

MoodCompass®
Prophet For Your Portfolio™

February 2008 Preview

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February 2008: Domestic Despair Deepens, Global Tensions Rise

February is a month of exceptional despair (extreme Somber) for U.S. society. The Fed may cut rates, and the government may discuss economic incentives or other emergency measures to jump start the economy. However, no matter what is suggested, promised, or actually done, with the high Somber/Directing filter (extreme high West) anything said or done either sounds like it comes from a place of panic, or is responded to with panic. In addition, any time that some glimmer of hope begins to show, some new bit of bad news that wasn't a part of the previous equation is likely to appear. Back in January, there was great concern expressed about the U.S. economy and the possibility of recession. Those fears have not gone away in February, but a whole new set of worries have arrived.

For the past few months, the rest of the world has been seen as steadily expansive, and as possibly having the ability to compensate for slowing U.S. growth. This view shifts drastically in February. While in January some U.S. analysts may have considered other economies to be "on the right track," and looked admiringly at Asia's growth, for instance, these kinds of commentaries will change to less complementary terms. From the view of U.S. society, the world in February looks suspicious, deceitful, belligerent, and manipulative (high Manic/East). The focus is no longer on how well some other countries are doing, but how dangerous some of them are, and how they cannot be trusted. The high Manic in general signals chaos and unpredictability. We do not know what "they" are going to do next. This sentiment will cause the price of crude oil to climb, even though the global economy is slowing, stock markets are plummeting, and the U.S. Dollar is rising—not a good combination for recovery.

Week of Jan. 28: International focus begins to shift from seeing the world as a place of opportunities for growth to one of suspicion and unpredictability. This growing attitude, which will be in place all month, will support crude oil prices in spite of economic concerns. Whatever decision comes from the FOMC meeting will have little, if any positive effect on the extant jitters in the stock market. The U.S. government "flexes its muscles" near Feb. 1-4 (surge in Directing). Any international statement related to this will be sorely lacking in diplomatic tone (extremely low Nurturing).

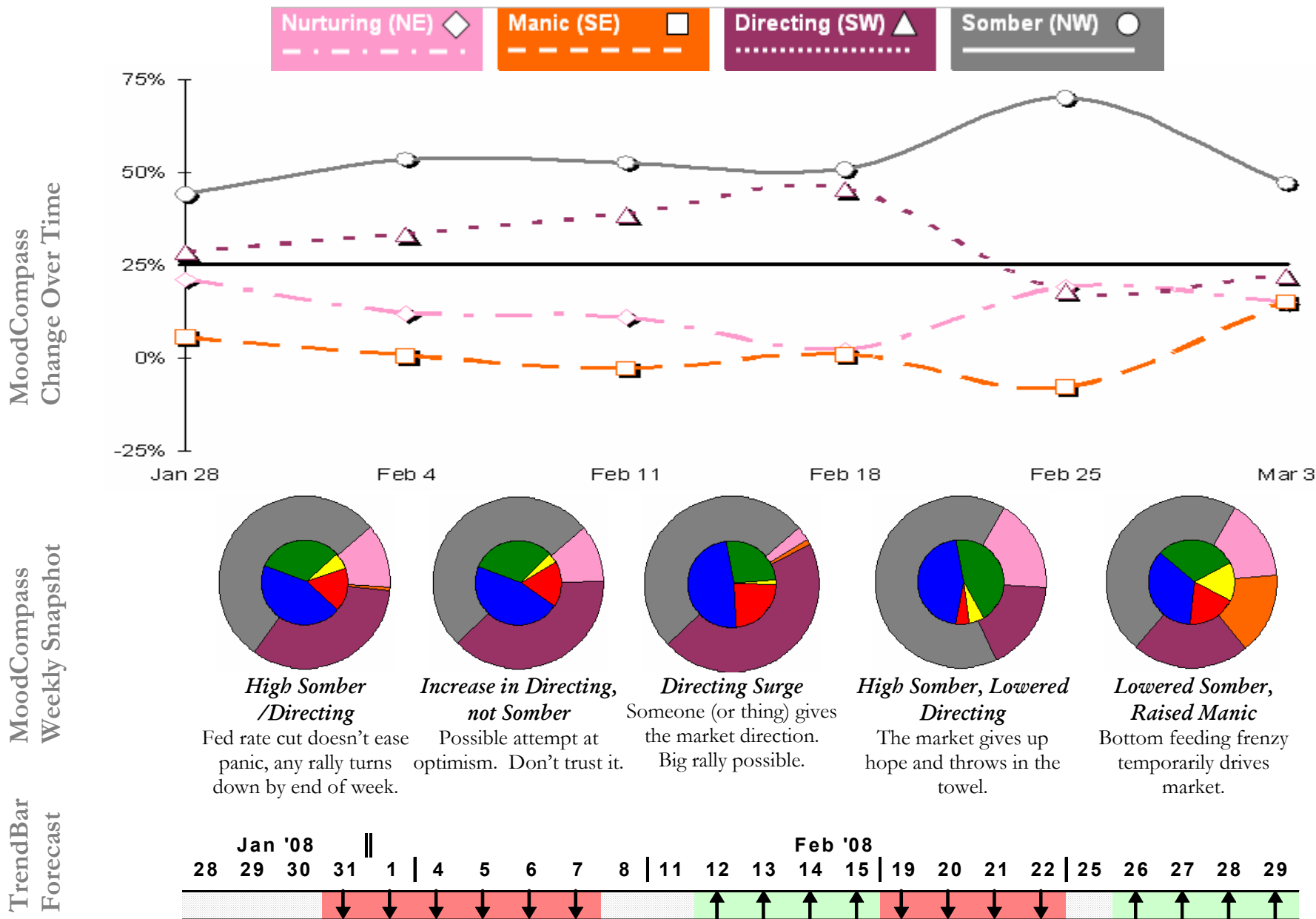
Week of Feb. 4: Futile attempts at bullishness in the stock market (very slightly lowered Somber)—rallies should not be trusted. Commodities decline as the Dollar makes substantial gains. Extreme volatility in the energy markets (high Manic).

