Bloomberg Businessweek
January 27, 2020 ● SPECIAL DOUBLE ISSUE

Bye, Haters

Short sellers despise Elon Musk, but Tesla's stock is climbing—and costing the skeptics billions 52

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◀ Tsai, owner of the Brooklyn Nets and basketball superfan

FEATURES

PHOTOGRAPH BY AMY LOMBARD FOR BLOOMBERG BUSINESSWEEK

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■ COVER TRAIL

How the cover gets made

❶

"So this week's cover story is about Tesla shorts."

"Tesla shorts?"

"There's this group of skeptics called $TSLAQ on Twitter who short-sell the stock and drive Elon Musk crazy."

"I see. Tesla shorts..." *[Hums* She's Got Legs *quietly to self.]*

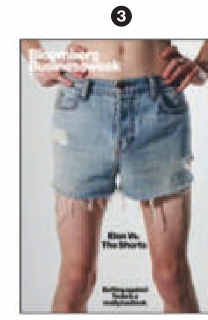
❷

"Something like this?"

"You know, I think you're onto something."

Three days and one photo shoot later...

❸



"OK, yeah, that's too much leg."

"You realize that if we don't do this on the cover, I'll do it twice as big on the inside."

"I love a good compromise."

Cover: Photo illustration by Justin Metz; photos: Getty Images (3); Tesla (1)

WARREN: PHOTOGRAPH BY TIM GRUBER FOR BLOOMBERG BUSINESSWEEK. LEGS (TOP): GETTY IMAGES. LEGS (BOTTOM): PHOTOGRAPH BY FINLAY MACKAY FOR BLOOMBERG BUSINESSWEEK; STYLIST: AJA COON

aramco
REAL SUSTAINABILITY DOESN'T WAIT UNTIL TOMORROW
We adopted sustainability practices such as zero routine flaring decades before they became industry standards. As a result, a recent study of over 100 oil fields in 20 countries showed that our crude oil has the lowest carbon intensity among large producers, proving our commitment to reducing greenhouse gas emissions and powering a more sustainable future.
THIS IS REAL ENERGY.
THIS IS ARAMCO.

By Benedikt Kammel

● "A fair trial doesn't matter to them."

Senator Elizabeth Warren, describing Republican votes against amendments calling for more evidence.

▲ Democrats won some concessions in the trial to convict and remove President Trump, including extending the opening arguments to three days. But Republicans blocked other demands. Above, Chief Justice John Roberts arrives at the Senate.

● Jeff Bezos' mobile phone was hacked.

United Nations experts accused Saudi Crown Prince Mohammed bin Salman of possible involvement in a 2018 attack on Bezos' phone in an effort to "influence, if not silence" reporting on Saudi Arabia by the Bezos-owned *Washington Post*. Officials at the Saudi Embassy in Washington called the reports "absurd."

● UBS announced a surprise outflow of funds at its wealth management unit last quarter of

$4.7b

The setback underscores the challenges facing the Swiss company's new star banker, Iqbal Khan, who joined from crosstown rival Credit Suisse last year to co-run that business.

● The resignation of Luigi

Di Maio as leader of the Five Star Movement, the biggest party in Italy's fractious coalition, has set the stage for a bruising succession battle that threatens to destabilize Prime Minister Giuseppe Conte's government.

● President Trump and his French counterpart, Emmanuel Macron, agreed on a truce in their dispute over digital taxes.

French negotiators cautioned that the "devil is in the details" and said the two sides still need to reach a resolution.

● The main industry group for drugmakers, the Pharmaceutical Research & Manufacturers of America, spent a record

$28.9m

on lobbying last year, according to the latest disclosures, as it pushed back on legislation meant to control the price of medicine.

● An outbreak of a coronavirus that originated in the poultry and fish markets of Wuhan, China, has spread person-to-person to other parts of the country and Hong Kong, as well as to Japan, South Korea, and Thailand. On Jan. 21 the first U.S. case was confirmed near Seattle.

▲ An image of a thermal scan of passengers passing through a quarantine station at Narita Airport in Tokyo.

● Swedish climate activist Greta Thunberg came to the World Economic Forum in Davos with a dark message: Greenhouse gas emissions haven't been reduced meaningfully, despite all the talk about the environment. "Without treating this as a real crisis, we cannot solve it," she said. "It will require much more than this. This is just the very beginning."

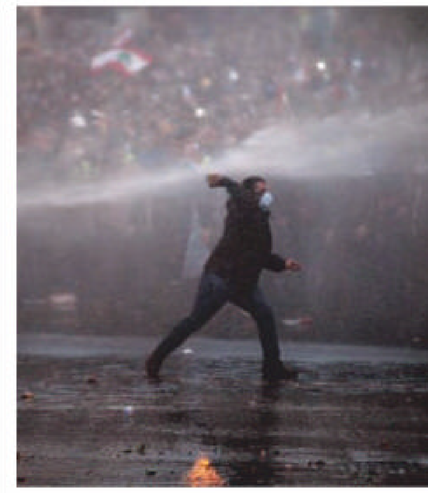
SENATE: MARK PETERSON/REDUX. DI MAIO: ALESSIA PIERDOMENICO/BLOOMBERG. SCAN: KIYOSHI OTA/BLOOMBERG. THUNBERG: JASON ALDEN/BLOOMBERG

IN BRIEF

● “I know I haven’t always gotten it right, but as far as this goes, there really was no other option.”

Prince Harry spoke publicly for the first time about his decision with his wife, Meghan Markle, to quit their royal duties and relinquish their “royal highness” titles, in a drama that’s thrown the British monarchy into crisis.

● China sentenced former Interpol President Meng Hongwei to 13½ years in prison. Meng had pleaded guilty to charges that he accepted about $2.1 million in bribes from 2005 to 2017.



● Street protests intensified in Lebanon, where security forces fired water cannons and tear gas to disperse demonstrators in the capital, Beirut. With the economy in a downward spiral and the government in chaos, the country has been rocked by popular unrest since October.

● A painting that vanished from an Italian art museum 24 years ago was discovered hidden in a wall of the exhibition space. Experts confirmed the authenticity of the work, *Portrait of a Lady* by Austrian Gustav Klimt.

● Thousands of pro-gun activists gathered in Richmond, Va., on Jan. 20 to protest stricter firearm laws proposed by Democrats, who took control of the statehouse last year. If the laws pass, Virginians will undergo tighter background checks and see a ban on military-style assault rifles.

● Fevertree, the U.K. maker of fancy tonics and colas, lost a quarter of its value in a single day after saying that growth had stalled last year, a humbling turn for the once-high-flying startup.

● The IMF predicted the world economy will strengthen.

Global growth will accelerate this year to 3.3%, from 2.9% in 2019, the International Monetary Fund said. That would be the first annual increase in three years, but it’s lower than the 3.4% rate the fund projected in October.

AGENDA

▶ Boeing’s New Boss Tries a Reset

The plane maker reports earnings on Jan. 29, the first time under CEO David Calhoun, who took over last month. The company is struggling to emerge from its biggest crisis, with no end in sight to the grounding of its 737 Max.

▶ Apple’s first-quarter earnings are due on Jan. 28. Its focus is shifting from the iPhone to the Apple Watch, AirPods earbuds, and other accessories, and services like streaming.

▶ The U.S. Federal Reserve sets interest rates on Jan. 29. Chairman Jerome Powell remains under relentless pressure from President Trump to cut borrowing costs.

▶ Deutsche Bank reports earnings for 2019 on Jan. 30. It was a brutal year for the lender, which has announced 18,000 job cuts and a retreat from some businesses.

▶ Facebook reports earnings on Jan. 29. Investors want to know where the next big boost will come from, with the company’s fast-growing Instagram unit showing the most promise.

▶ U.S. GDP numbers for the fourth quarter are due on Jan. 30. Economic growth, driven by robust consumer spending, is forecast to remain at 2.1%.

▶ Former national security adviser Michael Flynn faces sentencing on Jan. 28 on charges of lying to the FBI about his Russia contacts before the 2016 election.

ILLUSTRATION BY MINET KIM. HONGWEI: MIKHAIL METZEL/TASS/GETTY IMAGES. LEBANON: BILAL JAWICH/XINHUA/GETTY IMAGES. KLIMT: ANTONIO CALANNI/AP PHOTO


Fim

● The recent decades of U.S.-led trade liberalization are over. Say hello to managed trade

● By Peter Coy

At age 85, Jagdish Bhagwati has defended free trade for decades. The professor of economics and law at Columbia University even wrote a 2004 book called *In Defense of Globalization*. He doesn't like the way things have gone lately. "My worry is basically that around the world, there are very different reasons why people are beginning to despair about free trade," he says.

As economists such as Bhagwati never tire of saying, international trade lowers prices and increases variety by allowing producers in different nations to specialize in what they do best. It promotes productivity and innovation. The entry of China and India into the world trading system has lifted hundreds of millions of people from destitution.

But free trade has always faced a chorus of critics ranging from labor unions to environmentalists to national security types, from powerful corporations to those suspicious of powerful corporations. And now some of the players that worked hardest to counter those forces and make trade freer–such as the U.S. government–are themselves turning cool to it.

Trade in goods and services as a share of world gross domestic product has flattened out in the past several years after decades of increasing, according to data collected by the World Trade Organization. Trade in goods alone has been falling since around 2010 as a share of world GDP, perhaps because of a partial unraveling of global supply chains, according to an analysis by Hyun Song Shin, economic adviser and head of research at the Bank for International Settlements. Trade policy is a factor: "I wouldn't say multilateralism is on life support, but it's time for the major partners to reinvest energy in the global trading system, rather than build up walls, before it's too late," says Myron Brilliant, executive vice president and head of international affairs for the U.S. Chamber of Commerce.

Ever since President Franklin Roosevelt signed the Reciprocal Trade Agreements Act in 1934, American presidents have, with only a few exceptions, led the world in trying to make trade between countries freer and more rules-based. They helped launch the General Agreement on Tariffs and Trade in 1947 and its successor, the WTO, in 1995.

President Trump is approaching things differently. He views trade through the lens of national security. He's an avowed nationalist, not a globalist. He feels he has more leverage pursuing bilateral trade deals than multilateral ones. He's unhappy when the U.S. runs a trade deficit with a trading partner. And he loves tariffs–because "otherwise we have no cards to negotiate with," as he said on Jan. 15.

Mexico, Canada, Japan, and China have had a taste of Trump's approach. Now, Trump is focusing on Europe. Ireland's Phil Hogan, the European Union's new trade commissioner, complained on a visit to Washington on Jan. 13-16 that Trump is "obsessed" with the U.S. deficit in goods trade with the EU. He said Trump's agenda has helped bring about "a high-pressure crisis moment for the international trading system." (Perhaps realizing he wasn't getting off to a good start with the readily angered U.S. president, Hogan later praised the "cooperative spirit" of the American side.)

Where Trump gets his way, trade is gradually becoming more managed than free. Free trade is about tearing down barriers, then letting private parties decide what and how much to buy from each other. Managed trade is about government negotiators setting goals or even quotas for purchases of specific products. It's about cutting mercantilist deals rather than following rules.

The "phase one" deal with China that Trump signed this month, with its commitment by China to buy $200 billion worth of U.S. products, is managed trade, says Gary Clyde Hufbauer, a nonresident senior fellow of the Peterson Institute for International Economics. It even has a classified list specifying what products China must buy and in what volumes.

"The Chinese commitment represents a worrisome and radical change in US policy and conveys a troubling message to the rest of the world," Hufbauer wrote in a Jan. 16 article on the Peterson Institute's website. "The US Trade Representative dipped its toe into managed trade with the US-Mexico-Canada Agreement, by setting complicated 'rules of origin' and quotas governing the content of imported automobiles getting trade preferences," Hufbauer added. "But the new US-China agreement is complete immersion. Price signals are out, quantitative commitments are in."

It's not happening everywhere. The EU entered an "economic partnership agreement" with Japan a year ago. China cut tariffs on more than 800 products on Jan. 1. But because Trump is president of the most powerful country, with the biggest domestic market, his approach is reshaping the world trading system. The effects may endure even after he leaves office.

The ebbing of America's free-trade tide shouldn't come as a surprise: The broad-based liberalization of trade that FDR helped kick off in 1934 is an outlier in world history, and incomplete at that. High tariffs were once a key source of government revenue around the world. Even today, tariffs are frequently justified as a way to protect infant industries or militarily sensitive sectors. Businesses favor high tariffs, "voluntary" restraints on imports, and hard-to-detect nontariff barriers because they can earn higher profits when protected from foreign competition. "Free trade turns out to be something that helps a rising great power, until it doesn't, and which most countries claim to practice while trying to subvert its principles as much as possible," Bloomberg Opinion columnist Pankaj Mishra wrote in December.

The command-and-control nature of managed trade ▶

PHOTO ILLUSTRATION BY 731; PHOTO: ALAMY

◀ is a far cry from the free enterprise that Republican presidents have typically advocated. It can also be unfair to American allies, which could lose sales to China because of preferences given to the U.S. That's why managed trade is frowned on by the WTO. During his visit to D.C., Hogan said the EU will file a complaint with the WTO if it concludes that the U.S.-China deal breaks the rules.

The WTO, though, has no enforcement powers of its own. The free-trade group "only works if people believe in it," Robert Koopman, the body's chief economist, said on a panel at the Jan. 3-5 annual meeting of the American Economic Association in San Diego. The organization has lost influence since the U.S. neutered its Appellate Body by blocking the appointment of new members. So Trump's managed trade could eventually become the norm. Writes Hufbauer: "In the immediate aftermath, other countries may complain; over a longer period, they are likely to emulate."

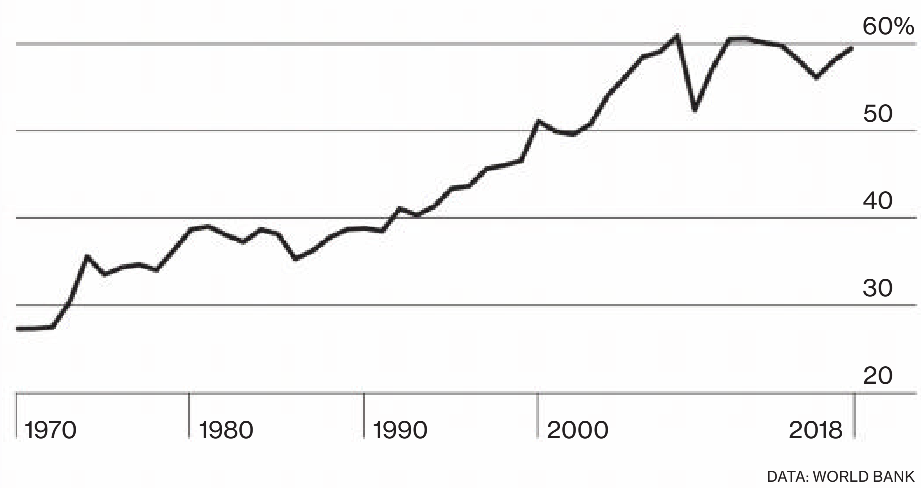
It would be unfair to portray Trump as the lone renegade in a world of dutiful free-traders. There are many that flout the rules, chief among them China, which continues to restrict access to its market despite its accession to the WTO in 2001. "China critics" tend to argue that managed trade "is the only way credibly to ensure improved access to the Chinese market," Stanford Law School professor Alan Sykes said in a Q&A on the school's website on Jan. 16.

It's understandable why Trump got into a trade war with China. It's harder to see why he would do the same with Europe, which is an ally of the U.S. and is far more open to trade than China. But Europe seems to exasperate the U.S. president, who broke off talks on a Transatlantic Trade and Investment Partnership soon after taking office and then put duties on European steel and aluminum on national security grounds. He's threatened 25% tariffs on European cars and parts unless European automakers shift more production to the U.S. According to the *Washington Post*, he has made the same threat to get Britain, France, and Germany to formally accuse Iran of breaking the 2015 nuclear deal. France's 3% digital services tax has inflamed the U.S. side because it would slam U.S. tech giants, though it applies to all countries. Under a truce reached on the sidelines of the World Economic Forum in Davos, Switzerland, on Jan. 22, the French will postpone collecting the tax until the end of 2020 and the U.S. will refrain from retaliatory tariffs.

Food trade has long been a bone in the throat of both the U.S. and the Europeans. France, for one, insists that its chefs shall never make coq au vin with chlorinated chickens from the U.S., nor mousse de saumon from America's genetically modified salmon. To the American side, that smells like protectionism. But the U.S. has its own set of sheltered products, including peanuts, apricots, and Roquefort cheese. In Davos, Trump said he aims to strike a trade deal by November with the EU—but added that "they are frankly more difficult to do business with than China."

One reason trade agreements are so fraught is that they're asked to do too much. Conservatives seek deregulation

Trade as share of world GDP



through trade deals (unless they're seeking to export American intellectual-property protections to benefit Big Pharma). Liberals insist that trade deals must fix inequality and include labor and environmental standards. The breadth of the agendas strikes some critics as mission creep, or meddling in trading partners' domestic affairs. For his part, Trump wants trade agreements to shrink trade deficits, even though the main reason for the overall trade deficit is that the U.S. is consuming beyond its means.

Expecting one tool—a trade agreement—to achieve such varied objectives violates what's known as the Tinbergen rule, named after Jan Tinbergen, the Dutch economist who shared the first Nobel Prize in economics in 1969. The rule of thumb holds that each economic target you're trying to hit requires an instrument of its own. Which is kind of common sense.

While getting trade policy right matters, "what happens at home has and will have greater impact on workers than what happens abroad," Harvard economist Dani Rodrik, a skeptic of free trade, said at the San Diego meeting. Kimberly Clausing, a Reed College economist who likes free trade more than Rodrik does, told the same conference that the ideal pairing for society is freer markets to benefit consumers along with a stronger social safety net to protect workers—"so, the opposite of the policy we've been following the last few years." Trade adjustment assistance for workers who lose jobs because of trade isn't enough, Clausing said.

A strong social safety net undoubtedly would increase the public's and politicians' support for free trade by relieving fears of job loss. James Green, a senior research fellow at Georgetown University's Initiative for U.S.-China Dialogue on Global Issues, says, "This unrest about trade, in my view, is an overhang of the 2008 financial crisis" and the job loss it caused. Then again, insulating citizens from risk is hardly a simple chore. "None of this is easy," says Massachusetts Institute of Technology economist Kristin Forbes. "If it was, we'd be doing it."

In a world of sovereign nation-states, it's unrealistic to believe that borders to trade will ever be thrown completely open, Peter Chase, a senior fellow at the German Marshall Fund, told the German broadcaster Deutsche Welle in 2018. He added: "Ask not if 'free' trade is dead; ask if it ever lived." Ⓑ

Art | Basel
Hong Kong
Nadi Gallery at Art Basel Hong Kong 2017 (Above);
The Basel Exhibition Centre at ART 03, 1972 (Below)
50
YEARS
March 19-21, 2020
Hong Kong Convention and Exhibition Centre
Vernissage March 18, 2020
Public Days March 19-21, 2020
Premier Pass, Vernissage and advance tickets available at hkticketing.com and +852 31 288 288. Tickets are limited.
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BUSINESS

The Protests' Collateral Damage

As free-spending travelers avoid embattled Hong Kong, its tourism-dependent workers are losing jobs

Ho Siu-ying, 76, who's been piloting her tire-ringed, wooden sampan to the iconic Jumbo Floating Restaurant in Hong Kong's Aberdeen harbor for 35 years, has never seen such hard times. Normally, ferrying diners back and forth nets her \$13 to \$26 for a day's work—enough to live modestly in public housing with her daughter and even take an occasional leisure trip to the Chinese mainland. But with a catastrophic drop in tourism caused by seven months of civil unrest, she frequently goes home empty-handed. "A lot of days I'm working for no pay," she says, with an unusually cheerful laugh that causes the wrinkles around her eyes to crease and conceals her concern, which she shares in a quieter voice. "I'm honestly very worried right now because I'm using up my savings."

In early January, Jumbo—which has been visited by notables including Tom Cruise and Queen Elizabeth II and whose red and gold, Ming Dynasty-styled exterior has appeared in many movies—dismissed about 60 employees, or almost half its staff. It's cut back its hours and is now closed on Mondays.

All over Hong Kong, restaurants, retail stores, and hotels are shuttering, shortening their hours, and letting employees go. Everyone—from government officials to labor unions to business owners struggling to make rent and payroll—expects the situation to get worse, especially after the Lunar New Year holidays, which begin on Jan. 25.

Visitors from mainland China usually throng the city at this time of year. Their numbers reached an all-time high of more than 5.5 million in January 2019, but there's little chance that will be surpassed in 2020. The number of tour groups arriving from China plummeted 90% in the four months through December from the same period a year earlier, according to the Travel Industry Council. Visitors are deterred not just by pro-democracy demonstrations, which have at times closed the Hong Kong airport and subway system and forced businesses to shut their doors. Depreciation of the yuan also made Hong Kong 10% more expensive for Chinese tourists last year. And concerns about the Wuhan virus could discourage visitors in 2020.

The local economy was already suffering from the effects of the China-U.S. trade war before the protests began in June. The recession that started in the second quarter of 2019 looks set to deepen as more businesses succumb to the decline in tourism. Hong Kong Financial Secretary Paul Chan has described the situation as an "economic typhoon."

Retail sales have declined for 10 straight months, falling 25% in November alone—the latest available data. Both Prada SpA and LVMH's Louis Vuitton have plans to close their locations in the Causeway Bay shopping district, home to the most expensive commercial real estate in the world, after the Lunar New Year holidays. Employees at both stores say they have no idea whether their employers will move them to other locations in the city or fire them—and they may not be told until their final day at work, a common practice in Hong Kong.

Chow Tai Fook Jewellery Group Ltd. and cosmetics chain Sa Sa International Holdings Ltd. have announced closures of about 15 and 30 stores, respectively. Some tenants at Horizon Plaza, a luxury mall in southern Hong Kong, report a 60% decline in foot traffic and revenue, and several shops there have closed, according to local district councilor Kelvin Lam.

For employers, there's a strong temptation to postpone layoffs until after the Lunar New Year, because the bonuses that companies traditionally pay out then can be counted toward severance, which is required by law. The Hong Kong Retail Management Association forecasts that 5,600 jobs will be lost over the next six months, a situation Chairwoman Annie Tse called the "worst ever in history." Already, official unemployment statistics show joblessness in the retail industry and food ▶

Edited by James E. Ellis

Senior citizens wait for free meal coupons


A shuttered store in the Central District

BILLY H.C. KWOK/BLOOMBERG (2)

◀ and beverage sector at 5.2% and 6.2%, respectively. Overall unemployment is 3.3%.

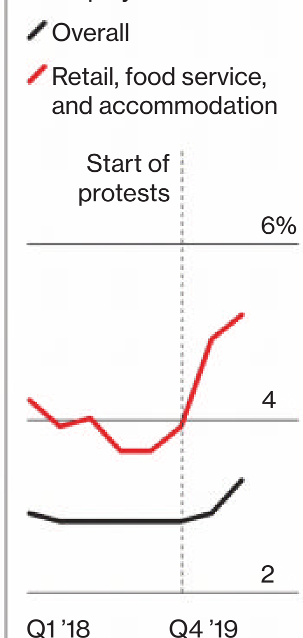
Official figures don't capture the full extent of the job destruction because they don't count part-time workers. In the restaurant sector, tens of thousands of them have been let go or told to take unpaid leave until the economy recovers, says Kwok Wang-hing, chairman of the 10,000-strong Eating Establishment Employees General Union. Thousands more have lost jobs permanently at some 400 restaurants that have closed in the past several months, most of them *cha chaan teng*, or cafes serving affordable fare such as fried noodles and fried rice. About 1,200 union members are owed a combined HK$10 million ($1.3 million) from employers who simply closed up and disappeared without paying severance. "Everyone feels lost. With thousands of shops to close after the Chinese New Year, many are worried about their future job prospects," says Kwok, who works mornings in a dim sum restaurant. "We can't really fight for any rights right now, so there's nothing we can do until the situation improves, when we can negotiate with the employers."

Several restaurants that cater to foreigners and the well-heeled of Hong Kong have also closed, among them the vegan refuge Grassroots Pantry; BlackSalt Tavern, an Indian fusion spot; and Happy Paradise, a high-end take on the traditional Hong Kong eatery that hosted the late TV celebrity chef Anthony Bourdain on his last trip to Hong Kong. The restaurant, now operating solely as an event space, sits on a block in the Central District where at least half a dozen empty storefronts are plastered with for-rent stickers, while dress shops have large signs advertising deep discounts.

A 22-year-old unemployed supporter of the protests, who gives his name as Chau, says he lost his HK$10,500-a-month job at a bakery a few months ago because of the slowing economy. The manager fired him at the end of his 6 a.m.-to-3 p.m. shift and told him not to return the next day. "I didn't expect it coming at all," he says. A steady job had allowed him to procure his first credit card. Now he won't be able to pay for the purchases he'd charged. "It really screwed me up," says Chau, who was forced to turn to his parents for help.

Mrs. Chan, who declined to give her full name, shares a 300-square-foot apartment in public

▼ Hong Kong unemployment rate



▼ The iconic Jumbo restaurant has cut staff and reduced its hours

housing in eastern Hong Kong with her son, who stocks kitchen shelves for a fast-food restaurant. He gets paid by the day, but since July his hours have been cut and his pay reduced 25%-40%. “My son works less, so there’s less income to spend, too,” she says, surveying their tiny living room with bunk beds on the side and worn-through linoleum flooring.

She’s given up buying pork, a meat staple of almost every Hong Kong household that’s become expensive due to shortages caused by African swine fever in China; she’s taken to eating vegetables and discounted bread. Four sausage rolls from the local bakery are HK$15 after 4 p.m., and four plain buns are HK$12. Four times a month she stands in line at the Ho Wan Roast Meat Restaurant to redeem free meal coupons she gets from a charity. She makes each box of rice and roast pork last two meals.

Ho Wan restaurant used to distribute 100 boxes to the elderly three evenings a week, but it cut back to two nights starting in January. Owner Yu Zai says that’s because donations for the program have dropped. “I’ve had sponsors tell me that they can’t donate anymore because of the bad economy,” he says. “I understand.”

Hong Kong already has the biggest inequality gap in the developed world, as measured by the Gini coefficient, and one of the lowest average hourly wages, the equivalent of $4.82, compared with developed countries in the Organization for Economic Cooperation and Development. Government figures released in December show poverty at the highest level since records started being kept a decade ago. One in five people now lives below the poverty line, which is set at $6,700 a year, an almost absurdly low level in one of the most expensive cities in the world.

“The working classes all feel the pain now,” says Paul Yip Siu-fai, a professor and an associate dean at the University of Hong Kong. While many, particularly the young, have been strong supporters of the push for democratic freedoms, months of violent protests and the direct impact on their livelihoods have led to feelings of ambivalence, hopelessness, and helplessness, he says. “The unfavorable economic situation and social disharmony have caused much strain and anxiety in the whole community.”

Hong Kong’s wealthy have been largely insulated from the downturn. Property prices in the world’s most expensive residential market have remained resilient. And the stock market’s Hang Seng Index, after tanking in the months after the protests began, is about 5% higher than when they started. Yet more and more, foreigners employed in finance and related industries are choosing to leave Hong Kong. The latest immigration data show a decrease of only about 5,000 people; yet anecdotally, many expatriates are moving to Singapore, Shanghai, or back to their home countries.

A twentysomething protester who gives her name as Elena says Hong Kongers must be willing to make economic sacrifices to win more political freedoms. She gave up a post as a research assistant and fled the city, fearing she was wanted by the police for demonstrating. “I know it’s hard to give up things we used to have, including jobs,” she says from a remote location she doesn’t want to reveal. “But this is the last chance for Hong Kong people to fight.”

Ho, the sampan captain, says she doesn’t care about politics. She just hopes to hang in for four years, until her license is up for renewal, and retire at age 80—as long as her savings can ride her through the current downturn. “I don’t know anything about the political situation, and I don’t have the knowledge to learn about it,” she says. “I just hope it will end soon so the tourists will come back and business will return.” *—Sheridan Prasso, with Natalie Lung*

THE BOTTOM LINE Official data show joblessness in Hong Kong’s retail industry and food and beverage sector at almost double the 3.3% overall figure.

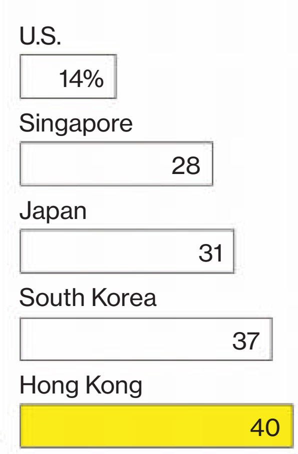
Hong Kong’s Retail Gloss Is Fading

● Once the go-to destination for mainland shoppers, the city has seen its allure dimmed by the protests

When tourists come to Hong Kong to shop, they head for a six-block stretch of Nathan Road in the Mong Kok neighborhood. There they can find more than 30 high-end jewelry stores, including 10 outposts of Chow Tai Fook, the world’s second-biggest jeweler after Tiffany & Co. That’s not counting almost a dozen standalone watch stores, which include Rolex, Tissot, and Longines. And global luxury retailers such as Chanel and Louis Vuitton operate boutiques farther up the merchant-lined thoroughfare.

