



**WSB Investments Group**  
J. Eric Hanson, CRPC  
Investment Executive  
Infinex Financial Group  
661 Main Street  
Winchester, MA 01890  
781-368-9295  
jhanson@infinexgroup.com

# Analyzing Investments

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## Introduction

You make decisions about various investments at each stage of the investing process. Whether you are just beginning to implement a portfolio design, are managing an existing portfolio, or are rebalancing a portfolio, you are constantly making decisions about which investments you want to buy, hold, sell, or avoid. Each type of investment product presents you with different issues. Your analysis in each case will be guided by different tools and types of information relevant to that type of product.

## Cash alternatives

When analyzing cash alternatives, you are usually concerned with five major factors:

- Financial strength of the issuer
- Maturity date of the instrument
- Early withdrawal penalties
- Yield to maturity
- Taxation

These factors help you make determinations about issues such as default risk, liquidity, return, and timing. These factors help you choose the cash equivalent that best suits you and your portfolio. If, for instance, you need maximum liquidity and aren't concerned about returns, then analysis of these factors will likely lead you to the conclusion that a savings account would better suit your needs than a certificate of deposit.

## Bonds

If there is a place in your portfolio for bonds, then factors to consider include:

- Interest taxation
- Maturity
- Credit ratings
- Yield
- Call features

These factors help you make determinations about the potential risks and returns associated with any particular bond and help you analyze timing and liquidity issues associated with bond investing.

## Stocks

Stocks are perhaps the most glamorous of investment products. They are frequently the most difficult to analyze as well. Notions as mysterious as the alignment of the planets and well-established tools such as price/earnings ratios have been employed to analyze which stocks are best for a given portfolio. There are numerous factors to consider, and information is readily available in all the major media.

## Real estate

There are several ways to invest in real estate. Buying and selling land is only one option. You also have the choice of investing in entities that profit from real estate activities. Your analysis of any individual investment bears heavily on the choice you make. For instance, if you are investing in residential real estate, you will probably want to go out and view the property. If, however, you are investing in a real estate investment trust (REIT), then you may be more concerned with the experience and reputation of the people running the trust.

## Mutual funds

Mutual funds can be made up of almost any combination of other investment types. As such, they present unique issues to someone making an investment analysis. Luckily, there is an enormous amount of information available in all the popular media, from professional ratings services, and from the fund companies themselves, much of it contained in the prospectus.

## Insurance-based investments

Whenever investing in insurance-based products, your first consideration should be the financial stability and commercial rating of the company with whom you plan to do business. After that, issues of primary importance may vary depending upon whether a whole life product, a universal life product, or an annuity is what you are choosing for your portfolio.

## International investments

International investments present additional issues to consider. Language barriers, accounting standards, inaccessible markets, political risk, and currency fluctuations all make the analysis of foreign investment more difficult.



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