

**MOODCOMPASS<sup>®</sup>**  
**PROPHET FOR YOUR PORTFOLIO<sup>™</sup>**

July 2008

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## July 2008 – A Wild Ride!

June, we said, was the gateway to at least six months of increasing global chaos and disruption. Life in the U.S. and abroad would be outside of what we have come to know as “normal” in the second half of 2008. Well, we’re here now. After looking closely at the month of July, we are sorry to say that it still looks that way.

In July we should expect a global stock market sell-off, much worse than anything we saw in the month of June. Crude should continue to stay supported, even though global economies are starting to buckle under the weight of the high prices. With all of this turbulence one would expect high volatility in the currency markets. However, oddly enough, all indications are that the U.S. Dollar is unusually stable. It is unclear whether markets are simply non-directional for the entire month or whether some new type of external controls are added to currency markets to stabilize them in very volatile times. Behind all of this global distress appears to be extreme geopolitical tensions. The economic distress this month alone (and it gets worse as the year goes on), could be enough to cause surges in the unemployment lines. We again urge people to prepare for the possibility of a public panic event in the next few months. A presentation can be downloaded at: [http://anewstory.org/documents/public\\_panic\\_crisis.ppt](http://anewstory.org/documents/public_panic_crisis.ppt).

**June 30 – July 3:** Crude should finally decline, at least through July 2. In the background, increasing geopolitical tension is brewing making short crude extremely difficult to participate in. Global markets are extremely skittish and should end down for the week. Yet, the U.S. stock market will try to rally. It may not be able to pull off an up week, however. July 3-7 should be watched carefully as crude may surge as geopolitical tensions escalate.

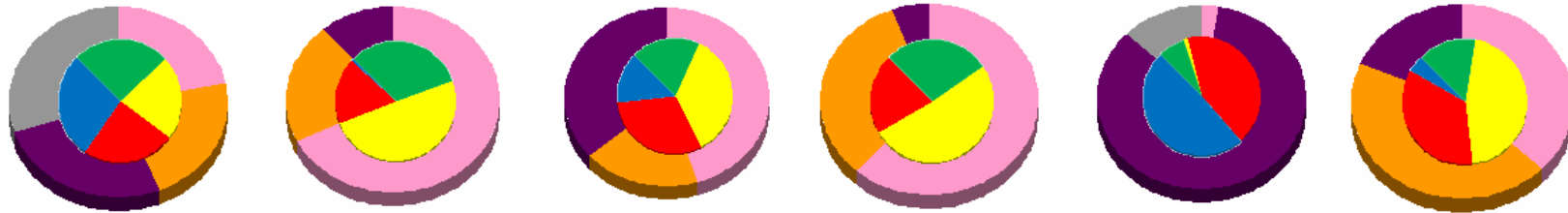
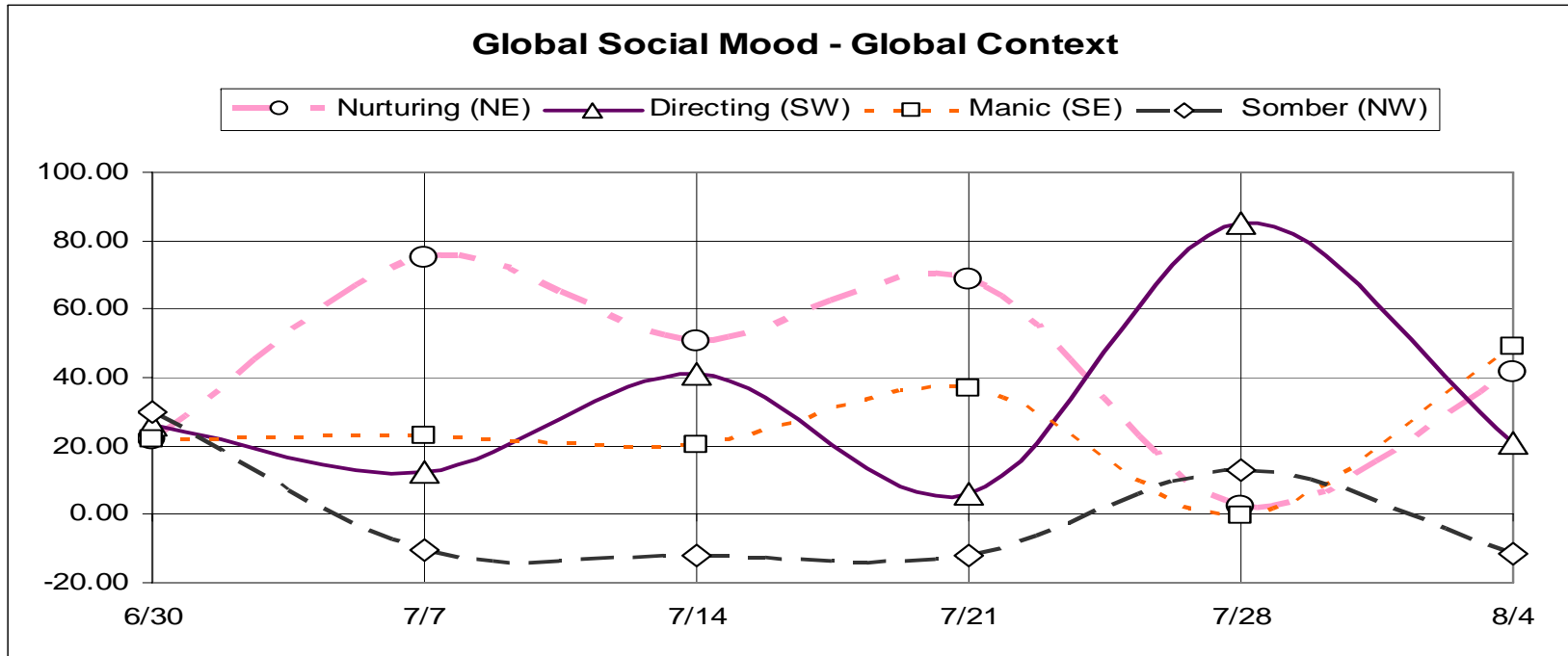
**July 7 – 11:** Extreme global tension! Global markets try to recover as the U.S. markets are hit quite hard. The stock market sell off in the U.S. this week is severe, and could be much worse than what was seen the last two weeks of June. The price of crude is much higher than global markets can bear, but any efforts to sell should only result in more buying. The U.S. Dollar is unusually stable against the Euro—this phenomenon continues throughout the month.

