1 Reason Why a Great Stock Market Crash in 2020 Could be a Buying Opportunity

Description

A stock market crash could take place at any time. The current bull market has run for over ten years. History shows that no bull market has ever lasted in perpetuity, which makes a bear market highly likely over the coming years.

However, history also shows that major indexes such as the S&P 500 and FTSE 100 have always recovered from bear markets to post new record highs. This means that while a market crash in 2020 (or in the latter part of 2019) could cause short-term pain for investors, it may also present a buying opportunity.

Historic recoveries

The risks facing the world economy at the present time could cause a market crash. For example, political uncertainty in the US may lead investors to pivot towards less risky assets. Similarly, a continuation of weak economic data from the Eurozone or geopolitical risks in Hong Kong may send the global stock market significantly lower in 2020.

If that takes place, investors may wish to remind themselves of the stock market’s performance following other downturns. For example, the global financial crisis was possibly the worst recession that has occurred for many decades. Although it caused a severe decline in share prices for a number of months, after a few years most indexes had recovered. They then went on to post strong gains in the following years.

It was a similar story following the dot com bubble bursting in the early 2000s. Investors who sold shares due to the short-term risks they faced ended up missing out on the subsequent gains. Meanwhile, investors who stuck with their holdings, or even added to them, were able to generate high returns in the long run.

Buy low, sell high

Stock market crashes are often seen as events to fear. Certainly, they cause a fall in the value of a portfolio that is invested in equities. But they also offer the chance to buy high-quality companies while they trade on low valuations. This means that investors who aim to 'buy low' and 'sell high' have the chance to execute that strategy, which could lead to them achieving higher returns in the long run.

As such, the way in which market crashes are viewed by investors could impact on whether they prove to be a positive or a negative event. For investors who see them as a major problem that harms their wealth, they are likely to seek to avoid them and may fail to reap their benefits. However, investors who see them as an opportunity to buy bargain stocks may enjoy significant gains in the bull market that is likely to follow a bear market.

Therefore, if there is a market crash in 2020, it could prove to be a buying opportunity. The track record of the stock market shows that a recovery has always been achieved, with the same result highly likely over the years following any future bear market.

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