Market Crash 2.0: Why a Market Selloff Can Help an Investor Get Rich and Retire Early

Description

Some investors may be avoiding equity markets due to the threat of a second stock market crash. Economic risks are currently relatively high. This could lead to tough trading conditions for many businesses that causes investor sentiment to deteriorate.

Clearly, a market downturn is likely to be painful for all investors in the short run. However, it can also provide buying opportunities for long-term investors. The stock market has a long track record of recovering from even its very worst declines. This could help an investor to generate impressive returns, and may even improve their prospects of retiring early.

The prospect of a second market crash

Determining whether a second market crash will occur is an extremely challenging task. However, risks such as Brexit, the coronavirus pandemic and an unstable economic outlook may mean that there is an elevated chance of challenging conditions for investors. They could contribute to declining profitability and deteriorating investor sentiment in the coming months. This could prompt a return to large stock price falls as investors factor in lower profit guidance over the medium term.

Clearly, there is no guarantee that a further market decline will occur. Current stock prices may already factor in the aforementioned threats to global economic growth. However, the wide range of risks and their potential impact on global GDP growth may mean that investor sentiment is highly changeable at the present time.

Buying cheap shares in a downturn

As mentioned, a market crash would be a painful experience for most investors. They would experience losses on their current holdings. This may dissuade them from entertaining the idea of buying more stocks in order to avoid further losses.

However, a market decline can provide excellent buying opportunities for long-term investors. During a downturn, high-quality companies that are likely to return to strong profit growth in the long run can trade at exceptionally low prices. Weak investor sentiment towards the equity market can produce a wide range of bargain stocks that go on to deliver impressive capital returns.

While there is no guarantee that any share will recover from a stock market crash, a diverse portfolio of shares is relatively likely to produce impressive long-term returns. The track record of indexes such as the **S&P 500** and FTSE 100 shows that they have always experienced sustained bull markets following bear markets. Therefore, owning a broad range of high-quality businesses is likely to allow an investor to take part in a long-term recovery.

Retirement prospects from investing money in shares

Buying shares after a second market crash may appear to be a risky move. In the short run it can mean additional paper losses due to the potential for the stock market to move lower.

However, the stock market's recovery potential may mean that equities offer a relatively attractive means of building a retirement nest egg. As such, capitalising on low stock prices may prove to be a logical response to any further market downturn.

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