

MOODCOMPASS[®]
A GUIDE TO GLOBAL MOOD AND MARKETS

February 2009

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February 2009 – Can't We All Just Get Along?

Last month was rather interesting. There were so many puzzle pieces that looked so bad at a time that seemed like everyone should be celebrating – the drop in optimism and associated stock market downturn, U.S. Treasuries being sold off even though the stock market was declining, and an increase in anti-U.S. sentiment after a new, fairly popular president was supposed to take office. We were right on with the pieces of the puzzle. There was an actual 5% drop in the stock market on Inauguration Day itself. China, Pakistan, and the Arab world as a whole were less than pleased with the United States the very week the new president took office. However, as a whole, things were more or less “normal.” We must admit that we too were caught up in the expectations that a new president would mean that at least the mood *should* get better for a moment, and were concerned about what seemed to be a discrepancy. The new president is for the most part doing exactly what he said he would do, what the majority of Americans elected him for, yet the U.S. (and global) collective mood continues to sour.

In February, there are more reminders that things continue to be all too normal. Mid-month the stock market begins to crash (again!). The U.S. government is perceived to be disorganized, incompetent, and fragmented. With this configuration, it is likely that internal fighting and self-interest will impede agreements on any proposed solutions to the economic crisis (which should appear to be getting completely out of control). Whether or not they can get it together next month, we'll have to see. Regardless, don't look for any improvements in the economic outlook before spring! This next couple of months of stock market losses might be considered a grand finale of the “show” we have been watching since late 2007. During this period there is a heightened risk of social instability throughout the world, meaning a higher than normal likelihood of demonstrations, riots, and geopolitical escalation.

Week by week highlights:

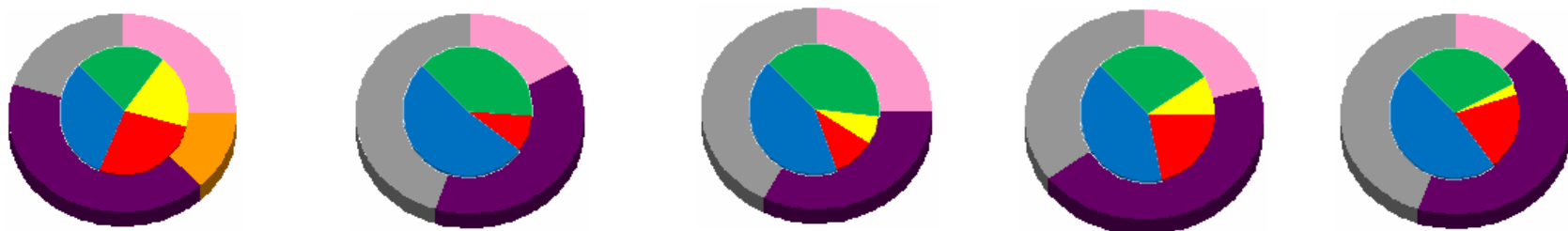
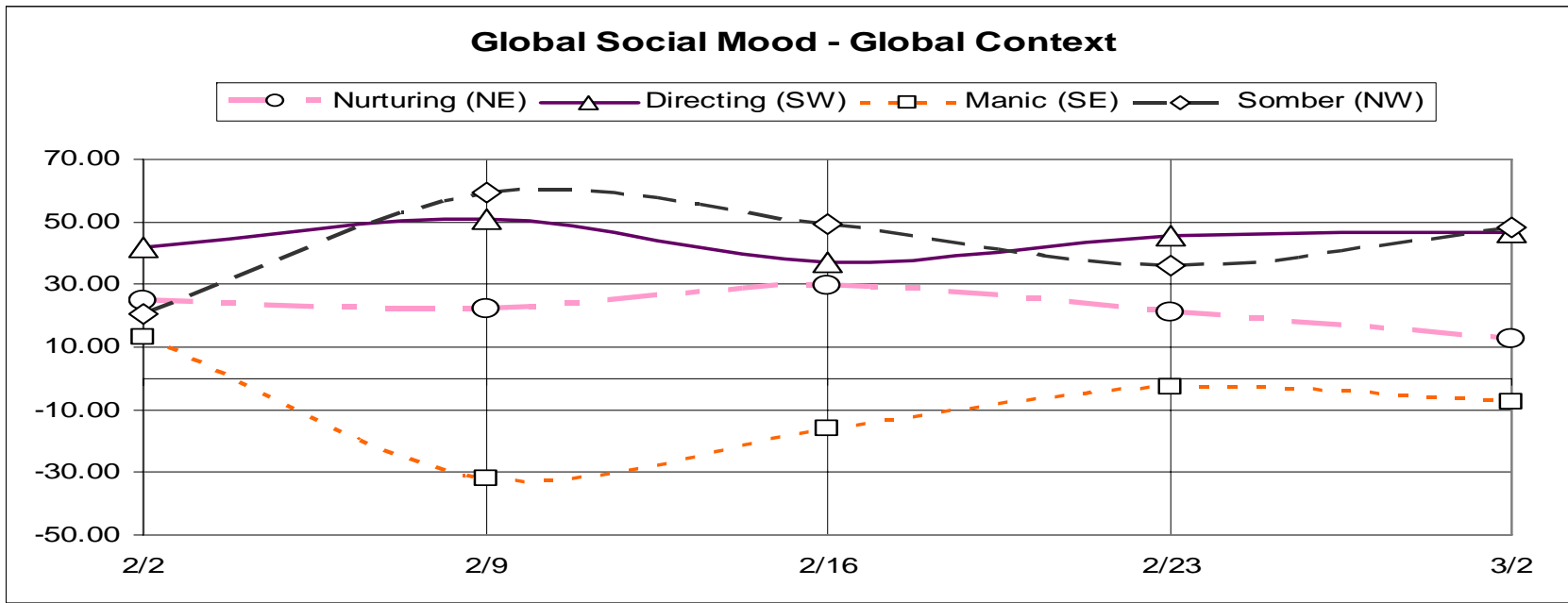
Feb 2-8: *Ambiguity and indecision:* The stock market hangs in there while lawmakers consider their options. Some analysts put on rose colored glasses and reconsider optimism later in the week.

