

# THE WALL STREET JOURNAL.



## ANYONE CAN BE A MOUNTAIN BIKER

OFF DUTY | W1

## The Price of Brexit Keeps Piling Up

OPINION | A14

DOW JONES | News Corp. FRIDAY - SUNDAY, AUGUST 5 - 7, 2016 ~ VOL. XXXIV NO. 131 WSJ.com EUROPE EDITION

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### What's News

#### Business & Finance

**The Bank of England** cut rates to a record low as part of a larger-than-expected stimulus package, sending the pound and bond yields sinking. **A1, A3, B1**

◆ **The quarter-point** rate cut ramps up pressure on profits at U.K. banks and will spur cost-cutting. **B7**

◆ **British retailers** are raising prices on imported goods as the pound weakens in the wake of Brexit. **B1**

◆ **London was knocked** from its perch as the world's costliest city. It is now No. 3, after New York and Hong Kong. **B5**

◆ **Facebook is cracking** down on vague or misleading newsfeed headlines aimed at luring users into clicking. **B1**

◆ **Toyota cut** its full-year earnings outlook as first-half profit and sales slid as the yen strengthened. **B2**

◆ **MetLife will cut** \$1 billion in costs by the end of 2019 with some job losses in response to ultralow rates. **B5**

◆ **Siemens raised** its outlook for fiscal 2016 following strong results at the company's energy operations. **B4**

◆ **Nokia swung** to a \$738.2 million loss on expenses related to its Alcatel deal. **B3**

#### World-Wide

◆ **The Taliban's new leader** is closing some rifts in the insurgency as it wages a new offensive in Afghanistan's Helmand province. **A1**

◆ **U.K. police said** there was no evidence that a man who killed a U.S. woman in a London stabbing attack was motivated by terrorism. **A3**

◆ **Islamic State said** it named a new Boko Haram leader, a sign of the terrorist group's command over the Nigerian insurgency. **A4**

◆ **News of a cash payment** of \$400 million by the U.S. to Tehran reignited a furor over the Iran nuclear deal. **A4**

◆ **South Sudanese soldiers** and rebels raped hundreds of women and girls during July fighting, the U.N. said. **A4**

◆ **A Brazilian Senate panel** recommended a conviction in suspended President Rousseff's impeachment trial. **A6**

◆ **U.S. blood banks** and regulators are stepping up screening as concerns rise about the spread of Zika. **A9**

◆ **Israel said** it arrested a charity employee for allegedly siphoning off aid money and giving it to Hamas. **A4**

## BOE Shakes Up Pound and Gilts

Central bank's moves to cut rates, restart bond buying exceed market expectations

By Christopher Whittall and Georgi Kantchev

The Bank of England's larger-than-expected package of stimulus measures Thursday sent the pound tumbling and the yield on the 10-year U.K. government bond to a record low, a demonstration of how some central banks retain the ability to jolt markets.

Aiming to boost Britain's economy following the coun-

try's vote to leave the European Union, the central bank cut its benchmark interest rate to 0.25% from 0.5% and said it expects to reduce it further toward zero in coming months. In addition, it said it would buy £60 billion (\$79.9 billion) of U.K. government bonds in the next six months and up to £10 billion of U.K. corporate debt over 18 months. It also announced a new funding program for banks, offering lenders ultracheap four-year loans to finance lending to households and businesses.

Sterling fell 1.6% to \$1.3112 in afternoon New York trading, while the yield on the 10-year gilt touched a record low of

**Monetary Move**

- ◆ Bank of England delivers 'stimulus now' ..... A3
- ◆ Heard: BOE's juggling act gets riskier ..... B1
- ◆ Rate cut puts pressure on U.K. banks ..... B7

0.64% before rebounding slightly to 0.643%. The U.K.'s FTSE 100 stock index jumped 1.6% to 6740.16, and the Stoxx Europe 600 gained 0.7% to 337.84.

"The scale of the [BOE's] response is significant in terms of the market reaction that you've seen afterwards," said Charlie Diebel, head of

rates at Aviva Investors. After a long period of unconventional monetary policy in developed economies, investors have wondered if central banks had run out of ammunition in their ability to move markets and stimulate economies. Increased stimulus moves from the European Central Bank and the Bank of Japan appeared to have little impact earlier this year as investors talked of diminishing returns from their actions.

The Japanese yen has gained around 19% against the U.S. dollar this year despite fresh rounds of monetary easing from the Bank of Japan, Please see MARKET page A3



## Special Delivery: The Olympics Arrive in Rio



LET THE GAMES BEGIN: Brazilian Rico de Souza took part in the Olympic torch relay Thursday ahead of Friday's opening ceremony. A6, A7

## COMPANIES STEER ANALYSTS TO EARNINGS SURPRISES

Pointing to previous comments helps guide earnings expectations, almost always lower

By Thomas Gryta, Serena Ng and Theo Francis

In April, AT&T Inc. shares rose after it reported quarterly revenue that narrowly topped the average estimate from analysts.

The surprise wasn't as surprising as it looked. Before AT&T's announcement, investor-relations employees at the telecommunications giant encouraged analysts to look back at comments made by finance chief John Stephens in early March, say analysts who spoke with the

company. He had implied some customers were waiting longer to upgrade their mobile phones, an important revenue source.

Please see ANALYST page A8  
◆ Beware 'earnings before bad stuff' ..... B5

### Mobbed National Parks: America's Mall of the Wild

Instead of tranquility, visitors find crammed buses, epic bathroom lines

By Jim Carlton

YOSEMITE NATIONAL PARK, Calif.—When Christine Romalewski imagined her first trip to this national idyll, the New Orleans resident pictured remote lodges in a majestic wilderness. Deer and squirrels would be the only other creatures she and her husband, Rob, might encounter.

"We didn't realize we were going to see folks in bathing suits, tubing, and people walking through meadows and people walking along the sides of the highway," said Mrs. Romalewski, 67 years old, surrounded by throngs of picture-taking tourists in late June. "It was like, 'Wow, there

are a ton of people here.' " Those seeking serenity this year at national parks are finding a major obstacle instead: some 300 million others looking for the same thing.

This year, as part of the great migration of tourists, Yosemite is expecting as many as 400,000 more people than last year's record-breaking crowd of 4.2 million. Overall, the National Parks had a record 307 million visitors in 2015—up 5% from the year before. More are expected this year, as the park service celebrates its much-publicized centennial, amid cheaper gas prices and an improved economy. Please see PARKS page A8

## U.S. Firms Dominate Public Cloud In Europe

By Sam Schechner

When energy giant Enel SpA started looking last year for an outside company to manage its computer systems and files, the Italian firm had a red line: All its data had to stay in the European Union. The company that got the contract? U.S. tech giant Amazon.com Inc., which won by promising that Enel's data would be housed in a German facility that met Enel's other requirements: "reliable, flexible, agile and cheap." Political and legal pressure has for years been mounting on European companies to store their sensitive information in Europe—in part to keep it away from what many suspect are prying American eyes. But the push toward so-

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## Taliban's New Chief Aims to Close Rifts

By Habib Khan Totakhlil and Jessica Donati

KABUL—The Taliban's new leader is wooing back some disaffected members as the insurgency wages a new offensive in strategic Helmand province, say those close to the group, defying U.S. and Afghan government efforts to undermine it.

Maulavi Haibatullah Akhundzada, in power for just over two months, has been reaching out to key Taliban figures sidelined by his predecessor, Mullah Akhtar Mansour, according to these people.

In one key example, the new Taliban chief has nominated a former military commander in Helmand, Mullah Abdul Qayum Zakir, to return to an official post just as the insurgency is intensifying efforts to retake the province.

Other nominations include Mullah Nanai as chief justice of the Taliban supreme court.

The more inclusive approach marks a break from Mullah Mansour, who was killed in a U.S. drone strike in May. Mullah Mansour had attempted to stamp out opposition to his leadership, after rival factions battled for control of the group. The group splintered when it emerged last year that their supposed leader, Mullah Mohammad Omar, had died two years before and his death had been Please see TALIBAN page A2

## Inside MANSION W9 New Old-Fashioned Towns

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WORLD NEWS

# Upheaval in Turkey Has Syria Rebels Worried



MIDDLE EAST CROSSROADS  
YAROSLAV TROFIMOV

Some of the most intense fighting in the five-year Syrian war erupted after last month's failed Turkish coup—and it is probably no coincidence.

Turkish President Recep Tayyip Erdogan was an early and indispensable backer of the uprising against President Bashar al-Assad's regime. Since 2011, Turkey served as a rear base and supplier for a variety of Syrian rebel groups, including those on the Islamist fringe.

That support is now under threat. Many of the top Turkish military and intelligence officials involved in programs to assist the rebellion, including the commander of Turkey's 2nd Army responsible for borders with Syria and Iraq, have been detained for alleged involvement in the July 15 putsch.

"The generals who were leading the Turkey-Syria policy and the Turkish policy on

Syrian Kurds are all in jail now, and we now see the crumbling of the Turkish security establishment," said Gonul Tol, director of the Center for Turkish Studies at the Middle East Institute in Washington. "This makes Turkey very vulnerable and weak, and will make it less confrontational."

Such a sea change in the regional balance of power appears to have had the immediate effect of emboldening Mr. Assad. Within days of the coup attempt, Mr. Assad's forces, aided by Iran, Hezbollah and Syrian Kurdish militias, pushed to complete the encirclement of the rebel-held eastern half of Aleppo, Syria's largest city.

The lifeline between eastern Aleppo and the rest of rebel-held northern Syria, Castello Road, had become increasingly perilous. But until recently, it could still be used to ferry supplies to some 300,000 people living in eastern Aleppo. Those people now face a humanitarian disaster.

In response, an unusually broad alliance of Syrian rebel factions launched one of the war's biggest offensives, attempting to break the siege of Aleppo at a different point, in the city's southwest. That alliance includes the Syria Conquest Front, formerly the Nusra Front. The



A Free Syrian Army tank firing in the Ramousah area, southwest of Aleppo, on Tuesday.

group, in a bid to broaden its appeal, announced it was severing its ties with al Qaeda just before the offensive began last week.

For the Syrian rebels, the Aleppo offensive—which resulted in territorial gains but has yet to break the siege—is a now or never moment. While these groups still have the resources supplied by or via Turkey, they can't be sure such assistance would continue in the future.

"What is happening now in Turkey is undermining any future offensives that the rebels could launch," said Mohamed Hineidi, senior an-

alyst at the Delma Institute think tank in Abu Dhabi.

It isn't just that Turkey is distracted by the purges of its security and intelligence apparatus. More important, Mr. Erdogan appears to be fundamentally shifting the country's foreign-policy posture—something that could have direct implications for the Syrian conflict.

Turkey's ties with the U.S., its North Atlantic Treaty Organization ally, have dramatically deteriorated since July 15, with Mr. Erdogan accusing Pennsylvania-based preacher Fethullah Gulen of organizing the coup

attempt (something that Mr. Gulen has denied) and demanding his extradition.

Several Turkish officials have gone even further, alleging that the U.S. colluded with the putsch. President Barack Obama has strongly denied any involvement.

Mr. Erdogan's relationship with Russia, the main sponsor of the Assad regime, has just as dramatically improved. Mr. Erdogan laid the groundwork before the attempted coup by apologizing for the November shooting down of a Russian warplane

on the Syrian border.

Since then, the Turkish pilots involved in that incident have been detained for their alleged roles in the coup attempt, and Turkish officials have portrayed the entire episode as part of the Gulenist conspiracy. Mr. Erdogan is due to visit Russia for talks with President Vladimir Putin on Aug. 9, their first meeting since the warplane's downing.

It isn't clear whether Messrs. Putin and Erdogan could agree on how to move forward in Aleppo, and in Syria in general.

"Russia retains a sense of caution vis-à-vis Erdogan. Russia didn't backtrack on its previous actions in Syria, and Russia and Turkey still back cardinally opposing sides in Syria," said Yuri Barmin, a Middle East expert at the Russian International Affairs Council, a think tank affiliated with the Russian foreign ministry.

Others in the region, however, see a possible deal in the cards.

"Now that Turkey is moving away from NATO and Washington, Russia has an enormous interest in bringing Turkey into its fold," said Lebanese parliament member Basem Shabb. "If Syria is important, Turkey is infinitely more important, and Russia isn't going to sacrifice Turkey to please Assad, Hezbollah, or Iran."

## TALIBAN

Continued from Page One kept secret.

The Afghan government sought to exploit these divisions by paying off breakaway commanders to fight the main group. The U.S. military expected the May drone strike that killed Mullah Mansour would further disrupt the movement, since he kept such tight grip over financial and military operations.

Instead, the Taliban's new leader is winning back factions that previously posed a threat. "They don't have the internal disagreements anymore," said Waheed Muzhda, a former Taliban official who maintains contacts with the group. "They are stronger than before."

A more unified Taliban is now close to capturing two more districts in Helmand, a traditional stronghold that produces much of the opium that helps fund the insurgency, and which borders Pakistan. Some of the fiercest battles between the Taliban and U.S. and British troops have been fought for control of the province.

A reorganized Taliban would further strain Afghan



An Afghan security force member manning a position during a military operation against the Taliban in Helmand province last week.

forces that are struggling to hold ground against the group despite an increase in U.S. military support. A recent report by the U.S. government watchdog in Afghanistan showed the local forces have lost control over another 5% of the country's territory since the start of the year.

At the same time, the Taliban have claimed responsibility for several suicide bombings targeting the capital, highlighting the shaky security nationwide since most foreign troops withdrew in 2014. Casualties are up sharply this year, both for civilians and among the Afghan police and military.

President Barack Obama agreed in June to reinstate permission for U.S. troops to take offensive action against the Taliban, and said last month he would slow the rate of troop withdrawals.

Despite heavy U.S. airstrikes in recent days, Taliban forces have advanced in southern

Helmand this week and overrun two districts there including Nad Ali, which borders the provincial capital, Lashkar Gah.

Residents in Nad Ali say it is only a matter of time before the Taliban capture the last remaining buildings under government control.

"Taliban seem determined

to capture Lashkar Gah even for a few hours. Locals in the city are very worried," said Rohullah Elham, the son of a local police commander.

The military push has coincided with new appointments aimed at repairing fractures. Those close to the Taliban say reconciliation efforts have targeted several influential figures who quit when Mullah Mansour seized power.

Taliban spokesman Zabiullah Mujahid confirmed appointments had been made but declined to provide details "for security reasons."

Sayed Akbar Agha, a former senior Taliban commander now living in Kabul, said the Taliban "most probably" would reappoint Tayyeb Agha, who was a close aide to the Taliban's founder, as chief of the group's political office in Qatar.

A person close to the office said Mr. Agha's return was unlikely to accelerate chances for peace. He added that the U.S. decision to slow the withdrawal of forces had renewed the group's determination to keep fighting.

"There is no new direction at the political office," he said.

—Saeed Shah and Ehsanullah Amiri contributed to this article.

## CLOUD

Continued from Page One called data localization has done little to slow the growth of U.S.-based cloud-computing businesses operating in Europe. Behind the growth: Big European companies are moving more of their computing work to outside providers. American firms have the scale to offer low prices, and are quick to roll out new services and upgrades, analysts say.

Americans also have built at least a dozen new data centers in Europe in recent years, reducing European competitors' home-field advantage and helping convince European firms that U.S. providers can keep their data safe.

The allegations in 2013 by former National Security Agency contractor Edward Snowden of widespread U.S. government surveillance and the potential involvement of technology firms triggered a backlash in Europe and led to calls by privacy advocates to protect European data.

U.S. firms disputed the scale of their cooperation and said they often challenged surveillance requests.

But, since then, the top four providers of cloud infrastructure in Western Europe are all U.S. firms, and they have expanded their market share by a third in the region, hitting 40% in 2015, according to market researcher IDC.

The four companies—Amazon, Microsoft Corp., Alphabet

Inc.'s Google and International Business Machines Corp.—nearly tripled their combined cloud-infrastructure revenue in the region to \$2 billion by the end of the three-year period, IDC says. Together, Western European firms saw their revenue increase 86% during that period.

"On paper, European companies should be poised to take advantage of this growth. But they are less nimble," said Jonathan Atkin, a senior analyst for RBC Capital Markets. American firms "have bigger checkbooks to make decisions on this scale."

The expanding share of American firms in Europe's cloud-infrastructure business comes as something of a surprise.

After the Snowden leaks, industry-supported think tank Information Technology & Innovation Foundation estimated that the fallout would cost American cloud firms between \$21.5 billion and \$35 billion globally over three years.

Initially, European firms looked poised to take advantage, and used fear of U.S. government surveillance as a marketing tool. Deutsche Telekom AG sold "Email made in Germany." Two French consortia, including one run by Orange SA, promoted their own "sovereign cloud" offerings with promises of €150 million (\$167 million) in government backing to get these ventures off the ground.

Pressure on U.S. companies mounted last year when the EU's top court struck down a trans-Atlantic privacy accord that allowed companies in Europe to easily store data on U.S. servers. It wasn't until July that the EU and the U.S. completed a replacement agreement, which would give European companies more confidence to store data with U.S. firms—through privacy advocates promise to challenge the deal in court.

American tech firms responded to the threats to their European growth with more investment. Since 2013, IBM says it has doubled the number of its data centers in Europe to 12, with one more going online in the fall. Amazon, in late 2014, opened a new set of data centers in the Frankfurt area, on top of another set in Dublin.

Microsoft opened three new data hubs, and last year announced a deal to allow customers in Germany to designate Deutsche Telekom as the trustee in control of their data.

"In a post-Snowden world, people want to know what governments can get access to their information and when," said John Frank, Microsoft's vice president of EU government affairs.

Google has taken a different tack and doesn't promise to keep Europeans' data only in the EU, noting that such localization can be inefficient. The company, nevertheless, has expanded its data centers in Belgium, Finland and Ireland, and

is opening a new one in the Netherlands.

U.S. firms face tough local competition in a fragmented market. European telecom giants have networks that enable them to offer competitive cloud infrastructure.

Germany business-software giant SAP SE competes in the related market for business services that run on top of basic cloud infrastructure, where analysts say much of the cloud business's growth is set to come.

Still, many European companies use U.S. cloud firms, including France's Schneider Electric, BMW AG and Spotify AB.

Enel, for instance, began its process of shifting to the cloud last year, even though using European infrastructure comes at an added cost. The standard cost of hosting data in Frankfurt is 8% more expensive than Amazon's least expensive U.S. facilities, such as

## CORRECTIONS & AMPLIFICATIONS

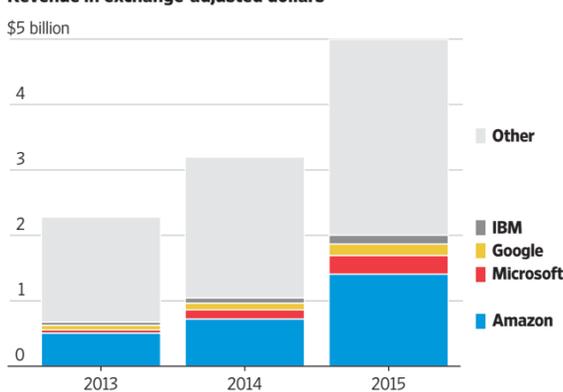
In August 1998, a missile was fired from the Tonghae Satellite Launching Ground on North Korea's east coast. A map with a World News article Thursday about a missile fired Wednesday incorrectly gave the month for the 1998 launch as April.

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

### Rising Cloud

U.S. tech firms have seen an increase in their share of the public cloud infrastructure market in Western Europe.

Revenue in exchange-adjusted dollars\*



\*Excluding the impact of changing exchange rates  
Source: International Data Corporation

# WORLD NEWS

## Bank of England Delivers 'Stimulus Now'

### Central bank cuts key rate to new low and offers cheap loans to help spur economy

By Jason Douglas and Paul Hannon

LONDON—The Bank of England cut its benchmark interest rate to the lowest in its 322-year history and revived a financial crisis-era bond-buying program to cushion the U.K. economy from the aftershocks of the vote to leave the European Union.

Thursday's unexpectedly large and diverse stimulus package—which included a torrent of cheap cash for banks—underscores the concern at the central bank following the June 23 referendum.

The BOE sharply cut its growth forecast for 2017, marking the biggest downgrade since it began publishing such forecasts in 1993, saying the outlook had "weakened materially."

Central banks, including the Federal Reserve and the European Central Bank, say they are watching closely in case the move toward Brexit sparks another damaging bout of financial-market contagion and economic instability. But the fallout so far appears confined to the U.K., with signs that the U.S. and eurozone economies have shrugged off the surprise result.

The package's aspects didn't gain unanimous support from the rate-setting Monetary Policy Committee, reflecting cau-

tion among some officials that the trickle of economic data since the vote didn't yet justify such a broad response. The few bits "may overstate the weakness of the economy," they said.

But BOE Gov. Mark Carney was adamant that surveys showing steep declines in consumer and business confidence point to a looming slowdown. And officials said they expect uncertainty over the U.K.'s future economic relationship with the EU and the rest of the world to stunt investment in Britain for years to come, squeezing the economy's capacity to produce goods and services.

"There is a clear case for stimulus, and stimulus now," Mr. Carney said at a news conference, in the latest attempt by officials to reassure Britons that they are acting decisively.

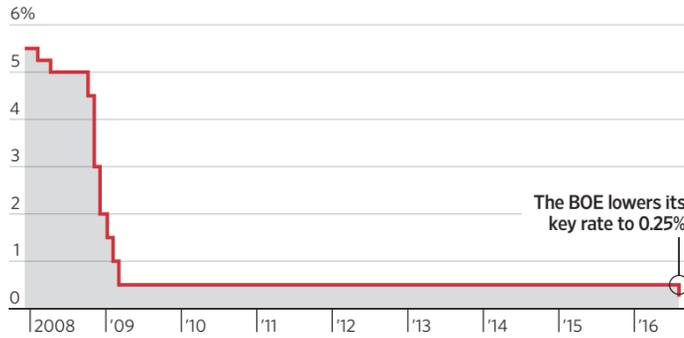
The stimulus package contained four elements. The BOE cut its benchmark interest rate to 0.25% from 0.5% and said it expects to cut it further toward zero in the months ahead. It revived a program to buy U.K. government bonds that has been on pause since 2012, and announced it would begin buying corporate bonds, too. The final part was a new term-funding program for banks, offering lenders ultracheap four-year loans to finance lending to households and businesses.

All nine committee members supported a rate cut but three voted against new bond purchases, believing their premature. One, Kristin Forbes, advanced the same argument in opposition to corporate bond

### Rate Reaction

The Bank of England lowers rates for the first time since March 2009...

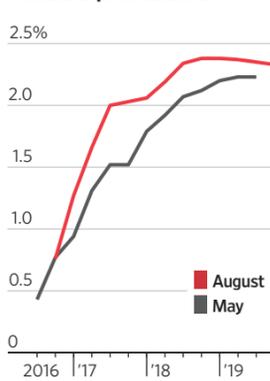
The BOE's benchmark interest rate



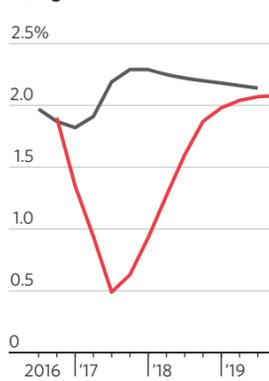
...and says it expects higher prices sooner, slower growth and higher unemployment.

How the BOE August and May projections for inflation, growth and unemployment compare.\*

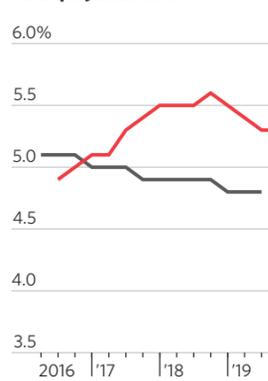
#### Consumer-price inflation<sup>1</sup>



#### GDP growth<sup>1</sup>



#### Unemployment rate



\*Averages, using market interest-rate expectations; August forecasts take into account measures announced Aug. 4. <sup>1</sup>Year-over-year changes. Source: Bank of England.

purchases. All nine backed the new bank funding.

The package marks a reversal for the BOE, which before the Brexit vote had been ex-

pected to follow the Fed in raising interest rates later this year.

Fed officials expressed growing confidence at their last policy meeting in late July that

they could raise rates at least once this year now that markets have largely settled post-Brexit vote and the U.S. economy appears to be on a solid footing.

The breadth of the BOE program caught some investors by surprise. The pound fell 1.4% against the dollar to \$1.3143, while the yield on 10-year U.K. government bonds, known as gilts, fell to a record low of 0.644% before recovering slightly. London's FTSE 100 index reversed earlier losses to close up, with financial shares climbing steadily.

The BOE painted a subdued picture in a fresh set of quarterly economic forecasts, although it said the U.K. economy would probably avoid an outright recession. It cut its growth forecast for 2017 to 0.8% from 2.3% in May, and trimmed its 2018 forecast to 1.8% from 2.3%.

Officials described multiple ways they see the Brexit vote weighing on growth, despite the stimulus. They were downbeat on consumer spending and the housing market, and said while they expect exports to get a short-term boost from the weaker pound, that would tail off while the U.K.'s trading status remains unclear. Unemployment is expected to increase, to around 5.5% or 5.6% by 2018, from 4.9%, the BOE said.

While the BOE can cushion the economy, it can't completely offset the impact of the vote, Mr. Carney said, an assessment shared by many economists.

U.K. treasury chief Philip Hammond said he is "prepared to take any necessary steps to support the economy and promote confidence." He has said he intends to "reset" tax-and-spending policy before the end of the year.

## MARKET

Continued from Page One

which cut a key interest rate into negative territory in February and has boosted its asset-purchase program. Such measures would usually be expected to weaken a currency. The euro remains above recent lows hit in late 2015, despite the European Central Bank boosting its stimulus measures at two separate meetings since then.

But the Bank of England had more room to act given

that U.K. interest rates were in positive territory and the bank's last bond-buying program ended in 2012.

While investors may judge that the Bank of Japan's powers are on the wane, the Bank of England has shown it hasn't "exhausted [its] ammunition at all," said Alan Wilde, head of fixed income at Baring Asset Management. Having held rates steady for seven years, the BOE has managed to get "maximum capital for its decision," judging by Thursday's market reaction, he added.

Many investors expect more stimulus from the BOE and

further dramatic moves in markets. Such expectations form part of a broader bet from investors that global central banks will keep rates lower for longer in the face of tepid growth and sagging inflation.

That has sparked a renewed grab for yields, with investors piling into riskier markets such as emerging-market bonds in search of returns as developed-world bond yields hit new lows.

Central-bank bond-buying pushes down yields on safe government bonds and encourages investors into riskier

assets such as corporate debt and stocks. And lower interest rates put downward pressure on a country's currency, which helps exporters.

The pound is down around 11% since the June 23 referendum, but is still up from its post-Brexit low of \$1.2798.

Gains in U.K. bonds rippled across to other major government securities. The 10-year U.S. Treasury yield fell to 1.503% Thursday from 1.543% Wednesday.

"Markets weren't expecting anything as nearly big as this," said John Wraith, head of U.K. rates strategy at UBS.

Still, U.S., stocks had a quiet day. The Dow Jones Industrial Average fell 2.95 points, or less than 0.1%, to 18352.05, while the S&P 500 rose less than 0.1%. The Nasdaq Composite gained 0.1%.

Perhaps the biggest surprise was the BOE's decision to start buying corporate bonds in September.

That pushed yields on corporate bonds lower. The gap in yields between the corporate bonds that are likely contenders for BOE buying and safe government debt narrowed by 0.1 to 0.15 percentage points, according to Citigroup Inc.

Citigroup said investors should expect a "considerably larger" reaction, predicting that the spread between the corporate debt the bank's strategists believe will be eligible for the program and government debt would narrow by 0.25 to 0.3 percentage points from pre-announcement level.

The program "may kick-start the moribund primary market" for new debt sales, and "reinvigorate the sterling corporate bond market more generally," said David Riley, head of credit strategy at BlueBay Asset Management.

## Rethinking Turkey's Ties to Europe

When Austrian Chancellor Christian Kern said this week it was time for the European Union to reconsider membership talks with Turkey, he set off a diplomatic firestorm.

"Austrian PM calls our accession negotiations a 'diplomatic fiction.' Actually what is fiction is a democracy where far-right prevails," Turkey's EU Affairs Minister Omer Celik

said in one of a series of outraged tweets Thursday—referring to Austria's October redo of a tight presidential race in which the right-wing Freedom Party's candidate now leads.

"Suggesting to halt Turkey's negotiations is not defending EU values," he said in another. "It only pleases far-right in Europe and the coup-plotter terrorists."

Yet Mr. Kern's remarks echo a growing view in Europe that after 11 years of tortuously slow membership talks, the negotiations have become a diplomatic sideshow whose main purpose is to avoid a fight over shutting them down.

Nor is the frustration a one-way street. Turkish offi-



President Recep Tayyip Erdogan spoke in Ankara on Thursday.

cial argue that many EU capitals have long opposed Turkish membership but just wouldn't admit it.

Turkish President Recep Tayyip Erdogan has lashed out at the U.S. and Europe, accusing them of failing to denounce last month's military coup—although the EU said it stood firmly with Turkey's democratic institutions and government. But Western attention quickly turned to Mr. Erdogan's crackdown. The president's suggestion that he may reintroduce the death penalty prompted a warning that membership talks could be suspended.

Yet there are some who believe that removing accession as the fulcrum for diplomatic relations could benefit both sides. While no specifics have been formulated, some within the Brussels machinery are starting to think about how such a relationship could work.

The argument is twofold: It could remove the constant sniping between Brussels and Ankara over every step the EU believes Turkey takes away from European values.

It would also allow officials on both sides to put their full focus on concrete plans of mutual interest. That could mean anything

from deepening Turkey's access to the EU market to an upgrade in energy ties.

"The accession perspective is actually a problem, not only because it's not realistic but because it saps energy for what could truly be a relationship between equals. This is a strategic partner with whom we have some beef...but with whom we also have clear common interests—energy, migration, economic ties," said one senior Brussels insider.

In Europe, though, there are fears pulling the plug on talks would push Mr. Erdogan to scrap a deal with the EU that has helped stem the migrant flow from Turkey. An EU decision to scrap the talks could also push Turkey, a critical member of the North Atlantic Treaty Organization, further from the West as Ankara seeks to mend ties with other neighbors, including Russia.

Mr. Kern wants the talks to be discussed at a meeting of EU leaders in September, yet few believe policy change is imminent. In a German television interview Thursday, European Commission President Jean-Claude Juncker said ending the negotiations would be a "serious foreign-policy mistake."

## American Woman Dies In London Stabbing

By Alexis Flynn

LONDON—U.K. police said there was no evidence that a 19-year-old man who killed an American woman from Florida and injured five other people in a stabbing attack in central London had been radicalized or motivated by terrorism.

The man, a Norwegian of Somali origin, remained in custody Thursday after being arrested on suspicion of murder in the Russell Square attack late Wednesday. Based on interviews with him and his family, police said they believed mental health was the main factor in the assault.

"So far we have found no evidence of radicalization or anything that would suggest the man in our custody was motivated by terrorism," Metropolitan Police Assistant Commissioner Mark Rowley said. "While the investigation is not yet complete, all of the work that we have done so far increasingly points to this tragic incident as having been triggered by mental health issues."

The 64-year-old woman, identified by a Florida State University spokeswoman as Darlene Horton, died at the

scene, police said. Ms. Horton was the wife of a professor from the university and had accompanied him to London, where he taught in Florida State's overseas summer program, the spokeswoman said.

Two other women and three men—U.S., Australian, British and Israeli nationals—were injured. U.S. Ambassador Matthew Barzun called Ms. Horton's death "heartbreaking" in a social-media post.

Mr. Rowley said police believed the stabbing was spontaneous and the victims were chosen at random. The suspect, who wasn't named, hasn't been charged. A spokesman for the Norwegian Ministry of Foreign Affairs said he moved to the U.K. in 2002.

The attack came hours after more police were deployed in the city under measures meant to protect the country from extremist violence. Witnesses described police swarming the scene in the aftermath, and law-enforcement officials said they arrived six minutes after the first report.

London has been the target of a number of terrorist attacks, including the fatal stabbing and attempted decapitation of a soldier in 2013.



A police officer places flowers at the scene of the London attack.

## EU Slaps Tariffs on China, Russia Steel

By Valentina Pop and Laurence Norman

BRUSSELS—The European Union imposed antidumping tariffs on some Chinese and Russian steel imports for the next five years in a fresh effort to protect domestic manufacturers struggling with overcapacity.

The duties, which range from 19.7% to 22.1% for Chinese companies and from

18.7% to 36.1% for Russian producers, apply to so-called cold-rolled steel, a product used in the packaging, automotive, construction sectors. The expected move, announced on Thursday, comes days after the EU imposed tariffs on so-called rebars, steel products used to reinforce concrete.

European manufacturers in recent years have lodged multiple complaints that their Chinese competitors are ex-

porting steel products to Europe at unfairly low prices.

The bloc had provisionally imposed tariffs in February, but the new rates are significantly higher. In a first-time move by the European Commission, the EU's executive arm, they are also backdated to apply retroactively to December, before the provisional tariffs were agreed upon.

The U.S. has also imposed preliminary duties on imports

of cold-rolled steel on seven countries, including China at far higher rates.

Russia could oppose the decision to impose import duties on their steel products, Economy Minister Alexei Ulyukayev said. "We think that the procedure of the antidumping investigation was carried out in an inadequate way and with violations of rights of Russian exporters," Russian news agencies quoted him as saying.

WORLD NEWS

# Islamic State Names Boko Haram Leader

By DREW HINSHAW  
AND GBENGA AKINGBULE

Islamic State said it appointed a new leader for Boko Haram, in a sign that the Nigerian Islamist insurgency is re-tooling under the command of the terrorist group.

Sheik Abu Mossab al Bornawi was recently assigned to take command of the Nigerian insurgency, Islamic State's weekly newsletter Al Naba said Tuesday.

The article didn't say what

happened to Abubakar Shekau, the former face of Boko Haram, who hasn't been seen in videos since early 2015. It also isn't clear if Mr. Shekau's followers support the change in management.

Boko Haram, whose war with Nigeria's government has left more than 30,000 people dead, declared loyalty to Islamic State in 2015. Mr. Bornawi told al Naba that the two groups have decided "to fight and unite under one umbrella." Mr. Bornawi didn't specify

who had assigned him, but the publication's use of the term suggested that Islamic State itself promoted him to lead the Nigerian insurgency, which has lost significant ground over the past 18 months and seen several of its leaders arrested or killed.

The announcement speaks to a new challenge facing Africa's largest democracy: that Islamic State is increasingly backing and supervising Nigeria's homegrown insurgency.

"Infidel forces" have "stripped the group of some territories, which we are working on retrieving," Mr. Bornawi said in the interview.

For months, Nigerian officials have warned that Boko Haram members are slipping into the Sahara, joining Islamic State in Libya, or for meetings in Sudan.

Intelligence reports and officials in neighboring countries have supported that view, and Islamic State's announcements from Libya have referenced several Nigerian fighters. Boko Haram has renamed itself Islamic State West African Province.

"There is no more Boko Haram," a Nigerian counterterrorism official who works with detained terrorists said. "As far



Nigerian security forces patrolled in Bosso, Niger, following deadly Boko Haram attacks in June.



Source: United Nations THE WALL STREET JOURNAL.

as they're concerned, they consider themselves to be ISIS," another term for Islamic State.

In his comments, the new leader seemed to suggest that Mr. Shekau had killed too many Muslims, a significant departure from the doctrine shared by Boko Haram and Islamic State, who both believe that only their supporters are true Muslims.

"I'm not confident over the long-term sustainability of this," said Jacob Zenn, a fellow at the Jamestown Foundation research group in Washington. "I don't think he has support from the Shekau factions."

Mr. Shekau once posted regularly to YouTube, ranting with

a stick hanging out of his mouth, while hurling insults at Queen Elizabeth II and Margaret Thatcher, or threatening to sell the 276 teenage girls he kidnapped from a boarding school in a market, "because they are our slaves." Of those girls, 218 remain missing; the rest escaped.

Mr. Shekau, who the Nigerian army has repeatedly reported dead, only to see him reappear in videos, hasn't been seen since in a video since February 2015. The following month, another video emerged, saying there would be no surrender, but Mr. Shekau wasn't in it.

Since then, Boko Haram vid-

eos in recent months have become slicker, reflecting Islamic State's influence, if not direct involvement. Some of it may be guided from outside Nigeria: A Boko Haram Twitter account was run from Libya and Tunisia, Mr. Zenn said, adding that a second media outfit hyping the group was run by an al Qaeda defector to Islamic State.

In Nigeria, investigators said they have broken up several Islamic State recruitment cells. One was at a university, they said. Another was run by a Sudanese man who frequently received money transfers via Western Union.

—Noam Raydan  
contributed to this article.

## U.N. Cites Mass Rape In South Sudan Conflict

By MATINA STEVIS  
AND NICHOLAS BARIYO

South Sudanese soldiers and opposition rebel fighters raped hundreds of women and girls during fighting in July, the United Nations said on Thursday, as the world's youngest nation teetered on the brink of political collapse and another round of civil war.

The U.N. High Commissioner for Human Rights Zeid Ra'ad Al Hussein said preliminary investigations into the hostilities between the army loyal to President Salva Kiir, an ethnic Dinka, and rebels loyal to ousted vice president and opposition leader Riek Machar, an ethnic Nuer, showed the targeting of civilians based on tribe as well as the use of rape as an instrument of war, predominantly by the army.

"The fighting resulted in widespread sexual violence, including rape and gang rape by soldiers in uniform and men in plain clothes," Mr. Al Hussein said, adding that "according to the information we have gathered so far, those most affected were displaced Nuer women and girls and those responsible seem to have been mostly SPLA [army forces]."

The Associated Press re-

ported that witnesses and aid workers saw mass rapes that occurred outside the gate of a U.N. camp in the capital Juba, with peacekeepers unable to help the women and girls assaulted by the soldiers.

James Dak, a spokesman for Mr. Machar, said many victims had reported to the rebel forces that they had been abused by the army, but he denied rebel fighters had raped or sexually abused anyone.

"We condemn this in the strongest way possible and call on the government to investigate these allegations and bring the perpetrators to justice," Mr. Dak said.

A spokesman for the South Sudanese government didn't immediately respond to calls seeking comment.

South Sudan seceded from Sudan in 2011 and gained independence and control of vast oil reserves in a process guided by the U.S. and other Western powers.

Messrs. Kiir and Machar fought together for their country's independence but later fell out and dragged the country into ethnic violence that pitted their tribes against each other, culminating in civil war in late 2013.

Attempts at a truce have been fragile.

## Cash Sent to Iran Over DOJ Doubts

By DEVLIN BARRETT

WASHINGTON—Senior Justice Department officials balked at sending a plane loaded with cash to Tehran at the same time Iran released four imprisoned Americans, but their objections were overruled by the State Department, according to people familiar with the discussions.

After announcing the release of the Americans in January, President Barack Obama also said the U.S. would pay \$1.7 billion to Iran to settle a failed 1979 arms deal. What wasn't disclosed then was that the first payment would be \$400 million in cash, flown in at the same time, as The Wall Street Journal has reported.

The timing and manner of the payment raised alarms at the Justice Department, according to those familiar with the discussions. "People knew what it was going to look like, and there was concern the Iranians probably did consider it a ransom payment," said one of the people.

The disclosures reignited a furor over the Iran deal in Washington that could complicate White House efforts to fortify it before Mr. Obama's term ends. Three top Republicans who have been feuding in recent weeks—presidential candidate Donald Trump, Sen.



Mr. Obama announcing the lifting of Iranian sanctions in January.

John McCain and House Speaker Paul Ryan—were united in blasting the administration.

Senior U.S. officials denied the payment was anything like a ransom. They disputed that there was a link between the payment and the prisoner exchange, saying there was no quid pro quo.

White House press secretary Josh Earnest accused Republicans of seizing upon the Journal report to revive their campaign against the landmark nuclear deal, which took effect the same weekend as the prisoner release.

The prisoner swap negotiations were led by the State Department, with help from the Central Intelligence Agency

and Federal Bureau of Investigation. The cash settlement talks were handled principally by State Department lawyers. All the work was overseen, and ultimately approved, by the White House.

A Justice Department spokesman said the agency "fully supported the ultimate outcome of the administration's resolution of several issues with Iran," including the settlement of the long-running case at a tribunal in The Hague, "as well as the return of U.S. citizens detained in Iran." The spokesman declined to comment further on what he termed "internal inter-agency deliberations."

A State Department spokesman declined to comment.

Justice Department officials didn't object to the \$1.7 billion settlement, which they viewed as a bargain given decades of inflation and the circumstances of the original deal, these people said. But their concerns show that even within the Obama administration there were worries that the currency airlifted to Tehran could send the wrong signal to others—about U.S. policy when it came to hostages.

The U.S. has a longstanding policy of not paying ransom to hostage-takers. The issue has long been a difficult one for the Justice Department and the FBI, which was criticized last year for providing intelligence assistance to a U.S. family as it tried to buy the freedom of an American aid worker in Pakistan.

As a result, the Obama administration issued new guidance on how to handle international hostage cases. The instructions didn't represent a policy shift, but were largely designed to foster better cooperation and coordination among the agencies involved.

The cash transfer and prisoner exchange coincided with the formal implementation that same weekend of the landmark nuclear agreement reached between Tehran, the U.S. and other global powers.

## India Nears Approval of Tax Overhaul

By RAYMOND ZHONG

NEW DELHI—After more than a year of gridlock, the upper house of India's Parliament approved a contentious overhaul of the convoluted tax system, an important step in Prime Minister Narendra Modi's campaign to modernize Asia's third-biggest economy.

Lawmakers voted Wednesday to replace India's jumble of federal, state and interstate sales taxes with a nationwide goods-and-services tax, or GST. Parliament's lower house, where Mr. Modi's Bharatiya Janata Party and its allies have a large majority, is expected to pass the measure, a constitutional amendment, without difficulty.

India is a notoriously cumbersome place to do business. In the World Bank's latest survey of the ease of paying taxes in 189 economies, it ranked 157th. Shifting to a GST would help ease the burdens of double taxation and other distortions caused by the current system. The move, which India's government first proposed a decade ago, would also lower barriers to interstate commerce. Some have compared it to the abolition of customs duties within the European Union.

Krish Iyer, president and

chief executive of Wal-Mart Stores Inc. in India, called the GST "a win-win legislative reform for all"—one that will make supply chains more efficient for retailers and, over time, help bring down prices for consumers.

The new tax system "would convert India into one uniform market" and give a boost to the economy, Finance Minister Arun Jaitley said.

The size of that boost may be limited, however, by some features of the tax introduced to secure political support. Alcoholic beverages, petroleum products, real estate and other items will continue to be taxed

separately. That means an airline, for instance, won't be able to get refunded for the tax it pays on fuel and may charge higher fares as a result.

The degree to which the GST system makes life simpler for companies also depends on details in the law that will implement it. That legislation, currently being drafted, will need Parliament's signoff after the constitutional change is approved by at least half of India's 29 state legislatures.

