

MOODCOMPASS[®]
PROPHET FOR YOUR PORTFOLIO[™]

August 2008

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August 2008 – A New Global Reality

This month, something fundamental about our world changes. It may be the way global society conducts business, or perhaps a major revision to the geopolitical situation. Although the extreme scale is clear from the observed and projected social mood cycles, it is difficult to be more specific. While this focal period is only a couple of weeks away, it occurs in a context that is not yet apparent. It takes place in a different reality than the current one; the only one available to interpret the social mood configurations of the coming month.

Near August 8-11 is a global scale “safety seeking” configuration. It resembles the configuration in U.S. social mood at the time of the buyout of the investment bank Bear Sterns in March and the expressed intended bailout of Fannie Mae / Freddie Mac (institutions integral to the U.S. mortgage system) in July. However, what we are concerned with in August is more extreme in scale, and global in scope.

At this same time in U.S. society, we find the “survival focused” configuration. A mini version of this occurred near the end of June. This configuration is marked by a heightened aggressiveness in asserting survival interests or instinctual needs, and a lowered importance or general disregard for the factors necessary to maintain the “economic machine” our society depends on. If prolonged or extreme enough, this configuration can be accompanied by outbursts of civil unrest or disobedience. A public panic crisis event such as we have been urging preparation for would likely occur at or near this type of configuration (see the presentation available at: http://anewstory.org/documents/public_panic_crisis.ppt).

In summary, global society is about to enter a new reality. It should be quite interesting. Grab some popcorn and watch the news. Next month, we should all have a much clearer idea of what this global shakeup was all about.

Below is a summary of the market activity expected week by week:

July 28 – Aug 1: A mixed week. There could be some geopolitical mudslinging that pressures crude to rise and the stock market to decline. However, there is substantial pressure to keep crude gains limited, for the U.S. Dollar to stabilize, and for the stock market to initiate a relief rally.

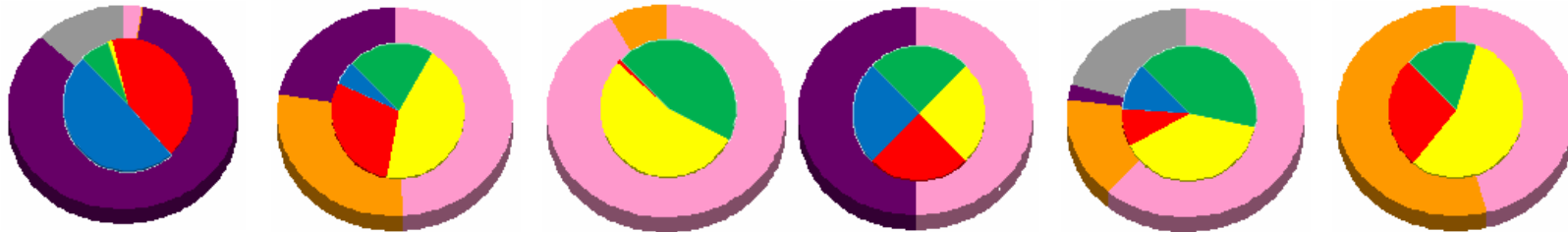
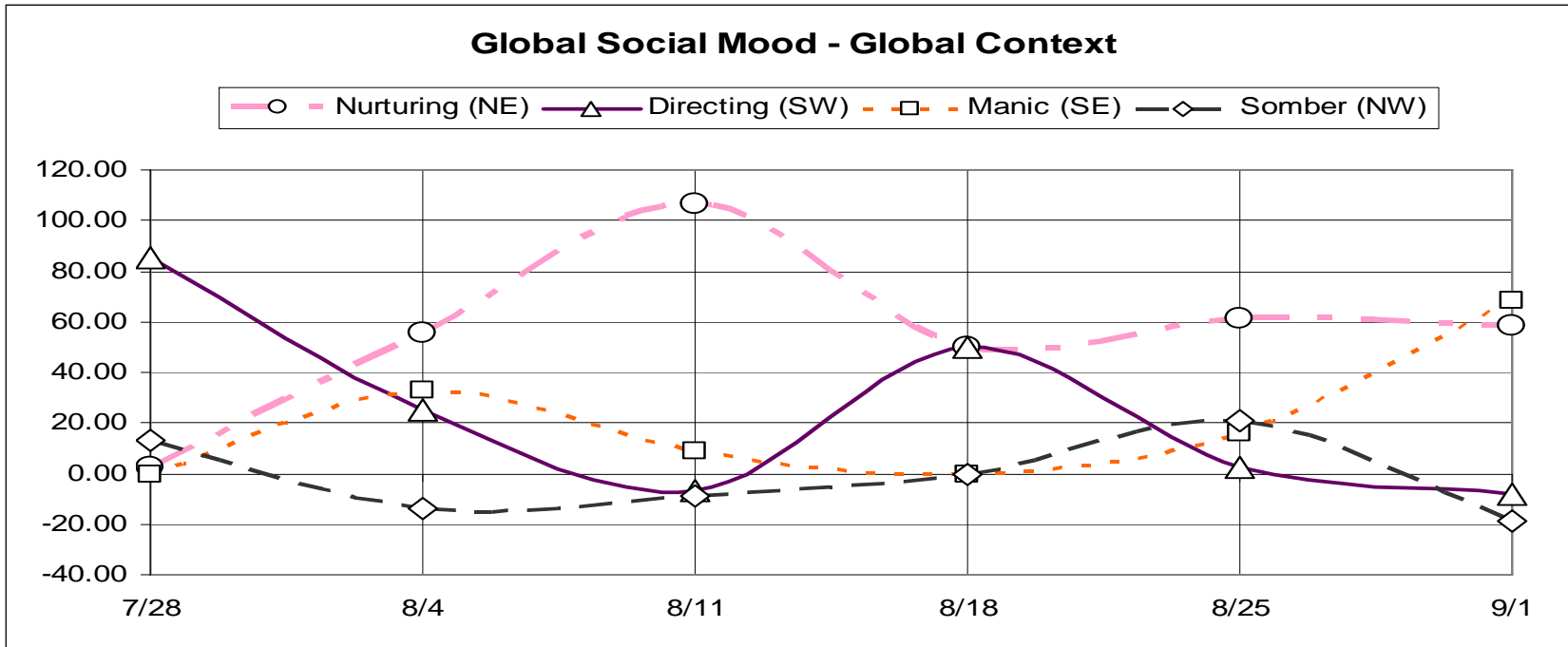
Aug 4 – 8: The stock market should finish its efforts to rally early in the week. Toward the end of the week (or early next week) is a global gasp—extreme “safety seeking” behavior ensues. The next leg down in the stock market begins.

Aug 11 – 15: Extreme volatility! Crude declines to a near term bottom, the Dollar rallies to a top, and the stock market is mixed as bulls are afraid to stay long (even though crude is down). The U.S. government is extremely “active” at home and abroad.