**July 14 – 18:** Global tension continues. Crude continues to climb as global markets sell off. The U.S. stock market slows down its losses. Short covering may lead to big rallies that subsequently get sold off. “Safety seeking” behavior is high.

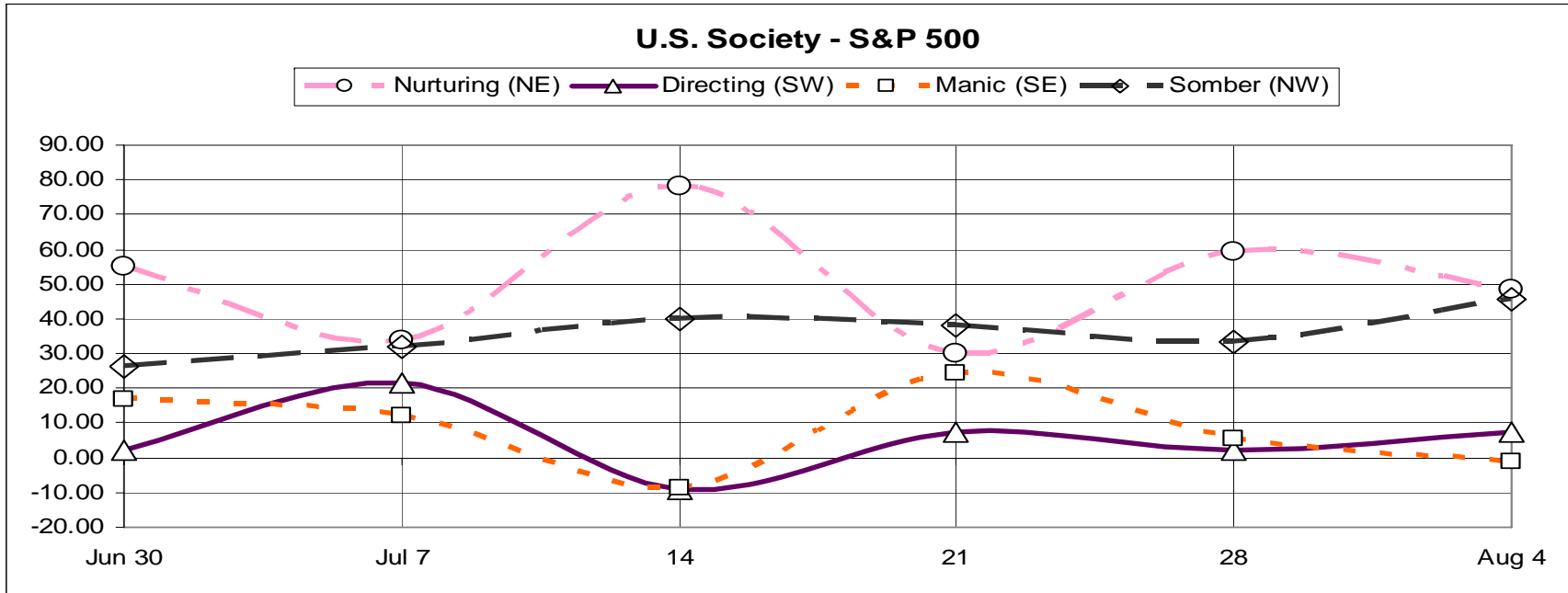
**July 21 – 25:** The world continues to be a scary place, but there’s only so much fear and gloom that people can take. Global markets may rally. The U.S. market makes weak attempts to continue to go down, but it can’t go much further.

**July 28 – Aug 1:** Crude goes up again! Global markets sell off. The U.S. stock market is mixed. It may rally due to short covering, but rallies get sold off.

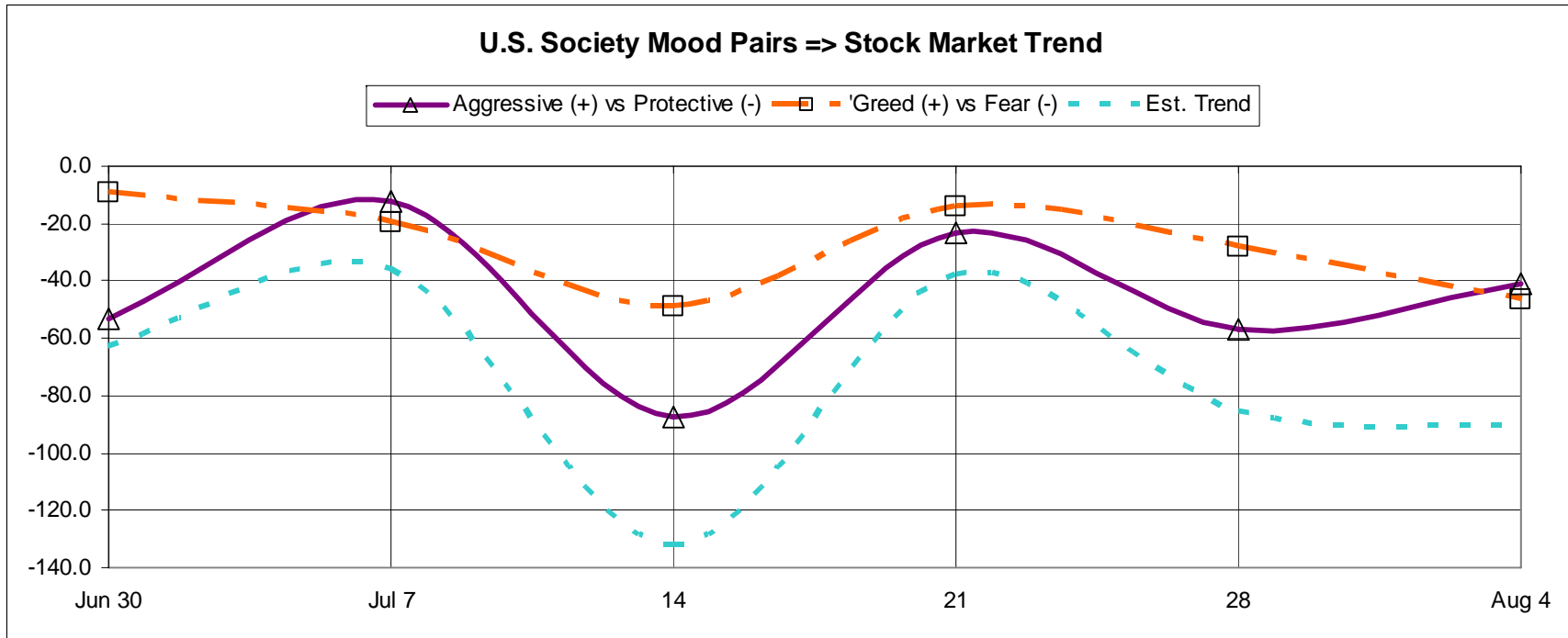
*The charts on the following pages will go into further detail of the social mood changes and corresponding market behavior for this time period. The last few pages of this document will give you a brief orientation to the MoodCompass.*