Nathan Road is much quieter than usual these days. The anti-Beijing protests have scared off tourists from around the world—particularly Chinese mainlanders, who’re especially important to Hong Kong’s retailers. Compared with tourists from other places, Chinese spend more money ▶

▼ Share of total tourist spending in 2018 that went to retail purchases by destination



JUSTIN CHIN/BLOOMBERG; DATA: HONG KONG CENSUS AND STATISTICS DEPARTMENT, EUROMONITOR INTERNATIONAL

◀ on shopping; they're also more likely to buy high-end goods. They make up almost 80% of total annual visitors to Hong Kong. In November, after the protests became more violent, the drop in visitors from the mainland was a record 58%, according to the Hong Kong Tourism Board. That month, retail sales fell by a quarter from the previous year, with jewelry and watch sales plunging 44%, according to the city's statistics department.

That sluggish performance might be here to stay, economists and retail industry analysts warn. China's state media have emphasized incidents of anti-Chinese violence and harassment during the protests, amplifying fear and resentment among mainlanders who've only gotten more nationalistic during the trade war with the U.S. "In the eyes especially of mainland tourists, Hong Kong as a destination has changed permanently," says Tommy Wu, senior economist with Oxford Economics in Hong Kong. "Part of it is how it's been portrayed on the mainland—there has been news of anti-mainland vandalism and violence. The image is quite negative."

Any long-term reduction in visitors will have a dramatic economic fallout. The Hong Kong Retail Management Association estimates that thousands of Hong Kong retailers, big and small, could shut down within the first six months of 2020. The city, the world's biggest market for Swiss watches for the past decade, is expected to lose that distinction to the U.S. and the mainland, according to Jean-Marc Pontroué, chief executive officer of luxe watch brand Officine Panerai, a unit of Swiss luxury conglomerate Richemont SA.

Prada will close a store in the Causeway Bay shopping district, one of seven Hong Kong locations, after the final shopping push of Lunar New Year. Louis Vuitton will also shutter a store nearby, leaving it with seven in the city. Chow Tai Fook plans to close about 15 of its 91 stores in Hong Kong, and cosmetics chain Sa Sa is tentatively planning to close about 20% of its locations there over the next 18 months. "Retailers have accepted the fact that there are fewer tourists," says Annie Tse, chairwoman of the retail management trade group. "In the past, Hong Kong's retail market expanded based on a high level of visitors. Now everyone is consciously considering their scale for the future."

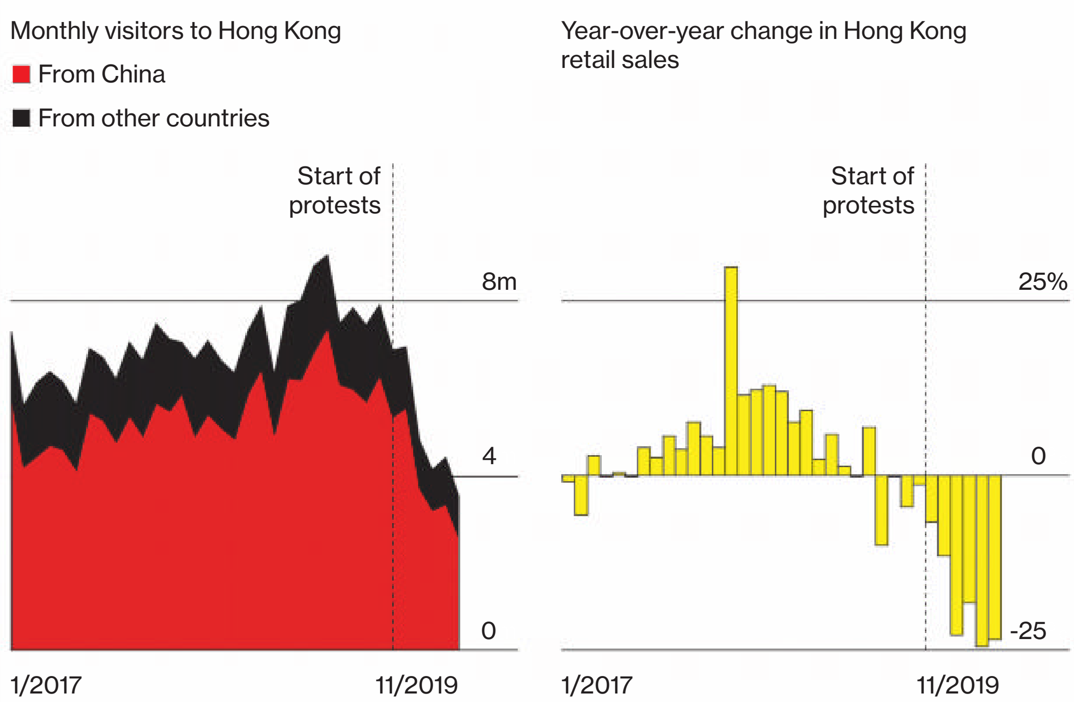
Two decades ago, Hong Kong merchants were most concerned about how fast they could expand. In 2003, China began issuing individual tourist visas for travel to Hong Kong, kicking off the retail boom. To keep pace with the voracious appetites of some 60 million visitors a year, the city's retail landscape has developed far beyond the needs of its 7.5 million residents. It counts about the same number of Louis Vuitton outposts as New York City does and three times as many Gucci stores.

Long before the protests began last year, forces had already been chipping away at Hong Kong's regional dominance in shopping. The growth of busy airline hubs in Beijing, Shanghai, and Guangzhou means many well-heeled mainland travelers can fly nonstop to cities around the world, bypassing Hong Kong. And the huge expansion of Chinese e-commerce platforms such as Alibaba, JD.com, and others has provided new competition.

Meanwhile, China has been encouraging luxury brands to open stores on the mainland. The Chinese government has cut mainland import taxes, and retail prices have fallen as a result.

▶ Riot police secure part of a mall during demonstrations in November

The Economic Chill From the Protests



DATA: HONG KONG TOURISM BOARD, HONG KONG CENSUS AND STATISTICS DEPARTMENT

Goods that used to cost 25% to 35% more in Beijing or Shanghai, for example, now sell at a much smaller premium, says Amrita Banta, managing director at Agility Research, a consulting firm that focuses on the affluent. At an Hermès store in Hong Kong, a calfskin wallet sells for HK$26,700 ($3,438). Chinese online platform Tmall advertises the same wallet, which ships from Italy, for 24,580 yuan ($3,589), a premium of less than 5%.

That's a "much more fundamental" issue for Hong Kong, Banta says. "You can't just depend on one nationality to support the industry. This round of protests is a good reminder to adjust to the new normal. Hong Kong cannot totally depend on shopping." Banta says she remains bullish on

▶ Workers clean up after protests at New Town Plaza in December

the city's future as a tourist mecca because of a litany of other attractions, including its mountains and beaches, top-flight restaurants, and long history as a cultural bridge between East and West. "Shopping is still important, but it's part of a more holistic travel experience," she says.

For struggling retailers, the Hong Kong government has rolled out rental support in buildings that it owns and urged private landlords to be sympathetic to merchants' needs. And even if Chinese tourists don't return en masse, Hong Kong still offers a wider variety of luxury goods and more reliable consumer products than are available in much of the mainland.

Daigou–the Mandarin term for shopping surrogates–say they're still doing swift business buying goods in Hong Kong, then selling them to customers on the mainland at a markup. "When tourists don't dare to come to Hong Kong, we navigate for them," says Li Yuan, who's been a daigou for seven years. —*Jinshan Hong, with Eric Lam and Sheridan Prasso*

THE BOTTOM LINE Hong Kong is losing Chinese shoppers as mainland cities add stores and tourists are reluctant to visit after the democracy protests.

FROM TOP: ANTHONY KWAN/GETTY IMAGES. WINSON WONG/SOUTH CHINA MORNING POST/ZUMA PRESS

Cheap Internet, Anywhere

● Skylo says its tiny antennas can distribute good-enough access in far-flung areas for cheap

For years, parades of companies have been trying to create an all-encompassing global wireless network that would have the power to connect every imaginable object to the internet, reaching places impervious to cell towers and fiber-optic cables. Silicon Valley startup Skylo Technologies Inc. says it's come the closest so far.

The San Mateo company's small but powerful antenna, which it unveiled on Jan. 21 after three years of development in secrecy, can connect to pricey satellite-based internet services and relay their bandwidth to hundreds of other devices. Similar technology is already on the market, but Skylo's founders say theirs does the job way better for way less. "If this type of connection was available for a few dollars per month, it would open up entirely new markets for people who are completely unconnected and underserved," says Chief Executive Officer Parthsarathi Trivedi.

Satellite services have long served people living on islands, vacationing on cruise ships, or hiking in the mountains. Typically, the equipment to run these systems costs thousands of dollars and requires bulky antennas that must be manually angled in certain directions. The Skylo antenna, essentially a flat circuit board about the size of a dinner plate, uses software to lock onto satellites so it can transmit data to nearby devices via Wi-Fi or Bluetooth. Customers will need to buy the antenna, which costs less than $100, then pay for Skylo's service, which starts at $1 for a limited amount of data. The antenna is meant to be easy enough for customers to install themselves by, say, bolting it onto the roof of a boat or truck.

This is a logistics play, not the kind of effort to get everyone using Facebook that's become so fraught over the past few years. Skylo says it's not trying to deliver high-speed internet to homes or buildings. It's more interested in allowing boats at sea or truckers on rural routes to send and receive short bursts of data for cheap. (No Netflix in the Sahara, unfortunately.) Its investors, including Innovation Endeavors, SoftBank, and Boeing's venture capital arm, HorizonX, have bet $116 million so far that Skylo's technology will be cheap enough to attract millions of customers who have sparse wireless access otherwise and little in the way of disposable income.

The company has spent months conducting tests of its hardware and service in Southeast Asia and elsewhere. In India, trucking companies are using hubs to track their fleets and make pickup ▶


Trivedi

Edited by Jeff Muskus

A Skylo “hub” is about the size of a dinner plate

◀ routes more efficient. And fishermen have used it to receive weather updates and help with auctions for their catch. “There are 300,000 motorized fishing boats, and they are away for at least seven days at a time,” says Mahantesh Patil, Skylo’s vice president of sales in South Asia. “They want to know which fish are in demand at the markets and where to move if a typhoon is coming.” Other customers might include small farmers, who could coordinate tractor rentals during busy harvest seasons and even track the temperatures of animal vaccines or bull semen in transit to confirm that the precious cargo stays within the range needed to keep it viable.

Rajesh Agrawal, a board member of Indian Railways, has overseen the testing of Skylo on passenger cars and says freight cars are soon to follow. “India is a vast country with dead zones all over where we might lose connections for up to an hour,” he says. Skylo has enabled passenger cars to steadily report their speed, direction, and any maintenance concerns like, say, a slipping wheel. Agrawal says the plan is to order thousands of hubs in the coming years.

Skylo will have to contend with plenty of competition. The companies promising to deliver their own low-cost data networks this year include a host of satellite startups that won’t have to worry about the obstacles faced by middlemen. CEO Trivedi contends that Skylo, which will be more widely available this summer, will remain cheaper by using existing satellites rather than building out infrastructure and that its rivals can’t match his antenna technology. “Our prices,” he says, “will be low and consistent around the world.” —*Ashlee Vance*

◀ Signal analyzers waiting to be tested at Skylo’s lab in San Mateo

THE BOTTOM LINE For less than $100, Skylo is promising its hubs can make a wide range of devices and objects capable of taking advantage of short bursts of internet data.

Trump’s Titanic Gift to China’s Solar Makers

● The White House put an easily exploited loophole in its tariffs, and the effort to undo it has been held up in court

For most of the past year, there’s been a big hole in President Trump’s China tariffs—one in the shape of a solar panel. Companies that build America’s major solar farms spent 2018 and early 2019 begging the administration to exempt jumbo versions of two-sided “bifacial” panels used to create vast, utility-scale solar farms. Relatively few bifacials are made domestically. For some reason, when the administration finally agreed to issue an exemption, it was much broader than the industry had suggested. So broad, in fact, that it reshaped the market and left Chinese panel makers as dominant as ever.

Since June, all bifacial panels have been tariff-free, and Chinese panel makers are turning the once-niche design into a cornerstone of their U.S.-aimed product lines. A trade court has temporarily blocked the White House’s efforts to kill the exemption. Trump is expected to decide as soon as next month, as part of a scheduled review, whether to make the otherwise-harsh solar tariffs even harsher. Trade adviser Peter Navarro has said “the loophole for bifacial solar panels China is currently exploiting needs to be slammed shut.” The White House declined to comment.

Solar power is one of America’s cheapest sources of electricity, and installing it is one of its fastest-growing occupations. Chinese companies’ cheap panels are a big reason: “They’ve lowered the price of solar for the whole world,” says Noah Kaufman, a Columbia economist with a focus on global energy policy. They also crowded out domestic U.S. manufacturing, meaning the White House could satisfy ailing homegrown panel makers as well as its favored fossil fuel industries by making the Chinese models less competitive. The administration had solar panels—including bifacials—among its first set of tariffs in early 2018. The tariff started at 30%, with annual decreases scheduled in years two through four. (Those decreases are among the potential subjects of the scheduled tariff review.)

Even the threat of the tariffs pushed many utility-scale developers to delay or temporarily shelve solar plant projects as early as 2017. The Solar Energy Industries Association, a trade group, pushed for an exemption on hefty bifacials used in utility-scale solar farms. (Such panels can weigh more than 70 pounds, and they're up to a third longer than residential models.) For more than a year, a group representing about a dozen major solar farm companies lobbied Washington for the move, including executives from Southern Current, SPower, Clearway Energy Group, and Cypress Creek Renewables.

Some proponents were skeptical they'd get the exclusion, but the Department of Energy seemed more receptive than the Department of Commerce to their argument: that big bifacial panels represented an obscure but critical market that American companies could turn into a mainstream business. "This is the chance to bring back the manufacturing base," the argument went, according to Bret Sowers, a vice president at Southern Current. They framed the exemption as harmless to makers of residential panels, because the bigger bifacial modules are tough to put on the roof of a typical home. At the time, there were few in circulation, and vanishingly few made in the U.S.

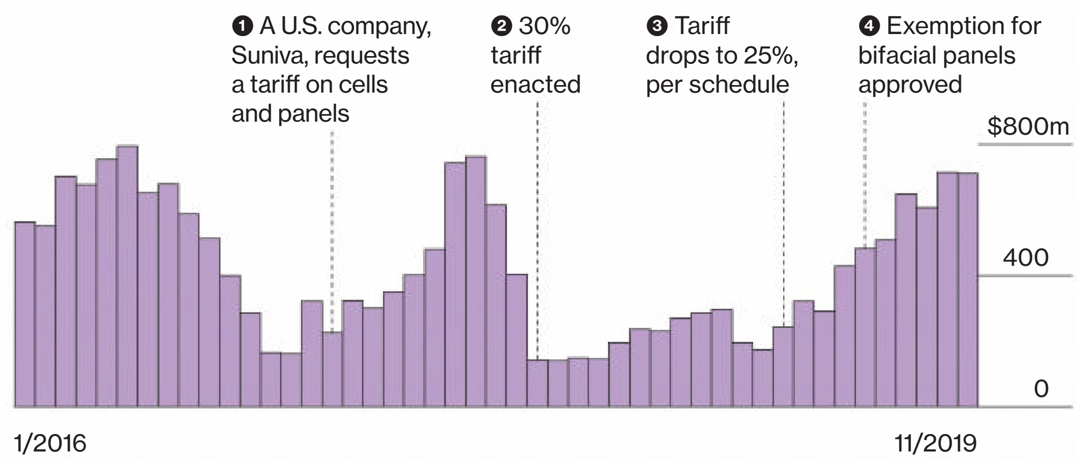
The Energy Department didn't respond to a request for comment, and the Commerce Department deferred to the Office of the U.S. Trade Representative, which didn't respond, either.

In June, solar advocates thanked Trump for granting the exemption, but they soon realized they'd won more than they bargained for—that instead of sparing only the utility-scale bifacial panels, the administration had exempted all bifacials. The day after the exemption was made public, BloombergNEF, which researches clean energy markets, estimated that motivated Chinese manufacturers could convert single-sided production lines to produce bifacials if they were willing to shut down production for two months.

Neutering the tariffs, the broad exemption has been a disaster for U.S.-based panel makers, said Andy Munro, general counsel of Hanwha Q Cells America, the local arm of a South Korean manufacturer. "It is an existential threat to U.S. solar manufacturers," he said in a statement. In December, U.S. trade court Judge Gary Katzmann issued a preliminary injunction freezing the administration's efforts to roll back the exemption, saying the government hadn't followed the procedure due any such move, including providing adequate time for public comment.

Hot and Cold on Asian Solar

U.S. imports of photovoltaic products from Asia tracked by BloombergNEF



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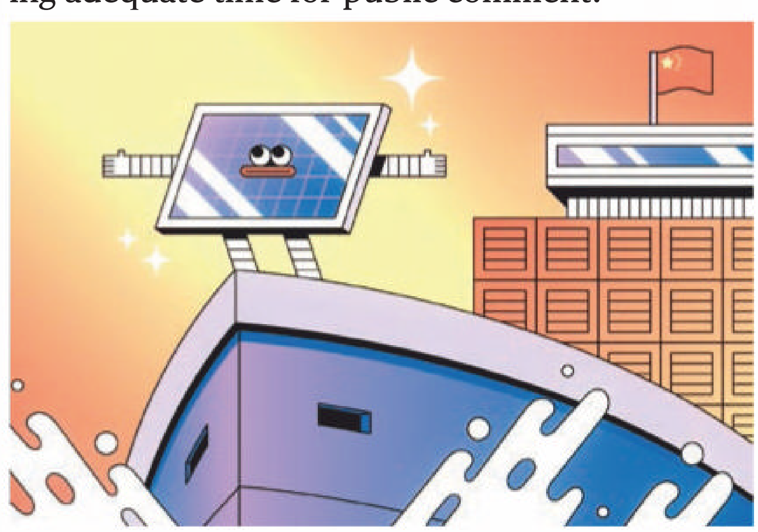


For all the chaos the tariffs and exemption have sown, the policies have encouraged some new U.S. manufacturing. A few solar panel factories have opened in the U.S. in the tariffs' wake. Still, the vast majority of U.S. solar jobs aren't in manufacturing.

The industry is negotiating with the administration to resolve the exemption withdrawal, but, if a comment period is required, it may remain in place for at least a few more months. In the meantime, the economics continue to favor panels made outside the U.S., says Jigar Shah, co-founder of the green venture firm Generate Capital Inc. "There's no way," he says, "to make solar panels here as cheaply as you can in Asia." *—Brian Eckhouse and Ari Natter, with Justin Sink*

THE BOTTOM LINE In an effort to appease hurting developers of solar power plants, the Trump administration has also let China's panel makers easily avoid its punishing tariffs.

ILLUSTRATION BY BRÁULIO AMADO. DATA: EXPERIAN

Resetting The Debt Trap

● Credit card companies are quietly raising limits on subprime and "near-prime" borrowers

It might sound like a risky strategy at a time when millions of Americans are drowning in debt: Keep raising the limit on people's credit cards, even if they don't ask. But that's exactly what big banks have been doing lately to amp up their profits, giving customers the potential to rack up even bigger monthly bills.

For years after the financial crisis, Capital One Financial Corp. resisted that step for customers who looked vulnerable to getting in over their heads. In internal conversations, Chief Executive Officer Richard Fairbank characterized the restraint this showed as a radical theology, in part because it went beyond post-crisis requirements, according to a person with direct knowledge of the discussions. But Capital One reversed course in 2018 after the bank came under pressure to keep revenue growing.

The same reversal is playing out across U.S. banking. The question is how it will end for lenders and borrowers alike. Research shows many consumers turn almost all those credit increases into debt. "It's like putting a sandwich in front of me, and I haven't eaten all day," says D'Ante Jones, a 27-year-old rapper known as D. Maivia in Houston who was close to hitting the ceiling on his Chase Freedom card when JPMorgan Chase & Co. almost doubled his spending limit a year ago without consulting him. He soon borrowed more.

The banks say that the increases are good customer service and cardholders can reverse them at any time. JPMorgan says that fewer than 1% of limit increases are reversed, and they're granted only to creditworthy customers with "strong repayment patterns." Capital One says it reviews factors including payment history and debt-to-income ratios before increasing credit limits.

Proactive credit line increases, known in the industry as PCLIs, emerged in the 1990s but dwindled after regulators clamped down on the practice

Edited by Pat Regnier

following the 2008 financial crisis. Recently, PCLIs have made a comeback, with executives finding ways to work within the consumer protection laws. U.S. issuers boosted credit lines for about 4% of cards in each quarter of 2018, according to the Consumer Financial Protection Bureau's most recent data. That's double the rate in 2012.

Subprime and near-prime customers got increases at a higher-than-average pace, according to the agency. That means many people getting boosts have blemished or limited histories of paying bills. Analysts warn that issuers have chosen a dicey time to get aggressive about lending. It's late in the credit cycle—lending has soared as the financial crisis has faded and the economy has strengthened. Outstanding card debt reached a record of $880 billion at the end of September, according to the latest data from the Federal Reserve Bank of New York. An economic downturn could mean pain for banks and consumers.

But for now, increasing limits looks like good business. Issuers make money on interest charges and fees on such things as interchange, penalties, and cash advances. Those streams helped make 2019 the industry's most profitable year on record. Interchange fees are paid every time a customer uses a card, while interest revenue is higher the more a customer owes. That encourages banks to find people who will carry the largest balance possible without tipping into default. Experian Plc, a credit report company, advises banks that unilaterally raising borrowing limits is "a crucial step" in creating revenue.

With interest rates on credit card balances reaching the highest level in more than two decades last year, U.S. issuers pulled in revenue of $179 billion from interest and fees, according to data from payments consultants R.K. Hammer. Card companies will likely earn the highest returns in banking in 2020, according to Bloomberg Intelligence.

Lawmakers have put some protections in place. Card companies must consider customers' "ability to pay" before boosting limits. In practice, that means calculating whether a consumer would be able to make the minimum monthly payment due if the entire credit line were used. With minimum payments typically around 2% of the balance, customers need to be able to cough up roughly $25 a month for every $1,250 in credit. In reality, someone making payments at that pace would need years to pay down the balance, accruing interest that can surpass the original purchase.

Some countries have stricter rules. U.K. banks agree not to offer increases to customers in persistent debt. Canada requires a borrower's consent. Australia bans unsolicited increases altogether.

"I didn't know there was a way to say no," says Jones, the Texas musician. He was making less than $30,000 after taxes when Chase gave him access to an additional $1,500 during the 2018 Christmas season. He says he was terrified he'd spend more than he could handle. After thieves broke into and damaged his car, he tapped the full credit line and could afford to make only the minimum monthly payment.

Capital One was one of the first card issuers to use big data analysis, pioneering teaser offers, and tailored interest rates, which helped it reel in and manage less-than-perfect borrowers. But after the stock slipped in 2017, executives came under pressure to show they could meet growth targets. They eventually tweaked their models to offer increases to more customers, betting on a quirk in human behavior, according to the person with knowledge of the decision, who asked not to be named discussing the talks. The company's analyses showed people tended to keep their credit limit utilization steady, even after line increases. In other words, someone who used 80% of a credit line before the boost would typically use the same percentage afterward, generating more revenue.

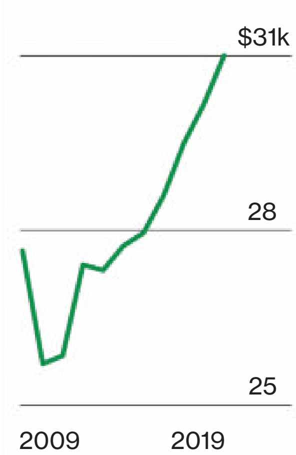
Capital One says a customer's ability to pay down debt "has been and continues to be a fundamental consideration" in its credit decisions. The company says its tools to help customers keep card use in check include credit lines that start low and increase gradually. "Acting in the best interest of our customers is our paramount consideration," it says.

Other researchers had come to a similar conclusion as Capital One did about the effect of higher limits. For consumers who carry balances on their cards, "nearly 100% of an increase in credit limits eventually becomes an increase in debts," according to a 2015 working paper by Scott Fulford and Scott Schuh for the Federal Reserve Bank of Boston. About half of U.S. credit card accounts carry a balance each month, the CFPB said.

Caitlynn Patchett, a 24-year-old case manager at a nonprofit in Illinois, owed about $1,000 on her card when Chase doubled her limit. She says she knew the bank was being too generous, but that didn't stop her from buying three rings from the jeweler Pandora—two more than she would have allowed herself before the increase.

Since 2006, credit card debt has been growing faster than any other type of consumer debt, including student loans, according to a report by Morgan Stanley strategists. "Household balance sheets may be more stressed than we realize," they wrote. Even with the U.S. economy humming—with the lowest jobless rate in a half-century and wages inching upward—the share of credit card ▶

▼ Average U.S. cardholder's total credit limit



◀ borrowers who're at least 90 days past due is expected to reach the highest level this year since 2010, according to a study by credit reporting company TransUnion. At the same time, the share of seriously late payments in home, auto, and unsecured personal loans is projected to fall. Younger borrowers are hurting the most. The number of cardholders from age 18-29 at least 90 days behind on payments has reached the highest level in about 10 years, according to the New York Fed.

Many cardholders assume they wouldn't get limit increases if their banks didn't think they could handle them, says Carey Morewedge, a Boston University marketing professor. "I don't think consumers have a clear idea of how much they can afford to float on a credit card," he says. "Consumers may be inferring from the increase that the credit card company believes they're capable of taking on more debt." —*Michelle F. Davis*

THE BOTTOM LINE Even as the economy booms, serious credit card delinquencies among young people are up. And lenders are showing less caution than they did after the crisis.

Quants Go Looking for Greener Stocks

● Can algorithms sort the good corporate citizens from the bad?

On Jan. 14, the chief executive officer of the world's largest asset manager warned that investors had to pay attention to global environmental risks. "Climate change has become a defining factor in companies' long-term prospects," wrote BlackRock Inc.'s Larry Fink in a letter to CEOs. "I believe we are on the edge of a fundamental reshaping of finance." In fact, many big investors now incorporate environmental and other social factors into their stockpicking, for at least some of their funds. But they face a real obstacle: The data's a mess.

Some companies disclose a lot of information about sustainability, labor practices, or gender equity. Others say almost nothing. A fund manager buying a few dozen large-cap U.S. stocks may be able to have analysts dig up enough corporate info to make a decision. But things get harder if you want to be able to choose from thousands of stocks, or evaluate small companies or emerging-market equities.

Quantitative investors say they have a solution. These traders use computers to sort through reams of data, and they say they're better than anyone else when it comes to making investment decisions based on messy or incomplete information. Quants are "used to filling in the gaps," says Andrew Dyson, CEO of QMA, a quantitative investment firm that's part of asset manager PGIM. It launched a socially conscious investment strategy in 2018.

QMA figured out a way to give companies a social and environmental score even when they don't report a lot of data—tripling the number of stocks QMA can consider, Dyson says. It starts by looking at companies where there's ample information. Companies can be dinged for things such as high greenhouse gas emissions or significant product recalls and get good points for, say, having a human-rights policy. QMA analyzes returns to isolate the effect of responsible corporate citizenship. Then the money manager turns to the universe of companies where there's not enough information. If a stock's behavior is statistically similar to those that are known to be good, it can be classified as good, too.

For some socially conscious investors, this method might be unsatisfying—it doesn't eliminate the possibility some of their money is going to companies with objectionable practices. But QMA says that it should produce a portfolio that overall is tilted toward better-behaved companies. And other quantitative tools may catch things traditional sustainability analysis might miss.

That's because much of the data on environmental, social, and governance issues—ESG, in the investment world's shorthand—comes from companies themselves. "The question is always whether ESG information is

"The question is always whether ESG information is more of a PR marketing story"

EGG: ALAMY. POSTMATES: DAVID PAUL MORRIS/BLOOMBERG. TOPGOLF: COURTESY TOPGOLF. CASPER: COURTESY CASPER. FOIL: KEITH HOMAN/ALAMY more of a PR marketing story," says George Mussalli, chief investment officer and head of research for equities at PanAgora Asset Management, which describes its approach as fundamental quantitative investing. "You don't just want to buy companies that have the highest ESG rating, you want to find the firms that are improving the most." To try and dig deeper, PanAgora says it uses natural language processing tools to analyze how companies talk publicly about their ESG performance and get a sense of whether they're backing up their claims with action. For example, a company that uses more negative-sounding words such as "spill" or "pollution" may be more honest about its problems and more diligent about addressing them.

