

MOODCOMPASS[®]

A GUIDE TO THE MOOD CYCLES OF NATURE AND CIVILIZATION

July 2010

Highlights: Expanding U.S. divisiveness with violent outbreaks likely ·
Further talk of “Great Depression II” · Increasing global
unrest and violence

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July 2010 – The Precipice of Economic Collapse

Independence Day in the United States is usually a call to celebrate unity and to be thankful for freedom from tyranny and oppression. With the collective mood continuing to deteriorate, there is little room for such positive ideation. It is more likely that this 4th of July, the theme of revolution and revolutionary war will be emphasized. Civil unrest and protests in the United States should escalate this month. Outbreaks of violence are increasingly likely. In spite of the constitutional declaration, there is no “WE THE PEOPLE” in America.

Globally, the mood should also reflect anger and fragmentation. Geopolitical tension should be quite high, while cooperation among world leaders difficult to discern. The world economy is on dangerous ground, and increased discussion of an up and coming sequel to the “Great Depression” is likely. Investor panic and high market volatility should be expected. Will the globalization paradigm continue to survive? Or, if the trend continues, will global goods, services, and destinations, at some point, become a nostalgic memory?

Highlights:

July 5-12: *The Sky is Falling* Global leaders extremely busy; in crisis mode. Increasing civil unrest, protests, etc. with violent escalation increasingly likely. Elevated terror probability. Investor panic with high market volatility.

July 14-20: *United States in Crisis* Serious situation. Geopolitical escalation / raised military alert likely. Investor panic with high market volatility. Panic response by global leaders or because of global leaders. U.S. government in crisis. U.S. Dollar declines.

July 21-26: *The Sky has Fallen* High market volatility. Panic response by global leaders or because of global leaders. Strong leadership, decisive action by U.S. government required. U.S. Dollar declines.

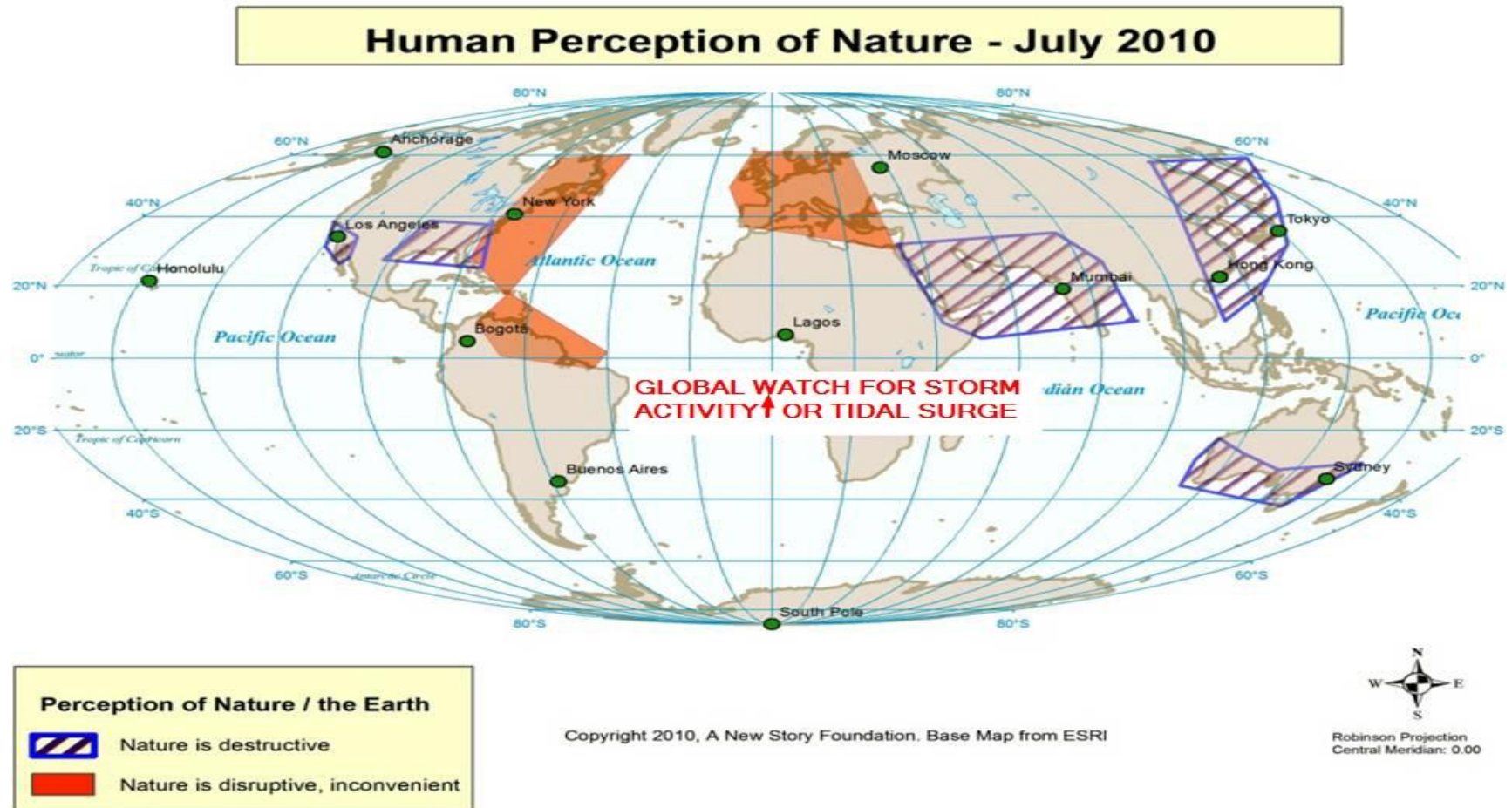
July 26-29: *Natural Problems* High loss natural event likely.

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.

