

THE WALL STREET JOURNAL.

What's News

Business & Finance

Investors are grappling anew with whether economic data will translate to higher inflation, after a month-long drop in government-bond prices carried the yield on the 10-year Treasury note Tuesday to a close above 2.5%. **A1**

◆ **Stocks pushed higher**, with the S&P 500 notching its best start to a year in more than half a century. **B13**

◆ **Companies are shipping** more items by plane, prompting a scramble that has sent airfreight rates soaring. **A1**

◆ **Boeing said** it delivered a record 763 jetliners in 2017 and secured net orders for 912 planes. **B3**

◆ **Switzerland's central bank** expects to report a record annual profit of \$55 billion for last year, a sum equal to 8% of the country's GDP. **B1**

◆ **A tussle over iPhone** use by young people comes amid a re-evaluation within Silicon Valley of the smartphone's social consequences. **B1**

◆ **Apple is facing** new questions from government officials about its handling of battery-related performance issues on iPhones. **B5**

◆ **Kodak shares** more than doubled after the firm waded into the digital-currency world with plans to launch an initial coin offering. **B1**

◆ **Samsung spent** more on capital expenditures last year than any other publicly traded company. **B1**

◆ **SpaceX said** it wasn't responsible for the loss of a U.S. spy satellite it launched. **B3**

◆ **JPMorgan's Dimon** said he regretted a comment in which he called bitcoin a fraud. **B12**

World-Wide

◆ **The Trump administration** told Florida it won't consider new oil and gas drilling off the state's coast, backtracking on plans to expand offshore drilling all around the U.S. **A1**

◆ **The president said** he was optimistic an immigration deal could soon be reached on "Dreamers" and agreed with lawmakers to limit talks to four policy areas. **A4**

◆ **A federal judge** in San Francisco temporarily blocked the administration's effort to end the DACA program. **A4**

◆ **Bannon stepped down** as executive chairman of Breitbart News, days after long-time political patrons distanced themselves from him amid his rift with Trump. **A2**

◆ **In congressional testimony** from August 2017 released on Tuesday, a founder of Fusion GPS disclosed details on the making of a controversial Trump dossier. **A5**

◆ **Iran's supreme leader** said citizens had the right to voice their legitimate concerns, acknowledging for the first time protesters' grievances. **A6**

◆ **South Korea sought** unsuccessfully to raise the North's nuclear program during talks, but the two sides reached a deal for Pyongyang to participate in the Olympics. **A7**

◆ **A panel of judges** ruled that Republican lawmakers in North Carolina unlawfully gerrymandered the state's congressional districts. **A3**

◆ **Trump has** had a rough first year but has made important diplomatic progress, according to the head of the World Economic Forum. **A6**

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Girl Is Rescued as Houses Are Swept Away by Deadly Mudslides



DANGEROUS DELUGE: At least 13 people were killed Tuesday in mudslides triggered by heavy rains in Southern California. Firefighters rescued a 14-year-old girl, right, after she was trapped for hours inside a destroyed home in Montecito in Santa Barbara County. **A3**

Trump Backs Off Florida Drilling

WASHINGTON—The Trump administration told Florida's governor it won't consider new oil and gas drilling off the state's coast, backtracking on plans to expand offshore drilling all around the U.S. and bowing to pressure from fellow Republicans in the state.

The move is a crack in a five-year drilling plan the Interior Department announced just last week, one already under fire from political leaders in both parties from most coastal states.

Interior Secretary Ryan Zinke said he made the decision Tuesday evening after meeting in the state capital with Florida Gov. Rick Scott, one of several Republicans who had denounced plans to lease coastal waters there to drillers for the first time in more than 30 years.

The administration hasn't backed down from the rest of its proposal, which it has planned to sell to opponents over the next 18 months. But skeptics think it could take more than two years to finalize the plan and that it will face challenges from state leaders in the courts and in Congress. Tuesday's events show the toughest customers could be from the president's own party.

"I support the governor's decision," Zinke said. "Please see *DRILL* page A4

◆ **Pardoned Arizona sheriff** seeks U.S. Senate seat..... **A3**

◆ **Trump expects 'Dreamers'** deal soon..... **A4**

Investors Prepare for Inflation

Another drop in bond prices sent the yield of the 10-year Treasury note above 2.5%

By **SAM GOLDFARB AND DANIEL KRUGER**

Investors are grappling anew with whether improving economic data will finally translate to higher inflation, after a month-long decline in

government-bond prices carried the yield on the 10-year U.S. Treasury note Tuesday to a close above 2.5% for the first time since March.

For years, bond buyers and economists have debated whether tentative signs of rising prices will take hold, sparking sporadic moves in the bond market. So far, inflation has remained stubbornly low, even as the economy rebounds.

Still, many investors believe inflation is bound to pick up if

the labor market continues to improve, and some market indicators suggest inflation expectations have been climbing in recent weeks, reflecting better economic data, rising energy prices and the passage of sweeping tax cuts, which many think could provide a further boost to the economy.

Rising inflation is a major threat to government bond investors because it chips away at the purchasing power of their fixed interest payments.

The 10-year Treasury yield is watched particularly closely because it is a bedrock of global finance, influencing borrowing rates for consumers, businesses and state and local governments.

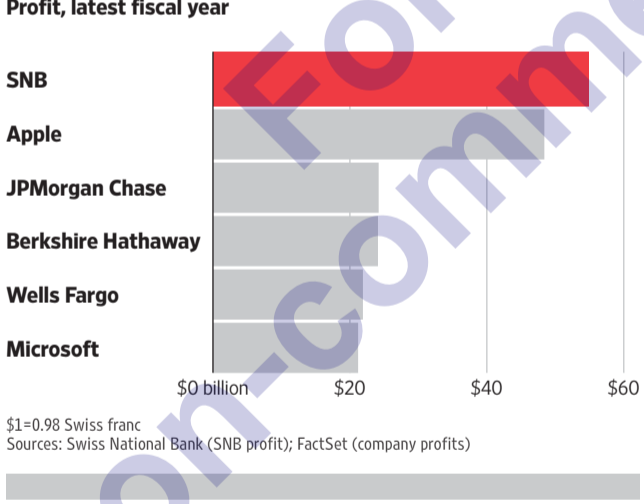
Ultralow Treasury yields in recent years have helped boost stocks by making them look more attractive to yield-seekers.

Please see *YIELD* page A2

◆ **Stocks burst from the** starting gate..... **B13**

Swiss Bank Tops Apple's Profit

The Swiss central bank's profit soared last year, as a weaker franc raised the value of its massive portfolio of foreign stocks and bonds. Its earnings exceeded those of many major companies. **B1**



Companies Take to the Sky In Race to Deliver on Time

BY DOUG CAMERON AND JENNIFER SMITH

Companies are shipping more items by plane—from pasta sauce to paper towels—to meet consumers' rising expectations for rapid delivery, prompting a scramble for cargo space that has sent airfreight rates soaring and pushed Amazon.com Inc. and others into the airline business.

Global airfreight traffic climbed almost 9% year-over-year in November, the start of the peak shipping season, and commercial shipping prices rose

17% annually for the month, the biggest price increase since the aftermath of the financial crisis, according to cargo data provider WorldACD.

The cause is twofold: As online shoppers come to expect faster home delivery, passenger jets and dedicated cargo planes are picking up more kinds of goods traditionally carried by ships, trains and trucks. At the same time, global economic growth is boosting demand for products long ferried by air, such as car parts and fresh flowers.

Those factors are creating

some of the stiffest competition for air-cargo space in years. To meet the rising demand, Amazon has started its own airline and some air-cargo operators are searching for older, idle jets to convert into freighters.

"You're literally begging and pleading to get on airplanes, leveraging any contact you can," said Neel Jones Shah, global head of airfreight for Flexport Inc., a San Francisco-based company that helps customers ship goods.

Please see *CARGO* page A7

◆ **Boeing sets record** for jetliner production..... **B3**

Saudis Target Religious Extremism

Crown prince spearheads effort to embrace a more tolerant Islam; female drivers and music

By **MARGHERITA STANCATI**

ABHA, Saudi Arabia—Arwa Alneami wanted to be an artist ever since she was a child. But growing up in the conservative region of Asir, she was constrained by a rigid strain of Sunni Islam that has long defined life in Saudi Arabia and the kingdom's image to the outside world. When she drew a bird, Ms. Alneami recalls, teachers would scold her and cross off its head, saying only God can create life.

Now that religious control is coming

under its sharpest challenge in modern times. Saudi leaders, spurred by the need to diversify the oil-dependent economy, are moving faster than any of their predecessors to unravel the legacy of Islamic conservatism that had shaped the education of generations.

Spearheading the transformation is 32-year-old Crown Prince Mohammed bin Salman, who sees social liberalization as a vital part of his radical economic modernization plan and has vowed to return his country to a more tolerant form of Islam.

"We are only going back to how we were: to the tolerant, moderate Islam that is open to the world, to all the religions and traditions of its people," Prince Mohammed said in October.

Ms. Alneami, 32, today is a rising star of the kingdom's burgeoning contemporary art scene. "Before, I had a love-hate relationship with Saudi Arabia," she says. "I used to think a lot about leaving the country. I wanted to

Please see *SAUDI* page A10

◆ **Iran sets conciliatory tone** on protests..... **A6**

◆ **Iran sets conciliatory tone** on protests..... **A6**

Bannon Leaves Breitbart Post



Steve Bannon stepped down as Breitbart executive chairman after rift with President Trump. **A2**

INSIDE



AUTONOMOUS LUGGAGE THAT FOLLOWS YOU



PICKS FOR WINTER READING

Catty Question: Who Thought This Was a Good Idea?

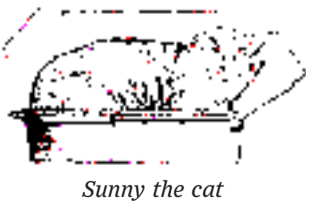
◆ **Cat cafes have staff who don't follow orders, bite and sleep a lot**

By **JENNIFER LEVITZ**

A public cafe that combines the cat-loving cappuccino set with slumbering felines. What could go wrong?

A lot, it turns out: ill-timed belly rubs, great escapes, protests from animal rights activists and reluctant landlords claiming to be "dog people."

These are the travails faced by entrepreneurs around the country who have opened more than 40 "cat cafes." It can be a frisky business.



Sunny the cat

"I wasn't ready for all the things that can go wrong," said Sana Hamelin, owner of the Denver Cat Co.

Ms. Hamelin once lost a cat inside the 1,500-square-foot cafe for two weeks, although

"Gus" crept out at night to nibble food. A cat named Morpheus bit a hands-on patron. "You shouldn't go for the belly rub," Ms. Hamelin said. "The belly rub is dangerous."

Then there was the vandalism this summer. "Someone who hates cats threw a brick through the cafe window at 3:30 a.m.," the cafe speculated in a June Facebook post.

Cat cafe proprietors took a page from Asia, which started the trend, and brought cats to

Please see *CATS* page A10

U.S. NEWS

Bannon Exits Breitbart Amid Trump Rift

Departure marks a rapid descent for the former White House chief strategist

By MICHAEL C. BENDER AND REBECCA BALLHAUS

WASHINGTON—Steve Bannon lost his patrons, and now he has lost his platform. The former chief strategist in the Trump White House stepped down as executive chairman of the Breitbart News Network on Tuesday,

five days after his longtime political benefactors—Robert Mercer and his daughter Rebekah, who are also major investors in Breitbart—distanced themselves from him.

“I’m proud of what the Breitbart team has accomplished in so short a period of time,” Mr. Bannon said in a statement. Breitbart Chief Executive Larry Solov said, “Steve is a valued part of our legacy.”

The changes mark a rapid fall for Mr. Bannon, the former Trump campaign chairman who had positioned himself as a mouthpiece for an ascendant

wing of economic nationalism within the Republican Party. But his relationship with President Donald Trump quickly unraveled after publication last week of Michael Wolff’s book, “Fire and Fury.”

The book paints an unflattering picture of the president and his White House, and included quotes from Mr. Bannon saying Donald Trump Jr.’s June 2016 meeting with Russian representatives during the campaign was “treasonous.” Mr. Bannon said the quotes were taken out of context. After the quotes were pub-

lished, Ms. Mercer contacted the White House to tell the president she and her father remained supportive of him, a White House official said.

The Mercers, one of three owners of Breitbart, almost immediately engaged in discussions with the company’s board about whether Mr. Bannon should be ousted from his role there. Among the considerations were Breitbart’s contractual relationships with other entities, including Sirius XM radio, that involve Mr. Bannon.

In the end, board members were united in the belief that

Mr. Bannon needed to step down, according to a person familiar with the talks. On Monday, the person said, the Mercers contacted Mr. Bannon through an intermediary to pass on the message: Resign, or be pushed out.

Mr. Bannon, however, viewed that message differently. He saw it as a choice between continuing his political activism, or focusing on the news website, according to two people familiar with Mr. Bannon’s thinking.

One possible next step for Mr. Bannon: starting a new nonprofit group that would be

active in political races, the people said. Mr. Bannon was talking to potential donors on Tuesday about that possibility, one person said.

The departure from Breitbart threatens to marginalize Mr. Bannon, said Mark Meckler, a conservative activist. “To the extent that Bannon reflects the Trump movement and the populist movement, he resonated with the base,” he said. “But I don’t know that there ever was a constituency for Bannon per se.”

—Benjamin Mullin contributed to this article.

U.S. WATCH

OPIOIDS

Judge Aims to Hasten Resolution of Suits

A federal judge is pushing for a swift resolution to hundreds of lawsuits filed by cities and counties over the opioid crisis.

“I don’t think anyone in the country is interested in a whole lot of finger pointing at this point, and I’m not either,” U.S. District Judge Dan Polster said Tuesday at the first gathering, in a Cleveland courtroom, of lawyers involved in the sprawling opioid litigation.

Judge Polster is overseeing the consolidation of more than 200 cases filed in federal court by local governments, hospitals and other parties, all seeking to recoup the costs of opioid addiction from the manufacturers and distributors of the painkillers.

More than a dozen state attorneys general, including those in Ohio, Kentucky, Missouri and New Mexico, have also sued manufacturers and distributors in state courts.

—Sara Randazzo

WASHINGTON

U.S. to Create Panel On Illnesses in Cuba

Secretary of State Rex Tillerson will order a special panel to investigate the U.S. response to mysterious illnesses that have stricken American diplomats and their relatives in Havana.

The Federal Bureau of Investigation and the State Department have been probing the incidents in recent months after the administration said they resulted from attacks.

Now, Mr. Tillerson will take the further step of establishing an independent board of the same type that was set up after the 2012 attack on the U.S. consulate in Benghazi, Libya, a senior diplomat told lawmakers. The board is required to be convened when people are seriously injured at a diplomatic facility, to assess security procedures.

The U.S. hasn’t blamed Cuba for the illnesses, but Mr. Tillerson has held its leaders responsible for not having prevented them.

Cuba has denied perpetrating the attacks and said it wouldn’t let a third party use its territory to conduct them.

—Felicia Schwartz

IDAHO

Ex-Legislator Facing Probe Is Found Dead

A former Republican state lawmaker from Idaho who was facing a sexual-abuse investigation has shot and killed himself, authorities said.

Brandon Hixon was found dead of a self-inflicted gunshot wound to the head in his home early Tuesday, Canyon County Coroner Vicki DeGeus-Morris said.

Officials have released no details about the criminal investigation into Mr. Hixon, 36, except that it was related to possible sexual abuse. The attorney general’s office was overseeing the investigation but declined to comment.

—Associated Press

KENTUCKY

Jump in HIV Cases Tied to Drug Use

Public-health officials in northern Kentucky are investigating a jump in HIV cases among people who inject drugs, the region’s health department said Tuesday.

The region, which includes four counties, recorded 37 new cases of HIV in 2017, up 48% from 25 cases in 2016, according to the Northern Kentucky Health Department. Of the 37 newly infected people, 18 reported using drugs via injection.

Rising injection-drug use in many communities has left public-health officials on high alert for signs of infections of HIV, the virus that causes AIDS. In 2015 Indiana declared a public-health emergency after widespread abuse of opioid painkillers via injection caused a large HIV outbreak.

—Jeanne Whalen

Athletes Lace Up for Special Olympics Iowa Winter Games



STANDOUT: Derek Boldt celebrates on the podium Tuesday after competing in the 25-meter speedskating competition in Dubuque, Iowa.

YIELD

Continued from Page One
ing investors while spurring record bond issuance by U.S. companies.

“There’s a lot of optimism globally for the prospects for growth and inflation,” said Brendan Murphy, a Standish Mellon senior portfolio manager. “Economies are growing in a synchronous fashion—they’re also growing above trend.”

As prices of Treasuries fall, the yields increase. The yield on the benchmark 10-year Treasury note settled at 2.542% Tuesday, compared with 2.480% Monday.

The surge above 2.5% marks the latest milestone in the 10-year yield’s recent rise, after it spent much of 2017 stuck in a range between 2.2% and 2.4% as investors grew confident that inflation would remain muted.

Analysts attributed some of Tuesday’s selling to an announcement from the Bank of Japan that it would trim purchases of long-term Japanese government bonds, a move

Breakout

The yield on the 10-year Treasury note hit its highest level in nearly 10 months as expectations for a pickup in inflation climbed.



Note: Thomson Reuters (breakeven rate); Ryan ALM (Treasury yield)
Source: FactSet

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that bolstered investors’ concerns that central banks around the world are preparing to step away from post-crisis policies that have kept yields near historic lows.

The BOJ’s decision, which some analysts described as minor on its own, is significant because foreign investors hold 44% of outstanding Treasuries, and because analysts see the bond purchases by the European Central Bank and the BOJ as factors driving

overseas demand for higher-yielding Treasury debt. Foreign investors boosted their holdings of U.S. government debt by 5.7% through October, on track to post their first annual increase since 2014, according to the latest available data from the Treasury Department.

Investors had expected yields to rise in 2017, buoyed by a surge of growth and inflation sparked by Trump administration priorities such as

tax cuts, regulatory rollbacks and infrastructure spending. Instead, inflation lagged behind other economic data, causing investors to grow pessimistic that it would break out of its rut.

One indication of how those views have changed recently: The 10-year inflation breakeven rate, which reflects the yield premium on the 10-year U.S. Treasury note over the comparable Treasury inflation-protected security, topped 2% last week for the first time in more than nine months, according to Thomson Reuters. It settled Tuesday at 2.035%, its highest level since March 7.

Investors in Treasury-inflation protected securities, or TIPS, receive a small yield as well as an increase to their principal equal to the annual change in the consumer-price index. The break-even rate is the annual increase in CPI necessary for a TIPS investor to earn the same income as an investor holding the regular Treasury note of the same maturity. As a result, a 10-year break-even rate is roughly equivalent to the annual inflation rate bond investors expect over the next 10 years.

The rising break-even rate is “an indication that people are pretty concerned” about inflation, said Gary Pollack, head of fixed-income trading at Deutsche Bank Private Wealth Management. Mr. Pollack said he has been selling 10-year Treasuries over the past month and holding the proceeds in cash.

The recent shift in investors’ inflation expectations will face a test Friday, when the Labor Department releases CPI data for December. The CPI increased 2.2% in November from a year earlier. However, the Fed’s preferred inflation gauge, the price index for personal-consumption expenditures, rose just 1.8% and 1.5% when excluding food and energy costs.

“If we get a strong CPI number on Friday, then I think certainly the market will be justified in moving past the 2.5% mark,” said Gennadiy Goldberg, senior U.S. rates strategist at TD Securities. Yet if the data disappoints, “I think this will all come back very quickly,” he added.

Several analysts noted that yields remain low by historical standards, and Treasuries have sold off several times over the past 12 months only to rally again.

CORRECTIONS & AMPLIFICATIONS

Interest on municipal bonds is exempt from taxes at most state and local levels if investors own bonds issued by a government entity within their state of residence. An Investing in Funds & ETFs report article on Monday about muni bonds incorrectly implied that all states exempt such income from taxes.

Talks between representatives of North and South Korea took place Tuesday in the Panmunjom truce village on the inter-Korean border. In some editions Tuesday, a World News article about Pope Francis’ call for stronger efforts for nuclear disarmament incorrectly said they were to take place in Seoul.

In some editions Tuesday, **Air China’s** name was incorrectly given as China Air in a U.S. News article about delays at John F. Kennedy International Airport in New York.

The University of Colorado Denver received an overall ranking of No. 247 and overall score

of 58.3/100 in the Wall Street Journal/Times Higher Education College Rankings, reflecting combined data for that campus as well as for University of Colorado Anschutz Medical Campus. Its outcome score was 19.9/40. Certain U.S. Department of Education data for the campuses have been combined in recent years. The rankings published Sept. 27 incorrectly said UC Denver had an overall ranking of No. 241, overall score of 58.6/100, and an outcome score of 20.2/40 because the ranking calculation was made using some data that reflected UC Denver and some data that reflected UC Denver and Anschutz. The institution is now listed in the rankings on WSJ.com as University of Colorado Denver/Anschutz Medical Campus.

Photographer Kim Sargent’s first name was misspelled as Kin in the credit for a photo of the Dancing Hares Vineyard in St. Helena, Calif., published in the Mansion section on June 12, 2015.

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U.S. NEWS

Tax Law's Effect Fuels Farm Outcry

By JACOB BUNGE AND RICHARD RUBIN

The new U.S. tax law has placed Rick Tronson, a North Dakota grain-company operator, in a precarious position by unexpectedly bestowing big benefits on his main competitors.

A provision inserted into the tax code during Senate and House negotiations in December gave farmers more-lucrative deductions when they sell agricultural products directly to the farm cooperatives he competes against rather than to businesses like his own.

Mr. Tronson, whose four storage facilities handle 17 million bushels of grain a year, said the competition could spell the end of his 76-year-old family-owned business.

"We've made a big investment. And this law, if they don't change it, the scenario is that we'll go broke," he said.

Farm groups and agricultural cooperatives battled last year to preserve a deduction on domestic U.S. production, which manufacturers also received. That deduction went away in the tax rewrite, but lawmakers including Sen. John Hoeven (R., N.D.) won the inclusion of a new deduction.

The new provision allows farmers to deduct up to 20% of their total sales to cooperatives, letting some farmers reduce their taxable income to zero. It is a more generous version of a

deduction that owners of pass-through businesses, such as partnerships and S-corporations, get in the law.

Farmers would get a smaller deduction—about 20% of income—if they sell grain or other farm products to privately held or investor-owned companies like Mr. Tronson's.

Tax lawyers and accountants said the new law will give cooperatives a significant edge over competitors. That stands to benefit co-op giants including American Crystal Sugar Co., Land O'Lakes Inc., CHS Inc. and Ocean Spray Cranberries Inc.

It could sting large agribusinesses such as Cargill Inc. and Archer Daniels Midland Co., in addition to smaller private operations like Mr. Tronson's.

"It's kind of hard to imagine they intended to make farming tax-free," said John Power, a North Dakota accountant whose clients include Mr. Tronson. "Fixing it becomes difficult because I don't think it's something that can be fixed with regulation."

CHS hailed the new deduction system. A spokeswoman said it "should help ensure farmers receive appropriate benefits in the new tax law and that cooperatives continue to be a driver of economic growth in rural America."

Lawmakers are now re-examining the issue. An aide to Sen. John Thune (R., S.D.), who assisted Mr. Hoeven with the



Lawyers and accountants say the tax overhaul, signed into law in December, gives farm cooperatives a significant edge over competitors.

provision, said lawmakers are in search of a "reasonable solution" to "potential unintended effects."

Kami Capener, Mr. Hoeven's spokeswoman, said the goal was to prevent cooperatives from being "unfairly treated" by the loss of the domestic-production deduction. "We are looking into any unintentional impacts to noncooperative [grain] elevators and will work with them to address it," she said.

Republican lawmakers said they intend to pass a technical corrections measure to fix any flaws that show up in the tax law, but any new law is likely to need 60 votes in the Senate. The need for bipartisan cooperation makes the measure's fate

uncertain; the GOP holds 51 seats in the Senate.

The new provision could reshape parts of the agricultural economy and sharply reduce many farmers' taxes. U.S. crop production was estimated at \$183.1 billion in 2017.

Consider a simplified example of a wheat farmer with \$500,000 in annual grain sales and \$80,000 in profit. A farmer selling grain to a cooperative could deduct 20% of sales, wiping out the entire income-tax liability. By contrast, if the farmer sells grain to an independent grain operator, the farmer's deduction would be limited to 20% of the profit, or \$16,000, leaving that farmer with up to \$64,000 in taxable income.

Grain Firms Face Potential Changes

Some agribusiness executives said a provision of the new tax law could alter the grain business, where international and regional grain companies often bid against cooperatives to buy farmers' crops. One possible result of this provision that some agriculture firms say is unfair: Big agribusinesses, which now buy large quantities of grain directly from farmers, might instead be forced to purchase more crops from cooperatives instead, raising the agribusinesses' costs

Some executives of independent grain companies said they had contacted their elected officials to protest the shift.

Cargill Inc., among the largest purchasers and exporters of U.S. grain, "was surprised to see this last-minute addition to the bill and is in the process of assessing it and evaluating the potential impact to our business and to our customers," a spokeswoman said.

Archer Daniels Midland Co. is "evaluating the potential impacts of this new tax provision, as well as various potential solutions," a spokesman said. ADM's share price is down 5.3% in the past three months.

Judges: N. Carolina Districts Unlawful

By BRENT KENDALL AND JESS BRAVIN

Federal judges in North Carolina issued a broad ruling Tuesday that found Republican lawmakers unlawfully gerrymandered the state's congressional districts to maximize their partisan advantage, a decision that comes as the Supreme Court also is grappling with whether to rein in the practice.

A special three-judge court invalidated the North Carolina map after finding Republicans adopted it for the driving purpose of magnifying the party's political power beyond its share of the electorate.

The decision comes as the Supreme Court considers two cases alleging that political maps in Wisconsin and Maryland are partisan gerrymanders—a form of political manipulation which, in contrast to racial gerrymanders intended to disenfranchise minorities, has never been declared unconstitutional by the justices.

But the practice, which has prompted criticism from political scientists and cynicism from at least some voters, hasn't been blessed by the Supreme Court, either. In recent decades, the justices have turned away challenges to political maps that entrench one party over the other because no majority could agree on a legal standard for distinguishing normal partisanship from excessive maneuvering that crosses a constitutional line.

The high court appeared deeply divided when it heard arguments in the Wisconsin case in October, and it will hear the Maryland case in the coming months. The eventual rulings could reshape how political maps are drawn across the country—and the balance of power in Congress and state legislatures.

The North Carolina court's decision read in many ways as a letter to the Supreme Court's likely deciding vote, Justice Anthony Kennedy, who has expressed distaste for partisan gerrymanders but has rejected prior efforts to draw a rule that courts could use to evaluate whether a particular map passes muster.

Mudslides Kill at Least 13 in California



Emergency personnel evacuated local residents and their dogs through floodwaters on Tuesday in Montecito, Calif.

By JIM CARLTON AND NOUR MALAS

LOS ANGELES—First came the wildfires, which prompted mass evacuations across Southern California last month. Then came the rains, and the mud. Thousands more evacuated again, and 13 people were killed in mudslides Tuesday.

Mud loosened by torrential rain caused havoc around the nation's second most populous region, washing away homes and cars and shutting down freeways.

Hardest hit was the area in and around Montecito, in Santa Barbara County, where all of the fatalities were reported—along with about two dozen injuries after mud roared down from a mountain denuded of vegetation in the recent wildfire, sweeping away several dozen homes and other structures, emergency officials said.

Some neighborhoods were under mandatory or voluntary evacuation orders, but it is unclear if those who died were in those areas.

The one-two punch of fire and mudslides is a common occurrence in California, where hills stripped of grass and other vegetation by flames in the fall are less able to soak up the winter rains that follow. Rains were expected to taper off by late Tuesday night, forecasters said.

In the kind of steep terrain that surrounds Los Angeles, mud and debris can begin flowing within just 15 minutes of a downpour—rushing down the mountain as fast as 50 miles an hour, said Dennis Staley, a landslide specialist with the U.S. Geological Survey in Golden, Colo. The threat of mudslides to populated areas has grown markedly, he said, because so many more people have moved

into fire-prone zones in California and other mountain states.

Mike Eliason, spokesman for the Santa Barbara County Fire Department, said the death and injury count could rise after emergency crews finish sifting through homes buried under mud and debris. Emergency crews have performed dozens of rescues of people trapped in homes and trees.

"It's a mess. The mud was so high everywhere," said Franco Rizzo, a Santa Barbara resident who drove two hours Tuesday morning—a trip that usually takes fifteen minutes—to pick up his friend in Montecito who had called for help.

Navigating back roads to carve the quickest path to his friend, Mr. Rizzo passed the closed 101 freeway, a muddied river empty of cars but carrying trees, fencing pried loose from yards and highway underpasses.

Arpaio Seeks U.S. Senate Seat

By JANET HOOK

Joe Arpaio, a former sheriff whose hard-line immigration stance led to a federal conviction before President Donald Trump pardoned him last year, said Tuesday he is running for U.S. Senate in Arizona, scrambling the politics of one of this year's most competitive races.

Mr. Arpaio, 85 years old, is entering the GOP primary to succeed retiring Republican Sen. Jeff Flake, who is one of the Senate's most vocal critics of the president.

In recent years, the former sheriff of Maricopa County, which includes Phoenix, became a national hero of anti-immigration forces for his aggressive efforts to round up

undocumented immigrants.

His tactics—including harsh treatment of people he took into custody—were derided by human-rights groups, attracted hundreds of lawsuits and ultimately ran afoul of the Justice Department.

A federal judge last year found Mr. Arpaio guilty of criminal contempt for defying a 2011 court order to halt immigration raids, but Mr. Trump granted him a pardon one month later.

Mr. Arpaio was defeated in his 2016 bid for re-election, ending a 24-year career as sheriff.

A key question is whether Mr. Trump will weigh in on what is shaping up to be a three-way Senate GOP primary

and endorse Mr. Arpaio, who campaigned with him in 2016.

Mr. Trump and his allies are still smarting from his double loss in last year's Alabama special Senate election: The president endorsed the loser both in the GOP primary and in the general election.

Arizona is seen by Democrats as a top pickup opportunity in a year in which they need to flip only two seats to win a majority but must defend many more seats than Republicans. Mr. Trump won Arizona in the 2016 election by less than 4 points.

Democrats believe they have a strong candidate in Rep. Kyrsten Sinema, a 41-year-old third-term congresswoman.



Joe Arpaio, a Trump supporter, wants to replace a vocal critic of the president as Arizona's senator.

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U.S. NEWS

Trump Expects Deal on 'Dreamers' Soon

President agrees to drop some contentious issues, but border wall is a stumbling block

By Laura Meckler and Kristina Peterson

WASHINGTON—President Donald Trump said he was optimistic that an immigration deal could soon be reached on “Dreamers” and agreed with lawmakers to limit talks to four policy areas during a bipartisan meeting Tuesday at the White House.

Over nearly an hour, Mr. Trump offered various formulations for what an agreement might look like during rare negotiations in full view of reporters and television viewers. He suggested Congress could protect the young undocumented immigrants known as Dreamers and improve border security, while putting other contentious issues off for later. At other times, he said some of his additional conservative priorities must be included.

Throughout the conversation, Mr. Trump insisted that the border-security part of a legislative package include his controversial wall with Mexico, which Democrats and some Republicans oppose.

Lawmakers said afterward that they were confused during the public session about what parameters the president favored for the talks. But then, in private after the reporters left the room, the group agreed that negotiations would include four things: new limits on family-based immigration and the diversity visa lottery that admits immigrants from under-represented countries, in addition to help for the Dreamers and border security, according to the White House and members of both parties.

“I really do believe Democratic and Republican, the people sitting around this table, want to get something done,” Mr. Trump said. “And I think we’re on our way to do it.”

In September, Mr. Trump ended the Deferred Action for Childhood Arrivals program, or DACA, asking Congress to inter-



President Donald Trump listens at a meeting with bipartisan members of Congress on immigration in the Cabinet Room of the White House in Washington on Tuesday.

vene with a legislative fix. Starting March 5, large numbers of Dreamers, who were brought to the U.S. as children, will lose their protections.

The White House meeting included nearly two dozen lawmakers with a wide range of views on immigration, but with the clock ticking toward the expiration of the Dreamers’ protections, remarks from members of both parties suggested an agreement was possible. None was announced, though lawmakers said they would meet again Wednesday.

One of the toughest issues to resolve involves the elements of a border security package. At the meeting, Mr. Trump repeated his desire for funding for a border wall. When Sen. Mazie Hirono (D, Hawaii) objected to his price tag, Mr. Trump suggested he could build it for less than the \$18 billion

U.S. Judge Blocks Move to End DACA

U.S. District Judge William Alsup in San Francisco on Tuesday temporarily blocked the Trump administration’s effort to end DACA.

In considering multiple lawsuits that challenged the move, Judge Alsup said until the cases are completed, the

administration must consider renewal applications from immigrants who were enrolled in the program when President Donald Trump announced its end on Sept. 5.

The judge said a provision of DACA that allowed immigrants to ask for permission to leave the U.S. and be allowed back in doesn’t have to continue.

The administration also won’t be required to consider

new, first-time DACA applications, the judge said.

The White House didn’t immediately respond to a request for comment.

Judge Alsup ruled that the government can continue to deport any immigrant protected by DACA “who it determines poses a risk to national security or public safety” or otherwise “deserves to be deported.”

—Alicia A. Caldwell

take all the heat.”

Many Republicans have opposed comprehensive bills because they have included a path to citizenship for most of the 11 million people living in the U.S. illegally, not just the Dreamers.

Democrats at the meeting pressed the urgency of the DACA matter. In early March, large numbers of young people will begin losing their DACA protections and be unable to live or work legally in the U.S., and would be subject to deportation.

“We have a deadline looming and a lot of lives hanging,” said Senate Minority Whip Dick Durbin (D, Ill.), the Democrats’ lead negotiator. He said that his party would back some elements of border security but suggested other elements shouldn’t be included.

—Siobhan Hughes and Louise Radnofsky contributed to this article.

WASHINGTON WIRE

SENATE

Trump Pick Defends Pharmaceutical Ties

Alex Azar, President Donald Trump’s nominee to head the Department of Health and Human Services, defended himself Tuesday against Democrats who asserted his ties to the pharmaceutical industry would make him less likely to take strong action to lower drug prices.

Mr. Azar said in a hearing before the Senate Finance Committee that his past position as president of an Eli Lilly & Co. affiliate gives him a unique advantage in tackling drug costs.

“From having worked for the last several years in that space—this is such a complex area, the learning curve for any other individual would be so high,” Mr. Azar said. Bringing down consumer prices would be a central goal, he said.

—Stephanie Armour

WHITE HOUSE

Veterans to Get More Mental-Health Help

The Trump administration plans to expand mental-health coverage to veterans, aiming to curb suicides in a period shortly after people leave military service when they are considered most vulnerable, officials said Tuesday.

President Donald Trump signed an executive order at the White House calling on various cabinet secretaries to devise a program within 60 days that will provide access to mental-health treatment and suicide prevention in the year after service members depart the military.

Mr. Trump said the effort amounts to a “historic step to make sure that our incredible veterans are taken care of in a proper manner. We want them to get the highest care they so richly deserve.”

Each year, more than 250,000 service members make the transition from the military to civilian life, an administration official said.

—Peter Nicholas

DRILL

Continued from Page One position that Florida is unique and its coasts are heavily reliant on tourism as an economic driver,” Mr. Zinke said in a statement after his meeting at Tallahassee International Airport. “As a result of discussion with Governor Scott and his leadership, I am removing Florida from consideration for any new oil and gas platforms.”

The administration’s plan faced particular resistance from lawmakers from Florida, in part because it has the most at stake: Oil companies consider the waters off the state the most logical and prized options for new drilling, while the tourism industry has been Florida’s priority for decades.

The state has Senate and gubernatorial races this year, meaning the proposal was likely to become a campaign issue. Mr. Scott is term-limited after eight years as governor and is a potential challenger to Democratic Sen. Bill Nelson this fall. Mr. Nelson and Republican Sen. Marco Rubio both have opposed the plan.

In a statement, Mr. Nelson noted Mr. Scott’s past support for drilling and questioned the turn of events.

“Suddenly, Secretary Zinke announces plans to drill off Florida’s coast and four days later agrees to ‘take Florida off the table’? I don’t believe it,” Mr. Nelson said. “This is a political stunt orchestrated by the Trump administration to help Rick Scott....”

Floridians’ opposition to drilling has stiffened further in recent years, said Bob Graham, a Democratic former senator and governor of Florida who co-chaired a presidential commission that investigated the 2010 Deepwater Horizon accident in the Gulf of Mexico, the largest oil spill in U.S. history. The devastation it did to tourism businesses around the Gulf Coast is still fresh in people’s minds there, he said.

Mr. Graham predicted Friday that if the plan were to become reality, there would “be some ticked off folks...in Florida.”

Sea Change

President Donald Trump’s original plan to expand offshore drilling would have opened nearly every U.S. coastal area where the practice is currently banned.

■ Drilling currently allowed ■ Drilling currently banned, but would have been allowed under Trump’s original proposal



Source: Bureau of Ocean Energy Management

THE WALL STREET JOURNAL.

Oil companies are eager to drill in the eastern Gulf of Mexico because of its proximity to areas in the western Gulf where drilling has been successful, said Erik Milito of the American Petroleum Institute, an oil and gas trade association. But they also are mindful of the fishing, tourism and military operations that are prominent around Florida, he added.

Congressional Republicans from Florida, New Jersey and South Carolina have spoken out against the plan. And Democratic governors in California, North Carolina, Oregon and Washington have also vowed to fight it.

The Interior Department has to consider the ramifications and responses from affected states. Governors could challenge the plan in court, or use state laws and regulations to block onshore projects that might be needed to support offshore drilling. Congress could also block the adminis-

tration’s plan through legislation or spending bills.

