (IEMG), a $26.75 billion ETF that was up 11.7% in the first quarter. The fund tracks the MSCI Emerging Markets Investable Market Index, providing exposure to a broad range of small-capitalization, midcap and large-cap emerging-markets stocks.

The fund has seen no net redemptions since its launch in October 2012, according to BlackRock. The firm says only one other fund in the U.S. ETF marketplace has gone that long without a net redemption, and that is its own iShares Emerging Markets Small-Cap ETF (EEMS), which last saw a redemption in May 2012.

The aim of IEMG is to provide a good core strategic holding, says Daniel Prince, head of product consulting for BlackRock's iShares U.S. wealth-advisory business. The fund's relatively low costs -- it has an expense ratio of 0.14% -- has attracted buy-and-hold investors, he says, along with institutions seeking to broaden their investment policy to include small-cap companies.

"Adoption has been strong in both the retail and the institutional space," he says.

What is driving this interest in emerging-markets stocks?

BlackRock says valuations in emerging markets are relatively attractive compared with the broader global market, despite a recent run-up. Additionally, emerging markets often have a higher exposure to commodities than more-developed markets, which has allowed them to cash in on the recent rebound in that area. A number of other factors can affect the performance of emerging-markets stocks, according to BlackRock, ranging from macroeconomic forces to the policies of the U.S. government.

While emerging markets traditionally have been an area of growth opportunities, they also can be more **volatile** than U.S. markets, Mr. Prince notes.

"You take that growth and you balance it with the idea of the risk," he says.

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The New York Times

National Desk; SECTA
Election Left Partisan Divide Over Economy

By NELSON D. SCHWARTZ
1,220 words
9 April 2017
The New York Times
NYTF
Late Edition - Final
1
English

Economics has a foundation in hard numbers -- employment, inflation, spending -- that has largely allowed it to sidestep the competing partisan narratives that have afflicted American politics and culture.

But not anymore. Since Donald J. Trump's victory in November, consumer sentiment has diverged in an unprecedented way, with Republicans convinced that a boom is at hand, and Democrats foreseeing an imminent recession.

''We've never recorded this before,'' said Richard Curtin, who directs the University of Michigan's monthly survey of consumer sentiment. Although the outlook has occasionally varied by political party since the survey began in 1946, ''the partisan divide has never had as large an impact on consumers' economic expectations,'' he said.

At the same time, familiar economic data points have become Rorschach tests. That was evident after the government's monthly jobs report on Friday; Republicans' talking points centered on a 10-year low in the unemployment rate, while Democrats focused on a sharp decline in job creation.

''I find it stunning, to be honest. It's unreal,'' said Michael R. Strain, director of economic policy studies at the conservative American Enterprise Institute in Washington. ''Things that were less politicized in the past, like how you feel about the economy, have become more politicized now.''

Indeed, the night-and-day views underscore yet another front on which Americans remain polarized five months after the election, and with President Trump nearing his 100th day in office.

There are some tangible reasons for the split. Many Republican states, including the Midwestern swing states that provided Mr. Trump's margin of victory, have experienced a more sluggish recovery over the last eight years -- and are thus more invested in the change promised by Mr. Trump.

Many Democratic states have bounced back more vigorously. Hence their political and economic viewpoints were jolted by November's election result.

For example, Vermont, Colorado and Massachusetts -- all carried by the Democrats -- are thriving, with an unemployment rate below 4 percent. In Republican strongholds like Alaska, Georgia and Alabama, the rate is well above the national average of 4.5 percent.

Rank-and-file Republicans aren't the only ones who are feeling more upbeat, whether or not it's justified by the data. Sentiment among business leaders who backed Mr. Trump has also surged since the election.

David Congdon, chief executive of Old Dominion Freight Line, the trucking giant, never expected Mr. Trump to win when he voted for him in November.

''I fell out of bed when I got up in the morning on Nov. 9,'' he admitted. ''I didn't quite know what I was voting for.''

But despite misfires in Washington like the failed attempt to roll back President Barack Obama's health care policies, Mr. Congdon is definitely feeling more positive.

''Trump's got a hard road ahead of him, but I think he's off to a decent start,'' said Mr. Congdon, who recently joined other transportation executives for a meeting with Mr. Trump and Vice President Mike Pence.

"I'm personally optimistic about the economy for the rest of the year, and I think we will see an uptick in terms of freight deliveries," he said. "We have picked up our hiring."

Economists, too, find their outlook shifting with the political landscape. Before the election, Heather Boushey, a top adviser to Hillary Clinton during the campaign, thought "the economy was on the right track, with slow and steady growth like we've had over the past few years."

Now she is much more pessimistic, especially about the economy's long-term prospects. Although she is pleased that the Affordable Care Act survived Republican efforts to repeal it, the gridlock has led her to believe that Mr. Trump will never get a big infrastructure spending package through Congress.

"I am losing hope that we will make those much-needed investments over the next few years," said Ms. Boushey, executive director of the liberal Center for Equitable Growth.

The University of Michigan researchers have their own way of measuring the gulf between the two viewpoints and how quickly it has flipped.

Among Republicans, the Michigan consumer expectations index was at 61.1 in October, the kind of reading typically reported in the depths of a recession. Confident that Mrs. Clinton would win, Democrats registered a 95.4 reading, close to the highs reached when her husband was in office in the late 1990s and the economy was soaring.

By March, the positions were reversed, with an even more extreme split. Republicans' expectations had soared to 122.5, equivalent to levels registered in boom times. As for Democrats, they were even more pessimistic than Republicans had been in October.

As at the voting booth, the split in perceptions could have real-world consequences. If behavior tracks the recession-era sentiment among Democrats, who account for 32 percent of respondents in the survey, prophecies could quickly become self-fulfilling by affecting spending and investing decisions.

"If one-third of the population cut their consumer spending by 5 percent, you get a recession," said Alan Blinder, a Princeton economist who served in the Clinton administration and advised Al Gore and Hillary Clinton on economic policy during their Democratic presidential campaigns. "I don't think it will happen, but it's not beyond the realm of the possible."

To be sure, even if Democratic consumers pulled back, that wouldn't necessarily bring on a recession. A burst of spending by **bullish** Republicans, who equal 27 percent of those polled by the Michigan researchers, could counteract much of that drag. And independents, who are the largest cohort in the survey, at 41 percent, remain fairly optimistic about future growth.

It is rare for "rising optimism to coexist with increasing uncertainty," said Mr. Curtin, the Michigan expert. "The current level of optimism clearly indicates that no economywide spending retrenchment is underway, but the prevailing level of uncertainty will limit growth in discretionary spending."

Lawrence H. Summers, who served as Treasury secretary under President Bill Clinton and was Mr. Obama's chief economic adviser during his first term, said he, too, was struck by the big swing in economic sentiment.

"It is a remarkably big switch from October," he said. "If you are a Democrat, you are primed for negativity. It carries through in your view of everything else."

A prominent Democrat himself and a strong Hillary Clinton backer, Mr. Summers is nonetheless slightly more optimistic than he was late last year, because the data on housing starts and business investment intentions has been positive, not because of the new administration's policies.

Whether the optimists or pessimists prove more prescient about the economy's trajectory, Mr. Summers said, the split in perceptions will persist.

"I'd bet there will be some minor convergence," he said, "but there will still be a large divergence on what should be a matter of objective reality."

David Congdon, the chief executive of Old Dominion Freight Line, is optimistic about the economy under President Trump. (PHOTOGRAPH BY TRAVIS DOVE FOR THE NEW YORK TIMES) (A17) CHART: Greater Partisan Divide: After Donald J. Trump was elected president, the University of Michigan recorded a significant change in the economic outlook of both Democrats and Republicans. (Source: University of Michigan) (A17)

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THE WALL STREET JOURNAL.
U.S. EDITION

A View From the Floor: Odd Case of Calm Trading

By Jon Sindreu and Christopher Whittall
956 words
8 April 2017
The Wall Street Journal
J
B9
English

What if selling insurance against tornadoes made tornadoes occur less frequently? Something like that may be behind the incredible calm in global **financial markets**.

The theory, advanced by several money managers, bankers and analysts, describes a type of feedback loop in which calm markets make selling insurance against sharp swings in asset prices profitable, which makes the markets more calm, which then makes selling insurance yet more attractive. And on and on.

Behind the loop is a danger: If a giant shock -- a big tornado -- does materialize, the loop could suddenly run in the other direction, amplifying big moves rather than damping them.

The feedback loop is one explanation for a perplexing moment in finance right now: Despite vast uncertainty -- an unpredictable and untested new American president, rising populism in Europe and the twilight of a long era of low interest rates -- markets are eerily calm.

The **Dow Jones Industrial Average**, which popped above 20000 earlier this year, has spent much of the past two months treading water. The average level of the CBOE**Volatility** Index -- or VIX, which tracks **S&P 500** options prices -- reached a record first-quarter low in the first three months of the year, according to Goldman Sachs Group Inc. VIX equivalents for eurozone stocks and Treasurys also remain close to historic lows.

The slump in **volatility** has forced big money managers to change their approach to insurance. They used to buy insurance in the form of options contracts to protect portfolios against sharp moves. Now, they are selling it.

GAM Holding AG was a buyer last year: It tried to shield against the risk of political events by betting on **volatility**. But despite the U.K.'s decision to leave the European Union, Donald Trump's election and the failure of Italy's constitutional overhaul, such insurance failed to pay off. The firm has stopped buying it, said Larry Hatheway, GAM's chief economist.

Indeed, **volatility** in the **S&P 500** in the first quarter of the year was the lowest since 1965, according to Goldman Sachs. The recent fall in **volatility** "caught a lot of people off guard," said Tobias Knecht, who co-manages a **volatility** fund at Assenagon Asset Management. That fund is down nearly 4% this year, according to researcher Morningstar Inc., after recording returns of more than 10% in both 2015 and 2016.

Selling insurance, on the other hand, has been great business, and more money managers are piling in. "Our philosophy is always to be short **volatility**," said Bernhard Brunner, a fund manager at Allianz Global Investors, who thinks selling options on U.S. and eurozone stocks remains attractive.

That is where the feedback loop comes in.

Deutsche Bank AG research suggests that investors such as Mr. Brunner are more willing to play the role of insurer than to buy insurance themselves.

When investors want to sell insurance, the buyers are typically bank trading desks. As derivatives dealers, they will generally do whatever trade their clients want.

Thus banks are pushed into betting that **volatility** will go up.

Banks want to hedge those bets. The main way to do that is to buy assets the options are insuring whenever the market falls and sell those assets when it rises. If, say, a falling stock continues to fall, the bank will make money because its **volatility** insurance pays off. But those profits will be offset by money lost due to the decline in the stock's price.

Likewise, if the falling stock quickly reverses course, the bank loses the premiums it paid for **volatility** insurance but wins on the stock itself.

The effect of that hedging, though, is to smooth out **stock-price** movements -- to reduce the chances that tornadoes will develop. The lessened likelihood of tornadoes makes selling the insurance more attractive, and so on.

But if the loop is depressing **volatility**, investors are exposed to a sudden return of sharp swings, some warn.

"It's like digging a hole in the ground deeper and deeper," said Aleksandar Kocic, an analyst at Deutsche Bank. "It becomes harder to get out."

But an unexpected event would shake investors out of their complacency and spark a "very, very intense reaction" in the market, he added.

In the event of a political or economic shock, banks would be sitting on huge profits from their **volatility** insurance. They may forgo hedging.

At that point, investors who had been selling insurance -- and got burned -- would likely start wanting to buy it. Investors scrambling for protection would likely push up the cost of options insurance, while some could also decide to sell stocks or other assets to cut their overall exposure.

In this situation, the smoothing mechanism becomes an amplifying one.

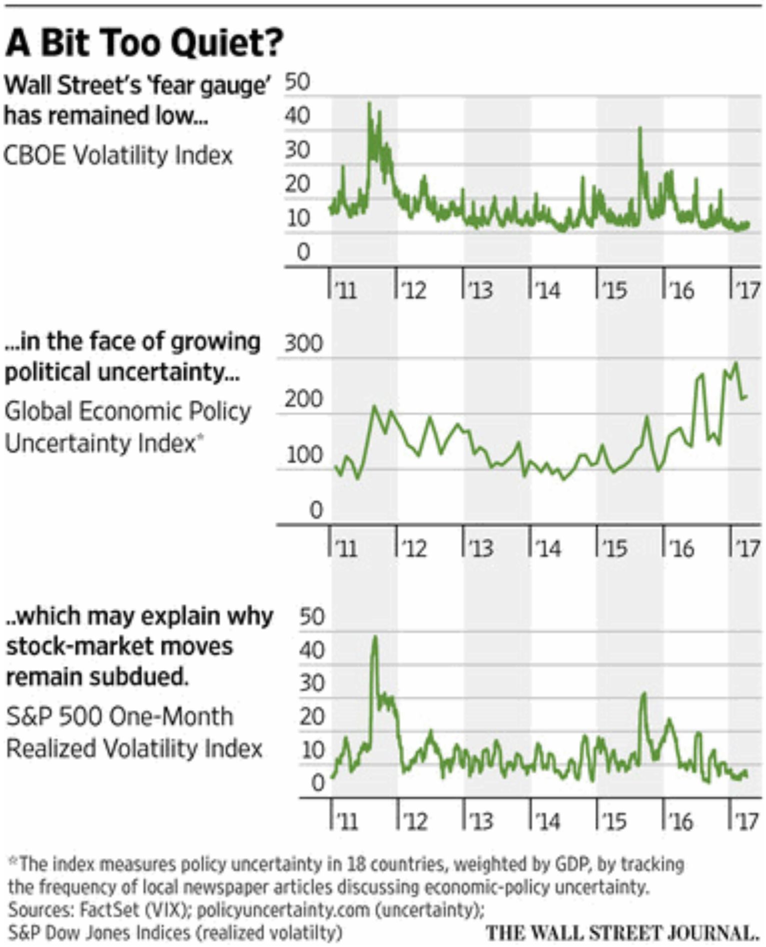
"At an extreme, we get events like the 1987 crash, the rest of the time we get 'market corrections,'" said Mark Tinker, head of AXA IM Framlington Equities Asia.

On Oct. 19, 1987, a day that later came to be known as "Black Monday," the Dow plunged more than 20%.

To be sure, there may be more to the current patch of low **volatility** than the interplay between money managers and bank trading desks in the options market.

A lot of other factors seem to be pushing **volatility** down.

Markets are convinced that central banks will step in if moves get too disorderly. Also, investors and bankers say that political uncertainty has -- counterintuitively -- acted to damp market moves, because it drives money to stay on the sidelines. And if the low VIX reflects fundamental reasons for subdued **volatility**, it might make sense to keep selling it.



Document J000000020170408ed480001n

Business Day; DealBook
New Head of Soros Fund Has Defied Markets, and Expectations

By ALEXANDRA STEVENSON and KATE KELLY
2,526 words
8 April 2017
05:00 AM
NYTimes.com Feed
NYTFEED
English

From the moment Dawn Fitzpatrick stepped onto the American Stock Exchange trading floor as a clerk in 1992, she sensed that the odds were against her. Surrounded by men in jackets barking trade orders, she stood out in her pleated skirt and twin sweater set. Traders around her began wagering over how long Ms. Fitzpatrick, then 22, would last.

“The floor was definitely not a place for people who were cute, prim and proper,” Ms. Fitzpatrick said in a recent interview.

Those who bet against her lost.

Ms. Fitzpatrick began her career at O’Connor & Associates, the Chicago firm that was later acquired by UBS as the Swiss bank’s internal hedge fund. She rose to lead the firm and become one of Wall Street’s most powerful women. Now, largely unknown outside the industry, Ms. Fitzpatrick faces her biggest and most public challenge yet: working for George Soros, the estimable octogenarian investor and philanthropist.

Last Monday, she started as chief investment officer of Soros Fund Management, which manages around $26 billion of Mr. Soros’s personal and family wealth. In taking the job, she follows in the footsteps of finance legends including Keith Anderson, a co-founder of BlackRock, and Stanley Druckenmiller, the billionaire investor. Even Steven Mnuchin, the new Treasury secretary, was once brought in to open a lending business.

Mr. Soros himself is perhaps the finance world’s most famous investor. In 1992, he made a $1 billion bet against the British pound. The trade came to be known as one that “broke the Bank of England” when Mr. Soros’s heavy selling of the country’s currency helped prompt the government to devalue the pound.

But since Mr. Druckenmiller left the firm in 2000, Soros Fund Management has churned through eight chief investment officers. It’s a remarkable turnover for the top of any company, even among hedge funds, which are known for a cutthroat culture. It’s even less typical in the sleepy world of family offices, where employees manage the assets of a single clan, which is how the Soros funds are now structured after years of accepting outside investor money.

And Soros is not just another family office designed to maximize wealth. There is a direct link between the money that is made at Soros and its founder’s philanthropic endeavors. Mr. Soros, now 86, is an outspoken supporter of Democrats including Hillary Clinton, and travels the world seeking to promote democracy. The $1 billion that Mr. Soros made betting against the British pound, for example, helped to support scientists in Russia after the fall of the Soviet Union.

Though Ms. Fitzpatrick is registered as a Republican, she appears unfazed that her investing acumen will in turn support Mr. Soros’s activism. “If we do a good job in terms of generating returns, the impact the money created can have is tremendous, and that’s really motivating,” she said.

Yet Ms. Fitzpatrick, 47, takes over at Soros at a moment of global uncertainty. Impending elections in France and Germany threaten to upset the status quo across Europe. The United States is only beginning to absorb the implications of Donald J. Trump’s young presidency. Markets around the world are holding steady but seem liable to drop on any given day.

Ms. Fitzpatrick is **bullish**. She believes stocks in the United States, having hit record highs, can rise higher still. But she attributes this optimism to what she says are fundamentally healthy companies, not investor giddiness over the Trump presidency. “In reality, if we had Hillary Clinton as our president, I think we’d be here or higher,” Ms. Fitzpatrick said.

Buying Up the Board

At the height of the financial crisis of a decade or so ago, Ms. Fitzpatrick faced the biggest decision of her career. She had risen to become chief investment officer at O’Connor, then a unit of UBS, and now had to steer the firm through a period of market upheavals that would leave some of the biggest names on Wall Street bankrupt.

In the summer of 2008, Ms. Fitzpatrick received a call from Richard S. Fuld, then the chief executive of Lehman Brothers. Mr. Fuld acknowledged that Lehman’s stock was tumbling, but he told Ms. Fitzpatrick it would recover and asked her not to pull the billions of dollars that O’Connor had with the bank’s prime brokerage, a division that lends stock and cash to hedge-fund clients for trading, in exchange for housing some of the funds’ capital.

Ms. Fitzpatrick had a quandary. If she maintained her balance and Lehman managed to survive, she would keep a relationship with a critical Wall Street partner. But if she kept her balance and Lehman went bankrupt, she would lose billions of dollars for UBS O’Connor’s clients.

“She did something no one else did,” recalled Michael Meyer, a former UBS O’Connor employee who was there at the time. “She quickly assessed the situation with him and said: ‘Dick, your stock is trading at $22. If the stock goes to $15, I’m taking half out, and if the stock reaches $10, I’m taking it all out,’” Mr. Meyer recalled.

Ultimately, of course, Lehman failed, triggering some of the worst convulsions of the financial crisis and costing many investors billions. Ms. Fitzpatrick was able to avoid the worst of it, and saved the firm from getting trapped in years of bankruptcy proceedings. Other hedge funds that didn’t pull their money were stuck in losing market positions, unable to use their money to make new trades.

Though the episode left her shaken, it was the kind of quick thinking she had prepared for.

Born and raised in Irvington, N.Y., Ms. Fitzpatrick was the middle child among five siblings who grew up in a cul-de-sac on a street bustling with young families. She spent much of her childhood competing with taller, stronger brothers and sisters who excelled at sports like basketball. By her own description, Ms. Fitzpatrick was “short and scrawny.” Her father, she said, still jokes that she is the “runt of the litter.”

Eventually she found her stride. She turned to running, something she continues to do today, usually at 5 a.m. A neighbor, Marty Atlas, nurtured her early interest in the markets, showing a teenage Ms. Fitzpatrick how stock tables worked. Even as a girl, her investing prowess was evident. “I remember her playing Monopoly with all these other kids, and she ended up with all the hotels,” Mr. Atlas said.

Ms. Fitzpatrick quickly zeroed in on her goal for after college: Wall Street. “It was the one place where you could succeed beyond your wildest dreams,” she recalled. After graduating from the University of Pennsylvania’s Wharton School with a bachelor’s degree in 1992, Ms. Fitzpatrick landed a job with O’Connor & Associates as part of a junior group of American Stock Exchange clerks.

She moved on to trade options for O’Connor at the Chicago Board Options Exchange. There, groups of traders gathered in pits to buy and sell major trading contracts, yelling out their orders while gesticulating madly. Ms. Fitzpatrick, once again an outsider on a testosterone-heavy trading floor, mastered the routine.

It was in Chicago that Ms. Fitzpatrick learned just how cruel markets could be. In December 1994, an economic crisis was looming in Mexico that resulted in a swift and drastic devaluation of the Mexican peso. Ms. Fitzpatrick was covering a pit where so-called locals — traders who made bets with their own money — were exposed on the wrong side when the American Depository Receipts of Mexican companies moved suddenly. They lost everything.

“Basically overnight, these guys who I would stand next to from 9:30 a.m. to 4 p.m. every day lost their homes, lost their marriages, just everything in a flash,” Ms. Fitzpatrick said. “It really left an indelible mark on me.”

In the course of her career, Ms. Fitzpatrick has tangled with regulators. While chief investment officer of O’Connor, Ms. Fitzpatrick oversaw the firm’s $5.3 million settlement with the Securities and Exchange Commission over charges that from 2009 to 2011 it had bought stocks in companies’ public offerings while also taking the opposite position, short-selling those same stocks. The bank denied wrongdoing. More than 23 firms were slapped with similar charges.

“Dawn would see possible risks, multiple layers, beyond anyone else in the room,” said Ross Margolies, the founder of Stelliam Investment Management, which Ms. Fitzpatrick and O’Connor seeded in 2007. “It was almost like she was playing a game of three-dimensional chess.”

‘Perceptions Matter’

In the world of finance, women can find themselves at a disadvantage, their careers stymied by overt sexism and implicit bias alike. The paucity of senior positions held by women in banks and other financial firms, which a recent Financial Times survey put at less than 26 percent, would seem to underscore that belief.

As the first female chief investment officer at Soros, Ms. Fitzpatrick becomes a woman with few peers; most everyone managing such a large pot of money on Wall Street is a man.

Ms. Fitzpatrick said that, on the whole, she has not felt discriminated against because of her gender in the workplace. At UBS, Ms. Fitzpatrick kept a pair of Christian Louboutin shoes under her desk but often walked around the office barefoot, a display of her confidence.

“Clearly, there are single moments in time when I would have rather been a 6-foot-3 blond-haired ex-football-playing guy,” she said. “But those tended to be offset by the times when I thought it was an advantage to be a woman.”

Ms. Fitzpatrick says women have innately useful qualities when it comes to money management. “One of the things I believe women have more of is humility in their investments,” she said. “We’ll cut losers quicker, in a more effective way, than generally men will.” Indeed, some studies suggest that women are more successful risk managers than men.

Yet Ms. Fitzpatrick has also caught herself masking her femininity to keep up with her male colleagues. Days after giving birth to her second child, she was on a flight to London for a meeting wearing several layers of Spanx, the tightfitting undergarments meant to conceal extra pounds.

“From my perspective, perceptions matter, and it was important for me that I was there,” she said. “I didn’t want them to think I was anything but focused.”

Such hard-driving ambition can be a distraction, too. A few years later, in the summer of 2008, Ms. Fitzpatrick was so consumed by her work that she didn’t realize she was pregnant for several months. The financial crisis was beginning to unfold, and the markets were swinging violently. She was often sick to her stomach, and was also getting heavier, but she figured her discomfort was a result of her stress. Plenty of her peers were having visceral reactions to the crisis.

“The fall comes, and I’m nauseous, and I’m gaining weight, and it doesn’t even cross my mind that I could be pregnant,” Ms. Fitzpatrick said.

Today, Ms. Fitzpatrick maintains the long hours and relentless travel schedule common among financial executives. It keeps her away from her three children and her husband more than she would like.

But she lives in Irvington, the town where she grew up, and her two sisters and her parents still live nearby. They help with the children. She admits, however, that her relentless drive is “not necessarily a virtue for everyone.”

Keeping Up With Soros

In her new role, Ms. Fitzpatrick oversees assets that Soros Fund Management invests directly, as well as more than a handful of outside hedge fund managers and private equity firms. It is similar to the role Ms. Fitzpatrick played at UBS O’Connor several years ago. And during her last year at the Swiss bank, she held a more strategic role, managing teams across all of UBS’s asset management unit, and overseeing more than half a trillion dollars.

It was a prestigious job, but one that removed her from the day-to-day trading and market strategizing that associates say she loves most.

Now, “she will basically be able to sit down with those managers whom they’ve allocated money to, and really be able to speak the language,” said Rich Cunningham, a managing director at Barclays Investment Bank.

Among the new challenges she will face is all that turnover at Soros.

Ted Burdick, the previous chief investment officer there, stepped down after just eight months on the job, though he remains with the firm. Others who have held Ms. Fitzpatrick's role have been caught up in the internal politics of the firm, and at times clashed with Mr. Soros himself.

Ms. Fitzpatrick may be at less risk because, unlike some previous chief investment officers, she will be reporting to the family office's board of directors, rather than just Mr. Soros, who is the chairman of the board.

And yet Mr. Soros, one of history's best traders, still can't help but sometimes want to manage his own money.

Last year, as Britain prepared to vote on whether to exit the European Union, Mr. Soros stepped back into his day-to-day engagement, placing wagers that would be affected by the June referendum. The "Brexit" outcome, a surprise to many, triggered significant market swings, and Mr. Soros benefited from a position that predicted shares of Deutsche Bank would fall, among other trades.

Later in the year, however, Mr. Soros lost around $1 billion wagering that Mr. Trump would lose the presidential election.

Beyond his occasional trading, there could be a disconnect between Mr. Soros and his new chief investment officer. Speaking at the World Economic Forum in Davos, Switzerland, in January, Mr. Soros mixed his views on politics and finance to deliver a bleak economic prognosis.

Yes, investors were **bullish**, thanks to the belief that Mr. Trump would dismantle regulations and reduce taxes. But, he said, Mr. Trump would fail to achieve those policy goals. "I don't think the markets are going to do very well," Mr. Soros said.

Ms. Fitzpatrick, however, says that although she is more **bullish** on the **stock market** than her boss, they are not out of sync on the big picture. "As an investor," she said, "you have to continuously evolve and learn."

* Dawn Fitzpatrick to Lead Investing at George Soros's Investment Firm

"The floor was definitely not a place for people who were cute, prim and proper," Dawn Fitzpatrick said in a recent interview. She is the new chief investment officer of Soros Fund Management. | An Rong Xu for The New York Times | The trading floor of the American Stock Exchange in 1992, when Ms. Fitzpatrick landed a job with O'Connor & Associates as a clerk. | Alan M. Rosenberg/AMRPhoto | George Soros in 2014. | Joshua Bright for The New York Times

Document NYTFEED020170408ed48002gy

The New York Times

ECONOMIC TRENDS
Business/Financial Desk; SECTB
Top Economic Indicator? Why It Isn't Job Growth

By NEIL IRWIN
850 words
8 April 2017
The New York Times
NYTF
Late Edition - Final
2
English

When the first employment report of the Trump presidency was released a month ago, the administration was quick to point to the strong growth in the number of jobs in the United States in February: 235,000, in that initial estimate.