SUMMARY OF CHART ANALYSIS

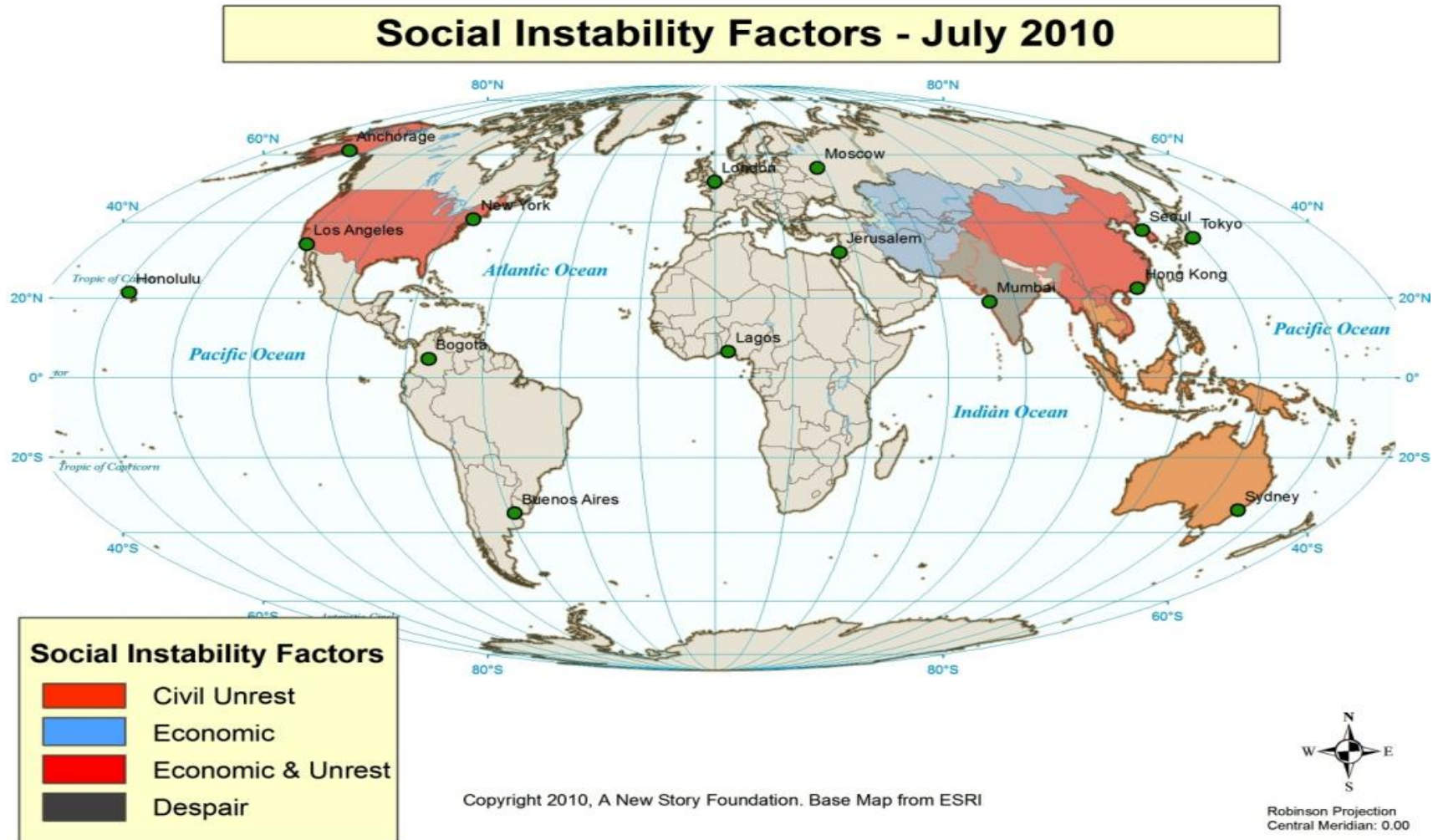
After the data is gathered for the month and the mood cycles recalibrated, as needed, the charts on the following pages are constructed from the projected social mood and perceptions for the period covered by this issue of MoodCompass. Themes and patterns within and between charts are looked for and analyzed. The final step is to take the information in this table (below), examine it for consistency and likelihood, and construct the narrative for the month and the “highlights” found on page 2 of this publication. The table below summarizes the findings for this month. Page numbers of corresponding charts are included in parenthesis ().

| Date Range | Summary of Chart Indications |
|------------|---|
| 7/5 – 12 | Global leaders extremely busy; in crisis mode (7b). Increasing civil unrest with violent escalation increasingly likely; elevated terror probability (8a). Investor panic with high market losses (9a, 10). |
| 7/14 - 20 | Serious situation (8a). Geopolitical escalation / raised military alert likely (10). |
| 7/14 – 26 | Investor panic with large market losses possible (8a, 9a, 10). U.S. Dollar declines (9b). |
| 7/16 – 20 | Panic response by global leaders or because of global leaders (7b). U.S. government in crisis (8b). |
| 7/21 – 26 | Strong leadership, decisive action by U.S. government required (8b) |
| 7/26 - 28 | High loss natural event likely (7a). |



