Top-Down Research

*Article Provided by Integrity Research Associates for Fidelity Investments*

It is hard to sweat the details if you don't have the big picture right. A great example of this was earnings estimates prepared by securities analysts in the fourth quarter of 2008. As late as November 2008, the aggregated consensus earnings for companies in the S&P 500 were being forecasted by analysts to grow 29% during the fourth quarter. In contrast, investment strategists had earnings for the S&P 500 falling 15% during the same period. As it happened, earnings were down 100% (the first negative earnings for the S&P 500 ever). Neither group captured the full magnitude of the earnings decline, but at least the strategists had the direction right.

This anecdote illustrates the differences between bottom up analysis and a top down approach. The overly optimistic security analysts were focusing on forecasting the earnings for the individual stocks they follow, whereas the investment strategists were looking at the overall state of the economy. Studies have shown that bottom up analysis tends to be optimistically biased. In contrast, top-down analysis, although not necessarily more accurate than bottom-up analysis, is driven by broader economic and market factors.

Fidelity.com offers a wealth of top-down research, ranging from economic analysis to investment strategy to advice on industry sector weightings and commentary on markets. In short, everything you need to understand the investment 'big picture.'

**It All Starts With the Economy**

Economics has been labeled the 'dismal science' but the reality is that the economy is the ultimate driver of investment returns. The linkage is so strong that economists have found that the stock market is a leading indicator of future economic activity. Economic releases, such as unemployment claims or retail sales, often drive market movements.

Fidelity offers a few sources of regular economic analysis, designed to help you keep on top of the latest economic developments. The first stop is Decision Economics, Inc. (DE), an economic research firm which mostly works with large institutional investors. Founder Dr. Allen Sinai spent most of his career at Lehman Brothers and Data Resources Inc. (DRI) and is a well-known econometrician. Decision Economics offers a few different publications through Fidelity.com which you can access through the [Decision Economics profile page](#):

- **Economic Perspectives** is a weekly summary of the previous week's economic activities and a look ahead at the coming week's releases. It also includes brief summaries of DE's economic outlook. **Global Economic Developments** reviews non-US economies weekly.

- Daily publications give timely commentary, notably analysis posted by DE economists after major economic releases. **The Morning Briefing** gives a preview of the day's economic activity and **Forecast Calendars** are available showing the week's upcoming economic releases for the US and for non-US economies.

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Zacks Investment Research also offers a monthly review of the economic outlook which produced in collaboration with Macroeconomic Advisors, an economic research firm founded by Laurence Meyer, a prominent economist and former Fed governor. It also offers the Zacks Strategy Report, which is composed of collected blog articles from Zacks' Director of Research Dirk van Dijk which are mostly economic commentary. Both reports are available on the Zacks profile page.

Ned Davis Research also provides economic commentary on significant economic releases similar to Decision Economics, available on the Ned Davis Research profile page.

Portfolio Advice

One of the most popular forms of 'big picture' analysis is investment strategy, which translates big picture insights into specific portfolio recommendations. Strategists differ from macroeconomic research firms in that they are willing to take their analysis one step further by making actual investment recommendations. They typically recommend how you should allocate your portfolio, in other words, how much to invest in equities, bonds, cash, as well as other asset classes. Investment strategists also analyze the major drivers of securities markets and provide sector level advice.

Fidelity.com features investment strategy advice from one of the top investment strategy firms, Ned Davis Research (NDR). NDR incorporates a variety of investment techniques, including quantitative models and technical analysis, in its analysis which is generally pragmatic and thoughtful. Fidelity.com includes the NDR MarketDigest, a monthly investment strategy report which includes portfolio allocation recommendations, sector analysis and market commentary, available on the Ned Davis Research profile page.

Standard & Poor's also offers investment strategy research through Fidelity.com. S&P's venerable publication 'The Outlook' includes portfolio allocation advice from S&P's Investment Policy Committee as well as stock-specific advice, found on the S&P profile page.

The Hightower Report doesn't offer portfolio allocation advice, but it is a good source of market commentary, combining fundamental and technical analysis for timely insights. Hightower tracks equity markets as well as commodities, interest rates and foreign exchange. The weekly reports review market developments for the previous week and provide an outlook for trading ranges in the coming week. The daily reports include both pre-market and post-market commentary. All are available on The Hightower Report profile page.
Sector Advice

Investment strategists also provide advice on the sector level, assessing the relative attractiveness of the industry sectors (such as Energy, Healthcare, Technology and so on.)  
Ned Davis Research maintains detailed sector analyses of each of the major industrial sectors, including overviews of each sector detailing whether the sector should be over- or under-weighted, and a variety of charts and metrics about each sector. Each of the 10 major GICs sectors is covered, available on the Ned Davis Research profile page.

Zacks also ranks the attractiveness of different sectors in their Industry Rank Analysis report available on the Zacks profile page.  
Barclays Capital includes industry level analysis in its US Morning Research Summary, available on the Barclays Capital profile page.

Conclusion

Understanding the investment landscape is important for all types of investors, irrespective of investment horizon. We’ve summarized our recommendations in the table below. Using the top down research available through Fidelity.com, investors can be sure of mastering the investment 'big picture'.

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