Week of Feb. 11: A possible emergency intervention to support markets may occur this week. A relief rally is likely (lowered Somber/rising Directing).

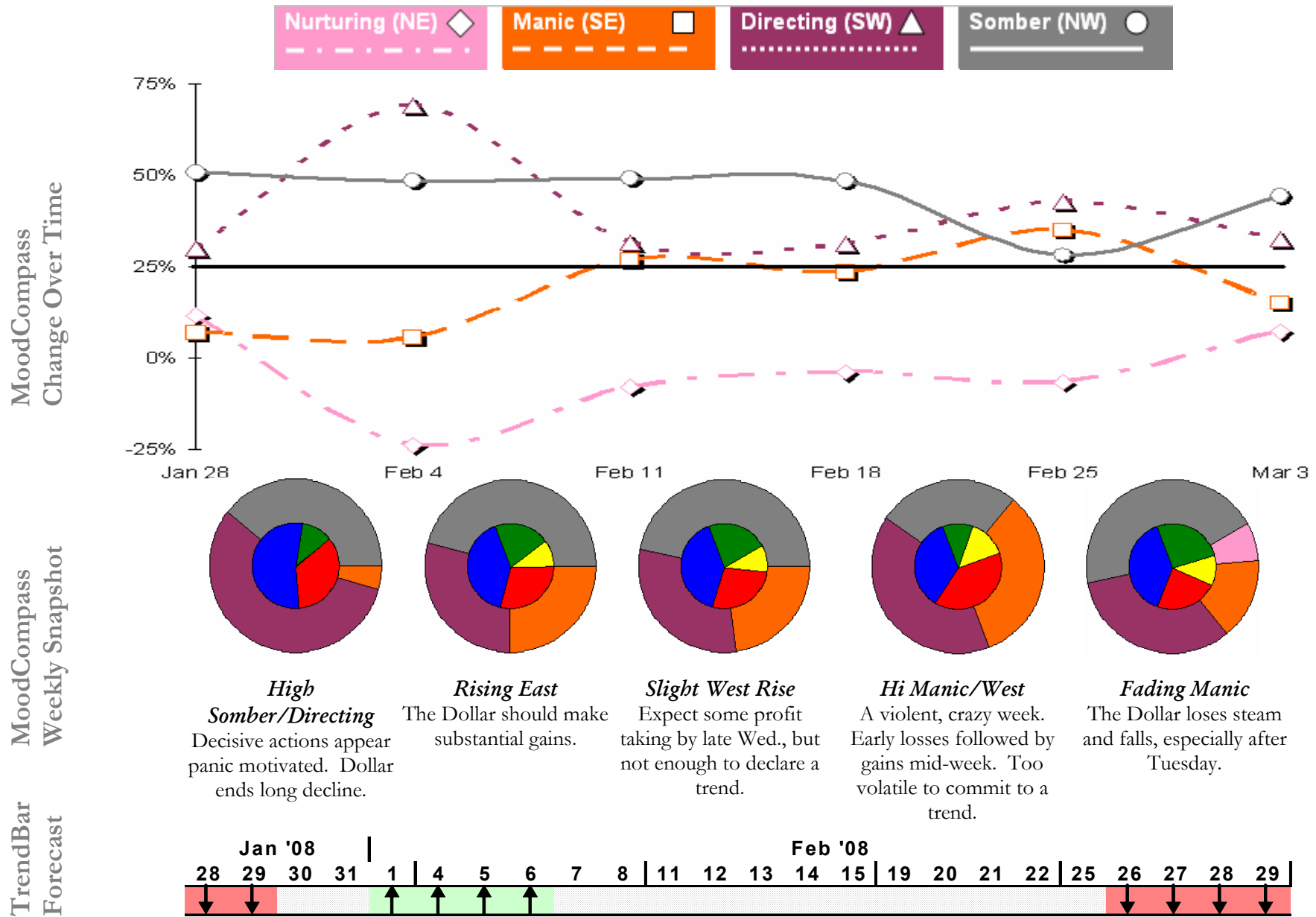
Week of Feb. 18: A substantial increase in geopolitical tensions causes a big rise in crude prices (increase in Directing/Manic, lowered Nurturing). U.S. government profile shows high Directing/Manic/Somber with extremely low Nurturing which is often associated with a perceived hostile international stance or action. Crude oil makes large gains. U.S. position is not amenable to diplomacy. The stock markets experience excessive losses (extreme high Somber), the Dollar could gain some.

