



How I'd Identify the Best Shares to Buy in a Stock Market Recovery

Description

Finding the best shares to buy in a stock market recovery can be a challenging task. After all, forecasts are very dependent on the economic outlook, which itself is likely to be heavily impacted by coronavirus.

However, by investing money in financially-sound businesses that have long-term growth potential while they trade at low prices, an investor could reduce their risks and increase their potential rewards.

Financial strength is key to long-term performance

The past performance of equity markets suggests that a long-term stock market recovery is likely to continue in the coming years. Even if there are downturns in the meantime, the stock market has always produced new record highs after each of its previous bear markets.

However, companies must be able to survive present economic difficulties in order to benefit from a period of growth in the long run. As such, identifying those businesses that have large cash positions, modest amounts of debt and access to liquidity should it be required could be a shrewd move. They may stand a better chance of surviving the short-term challenges that continue to face many sectors to benefit from improved operating conditions and stronger investor sentiment in the coming years.

Low valuations ahead of a stock market recovery

In a stock market recovery, the best performing shares are often those companies that previously traded at low prices. They have greater scope to deliver capital gains, since they trade at a larger discount to intrinsic value.

As such, buying undervalued stocks today could be a profitable long-term move. They can be found by, for example, looking at the value of their net assets versus share prices, or by considering their earnings track record in a variety of operating conditions. This may provide guidance as to whether they have the capacity to trade significantly higher in the long run. In cases where they seem to offer

wide margins of safety, there may be opportunities to deliver market-beating performance.

Identifying potential growth opportunities

It is difficult to assess the prospects for any stock at the present time. Ultimately, nobody knows how the economy will perform due to the ongoing pandemic. Furthermore, the financial cost of the pandemic remains unclear, which could have an impact on growth opportunities within many industries.

However, buying companies that may benefit from underlying industry growth trends could be worthwhile ahead of a stock market recovery. For example, healthcare companies may capitalise on demographic changes such as an ageing population in future. Equally, online retailers may use digital growth opportunities to enhance their earning capacity.

Through purchasing such companies when they have solid finances and trade at low prices, it is possible to capitalise on a long-term market rally. This could improve an investor's financial position in the coming years.

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