



How a Stock Market Recovery Could Boost My Chances of Making a Million

Description

A stock market recovery has always taken place following previous bear markets. As such, the long-term prospects for indexes such as the FTSE 100 are relatively attractive.

Certainly, some stocks may experience further challenges due to risks such as the ongoing coronavirus pandemic. However, buying them at a discount to their intrinsic values could mean capital appreciation potential that makes it easier to generate a portfolio valued in excess of a million.

Improving investor sentiment in a stock market recovery

A stock market recovery can encourage investors to become more optimistic about the future. They may see the value of their own holdings increase, and determine that further gains are possible. A rise in share prices may also remind them that the stock market operates in cycles. No downturn or upturn has ever lasted in perpetuity. However, it is easy to forget this during periods of extreme market performance. As share prices rise, investors may become less risk averse. This can help to sustain a bull market over the long term.

As such, holders of today's cheap stocks could benefit the most from improving sentiment. Such companies may currently be relatively unpopular due to their weak near-term outlooks. However, as investors become less risk averse, they may begin to focus on undervalued companies to a greater extent. This may mean that investors who have purchased cheap stocks during the 2020 stock market crash see the value of their portfolios increase in a stock market recovery.

Stronger economic conditions after the stock market crash

A stock market recovery is often linked to the world's economic outlook. If investors believe that economic conditions are improving, they generally become more bullish about equities.

Improving economic conditions suggest that the operating environment for businesses is likely to strengthen. This may mean that those companies which have struggled to post rising sales and profit

this year are able to deliver stronger financial performances. This may help to justify even higher share prices, since a higher earnings per share figure equates to a higher share price when its multiple of earnings remains constant.

Clearly, company operating conditions can change quickly in a stock market recovery. However, the economy's past performance suggests that they are likely to rebound after the challenges experienced in 2020. Therefore, investors who have purchased struggling companies this year may benefit from an upturn in their operating outlook in 2021 and beyond.

Making a million in a stock market rally

Even if a stock market recovery only allows an investor to generate the market rate of return, they can still build a large portfolio over the long run. For example, the stock market has produced an annual total return of around 8% over the long run. Such a rate of return would turn \$100,000 into \$1m within 30 years. Similarly, a \$750 monthly investment would be worth a seven-figure sum over the same time period at the same return.

However, through buying today's cheap stocks and holding them ahead of a long-term stock market recovery, it may be possible to earn a higher return. Investors who have purchased undervalued stocks this year could stand to benefit the most from a likely improvement in investor sentiment and company operating conditions in the coming years.

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Author

peterstephens

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