Feb 9-15: *Time to panic yet?* Possible geopolitical tension increase. The U.S. government can't get anything useful done. The stock market makes any last rally attempt and begins to turn down.

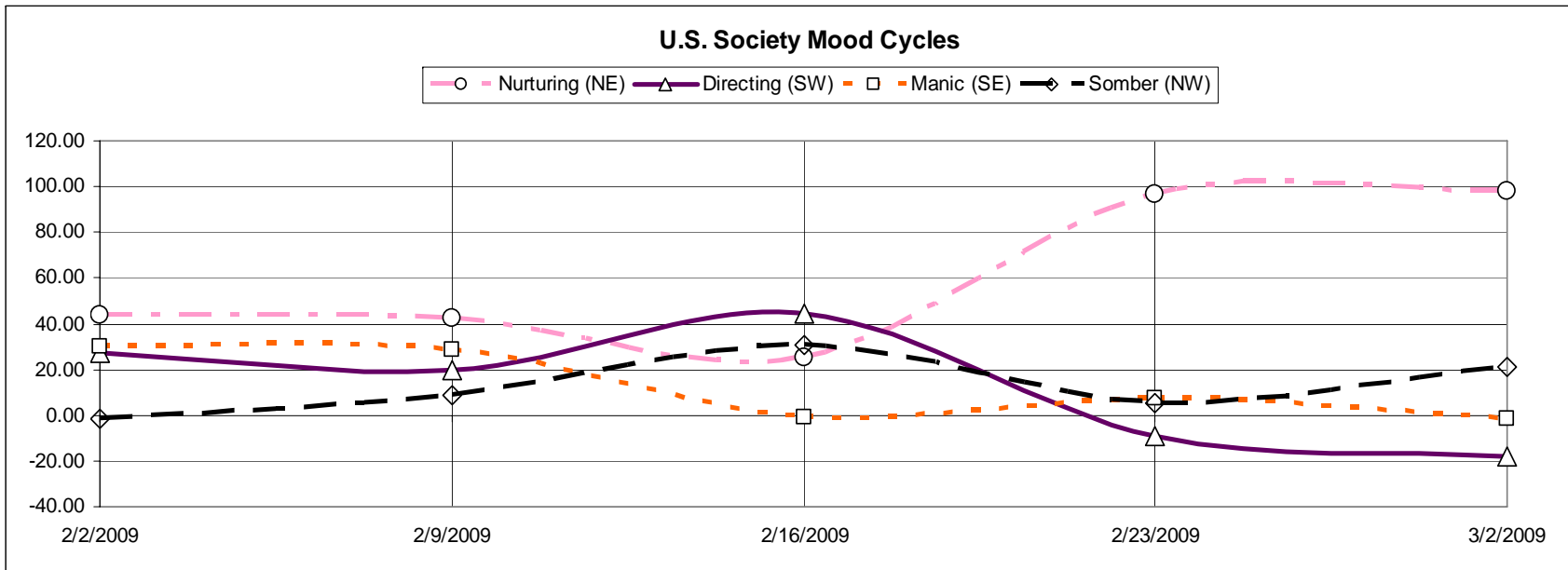
Feb 16-22: *Another stock market crash.* By late week and into the following week stock market losses accelerate. The U.S. government appears incompetent and unable to reach consensus on anything.

Feb 23-Mar 1: *It just gets worse.* See last week and multiply by 5.

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.