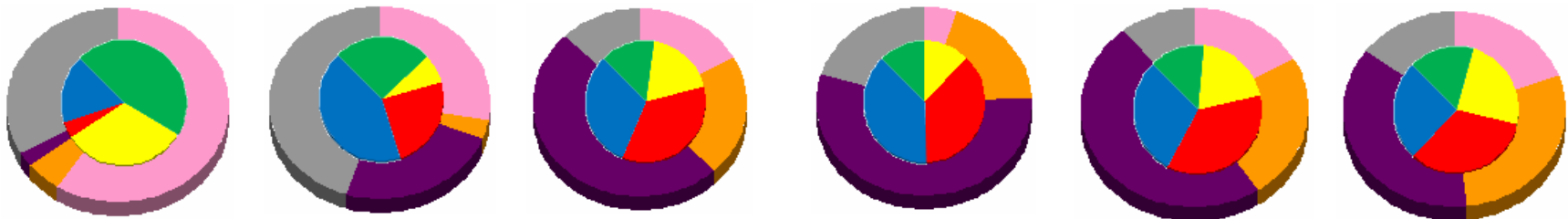
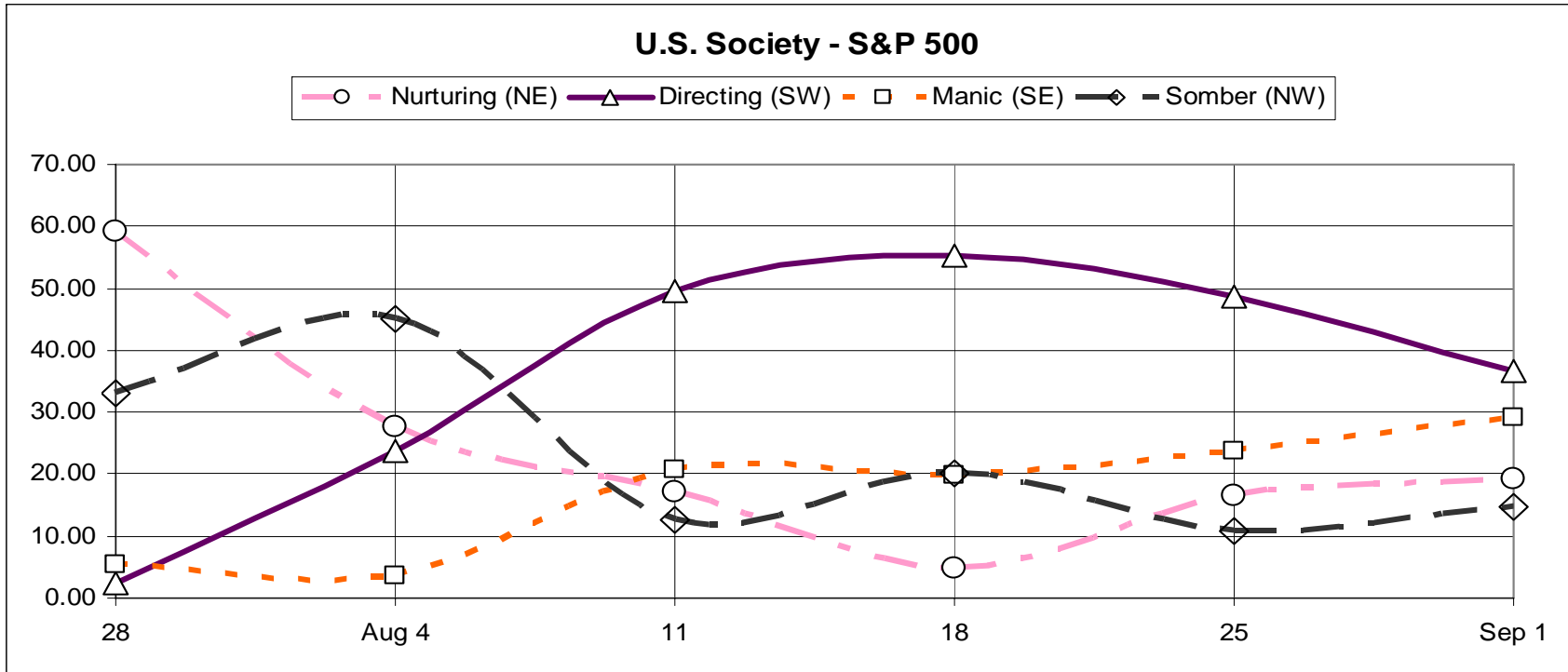
Aug 18 – 22: The world pauses and holds its breath, wondering what just happened. It’s apparent the economy is in trouble. Short sellers are in charge of the stock market again (at least through Aug. 20). Euros rebound and crude rallies.

Aug 25 – 29: A week of consolidation after all that happened. The U.S. Dollar stabilizes. Stocks could rally.

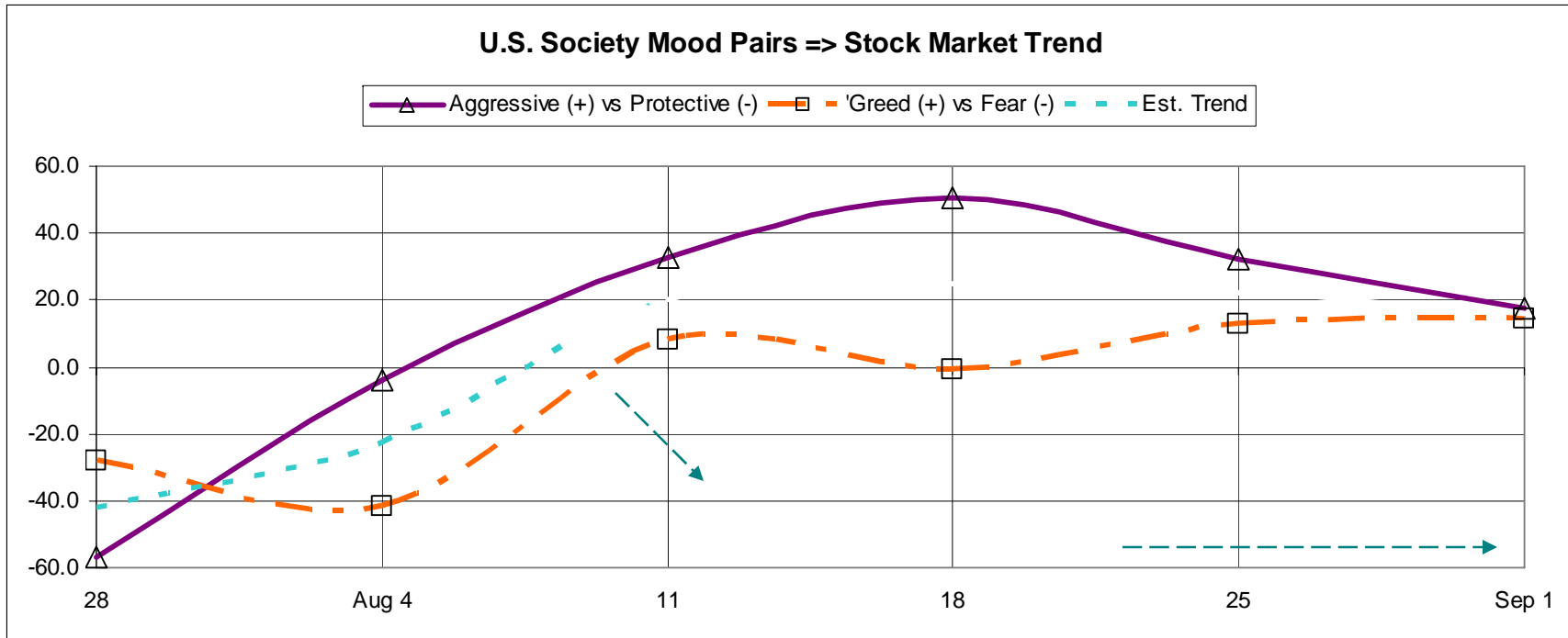
The charts on the following pages will go into further detail of the social mood changes and corresponding market behavior for this time period. The last few pages of this document will give you a brief orientation to the MoodCompass.



