



3 Reasons Why I'd Buy Cheap Stocks Right Now and Hold Them to 2030

Description

Despite the stock market recovery over recent months, it is possible to buy cheap stocks today. They could be appealing because their prices may undervalue their long-term prospects. This could mean that they offer long-term capital growth potential.

Furthermore, the stock market has an excellent track record of recovering from its downturns to post new record highs. This could increase the chances of today's cheap shares posting turnarounds.

Meanwhile, other mainstream assets such as cash and bonds offer very low returns at the present time. This may increase the appeal of undervalued shares on a relative basis.

Cheap stocks may be mispriced

It is difficult to determine the value of many companies today. Their financial performances are being disrupted by coronavirus in many cases, which could mean lower profitability in the short run. However, a number of cheap stocks appear to be undervalued based on their long-term growth potential. For example, industries such as banking and retail are likely to ultimately return to more attractive operating environments in the coming years. Therefore, current levels of profitability may undersell their prospects.

Buying any asset at a price that is lower than its intrinsic value is likely to increase the chances of generating positive capital returns. With sentiment currently very weak in some sectors, there may be opportunities for investors to buy high-quality companies while they offer wide margins of safety.

A track record of recovery

The chances of a long-term recovery for many of today's cheap stocks appear high. The stock market has experienced numerous downturns in its past, and has always been able to produce new record highs. Similarly, the world economy has experienced many recessions and periods of slower growth. It, too, has always bounced back to post positive GDP growth.

With many major economies likely to benefit from stimulus packages over the coming years, the outlook for many regions could be positive. This may lead to rising profitability for many of today's undervalued shares that allows them to command higher stock prices over time.

The relative appeal of cheap shares

Buying cheap stocks could be even more appealing because of the lack of value available elsewhere. Bond prices have risen to high levels over recent years in response to low interest rates, while property prices have surged in many major economies for the same reason. Meanwhile, cash returns are extremely low, and could even be below inflation over the long run.

As such, on a relative basis, cheap shares could be attractive purchases. Certainly, they may experience further challenges in the short run from a tough economic outlook that leads to disappointing financial performances. However, over the coming years a portfolio of undervalued stocks could realistically produce high returns that improves an investor's financial situation.

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Author

peterstephens

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