Bloomberg Businessweek

October 4, 2021

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VIPs seem to have found the perfect way to never lose—and no one really cares

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◀ Dr. Adele Joy Cobbs, former associate director of Mercy Hospital's emergency department

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■ COVER TRAIL

How the cover gets made

❶

"This week's cover is about these corporate executives who have amassed an online following for their insider trades."

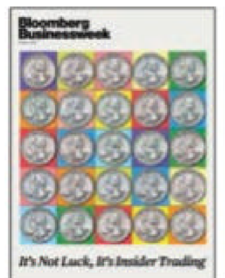
"So it's about insider trading?"

"Our attorneys say we need to be very careful with our words there. I said insider trades, not insider trading. This is all perfectly legal."

"Whatever. The system is totally rigged."

"'Rigged' is a very strong word."

"It's almost like these knuckleheads have double-headed quarters, but somehow convinced us that their success is based on skill and luck!"



❷

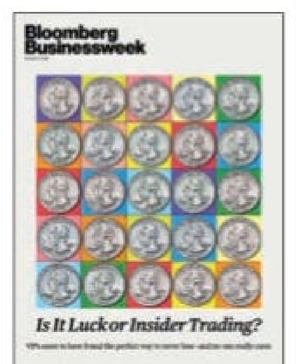
"Honestly, you're amazing! That's really good...but I talked to our attorneys—"

"What is it this time?!"

"—and we need to turn that statement into a question."

"Is that all?"

"Depends how lucky you're feeling."



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By Mark Leydorf

● Worldwide there have been more than 233 million cases of Covid-19, almost

4.8m

people have died, and 6.2 billion vaccine doses have been given. On Sept. 28, Pfizer and BioNTech said they'd submitted data to the FDA showing their vaccine is safe and effective in children 5 and older.

● In Japan, Fumio Kishida, a former foreign minister, overcame popular reformer Taro Kono to win leadership of the ruling Liberal Democratic Party, positioning him to become the prime minister. Kishida, 64, who's pledged to steer the country away from "neoliberal" policies, promised tens of trillions of yen in spending to bolster the middle class.

● A firefighter working to save the ancient giants of California's Sequoia National Forest. Wildfires have already burned 1 million acres in the state this year.

● Colombia expects coal output to jump 40% to 50% this year.

The rebound follows an extended strike that disrupted production in 2020—and comes as natural gas shortfalls are triggering a global energy squeeze. Latin America's top coal supplier still insists that it plans to get 12% of its own energy mix from renewable sources by 2022, up from 0.2% in 2018. ▷ 8

● China on Sept. 29 stepped in to buy a

$1.55b

stake in Shengjing Bank from the debt-burdened Evergrande real estate developer. Meanwhile, the People's Bank of China continued to respond to the crisis by injecting liquidity into the banking system, including $15.5 billion on Sept. 28.

● CEO Torsten Müller-Ötvös said on Sept. 29 that Rolls-Royce will stop selling gas-powered cars by 2030.

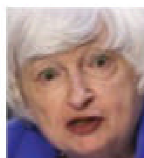
On Sept. 28, Ford and Seoul-based SK Innovation said they'll spend $11.4 billion to build four factories to make batteries and electric F-Series trucks in Kentucky and Tennessee. The plants, scheduled to open in 2025, will employ almost 11,000 people.

● Brazil, the leading grower of oranges, coffee, sugar, and other breakfast foods, saw dismal harvests this year after climate change led to devastating fires and frosts. According to the UN, the resulting rising costs have helped push international food inflation over the past 12 months to

33%

● "Everybody's waiting for Pelosi to pick another rabbit out of the hat. So we'll see."

Representative Jimmy Gomez, a California Democrat, described the rising anxiety in Congress on Sept. 28, as his party struggled to agree on how much of President Joe Biden's Build Back Better plan to enact—and how to do it.

● Janet Yellen  warned that the U.S. could run out of cash by Oct. 18 unless Congress addresses the federal debt limit.

In a Senate hearing on Sept. 18, the Treasury secretary said a failure to suspend or increase the debt limit would have "catastrophic" results, including a financial crisis and recession.

● Airlines are adding capacity between the U.S. and Europe.

Transatlantic flights are poised to jump 7.5% from late October to early November, when the U.S. lifts its pandemic ban on visitors from most European countries, according to BloombergNEF.

KISHIDA: DU XIAOYI/BLOOMBERG. SEQUOIA: PATRICK T. FALLON/GETTY IMAGES. BRAZIL: GETTY IMAGES (2). YELLEN: KEVIN DIETSCH/BLOOMBERG

The FDA Drags Its Heels on E-Cigarettes

● By Michael R. Bloomberg

The Food and Drug Administration needs a wake-up call. More than 3 million U.S. high school students and an additional half a million middle school students use electronic cigarettes, many of which are loaded with so much nicotine they couldn't be legally sold in Canada, Europe, or the U.K. The addictive nature of these products makes them a menace to students' health, and it's clear that kids are being drawn in by a tactic the industry has long used to hook young smokers: offering sweet, flavored products.

Yet the FDA has dragged its feet to get the high-nicotine, flavored—including menthol—e-cigarettes that have fueled the youth epidemic off the market. The agency recently blew past a court-imposed Sept. 9 deadline to either authorize the sale of the top-selling e-cigarette brands that are driving youth use or to remove them from store shelves.

The court set the deadline almost two years ago—more than enough time to reach a conclusion, especially given the overwhelming evidence in favor of action.

The science is clear that e-cigarettes containing large quantities of nicotine—two to three times more than is allowed in Europe—are highly addictive. The long-term health effects remain unknown, but a growing body of evidence raises concern about e-cigarettes' impact on cardiovascular health. Although users don't inhale smoke and tar into their lungs, they are exposed to any number of noxious chemicals and metals.

Keep in mind that almost all smokers begin as adolescents or young adults and that more than 80% of kids who use e-cigarettes use flavored ones. Rather than help the U.S. tackle its smoking habit, e-cigarettes are making the problem worse. Each day these flavored products remain on the market means more children will develop nicotine addictions—and makes them more likely to become cigarette smokers and suffer from cigarette-related diseases. The FDA's delay is dangerous, and it should waste no more time rectifying it.

In fairness, the agency did reject many applications from e-cigarette companies that provided no sound scientific evidence that their products help adult smokers quit. These have been ordered off the market. But the FDA has left unaddressed the top-selling youth-oriented brands: Juul, Vuse, Blu, and Njoy. These constitute more than two-thirds of the e-cigarette market. They remain unauthorized—and are still available.

The FDA had promised to prioritize the most popular brands, yet it has done the opposite. That doesn't inspire public confidence in the agency, and it leaves Americans with questions about the safety of these products, even though we have good answers. The FDA has sowed similar confusion with Covid-19 vaccines, by not being clear about when it will approve them, including for children, and its process for approving booster shots.

This is partly a result of a lack of leadership, including from the White House. Eight months after taking office, President Joe Biden has yet to name a new FDA commissioner. In a year when public health is an extraordinarily high priority, this is inexcusable.

With students back in school, it's a terrible time to leave the most popular flavored e-cigarette brands on the market. With or without a permanent leader, the FDA needs to act immediately to end the sale of high-nicotine, menthol-flavored e-cigarettes. Too many young lives are at stake to accept any further delay. *For more commentary, go to bloomberg.com/opinion*

ILLUSTRATION BY LUCIA PHAM

■ AGENDA

► Back to School—Back to Work?

As it weighs its timeline to downsize monetary support, the Fed will look to the September U.S. employment report on Oct. 8 to see if school reopenings and the end of enhanced unemployment benefits sent more people back to work.

► Germany on Oct. 8 reports its trade balance for August. In recent months imports have been rising faster than exports for the manufacturing powerhouse.

► Australia's central bank meets to set interest rates on Oct. 5. With the economy more affected by the delta variant than expected, analysts do not forecast a change from 0.1%.

► The Ivey Purchasing Managers Index, a key gauge of business conditions in Canada, comes out on Oct. 7. Hiring and inflation are improving, so the index has been on the upswing.

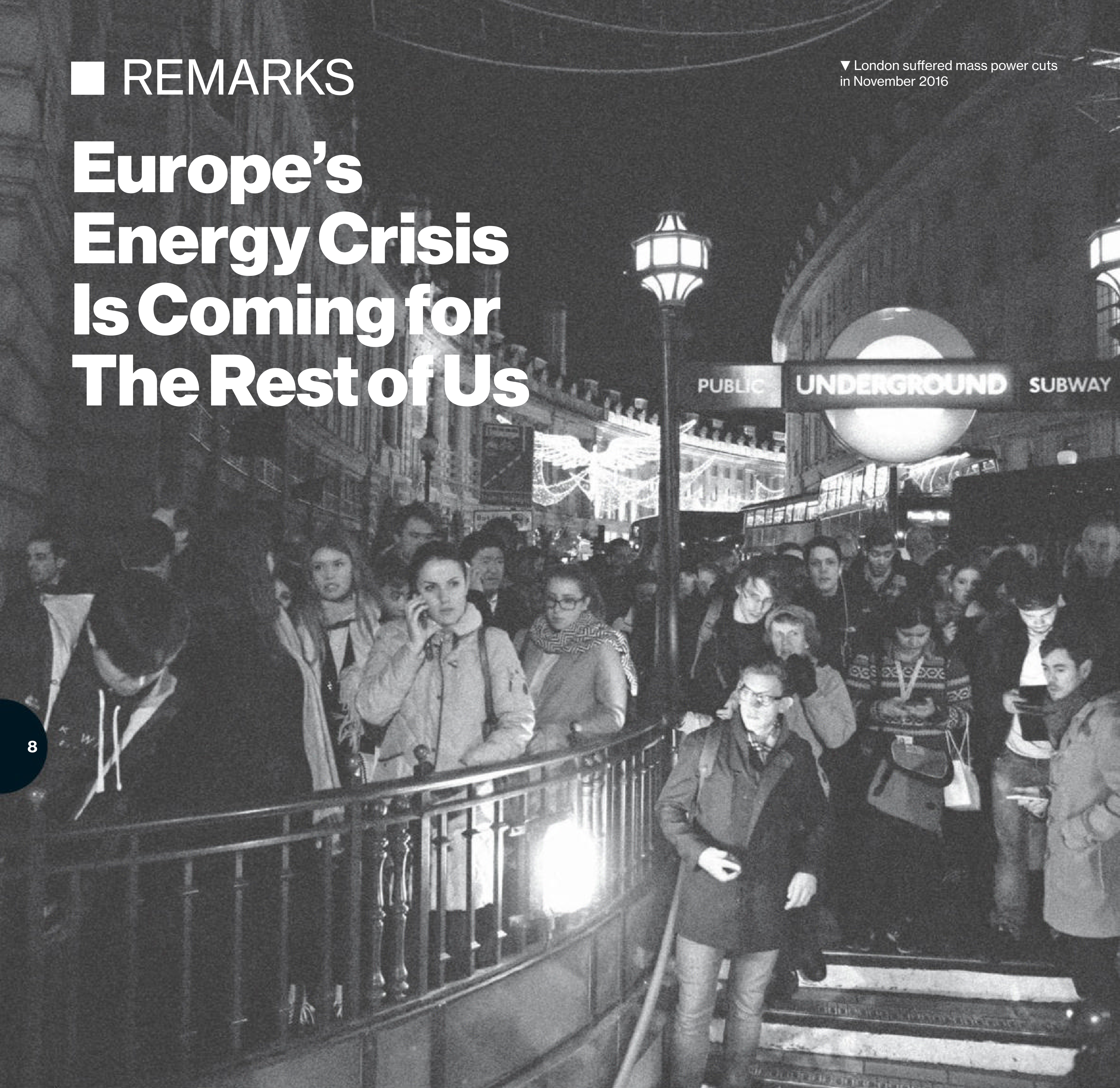
► At World Mental Health Day, on Oct. 10, the World Health Organization will host meetings that focus in particular on Covid's impact on people's emotional well-being.

► The Global Gaming Expo meets in Las Vegas on Oct. 4-7. Arizona Cardinals owner Michael Bidwill is delivering the keynote, as legal gaming has been spreading throughout sports.

► On Oct. 7, Sotheby's in Hong Kong will auction off what it says is the world's oldest whisky: an 81-year-old Glenlivet single malt, bottled in a decanter designed by starchitect David Adjaye.

REMARKS

Europe's Energy Crisis Is Coming for The Rest of Us



▼ London suffered mass power cuts in November 2016

● Millions of people around the globe will feel the impact of soaring natural gas prices this winter

● By Stephen Stapczynski

This winter, the world will be fighting over something that's invisible, yet rarely so vital—and in alarmingly shorter supply.

Nations are more reliant than ever on natural gas to heat homes and power industry as they work to quit coal and increase the use of cleaner energy sources. But there isn't enough gas to fuel the post-pandemic recovery and refill depleted stocks before the cold months. Countries are trying to outbid one another for supplies as exporters such as Russia move to keep more natural gas home. The crunch will get a lot worse when temperatures drop.

The crisis in Europe presages trouble for the rest of the planet as the continent's energy shortage has governments warning of blackouts and factories being forced to shut.

Inventories at European storage facilities are at historically low levels for this time of year. Pipeline flows from Russia and Norway have been limited. That's worrying as calmer weather has reduced output from wind turbines while Europe's aging nuclear plants are being phased out or are more prone to outages—making gas even more necessary. No wonder

PHOTO ILLUSTRATION BY 731; PHOTO: GETTY IMAGES

European gas prices surged by almost 500% in the past year and are trading near record highs.

The spike has forced some fertilizer producers in Europe to reduce output, with more expected to follow, threatening to increase costs for farmers and potentially adding to global food inflation. In the U.K., high energy prices have forced several suppliers out of business.

Even a normally cold winter in the Northern Hemisphere is expected to drive up natural gas prices further across much of the world. In China, industrial users including makers of ceramics, glass, and cement may respond by raising prices; households in Brazil will face expensive power bills. Economies that can't afford the fuel—such as Pakistan or Bangladesh—could simply grind to a halt.

Utilities and policymakers are praying for mild temperatures because it's already too late to boost supplies. The prospect of accelerating energy costs, in conjunction with squeezed supply chains and food prices at decade highs, could make more central bankers question whether the jump in inflation is as transitory as they'd hoped. Traders will be carefully dissecting every weather forecast published from now to December.

"If the winter is actually cold, my concern is we will not have enough gas for use for heating in parts of Europe," Amos Hochstein, the U.S. State Department's senior adviser for energy security, told Bloomberg Television on Sept. 20. For some countries, "it won't only be a recessionary value, it will affect the ability to actually provide gas for heating. It touches everybody's lives."

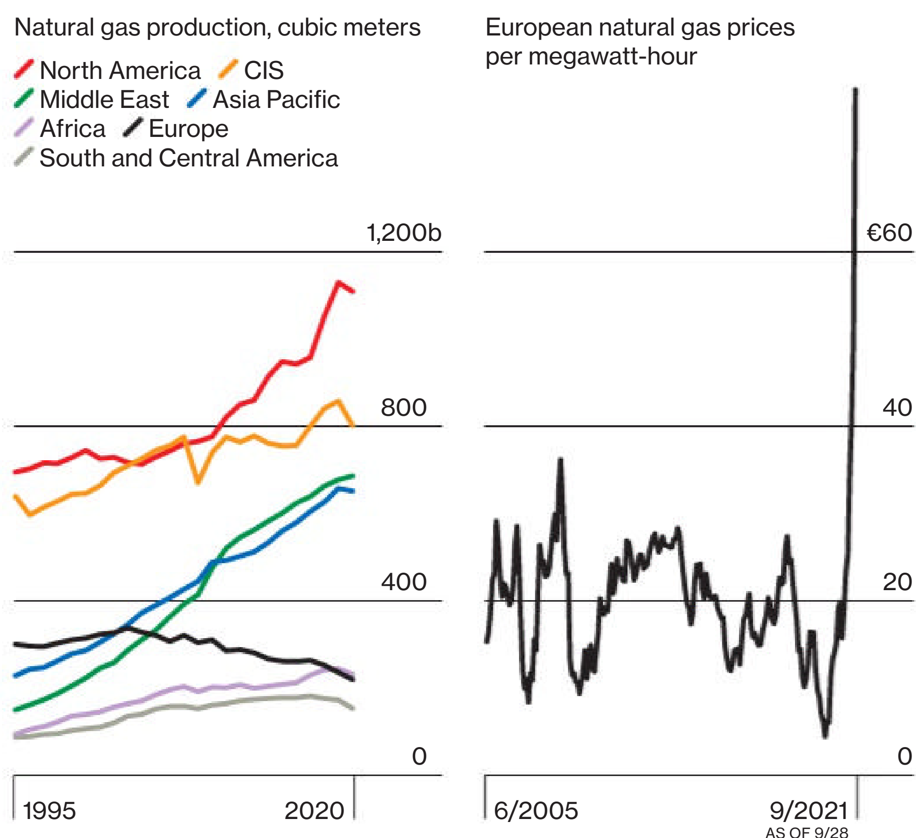
In Asia, importers of liquefied natural gas are paying record prices for this time of year to secure supplies, with some starting to snap up dirtier fuels such as coal and heating oil in case they don't obtain enough. This may undermine efforts by governments to hit ambitious green goals: Gas emits about half as much carbon dioxide as coal when burned.

China, the world's top buyer of natural gas, hasn't filled stockpiles fast enough, so state-owned companies have had to jump into the spot market to secure supplies. To make matters worse, the country is also grappling with a coal shortage.

Several Chinese provinces are already rationing electricity to industries to meet President Xi Jinping's targets for energy efficiency and pollution reduction. A power crisis could exacerbate shutdowns if authorities divert gas and coal to light and heat households. If Chinese factories have to contend with widespread power shortages, global prices for steel and aluminum will jump.

Utilities in Japan and South Korea are largely protected by long-term LNG contracts that are indexed to oil. Still, Korea Electric Power Corp. said on Sept. 23 that it will increase electricity prices for the first time in almost eight years. A sudden cold snap could force more power companies to dive into the spot market to buy emergency gas supplies at record-high rates. That's what happened last winter.

The cost of securing LNG supplies has sparked a political controversy in strapped Pakistan, with opposition politicians demanding an inquiry into purchases by the state-owned importer.



In Brazil, the lowest flows to the Paraná River basin in almost a century have slashed hydropower output and forced utilities to rely more heavily on gas. The country boosted gas imports to an all-time high in July, and power bills are rising. With inflation already ballooning, that could hurt President Jair Bolsonaro's chances in next year's election.

The stage is set for an all-out scramble among Asia, Europe, the Middle East, and South America for shipments of LNG from exporters such as Qatar, Trinidad and Tobago, and the U.S. "We have huge demand from all our customers, and unfortunately we can't cater for everyone," warned Saad Al-Kaabi, Qatar's energy minister, at an industry conference this month.

American exporters are poised to ship more LNG than ever as new projects come online toward the end of the year. But as more gas goes abroad, less will be available at home. Even though gas prices have been notably lower in the U.S. than in Europe and Asia, they are trading near their highest level since 2014. Gas inventories are running below their five-year seasonal average, yet U.S. shale drillers are reluctant to boost production out of concern that this would crimp their profitability and put off investors.

The Industrial Energy Consumers of America has requested that the Department of Energy reduce U.S. exports until storage levels get back to normal, a move that might exacerbate shortages abroad.

It used to be that the average person paid little attention to the market price of natural gas. It isn't like oil, where a snap decision from OPEC will almost immediately affect how much they pay at the pump. This winter, the world is likely to learn how much the global economy depends on natural gas. Ⓑ
—*With Lynn Doan and Anna Shiryaevskaya*

China's Boozy Work Culture Fuels a #MeToo Reckoning

● Companies are updating employee guidelines to tackle excessive drinking and sexual harassment

Erine joined the Chinese ride-hailing service Didi Global Inc. in 2020, she says, attracted by the opportunity to work for one of the world's hottest tech companies. That July she had one of her first assignments in a small town—a client meeting that ended with a banquet, the food washed down with many bottles of red wine and the Chinese liquor called baijiu.

That wasn't unusual: Chinese business dinners often involve lots of alcohol, not unlike the boozy work meetings of 1960s New York featured in *Mad Men*. Erine, now 33, was the only woman at the table, and she says she felt obligated to join the heavy drinking and keep going when the party moved to another restaurant. The next thing she says she remembers is the client groping her in the back seat of a car, then again in her hotel room. Later, on social media, she posted screenshots of a swollen left eye and mouth—injuries sustained when the client sexually assaulted her, she says.

Two days after the alleged incident, Erine reported the case to the police, who dropped the investigation a month later, and a prosecutor's report found no medical evidence to prove "forced

Edited by James E. Ellis, Rachel Evans, and David Rocks

ILLUSTRATION BY VIKTOR HACHMANG. ZHANG: JASON ALDEN/BLOOMBERG

indecency," a term that can encompass sexual assault in China. Erine began publicizing her story on social media but got little attention.

Then, in August of this year, an Alibaba Group Holding Ltd. employee publicly accused her manager of sexual harassment, also after a night of heavy drinking. Alibaba fired the accused manager, and two senior executives resigned over their handling of the situation. As that incident went viral, Erine began sharing her ordeal again on China's biggest microblogging website, Weibo. This time social media users seized on her account, with hundreds following her profile and reposting her updates.

The Alibaba case is shining a spotlight on the experiences of women such as Erine. It's triggered a reckoning for a corporate culture built around work-related drinking and schmoozing, and it's put unprecedented pressure on companies to address abusive behaviors that can arise from them. State-controlled media have unleashed a torrent of criticism linking harassment of female employees to corporate drinking policies, and officials in Beijing are paying more attention to these issues as part of President Xi Jinping's sweeping moral push to clean up everything whether perceived profiteering in after-school tutoring or the corruption of youth by online gaming. Alibaba, online portal Sina, and IQiyi—China's version of Netflix—have in recent weeks introduced stricter policies to deter excessive drinking at work events and curb sexual harassment.

It could take years for change to occur broadly, but it's a pivotal moment for a nation that saw limited impact from the #MeToo movement, which exploded elsewhere in 2017. "Liquor table culture has become a fig leaf for workplace bullying, turning the table into a place where the upper ranks can use their power to bully others, and even trigger bad incidents of illegal crimes," the state-run China News Service wrote in an August commentary.

Didi didn't respond to multiple requests for comment on Erine's account and its policies on drinking and harassment. The local police and government in the city of Xinghua, where Erine reported her case, also didn't respond to inquiries.

Erine, who asked to be identified only by the English name she sometimes uses when doing business because she's afraid of retribution, showed Bloomberg News documents, including the police report, the local prosecutor's report, and a hospital report that described the injuries she showed in the online photos. Bloomberg News wasn't able to independently reach the client she accused, and messages to a WeChat account that Erine said belonged to the client went unanswered. Erine also provided Bloomberg News with a recording of a conversation that she says took place between her and the client at the police station. In the recording, which Bloomberg News couldn't independently verify, the client appears to deny wrongdoing, saying Erine fell and he carried her back to her hotel.

After the Alibaba case went viral, the Central Inspection and Disciplinary Committee, the government's anticorruption body, criticized the company by saying it had a bad work culture. Alibaba didn't at the time respond directly to those comments. But, in August, it began an internal probe into the female worker's account. The company later publicly reprimanded its head of human resources, set up a hotline for sexual-harassment complaints, and created a high-level committee to resolve future disputes.

● Zhang

"We are staunchly opposed to the ugly forced drinking culture," Alibaba Chief Executive Officer Daniel Zhang said in an internal memo in August. "Regardless of gender, whether it is a request made by a customer or a supervisor, our employees are empowered to reject it."

Although curbs on excessive work-related drinking have been part of many Western companies' codes of conduct for years, Chinese companies have until recently taken a different approach. Employers often host events where managers pressure lower-level workers to drink as part of a tradition of *quanjiu*—forced drinking—wrote Nie Huihua, a professor at Renmin University of China's School of Economics, in an August article for Chinese media group Caixin Global. But since the Alibaba allegations hit the headlines, women have come together on social media to call out the sexism they say is endemic to China's business world and particularly to its tech industry. It can consist of everything from hazing rituals, during which some have been asked to simulate sex acts, to job ads that use women as bait to lure male workers. Much of that harassment takes place at events where there is heavy drinking, the women say.

"Legal liability has not served as enough of a deterrent, but social media has changed the game in a way"

Tech companies have been among the first to respond. A spokesman at Sina Corp. in Beijing, which controls Weibo, says it added new clauses against sexual harassment when it recently issued employee guidelines on medical benefits and other subjects. And IQiyi Inc. on Aug. 13 told staff it had updated workplace guidelines to ban sexual harassment, forced drinking, and other types of workplace bullying, local press reported. A spokesman at IQiyi declined to comment.

Management at conglomerate Dalian Wanda Group Co. held a meeting to announce new ▶

◀ policies days after news broke about the Alibaba episode, saying that female workers shouldn't be required to accompany clients for drinks and that male and female employees shouldn't go on business trips together, according to a person familiar with the matter. The aim was to avoid scandals even though the company doesn't have a forced drinking culture, the person says. Dalian Wanda didn't respond to a request for comment.

Around the same time, a female employee at Guizhou Guotai Liquor Group alleged sexual abuse by her male colleagues after drinking, state-run *China Daily* reported. The company in August put out a statement saying it was "shocked" by the scandal, and though it hadn't received information from the police, it considered the subject important and would comply with any investigation.

Still, change is unlikely to happen overnight. Emily, 32, a former marketing professional at a tech company in Shenzhen who asked not to be identified discussing work life, says clients pressured her to drink, even though she made it clear she wasn't a drinker. Internal culture wasn't much better, and her married manager asked her out on a date, she says. After she said no, Emily says, she was sidelined at work, and the company eventually didn't renew her contract, citing poor performance. When job hunting, one would-be employer asked how good she was at drinking, and another commented on her appearance to her, she says.

Prosecutors dropped charges against the former Alibaba manager who was accused of harassment in early September, saying they couldn't prove that his behavior amounted to a criminal offense. Also in September a court in Beijing dismissed a claim by a former intern at China's state television broadcaster who said a popular TV host sexually harassed her in 2014. The court said the claim lacked evidence, and the TV host denied the accusation, which was brought in a civil suit. The woman said she would appeal, and though her own social media accounts were suspended, people defended her online. "Legal liability has not served as enough of a deterrent, but social media has changed the game in a way, because it gives power to start a viral campaign to make the world aware," says Bonnie Levine of Atlanta-based employment law firm Ogletree Deakins, who advises multinationals operating in China.

Nonetheless, many of the women who publicize their cases get support online, but they also often face sharp criticism. The government has so far allowed critiques in the state-run press and tolerated discussion on closely censored social media platforms. A new civil code that took effect in January pushes the matter further, requiring employers to take measures to prevent sexual harassment and investigate allegations. The rules leave uncertain whether companies are responsible for what happens at locations where businesses entertain clients, but they suggest the culture is shifting. "The Alibaba case has shown, in terms of public opinion, people think that this does matter and things that happen outside the workplace should be treated as sexual harassment," says Matthew Durham, an employment lawyer with the Gall law firm in Hong Kong.

Erine, the woman who made the allegations against the Didi client, says she left the company three months after the alleged assault and is still out of work. Soon after police dropped the investigation, her boss started frequently asking her to go on business trips alone with him and would suggest meetings in his hotel room, she says. When reached by phone, the manager declined to comment and referred questions about Erine's account to Didi. Didi didn't comment and didn't respond to a request to make the manager available for comment.

