



## Why the Threat of Stock Market Crash 2 Could Be an Opportunity to Buy Cheap Shares

### Description

Heightened geopolitical risks across Europe and the coronavirus pandemic mean that there continues to be a threat of a second stock market crash. As such, many companies trade on low valuations that suggest investors have priced in a period of difficulty.

This could mean there are buying opportunities for investors who can look beyond short-term risks and instead focus on long-term growth potential.

Buying cheap shares and holding them for the long run has allowed investors to benefit from improving economic conditions in the past. A similar outcome could take place over the coming years.

### The threat of a second stock market crash

Predicting when a stock market crash will occur is always an extremely difficult task. As this year's market downturn showed, bear markets can come into existence with little or no prior warning. Therefore, anticipating them ahead of their occurrence is not an exact science.

However, today's elevated risks mean that there may be a higher chance of a decline in stock prices over the coming months. Political risks in Europe remain at high levels, while the coronavirus pandemic could continue to disrupt the economic outlook over the coming months. This may lead to more difficult trading conditions for a wide range of businesses that causes investor sentiment to deteriorate.

### Buying cheap shares today

The threat of a second stock market crash means that investors are demanding wider margins of safety from shares at the present time. As such, some companies are trading at prices that are significantly below their historic averages. This means that there may be buying opportunities available for long-term investors who can accept the prospect of short-term paper losses in return for gains in the coming years.

Furthermore, there is no guarantee that a market fall will occur in the near term. Certainly, the stock market is very unlikely to make uninterrupted gains in the long run. However, it could surge to new record highs on the back of fiscal and monetary policy stimulus. This could mean that today's low valuations are extremely attractive, since they may be pricing in a market decline that does not occur for many years.

## Long-term gains

Buying undervalued shares when the threat of a stock market crash is relatively high has been a profitable strategy for many years. It has enabled investors to use the market's cycle to their advantage.

Of course, value investing may not be popular at the present time. Many investors are more focused on growth prospects for businesses across a variety of sectors. However, over time, the appeal of bargain shares is likely to be recognised by investors as the economic outlook improves. This may mean that today's undervalued shares deliver market-beating returns that has a positive impact on your portfolio's performance.

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