It was a mistake to emphasize it, and the newest numbers, released Friday, show why.

It's not just that the economy gained a mere 98,000 jobs in March, or that the Labor Department revised earlier months' gains down by a combined 38,000 (though that apparent **volatility** alone is an argument for why government officials should be cautious in promoting any given month's numbers).

More broadly, the United States economy has arrived at a place where job gains, one of hundreds of data points released as part of the monthly report, are not really the best indicator of how things are going.

When the economy is at risk of falling into a recession or struggling to grow out of one, the change in the jobs numbers really is the best single number to understand the state of the economy. While it has a lot of month-to-month statistical variance, it is a fairly reliable indicator -- especially if you average a few months together -- of whether the economy is growing, contracting or stagnant.

But there are no signs now that the United States is in recession or close to one. And once the economy is close to full employment, gains in jobs take on lesser importance. A few years ago, when the unemployment rate was at 7 or 8 or 10 percent, the level of job gains was driven by employers' confidence about the economic outlook.

Now, with the jobless rate at 4.5 percent, the binding constraint is the number of available workers. Over the long run, employers can add jobs only as quickly as there are people to fill them. That is determined by a mix of demographic factors like birthrates and immigration levels, along with choices people make like whether to work, retire or stay home with a child.

It's true that a more booming economy can tend to pull more people into the work force. As President Trump has often noted, there are indeed millions of people not in the labor force who might be in a more robust economy.

But we don't know how many of those can be coaxed back to the work force as the economy looks stronger, or at what pace. That being the case, it's hard to know with any certainty what, in 2017 and beyond, would constitute a good level of job growth and what would be a poor one.

Instead of focusing on job growth numbers, which are poised to decelerate anyway thanks to the economy's near-full-employment status, it would behoove the Trump administration to focus on job market metrics that shed more light at this stage of the recovery and that speak directly to the president's goal of getting more people back in the job market.

There are two particularly obvious ones.

â– Wage growth -- more specifically, average hourly earnings for private-sector employees -- seems poised to grow, and this would represent true progress for American workers. It rose 0.2 percent in March, a solid reading, and is now up 2.7 percent over the last year. That's pretty good given that inflation is low, but there's plenty of room for it to rise further as employers get into bidding wars for talented workers.

In fact, if wage growth were stronger, you would expect it to have the positive effect of pulling people on the bench into the labor force. People who don't see the value in working for $10 an hour might do so for $15.

â– Then there is the direct measure of how many Americans are working, the employment-to-population ratio. You can refine it to include only those who are between 25 and 54 to filter out students who aren't working because they are in school and retirees who are on the golf course.

That number showed a bit of progress in March as well -- it rose to 78.5 percent from 78.3 percent. But it remains below the 80.3 percent recent high in 2007, and well below the 81.9 percent record high in April 2000.

If the Trump administration sets its foremost goals as improvement in those numbers, wage gains and prime-age employment-to-population ratio, it will be focused on the issues that truly bedevil the United States economy in 2017, and have a considerably better chance of success.

The Upshot provides news, analysis and graphics about politics, policy and everyday life. Follow us on Facebook and Twitter. Sign up for our newsletter.

President Trump last month in Ypsilanti, Mich. He has vowed to bring back jobs, but wage growth may be more critical at this point. (PHOTOGRAPH BY STEPHEN CROWLEY/THE NEW YORK TIMES)

Document NYTF000020170408ed480006c

The New York Times

National Desk; SECTA
Unemployment Falls, but Feeble Job Growth Tempers Optimism

By NELSON D. SCHWARTZ
1,231 words
8 April 2017
The New York Times
NYTF
Late Edition - Final
1
English

Looking for a Trump bump in the economy? Keep waiting.

After two months of stellar job creation that convinced administration officials that President Trump's policies were paying off immediately, employers pulled back sharply on hiring in March.

The economy added 98,000 jobs, the Labor Department reported Friday, fewer than half the monthly number for January and February.

The report contained some notable good news: The unemployment rate fell to 4.5 percent, the lowest level in almost a decade and a milestone in the long road back from the Great Recession. The rate was 4.7 percent in February. Wages also continued to rise.

But the disappointing number of new jobs was jarring for the administration, and well below what economists had expected. It comes as the **stock market** surge, which followed the November election, subsides and amid signs that economic growth in the year's first quarter proves weak.

Economic perceptions, as well, may not be playing out in reality. Sentiment among consumers and businesses rose after Mr. Trump's election, but so far, it has not been matched by a comparable increase in spending by either group.

''We've given up on waiting for hard data to improve,'' said Rob Martin, an economist at Barclays. ''It's been five months since confidence increased. If consumption were going to improve, it would have already.''

Industries that Mr. Trump emphasized in his campaign -- particularly manufacturing -- continued to add jobs last month, but at a slower pace. Payrolls in the retail sector, meanwhile, declined further, shedding tens of thousands of jobs.

The response from the White House, which crowed last month after more than 200,000 jobs were produced in Mr. Trump's first full month in office, was muted Friday.

Gary D. Cohn, the former Goldman Sachs executive who is director of the White House's National Economic Council, emphasized the decline in the unemployment rate. ''When you look at the jobs report as a whole, I think there's an awful lot of good news in here,'' he told Fox Business Network. Congressional Democrats took a dimmer view.

Also watching closely are the policy makers of the Federal Reserve, which has begun to reel in its post-recession stimulus. It raised interest rates last month and said it planned to do so twice more this year. But signs of a sluggish economy could affect how quickly the central bank moves.

''This raises the stakes for the April report,'' said Joshua Shapiro, chief United States economist at MFR, a research firm. ''You need to see things pick up in April, or else March won't look like aberration.''

The market reaction, in any case, was sanguine, with stocks essentially flat for the day.

Barclays has said it expects the economy to actually slow in the first half of 2017, before rebounding modestly in the second half. "Given this data today, we see downside risk in our already soft expectations for the first half," Mr. Martin said.

The consensus view on Wall Street is that the economy expanded at an annual rate of 1 percent last quarter, with the pace of growth in the current second quarter rising to 3.5 percent.

The March report represents a snapshot of the economy, not an oil painting. And snow and cold weather in many parts of the country clearly took a toll on the construction sector, which barely grew after gaining a total of more than 90,000 jobs in January and February.

"January and February were abnormally warm, so they were pumped up, and you had some payback in March exacerbated by the harsh weather," Mr. Shapiro said.

On Capitol Hill, Republicans acknowledged a glass-half-full view of the report. "The economy clearly should be generating higher job growth," said Representative Pat Tiberi, an Ohio Republican who is chairman of the Joint Economic Committee. "However, the unemployment rate fell to the lowest rate since before the recession."

The top Democrat on the committee, Senator Martin Heinrich of New Mexico, ignored the new jobless rate and focused instead on the disappointing payroll gain.

"Today's jobs numbers show there are still challenges ahead that this administration must address," Mr. Heinrich said. "President Trump promised that he would be 'the greatest jobs producer that God ever created.' Democrats on the Joint Economic Committee will hold him to this promise."

Last month, when February's payroll gain turned out to be much better than expected, Sean Spicer, the White House press secretary, claimed credit for Mr. Trump. Mr. Spicer called the job creation a result of "the surge in economic confidence and optimism that has been inspired since his election."

Part of the problem for the administration is that its legislative accomplishments in the first hundred days are falling far short of the expectations -- notably, for tax cuts and infrastructure spending -- since the election.

Whether or not they support Mr. Trump, mainstream economists say it will take many months for policy shifts in Washington to move a battleship-like economy with 153 million workers.

What is more, the tepid numbers for March mask pockets of strength. For example, a few white-collar sectors like professional and business services are holding up well, adding 56,000 jobs last month.

Hyland, a business software designer in Westlake, Ohio, plans to hire at least 300 people this year, Bill Priemer, its chief executive, said. That is a 15 percent increase in head count at the company, and it is a sign of just how quickly demand is growing for new technologies like content management, one of Hyland's specialties.

"We are growing faster than the economy and the enterprise software sector overall," Mr. Priemer said. "Digital transformation is a big buzzword, but it's just fancy terminology to describe how business can use technology to streamline their operations."

On the other hand, new technologies are upending venerable industries like retailing, as consumers shift to shopping online and department stores close. The retail sector lost almost 30,000 jobs last month, after a decline of about 31,000 in February.

The headline numbers for hiring and the unemployment rate are derived from separate surveys by the Bureau of Labor Statistics, one of establishments, the other of households. Although the two tends to converge over time, they can vary widely from month to month, and March was one of those times.

So while businesses showed an anemic gain of 98,000 jobs in terms of payrolls, households reported a 472,000 increase in employment, without any fall in labor participation. That explains why the unemployment rate could fall by 0.2 of a percentage point, even as the number for job creation was far short of expectations.

"I think the headline number was clearly impacted by the weather," said Michelle Meyer, head of United States economics at Bank of America Merrill Lynch. But at some point she said, rosy economic expectations are likely to catch up with a more sober reality.

"Sentiment surveys moved sharply higher after the election on expectations of pro-business policies and tax reform," she added. "So far, that hasn't happened, and the big question is whether confidence can remain as strong."

CHARTS: CHANGE IN JOBS (A1); The Labor Picture in March (Source: Bureau of Labor Statistics) (A19)

Document NYTF000020170408ed480004n

The New York Times

Business/Financial Desk; SECTB

Trading Cools After Jobs Report and Strike on Syria

By THE ASSOCIATED PRESS
708 words
8 April 2017
The New York Times
NYTF
Late Edition - Final
2
English

Stocks on Wall Street never got going Friday after a slightly disappointing jobs report and news of United States missile strikes against Syria. Investors bought shares of defense contractors and stocks that are traditionally considered safe.

Stocks moved between gains and losses all morning after the Labor Department said employers did not add as many jobs as analysts had forecast. Shares started to rise in afternoon trading, but those gains did not last. Investors bought high-dividend stocks like real estate investment trusts and household goods makers, but banks and energy companies fell.

The **Standard & Poor's 500-stockindex** slid 1.95 points, or 0.1 percent, to 2,355.54. The **Dow Jonesindustrial average** lost 6.85 points to 20,656.10. The **Nasdaq composite** dipped 1.14 points to 5,877.71.

While stocks did not move much over all, there were a few clear trends. Investors mostly avoided industries whose performance is closely linked to the state of the economy.

The government said employers added 98,000 jobs in March, which was weaker than the last few months and about half as many as analysts had predicted. One-time factors including snowstorms may have temporarily slowed hiring. The unemployment rate fell to 4.5 percent, its lowest level since 2007.

Over the last three months hiring has remained around the same monthly pace as in 2016.

Earlier in the day, the price of gold jumped to its highest price since right after the presidential election in November, and **bond prices** climbed. But that did not last long. Gold gave up some gains and finished up $4 at $1.254.30 an ounce, while **bond prices** turned lower, bringing the yield on the **10-year Treasury** note up to 2.38 percent from 2.34 percent.

Still, the increased geopolitical uncertainty sent defense stocks higher. Raytheon added $2.21, or 1.5 percent, to $152.96 and Lockheed Martin rose $3.12, or 1.2 percent, to $270.23.

Among high-dividend stocks, Walmart gained $1.47, or 2.1 percent, to $72.90 and Prologis rose 52 cents, or 1 percent, to $53.58.

The military strikes in the Middle East sent crude prices higher. United States benchmark oil added 54 cents, or 1 percent, to $52.24 a barrel in New York. Brent crude, the standard for international **oil prices**, rose 35 cents to $55.24 a barrel in London.

Advertisers continued to pull their ads from ''The O'Reilly Factor,'' and 21st Century Fox declined for the fifth day in a row. On Saturday, The New York Times reported that Fox News and Bill O'Reilly, the network's most popular prime-time host, have paid $13 million to five women to settle allegations of sexual misconduct. Kantar Media says the show brought in more than $100 million in advertising revenue in 2016. The stock lost 5 cents to $31.07 and fell 4.1 percent this week.

Wells Fargo dipped after an influential firm that advises big shareholders said most of its board members should be removed. Institutional Shareholder Services said the board had not done enough to oversee the bank's sales practices.

Wells Fargo recently agreed to pay $110 million to settle a class-action lawsuit after its employees opened more than 2 million accounts without customers' permission. The bank's chief executive, John G. Stumpf, abruptly retired after the scandal came to light and thousands of employees were fired. On Friday Wells Fargo stock fell 53 cents, or 1 percent, to $54.84.

The dollar dipped to 111.19 yen from 110.80 yen. The euro fell to $1.0592 from $1.064.

In Britain, the FTSE 100 index was 0.6 percent higher and the French CAC 40 rose 0.3 percent. In German, the DAX hardly budged. The benchmark Nikkei 225 index in Japan rose 0.4 percent. The Kospi of South Korea lost 0.1 percent, and in Hong Kong the Hang Seng was little changed.

CHART: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Friday. (Source: Reuters)

Document NYTF000020170408ed480004r

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. Consumers' Credit-Card Tab Hits $1 Trillion

By AnnaMaria Andriotis
565 words
8 April 2017
The Wall Street Journal
J
B1
English

Credit-card debt breached the $1 trillion threshold in the U.S., joining auto loans and student debt in crossing that level, and hitting its highest mark since the nation's last recession.

The new data from the Federal Reserve marks the latest sign of an increasing appetite for household debt. Rising consumer borrowing is often a positive sign for the U.S. economy as it typically means consumers are spending more on big-ticket items, such as cars, and smaller purchases often charged on cards. And while some are concerned about auto lending to risky borrowers and defaults on student loans, the quality of most credit-card debt remains strong.

Data released Friday show that U.S. consumers owe $1.0004 trillion on credit cards, up 6.2% from a year ago and 0.3% from January. It is also the highest amount since January 2009.

On Friday, the Fed also revised credit-card debt figures it reported in previous months and raised December's credit-card debt level to $1.0001 trillion, making that the first postrecession trillion-dollar card breach. The Fed had previously reported $998.9 billion for December.

With the February data, credit cards are now the third consumer-lending category to enter into trillion-dollar territory in recent years, following auto loans, which hit the milestone in the past two years, and student loans, which pushed over $1 trillion before that. The new data is based on the Fed's revolving debt figure, of which more than 95% comprises credit-card balances. It is higher than the Federal Reserve Bank of New York's card figures, though those numbers are also rising.

Consumer debt trends of late reflect some broad changes in the economy, including more workers putting off home purchases and instead borrowing for other items. Mortgages, while a far larger market, represents a smaller share of overall consumer debt than it did in 2008; meanwhile, auto and student loans have gained ground.

Total consumer debt, including mortgages, by the end of last year was within 1% of the previous peak back in 2008, according to data recently released by the New York Fed. It expects that figure to pass the previous peak later this year.

The big question among economists is how long this **bullish** streak in consumer debt can keep going. While there is little sign that unemployment will rise soon, economists are looking closely at the impact of rising rates on consumers' ability to afford debt.

"The situation for the consumer is positive right now, but . . . there are always risks associated with accumulating debt," said Dana Peterson, economist at Citi Research. "Rising interest rates will increase those risks over time."

Looser underwriting standards in several loan categories, including credit cards and auto, also have led many lenders to warn of higher losses to come. For now, most borrowers are paying their debts on time due largely to rising incomes and the low unemployment rate.

But there are signs of trouble looming. Missed payments on consumer loans -- while mostly at near record lows -- are on the rise in the credit-card market. Personal loan and subprime auto-loan delinquencies are mostly rising.

Rising interest rates pose additional risks, because most credit cards have variable interest rates.

Document J000000020170408ed4800038

THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
Airstrikes in Syria Won't Upend Oil

By Nathaniel Taplin
299 words
8 April 2017
The Wall Street Journal
J
B10
English

[Financial Analysis and Commentary]

Given the sensitivity of **oil prices** to Middle East politics, a 2% jump following U.S. missile strikes in Syria isn't a surprise. Yet unless Iran or other regional actors react in a dramatic way, the attack is unlikely to kick prices much higher for long.

The fundamental equation in oil markets remains unchanged: Strong global growth is pushing up demand, and U.S. producers are responding by ramping up supply. Periodic swings in sentiment over the past 18 months have failed to wrest oil out of its trading range of $45 to $60 a barrel -- roughly where U.S. shale production becomes attractive. West Texas Intermediate oil closed just 1% higher on Friday in New York, at $52.24 a barrel.

The fact that prices have been in that range for some time is a reason for skepticism about a sustained leg upward. U.S. supply is at a multimonth high, and there are few signs that drilling activity is slowing. Meanwhile, U.S. demand is rising after weakness late last year, but at a modest pace.

Across the Pacific, Chinese demand is looking wobbly. The Lunar New Year holiday complicates assessments of data from January and February, but preliminary numbers indicate demand softened after a big rise in the fourth quarter. If that trend is validated in coming months, it will be hard for oil to climb much higher.

As for Syrian oil production, it amounts to only around 30,000 barrels a day, or 0.03% of global output. There may be no end in sight for the country's long tragedy, but for now its effect on oil markets should remain contained.

THE WALL STREET JOURNAL.
U.S. EDITION

Streetwise: High Debt Levels Are A Cause Of Concern

By James Mackintosh
758 words
7 April 2017
The Wall Street Journal
J
B1
English

When the market value of money-losing Tesla Inc. passed that of Ford Motor Co. this week, it was a perfect illustration of investors' love affair with disruptive technologies. Investors seem to have forgotten another valuation comparison they should think about more often: In October 2008, the market value of Mattel Inc., maker of Matchbox toy cars, passed that of heavily indebted Ford.

Old hands in the markets like to say that one year in seven, investors worry about balance sheets, rather than profit. It has been eight years since that last applied, but as the Federal Reserve starts to discuss running down its own balance sheet, it is a good time to think about corporate indebtedness again.

Companies have been loading up on debt based on two assumptions, shared by investors: that economic growth will be slow and it will be steady. This is the perfect environment for leverage, as low growth keeps interest rates low relative to inflation, while the expectation of steady growth means few worry about a bad year interrupting repayments.

The danger is that either assumption proves wrong, and the focus shifts back from profit to balance sheet. Such a shift could be ugly, because there is so much more debt than usual being piled up by companies outside the finance sector. The ratio of debt to operating cash flow of the highest-quality U.S. companies is just slightly down from a record reached last year, Morgan Stanley calculates. Given leverage has in the past jumped in recessions, this is particularly unusual.

Rather than expanding overall profit, companies have been boosting the return to shareholders by replacing equity with debt -- a zero-sum transfer that can't be repeated indefinitely.

"You've got high returns on equity in the U.S., but they're supported by radically higher levels of leverage so to some extent they're a mirage," says Andrew Lapthorne, head of quantitative equity research at Societe Generale SA.

Consider the bubbles of 2000 and 2007: In 2000, share prices were very (very!) high but debt was relatively expensive. The assumption was that new technology would lead to rapid earnings growth, but it would be **volatile** and uncertain, so needed to be financed with equity.

The rash of initial public offerings was a natural supply response to the demand for shares, and established companies took advantage, too, financing takeovers far more than usual with new equity. The bust that followed was painful, but share prices bore the brunt of the adjustment and the recession was so shallow it barely shows up in economic data.

Tesla is in some ways a repeat of the dot-com era. A sky-high valuation is justified by the hope that an untested product -- mass-market electric cars -- will generate big profits.

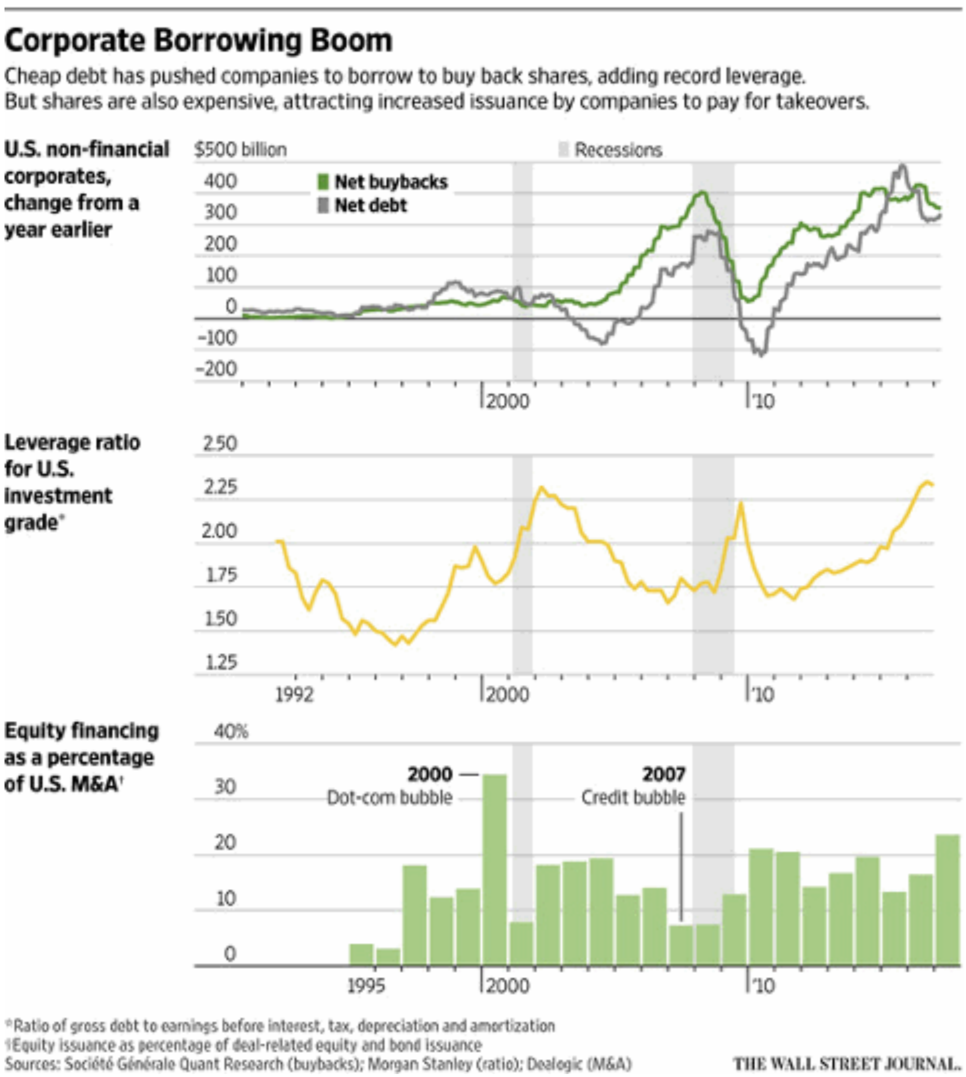
In 2007, debt was cheap compared with equity, so companies chose to issue debt to buy back shares and to finance the takeover boom with loans. Worse, the finance bubble boosted earnings to unsustainable levels and left the banks vulnerable. When the bust came, the assumption that earnings growth was sustainable proved wrong, and the sudden focus on the balance sheet forced companies to replace debt with equity.

Ford was doubly caught out by the 2008 crash, with earnings plunging and debt too high (although unlike rivals General Motors and Chrysler, it didn't go bankrupt). Ford has learned a lesson, with more cash than debt on its automotive balance sheet today, although its finance arm, a separate source of trouble amid the banking collapse, is big again.

Today's market is different from both 2000 and 2007. Equities are expensive, but still look relatively cheaper compared with debt on widely used models that compare bond yields to the "earnings yield," forecast earnings as a percentage of share price. Finance chiefs like to issue whatever investors will pay the most for, and at the moment that is debt.

If and when there is a nasty surprise from the economy or the Fed, highly valued shares in companies with a lot of debt and a mistaken assumption of solid earnings will be the most vulnerable.

The market isn't -- yet -- repeating the 2000 equity bubble or the 2007 debt bubble, but it has some of the worst features of both. If investors turn out to be mistaken in thinking the economic cycle won't turn down for years yet, it is going to hurt.



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Document J000000020170407ed470001r

THE WALL STREET JOURNAL.
U.S. EDITION

Crude Oil Rises on Hopes for Supply Cut

By Timothy Puko
533 words
7 April 2017
The Wall Street Journal
J
B11
English

Oil prices rose to a one-month high after U.S. data gave hope that the country's growing crude stocks would soon reverse direction and begin falling.

Refinery activity rose well beyond what analysts had expected, hitting 90.8% of capacity compared with just 89.3% a week ago, the U.S. Energy Information Administration said Wednesday. Traders focused more on that Thursday than other data in the report that showed a surprise increase in crude supplies last week, analysts said.

Light, sweet crude for May settled up 55 cents, or 1.1%, at $51.70 a barrel on the New York Mercantile Exchange, its seventh gain in eight sessions. Brent crude, the global benchmark, gained 53 cents, or 1%, to $54.89 a barrel on ICE Futures Europe. Both reached their highest settlement since March 7.

"We're beginning to see signs demand is stronger than it was at the beginning of the year," said Gene McGillian, research manager at Tradition Energy.

EIA estimates of gasoline demand have risen strongly in recent weeks, calming fears from the winter when government demand estimates and private data on pump sales both plummeted. The amount of crude that refineries are processing should hit about 17 million barrels -- up almost 4% from today's levels -- by the summer and stay there for three months, according to estimates from data provider Genscape Inc.

"This next few months of refinery utilization could help," said Hillary Stevenson, oil markets analyst at Genscape Inc.

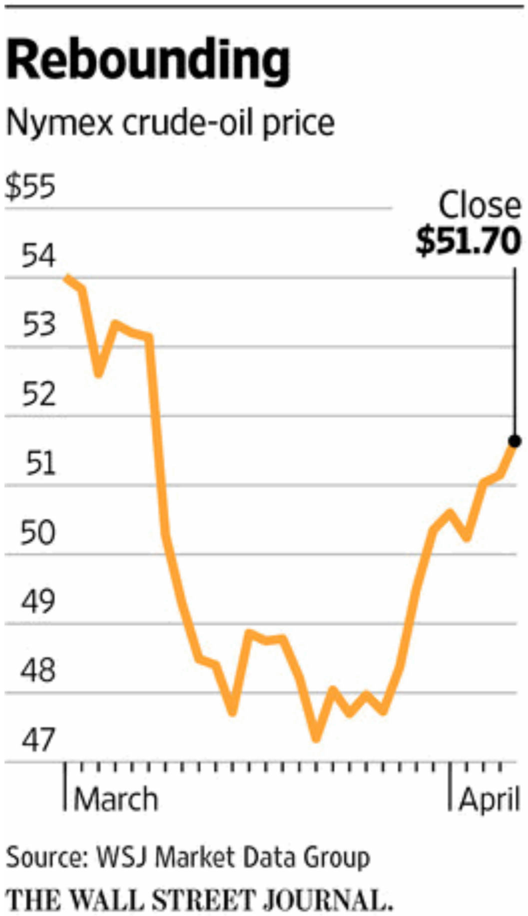
The data showed U.S. production has risen for seven straight weeks to a 14-month high of 9.2 million barrels a day. U.S. production is seen as the biggest threat to a continuing effort by the Organization of the Petroleum Exporting Countries and other producers including Russia to reduce large global inventories by cutting output for the first half of 2017. Even though most analysts expect the group to extend the time frame of the cuts, rising U.S. output stands to snuff out price rallies.

