

MOODCOMPASS[®]
PROPHET FOR YOUR PORTFOLIO[™]

June 2008

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June 2008 - Gateway to Chaos

We recently prepared a long range forecast for the second half of this year for internal planning purposes. To sum it up, the entire second half of the year looks increasingly serious, chaotic, violent, and disruptive. The situations that individuals will be facing in this country and on the planet for at least the next six months should be extremely challenging. While we can't know the specific events that will take place, what we do know is that the situations that present themselves will be perceived over and over again as far outside what "normal" is supposed to be. The second half of 2008 is a different world, in a sense, from the first half.

What that means is that June is the turning point, a one way door into a very different global context than that with which we have become familiar. Through whatever choices, decisions, and actions are made this month, the world will be set on a course that will bring increasing chaos, disruption, and distress for at least the remainder of the year. Although this is not the end of the world, what is likely, in the coming six months, is runaway inflation in certain sectors concurrent with extremely depressed prices in others; outbreaks of civil unrest in some locations due to disagreements with government policies or to general distress and frustration; outbreaks of public panic in some areas due to perceived or actual disruption of fuel or food (for more information on public panic events: http://anewstory.org/documents/public_panic_crisis.ppt).

The focal point for June itself is the third week of the month. There a high likelihood of a geopolitical crisis and excessive losses in the stock market beginning early in the week. The week by week highlights follow:

May 26 – 30: The global mood becomes extremely serious. The dollar could rise substantially. The stock market should decline in a panic scale sell-off. Crude oil could decline a bit, or at least slow in its climb.

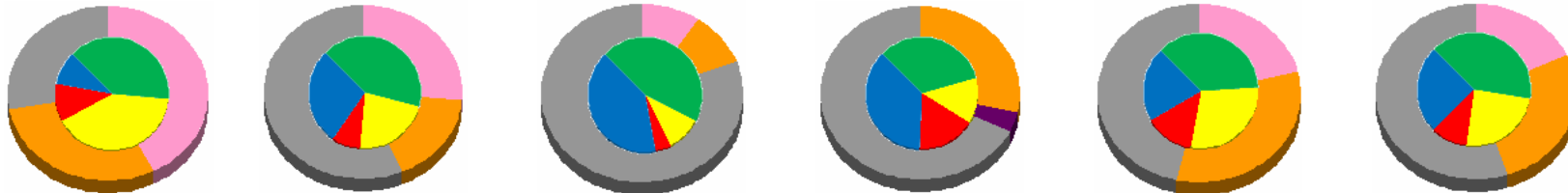
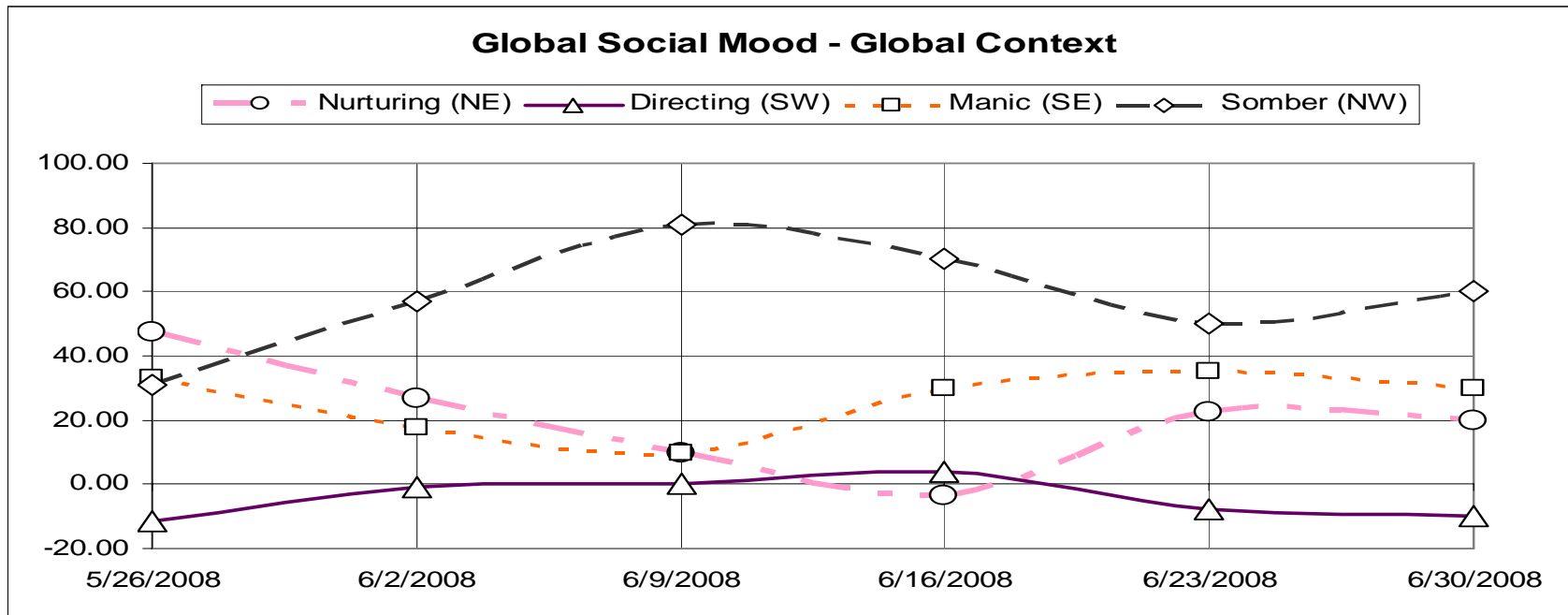
June 2 - 6: There is an increasing global sense of impending doom. The stock market should slow its decline, or may even pull off a bit of a rally. Crude prices show no end in sight to their climb. Fears of geopolitical escalation may boost the Dollar.

