Why You Need an Opportunity Fund

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Not all unexpected expenses are negative. An opportunity fund is just as important as an emergency fund.

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If you want to be financially responsible, one of the first things you should do is set up an emergency fund, which helps pay for those expenses that always seem to appear when you least expect them. But if you already have an emergency fund, have you considered starting an opportunity fund?

Not all unexpected expenses are for negative situations. Sometimes there are unexpected opportunities that, if you had the funds, could benefit you financially.

Missing out on an opportunity is often as bad as being struck by an unexpected expense – though we don't often see the two as being the same. It's been proven that we feel loss more acutely than we appreciate gains, which is why you'll see thousands of articles covering emergency funds and very few covering opportunity funds.

In reality, both funds are important if you wish to be financially responsible.

What is an opportunity fund? An opportunity fund is a fund that you set aside so you can take advantage of opportunities as they arise. An opportunity might be an invitation to make an investment in a new business, or it might be discovering that a flat screen TV you wanted is on sale, for a limited time only of course!

Unlike emergencies, opportunities are optional, which is why saving for an opportunity fund should fall last on your list of saving priorities. If your car breaks down, you have to fix it to get to work. If someone is willing to sell you a pair of last-minute U2 concert tickets for face value, you don't have to buy those tickets – but it sure would be nice.

How should you set up an opportunity fund? The first step is to understand what types of opportunities appeal to you and how much you'd want to set aside to take advantage of them. If someone approached you with a $10,000 investment opportunity, would you be interested? If you saw a new car for sale at 20 percent off the invoice price, would you want to buy it? Or perhaps you're only interested in opportunities worth a few hundred dollars such as sales on electronics or last-minute event tickets.

Unlike an emergency fund, which you can peg to your income, opportunity funds will rely on your appetite for risk. If you only want to invest in index funds and don't want to do anything else, then you probably want to stick with a small opportunity fund to cover special sales. If you have a larger appetite, you might go bigger. There is no right or wrong amount.

When contributing, you should only put money into an opportunity fund if you've contributed what you need to in your emergency fund, retirement accounts and other savings goals. Keep in mind that an opportunity fund is 100 percent discretionary – emergency funds and retirement funds are not.

Where should you save? An emergency fund must be liquid, but an opportunity fund doesn't have to be. You can keep it in an online savings account, or you could stick it in some mutual funds, if you want a potentially higher yield. A savings account is preferred since you want to use those funds on rare and short-term opportunities.

How do you analyze opportunities? Over time, as you build up this opportunity fund, you'll begin seeing all kinds of opportunities, big and small. How do you know when to take advantage of one? It will depend on how that opportunity fits in with your broader financial plan.

Opportunities are not always about finding the best return on your investment. They can be investments in passion projects that give you an emotional return, if not a financial one. They can also be contributions to a cause or a charity where there is no direct financial return whatsoever. Perhaps you have a friend who is running a race for a cause and you want to sponsor some miles, or maybe your child's school is selling bricks for the new library and you want to contribute. These are all opportunities that you may not have budgeted for earlier in the year, but an opportunity fund makes them available to you.

By having the funds set aside, you have the flexibility to make these types of contributions without worrying about the impact on your finances.

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