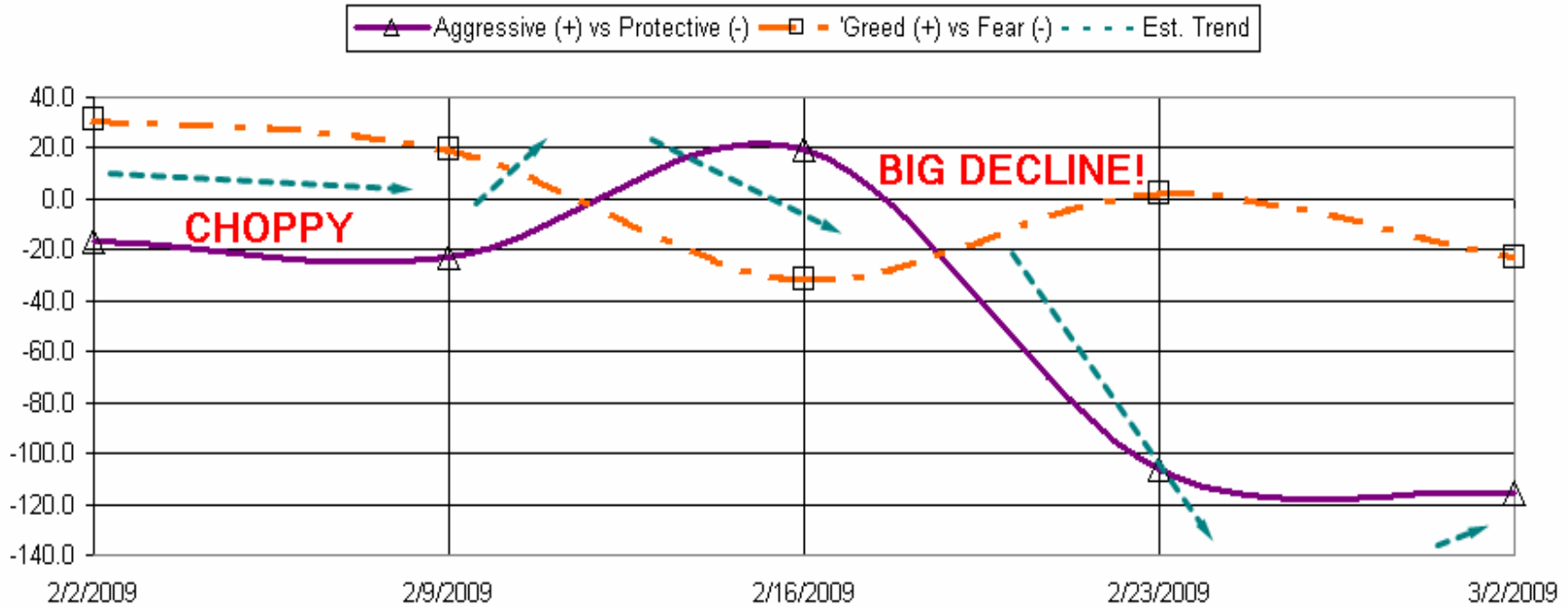


<p>Emotions run High; Denial runs Deep <i>With both West factors high the entire month, emotions rule the day. Data is irrelevant, and reason is optional. Between 2-5 and 2-17 is an attempt to deny the harsh realities of the global economy and social angst (High Somber/Directing). Global markets may rally in spite of a variety of reasons why they should be declining. Rose colored glasses are in vogue as this is a time for hope in spite of reality.</i></p>	<p>Panic returns <i>At some point, light gets through even the thickest rose colored glasses, and panic returns (high Directing/Somber). Global markets may decline sharply.</i></p>
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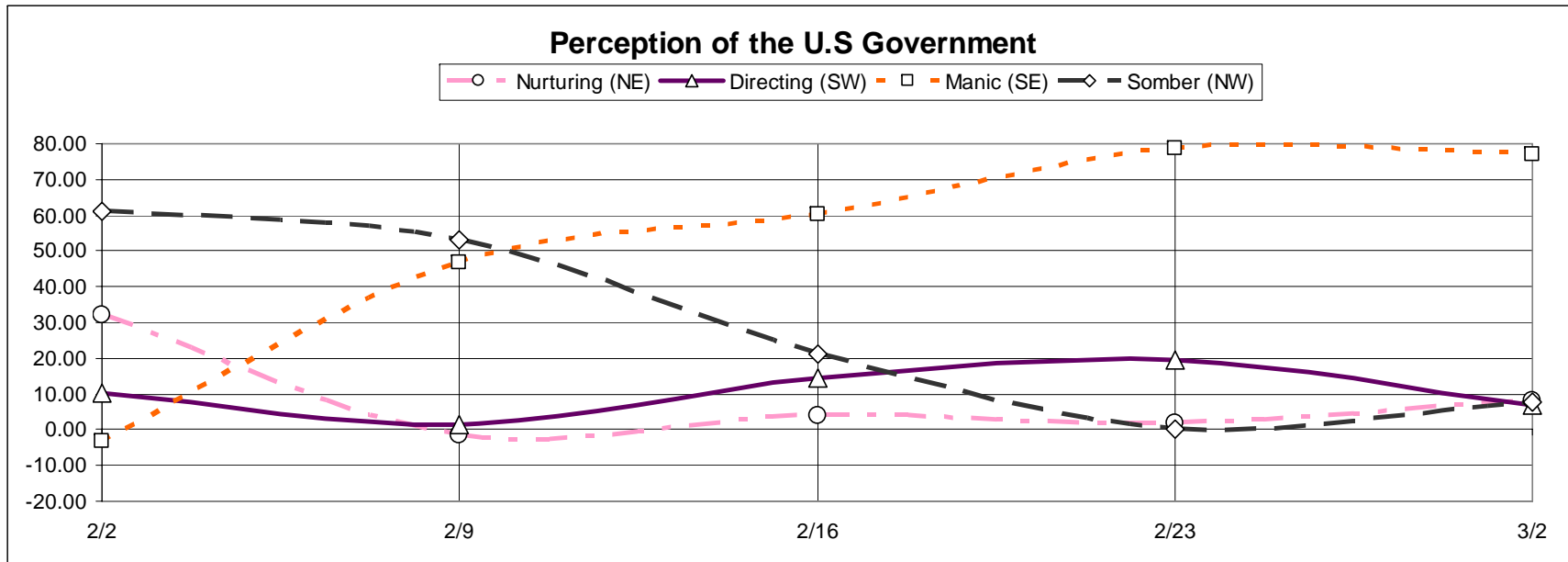
<p>Constriction and Confusion <i>No one is feeling particularly adventurous or anxious to take risks. With both East factors high there is a lot of talk, but little certainty (think of the Scarecrow in the Wizard of Oz trying to tell Dorothy which direction to take).</i></p>	<p>Panic and Safety Seeking – Likely Stock Market Crash! <i>The high Directing/Somber combination indicates a proclivity to panic. This is followed by a shift to the Safety Seeking configuration (Extreme Nurturing low Directing), especially Feb 19 - 25. A severe stock market downturn is likely during this period.</i></p>
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U.S. Society Mood Pairs => Stock Market Trend

