



## 3 Reasons This Is the Best Time to Start Investing

### Description

The stock market is prone to boom and bust cycles. After a dramatic boom in 2020 and 2021, stocks have been declining precipitously in 2022. The ongoing energy crisis, rising interest rates, war in Eastern Europe, and uncertainties about the pandemic are all pushing stock prices lower. In fact, Canada's most valuable company has lost roughly two-thirds of its value since November.

Severe market corrections are unsettling. Even the most experienced investors can't predict the near-term outlook when the global economy is on the verge of chaos. Nevertheless, I believe such market conditions are the best time to get started. Here's why beginner investors should jump in now while the market is still deeply red.

### Valuations

As an investor, the only risk that matters is the risk of losing money. Buying an asset that sheds billions in value is usually the worst-case scenario.

However, if the asset has already shed billions in value, it doesn't have much room to go lower. Let's take **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) as an example. During the height of the pandemic, the online shopping boom created tremendous excitement about this stock. Unsurprisingly, the valuation surged.

By mid-2020, [Shopify stock](#) was trading at 60 times sales per share! To put that into context, stocks traditionally trade at five to 10 times sales. Shopify stock was worth \$2,140 by 2021. Since then, it has declined by 67% and is now trading at \$690. The price-to-sales ratio has declined to 15. That means the valuation is aligned with the rest of the market and there isn't much room to drop further.

Lower valuations mean lower risk. If you're a beginner, this is a favourable environment to make your first investment.

### Expectations

Stock prices are a game of expectations. The price today reflects the expected growth or challenges of tomorrow. Once those expectations have been met, the market prices in a new set of expectations.

So, all the prices today reflect concerns about Russia's invasion in Ukraine, rising food costs, uncertainties about interest rates and oil prices. If you wait for the outcomes of these trends, it'll be too late. As an investor, you need to make a calculated guess and make a move now, based on your expectations.

In general, I believe an optimistic outlook is usually the best way to invest. The global stock market has lived through multiple pandemics, inflationary cycles and even world wars in the past. Through it all, stocks have steadily appreciated. Betting on growth, human ingenuity, and peace is usually the best strategy, in my view.

## Experience

Long-term investors eventually need to experience multiple boom and bust cycles. Over the course of a decade, the economic landscape and stock market could change beyond recognition.

This is why it's better to start during the rare bear markets. Experiencing volatility, lower prices, and cheaper valuations sets you up for better success over the long term. In fact, investing during a correction improves your long-term rate of compounding.

## Bottom line

All things considered, 2022 could be the best year for you to make your first investment. Good luck!

### CATEGORY

1. Investing

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2. TSX:SHOP (Shopify Inc.)

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