

MOODCOMPASS[®]
GUIDE TO GLOBAL MOOD AND MARKETS

December 2008

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December 2008 – We May Never Pass This Way Again

On November 19 the global context was forecasted to shift from tension that “resolved into action” and in the US the social mood to a “chaos configuration.” This brought three days of severe stock market declines as uncertainty grew around the fate of the U.S. automakers. Following that there was an incredible, although nonsensical market rally, another expression of Mania. Global society continued to express the elevated volatility with civil unrest in Thailand closing two major airports, and terror attacks in Mumbai, India. In the U.S. the response was less dramatic, but no less fatal, as a Wal-Mart employee was trampled to death by a manic rush of shoppers, and two men shot each other as their wives argued in a Toys R Us store.

Fatigued by the seemingly endless months of negative forecasts, and with a potential view of “light at the end of the tunnel” as November drew to a close, it was mentioned in last month’s issue that December could hold a moment of relative stability. Unfortunately, this was premature. By the middle of the first week of the month, economic concerns should be accelerating once again as that “chaos configuration” makes another sweep. By the end of the second week, global tensions escalate and the U.S. government appears to go from paralysis to panic mode. While things may become a bit quiet (or stagnant) just before Christmas, on Christmas day or immediately thereafter the U.S. mood shifts to “safety seeking,” global markets decline, and there is a strong surge of interest in potential geopolitical threats. Anyone traveling for the holidays should pay close attention to the development of the global situation as well as any alerts issued by Homeland Security.

As the year comes to a close, one might look back at a year of tremendous change to this country and to the world. The levels of consumption that were taken for granted, especially in developed nations, have been sharply curtailed and continue to decline. In 2007, it was a foregone conclusion that another Great Depression couldn’t possibly happen. Today that possibility is a common topic of conversation. Whatever the outcome of the dramatic transformation we are witnessing, we can be sure that at the very least, the human world will never be the same as it was before this year began. As we said in January, this indeed was the “Year That Changes Everything.”

Week by week highlights:

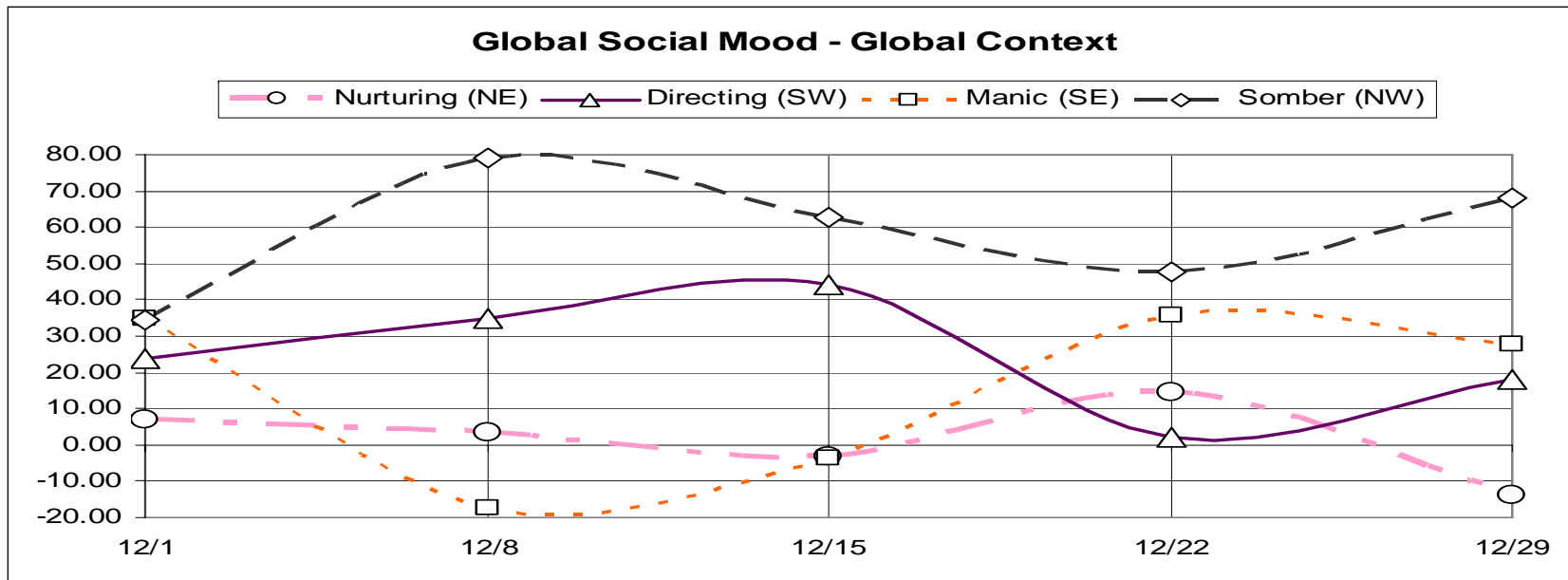
Dec 1-7: As that “chaos configuration” returns Dec. 2 volatility should return to the markets as they begin to turn lower once again. There is very low confidence in the U.S. government. The Dollar declines, but crude is unlikely to gain much if any due to economic concerns. This week and next there is a heightening of ideological differences (between political parties, economic camps, etc).

Dec 8-14: Mid to late week the global picture changes in what appears to be a geopolitical escalation. Crude rallies, the Dollar gains or at least slows its decline, and stock markets are sharply lower. The U.S. government is perceived to be thrust into panic mode.

Dec 15-21: As the week progresses markets are likely to do a pre-holiday pause. Money is extremely tight and tensions are high. The Dollar could decline sharply.

Dec 22-28: An extremely interesting shift occurs right on or around Christmas day. Concerns of potential geopolitical threats suddenly become much more important than the economy in the pricing of the energy markets. After markets reopen, the Dollar gains (or declines less) and the stock market declines, possibly sharply. Even with the economic “flight to safety” response and the Dollar stabilization, crude does not decline.

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.