Further partisan deadlock can't be ruled out. P. Chidambaram, a lawmaker in the opposition Congress party and a former finance minister, de-

manded Wednesday that the GST law cap the rate on most products at 18% to prevent "creeping taxation."

The Modi administration didn't accept Congress's calls to enshrine the rate ceiling in the constitution—one reason the amendment had been held up in Parliament for so long.

For businesses, one source of potential complexity in India's GST is that the federal and state governments will jointly administer it.

In industries, such as gold and precious metals, that have long been taxed primarily by states, an extra layer of scrutiny could reduce evasion.

It could also burden companies with extra paperwork and audits. They will have to register and file separate tax returns in each state in which they do business.

Additional provisions will govern sales that cross state lines. In the latest draft of the GST law, even interstate transfers of goods or services between two branches of the same company are taxable, according to Satya Poddar, a tax specialist at EY.

Some of these quirks could be ironed out before the GST law is voted on by India's national and state legislatures. Others may arise only after the new system goes into effect.

## Israel Says Worker at Charity Aided Hamas

By RORY JONES

TEL AVIV—Israel said it arrested an employee of international Christian charity World Vision for allegedly siphoning off tens of millions of dollars in aid destined for projects in the Gaza Strip and giving it to Islamist movement Hamas.

Prosecutors on Thursday charged Mohammed El-Halabi, director of the Gaza branch of World Vision, with funding Hamas with up to \$7.2 million a year over more than five years. He was detained June 15 at a crossing into the Palestinian enclave.

A lawyer for Mr. Halabi couldn't be reached to comment.

World Vision said it was "shocked" to learn of the charges and, based on available information, had no reason to believe the allegations were true.

"World Vision programs in Gaza have been subject to regular internal and independent audits, independent evaluations, and a broad range of internal controls aimed at ensuring that assets reach their intended beneficiaries and are used in compliance with applicable laws and donor requirements," the group said. "We

continue to call for a fair legal process."

The Christian aid organization said it would review evidence presented by Israeli authorities.

According to an investigation by Israel's internal security service, Hamas dispatched Mr. Halabi in 2005 to infiltrate World Vision after he had received military training from the Islamist group.

Israeli officials alleged that he later used his position as head of World Vision in Gaza to transfer funds from humanitarian projects to Hamas, which the authorities alleged used the money to buy weapons, help finance the construction of attack tunnels into Israel and build military bases for its armed wing. Mr. Halabi confessed to these acts, they said.

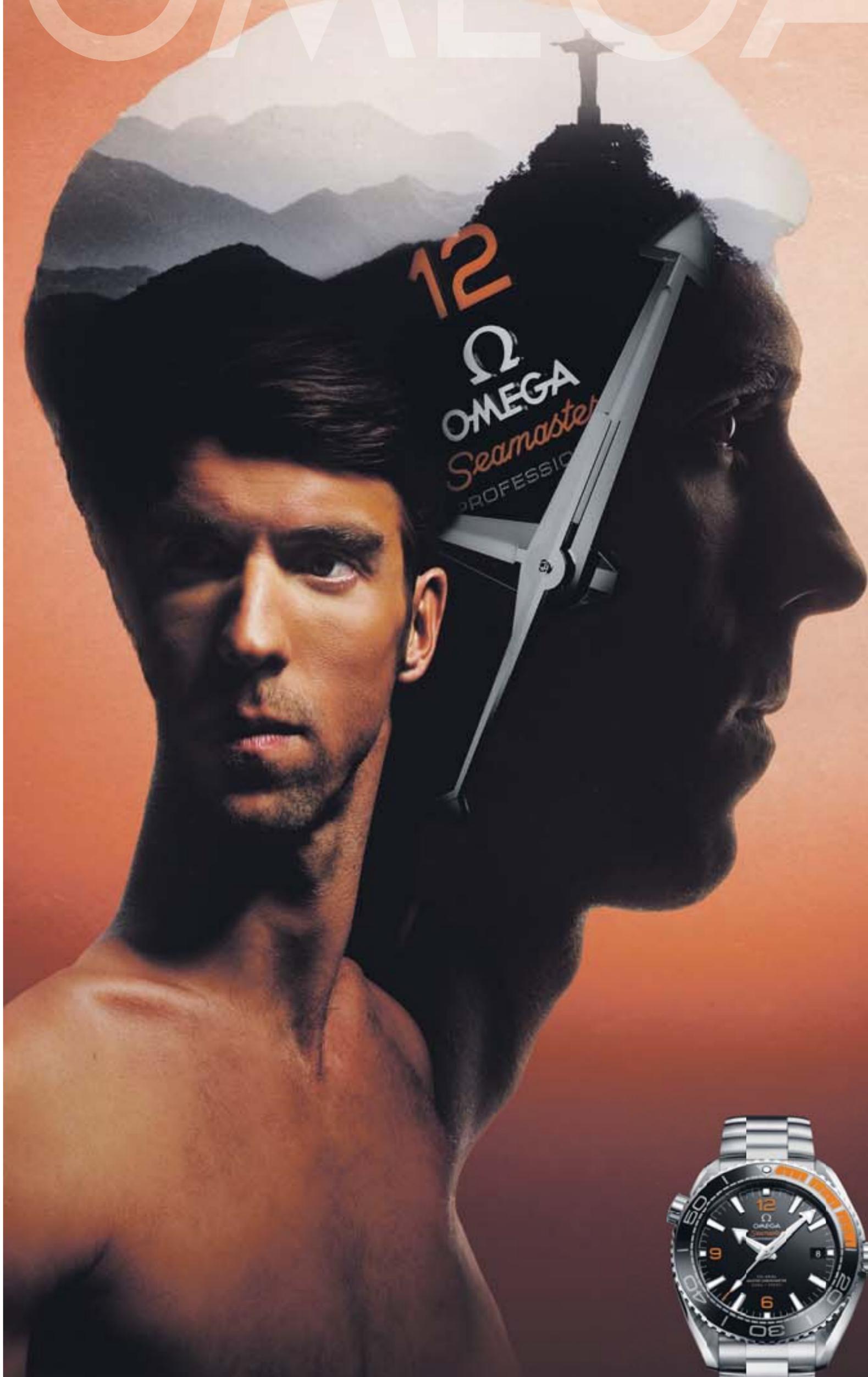
Hamas spokesman Hazem Qasem wouldn't comment on the details of Israel's accusations or whether Mr. Halabi had been working for the militant group, which is designated as a terror organization by Israel, the U.S. and the European Union. "Israel is trying to make fake media wins," he said.

—Abu Bakr Bashir  
in Gaza City  
contributed to this article.



A shop in Delhi this week. India is overhauling its tax system.

# OMEGA



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WORLD NEWS

# Rio Projects Help Boost Wealthy Enclave

## Critics say Olympics region has gained undue benefit from recent development

By PAUL KIERNAN

RIO DE JANEIRO—On the west side of this city, luxury condos tower above a maze of shopping centers, real-estate offices and car dealerships. Workers dart across 12-lane highways. Once-pristine lagoons are colored an unnaturally bright shade of green by bacteria feeding on human waste.

Authorities and private developers have poured billions of dollars into this borough—Barra da Tijuca, the nerve center of the 2016 Rio Olympics—with new transportation projects, hotels, a residential complex for athletes and a vast Olympic Park where nearly half the sports will be played.

Such improvements join the other beacons of consumer culture that have attracted middle-class families weary of the cramped, run-down feel of the city's older neighborhoods.

But breakneck development has brought problems similar to those that residents were fleeing, including horrendous traffic and untreated sewage in what was supposed to be a new model for urban living.

And while Olympics-inspired mobility projects will

leave lasting benefits, critics complain that politically connected developers received favorable treatment from the city in the awarding of many contracts, while urban planners question the decision to pour so much money into an area of the city that is already wealthy.

"You basically have public subsidies for gentrification projects," said Christopher Gaffney, a senior research fellow at the University of Zurich who has been studying the impact of mega-events on Rio since 2003.

Olympic facilities built with taxpayer-subsidized loans are set to be transformed after the Games into private luxury developments worth billions to their owners.

Many of the development deals are public-private partnerships that city leaders have touted as a way to reduce the Olympics' impact on public coffers.

All told, Barra will get around half of the roughly \$12 billion that Brazil is spending to prepare for the Games.

Critics say a deal to build the 2.66-billion-real (\$820-million) Olympic Park—a 118-acre tract of formerly public land containing venues for basketball, gymnastics and other sports—typifies their concerns.

The original tender called for permanent sports facilities to be located near the edge of



A boy sat by a lake in Barra da Tijuca, opposite high-rise condominiums, in Rio de Janeiro, in July.

Barra da Tijuca, the nerve center of the 2016 Rio Olympics—with new transportation projects, hotels, a residential complex for athletes and a vast Olympic Park where nearly half the sports will be played.

Other Olympic promises in the area, such as a plan to clean up Barra's fetid waterways, haven't materialized.

Carlos Fernando de Carvalho, a 92-year-old billionaire who heads Carvalho Hosken and has made his fortune investing in Barra real estate, has boasted that the Games will bring three decades of advancement to the neighborhood in five years.

His company is a partner in both the Olympic Park and Athletes' Village, a complex of 31 high-rise condominiums financed with 2.33 billion reais in subsidized loans that will become a luxury housing development named Ilha Pura, or Pure Island, after the Games.

Mr. Carvalho offered up the land for the Athletes' Village when Rio was putting together its bid for the Olympics.

"I'm convinced that if he hadn't done that, Rio wouldn't have won," Carvalho Hosken's marketing director, Henrique Caban, said in a 2014 interview.

The decision was motivated by Mr. Carvalho's belief that the Olympics would bring more infrastructure to Barra, he said.

a lagoon. Two days after the city awarded the contract to real-estate developer Carvalho Hosken and its partners, construction giants Odebrecht SA and Andrade Gutierrez SA, in 2012, the city changed the layout of the park, giving more room by the lake for the companies to develop their own real-estate projects.

"These revisions...are driven by efforts to maximize the land values and future development opportunities," the International Olympic Committee said in a 2012 report on

Rio's preparations for the Games that was reviewed by The Wall Street Journal. The report didn't pass judgment on the revisions.

In a statement given to local media earlier this year, the city said the layout changes were legal and were aimed at saving public money and enhancing Rio's Olympic legacy. Rio's city hall didn't respond to requests to comment for this article.

A spokeswoman for the three-company consortium said the group met the con-

tractual obligations established by the city, and declined further comment.

Carvalho Hosken was a major contributor to Rio Mayor Eduardo Paes's 2012 re-election, donating 650,000 reais to his campaign.

The Olympic Park will become a mixed-use subdivision after the Games.

Some of the sports venues subsequently will be dismantled; others will remain to be used for future events and training.

Some of the city's Olympics

# Senate Panel Recommends Conviction for Rousseff

By PAULO TREVISANI

BRASÍLIA—A Senate committee voted 14-5 on Thursday to recommend a conviction in suspended President Dilma Rousseff's impeachment trial and that she then be permanently ousted.

The case now goes to the full Senate, which over the coming weeks will hold its own

hearings and Ms. Rousseff will have a chance to defend herself in person. She is accused of using illegal accounting maneuvers to mask a widening budget gap, something she denies.

Ms. Rousseff was temporarily removed from office in May when the Senate agreed to open a trial, after the initial phase of the process in the

lower chamber. She was replaced by her former ally-turned-foe, Vice President Michel Temer.

The case against Ms. Rousseff has broadened the divisions in Brazil's politics, as a once-popular president fell from grace while the country grappled with a deep recession, a sprawling corruption scandal and a dysfunctional political

system.

Ms. Rousseff "will be ousted because of the very serious crimes she committed," said Sen. Cássio Cunha Lima, from the Brazilian Social Democracy Party, a rival to Ms. Rousseff's Workers' Party.

But Sen. Katia Abreu, from the Brazilian Democratic Movement Party, who served as Ms. Rousseff's agriculture

minister, called her "an honest and worthy woman."

"The Brazilian parties are the real problem," she said. If the system doesn't change, "we will have many more impeachments."

Sen. Lindbergh Farias, a fierce Rousseff supporter and member of her party, attacked the process against her. "It is a coup by the Brazilian elite

against the working class," he said.

The impeachment process is continuing even as the country hosts the Summer Olympics, which Ms. Rousseff and her predecessor and political mentor, Luiz Inácio Lula da Silva fought hard to bring to Brazil.

A final decision by the Senate is expected in several weeks.

# Brazil Gives Wary Welcome to Games

RIO DE JANEIRO—When their country was awarded the 2016 Summer Olympic Games seven years ago, Brazilians hugged each other and wept in the streets.

By Reed Johnson, Luciana Magalhaes and Patricia Kowmann

President Luiz Inácio Lula da Silva, whose popularity then was cresting on a wave of national prosperity, declared that Brazil would "show the world we can be a great country."

But as the Games open here Friday night, Brazil's outlook has shifted radically. The country's economy is mired in a deep downturn. Its suspended President Dilma Rousseff is slogging through an impeachment trial.

Add concerns about the Zika virus and a potential terrorist attack, and many here are praying that Brazil makes it through the next two weeks without some dire incident.

"Everyone is terrified of the Olympics," said Eliane Cantanhêde, a newspaper and TV commentator who describes the national mood as one of "fear and affliction."

Tourists in popular beachfront neighborhoods like Copacabana and Ipanema might



Soldiers standing guard on Copacabana beach on Thursday.

not notice anything amiss. Colorful banners greet drivers cruising through Botafogo.

But public opinion polls indicate that majorities of Brazilians are pessimistic about both the Games and their country's future. A recent survey by the IBOPE agency showed that 60% of respondents think the Olympics will hurt Brazil more than help it.

Other polls reveal dissatisfaction with the country's political and economic direction.

Rogério Luiz Rodrigues da Silva, 34 years old, a Rio taxi driver, is one of several Brazilians who say their country has fallen far during the past seven years.

Even though the Olympics has helped his own business,

and he is looking forward to the athletic contests, Mr. da Silva said the Games are merely papering over crises. Finances in Rio de Janeiro state are so dire that officials recently declared a "state of calamity."

"We are selling an illusion of prosperity to the tourists who come," Mr. da Silva said.

Not everyone shares this downbeat view. Some authorities and businessmen are promoting the bullish outlook that, after hitting bottom with 3.8% GDP contraction last year, Brazil has nowhere to go but up.

Helio Magalhaes, head of Citigroup's Brazil operations, believes the Games will yield substantial long-term benefits

for Rio and Brazil. He points to the tourist-friendly makeover of Rio's formerly crime-ridden port district as an example of improvements that wouldn't have happened if not for the Games.

Still, the massive public funds lavished on the 2014 World Cup and Rio Olympics infrastructure projects have stoked anger and resentment among some Brazilians. They say the resources would have been better spent on education, health care and social programs. While some 85,000 federal police and troops have been deployed to safeguard the Olympics venues and visitors, violence continues unabated in Rio's favelas.

Even as many Brazilians second-guess their big party, some express wary hopefulness in the next breath.

Carlos "Cacá" Diegues, one of Brazil's most respected film makers, wrote in an email that Brazilians, contrary to their carefree popular image, actually are a melancholy people conditioned by hundreds of years of suffering under Portuguese colonial rule and violent internal upheavals.

Still, he believes that the Olympic Games will be a success.

"Because, after all," he wrote, "we like to give parties and know how to party."

## World Watch

EGYPT

### Military Says It Killed Militant Leader, Aides

Egypt's military said it killed the leader of the country's Islamic State affiliate and a number of his top aides, in what would be a significant blow to the militancy after a yearlong war against the government.

An army spokesman identified the leader as Abu Doaa al-Ansary and said he was killed in raids on the city of al-Arish, located near the border with the Gaza Strip.

An unspecified number of his aides were among 45 other militants killed in the raids, which also targeted ammunition depots in the city, the spokesman said.

Islamic State didn't immediately comment.

—Dahlia Kholailf

MALAYSIA

### Official Questions Flight 370 Theory

The pilot of missing Malaysia Airlines Flight 370 had plotted a flight path into the Indian Ocean, but it is only one of thousands of routes on his home simulator and doesn't confirm he crashed the plane, Transport Minister Liow Tiong Lai said.

The comment marks the first confirmation by Malaysia that the pilot's flight simulator included a course over the southern Indian Ocean, where Flight 370 is believed to have flown after inexplicable turns that took it

thousands of miles off course.

Malaysia's national police chief and transport minister have previously declined to confirm a July report in New York magazine that said pilot Zaharie Ahmad Shah conducted a simulated flight over the southern Indian Ocean shortly before the plane vanished on March 8, 2014. The report cited findings of a Malaysian police investigation, with assistance from the Federal Bureau of Investigation, into Mr. Zaharie.

—Yantoultra Ngui and Gaurav Raghuvanshi

CHINA

### Court Sentences Lawyer to 7 Years

A court sentenced a lawyer whose firm is known for taking on politically sensitive cases to seven years in prison.

The lawyer, Zhou Shifeng, was part of a government sweep a year ago in which roughly two dozen lawyers and activists were arrested and more than 300 others briefly detained or interrogated.

Appearing in court on Thursday in the city of Tianjin, Mr. Zhou was the first lawyer among those arrested to face trial. He was sentenced to seven years after he pleaded guilty to subverting state power, the official Xinhua News Agency reported.

Prosecutors accused Mr. Zhou of offenses that included seeking out sensitive cases for publicity, using activists to organize protests that attacked the legal system, and "luring people who didn't know better into seeing the state as an enemy," according to a court transcript of the trial posted online.

Mr. Zhou or his lawyer couldn't be reached for comment.

—Josh Chin

# China Targets South Korea Pop Stars

Seoul's decision to deploy a U.S. missile-defense system over Beijing's objections has put one of its biggest assets in the crosshairs: the young stars of K-pop.

In recent days, the Chinese government has quietly blocked some of South Korea's up-and-coming actors and singers from attending promotional events in China, where their popularity has been growing.

Share prices of South Korea's talent agencies have plummeted. Tears have been shed by forlorn fans in China.

The dustup over celebrities belies the high stakes following South Korea's announcement last month that it would

deploy the advanced U.S. missile-defense system, known as Terminal High-Altitude Area Defense.

South Korea and the U.S. say the system is aimed at countering the growing military threat from North Korea. China and Russia have opposed the deployment, arguing that it undermines their security.

Within hours of Seoul's announcement, China warned of repercussions against South Korea, which relies heavily on trade with China.

According to people familiar with the matter, China's media regulator is targeting Korean stars and content in retaliation for the deployment.

So far, the order has circulated only among government bodies and branches, these people said.

South Korea's pop culture, known as K-pop, is among its highest-profile exports, with a large fan base across Asia, especially in China.

Tickets for concerts by Korean boy bands, from YG Entertainment's Big Bang to SM Entertainment's EXO, quickly sell out in China. TV variety shows based on the Korean format are among the highest rated in China.

On Saturday, two of South Korea's hottest soap-opera stars, Kim Woo-bin and Bae Suzy, will miss a fan meeting in Beijing. The next day, pop-

ular Korean actor Lee Joon-gi is also likely to be conspicuously absent from the Chinese premiere of his romantic film, "Never Said Goodbye."

The reason, in both cases: Chinese regulators, who have either delayed visa-application approvals or pushed organizers to scrap their events, according to people in the entertainment industry.

China's Ministry of Foreign Affairs and its top media regulator, the State Administration of Press, Publication, Radio, Film and Television, didn't respond to requests to comment.

—Lilian Lin in Beijing and Jonathan Cheng and Min Sun Lee in Seoul



TROUBLE IN STORES: Firefighters on Thursday battled a blaze at a shopping mall in Kabul, Afghanistan, that left one man dead.

SPORTS

# Russians Vow to Medal—If Allowed to Compete

As Games arrive, scores of nation's athletes awaited clearance to participate

By ANTON TROIANOVSKI

Russia's pursuit track cycling team landed in Rio de Janeiro on July 31 unsure whether it would be allowed to compete. On Wednesday, the men were still waiting.

"This does, of course, have a psychological impact on all the athletes," said Yana Panfilovich, spokeswoman for the Russian cycling federation, on Wednesday. "It's an unprecedented situation."

Many Russian athletes in various sports were still in limbo for much of this week. Alexander Zhukov, president of Russia's Olympic Committee, said Thursday that 271 Russian athletes were admitted—about 70% of the 387 names Russia entered for competition. A final ruling on Russian athletes' eligibility was expected late Thursday.

But behind the cloud of one of sports history's biggest scandals, Russia is in fact fielding an Olympic team. It's about a third smaller, and less star-studded, than it was meant



Rhythmic gymnast Yana Kudryavtseva, above in June, is one of the top medal contenders for Russia's depleted team in Rio.

leged a vast state-sponsored doping program run by Russian sports officials, prompting calls on the International Olympic Committee to ban Russia's entire delegation. The committee resisted a full ban, but laid out stringent criteria for Russian athletes to be approved—including blocking anyone who had ever served a doping suspension in the past and requiring international sports federations to individually review each athlete's application.

Russian athletes have scrambled to win approval. While the fencing, gymnastics and volleyball teams, among others, got a green light, some others were still awaiting a final verdict.

Those who have won approval to compete are under a microscope. Lebzyak, the boxing coach, says that doping officials have visited his athletes at 6 a.m. at least four times in Rio in recent days to collect samples.

Under a different kind of glare is long jumper Darya Klishina, who trains in the U.S. and is the only Russian to get an exemption to the blanket ban on track and field athletes.

"I would be happier if all of us had been admitted," Klishina said last month after drawing criticism from some Russian fans for lacking solidarity by having won an exemption. "I'm currently under pressure and heightened attention that is not always positive."

to be before being derailed by wide-ranging doping probes.

But from boxing to volleyball, some big names have been cleared to compete, setting up one of the biggest riddles of Rio's Summer Games: Can the Russians still win?

"Every single Russian victory, and every judging error, will be seen in the political context," said Oleg Shamonaev, an editor for popular Russian sports website Sport Express. "Everything will depend on

how tired we are of these endless doping fights."

Shamonaev's staff predicts Russia will grab 11 to 17 gold medals and 35 to 57 overall, down from the 24 gold medals and 82 overall that the country won in 2012 in London. Still, if the high end of that prediction proves true, Russia could slip only a notch or two from the fourth-place showing it had in London.

Russian athletes and officials insist they will fight hard—in part as

retribution for what many of them characterize as a Western conspiracy to use doping claims to push the country out of the Olympics.

"These were foreign officials who didn't want Russia to participate," national boxing coach Alexander Lebzyak said. "This is a political situation. It's connected to all the things now happening around Ukraine and Syria."

A report by the World Anti-Doping Agency released last month al-

## The Man Behind The Rise and Fall

By LAURA MILLS

Moscow

At the last edition of the Olympics—the Sochi Winter Games in 2014—Russian President Vladimir Putin and Sports Minister Vitaly Mutko were pictured smiling at events from the skating rink to the cross-country skiing trail as Russia blasted to the top of the medals table.

Neither will be at the Rio opening ceremony Friday after an investigation that alleged state-coordinated doping led international sports organizations to exclude from the Olympics Russia's entire track-and-field team apart from one athlete, as well as over a dozen more in other sports.

It is a remarkable fall for the sports powerhouse, which Mutko led in a revival that mirrored the Kremlin's narrative of resurgence under Putin. He transformed a struggling soccer club in the country's second city, won the rights to stage soccer's World Cup in 2018 and boosted Russia's Winter Olympics team from sixth to first in the medals table in Sochi two years ago.

The investigation, for the World Anti-Doping Agency, questions the foundations of that success. Russian officials, including Putin and Mutko, have denied the allegations and presented the scandal as an attack on Russia.

"We very much regret that, in preparing the report, experts didn't take the trouble to question those they are accusing, to check facts that they consider checked," Mutko said last month. He said that Russian sport had worked hard to combat doping and that punishment should be meted out to individuals found guilty of violations, rather than to whole groups of athletes.

Mutko, who has known Putin since the early 1990s, has said he is prepared to leave his post. But there is little sign that Putin, who rarely purges top lieutenants, is ready to cast aside his ally.

Mutko was heavily criticized in the press after Russia

put in one of its worst performances since the collapse of the Soviet Union at the Vancouver Olympics in 2010, ranking only sixth in the medal count and 11th in gold medals.

But Mutko kept his job, and in December that year, Russia won the right to host soccer's World Cup in 2018. That victory was tainted by accusations of corruption during the bidding process: Investigators from soccer's world governing body, FIFA, said Russia was unable to turn over most of the documents related to its bid because it had returned the computers it leased for the bidding process, which were then destroyed.

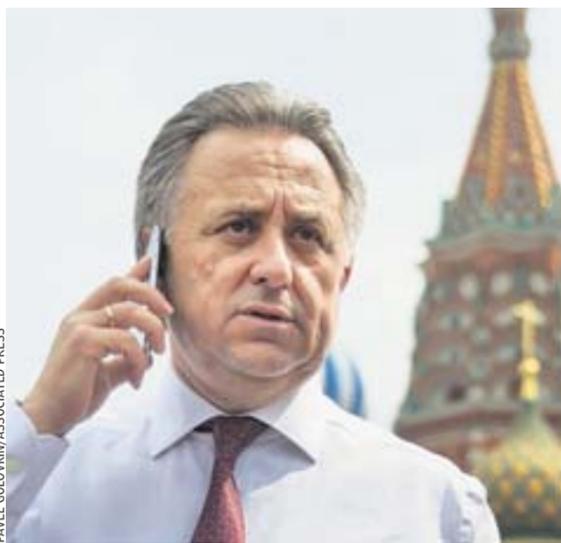
The FIFA investigation was inconclusive, and Mutko has responded by saying there was "no criminality" involved in Russia's 2018 bid.

His signature achievement came at the Sochi Games, where Russia won 13 golds and 33 total medals. Mutko was the face of Russian sport at its zenith: A week after the Olympics, Putin praised him in a television interview for making "a significant contribution to our athletic achievements."

But the World Anti-Doping Agency report, released last month, alleges that success in Sochi was achieved in part due to widespread doping. The investigation found that Mutko's sports ministry played a key part in covering up positive tests, though Mutko hasn't been named by any investigators as a perpetrator, Kremlin spokesman Dmitry Peskov said, according to Interfax news agency. Mutko has denied that the ministry was involved in doping.

Top officials and state television have focused their ire on what they call a targeted campaign against Russia, rather than calling for heads to roll.

"The current situation has gone beyond not only beyond the law, but beyond common sense," Putin said on July 27. "This is a directed campaign, the target of which is our athletes."



Russian Sports Minister Vitaly Mutko in Moscow in July.

The dreaming.  
The training.  
The waiting.  
The hoping.

The best of luck Team GB.  
It's time to harness the **#EnergyWithin.**

Jessica Ennis-Hill  
Heptathlete

Lizzie Armitstead  
Cyclist

Competing at the Olympic Games is a feeling most of us will never experience. But for Team GB it's about to become a reality. Years of hard work have led them here – and now, in the heat of Rio, they'll be digging deeper than ever before to harness the energy within. We're proud to have sponsored the British Olympic Association since 2008 and, along with the rest of the country, we wish them the very best of luck, or *boa sorte* as they say in Brazil.

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FROM PAGE ONE

ANALYST

Continued from Page One

Analysts at three research firms cut their sales estimates by an average of about \$1 billion in the week before AT&T issued first-quarter numbers. William Blair & Co. analysts cited Mr. Stephens's comments. The average estimate of all 22 firms following AT&T fell \$323 million in three weeks, according to FactSet.

AT&T wound up reporting \$40.54 billion in quarterly revenue, beating the lowered target by \$76 million.

Quarter after quarter, about 75% of companies in the S&P 500 index meet or exceed analysts' earnings forecasts, a statistic that has held up in good times and bad. One reason for such consistently impressive results is that some companies quietly nudge analysts' numbers, almost always lower.

A federal rule bars companies from selectively disclosing material nonpublic information but doesn't prohibit private conversations in which companies can gently push analysts in helpful directions, as AT&T did. "We understand the rules, and we follow them diligently," says Mike Viola, senior vice president of investor relations at AT&T, based in Dallas.

Some analysts, investor-relations officials, securities lawyers and executives say the signals have become so commonplace that the all-important question of whether a company beat estimates is more about theatrics than reality.

Companies send the signals to make themselves look better—and boost their stock prices—even though their fundamentals haven't changed at all. And the signals often go to just a small number of analysts, giving them and their investing clients a potentially unfair advantage.

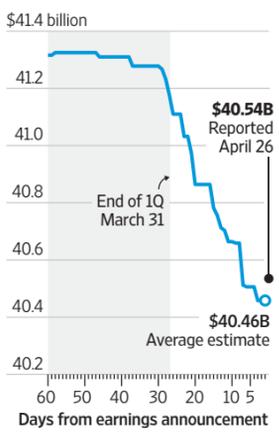
Media mogul Barry Diller, chairman of Expedia Inc. and IAC/InterActiveCorp, says analysts and investor-relations executives work together to keep estimates low. "It is a rigged race," he says, adding that the problem exists even at those two publicly traded companies.

An analysis by The Wall Street Journal found that earnings estimates often decline steadily after the end of a quarter. That can turn what might have been an embarrassing "miss" for the com-

Surprise

AT&T beat analysts' revenue target after nudging some to lower estimates.

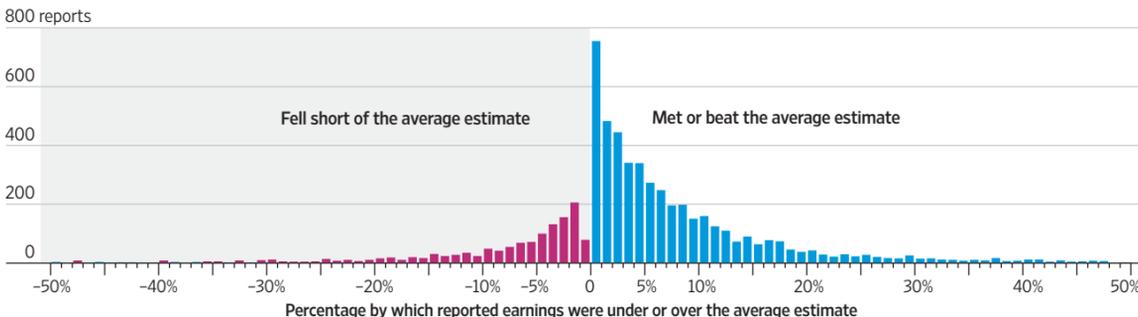
Average estimate and final earnings report, 1Q 2016



Source: FactSet  
THE WALL STREET JOURNAL.

Managing Expectations

Number of quarterly reports in which S&P 500 companies missed, met or exceeded earnings estimates. Few companies just missed estimates, while many companies met or barely beat them.



Note: Includes 6,076 earnings reports by current S&P 500 companies from the first quarter of 2013 through the first quarter of 2016. Excludes reports where companies beat or missed estimates by more than 50%. Source: FactSet

THE WALL STREET JOURNAL.

pany into a positive surprise.

The Journal examined daily changes in analysts' estimates at S&P 500 companies since the start of 2013, comparing the estimates with what the companies ultimately reported for each period.

Nearly 2,000 times from the start of 2013 through this year's first quarter, companies would have missed the average earnings estimate if analysts hadn't changed their numbers in the 40 trading days before the company's quarterly earnings report.

In about one-fourth of the instances where companies would have missed the average earnings estimate, the average projection fell enough that the company wound up meeting or beating analysts' expectations instead, the Journal's analysis shows. The 40 trading days cover the period from when companies typically have a good sense of the quarter's performance to the day before earnings are announced.

Lowered earnings forecasts helped 66 firms, including Citigroup Inc., Coca-Cola Co. and Viacom Inc., meet or beat earnings expectations during at least three of 13 quarters examined by the Journal. CBS Corp., U.S. Bancorp and seven other companies met or beat reduced estimates in about half the quarters.

Viacom says its analyst interactions are consistent with industry practice. Citigroup says it provides financial updates at conferences between earnings releases. Coca-Cola, CBS and U.S. Bancorp wouldn't comment.

The opposite almost never happens. Companies wound up missing earnings estimates just 1% of the time after being on track to beat them 40 trading days earlier, the Journal's analysis shows. The stakes are high. In the past five years, the share price of companies in the S&P 500 that fell short of analysts' average earnings estimate dropped 2.2% on average in the two days before and after reporting quarterly results, according to FactSet.

Companies have different ways of coaxing analysts to shrink their estimates. Investor-relations officials sometimes point out to analysts where their estimates are in relation to other analysts.

Analysts whose forecasts are far from what companies end up reporting risk losing credibility with clients and could get less access to company management. Those are reasons to listen if a company calls with a suggestion, according to analysts. "Companies have called to



An AT&T store in New York. Before announcing earnings in April, the company's investor-relations employees encouraged analysts to look at an executive's comments that suggested revenue may be hurt.

ask if I was aware of their guidance and incorporated it into my models," says Jeffrey Harte, a banking analyst at Sandler O'Neill + Partners LP in Chicago.

Roger Freeman, who left the stock-research industry in 2014 and now works at a technology startup, says: "If someone is trying to get your numbers down, they will highlight all the negatives and not positives, and you'll come away thinking, 'Gee, that sounds pretty bad,' and sometimes take your numbers down."

The Securities and Exchange Commission says companies may privately comment on analysts' financial models as long as the companies are correcting historical facts in the public domain or sharing "seemingly inconsequential data," even if analysts use the information to draw significant conclusions.

The SEC says companies shouldn't use private discussions to selectively communicate material nonpublic information "either expressly or in code." A federal rule called Regulation Fair Disclosure was adopted in 2000 to stop companies from leaking earnings forecasts to selected analysts, who passed along market-moving information to their clients.

In 2010, Office Depot Inc. paid \$1 million to settle SEC allegations that the retailer had selectively informed analysts that it wouldn't meet their forecasts by talking down analysts' expectations in one-on-one phone conversations.

The company's shares tumbled after it began contacting the analysts, and Office Depot ended up publicly disclosing a profit warning in a regulatory filing.

The SEC said Office Depot didn't regularly make such calls to analysts. The company didn't admit or deny wrongdoing as part of the settlement.

The modern landscape of

earnings announcements and consensus estimates was created in the 1970s when federal regulators began requiring companies to issue quarterly financial reports. In 1976, a unit of brokerage firm Lynch, Jones & Ryan began collecting analysts' earnings estimates and tallying "surprises," or results that beat or missed expectations.

At least six firms now collect and disseminate estimates that often include earnings per share, sales, profit margins and cash flow. Investors usually focus much of their attention on revenue and profit estimates.

Near the end of each quarter, an elaborate dance occurs between analysts and companies. The companies want to avoid missing expectations, and analysts are striving to come up with the most accurate numbers.

Companies have different ways of coaxing analysts to shrink estimates.

Some companies refuse to have any contact with analysts. Matthew Stroud, who used to run investor relations at Darden Restaurants Inc., says he wouldn't answer calls from analysts before it reported results. He tells companies he does consulting work with now to do the same.

Analysts "may pry and probe, and there's the chance you could inadvertently give someone a sense of tone around earnings," says Mr. Stroud, now at Arbor Advisory Group LLC, an investor-relations consulting firm.

Johnson & Johnson doesn't field calls from analysts between quarter end and its earnings release, though investor-relations personnel will

occasionally answer "fact-based questions" sent by email, the company says.

Near the end of the first quarter, AT&T steered analysts back to Mr. Stephens's comments at a Deutsche Bank AG conference on March 9, say five analysts who spoke to the telecom company.

AT&T's finance chief said last year's fourth quarter included "a slowdown in the handset upgrade cycle." He added that he "wouldn't be surprised to see that continue."

Jeffrey Kvaal of Nomura Securities says AT&T's investor-relations team "is very diligent" before earnings releases "about making sure that the comments from the executives are reflected in the commentary from the sell side."

A week before the announcement, Mr. Kvaal cut his first-quarter sales estimate by \$837 million to \$40.54 billion, citing lower equipment sales. Two days before the results, the William Blair analysts cut their sales estimate by about \$1 billion. With one day to go, Buckingham Research Group reduced its sales estimate by more than \$1.1 billion, also noting the slower pace of upgrades.

Analyst James Breen of William Blair says he talks to investor-relations personnel at AT&T "all the time." He adjusted his forecast because the previous estimate hadn't taken into account the comments from AT&T's management at several investor conferences. Mr. Breen says he also didn't want to be an outlier compared with other analysts who follow AT&T.

Mr. Viola, AT&T's investor-relations chief, says "companies can and do talk with analysts about their latest, publicly available information. That's the job of investor relations, and it benefits the investing public." He adds: "Analysts change

their estimates for many reasons, and do so throughout the quarter." About half the changes in the first quarter were made a week or less before the April 26 earnings announcement.

AT&T says it falls short of analyst estimates about as often as it meets or beats them when looking at five commonly followed financial measurements. In the second quarter, AT&T narrowly missed analysts' revenue projections.

According to data from FactSet, AT&T met or beat the average earnings target in 10 of the last 13 quarters and missed by a penny per share three times.

CBS has surpassed the average earnings estimate in 19 of the past 20 quarters. Several analysts who follow CBS say its investor-relations staff regularly contacts them to discuss their financial models. A CBS spokeswoman wouldn't comment.

This spring, many analysts were struggling to figure out how Goldman would fare amid the first quarter's market turbulence. From mid-March to mid-April, 16 analysts cut their earnings estimates by an average of 41%.

When Goldman released results April 19, it had \$2.68 a share in earnings, more than 10% higher than the lowered target. The stock rose 2.3%.

Around the end of the first quarter, the bank's investor-relations staff answered calls from analysts, many of whom routinely check in with the firm when updating their financial models and targets.

Some conversations included discussions about comments from rival executives at investor conferences during the first quarter, some analysts say.

Michael DuVally, a Goldman spokesman, says the discussions were appropriate, partly because analysts "are overloaded with data." He adds: "Serving as a resource for public information is a sensible market practice."

Some analysts who called Citigroup's investor-relations department near the end of the second quarter say they were referred to comments made by Chief Executive Michael Corbat at a June 2 investor conference.

Mr. Corbat had said the bank's second-quarter profits were likely to be "roughly flat" compared with the first quarter, when Citigroup earned \$1.10 a share. In late June, the average earnings estimate for the second quarter was \$1.18 a share. The number drifted to \$1.10 a share by July 14, the day before Citigroup announced results.

After the quarter ended June 30, analysts also trimmed their revenue estimates for Citigroup by \$237 million to \$17.52 billion.

Citigroup spokesman Mark Costiglio says investor-relations personnel didn't provide any updates to Mr. Corbat's comment. Any discussions with analysts "rely entirely on public disclosures the company has made as of those dates," Mr. Costiglio adds.

On July 15, Citigroup reported second-quarter profit of \$1.24 a share, nearly 13% higher than the average estimate. The bank's revenue of \$17.55 billion topped analysts' latest target by about \$31 million.

Citigroup executives said the bank's performance was better than Mr. Corbat anticipated because of improved market conditions and a pickup in trading activity near the Brexit referendum on June 23.

PARKS

Continued from Page One

Those who escaped urban centers for America's wide-open spaces now find themselves in longer-than-usual traffic jams, packed shuttle buses and epic bathroom lines. On the busiest days, the Grand Canyon alone is going through a mile of toilet paper a day, per stall, in some of its restrooms.

Overflow campers at Yosemite are pitching tents anywhere they can, including off a state highway outside the park. At Yellowstone, hundreds cram together around Old Faithful waiting for the geyser—or tempers—to erupt. Visitors are "trying to see, not being able to see, getting upset," said one park employee in an internal report on crowding. "It's like an explosion of visitors."

Officials at the Grand Canyon, where visits are up from last year's record 5.5 million, say so many people are waiting in lines for shuttle buses—some as many as 100 deep—that they have stationed "bus loaders" to maintain crowd control in the

triple-digit heat. "I'm not going to sugarcoat that everyone standing in line is happy, because they're not," said Doug Lentz, the park's chief of commercial services.

At Utah's Zion National Park, where annual visitation has jumped by more than a fifth over the past five years to 3.6 million, complaints are going up, too. "The park now routinely receives negative comments about crowding," a State of the Park report noted earlier this year.

Part of the problem, rangers say, is that people coming to the parks to get away don't actually stray far off the beaten path. At 1,169-square-mile Yosemite, rangers estimate as many as 95% of visitors stay primarily on a valley floor that measures 7 miles by 1 mile—flanked by cliffs that tower thousands of feet.

"People like to make a big deal out of it being so busy, but they keep going to the same place," said Colby Brokvist, general manager of Southern Yosemite Mountain Guides, which takes visitors into the park's sparsely populated backcountry. "If there's a shuttle stop, that's



A record-breaking 4.2 million people visited Yosemite National Park last year, with an additional 400,000 expected in 2016.

where you don't want to be."

Overstuffed Yosemite shuttles have become a common occurrence this summer. "That's when tempers start to flare," said bus driver Dan Dion.

Sitting with her family outside a packed deli in the park, Mariah Briseno said earlier in the day she squeezed onto a bus with her family after missing two. She felt panic when more people tried to push in. "I said, 'You're going to crush my grandma,'" said Ms. Briseno,

24, of San Diego.

It wasn't always this way. Ron and Nikki McDevitt last visited Yosemite after they married 20 years ago. Mr. McDevitt said the couple then could easily drive their own car to stop at popular attractions.

On a recent day, they enjoyed the short hike to Yosemite Falls with their teen sons, but this time had to park the car and take a shuttle bus. "It's still great here," said Mr. McDevitt, 51, a math teacher from Laguna

Hills, Calif. "But the traffic is backed up like the 405 Freeway."

Some parks are considering a cap on the number of visitors. Meanwhile, they're trying to keep visitors in check with stern politeness, and rules—many of which involve not annoying the animals.

Last year, rangers in Yellowstone issued 52,000 "warning" citations—up nearly 20% from 2014. Some of the offenses: getting too close to the bears, elk and bison. Non-warning citations after repeat or more serious infractions are a misdemeanor, punishable by a \$100 to \$5,000 fine.

"Practice safe selfie: do not approach animals to take pictures," park officials warn on Yellowstone's website.

Still, a man earlier this year stuffed a bison calf into the back of an SUV, believing the animal was abandoned. Rangers scolded him and returned the calf to its mother, but the animal had to be euthanized after the herd rejected it.

President Barack Obama—known for causing traffic snarls during visits to Los Angeles known as an "Obamajam"—

added to the summer crowds in Yosemite during a June weekend here with the first family.

The Obamas' visit coincided with the wedding of Javier and Alexis Saucedo at Yosemite Valley Chapel. Blockaded roads left the bride and groom, and many of their guests, scrambling to the altar. The bride said she had to hike through a forest to get there. "It was real fun taking the dirt out of my heels," Ms. Saucedo said, with a laugh. "Friends and family took the grass and burrs out of my dress."

Wedding photographer Chris Geiger managed to snap images of the happy couple at scenic vistas in Yosemite Valley.

"I had to do a little photo-shopping," he said. The couple looked fine—it was the wandering tourists behind them that were the problem. Mr. Geiger deleted them, and restored the valley's wild, remote beauty.