June 9 - 13: Calm before the storm geopolitically; crude should top and may even decline some. Any stock market rally should be followed by a steep decline. Currency markets are extremely volatile.

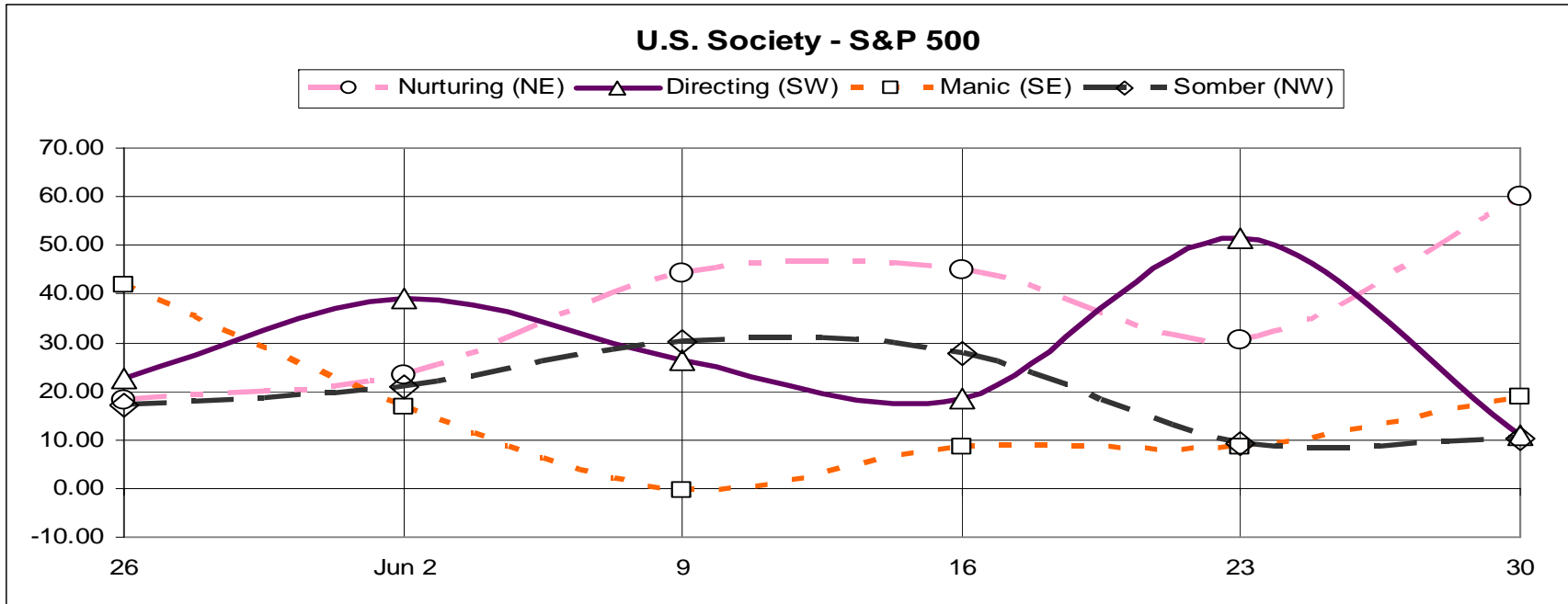
June 16 - 20: The geopolitical situation exceeds critical. "Flight to safety" behavior increases dramatically. Panic in the stock market is off the scale. Currency markets are confused and volatile.

June 23 - 27: Fear levels return to within normal ranges, but remain elevated. Crude stops climbing, and may decline some. As for the FOMC meeting scheduled this week, the key question will likely be do they dare to raise rates to address what is quickly becoming run away inflation, or do they dare continue to consider the economic slowdown?