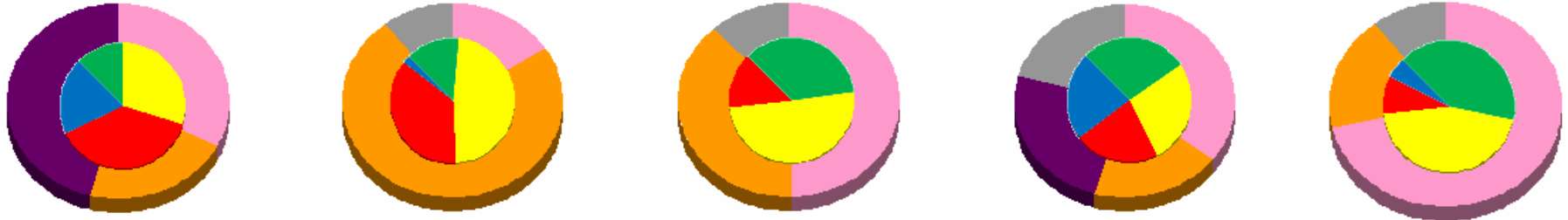
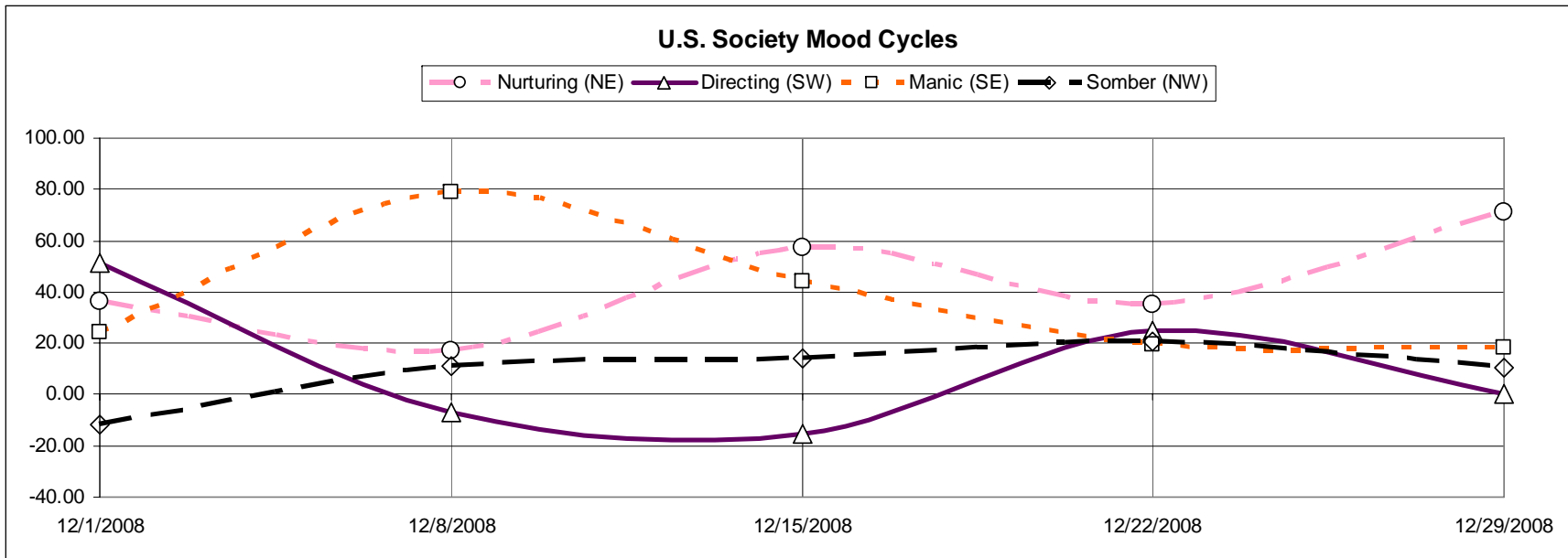


Delusion, Denial, and Despair

Extreme Somber indicates a global context of apathy, perhaps even despair. Both West factors high indicate a context of delusion and irrationality. Global leaders called upon to shore up the deteriorating world situation are equally trapped within this context of impotence, delusion and denial. Global markets should be down to sideways with brief, intermittent rallies possible.

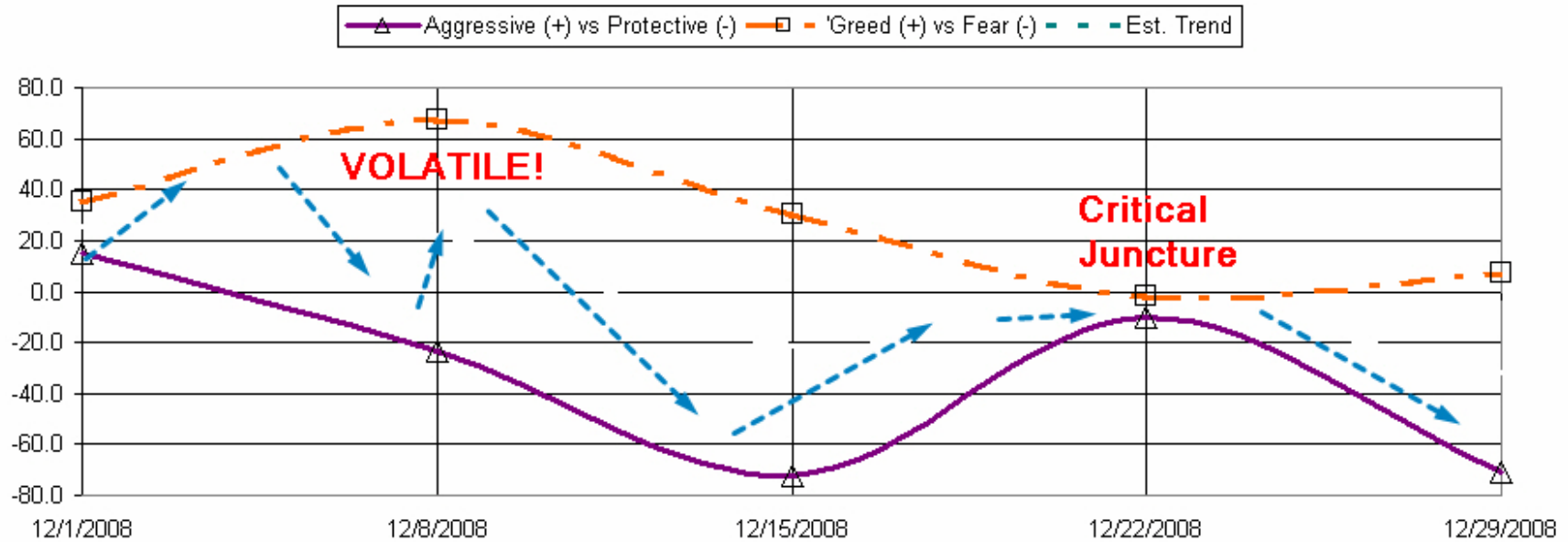
Dark Times Indeed

The unusual configuration of high Somber/Manic is often perceived as “dark times.” There is a stronger emotional component to this after the 24th when Directing rises above nurturing. Markets may have little direction until then after which time they could move sharply lower.