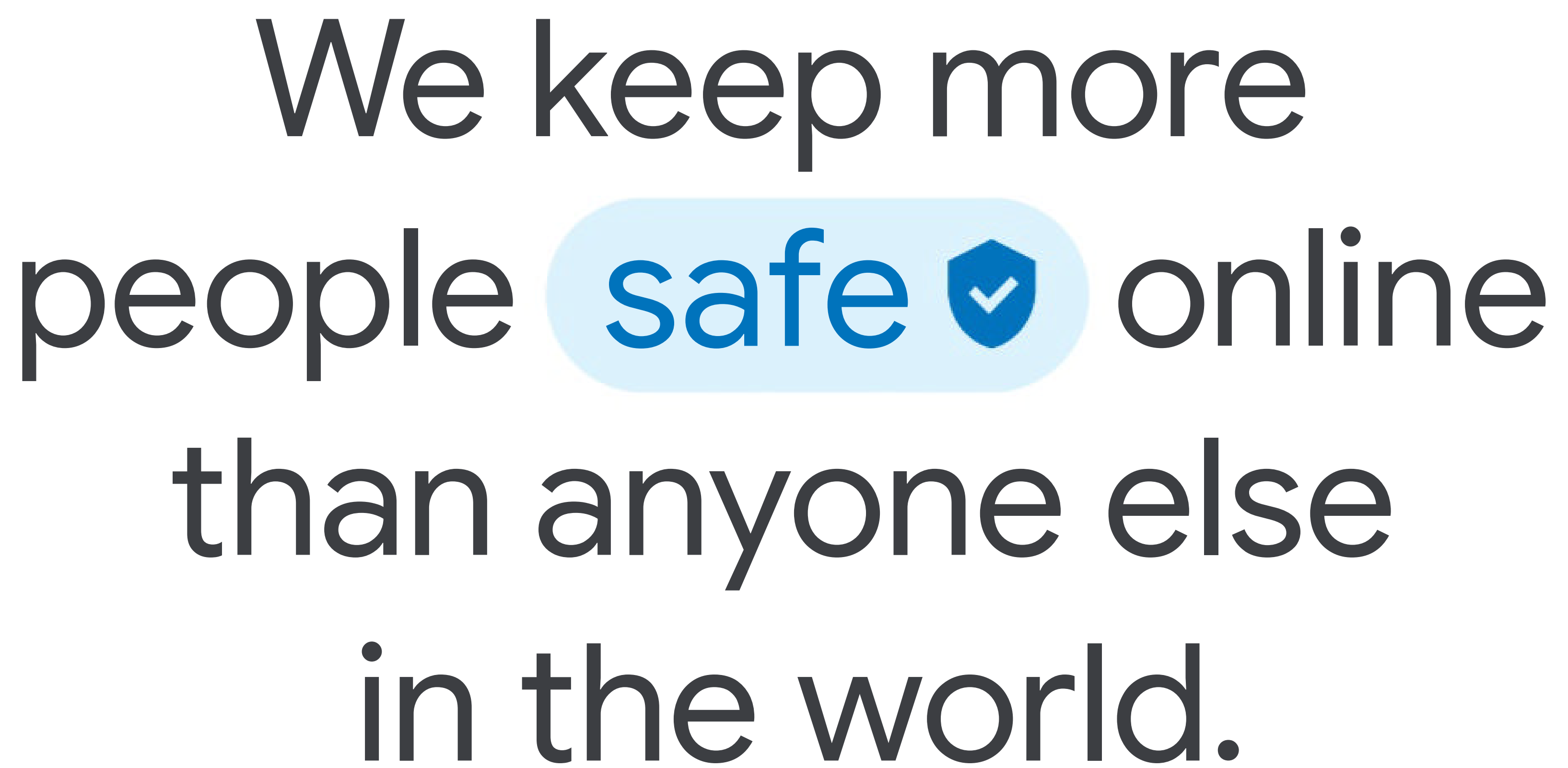
Erine now streams almost every day on Weibo about her experiences. She's promised followers she'll keep speaking out unless someone forcibly stops her. "Drinking culture itself isn't ugly. What's ugly is that the culture now bears the stamp of work," she says in an interview. "They are inseparable from each other." *—Zheping Huang and Bruce Einhorn, with Anjali Cordeiro, Shirley Zhao, Coco Liu, and Claire Che*

THE BOTTOM LINE Allegations of sexual harrassment prompted a backlash from Chinese netizens and state-run media against a culture of forced workplace drinking, pushing companies to take action.

For Airlines, a New Middle Class

● Carriers are ripping out business seats and replacing them with premium economy

For decades, ferrying tourists to vacation destinations has helped major airlines cover basic costs, but the front of the plane is where they've racked up the bulk of their profits. So when the pandemic whacked business travel, carriers were left looking for another way to pad the bottom ▶



Safer with Google

◀ line. Increasingly they're finding it in premium economy, where travelers can avoid the cattle-car aesthetics of coach without spending thousands of dollars for business class. And with Covid-19, growing numbers of leisure travelers are willing to splash out for a bit of extra elbow room at fares that are frequently more than double the cheapest economy seats. "People are desperate to take charge of their lives now, and airlines can no longer force them into just one or two categories," says Juha Jarvinen, chief commercial officer at Virgin Atlantic Airways Ltd., which pioneered the service in 1992.

The trend was already on an upswing before the pandemic, with installations of premium economy seats—not including "plus" sections of coach that offer extra legroom—growing 5% annually in the three years before the coronavirus hit. Researcher Counterpoint Market Intelligence predicts that pace will accelerate as more carriers embrace the idea of a separate cabin with slightly wider seats, several extra inches of legroom, a deeper recline, bigger screens, and marginally better food. The three largest U.S. carriers—American, United, and Delta—are installing the class across their widebody fleets. Emirates introduced its first premium economy offering this year. Finnair Oyj next year will start adding the service on long-haul flights. "Premium economy is the most profitable real estate on the aircraft, and the pandemic is reinforcing that," says Topi Manner, Finnair's chief executive officer.

Seats in the premium cabin occupy barely 10% more space than coach, whereas a business-class berth typically requires three times as much room. Deutsche Lufthansa AG says premium economy generates 33% more revenue per square foot than economy and 6% more than business—and is 40% more profitable than the latter because it's cheaper to install. The German carrier has premium economy cabins on all 102 of its long-haul aircraft and is considering stripping out more business-class seats to expand the sections.

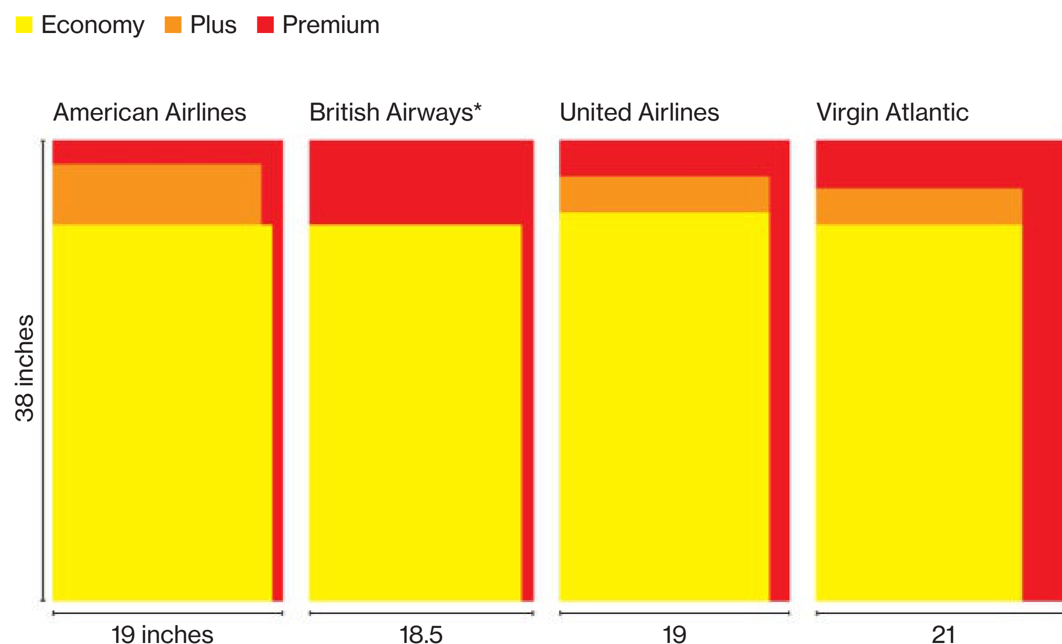
Some in the industry caution that the cost could be an issue for airlines recovering from the financial devastation of the pandemic. A premium seat costs $8,000 to $20,000, a fraction of the $75,000 to $250,000 price tag for a lie-flat pod in business. But it's still about five times what carriers pay for a coach berth, and Quentin Munier, strategy chief at seatmaker Safran SA, says some carriers are struggling to scrape together the funds needed to make the change. "Many are in wait-and-see mode," he says.

Today's premium economy is similar to the business class introduced in the 1970s—a marginal increase in comfort at a substantial increase in price. But carriers in recent years have made business the key differentiator for their brands, with lie-flat seats and sumptuous service. A recent design study envisions flat berths in premium, though carriers haven't jumped at the idea. Surveys show the most important feature of business class is the ability to sleep on red-eye flights, so such an offering would likely spur more business passengers to take a step down rather than encourage coach-class flyers to upgrade, says Ben Bettell, a consultant with Counterpoint. That means for the foreseeable future, aside from a few extra inches of space, the principal appeal of premium economy may still be that warm, fuzzy feeling you get when you know you're not sitting in the worst seat on the plane. "Premium economy offers an affordable escape out of economy," Bettell says, "and an opportunity for coach passengers to improve their status." —*William Wilkes and Christopher Jasper, with Tara Patel and Julie Johnsson*

THE BOTTOM LINE Premium economy seats occupy only 10% more area than coach, helping make the service 40% more profitable per square foot of a plane's cabin space than business class.

What Premium Economy Really Means

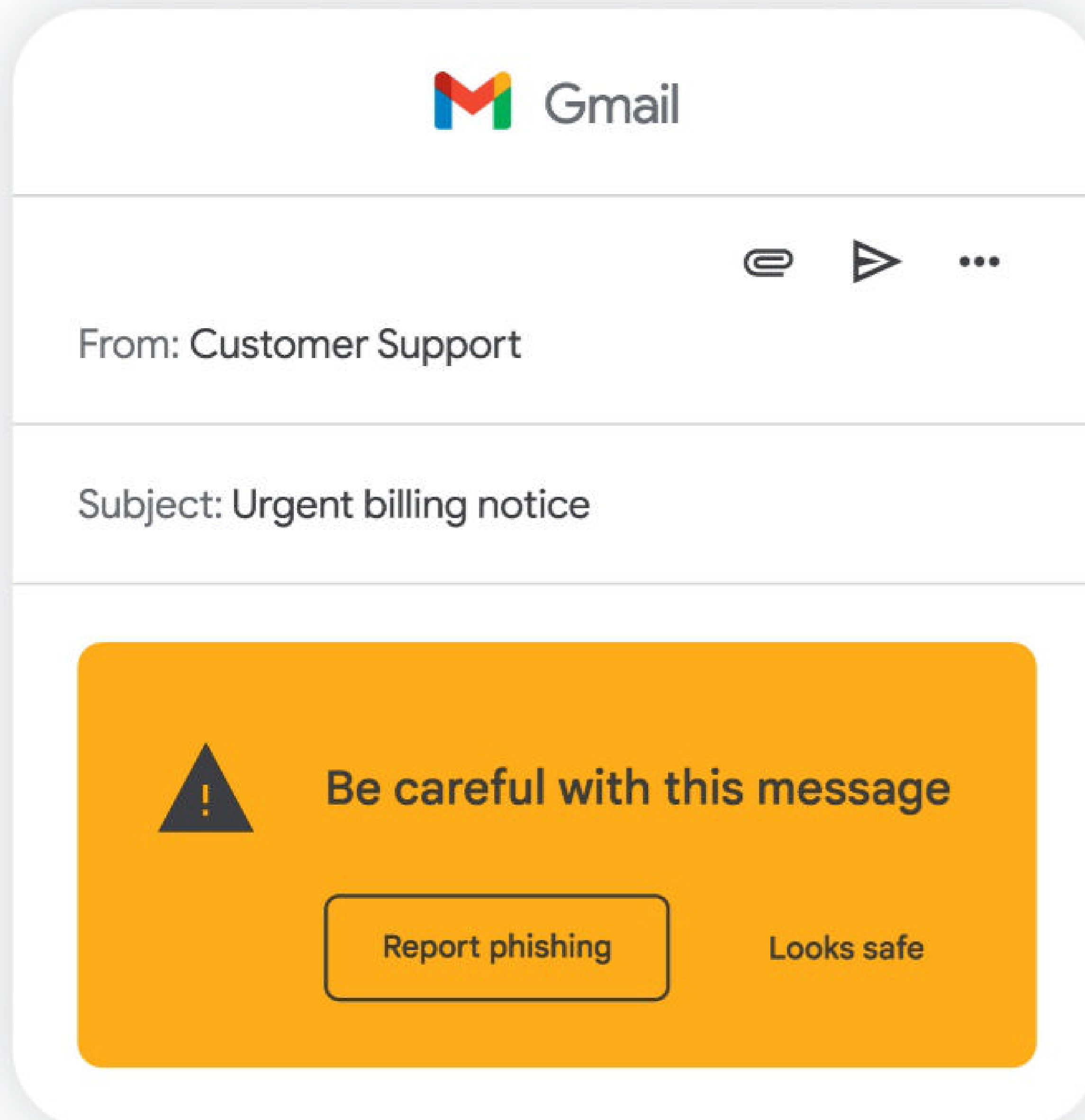
Maximum seat width and distance from seat back to seat back on a Boeing 787



*BRITISH AIRWAYS DOESN'T OFFER PLUS EXTENDED-LEGROOM SEATS IN ITS ECONOMY CABIN. DATA: COMPANY WEBSITES; SEATGURU

◀ Emirates' new premium economy cabin

CABIN: COURTESY EMIRATES



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Spotlight

Ten Companies to Watch

Following our list of 50 Companies to Watch in January and a third-quarter update in June, we're back with 10 more for the fourth quarter, based on perspectives and scenarios from analysts at Bloomberg Intelligence. The companies, which span sectors and regions globally, are part of a larger group of high-confidence Focus Ideas that BI analysts identify on a continuing basis. *For more information on BI, visit bloomberg.com/bi*

● Volkswagen
Market value: $138.3 billion

Volkswagen AG is on track to overtake Tesla Inc.'s battery electric vehicle (BEV) volume with its EV transformation by 2023. A potential $93 billion initial public offering of the German company's Porsche brand as early as next year would support its strong free-cash outlook, helping speed the electric makeover of its other brands, says Bloomberg Intelligence. Porsche—which has its own J1 electric platform—could see BEVs account for 30% of sales by 2023 and 50% by 2025, the highest for a legacy brand. *—Michael Dean*

● Lululemon
Market value: $56.2 billion

Yoga wear maker Lululemon Athletica Inc. is set to beat its 2023 revenue target in 2021, bolstered by its strength in athleisure clothing and forays into experiential retail, footwear, and personal care, along with a digital push. It may spur traffic and sales through efforts such as pop-up stores, meditation spaces, and personalized bra fittings—and Mirror, its luxury home gym. It wants 10% of stores to be "experiential" by 2023. *—Poonam Goyal*

● Roku
Market value: $43 billion

Roku Inc. is positioned to gain from the advertising industry's shift toward connected TVs. Media giants are increasingly looking for the rich consumer information that comes from first-party data, in part because Apple Inc. and Google plan to block third-party cookies for use in advertising. That change is poised to benefit makers of connected televisions including Roku. The connected-TV market is expected to grow 33% annually through 2023. Roku's share of such sales is set to increase to 13%, or $5.5 billion, by 2023, from 9% in 2020, according to Bloomberg Intelligence analysis. *—Amine Bensaid*

● Rongsheng Petrochemical
Market value: $30.2 billion

The startup of the Hangzhou, China-based company's Phase 2 petrochemical complex doubles its crude-oil-to-chemicals exposure, which investors haven't fully appreciated, BI says. The Phase 2 project is due to begin commercial operations in late 2021 or early 2022, setting up Rongsheng Petrochemical Co. to become one of the fastest-growing Asia-Pacific commodity chemical companies in 2021-22. Two crude distillation units will be added, and by yearend, 3 million metric tons of purified terephthalic acid are scheduled to come on stream. In 2022, Rongsheng plans to bring online 180,000 tons of high-end polyester films. *—Horace Chan*

● Airbnb
Market value: $110.6 billion

An increase in longer-duration stays amid continuation of remote work helped Airbnb Inc. surpass consensus expectations for bookings by more than $2 billion in 2021. The trend is expected to persist. Airbnb has a brand advantage over Booking Holdings Inc. and Expedia Group Inc., rivals that are also keen to take advantage of pent-up demand as destinations reopen to travelers, according to Bloomberg Intelligence. And advertising cuts during the pandemic substantially improved margins at Airbnb, which in the second half of 2021 could exceed its room-nights total for 2019, thanks to strong summer travel. *—Mandeep Singh*

● Value Partners Group
Market value: $935 million

Mainland Chinese investors looking to diversify offshore and overseas investors looking to increase Chinese allocations both offer a potential boon to the Hong Kong asset manager. Value Partners' 2022 assets under management could gain from the new Wealth Management Connect program, which will expand its client reach to the Guangdong-Hong Kong-Macau Greater Bay Area. Inflows from overseas institutional customers could gain momentum as Chinese assets grow in importance to global portfolios. The company's pretax profit could beat consensus expectations by about 10%, according to BI. *—Sharnie Wong*

● ING
Market value: $54.5 billion

The market is becoming less bearish on the Dutch bank but still hasn't fully recognized its earnings and dividend potential, according to BI. ING's revenue prospects are recovering because of the negative rates it's charging on customer deposits (€230 million, or $267 million, annually), the lending recovery, and strong annual fee growth. The company has earmarked €13.3 billion for shareholder distribution—more than a quarter of its market value—so a share buyback may be imminent. *—Philip Richards*

● Gree Electric Appliances
Market value: $35.3 billion

Challenges are heating up for Chinese air conditioner manufacturer Gree because of cool summer weather in its home country and the property crackdown that's part of the Chinese government's "common prosperity" push. Gree has been spending more on marketing and promotions to tackle intensifying competition, but this comes as sales slow after the summer. Net income for 2021 could miss the consensus estimate by as much as 12%, according to Bloomberg Intelligence, and reach only 22.3 billion yuan ($3.4 billion)—almost unchanged from last year—while revenue could be 4% below expectations, at 195.8 billion yuan. *—Kevin Kim*

● Altria Group
Market value: $89.4 billion

Altria Group Inc.'s potential sale of its 10% stake in brewer Anheuser-Busch InBev SA/NV could reshape the tobacco giant's future. Altria is expected to pursue the stock sale when restrictions expire on Oct. 10. This could raise $10 billion, which it could spend on buybacks, boosting 2022 earnings above consensus estimates, says BI. A slimmed-down Altria may be more appealing to former sister company Philip Morris International Inc., which might revive talks to recombine. *—Kenneth Shea*

● Frontera Energy
Market value: $713.1 million

Frontera Energy Corp.'s Kawa-1 well in offshore Guyana could be one of the industry's most exciting exploration opportunities globally this year and a significant change for the Canadian oil producer. The Kawa-1 well targets prospects comparable to recent large discoveries made nearby by TotalEnergies SE and Exxon Mobil Corp. in Guyana and Suriname, respectively, according to Bloomberg Intelligence. Drilling, which began on Aug. 22, could test resources in excess of 100 million barrels. But the market is assigning little or no value to the company's exploration upside for its 82.6% consolidated interest in the Kawa-1 well, BI analysis shows. *—Patricio Alvarez*

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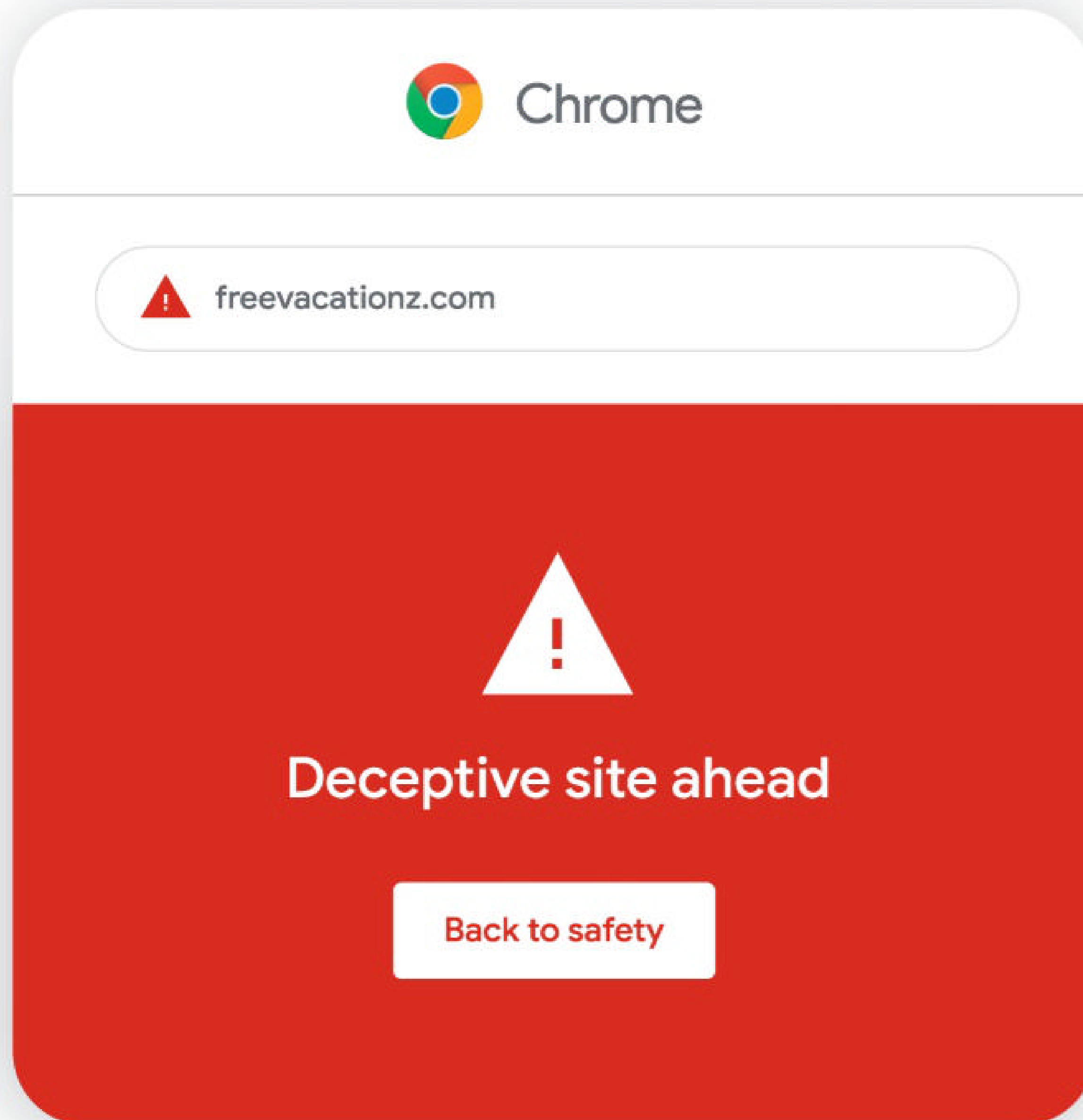

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Patreon Prepares For Its Close-Up

● The service, which lets creators offer subscriptions, is beginning to compete more directly with tech giants

In today's Silicon Valley, land of buzzwords, there may be none buzzier than "creator"—the tech industry's chosen way to refer to someone who gathers an audience by posting their words, images, or videos online. Every tech company seems to be fixated on building tools to help their super users make money through subscriptions, tips, or other direct payments from fans, whether they're running audio streaming services like Apple and Spotify or social networks like Facebook and Twitter.

All these big companies are, in a sense, aping Patreon Inc., the tech startup that's spent the past eight years building tools to allow content creators to accept recurring payments from their fans. Patreon is in the midst of a hiring spree, and in April it raised $155 million from investors who valued it at $4 billion, triple its valuation from an investment round in September 2020. It plans to go public in the near future, though the timeline remains uncertain.

If success has inspired others to imitate Patreon, it's also leading the startup to become more like the competition. The company is dedicating a significant portion of its most recent investment round to finance original programming for the first time. Patreon's plans, which haven't been previously reported, include courting podcasters, video game livestreamers, YouTubers, and major celebrities such as Will Smith and Jennifer Lopez to make content that will appear live on Patreon before showing up elsewhere.

Many other tech companies have come to the conclusion that they should start paying to produce their own content, with mixed success. The logic behind media production operations at companies such as Netflix Inc. and Amazon.com Inc. seems obvious now that they've become serious players in Hollywood; the strategy behind other

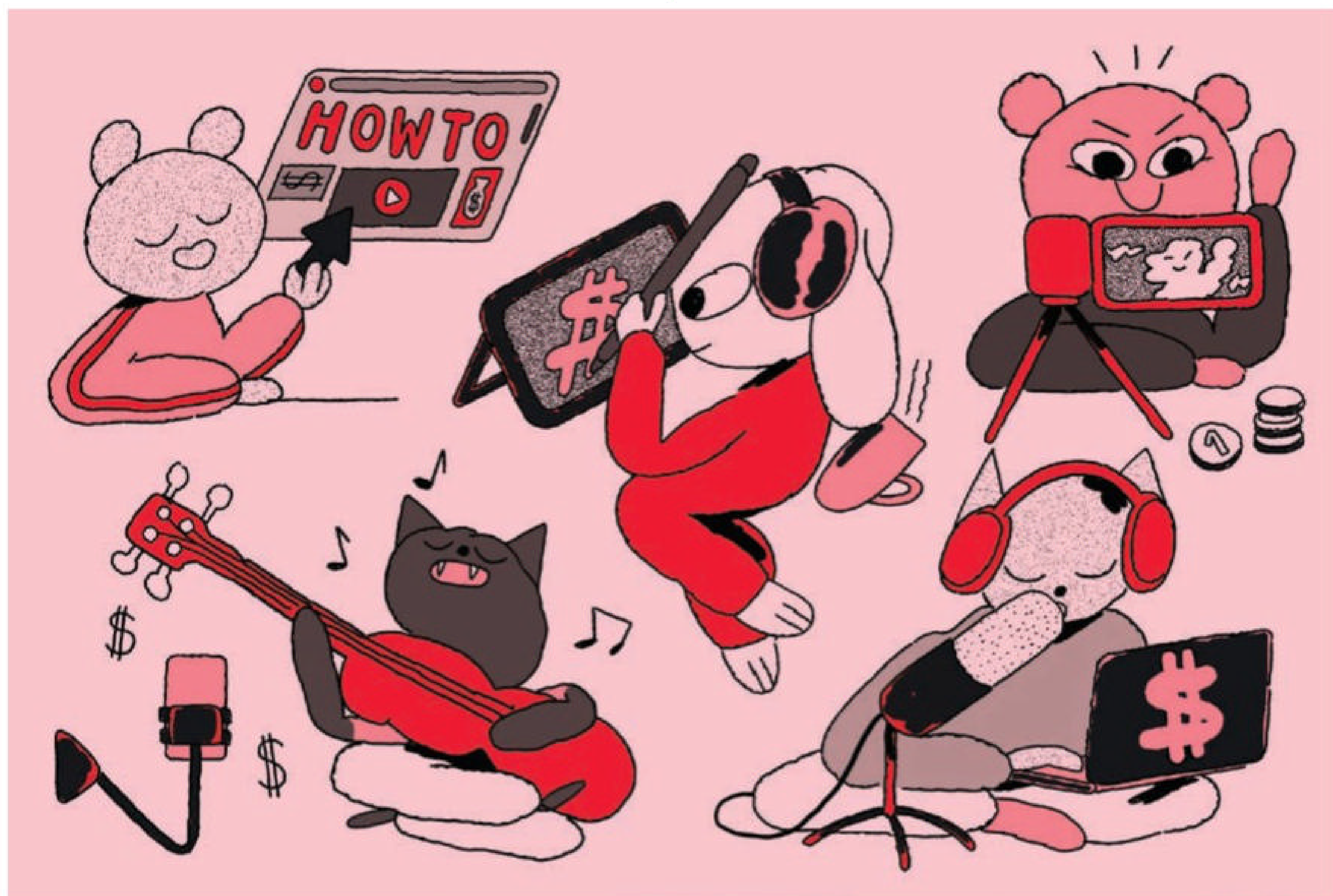


ILLUSTRATION BY HELENA COVELL. CONTE: COURTESY PATREON

Edited by Joshua Brustein

services, like Salesforce+, the new streaming offering from the consumer relationship management company, remain baffling.

For Patreon, the move could be transformational. The company is hiring engineers and product executives to build new tools for content consumption. This is what fans want, says Jack Conte, its chief executive officer. Creators, he says, will benefit from a single platform that allows them to not only access the back-end services required to run a media business, such as billing and audience management software, but also publish the content they create. "We focused on that foundational layer for many years, the whole first chapter of the company, and now it's quite clear that creators want better native media features," he says in an interview at a deli near his East Bay apartment. "They're asking for them loud and clear."

Unlike many of the people building the infrastructure of the creator economy, Conte has experience as a creator. Patreon emerged in 2013 as a side project of Pomplamoose, the band he performed in with his girlfriend (now wife), Nataly Dawn. Pomplamoose had a sizable YouTube following and decent iTunes sales but made little money. As Conte often recounts, the breaking point came when he decided to make a big splash with a solo project he was working on. He maxed out two credit cards and spent more than $10,000 to make a music video featuring a replica Millennium Falcon cockpit. The video received more than 1 million views on YouTube. Conte made $160.10.

Around that time other musicians Conte knew, including Dawn, had been successfully raising money for projects on Kickstarter, the crowdfunding site. Initially, Conte's vision for Patreon was mostly about outdoing Kickstarter. He thought its one-off campaigns were insufficient, and together with Sam Yam, a programmer and college classmate, he developed Patreon as a website that would allow fans to pay creators monthly.

The idea resonated with other financially frustrated creators. Gillian Pensavalle, an aspiring actress, and Patrick Hinds, a newly unemployed executive assistant itching for a fresh career, had been dabbling with podcasting for a while when they hit on the idea for *True Crime Obsessed* in May 2017. The hit podcast *Serial* had created a wave of true crime fanatics, and Pensavalle and Hinds decided to make a show recapping documentaries in that genre.

