CHAPTER 14
PERSONAL FINANCE

BUSINESS BEATS BASICS

PERSONAL FINANCE

INTRODUCTION

Covering personal finance can be considered part journalism and part counseling. Events in recent history that may bring this point home are the economic hurricanes of The Great Recession and the 2020 COVID-19 pandemic.

These financial crises were a rude awakening for consumers. Some had few, if any, emergency savings to get them through this time.

> **The Great Recession was the largest economic downturn since The Great Depression and many homeowners found themselves underwater in their mortgages – meaning they owed more than their home was worth. During the pandemic, many people lost jobs and found themselves unable to pay their debts.**

Even years after a financial crisis has transpired, many consumers feel that the recovery has passed them by when economists declare the market "recovered." As many have experienced firsthand, sometimes the jobs that are created after a financial crisis pay less than the ones that vanished during it. Many may remain unemployed while others fortunate enough to find a job may discover they are not making as much as they did previously.

Making the situation worse is inflation. Rising rent and food prices eat up more of Americans' paychecks that are not rising at the same rate. In this climate, readers are turning to personal finance reporters for help in sorting out their financial lives. This is where you come in.

One of the best things about covering personal finance is that everyone can relate to the subject. Everyone will always have their ideas and opinions about the best way to manage finances. Your job is to separate the really good, legitimate ones from the off-the-wall wacko ones – and there are plenty.

WHERE TO BEGIN

YOU ARE NOT AN ADVISOR

Personal finance reporting is not promoting every new product or service, or being readers' personal financial adviser.

You may find that some readers will send you intimate details of their personal finances and expect you to give them a definitive answer as to what they should do with their money. However, giving financial advice isn't just looking at the numbers. It takes a thorough examination of a person's life and goals before a personal financial advisor can create a financial plan that will lead to those goals. That's beyond the scope of what personal finance reporters can, or should, do.

Of course, there are obvious questions you can answer, like "What's a credit score?" or "How do I obtain my credit report?" However, beyond basic questions, the best way to answer a reader's request for detailed financial advice is to suggest that they seek out an adviser. The same thing applies to readers who seek investment and income-tax advice.

TAXING ISSUES

Financial markets are volatile and hard to predict. There's no such thing as high returns without any risk. You can help readers maintain a proper, realistic perspective about investment returns by reporting the amount markets are actually returning and how they may differ from the promised rates.

Income tax is one of the most complicated subjects to cover considering how thick the Internal Revenue Code is and how many times Congress has tried to simplify it, but ended up making it more confusing.

It's best to leave individual tax planning to tax advisers, but that doesn't mean you can't write stories about how tax changes will affect your readers.

Read other personal finance reporters and study how they approach stories that can help you find fresh angles for your own audience. Some journals you may want to take a look at include: The Wall Street Journal, The New York Times, SmartMoney, Money Magazine and Kiplinger's Personal Finance Magazine.

EDUCATE YOURSELF

One of the best ways to get a firm foundation in personal finance is to take courses in personal financial planning at a local university that offers a certificate program in financial planning. This is the same required coursework for those seeking to obtain the well-respected Certified Financial Planner certification. This intensive program covers the fundamentals of financial planning, insurance, investments, retirement, tax and estate planning.

This knowledge will give you the needed expertise to feel comfortable talking to financial and investment professionals throughout your reporting. You will understand the lingo and concepts and be able to translate those into plain language for your readers.

WHAT (AND WHO) IS A FINANCIAL ADVISER

The main concern of a reader who is looking to invest their money is selecting a person who has their best interest in mind and can advise them on their finances. However, your average investor likely doesn't know how to distinguish between different financial advisers.

Take for example a stockbroker and an investment adviser. While some may use those professions interchangeably, they are not the same thing, nor do they have the same expertise. Not knowing the difference, may mean entering into a business relationship with the wrong assumptions.

Many investors assume that all financial advisers are always required to put an investor's best interest first. However, stockbrokers and investment advisers are regulated by different standards under federal law when providing investment advice.

Stockbrokers are financial professionals who buy and sell securities on behalf of clients. They're also known as financial consultants, financial advisers and investment consultants. Stockbrokers are typically paid through commissions each time they buy or sell a security for a client.

Stockbrokers are governed by the "suitability rule," which means they're required to recommend investments that are suitable for you based on their knowledge of your financial situation and needs. Although most stockbrokers do have their client's best interests at heart when making investment recommendations, they're not required to meet that standard.

Investment advisers, on the other hand, are required to exercise "fiduciary responsibility," which means they have to put your interests ahead of theirs at all times when providing advice and recommendations.