OPEC is due to meet May 25 to review whether the cuts have achieved their aim. Prices could be stuck in a range of $47 to $55 a barrel until then, but at least for now it is clear that prices are rising because traders are more convinced OPEC will extend the cuts, Mr. McGillian said.

"The next big move will probably depend on what OPEC does in May," said Tom Pugh, commodities analyst at Capital Economics, adding that he expected the deal would be extended for at least three months.

Analysts were optimistic about oil demand, with signs of healthy growth so far this year. Independent refineries in China, the world's second-biggest crude importer, are expected to boost demand as they come back online after annual maintenance. U.S. Census Bureau data showed China became the dominant buyer of U.S. crude in February, surpassing Canada, amid OPEC's supply cuts, said Gordon Kwan, the head of Asia gas and oil research at Nomura.

Sarah McFarlane and Jenny W. Hsu contributed to this article.



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Document J000000020170407ed470000g

The New York Times

Business/Financial Desk; SECTB
Shares Soar, Then Slump Amid Investor Uncertainty

By THE ASSOCIATED PRESS
731 words
7 April 2017
The New York Times
NYTF
Late Edition - Final
5
English

Stock indexes inched higher Thursday as shares of smaller retailers, banks and energy companies rose. As on Wednesday, the market was unable to hang on to more substantial gains from earlier in the day.

Strong earnings reports from companies including L Brands, the parent of Victoria's Secret, and Bed Bath & Beyond helped retailers. Energy companies rose with the prices of oil and natural gas, and banks recovered some of the sharp losses they took a day ago.

The **Dow Jonesindustrial average** rose as much as 98 points early in the afternoon. However high-dividend stocks like phone companies and utilities skidded and technology companies also fell.

Terry Sandven, chief equity strategist for U.S. Bank Wealth Management, said investors were feeling uncertain, and that sentiment may hold true for at least a few weeks. After a weak auto sales report on Monday, he said investors were wondering how fast the economy was growing.

''We expect **volatility** to be higher than what we experienced in the first quarter,'' he said.

It was the second day in a row that stocks slumped during afternoon trading, although the slip Thursday was far less dramatic than the one the day before. That slide started after the Federal Reserve said it may stop buying new bonds later this year and said its policy makers were grappling with whether it would be safe to let inflation rise faster.

The **Standard & Poor's 500**-**stockindex** added 4.54 points, or 0.2 percent, to 2,357.49. The **Dow Jonesindustrial average** rose 14.80 points, or 0.1 percent, to 20,662.95.

The **Nasdaq composite** gained 14.47 points, or 0.2 percent, to 5,878.95. The Russell 2000 index of small-company stocks performed far better, climbing 12.28 points, or 0.9 percent, to 1,364.43.

Investors will get an updated picture of the economy in the coming weeks, including the government's March report on employment Friday. Next week the Commerce Department will give a report on retailer sales and companies including JPMorgan Chase, Delta Air Lines and Netflix will report their earnings.

L Brands jumped $4.75, or 11 percent, to $47.85 after it reported strong March sales. Bed Bath & Beyond surpassed analysts' earnings estimates and climbed $1.28, or 3.4 percent, to $39.08.

Department stores and retailers like Kohl's, Nordstrom and Gap traded higher. Retail stocks have been hit hard for months as shoppers spend more money online and less at stores, especially ones based in malls.

Bond prices recovered from an early decline. The yield on the **10**-**year Treasury** note stayed at 2.34 percent. Companies that pay big dividends, like phone companies and utilities, traded lower. Investors often sell those stocks when bond yields rise, as they did earlier in the day.

Crude oil added 55 cents, or 1.1 percent, to $51.70 a barrel in New York while Brent crude, the international standard, rose 53 cents, or 1 percent, to $54.89 a barrel in London.

Gold for April delivery rose $4.80 to $1,251.70 an ounce. The dollar fell to 110.78 yen from 110.86 yen. The euro fell to $1.0646 from $1.0667.

Constellation Brands, a conglomerate of wine, liquor and beer names, jumped after it reported a larger profit and better sales than analysts expected. The company said its beer business, which includes Corona and Modelo labels, had a strong quarter, and it raised its profit forecast for the year. Its stock gained $10.37, or 6.4 percent, to $171.77.

Sunoco climbed after it agreed to sell most of its convenience stores to 7-Eleven. Sunoco will get $3.3 billion and 7-Eleven will acquire 1,100 stores, mostly in the East Coast and Texas. Sunoco also struck a fuel supply deal with a 7-Eleven subsidiary and it plans to sell 200 more convenience stores in a separate deal. Shares of Sunoco jumped $4.83, or 20.2 percent, to $28.69.

CHARTS: The Dow Minute by Minute Position of the **Dow Jones industrial average** at 1-minute intervals on Thursday (Source: Reuters); Freddie Mac Yields: Average for some Federal Home Loan Mortgage Corp. securities. (Source: F.H.L.M.C.)

Document NYTF000020170407ed47000ay

The New York Times

Business/Financial Desk; SECT
Morning Agenda: Fed Is Expected to Pare Investment Holdings

By AMIE TSANG
632 words
7 April 2017
The New York Times
NYTF
The New York Times on the Web
English

The Federal Reserve is loosening its grip on the American economy.

The central bank is expected to pare the more than $4 trillion of Treasuries and mortgage securities it bought after the 2008 financial crisis to keep interest rates low and to help revive the economy.

It has already started to slowly raise its benchmark interest rate.

Fed officials think the economy is strong enough for it to gradually ease back on its support. Markets appear to agree. News that the central bank would reduce its investments was met with relative calm.

Some analysts think the Fed needs to step back even further.

''Financial conditions remain very accommodative, and in our view the central bank has more work to do to minimize the risks of financial imbalances building up in worrisome ways,'' said Bob Miller, the head of BlackRock's fixed income team.

The Overseas Cash Grab

Corporate chiefs in the United States have bemoaned for years the taxes that they would face if they brought home more than $2 trillion in cash kept overseas.

They may soon stop complaining. President Trump and the Republican-controlled Congress are widely believed to be open to lowering taxes on funds that companies bring back.

For lawmakers, the idea of a tide of funds coming home creates visions of infrastructure investment and job creation. But on Wall Street, it has set off hopes for another spending priority: mergers and acquisitions. And deals often lead to job losses.

The differing visions come amid a broader debate about whether cutting taxes spurs investment or leads to higher incomes and more jobs.

Among other things, there are questions about the ways people respond to lower taxes. If your tax is lowered, would you strive to be more productive at work? Or would you take advantage of a higher income that came at no extra effort?

Either way, the more pressing issue may be at whether a tax overhaul can happen at all.

''We're talking about an administration that has lost a lot of political capital, so it may be hard to get some of those reforms through,'' Kurt Simon, JPMorgan Chase's global chairman of mergers and acquisitions, said at an industry conference last week, adding that he remained optimistic that changes to repatriation taxes were more likely than not to happen.

But even if this overhaul doesn't happen on the timetable the president anticipated, chief executives and investors still seem **bullish** on the Trump economy.

Many chalk it up to the president's promises to get rid of regulations. But there is something else that has been vastly underappreciated, Andrew Ross Sorkin writes: Mr. Trump has appointed corporate executives to positions that wield significant influence over how business is conducted in America. And in many cases, they can do so unilaterally, without the approval of Congress.

Related reading:

The Republican tax plan would stop businesses from treating the interest they pay on borrowings as an expense for tax purposes, a move that would change the way companies raise money and invest.

A surging **stock market** doesn't mean an employment boom on Wall Street. There are still 10,000 fewer jobs in the securities industry in New York City than there were in 2008.

Quotation of the Day

"The Volcker Rule says to banks: Get back into the lending business and get out of the trading business. Goldman Sachs has established a new lending facility. Goldman is actually doing lending, including consumer lending, because of the legislation."

-- Barney Frank, a former Massachusetts congressman who helped write the Dodd-Frank financial regulation law that President Trump said had prevented his friends from borrowing.

Follow Amie Tsang on Twitter @amietsang.

Document NYTF000020170407ed470009i

THE WALL STREET JOURNAL.
U.S. EDITION

Banks Clash With NYSE Over Data --- Rift over who owns lucrative information about trading activity divides Wall Street

By Alexander Osipovich
833 words
7 April 2017
The Wall Street Journal
J
B1
English

Some of Wall Street's biggest firms are balking at an attempt by the New York Stock Exchange to assert greater control over market data -- a behind-the-scenes spat that highlights the growing importance of Big Data in today's **financial markets**.

J.P. Morgan Chase & Co., Citigroup Inc., Goldman Sachs Group Inc. and electronic traders Virtu Financial Inc. and KCG Holdings Inc. are among the firms concerned about the exchange's move, people familiar with the situation said. Virtu confirmed its opposition to NYSE's move, while none of the others would speak on the record.

The dispute centers on a new contract, called the NYSE Master User Agreement, which the exchange operator is requiring firms to sign to keep trading on its markets.

At the heart of the dispute is legal language about who owns the data that brokers submit to the exchange when they buy and sell stocks. The contract implies that NYSE owns the data. Brokers and trading firms say the data are rightfully theirs.

Exchanges aggregate such data and sell it in the form of high-speed feeds -- often to the same firms whose trading activity generated the data in the first place. Such data feeds have become a growing source of revenue for exchanges in recent years, prompting complaints from Wall Street firms that they are being overcharged.

"This dispute demonstrates the fundamental point market participants have been making about the exchange's unchecked control over market data and its pricing," Virtu Chief Executive Doug Cifu said in an email.

"You'd be hard pressed to find another industry where a government-licensed entity can take your intellectual property and sell it back to you at an arbitrarily high markup," Mr. Cifu said.

The Master User Agreement, a seven-page document available on NYSE's website, differs from similar contracts from the Big Board's competitors, lawyers say.

"It appears that NYSE could be going further than other exchanges," said David Franasiak, a lawyer who reviewed the agreement for The Wall Street Journal. Mr. Franasiak is a principal at Williams & Jensen PLLC, a law and lobbying firm that has worked for brokerage firms, but he isn't involved in the dispute.

Dozens of other firms have already signed the agreement, a person close to NYSE said.

The clash began early this year when NYSE released an update to the contract, replacing a previous version that brokers had found acceptable and surprising them with the new language, according to one of the people familiar with the dispute.

Upset brokers reached out to one another and held conference calls, including as recently as March 30, people briefed on the discussions said. One person said NYSE was set to take part in the call last week but backed out. The person close to NYSE said the exchange has been engaged in dialogue with the firms.

Another call involved the Securities and Exchange Commission, which is monitoring the situation and remaining neutral, a person familiar with the matter said.

Controversy over the cost of market data has been brewing for years. Brokers complain that exchanges like NYSE, which was a nonprofit until 2006, have become more aggressive about raising data fees since they turned into for-profit corporations.

NYSE's owner, Intercontinental Exchange Inc., has beefed up its data business since completing its acquisition of the Big Board in 2013. Last year, 44% of ICE's net revenue came from market-data sales and related fees, up from 9% in 2011. Much of that increase is due to acquisitions of data companies, but some is attributable to price increases and new data products, according to the company's SEC filings.

ICE has said in the past that its data fees are reasonable, and exchanges reject claims that they are abusing their market power.

In many of the user agreements for U.S. exchanges, firms give up some rights to market data to be allowed to trade on the exchange. There is typically a provision in which users grant the exchange a license to take their raw trading data and resell it in the form of aggregated data products, provided that the identities of the people or firms behind the trades aren't revealed.

NYSE competitors **Nasdaq** Inc., Bats and IEX Group Inc. all have such clauses in their user agreements. They also contain boilerplate language stating that the user "retains all ownership and other rights" to the data they submit to the exchange.

But the NYSE Master User Agreement contains no such provision. Instead, it states that market data on the exchange is the property of NYSE.

It also lacks a licensing provision in which users grant the exchange the right to use their data -- even though past NYSE user agreements have contained such language.

Dave Michaels contributed to this article.

Document J000000020170407ed470002a

The New York Times

Common Sense
Business Day

Tesla Has Something Hotter Than Cars to Sell: Its Story

By JAMES B. STEWART
1,417 words
6 April 2017
12:15 PM
NYTimes.com Feed
NYTFEED
English

As Tesla shares surged past $300 this week and the company's market value surpassed Ford's, even its founder, Elon Musk, acknowledged on Twitter that the company was "absurdly overvalued if based on the past."

By "the past," he presumably means by old-fashioned valuation measures like price-to-earnings or price-to-sales ratios, the traditional benchmarks for evaluating stock prices. By those measures, Tesla — a company that lost $773 million last year — is indeed off the charts.

Tesla's market value of nearly $49 billion is not only higher than that of Ford, which earned nearly $11 billion in profit last year, but is within easy striking distance of General Motors, which earned $9.4 billion.

In contrast to Tesla, Ford and G.M. shares have dropped recently on fears that auto sales have hit a cyclical peak. Ford and G.M. executives wouldn't comment on Tesla's stock surge, but it's easy to imagine they'd be tearing their hair out in frustration.

"It's nuts," Bruce Greenwald, a professor at Columbia Business School and an expert in value investing, said of Tesla's **stock price**. "Investors believe it's going to dominate a market that no company has ever dominated before."

But Tesla is not a stock, or a company, that is measured by the past, as Mr. Musk is well aware. He also wrote on Twitter that stock prices represent "risk-adjusted future cash flows" — and Tesla is about nothing if not a utopian future of safe, reliable, powerful, self-driving electric vehicles powered by solar-fed batteries that are easy on the environment.

In that regard, Tesla has ascended into a rarefied realm of so-called story stocks — companies that have so bewitched investors that their stock prices are impervious to any traditional valuation measures because their stories are simply too good not to be true.

And to the dismay of short-sellers, who believe they have ample rational reasons to bet against such stocks, their share prices can stay in the stratosphere for years, even decades.

These story stocks — the term was coined by James Montier, a value investor and a member of the asset allocation team at the investment management firm GMO — are relatively rare, but hardly new. Amazon's stock surged for decades even without any meaningful profits. A more recent example is Snapchat's parent, Snap, which is racking up large losses while its stock trades at an astronomical price-to-sales ratio of nearly 50, far higher than Tesla's 7. (Ford's, by comparison, is 0.3.)

Amazon and Snap both have stories that are compelling for many investors: Amazon has transformed retailing and is destined to dominate it. Snap is reinventing communication, at least for millennials and those even younger.

Early investors in Uber and Airbnb, though they remain private companies, have valued them at stratospheric multiples based largely on the notion that Uber will transform and dominate local transportation and Airbnb will revolutionize the hotel industry.

For story stocks, any development that lends credence to the story can cause a surge in already high valuations. This week Tesla reported quarterly sales that were modestly above expectations, and the stock surged 7 percent in a day. Tesla shares are up nearly 40 percent this year, even though many investors considered them overvalued in January.

Ron Baron, the billionaire investor and founder of Baron Capital, disclosed last year that he owned about 1.6 million Tesla shares. He predicted on CNBC in February that Tesla shares would quadruple by 2020 and triple again by 2025. By then he expects Tesla to become the largest company in the world as measured by market capitalization.

For all the excitement and promise surrounding such companies, there are many cautionary tales.

“Stories are great before bed, but are disastrous as a stock-selection technique,” Mr. Montier wrote in his 2009 book “Value Investing: Tools and Techniques for Intelligent Investment.” If something is expensive based on traditional valuation metrics, he said, “you had better believe its story, as that is all you have.”

(A Tesla spokeswoman said Mr. Musk could not be reached for comment.)

Various studies have shown that stocks with high price-to-sales ratios, on average, significantly underperform market averages. For every Tesla or Uber, there’s a Valeant Pharmaceuticals or Theranos — two story stocks that seduced an astounding array of prominent investors and supporters based on stories that did turn out to be too good to be true.

And while many investors’ memories tend to be short, the so-called dot-com bubble in the late 1990s spawned scores of story stocks, nearly all of them now worthless and forgotten.

Still, Mr. Montier acknowledged, “Stories are compelling.” They appeal to intuition rather than reason. “But perhaps investors would be well advised to follow Odysseus’s example of putting beeswax in his crew’s ears and tying himself to the mast in order to avoid the disastrous, but oh so desirable, call of the Siren song.”

Will Tesla be one of the rare exceptions and, as Mr. Baron has predicted, emerge as the world’s most valuable company?

The company has won over many skeptics with its near-flawless execution, so far, and the high quality of its vehicles and high levels of consumer satisfaction. It is no longer a start-up: It delivered 25,000 vehicles in the last quarter. It is on track to achieve economies of scale, and the company says the gross margin on each vehicle is above 20 percent, far higher than the industry average. That could drive enormous future profits.

But that’s not the Tesla story — or stories — investors are betting on.

Adam Jonas, a Morgan Stanley automotive analyst who is hardly a starry-eyed optimist about the industry, upgraded Tesla shares to overweight in January. He singles out the company’s new autonomous driving technology as a compelling safety feature that will significantly reduce occupant and pedestrian injuries and fatalities. This week he said he expected “vehicle safety to be the primary differentiator in Tesla’s upcoming product offensive,” referring to the eagerly anticipated introduction of Tesla’s new, lower-price Model 3, which will be equipped with the new technology.

That Tesla is an all-electric, environment-friendly, non-fossil-fuel vehicle — the story that once excited investors — is barely mentioned anymore.

Even more futuristic is the idea that Tesla cars will be entirely self-driving, able to cruise streets nearly full time (except when they are being charged at Tesla’s high-speed battery-charging stations). In this vision, Tesla owners will share their vehicles with Tesla when not using them, and during that time they will ferry other passengers, serving as Tesla’s version of Uber. Thus Tesla will disrupt Uber’s nascent market dominance.

And Tesla is no longer seen just as a vehicle manufacturer. With its solar and battery technologies, it is in a position to dominate two other enormous industry segments. Tesla “is reinventing the electric grid,” as Mr. Baron said on CNBC. “That’s a bigger opportunity than cars.”

Even if all that comes to pass, it may not be enough to justify Tesla’s valuation unless it can sustain a competitive advantage over time, as Mr. Greenwald, the value investing expert, put it. Tesla is spending heavily on research and development, and perhaps its technology will be difficult or impossible for others to replicate. The established automakers have had years to catch up to or overtake Tesla’s Model S, with a conspicuous lack of success.

But for committed value investors, the writing is on the wall: “Is Tesla going to dominate its industry? That’s the key question,” Mr. Greenwald said. “When it comes to the global auto industry, no one ever has, and in all likelihood, no one ever will.”

* Tesla Passes Ford in Market Value as Investors Bet on the Future

* Elon Musk Has Trump’s Ear, and Wall Street Takes Note

* Want to Bring Back Jobs, Mr. President-Elect? Call Elon Musk

* Elon Musk of Tesla Sticks to Mission Despite Setbacks

Elon Musk, Tesla’s founder and chief executive, entering Trump Tower for a meeting with President-elect Donald J. Trump in early January. | Shannon Stapleton/Reuters | A Tesla showroom in Brooklyn. The surge in the automaker’s stock far outpaces its actual sales. | Spencer Platt/Getty Images

Document NYTFEED020170406ed46005ei

THE WALL STREET JOURNAL.
U.S. EDITION

Oil Expected to Remain Under $60 a Barrel for Third Year

By Georgi Kantchev
645 words
6 April 2017
The Wall Street Journal
J
B11
English

Analysts expect **oil prices** to stay below an average of $60 a barrel for a third consecutive year as the resurgence of U.S. shale drillers puts OPEC's plans to raise the price through output cuts in jeopardy.

When the Organization of the Petroleum Exporting Countries meets in May to decide on an extension of its production deal, the cartel will face a delicate balance: If it continues to limit output and prices rise too fast, U.S. shale drillers would ramp up production. If OPEC scraps the deal, it risks refueling the global crude glut.

OPEC's decision has major implications for **oil prices**. A poll of 14 investment banks, surveyed by The Wall Street Journal in late March, predicted that Brent crude, the international **oil-price** benchmark, will average $57 a barrel this year, unchanged from the previous survey. The banks expect West Texas Intermediate, the U.S. oil gauge, to average $55 a barrel this year.

On Wednesday, Brent settled at $54.36 a barrel while WTI settled at $51.15 a barrel.

Oil prices have risen by close to a fifth since OPEC and other major producers decided late last year to cut around 2% from global production in the first half of this year. On May 25, OPEC ministers will meet in Vienna to decide whether to extend that deal for six months.

"OPEC does not want to cut production too much and push up prices too fast. The risk is that U.S. shale output grows even more quickly than forecast," said Michael Wittner, head of oil-market research at Societe Generale.

But while the resurgence of U.S. drillers means OPEC could lose market share by limiting output for longer, the group's efforts are yet to bear fruit.

OPEC's goal in agreeing to cut production, along with several major producers outside the cartel, was to see global crude stockpiles fall after nearly three years of market oversupply. But U.S. inventories, seen as a bellwether for global stockpiles, have recently reached an all-time high, which caused prices to fall below $50 a barrel last month.

"The original objective of the production cuts . . . will apparently not be achieved by [May]," say analysts at Commerzbank. "The targeted inventory reduction will only materialize if OPEC output is maintained at its present level right into the fourth quarter."

This would be welcome news for U.S. shale producers.

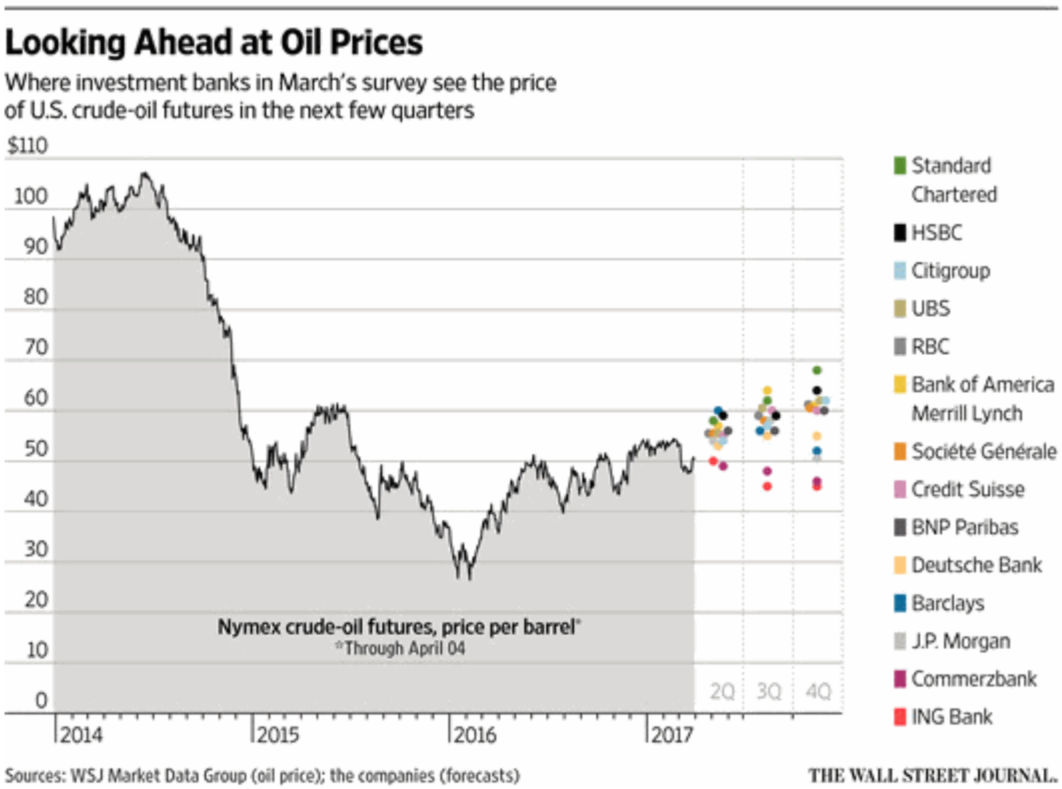
Higher prices since the OPEC deal have already resulted in an increase in U.S. drilling activity. In the year's first quarter, the number of rigs drilling for crude in the U.S. rose by 137, or 10.5 a week, the steepest quarterly rise in nearly six years, according to Commerzbank.

Production itself is also rising. ING Bank estimates that since October, U.S. output is up by more than 600,000 barrels a day, which is equivalent to nearly 35% to 40% of the OPEC cuts achieved so far.

"The OPEC deal has breathed new life into the U.S. [oil sector], which is likely to complicate OPEC's decision in May," Barclays said in a recent report. "If production growth exceeds expectations, it could threaten to undo the work of OPEC members last fall."

The bank now forecasts U.S. crude-oil production will reach a multidecade high by December, within sights of the all-time high reached in 1970.

The banks in recent months have downgraded their expectations for **oil prices** in the next few years, predicting Brent crude will average $64 a barrel next year, down $5 from the survey a year ago. For 2019, the banks now see Brent at $68 a barrel, down from a prediction of $76 last March.



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Document J000000020170406ed460000j

The New York Times

IMPERFECT PARTNERS
National Desk; SECTA
The Messy State of U.S.-China Ties: What Trump Can Do

By NEIL IRWIN
1,532 words
6 April 2017
The New York Times
NYTF
Late Edition - Final
17
English

The United States and China are locked in a mutually dependent, frequently dysfunctional economic partnership. The world's biggest and second-biggest economies are like a married couple that complain about each other constantly yet can't even contemplate a divorce.

The marriage enters a new phase Thursday, as President Xi Jinping of China visits for two days of meetings at the Florida estate of a president who made China a punching bag on the campaign trail.

The question is whether President Trump can turn his bellicose language into concrete gains for American companies and workers. A look at the economics of the relationship between the nations, and conversations with former officials with battle scars from past negotiations, shows a path for getting a better deal.

That path to success may not include the kind of flashy, headline-generating announcements that the Trump administration has tended to celebrate.

It's not about the currency (for now)

In February, Mr. Trump called China the ''grand champions at manipulation of currency.'' During the campaign, too, he frequently assailed China for artificially reducing the value of the renminbi to favor its companies versus American and other competitors.

It is a view that is outdated. For years, China did intervene in **financial markets** to depress the value of its currency. But now it is intervening to keep the yuan from falling -- actually doing the opposite of what Mr. Trump alleged. Economists generally think that the Chinese currency is close to the levels that would be set by purely market forces.

That doesn't mean currencies shouldn't come up at Mar-a-Lago. This moment of relative peace between the countries on currency policy could be the ideal time to develop an understanding for the future.

''I think currency is still an issue, but it doesn't make sense to discuss it under the rubric of manipulation,'' said Brad Setser, a senior fellow at the Council on Foreign Relations. ''China is managing its currency; it's just that it's managing it right now in a way that is relatively advantageous to the United States. That understanding of how China intends to manage its currency in the future remains a top-order issue.''

In other words, Mr. Trump could use this moment not to beat China over the head about what happened in the past, or where things stand today, but to develop an agreement on what it will do in the future, if a day comes when market forces start pushing the yuan upward.

Focus on the causes of the trade deficit, not the number

Mr. Trump has similarly assailed the United States trade deficit with China and other countries, often characterizing it as a scorecard, evidence that China is winning at trade and the United States losing, to the tune of $310 billion a year.

The reality is more nuanced. The persistent trade deficit is indeed problematic, but that's because of the factors that drive it and the imbalances they cause to build. Simply targeting a lower trade deficit could well leave both

American and Chinese workers worse off, if carried out the wrong way. For example, a trade war that significantly reduces American imports from China while also reducing American exports to China would reduce the trade deficit but would mean lower incomes and fewer jobs in both countries.

