The Next Stock Market Crash Is Never Far Away: I’d Still Buy Cheap Shares Today

Description

Some investors may avoid buying cheap shares at the present time due to the potential for a second stock market crash. Risks such as Brexit and coronavirus could realistically prompt weaker financial performances from businesses that translate into falling share prices.

However, the past performance of the stock market shows that it has always experienced challenging periods. The key takeaway for investors is that it has always recovered from them to post new record highs.

Furthermore, today’s cheap share prices may factor in many of the risks facing the economy. This could mean there are buying opportunities available.

The threat of a stock market crash

The potential for a stock market crash may be elevated at the present time. Investors often become increasingly bearish during periods of major change when they find it more difficult to accurately forecast the outlook for businesses. With political uncertainty present across many of the world’s major economies and coronavirus continuing to cause disruption, it would be unsurprising for investor sentiment to weaken to some extent in the coming months.

However, many bear markets have been impossible to predict. This year’s stock market decline took place over a very short period of time, with very few investors accurately predicting that it would happen. It’s a similar story with previous market declines. Therefore, a downturn can take place at any time and without prior warning. This means that all investors must accept that their holdings may be in loss-making territory at times.

Long-term growth potential

Despite the constant threat of a stock market crash, indexes such as the FTSE 100 and S&P 500 have produced relatively impressive returns over recent decades. In fact, their annual total returns have been in the high single-digits even though they have experienced severe bear markets such as the global financial crisis and dot com bubble.

Their returns may have been more volatile than those of other assets such as cash and bonds. However, they have also been higher over the long term. As such, investors who are able to live with the potential for short-term paper losses may be better off investing money in a portfolio of stocks instead of holding lower-risk assets. Over time, they may deliver significantly higher returns.

Buying cheap shares today

At the present time, many cheap shares appear to account for elevated risks that could cause a stock market crash. Therefore, even though risks are higher at the present time, now could be an opportune moment to purchase a wide range of companies for the long term.

Their wide margins of safety may provide some support should there be another market downturn. Meanwhile, their low valuations may also mean they can offer impressive returns in the coming years that have a positive impact on your financial prospects.

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