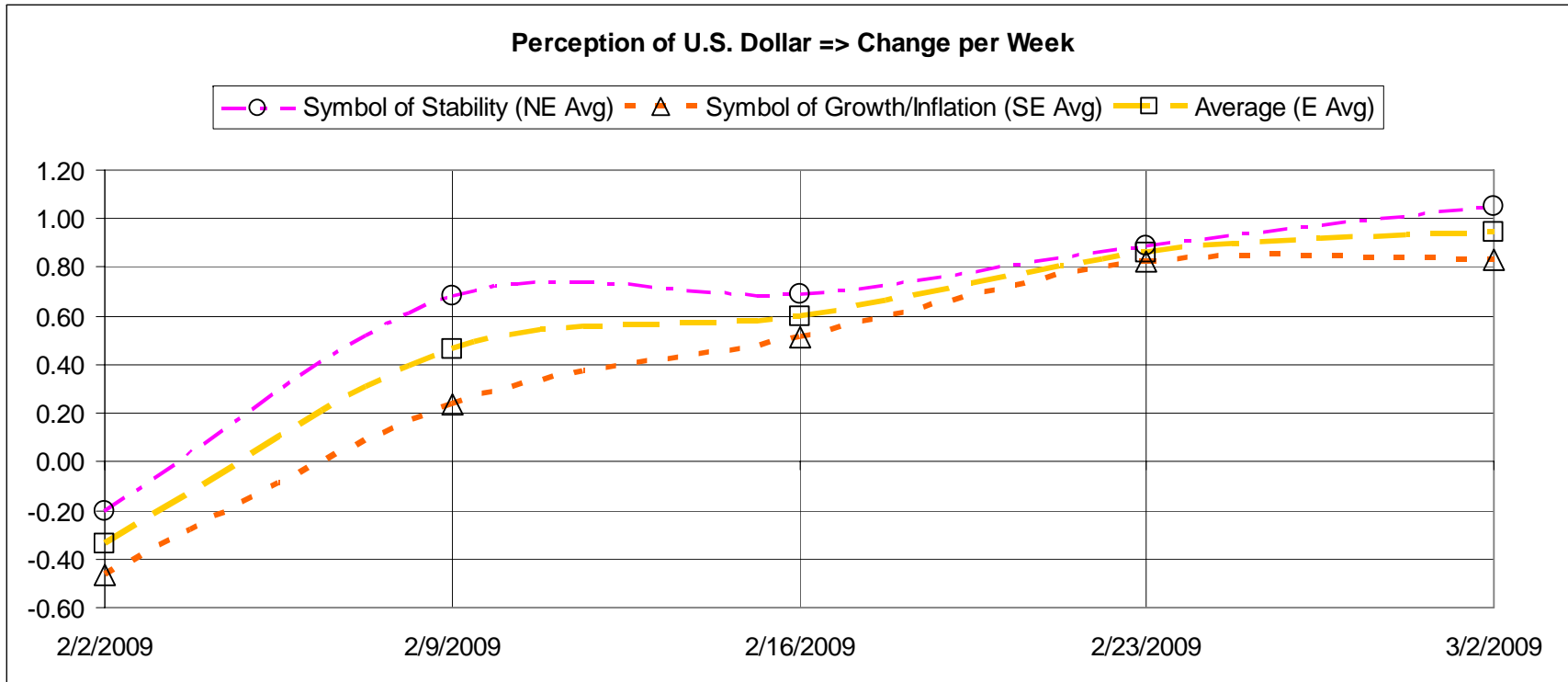


Explanation of chart lines: *It is common knowledge among traders that movement in the stock market is based on a “tug of war” between pairs of sentiment. This charts the two primary pairs which correspond to the general stock market trend. “Aggressive vs Protective” is the difference of the values of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

Stock market prices are choppy and confused through early in the week of the 9th. Near 2/11 the panic begins to set in a downturn begins. By February 19th losses should begin to accelerate into the following week.

