

**MOODCOMPASS<sup>®</sup>**  
**A GUIDE TO GLOBAL MOOD AND MARKETS**

January 2009

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## January 2009 – A Year Begins; an Era Ends

2008 was a difficult year. Many have been expressing relief at the coming of a new year with new possibilities, and hopefully a new direction. If January is any indication of what the coming year will be like, well, let's just say this has been the most difficult issue we have ever put together.

Each month we recalibrate the cycles for the collective moods and perspectives that we study and put the charts together for the following month. Following that, the cycles are interpreted in the context of current events and anticipated near future events. As much as possible, all of the resulting social mood and market information is integrated into a likely scenario— a hypothesized “big picture.” This month, there is a known event, the inauguration of President Obama. However, the social mood and market outlook does not match what would be expected at a time of hope and celebration. The most likely scenario, as best as all the dots can be connected at this time, appears to be a worst case scenario.

The week of January 5<sup>th</sup> appears to be one of incredible optimism in the face of very negative current conditions. This could be a good case of Obama mania at its best. However, near the end of that week, or beginning of the following week this optimism abruptly collapses, global markets decline sharply, and US currency is abandoned as a safe haven. Then, as Inauguration Day passes, US Society enters “panic mode” and anti-US sentiment around the world increases. Connecting those dots, what conclusions would you draw?

One way or another January marks the end and beginning of an era. It should mark the end of the Bush presidency and the beginning of a new one. Another possibility is that it does not. This would mark a new era as well. Let us all just hope that we got this one very wrong this time.

Week by week highlights:

**Dec 29-Jan 4:** The week begins with global upheaval and economic worries. Energy prices may rise slightly in spite of US Dollar gains and economic concerns.

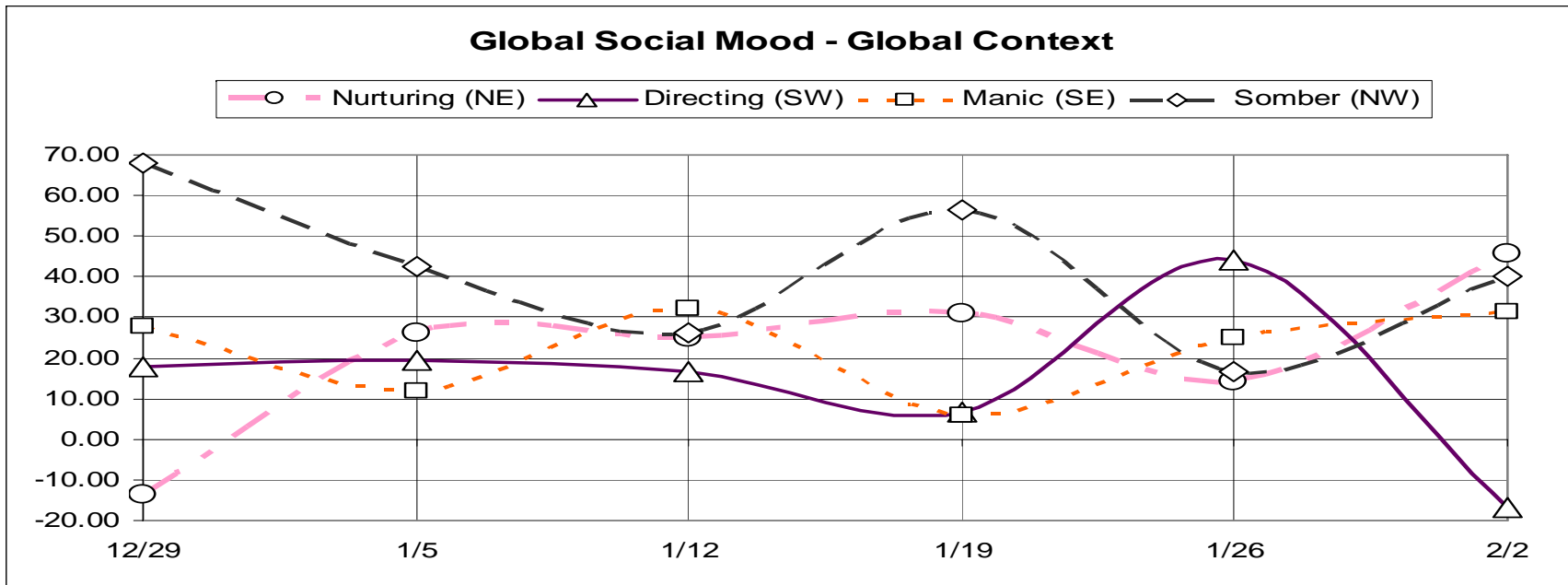
**Jan 5-11:** The Great Obama Rally! A contagious optimism spreads along with a collective effort to ignore current problems. Instead, there is a looking ahead with hope to better times just around the corner. Near the end of this week / beginning of next week, it all falls apart.

**Jan 12-18:** Hope Collapses. Near 1/9- 1/12 optimism abruptly falls off a cliff. Global markets could decline sharply. US Treasuries and the US Dollar are abandoned as safe havens.