<p><i>Volatile Tension</i> <i>Geopolitical tension high; global markets down to sideways (collapsing Directing-Nurturing polarity => no direction).</i></p>	<p><i>What's Collapsing Now?</i> <i>Extreme Nurturing indicates extreme levels of anxiety and safety seeking, as global society goes from paralysis to terror. Global markets could be down sharply. This is the same configuration that coincided with the Bear Sterns collapse of March 16 and Fannie Mae/Freddie Mac panic in July, except this is on a global scale, not just for the U.S.</i></p>	<p><i>Review and Reassessment</i> <i>Global society catches its breath after what it just went through. Anxiety is still high. Global markets are mixed, but rational once again.</i></p>
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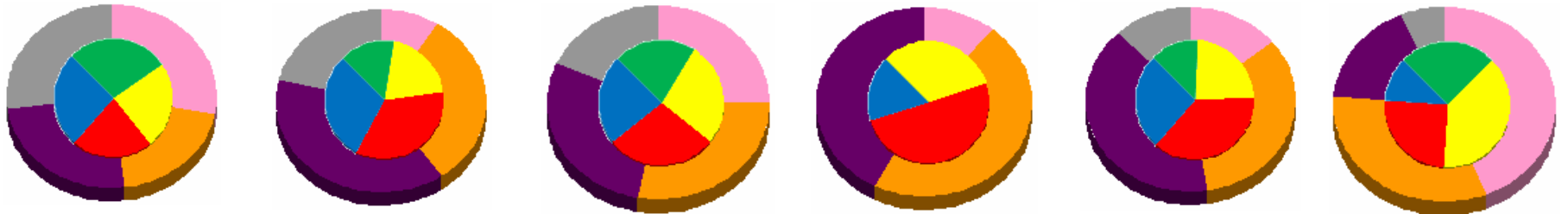
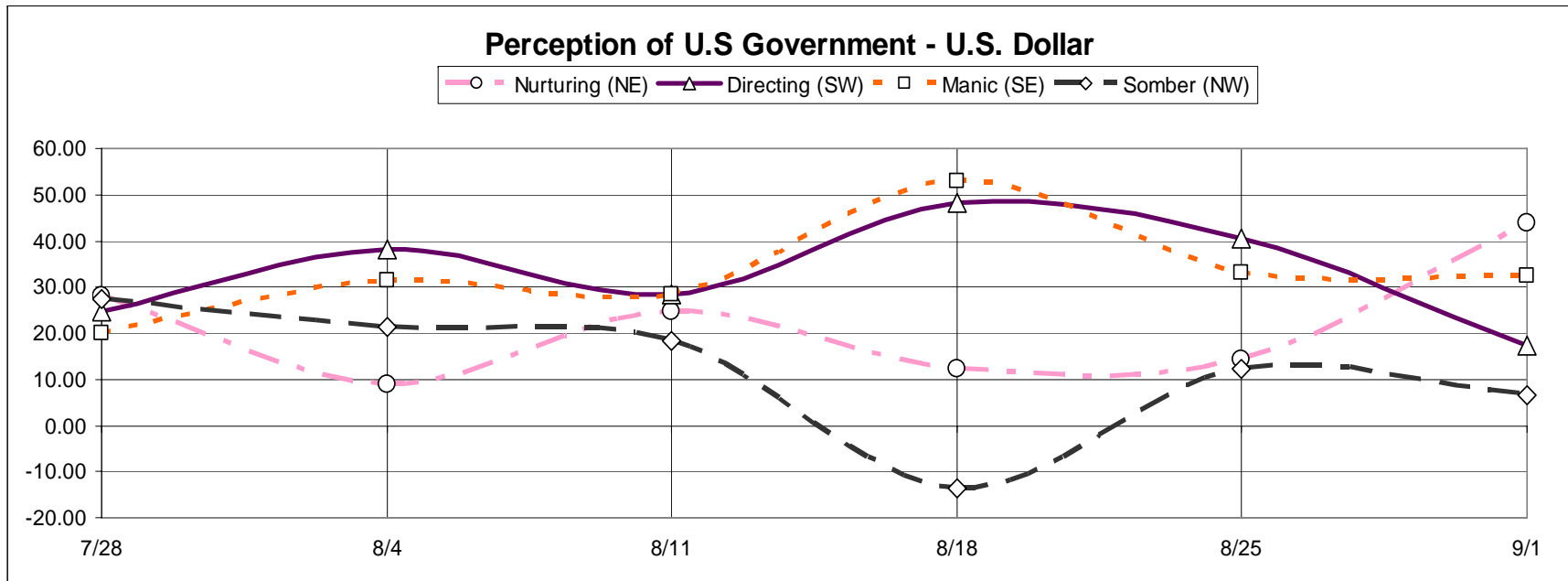


