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**Streetwise: Betting on Next Fed Chief Often Backfires**

By James Mackintosh
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President Donald Trump's "The Apprentice"-style hiring process for the Federal Reserve chairmanship is due to end this week, and it looks like the message to Janet Yellen is: "You're fired!"

Jerome Powell, a Fed governor, is the leading candidate to take the world's leading economic job -- and he isn't an economist.

Investors following the process have been raking over the past pronouncements of the five main candidates, in an effort to understand the direction of Fed policy over the next four years. History suggests that it is tough to make money from betting on a new chairman's hawkishness or dovishness, even if you knew who it was going to be.

Political betting site PredictIt has Mr. Powell's chances at 80%, with Ms. Yellen at 8% and academic economist John Taylor at 7%. Outsiders include former governor Kevin Warsh; Federal Reserve Bank of Minneapolis President Neel Kashkari; and Gary Cohn, Mr. Trump's top economic adviser.

Assuming you knew who the president would pick, the most obvious ways to make money would be bets on the direction of Treasury bonds and the dollar, and perhaps inflation-sensitive gold. The clearest example of bets on a Fed chairman was in August 1979, when President Jimmy Carter appointed the hawkish Paul Volcker in a sharp break with his predecessor during the inflationary 1970s.

Investors expected Mr. Volcker to tackle runaway inflation with tighter monetary policy, meaning higher short-term rates, and they were right. But after his appointment, many bet that a Fed chairman committed to bringing down inflation meant lower long-term bond yields, a lower gold price and a stronger dollar. They made money for about two weeks, before being crushed.

As inflation soared Mr. Volcker stayed true to forecasts, and short-term rates peaked at 22%, the highest ever, pushing the U.S. into double-dip recessions. Contrary to the expectations of investors, bond yields also jumped, with the 10-year reaching almost 16% in 1981, and far from falling, there was a bubble in the price of gold.

Gold was at $304 on the day Mr. Volcker was nominated and fell to $282 as investors bet on his hawkishness. Just five months later gold had nearly tripled to $835, the dollar was weaker and the early Volcker trade was dead and buried.

Mr. Volcker's appointment was a case of investors getting the policy positioning of the new chairman right, but their bets on what that meant for asset prices wrong, at least over the next few years.

Alan Greenspan's selection was a quite different matter. Conservatives welcomed his appointment in 1987, thinking he shared the hawkish inflation-fighting mind-set of Mr. Volcker, his predecessor. The main point of difference was Mr. Greenspan's willingness to support financial deregulation -- something now espoused by Mr. Powell.

Mr. Greenspan does seem to have started out hawkish, raising new concerns about inflation at his first Fed policy meeting, according to the transcript. But his hawkish credentials lasted just two months, until the Black Monday **stock market** crash of October 1987. The new Fed chairman said the central bank stood ready to "serve as a source of liquidity" -- thus ushering in the infamous "Greenspan put," the idea that the Fed would step in to support markets in a crisis.

A repeat after the Russian default and Wall Street chaos of 1998 helped fuel the final stages of the dot-com bubble, and many believe that Mr. Greenspan pushed up rates too slowly and too predictably during the 2000s, contributing to the excessive risk-taking that ended in the 2008 crisis.

One prominent critic of the Fed's precrisis policies is Mr. Taylor, whose "Taylor rule" suggested rates should be higher during the 2000s. The market backed up his view: Gold prices began to rise and the dollar fall from 2002, when the Fed set rates well below what the Taylor rule suggested for the first time since the 1970s.

Investors might have been wrong about Mr. Greenspan's commitment to tight money, let alone his devotion to the views of right-wing novelist Ayn Rand, but they were right about his support for financial deregulation.

Democratic and Republican presidents stripped the financial sector of the burden of rules introduced in the Great Depression, working wonders on the sector's share prices -- at least for a while. By the time Mr. Greenspan left office in 2006 the U.S. financial sector was up 653% since he took over in 1987, gaining more than double the 319% of nonfinancial stocks, according to Thomson Reuters Datastream.

Deregulation and easy money had sown the seeds of a crisis few foresaw, and Mr. Greenspan declared himself in "a state of shocked disbelief" after the banking system imploded in 2008.

We can say two things about Mr. Powell, assuming he is appointed: He will be friendlier to Wall Street than Ms. Yellen, and he will take a similarly dovish approach to monetary policy.

In the short run, less red tape will support bank stocks, but banks surely won't return to their wild precrisis leverage soon. Equally, a continuation of Ms. Yellen's cautious approach to rate increases will avoid shocking the market, while leaving unchecked the danger that a bubble develops in the **stock market**.

Given investors' dire history of predicting how Fed chairmen will use their power, the wisest approach may be to wait and see how he turns out.



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The New York Times

Business Day; DealBook
**U.S. Investor Pushes for Change at Chinese Tech Giant**

By ALEXANDRA STEVENSON
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HONG KONG — The Chinese internet boom has been good to Sina. Maybe, protests one of its American investors, it could have been better.

The New York-traded shares of Sina, whose Weibo service is one of China's most popular social media platforms, have been on a tear. They have been lifted by the same surge that has put Chinese companies like the Alibaba Group and Tencent Holdings among the ranks of Amazon and Facebook in terms of **stock market** value.

Still, Sina finds itself embroiled in an unusual situation for a company with a surging **stock price**: a proxy fight. Aristeia Capital, a hedge fund based in Connecticut, is lobbying Sina shareholders to back its two candidates for the company's board in a bid to shake up Sina's business and give shareholders fatter returns. This week, the other shareholders will weigh in, casting their votes before a shareholder meeting set for Friday.

Proxy fights in general are not uncommon, but one between a Chinese company and an American investor is the first of its kind, according to disclosures tracked by the data provider FactSet. And the campaign has helped to underscore the limits of foreign ownership of Chinese internet companies.

Sina, one of the first Chinese tech companies to list its shares in New York, has called Aristeia "self-serving" and naïve about how China's internet sector works.

In turn, Aristeia, which manages $3 billion in investor money, has accused Sina of "failing to hold itself to the standards expected of U.S.-listed public company boards."

Foreign investors seem less than worried about any lack of control or lapses in corporate governance if the market is any indication. Shares in those companies have been on a tear in markets around the world as Chinese consumers reliably use their smartphones to buy electronics, shop for groceries, make investments, play games and look for dates.

With more than 700 million users, China is the world's largest single internet market. Weibo has 313 million monthly average users.

Still, some investors are quietly complaining about corporate governance practices.

Chinese companies that list shares in the United States are not necessarily subject to American rules. Most are incorporated in light regulatory jurisdictions like the Cayman Islands.

As a result, Chinese companies often behave differently. While Sina holds a regular annual meeting, some of its peers do not, a standard for the United States. Baidu, the search engine giant, has not held an annual shareholder meeting since 2008. JD.com, the online retailer, has never held one.

"Investors have been getting a bit fed up with companies like Baidu and JD.com not having general meetings," said Jamie Allen, the secretary general of the Asian Corporate Governance Association.

A spokesman for JD.com said: "Investors appreciate our candor both on earnings calls and in engagement throughout the year. This issue has rarely, if ever, been raised to us." Baidu did not respond to requests for comment.

Foreign investors also typically have fewer shareholder protections. To get around Chinese restrictions on outside investments in sensitive industries, many companies use a complicated legal structure, called a variable interest entity, or V.I.E. Under those arrangements, shareholders have rights to the profits of a company, but they do not control key assets — potentially leaving them exposed if the company runs into trouble or the Chinese government declares the structure illegal.

Sina was a key player in the Chinese internet's emergence as a social and economic force. Its Weibo service, once derided by critics as a knockoff of Twitter, has grown in size and functionality to the point where it is now a must-read for many people.

Even after the Chinese government curbed political or controversial discussion on Weibo, it remains a well-read resource. Weibo now has its own stock listing, while Sina owns a 46 percent stake. Sina's other operations include online news and entertainment.

That separate listing helped set off the fight with Aristeia. Sina's shares have risen nearly 75 percent so far this year. But Weibo's performance has been better, with the stock more than doubling. Based on their **stock market** values, Weibo is now more than twice as valuable as Sina — a gap that Aristeia says points to lackluster management and poor corporate governance.

Sina uses a V.I.E. structure. Only one of the five director seats is available each year. The chairman and chief executive, Charles Chao, has a permanent position; the other members serve four-year terms.

Aristeia is pushing for representation on the board so that directors will consider measures that would result in more money for shareholders. These include a sale or merger of Sina or Weibo or a buyback of shares by management.

Sina says that any deal proposed by Aristeia would not clear because of China's complicated telecom and media rules. Alibaba, the Chinese e-commerce giant, also owns a stake in Weibo, further complicating its options, Sina said.

"The time, resources and capital invested to pursue a transaction with a high likelihood of failure, rather than accretive and value creating opportunities, is not in the best interests of Sina shareholders," Sina said in a statement.

Some outsiders disagree. "I think Sina has built in Weibo a very valuable asset that is not being reflected in its share price," said Randy Gelber, a managing director at UBS, the Swiss bank.

"It would seem like there should be some common ground from both sides on how to realize that value," he said.

Two proxy advisers — Glass Lewis & Company and International Shareholder Services — have given some weight to Aristeia's arguments. Glass Lewis recommended that Sina expand its board to allow Aristeia's nominees, and I.S.S. recommended that Sina shareholders support one of the two nominees.

"An examination of the arguments reveals compelling reasons for shareholders to seek change at the company," I.S.S. said.

The fight is being watched closely at a time when American activists are bringing their bare-knuckled approach to Asia. Daniel S. Loeb, one of the most vocal activists, scored a victory in a campaign for change at the Japanese conglomerate that owns the 7-Eleven convenience store chain last year. In South Korea, the activist Paul Singer and his hedge fund firm, Elliott Management, picked fights with Samsung Electronics and the Bank of East Asia in Hong Kong.

It is also unfolding as the Chinese government looks to take a more active role in how its corporate giants are managed.

Even if Aristeia emerges victorious, the real test could be whether its candidates will be able to push for change internally.

"The question is whether that board member would be able to do anything other than jump up and down at meetings," said Paul Gillis, a professor at Peking University's Guanghua School of Management.

* Samsung Fight Exposes Tension in Asia Over Activist Investors

* With Crowding in U.S. Market, Activist Investors Look to Europe

 

* An Activist Investment in Whole Foods Exposes Shifting Power on Wall St.

A separate listing for the microblogging service Weibo helped to start a proxy fight between its parent company, Sina, and an American hedge fund. | Richard Levine/Alamy | What was once known as the land of cheap rip-offs may now offer a glimpse of the future — and American companies are taking notice. | By JONAH M. KESSEL and PAUL MOZUR

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The New York Times

Business/Financial Desk; SECTB
**Setback for Cancer Drug Chills a Roaring Market**

By REUTERS
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Wall Street pulled back from record territory on Monday, weighed down by a drop in Merck shares and a report that lawmakers in the United States are discussing a gradual phase-in of corporate tax cuts.

Market watchers pointed to declines steepening after a Bloomberg report that the House of Representatives was discussing a gradual cut in corporate tax rates over several years.

''A lot of people are looking to that corporate tax cut as a reason for the next leg up in stocks,'' said Rick Meckler, president of LibertyView Capital Management in Jersey City.

Investors were also digesting the impact to President Trump's agenda from news that his former campaign manager, Paul Manafort, was charged with tax fraud and money laundering in the federal inquiry into Russian meddling in the 2016 election.

''We are in a market that has just been on an absolute low-volatility, steady climb for quite a while, so you don't need much of a reason for it to take a periodic step back, particularly a small step back,'' Mr. Meckler said.

The Dow Jonesindustrial average fell 85.45 points, or 0.4 percent, to 23,348.74, the Standard & Poor's 500-stockindex lost 8.24 points, or 0.3 percent, to 2,572.83 and the Nasdaq composite index dropped 2.30 points, or 0.03 percent, to 6,698.96.

Stocks pared losses late in the day amid signs that Mr. Trump was close to picking the Federal Reserve governor Jerome H. Powell as chairman of the United States central bank.

The tech-heavy Nasdaq touched an intraday record high in the session before pulling back.

Apple rose $3.67, or 2.3 percent, to 166.72 after analysts pointed to strong demand for the iPhone X, which goes on sale Friday.

Merck shares fell $3.53, or 6.1 percent, to $54.71 after a setback to its major cancer medicine Keytrude. The stock was among the top drags on the S.&P. 500 and Dow industrials.

Sprint shares fell 65 cents, or 9.3 percent, to $6.34, and T-Mobile ended down $3.37, or 5.4 percent, at $59.58 after news reports that the board of SoftBank Group of Japan was having doubts about the merger it has been negotiating between Sprint, its United States wireless subsidiary, and T-Mobile.

Market watchers prepared for another big week of corporate results. With more than half the S.&P. 500 companies having reported, third-quarter earnings are expected to have climbed 6.7 percent, according to Thomson Reuters I/B/E/S.

In the commodities markets, light, sweet crude, the United States benchmark, closed down 25 cents at $54.15 a barrel in New York. Brent crude, used to price international oils, nudged past the $60 mark to finish at $60.90 a barrel in London. Gold rose $5.60, to $1,274.10 an ounce.

Yields on United States Treasuries fell. The 10-year note slid to 2.37 percent, down 0.05 percent.

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

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The New York Times

National Desk; SECTA
**Moderate Seen As Leading Pick For Helm of Fed**

By MAGGIE HABERMAN and BINYAMIN APPELBAUM
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WASHINGTON -- President Trump is expected to nominate Jerome H. Powell as the next chairman of the Federal Reserve, replacing Janet L. Yellen, whose term expires early next year, according to two people familiar with the plans.

Mr. Powell, a Fed governor since 2012, is a Republican with deep roots in the party's establishment and in the financial industry. He has steadily supported Ms. Yellen's approach to monetary policy and financial regulation, creating an expectation that he would be unlikely to attempt large or sharp changes in the Fed's course.

One White House official described Mr. Powell as a ''safe'' choice as well as the candidate who most closely fit Mr. Trump's penchant for filling top jobs with characters from ''central casting,'' as he has often put it.

Both people familiar with the president's thinking, who spoke on the condition of anonymity, cautioned that Mr. Trump was notoriously mercurial and liked creating drama around important personnel decisions. However, both said the president appeared set on Mr. Powell. An announcement could come as soon as Thursday, after the Fed wraps up a two-day policy meeting on Wednesday and before Mr. Trump leaves on Friday for a 12-day Asia trip.

The choice would cap an unusually public selection process, during which the president has openly discussed his views of various candidates, asked Republican senators to vote by raising their hands for those under consideration and sought the opinion of a television host. Mr. Trump also posted a video on Instagram promising ''everybody will be very impressed'' with his selection.

In looking past Ms. Yellen, Mr. Trump would be breaking with longstanding precedent. Every Fed chairman in modern history who completed a first four-year term was nominated for a second. The last three Fed chairmen were nominated for new terms by a president of the opposite party. And Mr. Trump has praised Ms. Yellen's performance: During her four years, unemployment has fallen sharply, inflation has remained low and the economy is growing.

''You like to make your own mark,'' Mr. Trump said last week, by way of explanation.

In choosing Mr. Powell, however, Mr. Trump would be resisting pressure by conservatives to make a larger mark on the Fed's management of the economy. Many conservatives, including Vice President Mike Pence, favored the selection of John B. Taylor, a Stanford economist who has been an outspoken critic of the Fed's monetary policy.

Mr. Powell, by contrast, has voted for every Fed policy decision since 2012, although he expressed some reservations in internal debates about the extent of those efforts. In recent years, he has backed the methodical unwinding of the Fed's stimulus campaign, which involved purchasing $4 trillion worth of Treasuries and mortgage-backed securities to help the economy recover from the 2008 financial crisis.

Fed officials are often labeled hawks if they favor higher interest rates to control inflation, or doves if they want to keep rates low to promote job growth. Richard Fisher, a former president of the Federal Reserve Bank of Dallas, who worked with Mr. Powell at the Fed, said Mr. Powell ''is neither a hawk nor a dove.''

''I used to say that we all want to be wise owls,'' he added, ''and I think that he fits that category very well.''

Mr. Fisher said Mr. Powell was moderate to a fault. ''I've tried to get him to drink more than two glasses of wine at dinner, and he will not do it,'' he said.

A survey of 144 investors conducted by Evercore ISI found that they expected that Mr. Powell would push rates modestly higher than Ms. Yellen over time.

Mr. Powell also has sought a middle ground on the contentious debate over financial regulation. Mr. Trump and congressional Republicans argue that excessive regulation is restraining economic growth. At a Senate hearing in June, Mr. Powell agreed that there was room to improve regulation, but he described the Trump administration's proposals as a ''mixed bag,'' adding that he opposed some of the specific proposals.

Describing an effort already underway at the Fed, he said, ''The whole idea is to preserve the significant core reforms that were made but to go back and clean up our work.''

Mr. Powell would require Senate confirmation, and his views, particularly on regulation, could draw opposition from some conservatives in the Senate, 21 of whom voted against his confirmation as a Fed governor in 2014. Two Republicans on the Senate banking committee, which will consider the nomination, had previously raised concerns about Mr. Powell: Senator Tim Scott of South Carolina and Senator Patrick J. Toomey of Pennsylvania.

If nominated and confirmed, Mr. Powell would be the first Fed chair in four decades without an economics degree. He brings a background in **financial markets**, a contrast with Ms. Yellen and her predecessor, Ben S. Bernanke. People who have worked with Mr. Powell say he studied economics assiduously after joining the Fed, gathering stacks of papers on the questions of the day, then reading and discussing the findings with colleagues.

''I think it's far more important to understand and appreciate high-quality economic analysis than it is to have a Ph.D.,'' said Kim Schoenholtz, a professor of economics at New York University.

He noted that most Treasury secretaries had not held degrees in economics. ''What distinguishes the most effective secretaries is skill at bringing in talented personnel and appreciation for the value of informed economic analyses,'' he said.

Jon Faust, a professor of economics at Johns Hopkins University who worked with Mr. Powell at the Fed, said Mr. Powell had endeavored to understand monetary policy and had demonstrated a strong grasp of the subject. But Mr. Faust said it might be particularly important to have a trained economist as chairman if there was another recession.

''If the economy broadly behaves, I don't think it'll be of great consequence,'' Mr. Faust said. ''If we were to face another period where you need innovative and creative leadership, Jay has a lot of skills, and it could still go O.K., but you'd like to add to those skills a lifetime of studying monetary policy.''

Mr. Powell, 64, is a Washington native who has spent most of his life in a mix of public and private roles. He studied politics at Princeton University, then earned a law degree from Georgetown University before embarking on a career in investment banking in New York.

In 1990, he returned to Washington to work for his former boss, Treasury Secretary Nicholas Brady, as under secretary for finance. When Salomon Brothers was caught manipulating the market in Treasuries, Mr. Powell, vacationing on Cape Cod, spent a long August weekend on the phone arranging for top managers to resign and for Warren E. Buffett to be chairman of the company's board.

Under pressure to account for the shortcomings in regulation, Mr. Powell told a congressional committee in 1991, ''There is no question that it can be improved, and improve it we will.''

Mr. Powell joined the private equity firm Carlyle Group in 1997 and earned a fortune. His most recent financial disclosure showed a net worth of as much as $55 million. In 2005, he left the firm to focus on fiscal policy as a scholar at the Bipartisan Policy Center.

He attracted the attention of the Obama administration in 2011 for his work behind the scenes to persuade congressional Republicans to raise the debt ceiling. The next year, President Barack Obama nominated Mr. Powell to the Fed alongside a Democrat, the Harvard economist Jeremy Stein, in a package deal that was meant to attract bipartisan support.

Mr. Stein returned to his life as a Harvard professor after two years; Mr. Powell decided he liked working at the Fed, and so he stayed.

Jerome H. Powell (A1); The president is said to be set on Jerome H. Powell, 64, a Republican who has served as a Federal Reserve governor since 2012. (PHOTOGRAPH BY JOSHUA ROBERTS/REUTERS) (A18)

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**U.S. News: Americans Save Less, Spend More**

By Sarah Chaney and Harriet Torry
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Americans are saving less as the economy and **stock market** heat up and they boost spending on big-ticket items like cars and refrigerators. The trend concerns some economists.

The U.S. saving rate fell to a 10-year low of 3.1% in September, down from a recent peak of 6.3% in October 2015, the Commerce Department said Monday.

Low unemployment and rising stock prices are likely contributing to household optimism, making people willing to save less and spend more in anticipation of continued job and wealth gains.

The saving rate has now sat below 4% for seven straight months. It likewise hovered at low rates in the late 1990s, when stock prices soared and the jobless rate fell below 5%, and again in the mid-2000s, when home prices soared and the unemployment rate again dropped.

"It does seem to be consistent with high household net wealth," said Paul Ashworth of Capital Economics. Net worth of U.S. households -- the value of their assets minus their debts -- rose by $1.7 trillion in the second quarter of 2017 to $96.2 trillion, according to the Federal Reserve.

Though a sign of household optimism and prosperity, the savings drop and wealth gains are also a signal of risk potentially building in the economy and financial system. The declines in the savings rate in the 1990s and 2000s were associated with financial bubbles that burst.

"Consumer incomes are not rising fast enough to sustain solid growth and that is a warning sign of future trouble," said Joel L. Naroff, chief economist at Naroff Economic Advisors Inc., in a note to clients.

Still, periods of low saving can be protracted. The saving rate held below 4% for 40 straight months between January 2005 and April 2008.

The Commerce Department report showed that household spending on durable goods rose 3.5% in September, adjusted for inflation, and at a robust 8.3% inflation-adjusted annual rate for the third quarter, after 7.6% annualized gain in the previous three-month period. That is far faster than the economy's underlying 2% growth.

Sonnie Strolberg, 71, recently bought a 1,200-square-foot home in Twin Falls, Idaho. She and her husband have spent about $20,000 on renovations, including new kitchen appliances. "We feel good about the economy, but we know what can happen," she said.

Soaring sentiment wasn't the only factor driving spending. Hurricanes Harvey and Irma, which clobbered parts of Texas and Florida and propelled rebuilding efforts, were a factor, though one that the Commerce Department said it couldn't precisely quantify.

"There was lots of damage done to lots of homes, so some of the personal expenditure has to go to reconstruction as well," said Satyam Panday, senior U.S. economist at S&P Global Ratings.

While spending marched ahead, real disposable incomes -- a measure of how much households make after taxes and inflation -- were unchanged in September. One reason: Hiring dropped, also associated with the storms.

The saving rate might pick up in the months ahead as the wide-ranging impact of the storms recedes from the income and spending data.

The Federal Reserve's preferred measure of inflation, the price index for personal-consumption expenditures, rose 0.4% in September from the prior month, due in part to a jump in gasoline prices also associated with weather. Excluding the often-**volatile** categories of food and energy, inflation remained especially low: So-called core prices were up only 0.1% in September over August.



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**U.S. News --- CAPITAL JOURNAL: Trump's Deregulatory Juggernaut Is Rolling**

By Gerald F. Seib
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Why, you might ask, are the **financial markets** and the business community so happy with the Trump administration?

After all, a Trump presidency carries the risk of a trade war, which alarms investors and big-business leaders; in fact, the business community is actively working against the administration's threat to deep-six the North American Free Trade Agreement.

The GOP tax-cut plan the financial sector has been counting on is only being unveiled this week, and the administration has done nothing so far to launch the promised rebuilding of infrastructure that business leaders crave.

To some extent, then, the explanation for the love affair lies elsewhere, in something many in Washington either find boring or overlook entirely: deregulation.

While the Republican machine that emerged from the 2016 election may be sputtering on other fronts, it is proving to be a juggernaut on deregulation. And as a priority for the business community, deregulation ranks right up there with tax reform.

A new set of figures from the U.S. Chamber of Commerce tells the tale of how far and fast the president, his administration and the Republican-controlled Congress have moved.

The business group has been keeping a tally of deregulatory actions this year, and its scorecard lists 29 executive actions -- executive orders by Mr. Trump or directives from his White House -- to reduce regulatory requirements. In response, executive-branch agencies have issued 100 additional directives that either knock down regulations or begin a process to eliminate or shrink them.

The chamber's count also lists almost 50 pieces of legislation that have been introduced or begun moving through Congress. And that count doesn't include perhaps the most aggressive step the Republican Congress has taken: It has pioneered the use of a little-known 1996 law, the Congressional Review Act, that allows lawmakers to repeal executive-branch regulations within 60 days after they are finalized.

Using that law, Congress has passed, and Mr. Trump has signed, legislation overturning 14 regulations promulgated by the Obama administration in its final days.

Then, just last week, Congress passed legislation repealing a rule put in place this year by the Consumer Financial Protection Bureau -- created under Barack Obama's administration -- that would have made it easier for consumers to sue banks in financial disputes. The legislation, one of the most significant wins for the financial industry in years, passed the Senate 51-50 when Vice President Mike Pence broke a tie.

None of this is as flashy as a controversy over a 6:30 a.m. tweet from the president attacking his enemies. But the deregulatory push may be the most consequential initiative the Trump administration has taken, perhaps rivaled only by the appointment of dozens of judges, who serve for life.

Certainly the business and financial worlds are noticing the deregulatory drive. The economy grew at a 3% rate in the third quarter, the government reported Friday, fueled in part by business spending on new equipment, which rose at an annual 8.6% rate. That spending is one sign business leaders like the new environment.

Meanwhile, the **stock market** is hitting record highs on a regular basis.

Democrats, on the other hand, aren't pleased. They have begun complaining that the deregulatory rush is both dangerous to the public and the result of work by Trump administration officials with deep conflicts of interest, arising from their careers in affected industries or their personal financial interest in those industries.

This month, a group of House Democrats introduced legislation that would require agencies to report any conflicts of interest that would arise for the president or senior members of his administration when regulatory rules are being changed. President Trump is "undermining regulations in order to benefit himself, his family, and his close friends," said Rep. David Cicilline,a Rhode Island Democrat and one of the bill's sponsors.

Such legislation isn't going anywhere in a Republican-controlled Congress, of course.

Some of the administration's steps are small-bore -- setting up a team to review federal and state rules to ensure that efforts to protect the sage grouse are complementary, for example. But others, particularly those launched by the Environmental Protection Agency, are big and broadly significant, including moves already taken to delay and potentially rescind Obama-era Clean Air Act and Clean Water Act rules.

Some of the deregulatory actions will unfold slowly: Just as legal requirements for public comment and review periods make issuing regulations a slow process, so too do they mean unwinding regulations can take time and, in some cases, invite court challenges.

Ultimately, though, there is little Democrats can do to stop the drive -- a clear sign that elections do have consequences.



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The New York Times

Op-Ed Contributors
Opinion
**The Fed Chair Should Be a 'Principled Populist'**

By STEPHANIE KELTON and PAUL MCCULLEY
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Stephanie Kelton, a former chief economist for the Senate Budget Committee Democratic staff and a professor of public policy and economics at Stony Brook University, met with Paul McCulley, a senior fellow and professor at Cornell University Law School and former chief economist at Pacific Investment Management Company, to discuss the Federal Reserve and who should be its chair, the 2 percent inflation target, President Trump and the debate over tax cuts, and what a "populist" Fed might look like.

Stephanie Kelton: We've heard news that President Trump will announce his choice for Federal Reserve chair this week, and that he has decided against reappointing Janet Yellen. Gary Cohn is also reportedly out. That leaves Jerome Powell, a current Fed governor; Kevin Warsh, a former Fed governor; and John Taylor, a Stanford professor, still under consideration.

First, do you think it would be a mistake not to reappoint Yellen?

Paul McCulley: Chairman Yellen would be an inspired choice: She resolutely believes in the Fed's dual mandate to pursue maximum employment in the context of low and stable inflation. She is not a closet believer that the Fed's inflation objective — which the Fed has most often actually missed on the south side of 2 percent for half a decade running — should be given priority over its employment objective, as Taylor and Warsh implicitly do.

And she openly worries about our nation's ever-larger wealth and income inequality. She wants workers to have not only a job, but rising real wages.

Kelton: Has Yellen been a populist chairwoman?

McCulley: She is a principled populist, rooted in a strong belief in social justice. She would be a wonderful counterbalance to the Trump administration's half-baked, wild-eyed populism. But alas, Mr. Trump is unlikely to choose her. She's a Democrat.

Kelton: Yes, but President Obama and President Clinton both reappointed Republican Fed chairs.

You view wage stagnation and inequality as problems for the broader economy. You wrote that labor gets its fair share of productivity growth only when the Fed allows "the economy to rip for a long, long time." The Fed has begun its tightening cycle. Did it let the economy rip long enough, and is labor getting its fair share?

McCulley: Yellen has been willing to let the economy run "hotter" than the consensus, particularly the Wall Street consensus, thought prudent. And she does not have a religious belief as to how low the unemployment rate can fall without triggering unacceptable inflationary risks. She has been, and is, willing to probe lower and lower, and let the wage response inform how low is too low.

To date, the wage response has been notedly punk. So she hasn't gotten wrapped around the inflation-risk axle about the unemployment rate falling below where many think it can prudently go. I'm a huge fan of Janet Yellen.

Kelton: Do you think we're at full employment?

McCulley: No, I don't. And in fact, I think the whole concept of full employment needs to be redefined. It is not some precise unemployment rate. Or even some numerical increase in wages in response to ever lower unemployment.

To me, full employment will be when labor has pricing power relative to capital — meaning asking the boss for a raise and getting it — such that corporate profit margins shrink relative to labor's share of national income. Yes, I know that sounds radical.

Kelton: It sounds radical because you're talking about income distribution, which is always a thorny issue. As someone who made a career on Wall Street, it sounds especially radical because people expect you to be on the other side of that issue, right?

McCulley: Yes, for both reasons, though the matter of discussing income distribution is far more important than where I hung my hat for three decades. In both theory and practice, the Fed — and therefore Wall Street, which apes the Fed — has always shied away from talking about income distribution, arguing that is a "political question," that inflation is the only thing that the Fed should be held accountable for in the long run. Because that's putatively the only thing it can control in the long run.

Kelton: But it's not just a political question. It's an economic question — at least that is what the evidence coming out of the San Francisco Fed, the International Monetary Fund and elsewhere tells us. Widening income and wealth inequality appears to slow economic growth. Shouldn't the Fed care about that?

McCulley: Of course the Fed should care. The more skewed national income is toward the rich, the more difficult it is to maintain a robust aggregate demand growth. Rich people spend a lot, absolutely, but they have a lower marginal propensity to spend than less-affluent citizens. Put differently, give a rich man another dollar, and he'll spend very little of it. Give a man living paycheck to paycheck another dollar, and he'll spend all of it.

Kelton: You mentioned the Fed's 2 percent inflation target. You've called 2 percent an arbitrary goal.

McCulley: There is no theoretical foundation for saying that 2 is better than 3 or 4. The 2 number was picked by the Fed itself, not a mandate from Congress — which, remember, has constitutional authority over monetary policy; the Fed is not enshrined in the Constitution. The 2 percent inflation target is an accident of history.

Kelton: How is it an accident of history?

McCulley: The Federal Open Market Committee — the key policymaking body — gravitated to 2 percent as part of a process of getting Alan Greenspan, a former Fed chairman, to actually specify a definition of "price stability" above zero. And for the record, Janet Yellen was a key player in getting Greenspan off the latent notion (born of the long-abandoned gold standard, which Greenspan espoused as a younger man) that price stability actually means zero inflation.

Kelton: How would you like to see it change?

McCulley: There is now a not-so-silent consensus in our community that, in light of experience since the 2008 financial crisis, 2 percent is too low, as a fundamental economic matter. It is too close to zero, implying that in times of recessions, the Fed will have too little room to respond with countercyclical easing, running into the zero lower nominal bound for its policy rates, preventing a needed larger fall in real rates.

The Fed, as an institution, has pushed back against the idea that its 2 percent inflation target should be raised, on the notion that the transition to a higher target would be fraught with too much risk. I fully acknowledge that doing so would heighten uncertainty and thus **volatility** — triggering upward pressure on long-term interest rates relative to the Fed's short-term policy rate, as well as downward pressure on price-to-earnings multiples for stocks — but I do not see that as a compelling reason not to lift it.

Kelton: Who should pick the number, and how should they decide on it? You've suggested that the Fed probably shouldn't be picking its own inflation target.

McCulley: I think it should be a collaborative venture between the Fed and Congress. Yes, I used the word "collaborative," which I think applies in a more general way to the relationship between Congress and the Fed.

The Fed's operational independence is grounded in the thesis that the legislature cannot be trusted with monetary policy, as the electoral process is inherently biased to inflation, of overstimulating the economy with too much spending relative to taxation, running inflationary budget deficits.

That simply has not been the case for a long, long time. Yes, we've had large deficits, but inflation has been too low, not too high. Thus, I'm not convinced by the argument that strict Fed independence is always and everywhere needed to discipline the fiscal authorities' inflationary bias.

 

Kelton: What about policy today?

McCulley: If President Trump wants to try to boost real growth from 2 percent to 3 percent, there is no reason that the Fed should actively push back. That doesn't mean that the Fed shouldn't or wouldn't respond if such an acceleration in growth were to finally drive unemployment low enough to generate a loud wage and inflationary response.

My point is that there is no reason for the Fed to prevent the "experiment," if Mr. Trump and the Republican Congress want to run it.

Kelton: So then, what's your biggest macro concern?

McCulley: My biggest macro concern, longer term, is that we hit the next recession with the inflation rate somewhere near where it is now (about 2 percent). There needs to be room in the inflation rate for it to fall in recessions without turning inflation into deflation. And unless we repeal human nature, the business cycle is not going away.

Kelton: I'm sort of confused. You're worried that inflation is too low, and you say that the economy still hasn't reached full employment — two signs that the Fed should hold off on further rate hikes — but you want the Fed to get interest rates up quite a bit more so that it has the ammo to fight the next recession.

McCulley: I do not want the Fed to get rates up for the sake of getting rates up. Rather, I want the Fed, working tacitly with the fiscal authority, i.e., Congress, to get inflation up. If, and only if, the Fed gets inflation up will there be reason to get rates up, in lagged response. The concept of pre-emptive Fed tightening is anathema to me.

Kelton: I see. So you'd like to see Congress help the Fed get the economy running a little hotter by flexing its own policy lever. I remember that you were one of the most forceful voices calling on Congress to use its fiscal (tax and spending) authority to help the Fed out during and after the last recession. You said that the economy "needed some help with larger budget deficits."

President Trump is proposing enormous tax cuts that would add significantly to the deficit. His budget director, Mick Mulvaney, says "we need new deficits" in order to get the 3 to 4 percent growth the White House is looking for. What do you think? Do we need deficits, and would Trump's tax cuts give us the right kind of deficits to spur growth?

McCulley: As much as I am not a Trump supporter, I cannot in good analytical conscience say that his tax plan is intellectually bankrupt. It is not. Purposely increasing the budget deficit to stimulate aggregate demand is a textbook technique to stimulate growth.

But I vehemently disagree with the idea that cutting taxes for the rich is the best way to go about increasing the budget deficit to boost growth. Increased public investment and tax cuts for budget-constrained families would have a far higher bang-for-the-deficit-dollar effect on growth. And even more important to me, personally, such an approach would be pass a smell test of social justice.

Kelton: That makes a lot of sense to me. Trump's deficits will largely benefit those at the very top. But as I recently wrote, you could easily turn the firepower of deficit spending into a potent weapon in the fights against inequality, poverty and economic stagnation.

McCulley: And there is plenty of room for the fiscal authority to run larger deficits. Deficit hawks are simply wrong. The debate should be about how fully various higher-deficit choices pass a smell test of social justice.

Kelton: This week, the Senate voted to shield Wall Street from consumer lawsuits. Does that concern you?

McCulley: Speaking of smell tests of social justice: This Senate action flunks, very bigly!

Banks are many things, but at their core, they have a public utility function, access to the payments system — the highway, if you will, on which you get paid and pay your bills.

In that sense, banks are not different than the gas company or the electric company, connecting you to the grid — a natural oligopoly. Accordingly, I take offense with the notion that banks should have the right to put cram-down arbitration clauses into every citizen's "hook up" to the payment system.

You really don't have a choice but to do business with a financial institution connected to the grid. In fact, unless you pay in person at a local I.R.S. office, you actually must have access to pay your taxes.

 

Kelton: So Donald Trump rode a wave of populist anger — some of it aimed at Wall Street — but when push comes to shove, the Republicans aren't there for the little guy?

McCulley: I think it took a lot of brass, as former Vice President Biden might say, for the Republicans — including current Vice President Mike Pence — to stand up for the banks against consumers in the wake of the Wells Fargo and Equifax debacles. Access to the court system is a constitutional right, and requiring citizens to relinquish that right in order to get access to the payments grid is repugnant to me.

There is nothing voluntary about needing access to the payments grid, any more than there is anything voluntary about needing access to core household utilities. Social justice — a theme to which I return again and again — demands that citizens have access to the court system for redress in the purchases of services where they have no choice but to buy.

Kelton: We also learned last week that President Trump's Treasury Department isn't a fan of the term "shadow banks." That's a term you coined to describe some of the opaque financial institutions that drove the 2008 financial crisis. You added the word to our lexicon, and now the Treasury Department wants to annex it. They're actually calling on global regulators to stop using the s-word. What are "shadow banks," and can we safely ignore them?

McCulley: "Shadow banks" engage in regular bank behavior, but without access to government safety nets.

A fiery run on the shadow bank Lehman Brothers triggered the financial crisis. Our government had no choice but to rescue, then transform, Lehman's too-big-to-fail shadow bank brethren into conventional banks, with access to the government's safety nets.

But that access came with the quid pro quo of the same regulatory restrictions as conventional banks, reducing the fun and profitability of their shadow banking game.

Dodd-Frank imposed additional restraints on playing with maturity-transformation nitro. But bankers, of all stripes, still just want to have fun. They would now like not only a relaxation of the Dodd Frank quid pro quo, but also to be rid of the term "shadow banking."

Bad Karma, you know. And they now have both a Congress and a Treasury friendly to their interests.

I don't worry about efforts to take the term shadow banking out of the lexicon. I actually use the term "market-based finance" myself frequently. I do worry, however, about what the erase-it effort represents: a cyclical turn to regulators once again being enthralled and captured by the regulated.

Kelton: Thanks so much, Paul. I could talk policy and economics with you all day.

McCulley: As could I! Here's to hoping that our profession never forgets that we have a role in bending Martin Luther King's arc of history toward justice.

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Janet Yellen has been chair of the Federal Reserve since 2014. | Carlos Barria/Reuters

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THE WALL STREET JOURNAL.
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**Surge in Global Stocks Fueled By Investors 'Buying the Dip'**

By Chris Dieterich, Ben Eisen and Akane Otani
967 words
30 October 2017
The Wall Street Journal
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English


Markets around the globe are surging to records, reflecting growing optimism about the world economy and fueling an increasing eagerness by investors to step in and buy assets whenever prices dip.

In the U.S. **stock market**, declines have grown shallower over the past two years and are snapping back sooner. The **S&P 500** has gone 246 trading days without trading more than 3% below its record high, the longest streak ever for the index, according to LPL Financial. The index hasn't had a decline of 10% or more from a recent peak since February 2016.

The steady buying in the U.S. has lately spread to Europe, Japan and even developing markets, investors say. On Friday, the **Dow Jones Industrial Average** rose 0.1% to 23434.19, near its record from Tuesday, its 54th of the year. Japan's Nikkei gained 2.6% this past week to its highest level since 1996, and share indexes in the U.K. and Germany have hit records this month.

The gains reflect both economic optimism and recognition of the strong returns reaped by those who have stayed invested in riskier assets during the rebound from the epic market decline in 2008-2009.

"The investor base has been conditioned to buy the dip," said Mohamed El-Erian, chief economic adviser at Allianz SE. "And the reason why they have been conditioned is because it has been an extremely profitable trade."

With interest rates still low and valuations on many stocks, bonds and other assets looking stretched, many investors seem willing to buy anything that gets knocked down and suddenly looks cheaper, betting the most probable outcome will be a rebound.

On Wall Street, the phrase "Fed put" -- a bet that the central bank would deploy monetary policy to help reverse a stock selloff -- has become common parlance.

"If you want to make a return, you've got to buy risky assets," said Jeffrey Knight, co-head of global asset allocation at Columbia Threadneedle Investments. He expanded bets on positions in commodities this summer after worries about an oversupply of oil led to a selloff.

In the **stock market**, investors are buying the dip more quickly than they used to. The **S&P 500** recouped the bulk of its 5.3% two-day post-Brexit decline, in June 2016, in only three trading days.

It took just three days for the **S&P 500** to recover from a 1.8% drop in May -- its largest one-day decline of the year -- following reports that President Donald Trump asked then-FBI Director James Comey to drop an investigation into former National Security Adviser Michael Flynn.

That is a faster recovery than when the **S&P 500** fell 11% over a six-day stretch in August 2015 and then took until November of that year to get back to its pre-selloff level.

Even when prices drop, declines that in prior years might have deepened or spread more broadly are now quickly contained, investors say. Riskier assets such as the Turkish lira and Brazilian exchange-traded funds have bounced back almost immediately following recent declines.

Some observers worry that the buy-the-dip mentality, like the persistent decline over the past year in daily **stock-price** swings known as **volatility**, could point to an underlying complacency that will end with a big selloff.

"People have just gotten so immune to any pain and anguish in any of these markets that when it happens it is going be very psychologically painful," said Marilyn Cohen, the Los Angeles-based president and owner of Envision Capital Management.

In the case of General Electric Co., shares tumbled 6.3% in early trading on Oct. 20 after the conglomerate missed analyst earnings expectations and slashed its forecasts. But buyers quickly stepped in on GE's heaviest trading volume session in nearly two years, and the stock ended 1.1% higher.

An analysis of the type of the size of trades made that day indicate that most dip buyers were smaller investors or high-frequency professionals that trade in quick bursts, rather than large institutions that tend to transact in larger chunks.

In the days that followed, GE shares resumed their fall after several analyst downgrades and concerns that the company would have to cut its dividend. Shares closed Friday at $20.79, below the $23.58 they settled at the day before GE reported earnings.

The Brazilian real plunged against the dollar, while Brazilian shares tumbled 8.8% on May 18, after the country's Supreme Court approved an investigation of President Michel Temer amid bribery accusations. Three months later, the Bovespa Index was back at records and the **volatility** failed to weigh on other emerging-market stocks.

The Turkish lira fell 2.3% against the U.S. dollar on Oct. 9, a day after the U.S. and Turkey stopped issuing nonimmigrant visas to each others' citizens -- and then bounced back two days later, erasing more than half of the declines.

Isolated drops in major developing markets were less typical in prior years, said Seema Shah, global investment strategist at Principal Global Investors.

"Hot money is not what it once was," she said. "Investors are starting to think about whether these political crises are really going to affect the underlying economies."

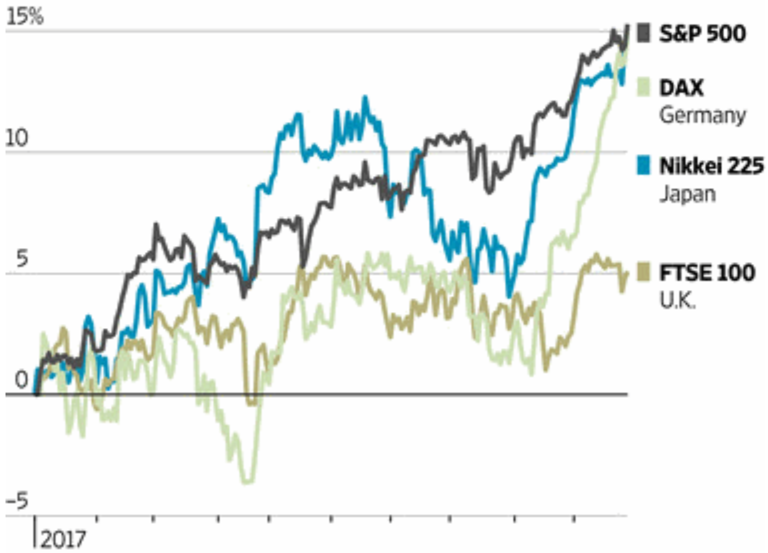
Some investors say this danger could intensify if an upsurge in inflation prompts the Fed and other central banks to raise interest rates or pare back bond buying more quickly than investors expect.

That could drive bond yields higher, which could make stocks and riskier bonds less appealing than safer assets that for years have carried ultralow yields.

## Looking Up

Major global stock indexes have made new records or multiyear highs this year, aided by many investors who are ready to buy whenever prices dip.

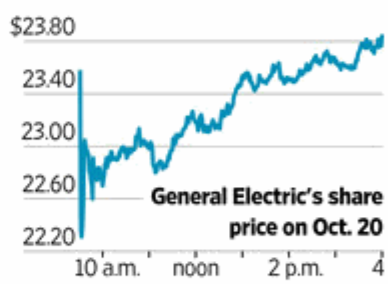


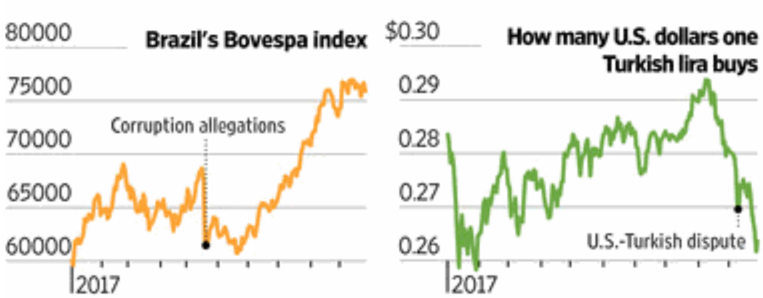

Source: FactSet

THE WALL STREET JOURNAL.

## A Buy-the-Dip World

Assets across the globe have rebounded quickly after sudden selloffs. GE shares declined but closed up after the company fell short of earnings expectations. Turkey's lira bounced after a dispute with the U.S., and Brazil's stocks rebounded after corruption allegations against the president.




Sources: FactSet (GE, Bovespa); Tullett Prebon (lira)

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The Week Ahead
Business Day
**Tech Companies Face Congress, Fed News and Jobs Numbers**

By THE NEW YORK TIMES
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29 October 2017
09:00 PM
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NYTFEED
English


Here’s what to expect in the week ahead:

TECHNOLOGY

Tech giants to face congressional questions.

Some of the world’s internet heavyweights will make their first public appearances before lawmakers investigating the role their sites played in Russia’s interference in the 2016 election. Beginning Tuesday, the top lawyers for Facebook, Google and Twitter will appear in three consecutive hearings. On Tuesday afternoon, the Judiciary Committee’s Subcommittee on Crime and Terrorism will hold a hearing on how social media networks have been used to promote terrorism or radicalization and may address a bill proposing that websites disclose who paid for political ads they carry. Wednesday is the main event, starting with a 9:30 a.m. hearing by the Senate Intelligence Committee and then a 2 p.m. hearing by the House Permanent Select Committee on Intelligence. Those hearings will be focused on misinformation and fake accounts linked to Russia that were used to purchase ads during the election. Cecilia Kang

ECONOMY

Eurozone economy bouncing back.

The renaissance of the eurozone economy is expected to be confirmed on Tuesday when the European Union statistics agency publishes an initial estimate of economic growth. Analysts forecast that the economy of the 19 countries in the eurozone grew 0.5 percent from July through September compared with the previous three months, as countries like Spain bounce back after almost a decade of malaise. Confidence in the eurozone’s prospects has prompted the European Central Bankto begin dismantling the emergency stimulus it has been providing, but there are still trouble spots, like Italy, where banks are weak and growth is meager. Jack Ewing

Government to release data on employee earnings.

The Bureau of Labor Statistics will release data Tuesday on the Employment Cost Index for the third quarter. The report is less well-known than other measures of wages and earnings, but is preferred by many economists for its methodological sophistication and because it accounts for the cost of employee benefits. Economists will be looking for evidence that low unemployment is at last translating into faster wage growth for workers; the last report, in July, showed wages rising but more slowly than before the 2008-9 recession. Ben Casselman

BANKING

European banks report earnings.

More of Europe’s largest lenders will report their results for the third quarter. Credit Suisse, the British banks HSBC and Standard Chartered and the French banks BNP Paribas and Société Générale are all scheduled to update investors. European banks that reported their results last week generally mirrored their American counterparts, suffering tough quarters on trading revenue, but benefiting from stronger consumer lending. Chad Bray

ECONOMY

A Fed meeting and, perhaps, a new chairman.

While President Trump publicly deliberates who should lead the Federal Reserve next year, it's business as usual at the Fed, which will hold a regularly scheduled meeting of its monetary policy committee on Tuesday and Wednesday. The Fed is expected to leave its benchmark interest rate unchanged. The big question is whether the Fed remains on course to raise the rate at its final meeting of the year, in December. Any sign of hesitation would surprise **financial markets**. Economic growth is strong, unemployment is low and the Fed's chairwoman, Janet L. Yellen, has said repeatedly that she isn't overly worried about low inflation. Binyamin Appelbaum

AUTO INDUSTRY

Auto sales expected to resume decline.

Automakers on Wednesday are expected to report declines in new vehicle sales in October, a return to the downward trend the industry has been grappling with this year. In September, auto sales jumped as consumers rushed to replace cars and trucks damaged by the hurricanes that hit Texas and Florida. But that boost has dissipated. Edmunds.con is forecasting that October sales declined by 3.5 percent compared with a year ago. While sales remain at healthy levels, they have fallen every month this year except in September, after a record total in 2016. Neal E. Boudette

Investors looking for news on Tesla's Model 3 production.

When Tesla reports third-quarter earnings on Wednesday, all eyes will be focused not on the bottom line, but on the Model 3 production line. The electric car maker is expected to report a quarterly loss — it has lost money in five of the last six quarters — but more important is whether it has solved the bottlenecks that slowed production of the $35,000 Model 3, its first mass-market car. From July to September, Tesla produced fewer than 300, short of a goal of 1,500. Investors are hoping the earnings report will be accompanied by more details on the company's progress. Neal E. Boudette

ECONOMY

Bank of England expected to raise rates.

The Bank of England is widely expected to raise interest rates on Thursday as it releases its latest forecast for inflation. The central bank dropped rates to the lowest level in its history last year over concerns about how the British economy might fare after a vote to leave the European Union, commonly known as Brexit. A decline in the value of the pound since the vote has raised concerns about inflation, prompting some members of the bank's Monetary Policy Committee to vote for an increase in rates in recent months. Inflation in Britain reached 2.8 percent in September, its highest level in five years, according to the Office of National Statistics. The central bank sees a 2 percent inflation rate as a sign of healthy economic growth. Chad Bray

A rebound is expected for the job market.

Employers in the United States cut jobs in September for the first time in seven years, a decline that economists attributed largely to the hurricanes that struck Texas and Florida. On Friday, the government's monthly employment report will reveal how strongly the job market has bounced back. Economists expect the report to show that employers added about 300,000 jobs in October, which would represent the strongest growth in more than two years. Policymakers will be watching closely. Disappointing data on hiring or workers' earnings could make the Federal Reserve think twice about raising interest rates in December. Ben Casselman

* Mark Warner: Tech Millionaire Who Became Tech's Critic in Congress

* Forget Washington. Facebook's Problems Abroad Are Far More Disturbing.

* Fed's Janet Yellen Says the Economy Remains in Good Health

The leaders of the House Intelligence Committee, Representative Adam Schiff, Democrat of California, left, and Representative Mike Conaway, Republican of Texas. | J. Scott Applewhite/Associated Press

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The New York Times

STRATEGIES
Money and Business/Financial Desk; SECTBU
**Why Bonds Aren't Boring Right Now**

By JEFF SOMMER
1,201 words
29 October 2017
The New York Times
NYTF
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3
English


The **stock market**'s relentless gains have been getting the big headlines but the bond market's performance has been startling, too -- and in ways that are troubling for many investors.

Stocks and bonds are complementary partners in standard portfolios. While stocks typically have a higher return potential, bonds are generally less risky and provide a hedge against a **stock market** plunge, as they did during the **bear market** that started in 2007.

The dilemma now is that despite a rocky bond market over the last month, **bond prices** are still so high -- and their yields so low -- that bonds simply can't provide much buffering.

''It's inescapable,'' said Scott Clemons, chief investment strategist at Brown Brothers Harriman. ''At their current prices, bonds can't help as much in a stock downturn. And the likelihood is that in the next few years, bond returns won't be very good, either.''

These gloomy tidings from the bond market have been overwhelmed by spectacular news on the stock side of things. Stocks have been surging for more than eight years and anyone lucky enough to have money in the market that long is sitting on sizable gains. Is it time to cash out of stocks? Maybe. But it's possible that the good times will continue to roll.

As Laszlo Birinyi, the independent stock strategist who has been correctly **bullish** since early 2009, wrote in a note to clients this past week: ''Our strategy remains unchanged. Stay invested, expect higher prices and ignore the noise from both the bulls and the bears.'' Mr. Birinyi monitors fund flows in and out of stocks closely, and he says they provide a neutral signal. ''The market continues to forecast a grinding trend,'' he said.

Upward momentum is in the **stock market**'s favor. ''Bull markets don't simply die of old age,'' Charlie Ripley, senior investment strategist for Allianz Investment Management, said. ''We don't see anything on the horizon that would cause the **bull market** to end.''

But stocks over all are no longer cheap. While the economy is still growing, despite evident political turmoil in Washington and elsewhere around the globe, it is easy to make a case for extreme caution in the **stock market**, given its elevated levels.

As I wrote in a column this summer, standard practice after a big run-up in stocks is to rebalance -- meaning, to take profits out of stocks and put them into bonds. The goal is to create a well-diversified portfolio.

That is age-old advice. There is a problem with it right now, though: This is not an ideal moment to be putting money into bonds.

The immediate outlook for fixed-income investments isn't wonderful, many strategists say. After all, **bond prices** rallied for many years, too, and are already at high levels. Yields, which move in the opposite direction, are extremely low on a historical basis, though they have been rising lately.

The last month, in fact, has been a poor one for bonds. The benchmark Bloomberg Barclays U.S. Aggregate Bond Index declined by half a percentage point. That would be negligible for the broad **stock market** but it's a lot for bonds and it could presage further difficulties ahead.

While it's difficult to pinpoint cause and effect, there are several logical explanations for the recent run-up in bond yields -- and the decline in prices. They appear to be a consequence of expectations for change in both monetary policy -- orchestrated by the Federal Reserve and other central banks -- and in fiscal policy, which is the product of politicians in Washington and other capitals.

Briefly, the Fed has begun raising short-term interest rates and reversing the expansion of its balance sheet. It says it is likely to keep doing so, assuming that economic growth continues and inflation rises. Those changes in themselves could disrupt the bond market.

Furthermore, speculation about President Trump's choice for Federal Reserve chairman is a factor. Janet Yellen, the Fed chairwoman, has favored relatively low interest rates, but her four-year term ends on Feb. 3. "Our view is that some of the alternatives to Janet Yellen are likely to be more hawkish on interest rates," Mr. Ripley said.

Ms. Yellen could be reappointed. But other leading candidates include a current Fed governor, Jerome H. Powell, and a Stanford University economics professor, John B. Taylor. Mr. Powell is generally perceived to be close to Ms. Yellen in his views. Mr. Taylor has been a critic of the current Fed and has favored adoption of an algorithm to set monetary policy that could translate into a sharp increase in interest rates. The prospect of Mr. Taylor as Fed chairman has produced a spate of comments like this one, issued by Capital Economics on Wednesday: " There is clearly a risk of a more hawkish Fed under Taylor's leadership."

Then, there are the bond market ripples caused by potential shifts in fiscal policy, including changes in the tax code. The details of an eventual tax overhaul -- if there is one -- are impossible to know now. But that hasn't stopped investors from calculating the odds of various outcomes. A combination of rising government deficits and declining Federal Reserve bond holdings could produce the equivalent of an earthquake for fixed-income investors. Yields could rise sharply and prices could plummet.

"It's only the last few weeks that these possibilities have begun to be priced into **bond prices**," Mr. Ripley said.

The bond market turmoil leaves investors in a bit of a muddle. The central reasons for holding bonds remain intact: Bonds will still buffer a portfolio and generate income. But in the near future, they aren't likely to do so as effectively as in the past.

Prudent people should temper their expectations. That's the advice of a man with a formidable track record, John Bogle, who founded Vanguard. "Current bond yields are an excellent predictor of returns for the next 10 years," he reminded me in a phone conversation. Based on current yields, he estimated, a portfolio containing a mix of government and corporate bonds is likely to generate an annualized return of only about 3 percent.

That's not much. But it's not far behind his expectation for stocks. After the titanic rally, which has produced tremendous profits, he said, stocks have outrun fundamental values through "speculation" and are, therefore, likely to produce annualized stock returns of only 4 percent over the next decade, he said.

"Compared with stocks," he said, "bonds are a good value, better than they have been in years."

It still makes sense to hold stocks and bonds in a diversified portfolio, he said, and his estimates are only that, estimates. Think it through for yourself, he said, and draw your own conclusions. Just be realistic about them.

"Invest for the long run but don't expect too much," Mr. Bogle said. "If you do that, you won't be disappointed."

Follow Jeff Sommer on Twitter: @jeffsommer

CHARTS: The Long Bond Market Rally; A Shaky Month (Source: Thomson Reuters)

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THE WALL STREET JOURNAL.
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What's News
**Business & Finance**

171 words
28 October 2017
The Wall Street Journal
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The U.S. economy grew at a 3% annual rate last quarter despite two hurricanes, helped by rising stocks and consumer and business confidence.

The **S&P 500** and **Nasdaq** set records on strong corporate results. The Dow edged up 33.33 to 23434.19.

Amazon, Alphabet, Microsoft and Intel posted the biggest gains, as enthusiasm for tech shares swelled.

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CVS's bid for Aetna followed a six-month-long hunt, during which the drugstore firm also approached Anthem and UnitedHealth.

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Alibaba's co-founder will buy a 49% stake in the Brooklyn Nets for $2.3 billion.

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Exxon and Chevron said profits jumped 50% and Total gained 40% but investors remain wary of oil shares.

Brent crude prices topped $60 a barrel for the first time in more than two years.

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Wells Fargo's foreign-exchange trading is being probed by prosecutors.

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Clariant and Huntsman ended their planned deal amid investor pressure.

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Penney slashed profit goals and warned of softer sales. Shares slid 14.8%.

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THE WALL STREET JOURNAL.
U.S. EDITION

**U.S. Economy Picks Up Steam --- Despite hurricanes, U.S. consumers and businesses drove a six-month expansion**

By Josh Mitchell
1,015 words
28 October 2017
The Wall Street Journal
J
A1
English


WASHINGTON -- The U.S. economy posted its best six-month stretch of growth in three years despite two hurricanes, a sign that it might be breaking out of its long-running slow-growth trend, with the help of soaring stock prices and rising business and consumer confidence.

Gross domestic product, the broadest measure of goods and services produced in the U.S., expanded at a 3% annual rate in the third quarter, the Commerce Department said Friday. That followed 3.1% annual growth in the spring.

Though not a boom, that's still the first time since mid-2014 that the economy has strung together two quarters of at least 3% growth. Solid spending by consumers and businesses -- along with higher sales of American goods overseas -- helped prevent a slowdown some economists expected after hurricanes Harvey and Irma shut down parts of Texas and Florida in August and September.

The third-quarter gain came alongside signals that "animal spirits," as the economist John Maynard Keynes once described the desire to spend and invest, were helping to boost economic activity. **Stock-market** gains have accelerated since Donald Trump was elected president last year, and consumer and small-business confidence have notched higher. The **Dow Jones Industrial Average** rose another 33 points Friday, putting it up 18.4% so far this year.

In the wake of those sentiment advances, household purchases of durable goods, such as cars and refrigerators, have picked up, as have gains in business investment in equipment. Consumer spending on durable goods rose at an 8.3% annual rate in the third quarter after 7.6% annual growth in the previous quarter. Equipment spending by business rose at an annual 8.6%, following 8.8% in the previous quarter.

Kevin Wilson, chief executive and president of Buzz Franchise Brands, a pest-control and home-cleaning company, said higher stocks have led several people to open franchises under his brands this year.

"Good times are here," he said. "Their stocks have gone up and they're taking some of that money and saying: 'Now's the opportunity to start our own business.'"

Still, there is ample reason for caution before concluding the gains will be sustained. The economy has produced six-month growth bursts several times during this eight-year expansion, including a period of near-5% growth in mid-2014. But it hasn't been able to keep up that pace. The growth rate as a whole for the expansion has averaged 2.2%.

A chunk of the third quarter's growth reflected businesses' replenishing of stockpiles, which had fallen earlier this year, rather than higher sales. Stripping out inventory changes, which can be **volatile**, output grew at a 2.3% rate, closer to the longer-running average. Compared with a year earlier, overall output including inventory changes was just 2.3% higher.

While economists are expecting growth in the current quarter to clock near 3% again, nagging trends, including an aging population and weak worker productivity gains, still might stand in the way of sustained robust growth.

"We have to be a little bit careful," said Gregory Daco, economist at Oxford Economics. "The underlying pace still remains in that 2% growth environment."

The Trump administration has promised sustained 3% growth by reducing regulations, revamping trade agreements and passing a broad tax-cut package currently being negotiated in Congress.