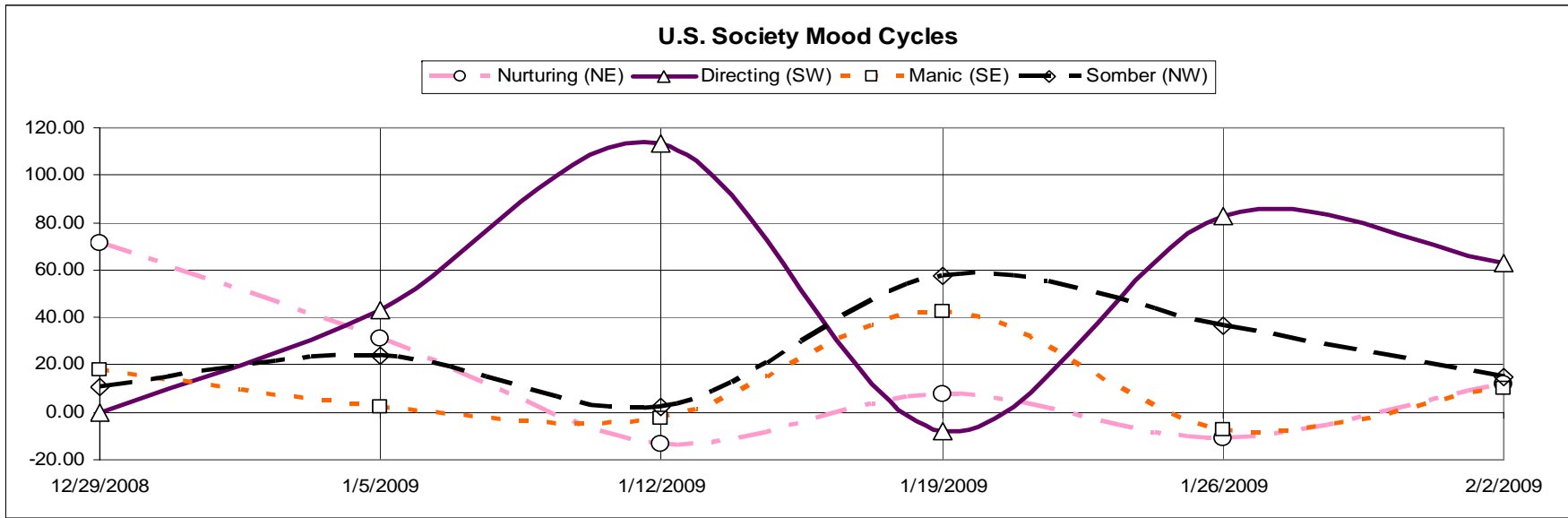
**Jan 19-25:** Things in general are “on hold” early in the week. As Inauguration Day passes, US Society enters “panic mode” and anti-US sentiment around the world increases. Markets start another leg down.