“ABSOLUTELY WRONG APPROACH for #SouthJersey & Atlantic Ocean,” Rep. Frank LoBiondo (R., N.J.) said on Twitter after the Interior Department’s original announcement. “Previous attempts to lift ban met w/ fierce bipartisan rejection across New Jersey & up/down East Coast. Will be met w/ STRONGER opposition now. Coastal communities have spoken clearly & ready to take fight head-on!”

The proposal won support from lawmakers in states like Louisiana and Alaska where oil is key to their economy. “This proposal shows President Trump and Secretary Zinke are serious about creating jobs and making America energy dominant,” said Louisiana Sen. Bill Cassidy, a Republican.

The Interior Department pointed to letters it received last year in which 155 members of Congress, including 36

Military Spending Could Rise Further

The brewing budget deal on Capitol Hill could get much larger thanks to a late Republican push for a bigger boost in defense spending.

As the spotlight has been on immigration negotiations, lawmakers and aides have been working behind the scenes to hammer out a two-year deal that would not only prevent the budget limits known as the sequester from kicking in, but potentially raise spending beyond that.

While many expected lawmakers to eventually reach an agreement adding \$200 billion over two years over sequester levels, that sum would grow if a GOP push to ramp up military spending even more is successful.

Both Republicans and Democrats want to prevent spending limits established in 2011 from kicking in. Without congressional action, defense spending would be shaved by \$54 billion and nondefense spending would see a \$37 billion cut in fiscal 2018,

which ends in September. Many Republicans have championed increasing military spending by at least \$54 billion, the level of the White House’s request for fiscal 2018. But now some are calling for a larger boost.

“We would actually prefer a higher defense number than that...actually more than the administration,” Rep. Tom Cole (R, Okla.), a senior member of the House Appropriations Committee, said Tuesday.

Though it isn’t yet clear exactly how much military spending congressional leaders will agree to, it could be in line with the funding authorized in the annual defense policy bill, GOP lawmakers and aides said. The National Defense Authorization Act authorized almost \$700 billion in military spending, including \$634 billion in its regular military spending, plus \$66 billion in emergency war funds that aren’t subject to the spending limits.

Democrats have said they support boosting military spending, but they want nonmilitary spending to receive an equal increase.

—Kristina Peterson

Republican senators, supported reconsidering offshore areas that had been blocked from drilling.

A spokesman for one who signed, Sen. Richard Burr of North Carolina, said Monday that the letter from a few months ago shouldn’t be considered an endorsement of the Interior Department’s new proposal. He is still evaluating it.

The drilling plan governs the federal waters of the Outer continental shelf, which typically start close enough to the coast for rigs to be visible from shore and reach more than 200 miles out to sea. While opponents are most worried about catastrophic spills washing up on beaches and affecting ocean life, some are also concerned about oil rigs spoiling coastal and maritime views, and disruptions from pipes and other infrastructure that need to connect onshore.

“We’re hoping we have as

many options left on the table as possible,” the API’s Mr. Milito said. “But we understand there’s politics at play.”

The Interior Department said it would hold public sessions over the next year and a half, beginning next week.

“What we rolled out last week was a draft plan,” Interior Department spokeswoman Heather Swift said. “We will go through a rigorous and robust public comment period where we will hear from local stakeholders who both support and oppose aspects of the plan.”

Some analysts believed that process could well end up winning down the regions that will be opened to drilling.

The first draft proposes 47 lease sales from 2019 to 2024, the most for any similar five-year program in history. It includes sales off the Atlantic and Pacific coasts—for states like California, New Jersey and Oregon that haven’t had them in more than 33 years.

U.S. NEWS

Details on Dossier's Making Are Disclosed

By BYRON TAU AND ERICA ORDEN

WASHINGTON—In congressional testimony released Tuesday, a founder of a research firm behind a controversial dossier about Donald Trump provided a detailed account of how the investigation began and how that information ended up in the hands of federal law-enforcement agencies during the 2016 campaign.

The 35 page-dossier, which contained salacious and unverified material about Mr. Trump and Russia, circulated widely in law enforcement, intelligence and media circles in late 2016 and early 2017. The dossier has taken center stage in the investigation into Russian activity during the election and whether anyone from the Trump campaign colluded with Moscow.

In the August 2017 testimony, Glenn Simpson defended the work of his firm Fusion GPS and the former British intelligence official he hired to gather information. That official, Christopher Steele, ended up writing memos on Mr. Trump's purported ties to Russia that make up the dossier.

Mr. Trump has called the dossier "fake" and "discredited," and has denied any collusion with Russia by his campaign. Moscow has denied interfering with the election.

"It's political rhetoric to call the dossier phony," Mr. Simpson testified. "The memos are field reports of real interviews that Chris's network conducted and there's nothing phony about it. We can argue about what's prudent and what's not, but it's not a fabrication."

According to Mr. Simpson's testimony, Mr. Steele first approached Federal Bureau of Investigation officials in July 2016, believing the information he had gathered suggested the possibility that Mr. Trump was vulnerable to blackmail from Russia. Mr. Steele met with FBI officials again in Rome in Sep-

tember, Mr. Simpson said.

In one meeting, Mr. Steele was told the FBI had an internal source in the Trump campaign, according to Mr. Simpson. People familiar with the matter now say Fusion believes the FBI was referring to George Papadopoulos, a Trump campaign adviser who pleaded guilty in October to lying to the FBI.

Mr. Papadopoulos, according to the New York Times, reportedly had social contact with an Australian diplomat who tipped off U.S. law enforcement on what the diplomat learned from Mr. Papadopoulos.

Two attorneys for Mr. Steele didn't respond to a request for comment.

A representative of the FBI didn't respond to a request for comment.

The transcript of Mr. Simpson's appearance before the Senate Judiciary Committee was released by Sen. Diane Feinstein, the panel's top Democrat. Ms. Feinstein said she was releasing the transcript in part to rebut charges that Mr. Simpson had acted inappropriately.

Mr. Simpson, a former Wall Street Journal reporter, said his firm's research began in the fall of 2015 when he was asked to look into Mr. Trump by a client. He declined to reveal the client in the August testimony, but it was later reported to be the conservative publication Washington Free Beacon, an entity backed by hedge-fund manager Paul Singer. Mr. Singer was critical of Mr. Trump during the 2016 election.

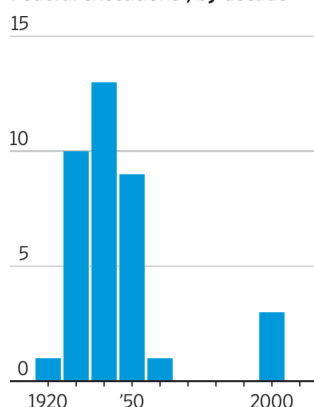
A new client, whom Mr. Simpson declined to identify, began paying for the firm's research on Mr. Trump in the first half of 2016, Mr. Simpson said in his testimony. It was later revealed to be Democrat Hillary Clinton's campaign and the Democratic National Committee, through an attorney for both entities.

—Mark Maremont contributed to this article.

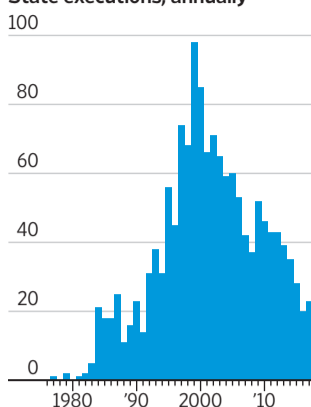
Capital Cases

U.S. federal and state executions

Federal executions*, by decade



State executions, annually



*1920 decade begins in 1927. Source: Death Penalty Information Center

THE WALL STREET JOURNAL.



The U.S. is considering seeking a death sentence against the man accused of using a truck to kill eight people in New York City.

U.S. Will Push for Death Penalty

By NICOLE HONG AND ARUNA VISWANATHA

The Justice Department has agreed to seek the federal death penalty in at least two murder cases, in what officials say is the first sign of a heightened effort under Attorney General Jeff Sessions to use capital punishment to further crack down on violent crime.

In a decision made public Monday, Mr. Sessions authorized federal prosecutors to seek the death penalty against Billy Arnold, who is charged with killing two rival gang members in Detroit.

The decision followed the first death-penalty authorization under Mr. Sessions, made public Dec. 19, when he cleared prosecutors in Orlando to seek a death sentence against Jarvis Wayne Madison, who is charged with fatally shooting his estranged wife in 2016.

The Justice Department is also considering seeking death sentences against Sayfullo Saipov, accused of killing eight people in November by driving a truck onto a Manhattan bike lane, and against two defendants in the 2016 slaying of two teenage girls by MS-13 gang members on Long Island, outside New York City, accord-

ing to people familiar with the deliberations.

Mr. Sessions views the death penalty as a "valuable tool in the tool belt," according to a senior Justice Department official.

The official said the death penalty isn't only a deterrent, but also a "punishment for the most heinous crimes prohibited under federal law."

The Justice Department under President Donald Trump expects to authorize more death-penalty cases than the

federal defendants have been executed. The federal government has secured 25 death sentences since 2007, down from 45 death sentences between 1996 and 2006.

Public support for capital punishment has fallen. A Gallup poll from October found 55% of American adults favor the death penalty for convicted murderers, the lowest level in 45 years.

Only 2% of death-penalty cases are sentenced in federal court.

Several types of murder cases fall under federal jurisdiction, including those involving drug trafficking, racketeering or—in Mr. Madison's case—interstate domestic violence and interstate stalking.

The Obama administration sought the federal death penalty in at least four dozen cases, fewer than the Bush administration, according to the Federal Death Penalty Resource Council, a federally funded program to assist death-penalty lawyers.

The cases authorized under the previous administration included ones involving terrorism, the killing of children or law-enforcement officers, and murders by prisoners already serving life sentences.

But in recent years, a Justice Department review of the

drugs used to execute prisoners prompted an effective moratorium on federal executions.

Mr. Sessions appears to be seeking the death penalty against a broader set of violent crimes.

Former Justice Department officials under President Barack Obama said they typically wouldn't have authorized capital punishment in a case like Mr. Arnold's, which involves gang-on-gang violence.

Murder cases with "victims who were themselves involved in criminal activity" are the ones where death-penalty decisions tend to fluctuate by administration, said David Bitkower, a former Justice Department official under Mr. Obama who prosecuted two death-penalty gang cases.

Eric Holder, who served as attorney general from 2009 to 2015, personally opposed the death penalty.

Loretta Lynch, Mr. Holder's successor, called capital punishment "an effective penalty" at her confirmation hearing.

Mr. Sessions has put combating violent crime at the center of his agenda, encouraging prosecutors to pursue longer prison sentences and approving the hiring of dozens of new violent-crimes prosecutors.

The U.S. appears to seek death penalty against a broader set of violent crimes.

previous administration did, the official said.

In 2017, state and federal juries handed down 39 death sentences, the second lowest since 1972, according to a report from the Death Penalty Information Center.

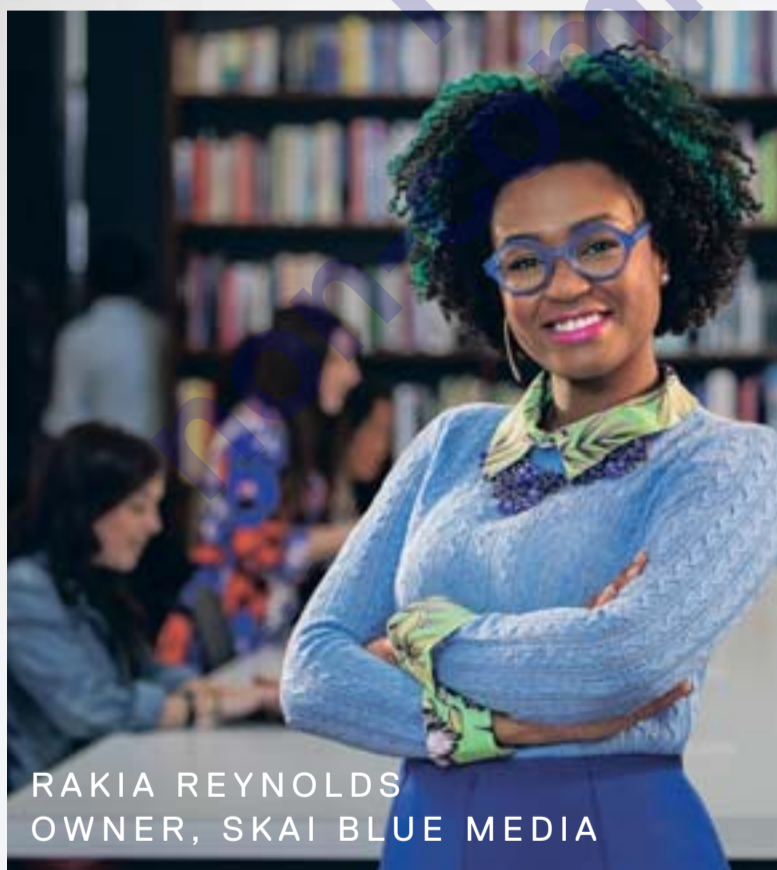
Eight states carried out 23 executions last year, the second-lowest total since the early 1990s, the report said.

The last federal execution was in 2003. Since 1963, three

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WORLD NEWS

Iran Takes Conciliatory Tone on Protests

Leader says people have a right to voice concerns, in a nod to protesters' grievances

By ASA FITCH

Iranian Supreme Leader Ayatollah Ali Khamenei said citizens had the right to voice their legitimate concerns, on Tuesday acknowledging for the first time the grievances of protesters taking part in the biggest wave of demonstrations in the country this decade.

Mr. Khamenei took a conciliatory tone during a speech in the city of Qom, as the regime responds to demonstrations that are testing its tolerance for dissent and exposing working-class complaints about high inflation, widespread unemployment and other persistent economic problems.

Many of the people who have protested in recent days are from Iranian hard-liners' own political power base, and they have been raising their voices against what they see



Supreme Leader Ayatollah Ali Khamenei on Tuesday blamed external actors for recent protests, which came amid economic concerns.

as a system that has left them behind economically.

"Nobody is against public protests," Mr. Khamenei said, according to his official website. "Their voices should be attended, heard and responded to. We should all pursue that."

President Hassan Rouhani, a relative moderate within Iran's political system, has taken a similar tone in recent days, underlining the right to protest and the government's need to address economic ills. But he has sided more aggressively

with protesters by suggesting Iranians' concerns went beyond the economy and into the political and social sphere.

Mr. Khamenei's conciliatory comments were an attempt to split what was left of an anti-government movement that

has exposed cracks in the system, said Behnam Ben Taleblu, a senior Iran analyst at the Foundation for Defense of Democracies in Washington.

The unrest appears to have waned in recent days following a crackdown by security forces.

More than 20 people were confirmed killed in the unrest. Iranian authorities have confirmed hundreds of arrests, although rights groups say the total is in the thousands.

Activists and relatives of the detainees have staged protests in recent days outside Tehran's Evin prison. On Tuesday, unverified videos shared on social media showed crowds demanding the release of those arrested. One video purported to show people throwing stones at security forces near the prison.

In acknowledging Iranians' struggles, Mr. Khamenei was undermining the economic management of Mr. Rouhani and blaming external actors for the unrest, said Ali Vaez, director of the Iran Project at the International Crisis Group. Mr. Khamenei has raised concerns before about the economy under Mr. Rouhani.

"What is not clear is whether the leadership can accept a civic culture in which peaceful protests are tolerated and deemed normal, and whether it can evolve," Mr. Vaez said.

Head of Davos Forum Sees Signs of Progress in Trump's First Year

By GERARD BAKER

President Donald Trump has had a rough first year in office but has made important diplomatic progress with China and other key countries toward resolving some of the biggest sources of international tension, according to the head of the World Economic Forum.

In an interview ahead of the 48th annual meeting of the gathering of world leaders in politics, business, culture and the arts in Davos, Switzerland, Professor Klaus Schwab expressed concern the U.S. president had upended many norms of international relations in his first year in office but noted that fears of greater global

tension had not been realized.

"Of course the first year has been rough. But on the other hand, look at the relationship with China, look at even the relationship with other countries....I mean there was not the confrontation which was the fear of many people in the world."

Last year, in the absence of leading U.S. officials who were in Washington for Mr. Trump's inauguration, President Xi Jinping of China took the opportunity to stake a claim for Chinese leadership in the global economic system.

Mr. Trump's attendance this year indicates the administration is looking to make its case for its "America First" interna-

tional agenda to a high-profile audience but may also indicate a fresh willingness on the part of the president to engage with world leaders on such issues as security, trade and immigration.

Prof. Schwab, speaking before the announcement Tuesday of Mr. Trump's participation in the forum, expressed concerns about the president's global leadership and his apparent turn away from liberal democratic values that the West had espoused for many years.

"I think we have to get accustomed [to the fact] that we do not have any more shared values...which characterized the world since...the end of the Cold War. And here to see that the leader of this world...is not

exercising anymore leadership which is expected: that's worrisome."

The theme of this year's Davos meeting is "Creating shared values in a fractured world" and Prof. Schwab said the forum would aim to provide specific ideas on how to deal with the challenges of rising nationalism and disagreement over trade, security and other matters.

"It's evident that we are living in a fractured world characterized by polarization. So what we want to do is to look at the origins of...the fractured growth. You have to find also solutions. We cannot just describe what's happening. We are living in a fast developing context. The world is becoming

more and more complex [but] still interdependent."

The World Economic Forum has attracted criticism from some who claim it has become little more than a plutocrats' playground. Those critics say the forum has aggressively pushed the very globalization that has resulted in a populist and nationalist backlash as represented by the election of Mr. Trump and the vote by the British people to leave the European Union.

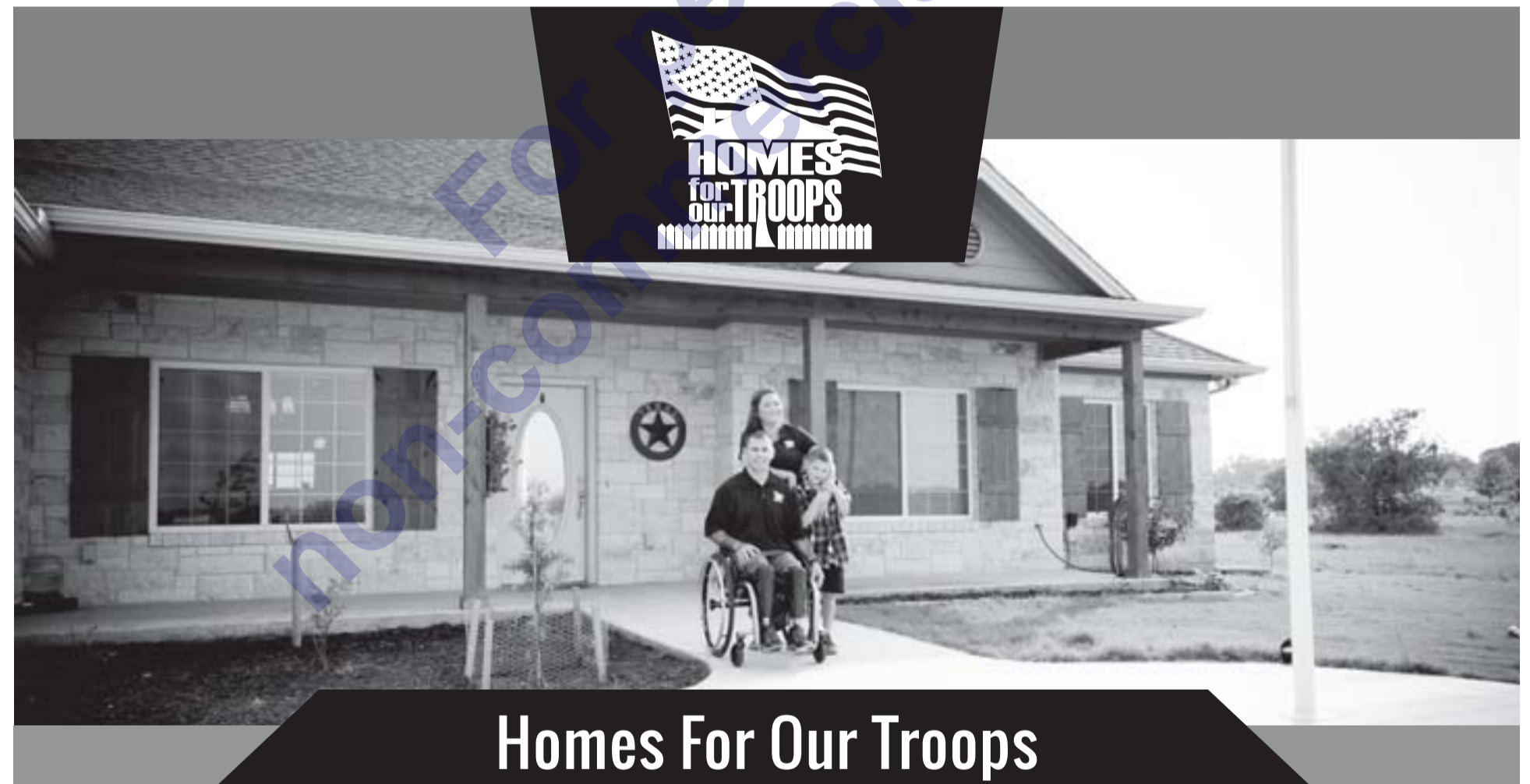
Prof. Schwab acknowledged the need for a re-evaluation of globalization to make it more inclusive and spread its benefits more widely. "I think we have to find a new balance. I would call it equitable globalization."

President to Attend Economic Summit

President Donald Trump plans to attend the World Economic Forum in Davos, Switzerland, later this month.

"The president welcomes opportunities to advance his America First agenda with world leaders," said press secretary Sarah Huckabee Sanders.

It is rare for a U.S. president to attend the Davos gathering. Presidents George W. Bush and Barack Obama sent top aides on their behalf. —Eli Stokols



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WORLD WATCH

WIKILEAKS

Ecuador Seeks End To Assange's Stay

Ecuador said Tuesday that it was looking for a way for Julian Assange to leave its embassy in London, where the WikiLeaks founder has lived since 2012 when he was granted political asylum.

Foreign Relations Minister María Fernanda Espinosa said in comments reported by state media that it was "unsustainable" for Mr. Assange to stay at the embassy indefinitely. She said Ecuadorean officials were hoping to reach an agreement with the U.K. that would allow Mr. Assange to leave.

Ms. Espinosa added that Ecuador wasn't giving up on its commitment to protect Mr. Assange.

Mr. Assange entered the embassy to avoid extradition to Sweden on allegations of sexual assault. The Swedish investigation has ended, but he remains in the embassy out of fear that U.S. authorities would seek his extradition to face charges for leaking thousands of classified government documents.

—Ryan Dube

SOUTH KOREA

Seoul Upholds Deal To Mollify Japan

Seoul stepped away from a potential clash with Japan over wartime history, saying it would abide by a 2015 agreement over women forced into sexual ser-

vice for Japanese soldiers.

Last month a South Korean panel said the deal, which included an apology by Japan and compensation, was flawed because it didn't reflect the wishes of the victims. Groups representing the women have called for the agreement to be scrapped and renegotiated.

With the move, South Korean President Moon Jae-in sought to conciliate a neighbor whose cooperation is essential to countering the threat from North Korea's arms programs.

—Min Sun Lee and Kwanwoo Jun

CHINA

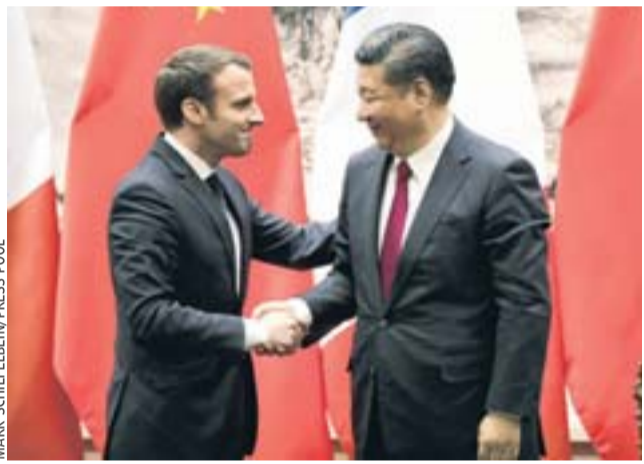
Search Is Extended For Missing Sailors

Chinese rescue workers expanded their search radius as they battled strong winds and big waves to find the crew of an Iranian oil tanker that was burning in the East China Sea days after colliding with a cargo ship.

The search-and-rescue corridor swelled to 900 square nautical miles around the Sanchi tanker, with airplanes and more than a dozen ships assisting, Chinese authorities said.

Thirty Iranians and two Bangladeshis were aboard the 899-foot tanker when the accident occurred. Just one sailor's body has been found. All 21 Chinese crew members on the Hong Kong-registered cargo ship CF Crystal—the other vessel involved—were rescued.

—Te-Ping Chen



EAST AND WEST: During an official visit to China, French President Emmanuel Macron shook hands with his Chinese counterpart, Xi Jinping, in Beijing on Tuesday.

WORLD NEWS

North Korea to Join Games

BY ANDREW JEONG

SEOUL—South Korea sought unsuccessfully to raise the North's nuclear program during bilateral talks, but the two sides reached a deal for Pyongyang to participate in the Winter Olympics and agreed to revive cross-border military communications.

Tuesday's face-to-face discussions at the demilitarized zone that divides the peninsula were the two Koreas' first since December 2015, and they came as the Trump administration leads a global push to isolate the North, which has been hit with tougher international sanctions in response to its weapons tests.

A joint statement released after the talks contained no mention of the North's atomic-weapons program, and South Korean officials said Pyongyang's delegates had voiced anger when Seoul broached the North's weapons program.

In a briefing after the talks, North Korea's chief delegate, Ri Son Gwon, said it was ridiculous to raise the subject of the North's nuclear weapons, which he said were "strictly aimed at the U.S."

The two Koreas also agreed to hold military talks to reduce tensions, though it wasn't clear when they would occur.

The North's lack of willingness to discuss denuclearization fanned suspicions that the regime is buying time to complete its nuclear program.

North Korea is just "taking a break" and trying to find relief from sanctions, said Chun Yung-woo, a former South Korean presidential national security adviser. Pyongyang will try to perfect its missile technologies through more weapons tests this year, he added.

Seoul's government said it would continue work with the U.S., China and Japan to "fundamentally resolve" regional disagreements over the North's weapons development.

South Korean officials said they had sought a resumption of family reunions for those

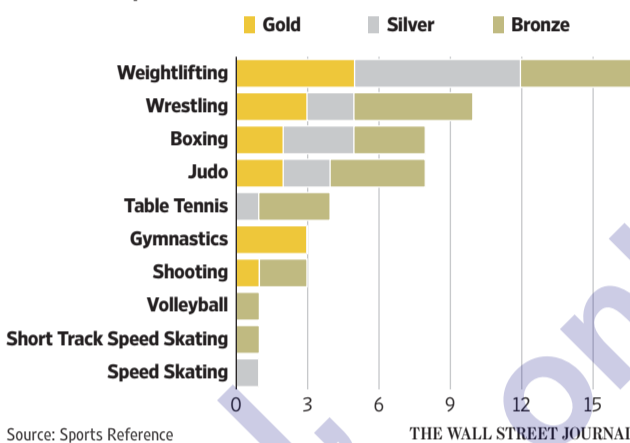


North Korea's Ri Son Gwon, right, speaks with South Korean Unification Minister Cho Myoung-gyon.

Taking the Stand

North Korea first participated in the 1964 Olympics. Besides skating, all of its medals have been won in the Summer Games.

Medals won per event



Source: Sports Reference

THE WALL STREET JOURNAL.

separated from their loved ones by the 1950-53 Korean War. There was no word Tuesday night on whether the North had accepted the proposal.

Cho Myoung-gyon, the South's unification minister and lead negotiator, spoke of a strong desire to see peace and reconciliation between the two Koreas, and said he believed the Games at the South Ko-

rean ski resort of Pyeongchang would be a "peace Olympics."

The State Department said U.S. officials would work with Seoul to ensure that the North's sending of a team "does not violate the sanctions imposed by the U.N. Security Council over North Korea's unlawful nuclear- and ballistic-missile programs."

The two Koreas spent

roughly 10 hours in discussions at Panmunjom truce village, the only spot on the inter-Korean border where both sides' forces face off just a few feet apart.

The Trump administration has expressed wariness about the inter-Korean talks, warning that North Korean dictator Kim Jong Un could be trying to drive a wedge between Seoul and Washington.

Brian Hook, a senior policy adviser at the State Department, said it was premature to call the discussions the beginning of something larger.

Mr. Hook added that Pyongyang likely agreed to the talks because of the U.S. pressure campaign against North Korea.

The White House, which has emphasized an international push to isolate North Korea, applauded the outcome of the talks, saying participation in the Olympics could be used as a carrot to get Pyongyang to discuss its nuclear-weapons program.

China, which has been anxious about the tensions on its doorstep, welcomed the meeting and indirectly urged the U.S., Japan and others to be supportive.

FROM PAGE ONE

CARGO

Continued from Page One
arrange freight shipments online.

Some analysts caution that the pace of growth may slow in 2018, when year-over-year comparisons will be tougher given the market improvements over the past year.

Still, growth "will be probably in the 4% to 5% range because the outlook for industrial activity and trade in 2018 is pretty strong," said Tom Crabtree, regional director of airline market analysis for Boeing Co.'s commercial airplane unit.

Demand for smartphones from Apple Inc. and Samsung Electronics Co. last year pushed up airfreight costs. Elevated semiconductor shipments, an airfreight mainstay, also have been gobbling up cargo space. And increasingly, companies are loading toys, clothing and other products onto planes to meet shorter delivery windows and leaner retail inventories.

Shoppers accustomed to getting online orders in two days or less are adding to the pile at airport cargo terminals with items such as dog food and dish detergent, as well as laptops and other consumer electronics.

"We're shipping more and more of what you might consider to be everyday basics," said Jim Mayer, a spokesman for the airline unit of United Parcel Service Inc.

To avoid the bottlenecks surging air-cargo traffic is creating at major hubs such as New York and Atlanta, some companies that arrange shipments for clients such as retailers are routing cargo through airports in cities like Detroit or Charlotte, N.C.

Air-cargo executives expect the crush to boost their industry's share of global shipments beyond its current level of about 2%. Already, air cargo represents about one-third of global goods shipments by value, because pricier, time-sensitive items such as fresh fish tend to be sent by air.

"We expect more profitable growth in 2018 and beyond as airfreight claims a bigger share of overall cargo volume to achieve ever faster e-commerce

deliveries," said Joe Hete, chief executive of air-cargo specialist Air Transport Services Group Inc., or ATSG, which flies cargo for DHL Express and Amazon.

Amazon is building its own airline operation to augment shipments it makes through DHL, UPS and FedEx Corp.

The e-commerce giant contracted ATSG in 2015 to make trial flights using jets carrying only its own goods to airports close to its distribution centers. Atlas Air Worldwide Holdings Inc., one of the world's largest air-cargo operators, has since joined as an additional partner,

'We're shipping more and more of what you might consider to be everyday basics.'

and by the end of 2018 the two airlines plan to have converted 40 used Boeing 767-300 jets to freighters to fly under Amazon's Prime Air banner in the U.S.

Amazon's partners have scoured the market for used passenger jets to convert to cargo use to keep up with Prime Air's rapid growth. Last year, ATSG acquired three Boeing 767s that had been parked in the Arizona desert by American Airlines Group Inc. Older planes are routinely stored in desert lots, where dry conditions pre-

vent corrosion. Often they end up broken up for spare parts.

"Atlas and ATSG are taking planes far older than anyone anticipated," said Steve Rimmer, chief executive of Altavair LLC, a Seattle-based aircraft leasing company that wasn't involved in deals for the Amazon jets. He said relying on jets built in the early 1990s could require more maintenance and become problematic for a company like Amazon that stakes its reputation on reliable deliveries.

ATSG's Mr. Hete said on a recent earnings call that the lower cost of the used jets was a major benefit. "The converted freighter pretty much does the same thing as a brand new one at basically a third of the cost," he said.

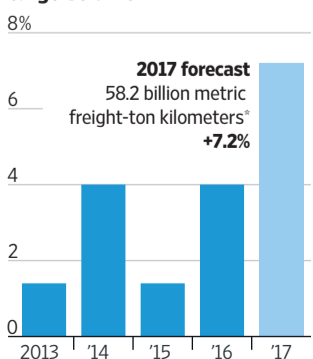
Amazon has deployed its current fleet of about 30 jets primarily for its fastest Prime delivery service, said a person familiar with its operations. The fleet has allowed it to extend the window for guaranteed two-day delivery from 6 p.m. on the East Coast to as late as 11 p.m. The company also is evaluating a new design for the air-cargo containers used on Boeing 767s to reduce wasted space and loading times, the person said. Amazon declined to comment.

The e-commerce giant also plans to build its own cargo hub at Cincinnati/Northern Kentucky Airport, with the first phase running by 2020 ahead of an expansion that would make it capable of handling 100 jets.

Flying High

E-commerce and a strong economy are stoking demand for air freight

Annual change in global air cargo volume



*One metric ton of freight carried one kilometer †Based on average of multiple East-West routes; includes fuel and security surcharges; excludes door delivery costs.

Average air freight price*



Sources: IATA (cargo volume); Drewry Shipping Consultants (price)

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WORLD NEWS

China Accuses General Of Graft

By Chun Han Wong

BEIJING—China plans to put a former top commander on trial in a military court over alleged corruption, state media reported, the latest high-profile case in President Xi Jinping's push to stamp out graft in one of the world's most powerful armed forces.

Military prosecutors are preparing a case against Fang Fenghui, the former chief of the People's Liberation Army's Joint Staff Department, who is accused of giving and taking bribes, the official Xinhua News Agency reported on Tuesday.

The prosecution of Gen. Fang was approved by the Communist Party's top leadership, the report said, the first public acknowledgment of the investigation against the general, who disappeared from public view last fall.

It wasn't clear if Gen. Fang, a former member of the party's Central Military Commission that oversees the armed forces, had legal representation. The 66-year-old couldn't be reached to comment.

Dozens of senior military officers have been snared by graft probes over the past five years as Mr. Xi used his anti-corruption campaign to assert control over the politically influential military and revamp it into a modern fighting force. Many of their replacements are widely regarded by military-affairs specialists as more professional and loyal to Mr. Xi.

The disclosure of Gen. Fang's case came weeks after another former member of the military commission, Gen. Zhang Yang, committed suicide while being investigated for allegedly giving and receiving bribes and possessing assets of uncertain origin. Gen. Zhang was a director of the PLA's political-work department.

Beijing Strategy Forces West to Adjust



CHINA'S WORLD
By Andrew Browne

SHANGHAI—To those it seeks to influence, the Chinese Communist Party can be an intimidating presence.

The China scholar Perry Link once called it "the anaconda in the chandelier."

Just by hovering, it induces self-censorship and subtle behavioral changes.

This has long been the case in China. Increasingly, as China projects outward, prominent figures in the West—politicians, executives, academics—are making nervous adjustments, too.

David Cameron should know. The former British prime minister faced the party's reproach after meeting the Dalai Lama in 2012, then spent the rest of his term straining to get back into its good graces, including declaring a "Golden Era" in U.K. relations with Beijing.

Put this down as another win for the party's psychological pressure tactics.

The mere fear of retaliation suggested by Chinese displeasure was enough to trigger a shift in government attitudes. No British leader is likely to receive the Tibetan spiritual leader again. London has adopted a more deferential—critics would say sycophantic—diplomatic tone toward Beijing. Officials soft-pedal human rights.

And now Mr. Cameron has emerged from the aftermath of the Brexit vote as an ambassador for China's flagship Belt-and-Road geopolitical project.



A policeman chides visitors in Tiananmen Square. China's tactic of shaping the West's view of Beijing has become increasingly effective.

Dealing with the party's coercive influence techniques is likely to become the greatest challenge to Western-style democracies.

These include passive bullying and active efforts to wage information warfare and infiltrate domestic politics—what the U.S. National Endowment for Democracy has dubbed "sharp power" as opposed to Western "soft power." The goal is to shape favorable perceptions of the Communist regime and its policies abroad.

China has timed its resurgence on the global stage to take full advantage of weaknesses in democracies in the U.S. and Europe, beset by populist revolts.

China sees itself in competition with these societies not just in economics and security but also on values. Its long-term strategy is to pro-

mote its authoritarian model of development. The immediate diplomatic objective is to garner overseas support for Beijing's positions on everything from Tibet and Taiwan to the South China Sea.

In that effort, Beijing seeks to co-opt credible Western voices to speak on its behalf.

For years, democracies have been naively complacent about these activities, confident of the inevitable triumph of the liberal order in the post-Cold War era. In Australia, party-affiliated Chinese tycoons have helped bankroll the two major political parties. Chinese state media now largely dictate coverage at virtually all of the country's Chinese-language news outlets. Beijing's diplomats keep tabs on Chinese students. Combined, these efforts challenge Australian sovereignty,

an acute irony given how China warns against foreign interference in its own domestic affairs.

Yet, only now is Canberra waking up to the infiltration.

What is most surprising about Prime Minister Malcolm Turnbull's pushback—a new bill will limit the flow of Chinese money into politics—is the acknowledgment that the system was so wide open to manipulation.

A growing backlash in Australia, echoed now in Europe and the U.S., has prompted Chinese state newspapers to allege an anti-China witch hunt.

For democracies, recognizing the nature of the threat is the first step to countering it. The anaconda won't be dislodged from its commanding perch. It coils around the Chinese media, academia, civil-society groups and businesses, both private and

state-owned.

And it shadows the cooperative deals that these institutions forge with Western news organizations, colleges and corporations. The issue is the extent to which the democratic West is prepared to compromise its values to reap the economic rewards of staying on the right side of the party.

China's tactics are paying off. Governments hesitate to speak out on issues sensitive to Beijing. Hollywood movies that portray China in a negative light don't get made. Media organizations are tempted to pull their punches.