Administration officials celebrated the latest numbers. "As the President's tax-cut plan is implemented, our entire economy will continue to come roaring back," Commerce Secretary Wilbur Ross said in a statement Friday.

Democrats weren't prepared to yield any credit to the new administration. "Today's GDP numbers show the resiliency of the economy this administration inherited," Sen. Martin Heinrich (D., N.M.) said in a statement. "Instead of building on this foundation, President Trump has created a climate of uncertainty."

Hurricanes made it challenging to discern the underlying trend in the third quarter. Damage to property led to a spurt of spending on cars in hurricane-damaged areas, but the storms also appear to have depressed spending on services like restaurants, where payrolls sank for the month.

The Commerce Department said hurricanes likely suppressed business activity such as oil-and-gas extraction in Texas and agricultural production in Florida. But the storms likely boosted other types of activity, such as emergency services and repair efforts.

"It is not possible to estimate the overall impact of Hurricanes Harvey and Irma on 2017 third-quarter GDP," the agency said.

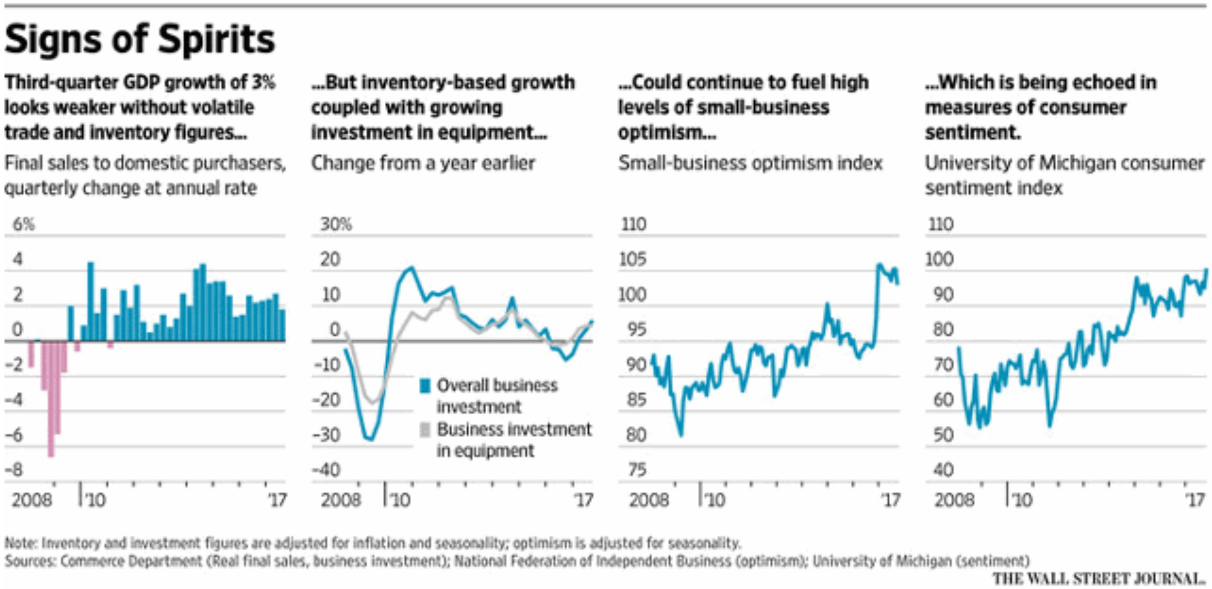
Repair efforts could boost economic growth in coming quarters, particularly in building sectors. The Commerce Department estimated that government and private insurance companies' payouts resulting from the storms could total $102 billion. That's money that could be plowed back into the economy.

The report is likely to nudge the Federal Reserve closer to raising its benchmark short-term interest rate -- the federal funds rate -- at its policy meeting in December. Inflation picked up this summer, though it is still below the Fed's 2% target. For the economy to sustain faster growth, much depends on the outlook for business investment, which is central to boosting worker productivity and sustaining robust corporate profit gains.

MBAF, a 600-employee Miami-based accounting and consulting firm, offered a sign of a sustainable pickup. It has budgeted about $1 million in capital spending in its current fiscal year -- triple what it spent last year. Tony Argiz, chief executive and chairman, said the spending increase reflects two developments: New technology enabling his company to perform audits much more efficiently, and data breaches at firms like Equifax pushing firms like his to invest in new security software.

He said the company feels the urge to become more efficient to compete with other firms. "We need to keep up with the times, and artificial intelligence is going to be critical in my profession in the next four or five years," Mr. Argiz said.






Document J000000020171028edas0003n

The New York Times

BREAKINGVIEWS
Business/Financial Desk; SECT
**While Tax Cuts Remain Theoretical, the Economy Blooms**

By GINA CHON
422 words
28 October 2017
The New York Times
NYTF
The New York Times on the Web
English


It turns out that the United States economy is doing just fine without tax cuts. Initial estimates show the economy expanded at an annual rate of 3 percent in the third quarter, despite the effect of Hurricanes Harvey and Irma. An increase in goods made but not sold helped, but so did global growth and healthy corporate earnings. Protectionist policies could put the trend at risk.

Third-quarter growth was a pleasant surprise after economists projected expansion of 2.5 percent. Growth in consumer spending, which makes up two-thirds of economic output, slowed to 2.4 percent but is expected to rebound as the effects of the hurricanes fade. And rising inventories contributed just over 0.7 percentage point to growth, in what could be a sign that companies think consumer demand will warm up.

There are other positive signs. Business investment, which had been lagging but improved in recent months, came in at a healthy 3.9 percent. Exports increased 2.3 percent in the third quarter, which added more than 0.4 percentage point to economic growth. It was aided by global expansion, with world economic growth in sync for the first time in years and Europe catching up with the United States. The International Monetary Fund projected that the global economy would increase 3.6 percent in 2017 and grow 3.7 percent the next year.

President Trump has promised to cut the corporate income tax rate to 20 percent -- but whether or not he succeeds, companies are performing well. The **Nasdaq** reached a record high (not adjusted for inflation) on Friday morning after tech groups like Amazon and Microsoft reported robust third-quarter earnings. On top of that, the United States is nearly at full employment with a jobless rate of 4.2 percent.

Past form suggests Mr. Trump will take credit. True, the nearly 20 percent rise in the Standard & Poor's 500-share index since his election happened partly because of the hope of tax cuts. But most of the positive economic trends are occurring without major legislative accomplishments. The biggest risk to this outlook is harmful trade policies, including a disintegration of the North American Free Trade Agreement, for which negotiations aren't going well. The best that can be said is that Mr. Trump has not yet done the economy harm.

Gina Chon is Washington columnist for Reuters Breakingviews. For more independent commentary and analysis, visit breakingviews.com.

Document NYTF000020171028edas0003v

The New York Times

Business/Financial Desk; SECTB
**Trump's Showmanship Encompasses His Search For the Next Fed Leader**

By BINYAMIN APPELBAUM
1,197 words
28 October 2017
The New York Times
NYTF
Late Edition - Final
2
English


WASHINGTON -- President Trump delights in making spectacles out of personnel decisions. He conducted cabinet interviews at his New Jersey golf club, inviting members to gather and gawk. He summoned both finalists for a Supreme Court seat to the White House on the day of the announcement. And now he is conducting the most dramatic and drawn-out search for a Federal Reserve chairman in the long history of that stolid institution.

Mr. Trump is very publicly deliberating between two candidates with strikingly different views about the practice and purpose of monetary policy: Jerome H. Powell, a Fed governor who has voted in favor of every Fed policy decision since 2012, and John B. Taylor, a Stanford economist who is among the Fed's most vocal critics.

The president also continues to insist that he could decide to renominate the Fed's chairwoman, Janet L. Yellen, whose four-year term ends in February.

On Friday, the president took to Instagram to advertise that he would announce his pick next week. ''People are anxiously awaiting my decision as to who the next head of the Fed will be,'' Mr. Trump said in a video. ''It will be a person who hopefully will do a fantastic job. And I have somebody very specific in mind. I think everybody will be very impressed.''

The choice of a Fed chairman is always a high-stakes political decision, but Mr. Trump's predecessors uniformly sought to minimize the attendant drama. Past presidents have rarely acknowledged the existence of multiple candidates, and since World War II, every chairman who completed a first term has been nominated for a second term.

Mr. Trump, by contrast, announced in July that he was considering candidates to replace Ms. Yellen. The White House later confirmed the names of five finalists, and then Mr. Trump said publicly he had narrowed his focus to Mr. Powell and Mr. Taylor.

On Tuesday, he conducted an informal poll of Senate Republicans, asking them to raise a hand for either Mr. Powell or Mr. Taylor. Some refused.

''I don't think that's a very good way to pick a Fed chair, so I declined to participate,'' said Senator Bob Corker of Tennessee, an increasingly outspoken critic of Mr. Trump's style of governance.

On Wednesday, Mr. Trump sought advice from a TV personality, turning the tables on Lou Dobbs of Fox Business Network in the middle of an interview.

''Tell me who your preference is,'' Mr. Trump said. He pressed repeatedly for an answer from the visibly flustered host. Mr. Dobbs finally endorsed Ms. Yellen.

Mr. Trump responded: ''She was very impressive. I liked her a lot. I mean, it's somebody that I am thinking about.'' But, he continued, ''I have to say you'd like to make your own mark,'' suggesting that he might be inclined to nominate someone else.

Sarah Binder, a professor of political science at George Washington University, said the most unusual aspect of Mr. Trump's deliberations was the diversity of the candidates.

Presidents generally decide what kind of chairman they want and then pick a nominee.

President Jimmy Carter, who chose twice, first decided that he wanted an industrial executive, settling on G. William Miller, the head of Textron. Nearly 17 months later, deciding he wanted someone respected by **financial markets**, Mr. Carter picked Paul Volcker.

President Ronald Reagan renominated Mr. Volcker, then chose Alan Greenspan, draining the drama from the process for almost two decades. In 2003, President George W. Bush offered Mr. Greenspan a fifth term a year before the end of his fourth term.

When Mr. Greenspan retired in 2006, Mr. Bush chose Ben S. Bernanke from a list of three Ivy League economists who had served as Republican policy advisers.

President Barack Obama renominated Mr. Bernanke, then sought a replacement among Democratic economists who embraced the Fed's power to reduce unemployment. Supporters of Ms. Yellen and her main rival, Lawrence H. Summers, battled publicly, but it was a contest over personalities, not ideas.

Mr. Trump's choice, by contrast, could have significant consequences for the direction of Fed policy. Mr. Powell, who supported the Fed's efforts to stimulate economic growth, now favors a gradual unwinding of those policies. Mr. Taylor opposed the stimulus campaign, and he has called for the Fed to retreat more quickly.

''If you're taking seriously reappointing Yellen or nominating Powell, well, that's light-years away from Taylor,'' Ms. Binder said. ''It just raises the question: What is the basis on which the president is conducting the search?''

One possible explanation is that Mr. Trump is struggling with the imperatives of a polarized political environment. He has repeatedly praised Ms. Yellen for her performance as Fed chairwoman. The economy is growing and the **stock market** is rising, and Mr. Trump wants both trends to continue. But conservatives are pressing Mr. Trump to seize the opportunity to shift the approach of the central bank by appointing Mr. Taylor.

Three House Republicans, including Representative Warren Davidson of Ohio, sent a letter to Mr. Trump on Wednesday pressing for new leadership at the Fed. Republicans want to constrain the Fed's conduct of monetary policy, and to install a Fed chairman who is supportive of efforts to reduce financial regulation.

Some of Mr. Trump's advisers, including Treasury Secretary Steven Mnuchin, favor the nomination of Mr. Powell as a kind of middle road: a Republican likely to maintain the Fed's course on monetary policy, but with greater sympathy for relaxing financial regulation.

Ms. Binder said that replacing Ms. Yellen would reinforce the growing tendency to view the Fed as a partisan political institution, with every president picking a new chairman.

''If anything is being broken here, it's the norm of bipartisan continuity at the Fed, and it is always to the Fed's benefit to look bipartisan and to be bipartisan,'' she said. ''It raises fewer questions about what is motivating the Fed's choice of monetary policy.''

But Peter Conti-Brown, a legal studies professor at the University of Pennsylvania who is writing a political history of the Fed, said that Mr. Trump was simply making explicit the longstanding reality that presidents seek to influence the course of monetary policy.

Indeed, Mr. Conti-Brown said he saw a silver lining in Mr. Trump's showmanship, and in the diversity of the candidates, because it was providing a rare opportunity for the public to compare and debate different views of the Fed's role in the economy.

''I think it's all to the very good to generate discussion about what the Fed is, what the different approaches are, whether they're good or bad,'' he said. ''This is the only time the public gets to weigh in. If you don't think the Fed should operate in the shadowy corners of the administrative state, this is exactly what accountability looks like.''

Follow Binyamin Appelbaum on Twitter: @bcappelbaum.

Jerome H. Powell (PHOTOGRAPH BY JOSHUA ROBERTS/REUTERS); John B. Taylor (PHOTOGRAPH BY TED S. WARREN/ASSOCIATED PRESS)

Document NYTF000020171028edas0003z

The New York Times

National Desk; SECTA
**Economy's 3% Spurt Emboldens Tax Cut Supporters (and Critics)**

By NATALIE KITROEFF and JIM TANKERSLEY; Binyamin Appelbaum contributed reporting.
1,388 words
28 October 2017
The New York Times
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English


The United States economy is showing increased signs of resilience.

The nation's gross domestic product, a key indicator of economic strength, expanded at an annual rate of 3 percent in the third quarter, the Commerce Department reported on Friday. The expansion defied concerns that hurricanes in Texas and Florida would put a damper on output.

Republicans called the report a sign that businesses were already spending more in anticipation of a corporate tax cut, and evidence that the economy could grow faster over the long term than currently forecast.

''If you look at the G.D.P. data, it's clear that is a major reason,'' Kevin Hassett, the chairman of the White House Council of Economic Advisers, asserted on Friday.

Many economists, however, are reluctant to give Congress or the administration too much credit for the economy's trajectory.

''There hasn't been anything concrete in terms of spending or tax cuts that we can point to that's fueling the acceleration,'' said Scott Anderson, chief economist at Bank of the West in San Francisco. If anyone deserves credit for the good news, he said, it is the Federal Reserve chairwoman, Janet L. Yellen.

The economy is experiencing its fastest growth spurt in two consecutive quarters since 2014, after hitting 3.1 percent in the spring, a level that prompted President Trump to suggest that ''we're really on our way'' to sustaining that pace year-round. ''On a yearly basis, as you know, the last administration, during an eight-year period, never hit 3 percent,'' Mr. Trump said during a speech in Missouri in August.

But economists say it is highly unlikely that growth for the year will reach 3 percent. The first quarter was tepid, and projections for the current quarter hover around 2.8 percent.

With legislation embodying the party's tax proposals expected next week, the figures released on Friday also highlight the fine line Republicans are walking in selling their policy: They are celebrating faster growth while arguing that tax reform is needed to accelerate it further.

Representative Kevin Brady, Republican of Texas and the chairman of the House Ways and Means Committee, said in a statement on Friday that ''our economy produced solid growth last quarter'' and went on to say that tax reform was a way to ''continue this growth'' and ''reinvigorate America's economy.''

On Friday, Mr. Hassett and the Council of Economic Advisers released projections of how one prospective provision of the tax plan -- a reduction in corporate tax rates to 20 percent from 35 percent -- would affect economic growth. They said it would expand output by 3 to 5 percent over the long run, a period left unspecified.

The complication is that faster growth could undermine the party's case that tax cuts are needed to add fuel to an economy that is already running with low unemployment -- and it could lead the Federal Reserve to increase interest rates more quickly, which could dampen the effects of any tax bill.

Liberal economists said the report showed the success of Ms. Yellen at the Fed and undermined the case for the Republican tax bill. ''The underlying trend in G.D.P. growth is clearly telling us two things,'' Jared Bernstein, a former economic adviser to President Barack Obama who is now at the Center on Budget and Policy Priorities, said by email. "Keep on rockin' steady with Yellen at the Fed, and there's no need for a big, wasteful tax cut."

The Fed, judging that the economy is growing about as fast as it can, is on course to raise its benchmark interest rate in December to a level Fed officials have described as likely neither to encourage nor to discourage growth. The Fed's plans do not reflect the potential economic impact of a tax cut.

Aside from the details of the legislation, the Fed's reaction may also depend on its leadership. Mr. Trump is expected to announce next week whom he will nominate to lead the Fed after Ms. Yellen's term ends in early February.

The growth figure released on Friday was the government's first estimate of economic output for the quarter, and it will be revised twice. Economists initially expected that Hurricanes Harvey and Irma would deal a blow to the country's steady growth -- a prospect reinforced by a net job loss in September -- but became more optimistic in recent weeks.

After the shock dissipates, the recovery from an extreme weather event can help the economy by creating new reasons for consumer spending, which represents roughly 70 percent of national output. After the damage is done, people must often rebuild their homes or replace their cars, an effect that began to show up in the third quarter and will most likely continue through the end of the year.

"If you don't go out to eat during a hurricane, maybe you bought plywood for your house," said Robert Dye, chief economist at Comerica Bank. "If you have the insurance and support, that tends to be a stimulus to the economy."

The destruction wrought by the storms was outweighed by the continued spending of consumers and businesses. The job market is lively, and the **stock market** has rallied to record highs. Chief executives and consumers are more confident than they have been in more than a decade, recent surveys show.

"There are no real headwinds to growth for the first time since the expansion began," said Mark Zandi, the chief economist of Moody's Analytics. "We are at full employment and we are in full swing; let the good times roll."

Spending on equipment increased at a rate of 8.6 percent, as companies poured money into capital improvements. One reason companies may be investing more in their business is that the labor market has tightened and wages are rising.

"Businesses are going to be looking for more ways to produce than just adding bodies," said Mr. Anderson of Bank of the West.

Personal consumption, although down from the previous quarter, grew at a 2.4 percent rate, and nonresidential fixed investment, a measure of business spending, expanded at a robust 3.9 percent. Mr. Zandi said the numbers were "a sign that consumers are hanging tough."

At the same time, with a weak dollar making American goods more competitive abroad, international trade contributed positively to output for the third quarter in a row. Imports decreased.

The weak dollar through much of this year has been a boon to exporters like David Ickert, vice president for finance at Air Tractor Inc. The company, which is based in Olney, Tex., a town of about 3,100 people west of Dallas, makes crop dusters and forestry firefighting planes for markets including European countries along the Mediterranean Sea, sub-Saharan Africa and South America. Half of its sales are international.

"Things are picking up -- I sense it in Europe," Mr. Ickert said. He emphasized that the positive impact of trade at a broad level filtered down to rural communities. "Trade helps create and sustain jobs in small-town America with a small business," he said.

The American economy has performed considerably better this year than in 2016, when it grew at a halting 1.5 percent. And things have been looking up, economically, for much of the world, which is enjoying a rare moment of widespread expansion. The International Monetary Fund upgraded its forecast for the pace of world growth twice this year.

"This is happening globally," Mr. Zandi, the Moody's economist, said. "There isn't a single major economy that is in recession."

Follow Natalie Kitroeff and Jim Tankersley on Twitter: @Nataliekitro and @jimtankersley.

 

A flooded gas station in Houston in late August. Economists initially expected that Hurricanes Harvey and Irma would dent the country's steady growth -- a prospect reinforced by a net job loss in September -- but they grew more optimistic in recent weeks. (PHOTOGRAPH BY BRENDAN SMIALOWSKI/AGENCE FRANCE-PRESSE -- GETTY IMAGES) (A12) CHART: G.D.P. Change: Annual rate of change in the gross domestic product, based on quarterly figures adjusted for inflation and seasonal fluctuations. (Source: Bureau of Economic Analysis) (A12)

Document NYTF000020171028edas00049

 

The New York Times

National Desk; SECT
**Right and Left React to the Republican Push to Cut Taxes**

By ANNA DUBENKO
1,198 words
28 October 2017
The New York Times
NYTF
The New York Times on the Web
English


The political news cycle is fast, and keeping up can be overwhelming. Trying to find differing perspectives worth your time is even harder. That's why we have scoured the internet for political writing from the right and left that you might not have seen.

Has this series exposed you to new ideas? Tell us how. Email us at ourpicks@nytimes.com.

For an archive of all the Partisan Writing Roundups, check out Our Picks.

From the Right

Jenny Beth Martin in The Hill :

"House conservatives, and many conservative and Tea Party groups like the one I represent, will support tax reform precisely because we believe it is a means to pay off our national debt."

Ms. Martin is a co-founder of Tea Party Patriots, a national umbrella organization for the broader Tea Party movement. She argues that her group is committed to reducing the size of the government, but she concedes that the key to deficit control is a tax policy that increases government revenue. She addresses critics of the tax cut plan who worry about adding to the national debt by contending that a "pro-growth" tax code would generate more revenue to flow back to the Treasury. Read more »

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Buz Koelbel in The Daily Caller :

"The tax framework would immediately help the working class because it would double the zero-tax rate bracket to $24,000. Tens of millions more income tax filers would be subject to zero tax because of this reform."

Mr. Koelbel makes the case for the administration's tax plan being a boon to lower-income Americans who have been "passed over by the **stock market**-driven economic recovery." Moreover, he cites studies claiming a "negative relationship between business taxes and employee compensation." Tax cuts for businesses, he writes, means pay raises for their employees. Read more »

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Grover Norquist and Patrick Gleason on NBC :

"Allowing taxpayers to deduct their state and local taxes does not create jobs or help the economy grow. It helps state and local government bureaucracies grow."

Mr. Norquist and Mr. Gleason address their audience on the left when they explain why Democrats and progressives should support the new Republican tax plan. The benefits of state and local tax deductions, which are being considered for elimination, disproportionately favor the wealthy, they say. "Opposition to scrapping this preference," they write, "makes the Democrats' repeated public demands to tax 'the rich' ring hollow." Read more »

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From the Left

Morris Pearl in Democracy Journal :

"While the Trump tax plan is a long, complex series of changes to the tax code, the elimination of the federal estate tax ranks high among the most egregious ideas."

Mr. Pearl is the chairman of the Patriotic Millionaires, an organization of wealthy individuals worried about economic inequality. He defends the estate tax, which the Trump administration is seeking to revoke in its plan. "Were every child to be able to succeed in this country regardless of their family circumstances, perhaps concern over concentrating wealth would be unfounded," he writes. "That is unfortunately not the case." Read more »

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Justin Miller in American Prospect :

"Quietly, Republicans are also pushing a territorial taxation provision that would make it far easier for multinational corporations to avoid paying even a new 20 percent rate by providing further incentive to stash profits in offshore tax havens."

Mr. Miller argues that a provision in the Republican tax plan will encourage corporations to shift their profits to overseas tax havens. Republicans want to move to a territorial system that mirrors how much of the world structures its corporate taxes -- a system that does not tax foreign profits at all. However, Mr. Miller says he is unconvinced that Republicans will install adequate protections against corporations storing their profits in offshore tax shelters. If they were serious about this, he writes, they would "simply end the deferral of corporations' foreign profits and tax them annually like domestic profit." Read more »

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Helaine Olen in The Washington Post :

"It's already hard enough to make the American system of saving for retirement more difficult, confusing or disadvantageous for lower- and middle-income savers. But Republicans just might be on the verge of accomplishing this -- all in an effort to game the budget process."

Even though President Trump said on Twitter that there would be no changes to 401(k) plans, Ms. Olen explains, the issue is not as resolved as he would have you believe. On Wednesday, there were reports that the retirement savings plans were still up for negotiation. Ms. Olen argues that the problem is not just Mr. Trump's shifting positions on the retirement accounts, but, more broadly, how willing Republicans are to toy with retirement plans "all in an effort to game the budget process." Read more »

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Finally, From the Center

Veronique de Rugy in Reason :

"The good news is that there's a debate in Washington about how to make the tax code less destructive. The bad news is that lawmakers will be able to achieve much less than they otherwise could because of bad policy priorities."

Ms. de Rugy, writing for the libertarian Reason, accuses Republicans of being fiscally irresponsible with their tax plan. She says she worries that "failing to restrain spending today while cutting taxes means that taxes will have to go up in the future to pay for larger deficits." She adds that while it may be politically expedient, giving the middle class a large tax cut is counterproductive: "There's very little economic growth to be expected from reducing the marginal tax rates on middle-income earners." Read more »

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Justin Fox in Bloomberg :

"I figure this is as good a time as any to run through what's wrong with the 401(k), or at least what's wrong with having made it a centerpiece of our country's retirement savings system."

 

Mr. Fox explains why the 401(k) tax break should not be "untouchable," even if it is politically popular. Millions of taxpayers benefit from the plan, he writes, but far more get nothing from it. "If the idea is to actually reduce the tax deductions for retirement savings, not just shift them across time," he argues, "it's maybe not so crazy." Read more »

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Josh Barro in Business Insider :

"If you're going to give a tax break for business income, you have to clearly define what's a business and what's just work. That's surprisingly hard."

Mr. Barro applauds the Republican goal of simplifying the tax code. However, he notes, one provision in the plan will complicate a lot of people's taxes. The preferential tax rates for so-called pass-through businesses, which allow owners to be taxed on the income from their business, can be abused, or worse, put business owners at a disadvantage. The solution? "Don't enact the tax preference in the first place." Read more »

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THE WALL STREET JOURNAL.
U.S. EDITION

**The Intelligent Investor: Lessons, and Warnings, From the Crash of 1929**

By Jason Zweig
871 words
28 October 2017
The Wall Street Journal
J
B1
English


At the end of October, the **stock market** crashed.

By Oct. 26, the **Dow Jones Industrial Average** had already fallen 13% for the month. On Oct. 28, it dropped 13% more. On Oct. 29, it collapsed a further 12%.

That crash was in 1929, of course, not 2017. Did anyone see the Great Crash coming, and what can we learn from looking back?

Then, as they still do today, market pundits claimed to have seen a crash coming. Speculator Joseph Kennedy, later the first head of the Securities and Exchange Commission, is said to have gotten out of the market when he noticed a shoeshine boy bragging about his stock picks.

One forecaster, it might seem, did call the crash almost perfectly. In his book "The **Stock Market** Crash -- and After," published in 1930, economist Irving Fisher credited Karsten Statistical Laboratory of New Haven, Conn., for demonstrating mathematically that the **stock market** was up to 25% overvalued by early 1929.

Mr. Fisher, then the most eminent economist in the U.S., remains notorious for having proclaimed in a speech in mid-October 1929 that stock prices had reached "what looks like a permanently high plateau." In his book on the crash, he declared that with hindsight, "it is easy to appreciate" that Karsten's numbers foretold a crash.

Karl G. Karsten, the statistician behind those forecasts, wasn't so sure.

In a book, "Scientific Forecasting," published in 1931, Mr. Karsten ripped his own prediction methods to shreds.

He had analyzed data back to 1866, Mr. Karsten wrote, but his forecasts had two fatal flaws. First, the **stock market**'s huge rise in the late 1920s swamped everything that had come before, blurring the guideposts of the past. Second, market psychology was "a potent factor and one which no statistical series could be found to reflect in advance."

So Mr. Karsten renounced the work that Mr. Fisher had praised. And Mr. Karsten laced his book with warnings about placing excessive confidence in any forecasts, including his own.

Diving even deeper into the data, however, he made discoveries that anticipated many of the ideas behind hedge funds and "smart beta," or mechanical strategies to earn excess returns, that are so popular today.

By 1928, Mr. Karsten was investing based on his theories. He wasted two years trying to combine subjective judgment with statistical analysis, but on Dec. 17, 1930, he launched a small fund run with real money and nothing but math.

Under what Mr. Karsten called "the hedge principle," his Demonstration Fund appears to have bought the three biggest stocks in the industry sector whose share prices had been rising the most; at the same time, it simultaneously sold short, or bet against, the rest of the **stock market**. The fund rotated from one sector to another based on whichever had the best price momentum.

By June 3, 1931, Mr. Karsten wrote, the Demonstration Fund was up 78%, net of trading costs. The Dow fell 21% over the same span.

Mr. Karsten warned, presciently, that techniques like his couldn't work if too many people tried them. Such an investing approach, he wrote, "can be used only by a limited amount of capital when a very much larger amount of capital is ignorant of this system, and willing to be exploited."

Born in 1891, Mr. Karsten entered college before his 16th birthday, graduating from the University of New Mexico in 1911. He was a Rhodes Scholar, did graduate work at Columbia University and, in 1917, founded Karsten Statistical Laboratory.

It isn't easy to say what happened to the Demonstration Fund. Walter Friedman, a historian at Harvard Business School who wrote about Mr. Karsten in his 2014 book, "Fortune Tellers: The Story of America's First Economic Forecasters," says Mr. Karsten's papers at the Library of Congress are so moldy that Mr. Friedman had to handle them wearing special gloves and a respiration hood. The Demonstration Fund seems to have dwindled by 1937, and there doesn't appear to be any record of a fund after 1942.

Mr. Karsten also wrote an unpublished novel, "Horse in a Limousine," about a future so prosperous that even horses would get to ride in chauffeur-driven vehicles. He died in 1968.

In the essay "Characteristics of Scientific Method," published the same year as Mr. Karsten's book on forecasting, the great philosopher Bertrand Russell pointed out a paradox. "All exact science is dominated by the idea of approximation," wrote Russell. "It is characteristic of those matters in which something is known with exceptional accuracy that, in them, every observer admits that he is likely to be wrong, and knows about how much wrong he is likely to be."

If Mr. Karsten were here today, I think he would have two warnings for investors.

When someone uses historical data to forecast a cataclysmic market crash with near certainty, bear in mind that the patterns of the past may no longer hold. And remember that trendy strategies like smart beta are likely to work best when most investors doubt they will work at all.



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THE WALL STREET JOURNAL.
U.S. EDITION

**Celgene's Plunge Sickens Biotech Sector --- Firm's glum outlook helps push Nasdaq Biotechnology Index to seventh fall in a row**

By Chris Dieterich
495 words
27 October 2017
The Wall Street Journal
J
B12
English


Celgene Corp.'s biggest stock plunge in nearly 17 years propelled a popular biotechnology index to its seventh straight day of losses.

Shares declined 16% to close at $99.99 on Thursday after the company reported disappointing quarterly revenue and cut a series of long-term financial targets. Celgene's drop was the steepest since November 2000 and carried the stock below $100 for the first time this year. The stock's swoon weighed on the **Nasdaq** Biotechnology Index, which fell 2.3%.

It is the second stiff drop over the past week for Celgene. Shares declined 11% last Friday after the company said it would discontinue development of a widely anticipated Crohn's disease drug.

Other big biotech stocks have been caught in the recent downdraft even after posting mostly upbeat quarterly results. Amgen Inc. declined 0.6% Thursday despite topping Wall Street's earnings and revenue estimates. Biogen Inc. declined 2.2% on Thursday after topping Wall Street's forecasts earlier this week. In comparison, the **S&P 500 index** gained 0.1% on Thursday.

Traders said part of the recent weakness in the biotech sector is likely due to unease about owning some of the riskiest U.S. stocks.

With major index valuations stretched, and concerns swirling about potential economic policy changes, investors have set a high bar for corporate fundamentals and appear ready to bail on **volatile** companies.

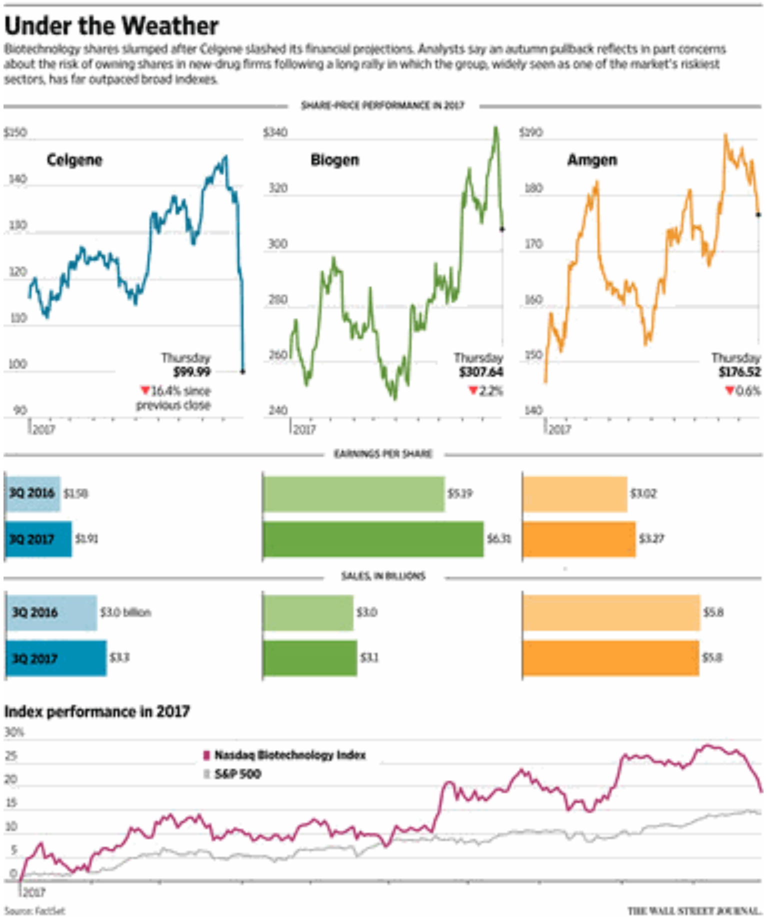
"Investors have been pouring into this group with a risk-on mentality," said Ian Winer, head of equities at Wedbush Securities. "It's worth keeping an eye on this group as a proxy for investors' willingness to take risk."

Biotech stocks, a **volatile** group known for sinking on bad news and soaring on good reports, have never been for the faint of heart. This was especially true over the past two years as political rhetoric about lower drug prices repeatedly jolted markets. Before that, the sector enjoyed an almost unhindered rise from 2009 through the middle of 2015, when the spotlight on drug pricing, including a 2015 tweet from Democratic presidential candidate Hillary Clinton that mentioned "price gouging," brought the rally to an end.

Biotech stocks regained favor this year as broad market benchmarks pushed to records. Despite its seven-day skid, the **Nasdaq** Biotechnology Index has climbed 19% this year. The **S&P 500**, meanwhile, is up 14%.

The biotech index, which assigns greater sway to the biggest stocks in the sector, is in the midst of its longest losing streak since 2015.

The biotech company's **stock price** slumped after company executives told investors that sales of a treatment for psoriatic arthritis and psoriasis were weaker than expected. Celgene lowered its total 2020 revenue target to a range of $19 billion to $20 billion, down from more than $21 billion.

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THE WALL STREET JOURNAL.
U.S. EDITION

**Breaking Even Becomes Goal in Oil**

By Sarah Kent
787 words
27 October 2017
The Wall Street Journal
J
B2
English


The world's biggest oil companies have a suddenly popular measure for success: breaking even.

Once obscure and little noted, the break-even number has become an obsession for investors in oil giants such as Exxon Mobil Corp., BP PLC and Chevron Corp. as crude prices stay mired between $50 and $60 a barrel. At its simplest, the metric represents the **oil price** that a company needs to generate enough cash so it can cover its capital spending and dividends.

Brent crude settled at $59.30 a barrel Thursday, down from over $114 in June 2014.

BP says its break-even was $47 a barrel in the first half of the year, and the company is targeting between $35 and $40 a barrel by 2021, assuming prices stay about where they are today.

Overall, Europe's biggest oil companies have cut break-evens to around $50 a barrel, according to Barclays.

Exxon doesn't release a break-even but has succeeded in covering its costs with cash from operations for the past three quarters, when international benchmark Brent crude averaged just over $51 a barrel, according to Barclays.

Investors focused on the healthy dividends that make oil-company stocks appealing say they will be watching for news about break-even prices as Exxon, Chevron and Total SA prepare to announce third-quarter earnings on Friday, and BP and Royal Dutch Shell PLC next week.

"It's a crucial thing we look at," said Rohan Murphy, energy analyst at Allianz Global Investors, which holds stocks in BP and other large oil companies. "If the **oil price** were $70, it wouldn't matter so much, but at the moment we're on a knife edge, so it matters more."

The industry's intense focus on the break-even represents a stark change from the era of rising **oil prices**, when the emphasis often was more on companies' ability to increase production rather than to generate cash.

BP's share price slumped 4% in February after the company said it needed oil to hit $60 a barrel to break even this year. Six months later, BP said spending cuts allowed the company to break even at $47 a barrel in the first half. The stock moved up 2%. The company has kept its dividend unchanged throughout the downturn.

At Total's investor day last month, the phrase "break even" came up around 30 times.

Big oil companies say they have made progress in cutting costs since 2014, when **oil prices** entered a long downturn. The companies say they can maintain those lower levels of spending, bring down their break-even costs further and begin again to expand operations -- all without relying on an **oil-price** recovery.

"The break-even cost of oil and gas companies is going to the $40s and $30s today," BP Chief Executive Bob Dudley told the Oil & Money conference in London this month. "It's actually healthy. I think $100 a barrel was not healthy."

Investors, however, remain nervous about the viability of their dividends. While big oil companies are back in the black, many of them still aren't generating enough cash to cover the payouts, despite ambitious targets to lower break-even prices.

The methods companies use when disclosing their break-even prices often vary from company.

Chevron says it can break even this year at $50 a barrel -- if revenue from its asset sales is included. Total says it will be able to break even at less than $30 a barrel in 2019, excluding dividend costs.

Total, Shell and other companies use scrip programs that allow them to pay a portion of their dividend in company stock, which helps them bring down the **oil price** they need to cover spending. While effective, the tactic isn't sustainable in the long term without diluting investors' holdings.

Companies also often refer to project-specific break-evens, another metric that has new currency since prices crashed. Shell has said it is looking at new projects that can be profitable even if oil is at less than $40 a barrel, but that doesn't reflect the overall price the company needs to cover spending and dividends.

U.S. shale-oil players have faced particular criticism from investors over how they define project break-evens, sometimes not accounting for all associated costs, such as the amount they pay to lease land. Most shale companies say their wells generate a 20% rate of return or higher, even at today's prices. Yet in the past three years, almost none has posted a positive quarterly net income.

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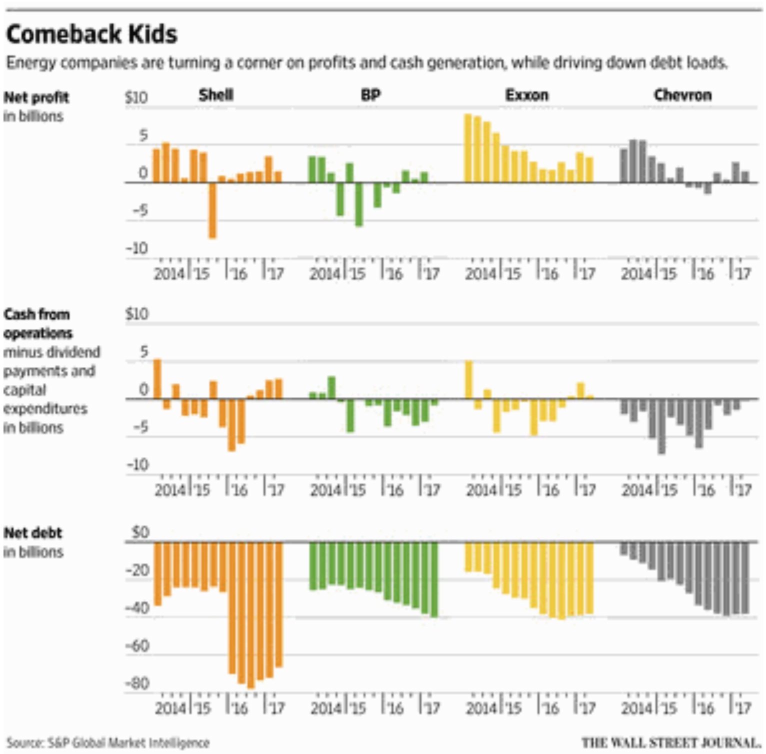
Lynn Cook contributed to this article.

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The New York Times

Business/Financial Desk; SECTB
**Threat From Amazon Sends Drug Makers Into a Dive**

By THE ASSOCIATED PRESS
915 words
27 October 2017
The New York Times
NYTF
Late Edition - Final
4
English


Stocks rose on Thursday as gains for technology companies and banks helped the market recover some of its losses from earlier in the week. But shares in drug makers and distributors tumbled.

The European Central Bank said on Thursday it would begin gradually reducing the bond purchases it has been making to strengthen the regional economy. The euro weakened, and European stock indexes jumped. Technology companies recovered some of the ground they lost a day ago, and banks and credit card companies rose as bond yields continued to climb.

Drug makers sank after Celgene and Bristol-Myers Squibb slashed their forecasts. Late in the day, drugstores and companies that distribute medications sank on reports that Amazon was taking steps to move into the pharmaceutical business by obtaining licenses to distribute medications wholesale.

For years, the European Central Bank has bought bonds to help strengthen the region's economy. Starting in January the bank plans to cut the size of its purchases in half, to 30 billion euros, or about $35 billion, a month.

Scott Wren, senior global equity strategist for Wells Fargo Investment Institute, said investors were relieved the bank did not announce a bigger cut in bond purchases or take more aggressive steps.

"The market was a little bit fearful that the E.C.B. was going to be more hawkish," he said. "That wasn't the case."

The **Standard & Poor's 500**-**stockindex** rose 3.25 points, or 0.1 percent, to 2,560.40. The **Dow Jonesindustrial average** gained 71.40 points, or 0.3 percent, to 23,400.86. The **Nasdaq composite** index lost 7.12 points, or 0.1 percent, to 6,556.77. The Russell 2000 index of smaller-company stocks added 3.98 points, or 0.3 percent, to 1,497.46.

In France, the CAC 40 jumped 1.5 percent, and in Germany the DAX gained 1.4 percent. In London, the FTSE 100 added 0.5 percent.

The euro fell to $1.1646 from $1.1802 on the possibility that interest rates in Europe could stay low for longer than investors had expected. The weakening of the euro helped shares of companies that export goods from Europe.

**Bond prices** edged lower. The yield on the **10**-**year Treasury** note rose to 2.46 percent from 2.44 percent as yields and interest rates remained at seven-month highs.

Mr. Wren of Wells Fargo said the E.C.B. and the Federal Reserve might end up raising interest rates faster than investors expect. Concerns about higher interest rates helped push stocks lower on Wednesday, and Wren said the same fears could have a big effect in 2018.

"The market should be worried about the Fed raising rates three times next year, like they've hinted," he said.

The drug maker Celgene plunged after it reduced its forecasts for this year, partly because it expects weaker sales of its new psoriasis treatment Otezla. Celgene also said it would not meet its longer-term goals: It cut its profit and sales projections for the year 2020 as it anticipated weaker sales of new products and medications to treat cancer and inflammation.

Celgene lost $19.57, or 16.4 percent, to $99.99. Bristol-Myers Squibb dropped $3.05, or 4.8 percent, to $60.95 after it reduced its annual forecast. Other pharmaceutical companies including Amgen and Gilead Sciences also stumbled.

Drugstores, prescription drug distributors and pharmacy benefits managers sank after The St. Louis Post-Dispatch reported that Amazon had received wholesale pharmacy licenses in at least 12 states, the latest suggestion the company intends to enter that market. Investors in those companies fear Amazon will cut prices and hurt their revenue.

Shares of Walgreens Boots Alliance fell $2.25, or 3.2 percent, to $67.11. McKesson, which rose as much as 7.4 percent in early trading after its quarterly report, wound up with a loss of $7.84, or 5.2 percent, at $143.54. The pharmacy benefits management company Express Scripts shed $2.23, or 3.7 percent, to $58.93.

Amazon reported its third-quarter results after the close of trading, lifting its stock 8 percent after its profit and sales surpassed analysts' estimates.

The drugstore-pharmacy benefits company CVS Health tumbled $2.22, or 2.9 percent, to $73.31. Minutes before the close of trading, The Wall Street Journal reported that CVS was in talks to buy the health insurer Aetna. Aetna stock jumped $18.48, or 11.5 percent, to $178.60.

United States benchmark crude rose 46 cents to $52.64 a barrel in New York. Brent crude, used to price international oils, rose $1.06 to $59.50 a barrel in London.

Wholesale gasoline rose 2 cents to $1.75 a gallon. Heating oil picked up 2 cents to $1.84 a gallon. Natural gas fell 3 cents to $2.89 per 1,000 cubic feet.

Gold dropped $9.10 to $1,266.30 an ounce. Silver fell 10 cents to $16.76 an ounce. Copper remained at $3.18 a pound.

The dollar rose to 113.97 yen from 113.72 yen.

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

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

Document NYTF000020171027edar0005q

 

The New York Times

OP-ED COLUMNIST
Editorial Desk; SECTA
**A $700 Billion Trump Gift to Rich Foreigners**

By PAUL KRUGMAN
960 words
27 October 2017
The New York Times
NYTF
Late Edition - Final
23
English


Why is Donald Trump planning to give away $700 billion -- that's billion, with a ''b'' -- to foreigners, no strings attached? You probably didn't know that he's planning to do this. In fact, he himself almost surely has no idea that he's planning to do this. But it would be one clearly predictable consequence of the tax ''reform'' he and his congressional allies are trying to pass.

Some features of the Trump tax plan are still up in the air. For example, we don't know exactly how upper-middle-class taxpayers will be punished -- will they lose their deduction on state and local taxes, some of their tax breaks on retirement accounts, or something else? But the core of the plan is clearly an enormous cut in taxes on corporate profits, which the nonpartisan Tax Policy Center estimates at $2 trillion over the next decade.

Now, the administration claims that all of this tax cut will be passed on to workers in the form of higher wages. In fact, it claims that the wage gains from the tax cut will be several times as large as the revenue loss.

Few independent analysts believe this. In fact, the administration itself doesn't believe it. Recently Steven Mnuchin, the Treasury secretary, warned that stocks will crash if Congress doesn't pass tax cuts. But why would stocks crash if all the benefits go to wages rather than profits?

For what it's worth, the argument goes like this: Cutting corporate taxes would bring foreign capital into the United States, which would raise investment, which would increase productivity, and this productivity would then get reflected in higher wages. If this sounds like a convoluted and uncertain story, with many weak links in the supposed chain of events that ends up helping workers so much, that's because it is.

There are, in reality, multiple reasons not to believe much of this account, ranging from the fact that a lot of the corporate income we tax represents monopoly profits -- which won't be competed away even if foreign money comes flooding in -- to the sheer size of the U.S. economy, which can't pull in lots of foreign capital without driving up interest rates worldwide.

Also, to the extent that the story makes any sense at all, it's a story about the very long run. In the short run, drawing in foreign money by cutting taxes on profits would lead to a stronger dollar, which would slow the pace of foreign investment by making U.S. assets look expensive. So we're talking about a process that would take many years if not decades.

Oh, and the stronger dollar would also mean much bigger trade deficits -- a consequence of tax cuts that Republicans, strange to say, haven't advertised, even though the same thing happened during the Reagan years.

Realistically, then, the benefits from cutting corporate taxes would overwhelmingly flow into after-tax profits rather than wages, especially in the first few years and probably for a decade or more. And this in turn means that the main beneficiaries would be stockholders, not workers.

So who are these stockholders, exactly? You can guess part of the answer: We're talking mainly about the very affluent. Even if we count indirect holdings in retirement accounts and mutual funds, the richest 10 percent of U.S. residents account for about 80 percent of American-owned stocks, and the richest 1 percent own about 40 percent. So we're talking, as always when it comes to Republican plans, about tax cuts heavily tilted toward the wealthy.

But that's not the whole story, either -- it gets worse.

The whole sales pitch for the Trump tax plan rests on the claim that everything is different because we're now part of a global **financial market**. The truth is that this makes less difference than many imagine.

But one thing is true: These days there's a lot of cross-border investment. In particular, as Steven M. Rosenthal of the Tax Policy Center notes -- in a paper I found revelatory -- around 35 percent of U.S. equities are now owned by foreigners, triple the level during the Reagan years.

What this means is that around 35 percent of a tax cut from an administration that proudly uses the slogan "America first" -- $700 billion over the next decade -- wouldn't even go to Americans. Instead, it would be a windfall to wealthy foreigners, who would probably gain a lot more from the tax cut than U.S. workers. Oh, and it makes all that talk about allies not paying their "fair share" sound kind of silly, doesn't it?

And meanwhile, the result would be a huge hole in the budget, which Republicans would try to close at the expense of the poor and middle class. The budget resolution the House and Senate passed over the last week called for cuts of $1 trillion in Medicaid and almost half a trillion in Medicare. The resolution doesn't have the force of law, but it's a pretty clear indication of what's next if the big tax cuts pass.

Now, it may sound extreme to say that Trump and his allies want to take away health care from millions largely so that they can give wealthy foreigners a $700 billion gift. But however it may sound, it's also the literal truth.

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THE WALL STREET JOURNAL.
U.S. EDITION

**Oil Prices Climb**

By Stephanie Yang and Christopher Alessi
193 words
27 October 2017
The Wall Street Journal
J
B11
English


**Oil prices** closed at a six-month high on Thursday, boosted by declining stockpiles of fuel and hopes that OPEC will extend a deal to limit global production.

Light, sweet crude for December delivery rose 46 cents, or 0.9%, to $52.64 a barrel on the New York Mercantile Exchange, the highest settlement value since April 17. Brent, the global benchmark, rose to a two-year high, closing up 86 cents, or 1.5%, to $59.30 a barrel.

Prices have risen 11 out of the past 14 sessions, as a steady decline in inventories has boosted investor optimism that global supply and demand are starting to even out.

Adding to **bullish** sentiment, Saudi Arabia and Russia -- the world's two largest crude producers -- want to extend a deal to cut production through the end of next year, people familiar with the matter said Wednesday.

The Organization of the Petroleum Exporting Countries, along with several other nations outside the cartel, agreed to curb oil production by about 1.8 million barrels a day last year.



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THE WALL STREET JOURNAL.
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**World News: South Sudan Peril Puts U.S. in Bind --- Haley arrives to assess support as food crisis, civil war threaten to destabilize region**

By Matina Stevis-Gridneff
584 words
26 October 2017
The Wall Street Journal
J
A18
English


NAIROBI, Kenya -- When U.S. Ambassador to the United Nations Nikki Haley arrived in South Sudan on Wednesday to assess how U.S. aid is being spent, she walked into a humanitarian disaster that threatens U.S. security interests.

Nearly a third of South Sudan's population of 12 million has been displaced in the six years since U.S. policy makers, Washington think tanks and Hollywood stars like George Clooney fostered its creation. Now, this nascent nation is collapsing in real time, spawning a crisis that has drawn comparisons to the 1994 Rwanda genocide.

The White House has signaled it could scale back its hefty annual financial assistance to increase pressure on President Salva Kiir's government. The U.S. has spent some $10 billion to support South Sudan since independence and pays more than a quarter of all international aid to the country each year.

"We are disappointed by what we are seeing," Ms. Haley told local radio on Wednesday. "This is not what we thought we were investing in. What we thought we were investing in is a free and fair society where people could be safe, and South Sudan is the opposite of that."

Ms. Haley's harsh words for South Sudan's government came as she stressed the U.S. predicament: Withdrawing aid would most likely aggravate the humanitarian disaster.

"We are not going to give up on the South Sudanese people," she said on Wednesday. "We are here to fight for them, we are here to help, to do whatever we have to to make peace and security become a permanent part of South Sudan."

Ms. Haley was caught up in a small manifestation of the country's massive problems on Wednesday, when she had to be evacuated from a U.N. camp for displaced people she was visiting in Juba after a demonstration against Mr. Kiir became **volatile**, the Associated Press reported.

The rhetoric by Ms. Haley marks a contrast with the situation in July 2011, when a U.S.-backed independence referendum promised peace and a new state after decades of civil war with Sudan's Khartoum government.

Recent years have seen the revival of civil war, sparking a famine that put 100,000 on the verge of dying of starvation.

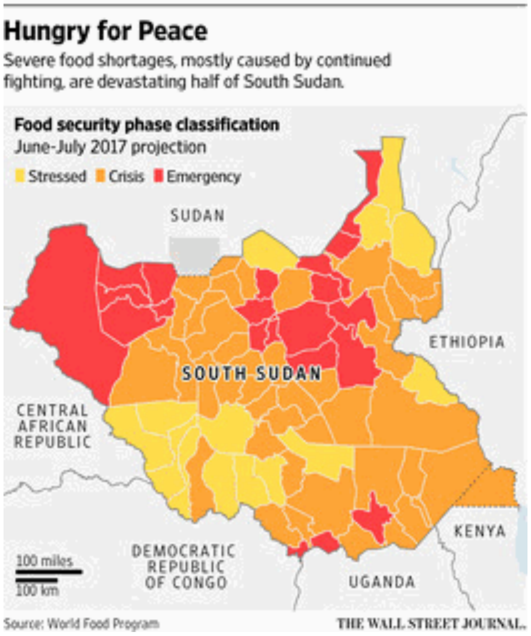
Echoing Ms. Haley, diplomats and experts have blamed the country's leaders for the unfolding crisis.

At independence, Mr. Kiir and Riek Machar, of the dominant Dinka and smaller Nuer tribe respectively, shared power, as president and vice president. The deal fell apart, and by 2013 the country collapsed into conflict. Mr. Machar took to the bush and became a rebel leader.

A U.S.-backed power-sharing agreement between the two men, intended to ease tribal tensions through shared state institutions after a three-year civil war, took effect in April 2016, and Mr. Machar rejoined the government. The accord collapsed after three months.

Ethnic cleansing, for which government troops are mostly blamed, has become so widespread that the U.N. has warned the country could soon descend into genocide.

"The scope and expansion of the conflict has never been worse," said Adama Dieng, the U.N. secretary-general's special adviser for the prevention of genocide. "The country is fragmenting everywhere and its social fabric is disintegrating."

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
**Weak Earnings Reports and Rising Bond Yields Push Markets Backward**

By THE ASSOCIATED PRESS
1,017 words
26 October 2017
The New York Times
NYTF
Late Edition - Final
4
English


NEW YORK -- Rising bond yields and a string of weak company reports and forecasts pushed stocks lower Wednesday as major indexes retreated from their recent record highs. Industrial and technology companies and banks fared the worst.

Companies including telecom giant AT&T, aerospace company Boeing, chipmaker Advanced Micro Devices and credit card issuer Discover Financial Services all gave shaky results, disappointing forecasts, or both. That sent stocks downward, and in early afternoon trading the **Dow Jonesindustrial average** fell as much as 190 points, after setting a record the day before. Stocks recovered some of their losses in afternoon trading, but all 11 industry sectors in the **Standard & Poor**'**s500 index** finished the day lower.

Bond yields jumped to seven-month highs after a report from the Commerce Department showed orders for long-lasting manufactured goods and business investment grew in September. That's good news for the economy, but it actually hurt stocks Wednesday, said Sam Stovall, chief investment strategist at CFRA Equity Research, because it might lead to greater inflation.

"Higher yields (and) a string of positive returns from the market combined with some weak earnings numbers gave investors some reasons to attempt to take profits," he said. Stocks have risen for each of the last six weeks and repeatedly set new highs.

The **S&P 500** shed 11.98 points, or 0.5 percent, to 2,557.15. The **Dow Jonesindustrial average** fell 112.30 points, or 0.5 percent, to 23,329.46. The **Nasdaq composite** sank 34.54 points, or 0.5 percent, to 6,563.89. The Russell 2000 index, which is comprised of smaller-company stocks, dropped 6.94 points, or 0.5 percent, to 1,493.48.

The Commerce Department said orders for long-lasting manufactured goods rose 2.2 percent last month, much more than analysts expected. Much of the improvement came from greater sales of commercial aircraft. A key category that tracks business investment grew for the third month in a row.

Despite the gains in aircraft sales, a solid third-quarter report and a boost in its profit forecast, Boeing stock slumped $7.58, or 2.8 percent, to $258.42 Wednesday. It's almost doubled in value in the last 12 months. Elsewhere in the industrial sector, defense contractor General Dynamics lost $4.83, or 2.3 percent, to $207.25. The company's technology and marine systems businesses reported lower sales compared to a year ago, falling far short of estimates.

General Electric declined for the third day in a row and finished at a four-and-a-half-year low as it lost 39 cents, or 1.8 percent, to $21.50.

Chipmaker Advanced Micro Devices dropped $1.92, or 13.5 percent, to $12.33 after its fourth-quarter forecasts disappointed investors. Network equipment maker Juniper Networks also issued a mediocre forecast and its stock lost $1.60, or 6.1 percent, to $24.56.

**Bond prices** fell again. The yield on the **10**-**year Treasury** note rose to 2.44 percent from 2.42 percent. That put pressure on companies that pay large dividends, like telecommunications companies, utilities, and food and beverage makers. Those stocks tend to do better when bond yields are down, as that makes the stocks more attractive to investors who are looking for income.

Many of those companies were hurt by weak results as well. AT&T lost $1.37, or 3.9 percent, to $33.49 after it reported a smaller profit and less revenue than Wall Street expected in the third quarter. Dr Pepper Snapple tumbled $4.19, or 4.7 percent, to $85.52. The 7UP maker's profit and sales were weaker than expected. It cut its profit forecast for the year because of higher costs as well as expenses from its purchase of energy drink maker Bai Brands.

While rising bond yields and interest rates usually help bank stocks, that was canceled out by disappointing earnings reports. Discover Financial Services lost $2.24, or 3.3 percent, to $65.15 as the credit card issuer and lender set aside more money to cover potential losses on bad loans. Regional bank Huntington Bancshares fell 33 cents, or 2.4 percent, to $13.88.

Benchmark U.S. crude shed 29 cents to $52.18 a barrel in New York. Brent crude, used to price international oils, rose 11 cents to $58.44 per barrel in London.

Wholesale gasoline rose 2 cents to $1.73 a gallon. Heating oil remained at $1.82 a gallon. Natural gas fell 6 cents to $2.92 per 1,000 cubic feet.

Gold inched up 70 cents to $1,279 an ounce. Silver lost 4 cents to $16.93 an ounce. Copper fell 2 cents to $3.18 a pound.

The dollar rose to 113.72 yen from 113.58 yen. The euro edged up to $1.1807 from $1.1788. The British pound rose to $1.3255 from $1.3136.

Britain's FTSE 100 dipped 1.1 percent as investors felt a stronger-than-expected report on economic growth makes it more likely the Bank of England will raise interest rates next month. France's CAC 40 fell 0.4 percent and the DAX in Germany lost 0.5 percent.

The Nikkei 225 index fell 0.5 percent as a 16-day winning streak for Japanese stocks came to an end. The index rose 7.2 percent over that period, its longest winning streak since World War II. The South Korean Kospi added 0.1 percent and Hong Kong's Hang Seng gained 0.5 percent.

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AP Markets Writer Marley Jay can be reached at http://twitter.com/MarleyJayAP His work can be found at https://apnews.com/search/marley%20jay

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

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

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**Energy Stocks Lag Behind Oil Prices**

By Georgi Kantchev and Sarah Kent
465 words
26 October 2017
The Wall Street Journal
J
B12
English


Oil prices are bouncing back from a three-year slump, but investors in energy companies seem to have missed the memo.

International crude prices have risen in the last 52 weeks as production cuts by major suppliers helped shrink the market's three-year-old glut. But energy stocks have barely gained over the same period -- an unusual divergence for sectors that are normally highly correlated. Investors have also put less money in energy equity funds.

On Wednesday, Brent crude, the international benchmark, settled at 58.44 a barrel, up 17% over the last 52 weeks. Shares of global energy companies are up just 3% over the past 12 months, according to the MSCI World Energy index.

In the U.S., West Texas Intermediate crude settled at $52.18 a barrel Wednesday and has risen 6.1% over the past 12 months, but energy stocks in the S&P 500 index are down nearly 3%.

Exxon Mobil Corp. shares have fallen more than 4% over the 52 weeks, while BP PLC's stock was broadly flat. Royal Dutch Shell PLC shares are up 9% but still lag behind the overall oil price gain for Brent. Of the major oil companies, only Chevron Corp. is up more than the price of a barrel of Brent, rising more than 18% over the past 12 months.

Behind the performance of stocks is a cocktail of factors, analysts say, including companies' high debt levels and a dearth of new investment that is hitting the bottom lines of oil-services firms.

However, a more fundamental reason appears to be investors' broad disillusionment with a sector that has endured wild price swings and is adapting to a new, lower-price environment.

"Energy equities are now unloved by investors," said David Lebovitz, global market strategist at J.P. Morgan Asset Management. "So much pain was felt during the downturn that people are hesitant to move into these names."

Oil prices fell from over $100 a barrel in mid-2014 to below $30 a barrel in early 2016, as booming U.S. shale oil output fueled a global glut of crude.

Energy stocks fell, too, with the MSCI World Energy index down around 50% from peak to trough.

However, a production-cut deal between the Organization of the Petroleum Exporting Countries and other big suppliers like Russia late in 2016 helped stabilize the market, and international crude prices have been steadily rising.

Such a divergence is unusual. Energy shares over the past decade have had a 75% correlation with oil prices, meaning that they go in lockstep three-quarters of the time, according to Stuart Allsopp, head of financial markets at BMI Research.



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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
**Caterpillar and 3M Lead Industrial Rally, Driving the Dow to a New High**

By THE ASSOCIATED PRESS
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25 October 2017
The New York Times
NYTF
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2
English


NEW YORK -- Construction and mining equipment maker Caterpillar and Post-it note maker 3M led a rally in industrial companies Tuesday after they made strong third-quarter reports. Other U.S. stocks finished the day with smaller gains.

