A 2020 Market Crash Could be Your Chance to Buy Cheap Dividend Stocks

Description

The stock market has experienced a volatile period over recent months. Risks such as coronavirus, geopolitical challenges in the Middle East and political uncertainty in Europe seem to be weighing on investor sentiment.

Those threats could ultimately cause a market crash in 2020. While this may initially seem to be a worry for many investors, the reality is that past downturns have proved to be buying opportunities for long-term investors.

As such, now could be the right time to buy dividend shares. In many cases, their valuations and yields indicate that investors have factored in the prospect of an upcoming market crash.

Potential threats

The spread of coronavirus is set to contribute to a slowdown in the global GDP growth rate in the near term. Factories in China have been closed in some cases, while global supply chains have been impacted in a number of industries. As such, investor sentiment could worsen in the short run.

When combined with risks such as Brexit and political uncertainty in the US in 2020, there seems to be a reasonable chance that the stock market will experience a challenging period in the short run. As a result, investor sentiment has weakened in the past few months, and could continue to do so in the coming months.

Buying opportunity

While it can be difficult to buy shares when their prices are falling and their outlooks are challenging, history suggests that this is the most logical time to buy. The stock market has always recovered from the challenges it has faced in the past. For example, it recovered from recessions such as the global financial crisis, while similar threats to coronavirus such as SARS were followed by the stock market's return to record highs.

As such, investors who can look beyond the short-term volatility present in the stock market may be able to buy high-quality companies while they trade at wide discounts to their intrinsic values. This may improve their risk/reward ratios and enable them to maximise their total returns in the long run.

Dividend stocks

Buying dividend stocks during a market crash could be a sound means of improving your long-term financial prospects. They may offer high yields due to weak investor sentiment, while in many cases the companies in question could deliver relatively resilient dividend payments despite risks to the global economy.

Since a large proportion of the stock market's past total returns have been generated by the reinvestment of dividends, capitalising on their low valuations during a market crash could be a worthwhile move. It may enable you to build a solid portfolio of dividend shares which can ultimately provide a sustainable and growing passive income in retirement.

Therefore, with many stocks currently trading on low valuations that appear to factor in significant difficulties for the world economy, now may be the right time to buy dividend shares and hold them for the long run.

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