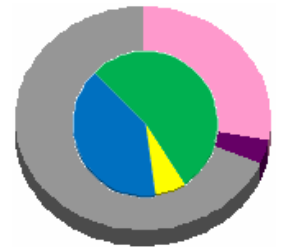
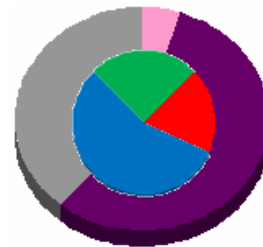
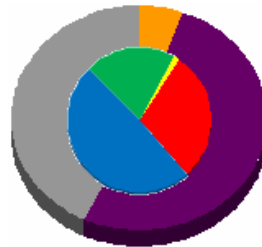
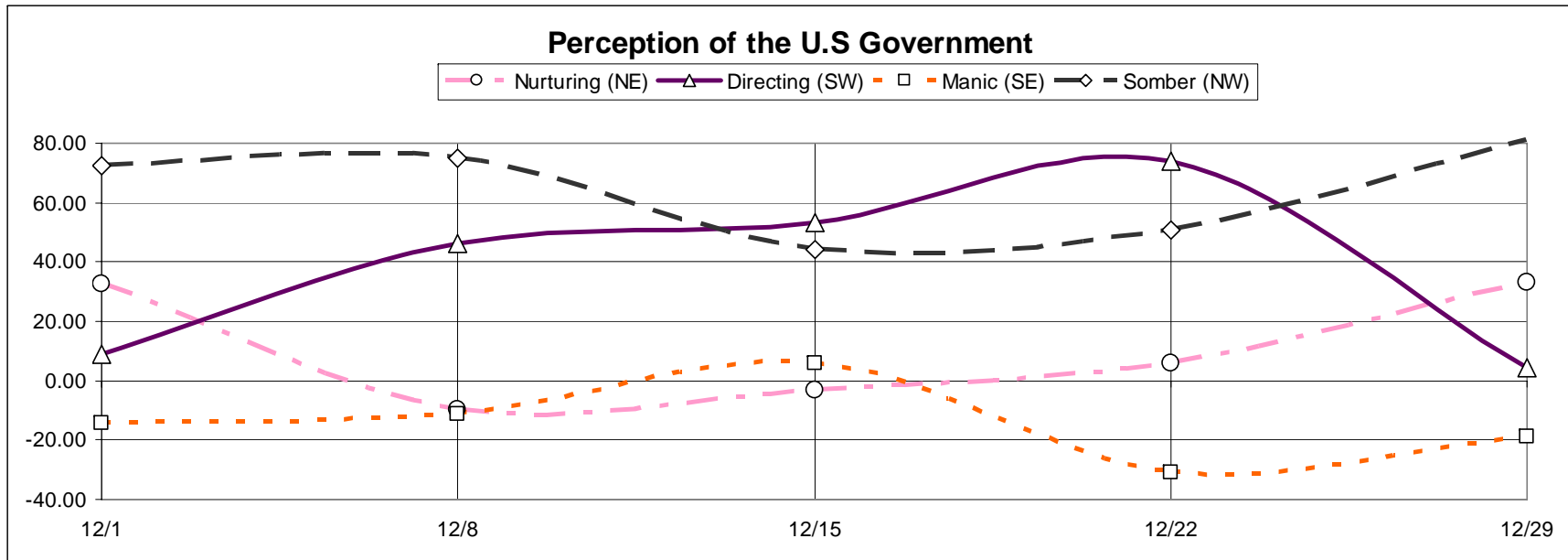
<p><i>That “Chaos Configuration” Again</i> <i>The extreme Manic configuration beginning December 2 indicates chaos and confusion likely in US Society. Markets should be extremely volatile. Ideological differences become heightened.</i></p>	<p><i>Pre-Holiday Pause</i> <i>The configuration becomes constricted as the holidays approach. Money is tight, tensions are high, markets move very little.</i></p>	<p><i>Flight to Safety</i> <i>The configuration turns to high anxiety and “flight to safety” on December 25. Markets could reopen much lower after the holiday.</i></p>
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U.S. Society Mood Pairs => Stock Market Trend

