



3 Steps I'd Take Today to Find Top Stock Picks for 2021

Description

Finding top stock picks for 2021 may seem like a daunting task to some investors. The 2020 stock market crash and an uncertain economic outlook mean that the prospects for many companies are difficult to accurately assess.

However, by focusing on companies with solid financial positions and wide economic moats when they trade at low prices, it may be possible to unearth the best shares for 2021. They could produce the strongest performances over the long run.

Assessing financial strength among potential top stock picks

The uncertain economic outlook means that today's top stock picks may be those businesses with solid financial positions. They may be able to more easily overcome what could prove to be a tough period for many industries and regions over the coming months.

Analysing a company's financial position can be done by taking a look at its annual report and recent trading updates. They provide information on areas such as its debt levels, how many times its operating profit covered interest costs and the amount of liquidity it has available. All of these areas can make a real difference to its ability to not only survive what could be a volatile 2021, but to also use an uncertain period to its advantage in terms of making acquisitions and innovating.

Analysing a company's competitive position

Top stock picks for 2021 may also be those companies that can outperform their sector peers as a result of a competitive advantage. For example, they may have a unique product, enjoy strong brand loyalty or have a lower cost base than their rivals. This can make a real difference to their profitability both in difficult economic circumstances and when a period of strong growth takes place.

Therefore, focusing on a company's competitors could be a sound move. It may highlight the strengths and weaknesses of a business that are not always obvious. They may make an impact on how

successful it proves to be from an investment perspective.

Ensuring a margin of safety is obtained

As ever, the top stock picks of today could prove to be those companies that trade at a large discount to their intrinsic values. In other words, their share prices currently undervalue their long-term financial prospects. This may provide them with greater scope to deliver capital appreciation over the coming years.

Therefore, assessing a company's value, in terms of metrics such as price-to-earnings (P/E) ratio and price-to-book (P/B) ratio, on a standalone and relative basis could be a worthwhile move. It may allow an investor to determine which companies in a specific sector offer the best value for money. They may be among the top performers in 2021 and beyond, and could have the biggest positive impact on an investor's portfolio.

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