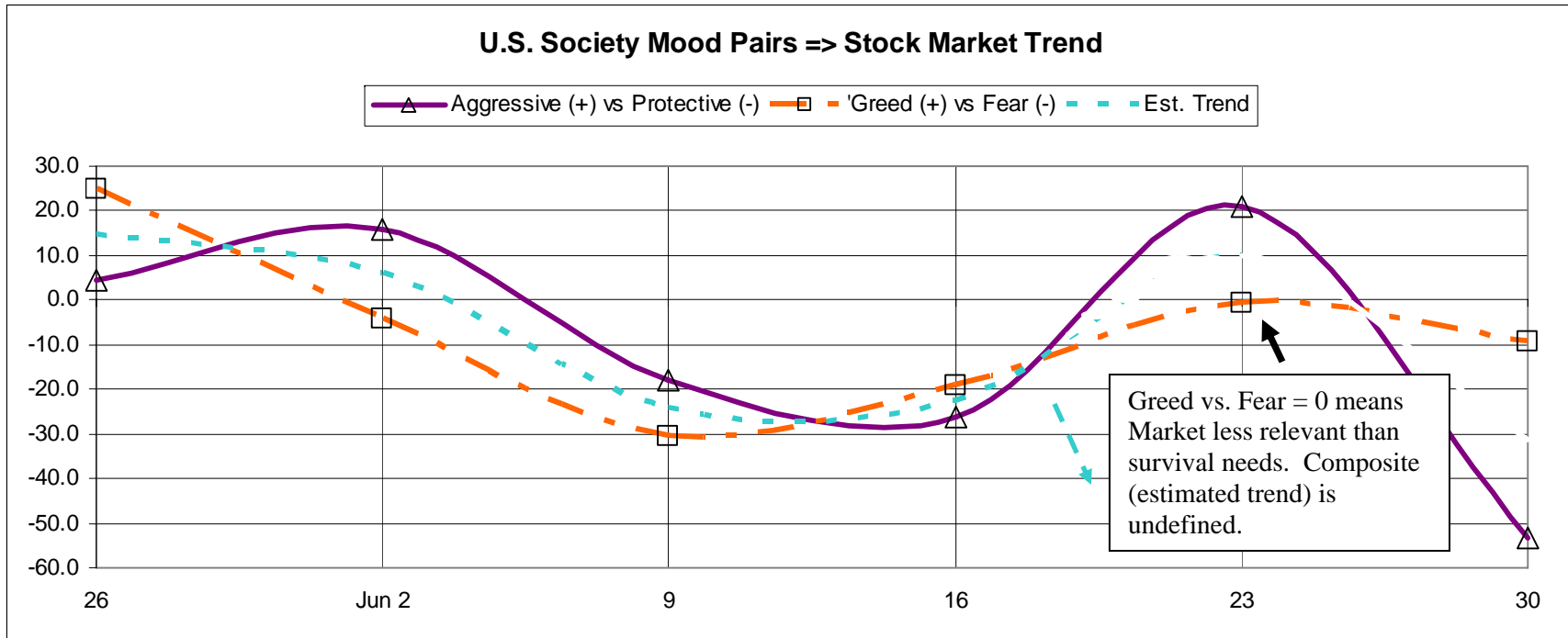
The charts on the following pages will go into further detail of the social mood changes and corresponding market behavior for this time period. The last few pages of this document will give you a brief orientation to the MoodCompass.



<p>Deepening Dread (extreme, chronic Somber) There is a dawning realization that the world is in serious trouble (e.g. increasing incidents of violence in the news). An increasing feeling of impending doom may be experienced worldwide. Global markets should be down to sideways.</p>	<p>Calm Before Storm A pause; a calm before the storm. A sigh of relief may coincide with a weak global market rally (rising Manic, lowered Somber).</p>	<p>It All Comes Together Near 6/17 is a sharp increase in “seeking safety” (Nurturing). There may be a sense of paralysis or helplessness as choices are constrained. Global markets move sharply lower.</p>
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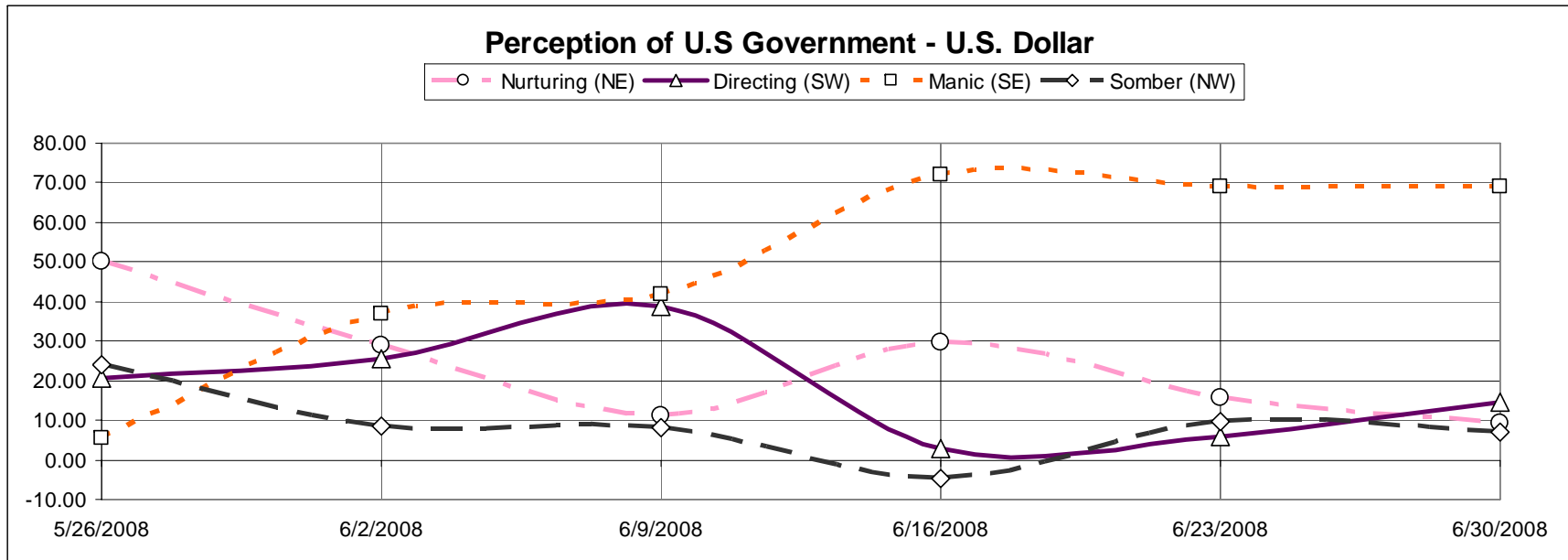


