
Stock Market Crash Part 2: Why Investor Fear Could Create Buying Opportunities

### Description

There is a very real threat that a second stock market crash will take place in the coming months. Risks such as heightened political uncertainty in Europe and North America, the ongoing coronavirus pandemic and a challenging economic outlook could weigh on the prospects for a wide range of businesses over the near term.

However, the existence of such a threat could create buying opportunities for long-term investors. Many stocks appear to be undervalued at the present time. This may mean that they offer recovery potential as the economic outlook gradually improves.



## A second stock market crash

There is always the potential for a stock market crash to take place. Indeed, they have previously occurred without prior warning on many occasions.

However, at the present time it could be argued that a market downturn is more likely than is usually the case. Risks such as heightened political uncertainty in Europe and North America could act as a drag on investor sentiment. Similarly, the coronavirus pandemic remains a known unknown in terms of its impact on the wider economy. This may prompt weaker investor sentiment over the coming months.

Therefore, the occurrence of a second stock market crash would probably not be viewed as a surprise by many investors. This does not mean that it is guaranteed to take place. However, the threat of a market downturn may mean that the idea of buying stocks becomes less popular among some investors.

## Buying opportunities in an uncertain market

The potential for a further stock market crash means that many high-quality companies currently trade at low prices. Certainly, some share prices have recovered from the lows reached earlier this year. However, many other companies continue to have valuations that are significantly below their long-term averages. This suggests that investors are very cautious about their prospects, which could create buying opportunities for their long-term peers.

In some cases, investor caution is warranted. Some companies have weak balance sheets and may fail to benefit from a long-term economic recovery. However, other companies have sound financial positions and are likely to return to positive profit growth over the long run. Such businesses trade at prices that are below their intrinsic values in some cases. This could indicate that they are among the most attractive buying opportunities available at the present time.

## A long-term recovery

Of course, some investors may feel that there is no guarantee of a recovery from a stock market crash. While that may be the case, the past performance of indexes such as the **S&P 500** and FTSE 100 suggests that a return to previous record highs is very likely.

Therefore, investors who build a diverse portfolio of high-quality businesses when they trade at low prices could generate impressive returns as the economy recovers and investor sentiment improves.

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