<p><b>Extreme Vulnerability, Global “Safety Seeking” (high Nurturing)</b>  <i>Extreme global tension creates a fundamentally threatening environment. “Safety seeking” behavior is high. Global markets are extremely volatile and primarily down, especially near July 4-7 and also July 17-21.</i></p>	<p><b>Momentary “Relief”</b>  <i>People can only maintain a state of alert for so many days in a row. The world is still a scary place, but there’s an attempt to find a “bright side” (high Directing).</i></p>
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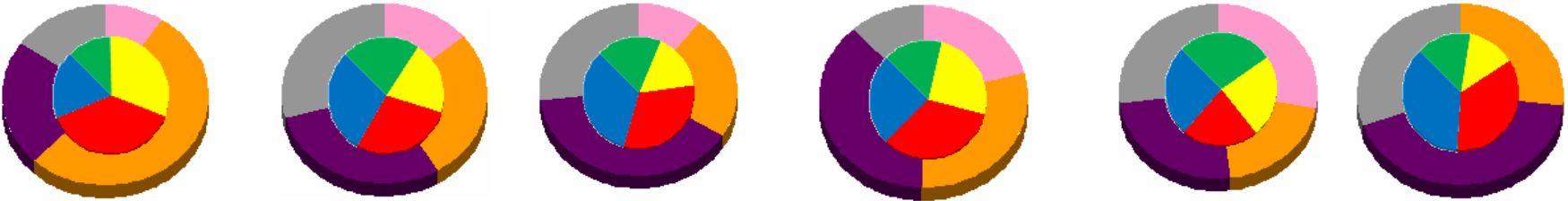
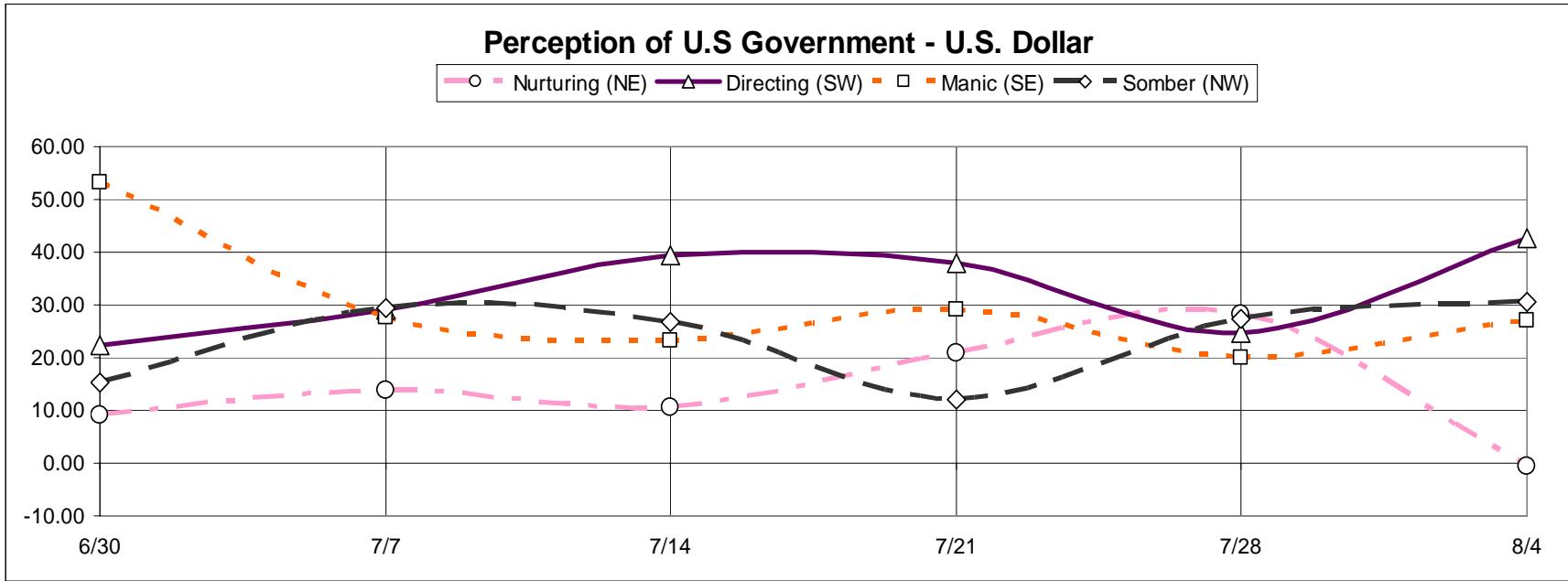