<p>Relief Rally <i>U.S. society is relieved that a bad month is over. Stocks could rally.</i></p>	<p>Focused on Survival <i>This survival oriented configuration which last showed up at the end of June indicates that panic periods in the stock market are likely. Isolated instances of civil unrest are also possible.</i></p>	<p>Pause and Rebound <i>U.S. society dusts itself off and takes a breath from the previous period. Stocks could rally.</i></p>
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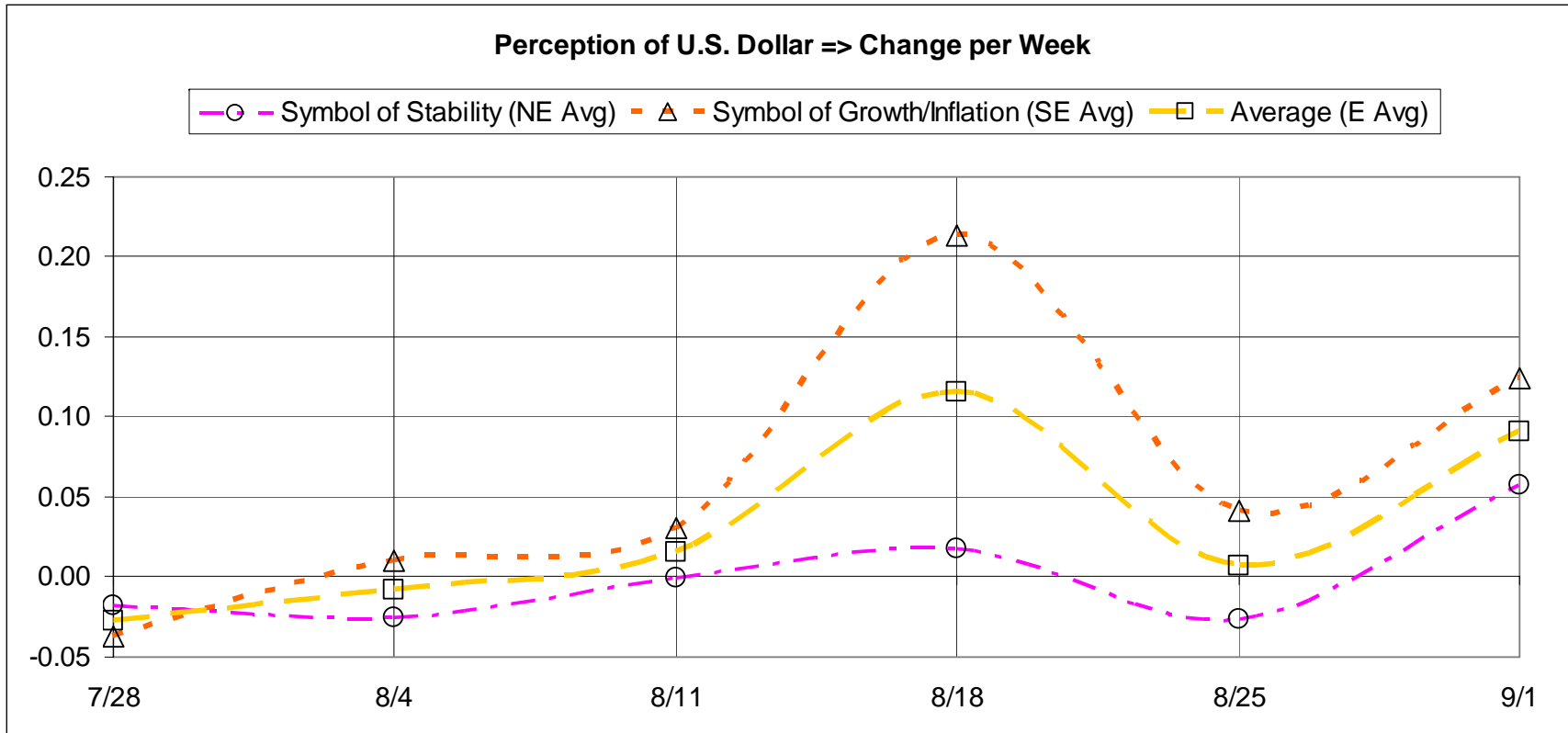


Explanation of chart lines: *It is common knowledge among traders that movement in the stock market is based on a “tug of war” between pairs of sentiment. This charts the two primary pairs which correspond to the general stock market trend. “Aggressive vs Protective” is the difference of the values of the two Moodlines “Directing” and “Nurturing.” “Greed vs Fear” is the difference of the values of the two Moodlines “Manic” and “Somber.”*

The estimated trend is calculated as the average of the two other lines. Markets should be sideways to up through approximately August 7th. Between August 8 and 20th estimated trend can not be calculated. During this period the survival oriented configuration (high Aggressive and Greed vs. Fear polarity near zero) appears and the trend is “undefined.” Our *best guess* is that the markets will be down sharply. A consolidation period appears when the calculated trend resumes near August 21. Net change for the month should be relatively small.

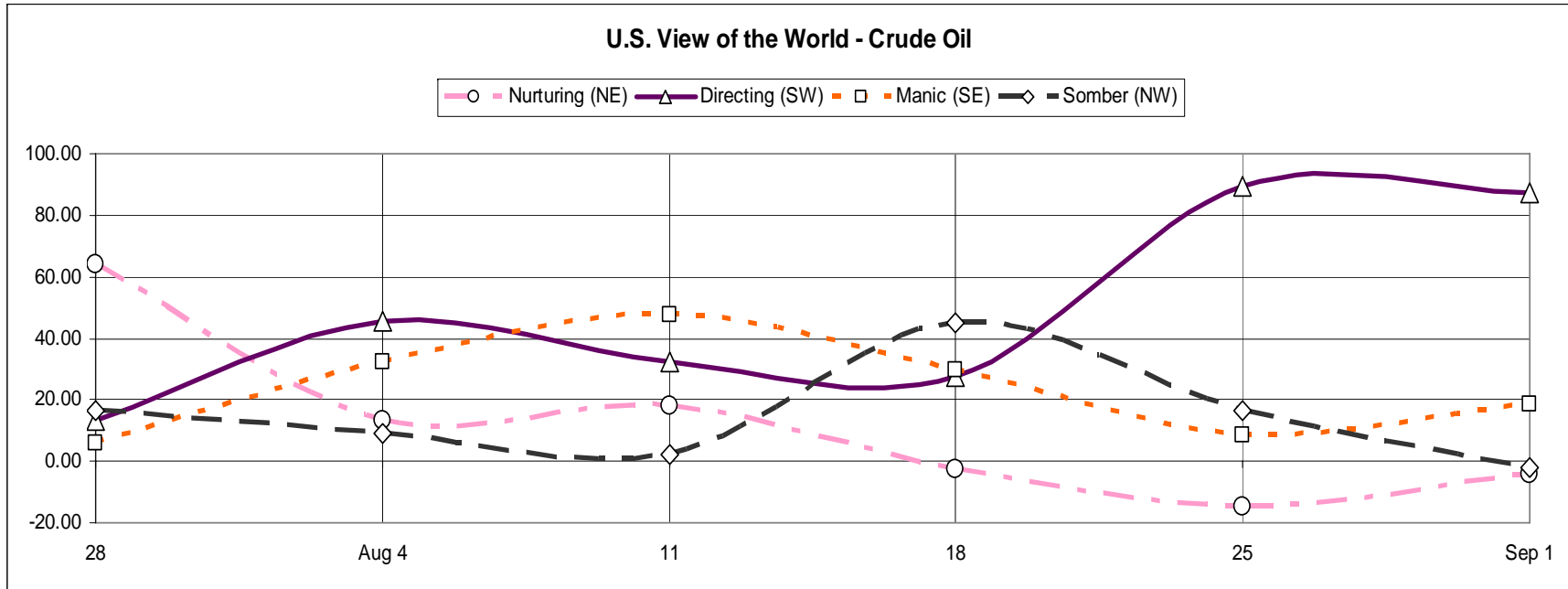


<p><i>The U.S. government is in a prolonged period of active leadership and intervention both at home and abroad.</i></p>		
<p><i>U.S. is busy, the Dollar is Stronger</i> With both South factors high, the U.S. government is extremely “busy.” The U.S. Dollar strengthens, then surges 8/11 – 8/18.</p>	<p><i>Situation Settles</i> The “situation” begins to settle. The U.S. Dollar declines.</p>	<p><i>Stabilizing</i> The U.S. government relaxes a bit. The U.S. Dollar stabilizes.</p>

