# MOODCOMPASS®
## A GUIDE TO GLOBAL MOOD AND MARKETS

# March 2009

# Global Risk of Social Unrest: EXTREME!

## March 2009 – Disgruntled, Discontented, and Directionless

The background theme throughout the month is an aimless, anxious, agitation. People, in general, are worried about the future; increasing numbers are concerned with survival needs in the present. To make matters worse, no one is quite sure how to respond to all that is going on.

Global stock markets are near a low and the negativity in social mood is nearing a peak. At such long term cycle peaks, the risk of civil unrest reaches an extremely high probability of occurring; the risk of misunderstandings between governments also rises.

There are numerous opinions about how governments should be dealing with the economic turmoil. While there is little consensus on exactly what should be done, there is much agreement, globally, that whatever is being done, by whoever is in charge, is the wrong thing, and that whatever they are doing is either not enough or is going to make matters worse. In the US, differences between political parties over the past month have been extreme. This month, divisiveness reaches a whole new level, and it would not be surprising to see some type of a demand for action, an insistence that the debate come to a conclusion so that plans can be crystallized and implemented. "Enough talk already! What are you going to DO about it?"

All of this painful agitation and searching for direction should likewise be a theme in the marketplace throughout the month. This is not the end of the economic downturn, but it is near the end of increased disintegration for now. When the next long term peak in optimism arrives, that will be the time to look for things to really begin to get bad!

Week by week highlights:

**Mar 2-8: *Going Nowhere Fast*:** Continued divisiveness and disunity in the US government. A month of market lack of direction begins (rallies sold and sell-offs rally). A geopolitical focus near the end of this week / beginning of next week could cause a surge in the energy markets.

**Mar 9-15: *Growing Impatience:*** The world waits for the US government to turn talk into action. The price of crude oil surges and the US Dollar declines.

**Mar 16-22: *Extreme Tension:*** Global agitation is on the increase. Widespread civil unrest is increasingly likely. There is increasing vocalization of dissent with government direction. Large moves in the energy markets are likely.

**Mar 23-29: *Volatility:*** The stock market is finally moving again, but in which direction? The US government appears to be making some progress. The US Dollar should be close to a near term bottom.

*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.*

## Global Social Mood - Global Context
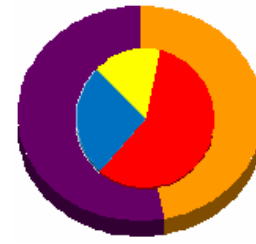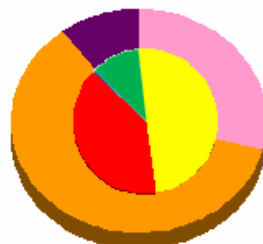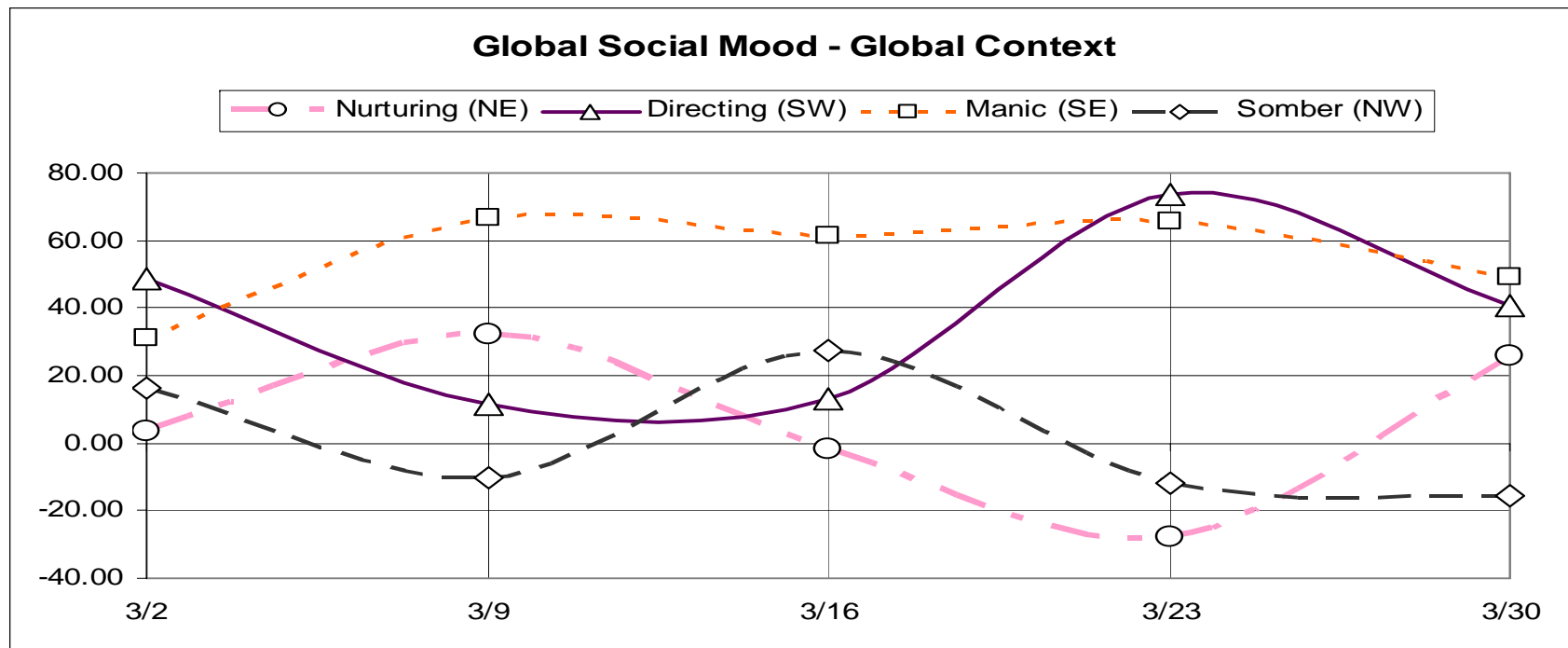


*Agitation and Unrest with Little Definitive Direction*
*The global context is a confused agitation. The situation is extremely uncomfortable, and everyone has a different opinion for what should be done about it. However, there is agreement that whatever is being done is probably wrong (extreme Manic, relatively low Directing).*