The U.S.-China trade imbalance is indeed driven in part by trade barriers that China enacts against American companies, including a 25 percent tariff on imported automobiles and various quotas and restrictions that reduce agricultural imports. If Mr. Trump can persuade China to loosen those restrictions, it might close the trade deficit by increasing American exports -- the healthy kind of trade rebalancing.

But the trade gap isn't driven just by the details of trade arrangements. It is also driven by the flow of capital between countries. To oversimplify, when a company sells more abroad than it buys, it has to do something with that money.

The flip side of a current account deficit, as an economist might put it, is a capital account surplus. China's trade imbalances are a function not only of its trade practices, but also of its very high levels of savings, which are in turn invested around the world.

For China to change that, it would have to change the very structure of its economy: away from savings and big-ticket infrastructure investments, and toward consumer demand -- including for products made both domestically and abroad.

If the Trump administration really wants the trade deficit with China to come down over time, it's not enough to look at only one side of the international economic ledger -- flows of goods -- while ignoring the flow of capital.

In practice, this would mean making demands on some issues that might seem like purely domestic concerns only tangentially related to trade. That might include pushing China to allow more troubled state-owned enterprises to fail, so that their accumulated profits might be spread through the Chinese economy instead of funneled toward the purchase of foreign assets. A more generous pension system might spur demand among older Chinese citizens.

If China allowed global financial companies more access to its market, it could both encourage more domestic spending and give a major American industry an opportunity it has long sought.

Use leverage carefully

President Trump prides himself on being a dealmaker, and his negotiating style is to lay out extreme requests in order to work back to agreement. But resetting economic relations with China will prove trickier than any real estate deal.

One of the fundamental realities of the relationship is that while neither side is wholly comfortable with how it works, these are big, powerful countries that can't be easily swayed by what a country on the other side of the Pacific Ocean wants to happen. The leverage that each side has to deploy is limited -- at least so long as neither country is willing to shoot itself in the foot.

So, for example, in trying to get more favorable Chinese treatment of American goods and services, the standard menu of carrots Mr. Trump has to offer for compliance is relatively modest. China wants things like United States membership in the Asian Infrastructure Investment Bank that it started, and support for its "One Belt, One Road" program to build better transportation infrastructure stretching from Southeast Asia to Europe.

Bigger Chinese goals, like achieving "market economy" status in the World Trade Organization, are likely to be nonstarters unless the country makes major progress on allowing international companies better access to its market.

The United States could conceivably have more negotiating leverage by threatening punitive tariffs or other aggressive measures, as Mr. Trump did during his campaign, but those actions are just as likely to produce a painful blowback from China that damages the United States.

Then there are noneconomic issues, which invariably could shape the contours of economic relationships.

"In the Obama administration, China was a good citizen cooperating with us on Iran sanctions and on climate change, which I think made it hard for the U.S. to contemplate anything that harsh in the trade arena," said David Dollar, a former Treasury Department official in Beijing and now a senior fellow at the Brookings Institution. "You could have something similar if the Trump administration wants China to cooperate more on North Korea. That could be hard to turn around and be harsh on them in the economic realm."

Be patient, and don't get distracted by baubles

Mr. Trump likes to announce big splashy deals, and given that the Chinese are looking for places to invest their capital in the United States, it would be easy enough to find something along those lines to announce.

But in the context of the two giant economies, that kind of thing is small bore. This flawed economic relationship has been building for a long time, and the fixes are unlikely to come overnight.

''Mr. Trump ought to pick the right fights rather than focus on issues that resonate with his political base but which are unlikely to help U.S. economic interest in either the short term or long run,'' said Eswar Prasad, an economist at Cornell and author of ''Gaining Currency,'' a book about China's role in global finance.

It's unlikely that the first meeting between the new president and the Chinese leader will resolve issues that have been building for years or even decades. Rather, those who have worked in diplomacy advise looking beyond the current headlines to make progress on lowering Chinese trade barriers, increasing its domestic savings and committing not to return to the days of manipulating its currency lower.

When you're talking about commerce between two superpowers, things don't change overnight.

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Three Democratic senators discussed China trade relations at a Wednesday news conference. (PHOTOGRAPH BY GABRIELLA DEMCZUK FOR THE NEW YORK TIMES)

Document NYTF000020170406ed4600070

The New York Times

Business/Financial Desk; SECTB
Fed Minutes Knock Markets Down

By THE ASSOCIATED PRESS
709 words
6 April 2017
The New York Times
NYTF
Late Edition - Final
3
English

A big rally in stocks evaporated Wednesday as the Federal Reserve appeared to struggle with questions related to inflation and government policy and suggested it might start trimming its balance sheet later in the year.

Stocks had jumped early on after the payroll processor ADP said private businesses added 263,000 jobs in March, which was more than analysts expected. The **Dow Jonesindustrial average** rose as much as 198 points, and the **Nasdaq composite** reached an intraday high.

But stocks started falling after 2 p.m. Eastern, when the Federal Reserve disclosed the minutes from its policy meeting last month. The minutes showed Fed officials discussing plans to reduce the Fed's bond holdings later this year and disagreeing over whether it would be safe to let inflation rise faster and how to deal with the economic impact of President Trump's stimulus ideas.

At the close, the **Standard & Poor**'**s 500**-**stockindex** lost 7.21 points, or 0.3 percent, to 2,352.95. The Dow sank 41.09 points, or 0.2 percent, to 20,648.15. The **Nasdaq** fell 34.13 points, or 0.6 percent, to 5,864.48.

The Federal Reserve had bought trillions of dollars' worth of bonds during the financial crisis in an effort to stimulate the economy. When its bonds mature, it has continued to buy new ones. But now, the Fed may stop reinvesting, which would gradually shrink its holdings.

That sent **bond prices** surging and yields tumbling. The yield on the **10**-**year Treasury** note fell to 2.34 percent from 2.36 percent.

When bond yields fall, interest rates fall with them. That tends to hurt banks because it means reduced profits on lending, and banks took the largest losses Wednesday. JPMorgan Chase dropped $1.12, or 1.3 percent, to $86.19 and BB&T shed 56 cents, or 1.3 percent, to $43.98.

Banks made strong gains in early trading but they wound up with much bigger losses than the rest of the market.

For the past couple of months it seemed investors and the Fed understood each other well, as the central bank indicated it intended to keep raising interest rates gradually, assuming the economy continued to grow at a steady clip. It raised rates in December and March. The uncertainty reflected in the Fed's March meeting may challenge that understanding.

The chain Panera agreed to be acquired by JAB Holding of Europe for $315 a share. JAB has quietly become a rival to Starbucks in recent years as it owns, or has a large stake in, a series of brands that includes Peet's Coffee & Tea, Caribou Coffee, Stumptown Coffee, Keurig Green Mountain and Krispy Kreme Doughnuts. Panera stock jumped in recent days thanks to rumors about a deal. It rose $38.94, or 14.2 percent, to $312.94. The stock was trading at $230 a share a month ago.

Monsanto reported profit and sales that were far better than analysts expected. Monsanto said profits from its corn and soybean businesses grew in the fiscal second quarter. It also backed its forecasts for the year and said its sale to Bayer of Germany should close by the end of the year. The stock rose $1.10, or 1 percent, to $115.31.

Crude oil futures for May delivery fell 35 cents to $51.15 a barrel in New York. Brent, the international standard, gained 19 cents to $54.36 a barrel in London.

Gold for April delivery sank $9.60 to $1,245.40 an ounce. Those moves reflected investors' earlier optimism, as precious metals trading ends before stock trading does.

The dollar rose to 110.86 yen from 110.65 yen. The euro fell to $1.0667 from $1.0670.

The FTSE 100 index in Britain gained 0.1 percent. In France, the CAC 40 lost 0.2 percent and the DAX in Germany fell 0.5 percent.

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

CHART: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Wednesday. (Source: Reuters)

Document NYTF000020170406ed460005n

The New York Times

Business/Financial Desk; SECTB
Fed to Trim Its Holdings as Economy Strengthens

By BINYAMIN APPELBAUM
1,131 words
6 April 2017
The New York Times
NYTF
Late Edition - Final
1
English

WASHINGTON -- The Federal Reserve expects to start reducing its huge investment holdings later this year, unwinding a giant program undertaken in the wake of the financial crisis to revive the economy.

The holdings -- which amount to more than $4 trillion in Treasuries and mortgage securities -- are a legacy of the Fed's campaign to help the economy recover from the depths of a recession. The Fed, increasingly confident that the American economy is ''at or near maximum employment,'' is beginning to loosen its grip on the economy, according to an official account that the Fed published Wednesday.

Officials voted at the meeting in March to raise the Fed's benchmark interest rate -- the third time since the financial crisis -- to a range of 0.75 percent to 1 percent. Since the meeting, Fed officials have said that it is on course to increase rates by at least an additional half a percentage point this year.

Both the low rates and the investments were intended to support growth by encouraging risk-taking and borrowing by consumers and businesses. Now the Fed is gradually reducing that support.

No decision was made about the timing or the details of any move to reduce the Fed's holdings.

The markets took the news with relative calm, suggesting that investors share the central bank's assessment that the economy is getting closer to walking without crutches. The yield on the benchmark **10**-**year Treasury** has traded in a narrow range since December, even as the Fed has raised rates twice.

Indeed, some analysts said the Fed might need to take stronger steps to end its stimulus campaign.

''Financial conditions remain very accommodative, and in our view the central bank has more work to do to minimize the risks of financial imbalances building up in worrisome ways,'' said Bob Miller, the head of BlackRock's fixed income team.

The **Standard & Poor**'**s 500**-**stockindex** dipped after the Fed's account was published at 2 p.m., closing at 2,352.95, down 0.31 percent on the day. But the index has still climbed more than 5 percent so far this year.

Some Fed officials also are nervous about the **stock market**'s climb, the account said. It noted that stock prices are ''quite high relative to standard valuation measures,'' and that some Fed officials saw a risk to the economy ''if, for example, **financial markets** were to experience a significant correction.''

The Fed accumulated trillions in Treasuries and mortgage securities in a series of campaigns after the 2008 financial crisis as part of its effort to put downward pressure on borrowing costs. It has maintained the size of those holdings by reinvesting the proceeds from maturing securities; it can shrink the portfolio by doing nothing -- simply refraining from investing in replacement securities.

Accumulating the bonds forced other investors to compete for the remaining stock by accepting lower interest rates from borrowers. That amplifies the effect of the Fed's primary tool, its direct suppression of short-term rates. Shrinking the portfolio would gradually reduce the force of that effect, easing downward pressure on rates.

''It wouldn't surprise me if sometime later this year or sometime in 2018, should the economy perform in line with our expectations, that we'll start to gradually let securities mature rather than reinvesting them,'' William C. Dudley, the president of the Federal Reserve Bank of New York, told Bloomberg Television last week.

Mr. Dudley said the Fed might take a break from raising short-term interest rates as it begins to reduce the balance sheet, to appraise the consequences.

The meeting account said that Fed must decide whether to end reinvestment abruptly or gradually, and whether to deal with Treasuries and mortgage bonds on the same timetable. The account said the discussion would continue at the Fed's next policy meeting, on May 2 and 3.

The meeting account also emphasized that the Fed's economic outlook has held steady in recent months. Fed officials have said they do not see evidence of an improvement in the nation's economic trajectory since the election of President Trump. But growth has remained strong enough to move forward with rate increases.

The Fed account said ''nearly all participants'' have concluded that the American economy is ''at or near maximum employment.'' The unemployment rate was 4.7 percent in February, a level consistent with the normal churn of hiring and firing.

Inflation, sluggish since the crisis, had also perked. Though, most Fed officials were not yet satisfied with this count. ''Nearly all members judged that the committee has not yet achieved its objective for headline inflation on a sustained basis,'' the account said. The Fed wanted prices to rise about 2 percent a year.

The Fed, which predicted a continued improvement in economic conditions at the start of the year, has said that it expects to raise rates three times in 2017. It now appears the Fed may take the additional step of beginning to shrink its investment holdings by the end of the year, somewhat earlier than expected.

The Fed has said its forecasts do not incorporate the potential impact of policy changes proposed by Mr. Trump. The central bank has adopted a wait-and-see posture. The account said most officials do not expect any impact before 2018.

''Members continued to judge that there was significant uncertainty about the effects of possible changes in fiscal and other government policies,'' the account said, ''but that near-term risks to the economic outlook appeared roughly balanced.''

Some Fed officials have said -- in the weeks since the meeting -- that it might be necessary to move more quickly. Eric Rosengren, president of the Federal Reserve Bank of Boston, said last week the Fed should raise rates four times this year.

''The perception seems to be that the outcome of each FOMC meeting depends on nuances of incoming data, with the base case being no change in rates,'' Mr. Rosengren said of the Fed's policy-making arm, the Federal Open Market Committee. ''My own view is that an increase at every other FOMC meeting over the course of this year could and should be the committee's default.''

One official did worry that the Fed was moving too fast: Neel Kashkari, president of the Federal Reserve Bank of Minneapolis, voted against raising interest rates, saying it was not clear how much slack was in the labor market, and that inflation remained weak.

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Janet L. Yellen, the Fed's chairwoman, at a news conference in Washington in March. (PHOTOGRAPH BY SUSAN WALSH/ASSOCIATED PRESS) (B2)

Document NYTF000020170406ed4600051

The New York Times

DEALBOOK
Business/Financial Desk; SECTF
Wall Street Goes to Washington

By ANDREW ROSS SORKIN
1,443 words
6 April 2017
The New York Times
NYTF
Late Edition - Final
1
English

Repealing Obamacare. Reforming the tax system. Spending big on infrastructure.

One by one, President Trump's campaign promises seem to be less likely -- or at least won't happen on the timetable he anticipated. So, why are so many chief executives and investors still seemingly **bullish** about a Trumpian economy?

The answer they consistently provide: regulations. Or the promise to get rid of them.

But it is actually something else, something that seems vastly underappreciated, that is staring us right in the face: The people whom Mr. Trump has appointed to positions of power can wield significant influence over how business is conducted in America. And in many cases, they can do so unilaterally, without the approval of Congress.

The presidency of Donald J. Trump -- the wealthiest businessman to occupy the White House in recent memory -- has ushered in a new paradigm, one in which business and government are married in a way never seen before. And the people whom Mr. Trump has appointed come from the most senior ranks of business, bringing with them a frame of reference that is almost strictly about profit and economic growth.

It isn't often said aloud, but the aristocracy that Mr. Trump has put in place may be more important than any rule written on paper.

And while there are significant questions about whether their experience in business will translate in Washington -- and to the Regular Joe who supported Mr. Trump -- their focus on issues that relate to the economy and their reverence for increasing G.D.P. have lifted the spirits in corner offices across America. Whether the topic is trade, infrastructure or taxes, to the C.E.O. set, Mr. Trump speaks their language.

''We are absolutely destroying these horrible regulations that have been placed on your heads,'' Mr. Trump declared on Tuesday in Washington to a group of chief executives representing companies like Citigroup, MasterCard and JetBlue.

Yes, there are C.E.O.s who are not on board with Mr. Trump's agenda. His penchant for tweeting at all hours and shaming people who disagree with him have, at least for now, silenced them. (Many critics, given the options, have decided that the best course of action is to hope for the best.)

That hope is tied to Mr. Trump and his team -- and their power to remove certain regulations and to slow down or thwart the implementation of others. The results could be beneficial to executives in any number of industries: banking, energy, media, technology.

In a remarkably blunt and telling memo to its clients, the law firm Wachtell, Lipton, Rosen & Katz suggested that Mr. Trump's appointment of people overseeing the banking sector could have a more meaningful effect than legislative changes.

''Taken together, the senior policy makers at the Federal Reserve, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Consumer Financial Protection Bureau have been far more impactful on the regulatory environment than Dodd-Frank,'' the memo said. ''Dodd-Frank's impact is often overstated.''

The law firm encouraged Mr. Trump to appoint people who have the goal of ''countering the prevailing regulatory philosophy,'' meaning they oppose the approach taken under President Barack Obama.

Even if Mr. Trump's team doesn't try to change regulations (and they already have, in industries like energy and telecommunications), they may show little interest in enforcing existing regulations, which, in and of itself, could have a significant impact on the way business is run.

And if Mr. Trump, the businessman-president, is a novelty, so, too, is the makeup of his cabinet. Never before have the most senior roles in government been played by so many billionaires (and near-billionaires) with such extensive experience running companies. His cabinet, kitchen cabinet and just about every cabinet in and around the White House is filled with people from the private sector. A good number of them have long track records of fighting against the departments they now represent.

This mind meld of Wall Street and Washington represents a shift that may be even greater than when President Reagan, Mr. Trump's often-cited role model, entered office.

The list of industry captains now running the government is long and well documented. It includes a cadre of former Goldman Sachs bankers, like Steven Mnuchin, the Treasury secretary; Gary D. Cohn, Mr. Trump's top economic adviser; and Stephen K. Bannon, the president's chief strategist. Rex W. Tillerson, the secretary of state, is the former chief executive of ExxonMobil. Even more junior roles are being filled by former colleagues from the very same companies.

Critics have long contended that many of these appointees are conflicted, given their previous work. Some people argue that whatever legislative efforts they pursue will be aimed at enriching themselves or their friends.

That may turn out to be true -- or not. But here is an explanation that's hard to dispute: The people Mr. Trump has surrounded himself with have a particular worldview based on their experiences. If you grow up somewhere or work at a particular institution for any length of time, you assimilate and take on the values and opinions of the people around you.

It all goes back to a Truman-era maxim known as Miles' Law, coined by Rufus E. Miles Jr., a career administrator who worked in the Bureau of the Budget: ''Where you stand depends on where you sit.''

Of course, one of the big questions is how much a president, absent legislation, can sway an economy simply by rolling back regulations.

If you look at the precedent set by Mr. Obama, the answer is ''a lot.'' His White House announced during his last year in office that it had helped save $28 billion by removing regulations, starting in 2011. And much of it was done with the stroke of a pen.

Wall Street is **bullish** on the approach.

''Regulatory reform that does not require legislative approval faces a lower hurdle than tax reform and would also provide a boost to **S**.**&P**. **500** earnings,'' Goldman Sachs recently wrote in a note to its clients.

Reforms, the note said, ''will likely come through changes to existing rules as well as the interpretation and application of outstanding regulation.''

The bank, which has seen its own stock rise since the election, suggests that ''about $200 billion of excess capital could be deployed in 2018 as a result of changes in regulatory capital requirements.''

Capital requirements are largely governed by the Federal Reserve, meaning they could be adjusted without congressional approval. And the Fed is in transition: Wednesday was the last day in office of Daniel K. Tarullo, a Federal Reserve Board member who crafted some of the strictest banking rules post-crisis and led the annual stress tests that bankers loathe. He was a thorn in the side of many bankers, who complained that he was too difficult.

Mr. Tarullo's replacement is expected to be a Wall Street insider who will be significantly less strict and may look to lower capital requirements and conduct its stress tests differently.

Still, while regulations (or their removal) can clearly have a big influence on the economics of a particular industry or company, the fundamental economic trend lines are much harder to shift.

Peter Boockvar, an analyst at the Lindsay Group, an economic advisory firm in Washington, said that confidence among home builders, for example, is high -- which should be a sign the economic outlook is bright.

But there are other headwinds, too. In the home construction sector, for instance, ''builders continue to face a number of challenges, including rising material prices, higher mortgage rates, and shortages of lots and labor,'' Mr. Boockvar wrote in an email, citing a report from the National Association of Home Builders.

His assessment mirrors the cautious optimism with which the business world is viewing the Trump presidency. On one hand, ''it's great to see this level of confidence,'' Mr. Boockvar said, referring to the home builders. But he added, ''I'm not trying to be a Debbie Downer here, but just wanted you not to get too carried away.''

President Trump, at a forum with administration officials and business leaders at the White House in February, is building a government rich in corporate experience. (PHOTOGRAPH BY AL DRAGO/THE NEW YORK TIMES) (F1); DJ Gribbin, a special assistant to the president, holds a chart tracing the regulatory steps needed to build a highway, during a C.E.O. town hall with President Trump this week. (PHOTOGRAPH BY KEVIN LAMARQUE/REUTERS) (F6)

Document NYTF000020170406ed460003b

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Fed Looks to Cut Holdings This Year

By Nick Timiraos
501 words
6 April 2017
The Wall Street Journal
J
A2
English

Federal Reserve officials agreed at their March policy meeting they would likely begin shrinking a $4.5 trillion portfolio of Treasury and mortgage securities later this year, though they remained undecided on how quickly to reduce the holdings and to what level, according to minutes released Wednesday.

The minutes of the March 14-15 gathering help answer a question hanging over markets in recent months. The Fed has been telegraphing interest-rate increases for years but has been guarded on how it will handle the sizable securities holdings it acquired through asset-purchase programs during and after the 2007-09 recession. Those programs aimed to hold down long-term interest rates and boost economic growth.

Reducing the balance sheet is a delicate task as it could cause long-term rates to rise and undermine the expansion. The portfolio grew from less than $1 trillion before the financial crisis to $4.5 trillion. The Fed has maintained its size by reinvesting proceeds of maturing securities into new mortgage and Treasury bonds. Ceasing reinvestments would cause it to shrink.

"Most participants . . . judged that a change in the [Fed's] reinvestment policy would likely be appropriate later this year," the minutes said.

Stocks gave up early gains on Wednesday after the release of the Fed minutes. The **Dow Jones Industrial Average** fell 41 points, or 0.2%, to close at 20648. Yields on U.S. government bonds edged lower.

The Fed's balance-sheet strategy remains a work in progress. Most officials want to use short-term interest rates as their primary tool for conducting monetary policy, which means once they set in motion their plan for shrinking the portfolio, they would want that wind-down to run quietly in the background.

Among the details not worked out in March was whether the Fed would phase out its reinvestment policy slowly or cease it all at once, though the minutes suggested officials saw the first option as the primary way to shrink the portfolio. Officials saw that as least disruptive to markets and the economy but also possibly hard to communicate clearly, the minutes said.

Other questions center on when to begin the process. Some officials said they wanted to set a numerical interest-rate trigger, meaning they would start shrinking the portfolio after their benchmark rate rose to a specified level.

Others favored a qualitative approach based on broader assessments of the economy and financial conditions.

The discussion about how to wind down the portfolio is picking up now that the economy is moving closer to meeting the Fed's goals of steady, low inflation and maximum, sustainable employment.

The Fed's preferred inflation gauge in February exceeded the bank's 2% target for the first time in nearly five years. So-called core prices, which exclude food and energy, have been more stable, at around 1.8% over the past year.

Document J000000020170406ed4600021

The New York Times

Business/Financial Desk; SECTB
Department Stores' Shares Slump Amid Cautious Trading

By THE ASSOCIATED PRESS
717 words
5 April 2017
The New York Times
NYTF
Late Edition - Final
4
English

Stocks treaded water on Tuesday as investors were slow to return to the market, although energy companies' shares climbed with the price of oil and natural gas. Banks and retailers took losses.

Stock indexes flitted between tiny gains and losses throughout the day before they mounted a small rally over the last half-hour of trading. Energy companies rose the most, and companies that make drinks, packaged foods and other household items also rose. Retailers and department stores slumped after Urban Outfitters warned of weak first-quarter sales and Ralph Lauren said it would close stores and cut jobs.

Eric Wiegand, senior portfolio manager at U.S. Bank Private Client Reserve, said that surveys showed consumers were very confident in the economy but that, despite high levels of employment and hiring, they were not spending much.

''We would like to see that confidence reflected in their actual consumption, and that's been somewhat mixed,'' he said.

The **Standard & Poor's 500-stockindex** picked up 1.32 points, or almost 0.1 percent, to close at 2,360.16. The **Dow Jonesindustrial average** rose 39.03 points, or 0.2 percent, to 20,689.24. The **Nasdaq composite** added 3.93 points, or 0.1 percent, to 5,898.61.

This week, investors will pore over reports on the economy, including the monthly jobs report on Friday. Trade agreements will be in focus as President Trump and President Xi Jinping of China meet Thursday and Friday.

Ralph Lauren dropped $3.63, or 4.5 percent, to $77.74 after it announced store closings and job cuts in an effort to save money. The company will close its Fifth Avenue store in Manhattan less than three years after it opened. Urban Outfitters lost 7 cents, or 3.1 percent, to $22.49 after it said sales at older stores had fallen over the last two months.

Other retailers also lost ground. Nordstrom fell $2.56, or 5.5 percent, to $43.92, and L Brands, the owner of Victoria's Secret, fell $2.03, or 4.4 percent, to $43.77.

The handbag and accessories maker Kate Spade slumped after Reuters said the company would take more time to negotiate a possible sale. The report cited unnamed sources and said that if Kate Spade was sold to a buyer like Michael Kors or Coach, it would probably be for less than the company's recent valuation of $2.9 billion. Kate Spade sank $3.35, or 14.6 percent, to $19.46.

Benchmark crude rose 79 cents, or 1.6 percent, to $51.03 per barrel in New York. Brent crude, used to set international **oil prices**, added $1.05, or 2 percent, to $54.17 a barrel in London.

Bond prices fell. The yield on the **10-year Treasury** note rose to 2.36 percent, from 2.32 percent.

Banks took losses for the second day in a row, after a sharp drop in bond yields Monday. Lower bond yields force interest rates on loans lower, which cuts into banks' profits. Capital One Financial slid 54 cents, or 0.6 percent, to $85.26, and Discover Financial Services lost 90 cents, or 1.3 percent, to $67.05.

The Commerce Department said factory orders in the United States rose in February because of greater demand for commercial aircraft. Boeing said it would sell $3 billion in aircraft to an Iranian airline, and its stock gained $2.05, or 1.2 percent, to $178.70.

Manufacturers have been recovering recently from a rough patch caused by weak economies overseas and the strong dollar, which made United States goods more expensive. A measurement of business investment spending decreased for the first time since September.

Gold for April delivery rose $4.20, to $1,255 an ounce.

The dollar slipped to 110.72 yen, from 110.84 yen. The euro fell to $1.0665, from $1.0671.

The British FTSE 100 gained 0.5 percent, and the CAC 40 in France rose 0.3 percent. In Germany, the DAX added 0.2 percent.

CHART: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Friday. (Source: Reuters)

Document NYTF000020170407ed4500002

The New York Times

Business/Financial Desk; SECTB
Department Stores' Shares Slump Amid Cautious Trading

By THE ASSOCIATED PRESS
594 words
5 April 2017
The New York Times
NYTF
Late Edition - Final
4
English

Stocks on Wall Street gave up early gains and ended slightly lower, extending a losing streak for the **Standard & Poor's 500-stockindex** to a ninth day, the longest losing streak in 36 years. Investors continue to focus on the presidential election.

KEEPING SCORE The **Dow Jonesindustrial average** and the **Standard & Poor's 500-stockindex** closed 0.2 percent lower. The **Nasdaq composite** index also lost 0.2 percent.

PRESIDENTIAL RACE With five days left until the election, Hillary Clinton is still leading in national polling, but Donald J. Trump has significantly narrowed the gap, particularly in swing states. Investors like certainty, and Mrs. Clinton is viewed as likely to maintain the status quo. Mr. Trump's policies are less clear, and the uncertainty has caused jitters in **financial markets**. The VIX, a measure of **volatility** that is called Wall Street's ''fear gauge,'' jumped 16 percent this week to its highest level since June. The measure is up 36 percent this week alone.