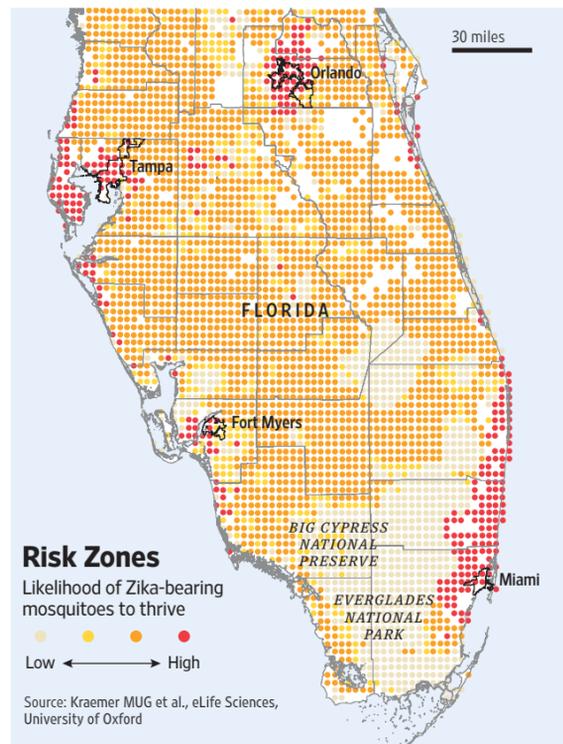
ONLINE

Watch a video about crowds at Yosemite National Park at [wsj.com/ahedvideo](http://wsj.com/ahedvideo).

# U.S. NEWS



Nurse practitioner Jessica Ardente, in her first trimester of pregnancy, looks out from her balcony facing Miami's Wynwood neighborhood.



THE WALL STREET JOURNAL.

## Blood Banks Step Up Screening for Zika

By MELINDA BECK

As concerns rise about the spread of Zika in the U.S., regulators and blood banks are taking action to protect the safety of the blood supply.

To guard against accidental transmission of the virus through blood transfusions, the Food and Drug Administration on July 27 ordered blood banks in Miami-Dade and Broward counties in Florida, where officials were investigating cases of local transmission of the virus, to stop collecting blood until they are able to screen each donation for Zika.

Some blood banks were able to start checking blood samples for Zika immediately, using one of two as-yet-unapproved lab tests on an investigational basis.

OneBlood, which collects 3,000 blood donations daily in Florida, Georgia, Alabama and South Carolina, said it has been screening them all for Zika since late last week.

"Everything we draw, we check for Zika now," said Rita Reik, chief medical officer. She said she couldn't disclose whether any sample had tested positive, but if one did the blood bank would notify both the donor and the Florida Health Department.

To date, she said, "The results have been quite reassuring."

United States Blood Bank, a much smaller blood center, had to ground its eight mobile collection vans in the Miami area as of July 28 and quarantined about 300 units of blood collected the previous week after the FDA order. But the company said it expected to receive FDA approval to start Zika testing and resume collections shortly.

"Every blood bank in Florida has been trying to participate [in using the new screening tests] so there's been demand chaos," said Chief Executive Rick Sotolongo.

### Some samples are being tested using investigational methods.

The Centers for Disease Control and Prevention has said Zika poses a low risk to the blood supply in the continental U.S., but experts say precautions are needed because the virus causes few symptoms and people may be unaware that they are infected.

The virus, which is primarily transmitted by mosquitoes, can cause devastating birth defects if a pregnant woman is infected. There have been 1,658 cases of Zika reported in the U.S., including 433 pregnant women. Most of the cases

involve people who had traveled to such regions as South America, where the virus has been circulating.

California's department of public health said Thursday that two babies were born with Zika-related microcephaly to women who were infected with the virus during their pregnancies while in countries where it is endemic.

Now officials in Florida have reported 15 cases of local, mosquito-borne transmission of the virus in the Miami area.

The FDA has ordered blood banks outside of Florida to defer blood donations from anyone who has traveled to the Miami area for at least four weeks. Blood banks have been deferring donations from people who traveled to Zika-affected countries since February, under FDA orders.

Blood donated in the U.S. is already tested for West Nile virus, HIV, hepatitis and other infectious diseases. Mr. Sotolongo said adding the test for Zika would add about \$8 to the \$200 cost for processing each unit of blood, generally paid for by hospitals.

Blood banks in Texas and northern Florida have also been testing blood samples for Zika on an experimental basis, "just to make sure that if the virus is introduced into other areas, we can catch these cases early," said Susan Stramer, vice president for scientific affairs

for the American Red Cross. In more than 80,000 samples tested to date in those areas, not a single donation has been positive for the virus, she said.

In Puerto Rico, where Zika is far more prevalent, positive tests in the blood supply have reached 1.8%, according to the CDC.

Tony Hardiman, a vice president for blood screening programs at Roche Holding AG, which makes the investigational test being used there, said that whether blood supplies will be tested more widely "depends on whether

we start to see the Zika being detected further up on the Eastern Seaboard or on the West Coast. At this point, we have no other indications."

Because the screens are still investigational, blood banks allowed to use them must submit data to the FDA, and obtain consent from donors to use the test on their blood.

Whether testing donated blood for Zika will become routine throughout the U.S., as is testing for West Nile, isn't yet known. Some experts say testing is likely to be required in southern states, but that

blood banks elsewhere may be able to simply ask donors who have been to affected areas to postpone donating for at least four weeks.

"West Nile is carried by crows, which have a substantially wider geographic range. Mosquitoes don't fly very far," said Tom West, division president for diagnostic solutions at Hologic Inc., which makes the other investigational test in partnership with Grifols SA. "There is a lot we are still learning."

—Jennifer Calfas contributed to this article.

### In Miami's Wynwood, Varying Degrees of Caution

MIAMI—In the city's Wynwood neighborhood, the center of the current Zika outbreak, business owners opened their doors to another humid day in the spotlight Wednesday, as local officials declared the area "open for business" and pregnant women across the city worried about their risk.

Jessica Ardente, 36 years old, walked her dog in Margaret Pace Park. Ms. Ardente is in her first trimester of pregnancy and lives in Edgewater at the edge of the affected zone. She donned mosquito repellent, long pants and long-sleeved shirts to walk her dog, a routine she hasn't changed, she said.

But the emergence of Zika where she lives and near her

job has spurred her to abandon visits to her favorite restaurants in Wynwood. As she leaves work at the University of Miami, where she is a nurse practitioner, she stops to reapply mosquito repellent for the trip to the car.

Ms. Ardente was tested on Tuesday for Zika, and expects to have the results in seven to 10 days. She says she is trying to be practical and cautious. "I am changing enough to keep myself safe," she said.

Others are being more cautious. Tiffany Anderson, 31, is expecting her first child in October. The attorney lives about 4 miles from Wynwood and visited there frequently before the outbreak to run errands or eat

out. Now she will avoid Wynwood, and she plans to spend more time indoors. Her husband walks their two dogs.

Zak Stern, who opened his bakery in Wynwood two years ago, said he called his doctor on Tuesday to ask about the outbreak risk to his wife, who is seven months pregnant.

"He was pretty calming," said Mr. Stern.

His doctor said the couple should be cautious and follow the Centers for Disease Control and Prevention recommendations. He and his wife will be tested, he said.

"I am trying to understand what is a reasonable response right now," he said.

—Melanie Evans

## Senate Races Take a Centrist Tone

By KRISTINA PETERSON AND ALEXANDRA BERZON

LAS VEGAS—While the presidential race has become bitterly divisive, the hard-fought contest for control of the U.S. Senate is unfolding with candidates stressing moderation, bipartisanship and compromise.

The result is an almost alternate political reality, serving as something of a counterweight to the notion that voters this year crave sharp-edge candidates promising to shake up the system.

The different tone is largely because many key Senate races are playing out in centrist states, often with Republican incumbents running in states won by President Barack Obama. It's a departure from 2010, when many of these GOP senators were first elected as part of a conservative wave. And the contrast is heightened by this year's unorthodox and unpredictable nature of the presidential race.

"You look at the top of the ticket, and it's going to be an edgy, negative, ideological clash of titans," said Steven Law, president of One Nation, a non-profit aimed at keeping the Senate under GOP control. "When you look below that, you've got, at least on the Republican side, candidates talking about solving problems and getting results and working across party lines."

Democrats need five seats to retake the chamber—four if Mrs. Clinton prevails—and analysts generally give them roughly a 50-50 chance of doing so. The map is in their favor: Republicans are defending 24 seats, many in centrist or Democratic-leaning states, compared



Senate candidate Catherine Cortez Masto, a Democrat of Nevada, campaigning in a restaurant in Las Vegas in May.

with only 10 for the Democrats.

"There is almost a complete overlap between the Senate races that will determine control of that body and the presidential swing states this year," said Lanae Erickson Hatalsky, a vice president at Third Way, a centrist Democratic think tank. She added that Senate candidates for months have been "having this fight about purple, swing voters."

Nowhere is this year's tone more visible than in Nevada's dead-even contest to succeed retiring Democratic leader Harry Reid. GOP Rep. Joe Heck and his Democratic opponent, Catherine Cortez Masto, have broken with their parties' orthodoxy in what is considered Republicans' best shot this year to pick up a Senate seat.

At a recent gathering of conservative seniors in Las Vegas, one wanted to know why Mr. Heck hadn't backed Mr. Trump's plan to build a wall along the Southern border. Another asked if the lawmaker would support

making English the official language of the U.S.

Mr. Heck replied by appealing to moderation. "You have to have a balanced approach," said Mr. Heck, whose campaign ads trumpet that he comes from "an immigrant family" that got through hard times with the help of "the union and social services."

Meanwhile, Ms. Cortez Masto has clashed with the president, opposing his plan to close the Guantanamo Bay detention facility. And as the state's former attorney general, she has emphasized her tough-on-crime stance, as well as her ability to work across the aisle. Ms. Cortez Masto said at a lunch stop at a Mexican restaurant that her "proudest moment" was watching Republican Gov. Brian Sandoval sign a bill she had drafted against sex trafficking.

The tone in Nevada was much different six years ago, when tea party-backed Republican Sharron Angle, in her unsuccessful bid to unseat Mr.

Reid, backed privatizing Social Security and ran anti-immigrant ads that many voters said they found incendiary.

Both parties have succeeded this year in orchestrating which candidates win primaries and make it on to the November ballot. The exception occurred for Republicans in Colorado, where conservative county commissioner Darryl Glenn won a crowded GOP primary, making the ouster of Democratic Sen. Michael Bennet more of a long shot.

But other Senate battles have become duels of centrists. Sen. Kelly Ayotte of New Hampshire, who in 2010 campaigned as a "conservative who will cut spending," released an ad last October showing her strolling through the woods and highlighting her support for Mr. Obama's plan to cut carbon emissions from power plants.

"Protecting the environment is truly a bipartisan issue," she says in the ad.

She is being challenged by Democratic Gov. Maggie Hassan in a race considered a tossup.

Other GOP incumbents are also stressing their work with Democrats. Sen. Pat Toomey of Pennsylvania has emphasized his bipartisan efforts to expand background checks for gun sales. Ohio Sen. Rob Portman has trumpeted his union endorsements.

Democrats, meanwhile, have recruited challengers with backgrounds they hope will appeal to centrist voters. In Missouri, former Army Capt. Jason Kander, a Democrat looking to oust Sen. Roy Blunt, stresses on his website his work for veterans and his support of small businesses.

## Business Groups Sue Over Inversion Rules

By RICHARD RUBIN

The U.S. Chamber of Commerce and a Texas business group sued the federal government, alleging that the Treasury Department's rules limiting tax-motivated inversion transactions violate the law.

The lawsuit filed Thursday charges that the government rewrote the Internal Revenue Code itself after Congress wouldn't go along with President Barack Obama's proposed legislative changes to limit inversions.

"This is not the way government is supposed to work in America," Thomas Donohue, the chamber's president and chief executive officer, said.

The case stems from regulations the government issued April 4 that led Pfizer Inc. and Allergan PLC to cancel a planned merger that would have located the combined companies in Ireland.

That was the government's third administrative action

against inversions, transactions in which companies can get addresses in low-tax countries, often by merging with a smaller firm based in a lower-tax jurisdiction.

Those April 4 rules attacked "serial inverters," companies such as Allergan that had grown to their current size through other inversions. The rules would disregard three previous years of those deals when calculating the size of the two companies, and that matters because the tax rules are tied to the relative size of companies that merge and take a non-U.S. address.

The U.S. Treasury Department didn't immediately respond to a request for comment.

Mark Marmor, a spokesman for Allergan, declined to comment.

A Pfizer spokeswoman referred to April comments by Chief Executive Officer Ian Read, in which he criticized the government's moves.

### U.S. Watch

#### NEW YORK Dozens Indicted In Criminal Case

Federal prosecutors indicted 46 members and associates of mob families along the East Coast with racketeering, arson,

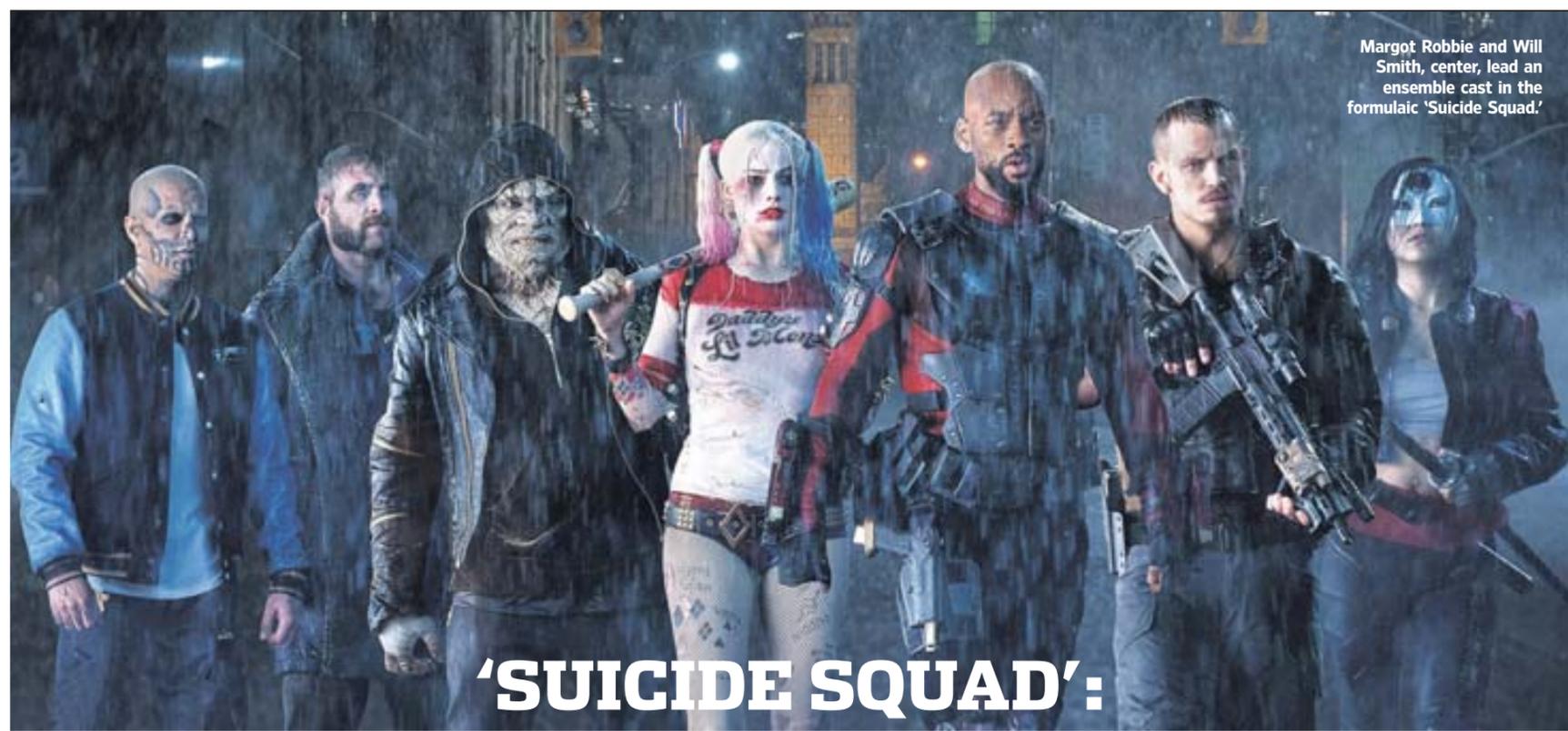
conspiracy and other charges, according to court documents unsealed Thursday.

The indictment documents a wide-ranging, coordinated criminal organization that allegedly involved loan-sharking, gambling, credit-card fraud and contraband cigarettes. Members of the family used coded language and met at highway rest stops and restaurants, prosecutors said.

Most of those indicted face up to 20 years in prison. Lawyers for the defendants couldn't immediately be reached for comment.

—Corinne Ramey

ARTS & ENTERTAINMENT



Margot Robbie and Will Smith, center, lead an ensemble cast in the formulaic 'Suicide Squad.'

'SUICIDE SQUAD':

Weapon of Mass Depression

REVIEW  
JOE MORGENSTERN

In a word, "Suicide Squad" is trash. In two words, it's ugly trash. Maybe no more words should be wasted on a movie that is, after all, only a movie, not a natural disaster or a terrorist attack. Still, movies contribute to the collective awareness. They can color the way we feel about the life around us. This one deserves further attention by virtue of its exceptional cynicism and startling ineptitude. "Suicide Squad" amounts to an all-out attack on the whole idea of entertainment.

And not just a single salvo, but the renewal of a campaign that began in March when Warner Bros. released "Batman v Superman," the first in a projected series of big-budget features based on characters from DC Comics. The rationale for the series was simple. Disney was minting money from having joined forces with Marvel Entertainment; Warner Bros. would do the same with its DC Comics properties. "Batman v Superman" proved to be exceedingly dark, with relentless battles fought on rain-swept

streets, and its debut was met with cool-to-hostile responses from fans and critics alike. (I called it "underdeveloped, overlong and stupendously dispiriting.") Once you've seen "Suicide Squad," though, "Batman v Superman" seems like the superhero equivalent of "Singin' in the Rain."

The film is formulaic, another variant of "The Dirty Dozen"—put together a team of bad guys that can outdo the enemy in extravagant badness. On this occasion the team is assembled by Amanda Waller, a glum U.S. intelligence officer played joylessly by Viola Davis.

Amanda wants to have a plan, she explains, "if the next Superman turns out to be a terrorist." To that end she recruits the curdled crème de la crème of DC supervillains, including Deadshot (Will Smith); Harley Quinn (Margot Robbie); Killer Croc (Adewale Akinnuoye-Agbaje); and a new incarnation of the Joker, played by Jared Leto, who disappears for long stretches of the grindingly violent and sporadically incoherent action. (A grim-faced Ben Affleck also shows up for a brief, uncredited turn as Batman.)

If any of that sounds like summer fun, it isn't. Most of the first hour is devoted to

scene-setting during which the supervillains brag, preen, threaten, brawl among themselves, endure abuse at the hands of their captors and handlers, and experience recurrent flashbacks that explain who they are and why they behave so badly. (Diablo, a human flamethrower played by Jay Hernandez, is something of a pacifist. "I'm a man, not a weapon," he insists.) And there's no fun to be had after the rudiments of a plot finally kick in. Most of the second hour is devoted to repetitive battles with the forces of the Enchantress, a villainess who, far from being the next Superman, turns out to be a generic CGI entity with no detectable personality.

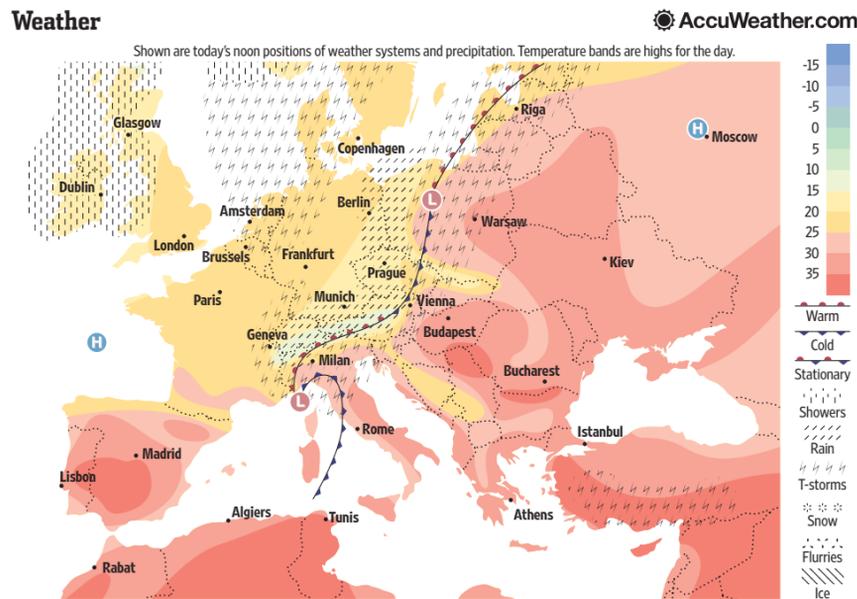
When casting for "Suicide Squad" was announced, the big draw for me was the prospect of Margot Robbie in a starring role, and she certainly brought a bent grace note to the trailers as a seductively lascivious, post-adolescent Lolita with twinkly eyes and cute pigtailed. But the writer-director of this leaden production, David Ayer, has no gift for comedy, or comic timing, so Ms. Robbie's Harley, like everyone else on screen, is an essentially humorless brute. "This is just a whole lotta pretty and a whole lotta crazy," a prison guard says by

way of summing her up. Harley's main distinction, apart from her lurid sexuality, is a baseball bat with which she beats up on hapless adversaries.

So far I may seem to be describing just another in a decades-long string of studio productions that beat up, in their turn, on moviegoers who know perfectly well what they're buying into and usually enjoy it. But "Suicide Squad" differs in intensity and consistency, if not in kind. It's an expansion of the intractably bleak aesthetic that informed "Batman v Superman," a vision of humanity dominated by heavy weaponry.

A case can be made for the movie being a good fit with the mood of the moment in what passes for real life. If that's true, we're all in deeper trouble than we know, and audiences may well embrace the incessant mayhem in lieu of entertainment. But a stronger case can be made for "Suicide Squad" as a product of shameless pandering. "Got me a sewer to crawl back into," says Killer Croc with lizardly satisfaction toward the end. He's got nothing on the movie, which was in the sewer all along.

► Email Joe at [joe.morgenstern@wsj.com](mailto:joe.morgenstern@wsj.com) and follow him on Twitter: @JoeMorgenstern.



s...sunny; pc...partly cloudy; c...cloudy; sh...showers; t...tstorms; r...rain; sf...snow flurries; sn...snow; l...like

City	Today Hi	Today Lo	Today W	Tomorrow Hi	Tomorrow Lo	Tomorrow W
Amsterdam	21	14	pc	21	14	t
Anchorage	18	14	r	18	13	r
Athens	34	25	s	35	25	s
Atlanta	32	23	t	33	23	t
Baghdad	48	29	s	47	29	s
Baltimore	29	22	pc	32	20	t
Bangkok	33	26	t	32	26	t
Beijing	32	25	pc	34	24	pc
Berlin	21	13	r	20	12	t
Bogota	20	9	r	20	9	r
Boise	35	17	pc	34	16	s
Boston	29	20	s	30	21	t
Brussels	22	12	pc	21	12	pc
Buenos Aires	17	6	pc	16	4	s
Cairo	37	26	s	37	25	s
Calgary	25	11	t	21	11	t
Caracas	31	25	pc	31	25	pc
Charlotte	30	22	t	32	22	t
Chicago	29	18	t	27	17	s
Dallas	38	27	pc	38	27	s
Denver	20	13	t	28	15	t
Detroit	33	19	pc	29	18	s
Dubai	44	36	pc	42	34	c
Dublin	19	12	pc	23	14	pc
Edinburgh	18	9	pc	19	15	t
Frankfurt	23	13	pc	24	12	pc

The WSJ Daily Crossword | Edited by Mike Shenk

SEQUENCE OF EVENTS | By Matt Gaffney

- The answer to this week's contest crossword is one of the sports being contested at the Rio 2016 Games.
- Across**
- 1 Game with "boxcars"
  - 6 Sounds from the amazed
  - 9 Semicircular section
  - 14 Believer in Jah
  - 15 Air kiss sound
  - 16 Green jumper
  - 17 "You'll have no trouble at all!"
  - 19 Go from city to city
  - 20 Sutcliffe of the early Beatles
  - 21 Not strict
  - 22 Slice of history
  - 24 Brother on TV's "Empire"
  - 25 Hurtle
  - 27 With 48-Across, what this puzzle features...
  - 29 Tipping bills
  - 30 Film frame
  - 32 Serfs' superiors
  - 33 Gives a talking-to
  - 36 U. donor, often
  - 37 Crude measurement
  - 39 Digs of "The Best Man Holiday"
  - 40 Singer with the first million-selling record
  - 41 Yahtzee category
  - 43 LBJ or RFK
  - 44 TV title explorer
  - 48 ...or, if a letter is nudged over, a hint to the contest answer
  - 50 Problems
  - 52 Extreme anger
  - 53 Person reading this clue
  - 54 Drone or queen
  - 55 Powerful palindrome
  - 56 Mathematical groups

- Down**
- 1 Shortening name
  - 2 Furniture plant
  - 3 Calm the nerves of
  - 4 Fundraising org.
  - 5 Weasel's cousin
  - 6 Company in the DJIA
  - 7 Reverential respect
  - 8 Color of irises, for some
  - 9 Crow known for making beautiful sounds
  - 10 Like some airplane bathrooms
  - 11 Extravagant
  - 12 Locally \_\_\_ (like some restaurant produce)
  - 13 Path out
  - 18 Bitterness
  - 23 Chihuahua friends
  - 26 Tried out
  - 27 Slang for either one's wife or mother
  - 28 Early crossword clues ended with them
  - 31 Part of GE
  - 34 Disturbingly sinister
  - 35 Still upset
  - 37 Hair piece?
  - 38 So mad
  - 39 Pond ponderer
  - 41 Plot shocks
  - 42 They have jobs
  - 45 Prove more glutinous than
  - 46 Default
  - 47 Rick of "rickrolling"
  - 49 Luminous radiations
  - 51 Cook carrots, maybe
  - 54 Crux ansata, or "cross with a handle"
  - 57 Joined the jury
  - 59 Auction items, often
  - 60 Kissing on the street, e.g.

Previous Puzzle's Solution

H	U	M	A	N	S	K	E	W	S	M	A
A	G	L	L	E	P	I	X	I	E	A	C
T	H	R	O	S	A	T	A	N	T	R	U
H	E	W	E	M	S	M	E	M	E		
S	I	A	F	A	R	I	S	S	I	T	A
E	R	I	S	N	O	W	O	R	I	O	N
A	L	E	G	U	I	N	E	S			
R	O	S	S	I	P	R	O	N	A	T	T
H	E	A	R	Y	E	H	E	A	R	Y	E
S	P	A	R	E	S	T	R	T	U	R	N
B	A	R	T	A	B	S	T	A	C	O	M
O	T	T	I	S	R	O	O	S	O	D	
G	T	I	N	G	E	R	B	R	E	A	D
L	I	N	C	P	A	T	I	O	C	L	O
E	Y	E	S	K	A	T	E	H	E	I	S

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# BOOKS

'If you look for perfection, you'll never be content.' —Leo Tolstoy

## The End of the Perfect 10

By Dvora Meyers  
*Simon & Schuster, 319 pages, £19.63*

BY PATRICK COOKE

ONE OF THE most remarkable moments of the 1976 summer Olympics was the 90 seconds it took for a 14-year-old Romanian gymnast to change her sport. Although the judges at Montreal would see the same compulsory uneven-bars routine 86 times, only the 4-foot-11, 80-pound Nadia Comaneci would turn in a maximum score of 10—a “Perfect 10”—breaking a mystical barrier. She was the first but far from the last. Between 1976 and 1992, in a parade of pixies that would include Nellie Kim, Yelena Davydova and Kerri Strug, 10s would be awarded in international competition more than 100 times.

The paradox, as journalist and former gymnast Dvora Meyers notes in her delightful and insightful study “The End of the Perfect 10,” is that there is no such thing as a perfect performance. Upon further review, even Ms. Comaneci’s breathtaking routine reveals imperfections. Still, the crowd ate it up. From that day forward, the more 10s the judges handed out, the more popular the sport became.

The Perfect 10 was catnip to organizers and soon emerged as a branding tool. By the 1988 summer games in Seoul, however, the bar for the top score was so low that even casual observers were beginning to take notice. As one Sports Illustrated reporter wrote: “A total of 40 ‘Perfect 10s’ were awarded to fourteen gymnasts during the week, many for performances containing flaws that could be spotted from thirty-five rows back in the Olympic Gymnastics Hall.”

By then, the judging process had become outdated. For years gymnasts had received marks based on artistic presentation, but some routines were far more difficult than others. Bold competitors who tried to test the limits of the sport risked losing to safer, duller opponents. Giving crowds Perfect 10s was no longer enough. The sport needed a method of scoring that accounted for the diversity of routines and leveled the playing field for all competitors.

In 2006, the governing body of women’s gymnastics adopted a new scoring system, devised by a Canadian judge named Hardy Fink. It would be based on two scores, one for precision and execution, the other for degree of difficulty. That scheme provided a fairer measure of

skill, but it came with unforeseen consequences.

For the sake of difficulty points, coaches began cramming more daring stunts into their gymnasts’ 90-second routines—and started seeing more injuries. More risk-taking meant more excitement, but it required more strength, which in turn required more muscle. Soon the sylphs of the Comaneci era were replaced by a new body type able to perform explosive routines in every event. Mens’ coaches were brought in to tutor a new generation of girls in an increasingly brawny version of the sport that continues today. Ms. Meyers observes that the current U.S. female superstar Simone Biles can (nearly) complete a double somersault from a complete standstill—“no run, no hurdle, no round-off, no momentum.” Try that in your backyard.

There was yet another consequence that came with the new judging rules: They confused fans. “Now the gymnasts were receiving marks like 13.667 or 14.825,” Ms. Meyers writes, “and you had no way of knowing if these were good or bad scores.” A competitor who put in what appeared to be a sloppy performance, perhaps even falling off an apparatus, might win an event because of the attempted level of difficulty. One coach noted that, despite the scoring inflation it entailed, the

10 system pleased the public: “Everyone understood that the closer a gymnast scored to 10, the better he or she performed.”

While scoring in elite gymnastics events like the Olympics continues to vex outsiders, Ms. Meyers tells us that at the college level 10 remains the measure of success. Marks are based on elements like proficiency, brio and heart. It doesn’t hurt that a few NCAA universities known for the sport are enticing spectators to arenas with flashing lights and thumping music akin to an NBA game opener.

Ms. Meyers describes LSU gymnast Lloimincia Hall’s 2014 crowd-pleasing routine set to a medley of funk and gospel music. The performance earned a 10 because “it wasn’t about scrutinizing every skill for flaws but about the overall impression of the routine . . . the swagger of her choreography, and the crowd’s excitement.” Elite, Olympics-level gymnasts, Ms. Meyers writes, aim at “pushing the envelope on innovation and difficulty.” College gymnasts emphasize “execution and team performance.”

Ms. Meyers is aware that many readers would score a Perfect 0 in gymnastics knowledge, so she offers explanations of arcane aspects of the sport. The uninitiated would be unlikely to know, for example, that nationwide “devo camps,” or devel-

opment centers, serve as a farm system for Olympic gymnastics. As a backdrop to the Perfect 10 history, she also introduces us to athletes, judges and trainers, including the mercurial coach Bela Karolyi, who guided Ms. Comaneci to her Olympic triumph, and his wife, Martha. She is

As difficulty became part of scoring, a new body type replaced the sylphs of the Nadia Comaneci era.

respectful of the talents that the couple has brought to American gymnastics since their defection from Romania in 1981, but the reader is left with the impression that her praise for “Coach Dracula,” as he is known, is rather faint.

The path to the Olympics can begin as early as grade school for some girls. “Female gymnasts peak younger than athletes in other sports do, typically before they get to university,” Ms. Meyers writes. Their sometimes lonely world becomes one of exhausting travel, constant training, home schooling, ligament injuries and high parental expectations. The odds of achieving the elite level are infinitesimally small, and even if a hyper-

**LEAPS AND BOUNDS**  
Simone Biles at the U.S. Olympic gymnastics trials in early July.

## Raising the Bar



GETTY IMAGES

talented girl does make the cut, her career is likely to have, as the author notes, a “fruit-fly lifespan.” Less talented collegiate gymnasts at least have a shot at a scholarship and, it seems, a lot more fun. Either way, many gymnasts, post-competition, limp into retirement. Others may “sign contracts with Cirque du Soleil or move to Hollywood and get into stunt work.”

Ms. Meyers spends a good deal of time in gyms across the county observing long hours of practice. She has a prime seat for observing young hopefuls like those at a training center outside Dallas called Texas Dreams: “In a gym, the chalk tray is like the office water cooler—a place where everyone gathers at some point during the workout to chat. . . . The rougher your practice seemed to be going, the more time you needed at the chalk bowl to talk and collect yourself for your next attempt.”

For these girls, every move will eventually be scrutinized by panels of fallible arbiters in a system that is, by its nature, flawed. As one gymnastics judge tells Ms. Meyers: “You make mistakes because you’re human. . . . It seems in that respect, the athletes and judges have something in common. Neither can be perfect.”

*Mr. Cooke writes frequently for Weekend Journal.*

## Five-Ring Circus

### The Games

By David Goldblatt  
*Macmillan, 516 pages, £20*

BY PETER COWIE

OFTEN DISPARAGED, even mocked, the Olympic Games still lumber forward like a colossus, claiming wider media attention than any other sporting event in the world. As David Goldblatt underlines in his comprehensive survey, “The Games: A Global History of the Olympics,” the numbers boggle the mind: more than 200 participating countries, an opening ceremony that has cost as much as \$100 million (for Beijing in 2008), and up to 28,000 press and media representatives.

Like Napoleon or World War II, the Olympics have spawned a vast array of books, and the sports fan wanting to read in detail about individual athletes or their achievements will turn to David Miller’s “The Official History of the Olympic Games and the IOC” (2012). Mr. Goldblatt does not ignore such legendary figures as Paavo Nurmi, Jesse Owens, Emil Zatopek, Carl Lewis or Usain Bolt, but his focus lies elsewhere. The word “official” would be anathema to him, however, and from his independent standpoint he can offer some penetrating, often waspish, criticisms of both the International Olympic Committee and the powerful individuals who, in essence, control the Games.

The romantic and emotional tone of the Games stems from their origins as a five-day program of events in ancient Greece beginning in 776 B.C. A millennium and a half after their demise in A.D. 393, the Baron de Coubertin, a French aristocrat, brought about their reincarnation in 1896. He admired the English “public school spirit” of fair play, and he toiled for

decades to instill the quadrennial celebration with two fundamental tenets: amateurism and internationalism. Jim Thorpe, for example, was stripped of the medals he had won at the Stockholm Olympics of 1912 because he had been paid to play baseball on occasion some years earlier.

More than a century after the revival of the Games, it’s clear that the baron succeeded in making them into a global bonanza; the number of nations on parade at each successive Olympiad seems, like the universe, to be forever expanding. His amateur ideals, however, have long perished. Today’s spectators and officialdom accept that the athletes on display at the Olympics are well and truly “professional.”

Not until 1972 did the Olympic committee set up measures to catch athletes using illegal substances.

Mr. Goldblatt traces the development of the Games in every respect, from the launch of a Winter Olympiad in 1924 to the efforts to give women an equal place in every sport, from the introduction of the Paralympics (which sold no fewer than 2.5 million tickets in London in 2012) to the rise of the Olympic “Village.” He reminds us that some sports, such as track and field, gymnastics, boxing, wrestling and swimming, have remained in vogue from 1896 to the present day, while others have lingered almost by default. Soccer, for example, which now has its own World Cup, struggles to attract much interest at the Games. The modern pentathlon, too, seems obsolete when the more popular triathlon is staged alongside it.

In the 120 years since the “mod-

ern” Olympic Games began, just nine men (but not a single woman) have presided over the IOC. Apart from De Coubertin, who remained an honorary president until his death in 1937, the three most autocratic “lords of the rings” (to quote a phrase coined by Andrew Jennings, whose book about the seamy side of the Olympics was published in 1992) dominated the IOC for the most crucial period in Olympic history

a precursor of Greece’s near-bankruptcy less than a decade later. The history of the Games is fraught with such profligate expenditure. Mr. Goldblatt cites the example of Montreal’s 1976 Olympic Village, initially priced at \$22 million and costing in the end some \$80 million. And long before the 2000 Games opened, Mr. Goldblatt writes, it was “very judicious gift giving” that helped Sydney win the right to host.



GETTY IMAGES

(1950-2000): the American plutocrat Avery Brundage; the Irish aristocrat Lord Killanin; and the Spanish marquis Juan Antonio Samaranch.

The author’s detailed research into the political and financial shenanigans of the modern Olympics is impressive. Budgets have ballooned out of control. The final bill for the London Games of 2012 reached just under £9 billion, almost four times the cost proposed in the bid documents of 2005. Vladimir Putin’s Russian state squandered \$51 billion on the 2014 Winter Games in Sochi. The exorbitant \$16 billion devoted to the 2004 Olympiad by Athens seems like

The advent of television transformed the financial infrastructure of the Games. Live satellite broadcasting began at the Tokyo Olympiad of 1964, and soon U.S. networks were bidding ever-larger sums for the TV rights. This year the IOC awarded rights from 2021 through 2032 to NBCUniversal for the staggering sum of \$7.65 billion.

Drug-enhanced performances have marred the Olympics with depressing regularity, as they have other sports, from cycling to soccer, and even golf. The IOC first became alarmed by “doping” during the 1930s, but not until the Munich

Games of 1972 did the committee set up measures to trap those athletes using illegal substances. As recent revelations about tainted urine samples from Beijing (2008) and London (2012) demonstrate, however, doping continues to haunt the Games. Many Russian athletes, accused of doping under what amounted to a state-encouraged program, will not be allowed to compete in Rio next month.

Why, then, do the Olympic Games continue to hold such appeal? An accumulation of small but significant details may offer the answer: the torch relay, spanning continents and involving countless communities; the “togetherness” of the Olympic Village; the pomp of the parade of nations; the solemnity of the medal ceremonies; even the commemorative postage stamps issued by numerous countries.

For the sociologist and the economist, Mr. Goldblatt’s analysis provides fascinating reading; perhaps less so for the sports fan pure and simple. His book may cover ground already well-tilled by previous authors, but this one sets each Olympiad in a wider international and political context, with the issues of race and gender frequently to the fore. Mr. Goldblatt shows that, despite the profound upheavals that the Games have experienced over the past century and more, their quadrennial jamboree continues to thrill and amaze each new generation. Were he alive today, Baron de Coubertin would be baffled by the corporate maneuvering and the doping scandals, but he would be proud that his re-creation of a Greek tradition should have inspired a book as candid and richly researched as this one.

*Mr. Cowie is a film historian who has also published annuals on cycling and track and field.*

BOOKS

'While other passions in your life may at some point begin to bank their fires, the shared happiness of good homemade food can last as long as we do.' —Marcella Hazan

# Playing the Market

**Ingredienti**  
By Marcella Hazan & Victor Hazan  
Scribner, 238 pages, £15.19

BY EUGENIA BONE

THERE ARE A LOT of vegetarians in the United States. According to Gallup, about 5% of American adults embrace the label. That's around 11 million people. Yet our vegetable literacy, despite the best efforts of many fine cookbook writers, is probably pretty low. Our most popular vegetable, reported the Atlantic, is the potato. Indeed, a pretty good sense of America's preferences may come from a site called Ranker, which lists potatoes, sweet corn and carrots as America's top three vegetables, none of which, by the way, are green.

After reading the late Marcella Hazan's new and, I assume, final book, "Ingredienti," I am not sure it's our fault. The way that shopping and preparing vegetables have evolved in our culture discourages us from a vegetable-first diet, and that's a shame, because it doesn't have to be so.

Marcella Hazan, who died in 2013 at 89, is credited with changing how Americans cook Italian food. She displaced the heavy spaghetti-and-meatballs paradigm with dishes that are light and sophisticated and, frankly, more authentic. Brought to publication by her widower, Victor, "Ingredienti" is a simple, modest summary of how to choose, prep and store a small selection of Italian vegetables. It also includes recommendations on various pantry items, like beans, tuna fish and olive oil. It's the antithesis of encyclopedic books like Mark Bittman's 1,000-page "How to Cook Everything Vegetarian." But it got me thinking.

The vegetables described in "Ingredienti" represent foods that Marcella regularly cooked, and her knowledge was based on the trial and error of shopping, storing and home preparation. She tells us that eggplant is less sweet when cut into chunks and sautéed but best baked whole or sliced and fried; that a radicchio di Chiggia the size of a large orange is a sign that some of its leaves have been removed and that it is no longer quite fresh; that grated cheese dries out in the fridge; and that blistered, peeled red peppers are best at room temperature.

We should all be able to write such a book, one that reflects our particular kitchens: the foods available in our region, the foods we know how to cook, the foods we eat most often. But I'll bet that most of



THE ROOT A truckload of fresh vegetables headed for market in Palermo, Sicily.

us couldn't even write a simple list. Why not? We certainly want to eat more vegetables. But we don't, and I think that's because we have to work so hard to get them.

Most Americans shop in grocery stores where foods are packaged or feel waxy and have no smell. We can't sample what we buy, and so we have to base our decisions on the way the food looks. That's a problem for flavor, because sometimes when a vegetable or fruit is bred for appearance or shelf stability, you end up losing taste. Take commercial strawberries. They are huge and look awesome, but they're about as sweet as a turnip.

Ingredient-based cookery is what made Marcella Hazan famous, and it's typical of Italian cooking in general and (I am going to guess) all ethnic cuisines when looked at in their indigenous context. Any chef will tell you that selecting and prepping food is half of cooking. Really, you only need to be a good cook if you start out with inferior ingredients. That's the philosophy behind the recipes in Marcella's books: If a food tastes marvelous raw, the cooking part is easy.

Marcella Hazan doesn't bother with actual recipes in "Ingredienti." She just mentions methods for cooking her preferred vegetables: mashed fava beans with milk-soaked bread and olive oil; raw sliced radicchio leaves mixed with warm cannellini beans; fresh peas braised with shredded romaine and sliced onion—all cooked with olive oil, lemon juice and salt. She doesn't have to give a recipe because there isn't much to do: The real skill is in finding pristine ingredients.

Reading "Ingredienti" reminded me of another challenge that Americans face that Italians traditionally don't. Not only do we need to be discerning at the market, we also need decent prep skills. In Italy, by contrast, home cooks don't have to know how to trim or slice, or chop or shred, a particular ingredient. The seasonal vegetables sold in marketplaces are prepared for the kitchen by the vendor. Farm-fresh artichokes are trimmed, ready to braise or fry; asparagus are peeled; cipollini are skinned; cauliflower and broccoli are cut into florettes; peas are removed from their pods; beets with their greens and

carrots with their tops are all washed. And nothing, ever, has a sticker on it.