Arabesque Group, a Frankfurt- and London-based asset manager, is focused on running ESG quant portfolios. It says it runs artificial intelligence models across 6,000 machines in 11 different data centers to read and digest information sources ranging from company data to news reports. "We don't have a single sustainability analyst at Arabesque that goes through and says this company is good or bad on ESG—everything we do is based on big data and systematic," says Yasin Rosowsky, co-CEO at Arabesque's AI unit in London.

Boston-based Acadian Asset Management has used data on issues such as local corruption or carbon pricing from companies that provide them to estimate similar information for all of the 40,000 companies it tracks globally. It also uses ideas drawn from ESG data to improve its investment decisions. For example, Acadian has found that polluting companies trade at lower valuations than nonpolluters in places where there's a carbon tax. That makes sense: The market figures a company should be worth less if it has to bear a cost for high emissions.

But Acadian also noticed the market seems to be pricing in the effect of a carbon tax even in countries that don't have one yet. Perhaps traders are assuming a carbon tax or similar regulation is likely in the future. So Acadian now assumes carbon taxes should be part of a company's investment assumptions, no matter where it's located. That's helped it avoid some investments in high-emitting companies that might otherwise appear to be a bargain, says Asha Mehta, a portfolio manager and director of responsible investing at Acadian. As the amount of sustainability information expands, the hope is that more such insights will emerge. "ESG data is becoming relevant faster in our portfolios today," Mehta says. —*Emily Chasan*

THE BOTTOM LINE Many companies don't report enough information on their social and environmental impact. But there may be clues in how their stocks behave.

Debuts Look Ahead

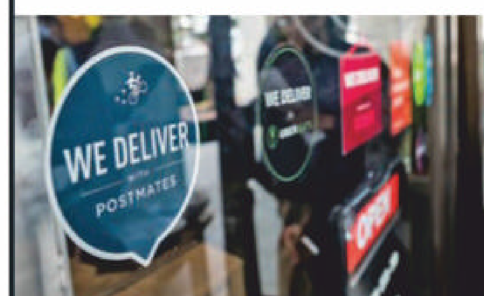
Last year was a wild one for companies going public. Ride-hailing stars Uber Technologies Inc. and Lyft Inc. are trading well below their debut prices, and the collapse of its initial public offering plunged WeWork into crisis. Here's some of what's on tap for 2020:

The Big One

Home rental service Airbnb Inc. could be the highest-profile debut. It's considering a direct listing, meaning it won't be selling new shares to raise capital. Instead, existing private shares will become tradable on an exchange, giving early investors a chance to profit. The company was valued at $31 billion in a 2017 private funding round.

Chasing Food Delivery

Postmates Inc. has been sitting on its confidential IPO filing since February. Olo, which provides back-end software for delivery services, reached out to potential advisers late last year for an IPO that could value it at about $1 billion. And DoorDash Inc. is considering a direct listing.



Swinging Hard

Topgolf International Inc., a chain of driving ranges with restaurants, is said to be aiming for a market value of $4 billion.

Even More Go Direct

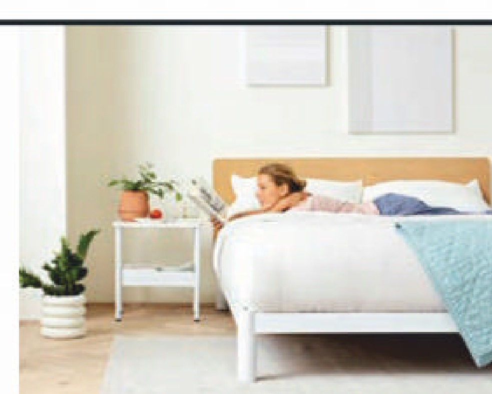
Direct listings were almost unheard of until Spotify Ltd. did one in 2018. Now venture capital firms and investment banks are promoting them. Other companies that may be weighing the direct route include GitLab Inc., a platform for tech developers, and Asana Inc., which makes work management tools.

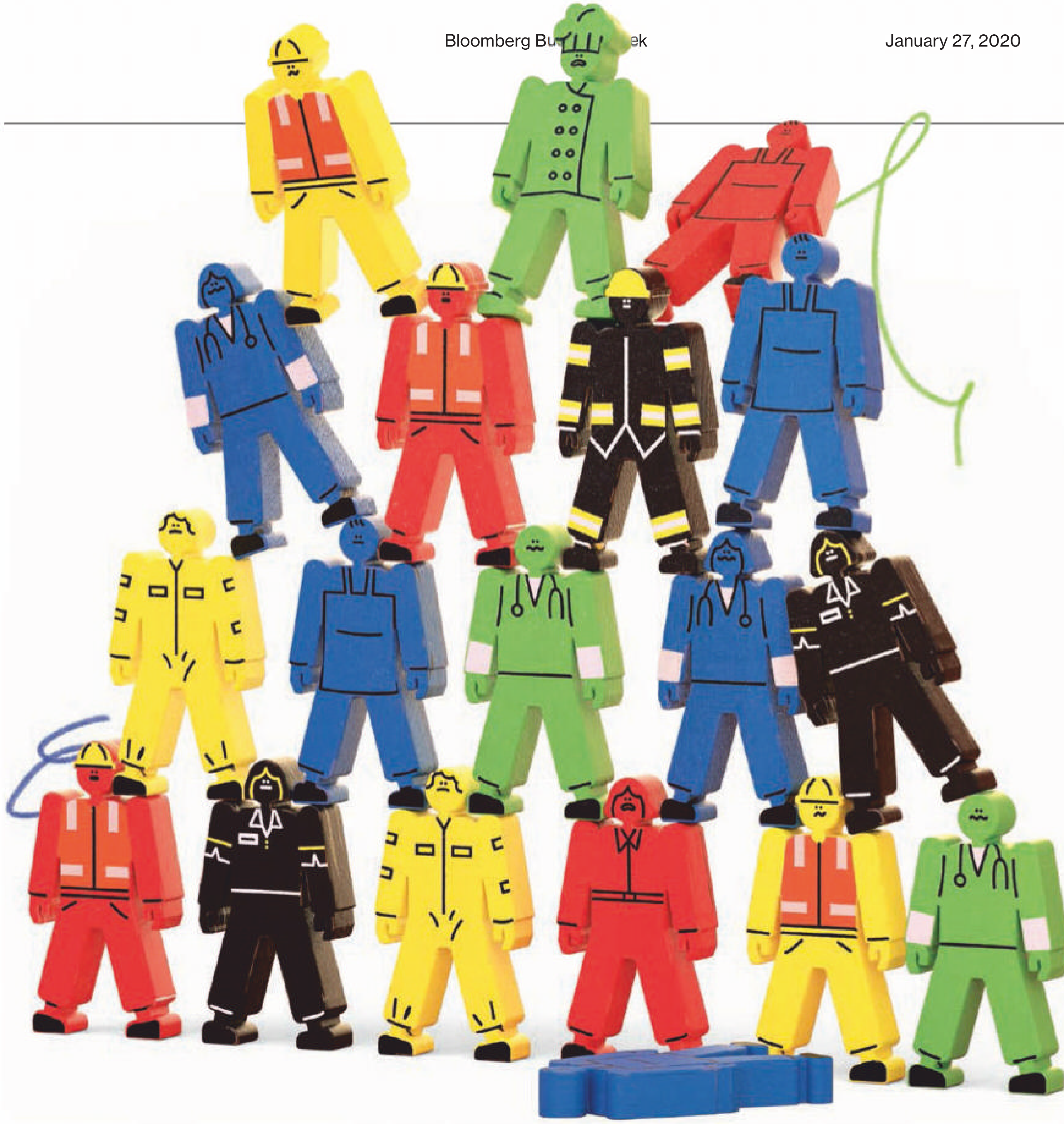
Everyday Business

Reynolds Consumer Products Inc.—famous for aluminum foil and Hefty trash bags—is seeking a $5.7 billion valuation. And private equity-backed supermarket chain Albertsons Cos. has confidentially filed for an IPO that could be one of the year's biggest.

Testing the Influencer Economy

The "bed-in-a-box" mattress retailer Casper Sleep Inc. filed this month for an IPO. It warned investors that it relies heavily on marketing via people with large online followings. —*Crystal Tse*





The Trouble With Full Employment

Figuring out when the economy has reached maximum employment is no easy thing. Just ask the Fed

Last year was humbling for the Federal Reserve. In 2019 policymakers were forced to unwind a series of interest-rate hikes they had implemented the year before, citing strains on the U.S. economy from President Trump's trade wars and a global slowdown. In the process, the central bank appeared to be sacrificing its autonomy by caving in to Trump's relentless demands for cheap money. There was still another reason for the Fed's reversal, one that goes to the heart of the institution's dual mandate of ensuring full employment and stable prices. It had underestimated how many jobless Americans were still out there—not technically counted as unemployed but willing to work.

By the time the jobless rate dipped below 4% in the spring of 2018—for only the second time in a half-century—central bankers thought they had accomplished their goal of maximum employment. Their next challenge was to ensure the tight labor market didn't trigger a so-called wage-price spiral. They began charting a course to raise interest rates high enough to discourage hiring. Yet, unexpectedly, inflation didn't bubble up, even as unemployment continued to drift lower. It's 3.5% now.

Fed officials are currently engaged in some deep introspection about what they got wrong. At the center of those discussions is the notion of full employment. Zero joblessness is almost an impossible goal,

Edited by Cristina Lindblad

since even in a dynamic, well-functioning labor market there will always be some people who are temporarily unemployed as they move between jobs. What monetary authorities fixate on instead is the sweet spot at which unemployment is low but not low enough to spark inflation. Yet this level can only be extrapolated from past experience. Testifying before Congress in February 2018, just weeks after becoming Fed chair, Jerome Powell acknowledged the inherent lack of precision, saying: "If I had to make an estimate, I'd say it's somewhere in the low 4s, but what that really means is it could be 5 and it could be 3.5."

The term "full employment" had intensely political implications from its inception in the depths of the Great Depression. It was more than just a single number estimated under scientific pretenses by central bank technocrats. In the late 1930s, British economist John Maynard Keynes upended the then-prevailing idea that free markets would automatically provide sufficient jobs for everyone who wanted one. William Beveridge, who's often described as the father of the U.K.'s modern welfare state, elaborated on Keynes's ideas in a 1944 book titled *Full Employment in a Free Society*. Its central proposition was that "the market for labor should always be a seller's market," where "people actually feel empowered to say, 'This job is crummy—I'm going to go and get a comparable job right across the street,'" says David Stein, a historian at the University of California at Los Angeles.

In Beveridge's conception, the responsibility for ensuring this blissful state fell not to the private sector but to the government. His argument found a receptive audience among voters in the U.S., amid widespread fears that the end of World War II would see a return to Depression-era levels of unemployment. In the 1944 election, Democrat Franklin D. Roosevelt and his Republican opponent, New York Governor Thomas E. Dewey, both campaigned on assuring postwar full employment.

FDR won in a landslide, and the following year Democrats in Congress introduced legislation to solidify that commitment in law. However, Republicans and Southern Democrats balked at institutionalizing a role for government as employer of last resort and pushed for the words "full employment" to be excised from the bill and replaced with "maximum employment," subject to the "preservation of purchasing power." And so the Full Employment Bill of 1945 became merely the Employment Act of 1946.

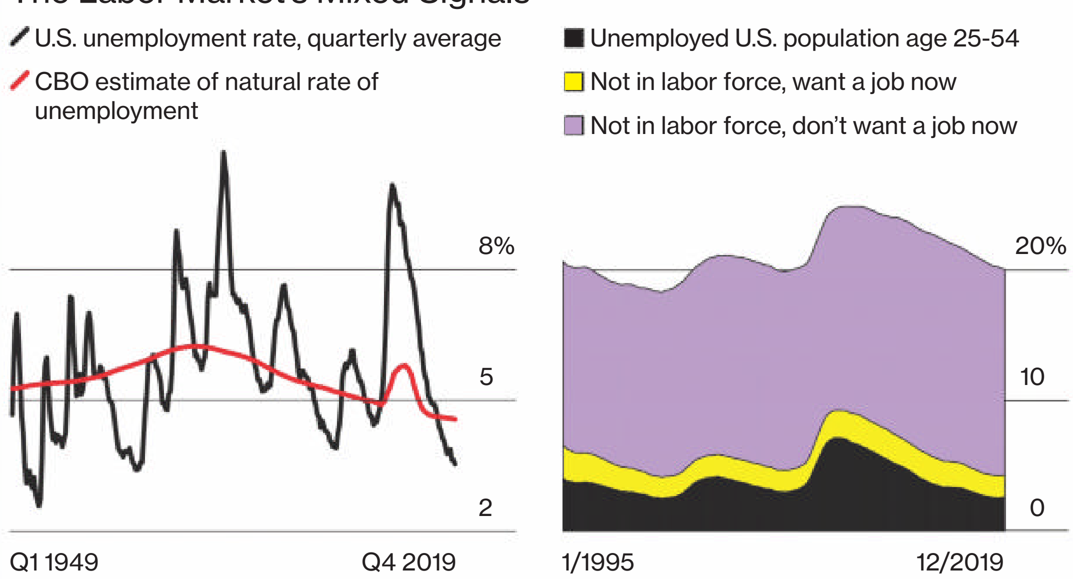
The belief that full employment is inimical to price stability dates to at least the early 20th century. But it was Milton Friedman who transformed an ideology long promoted by business interests into economic theory. In 1967 the University of Chicago professor unveiled his framework for thinking about the so-called natural rate of unemployment, which posited that if policymakers used monetary and fiscal stimulus to push the unemployment rate below its natural level, inflation would accelerate without bound. The inflationary decade that followed cemented Friedman's influence.

In the mid-1970s, in response to rising joblessness that was especially afflicting minority communities, liberal Democrats—building on the work of civil rights leaders such as Martin Luther King Jr., who advocated a job guarantee program—tried once more to enshrine in law a government commitment to maintain full employment. But economists, including those in President Jimmy Carter's own administration, pushed back, and the effort was once again defeated. The so-called Humphrey-Hawkins Full Employment Act that finally emerged from the process in 1978 did, however, instruct the Federal Reserve to work with the White House and Congress to ensure "full employment" and "reasonable price stability," which is how the dual mandate came into being.

In practice, the Fed has mostly prioritized reasonable price stability over full employment. By Friedman's standard, the U.S. economy operated at full employment two-thirds of the time from the end of World War II through the 1970s, but only a third of the time from 1980 to the present, according to Congressional Budget Office estimates. "They basically haven't run the economy at full employment since they got the mandate," says Claudia Sahm, an economist who left the Fed last year.

Today's Fed leadership came of age during the so-called Volcker shock of 1980, which saw the ▶

The Labor Market's Mixed Signals



DATA: CONGRESSIONAL BUDGET OFFICE, BUREAU OF LABOR STATISTICS

ILLUSTRATION BY JOSEPH MELHUISH

◀ Fed raise interest rates to record levels to quell double-digit inflation. The key lesson they took away from the experience was that it's imperative to act early to keep price pressures from spiraling out of control. That mindset was in evidence in 2018, when the Fed's rate-setting committee voted to hike four times over the course of the year as unemployment dipped below its members' estimates of the natural rate—even though inflation continued mostly to track below their 2% target. Economic models such as the Phillips curve implied that without tightening credit conditions to restrain hiring, it would only be a matter of time before rising wages began stoking inflation to undesirable levels. Yet by the time of the final hike in December 2018, financial markets were signaling that the slowing global economy couldn't handle the tightening.

Part of what led the Fed astray, according to Sahm, who's now director for macroeconomic policy at the Center for Equitable Growth, a Washington, D.C., think tank, was too much focus on the unemployment rate, which only counts jobless individuals actively looking for work and not persons who would like a job but have been discouraged from searching for one for various reasons, including poor job prospects.

Even incorporating the discouraged jobless into the calculation may not give an accurate reading of the labor market. Since 2015 the biggest employment gains among Americans age 25 to 54 has come not from those counted as unemployed or as discouraged but those who say they aren't looking for work. While that number has been coming down rapidly, the proportion of prime-working age individuals who say they don't want a job still stands at 15.9%. That's well above the 1995-2007 average of 14.7%, which suggests there is still more slack in the labor market.

Despite the endless stream of news about the hot job market, such as Taco Bell's recent announcement that it was raising salaries for managers to $100,000 at some of its locations, there's evidence that inflationary risk from the low unemployment rate may be in fact diminishing. Wage growth—which arrived late in the economic expansion and hasn't exactly been gangbusters—is showing signs of flagging. Average hourly earnings grew 2.9% last year, according to the U.S. Department of Labor, well below the 3.3% pace in 2018.

At his regular press conference following the Fed's most recent policy meeting on Dec. 11, Powell conceded that the data weren't consistent with the hallmarks of a fully employed economy. "I'd like to say the labor market is strong. I don't really want to say that it's tight," he told reporters. "I don't know that it's tight, because you're not seeing wage increases." (This is part of the reason the Fed has signaled it will probably leave rates unchanged at least through the end of 2020.)

Yet people like Sam Bell, who runs Employ America—a Washington, D.C.-based organization lobbying for low interest rates—are wondering whether the change of heart on unemployment will stick in the event that the global economy begins picking up steam, lifting U.S. growth. "I think [Powell] wants to tell this labor market story, but it's also a convenient confluence of events that allows him to really lean into it," says Bell, whose own conception of full employment is closer to Beveridge's ideal. "What we say on our website is more employment, higher wages, better-quality jobs. We're far from better quality and higher wages." —*Matthew Boesler*

THE BOTTOM LINE "Full employment" has long been a politically charged term in the U.S., where even economists don't agree on how low unemployment can fall without triggering inflation.

A Sugar Rush In Ethiopia

● A sweeping privatization effort aims to raise at least $7.5 billion and reinvigorate the economy

For decades, Irba Jana has scraped out a modest living from sugar cane, selling his harvest to mills run by Ethiopia's state-owned sugar monopoly. But lately, a lack of upkeep and investment have forced the closure of nearby processing facilities, so he's had to supplement his income by working as a security guard. "Sugar cane just isn't profitable anymore," says Irba, a grizzled 50-year-old father of eight. "It may be time to start farming something else."

"The private sector is not playing its natural role"

Recently, though, he got news that could augur a return to better times: The government is planning to privatize assets of Ethiopian Sugar Corp., including a complex near Irba's home on a high plateau a two-hour drive southeast of Addis Ababa. And a local investor aims to let farmers buy shares in the mills, with promises of investment in additional projects such as candy and ethanol factories.

The sale is part of a sweeping liberalization backed by Abiy Ahmed, the 43-year-old prime minister who in October won the Nobel Peace Prize for his work to end a two-decade conflict with neighboring

Eritrea. With average annual growth of almost 10%, Ethiopia is among Africa's most dynamic economies. Yet it remains one of the region's most state-controlled, a legacy of the Marxist-Leninist Derg regime that ruled from 1974 to 1991. "The private sector is not playing its natural role," says Eyob Tekalign, a former diplomat and private equity executive hired by Abiy as state minister for finance. "Our growth had shortcomings in terms of quality, job creation, inclusivity, and benefiting the poor."

The government aims to raise at least $7.5 billion from the sugar industry, the phone system, railroads, and other infrastructure. Ethiopia needs foreign exchange: Exports have dwindled, and external debt has grown 26% since 2016, to $27 billion—more than a quarter of the country's likely 2020 gross domestic product of roughly $100 billion. First up will be 13 sugar factories and plantations, with initial sales expected by June—though the entire process will likely extend into next year. The ministry says roughly two dozen companies from 10 countries are considering bids.

That will soon be followed by the sale of assets of state-owned Ethio Telecom, which struggles to provide anything more than basic voice service in most of the country. The government plans to sell as much as 49% of the company this year and issue two mobile and broadband licenses to boost competition. France's Orange, South Africa's MTN Group, and Safaricom of Kenya have all expressed interest in licenses, which bidders estimate will fetch $1 billion, as well as another $1 billion-plus to build out networks. With its growing economy and a population of 100 million on track to double by 2045, Ethiopia is "the biggest prize left in Africa from a telecoms point of view," says Michael Joseph, acting chief executive officer of Safaricom Ltd.

After that could be Ethiopian Railway Corp., especially the line that covers the 466 miles from Addis Ababa across the border to the port city of Djibouti. The route, opened in 2018 with $4 billion in funding from China, links landlocked Ethiopia with the coast. Also likely to be sold are assets of the electric utility, with more than a dozen hydro plants, and a series of industrial parks built with yet more loans from China.

One company not for sale is Ethiopian Airlines, Africa's biggest carrier. When news of the privatizations became public, investors worldwide began eyeing it, but the government says a sale is unnecessary. The airline has turned Addis Ababa into the busiest hub for traffic from the region to the Middle East and Asia, putting it in competition with rivals worldwide and forcing it to be efficient. Privatization "is not a priority," says CEO Tewolde Gebre Mariam.

While Abiy has strong backing from investors, his economic record is mixed. Black-market foreign exchange rates stand more than 30% above the official bank price, and the World Food Program is predicting food crises in some areas this year. The price of injera, the staple flatbread, has jumped as inflation has climbed to about 20%.

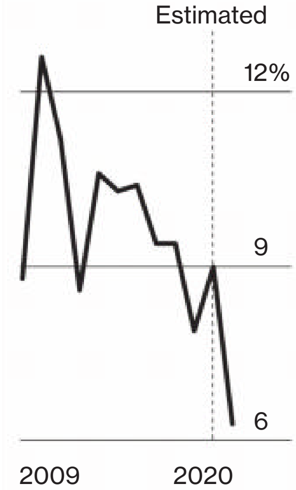
The political situation is equally iffy, giving some potential investors pause. Abiy has been criticized for an authoritarian style and surrounding himself with loyalists, and more than 200 people have been killed in demonstrations and ethnic clashes since July. Even the Ethiopia-Eritrea peace process appears to have stalled, with the land border once again closed. Miltiadis Gkouzouris, CEO of Dutch agricultural development firm HVA International, says he's "absolutely interested" in returning to Ethiopia's sugar industry almost a half-century after his company's licenses were taken away by the Derg regime. "But we are waiting to see how the political situation develops," he says.

The entrepreneur pushing the community ownership plan near Irba's farm is Bitew Alemu, a stocky 37-year-old owner of a computer accessory and printing business. He's competing against far larger companies from abroad, so his local ties and the support of farmers and factory hands are essential for his pitch. "We are working with them because we are part of them," Bitew says after meeting with maintenance workers outside a 65-year-old sugar factory that's been out of commission since 2012. While his plan would require investment from farmers, he says he's lined up bank financing for those who need it, and he insists a united effort will let everybody prosper. "If they work hard and the company becomes profitable, they'll get a dividend," Bitew says. "Then we can deploy more factories and boost production—invest and expand the business." —*John Bowker*

THE BOTTOM LINE Ethiopia averages 10% annual growth, but the state plays an outsize role. The government is seeking to change that by selling sugar factories, the phone system, and railroads.

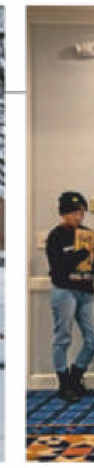
▲ Sugar plantations are suffering under mismanagement

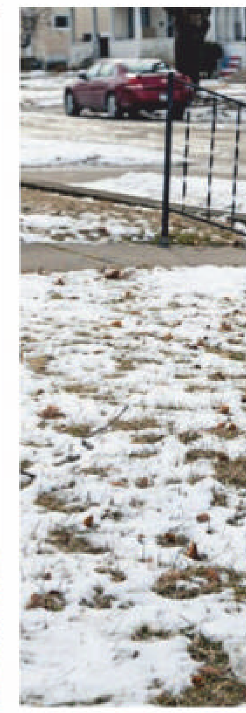
▼ Ethiopia's GDP growth



COURTESY JOHN BOWKER. DATA: WORLD BANK

The Race Is





Edited by
Jillian Goodman

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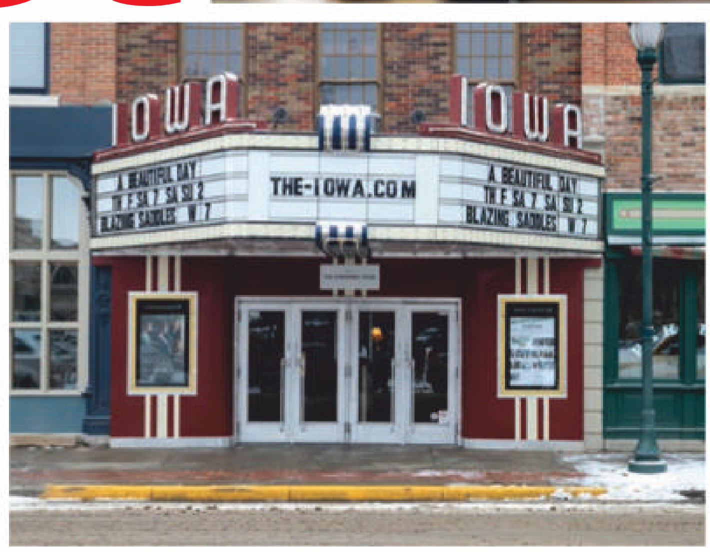


Beginning

● After months of debates and nearly a year of campaigning, the 2020 Democratic primary has finally made it to Iowa

The good news for Bernie Sanders arrived during a Jan. 10 Iowa snowstorm so severe that cars and trucks were abandoned along the highway and his campaign had to cancel the day's events. Just before 6 p.m., Sanders's campaign manager, Faiz Shakir, got a phone call alerting him that Sanders had edged into a narrow lead in the influential *Des Moines Register*/CNN Iowa poll set to be released minutes later. Other polls showed a similarly close race, some with different leaders. But all suggested that with three weeks to go until the Iowa caucuses, Sanders was poised to do something almost no one thought possible after he suffered a heart attack three months ago: win Iowa.

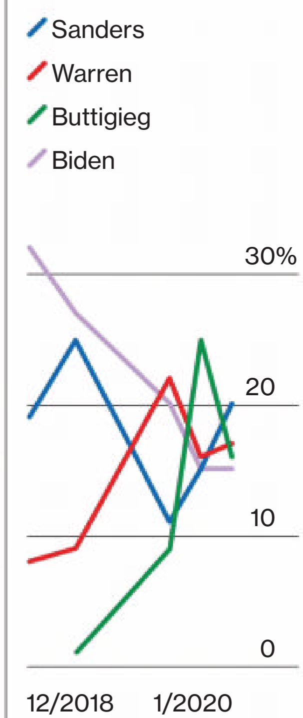
The next morning's *Register* carried a banner front-page headline ("SANDERS AHEAD") and photo illustration of the top tier hurtling down a snowy hill crammed into a toboggan, arranged in the order of their poll performance: Sanders in the lead with 20%, followed by Elizabeth Warren (17%), Pete Buttigieg (16%), and Joe Biden (15%). Later that day, Sanders led a rally in Newton, Iowa, and although he found time to remark on the frigid weather and blast Donald Trump, he stuck to his familiar script and didn't acknowledge his new front-runner status: "We are here to transform this country and create a government and an economy that works for all of us, not just the 1%."

After losing to Hillary Clinton in a razor-close Iowa caucus four years ago, Sanders now sees his path to victory in expanding turnout beyond caucus regulars to pull in more independents and new voters who disproportionately support him. "I hope what the poll does is give those who don't often vote or go to a caucus a reason to get involved," Shakir says. "For those who are wondering 'Does Bernie have a shot to win?' the answer is yes, he does have a shot to win. That will hopefully inspire people who might otherwise stay home on a cold night in February to come out and caucus."

A Sanders win in Iowa would still be considered an upset. While he consistently ranks in the top tier of candidates in both early-state and national polls, his support is thought to be intense but limited. In the *Register* poll, 59% of his supporters say they'll definitely caucus for him, a level well above his rivals; but voters view Warren more favorably (70%, vs. 65% for Sanders). And when first and second choices are combined—a key figure, since candidates must meet a 15% threshold to be viable in the caucus—Warren narrowly beats Sanders, 33% to 32%, with Buttigieg (31%) just behind.

But Sanders has several advantages that are difficult to gauge. They include a hyperdedicated volunteer operation and a proven ability to mint money. His campaign raised $96 million last year from more than 1 million donors, including $34.5 million in the fourth quarter. He's better equipped than anyone in the field to fund a strong campaign through the spring and, if necessary, into the convention in July. He's also been trending up in all the Iowa polls, even those he doesn't lead—a sign that he may have momentum in the race.

▼ *Des Moines Register* Democratic primary poll



Sanders's strength hasn't generated the kind of alarm on Wall Street and among the Democratic establishment that Warren did when she shot to the top of the *Register* poll in September. That's largely because most political analysts and campaign strategists still don't believe he can win. "Virtually no one on Wall Street thinks that Sanders could win the general election—partly because of his age, partly because his agenda is so radical and uncompromising," says Greg Valliere, chief U.S. policy strategist at AFG Investments.