ANALYST'S TAKE ''No one really knows what Trump would do should he get into power, probably not even himself,'' said Joshua Mahony, a market analyst at IG. ''It is that uncertainty that is driving the market negativity that has dominated this week.''

JOBS BACKDROP Investors were encouraged by a government report early Friday that showed solid hiring by employers last month. The October figures, released on Friday, showed that employers added a decent 161,000 jobs and that the unemployment rate dipped to 4.9 percent from 5 percent. And average hourly pay took a big step up, rising 10 cents an hour to an average of $25.92. That is 2.8 percent higher than a year ago and is the sharpest 12-month rise in seven years.

OUT OF FOCUS GoPro, the maker of wearable cameras, reported a 40 percent drop in revenue in the quarter and gave a negative outlook for the holiday season. Like Fitbit, GoPro is showing signs of being unable to expand its product line beyond athletes and thrill-seekers. Its stock recovered after an early tumble but then ended the day down 6.5 percent.

ENERGY Benchmark United States crude oil lost 66 cents, to $44 on the New York Mercantile Exchange. Brent crude, the international standard, declined 82 cents, to $45.53.

EUROPEAN MARKETS In Germany, the DAX fell 0.6 percent, and in France, the CAC 40 lost 0.8 percent. The FTSE 100 was down 1.4 percent in Britain.

ASIA'S DAY The Nikkei 225 declined 1.3 percent in Japan, while in Hong Kong, the Hang Seng fell 0.2 percent. The Shanghai composite index slipped 0.1 percent in China. The Kospi lost 0.1 percent in South Korea. In Australia, the S.&P./ASX 200 lost 0.9 percent, while the Sensex in India was off 0.5 percent. Shares in Southeast Asia were mostly lower while Taiwan's benchmark was nearly flat.

BONDS AND CURRENCIES **Bond prices** rose. The yield on the **10-year Treasury** note fell to 1.78 percent from 1.81 percent the day before. The euro rose to $1.1119 from $1.1109 and the dollar rose to 103.08 yen from 102.99 yen.

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

CHART: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Friday. (Source: Reuters)

Document NYTF000020170407ed4500001

Business Day; DealBook
Bull Markets Don't Mean Extra Jobs for Wall Street

By NELSON D. SCHWARTZ
1,405 words
5 April 2017
01:54 PM
NYTimes.com Feed
NYTFEED
English

Bull markets aren't what they used to be, at least when it comes to New York's economy.

Although the **stock market** is surging and profits on Wall Street last year hit their highest level since 2012, the good times are not translating into jobs the way they did a decade ago, before the financial crisis and the Great Recession hit.

Employment in the securities industry in New York City has risen for three straight years. But, at 177,000, there are still 10,000 fewer jobs in the sector than in 2008. And even if the **stock market** keeps rising and shares of behemoths like Goldman Sachs and Morgan Stanley continue to hit postcrisis highs, don't expect a surge in hiring on the Street.

"The securities industry is still a pretty important source of very highly paid, very highly skilled jobs, but it's not really contributing to growth in the number of jobs," said William C. Dudley, president of the Federal Reserve Bank of New York.

To be sure, financial services and banking remain a key part of the overall economy in the tristate area. The financial services and securities industry is the largest private-sector contributor to tax revenue in New York State.

What economists call the ''multiplier effect'' is especially high for finance jobs, since annual bonuses for bankers end up in the pockets of people like contractors, gardeners, jewelers, car dealers and real estate brokers.

What is more, Wall Street remains crucial for the region's tax base, especially for New York State. The securities industry accounted for 18.5 percent of Albany's tax revenues last year, and about 7 percent of the city's tax haul.

But as is the case for the rest of the country, the financial sector is no longer quite as dominant as it once was in New York, Mr. Dudley said. Finance has not gotten smaller; instead other sectors, like technology, have grown much faster since the financial crisis.

Mr. Dudley added that "New York's economy has become more diversified," citing strong growth in the technology, hospitality and tourism sectors. He said that with roughly 150,000 workers, the tech sector in New York City is quickly catching up with total employment in the securities industry.

"New York is no longer a one-horse town when it comes to what drives the economy," said Chris Jones, senior vice president at the Regional Plan Association, a nonprofit research group that focuses on the tristate area. "Tourism and technology have generated more jobs in the last decade and helped to diversify the economy."

And while bonuses on Wall Street still dwarf those in other industries, annual payouts are also well below what they were before 2008, when Lehman Brothers and Bear Stearns still existed.

The average bonus for the securities industry in New York City last year stood at $138,210, compared with a high of $191,360 in 2006, according to New York State's comptroller, Thomas P. DiNapoli.

The sector's healthy profits ($17.3 billion in 2016) come at a price. "Part of how they've kept profits up is that they've kept head count down," Mr. DiNapoli said.

In fact, the securities industry accounted for just 6 percent of newly created high-paying jobs from 2010 to 2015, compared with 25 percent in the 1990s and 2000s. “Wall Street is still an important contributor to the economy, but I wouldn’t expect a lot of growth in employment,” Mr. Dudley said.

Very low interest rates for years have also taken a toll, reducing profit margins at big banks, and forcing them to trim head counts and become more efficient.

Some jobs also disappeared because the go-go days of huge leverage and light regulation are over, thanks to the 2010 Dodd-Frank financial reforms. With higher capital requirements, riskier activities have been pruned back.

Even if some of that regulation is reversed, as President Trump has promised, memories of 2008 are likely to curb a return to the days of big bets and crowded trading desks.

“There’s been a lot of pressure on trading jobs,” said Laila Worrell, a partner at The Boston Consulting Group. “Since 2009, the regulatory climate hasn’t been superconducive for trading volume growth at big financial institutions.”

Trading by humans negotiating over the telephone has been replaced by trading via computers transacting in milliseconds.

And for jobs that can’t be done by machines, greener and cheaper pastures beckon. While New York State recorded a 5 percent rise in securities industry jobs from 2010 to 2015, employment in the sector increased by 50 percent in Pennsylvania and 33 percent in Texas over the same period.

On the other hand, New York could stand to benefit if financial firms exit London in the wake of Britain’s vote last summer to exit the European Union, the so-called Brexit.

New York and London have been rivals in the financial world for decades, with London’s location and especially its time zone an advantage for traders dealing with Europe and Asia. Hedge funds expanded in the British capital, too, and some American policy makers feared London might overtake Wall Street.

Almost exactly a decade ago, Michael Bloomberg, then the mayor of New York City, and New York Sen. Chuck Schumer even commissioned a report warning that London and other cities were eroding New York’s traditional dominance in financial services.

But in the wake of Brexit, and uncertainty about tax and regulatory policy looming for London-based firms, many finance jobs are up for grabs.

Experts cite locales like Paris, Luxembourg and Frankfurt as alternatives to London, but Mr. Dudley said, “New York is a potential place where people could ultimately move jobs, and the city could absorb them relatively easily.”

There are also a few niches in New York where head count is growing rapidly, like financial technology, with new hires creating software and applications for banks and brokerages, and designing trading strategies using algorithms and artificial intelligence.

“New York has become the world’s leading center for financial tech innovation,” Ms. Worrell said. “It’s surpassed Silicon Valley because the financial institutions these companies serve are in New York. Proximity is very important.”

While the packed trading desks portrayed in 1980s classics like Oliver Stone’s movie “Wall Street” or the book “Liar’s Poker” by author Michael Lewis may be a thing of the past, not everyone misses that world.

Indeed, Mr. Dudley, an economist who joined Goldman Sachs in 1986 and spent more than two decades at the firm, said Wall Street’s flatter trajectory is fine with him.

“The financial services industry is in a pretty good place right now,” he said. “It’s not quite rock ’n’ roll like we had in 2005 and 2006, but I don’t think we want to go back to that period. I would take a more boring financial industry if it helped create a more stable U.S. economy.”

Mr. DiNapoli, the state comptroller, acknowledged that nearly a decade after the financial crisis, Wall Street remains unpopular in some quarters. But even if the big banks employ fewer of the masters of the universe than they once did, their outsize paychecks still ultimately benefit residents of the city and state.

“People have mixed opinions about Wall Street, but love ’em or hate ’em, it’s still a big part of the city’s economy,” Mr. DiNapoli said. “We want New York to continue to be the capital of global finance.”

A recent view of the Financial District in New York. Jobs in the city’s securities industry are down by 10,000 from 2008. | Todd Heisler/The New York Times | A street scene last month outside the New York Stock Exchange. Wall Street profits last year hit their highest level since 2012. | Todd Heisler/The New York Times | The NYSE is reflected in a woman’s glasses in a street scene last month. The city’s tech sector employment is catching up to that of the securities industry. | Todd Heisler/The New York Times | Traders watch a recent charity basketball event outside the NYSE. Trading by humans over the phone has been replaced by rapid computer trades. | Todd Heisler/The New York Times

Document NYTFEED020170405ed450070t

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Trade Deficit Shrinks as Gap With China Narrows

By Josh Mitchell
577 words
5 April 2017
The Wall Street Journal
J
A2
English

WASHINGTON -- The U.S. trade gap with China shrank in the first two months of the year but remains far higher than a decade ago, part of a mixed outlook that sets the stage for potentially tense talks between President Donald Trump and Chinese President Xi Jinping this week.

The overall U.S. trade gap with other countries narrowed nearly 10% in February from a month earlier to $43.6 billion, the Commerce Department said Tuesday. That is in part because of a smaller trade deficit with China, its top trading partner.

Imports from China fell a record amount in February, and in the first two months of the year the deficit with the Asian nation shrank nearly 5% compared with the same period in 2016.

Economists cautioned that trade figures are volatile and February's data may have been distorted by the timing of the Lunar New Year. The broader outlook remains unchanged: The deficit with China -- $23 billion in February -- is more than double the gap the U.S. has with any other country. China now accounts for almost half of the overall U.S. trade gap, up from about 30% a decade ago.

Mr. Trump made getting tough with China a promise in his presidential campaign, and he accused Beijing of manipulating its currency at the expense of U.S. companies. China has denied the allegations. Mr. Trump and Mr. Xi are set to meet Thursday, and a Commerce Department official said trade is expected to be part of the talks.

Commerce Secretary Wilbur Ross said despite the improving numbers this year, the administration prioritizes further reducing the overall trade deficit. "This administration is determined to achieve free and fair trade, to protect hard-working Americans, and to grow our economy," Mr. Ross said.

Mr. Trump repeatedly threatened during the 2016 campaign to impose across-the-board tariffs on imports from China. In recent months, Mr. Trump and his aides have instead said they are working on trade cases that could result in tariffs on imports from certain industries blamed for receiving foreign subsidies or dumping products at below fair value. China could retaliate against such tariffs, possibly through challenges at the World Trade Organization.

Nicholas Lardy, a China expert at the Peterson Institute for International Economics, a Washington think tank, said eliminating the trade deficit with China is unrealistic given fundamental aspects of the two economies. U.S. households save little compared with other countries and spend more of their incomes, and Chinese manufacturers play a key role in satisfying Americans' appetite for goods.

"All the evidence we have is our deficit with China is likely to continue going up," Mr. Lardy said. He added that reducing the deficit with China may lead to increases in the gap with other countries, rather than to more U.S. jobs.

Other shifts could ease tensions between the U.S. and China. The yuan has risen this year against the dollar, complicating the criticism from Mr. Trump that China has manipulated its currency at the expense of U.S. exporters.

The Pew Research Center said Tuesday that 44% of Americans surveyed this year held a favorable view of China, up from 37% a year ago. Unfavorable views of China fell to 47% from 55% last year, it found.

William Mauldin contributed to this article.

Document J000000020170405ed450002b

THE WALL STREET JOURNAL.
U.S. EDITION

Investors Wary of Gains Look for Refuge --- Gold, Treasurys and the yen climb amid concerns over Trump's plans for economy

By Ira Iosebashvili and Min Zeng
531 words
5 April 2017
The Wall Street Journal
J
B14
English

Havens like U.S. government bonds, gold and the Japanese yen are rallying, highlighting an undercurrent of investor worry in an otherwise buoyant market.

The Japanese yen strengthened against the dollar Tuesday and is up more than 4% from its March lows against the U.S. currency. The yield on the **10-year Treasury** note closed at its lowest level in more than a month.

Prices for gold, another popular destination for nervous investors, rose for the third straight day. And utility shares, historically seen as a safety play for stock investors, have also gained ground. The S&P utilities sector is up 5.8% so far in 2017.

The broad appeal of haven investments in part reflects how investors' concerns about the pace of U.S. economic expansion and global politics are supplanting enthusiasm for the policies President Donald Trump has pledged to push through.

Investors bet on financial stocks and sold bonds and utilities after the U.S. election, expecting the new administration to introduce policies that fueled growth and boosted inflation.

Bond yields' recent decline is the timeliest sign that trade is unwinding, as investor skepticism increases.

"Faith in the Trump trade is shaken," said Priya Misra, head of global interest-rate strategy at TD Securities. "He couldn't get health-care reform done, and there is immense dysfunction in Congress."

Investors have pulled back from bets on higher bond yields over the past few weeks. Net wagers betting on higher bond yields via Treasury futures contracts were $54.2 billion for the week that ended March 28, according to TD Securities, the lowest since Nov. 22. These wagers had reached $100.7 billion in early January, the highest since 2008.

The yield on the **10-year Treasury** note rose above 2.6% a few weeks ago, but settled at 2.350% Tuesday. The yield stood at 2.446% at the end of 2016. Yields fall as **bond prices** rise.

While stock indexes remain near records, weaker-than-expected monthly auto sales and manufacturing data at the start of the week have added to concerns that economic growth may be flagging. March employment numbers, due Friday, are expected to offer a snapshot of how the U.S. economy is faring.

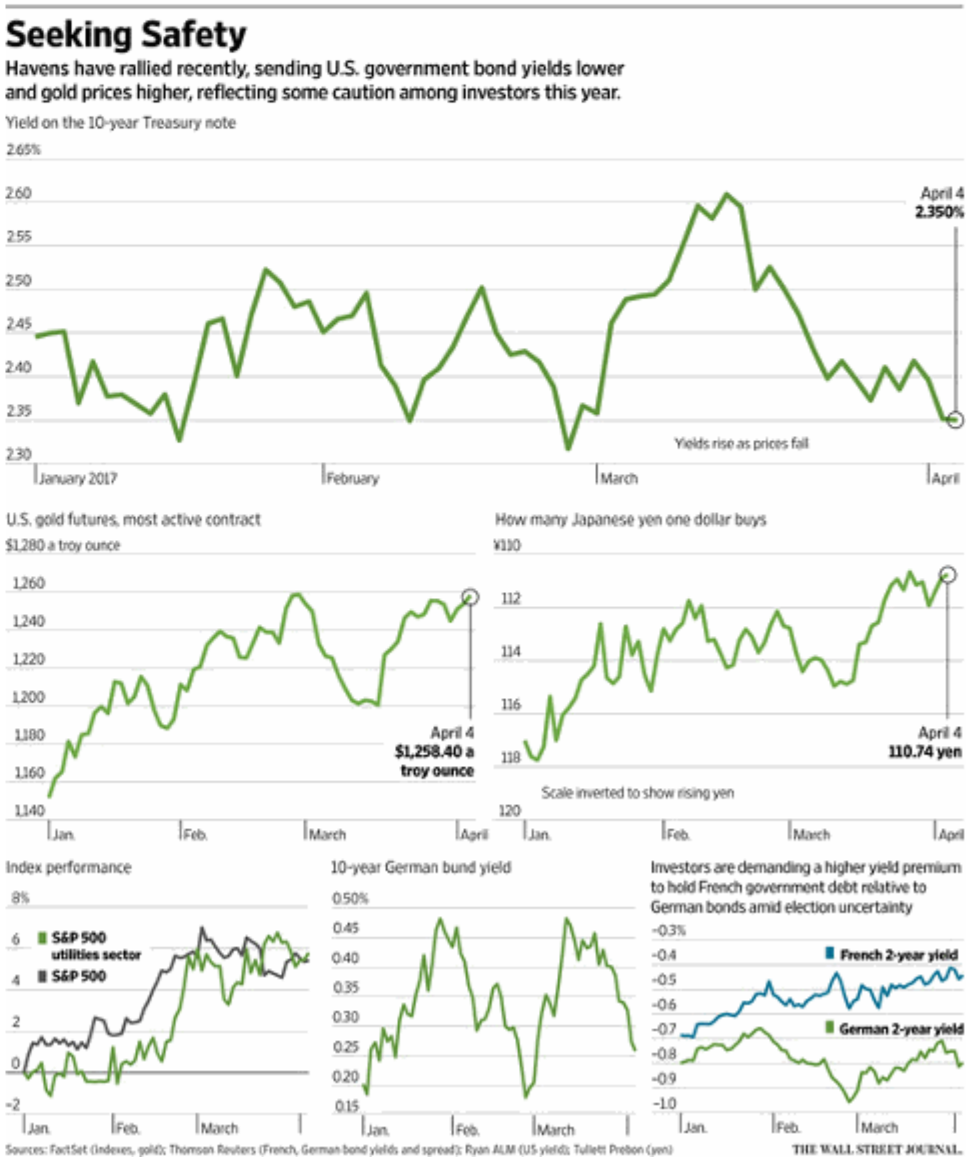
Some investors are becoming wary ahead of a summit this week between President Donald Trump and Chinese leader Xi Jinping, a meeting Mr. Trump warned could be "very difficult."

Moreover, investors have become skeptical about Mr. Trump's ability to cut taxes and boost infrastructure spending after the GOP health-care bill failed last month.

French presidential elections, set for April, are also causing uncertainty for global markets with far-right candidate Marine Le Pen advocating pulling France out of the eurozone.

"The market is beginning to price in a more realistic scenario," said Gary Pollack, head of fixed-income trading at Deutsche Bank Private Banking.

U.S. economic growth and inflation "may not be much stronger than initially assumed," Mr. Pollack said.



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Document J000000020170405ed450000f

THE WALL STREET JOURNAL.
U.S. EDITION

Chinese Shun Debt In Europe's Currencies

By Nina Trentmann
244 words
4 April 2017
The Wall Street Journal
J
B12
English

Chinese corporate bonds issued in European currencies lag far behind their dollar counterparts, a trend expected to continue as the U.K.'s exit from the European Union threatens to shake **financial markets** on the continent.

During the first quarter, Chinese companies issued five internationally marketed euro-bonds worth $3.8 billion, giving the common European currency a 7% market share, according to Dealogic.

Around 90% of all Chinese overseas bonds during the first quarter were issued in dollars, the data show.

Issuance in U.K. pounds was even more limited, with a single bond launch worth $322 million. The pound only represents 1% of Chinese internationally marketed bonds. There was no issuance in Swiss francs or other European currencies during the first quarter.

Raising capital overseas is one of the solutions that Chinese companies have come up with amid increased regulatory scrutiny on capital transfers out of China. The Chinese government at the end of 2016 introduced tighter rules on capital outflows, targeting both transactions by subsidiaries of foreign companies as well as those by Chinese firms attempting to acquire overseas M&A targets.

There are more advantages to greenback debt. "Issuing a U.S. dollar-denominated bond lets the issuer tap a larger investor base, making these bonds more attractive than euro-denominated bonds," said Chunshek Chan, head of M&A-research at Dealogic.

Document J000000020170404ed440000d

THE WALL STREET JOURNAL.
U.S. EDITION

Tech Founders Want IPO Cash -- and Control --- 'Dual-class' shares, which give majority to a few, spread in Silicon Valley

By Maureen Farrell
2,030 words
4 April 2017
The Wall Street Journal
J
A1
English

Companies that go public on the New York Stock Exchange usually celebrate by ringing the opening bell from a balcony crowded with executives and employees. Snap Inc. had only two: co-founders Evan Spiegel and Bobby Murphy, who control about 90% of the voting power in Snapchat's parent.

Snap was the first major company since at least 2000 to do an initial public offering in the U.S. that gave new shareholders no voting rights whatsoever, and earlier investors got one vote for every 10 held by the two co-founders.

Their viselike grip on the disappearing-message app is an extreme example of a growing power grab by technology companies when they go public.

Those companies are structuring their IPOs so that founders and executives wind up with far more votes than actual shares. The exaggerated voting power gives those few shareholders dominance over all corporate decisions, ranging from the election of directors to whether to sell the company someday.

About 15% of the tech companies that went public in the U.S. between 2012 and 2016, including Facebook Inc., Fitbit Inc. and Twilio Inc., did so with at least two classes of stock, up from 8% between 2007 and 2011, according to data compiled by University of Florida finance professor Jay Ritter.

That ownership structure makes it possible for companies to assign different voting rights to different groups of shareholders, as Facebook did in its IPO in 2012. Class B shares held by Chief Executive Mark Zuckerberg and other early investors have 10 votes per share, while Class A shares sold to the public have one vote per share. Snap has three classes of shares.

The tech industry's use of so-called supervoting shares has climbed so much in the past five years that it is roughly in line with IPOs as a whole.

The percentage of newly public tech companies with supervoting shares is likely to climb even higher if the market for new offerings continues to rebound and corporate executives are emboldened by the successful **stock-market** debuts so far this year, including Snap.

Investment bankers and lawyers expect that the vast majority of the highest-valued companies that are now private would use some form of dual-class structure if they decide to go public. The most valuable companies include Uber Technologies Inc., Palantir Technologies Inc. and Airbnb Inc.

On Friday, Snap shares closed at $22.53, up a third from their $17-a-share offering price March 1, valuing the five-year-old company at about $27 billion. Snap raised $3.9 billion in the IPO, according to Dealogic.

Snap declined to comment on why Messrs. Spiegel and Murphy were the only employees on the NYSE balcony when the stock began trading.

In the first quarter, there were 29 IPOs of U.S.-listed companies, up from nine a year earlier. Just four of the IPOs in the latest quarter were by tech companies, according to Dealogic, and 2016 was the slowest year for tech IPOs since the financial crisis.

Since Snap's stock sale, though, investment bankers and lawyers who work with tech companies said they have been fielding phone calls from closely held companies that are considering going public and are eager to explore similar share-class structures.

The shift troubles some investors, corporate-governance advocates and even Silicon Valley executives. They said watered-down voting power hurts shareholder democracy and leaves those investors vulnerable. "It reduces the role of a board member to that of an adviser who works at the behest or pleasure of the founder," said Mark Lonergan, founder and managing partner of executive-search firm Lonergan Partners in Redwood City, Calif.

The Council of Institutional Investors, which represents large pension funds and other shareholders, has proposed barring Snap from **stock-market** indexes such as the **S&P 500** because the company's structure "will undermine the quality and confidence of public shareholders in the market."

Snap could become eligible to join the **S&P 500** after the company is profitable for four quarters in a row. Analysts and investors don't expect that to happen for at least two years.

Officials at S&P Dow Jones Indices, which manages the stock benchmark, have said they would consider Snap's corporate governance as part of their overall review.

Matt MacInnis, chief executive of Inkling Systems Inc., based in San Francisco, has qualms about creating two classes of stock but wouldn't rule it out if the labor-management software company eventually decides to go public. Inkling has raised $95 million from venture-capital investors since its launch in 2009.

"There's an element of: 'We'll take money from common shareholders, but we're not accountable to them,'" Mr. MacInnis said.

It is hard for investors to resist promising tech IPOs even if that means they will wind up with little or no voice at the company. "As a firm, we much prefer shareholder-friendly management teams and boards with good corporate governance," said Dan Ernst, a senior analyst at asset manager Welch Capital Partners LLC in New York. "But if you're dogmatic, you won't get a chance to participate in Facebook or Google."

Vivek Wadhwa, a distinguished fellow at Carnegie Mellon University's College of Engineering, said the "winner-take-all" culture in which a few tech companies emerge as hugely profitable from among a far-larger number that fail encourages investors to give tech executives more leeway.

As a result, "CEOs in Silicon Valley now have God complexes," he said.

Google parent Alphabet Inc. and Facebook have gained nearly $800 billion in combined **stock-market** value since their initial public offerings. Alphabet shares are up nearly 1,900% since their debut in 2004, while Facebook is up nearly 300%, trouncing the overall **stock market**.

When Google went public, co-founders Sergey Brin and Larry Page and CEO Eric Schmidt held 33% of the internet search giant's shares and 38% of the voting power. Mr. Brin is now Alphabet's president, Mr. Page is chief executive and Mr. Schmidt is executive chairman.

Facebook's Mr. Zuckerberg held 28% of the shares and 58% of the voting power at the time of the social-networking company's IPO in 2012.

Google now sells a nonvoting class of stock, and Facebook plans to issue nonvoting stock. The companies have said different types of stock help executives manage for the long run, rather than worry about appeasing investors who are fixated on short-term gains.

Spencer Rascoff, chief executive of Zillow Group Inc., which has three classes of stock, wrote in a LinkedIn post in 2015 that supervoting shares should assuage private-company CEOs who are wary about going public. "There is a way to have the benefits of being public while keeping a company quick to move and focused on the long term," he wrote.

Numerous academic studies show no statistical difference between the **stock-price** performance of companies with supervoting shares and those without, according to Mr. Ritter, the Florida finance professor. His own study came to a similar conclusion.

Zynga Inc. founder Mark Pincus held a class of shares with 70 votes per share when the videogame company went public in 2011. Its share price fell from $10 to about $3 as Zynga's user base declined.

Mr. Pincus is Zynga's chairman and has been its chief executive twice. He still holds 70% of the total voting power.

Some investors have complained that his huge voting stake has made it difficult for another leader to emerge and take Zynga in a new direction.

Frank Gibeau, Zynga's chief executive since March 2016, said in February that the company has "made significant progress this year in our turnaround."

News Corp, the owner of The Wall Street Journal's parent, Dow Jones & Co., has two classes of shares, which allow Executive Chairman Rupert Murdoch and his family to maintain greater influence over the media company.

Class A shares that make up about two-thirds of News Corp's equity base have no voting power, while Mr. Murdoch and his family trust hold about 39% of the Class B voting shares.

Supervoting shares have been around for more than a century and began to proliferate in the 1920s. Dodge Brothers Inc., the auto maker that later became part of Chrysler, raised more than $100 million in an offering that limited the voting power of new investors. In 1940, the NYSE limited the use of multiple classes of stock.

Some companies responded by listing their shares on other exchanges, and the NYSE made a few exceptions to its own curbs. Ford Motor Co. went public in 1956 in what was then the largest IPO ever. The sale gave the Ford family control far in excess of its financial stake, and the structure is still in place.

The advent of corporate raiders in the 1980s led to a resurgence in supervoting shares as companies sought to protect themselves from unwanted takeovers. The NYSE sought to abandon its policy, but the Securities and Exchange Commission put forth a rule that would have prohibited dual-class shares. It was invalidated by an appeals court.

By the time Google went public in 2004, the dual-class structure was widely accepted by stock exchanges, investors and regulators, including the NYSE. Google's debut encouraged other tech companies to do the same.

In a prospectus, Google cited media companies such as Dow Jones, then a stand-alone company, and New York Times Co. and said their separate classes of shares made it possible to concentrate on "core, long-term interest in serious news coverage, despite fluctuations in quarterly results."

Lately, a wave of shareholder activism, driven occasionally by investors like billionaire Carl Icahn, has helped prompt some companies to consider creating new share classes as protection.

