Why NOW Is the Time to Start Investing!

Description

Are you waiting for the right time to start investing?

If so, you're in luck, because now is that time. History shows that when stocks go down, those who buy them tend to realize higher returns. The age-old saying, "buy low and sell high" is easy enough to understand, but few understand that buying low means buying stocks when they're down.

Today, we've got the U.S. stock market down about 20% from its high. Canadian markets are down less but are, nevertheless, cheaper than they were at the start of the year. This certainly looks like a buying opportunity. And it is.

Stocks are cheaper than any other time in recent memory

One reason why now is such a good time to invest is because stocks are cheaper now than at any other time in recent memory. I don't just mean that the prices are down — though that's definitely the case. What I mean is that stocks are now cheaper relative to the underlying businesses.

According to multipl.com, the S&P 500 P/E ratio is only 20 today. That's still a little higher than the historical norm (15) but isn't exceptionally high. If the markets fall another 25% and earnings don't change, the P/E ratio will revert to the mean. From that point on, it would be rational to expect upside if the economy grows.

However, stocks needn't necessarily fall that far before they become good buys. Today's interest rates are nowhere near what they were in the 1970s or 80s. So, there is reason to think that the bottom in stocks this time around will be higher than it was in past cycles.

Historically, stocks tend to bounce after these downturns

It might seem scary to buy stocks when they're down, but historically speaking, they tend to bounce after downturns like the one we're currently in. If you look at the most infamous historical market crashes, like 1929, 1987, 2000, and 2008, they were all followed by huge rallies. In fact, the deeper the drawdown was, the bigger the rally was afterward!

If you look at a stock like **Shopify** (TSX:SHOP)(NYSE:SHOP), you'll notice that it is down by truly staggering percentages. This year hasn't been kind to tech, especially not hyper-growth tech like Shopify, which has fallen 75% year to date. That might sound like a severe drawdown. But if you're just buying SHOP for the first time, you might see upside when the recovery kicks in. The stock might not reach its all-time highs again anytime soon, but it could climb.

And if you're too nervous to buy stocks that are going down? That doesn't mean you can't start investing. This year is witnessing significant bullishness in commodities, so there are pockets of strength you can buy as well.

Consider **Cenovus Energy** (TSX:CVE)(NYSE:CVE), for example. It's a Canadian integrated energy company that just put out blockbuster earnings. Its earnings per share grew by hundreds of percentage points in its most recent quarter, and it tripled its dividend.

The massive rally in oil prices has been kind to Cenovus, which is currently in an uptrend. Yet it's arguably still cheap, as its earnings have risen more than its stock price has. So, you don't need to be some kind of brave warrior buying into extreme weakness to make money in today's markets. There are plenty of comforting uptrends to buy into if dip buying is hard on your nerves.

CATEGORY

1. Investing

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1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:SHOP (Shopify Inc.)

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Date
2025/07/21
Date Created
2022/05/19
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