Italian vendors prep vegetables all day. But this is not like the prepackaged stir-fry available at Whole

In Italy, home cooks don't have to know how to chop or shred. Vegetables are all prepared by the vendor.

Foods. Urban Italians can hit the market stalls on their way home, buy just what they need for a night or two, and prepare dinner without a lot of fuss. At the end of the day the Italian street markets leave behind piles of outer leaves, peels and stems and the tips and ends of vegetables. I'm not talking about unholy mounds of imperfect foods that are otherwise fine to eat, like those chucked by grocery stores and farms. Rather this is the debris of a hundred dinners. Shopping for food in Italy is the opposite of the Costco experience. It's personal. And nourishing, too. Eating vege-

tarian is healthier—if you eat vegetables the way Italians do. The market-stall model of eating, with its limited but very fresh selection, means that you eat a great deal of seasonal vegetables while they are in and at optimal nutrition and then move on to the next food as it, in turn, becomes cheap and plentiful. Forget the daily recommended values of the federal government: A year of seasonal bingeing engenders a varied diet that maximizes nutritional gain.

At the time I'm writing this, I've been gorging on local sugar snaps and English peas from the farmer's market (the snap peas julienned and tossed raw with boiled English peas, olive oil, lemon juice, parmesan cheese and a few cranks of black pepper). By the time the peas are done—which should be pretty soon—I will be more than ready to move on to another vegetable. A full year will go by before I eat fresh peas again. But come early July 2017, I'll be craving them.

Ms. Bone is the author of "Mycophilia" and "The Kitchen Ecosystem: Integrating Recipes to Create Delicious Meals."

FICTION CHRONICLE: SAM SACKS

# Inverting the War Novel

**ROY SCRANTON'S "War Porn" (Soho, 343 pages, £19.63)** arrives on the crest of a second wave of fiction about the wars in Iraq and Afghanistan. The first wave, typified by Kevin Powers's "The Yellow Birds" (2012) and Phil Klay's "Redeployment" (2014), concentrated on the psychic damage suffered by soldiers hurled into haphazardly planned "forever wars." But as this story line hardened into a cliché—what Mr. Scranton, who was deployed in Iraq for 14 months, has called the "trauma hero myth"—novelists looked for more provocative angles and approaches: Harry Parker's "Anatomy of a Soldier," for instance, is told from the point of view of the equipment a soldier carries into battle and Whitney Terrell's "The Good Lieutenant" moves backwards in time.

"War Porn" inverts the traditional war novel, both structurally and morally. It consists of three nested plots, the centerpiece of which concerns Iraqi mathematics professor Qasim al-Zabadi. He teaches in Baghdad but his family resides outside the capital, and, as the American invasion looms, he's torn between staying where he is or traveling to be with them. Then there's the question of putting up token resistance or aiding the invaders. A second narrative describes the first year of the war through the eyes of an enlisted man named Wilson. The third cuts back to Utah, where a backyard cookout in 2004 is darkened by the appearance of a belligerent veteran. The loosely connected stories bring out terrible oppositions.

In writing about al-Zabadi, Mr. Scranton imagines the start of the fighting as it appears to average Iraqis, who watch the American airstrikes both on TV and from their roofs. A strain of casual fatalism runs through these people, who have endured a lifetime of war, sanctions and dictatorial abuse: "There has to be a sheikh. Sheikh Hussein or Sheikh Bush, it didn't matter," thinks a student of al-Zabadi's. "Power flowed the same no matter who wielded it. And if you weren't on the side of power, you got out of the way."

'There has to be a sheikh. Sheikh Hussein or Sheikh Bush, it didn't matter.'

Al-Zabadi's story is the tragedy of a harmless man who fails to get out of the way. The Americans, in contrast, are destroyed by the terrible powers they suddenly wield. The fractured, spasmodically written chapters about Wilson describe the fear and rage of the soldiers, the humiliations they hourly inflict on a conquered people and their disregard for the innocents caught under their tread. Each day rotates between fast food, videogames and indiscriminate violence: "Burger King, daisy-chain. Cordon and Search. Stack team. There's a glazed shock in everyone's eyes, the simmer of hatred barely contained. We get in fistfights. We listen to 'Hey Ya!' and count the dead."

The final product of their dehumanization is found in the mysteri-

ous veteran at the cookout, who visits the evils of the occupation upon his unsuspecting suburban hosts. "War Porn" concludes in an act of chilling brutality, a distillation of Mr. Scranton's vision of the American misadventure in Iraq and a fitting end to one of the best and most disturbing war novels in years.



PALL Baghdad in the first days of the 2003 invasion.

In Finnish novelist Rosa Liksom's "Compartment No. 6" (Graywolf, 181 pages, \$16), a man and a woman are forced to share a sleeping compartment during a weeklong railway journey from Moscow to Mongolia in the mid-1980s. The unnamed young woman, an anthropology student, wants to see the petroglyphs outside Ulan Bator, though she's also fleeing a messy love triangle. The man, Vadim Nikolayevich Ivanov, is traveling for construction work. He boasts

of murders, drinks enough vodka to fill Lake Baikal and declaims cherished maxims such as "Beat your wife with a hammer and you turn her into gold."

In the vilest of terms, Ivanov first propositions and then threatens the woman. She dumps nail polish into his vodka glass, hoping to poison

him. (He drinks it with no ill effect.) But gradually, strangely, the two forge an alliance, sharing meals and tea, and exploring the incomparably desolate cities—Novosibirsk, Irkutsk, Khabarovsk—where the train stops during its interminable layovers. Ms. Liksom conjures beauty from the ugliest of things. As she finds something wily and comical in the unforgettably horrible Ivanov, so she imbues the industrial wastelands with an inexplicable charm (the elegant

translation is by Lola Rogers): "A caterpillar-tracked truck extinguished in a pile of snow, a horse wading through a field, its back sagging like an old sofa, pulling a feed rack behind it with two buzzards balanced there instead of hay, stiff with cold, their legs tied together." What emerges is a twilight-hued elegy to the sickly last days of a wicked empire. Toward the end of their journey, Ivanov and the woman raise their glasses to the country they've seen so much of. "A toast to deception," he says. "May we be deceived in a better direction."

Lara Vapnyar's "Still Here" (Hogarth, 310 pages, £19.63) tells the story of four Russian friends who have left the motherland for New York City: Vadik is a computer programmer and serial online dater; Regina lives in a gilded Tribeca cage with her tech-millionaire husband; and Sergey and Vica endure marital unhappiness in a Staten Island house they can't afford. The couple have banked their future on an app called Virtual Grave that will allow people to maintain an online presence after death. "You immigrants think of apps as the new gold rush," Regina's husband says.

The apps and nonstop social media updates are new, but otherwise "Still Here" is a brisk and amusing reboot of the familiar immigrant tale. Culture clashes, loneliness and mishaps in love and work fill the foursome's days. Ms. Vapnyar throws in a bit of existential dread for spice. The novel jumps along episodically toward its implausible happy ending, a little in the way of a TV series. Think "Friends" with a heavy Russian accent.

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## BOOKS

‘To win the people, always cook them some savoury that pleases them.’ —Aristophanes

# The People’s Republic

### The Dictator’s Dilemma

By Bruce J. Dickson  
Oxford, 352 pages, £18.99

BY BENJAMIN L. READ

**THE CONVENTIONAL VIEW** of China, according to Bruce J. Dickson, goes something like this: China’s political system is unchanging and inflexible, and “the Chinese people are fed up with the Party, impatient for reform, and ready for democracy.” Not so, argues Mr. Dickson, a professor of political science at George Washington University.

In fact, the Chinese people generally support their political system—at least for the time being. Why is this the case? And how has the country avoided the fate of the Soviet Union? Mr. Dickson addresses these questions in “The Dictator’s Dilemma: The Chinese Communist Party’s Strategy for Survival” by examining the ruling party’s program and by drawing on recent surveys and focus groups to discern how ordinary Chinese from cities across the country feel about their current political system and its policy outcomes.

The party’s strategy, Mr. Dickson writes, is “a mix of repression, legitimation, and co-optation.” The repression has various flavors, which he catalogs in some detail, from arrests of activists and lawyers to filtering the internet. All of this has gotten worse since President Xi Jinping took the reins in 2012–13.

But if repression were the primary experience of the Chinese people, the regime wouldn’t enjoy popular support. Mr. Dickson highlights what the party has done to win the hearts and minds of the people: raising incomes (not merely growth rates) by promoting economic development; implementing modest political reforms at the local level; providing increased access to education, health care and other public goods; appealing to national pride; and bringing into the party’s ranks many members of the wealthy and the well-educated classes.

It seems to have worked. The book’s primary evidence for this claim comes from two surveys designed by Mr. Dickson and imple-



BREAD AND CIRCUSES Shopping in Shanghai.

mented by Peking University’s well-respected public-opinion center. In the 2010 version, researchers conducted face-to-face interviews with 3,874 randomly selected people in 50 cities around the country; the 2014 version reached 4,128 respondents. Both of these surveys found widespread support for and trust in the regime’s core institutions. Trust in the central party and government averaged between 7.5 and 8 on a 0–10 scale, for example. The book also reports respondents’ assessments of specific areas of public policy. The majority of those surveyed—75%—said that they were satisfied with their local government’s efforts on education and social order. (Only half said the same about food safety, a topic of intense concern.)

Mr. Dickson offers one caveat to his generally optimistic view about the future of the party. Yes, many of its current policies are winning loy-

alty. But policies that garner support in the short term may undermine stability in the long term, as Mr. Dickson explains. Greater prosperity could breed discontentment and demands for accountability, openness and representation.

Hints of this can already be seen: Younger survey respondents showed less loyalty than older ones, suggesting that generational replacement may erode regime support. Also, while few indicated that internet censorship offended them, nearly 90% stated that web controls should not “infring[e] on individual freedoms or the right to free expression.” Fears that an empowered population will eventually demand political change can make authoritarian regimes reluctant to liberalize—hence the “dilemma” of the book’s title.

Currently, a widespread fear of chaos buttresses the party’s rule. The majority of respondents felt

that demonstrations, “multiple political parties” and even “many groups with different points of view” could dangerously threaten social stability. On this topic and others, one wonders whether it is possible to separate, as the book tries to, the ruling party’s information control from its efforts to build support. After all, as Mr. Dickson acknowledges, one reason that survey respondents express great faith in the regime’s central institutions is that critical reporting on top leaders is forbidden.

One point likely to surprise readers is that “most Chinese believe that their country already has a high level of democracy, are satisfied with the quality of current democracy, and are optimistic about further increases in democracy in the near future.” To make sense of this, Mr. Dickson reviews the ways in which leaders and intellectuals use the term “democracy”—a word that fes-

tons billboards everywhere as one of Mr. Xi’s 12 Core Socialist Values—and reports what respondents themselves said they believed democracy to mean. He notes that few spoke of elections or used phrases like “everybody votes” or “majority rules,” while many gave answers like “listen to the people” and “government policies reflect public opinion”—criteria that China meets, up to a point. Having also been told by many ordinary citizens during my fieldwork that

The Western press insists that the Chinese people are ready for democracy. So why does the regime continue to enjoy popular support?

the country today is far more “democratic” than in the past, I appreciated the book’s effort to take us into the fog surrounding this nebulous term, even if the survey data don’t take us all the way out.

Many readers may ask if survey respondents gave researchers truthful or merely politically safe answers. Mr. Dickson offers an abbreviated defense of his methods, emphasizing that correlations in the data follow predictable patterns, bolstering their validity. Encouragingly, respondents do not always spout party-approved answers; only 36% said that government officials normally tell the truth, and around 70% of younger party members were willing to state that careerist motivations (and not merely a passion for serving the people) were among their top three reasons for joining. One unexplained limitation: Although the book speaks broadly about the beliefs of “the Chinese people,” “public opinion in China” and such, the surveys covered cities only, omitting the still-huge rural population.

Mr. Read, an associate professor of politics at the University of California, Santa Cruz, is the author of “Roots of the State: Neighborhood Organization and Social Networks in Beijing and Taipei.”

# On the Front Lines of the Cold War

### The Global Chancellor

By Kristina Spohr  
Oxford, 211 pages, £35

BY HANS KUNDNANI

**IT IS OFTEN** said that Helmut Schmidt lacked vision—particularly in comparison with his predecessor, Willy Brandt, West Germany’s version of JFK. It was an image that Schmidt, who died last year at 96, himself did much to create—above all, through his quip that “those who have visions should go see a doctor.” In this respect, he resembles Angela Merkel, who quoted the famous Schmidt line in a eulogy she gave at his funeral.

Schmidt’s prosaic approach to politics was in part a necessity. When he took over as the second Social Democrat chancellor of the Federal Republic of Germany in 1974—after it emerged that one of Brandt’s closest aides was an East German spy—the world was in crisis after the collapse of the Bretton Woods system and the oil shock of 1973. West Germany could no longer afford the expansive reform program that Brandt had promised when he became the first Social Democrat chancellor in 1969. Instead, the focus was on stability.

Nevertheless, Kristina Spohr argues in “The Global Chancellor,” the image we have of Schmidt is wrong. In fact, she suggests, he did have a vision. According to her, Schmidt was, like Henry Kissinger, a “sophisticated conceptual thinker” but, unlike Mr. Kissinger, understood economic as well as security issues. He was thus unique among Western leaders in the 1970s: a “statesman-intellectual with the ideas and experience, the vision and determination, to shape the course of world events.”

Ms. Spohr’s conclusion is that Schmidt should be seen not so much as a “transitional figure” as between Brandt and Helmut Kohl, but

as a transformative figure who elevated West Germany to the “top table” of international politics. Though the book is based on a variety of sources, including U.S. government archives, it is written largely from Schmidt’s perspective and, as these quotations illustrate, is a little hagiographic.

The strength of the book is the way it illuminates Schmidt’s thinking on both economic and strategic questions and the relationship between them. His first priority was to stabilize the global economy: When

What is remarkable in retrospect is how hawkish Schmidt was for a West German chancellor.

he became chancellor, inflation was at 6% in West Germany, 9% in the United States and 20% in the United Kingdom. Schmidt, who had been finance minister under Brandt, believed that the West needed to take coordinated action to prevent a catastrophic breakdown of the kind that had happened in the 1930s.

It was out of the economic summit that took place at Rambouillet, France, in 1975, initiated by Schmidt and French President Valéry Giscard d’Estaing, that the Group of Seven evolved. It is striking how similar the points of disagreement between the Federal Republic and the United States in the 1970s were to the ones that exist today: Then, as now, Germany resisted U.S. pressure for economic stimulus and feared inflation above all (though those fears were probably more justified then).

From 1977 onward, Schmidt’s focus shifted to security issues. His obsession was the “gray area” problem—that is, the threat from Soviet “theater nuclear forces” that fell between the strategic nuclear weapons covered by the Strategic Arms Limitations Talks and the conventional

forces covered by separate talks. The issue became acute after the Soviet Union began to replace its medium-range nuclear weapons with new SS-20 missiles that directly threatened Western Europe and in particular Germany. From a West German perspective, the U.S. nuclear deterrent no longer looked credible.

portant foreign-policy achievement, it also led to his downfall. He faced increasing opposition from within his own dovish and increasingly anti-American party, which was determined to continue détente—even after the Soviet invasion of Afghanistan (which Schmidt himself refused to call an “invasion”).



A PAIR OF CHANCELLORS Willy Brandt and Helmut Schmidt in 1977.

What is remarkable in retrospect is not just how engaged Schmidt was with the detail of deterrence theory but also how hawkish he was for a German chancellor. It was through Schmidt’s activism—beginning with a lecture he gave in London in 1977—that NATO, over the next two years, came to adapt its strategy to respond to the new threat. In December 1979, the alliance agreed to deploy Pershing II and cruise missiles to Western Europe by 1983 unless the Soviets withdrew the SS-20s as part of an arms-control agreement—the “dual-track” decision. With the Soviet invasion of Afghanistan two weeks later, the second track—negotiations on disarmament—became irrelevant.

Although the dual-track decision was probably, along with the creation of the G7, Schmidt’s most im-

Ms. Spohr barely mentions the growing rift between Brandt, who remained party leader, and Schmidt. She spends more time on the tensions between Schmidt and Egon Bahr—an adviser to Brandt who was the architect of the policy of Ostpolitik, the West German policy of détente toward East Germany—but perhaps oversimplifies the difference between them by endorsing Schmidt’s view of himself as a realist and Bahr as a “Utopian idealist.” In truth, both were realists but had different views of the national interest of the Federal Republic. Schmidt continued Brandt’s Ostpolitik but was more of an Atlanticist than Bahr—perhaps in part because he feared Soviet aggression more—and believed that détente was only possible on the basis of a balance of power. Schmidt, raised a long way

away from the east in Hamburg, apparently also had little interest in German reunification—the whole point of Ostpolitik.

It was in the context of discussions around deterrence strategy that the relationship between Schmidt and President Jimmy Carter deteriorated. Ms. Spohr recognizes that Schmidt lost his cool in his dealings with the president, whom he regarded with contempt (he had publicly endorsed Gerald Ford in the 1976 election), but puts this down to his frustration at Mr. Carter’s unreliability. Yet Mr. Carter also saw Schmidt as being inconsistent. He wrote in his memoirs that Schmidt had “mood swings” and that his constant leaked criticisms of the U.S. government were “legitimizing” anti-Americanism in Germany.

The bigger question concerns the policy differences between Mr. Carter and Schmidt. Like Mr. Kissinger, Schmidt saw Mr. Carter’s preoccupation with human rights in the Soviet Union as a dangerous distraction. Yet there were real dangers in détente—particularly during the “second phase” of Ostpolitik under Schmidt. What the German historian Heinrich August Winkler has called the “normative deficit” of this approach—its indifference to democracy and human rights—was illustrated when the Solidarity movement emerged in Poland, only to be seen by realist German Social Democrats as a threat to “stability.”

Ms. Spohr seems to take at face value Schmidt’s image of himself as a “double interpreter” between Washington and Moscow after 1979. The role implies that he understood both sides better than they understood each other—but was this really true? In any case, unlike an interpreter, Schmidt had an agenda of his own: West Germany’s national interest.

Mr. Kundnani, a Senior Transatlantic Fellow at the German Marshall Fund, is the author of “The Paradox of German Power.”

OPINION

REVIEW & OUTLOOK

## The Trumpian Purge

Donald Trump's campaign operates in a state of perpetual disorder, and he seems to like it that way, though he's outdone himself this week by opening a proxy war against Paul Ryan, John McCain and other Republican leaders.

### The assault on Paul Ryan is part of a broader conservative divide.

In between assailing Gold Star parents and claiming the election may be "rigged," the candidate paused to elevate Paul Nehlen, an obscure antitrade and anti-immigration businessman who is challenging Mr. Ryan in Wisconsin's GOP primary next week. On Twitter Monday night, Mr. Trump wrote that Mr. Nehlen's support was "very much appreciated."

Then on Tuesday Mr. Trump told the Washington Post he wasn't ready to endorse Mr. Ryan, saying "I'm just not quite there yet"—an echo of what Mr. Ryan said after Mr. Trump captured the GOP nomination in May. Mr. Trump also did drive-bys on New Hampshire's Kelly Ayotte, whom he said has "given me no support, zero support," and Mr. McCain, who is facing a tough primary in Arizona on Aug. 30.

Mr. Trump lashed out because the trio refused to abide his criticisms of Khizr Khan despite a memo to Capitol Hill from the Trump campaign. Mr. Trump is too self-involved to let any criticism go unanswered, no matter how grounded in principle. He'd rather brawl with his critics than serve his own political interests, and he's increasing the incentives for Republicans to defect or repudiate him.

Defeating the Hillary Clinton machine will be difficult enough, and her polling lead could expand to double digits if Mr. Trump keeps up his what-next routine. He can't win if he can't unite and mobilize Republicans, and he can't do that if he antagonizes their officeholders.

The irony is that the Ryan and McCain criticisms of Mr. Trump still aren't enough for the parsons of the political class. Cribbing from most pundits, and ever the moral conscience of the nation, President Obama this week emerged to wonder: "The question I think they have to ask themselves is, if you are repeatedly having to say in very strong terms that what he has said is unacceptable, why are you still endorsing him?"

Yes, what a mystery. Progressives would love for Mr. Ryan, Ms. Ayotte and other Republicans to become arms of the Clinton campaign, increase Republican divisions and throw the Sen-

ate and House to the Democrats. To supposedly preserve his reputation, does Mr. Ryan have to stump for Mrs. Clinton all the way through November, or would a mere statement suffice?

Mr. Ryan's differences with Mr. Trump are obvious, not least on immigration, trade and national security—but so too are they with Mrs. Clinton. Despite claiming Mr. Trump is an existential threat to American democracy, Democrats have offered no concessions to the political center and Mrs. Clinton is running to the left of Mr. Obama.

Mr. Ryan sees his obligation as salvaging what he can for the cause of conservative reform in this dispiriting year. He can't control Mr. Trump but he's focused on what he can influence—namely, the House majority and down-ballot races. Despite GOP disunity, the Speaker has forged consensus around an ambitious package of reforms that could be deployed in 2017. Maybe Mr. Trump would refuse that agenda and indulge his politics of pique in the White House. But in that case Mr. Ryan's conservative critics should prefer as large a center-right majority as he can preserve to lead the opposition.

The same applies if Mr. Trump loses as badly as the polls say he might, or as badly as his current conduct deserves. The GOP House could be the only check against Mrs. Clinton and a Chuck Schumer-Elizabeth Warren Senate. If pundits think the economic anxiety on the right that fueled Mr. Trump's ascent is high now, check back after four more years of 1% growth and the damage that unified Democratic control of the government could do.

Meanwhile, Mr. Trump's Nehlen dalliance suggests he and his allies mean to purge the Ryan wing of the GOP from the new Trump Party. The New Yorker is indifferent to policy, but his supporters want to elevate what has always been a latent nativism and protectionism on the right into GOP litmus tests. That would be long-term disaster.

Whatever happens to Mr. Trump, this battle will last well beyond 2016. Those who hope for a more constructive, and more optimistic and inclusive, conservative politics should be looking for a way to preserve the GOP's non-Trump House and Senate majorities.

## British Brexit Inc.

Amid a slate of widely expected monetary moves from the Bank of England on Thursday, the notable surprise is that the central bank will start buying corporate bonds to support the economy. This isn't the liberalization voters were promised when they decided to leave the European Union.

### A vote for reform becomes an excuse for politicized credit.

Governor Mark Carney responded to widespread calls to cushion the economic blow of Brexit with a raft of measures that are conventional by today's exotic central-banking standards. He cut the target interest rate to 0.25%, and he resumed the bank's asset purchases to the tune of £60 billion (\$79.98 billion) in government bonds over six months.

The world's trendier central banks have gone much farther and set negative rates while blowing out their quantitative-easing programs. Mr. Carney was clear in saying that he could cut rates below 0.25% but that he wasn't inclined to go below zero. This is good news for British banks, which won't have to endure the de facto tax that is negative interest rates.

as welcome because they run so counter to the spirit of Brexit. The Bank of England will buy investment-grade corporate debt worth £10 billion over the next 18 months, targeting companies that make a "material contribution" to the British economy. The central bank hopes this will help cut borrowing costs to stimulate investment despite Brexit-induced uncertainty.

This creates a new channel for the politicization of credit, on top of home-lending programs concocted by Parliament and the Bank of England's funding-for-lending program to steer bank credit to businesses. This comes after Prime Minister Theresa May has promised new corporate regulations, such as standards for setting executive pay and mandates to put employees on corporate boards.

Mr. Carney no doubt faced considerable political pressure to offset the economic shock of Brexit with what he hopes will be monetary stimulus. The risk is that his actions take Britain further away from the economic model it will have to become to succeed outside the EU.

## Obama's Cash for Iran's Hostages

When is a payment for hostages not a ransom? When the Obama Administration says so.

That's how the U.S. State Department has tried to spin a \$1.7 billion settlement the U.S. reached with Tehran in January, when the nuclear deal was finalized and Tehran released five American hostages, including Washington Post reporter Jason Rezaian. The Administration insists the payment merely settled a separate dispute related to the aborted sale of military equipment to the Shah of Iran in 1979.

New reporting by the Journal's Jay Solomon and Carol Lee blows apart this story. On the day the U.S. hostages came home from Iran, an unmarked cargo plane landed in Tehran's Mehrabad Airport with cash amounting to \$400 million of euros, Swiss francs and other currencies. U.S. law forbids direct dollar transactions with Iran, and the \$400 million in cash wasn't disclosed to Congress. Justice Department officials objected but were overruled.

One reason the Administration is keen to deny that the cash was ransom is because it had already paid a high price by freeing seven Iranians charged or convicted of U.S. crimes and dropping extradition requests for 14 others. But the Iranians weren't satisfied.

As the Journal reports, "U.S. officials also acknowledge that Iranian negotiators on the prisoner exchange said they wanted the cash to show they had gained something tangible." Cash is an excellent way to pay terrorists, fund Hezbollah in Syria and the Houthis in Yemen, and buy dual-use, nuclear-related hardware—which Iran continues to do, according to reports from Ger-

### The payoffs encouraged the ayatollahs to grab more Americans.

many's intelligence services. The Administration is pretending this money is being used for strictly kosher purposes. "The revenue that's flowing to Iran is being used to support its currency, to provide moneys to the departments and agencies, build up its infrastructure," CIA Director John Brennan said last week. Has he heard the word fungible?

The Iranians are less shy about their hostage taking. Iran's negotiating team for the settlement payment "was largely staffed by members of its domestic spy service," the Journal reports. Iranian defense officials told the press the cash was "a ransom payment."

Oh, and Iran has taken three more Americans hostage and insists that the U.S. owes \$2 billion in assets frozen in 2009 to pay the victims of Iranian-sponsored terrorism. Supreme Leader Ali Khamenei this week complained that the U.S. isn't living up to the nuclear bargain and Iranians hadn't seen anything "tangible." The Ayatollah is clearly angling for additional payments for these new hostages. Iran also knows it can threaten to walk away from the nuclear deal if its new cash demands aren't met.

Sen. Tom Cotton wrote to the Administration Wednesday asking if the U.S. would pay to release the current hostages, and also whether "you are willing to clearly state that the January release of the hostages would have occurred even if the Administration had not agreed to pay \$1.7 billion to Iran." The American people aren't likely to get a truthful answer, but someone should ask Hillary Clinton if she thinks paying ransom for hostages encourages the world's thugs to take more Americans hostage.

## I Am Your Voice?



### WONDER LAND By Daniel Henninger

Donald Trump's statement Tuesday that he can't endorse the re-elections of House Speaker Paul Ryan or 2008 Republican presidential candidate John McCain or New Hampshire Sen. Kelly Ayotte means that Mr. Trump has separated himself from the party that nominated him.

He is essentially running for president the way he ran for the nomination—as an independent candidate inside the shell of one of the two major parties (as did Bernie Sanders). The election's importance for Supreme Court nominations or control of Congress still holds. But every Republican candidate in a tough race, such as Wisconsin's Sen. Ron Johnson, is on his own. The party's nominee has abandoned them.

One now must ask: Will Donald Trump also abandon the voters who have supported him for the past year by failing or even refusing to run a respectable campaign? Will he desert the people who put him in a position to compete for the American presidency?

In his Cleveland acceptance speech, Mr. Trump said: "These are the forgotten men and women of our country. People who work hard but no longer have a voice. I am your voice." Since Cleveland, Mr. Trump has forgotten the forgotten men and women who stuck with him.

Mr. Trump rose to prominence with an appealing message, make America great again. What he has done since becoming a presidential nominee has had virtually nothing to do with making America great again. Instead, it has been about him, his controversies and his critics.

Think of Mr. Trump's base of support as a series of concentric circles. The tightest circle includes the people whom Mr. Trump identified when he said: "I could stand in the middle of Fifth Avenue and shoot somebody, and I wouldn't lose voters." They will go down with the Trump ship no matter what.

Extending outward from this core are people who looked to Mr. Trump for a path out of their economic anxiety, for leadership and deliverance from the gagged world of political correctness. These people were not low-information voters. Giving their vote to Donald Trump in the primaries was a leap of faith, and they knew it. This is a change election, and he was their change agent.

Donald Trump, the master of the deal, is not holding up his end of the deal. Instead of being their voice, he is acting like a ventriloquist putting on his own one-man show.

It may be true that this election has disrupted almost everything we thought we knew about politics, such as the importance of having boots on

the ground to turn out voters in important battleground states such as Ohio, where instead Mr. Trump is alienated from the state's Republican leadership.

But one political rule that won't be overturned is that you have to get more votes than your opponent to win. Breakdowns of voting in the primaries show that both Mr. Trump and Hillary Clinton were supported by about 14% of eligible voters. Both need to expand the vote beyond that primary base. The Never-Hillary vote is ripe for such an expansion.

Donald Trump has said that he is redrawing the GOP election map by pulling into the party voters who normally do not vote Republican. They are variously called the new silent majority or Reagan Democrats.

I had an unexpected exchange with one of these voters at New York's La Guardia Airport while checking in to fly to the GOP's Cleveland convention.

### That Trump line may stand for the candidate's sellout of his faithful supporters.

The airline worker was a black woman, probably in her late 30s. Confirming that I was going to Cleveland for the GOP convention, she said: "I really don't know who to vote for. I'm a Democrat and so was my father. My father's favorite president was Ronald Reagan. He loved Ronald Reagan. Trump? Maybe. I don't know. I don't like the way Trump criticizes everyone all the time. I don't think that's right. I don't know what I'm going to do." She never mentioned Hillary Clinton.

Donald Trump isn't turning out new voters. He's turning them down. Every day, he's giving voters who might vote for his candidacy reason to abandon both him and the 2016 election.

In March at a rally in Arizona Donald Trump said: "My daughter Ivanka and my wife Melania say, 'Please, please act a little more presidential,' and I say, I can't until I finish my victory." He said he'd act more presidential when the time called for it. Well?

The past two weeks have revived the notion that while Mr. Trump doesn't want the humiliation of a loss, he doesn't want to be president either. His assertion that the election "is going to be rigged" sounds like someone who is retreating to a personal island, where he'll spend a lifetime trying to justify what he didn't do.

"I am your voice." Millions believed Donald Trump. That line is close to standing for the biggest sellout of a candidate's supporters in the history of America's presidential politics.

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## The Cost of Brexit Piles Up With Little Benefit in Sight

By Andrew Hammond

As Theresa May celebrates her first month as Britain's prime minister, she is realizing one of the great ironies of the U.K. referendum to leave the European Union. As it seeks to negotiate the terms of exit, her government must now devote more resources to the EU than previous administrations did before the vote. Such is the scale of the task that it could be the most complex and important peacetime negotiation the U.K. has ever faced.

Yet the country remains little wiser about the likely path to Brexit. Mrs. May has only said that the withdrawal process won't be triggered until at least 2017. Beyond that, all she has ventured is to say that "Brexit means Brexit," meaning that a second referendum is out of the question. She has said nothing about her preferred relationship with the EU.

Once the process begins, one of the most important negotiations will be over curbs on the free movement of people. This will likely cost the U.K. some access to the EU single market, on which many British jobs and investments depend. Here, Mrs. May will run head-on against those in the EU who demand that all four freedoms at the heart of the union—of people, of goods, of services and of capital—remain sacrosanct.

It won't be easy to complete these negotiations before the next general election in May 2020. Mrs. May has only a slim majority in the House of Commons, and so she may be tempted within the next year to call an early election to secure a new five-year term.

No matter the mandate, Mrs. May will still find it difficult to secure a better arrangement than the balance of influence and advantages the U.K. currently enjoys as an EU member. It has reaped all the benefits of the single market while remaining free of the eurozone and contributing a rebated amount to the EU budget.

Leading up to the referendum,

many looked to Canada, Norway, Switzerland and Turkey as examples of life outside the EU. Norway, for example, which has considerable access to the single market, is required to adhere to EU rules without being able to vote on them. It accepts the free movement of people, contributes to EU programs and budgets, and is still required to conduct customs checks on goods crossing into the EU.

### Leaving the EU will consume more of London's attention than staying in ever did, and may well yield a worse economic result.

Yet none of these nonmember countries enjoy the free movement of services with the union. Meanwhile, services account for approximately 80% of the U.K. economy. Brexiters have tended to ignore the implications of accessing the single market without EU membership.

Brexit also means the U.K. will no longer be party to the EU's 53 free-trade agreements. These will have to be renegotiated bilaterally in the coming years. And outside of the economic realm, there is no guarantee the U.K. could fully replicate the existing cooperation in areas such as policing and security.

All of these negotiations will require great resources and attention, more than the U.K. has probably ever devoted to the EU before. But the greatest irony of all is that, despite the effort, it's not clear that Mrs. May will be able to strike a deal that is better for the U.K. than the one that continued membership in the EU would have offered.

Mr. Hammond was a special adviser when the U.K. last held the presidency of the EU. He is an associate at the Centre for International Affairs, Diplomacy and Strategy at the London School of Economics.

OPINION

# Why This Recovery Is So Lousy

By Phil Gramm  
And Michael Solon

Donald Trump has been criticized by Democrats and Republicans alike for saying that “the American dream is dead.” But instead of slaying the messenger, critics on both sides of the aisle should be examining why so many Americans agree with Mr. Trump and why the Obama “recovery” has been so painful for so many.

When President Obama took office during the 2007-09 recession, no president was ever better positioned to lead a strong recovery. With an impressive electoral mandate, Mr. Obama enjoyed a filibuster-proof Senate supermajority, a

**Don't believe the line that slow growth is inevitable after financial crises. Bad policies yield bad results.**

79-vote House majority and a nation ready for change. History, too, seemed to smile on Mr. Obama's endeavor. The recession ended just six months into his first term and, with the sole exception of the Great Depression, every severe recession since 1870—when reliable annual data were first collected—had been followed by a vigorous recovery.

In his capacity to implement his program, Mr. Obama stood as a colossus with the fates on his side, the vast power of government at his disposal and no one—not Congress, the Supreme Court or the Federal Reserve—willing or able to deny his will. No resources were spared. The Obama \$836 billion

stimulus exceeded all previous U.S. economic stimulus programs combined. The Treasury borrowed over \$1 trillion a year for four years in a row, according to Office of Management and Budget data. The Federal Reserve injected \$3 trillion of new reserves into the banking system, generating record-low interest rates.

Every government forecaster predicted happy days would soon be here again. In August 2010, the Congressional Budget Office projected 3.3% average real GDP growth for 2010-15. The Federal Reserve forecast growth as strong as 3.7%. Mr. Obama's own Office of Management and Budget expected peak growth of 4.5%. And these estimates were conservative as compared with the actual recovery patterns that had followed every major recession except the Depression.

In the six decades from 1948 to 2007, the U.S. economy grew at an average annual rate of 3.5%, including all the negative growth years during 10 recessions, according to the Commerce Department's Bureau of Economic Affairs. Yet not once in the past seven years has annual economic growth ever reached 3%. Average real per capita income grew five times faster during the Clinton recovery, seven times faster during the Reagan recovery and 10 times faster during the Kennedy-Johnson recovery than during the Obama recovery.

In all recoveries following all 30 economic contractions since 1870, only two have failed to have strong rebounds after deep recessions. Only two are now labeled “Great” because of the long periods of suffering they caused. And in only two recoveries did government impose economic policies radically different from the policies pursued in all the other recoveries—different



George Segal's 'The Depression Breadline' sculpture in Washington.

than traditional policy but similar to each other—FDR's Great Depression and Mr. Obama's Great Recession.

From 1932 to 1936, federal spending skyrocketed 77%, the national debt rose by more than 73%, and top tax rates more than tripled, to 79% from 25%. But the tectonic shift brought about by the New Deal was the federal government's involvement in the economy, as a tidal wave of new laws were enacted and more executive orders were issued than by all subsequent presidents combined through President Clinton.

The resulting economic paralysis was described in 1936 by Al Smith, former New York governor and Democratic presidential nominee, as a “vast octopus set up by government that wound its arms all around the business of the country, paralyzed big business and choked little business to death.” Winston Churchill described U.S. Depres-

sion-era policies as “wages, prices and labour conditions grasped in muscular hands and nailed to an arbitrary framework.”

As government assumed greater control, private investment collapsed, averaging only 40% of the 1929 level for nine consecutive years. League of Nations data show that by 1938, in five of the six most-developed countries in the world, industrial production was on average 23% above 1929 levels, but in the U.S. it was still down by 10%. Employment in five of the six major developed countries averaged 12% above the pre-Depression levels while U.S. employment was still down by 20%. Before the Great Depression, real per capita GDP in the U.S. was about 25% larger than it was in Britain. By 1938, real per capita GDP in Britain was slightly higher than in the U.S.

When Mr. Obama replicated some of FDR's “progressive” policies, history was there to reteach

## Feeding Greece's Tax Addiction Is Starving Its Economy

By Yannis Palaiologos

The relative calm in Greece this summer compared to last year's chaos may lead outside observers to believe that the country's financial problems are on their way to being resolved. After all, the national government, led by the far-left Syriza party, seems committed to implementing the bailout program it signed last year. And negotiations are already under way for a deal on debt relief.

But these negotiations will likely take a long time. No one expects a meaningful restructuring of Greece's debt before the next German government is formed at the end of 2017. Until that happens, Athens will labor under requirements for budget surpluses that will suffocate the economy.

This has made a bad situation on the ground even worse. The combination of overambitious fiscal targets and widespread tax evasion has led, throughout the bailout period but especially under Syriza, to constantly rising tax and insurance-contribution rates, which leave even law-abiding, relatively

well-off Greeks unable to meet their obligations.

According to calculations recently released by the Kathimerini newspaper, once the full array of new tax and insurance-contribution increases come into effect early next year, real-estate owners who rent out their property may be forced to pay more than 100% of the income they earn in personal and property taxes. Self-employed individuals who make as little as €10,000 (\$11,195) a year will have to pay 60% to 74% of it in taxes and insurance contributions. Private-capital firms—a new category of company, introduced during the recent crisis and designed to boost entrepreneurship—will have to hand over 43% to 60% of their profits to the state, even for earnings as low as €5,000 a year.

It is worth examining some cases more closely. Someone who is self-employed and declares earnings of €5,000 a year will have to pay €1,750 in insurance contributions, €715 in income tax and €650 for the so-called liberal professions' levy. This last is a lump-sum imposed on everyone who is self-

employed, irrespective of income. What's left is net earnings of less than €1,900.

If a company that is classified as a general partnership declares profits of €5,000 a year, the Kathimerini analysis notes, it will get to

**Landlords face effective rates above 100%.  
Businesses pay 60%, and VAT soaks consumers.  
No wonder the economy remains stuck in reverse.**

keep little more than a quarter of those proceeds. Insurance contributions will eat up €1,752, income tax will require €942 and the professions' levy will take away another €1,000.

The statist philosophy of Syriza has led it to plug almost every fiscal gap that the demanding targets of the third bailout program have created by increasing tax and insurance-contribution rates rather than

cutting spending. Consider steps the government took to complete the first bailout review in June. In addition to increasing insurance contributions both for the self-employed and for most salary-earners, Athens pushed up rates on the value-added tax, on a property tax it had vowed to scrap, and on taxes on hotels, fuel, landline telephone and broadband services, cigarettes, alcohol, coffee and paid television.

As the Bank of Greece noted in a July report, the structure of taxation in Greece, as opposed to the rest of the developed world, is characterized by a greater reliance on indirect taxes than on the direct taxation of income and capital. The central bank notes that this imbalance, evident in the policies of the current government, entails greater economic inequality as VAT increases don't discriminate between the incomes of consumers and thus hurt the poor disproportionately. For a government of the left, this is a particularly damning indictment.

These policies are having a corrosive effect on tax compliance. Tax and contribution evasion, once the product of antisocial greed and the

lessons. Spending surged 18% in the first year of the Obama administration. The publicly held national debt more than doubled. Marginal tax rates on ordinary income rose by 24% and taxes on capital gains and dividends rose by 59%. American businesses toiled under the world's highest corporate-tax rate and the world's most punitive treatment of foreign earnings. Through law and regulation, government control of the economy grew as red tape that once had encumbered came to dominate health care, financial services, energy production and the internet.

Every 10 years between 1870 and 2007, incomes for each man, woman and child in America rose on average by 21.6%, according to census data and the Madison Project. This extraordinary achievement is the tangible measure of the extent to which the American dream actually came true. Only twice did that dream falter—in the Great Depression and the Great Recession. Whether we call it progressivism or socialism, bad policies produce bad results—not just sometimes in some places, but at all times in all places, even in America.

The dominant lesson of the Great Depression and the Great Recession is that when government overspends, overtaxes and overregulates, economic freedom is suppressed and economic growth vanishes. When growth fades, it takes the American dream with it. Give America back its economic system of freedom and opportunity, and the ensuing growth will bring back the American dream.

*Mr. Gramm, a former chairman of the Senate Banking Committee, is a visiting scholar at the American Enterprise Institute. Mr. Solon is a partner of US Policy Metrics.*

## Victory Is Slipping Away for Trump

By Karl Rove

Last month's Republican and Democratic national conventions showed that both parties are deeply split internally over ideology and personalities. Not only that, but their presidential nominees remain highly unpopular.

The GOP gathering in Cleveland was poorly produced and featured the presidential primary's runner-up, Texas Sen. Ted Cruz, in a prime-time appearance pointedly refusing to endorse Donald Trump.

The Democratic convention in Philadelphia was marred by supporters of Sen. Bernie Sanders, enraged by hacked emails from the

Democratic National Committee showing that the party establishment favored Hillary Clinton. They booed the party's chairwoman out of office and chanted “no more war” when Democratic leaders spoke of fighting Islamic State and al Qaeda.

Donald Trump and Hillary Clinton polished their flawed images, but the Democrat did a better job. Between July 17 and Wednesday, Mrs. Clinton's favorable rating rose to 40.6% from 38.4% in the Real Clear Politics average. Her unfavorable rating dropped to 53.9% from 56.2%. That's a total swing of four and a half points.

During the same period Mr.

Trump's favorable rating moved to 35.3% from 33.6% and his unfavorable rating to 57.9% from 60.1%, a total swing of 3.9 points.

The general-election campaign has hardly begun, and data from Gallup shows that both candidates are more widely disliked than any presidential hopeful since at least the 1960s. Even in October 1964, Barry Goldwater's unfavorability rating was 47%, while in October 1972 George McGovern's was 41%.

Mrs. Clinton appears to have received the bigger convention bounce. The day before the GOP gathering, she led Mr. Trump 43.8% to 40.6% in the Real Clear Politics average. By July 25, the Republican was in front, 44.3% to 44.1%. On Wednesday Mrs. Clinton was back ahead with 46.5% to his 42%.

Whether this boost is temporary or durable won't be known for a few days. But Mr. Trump's self-destructive actions in the past few weeks have given her the advantage.

