Budgets And Budgeting

4 Things You Need to Know About Personal Finance

by Kelsey Alpaio and Rakshitha Arni Ravishankar

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Summary. To help you navigate your finances, we put together a list of five terms surrounding money management, along with what they mean and tips on how to put them into action. Moonlighting: To have a second job, possibly without the knowledge of your full-time... **more**

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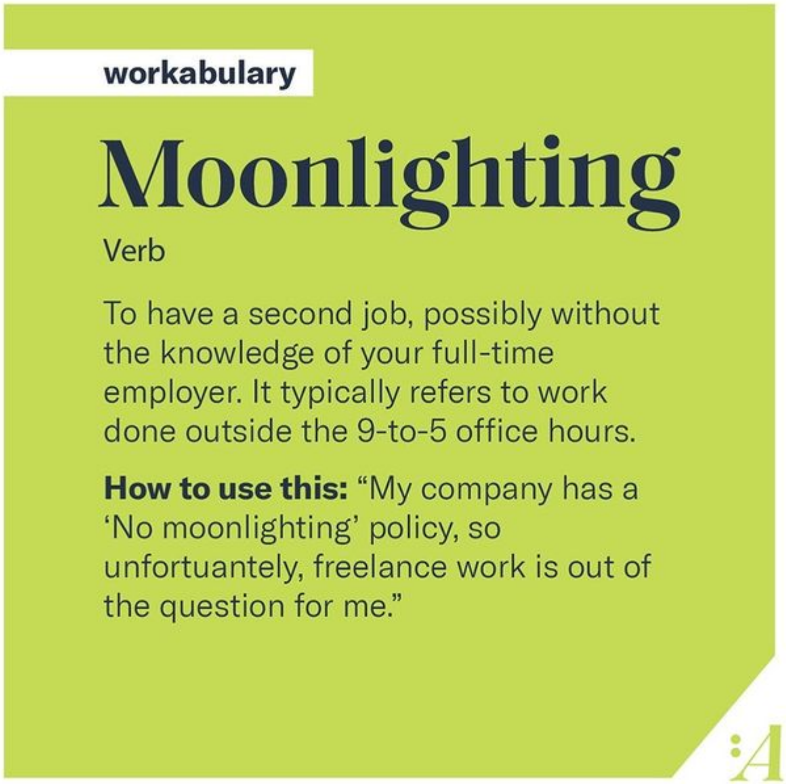
Okay, let's be honest. Talking about money can feel awkward, overwhelming, and confusing. But no matter how you may feel about money, it's important to stay in control of your personal finances.

To help you navigate it all, we've created a list of four financial terms, along with what they mean and tips on how to put them into action.

Moonlighting



Definition: To have a second job, possibly without the knowledge of your full-time employer. It typically refers to work done outside the 9-to-5 office hours. Other similar terms include “side gig” or “side hustle.”

How to use this: “My company has a ‘no moonlighting’ policy, so unfortunately, freelance work is out of the question for me.”

In action: According to Natasha D'Souza in her article, "I Built My Side Hustle During a Layoff (and You Can Too)," moonlighting can be an important part of creating financial security for yourself. Having multiple income-generating streams ensures that you always have money coming in (even if you lose one stream).

If you are interested in moonlighting or building a side hustle, you need to stand out to attract the best opportunities and pay. This will require building a niche skill set — one that is desired and can't be easily replicated. Think about your unique strengths and areas of interest, and brainstorm how you can combine them. Don't just focus on what you're good at.

Ask yourself: What am I truly passionate about? What would be worth investing time in outside of my regular work? Passion often gives us a deeper perspective into our interests — not to mention greater endurance when it comes to getting the work done. This combination will help separate you from the crowd.