**Jan 26-31:** As the week goes on, some settling down occurs. The world is a different place.

*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.*

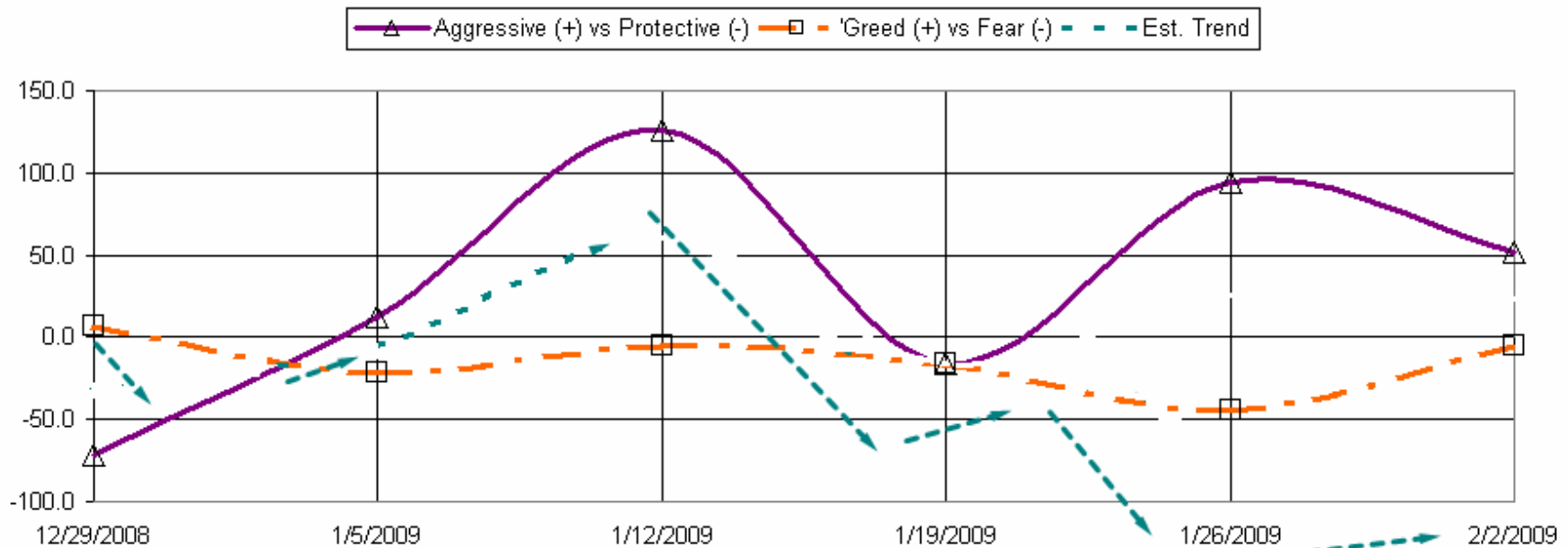


<p><b><i>Global Situation is Serious, but Little Can Be Done</i></b>                  There is a likely increase in global diplomatic efforts by the end of the first week (moderate Nurturing increase). Somber is high for much of this period, and directed action (Directing) is almost non-existent. Global leaders are paralyzed and/or ineffective. There is an unusually strong divergence between the Global cycles and the US Society mood cycles; an indicator to pay particular attention to the United States this month as its cycles are much more extreme overall.</p>	<p><b><i>World Tensions Increase</i></b>                  Near 1/21 the geopolitical situation may escalate somewhat with both South factors high. Near 1/28 the situation may seem less pointed as Directing declines.</p>
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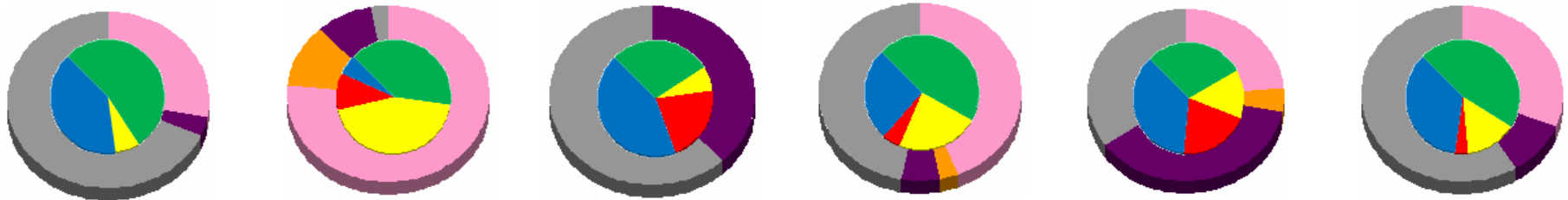
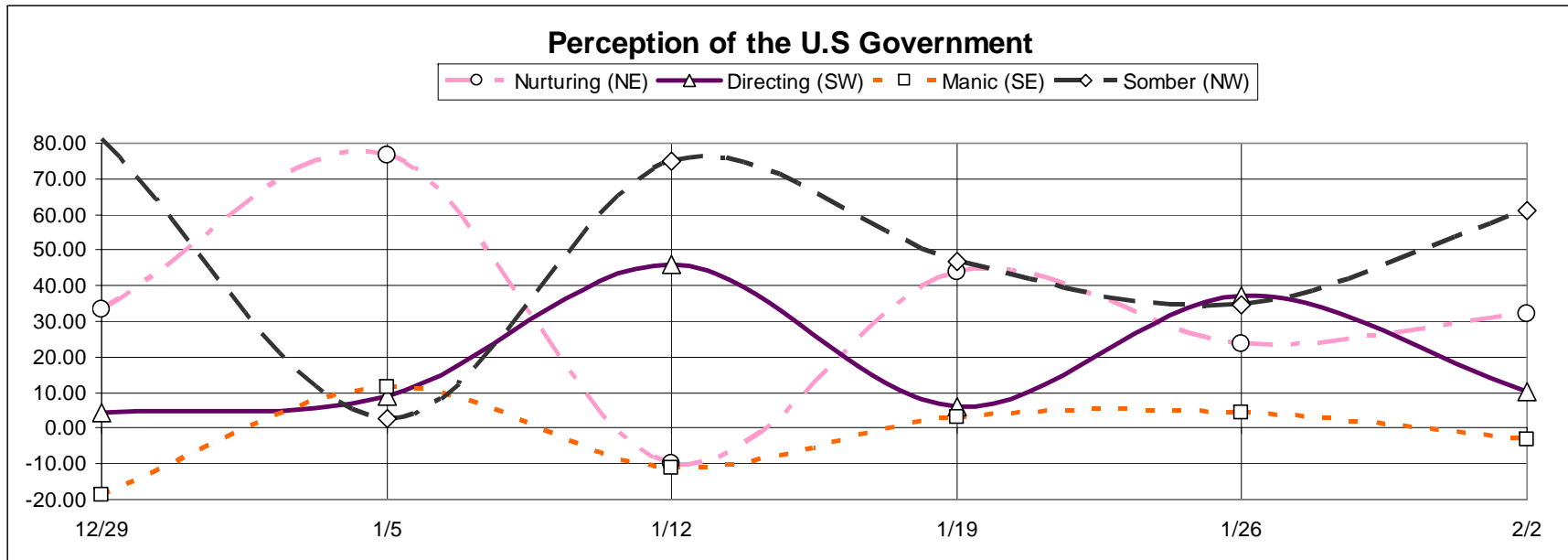
<p><b><i>Hunkering Down</i></b>  <i>Money is tight; people in general are trying to take care of their own. There is a “flight to safety” response likely to show up in the beginning of the week with high Nurturing.</i></p>	<p><b><i>Extreme Optimism</i></b>  <i>The focus is on hope and Obama as the inauguration draws nearer. An extreme Directing surge indicates a contagious optimism as people dare to believe things could get better.</i></p>	<p><b><i>Hope Collapses, Darkness Falls</i></b>  <i>Directing sharply and suddenly declines near 1/9 – 1/12 and is replaced with the “dark times” configuration (high Somber/Manic) 1/15 – 1/21. The timing of this is somewhat disturbing as a celebratory mood would most likely accompany the inauguration of a new president. There is no sign of celebration in US society at this time.</i></p>	<p><b><i>When All Else Fails, Panic</i></b>  <i>High Directing/Somber is a configuration signaling a generalized panic and is often accompanied by severe stock market downturns. This subsides somewhat towards the end of this period.</i></p>
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U.S. Society Mood Pairs => Stock Market Trend