Week of Feb. 25: There is a substantial increase in diplomacy (Nurturing) in the geopolitical arena, which calms down the stock market and allows for quite a rally. This week should hold some gains for the Euro and losses for the Dollar (drop in the two South factors Directing and Manic and increase in North).

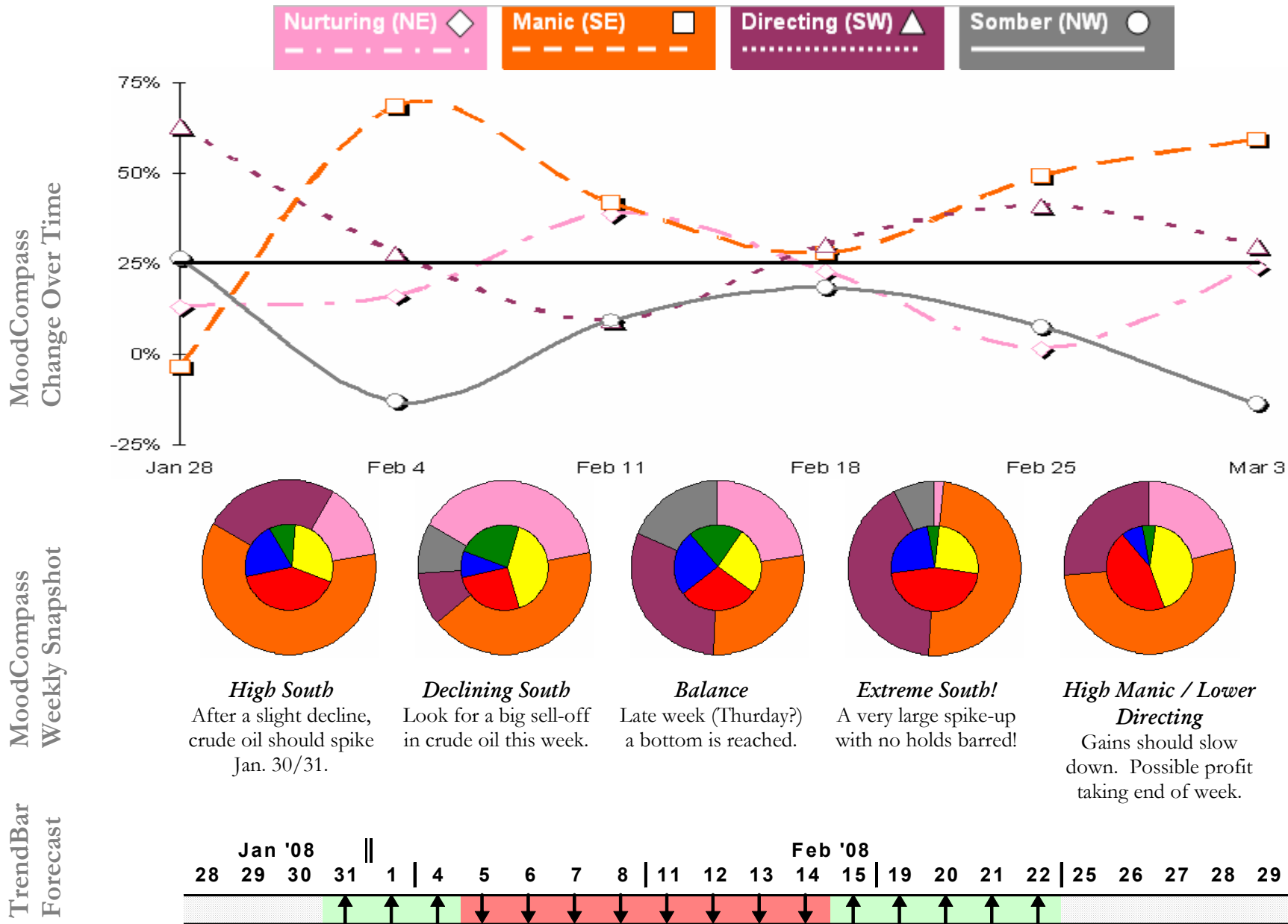
US Society – S&P 500 : February 2008 Preview