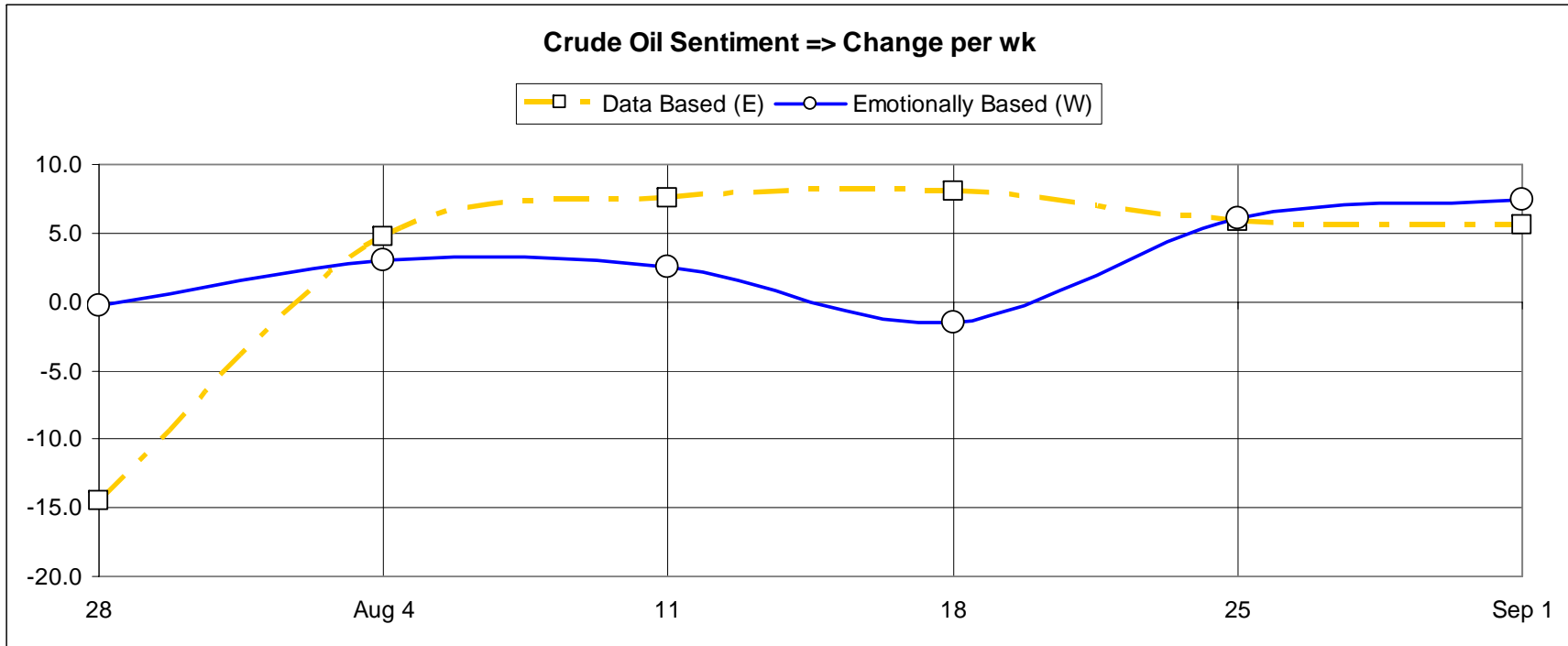


Explanation of chart lines: *The Dollar is a symbol of value, but it not attached to anything “real” such as gold as it was in the past. Its value is based on sentiment, and on the trust of a government to honor its debts. Because of this, its value ebbs and flows along with the oscillations of perception about the U.S. government. The mood factors we call “East” have to do with abstract rational notions such as symbols and ideas. “North” is related to stability, and “South” is related to activity, which in economics corresponds to growth and expansion.*

This shows the U.S. Dollar in a strengthening process. Most noteworthy is a surge in the Dollar the week of August 11, followed by a Euro rebound the following week. The Dollar should be up the week of August 25th as well.

