Stock Market Crash 2020: A Once-in-a-Lifetime Chance to Buy Cheap Stocks?

Description

The 2020 stock market crash has left a wide range of cheap stocks across many sectors. Although they could yet fall further in the short run due to ongoing political and economic risks, they may deliver strong recoveries in the long run.

Such opportunities have historically been relatively rare. And, with major stimulus programs in place across many economies and the prospect of fewer lockdown restrictions in 2021, the outlook for high-quality companies that trade at low prices could be relatively positive.

The 2020 stock market crash: A rare event?

This year's stock market crash was a relatively rare event. In fact, many of today's cheap stocks have not traded at their current prices in over a decade. The last time they did was in the global financial crisis, when major indexes such as the **S&P 500** and FTSE 100 collapsed in value.

Prior to the global financial crisis, major bear markets have been relatively uncommon. For example, the dot com crisis included vast share price falls across global stock markets. And, while there have been many corrections and downturns in the past 20 years, this year's stock market fall was among the most severe.

As such, an investor is likely to experience only a relatively small number of declines that are similar in size and severity to the 2020 stock market crash during their lifetime. Taking advantage of the cheap stocks they provide may mean greater scope for capital appreciation in the long run.

A unique opportunity to buy cheap stocks?

The 2020 stock market crash could be a unique opportunity to buy cheap stocks. That's not because it has left many companies trading at low prices. Rather, the path to growth could be stronger and faster than has been the case following previous bear markets.

For example, investor sentiment could improve significantly if it becomes clear that the coronavirus pandemic will be successfully overcome. Furthermore, the amount of fiscal and monetary policy stimulus that has been announced may have a positive impact on asset prices over the coming years. As was the case after the global financial crisis, a loose monetary policy can have a very positive impact on global stock markets.

Of course, there is no guarantee of a fast-paced growth period for cheap shares after the stock market crash. A second downturn could take place in the short run. However, vast amounts of stimulus arguably represent a faster and stronger response to a market decline than has been the case in some previous downturns.

Focusing on high-quality cheap stocks

The stock market crash has highlighted the importance of buying high-quality companies. Therefore, rather than simply buying the cheapest stocks around, it may be prudent to consider the financial standing and competitive advantage of a business prior to purchase. This could lead to higher returns in a likely stock market recovery.

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