

How blogs challenged and transformed mainstream media coverage of the credit crisis

Financial blogs show us the extent to which the media's institutional constraints were both an asset and a major liability when covering the biggest financial story of our time, according to top media blogger Kristine Lowe

"Financial blogs have covered the events leading up to the credit crisis much better than mainstream media. And thanks to them, I have made good money from," said Björn A Jörgensen, a small-time private investor, deeply interested in macro economy.¹

In Jörgensen's opinion, financial blogs such as Calculated Risk, Seeking Alpha, Zero Hedge and the Market Ticker have provided a more thorough, better analysis of the events, as well as covering issues earlier, often drawing parallels to historical events and looking at cause and effect relationships. As a recent example, he cites blogger Chris Martenson uncovering how the US Federal Reserve is buying huge chunks of US Treasury debt, presumably to boost the stock market.²

Financial blogs and journalism, a comparative analysis

"Mainstream media reporting of finance and business is still important in that it keeps everyone updated with data releases and breaking news. But its relevance and timeliness more or less stop there, and bloggers step in to fill in on the rest," said Dana Chen, a financial blogger and former analyst who is currently involved in a finance news launch.³ Indeed, more and more people find that, in their chosen fields, specialist blogs cover issues more in-depth than traditional media. It has certainly been my experience as a media journalist that blogs such as Professor Piet Bakker's Newspaper Innovation and venture capitalist Fred Wilson's A VC cover their chosen subjects better and more consistently than their mainstream media (MSM) counterparts.

Comparing financial blogs with MSM also highlights how the latter's institutional constraints both hamper and benefit financial journalism. In his London School of Economics report, *What is*

*financial journalism for? Ethics and responsibilities in a time of change,”*⁴ Dr Damian Tambini offers a good synopsis of where these constraints can be most detrimental. He identifies four key problems facing financial journalists today, all of which may have affected the coverage of the credit crisis in a negative way. These are: 1) the speed of financial news; 2) the complexity of issues; 3) the increased power of PR strategy and 4) the limited resources of time and skill.

Examples of constraints that may be beneficial are the mainstream media’s relatively clear codes of conduct and demands for verification. From an ethical perspective, blogs operate in an environment which in many respects resembles that of financial journalism in the eighties, when the City and its watchdogs were altogether less encumbered by what former Geert Linnebank, editor-in-chief of Reuters, dubbed “regulatory creep”.

As we have seen from the popular political bloggers such as Guido Fawkes (aka Paul Staines),⁵ bloggers sometimes go where most mainstream journalists cannot or dare not go. In the realm of financial blogging, this may imply peddling rumours irresponsibly and testing the limits for what constitutes market abuse, libel and ramping.

No legal framework

It is worth noting that there have been several initiatives to make the blogosphere adhere more to regulatory practices akin to those of MSM. Notable examples are efforts by Estonian MEP Marianne Mikko in the EU Parliament⁶ and Judge Eady’s recent ruling about anonymity in the Night Jack case,⁷ but no legislation particularly concerning blogs currently exists.

“You would not think bloggers could move markets: we have certain rules that apply to everyone on things like market abuse and unlicensed trading in shares, but none for bloggers in particular,” an FSA spokeswoman explained.⁸

A blogger’s ability to move markets may, of course, depend on who the blogger is. If the person in question also happens to be the BBC’s business editor it may be a very different story, as the controversy surrounding the credit crisis’s star reporter Robert Peston revealed.

“Within minutes of his report of a meeting between bank chiefs and the Chancellor on Tuesday, billions of pounds were wiped off the value of Barclays, RBS and Lloyds TSB,” the *Independent* wrote⁹ of Peston, who later was called before the Treasury Select Committee to answer questions about his scoops on the bank collapse.¹⁰

"Peston is a market threat because he is considered to have so good sources in Nos 10 and 11 that his reports can send share prices to heaven or hell," asserted blogger Guido Fawkes, a former hedge fund manager, and called for Peston to be gassed.¹¹

Financial journalists should not be head of queue

Stephen Kahn, the former City editor of the *Daily Express* who took early retirement in February after 30 years in the industry, had this to say on the matter: "Peston was not responsible for the Northern Rock mess. Has he been used? I do not know, I am not sure he knows either." However, given their resources, Kahn thought financial journalists did a reasonably good job. "There used to be dedicated investigative journalism teams, such as *The Sunday Times's* Insight Team: not anymore. Peston does all this next to his regular job.