Emergency fund

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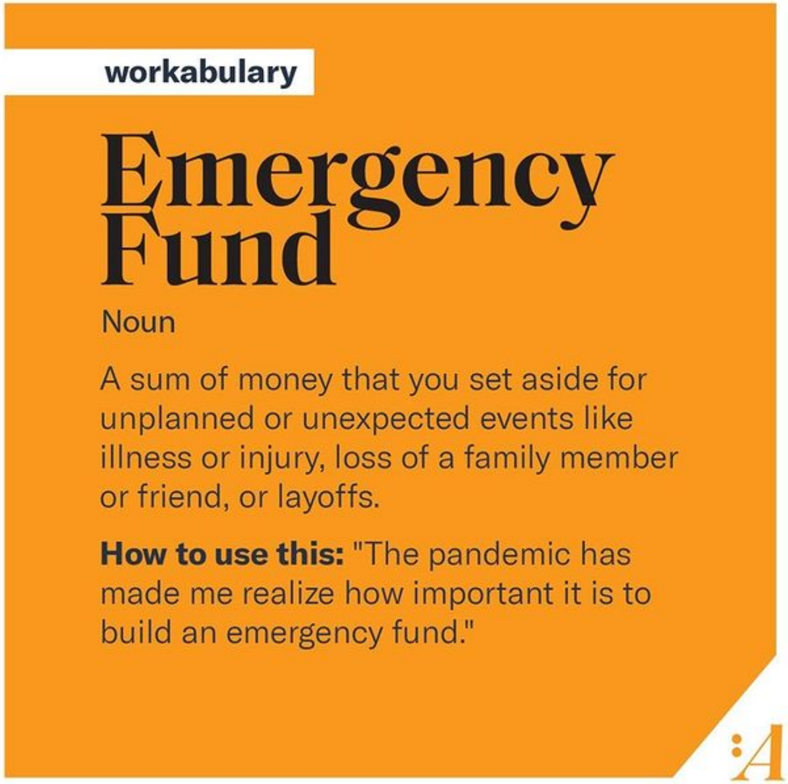

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Definition: A sum of money that you set aside for unplanned or unexpected events like illness or injury, loss of a family member or friend, or layoffs.

How to use this: “The pandemic has made me realize how important it is to build an emergency fund.”

In action: How do you start building an emergency fund? In her article, "3 Smart Moves to Make with Your First Paycheck," financial coach Alisa Barcan suggests a few approaches:

1. Set aside a small portion of your paycheck. Your goal should be to build a fund that covers three to six months of your expenditure. Even saving $100 a month for emergencies can help you create a buffer of $1,200 in one year.
2. Avoid taking money from your savings account. Instead, consider creating a new account and set up automatic payments to build up your fund over time.
3. Review and reset your financial goals based on your changing circumstances. There may be times when you are able to contribute more to your fund, and times when you need to pull back and limit your contributions. (That's okay.)

Equity compensation

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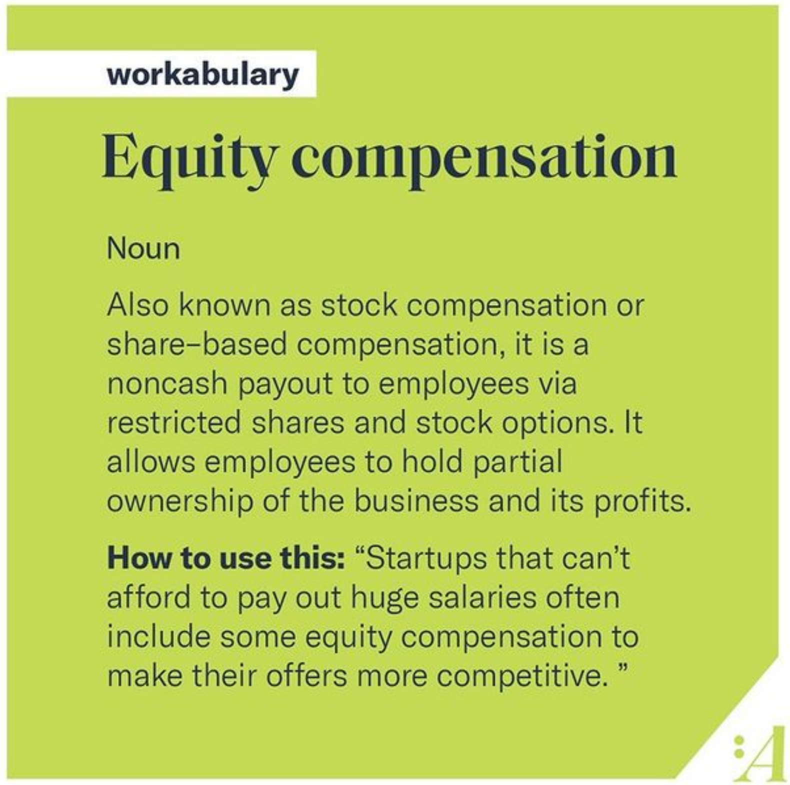

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Definition: Also known as stock compensation or share-based compensation, it is a non-cash payout to employees via restricted shares and stock options. It allows employees to hold partial ownership of the business and its profits.