The term "investment adviser" describes a broad range of people who give advice about securities, such as stocks, bonds, mutual funds, and annuities. Investment advisers may also go by the titles of investment manager, investment counsel, asset manager, wealth manager or portfolio manager. Most investment advisers charge a fee based on a percentage of the assets in your account. Typically the larger your account, the lower the percentage.

For years, consumer advocates, financial planners, and brokerage industry representatives have said the fiduciary standard should apply to both investment advisers and stockbrokers.

In response to financial industry behavior that contributed to the 2008 financial crisis, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act. Among other restrictions that were intended to prevent another financial crisis and protect consumers from predatory lending, this act directed the Securities and Exchange Commission (SEC) to conduct a study of the effectiveness of current standards for stockbrokers and investment advisers, and whether there are gaps, shortcomings or overlaps in the current regulations. The study ultimately recommended one fiduciary standard for stockbrokers and investment advisers.

Critics of the law argued the increased regulations would make U.S. firms less competitive than their foreign counterparts. In 2018, Congress passed a new law that rolled back many of the restrictions the Dodd-Frank act put into place.

CONNECTING TO YOUR AUDIENCE

JARGON-SLASHING

The key to good personal finance writing is always writing for the reader. You will run across many financial professionals who will speak in industry jargon. Make them translate that into concepts you can understand. If you don't understand what they're saying, neither will many of your readers. It is your job to ask again and again until it's clear in order to cut through the industry-speak and make the subject less intimidating for readers.

Personal finance affects everyone. When you ask questions, think about what your readers will want to know. Keeping that in mind will help you serve your readers well.

FIND LOCAL ANGLES IN NATIONAL STORIES

National stories abound about personal finance, but your job is to write about topics that your readers personally care about right now. Almost any national story will have a local impact.

For example, younger generations of Americans are frequently being priced out of the housing market and are experiencing high rent inflation, leaving many unable to obtain "The American Dream" of owning a home. Anyone can localize this story by interviewing the residents of their community and writing a story about their perspectives and worries and how they fit in, or stand out, with the national conversation.

When you see a national wire story, ask yourself whether the topic might affect anyone where you live.

MEET FINANCIAL PROFESSIONALS IN YOUR COMMUNITY

Financial professionals can tell you what trends they're seeing among their clients and what they're worried about. Building a relationship with financial planners and brokers will also help you land that all-important real person on deadline. Once they know you do quality work and are trustworthy, they can convince their client that it's okay to talk to you.

The same is true for attorneys who specialize in representing consumers or investors. They can give you a heads-up on cases that would make good stories.

INTERACT WITH READERS

Readers are your best sources for stories. The responses you get to stories may hold the kernel for a great follow-up. When they ask you to write about something, take their concerns seriously and consider whether their idea has news value for other readers as well.

ACCEPT SPEAKING ENGAGEMENTS

If someone asks you to speak on a topic you have written about, don't be afraid to say yes. Just remember that you are not a financial advisor. Speaking engagements can be a great way to speak directly to your audience and, in turn, have them speak directly to you. An audience member could tell you something about their finances or that of someone they know, and you could have a lead on your next story.

KNOW THE CONSUMER "COPS" IN YOUR COMMUNITY

Is there someone in your police department or district attorney's office who specializes in consumer cases, such as identity theft?

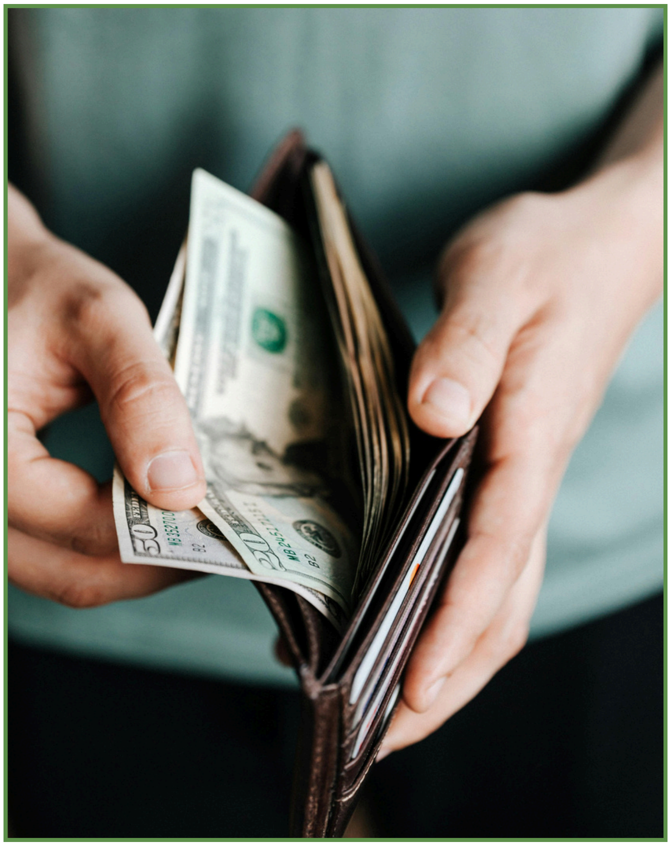
It can be helpful to meet the entities in your state who regulate investments, as well as key people in your state attorney general's consumer affairs office. Get to know your local Better Business Bureau too.