*Anger, Agitation, and Volatility*
*There is a large increase in the likelihood for riots, demonstrations, civil unrest and geopolitical escalation during this period, especially 3/19 – 26 (extreme South factors).*

## U.S. Society Mood Cycles

○ Nurturing (NE)  △ Directing (SW)  □ Manic (SE)  ◆ Somber (NW)
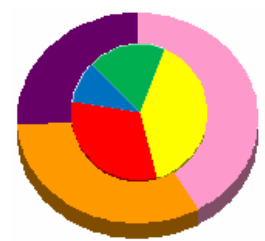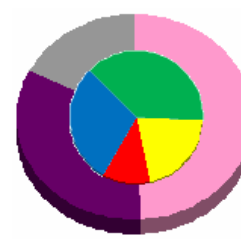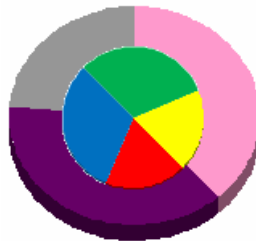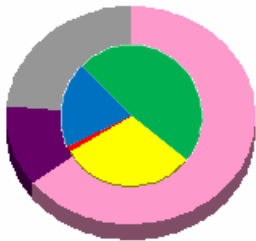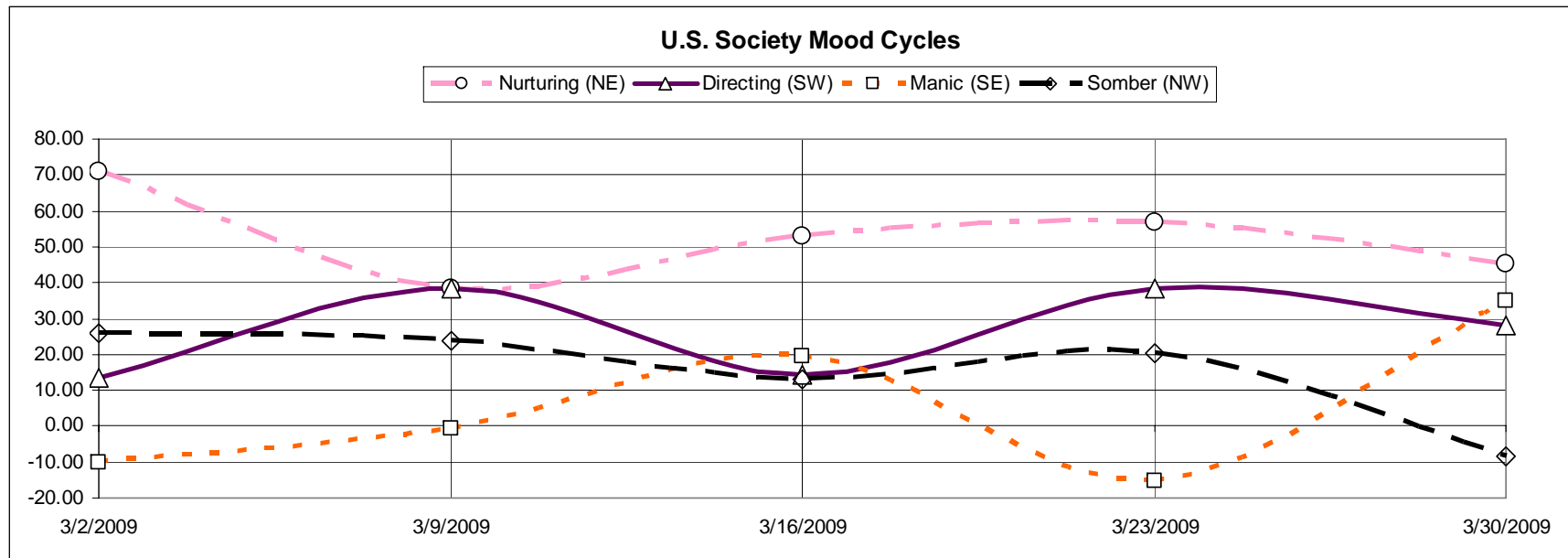


*Extremely Unsettled and Anxious, but Lacking in Definitive Direction*
*US Society is focused on long term survival issues, as the economy continues to deteriorate (Nurturing/Directing in tandem predominate over Somber/Manic). People in general feel lost, and lacking in definitive direction (what do we do, how do we deal with this?). The stock market should also lack direction as bad news pushes stocks down while the need for cash forces short position covering.*

*Increased Volatility*
*There is hope that a solution is near, and an increase in dissention against government action. Markets are moving again, but who knows whether to be bullish or bearish?*

U.S. Society Mood Pairs ⇒ Stock Market Trend
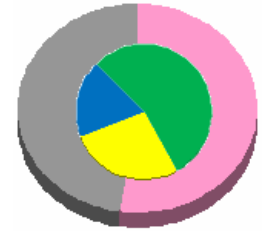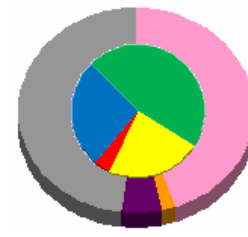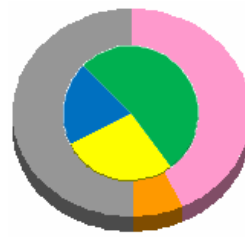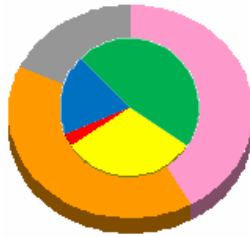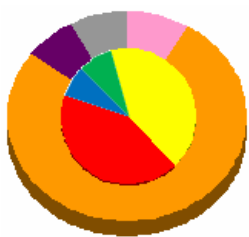
Aggressive (+) vs Protective (-) — 'Greed (+) vs Fear (-) · · · · Est. Trend