Caterpillar and 3M both raised their forecasts for the rest of the year after they did better than analysts had expected, and their stocks jumped. Combined the two companies were responsible for almost all of the 167-point gain in the **Dow Jonesindustrial average**, which sent the 30-**stock index** to a record high. Bond yields and interest rates rose, which helped banks, and technology companies climbed as well. Investors applauded reports from McDonald's and General Motors while health care companies including drugmakers stumbled. Household goods makers also declined.

UBS analyst Steven Fisher said he thinks Caterpillar , as well as other companies that make construction and mining equipment, are benefiting from gains in metals and **oil prices** over the last year to year-and-a-half.

"There's now a catch-up to not only meet the demand but also replenish inventories," he said. That delayed reaction helped Caterpillar in the third quarter and he said investors have high expectations for other machinery makers.

The **Standard & Poor's500 index** gained 4.15 points, or 0.2 percent, to 2,569.13. The **Dow Jonesindustrial average** jumped 167.80 points, or 0.7 percent, to 23,441.76. The **Nasdaq composite** climbed 11.60 points, or 0.2 percent, to 6,598.43. The Russell 2000 index of smaller-company stocks added 2.93 points, or 0.2 percent, to 1,500.42.

Caterpillar 's revenue from construction equipment climbed, and the company said it's getting strong demand for oil and gas machinery in North America and construction equipment in China. Its stock gained $6.56, or 5 percent, to $138.24, and it's up 49 percent in 2017. 3M , best known for Post-it notes, said its industrial, electronics and energy and health care businesses all got stronger and it expects a larger annual profit. It added $13.10, or 5.9 percent, to $234.65.

Caterpillar and 3M are two of the biggest winners in the Dow average this year. The top gainer is aerospace company Boeing , which rose $3.68, or 1.4 percent, to $266, giving it a 71-percent jump since the start of the year.

**Bond prices** continued to fall. The yield on the **10**-**year Treasury** note rose to 2.42 percent from 2.37 percent and reached its highest level in five months. That helped banks, as higher interest rates boost their profits on lending. Bank of America gained 52 cents, or 1.9 percent, to $27.68 and JPMorgan Chase rose $1.58, or 1.6 percent, to $100.92.

Technology companies recovered most of Monday's losses. Specialty glass maker Corning jumped $1.93, or 6.4 percent, to $31.94 after its third-quarter report surpassed what Wall Street expected. Oracle rose 67 cents, or 1.4 percent, to $49.98 and video game maker Activision Blizzard added $1.27, or 2.1 percent, to $62.73.

Appliance maker Whirlpool had a weak quarter as costs were high and the company struggled to integrate European businesses it's bought over the last few years. Whirlpool also slashed its profit forecast for the year and its stock sank $19.24, or 10.5 percent, to $163.26.

Meanwhile Whirlpool 's more than century-old ties to department store Sears are ending. Sears says it is no longer selling Maytag appliances or other Whirlpool products at its stores. Whirlpool said it told Sears months ago that it would stop supplying branded products for the chain to sell because the companies couldn't agree on terms. Sears lost 57 cents, or 8.7 percent, to $5.99.

Health care companies took losses. Drugmaker Biogen fell $12.82, or 3.9 percent, to $315.73 as sales of its multiple sclerosis drugs Tecfidera and Tysabri disappointed analysts. Eli Lilly sank $2.01, or 2.3 percent, to $85.17. The company posted a solid third quarter, but said diabetes drug prices are still under pressure. Lilly also said it may sell its Elanco animal health unit. That business had been an important part of Lilly's strategy as important older drugs like Zyprexa and Cymbalta lost patent protection.

Drugmakers AbbVie and Celgene and health care products maker Johnson & Johnson also fell.

Benchmark U.S. crude gained 57 cents, or 1.1 percent, to $52.47 a barrel in New York. Brent crude, used to price international oils, climbed 96 cents, or 1.7 percent, to $58.33 a barrel in London.

Wholesale gasoline rose 4 cents to $1.72 a gallon. Heating oil added 3 cents to $1.82 a gallon. Natural gas slipped 2 cents to $2.97 per 1,000 cubic feet.

Gold fell $2.60 to $1,278.30 an ounce. Silver lost 11 cents to $16.97 an ounce. Copper gained 1 cent to $3.20 a pound.

The dollar edged down to 113.58 yen from 113.73 yen. The euro rose to $1.1788 from $1.1738.

Germany's DAX rose 0.1 percent and the French CAC-40 gained 0.1 percent. The FTSE 100 in London finish little changed. Tokyo's Nikkei 225 rose for the 16th day in a row, which extended a post-World War II record. The index added 0.5 percent. The Hang Seng in Hong Kong lost 0.5 percent and Seoul's Kospi was unchanged.

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AP Markets Writer Marley Jay can be reached at http://twitter.com/MarleyJayAP His work can be found at https://apnews.com/search/marley%20jay His work can be found at

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

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The New York Times

Business Day; DealBook
**Top C.E.O.s Head to Riyadh: DealBook Briefing**

By ANDREW ROSS SORKIN, MICHAEL J. de la MERCED and AMIE TSANG
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English


Good Tuesday morning from Andrew Ross Sorkin in Riyadh, Saudi Arabia, and Michael J. de la Merced and Amie Tsang in London. We're thinking about how President Trump's sudden and unpredictable changes on policy positions could be harming Republicans' tax overhaul efforts. More on that in a moment.

Watch this space: DealBook is expecting big corporate news this morning. Make sure to visit us to find the latest developments.

A reminder: DealBook's sixth annual conference, Playing for the Long Term, is on Nov. 9. Want to join us? Apply to participate here .

C.E.O.s travel to "Davos in the Desert"

Collectively they control an estimated $22 trillion in assets. But they're gathering in Riyadh to meet-and-greet Saudi Arabia's crown prince, Mohammed bin Salman , at a conference centered on the kingdom's Vision 2030 initiative.

Some of the boldface names in attendance:

• Steve Schwarzman of Blackstone of

• Masayoshi Son of SoftBank

• Treasury Secretary Steven Mnuchin

• Larry Fink of BlackRock of

• Peter Thiel , the venture capitalist

Many of the attendees will be hoping to get some of the billions that Saudi Arabia is investing with outside money managers — and Blackstone has been busy grabbing its share. Mr. Schwarzman explained to Andrew Ross Sorkin the world's interest in partnering with Saudi Arabia, saying, "Saudi Arabia is moving aggressively to diversify its economy and implement important reforms."

Worth noting: The Public Investment Fund has been troubled by disappointing investments and has struggled to calculate its own value, WSJ reports . The fund has been pushing back against parts of a deal with SoftBank that could cut Uber's value and force the fund, which invested $3.5 billion in Uber last year, to take a loss.

Prince Alwaleed bin Talal speaks:

The well-known Saudi investor said on CNBC that he opted to back Lyft because he thought Uber was too expensive. He also said that he remained optimistic about his investment in Twitter :

"It's not going to be easy because now they're facing some difficulties. But our entry point was very reasonable so right now it's holding our break-even point."

And Prince Alwaleed appears to be siding with Jamie Dimon on the Bitcoin debate. "I just don't believe in this Bitcoin thing," the prince told CNBC . "I think it's just going to implode one day. I think this is Enron in the making."

Is Trump the biggest obstacle to a tax overhaul?

It doesn't help that the president repeatedly undercuts Republicans' initiatives, like when he tweeted that he would oppose limits on 401(k) investments.

The struggle: With all the tax cuts being proposed, the government would need to make up for some of that shortfall somewhere. "You are trying to stuff a $4 trillion or $5 trillion tax cut in a $1.5 trillion box," Stephen Moore, who was an economic adviser to Mr. Trump during the 2016 presidential campaign, told WaPo .

Mr. Trump's tendency to make unpredictable responses has confounded lawmakers who are counting on his support. The president "can shift on a dime, and he has many unformed policy positions," Representative Charlie Dent, Republican of Pennsylvania, told the NYT .

What it means: Some of the proposed tax cuts may have to be temporary to comply with the arcane budget rules that would let Republicans pass their tax plan without any support from Democrats. Businesses in particularly aren't happy with that kind of uncertainty.

Global deal making isn't dead yet

A majority of the 100 bankers, lawyers and other advisers surveyed recently by the Brunswick Group think that cross-border mergers activity will rise over the next 12 months. (To be fair, that comes after a 7 percent decline in such deals in the first nine months of the year, compared with the period last year.)

Brunswick released the results of its survey ahead of Stanford's sixth annual XBMA Symposium, which is centered on cross-border M. & A.

More findings:

• Respondents said they expected China and the United States to be the biggest acquirers of overseas assets.

• Major political factors that could clamp down on cross-border deals include limits on Chinese acquirers; "Brexit" and the North Korean standoff; and a more nationalistic American stance on foreign takeovers.

The Weinstein Company is under civil investigation

The New York Attorney General Eric T. Schneiderman has opened an inquiry into the embattled studio and whether allegations of sexual misconduct and harassment against Harvey Weinstein reflect broad gender discrimination and other civil rights violations. The inquiry will also examine whether the company bears financial responsibility for any misconduct.

Civil investigations of this kind have proved costly for companies in the past:

In 2015, ConEd was required to pay $3.8 million to hundreds of female employees after an investigation by the attorney general and federal Equal Employment Opportunity Commission found violations of sexual discrimination and harassment dating back nearly a decade. ( NYT )

Employees of the Weinstein Company are calling for it to release them from their nondisclosure agreements so they can openly discuss what it has been like to work there. Zelda Perkins, a former Miramax employee, broke her contract to talk to The FT about her experience, saying she wanted to show how secretive legal processes were used to silence victims of sexual harassment:

"Unless somebody does this there won't be a debate about how egregious these agreements are and the amount of duress that victims are put under."

TPG Growth investing in data start-up with African roots

By investing in Gro Intelligence, which collects and analyzes agricultural data from what it says are trillions of data points, TPG Growth is continuing to pour money into businesses based in, or focused on, Africa.

TPG Growth, which has already invested in five companies across the continent, has been betting that business will pour increasingly more money into Africa. Gro, which is based in New York and Nairobi, Kenya, says it wants to become a Bloomberg of agricultural data, using cloud computing to analyze disparate sources.

 

• Sara Menker, Gro's founder and C.E.O., said in a statement: "We want to be a leader in the $5 trillion global agricultural industry."

• Yemi Lalude, the managing partner for TPG Africa, added: "This deal highlights the rich opportunities that exist to invest in early-stage technology companies that have a presence in Africa, but can also operate successfully on a global level."

Ray Dalio is worried about the wealth gap

He wants people to look at what's happening economically to the bottom 60 percent of the United States population by wealth, because using average statistics could make the economy look healthier than it really is.

Mr. Dalio explained in a LinkedIn post :

"That could lead the Fed to run an inappropriate monetary policy. Because the economic, social, and political consequences of an economic downturn would likely be severe, if I were running Fed policy, I would want to take this into consideration and keep an eye on the economy of the bottom 60 percent."

Amazon counts its suitors

All 238 of them.

Applicants to house its second headquarters came from all but seven American states. Here's a map of the places trying to woo Amazon .

Those courting the retail company will have to wait a little longer. Amazon said it would announce its decision next year.

We at NYT have already looked at the options, and found a winner .

T-Mobile and Sprint still waiting to connect

T-Mobile announced its earnings yesterday, and Sprint is scheduled to announce its results today. Yet there's still no word on when the two may strike a deal. (In fact, T-Mobile avoided holding a call with analysts in part to avoid being asked questions it can't — or doesn't want to — answer.)

The answer: The two sides are still in talks to strike an all-stock merger that would create a new publicly traded company with T-Mobile 's parent company, Deutsche Telekom , as the controlling owner. We hear that early to mid-November — and possibly as late as Thanksgiving — is what the deal teams are working toward.

Revolving Door

• Hong Ge, the head of Airbnb 's China business, has left just four months into the job. ( Bloomberg )

• Chip Blankenship, the chief executive of G.E.'s appliances division, will become chief executive of Arconic, after Klaus Kleinfeld left following a clash with Elliott Management . ( FT )

The Speed Read

M.&A.

• Commerzbank , the second-largest listed lender in Germany, is working with Goldman Sachs and Rothschild as it prepares for potential takeover bids from European rivals. ( FT )

Policy and Legal

• The Treasury Department said a rule on arbitration that would allow millions of Americans to band together in class-action lawsuits against Wall Street firms could trigger frivolous lawsuits and drive up the cost of credit. ( NYT )

• The Justice Department will limit its use of secrecy orders that prevent internet providers from telling people when the government has obtained a warrant to read their email during an inquiry. ( NYT )

• As investigators in Washington examine the scope and reach of Russian interference in United States politics, the once-cozy relationship between the news channel RT and YouTube is drawing closer scrutiny. ( NYT )

 

• European Union investigators searched the offices of Daimler and Volkswagen as part of an inquiry into allegations of illegal collusion by German carmakers. ( NYT ) Separately, Volkswagen won approval from environmental regulators for the United States and for California to make fixes to more than 38,000 diesel-powered vehicles it had rigged to dupe emissions tests. ( WSJ )

Banks and Banking

• A former HSBC banker was found guilty of defrauding a client in a $3.5 billion currency deal. ( FT )

Money Managers

• The Baupost Group has acquired the majority of a $2.2 billion claim that two South Carolina utilities had against Toshiba Corporation after the bankruptcy of the Japanese company's Westinghouse nuclear power subsidiary, according to people familiar with the matter. ( Reuters )

• Elliott Management has pushed for the British medical device maker Smith & Nephew to shed parts of its business to become a better takeover target. ( FT )

Business and Economy

• General Electric 's quarterly earnings were so bad that it risked being excluded from the **Dow Jonesindustrial average**. ( NYT )

• China is asserting its authority over private business in new ways, but it has also tried to assure entrepreneurs because unease in the private sector could become a problem for Beijing as it seeks new ways for the national economy to grow. ( NYT ) There is already concern that efforts to take on environmental pollution could slow such growth. ( NYT )

Follow Andrew Ross Sorkin @andrewrsorkin, Michael J. de la Merced @m_delamerced and Amie Tsang @amietsang on Twitter .

* Aramco Chief Says I.P.O. Is on Track for 2018: DealBook Briefing

The New York Times | Gro founder and C.E.O. Sara Menker | Gro Intelligence

Document NYTFEED020171024edao0038p

 

The New York Times

The Conversation
Opinion
**You Scream, I Scream, We All Scream for Tax Cuts**

By GAIL COLLINS and BRET STEPHENS
1,669 words
24 October 2017
05:30 AM
NYTimes.com Feed
NYTFEED
English


Gail Collins: Bret, we really need to talk about taxes. Sort of difficult to concentrate on the subject, what with the way things keep exploding in Washington. The past week was astonishing. Unnerving. Unholy.

But this is supposed to be the moment when things get fiscal. The Republicans may not all agree on much, but they're determined to pass a tax cut bill by the end of the year. What do you think of the ideas that have been coming out of Congress and the White House?

Bret Stephens: Asking me about tax cuts is like asking a child about ice cream: Some flavors might be preferable to others but it's pretty much all good (with qualified exceptions, like pistachio).

I'd love to see our corporate rates come down, as the White House proposes. I'd also love to see fewer brackets and a lower top rate. This isn't because I'm greedy for myself or my friends in the plutocracy. It's because I think it's necessary for the United States to get back to an annual G.D.P. growth rate of 3 percent or more. Robust economic growth would solve a lot of problems and take much of the air out of Trumpism.

Gail: It'd be the opposite — if there's a tax cut and the economy goes up 3 percent, Trump will totally take credit. That alone is a good reason to just let things alone. Besides the whole unnecessary-gift-to-the-rich part.

Bret: Good point about Trump taking credit. But Trump takes credit for anything, and I'd hate to begrudge Americans economic growth just because it might help the president politically.

The larger point, though, is that Trumpism is fueled by a sense of economic anxiety that has exploded into fury, and there is no curing that until growth in the real economy (not just the **stock market**) resumes and creates a genuine sense of mobility and opportunity. If the rich benefit disproportionately it is only because they pay a disproportionate share of taxes.

Gail: The rich pay more taxes, but if they get a cut, they're more likely to just sock it away. It's the non-rich who go out and use the new income to buy stuff. That in turn gins up the economy.

Bret: So here is where we get to the root of our differences on taxes. When the rich "sock it away," that only means that they are spending or investing, which is to say, putting the money into the real economy just like everyone else. They create jobs when they build a second home or become angel investors in a promising start-up or reinvest in their own businesses. Yes, it's "trickle down" economics. No doubt most of our readers agree with me entirely!

That being said, I'm sorry that this isn't the kind of bipartisan tax reform we had under Reagan in 1981 or 1986, when Democratic senators like Bill Bradley and congressmen like Dan Rostenkowski and Dick Gephardt were backers of the legislation.

The result is that the only reform we can get now, to avoid a presumptive Democratic filibuster, is through the parliamentary shenanigan known as budget reconciliation. And budget reconciliation requires that tax reform not add to the deficit, which leads to some pretty bad ideas, like a border tax or slashing the 401(k) deductibility limit to balance the books.

Gail: Bill Bradley once told me that he got interested in tax reform because when he was a basketball player he was a depreciable asset. Maybe our problem now is that we can't write off any members of the Senate.

Bret: Love the Bill Bradley line. Good thing depreciation doesn't apply to newspaper columnists. We just get better with age, like wine. Uh, right?

Gail: We're all walking Bordeaux.

But about those taxes — we're obviously not going to get a bipartisan deal as long as a certain president is in the White House. Right now there's a modest, sensible bipartisan health care plan floating around that the Senate could pass right away if Donald Trump would get behind it. But he keeps changing his mind.

I'm interested in your complaint about how the current rules require that tax reform not add to the deficit. Do you think the deficit isn't a problem?

Bret: I only worry about deficits in extended periods of slow growth. Nobody thinks of Carter-era stagflation as a prosperous time for the United States, but the debt-to-G.D.P. ratio was low: just under 31 percent in 1980 as opposed to around twice that in the middle of the Clinton boom. And there are times when the government has legitimate reasons to spend a lot of money and pile on debt, like winning World War II under Roosevelt or the Cold War under Reagan. We should never hold public prosperity hostage for the sake of a statistical artifact dear mostly to anally retentive deficit scolds preaching "The end is nigh!"

But I think you've put your finger on something essential. Bipartisanship is moribund under this president because he's thrashed the concept and possibility of trust in politics. There was a brief ray of hope last month when he seemed ready to strike a deal on DACA, but that seems to have collapsed, too.

Speaking of trust, do you trust General Kelly?

Gail: Do you remember those days of yore when everybody presumed Trump wouldn't blow up the planet because he had those three sensible generals hovering in the background? Generals who were undoubtedly working out a plan among themselves for how to put a lid on the president if he tried to drop a bomb on North Korea?

Seems so quaint now. As out of date as the theory that Ivanka and Jared would turn him into a social moderate so their New York friends wouldn't give them the cold shoulder.

How about you?

Bret: Trump single-handedly destroys the theory of containment. Nothing and nobody contains him. And he tarnishes everything and everyone around him. He's like a hyper-empowered schlemiel — I'm using the Yiddish word for the guy who proverbially spills his borscht all over you — while turning the rest of us into his schlimazels, the ones who get spilled on.

The latest political fiasco involving Trump's condolence calls is such a case in point. This should be the one thing every president ought to be able to get right. But Trump couldn't help but turn an accusatory political finger at Barack Obama, which was wrong on fact, wretched as principle and dumb as politics. And then Kelly, for whom I used to have nothing but admiration, soiled his own moment by defending the president and needlessly pointing an accusatory finger at Representative Frederica Wilson, which once again turned out to be wrong on fact, wretched as principle and dumb as politics.

When did people forget when to know how to leave well enough alone? Like, you know, Bill O'Reilly.

Gail: Yow, I'm not sure the concept of "let alone" is one O'Reilly ever mastered.

But about Trump — we're seeing more and more outcry from traditional Republicans. George W. Bush made a powerful speech last week. Senator Corker from Tennessee has done everything but picket the White House. John McCain has been incredible. But none of it seems to have any impact on the base. Really coming to dread that base.

What do you think is going to happen to the party? Will it be Bannonized? Split in two?

Bret: I fear the worst. The only people who seem to be standing up to Bannon are either retiring, retired or gravely ill. But where's Paul Ryan? What about Mitch McConnell? Watching him standing alongside Trump in that Rose Garden ceremony the other day was like watching a hostage video. "Stockholm syndrome" is something conservatives used to accuse liberals of suffering from. Ha! Today it's the so-called establishment Republicans who have fallen in love with their mad captor.

 

Gail: Yeah, if he wasn't around, they'd be forced to give up their good office space to the other side.

Bret: All parties have their extremists; every political persuasion has its fanatical tendency. Republicans have spent the past 60 or so years trying to dissociate themselves from their nativist, isolationist, ethnonationalist wing only to fall right back into it. It's like a man falling off the wagon after decades of sobriety.

I don't think the party of Reagan will survive Trumpism. Those of us who subscribe to some version or another of moderate conservatism are going to have to find a new political home, either alongside centrist, Clinton-style Democrats — who, I hope, will hold the Democratic reins in 2020 — or in an entirely new party, the Party of Sanity. As someone once said to somebody, 4,000 or so years ago, surely there must be 10 good people left in this wicked city.

Gail: I suspect that in a Trump-free world, the moderate Republicans and the Clinton-style Democrats would notice they still have a lot — not in common. Such as taxes. But it's amazing how the current occupant of the White House has managed to bring us together.

Should we thank him? O.K., I guess not.

Happy United Nations Day, Bret. And next week it's Halloween. Who are you going trick-or-treating as?

Bret: As Steve Bannon, of course. Can you think of anything more ghoulish than that?

Follow The New York Times Opinion section on Facebook and Twitter (@NYTopinion), and sign up for the Opinion Today newsletter.

People in Harrisburg, Pa., listening to President Trump speak about tax reform. | Joshua Roberts/Reuters

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The New York Times

Business/Financial Desk; SECTB
**Sharp Loss for G.E. Drags Down Industrial Shares**

By THE ASSOCIATED PRESS
636 words
24 October 2017
The New York Times
NYTF
Late Edition - Final
2
English


Industrial and technology companies and retailers all stumbled Monday as stocks began the week with losses. General Electric suffered its worst one-day loss in six years after downgrades from analysts.

After a mixed start, stocks turned lower in afternoon trading. G.E.'s struggles weighed on industrial companies, while big technology companies such as Facebook and Alphabet sank. The toy companies Hasbro and Mattel tumbled after Hasbro's sales forecast disappointed Wall Street, and familiar consumer companies like Amazon and McDonald's also slumped. Investors did far more selling than buying as a seven-day winning streak ended. It was the worst day for stocks in about seven weeks, but it was still a fairly small decline, as almost nothing has seriously rattled investors this year.

"We have never seen the level of calm and the level of strength combined that we've seen," said Mark Hackett, the chief of investment research at Nationwide Investment Management. "Investors are kind of willing to just trust it."

Hackett said it was very unusual that stocks have continued to rise without any big sell-offs, but he didn't see it as a problem. That is because major economies like the United States, Europe and China have all been growing for more than a year, which isn't likely to end soon.

The **Standard & Poor's 500**-**stockindex** lost 10.23 points, or 0.4 percent, to 2,564.98. The **Dow Jonesindustrial average** fell 54.67 points, or 0.2 percent, to 23,273.96. The **Nasdaq composite** dropped 42.23 points, or 0.6 percent, to 6,586.83. The Russell 2000 index of smaller-company stocks sank 11.75 points, or 0.8 percent, to 1,497.49.

G.E.'s loss, its largest since August 2011, came after analysts at UBS and Morgan Stanley lowered their ratings on its stock. G.E. stock has been slumping all year, but it had edged higher Friday as investors reacted positively to its third-quarter results. Analysts were less optimistic Monday, as Christopher Belfiore of UBS cut his 2018 and 2019 profit estimates for G.E. and said it was likely to reduce its dividend payments.

The stock fell $1.51, or 6.3 percent, to $22.32. It's down 29 percent this year.

Other industrial firms also took losses. The equipment rental company United Rentals lost $2.92, or 2 percent, to $141.48. Arconic, which makes aluminum parts for the aerospace industry and others, fell $2.82, or 10.4 percent, to $24.35 after it disclosed a smaller-than-expected profit and named Charles Blankenship, a former G.E. executive, as its next chief executive.

**Bond prices** edged higher. The yield on the **10**-**year Treasury** note slid to 2.37 percent from 2.38 percent.

Benchmark United States crude added 6 cents to $51.90 a barrel in New York. Brent crude, used to price international oils, lost 38 cents to $57.37 a barrel in London.

Wholesale gasoline stayed at $1.68 a gallon. Heating oil lost 2 cents to $1.79 a gallon. Natural gas jumped 8 cents, or 2.6 percent, to $2.99 per 1,000 cubic feet.

Gold inched up 30 cents to $1,277.70 an ounce. Silver remained at $17.08 an ounce. Copper rose 2 cents to $3.19 a pound.

The dollar rose to 113.73 yen from 113.50 yen. The euro fell to $1.173 from $1.1780.

CHARTS: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Monday. (Source: Reuters); 3-Month Treasury Bills: High rate at weekly auction. (Source: The Bond Buyer)

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The New York Times

BREAKINGVIEWS
Business/Financial Desk; SECT
**The Dow Jones Without G.E.? It's Possible**

By TOM BUERKLE
472 words
24 October 2017
The New York Times
NYTF
The New York Times on the Web
English


General Electric's quarterly earnings, so bad that even the new chief executive, John Flannery, called them ''horrible,'' have put fresh pressure on a stock that's down more than 25 percent this year. The performance threatens to add insult to injury. The last surviving original member of the **Dow Jonesindustrial average** risks being excluded from the benchmark.

With roots that go back to Thomas Edison's electric-light company in the 1870s, G.E. was one of 12 companies selected by Dow Jones when it created its market indicator in 1896. While some, like the American Cotton Oil Company and the National Lead Company, have long since faded into history, G.E. became a symbol of American industrial prowess. It began electrifying the railways in the 1890s, built the first American jet engine in 1941 and supplied the silicon for Neil Armstrong's moon boots. Under Jack Welch, it was an avatar of America's economic revival in the 1980s and 1990s, and became the world's most valuable company at the turn of the century.

The conglomerate has underperformed for years, though, despite shedding its appliance and finance divisions and making big bets on power and energy. G.E. shares have produced a total return of minus 2 percent a year for the past 10 years, according to Eikon data, far behind the Dow's 8.4 percent annualized gain. The stock accounts for just 0.7 percent of the benchmark, well behind Apple's 4.6 percent and Boeing's leading 7.7 percent.

The Dow is an oddity as the only major price-weighted United States market tracker, and for years G.E. has had one of the lower weights. There is no minimum weighting required, and the wonks at S.&P. Dow Jones Indices may be reluctant to drop the oldest constituent, especially as today's average contains few actual industrial companies. Yet the stock has already broken an unwritten rule that the ratio of the highest- to the lowest-priced stock should be 10 to 1.

G.E. still boasted a $206 billion market cap by Friday's close, the 19th largest among United States companies, and exclusion from the Dow wouldn't necessarily trigger huge sell-offs because most indexed funds track broad indexes like the Standard & Poor's 500. But it's telling that AT&T has underperformed the Dow by 23 percentage points since it was removed to make way for Apple two years ago. Mr. Flannery is already considering slashing the dividend to conserve resources. The last thing he needs is the humiliation of being kicked out of the Dow.

Tom Buerkle is associate editor of Reuters Breakingviews. For more independent commentary and analysis, visit breakingviews.com.

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**Wealth Management (A Special Report): Advisers' Voices --- Instability of Stable Value**

By Tara Mashack-Behney
306 words
23 October 2017
The Wall Street Journal
J
R9
English


Corrections & Amplifications

Various types of stable-value funds perform differently. A Wealth Management report article on Oct. 23 about stable-value funds in retirement plans incorrectly implied that they all work the same way.

(WSJ Nov. 30, 2017)

(END)

Most retirement plans offer stable-value funds on their menu of investment options as a means of capital preservation. But the structure of these funds can make them more **volatile**, less liquid and less appropriate as a cash alternative than some investors realize.

Commonly characterized as an alternative to traditional money-market funds, stable-value funds actually are more akin to bond funds, investing in similar short- and intermediate-term fixed-income securities. They are different from bond funds in that a series of insurance contracts insulate them from interest-rate fluctuations in the bond market, making their returns more consistent.

If the securities in a stable-value fund return less than promised in the contract, the insurer pledges to cover the difference. While this insurance wrapper might provide clients with confidence in their investment, it also means the price of the fund doesn't reflect what's happening with the underlying securities. And should the insurer find itself in a position of insolvency during a market downturn, the contract would be worth the value of the underlying assets, which might be less than the investor believes.

While stable-value funds can return more than a money-market fund, the insurance wrapper also puts a cap on the fund's upside. Returns generated above the fund's promised rate are passed on to the insurance company.

For some investors, a high-quality bond fund may be more appropriate. In addition to a portfolio of high-quality, shorter-term bonds, these funds offer far more transparency in terms of investments, fee structure and pricing.

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**Crisis-Era Securities Regain Investors' Favor**

By Christopher Whittall
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23 October 2017
The Wall Street Journal
J
A1
English


Investors hungry for returns are piling back into securities once tarnished by the financial crisis.

Complex structured investments developed a bad reputation during the global credit crunch that wreaked havoc a decade ago. Now, investors seeking better yields are overcoming their skepticism and buying into securities that rely on financial engineering to juice returns.

Volumes of CLOs, or collateralized loan obligations, hit a record $247 billion in the first nine months of the year, according to data from J.P. Morgan Chase & Co. Fueled by a wave of refinancings and nearly $100 billion in new deals, that far outpaces their recent full-year high of $151 billion in 2014 and the precrisis peak of $136 billion in 2006.

The CLO boom is the latest sign of the ferocious hunt for yield that is permeating markets. Stellar performance over the past year has made CLOs increasingly hard to ignore for investors like insurance companies and pension funds.

CLOs carve up a portfolio of bank loans to highly indebted companies into slices of securities with different levels of risk. The securities at the bottom of the CLO stack offer the highest potential source of returns, but they are also the first to absorb losses if there are defaults in the underlying loan portfolio. The more senior slices offer lower returns but are more insulated from losses.

CLOs are often lumped together with other alphabet-soup acronyms of the financial crisis, such as more toxic CDOs, or collateralized debt obligations.

But CLOs actually weathered the financial crisis well: Investors who bought at the top of the market in 2007 suffered paper losses, but there were no defaults at all for the highest-rated securities.

That track record has helped boost CLOs' appeal for investors with lingering concerns over scooping up more complex investments.

"The demand for things like CLOs. . . .is extraordinary," said Rick Rieder, chief investment officer for global fixed income at BlackRock Inc.

CLOs are one of the largest demand sources for the leveraged loan market, which has also been booming this year. Volumes of leveraged loans, often used by private-equity firms to fund buyouts, are on track to surpass their 2007 record, according to LCD, a unit of S&P Global Market Intelligence.

At the same time, investors have voiced concerns about companies' rising leverage level, and weaker creditor protections.

Within a CLO are different risk profiles: Investors in the most senior, AAA-rated piece of debt get paid first and are the most insulated from losses if defaults rise in the underlying loan portfolio. They also receive the skinniest returns. Slices of debt further down receive higher returns, but will suffer losses if defaults spike. At the bottom sits the equity tranche, the first loss-absorber and last to get paid, but the highest potential source of returns.

A 2014 report from Standard & Poor's stated that AAA-rated and AA-rated CLO tranches incurred no losses at all between 1994 and 2013. Loss rates for lower-rated tranches, meanwhile, were low -- just 1.1% for B-rated securities over that period.

That doesn't prevent some conservative investors from conflating the CLOs with the now-infamous CDOs, many of which were linked to subprime mortgages and spread and amplified losses in the U.S. housing market.

One breed of CDOs are on a comeback path of their own, with more investors returning to them during an aging **bull market**.

Many people were "burned by these acronyms from the crisis," said Zak Summerscale, head of credit fund management for Europe and Asia Pacific at Intermediate Capital Group. He is currently recommending that clients buy senior CLO tranches over investment-grade bonds.

CLOs, like other types of securitizations, have been subject to greater regulation since the financial crisis. That includes forcing funds that manage a CLO to retain 5% of the securities, in an effort to align incentives with investors.

That has "attracted additional capital into the market," said Mike Rosenberg, a principal at alternative investment manager Tetragon.

Assets under management in the "loan participation" sector -- a proxy for funds that invest in CLOs -- have grown 21% this year to $206 billion, according to Thomson Reuters Lipper.

The pickup in CLOs has been a boon to banks weathering declines in trading revenues in the current low-**volatility** environment. Revenue from CLO-related activity at the top 12 global investment banks more than doubled over the first half of 2017 from a year earlier to almost $1 billion, according to financial consultancy Coalition.

CLO investors have been handsomely rewarded in recent months. J.P. Morgan strategist Rishad Ahluwalia recommended clients buy CLOs last July as he thought they looked too cheap. Between then and the end of September, BB-rated CLO tranches returned 25.4%, compared with a 25.2% return for the technology-oriented **Nasdaqstock index**, according to his calculations.

"CLOs have been an absolute home run," said Mr. Ahluwalia, though he added such chunky returns aren't repeatable.

Analysts say CLOs got beaten down last year following a series of troubles in the underlying loan market, including distress in the energy sector. Some analysts think the strong rally in CLO tranches since then should give investors pause; others think the market has further to run.

Renaud Champion, head of credit strategies at Paris-based hedge fund La Francaise Investment Solutions, likes AAA-rated CLO tranches but with a twist: leverage.

Mr. Champion says he buys senior European CLO tranches and borrows money against them to increase the size of his position between five and 10 times. That can amplify gains -- and losses -- significantly.

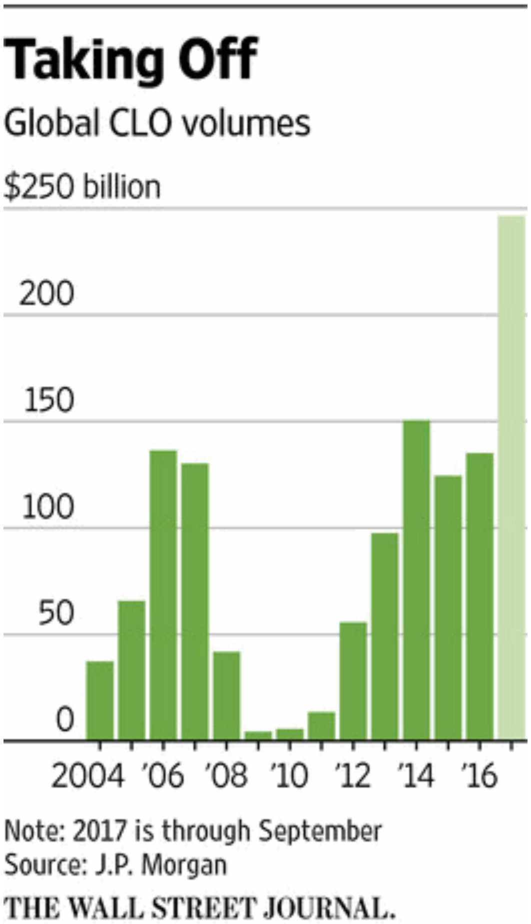
"The difference between now and a year ago is the availability of leverage," he said.

Bankers say only a small proportion of CLO buyers use leverage and emphasize that trades are subject to daily margin calls.

That means investors have to post cash to cover mark-to-market losses on a position, which in turn limits how much they are willing to borrow.

"The leverage in the system today is a fraction compared to precrisis," said J.P. Morgan's Mr. Ahluwalia.

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**Wealth Management (A Special Report): Ask Encore --- Why Retirees Should Consider a Financial Adviser: Also: We answer readers' questions on SEP IRAs and Social Security benefits**

By Glenn Ruffenach
1,039 words
23 October 2017
The Wall Street Journal
J
R2
English


Q: My question is about financial advisers. Specifically: Do I need one? I know that such help is important, but paying 1% of my assets annually, which appears to be the going rate, seems steep. My wife and I have adequate retirement savings, our mortgage is paid off, we have virtually no debt, and we are invested almost exclusively in index funds with low fees. Our estate-planning documents are in order, as well. So, what would I gain from working with a financial adviser?

A: I certainly have met and spoken with retirees who have the skills and time to manage their finances in later life. And yes, many advisers typically charge, annually, 1% of assets under management. If the value of your nest egg is, say, $1.5 million, then $15,000 goes to your adviser. (Check carefully if an adviser tells you: "My help is tax-deductible." Some, but not all, adviser fees fall under that heading.)

That said, there are several reasons why most people approaching retirement or already retired should at least consider meeting and possibly working with a financial adviser.

Most important, a good adviser will keep you from doing something stupid with your money. And most people, even those who have, or think they have, a good handle on their finances, trip up at some point. That includes me.

Several years ago, a close family member approached me about investing a sizable amount of money in a supposedly can't-miss opportunity. Even though I was aware of the risks involved in lending money to family and friends (you tend to follow your heart rather than your head), I wrote the check. Well, the can't-miss investment missed. And my wife and I paid the price. Very dumb.

And don't assume that simply because you're invested in index funds or other seemingly straightforward products you must know what you're doing. Barry Kaplan, a certified financial planner and principal with Modera Wealth Management in Atlanta, recalls meeting a young lawyer who confidently explained that 75% of his nest egg was invested in an **S&P 500 index** fund and 25% in a Wilshire 5000 index fund. The latter, the lawyer said, represented the small-cap portion of his holdings.

The problem: The Wilshire 5000 is a total-market index, not a small-cap index. The lawyer assumed that one-quarter of his money was invested in small-cap stocks, when, in reality, the figure was closer to 5%.

"He didn't understand that index investing, while simpler than traditional active investing, isn't that simple," Mr. Kaplan says. "You have to determine which indexes. What's the overlap between the indexes? What are the gaps? And what about foreign [funds]? It's even more complicated there."

A good way to gauge your financial smarts: What did you do as markets were crashing in 2008 and 2009? Run for the hills? Sit tight? Tweak your investment strategy? Says William J. Bernstein, a neurologist, investment adviser and author: "You are not as good looking, as charming, or as good a driver as you think you are. The same goes for your investing abilities."

Two additional reasons why retirees might benefit from working with an adviser are taxes and spouses. Many retirees have two or more different types of savings or sources of income: taxable accounts, tax-deferred accounts, Roth IRAs, pensions, Social Security, etc. Ensuring that your nest egg lasts as long as you do is the biggest financial challenge most of us face in retirement, and tapping various assets in the most tax-efficient way possible is crucial to that. Here, a good adviser can be invaluable.

As for spouses, most couples seem to have one person who handles and understands retirement finances. If that person dies suddenly, the surviving spouse could benefit from having an adviser in place.

Finally, if fees are the primary sticking point in deciding whether to work with an adviser, financial players old and new -- Vanguard Group, Charles Schwab, Betterment, and Wealthfront, among others -- are now competing for your business with fees considerably lower than 1%. That fact isn't lost on traditional advisers, some of whom are beginning to lower their prices, as well. In short: shop around.

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Q: "I am 72 years old and mostly retired but still have some income from consulting fees. Can I still contribute to my SEP IRA?"

A: Yes, you can. But you also must take required distributions from the same account.

A person who has earned income can continue contributing to a SEP IRA almost indefinitely. In 2017, those contributions can't exceed the lesser of 25% of your compensation or $54,000.

But, unlike some company retirement plans, a SEP doesn't have a "still working" exception, which allows a person to delay required minimum distributions. With a SEP, you must begin RMDs after reaching 70 1/2.

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Q: Do you have any suggestions on where my wife and I can get Social Security benefit estimates? We were fortunate to retire in our mid to late 50s, and we will have no Social Security wages in the future. We are both 60 years old. I would like to estimate our benefits for age 62 and our full retirement age of approximately 66.

A: If you haven't already, you should set up a "my Social Security" account with the Social Security Administration. (Go to socialsecurity.gov/myaccount.) Here, you will find "Your Social Security Statement," which the agency used to mail to people each year, and a quick estimate of future benefits.

Then, depending on how much time you have and how much work you want to do, three calculators on the agency's website -- a Retirement Estimator, an Online Calculator and a Detailed Calculator -- can help estimate what your benefits might be at various ages. (Go to: socialsecurity.gov/planners/benefitcalculators.html.) Each tool asks you to provide different amounts of information, which, ideally, generate increasingly precise estimates.

 

## Money Management

When asked how comfortable they are making investment decisions with their retirement accounts,* account holders were split. About 47% said they're mostly or very comfortable, but 53% said they're either not comfortable or only slightly comfortable.


* Self-directed accounts, including IRAs, 401(k)s, 403(b)s and related retirement savings

Source: Federal Reserve's "Report on the Economic Well-Being of U.S. Households in 2016"

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**Wealth Management (A Special Report): Taxes --- Costly Tax Mistakes and How to Avoid Them: Error No. 1: putting a tax strategy on hold until a clearer picture emerges from Washington**

By Tom Herman
1,372 words
23 October 2017
The Wall Street Journal
J
R7
English


Tax planning and tennis have something in common. Often, the best coaching advice is remarkably simple: Stop trying to hit spectacular winners. Instead, focus on avoiding unforced errors.

Making costly tax mistakes has become much easier over the past few decades as the nation's tax laws have grown increasingly complex. Tax simplification long has been an oxymoron. Many of the biggest tax blunders occur in the final months of the year as investors scramble to take advantage of year-end tax-planning techniques that can unravel because of seemingly small bloopers.

In view of all the uncertainty about what, if any, tax laws might change this year and next, it may be tempting for readers to throw up their hands and not think about the subject until a clearer picture emerges in Washington. "That would be a big mistake," warns Sidney Kess, a senior consultant in New York at Citrin Cooperman and of counsel to the law firm Kostelanetz & Fink LLP. "There are many things" that taxpayers can do, especially in the realm of avoiding costly bloopers, between now and New Year's Day, he says.

Here are suggestions from tax professionals on how to avoid getting caught in a few painful tax traps.

MUTUAL FUNDS: Stock prices have surged this year. That may tempt more skeptics sitting on the sidelines to rush into stocks and equity funds. But before pouring large amounts of new money into an equity fund for a taxable account later this year, do some basic research.

Here's why: Mutual funds generally are required to distribute substantially all of their realized net capital gains to investors each year. Large numbers of funds make distributions during the closing weeks of the year. That may sound like a welcome gift. But for investors holding mutual funds in taxable accounts, those distributions typically are subject to tax, even for someone investing in that fund for the first time right before the date to be eligible for the distribution.

Thus, if you're thinking of investing a large amount of new money in a stock fund for a taxable account, check to see whether the fund is planning any payouts between now and year-end. Also check to see the date to qualify for that payment. If that distribution will result in a hefty tax bill, you might prefer to wait to invest in that fund until after the qualifying date, Mr. Kess says.

Naturally, you don't need to worry about this problem if investing for a tax-favored account, such as an individual retirement account.

Some fund groups already have posted preliminary estimates of how much each of their funds will distribute. "The takeaway is doing your homework and being aware" of the possible tax consequences, says Roger A. Young, senior financial planner at T. Rowe Price Associates Inc. in Owings Mills, Md.

WASH SALES: Many investors take advantage of a long-cherished technique known as tax-loss harvesting. This involves selling their investment losers to nail down valuable capital losses. This strategy typically attracts widespread attention around the end of each year. Although losing money is painful, those capital losses can be valuable: They can be used to offset capital gains on a dollar-for-dollar basis -- and if an investor's losses exceed capital gains, the net capital loss typically can be used to offset wages and other income up to $3,000 a year ($1,500 for someone who is married and filing separately). Excess losses get carried over to future years.

Harvesting losses can still be a great idea. But beware of the wash-sale rules, warns Amy V. Hollander, a certified public accountant in Clarks Summit, Pa. A wash sale typically occurs when an investor sells or trades stock or securities at a loss and buys the same thing, or something "substantially identical," within 30 days before or after the sale. If that happens, the investor can't deduct the loss.

It's important to note that this rule applies to the time period within 30 days "before or after" the sale, not just 30 days after. Also, you can't try to get around this rule by selling a stock at a loss and acquiring something substantially identical for your IRA within the specified time period.

Here's one way to avoid trouble: If you sell a stock at a loss and then decide to buy it back, wait for more than 30 days, Mrs. Hollander says. If a loss gets "disallowed" because of the wash-sale rules, the investor typically adds the disallowed loss to the cost of the new stock. The result is the investor's "basis" in the new stock or securities for tax purposes.

"This adjustment postpones the loss deduction until the disposition of the new stock or securities," the Internal Revenue Service says in Publication 17. "Your holding period for the new stock or securities includes the holding period of the stock or securities sold."

DONATING STOCK: Late each year, many taxpayers make large donations to their favorite charities and educational institutions to qualify for valuable charitable deductions. The possibility of a reduction in future tax rates makes this strategy even more appealing now, says Mr. Kess. Fine, but many taxpayers should also consider another option: Think about donating some stock that they have owned for more than a year and that has risen in value, says Mr. Kess. That typically will enable the donor to deduct the stock's fair market value -- and the donor doesn't have to pay a capital-gains tax on the increase in value.

In view of the extraordinary **bull market** in stocks since early 2009, "clients probably have some appreciated positions to donate," Mr. Kess says.

But don't make the mistake of donating a stock that is worth less than your cost, he warns. "If the stock went down in value, you're better off selling it, getting a capital loss and then donating the cash to the charity."

IRA DONATIONS. One IRS provision allows many taxpayers age 70 1/2 or older to transfer as much as $100,000 a year from an IRA to charity without having to include any of that transfer as part of their income. But to qualify, that transfer must be made directly from the IRA to charity, says Joe Buble, a partner at Citrin Cooperman and the firm's tax practice leader. If done correctly, the transfer counts toward the taxpayer's required minimum distribution for that year.

For more details on charitable contributions, see IRS Publication 526. See IRS Publication 550 for more on the wash-sale rules and other investment issues, and Publication 590-B on IRA distributions.

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Many important tax-related numbers change each year due to inflation adjustments required by law. The IRS recently released changes for the 2018 tax year, although nobody knows whether Congress will approve major changes. Here are a few:

-- The personal exemption is scheduled to rise to $4,150 for the 2018 tax year. (This will affect returns for 2018, due to be filed in 2019.) That's a $100 increase from 2017. The exemption phases out for taxpayers with adjusted gross income above a certain level.

-- The basic standard deduction for the 2018 tax year is scheduled to rise to $13,000 for taxpayers who are married and filing jointly. (This also will affect returns for 2018, due to be filed in 2019.) That's up $300 from tax-year 2017. For singles and married taxpayers filing separately, the basic standard deduction will rise to $6,500, from $6,350. There are additional amounts for taxpayers age 65 or over, or blind.

-- The annual gift-tax exclusion for 2018 is set to increase to $15,000 from $14,000 this year.

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Mr. Herman is a writer in New York City. He was formerly The Wall Street Journal's Tax Report columnist. Send comments and tax questions to taxquestions@wsj.com.

## Taxable Income

Federal income-tax tables for 2017 and 2018, based on current law

| | Tax Rate | 2017 Taxable Income | 2018 Taxable Income |
|---|---|---|---|
| Married filing jointly (and surviving spouse) | 10% | $0-$18,650 | $0-$19,050 |
| | 15% | 18,651-75,900 | 19,051-77,400 |
| | 25% | 75,901-153,100 | 77,401-156,150 |
| | 28% | 153,101-233,350 | 156,151-237,950 |
| | 33% | 233,351-416,700 | 237,951-424,950 |
| | 35% | 416,701-470,700 | 424,951-480,050 |
| | 39.60% | 470,701+ | 480,051+ |
| Single (excluding surviving spouse and head of household) | 10% | $0-$9,325 | $0-$9,525 |
| | 15% | 9,326-37,950 | 9,526-38,700 |
| | 25% | 37,951-91,900 | 38,701-93,700 |
| | 28% | 91,901-191,650 | 93,701-195,450 |
| | 33% | 191,651-416,700 | 195,451-424,950 |
| | 35% | 416,701-418,400 | 424,951-426,700 |
| | 39.60% | 418,401+ | 426,701+ |

Sources: Internal Revenue Service; Wolters Kluwer Tax & Accounting

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THE WALL STREET JOURNAL.
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**Former Energy Trader Bets on Bitcoin --- New fund dedicated to cryptocurrencies to open to outside investors next month**

By Stephanie Yang
830 words
23 October 2017
The Wall Street Journal
J
B8
English


J. Robert Collins Jr. spent most of the past 25 years trading commodities. He nearly went broke a decade ago in one of the biggest energy hedge-fund meltdowns, before raiding his retirement savings to make some of it back.

Now Mr. Collins, known as "Bo," is making a big bet on something that makes commodity trading look almost tame: the roaring market for bitcoin and other cryptocurrencies.

Next month, Mr. Collins plans to open up to outside investors his new cryptocurrency fund, which he called Morpheus Asset Strategies after a character in the dystopian film "The Matrix."

In March he put his own money into a portfolio trading bitcoin, other virtual currencies and initial coin offerings. In a sign of how these cryptocurrencies have taken off, he says the value of his holdings has risen more than fivefold since then.

"Virtual currency for me is a deep passion," he said. "We're just now beginning to turn it into a business."

He plans for the fund to be part of a new firm focused on investing in blockchain technology called Renovatio Puerto Rico, which means "rebirth" in Latin and is based in the U.S. territory.

By embracing cryptocurrencies, he joins a small but growing group of traditional financiers who have become vocal proponents of an investment that many on Wall Street consider a dubious fad. J.P. Morgan Chase & Co. Chief Executive James Dimon recently called bitcoin a "fraud."

Not everyone is so skeptical. Goldman Sachs has said it is considering starting a trading operation for bitcoin and other digital currencies.

Few investments have experienced more dramatic price swings this year. Bitcoin plunged 25% from its prior peak to $3,490 in September after China cracked down on domestic trading and exchanges. It has since bounced back and more, trading at an all-time intraday high on Friday of more than $6,000.

Mr. Collins is unfazed, recalling the wild swings that took place in 1996 when futures launched for the power market.

"I was there on day one and I lost money so fast it was crazy," he said. For any new market, he added, "there's usually radical **volatility**."

There is an estimated $2.2 billion under management in funds that focus on cryptocurrencies, according to Autonomous NEXT. The vast majority of the 110 funds tracked by the research firm started up this year.

Some traders say digital currencies look enticing at a time when **volatility** in other assets, from stocks to bonds to commodities, has been muted. They consider the transition from trading commodities to bitcoin a natural move.

"Bitcoin appears to be on a cycle of growing maturity in the same way that I saw the crude oil market, the natural gas market, the metals market go on," said Daniel Masters, a former oil trader who launched a bitcoin fund three years ago.

Mr. Collins, 52 years old, began trading on the floor at the New York Mercantile Exchange in cotton, crude oil and natural-gas markets for Pioneer Futures. He then headed the natural-gas trading desk at El Paso Corp., which was acquired by Kinder Morgan in 2011.

Looking to move on from trading, he joined the Nymex board in 2001 and was elected president later that year. He took over right as the collapse of energy giant Enron roiled markets. Shortly after, Mr. Collins helped launch the ClearPort electronic clearing service to mitigate counterparty risk, which was lauded as an innovative initiative for derivatives trading.

With commodity prices soaring, Mr. Collins returned to trading. In 2005, he launched a fund called MotherRock to trade energy derivatives.

The fund was up more than 20% its first year but closed down a year later after losing more than $500 million from natural-gas bets, making it one of the biggest and most high-profile shutdowns ever by an energy fund.

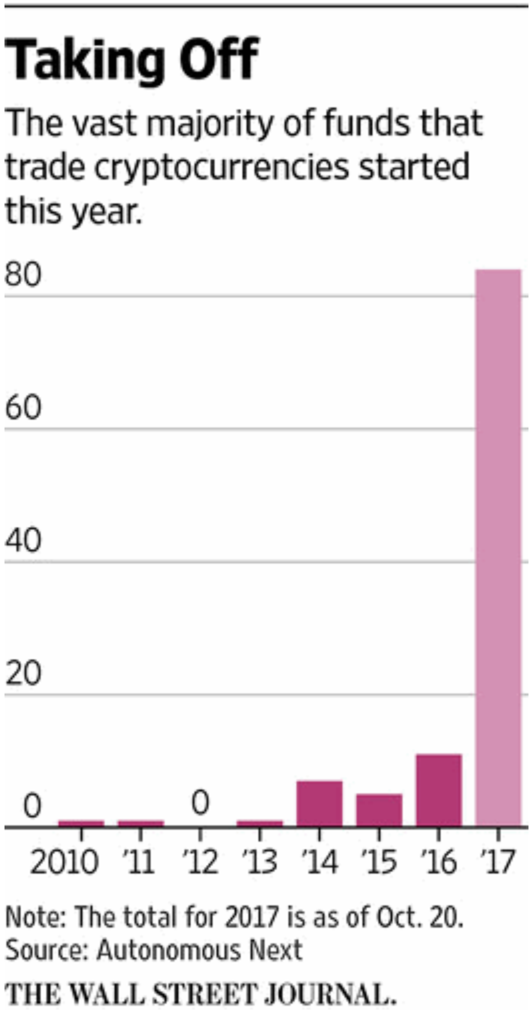
Mr. Collins liquidated about $400,000 he held in a retirement plan to start another fund to trade energy arbitrage. That closed when banks called on credit lines in 2007, Mr. Collins said.

He retreated to a family farm in Farmersville, Texas. There he discovered a white paper detailing bitcoin while surfing the web one night. In the midst of global financial instability, an alternative, decentralized currency didn't seem far-fetched.

Growing up in Plano, Texas, Mr. Collins recalls an early affinity for technology and electronics. His mother taught high-school computer science and his father worked at Texas Instruments.

His first job after college was at the Federal Reserve Bank of Dallas in the payments division, helping convert U.S. savings bonds from paper into electronic records. Seeing that transition helped smooth over doubts about the idea of virtual money, he said.

"It all synchronized for me," he said. "It made sense."

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**Tax-Overhaul Plan Could Disappoint Financial Markets**

By Chelsey Dulaney
516 words
23 October 2017
The Wall Street Journal
J
B9
English


Analysts have a warning for investors betting a tax overhaul will boost **financial markets**: Don't get your hopes up.

The Senate passed a budget blueprint late Thursday that could help unlock a procedure that Republicans plan to use to rewrite the tax code with just GOP votes. The plan, sketched out by Republicans last month, includes lower taxes on corporate profits, incentives for businesses and fewer and lower individual income-tax brackets.

The critical step forward on a tax overhaul sent the dollar, Treasury yields and U.S. stocks higher Friday. But analysts warn that, if implemented, the plan's benefit to **financial markets** may fall short of investors' expectations.

The Dollar

The dollar jumped Friday as investors cheered progress on the Trump administration's legislative agenda. Hopes surrounding the plans for fiscal stimulus and tax overhaul initially helped propel the U.S. currency to a 14-year high after the election, but the dollar has unwound all those gains this year.

If Republicans succeed in the tax overhaul, analysts see a mixed outlook for the dollar. While changes to how overseas earnings are taxed could bolster demand for dollars, the plan is also expected to increase the deficit by $1.5 trillion over the next decade. A bigger deficit has historically weighed on the greenback, according to research from Nomura.

"The budget deficit could at least initially worsen, which does not look good for the dollar," said Nomura analysts.

Treasurys

Treasury yields also got a boost on Friday. In theory, Treasury yields should benefit from stronger economic growth and inflation, which would allow the Fed to raise interest rates at a faster pace. But Nomura sees only a marginal increase to yields, with the bank forecasting a $1 trillion tax cut tax would send the **10**-**year Treasury** yield up by 0.07 percentage point.

Stocks

Analysts agree that U.S. stock markets would likely get some lift from the plan as many companies would benefit from lower tax rates.

Goldman Sachs Group Inc., for example, is forecasting that the S&P could rise an additional 3% by the end of the year if the tax-overhaul bill passes.

For shares of small U.S. companies, which were seen as bigger beneficiaries of the plan because they typically have higher tax rates, the impact could also be relatively muted. "Prospects of a corporate tax cut fanned the flames in the U.S. given small-caps' higher tax burden," said BlackRock Inc. chief investment strategist Richard Turnill in a research note. "But we believe a sustained run will require more than lower taxes."

Economic Growth

Many economists believe an initial increase to U.S. gross domestic product growth is likely to be short-lived. Nomura forecasts that a $1 trillion tax cut will add about 0.12 percentage point to real GDP growth, which came in at 3.1% in the second quarter. The bank adds that "the stimulative effect quickly fades," fully receding by around 2022.



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THE WALL STREET JOURNAL.
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**Wealth Management (A Special Report) --- A Different Kind of Financial-Literacy Test: It's one thing to know the facts; It's another thing to truly understand them**

By Meir Statman
2,145 words
23 October 2017
The Wall Street Journal
J
R6
English


There's a financial-literacy crisis in the U.S. And it is probably even worse than it seems.

Study after study shows how poorly Americans understand money and investing. Consider this common question posed by surveys: "Suppose you had $100 in a savings account and the interest rate was 2% a year. After five years, how much do you think you would have in the account if you left the money to grow: more than $102, exactly $102, less than $102?"

This is one of three questions typically used to measure financial literacy. Incredibly, only one-third of Americans older than 50 answer all three questions correctly.

Moreover, questions such as this one, while important, measure only financial literacy. They do little to get at financial comprehension and financial behavior. That is, even if someone knows financial facts such as the correct answer to this question, they often don't understand why they may be investing the way they do, and what their behavior means for their current and future well-being. And they don't understand that not understanding their actions can be even more damaging than not knowing financial facts in the first place.

We do good when we promote financial literacy. We do even better when we promote financial comprehension and the financial behavior that comes out of that comprehension.

So it is important for people to be able to pass a different kind of financial-literacy test -- one whose questions and answers will lead the way to smarter spending, saving and investing. We've put together just such a test that everybody should take. Those who do -- and truly understand the answers -- will be smarter investors and consumers because of it.

1. A surgeon perfects her surgeries, and increases her rate of success as she performs surgeries more often. Likewise, an investor perfects his trading and increases his rate of success as he trades more often.

True or false?

False: The analogy between a trader and a surgeon is one that many investors make. It makes intuitive sense. But it is wrong. The human body doesn't "compete" with the surgeon as she perfects her surgeries; it doesn't switch the heart from left to right. But two traders on the opposite side of a trade compete with each other. A trader might perfect his skills by frequent trading, but will nevertheless lose if the other trader has greater skills or possesses better information.

A trader wrote to me: "Just pay attention. Is the parking lot of Costco totally full 10 hours a day (yes). Did your last two Amazon orders result in (1) A cheaply made item (yes) and (2) An item stolen after Federal Express left it at my door (yes). So why are the experts selling Costco and buying Amazon?"

The answer might be that the experts have more than widely available information about the number of cars in Costco's parking lot, the quality of Amazon's merchandise, and the rate by which they are stolen. They also might have narrowly available information about excellent prospects of Amazon, and poor prospects of Costco.

I don't know. But the point is, neither do you. But rest assured that most professionals on the other side of any trade you make have much better information than you, a nonprofessional. And more often than not, if you're competing against them -- no matter how many times you practice -- you're going to lose.

2. Managers of "active" mutual funds are investment professionals who aim to beat the market, whereas managers of index mutual funds aim only to match the market. Active fund managers are experts, with special knowledge, skills and access to narrowly available information not available to amateur individual investors. On average, active fund managers do beat the market. Therefore, amateur individual investors do better to invest in active funds than in index funds.

True or false?

False: Evidence indicates that, on average, "active" mutual-fund managers do beat the market before costs are accounted for, but it also indicates that the returns they deliver to investors, net of costs, lag behind those of low-cost index funds. Moreover, there is little consistency in the ability of active funds to beat the market, so it is difficult to choose active funds that beat index funds consistently. The Securities and Exchange Commission is right to "require funds to tell investors that a fund's past performance doesn't necessarily predict future results."

3. Mutual-fund companies regularly include the number of "stars" awarded to mutual funds they advertise. Morningstar awards five stars to top funds in a category. This indicates that it is best to choose funds offered by a fund company advertising five-star funds.

True or false?

False: "Availability errors" incline us to judge likelihood, such as of finding a winning mutual fund, by information easily available to our minds. Some mutual-fund companies exploit availability errors. One ran an ad promoting its four five-star funds. It turned out that these were four of seven five-star funds among its 139 funds. Morningstar classifies the top 10% of funds into the five-star group, but this mutual-fund company had only 5% of its funds in that group.

4. Jane is the portfolio manager of the Alpha mutual fund, which beat its **S&P 500 index** benchmark 10 years in a row. She majored in mathematics at Harvard University, and received her M.B.A. in finance at Columbia University, both with high distinction. This indicates that it is better to invest in the Alpha mutual fund rather than in an **S&P 500 index** mutual fund.

True or false?

False: "Representativeness errors" lead us to focus on "representativeness" information and overlook "base-rate" information. Some pieces of information make Jane similar to or representative of what we are likely to think of as excellent portfolio managers. These include her Harvard and Columbia degrees, in addition to beating the **S&P 500 index** 10 years in a row. Yet "base-rate" information tells us that one of 1,024 people tossing a coin is likely to have 10 heads in a row, and the number of available mutual funds greatly exceeds 1,024.