Long before Snap went public, Messrs. Spiegel and Murphy were intent on keeping as much control of the company as possible, according to people familiar with the matter. Mr. Spiegel is chief executive, and Mr. Murphy is chief technology officer.

They wanted to decide what Snap should do and which products to create whether or not anyone else agreed, the people said. Messrs. Spiegel and Murphy also don't want to be pushed to accept a takeover offer, which would eliminate the chance to build Snap for the long term.

In mid-October, Snap officials held a meeting to initiate the IPO process, the people said. Snap's investment bankers, from securities firms that included Morgan Stanley and Goldman Sachs Group Inc., were told to arrive at one of Snap's warehouses in Venice, Calif., in any vehicle but a black car and without suits to ensure that word of the meeting wouldn't leak.

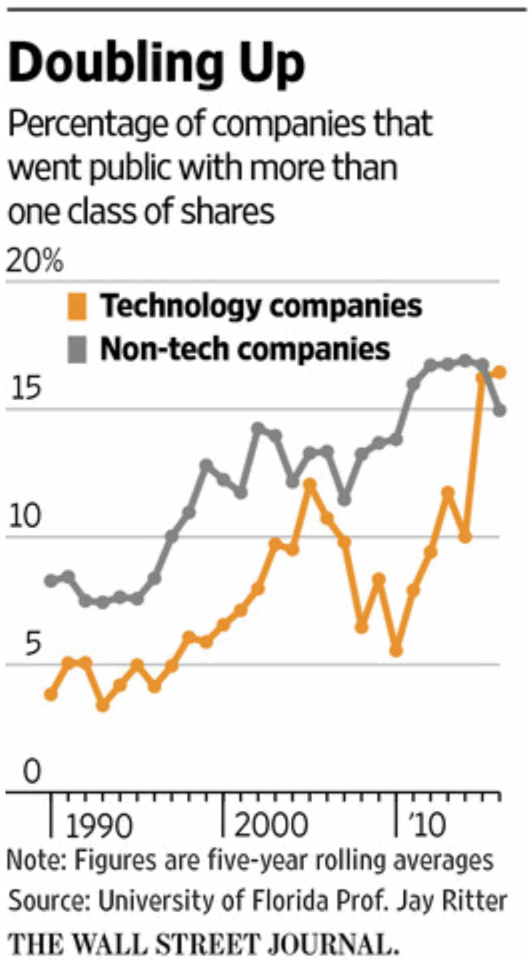
Snap told the dozens of investment bankers at the meeting that it wanted the IPO to include only nonvoting shares, people familiar with the meeting said. No one raised objections or questions about the plan, a sign that the bankers believed few prospective investors would balk.

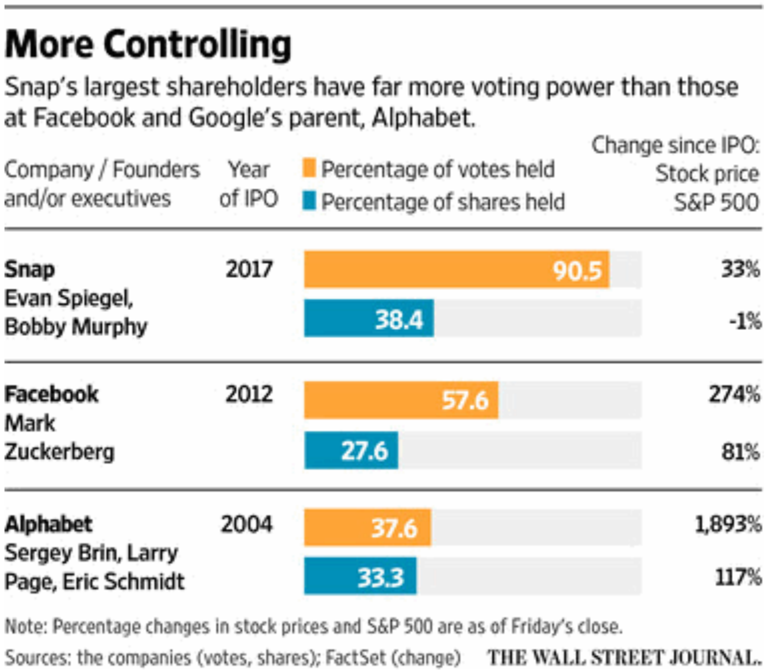
At a lunch meeting with potential IPO investors in New York in late February, Mr. Spiegel and Snap's chief financial officer and chief strategy officer were asked mostly about the company's growth prospects and ability to ward off competition, according to people who went to the meeting.

Snap's near-absolute control by Messrs. Spiegel and Murphy and their decision to sell shares with no voting power came up only in a small number of private meetings with potential investors, the people said.

A person familiar with the initial public offering said he knows of only one investment fund that could have bought Snap shares but decided not to because of the 90.5% voting stake held by the two co-founders, who hold 38.4% of the company's shares.

Snap got orders for more than 10 times as many shares as the number that were for sale in the IPO.





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THE WALL STREET JOURNAL.
U.S. EDITION

Trades Change With Political Tide --- Biotech loses favor but retail stocks find new fans as investors assess policy currents

By Gunjan Banerji
403 words
4 April 2017
The Wall Street Journal
J
B12
English

As the White House works to enact policy changes, investors have shifted positions, dropping more **bullish** stances on financial and midcap stocks and adopting more **bearish** views on investment-grade bonds and biotechnology companies.

Derivatives and short positions on exchange-traded products that track stock sectors and asset classes compiled by Societe Generale SA depict fluctuating views on future growth and potential changes to tax, trade and health-care policies. The data compare positioning two weeks after the election, as the so-called Trump trade was getting into full swing, with positioning on March 28, about four months later.

"We've seen a rotation of market sentiment," said Ramon Verastegui, the New York-based head of flow strategy and solutions at Societe Generale. "We've moved from the optimism of the campaign message into the reality of governing." Investors have realized the difficulty of passing new laws, he said.

Options give investors the right to buy or sell securities at an agreed-upon price at a later date. They can be used to place outright bets that an asset will go up or down, but also as a protective hedge on existing holdings.

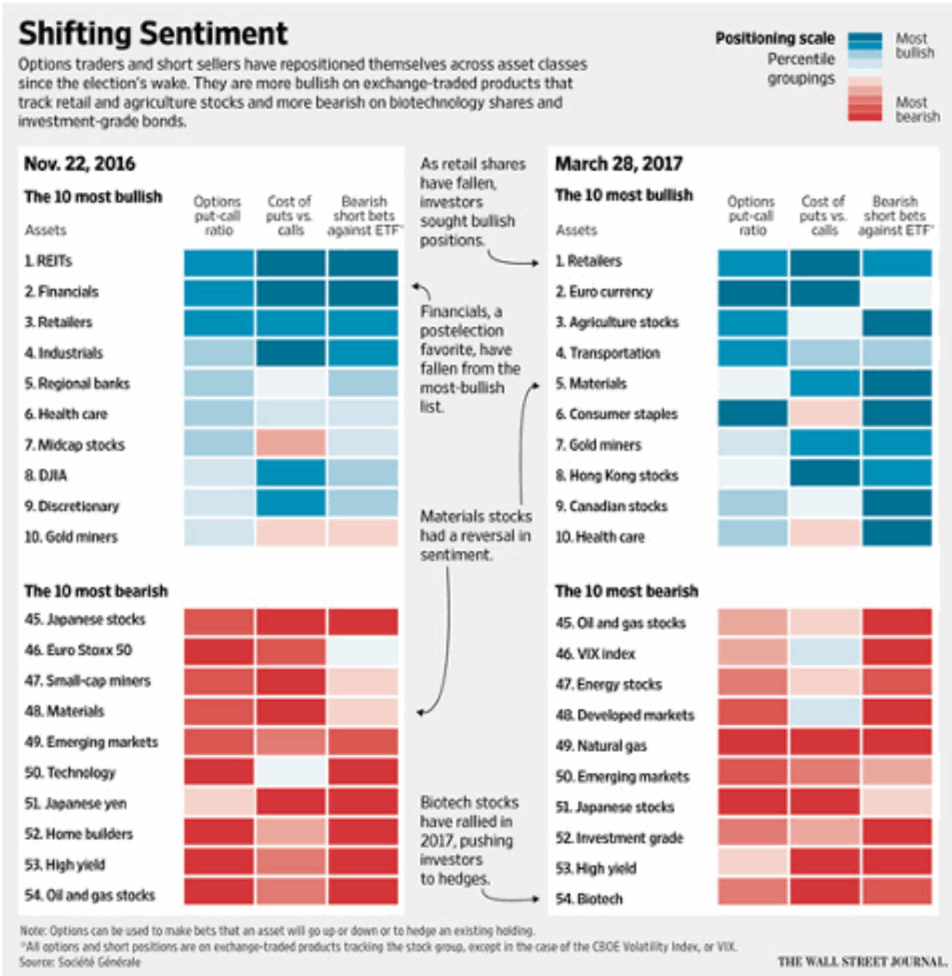
Options traders displayed **bullish** views on some corners of the market, such as the euro currency and Canadian equities.

Mr. Verastegui examined the ratio of **bearish** put options versus **bullish** call contracts, the relative cost of options -- a measure known as skew -- and wagers that bet the price of an equity will fall. He also looked at net positioning on futures for some assets.

After the November election, derivatives and short positions signaled investors favored sectors such as financial and smaller U.S. stocks on hopes that looser regulations and tax cuts would benefit banks and more domestically oriented companies. But a setback for the Trump administration in repealing the Affordable Care Act has led some investors to re-evaluate expectations of policy changes.

The Societe Generale data brought a few surprises, such as **bullish** positioning on the downtrodden retail sector. Meanwhile, investors maintained **bearish** views on high-yield bonds, the data show.

A historically calm first quarter also drove them to bet against future market turbulence. They placed **bearish** wagers on the CBOE**Volatility** Index, known as the VIX.



Document J000000020170404ed440001t

THE WALL STREET JOURNAL.
U.S. EDITION

Equities -- Ahead of the Tape: Volatility Warning Has a Different Ring This Time Around

By Steven Russolillo
450 words
4 April 2017
The Wall Street Journal
J
B11
English

What a difference a year makes.

When J.P. Morgan Chase & Co. unveils its highly anticipated annual share-holder letter on Tuesday, it will likely take on a different tone about **financial markets** than from a year ago.

That was when Chief Executive James Dimon warned that "extreme **volatility**" in stocks and bonds would likely persist. The opposite played out, with stocks recently capping one of the quietest quarters on record.

Whether it was the ramifications of Brexit and the U.S. election or even flare-ups of geopolitical turmoil such as this week's subway blast in Russia that killed several people, very little seems to faze markets these days.

That resilience, seen by some as positive, is rightly unnerving to students of market history.

Measures of **volatility** are historically low. The CBOE's **Volatility** Index, the VIX, averaged 11.7 in the first quarter.

That was the lowest start to a year in its history and the second lowest overall since the index's inception in 1990, according to Krag Gregory of Goldman Sachs. The VIX is based on **S&P 500** options prices and reflects a sort of cost of insurance.

Extremely low readings have, on average, coincided with subpar returns while very high ones have been good times to buy stocks. Yet there are many examples of a low VIX being followed by perfectly decent conditions for weeks, months and even years. Today's level is low but nowhere near a record.

What stands out now, though, is so-called realized **volatility** -- how sharply the market moved in the recent past. **S&P 500** quarterly realized **volatility** was 6.7 in the first three months of the year, the lowest start to a year since 1965 and the fourth-lowest since the Great Depression, according to Goldman.

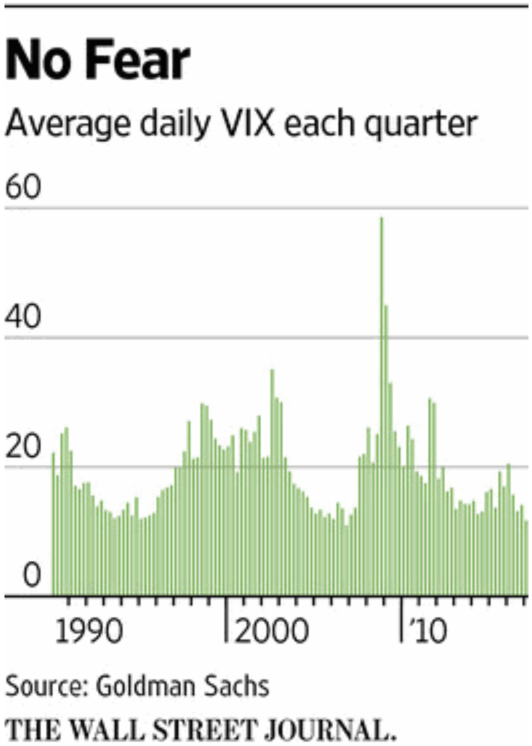
The **S&P 500** only had one drop of more than 1% during the first three months of the year.

Realized **volatility** is usually lower than the VIX and the gap between two today isn't out of the ordinary.

But previous instances in which realized **volatility** was at comparably low levels don't bring to mind pleasant memories. Five of the 10 lowest first-quarter readings of realized **volatility** came in 1962 through 1966, the "go-go years" that preceded a 16-year secular **bear market**.

As Mr. Dimon surely knows, markets love to climb a wall of worry. The **S&P 500** has returned over 15% since his cautious letter a year ago.

There is precious little anxiety to fuel a repeat.



Document J000000020170404ed440001p

The New York Times

Business/Financial Desk; SECTB
Slow Car Sales Send a Chill Through the Markets

By THE ASSOCIATED PRESS
672 words
4 April 2017
The New York Times
NYTF
Late Edition - Final
4
English

The major stock indexes started the second quarter with a thud Monday after carmakers reported disappointing March sales, a possible warning about a slowdown in consumer spending. But a late recovery helped stocks avoid bigger losses.

Stocks tumbled in morning trading after Ford, General Motors and other automakers reported that passenger car sales slumped last month. Spending by shoppers is a critical part of economic growth, and investors found themselves wondering if spending will keep growing as it has in recent years.

Shares of small companies fell, as their performance is closely linked to economic growth in the United States.

While stocks recovered most of their earlier losses, the weak car sales still sent a chill through the market. Steven Ricchiuto, chief United States economist for Mizuho, said auto sales have been a major part of the economy recently. That in turn might mean manufacturers and other companies will not open as many factories or hire as many workers.

"If we're starting to lose some of the momentum on autos, where is the momentum going to come from?" he asked.

The **Standard & Poor's 500-stockindex** fell as much as 18 points around midday, but finished down just 3.88 points, or 0.2 percent, at 2,358.84. The **Dow Jonesindustrial average** lost as much as 145 points but wound up with a loss of 13.01 points, or 0.1 percent, to 20,650.21.

The **Nasdaq composite** shed 17.06 points, or 0.3 percent, to 5,894.68. The Russell 2000 index of small-company stocks gave up 16.25 points, or 1.2 percent, to 1,369.67.

Ford, Fiat Chrysler, Toyota and Honda all said that their overall sales decreased in March as passenger car sales kept falling. G.M. reported its sales were up thanks to stronger sport utility vehicle sales, but its totals were not as good as experts expected.

Fiat Chrysler lost 52 cents, or 4.8 percent, to $10.41 and General Motors stock fell $1.19, or 3.4 percent, to $34.17. Ford gave up 20 cents, or 1.7 percent, to $11.44.

Auto parts and rental car companies also tumbled. The car-parts retailer O'Reilly Automotive dropped $11.15, or 4.1 percent, to $258.69. The retailer AutoNation shed $1.45, or 3.1 percent, to $40.84 and Goodyear Tire slid 73 cents, or 2 percent, to $35.28.

Tesla said over the weekend that its deliveries jumped 69 percent in the first quarter to a record 25,000. The electric car company's stock climbed $20.22, or 7.3 percent, to $298.52. Tesla's market capitalization rose to $48.7 billion, greater than Ford's.

Bond prices rose sharply. The yield on the **10-year Treasury** note fell to 2.32 percent, from 2.39 percent. When bond yields fall, interest rates also decrease, and that drags down the outlook on banks and financial institutions.

As investors felt less certain about the performance of the economy, they sold stocks in companies that do the best when the economy is growing quickly. Retailers, technology companies and industrial companies fell more than the rest of the market on Monday.

The dollar sank to 110.84 yen from 111.32 yen and the euro rose to $1.0671 from $1.0669.

Benchmark crude lost 36 cents to $50.24 a barrel in New York.

Health care companies finished with small gains as big health insurers traded higher. Cigna added $2.90, or 2 percent, to $149.39 and Humana picked up $3.63, or 1.8 percent, to $209.77. Aetna and UnitedHealth each rose about 1 percent.

The price of gold futures for April rose $3.50 to $1,250.80 an ounce.

CHART: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Monday. (Source: Reuters)

Document NYTF000020170404ed4400056

THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Factory Activity Expands

By Ben Leubsdorf
388 words
4 April 2017
The Wall Street Journal
J
A2
English

U.S. manufacturing activity expanded at a healthy pace in March, while factories are facing rising raw-materials costs that could lift broader inflation.

The Institute for Supply Management on Monday said its index of factory activity fell to 57.2 in March from 57.7 in February, which had been the strongest reading since August 2014. Despite the downshift, the gauge marked a seventh consecutive month of industrial expansion.

"It's often all about attitude rather than fundamentals," said Bradley Holcomb, who oversees the ISM survey. "The prospects of lower tax rates and reduced encumbrances from regulation are helping to drive this system."

One highlight in Monday's report: The index tracking prices paid by companies for their raw materials rose to its highest level since May 2011. Broad U.S. inflation gauges have firmed in recent months, and the Federal Reserve's preferred price gauge in February exceeded the central bank's 2% annual target for the first time in nearly five years.

More than has been the norm in recent years, "companies are seemingly feeling they can pass prices along" to their customers, Mr. Holcomb said.

While indexes for new orders and production pulled back in March, the employment index rose to its highest level since June 2011. The index tracking new export orders hit its highest level since November 2013, signaling stronger global growth.

Among 18 industries tracked in Monday's report, 17 reported growth during March and one said there was no change in conditions.

The U.S. factory sector has been on the upswing after a rough patch in 2015 and early 2016, when falling **oil prices** squeezed energy firms and a strong dollar depressed demand for U.S. products by making them more expensive for foreign customers.

The rebound in actual production has been less dramatic than the surge in sentiment. Manufacturing production was up 1.3% in February from a year earlier, according to Federal Reserve data.

Monday's report was "consistent with other recent surveys on manufacturing activity, highlighting strong momentum since the presidential elections last November," Barclays economist Blerina Uruci said in a note to clients. "However, this has not translated into an acceleration in manufacturing output of the same scale."

Document J000000020170404ed440002f

The New York Times

Business Day
Tesla Passes Ford in Market Value as Investors Bet on the Future

By BILL VLASIC and NEAL E. BOUDETTE
1,361 words
3 April 2017
08:43 PM
NYTimes.com Feed
NYTFEED
English

DETROIT — The record pace of auto sales in the United States is slowing down, leaving investors increasingly **bearish** on auto stocks.

But there is one exception. Tesla, the electric-vehicle upstart, continues to surge.

On Monday, Tesla surpassed Ford Motor in market value for the first time and moved within striking distance of General Motors, starkly illustrating the growing gap in investors' optimism over its future versus the prospects for the traditional carmakers from Detroit.

While G.M. and Ford may have strong profits and healthy balance sheets, Tesla offers something Wall Street loves much more: the potential for dramatic growth.

"Investors want something that is going to go up in orders of magnitude in six months to six years, and Tesla is that story," said Karl Brauer, a senior editor at Kelley Blue Book. "Nobody thinks Ford or G.M. is going to do that."

Tesla's chief executive, Elon Musk, has shattered the conventional wisdom that automakers should be viewed as a stable, reliable investment. Instead, he promotes his California-based company as a dynamic vehicle for growth, despite the risks and challenges ahead of it.

In his vision, Tesla is going to change the world, and is primed to cash in on the two transformative trends in the industry: the shift to electric vehicles as part of a broader societal move to cleaner energy, and the advent of automated driving.

"Tesla is very vocal in talking about how they are positioned as we move from humans driving cars powered by gasoline to computers driving cars powered by batteries," Mr. Brauer said.

At the end of Monday's trading, Tesla reached a market capitalization of $48.7 billion compared with Ford's $45.6 billion, according to Bloomberg. General Motors was at $51.2 billion.

Tesla's market milestone came at the intersection of two countervailing trends. On Sunday, Tesla said its first-quarter sales were up 69 percent from the same period a year ago. On Monday, monthly sales figures for the conventional automakers showed them struggling to meet last March's performance.

That sent stocks in the Detroit automakers down for the day — G.M. was off 3.4 percent and Ford 1.7 percent — while Tesla's stock soared by more than 7 percent.

Despite the recent boom years for the American motor industry, in which G.M. and Ford have been the biggest beneficiaries, executives are working overtime just to convince Wall Street that their business model can produce incremental improvements.

Mr. Brauer said that reception was unfortunate for G.M. and Ford because "the reality is, they're as financially healthy as they've ever been, and they're in very good position for the future."

Both companies have rebounded steadily since the recession, although G.M. needed a bankruptcy filing and $49 billion government bailout to recover. And both have taken advantage of the pent-up consumer demand for new vehicles in recent years, especially for pickup trucks and sport utility vehicles.

But neither automaker has convinced Wall Street that it has shed its boom-or-bust reputation tied to broader economic cycles, or is at the forefront of new technology being developed for self-driving vehicles and electric cars.

The Detroit automakers are hardly sitting still in their efforts to improve current results and future prospects. G.M. made the momentous decision recently to sell its money-losing European division, and Ford is adding jobs to accelerate its shift toward electric and autonomous vehicles. Both automakers have bought technology companies to bolster their in-house engineering expertise, and their executives have embraced the chance to work with the Trump administration on scaling back government regulations.

All the same, both companies are ranked near the bottom in price-to-earnings ratios for the companies that make up the **Standard & Poor**'**s500 index**.

Last week, one of G.M.'s large investors, the hedge fund Greenlight Capital, proposed the creation of two classes of stock — one that strictly pays dividends, and a second tied directly to earnings and future growth in areas like self-driving cars and ride-hailing services.

G.M. directors flatly rejected the idea as too risky, and the chief executive, Mary Barra, said there was no need to deviate from "executing a plan that is delivering record financial and operation results." Yet while industry analysts generally supported the decision, G.M.'s share price barely budged on the news that it was staying the course.

And Monday's data, showing total industry sales off 1.6 percent, underscored that overall demand for new vehicles is slipping despite a bevy of discounts and incentives. G.M. showed a slight gain from the prior March, while Ford sales fell sharply. Several other automakers, such as Toyota, Fiat Chrysler and Hyundai, also reported declines.

Of course, based on the number of cars actually being made, they are in a different league from Tesla. G.M. sold 256,000 vehicles in the United States last month, and Ford 234,000. Tesla's sales for the same period: 4,000.

But it was the growth and the outlook, not the raw numbers, that moved the markets. Investors tend to look at Tesla as a technology start-up rather than an automaker.

"It's almost like Tesla is positioned in people's minds as an energy storage company that happens to put most of its batteries on wheels," said Andrew Stewart, chief investment officer at Exchange Capital Management, an investment firm in Ann Arbor, Mich.

Tesla is also prone to more **volatile** stock movements because Mr. Musk and other board members and top executives own a large chunk of shares, leaving a relative few that change hands frequently, he said.

"Whenever there's interesting news, the people trying to buy are buying from a limited number of people who are willing to sell," Mr. Stewart said. "While you have Ford and G.M., and they're these decades-old, more-institutional industrial companies."

Because of Tesla's acclaim and the limited number of shares being traded, the company draws more individual investors, and its share price tends to spike whenever Tesla or Mr. Musk makes news.

This week's jump in its **stock price** was set off by a brief news release on Sunday that said Tesla had delivered more than 25,000 cars in the first quarter, exceeding analysts' estimates.

While Tesla may enjoy the favor of investors, it still faces some daunting hurdles to reach its goals. This summer, the company is supposed to start making the Model 3, a compact electric model that Tesla plans to sell for $35,000 and produce in significantly higher volumes. It currently offers two vehicles, the Model S luxury sedan and the Model X S.U.V., both of which sell for $90,000 or more when options are added in. (People who buy its cars benefit from a $7,500 federal tax credit on environmentally friendly cars, a selling point with an uncertain future.)

Once Tesla begins producing the Model 3, Mr. Musk expects production to ramp up quickly, with a goal of making 500,000 cars a year by 2018. Achieving that target will not be easy, Mr. Brauer said. "That's five times growth in volume," he said. "I don't know of any car company that's ever done that in a two-year period."

Bill Vlasic reported from Detroit, and Neal E. Boudette from Ann Arbor, Mich.

* Tesla Reports Jump in Vehicle Production but Aims for Much More

* Ford to Expand U.S. Production of Trucks and S.U.V.s

* Trump, Easing Emissions Rule, Vows to Expand Auto Jobs

* Automakers Near a Victory on Rollback of Fuel Standards

Ford Motor's truck plant in Louisville, Ky. Ford's sales fell sharply in March, and its **stock price** was down 1.7 percent on Monday. | Luke Sharrett/Bloomberg | A General Motors truck being loaded onto a carrier at a plant in Wentzville, Mo., in 2014. | Melissa Vaeth for General Motors

Document NYTFEED020170404ed44000b5

The New York Times

Business Day
Within Hours, Plans for a Quiet Corner of China Send Home Prices Soaring

By AILIN TANG
903 words
3 April 2017
10:52 AM
NYTimes.com Feed
NYTFEED
English

SHANGHAI — Until it became the subject of China's latest property-buying frenzy, sending shares of construction companies soaring and leading the authorities to close local real estate offices, the area around Xiongxian County was known primarily for its donkey burgers.

The residential and industrial area roughly 80 miles south of Beijing barely registers on China's economic map. It consists mostly of apartment buildings, villages, wetlands and more than a few empty fields.

But on Saturday, China declared that an area that sprawls across three local counties will someday become Xiongan New Area, a gleaming economic powerhouse reminiscent of earlier developments that helped put China's economy on its fast-growth trajectory. When completed, it will cover nearly 800 square miles, offer favorable regulation to businesses and become a modern urban area key to redeveloping the Rust Belt around Beijing.

According to Xi Jinping, China's president, as quoted by official Chinese news media, Xiongan will become "a demonstration area for innovative development."

For now, it has become the latest example of the frothiness and unpredictability of the Chinese property market — a market that many experts warn could have severe repercussions for China and the world if it stumbles.

Local Chinese officials have moved to freeze purchases and make other moves to cool the local market, according to local real estate agents and news media reports. Chinese social media showed photos of new property developments and real-estate offices with signs saying they had been temporarily closed.

In the town of Baigou, about 12 miles north of Xiongxian, prices for an apartment jumped to 12,000 renminbi per square meter — or more than $160 per square foot — from 8,750 renminbi within hours after the announcement, according to Wen Yunlong, a local real estate agency. On Sunday, it rose by another 3,000 renminbi, he said.

"Prices have gone up every day," Mr. Wen said.

Since Saturday, he said, potential buyers had lined up at his agency. "I have been working from 8 a.m. to 10 p.m. these days," he said. "Last night, I worked till midnight."

He added: "I haven't seen so many people here before. It went crazy."