"Normally the great snake doesn't move. It doesn't have to," Mr. Link wrote in a 2002 essay in the *New York Review of Books*. "Its constant silent message is, 'You yourself decide.'"

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IN DEPTH

SAUDI

Continued from Page One
go somewhere where I could have a normal life. Now, normal is coming to us.”

In September, Saudi Arabia announced the world’s only ban on women driving will be lifted this summer. Cinemas will soon open after a 35-year ban. Music, widely considered taboo and until recently rarely even played in the background in restaurants, is making a comeback. On Friday, for the first time, women will be allowed into a stadium to watch a soccer match.

These efforts have prompted resistance from those wary of undoing decades of edicts woven into the Saudi social fabric, in particular from religious conservatives, who remain a powerful constituency.

Sheikh Saleh al Fozan, a member of Saudi Arabia’s top religious body, reiterated a common argument against women driving. “If women are allowed to drive,” he said in a statement published on his website, “they will be able to go and come as they please day and night, and will easily have access to temptation, because as we know, women are weak and easily tempted.”

Among those who support aspects of the changes, such as encouraging more women to join the workforce, some find the speed of liberalization unsettling, saying they don’t want Saudi Arabia to lose its defining religious identity as the birthplace of Islam.

Many restrictions still apply, and it’s unclear if they will ever be lifted. To this day, women are required to wear floor-length robes; shops close several times a day for prayers; gender segregation is widely practiced in restaurants and workplaces. Women are required to have a male guardian, whose permission they need to travel abroad or marry. Non-Muslims are still banned from practicing their faith publicly.

The roots of conservative Islam run deep in Saudi Arabia, and are intertwined with the kingdom’s ruling family. In the 18th century, the House of Saud struck an alliance with the preacher Mohammed Ibn Abd al Wahhab, who demanded a return to what he saw as the pure faith practiced by Prophet Muhammad and his companions. That intolerant strain of Sunni Islam, dubbed Wahhabism by critics, became the dominant doctrine in Saudi Arabia, inspiring generations of jihadists at home and abroad.

The partnership between the descendants of Abd al Wahhab and the royal family helped create the modern Saudi state in 1932. Since then, the monarchy has ruled with the backing of the religious establishment, which controls the justice system, based on Shariah, or Islamic law. Wahhabi clerics have helped legitimize the rule of the House of Saud, casting obedience to the ruler as a religious obligation.

Over the decades, the desire to alter Saudi Arabia’s social dynamics had to be balanced against tribal traditions and religious considerations. That has long made Saudi Arabia one of the most conservative places on earth. Nevertheless, Saudi rulers were able to introduce innovations such as television and opened schools



Saudi girls pose for a group photograph at the first-ever Comic-Con Arabia event held in Riyadh on Nov. 25, 2017.

The Liberal Enclave Overtaken by Clerics

In Asir, an open society yielded to repression and extremism

Saudi Arabia’s sharp turn was felt across the country, perhaps nowhere more dramatically than in the region of Asir, historically one of the kingdom’s most open societies. A mountainous region in the southwest, Asir is more fertile than most of the country. For as long as residents

can remember, men and women had worked in wheat fields side by side, often breaking into songs. A combination of religious fervor and oil money put an end to that by the early 1980s.

“Women had much more active lives in the past. We would work side by side in the fields. I would sing, and they would sing,” recalls Mohammad Torshi, 89, who lives in Asir’s village of Rijal Almaa. “Then the religious people came.”

The mixing of unrelated men and women, let alone singing and dancing, was no longer ac-

ceptable. Cinemas closed and music stopped.

In public, women were forced to wear face-covering veils, which in parts of the country such as Asir had been virtually nonexistent. The religious police, formally known as the Committee for the Promotion of Virtue and the Prevention of Vice, was given the job of enforcing the new order.

Radical Islamists infused the school curriculum with the teachings of Wahhabi scholars. Textbooks instructed students to hate Christians and Jews and

denigrated Shiite Muslims. Some of the more extreme views often came from teachers, who sometimes recruited students to extremist causes.

Saudi charities linked to the government helped spread that interpretation of Islam beyond the kingdom’s borders, inspiring generations of jihadists.

Asir proved a fertile ground for extremism. Of the 17 Saudi citizens who participated in al Qaeda’s Sept. 11, 2001, attacks, five were from Asir, more than from any other region.

—Margherita Stancati

for girls over the objections of religious conservatives.

After 1979, religious conservatives gained an upper hand when two events challenged Saudi Arabia’s role as the cradle of Islam: the Islamic revolution in Iran and the week-long siege by armed extremists of the Grand Mosque in Mecca, Islam’s holiest site.

Saudi leaders took steps to appease the kingdom’s ultra-conservative fringe, which they perceived as the biggest threat to their rule.

In so doing, the monarchy gave the kingdom’s clerics free rein to enforce a strict moral code in public, to reshape the

Ms. Alneami found ways. Although music was widely considered sinful, she collected audiotapes distributed by religious conservatives to circulate sermons and recorded music over them. She would spend hours in her bedroom with her Sony Walkman dancing to the likes of Michael Jackson and the Algerian punk rock star Rachid Taha.

Earlier this month, she attended the concert of Hiba Tawaji, the first performance by a female singer in the Saudi capital in recent decades. In a scene she had never seen before in Saudi Arabia, members of the audience rose from their seats, dancing, whooping and hollering.

“Growing up I was told that people who listen to music would be punished [in the afterlife] with hot metal poured into their ears,” said Ms. Alneami, whose work includes photography and installations that focus on the ways Saudis have fun despite restrictions. “I’m so happy I got to see the first party—it’s like an art installation.”

American rapper Nelly—known for songs such as “Hot in Herre”—performed last month in Jeddah. In a reminder that some restrictions still apply, the first concert was open to women only and Nelly’s to men alone.

When King Salman assumed the throne in early 2015, few expected he would be the one to oversee rapid social change. Known as a pious Muslim, he cultivated close relations with the religious establishment in his role as governor of Riyadh, a position he held for decades. In fact, many analysts say this gave him and his son, Crown Prince Mohammed, greater

clout to make changes compared with his predecessor King Abdullah, who was considered a liberal by Saudi standards.

In an era of cheap crude, loosening Saudi Arabia’s social rules has become an economic and political imperative for Prince Mohammed, the driving force behind an ambitious plan to end the kingdom’s dependence on oil. Saudi Arabia, where the majority is under 30 years old and 12.8% of the population is unemployed, is trying to become more attractive to foreign investors and to the country’s own youth. It wants to bring more women into the workforce. Failure

puts at risk the country’s next generation, which could be lost either to opportunities overseas or to underground extremist groups at home.

Religious conservatives are far less powerful than they were a decade ago. Thanks to satellite television and the internet, Saudis have been exposed to different ways of thinking. More than a hundred thousand Saudi men and women returned to the kingdom over the past decade after studying in Western universities on government-funded scholarships.

Last year, the government also began sending teachers abroad to see how Western

On Friday, women will be allowed into a stadium to watch a soccer match—a first.

education system and to export their intolerant views abroad. The country’s newfound oil wealth meant the government could afford to prioritize religion over productivity.

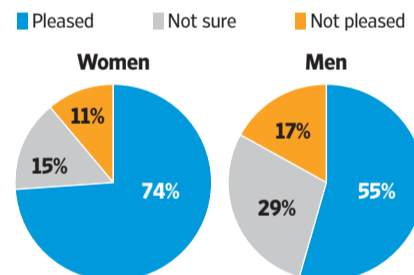
The government funded religious causes at home and abroad and it didn’t desperately need foreign investors, who were put off by harsh rules like the ban on men and women mixing in the workplace. It could also afford to neglect industries like tourism and entertainment, opposed by religious hardliners.

One of them was a neighbor of Ms. Alneami. For someone growing up in Abha in the 1990s, having fun wasn’t easy.

Open Roads

Nearly two-thirds of all Saudis surveyed said they are pleased with the decision to lift the ban on women driving.

Source: Ipsos survey of 500 people conducted online in October
THE WALL STREET JOURNAL.



In June it will become legal for women to drive in the kingdom.

CATS

Continued from Page One
U.S. cafes. These institutions typically rely on shelters to supply the cats, which can number a dozen or more. They often hang cat-themed art and serve coffees like “caramel macchiato.” Patrons may pay a cover charge to interact and sign a waiver from all kinds of catastrophic consequences.

The concept is warm and fuzzy. Stressed-out humans get comfy chairs and time with free-roaming, mostly adoptable cats. The reality is hairier: soul-searching attempts to win over neighbors and an operation that hinges on unpaid staff, cats, which won’t take orders, because they are cats.

Cafe rules can look like they were written by the felines themselves. Don’t make loud noises; don’t wake sleeping cats; don’t pull tails or ears; don’t pick up cats against their will; and “if you upset them

and something goes wrong, please don’t sue the humans,” say the “House Rules” at Le Cat Café in Philadelphia.

The rub here is that cats can sleep 12 to 16 hours a day.

“It’s almost like going to a meteor shower and not seeing any meteors,” said Jeff Ivey, a San Diego truck driver who felt “ignored by the cats” who wouldn’t frolic on a recent cat

cafe visit. “I’ll admit it,” he said, “I wanted to get in there and play with them and throw a feather at them.”

Rebecca Arevalo, a 59-year-old family therapist in La Habra, Calif., said she and her husband seek out cat cafes on trips. “We’re weird that way,” she said.

At San Diego’s Cat Cafe, owner Tony Wang said an or-

ange tabby took issue with a patron’s attempt at petting. He said the customer interrupted a “clearly grouchy” feline.

“He just jumped on her legs and hugged them,” Mr. Wang said of the 2016 incident. “It was not super aggressive, though obviously he’s got claws.”

Ashley Brooks and a friend raised \$23,000 in a Kickstarter campaign toward the opening of Pounce Cat Cafe & Wine Bar in Charleston, S.C., in late 2016. By early 2017, Ms. Brooks’s skin was red and itchy. She sought treatment. “The doctor said, ‘Yep, you’re allergic to cats,’” she says.

Aided by allergy shots, she is staying. “I’ve already sunk so much money into this business, I can’t just walk away,” she said.

Cats show no such loyalty. At Cat Café Mad in Wisconsin, a reddish-haired feline named Sunny outfoxed the door attendant and when the door opened, ran like a cat out of hell. “Everyone was screaming,” said owner Cheryl Glover.

“It was a terrible thing.”

Sunny was on the lam for three weeks—with hundreds following the search on social media—until someone spotted him nearly six blocks away.

Expenses, from kitty litter to vet bills, exceeded Ms. Glover’s original estimates. To offset “cat costs,” she said, Cat Café Mad recently diversified, adding a creperie with windows that look out to the cats. Patrons can eat crepes and watch cats.

In San Marcos, Texas, the Planning and Zoning Commission in May overrode the objections of a neighboring tattoo artist who said he “is horribly allergic,” when it voted 6-3 to approve the Cattery Lounge & Snackery. One caveat: Litter boxes, kept in the back, had to be elevated off the ground in the event of floods.

The Cattery, however, soon closed, announcing “with a heavy heart” in December that the business is “not sustainable.”

Audrey Boese raised money to open Kansas City’s first cat

schools function, a step partly aimed at tackling extremism among educators.

“We are moving in a new direction for education and a new direction for the country,” said Saudi Education Minister Ahmed al-Eissa. He added that new textbooks, scrubbed of vitriol, will be rolled out in the next academic year.

In 2016, the Saudi government stripped the religious police of its power to arrest, the most consequential result of the eroding alliance between the monarchy and the clerical establishment.

The Muslim World League—a body that was once the key vehicle through which Saudi Arabia spread Wahhabi ideology beyond its border—is now led by a moderate cleric, who says promoting greater understanding among faiths is a priority.

“In 1979 our religion was hijacked,” said Sheikh Mohammed al-Issa, a former minister of justice, who in a gesture of tolerance routinely encourages the non-Muslim women he meets to remove their headscarves, “Now we are eradicating the roots of extremism.”

During a trip to Europe earlier this year, he became the first head of the Muslim League to meet the pope and visit a synagogue.

In September, authorities arrested dozens of clerics as part of a broad crackdown against dissent. Among them are former members of the so-called Islamic Awakening, a once-powerful Islamist movement linked to Egypt’s Muslim Brotherhood that in the past has challenged the monarchy’s authority. Most of its members have since publicly embraced more moderate views.

The government is also setting up a new center to vet the interpretations of Prophet Muhammad’s teachings, or hadiths, in a bid to prevent the teachings from being used to justify violence.

“It will purify Islam from any intentions, clean the hadiths from the liars’ deliberate misquotations and present Islam in a better image,” said Sheikh Mohammed bin Hassan al-Sheikh, the chairman of the new entity and a member of the Council of Senior Scholars, the kingdom’s highest religious body.

In major cities like Riyadh, more Saudi women are choosing colorful robes, known as abayas, instead of the all-black ones they typically wear. Many are allowing headscarves to slip to their shoulders. In the more liberal city of Jeddah, all-female jogging groups run on the waterfront wearing leggings under their tunics.

Alia al-Azmi, a 24-year-old lab technician based in Riyadh, says she hopes to soon be able to discard the face-covering niqab she always wears. “In the future, we’ll look more like Dubai,” she said, as she scrolled through pictures with no covering during a trip abroad. “But here, I have to wear a niqab. I don’t want any of my colleagues to see me.”

For some, change isn’t coming fast enough. “I haven’t seen any real change in Abha,” says Saeed al-Bishry, a 50-year-old art teacher. “Concerts are happening in Jeddah and Riyadh, not in Abha.”

He said over the past decade the ban on drawing animate beings has gradually loosened. Still, earlier this month, Mr. Saeed asked his 10-year-old students to draw camels. One of them refused. “He drew a landscape instead.”



Patrons play with one of the cats at the Denver Cat Co. cafe.

GREATER NEW YORK

Lawmaker Accused of Stealing Sandy Aid

Assemblywoman Harris submitted false claims for storm relief, prosecutors say

By MARA GAY

New York state Assemblywoman Pamela Harris was indicted on fraud charges Tuesday for what prosecutors said was the theft of tens of thousands of dollars in city and federal money meant for superstorm Sandy victims and programs to aid vulnerable youth.

Ms. Harris, a 57-year-old Brooklyn Democrat, submitted

fake documents to the Build it Back program, New York City's Sandy-recovery initiative, falsely claiming her home was damaged in the October 2012 storm, federal prosecutors said. She submitted similar claims to the Federal Emergency Management Program, receiving \$25,000 in funds designated for storm survivors, they said.

In separate allegations, prosecutors said Ms. Harris stole more than \$30,000 in City Council funds slated to go to a nonprofit she ran before becoming an assemblywoman in 2015. Ms. Harris kept the money, which was distributed through the city's Department of Youth and Community Development,

for her own use, they said.

In the 21-page indictment, prosecutors said Ms. Harris used the money to pay her mortgage, shop at Victoria's Secret and buy tickets for a cruise with her husband.

Ms. Harris pleaded not guilty Tuesday afternoon in federal court in Brooklyn. U.S. Magistrate Judge Ramon E. Reyes Jr. set bail at \$150,000 and restricted the assemblywoman's travel to New York City, Long Island and work-related travel including Albany. "I understand you might have to go to Albany to take care of some things," Judge Reyes said.

In a statement released after the hearing, Ms. Harris's law-

yers, Joel Cohen and Jerry H. Goldfeder, described the assemblywoman as "an invaluable community organizer and a well-regarded legislator." They



Pamela Harris pleaded not guilty and her lawyers didn't say whether she planned to step down.

said they "look forward to her day in court and an opportunity there to present the full facts." "Importantly, none of the allegations contained in the in-

dictment relate to Ms. Harris's conduct in office," her lawyers noted.

Their statement didn't say whether Ms. Harris planned to step down from the Assembly.

Ms. Harris was charged with two counts of wire fraud, one count of conspiracy to commit wire fraud, four counts of making false statements and two counts of bankruptcy fraud.

She also was charged with one count of witness tampering and one count of conspiracy to obstruct justice because prosecutors said the assemblywoman pressured witnesses to lie to the Federal Bureau of Investigation.

The case appears to be the

first prosecution of an elected official for allegedly misusing funds related to Build it Back, a federally funded program that is behind schedule and at least half a billion dollars over budget after \$2.2 billion in federal money was allocated to the program.

A spokeswoman for New York City Council Speaker Corey Johnson didn't immediately have a comment. A spokesman for Mayor Bill de Blasio declined to comment.

Matt Viggiano, a spokesman for Build it Back, said the program "works hard to ensure that New Yorkers who need Sandy-related recovery assistance get the help they need."



New Jersey Gov. Chris Christie waved to lawmakers before he delivered his final state-of-the-state address in Trenton on Tuesday.

States Push Ban On Bump Stocks

By JOSEPH DE AVILA

Lawmakers in the New York region are starting the new year with a drive to ban the sale and possession of "bump stocks," devices that allow semiautomatic weapons to essentially act as automatic firearms.

Connecticut Gov. Dannel Malloy on Tuesday said the Las Vegas mass shooting in October demonstrated the need for more action. In that attack, Stephen Paddock used at least one rifle outfitted with a bump stock to spray an outdoor music festival with gunfire, killing 58 people and injuring more than 400.

"It is clear that bump stocks have no place in our society," Mr. Malloy said.

The governor has proposed a ban on so-called "binary trigger systems" and "trigger cranks," which allow guns to shoot more rapidly.

On Monday, the New Jersey legislature gave final approval to a similar bill banning the sale and possession of bump stocks. The legislation is now on the desk of Gov. Chris Christie, who hasn't said if he will sign it. A spokesman for the governor declined to comment.

The New Jersey legislation makes it a third-degree crime to possess a bump stock, punishable by three to five years in prison, a fine of up to \$15,000, or both.

California and Massachusetts are currently the only states that have a clear prohibition on the sale and possession of bump stock devices, according to Ari Freilich, staff attorney for the Giffords Law Center to Prevent Gun Violence, a group that supports stronger gun laws.

In New York, residents are banned from possessing weapons that simulate machine-gun fire, which applies to guns equipped with bump stocks, Mr. Freilich said. But New York law doesn't restrict the sale or possession of bump stocks themselves.

On Monday, New York state Assembly Speaker Carl Heastie sought to change that, calling for a ban on the sale and possession of the devices. "We refuse to remain idle or create excuses while innocent Americans die," he said Tuesday.

Gov. Malloy's latest proposal would make the possession or sale of binary trigger systems and trigger cranks a Class D felony. Permit holders who possess bump stocks or similar devices before July 1, 2020, will be fined \$90 for their first infraction and charged with a Class D felony for subsequent infractions.

Scott Wilson, president the Connecticut Citizens Defense League, which represents gun owners, said the governor's proposal "is simply 'feel good' in nature" because of the state's existing restrictive laws. "This fact already renders devices such as bump stocks mostly ineffective," Mr. Wilson said.

Groups that support stronger gun laws applauded the proposed ban. "There is absolutely no justification for any civilians to own bump stocks or assault weapons and other dangerous accessories," said Po Murray, chairwoman of the Newtown Action Alliance, which advocates for stricter firearms restrictions.



Gov. Dannel Malloy said 'bump stocks have no place in our society.'

Christie Defends Tenure in Final Speech

By KATE KING

TRENTON, N.J.—New Jersey Gov. Chris Christie defended his legacy in his gubernatorial farewell speech Tuesday, trumpeting his administration's record on issues ranging from taxes and the economy to criminal-justice and addiction treatment.

Mr. Christie, who was prevented by term limits from running for re-election, will leave office next week after an eight-year tenure that also was marred by a public-corruption scandal and an unsuccessful presidential bid.

In his final state-of-the-state address, stretching 86 minutes before the state Legislature, Mr. Christie said he believes he will be remembered for holding the line on tax increases, leading the state's recovery following superstorm Sandy and working with Democrats to push through policies that benefited New Jersey residents.

"For eight years, we have said 'no' to unplanned, exorbitant spending and we have used the veto and line item veto to enforce fiscal responsibility," Mr. Christie said.

Mr. Christie, a Republican, was considered a contender

for his party's presidential nomination during his first term but fell from favor shortly after his 2013 re-election as an investigation into traffic-lane closures at the George Washington Bridge engulfed his administration. Mr. Christie wasn't charged in the case, in which three of his former allies were convicted of orchestrating a traffic jam in 2013 to punish a nearby mayor who declined to endorse the governor for re-election.

The scandal severely eroded his popularity in the state. A November poll by the Eagleton Institute of Politics at Rutgers University found that only 18% of respondents believe the governor is leaving the state better off than it was when he took office.

Mr. Christie spent much of his final year in office focused on combating the state's addiction crisis, which worsened during his second term as deaths from heroin and opioid overdoses soared.

"We are still losing too many of our citizens to this disease, but at least now we are taking concrete steps to try turn back the tide of death and suffering," he said Tuesday.

The George Washington

Bridge scandal, coupled with Mr. Christie's frequent travels out of New Jersey during his unsuccessful campaign for the 2016 GOP presidential nomination, angered the state's residents during his second term. Only 5% of respondents polled by the Eagleton Institute said they would miss Mr. Christie after he leaves office.

Only 18% of poll respondents believe the governor is leaving the state better off.

The governor's low approval ratings dragged on the campaign of his lieutenant governor, Kim Guadagno, who lost the November election to replace Mr. Christie. The race's winner, Democrat Phil Murphy, takes office on Jan. 16th.

Mr. Murphy's upcoming swearing-in means Democrats will be firmly in control in Trenton, where the party dominates both chambers of the state legislature. Legislative leaders said they would focus on progressive

priorities previously blocked by Mr. Christie, such as raising the minimum wage, legalizing marijuana, strengthening gun control and boosting public-education funding.

Mr. Murphy said the governor glossed over significant problems facing the state, from lackluster economic growth to rising education, transportation and health-care costs.

Senate President Steve Sweeney, a Democrat from southern New Jersey who worked with Mr. Christie on several major pieces of legislation, said the governor deserved credit for key accomplishments, including restructuring the state's higher-education system, eliminating cash bail for defendants awaiting trial and overhauling public-employee benefits.

Republicans defended Mr. Christie's tenure as a success. "He's the most talented speaker, the most skilled communicator that I have ever seen in my lifetime, bar none," said Assemblyman Jon Bramnick. "Substantively, you tell me who's been a better governor?"

Mr. Christie gave no clues during his final major speech as to what he plans to do next.

City Plans New \$400 Million Public-Health Lab in Harlem

By MELANIE GRAYCE WEST

New York City will spend about \$400 million to build a new public-health laboratory, a larger facility expected to open in about seven years on the campus of Harlem Hospital Center, officials said.

The move, which is to be announced in the coming weeks, is intended to give the city's Department of Health & Mental Hygiene more flexibility for its lab equipment and help its staff work more easily in the event of a crisis such as Zika in 2016 and Ebola in 2014.

"When we need to respond to a public health emergency, it's very hard to do that in the current space," said Jennifer Rakeman, director for the New York City Public Health Laboratory.



Technicians in the current lab, which is more than 50 years old

The lab annually tests more than 200,000 clinical and environmental samples, a department spokesman said. That is for everything from anthrax, HIV, rabies and Zika to foodborne illnesses, along with

processing other tests conducted at the city's public hospitals and sexual-health clinics.

The new lab has long been under discussion. Health officials considered renovating

the current facility at First Avenue and East 26th Street, but ultimately determined that a new building would work better, said health commissioner Mary Bassett.

Scrapping the lab altogether for a private-sector partner wasn't an option, said Dr. Bassett. Private or commercial labs "are unable to provide the types of services that our public health lab provide," she said.

In 1892, the city opened a bacteriology laboratory, which would become the world's first municipal laboratory to routinely diagnose disease, according to a city history of the health department. The facility, across from Bellevue Hospital Center, is more than 50 years old. Nearly 200 people work there.

Laboratory floors are war-

rens of small spaces, with emergency-wash stations located in the hallways instead of inside labs. Because asbestos remediation is often required with renovations to move in big equipment or run new electrical or data lines, the ceilings and floors are a patchwork of new and old.

Costly, state-of-the-art equipment that can sequence the entire genome of Legionella bacteria is crammed onto work benches that include capped vacuum, water and gas faucets unused for decades. Some extra-large equipment brushes against low ceilings.

For workers, there is no place to do paperwork and drink a cup of coffee at the same time. As a result, a decommissioned parasitology lab is used as a break room.

Technicians now work in

spaces that often have poor access to testing equipment, forcing them to package up their samples just so they can go down the hall or to another floor to get to the machines.

The lab has backup generators, but they can't power the entire building. During superstorm Sandy in 2012, the city's modern, biological-safety level 3 laboratory—where tuberculosis and Ebola testing happens—received a "white powder" item for testing from law enforcement. To test the item for anthrax, but with insufficient backup generators, Dr. Rakeman brought in a heavy-duty extension cord from home to run power from one part of the space to another.

Lab workers, she said, "in general, are very good at MacGyver-ing things and making things work."

GREATER NEW YORK

METRO MONEY | By Anne Kadet

A Crown Jewel for Machine Repairs Thrives

On my first visit to Crown Machine Services in Manhattan's Upper West Side,

co-owner George Grossman greeted me with a declaration: "This is not my doing!"

By "this," he meant the jumble of his small shop, packed floor-to-ceiling with an astonishing assortment of new and used vacuums, sewing machines and random electronics.

"If I were a customer, I don't know if I'd buy anything," he said. But a recent afternoon brought a steady stream of visitors. The reason: Crown is one of the last places in the city where you can get a repair on an old VCR, typewriter or stereo. The store's technicians will fix just about anything—or at least try.

Making repairs doesn't always pay, said Mr. Grossman, a tall, soft-spoken 83-year-old. But the shop has a loyal following, and he hates to disappoint.

"We have some gals who have been with us 40, 50 years," he said. "How do you say no to them? How do you say no to any woman?"

The next day, Barbara Malpica, a retiree who lives nearby, brought in a small clock with a loud tick. "You can't be in the room with it," she said.

Mr. Grossman's partner, Mark Linde, told her that Crown doesn't typically repair clocks, but she insisted: "Can't you make it shut up?"

Ms. Malpica said she previously spent about \$30 to have Crown repair a plastic transistor radio. "I don't think it was originally an expensive radio, but it's better than any of the new things," she said.



Crown Machine Services fixes vacuums, below, and much more. The store has used the same cash register since it opened in 1965.



Customers often bring in old electronics because they can't buy a replacement as good as the vintage version, said Mr. Linde. And when it comes to VCRs and typewriters, new models aren't available.

Then there are the environmentalists. "They don't want

to put stuff in the landfill," Mr. Linde said. "They'd rather pay more to fix something. Especially here on the Upper West Side. If this store was on the East Side, we probably wouldn't be in business."

The laborious fixes aren't cheap. It typically costs \$39.50 just to get a diagno-



sis, which is applied toward the repair. Fixing the loading mechanism on a VCR could cost about \$100, Mr. Linde said. On the high end, replacing the circuit board on a stereo receiver or repairing a vacuum motor could cost up to twice that.

Alex de Laszlo, an aca-

demic librarian who came by for a vacuum repair, said he previously tried having Crown fix a cassette recorder and a portable record player, but it couldn't find the parts.

"It's a false economy," Mr. de Laszlo said of his efforts to repair beloved devices.

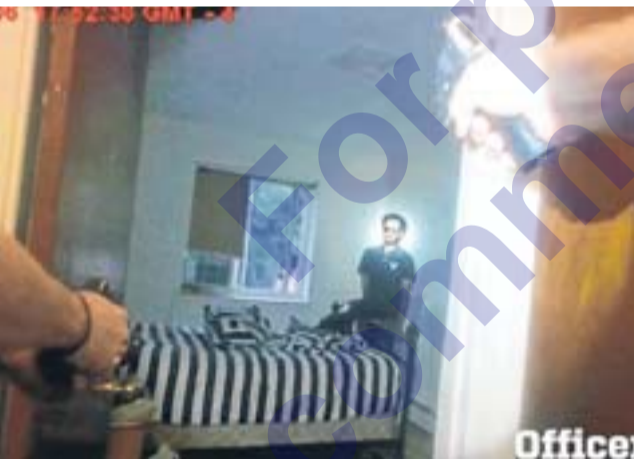
Union Sues Over Video of Police Shootings

By ZOLAN KANNO-YOUNGS

The largest police union in New York City says Mayor Bill de Blasio and NYPD Commissioner James O'Neill violated state law when they permitted the release of body-camera footage of recent police shootings.

In a lawsuit filed Tuesday in Manhattan Supreme Court, the Patrolmen's Benevolent Association said the release of the footage broke state law that says personnel records used to evaluate performances of police officers, as well as firefighters and correction officers, shouldn't be made public unless there is written consent by the officers or a court order. The union's suit names the city of New York, the New York Police Department, and Messrs. de Blasio and O'Neill.

The PBA is arguing that the



Body-camera footage shows a man shot by police in September.

videos shouldn't be released without the court order or consent because they can have an impact on officers' jobs.

NYPD officials contend the footage doesn't fall under the definition of "personnel re-

ords" because the police edit the raw footage from each responding officer's camera into a new video that contains redactions.

"Nobody with a stake in these issues should be com-

fortable with this politicized, secret and unchecked process," Patrick Lynch, president of the union, which represents about 24,000 officers, said in a statement. "Not the district attorneys, not good government advocates, not the public, and certainly not police officers and their families whose personal safety is being placed at risk."

The NYPD started releasing body-camera footage of police shootings in September, and police officials said they would continue to do so on a case-by-case basis. The incidents include the fatal shooting of a mentally ill man armed with a toy gun on Sept. 6; the shooting in the leg of a suicidal man armed with two knives on Oct. 22; and the fatal shooting of a mentally ill man in a halfway house on Nov. 13.

Messrs. de Blasio and O'Neill

have both previously said the state law hurt the department's efforts to further transparency and needs to be amended.

"The release of body camera footage, when possible, is an important extension of that commitment," a spokesman for the mayor, Austin Finan, said in a statement.

The latest legal challenge adds to controversy that has surrounded the city's interpretation of the state law, also known as 50-A. The NYPD itself cited the law in March 2016 when it halted a years-long practice of making public internal documents that stated whether an officer had been disciplined. The Legal Aid Society is currently appealing a June decision by the Manhattan Supreme Court that found the disciplinary information of the officers is protected by the state law.

Multiple Problems Mar Train Commute

By PAUL BERGER

Mechanical issues, signal problems, a sick passenger and ice on the tracks combined to delay hundreds of thousands of subway riders during the morning rush on Tuesday.

Just as many parts of the system looked to be recovering, an electrical issue involving Metropolitan Transportation Authority equipment caused smoke at the 47-50 Streets-Rockefeller Center subway station forcing trains to bypass the stop and knocking out B line service for several hours.

By late afternoon, the Metropolitan Transportation Authority had cataloged disruptions on 18 of the transit system's 27 subway lines.

John Raskin, executive director of the Riders Alliance, called on New York Gov. Andrew Cuomo to do more to fix the subway.

"Gov. Cuomo promised a plan by the end of last year for how to modernize the crumbling transit system, but we still haven't seen anything concrete, and solving the transit crisis is only growing more urgent," he said.

A spokesman for Mr. Cuomo referred questions to the MTA.

Last summer, Mr. Cuomo's appointee to run the MTA, Joe Lhota, announced a short-term plan to restore and modernize the system. Mr. Lhota has said that since he launched the roughly \$800 million plan the frequency of major subway incidents that delay more than 50 trains has declined.

"We are deploying thousands of workers to modernize and stabilize the system with the implementation of our aggressive Subway Action Plan, which since taking effect in July, has cut major incidents by nearly 40%," said MTA spokesman Jon Weinstein.

He said the 40% reduction was based on preliminary statistics for December that haven't been publicly released.

Manhattan Prosecutors Won't Seek Bail for Most Misdemeanor Crimes

By CORINNE RAMEY

The Manhattan district attorney's office said Tuesday it would no longer request bail for people accused of most misdemeanors.

The Brooklyn district attorney's office implemented a similar policy in April of last year. The changes come at a time when jurisdictions across the country are reducing or questioning their use of bail, which critics say allows wealthier defendants to pay their way out of jail while keeping poorer ones behind bars. Proponents of bail say it functions as a deposit to ensure defendants show up to court.

"When nonviolent New Yorkers are jailed as a function of their inability to pay, we perpetuate inequality and mass incarceration, and bring about unnecessary immigration, employment and family consequences," Manhattan District Attorney Cyrus Vance Jr. said.

Manhattan prosecutors will continue to ask for bail in some cases, such as those involving domestic violence or the injury of a police officer. They also may ask for bail in cases where a defendant



No-bail policies are spreading.

has previously been convicted of a violent felony or sex crime or is on parole, the district attorney's office said.

The office estimates it will request bail in about 1,700 fewer cases this year because of the policy.

In New York City, many misdemeanors don't have bail set anyway. In 2016, judges set bail in 17.9% of some 106,000 misdemeanor cases citywide, according to a report by the Independent Commission on New York City Criminal Justice and Incarceration Reform,

the panel that recommended shuttering the Rikers Island jail complex last year.

Even if the number of cases affected is relatively small, the new policy is worth applauding, said Insha Rahman, a project director at the Vera Institute of Justice, a criminal-justice organization. "It's a big deal in terms of transparency and accountability to put things in writing and therefore be held accountable for what your policies are," she said.

For the national bail industry, the new policy isn't a major threat, said Jeff Clayton, executive director of the American Bail Coalition, a trade group. "This order affirms that bail is appropriate in violent misdemeanors and felony cases," Mr. Clayton said.

But local bail bondsmen disagreed. At Bail Bonds NY, located near the Manhattan courthouses, about 40% of the business comes from misdemeanor cases, said employee Daishawn Decruz. "Basically they're just going to take away bonds like they did in Jersey," he said, referring to New Jersey's near elimination of bail last year. "So we're not going to have any more business."

GREATER NEW YORK WATCH

COLD CASE

DNA Leads to Break In 1994 Park Rape

Detectives said Tuesday they have cracked a 1994 rape case that a newspaper columnist infamously claimed was a hoax.

A woman was walking through Brooklyn's Prospect Park when she was dragged into the bushes and raped on April 26, 1994. DNA evidence was recovered, but no arrests were made.

The late Daily News columnist Mike McAlary wrote at the time that he heard from unnamed police sources that the woman invented her story because she wanted to bolster a speech she was to give at a rally about violence against lesbians.

The woman sued Mr. McAlary for libel, but a judge dismissed the case in part because Mr. McAlary had been relying on information from police.

The woman's attorney said Tuesday she is owed an apology. Chief of Detectives Robert Boyce said the woman wept when detectives recently told her they had found a DNA match to a suspect in her rape.

He said detectives matched the DNA to a serial rapist who is serving 75 years to life in prison.

—Associated Press

CONNECTICUT

Danbury Mayor Joins Gubernatorial Race

Danbury Mayor Mark Boughton is adding his name to the list of candidates running for governor in Connecticut. The nine-term mayor announced Tuesday that he will seek the GOP nomination.

Gov. Dannel Malloy, a Democrat, isn't running for a third term in the November election.

Mr. Boughton ran for governor in 2014 and is among the better-known names in the Republican field. The lifelong Danbury resident says he wants to phase out the state income tax and reduce regulations.

—Associated Press

MANHATTAN

Falling Ice Crushes Car Roof in SoHo

A large chunk of ice apparently fell from a building in Manhattan, crushing the roof of a parked vehicle, officials said.

It occurred just after 4 p.m. Tuesday on Charlton Street in the SoHo neighborhood. There were no injuries reported, fire officials said. A photo showed brown, chunky ice atop the caved-in roof of the vehicle.

—Associated Press

LIFE & ARTS

FICTION

What to Read This Winter

The WSJ asked literary experts if they could read only one new work of fiction this winter, what would it be? Here are their picks

BY ELLEN GAMERMAN

THE WALL STREET JOURNAL recently posed a tough question to publishing experts: Recommend one work of fiction—just one—coming out this winter. The book had to hit shelves between January and March. The result was a sampling of works with dark themes and twisty plots featuring unreliable narrators, sibling rivalries and heroines in a style one reader dubbed “femme noir.” Here, their picks of titles by skilled storytellers who know how to draw readers in from the cold.

THE WOMAN IN THE WINDOW

by **A. J. Finn**
Chosen by *Liz Harwell*, director of merchandise at Barnes & Noble
The psychological thriller, written by publishing executive Daniel Mallory under a pen name, has the feel of a Hitchcock movie and shares some DNA with “The Girl on the Train.” Anna Fox is an agoraphobic New Yorker who watches her neighbors from the safety of her window and hasn’t set foot in public in nearly a year. She drinks too much and pops pills to quell her fears. When she thinks she witnesses a murder in the house across the street, it’s unclear if the crime really happened or if it was a product of her tortured mind. “It’s hard to shake the main character Anna Fox’s voice,” Ms. Harwell says. “There’s one scene in particular, a car crash, that readers won’t forget. At first glance it appears to be nothing more than a terrible accident, but...”

THE IMMORTALISTS

by **Chloe Benjamin**
Sarah Smith, editorial director for print and Kindle books at Amazon
The novel, hitting lots of “must-read” lists this winter, opens in 1969, when a fortune teller informs four young siblings of the exact dates of their deaths. The second novel from the 29-year-old Ms. Benjamin asks: How would you live if you knew from childhood how long your life would be? Questions of free will and fate follow the siblings as they embark on divergent paths: One is a dancer, one a magician, one a military doctor, and the other a longevity researcher working with monkeys. Ms. Smith saw it as a literary page-turner: “It must be something about a really compelling plot line, timely concerns about animal rights, our current fascination with longevity and our hope that scientists might be able to rescue us from death,” she says, “at least death by aging.”

