Top-Down versus Bottom-Up

- **Top-Down**
  - The breaking down of a system to gain insight into its compositional sub-systems in a reverse engineering fashion
    - An overview of the system is formulated
  - An investment strategy that selects various sectors or industries and tries to achieve a balance in an investment portfolio
  - Using comprehensive factors as a basis for decision making
  - Seeks to identify the big picture and all of its components
  - Associated with macroeconomics
    - Looks at the biggest factors affecting the economy as a whole
    - Focused on the macroeconomic environment and cycle
  - How systematic factors are affecting an outcome
  - Goes from the general to the specific
    - Looking first at the macro picture of the economy, and then looking at the smaller factors in finer detail

- **Bottom-Up**
  - The bottom-up approach focuses on specific characteristics and the nuances of a stock.
  - Bottom-up investing takes a more fundamental approach and focuses on either business by business or sector by sector factors.
  - The analysis finds profitable opportunities by comparing the value of a company to the value of the overall market
  - Strategy implementation is usually “buy and hold”
  - Bottom-up is a more focused approach than top-down
  - Investors look at a company’s overall financial health, financial statements, products and services, supply and demand, and performance over time.
  - While a top-down investment fund primarily focuses on investing according to macro trends, it will still look at the fundamentals of its investments before making an investing decision. A bottom-up approach

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will do the same, while it may focus on the fundamentals the investors still want systematic effects on individual holdings like in the top-down approach.