<p><b>Bearish Bottleneck</b>  <i>U.S. society is not feeling safe (high Nurturing), but oversold conditions leave little room for market to decline.</i></p>	<p><b>Running for Cover! Big Market Sell-off!</b>  <i>Extreme geopolitical tension and international stock sell-off leads U.S. investors to run for the hills (extreme Nurturing, no South factors). U.S. society feels vulnerable, unsafe, and helpless. Extreme stock market losses July 7-11.</i></p>	<p><b>Searching for Sanity</b>  <i>U.S. society still feels vulnerable and hopeless, but life goes on. The stock market should be down to sideways and volatile as rally attempts are sold off.</i></p>
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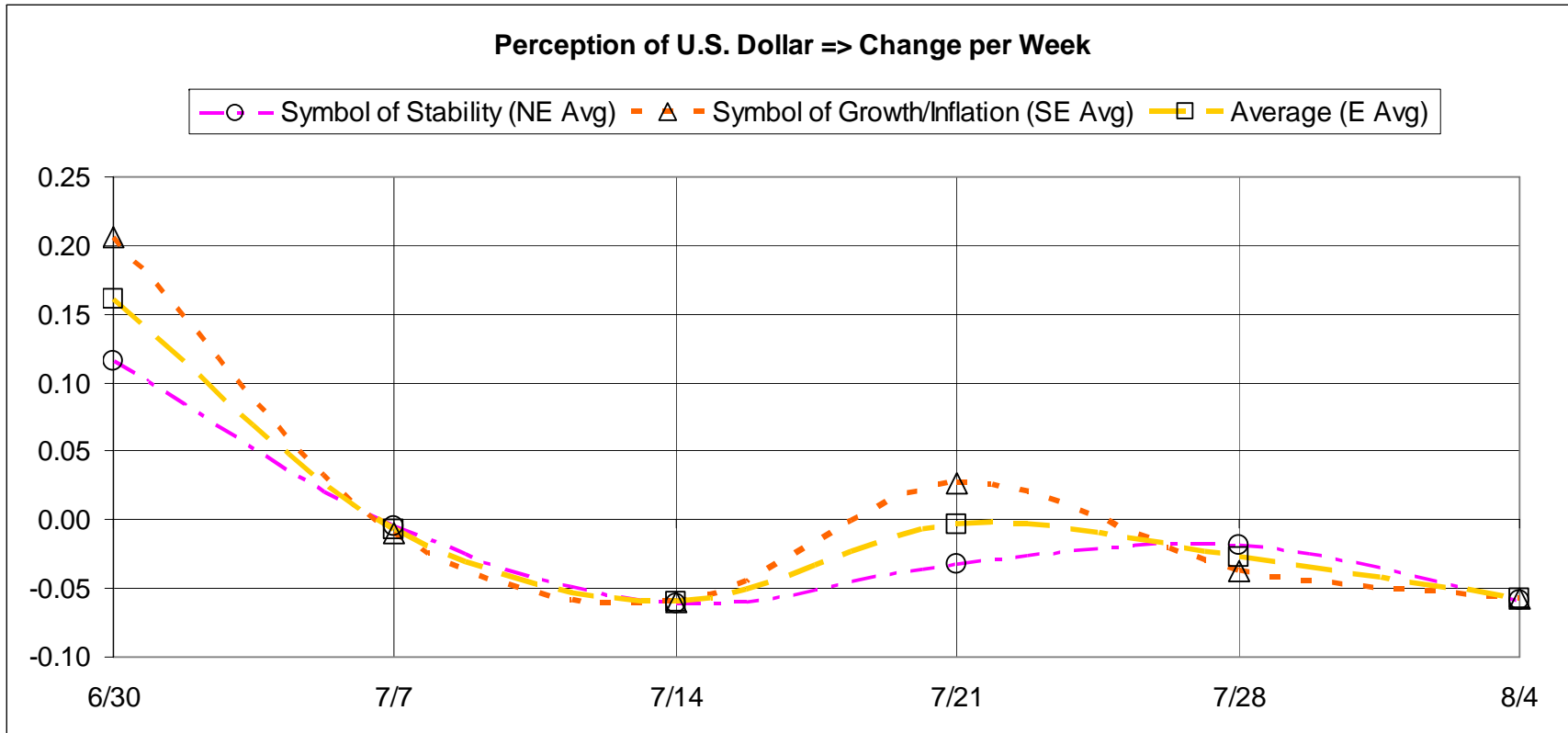


Explanation of chart lines: *It is common knowledge among traders that movement in the stock market is based on a “tug of war” between pairs of sentiment. This charts the two primary pairs which correspond to the general stock market trend. “Aggressive vs Protective” is the difference of the values of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

All values are below zero the entire month indicating an extremely bearish period. The short week of June 30 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 14<sup>th</sup> 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 21<sup>st</sup>, and is flat the week of the 28<sup>th</sup>.

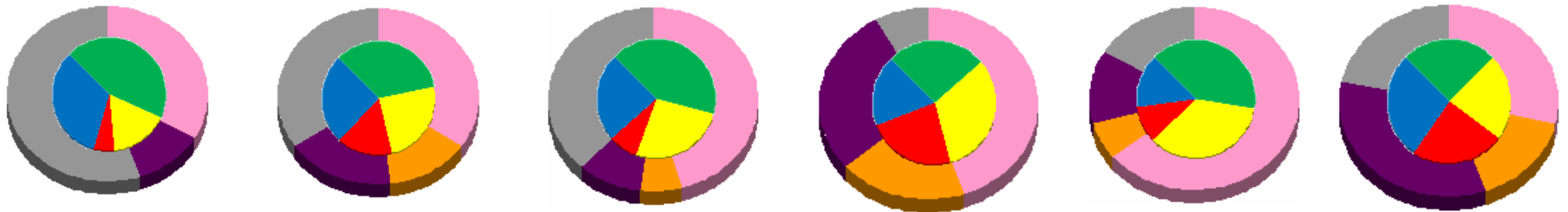
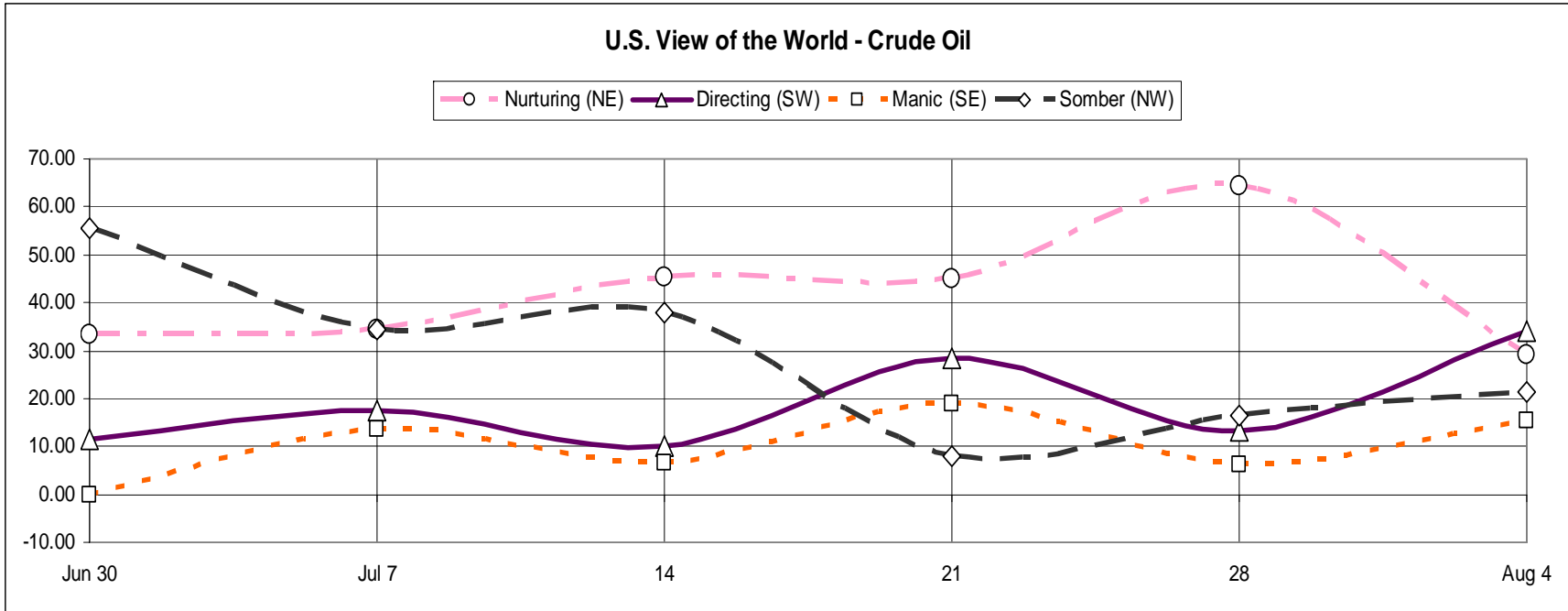