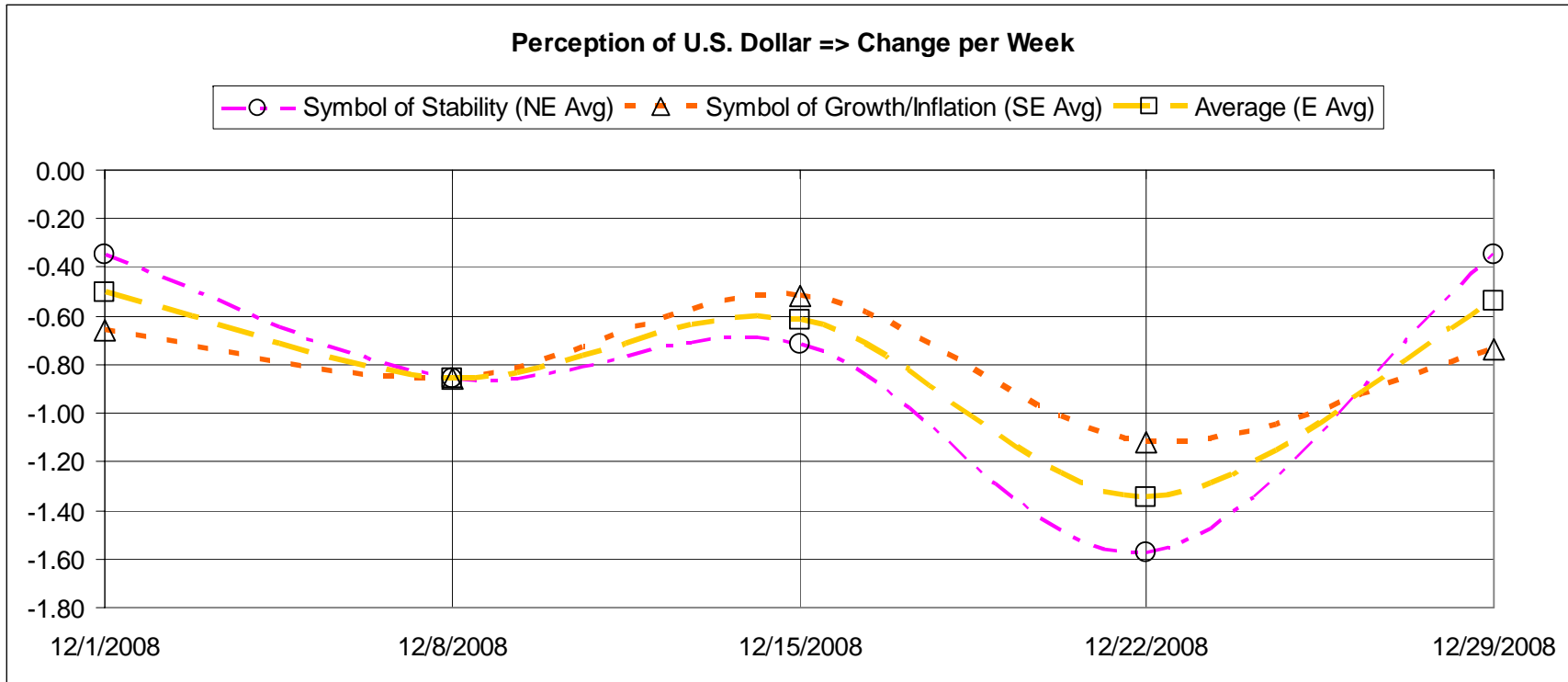


Explanation of chart lines: *It is common knowledge among traders that movement in the stock market is based on a “tug of war” between pairs of sentiment. This charts the two primary pairs which correspond to the general stock market trend. “Aggressive vs Protective” is the difference of the values of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

The recent upswing in the stock market is severely challenged as US society returns on 12/2 to an extreme Manic configuration (associated with chaos, confusion and ideological disputes). This shift last occurred on November 19 and was accompanied by large stock market losses November 19-21. Markets should be extremely volatile through approximately December 11 with large declines possible. Near 12/12 through Christmas could see some relief, or at least a pause in declines. Immediately afterwards, however, a “flight to safety” response should bring the market down once again.