Future returns of Jane's Alpha mutual fund can be much higher or much lower than those of an **S&P 500 index** mutual fund. This is good for investors who want a chance to reach high aspirations satisfied by very high returns, but bad for investors whose pain at low return exceeds their joy at high returns.

In other words, just because Jane has done well for 10 years, just because she has two Ivy League degrees, doesn't mean she will continue to beat an index fund. Nor does it mean that it is automatically better to invest with her. It all depends on what you're looking for.

5. Michael is passionate about protecting the environment and wants his investments to be true to his values. He chooses a mutual fund that excludes stocks of companies harming the environment, knowing that this fund's annual returns are likely to be 1 percentage point lower than those of a conventional fund. This choice makes sense.

True or false?

True: It's true for Michael, that is. It is important to understand here that money is for satisfying wants, whether that means secure retirement income, nurturing children and grandchildren, gaining high social status or being true to our values.

A common way of looking at money is to separate the "production" of money from its "use" in satisfying wants -- that is, produce the most money you can in a first step, and use it to satisfy wants in the second step. Yet we also properly commingle production and use -- think of a choice between a career where you earn much money but are unhappy to come to work, and one where you earn less money but are happy to come to work.

 

For some people, it makes sense to invest in a conventional fund, get the highest returns, and donate 1 percentage point of those returns to support environmental causes, being true to your values. But for some people, it makes sense to invest in an environmental fund that earns 1 percentage point less than conventional funds but is true to your values.

6. You can beat the market by buying and holding FAANG stocks (Facebook, Amazon, Apple, Netflix and Google). "After a decade or so, it has made me stinking rich," Jim says.

True or false?

False: "Hindsight errors" might well be the most dangerous among the cognitive errors tripping up investors. We know, in hindsight, that FAANG stocks delivered fabulous returns in the recent past. Hindsight errors mislead us into thinking that our foresight is as accurate as our hindsight, but it isn't. FAANG stocks are as likely to deliver terrible returns in the future as they are likely to deliver fabulous returns.

Hindsight errors coupled with our tendency to extrapolate past returns tempt us to "chase winners," buying recent winners and selling recent losers. Yet evidence indicates frequent trading is more likely to reduce returns than increase them.

7. The correlation between the returns of U.S. stocks and foreign stocks is approximately 0.90. This is a pretty high correlation, knowing that 1.00 is the highest possible correlation. This high correlation means that there is no benefit in diversifying portfolios globally, between U.S. and foreign stocks.

True or false?

False: Consider the terrible returns of 2008. U.S. stocks, measured by the **S&P 500 index**, lost approximately 37%, and foreign stocks, measured by the MSCI EAFE Index, lost approximately 43%. The return gap between them is just 6 percentage points, but that indicates substantial diversification benefits. An investor who diversified her portfolio in equal proportions between U.S. and foreign stocks lost 40%, a terrible loss but not as terrible as the 43% loss of an investor who concentrated her portfolio in foreign stocks.

Returns were wonderful in 2009, but this time foreign stocks were the winners, gaining 32% as U.S. stocks rose 26%. The gap between the returns turned out to be 6 percentage points, just as in 2008. An investor who diversified his portfolio in equal proportions between U.S. and foreign stocks gained 29%, a wonderful gain, better than the gain of an investor who concentrated his portfolio in U.S. stocks.

Diversification is guaranteed to bring "mediocre" returns. It will never make you a hero, because you will never have your entire portfolio in the investment with the highest return, but neither will it make you a goat, because you will never have your entire portfolio in the investment with the lowest return. Mediocre looks pretty good when compared to a goat.

If you hate being mediocre, devote 3% of your portfolio to a handful of investments that would make you a hero if you're lucky, and will vanish into thin investment air if you are not. This way you'll enjoy the expressive benefits of being a "player," the emotional benefits of hope, and perhaps all the benefits of being a hero, if you are lucky, with no fear of poverty if you're not.

8. The price of a venti latte at Starbucks is a bit more than $4, amounting to approximately $500 a year if you drink 10 lattes each month. If you are 25, the $500 from just one year's worth of lattes would compound to a bit more than $5,000 in the 40 years until your retirement at 65, if you save it in an account yielding 6% annually. So it is best that you forgo lattes

.

True or false?

False: Sure, for some people this may make sense. But not as a rule. The price of a box of 240 diapers is approximately $46, amounting to about $500 a year if you use 11 boxes to diaper your baby each year until he is toilet-trained. Yet few would advise you to wait and have your baby at 65. Whether latte or diapers, ask yourself whether $500 at age 25 would serve you better or worse than $5,000 at age 65.

Listen to my mother's advice: "Spend money, but don't waste it." Don't make saving a virtue and spending a vice.

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**Wealth Management (A Special Report): Advisers' Voices --- Common Misperceptions About Bonds**

By Matt Freund
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23 October 2017
The Wall Street Journal
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R5
English


Many people think they understand how bond investing works. But they don't -- and that can lead to costly errors.

To avoid these pitfalls, it is important to understand how investors' pre-existing notions about bonds often veer from reality.

One common error is assuming we have a unified bond market. When investors say "the bond market is unattractive," they fail to appreciate how at any given point some types of bonds are overvalued while others are undervalued. Investors, for instance, may be concerned about rising rates, but a rising-rate environment causes some bonds -- such as high-yield and floating-rate debt -- to do reasonably well. So there are plenty of options; the trick is choosing the right one.

Another common error is assuming that multiple Federal Reserve rate increases will always result in big losses for bond investors. People who understand that **bond prices** fall as rates rise often fail to consider that bonds pay interest that can offset price declines. What's more, as a bond approaches maturity, its duration declines. Duration is the primary measure of a bond's sensitivity to interest-rate changes, and a lower duration equates to less sensitivity.

Together, these factors can minimize losses. They might even provide a positive total return if the investor engages in a strategy known as "rolling down the yield curve," or buying longer-dated bonds and selling them as they get closer to maturity, when the price tends to rise.

Bonds are an investor's best hedge on stocks, and there will always be a place for bonds in a properly balanced portfolio.

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The New York Times

Business/Financial Desk; SECTB
**Banks and Tech Firms Lead Another Run to Record Highs**

By THE ASSOCIATED PRESS
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21 October 2017
The New York Times
NYTF
Late Edition - Final
4
English


Wall Street capped a week of milestones with a few more on Friday.

United States stocks closed modestly higher, lifting the **Standard & Poor**'**s500 index** to its fifth record close in a row. The **Dow Jonesindustrial average**, which crossed past the 23,000 mark for the first time on Wednesday, also finished the day with its fifth straight all-time high.

Banks led the gainers Friday. Technology companies also posted big gains, helping to drive the **Nasdaq composite** to a record high.

The latest milestones came as investors drew encouragement from the Senate's passage of a budget bill that is expected to ease the path for the White House's tax-cut proposal.

''Market expectations for an impactful tax reform have been running fairly low,'' said Mike Baele, managing director at U.S. Bank Private Wealth Management. ''That changed a bit today with the Senate passing the budget resolution for 2018.''

The **S**.**&P**. **500 index** rose 13.11 points, or 0.5 percent, to 2,575.21. The Dow gained 165.59 points, or 0.7 percent, to 23,328.63. The **Nasdaq composite** added 23.99 points, or 0.4 percent, to 6,629.05. The Russell 2000 index of smaller-company stocks picked up 7.20 points, or 0.5 percent, to 1,509.25.

The **S**.**&P**. **500** and the Dow are on a six-week winning streak.

President Trump's plans to slash corporate taxes and make other business-friendly changes to the nation's tax laws have helped lift U.S. stocks in recent weeks. Under the administration's tax plan, the first major overhaul of the tax code in three decades, corporations' top tax rate would drop to 20 percent from 35 percent.

On Thursday, the Senate narrowly passed a $4 trillion budget resolution that now goes to the House of Representatives. The bill sets the stage for tax legislation later this year that could pass through the Senate without the threat of a filibuster by Democrats. It also adds $1.5 trillion to the deficit over the next 10 years.

Should a tax overhaul pass, it is also a good bet that interest rates would move higher, which would benefit banks and other financial companies. That is one reason banks and bond yields rose on Friday.

Higher bond yields allow banks to charge higher interest rates on mortgages and other loans. The yield on the **10**-**year Treasury** note rose to 2.38 percent from 2.32 percent late Thursday.

Synchrony Financial gained $1.33, or 4.2 percent, to $33.04. Citizens Financial Group picked up 90 cents, or 2.4 percent, to $38.33. Both also reported quarterly earnings higher than analysts had been expecting.

Technology sector companies had a good day as well.

The payment technology company PayPal Holdings climbed 5.5 percent after reporting big gains in new users and transactions. The stock rose $3.72 to $70.97.

While it is still early in the third-quarter earnings season, strong earnings helped push the market higher this week.

Just under 12 percent of S.&P. 500 companies had released quarterly results through Friday. Of those, 78 percent reported earnings and revenue that beat financial analysts' estimates, according to S.&P. Global Market Intelligence.

"Companies have been able to, once again, beat expectations up to this point," Baele said. "The combination of strong economic data, good earnings and now the prospect of fiscal stimulus is really helping to support equities."

Shares in several companies made big moves Friday after traders reviewed their latest quarterly results.

The shoe company Skechers U.S.A. soared 41.4 percent after reporting that its profit and sales were stronger than analysts expected. The stock rose $9.96 to $33.99.

Atlassian, a business software company, jumped $9.92, or 24.6 percent, to $50.17. Its earnings and revenue beat Wall Street's forecasts; it also raised its forecast.

The semiconductor company Maxim Integrated also posted better-than-expected results. Its stock rose $2, or 4 percent, to $52.09.

The industrial conglomerate General Electric bounced back after slashing its annual forecast and reporting a disappointing third quarter. The stock gained 25 cents, or 1.1 percent, to $23.83.

Other companies put traders in a selling mood with their latest quarterly results or outlooks that didn't recover. NCR gave up 10.8 percent after the company cut its annual revenue forecast and said orders for ATMs were weaker than it expected. Its shares lost $4 to $33.05.

**Oil prices** closed higher after wavering between small gains and losses for much of the day.

Benchmark U.S. crude added 18 cents to settle at $51.47 a barrel on the New York Mercantile Exchange. Brent crude, used to price international oils, gained 52 cents to $57.75 a barrel in London.

The gains helped lift most of the energy companies in the S.&P. 500. Helmerich & Payne climbed $1.06, or 2.1 percent, to $52.

In other energy trading, wholesale gasoline rose 3 cents to $1.68 a gallon. Heating oil picked up 3 cents to $1.81 a gallon. Natural gas gained 4 cents to $2.92 per 1,000 cubic feet.

Gold fell $9.50 to $1,280.50 an ounce. Silver lost 18 cents to $17.09 an ounce. Copper was little changed at $3.17 a pound.

The dollar strengthened to 113.50 yen from 112.65 yen on Thursday. The euro fell to $1.1780 from $1.1830.

CHARTS: Existing-Home Sales: Annual pace of existing singlefamily homes sold during the month, seasonally adjusted. (Source: National Association of Realtors); The S. & P. 500 Index: Position of the S. & P. 500 index at 1-minute intervals on Friday. (Source: Reuters)

Document NYTF000020171021edal0004x

 

U.S.; Politics
**Yellen Says Reduction of Bond Portfolio Going Well**

By BINYAMIN APPELBAUM
858 words
20 October 2017
07:46 PM
NYTimes.com Feed
NYTFEED
English


WASHINGTON — Janet L. Yellen, the Federal Reserve chairwoman, said on Friday night that the Fed is making "good progress" in reducing its vast portfolio of bond holdings, the most recent stage in the central bank's gradual unwinding of its post-crisis economic stimulus program.

Ms. Yellen said a safe retreat was a crucial step in establishing that similar measures could be used to respond to future economic downturns.

"The bottom line is that we must recognize that our unconventional tools might have to be used again," Ms. Yellen said in a speech to the National Economists Club.

The Fed announced in September it would begin to reduce its $4 trillion portfolio of Treasuries and mortgage backed securities. It plans to shed $10 billion per month during the final quarter of 2017, then increase the pace by $10 billion every three months until it reaches a monthly rate of $50 billion.

The Fed bought the bonds during and after the 2008 financial crisis as part of its broader campaign to revive economic growth by reducing borrowing costs for businesses and consumers. As it sheds the bonds, it expects interest rates to rebound gradually.

The Fed is also considering when to raise its benchmark interest rate again. Investors expect a quarter-point increase at the Fed's final meeting of the year in December. Ms. Yellen did not address those plans on Friday, but she has previously indicated she favors such an increase barring unexpected economic disruptions.

President Trump said on Friday that he is still considering whether to appoint Ms. Yellen to a second term as chairwoman. Her current four-year term ends in early February.

"I really like her a lot," Mr. Trump said in an interview with Fox Business Network.

Mr. Trump said he is also considering two other candidates: Jerome H. Powell, a Republican member of the Fed's board of governors, and John Taylor, an economist at Stanford University who has accused the Fed of raising interest rates too slowly.

Mr. Trump's short list did not include two other men previously mentioned as candidates: Gary Cohn, his chief economic adviser, and Kevin Warsh, a former Fed governor.

The Fed's bond purchases have generated considerable controversy. Critics, including Mr. Taylor and Mr. Warsh, argued at the time that the Fed was trying too hard to revive growth, and that it was instead stoking the fires of inflation. Those criticisms proved to be misplaced. Others argue the purchases were simply ineffective.

Ms. Yellen said Friday, as she has previously, that the purchases helped jump-start the economy.

"The evidence strongly suggests that forward rate guidance and securities purchases — by substantially lowering borrowing costs for millions of American families and businesses and making overall financial conditions more accommodative — did help spur consumption and business spending, lower the unemployment rate, and stave off disinflationary pressures," she said.

She added, however, that the Fed still needed to show that it could end the program.

“We have met the first challenge and have made good progress to date in meeting the second,” Ms. Yellen said.

The Fed is not selling its bond holdings. As the bonds mature, it has used the proceeds to buy new bonds. Now it is gradually reducing the reinvestment, removing the rest of the money from circulation.

Ms. Yellen also defended a law that allows the Fed to pay interest on some of the money that banks deposit at the Fed.

Congressional Republicans have criticized those payments as an unnecessary subsidy to the financial industry. But Ms. Yellen said the law enabled the Fed to manage its retreat.

As the Fed bought bonds from banks, it paid them by increasing their reserve balances. That made it impossible to raise interest rates in the traditional manner, which is based on the scarcity of those reserves.

The Fed could have reversed the process and then started raising rates, but it feared that doing so would disrupt **financial markets**. Instead, the Fed has raised rates by paying banks not to use the reserves.

And that, in turn, allows the Fed to reduce its bond holdings slowly and smoothly.

Ms. Yellen took a measured line on the potential impact of tax cuts on the course of monetary policy.

In response to a question from the audience, she described fiscal policy as “one of many factors” that might influence the Fed’s plans. The Fed could seek to offset a large fiscal stimulus by raising interest rates more quickly, but Ms. Yellen suggested that depended on details of the tax plan.

The Fed is likely to be more concerned about policies that stimulate aggregate demand, while it would welcome policies that increase the economy’s capacity for growth, for example, by expanding participation in the labor force, or encouraging investment.

“My personal hope is that whatever Congress passes is rich in incentive effects on the supply side,” Ms. Yellen said.

Follow Binyamin Appelbaum on Twitter @bcappelbaum.

Janet Yellen, chairwoman of the Federal Reserve, testifying in front of the Senate in July. | Carlos Barria/Reuters

Document NYTFEED020171020edak009yd

 

THE WALL STREET JOURNAL.
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**Trading Sinks, Stoking Fears --- As stocks keep rising, low volume in U.S. and Europe suggests investors are skeptical**

By Riva Gold
940 words
20 October 2017
The Wall Street Journal
J
A1
English


Stock indexes continue to hit records, yet the investors pushing them there are trading less and less.

The number of stocks and exchange-traded products changing hands in the U.S. and Europe has fallen steadily in recent months as ultralow **volatility**, a lack of market-moving news and the rising popularity of passive investment funds have kept a lid on trading volume.

The muted trading volume could signal that investors are holding back amid skepticism that stocks have further to climb -- or that they are so confident they feel no need to sell.

Either way, the decline in equity volumes is another piece of bad news for banks already beset by a steep drop in fixed-income trading revenues.

This month, the average daily trading volume across the NYSE, **Nasdaq**, NYSE American and NYSE Arca is roughly 12% below this year's average and is down by around 22% from last year's average.

Average daily volume for U.S. exchange-traded funds is down 8.5% from a year ago, according to research and advisory firm XTF. Trading volume on the MSCI Europe index -- which tracks stocks across 15 developed countries in Europe -- has fallen to its lowest level in five years, according to Morgan Stanley.

Ed Campbell, a portfolio manager at QMA, a multiasset business of PGIM, said he spent most of the summer holding a bit more cash than usual, ready to buy stocks on an anticipated dip in the market that never materialized.

"Things looked overextended and due for a pause . . . but summer came and went and that never really happened," he said. In September, QMA decided to give in to the onslaught of upbeat economic data and slowly add more positions in banks and small-cap stocks instead of embarking on a bigger buying spree.

The collapse in trading volumes is closely tied to the recent fall in **volatility**. Measures of daily **stock-price** movements have plumbed multiyear lows. When markets aren't moving, there are typically fewer investors scrambling to protect their portfolios against further losses or seizing an opportunity to buy assets that look cheap.

"Volumes and **volatility** go hand and glove," said Phil Orlando, chief equity strategist at Federated Investors.

With U.S. indexes rising modestly for eight consecutive quarters, "there's no need to make radical adjustments in your portfolio, so as a result you're just sort of riding on what you have," he said.

The **S&P 500** hasn't had a daily drop of 1% or more in two months, while the CBOE**Volatility** Index, known as Wall Street's fear gauge, earlier this month fell to its lowest reading in over 20 years.

**Volatility** is so low now that the **S&P 500** is on pace this month for its tightest monthly trading range since January 2007, according to FactSet data.

The sort of major events that tend to drive big trading volumes, including elections, government-policy changes and central-bank shifts, have been few and far between this year.

There have been elections in Europe, but the results of those have largely eased fears of political instability in the region. Meanwhile, economic data across emerging and developed markets have been remarkably resilient, while investors say the Federal Reserve has telegraphed its intentions to markets fairly consistently.

"The major views in our equity portfolios haven't changed much because the macro environment hasn't changed significantly," said David Lafferty, chief market strategist at Natixis Global Asset Management.

The muted trading could suggest a lack of investor confidence among those with cash to invest, as solid quarterly earnings and a growing economy are offset by rising valuations and fears the **bull market** can't last much longer.

The **S&P 500** is currently trading at 18 times forward earnings, compared with 16.9 at the start of the year.

Given the lack of optimism, "it's a rally that hasn't felt like a rally," said Antoine Lesne, head of SPDR ETF Strategy and research at State Street Global Advisors.

The rise of passive investing -- relative to money pouring into active managers and hedge funds -- may also be weighing on trading volume.

"There's still a very strong trend of people doing indexing, and when you invest in index funds you don't need to trade as often because they're not as **volatile**," said Randy Frederick, vice president of trading & derivatives at the Schwab Center for Financial Research.

BlackRock Inc. and Vanguard Group, which have the largest stable of ETFs by assets, now manage about $10.7 trillion combined.

"Many people are already in the market, and if things they own are going up and making money, there's no reason to sell," Mr. Frederick said. "And if you were sitting on cash, coming in now is pretty late to the game."

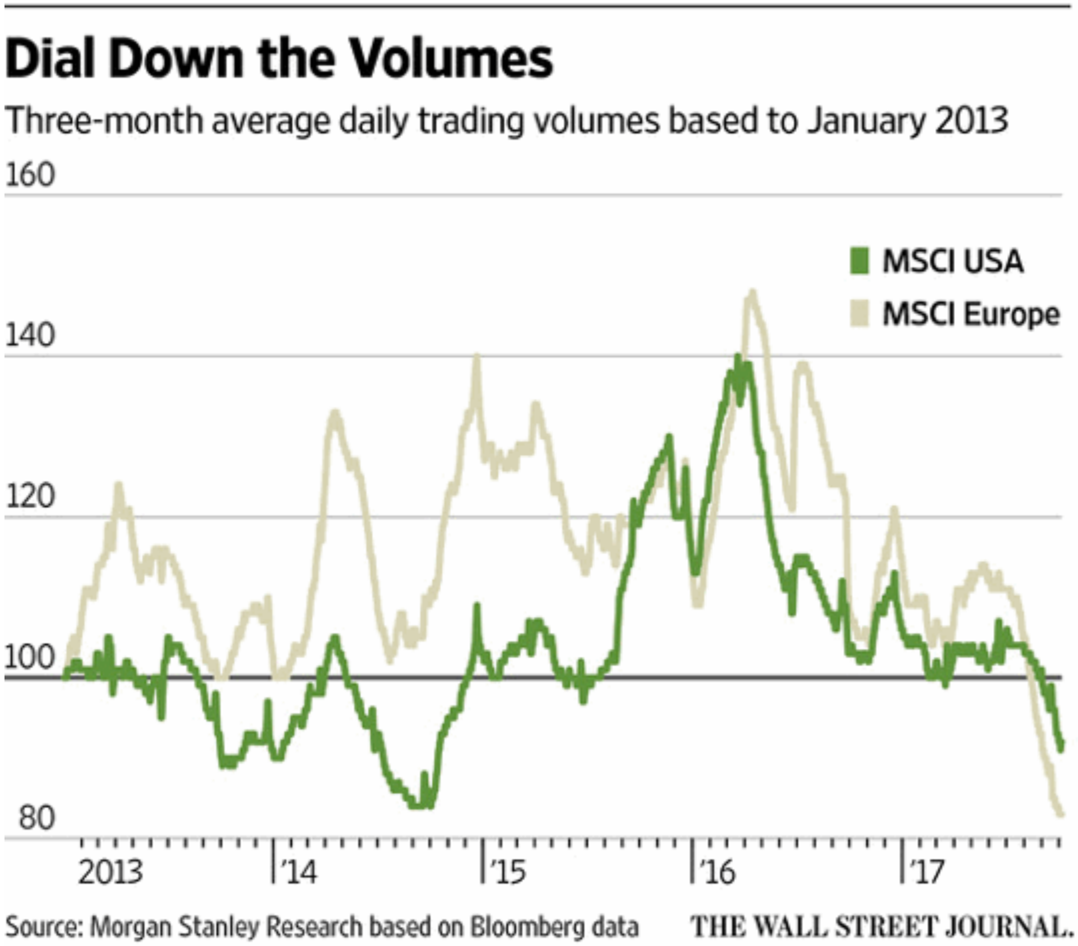
The decline in trading volume isn't good news for banks that generate fees when investors trade.

Last Thursday, J.P. Morgan Chase & Co. reported a 4% fall in revenue from equity trading in the third quarter. Goldman Sachs Group Inc.'s equity-trading revenue fell 7% over that period, the company said Tuesday.

For many, though, the glacial activity in equity markets may still be an encouraging sign.

"We are seeing strong drivers for growth and that is driving investor confidence in Europe, and driving more into long-term positions rather than short-term trades," said Ankit Gheedia, equity strategist at BNP Paribas.



Dial Down the Volumes
Three-month average daily trading volumes based to January 2013
160
140
120
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2013
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Source: Morgan Stanley Research based on Bloomberg data
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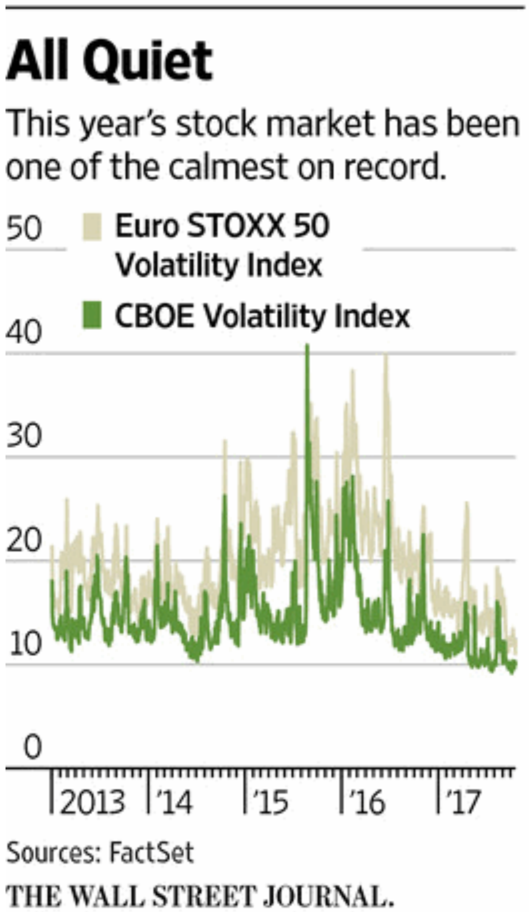


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The New York Times

Business/Financial Desk; SECTB
**Last-Minute Rebound Lifts Markets to New Highs**

By THE ASSOCIATED PRESS
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20 October 2017
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Late Edition - Final
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English


A last-minute surge nudged stock indexes in the United States mostly higher Thursday, barely extending the market's winning streak and milestone-setting run.

The **Standard & Poor's 500**-**stockindex** and **Dow Jonesindustrial average** closed higher for the fifth straight day, each posting new highs. The other indexes finished slightly lower as investors continued to pore through the latest batch of company earnings.

Technology companies weighed on the market all day, but gains in health care stocks helped offset some of those losses.

''You have a lot of risk assets, especially equities, having done pretty well,'' said Sameer Samana, global quantitative strategist for Wells Fargo Investment Institute. ''Some people are viewing now as a pretty good time to make sure they lock in some of that performance.''

The **S**.**&P**. **500** rose 0.84 points, or 0.03 percent, to 2,562.10. The Dow added 5.44 points, or 0.02 percent, to 23,163.04. The **Nasdaq composite** slid 19.15 points, or 0.3 percent, to 6,605.07.

Slightly more stocks rose than declined on the New York Stock Exchange.

Investors bid up shares in drug manufacturers and other health care companies.

Envision Healthcare led the sector, vaulting $4.43, or 10.9 percent, to $45.08. Gilead Sciences rose $1.58, or 2 percent, to $81.59. A subsidiary of the drugmaker received approval this week to sell a new treatment for a form of blood cancer.

Medical equipment maker Danaher jumped 4.7 percent after it reported earnings that beat financial analysts' estimates and raised its outlook. The stock added $4.05 to $90.10.

Verizon Communications' latest quarterly results also impressed traders. The company said its wireless unit gained more mobile phone users than expected in its latest quarter. Its stock rose 56 cents, or 1.2 percent, to $49.21.

Adobe Systems surged 12.2 percent after the software maker issued a strong profit forecast for 2018. The stock was the biggest riser in **S**.**&P**. **500**, climbing $18.73 to $171.73.

Other technology stocks did not fare as well.

Apple had its worst day in two months amid investor concern that its recently launched iPhone 8 models are lagging in market share compared to prior iPhone models. The stock finished down $3.78, or 2.4 percent, at $155.98. Despite the slide, Apple is still up 34.7 percent this year.

The slide in Apple and other technology companies weighed on the market for much of the day. The sector, up 30 percent this year, recovered some of its losses by late afternoon.

"The sector has had such a great run, but you're starting to see some concerns about how big they've gotten, some chatter in Washington about should there be some regulations," said Mr. Samana. "People are just content to take some money off the table."

While many more companies will be reporting third-quarter results in the coming weeks, so far earnings have been largely positive.

Even so, quarterly report cards and outlooks from several companies failed to impress investors Thursday.

United Continental sank 12.1 percent after the parent of United Airlines said that weak prices will continue for the rest of this year. The stock was the biggest decliner in the **S**.**&P**. **500**, tumbling $8.21 to $59.78.

**Bond prices** rose. The yield on the **10**-**year Treasury** note fell to 2.32 percent from 2.35 percent late Wednesday.

Benchmark United States crude lost 75 cents, or 1.4 percent, to settle at $51.29 per barrel on the New York Mercantile Exchange.

The slide in oil weighed on energy stocks. Schlumberger declined $1.41, or 2.1 percent, to $64.50.

Gold rose $7 to $1,286.90 an ounce.

The dollar fell to 112.53 yen from 112.89 yen on Wednesday. The euro rose to $1.1840 from $1.1794.

CHARTS: Jobless Claims: Weekly number of people who have filed for unemployment benefits for the first time. (Source: Labor Department, via Reuters); The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Thursday. (Source: Reuters)

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THE WALL STREET JOURNAL.
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**Efficient Markets Need Guys Like Me**

By Paul Singer
995 words
20 October 2017
The Wall Street Journal
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English


The largest proxy battle in U.S. history ended last week in a near tie, leaving Procter & Gamble without the clear support of its shareholders and activist shareholder Nelson Peltz without a board seat.

P&G's three largest shareholders split their votes: Vanguard sided with P&G, while State Street and BlackRock voted almost all their shares for Mr. Peltz. The stakes held by these giant index funds were so large that had any of them voted differently it would have changed the outcome -- either a clear victory for Mr. Peltz or a clear mandate for P&G management.

This power dynamic illustrates the enormous influence that the three largest index-fund firms (together with other passive institutional investors) have acquired over such contests -- and helps explain an intensifying debate over where their allegiances should lie. On one side is a small class of legal, banking and public relations professionals who advise underperforming corporations. On the other are the activist investors who seek to hold those corporations accountable.

There is a fair debate to be had about the appropriate balance of power between public corporations and their shareholders. But the debate has been badly skewed by a false narrative. "Anti-activist" advisers have attempted to drive a wedge between activist investors and index funds by suggesting that activists are interested only in short-term gains at the expense of long-term value. This divisive framing is objectively false and has done harm to the goal of generating sustainable returns for all investors.

For starters, all of a company's shareholders are more aligned with each other than they are, say, with a group paid to defend corporations from shareholder challenges. Index funds and activist investors share the goal of generating returns for their investors, even if they go about it in different ways.

The primary idea behind passive index-fund investing is the efficient-market hypothesis: Markets are said to be efficient because millions of informed investors continuously think about, research and analyze companies, markets and securities. Thus, all possible information and insight is said to be always contained in securities' prices at all times.

But passive investing is reducing the percentage of active managers to the point where they may actually become the minority in a few years. So who is going to do the work that theoretically creates efficient markets?

Activist investing provides one possible answer. Equity activism means using your voice and voting rights to improve companies in ways that maximize value for all shareholders. Seen in that light, index funds should consider activist investors to be natural allies.

Some index-fund firms have begun to focus on voting, governance and the potential benefits of activism. They've deployed teams of smart, honest professionals to promote best practices across their firms' entire holdings. Certain aspects of corporate governance as a whole have improved -- in some cases meaningfully -- thanks in part to these initiatives.

On a company-specific level, however, with thousands of companies to be evaluated, it is impossible for these teams to do the kind of comprehensive financial and operational analysis required to identify corporate situations in need of change.

Activist investors can play this critical role, so long as the governance teams at large passive investing firms are willing and able to evaluate activists' ideas on their merits. Unfortunately, as soon as an activist shows up at an underperforming company with an idea for creating value, the company's advisers frequently seek to make the debate about time horizons. Index-fund firms are encouraged to look with suspicion at any idea whose benefits would crystallize in the near term -- regardless of whether the idea represents the best possible alternative for shareholders in the long run as well.

The canard that activist shareholders promote short-term gains at the expense of long-term value has been utterly demolished by academic research. Harvard's Lucian Bebchuk examined more than 2,000 activist events spanning 13 years and found that these interventions resulted in a 6% rise in stock prices on average and that targeted companies managed to hold on to these gains, above their benchmarks, over a five-year period.

Besides being contradicted by the facts, the short-termism accusation makes no logical sense. My firm has a 40-year track record. Our currency is our credibility. If our activism did not create long- and short-term value, we would have a hard time persuading management, boards and other shareholders even to listen to us, much less implement our ideas. Activists who push for solely "short-term" solutions are themselves going to be "short-term" players.

All shareholders would benefit from replacing this false distinction with a new framework for evaluating activist proposals. Rather than "short term vs. long term," how about "good ideas vs. bad ideas"?

Good ideas create better outcomes for shareholders. Far too often companies hide behind "long term" as a way to justify prolonged underperformance. There are good ideas that create sustained improvements and can be implemented quickly. Likewise, there are bad ideas that can take a long time to destroy value.

The benefits of fixing a broken strategy, getting rid of a bad acquisition, redeploying an underperforming asset, or replacing an ineffective management team or board may show up right away in a company's **stock price**, but that immediate result doesn't diminish the long-term benefits.

America has a lot riding on the success of its public companies, as do index-fund firms themselves. Important conversations about strategy, governance, capital allocation, corporate culture and leadership are being stifled by the divisive, distracting and intellectually dishonest framing of "short-term vs. long-term." Instead of debating time horizons, index-fund firms and activists should work together to promote the very best ideas for improving America's businesses.

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Mr. Singer is founder and co-CEO of Elliott Management Corp.



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The New York Times

Business Day
**A Boom in Credit Cards: Great News for Banks, Less So Consumers**

By JESSICA SILVER-GREENBERG and STACY COWLEY
1,574 words
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01:36 PM
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Udean Murray, a 62-year-old retired telephone operator in Brooklyn, relies on more than a dozen credit cards to make ends meet. Her prescription medication often goes on a Capital One card. She pays for groceries with one from Discover Financial Services.

That's a risky financial strategy for Ms. Murray, whose only income is Social Security and who struggles each month to make the minimum payments on all her cards.

But it has been a boon for the nation's biggest banks, which are earning millions of dollars a month on their credit card customers. The four top American banks — Bank of America, JPMorgan Chase, Citigroup and Wells Fargo — together made more than $4 billion in pretax income from their credit card businesses from July through September.

The amount of debt owed by American consumers, which receded in the wake of the financial crisis, is again on the rise.

Outstanding credit card debt — the total balances that customers roll from month to month — hit a record $1 trillion this year, according to the Federal Reserve. The number of Americans with at least one credit card has reached 171 million, the highest level in more than a decade, according to TransUnion, a credit-reporting company.

That is occurring at an opportune moment for the banking industry, which is suddenly struggling to earn as much money from traditional profit engines.

In the years since the financial crisis, the largest United States financial institutions churned out profits largely thanks to a booming business in trading and structuring bonds and other securities. Advising corporations and other institutions on their finances and strategies was another lucrative revenue stream.

Now, though, those businesses are flagging, in part because **financial markets** have been eerily calm.

So banks are turning more to lending to consumers — especially through credit cards — to pick up some of the slack.

Banks earn money from credit cards in two ways: They take a small cut of each card transaction as a fee, and they typically charge annual interest rates of 15 percent or more on balances that customers don't pay off at the end of each month.

That business model is increasingly lucrative. Many consumers, their wages stagnant and their costs rising, are growing reliant on credit cards for essential goods and services, including medical and dental care. Across the industry, profits rose in the latest quarter.

At Bank of America, credit and debit card spending is up 7 percent this year compared with last. "Consumers are spending," Brian T. Moynihan, the bank's chief executive, told analysts on a conference call last week. The bank's chief financial officer noted that the company's cards business enjoyed better growth "than we've experienced in quite some time."

Rivals are experiencing a similar surge. A strong consumer business, including card growth, helped JPMorgan increase its profits last quarter despite declines in traditional profit engines such as trading.

At Citigroup, an exclusive card deal with Costco — in which the bank provides branded credit cards to the discount-retail giant — has been "a real winner," said John C. Gerspach, Citigroup's chief financial officer. He said customers were spending more on their Costco cards and rolling over larger balances.

Such surprisingly strong performances — the four leading banks raked in a total of $21 billion in profits during the third quarter — helped propel shares of banks like JPMorgan and Bank of America to their highest levels in years.

Spending on plastic is part of a broader debt bonanza. In May, total household debt levels hit a post-recession peak of $12.7 trillion.

The rising numbers reflect a growing economy and a robust financial system able to provide credit to people who need it, banking officials and analysts say.

"Delinquencies on credit cards have stayed remarkably low for five years. They've been well below their historical averages," said James Chessen, the chief economist for the American Bankers Association. "We attribute that to consumers continuing to be very smart about how they use their cards, and very careful about how much debt they take."

But what's good for banks and their shareholders isn't necessarily good for all bank customers.

Cynthia Regis, 73, worked for more than two decades as a home health care aide but has virtually no savings. To help pay her electric bill and to buy groceries, she racked up a balance of more than $6,000 on a Discover credit card. The annual interest rate is 29 percent, which makes it hard for her to whittle down her outstanding balance. One month this year, for example, her payment of $159 mostly covered her interest payments, shaving only $5 off her total debt.

"I'm barely making it," Ms. Regis said.

Many Americans have seen their savings winnowed by a combination of the recession and stagnant wages. Almost half of adults said they could not pay for a $400 expense without selling something or borrowing money, the Federal Reserve has found. Some 44 percent of people with credit cards are currently carrying a balance, according to the American Bankers Association's latest quarterly analysis, up 1.7 percentage points from the same period two years ago.

Older Americans, like Ms. Regis and Ms. Murray, living on a fixed income, are turning to credit cards to make ends meet, according to economists, lawyers and other experts.

"These cards are a social safety net," said Charles Juntikka, a bankruptcy lawyer in Manhattan. He said he had seen thousands of clients made insolvent by a single unexpected cost.

For borrowers with shaky credit, interest rates can near 36 percent. Some borrowers end up owing more in interest than they originally spent on their cards.

Just making the minimum monthly payments on her cards costs Ms. Murray $500. That eats up more than half of what she receives from Social Security.

The cost to borrowers is creeping upward. The average interest rate on new credit card offers currently hovers at 16.15 percent, the highest level in at least a decade, according to data collected by CreditCards.com.

For banks, this is especially welcome because relatively few borrowers appear to be at risk of default. That means the banks pocket big fees and interest payments with minimal costs.

"A lot of the signs we look for in terms of the deterioration of the consumer, I've got to say, right now, we just don't see," Michael L. Corbat, Citigroup's chief executive, told analysts last week. "We would rate the health of the consumer right now as pretty good."

But a few small cracks are starting to show. Most of the major banks increased the amount of money they put aside to cover possible credit-card defaults in the most recent quarter. The recent spate of natural disasters, including Hurricanes Harvey and Irma, took a toll, and all of the banks expect to see their rate of defaulted loans rise in the coming months.

A recent analysis of Federal Reserve data by the debt-rating firm Moody's found that working-class families, those with a median income of about $33,000, were starting to spend a higher portion of their income — slightly more than 15 percent — on debt payments, compared with what they spent three years earlier. As other expenses like health care and housing rise, more of those families are at risk of falling behind on their debts, it warned.

Pearline Rivers-Sobers got a credit card from Synchrony Financial at a local chiropractor when her late husband needed treatment that she couldn't afford. The card later came in handy when her son needed glasses. Then she got another and another. Soon her wallet was stuffed with cards from CareCredit, Modell's Sporting Goods, Linens 'n Things, Toys "R" Us, Sleepy's and Old Navy. (Despite the logos they carry, those cards are also issued by banks.)

For a while, she kept up on payments, even managing to pay off two cards. But she has fallen behind on payments to at least five different banks, including Citigroup and Capital One.

"I was spending each month scrounging together money that basically did not even pay the interest," Ms. Rivers-Sobers said.

Now, she said, she is preparing to file for bankruptcy. The banks that issued her the cards are likely to receive a fraction of what she owes them.

* Household Debt Makes a Comeback in the U.S.

* Profits From Store-Branded Credit Cards Hide Depth of Retailers' Troubles

* How to Pick the Best Credit Card, Based on Rewards

* How Millennials Became Spooked by Credit Cards

Udean Murray, from Brooklyn, struggles each month to make the minimum payments for the credit cards she relies on. Her only income is Social Security. | Andrew Seng for The New York Times | Ms. Murray has to take dozens of medications to control pain and multiple sclerosis. Her prescription costs often go on a Capital One card. | Andrew Seng for The New York Times | Some of Ms. Murray's cards. The number of Americans with at least one credit card has reached 171 million, the highest level in a decade. | Andrew Seng for The New York Times | "These cards are a social safety net," the bankruptcy lawyer Charles Juntikka has said. | Andrew Seng for The New York Times

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Business Day; Mutual Funds
**9 Ways to Help You Become a Smarter Investor**

By JEFF SOMMER
979 words
19 October 2017
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Figuring out what is going on in **financial markets** isn't easy, even for professionals who trade constantly. In fact, for many people, forgetting about day-to-day market swings and taking a long-term perspective may be the best approach.

Yet anyone saving for retirement or a house, a car or an education — or trying to amass a nest egg for any reason at all — needs to periodically check in to see where the financial world is heading.

The last several months have been particularly puzzling. Markets have continued to rise, despite geopolitical turmoil that might have set them back. To help you understand what's happening and what to do, we've pulled together some of the biggest issues in investing in a quarterly report.

Among the nine articles are analyses and explanations that provide an easy-to-understand introduction to investing (and perhaps amuse you along the way).

The **Stock Market** Charges Ahead, Despite the World's Storms

Wall Street has responded to political turmoil and natural disasters with barely a shrug. The markets have been charging ahead, not just in the past several months but over the past eight years. Stock prices have risen and there are far fewer — if any — bargains, compared with the days right after the end of the financial crisis in 2009.

All of which raises a big question: What are the prospects for a continuing **bull market** — or a major decline?

Read more »

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Focused Bets on Growth Propel Three Stock Funds

Many funds try simply to match the performance of the **stock market**. But three funds did better than that by taking a narrow approach.

They crimped the number of their holdings and made concentrated investments in hopes of increasing their total returns. It worked for them in the third quarter.

Read more »

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These Funds Can Put Your Investments on a Low-Carbon Diet

If climate change is on your mind and you want to do good while doing well, you might want to consider low-carbon mutual and exchange-traded funds.

These funds shun fossil-fuel producers, like companies that drill for oil and mine coal, as well as those that emit large amounts of greenhouse gases. A new online tool is available that can help you choose among an array of offerings.

Read more »

As Investors Turn to Bonds From Emerging Markets Like Brazil or India, How High Is the Risk?

With low interest rates in the United States and Europe, it has been tough to generate substantial income from bonds. There has been a big exception, though: bonds issued in emerging market countries.

Many of these fixed-income instruments have excelled in recent months, and managers of funds that specialize in them say such bonds continue to be attractive. But investing in them entails some complicated risks.

Read more »

An Old-School Investment Manager That Builds Wealth Quietly

Because of their low cost and market-matching abilities, index funds have been growing rapidly in popularity. But there is a case to be made for old-fashioned, disciplined stock picking, especially when it is done at minimal expense.

One of the most successful old school stock picking outfits is Dodge & Cox, which does not advertise or promote its funds. It has a solid performance record and charges some of the lowest fees in the industry.

Read more »

The High Cost of Not Talking About Money

Money won't buy happiness, but it can help. This is no mystery. Acquiring, accumulating and spending money often seem to be universal preoccupations in the modern world.

Yet despite the evident importance of money, conversations about it can be very uncomfortable on a personal level. Is an inability to talk openly and honestly about money and investments hurting you in the wallet? A new book argues that it is.

Read more »

How Funds Manage Boatloads of Money

When funds attract heaps of fresh money, it can be a great thing for investors. A surge in new assets can create economies of scale that are passed along to shareholders, reducing costs and improving performance.

But that virtuous cycle doesn't always happen. It is worth examining whether sudden inflows of cash have led to poor decisions by fund managers, hurting investor returns.

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Where Do All the Disgraced C.E.O.s Go?

Richard F. Smith left Equifax in September after the company came under fire for a cybersecurity breach that compromised the personal information of potentially millions of consumers. Mike Cagneyleft Social Finance, the student loan company he had co-founded, after reports of allegations of sexual harassment and the company's "frat house" culture. And then there is the movie mogul Harvey Weinstein, who was fired by his own company after years of allegations of sexual harassment and payoffs to accusers.

Chief executives seem to be stepping down from their posts — voluntarily or not — every day. Where do they go after they leave a scandal-ridden company? Here are some whimsical thoughts on a suitable destination for the besmirched.

Read more »

 

Investing by Betting on the Sponsors of Sports

Invest in what you know: That’s an old mantra, and it makes a lot of sense. But what if what you know is, basically, sports?

If you’re not a billionaire and can’t buy teams or leagues outright, it will be difficult to invest in them directly: Most teams and leagues aren’t publicly traded.

So a sportscaster and a financial planner have started a new fund that enables avid fans to place indirect bets. This exchange-traded fund tracks companies that sponsor sports teams or broadcasters. The fund may be a comforting place for sports lovers to place their money, but buyer beware. It is largely untested.

Read more »

Zach Meyer

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The New York Times

Economic View
Business Day
**A Stock Market Panic Like 1987 Could Happen Again**

By ROBERT J. SHILLER
1,953 words
19 October 2017
05:00 AM
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English


Oct. 19, 1987, was one of the worst days in **stock market** history. Thirty years later, it would be comforting to believe it couldn't happen again.

Yet that's true only in the narrowest sense: Regulatory and technological change has made an exact repeat of that terrible day impossible. We are still at risk, however, because fundamentally, that market crash was a mass stampede set off through viral contagion.

That kind of panic can certainly happen again.

I base this sobering conclusion on my own research. (I won a Nobel Memorial Prize in Economic Sciences in 2013, partly for my work on the market impact of social psychology.) I sent out thousands of questionnaires to investors within four days of the 1987 crash, motivated by the belief that we will never understand such events unless we ask people for the reasons for their actions, and for the thoughts and emotions associated with them.

From this perspective, I believe a rough analogy for that 1987 market collapse can be found in another event — the panic of Aug. 28, 2016, at Los Angeles International Airport, when people believed erroneously that they were in grave danger. False reports of gunfire at the airport — in an era in which shootings in large crowds had already occurred — set some people running for the exits. Once the panic began, others ran, too.

That is essentially what I found to have happened 30 years ago in the **stock market**. By late in the afternoon of Oct. 19, the momentous nature of that day was already clear: The **stock market** had fallen more than 20 percent. It was the biggest one-day drop, in percentage terms, in the annals of the modern American market.

I realized at once that this was a once-in-a lifetime research opportunity. So I worked late that night and the next, designing a questionnaire that would reveal investors' true thinking.

Those were the days before widespread use of the internet, so I relied on paper and ink and old-fashioned snail mail. Within four days, I had mailed out 3,250 questionnaires to a broad range of individual and institutional investors. The response rate was 33 percent, and the survey provided a wealth of information.

My findings focused on psychological data and differed sharply from those of the official explanations embodied in the report of the Brady Commission — the task force set up by President Ronald Reagan and chaired by Nicholas F. Brady, who would go on to become Treasury secretary.

The commission pinned the crash on causes like the high merchandise trade deficit of that era, and on a tax proposal that might have made some corporate takeovers less likely.

The report went on to say that the "initial decline ignited mechanical, price-insensitive selling by a number of institutions employing portfolio insurance strategies and a small number of mutual fund groups reacting to redemptions."

Portfolio insurance, invented in the 1970s by Hayne Leland and Mark Rubinstein, two economists from the University of California, Berkeley, is a phrase we don't hear much anymore, but it received a lot of the blame for Oct. 19, 1987.

Portfolio insurance was often described as a form of program trading: It would cause the automatic selling of stock futures when prices fell and, indirectly, set off the selling of stocks themselves. That would protect the seller but exacerbate the price decline.

The Brady Commission found that portfolio insurance accounted for substantial selling on Oct. 19, but the commission could not know how much of this selling would have happened in a different form if portfolio insurance had never been invented.

In fact, portfolio insurance was just a repackaged version of the age-old practice of selling when the market started to fall. With hindsight, it's clear that it was neither a breakthrough discovery nor the main cause of the decline.

Ultimately, I believe we need to focus on the people who adopted the technology and who really drove prices down, not on the computers.

Portfolio insurance had a major role in another sense, though: A narrative spread before Oct. 19 that it was dangerous, and fear of portfolio insurance may have been more important than the program trading itself.

On Oct. 12, for instance, The Wall Street Journal said portfolio insurance could start a "huge slide in stock prices that feeds on itself" and could "put the market into a tailspin." And on Saturday, Oct. 17, two days before the crash, The New York Timessaid portfolio insurance could push "slides into scary falls." Such stories may have inclined many investors to think that other investors would sell if the market started to head down, encouraging a cascade.

In reality, my own survey showed, traditional stop-loss orders actually were reported to have been used by twice as many institutional investors as the more trendy portfolio insurance.

In that survey, I asked respondents to evaluate a list of news articles that appeared in the days before the market collapse, and to add articles that were on their minds on that day.

I asked how important these were to "you personally," as opposed to "how others thought about them." What is fascinating about their answers is what was missing from them: Nothing about market fundamentals stood out as a justification for widespread selling or for staying out of the market instead of buying on the dip. (Such purchases would have bolstered share prices.)

Furthermore, individual assessments of news articles bore little relation to whether people bought or sold stocks that day.

Instead, it appears that a powerful narrative of impending market decline was already embedded in many minds. Stock prices had dropped in the preceding week. And on the morning of Oct. 19, a graphic in The Wall Street Journal explicitly compared prices from 1922 through 1929 with those from 1980 through 1987.

The declines that had already occurred in October 1987 looked a lot like those that had occurred just before the October 1929 **stock market** crash. That graphic in the leading financial paper, along with an article that accompanied it, raised the thought that today, yes, this very day could be the beginning of the end for the **stock market**. It was one factor that contributed to a shift in mass psychology. As I've said in a previous column, markets move when other investors believe they know what other investors are thinking.

In short, my survey indicated that Oct. 19, 1987, was a climax of disturbing narratives. It became a day of fast reactions amid a mood of extreme crisis in which it seemed that no one knew what was going on and that you had to trust your own gut feelings.

Given the state of communications then, it is amazing how quickly the panic spread. As my respondents told me on their questionnaires, most people learned of the market plunge through direct word of mouth.

I first heard that the market was plummeting while lecturing to my morning class at Yale. A student in the back of the room was listening to a miniature transistor radio with an earphone, and interrupted me to tell us all about the market.

Right after class, I walked to my broker's office at Merrill Lynch in downtown New Haven, to assess the mood there. My broker appeared harassed and busy, and had time enough only to say, "Don't worry!"

He was right for long-term investors: The market began rising later that week, and in retrospect, stock charts show that buy-and-hold investors did splendidly if they stuck to their strategies. But that's easy to say now.

 

Like the 2016 airport stampede, the 1987 **stock market** fall was a panic caused by fear and based on rumors, not on real danger. In 1987, a powerful feedback loop from human to human — not computer to computer — set the market spinning.

Such feedback loops have been well documented in birds, mice, cats and rhesus monkeys. And in 2007 the neuroscientists Andreas Olsson, Katherine I. Nearing and Elizabeth A. Phelps described the neural mechanisms at work when fear spreads from human to human.

We will have panics but not an exact repeat of Oct. 19, 1987. In one way, the situation has probably gotten worse: Technology has made viral rumor transmission much easier. But there are regulations in place that were intended to forestall another one-day market collapse of such severity.

In response to the 1987 crash and the Brady Commission report, the New York Stock Exchange instituted Rule 80B, a "circuit breaker" that, in its current amended form, shuts down trading for the day if the **Standard & Poor's 500**-**stockindex** falls 20 percent from the previous close. That 20 percent threshold is interesting: Regulators settled on a percentage decline just a trifle less than the one that occurred in 1987. That choice may have been an unintentional homage to the power of narratives in that episode.

But 20 percent would still be a big drop. Many people believe that stock prices are already very high — the **Dow Jonesindustrial average** crossed 23,000 this week — and if the right kinds of human interactions build in a crescendo, we could have another monumental one-day decline. One-day market drops are not the greatest danger, of course. The **bear market** that started during the financial crisis in 2007 was a far more consequential downturn, and it took months to wend its way toward a market bottom in March 2009.

That should not be understood as a prediction that the market will have another great fall, however. It is simply an acknowledgment that such events involve the human psyche on a mass scale. We should not be surprised if they occur or even if, for a protracted period, the market remains remarkably calm. We are at risk, but with luck, another perfect storm — like the one that struck on Oct. 19, 1987 — might not happen in the next 30 years.

Robert J. Shiller is Sterling Professor of Economics at Yale.

* Caution Signals Are Blinking for the Trump **Bull Market**

* Mass Psychology Supports the Pricey **Stock Market**

* Beneath Markets' Calm Are Signs of Growing Investor Caution

* Some Global Investors See Fresh Worries in an Old Problem: China

Frenzied traders on the floor of the New York Stock Exchange on Oct. 19, 1987. | Jim Wilson/The New York Times | A portion of one of the responses to the survey. | An avalanche of sell orders exhausted traders in New York. | Maria Bastone/Agence France-Presse — Getty Images | The panic in New York spread to the Sydney Stock Exchange in Australia. | Fairfax Media, via Getty Images | A car for sale after its owner lost money in the 1929 **stock market** crash. | United Press International, via Corbis-Bettmann | Newspapers grappled with the biggest one-day **stock market** decline, in percentage terms, in Wall Street's modern history. | A graphic in The Wall Street Journal on the morning of Oct. 19, 1987, compared current stock trends with those of the 1920s. | The week of Oct. 19, 1987, people around the country kept a close eye on the market. Top left and right, people outside Fidelity Investments at 51st Street and Park Avenue in New York; bottom right, pedestrians in Washington looking at a stock monitor; bottom left, traders on the New York Stock Exchange floor. | Clockwise from top left, Keith Meyers/The New York Times; Peter Freed for The New York Times; Associated Press; Paul A. Souders, via The New York Times | The Chicago Stock Exchange was drawn into the market fall. | Getty Imaages

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THE WALL STREET JOURNAL.
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**Rate-Rise Talk Stings Funds**

By Laurence Fletcher
632 words
19 October 2017
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English


The possibility of interest-rate increases in the U.S. and U.K. is playing havoc with the trades of several large hedge funds.

Computer-driven funds for months have been trying to profit from steady declines in the dollar, British pound and government-bond yields. But many took a battering last month when the Federal Reserve and Bank of England signaled future interest-rate rises, sending those assets into reverse.

While some funds clawed back some ground early this month, many are finding that this September slump has dented their 2017 performance.

The losses highlight how many hedge funds and more traditional investors have been positioned for current benign economic conditions to continue conditions in which inflation and interest rates stay low while bonds and stocks edge higher.

Among funds losing money is the $4.8 billion Bluetrend fund, run by Brazilian financier Leda Braga's Systematica Investments. It lost 4.7% last month, according to numbers sent to investors and reviewed by The Wall Street Journal. Despite a 1% gain in the first week of October it is down 6% for the year.

London-based Aspect Capital, which runs $6.6 billion in assets, suffered a 4.4% loss in its Diversified fund last month, according to numbers sent to investors. Despite a 2.6% gain in early October, it is down 2.1% this year, said a person who had seen the numbers.

Man Group PLC, the world's biggest listed hedge-fund firm, lost 5.7% in its $3.1 billion AHL Diversified fund in September. It has clawed back over half of that this month and is up 2.1% this year, according to numbers from the company.

September "proved to be a challenging month" for quantitative funds that bet on market trends and other patterns, said Russell Barlow, head of hedge funds at Aberdeen Asset Management. He said moves in short-term government bonds in the U.K., U.S. and Europe drove returns.

Both the dollar and the **10**-**year Treasury** yield spiked after the election of President Donald Trump last November. But their slow and steady declines this year have provided moneymaking opportunities for these quant funds. These funds often follow similar trading strategies, trying to latch onto market trends and patterns. Some funds also have profited from the decline in the U.K. 10-year yield.

But an unexpectedly aggressive tone from the Fed last month, when officials signaled they expect four rate increases by the end of 2018, sent the dollar and Treasury yields sharply higher.

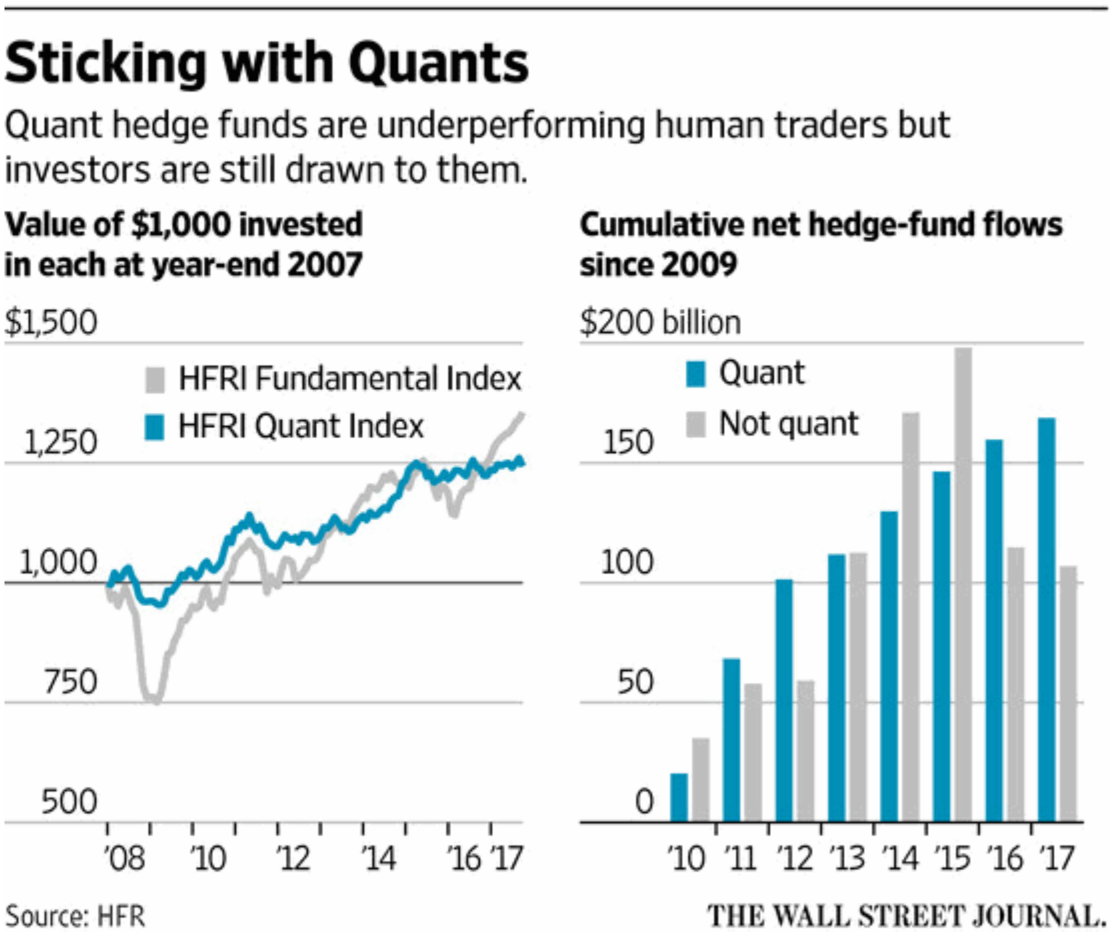
Across the Atlantic, sterling and gilt yields jumped after the Bank of England said markets may be underestimating how soon interest rates may rise.

Societe Generale SA's Trend Indicator, a model portfolio that simulates the bets these quant funds may place, had been positioned for falling **10**-**year Treasury** yields and a falling dollar in September trades that would have delivered losses.

"The main drivers were a sharp reversal in the dollar, from a weakening trend to dollar strength, and rising global bond yields," said Doug Greenig, founder of London-based Florin Court Capital

Also losing money was Netherlands-based Transtrend, which runs $4.7 billion. It lost 6.4% last month in its Diversified Trend Program, according to numbers sent to investors. It is regained most of that this month but is still down 3% for the year, according to numbers from the company.

The fund's largest losses came from "typical Brexit positions," said Harold de Boer, Transtrend's head of research and development, meaning bets against the pound and on rising U.K. bonds. The fund also lost money in U.S. Treasurys and other bonds.

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The New York Times

Op-Ed Contributor
Opinion
**The Sad Tale of the MyRA**

By ANDREI CHERNY
767 words
19 October 2017
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English


The rising **stock market** has recently become one of President Trump's favorite tropes. "**Stock market** has increased by 5.2 trillion dollars since the election on November 8th, a 25 percent increase," he tweeted on Oct. 16. Yet, for most Americans, the larger issue is that this upturn is seldom felt.

An equity inequity has driven America's wealth gap to historic levels. Eighty percent of Americans own only 8 percent of the nation's stocks. One-third of Americans have saved nothing for their retirement. The scale of the challenge calls for ambitious initiatives to put asset-building power and retirement security into the hands of all Americans. Instead, Republicans and Democrats have played to type, even when all evidence points to the failure of both the traditional left and the traditional right solutions.

If anyone wonders why Americans have lost faith in government, the sad saga of the myRA program tells the tale.

The recent announcement by Treasury Department that it will shut down this Obama-era program marked the end of a story that began, as is so often the case in government, with the best intentions. The Obama administration announced the myRA program in January 2014 as a no-fee, no-minimum-investment version of a Roth individual retirement account to address the real challenges of Americans without access to an employer-based 401(k) retirement program.