Doubts about Sanders also linger from his October heart attack, which raised questions about whether he'd even be able to continue—concerns initially shared by members of his campaign. "I was out here a few days after his heart attack," said Representative Ro Khanna of California, co-chairman of Sanders's presidential campaign, while backstage at an Iowa City climate rally on Jan. 12. "That was the point of greatest uncertainty for the campaign. But what I saw was 30 or 40 people at each of the stops coming out and willing to knock on doors and continue on. That's when I realized that what he had built was so durable, so resilient, that it's put him in the position that he's in right now."

▲ Sanders is newly on the attack against Warren

The remaining time leading up to the Feb. 3 caucus will test that durability. Already this cycle, Biden, Warren, and Buttigieg have each taken a turn as Iowa front-runner. Barack Obama proved

PHOTOGRAPHS BY TIM GRUBER FOR BLOOMBERG BUSINESSWEEK (16) in 2008 that a strong ground game can make all the difference in Iowa, but with President Donald Trump's impeachment trial ramping up in the Senate, Sanders will have to be absent for long stretches. So will Warren and Minnesota Senator Amy Klobuchar, giving Biden and Buttigieg the run of the state in the crucial days before the contest. In a race this close, every handshake counts.

But Sanders may be tough to dislodge. His support seems less likely to yo-yo than some of his rivals'. "The biggest thing for me is that he has consistency," said Berlin Menendez, 24, a formulation scientist in Iowa City and campaign volunteer who was clutching a stuffed Bernie Sanders doll at the climate rally. "The fact is that he hasn't wavered on his beliefs in all of his years in office."

One way Sanders has changed is in how he's decided to compete for the nomination. In 2016 he chose not to go after Clinton aggressively, famously declaring that he was "sick of hearing about your damned emails." He ended up losing Iowa to Clinton by the tightest of margins, 49.8% to 49.6%, a setback he never managed to overcome.

This time, he's leaving no doubt that he and his campaign are playing hardball with ideological adversaries and allies alike. During the Jan. 14 Democratic debate, Sanders reprised an attack he's been making on the trail, criticizing Biden over his Iraq War vote and scoffing at the former vice president's claim to be, as a new TV ad puts it, "someone tested and trusted around the world."

Sanders's campaign has also gone after Warren, a purported friend and ally, by circulating instructions to campaign surrogates to attack her as an elitist unable to unify the party, a move first reported by Politico. Warren responded by pouring gasoline on a CNN report that Sanders told her in a private 2018 meeting that a woman couldn't get elected president. Sanders vehemently denied the report. But Warren confirmed it in a public statement and on the debate stage, raising doubts about Sanders's truthfulness.

The frosty exchange between the two immediately after the debate—Warren refused to shake Sanders's hand and, in audio later released by CNN, accused him of calling her a liar—left no doubt that this time Sanders is running to win. And there's no reason to believe he can't do it. *—Joshua Green, with Emma Kinery*

Michael Bloomberg, founder and majority owner of Bloomberg LP, Bloomberg News' parent, is seeking the Democratic presidential nomination.

THE BOTTOM LINE While a Sanders victory is nowhere near assured, his supporters are devoted, and his Iowa campaign is peaking at just the right time.

Universal Health Care, the South African Way

● The ruling party is pushing a bill that would nationalize health insurance by 2026

Ballooning costs that no one seems able to control. A two-tiered system where the wealthy get more attention than they need while the poor don't get enough. Skyrocketing insurance premiums and malpractice claims. And now a plan to redeploy the resources of the country's top earners to make health care affordable for the many.

This is South Africa, where the inequities have for years been an exaggerated version of those in the U.S. The African National Congress party, which has led the country for more than 25 years and holds 58% of seats in Parliament, has committed to enacting universal health insurance, outlining the framework in a draft law published in August. Significant questions remain, including which drugs and services will be covered and how the whole thing will be financed. But with the country's biggest labor group behind it, the bill's fate is clear: South Africa will soon join the majority of the developed world in providing some form of nationalized health care.

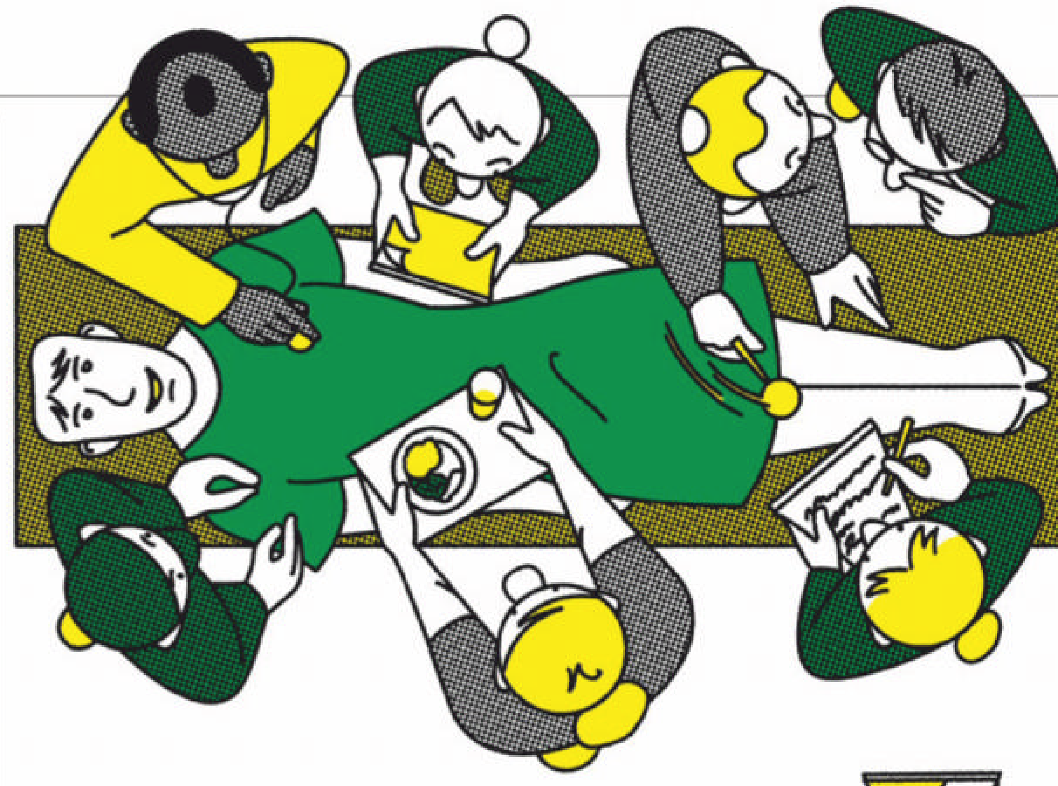
The grand experiment is a more mature version of the health-care debate in the U.S., where candidates for the Democratic presidential nomination are putting their competing visions for what government-sponsored care should look like before voters. Senators Elizabeth Warren of Massachusetts and Bernie Sanders of Vermont propose a universal version of the existing Medicare program that would be phased in over several years and replace private insurance. Others, including former Vice President Joe Biden and centrist Pete Buttigieg, advocate a hybrid model that would expand the existing public programs but preserve a private option.

● Proportion of South Africa's doctors serving the 16% of its population with private insurance

70%

For any of these proposals to become law, there would have to be a dramatic shift to the left, says Bob Blendon, a Harvard health-policy polling researcher. Even when Democrats controlled the House, Senate, and presidency, as they did when the Affordable Care Act was signed into law in 2010, they couldn't get enough support for a public option. "There would have to be a sea change," he says.

Politicians and policy experts in South Africa have wrangled for years over what to do about the country's fractured, two-tiered system. Now, however, "we're approaching an affordability crisis," says Andrew Gray, a pharmacy researcher at the University of KwaZulu-Natal who backs the ▶



◀ universal health-care proposal, known as the National Health Insurance (NHI) initiative. Not only is the public system starved of funding, private premiums are also precipitously high.

Of the nation's 60 million people, about 16% have private insurance, many of them white and comparatively wealthy. They're served by 70% of the nation's doctors and consume almost half the spending on medical care, according to the health department. That leaves the remaining 84% of the population to crowd into government hospitals and clinics beset by underfunding, broken equipment, and personnel shortages. The most recent government-mandated inspection report showed that just 5 of 696 public hospitals and clinics met at least 80% of the national standards for such measures as drug availability and infection control.

South Africa started talking about nationalizing care after World War II, when the U.K. established its vaunted National Health Service. The leaders of the Commonwealth nation, however, moved in the opposite direction, applying their apartheid regime to health-care facilities as well.

Since the ANC gained power in 1994, the care gap has become increasingly obvious. Years ago, many doctors held jobs in the private and public sectors, evening out resources somewhat, says Solomon Benatar, a health-policy researcher at the University of Cape Town; now that's less common.

Doctors in South Africa's private system operate under a fee-for-service model and have wide discretion in how they treat patients, which encourages interventions. For example, three-quarters of pregnant women covered by Discovery Health Inc., the nation's biggest private insurer, undergo cesarean deliveries, far exceeding the World Health Organization's recommended rate of 10% to 15%. Only about one-quarter of women in public hospitals get the surgery. Costs in the private system are also driven up by drugs that in some cases cost 7,000% more than they do for public payers.

Experts say savings from wasteful care can be redeployed to widen coverage. If the number of people using the ICU were cut in half and half the savings were used to improve quality in general wards, that would still leave $180 million in annual savings that could be used to bring down the cost of care, says Sharon Fonn, a researcher who helped conduct the *Health Market Inquiry*, a study of South Africa's private health sector. Most hospitals dispute the allegation that they overuse their ICUs.

The NHI would take funds going to private insurers and pool them with those in the cash-starved public sector. Based on the draft plan, costs are estimated to top out at about $30 billion annually. While private hospitals will continue to operate, their funding will come from public sources. Private insurers will still subsidize some services, but the majority of coverage will come from the new public system.

ANC lawmakers will have to sell the change to doctors and nurses, particularly those in the private system who may have to live with smaller paychecks. Some private insurers and administrators are worried that when the NHI rolls out in 2026, the role of companies may be reduced to providing coverage for treatment not offered by the state. South Africa's main opposition party also has said it's concerned that funds given to the new system will be vulnerable to corruption.

For now, none of those factors appear to be holding back the legislation. Nationalized health care "is going to happen," says Ronnie van der Merwe, chief executive officer of Mediclinic International, a South African for-profit hospital chain. Some doctors have threatened to leave the system, says Gray of the University of KwaZulu-Natal, but "where are they going to go? Most developed countries already have the same system—except the U.S."

Backers are battling widely held misconceptions about the plan, including the notion that all private health insurance will be phased out. There will still be a role for private insurers to provide complementary services, and South Africa's biggest one supports the NHI. It's a far cry from the U.S., where health-care reform has frequently run aground on industry opposition. "If you told me that 15 years from now a bunch of your customers feel they don't need private insurance because the public health system is superb," says Discovery CEO Jonathan Broomberg, "I'd say that's great." —*John Lauerman and Janice Kew*

THE BOTTOM LINE A proposed South African law aims to fix a system in which a small portion of the population has private insurance and consumes almost half the health-care spending.

ILLUSTRATION BY JACK TAYLOR

RISK TAKERS DEAL MAKERS GAME PLAYERS

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Join leading business executives, top dealmakers and world-class athletes, the weekend of the big game, to discuss the future of the multi-billion dollar global sports industry. Candid conversations and exclusive Bloomberg data will provide fresh insight on the innovations and trends that will disrupt and dominate sports.

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PEER PRESSURE

● Work misery loves company. For lonely freelancers, online work clubs could help

A year and a half ago, Alex Schneider was struggling with two gigs. The 30-year-old has a startup that makes $29 cardboard standing desks called Ghostands, and also a remote job as a senior assurance accountant at HoganTaylor LLP. One day he came across a Reddit post that mentioned a productivity site called Focusmate. Intrigued, Schneider logged on and gave it a spin.

His daily routine was transformed, he says: Soon, his work-at-home days began promptly at 8 a.m. by turning on his laptop camera and saying hello to a "buddy" he'd been randomly assigned. The camera keeps rolling for 50-minute shifts while the buddies work. "Initially it sounds weird, but it's great," Schneider says. "It keeps me honest, in terms of waking up and being there." He's been struck by how friendly and helpful his buddies have been, he says; he's encountered "no one crazy or outlandish."

Welcome to the latest evolution in the saga of remote work. First came the rise of freelancers, and the simultaneous overpopulation of coffee shops. Then came the early-Aughts hackerspaces, which transformed into late-Aughts coworking spaces

ILLUSTRATION BY PATRIK MOLLWING

Edited by
Dimitra Kessenides and
David Rocks

such as London's Impact Hub GmbH (now with more than 100 locations in 50 countries). Specialized work clubs then emerged, like the women-only networking hub the Wing (now offering an array of professional and social activities in several cities) and HatchLab, a coworking outfit geared toward do-gooders in Portland, Ore. But these organizations don't have nearly enough seats for the 57 million Americans who are freelancers, according to a 2019 study by Upwork and Freelancers Union.

Now a handful of young online coworking companies are blooming from the ashes of WeWork's failed initial public offering, aiming to transform remote work into a group activity. The premise is simple: For people working alone, motivation and productivity can come from interacting with others. Focusmate and similar startups offer just that—company. "Coworking always promised that it would be inspiring and make your work better, but it turned out it was just space," says Jeremy Redleaf, co-founder of Caveday LLC, a company that runs online group work sessions.

The companies lay on the productivity buzzwords thick: flow, accountability, connection, deep work, energy management, monotasking. They claim they don't directly compete against one another, despite sharing a common goal of facilitating users' best work in real time. And their approaches differ. At Ultraworking.com, logic-minded users can log four-hour "work cycles" together and fill out complicated spreadsheets marking their progress. Four hours scares off most Focusmate users, who are more comfortable with the 50-minute sessions.

"These companies are very slick," says procrastination researcher Joseph Ferrari, a professor of psychology at DePaul University. Ferrari says group coworking probably wouldn't work for the 20% of people who are chronic procrastinators—those who avoid all manner of tasks as a way of life. But for the other 80%, he sees promise.

"The strategy isn't new," says Joel Anderson, a psychologist at Utrecht University. In the late 18th century, philosopher Jeremy Bentham imagined the panopticon, a circular prison with a guard tower in the middle, so prisoners would perceive themselves as under constant surveillance and thus behave better. Now home-office jail is a daily reality for most people grinding out hours on their couches.

Anderson rattles off the psychological underpinnings at play in these work groups: mutual task reinforcement; shared focus; incentive not to disrupt; positive peer pressure. "There's plenty of research about how we are much more likely to regulate our behavior when we are being observed." —*Arianne Cohen*

Support Groups

❶ CAVEDAY LLC

A "Bat" guide leads 3½-hour sessions on projects requiring deep focus, with motivational exercises. Offered on-site in Los Angeles and New York City (no phones allowed) and remotely.

THE PITCH

"Our ethos is improving your relationship to work," says co-founder Jeremy Redleaf, 35. "Cave life is doing a cave in the morning and having your afternoon to do other things."

ORIGINS

Redleaf took what he calls a "cave day" to work on a writing project in 2016. "It was really depleting to do it alone, so I did it with collaborators and realized that focusing as a group can be energizing," he says. That led to hosting weekly Sunday caves in 2017. The first one sold out; last year, Caveday offered 370 caves.

TARGET AUDIENCE

- Independent knowledge workers
- Creatives
- New moms

PRICE

$35 /month unlimited remote

$50 /month unlimited in Los Angeles

$99 /month unlimited in New York

INVESTMENT

Funded by 1,200 regular users, plus a space-sharing partnership with Breather workspaces. Currently meeting with investors.

CULT FOLLOWERS

TV actresses. *Grace and Frankie*'s June Diane Raphael and *Saturday Night Live* alum Casey Wilson appeared in recent online caves.

❷ FOCUSMATE INC.

One-on-one 50-minute video sessions with randomly assigned partners, booked on demand. Users state their goals, then report progress at the end. Not just for work: Some users do yoga or clean.

THE PITCH

To create "the most supportive community on Earth," the company says. More than 300,000 work sessions have been held so far. "I just think we're at a point in evolution where we can afford to evolve what work looks like," says founder Taylor Jacobson, 34.

ORIGINS

Jacobson took a remote gig, and his productivity withered. He and a friend started work buddy appointments on Skype in 2015: "Both of us just found it so helpful and supportive. That was the spark—this notion that you could get more help than maybe you thought you should be able to get." Focusmate started as a Facebook group and has since attracted investors.

TARGET AUDIENCE

- Ph.D. students, freelancers, and remote workers
- The anxiety-prone

PRICE

$4 /month unlimited

INVESTMENT

$1 million from funders including author Nir Eyal and VC funds Amasia and Betaworks.

CULT FOLLOWERS

People with attention deficit hyperactivity disorder. "There's a concept called the 'body double,' where just having another body there helps people with ADHD focus and keep from going off on tangents," says Kim Kensington, a psychologist in L.A. "For people with ADHD, getting started is painful—it's like starting a car with a dead battery."

A SHOULDER TO LEAN ON

● Stressed tech executives are turning to peer groups for support

The scene is a balmy evening in San Francisco's SoMa, an historic warehouse district that's now brimming with tony residential lofts. Entering the airy, modern space, all of the 30 visitors, mostly strangers to one another, are handed drinks and offered hors d'oeuvres but not given name tags. When it's time for dinner, they're encouraged to sit with people they've never met and introduce themselves without identifying their profession. "Ask 'How are you?'" says Kari Sulenes, a psychologist and partner at Alpha Bridge Ventures, a finance firm that organized the event. "If you feel your interlocutor isn't being honest, insist on asking, 'How are you, really?'"

That guidance spurred one diner to reveal the difficulties she had balancing the demands of her job with the time she needed to plan her wedding. The founder of a health-care startup shared the stress he feels in running his company while going through a divorce and caring for his 2-year-old son. And a venture capitalist fretted about the extreme workload he faces assessing new investment prospects.

The evening was a networking dinner organized by Alpha Bridge and AngelList, another San Francisco venture capital fund. The companies say it's part of their mission to support the executives they back not only financially, but also emotionally. The idea reflects the latest trend in the tech industry: professional development led by peers. These programs give rising executives a forum where they can safely air their grievances and seek solutions to problems on the job—a sympathetic ear or shoulder for people whose support systems haven't kept up with their career advancement. Business owners today need "resources from counselors, therapists, personal trainers, nutritionists, home organizers," says Cory Kidd, founder of medical technology startup Catalia Health Inc. and a participant in the Alpha Bridge event. It's important to "really look very broadly at the challenges of running a company."

"As a CEO, you can sometimes feel really alone"

Enrich, a San Francisco startup that brings professionals together for periodic dinners, forms groups of up to eight people with related positions or job titles—say, engineering vice presidents or chief marketing officers—at companies of about the same size. "Executives can talk to somebody who has similar challenges," says founder Jordana Stein. "If it feels like networking, we're not doing it right, because we want people to be relaxed and authentic." (Bloomberg Beta, the venture capital arm of Bloomberg LP, publisher of *Bloomberg Businessweek*, is an investor in Enrich.)

Clients include Facebook, Google, and Oracle, and Enrich avoids putting competitors together—people from Lyft and Uber, for instance, wouldn't attend the same session. Participants are asked what topics they want to discuss, while a moderator ensures the conversation stays on point. Although Enrich offers an online message board where group members can stay in touch, the real point is the person-to-person contacts, says David Rogier, an investor in the company whose team also participates in its events. "As a CEO, you can sometimes feel really alone," says Rogier, a co-founder of MasterClass, a website that offers online lessons from the likes of basketball star Stephen Curry, writer Aaron Sorkin, and chef Gordon Ramsay. "But ultimately, we're all going through the same thing."

A New York company called Declare offers similar support focused on women in finance. Founded in 2017 by four women, Declare provides leadership training and a recruitment service. Its 1,000 members pay anywhere from \$2,500 to \$8,500 a year for networking events, monthly meetings with peers facilitated by a senior professional, and access to a jobs database used by companies such as investment banks Goldman Sachs and Lazard and private equity firms Apollo and TPG.

At a recent Declare talk in San Francisco, 20 women worked through simulated performance reviews with a career coach. One participant, Emmy Sobieski, says the service was a

ILLUSTRATIONS BY PATRIK MOLLWING

big help as her finance startup struggled last year. "We meet once a month, and everybody is generous by offering connections for fundraising and suggestions for partnerships," Sobieski says.

A more venerable provider of such services is the YPO—Young Presidents' Organization—a 70-year-old group that's adapting to the digital age. It started in 1950 as a gathering of 20 business leaders in New York, and today it has 27,000 members worldwide, whose companies have a combined revenue of $9 trillion. For an annual fee of $3,750, members get access to international events, local meetings with peers, mentorship, and online coaching. Leah Busque, a founder of TaskRabbit, a web platform for finding service workers, joined in 2012. When she was negotiating the sale of her company to Ikea in 2017, she says, her YPO peers served as a sort of "personal advisory board of directors." People who had sold their companies "advised me how to think about it, and that was incredibly helpful," says Busque, who now works at venture fund Fuel Capital. Without their support, "it would have been a lot harder, and I would have not been as confident." *—Serena Saitto*

THE BOTTOM LINE Groups such as Declare, Enrich, and the YPO let top managers air grievances and seek solutions to problems they're facing on the job or at home.

PLAY IT LOW-KEY

Blessed are the humble. Increasingly, research shows that leaders who share credit and don't seek the spotlight have better-performing teams that produce better results. That's backed up by data from Tulsa-based Hogan Assessments, which develops personality tests to predict workplace performance. "A CEO who makes big promises, who is a narcissist, can ruin a company," says Hogan Chief Science Officer Ryne Sherman. "The cure to all that is humility." *—Dimitra Kessenides*

Do you have enough humility to lead? Take our quiz. Indicate the extent to which you agree or disagree with each statement. Work quickly and respond to every statement.

	STRONGLY DISAGREE	DISAGREE	AGREE	STRONGLY AGREE
1 I appreciate other people's advice at work	○	○	○	○
2 It's not my job to applaud others' achievements	○	○	○	○
3 People lose respect when they admit their limitations	○	○	○	○
4 I am entitled to more respect than the average person	○	○	○	○
5 I do many things better than almost everyone I know	○	○	○	○
6 It annoys me when others ignore my accomplishments	○	○	○	○

Tally your score:	for question 1	for questions 2–6
STRONGLY DISAGREE	1 point	4 points
DISAGREE	2 points	3 points
AGREE	3 points	2 points
STRONGLY AGREE	4 points	1 point
TOTAL		

Score 6–16:
LOW HUMILITY
Other people are likely to describe you as confident and self-assured, as not paying attention to feedback, and as taking yourself too seriously

Score 17–19:
MODERATE HUMILITY
People will say that you have a nice mixture of diffidence and confidence, and that you know when to listen and when to speak up

Score 20–24:
HIGH HUMILITY
Others might describe you as modest and unassuming, as respecting others' opinions, as willing to listen to (and profit from) feedback, and as regarding yourself with some ironic detachment

QUIZ: HOGAN ASSESSMENTS

Caught Between Beijing

After stepping into the NBA's controversy over Hong Kong, Nets owner and Alibaba co-founder Joe Tsai wants the league back on Chinese state TV

and Brooklyn

BY IRA BOUDWAY

PHOTOGRAPH BY AMY LOMBARD

Joe Tsai was in his study in Hong Kong when he heard about the tweet. On a Saturday afternoon in early October, less than a month into Tsai's tenure as majority owner of the Brooklyn Nets, someone from the NBA called with the news. "He walked me through what happened and said this could become a troublesome thing," Tsai says. Earlier that day, Daryl Morey, general manager of the Houston Rockets, widely regarded as one of the league's most forward-thinking executives, had tweeted the slogan "Fight for Freedom / Stand With Hong Kong." It was a show of solidarity with protesters who'd been in the streets of the former British territory for four months, opposing what they saw as China's attempts to stamp out their freedom.

By the time of the call, Morey had deleted the tweet, but it was still sparking outrage on the mainland. "I was sitting there thinking, I'm uniquely positioned to say something. It would be weird if I didn't say something," Tsai recalls. "I am the only owner that's Chinese. I do business in China. I live in Hong Kong. I'm sort of in the middle of this."

Tsai, co-founder and executive vice chairman of Chinese e-commerce giant Alibaba Group Holding Ltd., is finishing up lunch in his otherwise-empty luxury suite above midcourt of the Barclays Center in Brooklyn, dressed in khakis, tortoiseshell glasses, and a black Nets half-zip fleece. Tipoff for a Sunday afternoon game against the Miami Heat is in two hours, and sneakers squeak as players warm up on the court below. The 56-year-old Tsai is worth more than $12 billion, according to Bloomberg estimates. A lifelong lover of sports, he casts his ownership portfolio as largely accidental. People come to him with teams. His holdings also include the WNBA's New York Liberty and the National Lacrosse League's San Diego Seals, as well as stakes in Major League Soccer's Los Angeles FC and an e-sports franchise. The Seals play near the seaside home where Tsai's wife, Clara, and their three children spend much of the year.

When representatives of the Nets' previous owner, Russian mining magnate Mikhail Prokhorov, called in 2017 to say the team was for sale, Tsai investigated the NBA's economic fundamentals. "We had several long conversations," says NBA Commissioner Adam Silver. "I came away incredibly impressed." Tsai also liked what he saw. The league splits revenue roughly evenly between players and owners, as well as among teams, regardless of market size or wins and losses. "It's kind of a socialist setup," Tsai says. "Basically all 30 teams get to make money." He ended up buying the Nets in two stages, acquiring the first 49% in 2017 and the remainder, along with the arena, last September. He paid about $3.5 billion, all told. "NBA teams are not going to lose asset value," Tsai says. "It's like owning a penthouse apartment on Park Avenue."

The Nets were rebuilding under a new general manager, Sean Marks, when Tsai bought his first stake. Still reeling from a disastrous trade that had sent four years' worth of first-round draft picks to the Boston Celtics, they'd finished last the season before. Marks set about unloading costly veterans and ▶

◀ finding bargain-bin players to develop until the team had room under the league's salary-cap requirements to go after star free agents. His plan worked: Last April the Nets made the playoffs for the first time in four years, and a few months later they signed superstars Kevin Durant and Kyrie Irving. Even with Durant likely sidelined all season with a ruptured Achilles tendon and Irving battling a shoulder injury, the Nets are in the hunt for another playoff berth. Once both are healthy, the team is expected to compete for championships.

The buzz over the signings still hadn't subsided when Morey's tweet landed. As it happened, the Nets were scheduled to play a pair of exhibition games against the Los Angeles Lakers the following week in China. That Monday morning, before boarding a flight from Hong Kong to join the team in Shanghai, Tsai wrote a "letter to all NBA fans" and posted it on Facebook. "When I bought controlling interest in the Brooklyn Nets in September," he began, "I didn't expect my first public communication with our fans would be to comment on something as politically charged and grossly misunderstood as the way hundreds of millions of Chinese NBA fans feel about what just happened."

The letter, which cast Morey as ignorant and his tweet as damaging, drew criticism in the U.S. and Hong Kong from those who saw Tsai as following the Chinese government's line. In his 25 years of shuttling between China and the U.S., arranging highly complicated and lucrative connections between the two, Tsai's multicultural, intercontinental identity—Taiwanese-born, Mandarin-speaking Ivy League grad, California sports dad, Hong Kong dweller, Canadian citizen—had always been key to his success. Suddenly he found himself caught, in a very public way, between Beijing and Brooklyn.

Tsai's grandfather, Ruchin Tsar, left the Chinese mainland in 1948, part of an exodus of millions fleeing the communists as the country's civil war ended. Tsar had been an adviser to the Kuomintang (KMT) government of nationalist leader Chiang Kai-shek, who, in the aftermath of the war, established the Republic of China as a one-party state in Taiwan. Five years after the family arrived in Taipei, Tsai's father, Paul, enrolled at Yale Law School, going on to become its first Taiwanese graduate in 1957. He returned home to take a job in the Ministry of Economic Affairs, becoming, Tsai says, the chief drafter of a 1960 law that opened Taiwan to foreign investment and helped usher in an export-driven economic boom that lasted decades. In 1965, the year after Joe was born as the first of four children, his grandfather and father established Tsar & Tsai, a law firm that became a go-to shop for international clients looking to do business in Taiwan.

"I'm Chinese," Tsai says. "I grew up in a very culturally Chinese environment." He spoke Mandarin as a child, and his parents talked about returning to visit the mainland. At the time, the KMT saw itself as China's rightful ruler, a status then recognized by most of the West. "My upbringing is always that there is one China," he says.

Tsai's parents sent him to boarding school in suburban New Jersey when he was 13, avoiding a ban on boys 14 and older leaving Taiwan, lest they escape mandatory military service. He spoke little English when he arrived at the Lawrenceville School, which counts Malcolm Forbes, Michael Eisner, and former Salomon Brothers Chief Executive Officer John Gutfreund as alums. "I can imagine that was quite head-spinning for him, to ship overseas and plop down in the middle of this prestigious school with a decidedly East Coast, preppy vibe," says Pete Maruca, a former classmate who now runs a residential construction company in Pennsylvania.