THE LARGESSE OF THE SEA MAIDEN

by **Denis Johnson** (release Jan. 16)
Michael Miller, editor at book-review magazine *Bookforum*
Mr. Johnson finished this book, a short-story collection, just before his death from liver cancer



PHOTOILLUSTRATION BY JOHN KUCZALA

last year at age 67. Random House organized a 13-city book tour to honor the author, a National Book Award winner and two-time Pulitzer Prize finalist whose works include the 1992 story collection “Jesus’ Son.” The starry cast for the accompanying audiobook includes actor Nick Offerman reading the title story, which took Mr. Johnson seven years to write. Mr. Miller recalls a scene in that story when an adman comes to New York to accept an award for an animated TV commercial for a banking chain: “He steps outside and it’s snowing and he travels into the night. It has this almost magical quality to it even though it’s in some ways an ordinary story and in other ways utterly bizarre.”

THE HAZEL WOOD

by **Melissa Albert** (Jan. 30)
S. Zainab Williams, associate editor at the book blog *Book Riot*
Alice is surrounded by cult followers of the creepy fairy tales

written by her famous grandmother, author of books set in a supernatural world called the Hinterland. After Alice’s grandmother dies at home—a menacing estate called the Hazel Wood—Alice’s mother is snatched by a shadowy character who claims to have come from that fictional world. Alice joins one of her grandmother’s superfans on a quest to bring her mother back, defying her mother’s orders to stay away from the Hazel Wood and entering her grandmother’s realm of fairy tales. The young-adult fantasy had a rare effect on Ms. Williams: “It returned that singular feeling of reading as a kid—back when all of the adult responsibilities weren’t crowding in and you could wrap a story around yourself like a blanket.”

THE HOUSE OF IMPOSSIBLE BEAUTIES

by **Joseph Cassara** (Feb. 6)
Gaël LeLamer, buyer, Books & Books bookstore in Miami

This novel set in 1980s and 1990s New York puts a fictional spin on the glam-ball scene from “Paris is Burning,” the documentary about the African American and Latino LGBT ballroom circuit. Ms. LeLamer marveled at how convincingly the 28-year-old debut author captured that era. The book, whose language one early reviewer called “erotically luscious,” follows Angel and Hector as they form the House of Xtravaganza, an all-Latino home on the ball circuit where residents confront the hazards of sex work while turning to each other as a family. Ms. LeLamer hopes the novel takes off. “I’m hearing a little bit of buzz,” she says. “I’m hoping it keeps going because this book and this author—I can’t wait to see what he does next.”

SUNBURN

by **Laura Lippman** (Feb. 20)
Leigh Haber, *O, The Oprah Magazine* books editor and book scout

for *Oprah’s Book Club*

In “Sunburn,” a mysterious red-head leaves her husband and child, adopts a new identity and moves to a small town in Delaware. She is soon ensnared in an affair with a secretive stranger she meets in a local tavern. Her true nature—criminal with a shady past or damsel in distress—is uncertain. “I feel like it creates a whole new category, which I’m thinking of as ‘femme noir,’” says Ms. Haber. “Laura’s done something very feminist, very revolutionary. She’s taken this traditional noir structure of a man sweeping in to save a woman who then turns around and eats his heart out—she’s turned that notion on its head.”

THE PARKING LOT ATTENDANT

by **Nafkote Tamirat** (March 13)
Gabe Habash, fiction reviews editor, *Publishers Weekly*
The novel opens on an island, the only place where a father says his daughter will be safe. But all is not well, and not just because the young woman vomits the moment she sets foot there. In this coming-of-age story, the unnamed daughter lives in Boston with her father, an Ethiopian immigrant, and falls under the spell of Ayale, an enigmatic parking-lot attendant. Ayale is a hustler, the author writes, famous among local Ethiopians “for being where he shouldn’t be and disappearing from where he should.” Ms. Tamirat’s debut novel returns to the island in its final pages. “The ending is memorable and it totally subverts the expectations of what the story would go towards,” says Mr. Habash. “The father-daughter relationship is messy and real and brilliant.”

THE ASTONISHING COLOR OF AFTER

by **Emily X.R. Pan** (March 20)
Cristina Arreola, senior books editor at the female-focused news and culture site *Bustle*

Fifteen-year-old Leigh Chen Sanders, desperate to understand why her mother has killed herself, has an encounter with a giant, long-tailed red bird that lands on her porch, taps its claws on the wood and says her name in her mother’s voice. In this young-adult novel—the author’s debut—Leigh is not trying to be poetic when she says her dead mother has returned to Earth as bird. After the creature flies away, Leigh launches a search for the bird that takes her to Taiwan, where she meets her grandparents for the first time and uncovers family secrets. Ms. Pan writes: “What can you do when all you see behind closed eyes are the flashes of your mother, your mother, your mother, miserable, alive, beautiful, sick, warm, smiling, dead? But not dead. Not exactly. My mother is a bird.”

MORE BOOKS ONLINE

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TELEVISION

PHILIP K. DICK’S SCI-FI DREAMS

BY MICHAEL RAPOPORT

FEELING LIKE the world gets more unmoored from reality every day? Philip K. Dick has your back.

Mr. Dick, the science-fiction writer whose novels inspired the movie “Blade Runner” and the TV series “The Man in the High Castle,” was long obsessed with exploring the blurred lines defining what is real and what it means to be human—alternate worlds, drug-induced illusions, artificial people who seem more real than the real thing. And his obsessions are about to get another video outlet: “Philip K. Dick’s Electric Dreams,” an anthology series based on his stories, premieres this Friday on Amazon Prime.

The new show underlines the staying power of Mr. Dick’s work, more than 35 years after his death. In a world where longstanding political and social norms are fragile and crumbling, and technology is

altering our relationships with the world and each other, Mr. Dick’s often outrageous visions would seem to be a perfect fit.

“I wonder if we’re edging closer to a world created in a PKD novel,” said Isa Dick Hackett, Mr. Dick’s daughter and an executive pro-

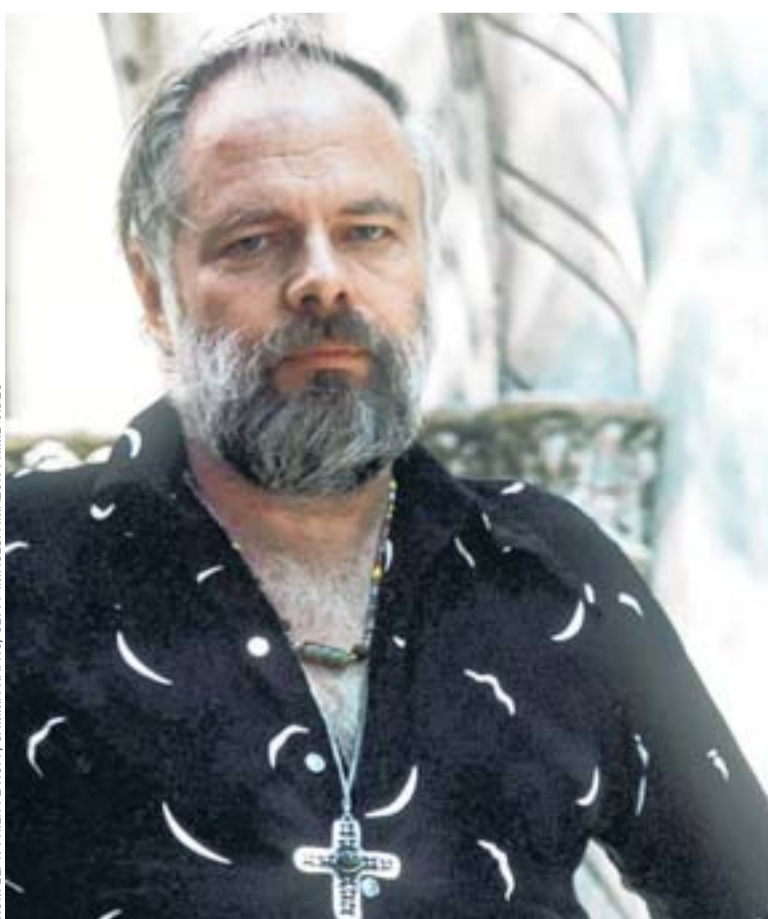
ducer of “Electric Dreams.” “I think his central themes are more relevant now than ever.”

Each of the 10 episodes of “Electric Dreams” is based on one of Mr. Dick’s short stories. In these stories, a troubled policewoman

seeks refuge in virtual reality, only to find the VR world staring back at her. A boy fears his father has been replaced by an alien. In a far-off future, a dying woman wants to visit Earth, which has long since become a wasteland.

Actors in the series include Bryan Cranston (who is also an executive producer), Steve Buscemi, Anna Paquin, Terrence Howard, Janelle Monae and Geraldine Chaplin. “They’re kind of universal themes, aren’t they—to deal with subjects that are so close to us as flesh and blood,” said actor Liam Cunningham, who appears in the episode “Human Is,” which features Mr. Cranston as a man returning from battle who suddenly seems different.

Ms. Hackett says she is proud of all the “Electric Dreams” episodes, but she feels a particular connection to “The Commuter” (no relation to the new Liam Neeson *Please see TELEVISION page A13*



Philip K. Dick, whose novels inspired ‘Blade Runner’ and ‘The Man in the High Castle,’ is getting another outlet with ‘Philip K. Dick’s Electric Dreams.’



FROM LEFT: PHILIPPE HUPP/GAMMA-RAPHO/GETTY IMAGES; AMAZON PRIME VIDEO

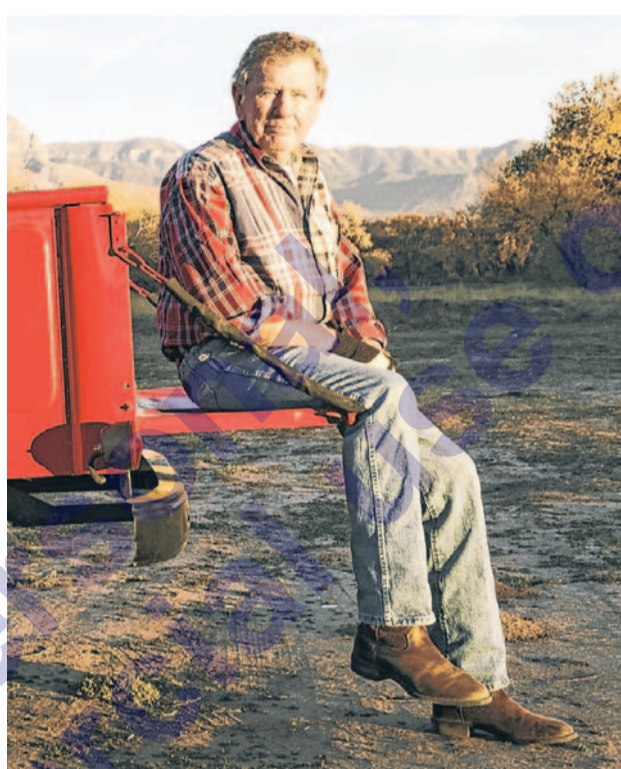
LIFE & ARTS

MY RIDE | By A.J. Baime

Picking Up the Pieces of a Classic



Kurt Stocker of Corrales, N.M., still drives this 1954 International Harvester R-120 pickup. When Mr. Stocker purchased this truck in 2009, it was in tatters. Not so today.



Kurt Stocker, 80, an artist from Corrales, N.M., on his 1954 International Harvester R-120 pickup, as told to A.J. Baime.

In 2009 I was living in Westcliffe, Colo., a town so small the whole population could fit on a 747. Driving home I used to pass this crapped-out pickup with a “for sale” sign, sitting in a field. I finally called the number and agreed to a price on one condition: The owner could drive the truck to my ranch, which was up nasty roads at 9,000 feet elevation. The truck made the trip, so I wrote a check for \$1,700.

I admit: I am not a smart man. A smart man would have bought an old Ford or Chevy. Finding parts so I could restore this International Harvester was exceedingly difficult, but it became my obsession.

To do the work, I partnered with the guy in my small town who did all the maintenance on local school buses. I remember calling a guy in Colorado who supposedly had a 1954 R-120 bumper. He said, “You’ll have to wait until the snow melts. I think there’s one lying in my field.” After nearly two years, the job was done, and I used the truck to do what it was born to do: hard work.

Most people today have never heard of International Harvester, but for a large part of the 20th century, it was probably the brand for ranch and farm equipment in the Midwest, and the company made pickups, too. [According to a 1953 Wall Street Journal article, International Harvester was the third-biggest producer of pickup trucks that year, behind Chevrolet and Ford.] Until it hit hard times in the 1980s, International Harvester was one of the brands that helped make this country what it is today.

My truck has its original straight-six engine. It has something called a granny low—a first gear that moves the vehicle about 3 mph, walking speed, so you can get out of the truck and it’ll move along by itself while you are, say, loading the bed with hay. It also has tremendous torque, so it can pull stumps out of the ground.

I have since moved from Colorado, and the vehicle is no longer a work truck. I use it to drive my grandkids through the desert, along the Rio Grande. The truck was built the year I graduated high school, and it is certainly a step back in time.

Contact A.J. Baime at [Facebook.com/ajbaime](https://www.facebook.com/ajbaime).

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LIFE & ARTS

EXHIBITION REVIEW

Sartorial Symbolism

BY LAURA JACOBS

New York

GRASS GREEN, aubergine, teal and the madder red of tribal rugs—these are the wall colors that form the hushed background for “Veiled Meanings: Fashioning Jewish Dress, From the Collection of the Israel Museum, Jerusalem.” There is no sound in the large first-floor gallery of the Jewish Museum, no video screens to distract us from the hundred or so articles of clothing at hand, dating primarily from the 1800s to the early 1900s. The garments on display were worn by Jews who lived as minority communities in the Middle East and Central Asia, in Africa, Denmark and Greece. While maintaining their own religious traditions of dress, they assimilated the silhouettes and styles of the non-Jewish cultures around them. These garments may be silent, but they are spiritually alive and multilingual.

Organized by a team of curators at the Israel Museum, “Veiled Meanings,” the first comprehensive U.S. exhibition drawn from the museum’s incomparable collection of Jewish costume, is divided into four sections, or themes. The first, “Through the Veil,” faces the entrance to the gallery—but facelessly, for here we see four full-length cloaks in which the face is veiled by net or horsehair mesh. Meant for wear outdoors and influenced by Islamic cultures, these wraps, the wall text explains, “were once a universal custom in the Middle East and Central Asia; over time the tradition survived among Muslims and lingered in some Jewish communities.”

Whether in magenta silk or the more familiar chador-black, this is a silhouette steeped in mystery, the wearer enfolded in shadow.

The next section, “Interweaving Cultures,” looks at the way Jewish styles, motifs and handwork influenced neighboring communities or were influenced by them. The early 1900s ensemble of an Algerian Jewish woman—a dress and jacket of purple velvet, embroidered with gold—pulls design elements from Medieval Spain, the Ottoman empire and Greece. While some of these cultural mash-ups are a bit over-bedecked, others, like the silk Festive dress from Ioannina, Greece—its simplicity of silhouette elevated by handsomely scaled appliques—are hybrid creations of refinement and poise. A grouping of six wedding gowns that date from 1907 to 1947, all of them bowing to the European tradition of wedding white, includes a gilt-embroidered bridal ensemble from Tunisia, complete with voluminous Turkish trousers.



Installation view of “Veiled Meanings,” above; woman’s coat (*kaltachak*), Bukhara, Uzbekistan, late 19th century, right; girl’s amuletic dress, Sanaa, Yemen, 1930s, below.

ments from Medieval Spain, the Ottoman empire and Greece. While some of these cultural mash-ups are a bit over-bedecked, others, like the silk Festive dress from Ioannina, Greece—its simplicity of silhouette elevated by handsomely scaled appliques—are hybrid creations of refinement and poise. A grouping of six wedding gowns that date from 1907 to 1947, all of them bowing to the European tradition of wedding white, includes a gilt-embroidered bridal ensemble from Tunisia, complete with voluminous Turkish trousers.

minorous Turkish trousers.

“Exposing the Unseen” brings us deeper into the meanings sewn into Jewish garments, and also allows close-up views of astonishing decorative brio. Why are children’s aprons adorned with a single button, positioned where the belly button would be? Because that button acts as a watchful eye and protects the child. Ditto surface decoration that is applied asymmetrically. “Doing something out of the expected order,” says exhibition curator Efrat Assaf-Shapira, “causes a mix-up—intended to mix up evil and ward it off.” A girl’s amuletic dress from 1930s Yemen, made when the child came down with smallpox, exemplifies such thinking. A simple T-shape of indigo-dyed cotton, it is aggressively and asymmetrically embellished with blood-red stitching and glossy white kauri shells, a design of almost violent energy. The girl, by the way, recovered.

Perhaps the most beautiful garment in this show is a bell-shaped, late-19th-century woman’s coat (*kaltachak*) from Bukhara, Uzbekistan, a city that came under Russian rule in 1868. Made of Russian brocade in fuchsia and gold, it is lined with an ikat-dyed silk-cotton blend of such extravagant pattern and palette (in this exhibition the Jews of Uzbekistan take the prize

for ebullient color joined to modernist shape) that it reads of paradisiacal plenty. This coat was owned by a woman who immigrated to Ottoman Palestine, where her family was one of the first to reside in a Bukharan quarter established in Jerusalem. The exhibition’s coda is a section called “Clothing That Remembers.” Throughout the show we see the repurposing of clothes as a way of saving costly pieces of fabric. It is also a way of remembering the

dead and of keeping their spirit alive, while reminding the living, especially at moments of happiness, that life is precarious and transient. A baby’s coat is made from the fine fabric of a woman’s dress—a tangible link between the generations. A velvet wedding dress from the Ottoman Empire, majestically embroidered with gilt-metal threads, is unstitched at the seams upon the death of its owner and remade into a Torah ark curtain. A Moroccan groom wears his white burial shroud under his black wool wedding coat. And in Yemen a ceremonial dress or *lulwi*—a strange garment that is almost all sleeves—is worn by a woman the first Sabbath after she gives birth, and will become her burial dress when she dies. Analyzing a jacket from Marrakesh adorned with circular spirals of gold braid, the curators write that these spirals symbolize “the cycles of life and human destiny, which have a beginning and an end but are also infinite.” A metaphysical poetry stirs in these clothes.

Veiled Meanings: Fashioning Jewish Dress, From the Collection of the Israel Museum, Jerusalem Jewish Museum, through March 18

Ms. Jacobs writes about culture and fashion for *Vanity Fair*.



TELEVISION



Continued from page A11 movie). It is about a rail-station employee who finds commuters are traveling to a stop on the line that shouldn’t exist, and how the discovery affects his relationship with his family.

“I love “The Commuter”—I think it’s so moving. It drills down to the core of relationships,” Ms. Hackett said.

But “I think you won’t find people agreeing on which ones they love,” she said.

In some ways, “Electric Dreams” resembles “Black Mirror,” the Netflix anthology series about the

dark places technology is taking us. But Mr. Dick was writing stories of fractured realities and alterations to the human mind and body decades before “Black Mirror” came along, and Ms. Hackett says “it was not a reference for us.”

“The themes of modern man, who are we and where are we going—that’s what he was writing about starting in the 1950s, and those are still our existential themes,” said Michael Dinner, an executive producer, director and writer on “Electric Dreams.”

Mr. Dick’s work is enjoying another culturally prominent mo-



The series is based on Dick’s short stories and stars Bryan Cranston, far left, Rachelle Lefevre, above left, and Anna Paquin.

ment—besides “Electric Dreams,” “Blade Runner 2049,” a sequel to “Blade Runner,” was released last fall, and the Amazon adaptation of “The Man in the High Castle” will air its third season this year.

“High Castle” illustrates how Mr. Dick’s work continues to reso-

nate—it deals with an alternate world in which the Nazis and Japanese won World War II and the U.S. is an occupied nation. Ms. Hackett, an executive producer of “High Castle,” acknowledges filming the latest season of that show felt different, in a time when Nazis

are no longer strictly the stuff of history, and when those who oppose the policies of the U.S. administration think of themselves as “the resistance.”

“Maybe now is a more important time for the show than ever,” she said.

CLOCKWISE FROM TOP: JASON MANDELLA/THE JEWISH MUSEUM; MAURO MAGLIANI/THE ISRAEL MUSEUM (2)

AMAZON PRIME VIDEO (2)

SPORTS

COLLEGE FOOTBALL

The Quarterback Who Rescued Alabama

BY ANDREW BEATON

THE ONLY DECISION bolder than Nick Saban's move to put in Tua Tagovailoa midway through college football's national championship game was Tua Tagovailoa's decision to attend Alabama in the first place.

Over and over, people asked: "Why is he going there?" said Vinny Passas, Tagovailoa's quarterbacks coach at St. Louis School in Honolulu.

Tagovailoa, arguably the top quarterback recruit in the entire country, had his pick of schools. No team would make his life as difficult as Alabama—the school that had just been led to a title game by Jalen Hurts, then a true freshman quarterback who was named the Southeastern Conference's Offensive Player of the Year in 2016.

Beyond that, Tagovailoa had grown up deeply familiar with Pac-12 football. Southern California was closer to home and a favorite to land him. Oregon, which a few years ago took Marcus Mariota from Hawaii to Heisman Trophy, made a late push. Meanwhile, Tagovailoa was often asleep or practicing when SEC games kicked off.

Tagovailoa chose Alabama anyway. The potential fate of sitting behind Hurts not just this season, but for the next two years, accompanied that. So when Passas turned on Monday's national championship between Alabama and Georgia at home in Hawaii, he was hoping "to get a glimpse of [Tagovailoa] on the sidelines."

Then came one of the wildest decisions in college football history. It was as desperate as it was brazen. Alabama trailed 13-0 at halftime. Saban benched Hurts. He put in the 19-year-old true freshman. The Crimson Tide walked off the field champions in a 26-23 overtime heartstopper.

Tagovailoa, who completed 14-of-24 passes for 166 yards and three touchdowns with one interception, was named the game's offensive MVP. "Who would've ever thought I would've been here right now?" he said.

The answer: Pretty much nobody. Which is what gives Monday night's thriller special gravitas in the roped-off section of all-time classics. It wasn't just an overtime nail-biter. Or a hair-raising comeback. It was both of those—and also led by a baby-faced hero who traveled more than 4,000 miles expecting to still be waiting his turn.

The unlikely circumstances that led to an improbable halftime quarterback change and even more improbable comeback began at last year's national championship—the one Alabama lost. Hurts, who took the job at the start of the season and spent the season mostly making a mockery of vaunted SEC defenses as a true freshman, began to look exposed.

While Clemson stormed back to win that game, the Alabama offense sputtered. Hurts, still an effective runner, struggled to pass the ball: He completed 13-of-31 attempts in the game for 131 yards. But for much of this season, Hurts did all that was needed. He threw only one interception, and Alabama won most of its games with ease.

That gave little room for his backup to make a name for himself. Tagovailoa's cameos, though, were tantalizing. He completed 8-of-10 passes for two touchdowns in a blow-out against Vanderbilt, including one laser



Alabama quarterback Tua Tagovailoa scrambles during the second half against Georgia.

Georgia's Crushing Loss

ATLANTA—Fans in this long-suffering sports city watched the second half of Monday night's college football national championship game with a familiar sense of dread. Less than a year after the Atlanta Falcons endured a historic meltdown in the Super Bowl—uttering the phrase "28-3" practically comes with a jail sentence in these parts—the Georgia Bulldogs resurfaced those painful memories.

Atlanta's most recent professional sports title came courtesy of the 1995 Atlanta Braves. Among U.S. metro areas with at least three major pro sports teams, only two—Minneapolis and Washington—have longer active championship droughts, both of which date back to 1991.

The raw numbers, however, don't tell the whole story. Other markets have slogged through long stretches of complete futility; think the Seattle Mariners, who currently have the longest postseason drought in pro sports at



16 years. Atlanta's squads have rarely stumbled to that extent—they just can't finish the job.

"This is not a closer city in pro or college sports. It just isn't," said John Kincade, the host of a popular sports-radio talk show in Atlanta.

Indeed, Atlanta has now witnessed their professional football team and a nearby college team blow sizable second-half leads in a cham-

ampionship game in the span of 11 months. The Braves famously won 14 consecutive division titles with only one ring to show for it. Even their WNBA team, the Atlanta Dream, reached the finals in three of four seasons between 2010 and 2013—and lost nine straight games once they got there.

Kincade said he noticed a different vibe in Atlanta when he woke up Tuesday morning, one he didn't necessarily expect: hope.

While he described the Falcons' loss to the New England Patriots as "an abject failure and embarrassment and complete mismanagement," the Georgia defeat felt like the start of something. The Bulldogs will return in 2018 boasting the country's top-ranked recruiting class, a position long held by Alabama, and a talented quarterback in Jake Fromm who nearly won a national championship as a true freshman.

As Smart said following Monday's game, "We're not going anywhere."

"This town has been kicked in the private parts far too frequently," Kincade said. "Now they're going to get back on the horse again." —Jared Diamond

where he avoided several rushers and threw a strike into the end zone. He threw another the next week against Ole Miss, and finished the regular season with eight touchdowns, one interception and 470 yards on 53 attempts. It was just enough to tease a fan base, and even the greatest coach in the sport, with a pinch of doubt: *Maybe Alabama's best passer isn't the quarterback throwing all the passes.*

Still, Tagovailoa's last action came against an FCS opponent. Before Monday, he hadn't thrown a pass against a team at the sport's top level since October. His biggest moment came playing a ukulele in a popular video posted by one of his coaches.

Then came the first half against Georgia. Hurts looked the way most quarterbacks look when facing Alabama. He completed 3

of 8 passes. He threw for 21 yards. Alabama was held scoreless. And at halftime, Saban made the choice that changed the course of college football history.

"I just thought we had to throw the ball," Saban said. "I thought he could do it better."

Tagovailoa did. On his second possession, he led a touchdown drive that pulled Alabama to within a score. His deep passes, that on more than one occasion just fell out of the grasp of Alabama receivers, opened up a running game that had been stuffed early on. His second touchdown pass came with 3:49 to go on fourth and 4. He led one more drive with time expiring, but a missed field goal—Alabama's second of the game—sent it to overtime tied at 20.

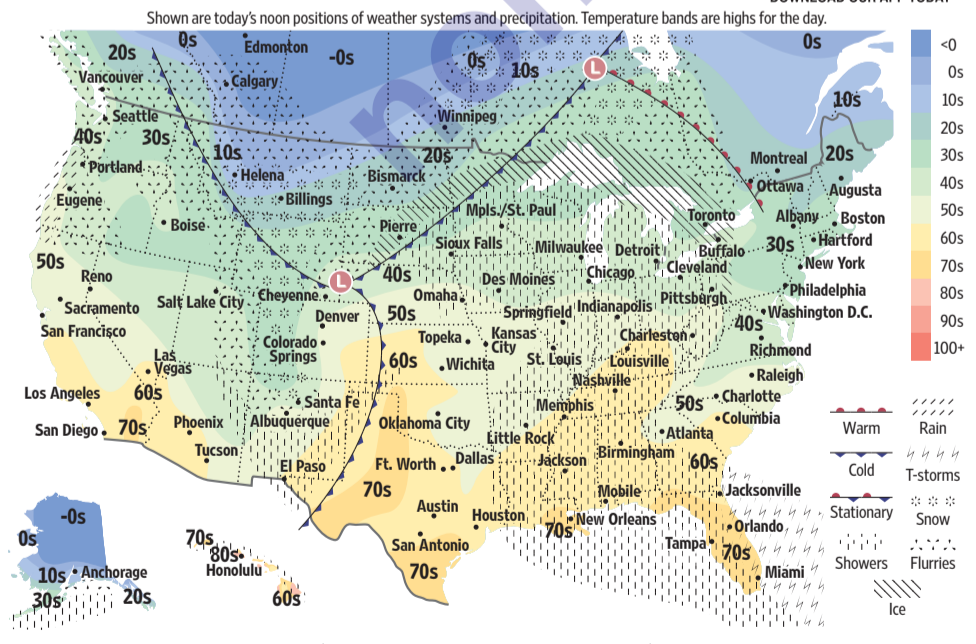
All of a sudden, in the extra period, it looked like it would all fall apart. That's be-

cause for one play at least, Tagovailoa looked like the person he was supposed to be: an inexperienced freshman. After the Bulldogs kicked a field goal on their opening possession, he took a sack on first down. Even worse, he ran backward trying to avoid the tackle for a 16-yard loss.

The next play was called Seattle. It's fairly simple: The receivers streak down field. Tagovailoa dropped back to pass. He looked to his right, recognizing the safety in the middle of the field, who watched the quarterback's eyes and edged in that direction. Then the freshman stole a glance to his left. DeVonta Smith, a freshman who hadn't caught a pass all game, had broken free. Tagovailoa fired. "This is it," Saban said.

—Jared Diamond contributed to this article.

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The WSJ Daily Crossword | Edited by Mike Shenk

Crossword puzzle grid with numbers and clues.

HOT TO TROT | By Adam T. Cobb

- List of crossword clues and answers for 'HOT TO TROT'.

Down

- List of crossword clues and answers for 'Down'.

Previous Puzzle's Solution

Grid showing the solution to the previous crossword puzzle.

OPINION

Coreligionists in Kleptocracy



BUSINESS WORLD
By William W. Jenkins, Jr.

Truly important political events inside other countries can't be predicted, much less controlled by the U.S. or anyone else. But they always have a logic. Vladimir Putin must get a clammy feeling from the logic of Iranians taking to the streets against a corrupt government conducting costly adventures in places like Syria.

Both countries have in common a Great Satan with whom their relations are more than just complex. It is expected by the average Iranian or Russian that dealings between their governments and the U.S. will be a direct barometer of what they can expect in their own economic lives.

When President Obama struck his Iranian nuclear agreement, the deal meant not a thing to the average American and suggested transformative possibilities to the average Iranian.

When the Kremlin popped champagne corks on the election of Donald Trump, to Americans it was an oddity and to Russians it heralded the end of a period in which their living standards crashed by 40%.

As a commentator in Abu Dhabi's National newspaper put it when the Iran deal was finalized two years ago,

"Thanks to the lifting of sanctions, Iran will recoup about \$90 billion of assets, re-enter the international financial system and be able to sell oil on the open market."

As President Putin, on his way to his intended re-election in March, predicted more than a year ago, a return to 4% growth would be just around the corner. In late 2016, his regime's splashy sale of shares in the state oil firm Rosneft to foreign investors may have been sham-like, but it was important to Mr. Putin as a signal that Russia had weathered the sanctions crisis.

In both countries, though, the promised turnaround is becoming conspicuous by its non-arrival. The average Iranian in the street doesn't think the benefits of the nuclear deal failed to materialize. He thinks they were hijacked and hoarded by regime cronies. Widely reported was the Obama administration's shipment of \$1.7 billion in untraceable cash, via cargo plane, directly to Iran's leaders. Of 110 international business deals touted in the Iranian press as the fruit of sanctions relief, a Reuters accounting showed that 90 went to companies controlled by Supreme Leader Ayatollah Ali Khamenei or other top officials.

For his part, the average Russian has seen his real income continue to shrink, no end to sanctions, and no hoped-for return of Western capital. Nor can the Kremlin

shield him from the growing phenomenon of internet-based reporting on the absurd luxuries enjoyed by such regime favorites as Rosneft Chairman Igor Sechin and Prime Minister Dmitry Medvedev, much less the astonishing offshore wealth of Mr. Putin's personal "friend," the cellist Sergei Roldugin.

What Russia and Iran have in common is someday their people will say 'enough.'

In both countries, normal, patriotic feeling has clearly begun leaching away from leaders whose defining quality is hypocrisy. Even the most patient citizen must realize now why his lot never improves. Under current leadership, 100% of everything is gobbled up in the corrupt power rivalries and overseas adventures of the leadership class (e.g., the Syrian war).

We know less of what goes on in the inner circle of Ayatollah Ali Khamenei, but where to begin on the evident change in Mr. Putin's mindset since his golden early years when the post-Yeltsin Russian economy could only go up, helped by a serendipitous tenfold rise in oil prices? Nobody predicted the Arab Spring, the Ukrainian revolution that overthrew his ally Viktor Yanukovich, or the

roadside execution of Gadhafi, an omen that Mr. Putin reportedly dwells on.

The Russian president probably did not anticipate how his modest propaganda and hacking exertions during the 2016 election would roil the U.S. political class, and by the way end any hope of sanctions relief. But the dominant theory of his motive certainly rounds out our tale: He was angry at Hillary Clinton for what he considers her efforts to foment a coup against him personally.

Mrs. Clinton does not control events in Russia or anywhere else, but Mr. Putin is not wrong in fearing the unlikely, tiniest spark. The Arab Spring, which ultimately led to Russian military intervention in Syria to save Assad from going the way of Mubarak and Gadhafi, began with a street hawker in Tunisia setting himself afire in protest of police corruption.

It is interesting, in such a world, to hear Iran experts in recent days uncomfortably laying odds on whether the current Iranian uprising will sputter out or blossom into something bigger. They don't and can't know. A valuable lesson lies here. What the U.S. has over such countries is stable institutions in which to contain unpredictable events and forces. Those who think Donald Trump too outré, too incompetent, too unsympathetic to put up with for the sake of our institutions (he was legitimately elected) might want to think again.

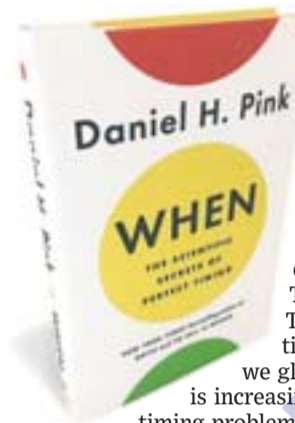
BOOKSHELF | By Emily Bobrow

Hacking The Clock

When: The Scientific Secrets of Perfect Timing

By Daniel H. Pink
(Riverhead, 258 pages, \$28)

If you must go to a hospital, try to get there in the morning. An afternoon visit may prove deadly. Patients who book their operations to occur around tea-time are more likely to die within 48 hours of surgery. In the afternoon, gastroenterologists who perform colonoscopies are far less vigilant in detecting cancerous growths than in the morning; internists are 26% more likely to prescribe unnecessary antibiotics; and pretty much all providers are around 10% less inclined to wash their hands before treating patients, increasing the odds of infection. Oh, and try to avoid teaching hospitals at all hours during the month of July, when new medical-school graduates are just starting to cut their teeth



as physicians. This is the month when fatalities at these hospitals consistently spike.

A raft of studies in disciplines ranging from medicine to economics have yielded all sorts of data on the science of timing. Daniel Pink, an author who regularly applies behavioral science to the realm of work, has handily distilled the findings in "When: The Scientific Secrets of Perfect Timing." We complain of wasting time, he notes, far more often than

we gloat about filling it wisely. Yet it is increasingly possible to correct for timing problems in advance.

For a slim book, "When" brims with a surprising amount of insight and practical advice. In amiable, TED-talk-ready prose, Mr. Pink offers scheduling tips for everything from workouts to weddings. Exercise, for example, is best done in the morning for those who hope to lose weight, build strength and boost their mood through the day. But those who are keen on performing at their physical peak should postpone their big sweat to the afternoon, when their reaction time quickens, their heart rate drops, and their muscles are good and warm. (A disproportionate number of Olympic records are set in the late afternoon or early evening.) As for when to get married, couples are less likely to divorce if they wait until they are out of their early 20s, have finished their education and have dated each other for at least a year. But waiting too long can cause problems too: For those who marry past the age of about 32, the odds of divorce apparently rise by 5% a year for at least a decade.

Studies of human communication across a range of outlets, from tweets to earnings calls, show that our daily moods fluctuate in predictable ways. We may start our mornings feeling pretty hopeful (at least once the caffeine kicks in), but our outlook often slumps in the afternoon before rebounding in the evening. This U-shaped pattern is fairly consistent across countries and cultures and is more or less the same every day of the week (though we are a little happier on weekends). The reasons for the ebb and flow remain hazy (Mr. Pink

Exercise in the morning if you want to lose weight. But if you want to perform at your physical peak, plan a workout for the afternoon.

mostly prefers to ponder "when," not "why"), but the implications can be profound. A study of more than 26,000 earnings calls from more than 2,100 public companies found that the timing of the calls often dictated their emotional tenor and, consequently, affected the price of a company's stock. Calls held first thing in the morning were typically upbeat, whereas those in the afternoon tended to have a more negative tone, regardless of the news being delivered, and thus pulled down share prices, at least temporarily. Mornings seem to be best for important conversations with either employees or investors.

Moods are not the only things that shift every 24 hours. Our cognitive abilities also morph in foreseeable ways. We are often sharpest in the hours after waking up, which makes morning the best time to take exams or answer logic problems. Researchers analyzing four years of test results for two million Danish schoolchildren found that students consistently scored higher in mornings than afternoons. Yet work that requires innovation and creativity is often best left to later in the day, when our less-inhibited, less-vigilant brains become more open to unexpected insights and sudden flashes of brilliance.

These daily swings in mental agility should not be underestimated. According to Russell Foster, a neuroscientist and chronobiologist at the University of Oxford, the contrast in performance between our daily peaks and troughs is similar to the difference between being sober and lightly drunk. Yet it is important to recognize that not all humans experience a day in the same way—as anyone living with a teenager knows all too well. Unlike most young children and older adults, who are happy to start and end their days on the early side and are most alert before noon, teens and early 20-somethings seem programmed to stay up late, sleep in and gain their energy in the late afternoon.

Unfortunately, few school days accommodate the circadian demands of puberty, which creates some problems. Studies show that teens who start their school days before 8:30 a.m. tend to have poorer health and lower grades and are more likely to drink, smoke and do drugs. Given this evidence, Mr. Pink notes, the American Academy of Pediatrics in 2014 called on schools to begin no earlier than 8:30—a position endorsed by the Centers for Disease Control and Prevention. Schools that have pushed back their start times have seen higher grades and higher standardized-test scores, as well as fewer car crashes among teen drivers. Yet less than one in five middle schools and high schools has made this change.