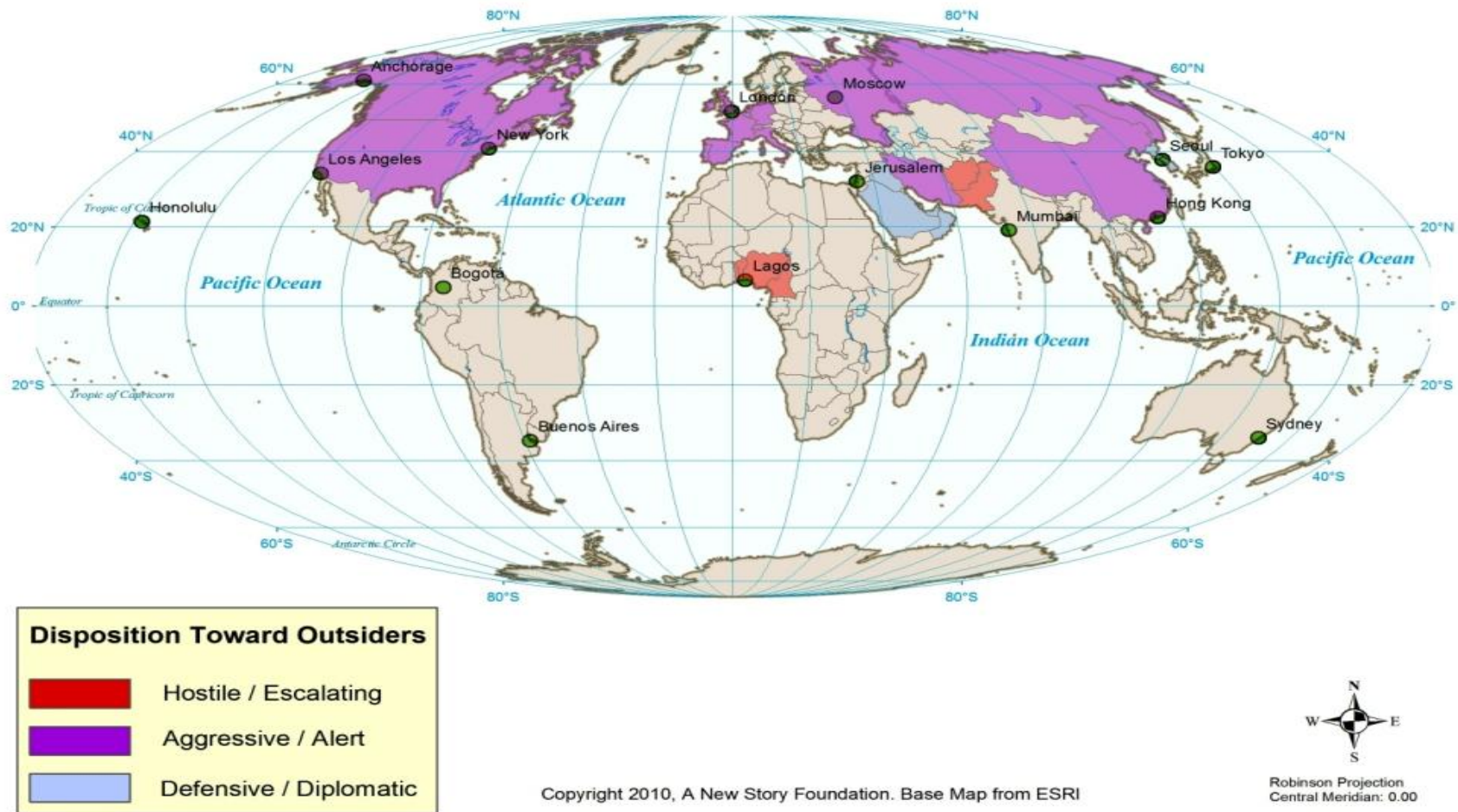
In anthropomorphic terms – The Earth is **DEFENSIVE** -- Nature may appear to be doing what is needed to take care of itself.

Possible physical manifestations – There is a thematic distribution of alerts (where Nature is seen as **DISRUPTIVE** or as **DESTRUCTIVE**) near coastal areas. Although other types of events are possible, because of the water theme, those in indicated areas are advised to prepare for possible increased storm activity and/or tidal surge.

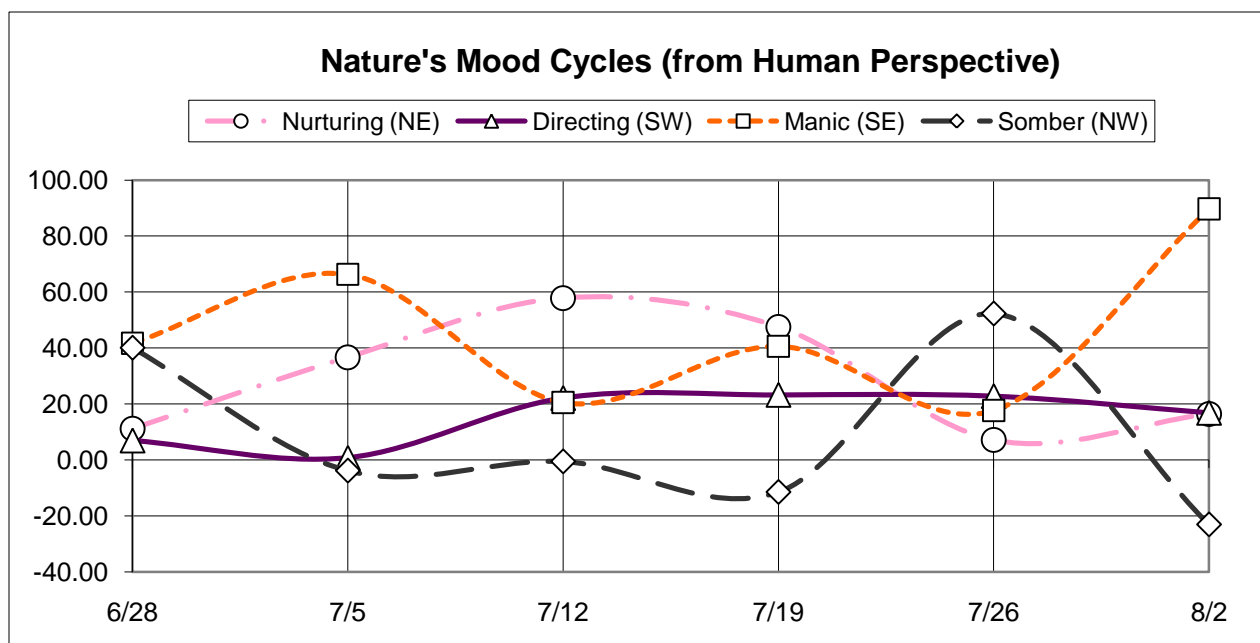


Economic news in July should continue to disappoint. In general, people are in a “grumpy” mood. Watch for growing unrest, with an increasing likelihood of violence, especially in the U.S., China, S.E. Asia, and the South Pacific.

