Stock Market Recovery: Is It Too Late to Find Cheap Shares to Buy Right Now?

Description

The stock market recovery after the 2020 market crash does not mean cheap shares are now extinct. In fact, many sectors continue to trade on low valuations as a result of their weak short-term outlooks.

This provides an opportunity for investors to buy stocks at low prices. In the long run, this can mean there is greater scope for capital growth.

However, it remains important to focus on the quality of companies as well as their price. Similarly, diversifying could be crucial in today's uncertain economic environment.

Finding cheap shares to buy right now

It is still possible to build a diverse portfolio made up of cheap shares. The stock market recovery has, to some extent, been focused on companies and sectors that have upbeat financial forecasts for 2021, or that can easily adapt to major changes caused by coronavirus.

Therefore, sectors such as financial services, hospitality, travel and some retailers contain companies that trade at low prices. In some cases, their valuations are significantly lower than their long-term averages – even after the stock market recovery has lifted them from their lowest levels in the past 12 months. This could mean that they provide scope for capital growth, since company valuations have historically reverted to their long-term averages as a sustained stock market rally takes hold.

Similarly, cheap shares could become increasingly popular among investors. Their operating conditions are unlikely to be as weak as they have been in recent months over the long run. As such, their financial performances may improve versus their 2020 and even 2021 levels so that they can command higher share prices in the coming years.

Focusing on high-quality stocks

Of course, it remains important to manage risk when buying cheap shares. Sometimes, the lowest-priced companies can be the most unattractive businesses because of risks such as weak financial positions or a stale growth strategy.

Therefore, assessing the quality of a company prior to purchase could be a worthwhile move. It may enable an investor to avoid value traps, which are cheap stocks that are priced at low levels for good reason. Avoiding such companies can reduce the risk of loss within a portfolio and produce higher returns in the long run.

So, too, can diversifying among cheap shares. The weak economic outlook for the early part of 2021 and the potential for a volatile stock market mean that holding a wide range of companies is likely to be a sound move. Doing so will reduce an investor’s reliance on a small number of businesses for their returns.

A diverse portfolio could be especially useful given the likely imbalance in performance between different regions and industries in 2021, as some places and sectors are affected to a greater degree by coronavirus and political threats.

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