Such temporal oversights remain fairly common. "We simply don't take issues of *when* as seriously as we take questions of *what*," laments Mr. Pink. Perhaps we find it simply too hard to believe that our thoughts and actions are really so vulnerable to the time of day. Mercifully, Mr. Pink delivers the bad news about our time-based weaknesses with some good news about how to compensate for them. More delightful still, many of these tips involve simply slowing down, taking breaks and stealing naps. Alas, none of this advice will prevent time from flying by, but at least there are proven ways to fill our hours a bit better.

Ms. Bobrow, a former editor for *The Economist*, is a journalist based in New York.

A Fresh Approach to North Korea



POLITICS & IDEAS
By William A. Galston

When it comes to the North Korean nuclear threat, the diplomatic efforts of the past two decades have come to naught and there are no good military options. Yet no one—not the U.S., not South Korea, not Japan, not China—is willing to acknowledge a nuclear-armed North Korea, one of the most repressive and brutal regimes on the planet, as a permanent fact.

Nor is the drive to bring the regime to heel with ever-tougher sanctions likely to succeed. Because its leaders care little about the well-being of its people and do not depend on public opinion for their survival, sanctions will impose hardships on citizens without yielding either policy shifts or regime change.

And although the U.S. nuclear arsenal will probably deter a North Korean attack against America and its allies, the threat of a preventive first strike lacks credibility and will not induce Pyongyang to abandon its nuclear program.

Many readers who accept these premises will conclude—plausibly—that there is no choice but to accept North Korea as a nuclear power and move to a policy of deterrence. In the end, it may

come to that. But there is a potential alternative: The U.S. could explore the possibility that North Korea would be willing to give up its nuclear weapons in return for security guarantees it regards as credible.

The success of nuclear diplomacy with North Korea depends on Pyongyang's true motives for acquiring nuclear weapons, an issue about which the U.S. and China have long disagreed. Chinese experts and officials assert that the North has acquired a nuclear arsenal because the regime perceives a genuine threat from the U.S. and South Korea.

In a Brookings strategy paper, Fu Ying—chairman of the Foreign Affairs Committee of the National People's Congress of China and a former lead participant in the multilateral talks about North Korea's nuclear program—urges Americans to understand the profound sense of insecurity that pervaded the North Korean leadership after the collapse of the Soviet Union, which was for decades the regime's principal supporter. Beijing's move to establish full diplomatic relations with Seoul in 1992 intensified Pyongyang's sense of isolation and probably strengthened its determination to depend on nuclear weapons rather than allies for security.

The view from Washington is very different. Most U.S.

experts in and out of government believe North Korea's pursuit of nuclear weapons reflects aggressive intentions—to push U.S. forces out of South Korea and reunify the peninsula on Pyongyang's terms. North Korea's ostensible security concerns, they say, stem from irrational paranoia about U.S. intentions

The U.S. should make Pyongyang an offer it might be able to accept.

that no concessions could alay. And North Korea's history of renegeing and cheating on interim agreements underscores the difficulty—if not outright futility—of returning once more to diplomacy. If the U.S. interpretation is correct, the only choices are deterrence, which implies acceptance of North Korea as a nuclear-armed state, or a disastrous war.

Nonetheless, we should at least explore the possibility that the Chinese view has merit. This would mean cutting through the complex, multistage process of past efforts and going straight to the heart of the matter with a bold proposal: If North Korea—subject to rigorous international verification—were to surrender its nuclear stockpile, dismantle its nuclear

program, and rejoin the Nuclear Non-Proliferation Treaty, the U.S. would agree to sign a peace treaty formally ending the Korean War and establishing an internationally recognized boundary between the two Koreas.

The U.S. would extend formal diplomatic recognition to North Korea, and all parties would agree that reunification could occur only peacefully, by mutual consent. All parties would be free to retain current alliances, such as the defense relationship between the U.S. and South Korea, and to seek new ones.

Negotiations fundered a decade ago on North Korea's unwillingness to accept adequate verification measures. Since then, its leaders have only hardened their commitment to nuclear weapons. And their definition of a denuclearized Korean Peninsula includes ending our alliance with South Korea and removing the nuclear umbrella that protects American allies in East Asia, conditions that no U.S. administration could accept.

Still, a bold new offer would enjoy widespread support and help restore American leadership throughout the region. If North Korea's leaders rejected it out of hand, the U.S. would know that its assessment of their intentions had been correct all along, and China would be forced to rethink its stance. Considering the alternatives, we don't have much to lose.

Tales From the Cryptocurrency

By Allan Ripp

Some Hooters customers just got a fresh reason to return to the chain. Chanticleer Holdings, which owns and operates nine Hooters locations, has introduced a loyalty program pegged to cryptocurrency. "Eating a burger is now a way to mine for cryptocurrencies!" gushed the chief executive officer of the company helping Chanticleer develop the rewards initiative.

Companies everywhere are pivoting to blockchain, the digital ledger for recording secure transactions by bitcoin and other cryptocurrencies. Among recent pivoters is Vapetek, a California e-cigarette supplier that reorganized as Nodechain to mine digital currencies. Croffit, a sports bra maker, transformed itself into a digital-asset trader called the Crypto Co. Long Island Iced Tea's shares surged on news it was becoming a blockchain investor. The company—

rechristened Long Blockchain Corp.—still sells flavored teas.

Although lately bitcoin's price has swung wildly, the frenzy to go crypto will continue, at least until the bubble bursts. Here are a few more you may hear about in weeks—or hours—to come:

New ideas for how companies can cash in on blockchain mania.

• **Blockchain Video.** Blockbuster went bankrupt in 2010 but will return as a site for streaming videos of blockchain evangelists. I'd invest, but I'd have to pay the \$30 late fee I owe for not returning "Pulp Fiction" on time.

• **Alt-Right Coin.** Hardcore Breitbart and Steve Bannon fans will get their own unique cryptocurrency, though it will only be available in trace amounts and require an

apocalypse to gain value. Alt-Left Coin has already been fully mined to fund Elizabeth Warren's 2020 presidential bid.

• **H&R Blockchain.** Conceding America's tax system is beyond human comprehension, H&R will advise clients to throw out their shoe boxes of receipts and let its accounting bots assign refunds and payments using data analytics and peer-to-peer filing algorithms.

• **The Bitstein Co.** Still searching for a buyer in the wake of a seismic sex scandal, the Weinstein Co. will reverse its fortunes by launching an initial coin offering for buying up every script in development on bitcoin. Even Meryl Streep might like that action.

• **EthereYum Brands.** The company behind KFC, Pizza Hut and Taco Bell will convert to an exchange for ether, the No. 2 digital token. Yum will transform Col. Sanders into Col. Crypto, offering buckets of chicken to open-source coders

for keeping its Ethereum network trans-fat-free.

• **Heath's Ledger.** The moody actor from Perth left this earth in 2008, but fans can soon secure a portion of his aura via HeathCoins. These tokens memorializing Ledger's short list of films will trade on the Australian Futures Exchange.

• **Saudi Aramco.** Instead of raising a measly \$50 billion through a traditional initial public offering, Aramco plans to go superlong on crypto for a new golden kingdom; if the bet fails, the Saudi crown prince will round up the sheikhs at the Riyadh Ritz for another shakedown.

As for me, I'm hereby changing my name to Allan Ripple to align with the San Francisco firm whose digital currency, XRP, soared 1,100% in the past month. As a hedge, I'm sending everyone I know a chain letter.

Mr. Ripp runs a press relations firm in New York.

OPINION

Don't End the Iran Deal, Fix It

By Michael Doran

To waive or not to waive. President Trump again faces that question Thursday, a legislatively mandated deadline to waive or reimpose sanctions on Iran. The protests that have shaken the Islamic Republic over the past two weeks have invested this deadline with particular significance. They have raised the stakes and sharpened the debate.

Trump and Congress could forge a new consensus by enacting a law making the nuclear limits permanent.

On one side are those who advocate reimposing the sanctions—in effect scrapping the nuclear deal entirely. The arguments for this approach are familiar. The deal puts Iran on a glide path to a bomb. It has led America to turn a blind eye to Tehran's malevolent behavior in Iraq, Syria, Lebanon and Yemen. It has strengthened a regime that is brutally repressing dissent at home. It is no accident, the critics say, that the strongest supporters of the nuclear deal are also the ones arguing that U.S. leaders should stay silent about the protests. How can we continue to

engage with a regime that is killing people in the streets?

Those who favor waiving the sanctions and engaging with the regime argue that the protests prove the nuclear deal did not strengthen the Islamic Republic, as critics claimed it would. On the contrary, it heightened the reform expectations of ordinary Iranians—expectations embodied by President Hassan Rouhani. The job of the West, therefore, is to help build up Mr. Rouhani the reformer against his putative rivals, the hard-liners.

The protesters themselves offered the most elegant refutation of this policy. Their chant—"Death to the dictator! Death to Rouhani!"—reminded us that the Iranian president is the front man for a brutal dictatorship, not a reformer.

Still, nullifying the deal would not end the conflict with Iran, and it would risk undercutting domestic and international support for the administration's approach. Russia and China would inevitably come to the regime's aid, and Tehran would seek to pressure the international community by redoubling its nuclear efforts. Moscow, Beijing and Tehran would all blame Mr. Trump who for the renewed conflict, and Europeans and congressional Democrats would agree.

Mr. Trump does, however, have a third alternative: fixing the deal. As he suggested in October, he and



Parts of the S-300 air-defense missile system during a 2017 parade in Tehran.

Congress could eliminate the nuclear deal's sunset clauses—its most dangerous provisions—by making restrictions on the Iranian nuclear program permanent in U.S. law and requiring more robust inspections. Failure by the Iranians to comply with such a law would bring about an immediate snap-back of the most debilitating sanctions.

The Trump administration has been conducting quiet conversations with Capitol Hill about such an approach, and in recent weeks the possibility of reaching an agreement has improved markedly. It would be a mistake if Mr. Trump, merely in

order to meet an arbitrary legislative deadline, were to cut off this option, which offers the possibility of forging a new bipartisan consensus on Iran.

The old consensus generated great benefits. Between 2006 and 2013, the sanctions, supported by Democrats and Republicans alike, succeeded in bringing enormous pressure to bear on the Islamic Republic. While the nuclear deal prevents the administration from reconstituting the sanctions regime as it existed then, it does not preclude new sanctions—not to mention other measures—designed to curb Iran's ballistic-missiles

programs, its human-rights abuses, and its malevolent behavior abroad. The first priority of the Trump administration should be to forge a new containment coalition.

To be sure, rebuilding a consensus is a 50% solution. But it is preferable to a maximalist solution enacted unilaterally. While consulting Capitol Hill, the Trump administration has also been sounding out the Europeans, who would likely support the envisioned fix to the nuclear deal.

Moreover, the 50% solution need not betray the protesters, as some are arguing. There are steps the administration can take to send a strong message of support for the brave men and women in the streets. Among them: imposing sanctions against individuals responsible for repressing the protests, putting a spotlight on the regime's corrupt practices, and working with allies in Iraq, Syria and Yemen to disrupt the activities of the Republican Guards, the regime's mainstay and a main target of the protesters' anger.

Mr. Trump should play a long game. By signing a waiver on Thursday, the president would neither commit himself to nor foreclose any future course of action. Axing the deal might be momentarily satisfying, but it's no substitute for long-term strategy.

Mr. Doran is a senior fellow at the Hudson Institute.

California's Affirmative Action for 'Marijuana Entrepreneurs'



UPWARD MOBILITY
By Jason L. Riley

In California, a criminal record can prevent you from obtaining a liquor license but give you a leg up in obtaining a permit to deal dope. What gives? It's all part of an effort in the Golden State to help more minorities become "marijuana entrepreneurs." On New Year's Day, California became the ninth state to legalize cannabis for recreational use, but officials are worried that not enough blacks will qualify for the permits needed to sell weed legally. To address this "problem," Los Angeles, Oakland and other cities have created "equity programs" that offer no-interest loans and other perks to people who live in poor black neighborhoods and have been convicted of drug crimes. If you're a white applicant, you can improve your own chances of receiving a permit by "incubating" an equity applicant, which means making him a 50% partner in the business or giving him floor space in your establishment, rent-free.

The progressives who dreamed this up sold it as a way to compensate blacks, who have been disproportionately affected by the war on drugs. But what about the disproportionate number of blacks who have been victims of these black drug dealers? What about all the law-abiding blacks who reside in poor neighborhoods where drug gangs have taken over playgrounds and street corners and school yards and made the sound of gunfire a summer-night norm?

Back in 1996, California passed Proposition 209, which prohibits public institutions from discriminating based on race, so legal challenges to these "equity" schemes are inevitable. The other wild card is U.S. Attorney General Jeff Sessions, who announced a change in federal drug policy just three days after the California initiative legalizing recreational pot took effect.

In a one-page memorandum issued last Thursday, Mr. Sessions announced that the Trump administration will, when it sees fit, enforce federal marijuana laws even in states that have made the drug legal. This has been reported in some

outlets as a reversal of the federal policy under President Obama, but it would be more accurate to characterize the move as a return to the rule of law.

It's true that back in 2013, after Colorado and Washington state had legalized marijuana for recreational

Los Angeles, Oakland and other cities create 'equity programs' to help minority ex-cons get into legal pot.

use, the Obama administration issued a set of "guidances" that discouraged federal prosecutors from pursuing marijuana cases in places where pot use was legal. Still, U.S. attorneys weren't forfeiting prosecutorial discretion. They were simply urged not to prioritize state-sponsored cannabis businesses. And even that was conditional.

In his 2013 memo to U.S. attorneys, then-Deputy Attorney General James Cole included several red lines for states that would trigger

federal intervention if crossed. Among other things, states had to stop interstate drug smuggling, keep kids from accessing pot, and prevent "drugged driving." "Thus, this memorandum," wrote Mr. Cole, "serves as a guidance to Department attorneys and law enforcement to focus their enforcement resources and efforts, including prosecution, on persons or organizations whose conduct interferes with any one or more of these priorities, regardless of state law."

David Murray, who served in the Office of National Drug Control Policy during the George W. Bush administration, told me in a recent interview that such red lines "have been crossed repeatedly and blatantly at the state level." According to a comprehensive Colorado study released last year, marijuana-related traffic fatalities have increased by 66% since the drug was legalized in 2012. And Colorado youth are first in the country—and 55% above the national average—in marijuana use.

Border patrol reports that less cannabis is entering the country, but cartel activity inside the U.S. has spiked as drug traffickers set up

shop in states where the drug has been legalized and sell it at a premium in places where use of the drug remains illegal. USA Today reported last year that a pound of marijuana that sells for \$2,000 in Colorado could sell for as much as \$6,000 in New York or Georgia. "Marijuana smugglers are growing and shipping vast quantities of illicit cannabis across the USA," said the paper. "They're mailing it, driving it and, in at least one case, flying it around in skydiving planes."

Mr. Sessions is being hammered by Democrats and fellow Republicans in Congress for diverging from Obama-era priorities on drug enforcement. GOP Sen. Cory Gardner of Colorado has promised to hold up nominees to the Justice Department in protest. But much of this outrage looks feigned. The attorney general is a well-known drug warrior. It's one of the reasons he has his current job. The problem that Mr. Sessions's critics in Congress face is that marijuana remains illegal under federal law. Mr. Gardner would do better to focus less on Mr. Sessions, who doesn't make laws, and more on his colleagues in Congress, who do.

The IRS Evades Accountability—and Its Excuse Is Ridiculous

By John J. Vecchione
And James Valvo

Every American knows the Internal Revenue Service collects taxes and audits taxpayers. Fewer realize that the agency also issues far-reaching rules that affect the entire economy. Any agency with such vast rule-making power deserves the highest level of scrutiny and accountability. The IRS is in particular need of oversight following the scandals that have engulfed it in recent years.

Yet a new report from the Cause of Action Institute reveals that the IRS has been evading numerous oversight mechanisms, and it refuses to comply with laws requiring it to measure the economic impact of its rules.

Congress has passed several laws, including the Regulatory Flexibility Act and the Congressional Review Act, that require agencies to report on their rules' economic impact to lawmakers and the public. The president also conducts oversight of agency rules through the White House Office of Information and Regulatory Affairs.

These good-government measures are meant to ensure unelected bureaucrats can be checked by the public.

Crucially, they are all triggered by an initial determination by the agency of whether its new rule will have a "significant economic impact." But as our report shows, the IRS has made up a series of exemptions that allow it to avoid basic scrutiny. The agency takes the position that its rules have no economic effect because any impact is attributable to the underlying law that authorized the rule, not the agency's decision to issue or alter the rule.

The IRS prominently used this excuse in 2016. It had proposed changes to the way it valued interests in closely held businesses for estate- and gift-tax purposes. This rule would have had a dramatic effect on thousands of small businesses and family farms and their inheritors. The affected communities reacted strongly, but the IRS still asserted the rule was only interpretive. It provided no more than the boilerplate statement that any economic effect "is derived

from the operation of the statute, or its intended application, and not from the proposed regulations in this notice of proposed rule-making."

This is pablum. Were it correct, rules from every federal agency would be exempt from oversight, since all agency rules are based in statute. If other agencies adopted this mind-set, it would gut oversight of the regulatory state by the elected branches.

The IRS did submit the rule to the Small Business Administration's Office of Advocacy for comment on how it would affect small businesses. That office firmly rejected the IRS claim that the rule was exempt from economic analysis. The IRS brushed aside the SBA's argument, but the Trump Treasury Department halted this ill-advised rule.

Yet the IRS's brazen assertion of immunity from oversight remains in place. It first bestowed the economic-impact exemption on itself in 1998, after Congress amended the Regulatory Flexibility Act expressly to cover IRS interpretive rules. The IRS Office of Chief Counsel issued a

notice claiming that its interpretive rules do not have an economic impact, an outrageous assertion meant to help the agency avoid the new law. The IRS originally stated that only the "revenue impact"—

It claims its rules lack a 'significant economic impact' because they're 'derived from' statutes.

the amount of money collected and transferred to the Treasury—was exempt from analysis. It has since broadened this claim to evade White House review and the Congressional Review Act. The IRS now asserts the exemption for all "effects" from its rules, including macroeconomic impacts, behavioral changes, compliance costs, and record-keeping and reporting burdens.

Criticism of the IRS position goes beyond the SBA. Members of Congress and the Government Accountability Office have also called

for reform of this baseless practice. Congress and President Trump should step in to correct this dubious behavior and ensure the IRS is held accountable for its actions.

Specifically, the White House should demand that the IRS submit all rules to the Office of Information and Regulatory Affairs for review. It should make it known that it will delay the implementation of any new rules until the IRS conducts the requisite economic analysis. And the Senate should demand that President Trump's nominee for IRS commissioner—who has yet to be named—publicly commit to reforming this practice. Anyone who wants to lead the IRS should promise to produce economic analyses for proposed rules and share that information with the public.

No agency has more influence over every taxpayer than the IRS. It's time for oversight of that agency to match its unparalleled role in Americans' lives.

Mr. Vecchione is president and CEO of Cause of Action Institute, where Mr. Valvo is counsel and a senior policy adviser.

Notable & Quotable: Immigration Bill

Reps. Bob Goodlatte, Michael McCaul, Raul Labrador and Martha McSally announcing their new immigration-reform legislation in an article for WSJ.com, Jan. 9:

Our bill would provide \$30 billion to build a wall, to invest in new technology, and to improve, modernize and expand ports of entry. It would add boots on the ground: an additional 5,000 Border Patrol agents and 5,000 Customs and Border Protection officers. . . . We must turn off the irresistible "jobs magnet" and ensure that immigration laws are effectively enforced within the U.S.

Our bill would achieve these goals by cracking down on people who overstay their visas, by requiring

employers to use the accurate and hugely successful E-Verify system to ensure that they hire only legal workers, and by making it easier to deport aliens who are gang members, who are aggravated felons, who fail to register as sex offenders, or who have multiple DUIs.

Our bill would put an end to chain migration, the process by which citizens and green-card holders can sponsor extended family members for their own green cards (who in turn can eventually sponsor their own extended family members, ad infinitum). It also would stop the Diversity Visa program, which awards green cards by random lottery to people with no ties to the U.S. Neither of these programs prioritizes the skills of people entering the country. . . .

Our proposal allows the Justice Department to withhold grants from "sanctuary cities"—jurisdictions that refuse to allow their law-enforcement officers to cooperate with federal immigration authorities, even to the point of preventing Immigration and Customs Enforcement officers from entering local jails to take custody of criminal aliens. . . .

Finally, as requested by President Trump, our bill provides a legislative solution for the beneficiaries of the Deferred Action for Childhood Arrivals program. . . . Our bill would allow DACA beneficiaries to receive a three-year renewable legal status, codifying the program the right way—by a duly enacted statute.

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WORLD NEWS

Poland's Leader Shuffles Cabinet

Move precedes visit to Brussels as EU considers new model for spending in East

Poland's new prime minister fired some of the most nationalistic members of his government on Tuesday, ahead of a Brussels visit aimed at easing tensions with the Euro-

pean Union as the bloc considers budget changes that could see deep spending cuts in Eastern Europe.

Prime Minister Mateusz Morawiecki replaced his ministers of defense and foreign affairs, two harsh critics of the EU, along with more minor cabinet members, with officials broadly seen as friendlier toward the bloc. The shuffle comes a month after the EU's executive initiated an unprecedented punishment of Poland over judicial overhauls the EU considers undemocratic.

Those sanctions, which could strip Poland of some voting rights and impose financial penalties, are likely to be blocked by some EU member states. But the EU has a potentially more potent stick: a budget overhaul that could slash spending on the EU's newer, eastern members—especially Poland.

The EU annual budget of roughly €140 billion (\$167 billion) faces increasing pressure from Britain's decision to quit the bloc. EU Budget Commissioner Günther Oettinger said Monday that Brexit will leave an annual budget gap as wide as €13 billion in coming years. The European Commission in May will present its blueprint for the next budget period, which starts in 2021. Jockeying and lobbying have already begun.

To balance EU books, calls have grown for changes to large transfers from mainly



Polish Prime Minister Mateusz Morawiecki, left, with European Commission President Jean Claude Juncker in Brussels on Tuesday.

richer western European countries, under so-called cohesion policy, to easterners including Poland, Slovakia and Hungary, who joined the bloc in 2004.

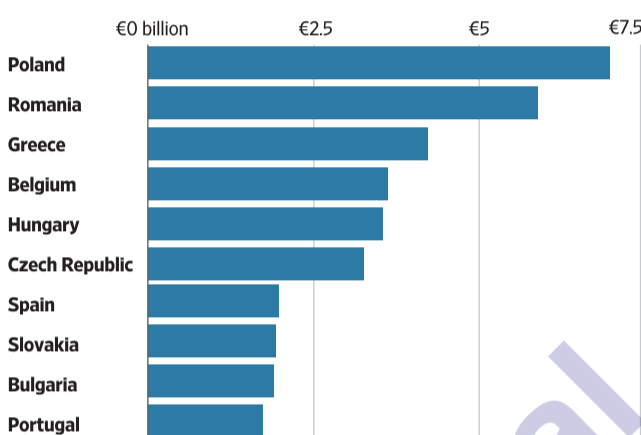
Poland was the single biggest beneficiary. Last year it received €7.1 billion more in EU support than it contributed to the bloc's budget. For the 2014-20 budget period, such fund transfers to Europe's poorer regions are expected to total €325 billion.

One of the most controversial ideas for future EU spending is to tie it explicitly to net donors' priorities. Those include upholding rule of law and judicial independence, the issue on which Brussels has challenged Poland.

Mr. Morawiecki, a former banker who until last month served as the government's finance minister, is seen by some as a potentially moderating force. In response to the EU sanction move last month, he tweeted: "Poland's sovereignty and the idea of United Europe can be reconciled."

Give and Take

Biggest net recipients of EU spending, 2016



Note: €1=\$1.20
Source: European Commission
THE WALL STREET JOURNAL.

Fights over a judicial overhaul by Poland's ruling Law and Justice party have dominated its EU relations since the nationalist government took office in 2015. The government says the

changes, which include purging more than one-third of the Supreme Court, aim to expel Communist sympathizers from the justice system. Opposition politicians say Law and Justice is seeking to turn the courts

into a political instrument.

For months, Polish authorities have appeared confident that they have the upper hand, prompting frustration in Brussels that talks on the issue weren't serious. Hungarian Prime Minister Viktor Orbán, a frequent critic of Brussels, pledged to block any sanctions against Warsaw.

While the new Polish premier will hope to protect Poland from steep spending cuts, there are limits to Brussels' budget leverage. EU spending in Poland, while exceeding that in any other country, is a fraction of Poland's \$470 billion gross domestic product. However, spending cuts could scare off some private, multinational investors which have played a big role in Poland's post-communist growth.

Most Poles tell opinion surveys they see the EU in a favorable light but views are shifting and many say Brussels is bullying their country.

—Valentina Pop contributed to this article.

Global Economy Reaches Potential

By JOSH ZUMBRUN

A broad uptick in economic growth around the world in 2017 has led economists at the World Bank to conclude that for the first time in a decade, the global economy is operating at its potential.

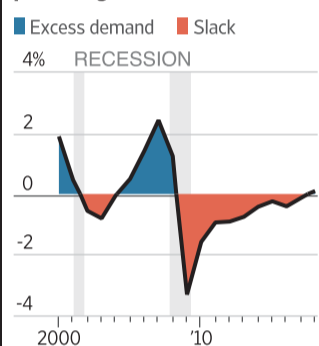
"The year 2018 will likely mark a turning point for the global economy because, for the first time since 2008, the negative global output gap is expected to be closed," the World Bank said in its flagship report on the global economy, known as the Global Economic Prospects report.

At the root of this observation is a calculation that the world economy performed far worse than its potential in the decade after the global financial crisis. This difference between the economy's actual performance and its potential is known as the output gap. Closing the output gap could trigger a broad change in economic conditions around the world.

Closing the Gap

The difference between actual and potential global output has closed for the first time in a decade.

The global output gap as a percentage of GDP



Source: World Bank
THE WALL STREET JOURNAL.

The Face of Change

Sally Love Connally
Government Strategy
Atlanta, GA

In the dynamic world of healthcare, it's important to understand the complex and evolving ecosystem and its impact on customers. Team members like Sally Love keep us current and engaged in the conversation so we can play a vital role in helping the system work smarter. It's just one way our people are helping to accelerate the transformation to a value-based healthcare system. **Change Healthcare. Inspiring a better healthcare system.**

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THE WALL STREET JOURNAL.

Wednesday, January 10, 2018 | B1

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Swiss Central Bank Outearns Apple

SNB emerges as a cash cow, surpassing profits of global corporate giants

By BRIAN BLACKSTONE

ZURICH—Switzerland got a lot wealthier in 2017, thanks to its central bank's emergence as a major money manager with a nearly \$800 billion portfolio of foreign stocks and bonds.

The Swiss National Bank

said Tuesday it expects to report a record annual profit of 54 billion Swiss francs (\$55 billion) for last year—a staggering sum equal to 8% of the country's gross domestic product.

By comparison, if the Federal Reserve were to run a profit of similar scale relative to the U.S. economy, it would be about \$1.5 trillion. The Federal Reserve has earned an annual profit of around \$100 billion in recent years.

The profit is more than Apple Inc. earns in a year, and

more than JPMorgan Chase & Co. and Berkshire Hathaway Inc. combined.

Those are all giant, world-spanning corporations, while the SNB employs about 800 people. Its chairman—among the best-paid central bankers—earns about \$1 million a year.

The SNB is one of the few central banks with listed shares. Its share price more than doubled last year, and was up 3.4% Tuesday.

But the Swiss National Bank can't lock in its paper profit

by selling chunks of its assets, for fear of raising the franc's value and hurting exports while weakening consumer prices.

That likely will keep its balance sheet at the mercy of financial markets this year.

The SNB's profit was lifted by a trio of positive forces: Low bond yields preserved the value of its foreign bonds that account for 80% of its foreign reserves; higher stock prices raised the value of its equity holdings; and the weaker Swiss currency made those

foreign assets worth more in franc terms.

The euro strengthened nearly 10% against the franc last year. Euro-denominated assets are the largest currency holding of the SNB, followed by the dollar.

Here's how the SNB profits from buoyant asset markets and a weaker franc: At the end of September, regulatory filings showed it owned more than 19 million shares of Apple, its largest U.S. stockholding. Apple's shares rose nearly

Please see SWISS page B2

Silicon Valley Now Wary Of iPhone

By TRIPP MICKLE

A tussle this week between prominent investors and Apple Inc. over iPhone use by young people comes amid a nascent re-evaluation of the smartphone's social consequences within the industry that spawned it.

The smartphone has fueled much of Silicon Valley's soaring profits over the past decade, enriching companies in sectors from social media to games to payments. But over the past year or so, a number of industry figures have voiced concerns about the downsides of the technology's ubiquity.

They include Apple executives who helped create the iPhone and now express misgivings about how smartphones monopolize attention, and early investors and executives in Facebook Inc. who worry about social media's tendency to consume ever more user time, in part by pushing controversial content.

Those are the kinds of concerns spotlighted in a letter to Apple on Saturday from Jana Partners LLC and the California State Teachers' Retirement System, which control \$2 billion of Apple shares. The letter urged the tech giant to develop new software tools that would help parents control phone use more easily, and to study the impact of overuse on mental health.

On Monday, Tony Fadell, a former senior Apple hardware executive involved in the iPhone's creation, also called

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Samsung Sets Pace For Capital Spending

By TIMOTHY W. MARTIN

SEOUL—Samsung Electronics Co. spent more on capital expenditures last year than any other publicly traded company, highlighting in dramatic fashion how technology and telecommunications firms are driving an uptick in manufacturing investment.

The South Korean tech giant spent \$44 billion in 2017, nearly doubling its investment in new or existing facilities making semiconductors, displays and other products, according to S&P Global Market Intelligence estimates that put Samsung atop the global ranking for the first time. That sum is more than what Royal Dutch Shell PLC and Exxon Mobil Corp.—traditionally two of the largest investors—spent combined last year and about 50% more than the next biggest tally, PetroChina Co.'s \$29 billion.

Samsung's central role in the tech supply chain was put in focus Tuesday when the company estimated operating profit of 15.1 trillion won (\$14.1 billion) for its fourth quarter. That would mark the third straight quarter Samsung smashed its earnings record, even as its de facto leader, Lee Jae-yong, is in prison after a corruption trial that gripped South Korea.

Samsung's big bets underscore a rebound in companies' willingness to invest in boosting production in the future, as 2017 brought an end to four straight years of global declines, according to Goldman Sachs. Tech is expected to lead with a yearly increase of more than 10% from 2017 to 2020.

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The company plans to launch an initial coin offering and create a platform to help photographers track unlicensed use of images.

Kodak Snaps Its Crypto-Moment

Flash

Kodak's stock price more than doubled Tuesday.



Source: WSJ Market Data Group
THE WALL STREET JOURNAL.

By ERIK HOLM AND PAUL VIGNA

Shares of Eastman Kodak Co. more than doubled after the company waded into the digital-currency world with plans to launch an initial coin offering.

Kodak on Tuesday said the coin, KodakCoin, would be the backbone of a new platform that will help photographers license their work and track the unlicensed use of their images. The coin uses the technology behind bitcoin, called blockchain, to keep a digital ledger of the photographs.

In an initial coin offering, a firm creates its own bitcoin-like digital token and offers it publicly for sale. The token is usually designed to unlock some service on an online

platform, like with Kodak's project.

"For many in the tech industry, 'blockchain' and 'cryptocurrency' are hot buzzwords, but for photographers who've long struggled to assert control over their work and how it's used, these buzzwords are the keys to solving what felt like an unsolvable problem," said Kodak CEO Jeff Clarke.

For the past several years, people have been experimenting with ways to use blockchain. At its essence, blockchain is an open record of transactions, maintained in an online ledger that is distributed across a network of computers, that can't be tampered with. That makes it like an indelible time stamp, which could be useful in a case of copyright and digital-rights

management.

Initial coin offerings are a relatively new phenomenon that exploded in 2017, raising more than \$4 billion last year, though regulators like the Securities and Exchange Commission have warned about the risks and have shut down some egregious malefactors.

Kodak is the latest company to see its shares soar after publicizing plans to explore the world of bitcoin, blockchain and initial coin offerings. On Tuesday, Kodak's shares climbed \$3.70, or 119%, to \$6.80.

Others getting into the area include a former electronic cigarette company, a biotech firm and an entity formed last year through a reverse merger with a sports-bra maker.

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INSIDE



WALKING THE DOG IS A SECURITY RISK

MOBILE, B2

Automated Carry-On Suitcases Pack a Wallop at CES 2018

By JOANNA STERN

LAS VEGAS—A piece of luggage chased me down a hallway. It was hilarious, crazy, stupid and useful all at the same time.

While many auto makers are showing off their autonomous vehicles at this year's CES tech show, at least three startups are showing off autonomous... carry-on luggage.

If the cars can drive themselves then so shall the suitcases!

The bags all use different technology to enable their auto-follow features, but the concepts are similar.

You can wirelessly connect the rolling bag to a remote control, smartphone or smartwatch, and the bag will follow that device while you hold a Venti iced latte in each hand.

China-based 90Fun, working with Segway, developed a "gravity adaptive" balancing system so that its Puppy 1 bag can follow you around—like a puppy.

That isn't its only novelty: It remains upright on two wheels, even when you're standing still waiting for your boarding group to be called.

I quickly



Joanna Stern and the 90Fun Puppy 1

learned this luggage of tomorrow needs more time in driver's ed class today.

The Puppy 1 struggled to keep a connection with its remote, often landing on its face or going in reverse.

Another bag I tried, the TravelMate, didn't want to follow me at all. Its maker said it was because the battery in the prototype was low.

But even if everything had worked as promised, what are the chances the aviation authorities will allow these devices through security and aboard flights?

Both 90Fun and Travelmate have designed their bags with removable batteries, which they both say should meet regulations.

For now, self-driving baggage seems to have too much baggage of its own. Still, I really do look forward to the day when I no longer have to pull my luggage across the airport like a pioneer trekking along the Oregon Trail.

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BUSINESS WATCH



John Dickerson will join 'CBS This Morning' on Wednesday.

AUTOS Toyota and Mazda Select Alabama Site

Toyota Motor Corp. and Mazda Motor Corp. will build a \$1.6 billion assembly plant in Huntsville, Ala., according to people familiar with the companies' decision, a move that boosts their production capacity in the U.S. and adds to a growing presence for foreign auto makers in the state. Toyota and Mazda first announced plans in August for the plant, which will create 4,000 jobs and make up to 300,000 vehicles a year by 2021. Toyota has said it will build 150,000 Corolla models and Mazda will use the rest of the capacity for an unspecified model.

The selection of Huntsville comes a year after Toyota was criticized by President Donald Trump for plans to build a plant in Mexico. The Japanese company announced plans within days of that to spend \$10 billion in the U.S. over five years. The two companies plan to formally announce the location at a press conference Wednesday in Montgomery, the state capital, the people familiar with their decision said.

—Chester Dawson

CBS 'Face the Nation' Host Replaces Charlie Rose

CBS News has named John Dickerson to be a co-host of "CBS This Morning," succeeding Charlie Rose, who was fired in

November after revelations of alleged sexual misconduct. Currently the anchor of the Washington-based Sunday political show "Face the Nation," Mr. Dickerson will make his debut on the New York-based "CBS This Morning" on Wednesday. His successor on "Face the Nation" will be named in a few weeks, the network said. Mr. Dickerson, 49 years old, will co-host the 7 a.m. to 9 a.m. program with anchors Gayle King and Norah O'Donnell. Mr. Rose expressed remorse for his actions, but questioned the accuracy of some allegations.

—Joe Flint

SANDRIDGE ENERGY Icahn Seeks Director After Aborted Deal

Less than two weeks after SandRidge Energy Inc. succumbed to investors' wishes to terminate a deal to buy Bonanza Creek Energy Inc., activist investor Carl Icahn is urging the company to make changes on its board and let his firm appoint a new director. Mr. Icahn, the company's largest shareholder with a 13.5% stake, has called for two of five board members to resign. In a letter to SandRidge Chairman John Genova, Mr. Icahn asked his firm be permitted to appoint at least one new director and the other opening could be filled by another big shareholder. "Your apparent disregard for any semblance of accountability to the owners of SandRidge reminds me of the medieval belief in the divine right of kings," Mr. Icahn said in the letter.

In November, SandRidge announced a \$746 million deal to buy Bonanza. Investors thought the deal was too expensive. In response to Mr. Icahn's letter, SandRidge said Tuesday its board and management team "value constructive shareholder dialogue." The company said its independent directors are scheduled to meet with major shareholders, including Mr. Icahn, next week.

—Allison Prang

SWISS

Continued from the prior page
10% in the fourth quarter, which would have added almost \$300 million to the SNB's profit, assuming it didn't buy or sell shares. The dollar strengthened 0.7% against the franc during that time, too, which would have added another several million francs when the value of that investment was translated into the Swiss currency.

The SNB said 49 billion francs of its profit came from its foreign assets. Its gold holdings increased in value by about three billion francs last year and its Swiss franc positions by two billion francs.

Switzerland's central bank has accumulated about 760 billion francs in foreign bonds and stocks through years of foreign-exchange interventions, particularly during Europe's debt crisis, in which it created francs and used them to purchase foreign assets in a bid to weaken the currency.

Other central banks such as the Federal Reserve, European Central Bank and Bank of Japan also have amassed large portfolios consisting primarily of bonds. But those assets are denominated in their own currencies.

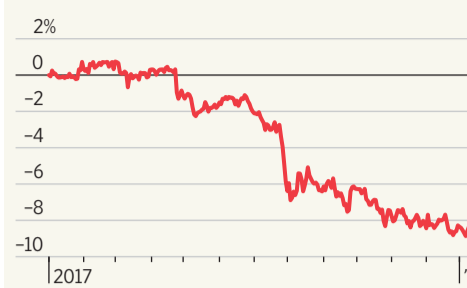
What sets the SNB apart is that its balance sheet is comprised almost entirely of foreign assets, exposing it to huge foreign-exchange risk.