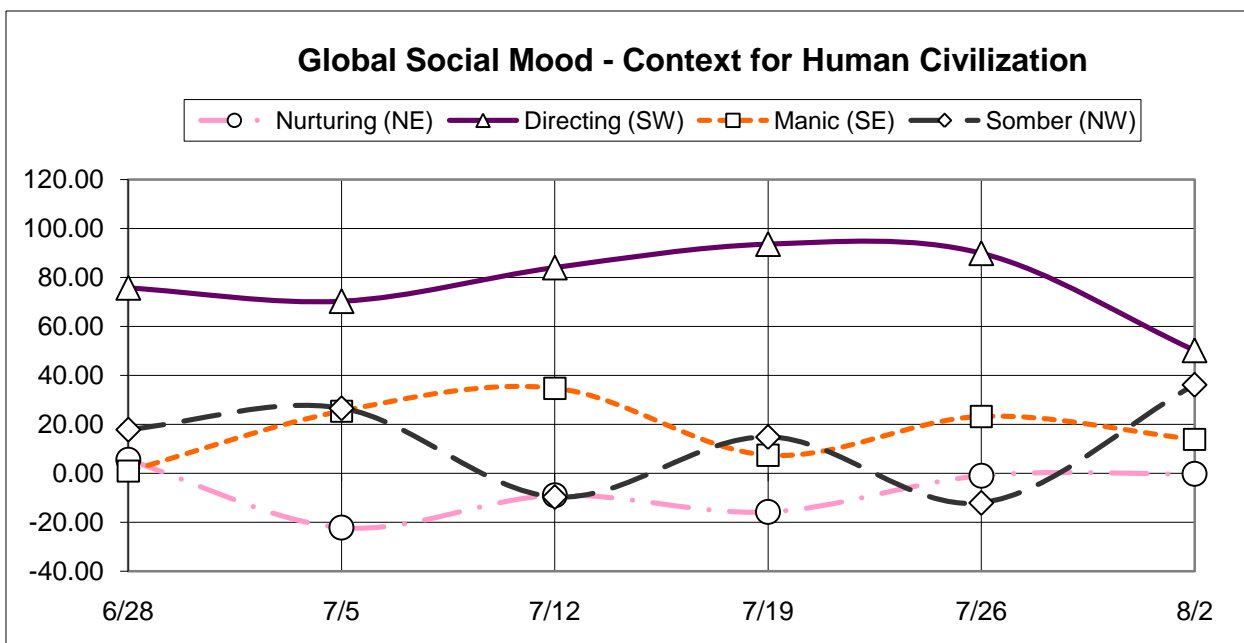
Projected Geopolitical Posturing - July 2010



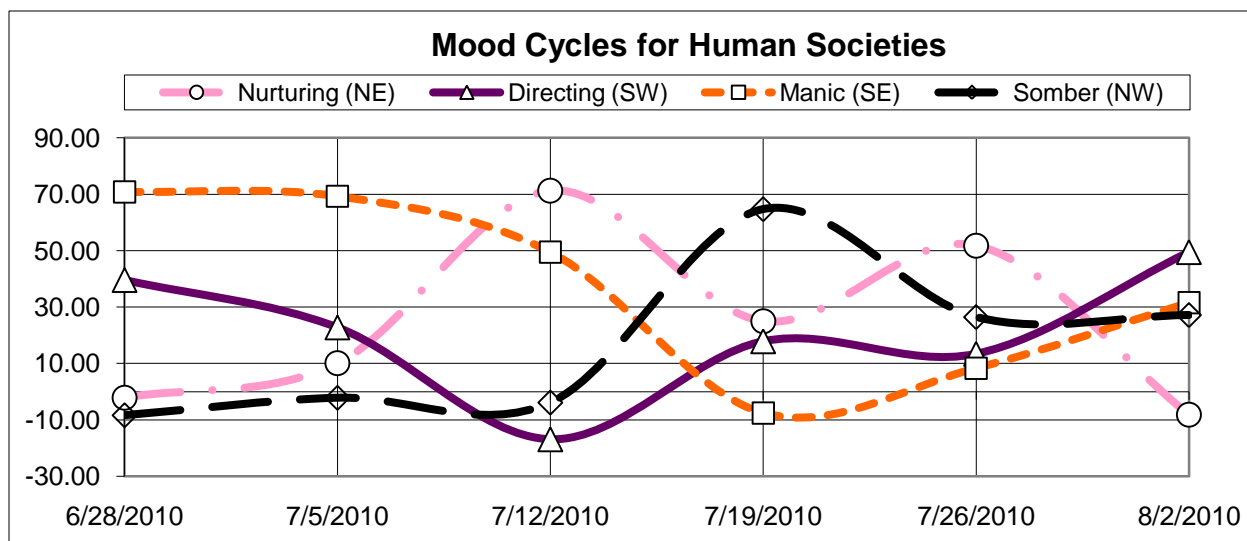
Global tension is elevated and pervasive. Look for continued or escalating violence in Afghanistan and Pakistan, and an increase in hostilities in Nigeria and the surrounding area.



| | | | |
|--|--|--|---|
| | <p>Calculating <i>Anthropomorphically, a natural event here could feel like a planned nature vs. human attack.</i></p> | | <p>Destructive <i>Major loss event likely. High entropy factors indicate the perception of nature as destructive.</i></p> |
|--|--|--|---|



