



\$250 a Month to Invest? Here's How I'd Aim to Turn it Into \$1M

Description

The 2020 stock market crash may have provided an opportunity to invest in high-quality shares while they trade at low prices. Over time, they could deliver impressive returns that have a positive impact on an investor's portfolio.

As such, now could be the right time to start buying a diverse range of stocks for the long term. Even a modest monthly investment of \$250 could produce a seven-figure portfolio in the coming years.

Invest in high-quality shares at low prices

While many high-quality shares have rebounded after the stock market crash, it is still possible to invest in a wide range of sound businesses at low prices. For example, some companies face challenging near-term operating outlooks that may have caused investor sentiment to weaken. However, their solid financial positions and competitive advantages may mean that they are able to deliver impressive capital returns over the long run.

Clearly, some stocks are priced at low levels for good reason. For example, they may lack the capital to invest in new technology or in changing their business models in a fast-paced global economy. Therefore, it is crucial to invest in businesses only after thorough due diligence. By analysing a company's annual reports, recent investor updates and assessing competition within an industry, it may be possible to unearth the best stocks that offer the most appealing value opportunities. Buying them could lead to outperformance of the wider stock market.

A long-term strategy

Of course, a strategy that aims to invest in undervalued stocks today may take time to deliver high returns. Risks such as coronavirus continue to affect the world economy's prospects, as well as investor sentiment. Therefore, in the short run, buying stocks may not necessarily produce positive returns.

However, the long-term track record of indexes such as the FTSE 100 and S&P 500 shows that they have always recovered from their downturns to produce record highs. In doing so, they have generally produced high single-digit annual returns. Therefore, investors who buy and hold a diverse range of high-quality businesses could benefit from their likely recoveries. This could have a positive impact on a regular investment, and may produce a large nest egg as the global economic outlook likely improves.

Making a million

A plan to regularly invest a modest amount of capital in high-quality businesses at low prices could lead to market-beating performance. However, an investor could still generate a portfolio valued in excess of \$1m if they obtain the stock market's long-term annual total returns of 8%.

For example, it would take 42 years for a monthly investment of \$250 to be worth \$1m at an 8% annual total return. However, by taking advantage of today's low stock market valuations, it may be possible to reduce that amount of time. In doing so, an investor could outperform the stock market and enjoy greater financial freedom in the long run.

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