On Monday, shares of the BBMG Corporation, a Beijing cement maker, saw its Hong Kong-traded shares jump nearly 35 percent. Other Hong Kong-traded property-related firms active in the area saw their shares rise by smaller amounts. Markets in China were closed on Monday for a holiday.

Property is a major investment vehicle in China, where the **stock market** has long been seen as unreliable and where the authorities tightly limit how much money can be sent outside the country. That has led to surging prices — and worries about bubbles — in a number of cities. While mortgages in China are not as big or as common as they are in the United States, a surge of lending to home buyers has prompted worries about what might happen if China's property market bursts.

In declaring its intent to build Xiongan, the Chinese government invited comparisons to the southern city of Shenzhen and Shanghai's Pudong area. Shenzhen was part of China's earliest experiments with private enterprise after the death of Mao Zedong, and it remains one of the richest parts of China. Pudong, home of many of the gleaming skyscrapers that define Shanghai's skyline, became one of China's most successful and high-profile development projects.

Xiongan also fits into China's grand plan to create a vast urban area uniting the capital city of Beijing with the nearby port city of Tianjin and with Hebei province, the industrial province between them. Called Jing-Jin-Ji, the area — which would include Xiongan — will become a hive of economic activity that is intended to replace Hebei's dependence on smokestack industries like steel and put the region on a path to rival Shanghai and Shenzhen.

Right now, the Xiongan area has less than 1 percent of the economic output of Beijing, according to state media. It is part of an area known for its donkey burgers — sandwiches with roasted donkey meat that tastes something like pastrami.

Owen Li took the morning train on Monday from Beijing to sample donkey burgers but had an unusually hard time buying a ticket. Once in Baigou, where property sales had not been shut down, Mr. Li noticed that many cars on the street were brands like Audi, BMW and Mercedes-Benz.

He then met many potential apartment buyers from out of town and began talking to them. Mr. Li said he was tempted to join them, though he wondered at Xiongan's long-term prospects.

"If I had the extra money, I would buy several," he said. "It's cheap and has room for appreciation. But maybe not this time."

* Xi Jinping's Failed Promises Dim Hopes for Economic Change in 2nd Term

* In China, 'Disney' Deals Turn Out to Be Fantasy

* Trump Talks Tough on U.S.-China Trade but Delays Real Action

* China Pushes Legal Overhaul That Would Bolster State Power

* In Rare Move, Chinese Think Tank Criticizes Tepid Pace of Reform

A government seal blocks the gates of a development in Hebei province after an order banned new property sales in a special economic zone there. | Jason Lee/Reuters

Document NYTFEED020170403ed43004ed

THE WALL STREET JOURNAL.
U.S. EDITION

Equities -- Ahead of the Tape: A Mixed Blessing in Manufacturing

By Steven Russolillo
441 words
3 April 2017
The Wall Street Journal
J
B11
English

The president's pledge to revitalize American manufacturing is already bearing fruit in recent factory data. **Stock-market** investors like that. They may be less pleased if it emboldens a faster rate-tightening cycle.

More evidence of manufacturing's latest rebound is expected Monday when the Institute for Supply Management releases its monthly report. Factory activity has expanded significantly in recent months, giving hope that the U.S. economy could also be poised for faster growth as well.

Economists polled by The Wall Street Journal estimate that the ISM's manufacturing index hit 57.5 in March, comparable to the 57.7 reading in the prior month. That would mark the seventh consecutive month the index has been above 50, matching the longest streak in six years. Readings above 50 imply customers' orders and factory production are expanding.

ISM said last month that its index at current levels tends to correspond with an economy growing at 4.5% annually. That would be more than twice the economy's average annual growth in the current expansion.

Diffusion surveys such as ISM's garner attention because they usually come before government data and ask respondents about whether conditions are improving, not their absolute level. It is no coincidence then that they have surged under President Donald Trump, who has focused on reviving manufacturing employment.

But evidence of a rebound in activity was mounting before the election. Rising **oil prices** and stabilizing growth around the world also have contributed to the improved manufacturing conditions. Over the past 30 years, the ISM indicator has been at or above 57 only 15% of the time. Just like now, almost all of those instances occurred as the Federal Reserve was raising interest rates.

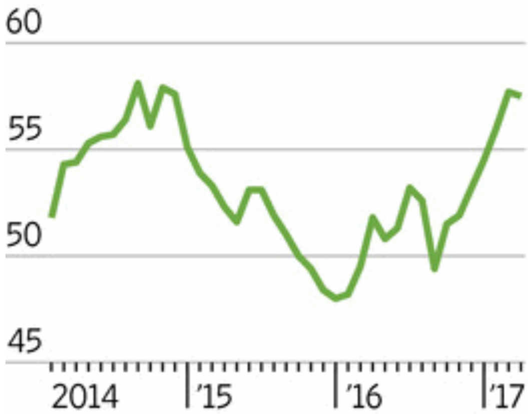
Before the financial crisis, the ISM index jumped above 57 in late 2003 and stayed above it for about a year. That coincided with the start of the Fed's tightening cycle which spanned from 2004 through 2006. The ISM index was also above 57 in late 1999, most of 1994, and a majority of 1987. Not coincidentally, all three periods came during Fed tightening cycles.

The Fed only has raised interest rates three times since the financial crisis, including once last month. Now the debate centers on whether the central bank will increase rates either two or three more times over the course of the year.

Stock investors cheering the bounce in manufacturing sentiment need to recognize that every action has a reaction. Higher rates usually aren't a reason to celebrate.

Good Times

ISM Manufacturing Index, monthly



Note: March is consensus forecast of analysts polled by WSJ.

Source: Institute for Supply Management

THE WALL STREET JOURNAL.

Document J000000020170403ed430000s

THE WALL STREET JOURNAL.
U.S. EDITION

Markets Review & Outlook: First Quarter --- Bargain-Hunting Investors Pile Into Emerging Markets

By Ira Iosebashvili
722 words
3 April 2017
The Wall Street Journal
J
B8
English

Investors are once again piling into emerging markets, drawn by an improving global economic outlook and favorable stock valuations.

The MSCI Emerging Markets **stock index** rose to a nearly two-year high in March, led by rallies in China, South Korea and India. The Mexican peso is within striking distance of its biggest monthly gain in more than two decades, while the South African rand, Russian ruble and Brazilian real are up 30% or more against the dollar from their lows of 2016. Some $30 billion flowed into emerging-market assets in March, the biggest inflows since January 2015, according to the Institute of International Finance.

Even following those gains, many investors believe developing markets promise potentially better returns than the U.S., where a postelection rally has driven the Dow industrials and other major indexes to new highs and pushed price/earnings ratios further above their long-run averages.

Emerging-market stocks are trading at a 26% discount to those in developed markets, based on estimated earnings over the next 12 months, analysts at UBS Wealth Management said. The average discount over the past 10 years has been 17%.

Bond yields have fallen in emerging markets during a yearlong rally but remain well above the ultralow levels prevailing in the U.S., Japan and Europe.

"Emerging markets are one of the few places in the world where valuations still look cheap," said Ryan Caldwell, chief investment officer at Chiron Investment Management. "There's just not a lot of value left in developed markets."

Emerging markets' rally reflects expectations that a tepid global expansion will pick up speed this year with the Federal Reserve only gradually tightening policy in the U.S. This "goldilocks" outlook should support asset prices while limiting **volatility** in markets, many analysts say.

Big developing economies such as Brazil and Russia are emerging from recessions, while China appears to have slowed an economic decline through massive stimulus programs. A pickup in Europe and Asia has boosted demand for commodities, a key export for many emerging markets.

A weaker dollar is helping as well. Expectations that the new presidential administration will boost the economy through fiscal stimulus pushed the dollar to a 14-year high in the weeks after the election. But the U.S. currency fell to its lowest level since November on March 27, after the White House failed to repeal the Affordable Care Act, throwing the rest of President Donald Trump's legislative agenda into doubt.

The dollar's weakness is good news for emerging-market economies that have borrowed heavily in dollars over the years and fear that a strengthening U.S. currency will make it more difficult to service those obligations.

Mr. Caldwell said his fund owns Chinese stocks such as online commerce company Alibaba Group Holding Ltd. and Russian financials, including state-owned lender Sberbank. It also has purchased shares in Indian, Czech and Polish companies, he said.

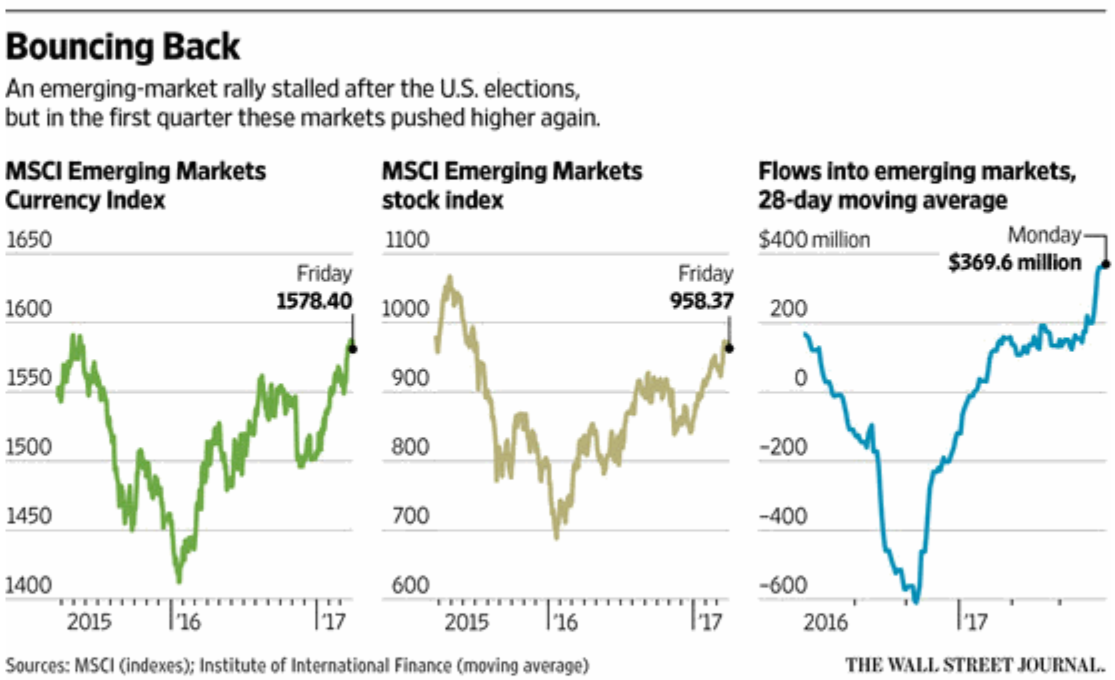
UBS Wealth Management increased its position in the Mexican peso last month, confident that the battered currency will benefit from the combination of a more dovish Fed and a series of rate increases by the Bank of Mexico that have made the currency an attractive target for yield-seeking investors.

The peso fell to a record low after the U.S. election on fears that Mr. Trump would push through protectionist policies that would damage Mexico's export-dependent economy.

Those concerns have abated in recent weeks on a more conciliatory tone from the administration in regards to trade policy. The peso is up nearly 11% from its January lows. The iShares MSCI Mexico Capped exchange-traded fund, which invests in the nation's publicly traded companies, is up more than 16% this year.

"We think the rhetoric has improved," said Jorge Mariscal, emerging-market chief investment officer at UBS Wealth Management. "There was uncertainty, but now it looks like Mexico and the U.S. are more likely to do something constructive."

There are plenty of reasons to be cautious in emerging markets, including a history of hard-to-predict boom-and-bust cycles. The MSCI Emerging Markets Index declined for three years in a row before notching a gain in 2016.



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Document J000000020170403ed430000n

THE WALL STREET JOURNAL.
U.S. EDITION

Markets Brush Off U.S. Trade Fears

By Riva Gold and Georgi Kantchev
912 words
3 April 2017
The Wall Street Journal
J
B1
English

Investors are dialing back expectations for a major shift in U.S. trade policy, fueling a sharp rebound in the prices of some early targets of President Donald Trump's rhetoric.

The shares of U.S. multinational companies, the Mexican peso and emerging-market stocks and currencies rank among the best-performing assets in the just-completed first quarter, reversing the trends that seized **financial markets** in the two months after Mr. Trump's election.

Heavy selling in the peso, underperformance of multinational firms and heavy outflows from emerging markets, particularly in Asia, had in part reflected investor expectations that the new presidential administration would radically alter major trade agreements, potentially dealing a blow to the economies of U.S. trade partners and further slowing the flow of goods and services around the globe.

Now, investors aren't so sure. U.S. multinationals, particularly companies in the trade-sensitive technology sector, have outperformed the market. The Mexican peso strengthened more than any other major currency this year, and emerging-market stocks have fared better than those in the U.S.

The terms of trade were at the heart of a campaign in which Mr. Trump pledged to introduce higher tariffs on imports from China and Mexico that he said put U.S. workers at a disadvantage. Following his election, he quickly appointed economist Peter Navarro, an ardent skeptic of trade with China, to head the White House National Trade Council and pulled the U.S. out of negotiations to form the Trans-Pacific Partnership, a 12-nation trade deal.

There are already signs the White House is backtracking on some of the antitrade rhetoric on which Mr. Trump campaigned. The administration, for instance, recently signaled it would seek mostly modest changes to the North American Free Trade Agreement in coming negotiations with Mexico and Canada, a deal Mr. Trump called a "disaster" during the campaign.

"The fact that there hasn't been much saber rattling there has been greeted favorably by the market," said David Donabedian, chief investment officer at CIBC Atlantic Trust.

The recent failure of Mr. Trump's health-care bill has also, for many investors, highlighted divisions in Congress that make some of the administration's more controversial policies appear less likely.

"I think we had some nightmares of a sort of big bang trade agenda including labeling China a currency manipulator and talk of a rapid imposition of tariffs, and we have now realized it's going to be much more nuanced," said Guy Monson, chief investment officer at asset manager Sarasin & Partners.

In February, 34% of fund managers surveyed by Bank America Merrill Lynch saw protectionist policies as the most likely catalyst to end the eight-year equity **bull market**. And in March, just 21% cited protectionism as their big fear, ranking below worries over higher interest rates or weaker earnings.

Few investors now see protectionist measures becoming policy soon, and many believe that those enacted will be more moderate than first thought. The administration is likely to take the concerns of the corporate sector seriously before major dramatic shifts in trade policy, they say.

"Protectionism is not a straightforward win for the U.S., so investors don't see it as the big threat it once was," said Kevin Daly, a fund manager at Aberdeen Asset Management.

While some of this year's market moves can be attributed to a weaker dollar, shifting earnings prospects and higher global growth, waning trade fears have been an important factor, analysts say.

The Trump administration's pursuit of a broad "America First" agenda could still ignite global trade conflicts, hurting export economies and global companies as they struggle to reconfigure complex supply chains.

In March, U.S. Treasury Secretary Steven Mnuchin rebuffed a concerted push by finance ministers and central bankers from the Group of 20 largest economies to disavow protectionism.

Mr. Trump recently warned on Twitter that a coming meeting with China "will be a very difficult one."

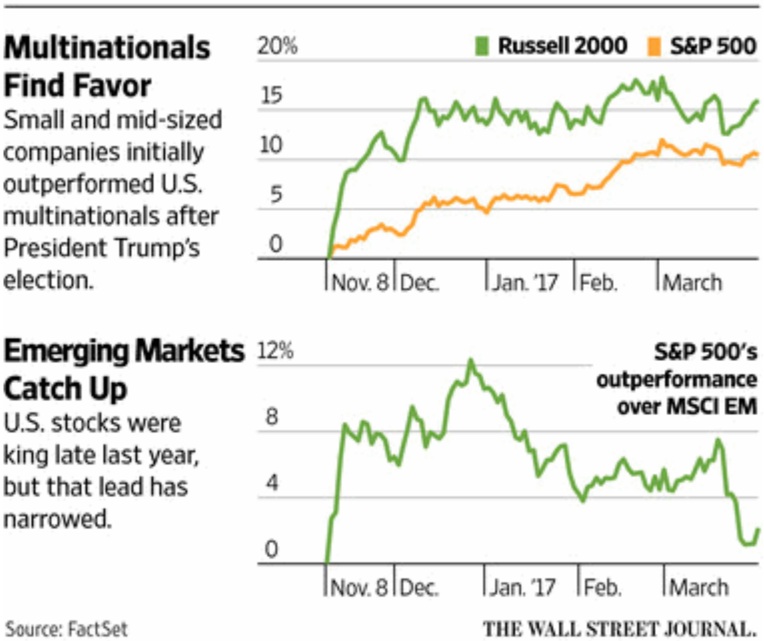
"Protectionism could spark at any point, but for now the rhetoric out of Washington is quite subdued and that is suppressing **volatility**," said Richard Benson, co-head of portfolio investments at $15 billion fund Millennium Global Investments.

Among investors in key U.S. trading partners, concerns over a global trade clampdown have eased. The Mexican peso is up nearly 11% against the dollar this year, nearly back to pre-election levels, and the iShares MSCI Mexico Capped exchange-traded fund, which tracks publicly traded companies, has climbed roughly 16%.

Shares of U.S. multinationals have also started to pick up pace. Shortly after the November election, small-capitalization stocks outperformed larger ones, in part as investors bet that domestically focused companies would do better than multinationals in the event of trade friction.

The Russell 2000 index of small-company shares jumped nearly 14% between the November election and the end of last year, compared with a 4.6% climb for the **S&P 500**. But the Russell 2000 is up just 2.1% on the year, compared with a 5.5% gain for the **S&P 500**.

The technology sector, among the largest exporters and importers in the U.S., was perceived as a potential loser from changes to trade and immigration policies. It is now the best performer in the **S&P 500**, up around 12% this year.



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Document J000000020170403ed430001w

The New York Times

Foreign Desk; SECTA
Corn Becomes Bargaining Chip for Mexico as Nafta Talks Near

By KIRK SEMPLE; Meredith Hoffman contributed reporting from San Antonio.
1,556 words
3 April 2017
The New York Times
NYTF
Late Edition - Final
1
English

MEXICO CITY -- From the hundreds of millions of tortillas consumed every year to the countless tons of corn-enriched feed that fattens livestock and poultry, corn is perhaps Mexico's most important agricultural commodity, one at the center of its life and culture.

Now corn has taken on a new role -- as a powerful lever for Mexican officials in the run-up to talks over Nafta, the North American Free Trade Agreement.

The reason: Much of the corn that Mexico consumes comes from the United States, making it America's top agricultural export to its southern neighbor. And even though President Trump appears to be pulling back from his vows to completely overhaul Nafta, Mexico has taken his threats to heart and has begun flexing its own muscle.

The Mexican government is exploring buying its corn elsewhere -- including Argentina or Brazil -- as well as increasing domestic production. In a fit of political pique, a Mexican senator even submitted a bill to eliminate corn purchases from the United States within three years.

American corn shipments to Mexico totaled nearly $2.6 billion last year and are part of an elaborate agricultural trade relationship between the two nations that has helped to interlace their economies. But though the corn business is a tiny fraction of the overall $525 billion in annual trade between the two countries, it has gained outsize importance and become something of a symbol for the nations' economic codependence.

The prospect that the United States could lose its largest foreign market for corn and other key products has shaken farming communities throughout the American Midwest, where corn production is a vital part of the economy. The threat is particularly unsettling for many residents of the Corn Belt because much of the region voted overwhelmingly for Mr. Trump in the presidential election.

''If we lose Mexico as a customer, it will be absolutely devastating to the ag economy,'' said Philip Gordon, 68, who grows corn, soybeans and wheat on a farm in Saline, Mich., that has been in his family for 140 years.

Mr. Gordon said he planned to call Mr. Trump at the White House ''and remind him we need trade.''

''He's a businessman,'' Mr. Gordon said. ''He understands how much support for him came from the agricultural community.''

A Trump administration document that circulated on Capitol Hill last week appeared to present a more moderate approach to Nafta negotiations, seeking to preserve much of the existing agreement and recognizing the interconnectedness of the two nations' economies, cultures and histories.

Still, people involved in agricultural trade on both sides of the border said they were not about to rest easy on the basis of the document, which even the White House seemed to disavow.

''It's really hard to track with this president,'' said Todd Hultman, a grains analyst at DTN, an agriculture news and data service based in Omaha. ''The campaign rhetoric has been really over the top. But what actions are really going to come from the White House is still a mystery.''

Mr. Trump has repeatedly asserted that Mexico has been the big winner under Nafta, and the United States the loser. But many leaders in the agricultural and food industries in the United States -- not just in the corn market -- hope Mr. Trump does not disrupt the agreement too much.

''When you mix politics with economics, you hope that economics influences your political decisions and not vice versa,'' said Luis A. Ribera, associate professor of agricultural economics and director of the Center for North American Studies at Texas A&M University.

Many leaders in the American agriculture industry say Nafta has been a boon for farmers in the United States, particularly because it opened up new foreign markets and helped to expand agricultural exports more than fourfold since the agreement was signed.

In 2016, the United States exported nearly $18 billion of agricultural products to Mexico, the third-largest market for these American exports, according to the United States Department of Agriculture.

Mexico is not only the leading destination of American corn, but it also imports more dairy products, poultry and wheat from the United States than any other nation, and is one of the top importers of American pork, soybeans and beef, the department says.

Mexico imported about 13.8 million tons of American corn last year, according to the Mexican government. Nearly all -- about 12.7 million tons -- was yellow corn, which is largely used for livestock feed, supplementing about 3.5 million tons of homegrown yellow corn.

The remainder of corn imports were of the white variety, which is used mostly for human consumption and is a key ingredient in tortillas. Mexico is essentially self-sufficient in white corn. The country produced 22.2 million tons last year and imported about 1.1 million tons of American white corn to make up for lucrative white corn exports to South Africa and other countries, according to the Mexican government.

And just as international supply chains in automobiles, aerospace and other industries crisscross the border, the same is true of agricultural products. Mexican calves -- possibly fed American corn -- are exported to the United States, where they are further fattened and then butchered for meat that may be exported for sale abroad, including to Mexico.

Farmers and agricultural industry representatives say that American farmers are already reeling from higher production costs and declining commodity prices, and that Mr. Trump's threats on trade and immigration have injected more uncertainty.

''There's a lot of **volatility** in agricultural markets to begin with,'' said Barbara Patterson, government relations director of the National Farmers Union, ''and shutting off our borders or losing access to trading partners has farmers concerned.''

The loss of Mexico as a market for agricultural products, farmers say, could presage job losses and bankruptcies.

''We'd like to see careful consideration and a cautious approach,'' Ms. Patterson said.

Formal talks to renegotiate Nafta are still at least several months away. Still, corn producers, as well as their counterparts elsewhere in American agriculture, have begun to lobby elected officials and the administration.

''Soup to nuts: corn, dairy, meat, specialty products, fruit -- they're all pretty much gathered together,'' said Tom Sleight, president and chief executive of the U.S. Grains Council. Producers, he said, are seeking to remind the administration of the importance of trade and Mexico to agriculture's bottom line.

The administration's threats have already begun to sour longstanding business arrangements between American sellers and Mexican buyers.

''Relationships are getting frosty with our customers right now,'' Mr. Sleight said. ''Usually it's been a very symbiotic relationship, but recently it's gotten a little more difficult. Mexicans are saying, 'Why are you doing this to us? We've been your best customers.'''

The Mexican government has not delayed in exploring other markets in which to purchase corn. A top agricultural official from Argentina visited Mexico City last month to discuss the possibility of increasing sales of Argentine yellow corn to Mexico. Officials from Mexico's Agriculture Ministry are planning a trip to Argentina and Brazil this month to discuss increasing corn purchases from those countries.

Last month, Mexico's deputy economy minister told The Financial Times that Mexico was exploring the possibility of allowing duty-free access to Argentine and Brazilian corn imports.

Developing new import arrangements with South America will not be easy, officials said. New relationships would have to be brokered, andcosts to import may also be higher, officials say, in part because there are fewer established transportation routes between Mexico and the Mercosur countries of South America.

Mexican officials say, however, that an increase in trade between the regions might lead to more competition, which could increase efficiency and lower costs.

The showdown on Nafta has also inspired Mexican agricultural officials and producers to step up programs that would increase domestic corn production and revive a sector undercut by the agreement, said Alejandro Vázquez Salido, director of Aserca, a Mexican government agency that supports farmers and promotes the marketing of Mexican agricultural products.

Some economists blame Nafta for causing widespread unemployment in the Mexican agricultural sector by opening the floodgates to heavily subsidized American agricultural products, especially corn. A 2014 study estimated that 1.9 million agricultural jobs were wiped out, mainly those of small family farmers, helping to drive more illegal immigration into the United States.

Mr. Vázquez said that even before Mr. Trump began to attack Nafta and Mexico, the Mexican authorities had begun to discuss plans to substitute imports with national production. ''But these new challenges, these new policies that we're facing, are having us move in that direction faster than we were,'' he said.

Mr. Trump has knocked Mexicans ''out of our comfort zone,'' forcing agriculture officials to find ways for Mexico to be less dependent on American imports, Mr. Vázquez continued. ''We're starting to move where we should've moved a long time ago: trying to produce internally what we're importing.''

Above, corn being harvested in Minooka, Ill., Below, varieties of Mexican corn on display at a restaurant in Oaxaca, Mexico. (PHOTOGRAPHS BY JIM YOUNG/REUTERS; OMAR TORRES/AGENCE FRANCE-PRESSE -- GETTY IMAGES) (A6)

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THE WALL STREET JOURNAL.
U.S. EDITION

Equities: The Quietest Quarter For Dow Since 1965

By Gunjan Banerji
271 words
3 April 2017
The Wall Street Journal
J
B11
English

The **Dow Jones Industrial Average** enjoyed its calmest quarter in more than half a century.

The average daily move by the 30-stock gauge in the first quarter was 0.3185%, according to The Wall Street Journal's Market Data Group. That is the smallest average since the fourth quarter of 1965, when Lyndon B. Johnson was president. And it isn't just the blue-chip companies the Dow tracks. The **S&P 500**, a broader measure of U.S. equities, posted an average swing of 0.3172% in the first three months of 2017, making the quarter the quietest since the third of 1967, the data show.

The muted moves suggest there is "pent-up energy" in investors that could shake up markets if and when there is greater clarity on policy and earnings, said Sameer Samana, global quantitative and technical strategist at Wells Fargo Investment Institute.

The uncertainty indeed seems to have thrown investors into limbo. The number of days the market did basically nothing -- when the Dow swung less than 0.1% either up or down -- was 15 in the first quarter, The Wall Street Journal's data show.

Since 1944, there have been only 22 other quarters when the benchmark had that many days or more of such little action.

Amid the **stock market**'s sleepy state, investors' expectations for future turbulence has also been at historic lows. The CBOE**Volatility** Index, or VIX, posted its second lowest quarterly average ever, The Wall Street Journal's data show.

Document J000000020170403ed430000t

The New York Times

ECONOMIC VIEW
Money and Business/Financial Desk; SECTBU
As the Market Charges, Caution Signals Blink

By ROBERT J. SHILLER
1,135 words
2 April 2017
The New York Times
NYTF
Late Edition - Final
3
English

Despite an eight-day losing streak that ended on Tuesday, the **stock market** has generally been buoyant in the opening weeks of the Trump administration. The **bullish** mood could be a self-fulfilling prophecy and lead to continuing gains for a while.

