Make a Million When You Buy, Not When You Sell!

Description

In the long run, history shows that the stock market always makes a recovery. Indices around the world have crashed multiple times since their existence began, and each time they have eventually made a successful comeback to trade at a higher level.

Buying price

As such, it could be argued that in the long run it will generally be possible to sell shares at a profit. While this will not always be true in all cases, the reality is that an investor with a diversified portfolio will usually see a profit if they hold on for long enough – even if they buy at a relatively high point in the economic and business cycle.

Therefore, it could equally be argued that what makes the difference in terms of magnitude of returns is the price an investor pays for a stock. After all, recessions have tended to be somewhat short-lived, have occurred infrequently and the opportunities they present have often been missed by many investors overcome by fear. Bull markets, in contrast, generally last for much longer and provide ample opportunity for an investor to realise their profits.

A brief opportunity

While stock market crashes may be somewhat short-lived, they present a stunning opportunity to lock-in future profitability. For example, in the financial crisis the S&P 500 fell from around 1,560 points in 2007 to just 680 points the following year. While this was one of the largest falls in the index's history, by 2013 the S&P 500 had fully recovered and has gone on to rise to its current price of over 2,400 points.

As such, investors may only have a relatively short space of time to buy their preferred stocks. In the case of the financial crisis, the window was perhaps longer than during other bear markets due to the sheer scale of the problems the global economy faced. Therefore, it may be prudent for investors to put in place a watchlist of stocks they feel have bright futures, but which trade at a premium to their intrinsic values. When a stock market crash then arrives, the investor will be ready to buy at a low price and maximise their long-term returns.

Fear

Of course, buying during periods of significant instability is always difficult. While selling during a bull market when the future is bright and risks seem far away may seem tough, buying when there are severe concerns about the future outlook for the world economy takes a huge amount of discipline.

However, by focusing on the buying opportunities, any investor can generate much higher returns in the long run. There are wide margins of safety on offer during such periods. This helps to tip the risk/return ratio in an investor’s favour. And while such opportunities present themselves rarely, they are worth waiting for.

While selling is easy and history shows that major indices eventually recover from even their darkest depths, buying takes more patience, skill and discipline. Therefore, it is during the buying process when most investors make their millions. With this in mind, a focus on buying rather than selling seems to be a prudent step for long-term investors to take.

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