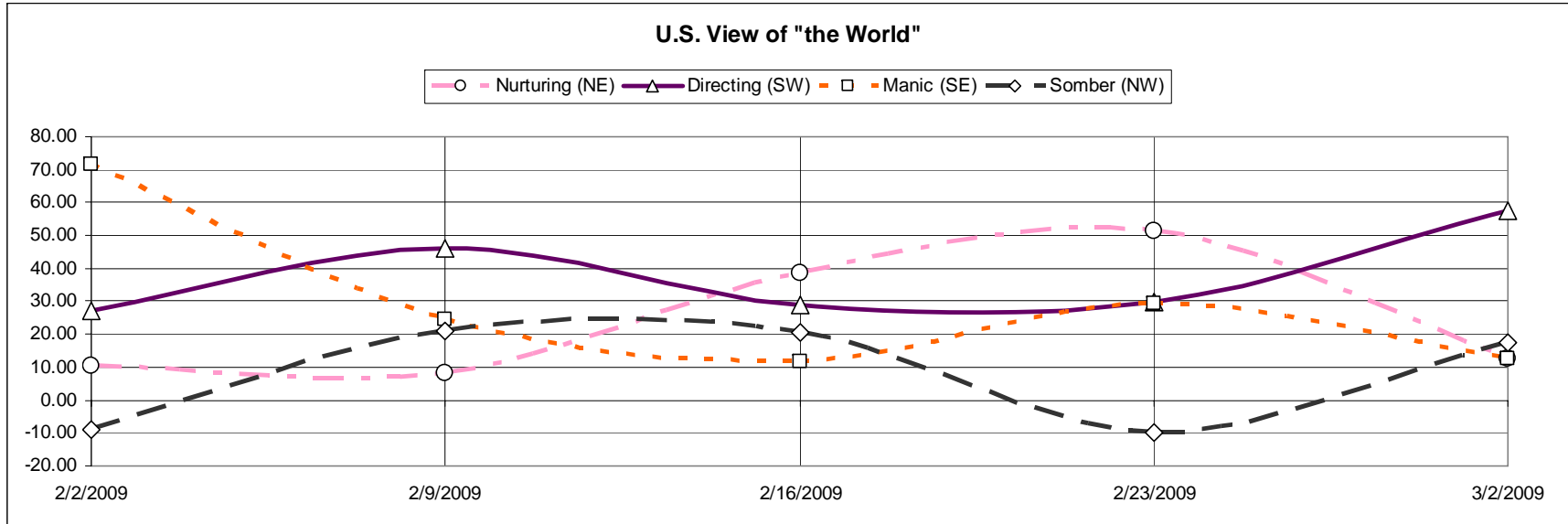


<p><i>Can the Government be Trusted?</i> <i>Public opinion towards the U.S. government is in a precarious position as motivations and intentions are likely to be questioned (high Somber/Manic). No one can believe that the public interest is high on the priority list; personal realities and agendas are in the foreground.</i></p>	<p><i>Chaos, Incompetence, and Disunity Prevail</i> Throughout the remainder of the month, there is a growing spectacle of Washington at its worst. The extreme Manic configuration which reaches a climax Near February 23rd is associated with ideological differences, arguments, chaos, disorganization, fragmentation, and divisiveness. Agreements between different parties, and even within parties should be near impossible no matter what the needs of the country are at this time.</p>
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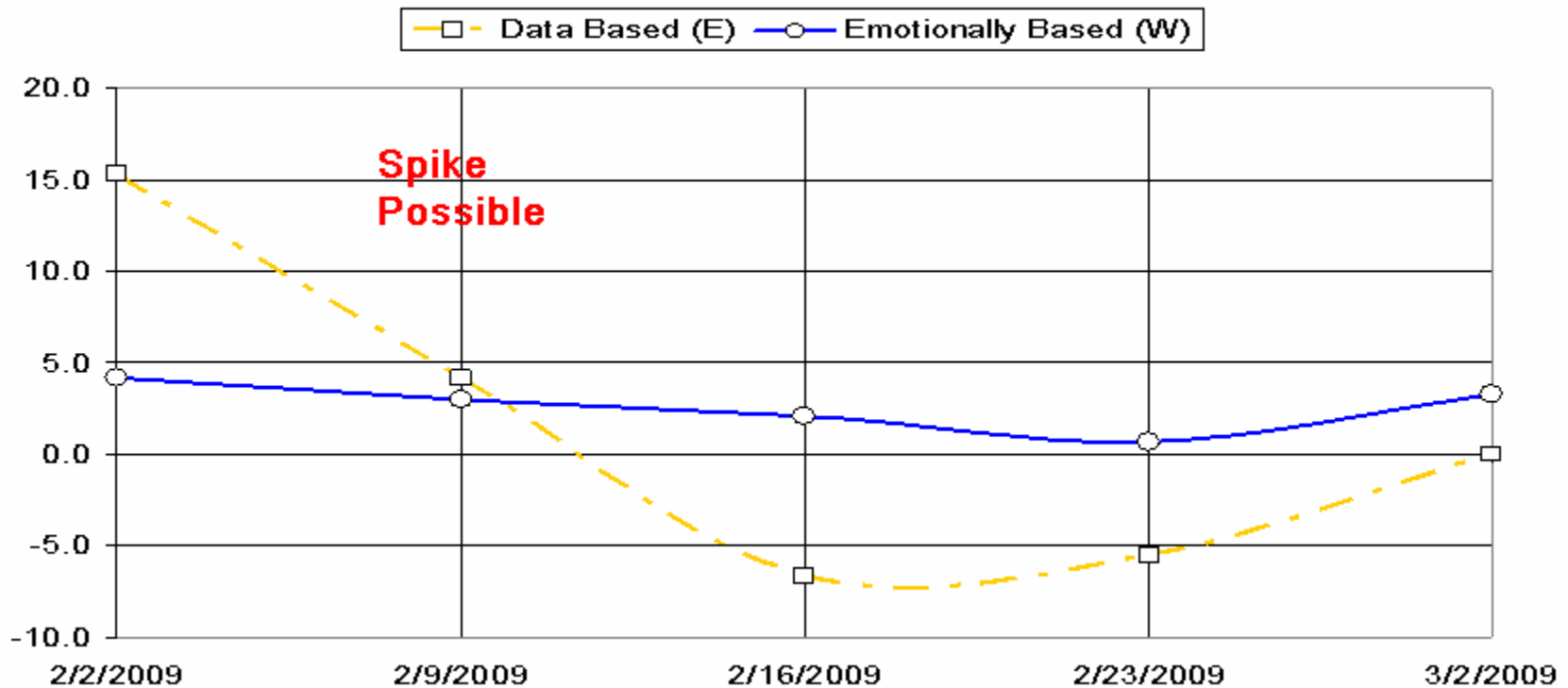
Explanation of chart lines: *The Dollar is a symbol of value, but it not attached to anything “real” such as gold as it was in the past. Its value is based on sentiment, and on the trust of a government to honor its debts. Because of this, its value ebbs and flows along with the oscillations of perception 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.*

The week of the 2nd could hold quite a correction for the Dollar. However, as economic concerns again come to the fore the week of the 9th, the Dollar should again resume its climb. A note of caution: with such extreme negative sentiment toward the U.S. government this period, a perception of chaos and disunity, it is difficult to imagine the Dollar being embraced with any enthusiasm. Yet, deflation concerns and deleveraging of Dollar based commodities could be strong enough pressures to boost the Dollar.