Things haven't always gone the SNB's way: In 2015, the central bank's decision to

BUSINESS & FINANCE

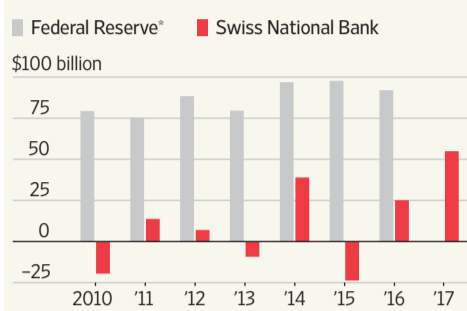
A weaker franc last year raised the value of the Swiss National Bank's massive portfolio of foreign stocks and bonds.

Swiss franc's performance against the euro



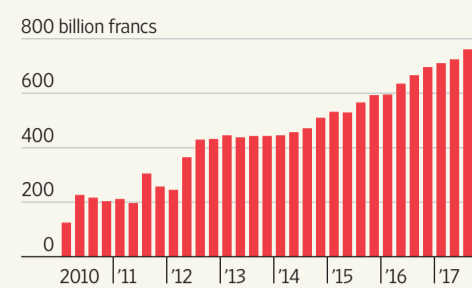
The SNB's profit in 2017 was more than half the earnings the Fed returned to the U.S. government in its latest reported year, though the U.S. economy dwarfs Switzerland's.

Annual earnings

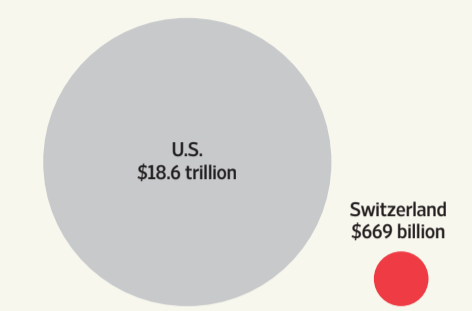


Note: \$1 = 0.98 Swiss franc. *Federal Reserve earnings remittances to Treasury; 2016 is latest available. Sources: Swiss National Bank (SNB profit and investments); Federal Reserve (Fed profits); World Bank (GDP)

SNB's foreign-currency investments, quarterly



Gross domestic product



abandon a ceiling on the franc's value caused the franc to soar in value, leading to a loss of 23 billion francs that year.

The Swiss can't spend this latest windfall; booking its profit would require the SNB to sell some of its foreign bonds and stocks that included nearly \$3 billion in Apple stock and \$1.5 billion in Facebook Inc. at the end of the third quarter. The SNB's equity investments—which comprise 20% of its foreign assets—rep-

licate broad indexes. And while central banks like the Fed transfer most of their profits to their governments, the SNB is in the early stages of a five-year profit-sharing arrangement whereby the maximum amount it can transfer to the Swiss federal and regional governments is just two billion francs a year.

That agreement runs until 2020. It also pays a small amount—1.5 million francs annually—to its private shareholders. Private shareholders

have little or no say over who manages the bank or how it is run.

The SNB is mostly owned by Swiss states, known as cantons, and cantonal banks.

The SNB said it would allocate about five billion francs to its provisions that guard against future fluctuations in exchange rates. The rest of its paper profit will go to a distribution reserve to ensure that the SNB can still make future payouts even in the event of a loss.

Dog-Walking App Unleashed Data

BY ROLFE WINKLER AND ROBERT MCMILLAN

Wag Labs Inc., the startup behind a popular dog-walking smartphone app, inadvertently exposed webpages showing customer information including addresses and lockbox codes that could have enabled thieves to break into homes.

The information was on obscure pages on the company's website that weren't password-protected. It isn't clear how long the pages were accessible. They were taken down late last week.

It also isn't clear how many customers' information was viewable.

The Wall Street Journal observed records of more than 100 customers, including more than 50 with lockbox information, before the pages were taken down. That was on one day, on a subset of the pages, and the records on those pages appeared to be replaced with different ones every day or two, meaning the total number of customers potentially exposed could be much larger.

There is no indication that customer information was accessed by hackers or thieves, or that any customers' homes were broken into.

Wag said it was notified last week of a "technical glitch" in its software and that it fixed the problem hours later. It said the glitch exposed "certain limited personal information belonging to a small subset of Wag users," and that it didn't include finan-



Wag Lab's smartphone app connects dog owners with dog walkers.

cial data or Social Security numbers. "Given our investigation to date, we have no reason to believe this information was misused," Wag said.

The data reviewed by the

The information exposed doesn't require customer notification in some states.

Journal included customers' first names and the first initial of their surnames.

"Wag has prioritized the security of our customers at each stage of the company's development," and has processes and policies for security, the company said in response to Wall

Street Journal inquiries. Wag said it is communicating with affected customers.

Kathryn DeFea, a retired professor from Orinda, Calif., was among those affected. She confirmed to the Journal that the information on the website was accurate and removed her key from her lockbox. Ms. DeFea said it was "terrifying" that such information was posted publicly. She hadn't heard from Wag Labs as of Tuesday.

Many large companies have experienced breaches or left customer data exposed. The problem can be more pronounced for startups, which often don't invest in information security early on as they prioritize rapid growth, said Jeremiah Grossman, chief of security strategy at security-software company SentinelOne Inc. He added that "just because you're

a startup, it doesn't mean that you're insecure."

Wag's smartphone app connects dog owners with dog walkers, who undergo a thorough screening process. The owners can summon a walker immediately or schedule future walks, similar to apps like Uber and Lyft for ride-hailing. Wag provides customers with a lockbox for their keys and Wag walkers know the code to enter and pick up the dog.

Dog-walking apps have drawn significant investor interest in recent years. Wag, which doesn't disclose how many customers it has, was valued at \$200 million in April 2017 when it raised \$45 million, according to research firm PitchBook, bringing its total raised to about \$60 million.

The information exposed by Wag doesn't include the kind of personal data that would require customer notification under many state laws, said Ed McAndrew, a former federal cyber-crime prosecutor who is now a lawyer with the law firm Ballard Spahr LLP. Still, he said, if any customers were to suffer harm on the basis of information taken from the site, the company could face civil penalties under state tort laws.

Some hackers scan for this type of information on the internet, said Mr. Grossman of SentinelOne. "People stumble across this kind of thing all the time," he said.

—Douglas MacMillan contributed to this article.

SPEND

Continued from the prior page
Goldman said.

Driving their spending is the proliferation of internet-connected gadgets and the need for skilled manufacture of dozens of microsize components. The advance toward artificial intelligence calls for massive data-server farms that require immense computing power and memory chips.

"Typically we think bigger is costlier," said Henrich Greve, an entrepreneurship professor at Insead in Singapore. "But with technology, there are so many things that are very, very small but also

quite costly."

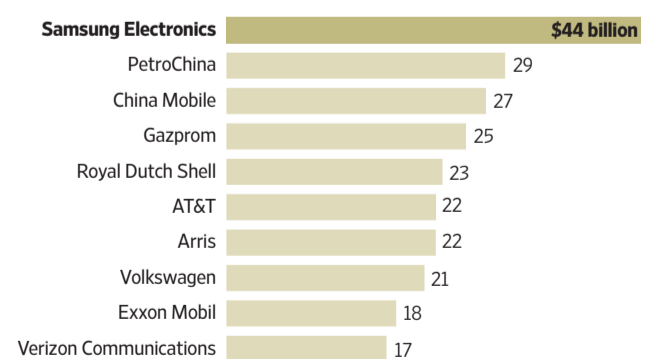
U.S. technology and telecom firms are some of the biggest spenders on capital improvements. U.S. telecom giants AT&T Inc. and Verizon Communications Inc., along with Apple Inc., Google parent Alphabet Inc. and Intel Corp. rank among the 25 biggest investors, according to the S&P Global Market Intelligence estimates.

A Samsung spokesman declined to comment beyond what the company has publicly disclosed. Samsung in October said about two-thirds of its 2017 capital expenditure was earmarked for semiconductors and roughly a third for displays, but beyond that has offered few specifics.

Spending Heavyweights

Samsung Electronics spent heavily to boost manufacturing capacity for semiconductors, displays and other electronics.

Top 10 companies by capital expenditures, 2017*



*Estimate; among publicly traded companies. Source: S&P Global Market Intelligence

KODAK

Continued from the prior page
A company that owns several burger restaurants, Chanticleer Holdings Inc., saw its shares rise more than 40% on Jan. 2 when it announced that it would use blockchain technology to provide a currency for its customer-loyalty programs. A firm formerly known as Long Island Iced Tea Corp.

managed to avoid getting its shares delisted after it changed its name to Long Blockchain Corp. last month and said it was pivoting to investing in blockchain technology.

Sometimes, even rumors are enough to send a company's shares higher. Western Union Co. and Seagate Technology PLC both have popped in the past few days after little-known websites claimed the companies had ties to a

digital currency created by a company called Ripple. Western Union and Seagate didn't respond to a request for comment. Ripple declined to comment.

For Kodak, more than 65 million shares changed hands on Tuesday. Since emerging from bankruptcy protection in 2013, its highest-volume day before Tuesday occurred in 2014 when 2.15 million shares changed hands, according to FactSet.

Even with Tuesday's rise, Kodak is down more than 50% over the past 12 months. The company has struggled to adapt to new technology in recent years.

Kodak's initial coin offering will begin on Jan. 31 and is open to accredited investors from the U.S., U.K., Canada and other select countries. Kodak joined with WENN Digital, which created the KodakOne platform and the KodakCoin cryptocurrency.

Make your emergency plan today.
Ready.gov/Business

BUSINESS NEWS

SpaceX Says It Isn't at Fault in Spy-Satellite Loss

By ANDY PASZTOR

Elon Musk's SpaceX said it wasn't responsible for the loss of an expensive U.S. spy satellite it launched over the weekend, pointing instead to unspecified problems with the payload or mechanisms that attached it and eventually were supposed to release it from the rocket.

But Tuesday's terse company statement—coupled with continuing silence from federal authorities and a flurry of sometimes contradictory media reports—left the precise cause of the botched mission as unclear as ever.

Lawmakers and congressional staffers from the Senate and the House have been briefed about the satellite—code-named Zuma and launched from Florida on board a Falcon 9 rocket—which is believed to have plummeted back into the atmosphere, government and industry officials said. Presumed to be a total loss, the satellite didn't separate as planned from the upper part of the rocket, these officials said.

Space Exploration Technologies Corp., as the company is formally known, in its latest statement appeared to pin the blame elsewhere by saying a data review indicated the rocket "did everything correctly" and management has concluded "no design, operational or other changes are needed."

The two-paragraph statement by company President Gwynne Shotwell, who also said future launch schedules aren't expected to be affected, suggests that the culprit was a glitch with the adapter that attached the satellite to the rocket or some malfunction with the satellite itself.

Industry officials tracking

the investigation said the satellite's protective cover separated as planned. But SpaceX declined to elaborate and **Northrop Grumman Corp.**, which built the satellite, said under its normal procedures it doesn't comment on classified projects.

The satellite's mission and fate, however, sparked intense interest in industry circles and on Capitol Hill, partly because of what is believed to be a multibillion-dollar price tag and the apparent rush to get it into orbit. It was placed on SpaceX's manifest with scant advance notice.

Once the engine powering a rocket's expendable second stage stops firing, whatever it is carrying is supposed to separate and proceed on its own trajectory. The separation procedure generally isn't considered as vital or complex as proper engine firing, but problems with it have been known to disable satellites carried by other rockets in the past.

If a satellite isn't set free at the right time or is damaged upon release, it can be dragged back toward Earth.

Scheduled for mid-November, Zuma's launch was delayed when SpaceX announced engineers "wanted to take a closer look at data from recent" tests of a fairing, or protective covering for a satellite, used for another customer. At the time, the company didn't publicly outline what prompted the additional testing. Fairings are used to shield satellites that are carried near the nose of the rocket. They remain in place during the early phases of the ascent, but are jettisoned before final insertion into orbit.

During the launch, SpaceX didn't signal any problems with the fairing or associated hardware.



Boeing workers at an assembly facility in Renton, Wash. The company is profiting from a surge in airline travel globally.

Boeing Delivers Records

Plane maker reaches new peak in output, sending its stock price to an all-time high

By DOUG CAMERON

Boeing Co. said it delivered a record 763 jetliners in 2017 and secured net orders for 912 planes, as surging airline traffic continues to fuel a multiyear boom for the airline and aerospace industries.

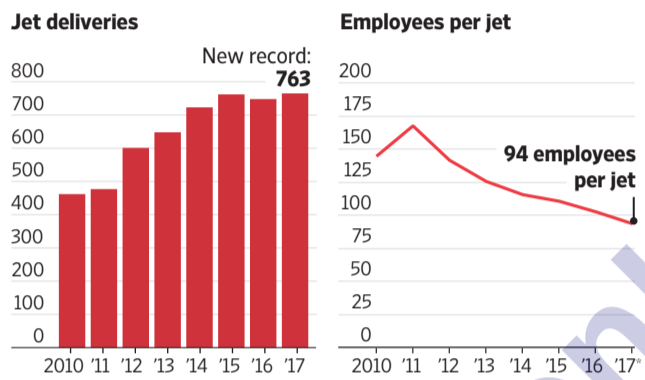
The increased orders and deliveries highlight Boeing's ability to boost production while introducing new aircraft models, trends that have improved the aerospace giant's cash flow and profit and sent its stock to new highs.

Boeing's share price, which has doubled over the past year, rose 2.7% to a record close of \$318.43 on Tuesday, making the stock the session's best performer on the Dow Jones Industrial Average.

Boeing and rival **Airbus SE** have backlogs stretching ahead for six or seven years, and investors are increasingly focused on deliveries and cash

Express Jet

Boeing has boosted output by two-thirds over the past seven years but cut the average number of employees needed to build each plane.



*2017 figure is WSJ estimate. Note: Employee data is for Boeing's commercial-airplane unit. Source: the company

flow rather than new plane deals, analysts said.

Randy Tinseth, Boeing's vice president for marketing, said rising passenger and cargo traffic and the availability of finance point to rising demand for new jets.

Boeing's 763 deliveries last year compare with 748 in 2016 and 762 in 2015. Boeing is set to boost monthly production of its best-selling 737 jet by five

planes to 52 this year and then by another five in 2019. It is sold out through 2022. The company is raising monthly output of the 787 Dreamliner to 14 next year from 12.

Orders in recent years have been dominated by some huge sales involving low-cost carriers, but Mr. Tinseth said Boeing booked deals with 71 customers last year that included a broad cross-section of the industry.

Some 40% of orders come from the fast-growing Asia region.

"We're starting to see our backlog truly reflect where the long-term growth is," he said.

While there were some high-profile airline bankruptcies in the past year, including Air Berlin PLC and Monarch Airlines, Boeing said the level of cancellations and requests by airlines to defer deliveries was as low as ever.

Boeing has been pressing suppliers for better terms, moving some production tasks in house and boosting automation to save money. Boeing has increased production by about a third over the past five years while also cutting the workforce at its commercial aircraft unit.

"They are making progress on every imaginable front," said Carter Copeland, an analyst at Melius Research LLC, who this week raised his price target for Boeing shares to \$430 and suggested the impact of U.S. tax reform and the company's efficiency drive could push the stock to \$500.

Airbus is due to release its 2017 order numbers next week. —Robert Wall contributed to this article.

Turnaround Push Bore Fruit For Target Over the Holidays

By KHADEEJA SAFDAR AND IMANI MOISE

Target Corp. said holiday sales were strong both in its stores and online, as the retailer was boosted by healthy U.S. consumer spending as well as its own turnaround efforts.

Sales at stores open at least a year rose 3.4% during November and December, compared with a 1.3% decline in the same period last year when the chain struggled to attract shoppers to its stores and compete with **Amazon.com Inc.**

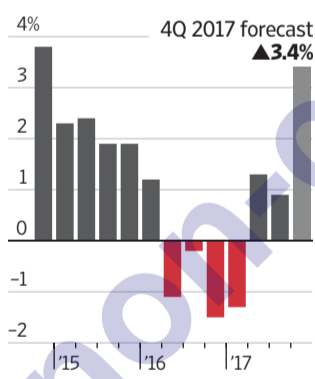
Target's improvement follows a string of announcements from major chains, including **Macy's Inc.**, **J.C. Penney Co.** and **Kohl's Corp.**, all of which reported sales growth in the critical holiday months.

The positive results extended to **Costco Wholesale Corp.**, which said sales growth continued at a strong pace in December.

Economists had predicted that low unemployment and rising wages would give consumers the confidence to spend this holiday season. Retailers had their best holiday

Rebounding Sales

Target is forecasting its highest quarterly same-store sales increase in years.



Note: Fiscal years end in January. Source: Factset THE WALL STREET JOURNAL.

sales since 2011, according to Mastercard SpendingPulse, which tracks payments in stores and online.

Target Chief Executive Officer Brian Cornell said physical stores played an important part of fulfilling digital orders during the holiday season.

He highlighted toys like L.O.L. Surprise dolls and Barbie Dreamhouse as hot items during the season and said electronic sales continued to

be driven by the Nintendo Switch and Apple products.

Shares of the retailer jumped 2.9% to \$69.14 Tuesday. Before the announcement, the stock had been down 6% over the past 12 months.

Like other big-box chains, Target has been struggling to compete with Amazon, which is benefiting from the growth of consumer shopping online.

After a weak holiday performance last year, the Minneapolis-based company embarked on a multibillion-dollar spending plan to improve its stores and digital capabilities.

Mr. Cornell has since invested in Target's supply chain, launched new brands, remodeled physical locations and lowered prices.

The company recently agreed to acquire grocery-delivery startup Shipt Inc., moving to match services that have been rolled out by rivals Amazon and Wal-Mart Stores Inc.

Mr. Cornell also said that in 2018 the company plans to open about 30 small-format stores and triple the size of its remodel program to more than 325 stores.

Penguin Random House Buys Rodale Books

By JEFFREY A. TRACHTENBERG

Penguin Random House acquired Rodale Books from **Hearst**, adding a stable of wellness and cooking titles to the world's largest consumer book publisher, the companies said.

Rodale Books also focuses on such categories as health and gardening, and includes the children's imprint Rodale Kids. The deal price wasn't disclosed Tuesday.

A person familiar with the publisher estimated Rodale Books generated revenue between \$20 million and \$25 million in 2017.

Although modest in size, Rodale Books has shown a knack for publishing books that have spotlighted political and

pop-culture issues. Earlier best sellers include former Vice President Al Gore's "An Inconvenient Truth" and Arthur Agatston's "The South Beach Diet."

At a time when revenue growth is one of the largest challenges facing book publishers, Rodale Books was considered a desirable acquisition target in an industry where relatively few established publishers come up for sale.

"We're extremely excited," said Markus Dohle, chief executive of Penguin Random House. "They have a very impressive backlist and frontlist, and it strengthens our position in nonfiction categories, including lifestyle, fitness and cooking, as well as children's books." Hearst, publisher of such

magazines as **Cosmopolitan**, **Esquire** and **Elle**, closed its acquisition of Rodale Inc. on Jan. 2. Rodale's magazine titles include **Men's Health**, **Women's Health** and **Prevention**.

"While we were the natural owners of the magazine business given our scale, we were not the natural owner of the book business, which deserves to be part of a global book-publishing powerhouse," said David Carey, president of Hearst Magazines.

Hearst agreed to acquire Rodale in October for less than \$225 million, according to a person familiar with the matter.

Penguin Random House is 75%-owned by **Bertelsmann SE**.

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TECHNOLOGY

WSJ.com/Tech

New Venture Fund Targets Autos

Team including Nissan and Renault commits \$1 billion over five years for startups

By TIM HIGGINS

LAS VEGAS—The Renault-Nissan-Mitsubishi Alliance is creating one of the largest venture-capital funds dedicated to automotive technologies, escalating an already feverish pursuit by global auto makers to reinvent personal transportation.

The company said it will commit \$200 million annually over five years—for a total of \$1 billion—to invest in a variety of startup technologies, including battery and self-driving vehicle advances. The new corporate venture fund is part of a push by Renault-Nissan Chief Executive Carlos Ghosn to speed development of technologies that the alliance's three auto makers don't have in-house. The message to tech startups, Mr. Ghosn told reporters here: "Please come see us."

The spending comes on top of the €8.5 billion (\$10.1 billion) annually that Renault SA, Nissan Motor Co. and Mitsubishi Motors Corp. invest together in research and development.

"We will be a success if we really bring into the company the new technology for the car of the future that will [take] too long and also [be] too expensive to develop within our R&D," said Francois Dossa, who is leading the new fund called Alliance Ventures. "The main driver is to be fast."

He plans to have teams in Silicon Valley, Paris, Japan and China looking for early- to late-stage startups. Mr. Dossa's deputy is Christian Noske, who



Nissan's booth at CES 2018. The Renault-Nissan-Mitsubishi Alliance envisions the fund fostering battery and self-driving technologies.

came from the corporate venture arm of BMW AG.

Mr. Dossa said the Alliance Ventures fund has already invested in Ionic Materials Inc., a Woburn, Mass., startup working to develop solid-state batteries, technology that promises to pack more range into smaller-size batteries.

Alliance Ventures joins the list of auto makers looking to invest in the next hot startup.

In July, the Toyota Research Institute announced the creation of a \$100 million investing arm, Toyota AI Ventures, to help finance early-stage startups in the area of artificial intelligence. The Silicon Valley subsidiary of Toyota Motor Corp. is part of the Japanese auto maker's efforts to develop

autonomous vehicles.

Corporations generally have had mixed success in venture capital, which typically involves taking minority stakes in fledgling companies with unproven technology.

Venture funds can give companies insight into the latest technological developments and flag possible acquisition targets. But they tend to struggle financially since most startups fail and corporations usually invest strategically, not for pure financial gain. Founders of startups can be reluctant to take money from a strategic investor, wary of being perceived as too much aligned with the corporation.

Mr. Dossa's fund aims to address such concerns by moving

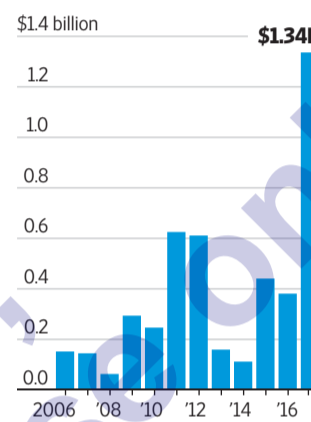
quickly on investment decisions, keeping investment agreements known as term sheets simple, and not requiring exclusivity. "We intend to create real partners," he said.

Investors have poured into autonomous and electric vehicle technology, as programs by Alphabet Inc.'s Waymo self-driving unit and Tesla Inc. have gained attention.

General Motors Co. acquired a San Francisco startup, Cruise Automation, in a deal potentially valued at more than \$1 billion to jump-start its autonomous effort. Aptiv PLC, an automotive-tech company spun out of parts maker Delphi last year, bought autonomous-vehicle software startup NuTonomy for \$450 million in October.

Revvng Up

Venture-capital funding into the automotive technology industry.



AMD Gets Tripped Up By Patch For Chips

By ROBERT McMILLAN AND TED GREENWALD

Days after Advanced Micro Devices Inc. suggested its chips were largely unaffected by significant vulnerabilities found in a variety of microprocessors, the rival to Intel Corp. has run into trouble.

Microsoft Corp. on Tuesday said some customers found their AMD-powered computers were unusable after applying the latest security patches for the Windows operating system.

On an online support page, Microsoft said it would "temporarily pause" sending updates to some devices running AMD processors. After investigating, the software giant said it found "some AMD chipsets do not conform to the documentation previously provided to Microsoft."

Intel's shares sank in the two days after the chip vulnerabilities were disclosed last week, while AMD shares rose in the wake of the report. An AMD spokesman at the time said the flaws posed a "near-zero risk" to its processors.

AMD shares fell 3.8% to \$11.82 on Tuesday.

The patch issue affects "a small subset of older processors that were sold prior to 2009," an AMD spokesman said Tuesday.

AMD and security researchers say the company's chips aren't vulnerable to the most easily exploitable—but most easily patched—variant of the security flaws, known as Meltdown.

The problem being patched by Microsoft concerns a variant of another flaw, known as Spectre. It is likely to be an increasingly important security problem in the months to come as researchers learn more about the issue, said Paul Kocher, an independent security researcher who was among those who discovered the Spectre vulnerabilities.

"Once the Meltdown patches are installed, I don't see any significant security difference between Intel and AMD on these issues," he said.

AMD should have done a better job documenting how software makers should develop patches for the chip maker's hardware and more clearly explained the security issues associated with their products, Mr. Kocher said.

Rivals Intel and ARM Holdings have offered much more detailed documentation of these security issues, Mr. Kocher said.

"Microsoft has access to our processor architecture documentation, which is essentially what is needed, and we have been engaged regularly in engineering meetings to assist since this was disclosed," the AMD spokesman said.

Glitches are possible any time a software update is deployed.

"It wouldn't be the first time a Windows update had an issue," said Patrick Moorhead, an analyst with Moor Insights & Strategy. "But it's obviously not a positive thing."

Innovators Knock on the Bathroom Door

By KATHERINE BINDLEY

LAS VEGAS—For some innovators, the next frontier is the room in your house most likely to have a lock on the door: the bathroom.

Showcasing their goods at this year's CES tech show, these companies acknowledge a need for privacy in that inner sanctum—then proceed to show off cameras, microphones and other sensors they would like you to install there.

The bathroom would seem to be the most boring possible spot smart-home technology could be applied, except maybe a closet. But consider a mirror that turns on motion-activated lights when you get up in the middle of the night, or tells you the weather in the morning. Or consider setting the shower to the perfect temperature just by asking, before you climb in.

At an opening press event for CES Sunday, Kohler Co. introduced a voice-enabled lighted mirror with dual-microphones and Amazon.com Inc.'s virtual assistant Alexa built in. Set for a launch in March, it will allow people to control the mirror's lighting, start showers, adjust water temperature, even cue up mu-



Moen's voice-activated shower makes use of virtual assistants and recalls temperature settings.

sic, with just their voice. Kohler also is planning to eventually incorporate Alphabet Inc.'s Google Assistant.

"The idea is to take these everyday moments and make them simpler, more efficient," said Shane Judd, a Kohler vice president of marketing. As an example, Mr. Judd said it is possible to ask Alexa to fill a tub that is set to a specific temperature and level—a po-

tential benefit to parents who are juggling evening routines with their children.

A perhaps not-as-practical function? Flushing the toilet with your voice.

"What we're doing right now is working with Amazon and Google to build these skills because they don't exist today," he said. "Part of what we're trying to do is show what the bathroom of the fu-

ture could look like."

Moen, another bathroom-fixture brand, showed off a voice-activated shower that also makes use of virtual assistants. It is backed by an app that remembers your favorite settings: A post-workout shower, for example, might be set a few degrees cooler than your regular one. Moen has partnerships with Amazon and Apple Inc., which can control

appliances via its HomeKit software.

Tracking water consumption is popular among smart shower systems. Elmer, a French company, pairs its new shower with an app to track the amount of water used. It promises an "environmentally friendly flow" and can be set to turn off after a fixed time, if someone in the house likes to take extra-long showers.

CareOS—a subsidiary of a French firm that also owns connected-toothbrush maker Kolibree—designed an entire health-and-beauty hub.

The centerpiece is a so-called smart mirror. It features facial-recognition and touchless gestures—a user swipes up or down in the air to move through menu options, so as not to smudge the mirror itself. To illustrate some of the mirror's artificial-intelligence capabilities, CareOS used a Lancome lipstick. The mirror scanned the tube, recognized it, then played a beauty tutorial on lipstick application.

The mirror even dabbles in dermatology: If you take pictures of a mole with the mirror's built-in camera, it will notify you of changes in the mole's size and color.

Smartphone Makers in China Resist Proposed Merger

Two Chinese smartphone manufacturers said they are against the potential merger of chip giants Broadcom Ltd. and Qualcomm Inc., fearing it could squeeze the mobile companies' profit margins and benefit large global rivals.

Executives from China's Oppo Electronics Corp. and Vivo Electronics Corp., which together generate more than 10% of Qualcomm's \$22 billion in annual revenue, said they are worried about possible price increases and other changes that could occur if Broadcom succeeds in its \$105 billion hostile takeover bid for San Diego-based Qualcomm.

A third Chinese company, Xiaomi Corp., said it also has reservations about a merger, which would create the world's third-largest chip company.

Any deal between the chip makers won't be decided for months. Broadcom, which has co-headquarters in San Jose, Calif., and Singapore, in No-

vember launched a bid that was rejected by Qualcomm's board. Broadcom has since proposed replacing Qualcomm's board, and the matter will be put to a shareholder vote in March.

If a deal is reached, it would have to go through antitrust and regulatory reviews in multiple countries. Opposition from China's largest smartphone makers could hurt efforts by Broadcom to win over Chinese regulators.

Roughly one in three smartphone users in China carry a device from Oppo, Vivo or Xiaomi, according to Kantar Worldpanel ComTech, whose data shows that Apple Inc. has about a 24% market share in China's urban markets.

Qualcomm's total shipments to the three Chinese smartphone makers are more than double its shipments to Apple's suppliers, according to research firm IDC.

Executives from Broadcom and Qualcomm have in recent



Smartphone companies like Oppo worry about squeezed margins.

weeks held discussions with their customers over the merits and drawbacks of a deal.

Broadcom Chief Executive Hock Tan said his company has spoken with many Qual-

comm customers, including some in China. "They are highly supportive of the transaction," he said a statement.

"We have heard from many

large customers around the world, especially from China, who have serious concerns about a Broadcom acquisition of Qualcomm," a Qualcomm spokesman said.

In December, Mr. Tan traveled to China and met with some customers. During one meeting, the 65-year-old executive said shareholders of Qualcomm weren't happy with how the company was run and that Broadcom saw an opportunity to reduce Qualcomm's operational costs, a person familiar with the matter said.

Executives of Xiaomi, Oppo and Vivo interviewed by the Journal said they are worried Broadcom could raise chip prices if it acquired Qualcomm—and drastically cut Qualcomm's spending on research and development.

They said that could put them at a disadvantage in the long run, as Qualcomm's spending has in the past given the company and its customers a head start on new mo-

tile technologies. Qualcomm has of late been investing heavily in developing fifth generation, or 5G, wireless technology.

The executives of the three companies, which in November signed a nonbinding deal

Their concern is that a Broadcom-Qualcomm deal could result in higher chip prices.

with Qualcomm to purchase \$12 billion worth of components over the next few years, also said they might switch to other suppliers if Qualcomm succeeds in its acquisition. Though the firms are also Broadcom customers, they generate less revenue for Broadcom than they do for Qualcomm.

—Yifan Xie

TECHNOLOGY

Senator Questions Apple on Battery Issue in iPhones

BY TRIPP MICKLE
AND JOHN D. MCKINNON

Apple Inc. is facing new questions from government officials in the U.S. and France about its handling of battery-related performance issues on iPhones, a sign that controversy over the problem continues despite the technology giant's apology last month.

On Tuesday, Sen. John Thune (R., S.D.), chairman of the Senate Commerce Committee, pressed Apple for answers to a series of questions about how the company decided to throttle back iPhone processing performance in phones with older batteries.

In a letter to Chief Executive Tim Cook, a copy of which was viewed by The Wall Street Journal, Mr. Thune asked how Apple has tracked customer complaints of processing performance and if Apple has explored offering rebates to customers who paid full price for a battery replacement before the company offered discounted rates last month.

In France, the Paris prosecutor's office said it has opened an investigation into Apple for potential deception and "programmed obsolescence." The investigation—which could lead to preliminary charges or be dropped—will be run by the consumer protection agency that falls under the country's finance ministry, a spokesman for the office said Tuesday.

Apple has been under fire since mid-December from customers and analysts saying they had noticed a slowdown in the performance of older iPhones.

Apple then acknowledged publicly that its software slowed performance in iPhones as batteries aged to prevent the devices from automatically powering off.

The company in late December said that it wouldn't do anything to harm its customers' experience or shorten the life of its products, but it apol-



Sen. John Thune

ogized for its handling of the issue and slashed the price of an iPhone battery replacement to \$29 from \$79, hoping to win back customer goodwill.

Apple didn't immediately respond to requests for comment Tuesday.

"Apple's proposed solutions have prompted additional criticism from some customers, particularly its decision not to provide free replacement batteries," wrote Mr. Thune, who requested answers by Jan. 23.

The French investigation stems from a complaint filed in December by a French consumer group named Stop Programmed Obsolescence. The group alleged that Apple pressures customers to buy new phones by timing the release of new models with operating system upgrades that cause older ones to perform less well.

Apple says its decision to throttle performance back on some phones was necessary because batteries naturally lose capacity over time, and without its software fix, iPhones with older batteries can suddenly shut down when struggling to meet power demands. The throttling feature has been implemented across iPhone 6, 6s, SE and 7 models, the company says.

—Sam Schechner
contributed to this article.

SMART

Continued from page B1

on Apple to do more, saying on Twitter that adults are struggling just as much as children with smartphone overuse. Mr. Fadell said Apple and Alphabet Inc.'s Google should add features to their mobile-phone operating systems to allow people to track device usage.

"Just like we need a scale for our weight, we need a scale for our digital lives," Mr. Fadell said in an interview. He said he became concerned about the issue in recent years as he saw families at resorts spending time with devices rather than each other.

Apple late Monday issued a statement defending its parental controls and other protections for children who use its iPhones, saying that it started offering some of them as early as 2008.

Mr. Fadell's comments echoed similar remarks last year by venture capitalists affiliated with Facebook, including Chamath Palihapitiya and Roger McNamee. Mr. Palihapitiya, a former Facebook executive, and Mr. McNamee, an early investor and adviser, have raised concerns about social media's tendency to encourage users through emails and notifications to open an app, causing people to live in front of their screens.

Facebook last year acknowledged for the first time the negative consequences of time spent on its service, saying that passively consuming information on Facebook leads many users to report "feeling worse." Chief Executive Mark Zuckerberg pledged to spend this year working to address misuse of its products in part by "making sure time spent on Facebook is time well spent."

"There's a dawning realization of the effects these companies have had on us and a sense that we should no longer just go along with it," said Roger Kay, an analyst for Endpoint Technologies Associates.

The smartphone has transformed society. Its ability to substitute for the radio, television, computer and game console has made it so powerful that U.S. consumers now spend more than three hours a day on average on their mobile devices, according to research firm eMarketer. That is an increase of more than one hour from 2013.

A handful of developers have responded to rising smartphone use by introducing apps designed to help curtail time on devices, including Menthal, which provides a scorecard for device usage. Alex Markowitz, who co-founded Menthal, said Apple

'Just like we need a scale for our weight, we need a scale for our digital lives.'

should already offer a similar time-spent measurement on the iPhone because customers increasingly want to protect their most important assets: time and intellect. "That's the one resource you should be willing to pay for to look after," Mr. Markowitz said. Mr. Fadell, who helped develop the iPhone's hardware, said he has broken "out sometimes in cold sweats" thinking about the device's social impact. Speaking at the Computer History Museum in May, Mr. Fadell compared creating the device to Steve Martin's movie "The Jerk." In the movie, Mr. Martin portrays an inventor who creates a bridge to hold glasses on people's noses. The bridge sells well until people go cross-eyed and sue Mr. Martin's company.

"I think about that and when the kids are looking at the digital screen and different pictures are coming up and there's grandpa, me—am I going to be hated by them for what we created? Or are we going to be like Alexander Graham Bell?" Mr. Fadell said.

This announcement is neither an offer to purchase nor a solicitation of an offer to sell Shares (as defined below). The Offer (as defined below) is made solely pursuant to the Offer to Purchase dated January 10, 2018 and the related Letter of Transmittal and any amendments or supplements thereto. The Offer is not being made to, nor will tenders be accepted from or on behalf of, holders of Shares in any jurisdiction in which the making of the Offer or acceptance thereof would not be in compliance with the laws of such jurisdiction. In those jurisdictions where the applicable laws require that the Offer be made by a licensed broker or dealer, the Offer shall be deemed to be made on behalf of Purchaser (as defined below) by one or more registered brokers or dealers licensed under the laws of such jurisdiction to be designated by Purchaser.

Notice of Offer to Purchase for Cash All Outstanding Shares of Common Stock of Ignyta, Inc.

at
\$27.00 Net per Share

Pursuant to the Offer to Purchase Dated January 10, 2018

by

Abingdon Acquisition Corp.

a wholly owned subsidiary of

Roche Holdings, Inc.

Abingdon Acquisition Corp., a Delaware corporation ("Purchaser") and a wholly owned subsidiary of Roche Holdings, Inc., a Delaware corporation ("Parent") is offering to purchase all outstanding shares of common stock, par value \$0.0001 per share (the "Shares"), of Ignyta, Inc., a Delaware corporation ("Ignyta"), at a purchase price of \$27.00 per Share, net to the seller in cash, without interest (the "Offer Price"), and subject to deduction for any required withholding taxes, upon the terms and subject to the conditions set forth in the Offer to Purchase dated January 10, 2018 (as it may be amended or supplemented from time to time, the "Offer to Purchase"), and in the related letter of transmittal (as amended or supplemented from time to time, the "Letter of Transmittal") and which, together with the Offer to Purchase, constitutes the "Offer". Tenders of Shares whose Shares are registered in their names and who tender directly to Purchaser will not be charged brokerage fees or similar expenses on the sale of Shares for cash pursuant to the Offer. Tenders of Shares whose Shares are registered in the name of their broker, bank or other nominee should consult such nominee to determine if any fees may apply. The Offer is being made pursuant to the Agreement and Plan of Merger, dated as of December 21, 2017 (the "Merger Agreement"), among Ignyta, Parent and Purchaser. Following the consummation of the Offer, and under the terms of the Merger Agreement as described in the Offer to Purchase, Purchaser intends to effect the Merger (defined below) as described below.

