



## The 1 Simple Step I'll be Taking in a Market Crash

### Description

The recent pullback in the stock market may cause some investors to adopt an increasingly cautious attitude towards equities. This is a natural outcome, since paper losses on your investments can dissuade you from buying more shares – especially when the prospects for the world economy seem to be highly challenging.

However, a decline in the stock market's price level has historically proven to be an excellent [buying opportunity](#). Through identifying high-quality stocks and focusing on the long term, you can turn a market crash into an opportunity to improve your financial future. As such, taking the simple step of buying shares during a market crash could prove to be a sound move.

### Buying opportunity

Risks such as the spread of coronavirus, political uncertainty in the US and Europe, as well as geopolitical risks across the world have combined to cause a severe weakening in investor sentiment since the start of the year.

All of those risks could increase in the near term, which means that a market crash is a possible event in 2020. Furthermore, with the stock market having experienced a decade-long bull market, investors may be cautious about the potential for it continue uninterrupted over the medium term.

History shows that stock market downturns and bear markets have always been followed by recoveries and bull markets. Therefore, lower prices offer the chance to buy companies while their valuations include wide margins of safety. This can lead to strong returns for investors in the years following a market crash, which means that buying shares while they are cheap is a logical means of capitalising on the cyclical nature of the stock market.

### High-quality businesses

Of course, it is important to buy high-quality companies during a market crash. They may be better

able to overcome the challenging trading conditions which may be ahead.

As such, investors may wish to focus on company fundamentals. They include debt levels, free cash flow, and profitability measures. In addition, the size of a company's economic moat may provide guidance on how successful it will be in overcoming a difficult economic period, which could increase an investor's chances of buying the best performing shares in the long run.

## Long-term focus

During a market crash it is easy to become concerned about the performance of your portfolio. After all, it is likely to be experiencing significant losses, and other investors may be becoming increasingly fearful of the near-term outlook.

However, by focusing on the long term prospect of recovery, you may be able to capitalise on a market crash. They have occurred surprisingly frequently in the past, and have always given way to a strong recovery. Sometimes that can take several years to materialise. But for investors who are able to simply buy high-quality shares while they are cheap, the rewards can be significant over the long term.

### CATEGORY

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### Date

2025/08/26

### Date Created

2020/03/17

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