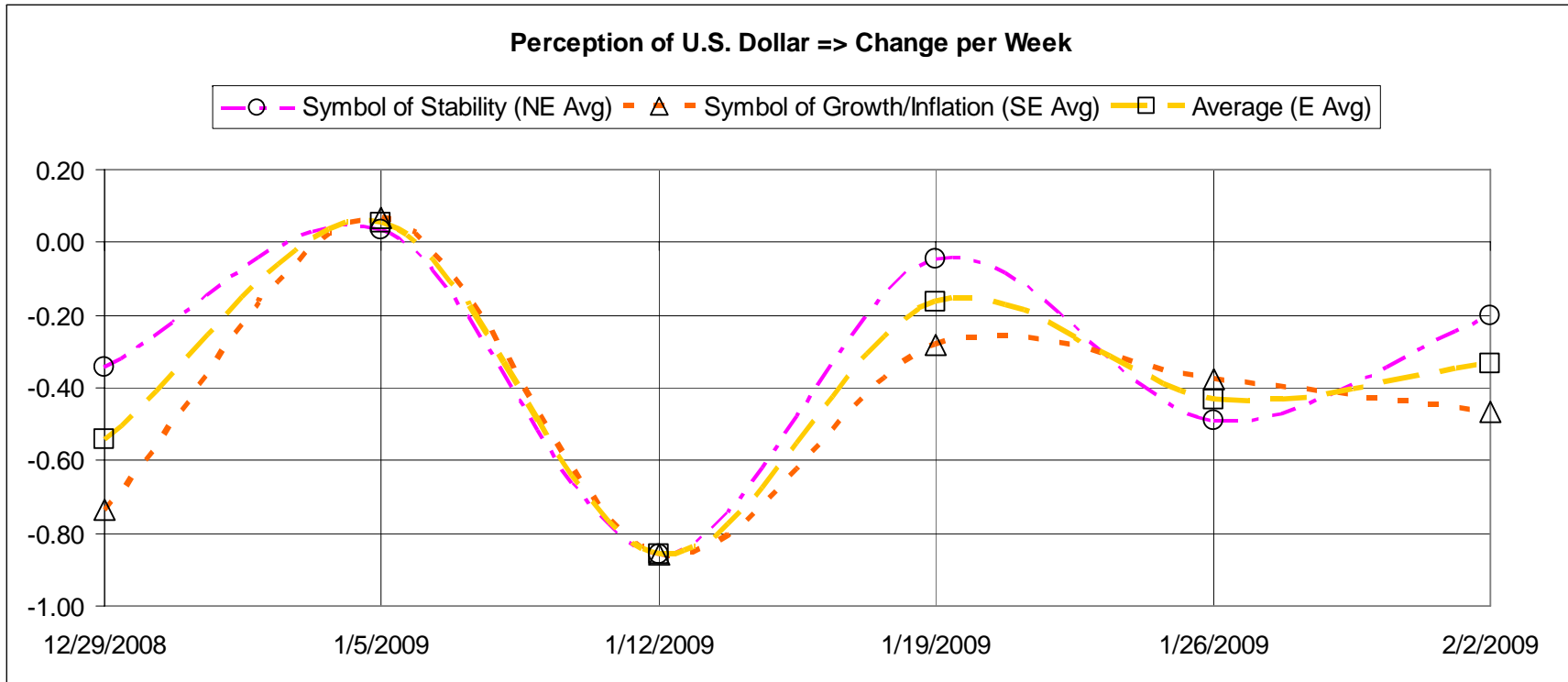


Explanation of chart lines: *It is common knowledge among traders that movement in the stock market is based on a “tug of war” between pairs of sentiment. This charts the two primary pairs which correspond to the general stock market trend. “Aggressive vs Protective” is the difference of the values of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

The week of the 29<sup>th</sup> should be somewhat negative and confusing. This is followed by what looks like a pre-Obama rally the week of the 5<sup>th</sup> 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 26<sup>th</sup>.

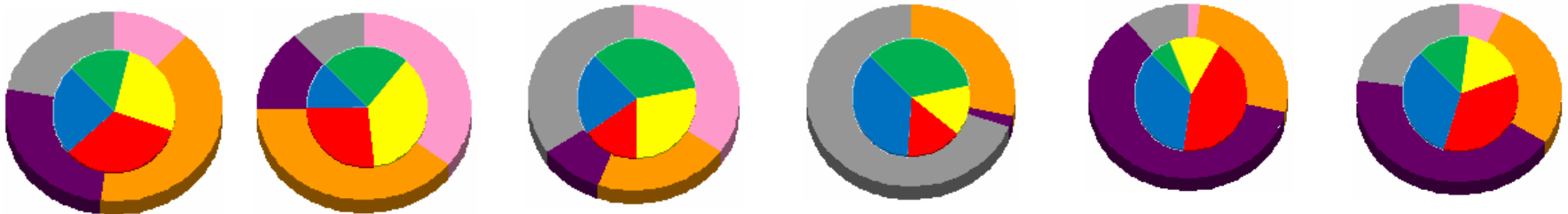
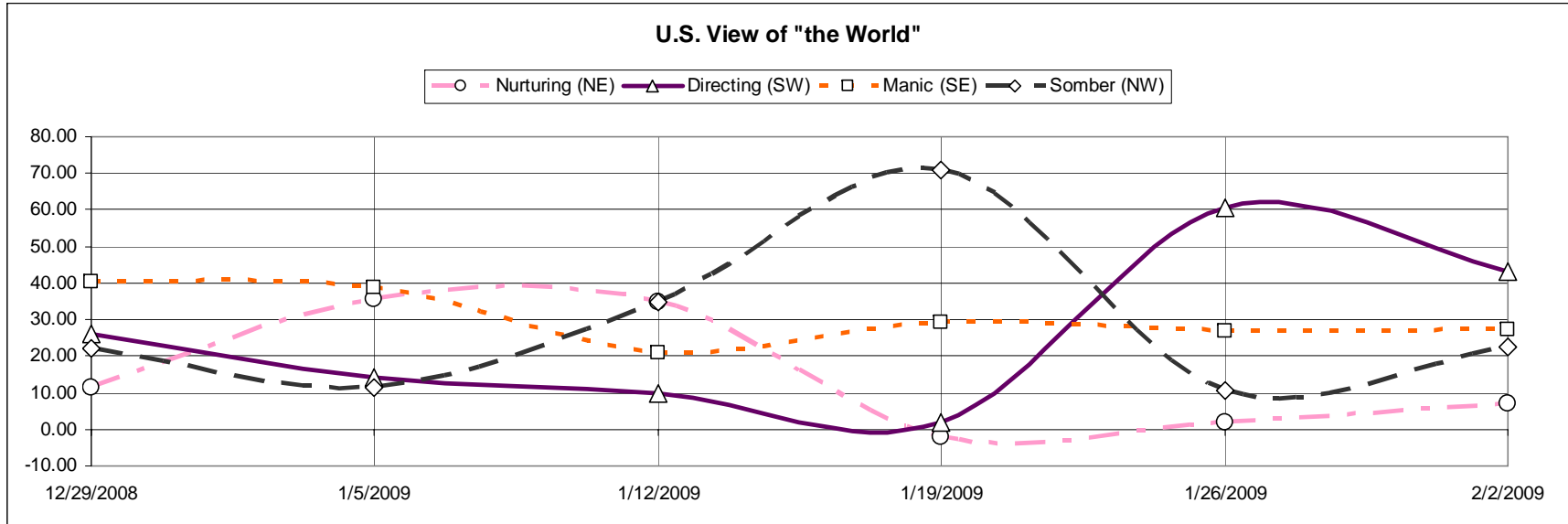