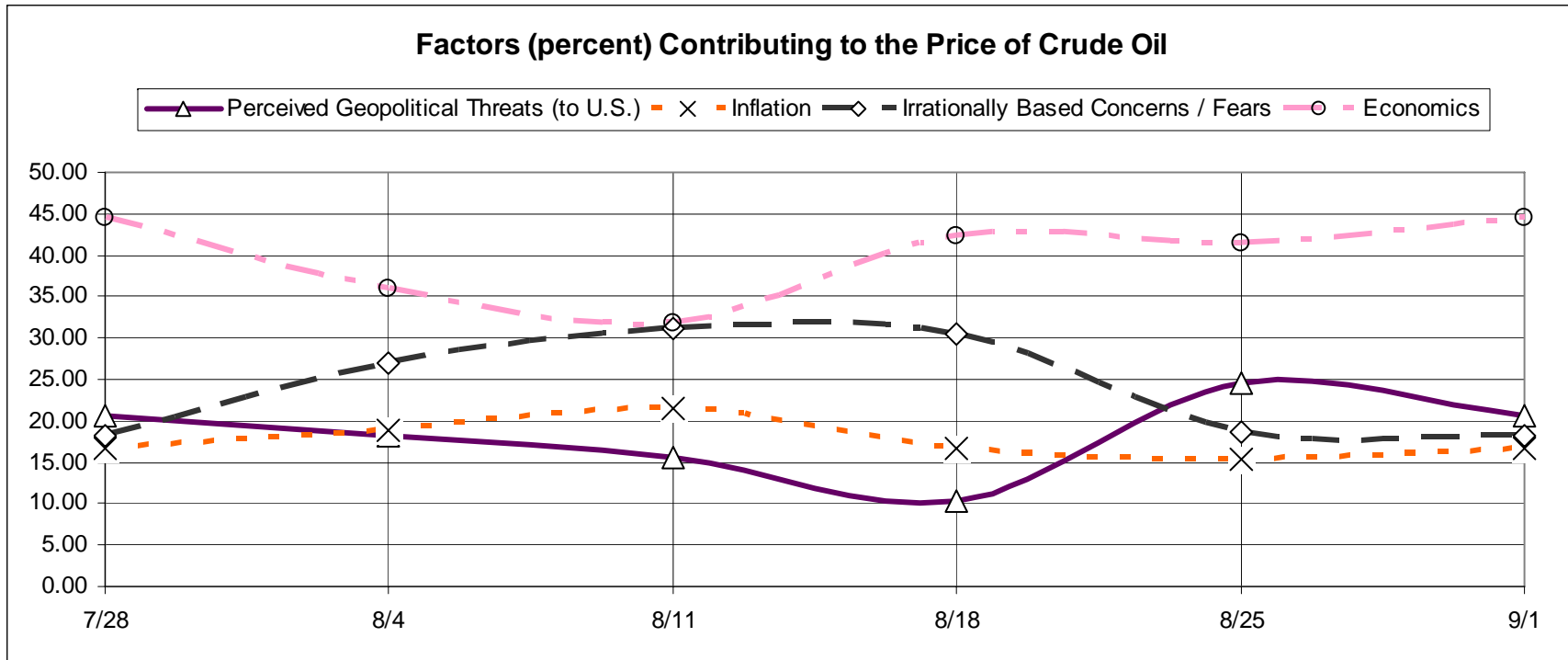


<p><i>We Don't Control the World – A New U.S. Perspective?</i> <i>The rest of the world looks threatening and increasingly unpredictable to U.S. society (high south factors). Crude is volatile and particularly down August 7 – 19th where Manic crosses above Directing, and is high.</i></p>	<p><i>Seriously...</i> <i>A serious situation in the world causes reflection (Somber).</i></p>	<p><i>Crude Rally</i> <i>A Directing surge indicates increased geopolitical attention and a rebound in a likely oversold crude market. The climb slows after August 26th.</i></p>
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Explanation of chart lines: *The price of Crude Oil changes based on supply and demand fundamentals and projections. It is also based on technical trading signals, and emotions such as fear. The “Data Based (E)” line comes from subtracting the Moodline values Nurturing (NE) from Manic (SE). “East” is associated with logic, fundamentals, and data. The “Emotionally Based (W)” line comes from subtracting the Moodline values of Directing (SW) and Somber (NW). “West” is associated with irrationality, delusion, hope and fear. Technical indicators usually try to capture changing emotional factors.*

This page is here for reference and consistency. Crude is undergoing an intermediate trend change process, and until this stabilizes this model is of little use (see results from last month, page 12). This model would predict crude to be climbing at a steady rate nearly most of the month of August, but this contradicts other indicators of a likely oversold market near August 18th.



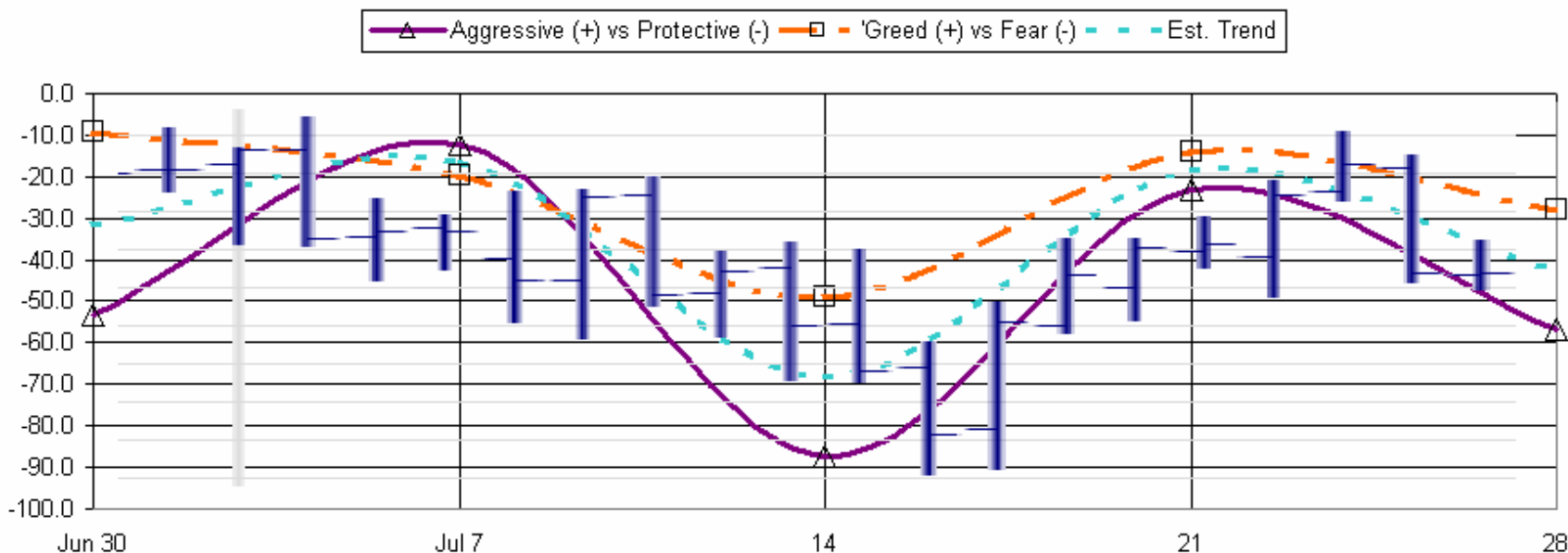
Explanation of chart lines: *The values for the Moodlines (Directing, Manic, and Somber) for U.S. View of the World/Crude Oil and the inverse of Perception of U.S. Government/U.S. Dollar are combined to produce this chart. This chart is useful in searching for potential geopolitical events, and escalated irrational fears of supply disruption. It is also useful as a check to the direction of the dollar, as high inflation concerns are often linked to a falling dollar.*

This chart was extremely useful last month as it showed the economic situation to be the prime factor in the price of crude, and the Dollar to be of little consequence. There were several instances which at other times would have sent crude soaring due to fear of supply disruption, but these news items were largely ignored.

This period likewise shows the economy (supply and demand fundamentals) to be the prime factor in the price of crude. The Dollar (inflation) is once again of little consequence. There are background fears, primarily irrationally based, that should ride high throughout the month. However, they should have much less effect than in previous periods where they were the primary factors. Near August 8-11 fears are equally as important as are economic concerns.

How We Did – Comparing our Charts with Actuals

U.S. Society Mood Pairs => Stock Market Trend

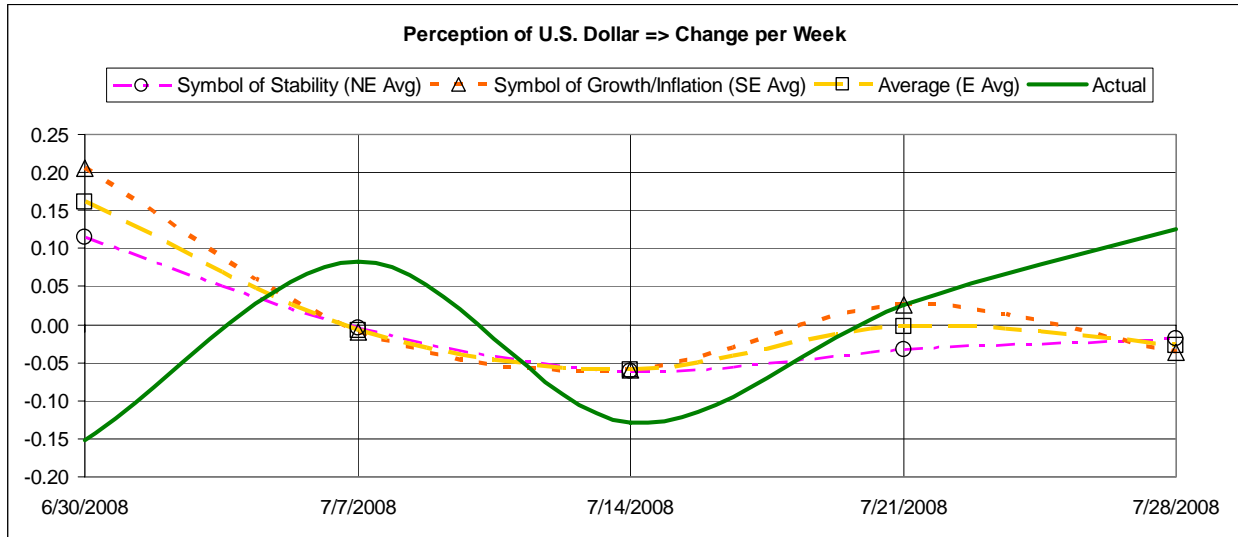


What we said: All values are below zero the entire month indicating an extremely bearish period. The short week of June 30th should be mixed (both pairs < 0, but composite pointing up). The market should try to rally, but may not be able to hold it. Look for an extreme sell-off the week of July 7. The week of July 14th is mixed (both pairs < 0, but composite pointing up). There may be attempts at rallies, but they are unlikely to hold up. The market heads down again the week of the 21st, and is flat the week of the 28th.