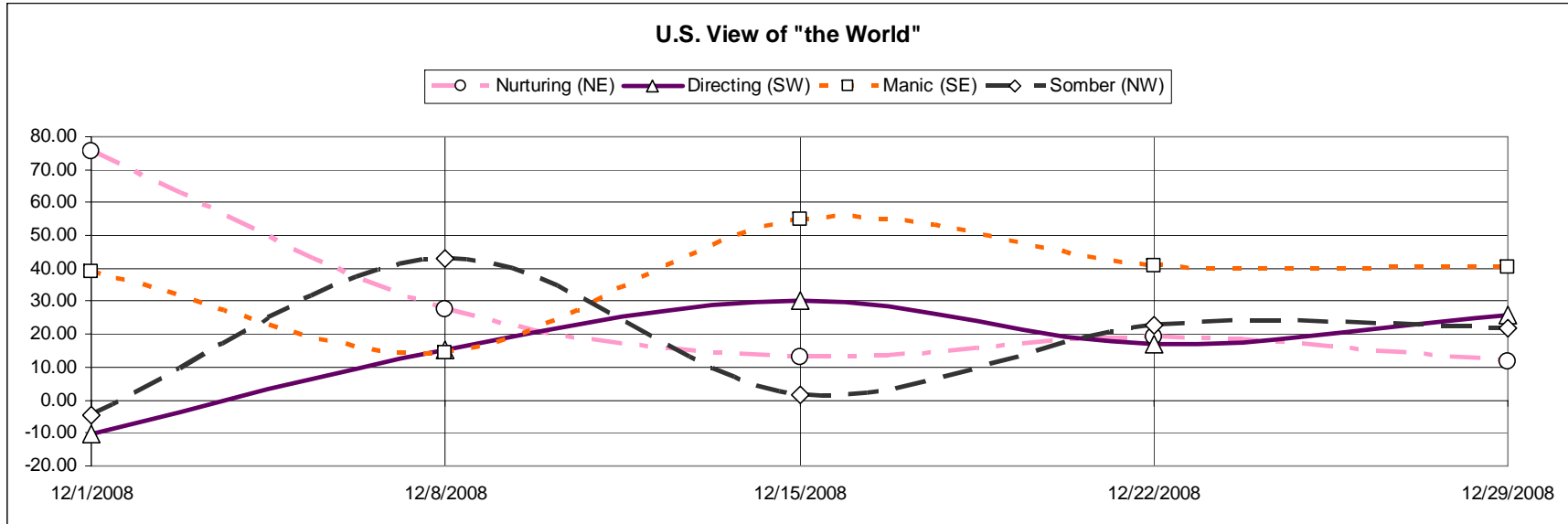


<p><i>Seriously Lame</i> <i>Extreme Somber points to a government that is perceived as apathetic, in denial, or just plain broken. Anything needing to be accomplished just can't get done. Both West factors high this entire month could point to the government being perceived as irrational or "delusional."</i></p>	<p><i>Government in Panic Mode</i> <i>The government is perceived to be in crisis mode (extreme Directing/Somber). Any actions taken are likely to be responded to with lack of confidence, and could make a bad situation worse.</i></p>	<p><i>Restoring Order</i> <i>Extreme Somber shows a "paralyzed" government, after Dec 26 it is looked upon as maintainer or restorer of calm and order.</i></p>
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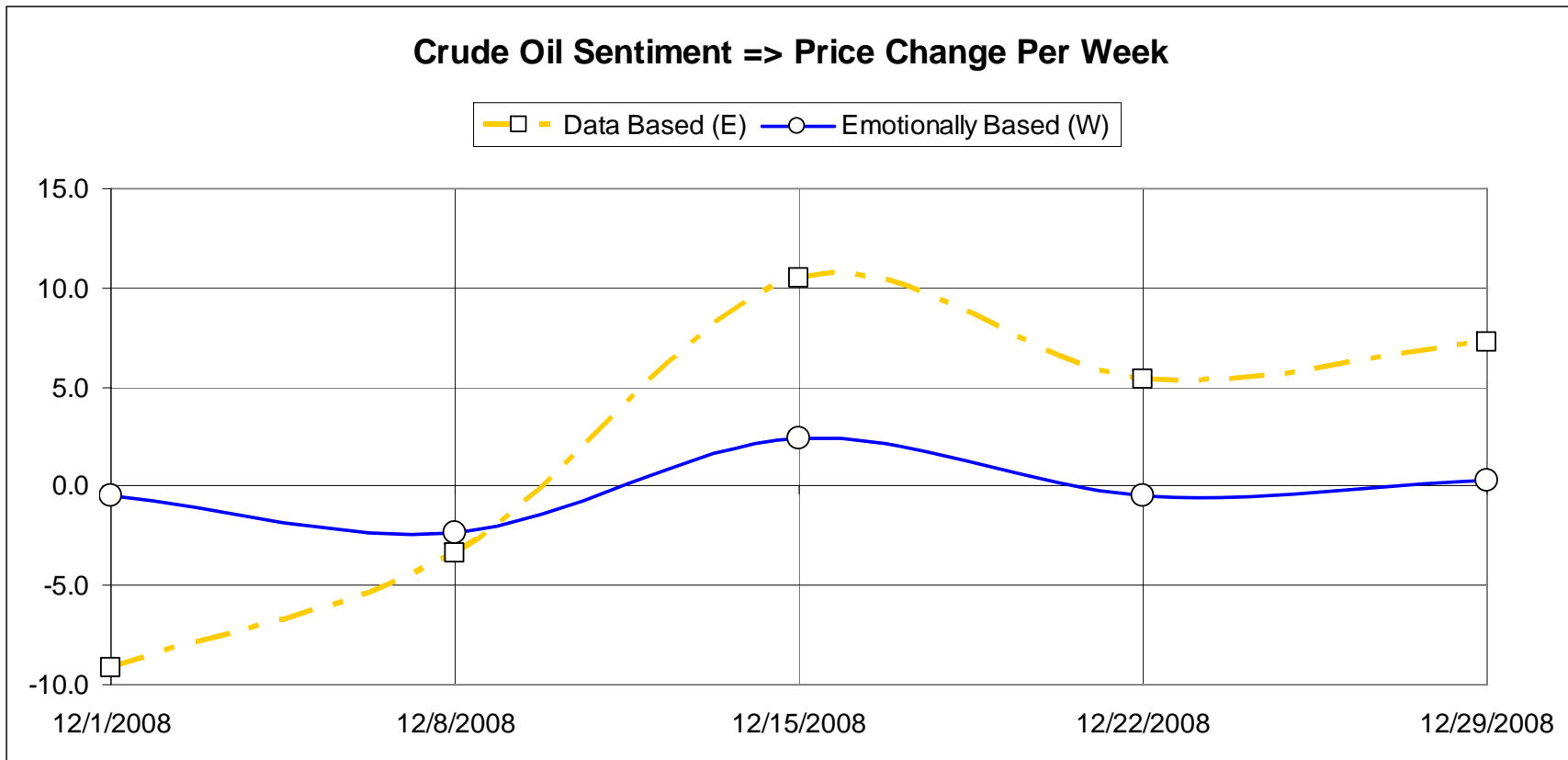


Explanation of chart lines: *The Dollar is a symbol of value, but it not attached to anything “real” such as gold as it was in the past. Its value is based on sentiment, and on the trust of a government to honor its debts. Because of this, its value ebbs and flows along with the oscillations of perception 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.*

U.S. Dollar sentiment is slight to strongly negative throughout the month of December. The week of the 8th marks a dramatic shift as its place as a symbol of stability fades behind the more prominent focus on it being a source of inflation and instability once again. Immediately after Christmas the Dollar should show less tendency to decline and may be turned to as perhaps a more stable currency than others, such as the Euro, although it is still less than preferred.

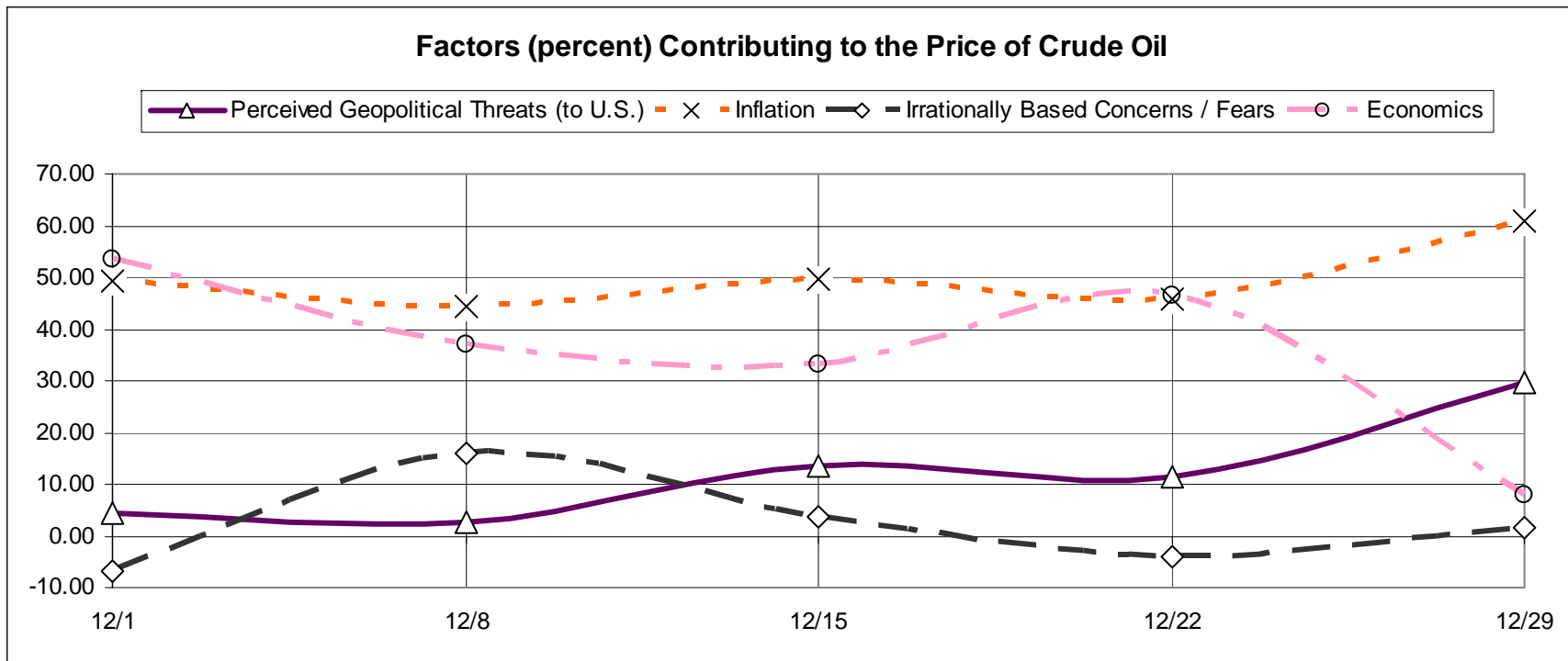


<p>Vulnerable <i>Extreme Nurturing shows a view of the World as one vulnerable and unsafe. However, the intensity of this view is on the wane.</i></p>	<p>Broken or Sick <i>High Somber shows a view of the World as broken or sick</i></p>	<p>Extremely Chaotic and Volatile <i>The world appears to be a place of chaos and fragmentation (high Manic). Both South factors high indicate potentially volatile situations getting a high level of attention.</i></p>	<p>Chaotic, but less relevant <i>Constricted cycles show a US much less concerned about whatever is going on in the world "out there" (as there is plenty to be concerned about domestically). The world continues to appear chaotic and volatile, especially after Dec 25.</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.*