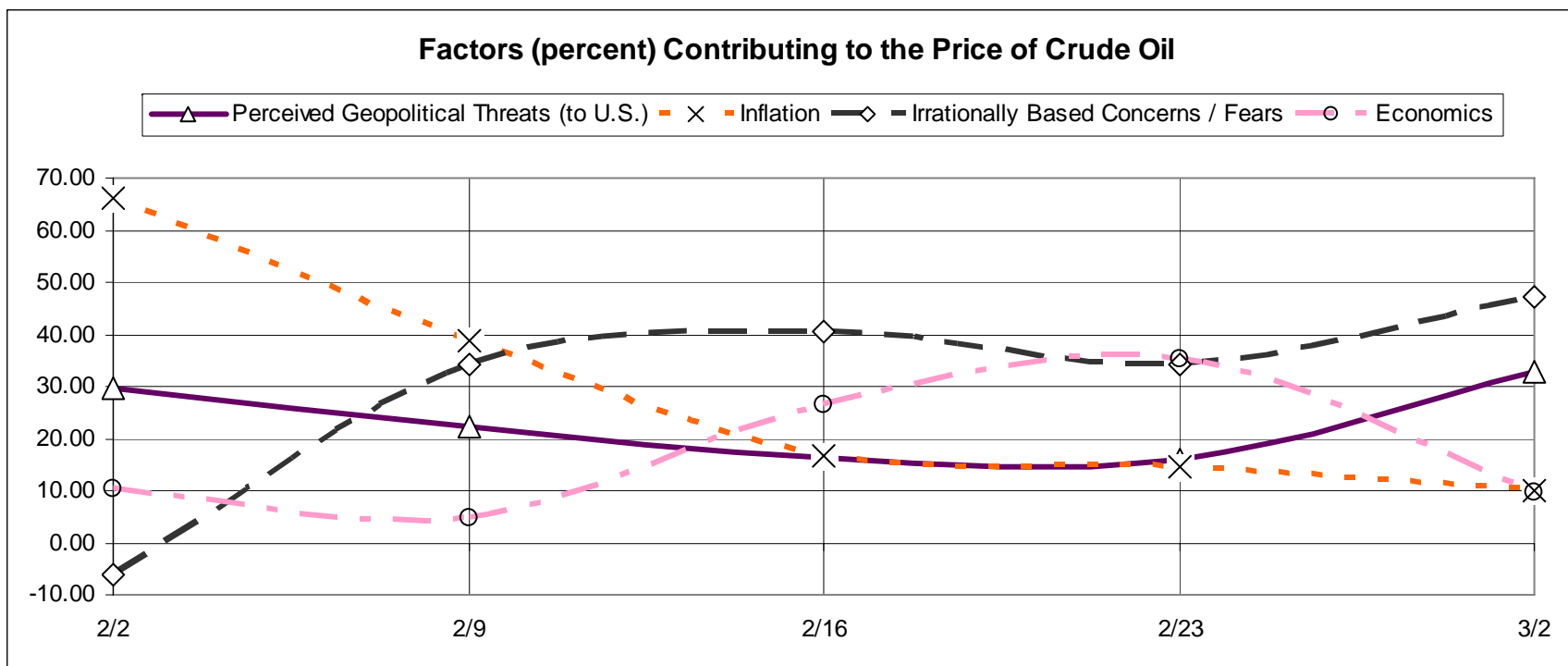
<p><i>Aggressively Postured</i> <i>Both South factors high indicate potentially volatile situations getting a high level of attention. High Directing indicates that some hostile global attention may appear to be directed at the U.S. (2/5 through 2/12).</i></p>	<p><i>The World is Hunkering Down</i> <i>Much of the world seems focused on the economy, on domestic matters, and on taking care of their own in general (high Nurturing).</i></p>	<p><i>Showing Strength</i> <i>The rise of Directing/Somber indicates an emotional response on the part of the world (likely negative) toward the U.S.</i></p>
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Crude Oil Sentiment => Price Change Per Week



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.*

The first week of the period is the most likely for prices to climb. A relatively large spike is possible anytime this week or the very beginning of the following week. Emotional factors continue to support prices while rational ones such as Dollar strength and economic slowdown pull prices down after February 9th. Prices should move down to sideways during the remainder of this period with possible gains the week of the 23rd.

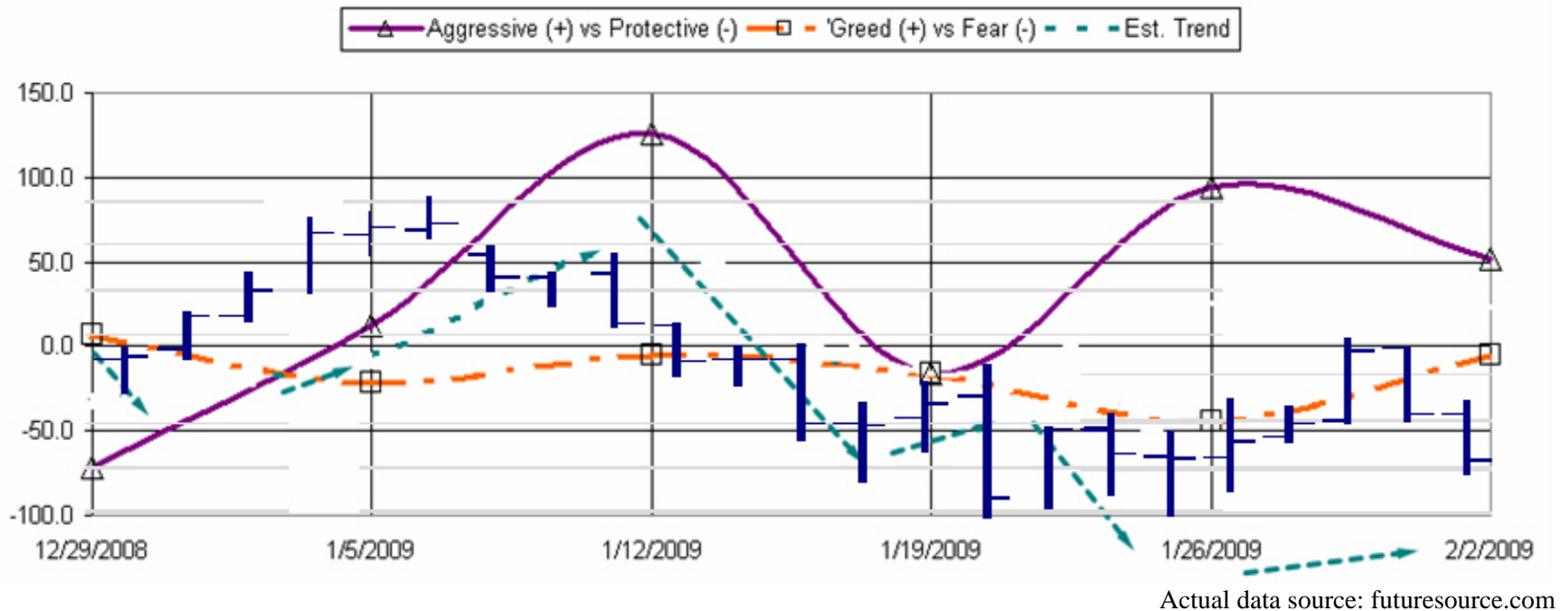


Explanation of chart lines: *The values for the Moodlines (Directing, Manic, and Somber) for U.S. View of “the World” and the inverse of Perception of U.S. Government are combined to produce this chart. This chart is useful in searching for potential geopolitical events, and escalated irrational fears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