Within a couple of months, their podcast was clearing 10,000 downloads an episode. They signed an advertising deal but also began releasing select episodes for paying subscribers on Patreon. More than 45,000 listeners now pay $5 or $10 monthly to subscribe, generating enough income for them to employ seven people. Pensavalle won't disclose how much money they make each month, but she says much more comes from Patreon than advertising. "Patreon is freedom," she says.

While other tech companies talk about delighting their customers, Conte has always described Patreon as "creator-first." As CEO, he's continued making music and YouTube videos—he showed up to be interviewed in a hoodie with the logo for Scary Pockets, his other band. He doesn't pretend to be anything other than incredibly inexperienced. "I'm going to fall on my face a lot," he says. "But I think the pros of having a creator build one of these companies outweighs some of the cons."

● Conte

Other people involved with Patreon say this has tripped them up at times. Brett Horowitz, a veteran salesperson who joined Patreon in 2016, remembers having to fill Conte in on basic industry jargon like LTV, or lifetime value, the average revenue a customer will generate over their entire relationship with a company. Dick Costolo, the former Twitter Inc. chief executive and a Patreon board member, says Conte has sometimes designed products for creators at the expense of providing a good experience for their fans, inadvertently hurting creators by costing them subscribers. "He understands that now," Costolo says.

● Patreon's valuation as of April

$4b

Patreon saw its first serious competition from other startups offering payment services for online video personalities (OnlyFans Ltd.) and newsletter writers (Substack Inc.). The megaplatforms also got involved. Google's YouTube and Instagram added features for fan sponsorships and tipping; Twitter introduced a subscriber option; streaming sites started paying podcasters. ("They're all literally copying Patreon!" grouses Conte.)

These platforms have far more resources than Patreon. Snap Inc. offered to set aside $1 million a day to pay people to post short-form videos. Spotify, Amazon, and SiriusXM have collectively spent more than $1 billion to buy podcasting companies. YouTube, which helped pioneer the idea of the online creator economy, recently said it offers 10 ways for content producers to make money.

So far, Conte says creators aren't fleeing Patreon for the competition. For all their talk about paying people, he says, big platforms have other priorities. Patreon doesn't have to worry about its products for creators competing with core businesses like advertising, he says, nor does it have the baggage the big platforms have from years of conflict with creators. ▶

◀ During the height of the pandemic, Conte gathered his team and investors to discuss growth options, including the plan to fund original material. They debated paying creators to shift their entire catalogs onto Patreon but quickly dispatched with the idea. Conte has hired a team to oversee partnerships with new creators and added a head of product from Instagram to develop better tools for hosting audio and video across its service.

The goal isn't to supplant bigger companies. "We're not trying to get 2 billion people on Patreon to compete with YouTube," Conte says. He argues that his company doesn't even need to take a slice of existing platforms' businesses to succeed. "It's a new pie," he says. —*Lucas Shaw and Mark Bergen*

THE BOTTOM LINE Patreon is investing directly in original content for the first time, the centerpiece of an attempt to retain creators who have more ways than ever to make money.

The Internet's Used-Auto Dealers Want to Buy Your Car

● Startups selling cars online are thriving, in part because they're so good at buying cars online

In December, David Tvaltchrelidze bought a 2016 Mazda Miata for $16,450 from Shift Technologies Inc., one of a crop of startups selling used cars and trucks exclusively online. Seven months later, Shift offered to buy it back for $20,800, which would net Tvaltchrelidze a sporty 26% return. "I wish I had bought 10 of them," he says.

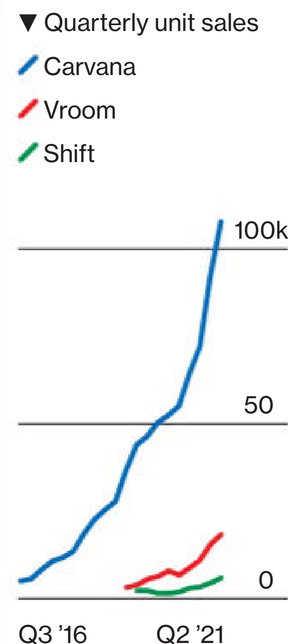
Despite the markup, Shift would be able to resell the car quickly and still pocket about $2,000 in profit. And Tvaltchrelidze hasn't yet agreed, given the price he'd have to pay for another used car.

The used-car market has gone crazy over the past year, as social distancing and a global computer chip shortage have upended the auto industry, and companies such as Shift are thriving. The 3-year-old startup sold 10,323 vehicles in the first half of this year, triple the level of the same period in 2020. Vroom Inc., a competitor, doubled its business, selling almost 34,000 cars and trucks over the same period, while Carvana Corp., the largest of the used-car web dealerships, sold 200,272 vehicles, a company record.

The online used-car trade isn't new, exactly—web marketplaces such as Craigslist account for about half of the 40 million used cars that trade hands every year in the U.S. But the upheaval of Covid has changed the digital market significantly. "It's not that there was a pandemic customer or a nonpandemic customer," says Vroom Chief Executive Officer Paul Hennessy. "It's just that there was an event that changed the way people thought about what they would have delivered to their home."

In part online used-car dealerships benefit by how much many people loathe everything about the traditional rigmarole of buying a car, from the watery coffee to the slick salesmen. Digital dealerships allow easy browsing, home delivery, and no-contact pickup—Carvana's gimmick is a nationwide network of automotive "vending machines" that spit out SUVs like 5,000-pound bags of chips.

Anyone selling a used car has an added



◀ Carvana's automotive "vending machines" allow for a no-contact pickup

PHOTOGRAPHS BY CASSIDY ARAIZA FOR BLOOMBERG BUSINESSWEEK. DATA: COMPANY REPORTS, COMPILED BY BLOOMBERG

advantage now, because factories are producing fewer new ones. In April, U.S. drivers were on an annual pace to buy 18.5 million new vehicles, but that rate slowed to 13 million as chip shortages shut down assembly lines. In early September, General Motors Co. said eight of its 14 North American plants would go temporarily dark because of the semiconductor shortage. As of the end of August, the number of cars on U.S. lots—both new and used—had fallen by one-third from the year-ago level, according to Bloomberg Intelligence.

Another strength of digital dealerships is their effectiveness at purchasing a large number of vehicles from individual car owners. Carvana and Vroom buy about 2 out of 3 of their vehicles directly from individual owners. At Shift, almost every car is "self-sourced" from customers like Tvaltchrelidze.

Traditional dealers, by contrast, usually buy cars from wholesale markets where rental fleets or dealerships that accept trade-ins sell their castoffs. Each layer between the original seller and the final buyer eats away at the profit margins for the retail dealers, driving up prices.

Bidding wars at auction markets are breaking out between the thousands of dealerships desperate for products to put on their lots. "They can't sell what they can't buy," says Sam Zales, chief operating officer of CarGurus Inc., a Boston-based platform where both individuals and dealers sell vehicles.

That's not to say there's a crisis at traditional used car dealers. They're selling vehicles at sky-high prices—the average used car sold for a record $25,410 in the second quarter, a 21% increase over the year-earlier period, according to Edmunds.com Inc.—and plenty of customers are still showing up at their lots. Still, traditional dealers are rushing to refine their ways to allow consumers to unload a 2018 Honda Accord as easily as they would an outdated iPhone. CarMax Inc., the largest dealer group in the U.S., almost tripled the number of vehicles it bought directly from car owners in the quarter ended on May 31, and almost half of those deals were cut on the company's "instant appraisal" site. "We want to drive that target as high as possible," CEO Bill Nash told investors and analysts on a June 25 conference call.

AutoNation has stepped up marketing for a 3-year-old e-commerce portal dubbed We'll Buy Your Car. In the second quarter, 90% of all used cars that it sold were sourced directly from drivers. Lithia Motors Inc., which operates 209 brick-and-mortar dealerships, is making a similar push with Driveway. The platform sold 550 vehicles in June and hopes to move 15,000 a month by December, which would represent about one-third of its current retail business. Almost every digital customer is new to Lithia, according to Chief Financial Officer Tina Miller.

▲ A Carvana building that functions like a vending machine in Tempe, Ariz.

Lithia says its digital business will scale better than startups because it already has a network of dealerships in place that can be tuned to handle online orders. Still, it's not a model most old-fashioned car stores are used to. Of the used vehicles sold last year at U.S. franchise car stores, only 7% were bought directly from individuals, according to the National Association of Auto Dealers.

The additional competition may prove a challenge for startups such as Carvana while making things even more lucrative for car owners who've decided to sell. "We're in a pretty simple place right now," says Ernest Garcia III, CEO of Carvana. "What we want is more." —*Kyle Stock*

THE BOTTOM LINE A shortage of new cars has led to a hot used-car market, and online-only startups are providing nimble competition to traditional used dealerships.

Wall Street's Newest Bet On Houses

Zillow, the giant real estate website, is selling bonds to fund its instant home purchases

Zillow Group Inc. is best known for the addictive real estate listings that keep people browsing the internet all night, checking out interior shots of homes for sale or the estimated prices of their own houses or the ones down the street. But Chief Executive Officer Rich Barton has staked his company's future on the idea that its software can also ease a critical pain point for U.S. homeowners: the time it takes to sell. In recent years, Zillow has essentially dived into the house-flipping business, offering to quickly take properties off sellers' hands. And in the process it's helping pull Wall Street even deeper into the $2 trillion U.S. housing market.

In August, Zillow raised $450 million from a bond backed by homes it's bought but not yet sold. The offering, led by Credit Suisse Group AG, was modeled on the loan facilities that car dealerships use to finance floor models. The novelty of using that structure for houses didn't scare off investors hungry for a new way to gamble on the hottest housing market on record. The offering was oversubscribed, and Zillow, which declined to comment on its bond market activities, is now in the process of selling an additional $700 million in bonds.

More such offerings are almost certainly coming. Zillow is part of a growing field of tech companies, often known as iBuyers, who are taking advantage of the surge in investor demand to fund purchases of houses. They're still a small portion of the overall market, but as the mortgage meltdown of 2007-2010 showed in the extreme, the mix of housing, easy money, and new forms of financing can be combustible. "We could very quickly be talking about more than $100 billion in debt," says Tomasz Piskorski, a professor of real estate finance at Columbia Business School, speaking of the companies as a group. "What happens to the iBuyers when home prices drop? You could imagine a situation where they have a big inventory of homes, and they aren't able to repay their debt."

Zillow's websites and apps get billions of page views per quarter, fueling a high-margin business in charging real estate agents a fee to connect with house hunters. But Barton, who founded Expedia Group Inc. before starting Zillow in 2004, decided the company risked falling behind new entrants into the real estate business if it didn't get into the buying-and-selling game, too.

IBuyers such as Zillow and its competitors say they're trying to solve a timing problem for their customers, particularly buyers who are trading up from an existing property. Until they sell their old house, it can be tricky and stressful to pay for the new one. Or if they sell their current property more quickly than expected, they could find themselves in a rush to find a new place to live.

In 2014 a startup called Opendoor introduced a potential solution. It invited homeowners to request an offer on their house, then used algorithms to come up with a price. If the owner

Edited by Pat Regnier

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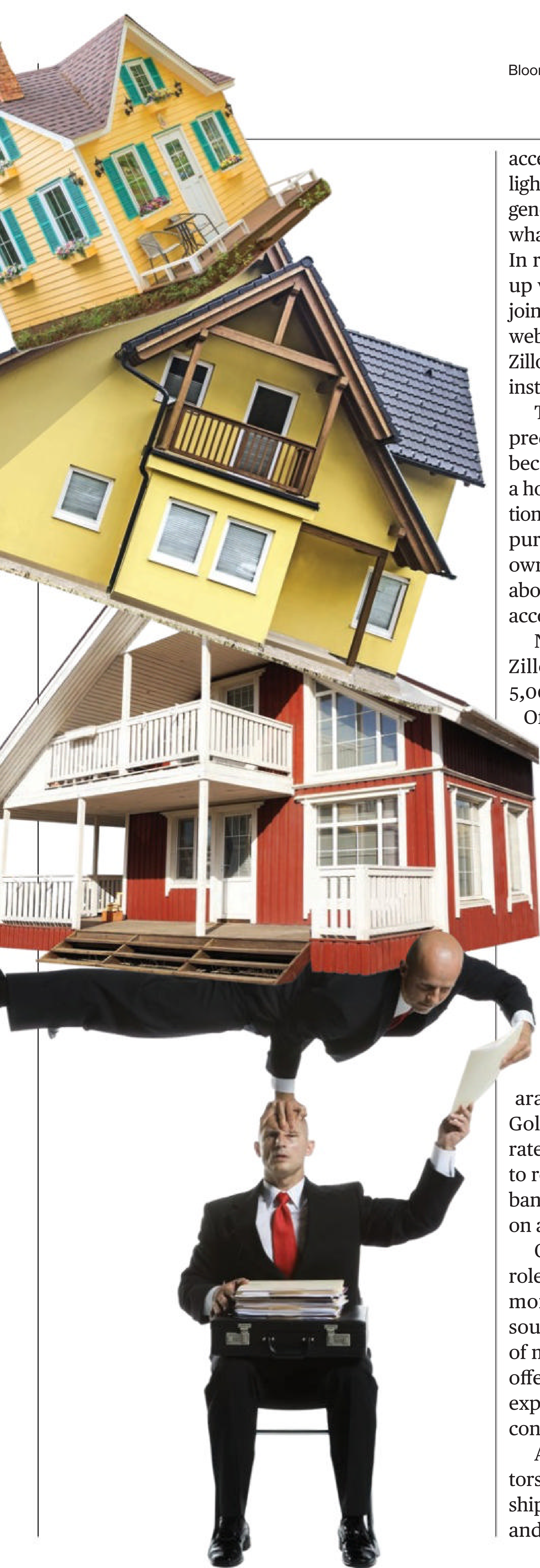


accepted, Opendoor purchased the property, made light repairs, and put it back on the market. Sellers generally accepted a small discount compared with what they would have gotten on the open market. In return they could schedule the closing to line up with their purchase of a new property. Zillow joined the iBuying fray in 2018. In some markets its web and app users are given the option to "sell to Zillow for your Zestimate," the company's marquee instant estimate of a home's price.

The iBuyer model depends on software that predicts short-term changes in local home prices, because it usually takes three to six months to flip a home. It also requires a network of home renovation contractors and debt facilities for funding home purchases. All of those are complicated in their own right. Still, the four largest iBuyers acquired about 15,000 homes in the second quarter of 2021, accounting for 1% of all purchases nationwide.

Now those volumes are set to explode. Zillow expects to acquire homes at a pace of 5,000 a month by 2024. Another competitor, Offerpad Solutions Inc., could eventually buy 70,000 homes a year, based on its view of the future opportunity. Opendoor, still the largest iBuyer, has said its playbook calls for the company to capture 4% of all home sales in 100 markets. Together the three companies could soon be buying almost $100 billion worth of homes a year, requiring more than $20 billion in revolving credit facilities.

In the early days, iBuyers funded purchases with credit facilities that charged about 7% interest on committed capital, similar to what a traditional home flipper might have paid. As lenders got more comfortable, the rates came down. Zillow currently carries separate $500 million facilities with Credit Suisse, Goldman Sachs Group, and Citigroup, all with rates below 3%. Going to the bond market is a way to reach an even larger pool of capital beyond the banks. "It's kind of a fuel for the ship," Barton said on a recent call with investors.

"What happens to the iBuyers when home prices drop?"

Of course, Wall Street has long played a major role in the U.S. real estate market. The enormous mortgage-backed securities market is the key source of financing for loans and the backbone of many fixed-income portfolios. But iBuyers are offering investors a new kind of short-duration exposure to U.S. housing that isn't directly tied to consumer credit.

Although Americans are used to financial investors having a big role in mortgage debt, the ownership of single-family housing has long been a mom and pop affair. That's changing. Private equity ▶

◀ firms and asset managers have been buying houses to convert to rentals. And now iBuyers backed by Wall Street cash and vast troves of data are becoming a noticeable and sometimes controversial presence in some hot real estate markets.

In September, a TikTok video by Las Vegas real estate agent Sean Gotcher accusing unnamed iBuyers of manipulating prices went viral with more than 2.4 million views. That prompted a six-post Twitter response by Redfin Corp. CEO Glenn Kelman, whose web-based real estate brokerage is also an iBuyer. "We'd never intentionally underpay or overpay for a home," he wrote. Zillow said in a statement that it pays market value for every home it buys, and that the prices it pays and sells for are shown on its site. It said it expects to earn thin margins by providing a convenience to sellers.

To date, most of Zillow's purchases have been median-priced homes in Sun Belt metros, where its price-estimating algorithms operate with the highest confidence. Zillow pledged 1,416 homes as collateral in its initial bond deal, according to documents seen by Bloomberg News, half of which were already under contract to the next buyer. When those sales close, the homes will fall out of the bond, and Zillow will have to replace them with other real estate. At the end of a two-year term, the company has the option of paying down the loan, or the more likely option of refinancing into a new facility. The houses pledged in its initial bond deal have an average price of $320,000. But as much as 20% of the collateral could eventually consist of homes that cost $950,000 or more, the loan documents show.

The main risk for Zillow is that it overpays for houses. If the market slows, the company could take a loss on the homes or struggle to sell them as quickly as anticipated. The societywide lockdowns at the beginning of the pandemic were an early test. As the housing market froze in the spring of 2020, iBuyers scrambled to reduce exposure for a time. But conditions quickly gave way to a suburban buying boom that boosted their businesses.

A true shock to home prices could be a different story, says Karan Kaul, a senior researcher at the Urban Institute's Housing Finance Policy Center. "The last five or so years have been the best time to be in the housing market in a very long time," he says. "The iBuyers haven't been exposed to an adverse economic cycle. It's too early to tell what their long-term future looks like." *—Patrick Clark and Noah Buhayar*

THE BOTTOM LINE Zillow is among the iBuying companies that make it faster for customers to sell. The risk is that Zillow and bond investors could get stuck with overpriced houses.

Does New Cash Make Stocks Go Up?

● Theory said more investors coming into the market doesn't matter. Then meme stocks hit

For years, Jean-Philippe Bouchaud, a physicist-turned-money manager in Paris, has been trying to convince his old-school peers of a wild idea: When lots of people buy a stock, the price goes up.

Wait—that's obvious, right? Not really. For decades, financial theory has been built on the premise that a share price reflects everything known at any moment about a company's value. When a company announces an earnings number, some traders see it as a bullish sign, others are bearish, and they trade with each other to settle on a price. In this model, it doesn't really matter if a million or a billion dollars flows into a stock. After all, for every buyer there must be a seller. If a flood of buyers were to push the price too high, more sellers should quickly step in to take advantage.

But Bouchaud's more intuitive take—that flows of cash really do move prices—is catching on among the data-minded investors known as quants. That's partly thanks to an influential 2020 paper by academics Xavier Gabaix of Harvard and Ralph Koijen of the University of Chicago. It's also a matter of timing: The stock price surges unleashed by Reddit chat boards have shown what can happen when new investors pour into a stock. "It's really important that this event on the Reddit stocks happened suddenly," says Bouchaud, chairman of Capital Fund Management. It threw light on the idea that "prices move because people do things independently of fundamental value."

The orthodox economic theory of stock prices known as the efficient markets hypothesis has long had its haters. The dot-com bubble and the subprime mortgage crisis didn't look like examples of markets calmly processing all available information. Meme-stock madness is adding to the doubts. Gabaix and Koijen's work, "In Search of the Origins of Financial Fluctuations: The Inelastic Markets Hypothesis," explains how the amount of money sloshing into markets can have an outsize and lasting impact on share prices regardless of fundamental factors such as earnings, revenue, or growth.

The inelastic markets hypothesis argues many investors are too price insensitive—or too inelastic, as economists say—to sell when others want to buy.

▼ Global flows into equity funds

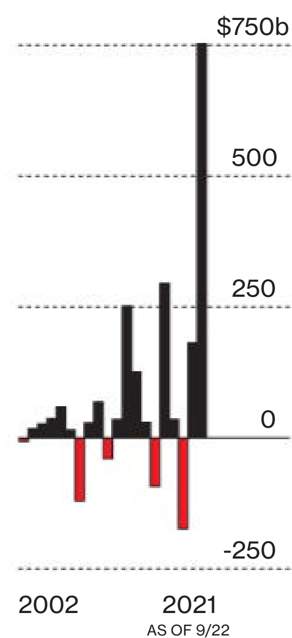


ILLUSTRATION BY PATRICK EDELL. DATA: BANK OF AMERICA; EPFR GLOBAL

Institutional investors like pension plans are bound by rigid allocation rules such as fixed asset class mandates and volatility targets and are incapable of responding quickly to changing prices. More flexible players like hedge funds don't own enough stocks to counter this effect.

The idea of inelastic markets implies the S&P 500 could keep shattering records for longer than bears think is rational. It also suggests that corporate share buybacks—which have mounted a roughly $370 billion comeback in the U.S. this year—can have a big effect on prices, contrary to some economists' models. Then there are the meme stocks. "This may answer, for some investors, why certain stocks with enthusiastic supporters seem to escape the gravity of fundamentals," says Corey Hoffstein, chief investment officer at asset manager Newfound Research.

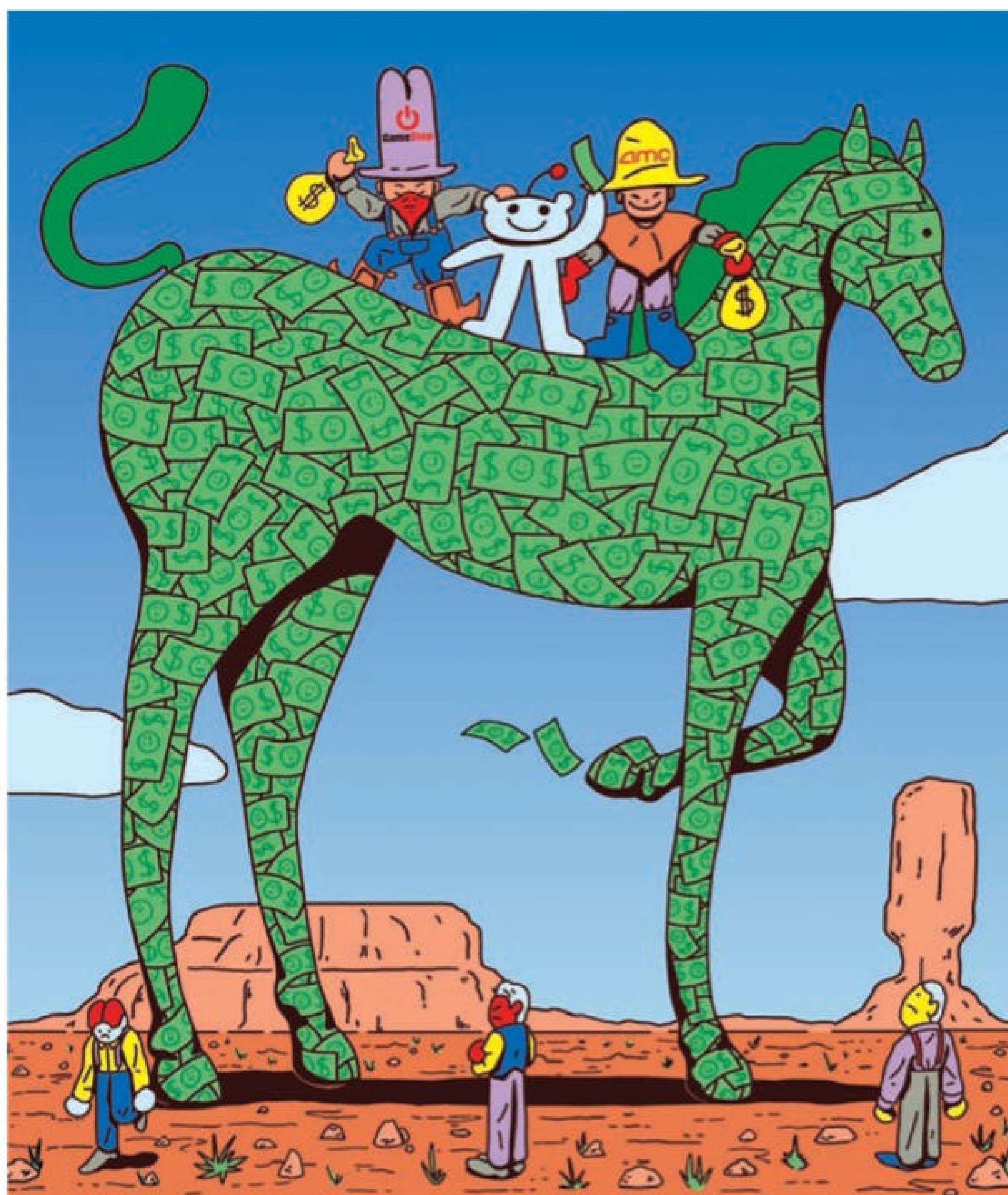
The Gabaix and Koijen study now ranks among the most viewed and downloaded on the Social Science Research Network, a vast online trove of scholarly papers that's scoured by quants trying to stay on the cutting edge of ideas. It's won an award from quant giant AQR Capital Management. And it's become fodder for the industry debate about the growing role of index funds, which by definition don't react to prices.

The paper tries to put a number on how much stock prices have to move to make sellers offload their holdings when a horde of buyers rushes in. A lot, it turns out: When a fund sells bonds to put, say, $1 billion into stocks over a quarter, this can push up prices by $5 billion. Yet when the duo surveyed economists on how market values would change in that scenario, the majority said zero. "Practitioners are much more sympathetic than economists," says Gabaix. "If you talk to any trader, they have a feeling that flows affect prices."

With two decades at the helm of his $8 billion quant hedge fund, Bouchaud is one such practitioner. He was excited enough by Gabaix and Koijen's study that he recently devoted part of his vacation to writing a paper connecting their work to his own research on market structure. It's accepted by anyone who's ever traded serious money that buying a stock has a vexing "price impact"—that is, a tendency for shares to get more expensive when you are buying large quantities of them, cutting your returns. (The opposite happens when you sell.) But this effect is usually thought to be fleeting. Bouchaud found that some of those gains stick, and that investors' estimates of a stock's fair value end up coalescing near the new number.

Skeptics say the new hypothesis has gone too far. U.S. stocks are simply too liquid for most well-executed trades to have much of an impact, says Savina Rizova, head of research at Dimensional Fund Advisors, whose board includes Eugene Fama, the University of Chicago economist who won the Nobel Prize for his work on efficient markets. Gabaix and Koijen themselves aren't ready to overturn the entire school of efficient markets. It's possible, they say, that market-moving flows are well-informed. Bouchaud also agrees that over the span of years, prices return to their fundamental value.

More work on the topic is emerging, much of it supporting inelasticity. An August paper by the University of Chicago's Samuel Hartzmark and



Boston College's David Solomon argues stock returns are higher on days when there are lots of dividend payouts because of inflows of reinvested cash. That's true even though these flows are predictable enough for others to trade against.

Back when he and Koijen first presented their paper, Gabaix recalls many economists telling him it was pointless to attribute a stock rally to inflows. "Now it's a little easier to find economists to talk about such things," he says. "There's a clear theoretical benchmark." —*Justina Lee*

THE BOTTOM LINE Research is building the case that money flows can affect stock prices, because some investors are bound by rules that make them slow to react.

18+

WHAT IS

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A Chance to Build a More Inclusive Fed

● Recent departures increase pressure to appoint more outsiders and minorities

The resignation of two Federal Reserve chiefs amid a stock trading scandal means an unexpected number of top monetary-policy jobs are coming up for grabs—and there'll likely be an unusually intense spotlight on who fills them.

Eric Rosengren and Robert Kaplan, presidents of the Fed branches in Boston and Dallas, announced their retirements on Sept. 27 following disclosures about their trading activity last year.

The departures leave as many as six seats that could be filled in the coming months, at a time when the central bank is under pressure to make its top ranks more diverse. The appointments could also change the outlook for policy. Members are split on what to do in 2022, with half wanting to raise interest rates to head off inflation and the others wanting to hold rates at zero.

The Fed's leadership in Washington is likely to command more influence over new appointments at the 12 district banks, a responsibility that typically falls to their boards, Fed watchers say. There's "an opportunity for the Fed's Board of Governors to initiate a more open and transparent process" for selecting Fed presidents, says Andrew Levin, a Dartmouth College economist and former Fed Board senior staff member. "Serious consideration should be given to a wide range of candidates, not just longtime Fed insiders or those with close ties to finance and wealth management."

Raphael Bostic, the Atlanta Fed chief, became the first Black regional president in 2017, more than 100 years after the system's establishment in 1913. Neel Kashkari, who heads the Minneapolis Fed, is Indian American. Only a quarter of the regional Fed chiefs are women.

New appointments could shift the balance of the central bank's interest rate-setting committee,

Edited by Cristina Lindblad

ILLUSTRATION BY HUNTER FRENCH; BIDEN: PATRICK SEMANSKY/AP PHOTO. REGIONAL FED PRESIDENTS AS OF SEPT. 29; DATA: FEDERAL RESERVE; BLOOMBERG

too. The departing Rosengren and Kaplan are viewed as moderately hawkish on inflation—as are Richard Clarida and Randal Quarles, two vice chairs of the Fed whose terms are due to end in the coming months. Their replacements could swing the committee in favor of officials who would like to take their time tightening policy, to allow the labor market to stage a full recovery. Chair Jerome Powell's term is also due to end in February. President Joe Biden hasn't indicated whether he'll reappoint him, and a decision is expected this fall.