<p><b><i>Seriously Lame (still)</i></b>  <i>Extreme Nurturing indicates the perception of a government without teeth, and vulnerable to being stepped on, taunted, or ignored by just about anyone in the world.</i></p>	<p><b><i>Simply Delusional</i></b>  <i>Extreme Somber / Directing shows a government perceived as out of touch with reality or delusional.</i></p>	<p><b><i>A Government in Transition?</i></b>  <i>Both North factors high indicate a government that is “frozen” when something much more dynamic should be happening due to a new administration. While there is an increase in Directing or leadership the week of the 19<sup>th</sup>, it is extremely subdued. There is a remarkable lack of indication in the way the US government is perceived of a new administration having taken charge, or that much has changed at all. The non-existent Manic also points to a government NOT in a state of flux.</i></p>
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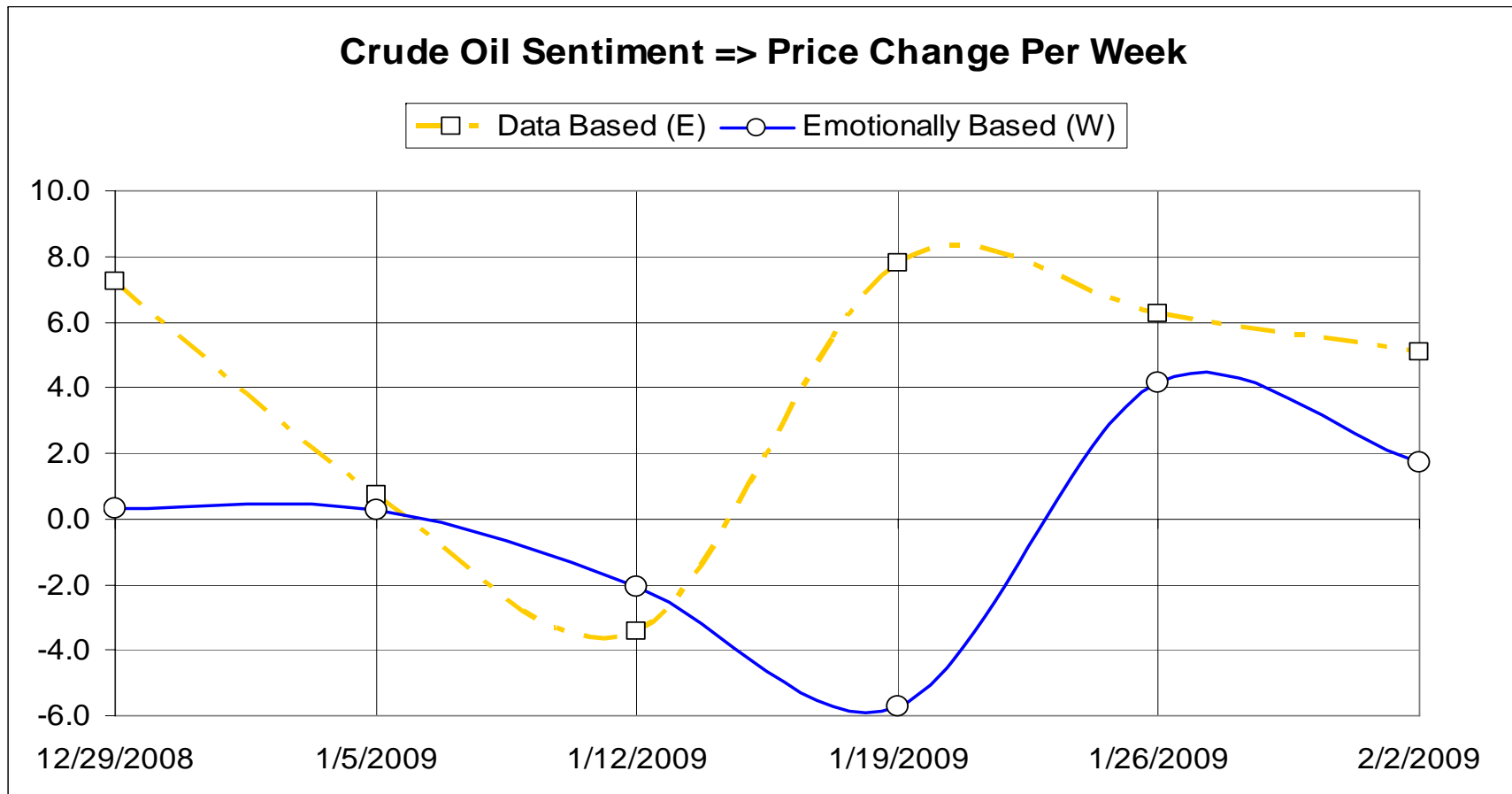
Explanation of chart lines: *The Dollar is a symbol of value, but it not attached to anything “real” such as gold as it was in the past. Its value is based on sentiment, and on the trust of a government to honor its debts. Because of this, its value ebbs and flows along with the oscillations of perception 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.*

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.