Early in the week of February 2nd, the primary factor supporting crude prices would be instability in the U.S. Dollar, followed by the perception of an increase in geopolitical tensions. Following this first week, there is little to support crude prices (other than possible vivid imaginations). With the rise in economic concerns and little concern for the Dollar, this signals a likely return to deflation concerns and lower prices in commodities across the board, especially 2/12 – 2/23. Crude could pause in its decline, or even begin to recover near the end of the final week of this period as economic concerns are replaced with a refocus on geopolitical issues.

How We Did – Comparing our Charts with Actuals

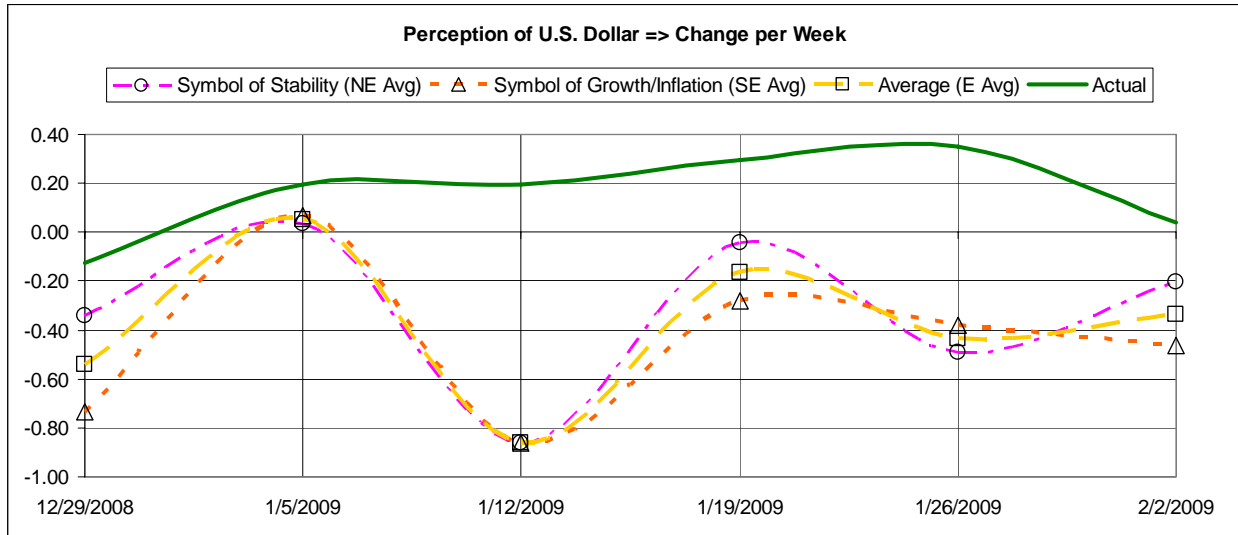
U.S. Society Mood Pairs => Stock Market Trend



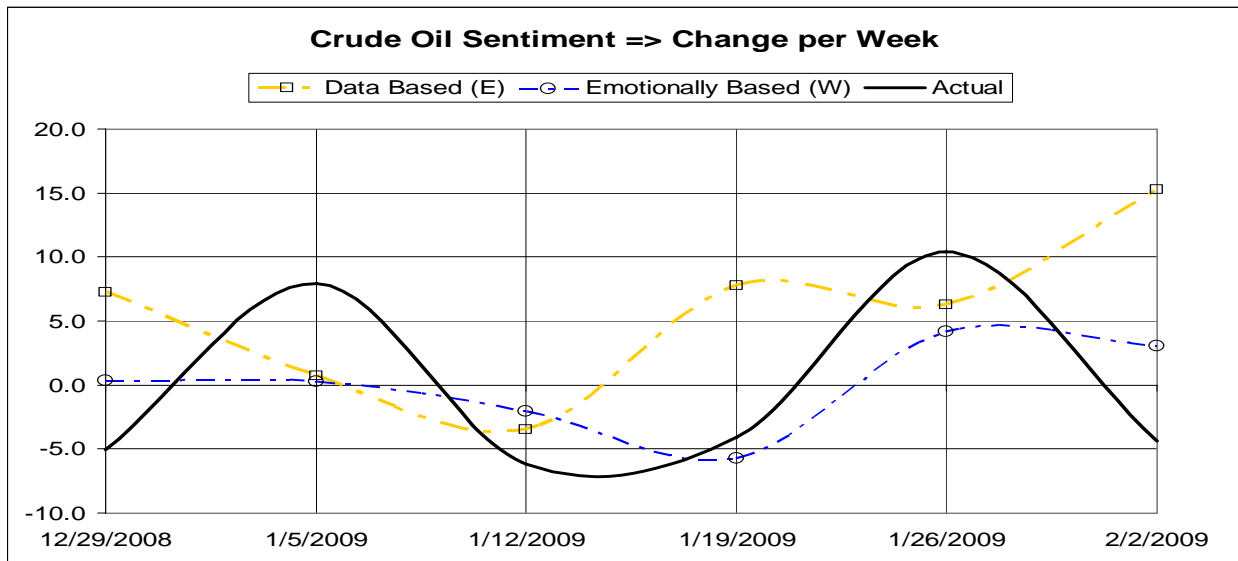
S&P (from previous issue): The week of the 29th should be somewhat negative and confusing. This is followed by what looks like a pre-Obama rally the week of the 5th as hope and excitement grab hold. Oddly, over a week before the inauguration, this hopeful outlook collapses beginning near 1/9 – 1/12. On or after Inauguration Day, the market should make another leg down. Some stabilization should occur the week of the 26th.