Rosengren, 64, cited health concerns in announcing he'd be stepping down on Sept. 30, more than nine months ahead of his mandatory retirement. Kaplan, who's the same age, could have remained in his post until 2025, but he said he'll depart on Oct. 8.

The announcements followed revelations earlier this month about stock trading that led both men to pledge they would divest individual stocks and other controversial holdings. Powell said he would conduct a systemwide review of the rules governing the permissible investment holdings and activities of senior Fed officials.

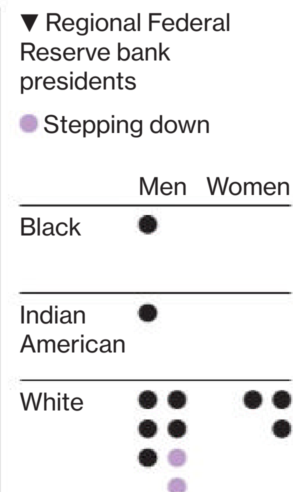
Kaplan and Rosengren both made trades while the Fed was purchasing a wide range of assets to support the economy. (Both have said the trades were consistent with applicable ethics rules.) They're not the only policymakers to run into trouble over such issues. Members of Congress on both sides of the aisle have been criticized over profits that they or members of their families have earned on individual stocks at a time when public policy during the pandemic is widely seen as propping up financial markets.

The search for Rosengren's and Kaplan's successors will be led by the heads of the Boston and Dallas Fed boards. Unlike members of the board of governors, who are nominated by the president and confirmed by the Senate, regional chiefs are selected by that bank's board of directors—typically made up of regional business leaders and high-level representatives from nonprofit organizations. But in recent years their appointments have drawn more scrutiny, especially over the question of diversity, prompting the Fed's board in Washington to become more deeply engaged in the search and selection process.

While Bostic's appointment in 2017 and Mary Daly's selection in San Francisco in 2018 were welcomed, four other spots went to White men, three of whom were Fed insiders. In 2015 the Philadelphia board picked one of its own members, Patrick Harker, for the top job, after having signaled that it was committed to searching for outside, diverse candidates. Also in 2015, Dallas chose Kaplan, a former Goldman Sachs executive. In 2018, Richmond tapped former McKinsey & Co. consultant Thomas Barkin and New York chose John Williams, then already president of the San Francisco Fed.

During its search, the New York Fed board claimed to put an emphasis on diversity and inclusion, says Claudia Sahm, a former Fed economist and senior fellow at the Jain Family Institute. "Where did they end up?" she added. "With a White guy who grew up inside the Fed."
—*Christopher Condon and Craig Torres*

THE BOTTOM LINE A slew of vacancies presents an opportunity to make the U.S. central bank more diverse, and potentially also more dovish.



A New Golden Age for U.S. Steel

● The tariff-protected industry is raking in profits, which has customers clamoring for relief

◀ Biden at a 2020 United Steelworkers event in Detroit

When President Donald Trump slapped 25% tariffs on foreign-made steel in early 2018, roiling markets and rankling allies, American steel was hurting. Employment numbers in the industry had hit a new low the previous year, annual mill usage was hovering near just 70% of capacity, and cheaper imports were flooding the U.S. "Our steel industry is in bad shape," Trump tweeted in March 2018. "IF YOU DON'T HAVE STEEL, YOU DON'T HAVE A COUNTRY!"

Three and a half years later, the sector is in a very different place. America's steel mills have ▶

◀ been producing at their highest levels since the Great Recession, and their owners are on track to book their fattest profits ever, thanks to record- high prices. As the global economy bounces back from its pandemic lows, sales of steel-made products ranging from paper clips to cars to dishwashers are through the roof. Wall Street analysts predict that 120-year-old U.S. Steel Corp. will earn $5.5 billion in 2021 by one closely watched measure, more than it did in all of Trump's presidency.

That reversal of fortunes has the Biden administration discussing internally if now is the right time to begin paring back Trump's tariffs, which critics—namely heavy consumers of steel, including makers of autos and home appliances—say are no longer needed to bolster a domestic industry that would still log robust profits, even without import protections.

The White House is said to be weighing removing the duties, at least those on shipments from the European Union, according to a person who is familiar with the situation but is not authorized to discuss the deliberations publicly. Instead, it is considering implementing a tariff-rate quota system under which any imports over a certain level get taxed. Administration officials hope to arrive at a decision by the end of the year.

President Joe Biden wants to mend fences with Europe and revitalize the alliance to jointly curb China's might. Then there's a growing feeling inside the White House that U.S. steelmakers are getting greedy, according to a person familiar with the administration's thinking.

At the same time, Biden, who hails from Pennsylvania and has painted himself as an advocate for workers in Rust Belt industries, wants to make good on his campaign promise to create more union jobs. There's also the cold political truth that steelworkers, even in their dwindling numbers, have a great impact in important swing states, including Ohio and Pennsylvania.

The steel industry has raised the alarm that the removal of the tariffs on European steel could result in a flood of what it dubs "high-carbon" imports from blast furnace mills across the Atlantic that are more polluting than U.S. mini mills. They also warn that producers in China and elsewhere could route U.S.-bound shipments through the European Union to evade duties.

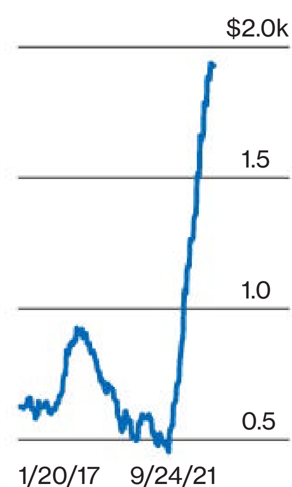
Tom Conway, who heads the United Steelworkers (USW), has indicated he would countenance removing the EU tariffs provided there was a monitoring mechanism in place to ensure steelmakers in other countries didn't exploit loopholes. "I'm one that would take a quota," he said in an interview in June.

That gives Biden some wiggle room. And even if the tariffs are revoked, the USW can look forward to billions of dollars in new spending on bridges, ports, and other steel-intensive projects once Congress signs off on an infrastructure plan.

Pushing to remove the tariffs are U.S. manufacturers, which have reported a hard time getting metal. In a briefing paper released in March, 37 U.S. trade groups, ranging from the American Petroleum Institute to the Beer Institute, called for scrapping the duties. Lead times for steel delivery had pushed out to as long as 16 weeks, the group said, compared with four to six weeks in late 2020.

It's gotten worse since. Some domestic steel mills were booked so far out this summer that they started turning away orders. Steelcase Inc., a maker of office furniture, has already raised prices twice this year to offset the rising cost of the metal. Then, in September, the company announced an "unprecedented" third hike. "Steel inflation has been extraordinary," said Chief Executive Officer James Keane on a recent earnings call. —*Joe Deaux, with Jenny Leonard*

▼ U.S. steel futures, dollars per short ton



THE BOTTOM LINE The Biden administration is weighing lifting Trump-era tariffs on steel imports from the EU to placate European allies, which could help bring down prices in the domestic market.

Warding Off A Pig Plague

● If African swine fever reaches Puerto Rico it could shut down U.S. pork exports

Shortly after officials detained six migrants from the Dominican Republic who had landed on the western coast of Puerto Rico on Sept. 24, a team of investigators in white protective gear descended on the beach. They weren't searching for drugs or contraband but another threat: pork.

The Western Hemisphere registered its first outbreak of African swine fever virus in almost 40 years on July 28 at pig farms in the Dominican Republic. By September the devastating disease had been found in neighboring Haiti. Now the U.S., the world's largest pork producer after China, is

scrambling to keep the malady from washing ashore and potentially shutting down its $7.7 billion pork export industry.

While Puerto Rico is more than 2,200 miles from the hog farms of Iowa, it's part of the U.S. And it's experiencing a dramatic rise in undocumented migrants from African swine fever hot spots. That's driving fears that an outbreak on the Caribbean island could trigger an export ban on all U.S. pork products. "This isn't just a Puerto Rican problem," says Ramón González, the island's agriculture secretary. "This is a problem for the entire United States."

African swine fever, or ASF, is a viral hemorrhagic disease that rips through pig herds, usually killing an animal within 10 days. "They basically bleed out," says Liz Wagstrom, chief veterinarian at the National Pork Producers Council, an industry group that represents 60,000 U.S. hog farmers. "This is probably the most feared pig disease out there."

What makes ASF so pernicious is that it's hard to eradicate and so easy to transmit. Researchers have found the virus burrowed in the bone marrow of long-dead pigs and in cured ham products. A 2018 outbreak in Belgium is thought to be linked to a wayward piece of pork, discarded during military operations or by a long-haul trucker, which was eaten by a feral pig. The disease eventually spread to commercial farms. The virus can also travel in trace amounts of dirt and manure.

Since there's no treatment or cure for ASF, mass slaughter is one of the few ways of controlling the disease. Already the Dominican Republic has culled more than 65,700 pigs this year as it tries to avoid a repeat of a 1970s outbreak that led it to exterminate its entire pig stock—more than 1.4 million animals. China has been grappling with multiple outbreaks since the disease was first detected there in 2018. ASF is now present in 50 countries across Africa, Europe, and Asia.

"This could easily be the most serious animal sanitary crisis of our generation," says Gregorio Torres, the head of the science department at the World Organization for Animal Health, a Paris-based body that helps coordinate the global response to outbreaks by disseminating information and publishing health and safety guidelines that can affect international commerce. It's not just an issue for commercial livestock operations. Many poor families in the Caribbean and elsewhere depend on subsistence hog farming, says Torres.

In September, the U.S. Department of Agriculture asked the World Organization for Animal Health to label Puerto Rico and the U.S. Virgin Islands a "foreign animal disease protection zone"—meaning they'd be classed as separate jurisdictions when it comes to global trade.

▲ A pig farm in the Dominican Republic

The U.S. doesn't import pork products from Haiti or the Dominican Republic because the two nations also have the less deadly classic swine fever. Puerto Rico recently banned any pork products from being exported or carried to the U.S. mainland, including the ubiquitous local delicacy *empanadilla*. And the island's ports and airports are being heavily monitored, including by pork-sniffing dogs.

But the migrant smuggling routes are harder to patrol, says Customs and Border Protection spokesman Jeffrey Quiñones.

Over the course of a few hours on Sept. 24, CBP officials found six *yolas*, or small vessels, along the shores of western Puerto Rico. At one landing site, officers seized a boat, called *Blessing*, along with six undocumented migrants. Some other passengers were thought to have escaped through a nearby golf course.

Strewn around the beach, officials found cans of sausage and plastic-wrapped bologna made in the Dominican Republic. Some had exploded in the intense heat—a ready meal for the area's feral pigs. But there were also less obvious threats. Pointing to a pair of soggy tennis shoes, Quiñones said that if they'd been worn on an afflicted farm in the Dominican Republic or Haiti, they could carry ASF. "The virus could be within the soles of the shoes," he said. "That's why this is so hard to stop." —*Jim Wyss*

● Annual U.S. pork exports

$7.7b

THE BOTTOM LINE Migrants fleeing Haiti and the Dominican Republic could unwittingly bring African swine flu into Puerto Rico, triggering a ban on close to $8 billion of U.S. shipments.

RICARDO ROJAS/REUTERS/ALAMY. DATA: COMPILED BY BLOOMBERG

Germany's Mix & Match Election

● After a close vote, coalition talks in Berlin are likely to drag on for months

For the past 16 years, Europe and the world have grown accustomed to Angela Merkel's steady hand steering the German government. So after a Sept. 26 election in which Merkel wasn't a candidate, those wary of change and fearing a vacuum have fretted about the end of the chancellor's long tenure. But for now at least, Germany's leader will be…Angela Merkel.

The voting left the Social Democratic Party in the lead (though just barely), the Christian Democrats reeling from their first outright defeat since 1998, and two smaller parties positioning themselves as kingmakers. After Germany's last national election, in 2017, it took almost six months to install a governing coalition—despite a clear victory by the incumbent chancellor. Until a new government is named, Merkel will remain in the Chancellery. "Nobody wants to repeat the experience of 2017," says Carsten Nickel, a managing director at political risk consultancy Teneo. "But it's always a challenge to get parties together."

Olaf Scholz, the Social Democratic leader who's in the strongest position to take power, says he wants to form a government by Christmas. Yet even after an unlikely come-from-behind victory—he was written off by the punditocracy as recently as August—Scholz has a rough road to the chancellorship. He's staked his destiny on a three-way coalition with the climate-focused Greens and the pro-business Free Democrats (FDP), parties with diametrically opposing views on taxation, debt, and the role of the state.

Armin Laschet, the hapless state premier who emerged as the leader of the Christian Democrats after a bruising internal battle, is holding out for his own coalition with the Greens and FDP, though such a matchup can happen only if Scholz's talks collapse. Other majorities are possible, including a revival of a "grand" coalition with the two biggest parties, this time led by the Social Democrats. But the political will for such a combination is close to zero, with a Civey/*Der Spiegel* poll finding 63% of Germans backing Scholz as chancellor, vs. 24% who prefer Laschet. And as Laschet struggles to contain the damage of his electoral loss, it's unclear where he'll be in a few months: Some in the rank and file are calling for his resignation, and his Bavarian allies have said he has no mandate to form a government.

That puts two parties with a history of mutual enmity at the center of efforts for a new government. The Green candidate, Annalena Baerbock, spent the campaign excoriating Christian Democrat and FDP plans for tax cuts, insisting that their proposals would leave Germany crippled when it

Edited by
Amanda Kolson Hurley
and David Rocks

◀ From left, Scholz, Laschet, Baerbock, and Lindner

comes to investing in climate technology, the digital economy, and education. Christian Lindner, the FDP boss who wants to lead the powerful Finance Ministry, pledged not to increase taxes. And on the campaign trail he drew cheers by hectoring the Greens as a "party of prohibition" and ridiculing them for a proposal to offer subsidies for cargo-carrying bicycles. "Germany doesn't need any more left-wing policies," Lindner told a crowd in Dresden on Sept. 17.

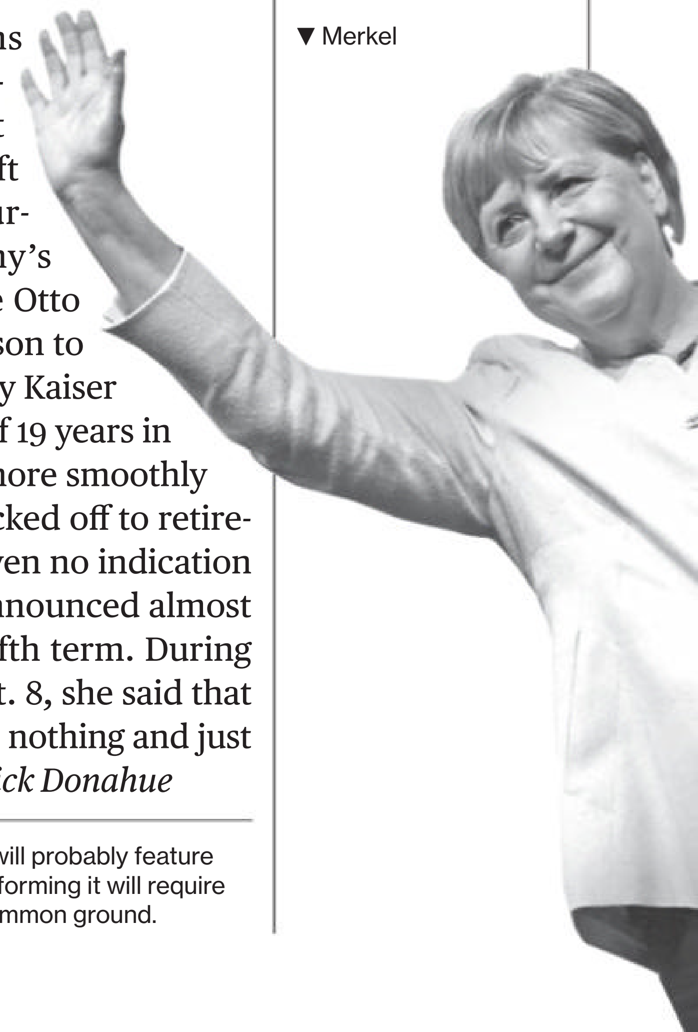
Still, it was Lindner who on election night proposed a first round of talks with the Greens, saying the two parties represented a "renewal" after the stale status quo of the Merkel era. The overture was taken up by Green co-leader Robert Habeck, a former energy minister in the state of Schleswig-Holstein, where he helped form a coalition with the Christian Democrats and FDP. Habeck, a novelist-turned-politician who tries to portray himself as a fresh-thinking outsider, said a three-party alliance would require each faction to "find itself" rather than succumb to the familiar political categories of the past. "Hey, Germany, are you still sleeping?" he said to reporters. "Something new can happen. It's actually a cool situation."

The parties will hold exploratory talks to determine whether there's enough common ground to even attempt negotiations. If there is, teams of experts will begin shaping policy goals in meetings that can take weeks, ultimately either storming away from the table and calling it quits or—with luck, sweat, and goodwill—producing a book-length document mapping out the new government's agenda. Only then will the parliament meet to vote on the new chancellor. "Parties have to fulfill the expectations of the people who voted for them," Scholz said the day after the election. "You have to find a solution where all supporters can say, 'I'm happy with that.' "

Until that happens, the region's biggest economy will be left with the European Union's longest-serving leader as a caretaker chancellor. Merkel, the only postwar German chancellor to leave the job willingly, will represent the government at EU Council meetings and, probably, the Group of 20 summit in Rome at the end of October. There's a trip to Israel in the works, she'll address the nation on the 21st anniversary of reunification after the fall of the Berlin Wall, and her team will likely attend the COP26 climate talks in Glasgow, Scotland, in November.

If the coalition negotiations indeed drag on until the holidays, the incoming government will give Merkel a Christmas gift of sorts: On Dec. 19, she'll surpass Helmut Kohl as Germany's longest-serving chancellor since Otto von Bismarck, the very first person to hold the job (he was forced out by Kaiser Wilhelm II in 1890, one day shy of 19 years in the position). Even if things go more smoothly than expected and Merkel is packed off to retirement before December, she's given no indication that she regrets her decision—announced almost three years ago—not to seek a fifth term. During a livestreamed interview on Sept. 8, she said that initially, at least, she plans to "do nothing and just wait for what comes up." —*Patrick Donahue*

THE BOTTOM LINE The next government will probably feature the Social Democrats, Greens, and FDP, but forming it will require tough talks among three parties with little common ground.



▼ Merkel

BLOOMBERG (4); MERKEL: ANNEGRET HILSE/REUTERS

Will Buckhead Divorce Atlanta?

● A de-annexation plan would take away a large chunk of Atlanta's land, people, and tax dollars

On the night of Aug. 7, Kenon Jennings was found shot near Hide Kitchen & Cocktails, a hookah lounge in one of the many booming business strips of Atlanta's Buckhead area. He later died.

For Bill White, who lives in Buckhead, the killing was yet another sign that the area known for its mansions, high-end restaurants, and luxury stores needs to take public safety into its own hands. "We are living in a war zone in Buckhead," White says. "Shootings and killings, it just never ends."

White is chief executive officer of the Buckhead City Committee (BCC), a group trying to convince lawmakers and voters that the neighborhood should split—or de-annex—from Atlanta and become a city unto itself. There are many political hurdles, but White's group has already cleared a few of them, and a bill has been introduced in the Georgia legislature to allow the de-annexation to come up for a vote next year. If all goes in the BCC's favor, White expects the new city to be up and running by June 2023.

A split could be devastating for Atlanta financially. Buckhead isn't small—it stretches over 24 square miles—and the proposed new city would take with it nearly 90,000 residents, about one-fifth of Atlanta's current population. Atlanta would lose an estimated 38% of its tax revenue if Buckhead leaves, according to the Buckhead Community Improvement District. The Metro Atlanta Chamber of Commerce and two local civic and business groups, the Buckhead Coalition and the Buckhead Business Association, have said they're opposed to de-annexation.

The secession by majority-White Buckhead would strike at the power of Atlanta's Black political class. Black residents have been involved in a 50-year project to accrue power in the city, beginning with the election of the first Black mayor, Maynard Jackson, in 1973. Today a mostly Black cast of elected officials is in charge of a city that has one of the highest concentrations of Fortune 500 company headquarters in the nation.

"I think that much of what's going on is about the inability of" White Buckhead residents "to have greater influence over the policy choices of the city of Atlanta," says Michael Leo Owens, a political scientist at Emory University. Buckhead "is among the Whitest parts of Atlanta, and it is the epicenter of Republicanism in Atlanta. All those things map on to each other to create, at a minimum, a racial cleavage, with regards to politics and elections in the city of Atlanta."

The 30327 ZIP code, Buckhead's plushest quarters, was the only pocket of Atlanta to vote for Donald Trump in 2020. Bill White says the de-annexation push is not about politics or race but simply about the future of the neighborhood: "We are people who just want to take our community back."

Past attempts to carve Buckhead out of Atlanta have gone nowhere. This one has gained momentum, thanks in part to the well-connected White, a New York transplant who helped raise millions for Trump's 2020 campaign. "It is more serious this time, and the proponents of it are well funded," Fulton County Commission Chairman Robb Pitts, who lives in Buckhead, says. "I think it's going to go further this time around than it's ever gone."

Led by White and a local real estate agent named Sam Lenaeus, the BCC has raised almost $1 million for its campaign, according to White. Several local families have given $100,000 each, he says.

▶ Buckhead, with Atlanta's downtown skyline visible in the distance

▼ White

A recent poll conducted by the *Atlanta Journal-Constitution* and the University of Georgia School of Public and International Affairs found that almost 54% of Buckhead residents voiced some support for cityhood.

Opponents of the cityhood idea have mounted their own lobbying group, the Committee for a United Atlanta. Co-chair Linda Klein, a lawyer and past president of the American Bar Association, says Buckhead's crime problem is "horrible," but "some of us disagree on what the solution is." "If I

PHOTOGRAPHS BY ELIJAH NOUVELAGE FOR BLOOMBERG BUSINESSWEEK (2)

believed that carving up the city was the solution, I'd be all for it," she says.

Like many other American cities, Atlanta has experienced a recent increase in violent assaults and homicides. In the police zone where Buckhead is located, there were 48 shootings this year as of Sept. 11, up 50% from the same period last year and up 167% from the same period in 2019. But it's hardly Atlanta's worst area for crime. The Buckhead zone has experienced fewer murders, shooting incidents, robberies, and burglaries in 2021 than any of the five other police zones around Atlanta, as of the week of Sept. 11.

Supporters of a new Buckhead City lay much of the blame for rising crime on Atlanta Mayor Keisha Lance Bottoms, who oversees a police force that lost almost 200 officers last year. Bottoms, a Democrat, contends that the surge in Atlanta parallels that in other cities and was spurred by restless young people not being in school and a proliferation of guns on the street. "Even if an impermeable wall were built around this proposed new city, it would not address the Covid crime wave that Atlanta, the state, and the rest of the nation are experiencing," she said in a statement.

Bottoms decided not to run for a second term this year, and several candidates are competing to replace her. All of them have said they oppose cityhood for Buckhead.

If state lawmakers pass the bill next spring, it will then go before voters to decide in a referendum. There's a catch: Only people who live within the boundaries of the proposed new city get to vote on it. According to a fiscal analysis by the Committee for a United Atlanta, de-annexation would cost Atlanta as much as $116 million annually, while Atlanta's school district could lose almost $232 million every year. A feasibility study conducted for the BCC found that de-annexation would be a boon for Buckhead City. It would bring in an estimated $203 million in revenue annually vs. $90 million in expenses, according to Valdosta State University's Center for South Georgia Regional Impact.

This is not Georgia's first dance with city secession. In 2018 a swanky neighborhood anchored by a country club called Eagle's Landing tried to split from the city of Stockbridge. That proposal made it to a ballot referendum that year, where it failed.

Had it been successful, it would have done irreparable economic harm to Stockbridge, wrote Kidwell & Co., a municipal finance adviser that lists several Georgia cities as clients. Moody's Investors Service and S&P Global Ratings said it would have negatively affected the credit ratings of Stockbridge, every city in Georgia, and the state itself.

The Would-Be City of Buckhead

	Buckhead	Atlanta
White population	81.7%	38.3%
Black population	12.6%	50.5%
Households with income $100k and over	49.3%	31.3%
Owner-occupied housing units worth more than $1m	14.6%	4.8%
People below the poverty line	9.2%	20.8%
Bachelor's degree or higher	79.2%	51.8%
Drive alone to work	79.6%	67.1%

DATA: AMERICAN COMMUNITY SURVEY, 2019 5-YEAR DATA. EDUCATION IS AMONG PEOPLE 25 AND OLDER. TRANSPORTATION TO WORK IS AMONG WORKERS 16 YEARS AND OLDER. DATA FROM CENSUS TRACTS LARGELY IN BUCKHEAD AS DEFINED BY VALDOSTA STATE UNIVERSITY'S FISCAL FEASIBILITY ANALYSIS OF A PROPOSED BUCKHEAD CITY

The BCC says it won't harm Atlanta by de-annexing and will divert taxes only for police, roads, and parks. But the Committee for a United Atlanta has echoed the earlier warnings from Moody's and S&P Global, predicting "a destabilizing impact on the State of Georgia."

A mapping project by Trulia and the National Fair Housing Alliance showed that banks, medical centers, grocery stores, parks, and other amenities are disproportionately clustered in and near Buckhead. The *Atlanta Journal-Constitution* found that the city's $60,000 median household income would drop to $52,700 if secession happened. Buckhead City would have a median household income of $140,500.

Whatever the Buckhead campaign's complaints about it, Atlanta "has done a lot to protect the interests of Buckhead" over the years, Owens says. "Because it's in the interests of the city of Atlanta to do that." *—Brett Pulley and Brentin Mock*

THE BOTTOM LINE If it succeeds, the latest push for Buckhead to split from Atlanta would leave a hole in the larger city's finances and intensify economic and racial divides in the region.

Wall Street Cash Buoys DeSantis

● Florida's GOP governor has built a sizable war chest as he looks to 2022 and beyond

When it comes to the likely Republican presidential candidates in 2024, Wall Street's money is on Florida Governor Ron DeSantis—not former President Donald Trump, who's been teasing another run at the White House.

A fifth of the $55 million that DeSantis has raised this year came from hedge fund billionaires, private equity bankers, investment managers, and other finance industry donors. Trump, who got less than 2% of his 2020 reelection funds from Wall Street, has raised the bulk of his $100 million war chest from small-dollar donors.

"Ron DeSantis is my favorite man," says Thomas Peterffy, 77, the billionaire chairman of Greenwich, Conn.-based Interactive Brokers, who gave $250,000 to DeSantis's political action committee in April. Although he donated hundreds of thousands to Trump in 2016 and 2017, he says he would rather the former president sit out 2024. Compared with the impulsive Trump, DeSantis "does much more substantial planning," Peterffy says. "He thinks about how he wants to implement things."

DeSantis, 43, is a veritable money magnet for super-rich donors in finance, according to records from the Florida Division of Elections. Citadel's billionaire owner Ken Griffin tops the list, with a $5 million gift to DeSantis's PAC made on April 30. Other hedge fund and private equity heavies who've made donations include Tudor Management's Paul Tudor Jones II ($400,000) and buyout pioneer John Childs ($250,000). All three have homes in Florida, while other donors, such as Peterffy and former U.S. Secretary of Commerce Wilbur Ross, live in the state most of the year.

Most of the hefty checks for DeSantis came from donors who steered clear of Trump in 2020, including Griffin. But DeSantis did rake in about $1 million from dozens of former Trump backers in the financial industry, such as billionaire John Paulson.

"I think the Wall Street guys love that Governor DeSantis has guts and was willing to keep Florida open," says Nick Iarossi, a lobbyist in Tallahassee authorized by the governor to speak about fundraising. DeSantis has achieved prominence by pushing back on shutdowns and mask mandates.

Notably, the cash influx peaked in the early part of this year, before the delta variant sent deaths soaring in the Sunshine State, undermining DeSantis's case for laissez-faire health policies. Florida's cumulative death rate from Covid-19 has gone from average to the 10th-worst in the nation as of Sept. 27.

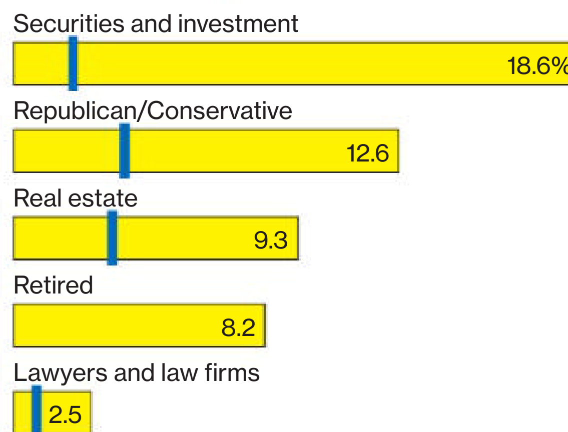
DeSantis recently set a goal of raising $150 million for his 2022 gubernatorial reelection campaign, two-and-a-half times what he raised to get elected in 2018. A large share of his haul so far—42.5%—has come from out-of-state donors. "He has the most impressive national fundraising network, except for President Trump," says Brian Ballard, a major GOP donation bundler.

