Is The Stock Market Still a Good Investment After its Crash?

Description

The stock market's performance in the first quarter of 2020 was exceptionally disappointing. It experienced a crash on a scale that has not been seen since the global financial crisis. In the short run, further volatility seems highly likely. This could mean that stock prices deliver further declines.

However, now may not be the right time to ditch stocks and invest elsewhere. The stock market experiences crashes and bear markets on a fairly regular basis, and has always recovered from them.

Therefore, now may be the right time buy stocks, rather than seek safety in other assets such as cash and bonds.

Short-term risks

Clearly, there are significant risks facing the world economy in the near term. A wide range of countries across the world have put in place restrictions on movement that could create extremely difficult trading conditions for a wide range of industries. Investors are factoring in the prospect of severe declines in profitability during 2020, which may lead them to demand even wider margins of safety from equities.

The end result of this could be that stock markets display further volatility in the coming months. This may mean that holding stocks is a risky move which includes large paper losses at times.

Recovery potential

However, for investors who are able to take a long-term view of their portfolio, now could be an excellent time to buy stocks. Certainly, paper losses are not something that any investor wishes to experience. But it is difficult, if not impossible, to find the very bottom of the stock market's decline. This has been the case in all previous market crashes, with it only being obvious after a recovery has taken hold that the stock market was trading at its lowest point.

Therefore, buying a range of high-quality stocks now and being prepared to hold them for many years could be a worthwhile strategy. It is unlikely to produce high returns in the near term, but the track record of the world economy and global equities shows that they have always recovered from their most difficult circumstances to post new record highs.

At the present time, a stock market recovery may seem unlikely. But, the same could have been said during any of its previous crashes. Ultimately, a recovery in the coming years seems likely, and investors buying undervalued stocks now may be the biggest beneficiaries.

Selling stocks

Some investors may feel that selling stocks now and holding assets such as cash and bonds is a worthwhile move. They may outperform stocks in the near term, but over the long run low interest rates mean that their after-inflation returns could be negative.

As such, taking a long-term view of the stock market and seeking to capitalise on its cyclicality could be the most logical move for investors at the present time. More pain may be ahead, but this is likely to give way to a recovery.

CATEGORY

1. Coronavirus
2. Investing

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Investing

Date
2025/07/04
Date Created
2020/04/10
Author
peterstephens