3 Steps I'd Take to Buy Cheap Shares to Make Once-in-a-Lifetime Profits

Description

Buying cheap shares today could lead to high profits in the long run. The 2020 stock market crash has left many high-quality companies trading at low prices, despite a stock market recovery having been experienced since March lows.

Through focusing on a company's competitive advantage and its financial position, it is possible to gauge how much it is worth. Buying a diverse range of companies for less than their intrinsic values could lead to high profits in a long-term bull market.

Buying cheap shares with competitive advantages

Cheap shares with competitive advantages over their peers may mean less risk and greater rewards. A competitive advantage is subjective, but may include factors such as a unique product, strong brand loyalty or a lower cost base than rivals. These traits may mean that a business is able to generate higher sales and margins than its peers in a range of economic conditions. Given the uncertain economic outlook currently present, competitive advantages may be especially attractive.

Of course, assessing the size of a company's competitive advantage can be difficult. As such, analysing its past performance versus sector peers could be a useful starting point. If it has consistently enjoyed higher margins relative to rivals, it may have a competitive advantage that can be sustained over the long run.

Assessing company fundamentals for a stock market recovery

Cheap shares with solid financial positions could be more attractive in a long-term stock market recovery. Past stock market rallies after a crash have rarely been smooth or uneventful affairs. Investor sentiment can quickly change depending on factors such as economic data and policymaker decisions in areas such as interest rates and taxation.

Therefore, there is an ongoing threat of share price declines in the coming months. This means that purchasing companies with sound balance sheets may provide an investor with higher returns. Such companies may be able to make acquisitions, or invest in strengthening their market positions. They could also be viewed more favourably by investors relative to other cheap shares should there be further challenges ahead for the economy.

Buying undervalued shares today

It is difficult to assess which companies can be classed as cheap shares today. After all, asset prices are very unstable and company earnings have fallen heavily in recent months in many cases.

As such, a worthwhile guide to a company's value may be found by comparing it to sector peers. If a business seems to have a larger competitive advantage and stronger balance sheet than its peers, it may deserve a premium valuation. Should that not be the case, perhaps due to weak investor sentiment towards a particular industry, there may be opportunities to buy bargain stocks for the long term. They may offer the greatest return potential as a stock market recovery takes hold in a new long-term bull market.

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Date
2025/08/25
Date Created
2020/12/07
Author
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