



3 Steps I'd Take to Identify Top Stock Picks for November 2020

Description

Discovering top stock picks may be more difficult today than it has been in recent years. The economic outlook is extremely uncertain. This could mean that many companies face challenging operating conditions that have a negative impact on their financial prospects.

As such, buying businesses with solid financial positions alongside long-term growth potential may be a sound move. Purchasing such companies when they trade at low prices may be possible due to weak investor sentiment. This could lead to impressive capital returns in the long run.

Top stock picks with long-term growth potential

A company's long-term growth potential is likely to have a large impact on whether it proves to be a top stock pick. This year has arguably seen a more rapid shift in consumer tastes and habits than has been the case for many years. For example, the popularity of purchasing goods online has increased. Similarly, the green economy's growth prospects seem to have gained momentum this year as governments across the world seek to invest in a low-carbon future.

As such, identifying whether a company has the right business model given the prospects for its industry may be a logical strategy for an investor take. For example, a retailer with a major online presence may be better prepared for changing market dynamics. Even if a company does not have the right business model, a plan to achieve that aim may mean that it can become a more dominant operator within its sector.

Financial strength

Of course, any top stock pick will need to survive the short term in order to prosper from any long-term economic recovery. As such, a second step for investors to take may be to analyse a company's annual reports to gauge its financial strength.

Some companies have overlooked the importance of having a strong balance sheet over the past

decade. The economic boom and improving consumer and investor confidence have led some businesses to take on excessive debt or prioritise projects with low returns. As such, it is important to check their debt levels, cash flow and overall financial position to ensure that they can survive the current economic difficulties. Businesses with solid finances may even be able to extend their market dominance at the expense of weaker peers.

Accessing low valuations

Undervalued companies could make the most appealing top stock picks at the present time. Investor sentiment is currently weak towards a number of sectors. This could mean that investors can purchase high-quality businesses while they trade at low prices.

The past performance of the stock market shows that buying stocks for less than they are worth has been a sound means of generating high returns. Using the same strategy in the current environment may prove to be equally successful when used to build a diverse portfolio of high-quality companies that are held for the long run.

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Author

peterstephens

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