<p>Anxiety <i>"Safety seeking" continues through 5/28. Markets are down.</i></p>	<p>Desperately Seeking a Bright Side <i>U.S. society fights to see the bright side and bulls struggle hard for a rally (high Directing) through 6/4.</i></p>	<p>Searching for Direction <i>Confusion, speculation and volatility abound as denial of the seriousness of the global situation (Somber) battles with high anxiety (Nurturing). The general market direction is down to sideways and volatile.</i></p>	<p>Something Happens! <i>The surge in Directing along with a collapse of the Manic/Somber polarity (greed vs fear) indicates a likely panic response to something completely outside of normal economic concerns, and likely having an international focus. Markets should be down sharply. June 17th looks key.</i></p>
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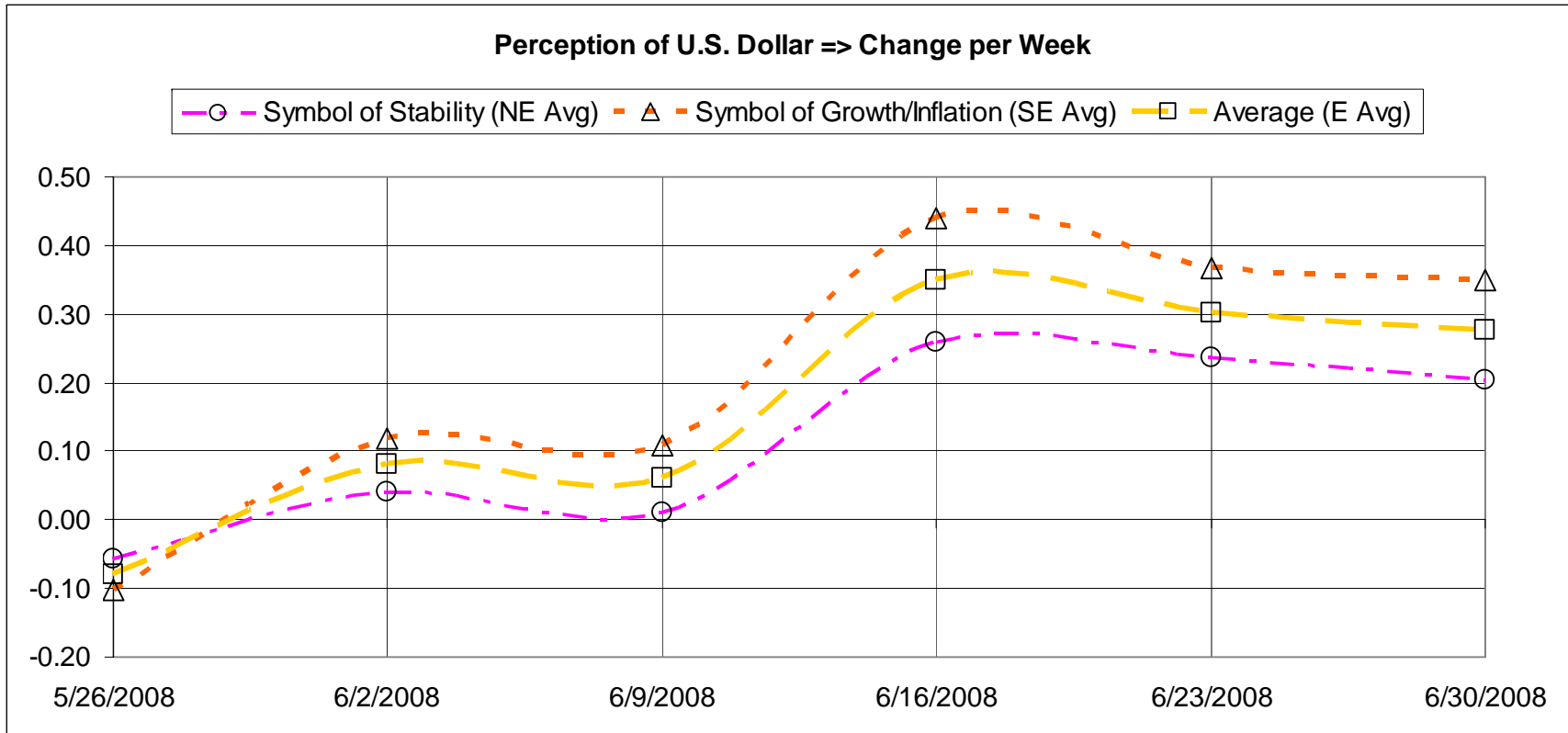


Explanation of chart lines: *It is common knowledge among traders that movement in the stock market is based on a “tug of war” between pairs of sentiment. This charts the two primary pairs which correspond to the general stock market trend. “Aggressive vs Protective” is the difference of the values of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

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.

