3 Reasons Why I'd Buy Cheap Shares Before This Window of Opportunity Closes

Description

The stock market crash means that investors can purchase a wide range of cheap shares today. Although ongoing risks such as coronavirus and Brexit may cause apathy towards the stock market among some investors, shares could deliver impressive returns over the long run.

Their likely recovery, low valuations and a lack of other opportunities elsewhere means that now may be the right time to build a diverse stock portfolio before the opportunity passes.

A likely recovery for cheap shares

Cheap shares are unlikely to remain at their current prices in perpetuity. Ultimately, the economy's performance is set to improve over the coming years. This could strengthen the operating conditions for many businesses and help to justify higher valuations.

This outcome may seem somewhat distant to many investors. However, bull markets can quickly gain momentum. Previous bear markets have led to sustained bull markets that have lasted for many years. For example, the global financial crisis gave way to a decade-long bull run that lifted valuations across a wide range of sectors to their highest-ever levels.

Therefore, investors should not assume that cheap shares will be around forever. History suggests they are likely to be only temporary in nature, with today's uncertain economic environment providing a rare opportunity for investors to buy significantly undervalued shares.

Low valuations across unpopular sectors

Some sectors have recovered strongly after the 2020 stock market crash so that they do not contain many, or even any, cheap shares. However, other sectors are currently extremely unpopular among investors. For example, industries such as travel, financial services and commodity-related businesses are in low demand among investors due to the challenging operating conditions they face in the short run.

In some cases, those low valuations are merited due to weak balance sheets and high risks being present. However, in other cases, stock prices have diverged from their intrinsic values so that investors can purchase high-quality companies while they offer wide margins of safety. Historically, doing so has provided investors with greater scope to benefit from a rising stock market.

A lack of other opportunities

Cheap shares may also be worth buying today because of the lack of opportunities available elsewhere. Low interest rates mean that cash and bonds may struggle to offer above-inflation returns over the coming years. High house prices may also cause property returns to disappoint. Meanwhile, gold’s popularity signifies that investors may already have priced in a prolonged period of low interest rates.

Therefore, now may be an opportune moment to build a diverse portfolio of undervalued stocks. They may not trade at such low prices over the long run. This could mean that investors who can look beyond short-term risks can generate impressive returns as a likely economic recovery takes hold.

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