



Forget Gold! I'd Buy Dirt-Cheap Shares Now and Hold Them Forever

Description

Buying gold today may seem to be a better idea than investing money in dirt-cheap shares. After all, the world economy faces an uncertain outlook in 2021. The coronavirus pandemic may cause further disruption, while political challenges may have a negative impact on GDP growth.

However, buying undervalued stocks and holding them for the long run could be a more profitable move versus holding the precious metal. Their recovery prospects, low prices and track record of performance suggests that they could outperform gold in the coming years.

Gold's uncertain future

While gold may outperform dirt-cheap shares in the short run due to the aforementioned risks to global economic growth, its long-term prospects may be less impressive. Since global GDP growth has always returned to relatively high levels in the past, it seems likely that investor sentiment will strengthen in future. This may mean that demand for defensive assets, such as gold, weakens to some degree in the coming years. The end result may be a poor performance from the precious metal on a relative basis.

Furthermore, gold may not offer good value for money at the present time. It has traded higher in 2020, while many high-quality companies continue to offer wide margins of safety. Its current price may fully factor in threats to the world economy. Therefore, even if there is a period of further uncertainty for investors, the gold price may lack scope to make further gains.

Buying dirt-cheap shares for the long run

By contrast, buying dirt-cheap shares today could be a profitable long-term move. The stock market has a long track record of recovering from its various challenges to post new record highs. In doing so, stock valuations have historically reverted to their long-term averages. This means that today's undervalued stocks could make gains as investors become more upbeat about their operating environments in a growing world economic environment.

Investors who have purchased cheap shares in high-quality businesses have generally benefitted from market cycles. In other words, buying equities at low prices and holding them for the long run allows an investor to capitalise on the ups-and-downs of the stock market. Over time, this may mean they can outperform the returns of indices such as the S&P 500 and FTSE 100.

Opportunities to buy cheap stocks today

Even though many of 2020's dirt-cheap shares have enjoyed strong recoveries, a number of companies continue to offer good value for money. Investors are concerned about the prospects for a number of sectors in 2021, including industries such as banking, hospitality and energy. As such, there may be opportunities to buy undervalued stocks in those, and other, sectors at the present time.

Over time, a diverse portfolio of such companies can deliver high returns that outperform other assets such as gold. In doing so, they could provide an investor with an improving financial outlook.

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Date

2025/07/08

Date Created

2021/01/08

Author

peterstephens

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