<p><b>Decreasing Instability</b>                  Last week's FOMC decision is adjusted to. U.S. Dollar loses favor; intervention may be required soon.</p>	<p><b>Active, Persistent Leadership and Direction (July 4 – end of month)</b>                  An unusually long period of active leadership and intervention by the U.S. government, perhaps in response to public distress and/or international concerns. U.S. Dollar movement is difficult to discern as Moodlines are extremely close together; forex is unusually constrained. Are currency traders confused or disinterested, or is the currency market being controlled or regulated? It will be interesting to see how this configuration manifests.</p>
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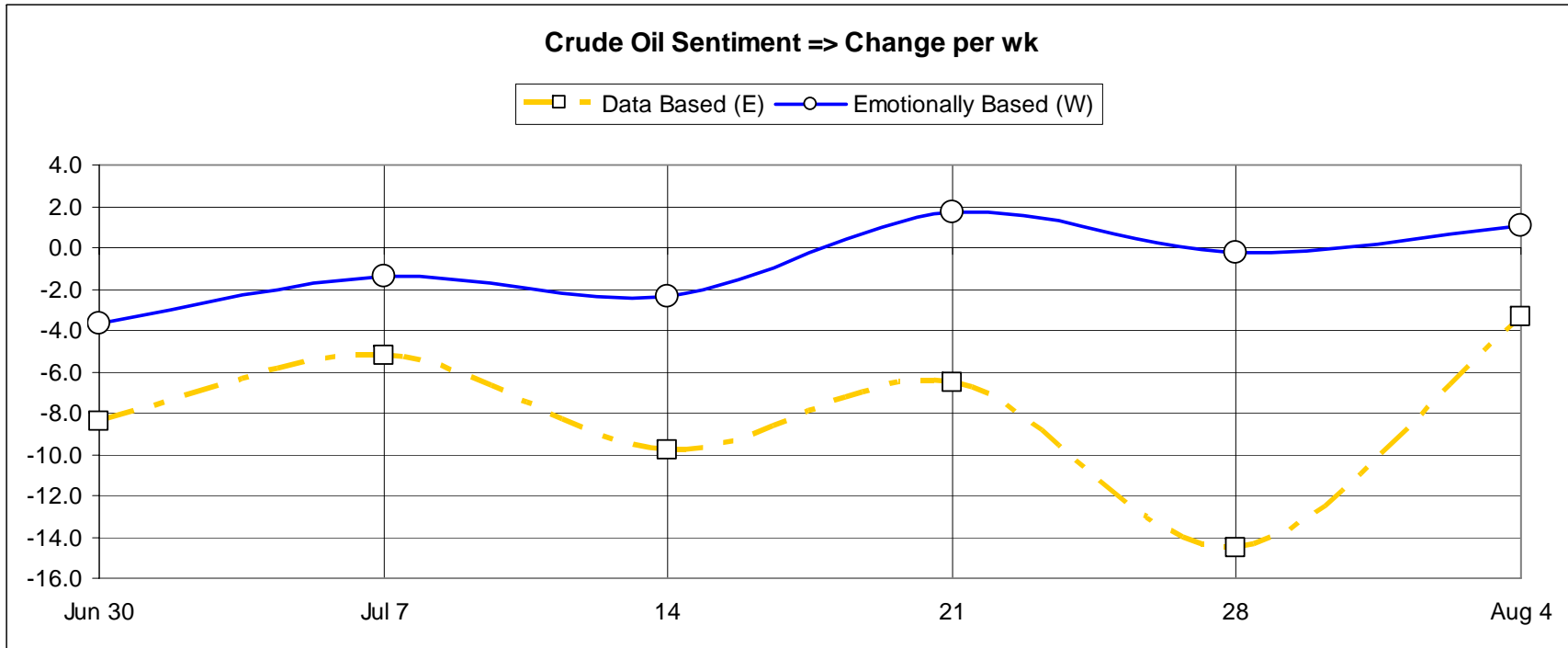
Explanation of chart lines: *The Dollar is a symbol of value, but it not attached to anything “real” such as gold as it was in the past. Its value is based on sentiment, and on the trust of a government to honor its debts. Because of this, its value ebbs and flows along with the oscillations of perception 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 June 30 is extremely volatile. While there may be some Dollar bulls as it begins, at some point sentiment drastically shifts to Dollar neutral at best. Following this, the Dollar is extremely stable, and unusually so for the remainder of the month. Often this “no change” configuration indicates the Dollar Index, or Euro vs. Dollar trade is less relevant than something else, such as the carry trade. Although perhaps less likely, this could indicate intervention or control of the currency markets. We can make no forecasts or recommendations regarding the Dollar for this entire period. To summarize, the Dollar (vs. Euro) is unusually stable from near July 7 throughout the month.