US Government – Dollar : February 2008 Preview



US View of World – Crude : February 2008 Preview



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.

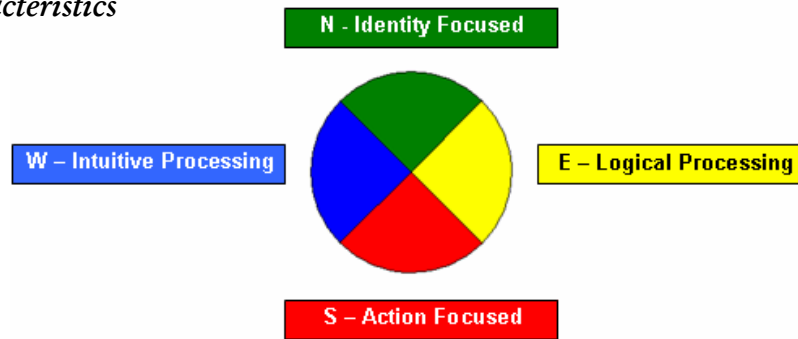
MoodCompass was Born

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

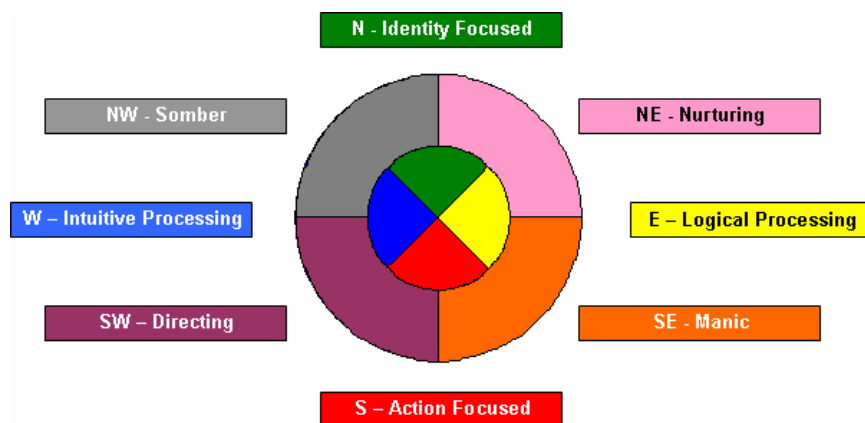


Hybrid Characteristics



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.