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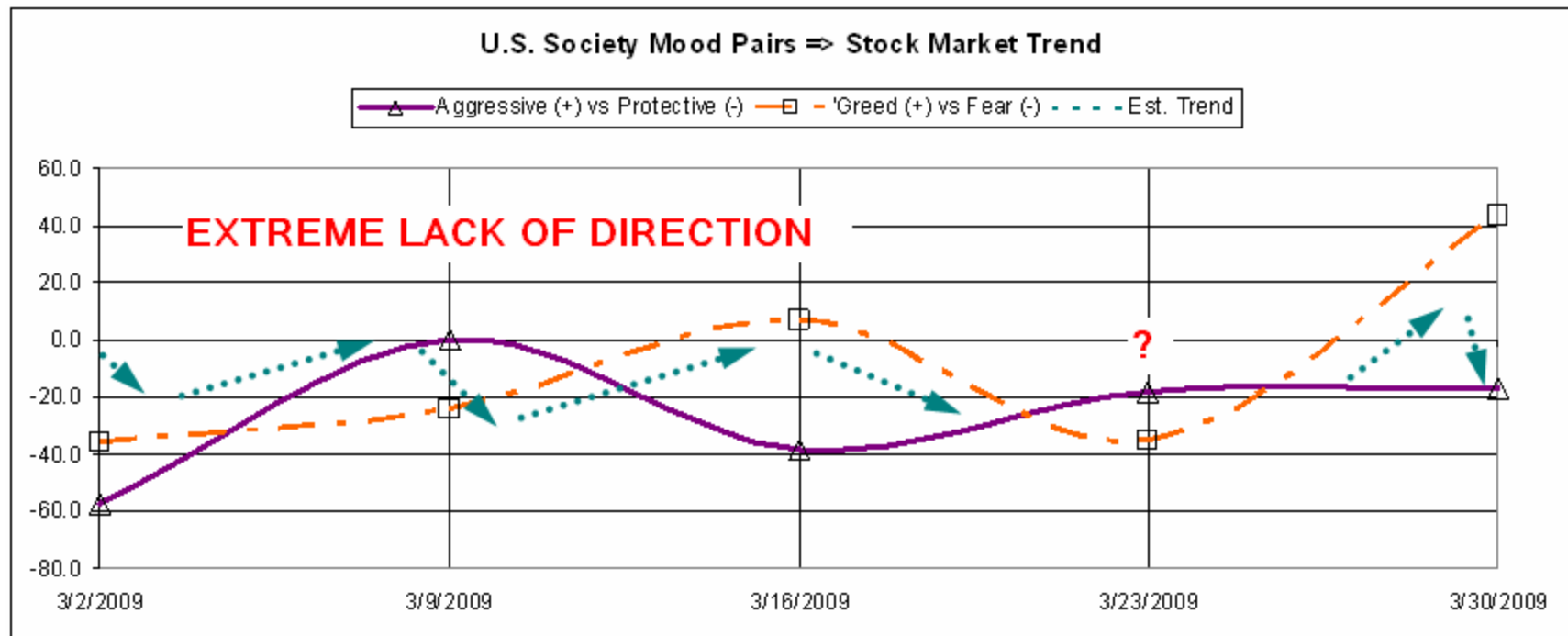
Explanation of chart lines: *It is common knowledge among traders that movement in the stock market is based on a "tug of war" between pairs of sentiment. This charts the two primary pairs which correspond to the general stock market trend. "Aggressive vs Protective" is the difference of the values of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

A complex countertrend pattern coupled with a nearing of the bottom of the long thrust down in the market that began in October 2007, makes estimation of trend this month nearly impossible. Look for any apparent trend to change as soon as it begins to be recognizable as a possible trend. The period 3/19 – 3/24 looks crucial and may coincide with a decision or event that "unlocks" the market bottleneck. Jumping onto a rally even at that point may be premature, and it too may be followed by an even larger decline. What does look clear is a likely stock market bottom that holds for some time either this month or in early April.

## Perception of the U.S Government

Legend: —○— Nurturing (NE)   —△— Directing (SW)   - □ - Manic (SE)   —◇— Somber (NW)
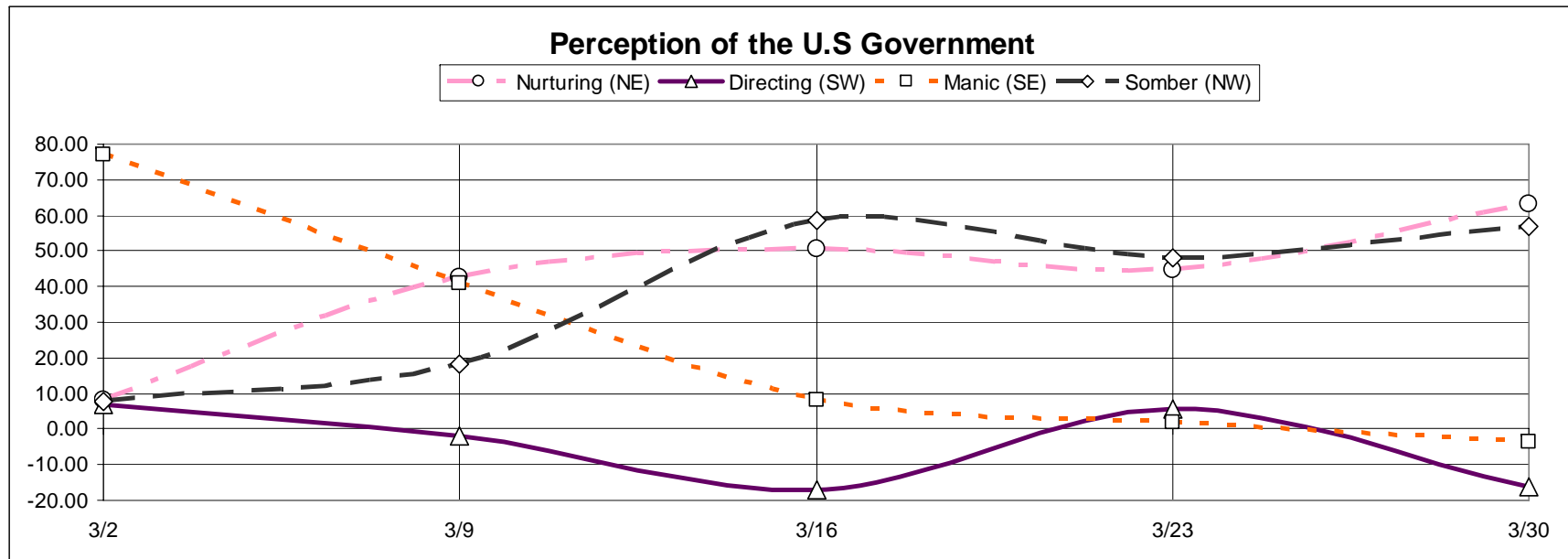


***Incompetence and Disunity***
*Heightened ideological differences, fragmentation, and divisiveness continue. The government is still seen as disorganized and incompetent as the extreme Manic configuration reaches its conclusion.*

***But When Are They Going To DO Something?***
This high North configuration in the current context indicates a government perceived as NOT DOING, perhaps even paralyzed. There may be a fear to commit to action in the face of uncertainty, or it may be pure stubbornness due to party politics. There is a slight increase in South factors (perceived action) the week of the 23rd and it may appear then that some progress is finally being made in the bottleneck.