He began the morning after his convention by devoting his news conference to again trashing Mr. Cruz, including reviving the crazy theory that the Texas senator's father was implicated in JFK's assassination. Mr. Trump then returned to his Manhattan penthouse for the weekend, going silent until “Meet the Press” that Sunday, where he proposed a 15% to 35% tax on imported goods.

Then the next week, amid charges that Russian hackers were behind the Democratic National Committee email dump, Mr. Trump suggested that maybe the Russians

could help find Mrs. Clinton's missing 30,000 emails.

Most damaging, Mr. Trump has for the past week battled with Khizr and Ghazala Khan, the Gold Star parents of a fallen war hero. He even mocked the grieving mother. This is unprecedented cruelty.

**He can still win, but only if he quits being self-destructive and chooses discipline.**

But that isn't all. On Sunday Mr. Trump suggested that the election is “rigged” because debates this fall were scheduled months ago on nights with NFL football games. He attacked fire marshals in Colorado and Ohio for enforcing the fire codes that limited how many people could cram into his rallies.

On Tuesday he refused to endorse two prominent Republicans up for re-election, House Speaker Paul Ryan and Sen. John McCain, in their primaries. Then he belittled Sen. Kelly Ayotte, a New Hampshire Republican facing a tough race that could determine whether the GOP keeps the Senate.

How does any of this advance Mr. Trump's agenda or reassure Americans that he is worthy of support? The nominee's defenders say that he “tells it like it is” and refuses to be “politically correct.” They are only enabling his worst instincts.

Imagine if Mr. Trump had opened

his postconvention news conference with a bold rallying cry on the issues and then spent three days barnstorming battleground states, appearing with workers, small-business owners and first responders.

Rather than fighting with the Khans, he could have seized on last week's lousy GDP report to explain how a Trump White House would result in more jobs, bigger paychecks and greater prosperity. Instead of grousing about debate schedules Sunday and attacking fire marshals, Mr. Trump could have responded to Mrs. Clinton's interview with Chris Wallace on Fox News, where she continued lying about her private email server.

No one on Team Trump—especially not the principal—appears to have a plan for what messages to emphasize and when. No one seems charged with watching what Mrs. Clinton says so the candidate can quickly volley back. No one restrains Mr. Trump before he activates his Twitter account. Ad hoc may be freewheeling and fun, but it often leads to defeat.

The White House is not out of reach for Mr. Trump, who now trails by 4.5% in the Real Clear average. But victory is slipping away. If he has more weeks like the dreadful past two, the gap between him and Mrs. Clinton is likely to widen and never close again.

*Mr. Rove helped organize the political-action committee American Crossroads and is the author of “The Triumph of William McKinley” (Simon & Schuster, 2015).*

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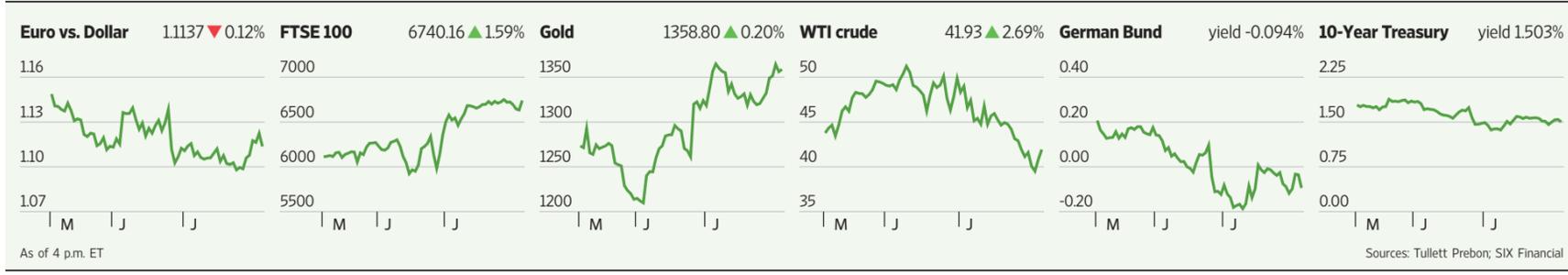
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# BUSINESS & FINANCE



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## Brexit Markup Hits Retail

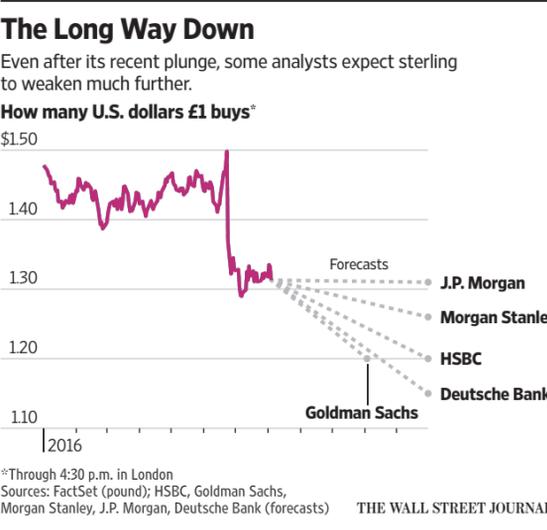
Some manufacturers are raising prices on goods in the U.K. as the pound weakens

By ANAIS VOSKI  
LONDON—The price of Brexit is starting to catch up to consumers here. The June vote by Britain to leave the European Union triggered a steep drop in the British pound, putting foreign companies and importers—including electronics manufacturers, clothing retailers and

car makers—in a bind: Do they raise prices in Britain to compensate for the falling value of sterling-denominated sales? Or do they hold tight, protecting market share at the expense of profit? In recent days, many of them have decided on price increases. Others are warning higher prices are on the way. U.S. and Asian electronics makers, whose component costs are typically in currencies like the dollar and yen, both of which have risen strongly against the pound, have been among the first to move. The pound is currently

down more than 10% against the dollar since the June 23 vote. Small shops along London's Tottenham Court Road, long a marketplace in the city for electronics goods, said suppliers, including Dell Inc. and HTC Corp., have raised prices for many products by about 5% to 15% in recent days. "Prices have definitely increased on all electronics," said Sohel Amin, a manager at electronics outlet Itbex UK Ltd. Texas-based Dell said in a recent statement the stronger dollar will have a direct impact on some of the products

it sells to U.K. customers. Sally Moore, a spokeswoman for the company, said the rate and timing of the increases vary across products, without offering details. Taiwan-based HTC said last week it would boost the U.K. price of its new Vive virtual-reality headset by about 10%, from £689 (\$918) to £759. It cited "recent currency valuation changes." An HTC representative declined to comment more specifically on the pricing of other products. Camera lenses and other components from Japan have



## Drive Is on to Recruit Bison Ranchers

U.S. consumers' newfound taste for the meat puts pressure on industry to find skilled herders

By JACOB BUNGE  
The U.S. bison industry is trying to draw more ranchers to where the buffalo roam. After collapsing in 2002, demand for bison burgers and steaks from retailers such as **Whole Foods Market Inc.**, **Wal-Mart Stores Inc.** and **Kroger Co.** is rising, sending processors and marketers on a recruiting drive to round up more producers to raise the hulking creatures. One major hurdle to recruiting ranchers: convincing them to handle animals that can grow to the size of a Mini Cooper, and sometimes get ornery. "That's like sticking bobcats in gunnysacks," said Lee Graese, a former bodybuilder who raises bison with his wife, Mary, a dietitian, near Rice Lake, Wis. "If you can run into it at 35 miles per hour with your pickup and it's still standing, you've got a pen that'll hold a bison." Bison-meat sales topped \$340 million last year, according to data from the National Bison Association. This is a tiny fraction of the more than \$100 billion in sales of cattle, hogs and poultry produced in the U.S. in

2015. But bison producers say their meat boasts an edge in the marketplace as consumers seek out more naturally raised protein, and sales have grown by 22% over the past five years. Fans say it tastes like beef, but leaner and slightly sweeter. Retailers like Whole Foods are getting their bison-meat orders filled, but Theo Weening, the company's global meat buyer, said he could sell a lot more. "I'd love to do a feature on ground buffalo or seasoned buffalo burgers, but if the supply is not there, we can't feature it," he said.

**22%**  
Growth in bison-meat sales over the past five years

Wholesale bison-meat prices, currently around \$4.50 a pound, have trod reliably higher, nearly doubling from January 2009 through June of this year. That outpaces a 42% increase for similar beef grades, a 41% rise in pork and an 18% gain for broiler chicken, according to U.S. Department of Agriculture data. Dave Carter, executive director of the Westminster, Colo.-based Bison Association, says the industry needs commercial-scale ranches like the beef industry has, capable of raising thousands more bison to further build the market. Cattlemen, he said, are natural candidates, beleaguered by a 20% decline in cattle-carcass prices since early 2015. In the often-punishing meat business, where ranchers and meatpackers contend with

## Pound Still Has Room To Slump

By MIKE BIRD  
The British pound tumbled against the U.S. dollar after the Bank of England surprised market watchers Thursday with its decision to simultaneously pull several monetary-policy levers to stimulate the economy. But since the U.K.'s June 23 vote to leave the European Union, sterling has defied expectations. Over the last month, the British currency has climbed from the 31-year lows reached in response to the Brexit referendum, to \$1.331 ahead of Thursday's meeting of the Bank of England.

changed his mind and would support stimulus measures. Since the BOE actually signed off on a more expansive program, forecasts for sterling may now be cut even further. So why are analysts expecting such a steep further sell-off? One reason for the downbeat calls is the U.K.'s whopping current-account deficit. The U.K. imports more goods and services than it exports, and it also sends more investment income abroad than it receives. That money needs to be matched somehow, in the form of overseas investors buying U.K. assets. In a July research note, HSBC analysts contrasted the U.K.'s situation to emerging markets like South Africa and Brazil, where lower foreign investor demand can move the currency sharply. The U.K. is not an emerging market, said the note, "but its deficits are even wider than these countries' deficits. So they do provide an insight into how the pound could behave."

The decline on Thursday—the currency fell by as much as 1.35% to about \$1.31 after the stimulus announcement—only weakened the pound to its lowest level in six trading days. Forecasts for sterling vary, but it is difficult to find analysts who expect the currency to rise over the course of the year. Among major investment banks, J.P. Morgan Chase & Co. is the most bullish, with an expectation that the pound will be at \$1.31 at the end of the year. That would leave it effectively unmoved from its current levels. At the other end of the spectrum, HSBC Holdings PLC and Deutsche Bank AG's foreign-exchange analysts expect the pound to drop to \$1.15 and \$1.20, respectively, by the end of the year. At Goldman Sachs Group Inc., analysts confirmed that they expect another aggressive selloff—taking sterling to \$1.20 in just three months—in a note on Tuesday. Markets had been expecting a reduction in interest rates at the very least from the BOE ever since Martin Weale, one of the most hawkish members of the Monetary Policy Committee, indicated that he had

Whether such a sharp drop in the British currency actually occurs still remains to be seen. Analysts and investors are flying blind. There have been few Brexit-like events to compare to the U.K.'s situation, and there is little clarity about how political events will unfold.

## BOE's Juggling Act Gets Riskier

No disappointment. Unlike other central banks, the Bank of England on Thursday overwhelmed markets by pulling every stimulus lever available to counteract the shock of Brexit—and making clear they could yet be pulled harder. This effort, while prudent for now, is further exposing the risks of aggressive monetary policy. Gov. Mark Carney and his colleagues certainly weren't timid. The BOE cut rates by a quarter percentage point to a record low 0.25%, with a further cut possible, although



BOE Gov. Mark Carney said positives outweigh dangers. Mr. Carney made clear that negative rates weren't in the cards. It launched a new program to provide up to £100 billion (\$133 billion) of cheap funding to banks to support

lending and reduce concerns about squeezed margins. And it announced plans to buy an additional £60 billion of gilts, taking its holdings to £435 billion, topped off with £10 billion of investment-grade corporate-bond purchases. Markets had priced in easing, but not such a big-bang approach. Sterling fell more than 2 cents against the dollar, 10-year gilt yields hit a record low, the FTSE 100 rose and sterling-denominated corporate bonds rallied. There are two trade-offs the BOE is juggling here. The first is a traditional one for central banks: growth versus inflation. The answer here is easy—the BOE is right to fo-

## Facebook Targets 'Clickbait' News

By DEEPA SEETHARAMAN  
Facebook Inc.'s war on "clickbait" rages on. The social network is altering the formula for its news feed to penalize publishers that churn out vague or mis-

leading headlines designed to lure users into clicking. Under the new formula, effective Thursday, posts from publishers that rely heavily on what Facebook considers clickbait will be placed in fewer news feeds and appear lower

in those feeds. The latest tweak to Facebook's news feed targets two types of headlines, those that "withhold information" and those that "exaggerate or mislead" users, Adam Mosseri, Facebook product manager for news feed, said in an interview. He offered an example of the first category: "Man jumps in pool with alligator—you won't believe what happens next." The second type might tease an outfit worn by singer Selena Gomez to the Emmys "but you click on it and it says she didn't go," he said. The changes apply to headlines on links to text articles but not videos. In Facebook surveys, users complain about posts with enticing headlines that ultimately



Facebook is promoting 'high-quality' content in its news feed.

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Anheuser-Busch said its global management team, including CEO Carlos Brito, above, would still be based in New York.

## AB InBev Managers Get Top Roles After Deal

By TRIPP MICKLE

Anheuser-Busch InBev NV executives will dominate leadership positions after taking over rival brewer SABMiller PLC, filling all but one position on an expanded executive management board.

Under a new structure announced Thursday, AB InBev said it would expand its executive management board to 20 people from 17 by adding geographic zones covering Africa, Australia and Colombia.

SABMiller's Mauricio Leyva, currently the managing director of African subsidiary SAB Ltd., will lead AB InBev's Middle Americas business from Mexico City and become the only SABMiller member of the combined brewer's executive management board.

The world's largest brewer said it would continue to be based in Leuven, Belgium, and its global management team,

including Chief Executive Carlos Brito and Chief Financial Officer Felipe Dutra, would continue to be based in New York. It will add zone headquarters in Johannesburg, Melbourne and Bogotá.

The company said it would keep SABMiller's offices in Woking, U.K., open during a transitional period. A spokeswoman declined to disclose the scope of potential layoffs but added that U.K. operations would be "significantly impacted" after the takeover.

The announcement comes less than a week after SABMiller's board recommended AB InBev's \$100 billion-plus takeover. In September, both AB InBev and SABMiller shareholders are expected to vote on the deal, which is expected to close on Oct. 10.

Gaining a foothold in the fast-growing African beer market was a major reason AB InBev pursued its No. 2 rival.

# Toyota Cuts Profit Forecast

Japanese auto maker says the stronger yen and challenges in U.S. will curb its outlook

By SEAN MCLAIN

TOKYO—Toyota Motor Corp. ratcheted down its earnings outlook after its first-quarter profit slid as the yen strengthened, becoming the latest major auto maker to raise a caution flag about slower growth in the U.S. and a murky global economy.

The world's No. 1 auto maker in terms of sales, Toyota has posted lower sales in the American market as consumers flock to sport-utility vehicles and pickup trucks. While the Japanese company has made considerable changes in recent years to increase the number of light trucks in its mainstream and high-end Lexus lineups, it is still far more dependent on passenger cars for volume, such as the Camry family sedan and Prius hybrid.

Toyota cut its full-year profit outlook 3% to ¥145 trillion (\$14.3 billion). Its prior forecast, given in May, had already projected a profit decline of more than one-third compared with the prior financial year in response to currency headwinds.



A Toyota showroom in Tokyo. Profit fell 15% in the latest quarter.

Historic weakness of the yen versus the dollar played an influential role in Toyota's run as one of the world's most profitable car companies.

Other Japanese auto makers, including Honda Motor Co., Nissan Motor Co. and Subaru parent Fuji Heavy Industries Ltd., also have blamed a stronger home currency for recent earnings weakness.

A stronger yen raises the cost of products Japanese companies sell abroad, and erodes those profits when they are repatriated.

As the U.S. automotive market plateaus after six years of strong growth, mass-market manufacturers are painting a mixed picture. General Motors Co. has projected contin-

ued momentum for U.S. competitors, but Ford Motor Co.—the market's No. 2 seller, after GM—said its 2016 outlook is in danger because of expected softness in second-half sales.

Toyota's U.S. sales fell 2.5% in the first half, and its premium-brand sales declined more than 4%, as buyers ignored the luxury sedans, SUVs and crossover wagons that the company has in its portfolio. The Japanese auto maker also lacks the significant presence in the highly profitable pickup segment that has allowed Ford, GM and Fiat Chrysler Automobiles NV to offset weakness in the U.S. market.

"Trucks and SUVs are 61% [of the U.S. market]; that is probably a record," said Tet-

suya Otake, Toyota's managing officer. To catch up in that segment, the company will increase production of its Highlander and Rav-4 SUVs with the aim of selling 30,000 additional vehicles in the financial year ending next March.

Toyota has been expecting a sharp drop in earnings from the ¥2.31 trillion it reported for its previous fiscal year.

Toyota has maintained a strong manufacturing base at home, producing roughly three million vehicles in Japan.

When a weak yen drove record profits, Toyota's production policy seemed like sound business judgment. But now Toyota plans to make more vehicles in the U.S. to soften the impact of the strengthening yen, Mr. Otake said.

Toyota won't cut production in Japan, but will cut costs instead, Mr. Otake said. Toyota's first-quarter profit declined 15%, as the adverse exchange rate erased ¥235 billion from operating income.

Toyota had predicted an exchange rate of 105 yen to the dollar for the year, but the yen is trading closer to 102. For the full year, Toyota expects a strong yen to reduce its operating income by ¥1.12 trillion.

The company reported a ¥552.4 billion profit for the April-June period, compared with ¥646.4 billion for the same period last year.

## BISON

Continued from the prior page whipsawing prices and shifting consumer tastes, shaggy bison have other attractions.

They are hardy, built to survive blizzards, happy to munch grass. Their meat is high in protein and produced without growth-promoting medications and hormones that have lost favor with some meat eaters.

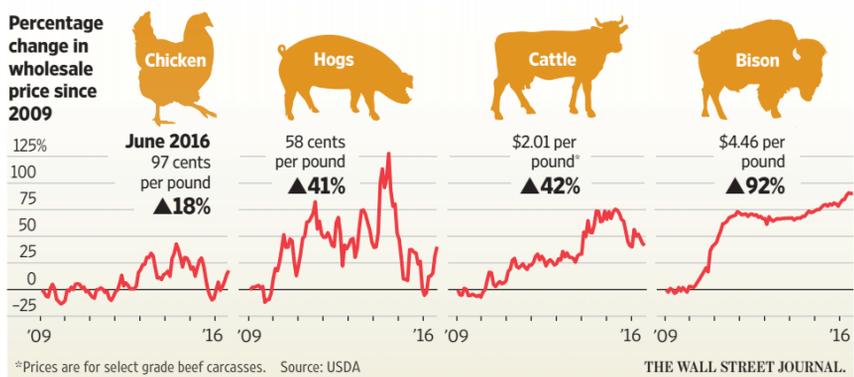
To clear ranchers' path to buffalo country, the Bison Association, a trade group, successfully lobbied the USDA for programs to help bison ranchers get disaster relief funds and offset the cost of fencing. The May designation of the American bison as the U.S. national mammal was a recent coup. (The bald eagle remains the U.S. national animal.)

There are signs the rancher drive is working. The Bison Association's number of active producers has climbed by nearly a quarter to about 850 from 2010 to 2016, and about a fifth of attendees at the group's recent winter conferences are first-timers, Mr. Carter said.

The group also drafted a 300-page guide to managing the animals and the industry. Advice includes "build a good

### Price Range

The value of bison has risen higher and more steadily over the past five years than for other meats.



fence," though "Jurassic Park corrals" aren't needed if a rancher forges a bond with the beasts. "Spend some time thinking about what we do with our bison and how it may look or feel from their perspective," the manual counsels.

Randy Miller, a former hair-salon magnate who left that business to raise about 1,000 bison across two ranches in Nebraska and Missouri with his wife, Jane, erred when he lugged a bucket past a female bison named "Muddy." She assumed it contained feed and exuberantly charged. Mr. Miller leapt into a hay bin, and

now tells people it was his own fault.

The bison industry has had its own close calls. Speculative investment into bison in the late 1990s, driven partly by troubles in the cattle business, pushed the price of animals to several thousand dollars a head. But the bison market struggled to soak up the meat, and a drought scorched grazing lands and forced ranchers to slaughter more animals. That created a glut that by 2002 had plunged prices below \$300 a head and drove many ranchers from the business.

Now, many in the bison

business call the collapse a blessing. Bison meat previously had struggled to tempt diners because of its high price, but it became a bargain for retailers and restaurants as bison flooded processors like Rocky Mountain Natural Meats, a Henderson, Colo.-based company that ranks as the largest U.S. processor of bison meat. "Some of those customers are still buying bison today at three to four times the price it was then, because they figured out it was a good product," said Bob Dineen, chief executive of Rocky Mountain.

## PRICE

Continued from the prior page been "especially up compared to before," said Yalcian Sezen, manager at Sunrise Photographic Ltd.

On Thursday, Steve Dirnberger, a 30-year-old freelance videographer and travel blogger from South Africa, was shopping for gear for a wedding shoot in the U.K. and said he was surprised by the prices.

"It came to a lot more than we expected," he said.

Apple Inc. iPhones and iPads aren't yet going up. The company hasn't adjusted prices to account for currency moves for any of the devices it sells here.

Germany's Continental AG—the world's second-largest automotive supplier by revenue—said Wednesday it had raised prices for its tires in the U.K., thanks to the big currency move. The company



Customers at a Currys PC World store in London last November.

declined to say by how much. Car makers themselves haven't yet disclosed any price increases, but executives in recent days have said it is only a matter of time.

"Everybody is now waiting for somebody to make the first step in terms of pricing adjustment," said Carlos Tavares, chairman of Peugeot-maker Groupe PSA, during an earnings call last week.

British clothing and home-products retailer Next PLC warned customers Wednesday that a price increase was likely. Hennes & Mauritz AB last month said the uncertainty surrounding Brexit would affect U.K. sales but didn't say whether it would raise prices.

There isn't yet comprehensive price data across sectors in the six weeks since the Br-

exit vote. But economists have raised inflation forecasts more generally, based on the falling pound and expectations of sharp imported inflation.

In its inflation report released Thursday, the Bank of England projected annual, non-energy import price inflation to reach 6% in the first quarter of next year, up from 1.3% in the year-ago period. It cited the falling pound and said inflation would feed into higher consumer prices eventually.

Market-research firm Euronmonitor raised its baseline inflation forecast for the U.K. after the Brexit vote. It has revised its forecast for next year up 0.7 percentage point, to 2.3%, and up 0.8 percentage point, to 2.7%, in 2018.

Big food retailers don't appear to have raised prices, and may not for some time. Many have hedges that insulate them somewhat from higher import costs.

—Saabira Chaudhuri contributed to this article.

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THE WALL STREET JOURNAL

## HEARD

Continued from the prior page cus on growth and overlook a possible rise in inflation. The bank lowered its forecast for growth by the largest amount ever, showing the economy crawling through the next 18 months. Despite the weakness, the bank does forecast a jump in inflation. But that is due to the steep fall in sterling, which will push up import prices.

The second is much trickier: the trade-off between

growth and financial stability. Globally, loose monetary policy has raised many worries about distorted markets. Mr. Carney repeated the mantra that bond purchases would push investors to take more risk. But this process risks inflating bubbles as the search for yield has already pushed bond prices sky-high and led investors to embrace riskier assets such as emerging markets and high-yield bonds. In the process, it has made the outlook for future returns poorer.

The BOE's bank funding

measure is more evidence of the risks that central banks are adding to the financial system. Low rates squeeze bank margins and hurt profits, making banks look weaker. Investors have sold off bank shares in part because of that weakness. And there is some evidence that low stock prices can make banks less likely to lend. The BOE plan is designed to offset that risk by giving banks cheap funding if they maintain or increase lending.

Mr. Carney insisted that the positive effects of the

stimulus outweighed the risks to financial stability, but the plan to aid banks makes it clear he is aware of the risks.

That judgment may be right in the short term. But increasingly, it is not just that monetary policy is at emergency settings, but the length of time it is continuing to spend there that is raising concerns. Markets have had a sugar rush from the BOE's policy action, but doubts about the long-term effects of policy makers' actions just got a boost too.

# Startups Take On Craigslist

By Rolfe Winkler

An arms race is heating up to replace Craigslist, the dominant force in online classifieds the past two decades.

Startup companies **OfferUp** and **Letgo** are surging in popularity among people looking to buy and sell everything from used clothes to used cars through their smartphones. And deep-pocketed investors are paying up for stakes in them even though they don't charge for their services today.

OfferUp is set to raise \$120 million in funding led by private-equity firm Warburg Pincus, say people familiar with the matter. The Bellevue, Wash., company's valuation would stretch to roughly \$1.2 billion from about \$70 million just two years ago.

The people familiar with the fundraising caution the deal isn't final and could still fall apart.

Rival Letgo has burst on the scene with \$100 million in new financing and an extensive TV ad campaign. Letgo's prominent backer, South African media giant **Naspers Ltd.**, owns other classifieds sites around the world.

Facebook Inc., meanwhile, is testing its own local classifieds service supported by ample cash and a social network with 226 million users in the U.S. and Canada.

The companies are gunning for Craigslist, which upended newspaper classifieds during the dot-com boom and now has 70 million U.S. visitors a month, according to comScore. But Craigslist appears vulnerable in the smartphone era: It has a modest website that has changed little since 1995, and relies on third-party mobile apps that can make placing ads clunky.

OfferUp, Letgo and a few other challengers are tailored for mobile. Sellers post ads after snapping photos with their smartphone camera. Buyers reach sellers quickly via text instead of Craigslist's slower email system.



Nick Huzar is chief executive of OfferUp, which is making a name for itself in online classifieds.

Morgan Wirz, a 19-year-old college student in San Francisco who recently picked up a desk chair on OfferUp, said texting makes it easy to reach sellers and the site is fresher looking. "Craigslist drives me nuts because it's ugly," she said. "It's like small font, Times New Roman, gross."

A Craigslist spokeswoman declined to comment.

Despite tougher fundraising conditions, OfferUp and Letgo are proving that startups can still persuade investors to pay for potential. The prize in online classifieds is the huge profit margin available to the winning site that solves the chicken-and-egg problem of building the biggest network of buyers and sellers.

Listing fees at privately held Craigslist generated sales of \$381 million and profit of \$300 million in 2015, estimates AIM Group analyst Peter M. Zollman. He argues the company could increase sales many times over by charging higher prices for a wider range of ads.

In a market one-sixth the size of the U.S., French classifieds service Leboncoin, a unit of Schibsted Media Group, had revenue of about €180 million (\$200 million) in 2015 and an

operating profit margin of 62%.

OfferUp was founded in 2011 by Nick Huzar and Areevan Veelen, two entrepreneurs who wanted a place to buy used goods from trusted online sellers. OfferUp is free for users, though it is testing ways to make money, say people familiar with the matter.

Cheap cars are popular on OfferUp, and investors are asking whether sellers would be willing to pay to list them, the people say.

Craigslist charges \$5 to list cars. eBay Motors charges some 10 times that, though the cars listed are typically higher quality.

An OfferUp spokeswoman declined to comment.

OfferUp's U.S. traffic nearly tripled over the past year to 12.6 million users, according to comScore, despite limited marketing. OfferUp had \$60 million of cash on hand as of May, two-thirds of its previous funding, said people close to the company.

The haul will increase to over \$200 million once the new investment is completed. Last year investors including mutual-fund giant T. Rowe Price and venture-capital firm Andreessen Horowitz valued

OfferUp at \$800 million.

Letgo, whose corporate name is **Ambatana Holdings BV**, has raised over \$200 million, according to a spokesman. That excludes Wallpop, a rival site whose U.S. operations were merged into Letgo in May.

Since launching its app last summer, Letgo has nearly matched OfferUp's traffic with 12.1 million U.S. users as of June, estimates comScore. Letgo's iPhone app ranked sixth in downloads in the shopping category on Wednesday, according to research firm App Annie, behind fourth-ranked OfferUp.

A series of humorous 30-second TV ads has raised awareness, showing people in dangerous situations clinging to something they don't need. "It's time to let go," the commercials declare.

The startups are keeping an eye on Facebook. Many of its users post items for sale, so last year it created a marketplace to collect the ads in one place.

A Facebook spokesman said the company is testing the feature. If it catches on, the social network could prove a formidable player in classifieds.

# China's UCAR Targets High End

By Kane Wu

HONG KONG—Meet an up-and-coming challenger in China's ride-hailing market: **UCAR Inc.**

**Uber Technologies Inc.**'s sale of its China operations to Didi Chuxing Technology Co. has opened up opportunities for smaller ride-hailing apps, and UCAR is quietly stepping up in the luxury end of the market.

The valuation of UCAR, an affiliate of China's largest car-rental business, **CAR Inc.**, rose to \$6.8 billion from about \$5.6 billion in the week after listing on China's over-the-counter market late last month.

Its heavyweight backers include U.S. private-equity firm **Warburg Pincus LLC** and a private-equity firm co-founded by **Alibaba Group Holding Ltd.** founder Jack Ma.

While Didi and Uber have flooded the market with cheap rides in private cars driven by nonprofessionals—sparking taxi-driver protests—UCAR offers a dedicated fleet of rental cars driven by chauffeurs.

It is a costlier experience, but regulations released last month that limit ride-hailing subsidies are expected to narrow the price gap. That gives UCAR hope that more riders could choose its service.

"UCAR is an upgrade to a taxi, not a replacement of it," said CAR Inc. Chief Financial Officer Wilson Li. "We are a supplement to public transportation."

UCAR remains several blocks behind Didi, which had 47 million active users in June. UCAR had about three million, according to research firm **Analysys International**.

That also put UCAR behind UberChina, at 13 million, and Yidao, China's oldest ride-hailing app, at a little more than four million. UCAR covers 55 cities in China, compared with 400 for Didi.

But the market opportunity remains substantial. Credit Suisse Group analysts forecast China's ride-hailing market will grow 78%, to \$68 billion, between now and 2020.

Beijing-based UCAR is run by 47-year-old Charles Lu, an entrepreneur who founded CAR Inc. in 2007.

UCAR has racked up significant losses of its own—including \$560 million in 2015—as it spends to expand its business. CICC analysts forecast a profit by 2017. While the smaller competitors face an uphill battle against the newly enlarged Didi, UCAR sees potential to carve out a lucrative niche.

—Eva Dou in Beijing contributed to this article.

## Road Race

How Didi Chuxing and its ride-hailing challengers in China stack up.

	Didi Chuxing	UCAR	Yidao
Valuation	\$36 billion*	\$6.8 billion	\$1 billion**
Headquarters	Beijing	Beijing	Beijing
CEO	Wei Cheng	Charles Zhengyao Lu	Hang Zhou
Cities covered	400	55	101 (24 outside China)
Daily orders for chauffeured cars	300,000	250,000	40,000

\*After acquisition of UberChina \*\*After LeEco bought a controlling stake last October Sources: the companies; CICC report (daily orders) THE WALL STREET JOURNAL.

# Nokia Reports Another Loss

By Matthias Verbergt

**Nokia Corp.** posted a net loss for the second consecutive quarter on expenses related to its acquisition of rival telecoms-equipment supplier **Alcatel-Lucent SA**, vowing to step up cost cuts amid tough trading conditions.

The Finnish telecom-equipment maker on Thursday reported a net loss of €665 million (\$741 million) for the second quarter ended in June, compared with a net profit of €347 million in the year-earlier period as a stand-alone company.

Excluding costs related to the Alcatel acquisition in addition to a range of other items that weren't necessarily indicative of Nokia's underlying performance, Nokia said second-quarter profit shrank 45% to €194 million from €355 million a year earlier.

Revenue, while up sharply at €5.68 billion on the Alcatel deal from €2.92 billion reported in the same period last year, fell 11% when compared with the €6.36 billion in combined revenue Nokia and Alcatel reported separately in the year-earlier second quarter.

Analysts, according to a poll by data provider FactSet, had estimated Nokia's second-quarter profit at €207 million



Nokia, with headquarters in Espoo, Finland, plans more cost cuts.

and revenue at €5.76 billion.

The decline in sales was largely due to a weak quarter in mobile networks, Nokia said. The Finnish company's sluggish three months mirrors a sector-wide trend of slowing demand and increased competition in wireless telecom gear.

In recent months, the industry has been hit by slower demand for network upgrades from telecom carriers in established markets, as many of them last year completed the rollout of new-generation wireless networks, while service providers in emerging markets face faltering economic growth.

At the same time, Nokia is facing competition from Chinese companies Huawei Technologies Co. and ZTE Corp., two players that have gained significant market share in a few years' time by offering innovative products at competitive prices.

Nokia said it now is targeting €1.2 billion in annual cost savings by 2018, compared with €900 million it had announced before.

It recorded around €600 million of restructuring and associated charges in the second quarter.

## CLICKS

Continued from page B1 mately disappoint the reader. But many of Facebook's 1.7 billion users can't help but click on such headlines.

Over the past 2½ years, Facebook has attempted to squash clickbait by pushing it down the news feed, while also promoting what it describes as "high-quality" content.

"The idea is to try to create incentives for publishers to create headlines that people want to read," Mr. Mosseri said.

In December 2013, Facebook said it would prioritize links to articles about current events over "the latest meme."

In 2014, Facebook began factoring in user behavior, rat-

ing an article as more likely to be clickbait if many users view a post for just a second or two and then return to Facebook, or if users "like" a post but then rapidly unlike it.

The changes reduced traffic from Facebook to some pub-

**Facebook takes aim at headlines that either 'withhold' or 'mislead' users.**

lishers. One example was social-media-centric publisher Upworthy, which drew 88 million unique visitors in November 2013. Since the Facebook changes, traffic to Upworthy's website has plunged. In July, its monthly unique visitors hovered around eight million,

according to Quantcast data.

"At the start of this year, Upworthy pivoted to focus its resources on video, and that decision paid off: just last month, Upworthy saw 330 million video views," an Upworthy spokesman said.

He added that Upworthy's unique views measure doesn't include Instant Articles, fast-loading articles hosted by Facebook. Instant Articles, launched last year, do not direct users to Upworthy's site.

To devise its new formula, Facebook created guidelines around what constituted clickbait and then asked employees to classify tens of thousands of headlines as clickbait or not. Facebook used this data to build software that reads every headline and gives it a score based on how similar it is to clickbait.

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BUSINESS NEWS

# Booksellers Await Anchor's Memoir

Fox News's Kelly got advance for her book in range of \$6 million; post-election release

BY JEFFREY A. TRACHTENBERG AND JOE FLINT

Booksellers have high hopes for Fox News star Megyn Kelly's coming memoir, "Settle for More," which promises the behind-the-scenes scoop on her public feud with Republican presidential candidate Donald Trump.

While the memoir was expected to be of interest because of the Trump material, booksellers say any revelations related to her former Fox News boss Roger Ailes would make it a more sought-after read. Mr. Ailes resigned last month in the wake of sexual-harassment allegations after 20 years with the network.

"If this book is her memoir, it will be hard not to have Roger Ailes in the book," said Cindy Dach, co-owner and general manager of Changing Hands Bookstore, which has ordered the book for both of its stores in Tempe, Ariz., and Phoenix.

A person familiar with the matter said Ms. Kelly was paid an advance for the book in the range of \$6 million.

Ms. Kelly's manuscript was due at HarperCollins in late spring, the person said. That was roughly two months before former Fox News anchor Gretchen Carlson sued Mr. Ailes for sexual harassment, alleging he didn't renew her contract because she complained about a hostile work environment and rebuffed his advances. He has denied the accusations.

The Kelly memoir is scheduled to be released Nov. 15, a week after the presidential election. A veteran publisher at a rival house said that, based on typical publishing timetables, there is still a window for Ms. Kelly to add new material if she chooses.

The hardcover edition will retail for a steep \$29.99, though Barnes & Noble Inc.'s website is offering signed, pre-order copies at a discount for \$21.50.

Barnes & Noble predicts it will be "one of the biggest books of the year," said Daisy



Fox News anchor Megyn Kelly moderated the Republican presidential primary debate in Des Moines, Iowa, in January.

Kline, the retailer's vice president of books. Terry Finley, chief executive of Books-A-Million Inc., which has a heavy concentration of stores in Republican-leaning states where readers devour conservative titles, calls it a sure best-seller in the U.S.

A summary on the website of the book's publisher, HarperCollins Publishers promises "never-before-heard details" of the Republican debate Ms. Kelly moderated that set off a monthslong conflict with Mr. Trump, as well as a discussion of "how she approaches gender in the workplace."

When Ms. Carlson filed her suit, Fox News parent company 21st Century Fox retained the law firm Paul, Weiss to investigate.

Ms. Kelly has been publicly silent on Mr. Ailes's resignation and alleged behavior, but New York Magazine reported in mid-July that Ms. Kelly told investigators that Mr. Ailes had made unwanted advances toward her years earlier, which he has denied. Ms. Kelly's lawyer would only say she was interviewed as part of the investigation.

If the news anchor side-steps the recent events at Fox News in her book, it could turn off readers and critics.

The book is embargoed, which means the publisher isn't releasing early copies.

"Reviewers tend to ask if there is a revelation here or not when it comes to a celebrity memoir," said Mark LaFramboise, buyer for the Politics & Prose bookstore in Washington, D.C. "The hope is that there will be."

Ms. Kelly posed tough questions to Mr. Trump during a presidential debate about disparaging remarks he made about women. He responded by attacking her on Twitter and in interviews, even saying she had "blood coming out of her eyes, blood coming out of her—wherever."

A lawyer by training, Ms. Kelly can often seem like she is prosecuting a case when interviewing guests.

She doesn't fit neatly into the mold of most Fox News prime-time stars. While Ms. Kelly has taken positions shared by many conservatives—she has questioned the validity of the Black Lives Matter movement and criticized Democratic efforts on gun control, such as the House Democrats' sit-in earlier this summer—she has at times stood out from colleagues by being a contrarian voice on some social issues including

women's rights. She also hasn't been afraid to challenge on-air assertions by colleagues, such as the time in 2012 when she took on commentator Karl Rove's election-night claim that Barack Obama hadn't won Ohio in the contest against Mitt Romney.

Over the past few years, ratings for her show "The Kelly File" have risen dramatically and she now averages 2.4 million viewers, according to Nielsen, trailing only Bill O'Reilly at the network.

Ms. Kelly's "Settle for More" has announced a first printing of two million copies, a large number by today's standards and 500,000 more copies than HarperCollins initially printed of Sarah Palin's 2009 best-seller "Going Rogue."

21st Century Fox and News Corp, which owns both HarperCollins and The Wall Street Journal, both count the Murdoch family as a major shareholder. Rupert Murdoch is executive chairman of News Corp and 21st Century Fox and became acting chief executive of Fox News after Mr. Ailes stepped down on July 21.

For the Murdochs' overall business interests, "Settle for More" could prove a tricky balancing act. New informa-

tion about Mr. Ailes's exit and the investigation could spur more publicity and sales, which would be good for HarperCollins.

On the other hand, such revelations could prove problematic for Fox News as it tries to move past this dark chapter.

HarperCollins is keeping mum on whether it has asked Ms. Kelly to provide additional material to address the scandal. It is also unclear whether Ms. Kelly, whose contract with Fox News is up next year, has a nondisclosure agreement that prevents her from divulging details.

A spokeswoman for HarperCollins declined to comment and said that Ms. Kelly was unavailable for an interview. A spokeswoman for 21st Century Fox also declined to comment. Mr. Ailes's lawyer, Susan Estrich, didn't respond to a request for comment.

One bookseller said if the book is light on revelations, it won't necessarily hurt overall sales.

"She'll do a media tour, and the publicity campaign will be enormous," said Sarah Bagby, co-owner of Watermark Books & Café in Wichita, Kan. "She doesn't have to go into the issue of harassment."

# Siemens Delivers Stronger Outlook

BY CHRISTOPHER ALESSI

MUNICH—German industrial giant Siemens AG managed to do in its third quarter what many of its rivals have struggled to achieve: earn money in the energy business.

Siemens on Thursday raised its guidance for fiscal year 2016 after strong results at the company's energy operations, in the latest sign that Chief Executive Joe Kaeser's promise to deliver profitability this year is on track.

The company now expects earnings per share from net income for the full year in a range of €6.50 to €6.70 (\$7.25 to \$7.47), up from a previous estimate of €6 to €6.40.

Quarterly net profit remained flat as a result of losses at some of the company's centrally managed portfolio activities, including from a stake in a heavy-metals joint venture.

Net profit totaled €1.33 billion (\$1.48 billion) for the three months ended June 30, compared with €1.36 billion a year earlier, beating analysts' forecasts. Analysts had predicted a net profit of €1.2 billion, according to a recent poll conducted by The Wall Street Journal.

The power and gas and wind divisions drove bottom-line growth. Profit at power and gas jumped 69% to €480 million, while wind profit more than doubled to €143 million.

## The German company's energy businesses drive bottom-line growth.

Revenue increased 5% to €19.8 billion. New orders rose 6% to €21.06 billion, boosted by growth at the power and gas and wind divisions.

Siemens's better-than-expected results come as other industrial companies, including U.S.-based General Electric Co. and Honeywell International Inc., have been weighed down by slow growth and low oil prices.

While Siemens has also been hit by overcapacity in the oil and natural-gas sector, it is capitalizing on large orders in power generation and renewable energy, while benefiting from a rigorous cost-cutting and restructuring program.

Investors and analysts have been looking at fiscal 2016 to be the year in which Mr. Kaeser's extensive restructuring measures, after years of stagnation, begin to pay off.

Siemens shares rose 4.5% to €101.15 in Frankfurt.

Analysts widely applauded Siemens's results.

"Very little of this is down to end markets," according to analysts at Jefferies. The "excellent" results are instead the result of Siemens "reducing costs, delivering large projects on time and on budget and winning share from competitors," the analysts said.

Growth at the power and gas business—held back in recent quarters by low oil prices—was boosted by large orders, including those related to the expansion of thermal plants in Bolivia. Revenue growth was also driven by the execution of the company's backlog, including an €8 billion power-generation deal with Egypt.

# Viacom Chief Tries to Look Beyond Legal Dispute

BY JOE FLINT AND LISA BELFUSS

A legal battle for control of Viacom Inc. continues to hamper the media company's ability to make deals and conduct business, but Chairman and Chief Executive Philippe Dauman said recent court decisions have him feeling optimistic about a possible resolution.

Last week, courts in both Massachusetts and Delaware said legal efforts to scrutinize the mental capacity of Viacom controlling shareholder Sumner Redstone can go to trial in October. In Massachusetts, Mr. Dauman and another Viacom board member are fighting their removal from a trust that will oversee 93-year-old Mr. Redstone's holdings in Viacom and its sister company, CBS Corp., after he dies or is incapacitated.

In Delaware, Mr. Dauman and four other directors are disputing their attempted ouster from the Viacom board.

"We view these favorable court rulings as positive steps that move us ahead toward a resolution," Mr. Dauman told analysts on a conference call to discuss the company's fiscal



'Teenage Mutant Ninja Turtles' was a box-office disappointment.

third-quarter results.