The pre-Obama rally lasted until 1/7. This was followed by a decline through 1/20, Inauguration Day, on which the market was down 5%. The market then stabilized somewhat, going into a sideways pattern. The S&P index was choppy, but unchanged the week of the 26th.

How We Did – Comparing our Charts with Actuals



Dollar (from previous issue): Other than a possible U.S. Dollar rebound near 1/2 – 1/7, sentiment toward the US Dollar is mildly to strongly negative this entire period. The strongest decline in the Dollar should be near 1/9 – 1/12, the same period that sees the sudden large drop in optimism for US Society. Actual: The Dollar climbed steadily; no correlation observed with our models. This often occurs at the completion of a trend, i.e. it indicates a trend change or correction is near.



Crude (from previous issue): The trend is up (barely) the first week of this period. However, whatever facts (E) supported prices the week of the 29th seem less relevant the week of the 5th. The week of the 12th is likely to be turbulent as sentiment (W) continues to decline while the data strongly supports a price surge. Both E and W factors are >0 the last two weeks, indicating higher prices are likely, with the largest gains expected the week of the 19th. Actual: Prices were up the first week, even more than expected, followed by an expected decline. The week of the 19th did see the largest gains so far this period. There was a decline the week of the 26th.

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.

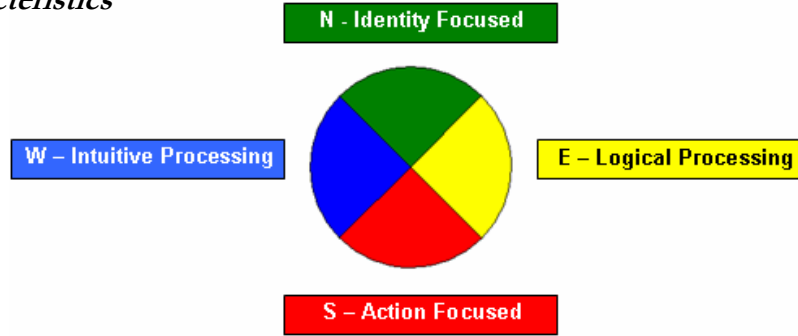
MoodCompass was Born

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 make their global mood and market forecasting information available to interested parties, 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

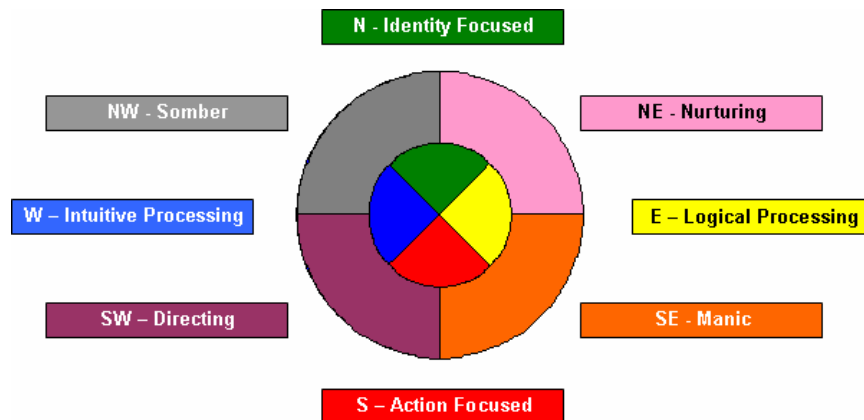


Hybrid Characteristics



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.

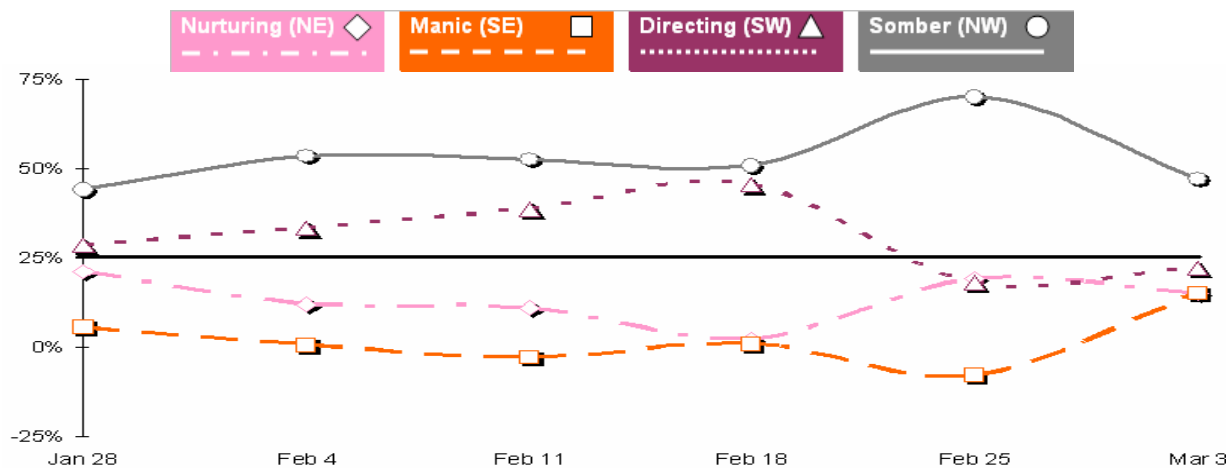
Tracking Profiles Over Time

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).



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

Technical Details: For more information on how Moodlines are converted to market forecasts see http://anewstory.org/documents/market_movement_from_moodlines.pdf.