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

—○— Symbol of Stability (NE Avg)   ▵ Symbol of Growth/Inflation (SE Avg)   □ Average (E Avg)
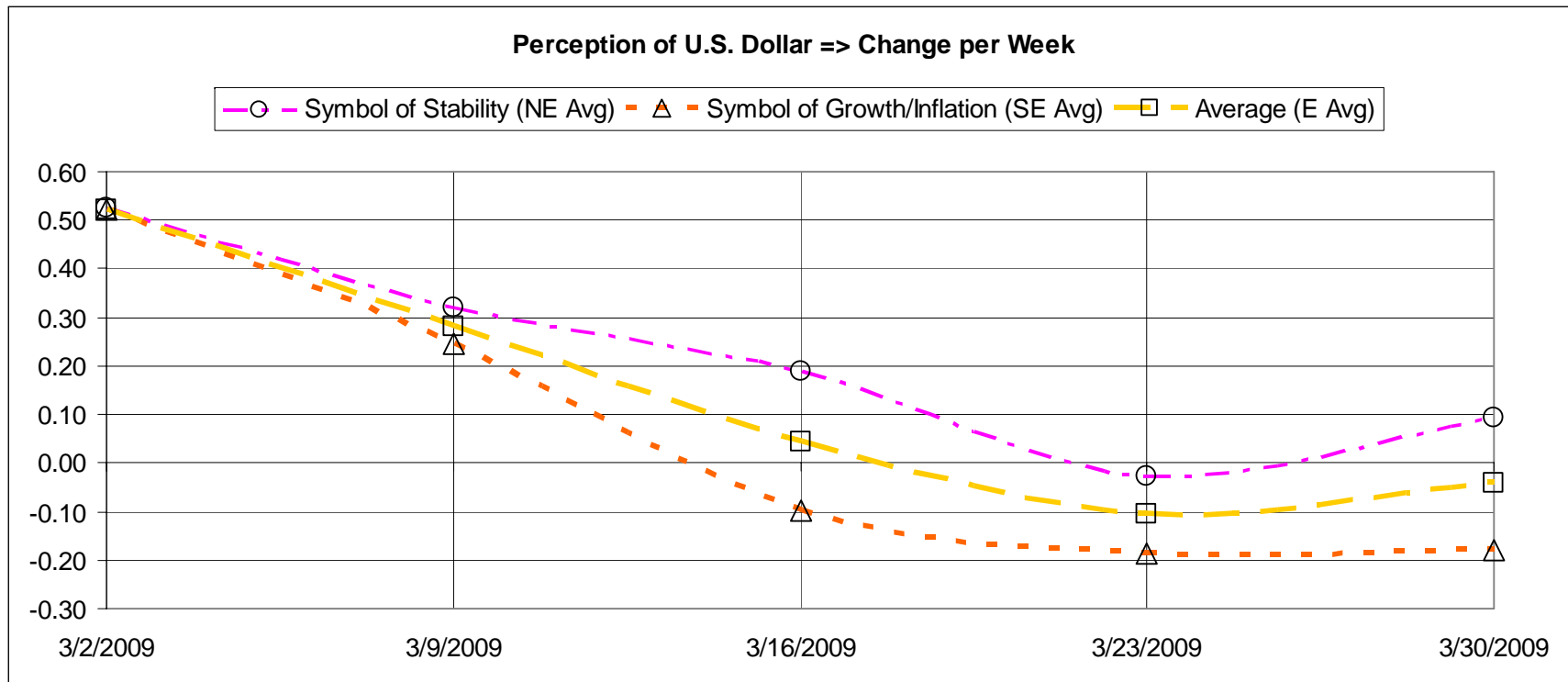
Explanation of chart lines: *The Dollar is a symbol of value, but it not attached to anything "real" such as gold as it was in the past. Its value is based on sentiment, and on the trust of a government to honor its debts. Because of this, its value ebbs and flows along with the oscillations of perception 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 trend for sentiment toward the U.S. Dollar in March is a steady decrease in confidence as a source of stability or safe haven in uncertain times. A correction in the Dollar uptrend is likely, especially after March 10. As month's end approaches, so to does a near term bottom for the Dollar.