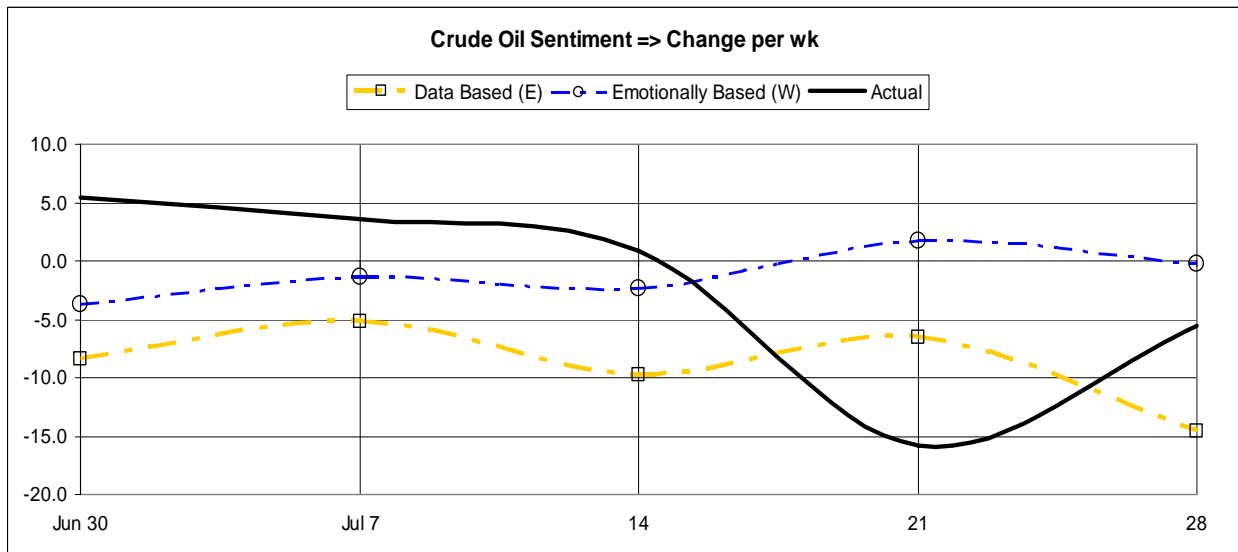
This shows our estimated S&P trend chart from last month overlaid with actual daily price data (courtesy futuresource.com). Again, the overall correlation with this model for July is excellent. We realized on July 11th that we had miscalculated the estimated trend line causing it to show a steeper sell off the week of the 7th and steeper climb the week of the 14th and sent out a supplement explaining our error. The estimated trend line in the chart above is from this supplement.

There was a fascinating parallel in the March 2008 and July 2008 patterns (as shown in the supplement). There was a bailout of Bear Stearns and market bottom March 16-17, and a bailout of sorts of Fannie Mae and Freddie Mac and market bottom in the parallel chart location July 13 – 16.

How We Did – Comparing our Charts with Actuals



Dollar: We saw evidence of a trend change process with the oscillation around zero, limiting week by week calls. We were able to make the call that the Dollar would be “unusually stable.”



Crude: This model has been doing well in the past few months, but we are currently going through an inversion period which often accompanies an intermediate trend change. The last two weeks are highly inversely correlated. Our model is of little use until this process has completed its run and the larger trend has restabilized in one direction or another.

About MoodCompass

Originally Developed to Study Sustainability

MoodCompass is based on a data analysis tool developed by A New Story Foundation, a non-profit organization researching sustainability, that quantitatively measures and tracks the emotions and behavior—or “mood”—of a society. The tool can also be used to measure a society’s perception of other organized entities such as governments and other societies. For the last two years researchers have used this tool to track the mood of US society as well as its perception of the US government and the rest of the world through the lens of US society. They use this data to gain a better understanding of the underlying dynamics of US society—i.e., “what makes it tick”—and its role in sustainability.

Then They Stumbled Onto Something...

In July of 2007, after tracking these three segments for over 18 months, researchers noticed a correlation between patterns in their profiling data and the movement of the financial markets. Specifically, the profile of US society correlated with the movement of the US stock market, the profile of its view of the US government with the movement of the dollar, and the profile of its view of the world with the movement of crude oil.

Researchers spent the rest of 2007 analyzing these correlations and identifying the formulas that yielded curves that best mirrored each market’s curve. By the end of 2007 they had successfully generated a curve for each segment that very accurately predicted whether its corresponding market was trending up or down and when the trend was likely to shift.

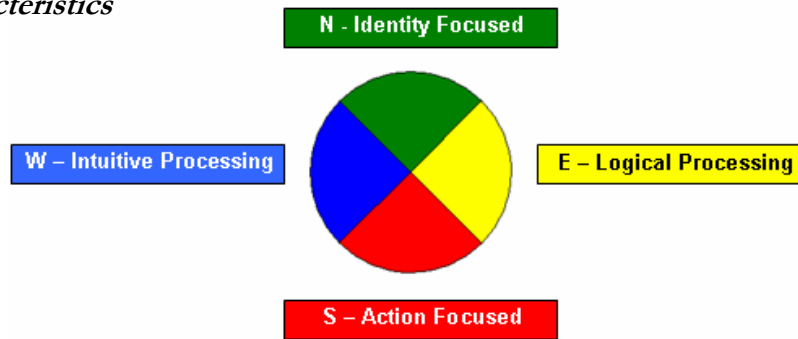
MoodCompass was Born

Researchers at A New Story Foundation knew they were on to something big. If they could predict the direction and timing of trends in the stock market, the dollar, and crude oil with accuracy, that information would surely be valuable to the investment community. They could not only use it to raise money for the foundation, but more importantly to raise awareness about issues surrounding sustainability. That’s when they connected with Tom Courts, an entrepreneur and marketer with connections to A New Story (his brother is one of the researchers). They teamed-up to distribute their market forecasting information, and MoodCompass was born.