How to use this: "Startups that can't afford to put out huge salaries often include some equity compensation to make their offers more competitive."

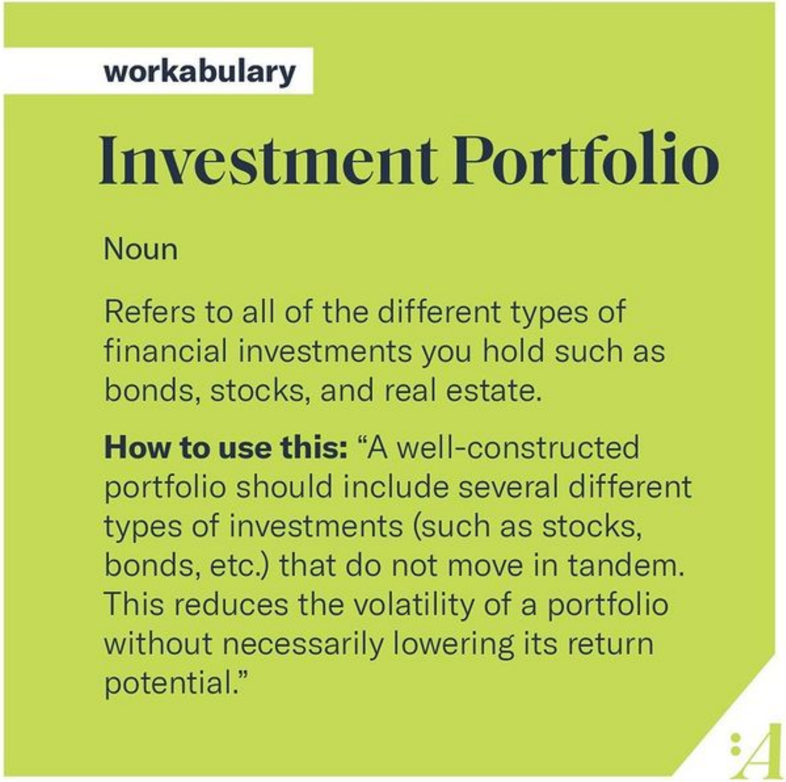
In action: In his article, "Everything You Need to Know About Stock Options and RSUs," financial planner Daniel Lee breaks down two types of equity compensation: Stock options and restricted stock units (RSUs). Lee explains that stock options give you the ability to purchase shares in your company's stock at a predetermined price, also known as a strike price, for a limited number of years (usually 10).

Ideally, if your company is performing well, the strike price of your stocks will be lower than its fair market value by the time your options vest. This means you can buy the stocks you were granted at the lower price and sell them at a higher value (and make $$$). At the same time, if your company stock performs poorly and the price never increases above your strike price, your options can expire as worthless.

Like stock options, RSUs vest over time — the difference is that you don't have to buy them. Once your RSUs vest, they are treated the same as if you had bought your company's shares in the open market.

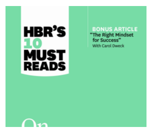
You should negotiate equity compensation, along with salary, when considering a job offer.

Investment portfolio



Definition: All of the different types of financial investments you hold such as bonds, stocks, and real estate.

How to use this: "A well-constructed portfolio should include several different types of investments (such as stocks, bonds, etc.) that do not move



move in tandem. This reduces volatility of a portfolio without necessarily lowering its return potential."

In action: In this guide on making smart investments, finance expert Matthew Blume explains that diversifying your investment portfolio is critical to building wealth because it allows you to manage risk more effectively. Stocks are one of the most talked-about investments, but you wouldn't want to tie your entire financial future to the success of a single company — or even any broader market.

Blume says that, depending on your financial circumstances and risk tolerance, you might want to consider investing in private equity, venture capital, precious metals, commodities, and real estate, all of which are available on the market. Because these assets rely on different underlying drivers, they may be going up when more traditional investments, like stocks, are going down.

Author's note: This material has been prepared for informational purposes. If you are seeking more specific financial advice, it is best to consult a tax, legal, and accounting advisor who can provide guidance on your unique situation.

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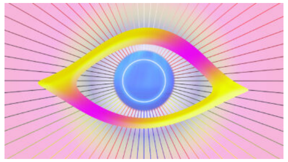

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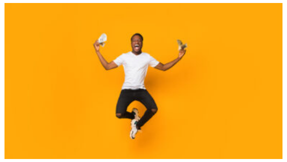

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