A recent poll by Republican polling firm Echelon Insights put DeSantis at the front of the pack of possible 2024 contenders, such as Mike Pence and former South Carolina Governor Nikki Haley, in a hypothetical contest without Trump. Although DeSantis hasn't formally declared he's running for reelection in 2022, much less for president, he's hoovering up unprecedented sums of cash. His current $55 million is far more than the $41 million his PAC raised in 2018.

Among the Democrats running to try to unseat him next year are Representative Charlie Crist, a former governor of Florida, and Florida Agriculture Commissioner Nikki Fried. "If you don't get reelected as governor, then presidential ambitions are not even on the table," says Iarossi. "So he wants to build a large war chest." —*Michael Smith, Jonathan Levin, and Bill Allison*

Florida Man Finds Friends in Finance

Top industries donating to reelect DeSantis, share of total donations



DATA: FLORIDA DIVISION OF ELECTIONS, CENTER FOR RESPONSIVE POLITICS. CATEGORIES FROM CRP. TRUMP PERCENTAGES BASED ON DONORS TO HIS CAMPAIGN AND SUPPORTING SUPER PACS.

THE BOTTOM LINE DeSantis is on his way to his goal of raising $150 million for his reelection campaign, thanks in part to finance industry donors who were cool on Donald Trump in 2020.

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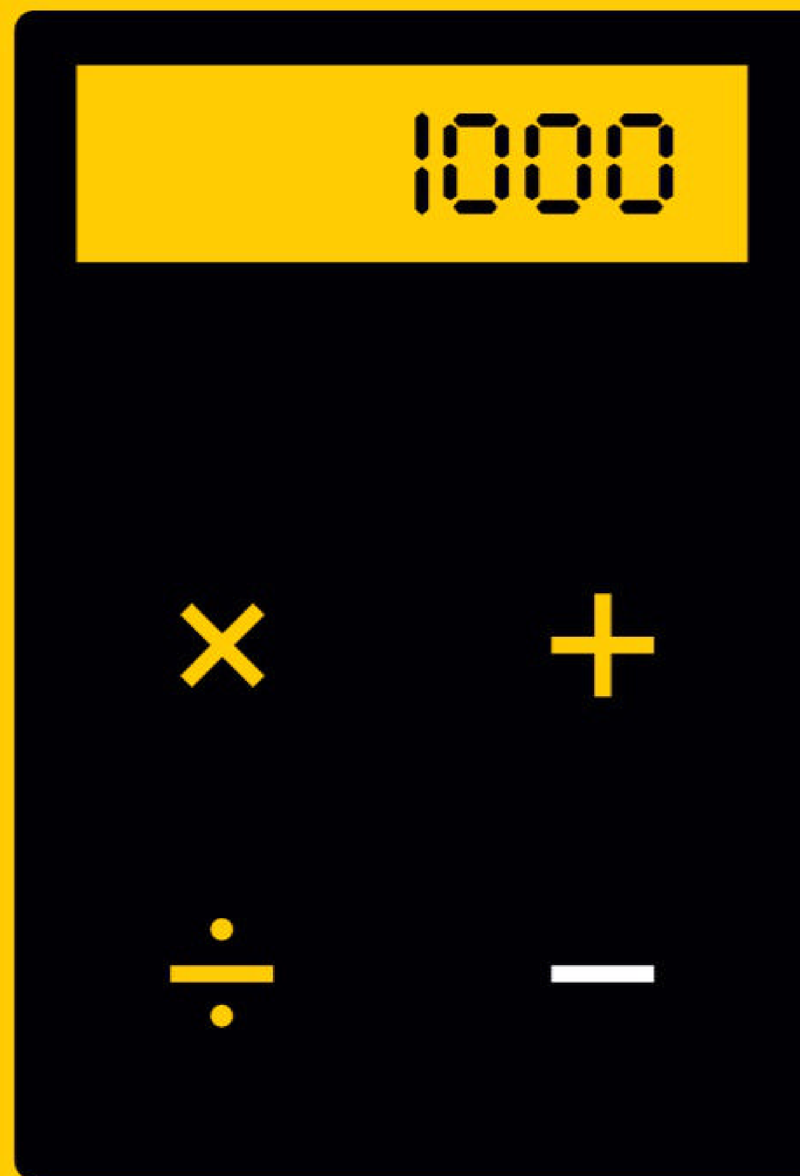

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I

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I left the Army in 2005 with no business experience but with the desire to launch a company with my dad. After a few years, he graciously stepped back so I could take the reins. I was struggling to find clarity and making mistakes, so I joined Vistage for guidance.

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I'm Shaun. I live a life of climb.

Shaun

Shaun Castillo
President, Preferred Technologies Inc., Houston, Texas
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Prognosis

ILLUSTRATION BY FATCHUROFI MUHAMMAD

Solving Bad Trips

An emerging industry offers DNA tests to help people pick the best drugs

Spit into a tube and pop it in the mail, and the lab results may lead to a better high—or at least a safer one. That's the premise of a home saliva testing kit sold for $199 by Endocanna Health Inc., which looks for 57 genetic traits that could influence a customer's response to marijuana, so they can select the best strain and correct dose. The company also plans to look at similar factors for a range of psychotropic drugs.

"Your DNA is your blueprint," says Len May, chief executive officer of the Burbank, Calif.-based startup. "It gives you a GPS that can guide you to an experience that is more optimal and helps you avoid sharp corners."

Endocanna is among a handful of early-stage companies following in the footsteps of precision medicine by trying to help people understand how they'll react to cannabis or psychedelic drugs, such as psilocybin, MDMA, DMT, and ketamine. Companies researching alternative therapies for depression, addiction, chronic pain, and other afflictions want part of the $27 billion global market for traditional psychiatric drugs. They're trying to solve the piece of the puzzle that holds many people back from microdosing magic mushrooms or undergoing marijuana therapy: fear of a bad trip—or even lasting psychosis.

Pharmacogenomics, the branch of pharmacology concerned with how genetic factors influence reactions to drugs, has already seen some success in oncology. Although there's ▶

October 4, 2021

Edited by Rebecca Penty, Rick Schine, and David Rocks

◀ no scientific consensus about whether a person's response to any kind of psychiatric drug can be predicted with genetics, companies including Endocanna are already wading into research and even direct-to-consumer kits. If they can succeed in preventing extreme reactions to psychedelic drugs, it could smooth a path for the industry more broadly.

The risks are more significant than just bad trips. Marijuana is often recommended to ease anxiety, but it can also provoke it in some people. The National Institute on Drug Abuse says smoking high-potency marijuana could increase the chances of developing psychosis. On the flip side, a 2015 analysis of U.S. patient data found that 19,299 Americans who took classic psychedelics such as LSD, psilocybin, and mescaline weren't at increased risk for developing problems such as schizophrenia, psychosis, depression, or anxiety, or of committing suicide.

Bad trips are still problematic: A Johns Hopkins University study of 1,993 people who reported bad trips found that 11% said they had put themselves or others in harm's way during the experience, and 8% had sought treatment for what they believed were enduring psychological symptoms related to the event. "That to me is disquieting, particularly in light of the cultural enthusiasm for legalization and decriminalization," says Roland Griffiths, director of the Center for Psychedelic & Consciousness Research at the university. "People trying them are not only seeking treatment but may be putting themselves or others at risk—even life-threatening risk."

The risks aren't deterring investors. The Canadian Securities Exchange said $277 million has been raised for psychedelics companies since 2020, and $11.25 billion has been raised for cannabis and hemp companies since 2016. Vancouver-based Entheon Biomedical Corp., which sells a mail-order saliva test for people considering psychedelics, priced at $89, is among them. The early-stage company went public last year through a reverse takeover.

Entheon's psychedelic test looks at five factors: a liver enzyme for ketamine metabolism, serotonin receptor variations to gauge "psychedelics sensitivity," and three other factors to weigh "mental health risk" by analyzing genes believed to influence responses to THC and CBD—including a test for the AKT1 gene, which the National Institute on Drug Abuse has identified as potentially linked to a higher risk of psychosis in people who use marijuana.

The company grew out of CEO Timothy Ko's desire to help his opiate-addicted brother, who tried traditional treatments for a variety of mental ailments before dying two years ago. "Some of the difficulty that we faced as a family was that there was a lot of uncertainty as to what he was actual suffering from and what medications might be given to him," Ko says.

Entheon's dashboard for customers taking its tests contains links to dozens of scientific studies published in peer-reviewed journals that offer clues to potential links, but no definitive answers. The company is also researching electroencephalogram brain waves in patients undergoing psychedelic-assisted therapy to further study links between genetic variance and drug response.

Griffiths says it's too early to know if a psychedelic treatment plan can be personalized to account for someone's genes. "Right now within precision psychiatry, there aren't even good genomic predictors of responses to most interventions," he says. "I'm not aware that there are any within psychedelics, either."

With regards to marijuana, factors other than genetics help determine someone's response. "It's also about what a person has eaten that day, what time of day they take the drug at, and how well hydrated they are," says Dr. Jan Roberts, a New York-based psychotherapist who specializes in cannabis and mental health. Some foods, like mango, have a reputation for enhancing the effects of cannabis, she says.

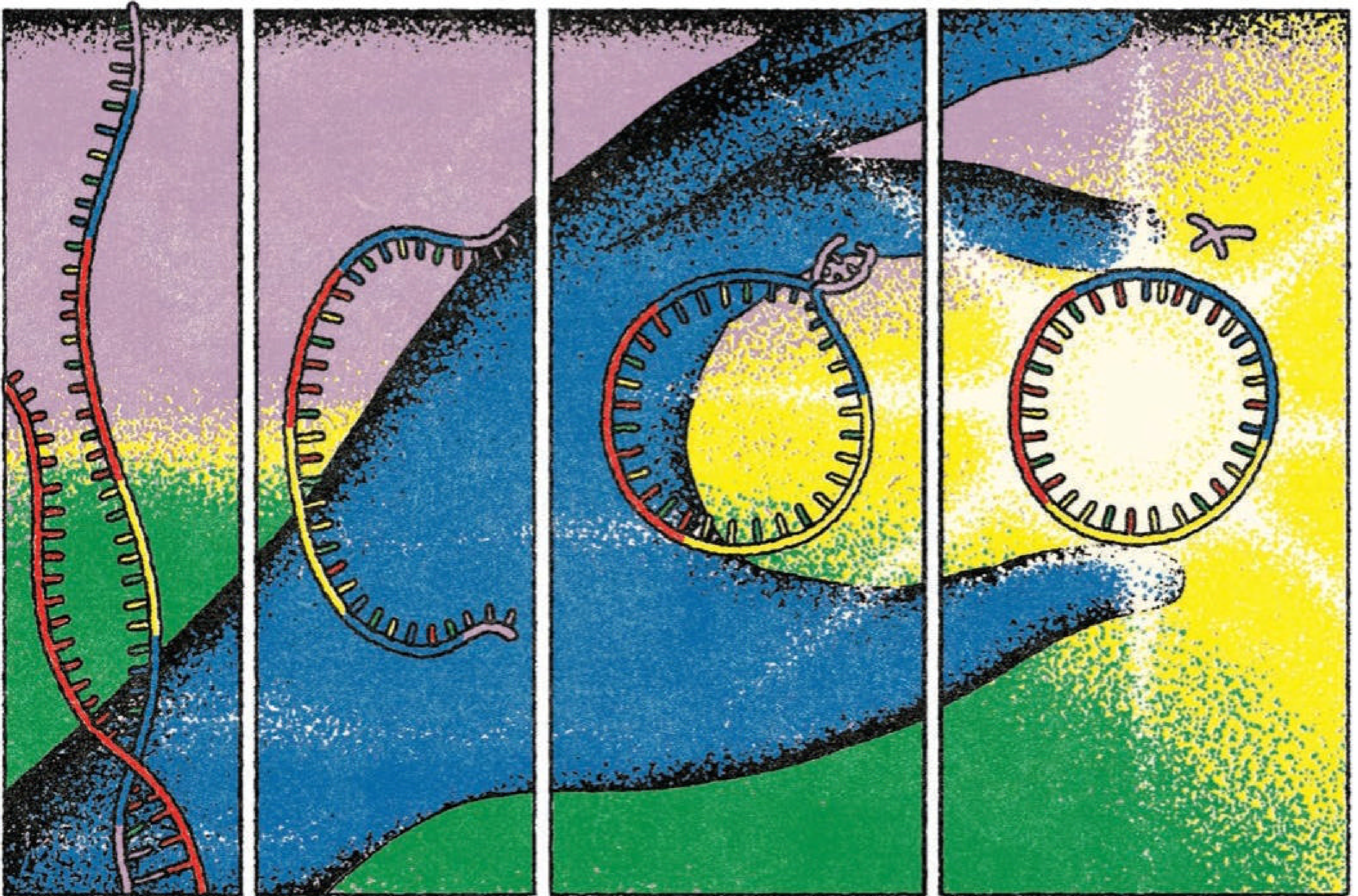
Entheon says there's a place for direct-to-consumer tests, though the scientific understanding of how genetics relates to drug sensitivity and mental health is evolving.

Other companies are pushing ahead despite the uncertainties. Berlin-based Atai Life Sciences NV has more than a dozen entities pursuing various drugs in the psychedelics space. Among them is PsyProtix, a joint venture that's researching depression, genetics, and metabolomics—or the study of small molecules within cells.

New York-based startup Mind Medicine Inc., known as MindMed, is betting on precision medicine that isn't limited to genetics. It aims to use data culled from step counters, pulse rate sensors, sleep patterns, and side effects from past medications to help psychiatric patients determine which drugs to take and at what dosage. The results could help as MindMed develops a pipeline of potential products, including treatments based on LSD, MDMA, DMT, and an ibogaine derivative: 18-MC. MindMed CEO Rob Barrow says he doesn't believe in the hype around home-DNA tests. "Genomic testing can be confusing even for people who know what they're doing, like physicians," he says.

There's a debate about whether it's even desirable to avoid bad trips altogether. Christian Angermayer, the chairman of Atai, says that while long-term psychosis isn't desirable, a negative experience for the duration of a psychedelic dose is actually rewarding for some people, who turn to psychedelics to cope with negative experiences like personal trauma and depression. "A bad trip is not a bad outcome," Angermayer says. "It helps you go through your demons." —*Tiffany Kary*

THE BOTTOM LINE Precision-medicine startups using DNA and other personalized information to demystify cannabis and psychedelics want a piece of the $27 billion market for traditional psychiatric drugs.



Running Circles Around mRNA

Ring-shaped RNA may make the leap from vaccines to cancer treatments

Less than two years ago, most people had never heard of mRNA. Then came the pandemic, and the scientific term became a household word. Now, Moderna Inc. and BioNTech SE are on the verge of selling more messenger RNA vaccines than any other drug product in the world.

The wild success of mRNA vaccines has prompted venture capitalists to pour huge sums into startups focusing on transforming straight RNA strands into circles. This simple-sounding but technically difficult feat would promise an alternative to the relatively short-lived power of mRNA, which sends instructions to cells to make specific proteins, such as the coronavirus spike for Covid-19 vaccines. Delivering those messages via circles may produce a more stable, longer-lasting signal, potentially treating cancer, autoimmune disorders, and genetic diseases. Scientists at Orna Therapeutics Inc. in Cambridge, Mass., say they've figured out a way to do that by programming RNA with genetic code that instructs a line to split into several strands and then repair itself in the shape of a circle.

Unlike linear mRNA, circular RNA has no ends. That's important, says Julia Salzman, an associate professor of biomedical data science and biochemistry at Stanford, because it makes material more resistant to enzymes in the body that break down mRNA. A straight line works for a vaccine, since it doesn't need much time to elicit an immune response. But a straight line is a problem for therapies that need more time to work.

So far the idea of using circular RNA to create drugs remains theoretical. Nothing is proven yet, and none of the projects in development has been tested in humans. "It's not immediately apparent to me this is the very best application of this technology without some other very sophisticated strategy to engineer this into the body," says Carl Novina, a principal investigator of cancer immunology ▶

ILLUSTRATION BY FATCHUROFI MUHAMMAD

◀ and virology at Dana-Farber Cancer Institute, adding that he's yet to see convincing data supporting Orna's approach. Orna says it's up to the task and that the biggest opportunity for circular RNA is turning cells into cancer-fighting agents. Existing therapies called CAR-T, short for chimeric antigen receptor T cells, can already do this outside the body. That procedure requires drawing blood, isolating T cells, and genetically modifying them to attack cancer cells before reintroducing them back into the body. The process is time-consuming and costs about $500,000 for a single treatment. Orna says its circles could simplify treatment and lower the cost by getting the body to do all the work.

The idea of building circles from RNA strands has been around since at least 1995, when Peter Sarnow, now a Stanford professor, patented the technology. At the time, no one really knew what to do with the concept. In 2011, Salzman, then a researcher at Stanford, discovered naturally occurring circular RNA throughout the body. In the decade since, thousands of other scientists have studied the phenomenon. One of them is Daniel Anderson, a medical engineering professor at Massachusetts Institute of Technology, who's a legend in the world of biotech thanks to his RNA expertise.

In 2016, Alex Wesselhoeft, a doctoral candidate in Anderson's lab, was able to program RNA lines to cut themselves up and then come back together in the shape of a circle. "At some point," Wesselhoeft says about the process, "it's a little bit more of an art than a science."

Research papers on the breakthrough written by Wesselhoeft and others in the lab caught the eye of Raffaella Squilloni, then finishing a fellowship at MIT and Harvard's Broad Institute. Within 30 minutes over coffee at Starbucks, she and Wesselhoeft agreed to start a company. Anderson signed on. "When you look at the system the team has developed for making these things, it's just an incredibly robust, straightforward scalable system that's an order of magnitude cheaper than conventional modified RNA," Anderson says.

Life sciences investment firm MPM Capital provided Orna with seed money. The company says it has raised more than $100 million from MPM and others. Orna hired biotech veteran Tom Barnes as its chief executive officer in 2020. The company wanted to differentiate its synthetic circles from those found naturally, so it dubbed them oRNA and decided to use the term for its name. "Bringing the cost down from many thousands of dollars to one that's sustainable for larger markets will have a huge impact on patients," says Ansbert Gadicke, co-founder and managing director of MPM. That, at least, is the promise. —*Angelica LaVito*

THE BOTTOM LINE Investors have poured more than $100 million into Orna's reengineering of RNA strands from straight lines into circular-shaped RNA with the hope of creating new and inexpensive cancer treatments.

A Breath of Life For Africa

A Kenyan entrepreneur says small, localized plants can supply hospitals with cheaper oxygen

Like just about everyone, Bernard Olayo watched with dismay as the coronavirus began to sweep across the globe last year. But he also sensed an opportunity. In 2014 he'd founded a company called Hewatele ("abundant air" in Swahili) to supply African hospitals with oxygen, and when the pandemic sent demand soaring he was able to quickly boost production.

His strategy of building small oxygen plants near hospitals differs from that of larger producers, which typically favor big, centralized facilities. Olayo says this "milkman model" has let him undercut his competitors' prices in a market where oxygen costs 10 times what it does in the U.K.

Hewatele has about 10% of the Kenyan market, serving about 250 hospitals. Olayo says he's raised $4 million and is seeking at least $13.5 million to fund expansion; he hopes to build a liquid oxygen plant and start to export the gas to neighboring countries. Here are edited excerpts of our conversation.

What motivated you to get into this business?

When I worked as a doctor, I sometimes didn't have enough oxygen for my surgery cases, particularly children with pneumonia. So I founded an organization called the Center for Public Health and Development to test some ideas I had. The first trials failed. We put very small oxygen

Unloading empty oxygen tanks at Hewatele's plant in Nairobi

plants in 14 health facilities across East Africa. After just 20 months, all of them had stopped working, as the hospitals had tried to repair the equipment themselves.

I realized that we needed to do it differently, so we came up with the milkman model, in which we build, own, and operate the plants. With adequate cylinders, a well-maintained plant, and a distribution truck or two, it's possible to supply oxygen to all health facilities within a 100-kilometer radius.

What changed when the pandemic hit?

Pre-pandemic we were using 60% to 70% of production capacity, and many nights we didn't need to run the plants. With the pandemic, demand doubled or tripled, so we pushed production around the clock. We doubled the number of plant operators and drivers. We leased additional trucks for distribution. We built oxygen manifolds outside Covid-19 wards so we could bring in cylinders.

Maintenance was a big challenge, because we couldn't get parts due to the global lockdown. But our local artisans came up with solutions, and we had no major breakdowns. We would have liked to get more plants, but no one was selling them. We had three plants, and as lockdowns have eased we've started building three others, so our capacity will more than double.

Do you think your milkman strategy can work in other countries, too?

The model can be replicated across sub-Saharan Africa and globally. It works mostly for the developing world, where infrastructure is weak and health financing is not that good. Our goal is to get to 40% of the Kenyan market when we open our liquid plant, expected to come live in 2023.

This will produce 20 tons of oxygen a day, equivalent to at least 2,000 cylinders. But we'll still use the milkman model: Rather than build plants at the hospitals, I'll build tanks and compressors to fill cylinders and distribute them locally. With a liquid plant, Hewatele can lower the price of oxygen by half and still make a profit. We will be able to supply countrywide, and even export to Uganda and Tanzania.

What's been the biggest hurdle you've encountered?

Getting people—investors, health-care workers, policymakers—to understand the value of oxygen. I found ways to communicate the importance. Covid-19 amplified it, though I still feel that there is a huge gap.

What lessons does your story offer other small-business owners?

Don't go into something you're not passionate about. I got Covid-19 in February. If I didn't have a passion for this job, I would never have stepped back into a hospital. I'm quite sure I picked it up on one of my hospital visits. ——*David Herbling*

THE BOTTOM LINE Hewatele, with 10% of the Kenyan market, serves some 250 hospitals. It's seeking $13.5 million to fund expansion.

PATRICK MEINHARDT/BLOOMBERG

‘Most Americans today believe the stock market is rigged. And they’re right’

Insider trading allows the well-connected to profit from privileged information. Technically it’s illegal—but only technically

By Liam Vaughan
Illustrations by Michael Kennedy

JIMMY FILLER MADE HIS CONSIDERABLE WEALTH BUYING and selling scrap metal in Birmingham, Ala. Now approaching 80 and mostly retired from business, he has dabbled as a collector of antique cars and casino memorabilia, acquired a 20,000-square-foot mansion in the hills outside the city, and donated $1 million to help build a practice facility for the University of Alabama at Birmingham football team. This largesse has made Filler a big name in his hometown—but he’s an even bigger deal among a certain class of stock trader.

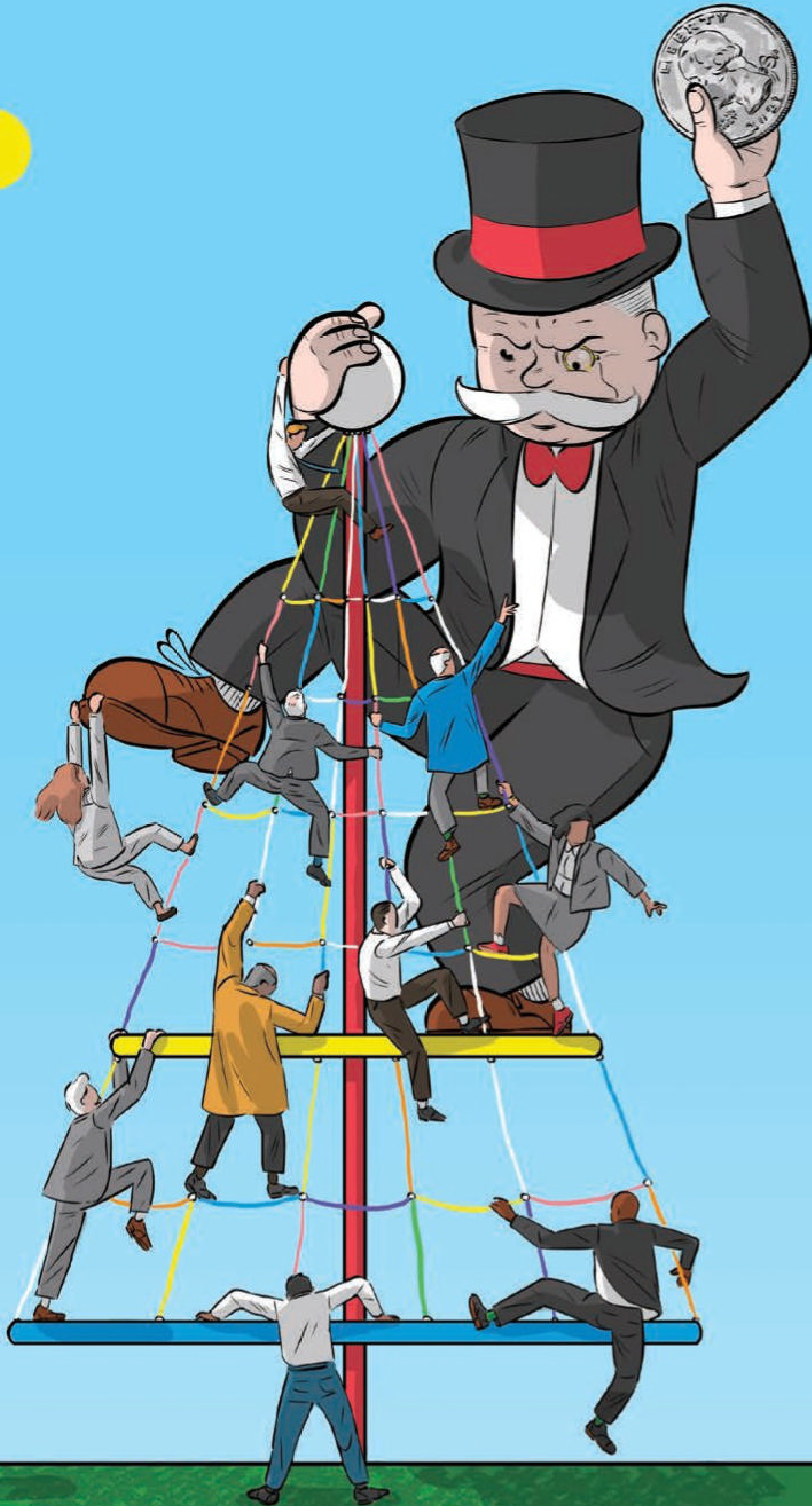
That’s because Filler has an incredible track record buying shares in the companies he advises and invests in. Of the 496 trades he’s made since 2014 in Alabama’s ServisFirst Bancshares Inc., where he sits on the board of directors, and Century Bancorp Inc. of Massachusetts, where he’s the largest shareholder, 372 of them, or 75%, have shown a profit three months later. That’s the kind of run the world’s best stockpickers dream of, the financial equivalent of making the final table of the World Series of Poker main event in consecutive years.

Filler is the most successful corporate insider in the U.S., according to TipRanks, a data company that rates executives by how good they are at timing trades. As a result of this status, every time Filler buys a share in ServisFirst or Century, 2,699 TipRanks subscribers get an alert. Some of them, assuming Filler’s past performance will continue, follow suit and buy some stock for themselves.

In the U.S., an insider is defined as a senior executive, board member, or any shareholder who owns 10% or more of a company. There are about 82,000 of them, and every time they trade they’re required by law to file a disclosure, known as a Form 4, within two days. These filings can be viewed on the U.S. Securities and Exchange Commission’s website, but scores are added each day, and most don’t offer much insight. “You have to know where to look,” says TipRanks Chief Executive Officer Uri Gruenbaum. Directors typically receive a proportion of their compensation in stock options, giving them the right to buy shares at a set price before a certain date, so if an executive is simply exercising an expiring option, it probably doesn’t reveal a great deal about how he views the company’s prospects. Selling may not tell you much either, because there are all sorts of reasons an insider might want to cash out—to buy a boat, for instance. It’s when insiders use their own funds to buy stock on the open market that it’s most worth paying attention.

TipRanks uses an algorithm to sort through the torrent of SEC filings, filter out what it calls “uninformed” transactions—that is, those that don’t seem to have predictive value—and come up with a rolling list of the top 25 insiders. As well as looking at win rate, the service factors in how much, as a percentage, insiders are making per trade. Those with long track records, such as Filler, also score better. “Someone might pick heads five times in a row, but to do it 20 times or 50 times is really hard,” Gruenbaum says.