Tsai longed to be one of the guys at what was then an all-boys school. To bridge the cultural gap, he turned to sports. "Sometimes, if you couldn't really communicate and you looked different, it was a little bit humiliating," he says. "The only equalizer was if I could kick their ass on the football field." Despite his size—5 feet 9 inches and about 160 pounds—he made the team as a freshman. "He got instant credit for trying," says Maruca, a fellow linebacker.

The following spring, after being cut from baseball, Tsai went out for lacrosse. He made it, then played on the varsity squad as a junior before being cut as a senior. "I got a little bit complacent," he says. The failure still stung when he arrived at Yale in the fall of 1982. He tried out for lacrosse there and earned a spot as a walk-on. Yale was one of the worst teams in the Ivy League, but a new coach had brought in a strong class of recruits, mostly public-school kids from Long Island. One of them, William "Mickey" Harley III, remembers being surprised by Tsai's skill and toughness. "He wasn't the biggest guy, wasn't the fastest guy," says Harley, who now runs a blueberry farm on Long Island, "but he stuck his nose in there and played hard."

Tsai stayed at Yale for law school, often playing pickup basketball with fellow students, including future Supreme Court Justice Brett Kavanaugh. ("I didn't know him that well," Tsai says.) Upon graduation he took a job as a tax lawyer at the white-shoe New York firm Sullivan & Cromwell, then became general counsel for the private equity fund Rosecliff Inc. He later moved to Hong Kong to work for Swedish holding company Investor AB, scouring the Asian markets for private equity deals.

In 1999 a friend tipped him off about a charismatic, eccentric entrepreneur named Jack Ma, who wanted to build an online marketplace for Chinese factories. That May, not long after Ma founded Alibaba from his apartment in Hangzhou, Tsai went there to meet him. The two became fast friends. Born the same year, both had grandparents who'd been in the KMT before the People's Republic was founded. Both had learned English at a young age and were quick to absorb Western influences.

After meeting Ma, Tsai told his boss at Investor that in his spare time he wanted to help Alibaba get off the ground. "This is when the internet was just starting," Tsai says. "I caught the entrepreneurial bug." He soon drew up papers to incorporate the company, becoming one of 18 founding partners, then joined Ma on a trip to Silicon Valley to pitch venture ▶

Fast Break With Chris Paul

The Oklahoma City point guard fronts State Farm in commercials, backs Beyond Meat as an investor, and more. —*Jason Kelly*

How do you pick which business opportunities to go for?

When I first came into the league, you used to hear about endorsements. "Oh, this player's endorsing this and endorsing that." There's no such thing, really, as endorsement deals. There are partnerships—things that I really believe in and products that I use.

How often do you say no? A lot?

Yes. It's one of those things where—I am a people person. I love to engage and talk. But you have to learn to say no. Or at least have somebody on your team that can say no.

You're president of the players union. What's the biggest thing you've learned?

The conversations I've had with [NBA Commissioner] Adam Silver, just constantly learning and really understanding the business of the game.

You've led the union since 2013. Any thoughts about succession?

One of my huge mentors is [Disney's Bob] Iger, and one of the first things he said to me is that succession planning is real. So making sure that the next in line knows the conversations being had now, and that they're involved.

You've switched to a plant-based diet. What's that like?

As an athlete, you're always trying to figure out different ways to get an edge. Beyond Meat has been amazing—it's been life-changing for me, in the way that my body feels and I can bounce back.

David Stern, the NBA's former commissioner, just passed. What's his legacy?

Our game is a global game because of David Stern. You get into the NBA, and you just expect that you go to China. We're not where we're at as a league without him and his vision.

Where do you think the NBA sees its next big overseas markets?

NBA Africa is continuing to grow. It's mind-blowing to me. When I was a kid, I was thinking, How can I be the best player in my neighborhood? Now you're playing against kids in New Zealand and Africa. It's crazy when you think about where the game is now.

PHOTOGRAPH BY LAUREL GOLIO FOR BLOOMBERG BUSINESSWEEK

“I feel free to speak my own mind and indeed did so”

◀ investors. They came home empty-handed, but the trip helped persuade Tsai to throw in his lot with Ma. “When you take a trip together, you stay in the same room, you chat and just develop this bond,” Tsai says. “I realized this is really what I want to do.” That fall, Goldman Sachs Group Inc. and a handful of other investors agreed to put $5 million into the company, and Tsai quit his day job to become Alibaba’s chief financial officer.

From the start, Tsai and Ma complemented each other. Ma overflowed with antic energy. Tsai channeled it into some semblance of order. “He is a very professional guy,” Ma says by phone from China. “For me it’s more like a street guy.” When Alibaba went public on the New York Stock Exchange in 2014, raising a then-record $25 billion, Tsai arranged the daisy chain of contracts necessary to create a variable interest entity, which allows foreign investors to hold stakes in Chinese companies without owning the underlying shares. “He thinks more about the procedure, detail, all those things,” Ma says. “I think more about the vision, about the future, about the big picture.”

As Alibaba evolved into China’s dominant e-commerce platform and one of the world’s 10 most valuable companies, Ma became the country’s entrepreneurial face, a symbol of its success and confidence. In 2017, at Alibaba’s famously lavish annual party, he dressed up as Michael Jackson, complete with sequined glove, and danced to *Billie Jean*, a performance that’s been viewed millions of times on YouTube. Tsai prefers to stay in the background. “I do dress up,” he says of the parties. “During our 10th year anniversary, I dressed up as Marilyn Monroe. It was a pretty bad rendition, so that’s why we don’t talk about it.”

He mostly works behind the scenes, serving as Alibaba’s primary bridge between East and West, mixing with elites in New York or San Francisco, Hong Kong or Hangzhou. “I remember one of the several trips I went on to the States with him, some of the potential investors got upset with me because of the way I talk,” Ma says. “Joe is the guy getting all of those things smoothed up.”

In September, when the NBA’s owners formally approved Tsai’s bid to take control of the Nets, Silver said his expertise would be “invaluable in the league’s efforts to grow the game in China.” Tsai, who’d already been on the board of NBA China, the subsidiary that runs the league’s affairs there, was added to the league’s media committee, which advises Silver on rights deals and digital plans. “It was a no-brainer,” says Silver. He describes Tsai, not long after they first met, pulling out his smartphone to play NBA highlights on Alibaba’s streaming service. “He demonstrated how you could click on a highlight and buy the shoes.”

The NBA has been in the Chinese market since 1987, when Silver’s predecessor, David Stern, showed up at the offices of China Central Television in Beijing with a videotape of All-Star Game highlights. CCTV, a state-controlled propaganda arm, offered about an hour of sports programming each week, including bullfighting and horse racing. According to *Brave Dragons*, a book by *New York Times* journalist Jim Yardley, Stern waited for two hours before anyone met with him. But later that year, the NBA began mailing videotapes to Beijing, where they would be edited into 15-minute highlight reels and aired about a month after the games had been played. CCTV, which hadn’t even shown ads until 1979, sent back a share of the minuscule proceeds.

The relationship got a major boost in 2002, when Houston drafted Shanghai-born, 7-foot-6-inch center Yao Ming first overall. The Rockets immediately became the People’s Republic’s favorite team. Two years later the NBA sent them to play preseason contests in Beijing and Shanghai, eventually making games in China an annual rite. These have lately been complemented by barnstorming offseason tours on behalf of sneaker brands by the league’s biggest stars.

The NBA is now one of China’s most beloved Western imports, and the country is by far the league’s most important overseas market. In July, Chinese internet giant Tencent Holdings Ltd. agreed to pay $1.5 billion over five years to stream NBA games, three times more than the previous deal. The league says that between Tencent and CCTV’s live games and (now much timelier) highlight shows, 800 million people in China watched NBA programming last year. It also reports that business there saw double-digit growth every year of the past decade.

Morey’s tweet threatened to undo the relationship. In the week after he sent it, CCTV and Tencent halted NBA broadcasts, Chinese sponsors dropped deals with the Rockets, and team merchandise disappeared from Alibaba and other online stores. Trolls swarmed Morey on Twitter. Politicians jumped into the fray. Behind the scenes, Silver told reporters, Chinese authorities had asked for Morey to be fired.

In an effort to contain the damage, Rockets owner Tilman Fertitta posted a tweet saying the general manager didn’t speak for the team. Morey tweeted a mea culpa, of sorts, saying he hadn’t intended to offend and was “merely voicing one thought, based on one interpretation, of one complicated event.” The NBA’s own statement called it “regrettable” that Morey had “deeply offended” fans in China, leading some to accuse the league of bowing to Chinese authoritarianism.

Before Tsai boarded his flight to Shanghai to see the Nets play the Lakers, he says, he sent the league a copy of the letter he was planning to post on Facebook. “They basically said, ‘Look, Joe, you have to say what you have to say,’” he says. An NBA spokesperson says nobody at the league read the letter before it was published. "He didn't ask my permission, and I certainly didn't think it was my role to grant it or withhold it," Silver says. "He only told me that he planned to post something, and I read it when everyone else did."

The 745-word letter endeavored to explain how Chinese NBA fans felt about Morey's tweet. It set the protests in Hong Kong amid centuries of imperialist aggression against China, dating to the mid-19th-century Opium Wars with the British and continuing through the massacre carried out during World War II by the Japanese at Nanjing. "There are certain topics that are third-rail issues in certain countries," Tsai wrote. "Supporting a separatist movement in a Chinese territory is one of those third-rail issues, not only for the Chinese government, but also for all citizens in China." The Hong Kong protests had begun in June after the city's pro-China CEO, Carrie Lam, put forth a bill that would allow extraditions to the mainland. More than a million people, roughly 1 in 7 of the city's residents, took to the streets, decrying the measure as a violation of the 1997 handover agreement between Britain and China, which established a "one country, two systems" policy allowing the city to keep its civil liberties and self-governance until 2047. Lam withdrew the bill in September, but the protests have continued, calling for, among other things, a more democratic city government and accountability for violent tactics by police, who've been documented shooting at, clubbing, and trying to run over demonstrators.

Nathan Law, a leader of pro-democracy protests that took place in Hong Kong in 2014, takes issue with Tsai's characterization of the current situation. "This is not a separatist movement," says Law, who's now studying for a master's degree in East Asian studies at Yale. "Supporting Hong Kong doesn't mean that you are completely anti-China or that you want China to be split." He argues that Tsai either misunderstood this or deliberately adopted the Chinese government's rhetoric.

"He really followed the lines of the official Chinese Communist Party position on this subject very closely," says Steve Tsang, director of the University of London's SOAS China Institute. Others, including Republican Senator Ben Sasse of Nebraska, in a *Washington Post* op-ed, have also noted how closely Tsai's words hewed to Beijing's.

"I believe that there are strains of separatism, because they don't want to have anything to do with China," Tsai says in defense of his letter. "They are very anti-China, burning the Chinese flag, beating up people who speak Mandarin, vandalizing Chinese-owned shops." In his estimation, although the protests may have begun as a peaceful effort to strengthen the "two systems" part of the handover agreement, they've since morphed into a violent attempt to undermine the "one country" part. "People should think very seriously about saying that it's not a separatist movement," he says. "I think they should look at the facts."

It's true that, as the protests have roiled, there have been instances of flag burning, vandalism, and attacks on mainlanders. And the movement does include voices who reject the idea of being part of China. It's also largely leaderless, with shifting and inchoate demands that revolve primarily around calls for freedom and democracy.

Tsai stands to lose a great deal if he alienates Beijing. He remains closely involved with Alibaba, which, like all of China's internet giants, exists because the Communist Party allows it to. "Once Alibaba became so big and became, in effect, adopted by the Chinese government as the next new champion," Tsang says, "Tsai must realize that, whether he believes in it or not, he will have to show very clear commitment to the course of the Chinese party state." Tsai's background, Tsang adds, makes him particularly vulnerable. "He must know that the fact that he was born in Taiwan puts him in a more awkward position. The Chinese government will trust him less for no reason other than his place of birth and early upbringing."

If Tsai is feeling the pinch, he's not letting on. "I feel free to speak my own mind and indeed did so in my Facebook post," he says. After it went live, he remembers, "there were a lot of people trolling me, but then the people that know me have all come up to me and said, 'Look, Joe, I'm really glad you wrote this, because I didn't know about all this history.'" His outspokenness might even have won the Nets some fans in China. On Weibo, one of the country's most popular social media services, thousands cheered his letter. "I will support the Nets in the future," wrote one. "Though I don't like Durant and Irving, I will try to let myself like them."

Tsai says he's not looking to supplant the Rockets as China's team. "If the Nets are very well-known in China, maybe we will get a little bit more sponsorship revenue, maybe some Chinese company will have signs here instead of Qatar Airways," he says, pointing to ads ringing the rafters at Barclays. "But that doesn't really move the needle. What's important is if the NBA is very popular in China."

During the preseason game in Shanghai, Ma joined Tsai and Silver in their suite. "I encouraged them to keep on. Pingpong used to be very good for diplomatic relations between China and the USA, and I think today basketball could be," Ma says. "Don't give up because of one or two issues. It's easy to break, but so difficult to build up."

Tsai is eager to see NBA games back on CCTV. Although Tencent has begun showing them again, the state-owned broadcaster has yet to budge. A person familiar with the matter says the league is optimistic the network will relent, beginning with the All-Star Game on Feb. 16—there's no ready replacement, after all, for LeBron James and Giannis Antetokounmpo.

"Once you are on the air," Tsai says, "everything will come back." In the meantime he's enjoying the perks of ownership. Down below the skybox, the gates have opened, and fans have started to fill the seats. A few guests arrive at Tsai's suite. "I love coming to games," he says. He chats with players any chance he gets. "I'm just like a fan. I'm a superfan." B
—*With Qian Ye*

How I Won a Whopping $63.60 Betting on Sports

The handicapping service Jambos is designed to give gamblers a leg up. It might look completely different after the Super Bowl

BY IRA BOUDWAY **ILLUSTRATION BY KATI SZILAGYI**

My experiment as a Jambos bettor began on New Year's Eve. It didn't get off to a great start.

Jambos is a handicapping service, known to sports bettors as a "tout," that sells picks for a fee; I paid $250 for a week's worth. Every day around 11 a.m., Jambos would alert me that the day's betting suggestions were available. There might be a handful or dozens, depending on the season and the schedule. On this day there were 13, including that the Kentucky and Virginia Tech football teams would score fewer than 47 points combined in the Belk Bowl.

Picks in hand, subscribers place the suggested wagers with bookmakers of their choice. Then, in theory, because Jambos has crackerjack statisticians running elaborate models, bettors win more often than they lose.

My plan was to bet on every wager that Jambos suggested in a week. *Bloomberg Businessweek* would cover any losses, and profits would go to charity. I sold this to my editors as a firsthand exploration of the mainstreaming of the handicapping business, and, somehow, they said yes.

Sports betting has come out of the shadows in the U.S. since a Supreme Court ruling in 2018 that opened the way for the industry outside of Nevada. Fourteen states now allow sports gambling. Together, they've taken more than $15 billion in wagers since the ruling, according to the American Gaming Association. Sports leagues, which fought against legal betting for years, are signing marketing deals with casinos.

When Jambos began selling picks in August, it promised to be a new kind of tout for a new era of sports betting. Would I, a novice, be able to execute the Jambos system? (Sorta.) Would Jambos live up to the hype? (Kinda.) Would I make money?

(Yes.) Would I find myself frantically scrolling through my phone for a bookie that would give me under 47 on the Belk Bowl? (Yes.) Would it be any fun? (Do you like spreadsheets?)

For all of sports betting's progress toward legitimacy, handicappers retain a reputation somewhere between personal injury lawyers and pawnshops. Throughout the years, touts have gone from selling picks by newsletter, to 1-900 numbers, to the internet. Twitter is full of accounts that offer picks, as are Snapchat and Instagram. Scams abound. In one common one, touts tell half of their customers to take one side of a bet and recommend the opposite bet to the other half—and then, for the half that wins, repeat the process until a small group of customers think the tout is infallible.

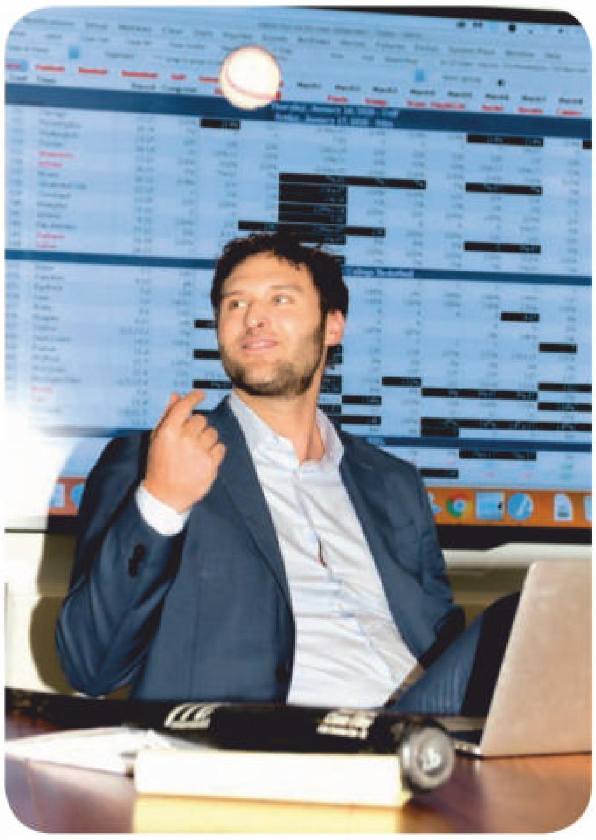
One of the more famous handicappers is David Oancea, aka "Vegas Dave." Known for a series of long-shot winners, Oancea has a sports "consulting" firm that sells picks for hundreds of dollars each. In 2017 he was indicted on 19 felony counts stemming from the alleged use of other people's Social Security numbers to open gambling accounts in Nevada. He pleaded guilty to a misdemeanor for falsifying records last year, agreed to forfeit more than $550,000, and was banned from Las Vegas sportsbooks for three years. He's still selling picks.

"If I was on the outside looking at me, I'm unbelievably skeptical," says Jambos founder Michael Schwimer, a former relief pitcher for the Philadelphia Phillies and a regular guest on ESPN's gambling show, *Daily Wager*.

When he launched Jambos from Bethesda, Md., Schwimer promised it would be different. It would publish a record of its time-stamped picks and pay refunds, plus more, when its advice didn't pan out. It could do so because it had $23 million from backers including Bill Miller, founder of Miller Value Partners, and former Goldman Sachs & Co. partner Steve Duncker.

To lead the Jambos life (legally), I stayed in New Jersey, where I live, for seven days. New Jersey happens to be the state that broke Nevada's stranglehold on sports gambling. In 2011 it challenged the federal law that barred other states from entering the market, and seven years later it won. New Jersey now vies with Nevada for the title of biggest betting state in the U.S. In December, according to New Jersey gaming regulators, bettors laid more than $550 million in wagers with more than a dozen operators.

A couple of days before my Jambos subscription began, I put $150 each in accounts with three sportsbooks: DraftKings, FanDuel, and Caesars Casino. The bets offered aren't the same at every book, and I wanted to have options. Jambos recommends that subscribers wager about $300 per pick. At roughly 100 picks per week, that would require a bankroll of at least a few thousand dollars, depending on how my early bets panned out. I didn't have the stomach to front that, even with *Businessweek*'s backing, so I decided to place $30 bets and multiply by 10 when it came time to assess the results.



Schwimer

PHOTOGRAPH BY CHRISTOPHER LEAMAN FOR BLOOMBERG BUSINESSWEEK

On Day 1, the Jambos alert email went to my spam folder. I didn't see it until almost noon, at which time I'd scheduled a haircut. Two picks were for games starting in minutes. Before I got in the barber's chair, I laid a bet with DraftKings—that Florida State's men's basketball team would beat Georgia Tech by at least 11.5 points—but the line for the Belk Bowl had moved. Jambos said to bet under 47 points total for the game, but I was seeing only offers at 46.5, so I didn't make the bet. Of the 13 picks that day, I wagered on 6. For the others, I couldn't find the numbers that Jambos suggested because bookmakers were offering either different lines or different odds.

On most wagers, sportsbooks take a small cut of winnings. The size varies according to the odds. The standard at most books is that a bettor needs to wager $110 to win $100, commonly expressed as "-110." But prices vary from book to book and bet to bet. In some cases, I passed up bets because the odds offered were considerably worse than what Jambos suggested. My low success rate was mostly my fault. I was searching for some bets more than an hour after the picks had posted. Hopping between apps and frantically scrolling through numbers, I may have missed some opportunities to bet.

Yet my struggle was indicative of a fundamental problem with handicapping. Betting markets are fluid. If more money comes in on one side of a bet than the other, especially if it's from "sharp" bettors who have a history of winning, books adjust their lines and/or odds. They tend to move together, but not always, and not in lockstep. The more successful Jambos became, in other words, the harder it would be for subscribers to make money with the service.

On Day 2, I was more prepared. I stuck to the Jambos line, but I was more flexible on odds. If Jambos said to bet -110 and I saw the same bet offered at -115, I took it. There were five picks, and I bet all of them within 20 minutes of posting. My bumbling the day before had turned out to be fortunate: Five of the six bets that I made were winners. The seven that I didn't make were all losers. So I was 5-for-6 on the day, but Jambos was 5-for-13. It was a tiny sample size, but it also made me wonder if there was any method to this madness.

I couldn't begin to say how Jambos decided that Georgia would beat Baylor by at least four points in the Sugar Bowl. An algorithm, presumably, had taken in reams of data from past college football games and spit out that result. Schwimer isn't much more helpful. "It is so much ▶

◀ more complicated than you could ever even dream or imagine," he says, adding that he's not at liberty to say much more.

Schwimer, 33, pitched in 47 games in 2011 and 2012 before a shoulder injury ended his career. "All my pitches were well below average," he says. To compensate, he modeled which ones to throw and when, spending hours watching video of hitters' preferences. When his playing days were over, he thought that his pitch-sequencing system could be adapted to predict the success of minor leaguers. In 2015 he began trying to sell investors on a fund that would pay minor league players in exchange for a share of their potential future major league earnings.

A serendipitous meeting with Paul DePodesta—a character in *Moneyball* in his former role as assistant to Oakland A's general manager Billy Beane, now part of the Cleveland Browns front office—led to a sit-down with Miller. Not long after, Schwimer had secured $26 million. In 2016 he founded Big League Advance and invested in 77 players. He says that 38 of the original signees are in the big leagues, with a dozen likely to follow.

In 2017, Schwimer raised an additional $130 million to add to his roster, which now numbers about 230 players. He took the management fees from that round to assemble what he calls "the world's best private data analytics team" in sports, and Jambos Analytics LLC was born. The name is a bro-tastic acronym of six original members. There are now about 15.

Jambos decided to sell picks in bundles: 17 weeks for $3,000, 4 weeks for $900, and 1 week for $250, which is what I signed up for. Each bundle came with a payback guarantee if the system wasn't profitable. It pays $10,000 to full-package customers, $2,000 to monthly customers, and $300 to weekly customers. And if Jambos was up, but not enough to cover subscription costs, it would make up the difference, plus $100.

Day by day, I got better at using the service. Still, because of discrepancies in the lines and odds, I wasn't getting bets in on about a third of the games. So what was the point in using Jambos? My results would have more to do with which bets I placed than with how well the company's models worked. I wasn't alone. On New Year's Day, Schwimer tweeted, "We will have to stop selling picks very soon." Professional bettors and books, he said, were building bots to react to Jambos picks and moving lines before customers could act. "The vast majority of our recommendations were moving very quickly," says Schwimer. The last bundle of Jambos picks will end with the Super Bowl, after which it will continue to publish some online for free.

Schwimer expected this to happen, he says, but not as quickly as it did. He was, in his telling, a victim of his own success, and I saw anecdotal evidence to back his claim. On a couple of occasions, lines moved against me in the time between entering my bet and tapping to confirm it. But more often than not, I could get my wagers in, and I didn't have bots working for me. On 19 bets, despite my hunt-and-peck method, I got *better* lines than Jambos recommended.

Schwimer had another reason for shutting down the subscription service, which he describes as only a small part of the larger company. There were a "handful of people," he says, who didn't have the bankroll to continue betting after sustaining heavy losses early. Most customers, he says, reported making money. (He declined to disclose subscriber numbers or detail company finances.) The most satisfied customers, he says, were those who had a sizable bankroll and treated Jambos like a financial product: "They understood that this is an investment. This is not like betting where it's a fun thing."

He was right about the fun. Around the time on a Saturday morning that I was searching in vain for the Jacksonville State vs. Eastern Kentucky basketball game at under 146 points, I began to regret volunteering to be a betting degenerate. I was mostly updating spreadsheets. It felt a lot like work.

In the end, I made money. Of the 111 bets Jambos recommended, I made 75. Of those, 40 were winners and one was a push—a 54% success rate. Three times, since I found more favorable lines, I won bets that Jambos pushed on. Of the 36 I didn't make, only 16 were winners for Jambos. This proved to be my salvation. Jambos's record for the week was 53 wins, 54 losses, and four pushes, disastrous for most customers. In my case, betting at just $30 a pop, the rebate padded my $63.60 in winnings, leaving me $113.60 ahead.

What do these results indicate? Not much. Before my experiment, I was confident that Jambos's algo jockeys knew the betting markets better than I did—and doubted they knew more than everybody else. After a week, I felt the same. Does Jambos have good algorithms? Probably. But so do a lot of people. Together they create a fairly efficient market. As for entertainment value, no one needs help from Jambos, or anybody else, to blow money betting on Winthrop University basketball games.

With the death of Jambos as a pick-selling service, the tout industry remains a swamp of small-time operators. But Schwimer says Jambos isn't done yet. He has big plans coming in the spring. "We're about to make a huge splash in the industry," he says. "People won't believe until they see it." Ⓑ
—*With Eben Novy-Williams*

How to Be an NFL Owner, Sorta

Sad the Patriots aren't in the Super Bowl? Yeah, neither are we. But if you want to show your allegiance to them, or any team, the extremely scientific chart below prices it out. (To be very clear, though, you probably shouldn't buy a baby jaguar.)

DATA: LIBERTY JET, U.S. BUREAU OF LABOR STATISTICS, NATIONAL CONFERENCE OF STATE LEGISLATORS, U.S. OFFICE OF PERSONNEL MANAGEMENT, THE WILDLIFE CENTER OF VIRGINIA, COASTAL PEOPLES FINE ARTS GALLERY, PLANET EXOTIC PETS, BENNY BINION, NATIONAL BISON ASSOCIATION, CALIFORNIA HAWKING CLUB, WYOMING WOOL GROWERS ASSOCIATION, AMTRAK, NATIONAL WILDLIFE FEDERATION, MSC INDUSTRIAL DIRECT, AMAZON, NEWS REPORTS AND CLASSIFIED ADS, BLOOMBERG

ELON VS. THE SHORTS

BETTING AGAINST TESLA IS A REALLY BAD LOOK

BY DANA HULL

PHOTOGRAPH BY FINLAY MACKAY

Randeep Hothi was driving north on California's Interstate 880 in April when he spotted a red Tesla Model 3. The sight was unremarkable—in Fremont, where Hothi's parents live and Tesla has its auto plant, the electric sedans are everywhere—but this particular vehicle stood out.

It had manufacturer's plates, suggesting it was a prototype of some sort. More conspicuously, it also had a camera mounted on a custom tripod rising about 5 feet above the trunk. A second camera inside the cabin pointed at the steering wheel and center console. Two passengers rode in back, behind the driver.

Hothi instantly surmised what was happening: Tesla was filming a demo, likely related to the Autopilot driver assistance technology that Chief Executive Officer Elon Musk had lately been talking up. Hothi tucked his white Acura in behind the sedan and started tailing it.

He isn't a cop or a private investigator, and though he's sold shares of Tesla Inc.'s stock short, he's not a professional investor, either. Hothi is something much more dangerous: a grad student with a Twitter account. For the past few years, he's dedicated much of his free time to the idea that Musk isn't the successful technologist he's widely considered to be.

In Hothi's mind, Musk is an epic fraud—"the Ed Hardy shirt of tech visionaries," "the Jar Jar Binks of technology," or "a cross between Elizabeth Holmes and Donald Trump." Hothi has taunted Musk about weight gain ("Is Elon lactating?"), said he benefited from apartheid in his native South Africa ("Didn't your dad pay for your whites only schooling with his emerald mine money?"), and predicted his imprisonment ("You'll have more reading time in jail"). The vitriol stays focused mostly on Tesla, not Musk's other ventures—the spaceflight company, the brain-implant company, the tunnel-drilling company with the branded flamethrowers.

With more than 30 million Twitter followers and a steady stream of YouTube videos and podcasts from Tesla lovers around the world, Musk has plenty of fans to take his side. They shout down the gentlest critics on social media, have been known to bring doughnuts to employees during end-of-quarter pushes to get vehicles out the door, even volunteer to talk new owners through the bells and whistles. "Huge thank you to all Tesla supporters for helping with car deliveries," Musk tweeted in September 2018. "You rock!!"