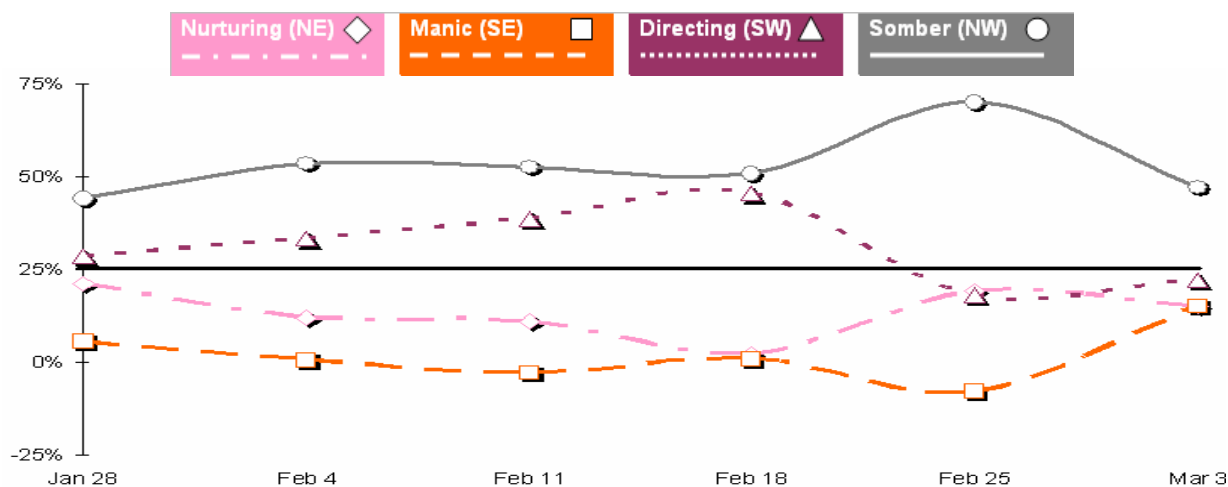
Tracking Profiles Over Time

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.

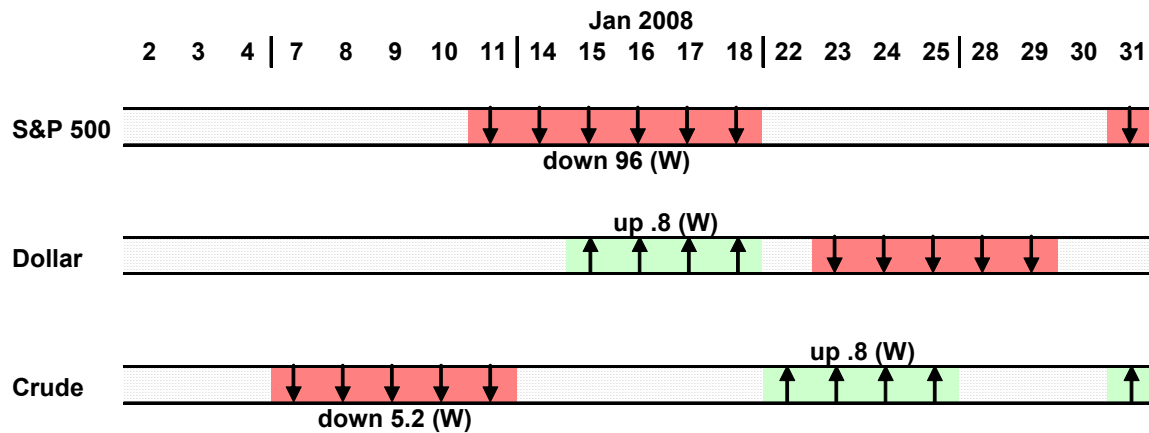
During the course of each month, researchers collect information surrounding current events and perceived future events, and qualitatively assess how the entity reacts to them. This assessment is the basis for the entity’s Predisposition and Emphasis assessments, which together produce the Manifestation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

