

SRI in the Delta – 2011

Top-down vs bottom-up

What is the difference?



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Top-Down

- Looking at the investment process through a macro lense-big picture down to individual investment
- Stock and bond prices are effected more by the environment they find themselves in than by any factors unique to the companies
- Sometimes referred to as a quantitative strategy

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Bottom Up

- Evaluating and structuring portfolios by looking first for individual companies
- Building a portfolio based on a mix of securities compiled from individual securities research
- Sometimes referred to as a qualitative strategy

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Adding Alpha-Top-Down

- Implicit belief that more value is derived from analyzing and correctly anticipating/responding to macro factors than from correctly picking stocks or bonds.
- A belief that even great companies can't overcome severely adversarial operating conditions

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Adding Alpha-Bottom Up

- A belief that great companies can navigate adverse operating environments to their benefit
- Individual securities can sometimes be dramatically mis-priced, creating opportunities for investors
- Often employs a longer holding period, allowing the hidden value in the security/investment to be realized

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Top Down

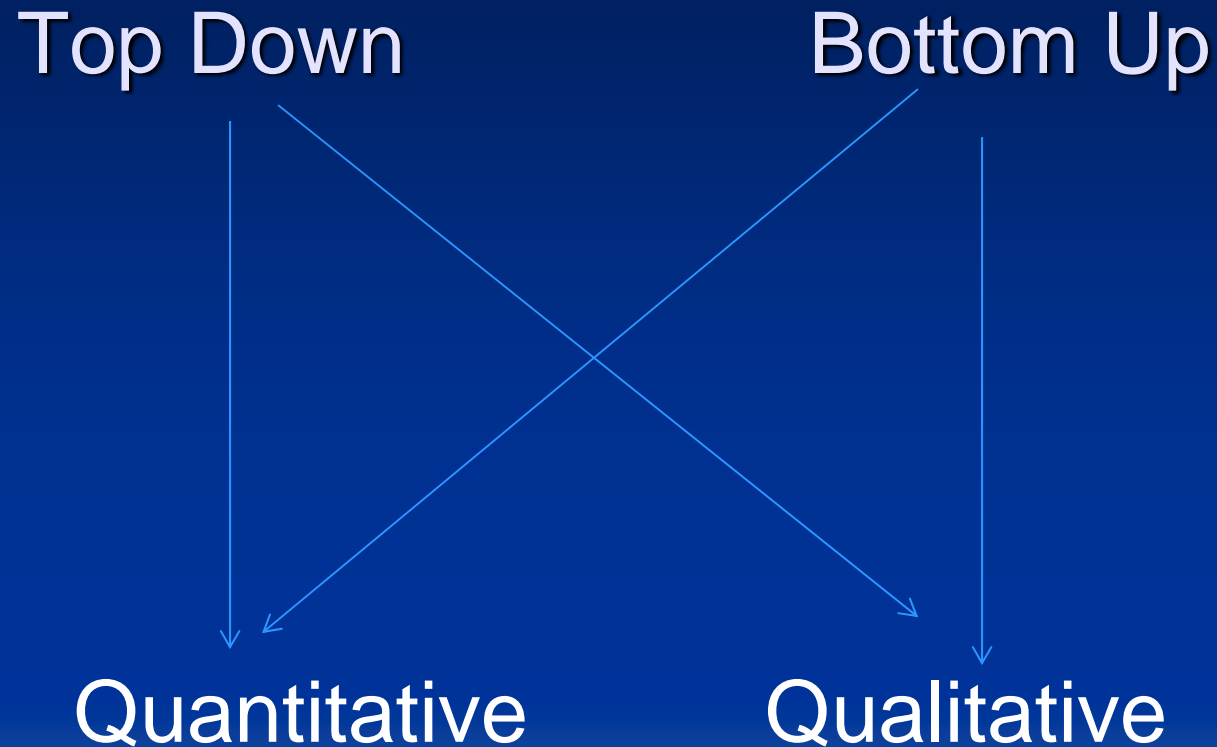
Bottom Up

Often associated with

Quantitative

Qualitative

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The water quickly gets murky

References

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