Why I'd Grab Today's Cheap Shares Before It's Too Late!

Description

A strategy that aims to buy cheap shares and hold them for the long run has historically been relatively successful. While it doesn't guarantee profits, it can serve as a means of potentially using the stock market's cycle to an investor's advantage.

With many stocks currently trading at low prices due to ongoing economic uncertainty, there may be an opportunity to buy them prior to their recovery. Although an economic recovery cannot be assumed, history suggests that there is a good chance it will take place over the coming years, potentially lifting the valuations of today's underpriced stocks.

Cheap shares following the market crash

While many cheap shares have bounced back following the 2020 stock market crash, others have failed to fully recover to their pre-crash levels. In some cases, this may be warranted because of their weak financial positions and challenging future outlooks. However, in other cases, they may have the strategies, financial means and market positions to mount a successful recovery over the long run.

Clearly, identifying such companies can be challenging. However, doing so could be a prudent move, since it may enable an investor to reduce their overall risks. Cheap shares in companies with poor finances and weak market positions may be less likely to deliver successful turnarounds, or even survive, over the long run. Therefore, focusing on high-quality companies that are undervalued may be a more prudent approach.

The prospect of economic growth

As mentioned, an economic recovery that lifts the valuations of today's cheap shares cannot be taken for granted. The future is always very uncertain, and the pandemic is an extremely rare event that may have as yet unknown effects on the world's gross domestic products (GDP) prospects.

However, previous economic declines have always been followed by growth. No recession has yet lasted in perpetuity. Therefore, taking a long-term view of cheap stocks could be a means of capitalising on a likely economic recovery. Just as the 2020 market crash was almost impossible to predict, trying to forecast when any economic recovery will take hold is a very difficult task. Buying shares while they still trade at cheap prices could therefore prove to be a sound move.

Minimising risks

When investing in cheap shares, or any type of stock, it is impossible to reduce risks to zero. There is always the potential for losses over any time period from any holding. After all, the future is a known unknown that cannot be forecasted accurately on a consistent basis.

However, it may be possible to reduce risk through actions such as focusing on stronger businesses and building a portfolio made up of a broad range of businesses, industries and geographies. Together, they may offer a lower level of risk versus a concentrated portfolio, and may also deliver higher returns in a potential long-term economic recovery.

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