**U.S. View of "the World"**

Legend: —○— Nurturing (NE)  —△— Directing (SW)  - □ - Manic (SE)  —◇— Somber (NW)
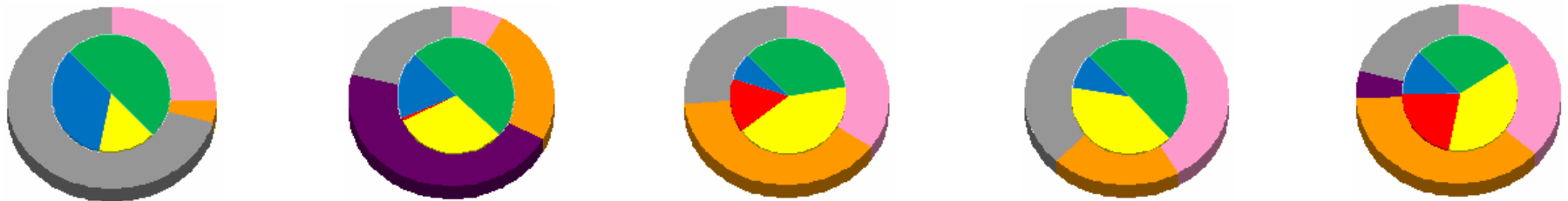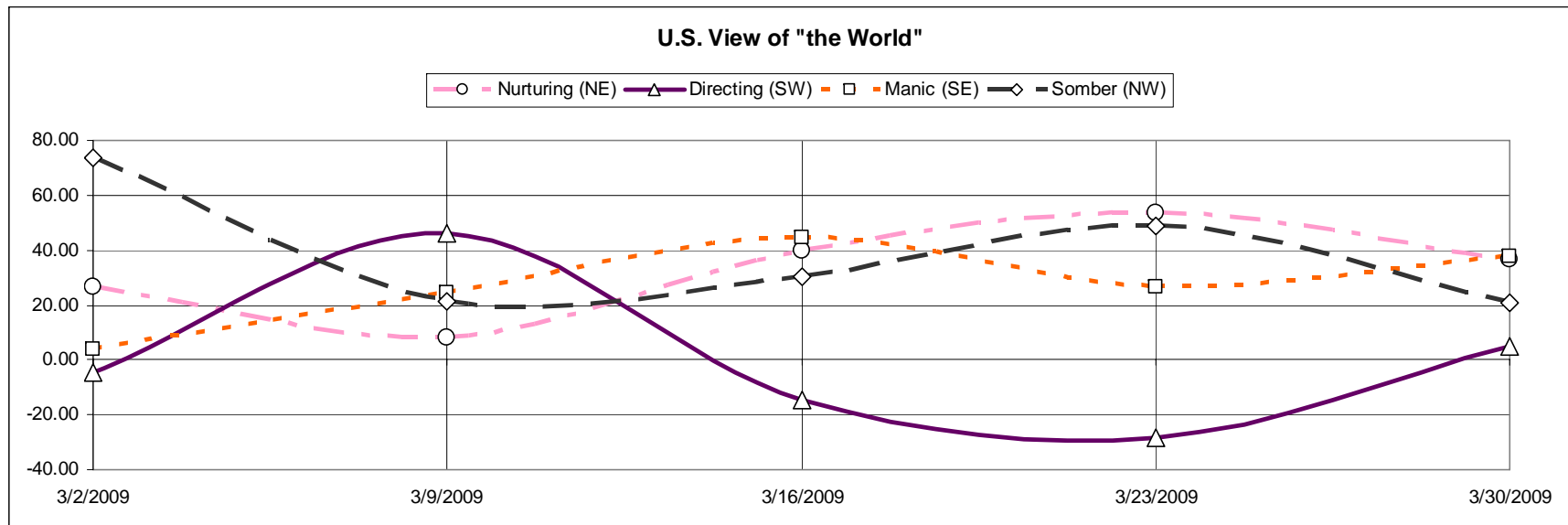


| Not Well | Aggressive | Lots of Talk, but Lacking in Leadership (Teeth) |
|---|---|---|
| *Extreme Somber shows a world perceived as "sick."* | *The rise in Directing should coincide with a focus on the international scene (OPEC or a geopolitical issue) that could result in a surge in energy prices.* | *To the extent that international issues are even paid attention to during this period, little credence is given to threats such as oil cutbacks (although energy markets may respond with increased volatility). There may be the beginnings of increased international focus toward the end of the month.* |