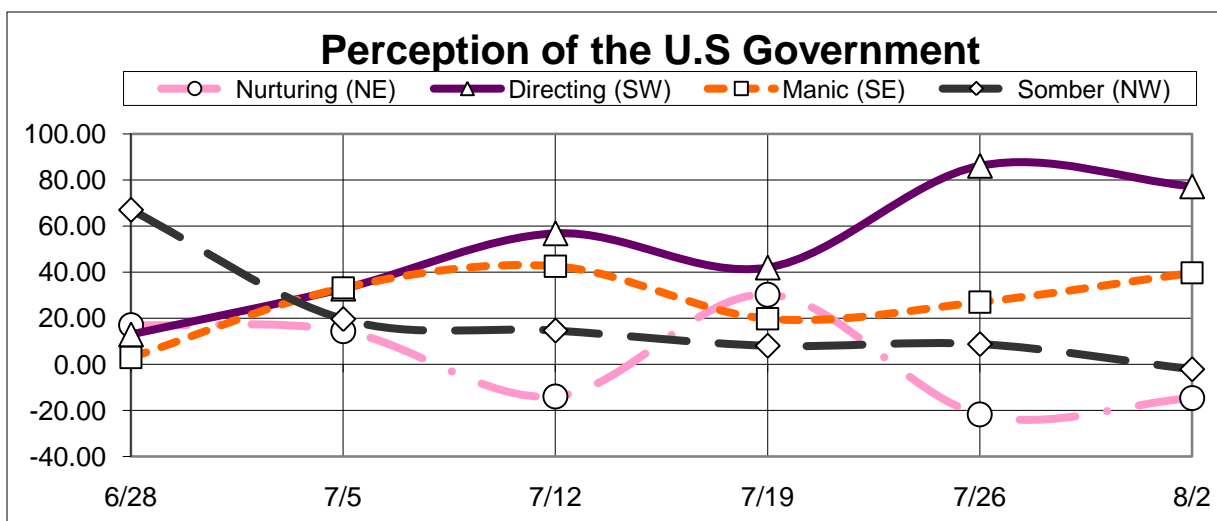
| | |
|---|--|
| <p>CRISES EVERYWHERE – NO REST FOR GLOBAL LEADERS <i>The high SW the entire month indicates a very busy month for global leaders. Watch for a month of economic crises, general global instability, and possible heightened military alerts or escalations.</i></p> | <p>Settling Down <i>The intensity of the crises seems to be waning somewhat.</i></p> |
|---|--|



Protests, violence, and crashes
 Anxiety is extreme. Protests and demonstrations may turn violent (S). Elevated concerns with terrorism. Extreme market volatility, with high losses likely.

Line in the Sand
 Group identities crystallize (N) and sides are chosen. Situation very serious, (NW).

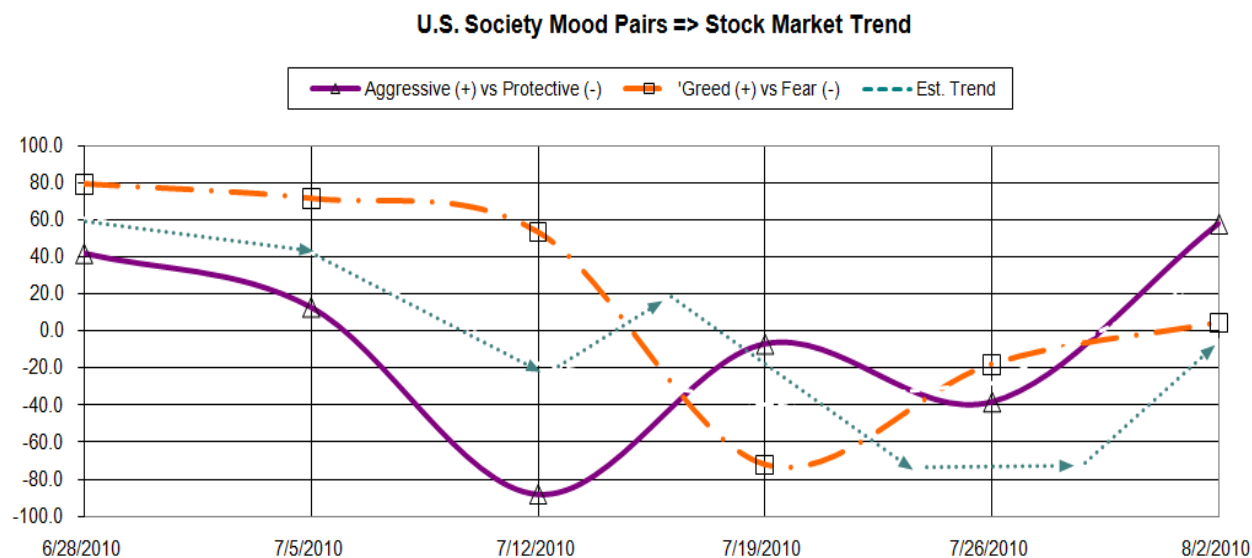
Violent Resurgence
 Group against group activity, and/or violence on the rise (S).



Very Busy, Crisis Mode?
 U.S. government extremely busy, tempers are high, and direction is not unified (SW/SE). Global and domestic crises may require burning the candle at both ends (S).

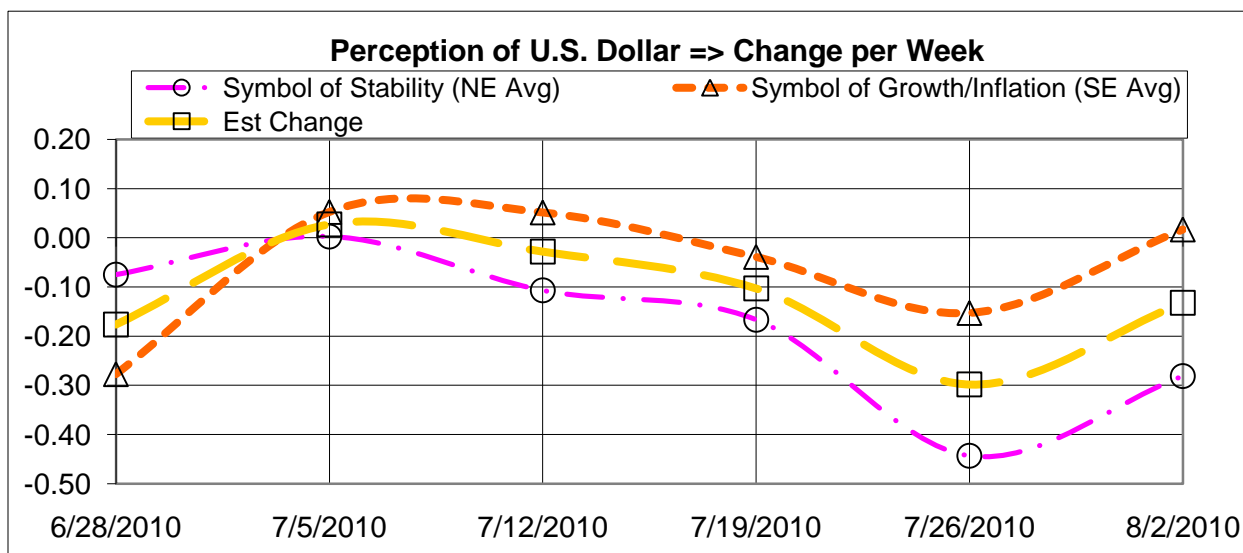
Crisis!