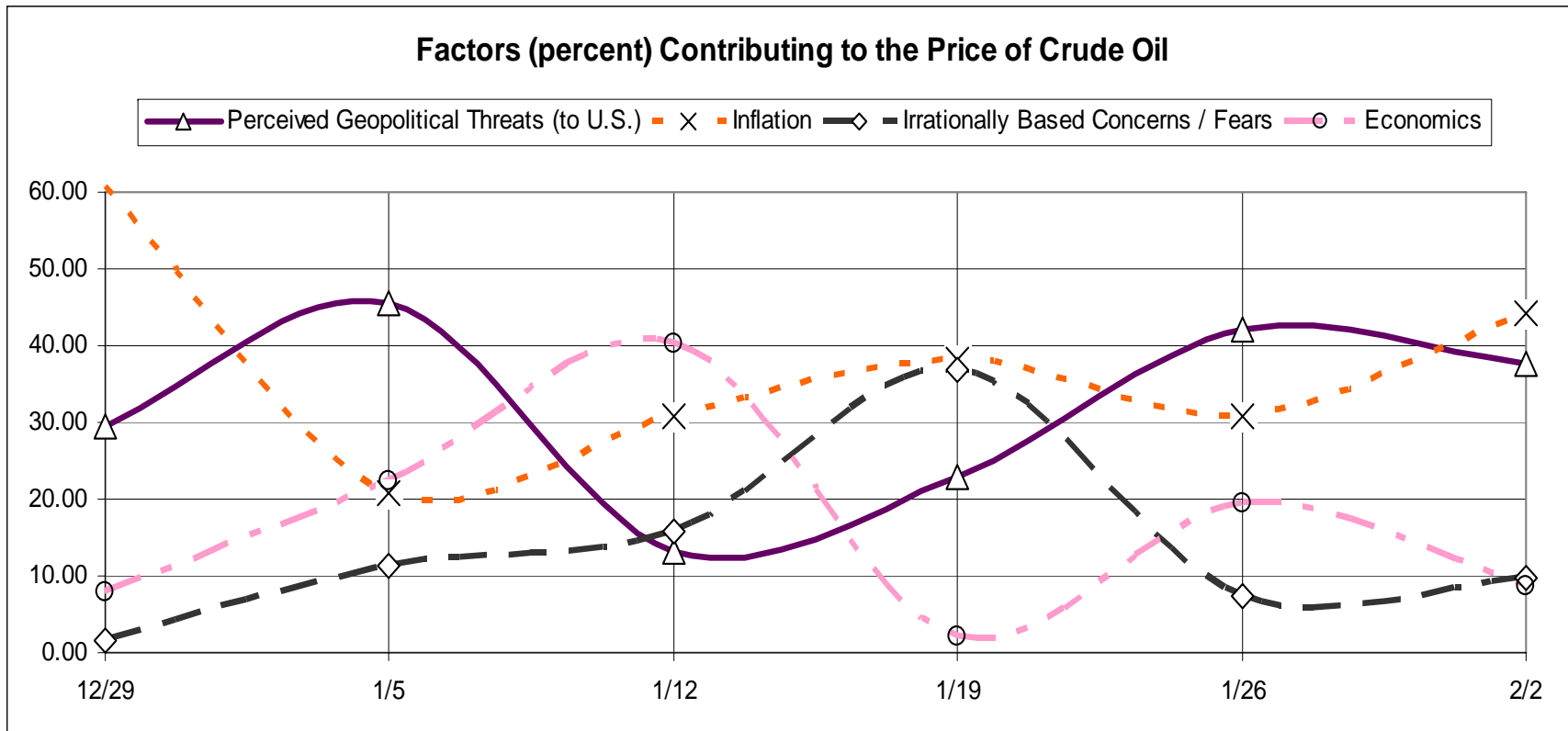
<p><b><i>Chaotic, but not relevant</i></b>  <i>High Manic indicates the perception of a chaotic world. Constricted cycles show a US little concerned about what is going on in the world "out there" as there is plenty to be concerned about domestically.</i></p>	<p><b><i>Lot's of Talk</i></b>  <i>Both East factors high indicate a focus on negotiations, discussions and dialogue going on in the world.</i></p>	<p><b><i>The World is Darth Vader's Castle</i></b>  <i>This metaphor from Star Wars refers to the high Somber/Manic configuration. The World appears sinister, shadowy, and a place that the mythical Darth Vader would likely feel at home in.</i></p>	<p><b><i>Aggressively Postured</i></b>  <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.</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.*

The trend is up (barely) the first week of this period. However, whatever facts (E) supported prices the week of the 29<sup>th</sup> seem less relevant the week of the 5<sup>th</sup>. The week of the 12<sup>th</sup> 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 19<sup>th</sup>.