Besides Filler, other TipRanks stars include Steve Mihaylo, the CEO of telephone services company Crexendo Inc., where he owns a $60 million stake. Mihaylo has turned a ▶



◀ three-month profit on 83% of his trades over the past five years even as Crexendo's shares have seesawed. His 1,985 followers understand that when the CEO is buying, there's a decent chance the stock is about to go up. Then there's Snehal Patel, CEO of pharmaceutical company Greenwich LifeSciences Inc., who's made only five purchases but has earned an average 488% return on them, because four of the trades preceded the announcement of promising results from a cancer drug trial. Filler says he's a long-term investor in Century and has never been affiliated with the company; he also says he's never sold a share in either Century or ServisFirst. Patel points out that the success of the Greenwich LifeSciences trial was referenced on the company's website and IPO prospectus before he traded. Mihaylo declined to comment.

It's not just those at the top of the rankings who constantly beat the market. Purchases made by U.S. executives outperformed the S&P 500 over the ensuing 12 months by an average of five percentage points between 2015 and 2020, according to a TipRanks analysis. The gap might seem scandalous to those with only a passing acquaintance with U.S. insider trading rules, which make it illegal for insiders to trade using material—or financially significant—nonpublic information. And yet on Wall Street it's long been an open secret that insiders trade on what they know. In 1962, Perry Wysong, a bow-tie-sporting investor from Florida, started a newsletter identifying opportunities based on insider trades. Years later, a young stockbroker in Florida, George Muzea, set up a consulting firm to advise George Soros, Stanley Druckenmiller, and other hedge fund managers, often over games of tennis. "We used to call the best prospects studs," he recalls. In 2008 a group of quants from Citigroup Inc. published a paper that found a portfolio mirroring insiders' trades could yield an astonishing 23.5% a year, more than all but the most profitable hedge funds.

No one is claiming to know if Filler or any of the other TipRanks stars are taking advantage of nonpublic information. Poker legend Doyle "Texas Dolly" Brunson made five final tables in his career, after all, and it's possible to get lucky enough to flip a coin and hit heads a bunch of times in a row. Plus, insiders will always have a better general sense than others about how their company is doing. But a growing body of research suggests that many insiders are trading well thanks to something more than luck or judgment. It indicates that insider trading by executives is pervasive and that nobody—not the regulators, not the Department of Justice, not the companies themselves—is doing anything to stop it. "There is a lack of appreciation for the amount of opportunistic abuse that exists under the current system, the amount of egregiousness," says Daniel Taylor, a professor at the Wharton School and the head of the Wharton Forensic Analytics Lab. "Most Americans today believe the stock market is rigged, and they're right."

IN MANY WAYS, INSIDER TRADING IS THE EXEMPLAR WHITE-collar transgression. It's what drives Bobby Axelrod's nefarious profits in the Showtime series *Billions* and what *Wall Street*'s Gordon Gekko was engaged in when he said, "Greed is good." In the real world, too, the crime captures, almost perfectly, the sense that the market is biased in favor of a corporate elite—a sentiment that undergirds both the recent meme-stock explosion and the rise of cryptocurrencies. When an executive learns his company is about to lose its well-regarded CEO and offloads shares to an unwitting pension fund, or a board member hears about a potential takeover on the distant horizon and sets up a plan to start buying, they're profiting at the expense of regular people. Prosecuting insider trading is "a manifestation of America's basic bargain," wrote Preet Bharara, the former U.S. attorney for the Southern District of New York, in a 2018 op-ed article for the *New York Times*. "The well-connected should not have unfair advantages over the everyday citizen," he wrote.

In theory, the law governing insider trading is clear-cut: Under the Securities Exchange Act of 1934, executives who abuse their access to nonpublic information, either by trading on it themselves or passing it along to someone else, can be charged with fraud and sent to jail. But regulators and lawyers say identifying and prosecuting the offense is deceptively difficult, and lawmakers as diverse as Democratic Senator Elizabeth Warren of Massachusetts and Republican Representative Elise Stefanik of New York, prodded on by Taylor and other researchers, have been calling for reform.

Taylor's focus on the topic dates to 2016, a few years after he arrived at Wharton, when he co-authored a draft paper showing that employees at banks who previously worked at the Federal Reserve, the U.S. Department of the Treasury, or some other regulator significantly outperformed the market during the 2008 financial crisis, as the government was handing out bailouts. Not long after, a member of one of the enforcement agencies asked to meet up to discuss Taylor's methodology.

Working with colleagues at Stanford and other institutions, Taylor has since put out a half-dozen papers that apply statistical analysis to SEC disclosures and other large datasets to look for evidence of potential insider trading. "Hopefully, we can help highlight what's happening, and our collective institutions will start to tackle this behavior," he says.

One area of Taylor's research is how insiders respond when their employers are facing difficulties. Each year the SEC opens probes into hundreds of companies, but not all of them go anywhere, and there's no obligation to disclose anything about the investigations to shareholders. It's also up to companies to decide whether their staff must abstain from trading. Most implement blackout windows in the runup to earnings reports, but beyond that they can be laid-back about letting their executives trade. After a lengthy negotiation, Taylor persuaded the SEC to give him a 300-page list of probes opened from 2000 to 2017, which he cross-referenced with Form 4 disclosures. It demonstrated that, as a group, insiders consistently avoided losses by selling shares before their companies' legal problems were reflected in the stock price.

Taylor says he got the idea from seeing shares of Under Armour Inc. fall by 18% on Nov. 4, 2019, after the *Wall Street Journal* reported that its accounting practices were being

looked into. Before that, filings show, executives had been selling stock to unsuspecting buyers. It's a surprisingly common story. At CBS, shareholders are suing board members for offloading shares before the media company disclosed CEO Les Moonves was under investigation for sexual harassment. An executive at Boeing Co. sold $5 million of stock after managers were reportedly briefed that a software problem may have been responsible for downing Lion Air Flight 610 over the Java Sea in October 2018—an issue the company didn't share with the public until five months later, after a second crash. A spokesperson for Boeing said corporate officers are "only allowed to trade during an open trading window." Under Armour didn't return a request for comment. CBS said in a statement that all its executives' transactions were either preplanned or approved internally.

In another paper, Taylor looked into insiders' activity when their companies were being audited. He found elevated buying and selling that accelerated in the crucial weeks after the audit report had been relayed to the board of directors but before it had been made public. The insiders who traded were able to avoid significant losses, particularly in instances when a company's results ended up having to be restated. Time and time again, "insiders appear to exploit private information" for "opportunistic gain," Taylor and his co-authors wrote. Cheating, they'd discovered, seemed to be everywhere.

At the heart of these findings are the U.S.'s somewhat woolly disclosure rules. Under something known as "disclose or abstain," U.S. insiders in receipt of material nonpublic information are forbidden from trading unless they release it first. But unlike in the U.K. and the European Union, companies in the U.S. have a lot of discretion over what is considered material, and a gray area exists between what a company deems worthy of disclosure and what its directors might wish to trade on. Legal advisers face a constant flow of judgment calls, such as when, if ever, to tell the world about merger talks, a fraud investigation, or a cyberattack. "If something is material enough to move the share price, then insiders should be restricted from trading on it," Taylor says. "Unfortunately, that's not how some lawyers see it."

Early in the pandemic, several pharmaceutical company executives were criticized for making trades that seemed to be designed to profit from positive vaccine developments, highlighting another flaw in the regime. The transactions were made through so-called 10b5-1 plans—trading schedules that lay out the timing and size of trades in advance and are then executed by third parties. These plans were introduced in 2000 as a way for executives to sell shares without being accused of wrongdoing, no matter how fortuitous their trades turned out to be.

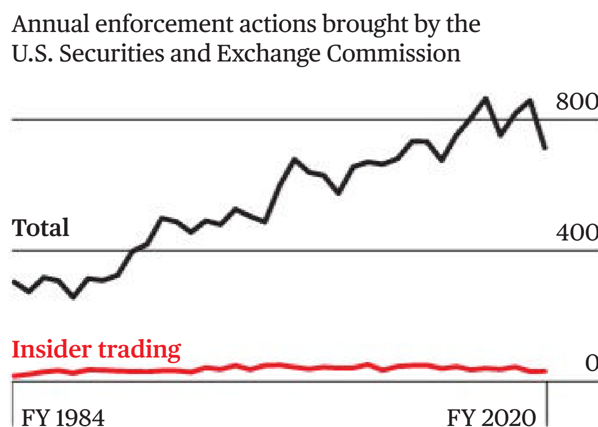
But 10b5-1 plans are vulnerable to abuse, Taylor says, because there is no requirement for insiders to wait after establishing a plan to place their first trade. Three days before Moderna Inc. announced that its Covid-19 vaccine was ready for human testing, its then chief medical officer, Tal Zaks, implemented a plan to sell 10,000 shares a week for 10 weeks. The program coincided with Moderna's share price more than doubling, and Zaks netted $3.4 million. Moderna told the health-care news website *Stat* that the sales were part of "SEC-compliant plans" set up "well in advance." Zaks, who didn't respond to requests for comment, is far from alone. A recent paper by the Rock Center for Corporate Governance at Stanford, which collaborated with Taylor on the research, showed that 14% of executives set up plans to transact within 30 days and 39% within 60 days, making it likely they were in receipt of some nonpublic information. Another issue is that about half of all U.S. plans involve a single transaction as opposed to a series of trades, as the SEC originally envisioned. These single trades collectively avoided losses of as much as 4%, according to the Rock Center report, suggesting some executives use them to offload shares before bad news.

Perhaps the biggest flaw in the 10b5-1 framework is that executives don't have to stick to their plans. They can cancel and reinstate sales whenever they choose, meaning that an insider could set up a new plan every quarter then decide whether to stick with it depending on how the next earnings report is shaping up. In a speech in June, Gary Gensler, the new chair of the SEC, said his staff would look into forcing companies to implement a "cooling off" period between when executives set up 10b5-1 plans and when they place their first trades. He also said he'd consider preventing insiders from canceling planned sales to capture profits. "In my view these plans have led to real cracks in our insider trading regime," Gensler said.

GENSLER'S ASSESSMENT MAY GREATLY understate the problem. In two decades the SEC hasn't brought a single insider trading case involving trades made under a 10b5-1 plan. In recent years it hasn't charged many individuals or companies with the violation at all. In 2019 the agency brought only 32 insider trading actions, the fewest in more than 20 years. Last ▶

It's Nice on the Inside

Annual enforcement actions brought by the U.S. Securities and Exchange Commission



Average difference between the one-year return on insiders' purchases and the change in the S&P 500 over the same period, in percentage points

DATA: SEC, NATIONAL PUBLIC RADIO (ENFORCEMENT ACTIONS); TIPRANKS ANALYSIS OF U.S. INSIDERS' FILINGS TO THE SEC FOR TRANSACTIONS FROM JUNE 2015 TO JUNE 2020 (TRADER PERFORMANCE)

◀ year that number edged up slightly, to 33. What cases the government does bring tend to involve insiders passing along tips to co-conspirators—referred to as "tipper-tippee" cases, such as the one that sent Martha Stewart to prison for five months—as opposed to the opportunistic trading by executives that Taylor's work highlights. "It's a huge blind spot," he says. The SEC declined to comment or make anyone available for an interview.

Why, then, isn't the government doing more? Part of the answer has to do with how insider trading law has developed. Unusually for a federal crime, there's no standalone offense for insider trading. Instead, the notion that it's illegal came into widespread acceptance only in 1961, when the SEC charged a stockbroker, Robert Gintel, with securities fraud for selling shares in an aviation company after getting wind of an impending dividend cut.

The Gintel case set a difficult precedent. To prove securities fraud, it's not enough for prosecutors to simply show that someone profited from nonpublic information; prosecutors have to demonstrate that the defendant knew they had such information and intended to cheat. This helps to make it among the most difficult white-collar crimes to prosecute. "Insider trading is hard to prove without some kind of smoking gun," says Russ Ryan, a former assistant director in the SEC's enforcement division who now works in private practice at the law firm King & Spalding. "And because there's no statute, the law is vague and unpredictable. Jurors don't like convicting people of crimes where the law is not clearly defined."

Ankush Khardori, who worked as a prosecutor in the Fraud Section of the Justice Department until 2020, says it's even tougher in cases in which the alleged tipper and the tippee are the same person. "In these insider cases, most of the crime is taking place within the executive's mind," he says. "There's unlikely to be the kind of evidence you might hope to see in a tipper-tippee case, like an email or a phone call." Another hurdle, he explains, is that insiders have some legitimate advantage over everyone else. "Insiders have experience and expertise that allows them to put public information into context in a way others cannot. That allows a defense lawyer to say, 'This wasn't inside information. They were just better at reading what was already out there.'"

The widespread adoption of trading plans creates a further hurdle for prosecutors. "There's this whole set of rules and conventions that has built up—10b5-1 plans, trading windows, compliance programs—that executives can use to say, 'Look, I did everything by the book. I relied on the lawyers!'" Khardori says. Prosecutors can theoretically argue that a plan wasn't entered into in good faith, but that's an additional burden to meet in court, and in practice they almost never do so. As Lisa Braganca, another former regulator at the SEC, says, "Nobody wants to be on the front page of the *New York Times* for losing."

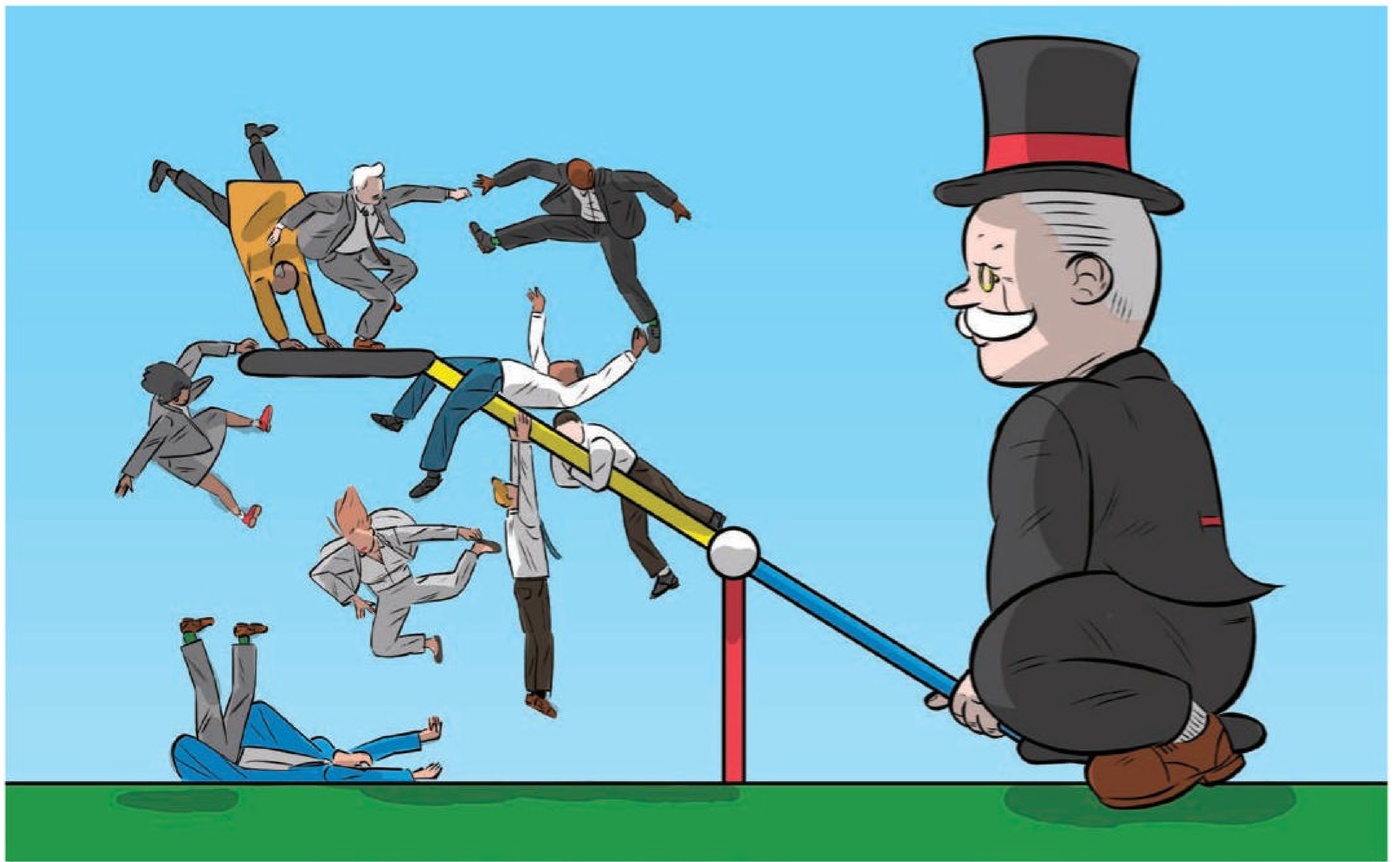
Nor do they want to go through the ignominy of seeing their convictions overturned. Bharara, the former U.S. attorney, built up a fearsome reputation targeting insider traders, including a number of high-profile hedge fund managers. But in 2014 several of his office's convictions and guilty pleas were quashed after judges on an appeals court acquitted two hedge fund employees in a ruling that made it even harder for prosecutors to win cases. On leaving the government, Bharara set up a task force of academics and lawyers to consider how to fix things. Last year it issued a report that proposed creating an entirely new statute defining insider trading as its own offense and severing the link to fraud. The group also suggested strengthening the government's hand by making insiders liable in criminal cases in which they should have known they were trading on material information—when they acted "recklessly"—even if there is no evidence that they actually did know.

Such drastic changes seem unlikely to make it into law, though a watered-down set of proposals, put forward by Connecticut Democrat Jim Himes, passed the House of Representatives by 350 votes to 75 in May. Himes's Insider Trading Prohibition Act falls short of Bharara's call to create a new offense, but it would at least define insider trading, going some way to clarifying and simplifying the rules. "It's time to take it out of the courts," Himes says. "If we're going to send people to prison for 20 years, then it's important that we know exactly what for." The next step is getting the bill through the Senate—something that's scuppered prior insider trading bills over the years.

Apart from amending the law itself, Taylor says, the government would benefit from adopting a more sophisticated approach to both identifying and prosecuting insider trading. He gives the example of an insider who's made unusually high returns over many years. The government has some circumstantial evidence that the executive is cheating, but he attributes his performance to a mix of skill and good fortune. "We can now model exactly how much he would have made had he placed each of those trades on other random days," Taylor says. "Being able to say there's literally no other sequence of trades that would have netted him more money could be incredibly useful." Taylor has been sharing his insights with regulators, and the SEC recently set up a small analytics unit to explore this kind of data-led approach. Persuading judges to embrace new forms of evidence, however, has proved challenging so far. In 2019 a judge refused to allow a suit that relied on data to allege insider trading and accounting irregularities at Under Armour to proceed.

OF COURSE THERE'S ANOTHER POSSIBLE REASON THE government isn't charging scores of executives with insider dealing, which is that, deep down, many prosecutors don't see it as much of a problem. Before the Gintel case, trading on sensitive information was widely considered a perk of being an executive at a publicly traded company, and that thinking seems to persist, even among those who are supposed to prosecute the crime.

Several former government lawyers interviewed for this story questioned how much damage well-timed trading by executives really causes when compared with, say, a Ponzi scheme that takes elderly investors for their savings



or an Enron-style accounting fraud that causes a company to collapse when exposed. Anyone unlucky enough to sell stock to a company CEO right before the share price bounces will probably miss out on a few dollars per share at most.

One former government prosecutor recounted how, during his job interview, he was asked by his soon-to-be boss what he thought of the libertarian argument that regards insider trading as good because it helps disseminate information more quickly, making markets efficient. "I will prosecute the laws as they currently stand to the best of my ability," he replied, stone-faced, declining to mention his sympathy for the idea.

That some government officials are ambivalent about the laws they're charged with enforcing doesn't come as a surprise to Mississippi College School of Law professor John Anderson, who's written dozens of papers defending insider trading. "It's really easy to say that our markets should be a level playing field, but the reality is that they never have been," he says. "The whole reason people come to the market is because they think they have better information, better understanding than their counterparties."

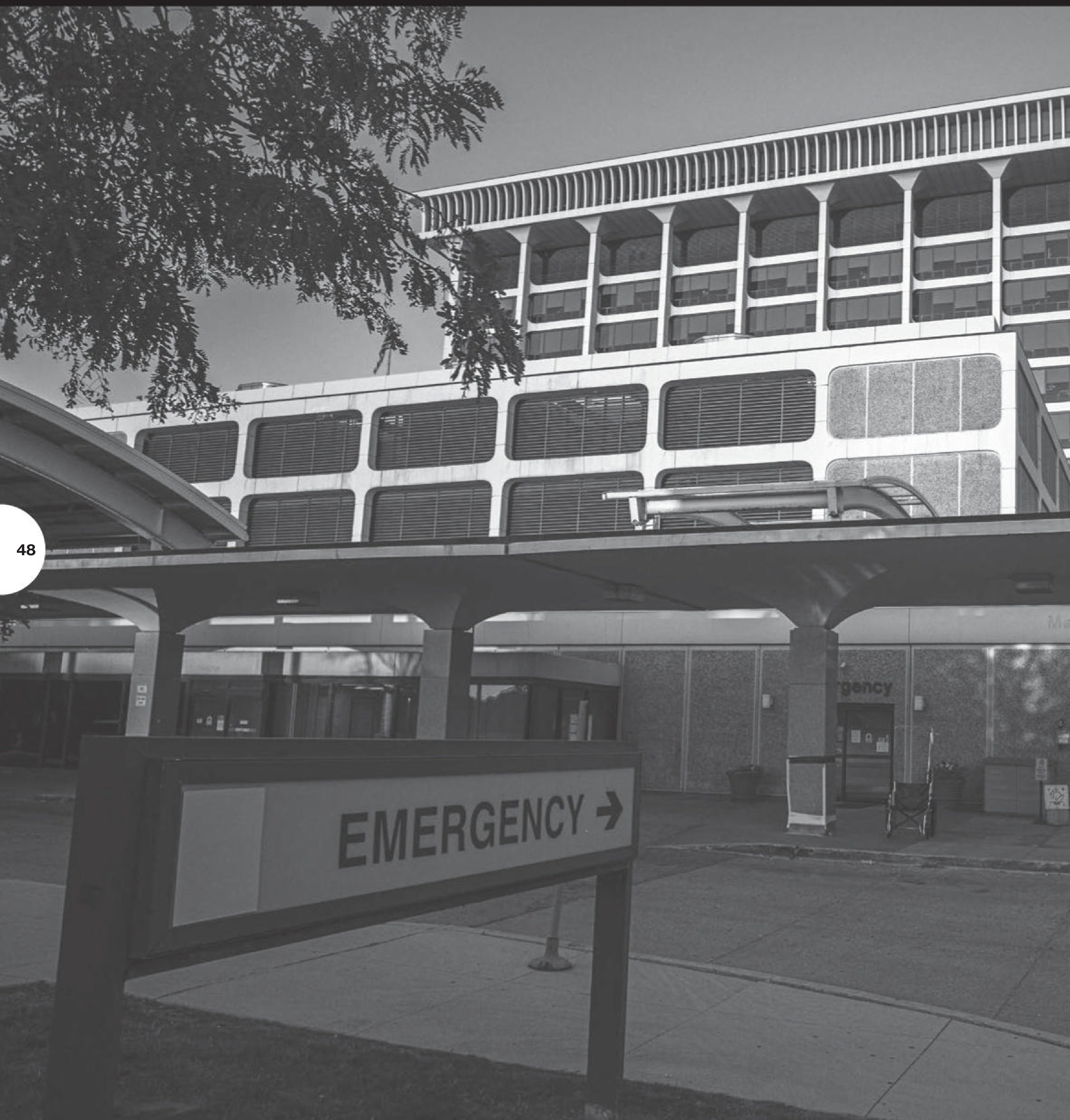
Anderson, who started his career as a white-collar defense attorney, says it should be up to companies and not the government to decide whether to allow their employees to trade on what is, he argues, the organization's intellectual property. Under this approach it would still be fraudulent to take information and pass it along to others without permission from one's employer. But insiders, once approved, could buy and sell freely, happy in the knowledge they were making markets function better. "If investors object to a company having loose controls, they can take their capital elsewhere," Anderson says. As with the legalization of drugs, the government would be released of the burden of fighting an expensive losing battle.

Viewed through this lens, services such as TipRanks' can be seen as providing a benefit to society, helping information pass from the informed few to the masses more quickly and efficiently. You don't have to be an Alabama scrap metal tycoon to trade like Jimmy Filler—you just have to pay $29.95 a month for a TipRanks subscription. In April, TipRanks raised $80 million from investors; it's started collecting filings from Canada and the U.K. Eliot Spitzer, the onetime New York attorney general and scourge of Wall Street, is on the board. "The appetite from retail traders is huge," CEO Gruenbaum says.

Reforming insider trading rules is a difficult prospect. As a society, we want our executives to have a stake in the businesses they run; but if they receive shares, they have to be able to sell them. When they do, they'll always be at an advantage. "No one really believes that corporate insiders are ever truly cleansed of material nonpublic information," says Philip Moustakis, who left the SEC in 2019 to join Seward & Kissel, a law firm focused on Wall Street. "Trading windows, 10b5-1 plans—they're all part of this useful fiction that society engages in. If you really wanted to stamp out insiders trading on superior knowledge, you'd have to reassess our entire approach to corporate governance. Insiders would become more like trustees with no skin in the game, and that's not going to happen."

Taylor refuses to accept that idea, pointing to a slew of proposals under consideration, from tweaking 10b5-1 plans to ripping up the insider trading rulebook altogether and starting again. "Nothing in society worth fixing is easy," he says. "The fact it's not easy is not a reason not to do it." Ⓑ
—*With Matt Robinson*

THE DEATH AND LIFE OF A SAFETY



Mercy Hospital, a 168-year-old anchor on Chicago's South Side, was about to succumb to the brutal economics of health care for America's poor and uninsured. Then an unlikely savior appeared

Y-NET HOSPITAL

By MONTE REEL

Photographs by CARLOS JAVIER ORTIZ

WORD OF MERCY HOSPITAL'S DEMISE BEGAN TO circulate just after 9 a.m. on July 29, 2020. The hospital's chief executive officer summoned the medical executive committee to an unscheduled conference call. She told them she'd be sending a staffwide memo shortly and felt a heads-up was in order.

"The decision to discontinue services at Mercy Hospital was not an easy one," the memo read. More words followed—something about decreasing hospital reimbursements and ballooning capital expenses. Dr. Adele Joy Cobbs, an emergency physician on the committee, felt blindsided. She listened for the reactions of the other committee members on the call. The seconds ticked by.

"There was absolute silence," Cobbs recalled afterward. "Not a word from anyone. It just reflected the disbelief."

Disbelief because Mercy had been a Chicago institution since 1852, when the city was a splintery warren of 35,000 and was still rising from the lakeside mud. The part of the South Side where Mercy sits, now called Bronzeville, was then known as "the country." The location allowed the hospital to survive the Great Chicago Fire of 1871 and to treat many of its victims. When a would-be assassin's bullet penetrated the rib cage of Teddy Roosevelt during a Milwaukee campaign stop in 1912, he recovered at Mercy. Every year thousands of babies arrived wailing within its walls, and some would return decades later to die. In the past 50 years, as more of the city's wealth has shifted to the North Side, Mercy, with its 422 beds, has been tagged with the label "safety-net hospital." The population it serves is now mostly minority, and most depend on either Medicaid or Medicare, if they're insured at all.

Cobbs had never thought of Mercy as a safety net; it was an anchor, holding the neighborhood in place. Her father had lived in a high-rise two blocks away; she saw the building every time she got out of her car in Mercy's parking lot. Her cousins, aunts, uncles—they all went to the hospital for care. Their neighbors were among the 1,500 people employed there as nurses, cooks, doctors, administrators, and maintenance workers.

After medical school, Cobbs worked her way through hospitals in other cities, in affluent suburbs, in rural communities. Two of them were safety nets that later went under. Four years ago she returned to the South Side to become the associate director of Mercy's emergency department.

"To me, this was the dream job," she said.

A job that would carry her all the way to retirement—or so she'd thought until that conference call. That same morning, shortly after she disconnected, she started typing emails and placing telephone calls. She'd served for almost a decade on the Chicago Board of Health, so her contact list was full of people in government. She reached out to city council members, to the mayor's office, to the governor. Soon she was logging into virtual roundtable discussions with "the electeds," as she calls them, brainstorming strategies to keep Mercy alive. ▶

◀ "That's when I began my fight," she said.

She wasn't the only one. Many different people and interest groups fought for Mercy. To save the hospital was to champion social justice, or to seize a business opportunity, or both. Success would defy an accelerating trend throughout American cities. Philadelphia's Hahnemann University Hospital, another so-called safety net that had survived for 171 years, closed in 2019 after years of financial losses. That same year, the 158-year-old Providence Hospital in northeast Washington, D.C., which served some of the poorest parts of the city, shuttered its inpatient and emergency services. Months later, D.C. officials announced that United Medical Center—now the only general hospital east of the Anacostia River, in the city's poorest quadrant—would close in 2023 or 2024 because of losses.

Cobbs

In Chicago, the groups hoping to save Mercy worked independently, unaware of one another. Each of them eventually confronted a perverse reality that's baked into the modern American marketplace: the places with the most acute demand for medical services are the least likely to get them.