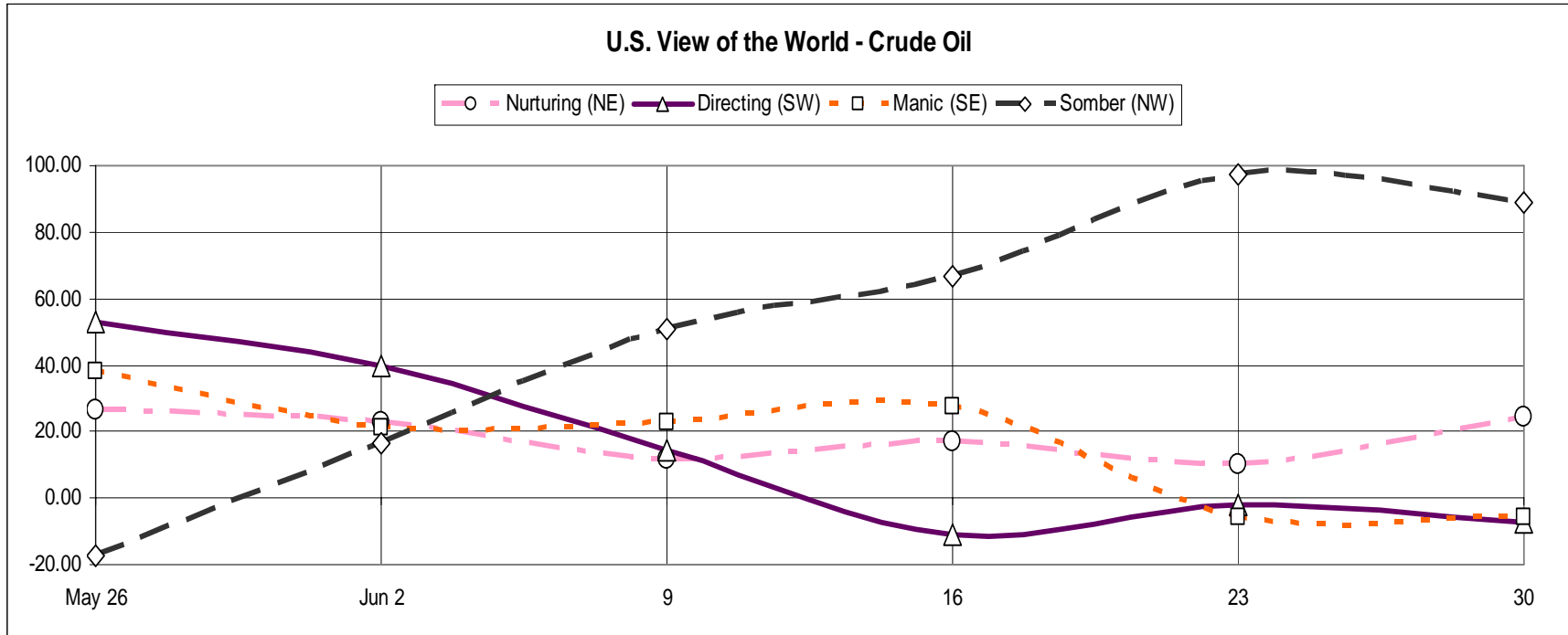


<p>Source of Inflation (and Aggression) <i>U.S. government policies and U.S. Dollar are increasingly seen as a source of inflation (high Manic). Economic downturn makes a Fed pause less certain. The Dollar may rally the week of June 9 (sharp rise in East factors). High Directing and Manic combination may signal aggressive/decisive action, including possible intervention in the markets.</i></p>	<p>Source of Chaos and Instability <i>Extreme Manic shows the U.S. government is viewed as a source of chaos and instability in the world. High volatility and confusion should prevail in the currency markets. Direction is unclear.</i></p>
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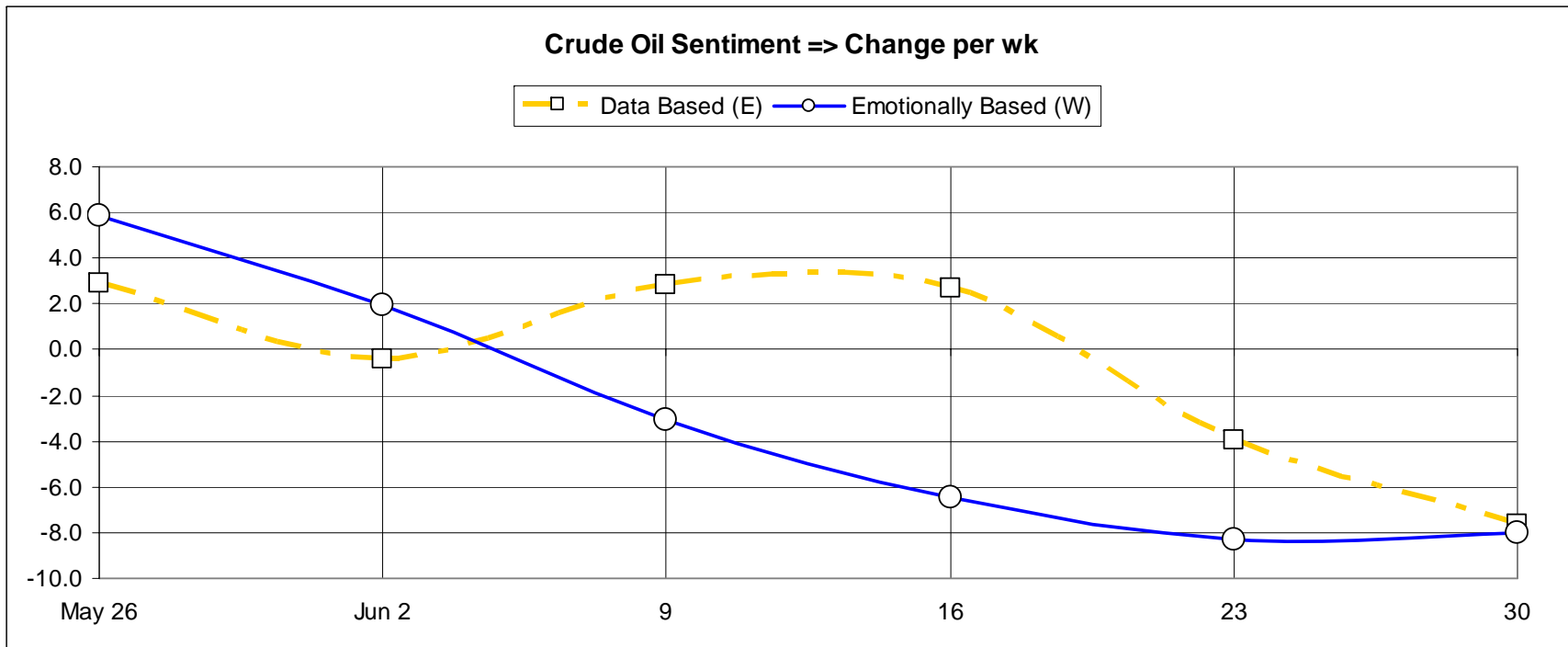