The myRA sounded like a good idea. Qualifying workers could put up to $5,500 a year into the account — or $6,500 if they were over 50 years old — which would be invested in government bonds, guaranteeing a modest but dependable return.

Yet, despite the good motives, myRA was a tiny tinker when large-scale change is demanded, a government-run program instead of a market-based response, and a dramatic waste of taxpayer dollars. Because it was managed by the Treasury Department and only invested in government securities, the private sector was kept off the playing field. As opposed to individual retirement accounts, there was no flood of financial industry TV commercials trying to persuade Americans to open a myRA.

Running the entire program through the federal government, the Obama administration spent $70 million and only got 20,000 Americans to invest — an outrageous cost of $3,500 for each new account. Of that, $10 million went to a single bank — Comerica — to act as custodian for this small number of simple, non-trading accounts.

Inheriting this debacle, the Trump administration could have reformed this program. Or it could have replaced it. Instead, it repealed it without anything to take its place. The cabinet is stacked with millionaires while Americans sitting on the sidelines of asset building are being told they are on their own.

When it comes to the crisis of retirement security and asset building, the financial industry has been either callous in a focus on serving only the very wealthy or rapacious as it saddles everyday investors with high fees. The federal government has oscillated between incompetence and indifference; between being softheaded or hardhearted. And the plight of the hundreds of millions of Americans continues as they watch inequality grow and their financial security wither.

It was not always this way. Just 10 years ago, a bipartisan collection of senators — Jeff Sessions, Jim DeMint and Rick Santorum on one side of the aisle and Joe Biden, Hillary Clinton and Chuck Schumer on the other — came together to support legislation to give newborn Americans a $500 "baby bond" that would grow over time.

Amid the tumult of the Great Recession, this idea of a “nest egg in every crib” went the way of the Republicans’ promise in 1928 to put “a chicken in every pot” during the Great Depression.

Perhaps in a Washington struggling to find a way to make tax reform bold and bipartisan, this idea may yet have new lease on life. Whether it is policy or private sector innovation, an alternative to the status quo in Washington and on Wall Street is the only way to bridge the growing gap between a surging investing class and vast majority of Americans falling ever further behind.

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Andrei Cherny, a co-founder and the chief executive of Aspiration, a financial firm, served as an aide to President Bill Clinton.

Traders on the floor of the New York Stock Exchange celebrating the Dow hitting a new high. | Spencer Platt/Getty Images

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The New York Times

STOCKS & BONDS
Business/Financial Desk; SECTB
**Dow Tops 23,000 as More Records Fall**

By THE ASSOCIATED PRESS
993 words
19 October 2017
The New York Times
NYTF
Late Edition - Final
2
English


A day of modest gains on Wall Street resulted in more milestones for U.S. stocks Wednesday as the **Dow Jonesindustrial average** closed above 23,000 points for the first time.

The **Standard & Poor**'**s500 index** and **Nasdaq composite** also finished at record highs.

Technology stocks and financial companies led the gainers as investors weighed the latest batch of company earnings. Strong quarterly results drove IBM shares to their biggest one-day gain since 2009. Those gains accounted for much of the 30-company Dow's record high.

"For us it's just another indication that it is a strong market here, year-to-date," said Paul Springmeyer, investment managing director for US Bank Private Wealth Management. "To have the Dow up over 17 percent is a very, very strong year."

All told, the Dow picked up 160.16 points, or 0.7 percent, to 23,157.60. The **S&P 500 index** rose 1.90 points, or 0.1 percent, to 2,561.26. The **Nasdaq** added 0.56 points, or 0.01 percent, to 6,624.22. The Russell 2000 index of smaller-company stocks gained 7.65 points, or 0.5 percent, to 1,505.14.

The **S&P 500** and Dow also set records on Monday and Tuesday.

The Dow closed above 22,000 for the first time on Aug 2, and since then the best-performing components have been Boeing, Caterpillar, Goldman, Home Depot and 3M. The Dow is up 3,395 points this year, or 17.2 percent.

Despite the market's recent string of record highs and the Dow's latest milestone, stocks can still grind higher as long as the economy continues to expand and companies grow revenue, said Quincy Krosby, chief market strategist at Prudential Financial.

"Overall, the underpinning for the market is solid," Krosby said. "You have global growth picking up the way it has over the last quarter, it's an indication that demand is picking up as well and it's why you have global markets doing well."

Investors continued to size up the latest raft of company earnings Wednesday.

IBM jumped 8.9 percent after the technology and consulting company delivered strong quarterly results. The gain was the biggest one-day jump for IBM since January 2009. Even so, the stock remains down 3.9 percent for the year.

IBM's gain was responsible for 89 points of the Dow's increase. Gains by Goldman Sachs accounted for another 40 points of the 30-company average's climb.

Financial stocks led the gainers Wednesday. Goldman Sachs picked up $5.94, or 2.5 percent, to $242.03. Insurer Assurant climbed $5.94, or 6.2 percent, to $101.80.

Traders bid up shares in companies that reported quarterly results that beat the Street.

Northern Trust shares picked up 3.8 percent after the bank's earnings and revenue beat analysts' estimates. The bank also said it plans to cut $250 million in annual spending by 2020. The stock added $3.48 to $94.58.

Investors also sized up corporate deals and other developments making the news Wednesday.

Anthem, the second-largest U.S. health insurer, rose 2.4 percent after announcing that it's entered a prescription benefits management deal with CVS. Anthem shares added $4.53 to $191.79. CVS rose $1.47, or 2 percent, to $74.10.

The Nielsen company climbed 4.2 percent after the long-time tracker of TV viewership said it now has a way to collect details on the number of people who watch programs on streaming video services like Netflix and Amazon. Nielsen said that eight television networks and studios, including ABC and NBC, have already subscribed to its new service. The stock rose $1.69 to $41.69.

Electronic Arts slid 2.4 percent after the video game company said it will postpone the release of an upcoming "Star Wars" game to make changes. The game was scheduled to be released next year or in early 2019. EA is also closing down its Visceral Games studio. Shares lost $2.82 to $113.16.

**Bond prices** fell. The yield on the **10**-**year Treasury** note rose to 2.34 percent from 2.30 percent late Tuesday.

**Oil prices** recovered from an early slide. Benchmark U.S. crude rose 16 cents to settle at $52.04 a barrel in New York. Brent crude, used to price international oils, gained 27 cents to close at $58.15 a barrel in London.

Shares in drilling and oil production companies declined, part of a steep slide in energy stocks. Range Resources slid 45 cents, or 2.3 percent, to $19.

In other energy trading, wholesale gasoline rose a penny to $1.64 a gallon. Heating oil slipped a penny to $1.80 a gallon. Natural gas lost 11 cents, or 3.6 percent, to $2.85 per 1,000 cubic feet.

Gold fell $3.20 to $1,283 an ounce. Silver slid 4 cents to $17 an ounce. Copper lost 2 cents to $3.18 a pound.

The dollar rose to 112.90 yen from 112.18 yen on Tuesday. The euro strengthened to $1.1802 from $1.1772.

Major European stock indexes closed higher Wednesday.

Germany's DAX gained 0.3 percent, while France's CAC 40 rose 0.4 percent. The FTSE 100 index of leading British shares added 0.4 percent. In Asia, Japan's benchmark Nikkei 225 rose 0.1 percent, while Australia's S&P/ASX 200 was little changed. South Korea's Kospi lost nearly 0.1 percent. Hong Kong's Hang Seng was flat.

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

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

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The New York Times

Op-Ed Columnist
Opinion
**The Trumpist Case for Janet Yellen**

By DAVID LEONHARDT
732 words
18 October 2017
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NYTimes.com Feed
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English


This article is part of the Opinion Today newsletter. You can sign up here to receive more briefings and a guide to the section daily in your inbox.

Janet Yellen, the Federal Reserve chairwoman, will go to the White House Thursday to interview for the job she currently holds. Her term ends early next year, and President Trump is deciding whether to reappoint her or pick someone else.

When her name first appeared on the reported list of finalists, I assumed it was only for show. Trump likes to inject drama into an appointment process, as you may recall from the secretary of state bake-off. Including Yellen — the first woman ever to be Fed chair and originally an Obama appointee — as a finalist adds intrigue. In the end, I assumed Trump would choose a conservative man for the job, as he does for most big jobs.

And he may well. But there is a strong case that Trump would be serving his own political interests by reappointing Yellen, and if we know one thing about Trump, it's that he cares about his own interests.

Think about the chaos that surrounds this administration: the Russia investigation, the struggling Cabinet secretaries, the West Wing leaks, the failure to pass significant legislation, the rebukes from Senate Republicans, the botched response to Hurricane Maria, the stymied Muslim ban, the nuclear tensions in North Korea and Iran and, underscoring it all, the 38 percent approval rating.

What is the single biggest exception? The economy. It's doing just fine. It's not booming, but it is growing steadily, with a 4.2 percent unemployment rate. As Trump repeatedlynotes, the **stock market** is indeed booming.

Yellen is the country's most influential economic policy maker, and her Fed has played a major role in creating today's economy. It has kept interest rates low, ignoring analysts — including some of the other finalists — who wrongly predicted runaway inflation and urged rate hikes that would have hurt the economy and stocks. If anything, the Fed hasn't been aggressive enough, but Yellen is easily the most aggressive of the finalists.

The Yellen Fed has also functioned well, bureaucratically. It has been notably light on public dissent among the voting members of the board. It has not confused or surprised investors with sharp turns. The Times's Binyamin Appelbaum, a shrewd Fed observer, has much more detail in a new assessment.

I would still be somewhat surprised if Trump reappointed Yellen. The chance to fire someone appointed by Barack Obama may prove too tempting. And Yellen is more forceful on **financial-market** regulation, the Fed's other main role, than most Trump administration officials.

But I've also become persuaded that for Trump's own sake, the savvy move would be reappointing Yellen. Almost nothing can hurt a president's popularity the way a weak economy can, as both George Bushes and Jimmy Carter painfully learned.

For the same reason, three presidents with stronger economic performance on their watch — Ronald Reagan, Bill Clinton and Obama — all chose to reappoint a Fed chairman who had originally been chosen by a previous president from the other political party. Reagan reappointed Paul Volcker. Clinton reappointed Alan Greenspan. Obama reappointed Ben Bernanke.

These presidents understood that uncertainty at the Fed was a risk they didn't need. Trump faces a very similar decision.

For more on the Fed: Sebastian Mallaby, Alan Greenspan's biographer, makes the case for Yellen, while Breitbart, echoing The Wall Street Journal editorial board, makes the case against.

Prediction markets see Jerome Powell, a Republican on the Fed board, as the favorite (38 percent chance, as of Wednesday evening), followed by Kevin Warsh (21 percent), a Republican who previously served on the board, and Yellen (19 percent). The other finalists are apparently John Taylor, a conservative economist at Stanford, and Gary Cohn, the White House economic adviser.

As Politico notes, Warsh has one distinct advantage: His father-in-law is Ronald Lauder, the billionaire businessman and a longtime Trump friend.

You can join me on Twitter (@DLeonhardt) and Facebook. I am also writing a daily email newsletter and invite you to subscribe.

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Janet Yellen speaking in Washington earlier this year. | Al Drago/The New York Times

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The New York Times

Business Day; Economy
**The Economy Is Humming, but That May Not Win Janet Yellen Another Term**

By BINYAMIN APPELBAUM
1,327 words
18 October 2017
06:50 PM
NYTimes.com Feed
NYTFEED
English


WASHINGTON — Since Janet L. Yellen became the Federal Reserve's chairwoman in February 2014, unemployment in the United States has steadily declined while inflation has remained low. Few Fed chairmen have achieved comparable success.

Yet President Trump, who is scheduled to meet Ms. Yellen on Thursday, says he is still considering whether to nominate her for a second four-year term, and key White House aides are pressing for her to be replaced.

Ms. Yellen's peril reflects the polarization of American politics. The three previous Fed chairs were reappointed at least once by a president of the opposite political party, but some Republicans are eager to oust Ms. Yellen, a registered Democrat who has strongly defended post-crisis financial regulations.

She may also become a victim of her own success. Steady economic growth and the tranquillity of **financial markets** have emboldened some critics, who see an opportune moment for a transition to new leadership.

But Mr. Trump also faces warnings that replacing Ms. Yellen is an unnecessary risk to the economic growth the president has repeatedly pointed to as a primary success of his young administration.

"The economy is humming along," said Julia Coronado, president of MacroPolicy Perspectives, a New York economic research firm. "The markets are humming along. Given all the other stuff that's going on, why mess with that?"

Mr. Trump is considering four candidates to replace Ms. Yellen. On that short list: Gary D. Cohn, the president's chief economic adviser; Jerome H. Powell, the only Republican on the Fed's board of governors; John B. Taylor, a Stanford University economist who has criticized the Fed for raising interest rates too slowly; and Kevin Warsh, a former Fed governor and a fellow at the Hoover Institution.

"Honestly, I like them all," Mr. Trump said Tuesday. He added that he would choose a nominee "over the next very short period of time." The White House would like to make the nomination before he departs for a 12-day trip to Asia in early November. Ms. Yellen's term ends in early February, and the next chairman must be confirmed by the Senate.

Ms. Yellen, 71, has spent almost two decades at the Fed. She was a Fed governor in the mid-1990s, then returned to the Fed as president of the Federal Reserve Bank of San Francisco in 2004. She became vice chairwoman in 2010 and chairwoman in 2014.

During her four-year term, the unemployment rate has fallen to 4.2 percent while inflation has remained below 2 percent. Both metrics are close to the levels the Fed regards as ideal. Indeed, it has seldom come closer. She also has presided over the gradual reduction of the Fed's stimulus campaign, which was implemented in the wake of the 2008 financial crisis, as the economy struggled through a bruising recession with persistent unemployment that peaked at 10 percent in October 2009.

Ms. Yellen's calm and careful leadership style has won fans, both inside and outside of the Fed. John Williams, president of the San Francisco Fed, said that Ms. Yellen had been effective in building a consensus about the direction of policy among Fed officials, and in communicating policy to the markets and the public.

“When she came in there was a lot of concern about how would we unwind our policies and would that be disruptive and difficult, especially in the context of a global economy where other central banks were going in the other direction,” he said. “Now it’s almost like, ‘That was easy!’ But it wasn’t. It took hard work.”

Some of the other candidates, notably Mr. Taylor and Mr. Warsh, have argued the Fed should be raising interest rates more quickly. But financial regulation is the area in which a new chairman likely would make the largest changes. The Fed supervises the nation’s largest banks and oversees the broader financial system.

Mr. Trump wants to loosen financial regulations, which he regards as an impediment to economic growth. Ms. Yellen, who played a key role implementing the new banking rules after the 2008 crisis, has acknowledged room for improvement. But in a high-profile speech in August, she also issued a warning against going too far.

The Treasury secretary, Steven Mnuchin, has argued that installing a new Fed chairman would help Mr. Trump achieve his goal of reducing regulation.

Charles W. Calomiris, a finance professor at Columbia University, said that Ms. Yellen’s approach to regulation was reason enough to replace her. “It’s not just that regulation is excessively costly and complex,” he said. “It’s also failing to achieve its objectives.”

But Ms. Yellen has faced relatively little public criticism. Mr. Trump criticized her on the campaign trail, but he has praised her since taking office.

House Republicans have been among Ms. Yellen’s fiercest critics, regularly calling on her to increase interest rates and to reduce financial regulations.

Representative Jeb Hensarling, the Texas Republican who chairs the House Financial Services Committee, sent a letter to Ms. Yellen in February demanding that the Fed stop crafting regulations until Mr. Trump appointed a new vice chairman for supervision.

Mr. Trump’s choice, Randal K. Quarles, who was sworn in last week, will oversee the Fed’s regulatory work, including its stress tests of large banks.

Mr. Hensarling also has criticized Ms. Yellen’s approach to monetary policy. But he has not commented on whether Ms. Yellen should be nominated for a second term, and a spokeswoman did not respond to an email on Wednesday.

A spokeswoman for Senator Michael D. Crapo, the Idaho Republican who chairs the Banking Committee, said he had not taken a position on Ms. Yellen’s candidacy.

Even some of Ms. Yellen’s critics favor her reappointment.

“She is an intelligent and levelheaded individual,” said Deborah J. Lucas, an economics professor at M.I.T. who has criticized the Fed’s bond purchases. “I trust her to make prudent decisions, particularly when it matters most, which is if there is another crisis. Continuity and experience seem especially valuable right now.”

Presidents in recent decades have generally decided to reappoint Fed chairmen, even from the opposing political party, on the theory that stability would comfort markets. Ronald Reagan, the last Republican president to inherit a Fed chairman who was a Democrat, thought seriously about replacing Paul A. Volcker in 1983, but ultimately decided to nominate Mr. Volcker to a second term. “The **financial market** seems set on having him,” Reagan wrote in his diary. “I don’t want to shake their confidence in recovery.”

President Clinton nominated Alan Greenspan in 1996 and in 2000 and President George W. Bush nominated Mr. Greenspan to a fifth term in 2004, before tapping Ben S. Bernanke to begin in 2006.

President Obama nominated Mr. Bernanke for a second term in 2010. When Mr. Bernanke stepped down in 2014, Mr. Obama named Ms. Yellen.

The last Fed chairman who did not serve a second term was G. William Miller, who is widely regarded as the least effective leader in the Fed’s modern history. Mr. Miller was also the last person without an economics degree to run the central bank. He was nominated by President Carter in 1978. Both unemployment and inflation were high and rising, and he was replaced after just 17 months by Mr. Volcker.

Follow Binyamin Appelbaum on Twitter@bcappelbaum.

 

* Fed’s Janet Yellen Says the Economy Remains in Good Health

* Yellen and Cohn Said to Be on Shortlist to Lead Federal Reserve

* Fed Still Puzzled by Inflation, but Rate Increase Is on Track

* The Fed Claims to Be Independent. That’s Mostly a Myth.

Janet L. Yellen, the Federal Reserve chairwoman, at a news conference in March. Her term is due to end in February. | Al Drago/The New York Times

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THE WALL STREET JOURNAL.
U.S. EDITION

Heard on the Street
**Look Out for Chinese Contagion**

By Aaron Back
490 words
18 October 2017
The Wall Street Journal
J
B18
English


[Financial Analysis and Commentary]

Can financial turmoil in China play havoc with the rest of the world? It has already happened.

On the first trading day of 2016, China's central bank sent shock waves around the world by sharply lowering the value of the yuan. The decline in the currency itself, which came after the bursting of a **stock-market** bubble, wasn't the biggest concern. Rather it was a sudden loss of confidence in China's growth story that reverberated around the world.

No matter how closed China's financial system is, the country's heft as the world's second-largest economy, as the biggest buyer of nearly all commodities and as the biggest exporter means that what happens in China won't stay there.

How the ripples of China's actions played out over the next several weeks shows what could happen if the country's dependence on borrowing to fuel growth hits a wall. China's **stock market** plummeted, pulling the **S&P 500** down 11% from the start of the year to Feb. 11, when it bottomed. Oil and other commodities fell harder.

Currencies of commodity-producing nations like Australia and Brazil were hit. Saudi Arabia's currency peg to the U.S. dollar came under speculative attack. Commodity trading houses like Switzerland's Glencore and Hong Kong's Noble Group faced fears over their solvency.

This turmoil had knock-on effects on financial companies. Banks that made loans to oil drillers and miners looked exposed to defaults. The prospect of lower growth in China and commodity-producing emerging markets sent global interest rates lower, impairing banks' profit margins. In the U.S., banks were among the hardest-hit sectors, with the KBW **Nasdaq** Bank Index falling 23% by Feb. 11.

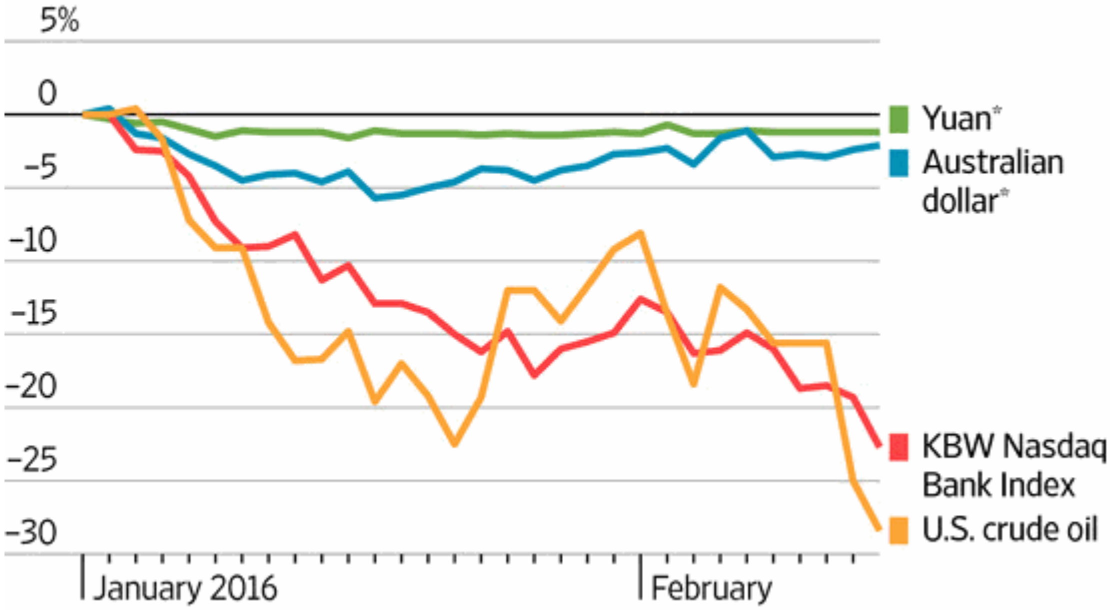
No two crises are exactly the same, and China is unlikely to allow its domestic **stock market** to become so stretched again. But if the Federal Reserve keeps raising interest rates, it could put renewed downward pressure on the yuan. The country's new capital controls haven't been tested by a big shock either. China's shadow banking system has increased significantly, so any attempt to rein it in, or any breakdown in the Byzantine chain of wealth-management products, could threaten Chinese growth.

A Chinese financial crisis likely wouldn't play out like the U.S. housing bust, which caused the worst global recession in decades. But China's stumble in early 2016 didn't require the collapse of a complex financial product or the failure of a major bank to hit markets around the world. The combination of plain old commodities and leverage were enough to spread the damage.

Anyone searching for ground zero of the next crisis should look closely at how a crack in China's growth story could be transmitted globally.

## China Sneezes, World Catches Cold

China's devaluation of the yuan caused global tremors.




*Value against the U.S. dollar
Source: FactSet

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THE WALL STREET JOURNAL.
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**Market's Unlucky-Sevens Streak in Danger --- The rise of blue-chip stocks this year since the start of August defies the trend**

By Spencer Jakab
758 words
18 October 2017
The Wall Street Journal
J
B18
English


Unless the rising stock market suddenly slams into reverse, a pattern for U.S. blue-chips that has held for 130 years is about to end.

For the past 13 times that a year has ended in seven, going back to 1887, the Dow Jones Industrial Average or its predecessor has suffered a sharp downturn at some point between August and November. The average drawdown has been a little over 13%, according to the research firm Leuthold Group.

The most memorable of those drops was 30 years ago this Thursday. The 1987 stock-market crash sent the Dow tumbling 22.6%, its worst single-day percentage loss ever. Including a selloff that began earlier, 1987's drop wiped 36% off the Dow's value at its nadir. The sharpest drop for a year ending in seven was a 40% tumble in 1937, during the Great Depression.

Now this streak looks to be in jeopardy. August this year was a fairly calm month, and September and the first half of October have broken multidecade records for their lack of volatility. The CBOEVolatility Index, or VIX, has registered more single-digit readings than any period for which the measure has been calculated, and the Dow hasn't fallen by more than 1% in a single session for 42 days. The average daily change in the index this year has been 0.3%, or just half of its average in the preceding five years.

In order to meet the unofficial definition of a stock-market correction, the Dow would have to shed nearly 2,300 points from Tuesday's close in the 31 remaining trading days between Tuesday and the end of November.

Those late-year slumps have tended to come during down years overall for the stock market -- something that a mere 10% correction wouldn't accomplish at this point.

Going back to the 1880s, years ending in seven are one of only two that have been overall losers with the average change in the Dow being negative 2.5%, according to the Stock Trader's Almanac. Leuthold's Doug Ramsey wrote this month that 2017 is most similar to 1927, which saw stocks rally in November.

Even so, the last three years ending in seven, including even infamous 1987, have seen the Dow rise for the year. Far-off 1907, 1917 and 1937, all of which saw sharp bear markets, are responsible for much of the damage.

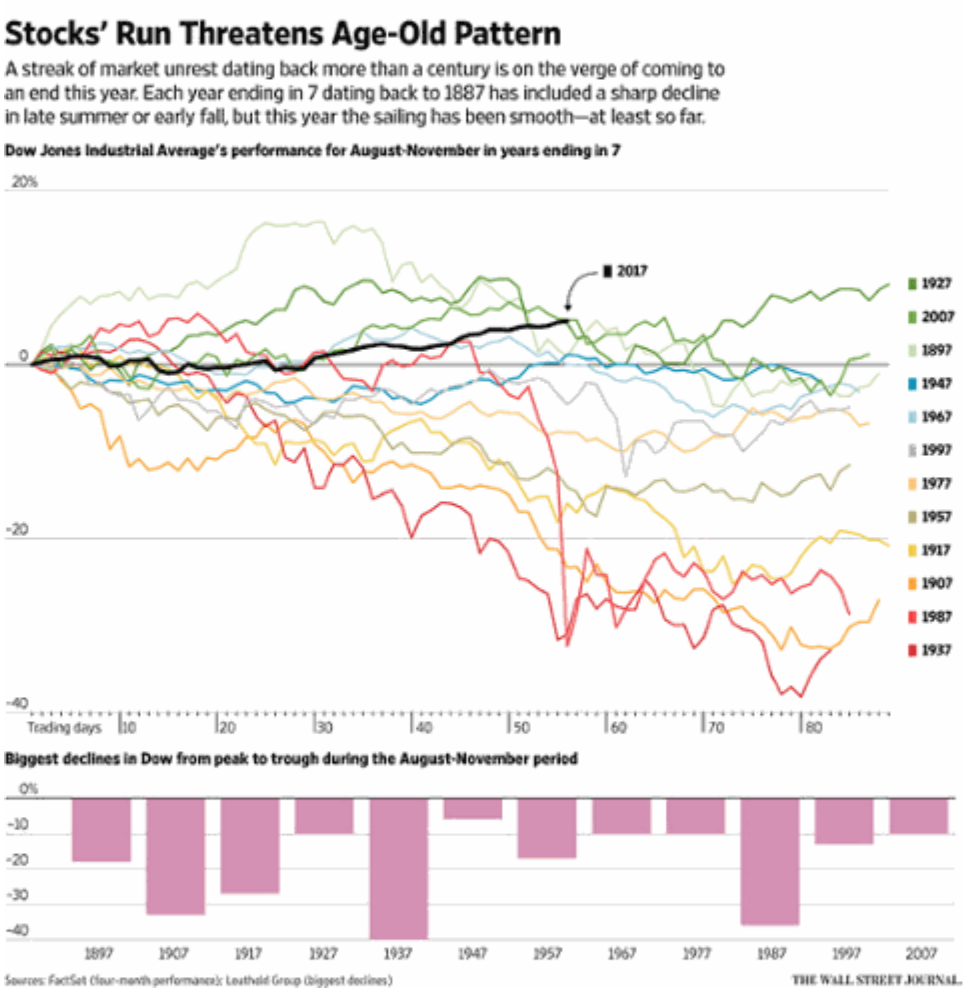
Another historic market pattern also could flop this year. Stocks typically perform far less well in the months between May and October than in the period of November through April. With a couple of weeks to go, though, the Dow is up by 9.8% since May, well above its historical pace.

The blue-chip index is up 16% year to date, which would upend another trade that has been favored by market timers. The year after a presidential election has been the worst for the Dow or its predecessors of the four-year presidential cycle, with a gain of just 2.5% on average since 1833, according to the Stock Trader's Almanac. The year before an election has been the best, with a gain of 10.2%.

Some perspective is needed, though. The decennial pattern, for example, was identified with decades of hindsight and drops of 10% or more aren't all that uncommon. One of the years, 1947, didn't even breach the technical definition of a correction.

There may be something to the presidential cycle and the admonishment to "sell in May and go away." When the stock market was more domestically focused, a president seeking re-election or the election of his party's candidate had a lot of power to prime the economic pump or to make promises ahead of an election. The year after the election, or his first in office, typically was the time for an economic reality check.

Seasonal patterns also were more powerful when an agrarian economy soaked up credit during the summer growing season, leaving money tight for the rest of the economy, including stock speculators. The period from November through April, by contrast, was a time of easy money. With the gold standard long gone and central banks providing copious liquidity all year long, it should be little surprise that this seasonal pattern has fizzled.

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Document J000000020171018edai00027

 

The New York Times

Business/Financial Desk; SECTB
**Dow Briefly Tops 23,000 for First Time as Indexes Continue Record Climb**

By THE ASSOCIATED PRESS
347 words
18 October 2017
The New York Times
NYTF
Late Edition - Final
5
English


Gains by health care companies led American stock indexes mostly higher Tuesday, pushing the market further into record territory.

The **Dow Jonesindustrial average** briefly climbed above the 23,000 mark for the first time, settling just below the milestone. Slight gains nudged the Dow and **Standard & Poor's 500-stockindex** to new highs for the second straight day this week.

The S. & P. added 1.72 points, or 0.1 percent, to 2,559.36. The Dow picked up 40.48 points, or 0.2 percent, to 22,997.44.

The **Nasdaq composite** slipped 0.35 points, or 0.01 percent, to 6,623.66. And the Russell 2000 index of smaller-company stocks fell 5.18 points, or 0.3 percent, to 1,497.50.

Health care companies posted some of the biggest gains following strong earnings from UnitedHealth Group and Johnson & Johnson. News of a plan backed by the White House that would extend federal payments to health insurers also gave the sector a boost. Banks and other financial stocks declined the most. Packaged food and beverage companies were also big laggards.

More stocks fell than rose on the New York Stock Exchange, while major stock indexes drifted between small gains and losses for much of the day, as investors sized up the latest company earnings news and looked ahead to a full slate of corporate report cards later this week.

''Expectations of ongoing earnings growth are reasonably strong, but there may be a bit of a wait-and-see at this point in time given the run in the equity markets,'' said Jason Pride, director of investment strategy at Glenmede.

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

CHARTS: Industrial Production: Index of total industrial production, 2012 = 100, seasonally adjusted. (Source: Federal Reserve); The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Tuesday. (Source: Reuters )

Document NYTF000020171018edai00054

THE WALL STREET JOURNAL.
U.S. EDITION

**Exchanges Criticize SEC's Trading Plan**

By Dave Michaels
509 words
18 October 2017
The Wall Street Journal
J
B17
English


WASHINGTON -- The country's largest stock exchanges are resisting a move by regulators to suppress incentives they offer to attract trading to their markets.

In a letter dated Friday, designed to pressure the Trump administration's new leader at the Securities and Exchange Commission, the operating chiefs of NYSE Group Inc., **Nasdaq** Inc. and CBOE Holdings Inc. told SEC Chairman Jay Clayton that the effort could make it harder and costlier to trade some stocks. They said the SEC should first undertake a broader effort to change how the **stock market** works, including imposing new transparency and conflict-of-interest rules on trading platforms run by brokerage firms.

"The current proposal would thus merely favor the intermediaries whose fees would be reduced at the expense of issuers, investors, liquidity providers and exchanges," the executives wrote. The letter was signed by CBOE President Chris Concannon, **Nasdaq Stock Market** CEO Thomas Wittman and NYSE President Thomas Farley.

The SEC is preparing to propose a pilot program that would alter a system known as "maker-taker" -- where exchanges earn fees by paying a rebate to certain traders and charging a slightly higher price to others. Some critics argue the rebates are a kickback to brokers for sending orders to whichever market offers the highest rebate. An SEC advisory committee recommended in July 2016 that the agency conduct a two-year test of trading in certain stocks with much lower fees and rebates. An SEC vote on the pilot program could come in the next few weeks, say people familiar with the matter.

The exchanges say the program shouldn't be launched before the SEC completes other overhauls, including a rule that would require brokers to disclose how successfully they execute clients' orders. The disclosure also could shine more light on brokers' practices of sending orders to their own trading platforms, known as dark pools.

Exchanges account for about 63% of total U.S. share volume, while off-exchange platforms operated by brokers and other competitors make up 37%, according to data from Tabb Group LLC.

Tyler Gellasch, a former SEC lawyer who now leads an industry trade group, said he didn't think the letter would dissuade the commission from launching the experiment.

"It's aggressive, but they are basically trying to buy time," said Mr. Gellasch, who leads the Healthy Markets Association. "An extended maker-taker pilot program could threaten their competitiveness when there is already a significant amount of off-exchange volume."

Some exchange operators support the pilot program. Ronan Ryan, IEX Group Inc. president, said the payments "are a conflict and hurt trading quality." IEX, one of the smallest U.S. exchanges by share volume, has tried to position itself as an alternative to bigger exchanges by avoiding perks that lure more activity by high-frequency traders or broker-dealers.

NYSE Group, **Nasdaq** and CBOE defended the maker-taker system, saying it has helped reduce costs for investors and promotes steady trading.



Document J000000020171018edai0000x

The New York Times

Asia and Australia Edition
Briefing
**Raqqa, Kirkuk, Marawi: Your Wednesday Briefing**

By CHARLES McDERMID
1,407 words
17 October 2017
02:59 PM
NYTimes.com Feed
NYTFEED
English


Good morning.

Here’s what you need to know:

• “The outlook is extremely bright;the challenges are also extremely grim.”

That was President Xi Jinping as he opened the first Communist Party congress since he assumed power five years ago. He is expected to enshrine his authoritarian vision, which he sees as a guarantee for the party’s survival.

Analysts will be looking for signs about who is primed to join Mr. Xi’s inner circle, and, as one said, of how far he “can and will go in reshaping the norms of Chinese politics to get his way.”

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• Cheering and celebratory gunfire erupted in the streets of the Syrian city of Raqqa, above, after U.S.-backed forces said they had seized it.

But the U.S. Central Command stopped short of declaring that their allies had complete control over the de facto capital of the Islamic State’s self-declared caliphate.

And Iraqi and Kurdish forces appear close to all-out war as Baghdad intensifies its suppression of the Kurds’ independence movement. Iraqi troops drove Kurdish fighters out of the crucial oil fields near the city of Kirkuk.

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• In the Philippines, President Rodrigo Duterte was on the front lines to declare Marawi “liberated from terrorist influence” five months after Islamic extremists stormed the southern city.

The military said some 30 militants remained, and possibly among them Mahmud Ahmad, a Malaysian who is believed to have helped finance the insurgency.

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• President Trump’s third attempt at a travel ban was blocked, for now, by a judge in Hawaii just hours before it was to take effect. The ban would have indefinitely stopped almost all travel to the U.S. from seven countries, including most of the Muslim-majority nations included in Mr. Trump’s original plan.

And our magazine takes a deep dive into the state of the administration’s foreign policy. With Secretary of State Rex Tillerson increasingly isolated and the diplomatic corps demoralized, some believe the U.S. is adrift in the world. Above, a cabinet meeting on Tuesday.

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• The U.N. released video of thousands more Rohingya Muslims fleeing violence and persecution in Myanmar and crossing into Bangladesh, where more than half a million others are already living in overcrowded camps.

Above, an image by a photographer who explored the lives of about 400 Rohingya families that have been resettled in the U.S., on the north side of Chicago.

"Right now I just think, one day we go back to our country and tell them we are American, educated people," said a 20-year-old woman, whose 5-day-old American-born daughter is the first in her family to hold official citizenship of any country.

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• Harvey Weinstein's fall opened the floodgates. Across Hollywood, on social media and even in France, accusations of sexual harassment are pouring forth.

We looked back at how the issue unfolded across generations, starting with how the term "sexual harassment" came about.

And our Australian bureau looked at a related issue: persistent gender pay gaps, brought to the fore by the sudden resignation of a TV host, Lisa Wilkinson, whose salary was rumored to be about half that of her male cohost.

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Business

• Developing countries' debt is hot, thanks to rock-bottom interest rates — a trend evident at packed investor conferences on the bond market held last week in parallel with meetings of the International Monetary Fund. Above right, the I.M.F. director Christine Lagarde last week with Ngozi Okonjo-Iweala, a former Nigerian finance minister.

• Chinese scientists developed a salt-resistant rice that can grow in diluted seawater, a breakthrough that could increase China's rice production by nearly 20 percent.

• Netflix added 5.3 million subscribers in the third quarter, 4.5 million from global markets, and reported revenue of nearly $3 billion, a 30 percent increase.

• Uber and other ride-hailing apps may make traffic worse by reducing reliance on public transit.

• The **Dow Jones Industrial Average** passed 23,000 for the first time. Here's a snapshot of global markets.

In the News

• In Afghanistan, at least 23 police officials and civilians were killed and more than 190 others were injured when Taliban fighters stormed a police station after ramming it with a bomb-laden vehicle. [The New York Times]

• Dire warnings of damage to democracy rippled across Europe over the car-bomb assassination of a journalist, Daphne Caruana Galizia, who had exposed Malta's links to offshore tax havens using the leaked Panama Papers. [The New York Times]

• Ophelia's destructive power is partly explained by the storm's unusual route across the Atlantic. [The Conversation]

• The U.S. Department of Justice indicted two major Chinese drug traffickers for making and selling fentanyl, a highly addictive opioid, over the internet. [CBS]

• The Australian Football League ruled that a transgender player, Hannah Mouncey, was not eligible to play on its women's teams. [ABC]

• The U.S. and Japan are about to face off in a duel between giant robots, each over 13 feet tall and weighing nearly 10 tons. You can watch live on Twitch at 10 a.m. Sydney time. [CNBC]

• North Koreans once risked three years' hard labor for gambling. Now betting on horse races is encouraged as Pyongyang scrambles for hard currency. [Reuters]

• A zoo in Nagano, Japan, has a new star: Karl the "meticulous" raccoon. [The Asahi Shimbun]

Smarter Living

 

Tips, both new and old, for a more fulfilling life.

• Yes, you can have a better relationship.

• We see others' failures as courageous. We see our own as shameful. Why?

• Recipe of the day: Midweek dinner can be as simple as pasta with burst cherry tomatoes.

Noteworthy

• Park Chan-wook of South Korea has delighted global moviegoers and fellow filmmakers with his mix of painterly composition and gallows humor and gore. He is one of the subjects of our T Magazine's Greats issue.

• The discovery of the Arabic words "Allah" and "Ali" on Viking funeral costumes has provided new insight into the influence of Islam in medieval Scandinavia.

• Fish get depressed — offering a model for studying depression in people. "The neurochemistry is so similar that it's scary," one scientist said.

Back Story

As the U.S. national anthem played, they bowed their heads and prayed they wouldn't be shot.

It was this week in 1968 when two African-American sprinters raised gloved fists in a black power salute during a medal presentation at the Summer Olympics in Mexico City.

The demonstration by Tommie Smith and John Carlos, who won the gold and bronze medals in the 200-meter dash, drew a quick reaction.

Under pressure from the International Olympic Committee — which wanted to avoid the politicization of the Games — the U.S. team dropped the two runners, who received death threats.

The silver medalist, Peter Norman of Australia, knew of his fellow Olympians' plans; on the podium, all three wore badges of the Olympic Project for Human Rights, which was organized to protest racism in sports. Mr. Norman was ostracized after returning home.

In a memoir published in 2011, Mr. Carlos wrote: "If I shut my eyes, I can still feel the fire from those days. And if I open my eyes, I still see the fires all around me. I didn't like the way the world was, and I believe that there need to be some changes about the way the world is."

Thomas Furse contributed reporting.

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What would you like to see here? Contact us at asiabriefing@nytimes.com.

Andy Wong/Agence France-Presse — Getty Images | Bulent Kilic/Agence France-Presse — Getty Images | Robinson Ninal Junior / PPD, via European Pressphoto Agency | Tom Brenner/The New York Times | Ali Lapetina | Stephen Jaffe/IMF, via Getty Images | Reuters | The New York Times | Oh Suk Kuhn | Associated Press | The evolution of battling sexual harassment in the workplace has developed from naming the problem in the 1970s, to bringing it out of the shadows in the 1990s, to a growing sense of accountability today. | By RETRO REPORT

Document NYTFEED020171017edah0060p

THE WALL STREET JOURNAL.
U.S. EDITION

**Streetwise: Plenty of Froth but Tempered Steps**

By James Mackintosh
571 words
17 October 2017
The Wall Street Journal
J
B1
English


After an eight-year **bull market** and the cheapest borrowing costs in history, the big surprise isn't that the **stock market** is elevated, but that it isn't higher.

Where's the irrational exuberance? Why are taxi -- well, Uber -- drivers still talking about politics and sports, when they should be offering stock tips and thinking about packing it all in and day trading?

The simple answer is that after the dot-com bubble of 2000 and the housing and credit bubble of 2007, it's hard to tempt the wider public into believing in market magic.

A more complex answer might say that after two bubbles in a decade, far too many investors are conditioned to think every cycle ends in irrational exuberance. In fact, true 1929-style tips-from-the-bell-boy bubbles are rare. Froth tends to appear in different places in each cycle, as investors try to avoid the mistakes they made last time, only to make new ones.

It's certainly true that minibubbles have been appearing. Perhaps investors are just in need of a story to get excited about before they take advantage of free money from the Federal Reserve. The past decade has seen a series of unsustainable stories lead to booms and busts in emerging markets, mining stocks, 3-D printing, alternative energy, rare-earth metals and new oil-extraction techniques. The willingness of cryptocurrency investors to plow hundreds of millions of dollars into unregulated initial coin offerings with little or no due diligence is merely the latest example.

Yet none of this much matters if investors aren't getting carried away and mispricing risks across the market. Are they? Answering requires gauging sentiment, valuation and the underlying risks.

The broadest measures of sentiment show consumers are feeling good. On Friday, the University of Michigan consumer sentiment index came in at its highest since 2004, while the Conference Board measure is already the highest since the dot-com bubble. Consumer sentiment often moves in line with stocks, but it isn't a reliable leading indicator, and it might just be that higher share prices make people feel good.

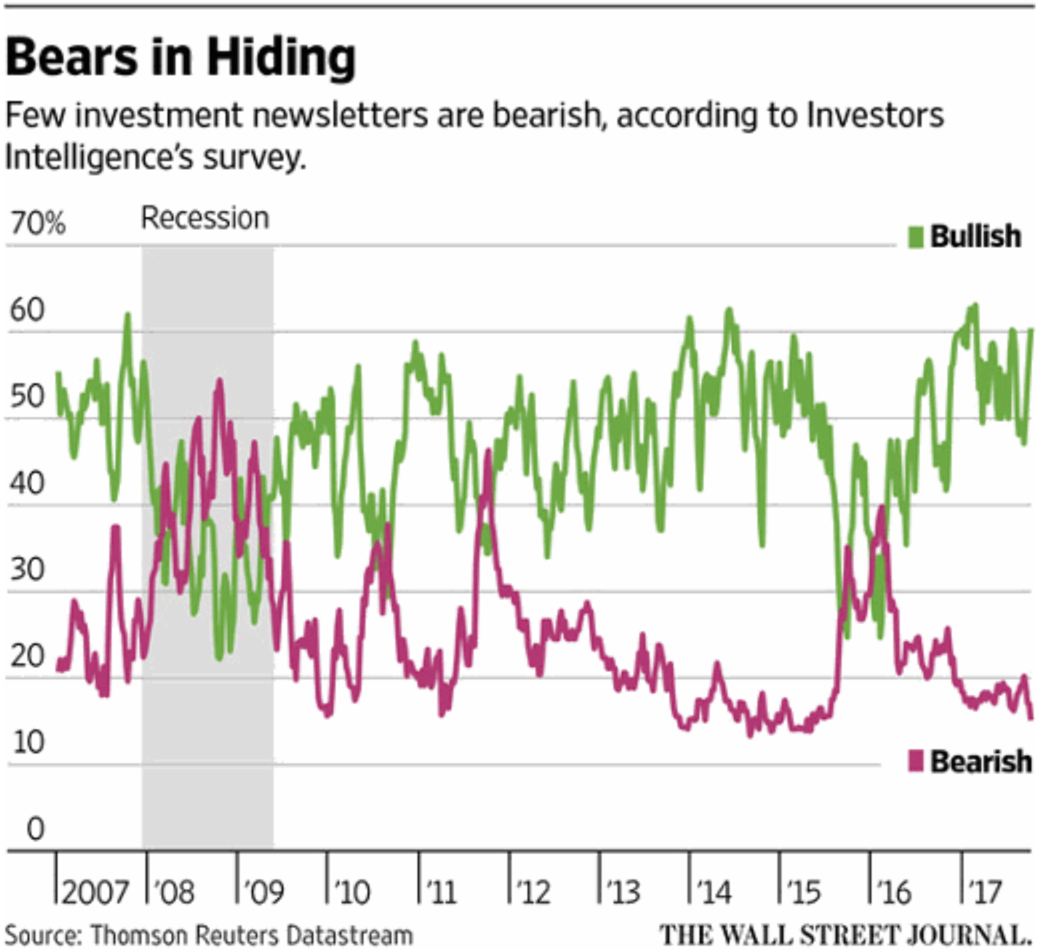
Measuring investors is trickier. Direct surveys suggest they're fairly **bullish**, but nothing like as **bullish** as they have been at market tops in the past.

Valuation is easier. U.S. stocks are expensive. On price to trailing or forward earnings, price to book, price to sales, and even when adjusted for profit growth or the economic cycle, they have rarely been pricier.

On the other hand, risk seems quiescent. Sure, the Middle East is in flames, but it has been for years and as long as the oil keeps pumping, this is a human rights issue, not a market issue. Broadly speaking, politics and geopolitics matter to markets when they hit the economy, and at least so far they haven't.

So, no bubble, a decent economic backdrop and happy days ahead. Investors who share my concern that there is likely to be more inflation and Fed tightening than the market assumes will be cautious.

But those who believe we're in a low-inflation world with decent economic growth to come should be looking for the story that will turn the **stock-price** boom into a proper bubble and inflate prices and valuations still further.

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Document J000000020171017edah0001j

 

The New York Times

Business/Financial Desk; SECTB
**Indexes Drift Higher as Investors Await a Deluge of Earnings Reports**

By THE ASSOCIATED PRESS
849 words
17 October 2017
The New York Times
NYTF
Late Edition - Final
4
English


Stocks in the United States posted modest gains on Monday, extending a record-setting run into a sixth straight week.

Financial and technology companies notched some of the biggest gains. Energy stocks also rose as crude **oil prices** closed higher. Health care companies declined the most. **Bond prices** fell.

The three major stock indexes closed at new highs, despite a day of mostly listless trading as investors looked ahead to a number of company earnings reports over the next few weeks.

"Today is a sort of wait-and-see market as investors are really looking for the direction of earnings and whether companies continue to report strong results," said Kate Warne, investment strategist at Edward Jones. "That will be a catalyst for stocks to move higher."

The **Standard & Poor's 500**-**stockindex** added 4.47 points, or 0.2 percent, to 2,557.64. Last week was the index's fifth straight weekly gain.

The **Dow Jonesindustrial average** rose 85.24 points, or 0.4 percent, to 22,956.96. The **Nasdaq composite** index gained 18.20 points, or 0.3 percent, to 6,624.01. The Russell 2000 index of smaller-company stocks inched up 0.02 points to 1,502.68.

Trading was subdued for most of Monday. Stocks edged up early on and wavered somewhat by afternoon but ultimately held on to their slight gains as traders waited for more quarterly results from companies to pour in.

A few companies, mostly big banks, kicked off the third-quarter earnings season last week. Monday was a relatively light day for earnings, but the pace was scheduled to pick up on Tuesday and into next week, when the bulk of **S**.**&P**. **500** companies plan to report quarterly results.

Among the companies due to report earnings this week are Goldman Sachs, UnitedHealth Group, American Express and General Electric.

In the meantime, investors bid up shares in banks and technology companies. The sectors are the biggest gainers in the **S**.**&P**. **500** so far this year. JPMorgan Chase gained $1.98, or 2.1 percent, to $97.84. Micron Technology rose $1.09 or 2.7 percent, to $41.49.

"Tech and financials are somewhat higher as investors continue to expect good earnings ahead," Ms. Warne said.

Health care stocks declined the most. Allergan fell $7.11, or 3.5 percent, to $198.41, while Bristol-Myers Squibb slid $1.64, or 2.5 percent, to $63.65.

Traders bid up shares of companies announcing deals.

The struggling restaurant chain Ruby Tuesday jumped 18.6 percent after it said it had agreed to be acquired by NRD Capital in a deal valued by the companies at $335 million, or $2.40 a share, including debt and other items. The stock added 37 cents, or 18.6 percent, to $2.36.

The engineering and construction company KBR climbed 3.6 percent after it said it would buy the Australian defense technology company Sigma Bravo. Shares in KBR added 64 cents to $18.29.

The department store chain Nordstrom slid 5.3 percent after it said it was temporarily shelving its bid to go private. The stock fell $2.25 to $40.40.

Sears Holdings slumped 11.5 percent on news that Bruce Berkowitz, who runs a firm that is the retailer's biggest shareholder, is leaving Sears's board of directors. Sears slid 78 cents to $5.99.

**Oil prices** rose as Iraqi federal forces moved into the disputed city of Kirkuk and seized oil fields, prompting a withdrawal by Kurdish forces. Benchmark United States crude oil picked up 42 cents, or 0.8 percent, to $51.87 a barrel on the New York Mercantile Exchange. Brent crude, used to price international oils, climbed 65 cents, or 1.1 percent, to $57.82 a barrel in London.

In other energy trading, wholesale gasoline was little changed at $1.62 a gallon. Natural gas slid 5 cents to $2.95 per 1,000 cubic feet.

**Bond prices** fell, and the yield on the **10**-**year Treasury** note rose to 2.30 percent from 2.27 percent late Friday.

Gold lost $1.60 to $1,299.90 an ounce. Silver slid 4 cents to $17.37 an ounce. Copper rose 11 cents, or 3.4 percent, to $3.24 a pound.

The dollar rose to 112.16 yen from 111.87 yen on Friday. The euro weakened to $1.1791 from $1.1818.

Global stocks closed mostly higher after finance leaders appealed over the weekend for a continuation of low-interest rate policies to keep economic recoveries on track.

In Europe, the German DAX rose 0.1 percent, while in Paris, the CAC 40 gained 0.2 percent. The FTSE 100 in London slipped 0.1 percent.

CHARTS: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Monday. (Source: Reuters ); 3-Month Treasury Bills: High rate at weekly auction. (Source: The Bond Buyer)

Document NYTF000020171017edah00055

 

The New York Times

Business/Financial Desk; SECT
# Are the Days of Low Oil Prices Receding?

By STANLEY REED
796 words
17 October 2017
The New York Times
NYTF
The New York Times on the Web
English


LONDON -- **Oil prices** rose on Monday, fueled by jitters about a disruption in supplies after government forces in Iraq moved on the Kurdish-held city of Kirkuk and on oil installations seized by the Kurds in 2014.

The jousting between Baghdad and the Kurds came as markets were already weighing the geopolitical climate, including the possible reimposition of sanctions on Iran and the tumult in Venezuela.

Brent crude, the international benchmark, rose by 1.3 percent on Monday, to $57.91, close to the psychologically important level of $60 a barrel. **Oil prices** have been edging up since July and are now well above their early-2016 lows of less than $30 a barrel.

After notable declines in recent years, are **oil prices** now on an upward trend? And how would that affect the world economy?

What's happening in Iraq?

After the Americans established a no-fly zone in 1991 that protected Kurdish areas from attack by troops loyal to Saddam Hussein, the Kurds carved out an autonomous region in northern Iraq, with its own government, parliament and military. The Kurdish region also exports its own oil, although Baghdad disputes the legality of these sales.

Kurdish fighters known as the pesh merga have played a central role, alongside Iraqi troops, in operations against the Islamic State.

Last month, however, the Kurds voted for full independence from Iraq, prompting an angry rebuke from Baghdad and threats of military intervention.

Both Turkey and Iran fear that an independence move by Iraqi Kurds could set off unrest among their own Kurdish minorities. The United States and most of the international community had opposed the referendum, saying it could unleash ethnic conflict, break up Iraq and undermine the campaign against Islamic State militants.

On Monday, Iraqi forces said that they had reached the outskirts of Kirkuk, seizing oil fields and other sites from Kurdish forces.

How much oil is in Kirkuk?

The area around Kirkuk and the Kurdish region is one of the major oil-producing areas of Iraq. Analysts estimate that the region as a whole produces 750,000 barrels a day, of which around 400,000 comes from fields around Kirkuk that could be caught up in the conflict. The Kurdistan regional government exports about 640,000 barrels a day, according to the International Energy Agency in Paris, with about 300,000 coming from Kirkuk.

Iraq produces a total of about 4.5 million barrels a day.

Most of the oil exported from the Kirkuk and Kurdistan area goes north, through a pipeline across the border with Turkey, and then to Ceyhan, a Turkish port on the Mediterranean. Turkey has threatened to cut off those exports, although Ankara has taken no action thus far.

Why have **oil prices** moved higher?

Oil prices recently have become more sensitive to supply threats, such as the situation in Kirkuk.

Strong global demand and the agreement between Russia and the Organization of the Petroleum Exporting Countries to curb production have tightened the market and helped soak up some of the surplus. That means further reductions because of global crises become more important.

''We have got a cocktail of geopolitical risks that can certainly keep supporting prices and probably -- if demand stays strong -- contribute to pushing them higher,'' said Richard Mallinson, an analyst at Energy Aspects, a market research firm based in London.

What will this do to the cost of gasoline?

Rising crude oil prices have translated into modestly higher prices for consumers. The average price for a gallon of regular gasoline in the United States is about $2.50, a little less than 10 percent more than a year ago, according to the Energy Information Administration, a government agency.

In Britain, prices for unleaded regular gasoline have risen by about 4 percent to about 544 pence, or about $7.20, per gallon, according to data from the AA, an auto services group. Because of the high tax component in European fuel prices, the prices are less sensitive to fluctuating costs of crude than are gasoline prices in the United States.

There seems a good chance that oil prices will push at least modestly higher over the next few years. Oswald Clint, an analyst at Bernstein Research, said prices of $60 to $70 a barrel, or even higher, were likely.

Mr. Clint said he doubted that modest increases would drive fuel prices high enough to slow major economies like those of the United States or Germany. ''In the range I am talking about, I don't think so,'' he said.

Others say that higher prices could just encourage more supply, for example by shale oil producers in the United States, which would keep prices from escalating.

Document NYTF000020171017edah00051

THE WALL STREET JOURNAL.
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Heard on the Street
**Overheard**

128 words
17 October 2017
The Wall Street Journal
J
B12
English


[Financial Analysis and Commentary]

Think the market has been quiet? It may be about to get quieter still.

For all the political turmoil in Washington and the world lately, stocks are remarkably stable. The VIX, popularly known as the **stock market**'s "fear gauge," is near its lowest level on record.

Now that earnings season is under way, market movements could get more muffled. Companies that had bad earnings news have for the most part already warned.

Strategists at Cornerstone Macro point out that during peak earnings season, **volatility** has lately tended to decline.

The one real risk may be that when everybody expects the market to not run into trouble they can be awfully surprised if it does.



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THE WALL STREET JOURNAL.
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REVIEW & OUTLOOK (Editorial)
**Trump's Nafta Threat**

738 words
16 October 2017
The Wall Street Journal
J
A18
English


Donald Trump is threatening again to terminate the North American Free Trade Agreement if Canada and Mexico don't agree to his ultimatums. If this is a negotiating tactic of making extreme demands only to settle for much less and claim victory, maybe it will work. Otherwise Mr. Trump is playing a game of chicken he can't win.

Mr. Trump's obsession with undoing Nafta threatens the economy he has so far managed rather well. The roaring **stock market**, rising GDP and tight job market are signs that deregulation and the promise of tax reform are restoring business and consumer confidence. Blowing up Nafta would blow up all that too. It could be the worst economic mistake by a U.S. President since Richard Nixon trashed Bretton-Woods and imposed wage and price controls.

U.S. demands in the Nafta renegotiations -- which returned to Washington last week -- are growing more bizarre. U.S. Trade Representative Robert Lighthizer now wants to add a sunset clause, which would automatically kill it in five years unless all three governments agree to keep it. In other words, the U.S. proposes to increase economic uncertainty and raise the incentive for businesses to deploy capital to more reliable investment climates.

The U.S. also wants to change Nafta's "rules of origin" for autos. Cars now made in North America can cross all three borders duty-free if 62.5% of their content is Nafta-made. Mr. Lighthizer wants to raise that to 85% and add a subclause requiring 50% be made in the U.S.

Mr. Lighthizer needs to get out more. Nafta 's current rules-of-origin for autos are already the highest of any trade agreement in the world, says John Murphy of the U.S. Chamber of Commerce . Raising them would give car makers an incentive to source components from Asia and pay America's low 2.5% most-favored-nation tariff. A higher-content rule would hurt Mexico, but it won't bring jobs to the U.S.

It's hard to overstate the damage that ending Nafta would inflict on the U.S. auto industry. Under Nafta, companies tap the comparative advantages of all three markets and have created an intricate web of supply chains to maximize returns. As Charles Uthus at the American Automotive Policy Council said last week, Nafta "brings scale, it brings competitiveness, it brings efficiencies [and] synergies between all three countries, and it brings duty-free trade." Its demise would be "basically a $10 billion tax on the auto industry in America."

Last week the Boston Consulting Group also released a study sponsored by the Motor & Equipment Manufacturers Association that found ending Nafta could mean the loss of 50,000 American jobs in the auto-parts industry as Mexico and Canada revert to pre-Nafta tariffs.

Mexico has elections next year and no party that bows to unreasonable demands by Mr. Trump can win. The Mexican political class appears willing to call his bluff, which is making American business very nervous. More than 300 state and local chambers of commerce signed an Oct. 10 letter to Mr. Trump imploring him to "first 'do no harm' in the Nafta negotiations."

It noted that 14 million American jobs rely on North American daily trade of more than $3.3 billion. "The U.S. last year recorded a trade surplus of $11.9 billion with its NAFTA partners when manufactured goods and services are combined," the letter said. "Among the biggest beneficiaries of this commerce are America's small and medium-sized businesses, 125,000 of which sell their goods and services to Mexico and Canada."

Ending Nafta would be even more painful for U.S. agriculture, whose exports to Canada and Mexico have quadrupled under Nafta to $38 billion in 2016. Reverting to Mexico's pre-Nafta tariff schedule, duties would rise to

75% on American chicken and high-fructose corn syrup; 45% on turkey, potatoes and various dairy products; and 15% on wheat. Mexico doesn't have to buy American, and last week it made its first wheat purchase from Argentina -- 30,000 tons for December delivery.

Canada and Mexico know that ending Nafta will hurt them, but reverting to pre-Nafta tariff levels could hurt the U.S. more. Mr. Trump can hurt our neighbors if he wants, but the biggest victims will be Mr. Trump's voters.

Document J000000020171016edag00007

 

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**The Global Food Forum (A Special Report) --- Trade in the Balance: Juan Luciano of Archer Daniels Midland says the U.S. food sector is incredibly productive; For now**

By Matt Murray
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16 October 2017
The Wall Street Journal
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Corrections & Amplifications

Archer Daniels Midland Co. is 115 years old. A Journal Report article on Oct. 16 about the global food sector misquoted the company's CEO, Juan R. Luciano, as saying the company had been around for 150 years.

(WSJ Oct. 24, 2017)

(END)

Feeding the world while dealing with the complexities of global trade has never been so difficult. And no industry has a bigger stake in succeeding abroad than the U.S. food sector. Matt Murray, deputy editor in chief of The Wall Street Journal, sat down with Juan R. Luciano, chairman, president and CEO of Archer Daniels Midland Co., to discuss the challenges through the prism of ADM. Edited excerpts follow.

MR. MURRAY: What's your sense of today's trade atmosphere?

MR. LUCIANO: I continue to be optimistic. But, of course, a company that has been around for 150 years, we are pretty paranoid. This was the first year that I've been to China and Mexico twice before February. We spent a lot of time making sure that we clarified the message, if you will.

MR. MURRAY: Meaning, whatever happens, we're a global company, global trade ties are still central to the industry?

MR. LUCIANO: I think the message is that trade flows in the food industry, or free trade in the food industry, is essential.

MR. MURRAY: Even though the U.S. is coming off record harvests, as a percentage globally, isn't it bound to decline in coming decades? Brazil is rapidly increasing, including in areas like corn. China is picking up. The U.S. role in the total food trade globally has got to change, right?

MR. LUCIANO: Yes. Obviously, we're going to feed the world with more yield. So, it isn't that much about shifting of land right now. The critical point will be how do you turn God-given advantages into competitive advantages.

Today the U.S. sends about 55% or 60% of production through the river in barges -- incredibly efficient -- versus maybe 15% in trucks. The Brazilian situation is the reverse. But Brazil has committed $14 billion in infrastructure. China has committed $1.4 trillion in the new silk road.