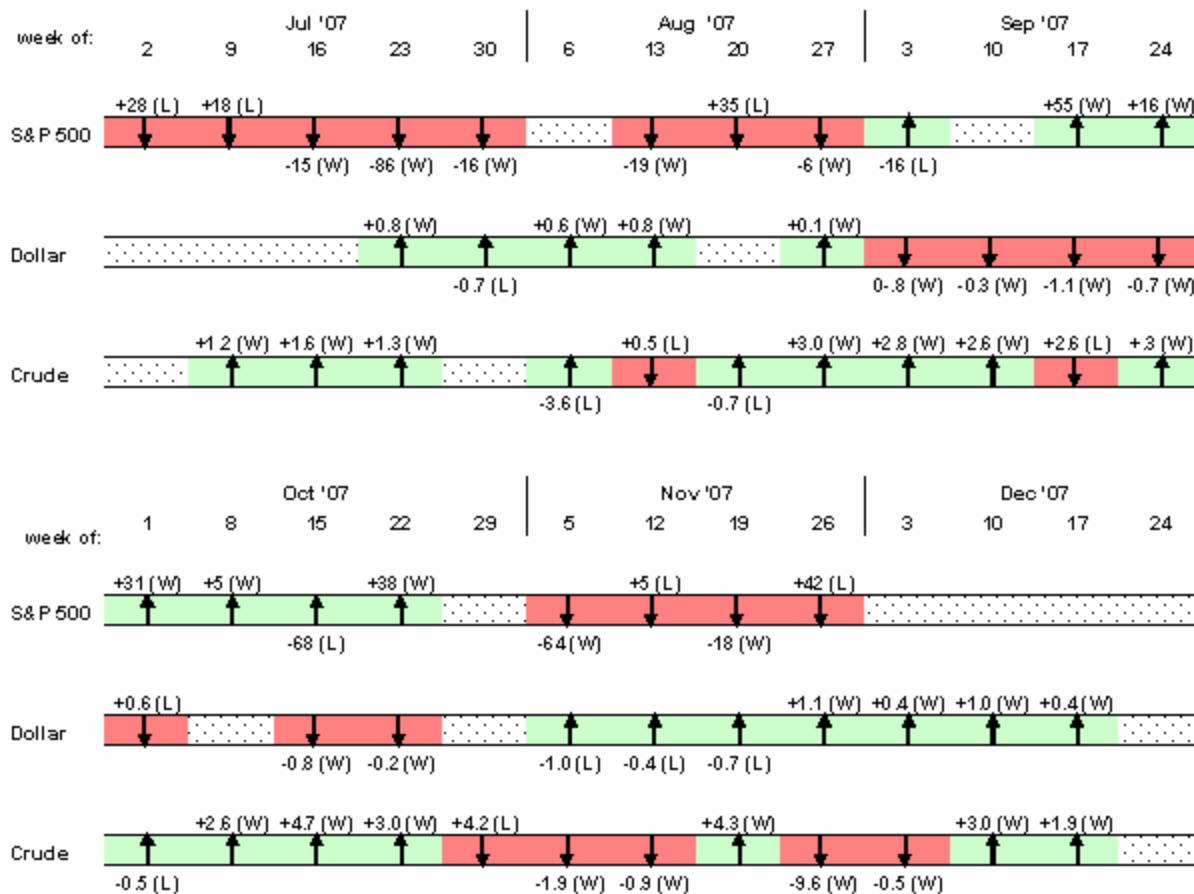
Market forecasts are presented using “TrendBars,” a timeline that displays our forecasted trends and historical results. Below are the TrendBars for January 2008 (as of January 25th). The four completed trends were wins, two trends are in-progress, and two trends were forecasted to begin on the last day of the month.



While we do not recommend any specific types of trades based on our information, we do gauge the success of our forecasts. We measure the success of each trend based on prices from the futures markets—the S&P 500 index, the dollar index, and the price of crude oil. We use pit trading prices at the market-on-close (MOC) entering and exiting each trend. For example, on the S&P 500 TrendBar above, the change in index price from MOC on January 10th through MOC on January 18th was 96 points.

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.



As of Jan. 25, 2008, MoodCompass has produced 4 wins and 0 losses, including the correct forecast of the massive stock market decline the week of Jan. 14. Unlike the week-to-week data from 2007, MoodCompass now pinpoints trends to the day.