Hothi is part of the counterrevolution—an informal yet obsessive global fraternity of accountants, lawyers, hedge fund managers, former Tesla employees, and some randos who just love trolling. For a few years they've been posting sick burns and negative indicators in equal measure with a #TSLAQ appended. They research executive departures, lawsuits, customer complaints,

@ELONBACHMAN: NTSB IS THE ONE HE CAN IGNORE. NHTSA IS THE ONE THAT WILL PROMULGATE BLOATED AND SCLEROTIC RULES THAT ENTRENCH @TESLA AS AN INCUMBENT UNLESS THE STOCK CRACKS, IN WHICH CASE THEY'LL RIDE IN AND HANG THE CORPSE! (JAN 17 2020)

@MONTANA_SKEPTIC: THE VERY LAST JOB I WOULD WANT RIGHT NOW IS $TSLA GENERAL COUNSEL, ANSWERING TO HIS HOLY HIGHNESS THE ALMIGHTY VISIONARY DISRUPTIVE ENTREPRENEURIAL PHYSICS-WHIZ DEEP-THOUGHT-TWEETING EARTH-SAVING MARS-BOUND PEDO-

and accidents, adding the occasional allegation of financial chicanery and a passel of puns to suggest that Tesla's end is nigh. Shortly after the company paid $2 billion for the troubled SolarCity (co-founded by Musk and run by his cousins) in 2016, someone came up with the hashtag by combining Tesla's Nasdaq ticker with a "Q," the character markets tack onto a stock symbol after a company files for bankruptcy.

Lately, Musk and his company have had the upper hand. Tesla's share price has more than doubled since October, thanks to a surprise quarterly profit, January's announcement of record deliveries, and the start of production in China. Tesla short sellers lost more than $2.8 billion in 2019, according to Ihor Dusaniwsky, a managing director at analyst S3 Partners, and have already lost about that much in 2020. Some within TSLAQ have abandoned the cause. One tweeted that he "lost the vast majority of his net worth" betting against Musk and bid farewell with a series of GIFs from *The Simpsons*. Musk, always prepared for a victory lap, tweeted a link to Lena Horne singing *Stormy Weather* on Jan. 14. Hothi declined to say how much he's personally bet against Tesla, except to say, "I look forward to making use of the capital loss carryforwards."

@WALLSTCYNIC: JUST A LITTLE REMINDER THAT TESLA SERVICE USES...FORD PICKUPS. @SUNDEEP @ELONMUSK $TSLA (NOV 26 2019)

But with Tesla, the next backlash is always right around the bend. In November, TSLAQ crowed when Musk unveiled an electric pickup called the Cybertruck and its "bulletproof" glass proved extremely vulnerable. "Watching serious people try to pretend like this #cybertruck isn't Elon's 'emperor has no clothes' moment will be fun," wrote TeslaCharts, a prolific and widely followed account. (The stock price fell 6% the following day.) More recently, the National Highway Safety Administration said it would evaluate allegations made in a petition: The complainants say a Tesla defect can cause unintended acceleration. Tesla responded in a Jan. 20 blog post that "this petition is completely false and brought by a Tesla shortseller." Days earlier, on Jan. 15, Tesla had overtaken Apple as America's most-shorted stock, according to S3 data. The company is slated to report its latest quarterly earnings on Jan. 29.

Fearing reprisals from Musk, for whom no critic is too obscure, most TSLAQ types tweet under noms de guerre. Hothi's is "skabooshka." Although he speaks five languages, the alias has no special meaning. "It's like a stupid sound," he says. "I wanted ridiculous and enigmatic."

That day on I-880, Hothi followed the Model 3 for a

HOTHI IN ANN ARBOR

PHOTOGRAPH BY ALI LAPETINA FOR BLOOMBERG BUSINESSWEEK; STYLIST: AJA COON

@SKABOOSHKA: LET'S TALK ABOUT $TSLA'S SHAREHOLDER MEETING. ELON ANSWERED ELEVEN QUESTIONS FROM TWITTER. OF THOSE ELEVEN, FOUR WERE FROM TWITTER USERS THAT HAVE TWO OR LESS FOLLOWERS. TWO OF THOSE USERS HAVE ZERO FOLLOWERS. ONE OF THEM HAS ZERO FOLLOWERS AND IS FOLLOWED BY ZERO (JUN 6 2018)

half-hour, snapping photos with his phone as it traveled along the East Bay's industrial spine. The car went through a toll plaza, onto the Bay Bridge, and ultimately to Treasure Island. On April 18 he posted the photos on Twitter, along with some bearish analysis. Hothi knew Tesla had invited investors to its headquarters the following week for an Autopilot presentation. The sighting of a demo car just days before the event, Hothi argued, proved that Autopilot—"slaughterpilot," in TSLAQ parlance—wasn't fully baked. The investor day, he predicted, would be "saturated with false promises, misleading suggestions, and lures to credulity."

Two days later, Hothi learned, to his surprise, that his real name was all over Twitter—and on a restraining order, to boot. No one served him in person, but the day after he published his tweets, Tesla lawyers had gone to a court in Alameda County and told a judge that Hothi had "stalked, harassed, and endangered" the employees in the Model 3. Tesla claimed that Hothi had been "swerving dangerously close" to the vehicle and that its employees had feared for their safety. The company also alleged that Hothi had hit a Tesla security guard with his car at the Fremont factory two months earlier and that he'd placed a portable camera mounted on a utility pole outside the factory in 2018.

Hothi was bewildered by the allegations and taken aback that he'd become the story. He and his family received racist messages and death threats. Someone emailed the University of Michigan at Ann Arbor, where Hothi is a doctoral candidate in Asian languages and cultures, to accuse him of having "disturbing and violent tendencies." Voicemails left at the department offices urged his expulsion. Disturbed as he was by the invective, Hothi also felt profoundly validated: He'd gotten inside Musk's head. "I realized that I had won," he says.

@JIMNEYCREDIT: $TSLA (SOON $TSLAQ) BOARD OF DIRECTORS WIELDS ZERO INFLUENCE OVER THIS PETULANT, BEYOND REPROACH CHARLATAN WITH A RELIGIOUS FOLLOWING OF MINDLESS MINIONS.

THE ENTIRE BOARD OF DIRECTORS SHOULD BE FINED BY @SEC_ENFORCEMENT. NO PLAUSIBLE DENIABILITY AFTER SO MANY CRAZY TWEETS. (AUG 7 2018)

Naturally, he went straight back to Twitter. "This is my promise," he tweeted on April 20. "Tesla is a zero. @Elon Musk will go to prison."

Under normal circumstances, TSLAQ would be just another way for obsessives to find each other online, like #paleodiet or #juggalo. But these obsessives have proved they can shape perception and move the stock ▶

PUNCHING GENIUS, YCLEPT ELON. (DEC 18 2019)

@MARKBSPIEGEL: GOOD LUCK GETTING NON-CULT MEMBERS TO CROSS OVER AND BUY A NEW $TSLA WHILE THE SUDDEN ACCELERATION AND (SOON) AUTOPILOT INVESTIGATIONS ARE GOING ON.#NOTAGROWTHCULT (JAN 17 2020)

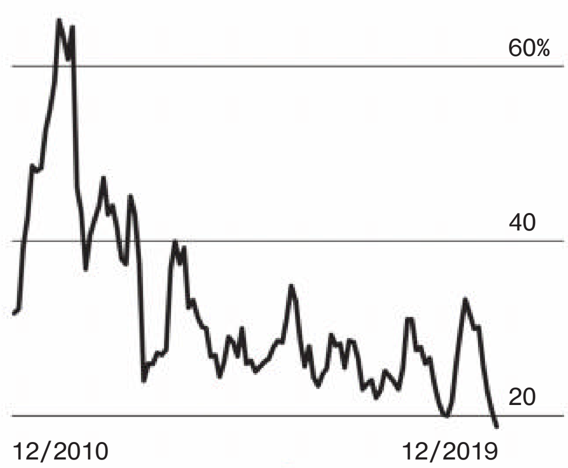
◀ of America's most valuable carmaker. "They've put Tesla under a microscope, and they have succeeded in diluting the company's success," says Gene Munster, a managing partner at Loup Ventures and a prominent bull. "It leaves the average person who loosely follows Tesla confused and concerned."

Musk has repeatedly acknowledged the impact of critics and short sellers, often while indulging his more juvenile impulses. He once sent a package full of short shorts to a regular heckler, the investor David Einhorn, and he's blocked a handful of journalists' accounts on Twitter, including mine. In its most recent annual report, Tesla cited "scrutiny of critics" as a risk to its business.

"You have a fundamental public disagreement on the social value of Tesla," says short seller Fahmi Quadir. She isn't active on Twitter but says she admires TSLAQ's democratization of due diligence. "There are also valid questions about governance, sustained profitability, and product integrity."

Hothi's main claim to fame in the TSLAQ community was his detailed reporting on the factory in Fremont in 2018. His production estimates were reliable enough to be cited widely by both bulls and bears. In June of that year, when Tesla erected a massive tent to house a new Model 3 assembly line, Hothi flew a drone to peer inside, revealing that the cars were largely being built by hand. This was a major scoop, undercutting the company's hyping of its sophisticated robotic assembly line—its "alien dreadnought," as Musk called it.

SHORT INTEREST SHARE OF TSLA'S EQUITY FLOAT

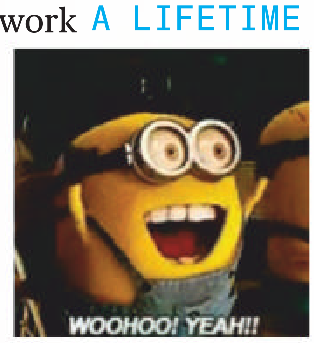


Hothi was born 33 years ago in Punjab, in northern India, and grew up in Fremont, not far from the factory. A voracious reader and devout Sikh, he was obsessed with philosophy in high school but had trouble focusing. He failed out, then turned things around at a local community college, eventually transferring to the University of California at Berkeley. He graduated with a bachelor's in philosophy in 2009.

The following year, Tesla went public and took over a shuttered GM-Toyota facility in Fremont, where it planned to build the Model S. The company and its unconventional CEO became an irresistible story for the tech press, which routinely asked if Musk was "the new Steve Jobs." In 2013 the Model S was named *Motor Trend* Car of the Year, the first electric vehicle to win the award in the magazine's history.

By then, Hothi was in graduate school, but he'd developed a side interest in the stock market. When he wasn't inhaling the work of post-Marxist French philosophers, he was lurking on Yahoo! Finance message boards and shorting dozens of companies, including Tesla and SolarCity. His skepticism was rooted in the realities of the auto industry—a "capital-intensive, operationally demanding, low-margin industry," he says—but it was also a contrarian bet against Musk, who Hothi knew had been fired as CEO of PayPal Inc. before the payments company went public. "People are always like, 'Never bet against Elon,' but I'm like, 'Always bet against Elon.' He was a problem at PayPal, SolarCity was a disaster, and Tesla is a disaster."

@BGRAHAMDISCIPLE: SO, REMEMBER HOW I TOLD YOU ALL MUSK IS DONE? WELL, HE IS DONE. FINISHED. SEE YA. WOULDN'T WANT TO BE YA. BUH BYE. THE SEC JUST SUED HIM FOR SECURITIES FRAUD AND THEIR CASE IS AIR TIGHT. THEY ARE SEEKING A LIFETIME OFFICER AND DIRECTOR BAN. $TSLAQ. (SEP 27 2018)



Hothi argues there's a profound philosophical question in the way Musk is perceived—one related to a core tenet of Sikhism, the prohibition of idol worship. "I see people like Steve Jobs, or Elon Musk, or Donald Trump, or Barack Obama for that matter, and I'm not inclined to fall on my knees and worship these people," he says. "For me, they're just ordinary people caught up in situations."

In 2016, Hothi created an account on Seeking Alpha, an investing website popular among short sellers, and started posting about the SolarCity acquisition and other investment concerns. He says it became clear to him, as he learned more about finance, operating metrics, and regulatory disclosures, that Tesla was in a tough spot. "There was never a moment where I had to realize, Oh man, this genius is not a genius," he says. "For me, it was more that this fellow selling these cars is trying to get by in a really difficult enterprise."

Over time, the Tesla shorts on Seeking Alpha largely moved their conversation to Twitter, a world of brevity and memes. Hothi joined in March 2017. For skabooshka's avatar, he chose a dystopian painting by the late Polish artist Zdzislaw Beksinski of a skeleton playing the trumpet.

I first contacted skabooshka in June 2018 while reporting a story about Tesla's new Model 3 assembly line in the tent. I thought he might be a contractor or a supplier, or even, based on his apparent knowledge of the factory and his photos of the tent going up, a current or former employee. Unsure whether I was looking at the right tent among the several outside the Fremont plant, I sent him a photo from the train platform overlooking the factory. This it? "That's it," he wrote back.

That June 19 he posted his first accusation that the assembly line wasn't fully automated. "This is the alien dreadnaught Elon promised: hand-building cars," he wrote. (Musk had acknowledged on Twitter that "excessive automation at Tesla was a mistake.") Later, after he'd posted his drone footage to YouTube, I asked skabooshka if he wanted to meet in person. He declined because, he said, people were trying to dox him.

In July 2018 an obscure Twitter account with few followers

DATA: COMPILED BY BLOOMBERG

posted a dossier connecting skabooshka and Hothi. It included information about Hothi's graduate studies and social media accounts and noted that his brother, Gagan Hothi, worked at Volkswagen AG, a Tesla competitor. The account had never tweeted before (and hasn't since), so few people noticed at the time, but Musk seems to have been aware of it.

@TESLACHARTS: THERE IS NOTHING @ELONMUSK WON'T LIE ABOUT. HE WAS NOT A FOUNDER OF TESLA MOTORS, $TSLA CARS OFTEN ACCELERATE UNCONTROLLABLY, AUTOPILOT IS JUNK, FSD IS VAPORWARE, SOLARCITY WAS A BAILOUT, SOLAR ROOFS DON'T EXIST, AND HE IS A THE GREATEST HUCKSTER OF OUR TIME. $TSLAQ (JAN 21 2020)

In late August 2018 the *Wall Street Journal* published a story about the notorious effort by Musk to take Tesla private, during which he'd falsely claimed via Twitter that he had "funding secured" for a deal. (As penance for the tweet, Musk stepped down as chairman, and he and Tesla paid $20 million each as part of a settlement with the U.S. Securities and Exchange Commission.) The *Journal* story didn't refer to Hothi by name, but it mentioned Musk's contention that short sellers were trying to undermine him and reported that he'd contacted Volkswagen CEO Herbert Diess to ask if an employee was criticizing Tesla under a fake name. "Diess replied saying it was the guy's brother," Musk told the *Journal*. "That's pretty much it." (Hothi says his brother, who no longer works for VW, had nothing to do with his thinking on Tesla.)

@NEGDISCOUNTRT: $TSLA SO WHAT HAPPENS IF MUSK WAS HIGH ("420" A REFERENCE TO WEED) AND TWEETING BULLSHIT? $TSLAQ ? (AUG 7 2018)

After Tesla filed its restraining order against Hothi last April, Musk responded to the July 2018 tweet that mentioned the brothers. "This is extremely messed up," he tweeted. "@VW, what's going on?" A sympathetic fan responded to Musk, mentioning the restraining order and saying that "tslaq must be one of the most insane things that's ever happened to a company." Musk wrote back: "Never seen anything like it. Tesla is just trying to make electric cars & solar power for a better future for all. True, we might not succeed, but why do they want us to fail?"

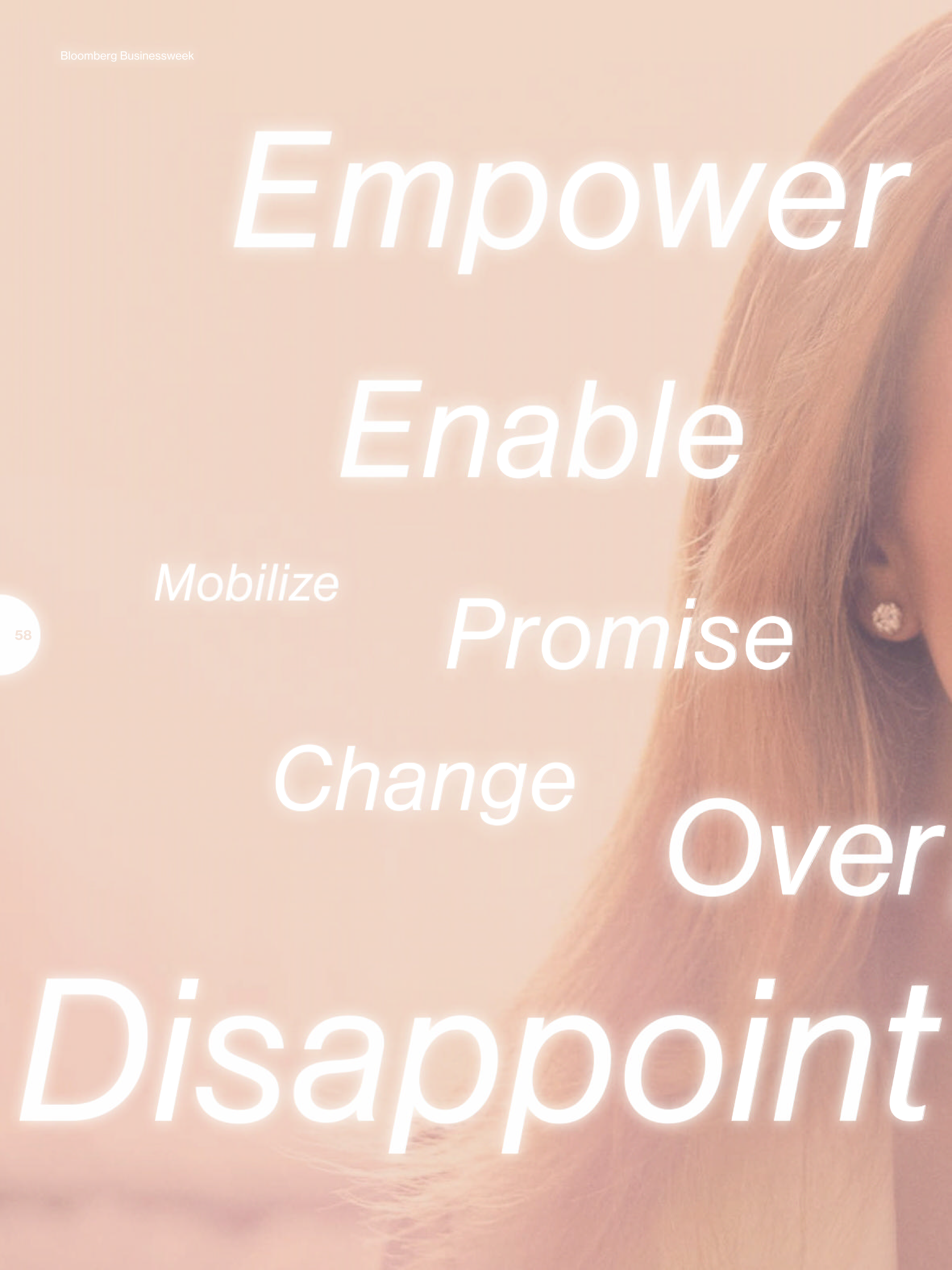
TSLAQ rallied to Hothi's side. Lawrence Fossi, an attorney who writes under the pseudonym Montana Skeptic, organized a "skabooshka defense fund," which has raised more than $118,000 on GoFundMe. In his legal response to the restraining order, Hothi contested Tesla's description of the incident with the security guard. He'd driven to the factory parking lot to ask salespeople at the adjacent showroom questions as part of his research, he says. Two men approached his car, and one knocked on his window. Hothi, according to the Fremont Police Department's report, "drove away at a slow rate of speed" and struck an employee's knee in a way "that did not appear to be an intentional act." Hothi denies that he drove recklessly or that he intentionally hit anyone.

As for his actions while tailing the Model 3, Hothi argued that he'd never swerved toward it, as Tesla alleged. "I took some photos and paid attention to how this car was driving," he says now. "It's not like I was tailgating." Face to face, he chooses his words politely and carefully. Hothi was aware, given the cameras that come standard on the Model 3 and the extras on the demo model he'd spotted, that Tesla would have video of him following the car. He called on it to release that footage and video from the factory's security cameras. Tesla refused, on the grounds that it was protecting employee privacy. When a judge ordered the company to do so, it withdrew its lawsuit instead. Even so, Musk hasn't dropped the fight. In an email exchange in August with Aaron Greenspan of PlainSite, which republishes legal documents online and first posted the restraining order, Musk claimed that Hothi had "almost killed Tesla employees" and that "what was a sideswipe when Hothi hit one of our people could easily have been a death within 6 inches of difference." Tesla and Musk didn't respond to emailed questions about the discrepancy between his account and the police report.

Fossi, the GoFundMe organizer, views the skabooshka saga as a prime example of Musk's worst tendencies. He's making statements about Hothi "after Tesla dropped the case and refused to provide any evidence," he says. "He's a nightmare client for a lawyer. It's self-destructive, and it's harmful to his company." Fossi compares it with the more high-profile case of Vernon Unsworth, the caver Musk falsely called a "pedo guy" on Twitter. Unsworth sued Musk in a California court, but in December a jury concluded that Musk's tweets didn't meet the legal standard for defamation. (Unsworth said afterward that he'd "take it on the chin.") Nonetheless, the CEO getting dragged into court to answer for his tweets wasn't exactly great news for Tesla.

@SKABOOSHKA: $TSLA RECORDING THE "AUTONOMOUS DRIVING" DEMO FOR ITS SO-CALLED "AUTONOMY INVESTOR DAY" (APR 22). MOUNTED, TWO CAMERAS: ONE REAR-FACING ON THE TRUNK, ONE INSIDE DIRECTED TOWARDS THE STEERING AND CENTER CONSOLE. NOTE THE LICENSE PLATE: MFG632779S. A COMPANY VEHICLE (APR 18 2019)

The company may have abandoned its court fight with Hothi, but Musk won in an important way. Skabooshka hasn't tweeted since April, when he thanked supporters and wrote, "The pendency of Tesla's lawsuit against me makes it prudent for me to say little on Twitter at present." The longtime academic spent his summer interning at Muddy Waters Capital LLC, an activist short seller in San Francisco. (He says his equity research didn't involve Tesla.) In September he flew back to Ann Arbor to finish his dissertation. He says he's focused on that for now, though he's still contemplating legal action against Musk and isn't entirely out of the game. "I'm lurking on Twitter," he says. "I'm monitoring things as they unfold." Ⓑ



Empower

Enable

Mobilize

Promise

Change

Over

Disappoint

Hustle
Delight
Disrupt
Surprise
Scale
promise
Improvise

Most dating apps are dumpster fires. Whitney Wolfe Herd started Bumble to give women a better option. Is it living up to its lofty ideals?

By Claire Suddath

Whitney Wolfe Herd remembered the day she decided to go after dick pics.

"It started with me barging into a meeting and being like, 'Guys, we're going to make a law, and we're going to make dick pics illegal!'" she recalled. Wolfe Herd founded and runs Bumble, the dating and networking app that says it offers women a safe way to meet people online. Bumble had already banned users from posting such pictures to their profiles and was working on software that could detect them when sent in a message. Yet according to a company user survey, about a third of Bumble women had received lewd photos from men, whether through text or other social media that Bumble couldn't control. "I was just like, 'This is bullshit,'" Wolfe Herd said. If it were illegal to flash someone on the street, she reasoned, there should also be a law against flashing people online. Bumble is based in Austin, so Texas seemed like a good place to start.

Wolfe Herd didn't have many political connections in the state, but her husband did. Michael Herd is president of his family's oil business, Herd Producing Co., and a family friend of Gaylord Hughey, an oil and gas attorney who's one of Texas' top Republican fundraisers. Wolfe Herd called Hughey, Hughey called a lobbyist, the lobbyist got Democrats and Republicans to sponsor a bill, and in August, Governor Greg Abbott signed it into law. Now, anyone sending photos of "intimate parts" to someone in Texas without consent could be fined $500.

Journalists weren't allowed at the closed-door bill signing, but Bumble wanted me to be there. I'd been working on a story about the company's pursuit of gender equality for almost a year. I flew to Austin for what turned out to be a lot of clapping, some polite laughter, and the ceremonial giving away of the governor's signing pens. When it was over, Wolfe Herd was ecstatic. "I have five other ideas of the next laws I want to pass," she told me, "basically extensions of what you've seen today." She wanted a law against online harassment, another to end verbal abuse. "Catcalling," she added. "There's got to be a digital counterpart to that." She wanted to make sure delivery apps conduct background checks on their workers. "I want to take it to the federal level next," she said. "I can't say we're a mission-driven company if we don't put our money where our mouth is."

This kind of attitude has distinguished Bumble from its rivals. It's also part of the company's focus on women. Everything about the brand—its bright honeycomb logo; its pop-up parties at Coachella and in Aspen, Colo.; its embrace of Lizzo memes on Instagram—is designed to attract young women who live and work in cities and order everything from wine to potential partners on their phones.

Men are on Bumble, too, of course. Most dating apps skew disproportionately male, and the company has had no problem signing them up. But on Bumble they seem almost an afterthought: If a man and woman both swipe right on each other, the man can't talk to the woman unless she contacts him first. For that reason, and because Wolfe Herd and 81% of her employees are female, articles about Bumble often describe it as an app "by women, for women." Nearly every

Wolfe Herd with Governor Abbott

interview Wolfe Herd does, be it on a morning talk show or a South by Southwest panel, focuses on how the app is designed to prevent the harassment and verbal abuse women face when they try to date online—or be on the internet at all.

"We want women to feel safe and empowered while using Bumble," Wolfe Herd told *Teen Vogue* in 2015. Two years later, on CNBC, she said that making women message first "reduces harassment, creates a kinder exchange between two people," a statement she'd later repeat to me. In 2019, *CBS This Morning* said Bumble made online dating "safer," *Inc.* claimed Wolfe Herd was "on a mission to clean up the internet," and *Fast Company* reported that she was building "the female internet." Bumble's message of empowerment has given it an almost spotless reputation. "It's created this kind of groundswell of 'Wow, this company is doing good,'" Wolfe Herd said.

Over the years, Bumble's name has become shorthand for a company that takes equality seriously. Women who've been harassed or discriminated against in other areas of their life lament on Twitter that there's no such thing as "Bumble-ified rideshares," "Bumble for gamers," or even Bumble "for people at bars so I screen out people who step on my feet." Several women told me they use Bumble because they think it's safer than other dating apps.

Today, Bumble is the second-most popular dating app in the U.S., behind Tinder. The company says it has 81 million users in 150 countries, though only 11 million of them use the app at least once a month, according to mobile analytics company App Annie Inc. Still, a lot of those people pay for extra features that, among other things, let them see who liked their profiles ($24.99 monthly) or "spotlight" their account so it shows up prominently in other people's feeds ($3.60 a month).

Bumble doesn't share its financial information, but former employees say that such extras have made the company profitable since at least 2017, and that at one point last year, Bumble was pulling in about $10 million a month in revenue. In November the private equity giant Blackstone Group Inc. announced a majority stake in Bumble's parent company, MagicLab, at a valuation of $3 billion, and installed Wolfe Herd as chief executive officer in place of its controversial founder, Russian billionaire and tech entrepreneur Andrey Andreev. In a statement, Wolfe Herd said she would "keep working towards our goal of recalibrating gender norms and empowering people," bringing Bumble's feminist mindset to the rest of the company.

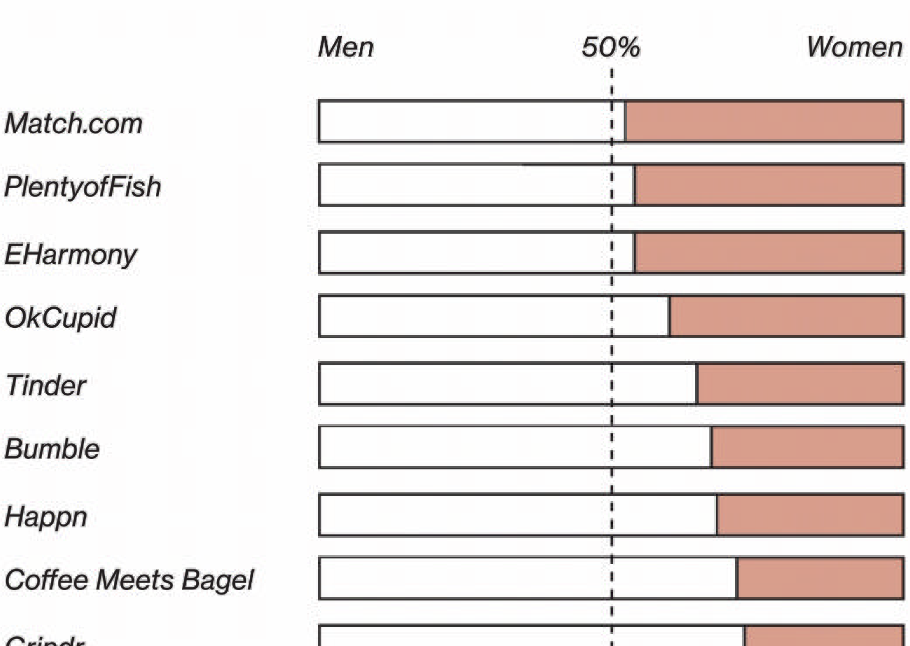
This is a pivotal moment for Wolfe Herd. It's her chance to affect the lives—and relationships—of millions of people. Online dating is the most common way to find a romantic partner in the U.S. According to a 2019 survey by researchers at Stanford and the University of New Mexico, almost 40% of heterosexual couples and 65% of same-sex ones now meet online. And the issues Bumble is tackling are endemic social ills. The Pew Research Center says that more than 40% of people in the U.S. have been harassed or threatened online; women, especially those under 30, are more than twice as likely as men to receive sexually violent threats they find "very upsetting." So far, no online platform has gotten a handle on this kind of abuse–though many, like Bumble, are trying.