Through the first week of December, sentiment toward crude is relatively flat (W) to negative, while fundamentals (E) allow less and less room for prices to decline. A major change of trend should begin to show the week of the 8th with a strong bullish surge in the fundamentals (facts) surrounding crude and its availability or demand. The remainder of the period is slightly bullish for crude on a supply/demand basis while sentiment remains rather flat. In other words, the global picture is one that requires that crude prices rise, but there is little enthusiasm for chasing prices higher on a speculative basis.

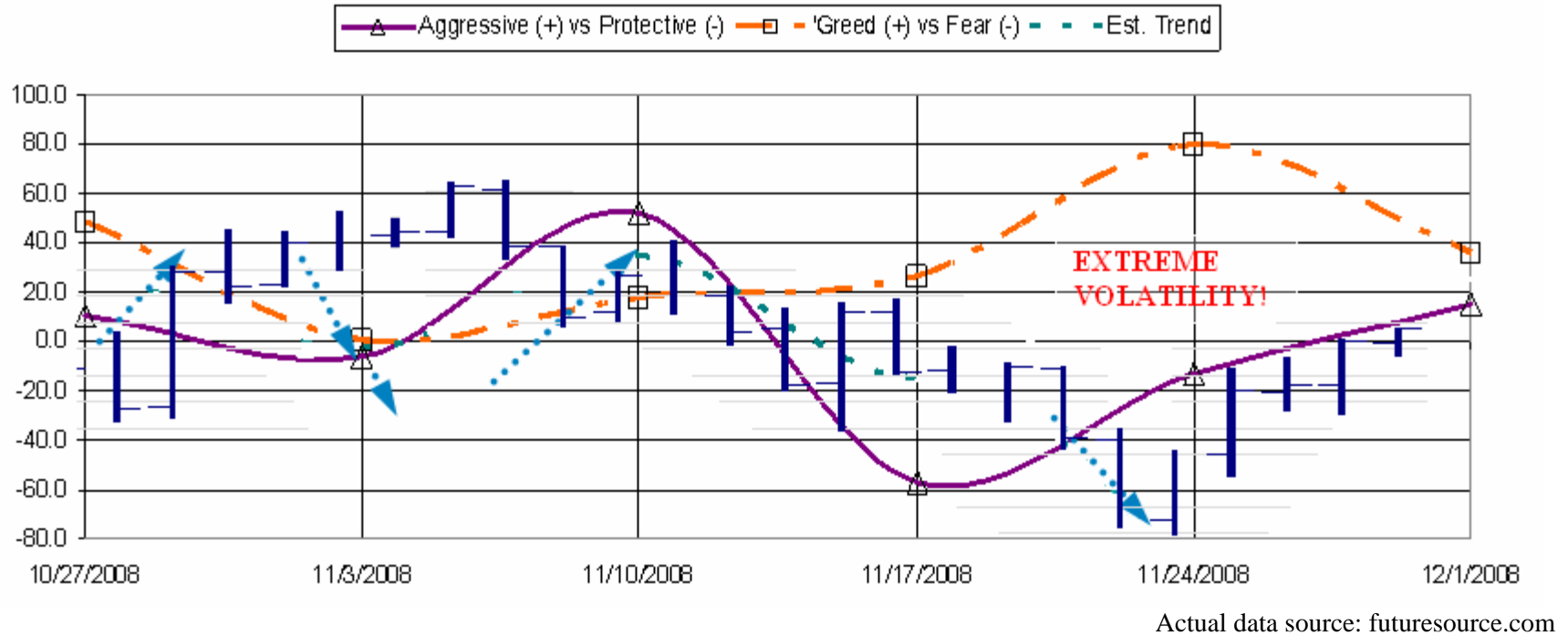


Explanation of chart lines: *The values for the Moodlines (Directing, Manic, and Somber) for U.S. View of “the World” and the inverse of Perception of U.S. Government are combined to produce this chart. This chart is useful in searching for potential geopolitical events, and escalated irrational fears 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.*

In the month of December, inflation (the falling Dollar) once again becomes the primary influencing factor in the price of crude. Economics (supply and demand) is also of high importance. Geopolitical concerns have had little effect on the price of crude for several months. Beginning the week of December 8th, these concerns slowly begin to exert pressure on crude prices. The last week of the month, both inflation and potential geopolitical threats are central and the economy, whether it can handle higher prices or not, is no longer a consideration. Prices must go up with such a configuration.

How We Did – Comparing our Charts with Actuals

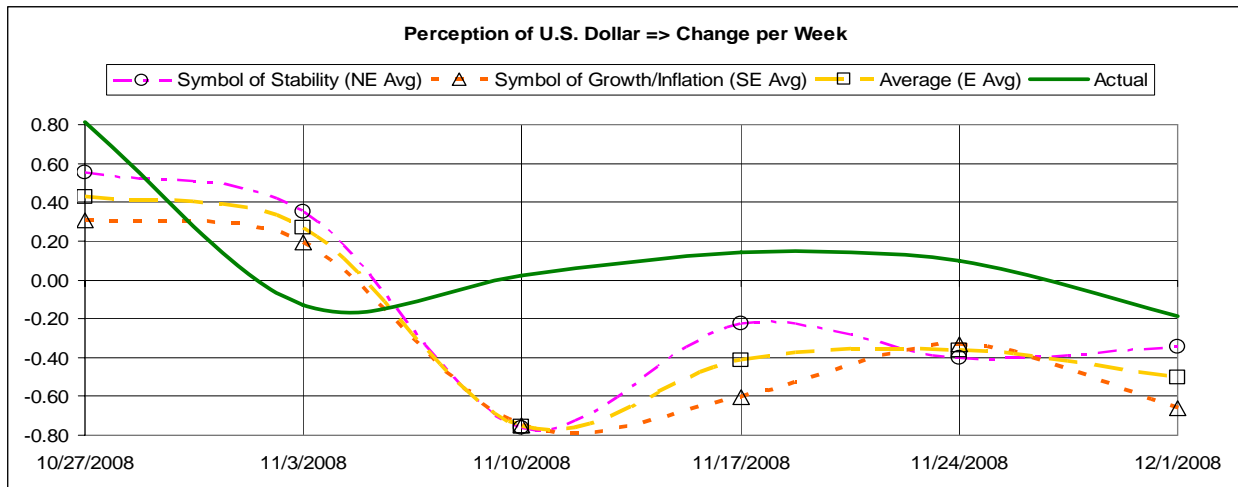
U.S. Society Mood Pairs ⇒ Stock Market Trend