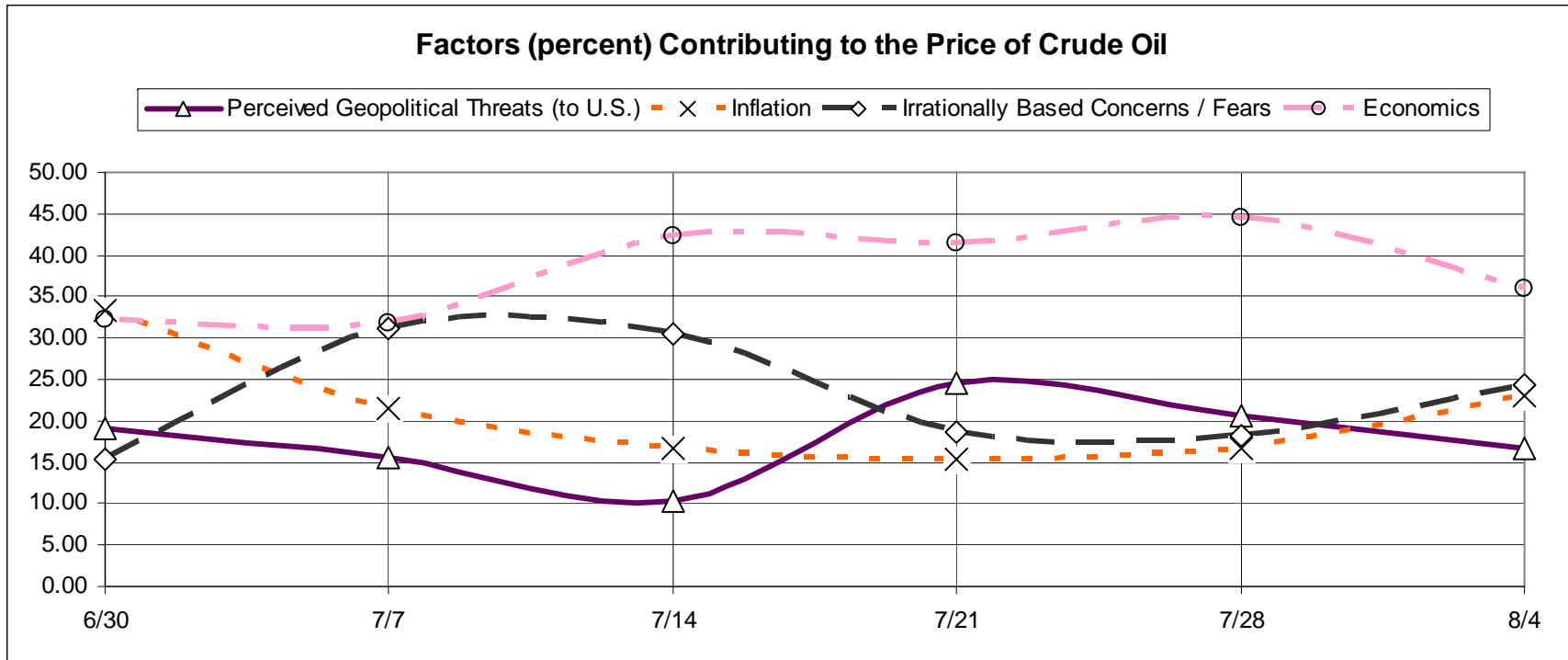
<p><b>Crude Declines</b> The world seems less ominous (Somber) allowing crude to sell off.</p>	<p><b>Surge</b> Watch July 3-7 closely.</p>	<p><b>Seriously Needy</b> High Nurturing reflects the world's economic woes. July 7-11 High Somber indicates conflict (volatility) between extremely serious global tensions (crude bullish) and an inability of the world's economies to withstand continued rising crude prices. July 17-21 and after July 30, rising Directing indicates exacerbations in the geopolitical situation and another rise in crude.</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.*

Crude prices this period is primarily based on technicals and emotion (W). Although rationally, the global economy cannot sustain such high crude prices, the geopolitical situation keeps them elevated. However, even though global tensions may be extremely high overall, gains for the period are relatively limited. Largest weekly gains should be seen the week of July 14<sup>th</sup>. Other than that week, (and perhaps the week of the 28<sup>th</sup>) because the dominant (W) line remains close to zero the entire period, the effectiveness of this model may be limited and no forecasts or recommendations regarding crude can be made from it. In summary, look for high volatility, but little net weekly movement except for up the week of July 14<sup>th</sup> and possibly the week of July 28<sup>th</sup>.

