



A 2020 Stock Market Crash Could be the Buying Opportunity of a Lifetime

Description

The stock market may have enjoyed a period of strong growth since the global financial crisis, but its past performance shows that a bear market is likely to take place in the coming years.

In fact, with risks such as a global trade war and political uncertainty being present in the Middle East and Europe, investor sentiment could decline significantly in 2020.

In such a scenario, buying opportunities may be plentiful. The [stock market](#) has always recovered from its downturns to post successful recoveries, which may mean that ignoring market 'noise' and buying high-quality stocks is a sound strategy.

Potential risks

The US and China may have signed 'phase one' of a potential trade deal, but tariffs remain in place on a wide range of their imported goods. Alongside this, there is an ongoing threat that tariffs could be extended should negotiations between the two countries fail to deliver the next phase of a trade deal.

In addition, heightened political risks in the US at the present time, and from the upcoming election, may mean that investors and businesses adopt a cautious attitude towards investment. Similarly, geopolitical risks in the Middle East and the potential for a weaker European economy post-Brexit could cause investors to become increasingly pessimistic about the stock market's prospects.

Of course, past recessions and bear markets have shown that unknown risks can trigger a stock market crash. Alongside the aforementioned threats to the global economy, this could mean that the near-term prospects for the stock market are relatively uncertain.

Buying opportunities

While the stock market has always experienced bear markets following bull markets, the reverse is also true. In other words, downturns in the stock market's price level have always been followed by

record highs. As such, buying a range of stocks while they trade on lower valuations caused by an economic slowdown has historically been a sound strategy for long-term investors.

Therefore, if the stock market does experience a challenging 2020, it may be a good idea to view it as a buying opportunity as opposed to a cause for concern. Certainly, losing money on your existing holdings can cause a degree of pain. But high-quality businesses can recover to turn paper losses into realised profits in the long run.

Low valuations

Due to the threats currently facing the world economy, many stocks currently trade at wide discounts to their intrinsic values. Investors appear to be pricing in the potential for a downturn in the stock market's price level.

Therefore, now could be a good time to buy a range of stocks. Although they may experience a difficult period in the near term, in the long run they could offer growth potential alongside relatively attractive dividend yields. Since bear markets are difficult to predict in advance, capitalising on low valuations today could be a sound move for long-term investors.

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Date

2025/07/22

Date Created

2020/02/13

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