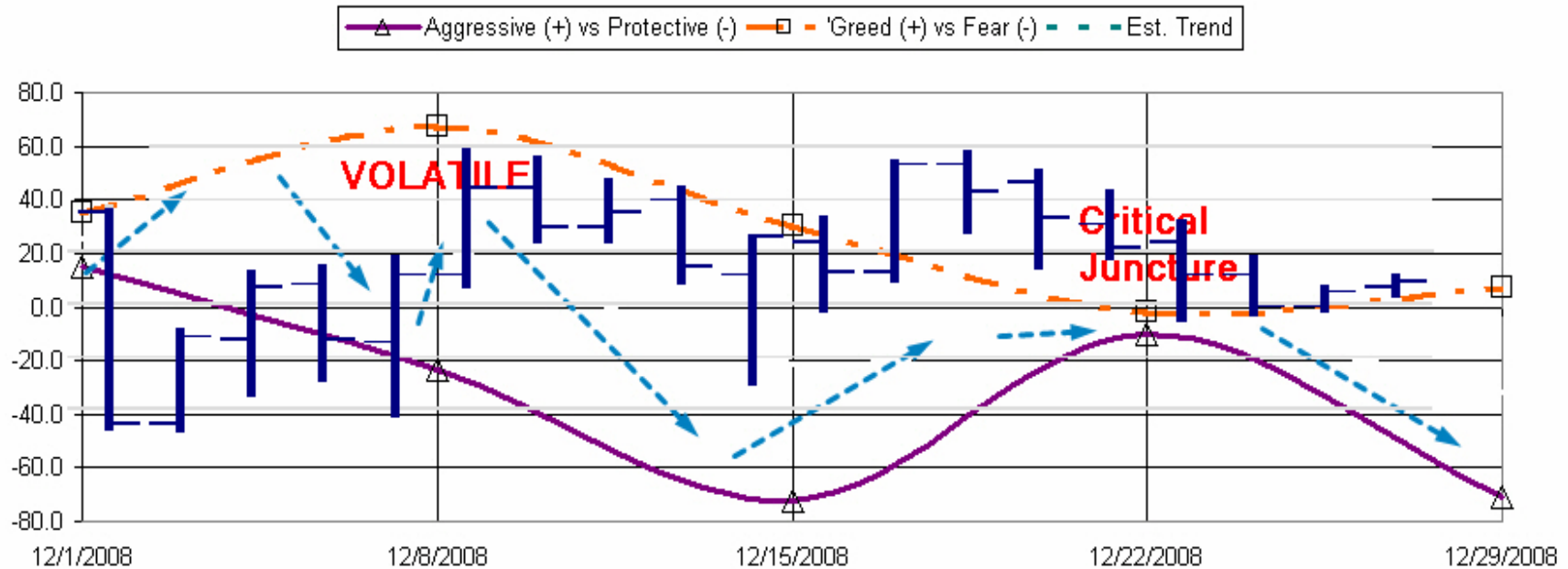


Explanation of chart lines: *The values for the Moodlines (Directing, Manic, and Somber) for U.S. View of “the World” and the inverse of Perception of U.S. Government are combined to produce this chart. This chart is useful in searching for potential geopolitical events, and escalated irrational fears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

Perceived geopolitical threats are key factors the first week of the period, as well as the last two weeks. Look for heightened attention toward these types of concerns at those times. The week of the 5<sup>th</sup>, economic concerns hold prices down while the falling Dollar (inflation concerns) push prices up. The week of the 12<sup>th</sup> through the first part of the following week energy prices are supported by the falling Dollar, irrationally based concerns or fears, and a background rise of geopolitical concerns. 1/21 – 1/28 geopolitical tension is the primary factor supporting the price of crude oil.

## How We Did – Comparing our Charts with Actuals

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

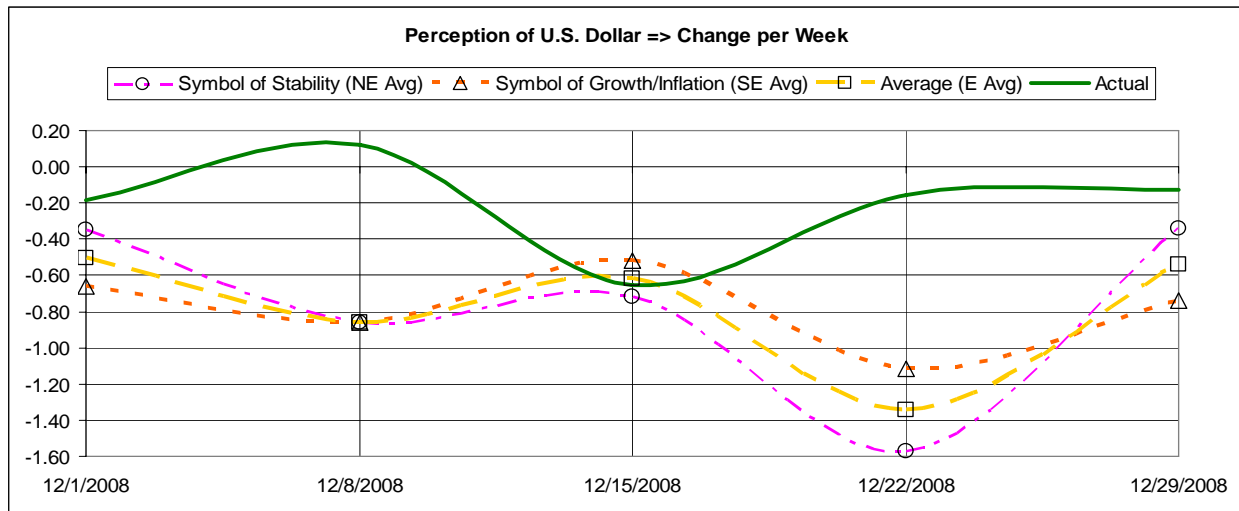


Actual data source: futuresource.com

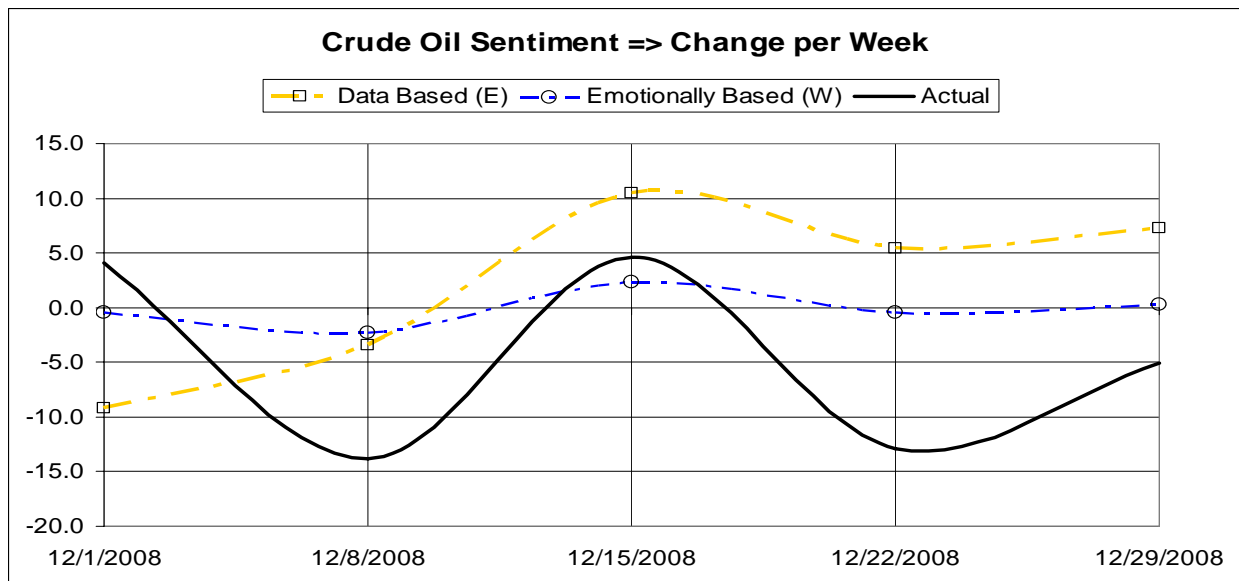
S&P (from previous issue): *The recent upswing in the stock market is severely challenged as US society returns on 12/2 to an extreme Manic configuration (associated with chaos, confusion and ideological disputes). This shift last occurred on November 19 and was accompanied by large stock market losses 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.*