Yet important measurements -- some of which I developed -- tell us that the market is quite expensive and that investor optimism is tinged with plenty of worry. None of this tells us where the market is going tomorrow, but it suggests that some caution is advisable, and that returns over the next decade or so are likely to be constrained.

Consider first the evidence from what is often called the Shiller CAPE ratio.

What is CAPE, or the cyclically adjusted price-earnings ratio, exactly? Bear with me. This is a bit technical: It is real, or inflation-adjusted, **stock price** divided by a 10-year average of real earnings. It is usually measured using the price and earnings of the **Standard & Poor's 500-stockindex**, adjusted for inflation with the Consumer Price Index. In 1988, John Y. Campbell (now at Harvard) and I showed in a joint article that such a ratio has, since 1881, forecast returns somewhat well in the **stock market**. That "somewhat" is important because the ratio has its limits as a forecasting tool.

We found back then that averaging earnings over 10 years smoothed short-run or cyclical fluctuations, providing a better indicator of fundamental value. The CAPE ratio has successfully explained about a third of the variation in real 10-year **stock market** returns in United States history since 1881.

This is the important point: In 1988, we found that CAPE had averaged about 15 since 1881. In years when CAPE was lower than that, subsequent 10-year returns for the **stock market** tended to be good. In years when it was higher, the 10-year returns tended to be bad.

That's why today's CAPE is sending a troubling message. The ratio is now almost 30. Using monthly data, it has been higher only in 1929, when it reached 33, and in the few years around 2000, when it reached 44. In both instances, sharp market declines followed those very high readings. The current level of CAPE suggests a dim outlook for the American **stock market** over the next 10 years or so, but it does not tell us for sure nor does it say when to expect a decline. As I said, CAPE is useful, but it does not provide a clear guide to the future.

Investor sentiment is another factor, and current readings also give us cause for concern.

I have been involved in regular opinion surveys of institutional and individual investors in the United States since 1989. These surveys are undertaken and published online by the Yale School of Management. From these data, I created a Valuation Confidence Index, which is the percent of respondents who think the domestic **stock market** is not overvalued; a Crash Confidence Index, which is the percent who think that a 1929- or 1987-style crash in the next six months is highly unlikely; and a One-Year Confidence Index, which is the percent who think the **stock market** will go up in the next year. The indexes are measured in six-month intervals, and our latest data are for the six months through February, which includes the election of President Trump on Nov. 8, 2016.

Valuation confidence in February was quite low. The only time it has been lower was in the years surrounding the market peak of 2000. In February, crash confidence was quite low too, though it has been slightly lower on a number of occasions since 1989. These two indicators might seem to confirm the apparent signal of the CAPE ratio: trouble ahead. They are certainly saying that investors aren't confident that current prices are reasonable or that the market is stable.

But one metric went the opposite direction. One-year confidence is at a record high for institutional investors, and it is at the highest level since 2007 for individual investors. (That means, by the way, that in 2007, the eve of the Great Recession and financial crisis, most people had no clue that big problems were imminent.)

It is hard to reconcile these results. One possible interpretation might be that respondents perceive a **stock market** bubble: They think valuations are high and there is a non-negligible probability of a crash. At the same time, they are hanging in because they think the Trump boom will probably last for at least another year.

That doesn't provide much reassurance. The high fraction of our survey respondents who think that the **stock market** is unlikely to fall in the next year may simply reflect a failure of imagination about how a Trump **bull market** could suddenly end. There are scores of ways, of course. Just because people can't picture a big decline doesn't mean that they won't react very badly if the market comes under real stress.

Many people appear to believe that a business-oriented president will preside over a long **stock market** boom. At a glance, there appears to be some precedent for this, first with the 1920 election that brought in President Warren G. Harding and Vice President Calvin Coolidge (who took over when Harding died in 1923) and then with the 1980 victory of Ronald Reagan. These elections were followed by the Roaring Twenties of 1921 to 1929 and the Millennium Boom market of 1982 to 2000.

But in both cases, during the initial election campaigns the economy was in recession and the CAPE ratio was extremely low -- around 5 in 1920 and 9 in 1980.

We are in a very different situation now. The economy has largely recovered from the last recession, and CAPE shows us that stocks are now relatively expensive.

There is no clear message from all of this. Long-term investors shouldn't be alarmed and shouldn't avoid stocks altogether. But my bottom line is that the high pricing of the market -- and the public perception that the market is indeed highly priced -- are the most important factors for the current market outlook. And those factors are negative.

We don't know where the market will go this month or this year. It could well rise a lot. But investors should not let themselves be tempted to bet aggressively on the Trump **bull market**.

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Robert J. Shiller is Sterling Professor of Economics at Yale.

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THE WALL STREET JOURNAL.
U.S. EDITION

Fed Readies Plan for More Tightening

By Nick Timiraos, Eric Morath and Michael S. Derby
1,067 words
1 April 2017
The Wall Street Journal
J
A1
English

Federal Reserve officials are zeroing in on a strategy to begin winding down their $4.5 trillion portfolio of mortgage and Treasury securities, possibly later this year, as part of their broader effort to drain stimulus from the financial system.

Under the scenario taking shape, the central bank would raise short-term interest rates two more times in 2017 and then potentially pause rate increases, perhaps late in the year. That would allow Fed officials to start winding down their portfolio of securities in a gradual and measured way to assess how markets handle the moves before resuming additional rate increases in 2018, according to interviews and recent public statements from officials.

The approach depends on whether the economy keeps performing as expected, and it depends on whether Fed Chairwoman Janet Yellen can build a consensus among policy makers about how to proceed. No decisions have yet been made.

On Friday, Fed officials got news they are on the right track. The economy reached an important milestone when consumer inflation in February exceeded the Fed's 2% target after undershooting it for nearly five years.

The personal-consumption expenditures price index, which is the Fed's preferred inflation gauge, edged up in February and climbed 2.1% from a year earlier, the Commerce Department said Friday. It was the largest annual gain for the price measure since March 2012.

Officials also closely watch so-called core inflation, which excludes **volatile** food and energy prices. That gauge rose 1.8% from a year earlier, matching the highest levels touched since 2012, though still a bit below the 2% mark.

Inflation's rise is a signal that slack in the economy in the form of excess industrial capacity, high unemployment and empty buildings has diminished, removing the forces that have weighed on consumer prices for several years.

Firmer inflation gives Fed officials leeway to follow through with plans to raise rates and reduce bondholdings.

The central bank has been telegraphing interest-rate increases for months -- it raised rates by a quarter percentage point at its December and March meetings -- but has been noncommittal on how it will handle its bond portfolio.

The holdings are often referred to as the balance sheet and grew from less than $1 trillion before the financial crisis to $4.5 trillion through asset-purchase programs aimed at lowering long-term interest rates and boosting economic growth. Shrinking the balance sheet could cause long-term rates to rise.

"When we decide to begin to normalize the balance sheet, we might actually decide at the same time to take a little pause in terms of raising short-term interest rates," New York Fed President William Dudley said in an interview on Bloomberg TV Friday.

Critics say the large portfolio has distorted market functioning. The Fed has long said it wants to shrink the balance sheet as the economy heals. One way to reduce it is to allow securities to mature without using the proceeds from maturing securities to buy new ones, as it does now.

The details are still being worked out. Fed officials held a discussion on the balance sheet at their March policy meeting. Staff economists have started work on a paper that could help forge consensus over the myriad technical details that have yet to be sorted out, including whether to slow reinvestment in Treasurys and mortgage bonds simultaneously or to reduce the holdings of one before the other.

How it proceeds is of great importance to market participants. In 2013, when the Fed signaled it would stop adding to the portfolio, stocks fell, interest rates rose and emerging stock and bond markets sank -- an event known as a "taper tantrum" on Wall Street, driven by investor worries about the implications of a less accommodative Fed.

The challenge for the Fed is that there is no playbook for reducing the size of its holdings. Officials want to make changes slowly and with extreme care to avoid roiling markets.

Officials haven't decided how to manage the runoff of assets, but a gradual path that tapers the pace of reinvestments over several months rather than ceasing them altogether could allow for that least disruptive approach.

The goal is that any policy changes on slowing reinvestments are "just going to be running in the background," Mr. Dudley said. "We would want to do this in a way that was . . . not a big deal for the markets."

The Fed's balance sheet has grown to around 23% of U.S. gross domestic product from around 6% before the financial crisis.

One ancillary advantage of communicating any plan for the balance sheet later this year is that it would remove uncertainty associated with a possible change in leadership at the Fed in 2018, when the terms of Ms. Yellen and Vice Chairman Stanley Fischer expire.

The shifting inflation trend is an important factor as the central bank decides how to proceed.

Inflation's move above 2% confirms the sharp drop in **oil prices** that began in mid-2014 was a temporary shock, "not a sign of fundamental weakness in the global economy," said Laura Rosner, an economist at BNP Paribas. "A higher rate of inflation suggests that activity is growing at a healthy pace and downside risks have diminished."

Some U.S. manufacturers have seen costs for commodities rise recently, and that's affecting their pricing strategies. "Raw material prices, particularly steel and zinc, have continued to increase and we expect to be successful in passing through cost increases to the market," Richard Parod, chief executive of Lindsay Corp., an Omaha, Neb. maker of irrigation systems, told investors Thursday.

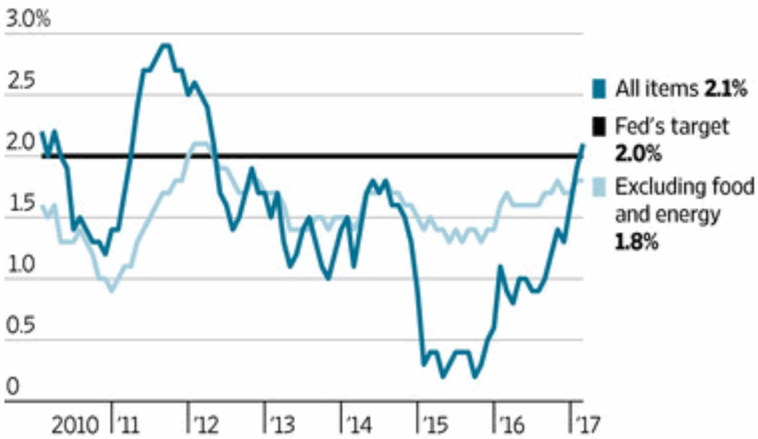
But there appear to be limits to how much higher inflation will go.

Mooyah, a chain of burger and shake restaurants based in Plano, Texas, finds it difficult to pass higher wages and rents on to customers in the form of higher prices in the crowded food-service segment.

"Labor costs have increased 5% to 10%" partly due to higher minimum wages in several states, Mooyah Chief Operating Officer Michael Mabry said. "But you can't raise menu prices by that amount in this environment." The chain recently lowered prices on its least expensive items, small fries and drinks, in an effort to increase traffic.

Target Achieved

Consumer inflation, as measured by the personal-consumption expenditure price index, exceeded the Fed's 2% target for annual increases for the first time since 2012.



Source: Commerce Department

THE WALL STREET JOURNAL.

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Document J000000020170401ed410002j

The New York Times

Business/Financial Desk; SECTB
Major Indexes End Solid Quarter With Small Letdown

By THE ASSOCIATED PRESS
675 words
1 April 2017
The New York Times
NYTF
Late Edition - Final
2
English

Wall Street closed a solid quarter Friday with a day of listless trading that ended on a soft note.

The **Standard & Poor's 500-stockindex** had its best three-month stretch since the fourth quarter of 2015. The **Nasdaq composite** index had its best quarter since the end of 2013.

The **S.&P. 500 index** ended the first three months of 2017 with a gain of 5.5 percent, the **Nasdaq** posted an increase of 9.8 percent and the **Dow Jonesindustrial average** rose 4.6 percent.

The three indexes ended the day down slightly. Financial companies declined most, and real estate companies led gainers.

Trading was largely subdued, suggesting portfolio managers looking to bolster their end-of-quarter performance had acted earlier in the week, said Quincy Krosby, market strategist at Prudential Financial.

''The market has performed very well,'' she said.

The Dow slid 65.27 points, or 0.3 percent, to 20,663.22. The **S.&P. 500** lost 5.34 points, or 2 percent, to 2,362.72. The **Nasdaq** fell 2.61 points to 5,911.74. The index hit a record high Thursday.

Small-company stocks outperformed the rest of the market. The Russell 2000 index picked up 3.57 points, or 0.3 percent, to 1,385.92.

Bond prices edged higher. The **10-year Treasury** yield fell to 2.39 percent from 2.42 percent late Thursday.

The major stock indexes had a downbeat start Friday and spent much of the day wavering between small gains and losses as investors weighed several corporate deals and new data on consumer spending and inflation.

The Commerce Department said consumer spending kept rising in February, though gains in the last two months were slow. An inflation gauge closely watched by the Federal Reserve increased 2.1 percent in February compared with a year ago, a five-year high.

That data followed positive reports on consumer confidence, housing and economic growth this week, which added to the market's expectation for stronger first-quarter corporate earnings.

''The market is moving ahead into the second quarter with valuations that are high, but the expectations are that the first-quarter earnings season will confirm the valuations,'' Ms. Krosby said.

On Friday, investors bid up shares in companies with better-than-expected earnings.

DXP Enterprises, an industrial products company, jumped $5.13, or 15.7 percent, to $37.87, while BlackBerry rose $0.80, or 11.5 percent, to $7.75.

Auto dealership companies were among the decliners Friday. AutoNation fell $1.20, or 2.8 percent, to $42.29. CarMax slid 84 cents, or 1.4 percent, to $59.22.

Shares in FMC, a chemical company, rose after it agreed to buy part of DuPont's crop protection business. DuPont will buy FMC's health and nutrition unit. DuPont also will get $1.6 billion, mostly in cash. FMC jumped $8.09, or 13.2 percent, to $69.59. DuPont shares fell $1.31, or 1.6 percent, to $80.33.

Germany's DAX rose 0.5 percent, while France's CAC 40 gained 0.7 percent. The FTSE 100 index of leading British shares fell 0.6 percent.

Tokyo's Nikkei 225 and Hong Kong's Hang Seng fell 0.8 percent.

After an early slide, benchmark crude added 25 cents and closed at $50.60 a barrel in New York. Brent crude, used to set international **oil prices**, slipped 13 cents to close at $52.83 a barrel in London.

Gold futures for April delivery rose $2.30 to $1247.30 an ounce. Silver added 5 cents to $18.26 an ounce. Copper slipped 2 cents to $2.65 a pound.

The euro weakened to $1.0669 from $1.0678 on Thursday. The dollar fell to 111.32 yen from 111.78 yen.

CHART: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Friday. (Source: Reuters)

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THE WALL STREET JOURNAL.
U.S. EDITION

Stock Surge Rides the Tech Wave --- Investors shed 'Trump trade' wagers -- banks and industrials -- to bet on growth shares

By Corrie Driebusch
730 words
1 April 2017
The Wall Street Journal
J
B1
English

The **S&P 500** posted its biggest quarterly gain since the end of 2015, as a brightening economic outlook offset investors' waning enthusiasm for the "Trump trade."

The index's 5.5% rise in the first three months of the year extended postelection gains that have sent major U.S. indexes to records, but the most recent move higher reflects a change in the bets that are fueling the rally.

Investors dialed back on shares expected to benefit from changing U.S. policy following the presidential election and piled into technology companies, wagering that a stronger economy would amplify their growth potential.

The tech sector in the **S&P 500** jumped 12% in the first three months of the year, by far the best performer out of the 11 sectors in the index. The tech-oriented **Nasdaq Composite** Index ended the quarter up 9.8%, its best quarter since 2013.

During this shift, stocks have remained calm and pullbacks have been relatively minor, highlighting the continued strength of the eight-year **bull market**. The CBOE**Volatility** Index, known as Wall Street's "fear gauge," posted its second-lowest quarterly average on record. The average daily percentage change for the **Dow Jones Industrial Average** during the quarter was the lowest since 1965.

"The market's been resilient because the data has been reasonably solid," said Joseph Amato, chief investment officer of equities at asset manager Neuberger Berman. While there has been "noise and bluster" coming out of Washington, economic data have been getting better and confidence indicators are strong, he said. That all supports the market's climb.

But the rally's leaders have changed. Investors have been pulling back from banks and infrastructure companies, a reversal of some popular postelection trades. The **S&P 500**'s financial sector fell 2.9% in March, while industrials declined 0.8%.

The **Dow Jones Industrial Average**, which has a hearty weighting of industrial companies and big banks, posted a 4.6% gain, a slowdown from the previous quarter.

On Friday, the Dow industrials fell 65.27 points, or 0.3%, to 20663.22. The blue-chip index dropped 0.7% in March, its biggest monthly decline since October. The **S&P 500** fell 5.34 points, or 0.2%, to 2362.72. The **Nasdaq Composite** dropped 2.61 points, or less than 0.1%, to 5911.74.

The failure of Republicans' health-care bill, intended to replace the Affordable Care Act, has led investors to question the Trump administration's ability to implement other agenda items like a corporate tax overhaul, looser regulations and fiscal spending.

Instead, investors have turned to companies that have generally served up better-than-average returns since the financial crisis: large technology companies.

Apple Inc., a component in the three major indexes, jumped 24% in the first quarter, lifted by solid sales for its new iPhone, high hopes for the next model and stabilizing revenue out of China. Apple's rise added more than half a percentage point to the **S&P 500**'s quarterly gains, according to S&P Dow Jones Indices.

Growth stocks, companies that many investors expect to post stronger earnings in times of a prospering economy, have outperformed value stocks, or those whose shares appear cheaper compared with their earnings.

The Russell 1000 Growth index ended the quarter up 8.5%, compared with the Russell 1000 Value index's 2.6% rise.

That comes as the U.S. economy has continued to show signs of strength this year. The personal-consumption expenditures price index, the Federal Reserve's preferred inflation gauge, exceeded the central bank's target for a 2% annual gain for the first time in nearly five years, at 2.1%, the Commerce Department said Friday, a day after it said U.S. economic growth in the fourth quarter was revised up.

Optimism among business owners and investors also has climbed. The National Federation of Independent Business said in February that its index of small-business optimism reached its highest level in a dozen years in early 2017, and a University of Michigan survey released in March found consumers feel better about the economy than they have in the past 17 years.

Document J000000020170401ed410002k

THE WALL STREET JOURNAL.
U.S. EDITION

Weekend Profile: Two Big Guns, One Huge Challenge --- CBOE's Tilly and Bats' Concannon aim to unify exchanges amid an industry in flux

By Gunjan Banerji
1,007 words
1 April 2017
The Wall Street Journal
J
B1
English

The unlikely deal combining CBOE Holdings Inc. and Bats Global Markets Inc., which closed in February, puts two industry heavyweights at the top of one enterprise.

The two men -- Chief Executive Edward Tilly, a trader who ascended the ranks at CBOE, and Chris Concannon, a market-structure veteran with experience in regulation and high-frequency trading -- will need to forge success at the newly created $9 billion exchange operator, as lackluster trading in options dogs the industry and rising share prices have depressed **volatility** to historic lows.

The purchase of Bats is a victory for Mr. Tilly, 53 years old, who became CBOE's chief in 2013 and remains CEO and chairman of the combined company. Rumors that CBOE would be the target of an acquisition by a bigger exchange had circulated for years. Mr. Tilly will work with Mr. Concannon, 49, the former head of Bats and now president and chief operating officer of CBOE, to unite the two companies.

Their chief challenges, analysts say, are to integrate the two exchanges' technologies and fight for market share in the hypercompetitive industry. CBOE, the biggest U.S. options platform by volume, issued $1.65 billion in debt to purchase Bats. An Evercore ISI analyst in October called the merged company "one of the most levered entities to volume and **volatility**." The company also estimated $50 million in cost savings within three years.

The two executives aim to continue expanding globally and increase CBOE's business with exchange-traded funds by leveraging its relationships with index providers.

Throughout his career, Mr. Tilly helped cultivate CBOE's golden goose, the CBOE**Volatility** Index, known as the VIX. It is a widely watched measure of market anxiety that the exchange has promoted. CBOE's exclusive rights to the use of the VIX and the **S&P 500** in trading contracts have proved to be two of its most lucrative advantages.

But Mr. Tilly has also seen the CBOE floor dwindle from 4,500 people to 440 in 2017, and at various times has had to reposition the four-decade-old company for the future. Acquiring the younger, leaner Bats, also known for its superior technology, is the latest example. "We saw a disrupter coming in and changing the industry," Mr. Tilly said.

The two men first met at a breakfast meeting more than 10 years ago. Mr. Tilly has a statistically minded focus on product, while Mr. Concannon is known for his operational expertise.

"Ed is a math whiz and I know the law," Mr. Concannon said.

Mr. Tilly is a Chicago-area native who joined CBOE straight out of Northwestern University. He responded to a recruitment notice unsure about what the exchange exactly did. He started as a clerk, then became a trader and a member. On the trading floor, Mr. Tilly put the letters "ETT" onto his badge, his initials, and a handy nickname for traders to use in the loud trading pits.

Mr. Tilly flourished in a rowdy environment, despite his calm demeanor. His former boss and mentor, Bill Brodsky, describes him as unflappable, a disciplined trader who understood the politics necessary to get things done. He led CBOE through a transformation into a hybrid system in which orders could be executed electronically and via open outcry. He coaxed reluctant traders to adapt at a time when CBOE was losing market share to rival International Securities Exchange, according to Mr. Brodsky.

"He saw the handwriting on the wall, that the floors were not going to keep running the way they had," Mr. Brodsky said.

While Mr. Tilly is a CBOE lifer, Mr. Concannon started his career as an attorney at the Securities and Exchange Commission.

A Long Island native who likes to read and surf, Mr. Concannon was a cornerback on Catholic University's football team before getting business and law degrees. His favorite book is Ron Chernow's biography of Alexander Hamilton. The first Treasury secretary "created the early markets in the U.S.," Mr. Concannon said. "And he came from nothing."

While at law school, he wrote about payment for order flow, a controversial practice in which retail brokerage firms steer client orders to market makers in exchange for compensation. He concluded back in 1994 there was no way to ban the practice but that the SEC should require firms to disclose when they collected payments.

"I still feel the same way," Mr. Concannon said. The SEC eventually mandated that brokerages disclose when they funneled orders elsewhere and received compensation.

In his final letter as Bats CEO in February, Mr. Concannon predicted that Regulation National Market System, the SEC rules meant to ensure orders are carried out at the best price available, will come under review and that 2017 should be a banner year for initial public offerings.

After working at Island, an early electronic trading network, and **Nasdaq** Inc., where he helped scoop up stock exchanges in Philadelphia and Boston as well as Instinet Clearing Services Inc., Mr. Concannon landed at Virtu Financial Inc. in 2009, joining Doug Cifu, now chief executive of the New York-based high-frequency trading firm.

Back then, Virtu was a scrappy startup, and when an office dishwasher taken from Mr. Cifu's home in New Jersey was left neglected, Mr. Cifu recounts how Mr. Concannon -- who once worked as a plumber -- removed his suit jacket, grabbed a wrench and installed the dishwasher.

"That's Chris Concannon in a nutshell. A guy who's willing to literally roll up his sleeves and make things work," Mr. Cifu said.

The merger's success rests on how adaptable the two leaders are, said Richard Repetto, an analyst at Sandler O'Neill + Partners LP who has covered exchanges for over a decade. "Together, they will take the best attributes of these exchanges and move it forward," he said.

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THE WALL STREET JOURNAL.
U.S. EDITION

The Intelligent Investor: Emerging Markets Are on a Tear, but Tread Carefully

By Jason Zweig
838 words
1 April 2017
The Wall Street Journal
J
B1
English

Investors should ponder why that quintessential wise man, Benjamin Franklin, owned an asbestos purse. Perhaps it was to keep his money from burning a hole in his pocket. If we all had fireproof purses, maybe we wouldn't be so eager to put hot money to work.

So far in 2017, exchange-traded funds investing in stocks from such developing nations as Brazil, China, India, Mexico and Russia have taken in $10.5 billion in new money, estimates TrimTabs Investment Research of Sausalito, Calif. With $127.8 billion in total assets, one-twelfth of all the money in these funds has come in over the past 90 days.

Much of that, presumably, is in hot pursuit of high recent returns. Emerging markets are up 12% this year, double the return of the **S&P 500 index** of U.S. stocks, counting dividends.

Investing in emerging markets isn't a bad idea, but rushing to do so is. These stocks aren't so much absolutely cheap as relatively cheap, especially when compared with U.S. companies, which still are hovering near all-time highs.

How cheap are these stocks? Emerging-market companies are trading at an average of 12.2 times their expected net profits over the next 12 months, estimates Arup Datta, a portfolio manager at AJO, a Philadelphia-based investment firm.

That's a tad higher than their long-term historical average of less than 11 times earnings, but much cheaper than U.S. stocks, at 19 times the coming 12 months' profits.

On a longer, backward-looking horizon, emerging-markets stocks are priced at approximately 14 times their average earnings over the past decade, adjusted for inflation, estimates Research Affiliates, an asset-management firm in Newport Beach, Calif. That's barely above the low of 13 times earnings they hit during the global financial crisis in 2008.

Stocks in the U.S. are at 29 times their inflation-adjusted long-term historical earnings, a lofty level rarely exceeded in the past.

Emerging markets are "half the price" of U.S. stocks, says Chris Brightman, chief investment officer at Research Affiliates. "History suggests that you're going to earn much higher returns on lower-priced assets than higher-priced assets."

The lower valuations of emerging-market stocks provide at least some cushion against the risk of a trade war or other changes in U.S. policy that could hurt developing countries.

But relative cheapness isn't the same thing as safety. Emerging markets are in better economic shape than they used to be, but they are still prone to currency crashes, commodity collapse and political turmoil.

And speculators who barge into emerging markets expecting to get rich quick have often gotten burned, all the way back to the British and Dutch who bought into U.S. canals and railroads in the early 19th century.

That's partly because the prospect of faster economic growth excites investors into paying high current prices, but doesn't necessarily translate into higher future returns. As demand for investment swells, new companies arise and issue oodles of shares, so total profits can get spread thinner and thinner.

And expectations had gotten high in recent years. Partly as a result, companies based in developing countries have "massively underperformed" stocks in the industrialized world for most of the time since 2009, says Chuck Knudsen, a portfolio specialist for emerging-market stocks at T. Rowe Price Group Inc.

Now, though, he says, emerging markets could perform well again relative to the developed world. Unlike at U.S. companies, which are already near record levels of profitability, earnings as a percentage of total revenue at emerging-market firms have been increasing but remain well below their averages over the past two decades, says Mr. Knudsen. That should give them ample room to keep improving.

Still, many of the biggest companies in emerging markets are government-affiliated, lumbering leviathans that aren't always the best way to tap into the potential spending power of consumers in those countries.

Just think of China's enormous commercial banks, says Sammy Simnegar, portfolio manager of the Fidelity International Capital Appreciation Fund and Fidelity Emerging Markets Fund. They dominate the Chinese **stock market**, but most aren't particularly attractive investments.

Other companies are based in emerging markets but do much of their business elsewhere. When it comes to popular indexes that seek to capture the returns of stocks in developing countries, says Mr. Simnegar, "some of those building blocks may be defective."

One of the largest stocks in India, for instance, is Infosys Ltd., which derives roughly 97% of its revenue from outside its home country.

So study a fund's holdings, or press your financial adviser, to learn whether it will expose you to emerging markets for real or just for show. Above all, there's no rush to buy just because recent returns have been hot.

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