Before those rulings, Viacom had been engaged in settlement talks with Mr. Redstone's holding company, National Amusements Inc., that potentially could have led to Mr. Dauman's resignation and Chief Operating Officer Tom Dooley being named interim chief executive, people familiar with the matter said.

The legal tussle has slowed Viacom's efforts to sell a minority stake in its struggling Paramount Pictures movie unit.

The Wall Street Journal, citing people familiar with the

matter, has reported that Viacom is in talks with China's Dalian Wanda Group Co. to sell a 49% stake in Paramount in a deal that would value the studio at \$8 billion to \$10 billion.

"The process has slowed down in recent weeks," Mr. Dauman said of a possible Paramount deal. The recent court rulings, he expects, will allow Viacom management "to progress with several parties" and "create a better environment" to present potential sales to the board. National Amusements and Mr. Redstone, through representatives, have

questioned the wisdom of selling a chunk of Paramount, a key dispute that set off the recent power struggle.

Besides a Paramount deal, Mr. Dauman said the fight is "creating an overhang for our company." The uncertainty, he said, has led to a slowdown in talks for a significant subscription video licensing deal that he said would be a boost to the company's bottom line. Such a deal was expected to be completed already but has been delayed.

National Amusements reiterated its call for new leadership atop Viacom on Thursday, criticizing the "steep erosion" in the company's financial and operating performance. In particular, National Amusements highlighted Viacom's stock decline, exodus of creative talent, declining cable ratings and weakening credit rating outlook as reasons why its attempted board overhaul should proceed.

"The current board continues to allow Viacom to remain in a state of prolonged and costly paralysis, obstructing changes that are essential to revitalize the company's assets and create long-term value,"

National Amusements said.

In response, a Viacom spokesman said the company continues to execute on a strategic plan supported by independent directors.

For the quarter ended in June, Viacom reported a profit of \$432 million, or \$1.09 a share, down from \$591 million, or \$1.47 a share, a year earlier.

Excluding a tax benefit, per-share earnings fell to \$1.05 from \$1.47. The company was hurt by the continued weak performance at many of its cable networks including MTV, higher costs and a poor box-office showing. Revenue edged up 1.6% to \$3.12 billion.

Analysts polled by Thomson Reuters had projected \$1.01 in adjusted earnings per share on \$3.01 billion in revenue. Viacom had lowered its expectations in June.

Viacom's filmed entertainment revenue, meanwhile, rose 30% from a year earlier, thanks largely to higher licensing fees. But the underperformance of "Teenage Mutant Ninja Turtles: Out of the Shadows" and rising costs pulled the film unit to a loss of \$26 million, down from a year-earlier profit of \$48 million.

## Business Watch

### CHEVRON Oil Company Plans To Scale Back in Asia

Chevron Corp. is paring its Asia operations, selling assets valued at up to \$5 billion in an effort to raise cash, according to people familiar with the situation.

The California-based energy giant is set to begin selling its offshore China assets this

month, the latest in a series of divestments in Asia. The company is looking to raise up to \$10 billion globally from asset sales, a big chunk of which will come from its Asia upstream operations, as part of a broader effort to cut costs and adapt to an environment of lower oil prices.

Among the assets Chevron is looking to sell is its stake in an offshore oil-field production venture with China's state-owned oil company Cnooc Ltd., which could fetch as much as \$1 billion, according to people familiar with the situation.

The asset could be attractive to a range of potential bidders including Chinese energy companies and sovereign-wealth funds,

according to people familiar with the situation. —Kane Wu and Dan Strumpf

### SEAWORLD ENTERTAINMENT Low Attendance Hurts Revenue

SeaWorld Entertainment Inc. posted disappointing results Thursday as fewer people visited its Florida parks after a terrorist attack in Orlando and amid economic weakness in Latin America.

SeaWorld said Thursday it saw "an overall downturn in the Orlando market in the latter half of June." In the early morning of June 12, Omar S. Mateen killed 49 people at the Pulse nightclub in Orlando, the deadliest shoot-

ing attack in U.S. history.

Orlando is SeaWorld's headquarters and is home to its largest theme park as measured by attendance and revenue.

Attendance at the start of its critical summer season fell 7.6% to 5.98 million in the second quarter. The second and third quarters typically account for nearly two-thirds of annual revenue.

For the quarter, SeaWorld reported a profit of \$17.8 million, or 21 cents a share, up from a year-earlier profit of \$5.8 million, or 7 cents a share.

Excluding certain items, the company's profit was 21 cents. Revenue fell 5.2% to \$371.2 million.

—Austen Hufford



Attendance fell 7.6% at all SeaWorld parks. Above, San Diego.

RUARIDH STEWART/ZUMA PRESS

# FINANCE & MARKETS

## French Terror Fund Running Low

Government is in talks with AXA and others on a higher tax on insurance policies

By Nick Kostov  
and Alexia Liautaud

The surge in terror attacks across France is draining a fund for compensating victims faster than the insurance industry can replenish it.

President François Hollande's government has been in talks with France's largest insurer, AXA SA, and other industry players since February about how insurance companies can shore up funding of a government-run program that pays families of terror victims and people injured in attacks, AXA France Chief Executive Jacques de Peretti told reporters Wednesday. Government officials said they aim to announce an agreement in September.

"This contribution is quite insufficient to face up to the recurring terrorist acts," Mr. de Peretti said.

The potential shortfall is a measure of how the insurance industry must adapt to what some are calling a "new normal" across the Continent, in which people inspired by Islamic State and other radical groups carry out attacks on cafes, concert venues and other "soft targets" more frequently.

The government established the Guarantee Fund for Victims of Terrorist and Other Criminal Acts, or FGTI, in 1986 to prevent insurance companies from developing a cottage industry that might profit from the violence. The fund also provides insurers with a financial buffer from terror attacks.

The government requires insurers to fund FGTI through an "attack tax" on the 80 million policies currently in force across France, from auto- to life-insurance policies. Paris raised the attack tax to €4.30 (\$4.79) per policy from €3.20



A French flag and flowers form a memorial for the victims killed during an attack on the famed Boulevard des Anglais in Nice.

as recently as January. But industry players say that increase won't be enough.

"We are working with the public authorities to see how we can face up to this new need for funding probably via the increase in the tax and probably via other contributions that the government may make available," Mr. de Peretti said.

Even before the drumbeat of terror attacks began in January 2015 with the assault at the office of Charlie Hebdo magazine that killed 12 people, the FGTI was running a deficit, according to the fund's publicly disclosed accounts. At that time, annual compensation for terror victims was in the €10 million range, Mr. de Peretti said.

Since then, compensation has increased significantly, erasing some of the €1.3 billion in reserves the fund had at the end of 2015.

Government officials said the fund easily had the means to reimburse all the victims but said a concern would be compensating for future attacks.

The Nov. 13 Paris attacks that killed 130 people are estimated to cost €350 million in claims in the coming years, according to government officials.

The fund has compensated about 2,300 victims of those attacks so far, said Françoise Rudetzki, a member of the FGTI's board.

The attacks in Nice—in which a man drove a truck through a crowd of an estimated 30,000 people for more than a mile, killing 84 people and injuring hundreds more—also will be costly and complex to calculate. Under the rules of the fund, anyone within the official perimeter of the attack is eligible to claim compensation, even if they

didn't suffer a physical injury.

"A lot of people are becoming a lot more aware of the ability to claim for these losses—maybe this is kind of a claim culture, or a compensation culture that's crept in maybe from the [United] States," said Srdjan Todorovic, head of terrorism at insurer Allianz's corporate and specialty services business.

### 2,300

Victims of Nov. 13 Paris attacks that have been compensated so far

Ms. Rudetzki of the FGTI said family members of victims who died in the attack in Nice are likely to receive as much as €40,000. Those who were injured will be compensated depending on the severity of their injuries. There is no limit

on payouts for people who are deemed unable to return to work, she said.

On July 28, the government announced it had made the first payments to terror victims in Nice totaling €300,000. People who draw on the state-run fund can still claim payouts from private insurance policies that cover damages resulting from terror attacks, according to France's National Insurers Association.

Some insurers have responded by tailoring coverage to the shifting security environment, selling policies that cover international events ranging from terror attacks to violence during protests and other civil unrest.

Four months after the Charlie Hebdo attacks, Allianz began offering stand-alone terrorism insurance, Mr. Todorovic said, adding: "There's a growing sort of demand for this sort of business."

## London Isn't the Costliest City Now

By Art Patnaude

London has been knocked from its perch as the world's most expensive city to live and work in after Britain's vote to leave the European Union.

The U.K. capital is now third behind New York and Hong Kong, according to research on global cities from property broker Savills.

The research examines the costs for an employee to live in rented housing and work in an office for a year.

London had spent the last 2½ years at the top. But it fell in July because of the drop in sterling against the dollar and cooling U.K. real-estate markets, both of which accelerated after the EU referendum in June.

"Brexit has made London more competitive, at least in terms of cost," said Yolande Barnes, head of world research at Savills. "Of course, other factors might mean it won't be."

Following years of booming property values, London commercial real-estate prices have been falling, after gains had slowed before Brexit, while house prices in expensive neighborhoods have been declining for more than a year.

Meanwhile, in New York real-estate rents have increased marginally, Ms. Barnes said.

Total accommodation costs in New York for one employee over a year were \$114,010 in July, up 2% from December last year, the data show. The cost in Hong Kong was up 1% to \$100,984. London costs fell 11% to \$100,141.

In December of last year, "New York was nipping at the heels of London. They were virtually on par," Ms. Barnes said.

Tokyo climbed to fourth on the list, with accommodation costs rising 22% to \$85,334, the report said.

## MetLife To Pare \$1 Billion In Costs

By Leslie Scism

MetLife Inc. will cut \$1 billion, or 11%, in costs by the end of 2019 with some job losses, as the big insurer reacts to protracted ultralow interest rates that have pressured earnings of life insurers, the company said Thursday.

MetLife Chief Executive Steven Kandarian told analysts and investors during a conference call following Wednesday's disappointing second-quarter earnings that the cost cutting "will require us to reduce head count." MetLife shares were off 9% Thursday morning in New York.

The Federal Reserve has used ultralow interest rates since the 2008 global financial crisis to help revive the economy, and though rates had begun edging up, they were set back by the U.K.'s vote in June to exit the European Union, creating a flight to safety in U.S. Treasuries.

Insurers invest premium dollars from customers until the money is needed for claims, and U.S. life insurers typically favor longer-term, high-quality bonds, priced off the 10-year Treasury. The life-insurance industry has been among the hardest hit by low-interest rates around the globe.

Mr. Kandarian said he expects Treasury rates to remain "lower for longer," saying such a scenario "is not going away anytime soon and life-insurance companies will need to adapt." In the face of such low rates, "MetLife must do even more to avoid simply running in place."

The cost cutting will occur as the nation's biggest life insurer by assets continues with plans to divest a large part of its U.S. retail life-insurance operations, probably by a spinoff or initial public offering, for strategic and regulatory reasons.

## Beware Company 'Earnings Before Bad Stuff'

By Michael Rapoport

Regulators and investors are increasingly wary when companies overemphasize their own customized earnings metrics. New research shows they may have a point.

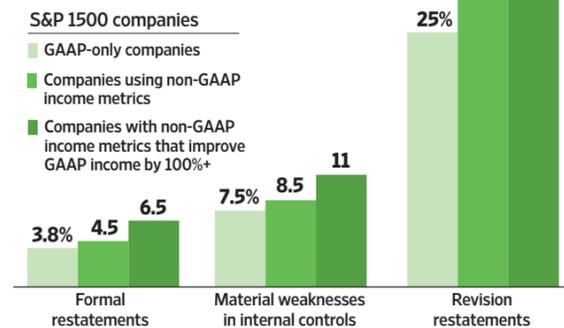
Companies that report significantly stronger earnings by using tailored figures like "adjusted net income" or "adjusted operating income" are more likely to encounter some kinds of accounting problems than those that stick to standard measures, according to research by consulting firm Audit Analytics.

The rules allow companies to report such tailored figures, and the research, conducted for The Wall Street Journal, doesn't necessarily mean such companies are less scrupulous in their bookkeeping. But it does suggest that heavy use of metrics outside of generally accepted accounting principles—sometimes referred to derisively as "earnings before bad stuff"—could be a warning sign.

"I would say an overprominent user of non-GAAP metrics would justify more attention and is a red flag," said Olga Us-

### Pushing the Envelope

Heavy users of 'non-GAAP' earnings metrics are more likely to encounter some accounting problems than companies that stick to GAAP measures.



Note: Companies' use and prominence of non-GAAP metrics are based on fiscal 2015 results. Restatements and other accounting problems are for 2011-2015.

Source: Audit Analytics

THE WALL STREET JOURNAL

vyatsky, Audit Analytics's vice president of research. Heavy use of non-GAAP metrics may indicate a company's accounting is "more aggressive," she said.

The study focused on companies in the S&P 1500 index. It found that just 3.8% of those exclusively using standard GAAP metrics had formal earnings restatements from 2011 to

2015. Among heavy users of non-GAAP measures—those whose non-GAAP earnings were at least twice as high as their GAAP net income—the rate was 6.5%.

Similarly, 7.5% of the GAAP-only group had material weaknesses in internal controls—flaws in their procedures to prevent financial errors and fraud—versus

11% of the non-GAAP group.

Some of the numbers are small, and the use of non-GAAP metrics didn't specifically cause or relate directly to the companies' accounting flaws. Audit Analytics cautioned more research is needed. Still, the results suggest companies using non-GAAP metrics heavily "may be somewhat less rigorous in other accounting areas" than companies using only GAAP, said Robert Pozen, a senior lecturer at the MIT Sloan School of Management.

Companies are allowed to use nonstandard metrics as long as they also provide GAAP numbers and show the differences between the two. The tailored measures strip out unusual or noncash items to present what companies say is a clearer picture of performance.

Even critics acknowledge the tailored metrics can sometimes be helpful—showing a company's results in constant currency is a legitimate adjustment, for instance, Mr. Pozen said.

But there is also a concern they are being abused, that companies are stripping out normal, ongoing costs to make

themselves look healthier.

A study in June by financial data-research firm Calcibench and corporate-compliance consultant Radical Compliance showed non-GAAP metrics inflated 2015 earnings by \$164.1 billion over GAAP at a group of 816 public companies.

In May, the Securities and Exchange Commission issued new guidelines warning companies against placing too much emphasis on non-GAAP metrics.

The commission also has been taking issue with companies' non-GAAP disclosures more frequently in comment letters criticizing the companies' SEC filings.

For each accounting problem examined in the Audit Analytics survey—restatements, control weaknesses and so on—the trend was the same. The problems occurred at relatively low levels in the GAAP-only group, at higher levels among all non-GAAP users and at still-higher levels among heavy non-GAAP users.

Any connection between non-GAAP metrics and accounting problems doesn't automatically signal aggressive practices.

## For U.S. Jobs Report, It Is the Moment of Truth

By Steven Russillo

Will the real jobs report please stand up?

May's disappointing 11,000 payroll gain was followed by June's robust 287,000 increase. The July data will be the tie-breaker. Projections suggest

the U.S. jobs market is somewhere in between the previous two months' numbers. That would put it in a sweet spot of solid but not overheated growth.

Economists polled by The Wall Street Journal forecast July nonfarm-payroll gains of 179,000. That would be

roughly identical to the six-month average of 172,000, but lower than the monthly averages of 229,000 last year and 251,000 in 2014. The unemployment rate is expected to have dropped to 4.8% from 4.9%.

Slowing jobs growth is consistent with labor-market performance in the latter stages of economic expansions. If that is true, the number to watch is average hourly earnings, which rose 2.6% in June, matching the biggest increase since 2009. That would show that hiring is slowing as workers become scarcer and, therefore, more expensive.

Higher wages often translate into inflation. That is

one reason the jobs report has broader implications for the Federal Reserve.

Between disappointing second-quarter U.S. growth, the Bank of England's interest-rate cut and expanded stimulus package, and the coming U.S. presidential election, investors are betting that a U.S. rate increase later this year looks increasingly unlikely.

Federal-funds futures show only a 12% likelihood of a rate-increase happening at the Fed's September meeting and 30% odds in December.

It would take at least decent jobs data to keep the prospect of a rate increase alive. A bad number likely

### Help Wanted

Average hourly earnings of private-sector workers, change from a year earlier



Source: Labor Department

THE WALL STREET JOURNAL.

would shut the door on such a move in 2016.

Investors cheered upbeat jobs numbers last month,

sending the Dow Jones Industrial Average up nearly 200 points that day. There was more relief that the jobs market rebounded than worries about the Fed raising rates.

This time, a very strong or a very weak number might make investors nervous. Even though the Dow snapped a seven-session losing streak earlier this week, it remains up more than 5% for the year and within striking distance of its record high.

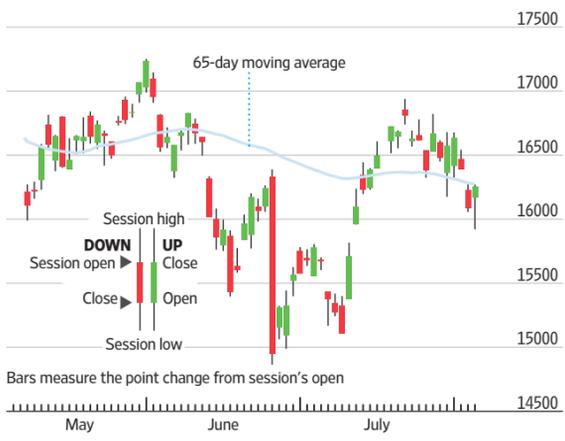
After two extreme jobs reports, one that falls in the middle might be just right for investors.

Email: [tape@wsj.com](mailto:tape@wsj.com)

# MARKETS DIGEST

## Nikkei 225 Index

**16254.89** ▲171.78, or 1.07%  
 High, low, open and close for each trading day of the past three months.



## STOXX 600 Index

**337.84** ▲2.26, or 0.67%  
 High, low, open and close for each trading day of the past three months.



## S&P 500 Index

**2164.25** ▲0.46, or 0.02%  
 High, low, open and close for each trading day of the past three months.



## International Stock Indexes

Region/Country	Index	Close	Latest NetChg	% chg	Low	52-Week Range Close	High	YTD % chg
<b>World</b>	<b>The Global Dow</b>	2394.50	10.08	▲0.42	2033.03	2547.27	2547.27	2.5
	<b>MSCI EAFE</b>	1662.62	9.12	▲0.55	1471.88	1956.39	1956.39	-3.1
	<b>MSCI EM USD</b>	877.46	9.28	▲1.07	691.21	1044.05	1044.05	10.5
<b>Americas</b>	<b>DJ Americas</b>	521.89	0.57	▲0.11	433.38	524.80	524.80	7.1
Brazil	<b>Sao Paulo Bovespa</b>	57542.16	465.25	▲0.82	37046.07	58030.38	58030.38	32.7
Canada	<b>S&amp;P/TSX Comp</b>	14526.98	14.93	▲0.10	11531.22	14609.02	14609.02	11.7
Mexico	<b>IPC All-Share</b>	46926.87	82.34	▲0.18	39256.58	47785.29	47785.29	9.2
Chile	<b>Santiago IPSA</b>	3206.25	12.57	▲0.39	2730.24	3243.62	3243.62	8.9
<b>U.S.</b>	<b>DJIA</b>	18352.05	-2.95	▼0.02	15370.33	18622.01	18622.01	5.3
	<b>Nasdaq Composite</b>	5166.25	6.51	▲0.13	4209.76	5199.13	5199.13	3.2
	<b>S&amp;P 500</b>	2164.25	0.46	▲0.02	1810.10	2178.29	2178.29	5.9
	<b>CBOE Volatility</b>	12.40	-0.46	▼3.58	11.40	53.29	53.29	-31.9
<b>EMEA</b>	<b>Stoxx Europe 600</b>	337.84	2.26	▲0.67	303.58	400.70	400.70	-7.6
	<b>Stoxx Europe 50</b>	2840.03	19.98	▲0.71	2556.96	3490.68	3490.68	-8.4
Austria	<b>ATX</b>	2187.67	21.09	▲0.97	1929.73	2515.09	2515.09	-8.7
Belgium	<b>Bel-20</b>	3427.34	26.13	▲0.77	3117.61	3853.21	3853.21	-7.4
France	<b>CAC 40</b>	4345.63	24.55	▲0.57	3892.46	5217.80	5217.80	-6.3
Germany	<b>DAX</b>	10227.86	57.65	▲0.57	8699.29	11669.86	11669.86	-4.8
Greece	<b>ATG</b>	556.62	5.01	▲0.91	420.82	731.18	731.18	-11.8
Hungary	<b>BUX</b>	27574.38	550.44	▲2.04	20452.90	28100.59	28100.59	15.3
Israel	<b>Tel Aviv</b>	1456.41	6.18	▲0.43	1378.80	1724.85	1724.85	-4.7
Italy	<b>FTSE MIB</b>	16236.41	106.57	▲0.66	15017.42	23992.48	23992.48	-24.2
Netherlands	<b>AEX</b>	444.47	4.11	▲0.93	378.53	503.22	503.22	0.6
Poland	<b>WIG</b>	47407.09	644.85	▲1.38	41747.01	53202.42	53202.42	2.0
Russia	<b>RTS Index</b>	927.50	16.96	▲1.86	607.14	975.21	975.21	22.5
Spain	<b>IBEX 35</b>	8385.50	122.00	▲1.48	7579.80	11330.00	11330.00	-12.1
Sweden	<b>SX All Share</b>	490.15	4.89	▲1.01	432.78	539.07	539.07	-3.0
Switzerland	<b>Swiss Market</b>	8081.14	71.04	▲0.89	7425.05	9517.99	9517.99	-8.4
South Africa	<b>Johannesburg All Share</b>	52543.37	10.61	▲0.02	45975.78	54760.91	54760.91	3.6
Turkey	<b>BIST 100</b>	76125.64	1573.49	▲2.11	68230.47	86931.34	86931.34	6.1
U.K.	<b>FTSE 100</b>	6740.16	105.76	▲1.59	5499.51	6780.05	6780.05	8.0
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	1429.69	10.15	▲0.72	1188.42	1481.22	1481.22	2.9
Australia	<b>S&amp;P/ASX 200</b>	5475.80	10.10	▲0.18	4765.30	5610.10	5610.10	3.4
China	<b>Shanghai Composite</b>	2982.43	3.97	▲0.13	2655.66	3993.67	3993.67	-15.7
Hong Kong	<b>Hang Seng</b>	21832.23	93.11	▲0.43	18319.58	24552.47	24552.47	-0.4
India	<b>S&amp;P BSE Sensex</b>	27714.37	16.86	▲0.06	22951.83	28298.13	28298.13	6.1
Japan	<b>Nikkei Stock Avg</b>	16254.89	171.78	▲1.07	14952.02	20808.69	20808.69	-14.6
Singapore	<b>Straits Times</b>	2831.96	4.38	▲0.15	2532.70	3196.66	3196.66	-1.8
South Korea	<b>Kospi</b>	2000.03	5.24	▲0.26	1829.81	2052.77	2052.77	2.0
Taiwan	<b>Weighted</b>	9024.71	23.00	▲0.26	7410.34	9080.71	9080.71	8.2

Source: SIX Financial Information; WSJ Market Data Group

## Currencies



Country/currency	Thu in US\$	per US\$	YTD Chg (%)
<b>Americas</b>			
Argentina peso-a	0.0673	14.8605	▲14.8
Brazil real	0.3121	3.2043	▼19.1
Canada dollar	0.7679	1.3023	▼5.9
Chile peso	0.001520	658.00	▼7.1
Colombia peso	0.0003260	3067.24	▼3.4
Ecuador US dollar-f	1	1	unch
Mexico peso-a	0.0531	18.8471	▲9.6
Peru sol	0.2994	3.3395	▼2.2
Uruguay peso-e	0.0338	29.560	▼1.2
Venezuela boliviar	0.100100	9.99	▲58.4
<b>Asia-Pacific</b>			
Australia dollar	0.7637	1.3094	▼4.6
China yuan	0.1506	6.6410	▲2.3
<b>Europe</b>			
Bulgaria lev	0.5694	1.7563	▼2.4
Croatia kuna	0.1488	6.718	▼4.2
Euro zone euro	1.1137	0.8979	▼2.5
Kazakhstan tenge	0.00412	24.267	▼2.5
Czech Rep. koruna-b	0.1497	6.6788	▼2.8
Denmark krone	0.003579	279.40	▼3.8
Hungary forint	0.008267	120.97	▼7.1
Iceland krona	0.1186	8.4329	▼4.6
Norway krone	0.2594	3.8547	▼1.8
Poland zloty	0.01521	65.732	▼8.6
Russia ruble-d	0.1174	8.5209	▲0.9
Sweden krona	1.0272	0.9735	▼2.8
Switzerland franc	0.3322	3.0104	▲3.2
Turkey lira	0.0401	24.9220	▲3.9
Ukraine hryvnia	1.3127	0.7618	▲12.3
<b>Middle East/Africa</b>			
Bahrain dinar	2.6513	0.3772	▲0.02
Egypt pound-a	0.1126	8.8800	▲13.4
Qatar riyal	0.2612	3.8278	▼1.7
Kuwait dinar	3.3144	0.3017	▼0.6
Oman sul rial	2.5976	0.3850	▲0.01
Qatar riyal	0.2746	3.642	▼0.03
Saudi Arabia riyal	0.2666	3.7505	▼0.1
South Africa rand	0.0731	13.6867	▼11.6
<b>WSJ Dollar Index</b>	86.47	0.03	▼0.03

## Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasuries on benchmark two-year and 10-year government bonds around the world. Data as of 3 p.m. ET

Coupon	Country/ Maturity, in years	Yield	Latest	Spread Over Treasuries, in basis points	Previous	Month Ago	Year ago	Previous	Month ago	Year ago
3.250	<b>Australia</b> 2	<b>1.488</b>	83.7	81.5	103.2	118.1	1.486	1.629	1.913	
4.250	10	<b>1.953</b>	45.0	39.3	57.4	52.1	1.939	2.018	2.747	
1.250	<b>Belgium</b> 2	<b>-0.598</b>	-124.9	-123.5	-117.6	-90.7	-0.564	-0.578	-0.175	
1.000	10	<b>1.145</b>	-135.7	-134.0	-138.3	-125.8	0.206	0.061	0.967	
1.000	<b>France</b> 2	<b>-0.544</b>	-119.5	-120.0	-116.1	-92.0	-0.529	-0.564	-0.188	
0.500	10	<b>0.129</b>	-137.4	-135.4	-127.9	-127.0	0.192	0.164	0.955	
0.000	<b>Germany</b> 2	<b>-0.608</b>	-125.9	-126.8	-126.6	-97.6	-0.597	-0.668	-0.243	
0.000	10	<b>-0.094</b>	-159.7	-158.1	-158.1	-162.2	-0.036	-0.137	0.603	
0.250	<b>Italy</b> 2	<b>-0.091</b>	-74.2	-72.2	-71.6	-66.7	-0.051	-0.119	0.066	
1.600	10	<b>1.146</b>	-35.7	-32.4	-28.2	-45.1	1.221	1.162	1.774	
0.100	<b>Japan</b> 2	<b>-0.176</b>	-82.7	-84.6	-91.9	-72.2	-0.175	-0.321	0.011	
0.100	10	<b>-0.076</b>	-157.9	-163.0	-169.2	-183.3	-0.085	-0.248	0.392	
4.000	<b>Netherlands</b> 2	<b>-0.592</b>	-124.3	-124.4	-119.8	-94.6	-0.574	-0.601	-0.213	
0.500	10	<b>0.005</b>	-149.8	-148.2	-149.8	-140.5	0.064	-0.055	0.820	
4.450	<b>Portugal</b> 2	<b>0.400</b>	-25.1	-23.6	-36.1	-35.2	0.435	0.237	0.380	
2.875	10	<b>2.853</b>	135.0	138.1	152.7	16.1	2.927	2.970	2.387	
0.250	<b>Spain</b> 2	<b>-0.174</b>	-82.5	-83.0	-78.2	-62.4	-0.159	-0.185	0.108	
1.950	10	<b>1.016</b>	-48.7	-45.9	-29.4	-36.1	1.087	1.150	1.864	
4.250	<b>Sweden</b> 2	<b>-0.656</b>	-130.7	-131.2	-123.6	-113.6	-0.641	-0.639	-0.404	
1.000	10	<b>0.122</b>	-138.1	-140.7	-127.1	-148.9	0.138	0.173	0.736	
1.250	<b>U.K.</b> 2	<b>0.117</b>	-53.4	-46.7	-45.3	2.0	0.204	0.145	0.752	
2.000	10	<b>0.647</b>	-85.5	-74.1	-60.1	-32.9	0.805	0.842	1.897	
0.750	<b>U.S.</b> 2	<b>0.651</b>	...	...	...	...	0.671	0.597	0.732	
1.625	10	<b>1.503</b>	...	...	...	...	1.546	1.443	2.225	

## Commodities

Prices of futures contracts with the most open interest 3:30 p.m. New York time

Commodity	Exchange	Last price	Net	One-Day Change Percentage	Year high	Year low
<b>Corn</b> (cents/bu.)	CBOT	330.75	-4.25	-1.27%	449.00	329.00
<b>Soybeans</b> (cents/bu.)	CBOT	955.25	-0.25	-0.03	1,186.25	868.00
<b>Wheat</b> (cents/bu.)	CBOT	403.50	-6.75	-1.65	533.75	399.25
<b>Live cattle</b> (cents/lb.)	CME	114,550	-0.650	-0.56	125,475	105,250
<b>Cocoa</b> (\$/ton)	ICE-US	2,997	4	▲0.13%	3,241	2,745
<b>Coffee</b> (cents/lb.)	ICE-US	141.95	1.55	▲1.10	154.80	117.15
<b>Sugar</b> (cents/lb.)	ICE-US	19.79	0.75	▲3.94	21.22	12.92
<b>Cotton</b> (cents/lb.)	ICE-US	75.82	1.53	▲2.06	76.19	54.19
<b>Robusta coffee</b> (\$/ton)	ICE-EU	1818.00	-9.00	-0.49	1,866.00	1,400.00
<b>Copper</b> (\$/lb.)	COMEX	2.1735	-0.0250	-1.14	2.3295	1.9690
<b>Gold</b> (\$/troy oz.)	COMEX	1367.70	3.00	▲0.22	1,384.40	1,066.00
<b>Silver</b> (\$/troy oz.)	COMEX	20.420	-0.051	-0.25	21.225	13.930
<b>Aluminum</b> (\$/mt)	LME	1,630.00	-11.50	-0.70	1,695.50	1,451.50
<b>Tin</b> (\$/mt)	LME	17,980.00	5.00	▲0.03	18,250.	

FINANCE & MARKETS

# Rate Cut Will Pinch Banks

To ease the pain, the BOE is also offering lenders ultracheap four-year borrowing

BY MAX COLCHESTER AND MARGOT PATRICK

LONDON—The Bank of England's decision to slice interest rates by a quarter of a percentage point ramps up pressure on profits at U.K. banks and will spur cost-cutting drives.

The move to a record-low rate of 0.25% on Thursday was widely predicted by the market following Britain's vote in June to leave the European Union. The cut will again pinch the difference between what banks make on their assets and how much they pay out in interest.

To ease the pain, the BOE is also putting in place ultracheap four-year loans to goad banks to pass on the rate cut to borrowers. U.K. bank shares ticked up on the news.

In earnings reports last week, British bank executives warned that, although a rate cut was unlikely to have a material impact on their bottom lines, it would cut into already slim margins.

HSBC Holdings PLC said Wednesday that a 0.25-percentage-point rate cut would shave around \$100 million off its net-interest income—or the difference between interest earned on loans and interest paid on deposits—this year, and an estimated \$200 million next year assuming no further rate cuts. Lloyds said last week it would incur a £100 million (\$133 million) hit to interest income from a rate cut over the next 12 months.

In its half-year report, Barclays PLC modeled an £82 million fall in interest income at its U.K. division from a rate cut. Royal Bank of Scotland Group PLC, which reports results tomorrow, is expected to feel the biggest impact, according to RBC Capital Markets analysts.

On Thursday, banks re-



HSBC said a 0.25-percentage-point rate cut would shave about \$100 million off net-interest income.

mained coy about whether or how the lower rate would be passed on to savers. For borrowers, the lower rate is expected to quickly flow through to the wider economy, as a large chunk of U.K. mortgages are indexed to the base rate.

Most of Barclays's mortgage book is composed of tracker mortgages, Finance Director Tushar Mozaria said last week. Lloyds said there is about £70 billion of variable-rate loans that will reprice following the rate cut.

The prevailing reaction to persistently low rates has been to continue with cost cuts.

Lloyds has announced plans to shed 3,000 more jobs. HSBC said that the rates were a factor in freezing its dividend at current levels "for the foreseeable future." Barclays and Lloyds broadly kept financial guidance steady last week despite the looming cuts.

For policy makers, the focus has been on ensuring banks keep lending.

As interest rates drop close to zero, banks and building societies may struggle to cut deposit rates further, which could then stymie any cuts to

**The main fear is that rates will continue to drop into negative territory.**

interest rates on loans. The central bank's "Term Funding Scheme" of ultralow-rate loans could stimulate £100 billion of extra lending, the BOE said.

The central bank, which predicted the economy would slow in the aftermath of Brexit, has already taken steps to ensure that banks continue to pump credit into the economy.

In July, it relaxed bank-capital rules, a move aimed at getting an extra £150 billion of loans into the economy.

Bank executives said the moves were helpful but, in reality, the most important factor post Brexit was helping sustain consumer and investor confidence.

"I actually think the symbolism of action and being prepared to step in and being able to talk in a confident fashion and about standing behind the economy kind of matters more," George Culmer, Lloyds's finance director said last week.

The main fear now is that interest rates will continue to drop into negative territory. RBS has been the only bank to publicly state that it would charge small-business owners to deposit cash in the event of interest rates going negative. HSBC also said that would be the likely outcome.

# China Gets Closer To CDS Rollout

BY SHEN HONG

SHANGHAI—China is edging closer to launching its own version of a popular hedging tool that protects investors in case of defaults, as the world's No. 2 economy struggles to cope with slowing growth and record numbers of companies not paying back debt.

The National Association of Financial Market Institutional Investors, an industry body backed by China's central bank, has consulted major banks and brokerage firms in recent weeks about the planned rollout of credit-default swaps, or CDS, three people familiar with the situation said.

The swaps would pay out if the issuer of a bond or a loan defaults, said the people, who were briefed by the regulator on the matter.

The regulator, which oversees China's \$8.5 trillion inter-bank bond market, has drafted guidelines and standardized contracts for the product, one that has in the past two decades become a key tool in global markets to hedge government and corporate debt, the people said.

The investor association has hired a group of lawyers to help align its swaps rules with internationally accepted practices and is expected to ask the People's Bank of China for formal approval to launch the market soon, one of the people said.

Officials at the association couldn't be reached for comment.

The planned rollout of rules for swaps reflects the pressures China faces as it tries to attract more investors, including global players, to a swelling bond market, even as debt defaults soar.

China's domestic bond market has had 39 defaults totaling roughly 25 billion yuan (\$3.8 billion) this year, already exceeding the total of 20 defaults totaling 12 billion yuan for all of last year.

In 2014, there were five such defaults, following one in 2013.

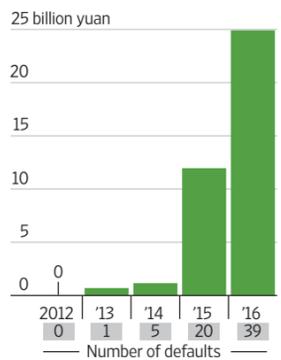
"If the [plan] is carried out well in China, it will certainly be a big help to investors," said Wang Ming, a partner at Shanghai Yaozhi Asset Management Co., a bond fund that manages two billion yuan in assets.

China experimented with a less sophisticated version of a credit-default swap called a credit-risk-mitigation agreement, or CRMA, in 2010, in the wake of a credit binge.

But the CRMA market never took off, because the state kept bailing out insolvent companies instead of letting them default, in the interests of financial and social stability.

## Soaring Defaults

Value of defaults in China's domestic bond market



Note: 1 billion yuan = \$150.5 million  
Source: Wind Info

THE WALL STREET JOURNAL.

Now, there are signs that Beijing and the country's local governments are becoming more tolerant of debt defaults as the economy weakens further and governments feel increased fiscal strains.

"The timing is indeed better now for CDS to be introduced to China. Given that all kinds of defaults are on the rise, I think demand will be quite robust," Mr. Wang said.

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# HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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## How Long Can Adidas Keep Pace?

**Adidas** customers never tire. That is the message the company's breathless adverts seem designed to convey. But it may work better on teenage football fans than on investors.

The company hasn't missed a step this year. Thursday's second-quarter numbers showed constant-currency sales growth of 21%, driven by a revitalized brand in all major markets.

So why did the shares slip on Thursday? The obvious explanation is that these results were so much better than analysts expected that the company was forced under German law to release key figures last week. But that can't be the whole story.

It could be that investors are starting to find a forward earnings multiple of 30 a bit rich. The key justification is the company's scope to boost its North American margin, which significantly lags behind that of rival **Nike**. A change of boss has raised expectations. And second-quarter numbers were encouraging. The regional operating margin leapt from 2.6% to 9.4%.

Scale has been Adidas's key problem in North America. Its sales there are still less than a quarter of those of Nike. It is now rapidly building scale. That is thanks in part to a shift in management strategy that gave the U.S. boss more autonomy, for example, to sign up top athletes in local sports. But the company has also been helped by a fad for retro sneakers. Some investors may be betting this fashion will fade, and Adidas's U.S. recovery with it. To maintain the heady valuation, Chief Executive Kasper Rorsted needs to keep the pace.

—*Stephen Wilmut*

## What \$40 Oil Means for Oil Firms

It all seemed to be going so well, but European oil groups have stumbled again.

As the second quarter was closing, it looked as though fears over dividend cuts at the highest yielding of Europe's big-five energy companies, **BP** and **Royal Dutch Shell**, might finally ease.

After all, oil prices had ridden a strong, sustained recovery and investors' faith was growing that these companies really were tackling costs and changing their business models to suit cheaper oil.

But now the bumps are back. Second-quarter results were disappointing and the oil price is down about 20% in the past two months.

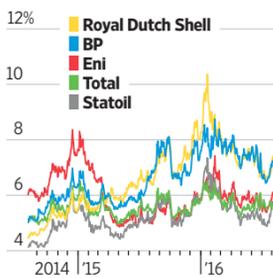
The results showed that even before prices began to slide, investors and analysts had got a little ahead of themselves, particularly with regard to cash flows.

The five big European groups, **BP**, **Shell**, **Total**, **Eni** and **Statoil**, began the year on consensus forecasts of \$7 billion in total free cash flows for the next four quarters, according to Morgan Stanley analysts. By the end of June, that rolling four-quarter forecast had leapt to \$25 billion.

That is far away from how the five companies have been performing. Free cash flows actually have been worsening, and recent results took cumulative flows for the past four quarters at the big five down to minus-\$23 billion, according to Morgan Stanley.

### Forward Guidance

Forecast of dividend yields one year ahead



Sources: FactSet; Bloomberg News (photo) THE WALL STREET JOURNAL.

Companies with negative



free cash flow can support dividends with higher debt for a while if they think rising commodity prices are going to bail them out, but not forever.

BP and Shell are trading with dividend yields above 7%, while Eni, which cut its dividend last year, is at 6%, and Total and Statoil are closer to 5.5%.

There is some good news: BP has reached the end of its big payouts related to the

Macondo disaster in the Gulf of Mexico, which has long been a drag. Meanwhile, Shell is on course to realize far greater cost savings from its BG Group acquisition than promised. Both will get benefits to their cash flows from these factors.

Despite second-quarter hiccups, analysts still are forecasting a big recovery in cash flows and profits in 2017 and beyond. But these depend on a pickup in crude prices: At UBS, for example, forecasts are based on oil at \$60 a barrel on average next year, \$70 in 2018 and \$75 thereafter.

And companies are working to lower breakevens, with BP aiming for a business that works at \$50 to \$55 a barrel. Brent crude has been below that level for most of the past year; it closed at \$44.29 Thursday.

Nevertheless, payout promises will need to be revised if stuttering global growth and oil back in \$40s is a taste of more disappointments to come.

—*Paul J. Davies*

## OVERHEARD

Analysts are making quarters great again.

With operating earnings for companies in the S&P 500 tracking a 2.4% decline from a year earlier, investors may be laboring under the illusion that the second quarter wasn't all that good.

But anyone tuning into earnings calls with analysts might have left with a different opinion.

The expression "great quarter, guys" shows up in the transcripts of 12 earnings calls from July 1 through Wednesday—the most over similar reporting periods since 2014.

Showing up even more frequently: "Congrats on a great quarter"—analysts doled out that bit of praise to 31 companies.

But the prize goes to **Abiomed**, a medical-device company that reported results last week that topped estimates, and sent its shares higher. Four of the seven analysts on the call offered their congratulations on the quarter, saying it was "great."

## How AIG's Restructuring Plan Shut Down Its Critics

Six months ago, **American International Group** was defending itself from activist investors calling for a three-way split of the company.

Now, strong earnings are helping to silence those critics.

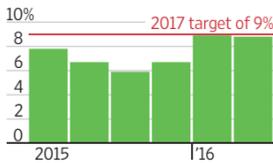
AIG's net profit rose 6% from a year earlier in the second quarter, even as the insurance giant continues to shrink itself and boost efficiency.

The earnings beat analysts' forecasts, sending shares sharply higher on Wednesday.

Importantly, AIG's numbers show it making rapid progress on the restructuring plan announced by Chief Executive Peter Hancock in January.

### Turn in Progress

American International Group's normalized return on equity



Note: Normalized ROE excludes one-time gains and losses, and other items. Source: the company

The strategy called for expense discipline, returning capital to shareholders, and a pruning of the property and casualty business.

Each plank of the strategy is being realized.

Operating expenses in the second quarter declined by 11% from a year earlier, after stripping out currency effects.

Since the start of the year, AIG has returned \$7.9 billion to shareholders in the form of share buybacks and dividends, putting it slightly ahead of schedule to meet its target of returning \$25 billion over two years.

And in the property and casualty unit, there are signs that the initiative to exit from poorly performing product lines is bearing fruit. Net premiums written fell by a fifth. The accident year loss ratio, a measure of insurer losses against premium income, fell

by 4.2 percentage points in the second quarter, to 62.4%. That brings it close to the 60% level that the company hopes to reach by the end of next year.

As a result of all this, return on equity rose to 8.6% from 6.8% a year earlier. The company's goal is to reach a normalized ROE, excluding one-time gains and other items, of around 9% by next year.

Of course, AIG still faces risks. Most notably, stubbornly low interest rates threaten the profitability of its life-insurance operations by hitting its investment returns.

The company estimates

that if rates stay at their current low level, it will reduce operating income by \$250 million to \$350 million in 2017, relative to their expectations at the start of the year.