Decisive Action
 Government intervention and strong leadership required to deal with internal and external crises (SW).



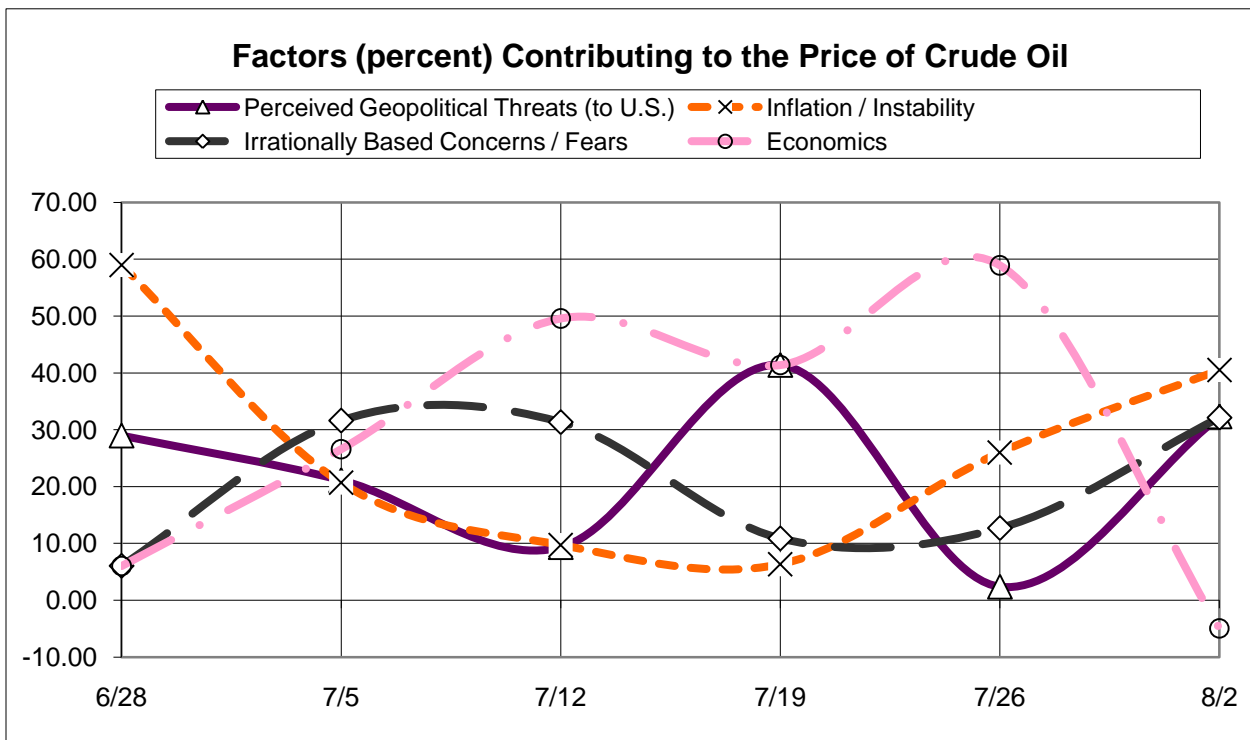
Explanation of chart lines: It is common knowledge among traders that movement in the stock market is based on a “tug of war” between pairs of sentiment. This charts the two primary pairs which correspond to the general stock market trend. “Aggressive vs Protective” is the difference of the values of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

Extreme losses possible. At minimum, a climax month to the last few months of increasing negativity. More likely, the end of the first leg down of many more to come.



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 primary activity in the first two weeks of July may be related to the Japanese Yen, although the Dollar may gain against European currencies. Near July 13th through the end of the month, the Dollar is likely to fall.