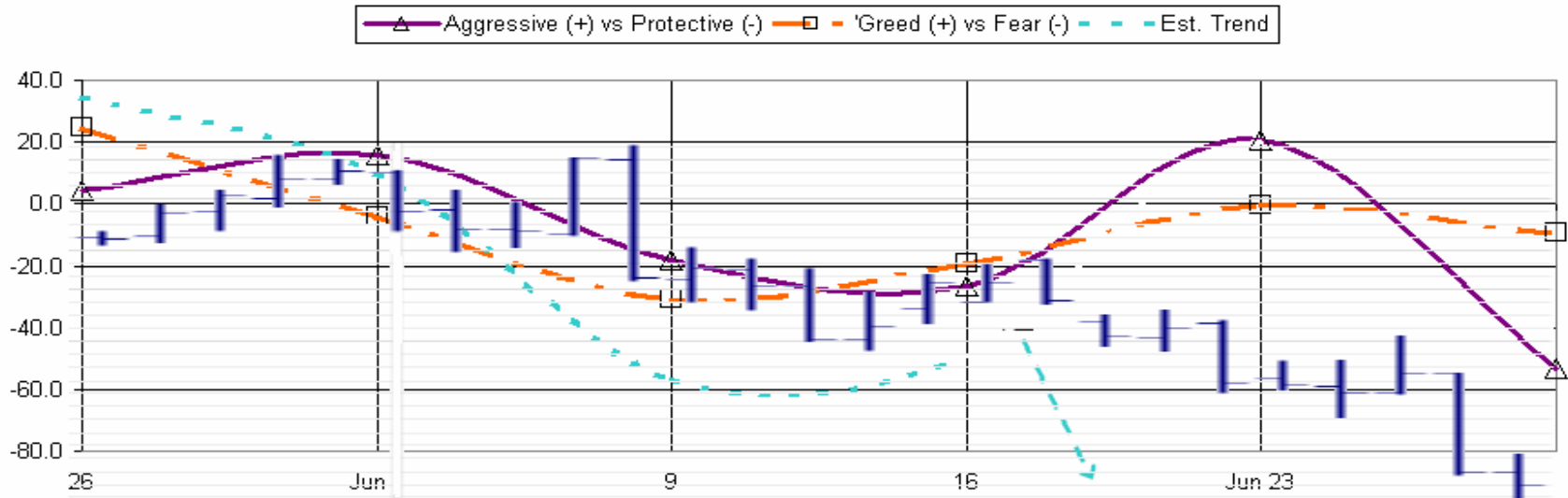


Explanation of chart lines: *The values for the Moodlines (Directing, Manic, and Somber) for U.S. View of the World/Crude Oil and the inverse of Perception of U.S. Government/U.S. Dollar are combined to produce this chart. This chart is useful in searching for potential geopolitical events, and escalated 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 indicates a significant change to the factors contributing to the price of crude from what they have been (primarily fears of possibilities, whether rationally based or not). This period the price is primarily based on actual supply and demand changes (economics). While fears contribute significantly between 7/3 and 7/21, crude price should remain elevated. In summary, the primary reason for crude to remain elevated in spite of a declining global economy is related to actual supply or demand variations. Note that the Dollar (inflation) is of negligible importance this period in regards to crude prices (after 7/2).

## How We Did – Comparing our Charts with Actuals

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



What we said: The stock market should show increasing bearishness throughout the month, although there could be a lot of choppiness through 6/16. The composite line or estimated trend can not be plotted from 6/17 through the end of the period. The collapse of the Greed vs. Fear polarity (= 0) indicates that the chief concern for U.S. society is primarily “survival oriented” for several days. Markets should drop sharply.

This shows our estimated S&P trend chart from last month overlaid with actual daily price data (courtesy futuresource.com). While we have only been using this model (derived from the Moodlines) to forecast S&P price movement for several months, we are leaning towards relying on it more heavily. The overall correlation with our forecast using this model for June is excellent. We will go over each section in more detail below:

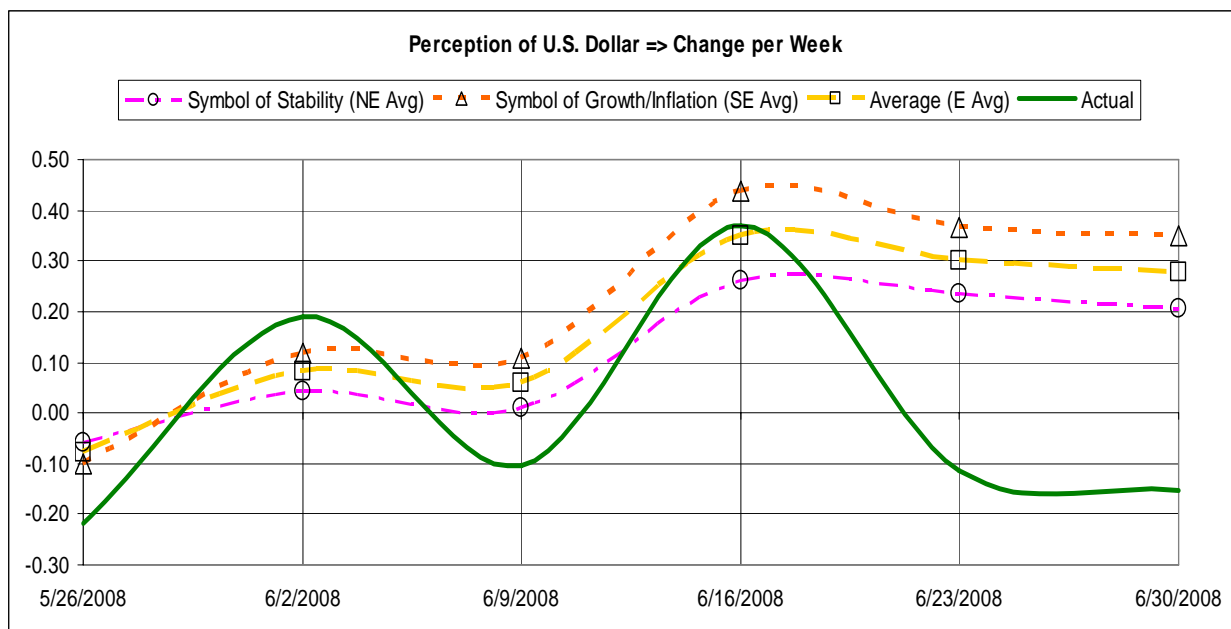
May 26 – 30: The composite line (estimated trend) is greater than zero, but declining. The forecast using this chart would be an up to sideways market. Market was up for the week.

June 2 – 6: Estimated trend goes from greater than zero to sharply negative. Markets were down.