Explanation of chart lines: *The Dollar is a symbol of value, but it not attached to anything “real” such as gold as it was in the past. Its value is based on sentiment, and on the trust of a government to honor its debts. Because of this, its value ebbs and flows along with the oscillations of perception 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.*

The overall trend for the Dollar is up for June; however little trend may be apparent in any given week. The exception, and most clear opportunity for a Dollar rally is the week of June 9, however volatility could make timing critical.

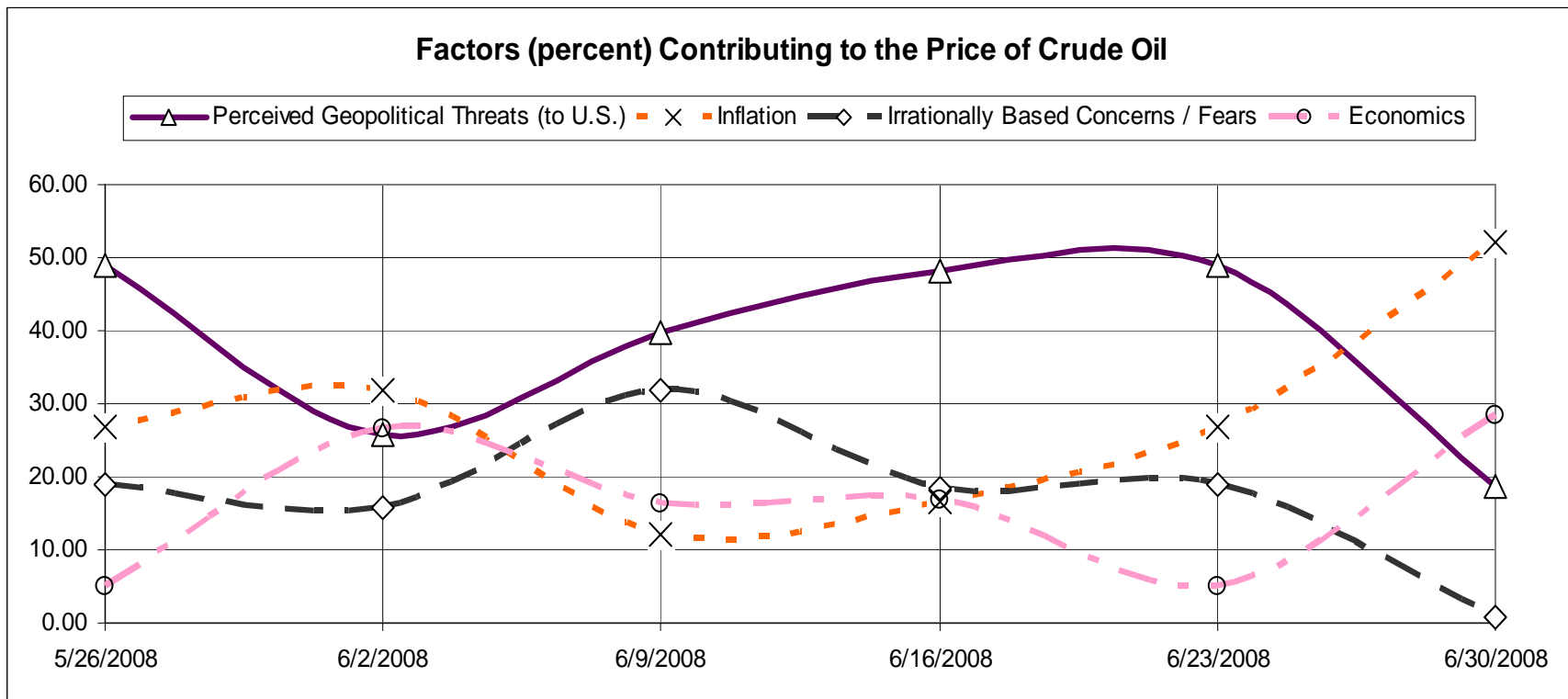


<p><i>Is Crude Topping?</i> <i>This is the likely question on everyone's mind as the uptrend slows through 6/4 as polarities converge.</i></p>	<p><i>Global Situation Grows Increasingly Serious</i> <i>As Somber climbs, crude climb may become slow and steady with occasional losses due to profit taking. However, the increasingly serious global situation keeps crude from dropping.</i></p>	<p><i>Beyond Serious</i> <i>The global situation reaches critical levels near 6/18. This is a nightmare scenario with Somber at such extreme levels. Crude prices are excessive.</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.*

Crude should slow its surge the first week of the period, but likely continue to rise with both E and W factors > 0. While technicals will likely indicate that crude is overbought and should be going down (W < 0 after June 4th), the “fundamentals” should indicate that supplies are either lacking or threatened—at least through the 18th (E > 0). This should keep crude supported throughout the month and may push it to new highs regardless of gains in the Dollar. After the 18th, crude may decline or at least stop going up.