How It Works

The MoodCompass profiles an entity based on the relative presence of four primary characteristics or of four hybrid characteristics. A profile expressed in terms of primary characteristics weighs the entity’s relative focus on identity (north), focus on activity (south), use of intuition (west), and use of logic (east). A profile expressed in terms of hybrid characteristics weighs the entity’s relative amount of nurturing behavior (northeast), manic expression (southeast), directing behavior (southwest), and somber expression (northwest). It was named the MoodCompass because the eight characteristics are best viewed in circular relation to one another like points on a compass:

Primary Characteristics

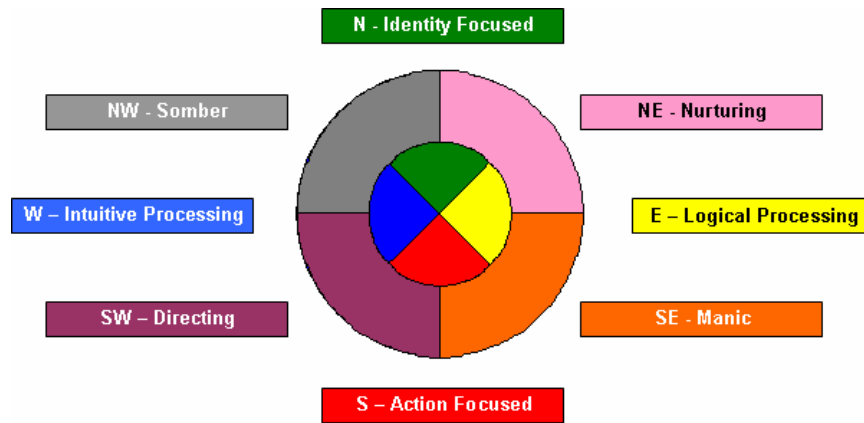


Hybrid Characteristics



To generate a MoodCompass, researchers first assess the entity’s “Predisposition.” Its Predisposition is its current mindset, or “where it is coming from,” and largely dictates how it will react to things. Predisposition is expressed in terms of the relative presence of the four primary characteristics. Researchers then assess the entity’s “Emphasis,” which is how it wants to be viewed by others and dictates the characteristics it tries to display. Emphasis is expressed in terms of the relative presence of the four hybrid characteristics.

An entity’s Predisposition overlaid by its Emphasis generates its “Manifestation,” or its outward expression of emotion and behavior, which is how it is perceived by others. Its Manifestation can be expressed in terms of the four primary characteristics or the four hybrid characteristics. When expressing Manifestation, the two sets of characteristics are inter-related, each characteristic a combination of the two that surround it. This relationship is best viewed by embedding a pie chart of the primary characteristics inside a pie chart of the hybrid characteristics:



For example, the primary characteristic (W) Intuitive Processing is a combination of the two hybrid characteristics (SW) Directing and (NW) Somber. Likewise, the hybrid characteristic (NE) Nurturing is a combination of (N) Identity Focused and (E) Logic Processing.

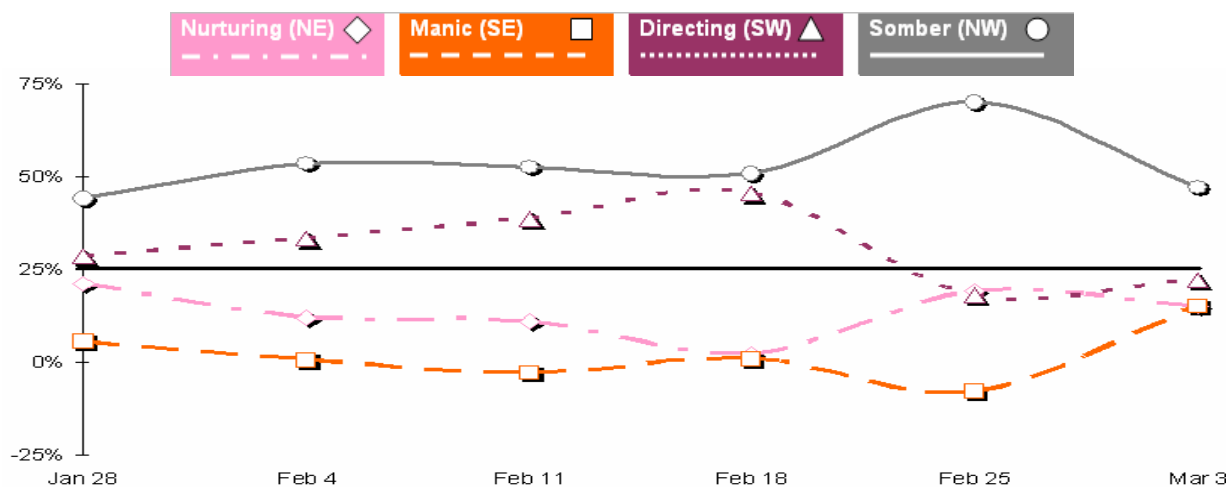
Tracking Profiles Over Time

Because the primary and hybrid characteristics are so closely related, only one set of characteristics need be plotted over time (the other set is implied). The hybrid set is normally plotted given that its descriptors portray outward personality traits.

Researchers have found that when plotted over time, each of the four Manifestation characteristics (called “mood lines”) tends to oscillates in a somewhat regular pattern. The actual movement of each is actually a function of its oscillation pattern combined with how it is influenced by the oscillations of the other characteristics. After months of analysis and testing, researchers ultimately identified the oscillation patterns of each and how they influence one another, which enabled them to extend the data into the future. They then applied the formulas that yield curves that correlate with the financial markets to produce reliable forecasts of the S&P 500, the dollar, and crude oil.

During the course of each month, researchers collect information surrounding current events and perceived future events, and qualitatively assess how the entity reacts to them. This assessment is the basis for the entity’s Predisposition and Emphasis assessments, which together produce the Manifestation profile, which is ultimately plotted as mood lines and extended into the future to generate the MoodCompass forecasts. Researchers have found that ‘recalibrating’ the mood lines once-a-month with the new qualitative assessment is enough to acknowledge the entity’s response to current events without allowing intermittent “noise” to corrupt the model.

Here are the forecasted Manifestation mood lines for US society for February 2008 (as forecasted at the end of January 2008).



The End Result—Accurate Financial Market Forecasts

Trading signals based on the analysis going into this publication are sent to subscribers of the Market Mood Oscillator (MMO) systems on Collective2.com. The administrator of this site (C2) tracks performance and collects statistics that are available for review and comparison with other systems. The MMO family of systems continues to perform exceptionally well.

Market Mood Oscillator

Market Mood Oscillator is the basic system applying the MoodCompass analysis to futures trading. It is one of the top futures trading system on C2 and can be viewed at <http://collective2.com/go/mmo>.

stock-MMO

This system is for stock traders and mirrors the basic MMO primarily using exchange traded funds (ETFs) such as SDS, UDN, and TLT. It can be accessed at <http://collective2.com/go/stockmmo>.

MMO 2.0

This is similar to the basic futures trading system with added money management features such as stop loss and limit profit targets. It is primarily used by autotraders, as trades are automatically executed in the accounts with participating brokers. It can be accessed at <http://collective2.com/go/mmo2>.

Historical Performance

Researchers began collecting profile data in July 2007. They used back-testing to arrive at the current analytical model that accurately forecasts the direction and timing of market trends. Below are the results of July-December 2007 applying the current model to past data, yielding a record of 43 wins and 18 losses.