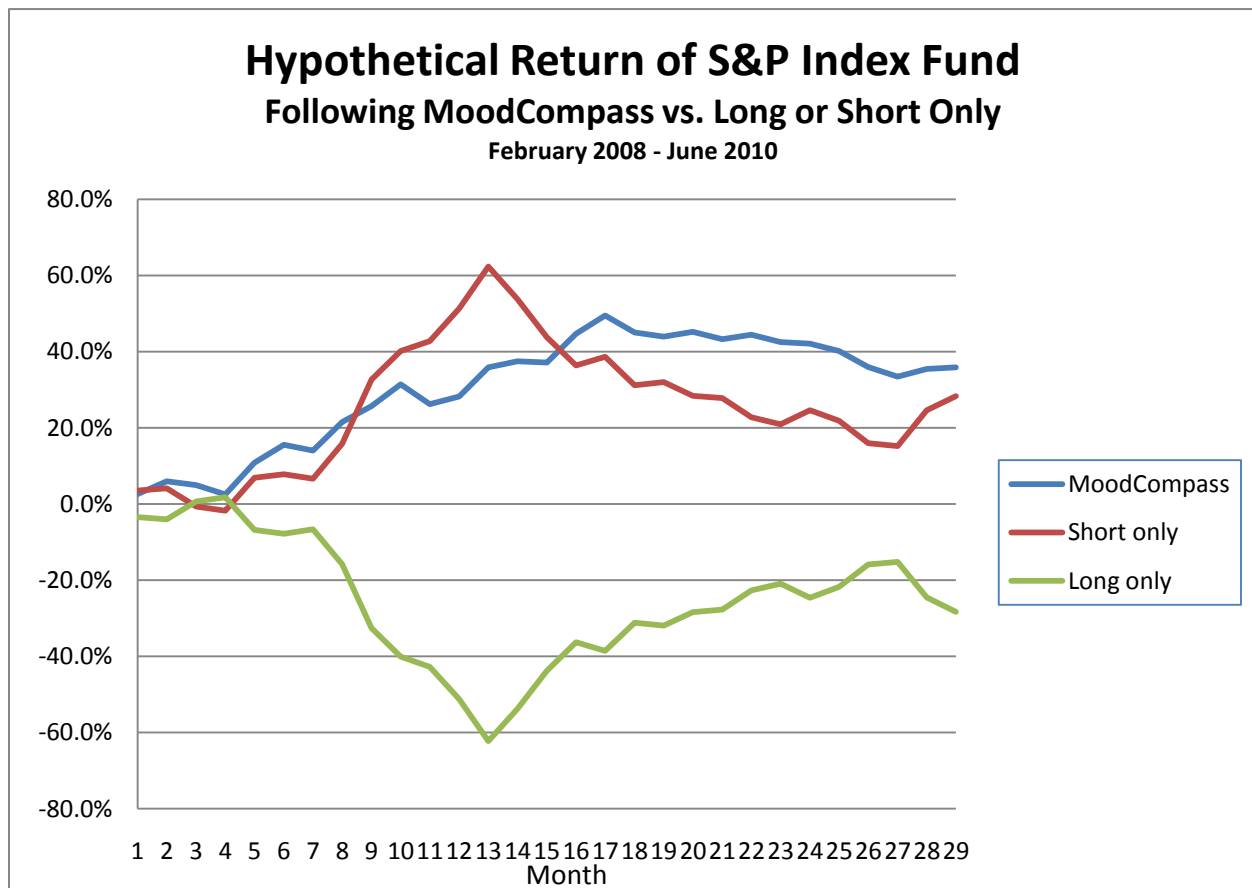
Explanation of chart lines: The values for the Moodlines (Directing, Manic, and Somber) for U.S. View of “the World” are used to produce this chart. This chart is useful in searching for potential geopolitical events, and escalated irrational fears of supply disruption. It is also useful as a check to the direction of the Dollar, as high inflation concerns are often linked to a falling dollar. “Economics” refers to either supply or demand concerns.

The primary global concern this month is economic, which should limit oil price increases in spite of weather or geopolitical concerns. There is a possible geopolitical crisis between July 14th and 19th. Economic issues peak near July 23rd.

Research on MoodCompass Performance

A doctoral student of economics with the University of Milan, Italy (who has since graduated) took on the project of investigating the accuracy of the MoodCompass. Using the MoodCompass as a source for trade signals, Dr. Pagani continues to chart how a hypothetical trader would have done in an S&P ETF against someone in a long only position and short only position. This is a snapshot of the data as of his last update, June 2010.

| Feb 2008 to June 2010 | | |
|-----------------------|--------------|--------|
| | % Gain Total | Max DD |
| Mood compass | 35.9% | 28.9% |
| Long only | -28.3% | 64.1% |
| Short only | 28.3% | 47.1% |



About MoodCompass

Originally Developed to Study Sustainability

MoodCompass is based on a systems 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. Since 2006, 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.

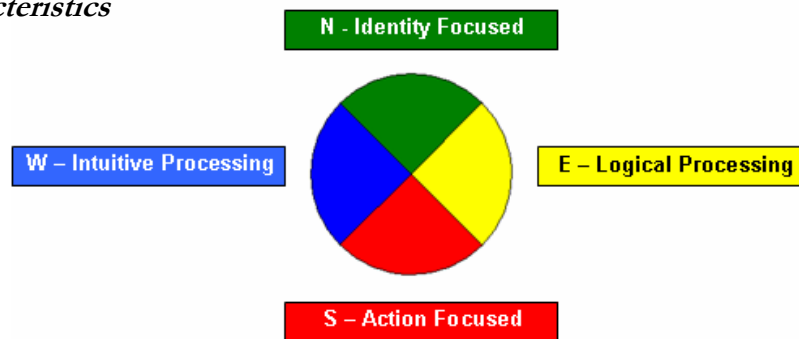
Researchers spent the rest of 2007 analyzing these correlations and identifying the mood configurations corresponding with various social responses and market reactions. By the end of 2007 they had successfully generated a model for each segment that very accurately predicted whether its corresponding market was trending up or down and when the trend was likely to shift.

MoodCompass was Born

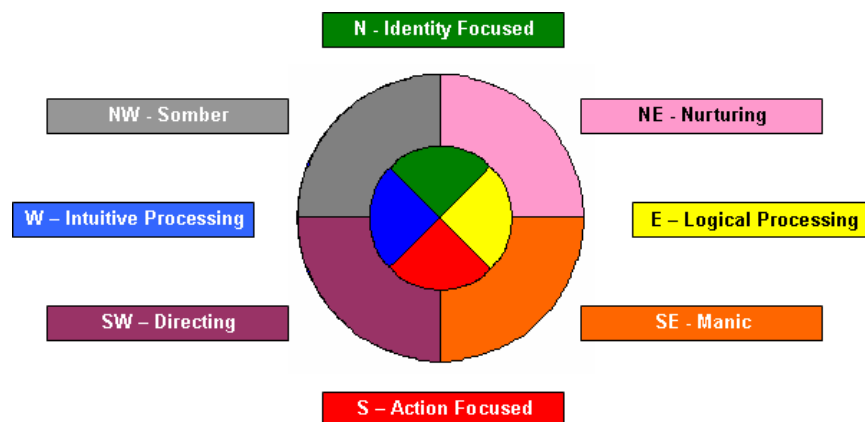
Researchers at A New Story Foundation knew they were on to something big. If they could predict changes in social mood and the potential for instability, and demonstrate that with accurate predictions of the direction and timing of trends of the stock market, the dollar, and crude oil, that information would surely be valuable to managers, planners, and even the investment community. 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 research sponsors, 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), directing behavior (southwest), manic expression (southeast), 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*

The two sets of characteristics are inter-related. Each characteristic is a combination of the two that surround it. This relationship can be 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.