## Crude Oil Sentiment => Price Change Per Week
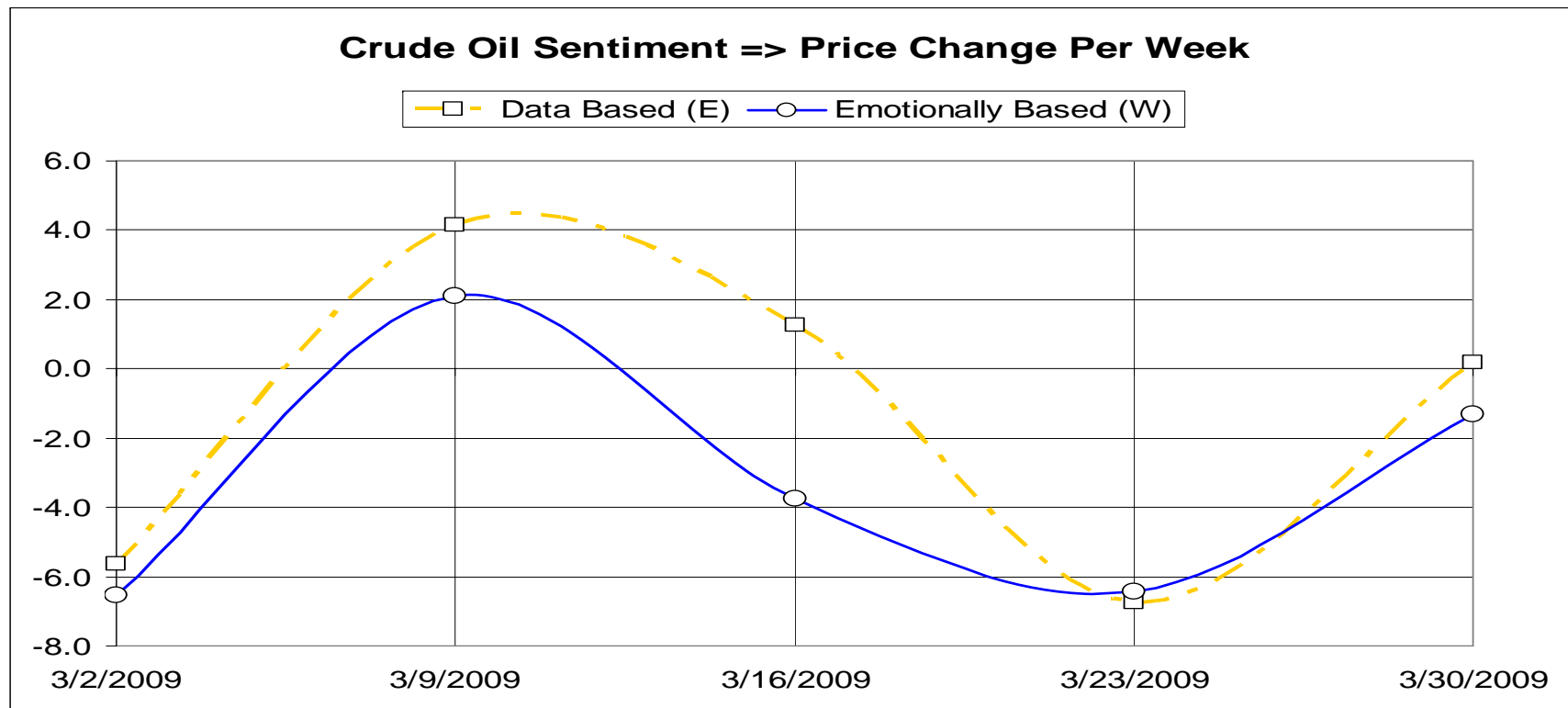


Explanation of chart lines: *The price of Crude Oil changes based on supply and demand fundamentals and projections. It is also based on technical trading signals, and emotions such as fear. The "Data Based (E)" line comes from subtracting the Moodline values Nurturing (NE) from Manic (SE). "East" is 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 is extremely ambivalent as it starts with extreme downward pressure on crude prices and tries to recover later in the week. A pre-OPEC surge is possible the week of the 9th through the 17th,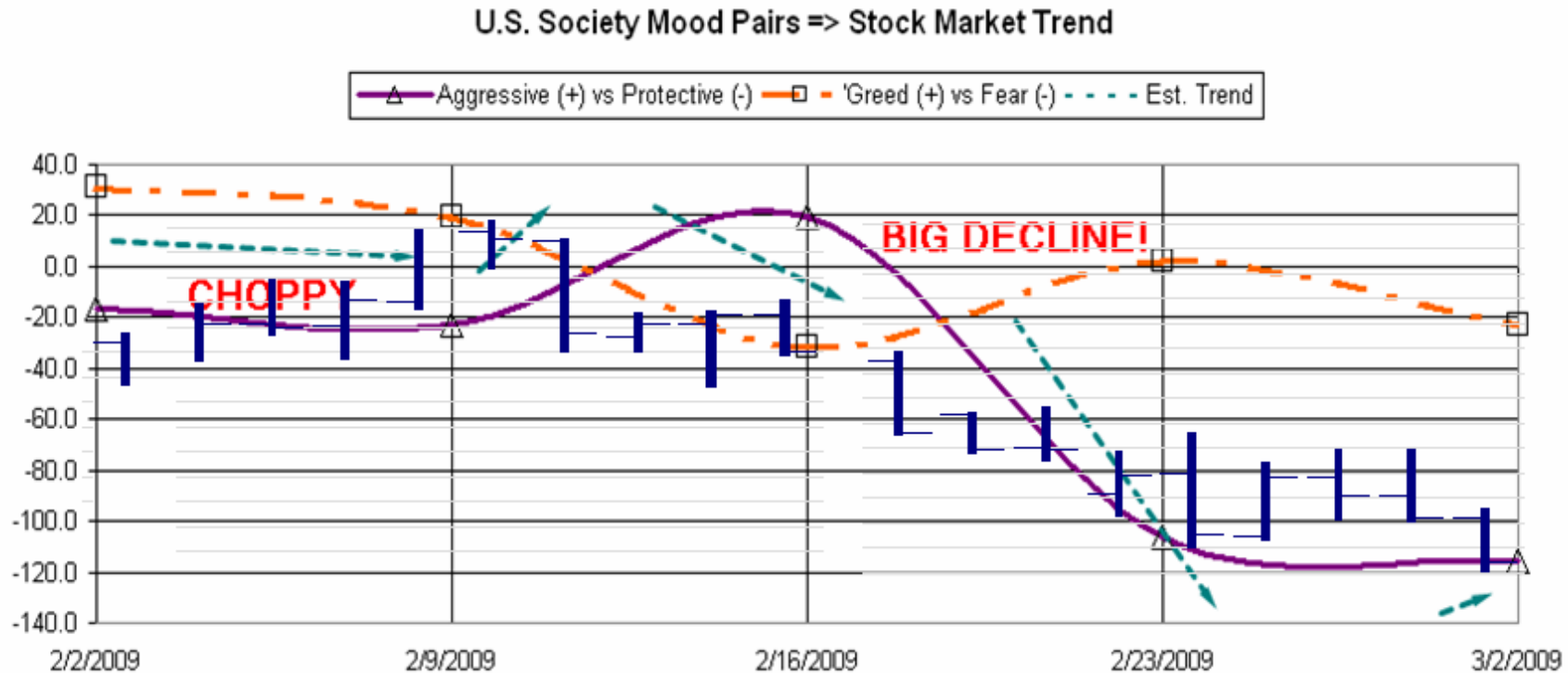 with a post-OPEC sell-off just as likely through the 25th. Some stabilization and even a possible increase is likely afterwards, but any gains will be short-lived.

**Factors (percent) Contributing to the Price of Crude Oil**

Perceived Geopolitical Threats (to U.S.) — Inflation — Irrationally Based Concerns / Fears — Economics
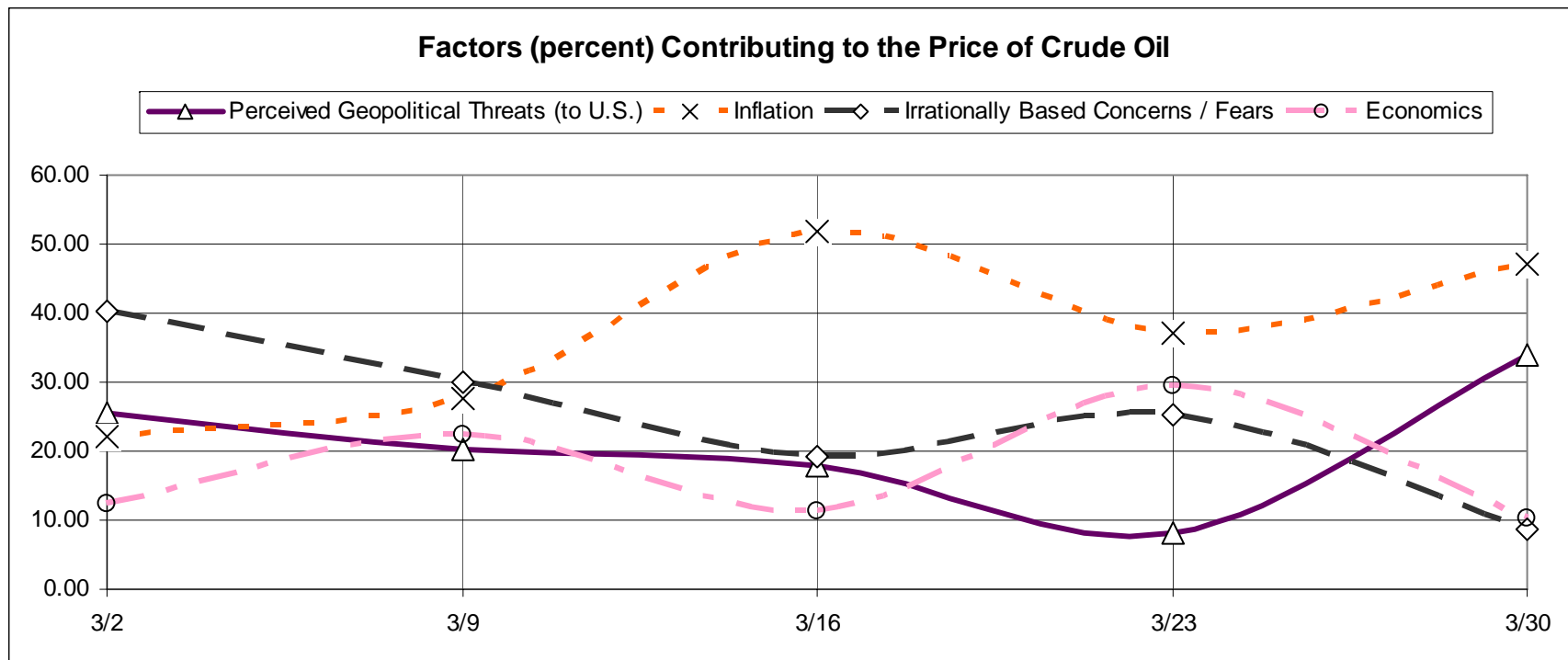


