



Why Today's Top Stock Picks Could Soar in 2021

Description

Buying today's top stock picks could prove to be a profitable move in 2021 and beyond. In most cases, they are likely to be high-quality companies that trade at low prices. As such, their valuations may not take into account their long-term financial prospects.

Furthermore, the track record of the world economy suggests that it is very likely to deliver an improving performance after a challenging 2020. This could lead to stronger operating conditions for many businesses, as well as improving investor sentiment that has the potential to lift valuations across the stock market.

Buying today's top stock picks

Many of today's top stock picks are likely to be high-quality companies that offer wide margins of safety. In other words, investors are currently not taking into account their potential to deliver improving financial performances after a tough 2020. Therefore, they could offer upward rerating potential over the course of 2021 and beyond that leads to a rising share price and capital growth for investors.

Of course, in the near term their valuations could come under further pressure. Risks such as Brexit and coronavirus look set to remain in place in 2021. However, the track record of the stock market shows that stock valuations have generally reverted to their long-term averages over the long run. This could mean that today's top stock picks offer a significant amount of capital appreciation potential over the coming months and years due to their currently low share prices.

The prospect of an economic recovery

Today's top stock picks could also experience improving operating conditions in 2021 and over the long run. This year has seen many companies operating in a wide range of industries struggle to produce positive sales and profit growth. While this situation may persist in the near term, the track record of the world economy suggests that a return to stronger conditions is very likely. After all, no recession or economic slowdown has ever lasted in perpetuity.

Improving operating conditions and a stronger economic outlook may help to boost investor sentiment. They may become more bullish about the outlook for a wide range of stocks and sectors – especially high-quality businesses with competitive advantages. This may help to lift the stock market, and may mean that today's top stock picks deliver attractive rates of capital growth.

Managing risk in 2021

Clearly, the outlook for today's top stock picks remains uncertain. However, investors can reduce overall risks through buying a diverse range of companies and holding them for the long run. Having a broad range of stocks within a portfolio can reduce an investor's reliance on a small number of businesses for their returns.

Meanwhile, holding shares for the long run can mean that an investor is less impacted by short-term volatility and paper losses. They may also benefit from a likely rise in the stock market over the coming years, as it recovers from the difficulties experienced in 2020.

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