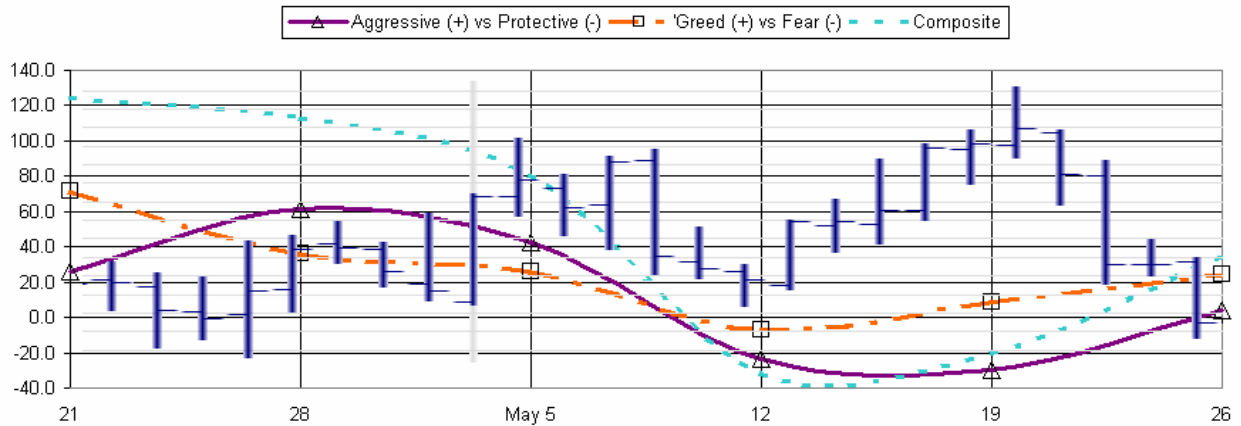


Explanation of chart lines: *The values for the Moodlines (Directing, Manic, and Somber) for U.S. View of the World/Crude Oil and the inverse of Perception of U.S. Government/U.S. Dollar are combined to produce this chart. This chart is useful in searching for potential geopolitical events, and escalated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

The primary contributor to the price of crude for this time period is the perception of geopolitical threats. While there is also the contribution of irrationally based concerns or fears in the first week of June, it is interesting that later in the month the concerns with geopolitical threats are more likely to have a solid, rational basis. Following these heightened geopolitical concerns are very high inflation concerns. While this would correspond with disruptions in global trade due to a geopolitical event, and we should remain alert to this possibility, we will have to see how this actually plays out. Events tend to correspond with the mood cycles, however, that does not mean that they necessarily will in any particular case.

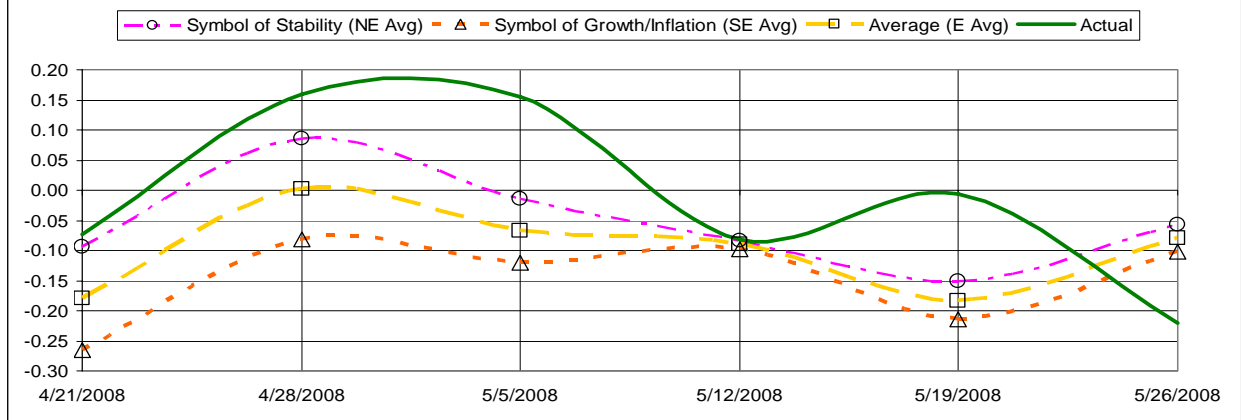
How We Did – Comparing our Charts with Actuals