"Should we have seen the warning signs earlier? Yes, we should have. But people who count their salaries in the millions failed to do so. The Treasury, the Government, the Financial Services Authority failed to do so, they are all culpable. I am not sure why we should focus on financial journalists. Again it is a question of resources. When the whole city gang failed to see it coming, journalists should not be head of the queue," he said.¹² His sentiment rhymes with concerns raised in Tambini's survey about the effect of newsrooms' cost cuts and limited resources.

Talking up investments

In the blogosphere, credibility and authority is something you build through acting consistently in a credible manner and demonstrating your expertise in your chosen field repeatedly: rather like in Aristotelian ethics where a person becomes virtuous by consistently acting virtuously.¹³

That is not to say that all bloggers are, or strive to be, what Aristotle would describe as virtuous, only that they gain credibility through consistent behaviour. Take Guido Fawkes for instance: a free marketer, he derives much of his credibility from his willingness to dish up the dirt on politicians of all stripes, not only Labour.

In the realm of financial blogging, influential blogger Karl Denninger, who writes the Market Ticker,¹⁴ offers an interesting example. He will often disclose that he has a short position in a company he writes a negative blog post on, and, as a result, may benefit financially if the market acts on his analysis. However, Denninger also issues the following warning to his readers: "The author may have a position in any company or security mentioned herein. Actions you undertake as a consequence of any analysis, opinion or advertisement on this site are your sole responsibility."

Undefined ethical territory

To journalists, that may seem like very dubious practice, and media organisations tend to have explicit rules prohibiting their journalists writing about shares they own. But whereas journalists are bound by a voluntary code of conduct, which Tambini found to be interpreted in different ways from newsroom to newsroom,¹⁵ bloggers operate by an unwritten code of conduct which dictates, among other things, that you disclose your interests and ties as far as possible.¹⁶ The example from Denninger's blog above may serve to illustrate how his transparency can work in practice.

Tambini asserts that new operators such as blogs seek a position well outside of the restrictive ethical framework that applies to financial journalism. That is true in the sense that blogging is often defined as conversation, and a blogger as someone who is simply conversing about his or her passion, but this does not place the blogger outside of the reach of legislation as we have seen with the Night Jack ruling, and when Uzbek billionaire Alisher Usmanov forced several British MPs' personal websites and blogs offline after they repeated claims made by the former British ambassador to Uzbekistan, Craig Murray.¹⁷

The blinding speed of information sharing

Still, with what is commonly referred to as social media – such as blogs, micro blogging and social networking sites – everyone can be their own publishers and, unaided and unverified by traditional media, news and rumours can spread across the worldwide web like electronic wildfires. A recent example is how protesters used Twitter to communicate news about the Iran uprising in the wake of the June 2009 presidential election to the world.¹⁸

BBC World's global head of news, Richard Sambrook, did an informal analysis of the value of this information stream and concluded that you needed a reasonable understanding social media and an above average understanding of the political situation in Iran, to really benefit from it.¹⁹

From this and other examples it is safe to assume that it is not your average citizen who uses social media to keep informed about a particular issue or situation. My own experiences from writing and reading media blogs suggest they mostly attract people capable of evaluating the information, usually other media obsessives – and I would be surprised if the same was not also true for financial blogs.

Publish first, check later

But this blinding speed of information sharing has other problematic aspects. Popular technology blog Techcrunch has repeatedly demonstrated a policy which comes close to publish first, verify

and fact-check afterwards. After one recent example of this the *Daily Telegraph's* Kate Day asked if the pressure to be first is not compromising accuracy. To this, the editor of Techcrunch Europe, former journalist Mike Butcher, replied that he expected his readers to hold him to account and "fact-check" his ass.²⁰

Bloggers vs. journalists: a different *modus operandi*

Despite the success of commercial blogs such as technology blog Techcrunch or financial blogs such as Seeking Alpha, Zero Hedge and Breaking Views, which are subject to some of the same pressures as MSM, the vast majority of bloggers are private persons who start blogging for personal reasons. That means there are no time limits, no word limits and rarely any close ties to sources or public relations operators to pay heed to. This may also be a key to why specialist blogs often offer more thorough, in-depth coverage of issues.

