Why Long-term Investors Shouldn’t Fear a Second Market Crash

Description

A second stock market crash could be ahead. Risks such as political uncertainty in Europe and an uncertain economic outlook may mean that investor sentiment weakens to some extent over the coming months.

This may cause paper losses for many investors. However, on a long-term view, it could prove to be a buying opportunity. Cheaper stock prices plus the recovery prospects for equity markets may mean that buying shares in a market downturn could prove to be a profitable move in the coming years.

Recovering from a stock market crash

The 2020 stock market crash was not the first time that indexes such as the FTSE 100 and S&P 500 had experienced a sudden downturn. In fact, their past performances have included many periods of sharp declines that were impossible to accurately predict prior to their occurrence.

Despite their previous declines, both indexes and the global stock market have always recovered to post new record highs in the aftermath of past bear markets. As such, investors who are able to look beyond short-term challenges and falling stock prices can access low valuations ahead of a likely stock market recovery.

How long it takes share prices to recover after a market crash is clearly a known unknown. However, past bear markets have taken from weeks to years to transition into sustained bull markets that produce new record highs. Therefore, taking a long-term view means that there is a higher chance of ultimately benefitting from a likely return to positive economic growth and a rising stock market.

Managing a portfolio in a downturn

Clearly, managing a portfolio during a stock market crash is not an easy task. Investor sentiment can quickly change towards even the most stable of businesses.

However, assessing the financial strength of a company could be a logical starting point. Companies with low debt levels and solid balance sheets may be better placed to overcome challenging operating conditions. In turn, this may increase their chances of benefitting from a long-term stock market recovery.

Similarly, spreading risk across multiple shares and sectors could be a sound move during a market crash. It may lessen an investor's exposure to specific stocks or industries that may be harder hit by a market decline. This could reduce an investor's dependency on a small number of businesses and industries for their returns. Over the long run, this may improve their capital return potential.

Reacting to market movements

As mentioned, it is extremely difficult to foresee a market crash. Often, they come unannounced and take place over a relatively short time period. However, investors can control how they react to such events. By viewing them as a long-term buying opportunity, it may be possible to benefit from them through using lower stock prices to build a larger portfolio over the coming years as the stock market recovers

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