THE HOSPITAL BUTTS UP AGAINST INTERSTATE 55, 10 lanes of traffic that carve a bold line through Chicago. On one side of the highway sits America's largest convention center, McCormick Place, where the surrounding hotels provide a transition northward to the skyscrapers downtown. On the other side of the interstate, Mercy has stood as a gateway to the South Side.

The health disparities on the opposite sides of that line are more extreme than anywhere else in America. The life expectancy for someone who lives in the Near North Side neighborhood of Streeterville is 90 years. In Mercy's neighborhood, 3 miles straight down Michigan Avenue, life expectancy plunges by 12 years. It keeps dropping as you head south, bottoming out at 60 years in a neighborhood 6 miles from Mercy.

Hospitals haven't thrived on the South Side, despite the intensity of need. In the past two decades, several hospitals serving the area have either closed or significantly reduced their services. In 2009, Michael Reese Hospital, a 120-year-old institution in the same ZIP code as Mercy, bowed out, citing financial pressures.

That left Provident Hospital as Mercy's closest neighbor. In 2010 budget cuts forced Provident to shutter its obstetrics unit. Two months after Mercy announced its planned closure last year, Provident downgraded its emergency department from a full-service facility to a "standby" unit. That meant Provident would try to stabilize emergency patients so they could be rerouted somewhere else. The obvious choice was Mercy, which was limping toward its planned end.

Last summer, as they surveyed this enfeebled landscape, community advocates in Chicago warned that the Near South Side was becoming a "health-care desert." They began holding small rallies demanding that someone—maybe the city, maybe the state—step in to stop Mercy's closure.

Once upon a time, that might have been a reasonable expectation. For most of the 20th century, local governments ran the hospitals that cared for their poor. But starting around 1970, health-care costs began steeply and steadily rising; per capita spending on health care is now 31 times more than it was then, according to federal figures. The public hospital model became a burden for local taxing districts, and more jurisdictions turned their health-care systems over to the private sector.

Today, fewer than 10% of general hospitals in America are owned by governments or a public hospital district. Those that remain—a list that includes Provident, which is run by Cook County—often complain they're forced to compete on an uneven playing field. Privately operated hospitals aren't held to the same standards of social responsibility, they argue, and as a result can cherry-pick patients likely to bring them a profit.

Mercy was purchased in 2012 by Trinity Health, a not-for-profit company that operates 90 hospitals and about 100 health-care clinics nationwide. Last year Trinity's executives said the company had been subsidizing Mercy's losses for several years. They emphasized that the company was driven by a charitable social mission, but that charity had its limits.

Starting in March 2020, hospitals all over the country were flooded with Covid-19 patients and forced to postpone elective surgeries, an important source of profit. That cut deeply into their margins. Pre-pandemic, the average American hospital operated on an 8.8% profit margin. The margin at safety-net hospitals was just 2.9%, according to industry figures. But Mercy's bottom line was consistently red; since 2012, Trinity had lost $187 million on the hospital. In the first months of the pandemic, the company said, the losses accelerated by about 25%.

That added financial pressure couldn't have come at a worse time. The South Side was the part of the city hardest hit by Covid in those early months, and Black Chicagoans were dying at a rate 2.5 times higher than Whites. The city was broke, facing a record $1.2 billion shortfall for the coming fiscal year. Chicago Mayor Lori Lightfoot said the combination of a public-health catastrophe and a fiscal emergency represented "a crisis unlike anything we have experienced in our lifetimes."

Fearing that the financially struggling hospitals in the most affected parts of the city couldn't absorb a Covid surge, the city approved a hastily contrived solution: a $66 million emergency field hospital inside McCormick Place, directly across the highway from Mercy. But when Chicagoans got sick, they did what they've always done: They turned to their hospitals. In the end, only 38 patients were treated at the convention center.

WHEN TRINITY BOUGHT MERCY FROM THE Sisters of Mercy, the order of Catholic nuns that founded it, the company made a series of promises to local officials in exchange for tax breaks. It pledged to keep Mercy running as a full-service hospital until at least 2029. So before Trinity could close Mercy, its executives had to convince a state board of regulators that they'd exhausted other options.

A series of hearings was scheduled for the fall and winter. Right away, the regulators let it be known that they didn't plan to let the company off easy. The board members demanded to know how, exactly, a hospital like Mercy could lose so much money. Were the executives exaggerating the losses? Was this a case of mismanagement? Why couldn't they sell the hospital to another company?

"As a public-health person, I am really distressed that this is going on in the midst of a global pandemic," said Dr. Linda Murray, one of the board members.

From their offices in Michigan, the Trinity executives smiled politely and pleaded their case.

They placed much of the blame for the hospital's struggles on the way medical insurance works for the poor. Only 22% of Mercy's patients were covered by private insurance plans, they explained. A majority were on Medicaid or were uninsured. The patient mix is important because different insurance plans pay hospitals different amounts for the same services. Private insurers reimburse hospitals roughly twice as much for all services as does Medicare, according to a 2020 survey by the Kaiser Family Foundation. Medicaid, the government plan for the poor, pays the least: Another Kaiser study reported that Illinois's Medicaid program reimburses hospitals just 61% of what Medicare does. Taken together, these surveys suggest that when a private insurer pays $1,000 for a procedure, Medicaid in Illinois pays about $307. Federal and state aid programs compensate hospitals that provide charity and reduced-cost care for poor patients, but Trinity officials said it's not nearly enough to bridge the difference.

"The Medicaid funding model does not cover the cost of care," Edward Green, a lawyer representing the company, told the regulators, "let alone leave any room for equipment or capital repairs or improvements."

In the closure application it submitted to the state, Trinity wrote that those repairs and improvements couldn't be put off much longer. "Mercy's aging facility will require at least $100 million of additional capital investments in the next five years to maintain a safe and sustainable acute care environment," the application read.

To generate that money, Mercy would need to attract more privately insured patients. But it was facing world-class competition in the form of Chicago's top-tier hospitals: Rush University Medical Center, Northwestern Memorial Hospital, and the University of Chicago Medical Center. How could Mercy attract privately insured patients with the means to travel to those hospitals, which also eagerly courted them?

It couldn't, Green told the regulators. The big hospitals were "siphoning off commercial and Medicare patients," in his words. The only new patients Mercy could attract seemed to be the poor who were abandoned after the closures and downgrades of other South Side safety nets. "The burden of treating those patients has largely landed on the doorstep of Mercy," said John Capasso, Trinity's executive vice president.

The executives suggested that this wasn't their burden to carry, and that no one would necessarily get hurt if they dropped it. "There is a hospital with an emergency department within 5 miles of Mercy Hospital, but Provident Hospital elected to downgrade the level of its emergency department services," Green noted. "Provident Hospital can simply return to its original status and begin treating emergency department patients again."

Trinity executives also argued that Chicago had too many hospital beds; at any given time, plenty of those beds remained vacant. David Ansell, senior vice president for community health equity at Rush University Medical Center, heard that with a measure of skepticism. "If you look at the number of beds in the region, there are probably too many—for sure," he told me. But most of those extra beds sit on the city's North Side, he said, and they're the profitable beds. "There's a big hole on the Near South Side of the city."

In mid-December the regulatory board unanimously ▶

The only patients Mercy could attract seemed to be the poor who were abandoned after the closures and downgrades of other South Side safety nets

◀ rejected Trinity's request to close Mercy. "I do not believe Mercy has made a reasonable case that their services will not have an extremely negative impact on the South Side of Chicago," said Murray, the board member.

Because of that rejection, if Mercy went ahead with its plans to close, it could be fined $10,000 each month by the state. But Mercy executives reported it was now losing about $5 million every month. The board's rejection was toothless in the face of raw economics. On Dec. 15, Mercy announced it would close anyway.

Its last day of operations was set for May 31, 2021.

INSIDE THE DEARBORN HOMES PUBLIC HOUSING project, Etta Davis opened Facebook and stumbled across a post about the hospital's pending closure. This was news to her. She started asking around, wondering if she was the only one in the neighborhood who hadn't heard.

"Nobody in my community knew about it," she said. "Nobody knew. I was like, 'You mean to tell me Mercy didn't even give their patients the right to know they'd be closing?' "

She's 66 years old, with diabetes, high blood pressure, a heart condition, "plus a few other things." For years, all the doctors she regularly saw—her primary-care physician, endocrinologist, nephrologist, cardiologist, and gastroenterologist—worked out of Michael Reese Hospital. When that hospital closed, she had to round up her medical records and find new doctors at Mercy.

By that time, she was living closer to Mercy anyway, after having moved into an apartment on the third floor of one of the Dearborn Homes high-rises. ("I told them, 'Don't put me higher than three, because the elevator's always breaking, and I can't be going up those steps like that.' ") She now serves on a neighborhood advisory committee at Dearborn Homes, which is less than a half-mile from Mercy. Davis guessed that of the 600 or so units in her complex, more than a third are occupied by seniors who regularly need medical care.

"It's the same thing all over again," she said, describing the closure of Mercy. "We're all talking to each other, saying, 'So what are we supposed to do now?' "

Davis answered the question for herself: She was going to make some noise. In October she hopped on a bus to go to the Hyatt Regency McCormick Place, where a public hearing about Mercy was being held in a conference room.

Davis was the first member of the public to arrive. She found a chair, draped her coat over the back, and waited for her name to be called. Mercy's CEO and the hospital's chief medical officer spoke first, explaining why a closure was a regrettable necessity. Then Davis was called to the podium.

Speaking through her mask, she talked about how Mercy doctors helped her tamp down stratospherically high blood sugar levels. About how her sister, suffering cardiac arrest and respiratory failure, had been saved in the hospital's emergency department—twice. "I know she would have died if they had taken that extra time to transport her across town to another hospital," Davis said.

The longer she spoke, the more fired up she got. She'd carefully written out her speech on lined notebook paper, but as she neared the end, she went off script, calling out city and county leaders by name, saying she wanted them to speak up about the closure, to take a stand to stop it. "We need to hear from you," she said. "And I can't hear you!"

In the weeks and months after the hearing, she took her passion outside, joining a series of "Save Mercy" rallies on the hospital's grounds.

Several of the rallies were led by Jitu Brown, who was born at Mercy and whose mother once worked as a nurse there. In 2015, Brown helped organize a campaign to save Dyett High School, which was the only open-enrollment school left in the neighborhood after a series of consolidations. Brown led a hunger strike, which ultimately paid off. After 34 days, the city relented to his group's demands, agreeing to reopen Dyett as an open-enrollment arts-based school.

"Health care, education—these are basic things, and yet we have to fight just to have them in our communities," Brown told me.

One day in the fall, Davis and Brown traveled to City Hall, where their group blocked traffic in the street, waving "Save Mercy Hospital" signs. They marched through the financial district and in front of the offices of state administrators.

"Everyone talks about Black Lives Matter, but if that's really true, why are they closing our hospitals and our schools?" Davis asked a cluster of people standing nearby.

I asked Brown what he and the other protesters really wanted: Did they want Trinity to continue to operate Mercy, or did they want someone else to take over?

"We want Trinity to sell it to another hospital, or to an investment firm," he said. "Someone whose values are in line with Mercy's mission, which throughout its history had been about justice and serving the poor."

Finding another buyer should be simple, he said. But the Trinity executives continued to insist it wasn't. Capasso, Trinity's executive vice president, told the state board that in 2018 the company hired a broker to solicit offers from 20 other hospitals throughout the Chicago area. "None of those hospitals responded with any interest in purchasing Mercy," he said. "We did go through an exhaustive process."

Since the closure announcement, he said, a handful of interested parties had approached the company. "But as we did our due diligence with them," Capasso said, "none of them wanted to operate Mercy as a full-service, acute care hospital."

As he spoke, however, multiple groups were sketching out proposals to do exactly that.

JUST AS COBBS WAS BEGINNING ANOTHER eight-hour shift in Mercy's emergency department early this year, a man was rushed through the doors, his body swelling with water and waste. His kidneys had begun to fail.

Normally Cobbs would admit the patient to the

Davis

hospital and the urology team would take over. But Mercy had cut its urology services weeks before. Cobbs needed to transfer the patient to another hospital. "The problem we're running up against is that there are no beds," she said after that shift. "All of those patients are now overcrowding these other peripheral hospitals."

Hours passed, while Cobbs and the struggling patient confronted the consequences of the South Side's reduced hospital capacity. Finally the emergency department found a spot for him in a suburban hospital 16 miles west of Mercy. "It literally took a whole shift for that patient to be transferred to Loyola," Cobbs said.

Mercy's slide accelerated throughout the winter. The first visible symptom was an exodus of nurses. By the end of 2020 a majority of Mercy's nurses and nurse practitioners—who are in high demand at hospitals around the country because of an industrywide shortage—had left for other jobs. The state jumped in and provided emergency support, "loaning" about 20 state-employed nurses to Mercy to prevent dangerous staffing shortfalls.

As the nursing corps shrank, Trinity began shedding other types of workers. Before, Cobbs worked with two or three resident physicians during each emergency-room shift; now there was just one. The behavioral health unit was pulled from the ER, as were cardiac catheterization services. In February, Mercy's ER was placed on "indefinite bypass," which meant its staff was instructed to decline ambulance drop-offs. Afterward, most of the emergency patients were walk-ins or were driven to the door by friends and relatives.

"Now the hospital is a very different environment," Cobbs said a few weeks after the downgrade. "That's not to say we don't have acuity, because you'd be surprised at what walks in the door. We've had quite a few patients that were on the brink of death. Or dead, for that matter."

As part of the effort to find a buyer for Mercy, Cobbs helped form an advisory group comprising Black doctors who lived or worked in the community. "We were sort of on standby for whomever might come in and save the hospital," she said. The Black doctors group, as they were informally known, began examining some of Mercy's most vexing problems and started drafting potential solutions. They discussed which departments they'd keep and which they might eliminate to reduce losses and shift more emphasis to preventative care, and how they might renegotiate reimbursement rates with insurers.

Throughout the winter and spring, Lamont Robinson, the Illinois state representative whose district includes Mercy, served as a link between the advisory group and potential buyers. Late last year, Robinson told me that he and other state lawmakers had found someone to save Mercy. "I'm happy to report that, with the governor's assistance, we do have a buyer," he said. "It's a local hospital. I cannot share the name, but we're in negotiations now with Trinity and this buyer."

That prospective buyer was Humboldt Park Health, a 200-bed facility about 8 miles northwest of Mercy. Cobbs's group of doctors began talking to that hospital's leaders about drafting a takeover plan. Throughout February, Cobbs waited to receive from Trinity a detailed assessment of Mercy's facilities—a document that would help guide her group's recommendations to revamp Mercy.

On a Friday in early March, she and other members of her group were asked to attend a meeting with Governor J.B. Pritzker's staff. During that meeting, the staff revealed that Trinity had agreed to sell the hospital—but not to Humboldt Park Health. The buyer would be a company in Michigan called Insight. Trinity planned to sell Mercy to Insight for $1.

Cobbs was stunned. "I've never heard of Insight," she said afterward. "Nobody has."

AT THE END OF JULY 2020, OVER THE MUSLIM holiday of Eid, Dr. Jawad Shah visited his sister in Chicago's Hyde Park neighborhood. He hopped on a bike for some morning exercise and headed north, tracing the Lake Michigan shoreline. When he neared the tangle of overpasses marking the junction of Lake Shore Drive and I-55, his eye sought out the white, 13-story building with the honeycombed facade.

Shah, a neurosurgeon, had seen stories in the local media the day before about Mercy's closure plan. He couldn't grasp how such a storied facility, in such a vital area, could simply vanish.

"I was just thinking, 'Wait a minute. Am I missing something ▶

A Save Mercy rally in 2020

PAT NABONG/CHICAGO SUN-TIMES

◀ here? Why, exactly, is this going to shut down?' " Shah recalled. "When you look at the lay of the land, and the desert that's about to be created, it's like, wait—this is not a good thing."

Shah dashed off a text to Atif Bawahab, a business partner who helps run the neurosurgery clinic Shah operates in Flint, Mich.

"*Eid Mubarak*," Shah typed, wishing him a happy holiday. "Please buy Mercy."

He was half serious. At the time he assumed other health-care providers would surely make bids on the place. Most of them probably would have more resources than he did, and more experience serving large, urban communities. But seeing the building planted an idea in his head: This might be the perfect place to build on what he'd achieved in the first 53 years of his life.

Shah was born in Pakistan and emigrated to Canada with his parents when he was a baby. He grew up in Winnipeg and went to medical school there. A Ph.D. and training in neurosurgery followed. He developed a niche in brain stem and complex spinal surgery and started a private practice. "Then," he said, "I met a girl from Flint."

He married her and moved in 2003 with his wife to her hometown, where his practice thrived. In 2008 he launched Insight, a neurosurgery center that began with a staff of four. He put a bid on a 16,000-square-foot building, which he hoped might become a clinic site, but his offer was rejected. Shortly after that, he stumbled across a less conventional space: a 600,000-square-foot former General Motors manufacturing plant. The empty complex was an eyesore in a town littered with abandoned factories. He paid less than $200,000 for it.

"It was a massive building, and it changed the entire vision of what we were to do," Shah said.

He rented suites to commercial clients—a lawyer, a doctor, a trucking company, a food pantry. Then he worked out a deal with Diplomat Pharmacy, a Michigan company that had recently gone national and was on its way to becoming the country's largest independent provider of specialty prescription drugs—the types of infrequently prescribed medications that retail pharmacies don't often stock.

The city marketed the complex as a medical Silicon Valley that could help revive Flint, and Shah was celebrated as a revitalizing force. He hired orthopedic surgeons, more neurosurgeons, and several nurses. He opened an 18-bed rehabilitation center to treat victims of catastrophic brain and spinal injuries. He added an imaging center, specialists in pain and addiction management, and chiropractors, and he converted a gymnasium into a wellness center. Soon, Insight employed more than 300 people and was performing more than 1,000 surgeries each year.

Shah wasn't just a surgeon anymore; he was a Jack

Shah (third from left) and Bawahab (far right) at a ceremony to mark the opening of Insight Hospital

Welch-quoting entrepreneur who began thinking of Insight as a business incubator. Some of the projects he's backed seem relatively modest, like one that his 19-year-old daughter oversees: development of a natural oatmeal-based soap to treat dermatitis. Others are far more complex, such as a device Shah calls "an artificial spinal cord." It's a set of electronic implants that stimulates nerves and can induce precise movements in a patient's hips, knees, or ankles. Shah is seeking U.S. Food and Drug Administration approval for its use as a rehabilitation device, and the grander hope is that it eventually will allow victims of severe spinal injuries to walk again.

Shah wasn't sure if any of that history could persuade Trinity to consider his interest in Mercy as anything more than a whim. As late as last December, Trinity executives publicly stated that they hadn't entertained any "serious" offers for Mercy. But Insight had begun looking into the purchase immediately after Shah texted Bawahab during his bike ride. After a couple of Google searches to figure out exactly what he was talking about, Bawahab grabbed the phone.

"I called Mercy's main phone number and talked to the front-desk person," Bawahab said. "I talked to them three or four times, and finally someone from Trinity called me back."

At 33, Bawahab is 20 years younger than Shah, and the relationship between the two business partners resembles that of a mentoring uncle and a nephew. Shah exudes placid composure; his voice naturally adopts the unflustered authority of the doctor reassuring a patient. Bawahab is less restrained, more immediately expressive. His title in Flint is chief strategy officer, and it was clear from the start that Mercy, if they could somehow acquire it, would operate according to Shah's vision, but Bawahab would oversee the on-the-ground implementation of it.

It wasn't until the last week of 2020, after the state board voted against closure, that Trinity agreed to a face-to-face meeting with Insight. When the Trinity team traveled to Flint, Shah gave them a tour of the campus and an overview of his operations. He and Bawahab were ready to answer all sorts of questions about their medical operations. But the Trinity executives kept asking about a project that had little direct connection with health care: a youth community center in a once-abandoned school building. Shah bought the building in 2015 for $1.

The center, called the Sylvester Broome Empowerment Village, offers free training and programs for children in sports, music, visual arts, journalism, health, science, and the performing arts. Originally, Insight funded all of those programs. But Shah's gift for finding external funding partners—charitable foundations, endowments, and private businesses—has allowed it to explode in size and ambition. The NFL, for example, is building a sports complex connected to the building. Michael Jackson's daughter, Paris, helped fund the music studio inside the center. At the height of Flint's water crisis, Will Smith's son Jaden helped turn the building into a site for distributing clean water.

Trinity's keen interest in the project surprised Bawahab, until he began to sense what was behind it. On the South Side of Chicago, those Trinity executives were cast as villains with no concern for the well-being of a community they didn't belong to. If the next owners of Mercy were to have any chance of success, they'd need the local people on their side.

"Their whole thing was, 'Do you guys really understand what you're getting yourselves into?' " Bawahab said. " 'Have you dealt with this type of community before?' "

INSIGHT AND TRINITY NEEDED STATE APPROVAL TO complete the purchase, and that required another public hearing, on March 12. Etta Davis and Jitu Brown were among those listening in. They heard the past three mayors of Flint pour praise on Shah, who in turn promised to be as engaged in community-building on the South Side as he'd been in Flint. They listened to Bawahab insist that the company was committed to building a world-class hospital—not just a safety net that offered a bare minimum of care.

"They said a lot of the right things," Brown said afterward. "But we don't know them. A lot of people come into our community and say the right things."

The day after that hearing, Davis learned that Insight's plans to save Mercy might not save her connection to the hospital, at least in the short term. She pulled an envelope from her mailbox. A letter informed her that one of her doctors would be leaving the hospital in May.

Your health and well-being are of utmost importance to us at Mercy. I encourage you to contact your health plan to choose another provider as soon as possible to ensure uninterrupted care.

Within days, Davis had received five of these form letters. Every one of her doctors planned to leave Mercy. The doctors, as it happened, had received letters of their own just days before—termination letters. Trinity, even as it talked with potential buyers, continued to gut Mercy, trying to cut losses and plan for a hard closure. Cobbs's letter informed her that she would no longer be employed after 90 days. "It's just 'Thank you for your service,' " Cobbs said. "That's it."

Cobbs had been among those who spoke at the public hearing and urged the state to delay approval of the Insight deal. She noted that the community had been given no chance to vet Insight. And if a company from Michigan could buy Mercy for $1, why couldn't her group of local Black doctors make the same offer?

She never got a good answer, she said. Trinity executives, who declined to be interviewed for this story, insisted that the other potential buyers that had approached the company lacked either the expertise or the financial backing required to operate a full-service hospital. Cobbs felt she hadn't yet gotten the chance to prove that her group, when allied with Humboldt Health, could handle it.

Earlier that same week, Cobbs had sat on a concrete bench next to Mercy's parking lot, wiping tears from ▶

◀ her eyes. She didn't want to look for another job. But she believed that the Black doctors' group had been disrespected, and her future at the hospital was too uncertain. She felt as if she had no choice.

On March 22 the state approved the Insight sale.

IN APRIL AND MAY, INSIGHT HELD A SERIES OF meetings with doctors and community groups. At one of the meetings, the Chicago Health Equity Coalition, a group Brown and Davis were part of, confronted Insight with a list of demands. At the top of the list: The new hospital's board of directors should include them. "We don't need some community advisory board that has no authority," Brown told me. "That is not acceptable to us."

Shah and Bawahab didn't rule out the idea of community members on the board. But the way they saw it, if they couldn't restore Mercy to financial stability, the question of who was on the board wouldn't ultimately matter. Because there wouldn't be a hospital.

Transforming Mercy was complicated by Shah and Bawahab not having a clear view into what, exactly, they'd be trying to transform. Insight would take possession of Mercy on June 1. Before that, Shah and Bawahab couldn't freely access the hospital. Consultations with the staff were limited, and Insight wasn't allowed to conduct an independent assessment of the building's condition.

Shah said he'd faced similar ambiguities before. In 2018, Insight bought a small hospital in Warren, Mich. The previous year, the hospital had lost almost $3 million. Insight took it over on Dec. 14, Shah said, and by Dec. 31 it was turning a profit. With only 20 beds, that turnaround doesn't come close to approaching the complexity and scale of the challenge he faces with Mercy. Even so, he planned to apply many of the strategies they used in Warren to the South Side. "There's tremendous waste in hospitals," Shah said, "and lots of opportunities to be more efficient."

One of the first things that needs to change, Shah and Bawahab decided, were Mercy's operating rooms. For years they'd sat empty much of the time, while thousands of potential orthopedic and neurosurgery patients were transferred to other facilities. "If you have a hospital that has around 55,000 visits in the emergency department, and around 250,000 outpatient visits, how is it possible to do two neurosurgeries in a year?" Shah asked. "Why don't we have intra-arterial treatments for stroke, which are super important to the community and reimburse the hospital well? These service lines have to be established."

Not everyone believed it could be so easy, given that Trinity executives—who ran a successful company many times the size of Insight—had spent months saying they'd exhausted their ideas about how to turn a profit. When asked whether Insight's plan can succeed in a part of the city where others have failed, the expert consensus seems to be upturned palms and a shrug of the shoulders: They don't really know yet.

Ansell, of Rush, said the core of Insight's plan—to fund basic services to a poor population through profitable surgeries—has become the last available option for safety-net hospitals. "Given our crazy health-care financing system that values profit over people in many ways, that's the only way they can do this," he said. One enduring market trend is working in their favor. "People really want to get care in their communities. They don't want to go downtown if they don't have to."

GOOD MORNING, FREEDOM FIGHTERS!" BROWN was surveying the rally crowd on the sidewalk outside City Hall, and he spotted a familiar face. "Miss Etta," he said. "How are you doing today?"

Davis had come downtown with some neighbors for another Save Mercy rally, though it had been more than two months since Insight announced that its purchase would prevent the closure of the hospital. Brown and other community activists had warned in recent days that sinister dealings might be in the works—that Insight might be allowed to downgrade the hospital.

"We demand that Insight—who has resisted our efforts to put community members on the board, while they say they are our friends—we say, 'If you want our support, we demand in writing a commitment for Mercy Hospital to remain a full-service hospital,'" Brown announced at the rally. "Not a specialty center. Let's be clear. This body of freedom fighters here? We are the instrument of accountability from here on in for safety-net hospitals."

Davis was angry—at the mayor, at Trinity, and even at the group of Black doctors that had unsuccessfully tried to bid on Mercy. The group's interest in purchasing Mercy hadn't been public until after the Insight deal. "Where were they last year?" she told me. "Why did they wait until the last minute to try to buy it?" Shah wasn't spared, either. She aimed some of her sharpest barbs his way.

"We've had enough false prophets come into our communities," she said at the rally, her voice digging down into a fierce, growling register. "Now put your pen where your mouth is!"

City and state officials were working on that with Shah and Bawahab. In late May, the two sides finalized a deal in which Insight promised that the hospital would remain a full-service facility at least through 2029; register as a nonprofit institution; continue to serve Medicare and Medicaid patients;

"This is historic, right? When has a hospital that's been slated to close in a Black community been stopped from closing?"

and reestablish teaching programs for early-career doctors. Insight also committed to investing at least $50 million into the facility during its first two years of operation, maintaining charity care at the levels Trinity had provided, and reserving three spots on its board for representatives from the community.

After the deal with the city was announced, Brown said it felt like a victory.

"This is historic, right?" he said in late May. "When has a hospital that's been slated to close in a Black community been stopped from closing?"

New branding for a new hospital

On May 31, the day before Insight took control of Mercy, Cobbs met several other staffers in the hospital parking lot for a tailgate celebration. They popped open sodas and shared homemade snacks and cookies to commemorate the end of an era. Afterward they walked into the emergency department for the last time.

"We said our goodbyes, kinda just took a picture, and handed it off," Cobbs said. "And that was it."

In the following weeks she'd land interviews at three other local emergency departments, and by the end of the summer she'd found a job that would keep her in Chicago. Things had worked out for her in the end. "I'm extremely excited and motivated," Cobbs said.

At 12:01 a.m. on June 1, Shah and his team walked through the doors of their new hospital. For the first time in 168 years, this wasn't Mercy Hospital. Shah changed the name to Insight Hospital & Medical Center.

The building he acquired had been traumatized by uncertainty, and he could see it in every empty room and hear it in every quiet hallway. Before Trinity announced its intent to close, about 1,200 people worked there. On the day he took over, 150 to 200 employees remained.

But Shah was happy. The hospital appeared to be in much better physical condition than he'd feared. "I'm not saying it's great, but it's pretty darned good," he said. "It's a nice building, and it's well maintained. The floors are pristine."

Later that week Bawahab welcomed about 120 people to a grand opening ceremony on the hospital's grounds. He said he wanted to celebrate the acquisition and to generate excitement for the hospital's potential—but he also wanted to temper expectations. It would take time to build it back up. "This will be a long journey, one that has already had some bumps in the road—and that will continue to have some bumps in the road," he said during the ceremony.

Later, Bawahab said the handover from Trinity had been disconcertingly complex. In the weeks before the takeover, while Insight made plans to revive Mercy, Trinity continued to cut costs and slash services. The two companies were pursuing contradictory goals until the moment of transfer.