Explanation of chart lines: *The values for the Moodlines (Directing, Manic, and Somber) for U.S. View of "the World" and the inverse of Perception of U.S. Government are combined to produce this chart. This chart is useful in searching for potential geopolitical events, and escalated irrational fears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

There is not much to prop up crude prices the first week of the period. After March 10, there is a likely strong decline in the Dollar and lowered economic concerns. This could contribute to a flight to crude as an alternative currency. The second week sees less Dollar decline and increased economic concerns and possible profit taking in crude. The final week is a surge both in global issues and inflation concerns along with lowered economic concerns once again, leading to price stabilization and possible increase.

## How We Did – Comparing our Charts with Actuals

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

Legend: ——△—— Aggressive (+) vs Protective (-)   ——□—— 'Greed (+) vs Fear (-)   - - - - Est. Trend

CHOPPY

BIG DECLINE!

(Chart with vertical axis from 40.0 down to -140.0, horizontal axis dates 2/2/2009, 2/9/2009, 2/16/2009, 2/23/2009, 3/2/2009)

Actual data source: futuresource.com

S&P *(from previous issue):* 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.

Prices were choppy with an upward bias through 2/9. On 2/10 "panic" began to set in. Prices declined substantially from 2/17 through 2/23, bounced slightly, then ended the week even lower. Overall, the forecast was a very good match with the actuals.

# How We Did – Comparing our Charts with Actuals

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

— ⊙ — Symbol of Stability (NE Avg)    — △ — Symbol of Growth/Inflation (SE Avg)    — □ — Average (E Avg)    —— Actual
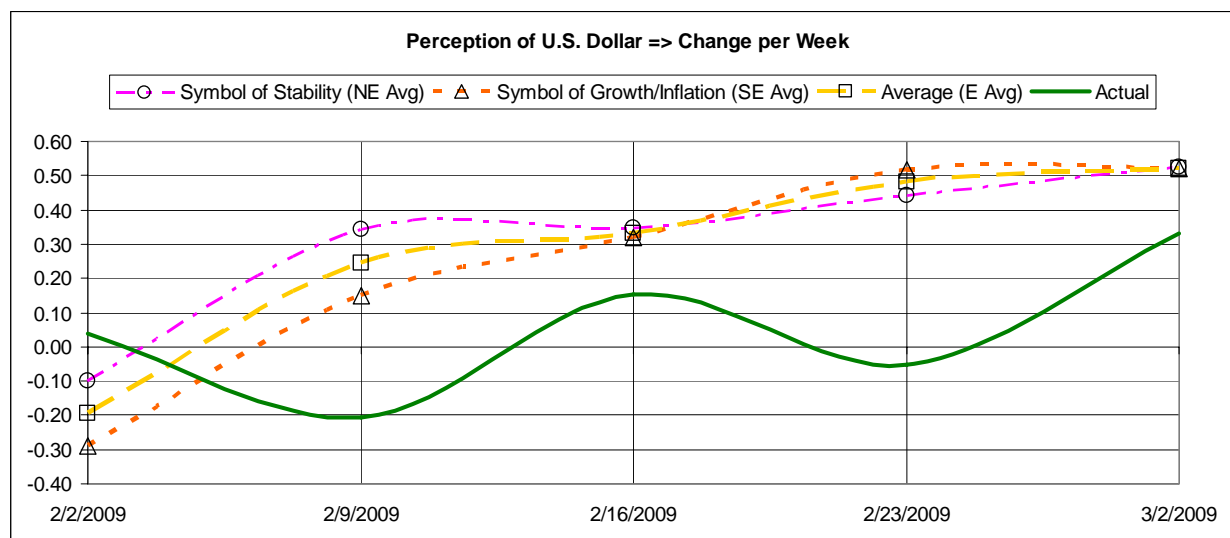
Dollar (*from previous issue): The week of the 2<sup>nd</sup> could hold quite a correction for the Dollar. However, as economic concerns again come to the fore the week of the 9th, the Dollar should again resume its climb. A note of caution: with such extreme negative sentiment toward the U.S. government 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.* Actual: Overall the trend was up for the Dollar. We were correct in assessing a decline for the week of Feb 2<sup>nd</sup>.