There was little price change the first week, as forecasted. The second week saw a decline which reversed on Friday the 12<sup>th</sup>. This was followed by a rally and topping process through the 23<sup>rd</sup>. The potential sell-off expected immediately after Christmas has not occurred as of the date of this publication, but is still expected no later than Monday or Tuesday of the week of the 29<sup>th</sup>.

## How We Did – Comparing our Charts with Actuals



Dollar (from previous issue): U.S. Dollar sentiment is slight to strongly negative throughout the month of December. The week of the 8<sup>th</sup> 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. Actual: Dec. 8-18 saw serious Dollar losses (almost 10%) followed by a bounce and slowing decline. The curves (actual vs model) showed high inverse correlation on a weekly basis; actual trend was correct 3 out of 4 weeks.



Crude (from previous issue): 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 8<sup>th</sup> 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. Actual: There was moderate correlation with the model for the entire period.

## 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.

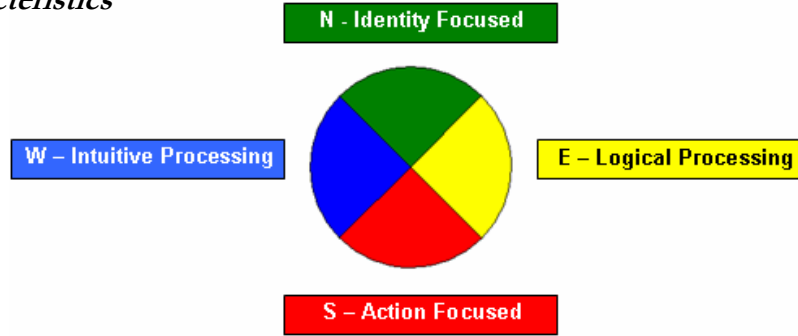
### MoodCompass was Born

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*

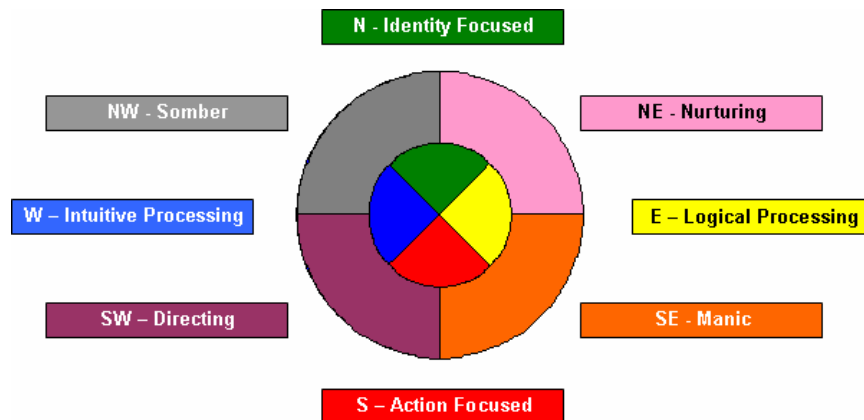


*Hybrid Characteristics*



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.

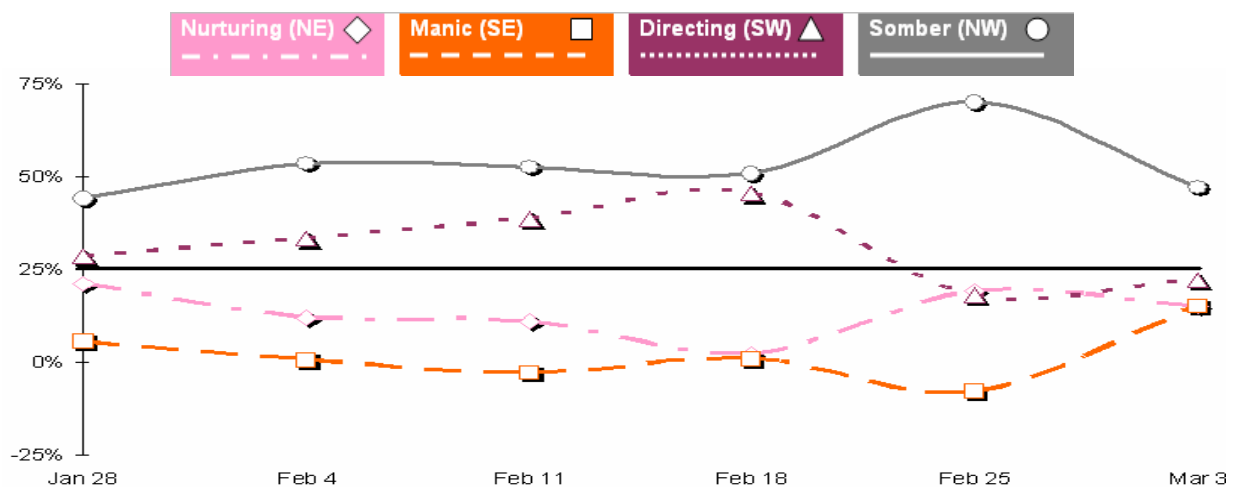
## Tracking Profiles Over Time

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>.