Within days, Insight began bolstering the hospital's emergency services to meet the regulatory standards of a "comprehensive" department. The process was slow. By late September it still hadn't completed the upgrade, and ambulances still hadn't returned. A big reason, Bawahab said, was the shortage of registered nurses. The hospital had roughly doubled the number of employees in its first 100 days, to about 350, but it wasn't enough to reestablish full emergency services, he said. "The bottleneck, unfortunately, is on the RN side."

Insight restored several departments, including radiology, intensive care, mammography, pharmacy, laboratory testing, inpatient psychiatric services, general surgery, and outpatient obstetrics and gynecology. Neurosurgeons had begun doing spinal and brain surgeries inside the hospital.

Community groups continued to press the company for updates and meetings. The intensity of the public's interest, Bawahab said, initially caught Insight off guard. "In Michigan, no one really cared about what we were doing and when we were doing it," he said. "Over here, people want to know even before we've kind of decided for ourselves what the plan is."

In September, Davis was among those attending a meeting with Shah, who offered an overview of the hospital services that had been restored. It was a start, she said, but the kind of care she needed, and the specialists who could give it to her, still hadn't returned. Even so, Brown said his community group understood that the upgrades would take more than a couple of months. "We're pleased with the progress the hospital is making," he said. "It is expanding, and we know it's a process."

Shortly after the takeover, Shah walked through the hospital's maze of hallways toward the emergency department. On this day it felt desolate. The admissions desk was unstaffed. After about five minutes of silence, a nurse ducked out of one of the side rooms, where a patient was waiting. Finally the department showed a sign of life.

"Hey, Brandon!" the nurse called to another staffer, who was bent over a sheaf of papers in a far corner of the room. "Can you grab the electrodes?" Ⓑ

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HARVEST REPORT 2021

THE VERDICT IS GREAT WINE JUST LESS OF IT

By Elin McCoy

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Chris Rovzar

Businessweek.com

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Jamie Chung

Sister winemakers Meike and Dörte Näkel of Meyer-Näkel winery barely escaped with their lives in the mid-July floods that swept through Germany's tiny Ahr Valley, home to silky-textured pinot noirs known locally as spätburgunders.

Trapped in their flooded winery, they swam under floating barrels and kicked out a window. Then they were washed downstream and found refuge in a tree, where they shivered for seven hours until they were rescued. More than 180 people died in the flood, and dozens of wine estates were damaged or destroyed. Some vineyards were completely washed away.

Climate change made itself felt with a vengeance in Europe's wine regions this year. France was the poster child for a vintage of disasters. Severe frosts in April froze vines from Champagne to Provence. Things went from bad to nightmarish when the unseasonably cold weather was followed by relentless summer rain, hailstorms, and floods. Wildfires tore through parts of Provence in August. The French Ministry of Agriculture and Food projected overall yields at 24% to 30% lower than average, the smallest wine harvest in 45 years.

But remember: Quality can still be good or even outstanding. Some growers are saying the surviving grapes look "amazing." And harvest isn't over yet.

On the other side of the world, in California, winemakers are happier. The grapes have exceptional flavor and concentration, they say, due in part to ongoing drought. After last year's wildfires destroyed 30 wineries and tinged grapes with smoke taint in Napa, that's great news.

In other words, harvest 2021 is complicated. Here's the outlook, by region.

France

BORDEAUX • The land of grand châteaux is seeing a mixed fall. The biggest culprit is mildew, a destructive vine fungus encouraged by warm, wet conditions. Some owners say the outbreak is the worst they've seen in 40 years, with grape yields down 10% to 60%. Emmanuel Cruse of Château d'Issan counts himself lucky; he lost only 3% in the estate's top vineyard.

But a cooler-than-average growing season, with slow, steady ripening, has many optimistic. "Surprisingly, everything looks very positive, with incredible ripeness in the reds," the vineyard manager for first-growth Château Haut-Brion wrote in an email.

And despite the low quantity, prices for wines may not spike, as there are plenty of top vintages (2018, 2019, and 2020) in the pipeline to fulfill demand.

BURGUNDY • Paul Wasserman of exporter Becky Wasserman & Co. outlines the problems here: "frost, hail, mildew, fear of rot, and very slow ripening." Plus, there were problems finding trained pickers. Harvest for reds started almost a month later than in 2020.

Frost took the biggest toll on chardonnay. New York-based importer Harmon Skurnik says one up-and-coming young grower in the Côte Chalonnaise will harvest only 5% of a normal crop. Veronique Drouhin-Boss of Domaine Joseph Drouhin says quantity is very low in Chablis and the Côte de Beaune, where overall losses are reaching 50%. It may end up as the smallest vintage ever, though the pinot in the Côte de Nuits was more fortunate.

But quality looks superb for whites and reds, which will be lighter and lower in alcohol than recent vintages. Jean-Marc Moron, head of Domaine des Hospices de Nuits-Saint-Georges, says cool conditions mean reds will "be tender-textured, with red fruit aroma and less on the ripe and spicy side."

CHAMPAGNE • The regional trade organization Comité Champagne set Sept. 6 as the harvest start date, later than last year. Weather and mildew echoed Burgundy's experience, so Sebastien Le Golvet, *chef de cave* of grower Champagne Henri Giraud, says sorting grapes carefully will be key. Louis Roederer lost 25% of the crop to the 12-day frost and 25% to outbreaks of mildew, which chef de cave Jean-Baptiste Lécaillon calls "the worst since 1958." He adds, "Chardonnay is the luckier grape!" Which means excellent blanc de blancs. Top pinot noir is also successful, so Cristal, a blend of both, won't suffer.

LOIRE VALLEY • As if frosts weren't enough, egg-size hailstones destroyed vineyards in a three-minute storm in June. Langlois Chateau reports quality is good for chenin blanc and cabernet franc, but there's a real lack of grapes. In Sancerre the loss amounts to 50% to 70% at some vineyards, so expect a shortage and higher prices. Yet in Savennières, winemaker Thibaud Boudigon says, this vintage could be his best, with wines that are minerally and fresh.

RHÔNE VALLEY • In the northern Rhône, the harvesting of reds started about Sept. 25, a month later than 2020. Laurent Combier of Domaine Combier calls 2021 "a true vintage of the vigneron," meaning that it took expensive work in the vineyards to produce good grapes. He says the wines will hark back to vintages in the 1990s that had less alcohol. Stéphane Ogier, whose eponymous domaine is in Côte-Rôtie, expects "some good surprises for delicious whites" that are vibrant and fruity.

PROVENCE • Yes, there was frost. Add to that a wildfire that raged for a week right before harvest in the Var, a rosé region that includes St-Tropez. It affected 73 wineries, such as Domaine Mirabeau, whose owner posted a photo on Instagram of burned vines and shriveled grapes. Other areas are fine. Château Minuty co-owner François Matton says his fermenting rosés already have intense aromas of white peach and grapefruit, balance, and freshness, and they have more grapes than expected.

Italy

By Sept. 15 harvest was in full swing, and it will continue well into October. Overall national production will be down 9% from 2020, according to forecasts from the associations of Italian wineries and oenologists and the government institute for agriculture, Ismea.

Tuscany's coastal Bolgheri area looks to be one of the year's big successes. A cool spring and hot, dry summer created a classic vintage, says Axel Heinz, winemaker at super Tuscan estate Ornellaia. Priscilla Incisa della Rocchetta of Sassicaia calls it "a vintage with great potential—excellent structure, well-ripened tannins, acidity in perfect balance, and beautiful freshness."

It was cool and dry in the Barolo country of Piedmont, where Giovanni Gaja of Gaja Winery is also optimistic about quality. But Brunello di Montalcino wasn't as lucky. Winemaker Sebastian Nasello at Podere Le Ripi cites 50% less fruit than usual because of frost, drought, and hail. He's harvesting earlier, so wines may be fresher and more acidic. And despite media reports about heat waves in Sicily, Alessio Planeta, who owns vineyards around the island, says red nero d'Avola and white grillo grapes will make great wines.

Portugal

The country seems like a winner in 2021. The Symington family, which owns more than two dozen estates in the Douro Valley and the Alentejo, said in an email that with no heat spikes, the grapes ripened very evenly, with harvest for red grapes starting earlier than average. So far wines have good color, high acidity, and balance, which points to a top vintage.

Spain

The harvest in Rioja looked quite good the last week of August, says Victor Urrutia of CVNE, a family company with wineries across north central Spain. But in mid-September they'd had more than a week of rain with a forecast of more and the risk of the fungus botrytis. Although he'd started picking white grapes, he says he can't harvest reds until the rain stops.

Antifrost candles being lit at the Daniel-Etienne Defaix estate near Chablis, Burgundy, in April

JEFF PACHOUD/AFP/GETTY IMAGES

Germany

Yields vary from region to region, and winemakers are cautiously optimistic. Despite the Ahr Valley floods, the quality of the pinot from spared vineyards looked good when picking started in mid-September. It was a very mixed growing season in the Moselle Valley, says top producer Egon Müller. Because vines don't bud as early in this cool climate, frosts did no damage. Cold weather in August, followed by a warm sunny September, pushed harvest later than usual, into mid-October. Müller expects high acidity levels in the wines and a more classical style.

Austria

Austria expects an average harvest, finishing in early October, with lushly fruity, harmonious wines. Cool weather in the spring delayed bud development, so vines suffered less damage from the April frosts than elsewhere.

United States

In terms of quality, Quintessa winemaker Rebekah Wineberg calls her haul "small but mighty." Drought is the defining feature in Napa and Sonoma, as it was the third-driest year in more than a century, and the stress has meant fewer grapes: One of Massican's white wine vineyards yielded 80% less than normal, according to founder Dan Petroski. But drought also causes smaller grapes with more concentrated flavor and tannins. "So far, harvest 2021 has been fantastic," Chateau Montelena winemaker Matt Crafton said in an email, "except for the yields." People talk about intense aromas and depth, on par with the great 2018s. In Sonoma the chardonnay crop is light, but the wines are full of fresh acidity. Winemaker Theresa Heredia at Gary Farrell Winery in the Russian River Valley says the pinot noir is intense and concentrated. Ⓑ

The bar at American Beech (left); a duck tot and caviar dish at North Fork Table & Inn; the pastry shop at Southold General (below)

The Hamptons, But Better

With new restaurants and hotels, Long Island's North Fork is acquiring the sheen of its trendy neighbor—but with fewer crowds and at a (slightly) lower cost. *By Jackie Caradonio*

Drive east from New York City, and just before you hit the Peconic River, you'll face a choice: north or south? Option B takes you to the Hamptons, that enviable address where summer dreams of rosé and lawn parties are lived out weekend after weekend. But lately, the road toward the agricultural haven known literally as the North Fork is attracting more and more devoted travelers.

This string of 15 villages has long been considered a quiet alternative to the raucous Hamptons, if it was considered at all. Since the aughts, its laid-back vineyards and farm stands have drawn a smattering of Manhattanites via car or the Long Island Rail Road, including this writer, for affordable day-trips. More indulgent weekends meant a night at the North Fork Table & Inn, where three-hour-long tasting menus were made by a husband and wife team that had earned accolades at power restaurants Gramercy Tavern and Aureole.

Today locals call the area, which stretches 30 miles from Riverhead to Orient Point, "the Brooklyn of East End." It's more creative and less fussy than the Hamptons but no less attractive, and, these days, it's approaching as expensive. In 2005 the median home price on the North Fork was $451,000; now it's $780,000. Local broker Sheri Winter Parker confesses she has a hard time finding any inventory under $2 million. "We were doing well before, but Covid took it to another level," says Parker, who's lived in the area for 21 years.

To her point, not a single restaurant in boutique-lined Greenport shuttered because of the pandemic. In fact, more opened to meet the demand of urban defectors, including the famed bistro Demarchelier, which relocated from Manhattan's Upper East Side in November. Duryea's, Montauk's purveyor of choice for lobster rolls, expanded to Orient Point in 2020.

Fishing boats in the marina now have the illustrious company of megayachts, including on a recent weekend a matte-black 108-footer available to rent for $60,000 a week. Buzzy designer Alex Vinash's shop in the American Beech Hotel offers racks of vibrant resort wear set amid funky chairs and

Drinking Up the North Fork

Fresh talent—and new investment—has elevated the region's wines, too

ROSE HILL
This winery and farmhouse inn in Mattituck has a charming courtyard—perfect for sips of chenin blanc and cabernet franc that uniquely reflect the area.

RGNY
The first American venture by Mexican winemaker Rivero González, established in 2019, uses low-impact methods to produce light, summery rosé and white merlot in Riverhead.

BEDELL CELLARS
In Cutchogue, winemaker Richard Olsen-Harbich has shifted production away from Napa copycat reds and now focuses on grapes suited to the East Coast's humidity—bright and fruity melon de Bourgognes and viogniers.

ONE WOMAN WINES & VINEYARDS
Founded by Claudia Purita on a tiny plot of grüner veltliner in 2002, it's expanded to include a barnlike tasting room in Southold and more than a dozen grape varietals over 36 acres.

SPARKLING POINTE
Its estate-grown wines are made exclusively in the traditional méthode Champenoise and can be paired with caviar service on the estate's patio in Southold.

The Inn Crowd

For the most quintessential North Fork vacation, book a B&B—preferably **THE HARVEST INN**. It operates like an intimate boutique hotel, with five rooms and attentive owners serving exquisite multicourse breakfasts on the porch. If it's a beach trip you're after, try **SOUND VIEW** instead. The motor inn turned midcentury modern hotel claims a quarter-mile stretch of pebbly coast; its swimming pool and many of its 55 guest rooms have water views. **AMERICAN BEECH** sits at the beating heart of Greenport, with a bar reminiscent of the Beverly Hills Hotel. And **THE MENHADEN**, with its chic black-and-white awning, has 16 rooms in a prime Greenport location, with beach cruisers that make it easy to explore the entire area.

AMERICAN BEECH: COURTESY AMERICAN BEECH. NORTH FORK INN: CONOR HARRIGAN. SOUTHOLD GENERAL: PAT DUNFORD

potted palms. Nearby, at the year-old Sound View hotel, a recently opened concept shop sells swimwear and canvas bags made from recycled materials.

Catch Greenport on a summery Saturday night, and the sundress-clad revelers bouncing between crowded bars along Main Road and Front Street might give the impression you've hopped over the Peconic Bay to frenzied Montauk.

But there's a concerted effort here to ensure that the south stays where it is—and the north maintains its (relatively) quiet appeal. That's being enforced by a coalition of local city boards that conservatively grant building permits, frequently blocking new construction when careful renovations will do, even if they're significantly costlier.

The evolution of the North Fork was subtle at first: a freshly painted sign at one of the old B&Bs or a new farm-to-table food truck. But it picked up in 2015 with the arrival of American Beech, the area's first upscale hotel. Its 13 boldly designed suites and restaurant transformed sleepy Stirling Square in central Greenport into a trendy hub where you actually had to make a reservation. Celebrities and star chefs soon followed: Tom Colicchio and Andrew Carmellini were no longer simply sourcing produce from local farms, they were choosing the North Fork for their second homes.

Among the chefs was serial entrepreneur John Fraser of Dovetail and the Loyal in New York City, who's been coming regularly for more than a decade and is now spearheading a spate of projects he hopes will draw locals just as much as weekenders. In 2019 he realized a longtime goal, acquiring the North Fork Table & Inn, and began breathing new life into it. "The whole idea was preservation, restoration, and reinvention," he says.

The revamped menu leans heavily on the local agricultural bounty such as Shinnecock scallops a la plancha with blackberries, cauliflower, and pine nuts. And the four rooms above the dining area now sport leather headboards and black brass accents, courtesy of designer Thomas Juul-Hansen.

In August, Fraser and his team opened Southold General, an upscale cafe and provisions market where French pastry master François Payard serves up sweet gelato and savory croissants. Next summer the Shoals, the group's second hotel in the town of Southold, will offer 20 rooms, an oyster shack, and a 20-slip marina right off the waterfront lawn.

Not all the area's investors are chefs: In 2021 another locally owned boutique hotel called the Menhaden was acquired for $8.3 million by New York-based Atlantic Equity Partners. In 2019, San Francisco-based Sightline Hospitality added the Harbor Front Inn (a renovation project) to its nationwide portfolio. So far the development has remained embedded in the fabric of North Fork life, but the influx of outside money may hint at a slow erosion of the local flair.

For now, anyway, you can still drive along either of the area's two main arteries—North and Main roads—and find overflowing stands packed with fresh apples and oysters and lavender and pumpkins. Change may be afoot, but the North Fork has deep roots—and they aren't giving way just yet. Ⓑ

The Busiest Man in Napa

How Carlton McCoy marries long-term thinking with immediate returns. *Interview by Elin McCoy*

After purchasing Napa's historic Heitz Cellar at the end of 2018, billionaire Gaylon Lawrence hired master sommelier Carlton McCoy, then wine director at the Little Nell in Aspen, Colo., to be chief executive officer. McCoy has been on a tear ever since, expanding Lawrence's wine portfolio. First he refocused Heitz on its top single-vineyard cabernets and dropped some smaller wines like zinfandel. He bought famed vineyards Haynes and Wildwood in 2019 and two iconic wineries, Burgess Cellars and Stony Hill, in 2020—then appointed young winemakers to carry them forward. He launched the less expensive Brendel brand and formed an American *négociant* and import company called Demeine Estates. He's also spinning off Heitz's Ink Grade Vineyard into an estate winery with its own label. All of it fits into a vision of an old-school, elegant, balanced style. Here he tells us all about it. (Remarks have been edited for clarity and brevity.)

McCoy at Heitz Cellar

With so many properties, how do you manage harvest?
We have an incredible team at each winery. It's my job to know what's going on everywhere, but I don't have to be present, hovering. I get an email every day of what's being picked where and taste all fermenting wines two to three days after the grapes have been picked.

Last fall's wildfires destroyed Burgess Cellars two weeks after you bought it. What preventive steps did you take this year?
We're thinking long-term, using regenerative farming practices to bring moisture back to the soil. And we learned to make sure there's nothing around to catch fire by trimming trees, bringing in goats to clear brush, and mowing to keep cover crops short.

During the busy harvest season, you're opening three new tasting rooms. Seriously?
To be really successful in the wine business, you also have to be about hospitality. Heitz is one of the great wine estates in the world, and we needed to invest in it like it was Château Petrus. With designer Peter Fleming, I planned the tasting room, which is off busy Highway 29, like a three-star restaurant. The entry has limestone columns and a stone road to slow you down and calm you. You decompress in a garden at tables with linen cloths, silver, and Zalto glasses. The music—jazz, blues, soul—and charcuterie are all American. For our new, less expensive brand, Brendel, we're opening a casual wine bar with a young, go-and-have-fun aesthetic in mid-October. Outdoor tasting experiences at Burgess Cellars' new facility also started in September.

You're about to launch new wines, too?
A Heitz cabernet, Lot C-91. It resurrects a historical blend of single vineyards that Joe Heitz made only once, in 1969. There were no notes about old bottles I found in the library cellar, so we had to chase down collectors for information to re-create it. Then there's Ink Grade. It's such a unique and diverse site on Howell Mountain. Winemaker Matt Taylor and I are still figuring out what we want the wine to express. I often stop by on my way home after work to try his micro experiments. Wines under the label will come out in 2022.

After the Black Lives Matter protests, you helped start the Roots Fund. What has it accomplished so far?
I hate to be loud and call people out. Things change because you do things, not because of what you say. I worked with two friends, one at the Hue Society [a community dedicated to Black wine culture], to create this nonprofit to help people of color learn about wine industry job possibilities and support them. It's been more successful than I'd ever imagined. We've raised hundreds of thousands of dollars, given out 40 fellowships, and just sent our first scholar to France to spend the year at the Burgundy School of Wine and Spirits Business.

And you've also been filming a series for CNN. What's it about, and when will we see it?
I don't think wine really translates to TV. It's something to experience directly. The series—it's called *Nomad With Carlton McCoy*—ticks all the boxes about what makes up local culture today in six destinations around the world. It's not just food, but also music, art, religion, fashion. Expect it in spring 2022.

PHOTOGRAPH BY MATT SAYLES

Australia's most famous winery, Penfolds, likes to challenge preconceptions. When its multiregion Grange blend first appeared in the 1950s, it was viewed as radical (and undrinkable) but is now a collectible. This year the company introduced another iconoclast: the 2018 Penfolds Quantum Bin 98, a $700 wine that straddles hemispheres. The cabernet that comprises 87% of the blend comes from top Oakville and Diamond Mountain vineyards in Napa, and the remainder is shiraz from the best spots for old vines in South Australia.

The Globe In a Glass

Penfolds blends grapes from Australia and California into one powerhouse pour

By Elin McCoy
Photograph by Ryan Jenq

THE COMPETITION

• Blends of cabernet sauvignon and shiraz are Australia's definitive style, and 2015's the Caley ($350) is the fourth vintage of Yalumba's flagship red. It's a rich, fruity, spicy mix of 74% cabernet from the Coonawarra region and 26% old vine shiraz from the Barossa Valley. Unlike Quantum, it shouts Australia. Aged only in French oak, it's also less concentrated.

• The 2016 Penfolds Grange ($800) is the reverse of the Quantum blend: shiraz with a tiny amount of cabernet sauvignon (3%), all sourced from three regions in Australia. Massive, concentrated, and robust, it has a track record for aging and investment potential.

• The outlier 2016 Château Palmer XIXth Century Historical wine ($350) is a rare deep-textured cuvée from the château's vineyard and syrah (aka shiraz) from the Rhône Valley. It pays homage to past tradition, when Bordeaux winemakers dosed their wines with syrah to give them color and power.

THE CASE

Intensely rich and mouth-filling, with an inky purple color, Quantum has blueberry-sweet fruit and a polished, velvety texture that echoes Penfolds' bold, dramatic house style. No worries about top quality here. Blending different grapes and vineyards to make a wine is not a new tactic—look at a Champagne such as Krug Grande Cuvée, which includes wine from as many as 100 plots to create complexity and character. But with a couple of exceptions, previous transcontinental blends have been bargain-basement bulk plonk.

With Quantum, chief winemaker Peter Gago aims to use California sun and soil to make a wine comparable to its Grange. The shiraz is shipped from Australia to California in stainless steel tanks along with oak barrels for aging that come from Penfolds in the Barossa Valley. Blending, aging, and bottling take place in Napa, where Penfolds parent company Treasury Wine Estates owns multiple wineries. And, of course, it comes with a Grange-like price tag. Will it improve over 30 or even 50 years—the way Grange does? We'll have to wait and see. *$700; penfolds.com*

PROP STYLIST: JOCELYN CABRAL

A Grape Guru's Magic Touch

Winemaker and vineyard consultant Steve Matthiasson shares a day in his life during harvest. *By Elin McCoy Photographs by Cayce Clifford*

Known for his classically balanced wines and long commitment to organic production, Steve Matthiasson is a man in high demand. For his eponymous label, he farms a dozen small vineyards, including one at his winery in Napa's Oak Knoll district. He consults on 15 more that belong to his eight high-profile clients—the largest sprawls across 400 acres.

His 27th harvest season stretches over seven weeks, and each day is a master class in multitasking. The key decision, he says, is always when to pick. That, more than anything else, determines the style of wine you can make.

Last year's harvest in Napa was a horror show of wildfires; this year Matthiasson is all smiles. "The quality is the best I can remember," he says.

Here's what his day looked like on Sept. 2, about halfway through his harvest.

7:33 a.m.
COFFEE, THEN PLANNING
Matthiasson begins at 6 a.m. with coffee. His crew has been picking every day since Aug. 5. Today they're on the cabernet franc grapes in his home Matthiasson plot. With fog hanging over Napa's hills, he consults with his vineyard manager, Caleb Mosley, to plan the day. How much fruit is coming into the winery? Will they have to clean an extra tank?

8:29 a.m.
ROAMING THE VINES
He spends much of the day going from vineyard to vineyard to check how close the grapes are to ripening and to detect potential problems such as mealybugs or mildew. He'll visit seven today: The first is Papa's Perch on Mt. Veeder where the cabernet sauvignon goes into his own wine. Ripening cues such as the color of the leaves and the firmness of the grapes help him figure out if he'll have to pick some sections first or can harvest all at once.

9:20 a.m.
A TASTE TEST
At Bengier's Dry Creek Vineyard in the cool, foggy southern part of Napa Valley, he nibbles on ribolla gialla, a rare white Italian grape he uses for one of his own wines. He's tasting for many things, including whether some are tart and others sweet and juicy.

7:33 a.m.

10:28 a.m.

10:43 a.m.

10:03 a.m.
MEASURING SUGAR
He heads back to the winery with grape samples to confirm his impressions. His hand-held refractometer measures the grapes' sugar content in degrees Brix, which increases as the grapes ripen. During fermentation the yeast converts the sugars to alcohol; higher Brix means higher potential alcohol. To get brighter wines with complex aromas at 12% alcohol, Matthiasson picks at a lower Brix level—18 to 22 for chardonnay—than most Napa producers, who opt for more potent wines.

10:28 a.m.
FERMENTATION CHECK-INS
At the winery he checks on pinot noir grape skins fermenting in tanks, doing punch downs with a tool to keep the juice in contact with the skins to extract more color, flavor, and tannin. Matthiasson doesn't usually produce a pinot noir, but this year a former intern offered him some extra fruit from an organic vineyard in Sonoma, and he couldn't resist.

1:31 p.m.

4:04 p.m.

10:43 a.m.
TASTING AGAIN
Matthiasson and the team try a sample of the fermenting pinot. Is it good? The answer is written in the smile on his face. Although it's not yet wine, he's excited by the density, along with minerality and freshness—his "holy grail" of balance. The small amount means it will be only for Matthiasson wine club members, for $59 a bottle. (Members usually pay from $334 to $631 per 6- or 12-bottle shipment.)

1:31 p.m.
CLIENT CALLS
After a quick taco-truck-and-Coke lunch, he hits the road to visit his clients' vineyards. Everyone worries at harvest time. Matthiasson advises on strategic vine care, identifying issues that could reduce valuable yields and offering organic solutions. At Dalla Valle he discusses with owner Naoko Dalla Valle, her daughter and winemaker Maya, and vineyard manager Edgar Alfaro whether some vines have a virus that they must deal with before it spreads. The next stop is Eisele Vineyard, which belongs to François Pinault, owner of Bordeaux's Château Latour.

4:04 p.m.
DESTEMMING TECHNIQUE
Back at his winery he coaches Gabriela Pilar Fontanesi, one of his four interns, on using the destemming machine on the just-picked cabernet franc grapes. Doing this before crushing and fermentation minimizes the astringent tannins the stems can add to a wine.

4:51 p.m.
AT THE DESK
The end of the day is always at the computer. Sitting in his messy attic-loft office above the winery, Matthiasson records the latest sugar levels on a huge spreadsheet. Tracking this way shows him trends—the rate of ripening, how fast flavor is developing—that help him predict what's coming next. He wraps up at 7 p.m. after walking one more vineyard near the winery.

The Risks Lurking in China's 'Common Prosperity'

By Shuli Ren

In the past few months, China has been pushing for "common prosperity," which means reducing income inequality and reining in billionaires. Instead of shareholder capitalism, China is talking up stakeholder capitalism, where customers, employees, and even local governments have a say in how companies do business and distribute their earnings.

Before President Xi Jinping woke the nation to its socialist roots, one billionaire was already talking about and acting on them. That man was Hui Ka Yan, founder of China Evergrande Group—the world's most indebted real estate developer, now on the brink of collapse. Hui, a party member for more than 35 years, used the "common prosperity" slogan in a 2018 speech. For years he was ranked as China's most charitable person, donating billions of dollars to causes such as medical research.

When Evergrande was starved for cash, it wanted its employees to become stakeholders, too. Earlier this year it nudged them to give it a short-term loan or risk forfeiting their bonuses. Now hundreds of workers have joined panicked homebuyers to demand their money back.

China's real estate business always had a bit of stakeholder capitalism. To buy land, developers often borrow from trust companies, which in turn ask senior management responsible for that project to become investors in these trust products. Construction and mortgage loans from the banks come only much later. Only five years ago, trust products that invested in Evergrande's projects could offer 30% annual yield, according to local reports at the time.

But as Evergrande grew bigger and became more financially stretched, co-investing trickled down to mid-management and eventually to lower-tier worker bees. Financial terms got worse, too. Wealth management products that Evergrande sold were offering only 5% to 10% yields. In addition, these products aren't necessarily tied to the housing project the employee works at, which means she really has no idea about the quality of the investment her money went to.

In a debt restructuring, a company can still operate normally. While creditors and shareholders haggle, employees can still lead a normal existence, as long as they get paid and not laid off. Evergrande's strong-arm nudge changed their lives. Now they're also creditors, who are stacked against powerful banks and have no idea where they are in the pecking order. No wonder some went into the streets to protest.

Proponents of common prosperity say that a business needs to share some profit with its workers. That's noble. But China's policymakers also need to be mindful of a corporate culture that's addicted to debt. Evergrande has borrowed from everyone—its customers, employees, and suppliers. Common prosperity can turn into shared poverty very quickly. *—Ren is a columnist for Bloomberg Opinion*

ILLUSTRATION BY GEORGE WYLESOL

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