GET OUT OF THE OFFICE

There's no substitute for meeting a person face to face. Let them get to know and trust you. If it's a local PR person, tell them what you're looking for in a story and build a working relationship so you'll be the first person they think of when they have a big story.

Their pitch may not always result in a story, but they may know people in your community who could help you chase down a lead.

Visit local investment clubs and meetings at churches that center around investment and money management. Many churches have programs that teach their members how to manage their money according to biblical principles. There are also numerous women's groups that meet up to teach one another how to manage their finances, as women are often not targeted by traditional financial advisors. See if your local community has something of the sort.



CHALLENGES AND PITFALLS

Personal finance reporting covers such a broad range of subjects that the challenges are many and varied. Here's a few of them, as well as the most common errors.

BE SKEPTICAL OF SO-CALLED EXPERTS

The stock market is more than just the Dow. Technology has brought global markets closer together and made it possible for a wealth of investment information and services to be at investors' fingertips. Some are legitimate and others aren't — don't get caught up in the hype. When it comes down to it, no one can accurately predict the direction of interest rates and financial markets. Be skeptical of the "expert" who claims they have found the financial equivalent of the Fountain of Youth. Look at historical trends of the global markets and help readers keep a proper perspective.

RELYING TOO MUCH ON THE SAME SOURCES

We all have sources that we've worked with for a long time who are dependable, knowledgeable and can be counted on for great quotes, but be careful not to fall into a comfort zone. Broaden your contacts so you have a wide range of opinions and expertise.

MAKE NUMBERS HAVE MEANING IN YOUR STORY

You will lose your reader with numbers and statistics that you don't explain in context. Only include the numbers that are relevant to your story. As you do this, look at whether those numbers have been rising or fluctuating over the long term. That will help you detect trends that could be important in your stories.

NEW DAY, SAME TOPICS

Personal finance spans a range of topics, including saving, investing, credit cards, income, budgeting, student loans, and other things that affect the finances of our readers. One of the biggest challenges in personal finance reporting is putting a new spin on topics that you will cover over and over again and finding fresh angles that readers don't know about. Sometimes the news of the day helps you with a hook, but most of the time, it takes enterprise and detective work as well as some creativity to look beyond what everyone else is writing. For example, read the envelope stuffers that credit card companies send card holders. You'd be surprised by the hidden stories you'd find just by slogging through the language.

VERIFY, VERIFY, VERIFY

This is something all good reporters know, but it's always worth repeating. Always verify a technical fact that a reader tells you. They may be correct, but you don't want to discover that they were wrong after you've reported what they've said as fact. The same goes for checking math. Readers will run their calculators and will quickly point out that you were off a decimal point.

CHOOSE "REAL PEOPLE" CAREFULLY

Real people are the lifeblood of personal finance stories. They help us put a human face on the sometimes abstract topics we write about. We are often scrambling on deadlines to find real people, but choose them wisely. Make sure they don't have hidden agendas. For example, I wrote a story on bartering and found a real person who engaged in it. We had a photo scheduled to be taken of my real person and the merchant with whom he bartered for goods. The day before the photo shoot, I called the real person to verify the appointment and he suddenly became reluctant to have his picture taken. It turned out that he didn't want the IRS to see his picture in the newspaper because he hadn't reported on his tax return the fair market value of the products he received in the bartering. Needless to say, I yanked him out of my piece.

THE RELATIONSHIP BETWEEN BOND PRICES AND INTEREST RATES

Bonds are highly sensitive to interest rates, so bond prices move inversely to interest rates. This means that when interest rates rise, bond prices fall. Conversely, when rates fall, bond prices rise. Many readers don't understand this concept, so it's important that you are able to explain it to them.

When interest rates rise, it depresses the prices of previously issued bonds because their interest rates are fixed. So if you have a bond that's paying 6 percent interest and market rates rise to 8 percent, the only way you could sell your bond is to lower its price.

However, if rates fall to 3 percent, your bond that's paying 6 percent interest will be more valuable to investors and you could sell that bond at a premium over its face value because the 6 percent rate would be higher than the market rate.

This doesn't affect investors who hold a bond until it matures, because they will get the full principal back at maturity. However, those who buy and sell bonds have to pay close attention to interest rates.

TERMS TO KNOW

It's important to have a good understanding of the basic terms and concepts so you can cut through the jargon when speaking with professionals and relay that information to your readers.