**Crude Oil Sentiment => Change per Week**

— □ — Data Based (E)    — ⊙ — Emotionally Based (W)    —— Actual
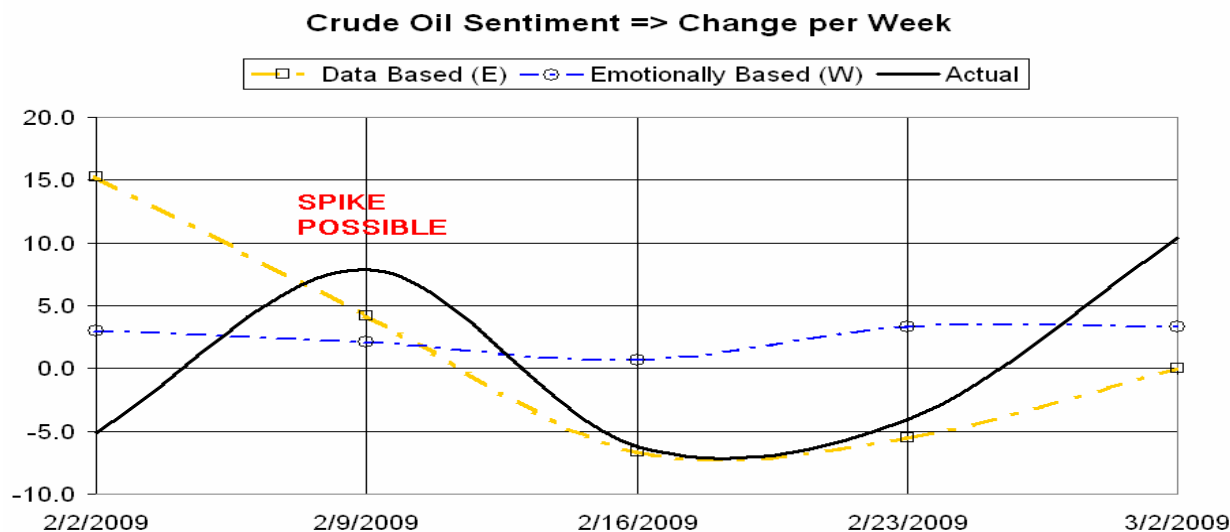
**SPIKE POSSIBLE**

Crude (*from previous issue): 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 9<sup>th</sup>. Prices should move down to sideways during the remainder of this period with possible gains the week of the 23<sup>rd</sup>.* Actual: Prices did climb the first week, went lower for two weeks and climbed the week of the 23<sup>rd</sup>. Overall good correlation with model.

## 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.
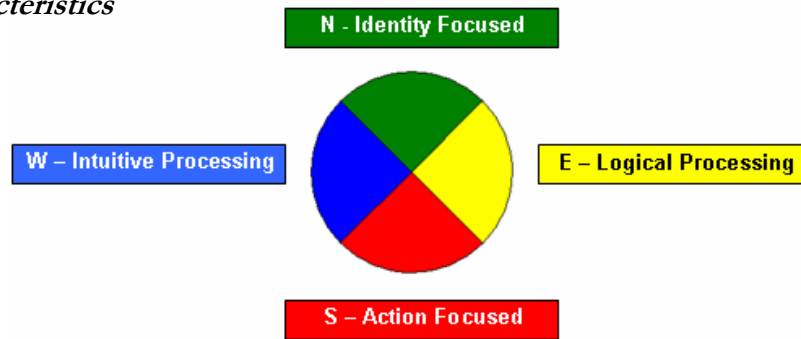
Researchers spent the rest of 2007 analyzing these correlations and identifying the formulas that yielded curves that best mirrored each market's curve. By the end of 2007 they had successfully generated a curve for each segment that very accurately predicted whether its corresponding market was trending 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.
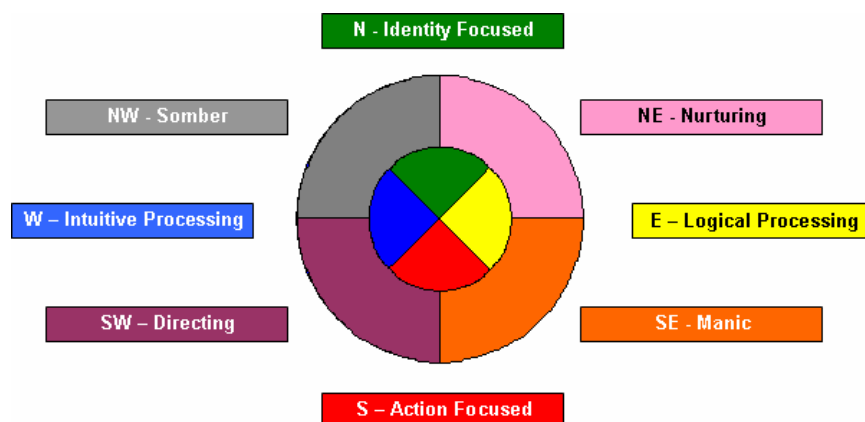
### How It Works

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*

N - Identity Focused

W – Intuitive Processing

E – Logical Processing

S – Action Focused

*Hybrid Characteristics*

NW - Somber

NE - Nurturing

SW - Directing

SE - Manic

 

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:

N - Identity Focused

NW - Somber

NE - Nurturing

W – Intuitive Processing

E – Logical Processing

SW – Directing

SE - Manic

S – Action Focused

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).
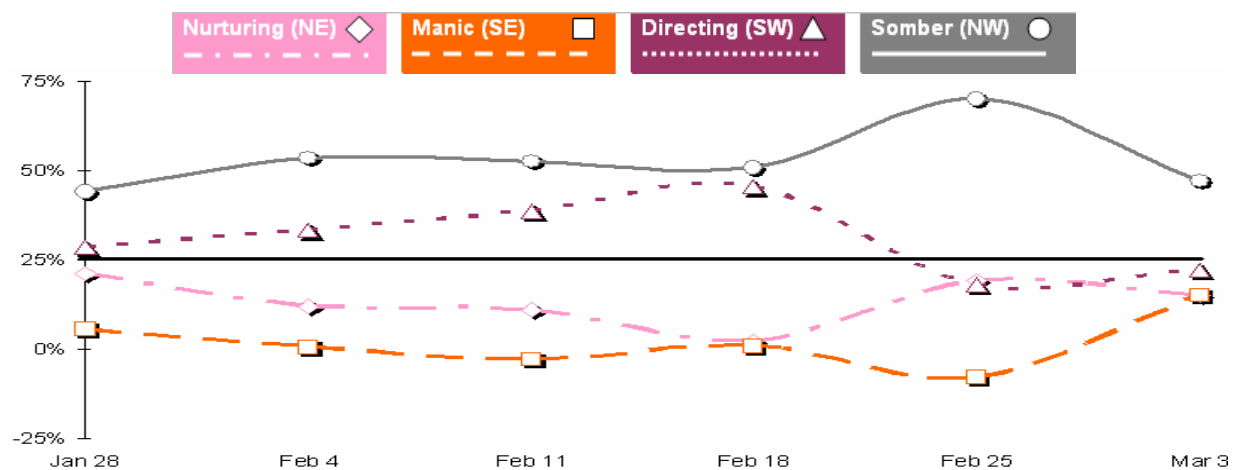


**Philosophy and Methodology**: For more information on our research and methodology, please see: http://anewstory.org/documents/methodology.pdf.

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