Because AIG's restructuring is ahead of schedule, they can afford this hit. If rates fall further, more adjustments will be necessary.

But AIG's strong results mean it has earned some breathing room from critics. Rather than leaping to take drastic measures like breaking up a company to appease agitated investors, sometimes it makes sense to focus first on fundamentals.

—*Aaron Back*

## FINANCE & MARKETS

## Banks Are Downbeat on Oil Again

By **Georgi Kantchev**

Banks are getting bearish on oil again.

Analysts have cut their outlook for oil prices for the first time in four months, concerned about a continued oversupply of crude that has already sunk this year's market rally.

A survey of 13 investment banks by The Wall Street Journal predicts that Brent crude, the international oil-price benchmark, will average \$56 a barrel next year, down by more than a dollar from June's survey. The banks expect West Texas Intermediate, the U.S. oil gauge, to average \$55 a barrel next year, down almost a dollar from the previous survey.

Oil prices nearly doubled earlier this year amid expectations that falling U.S. production would help ease the oversupply that has plagued the industry for the past two years. But that rally has petered out in recent weeks as big oil producers increase their output and gasoline inventories continue to swell.

"There is still a lot of oil out there and the sentiment is pretty bearish," said Michael Wittner, chief oil analyst at Société Générale SA. "For the time being, the path of least resistance for oil prices continues to be lower."

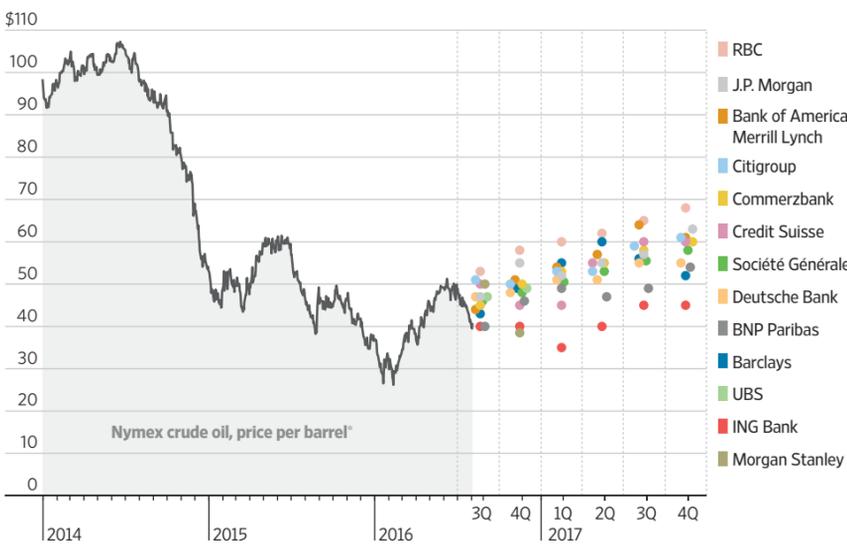
U.S. crude entered a bear market earlier this week, dipping below \$40 a barrel for the first time since April. On Thursday, U.S. crude for September delivery rose \$1.10, or 2.7%, to \$41.93 a barrel. Brent crude futures rose \$1.19, or 2.8%, to \$44.29 a barrel.

The banks in the survey see oil prices staying below \$50 a barrel until the end of this year and rising to \$60 a barrel by the end of next year. Last summer, many of the same banks were predicting oil prices would rise to more than \$70 a barrel this year.

At the end of July, hedge funds and other speculative investors had cut their bullish bets on Brent to their lowest

### Looking Ahead at Oil Prices

Where investment banks in July's survey see the price per barrel of U.S. crude-oil futures in the next few quarters



\*Through Aug. 3 Source: WSJ Market Data Group (Nymex crude prices); the companies

in more than five months, data from the Intercontinental Exchange Inc. showed on Monday. Last week, speculative investors in U.S. crude added nearly 15 times more bets on the crude price falling than on it rising, according to data from the U.S. Commodity Futures Trading Commission.

### A glut of gasoline world-wide is dragging down prices of oil.

One of the main culprits for the reversal in the oil price is a growing glut of gasoline globally. Refineries have taken advantage of the fall in oil prices and gone on a buying spree in the past two years. Consumption hasn't been able to keep up as companies have refined that oil into products such as gasoline, leading to a near-record 500 million barrels of the fuel being put into storage around

the world, according to Citigroup Inc.

Few oil producers, meanwhile, show signs of cutting output. Russian production is running near the post-Soviet high it reached earlier this year. Production from Canada and Nigeria, where a spate of outages knocked off more than three million barrels a day in the spring, is now coming back online.

While U.S. crude output continues to decline—last week it fell to 8.5 million barrels a day, from 9.5 million at the same time last year, according to official data—some drillers have ramped up activity in recent weeks.

On Friday, Baker Hughes Inc. reported that the number of rigs drilling for crude in the U.S. has risen by three to 374, the fifth straight week of increases. That could slow production declines and even cause output to start rising again, analysts say.

"The timeline for market rebalancing has slipped in recent weeks, through a combination of weaker demand

growth, a quicker rebound in supply from Nigeria and stronger-than-anticipated output from Saudi Arabia, Russia and others," analysts at J.P. Morgan said in a recent report.

Concerns about the global economy have also clouded the outlook for crude. Analysts say that Britain's surprise vote to leave the European Union in June could have knock-on effects on oil demand in Europe. Still, few analysts expect prices to fall to the decade lows of below \$30 a barrel that were hit in the first quarter of the year.

—*Ben Dummett.*

## Finance Watch

### Company Hires

**Two M&A Veterans** Rothschild & Co. has hired two veteran mergers-and-acquisitions bankers as the European firm seeks to expand in North America.

James Neissa, who had been global co-head of investment banking at UBS AG, will oversee Rothschild's North American operations, the firm plans to announce. Lee LeBrun, who was co-head of mergers for the Americas at UBS, will become head of M&A for North America at Rothschild. The men will assume their new roles in September and be based in New York.

Deal advisory has been a bright spot for banks as M&A volume surged to a record last year and continues to be relatively robust. Smaller firms like Rothschild have been drawing talent from larger rivals, some of which continue to experience turmoil nearly a decade after the financial crisis. Including Messrs. Neissa and LeBrun, Rothschild has hired 11 investment bankers at the managing director level or higher in North America over the last three years, for a current total of 31.

—*Ben Dummett.*

### SUNCORP

### Natural Disasters

### Weigh on Profit

**Suncorp Group** Ltd. said its annual net profit fell 8.4% as natural disasters increased pay-

outs for insurance claims and premium growth across the industry remained subdued.

The bank and insurance company reported a net profit on Thursday of 1.04 billion Australian dollars (US\$789 million) in the year through June, compared with A\$1.33 billion a year earlier. Storms wreaked havoc on Australia's east coast in December and June with torrential rain and tornado-like winds that flooded homes, removed roofs, overturned vehicles and resulted in several deaths.

Suncorp said it had bought additional reinsurance protection for the 2017 financial year to reduce potential volatility caused by future natural hazards. Delivering his first full year result since becoming chief executive, Michael Cameron said an organizational restructure—completed in early July—positioned the company to achieve targets that include a flat cost base in the 2017 and 2018 financial years.

—*Rebecca Thurlow*

### WOORI BANK

### Vietnam Subsidiary Set to Be Approved

The **State Bank of Vietnam** said Thursday it has agreed in principle to allow South Korea's Woori Bank to open a wholly-owned unit in the country.

South Korea is among the largest sources of foreign investment in Vietnam, with several large South Korean firms turning Vietnam into their key production bases to take advantage of cheap labor and the free-trade pacts Vietnam has signed.

The central bank said Woori Bank will need to complete paperwork before it receives a license to open the unit, adding that it has approved a list of proposed executives for the unit.

—*Vu Trong Khanh*

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# Effortlessly We Roll Along

Can someone in so-so shape—who rarely pedals over anything bigger than a speed bump—enjoy mountain biking? These ingenious two-wheelers make off-roading seem like a ride in the park

BY BRIGID MANDER

**B**IKING ON a paved road has its charms—but it can't beat winding through a piney forest or a picturesque meadow on a dirt trail. Off-roaders experience the world differently: The scents are more pleasant, and there's only the sound of the wind in the trees and your bike's knobby tires scrunching over the earth.

As idyllic as this all sounds, we know what you're thinking: *Yes, coasting downhill seems fun enough, but what*

*about the slog back up?*

Fortunately, quantum leaps in bike design are making off-road riding more accessible than ever. Highly efficient mountain bikes take some of the sweat out of climbing hills. So-called "fat-tire" bikes can roll over virtually any terrain, from sandy beaches to gravelly paths. And the electric-bike revolution is finding its way to the trail, too: Off-road models with electric-assist motors can help you traverse arduous stretches that would otherwise leave you panting.

Born in the 1970s as a niche pastime for thrill-seekers who put balloon tires on

bike frames and careened downhill, mountain biking is now mainstream. According to the Outdoor Industry Association trade group, an estimated 40 million Americans mountain bike each year. The market has evolved to meet the demand. Sales of all-terrain fat-tire bikes increased sixfold between 2013 and 2015, according to market-research firm NPD Group, and growth in independent-bike-shop sales has largely been driven by mountain and electric bikes.

For beginners, that means more choice: Now anyone can find a model to fit his or her body type and skill level. The down-

side? Shopping for a bike can be a paralyzing experience, an overwhelming blur of various suspension types, wheel sizes and frame designs.

There's no substitute for hopping on a bike and testing it out—evaluating how the suspension responds, how well the tires grip and whether the frame puts you at an angle that makes you feel secure heading up and down hills. But the guide on the following page can give you the lay of the off-roading land. No matter what type of ride you choose, the key is to get out there and discover your inner kid. And what better place to do that than on a dirt trail?

**TEA AND EFFICIENCY** The \$8,900 carbon-frame Alchemy Arktos—one of the new-breed trail bikes—offers 6 inches of shock absorption front and rear.

PHOTO ILLUSTRATION BY JOE DARRON; GETTY IMAGES

**FOR THE EASIEST WAYS TO OFF-ROAD ON TWO WHEELS, TURN TO PAGE D2**

## OFF DUTY

# A STATE OF SUSPENSION DISBELIEF

FOR EASY CLIMBS AND LESS-BUMPY DESCENTS

## Trail Bikes

Until a few years ago, most mountain bikes were good at going uphill or going downhill—not both. That's because bikes that made zooming downhill more fun (and a lot less jittery) lacked the efficient suspension systems and energy-efficient frame designs that let you ascend a trail with minimal effort. Likewise, bikes that made climbing less of a grind lacked features like extra-cushy suspensions that eased a rough descent.

No more. "It's been a collective learning experience in the bike industry," said Matt Maczuzak, co-owner and engineer at Alchemy, a boutique carbon-bike-frame maker in Denver. "This latest generation of bikes has worked out the kinks."

The contrast between the old and new bikes—both in terms of your comfort and exertion level—is extreme. And although you'll find the biggest upgrades at the top-end of the mountain-bike range, less-expensive models sport advanced features, too. "There's a trickle-down effect making even the lower-end bikes much better," said Erik Swanson, owner of Adventure Cycling in Aurora, Colo. "You can get a good bike now starting around \$1,700, with parts that were expensive, high-end technology a few years ago."

Still, those willing to invest a few thousand more will be rewarded with the most responsive, efficient and stable options. It's hard to convey how much easier these bikes are to ride than the mountain bikes you may have grown up with. "People are surprised at all these bikes can do," said Mr. Swanson. "They say, 'Oh man, that really does make a difference!' It just makes riding trails all the more fun, which is the whole point."

At right, two of our favorite picks from the forefront of mountain-bike design.



### Yeti Beti SB5c ▶

Like most new bikes, this carbon-frame model features simplified 1x11 gearing to reduce weight (there's no front shifter or superfluous front gears) but still pedals efficiently. Bonus: The pared-down gearing lets you focus on the trail rather than what gear you're in—an advantage for riders at any level. Thanks to its effective suspension design, the SB5c climbs superbly and deftly handles anything from smooth beginner trails to tough terrain on the way down. This model is tailored for women—it has shorter pedal cranks and handlebars, and its shocks have been tuned for a lighter-weight rider. Those looking for a similar unisex model can check out the Yeti SB5c. \$6,899, [yeticycles.com](http://yeticycles.com)

### ◀ Alchemy Arktos

What gives this incredibly responsive and lightweight carbon-frame bike its buttery ride? A game-changing suspension system that offers 6 inches of shock absorption front and rear yet goes uphill without dissipating the energy you put in. As you ascend, the suspension stays soft when you gently roll over small bumps (so they don't throw off your cadence) but stiffens up in response to the jolts of your pedaling, which helps give the bike its stellar uphill performance. As you descend and hit rocks and roots with greater force and speed, the suspension goes soft again for a plush, fun ride—all without requiring you to make any adjustments to the suspension. \$8,900 as shown, [alchemybicycle.com](http://alchemybicycle.com)



### ▲ Specialized Levo FSR Comp 6Fattie

At first glance, this mountain bike with a hidden integrated motor looks a lot like a standard trail bike. And despite a little extra bulk and a hefty 47-pound weight, it also rides and handles similarly to a normal bike. But hit the pedals harder to engage the electric-assist system—which puts out a max 530 watts to boost your leg power—and everything changes. Even if you're a seasoned biker, pedaling with the assist is too much fun to feel like cheating. Download the companion smartphone app to plan trail routes within the battery's range to ensure the battery doesn't conk out before you do. \$5,500, [specialized.com](http://specialized.com)

### ▼ Haibike XDURO FullSeven S RX

With 4 inches of suspension-travel front and back, the FullSeven shines on smoother, less-aggressive trails. The smaller shocks make bigger bumps and drops more jolting but also allow the bike to switch easily from a narrow dirt track to pavement (where it's equally pleasant to pedal). The 350-watt Bosch motor delivers a maximum pedal-assist speed of 28 mph, but even with the motor turned off it was unexpectedly easy to ride flat terrain. The battery is lockable and removable to thwart thieves. A digital display on the handlebar keeps battery life, speed, and other data in sight—no smartphone required. \$4,700, [haibikeusa.com](http://haibikeusa.com)



FOR A LITTLE HELP ALONG THE WAY

## E-Mountain Bikes

Electric mountain bikes first came on the scene in Europe, then took off in the U.S. a few years ago. Initially, they mostly attracted riders unable to power up trails on their own. But as the bikes got better, their appeal broadened.

Unlike some e-bikes that do all the work for you, electric mountain bikes don't offer a completely effort-free ride. Instead, these electric-assist models only output power to help you out when you're already pedaling. The effect is like discovering that you're suddenly a lot stronger than you thought.

Trey Chace, a Jackson, Wyo.-based cinematographer, bought several e-mountain bikes earlier this year so that his parents, who are in their 70s, could join him on dirt roads and easy trails together. "I don't think my parents have been on bikes since they were kids. These are so fun for them," he said.

As an experienced mountain biker, he was surprised to find himself a convert, too. "I'm perfectly able to ride without help, but this is the most fun I've had on a bike in a long time" said Mr. Chace. "Plus, it goes 20 mph eas-

ily, so I can take it around town to get coffee or do errands instead of jumping in my car."

While e-bikes are prohibited on trails designated for nonmotorized vehicles, a vast network of U.S. Forest Service and Bureau of Land Management roads and trails do allow them. (Check with local bike shops or rangers before heading out if you're unsure.) At the end of the day, a little common sense goes a long way: Be considerate of other bikers (especially those pedaling up an incline the old-fashioned way as you breeze by).

FOR TRAVERSING SAND, DIRT AND SNOW

## 'Fat' and 'Plus' Bikes

Fat bikes have been mass-produced for over a decade, but their tank-like appearance still catches people off guard. "The number-one shop curiosity is the fat bike," said Shepard Grinker, owner of mountain-bike specialist Tenafly Bicycle Workshop in Tenafly, N.J. "People want to know where you would ride one. The answer is everywhere."

According to fans, a quick spin on a fat bike around a potholed city block, much less a woody trail, will likely win over doubters. Despite the slightly comical appearance of the 4- to 5-inch-wide tires, fat bikes have benefited from the same advances as other mountain bikes, including

simpler shifting, nimbler handling and lighter frame designs. Some now have customized suspensions to add to the already generous bounce provided by the wheels.

Dave Willmott, a bank project coordinator in Victor, Idaho, happily ditched his traditional mountain bike for a front-suspension fat bike about a year ago. "I only need one bike. It's light, has incredible traction and is so stable," said Mr. Willmott. "The wide surface area of the tires glues you to the ground. It's almost like training wheels for the trail."

This year, models with narrower 3-inch tires, called "Plus Bikes" have become popular, too. Curious beginners are flocking to both Fat and Plus versions. "People can get out on the trails and not struggle," said Mr. Grinker. "The learning curve goes down tremendously on wider tires."



### ▲ Salsa Bucksaw GX1

Riding a fat-tire bike feels akin to floating—it seems implausible that you're rolling so smoothly over such varied surfaces—and this bike exemplifies the effect. In addition to the natural stability provided by its 4-inch wide tires, the 4-inch front and rear suspensions add to the bike's bump-absorption abilities. Traction is impressive on uneven trails, whether we sped across sand or cruised over snow. The bike comes in three iterations: If you're looking for a do-it-all-bike, go with the aluminum-frame GX1 (shown) or XO1. Those planning an extended two-wheeled adventure should spring for the Bucksaw Carbon XO1; Salsa managed to shave a few pounds off it, thanks to a carbon frame. \$3,999 for the GX1 shown, [salsacycles.com](http://salsacycles.com)

### ▼ Cannondale Beast of the East 3

This front-suspension bike (also known as a "hardtail") is lighter and simpler to maintain than a dual-suspension model, but its 3-inch "plus" tires allow it to stay agile and extra stable on rocky, rooty trails. Although it has a rougher ride than a full-suspension bike, this is a wallet-friendly way to build your off-road skills. And if you're budget-conscious, take note: While the price is already entry-level for a performance bike, by the end of the summer, Cannondale plans to release another front-suspension bike line, with models starting at \$980. They'll have similar specs but slightly less expensive components. \$1,600, [cannondale.com](http://cannondale.com)



## OFF DUTY



**CUT ME SOME TRACK**  
The 1964 U.S. Olympic relay team looking podium-ready in their matching jackets.

# A New Zip Code

Stripped of logos and made in elegant muted shades, this season's track jackets are ready to race out of the gym into the street—and even the office

BY JACOB GALLAGHER

**LIKE MANY A SPORTS FAN**, Skylar Bergl will be tethered to his TV as the Olympic Games kick off in Rio this weekend. The 27-year-old senior editor in the Manhattan office of public relations firm Edelman is especially looking forward to the soccer competition. While Mr. Bergl isn't blessed with the same athletic prowess as his favorite players, he does have one thing in common with them: a predilection for track jackets—sleek, sporty and literally zippy.

As he's found, even at the Olympics, where opening ceremony get-ups tend to be star-spangled and blindingly bright, you can still find style cues to borrow from the athletes. Just take the warm-up jackets worn by Gerald Ashworth, Richard Stebbins, Otis Paul Drayton and Bob Hayes in the 1964 Olympics (above). Strip away the supersize "U.S.A." letters and patriotic ribbing and you have a neat, nipped top layer that's assured and winning.

Mr. Bergl's own jacket is a logo-lite, all-black collaboration between Adidas Originals and Palace, a high-end skate-inspired brand. "The hardware isn't super flashy, and there are fewer graph-

roots. Chris Green, divisional merchandise manager for Richmond, Va. boutique Need Supply Co., sees the influence of 1980s-era sport culture: the track jacket as status symbol. Authentic athletic brands, he noted, are also stripping some of their track jackets

Mr. Barrett likes to style his track jacket zipped all the way up and beneath a camel's hair topcoat. Call it 'ath-elegance.'

ics," said Mr. Bergl, who wears it with solid-colored wool pants and a white button-up.

Such an ensemble, polished and grown-up, can even fly under the radar at his office. Ditto the refined, toned-down riffs on the classic jacket that brands like Burberry, Christopher Shannon and J.W. Anderson have introduced for fall.

Though new on the runway, this look definitely has retro

back to simpler, '80s fashion statements. Though Need Supply Co. stocks jackets from French label Ami, it will soon be selling more muted styles from Nike and Adidas which are designed less for superstar sprinters and more for men who do most of their running on their way to catch the morning train.

What makes these jackets a top-seed is that, despite their refinements, they offer the same level of comfort that's made "ath-leisure" clothes such a sought-after (if occasionally ridiculed) commodity for the past couple of years. "You want to have a garment that is cut well and makes you look slim, but it has to be to-

tally flexible," said British-born designer Neil Barrett.

Mr. Barrett hit that sweet spot by cutting his navy and chocolate-and-black zip-ups from soft rayon and pliable polyester yarns. The result, as shown in his January runway show in Milan, is a comfy jacket that's smooth to the touch and sleek enough to top tapered black pants and pristine white sneakers.

For himself, the designer likes to style the new track jacket zipped all the way up and layered under a camel's hair topcoat. Call it "ath-elegance." It's a functional but still grown-up combo he can wear long after that final medal has been awarded in Rio.

Neil Barrett Track-Top, \$1,400, Nordstrom, 323-930-2230



Laurel Tape Track Jacket, \$130, fredperry.com



Track Jacket, \$595, us.burberry.com

## FRESH PICKS



### THE WATCH

## Time for a Smokey

Over the last 119 years, outdoor-gear brand Filson has been a go-to for fishermen, hunters, hikers—and businessmen with rugged aspirations; its bags have become a ubiquitous sight in the wilds of New York's subways. One reason for that fealty is rigorous field tests, said Alex Carleton, the Seattle company's creative director. When he was brought on two years ago, he spent a few months hiking through Yellowstone, fly-fishing on the Skagit and mountaineering in Denali, all the while ruminating on what the Filson faithful might need next.

Along the way, Mr. Carleton gained a new appreciation for the sibling government agencies, the National Park Service and the U.S. Forest Service—and discovered that Filson had a long-time relationship with the latter, having provided it with uniforms from the 1940s to the '70s. While touring the Pacific Northwest, Mr. Carleton kept seeing iconic Smokey Bear signs ("Only YOU can prevent forest fires"), which sparked a special collection in partnership with the U.S.F.S. using the wisdom-dispensing bear.

The nostalgic wares are especially timely with the centennial of the N.P.S. coming up on August 25. The collection, which launched last week, includes items like a Pendleton blanket emblazoned with Smokey's face. The stand out piece (collectability alert) is an updated version of Filson's Mackinaw Field watch with imagery of Smokey atop his slogan. It comes with six "vintage" Smokey postcards and a bandanna printed with fire-safety tips, among other things. Only 1,000 numbered watches will be released. In truth, only 999 are for sale; Mr. Carleton has already claimed one for himself. *Filson Smokey Bear Watch and Bandanna, \$1,000, filson.com*

—Lauren E.M. Joseph



### THE SHOES

## A Sneaker for Saturday and Beyond

Designer Brendon Babenzien won't tell you when to wear his shoes. "If you tell someone it's a weekend shoe, they'll think they can't wear it on a Tuesday," said Mr. Babenzien recently. "Don't listen to us." But whenever you choose to wear the subtly luxe sneakers from Aprix, the brand Mr. Babenzien is relaunching this week, they're unequivocally ideal for kicking back. Made in Italy, the canvas shoes' razor-cut rubber soles can navigate a boat deck or skate deck, while leather linings both feel good and mitigate odor.

The brand, which he started over a decade ago with race-car driver Michael Power, went on hiatus in the mid-2000s, but after

reviving his menswear brand, Noah, last year Mr. Babenzien found himself with the space and resources to bring back Aprix.

He's starting with two styles, both upgrades of the classic white canvas sneaker. One (pictured) features suede accents on the toe and heel; the other has just a clean slice of color on the heel. The sneakers are available with accents of royal blue, Kelly green, navy and gray, a palette Mr. Babenzien describes as "where prep and New Wave converge." Going forward, he'll experiment with vibrant shades and a paisley print. His oath: "They'll never be dull." *Aprix Sneakers, \$225, available exclusively at Noah and noahny.com. —Rachel Seville Tashjian*

OFF DUTY

# The Jaunt Committee

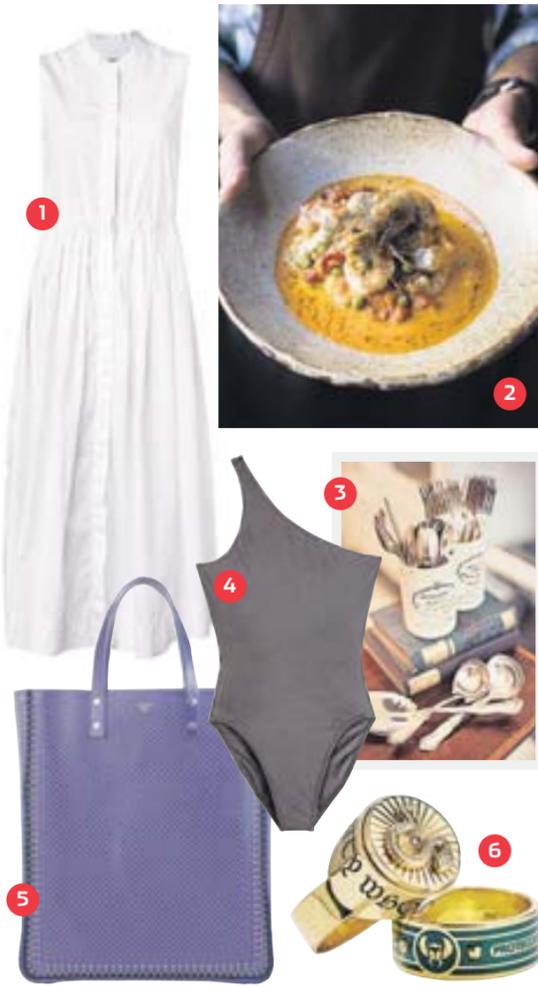
Three fashion insiders share notes on their favorite late-summer getaways: where to stay, eat, shop and, of course, what to pack

**Beth Bugdaycay**

Creative Director & Co-founder, Foundrae



**Destination:** Charleston, S.C.



► **Reason to go:** The jewelry designer loves American history, and this popular southern city “has so many stories to explore,” she said. First up: going with her husband, Murat, son Gem, 12, and daughter, Ayla, 5, to see the French Huguenot Church.

► **Where to stay:** They bed down at a house on Sullivan’s Island, taking the Water Taxi ([charlestonwatertaxi.com](http://charlestonwatertaxi.com)) into town. Recommended: the two-bedroom homes at the Cottages on Charleston Harbor (from \$459 a night; [thecottagesoncharlestonharbor.com](http://thecottagesoncharlestonharbor.com)).

► **What to do:** The Magnolia Plantation and Gardens ([magnoliaplantation.com](http://magnoliaplantation.com)) may be set in a lush landscape, but the slave cabins are a sobering reminder of what went before.

► **Where to eat:** Sample “high-end Southern” at restaurants like Husk ([huskrestaurant.com](http://huskrestaurant.com))—try the Shrimp and Edisto Grits (2)—and Hominy Grill ([hominygrill.com](http://hominygrill.com)). On Sullivan’s Island, Ms. Bugdaycay hits the Obstinate Daughter to pick up lunch for the beach ([theobstinatedaughter.com](http://theobstinatedaughter.com)).

► **Where to shop:** She finds inspiration at Curiosity (3) ([curiosityvintage.myshopify.com](http://curiosityvintage.myshopify.com)) and Croghan’s Jewel Box ([croghansjewelbox.com](http://croghansjewelbox.com)).

► **What to pack:** Inside her Rimowa: a Norma Kamali swimsuit (4) (\$150, [normakamali.com](http://normakamali.com)); a Fontana Milano tote (5) (\$4,100, [barneys.com](http://barneys.com)); a Casey Casey shirtdress (1) (\$1,030, [farfetch.com](http://farfetch.com)) and her own jewelry (6) (\$3,730, and \$2,650, [foundrae.com](http://foundrae.com)).

—Donna Bulseco

**Chad Buri**

Co-founder and COO, Sleepy Jones



**Destination:** Del Mar, Calif.



► **Reason to go:** For those old-soul California vibes and lazy days spent splashing in the Pacific Ocean. “Del Mar (1) is a nice spot to slow down and reconnect with family,” said Mr. Buri.

► **Where to stay:** L’Auberge Del Mar (from \$334 a night, [laubergedelmar.com](http://laubergedelmar.com)) was once a retreat for Old Hollywood stars, like Lucille Ball and Desi Arnaz. (It was called Hotel del Mar then.) The since-renovated resort sits right in the heart of the town’s beachside community.

► **What to do:** Stop by the Del Mar Racetrack (5) to see the weekend horse races. Mr. Buri recommends bringing the family early to watch the pre-race workouts while enjoying breakfast at the club ([dmtc.com](http://dmtc.com)).

► **Where to eat:** Roberto’s, a roadside taco shop for fish tacos served with a view ([robertos-sd.com](http://robertos-sd.com)).

► **Where to shop:** Even if you don’t surf, drop into the nearly 50-year-old Mitch’s Surf Shop to check out the cool boards, caps and tees. And be sure to go inland for the “incredible sweet corn and tomatoes” at Chino Farm.

► **What to wear:** Pack light with the North Face’s backpack duffel (4) (\$135, [thenorthface.com](http://thenorthface.com)). For long days at the beach, Mr. Buri wears Birdwell board shorts (3) (\$79, [birdwell.com](http://birdwell.com)) and, for “shirts and shoes required” locales, he throws on Sleepy Jones’ cotton tees (2) (\$48 [sleepyjones.com](http://sleepyjones.com)).

—Lauren Ingram

**Virginie Courtin-Clarins**

Global Communications and Brand Development Director, Mugler



**Destination:** St. Tropez, France



► **Reason to go:** Heading to this Riviera resort town (1) is an annual event for the fashion executive. Some 30 years ago, her grandparents bought the family house where she and husband, Ludovic Cesari, stay. “It’s where I learned to swim,” she said.

► **Where to stay:** The charming Le Manoir (from \$200 a night; [hotel-lemanoirport-cros.com](http://hotel-lemanoirport-cros.com)) sits in the middle of the Port-Cros nature and marine preserve (3). “We go by boat and have lunch,” she said. Order salade Niçoise on the ocean-view terrace, and don’t be surprised by the wild life: “There are donkeys!”

► **What to do:** Along with swimming and snorkeling, Ms. Courtin-Clarins plays tennis every morning and takes a steam in their at-home ham-

mam late in the day. She plans to read a biography of Louis XIV (her favorite is Max Gallo’s “The Sun King”).

► **Where to eat:** On a hidden side street in town, sample Thai and Vietnamese dishes at the popular Le BanH-Hoi ([banh-hoi.com](http://banh-hoi.com)).

► **Where to shop:** Rondini, the only-in-St. Tropez boutique that sells less trépanées sandals ([rondini.fr](http://rondini.fr)).

► **What to pack:** “For day, I pack an Eres swimsuit, Lisa Marie Fernandez beach dress (2) (\$775, [lisamariefernandez.com](http://lisamariefernandez.com)) and my Mugler beach tote (4) (\$2,520, [Bergdorf Goodman, 800-558-1855](http://BergdorfGoodman.com)). At night, I only wear sexy, black Mugler dresses with flat K. Jacques sandals (5) (\$265, [net-a-porter.com](http://net-a-porter.com)).

—D.B.

FÊTE ACCOMPLI: A GOOD LOOKS GUIDE TO RECENT EVENTS

## GWYNETH'S MOVABLE FEAST

IN A SPIRIT-WILTING heat wave like the one they faced recently, New Yorkers aren’t keen to go from one hot spot to another. They’re a little more motivated, however, when the roving party’s hosts are Gwyneth Paltrow, Mario Batali and Lisa Gersh (CEO of Ms. Paltrow’s lifestyle website Goop)—and when the final stop is La Sirena, Mr. Batali’s newest NYC restaurant in the Maritime Hotel.

The night began with drinks at Untitled, a restaurant at the Whitney Museum, where guests were given the option of being driven the approximately six minutes to La Sirena in a Cadillac XT5 SUV. Luckily, no one got stuck in traffic, and dinner was on time. Among the guests: Dannijo designers Danielle and Jodie Snyder and Guest of a Guest co-founder Rachelle Hruska MacPherson. “I live for the truffle pasta,” Ms. MacPherson said. That wasn’t on the menu, but a tricolore salad with Chianti vinaigrette and sweet corn agnolotti were.

Ms. Paltrow and Mr. Batali—who, in 2008, collaborated on the cookbook “Spain...A Culinary Road Trip”—indulged in reminiscences. “Mario was just teasing me about how I’d bring every boyfriend to Babbo [another Batali restaurant] over the years,” Ms. Paltrow joked. The chef confessed he’d learned a lot from Goop: “I can’t say I’ve made a turmeric latte or read how to achieve sexy beach hair, but I love her mindfulness articles.”

So what’s on the Goop founder’s agenda for fall? “Sound baths,” Ms. Paltrow said, a kind of surround-sound meditation that’s meant to focus the mind. “I haven’t done it yet. I’m going to be on the lookout.” —Carson Griffith



**BRAKE TIME** The table settings at the Goop X Cadillac Road to Table dinner.



## HOBNOBBING WITH BENICIO DEL TORO

The actor, who just finished filming ‘Star Wars: Episode VIII,’ on all things festive

**Best party you’ve ever been to?** There are some nights in Cannes that have been special. The first time I went in 1998, the after-party for “Fear and Loathing in Las Vegas” was surreal. The French know how to throw a party.

**How adept are you as a host?** I admire people who can plan a party with lots of people and they all have fun. I find that it becomes work for me. It must be in the genes: Either you’re born a host or not. I just start sweating.

**Best party city?** There’s more spontaneity in New York: You can be in one world and, three steps away, walk into another one. In L.A., you have to drive. I’ve also had good times in Paris and Madrid.

**Drink of choice?** Beer or tequila. I partnered with Heineken recently. I’ve never done a campaign like this before. It had to be a good fit.

**Wallflower or life of the party?** Even as a kid, I was shy at my birthday parties. I was embarrassed about the birthday cake. There were people singing, and I would be thinking, “Do I have to be here? Do I have to blow the candles out?” People like my daughter [4-year-old Delilah], she likes her cake; she stands there and enjoys it.

—Edited from an interview by Jacob Gallagher

F. MARTIN RAMIN/THE WALL STREET JOURNAL; STYLING BY ANNE CARDENAS (SHIRT, SWIMSUIT); GETTY IMAGES (DEL MAR, ST. TROPEZ, PORQUEROLLES); JENI BECKER (CURIOSITY VINTAGE); PETER FRANK EDWARDS (HUSK); ILLUSTRATIONS BY ULI KRÖTZER

OFF DUTY

# All in Good Brine

Refrigerator pickles—crisp, refreshing, unbelievably easy—are a clever way to make the most of summer's fruit harvest

BY KAREN STABINER

**C**OOKBOOK AUTHOR TED LEE doesn't like green Thompson seedless grapes. It's nothing personal, but by the time they make the flight from California to the market where he shops in Brooklyn, they seem to have lost some of their flavor. So he pickles them, along with red seedless grapes, because to him a jolt of vinegar and garlic and chili flakes and rosemary is just what a jet-lagged grape needs.

Pickling is so virtuous: It not only revives fruit but uses up things like watermelon rind that would otherwise go to waste. It also means that you can buy up all the summer produce you want, right now, and what you don't eat can be brined and refrigerated to see you through the lean months.

Refrigerator pickles reward patience—their flavors improve after about a week—but they demand no particular expertise. I stumped Jean-Paul Bourgeois, executive chef of New York's Blue Smoke restaurants, when I asked how long his watermelon-rind pickles last. The refrigerator protects them like canning does, so they're good for months, maybe a year as long as they're submerged in liquid—though Mr. Bourgeois always uses them up sooner than that.

You don't have to fuss too much over the knife work, either—just cut the fruit or rind down to pieces that will fit into a Mason jar; grapes can be pickled whole. Even leftover brine has a purpose: Store it in the refrigerator for future vinaigrettes.

In terms of ratio of effort to outcome, it doesn't get much better than cold-brined pickled fruit. Tart fruit pickles like to hang out with cheese, or brighten a salad, or sit, sliced thin, on a sandwich; cheese and bread are very happy to be livened up with slivers of pickled grape. Chef Tory McPhail of Commander's Palace in New Orleans uses pickled cantaloupe for one of the restaurant's signature cocktails, a riff on the gin-based French 75. For the Saint 75, he soaks melon in a gin mixture and then uses the boozy liquid as the cocktail base, topped off with cava and garnished with basil and cubes of the pickled fruit. The extra pickled cantaloupe his recipe produces lends a kick to prosciutto and melon, or goes into the freezer for more Saint 75s.

You can just put a few pickles in a little bowl when you want a snack, but I confess this strategy failed me when it came to those addictive pickled grapes. Half of them landed in my mouth before they ever reached the bowl.

## Saint 75 Cocktails

ACTIVE TIME: 5 minutes TOTAL TIME: 1 hour (includes chilling flutes) MAKES: 6 drinks

**Pickled cantaloupe (recipe at right), cut into ½-inch chunks, plus pickling liquid**  
1 bottle cava  
6 basil leaves for garnish



1. Divide pickling liquid between two cocktail shakers filled with ice. Cap and shake both, then strain liquid into 6 chilled Champagne flutes. Top each glass with 4 chunks melon and cava, and garnish with a basil leaf.
2. Serve remaining pickled cantaloupe with prosciutto. Or freeze in an ice cube tray. Once frozen, cantaloupe can be transferred to an airtight container or Ziploc bag for future use.

—Adapted from Tory McPhail of Commander's Palace, New Orleans

**A PRETTIER PICKLE** Left to right: pickled grapes, pickled cantaloupe, pickled watermelon rind.



TED CAVANAUGH FOR THE WALL STREET JOURNAL, FOOD STYLING BY JAMIE KIMM, PROP STYLING BY NIDIA CUEVA

## Pickled Grapes

ACTIVE TIME: 15 minutes  
TOTAL TIME: 45 minutes  
MAKES: 1 pint

**2 cups seedless red and/or green grapes (about 10 ounces)**

**¾ cup distilled white or white wine vinegar**  
**¾ cup water**

**1 teaspoon kosher salt, plus more to taste**

**1 teaspoon sugar**

**2 small cloves garlic, peeled and crushed**

**Leaves from 1 (2-inch) sprig rosemary**

**½ teaspoon dried red chili flakes**

1. Pack grapes into a glass jar or airtight plastic container. Pour vinegar and water into a saucepan over medium-high heat. Add salt, sugar, garlic, rosemary and chili flakes. Bring to a simmer and cook 1 minute.
2. Remove pan from heat and pour brine over grapes to fill container. Strain remaining brine into a measuring cup (you should have a little less than ½ cup left over) and reserve for making butter lettuce salad with pickled grapes, toasted pecans and soft goat cheese

(recipe below). Transfer any garlic, rosemary and chili flakes remaining in strainer to container with grapes.

**3.** Cover container tightly, shake to distribute seasonings, uncover and let cool to room temperature, about 30 minutes. Cover again, and transfer container to refrigerator to chill further, about 15 minutes more.

—Adapted from "The Lee Bros. Simple Fresh Southern" by Ted and Matt Lee

## Pickled Cantaloupe

ACTIVE TIME: 30 minutes  
TOTAL TIME: 2 days (includes marinating) SERVES: 6

### For the basil syrup:

**1 cup granulated sugar**  
**1 cup tightly packed basil leaves**

**1 cup warm water**

### For the pickles:

**1 small ripe cantaloupe**  
**6 ounces St-Germain Elderflower Liqueur**  
**6 ounces gin**  
**6 ounces lemon juice, fresh squeezed**  
**6 ounces basil infused simple syrup**

1. Make basil syrup: In a saucepan over medium-high heat, combine sugar and water, stir-

ring to dissolve. Transfer to an airtight container. Add basil leaves to container and seal. Refrigerate 4 hours. Remove wilted basil. Return to refrigerator until ready to use.

**2.** Peel and halve cantaloupe, scoop out seeds and cut into wedges.

**3.** Make pickling liquid: Combine elderflower liqueur, gin, lemon juice and basil syrup.

**4.** Place melon wedges in an airtight container or Ziploc bag. Pour pickling liquid over fruit, filling container, or pressing as much air as possible out of bag. Refrigerate 24 hours before proceeding with Saint 75 cocktail recipe at left, adding to a salad or pairing with prosciutto.

—Adapted from Tory McPhail of Commander's Palace, New Orleans

## Pickled White Watermelon Rind

*The white part of the rind isn't as fibrous as the green part, so all it needs is a cold pickling solution, which yields a crunchy, not-too-sweet pickle. If you have the self-control, let the pickles sit in the refrigerator for a week to soak up all the flavors.*

ACTIVE TIME: 30 minutes

TOTAL TIME: 1 week (to let flavors develop)  
MAKES: 4 pints

**1 small watermelon**

**32 ounces Champagne vinegar**

**16 ounces hot water**

**3 cups granulated sugar**

**4 cups ice**

**½ teaspoon mustard seed**

**¾ teaspoon celery seed**

**2¼ teaspoons Aleppo pepper**

**½ cinnamon stick**

**1.** Cut watermelon in half, place flat side against cutting surface and slice melon into strips. Scoop out red flesh and reserve for marinated watermelon salad recipe (below). Trim away green part of rind and discard. Cut white rind into wedges that will fit in a pint container, about 2 inches wide.

**2.** Combine sugar and hot water and mix to dissolve sugar. Add ice to mixture to cool. Add mustard seed, celery seed, Aleppo and cinnamon stick.

**4.** Place rind wedges in jars and pour brine over to submerge fruit. Save extra liquid to use in a vinaigrette, or to make more pickles.

—Adapted from Jean-Paul Bourgeois of Blue Smoke, New Orleans

## Butter Lettuce Salad With Pickled Grapes, Toasted Pecans and Soft Goat Cheese

*Some of the pickled-grape brine in the recipe above becomes the base for a simple lemon vinaigrette, which gives this salad its refreshing tone, to contrast with the toasted pecans and rich cheese.*

ACTIVE TIME: 10 minutes TOTAL TIME: 30 minutes SERVES: 4-6

**½ cup pecan halves**  
**1 cup pickled red and/or green grapes**  
**2 teaspoons Dijon mustard**  
**Juice of half a lemon**  
**½ cup pickled-grape brine**  
**½ cup olive oil, plus more to taste**  
**Freshly ground black pepper**  
**2 large heads butter, Boston, romaine or mixed lettuces, torn**  
**4 ounces soft goat cheese (optional)**

1. Preheat oven to 250 degrees. Spread pecans on a baking sheet and toast until fragrant, 15-20 minutes. Set aside to cool.
2. Add mustard and lemon juice to measuring cup containing brine leftover from making pickled grapes (recipe above), and whisk to combine. Add olive oil, whisk again to thoroughly emulsify, and season to taste with salt and pepper.
3. Strain pickled grapes, reserving brine. Halve 1 cup grapes, return remaining brine and grapes to container, and reserve for another use. Divide lettuce among six bowls or plates, and scatter some halved grapes, pecans cheese over each portion. Whisk vinaigrette again and drizzle over salad. Grind pepper over each salad and serve.

