Market Crash 2020: I'd Buy Today's Cheap Stocks to Retire Early

Description

The 2020 stock market crash has left many shares trading at relatively cheap prices. Ongoing risks such as the coronavirus pandemic and political uncertainty in Europe mean that the valuations of some companies have failed to rebound to their 2019 levels.

As such, there may be buying opportunities available on a long-term basis. Over time, the valuations of today's cheap stocks could improve. In doing so, they could aid an investor in building a retirement nest egg from which to draw a passive income in older age.

Cheap stocks after the 2020 stock market crash

The 2020 stock market crash has caused investors to re-evaluate their views on a number of sectors. For example, companies operating in industries that are being directly impacted by a weak economic outlook have seen their valuations come under severe pressure. They include sectors such as banking, energy and travel & leisure, where the profit growth potential of many businesses is likely to disappoint in the short run.

While some cheap stocks have weak financial positions and lack competitive advantages over their peers, others may currently be undervalued. Investors may have devalued companies operating in unfavourable sectors without understanding their recovery potential, for example. This may provide long-term investors with an opportunity to use the 2020 market crash to their advantage, in terms of buying high-quality companies at a discount to their intrinsic values.

A stock market recovery

Today's cheap stocks could deliver strong recoveries from the 2020 stock market crash. Ultimately, an improving economic outlook that provides more prosperous operating conditions is likely to come into existence over the coming years. The world economy has, after all, always recovered from its periods of decline to post positive gross domestic product growth. And, with large amounts of fiscal and economic stimulus having already been announced in major economies, the outlook for the world economy could improve significantly in the coming years.

With undervalued shares having significant capital appreciation potential, they may offer a sound means of generating a retirement nest egg. Their appeal on a relative basis seems to be high. A sustained period of low interest rates could be ahead. This may mean that the returns on cash and bonds fail to beat inflation by a substantial amount. And, with high house prices being present in many economies, the prospects for property investors may be less attractive than for those investors who buy cheap stocks after the stock market crash.

A long-term outlook

Clearly, a recovery after the market crash may take some time for today's cheap shares. However, by taking a long-term view and holding high-quality companies through a likely bull market, an investor could improve their retirement prospects. They could even outperform the stock market through using its volatility to their advantage in the coming years.

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Date
2025/08/24
Date Created
2020/12/04
Author
peterstephens