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



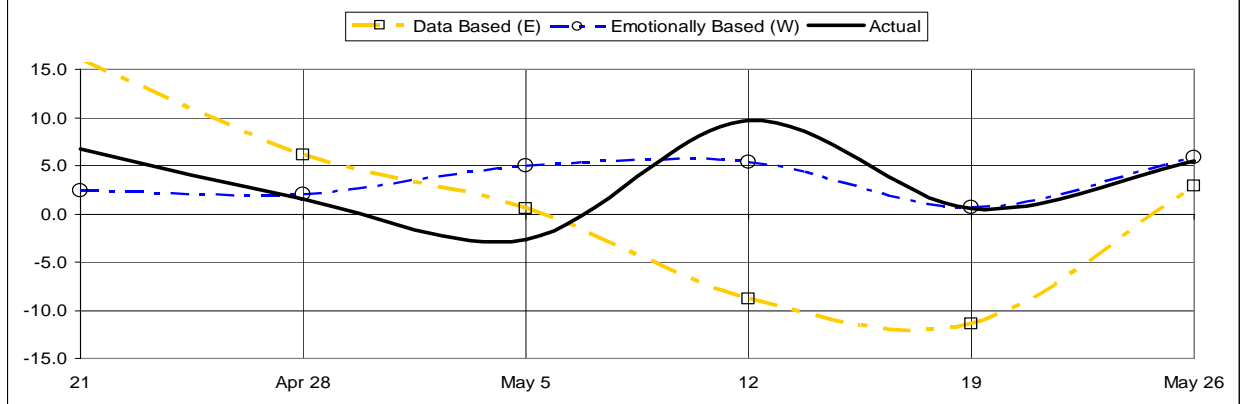
S&P: Low on May 9 matched well, otherwise little correlation as occurs in choppy/sideways conditions.

Perception of U.S. Dollar => Change per Week



Dollar: good overall trend correlation, less week by week.

Crude Oil Sentiment => Change per wk



Crude: followed the dominant E line; switched to following W when it became dominant. Great match!

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.

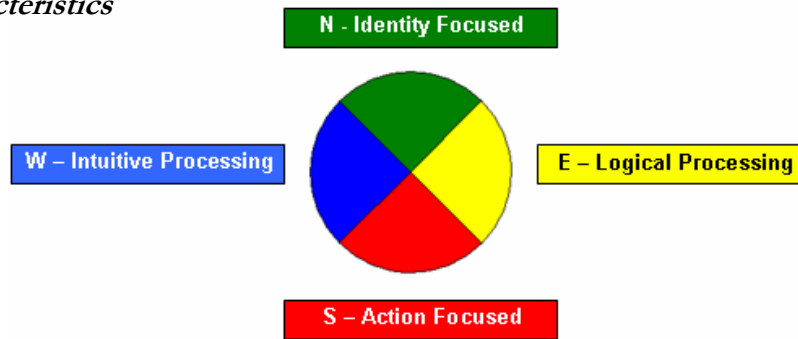
MoodCompass was Born

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

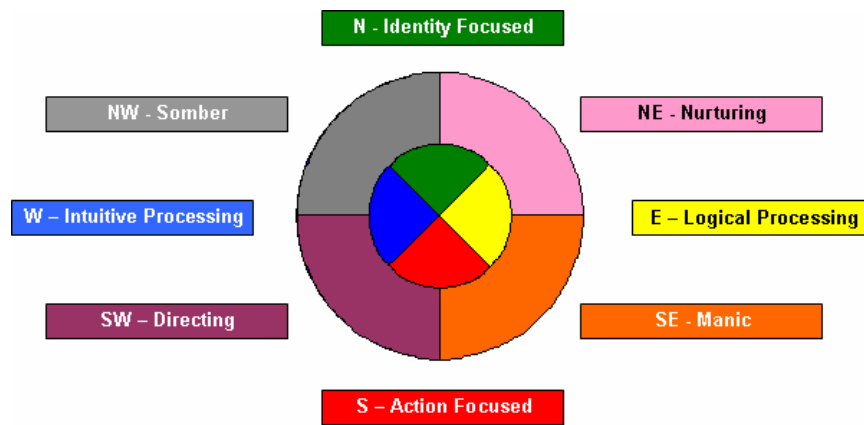


Hybrid Characteristics



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.

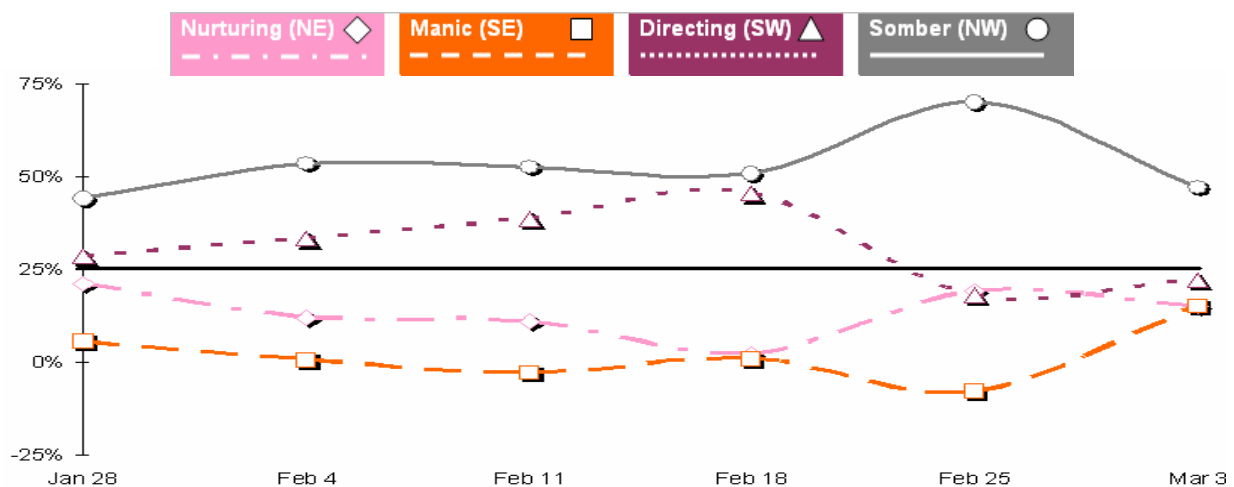
Tracking Profiles Over Time

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.