Think about the productivity of this. Today, a towboat with barges of soybeans can push the equivalent of nine football fields down the Mississippi River. You can push one metric ton of grain 652 miles with a gallon of fuel. It is incredibly efficient.

But those 240 locks and dams in the Mississippi River, they date from 1930, some from 1903. So far, we have an advantage. But we need to pay attention to it.

MR. MURRAY: Are there things in trade conversations that get you concerned?

MR. LUCIANO: I worry about whether we're going to define trade as being good or bad depending on whether we have a net positive balance with a certain country.

In food, it changes, but the basic trade flows have been stable for the past 50 years. And I think the less governments touch on those things, the better. The more we send price signals that are incorrect, the more mistakes the farmer will make in terms of planting what we need.

MR. MURRAY: In terms of Nafta, are there food issues that need adjustment?

MR. LUCIANO: When I talk to the Mexican officials, they realize Nafta was put together, like, 23 years ago. And there were things that weren't on our radar screen 23 years ago, whether it's sustainability or e-commerce or things like that. The consumer has shifted significantly.

I think everybody acknowledges that we probably need to open up, look at all those things, and put it back together again. I don't expect a massive revolution. The U.S. has been incredibly blessed with two very peaceful partners. I think we need to leverage that and continue with that advantage.

MR. MURRAY: ADM is in 160 countries. It is a **volatile** time in the world. What does it mean for your company?

MR. LUCIANO: There are difficult challenges; feeding a growing population. By 2050 we will have to feed 10 billion people. It looks like we're going to have time. I worry more about the next 10 years.

I'm very optimistic about this convergence of technologies from computing science, from biological science and physics science. I'm an engineer so I love technology. The potential is, for the first time, we're going to get the ability to learn faster. I don't think that happened in the previous industrial revolutions.

MR. MURRAY: And when you think about the next 10 years, let alone 2050, what do we need to learn faster?

MR. LUCIANO: Think about corn yields, for example. The next feeding of the world won't come from more land. It will come from intensity, from yields. So, I bet a lot on technologies. Farming has become so full of data now. Sensors are almost free, so you can have a sensor in every bushel, a sensor in every acre. You can predict much better. Agriculture has become high tech.

MR. MURRAY: Is there anything, just as an engineer, that really excites you about the future of the industry?

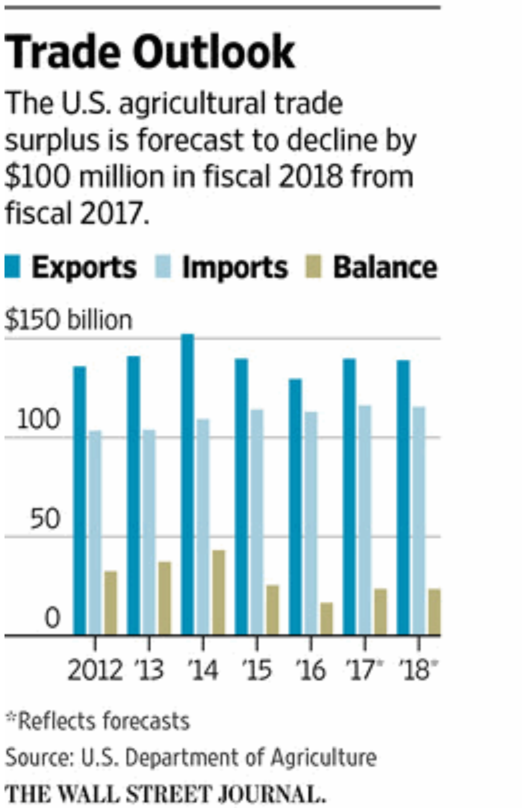
MR. LUCIANO: We have bought a company, Biopolis, which is a microbiology company. It is a genome company. We're looking much more at personalized nutrition, the impact or the interactions between the microbiome in your gut with either your food or your pharmaceuticals.

People are taking a more proactive approach to health. If you have heart disease and diabetes, you can influence those with food, with functional food, personalized nutrition. So, we are putting a lot of research into can we get ingredients, microbiology ingredients, that we can use to tailor food for you? That will be the next revolution.

MR. MURRAY: What are the black swans you worry about? Climate change? Superbugs?

MR. LUCIANO: On this task of feeding the world, I worry about two things. One is, right now we have an abundance of crops. Inventories are very high in the world. It could lead us to this sense of complacency, that everything is going to be all right. We can't. We need to produce more food in the next 40 years than we produced in the last 10,000. It hasn't been done. And it needs a lot of things.



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**Bankers Uneasy on Inflation**

By David Harrison and Harriet Torry
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The Wall Street Journal
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Corrections & Amplifications

The U.S. dollar conversion for 60 billion euros was $70.9 billion, using data from late New York trading on Friday, Oct. 13. A Page One article on Monday, Oct. 16 about central bankers' concerns about inflation incorrectly stated the conversion as $79.7 billion.

(WSJ Oct. 24, 2017)

(END)

WASHINGTON -- Leaders of the world's largest central banks indicated that weak inflation in advanced economies could prolong the postcrisis era of easy money policies.

Despite a broad-based improvement in the global economy, wages and consumer prices remain stubbornly low, making central bankers wary of removing their stimulus measures too quickly, they told a Group of 30 banking conference here on Sunday.

Their concerns contrasted with the generally upbeat tone that prevailed during last week's fall meetings of the International Monetary Fund and World Bank, and they suggest that there is still work to do to get the world's economy on track nearly a decade after the onset of the global financial crisis.

As the outlook has brightened, many central bankers are tiptoeing toward scaling back their efforts to boost growth. Some are further along than others.

The U.S. Federal Reserve has been slowly raising short-term interest rates for almost two years, but the European Central Bank is just now nearing the point where it can ease up on economic stimulus and the Bank of Japan is still nowhere near paring back.

Yet officials from all three central banks said weak inflation readings could keep them from moving too rapidly.

Fed Chairwoman Janet Yellen said she expected the U.S. central bank to continue slowly raising short-term rates, but she expressed caution about how weak inflation might affect that path.

Gradual increases in the Fed's benchmark federal-funds rate "are likely to be appropriate over the next few years to sustain the economic expansion," she said, without specifying when the next rate increase would come.

Fed officials are watching price pressures closely, Ms. Yellen said, as the "biggest surprise in the U.S. economy this year has been inflation."

Fed officials at their September meeting penciled in one more short-term rate increase this year and three more in 2018. The Fed has raised rates four times since December 2015 and this month began shrinking its portfolio of bonds purchased to support the economy by lowering long-term rates after the financial crisis.

Nevertheless, the Fed's benchmark rate -- in a range from 1% to 1.25% -- is well below historical levels and still providing economic stimulus.

Officials say the path of rate increases ahead will depend on how the economy behaves. U.S. consumer prices rose 1.4% in August from a year earlier, according to the Fed's preferred measure, well below its 2% target. Ms. Yellen said her "best guess" was that inflation would pick up next year as the labor market strengthens further.

In its flagship World Economic Outlook report released last week, the IMF raised its forecast for global economic growth to 3.6% in 2017 and 3.7% in 2018, up from 3.2% in 2016.

But the IMF noted the recovery "is not complete," citing weak inflation in the advanced world.

The fund expects inflation in advanced economies to grow at 1.7% over the next two years, below the 2% for which many advanced-economy central banks aim.

Sluggish inflation growth, which has confounded officials and economists,is "something that we did not observe to that extent in the past," former ECB President Jean-Claude Trichet said. "It complicates considerably the life of central banks in the advanced economies."

One possibility, Ms. Yellen said, could be that there is still room for the labor market to recover. It could also be that households and businesses today expect lower inflation rates than in the past, which would hold down price increases.

Broad changes in the world economy, "perhaps technological in nature, such as the tremendous growth of online shopping,"could also be responsible for keeping inflation down around the developed world, she said.

ECB Vice President Vitor Constancio said the link between an improving labor market and rising inflation has weakened lately, which would lead officials to maintain easy monetary policies.

Eurozone inflation was 1.5% on the year in September but ECB officials say it could slip below 1% at the start of next year because of moderating food and **oil prices**.

The ECB's policy of reinvesting its maturing assets "will continue until further notice," Mr. Constancio said, calling it an "important element" of the central bank's efforts.

The ECB is expected this month to announce plans to scale down its<euro>60 billion-a-month ($79.7 billion) bond-buying program, but ECB President Mario Draghi has suggested the move could be delayed.

Likewise, Bank of Japan Gov. Haruhiko Kuroda said weak inflation would prolong the central bank's expansionary policy despite a growing economy.

"The Bank of Japan will consistently pursue aggressive monetary easing with a view to achieving the price-stability target at the earliest possible time," he said."Achieving the 2% target is still a long way off," Mr. Kuroda said.

Japanese consumer prices excluding fresh food rose 0.7% in August from a year earlier, up from 0.5% in July.

Mr. Kuroda said companies that were reluctant to cut wages during the crisis are equally reluctant to raise them today, removing pressure to increase prices. Likewise, workers who value stable employment are less likely to demand pay raises, he said.

The BOJ has kept monetary policy ultraloose since September 2016, when it started targeting long-term interest rates, aiming to hold the yield on 10-year government bonds at 0%.

The prolonged period of low interest rates has raised worries that investors may be taking on too much risk by bidding up asset prices.

"There is a possibility that market participants are complacent and not properly pricing risks," Mr. Kuroda said.

Bank of Mexico Gov. Agustin Carstens said some emerging-market assets may have been "priced too high" by investors looking for yield outside the developed world.

That could cause rapid price swings if U.S. interest rates rise unexpectedly. Central banks have so far clearly communicated their intentions, but "we cannot rule out that at some point markets might read things in a different way than was meant," said Mr. Carstens, who in November takes over as the general manager of the Bank for International Settlements, a Basel-based consortium of central banks.

Ms. Yellen took a more sanguine approach.

While asset valuations today are "high in historical terms," that may reflect investors' expectations of a "new normal" of lower interest rates for the foreseeable future than in the earlier decades, she said, adding that financial stability risks remain "at a moderate level."

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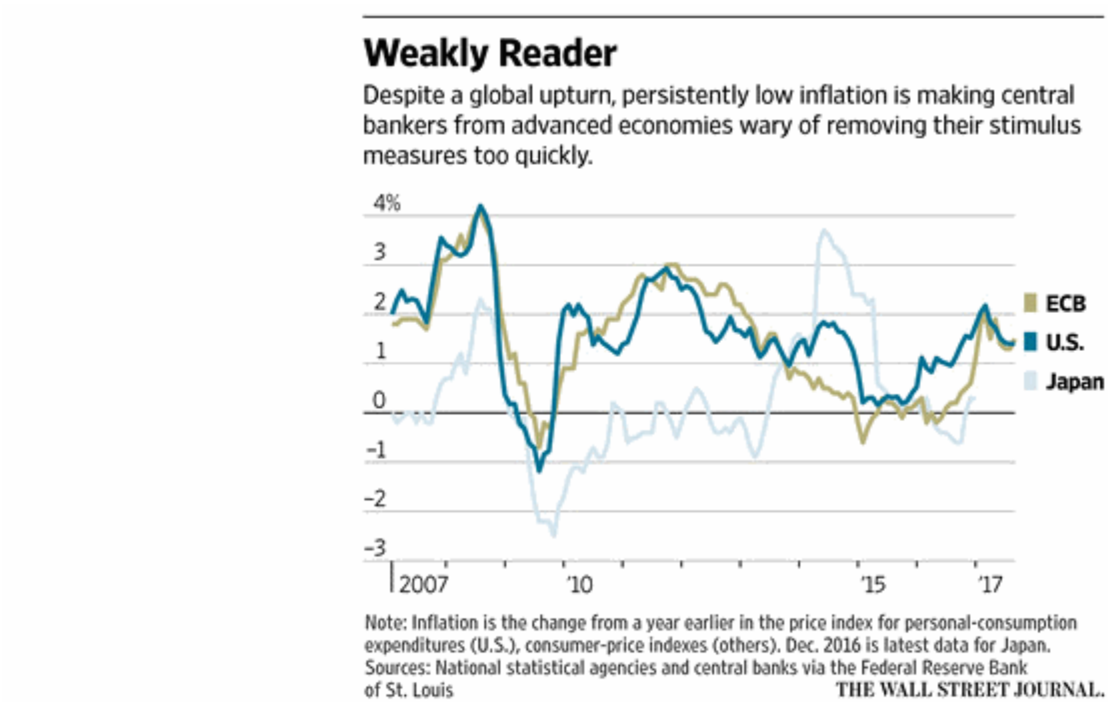
Jason Douglas contributed to this article.

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**MoneyBeat: Hot Emerging Markets**

By Chelsey Dulaney
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English


Investors can't get enough of emerging markets.

Investors poured $3.3 billion into emerging-market equity funds last week, the largest net inflow in 21 weeks, according to data from Bank of America Merrill Lynch.

Emerging-market bond funds also registered inflows of $1.7 billion last week and have now received inflows for 37 of the past 38 weeks, BAML's data shows.

Demand for high-yielding assets and a pickup in global economic growth has driven a surge in emerging-market stocks, bonds and currencies.

MSCI's emerging-market **stock index** has surged 31% this year, while a similar index for emerging-market currencies has gained 8.7%.

Some analysts fear the search for higher-yielding investments has driven investors into increasingly risky corners of **financial markets**, such as junk bonds in poor countries like Tajikistan. With the world's biggest central banks moving to normalize monetary policy, they argue that this year's rally in emerging market assets may be nearing its end.

Still, many believe the emerging-market rally has further to run.

Inflation has remained weak, and the global economic expansion has gained momentum this year.

Last week, the International Monetary Fund raised its forecasts for global growth to 3.6% for this year and 3.7% next year, an acceleration from the 3.2% growth recorded in 2016.

For emerging-market countries, the IMF is forecasting 4.6% growth this year and 4.9% in 2018, up from 4.2% growth in 2016.

This year's slide in the U.S. dollar -- down 7.2% against a basket of peers tracked by The Wall Street Journal -- has also helped emerging markets, making their dollar-denominated debts easier to service and the commodities many export cheaper for global buyers.



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SpecialSections; SECTBU
**Focused Bets Propel Three Successful Funds**

By TIM GRAY
1,149 words
15 October 2017
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NYTF
Late Edition - Final
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English


The managers of three of the third quarter's better-performing mutual funds thrived by betting on growth: They all favored companies that have been increasing their earnings at faster-than-average rates.

They are also willing to double their bets, holding far fewer stocks than the typical actively managed mutual fund.

Cindy J. Starke, manager of the Value Line Larger Companies Focused Fund, said that she invested with high conviction, meaning she holds about 40 stocks and piles nearly half of her fund's assets into the top 10 names.

Managers sometimes load up on lots of stocks -- the average actively managed stock fund tracked by Morningstar holds 164 -- to diversify their holdings, preventing a few bad bets from sapping the overall return. Some research has shown, Ms. Starke said, that ''you get rid of much of that risk by the time you hit 20 stocks.'' She said she tried to own what she called ''core growth names,'' like Facebook and Amazon, and would then ''pepper in some interesting emerging companies.'' When managers hoard too many stocks, she said, their funds can end up performing like the overall market.

In sleuthing out shares, Ms. Starke leans toward the information technology and health care sectors. ''That's where you find the most innovation and differentiation,'' she said. Her largest holding at midyear was Alexion Pharmaceuticals, a maker of drugs for rare diseases.

Alexion has been restructuring, with layoffs and a planned move of its headquarters from New Haven, Conn. to Boston. An internal investigation uncovered improper sales practices, but Ms. Starke said she viewed the company's troubles as transitory. ''They have a growing drug pipeline,'' she said, ''and the bad news didn't affect the longer-term fundamentals.''

The distinctive nature of biotechnology companies' product pipelines is a draw for Ms. Starke. ''The companies are typically not competing against each other -- they can all be addressing different diseases,'' she said. The health care sector, which includes biotechnology, recently accounted for about a third of her fund's assets -- about twice as much as her average Morningstar peer.

Ms. Starke's fund, which has a retail expense ratio of 1.15 percent, returned 8.1 percent for the third quarter, compared with the 4.48 percent returned by the Standard & Poor's 500.

The managers of the Akre Focus Fund share Ms. Starke's highly focused approach to investing, but take it even further. Their fund lately held only 23 stocks.

John H. Neff, one of the three portfolio managers, said that he and his two colleagues, Charles T. Akre Jr. and Thomas Saberhagen, liken their investment process to a three-legged stool. They seek businesses with strong competitive advantages, skilled and honest management and promising opportunities for reinvestment.

''Our job is to be as discriminating as we can in identifying these three-legged stool businesses and to be discriminating in what we pay for them,'' Mr. Neff said. If stocks do not meet those criteria, the fund will sometimes let cash build up. ''If we're not seeing opportunities that meet that hurdle, it sits.''

A theme in the portfolio is what Mr. Neff called ''bottleneck'' or ''toll-bridge'' businesses: outfits that operate at a choke point in the economy and profit from their position.

Consider Mastercard, a top recent holding. The volume of electronic transactions, which Mastercard processes, continues to grow, but cash and checks still prevail worldwide, Mr. Neff said. That represents a hefty opportunity for handlers of electronic payments. "Whatever you buy and wherever you buy it in the world, we own a business that has improving odds of being involved," he said.

Mr. Neff said that another of the fund's top holdings, Moody's, the credit-rating agency, likewise stood athwart a toll bridge: Its ratings are critical in the issuance of bonds and other debt securities. The biggest raters -- Standard & Poor's is the other -- came under fire after the financial crisis because some of the subprime mortgage bonds they classified as investment-worthy ended up collapsing, and some policy makers have called for greater competition in the industry. So far, though, Moody's and Standard & Poor's continue to dominate, and Mr. Neff said that he and his colleagues do not foresee that changing soon.

The Akre fund, which has a retail expense ratio of 1.34 percent, returned 9.99 percent in the third quarter.

Stephen M. DuFour, manager of Fidelity Focused Stock Fund, also restricts his fund's total holdings. Officially, the fund can own as many as 80 stocks, but Mr. DuFour said he aimed for half that number. "With 40, you have enough names to diversify," he said, "but you also get bang for your buck."

Mr. DuFour has latelyheard that bang coming fromtechnology stocks, which accounted for 40 percent of the fund at September's end. In picking stocks, he said, he does not heed sector classifications. "I'm sector agnostic," he said. "My overweights change based on where I find good investments, and I see great stuff in tech now."

He added he did not see his technology investments as bets solely on computers and the web. PayPal, for example, was a top recent holding, and the company is an innovator in the technology for handling online payments. "But they also do loans and credit cards," he said.

The growth in electronic payments is one of the three themes that unify the fund, he said. The others are the internet, especially the emergence of artificial intelligence, and exchanged-traded funds.

Mr. DuFour said that working for Fidelity, one of the country's largest asset managers, had given him insight into the upsurge in E.T.F. investment. Fidelity, like its industry counterparts, has had money flow out of its actively managed funds and into its passively managed ones, including E.T.F.s, he said. (An E.T.F., like a traditional index mutual fund, often tracks an index.)

"As I look for ways to play that, it turns out that people who own the indexes are in a very advantageous position," he said. "So, in my top 10, one of the names that shows up is Standard & Poor's," which is also a leading creator of indexes. Every E.T.F. built around, say, the **S**.**&P**. **500** must pay Standard & Poor's for theright to use the index.

Mr. DuFour's fund, which has a retail expense ratio of 0.62 percent, returned 7.75 percent in the third quarter. Mr. DuFour has managed the fund since 2007. Over that time, it has returned an annualized average of 8.41 percent.

CHARTS: Ahead of the Market: How three of the better performers of the third quarter of 2017 fared against the market -- and against their peer groups of funds. (Source: Morningstar Direct)

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The New York Times

SpecialSections; SECTBU
**Charging Past Chaos**

By CONRAD DE AENLLE
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Hurricanes in North America, earthquakes in Latin America, tensions on the Korean Peninsula and political turbulence in the United States, Germany and Spain have produced little but shrugs on Wall Street.

The **stock market**'s rise -- not just in the third quarter of 2017 but for eight years -- suggests that traders are convinced the Federal Reserve will meet any meaningful decline with fresh steps to prop stocks up. In the bond market, by contrast, rising yields betray a growing sense that monetary policy will become a headwind.

If that belief spreads to the **stock market**, fund managers and investment strategists warn, it could disrupt a long bull run that has left stocks expensive by historical yardsticks and more susceptible to a decline.

''Everybody wants to interpret the Fed as having orchestrated a reasonable economic environment on the upside, and that it's going to be equally successful in not getting us into too much trouble on the downside,'' said Kimberly Scott, a manager of the Ivy Mid Cap Growth fund. ''It's silly to make that comfortable assumption. We have to make sure something doesn't sneak up on us.''

That something, Ms. Scott said, could be an economy that is ''somewhat more strong than people appreciate,'' leading to a faster pace of rate hikes. That would be especially hard on stocks in high-growth sectors like technology that have been strong performers lately.

She acknowledged that the fund owns ''a lot of expensive growth stocks'' and said that she was taking some profits and putting the money into areas such as health care and business services.

Tad Rivelle, chief investment officer for fixed income at TCW, expressed the opposite economic concern. After the Fed's September meeting, short-term interest rates rose as long-term bond yields fell, closing the gap between them. In bond market parlance, the yield curve flattened.

If the yield curve goes beyond flattening, into outright inversion, with short rates above long rates, it might be a sign of a recession, so even a flattening yield curve is worrisome.

''It has been often said that the smartest guy in the room is the yield curve,'' Mr. Rivelle said. The flattening could be ''signaling that prospects for growth and inflation are more muted.''

Stocks nonetheless reached new highs in the third quarter, unmoved by warnings from Fede officials that monetary policy would be tightening. The benchmark **Standard & Poor's 500-stockindex** rose 4 percent for the quarter.

The Fed's signals seemed to be taken more seriously in the bond market. Treasury issues rallied initially, then sold off, leaving the 10-year note yielding 2.33 percent at the end of the quarter, compared with 2.3 percent three months earlier and well above its 2.06 percent yield in early September.

Mr. Rivelle advised investors to emphasize shorter-term ''securities that focus on more dull parts of the bond market,'' such as high-quality municipal issues, AAA-rated mortgages and government-guaranteed student loans. He said he was ''more skeptical of high-yield and emerging markets.''

''If you wanted to take a walk on the wild side,'' he said, ''you should have been doing that in 2010.''

Bond funds provided a walk on the mild side in the third quarter, gaining 1.2 percent on average, according to Morningstar. Portfolios focused on emerging-market, local-currency debt performed especially well, rising 3.6 percent. High-yield funds were up 1.8 percent.

The average domestic stock fund returned 4.2 percent, led by a 5.5 percent gain for specialists in larger growth stocks. Technology was the big winner among sector funds, rising 9 percent.

Optimists contend that the Fed's monetary policy has been close to ideal, and that the stock and bond markets are reacting appropriately.

''We have good and solid real economic growth with dissipating inflation,'' said Ronald Sanchez, chief investment officer of Fiduciary Trust Company International. ''Noninflationary growth is positive for both markets. Both are telling you that inflation is modest and, if anything, has started to decline.''

Mr. Sanchez said he anticipated a gradual rise in interest rates for the rest of the year and a ''shallow rise'' in 2018. And while he finds the economic backdrop benign for bonds, he acknowledged that they are ''priced for optimal inflation,'' leaving them at risk if his appraisal is off.

Richard Turnill, global chief investment strategist at BlackRock, thinks that investors are underestimating the economy's staying power and the Fed's commitment to tightening monetary policy.

''Right now we see no signals that tell us the cycle is about to end,'' he said. ''The upshot is we're going to get a steeper yield curve and see bond yields gradually moving higher.'' As for stocks, he added, ''the bottom line is this is still a constructive environment.''

Judging by how far the market has risen, Mr. Turnill is not alone in that assessment. But it can hardly be disputed that stocks are expensive. It is not impossible to make a case that valuations are reasonable, but it is difficult. Just how difficult is revealed in recent research by GMO and Deutsche Bank.

A GMO report highlighted the four components of stock returns: earnings growth, dividends, price-earnings ratios and profit margins. It notes that price-earnings ratios and profit margins tend to return to average levels after they deviate appreciably, while earnings growth and dividends tend to track economic growth and account for nearly all long-term returns.

Expanded margins and price-earnings multiples are responsible for more than half of the advance of the present bull run, the report shows. They are all but certain to snap back, probably before long, it warns.

That leads GMO to forecast a decline of 3.9 percent a year for the next seven years for stocks of large American companies, with smaller companies and developed foreign markets doing better, but still losing ground. The only stock markets that GMO expects to produce gains, of 2.9 percent a year, are in emerging economies. Most bonds are expected to lose money, too, with emerging markets again doing best.

Jim Reid, a strategist at Deutsche Bank, echoed the belief that investors had few places to hide. He examined valuations of 15 stock markets and 15 bond markets since 1800 and concluded that ''at an aggregate level, an equally weighted bond/equity portfolio has never been more expensive.'' Bonds alone have never had such rich valuations, meaning low yields, since 1800, he said, and stocks have been more expensive just over 10 percent of the time.

Mr. Reid said the high valuations come at a particularly fraught time, because of ''the incredibly unique size of central bank balance sheets, debt levels, multi-century all-time lows in interest rates and even the level of potentially game-changing populist political support around the globe.''

Rich valuations were among the factors that prompted warnings in the third quarter of an imminent correction in stocks. In September, Citi Research put the odds that one would begin in the succeeding three months at 45 percent. Citi cited the flattening yield curve and soft growth in earnings, along with the high valuations, in explaining its estimate.

Other firms used snippets of data to argue that a decline was anything but imminent.

Leuthold Group noted that on the 15 previous occasions since 1928 when the **S**.**&P**. **500** closed at a 12-month high on any day in September -- the worst month for stocks historically -- and the advance-decline line, a measure of market breadth, also reached a 12-month high, the S.&P. rose 5.9 percent on average during the fourth quarter.

 

The **stock market** seldom falls just because it is overvalued; there usually is another catalyst. A more aggressive Fed is one obvious candidate, but not the only one.

Wall Street has been largely unperturbed by North Korea's missile tests, but that would almost certainly change if a war ensues. Efforts to change the federal health care and tax laws remain works in progress -- without much progress -- potentially testing investors' patience. Ramifications of a stronger than expected showing by the far right in Germany's elections and a violent crackdown by the authorities in Spain as Catalonians voted overwhelmingly for independence in a referendum could unnerve the markets, too.

If overvaluation does not cause declines, it exacerbates them once they start. Some investment advisers are gravitating toward foreign markets because they are cheaper and, especially in Europe and Japan, have central banks that continue to flood the economies with cash.

''I think it's very early in their cycle,'' Mr. Sanchez of Fiduciary Trust said of those markets. ''There was a rolling debt crisis in Europe for six or seven years. After having a subdued growth profile, there's some pent-up demand there, especially vis-à-vis the U.S.''

The average international stock fund rose a healthy 5.4 percent in the third quarter, led by gains of 7.9 percent in emerging markets, 10.9 percent in China and 18 percent in Latin America.

Mr. Turnill of BlackRock said that investors were ''paid to take risk in emerging markets in particular.'' As for international markets in general, he cited their lower valuations and ''higher operational leverage to economic expansion,'' meaning that earnings of companies there were more sensitive to a pickup in activity than those of American companies.

Both strategists also like American stocks. Mr. Turnill is partial to the technology and financial sectors, while Mr. Sanchez favors larger companies over smaller ones, although he noted that an overhaul of the tax code would benefit smaller companies.

Mr. Sanchez, emphasizing his enthusiasm for stocks, said: ''We have good macro, good micro, and financial conditions are as optimal as they possibly can get.''

Doesn't that mean things can only get worse? Even if the Fed is steering the economy well enough and North Korea is steering its missiles into open water instead of at people, other adverse developments can pop up and hurt markets that are expensive and therefore vulnerable.

Mr. Sanchez acknowledged that no matter how good the times are, it is still wise to moderate expectations.

''I think market returns will become more modest and more subject to **volatility**,'' he said. ''I expect more of the same from an economic standpoint, but I think it's very unlikely to expect the risk/return profile we've had to date.''

Left, a submarine missile paraded through Pyongyang; North Korea's missile tests haven't perturbed Wall Street, but war would change that. At right is graduation at Columbia University this past spring; increased student loan debt burdens the economy. (PHOTOGRAPHS BY WONG MAYE-E/ASSOCIATED PRESS; SETH WENIG/ASSOCIATED PRESS) (BU17) DRAWING (DRAWING BY ZACH MEYER)

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The New York Times

SpecialSections; SECTBU
**Emerging Market Bonds: On a Roll, but Not Without Risk**

By CARLA FRIED
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English


It has been nearly two years since the Federal Reserve began to raise its core interest rate, yet income investors in the United States are still waiting for a tailwind to kick in.

Those who are willing to bear additional risk might turbocharge their returns with emerging market bond funds, an often ignored slice of the fixed income sector that lately has delivered a combination of high yield and high total returns.

The iShares J.P. Morgan USD Emerging Markets Bond, for example, pays a 4.5 percent yield and delivered a total return of more than 9 percent through the first nine months of the year. By comparison, the iShares Core U.S. Aggregate Bond E.T.F., an exchange-traded fund that invests in a broad slice of the investment-grade domestic bond market, pays a 2.5 percent yield and gained 3.1 percent in the same period.

Emerging market bonds denominated in local currency have had an especially good run recently as a slump this year in the dollar increased the purchasing power of other currencies. The Pimco Emerging Local Bond fund has a 5.2 percent yield and a total return of more than 14 percent through the end of September. (Total return is the combination of yield plus any change in the value of a portfolio's bonds.)

Valuations are stretched after average gains of nearly 25 percent since early 2016, and rising rates in the United States would hurt **bond prices**. Yet many emerging market bond fund managers make a **bullish** case.

''For the first time since the financial crisis, we've got commodities stabilizing and a global growth story,'' said Penelope Foley, a manager of TCW Emerging Markets Income fund. Emerging market companies are also reporting stronger earnings, which can make it easier to repay debt.

These fund managers do not expect the Fed's actions to muck up the landscape.

''It depends why the Fed is tightening,'' said Samy Muaddi, manager of T. Rowe Price Emerging Markets Corporate Bond fund. ''If it's because the U.S. is adding 200,000 jobs a month, that's wonderful for emerging markets.'' Economic growth that is strong enough for the Fed to try to pull rates a bit closer to normal should not be confused with rapid and steep rate increases meant to combat runaway inflation, he said.

The upshot is that even if rates rise in the United States, emerging markets can remain appealing as long as the global economic outlook remains positive because they offer higher yields.

Consider that investment-grade United States bonds with a five-year maturity currently yield 2.4 percent and that comparable eurozone bonds yield less than 1 percent. Yet similar-term bonds from India, Indonesia and Mexico have yields of at least 6.5 percent.

In a recent report, Brian Nick, chief investment strategist at TIAA Investments, wrote that over the past 20 years emerging market bonds had annualized gains of 6.9 percent when rates were rising in the United States, while an index of core American bonds lost 3.3 percent on average.

Tina Vandersteel, a leader of the asset management firm GMO's emerging market debt team, said that after the recent strong run, her institutional clients said they would probably have to ''rebalance away from us. But that hasn't happened much.''

One reason is GMO's track record. The GMO Emerging Country Debt IV fund's 12.9 percent annualized gain over the past 15 years is three percentage points better than that of the average emerging market bond fund. Another reason is a lack of compelling alternative investments.

What may appeal to institutional clients requires careful consideration for 401(k) savers. The geopolitical risk that comes with investing in emerging markets means such fixed-income investments are not equivalent to those held in prudent, high-grade, core United States bond funds.

Beyond the risks within specific countries, China, a major trade partner for other emerging markets, casts a long shadow. If China has problems, other countries probably will, too.

"It's a daisy chain in how these economies work," said Kathy Jones, chief fixed income strategist at Charles Schwab. "China not being able to work its way out of its slowdown could have repercussions."

If you have not paid attention to emerging markets for a long while -- since the Latin American debt crisis of the 1980s, for example, or the Asian financial crisis of the 1990s -- it is worth noting that many countries have far more stable economic and monetary policies today.

Many nations now allow their currencies to float, rather than be artificially fixed. They hold much more foreign currency, which may help the next time foreign investors rush for the exits. And their central banks have a stronger hand on the rudder.

Michael Hasenstab, chief investment officer of the Templeton Global Macro group at Franklin Templeton Investments, said in an email that these improvements "were tested and affirmed by impressive resilience during the global financial crisis, with many emerging markets able to avoid recession."

The Templeton Global Bond fund can invest anywhere, and about $25 billion of the nearly $40 billion fund is invested in emerging market bonds. Securities from Brazil, Colombia, India, Indonesia and Mexico are the biggest stakes.

Countries that relied on external trade and investor demand a few decades ago now have growing, consumer-driven, domestic markets and increasing local investment, along with revised economic and monetary policies.

"The label 'emerging markets' is almost unfortunate," Mr. Muaddi of T. Rowe Price said. "It's a label from 25 years ago when emerging markets were 15 countries."

Today, he said, there are 70 emerging market countries, including established ones and their outlier cousins in so-called frontier markets, and all of them have their own idiosyncratic characteristics. "Tajikistan is not Indonesia," Mr. Muaddi said.

About two-thirds of emerging country debt is now rated as investment grade. It is a mix of government bonds, corporate bonds and a combination called quasi-sovereign, which is debt from companies that are state owned. One quasi-sovereign bond issuer popular with emerging market funds is Petróleos Mexicanos, the state-owned Mexican energy company known as Pemex.

Emerging market debt can be issued in local currency, or in a hard "external" currency. That is probably code for dollars, although some emerging market debt is tied to euros or Japanese yen. Even with the recent slide in the dollar, Ms. Vandersteel of GMO said, "local currencies are still cheap."

But predicting currency trends is one of the riskiest aspects of emerging market investing. And when the dollar rises, local-currency bonds tend to suffer. From 2013 through the end of 2015, the dollar gained 25 percent against a basket of currencies, and the average emerging market local currency bond fund lost 23 percent, according to Morningstar.

"If you are going to invest in emerging market bonds you have to ask yourself what risks are you willing to take," Ms. Jones of Charles Schwab said. The iShares J.P. Morgan USD Emerging Markets Bond E.T.F., the largest in its category, tracks an index of United States dollar bonds, eliminating currency risk. VanEck Vectors J.P. Morgan EM Local Currency Bond, on the other had, follows an index of local-currency bonds.

Something else to keep in mind is that emerging market bond indexes often track a small fraction of a targeted market. Old-school active fund management can earn its keep in these sectors. The Fidelity New Markets Income Fund, T. Rowe Price Emerging Markets Bond Fund and TCW Emerging Markets Income Fund hunt among the entire emerging market bond universe, and have the flexibility to mix dollar and local-currency bonds. The annualized returns for all three funds over the past five years is more than a half a percentage point better than the return for the iShares J.P. Morgan USD Emerging Markets Bond E.T.F.

Ms. Jones recommended that investors limit all noncore bond investments to around 10 percent of their fixed-income portfolio.

''Risks exist,'' she said, warning that **volatility** in emerging market bonds could be severe. ''This is not a short-term trade at this level,'' she said. You need an investment horizon of at least five years.''

An industrial complex surrounds the Miguel Hidalgo refinery in Mexico. The refinery is owned by Petróleos Mexicanos, or Pemex, and many emerging market funds hold the company's bonds. (PHOTOGRAPH BY JANET JARMAN FOR THE NEW YORK TIME)

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The New York Times

Business/Financial Desk; SECTB
**Technology Gains Drive a Rally to Conclude a Quiet Week**

By THE ASSOCIATED PRESS
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United States stocks finished mostly higher Friday, wrapping up a subdued week, and technology companies did most of the heavy lifting. Investors were also pleased to see that shoppers spent more money in September.

The printer and personal computer maker HP sent technology companies higher after releasing a strong profit forecast for next year. Big names like Intel and Facebook also rose. Companies in retail, travel and entertainment moved up after the Commerce Department's report on retail spending. Health insurers and hospital operators skidded after President Trump said he would stop government payments to insurance companies under the Affordable Care Act.

Bank of America climbed while Wells Fargo faded as banks continued to report their third-quarter results. But in the early going, investors do not seem as excited about this round of company earnings compared with earlier in the year. Sean Lynch, a co-head of global equity strategy for Wells Fargo Investment Institute, said that unless this batch of corporate reports was surprisingly good, stocks would not rise much further.

''If we come in at expectations or slightly above, I think markets maintain these gains,'' he said. Lynch said earnings for Standard & Poor's 500 companies should rise 5 or 6 percent for the quarter. If that does not happen, he said, the **S&P 500** could decline 4 or 5 percent by the end of the year. That is hardly a huge loss, but stocks have not fallen that much since early 2016.

The **Standard & Poor**'**s500 index** added 2.24 points, or 0.1 percent, to 2,553.17. The **Dow Jonesindustrial average** picked up 30.71 points, or 0.1 percent, to 22,871.72. The **Nasdaq composite** gained 14.29 points, or 0.2 percent, to close at a record-high 6,605.80. The Russell 2000 index of smaller-company stocks slid 2.51 points, or 0.2 percent, to 1,502.66.

The Commerce Department said retail sales grew 1.6 percent in September after a small decline in August. Much of the gain came from car and gasoline sales: Sales of cars rose as people living in the Southeast and on the Gulf Coast replaced vehicles that were destroyed by Hurricanes Harvey and Irma, which also caused temporary spikes in gas prices. But other types of spending grew by a solid amount as well.

HP forecast a larger annual profit than analysts expected, and said it would return at least 50 percent of its free cash flow to shareholders by paying dividends or buying back stock. HP stock gained $1.31, or 6.4 percent, to $21.71.

The White House said late Thursday that it was stopping subsidy payments to insurers under the 2010 health care law. Those payments help reduce copays and deductibles for people with lower incomes. The move could increase losses for insurers and reduce payments to hospitals and other health care facilities. Adding to the uncertainty, the sign-up period for subsidized private insurance starts Nov. 1.

The Medicaid program administrator Centene lost $3.12, or 3.2 percent, to $90.56, and the insurer Anthem gave up $5.81, or 3.1 percent, to $184.38. The hospital operator Tenet dropped 71 cents, or 5.1 percent, to $13.15, and the ambulatory surgery center operator Envision Healthcare fell 91 cents, or 2.2 percent, to $40.74.

**Bond prices** rose. The yield on the **10**-**year Treasury** note declined to 2.27 percent from 2.32 percent.

Materials companies rose with metals prices. Gold gained $8.10 to $1,304.60 an ounce. Silver climbed 15 cents to $17.41 an ounce. Copper rose 1 cent to $3.13 a pound.

Steelmakers climbed after Bloomberg News reported that China imported a record amount of iron ore in September and exported less steel. U.S. Steel climbed $1.80, or 7 percent, to $27.36, and AK Steel added 31 cents, or 5.6 percent, to $5.80.

The utility PG&E continued to tumble as investors wondered if the company will face penalties connected to the California wildfires. Officials said this week they were investigating the possibility that downed power lines or other faulty equipment touched off the fires, which have killed 31 people and destroyed at least 3,500 homes since Sunday. PG&E stock, which dropped 6.7 percent Thursday, fell an additional $6.78, or 10.5 percent, to $57.72 on Friday.

Benchmark United States crude oil picked up 85 cents, or 1.7 percent, to $51.45 a barrel in New York. Brent crude, used to price international oils, gained 92 cents, or 1.6 percent, to $57.17 a barrel in London.

The dollar fell to 111.89 yen from 112.22 yen. The euro dipped to $1.1817 from $1.1836.

CHARTS: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Friday. (Source: Reuters); Retail Sales: Total retail and food services sales, seasonally adjusted. (Source: Commerce Department)

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THE WALL STREET JOURNAL.
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**Global Stock Rally Hits a Fever Pitch**

By Riva Gold and Kenan Machado
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The rally that has propelled U.S. stocks to record levels is spreading around the world.

The MSCI World Index of large and midcap stocks from 23 countries hit a high on Friday, while stock benchmarks in Germany, the U.K., Japan, Hong Kong, Taiwan and New Zealand all reached multiyear highs or records this past week.

Meanwhile, investors poured arecord amount of money into global stock funds in the week ended Oct. 11, according to fund tracker EPFR Global, brushing off political risks, including a secessionist vote in Spain's Catalonia region and tensions surrounding North Korea and Iran.

With the U.S. market scaling fresh peaks, investors have broadened their stockholdings to places where growth looks solid, monetary policy looks supportive and valuations are cheaper. After some benchmarks paused over the summer, recent economic data have added to the conviction that a synchronized pickup in global growth is under way, while the third-quarter earnings season has so far pointed to a healthy corporate sector.

Risks to the rally exist -- not least the withdrawal of the central bank stimulus that has helped propel stock markets -- but manyinvestors expect the prospect of rosy economic data and earnings to push shares higher for at least a few months more.

The most recent leg up in the market's postfinancial crisis recovery has been so sharp that since February 2016 the market capitalization of global shares has risen by an amount that is roughly equivalent to the entire value of world stocks in March 2009, during the peak of that crisis, according to data from FactSet.

John Stopford, multiasset fund manager at Investec Asset Management in the U.K., has been trimming some of his holdings in U.S. stocks recently in favor of adding to positions in Europe and Japan, where he says cheaper valuations come alongside solid earnings prospects.

"Global growth is actually quite synchronized, and we should see positive earnings dynamics more broadly across economies," he said.

The world economy's acceleration this year has been the broadest since the start of this decade, the International Monetary Fund said this week as it raised its forecast for growth to 3.6% this year and 3.7% in 2018.

That is already coming through in earnings and in measures of consumer and business confidence and manufacturing.

In Europe, net profit margins are rising more than they have in seven years as sales growth recovers, according to UBS Group AG. And a record percentage of European companies surveyed by UBS expect profit margins to expand over the next 12 months.

The earnings growth rate in Europe is projected to hit 28.5% in Italy, 12.9% in the U.K. and 6.9% in Germany over the third quarter, according to Thomson Reuters estimates.

That has helped propel Germany's benchmark DAX index to records this week, offsetting a roughly 12%climb in the euro against the dollar this year, which has hit shares of the region's exporters.

The ICE Dollar Index has fallen about 9% this year, a headwind to export-oriented shares across the eurozone and in Japan, though a relief to emerging markets with debts denominated in the greenback.

Comparatively attractive valuations are also prompting some investors to look outside the U.S.

The forward price/earnings ratio of the **S&P 500** over the next 12 months has inched up this year to 18 from 17 in January, while the Stoxx Europe 600's P/E ratio has edged up to 15.2 from 14.8, and Japan's Nikkei Stock Average has fallen to 16.8 from 17.8, according to FactSet.

Several Asian benchmarks have hit milestones in recent sessions.

"Because economies outside the U.S. are at an earlier stage of the recovery, they have a longer runway for stocks to rally," said Brian Nick,chief investment strategist for TIAA Investments in New York.

Japan's Nikkei Stock Average on Friday rose above 21000 for first time since 1996.

Even South Korea's Kospi index has notched records despite tensions between the U.S. and North Korea, helped by upbeat earnings reports.



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The New York Times

Business Day; Mutual Funds
**An Old-School Investment Manager That Builds Wealth Quietly**

By LANDON THOMAS Jr.
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English


San Francisco — In the hard-sell world of mutual funds, the art of pushing pricey investments is a source of pride for many executives.

Not at Dodge & Cox.

The old-school investment firm does virtually nothing to promote or market its six modestly priced, actively-managed mutual funds.

"Every large mutual fund manager either advertises, pays brokers or does both," said Charles F. Pohl, the chairman of Dodge & Cox. "We are the only one that does neither of those things — it's just a different business model."

To underscore his point, Mr. Pohl described a recent encounter with an executive from a rival fund company, whom he declined to identify. Mr. Pohl's peer proudly described the way that new technology allowed him to track, in real time, how its vast portfolio of mutual funds, and their many share classes, were selling across the country.

Mr. Pohl was unimpressed.

"We have no idea about this," he said dryly. "But if you give me enough time I think I can name every single issuer of a bond or equity that we own."

Mr. Pohl did not rattle off the names of the 164 companies that Dodge & Cox, which manages $303 billion in assets, oversees in its portfolios. He was, however, quick to highlight the simplicity, parsimoniousness and devotion to disciplined value investing that distinguishes this traditionally minded investment firm from much of its industry.

Founded in 1930 by two Depression-era bankers, Dodge & Cox has just six, single-class mutual funds, compared with an average of 464 for the largest 25 fund shops, according to Morningstar. Its fees are about half the industry average, Morningstar says. It has no sales force and says it has never paid to advertise its small stable of funds.

If the indexing giant Vanguard were reincarnated as a pure stock-picking outfit, it might look a lot like Dodge & Cox: lean, cheap and not a little holier than thou.

For years, fund companies that rely on active stock selection to churn out returns have been pummeled by investors switching over to lower-cost, better-performing index and exchange-traded funds. The portfolio managers at Dodge & Cox, stock pickers to their very core, have not been immune to these industry-shaking trends.

Over the past three years, the firm's main fund, Dodge & Cox Stock, has returned just over 8 percent, trailing the Standard Poor's 500 index by 1.5 percent during this period, according to Morningstar. A tried-and-true value fund, it has not chased after fashionable technology stocks, which has also hurt short-term performance.

Investors have been less than patient with such results. Since 2012, the Dodge & Cox Stock fund has had close to $10 billion in outflows, although the firm's other funds have had net inflows during that time.

The Dodge & Cox Stock fund's five-year performance has been better. While many large capitalization mutual funds have struggled to keep pace with the surging **Standard & Poor**'**s 500**-**stockindex**, which returned 14.2 percent, annualized, through September, Dodge & Cox Stock was up 15.6 percent, according to Morningstar. That put the fund in the top 2 percent of its category.

While other fund companies with an active — as opposed to an index-based, or passive — investing bias are wrestling with their missions, contemplating mergers or exploring ways to use index-tracking exchange-traded funds to attract new investors, Dodge & Cox is staying true to its principles.

At the root of those principles is a Vanguard-like aversion to spending money. Despite having $100 billion parked in stocks and bonds that trade in overseas markets, the company has no investment offices in Europe or Asia. In addition to doing no advertising, the firm has no public relations office and no sales force.

A glance at employees' business cards highlights this self-effacing culture. Mr. Pohl and Dana M. Emery, the firm's chief executive, hand out cards free of any reference to title or position — an oddity in the status conscious world of finance.

Executives at the firm insisted that there was a method to the madness: investors reaping better returns from lower fees on Dodge funds.

For example: According to Morningstar, the 0.52 fee levied on the Dodge & Cox Stock fund is half the price of the average large stock fund, which charges about 1.07 percent to investors these days.

For a major stock-picking fund of its size — $66 billion in assets at last count — that is quite a discount, and cheaper even than many large E.T.F.s, where cost is the major selling point. For example, the iShares MSCI Emerging Market E.T.F., which has $35 billion in assets, charges a fee of 0.72 percent.

"The fee differential is unique," said Andrew Daniels, an analyst at Morningstar who covers the firm's main fund, Dodge & Cox Stock. He added: "Their interests are aligned with fund holders, and, for how strong a fund this is, it's one of the cheapest active funds that you can buy."

Dodge & Cox is, in many ways, a throwback to a much earlier time, before mutual fund companies went public and before the now departed era when hot shot portfolio managers graced the covers of glossy magazines. Its first offering, the Balanced Fund, was established in 1931.

Since then, generations of top managers have resisted the urge to sell their shares in an initial public offering. And while many firms brag about low manager turnover, few can match Dodge & Cox's numbers.

Mr. Pohl, 59, has been chairman since 2013. He and Ms. Emery, who is in charge of fixed-income investing, preside over the firm's investment committee and also share operational responsibilities. He has spent 33 years at the firm; she has been there for 34.

It is not uncommon for people to stay at Dodge & Cox for a long time. One of the firm's founders, E. Morris Cox, who died in 2003, came into the office regularly when he was well into his 90s. These days, the average firm tenure for all of its portfolio managers is 19 years. At the 25 largest fund families, the comparable figure is just over 8 years, according to Morningstar.

Mr. Daniels cited two factors in particular that allowed the firm to keep its fees down.

That Dodge & Cox is a private company protects it from quarterly earning pressure to ramp up fees. And the firm rates among the highest among mutual fund companies in terms of portfolio managers that invest in their own funds, which studies have found is a key attribute for funds that outperform their peers.

"They really eat their own cooking," Mr. Daniels said.

Mr. Pohl, the Dodge & Cox chairman, said his company's methods enabled it to excel.

"We are after a different customer," he said, "someone who does not have to read an ad or have a broker call them. And in return they get a lower fee and a better long-term return."

* BlackRock Earnings Rise on Tide of E.T.F.'s and Index Funds

* Explaining E.T.F.s and How They Gained Their Allure

 

* The Market Is High. Beware of Portfolio Drift.

* The Case of H.P.'s Obstinate Director

Charles F. Pohl and Dana M. Emery, top executives at the old school investment firm, Dodge & Cox, in San Francisco. | Jason Henry for The New York Times

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The New York Times

Business Day; Mutual Funds
**Funds That Can Put Your Investments on a Low-Carbon Diet**

By TIM GRAY
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If you care about climate change, your money can help shrink your carbon footprint. You can buy appliances that are more energy efficient or a hybrid or electric car — or, better yet, a bike. You can install thicker insulation in your home or solar panels on your roof.

But investing in mutual and exchange-traded funds in ways that prioritize climate worries has been harder. Plenty of funds make environmental impact a factor in stock assessments, but few have proclaimed loudly that greenhouse gas emissions are a primary concern, and that has been a problem for investors committed to divesting from fossil fuels.

The smog has begun to clear. A spate of stock funds and E.T.F.s has appeared over the past several years that shun major fossil-fuel producers, like oil drillers and coal miners, or those with excessive greenhouse gas emissions. Carbon dioxide, spewed out mainly by the burning of fossil fuel, accounts for most of such emissions, so these new offerings often call themselves “low carbon.”

Now there is a tool, the website Fossil Free Funds, that helps pinpoint funds and E.T.F.s focused on companies withsmaller carbon footprints. “There were 10 funds when we started that we identified as fossil-fuel free,” said Andrew S. Behar, chief executive officer of As You Sow, the Oakland, Calif., environmental group that created Fossil Free Funds. “Now it’s up to 31.”

Fossil Free Funds sprang from Mr. Behar’s effort to determine the carbon footprints of the funds in As You Sow’s own retirement plan. The exercise showed him how tough it was to piece together the needed information. So he and a colleague, Andrew Montes, created the website, which began in 2015.

The site combines Morningstar data on stock holdings with screens like the Carbon Underground 200, a global index of coal, natural gas and oil companies. If a user types, say, “Vanguard’s **S**.**&P**. **500 index** fund” into the site’s search box, a report is generated. That report shows that 21 companies, including Exxon Mobil and Chevron, and 4.28 percent of the fund’s total assets overlap with the Carbon Underground 200. That means, of $10,000 invested in the fund, $428 will end up in fossil-fuel stocks.

In contrast, the site’s report on the SPDR **S**.**&P**. **500** Fossil Fuel Reserves Free E.T.F. shows no overlap. As the E.T.F.’s name suggests, that lack of fossil fuel overlap is intentional.

“What this fund is doing is giving investors the **S**.**&P**. **500** minus companies that own reserves of crude oil, natural gas and thermal coal that are economically and technically recoverable,” said Christopher C. McKnett, who leads environmental, social and governance strategy for State Street Global Advisors, the E.T.F.’s sponsor. The fund does not exclude reserves of metallurgical coal, which is used in the making of steel, but it does exclude utilities if they own their own reserves, he said. State Street created the E.T.F. for investors committed to divesting from fossil-fuel stocks, Mr. McKnett said.

Another State Street offering, the SPDR MSCI ACWI Low Carbon Target E.T.F., takes a different approach. Rather than barring companies, it favors energy and utility companies with smaller fossil-fuel reserves and lower carbon emissions. The fund is designed to replicate the world market as closely as possible — it invests globally, in developed and developing countries — while still being low carbon, Mr. McKnett said.

Blackrock’s iShares MSCI ACWI Low Carbon Target E.T.F. is constructed similarly. Sarah Lee Kjellberg, head of iShares Sustainable E.T.F.s, said Blackrock created the fund partly at the request of institutional investors and financial advisers seeking a low-carbon offering that could serve as someone's core investment. "They're telling us, 'We're trying to strike a balance between providing market exposure and addressing the risk of climate change in our portfolios,'" she said.

A newer low-carbon E.T.F., the Etho Climate Leadership E.T.F., ranks companies according to their carbon efficiency, based on emissions per dollar invested. "We start by analyzing 6,000 companies globally of all capitalization sizes and distill them down to leaders in each industry," said Ian E. Monroe, president and chief sustainability officer of Etho Capital, the fund's sponsor. Mr. Monroe said the goal was not just to ditch big carbon-belchers and fossil-fuel behemoths but also to identify better-run companies. The fund, which began in late 2015, beat the **S**.**&P**. **500** last year and so far has done so this year.

Several long-established sponsors of socially screened funds can also help put your portfolio on low-carb diet.

Dimensional Fund Advisors offers two funds that make emissions and fossil-fuel reserves central considerations: the US Sustainability Core 1 Portfolio and International Sustainability Core 1 Portfolio. "Sustainability means different things to different people," said Joseph H. Chi, the company's co-head of portfolio management. "But what we've found is a focus on carbon is one thing people agree on."

When assembling the portfolios, Dimensional applies its usual financial metrics to companies, but it also assesses their emissions, Mr. Chi said. "Our approach is to rank companies both on an absolute basis and against their peers," he said. The portfolio managers then eliminate the those with the worst emissions, de-emphasize the lesser performers and overweight the better ones. Dimensional's one absolute climate-related exclusion is coal companies.

The list of climate sinners is longer at Parnassus Investments and Green Century Capital Management, two specialists in so-called socially responsible funds.

Both the Parnassus Fund and Parnassus Endeavor avoid companies involved in exploration, extraction, production, manufacturing or refining of fossil fuels. That effectively means the portfolio managers avoid the energy and utility sectors, said Ian E. Sexsmith, co-manager of the Parnassus Fund. They do this because some clients haveasked for fossil-free offerings and because of the managers' skepticism about the longer-term prospects of these industries, Mr. Sexsmith said. "As our world becomes more energy efficient and we get better at using alternatives," he said, "we think the energy sector is going to underperform."

Green Century likewise tries to eliminate fossil-fuel companies from its Green Century Equity Fund and Green Century International Index Fund, said Leslie Samuelrich, Green Century's president. The funds, passively managed indexed offerings, impose hard exclusions on coal, gas and oil, companies and on any utility that burns coal.

A group of environmental nonprofits started Green Century in 1991 and it has long avoided the fossil-fuel industry, but its marketing did not highlight that until recently.

"We didn't use the words 'fossil fuel free' till five years ago," Ms. Samuelrich said. "But the demand started to pick up, and we realized we should tell people. So we started promoting that, and since then, our assets have more than doubled," lately reaching $491 million for the company's three funds. Green Century also has a balanced fund that contains bonds as well as stocks.

The variety of low-carbon stock funds makes it easier for people to invest this way. Whether they should invest this way, from a financial standpoint, remains a subject of debate. Investment orthodoxy says that limiting your pool of investments stunts your potential return.

Jon F. Hale, director of sustainability research at Morningstar, said he doubted that people with well-diversified portfolios would see much of an impact on performance if they replaced, say, a conventional domestic, large-capitalization fund with a low-carbon one. A diverse portfolio, he said, would include funds spanning domestic and international markets, large- and small-capitalization stocks and developed and developing countries.

Mr. Hale said the returns of the low-carbon fund would not track the broader market: If the energy sector were to surge, the fund would probably underperform. But, he added, "There's a possibility of a positive return, too." That could happen if the world's economy continues to move toward greater energy efficiency and a greater reliance on renewable sources like wind and solar power.

 

Personal values have a place in investment decisions, Mr. Hale said, adding that some people viewed divestment from coal, gas and oil as a matter of morals, not money.

“I may be fine with the possibility of my portfolio performing a little less without fossil fuels because I want to add my voice to this movement or feel good about myself,” he said. “I may be willing trade off some of the other investment benefits for that.”

* Investing in Solar and Wind in a Coal and Oil Moment

* U.S. to Join Climate Talks Despite Planned Withdrawal From Paris Accord

* Aiming to Do Good, Not Just Well

Andrew Behar, chief executive officer of As You Sow, an environmental website that helps identify low carbon funds. | Christie Hemm Klok for The New York Times

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THE WALL STREET JOURNAL.
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**Card Lending, Cost Cuts Fortify Banks --- Results at J.P. Morgan and Citigroup point to worsening quality of consumer credit**

By Telis Demos and Emily Glazer
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13 October 2017
The Wall Street Journal
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English


Growth in credit-card lending and a tight rein on costs boosted third-quarter profits at J.P. Morgan Chase & Co. and Citigroup Inc., offsetting downbeat trading results and a still-challenging interest-rate environment.

The results, though, pointed to early signs of a potential deterioration in consumer-credit quality, which could be a concern for many lenders and credit-card issuers.

The results from J.P. Morgan and Citigroup, the Nos. 1 and 4 U.S. banks by assets, respectively, showed modest increases in revenue. But the focus on costs led net income to rise 7.1% at J.P. Morgan to $6.73 billion and 7.6% to $4.13 billion at Citigroup.

"We tightly managed our expenses and again saw loan and deposit growth in both our consumer and institutional businesses," Citigroup Chief Executive Michael Corbat told analysts Thursday.

Citigroup's efficiency ratio, or expenses as a percentage of revenue, improved to 56% for the quarter, better than the bank's target of 58% for the year. J.P. Morgan's fell to 55% from 57% a year earlier.

Both firms managed to beat Wall Street expectations for both revenue and earnings per share. Their stocks fell, though, as the results gave investors few reasons to think shares could build markedly on heady gains experienced in the wake of last year's presidential election.

Since Donald Trump's victory, Citigroup's stock has advanced by nearly 50% and J.P. Morgan shares are up nearly 40%. Both have outpaced the broader **stock market** and the KBW **Nasdaq** Bank Index.

Those gains reflected investor expectations for stronger economic growth, higher interest rates and looser regulations. But many of those hopes, such as for tax overhaul that would boost banks' profits, have yet to materialize.

J.P. Morgan shareholder Jason Ware, chief investment officer of Salt Lake City-based Albion Financial Group, said the banks' results were "solid but perhaps not exceptional" and largely in line with expectations.

On the all-important interest-rate front, the experience so far this year has been mixed. Rates have moved higher as the Federal Reserve has increased its short-term benchmark, but longer-term yields haven't risen as much.

That puts pressure on banks' net-interest margins, or the difference in what they earn by borrowing and lending money. These margins declined at Citigroup from a year ago, while they rose slightly at J.P. Morgan. At both banks, though, the margins remain historically low.

While net income grew at both banks, return on equity, a key measure of profitability, remained relatively subdued. J.P. Morgan's return for the third quarter was 11%. That is above the bank's theoretical cost of capital of 10%, but not by much.

Citigroup, meanwhile, posted a return of 7.3%. Although this is up from 6.8% in the prior quarter and a year earlier, it is still well below the 10% level. Citigroup for years hasn't posted a return that consistently cleared that hurdle.

The banks also had to combat a decline in trading revenue in the third quarter, as **financial-market volatility** remains at historically low levels. J.P. Morgan's trading revenue dropped 21% to $4.53 billion, hurt by a 27%

falloff in fixed-income trading. Citigroup's trading desk didn't suffer as sharp a decline, but trading was still down 11% from a year ago to $3.63 billion.

J.P. Morgan finance chief Marianne Lake said during a call with analysts that the bank expects sluggish trading activity to continue into the fourth quarter and there were "no obvious catalysts on the horizon."

Both banks found bright spots with consumers.

Citigroup said it saw a 12% rise in revenue in its core North American retail-banking unit, to $1.2 billion, in part as more customers used its wealth-management services. It also saw a 6% jump in credit-card lending globally.

"We would rate the health of the consumer right now as pretty good," Mr. Corbat said. "The combination of jobs, a little bit of wage growth, stable housing and rising asset prices has left the consumer in a pretty good place."

J.P. Morgan also saw growth in its consumer unit, including an 8% rise in U.S. interest-bearing deposits. Ms. Lake said revenue in its credit-card business is expected to grow.

However, there are early signs that credit quality is slipping. Consumer payback rates have been a concern for lenders across the board, even as the U.S. labor market remains robust.

Citigroup set aside $2.15 billion in the third quarter to cover loans that could turn bad in the future, about $400 million more than a year ago. Much of that uptick in provisions was for credit-card loans. The bank said that future charge-offs were increasing more quickly than anticipated, though not to alarming levels. Its forecast went from a 2.85% loss rate for the year to 2.95% next year for Citigroup-branded cards.

"That's a little bit higher than what we had previously considered," Citigroup finance chief John Gerspach told analysts.

Meanwhile, charge-offs for so-called store cards rose to 4.7% in third quarter from 3.9% a year earlier.

J.P. Morgan set aside $1.46 billion in reserves in the third quarter, up from $1.13 billion a year earlier.

