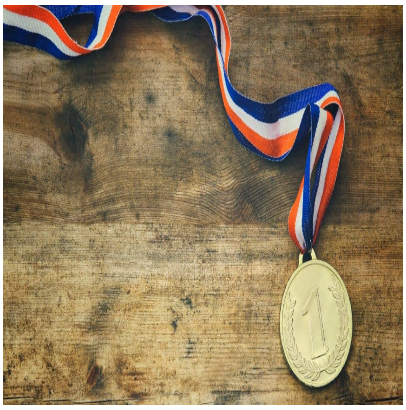

How I’d Build a “Best Stocks to Buy Now” List

Description

Every investor will have a different approach when seeking to build a ‘best stocks to buy now’ list.

However, it could be focused on the quality of a business, as well as its price. This may enable an investor to buy the most attractive companies while they trade at prices that undervalue their long-term prospects.

Through focusing on a wide range of sectors, it may be possible to unearth a diverse range of companies. This could limit risk in what remains an uncertain economic environment.

High-quality companies may be among the best stocks to buy now

Companies with solid financial positions and competitive advantages may feature on a ‘best stocks to buy now’ list. This does not guarantee their investment success. However, they may be able to more easily overcome challenging operating conditions such as those currently in place for many companies. Similarly, they could deliver higher profitability in the long run because of their capacity to invest in new growth areas and rely on a loyal customer base.

Identifying such companies is very subjective. However, by assessing their annual reports and latest investor updates it may be possible to find them within a specific sector. Comparing them versus sector peers may also make it clearer as to which companies have a more attractive growth outlook in a potential economic recovery over the coming years.

Buying undervalued shares

Companies that offer good value for money may be among the best stocks to buy now. Even if an investor is able to unearth a very high-quality business, paying too much for it can lead to disappointing returns. Such a company could lack a margin of safety, which may indicate that investors have already factored in its future earnings potential.

Clearly, there are various methods to analyse companies. Different ones can be more relevant to different sectors. For example, the price-to-book (P/B) ratio may be more relevant for banks and REITs, while the price-to-earnings (P/E) ratio may be more useful when comparing consumer goods businesses. Comparing a company's valuation to its long-term average and its sector peers may provide guidance as to whether it offers good value for money at the present time.

Searching in a wide range of sectors

It may be prudent to search for the best stocks to buy now in a wide range of sectors. Otherwise, an investor may be limiting their choice to a small number of businesses that leads to higher risks because of a greater reliance on a concentrated range of industries.

A diverse portfolio may also be able to offer greater returns in the coming years. It may allow an investor to capitalise on a broader range of growth opportunities that are lacking in a concentrated portfolio. Although a diverse portfolio never guarantees positive investment returns, it may create a more favourable risk/reward opportunity for a long-term investor.

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