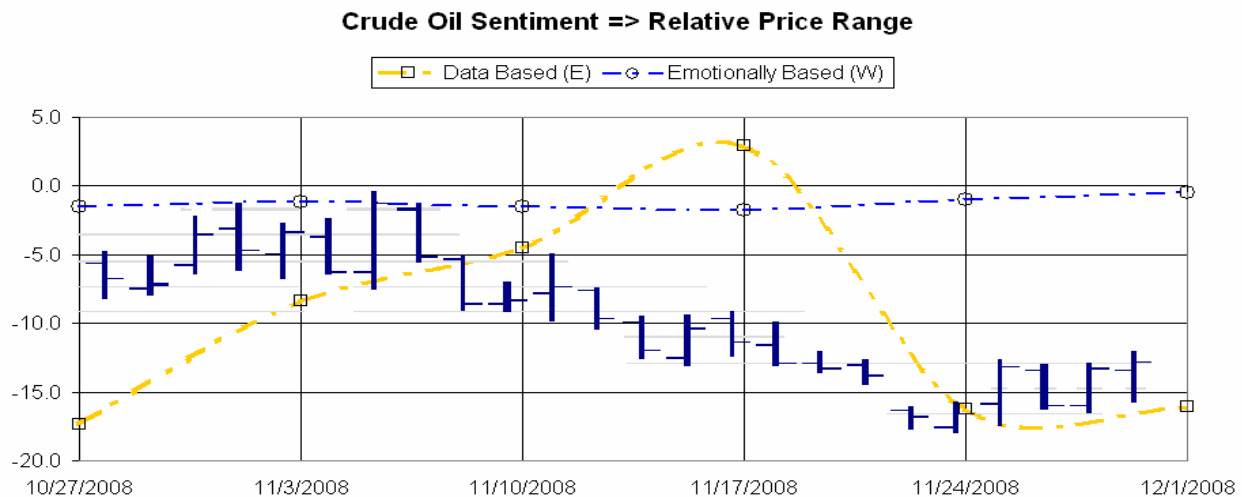
We said: The market holds some kind of hope through the U.S. election, and possibly throughout that week. Afterwards, the stock market appears to fall off a cliff. The week of the 17th is particularly volatile, and gets increasingly so as the week progresses.

The market was indeed up through the election, and began to lose ground immediately after. The week of the 17th was particularly volatile with losses accelerating the second half of the week as forecasted. There was no specific trend forecast for the final week, although it does appear to be following the curve rather well.

How We Did – Comparing our Charts with Actuals



Dollar: *Previously said: The first week of November should see serious losses for the Dollar. The trend for the remainder of the period is down for the Dollar. However, the direction for the week of the 17th is unclear and the Dollar may even climb. The decline returns sometime during the week of the 24th. Instead of serious losses for the Dollar, November saw a strong reduction in gains as the topping process continued through the week of the 17th. The week of the 24th showed actual losses. The curves (actual vs model) showed moderate correlation.*



Crude: *Previously said: While sentiment toward crude is relatively flat (W) to negative, the fundamentals support steadily increasing prices through the week of the 10th (E). The week of the 17th, the bottom drops out of the global economy (once again) and crude prices follow with an extremely sharp decline. Crude prices tried to recover through Election Day, November 4 and then continued to decline. The negative emotionally based factors overrode any OPEC cutbacks in supply or geopolitical factors. Declines did accelerate and reach a short term bottom the week of the 17th as the stock market also reached a short term bottom. The week of the 24th showed sideways price movement as depicted by the model.*

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.

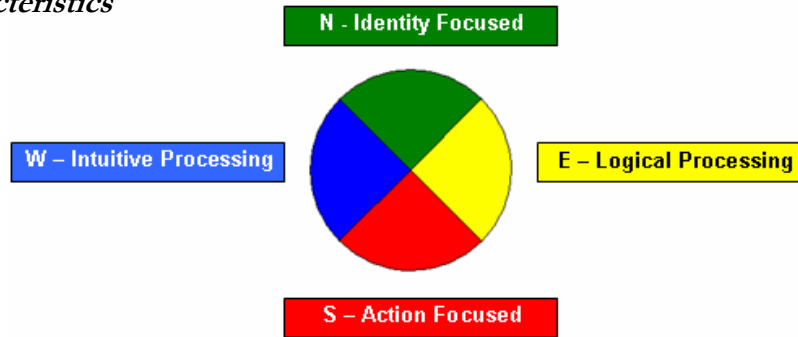
MoodCompass was Born

Researchers at A New Story Foundation knew they were on to something big. If they could predict changes in social mood and the potential for instability, and demonstrate that with accurate predictions of the direction and timing of trends of the stock market, the dollar, and crude oil, that information would surely be valuable to managers, planners, and even the investment community itself. They could not only use it to raise money for the foundation, but more importantly to raise awareness about issues surrounding sustainability. They decided to publicly distribute their global mood and 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

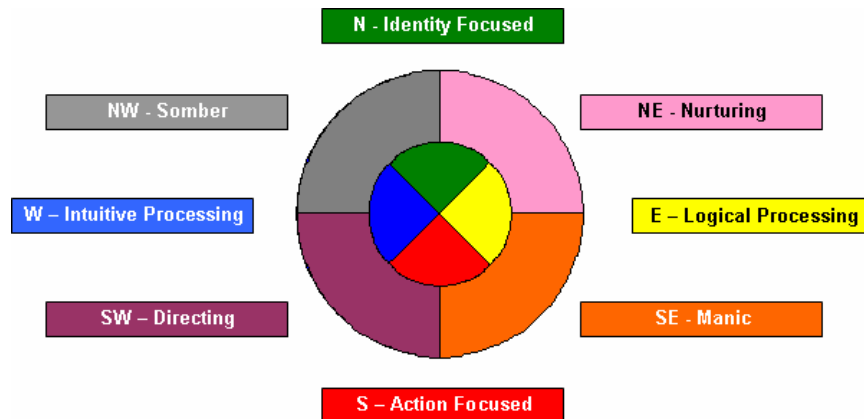


Hybrid Characteristics



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.