THE OFFER AND WITHDRAWAL RIGHTS EXPIRE AT 12:00 MIDNIGHT, EASTERN TIME, AT THE END OF THE DAY ON WEDNESDAY, FEBRUARY 7, 2018, UNLESS THE OFFER IS EXTENDED OR EARLIER TERMINATED.

The Merger Agreement provides, among other things, that as soon as practicable after the consummation of the Offer and subject to the satisfaction or waiver of the other conditions set forth in the Merger Agreement, Purchaser will merge with and into Ignyta (the "Merger"), with Ignyta continuing as the surviving corporation and a wholly owned subsidiary of Parent. At the effective time of the Merger, each outstanding Share (other than any Shares held by Ignyta, its subsidiaries, Parent, Purchaser or any other subsidiary of Parent, or any stockholders who have properly exercised their appraisal rights under Section 262 of the Delaware General Corporation Law (the "DGCL")) will be converted into the right to receive the Offer Price, net to the seller in cash, without interest and subject to deduction for any required withholding taxes. The Merger Agreement is more fully described in Section 13 of the Offer to Purchase.

If the Offer is consummated, Purchaser does not anticipate seeking the approval of Ignyta's remaining public stockholders before effecting the Merger. The parties to the Merger Agreement have agreed that, subject to the conditions specified in the Merger Agreement, the Merger will become effective as soon as practicable after the consummation of the Offer, without a vote of Ignyta's stockholders, in accordance with Section 251(h) of the DGCL.

The Ignyta board of directors (the "Ignyta Board") has duly and unanimously (i) approved the Merger Agreement and declared the Merger Agreement, the Offer, the Merger and the other transactions contemplated by the Merger Agreement to be advisable and fair to, and in the best interests of Ignyta and its stockholders; (ii) resolved that the Merger contemplated by the Merger Agreement shall be governed by and effected without a stockholder meeting pursuant to Section 251(h) of the DGCL; and (iii) recommended that the holders of the Shares accept the Offer and tender their Shares to Purchaser pursuant to the Offer. Ignyta has been advised that all of its directors and executive officers intend to tender all of their transferrable Shares pursuant to the Offer.

On the date of the Offer to Purchase, Ignyta will file its Tender Offer Solicitation/Recommendation Statement on Schedule 14D-9 (the "Schedule 14D-9") with the United States Securities and Exchange Commission (the "SEC") and disseminate the Schedule 14D-9 to Ignyta stockholders with the Offer to Purchase. The Schedule 14D-9 will include a more complete description of the Ignyta Board's reasons for authorizing and approving the Merger Agreement and the transactions contemplated thereby and therefore stockholders are encouraged to review the Schedule 14D-9 carefully and in its entirety.

The Offer is conditioned upon, among other things, (i) there being validly tendered in accordance with the terms of the Offer and not validly withdrawn, prior to the expiration of the Offer, a number of Shares (excluding Shares tendered pursuant to guaranteed delivery procedures that have not yet been delivered in settlement or satisfaction of such guarantee) that, considered together with all other Shares beneficially owned by Parent and its affiliates, represent at least a majority of the total number of shares of Ignyta common stock outstanding at the time of the expiration of the Offer (which we refer to as the "Minimum Condition"); and (ii) the expiration or termination of the waiting period (and any extension thereof) or receipt of clearance under (a) the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended (the "HSR Act"), and (b) any foreign competition, merger control, trade regulation, antitrust or similar laws applicable to the Offer and the Merger. These and other conditions to the Offer are described in "The Offer—Section 15—Conditions to the Offer" and "The Offer—Section 16—Certain Legal Matters; Regulatory Approvals" of the Offer to Purchase.

To the extent permitted by law, Purchaser also reserves the right to waive any of the conditions to the Offer and to make any change in the terms of the Offer, provided that Ignyta's consent is required for Purchaser to (i) decrease the Offer Price, (ii) change the form of consideration payable in the Offer, (iii) decrease the maximum number of Shares sought to be purchased in the Offer, (iv) impose conditions or requirements to the Offer in addition to those described in "The Offer—Section 15—Conditions to the Offer" in the Offer to Purchase, (v) amend, change or modify any of the conditions to the Offer in a manner that adversely affects, or reasonably could adversely affect, any holder of Shares, (vi) amend, change, modify or waive the Minimum Condition or the Non-Waivable Conditions (as defined in the Offer to Purchase), or (vii) terminate or withdraw the Offer or accelerate, extend or otherwise change the Expiration Time, except as described under "The Offer—Section 13—The Transaction Documents—The Merger Agreement—Extensions of the Offer" in the Offer to Purchase.

Upon the terms and subject to the conditions set forth in the Offer, Purchaser will accept for payment and pay for all Shares that are validly tendered and not validly withdrawn on or prior to 12:00 midnight, Eastern Time, at the end of the day on Wednesday, February 7, 2018, or in the event the Offer is extended or earlier terminated, the latest time and date at which the Offer, as so extended, will expire (the "Expiration Time").

Pursuant to the terms of the Merger Agreement, if at the scheduled expiration time of the Offer, including following a prior extension, any condition to the Offer has not been satisfied or waived, Purchaser will extend the Offer for one or more consecutive periods of not more than ten business days until such time as such conditions shall have been satisfied or waived. In addition, Purchaser will extend the Offer for any period required by any rule, regulation, interpretation or position of the SEC or its staff or the rules and regulations of the Nasdaq Stock Market or applicable law that is applicable to the Offer. Notwithstanding the foregoing, Purchaser is not obligated or, in the absence of Ignyta's prior written consent, permitted, to extend the Offer beyond the earlier to occur of (i) the valid termination of the Merger Agreement in compliance with the terms thereof and (ii) June 21, 2018.

Any extension, termination or amendment of the Offer will be followed as promptly as practicable by a public announcement thereof, but no later than 9:00 a.m., New York City time, on the next business day after the day of the previously scheduled Expiration Time.

In order to take advantage of the Offer, you must either (i) complete and sign the Letter of Transmittal in accordance with the instructions in the Letter of Transmittal, have your signature guaranteed (if required by Instruction 1 to the Letter of Transmittal), mail or deliver the Letter of Transmittal (or a manually signed facsimile copy) and any other required documents to Citibank, N.A., the depository for the Offer (the "Depository"), and either deliver the certificates for your Shares along with the Letter of Transmittal to the Depository or tender your Shares pursuant to the procedures for book-entry transfer set forth in Section 3 of the Offer to Purchase or (ii) request your broker, dealer, commercial bank, trust company or other nominee to effect the transaction for you. If your Shares are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, you must contact such broker, dealer, commercial bank, trust company or other nominee to tender your Shares. If you desire to tender your Shares, and certificates evidencing your Shares are not immediately available or you cannot deliver such certificates and all other required documents to the Depository or you cannot comply with the procedures for book-entry transfer described in Section 3 of the Offer to Purchase, in each case prior to the Expiration Time, you may tender your Shares by following the procedures for guaranteed delivery set forth in Section 3 of the Offer to Purchase.

For purposes of the Offer, Purchaser will be deemed to have accepted for payment Shares tendered when, and as if Purchaser gives oral or written notice of Purchaser's acceptance to the Depository. Purchaser will pay for Shares accepted for payment pursuant to the Offer by deposit of the purchase price thereof with the Depository, which will act as agent for tendering stockholders for the purpose of receiving payments and transmitting such payments to tendering stockholders. Under no circumstances will Purchaser pay interest on the consideration paid for Shares pursuant to the Offer, regardless of any extension of the Offer or any delay in making such payment.

Except as otherwise provided in "The Offer—Section 4—Withdrawal Rights," tenders of Shares pursuant to the Offer are irrevocable. However, you may withdraw Shares tendered pursuant to the Offer at any time prior to the Expiration Time as explained below. For your withdrawal to be effective, a written or facsimile transmission notice of withdrawal with respect to the applicable Shares must be timely received by the Depository at one of its addresses set forth on the back cover of the Offer to Purchase, and the notice of withdrawal must specify the name of the person who tendered the Shares to be withdrawn, the number of Shares to be withdrawn and, if different from that of the person who tendered such Shares, the name of the registered holder of the Shares. If the Shares to be withdrawn have been delivered to the Depository (except in the case of Shares tendered by an Eligible Institution (as defined in the Offer to Purchase)), a signed notice of withdrawal with signatures guaranteed by an Eligible Institution must be submitted before the release of such Shares. In addition, such notice must specify, in the case of Shares tendered by delivery of certificates, the serial numbers shown on the specific certificates evidencing the Shares to be withdrawn or, in the case of Shares tendered by book-entry transfer, the name and number of the account at the Book-Entry Transfer Facility (as defined in the Offer to Purchase) to be credited with the withdrawn Shares. Withdrawals may not be rescinded, and Shares withdrawn will thereafter be deemed not validly tendered. However, withdrawn Shares may be retendered at any time before the Expiration Time by again following any of the procedures described in the Offer to Purchase.

Subject to applicable law as applied by a court of competent jurisdiction, Purchaser will determine, in its sole discretion, all questions as to the form of documents and the validity, eligibility (including time of receipt) and acceptance for payment of any tender of Shares, and its determination will be final and binding.

In general, your exchange of shares for cash pursuant to the Offer will be a taxable transaction for U.S. federal income tax purposes and may also be a taxable transaction under applicable state, local or foreign income or other tax laws. You should consult your tax advisor about the specific tax consequences to you of exchanging your shares for cash pursuant to the Offer in light of your particular circumstances. See Section 5 of the Offer to Purchase for a more detailed discussion of the tax consequences of the Offer and the Merger.

The information required to be disclosed by paragraph (d)(1) of Rule 14d-6 promulgated under the Exchange Act is contained in the Offer to Purchase and is incorporated herein by reference.

Ignyta has provided to Purchaser its list of stockholders and security position listings for the purpose of disseminating the Offer to holders of Shares. The Offer to Purchase, the related Letter of Transmittal and other related materials will be mailed to record holders of Shares and will be furnished to brokers, dealers, commercial banks, trust companies and other nominees whose names appear on Ignyta's stockholder list or, if applicable, who are listed as participants in a clearing agency's security position listing for subsequent transmittal to beneficial owners of Shares.

The Offer to Purchase and the related Letter of Transmittal contain important information that should be read carefully before any decision is made with respect to the Offer.

Questions and requests for assistance and copies of the Offer to Purchase, the Letter of Transmittal and all other tender offer materials may be directed to the Information Agent, at its address and telephone numbers set forth below and will be furnished promptly at Purchaser's expense. Neither Parent nor Purchaser will pay any fees or commissions to any broker or dealer or any other person (other than to the Information Agent and the Depository, as described in the Offer to Purchase) in connection with the solicitation of tenders of Shares pursuant to the Offer. Brokers, dealers, commercial banks, trust companies and other nominees will, upon request, be reimbursed by Purchaser for reasonable and necessary costs and expenses incurred by them in forwarding materials to their customers.

The Information Agent for the Offer is:



105 Madison Avenue
New York, New York 10016
(212) 929-5500 (Call Collect)

or
CALL TOLL-FREE: (800) 322-2885
Email: tenderoffer@mackenziepartners.com

The Dealer Manager for the Offer is:



Citigroup Global Markets Inc.
388 Greenwich Street
New York, New York 10013

January 10, 2018

THE PROPERTY REPORT

Bets Against Malls Come Up Short

Owners refinance debt and find new tenants to fill the vacated spaces

By ESTHER FUNG

A rash of store closures and bankruptcies last year prompted some investors to bet against debt tied to the retail property sector.

So far, at least, the bets haven't paid off.

The wager against commercial mortgage-backed securities largely has focused on the CMBX 6, a credit-default-swap index that tracks the values of bonds backed by mortgages on malls as well as office buildings and other commercial properties.

While a few slices of the index have slumped due to the perceived greater exposure to struggling mall properties and retail bankruptcies, more mall mortgage defaults would have to occur before investors get a windfall.

"Has the bet paid off? Not quite," real-estate data provider Trepp Inc. said in a recent report. So far, Trepp said, only four loans tied to the CMBX 6 incurred losses, totaling just \$4.3 million. Credit-default swaps are insurance-like contracts that pay out when a company defaults on its debts.

Some landlords have refinanced their debt or found new tenants to take up space vacated by departing retailers. At the same time, some retailers have worked out deals with landlords that allowed the owners to keep up their mortgage payments. A positive holiday sales season also took some shine off the trade.

The owner of Holiday Village Mall in Great Falls, Mont., refinanced its loan on the property when it reached maturity last month. The landlord was able to secure new leases with Hobby Lobby and PetSmart last year after Sears Holdings Corp. in 2014 closed its Sears store and auto center at the two-story mall.

Overall, the delinquency rate for commercial mortgage-backed security loans made after the financial crisis is 0.52%, while the delinquency rate for the CMBX 6 constituency is 0.96%, according to



A Sears store in Provo, Utah, last year. The company plans to close more stores but will still have plenty in business.

Dim View of Mall Mortgages

A slice of an index called the CMBX 6 has declined on expectations of losses among mall-based loans



Source: IHS Markit

Kroll Bond Rating Agency.

"It is higher, but a delinquency rate of less than 1% is not devastating," said Steve Kuritz, managing director at Kroll.

Some short sellers—investors who bet a company's share price will fall—anticipated that Sears Holdings would be in bankruptcy pro-

ceedings by now, which would result in a wave of store closures in malls across the country that would be tough to fill quickly.

While Sears said on Thursday that it would close an additional 103 Sears and Kmart stores in March and April on top of the 63 stores it said in November that it would close,

it still has more than 900 Sears and Kmart stores in business.

Some short sellers did make money from the decline in weaker slices of the CMBX 6 last year. The portions of the index rated BB and BBB-minus declined 12.1% and 9.5%, respectively, in 2017.

Steve Pei, founder and chief investment officer at Los Angeles-based hedge fund Gracia Capital LLC, said the magnitude of the declines more than offset the 3% coupon cost of the trade, so it was profitable for his firm.

"There will be a lot more closures in the next few years in our view; the trend is pretty clear-cut even though the pace may fluctuate," Mr. Pei said. He added that his firm has taken both long and short positions—wagers that shares would rise or decline—in individual retail stocks.

Investment firm Alder Hill Management LP, which issued a 58-page report last year that described its bet on lower-quality malls and how malls would struggle with mortgage repayment, remains in the trade, according to people fa-

miliar with the matter.

The report, issued in January 2017, said 26 out of roughly 40 mall loans in the index were expected to default before maturity or in 2022.

"The number of distressed retail mortgages will likely increase as they inch closer to their scheduled maturity dates and collateral performance continues to deteriorate," according to the report from Trepp.

The question is when. Landlords say they remain positive about their ability to get new tenants, pointing to retailers and entertainment operators that are still expanding.

At the Newgate Mall in Ogden, Utah, a 141,000-square-foot Sears store is scheduled to close in coming months. The mortgage loan backing Newgate Mall is linked to the CMBX 6 index. Last year, the landlord signed leases with retailer DownEast Home & Clothing, which took up space vacated by Sports Authority.

It also leased a lot on the outer edge of the mall to Fly High, a trampoline park operator. It is searching for a replacement for Sears.

PLOTS & PLOYS

KKR

Firm Raises \$2 Billion For Property Fund

KKR & Co. has closed a \$2 billion real-estate fund to buy properties that are more challenging than fully leased buildings in prime locations but also offer the potential for higher returns.

The new fund, which already has committed or spent about \$250 million of the capital raised, is shooting for the kinds of returns that define "opportunistic" and "value add" funds, which typically are aggressive in buying properties, increasing rents, leasing vacant space or redeveloping.

The fund is focusing partly on senior living facilities on the belief that demand will surge for these units as baby boomers get older. KKR also plans to invest the fund in apartment buildings serving the broader population.

Rental apartments have been popular among investors in recent years. But KKR believes multifamily investments can still yield high returns because the business remains fragmented, said Ralph Rosenberg, KKR's global head of real estate.

—Peter Grant

RUBENSTEIN PARTNERS

Venture Is Back Home Again in Indiana

Rubenstein Partners LP, a real-estate investment firm that specializes in office buildings, has doubled down on the Indianapolis suburbs, spending \$133 million on an office park.

A venture including Philadelphia-based Rubenstein and Strategic Capital Partners of Indianapolis purchased Precedent Office Park, which includes 11 million square feet in 19 buildings north of downtown Indianapolis. The seller was LaSalle Investment Management.

In 2016, the venture purchased an eight building complex in Carmel, Ind., for \$163 million. Rubenstein-Strategic is flexing its muscles in the region at a time when suburban office buildings have fallen out of favor. The Indianapolis venture has a contrarian strategy partly because its executives believe millennials have started to move back to the suburbs.

—Peter Grant

Lutnick Real-Estate Firm's IPO Makes Poor Showing

By PETER GRANT

The stock market has been hitting records lately, but you would never know that from the flop of the initial public offering of Howard Lutnick's commercial real-estate services firm last month.

In early December, Newmark Group Inc., whose chairman is Mr. Lutnick, initially planned to sell 30 million shares in a price range of \$19 to \$22 a share, as part of Newmark's spinoff from financial-services firm BGC Partners Inc. Mr. Lutnick also is the controlling shareholder of BGC.

But investors' reaction to the Newmark offering was tepid. In mid-December, BGC was forced to cut the offering size to 20 million shares and the price range to \$14 to \$15. It ended up going public at \$14 on Dec. 15.

"It didn't price as well as we thought," said Barry Gosin, Newmark's chief executive, who built the New York-based firm and sold it to BGC in 2011. "We reduced it."

Mr. Gosin played down the impact of the poor showing and predicted a steady improvement in Newmark's share price, which closed at \$15.47 Tuesday on the Nasdaq Stock Market. "We're fine," he said. "The market will show our value because we'll continue to grow our earnings."

But the Newmark offering was a black eye for Mr. Lutnick, a Wall Street veteran who has a reputation for adding value to companies. He is best known as the chairman and chief executive of Cantor Fitzgerald LP, which he rebuilt after the Sept. 11, 2001, terrorist attacks when the firm lost 658 employees in the World Trade Center.



Howard Lutnick, shown in 2014

The market's rejection of the higher price is being blamed partly on investors' concern about rising interest rates and the long length of the bull market in commercial real estate, now entering its ninth year.

"Investors are saying, in a rising-rate environment we don't have to own real estate," said Mitch Germain, an analyst with JMP Securities.

But some analysts, investors and real-estate industry executives also are pointing to blunders on BGC's part in the timing and the structure of the Newmark offering. Many are scratching their heads over why BGC decided to bring Newmark to market just as the holidays were about to begin, which traditionally hasn't been great timing for an IPO.

That enabled buyers interested in the stock to hold out for a lower price. At \$19 to \$22 a share, "it wouldn't have been interesting," said David Rose, a portfolio manager for Granahan Investment Management Inc., which has \$1.3 bil-

lion in assets under management and is a shareholder in BGC. "As the price went down, I increased my order."

BGC was under pressure to do the IPO before the end of the year partly because Mr. Lutnick had been telling investors that the Newmark spinoff would be a 2017 event. The proceeds are going to be used in part to pay down some of the debt BGC took on last year when it paid \$875 million to acquire Berkeley Point, a financing firm now part of Newmark.

Mr. Lutnick "made a commitment," Mr. Gosin said. "Generally, we like to do what we say we're going to do."

BGC also sought to complete the deal in 2017 because it wanted to be defined as an "emerging growth company" under federal securities law, which reduced disclosure requirements, according to Newmark's prospectus. "We expect that our revenues for 2017 will exceed \$1.07 billion. As a result, we expect that we will cease to qualify as an emerging growth company," the document said.

Another problem with the IPO was that some investors and analysts found it tricky to compare Newmark with other commercial real-estate services firms, such as CBRE Group Inc. and JLL, the leading firms in the business. That was partly because Newmark's structure and its method for adjusting earnings is unusual in the commercial real-estate business.

Mr. Gosin pointed out that many real-estate services firms and other companies adjust their earnings. He also said the relationship of Newmark's share price to its earnings "reflected the low end of the range of our peers" at the \$19 to \$22 price range.



The brokers lobby was hurt when a major home-builders group took a different position than it did.

Tax Law Deals Blow to Realtors

By LAURA KUSISTO

The National Association of Realtors, one of the largest and wealthiest lobby groups in the U.S., is among the biggest losers in a tax-code overhaul.

The group has about 1.3 million members spread out across every state and spent \$32 million on lobbying in 2017 through Oct. 21, second only to the U.S. Chamber of Commerce, according to the Center for Responsive Politics, a nonpartisan research group that tracks money in politics.

The legislation blunts the advantage of the mortgage-interest deduction, which is often key in home-buying decisions, particularly in pricey markets. It almost doubles the standard deductions for individual and joint tax filers. The legislation also caps the deduction for state and local taxes at \$10,000.

Despite its heft, the NAR faced an uphill battle from the beginning. Politicians on both sides of the aisle have been less eager to tout the government's

role in encouraging homeownership after the housing crash a decade ago.

Rising home prices and tighter mortgage credit in recent years have meant that new loans and purchases have skewed toward the affluent, making government subsidies less politically palatable.

For the NAR, arguing against huge increases in the standard deduction for individual and married filers was a tough sell.

NAR President Elizabeth Mendenhall said the Realtors "remain concerned that the overall structure of this bill poses problems for homeowners and the broader housing market."

After President Donald Trump released a bare outline of the plan in April, the Realtors called the plan a non-starter, saying owners could see their "home's value plummet and their equity evaporate." Online ads running in the states of critical swing votes, such as Maine's Sen. Susan Col-

ins, described the plan as a "tax increase on middle-class homeowners."

A turning point came in the lead-up to the house bill when the National Association of Home Builders split from the Realtors for the first time in three decades, proposing a tax credit it said would be better targeted to less wealthy Americans.

The builders were convinced the proposal had momentum but received calls from House Ways and Means Committee Chairman Kevin Brady (R., Texas) and Speaker Paul Ryan (R., Wis.) telling them the Republican leadership didn't want to complicate the bill with an untested concept like the tax credit, recalled Jerry Howard, chief executive of the National Association of Home Builders.

"The Realtors have a very, shall I call it, one-dimensional view of the tax code and that is the mortgage interest deduction," Mr. Howard said. "We have to look at this thing holistically."

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Tuesday, January 9, 2018

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S&P 500 Index

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 Last: 22.09, 25.02
 Year ago: 19.25, 17.65
 Trailing P/E ratio: 19.25, 17.65
 P/E estimate*: 1.86, 2.06
 Dividend yield: 1.86, 2.06
 All-time high: 2751.29, 01/09/18



Nasdaq Composite Index

7163.58 ▲6.19, or 0.09%
 High, low, open and close for each trading day of the past three months.
 Last: 27.15, 24.57
 Year ago: 21.01, 18.54
 Trailing P/E ratio: 27.15, 24.57
 P/E estimate*: 21.01, 18.54
 Dividend yield: 1.03, 1.22
 All-time high: 7163.58, 01/09/18



Major U.S. Stock-Market Indexes

	High	Low	Latest Close	Net chg	% chg	52-Week High	52-Week Low	% chg YTD	% chg 3-yr. ann.
Dow Jones									
Industrial Average	25439.78	25308.41	25385.80	102.80	0.41	25385.80	19732.40	2.7	12.7
Transportation Avg	11051.70	11007.49	11018.46	20.83	0.19	11018.46	8783.74	3.8	7.5
Utility Average	707.99	699.64	700.98	-6.89	-0.97	774.47	651.14	-3.1	4.0
Total Stock Market	28512.95	28399.58	28429.30	26.95	0.09	28429.30	23526.88	2.7	10.2
Barron's 400	732.36	729.00	729.77	0.35	0.05	729.77	600.24	2.6	11.0
Nasdaq Stock Market									
Nasdaq Composite	7181.14	7148.30	7163.58	6.19	0.09	7163.58	5538.73	3.8	15.0
Nasdaq 100	6696.12	6658.27	6677.94	1.30	0.02	6677.94	5035.17	4.4	16.6
S&P									
500 Index	2759.14	2747.86	2751.29	3.58	0.13	2751.29	2263.69	2.9	10.4
MidCap 400	1950.82	1942.36	1942.50	-3.61	-0.19	1946.11	1667.44	2.2	10.5
SmallCap 600	952.51	948.34	949.60	-0.59	-0.06	950.19	815.62	1.4	11.7

	High	Low	Latest Close	Net chg	% chg	52-Week High	52-Week Low	% chg YTD	% chg 3-yr. ann.
Other Indexes									
Russell 2000	1565.58	1558.86	1560.10	-1.71	-0.11	1561.81	1345.24	1.6	9.6
NYSE Composite	13156.88	13110.90	13120.84	6.49	0.05	13120.84	11148.85	2.4	7.0
Value Line	575.56	573.15	573.19	-1.65	-0.29	574.84	503.24	1.8	5.1
NYSE Arca Biotech	4441.06	4283.21	4425.08	141.87	3.31	4425.08	3134.03	4.8	7.7
NYSE Arca Pharma	560.29	556.15	558.81	2.66	0.48	560.52	469.13	2.5	0.8
KBW Bank	110.67	109.01	109.92	1.16	1.07	109.92	88.02	3.0	16.1
PHLX [®] Gold/Silver	85.55	84.57	84.95	-1.34	-1.55	96.72	76.42	-1.8	-0.4
PHLX [®] Oil Service	161.13	157.33	159.18	-0.92	-0.57	191.34	117.79	-14.7	6.4
PHLX [®] Semiconductor	1337.11	1320.82	1322.57	-12.92	-0.97	1341.69	909.48	5.5	24.5
Cboe Volatility	10.09	9.37	10.08	0.56	5.88	16.04	9.14	-12.3	-8.7

Sources: SIX Financial Information; WSJ Market Data Group

Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 5,000 shares.

Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	After-Hours % chg	High	Low
SPDR S&P 500	SPY	5,792.4	274.27	-0.27	-0.10	275.17	274.08
VanEck Vectors Gold Miner	GDX	5,520.6	23.13	0.02	0.09	23.15	23.11
Eastman Kodak	KODK	4,877.7	9.01	2.21	32.43	9.50	6.45
Intel	INTC	3,662.3	43.54	-0.08	-0.18	44.00	43.52
Cypress Semiconductor	CY	2,643.9	16.67	-0.06	-0.36	16.77	16.67
AT&T	T	2,491.2	37.43	-0.06	-0.16	37.87	37.41
PwrShs DB Com Track	DBC	2,417.3	17.00	0.19	1.13	17.00	16.75
iShares Russell 1000 Val	IWD	2,363.4	126.63	-0.04	-0.03	126.67	126.55

Percentage gainers...

Company	Symbol	Volume (000)	Last	Net chg	% chg	High	Low
Eastman Kodak	KODK	4,877.7	9.01	2.21	32.43	9.50	6.45
Tandem Diabetes Care	TNDM	589.0	3.59	0.73	25.52	3.77	2.85
VOXX International	VOXX	37.1	6.75	1.20	21.62	7.25	5.55
AmTrust Financial	AFSI	134.2	12.20	2.05	20.20	12.50	10.15
Tivity Health	TVTY	15.6	39.95	3.65	10.06	39.95	36.29

...And losers

Company	Symbol	Volume (000)	Last	Net chg	% chg	High	Low
Dominos Pizza	DPZ	18.1	197.50	-9.21	-4.66	207.00	197.50
Red Rock Resorts CI A	RRR	15.5	32.52	-1.36	-4.01	33.97	32.52
Myomo	MYO	5.9	3.71	-0.14	-3.64	3.81	3.65
Xcerra Corp.	XCRA	9.0	9.65	-0.36	-3.60	10.01	9.65
Leidos Holdings	LDOS	21.3	64.00	-2.24	-3.38	66.32	64.00

Trading Diary

Volume, Advancers, Decliners

	NYSE	NYSE Amer.
Total volume*	799,754,730	19,122,855
Adv. volume*	358,761,676	9,989,813
Decl. volume*	432,962,822	8,770,693
Issues traded	3,076	334
Advances	1,233	133
Declines	1,733	176
Unchanged	110	25
New highs	284	10
New lows	39	2
Closing tick	57	37
Closing Arms*	0.81	0.46
Block trades*	6,827	154

*Primary market NYSE, NYSE American NYSE Arca only.
 *(TRIN) A comparison of the number of advancing and declining issues with the volume of shares rising and falling. An Arms of less than 1 indicates buying demand; above 1 indicates selling pressure.

International Stock Indexes

Region/Country	Index	Close	Net chg	Latest % chg	YTD % chg
World	The Global Dow	3183.67	6.65	0.21	3.1
	DJ Global Index	408.47	0.46	0.11	2.8
	DJ Global ex U.S.	274.35	0.33	0.12	2.9
Americas	DJ Americas	660.02	0.35	0.05	2.8
Brazil	Sao Paulo Bovespa	78863.54	-515.00	-0.65	3.2
Canada	S&P/TSX Comp	16319.24	1.59	0.01	0.7
Mexico	S&P/IBV IPC	49701.37	-294.20	-0.59	0.7
Chile	Santiago IPSA	4319.91	3.17	0.07	2.6
EMEA	Stoxx Europe 600	400.11	1.70	0.43	2.8
Eurozone	Euro Stoxx	400.08	1.67	0.42	3.8
Belgium	Bel-20	4141.64	27.11	0.66	4.1
France	CAC 40	5523.94	36.52	0.67	4.0
Germany	DAX	13385.59	17.81	0.13	3.6
Israel	Tel Aviv	1528.91	-1.30	-0.08	1.3
Italy	FTSE MIB	23004.98	159.29	0.70	5.3
Netherlands	AEX	563.04	2.15	0.38	3.4
Russia	RTS Index	1229.15	9.26	0.76	6.5
Spain	IBEX 35	10426.50	28.10	0.27	3.8
Sweden	SX All Share	591.10	4.56	0.78	3.9
Switzerland	Swiss Market	9611.61	69.88	0.73	2.4
U.K.	FTSE 100	7731.02	34.51	0.45	0.6
Asia-Pacific	S&P/ASX 200	6135.80	5.40	0.09	1.2
China	Shanghai Composite	3413.90	4.42	0.13	3.2
Hong Kong	Hang Seng	31011.41	111.88	0.36	3.7
India	S&P BSE Sensex	34443.19	90.40	0.26	1.1
Japan	Nikkei Stock Avg	23849.99	135.46	0.57	4.8
Singapore	Straits Times	3524.65	12.47	0.36	3.6
South Korea	Kospi	2510.23	-3.05	-0.12	1.7
Taiwan	Weighted	10914.89	-0.86	-0.01	2.6

Sources: SIX Financial Information; WSJ Market Data Group

Percentage Gainers...

Company	Symbol	Close	Net chg	% chg	52-Week High	52-Week Low
Eastman Kodak	KODK	6.80	3.70	119.35	15.50	2.95
Pain Therapeutics	PTIE	9.04	4.59	103.15	12.80	3.10
CGG ADR	CGG	6.35	1.31	25.99	12.64	3.26
Kenon Holdings	KEN	28.05	5.20	22.76	29.59	9.96
Xunlei ADR	XNET	23.52	4.06	20.86	27.00	3.11
Long Blockchain	LBCC	5.80	0.95	19.59	9.49	1.70
Global Blood Therapeutics	GBT	47.15	7.55	19.07	48.85	14.70
Nektar Therapeutics	NKTR	68.03	10.63	18.52	69.42	11.41
ITUS	ITUS	3.54	0.55	18.39	5.50	0.60
Abaxis	ABAX	61.52	8.61	16.27	62.70	43.66
Gridsum Holding ADR	GSUM	10.97	1.53	16.21	13.94	6.76
FTE Networks	FTNW	15.10	2.10	16.12	28.08	5.90
MMA Capital Management	MMAC	27.95	3.75	15.50	30.58	18.00
Alder BioPharmaceuticals	ALDR	17.55	2.35	15.46	25.45	8.60
MyoKardia	MYOK	47.55	6.25	15.13	49.55	10.55

Most Active Stocks

Company	Symbol	Volume (000)	% chg from 65-day avg	Latest Session Close	% chg	52-Week High	52-Week Low
Inpixon	INPX	92,070	3294.3	0.29	30.34	4.65	0.19
InspireMD	INSP	75,559	1563.0	0.28	36.97	3.97	0.12
Bank of America	BAC	67,563	0.9	30.27	0.50	30.54	22.01
Eastman Kodak	KODK	64,731	26911.5	6.80	119.35	15.50	2.95
General Electric	GE	64,185	-20.1	18.56	1.53	31.62	17.25
Micron Technology	MU	62,248	60.7	42.97	-5.66	49.89	21.49
Advanced Micro Devices	AMD	61,957	16.2	11.82	-3.75	15.65	9.42
AKERS Biosciences	AKER	57,931	4422.7	0.19	29.85	2.90	0.12
SPDR S&P 500	SPY	51,398	-27.6	274.54	0.23	275.25	224.96
Finl Select Sector SPDR	XLF	50,109	-12.8	28.59	0.78	28.74	22.00

* Volumes of 100,000 shares or more are rounded to the nearest thousand

Percentage Losers

Company	Symbol	Close	Net chg	% chg	52-Week High	52-Week Low
My Size	MYSZ	1.72	-1.14	-39.86	16.70	0.57
Aradigm	ARDM	3.70	-2.28	-38.13	7.35	0.78
Axsome Therapeutics	AXSM	3.55	-2.00			

COMMODITIES
WSJ.com/commodities

Futures Contracts

Table with columns: Open, High, Low, Settle, Chg, Open interest. Sub-sections include Metal & Petroleum Futures, Copper-High (CMX), Gold (COMX), Palladium (NYM), NY Harbor ULSD (NYM), Natural Gas (NYM), and Agriculture Futures.

Table with columns: Open, High, Low, Settle, Chg, Open interest. Sub-sections include Rough Rice (CBT), Wheat (CBT), Wheat (KC), Wheat (MPLS), Cattle-Feeder (CME), Cattle-Live (CME), Hogs-Lean (CME), Lumber (CME), Milk (CME), Cocoa (ICE-US), Coffee (ICE-US), Sugar-World (ICE-US), Sugar-Domestic (ICE-US), Cotton (ICE-US), and Orange Juice (ICE-US).

Table with columns: Open, High, Low, Settle, Chg, Open interest. Sub-sections include 1 Month Labor (CME), Eurodollar (CME), Japanese Yen (CME), Canadian Dollar (CME), Swiss Franc (CME), Australian Dollar (CME), Mexican Peso (CME), and various currency futures.

Table with columns: Open, High, Low, Settle, Chg, Open interest. Sub-sections include Euro (CME), Index Futures (Mini DJ Industrial Average, S&P 500 Index, Mini S&P 500, etc.), and U.S. Dollar Index (ICE-US).

Table with columns: Open, High, Low, Settle, Chg, Open interest. Sub-sections include Corn (CBT), Oats (CBT), Soybeans (CBT), Soybean Meal (CBT), and Soybean Oil (CBT).

Table with columns: Open, High, Low, Settle, Chg, Open interest. Sub-sections include Treasury Bonds (CBT), Treasury Notes (CBT), 5 Yr. Treasury Notes (CBT), 2 Yr. Treasury Notes (CBT), 30 Day Federal Funds (CBT), and 10 Yr. Del. Int. Rate Swaps (CBT).

Bonds | WSJ.com/bonds

Tracking Bond Benchmarks

Table comparing bond benchmarks like Broad Market Bloomberg Barclays, U.S. Corporate Indexes, High Yield Bonds, and Mortgage-Backed Bloomberg Barclays. Includes columns for return, yield, and index.

Borrowing Benchmarks | WSJ.com/bonds

Money Rates

Table showing money rates for various countries and currencies, including U.S., Canada, Japan, U.K., and Emerging Markets. Includes columns for rate and change.

Borrowing Benchmarks | WSJ.com/bonds

Money Rates

Table showing money rates for various countries and currencies, including U.S., Canada, Japan, U.K., and Emerging Markets. Includes columns for rate and change.

Interest Rate Futures

Table showing interest rate futures for Treasury Bonds, Treasury Notes, 5 Yr. Treasury Notes, 2 Yr. Treasury Notes, 30 Day Federal Funds, and 10 Yr. Del. Int. Rate Swaps.

Global Government Bonds: Mapping Yields

Table mapping yields for global government bonds across different countries and maturities. Includes columns for yield, spread, and change.

Corporate Debt

Table showing corporate debt metrics for various issuers, including HSBC USA, BACR, SUMIBK, etc. Includes columns for coupon, maturity, current price, and spread.

Exchange-Traded Portfolios | WSJ.com/ETFResearch

Table listing the largest 100 exchange-traded funds, latest session. Includes columns for ETF name, symbol, closing price, and change.

ETF

Table listing various ETFs with columns for symbol, closing price, and change. Includes sub-sections for US, International, and Sector ETFs.

Corporate Debt

Investment-grade spreads that tightened the most...

Table showing investment-grade spreads that tightened the most, including HSBC USA, BACR, SUMIBK, etc. Includes columns for issuer, coupon, maturity, current price, and spread.

High-yield issues with the biggest price increases...

Table showing high-yield issues with the biggest price increases, including Noble Holding International, Parker Drilling, etc. Includes columns for issuer, coupon, maturity, current price, and spread.

Dividend Changes

Dividend announcements from January 9.

Table listing dividend announcements from January 9, including company name, symbol, amount, and payable date.

Dividend Changes

Dividend announcements from January 9.

Table listing dividend announcements from January 9, including company name, symbol, amount, and payable date.

High-yield issues with the biggest price decreases...

Table showing high-yield issues with the biggest price decreases, including Intelsat Luxembourg S.A., Murray Energy, etc. Includes columns for issuer, coupon, maturity, current price, and spread.

High-yield issues with the biggest price decreases...

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BANKING & FINANCE

Laundering Fight Builds

By Lalita Clozel

WASHINGTON—Efforts to overhaul U.S. laws against money laundering are gathering steam, as large banks, anticorruption groups and law enforcement coalesce around the idea of creating a national database of corporations showing their true owners.

"We've come to see this as the right thing to do and a good thing for the banks," said Greg Baer, the president of the Clearing House, a trade group of the largest U.S. banks.

