



## How I'd Find Undervalued Stocks to Buy Now and Hold Forever

### Description

A strategy of buying and holding undervalued stocks has generally been successful in obtaining high returns.

It means purchasing high-quality companies when they trade at prices that do not take into account their long-term growth potential. They may offer scope for capital growth, as well as lower risks than lower-quality businesses.

With many companies trading at low prices, there may be opportunities to buy undervalued shares today. Here's how I'd seek to find them.

### Finding undervalued stocks in unloved industries

At any given time, there are always some industries that are favoured by investors, and others that are unloved. Undervalued shares may be more likely to be found in the latter, since valuations may be lower. This may provide scope to buy shares that offer wide margins of safety.

At the present time, industries that face challenging short-term operating environments are relatively unpopular among investors. They could, therefore, be the best places to start searching for undervalued shares. Industries such as banking, consumer goods and resources have been negatively impacted by the global economic slowdown and policymakers' response to it. This may mean that they trade at low prices relative to their historic averages.

Although the financial performances of undervalued shares may reflect their low valuations in the short run, over the long term the past performance of the economy shows that a recovery is very likely. Through holding them over the coming years, it may be possible to capitalise on improving financial performance, as well as stronger investor sentiment.

### Focusing on company releases

Within unpopular sectors, undervalued stocks are likely to be those businesses that have a mix of financial strength, solid strategies and the market position to deliver on their goals.

A simple means of finding out whether a business has these three criteria is to analyse its latest investor updates. For example, its latest annual accounts can provide guidance on its financial strength, while recent trading updates may paint a picture of the relative success of its strategy.

Together, this information can allow an investor to piece together whether the company in question has the means to deliver improving financial performance. Based on this, they can value a stock and determine whether it is undervalued at its current price level.

## A prudent approach to buying shares

Undervalued stocks often face short-term difficulties. Otherwise, they are unlikely to be priced at a level that is below their intrinsic value.

As such, it is important to build a diverse portfolio of such companies instead of relying on a small number of them for growth. Otherwise, an investor may become overly exposed to a small number of businesses. Should they fail to deliver on their long-term potential, it could mean disappointing overall returns. Furthermore, diversification provides access to a wider range of businesses that can mean higher return potential in a recovering stock market.

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