—Adapted from Ted and Matt Lee



## Marinated Watermelon Salad With Lime Vinaigrette

*Crisp pickles, salty cheddar, toasted pecans and peppery cress combine with watermelon for a summer salad layered with flavor.*

ACTIVE TIME: 30 minutes TOTAL TIME: ½ hours SERVES: 4-6

**For the lime vinaigrette:**  
**4 ounces fresh lime juice**  
**4 ounces extra-virgin olive oil**  
**Zest of ½ lime**  
**1 teaspoon dark brown sugar**  
**Kosher salt and freshly ground black pepper**

### For the salad:

**2 pounds watermelon cut into chunks (about 5 cups)**  
**5 ounces Cabot or other clothbound cheddar cheese, cut into chunks**  
**½ cup toasted pecans sea salt**  
**3 bunches watercress or arugula**

1. Whisk together vinaigrette ingredients. Marinate watermelon in vinaigrette in an airtight container in refrigerator 1 hour or up to one day.
2. Preheat oven to 400 degrees. Spread pecans over a baking sheet and toast 6 minutes. Sprinkle with sea salt and set aside to cool.
3. Drain marinated watermelon. In a large bowl, combine watermelon, cheese and pecans. Toss with greens and dress with lime vinaigrette.

## OFF DUTY

ON WINE: LETTIE TEAGUE



# Paging Emily Post: Oenophiles Behaving Badly

A HIGH-PRICED restaurant experience, complete with a wine hijacking, wasn't a topic I expected to discuss during a routine dental checkup and cleaning last month. But that's exactly what my dentist, David Silverstrom, wanted to talk about when I sat down in his chair.

Dr. Silverstrom and a colleague had recently invited a third dentist to dinner, and it quickly turned into a pretty pricey affair. Their guest, a self-declared wine expert, ordered three bottles of Napa Cabernet for a total of over \$1,000—and let them pick up the check. Had I ever heard of such a thing? Dr. Silverstrom wanted to know. I most certainly had.

A few weeks earlier, some friends told a similar tale. The couple, who prefer to remain nameless, had been invited to spend the weekend with friends who own a beach house, and on the last night, as a thank you, they took their hosts to dinner. At the restaurant, the hosts' 20-something son ordered some very expensive wine, turning my friends' little sojourn into anything but a "free" weekend at the beach.

Although most wine drinkers comport themselves with a certain degree of decorum, shameless business associates or greedy "friends" holding their hosts fiscal hostage by ordering a pricey Burgundy or Bordeaux is nothing new. I've never experienced it myself—my being a wine journalist probably keeps people from trying to pull such tricks—but I've often been on the receiving end of other less costly but no less disgraceful examples of bad wine etiquette.

Take, for instance, the person who brings a particular bottle to a party or orders a special wine at dinner, only to repeatedly fill up his or her glass without pouring it for, or offering it to, anyone else. Witnessing such antics, I sometimes find myself having to almost wrest the bottle away from the sticky-fingered offender. This sort of behavior is the opposite of a gracious host or true wine lover, who always serves others first. Wine is for sharing, not hoarding, after all.

A slightly more passive version of the example above is the act of maximizing the amount of wine in one's glass. When the waiter approaches the table to refill the wine glasses, a certain sort of drinker will immediately down the contents of his glass, thereby ensuring that he will get the largest share of the wine.

My friend Paul Sullivan, author of "The Thin Green Line: The Money Secrets of the Super



Wealthy," admits that he has done a bit of speedy wine swallowing himself. But he insists that he only does so when a guest orders an expensive wine on his tab, as a way of getting a little something back.

### Shameless business associates or greedy 'friends' can hold their hosts fiscal hostage by ordering a pricey wine.

Paul has an even more effective bait-and-switch strategy for dealing with piggish guests: If they pick an absurdly expensive wine from the restaurant wine list, Paul says something like, "That's a fascinating choice, but I don't know if it will go with what we're having" and promptly summons the sommelier. After telling the sommelier the name of the wine his guests have chosen, he points to a more moderately priced selection on the list, making sure his guests can't see what he's doing, and asks if there is "something over here that's more interesting." A good sommelier always catches on, said Paul, and "suggests" the new wine in his preferred price point.

Another friend, a high-powered ad executive based in New York

who wanted to remain anonymous, also enlists the sommelier's help when dealing with indulgent oenophile clients who want to capitalize on her expense account. "I'll call the sommelier ahead of time, choose the wine for the evening and say, 'Can you have these wines ready to go?'" she said.

This friend, who "wines and dines clients constantly" as part of her job, said she has been a victim of greedy wine types about 10 times in her career. "Clients know agencies pay and that agencies want to impress," she said. Interestingly, it has never happened to her when she is dining with someone who actually knew something about wine, she said. "I've never had a client who had a sophisticated palate take advantage of a business dinner." That's probably because those who are truly savvy know great wines that are not necessarily of the trophy kind. My friend searches for these when she looks at wine lists online before meals and often enlists her oenophile husband's help in picking out three or four options to present to clients. Pre-chosen bottles can help hold a wine-grab from taking place.

Of course, even the best-laid plans can fall victim to unexpected twists, like the client who asked my friend if she could order a \$200 Burgundy, pleading that she'd never had the wine

before. After my friend agreed, feeling she couldn't deny the request, the client proceeded to drink the entire bottle herself, making a double-header of sorts in bad wine etiquette.

My friend Andy Nathan, a Scarsdale, N.Y.-based real-estate developer, doesn't get taken advantage of very often. A wine collector, he is almost always handed the restaurant wine list when he takes clients out to dinner because they know he knows a lot about wine.

But there was one occasion when things got "a little out of hand," he recalled. "I was hosting a closing dinner on a big deal we had closed, and I told [my clients] to order what they like," Andy said. "They went right to the \$600 and \$700 wines." To be fair, he added, "it was a celebratory dinner where millions of dollars were changing hands."

Celebrations and other special occasions are often a good reason to splurge, but even when you've decided to go big or go home, it is important to set and communicate expectations to avoid awkward situations. After all, going big can mean different things to different people.

A few years ago I took Bryan Ferry to dinner at Marcel's restaurant in Washington, D.C. Mr. Ferry is not only a rock star extraordinaire, he's also a wine collector and a big fan of Bordeaux, which means he knows

what he's talking about and can afford to indulge his fine palate.

Looking at Marcel's wine list, he noted that it included a 1982 Château Angelus (\$3,560) and 2006 Château Lynch-Bages (\$650) that he found appealing. I told Mr. Ferry that I thought the wines were "a bit overpriced," trying to keep the panic out of my voice as I tallied the bill in my head.

When the then-sommelier Ramon Narvaez (now the restaurant group beverage director) stopped by our table, I mentioned that we'd been looking at some Bordeaux but were open to Burgundy if he had a suggestion. Fortunately he did. As my friend Paul noted, a good sommelier can save you from all sorts of wine-etiquette peril, even self-induced.

Mr. Narvaez proposed the 2005 Michel Magnien Morey-Saint-Denis Les Chaffots (\$145). Mr. Ferry happily agreed to the selection. A rock star without pretension, he turned out to be a much more civilized dinner guest than a dentist.

A few hours later, Mr. Narvaez did suggest we try a glass of 2008 Domaine de la Romanée-Conti Duvault Blochet (a \$700 bottle of wine). But that's another story.

► Enjoy savory discussions on food and drink with our WSJ Off Duty podcast at [WSJ.com/podcasts](http://WSJ.com/podcasts). Email Lettie at [wine@wsj.com](mailto:wine@wsj.com)

SLOW FOOD FAST: SATISFYING AND SEASONAL FOOD IN ABOUT 30 MINUTES

## Grilled Porterhouse With Creamed Corn



**The Chef:**  
Curtis Stone

**His Restaurants:**  
Maude and Gwen Butcher Shop & Restaurant, both in Los Angeles

**What He Is Known For:**  
Making the leap from top kitchens in Australia and England to American TV. Intimate restaurants that pay tribute to great ingredients.

**YOU PROBABLY RECOGNIZE** Curtis Stone from his many television appearances—as a host on Bravo's "Top Chef Masters," for one. Before that he worked in top kitchens in his native Australia and in England. Yet it was only two and a half years ago that he opened a restaurant of his own, in Beverly Hills. Named Maude, after his paternal grandmother, it features a set menu focusing on a single seasonal ingredient: Spring peas might arrive in the form of a light foam in one course and puréed into a soup in the next.

His second L.A. restaurant, called Gwen, for his maternal grandmother, opened

a few weeks ago with a butcher counter built in. "There wasn't a great, old-world butcher shop in L.A.," said Mr. Stone. "We wanted to change that." The dining room looks onto an open kitchen with a wood-burning grill. Meat—all of it butchered and dry-aged in-house—takes center stage.

This grilled Porterhouse steak, served family-style with creamed corn and charred scallions, is straight out of the Gwen playbook. For Slow Food Fast, Mr. Stone streamlined the recipe with home cooks in mind, making it a no-brainer for feeding a family or a few guests on a summer night. —*Kitty Greenwald*

TOTAL TIME: 30 minutes SERVES: 4

**1 (2-3 pound) Porterhouse steak, at least 1½ inches thick**  
**Kosher salt and freshly ground black pepper**

**Kernels from 4 large ears sweet corn**  
**2 tablespoons butter**  
**2 tablespoons heavy cream**  
**10 whole scallions, root**

**end trimmed and outer layer removed**  
**2 tablespoons olive oil, plus extra for drizzling**  
**1 lemon, cut into wedges**

**1.** Season steak generously with salt and pepper and set aside. Heat grill: If cooking with charcoal, gather coals on one side to create a high-heat zone; with a gas grill, set elements to high but turn one burner down to medium.  
**2.** Heat 2 tablespoons oil in a medium pan over medium-high heat. Once hot, stir in corn kernels. Sauté corn until tender, 3-5 minutes. Using a food processor or blender, purée half the corn until it is creamy but retains some texture. Return purée to pan with sautéed kernels. Stir in cream, season with salt and cook until cream is evenly distributed and sauce reduces,

1-2 minutes. Remove from heat and cover.  
**3.** Once grill is very hot, drizzle steak and scallions with olive oil. Grill steak over high heat until well seared, about 3 minutes per side. Transfer steak to medium-high heat zone and cook until interior is medium-rare, 1-2 minutes more per side. Set steaks aside and let rest 10-15 minutes.  
**4.** While steaks rest, grill scallions over medium-high heat, turning with tongs, until charred all over, 1-2 minutes. Serve steaks family style with creamed corn and scallions, plus lemon wedges to season.



**CATCH FIRE** Charring the scallions directly on the grill takes the edge off and draws out sweetness.

## OFF DUTY

### SIDE TRIPPER

# When in Rio...

For Olympics visitors seeking a game plan between events—or an excuse to ditch that small-bore target shooting final—our Brazil-based correspondents compare and contrast three easy excursions from the city's tourist zone



Grumari, the anti-Copacabana.



**Insider intel:** Take the beach road Av. Lúcio Costa not the inland Av. das Américas, unless you've got a thing for strip malls and McMansions.

GETTY IMAGES (GRUMARI, NITERÓI); ALAMY (PETRÓPOLIS); ILLUSTRATIONS BY HOLLY WALES



### Grumari Beach

AN ISOLATED, GOLDEN CRESCENT  
NESTLED IN A NATURE RESERVE  
75 MINUTES AWAY BY CAR

**Best for:** Surfers with good medical insurance; non-surgically reconstructed sun worshippers; Olympic tourists with caipirinha hangovers.

**What it has that Rio doesn't:** Surging waves free of chemical (and other) waste; spacious sands devoid of souvenir hustlers, Copacabana fashion victims and wayward soccer balls.

**Don't miss:** The nearby Casa do Pontal museum, which offers not only Brazil's greatest folk-art collection but a kid-friendly miniature model of the nation's entire social history ([museucasadopontal.com.br](http://museucasadopontal.com.br)).

**Don't bother:** Slowing down to gawk at the Olympic Park in Barra de Tijuca en route. Your fellow motorists, and Brazilian security forces, won't be amused.

**If you have time for only one meal:** Grab some seafood at one of the beachside snack shacks; fish stew for two and a couple of beers will set you

back about \$25. Other draws: fresh coconut water, frosty açai and mounds of fried snacks. The Mel El Shaday kiosk opens early, serving strong, sweet Brazilian-style coffee and stiff drinks if you need an eye-opener.

**Instagram gold:** The buff lifeguards on their funky observation deck.

**Getting there:** Renting a car is your best option. A bus trip will likely be frustratingly slow, and you'll have to hike up a steep hill to get to the beach. Try the rental car agency Movida Aluguel de Carros in Copacabana ([movida.com.br](http://movida.com.br)). If you set out early in the day—say, 7:30 a.m.—the trip should take just over an hour, but later in the day, Rio's notorious traffic makes travel times unpredictable. Don't even think about attempting the drive without GPS; it looks easy on a map, but it isn't.

Brazil's Imperial City of Petrópolis.



### Petrópolis

A MIDSIZE CITY IN THE MOUNTAINS  
THAT SERVED AS THE SUMMER  
ABODE OF BRAZIL'S LAST EMPEROR  
70 MINUTES AWAY BY CAR

**Best for:** Die-hard monarchists, lager aficionados, flea-market scavengers.

**What it has that Rio doesn't:** Cool mountain climes, compact history lessons and uniquely tropical-Bavarian cultural and culinary experiences thanks to the Germans immigrants who settled here in the 19th century.

**Claim to fame:** The Imperial Palace of Brazil's emperor Dom Pedro II (1825–1891) is now a museum loaded with royal paraphernalia and 19th-century landscape paintings. Dom Pedro's presence attracted a retinue of VIPs and power-seekers who built their own fancy digs nearby. Also in town: the home of aviator-inventor Alberto Santos-Dumont, a Brazilian national hero known as "the father of flight" (with no apologies to the Wright brothers).

**Don't miss:** Tipplers will enjoy the Cervejaria Bohemia brewery and beer garden ([bohemia.com.br/restaurante](http://bohemia.com.br/restaurante)), but before you stop in, take a peek at the Catedral de São Pedro de Alcântara, a Gothic Revival church flanked by palm trees where lie the mortal remains of

Dom Pedro and his empress.

**Don't bother:** Going inside the Palácio Amarelo, the historic town hall, whose regal facade belies a gloomy interior. Instead, hit the small, but choice, antiques market right outside.

**If you have time for only one meal:** For sturdy Alpine appetites, try the fare at the Biergarten at the Cervejaria Bohemia, washed down with a locally brewed beer (see "Don't miss"). Alternatively, the indoor-outdoor Duetto's Café e Bistro next to the Imperial Palace offers good sandwiches, salads and specialty coffees ([museuimperial.gov.br](http://museuimperial.gov.br)).

**Insider intel:** The Crystal Palace, a few blocks from the Imperial Museum, sometimes hosts Sunday afternoon concerts of traditional Brazilian music.

**Instagram gold:** A selfie in front of the ginormous Palácio Quitandinha, a faux-Bavarian former hotel that's now a government-owned cultural space.

**Getting there:** Hop a bus from Rio's Rodoviária Novo Rio bus terminal. Or rent a car. The drive should take just over an hour without traffic.



### Niterói

A SEASIDE CITY DIRECTLY ACROSS  
GUANABARA BAY FROM RIO  
45 MINUTES AWAY BY CAR

**Best for:** Modernist-architecture mavens, military-history buffs, intrepid paragliders, view freaks.

**What it has that Rio doesn't:** A slower pace. Niterói is Rio's calmer fraternal twin with equally stunning views. It's also home to the massive Fort São Luiz and Fort do Pico complex, which overlooks a Portuguese-style fishing village, Jurujuba.

**Claim to fame:** Several masterworks by architect Oscar Niemeyer, including the 1996 Niterói Contemporary Art Museum and the space-age Olimpo Restaurant.

**Don't miss:** The Parque da Cidade, a hill-climbing nature preserve and prime paragliding jumpoff point, with killer views of Rio de Janeiro's waterfront and monumental granite islands. Just up the road, for a nominal fee, you can drive into the fort compound where a Brazilian soldier will walk you around the site. Bonus views: The stone battlements afford vistas of the iconic Corcovado Mountain and Christ the Redeemer statue.

**If you have time for only one meal:** Located above the ferry terminal, Olimpo (designed by Niemeyer and decorated by Gilles Jacquard) has pricey food but superb vistas of Guanabara Bay ([restauranteolimpocom.br](http://restauranteolimpocom.br))

**If you're in no rush to get back:** Take a dip at tranquil São Francisco beach.

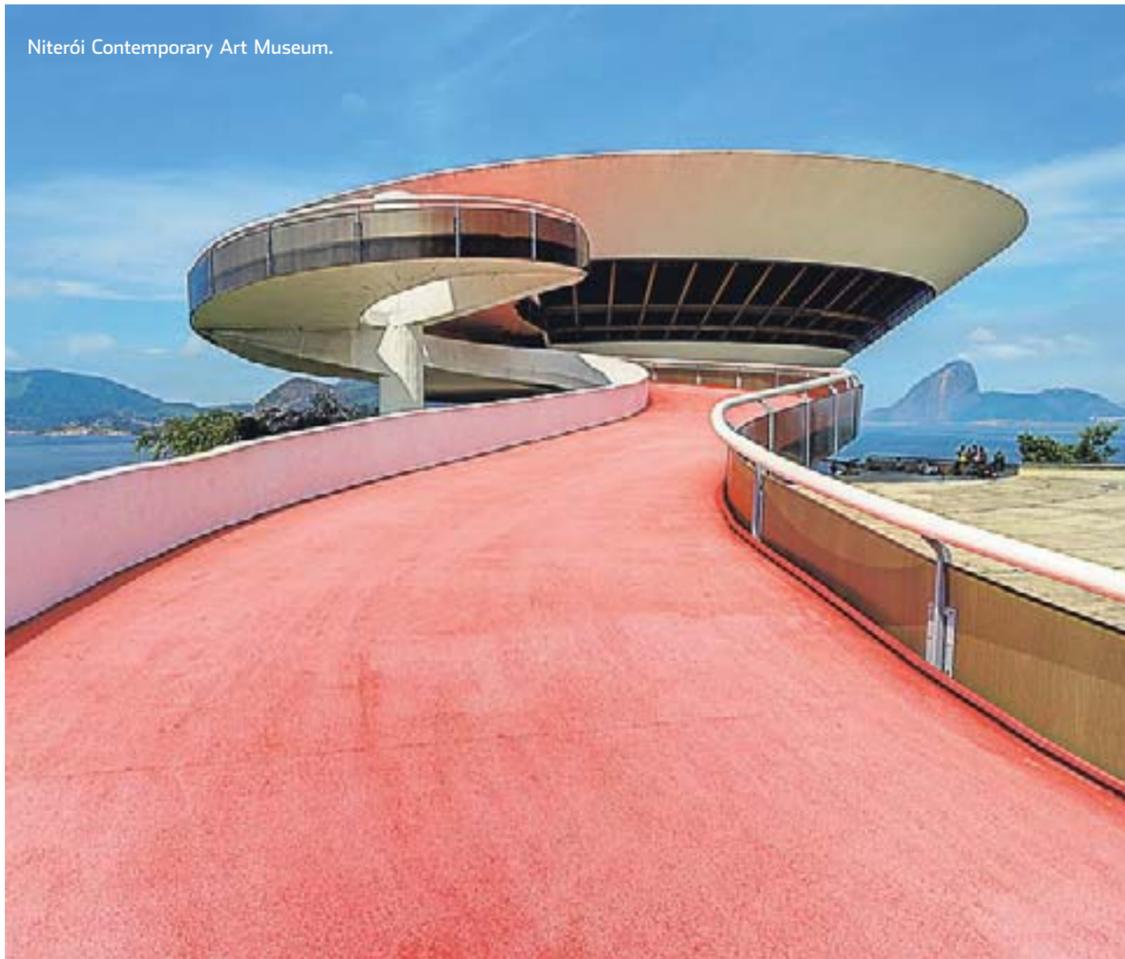
**Instagram gold:** Posing alongside Niemeyer's otherworldly art museum is like posing next to a UFO (just Photoshop in an alien).

**Insider intel:** Paragliders hoping to take in a bird's-eye perspective of the bay be advised: Air-space travel will be restricted during the Games, so you'll need to do your condor act after Aug. 21. Ciro Animau, a former pilot and air-traffic controller, runs a highly rated paragliding outfit and speaks English fluently ([ciraanimau.com](http://ciraanimau.com)).

**Getting there:** Rent a car, or take a ferry across the bay, then flag down one of the taxis hurtling by on the beach road.

—Marla Dickerson and  
Reed Johnson

Niterói Contemporary Art Museum.



## OFF DUTY



### PILGRIMAGE

# A Cocteau Party to Remember

An avowed maximalist finds affirmation in a visit to the super-eclectic home of Jean Cocteau

BY EMILY EVANS EERDMANS

**S**URREALIST writer, artist and filmmaker Jean Cocteau first showed up on my radar in 2009 while I was researching a book about eccentric French decorator and antique Madeleine Castaing. Her radical eclecticism—think leopard-patterned carpeting, aqua walls and neoclassical antiques—captivated the It Crowd in post-WWII Paris, including Nina Ricci, Pablo Picasso, Coco Chanel and Cocteau. After discovering that Cocteau borrowed pieces from Castaing's shop as set props, I watched his 1946 film, "La Belle et La Bête," in which tears morph into diamonds and disembodied hands lift a candelabra. He collaborated with her, too, on Maison Cocteau, his home in the

Every room should include something ugly or unexpected.

French medieval town of Milly-la-Forêt. And since it opened to the public in 2010, I've wondered what someone of relatively little means like Cocteau, a rarity among Castaing's decorating clients, had managed to create with her. So while in Paris this spring, I made the hour train ride to see.

From the front of the 17th-century house, which Cocteau and then-lover Jean Marais bought in 1947, I glimpsed the renaissance turrets of the Château de la Bonde, to which Cocteau's cottage originally belonged. Then I went inside

his home to explore the three rooms that remain as they were when Cocteau died, at 74, in 1963. The first, the salon, is outfitted mostly in modest 19th-century mahogany furniture; atop every surface sit shells, books, sculpture fragments and ceramics. A favorite trick of Castaing's lends cohesion to the clutter: All walls are upholstered in a graphic brown print, and a large patterned rug answers in brown and cream. Splashes of red keep the room vibrant as do flashes of brass and gilding—the sunburst ornament over the fireplace, for example, a gift of Coco Chanel.

The salon embraces another Castaing tenet: Every room should include something ugly or unexpected. A carousel horse prances alongside the mahogany table. A gold-metal cast of Cocteau's hands lopped at the wrist subverts a fairly conventional tableau of paperbacks, colored pencils and a bronze lamp on a butler's tray table. The juxtaposition strikes me as contemporary, albeit eerie.

Upstairs, in Cocteau's small study, I found more pieces with a flea-market air—an apothecary cabinet, a gothic-revival desk chair—and the poetic detritus of a highly creative mind. Here, cheetah-print cotton covers the ceiling as well as the walls. It is electrifying. You just don't see people doing this.

Well, maybe one. New York interior designer Harry Heissman, an admirer of Cocteau and Castaing, enveloped his own tiny living room in leopard-print. "It adds an aura of inspiration and fantasy," he said. "It also masks the lack of a crown molding and enlarges the room."

I dream of creating such a room. I work in a quirkily laid out studio in Greenwich Village. I've used leopard



**SURREAL ESTATE** Clockwise from top left: A cast of Jean Cocteau's hands in his salon; his cheetah-cloaked study, including a high-relief painting; the bed, angled for a view of the gardens he designed.

right corner covers one wall. But the big draw here is the view of the Cocteau-designed grounds. He angled the canopy bed so the footboard didn't obscure his sight line to the red-draped window. I recall that Castaing hung crimson curtains in her country house to complement and highlight the green outdoors. In Cocteau's home, too, the purposefully framed views function as an element of the room.

Although mixing styles has been the interior-design ideal for years now, Cocteau's décor is so personal and bizarre it seems to mix states of consciousness, too. Mr. Heissman said he took another lesson away from the admitted opium addict's home. "It helped me listen to a client's collection, to mix an expensive painting with a starfish," he said. "Maison Cocteau has what many interiors today lack—a soul."

ard carpeting to unify the office, hall and bathroom of the space. But I'm an art and design adviser, and my office must have neutral walls. However, the bold, green banana-leaf pattern of Martinique paper, created for the Beverly Hills Hotel, covers the walls and ceiling of my office bathroom, and a matching curtain hides my shower.

Many would regard Cocteau's study as kitsch, and some would

find it draining to occupy, but I think it's a good example of working amid things that stimulate you. Lots of them.

Next door, his bedroom walls feature dentil molding and a chair rail, so no need for the all-surface pattern treatment. A chair made of animal horn sits unexpectedly amid mostly simple furniture. A mural believed to be painted by Marais and featuring himself in the bottom

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# MANSION

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THE WALL STREET JOURNAL.

Friday - Sunday, August 5 - 7, 2016 | **W9**



**SENOIA, GA.** DeeDee Harvey, above, and her husband, Peter, moved here from a nearby planned community. 'Where we lived before—it was not walkable. You walked to a strip mall,' she recalled.

## A Thoroughly Modern Mayberry

Luxury developers are constructing quaint communities designed to recreate idyllic small towns of old; spraying surfaces with acid for that old-timey patina.

BY AMY GAMERMAN

**SUSAN AND EVAN STITT'S** farmhouse in Senoia, Ga., is nestled in a neighborhood of classic Southern homes with wraparound porches, gas lamps and tree-lined sidewalks so picturesque, it might be a film set.

In fact, it is. The Stitts, who paid \$575,000 for their four-bedroom home in 2013, live in the Gin Property, a new upscale development an hour from Atlanta. The community so convincingly captures the essence of a quaint small town that producers of AMC's "The Walking Dead" leased



**COLUMBUS, GA.** The Old Town development is modeled after historic mill towns.

the entire development as the setting for its Alexandria "safe zone," a temporary haven from zombie armageddon.

"We've come home after being out at night and there are bodies lying all over the road," said Ms. Stitt, 54, sipping lemonade on her front porch and surveying the daylilies she has been forbidden to prune by the show's producers, who favor post-apocalyptic landscaping.

Senoia's Gin Property is among a growing number of traditional neighborhood developments that are looking to an idealized past to recreate village life. These freshly minted, old-

*Please turn to page W14*

## LUXURY AT SEA FOR \$55,000 PER WEEK

After a \$750,000 renovation, the vintage wooden yacht Mariner III looks like home.

BY GABRIELLE PALUCH

**AFTER A TOP-TO-BOTTOM** renovation, a classic, prewar property in New York City is available for rent at upwards of \$55,000 per week. Space is tight, but it features 360-degree water views.

Built in 1926, the property is a 122-foot wooden yacht, Mariner III, that recently underwent a \$750,000 renovation by Mitchell Turnbough, a New York-based interior designer, and the boat's owner and captain, Sean Kennedy.

Restoring the yacht to its original grandeur has been a goal of Mr. Kennedy's since his father spied it from a sea plane in Palm Beach, Fla., and bought it for over \$1 million in 1979. Since then, the boat has had numerous celebrity encounters, most notably when Harrison Ford and his then-wife, Melissa Mathison, lived aboard the Mariner III off the coast of Belize during the filming of "The Mosquito Coast" in 1986.

The recent refitting took four months and involved stripping away the ceiling and carpeting below deck to expose the teak beams and planks. Many of the original details, such as the brass



DOROTHY HONG FOR THE WALL STREET JOURNAL

**RELAUNCHED** Mariner III on the Hudson River with New York's Freedom Tower in the background.

### HOUSE OF THE DAY

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A renovated, centuries-old Catalan farmhouse



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**MANSION**

**LUXURY AT SEA FOR \$55,000 PER WEEK**

*Continued from page W9*

portholes and mother-of-pearl light sconces, were polished to their original splendor. In the wheelhouse, modern navigational and communications equipment sits near the yacht's old radio equipment, compass, rudder indicator and original helm.

Elsewhere, modern conveniences are cleverly concealed. Capt. Kennedy built a special writing desk that doubles as a cabinet to hide the air-conditioner, and the engine room doubles as a laundry room. There are no televisions or telephones aboard because "they didn't have any of those things in the 1920s," says Capt. Kennedy, though they do have wireless internet access.

The boat was designed by naval architect Leslie Geary and built in Winslow, Wash., for Capt. James Griffiths, who named it "SueJa III" and traveled up and down the West Coast for pleasure. During World War II, it was drafted for service, patrolling the Aleutian Islands.

With six cabins and three bathrooms, the yacht is designed to sleep up to 10 people, with separate quarters for a crew of six or seven. Because of the cozy bedrooms, there isn't much storage space, and Capt. Kennedy advises not to bring hard suitcases. But "New Yorkers have told me the galley is larger than their studio apartment," the captain adds.

The Kennedy family has been in the boat-engine business since 1912, when William Patrick Kennedy started what is now Kennedy Engine Co. in Biloxi, Miss. That's where the current Capt. Kennedy and Mr. Turnbough, the designer, first met as children. Their grandparents worked together in a shipyard.

Capt. Kennedy, who is 57 years old, first met and later married his wife, Francesca, aboard the Mariner III. Their 17-year-old son, Finn, spends his summers working on the boat, polishing brass and doing other chores.

Lucy Buffett, little sister of island-escapist musician Jimmy Buffett, spent time aboard Mariner III as the chef of the Harrison Ford charter. "Living and working aboard that boat was one of the peak experiences of my life," says Ms. Buffett, 62, a restaurateur in Gulf Shores, Ala. She recalls when she and Ms. Mathison published a weekly newsletter, "The Mighty Mariner." Total circulation: seven. "Every two weeks or so you had to get off the boat for a bit, but you really learned that you didn't need much to live," she says.

There are two 50-kilowatt generators on board and a desalination machine. It takes 3½ days for the boat to travel from New York to Palm Beach.

Capt. Kennedy says fixing a price on the vintage watercraft is difficult. In the past, wooden yachts of this caliber have sold for upwards of \$5 million. A week aboard the yacht for trips along the eastern



**WATERWORKS** Mariner III, above, after a \$750,000 renovation. Top left, the salon; top right, Capt. Sean Kennedy and his family: wife Francesca, daughter Morgan and son Finn. Above left from top to bottom, a view of the bridge deck, a walkway on the 122-foot yacht, and a wood-paneled dining room. Below left, the master stateroom, which has an en suite bathroom; below right, a dining area on deck. Bottom, the wheelhouse and a tender on the bridge deck.



seaboard and as far south as the Bahamas starts at \$55,000. Prices can go up depending on fuel costs, additional crew and other extras. In addition to chartered trips, the yacht is available for private parties of up to 70 people, with prices starting at \$10,000.

For the summer, Mariner III

docks in Sag Harbor, N.Y., as well as Manhattan's Chelsea Piers, where it sits between modern megayachts. The wooden boat looks austere by comparison, but Mr. Turnbough says this is what makes it so special to live on. "That true simplicity. That's a type of luxury we have forgotten these days."



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# A \$30 Million Bet in Las Vegas



The late businessman David Jin is known for building Skywalk, a horseshoe-shaped bridge jutting into the Grand Canyon. Mr. Jin died before he could finish another big project: his dream house in Las Vegas, now on the market for \$30 million.

Known as SkySide, the six-

story contemporary house is the highest-priced home now listed in Las Vegas, according to listing agent Ivan Sher of Berkshire Hathaway HomeServices Nevada Properties.

The house was completed a few months ago. Mr. Jin and his wife, Yvonne Tang, were in the midst of building the house when he died in 2013. Ms. Tang finished construction and moved in, but decided to sell because "it was really their vision as a couple," Mr. Sher said.

Located in the upscale community of Summerlin, the contemporary home spans about 24,000 square feet, with five bedrooms and three elevators. Built around an outdoor swimming pool with a swim-up bar, the house has multiple water features; the driveway crosses over a man-made brook.

The master suite has three floors—a lounge on the first level, the bedroom and bath on the second level, and a glass-walled office with views of the Las Vegas Strip on the third.

The rooftop garden, which measures about 5,000 square feet, contains a hot tub, an outdoor kitchen with a custom pizza oven and wok, and a retractable screen for al fresco movie-watching.

Inside, the home has a gym, screening room and wine cellar, as well as an indoor basketball court, hair salon and karaoke room. The 1.25-acre property also includes an eight-car garage and air-conditioned, indoor-outdoor dog kennels for pets.

The couple bought the land in 2006 for \$1.95 million, according to public records. They spent close to \$30 million building the house, Mr. Sher said.

Mr. Jin, a tour-bus operator, struck a deal in 2003 with the Hualapai Indian tribe to build Skywalk. His tourism company brought busloads of visitors to the attraction. A legal battle later ensued between Mr. Jin's company and the tribe. Mr. Jin died at age 51 after a battle with cancer. The lawsuit was settled in 2014 for an undisclosed amount.

## 'MIAMI VICE' HOME HITS THE MARKET FOR \$39 MILLION

A Key Biscayne, Fla., home, featured in the 2006 movie "Miami Vice," is listing for \$39 million.

Owners Aurelio and Berta Fernandez say the movie's cast and crew, including stars Colin Farrell and Jamie Foxx, spent about a week filming at their five-bedroom house, which is located on a peninsula jutting into Biscayne Bay and has about 480 feet of waterfront. Since building their tropical-style home on the southern tip of tiny Mashta Island off Key Biscayne, "we get calls all the time" from location scouts for films, TV and commercials, Ms. Fernandez said, although "most of the time we've turned them down because it's too much upheaval."

For the "Miami Vice," shoot for example, much of their furniture was removed, and the family decamped to a hotel for the week.

Measuring about 12,000 square feet, the house is composed of a series of pavilions connected by copper roofs. An infinity pool overlooks the bay and the private dock can accommodate a 100-foot yacht, Mr. Fernandez said. Built to withstand storms, the house is clad in Saturnia marble, and the living areas and pool are elevated about 17 feet above

sea level. An outdoor kitchen in a covered pavilion by the pool comes in handy for family barbecues, the couple said. To reach the front door, visitors cross a bridge over a 22,000-gallon koi pond that contains more than 200 fish.

The Fernandezes bought the land in 2001 for \$3.6 million, according to public records. At the time Mr. Fernandez was retiring from his job as an executive at Broadcom, the California-based semiconductor company, and they wanted to return to South Florida, where they'd both grown up.

While they originally planned to renovate the existing house on the site, they decided instead to build a new house from scratch, completing the work in 2004. A few years ago they built a new master bedroom on the second floor to take advantage of the views, Mr. Fernandez said.

They are selling because they're relocating to Vero Beach, Fla.

Jorge Uribe of One Sotheby's International Realty has the listing. A home on the opposite tip of Mashta Island sold for \$47 million in December, Mr. Uribe said, but that was a larger piece of land.



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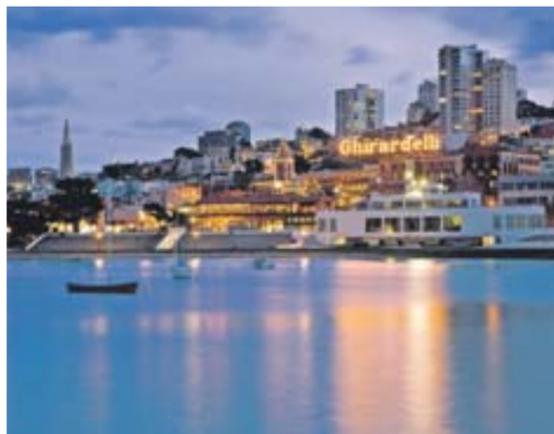


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MANSION

# A THOROUGHLY MODERN MAYBERRY

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style communities feature leafy streets of historic-looking homes with porches and sidewalks, shared green spaces and shops.

In a shift away from gated golf-course communities, with their cul de sacs of Tuscan villas and Normandy castles, these developments are designed to create a strong sense of place, with neighbors, a coffee shop and the town dentist all within walking distance. Picture Andy Griffith's Mayberry with high-speed internet.

The concept is proving especially popular south of the Mason-Dixon line. Old Town, a \$45 million mixed-use development in Columbus, Ga., now completing its first phase of construction, is modeled after historic textile mill towns that once dotted the state—complete with a bright red mill building on a pond (it houses a screening room and soda fountain).

Old Town's town hall—designed like a white-clapboard chapel, with antique longleaf pine floorboards and a steeple bell on a rope pull—presides over the town green, where residential lots are priced between \$125,000 and \$150,000. The houses, as well as the brick and clapboard mercantile buildings on Old Town's Main Street, draw on architectural styles of 19th and 20th-century Columbus buildings; a 159-page design guide for the 300-acre development specifies everything from the shape of the cornices to the dimensions of the window sills.

"We're trying to bring back the DNA of towns and small cities that has been lost—in some ways, it's storytelling," said Andrew Cogar, president of the Historical Concepts architectural firm, which designed Old Town, as well as Senoia's Gin Property.

Eight homeowners have moved into Old Town since December, with 11 new homes under construction, according to Bruce Jones, president of the Woodruff Development Company.

"I really bought into the early vision of what it was going to be—a community where people are out on their porches interacting with one another," said Todd King, 43, who runs a software product management group.

Mr. King and his wife, Julie Almond, spent about \$600,000 last year to build a five-bedroom home not far from the town green, where their four children play Frisbee. Mr. King gets his hair cut on Main Street: the hair salon is the only business there so far, although a pediatrician, an eye doctor and a clothing boutique have leased space. Every home has a front porch set close to the sidewalk, and driveways and garages are hidden in back alleys.

"It was like going back to your hometown after being gone for many years," said Sylvette Walsh, a 68-year-old Columbus native, who paid a little over \$390,000 for her white bungalow with a painted pine tongue-and-groove porch.

Mt Laurel, a woody village of 230 Arts and Crafts-style homes in Birmingham, Ala., was designed to fit into a landscape of hills and native forest. Grassy front lawns are forbidden; residents scatter pine straw for a more natural look.

April Mraz, 43, who founded a mobile-accessory company called Tech Candy, moved from San Francisco to her first Mt Laurel home in 2001, then built a three-bedroom home in 2014 for about \$600,000. Her 9-year-old son bikes three blocks to school, while Ms. Mraz commutes by golf cart to her office in the town center. She holds morning meetings with her business partner at Jimbo's Soda Fountain.

"They know my special and get it ready as we are walking in," she said.

Sales prices for homes in Mt Laurel over the past decade have averaged between \$400,000 and \$450,000, according to Mt Laurel real-estate agent Della Pender. So far this year, home sales have averaged around \$550,000, with top sales of \$900,000 and \$1.1 million.

Habersham, a 282-acre coastal community outside Beaufort, S.C., is set on a former plantation shaded by canopies of centuries-old live oaks; its layout was inspired by historic Low Country villages, where irregular roads evolved from animal paths, according to Tom Low, architect and director of town planning.

"Everybody gets lost—none of the streets are straight; they're built around the trees," said Cindy



**BEAUFORT, S.C.** The coastal community of Habersham, set on a former plantation, was inspired by historic Low Country villages. Cindy and Richard Collins, pictured with their dog Bailey, spent \$525,000 on their 2,820-square-foot board-and-batten home, above, in 2010.



**SENOIA, GA.** Susan and Evan Stitt, above, live in the Gin Property development, where AMC's 'The Walking Dead' is filmed. Their home is a 19th-century farmhouse that was moved and completely remodeled in 2012.



**COLUMBUS, GA.** Clockwise from above left: The Old Town home of Todd King and Julie Almond, built last year; Mr. King and Ms. Almond in their kitchen; a mill-style building; the home of Sylvette Walsh, built last year; Ms. Walsh on her front porch; the town mail kiosk.



**BIRMINGHAM, ALA.** April Mraz's home in Mt Laurel, top left, was built in 2014 for about \$600,000; Ms. Mraz, Terry Evans and sons Martin and Oliver, above right; Jimbo's Soda Fountain in town, above left.

Collins. She and her husband, Richard, spent \$525,000 on a 2,820-square-foot board-and-batten home opposite a park with a trim white gazebo in 2010.

Ms. Collins, 66, who chairs Habersham's social committee, organized its recent Midsummer Munch and Mingle, which drew 80 people to six different porches—

the locus for much of Habersham's social life. "You sit on the porch and people go by, and you say 'Come on up,'" Ms. Collins said. Home prices range from

\$299,000 to well over \$1 million, according to Robert Turner, president of the Habersham Land Company, who said 750 of the community's 920 lots have been sold.

Some towns are embracing historically inspired development to revitalize their downtown areas. That was the case with Senoia, an 1886 cotton town with streets of antique houses. The town was bypassed by major highways and developers, making it popular with filmmakers—"Fried Green Tomatoes" and "Driving Miss Daisy" were filmed there. But its downtown was nearly a ghost town.

"If production companies needed a Main Street location, or a big, scary house, they would look to this town," Scott Tigchelaar, a developer who also heads Raleigh Studios, a film-production studio. "Commercially, it was dying. There were only five businesses left on Main Street."

In 2007, Mr. Tigchelaar's Senoia Enterprises—founded with his uncle Paul Lombardi, majority owner of Raleigh Studios—bought up 22 parcels on and around Main Street for about \$4 million. The company spent another \$25 million to create period-style buildings, designed by Historical Concepts.

They leveled the town's tumbledown 1902 cotton gin, just off Main Street, to make way for the Gin Property, a residential neighborhood with an important clause in its covenant: The developers are allowed to use it as a film location.

Today, Main Street bustles with boutiques, coffee shops, a locavore bistro called the Tomato House—and occasional camera crews. Tour buses of "Walking Dead" fans—called Walker Stalkers—arrive daily.

Main Street's restoration "was designed not only to make the town vibrant again, but to do it in a way that was true to its historical look and feel—so we could continue to use it as a back lot for the studio," said Mr. Tigchelaar. He points out a weathered brick mercantile building—completely new, down to the greenish patina on its pressed-metal awning. "We sprayed acid on it," he said.

Senoia's Hollywood makeover is drawing homebuyers from Atlanta's suburbs. "Where we lived before—it was not walkable. You walked to a strip mall, and there's nothing charming about that," said DeeDee Harvey, 57, an interior designer who moved from Peachtree City, a nearby master-planned community. In 2012, Ms. Harvey and her husband, Peter, an orthopedic surgeon, bought a derelict 1867 house in Senoia's historic district for \$84,000, then spent about \$770,000 to remodel it.

Nearby at the Gin Property, houses sold for between \$450,000 and \$650,000 until 2014, when "The Walking Dead" moved in. Now the neighborhood is walled off by a 15-foot-high barricade, manned by 24-hour security guards. The series has options on the Gin Property until 2021. Homeowners, who are bound by a non-disclosure agreement, get financial compensation and a front seat to the apocalypse.

"Last year, there was a big zombie invasion," said Tomato House owner Tracy Brady, who spent about \$600,000 to build her Gin Property home in 2014, just before the wall went up. "We'd sit on our porches and watch it with wine."

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