The financial industry's support could be pivotal for the plan, which would require corporations to register with the Treasury Department's Financial Crimes Enforcement Network.

The database measure is part of a draft bill backed by Reps. Steve Pearce (R., N.M.) and Blaine Luetkemeyer (R., Mo.).

The Senate Banking Committee also discussed changes to U.S. money-laundering efforts on Tuesday during its first hearing of the year.

Treasury in 2016 issued a long-awaited rule mandating banks to identify the true owners of companies they take on as clients.

It also urged Congress to create a national database of those owners, a step that proponents said would stymie the creation of shell companies by bad actors.

The rule goes into effect in May, giving banks a new incentive to back such a measure.

"Right now, banks are obligated to find out who owns companies...They just have to do that on their own," Mr. Baer said. "It will help banks do their due diligence more efficiently if they can check [an official] source."

Public companies have to spell out who their owners are. The legislation is an effort to catalog smaller companies to make sure regulators aren't missing firms that could be used to launder money.

It would apply to U.S.-incorporated companies with 20 employees or fewer and \$5 million or less in annual revenue. These firms would have to list their true owners in annual filings to FinCEN.

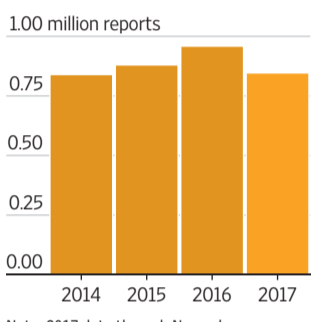
"I don't believe for a minute...that the biggest money laundering threat that we face is from dry cleaners and farm



Rep. Steve Pearce is one of two sponsors of a bill addressing efforts against money laundering.

Due Diligence

The number of suspicious-activity reports banks have filed to the Treasury Department's Financial Crimes Enforcement Network



Note: 2017 data through November. Source: Financial Crimes Enforcement Network.

THE WALL STREET JOURNAL.

shopkeepers," said David Burton, a senior fellow in economic policy at the conservative Heritage Foundation.

Clark Gascoigne, deputy director of the FACT Coalition, a corporate-transparency group in Washington, said the idea is to "capture the companies that were set up on Monday, launder the money on Tuesday and shut down by Wednesday."

The bill specifies funding for the effort would be capped at \$40 million.

"Initially, it would be a huge undertaking," said Ross Delston, a Washington-based anti-laundering consultant. "There would be a huge initial

Concerns Over Privacy, Data Loss

The corporate database is part of a draft bill from Reps. Steve Pearce and Blaine Luetkemeyer, but the legislation could have sticking points.

Some members of law enforcement balk at a measure that would increase the threshold at which banks must report transactions with FinCEN to \$30,000 from \$10,000.

"That's intelligence that the FBI is going to lose," said Dennis Lormel, former head of the Federal Bureau of Investigation's financial crimes program.

"In today's environment, with the homegrown violent extremists, you're dealing with a lower amount of money."

Banks argue that the quantity of data required would hurt their overall efforts.

Additionally, privacy advocates have criticized a provision that would vastly expand the types of suspected criminal activities that would allow banks to share information on suspicious transactions with each other and with regulators.

The government shouldn't be allowed to get such private information without a warrant or court order, said Neema Singh Guliani of the American Civil Liberties Union.

bump in the workload that probably would take one to three years of getting all the current companies registered."

Part of the difficulty for FinCEN will be to verify the information it receives from the companies.

"What's the compliance mechanism?" asked Mr. Delston. "How do you know if existing companies have filed?"

The legislation from Messrs. Pearce and Luetkemeyer also contains a number of other measures that would lighten the regulatory load on banks, including many that were advanced by the Clearing House in a report last year.

Some of the measures could prove too controversial to garner bipartisan support.

For instance, the bill would give banks the freedom to experiment with technological efforts against laundering, to be approved case by case.

As written, it would also keep state and local officials out of the loop, Mr. Gascoigne said his group is "concerned" about that lack of access.

"There's also a growing concern around the use of those shell companies for human-trafficking networks," he said. "It's like playing Whac-A-Mole and they can't actually follow the money trail."

Profits Are Forecast To Remain Elevated

By Ben Eisen

Wall Street expects another banner quarter for corporate earnings, but it may come with some caveats.

Earnings season starts at the end of the week, with financial firms leading the charge. S&P 500 companies are forecast to report that profits increased nearly 11% in the final three months of the year from a year earlier, according to FactSet.

On top of that, companies usually beat those forecasts by 3.4 percentage points on average, per Deutsche Bank AG data. This is poised to be the third quarter in four in which profits have risen at least 10%.

Expectations are high in part because analysts never really dropped them much. Typically, analysts start with high forecasts for the companies they cover and revise them down throughout a given quarter. Over the past 40 quarters, the average decline has been 6% for S&P 500 companies. But in the October-to-December quarter, the decline throughout that period was just 0.3%, the least in seven years, according to FactSet.

Economic growth has picked up in the U.S. and globally, helping boost sales, which Goldman Sachs Group Inc. analysts expect to expand at the fastest pace since 2011. A weak U.S. dollar has also been a boon to companies with large international operations.

But there could be some unexpected twists this season, particularly as it relates to the tax overhaul signed into law last month. Companies are expected to take one-time hits

tied to newly taxed cash held overseas as well as write-downs of deferred tax liabilities or declines in the value of deferred tax assets, according to Bank of America Merrill Lynch analysts. Indeed, some firms have already warned that such charges are coming.

While these wouldn't necessarily show up in adjusted earnings numbers due to their one-time nature, they would show up in earnings reported through generally accepted accounting principles.

"For companies only reporting GAAP EPS, the headline impact could be substantial," the Goldman analysts said in a note to clients.

Count Goldman and Bank of America Corp. among the

11%

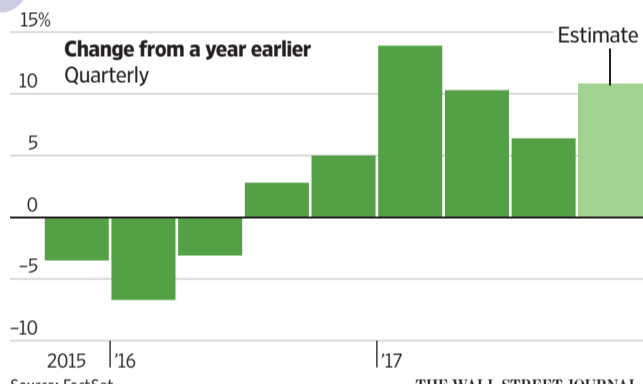
Expected rise in fourth-quarter earnings from a year earlier

companies that will take a hit. Goldman said it would take a \$5 billion earnings charge, two-thirds of which is tied to the new tax on overseas earnings. Bank of America said it would take a \$3 billion hit.

Banks and other financial-services companies are likely to eventually see a boost to profits because of the lower corporate tax rate. Many believe the one-time tax hits won't drag much on the market. "We expect investors to look through a noisy 4Q and focus on the effects of tax reform," Goldman analysts said.

Powering Up

S&P 500 earnings are expected to have continued increasing in the final three months of 2017.



Source: FactSet. THE WALL STREET JOURNAL.

Dimon Dials Back Bitcoin Criticism,

Says It's No Fraud

By Paul Vigna

JPMorgan Chase & Co. Chairman and Chief Executive James Dimon is softening his stance on bitcoin.

In an interview with Fox Business on Tuesday morning, Mr. Dimon said, "I regret making" an earlier comment in which he said the digital currency was a fraud.

Tuesday's comments were brief—the Q&A on bitcoin lasted less than two minutes—but he did manage to quickly

sketch out his current take on cryptocurrencies.

"The blockchain is real," he said, referring to the open-ledger technology that underpins the trading of bitcoin and other digital currencies.

In September, Mr. Dimon said during a conference that bitcoin is "a fraud," and he would fire any trader in his company who was buying or selling it.

The fraud comment made him the face of bitcoin skeptics, whose ranks include fa-

mous investors like Warren Buffett and Howard Marks. When he made those comments, bitcoin was trading around \$4,200. It has rallied sharply since then—it was trading Tuesday afternoon at \$14,604, according to CoinDesk—and Mr. Dimon has been hearing it from the cryptocurrency's supporters.

The fraud comment wasn't the first time Mr. Dimon criticized bitcoin.

In November 2015 he said that no government would



'The blockchain is real,' James Dimon said in an interview with Fox Business.

support it, and in January 2016 said bitcoin would go "nowhere." After the fraud comment, he said during an earnings conference call that he wasn't going to talk about

bitcoin, but one day later said, "if you're stupid enough to buy it, you'll pay the price for it one day."

While that day may yet come, for now Mr. Dimon is falling back on his core criticism. He said on Fox that his opinion on bitcoin was always more about how governments would respond to it, specifically whether they would take steps to outlaw or discourage it if it became too big and threatened government-backed currencies.

In the interview, Mr. Dimon added that "you can have cryptodollars and yen and stuff like that," a reference to the idea that central banks and governments would create their own bitcoin-like currencies that borrowed some of its technological advantages. Addressing initial coin offerings, which many virtual-currency-related startups have used to raise millions of dollars with minimal disclosure, Mr. Dimon said: "You look at every one individually."

New Highs and Lows | WSJ.com/newhighs

Table with columns: Stock, 52-Wk % High/Low, % Change, Stock, 52-Wk % High/Low, % Change, Stock, 52-Wk % High/Low, % Change.

Table with columns: Stock, 52-Wk % High/Low, % Change, Stock, 52-Wk % High/Low, % Change, Stock, 52-Wk % High/Low, % Change.

Table with columns: Stock, 52-Wk % High/Low, % Change, Stock, 52-Wk % High/Low, % Change, Stock, 52-Wk % High/Low, % Change.

Biggest 1,000 Stocks | WSJ.com/stocks

Table with columns: Stock, Sym, Close, Net Chg, Stock, Sym, Close, Net Chg, Stock, Sym, Close, Net Chg.

Table with columns: Stock, Sym, Close, Net Chg, Stock, Sym, Close, Net Chg, Stock, Sym, Close, Net Chg.

Table with columns: Stock, Sym, Close, Net Chg, Stock, Sym, Close, Net Chg, Stock, Sym, Close, Net Chg.

MARKETS

Stocks Burst From Starting Gate

S&P 500 posts best beginning to a year since 1964; bank and health-care shares rise

By MICHAEL WURSTHORN AND GEORGI KANTCHEV

Rising shares of banks and health-care companies pushed the S&P 500 higher, giving the broad index its best start to a year in more than half a century. Stocks have mostly climbed in the first trading days of 2018, extending last year's rally. That is leaving investors hard-pressed to find clues portending the rally's end, especially as geopolitical tensions with North Korea appear to be easing and ahead of what analysts expect to be another batch of upbeat quarterly profit results.

The S&P 500 has closed at six consecutive records in its first six trading sessions of 2018, the broad index's best start since 1964.

"Investors are pretty confident with how things are going," said Timothy Chubb, chief investment officer of Univest Wealth Management, a firm with more than \$3 billion in assets under management. "Earnings are projected to grow, and a number of companies are raising estimates for the rest of this year."

The Dow Jones Industrial Average added 102.80 points, or 0.4%, to 25385.80. The S&P 500 rose 3.58 points, or 0.1%, to 2751.29, while the Nasdaq Composite gained 6.19 points, or 0.1%, to 7163.58. All three indexes closed at new records.

Shares of financial firms were among the biggest gainers Tuesday, as the yield on the benchmark U.S. Treasury 10-year note advanced for a fourth consecutive trading session to 2.542% from 2.480% on Monday. Yields rise as bond prices fall.

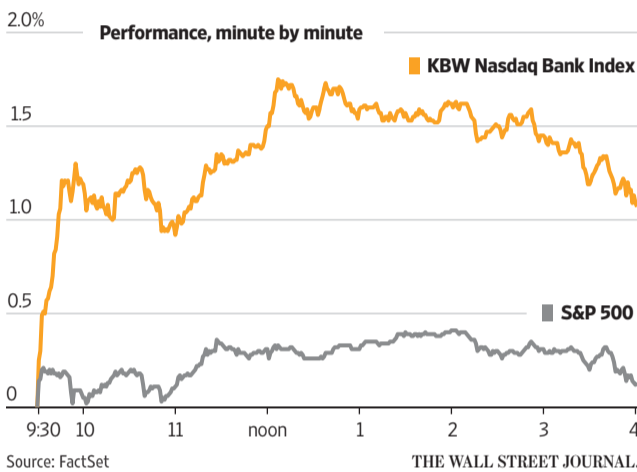
Higher interest rates typically widen the spread between what banks charge on loans and what they pay on deposits, which should boost



Target's shares rose 2.9% after it said holiday sales were strong in its stores and online. Shoppers at one of its stores in November.

Bullish on Banks

The KBW Nasdaq Bank Index of large U.S. lenders jumped Tuesday, as the S&P 500 climbed for a sixth consecutive session.



their earnings.

The KBW Nasdaq Bank Index, a measure of 24 of the biggest U.S. bank stocks, added 1.1%.

Banks will be among the first companies to report fourth-quarter earnings later

this week, and analysts expect many of them to report higher profits. Financial companies in the S&P 500 are projected to grow earnings by nearly 12% from the year-earlier period, according to FactSet. That is close to the roughly 11%

growth projected for all companies in the broad index.

Among health-care stocks, **Boston Scientific** jumped \$2.15, or 8.3%, to \$27.96 after the medical-technology company released preliminary sales results showing that fourth-quarter revenue is expected to rise.

Shares of **Boeing** and **Target** also contributed to Tuesday's gains after both companies released some financial results. Boeing rose 8.28, or 2.7%, to 318.43, contributing roughly 57 points to the Dow's gain after it reported an increase in jetliner deliveries and orders. Shares of Target added 1.96, or 2.9%, to 69.14 after it said holiday sales were strong both in its stores and online.

The overall gains are leading a number of investors to abandon defensive positions taken to protect against a downturn as indexes such as the Dow industrials and the Nasdaq have reached new milestones in recent weeks.

New data indicate that either demand for protection is low or investors are favoring bullish options on the S&P 500 instead.

Robust global growth, along with sweeping tax cuts approved by the U.S. Congress in December, have boosted sentiment among investors at the beginning of the new year.

"The underlying economic story is positive and nothing on the surface tells us we need to be concerned right now," said Paul Springmeyer, investment managing director at U.S. Bank Private Wealth Management.

Elsewhere, the Stoxx Europe 600 gained 0.4%, its fifth consecutive session of advances. Asian stocks extended their new-year rally, with the Nikkei Stock Average rising 0.6% to hit a 26-year closing high. At midday Wednesday, though, the index was down 0.2%.

In Hong Kong, the Hang Seng Index Tuesday topped 31000 for the first time since 2007. Early Wednesday, it was up an additional 0.2%.

Gas Prices Climb on Forecasts For Cold

By STEPHANIE YANG

Natural-gas prices rose for a second day in a row on Tuesday as traders looked ahead to another cold blast in the coming days and data po-

tentially showing a record-breaking withdrawal from storage.

Futures for February delivery advanced 3.2 cents, or 1.1%, to \$2.867 a million British thermal units on the New York Mercantile Exchange.

While the weather forecast for this week shows warmer-than-average temperatures spreading across much of the U.S., another shot of cold weather early next week could help support natural-gas demand.

According to MDA Weather Services, the eastern half of the country is expected to see colder-than-expected temperatures in the six-to-10-day forecast.

Meanwhile, analysts are anticipating what may have been a record drop in natural-gas stockpiles last week, in data due Thursday from the U.S. Energy Information Administration.

The extreme cold snap that pushed natural-gas demand to records last week also sent regional spot prices soaring as heating demand intensified.

As a result, some market participants estimate that more than 300 billion cubic feet of natural gas was taken out of storage last week, which would be the largest weekly drop in EIA data going back to 2010.

"The expectation of this huge withdrawal caused by the brutal cold last week is supporting the prompt contract as it attempts to move back near the \$2.90-\$3 range," Gelber & Associates analysts wrote.

Canadian Dollar Is Near 3-Month Highs

By DANIEL KRUGER

The Canadian dollar is trading near three-month highs, as the country's growing economy, thriving labor market and rising prices for one of its key commodities have boosted the outlook for its currency.

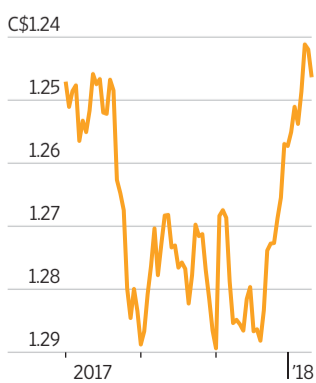
The Canadian dollar slipped 0.4% to \$1.2464 Tuesday, after last week hitting its highest level since late September.

Several factors have contributed to the loonie's rise: Canada added 79,000 jobs in December and finished last year with its strongest annual job gains since 2002, while its unemployment rate declined to 5.7%, the lowest since comparable data became available in 1976, according to Statistics Canada. Inflation has also risen, with consumer prices climbing 2.1% in November from the year earlier.

Another part of the Canadian currency's strength has come from surging oil prices, with U.S. crude settling Tuesday at its highest value since December 2014. Oil has benefited from factors including antigovernment protests in Iran, declining U.S. crude stockpiles,

Taking Off

How many Canadian dollars one U.S. dollar buys



Note: Scale inverted to show rising Canadian dollar. Source: Tullett Prebon THE WALL STREET JOURNAL.

freezing winter weather in the U.S. Northeast and continued high levels of compliance with the Organization of the Petroleum Exporting Countries' plan to cut crude output.

As economic data have shown unexpected strength, investors' outlook for Bank of Canada interest-rate policy has undergone a rapid evolution. That has improved the outlook for the currency, which has risen 3.5% against the U.S. dollar since the end of November. Rising interest rates tend to boost a currency by making it more attractive to yield-seeking investors.

It has also dented the value of Canadian government bonds, with 10-year yields rising 0.18 percentage point faster than the gains in the 10-year U.S. Treasury yield. The 10-year Canadian government bond yield rose Tuesday to 2.19% from 1.89% on Nov. 30.

"Economic data has been spectacular in Canada," said Ugo Lancioni, head of global currency investments at Neuberger Berman Group. This has led investors to reconsider their expectations for the potential for the Bank of Canada to raise interest rates this year, he said.

Investor opinion has coalesced around expectations the rate increases will begin as soon as the BOC's next meeting on Jan. 17, with between three and four increases expected in 2018. That is important because it implies that Canada's central bank could be more vigorous than the Federal Reserve in executing its return to monetary policy norms that prevailed before the 2008 financial crisis. Fed officials have signaled they expect to raise rates three times this year.

Expectations for interest rates are particularly important to supporting the loonie this year, because currencies, like the Mexican peso and the Norwegian krone, of many oil-exporting countries have failed to match the gains of the commodity itself, Mr. Lancioni said.

In China, 'Foreign' Is All Relative

By SHEN HONG

Foreign investors have been piling into China's bond market, taking their overall holdings to a record level late last year. But a closer look at the list of overseas investors in the \$11 trillion market suggests they are much less "foreign" than they appear.

Foreign investors owned 1.09 trillion yuan (\$167.64 billion) of bonds traded in China's onshore markets at the end of November, marking a ninth consecutive month of increases and sharply up from

772.49 billion yuan a year earlier.

Among the 291 institutional investors—ranging from banks to hedge funds—listed by China's central bank as overseas buyers of Chinese bonds, 101 are actually overseas subsidiaries of Chinese institutions such as the nation's top banks and brokerages, according to a review by The Wall Street Journal. A total of 59 "foreign" investors are banks or financial institutions based in Hong Kong, Taiwan and Macau.

The remaining 190 are from non-Chinese speaking countries with the exception of Singapore.

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In February 2016, Beijing granted global investors full access to its bond market. It opened the door wider in July 2017 when it launched the Bond Connect program that allows international investors to invest in China's onshore bonds.

Given that attracting more foreign investors to hold Chinese bonds is a key step for Beijing to internationalize its currency, Suan Teck Kin, economist at United Overseas Bank in Singapore, said the strong Chinese flavor of these "foreign investors" means the campaign to make the yuan a major global currency will be a slow process.

AUCTION RESULTS

Here are the results of Tuesday's Treasury auctions. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

FOUR-WEEK BILLS	
Applications	\$151,490,501,400
Accepted bids	\$50,000,116,400
* noncompetitively	\$57,335,900
* foreign noncompetitively	\$0
Auction price (rate)	99.900444 (1.280%)
Coupon equivalent	1.299%
Bids at clearing yield accepted	0.57%
Cusip number	912796NR6
The bills, dated Jan. 11, 2018, mature on Feb. 8, 2018.	

THREE-YEAR NOTES	
Applications	\$75,869,382,800
Accepted bids	\$24,812,807,800
* noncompetitively	\$60,104,600
* foreign noncompetitively	\$100,000,000
Auction price (rate)	99.768648 (2.080%)
Interest rate	2.000%
Bids at clearing yield accepted	65.25%
Cusip number	9128283Q1
The notes, dated Jan. 16, 2018, mature on Jan. 15, 2021.	

Gold's Decline Steepens as Dollar Gains

By AMRITH RAMKUMAR AND DAVID HODARI

Gold extended the previous day's declines Tuesday with the dollar climbing for a second straight session.

Front-month gold for January delivery fell 0.5% to \$1,311.70 a troy ounce on the Comex division of the New York Mercantile Exchange. The precious metal snapped an 11-session winning streak but has risen about 6% from its December lows.

A weaker dollar spurred the recent rally by making gold, a dollar-denominated commodity, cheaper for overseas buyers. On Tuesday, the WSJ Dollar Index, which tracks the U.S. currency against a basket of 16 others, rose for a second straight session following a fourth straight week of declines. The index rose 0.1%.

"The strengthening dollar is really hurting the price of gold here," said Walter Pehowich, senior vice president at Dillon Gage Metals, adding that it could be tough for gold to move much higher unless the dollar falls.

Some analysts said South Korea's agreement to send a delegation to the Winter Olympics and hold talks to re-



A Codelco copper refinery in Chile. Futures prices for the metal closed down despite lower production data.

duce tensions with South Korea was negative for gold. The metal got support from geopolitical risks that some investors think could roil markets and stoke demand for haven assets. "It does take some of the nervousness away," though the impact will likely be minimal, Mr. Pehowich said.

Investors will keep an eye on economic data and central bank signals for clues about the Federal Reserve's plans for the rest of the year. The Fed has projected three interest-rate increases this year, but

roughly 55% of traders tracked by CME Group expect two or fewer increases in 2018.

Some analysts have said the Fed breaking away from its current path of gradual rate increases could swing gold prices, as the precious metal struggles to compete with yield-bearing assets like Treasuries as borrowing costs rise.

Among base metals, front-month copper for January delivery slipped for January small gains and losses and closed down 0.2% at \$3.1945 a pound. The industrial metal has fallen

slightly from nearly four-year highs hit late last year, but many investors and analysts expect robust demand and supply concerns to continue supporting prices.

Data released Monday by Cochilco, Chile's copper commission, showed the country's copper output fell in November. State-owned Codelco's total production was down 6.7% month on month due to lower ore grades and maintenance work, said Alastair Munro, a broker at Marex Spectron, in a note.

MARKETS

Euro's Rally Against Dollar Ignores Past

Current gulf between bond and currency markets usually shows opposite move

By Mike Bird

For the past year, the euro has been defying the gravitational laws of global markets. The currency has surged against the dollar, even as German government-bond yields have collapsed to multi-decade lows against their American peers. That isn't usually what happens.

The gap between two countries' short-term bond yields is one of the most popular indicators for the exchange rate between their currencies. As yields go up in one region, investors move their money there to capture higher returns, driving up the local currency's value.

But the euro has resisted that relationship. On Tuesday, the gap between the yield on the two-year U.S. Treasury note and the German bund reached 2.58 percentage points as of the close of European trading. That spread has been wider only in the summer of 1999, and then for only a few days.

Despite this gulf, the euro was one of the world's best-performing currencies last year, rallying 14% against the dollar. It started this year at around \$1.20, a three-year high, and speculators are more bullish about the currency than ever before, according to U.S. Commodity Futures Trading Commission data. Late Tuesday in New York, the euro was trading at \$1.1937.

Political developments, the eurozone's ongoing bond-buying program and the bloc's unexpected growth spurt have all contributed to the euro's rally. Meanwhile, low German bond yields can probably be blamed on the European Cen-

tral Bank's continued monetary stimulus coupled with much-sought-after German bunds being a shrinking portion of the pool of eurozone debt.

Yields on German government bonds are now far below their U.S. peers...

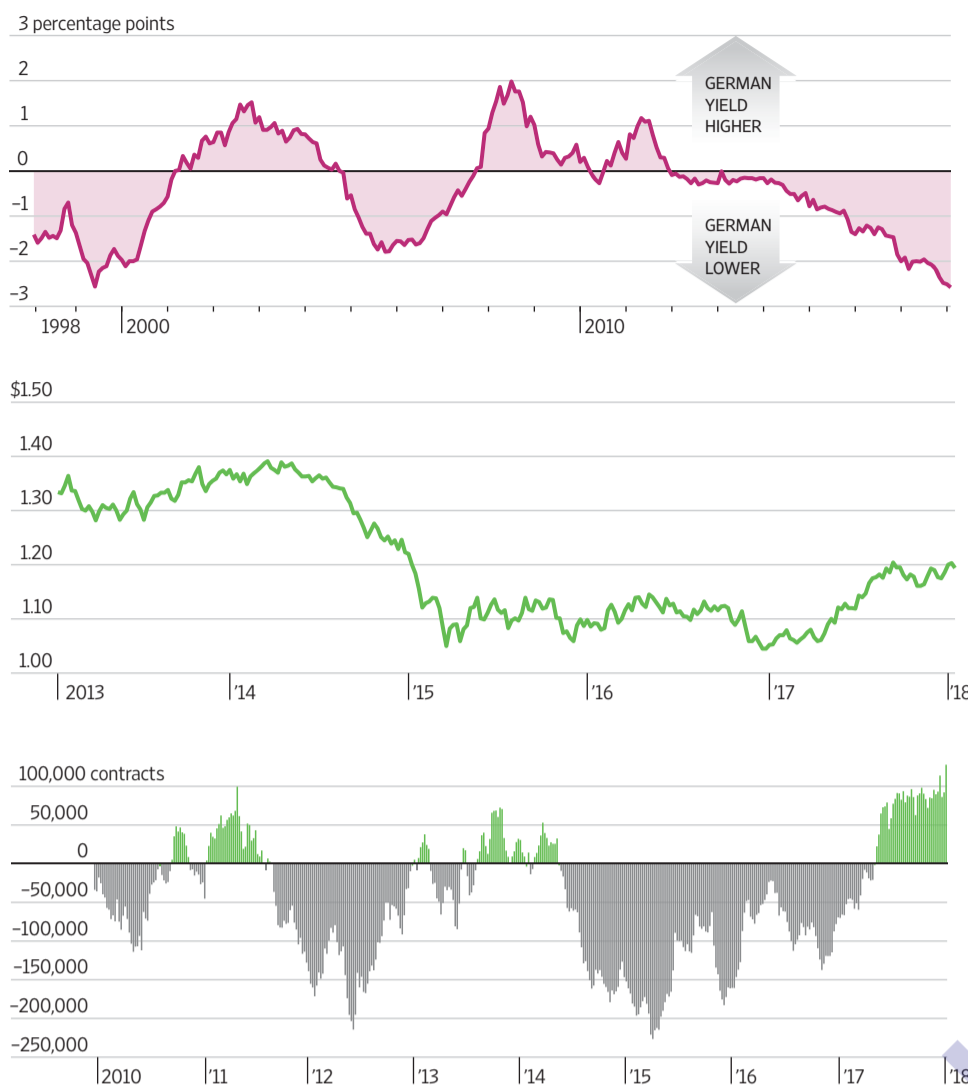
...but the euro seems immune to the bond market's pressure...

How many dollars €1 buys

...and investors are more bullish on their bets on a rising euro than ever before.

Net speculative futures contracts on the euro, weekly

Sources: FactSet (yields, currency); U.S. Commodity Futures Trading Commission (futures contracts)



analyst forecast suggested the euro will end 2018 at \$1.19, according to Consensus Economics.

The risk that U.S. growth disappoints and the market downgrades its expectations for Federal Reserve interest-rate increases makes some investors think the greenback could fall further against the euro.

"The risk is to the downside—that U.S. growth starts to disappoint," said Didier Saint-Georges, managing di-

rector at asset manager Carmignac. "The market might well wonder how hawkish the Fed can really be, and that's bearish for the dollar."

Meanwhile, yields on bunds are likely to remain significantly lower than on U.S. Treasuries.

The total amount of outstanding German government debt—widely regarded as the eurozone's safest bond market, generating constant demand from investors—is shrinking relative to the rest of the bloc.

Europe's largest economy no longer has a budget deficit, and in the middle of 2017 its debt securities made up just 15.1% of the eurozone's total. That is the lowest since the inception of the currency in 1999, down from a high of 19.4% at the end of 2007.

German debt available to investors increasingly has shorter maturities. At the end of 2016, the average maturity of German government bonds held by the ECB was 8.14 years. By the end of 2017, it

was just 6.56 years, as the Bundesbank increasingly bought shorter-dated debt.

That will keep the pressure on bond yields, even as the ECB continues to wind down its bond-buying program.

But monetary policy and technical factors aren't the only forces at work. The euro is getting a boost from strong economic growth across the eurozone.

Politics is also at play, on both sides of the Atlantic.

"There's been so much politics layered over economics recently," said Jane Foley, senior foreign-exchange strategist at Rabobank. "It's a very significant theme in driving portfolio flows now."

Ms. Foley cites political risks surrounding President Donald Trump's administration as a factor likely to keep the dollar down. In the past, Mr. Trump has expressed his own preference for a weaker dollar.

The euro's 2017 rally accelerated following the election of centrist candidate Emmanuel Macron as French president, lifting a cloud over the currency after a period of concern over the potential for populist upsets across Europe.

Still, optimism over the eurozone's economy could fade, while Italy's national election in March could potentially stoke some political concern.

"For years, the market was too pessimistic about the prospects for the eurozone, [and] it's possible that we've now gone all the way to the other extreme," said Thanos Vamvakidis, global head of G-10 foreign-exchange strategy at Bank of America Merrill Lynch.

"We like the euro in the medium to long term, but in the short term the euro has already overshot both the economic data and the rate differential," he added.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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Retailers Get Reprieve on Apocalypse

"When companies are priced for death, slight increases seem heroic," observes Simeon Siegel of Nomura Securities. Indeed, holiday sales, reported over the past week by a cluster of such doomed retailers, suggest an extraordinary revival.

On Tuesday, **Target** became the latest retailer to surprise investors with good news: The company posted 3.4% holiday same-store sales growth and lifted its fourth-quarter and full-year earnings outlook, sending its shares up nearly 3%.

A day before, **Kohl's** again dazzled investors with a 6.9% increase over the prior year. The company, whose shares are up nearly 40% in two months, also raised 2017 earnings guidance.

With the economy strong and consumers confident, even the laggards did well. **J.C. Penney's** same-store sales for November and December climbed more than 3% compared with the year-earlier period. Its e-commerce business posted double-digit sales growth. **Macy's**, the weakest of this bunch, saw 1% growth in comparable-store sales for November and December.

Yet nothing in the holiday sales figures show that traditional retailers have overcome their big challenges. **J.C. Penney** still expects same-store sales to remain flat, at best. **Macy's**, which still expects the closure of 11 stores in early 2018.

It is clear that some retailers have been cleverer about survival strategies than others. Yet the bounce isn't so much a matter of heroism as a correction of overly apocalyptic gloom.

—Elizabeth Winkler

A Reality Check on Deregulation

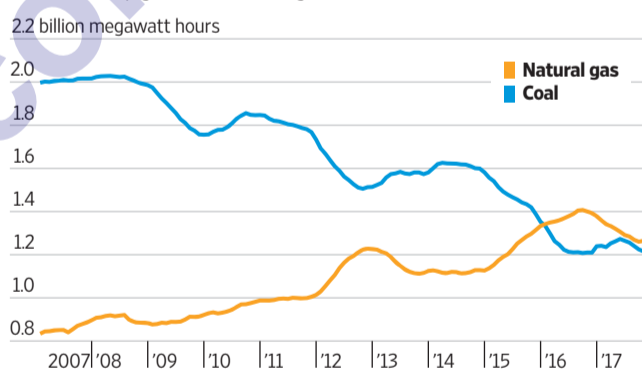
President Donald Trump declared last month that "the never-ending growth of red tape in America has come to a sudden, screeching and beautiful halt."

But the sound that energy investors heard this week was sand getting in the gears of a White House initiative that would have hurt more of them than it helped. In a rare regulatory defeat, all five members of the Federal Energy Regulatory Commission quashed a White House move that would have kept some struggling coal and nuclear plants running. Mr. Trump's former campaign manager Corey Lewandowski wrote darkly that the move was evidence of the so-called deep state of bureaucrats undermining the president's agenda, but four of the agency's commissioners were nominated by Mr. Trump.

Aside from a sound policy consideration that saves consumers money, the real impetus behind FERC's move

Carbon Copy

U.S. electricity generation, trailing 12 months



Source: U.S. Energy Information Administration

may have been opposition from a politically powerful coalition of natural-gas, oil and alternative-energy producers. Cheap, plentiful gas, along with some environmental rules, has played a big role in the decline of coal and nuclear power.

Harvard Law School maintains an online "Environmental Regulation Rollback Tracker" with 40 entries like

the Stream Protection Rule, Uranium Extraction Water Quality Standard and Greater Sage Grouse Protection under threat or already repealed.

But the private sector and even the energy business aren't monolithic. Many companies like existing rules or want more of them.

Take an issue like carbon pricing: Huge energy compa-

nies, most notably **Exxon Mobil**, have indicated some support. Aside from earning goodwill, having a say in rule making may beat the alternative.

In some cases, rules give companies advantages over rivals. Take the regulation of methane, a powerful greenhouse gas that is both a fuel and released as a byproduct of oil extraction: It is believed to be responsible for about one-quarter of man-made climate change, yet regulations on capturing more of it from hydrocarbon extraction are at risk in Mr. Trump's regulatory overhaul. But the industry is split. Large U.S. shale-oil producers that operate in big fields tolerate the rules because they can pipe out the methane and sell it. For smaller producers in more remote fields, getting the gas to market is harder and more expensive.

Not everyone minds some red tape.

—Spencer Jakab

OVERHEARD

One drug industry innovation investors will appreciate: new ways of presenting tedious disclaimers before a presentation. These disclaimers are a fixture of modern corporate speak.

But at this year's J.P. Morgan Healthcare Conference, executives are sparing investors from the tedium. New **Teva Pharmaceutical Industries** chief **Kare Schultz** urged his audience to read a slide full of boiler plate text carefully—just before clicking to the next slide, which earned a hearty laugh from his audience.

Older, simpler versions of safe harbor statements also got a good reception. **Regeneron Pharmaceuticals** CEO **Leonard Schleifer** led off his presentation with a disclaimer from the 1980s, which read in full: "Regeneron is a risky investment. That we hope will pay off handsomely!"

CEOs presenting throughout the week should take note: less is more.

Altice's Clever Deal Won't Give Investors More Control

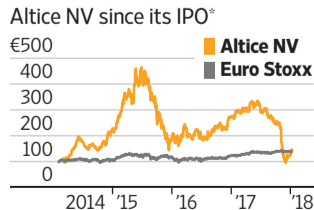
For all its elegance, the latest shake-up at beleaguered cable giant **Altice** layers bare the fundamental problem with investing alongside founding shareholder Patrick Drahi: Minority investors have no real voice.

Mr. Drahi is formally splitting the European and U.S. wings of his estate and in the process, transferring money to its cash-strapped European parent.

Altice USA, which owns cable networks Suddenlink and Optimum, has been listed in New York since June's IPO. Parent company Altice NV which holds two-thirds of the stock, announced late Tuesday that it was distributing its Altice

European Transfer

Value of €100 invested in Altice NV since its IPO*



*As of close on Jan. 31, 2014

Note: €1=\$1.194

Source: U.S. Energy Information

USA shares to its own shareholders, foremost among whom is Mr. Drahi.

Before the shares are spun out, Altice USA will pay a \$1.5 billion dividend, most of which will flow to Altice NV. All else being equal, Altice USA's already substantial

debt pile will increase to 5.8 times trailing earnings before interest, taxes, depreciation and amortization, from 5.4 times at the end of September. That is despite a reduction in management's targeted leverage range to between 4.5 and 5 times, from between 5 and 5.5 times.

There are sweeteners for Altice USA shareholders. The dividend is unexpected. A management fee Mr. Drahi charged for using his "Altice Way" of doing business will be scrapped. And liquidity in the stock should be boosted: Only about 10% of the shares are currently free to trade, which will rise to 42% after the spinoff.

In the short term, though,

the deal could weigh on the share price, as Altice NV investors that don't want a direct piece of Altice USA, sell.

With the help of President Donald Trump's tax cuts, Altice USA can afford to bail out its European parent. Even including the dividend, New Street Research expects leverage to fall to 4.4 times by the end of 2018—below the new target level—thanks to strong cash flows. This doesn't, however, include a \$2 billion share buyback program that Altice USA has also authorized to assuage shareholders.

Altice NV—to be renamed Altice Europe—was the worst large-cap performer in Europe in 2017. Terrible results in France sapped confi-

dence in its debt-fueled growth story. Mr. Drahi has spent the past two months selling noncore assets. Altice NV's shares rallied by more than 10% Tuesday on news of the cash windfall.

For Altice USA, committing to a fat dividend and buybacks undermines its original IPO pitch: That cash flows would fuel a buying spree to turn around even more cable operators. Moreover, the use of the company's balance sheet for the benefit of its majority shareholder highlights the governance risk. The deal won't change this: Mr. Drahi will still control at least 51% of its voting rights. This isn't independence day for Altice USA.

—Stephen Wilmut