After months of reporting, it wasn't at all clear how Bumble was keeping women safer or leading to more equitable relationships. Wolfe Herd and others talked a lot about how they were addressing these issues, but the company failed to provide tangible evidence that it was successful. Instead, Wolfe Herd spoke in general terms. At one point, she said, "Our mission, really, ultimately, is to stop misogyny." The idea that a dating app could eliminate something that's gone on for millenniums seems naive, as if Seamless were claiming that faster taco delivery could end world hunger.

Based on interviews with more than a dozen people who've worked for Bumble or its parent company, it seems to have no system in place to verify that its app is safer, or its users less sexist, than elsewhere. (Most asked for anonymity because the company's nondisclosure agreement bars employees from saying anything "likely to be harmful" to Bumble's reputation.) The workers said Bumble establishes policies that it assumes will lead to change but doesn't follow up to see if they actually do. Instead, the only thing Bumble does know is that people "perceive" it to be safer. In other words, it tracks its reputation. "From an empirical perspective, they can't say, 'We have limited misogyny on Bumble' because they never had a way to measure it," said Jessica Carbino, who worked for more than a year as Bumble's sociologist before leaving in March. "If they have that data," she said, "I haven't seen it."

In addition, eight former employees said the company's internal culture is the opposite of the values of kindness and respect it preaches. They said Bumble's top executives run the company as if they were the popular group in high school. One woman said that when Bumble had only a handful of

*Gender Split on Dating Platforms**



PREVIOUS SPREAD: RAMONA ROSALES/AUGUST. *SURVEY OF 2,204 U.S. ADULTS CONDUCTED IN JANUARY 2018. DATA: MORNING CONSULT

employees, it was common for one or two people to be excluded from outings with no explanation. Another said she had no idea that a place so outwardly committed to empowering women would be such a disempowering place to work. In response, a Bumble spokesman said in an email, "Inclusion is at the heart of what we do–and our workplace reflects that." Later he added: "At Bumble we are committed to empowering women and promoting integrity, equality, confidence, and respect during all stages of the dating experience."

Wolfe Herd is 30 years old. She has thick, blond hair; big, almond-shaped eyes; and a tendency to talk about herself in a self-deprecating, endearing way. The first time we met, at the beginning of last year, we spent hours in her office, drinking Topo Chico seltzer and talking about our families and backgrounds as Van Morrison played quietly on a faux vintage stereo. Growing up in Salt Lake City, she said, "I didn't know what the word 'feminism' was–I thought it was a bunch of 1970s women." I told her I knew what she meant.

Wolfe Herd went to college at Southern Methodist University, and then in 2012, at 23, she became Tinder's first vice president for marketing. She engineered the app's explosive growth on college campuses by persuading women in sororities to sign up–then showing fraternities how many Tri Delts or Pi Phis they could meet if they did the same.

Her time at Tinder didn't last long. In 2014, Wolfe Herd sued the company for sexual harassment. A nondisclosure agreement she signed to settle the lawsuit prevents her from talking publicly about what happened. But the lurid details of her complaint–that co-founders Sean Rad and Justin Mateen wouldn't mention her in interviews because they thought having a "girl founder" made Tinder look unprofessional, for instance, or that Mateen called her a "whore" in front of colleagues–give a clear picture of her allegations. (The suit was settled with no admission of wrongdoing from Rad or Mateen.) It's not that Tinder turned her into a feminist, Wolfe Herd said. It's that what she experienced before and during the lawsuit was so the opposite of equality that she came to understand how vital feminism was. "I was getting rape tweets, death tweets, go-kill-yourself tweets," she said. "It was really painful." Bumble was born out of that pain.

When Wolfe Herd left Tinder, Andreev offered her a job as chief marketing officer for his dating app, Badoo. Based in London and with tens of millions of active users mostly in Europe and Latin America, Badoo was one of the world's largest apps of its kind. She turned down the job and instead pitched him on a female-only social network for women to send each other compliments. He wasn't interested.

"I said, 'Whitney,'" Andreev recalled in a phone interview in April, "'I have hundreds of engineers. I have all this. I understand how we can monetize you, how we can scale the user base–it's hundreds of people who're experts on dating.'"

Eventually, Wolfe Herd agreed to start a dating app branded for women. Andreev would own about 80% of ▶

Andreev

◀ the company, and she would get 20%. Badoo's engineers in London would build it, but it would be marketed in Austin, where she lived.

When Bumble started in December 2014, it looked a lot like existing dating apps, except for the requirement that women message men first. This rule became Bumble's defining characteristic, and its tag line–"Make the First Move"–appears in bright, yellow letters in the company's offices. Wolfe Herd describes the feature as a way to give women the upper hand. "It's so much more than just a product gimmick. There's a true impact from that. It completely reduces all of the tension and friction between the genders," she told me. "That's why we have the lowest abuse rates of any platform." When I asked what those abuse rates were, she told me to talk to her publicist. The publicist promised to get me numbers but eventually admitted Bumble didn't have them. It knew about its own app (7% to 8% of Bumble users were kicked off for behavior that violated its policies, a figure that the company says has remained steady for years), but it didn't have corresponding numbers for other apps because there's no third-party source for that data.

The only piece of internal research the company could point to when asked why it claimed to be safer than its competitors was a 2018 SurveyMonkey poll of users of 14 dating apps, conducted by Carbino. But this survey contradicted that assertion. In it, 26% of respondents said they'd been harassed on Bumble–a lower percentage than on Tinder, OkCupid, and Match, but higher than the percentage who reported experiencing harassment on Hinge, EHarmony, and others. Bumble's survey didn't explain how many users were on each site.

And what happened after a Bumble user sent that initial message to a possible date? Wolfe Herd liked to say that women were "empowered" when they talked to men first. "It's a recalibration of what society expects," she said. But the app forced them to do it. New relationships are full of firsts: first dates, first kisses, first conversations about making things official. Did Bumble know if these newly empowered women took the initiative there?

"No," said Priti Joshi, Bumble's vice president for strategy. "We don't have a way of saying, 'Women are asking to move this into the real world more than men are,' or vice versa." For user privacy reasons, Bumble and other dating apps don't read messages unless they're flagged as inappropriate. The company knows women send the first message, but after that it doesn't know who's making what move, or when.

People who use Bumble said that a relationship (if there is one) unfolds the same way as it always has. "The majority of the time, I still ask women out," said Ian Sanderson, a 29-year-old engineer in New York. "Sometimes a woman will be more aggressive, but that's not because of Bumble. It also happens on other apps." There's still ghosting on Bumble, and rudeness, and men who reply to a question about their tattoo with, as one woman received in a message, "I'll let you see it in person when your [*sic*] giving me a bj." Andrea Silenzi, who used to host a dating podcast in Los Angeles, said she likes the women-message-first feature, but not because it's empowering. "It's more like a screening feature," she said. "That's about it."

Although Bumble was built by Badoo, in Austin it looked and acted like a scrappy tech startup. For the first few years, Wolfe Herd and a small, mostly female team worked out of an apartment. Early on, they wanted to name the app Moxie, but it was already trademarked, so they went with Bumble because of all the marketing possibilities it afforded (queen bees, buzz, a community called the Hive). Wolfe Herd's early hires were people she knew: two Tinder designers, her sorority "big sister," a friend of a friend from SMU, a family friend of her husband's, and so on. Around the office, they were known as the OGs. In 2017, Bumble moved into a squat, sunshine-yellow building with plush couches and honeycomb-shaped shelves for an effect that fell somewhere between a '60s cocktail lounge and a blowout bar. Instead of perks such as foosball and kegerators, Bumble offered free manicures. At the time, the company had about 40 employees and was 82% white.

Bumble's message of female empowerment earned it a flurry of positive press. ("Bumble is changing the face of dating apps," *Harper's Bazaar* declared when the app wasn't yet 3 weeks old.) Within a year and a half it reported 5.6 million users; at 2 years that figure had almost doubled. As Bumble took off, Wolfe Herd, who'd never given up on her idea of a female-only social network, looked to expand. In 2016 the company introduced BFF, a version of the app for people who wanted to make friends. A year later it added Bizz, a professional network that Wolfe Herd described in an interview as an "empowered LinkedIn."

As millennial women grew more politically vocal during and after the 2016 presidential election, Bumble reflected their mood, becoming more brazenly feminist. Its social media posts changed from cutesy quips–"Be the hot ex-girlfriend your ex-boyfriend stalks on Instagram"–to information about Planned Parenthood fundraisers, minirants about the pay gap, and inspirational quotes from Gloria Steinem. In New York, subway cars were plastered with Bumble ads that said, "Be the CEO your parents always wanted you to marry." The day after Christine Blasey Ford testified in September 2018 that, as a teenager, Supreme Court nominee Brett Kavanaugh had sexually assaulted her, the *New York Times* ran a full-page Bumble ad that said, "Believe Women."

"We're not here to capitalize on equality," Wolfe Herd said about Bumble's marketing. "We don't need to slap 'The Future is Female' on a T-shirt and put it on our store." It had, however, posted the phrase to Instagram.

Around this time, the company also announced new anti-harassment features. In 2016 it banned shirtless mirror selfies ("offensive"), nude or underwear shots ("bad manners"), and shirtless or bikini photos taken indoors ("too similar to underwear"). A year later it outlawed hate speech and symbols as defined by the Anti-Defamation League and implemented

“It’s so much more than just a product gimmick”

photo verification to reduce catfishing. (Sharon Stone was briefly kicked off Bumble in December when a user flagged her unverified account as a fake.) After a string of mass shootings in 2018, Bumble banned photos of guns. Every time the app rolled out a feature, it got great press—and, at least once, violent threats from readers of neo-Nazi website the *Daily Stormer*.

As with the message-first feature, it’s hard to tell if these policies or new platforms helped women. For example, Bumble announced Bizz in 2017 with a *Wired UK* cover and a dinner party in New York. Kate Hudson and Karlie Kloss were there. Pop singer Fergie performed. Wolfe Herd gave a speech about power lunches and old boys’ clubs and how Bizz would give women agency over their jobs in the way Bumble had put them in charge of their relationships. On Instagram the company said, “We’re challenging sexism in the workplace.”

But when I tried it, I couldn’t figure out how it was challenging anything. For one thing, Bizz looked like a dating app; my face was more prominent than my professional credentials. The people swiping right on my profile were overwhelmingly men whose careers had nothing to do with mine. One guy offered free Pilates classes. Another said he was a “celebrity manager” and that I should swipe left if I was “boring and easily intimidated.” A third wanted to “connect with people who have innovative and creative ideas” and also sell me on his restaurant-recommendation app. A fourth said he ran his parents’ family-owned business but wouldn’t say what it was.

Treating professional and dating profiles similarly is odd, given the company’s mission. For decades, academic research has suggested that women and minorities are disadvantaged when applying for jobs. Studies show that résumés for applicants with black- or Asian-sounding names get 30% to 50% fewer callbacks. A 2012 study found that science faculty at research universities rated applicants as less competent and offered a lower salary if the name on a résumé sounded female. Bizz seemed almost willfully ignorant of what forms workplace discrimination takes.

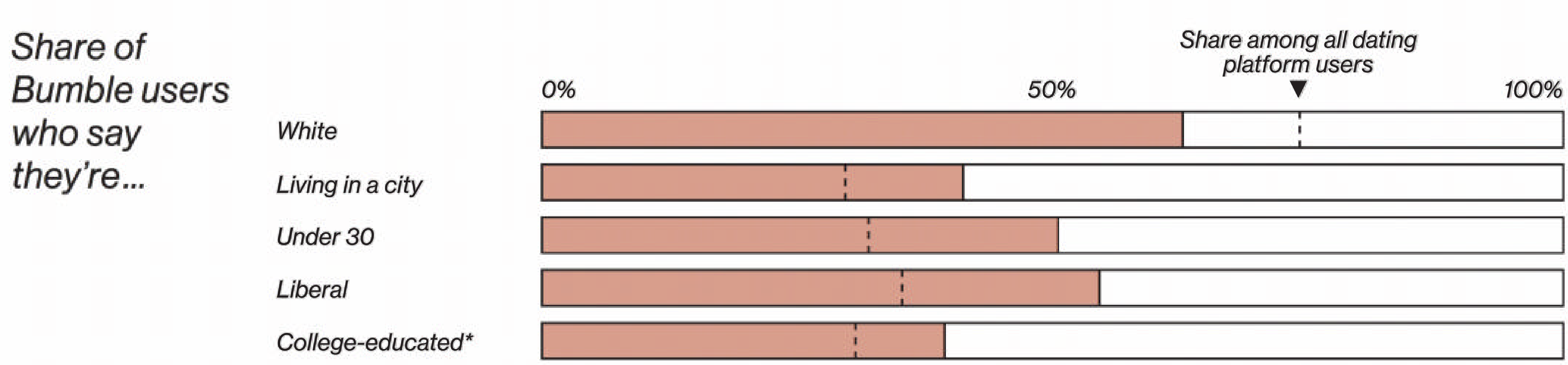
“Bizz is not the most amazing experience. It’s not,” Wolfe Herd admitted. She knew it was hard to network and that Bizz pages resembled dating profiles. The platform, she said, “is more of a little incubator test site right now to see if the concept works.” Bizz, which has been available for more than two years, doesn’t appear to have been meaningfully updated since its release. “Candidly,” Wolfe Herd said, “Andrey didn’t want to put the product investment into it.” (Andreev didn’t comment.)

Andreev’s attention to equality within his own company wasn’t stellar, either. According to 2018 public filings, women’s median hourly wage at Badoo is 44% less than men’s—much higher than Britain’s national average—and 72% of the lowest-paid jobs are filled by women. Upper and senior management is only about 14% female. In July, *Forbes* reported that a former female Badoo CMO said she was asked to “act pretty” for investors; that workers threw drug-fueled parties in the company’s offices; and that female employees’ looks were discussed openly. Andreev denied the claims and hired an outside company to investigate allegations of sexual harassment. Bumble confirmed the report was completed but declined to make a statement about its findings.

According to the company, Wolfe Herd didn’t know about Badoo’s reputation and was horrified to think the allegations might be true. But in 2017, *Bloomberg Businessweek* reported on what it called Badoo’s “wild soirees” with half-naked models asked to pole dance or used as human sushi platters. And based on Instagram posts, she and several Bumble executives attended Andreev’s Halloween party in 2015. Mid-level Bumble employees in Austin were aware of Badoo’s reputation. They knew, for example, that on International Women’s Day, Badoo gave men the day off. The joke at the company was that if women wanted to be equal, they had to do extra work. (Andreev and Bumble didn’t comment.)

In Austin, Bumble apparently had its own culture issues. On the second floor near Wolfe Herd’s office, a pink neon sign reminded people to “Bee Kind.” But current and former Bumble employees said the company had a *Mean Girls* vibe, with the OGs serving as the popular clique. Some employees said they felt excluded because they didn’t have the right look or connections. A former intern said he was told to lay gravel and pot plants in the back courtyard at his boss’s house; he didn’t feel comfortable reporting the issue because his boss was Wolfe Herd’s close friend. One person, a woman of color, said that when she asked why Bumble used so many blond models in ads, Bumble’s chief creative marketing officer—a blond woman—said that was the look she preferred. Several people mentioned Wolfe Herd’s habit, when Bumble was smaller, of giving extravagant Christmas or birthday presents such as Chanel shoes or artwork to some employees and not to others. (The Bumble spokesman didn’t comment on the allegations by the intern. He said the story about gift-giving was false and the one about blond models—which the marketing officer denied—was inaccurate.)

In 2017, Bumble threw a party and hired the band ▶



DAVID M. BENNET/NADEZDA FOUNDATION/GETTY IMAGES. *BACHELOR’S DEGREE OR HIGHER. DATA: MORNING CONSULT

The people swiping right on my profile were overwhelmingly men whose careers had nothing to do with mine. One guy offered free Pilates classes

◀ Spoon to play at the opening of its new headquarters. Some employees were invited; others saw party photos on Instagram and wondered why they'd been left out. Wolfe Herd is adamant that she has never knowingly treated employees unfairly. "It's not like we're like, 'You're our favorite, you get to go to Lollapalooza,'" she said. That party had been primarily for media, and it just wasn't possible to invite all of Bumble's then-40 employees to the opening of the company's offices. "We have a fire code issue, OK?"

Today, Bumble has about 140 employees. It's expanded its office space and scaled back the birthday presents and is 51% white, which makes it significantly diverse. Visitors to its headquarters can select their preferred gender pronouns. Company lunches have vegan options. "We do Woke Wednesdays," said Caitlin Sullivan, who until recently was Bumble's associate director of people and culture, referring to an internal program where outside speakers talk about social issues. "We had someone talk about the bamboo ceiling, which is about Asian people just having a really hard time moving up within corporations."

When Wolfe Herd learned that former employees were talking to me, she asked that I fly to Texas so she could address their allegations in person. She appeared shocked by what she heard, and that people were afraid to come forward by name. "I would never suggest anyone get in trouble for speaking their truth," she said. Of course, she added, if they did say something, "technically, somebody at the company could sue. That is according to the law. Not according to my wishes." She alternated between asking me if she was a bad CEO and saying she felt employees' criticism of Bumble was unfair. "It's almost like, because we're a company with a mission that is trying to not just pump a product, but pump a product that raises eyebrows and turns the tables, we're kind of being held to unrealistic standards," she said.

After all, she added, Bumble really was trying to make its app better for women. It offered users safety tips, such as the recommendation that people FaceTime before meeting in person. Its partnership with the Anti-Defamation League was a response to the deadly 2017 Unite the Right rally in Charlottesville, Va. "The day after Charlottesville, they called our local office and said, 'We have to do something,'" said Renee Lafair, ADL's Austin regional director. The ADL provided "key words and phrases" that Bumble could ban to curb white supremacy. The company told users that if they saw them in a profile, "please use the 'block and report' feature in our app so our moderation team can ban the user." (Most dating apps have similar bans on hate speech.)

When I asked if the policy had successfully reduced hate speech on Bumble, I received confusing answers. Cecily Gold, Bumble's director of community experience, said that by being proactive, the company was "creating communities where people know what they're getting into from the beginning." She added that this led to lower harassment than on other dating apps but couldn't tell me how much lower because "I don't have the stats." Later a publicist said that reports of harassment had gone up—proof, according to Bumble, that "block and report" was working. Later still, he said that since August reports of rude or inappropriate behavior had gone down 30%. The company also shared 8 app reviews and 11 testimonials from Bumble users about how the app had helped them ("Amanda has been empowered to devote her time and energy to seeking treatment for her rare cancer"), as well as a brief synopsis of Blackstone's due-diligence findings, which said Bumble users "believed" it was better than the competition at such things as "catering to women's overall needs" and "offering the broadest set of female-friendly features."

The only internal research on safety Bumble could provide was Carbino's 2018 SurveyMonkey poll. In Carbino's poll, she surveyed more than 4,500 people—65% were men, and more than 80% were white. She found that 80% of women said Bumble users were more "respectful," and 77% said they felt safer meeting someone on Bumble than on another app. "While this does not directly establish that Bumble is safer than other similar dating apps, it does go directly to the user's perception of Bumble as being safer, which is what I tested for," Carbino said. Bumble didn't provide any specific information about how its individual policies had affected user behavior.

Bumble is now 5 years old, and its future has never looked so muddled. When Wolfe Herd and I first talked last January, she discussed moving the brand offline. She liked skin-care products. Would women want to put Bumble on their face? "When a woman is taking her makeup off before bed, let's remind her that confidence is key," she said. Would women watch Bumble-funded movies? Listen to Bumble-produced podcasts? The company has opened pop-up cafes in San Francisco and other cities and was planning a permanent coffee shop and bistro in New York. "We want you to go to our actual, physical coffee shop," she said. "Maybe we'll have marriage planning services down the road. Maybe we'll have Bumble day care!"

"Forget about the lotion," Wolfe Herd told me several months later in August, when I was in Austin for the bill signing. Day care was tabled, too. She had a new vision: "Don't think of it as Bumble vs. Tinder. Think of it as Bumble vs. Facebook." She explained that in addition to finding people dates, Bumble could crowdsource advice. "Pregnancy, a breakup, chronic pain, where to go for the best live music, where to learn how to cook, anything that is supplementary to life," she said. That sounded a little like Facebook. But it was also just stuff people Googled. "It kind of comes back to my original vision," she said, "a woman- and girl-only social network." Correction: stuff *women* Googled.

This erratic vision isn't new. Former Badoo employees who worked on the Bumble app said Wolfe Herd sometimes announced new features to the press and then asked the team to build them. The company spokesman said, "Bumble has never announced a feature without the full awareness of the product development team."

Later that day I sat in on a planning meeting for the New York coffee shop and bistro, which was set to open in December. "It's called Brew-ery," Wolfe Herd said. "During the day, it's 'brew,' and then it's this '-ery' nighttime thing." Brew-ery could be a meetup spot for Bumble dates and a way to introduce people to the brand who didn't know about the app. Bumble had signed a lease on a space in SoHo and teamed up with Delicious Hospitality Group for the food. "Boom!" said Caroline Ellis Roche, Bumble's chief of staff, when she showed Wolfe Herd renderings of the restaurant. "How cute is that?"

She'd revealed a royal blue brick exterior accented with Bumble's signature shade of yellow for a sort of French bistro look. There were striped awnings, sidewalk seating, and terrazzo floors. Ellis Roche clicked through slides of coffee cup, coaster, and napkin prototypes as Wolfe Herd reacted with an "uh-uh," "keep going," or "this is good." At one point, there was an intense discussion about whether the pattern on to-go cups should be triangular or squiggly. "Let's be mindful not to be too copycat of other brands we love," Wolfe Herd said. "I don't want it to look like we're borrowing too much from Outdoor Voices or Glossier. Or the Wing. Let's be our own thing."

The next day was the bill signing. It was almost 100F in Austin that morning, and Wolfe Herd was about six months pregnant. If she was uncomfortable ascending the Capitol steps in a blue dress and matching suede heels, she didn't show it. She shook state senators' hands, answered questions about her due date, and posed for a photo with Governor Abbott. It's almost impossible to pass a law in Texas without Republican support, which normally would be a problem for a company that sponsors Pride events and has donated $100,000 to the gun control advocate March for Our Lives. (The organization is affiliated with Everytown for Gun Safety, founded by Michael Bloomberg, owner of Bloomberg LP, which owns *Businessweek*.) But Wolfe Herd's husband had given almost $325,000 to Republicans, including to Donald Trump's campaign, during the 2016 election cycle, according to OpenSecrets.org.

Still, Bumble had to be careful about making public statements on partisan social issues while the bill was under consideration. Bumble has run at least two donation campaigns for Planned Parenthood, and Wolfe Herd is unabashed in her support for a woman's right to choose. "That is something that Bumble should stand for," she told me. But not while the bill was being passed. "One thing we did not react to, which I wanted to, and we were going to, but it came too close to our law," Wolfe Herd said, "was this crazy abortion stuff." She was referring to laws passed in 12 states last year restricting abortion. Planned Parenthood had just lost $60 million in federal funding as a result of a Trump administration rule barring clinics that refer patients for abortions from getting government money. Bumble's social media channels were silent.

Wolfe Herd speaking at TechCrunch Disrupt in 2018 ▼

STEVE JENNINGS/GETTY IMAGE

Apparently, the company had made the decision that outlawing dick pics would do more for women than making a statement about—or raising more money for—reproductive rights. As far as the science goes, there's not a lot of evidence a law would be helpful. To date, there's only one psychological study of men who send unsolicited lewd photos. Published last year in the *Journal of Sex Research*, it surveyed more than 1,000 men, half of whom had sent unsolicited pictures of their genitals. It found that only 6% did so because they had feelings of animosity toward women. Women's reactions to dick pics haven't actually been studied, and surveys of gay men indicate that they sometimes respond positively to photos. In the first three months since the law went into effect, Austin police said they've received 10 lewd-photo complaints but would not say how many were investigated or followed up on.

There are plenty of people at Bumble who think the company lives up to its ideals. Some employees told me they felt Bumble was being held to a higher standard because of what it represents and what it's trying to do. Tinder's not lobbying for laws, they pointed out, or taking out ads that say "Believe Women." But that's the point. When young women are promised equality and safety—even something as nebulous and indefinable as empowerment—they'll use a service or buy a product because they want so badly for those things to exist. If they later come to believe that this vision of the future isn't female but just female marketing, they won't feel just disappointment: Several women who worked for Bumble said the company had broken their heart.

When the bill signing was over, Bumble's legal team went out for a celebratory lunch. Before they left, Wolfe Herd pulled me aside. She said she wanted Bumble employees to feel free to talk to me and asked if I'd please relay the message. That was the last time we spoke. Over the intervening months, the opening of Brew-ery was again delayed and Wolfe Herd had a son and started a four-month maternity leave. Bumble workers still didn't trust her assurance that they were free to talk. Not only were they still hindered by the nondisclosure agreement, but Austin is a small city. Many of them still live there. They were applying for jobs or starting their own businesses and worried Wolfe Herd would retaliate against them. She was too wealthy, too well-connected, employees said. Compared with her, they were nobodies. Once Wolfe Herd was named CEO of MagicLab, I asked Bumble if her promise not to sue held true. Now that she was officially in charge, would she let people speak out? The answer was no. B

WHY WON'T THESE MANSIONS SELL?

NO ONE WANTS TO BLAME MAR-A-LAGO

Real estate sales have never been better in Palm Beach—except for a cluster of 10 mansions within a half-mile of the president's private club. Brokers say it's just coincidence. By James Tarmy

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Edited by
Chris Rovzar

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On an almost cloudless, 70-degree winter morning in Palm Beach, Fla., real estate broker Rob Thomson sits inside President Trump's private club, Mar-a-Lago, reflecting on a banner season. "I've been selling real estate for 34 years," says Thomson, a club member and the owner of Waterfront Properties & Club Communities. "This is the longest bull run of my career."

Large houses, small houses, empty lots, and mansions—they've all flown off the shelf thanks to the state's generous income tax rate (0%) and Palm Beach's international prestige. In the past 12 months, three properties in the town sold for about $100 million each. "We're seeing people pay more for things than before," Thomson says.

And yet there's one notable cloud on the barrier island's otherwise sunny outlook: the 10 houses sitting unsold within a half-mile, four-block radius of Mar-a-Lago, which Trump designated his primary residence last September.

The property at 1090 South Ocean Blvd. has been on the market since 2016; its asking price is $6.95 million, down 26.5% from an initial $9.5 million. Four listings have lingered since 2018 or before; seven have had their prices reduced. This is in stark contrast to the eight luxury Palm Beach homes that sold in the fourth quarter of 2019, whose average time on the market was only 191 days, according to Douglas Elliman Realty LLC.

"The fact that they're all being marketed at the same time in close proximity is not natural," says Jonathan Miller, the president and chief executive officer of Miller Samuel. "A cluster of listings, especially at the high end, is not likely to reflect a positive condition" in the market.

But the struggles haven't occurred only since the time of the 2016 election. Listed with Waterfront Properties for $15 million, 500 Regents Park has been off and on the market since 2006; in 2018, its asking price was $25 million.

Brokers have varying explanations for why this little area has so many empty mansions, but they all say it has nothing to do with Trump. "That's an aberration," says Ridgely Foster, a broker with Sotheby's International Realty Inc. in Palm Beach. "It's like when people get cancer and then they sue the power company and try to prove it came from the power lines."

Paulette Koch, a broker with Corcoran Group, says the accumulation of houses for sale around Mar-a-Lago is "all coincidental." The truth is, she adds, "you can get a group of people who all want to sell [at once] for varying reasons."

There are headaches for residents when the president visits, but, Thomson says, the hassle is minimal, even at the club. "It's not like they're strip-searching me," he says. When Trump is there, "you pull into the tennis court, they run a thing under your car, a dog walks around your car, they open your trunk and take a look, and then they say thank you."

Some brokers claim that if anything, Trump's visits have a positive effect. Jeff Cloninger, a broker for Sotheby's, says friends who live nearby like walking to the beach without looking when crossing the street—there's simply no traffic. "There's a positive side to everything," he says.