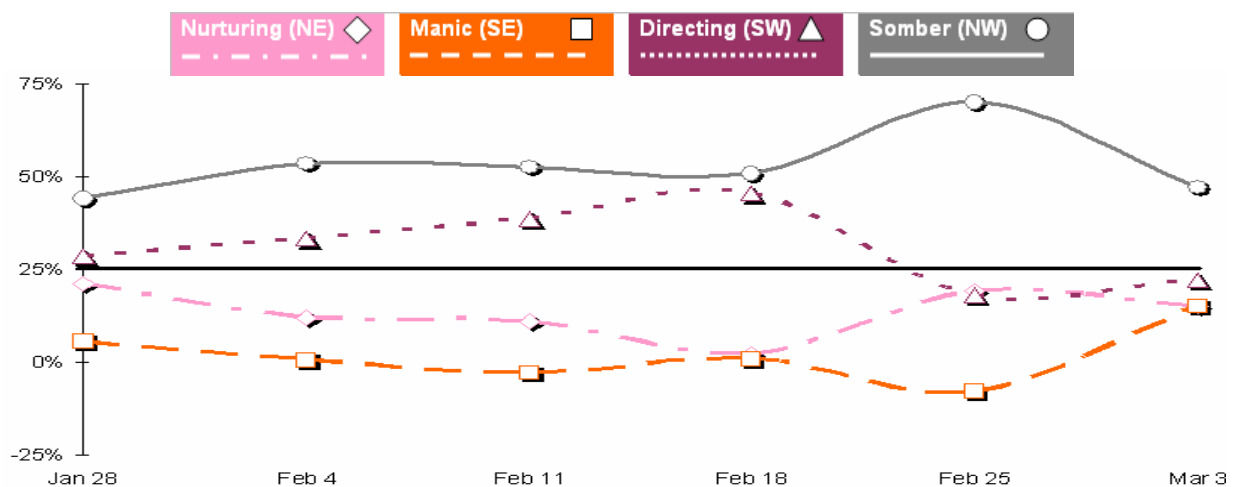
Tracking Profiles Over Time

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.

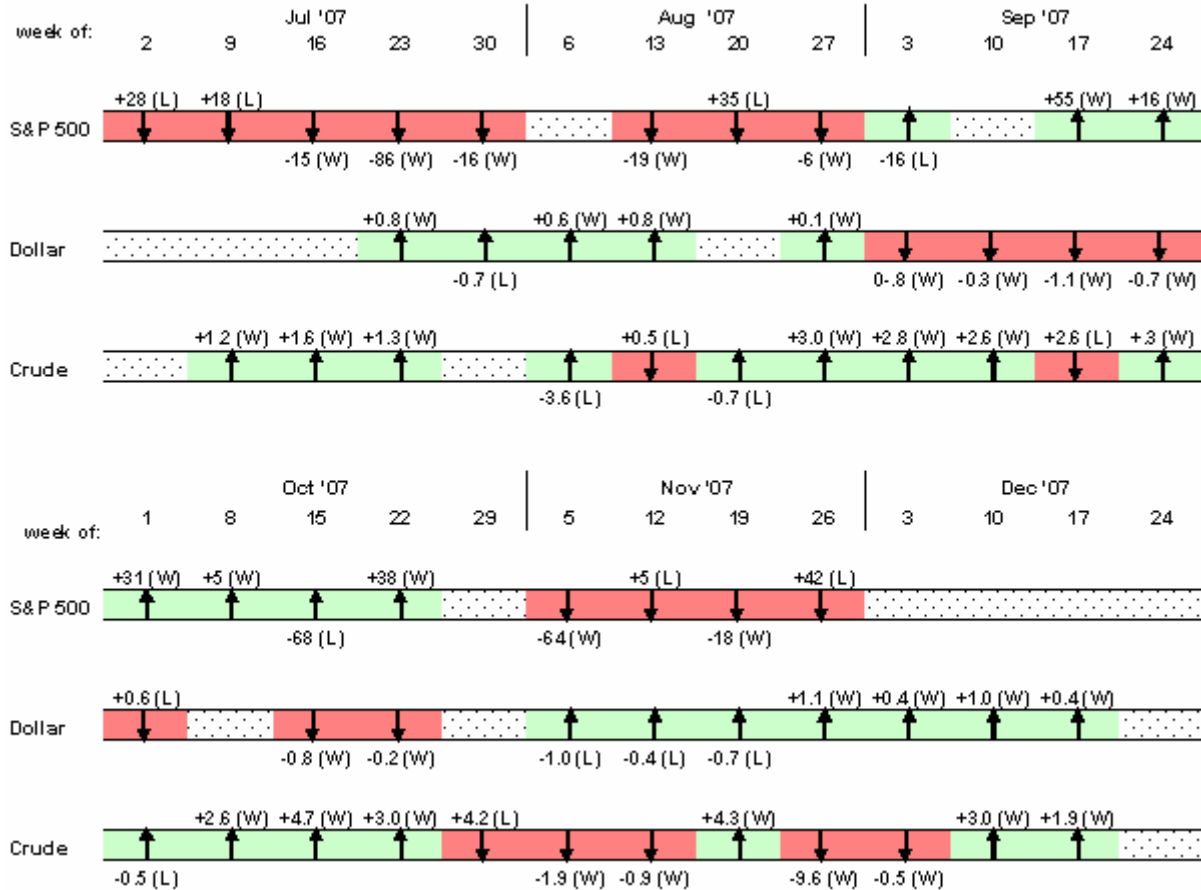
During the course of each month, researchers collect information surrounding current events and perceived future events, and qualitatively assess how the entity reacts to them. This assessment is the basis for the entity’s Predisposition and Emphasis assessments, which together produce the Manifestation 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).



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 (because of data availability and consistency markets are the easiest way to track the success of their social model). Below are the results of July-December 2007 applying the current model to past data, yielding a record of 43 wins and 18 losses. Since January 2008, statistics have been gathered by a third party (info available on request), and continue to show outstanding performance.



Methodology: For more information on our research and methodology, please see: <http://anewstory.org/documents/methodology.pdf>.