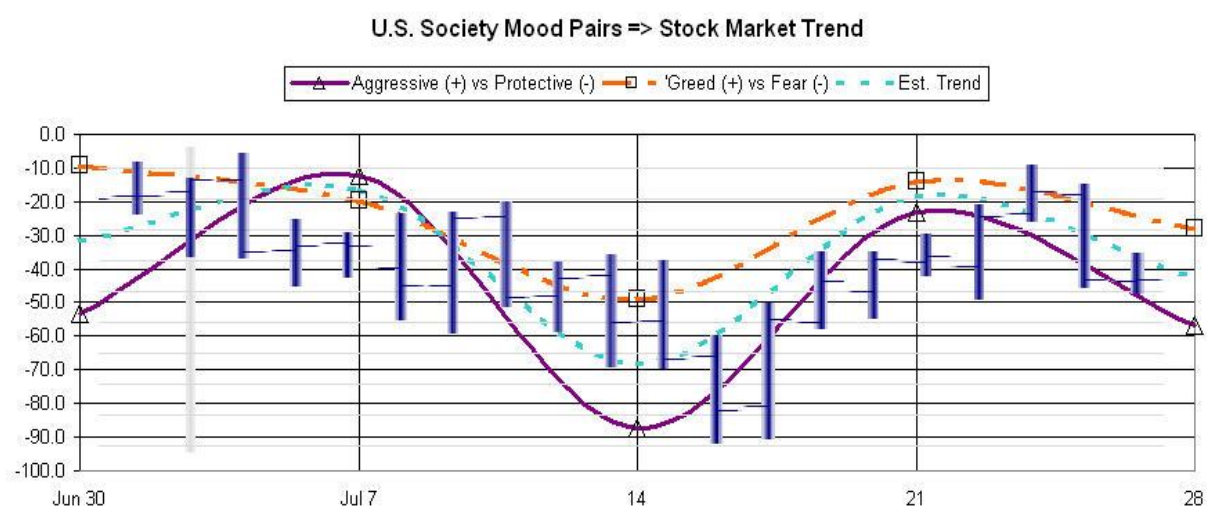
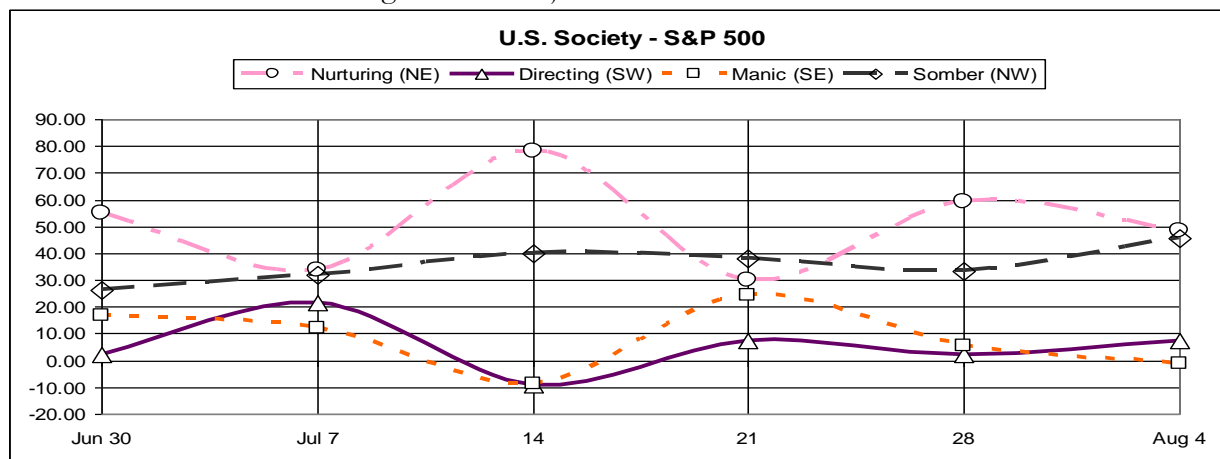
**Tracking Profiles Over Time**

During the course of each month, researchers collect information surrounding current events and perceived future events, and qualitatively assess how much of each of the eight characteristics the entity under observation manifests. This assessment is ultimately plotted (as “mood lines”) and extended into the future to generate the MoodCompass forecasts. The four

primary characteristics and four hybrid characteristics are evaluated separately, and analyzed in conjunction. Researchers have found that when plotted over time, each set of the four characteristics tends to oscillates in a somewhat regular pattern. The pattern can be extended into the future by estimating a best fit sine wave function. Researchers periodically 'recalibrate' the mood lines with the current events data, and readjust the best fit sine function. For convenience, and ease of presentation, only the moodlines of the four hybrid characteristics are presented in the MoodCompass.

Future forecasts are examined for indications of significant changes in social stability, government focus or activity level, and ways the outside world is perceived. Market models have been developed which accurately forecasts stock market movement from the U.S. society moodlines, U.S. Dollar value from changes in the way the U.S. government is perceived, and factors affecting the price of crude oil from the way the U.S. views the world.

The two figures below show the July 2008 moodlines for U.S. society and the derived stock market forecast (as published June 27, 2008). Actual stock market data from futuresource.com has been overlaid on the bottom figure to show just how well the data matched the forecasted trend.



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

MoodCompass Subscription Application

I am interested in the work of A New Story Foundation, encouraging “new stories” that lead to a culture of sustainability, as well as its work in tracking and forecasting social and economic risks of instability.

Please write a few sentences describing how you can support the work. Suggested monetary pledge is \$40 per month. For support other than a monthly monetary pledge, let’s discuss it. Future issues will be sent upon receipt of either your pledge or documentation of your alternative support as agreed. Here is how I can help in the work:

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Thanks for your support!