Others point out that the listings, like Mar-a-Lago, are under the flight path of planes landing at the Palm Beach International Airport, a phenomenon so deafening it's called "the Palm Beach pause," because people can't speak over it.

Miller has a different take. "It's not uncommon to have clusters of people around a celebrity or notable name trying to cash in," he says. In other words, Trump might not be a deterrent, but he also might not be the draw they think he is. "It's more about these listings being overpriced."

Here are eight of the 10 properties.

→

250 Algoma Road

Price: $5.495 million
Square feet: 4,703
Bedrooms: 6
Bathrooms: 6
Acres: 0.41

0.6 MILES
1,500 STEPS

"It has all the charming features that everyone desires on the island," says broker Michael Korman of Korman Realty. "It's what people are looking for when they say they're looking for a Palm Beach property." The home, built in 1938, has a pool, detached guesthouse, and separate garage. The house is one lot in from the Intracoastal Waterway and comes with deeded beach access.

PREVIOUS PAGE: JOE RAEDEL/GETTY IMAGES

0.4 MILES
1,000 STEPS

137 Woodbridge Road

Price: $10.38 million
Square feet: 9,220
Bedrooms: 6
Baths: 7 full, 1 half
Acres: 0.47

Built in 2002, the house has been significantly upgraded by its present owner with a brick driveway and three-car garage, "which is unusual for this neighborhood," says agent Alison Newton of Douglas Elliman. There's also a lot of outdoor space: "It isn't one of these houses that encompasses every portion of the land."

1090 South Ocean Blvd.

0.3 MILES
750 STEPS

Price: $6.95 million
Square feet: About 1,300
Bedrooms: 4
Baths: 2
Acres: About 0.4

Listing agent Bob Jackson says this house is a teardown. "It would be ridiculous to think you'd have a 1940s-era, 1,500-square-foot house that you'd spend $6 million or $7 million to buy," he says. Instead, the lot is a prime example of an investment property. "If this lot sells for $6 million to $6.5 million and someone spends $3 million to $5 million to build their dream house, they'll have beautiful ocean views from the second floors," he says. "If their investment is between $10 million and $11 million, two years from now it has to be worth $16 million to $20 million when it's finished." The lot has lingered on the market, Jackson says, because initially it was priced too high. At the current price, "we're in a much better position," he says. And the initiation fee to Mar-a-Lago is waived for every homebuyer on that block.

1230 South Ocean Blvd.

0.2 MILES
500 STEPS

Price: $12.995 million
Square feet: 10,383
Bedrooms: 7
Bathrooms: 8 full, 3 half
Acres: 0.96

This massive, Regency-style home is only three houses from the beach and sits on an unusually large parcel for the area. Prospective buyers would need to complete construction on the building. The current owner "started renovating it and halted construction," says listing agent Dana Koch of Corcoran. "Buyers can come in and finish it themselves, or they can tear it down. The price is based on the land value." The house is configured with a first-floor master bedroom suite and already has new marble floors and impact doors and windows.

140 Kings Road

0.5 MILES
1,250 STEPS

Price: $9.915 million
Square feet: 6,785
Bedrooms: 5
Bathrooms: 6 full, 2 half
Acres: 0.33

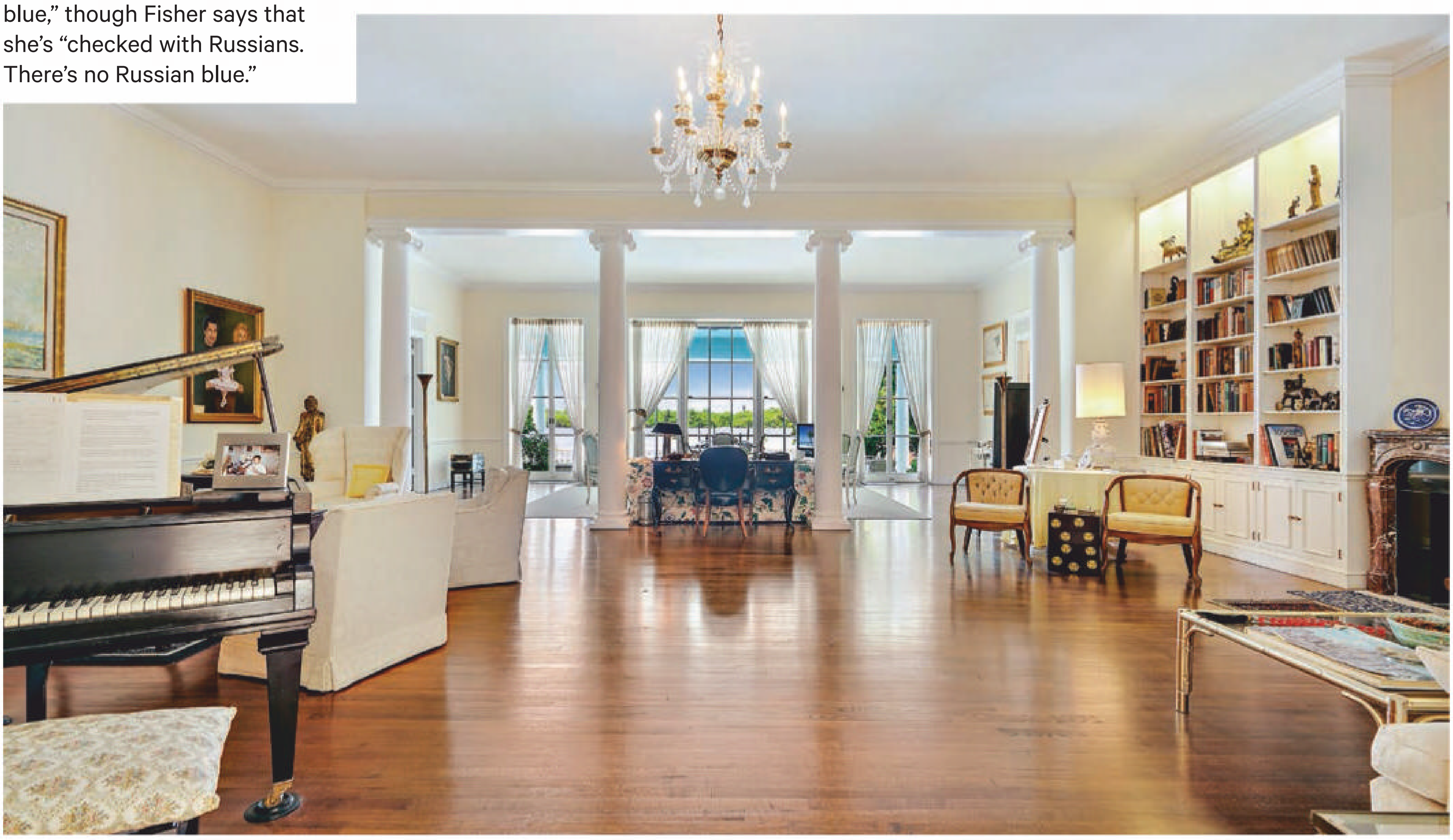
"The market is driven right now by a lot of buyers looking for something renovated or new construction," says Heather Bretzlaff, an agent with Douglas Elliman whose family just built this house on spec. "People like the immediate gratification of moving into Palm Beach and enjoying all its amenities." The house, she says, is a "classic, elegant design with traditional decor. It's stately."

500 Regents Park

0.2 MILES
500 STEPS

Price: $15 million
Square feet: 5,998
Bedrooms: 7
Bathrooms: 8
Acres: 0.49

Built in 1959 by Palm Beach architect Clarence Mack, the Regency-style house sits at the end of a cul-de-sac and has waterway frontage overlooking the mainland. "It's very special for Palm Beach," says its agent, Tamara Jeanne-Fisher of Waterfront Properties. "Buyers can build their own dock." The entertaining areas are in the center, a massive bedroom suite is to the left, and a kitchen and dining room are on the right. "This is a large property, but it's compact, almost like a condo alternative," Fisher says. Nearly every room overlooks the garden and pool. The house has access rights to the beach on the other side of the island. It's painted in a striking "Russian blue," though Fisher says that she's "checked with Russians. There's no Russian blue."



200 Regents Park

0.2 MILES
500 STEPS

Price: $11 million
Square feet: 5,450
Bedrooms: 6
Bathrooms: 7 full, 1 half
Acres: 0.71

Last year the house's owners finished a gut renovation and redecoration led by interior designer Leta Austin Foster. "She did every inch of it," says Sotheby's broker Jeff Cloninger, who represents the listing. "There's no romance in old plumbing and old wiring, so all that kind of stuff behind the scenes got done, and then everything else that was a classical feature of this Clarence Mack [house] was enhanced." The ceiling heights, volume of rooms, and elaborate details, he says, "are tremendous. It's a true Palm Beach house." Even the bedrooms formerly for staff above the garage have been redesigned as a children's suite. Outside there's a covered terrace, pool, and fruit trees.

145 Woodbridge Road

0.4 MILES
1,000 STEPS

Price: $6.6 million
Square feet: 3,564
Bedrooms: 5
Bathrooms: 5
Acres: 0.31

"It was just redone," says its broker, Hilary Musser. It has "brand-new everything," like the other houses on Woodbridge, she notes, and "comes with an automatic membership to Mar-a-Lago," a vestige of when Trump was converting the property into a private club and needed to get approval from his neighbors. Initiation fees are waived for Woodbridge residents, though they still have to pay annual dues. "A Mar-a-Lago membership has become a premium item in this town," she says. "A lot of people can't get in now."

CARLOS DIAZ/PELICAN PIX (500 REGENTS PARK), COURTESY HILARY MUSSER REAL ESTATE (145 WOODBRIDGE). ANDY FRAME FOR SOTHEBY'S INTERNATIONAL REALTY (200 REGENTS PARK)

The Divas' Dream

All in Good Time

A new trade show for watches illustrates a changing luxury strategy. *By Chris Rovzar*

LVMH's watch brands are flexing their muscles. Bulgari, TAG Heuer, Hublot, and Zenith—the four watchmakers owned by French conglomerate Louis Vuitton Moët Hennessy SA—gathered in Dubai on Jan. 13-15 for the first LVMH Watch Week, a posh junket put on to showcase each brand's new wares for 2020. The Dubai shindig was a throwback to the devil-may-care luxury of the 1980s and '90s, when these brands based much of their aspirational image on over-the-top experiences that made it into the gossip pages of glossy magazines.

About 200 journalists and 150 customers were wined and dined in the shadow of the glittering Burj Khalifa and invited to trek to the desert at night to watch fire dancers. In between they looked at timepieces including the diamond-studded $100,000 Hublot Big Bang Integral and Bulgari's $220,000 Divas' Dream Finissima Minute Repeater.

The event also served to demonstrate that LVMH's watch companies can operate and compete as a group, rivaling the powerhouse squads from Richemont (which includes Cartier, Piaget, IWC Schaffhausen, and Panerai) and Swatch (Omega, Breguet, Longines, and Tissot). "We want to show that the LVMH watch division can be strong," said Ricardo Guadalupe, the chief executive officer of Hublot. Bank Vontobel AG estimates the 40-year-old brand reached €550 million ($610 million) in revenue in 2018, putting it slightly ahead of Richemont's Jaeger-LeCoultre (€535 million) and within range of Swatch's Harry Winston (€614 million).

LVMH Watch Week is one of a couple of events that have broken off from the Baselworld watch expo, which normally takes place in March and which for many years served as the primary venue to introduce elite timepieces in Switzerland. But like automotive trade shows worldwide, the country's fairs have endured an exodus of big-name participants as mobile apps such as Instagram and WeChat offer a more direct way to connect with consumers at a fraction of the cost.

Most notably, Swatch Group AG started hosting retailers at a more private event for its brands in Zurich last year. In response, Baselworld's organizers teamed up with Geneva's exclusive Salon International de la Haute Horlogerie, which primarily hosts Richemont brands and is usually in January. SIHH was renamed Watches & Wonders, and both fairs moved to adjoining weeks starting in late April. For companies planning their 2020 shipments, April was too late to start introducing products to the market, said Stephane Bianchi, the CEO of TAG Heuer, who oversees LVMH's watchmaking group.

LVMH hasn't decided whether it will participate in Baselworld after 2020, but the appeal of a roving LVMH Watch Week is strong. Baselworld is "outrageously expensive," said Jean-Christophe Babin, CEO of Bulgari, as he looked across a sunny lawn in Dubai at the crowd sipping Champagne. (The brand saw an estimated €2.37 billion in revenue in 2018.)

Flying hundreds of retailers and journalists (as always, *Bloomberg Businessweek* paid its own way) to the gleaming Bulgari Resort Dubai in the United Arab Emirates turned out to be much cheaper for LVMH than building an elaborate booth at Baselworld. "With six hotels—and soon 10 in the world—Bulgari can host in the U.S. to Russia to China to Bali for the next decade," Babin said.

Although certain markets are stronger than others for the various brands (Japan, China, and the U.S. are going gangbusters for most, and Southeast Asia for others), "differences between one market and the other are getting thinner and thinner," said Zenith CEO Julien Tornare. "I think we all became kind of global clients, global customers."

One dark spot on that luxurious globe is the environment of unrest in Hong Kong. Like Tokyo, the city had been a hub of shopping for travelers from mainland China and other Asian countries, making it a key market for the Swiss watch industry. It also typically offered higher margins because of lower taxes. "Hong Kong clearly is affecting the whole watch industry and luxury industry," Tornare said. "For watches, the average is around 15% to 18% of the business for some brands. So we need to work on how we compensate." Companies are optimistic, he said, because "some cities in China became unbelievable shopping destinations."

As much as they talked about their corporate unity, the CEOs in Dubai didn't want to discuss the LVMH acquisition of Tiffany & Co. for $16 billion, which was announced in November and is expected to go through in June. "There is no competition among us" in the LVMH family, TAG Heuer's Bianchi said. "Of course, there is major competition with the others." B —*With Corinne Gretler*

INSIDER INGREDIENT

Black Is the New Lime

It may not look appetizing, but this sun-dried citrus is winning over top chefs with its funky flavor. *By Kate Krader Photograph by Danny Kim*

Ugly fruits and vegetables are enjoying unprecedented attention as a way to fight food waste. But even among the most misshapen potatoes and bruised tomatoes, black limes stand out. They resemble pingpong balls that have been marinated in mud.

What they lack in looks they make up for in personality: a jolt of fragrant, pungent tang that evokes a Middle Eastern spice counter. “Black limes have that addictive, slightly sweet Sour Patch Kids tartness,” says chef Timon Balloo. At his eponymous new Caribbean restaurant in Miami, he grates the dried fruit on chunks of roasted squash, then encourages diners to mix it all up. “If you don’t have lime with every bite, you’re missing out on the heart of the dish,” he says.

The limes, now sourced from places as diverse as Egypt and Guatemala, originated in Oman. The citrus is boiled in salt water and then sun-dried, making it rock-hard—there’s no juice to squeeze, so they’re often ground over a dish. The limes can vary in shades from black to “white,” really more of a nut brown. The darker ones have spent more time drying out and have an earthier funkiness; the lighter ones are more bitter.

The limes started getting attention in the U.S. a decade ago, and momentum has built as interest in Middle Eastern ingredients such as *za’atar* increases. The New York luxury spice purveyor La Boîte sold around 1,750 pounds of the limes in 2019, about three times more than in the previous year. “It’s a dramatic enough rise that my suppliers ask me, ‘What’s going on with black limes?’” says owner Lior Lev Sercarz, who sells them by mail order ($12 for a 3-ounce container) and supplies them to Eric Ripert, Michael Solomonov, and other chefs.

“Black limes throw in a surprise twist,” Solomonov says. “They are not perishable, not super expensive, can travel really far, and are really delicious. The way that black garlic intensifies with age and heat—black limes do a similar thing, but add musk and funk.”

Rodrick Markus has experienced a similar increase at his specialty ingredient store, Rare Tea Cellar, in Chicago. In 2019 he sold about 3,000 pounds of black limes to places such as Moody Tongue, a local brewery that uses them to flavor a wheat beer, and chefs, including Grant Achatz, who infuses them in a jet-black Korean-style sauce for octopus at his three-Michelin-star Alinea. Achatz then treats the dried citrus like a pricey truffle, grating it tableside. “The aroma when they are microplaned is explosive and super unique,” he says. “We typically let guests hold and smell them, too.”

The fruit has also become a favorite among bartenders, who like the way the citrus wakes up other flavors. Aaron Deary, who runs the bar at the Lebanese cafe Suraya in Philadelphia, makes a tea with the limes, then adds it to one of his best-selling drinks, the gin-based Poet. “A lot of people ask about it,” he says. “We call it *limon amani*, because it sounds better than black limes.” Ⓑ

Joon Spice Rice
Adapted from
The Spice Companion,
by Lior Lev Sercarz

1 tsp fennel seeds
4 small dried limes, preferably a mix of black and white
3 tbsp dried tarragon leaves
2 tbsp dried dill
Uncooked rice

Toast fennel seeds in a small skillet over medium heat, stirring until fragrant. Transfer to a bowl to cool. Grind all spices together. Use a teaspoon of the blend per cup of uncooked rice to season the liquid you use to boil it.

The Goop Troop

A Netflix reality show turns Gwyneth's squad into guinea pigs

By Polly Mosendz

"The following series is designed to entertain and inform—not provide medical advice. You should always consult your doctor when it comes to your personal health, or before you start any treatment." Every half-hour episode of *The Goop Lab With Gwyneth Paltrow* on Netflix begins with this warning, a reminder that scientists (and lawyers) view the actress-turned-lifestyle guru's brainchild as problematic at best and dangerous at worst.

The six-episode series, available for bingeing on Jan. 24, turns Paltrow's staff, and occasionally the star herself, into lab rats to test a slew of "wellness" techniques that the trailer warns can be "out there or too scary." Some are scientifically sound and even bland. (Eating well and exercising are key to aging gracefully, it turns out.) Some are comically entertaining, such as synchronized group yoga in the snow, or "snowga."

Others come off as pure quackery: Like when an "energy healer" sends Goop's chief content officer, Elise Loehnen, writhing in a self-described "exorcism" by holding his hands inches from her body.

Goopers, as they're called, treat all the experiments and the experts as equals, regardless of their proven legitimacy. "Just 'cause something isn't proven doesn't mean it doesn't work," says one guest, which may as well be the show's motto. Ivy League doctorates present findings alongside a man who says he can use a breathing technique to temper the body's response to *E. coli*. Scientific language is used only as convenient: Luxury trips to wellness retreats are "going out into the field," and people explaining their personal experiences are "case studies."

In each formulaic episode, perky Goopers team up and go about their less-than-rigorous research. Some "labs" prove particularly popular: Almost everyone volunteers to go to Jamaica to try psychedelics in a therapeutic setting. Cue group hugging, laughing, chatter about how cool clouds are.

Then sobbing. Tears are a constant in the Goop tests. Be it magic mushrooms, a workshop on female sexuality, or a psychic medium relaying messages from "the other side," someone is always crying or about to. The sobs are sometimes legit—one workshop required the Goopers to swim in a frigid, 38F Lake Tahoe after doing a set of breathing exercises that were supposed to dull pain and make them feel warmer.

A three-hour-long pseudoscience marathon, *The Goop Lab* is ultimately an infomercial. Most of the guests have previously appeared on its podcast, which is monetized. Goop Lab is also a store, online and in Manhattan and in Santa Monica, Calif., where the website is based. The shop's best-selling product is a $90 who's who of vitamins called High School Genes, which fits into an episode about aging gracefully ("The Health-Span Plan"). You could buy access to a session with psychic medium Laura Lynne Jackson, the star of Episode 6 ("Are You Intuit?"), by attending a Goop conference for the low price of $1,000.

Western medicine, except when it makes the Goopers feel and look their best, is diminished. Paltrow and Loehnen celebrate when pharmaceuticals are fought off. Kate Wolfson, the executive editor of Goop, announces she can wean herself off her anxiety drug after a weekend course with Wim Hof, the E. coli guy. She's met with congratulations, proof that Goop's wildest claims outdo medical expertise. (Wolfson did consult a doctor after the experience.) In an effort to legitimize the show, there are a few skeptics, but they magically come around to the Goop way by the end of each episode.

In a country where vaccination rates are falling and public health emergencies are increasingly common, praising untested theories to millions of viewers is irresponsible, even if Goop claims it's just fulfilling a curiosity. "Medical ideas should be studied before [they] are offered to people as an option," says Dr. Jennifer Gunter, a gynecologist who's fought a digital campaign against the disinformation she says Goop publishes.

Paltrow at least seems in on the joke this go-around, unlike in Goop's great jade-egg debacle of 2018. (That resulted in a $145,000 fine for making false or misleading claims about the benefits of inserting one into the body.) The show's poster features Paltrow standing in a very vagina-like pink space. She acknowledges that surgery is necessary when energy healing fails. And reacting to her colleague's exorcism, she turns their brand into an adjective: "Could you, like, get any Goop-ier?" Ⓑ

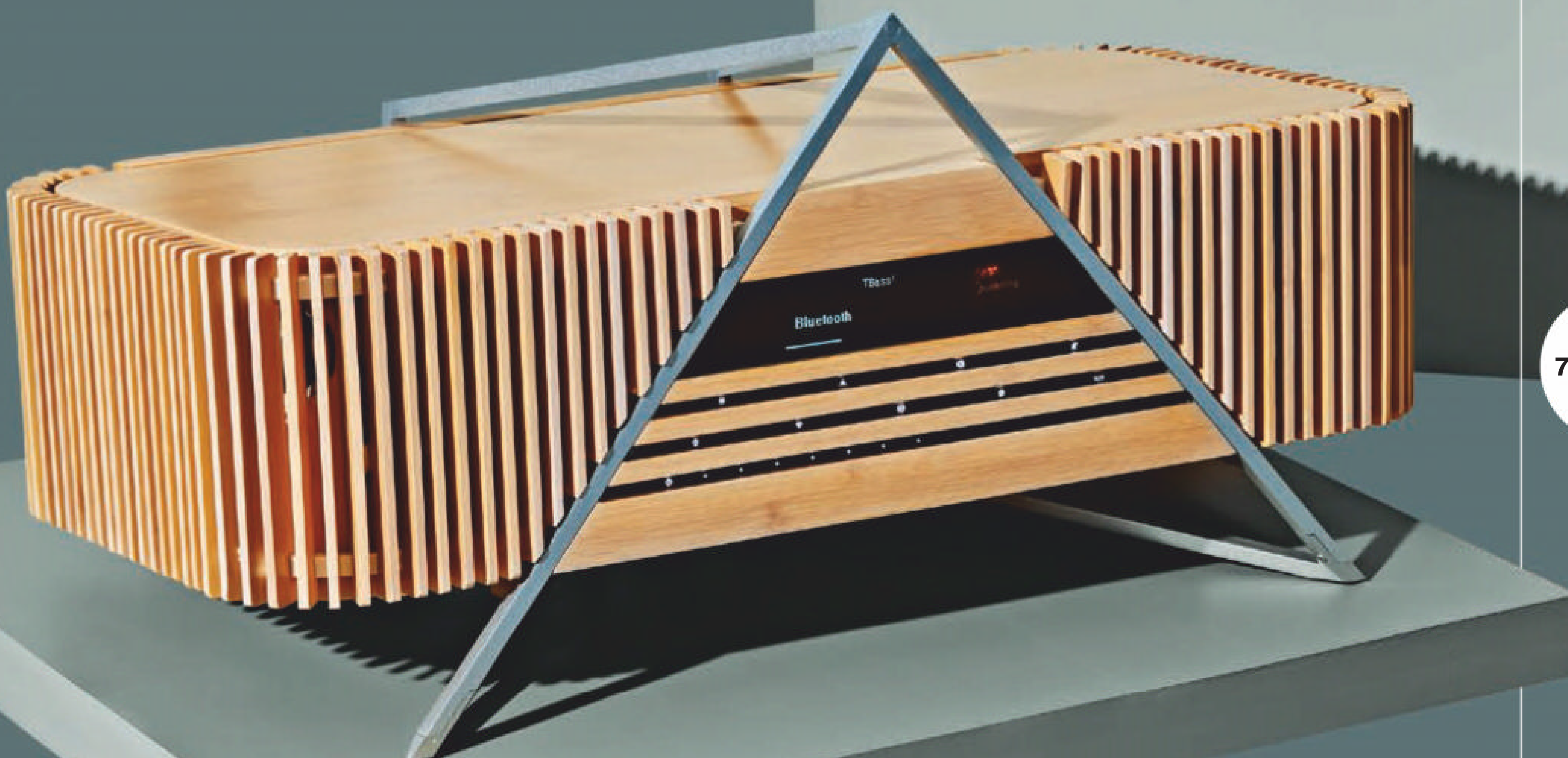
PHOTO ILLUSTRATION BY JACI KESSLER LUBLINER; KAMON SAEJUENG/EYEEM/GETTY IMAGES

Hover Craft

The Aurora stereo system sounds just as good as it looks—and that's saying a lot

Photograph by Ted and Chelsea Cavanaugh

Wireless speaker systems aren't necessarily meant to be seen—just heard. But British audio company IFi, one of the top makers of digital-to-analog converters (DACs), has created the $1,400 Aurora to be as striking visually as it is aurally. Inspired by the work of Japanese architect Shigeru Ban, it's clad in pale bamboo slats and appears to levitate at a raked angle inside an aluminum-beamed pyramid. It can stream music via Bluetooth; for high-res audio, use Wi-Fi or the phalanx of inputs on the back. A tube-powered preamp that glows orange through the front window gives the sound an added boost.



THE CASE
Just because this speaker looks like a lightweight doesn't mean it sounds like one. The Aurora's built-in amp delivers a total of 320 watts to six custom-made drive units, including four 4.7-inch speakers, two tweeters, and a pair of passive bass radiators that fire downward from the cabinet's underside. The system also employs the brand's trademarked "automatic room tailoring" process, in which six sensors measure the distance to the walls using ultrasonic sound. That information adjusts the speakers' performance, whether for a cozy library or a cavernous loft. *$1,400; ifi-audio.com*

THE COMPETITION

• Just over 8 inches long and 6 inches across, the pill-shaped Devialet Phantom Reactor (starting at $1,090) pushes a room-rattling 95 to 98 decibels of crystalline sound from its compact enclosure.

• Bowers & Wilkins's Formation Wedge ($900) looks less like a wedge than an urn wrapped in an elegant arabesque mesh. Lurking within are a 6-inch subwoofer, a pair of 3.5-inch midrange drivers, and two 1-inch double-dome tweeters.

• The Crescendo X ($1,000) from MartinLogan Ltd. has a profile resembling an oversize grin and is at home in the kitchen. Unlike the others, it has Alexa capabilities, too, so you can enjoy your tunes while asking for a recipe.

The Us and Them of Investing in Unicorns

By Shuli Ren

WeWork's fall from grace seems to have been a temporary setback in the unicorn world. Case in point: Just days into the new year, a source familiar with China's social-media/e-commerce startup Little Red Book told Bloomberg News it would begin a fundraising round aiming for a $6 billion valuation, double what it was worth after its last round, in 2018.

ILLUSTRATION BY GEORGE WYLESOL

But do this and similar eye-popping valuations reflect the real value of these startups? According to a recent study published in the *Journal of Financial Economics*, the average unicorn is priced 48% above its fair value. Looking at 135 unicorns in the U.S., the authors found valuation inflation in every case, with the degree of overstatement ranging from 5% to 188%.

Does that mean private investors are irrationally overpaying? Not necessarily. Unicorns these days can go through as many as seven funding rounds before emerging on public markets, and late-stage investors often insist on layers of protective clauses to blunt their potential losses.

One popular option, for instance, entitles them to extra shares if a startup's valuation at its initial public offering is lower than where they bought in. Take the case of WeWork parent company We Co. It agreed to give some private investors more than $500 million in additional shares if its IPO valuation fell below $10.5 billion; most of that would have gone to SoftBank Group Corp. Or consider Square Inc.'s disappointing 2015 IPO. Its Series E investors were promised at least $18.56 per share; when Square's price came in at less than half that mark, it had to give them an extra 10.3 million shares.

There are other clauses that work in late-stage investors' favor. Those who bought in most recently can often get their money back before everyone else if the company folds or gets bought. Others get the right to pull out of an IPO if Wall Street values the unicorn lower than what Silicon Valley does.

Take the idea to its logical conclusion, and you wind up with an unsettling thought: If a unicorn wanted a $47 billion valuation, investors might be happy to comply so long as they're given enough protection against the possibly inevitable downfall.

Considered in that light, the unicorn world has one thorny moral hazard problem. All this fine print gets set down out of the public eye. What retail investors see is an impressive number they don't realize is propped up by a bunch of investors with safety clauses. But there's also a big caveat for private investors: All these preferred shares convert into common stock as soon as the unicorn goes public, which means the investors lose their valuable options.

If we could see the contractual terms unicorns agree upon with their patrons, no reasonable investor would say these startups are worth as much as they claim. But, alas, these are private contracts, leaving the unicorn world as murky and fluffy as ever. Ⓑ —*Ren is a finance columnist for Bloomberg Opinion*

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