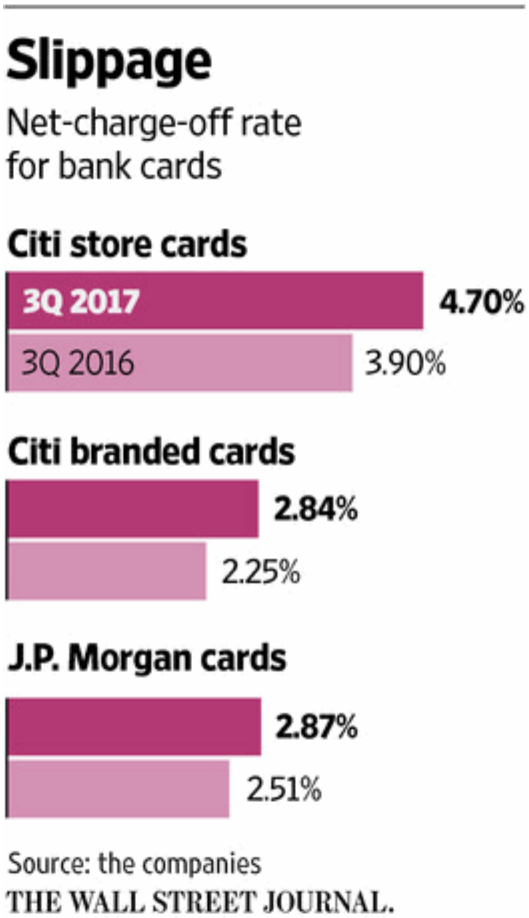
At Citigroup, there was another cause for concern. Revenue from branded cards, which Citigroup markets directly to consumers, declined 1% from a year ago.

The bank previously had suggested the second half of 2017 would deliver growth after years of investments -- such as paying to take on the card business of Costco Wholesale Corp. -- bore fruit.

"As late as June, we believed that . . . we'd be able to deliver at least some level of year-over-year revenue growth," Mr. Gerspach said. He added the bank was seeing tough competition in cards, where rivals have been offering increasingly generous inducements.

Mr. Gerspach said he still expected the bank's newest products, such as the Costco cards, to eventually deliver healthy growth.

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THE WALL STREET JOURNAL.
U.S. EDITION

**Streetwise: A Case for the Bulls Is Hard to Warrant**

By James Mackintosh
988 words
13 October 2017
The Wall Street Journal
J
B1
English


Believers in the **bull market** have been making a one-word case for why this year's rise in stocks is justified: earnings. With profits on a roll and the world economy in synchronized growth mode, what's not to like?

As the earnings season gets into full swing, analysts are predicting another great set of profit figures. Hurricane effects make the consensus forecast of 5.5% year-over-year growth for the **S&P 500** even less certain than usual, but there's no doubt that companies have delivered.

The trouble is how investors have reacted. The market is expensive on virtually every measure, which could be justified by strong earnings growth in the future. But when those earnings come through, the market ought to get less expensive. Instead, it has become even pricier, meaning still-faster growth in profits is anticipated. The bull case is even harder to justify.

The simplest way to look at this is to break down price changes into changes in earnings and valuation. So long as stock prices rise by less than earnings, the valuation, or price/earnings ratio, comes down.

The P/E ratio can be measured in many ways, but at the moment the two most popular gauges -- the price-to-forward operating earnings and the cyclically adjusted P/E ratio, or CAPE -- have rarely been higher.

In the past, such high valuations were often followed by disappointment for investors, because earnings didn't come through to justify them. There is a good and a bad way for a high P/E ratio to drop back down to more normal levels. The bad way is that prices fall, which hurts. The good way is that earnings rise by more than share prices, and the market grows into its valuation.

An extreme example of a company growing into its valuation is Apple Inc. At the top of the dot-com bubble in 2000, Apple's shares traded at 34 times its (paltry) earnings. It now trades at less than 18 times trailing earnings and only 14 times estimates for the next 12 months, according to Thomson Reuters.

Apple has, of course, been a fabulous investment despite the lower valuation, because earnings rose 50-fold in the past 17 years, allowing the **stock price** to soar even as the P/E ratio came down.

Unfortunately for the bulls, this year hasn't been a case of companies growing into their valuations. It hasn't even been a case of forecast earnings going up fast enough that companies might soon grow into their earnings. In fact, it has been the opposite, at least among the **S&P 500**.

Only 78 companies out of the 490 for which FactSet has comparable estimates grew toward their valuation this year, increasing earnings while their shares rose more slowly. That's almost as many as the 70 in which valuations dropped in a way shareholders hate, with shares falling as earnings estimates rose.

The result is troubling. Even as estimated earnings for the next 12 months went up, the market went up more, pushing the S&P's forward P/E ratio from 17.2 to 18. Investors became more optimistic, meaning an even bigger rise in earnings is needed in the future to avoid disappointment.

The result is that many valuation gauges are flashing red. Strategist Peter Oppenheimer at Goldman Sachs Group Inc. calculates that the median stock is in the top 1% to 3% of historical valuations when measured by the price to book, forward P/E ratio, total company value to sales or to operating income, and the P/E-to-growth ratio.

Weighted by market value, the forward P/E ratio -- with a history back to the 1970s -- has been higher only once since the dot-com bubble burst, while the historical CAPE compiled by Yale Prof. Robert Shiller was higher only in 1929 and the dot-com bubble.

This can still work out. A stronger global economy, weaker dollar and low interest rates might mean earnings will accelerate enough to bring down valuations even as share prices rise a little more.

But this is different from the claim that rising earnings justify this year's stock gains.

Consider the technology and telecom sectors. Tech has been reporting big gains in profits, and analysts have upgraded their earnings forecasts by more than any other sector, while telecom companies are struggling with a price war and are in the only sector in which earnings estimates have dropped this year.

On the face of it, this explains why tech has been the best-performing sector in 2017 and telecom the worst. But shareholders didn't just project the higher earnings of tech into the future, they pushed up the forward P/E ratio by about a 10th. Investors assume not just that earnings will be higher, but that earnings will accelerate.

The opposite happened to telecom: Predicted earnings fell, and the forward P/E ratio dropped, making it the cheapest **S&P 500** sector. Investors expect future earnings not just to be lower but to fall even faster than they previously thought.

Again, both decisions might be proved right, and it's normal for investors to project the recent past into the distant future. Jonathan Golub, Credit Suisse Group AG's chief U.S. equity strategist, says shareholders typically push up valuations even in the late stages of an economic expansion, and P/E ratios come down on average only when recession hits and the market falls.

But the fact that this year's earnings provide a good explanation of what's happened to stock prices doesn't mean they're a good justification. And it certainly doesn't mean investors should sleep easy owning one of the most expensive markets in history.

## Profits of Boom

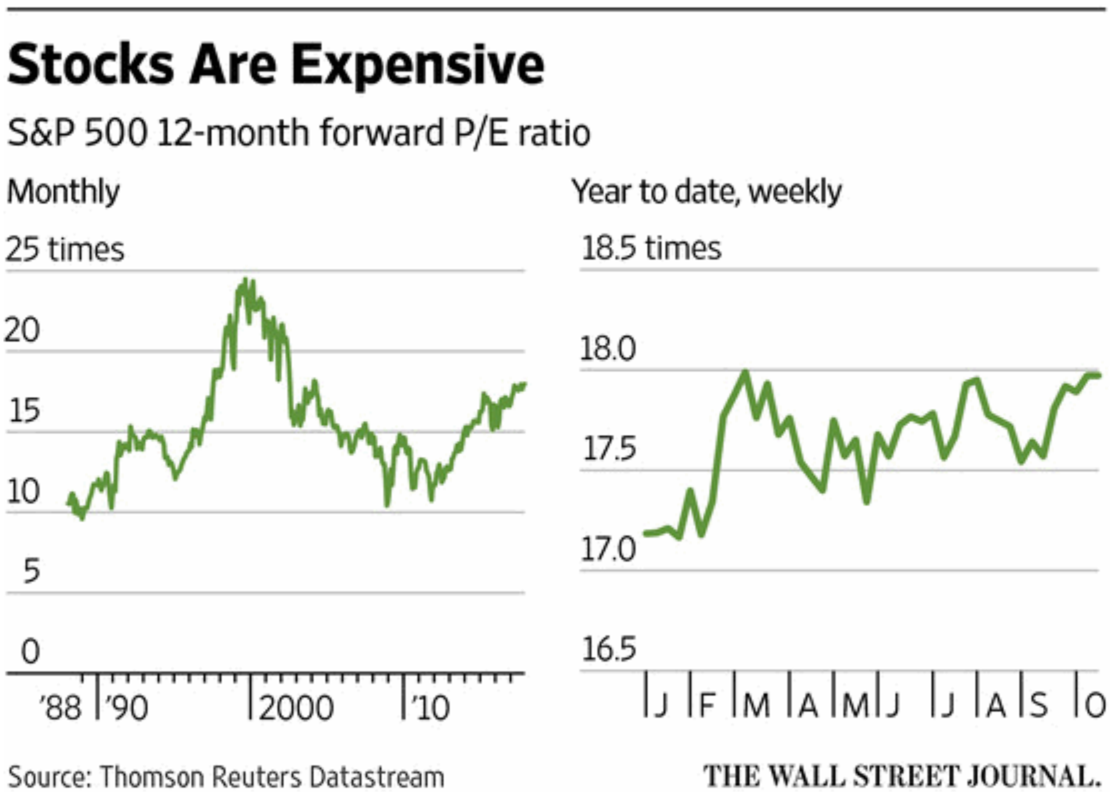
S&P 500 earnings per share, quarterly*


*Data for the two final quarters of 2017 are estimates.

Source: S&P Dow Jones Indices

THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.
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**Munis Advance as Washington Stays Put --- Prices have rebounded as scant progress on Trump's agenda allays fears of a rate surge**

By Heather Gillers
684 words
13 October 2017
The Wall Street Journal
J
B12
English


Inaction in Washington has been a boon for municipal-bond investors this year.

In the two months after the 2016 election, investors took $27 billion out of muni-bond funds. The fear was that President Donald Trump's agenda for taxes, infrastructure and health care would drive up interest rates, and thus make outstanding bonds less attractive.

Washington has made scant policy changes, and those concerns have since abated. In addition, the GOP tax framework leaves the tax-deductibility of municipal bonds intact. In short, little has changed, and investors are again doing what they had done in previous decades: buying munis.

"So far this year has been very good for returns for munis, and somewhat unexpectedly," said Jim Colby, senior municipal portfolio manager atVanEck.

Also driving up prices: Cities and states have so far issued much less debt than last year, leaving investors hungry for municipal bonds.

Though prices have drifted downward slightly over the past month alongside Treasurys, the S&P Municipal Bond Index is back to its pre-election level, 4.4% higher than at the beginning of January.

In trading this month, a New York state general-obligation bond carried a yield of 1.2%, compared with 2.1% in December. Yields fall as prices rise.

About $28 billion flowed into municipal-bond mutual funds and exchange-traded funds from January through September, according to the Investment Company Institute.

These investors are largely shrugging off two potentially disruptive events: multiple ratings downgrades in Hartford, Conn., where the mayor in July hired restructuring advisers; and what amounts to the largest-ever municipal bankruptcy, in Puerto Rico.

"Munis had a pretty good year," said J.R. Rieger, managing director of fixed-income index product management at S&P Dow Jones Indices LLC. "That's kind of a surprise to me given all the headline headwinds that the muni market is facing."

Increasing demand also came from foreign buyers. More than $3 billion flowed into municipal bonds from outside the U.S. in the second quarter, bringing the total amount of munis held by foreign investors to a record $98.6 billion, according to Federal Reserve data. With global interest rates still low, munis appeal to foreign institutional investors seeking safe long-dated securities, even though they don't benefit from tax exemptions.

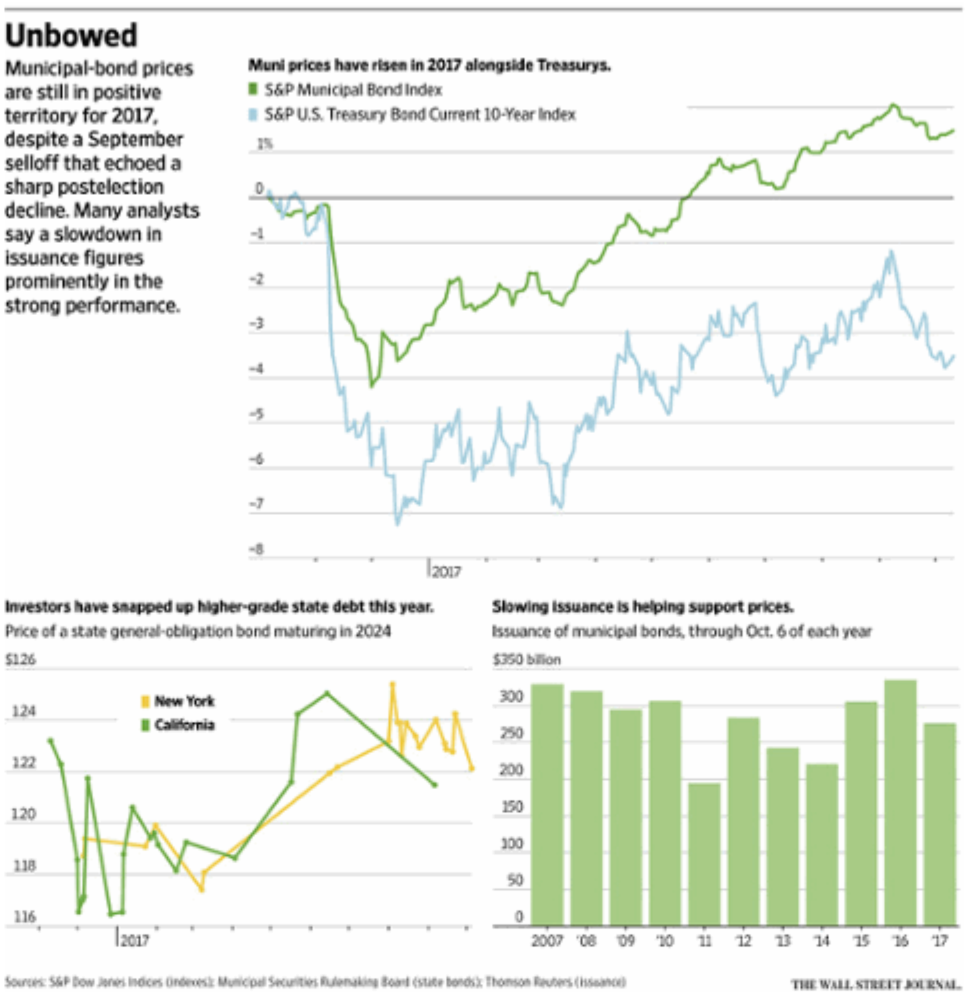
Despite high demand in both the U.S. and abroad, munis are in fairly short supply. Municipalities this year have issued $276 billion in new bonds as of last week, down 18% from this time last year, according to Thomson Reuters. The state of Massachusetts has sold about $1.7 billion in general-obligation bonds this year, half the amount it had issued by this time last year, according to Municipal Securities Rulemaking Board data.

The drop-off comes as cities and states are doing far fewer refinancing deals this year; many governments typically refinance before a new presidential administration, to head off potential uncertainty, said Matt Fabian, a partner at Municipal Market Analytics.

One of the few hiccups to the rebound in prices this year was in September. Since last month, **bond prices** have fallen slightly alongside Treasurys after the Federal Reserve signaled it remained on course to steadily raise interest rates.

But that dip barely dented the upward trend in muni prices since January. Some bondholders were relieved after a Trump infrastructure plan that could have diverted the assets of large infrastructure investors away from muni bonds didn't materialize. Given that failure, the inability to repeal the Affordable Care Act and other setbacks for the Trump administration, investors became increasingly confident big changes weren't coming from Washington this year.

"As the year has worn on, there has been this understanding that these things, if they happen, they're not going to happen any time soon, and they may not happen at all," said Gary Gildersleeve, partner and portfolio manager at Evercore Wealth Management.

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THE WALL STREET JOURNAL.
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**Banking & Finance: The BBBs Rule Investment-Grade Bonds --- IMF flags supremacy of lower-grade debt as an indication of feverish hunt for yield**

By Mike Bird
480 words
13 October 2017
The Wall Street Journal
J
B10
English


The market in investment-grade bonds is increasingly dominated by the very lowest-quality debt that qualifies for that rating.

That could cause problems as investors stock up on bonds more prone to default or to quickly losing their value should credit conditions turn.

The portion of global corporate bonds rated triple-B has roughly doubled in a decade and now makes up nearly half of all investment-grade credit.

The share of triple-B rated bonds in the U.S. has recently surpassed its 2002 peak, climbing above 47% of all investment-grade credit. Around 48% of bonds in the eurozone are rated triple-B, while less than 20% were when Lehman Brothers collapsed in 2008.

Triple-B debt securities are the last rung on the investment-grade ladder. A downgrade to double-B sees a company's bonds enter high-yield, or junk, indexes instead.

This triple-B supremacy has been flagged in the International Monetary Fund's latest global financial stability report as an example of the relentless hunt for yield among bond investors.

"Low yields, compressed spreads, abundant financing, and the relatively high cost of equity capital have encouraged a buildup of financial balance sheet leverage," the report said.

Ultralow interest rates and massive bond buying by central banks have pushed down financing costs for companies raising money in bond markets. The yield on Bank of America Merrill Lynch's global corporate BBB index is just 2.89%, compared with a 20-year average of more like 5.1%.

What's more, the spread between the highest- and lowest-rated investment grade credits has collapsed. In 2008, during the financial crisis, triple-B rated bonds yielded over 8%, over 4 percentage points more than AAA-rated debt. On Wednesday, that spread was just 0.25 percentage point.

That could be bad news for investors if credit conditions worsen.

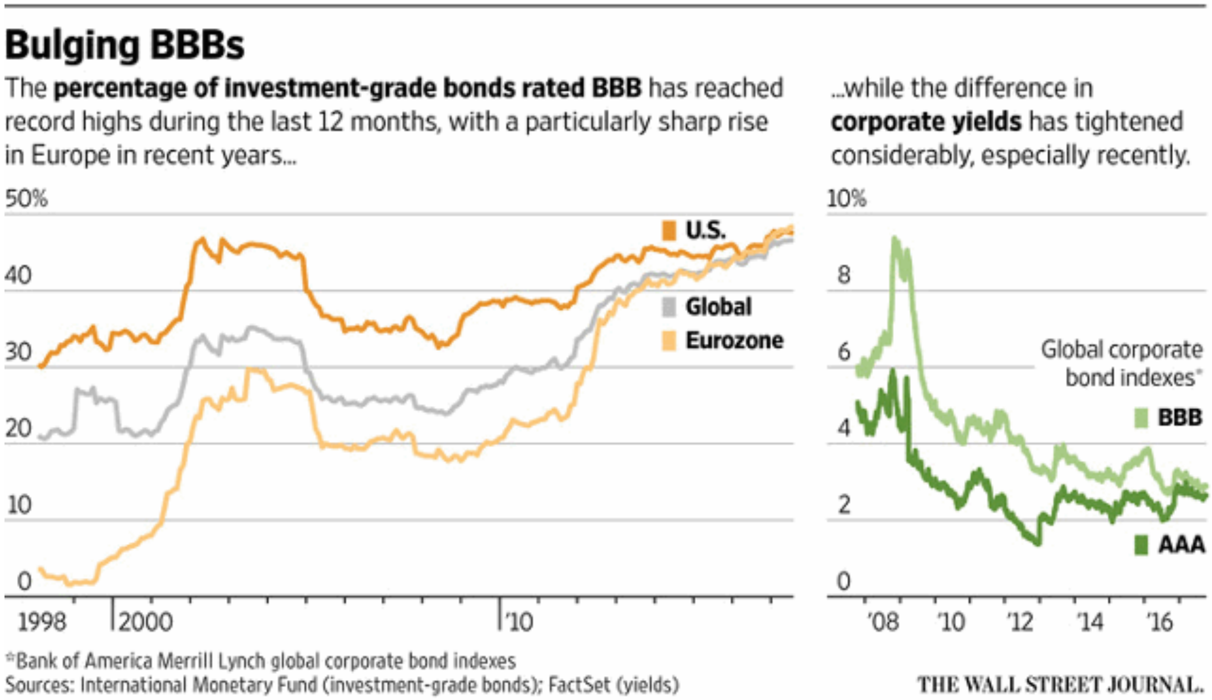
Default rates on any investment-grade credit are very low, but they vary between different ratings levels.

For triple-B rated companies, the highest one-year global default rate was 1%, reached in 2002, according to S&P Global Ratings.

In comparison, the default rate for AAA-rated bonds has been 0% in every year since 1981, even during the financial crisis.

Investors with more triple-B's could also expect more **volatility**. During 2008, Bank of America Merrill Lynch's BBB Global Corporate Index fell in value by around 15%, while the AAA index ended the year flat.

With the gap between yields currently so thin, investors are offered very little protection against a market panic, or even against a small rise in default rates, which have been low for the past five years.






Document J000000020171013edad0001i

The New York Times

Business/Financial Desk; SECTB
**Cable TV and Retail Losses Pull Markets Away From Highs**

By THE ASSOCIATED PRESS
725 words
13 October 2017
The New York Times
NYTF
Late Edition - Final
2
English


Stock indexes in the United States retreated from their record highs Thursday as retailers and media companies declined and investors shrugged at quarterly reports from a few big banks.

Clothing companies and other retailers fell after women's clothing company J. Jill slashed its third-quarter forecast. The company's stock lost more than half its value.

AT&T had its worst one-day loss since 2008 after it said lost more satellite and cable TV subscribers in the third quarter. Other cable and satellite TV companies also stumbled. Industrial companies and household goods makers finished higher.

JPMorgan Chase and Citigroup both did better than analysts expected in the third quarter, but their stocks fell and so did shares of other banks. They have made big gains over the last month.

CFRA Investment Strategist Lindsey Bell said the companies reported good results from their consumer banking businesses, but other divisions did not do as well.

''The bar was set kind of high,'' she said. ''Given the run that these stocks have had into these earnings reports, they're going to need to see these other businesses pick up steam.''

The **Standard & Poor's 500**-**stockindex** fell 4.31 points, or 0.2 percent, to 2,550.93. The **Dow Jonesindustrial average** lost 31.88 points, or 0.1 percent, to 22,841.01. The **Nasdaq composite** dipped 12.04 points, or 0.2 percent, to 6,591.51. Those three indexes closed at record highs Wednesday.

More stocks rose than fell on the New York Stock Exchange.

AT&T said it lost about 90,000 DirecTV video subscribers in the United States in the third quarter because of growing competition in streaming video services. That is a bigger drop than the one it reported a year ago even though it has launched DirecTV Now, an online service that does not cost as much. The company said tighter credit standards and hurricanes also affected its business. AT&T stock fell $2.33, or 6.1 percent, to $35.86.

Verizon Communications shed 51 cents, or 1 percent, to $48.35, and cable provider Comcast fell $1.47, or 3.8 percent, to $35.95. Dish Network slid $2.62, or 5.1 percent, to $49.03. Cable channel operator Discovery Communications lost 72 cents, or 3.6 percent, to $19.28.

Industrial and transportation companies like railroads did better than the rest of the market. Machinery maker Caterpillar gained $1.39, or 1.1 percent, to $129.99, and railroad operator Norfolk Southern rose $2.20, or 1.7 percent, to $133.69.

Citigroup said its investment banking business did well in the latest quarter, while JPMorgan Chase said its consumer banking business improved compared to a year ago. But Citigroup fell $2.57, or 3.4 percent, to $72.37, and JPMorgan gave up 85 cents to $95.99.

J. Jill stock nose-dived after the retailer of women's clothes, shoes and accessories slashed its outlook for the third quarter. The company said retail and direct-to-consumer sales both fell short of its expectations and cut its earnings forecast in half. J. Jill stock opened at $13 a share after its March I.P.O. and on Thursday it plunged $5.07, or 51.1 percent, to $4.86.

Retailer Express sank 53 cents, or 8.3 percent, to $5.88, and Chico's FAS lost 57 cents, or 7.2 percent, to $7.40. Gap lost $1.21, or 4.3 percent, to $27.21.

Benchmark United States crude oil lost 70 cents, or 1.4 percent, to $50.60 a barrel in New York. Falling crude prices weighed on energy companies.

**Bond prices** rose. The yield on the **10**-**year Treasury** note fell to 2.32 percent from 2.35 percent.

Gold rose $7.50 to $1,293.30 an ounce.

The dollar inched down to 112.25 yen from 112.37 yen. The euro declined to $1.1835 from $1.1865.

CHARTS: The **S**.**&P**. **500 Index**: Position of the **S**.**& P**. **500 index** 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.)

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The New York Times

FACT CHECK
Business/Financial Desk; SECTB
**Federal Debt Is Not Reduced By Gains in Market**

By JIM TANKERSLEY; Linda Qiu contributed reporting.
824 words
13 October 2017
The New York Times
NYTF
Late Edition - Final
2
English


WASHINGTON -- President Trump suggested on Wednesday evening that a soaring **stock market** might be "in a sense" reducing the national debt, a statement that is not true, in any sense.

"The country -- we took it over and owed over $20 trillion," Mr. Trump told the Fox News personality Sean Hannity, following similar remarks he made earlier on Wednesday in a speech he delivered on tax issues in Pennsylvania. "As you know the last eight years, they borrowed more than it did in the whole history of our country. So they borrowed more than $10 trillion, right? And yet, we picked up $5.2 trillion just in the **stock market**. Possibly picked up the whole thing in terms of the first nine months, in terms of value."

"So you could say, in one sense, we're really increasing values. And maybe in a sense we're reducing debt."

The comments represented the latest in a long-shifting series of positions on debt issues for Mr. Trump as both president and candidate, which has included, at various points, proclaiming "I love debt" and also promising to pay off the entire national debt in eight years.

Wednesday's remarks coincide with recent comments by Republican lawmakers and other administration officials playing down concerns about the federal debt. The White House and Republicans in Congress are pushing a tax rewrite that independent analysts warn could add trillions more to the debt, but administration officials say will more than pay for itself with increased economic growth.

The federal budget deficit increased in the 2017 fiscal year, both in dollar terms and as a share of the economy, the Congressional Budget Office reported this month. Total debt held by the public stands at $20.38 trillion, up from $19.95 trillion when Mr. Trump took office in January.

Major **stock market** indexes have also steadily soared in that time, but they have not yielded the amount of increased economic growth and federal tax receipts that would be necessary to begin reducing federal debt. Gains in the market, which are pocketed by investors, do not directly reduce the federal debt, which is how much the government owes on its borrowings.

Mr. Trump and his aides have suggested that his tax plan, which still lacks key details but would cut business tax rates sharply and reduce taxes on a wide range of individuals, will spark so much additional economic growth that it will reduce deficits by $1 trillion over the next decade. Under that scenario, the debt would continue to grow, though not as rapidly as previously anticipated. The increase in the federal debt is being driven by a variety of factors, including an aging population that will require additional federal spending on programs such as Social Security and Medicare over the coming decades.

A budget resolution under consideration in the Senate would allow Republicans to pass a tax bill on party lines that would increase deficits by $1.5 trillion over a decade. Some prominent Republicans, including Senator Bob Corker of Tennessee, have said they will not back a plan that would add to deficits, after additional economic growth is taken into account.

Many analysts remain skeptical of the administration's growth promises, and they expressed frustration at Mr. Trump's comments conflating stock appreciation with debt reduction.

"There seems to be way too much pivoting away from the basic fact that we will have to make some hard choices to get our unsustainable national debt under control," said Maya MacGuineas, the president of the Committee for a Responsible Federal Budget, in Washington. "A growing **stock market** is not going to fix that."

Jared Bernstein, a former economic adviser to President Barack Obama and Vice President Joseph R. Biden Jr., called Mr. Trump's comments "one of crazier things I've heard this president say."

"The best I can say on his behalf," Mr. Bernstein said, "is it's mindless, wishful thinking, especially as his team is poised to seriously increase the debt through their big, regressive, unpaid-for tax cut."

As a real estate mogul, Mr. Trump crowned himself the "king of debt," frequently borrowing heavily to finance major acquisitions or new projects. First as a candidate, and now as president, he has often puzzled observers with his comments on federal borrowing.

Mr. Trump once suggested that "massive trade deficits" are to blame for the national debt, a claim many economists challenge. In the spring of 2016, he told The Washington Post's Bob Woodward that he could "get rid" of the entire national debt "over a period of eight years."

Around the same time, he also suggested he would refinance federal debt, telling an interviewer: "I love debt. I love playing with it."

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

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THE WALL STREET JOURNAL.
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Heard on the Street
**For Beijing, The State Now Takes Precedence**

By Nathaniel Taplin
736 words
12 October 2017
The Wall Street Journal
J
B1
English


[Financial Analysis and Commentary]

[First in a Heard on the Street series on China]

China achieved its economic miracle by unleashing the entrepreneurial private sector. With President Xi Jinping poised to further consolidate power at the Communist Party's twice-a-decade leadership shuffle kicking off Wednesday, the narrative of the next five years is becoming clear.

The state is pushing back.

The logic is straightforward. Nominally communist China relies on its vibrant private sector for growth, but state-owned companies are indispensable tools for political patronage, social control and economic policy. Any financial rot in the state sector could weigh on the economy and weaken the Communist Party's grip.

With private business already commanding about 70% of the economy, Mr. Xi and his allies have decided to strengthen state-controlled companies by boosting their market power and easing their debt burdens.

For investors, the implications are significant: higher global goods prices because state-owned companies are notoriously inefficient, and a smaller chance of the long-feared Chinese debt crisis. Corporate debt, which is largely in the state-owned sector, edged down as a percentage of gross domestic product in the second quarter, according to J.P. Morgan Chase, the first decline since 2011. The trade-off is slower Chinese growth. Chinese banks, whose shares are on a tear, will need to keep subsidizing bloated state enterprises. And those enterprises' need for a deep pool of capital inside China means a free-floating yuan will remain a distant dream.

State-owned businesses have been struggling because of their unique role. They benefit from cheap bank loans but give lots in return: Some still run hospitals and schools. Nearly all support more people than they need.

China National Petroleum is one of only three significant upstream oil companies in China, all state-owned. Prices are regulated, but its dominance often allows it to strong-arm customers and the bureaucracy.

Most state-owned enterprises, with less clout, have found themselves fighting nimbler private rivals over a slower-expanding pie in recent years. Their margins have cratered in sectors such as steel, flooded by private capital during the boom years. The aggregate return on assets for the state-owned industrial sector, as high as 6% in 2007, now is barely 3%, not only well below the 7% average for all industrial companies but the average bank lending rate of 5%. The debt of state-owned companies has mushroomed to threaten the entire financial system.

There are two ways to deal with the debt. The government could pay it off or the companies could.

Mr. Xi, apparently believing private companies already have too much influence, has opted to boost the market power of some remaining state-owned enterprises.

Mergers between state-owned giants like power and coal companies Guodian and Shenhua are the most obvious result. China's much-ballyhooed industrial "capacity cuts" are another. Forced steel-mill closures this year, a big factor behind higher global prices, have primarily affected privately owned mills.

Remaining state companies may enjoy fatter profits from the higher prices for basic goods, but they mean higher costs for downstream industries in which the private sector is stronger. The average profit margin for state-owned industrial companies was 6.3% in August, up from 3.8% in early 2016. For private companies, it was 5.7%, nearly exactly where it was a year ago.

China's private sector remains dynamic, and profits in some areas -- like tech -- are increasing rapidly.

But the state is encroaching even on the internet giants, such as when it recently cajoled the likes of Tencent Holdings and Alibaba Group Holding into purchasing 13% of struggling state telecom company China Unicom.

For investors, the tilt back toward the state means that innovative privately owned tech and consumer companies may continue to outperform but probably less so than in the past. State-owned titans, enjoying privileged market positions, may reward investors more reliably: The state-dominated Shanghai **stock market** has roundly outperformed the technology-and-consumer-focused Shenzhen market this year.

Deng Xiaoping, the grandfather of China's economic overhauls, famously said that it was acceptable to let "some people get rich first." The people are far richer than they were three decades ago. Now, it's the state's turn once again.


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The New York Times

Business/Financial Desk; SECTB
**Rate Increase Is on Track Despite Slow Inflation**

By BINYAMIN APPELBAUM
978 words
12 October 2017
The New York Times
NYTF
Late Edition - Final
4
English


WASHINGTON -- The persistence of slow inflation was the dominant topic at the Federal Reserve's most recent policy-making meeting in September, but most officials were still inclined to raise the Fed's benchmark interest rate later this year.

The Fed is likely to raise rates so long as the medium-term economic outlook remains unchanged, according to an official account of the meeting that the Fed published on Wednesday.

The account said that recent hurricanes had not disrupted that outlook. The Fed expects slower growth for a few months, but it does not expect a long-term effect.

The Fed next meets Oct. 31 and Nov. 1, but investors expect the Fed will wait to raise its benchmark rate at its final meeting of the year, in December. The Fed has held rates at a low level to encourage economic growth; by raising rates, it is slowly ending that stimulus campaign.

The Fed said after the September meeting that it would begin to reduce its holdings of Treasury securities and mortgage-backed securities, which it accumulated beginning in 2008 as part of the effort to reduce borrowing costs for businesses and consumers. The Fed is now shaving $10 billion from its portfolio each month. It will add another $10 billion to the monthly total each quarter next year, until it reaches a monthly pace of $50 billion.

The Fed also indicated that it planned to raise its benchmark rate once more this year, following quarter-point increases in March and June. In economic projections released after the meeting, 12 of the 16 officials on the Federal Open Market Committee predicted a third rate hike. Janet L. Yellen, the Fed's chairwoman, reinforced that expectation in a speech in Cleveland a week later.

Ms. Yellen reviewed the reasons to worry about low inflation but concluded that the weight of evidence did not warrant a shift in the Fed's plans. ''Given that monetary policy affects economic activity and inflation with a substantial lag, it would be imprudent to keep monetary policy on hold until inflation is back to 2 percent,'' she said.

But the minutes of the September meeting said that ''a few'' Fed officials opposed another 2017 rate move, and that ''several others'' remained on the fence.

Charles Evans, the president of the Federal Reserve Bank of Chicago, is among the skeptics. ''There's room for a very honest discussion later this year as to whether or not it's the right time to raise rates,'' Mr. Evans told Bloomberg News on Wednesday.

The divisions are not about the economic outlook. The account noted that all participants agreed that economic activity during the summer months was in line with the Fed's expectations ''and that the incoming data had not materially altered the medium-term economic outlook.''

The Fed expects the recent hurricanes to bring down the figures for third-quarter growth, but it anticipates a rebound in the fourth quarter and little impact from the storms going forward.

The issue is the behavior of inflation. The Fed aims to keep inflation at an annual pace of about 2 percent, but it has undershot that goal consistently since the financial crisis, and the Fed says it expects to miss the target again this year.

A majority of Fed officials, led by Ms. Yellen, continue to subscribe to the view that inflation is just around the corner.

"Many participants continued to believe that the cyclical pressures associated with a tightening labor market or an economy operating above its potential were likely to show through to higher inflation over the medium term," the account said.

Those officials want to raise interest rates so long as the economy keeps growing.

"The Fed's models tell them that an economy at full employment eventually produces more inflation down the road and they want the Fed funds rate to be back to normal levels before that happens," said Chris Rupkey, chief financial economist at Mitsubishi UFJ Financial Group.

Some also want to raise rates because they are concerned that markets are not responding to the Fed's pressure. The Fed raises its benchmark rate to tighten financial conditions, including borrowing costs, but conditions have eased so far this year.

The yield on the benchmark **10**-**year Treasury** has fallen almost 5 percent this year; the decline was even deeper before it began to bounce back last month.

William C. Dudley, the president of the Federal Reserve Bank of New York, has highlighted the market's equanimity as a reason to keep raising interest rates, noting in a speech this month that financial conditions have eased since last December even as the Fed has raised its benchmark rate by three-quarters of a percentage point, a substantial increase.

The dissidents are less unified in their critiques. Some argue that employment has room to grow. The share of prime-age adults with jobs remains below the level before the recession. The account also pointed to the "absence of broad-based upward wage pressures."

Some officials also see evidence that other factors may be weighing on inflation. The account noted that inflation is low in other advanced economies, and there has been some erosion in market expectations of future inflation, which can become a self-fulfilling prophecy.

Those worries have occupied a larger portion of the official minutes with each passing meeting this year, reflecting the growing puzzlement and concern among officials. "Many participants expressed concern that the low inflation readings this year might reflect not only transitory factors but also the influence of developments that could prove more persistent," it said.

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Janet L. Yellen, the Federal Reserve chairwoman, last month. (PHOTOGRAPH BY JOSHUA ROBERTS/REUTERS)

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THE WALL STREET JOURNAL.
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**Lessons From the Sorry History of Steel Protectionism**

By Bill Lane
937 words
11 October 2017
The Wall Street Journal
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A19
English


So far the Trump administration's process for evaluating how to help the U.S. steel industry has been remarkably responsible. On the campaign trail, Donald Trump promised a smorgasbord of protectionist measures. This year, in part because of the administration's deregulatory efforts, the economy has grown faster, jobs have been created quicker, and the **stock market** has reached record highs. Yes, ending America's participation in the Trans-Pacific Partnership was a lost opportunity, but until recently the renegotiation of the North American Free Trade Agreement has been handled constructively. Aside from new tariffs on Canadian lumber, the protectionist extravaganza many expected -- including me -- hasn't materialized.

Commerce Secretary Wilbur Ross and U.S. Trade Representative Robert Lighthizer deserve credit particularly for how they've handled steel. They clearly don't want to wreck the economy by starting a trade war, but at the same time they recognize Mr. Trump still wants big tariffs on steel imports. It isn't the first balancing act performed on an I-beam during the past 50 years, as the steel industry has insisted its unique circumstances demand "special" protections far beyond what other industries are allowed.

During the late 1960s and early '70s, steel imports from the European Economic Community (now the European Union) and Japan were restricted via voluntary restraint agreements -- a nice way of saying import quotas. To persuade other countries to not retaliate, the U.S. in effect exempted them from its trade laws and rewarded them with a guaranteed share of a restricted American steel market. That was a way to share the premium generated from the protectionism. Everyone won except taxpayers, consumers, and -- especially -- America's steel-using manufacturers.

This approach gave way in the late 1970s to a notion called trigger price mechanisms. The idea was that if importers didn't charge enough for steel, trade cases would be expedited. At least with the trigger the remedy was antidumping, so that countervailing duties went to the U.S. Treasury, not foreign producers

But the trigger didn't provide enough protection, so quotas were revisited, this time on a grandiose scale. In 1984 the U.S. imposed binding steel quotas -- still called "voluntary" -- on 19 countries and the EEC. Canada was the only major steel-producing country with the political clout to resist. The measure was supposed to last five years. From the steel industry's point of view, it worked. There were shortages, which increased prices. The steel industry became more profitable -- more so, in fact, than many of its customers. Some of the windfall was used to improve the quality and efficiency of domestic mills, but much of it was diverted to foreign steelmakers to keep them complicit.

By the late 1980s, high steel prices and quota-induced shortages were undermining factory efficiency as just-in-time processes gave way to just-in-case workarounds. Unconcerned, the steel industry demanded five more years of even tighter quotas.

That launched a political fight sometimes called the Steel Wars. A robust coalition of American steel users -- led by Caterpillar, where I worked -- was formed to push for an end to the quotas. Big companies provided much of the political access, but what carried the day was the hundreds of small metal-bending concerns represented by the Precision Metalforming Association. Congress quickly learned that 30 times as many people worked in factories using steel than in mills making it -- and they were mad. Most of them seemed to be located in the same congressional districts as steelworkers.

After a feisty policy debate, President George H.W. Bush and Congress agreed it was time for a new steel policy. The quotas were relaxed, then phased out completely in 1992. Steel producers started to rely on the same trade rules everyone else did. In 1998 the industry asked the Clinton administration for comprehensive import relief via the World Trade Organization's safeguard provision. It was a strong case, but Bill Clinton said no. Four years later, when the steel industry had a weaker case, George W. Bush imposed 30% tariffs. Steel users again pushed back. Eventually the Bush steel tariffs were challenged in the WTO and rejected. So they were ended early.

Given this history, will the Trump administration impose new steel import restrictions? Today, steel prices in the U.S. are at a three-year high, and there is growing demand in China. The Commerce Department and trade representative are looking at options, including aggressive enforcement of existing trade laws and new quota-like remedies. Fortunately everyone seems to realize that a misstep, such as a flagrant imposition of tariffs or quotas, would certainly trigger foreign retaliation against American farmers, ranchers and manufacturers.

The strong economy may provide political space for another option. Instead of pitting American steel producers against their American customers, Mr. Trump could focus on improving competitiveness for all. The administration could provide lower taxes, possibly including tax credits, to help modernize steel mills and factories alike. Safety and training programs could be enhanced to help all workers. And a robust infrastructure program would both increase steel demand and improve efficiency for all. What are the chances this will happen? Slim, but better than I imagined six months ago.

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Mr. Lane is a retired director of global governmental affairs at Caterpillar Inc. He was also a leader of the Coalition of American Steel Using Manufacturers.

(See related letter: "Letters to the Editor: China: A Company Disguised as a Country" -- WSJ Oct. 17, 2017)



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The New York Times

Business Day
**BlackRock, the World's Biggest Money Manager, Expands Again**

By LANDON THOMAS Jr.
590 words
11 October 2017
10:15 AM
NYTimes.com Feed
NYTFEED
English


BlackRock, the world's largest asset manager, is getting even larger.

The company said Wednesday that it had taken in $264 billion in new funds so far this year, bringing its total assets under management to a staggering $5.9 trillion. BlackRock is the beneficiary of a global rush by investors to place their money in so-called passive investments, rather than the traditional actively managed mutual funds.

The influx of money — along with soaring **financial markets** — helped boost Blackrock's profits for the third quarter, which were up 13 percent.

Of the $96 billion in new money that BlackRock brought in during the third quarter, most of it, $52 billion, came into its exchange-traded funds business, which operates under the brand iShares.

BlackRock, along with its chief competitor, Vanguard, has been at the forefront of the recent boom in passive investing, cashing in on investor frustration with mutual funds, which charge higher fees and, of late, have not performed on par with **stock market** indexes.

Together, these two investment giants now oversee more than $10 trillion in assets.

Exchange-traded funds track all the broad stock and bond market indexes as well as a wide range of investment strategies, some of which are designed to replicate the approaches of portfolio managers picking value or growth stocks.

BlackRock now oversees $1.6 trillion in E.T.F.s, by far the most in the industry, and its leadership has made it clear that these types of investment funds represent the future for BlackRock. And the results this quarter reveal why: funds with active strategies took in $5.7 billion while passive offerings attracted $70 billion.

In an interview, BlackRock's chief executive, Laurence D. Fink, said that he was not worried about regulators' concerns that stock markets are getting too frothy.

At a news conference on Wednesday, top officials at the International Monetary Fund warned bluntly about rising asset prices and investors pushing aggressively into high-risk, high-return stocks and bonds.

Mr. Fink highlighted uniform global growth, political stability in Germany and France and the prospect of stronger earnings this quarter as solid reasons for investor optimism.

He also cited a growing willingness by global investors to tune out political controversy, be it concerns about Catalonian independence from Spain or the latest tweet from President Trump.

"The world is more resilient than it has been in 10 years," Mr. Fink said. "Politically, people may be frightened but economically they are feeling much better."

The stellar earnings report comes at a propitious time for the asset management giant. Large institutional investors have been embracing the firm's tactic of promoting broad investment strategies that rely more on computer models and formulas to drive investment returns.

Third Point, a hedge fund known for taking large stakes in companies and then pushing for change to boost returns, took a position in BlackRock last August. And Wall Street brokerages also have been recommending that investors buy the company's shares.

So far this year, BlackRock's shares have risen 22 percent, outpacing the broader 14 percent return for the **Standard & Poor**'**s500 stockindex**.

* At BlackRock, Machines Are Rising Over Managers to Pick Stocks

* At BlackRock, a Wall Street Rock Star's $5 Trillion Comeback

BlackRock's third-quarter results showed a 13 percent increase in profit, and the influx in new funds brought its assets under management to $5.9 trillion. | Justin Lane/European Pressphoto Agency

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The New York Times

Business/Financial Desk; SECTB

**Walmart and Airlines Bolster Markets**

By THE ASSOCIATED PRESS
674 words
11 October 2017
The New York Times
NYTF
Late Edition - Final
3
English


A big jump for Walmart Stores helped the **Dow Jonesindustrial average** set a record on Tuesday, while gains for other retailers and airlines sent other stock indexes higher as well.

Airlines rose after strong forecasts from American and United Continental. Utilities and smaller companies also climbed, while banks edged higher as investors prepared for the financial sector to start reporting its third-quarter results in a few days. Walmart notched its biggest gain in almost a year and a half after the company said it expects digital sales to rise 40 percent in its next fiscal year. It also plans to buy back $20 billion in stock over two years.

The **Standard & Poor's 500**-**stockindex** added 5.91 points, or 0.2 percent, to 2,550.64. The **Dow Jonesindustrial average** gained 69.61 points, or 0.3 percent, to 22,830.68. Walmart was responsible for almost half of that gain. The **Nasdaq composite** index picked up 7.52 points, or 0.1 percent, to 6,587.25. The Russell 2000 index of smaller-company stocks rose 4.44 points, or 0.3 percent, to 1,508.01.

Walmart has invested billions in its e-commerce business in recent years. Katie Nixon, chief investment officer for Northern Trust Wealth Management, said Walmart's online business is critical to its survival, so investors were glad to see signs of success.

''There's very little retail loyalty now,'' she said. ''Consumers just want choice, price and convenience.''

Walmart gained $3.60, or 4.5 percent, to $84.13. Target rose $1.35, or 2.4 percent, to $57.60, and Amazon declined $3.79 to $987.20 after a four-day winning streak.

Airlines rose after American raised an important revenue forecast and United Continental predicted bigger profit margins. United jumped $3.02, or 4.7 percent, to $67.72, and American rose $2.43, or 4.8 percent, to $53.03. Delta gave a positive update of its own a week ago, and on Tuesday it added 96 cents, or 1.9 percent, to $52.70.

The chip maker Nvidia will work with Deutsche Post DHL to start testing autonomous delivery trucks in 2018. The stock rose $3.54, or 1.9 percent, to $188.93. Nvidia is up tenfold over the past three years.

Procter & Gamble stumbled after saying its shareholders did not elect the activist investor Nelson Peltz to its board. Preliminary vote totals showed a close result, and Mr. Peltz did not immediately concede defeat.

Procter & Gamble started the day higher but finished with a loss of 50 cents at $91.62.

The industrial conglomerate Honeywell lost 29 cents to $143.31 after it said it will split up.

Pfizer said it might sell or spin off its consumer products business and expected to make a decision next year. It rose 26 cents to $36.40.

Benchmark United States crude oil added $1.34, or 2.7 percent, to $50.92 a barrel in New York. Brent crude, used to price international oils, gained 82 cents, or 1.5 percent, to $56.61 a barrel in London.

Wholesale gasoline added 3 cents to $1.59 a gallon. Heating oil picked up 3 cents to $1.76 a gallon. Natural gas jumped 6 cents to $2.89 per 1,000 cubic feet.

The dollar slipped to 112.37 yen from 112.69 yen. The euro rose to $1.1804 from $1.1752.

Gold climbed $8.80 to $1,293.80 an ounce, and silver jumped 24 cents to $17.21 an ounce. Copper rose 3 cents to $3.06 a pound.

**Bond prices** moved higher. The yield on the **10**-**year Treasury** note slipped to 2.35 percent from 2.36 percent.

CHARTS: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Tuesday. (Source: Reuters); 3-Month Treasury Bills: High rate at weekly auction. (Source: The Bond Buyer)

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THE WALL STREET JOURNAL.
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**Banking & Finance: Vanguard Adds $300 Billion to Arsenal --- Inflow in first nine months of 2017 nearly matches the results for all of last year**

By Sarah Krouse
533 words
11 October 2017
The Wall Street Journal
J
B16
English


Investors plowed nearly $300 billion into Vanguard Group funds in the first nine months of this year, nearly matching flows into the firm for all of 2016, in the latest affirmation of the primacy of low-cost passive investing.

The torrent of investor money extends a winning streak for the Malvern, Pa., firm, which has emerged as one of the chief beneficiaries of Americans' embrace of index funds during an eight-year-old U.S. stock **bull market**.

Vanguard has been the fleetest among many firms on Wall Street in offering consumers cheap, easy ways to act on a simple idea: Most actively managed mutual funds trying to pick winning stocks don't perform well enough to justify the fees they charge.

The concept, embraced by Vanguard founder John C. Bogle in 1975, has since spread in varying degrees into a host of other asset classes, from bonds to currencies. In some of these markets, the rise of passive products has only recently begun.

"It's a high cost/low cost debate," said Vanguard Chief Executive Officer F. William McNabb III in an interview Tuesday. "Last year was one that I never thought we'd see again," in terms of firmwide flows, he added.

Vanguard's assets topped $4 trillion for the first time at the end of January and have continued their upward climb since, now reaching $4.7 trillion. The firm's rise and the growth of passive investing broadly are prompting changes spanning the financial world, from corporate governance to market structure.

At the same time, many investors fret that the passive revolution that has fed the growth of Vanguard and rivals such as BlackRock Inc. is itself creating a series of structures that haven't been tested and could be vulnerable to unpredictable behavior in a downturn.

"I don't think that there's much that changes these flows until we have a negative market," said Daniel Wiener, editor of the Independent Adviser for Vanguard Investors, an independent newsletter that follows Vanguard funds. "I can't tell you when that happens, but when it does there will be a lot of very surprised investors," he added.

Mr. McNabb acknowledged that a sharp downturn would "certainly" cause investors to dial back their investments in the **stock market**. Such a move could at least slow down the surge of money into passive investments.

He added, today, "you're still seeing the highest level of flows into riskier assets than at any time in my career."

Vanguard long set itself apart as a firm owned by its fund shareholders that offered rock-bottom fees and refused to pay for distribution of its funds. It started the first index fund for individual investors 40 years ago.

This year, some $516 billion has flowed into U.S. mutual funds and exchange-traded funds, according to research firm Morningstar Inc., with the vast majority of that investor cash flowing into index funds such as ETFs.

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Rob Copeland contributed to this article.



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Heard on the Street
**Overheard**

221 words
11 October 2017
The Wall Street Journal
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B18
English


[Financial Analysis and Commentary]

Former Federal Reserve Chairman Alan Greenspan stayed true to his libertarian intellectual roots on Tuesday, arguing that government spending is at the root of what ails the U.S. economy.

Speaking at a conference held by Grant's Interest Rate Observer, Mr. Greenspan said entitlement spending in particular is largely responsible for the stagnation of productivity growth in the U.S. since 2009 because it crowds out private savings and investment. U.S. markets may be entering a period of "euphoria" in the near term, but it will be a "false dawn" followed by stagflation "unless we can slow down or actually reverse entitlements." He added what could be read as criticism of postcrisis global monetary policy.

He sounded a lot like one James Grant, the editor of Grant's Interest Rate Observer and a prominent critic of low-rate policies under recent Fed governors and Mr. Greenspan himself. Before an audience of famous short sellers and hedge-fund managers, Mr. Grant asked Mr. Greenspan how he would invest given this gloomy scenario. Mr. Greenspan began explaining that he believes it is best to constantly invest in **stock index** funds before he was gently interrupted by his host.

"This isn't the crowd for that," said Mr. Grant.



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The New York Times

Business Day

**Yale Endowment, Often a Pacesetter, Is a Laggard This Time**

By GERALDINE FABRIKANT
646 words
10 October 2017
05:39 PM
NYTimes.com Feed
NYTFEED
English


Yale University's endowment, the second largest among the nation's colleges, has been distinguished in recent years for its handsome returns — and for turning out money managers who follow the investment principles of its chief, David F. Swensen. But its latest report card, issued Tuesday, was disappointing.

At a time when many of the largest endowments are reporting gains in the midteens, Yale said it generated an 11.3 percent return for the fiscal year ended June 30, bringing its value to $27.2 billion.

Among the better performers were the Massachusetts Institute of Technology, which registered a 14.3 percent increase; Stanford University, with a 13.1 percent return, and Princeton, with 12.5 percent growth. Dartmouth, a far smaller school with a $4.96 billion endowment, appeared a strong winner with a 14.6 percent return. A number of the larger schools have yet to release returns.

The Yale endowment also trailed the mean one-year return — 12.7 percent — of 450 institutions tracked by Cambridge Associates, which manages money in the nonprofit sector.

Yale's return did outpace that of the biggest university endowment, Harvard's, which managed a return of 8.1 percent.

In a telephone interview, Mr. Swensen noted Yale's modest holdings in domestic equity markets — about 4 percent of its holdings — which reduced its exposure to risk. "Last year that helped," he noted, helping it to post a gain when many others were showing lackluster returns or a loss. But in the most recent year, the allocation curtailed Yale's gains from a booming **stock market**.

Yale continues to diversify its holdings into hedge funds, where it has 25 percent of its assets, and venture capital, with a 17 percent stake, in addition to foreign equity, leveraged buyouts and real estate, as well as some bonds and cash. That diversification strategy, which Mr. Swensen pioneered, is widely followed by larger institutions.

Indeed, the leaders of the M.I.T., Stanford and Princeton endowments — Seth Alexander, Robert F. Wallace and Andrew Golden, — all trained at Yale. The strategy of using outside managers to handle these diverse asset groups has been widely imitated.

One holdout had long been Harvard, where a large chunk of the endowment was managed internally. But under its new chief, N. P. Narvekar, more of the funds will be overseen by outside firms as Harvard shrinks its own staff.

The diversification approach at many of the largest endowments has generated some skepticism in an era when stock markets have been strong. But over a 20-year period ended June 7, Yale pointed out in its release Tuesday, the endowment produced an average annual return of 12.1 percent — outperforming domestic stocks, which returned 7.5 percent, and domestic bonds, which returned 5.2 percent.

Endowments are a crucial component of university budgets. During the financial crisis of 2008, when many endowments plummeted in value, some schools had to cut spending significantly. Distributions from the Yale endowment to the operating budget have increased at an annualized rate of 9.2 percent over the past two decades. It is the university's largest source of revenue, and in the current fiscal year, it is expected to contribute $1.3 billion, roughly 34 percent of the university's operating budget.

* Harvard Endowment Reports 'Disappointing' 8.1 Percent Return

* Endowment Sweepstakes: How Tiny Houghton College Beat Harvard

* The Money Management Gospel of Yale's Endowment Guru

Yale University in New Haven, Conn., has modest holdings in domestic equity markets, which at one time protected its endowment from a loss but which now may have reduced its gains in a strong **stock market**. | Andrew Sullivan for The New York Times | David F. Swensen, the chief investment officer at Yale. | Driely Schwartz Vieira for The New York Times

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**Streetwise: The False Prophet of 'Long-Term Investing'**

By James Mackintosh
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10 October 2017
The Wall Street Journal
J
B1
English


A decade to the day since the precrisis peak of U.S. stocks, it has become easier and easier for investors to take a long-term view. Those who bought on the day the **S&P 500** hit its top on Oct. 9, 2007, and held on through the subsequent panic and market collapse, have more than doubled their money, including dividends.

Better still, they have performed not much below what the market has delivered throughout history, despite the worst crash in generations. The **S&P 500** has returned an annualized 5.6% above inflation, including dividends, against a return over the previous two centuries calculated at 6.5%-7% by Jeremy Siegel, a Wharton finance professor and author of "Stocks for the Long Run."

This apparent triumph for long-termism comes as many large investors are expressing concern about exactly the opposite, the damage that short-termism is doing the economy. Academics, central bankers and big money managers worry that companies aren't investing enough, and that it is at least in part because of a dysfunctional finance system. Shareholders with a short-term view encourage management to focus even more on the short run, resulting in sensible long-term projects being ditched to hit quarterly targets.

There is something in this. Next week, think tank FCLT Global, backed by some of those most vocal about the dangers of short-termism -- including BlackRock Inc. Chief Executive Officer Larry Fink, McKinsey & Co. and several large Canadian pension funds -- will launch an assault on quarterly earnings guidance. They are right: Companies that provide quarterly earnings guidance feel obliged to hit their numbers, with shareholders ready to penalize them if they miss. The guidance means any upset to business creates an incentive either to meddle with the accounts or to cut planned investment when earnings fall short. Both are obviously bad for shareholders, and quarterly guidance should end.

FCLT's Sarah Williamson suggests other behavioral nudges -- similar to those from Richard Thaler, who on Monday won the Nobel Prize in economics -- such as listing long-term performance before short-run results in mutual-fund marketing.

These and other tweaks make sense, but the broader problem of low investment isn't so obvious. It is true that corporate investment in the U.S. was low after the financial crisis and took longer than usual to recover. Yet, it has now largely recovered, at a gross level. The cleanest measure of private investment strips out housing and changes in inventories, and stood at 12.6% of the economy in the second quarter -- on par with 1986, 1996 or 2006.

Still, companies are investing less in the U.S. than at the peak of every economic cycle since the mid-1970s, and when residential construction or depreciation is included it looks even worse. That has worried many who think low interest rates ought to prompt companies to invest, including lots of central bankers and politicians.

There are two decent arguments for why low rates don't make companies rush out to invest. The first is simple signaling: Low rates tell chief executives that the economic outlook is grim, so naturally they choose not to invest.

The second is kind of the point of low rates. Central banks cut rates to encourage consumption and discourage saving, to boost the economy. It worked. But investors discouraged from saving have sent a clear signal to CEOs, pushing up the shares of companies that give cash back to shareholders via dividends and buybacks. CEOs who want to maximize their bonuses shouldn't go on an investment splurge. It may be that eventually higher consumption uses up capacity and leads to more investment, but in themselves superlow rates should be discouraging investment.

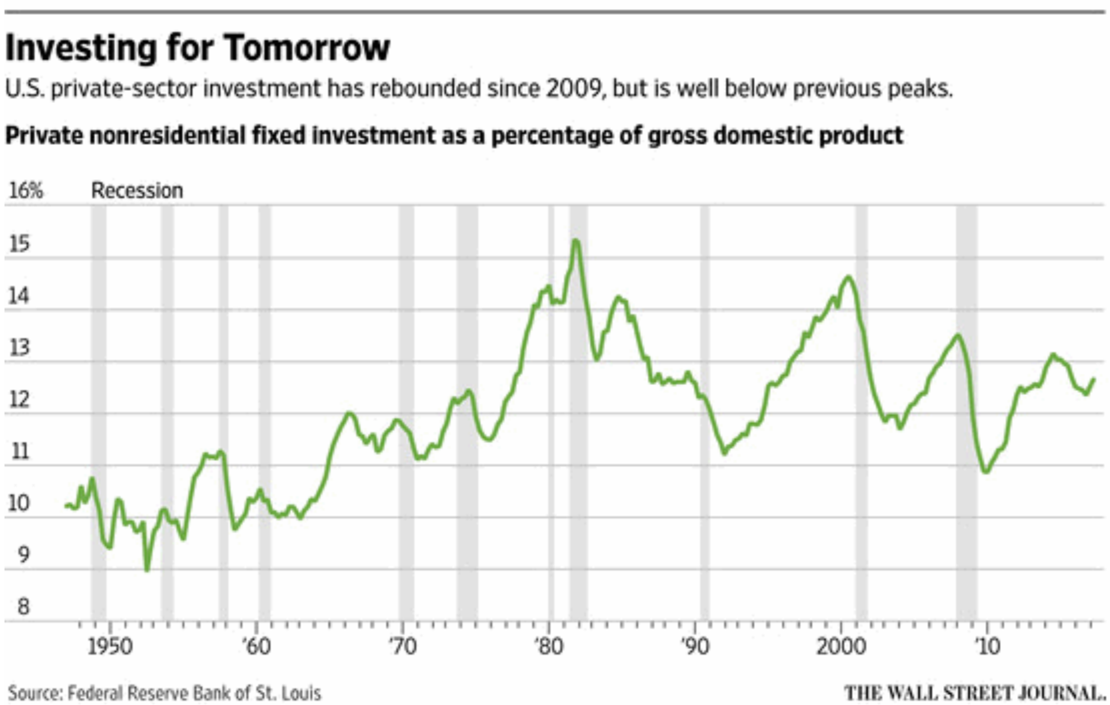
There are supporting arguments to justify lower investment, too. China has been overinvesting and accepting a low return on capital; why would a U.S. company invest when China is willing to do it more cheaply on their behalf? American consumers get cheaper products, and China gets factories. The aftermath of the 2007-08 financial crisis also naturally suppressed investment, both from fear of a repeat and from banks pulling back from lending.

Perhaps the strongest reason not to worry too much about corporate investment is that, in the past decade, capital has followed the fashions just as it always has.

When it looked like miners would profit from "peak everything" as China boomed in the post-2009 recovery, shareholders cheered on the construction of vast new holes in the ground. When Chinese demand slowed, mining CEOs were fired and replaced with accountants charged with limiting capital spending. Something similar is under way in London, where a five-year construction boom in luxury apartments has turned sour.

Disruptive new technologies from Silicon Valley and elsewhere are most obviously attracting more capital than they can use, in a boom that has gone on for years. Companies showered with cash in the private markets have less incentive to go public than in the past, while those that are listed can splash billions of dollars on new headquarters and vast facilities without shareholder complaints.

