How I'd Find Must-Own Cheap Shares in the New Bull Market

Description

The 2020 stock market crash means that many sectors currently contain cheap shares. They could face difficult near-term futures due to economic risks being high. However, they may also offer long-term growth potential in a new bull market.

As such, focusing on companies with solid fundamentals and strong track records of growth could be a shrewd move. It may lead to the purchase of must-own stocks that can deliver impressive returns in the coming years.

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Searching for cheap shares in troubled sectors

Many cheap shares are likely to be priced at low levels because of their uncertain near-term prospects. For example, they may operate in an industry that faces a difficult period because of factors such as weak consumer sentiment or disruption caused by the coronavirus pandemic.

While this may mean further paper losses for investors in the short run, it can provide buying opportunities in the long run. Many undervalued stocks may have the capacity to successfully recover as operating conditions and investor sentiment improve. Therefore, searching in sectors with a troubled future in the coming months could be a shrewd move. It may allow an investor to unearth the best bargains available in the stock market.

Analysing company fundamentals

Of course, some cheap shares may be priced at low levels for good reason. For example, they may have a relatively low chance of surviving a difficult economic period. Or, they may lack a sufficiently large competitive advantage to deliver improving profitability in a fast-changing global economy.

As such, analysing company facts and figures could be a profitable move. This may involve an investor assessing a company's recent updates and determining whether it has a solid financial position through which to invest for the long run. A company that trades at a low price despite having strong fundamentals may be a good value investing opportunity that can deliver market-beating performance in a new bull market.

Track record of growth prior to the stock market crash

Must-own cheap shares that can deliver growth in a new bull market may be those companies that have a solid track record of outperformance in a variety of operating conditions. For example, they may outperform peers in terms of sales and profit growth in positive and negative economic conditions. This may prove to be useful in the coming years, given the uncertain outlook for the global economy and the companies that operate within it.

Furthermore, diversifying across a range of companies may help an investor to reduce risks. After all, cheap shares may carry greater risk than their premium-priced peers due to facing more difficult operating conditions or having other threats to their performance. Through owning a wide range of them for the long term, it may be possible to obtain high returns while keeping risks to a minimum.

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