



## 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**

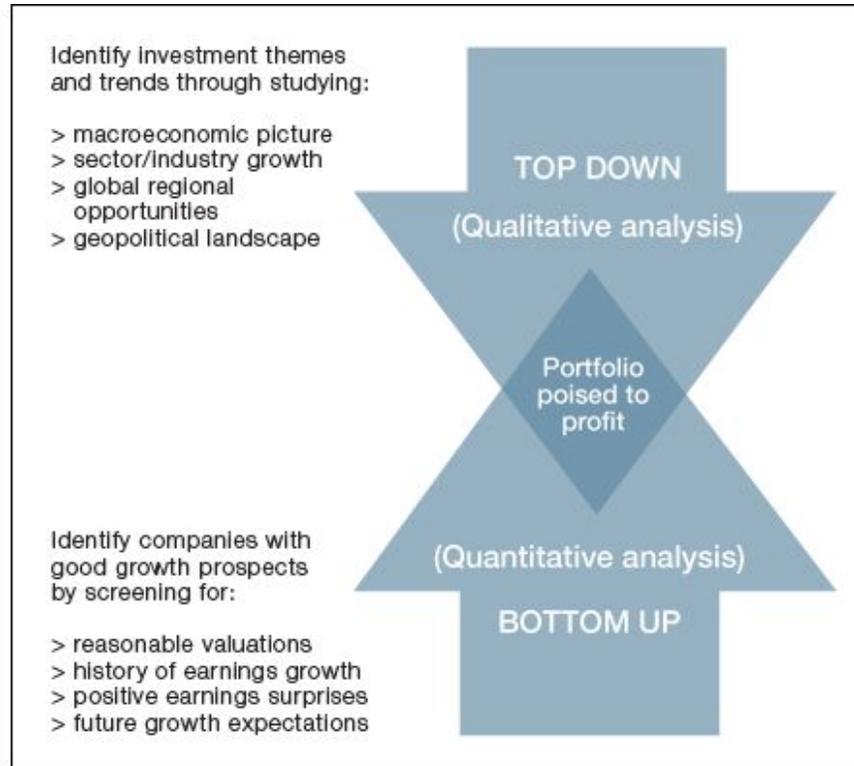
- The bottom-up approach focuses on specific characteristics and the nuances of a stock.
- Bottom-up investing takes a more fundamental approach and focuses on either business by business or sector by sector factors.
- The analysis finds profitable opportunities by comparing the value of a company to 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.



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