Why Today's Shares Could Double My Money During the New Bull Market

Description

The new bull market has thrust many shares to record highs. However, it is still possible to buy cheap shares due to an uncertain outlook for the economy in the short run.

Buying stocks that trade at cheap prices has historically been a sound means of capitalising on stock market cycles.

Therefore, building a portfolio right now of high-quality businesses while they trade at low prices could be a means of generating high returns. It may even double an initial investment at a relatively fast pace over the coming years.

Buying cheap shares with capital growth potential

One of the major reasons to buy cheap shares is their capacity to deliver high returns. Buying any asset at a low price is likely to be a better idea than purchasing it at a higher price. There is more scope for capital growth, which equates to greater returns for an investor.

Even though the new bull market has pushed many stocks to new highs, some sectors and companies trade at cheap prices. In many cases, they are businesses that face challenging short-term prospects that could mean their financial performances disappoint. However, since the world economy has always recovered from periods of low growth to deliver an improving performance, the long-term prospects for many industries may be more positive than market sentiment suggests.

Focusing on quality companies at low prices

Of course, some cheap shares may be priced at low levels for good reason. For example, they may have weak balance sheets or lack an economic moat that means they fail to deliver strong profit growth in the long run.

As such, it is imperative to focus on the quality of any company before buying it. This means analysing its industry position, strategy and financial position through assessing its latest investor updates and annual reports. Otherwise, it is possible to end up with a portfolio filled with unattractive companies that may not be able to recover even in a long-term bull market. This could mean high risks, as well as low returns.

Doubling an investment in undervalued shares

Investing in cheap shares could be a means of generating higher returns than the wider stock market over the long run. It allows an investor to capitalise on the new bull market via companies for whom investors may currently have a negative standpoint that may not be merited in the coming years.

Even matching the returns of the stock market could lead to 100%+ returns in the coming years. For example, indices such as the FTSE 100 and S&P 500 have delivered annualised total returns of 8-10% in recent decades. This means that an investment that matches their performance could double within 7-9 years.

However, an investor may be able to reduce this time frame by purchasing undervalued companies now. They could be among the top performers in the new bull market.

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peterstephens