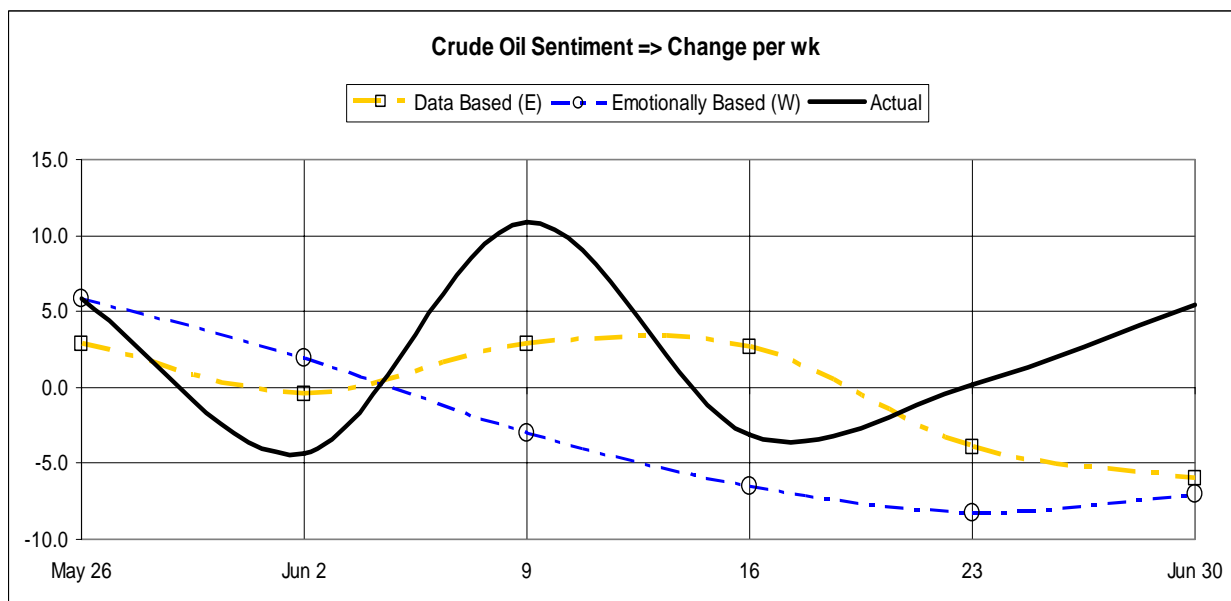
June 9-13: Estimated trend shows a bottoming and turning upward. Markets bottomed and turned up.

June 16-27: As mentioned in the June MoodCompass, estimated trend is “undefined” due to the collapse of the Greed vs. Fear polarity (=0). The best estimate was “infinitely” down, as shown by the arrow. The market was sharply lower, “off the chart” for this period.

### How We Did – Comparing our Charts with Actuals



Dollar: Excellent correlation 4 out of 5 weeks. The week of June 16 saw a much sharper drop than this model forecasted.



Crude: This model has been doing well in the past few months, but we had less success this time. The first two weeks were great as the change per week should correlate with the top (dominant) line, and they did. After the market turned sideways, the week of June 9<sup>th</sup> the model broke down.

## 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.

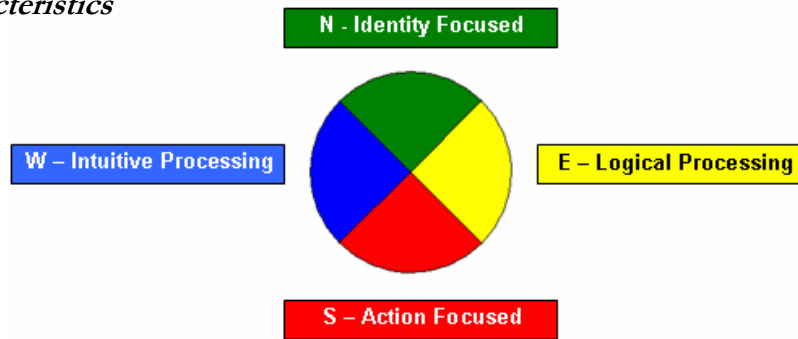
### MoodCompass was Born

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*

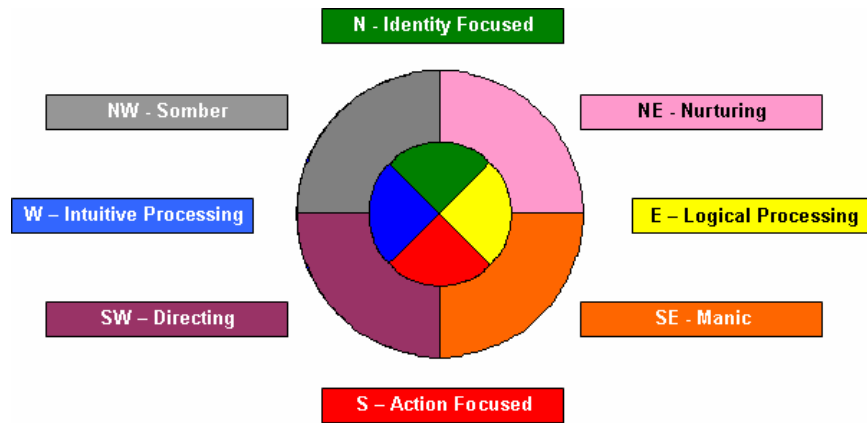


*Hybrid Characteristics*



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.

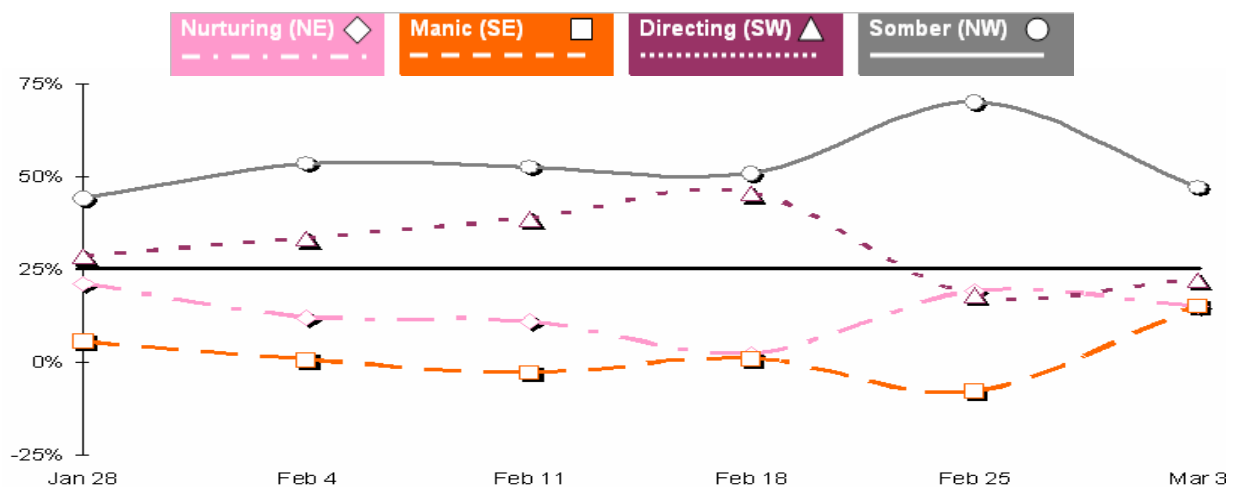
## Tracking Profiles Over Time

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 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.