Arianna Huffington, the successful founder of Huffington Post, famously said: "Bloggers suffer from Obsessive Compulsive Disorder, journalists from Attention Deficit Disorder."²¹ As a journalist and blogger I find much truth in that, and find myself switching between a very different *modus operandi* when I work in a newsroom and when I blog.

This may also offer an explanation as to why financial journalists did not spot the storm brewing. "News reporting has always been vulnerable to what Peter Jay [former Economics Editor at the BBC] and John Birt [former BBC Director General] famously described as 'the bias against understanding', precisely because it tends to focus on events instead of trends," said Nick Davies, the respected author and investigative journalist when I interviewed him for my thesis many years ago.²²

Conclusion

Given the media's "bias against understanding" we should perhaps not be surprised that MSM largely failed to predict the great crash of 2008. Still, Thomas Friedman, the author and *New York Times* columnist, argues that in this world of increasing complexity, if you do not see the connections you do not see the world.²³ That means either financial journalists need to become experts, or MSM needs to bring more experts on board. Dana Chen argues that the latter is already happening:

Nowadays, most serious mainstream finance-leaning media outlets have professional bloggers on staff (Megan McCardle, Ezra Klein, Felix Salmon). They tend to report, and more importantly, follow up on issues they are interested in or specialise in. That way, instead of choppy reporting here and there by this or that reporter, readers can follow "points of views" over the course of weeks and months. There's no

back-peddalling or vagueness, readers will, and do hold those bloggers accountable for their views and ideas.

Notes

¹ Interview via telephone 13 August 2009.

² <http://www.chrismartenson.com/martensonreport/five-horsemen> <http://www.chrismartenson.com/martensoninsider/martenson-insider-fed-pomo-activity-and-stock-market>.

³ Interview via email 18 August 2009. Dana Chen blogs at <http://www.investorlist.com/> and is site and community manager for Viewsflow, an upcoming business and financial commentary service.

⁴ Tambini, Damian (2008) *What is financial journalism for?* London, Polis.

⁵ <http://www.guardian.co.uk/media/2007/jul/09/mediatop1002007.mondaymediasaction78?gusrc=rss&feed=media>.

⁶ <http://www.europarl.europa.eu/sides/getDoc.do?language=EN&type=IM-PRESS&reference=20080605STO30955>.

⁷ Judge Eady refused to grant in June 2009 an order to protect the anonymity of the police officer who is the author of the award-winning NightJack blog. See http://technology.timesonline.co.uk/tol/news/tech_and_web/the_web/article6509677.ece.

⁸ Information request to the FSA's press office via telephone Friday, 14 August.

⁹ <http://www.independent.co.uk/news/media/tv-radio/peston-finds-his-voice-and-now-the-citys-ears-are-burning-958351.html>.

¹⁰ The Treasury Select Committee ran an inquiry into the banking crisis in early 2009, inviting comments on "the role of the media in financial stability and whether financial journalists should operate under any form of reporting restrictions during banking crises".

¹¹ <http://order-order.com/2008/10/07/pesto-wire-causes-more-misery/>.

¹² Interview 3 March 2009 via telephone.

¹³ Aristotle: *Nicomachean Ethics*, Penguin Classics. See also: http://en.wikipedia.org/wiki/Nicomachean_Ethics.

¹⁴ <http://market-ticker.denninger.net/>.

¹⁵ Tambini, Damian (op cit).

¹⁶ <http://www.cyberjournalist.net/news/000215.php>.

¹⁷ <http://www.boingboing.net/2007/09/22/uzbek-billionaire-us.html>.

¹⁸ http://www.readwriteweb.com/archives/dear_cnn_please_check_twitter_for_news_about_iran.php.

¹⁹ <http://sambrook.typepad.com/sacredfacts/2009/06/twittering-the-uprising.html>.

²⁰ Exchange from a panel debate at Media140, 20 May 2009, on Twitter and journalism, which I covered for the Norwegian Online News Association (NONA). See <http://netthoder.wordpress.com/2009/05/24/netthode-pa-twitter-konferanse-i-london/>.

²¹ <http://sambrook.typepad.com/sacredfacts/2007/12/quotes-of-the-y.html>.

²² Interviewed via mail September 2001, for my Masters thesis *Drugs and the media: A neat black and white picture?* City University, London, 2001.

²³ Friedman, Thomas (2000) *The Lexus and the olive tree*, New York, Anchor Books

Note on Contributor

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