Adjusted Gross Income (AGI)

AGI is a measure of income used to determine your taxable income. It's calculated as your gross income – the total of all forms of income including wages, pensions, interest dividends, and rental income – minus deductions, such as unreimbursed business expenses, medical expenses, and deductible retirement plan contributions.

Annual Percentage Rate (APR)

APR tells you the annual cost of a loan and is stated as a percentage. The APR consists of the base interest rate, loan fees, and costs. For example, credit cards charge APR on the card balance each month that there's an outstanding balance.

Annuity

An annuity is a contract between you and an insurance company that's designed to meet retirement and other long-range goals. You make a lump-sum payment or series of payments to the insurance company, and in return, the insurer agrees to make periodic payments to you beginning immediately or at some future date.

- In a fixed annuity, the insurance company pays you a specified rate of interest during the time that your account is growing. The insurance company also agrees that the periodic payments will be a specified amount per dollar in your account. These periodic payments may last for a definite period, such as 20 years, or an indefinite period, such as your lifetime or the lifetime of you and your spouse.

- In a variable annuity, you typically invest your purchase payments in mutual funds. The rate of return and the amount the insurance company pays you will vary depending on the performance of the investment options you've selected.

Asset allocation

Asset allocation is determining how to divvy up your money among various investments, such as stocks, bonds or cash to determine how to mix those in the right proportions to reach investment goals at a comfortable level of risk.

Capital gain

The profit you get from selling a stock over your original purchase price.

Capital loss

The loss you incur from selling a stock lower than your original purchase price.

Cost basis

The cost basis is the purchase price of an investment, including commissions and other expenses. The basis is also adjusted for stock splits, dividends and return of capital distributions. The basis is a critical figure because it's used to determine capital gains and losses for income tax.

Credit bureau

Also called a "credit reporting agency," a credit bureau is a company that collects and sells information about a person's creditworthiness. The three major credit bureaus are Experian, TransUnion, and Equifax.

Credit report

Issued by a credit bureau, a credit report contains information on a person's payment history, bankruptcies, loans and recent inquiries to obtain credit. By federal law, consumers are entitled to one free credit report once every 12 months from each of the three credit bureaus. Consumers can get their free credit report by going to www.annualcreditreport.com.

Credit score

A credit score is a three-digit number, ranging from 350-850, that's designed to predict a person's credit behavior, like how likely you would be to pay back a loan. The score is based on a snapshot of your credit report at a particular point in time and is used by lenders to determine a potential borrower's creditworthiness. The most widely used scores are FICO scores, the other is VantageScore.

Diversification

Diversification can reduce the risk in your investment portfolio by including a variety of investments, such as U.S. stocks and stocks from other countries, as well as bonds and cash. The rationale behind this technique is that different types of investments will pose a lower risk than any one investment that you hold, so if anything happens to one part of the market, your other investments are safe.

Dividend

This is income that a company pays its shareholders and is distributed from a portion of the company's earnings. It's typically quoted as a dollar amount per share.

Price/earnings ratio

Also known as the P/E ratio, it's a stock's current price divided by the earnings per share. It's a widely used tool of stock analysis and gives you an idea of how expensive or cheap a stock is.

Rebalancing

Adjusting your investment portfolio to bring it back to your original asset allocation mix. Movements in the stock market can throw your asset allocation out of kilter. For example, if you originally wanted 50 percent stocks and 50 percent bonds in your portfolio, strong performance of your stocks can lift the stock portion of your portfolio to 70 percent. So in order to bring that portion back to 50 percent, you "rebalance" by selling some of your stocks and buying bonds to bring the allocation back to 50/50.

Risk tolerance

The degree of risk to which an investor is willing to endure.

Tax credit

A tax credit is a direct dollar-for-dollar reduction of your tax liability. Examples include the child tax credit and Earned Income Tax Credit.

Tax deduction

An expense that's subtracted from your adjusted gross income and reduces your taxable income. An example is the home mortgage interest deduction.

Term life insurance

Term life insurance pays off only if the policyholder dies within a specified time period or "term." This differs from whole life insurance, which provides coverage for your whole life instead of a specified term. A whole-life policy also has a savings component called cash value, which builds over time.

Time horizon

The length of time you expect to invest your money before you cash out.

Trust

A legal vehicle you set up in estate planning that enables you to transfer legal title to an asset to another party, the trustee, who has the duty to hold and manage the asset for the benefit of a beneficiary or beneficiaries. You can use a trust to pass assets to your children, disabled adults, heirs who aren't good at managing money and any others you believe lack management skills and judgment.

This chapter is based on the "Beats Basics" Personal Finance section, originally published in 2011 and written by Pamela Yip, a reporter and columnist for the Dallas Morning News.