There is a genuine problem from the short-termism of investors creating the wrong incentives for corporate management. But investors should be careful about generalizing from that to the assumption that overall capital spending is too low. After all, the whole point of investing is to consume at some point in the future. Maybe that moment has arrived.



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THE WALL STREET JOURNAL.
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Heard on the Street
**How Fair Are the Trump Tax Cuts?**

By Justin Lahart
465 words
10 October 2017
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B13
English


[Financial Analysis and Commentary]

Whether the rich would be the biggest beneficiaries of tax-reform efforts is a matter of fierce political debate. But they would likely be among its first beneficiaries, and for investors that alone would matter.

The tax-code outline Republicans released at the end of September lacked many details, and major components of it, including repeals of the estate tax and the individual deduction for state and local taxes, already are looking tenuous. As it stands, though, the top 1% of households would get an average tax cut of $129,030 in 2018, according to an analysis by the Tax Policy Center, while the remaining 99% wouldn't fare nearly as well.

A big assumption behind that figure is how much corporate tax cuts would benefit the rich.

Companies' ultimate shareholders, lenders and employees are all individuals. The Tax Policy Center assumes shareholders and lenders pay 80% of the corporate tax through lower income, with the remainder paid by workers through lower wages.

Under those terms, the corporate tax cut would deliver outsize benefits to the rich, who hold far more stocks and debt than their lower-income counterparts. According to recently released Federal Reserve data, as of last year 95% of families in the top 10% by income hold stocks directly or indirectly through mutual funds and the like. The median value of stockholdings among those families that held them was $365,000. In contrast, 52% of families in the middle-income quintile held stocks, with a median value -- just for families who held stocks -- of only $15,500.

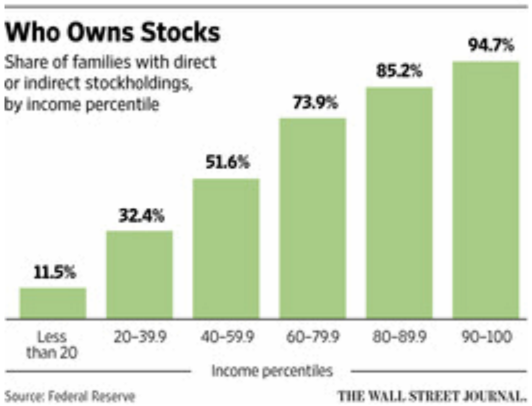
Change the assumptions around so that workers pay a greater share of corporate taxes than the Tax Policy Center estimates, and a corporate tax cut benefits the middle class more.

But before wading into the great corporate-tax-incidence debate, investors might want to consider who experiences the benefits of a corporate tax cut first: Probably the rich, since companies are more likely to respond to an influx of money by either holding on to it or paying it out in dividends. And don't forget asset values. If the **stock-market** response to a tax-cut-induced increase in earnings is to push share prices higher, shareholders will become wealthier right away.

One implication for investors is that the initial boost to consumer spending wouldn't be as strong as it would be if the cuts more directly go toward the middle class.

That is because the richer people are, the less they respond to income and wealth gains by spending more.

Another is that companies that cater to the hoity-toity over the hoi polloi would see sales pick up first.



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THE WALL STREET JOURNAL.
U.S. EDITION

**Ten Years After S&P 500's Precrisis Peak --- While major indexes are again setting records, some market sectors haven't fully recovered**

By Akane Otani and Tom Destefano
297 words
10 October 2017
The Wall Street Journal
J
B13
English

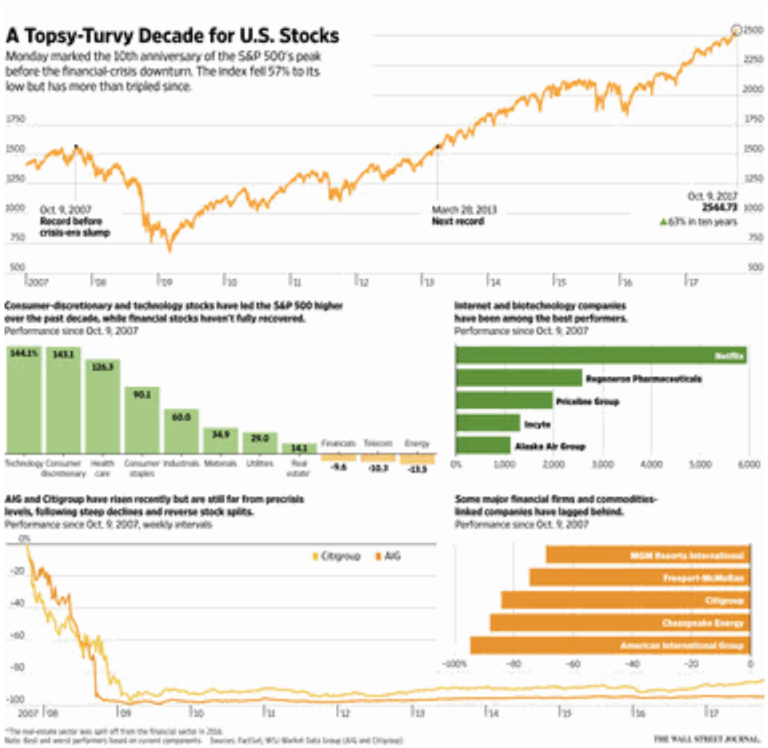

By the summer of 2007, U.S. investment banks and the Federal Reserve were struggling to contain the fallout from the mortgage meltdown, but many investors were still betting a crisis would be averted. The **S&P 500** closed at a record on Oct. 9, 2007. It would be its last until March 2013.

That Oct. 16, Citigroup Inc. reported a 57% drop in profit after it had to write down bets on mortgage-backed securities and loans to fund deals -- showing how deeply the summer's credit crisis hit its business and driving up anxiety over its future.

Merrill Lynch & Co. posted a $2.24 billion loss for the quarter on Oct. 25, as it took a $8.4 billion hit from revaluing bonds backed by mortgages and other write-downs. Merrill Chief Executive Stan O'Neal resigned shortly thereafter. Countrywide Financial Corp. posted its first quarterly loss in 25 years on roughly $1 billion in write-downs late that month. Both Merrill and Countrywide would eventually be bought by Bank of America Corp.

In the months that followed October 2007, stock indexes plunged, the U.S. economy fell into recession and central banks around the world began providing an unprecedented amount of monetary stimulus to stave off a deepening financial crisis.

Although major indexes are now back at record highs, thanks to a combination of a brightening global outlook, solid earnings growth and still-accommodative monetary policy, some areas of the U.S. **stock market** have yet to fully recover from the losses they sustained a decade ago.

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The New York Times

Business/Financial Desk; SECTB
**Health Care Leads Markets Lower**

By THE ASSOCIATED PRESS
626 words
10 October 2017
The New York Times
NYTF
Late Edition - Final
4
English


Losses for health care companies and banks left stocks lower in the United States on Monday after a quiet day of trading. Industrial conglomerate General Electric skidded after announcing more changes in its leadership.

Companies that distribute or sell prescription drugs continued to slide following speculation that Amazon plans to get into that business, something the company has not confirmed.

Banks dipped after a big rally over the last month and technology companies continued to climb. Smaller, more domestically focused companies declined as investors tried to gauge the odds for tax cuts.

Stocks have rallied lately as investors hope tax cuts proposed by the Trump administration will boost corporate profits. But over the weekend President Trump entered a war of words with Senator Bob Corker, a retiring Republican with a reputation as a budget hawk. Republicans have a narrow majority, and losing just a few votes could derail a bill.

''There really is not much leeway there,'' said Mona Mahajan, United States investment strategist for Allianz Global Investors. ''They somehow have to get their act together.''

The **Standard & Poor's 500**-**stockindex** dipped 4.60 points, or 0.2 percent, to 2,544.73. The **Dow Jonesindustrial average** shed 12.60 points, or less than 0.1 percent, to 22,761.07. The **Nasdaq composite** fell 10.45 points, or 0.2 percent, to 6,579.73, which ended a nine-day winning streak.

Stock trading was light because of the Columbus Day holiday in the United States. Bond trading was closed.

General Electric slipped after it named Ed Garden of Trian Fund Management to its board of directors. Trian, the activist investment firm founded by Nelson Peltz, has been pushing the conglomerate to slim down. G.E. lost 96 cents, or 3.9 percent, to $23.43. It's down 26 percent this year.

G.E. has announced slew of changes in its leadership this month. John Flannery replaced Jeffrey Immelt as chief executive a week ago, months ahead of schedule. On Friday G.E. said its chief financial officer, Jeffrey Bornstein, will leave at the end of the month. Two vice chairs are also retiring.

Health care companies did worse than the rest of the market. Companies that distribute or sell prescription medicines or administer prescription drug benefits tumbled for a second day as investors continued to worry about Amazon entering the prescription drug business. Analysts raised that possibility Friday. Amazon has declined to comment.

Pharmacy benefits manager Express Scripts lost $3.14, or 5 percent, to $59.22, while Walgreens gave up $2.33, or 3.2 percent, to $70.87, its lowest close in a year and a half.

Three major hurricanes hit the United States in the last two months, and experts expect that to affect economic growth and corporate profits.

''One of the sectors that we think is going to get hit is the insurance sector because they're going to be paying out all these claims,'' said Mahajan, of Allianz. She said the storms will reduce third-quarter economic growth by 0.4 percent. Historically, the economy bounces back from major storms quickly as people rebuild damaged areas.

Benchmark United States crude rose 29 cents to $49.58 a barrel in New York as Tropical Storm Nate moved away from the Gulf Coast, where much of United states crude is drilled and processed.

Gold added $10.20 to $1,281.80 an ounce.

The dollar slipped to 112.57 yen from 112.65 yen. The euro rose to $1.1751 from $1.1731.

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

Document NYTF000020171010edaa0002f

 

THE WALL STREET JOURNAL.
U.S. EDITION

**Banking & Finance: ETF Trading Slumps**

By Chris Dieterich
350 words
10 October 2017
The Wall Street Journal
J
B11
English


Another signal of **financial-market** tranquility: Daily turnover in exchange-traded products is plunging relative to the trading of single stocks.

Daily trading volume in ETPs, a catchall that includes both exchange-traded funds and notes, averaged $66 billion in September, well below the **bull-market** average of $70.2 billion, according to data from Credit Suisse. The 30-day average of ETP trading as a proportion of total U.S. exchange volume ended last month at 24.8%, well below the 28% long-term average and near the lowest readings in three years.

The falling proportion of ETP trading volume indicates that portfolio managers are standing pat in their positions, loath to reshuffle with equity benchmarks hitting fresh highs and corporate bonds in rally mode.

ETP volume tends to rise and fall with market **volatility**, so it is logical that sluggish volume would coincide with ultralow readings on the CBOE**Volatility** Index.

In January of 2016, when the **S&P 500** swooned amid concerns about the global economy and currency fluctuations in China, the 30-day average of ETP volume rose above 33% in multiple trading sessions.

And in 2009, when the U.S. economy was crawling out of recession and equity markets were rebounding from the financial-crisis lows, daily ETP trading volume averaged more than 32% of total exchange trading.

Fast-forward to 2017, and the 30-day average ETP trading volume has yet to top 30% of total volume on any day.

The recent slowdown in ETP trading is also noteworthy because there are now more ETP shares in the market compared with equities. From 1996 through 2016, the number of listed U.S. stocks dropped by roughly 50% because of an increase in mergers and a slowdown in initial public offerings of shares, according to Credit Suisse.

And the slower trading comes despite growing investor demand to own ETPs. Some $41 billion in new money entered ETPs last month while about $19 billion exited from domestic equity mutual funds.



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THE WALL STREET JOURNAL.
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**Investing in Funds & ETFs: A Quarterly Analysis --- Quarterly Monitor: U.S.-Stock Funds Rose 4.2% During the Third Quarter But Cash Flowed Overseas**

By William Power
437 words
9 October 2017
The Wall Street Journal
J
R2
English


It's October, and investors don't seem overly worried about ghosts in the **stock market**.

But just in case, they are increasingly taking a peek overseas, where valuations might be more friendly.

In the third quarter, U.S. stocks and stock funds rose once again, on the back of solid corporate earnings and hope for tax overhaul in Washington. It is far from a frenzy -- instead, trading has been slow and relatively calm. The average diversified U.S.-stock fund had a total return of 3% in September to complete a 4.2% advance for the quarter and push the year-to-date gain to 12.3%, according to Thomson Reuters Lipper data.

International-stock funds once again did even better -- up 2.2% in the month, 5.9% in the quarter and now boasting a 21.9% advance so far this year. Emerging-markets funds in particular are hot, up 26.5% for the year.

The reason for the global bent: With U.S. stocks at highs, overseas markets are offering more-attractive prices, many fund managers and strategists say.

"When we look at the economic cycle in the U.S., it looks good. It looks remarkably similar to the previous eight years," says Stephen P. Wood, chief market strategist for Russell Investments in New York. However, "our continuing concern is [stock] valuations in the U.S."

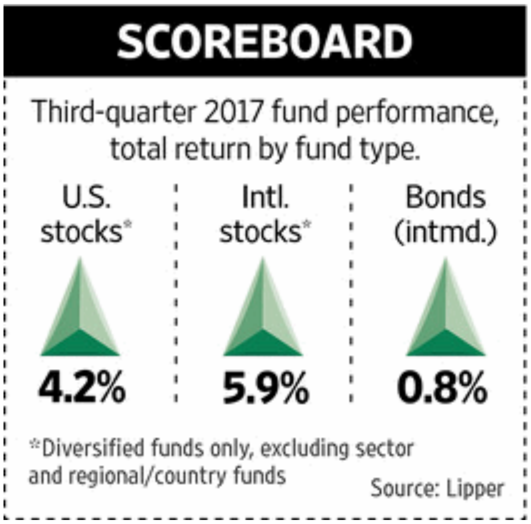
"For many U.S.-dollar-based investors, after an 8 1/2-year run, this typically may be a good opportunity to rebalance and do some rigorous global work," he says.

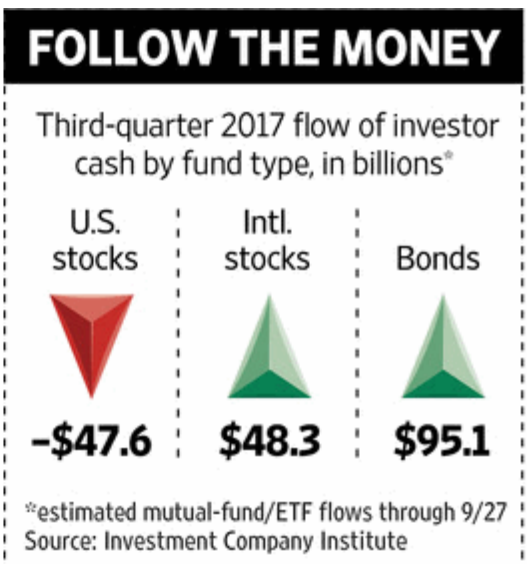
And that is exactly what many fund investors have been doing, judging by fund-flow numbers.

Investors in the third quarter pulled a net $47.65 billion from long-term mutual funds and exchange-traded funds focused on U.S. stocks, while adding $48.25 billion to international-stock funds and $95.14 billion to bond funds, according to Investment Company Institute estimates.

Bond-fund performance was positive in the quarter, even after some weakness in September as investors anticipate another interest-rate increase by the Federal Reserve. Funds focused on intermediate-maturity, investment-grade debt, were off 0.4% in September but up 0.8% in the quarter. They remain up 3.2% for the year to date.

Not bad. Still, "our view would be similar for fixed-income investors," says Mr. Wood. "A global approach, we think, is called for."

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Business Day
**Nobel in Economics Announced, and Bank Earnings Begin**

By THE NEW YORK TIMES
997 words
8 October 2017
09:13 PM
NYTimes.com Feed
NYTFEED
English


ECONOMY

Nobel in Economics to Be Awarded

Nobel season reaches its grand finale on Monday with the announcement of the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel, better know as the Nobel in economics. The prize committee in recent years has mostly honored economists for careful work on narrow questions. Macroeconomic theorists, who long dominated the list of recipients, have fallen into disrepute since the 2008 financial crisis, which their theories largely failed to predict or to explain. Last year's winners were Oliver Hart, a professor at Harvard, and Bengt Holmstrom, a professor at the Massachusetts Institute of Technology, for work that has improved the design of contracts. Binyamin Appelbaum

BANKING

Stress Test Results for Some European Banks

The European Central Bank is expected on Monday to publish the results of its latest stress test to measure the ability of some of the region's lenders to weather another financial shock. As part of this year's exercise, the central bank examined the sensitivity of banks' assets and liabilities to interest rates and of lenders' net interest income to hypothetical rate changes. Chad Bray

ECONOMY

The I.M.F. and World Bank Annual Meetings

Economic power players will converge in Washington beginning Tuesday for the annual meetings of the International Monetary Fund and World Bank. Near-term financial forecasts are rosy — the global economy expanded more than 3 percent this year, a more robust pace than last year, and unusually, most national economies are experiencing growth. Still, the central bankers and finance ministers will be discussing continued underlying economic issues. One discussion, for example, is called, "How Much Inequality Can We Live With?" Zach Wichter

Report on Fed's September Meeting to Be Released

The Federal Reserveat its September meeting capped months of careful preparation by making the widely expected announcement that it would begin to reduce its holdings of Treasuries and mortgage-backed securities. The markets barely budged, and an account of the meeting that the Fed plans to publish on Wednesday is unlikely to contain any new details about those plans. The Fed wanted to avoid surprises, and it has succeeded. Attention instead is focused on whether the Fed will raise rates in December, its final meeting of the year, despite the persistent sluggishness of inflation. So far, the Fed has indicated that a rate increase is likely. The meeting account may shed light on any internal misgivings. Binyamin Appelbaum

TRADE

Negotiators to Discuss Changes to Nafta

United States officials will again face off against their Canadian and Mexican counterparts as the fourth round of negotiations over the North American Free Trade Agreement begin on Wednesday in Arlington, Va. The United States has not yet presented specific written proposals for many of President Trump's biggest goals for the trade pact. But officials have said they hope to provide Canada and Mexico with more detail on some of their proposals in the fourth round, as the three countries race toward the ambitious goal of completing the rewrite before the end of the year. Ana Swanson

BANKING

Bank Earnings Season Begins

A spate of banking earnings are coming this week, with Citigroup and JPMorgan Chase reporting on Thursday and Bank of America, PNC and Wells Fargo releasing third-quarter results on Friday. Analysts expect solid but tepid results. Lending has been slow in many areas, including mortgage originations and refinancings. Low **volatility** has reduced trading profit for many banks, and a drop in mergers and acquisitions has cut into investment banking revenue.

Investors are keeping a close eye on Wells Fargo's management. The bank is still struggling with the aftereffects of the fake accounts scandal that came to light last year, and the company's chief executive, Timothy J. Sloan, faced blistering attacks from lawmakers at a Senate hearing last week. Analysts will be scouring the bank's third-quarter earnings and its executives' guidance for signs of how the turnaround effort is going. Stacy Cowley

ECONOMY

Hurricanes May Skew Inflation Data …

The Bureau of Labor Statistics on Friday will release its reading of the Consumer Price Index, a crucial measure of inflation, for September. The report will be closely watched by economists looking for clues about when the Federal Reserve will next raise interest rates. The Fed's chairwoman, Janet L. Yellen, said last month that she expected the Fed to keep raising rates but cautioned that those plans could change if inflation stays low. September's data could be skewed, however, by hurricanes Harvey and Irma, which drove up prices for fuel and other goods in Florida and Texas. That could lead the Fed to put less significance on Friday's report. Ben Casselman

RETAIL

… And They May Affect Sales Results

On Friday, the Census Bureau will release data on retail sales in September. Analysts expect that the retail sales report will be heavily affected by the major hurricanes that ripped through Florida and drenched parts of Texas. The hurricanes could have a mixed result, though, slowing sales in specialty clothing and nonnecessities. But they may also have bolstered spending on home repair items as homeowners picked up after the storms. Michael Corkery

AUTO INDUSTRY

VW Will Loom Large in Vote in German State

Voters in the German state of Lower Saxony, where the economy revolves around Volkswagen, will elect a new state Parliament next weekend. The outcome could affect Volkswagen management because the state owns a 20 percent stake and has two seats on the company's 20-person supervisory board. The Christian Democrats, who are trying to unseat the Social Democrats, have said they will give their places on the board to business professionals rather than politicians, as has been the case. Poor governance at Volkswagen is viewed as contributing to an emissions scandal that threatens local jobs. Polls show the two main parties neck and neck. Jack Ewing

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THE WALL STREET JOURNAL.
U.S. EDITION

**Investing in Funds & ETFs: A Quarterly Analysis --- 30 Years Later: Crashes Are Inevitable -- but That Doesn't Mean Now --- The odds are small of a 1987-type crash right now, but nothing will be able to prevent another one, someday**

By Mark Hulbert
881 words
9 October 2017
The Wall Street Journal
J
R2
English


Be on your guard in coming days against those drawing the wrong investment lessons from the 1987 **stock-market** crash -- the 30th anniversary of which we "celebrate" on Oct. 19.

Many will no doubt overstate the likelihood of another crash, citing the longevity of the current **bull market** and equities' overvaluation. Others will exaggerate in the opposite direction, arguing that market and regulatory reforms over the past 30 years will prevent another crash from happening.

Both extremes are wrong. While the likelihood of another **stock-market** crash is small, by no means is it negligible.

That's a sobering thought, given that the **Dow Jones Industrial Average** fell 22.6% on what came to be known as 1987's Black Monday. An equivalent drop today would be a single-session decline of more than 5,100 points. It was the worst one-day crash by far in U.S. **stock-market** history; the next-worst was Oct. 28, 1929, when the Dow fell "just" 12.8% (followed by nearly as bad a drop the next day).

It's easy to understand why some would use the anniversary of 1987's crash to warn of another one. If we assume that the current **bull market** began in March 2009, it is the second-longest in U.S. history. By many valuation measures, the current market is more overvalued than at almost any other time in U.S. history.

It is little wonder, then, that according to a survey conducted by Yale's School of Management, investors currently believe there is a 20.8% probability of a 1929- or 1987-magnitude crash in the next six months.

"The actual probability is surely much lower than this," according to William Goetzmann, a Yale finance professor and director of its International Center for Finance. Researchers have been unable to find that either **bull-market** length or high valuations are significantly correlated with the probability of a crash. After all, the 1987 crash occurred when that decade's **bull market** was just five years old, and when the **S&P 500**'s price/earnings ratio was only moderately higher than the historical average.

To be sure, three researchers at Harvard have found that a sharp price run up -- independent of valuations or the length of a **bull market** -- does increase the odds of a subsequent crash. But the **stock market**'s rise in recent years, impressive though it has been, isn't nearly large enough to satisfy the preconditions laid out in the researchers' study.

The researchers -- Robin Greenwood, a finance and banking professor and chair of Harvard's Behavioral Finance and Financial Stability project; Andrei Shleifer, an economics professor; and Yang You, a Ph.D. candidate -- found that, following a 100% increase over the trailing two years, there was a 53% chance of what they defined to be a crash: a 40% decline over the subsequent two years. The **S&P 500** over the past two years has risen "just" 30.2%.

Just because there doesn't appear to be a significantly elevated risk of an imminent crash, however, doesn't mean another 1987-magnitude plunge will never occur. On the contrary, according to Xavier Gabaix, a professor of economics and finance at Harvard, one certainly will -- someday. According to a complex model he has devised, the **stock market** will suffer a 22.6% one-day decline every 150 years, on average. A one-day decline as deep as 1929's -- 12.8% -- should occur every 27 years, on average.

Note carefully that this doesn't mean we will not have another 1987-magnitude crash until 150 years have passed since 1987 (until 2137, in other words). That's because Prof. Gabaix's model predicts the average frequency of crashes over centuries. It could be, for example, that no 22.6% decline occurs in a given 150-year period -- or that several do so.

Crashes are inevitable, Prof. Gabaix says, because they occur whenever many large institutional investors decide to get out of stocks more or less in unison. We are kidding ourselves that crashes can be prevented by regulatory reforms instituted since 1987, such as circuit breakers, trading halts and the like. That's because, he says, institutional investors inevitably can find ways of getting out of stocks when they want to -- by selling on markets outside the U.S., for example.

Asked about the investment lesson that investors should be drawing on this 30th anniversary of the 1987 crash, Prof. Gabaix says: "Keeping in mind the high probability of a crash at some point in our lifetimes seems as important as ever. This is particularly true as the market currently seems to be underpricing tail risk" -- a particularly terrible outcome -- "given the very real tail risks, geopolitical and economic, that loom over the market and the world."

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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.
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**Investing in Funds & ETFs: A Quarterly Analysis --- Fundamentals of Investing: Investors Should Rethink Their Approach to REITs --- Do we overdo it on real-estate stocks? A study says REITs might deserve only about 3% of a typical portfolio**

By John Coumarianos
975 words
9 October 2017
The Wall Street Journal
J
R8
English


Long before investors fell in love with Facebook and Amazon.com or even the hot stocks of past generations such as utilities and railroads, real estate inspired dreams of wealth. "They aren't making any more of it," say proponents, as if to end all argument.

Some financial advisers and pundits helped fuel the love affair, suggesting that investors could reduce **volatility** and boost returns by adding real-estate investment trusts, or REITs, to portfolios in an amount exceeding their representation in broad market indexes. REITs behaved differently enough, zigging when other investments zagged, and provided solid enough returns to warrant the extra exposure, they said.

But a new study by Jared Kizer and Sean Grover of Buckingham Asset Management in St. Louis disputes the old claim about REITs. It argues that REITs deserve a portfolio weighting that reflects their own weighting in broader indexes (around 3%), but not necessarily an additional weighting that a separate asset class with different return and **volatility** characteristics would.

To understand the authors' argument, it helps to consider the Sharpe ratio, a basic metric of modern finance theory that divides return by **volatility**. The object is to create portfolios that exhibit the highest Sharpe ratio -- that is, they provide the biggest return for the lowest **volatility**. That means the best return doesn't always win in the game. The best return per unit of **volatility** wins, so reducing **volatility** is as important as increasing return. It turns out that adding REITs to a portfolio above the weighting they already have in broad indexes may not do much of either.

Messrs. Kizer and Grover set out to determine whether REITs are a separate and distinct asset class, as many investors believe, and thus deserving of a heavier portfolio weighting.

They established four criteria for defining an asset class. First, the group of stocks in question has to have low correlation with other established asset classes, such as stocks and bonds. Assets with low correlation to each other tend to move in different directions at the same times, potentially reducing **volatility**.

Second, an asset class has to have statistically significant outperformance that is unrelated to "factors" or characteristics already established as adding return to an index. Those are things like value -- low price relative to book value or earnings -- momentum or small size. In other words, a group of stocks would have to attribute its outperformance to something other than, say, value, which is a factor or characteristic already agreed to give a stock an edge over a broad index.

Third, an asset class has to be unique enough so that a combination of other securities can't mimic its return and **volatility** characteristics. Fourth, it has to improve the **volatility**-adjusted performance of the portfolio when it's added in an amount exceeding its weighting in broad indexes.

Messrs. Kizer and Grover discovered that REITs do, indeed, have low correlation to both broad stock and bond indexes. So they meet the first criteria of being a separate asset class. However, REITs didn't produce any significant outperformance that couldn't be explained by factors already known to produce outperformance. It turned out that REITs' performance can be explained by characteristics known as the momentum, term and credit premiums.

Although there are disagreements about the definition, the momentum premium is sometimes viewed as compensation for bearing risk that an appreciating asset won't continue to rise. The term premium is compensation for risk that short-term rates will be higher than future estimates. And the credit premium is compensation for assuming credit risk. (REITs typically operate with a lot of borrowed money, and they deliver high current dividend yield to investors, giving them corporate-bond-like characteristics.) All of this means any outperformance REITs deliver can be explained by these already understood risk premiums. Messrs. Kizer and Grover discovered that other sectors have similar characteristics that also can be explained by known premiums. REITs just aren't that special when analyzed in light of these premiums.

Not only can known factors explain REIT performance, but combinations of those factors can replicate that performance. It turns out that a combination of 67% small cap value stocks and 33% long-term corporate bonds produces a security that has a 0.72 correlation to REITs. A correlation of 1 is perfect. That high correlation means REITs fail the third part of the Kizer-Grover asset-class definition.

Finally, adding REITs to the classic balanced portfolio of 60% stocks and 40% bonds didn't improve the portfolio's **volatility**-adjusted returns -- what modern finance calls "efficiency." The authors conclude that REITs shouldn't be excluded from portfolios, but also that they shouldn't be included in doses that exceed their representation in broad indexes.

Investors should note that there are times when REITs have done wonders for portfolios. When the technology-stock bubble peaked in early 2000, for example, REITs and small-cap value stocks in general had been left for dead by investors. Consequently, they were priced to deliver massive returns when investors were finally disillusioned with profitless "dot-coms" and regained their affection for hard assets in 2000-02.

Adding groups of stocks to portfolios based on valuation metrics is the more old-fashioned view of the world than Messrs. Kizer's and Grover's emphasis on historical price action and correlation, but that doesn't mean it can't be effective.

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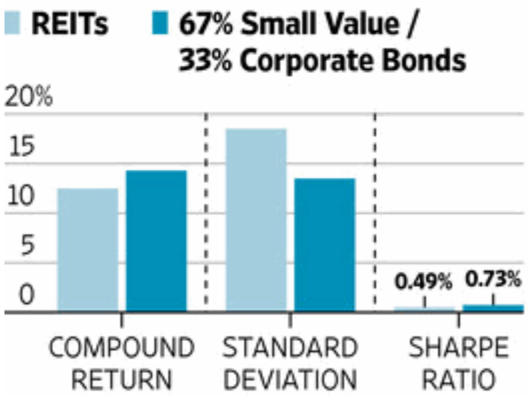
Mr. Coumarianos, a former Morningstar analyst, is a writer in Laguna Niguel, Calif. He can be reached at reports@wsj.com.

## Tastes Great, Less Filling

Comparing a REIT portfolio to a portfolio of 67% small-cap stocks and 33% corporate bonds. The latter portfolio has a better return and lower volatility. The two portfolios have a correlation of 0.72.




Source: Jared Kizer and Sean Grover

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THE WALL STREET JOURNAL.
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**Investing in Funds & ETFs: A Quarterly Analysis --- Fund Managers: American Funds Is Turning Back the Clock --- After watching investors flee for years to index funds, the 'active' fund giant starts to win some of them back**

By Daisy Maxey
1,316 words
9 October 2017
The Wall Street Journal
J
R14
English


The mutual-fund company that has famously been on the wrong side of the active/passive divide is once again attracting investor cash. But it remains to be seen if this is a turning point for the company or a temporary reprieve.

American Funds, sponsored by the privately held Los Angeles firm Capital Group Cos., has stuck to its classic, actively managed mutual funds while low-cost index-fund competitors such as Vanguard Group roared ahead. Many investors regard active funds -- which rely on the portfolio-picking skill of their managers -- as expensive laggards. After years of strong inflows, American Funds experienced net outflows of nearly $252.5 billion from 2008 through 2016, according to fund tracker Morningstar Inc.

Yet some investors in uncertain times tend to look again for potential value in active funds. After net outflows of $4.9 billion last year, American Funds has taken in a net $13.5 billion this year through August, Morningstar says.

With $1.43 trillion in assets under management at the end of August -- $956.3 billion in stock funds, $130.8 billion in bond funds and $343.9 billion in allocation funds, which include both stocks and bonds -- American Funds is the largest active stock-fund manager, ahead of Boston-based Fidelity Investments, and the second-largest fund family overall after Vanguard, based in suburban Philadelphia. "They have funds that have consistently outperformed and consistently been lower-cost versus their active peers," says Todd Rosenbluth, director of ETF and mutual-fund research at financial data and analysis provider CFRA.

American Funds has gotten more vocal about defending active strategies, after years of seeing the gathering force of passively managed investments at its gates.

"As difficult as the headline environment has been, it's a reminder to people of some basic fundamentals," says Matthew O'Connor, director of North American distribution for American Funds. He says "low costs matter; they're an incredibly important part of an investor getting to their goal." But "above-average returns will help people get there."

The fund company is still smarting after years of asset drainage, and is facing some daunting challenges. Perhaps the biggest is the Labor Department's fiduciary rule, part of which went into effect earlier this year and part of which has been delayed and continues to face challenges.

The fiduciary standard requires that a financial adviser put the client's best interest first. The new rule holds financial advisers who make recommendations on tax-advantaged retirement savings to that standard -- including many brokers who previously advised retirement investors under what some critics say is a less-stringent standard.

American Funds typically has charged sales fees on shares in its funds, which it passes on to the brokers who sell the funds in the form of commissions. The new rule will make it harder to view that arrangement as suitable under a fiduciary standard, a headwind for American Funds, says Mr. Rosenbluth.

In response to the rule, the fund company in January launched its F3 class of shares for all its funds, which charge a management fee to investors but don't involve any payments to third parties.

"We actually think there's a benefit in giving investors much more clarity in terms of what they're paying and getting," says Mr. O'Connor. "This is a positive, given our investment returns, given our fees."

The shares accounted for about $49 billion of the firm's assets under management as of Aug. 31, and their adoption will be a slow evolution, says Mr. O'Connor.

Another effect of the fiduciary rule: Some advisory firms have typically offered only American Funds, and that will be more difficult to defend now, says Mr. Rosenbluth. That means more competition from other fund providers.

American Funds will "have to justify each fund on its own," says Janet Yang, a director of manager research at Morningstar. "They'll have to stand up to investment committees, to those who select funds for brokerage platforms. The good thing is they do have a lot of good funds, but there won't be that automatic assumption that they'll go with American Funds going forward, so it will be more work."

As it fights for stock investors, American Funds also has been working to attract more investors to its bond funds, which generally aren't as well-regarded as its stock funds.

The stock funds "have very strong records over the short and long term," says Ms. Yang. "They're very large-cap oriented," which has contributed to their success as such stocks have done well, she says. "But even beyond that tailwind from large and megacap holdings, they're still picking very good stocks."

The firm's mammoth $169.7 billion Growth Fund of America (AGTHX), for example, a growth-oriented large-cap fund that has the ability to invest up to 25% of its assets overseas, has gained 10.7% annually on average over the 15 years through September, outpacing the 10% gained by the **S&P 500** and the 9.8% gained by the average large-cap stock fund, according to Morningstar. Its $96.6 billion Washington Mutual Investors Fund (AWSHX), a value-oriented large-cap fund that can invest only up to 10% of its assets overseas, has gained 9.4% annually on average over those 15 years, outpacing its average peer, up 9.1%.

The firm's fixed-income lineup has been less compelling, says Ms. Yang. The company's flagship $34.4 billion Bond Fund of America (ABNDX), for example, is up just 3.1% on average annually over the 10 years through September, lagging behind the benchmark Bloomberg Barclays U.S. Aggregate Bond Index and its average intermediate-term bond fund peer, each of which have gained about 4.3%.

Over the past few years, American Funds has devoted resources to improving its fixed-income funds, including adding new technology and bringing in outside talent, says Ms. Yang. But Morningstar isn't yet convinced the changes will ultimately give the funds an advantage, she says.

Mike Gitlin, head of fixed income at Capital Group, says the majority of American Funds bond funds have beaten their benchmark over the past one, three, five and seven years.

One addition to the fund company's lineup that may help it retain assets is its Target Date Retirement Series. Target-date funds, which have been steadily drawing in retirement-plan assets, automatically adjust their asset allocations as an investor nears retirement. American Funds' versions, launched in 2007, had $76 billion in assets as of Aug. 31, taking in a net $15.4 billion this year through August.

Assets in such funds are invested for decades, and are, therefore, more likely to be retained than some others, says Mr. Rosenbluth.

"Target-date funds are a lifeline for active managers," says Ms. Yang.

One area American Funds hasn't yet ventured into, but which remains a possibility for growth, is exchange-traded funds.

"No one expects them to launch a Growth Fund of America ETF, and tell everyone what they're buying every day," says Dave Nadig, chief executive of ETF.com. But American Funds has received permission from regulators to launch nontransparent active ETFs -- a form of ETF that mimics an active fund and doesn't disclose its investments daily like traditional ETFs do.

The company doesn't have plans to launch ETFs, Mr. O'Connor says, but adds, "I wouldn't ever say never."

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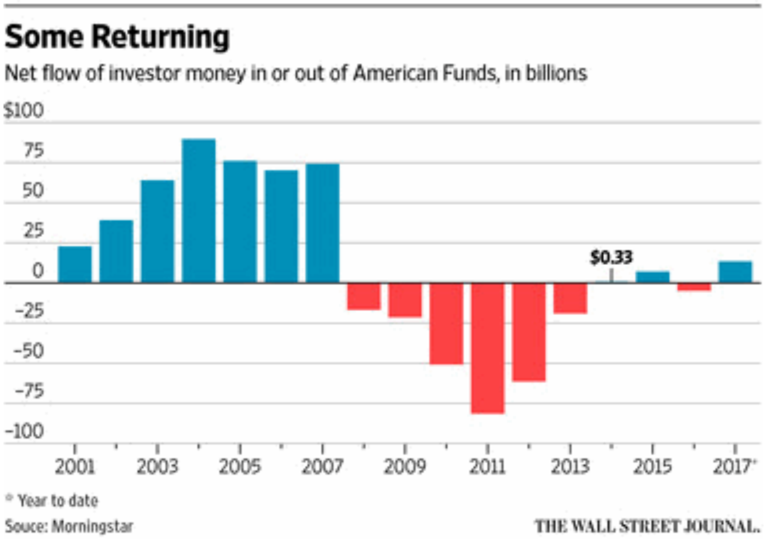


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THE WALL STREET JOURNAL.
U.S. EDITION

**Daily Gains Small in S&P Win Streak**

By Ben Eisen
311 words
9 October 2017
The Wall Street Journal
J
B8
English


The **S&P 500** on Friday ended a streak that had a particularly **bullish** ring to it.

The benchmark finished at a record for six straight sessions through Thursday, the first time in more than two decades that has happened.

The **S&P 500**'s 0.1% fall Friday closed out the run.

During those six days, the index was only up 1.8%, inching higher by no more than 0.6% on any given day. Of the 21 times since 1928 that the index has closed at six or more consecutive highs, the current one has produced the fourth-smallest gain, and the tiniest since 1965, according to The Wall Street Journal's Market Data Group.

Despite persistent calls for a big market reversal, the **S&P 500** has set 43 records in 2017. But behind the **bullish** stats is a slow, plodding march higher.

The S&P has only had eight daily moves of 1% or more this year, the least for any comparable period since 1965. The slow gains have added up to a 14% rise in the **S&P 500** so far in 2017.

The last such streak, the **S&P 500**'s run of eight straight records in 1997, produced a gain of 6.1%. The streak before that, six sessions in 1996, offered up gains of 4%. Both were during the long rally of the 1990s that would end years later with the popping of the tech bubble.

In 1987, a March streak of six records resulted in gains of 4.7%, and then a June streak of six more records pushed the index up an additional 2.7%. In October of that year, the market took a nose-dive.

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Douglas Kobin contributed to this article.




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THE WALL STREET JOURNAL.
U.S. EDITION

**U.S. News --- THE OUTLOOK: Central Banks Pull Back in Unison**

By Josh Zumbrun
793 words
9 October 2017
The Wall Street Journal
J
A2
English


A synchronized global economic expansion is leading to a big shift in monetary policy around the world -- toward central banks shrinking rather than growing -- with implications for markets, inflation and the outlook for growth.

Following the financial crisis from 2007-2009, the world's big central banks had been net buyers of financial assets in global markets, expanding their portfolios of government bonds, mortgage debt and corporate securities by 1% to 3% of global economic output per year for much of the past six years.

Now that's changing. The Bank of England announced in February it would mostly end its bond purchases, the Federal Reserve stopped buying bonds at the end of 2014 and announced in September it would move ahead with a plan to gradually shrink its holdings, and the European Central Bank is expected to announce at the end of October it will slow its pace of purchases.

All told, net purchases are on track to drop to 2.4% of global gross domestic product by the end of this year, 0.8% of global GDP at the end of next year, and by mid-2019 the central banks of advanced economies will be shrinking, according to estimates by the Institute of International Finance, a Washington, D.C., organization that represents the global financial industry.

Interest rates are ticking up as well, another form of more restrictive monetary policy. The Fed has raised interest rates four times since 2015 and is expected to do so again in December. The Bank of Canada raised rates in July and September and could move again this year. Meantime the Reserve Bank of Australia and Bank of Korea are laying the groundwork for higher rates next year.

Behind the global central bank shift is a more alluring economic backdrop. All 45 countries tracked by the Organization for Economic Cooperation and Development are set to grow this year, a synchronicity that has been uncommon in the past 50 years. During earlier phases of the present expansion, stumbles in places including Europe, Japan and China marred the global economic outlook.

"This feels sounder than any of the other false dawns we've had before," said Kristin Forbes, a professor at the Massachusetts Institute of Technology and former member of the Bank of England's monetary policy committee.

For now, the central bank retreat has been given an enthusiastic "all clear" by investors. The DJ Global **stock index** is up 17% this year, with double-digit percentage gains in the U.S., much of Europe and some Asian markets.

Still, the central bank retreat could become an unwelcome stumble. Central bank purchases of bonds were designed to boost markets by pushing investors into riskier asset classes, like stocks. A pullback, in theory, ought to have the opposite effect.

Leaders like Janet Yellen of the Fed and Mario Draghi of the ECB hope they've telegraphed their moves so proactively that market responses will be benign. But market surprises have a long record of disrupting the best-laid plans of central bankers.

"There is no prior experience of rolling back [bond purchases], so it is very tricky to know how markets will react," said Peter Nagle, a global macro economist at the IIF.

Some analysts also doubt whether this is the right time for a pullback. The International Monetary Fund, which begins semiannual meetings in Washington this week, has warned that central banks may be moving too soon given the still-subdued pace of inflation globally.

According to OECD data, the average inflation rate across the G-20 fell to 2% in June and July, which was the lowest since the global financial crisis, before rising slightly to 2.3% in August. Many advanced countries are running underneath their inflation targets. The U.S. posted 1.4% inflation on the Fed's target gauge in August. Japan's inflation was at 0.7%. The central banks of both nations target 2% inflation.

Among research papers released in advance of the meeting, economists at the IMF cautioned that slow wage growth and tepid inflation are unlikely to go away, calling into question the need for more restrictive monetary policy.

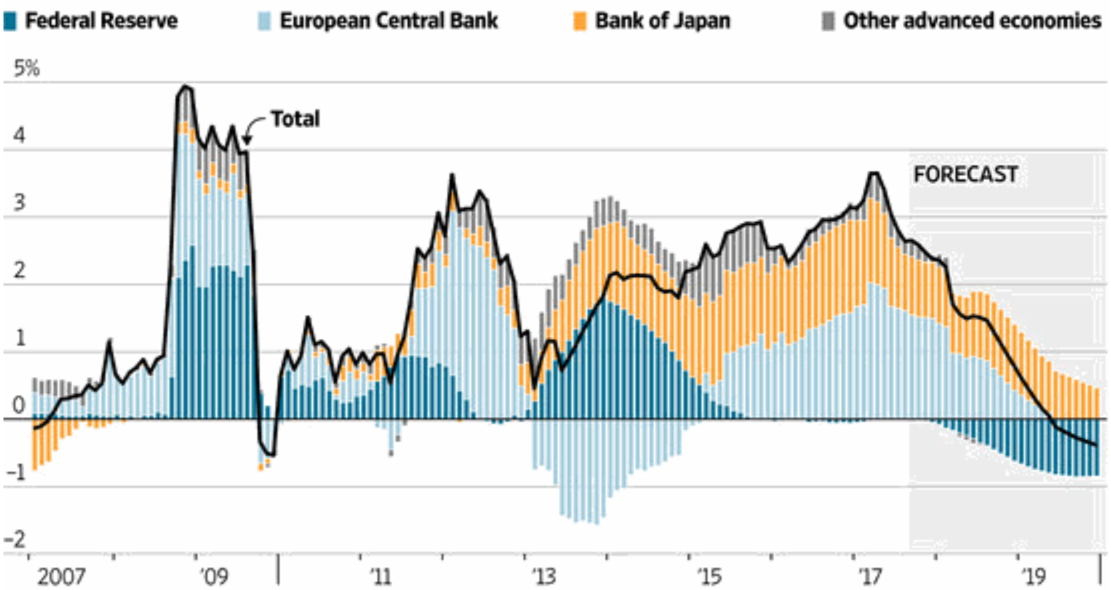
Adam Posen, president of the Peterson Institute for International Economics, said the global expansion was sustainable for the next couple of years. "With synchronized growth," he added, "it's hard to argue central banks are going to make a major mistake if they tighten a little bit."

Investors and the central banks themselves are counting on the wisdom of that logic. If it's off, they could find themselves painfully out of position to deal with the consequences.

## The Great Unwind

The era of massive expansion of global central bank balance sheets is coming to an end.

**Total change in central bank assets as a share of GDP**




Note: Changes in balance sheets are calculated as a 12-month rolling sum
Source: Institute of International Finance

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THE WALL STREET JOURNAL.
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**Investing in Funds & ETFs: A Quarterly Analysis --- Need to Know: What 'Liquidity' Means For Fund Investors --- A new SEC rule will require mutual funds to make regular disclosures, perhaps pointing up risks**

By Ari I. Weinberg
1,211 words
9 October 2017
The Wall Street Journal
J
R14
English


Liquidity is a difficult thing to define or measure -- but traders say it's easy to tell when it isn't there.

The term generally describes the ability to buy or sell an asset or securities without significantly affecting the price. In **financial markets**, that means the price and volume a buyer offers per share (the bid) and what the seller is willing to accept (the ask) are fairly similar.

In the fund world, liquidity gets more complicated because it comes into play in two ways: Fund managers can invest in assets with varying degrees of liquidity -- from cash to unlisted securities. But managers also have to buy or sell assets to meet purchases and redemptions by fund shareholders (over which they have limited control).

For fund investors, a confluence of market forces and regulatory changes is set to put liquidity in sharper focus.

Last year, the Securities and Exchange Commission made final a rule that would require mutual funds to implement and document a program to manage liquidity risk, including monthly disclosures on the relative liquidity of their assets, beginning Dec. 1, 2018. The new rule is intended to ensure that funds can meet a surge of investor withdrawals in another market panic.

While it took the SEC 459 pages to lay out its new rule, here is a more-concise look at what liquidity means:

1. What is liquidity, anyway? At its core, liquidity for an individual security or asset is defined by supply and demand. Modern securities markets have been designed to encourage liquidity through a system of fees and rebates on transactions that encourages market makers to post quotes and orders. Also helping to foster liquidity are things like market and limit orders -- where investors tell brokers or brokerage services to execute trades either at the best available current price (market order), or at a specified price or better (limit order).

"The current structure incentivizes tighter markets, which is good for investors," says Larry Tabb, founder and research chairman of TABB Group. "It does, however, create conflicts which are difficult to measure with 12 different exchanges and 30 automated trading systems all transacting in low-single-digit microseconds."

Average daily volume is often used as a proxy for liquidity in normal markets, but it should be viewed in conjunction with bid/ask spreads and short interest -- or the number of borrowed shares that investors betting on a price decline have sold short, but not yet covered or closed out. (Mr. Tabb notes that regulators in September reduced the settlement time on short trades to three days from four, which is likely to make borrowing shares to short more expensive. Standard trades moved to two days from three.)

Gauging the liquidity of fixed-income investments, including debt, loans and asset-backed securities, is even harder because of the patchwork of electronic and over-the-counter trading that exists in the bond world. The "cost of liquidity" is defined by wider trading spreads, which are influenced by the availability of the security and its credit quality.

2. Evaluating a fund's liquidity risk. Mutual funds buy or sell assets and take in or distribute cash daily, meaning managers need to be mindful of the liquidity of their holdings in case of a large purchase or redemption. Until the new disclosures are in place, however, accurately gauging a fund's liquidity risk is generally a difficult task for most individual investors.

"If the fund holds large-cap equities or investment-grade bonds, it will usually be able to put cash to work or redeem your shares with minimal impact," says Todd Rosenbluth, director of ETF and mutual-fund research at CFRA. "When you get to emerging-market equities or small-cap stocks, sizable redemptions could be impacted by liquidity constraints," he says. This is also the case for thinly traded areas of the debt market such as high-yield (or junk) bonds and senior loans.

For investors who want to get a grasp on the liquidity profile of a fund, Mr. Rosenbluth says to look at the fund's top holdings. Are they recognizable names? Is the portfolio concentrated? How big are the companies, and where are they located? What is the dispersion of the credit quality?

3. What about ETFs? What about ETFs? As a hybrid product -- basically, a mutual fund that trades on an exchange like a stock -- exchange-traded funds have two layers of liquidity for investors to understand, as well. Like stocks, the first is described by average daily trading volume, bid/ask spreads and short interest of the ETF itself (which can be found at Morningstar.com, ETF.com and other fund data sites). The second, just like mutual funds, is the actual liquidity of the underlying holdings -- stocks, bonds, currencies, commodities and commodity futures, cash, and even other ETFs.

"The liquidity of the ETF is driven by the liquidity of the underlying portfolio," says Teddy Fusaro, senior portfolio manager at IndexIQ, a unit of New York Life Investments. "It's especially important to understand given new products in the ETF world based on back tests. What will performance be like in the real world?"

ETFs, however, are going to be exempted from some of the new liquidity rules because, unlike mutual funds, they primarily create and redeem shares in-kind, by swapping ETF shares and the underlying assets directly with institutions.

Still, data providers, fund companies and exchanges hold out a metric called "implied liquidity" as an X-ray into the aggregate volume for an ETF's holdings, and believe that this number can better help investors understand the liquidity risk (or lack of it) embedded in a fund's holdings. ETF.com, a unit of CBOE, features multiple liquidity metrics on its "tradability" page for all ETFs.

4. The big picture. When it comes to building a portfolio of funds, ETFs, cash and securities with liquidity in mind, Jim Carroll of LongRun Capital Management says investors must have a clear understanding of what liquidity does and doesn't mean in the context of their investments.

"I think of liquidity in the classic sense of how fast I can get my money back and what impact I will have if I have to sell everything at once," says Mr. Carroll. But "what if everybody heads for the exits at the same time? Bids wills disappear because market makers are going to take their own risk off the table."

For individual investors and their portfolios, liquidity in normal trading is usually inconsequential. But you have to be prepared for stressed markets where prices potentially could collapse.

Liquidity risk has been pushed out into the market, whereas it used to be held at institutions. Many financial players "are no longer in the balance-sheet business to support trading, if they are even trading at all," Mr. Carroll says. "Other market participants have no obligation to trade."

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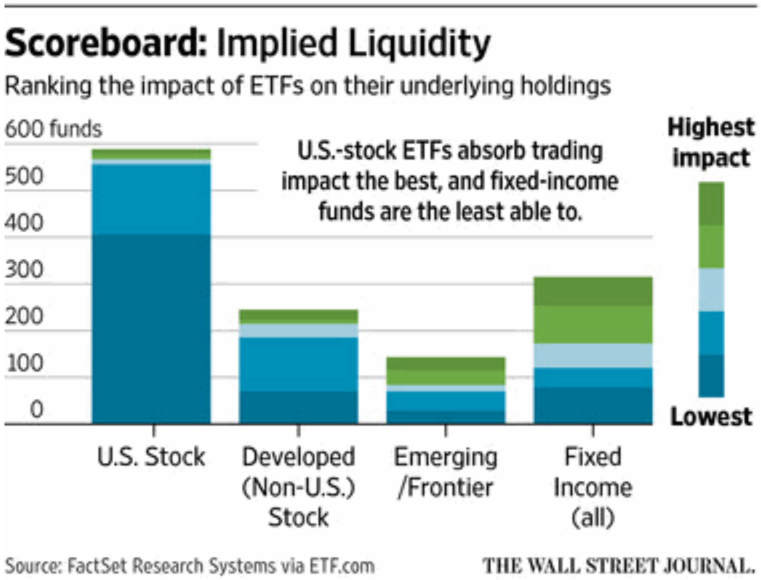
Mr. Weinberg is a writer in Connecticut. He can be reached at reports@wsj.com.

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The New York Times

Business/Financial Desk; SECTB
**As Global Economy Thrives, Stability Lurks as a Concern**

By LANDON THOMAS Jr.
1,009 words
9 October 2017
The New York Times
NYTF
Late Edition - Final
1
English


For decades, the global economy has been defined by dissonance.

There has been the Japanese recession. The financial crises in the United States and Europe. And drama in emerging markets throughout.

But as central bankers, finance ministers and money managers descend on Washington this week for the fall meetings of the International Monetary Fund, they will confront an unusual reality: global markets and economies rising in unison.

Never mind political turmoil, populist uprisings and threats of nuclear war. From Wall Street to Washington, economists have been upgrading their forecasts for the global economy this year, with the consensus now pointing to an expansion of more than 3 percent -- up noticeably from 2.6 percent in 2016.

Economists from the I.M.F. are likely to follow suit when the fund releases its biannual report on the global economy on Tuesday.

The rosy numbers are noteworthy. But what's more startling is that virtually every major developed and emerging economy is growing simultaneously, the first time this has happened in 10 years.

''In terms of positive cycles, it is difficult to find very many precedents here,'' said Brian Coulton, the chief economist at Fitch, the debt ratings agency. ''It is the strongest growth we have seen since 2010.''

In Japan, a reform-minded government and aggressive action by the central bank have pushed growth to 1.5 percent -- up from 0.3 percent three years ago.

In Europe, strong domestic demand in Germany and robust recoveries in countries like Spain, Portugal and Italy are expected to spur 2.2 percent growth in the eurozone. That would be more than double its average annual growth in the previous five years.

Aggressive infrastructure spending by China; bold economic reforms by countries including Brazil, Indonesia and India; and rising commodities prices (helping countries such as Russia) have spurred growth in emerging markets.

And in the United States, despite doubts about President Trump's ability to pass a major tax bill, the economy and **financial markets** chug along.

In fact, one of the few large economies not following an upward path is Britain, whose pending exit from the European Union is taking a toll. Having grown at an average annual pace of just over 2 percent from 2012 to 2016, the British economy is expanding just 1.5 percent this year.

Still, the good news may result in some backslapping this week for policy makers and regulators more accustomed in recent years to putting out financial fires than basking in improved economic well-being.

''The meetings will celebrate this period of synchronized economic growth and calm **financial markets**,'' said Mohamed A. El-Erian, chief economic adviser to the fund giant Allianz.

There are plenty of reasons to hold off on uncorking the Champagne. Wage gains have been slow in coming. And most experts think the current sweet spot of positive growth, low inflation and accommodating central bank policies could be fleeting.

Mr. El-Erian, for example, said he was nervous about several possibilities: that global growth could taper off; that prices of stocks, bonds and other financial assets are unsustainably high; and, most important, that markets might not be prepared when central banks reverse their efforts to stimulate economies by keeping interest rates low and buying huge sums of assets.

But for the time being, investors, economists and policy officials point to a growing quantity of data that highlight the power of this recent burst of economic growth.

Business sentiment in Japan and Europe is at 10-year highs. And last month, manufacturing activity in the United States hit its highest level in 13 years.

A big driver for growth in emerging markets, said Mr. Coulton, the economist at Fitch, has been Chinese imports, which are up more than 10 percent this year. China is the world's largest consumer of raw materials such as oil, steel and copper, and it is increasingly buying them from emerging economies.

Global portfolio managers like Rajiv Jain of GQG Partners, who oversees $9 billion, have been quick to capitalize, snapping up shares of Russian banks and French construction companies.

''The global economy looks pretty darn good,'' Mr. Jain said.

But with interest rates still historically low, investors have been pushing into even riskier assets, including the bonds of emerging-market economies, to eke out returns.

Some countries are taking advantage of the frenzy by issuing more debt. Argentina recently sold so-called century bonds, which don't come due for 100 years. Jordan and Ukraine issued government bonds that mature in 30 years and 15 years, respectively.

Susan Lund, an expert on global financial trends at the McKinsey Global Institute, said these types of investments from global asset managers tended to be longer term -- and thus less destabilizing -- than the so-called hot money from commercial banks that contributed to recent debt crises in the United States and Europe.

Are things getting too hot?

''We are in a boom today, but we should not forget that the financial system is still relatively unstable,'' said Jim Reid, a credit strategist at Deutsche Bank.

Mr. Reid, who spices up his market analyses by regaling clients with pop songs on the piano, recently published a detailed study on what he expects will be the causes of the next global financial crisis.

Pick your poison: an abrupt slowdown in China, the rise of populism, debt problems in Japan or an ugly outcome to Britain's move to leave the European Union.

His overriding worry, though, is that investors and policy makers aren't prepared for what will happen when global central banks put a halt to their easy-money policies.

Since the 2008 crisis, Mr. Reid noted, central banks have accumulated more than $14 trillion in assets -- an amount that exceeds the annual output of China by $3 trillion.

What happens when the central banks all start to sell?

''This is unprecedented,'' Mr. Reid said. ''And no one knows what the outcome will be.''

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The New York Times

OP-ED CONTRIBUTOR
Editorial Desk; SECTA
**Tax Cuts Won't Create Jobs**

By MARCUS RYU
882 words
9 October 2017
The New York Times
NYTF
Late Edition - Final
23
English


Foster City, Calif. -- The tax cut framework recently put forward by President Trump relies on a central claim: that reducing taxes on corporations and wealthy individuals will open the wellsprings of entrepreneurship and investment, turbocharging job growth and the American economy. Were this premise true, reasonable people might countenance giving a vast majority of benefits to the very rich, as Mr. Trump's plan does, in exchange for greater prosperity for all. But it's not.

I am what certain politicians call a ''job creator.'' Two recessions ago, in 2001, five partners and I founded a software company in Silicon Valley. After great difficulty and great good fortune, that company grew to serve customers in over 30 countries, generating over $500 million in annual revenue and employing more than 2,000 professionals in high-skilled, high-paying jobs -- a large majority of them in the United States. Today I am the chief executive of that company, Guidewire Software, valued on the New York Stock Exchange at over $5 billion.

As an entrepreneur myself and a friend to many others, I know that lower tax rates will not motivate more people to start companies. People start companies for many reasons: a compelling idea, ambition for fame and fortune, a desire to be one's own boss, frustration with one's employer. I have never heard someone say, ''I would have started a company, but tax rates were too high'' or ''I wouldn't have started this company, but then George W. Bush cut tax rates, so I did.''

While I can imagine tax regimes that would create disincentives for entrepreneurship, we don't have that situation today in America, where tax rates on capital gains (the primary way that founders of successful start-ups make money) are already far lower than rates on ordinary income. Indeed, some of the most admired entrepreneurs -- Bill Gates, Steve Jobs, Jeff Bezos -- started their companies under significantly higher tax regimes. This is consistent with empirical research; the economists Robert Moffitt and Mark Wilhelm, for example, found that the large cuts in marginal tax rates in 1986 did not induce high-income men to work longer hours.

The job-creation reasoning is equally specious when applied to the behavior of existing companies. As Warren Buffett notes, ''I have yet to see'' anyone ''shy away from a sensible investment because of the tax rate on the potential gain.'' My team and I are already intensely motivated to expand the company we manage, and lowering the corporate tax rate isn't going to make us create jobs any faster.

What a tax cut would do is increase our post-tax profitability, which effectively transfers money from the federal government to our shareholders. One consequence of this would likely be a one-time increase in our **stock price**, but with no impact on our operations or employment plans. In theory, this could have the benefit of making it easier to raise cash by issuing more stock to the public, but with interest rates at historical lows for years, American corporations have had no trouble getting capital.

In other words, if we are serious about growth, competitiveness and job creation, we should look elsewhere besides the tax code for answers. We can remain open to immigrants in search of better economic opportunities. We can invest in our public schools and universities. We can upgrade vital business infrastructure such as airports, land transportation systems, the internet backbone and our power grid. We can heighten our vigilance about anti-competitive behavior and regulatory capture by very large corporations that make it difficult to start new businesses.

There have been two recurring themes in my conversations about the tax-cut proposal with my Silicon Valley business peers, both Republican and Democrat. The first is derision about the shoddy business reasoning: Well-run companies don't just spend recklessly with no plan or intention to stop if revenues don't come in as hoped. But this is exactly what the tax-cut proposal does by wishing away huge tax-revenue shortfalls with stupendous growth projections. The second theme is shoulder-shrugging -- after all, didn't voters effectively ratify an agenda of tax cuts favoring the very wealthy?

I'm not sure, but I choose to believe not. By 2027, when they are fully phased in, four out of every five dollars in proposed tax cuts will flow to the top 1 percent, an egregious wealth transfer to those who least need it.

I am an entrepreneur and a businessman, but I am also a citizen. I believe tax cuts that deepen our already severe inequality in income and wealth are not in the long-term interests of any citizens, not even the very wealthy. Extreme inequality is corroding our civil society, poisoning our politics, and undermining our effectiveness as a nation. This is an extremely hard problem to solve, but when you're in a deep ditch, the first thing to do is stop digging.

Follow The New York Times Opinion section on Facebook and Twitter (@NYTopinion), and sign up for the Opinion Today newsletter.

Marcus Ryu is a co-founder and the chief executive of Guidewire Software.

DRAWING (DRAWING BY ADAM McCAULEY)

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