

MOODCOMPASS[®]
PROPHET FOR YOUR PORTFOLIO[™]

May 2008

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May 2008

Change is in the Air – and the Tone is Quite Somber

In April, we correctly described the quality of the markets as in transition and riddled with cross-currents. As there has been much talk by various analysts in the media about the worst of the credit crisis being over, one might hope that this indicates a transition to a more upbeat mood. Our analysis of the social mood factors for the coming month, however, shows the global sentiment to have an extremely serious tone. Whether the fears that drive the global situation are based on real or imaginary concerns, by the end of the month there is a likely shared conclusion—that something is going seriously wrong.

April 28 – May 2: The stock market should make steady gains tempered by an overall bearish sentiment. The dollar should do well the first half of the week, but then begin to turn down again. Crude should decline through April 30, but then do an about face and climb again as geopolitical tensions resurface.

May 5 – 9: The global context takes a more serious tone this week. Bearishness in the stock market begins to increase. The Euro makes solid gains; the Dollar declines.

May 12 – 16: Global tension increases substantially. The stock market declines. Extreme turbulence and confusion reign in the currency markets. Crude oil should decline due to economic concerns, but fear and flight to safety buying keep it propped up.

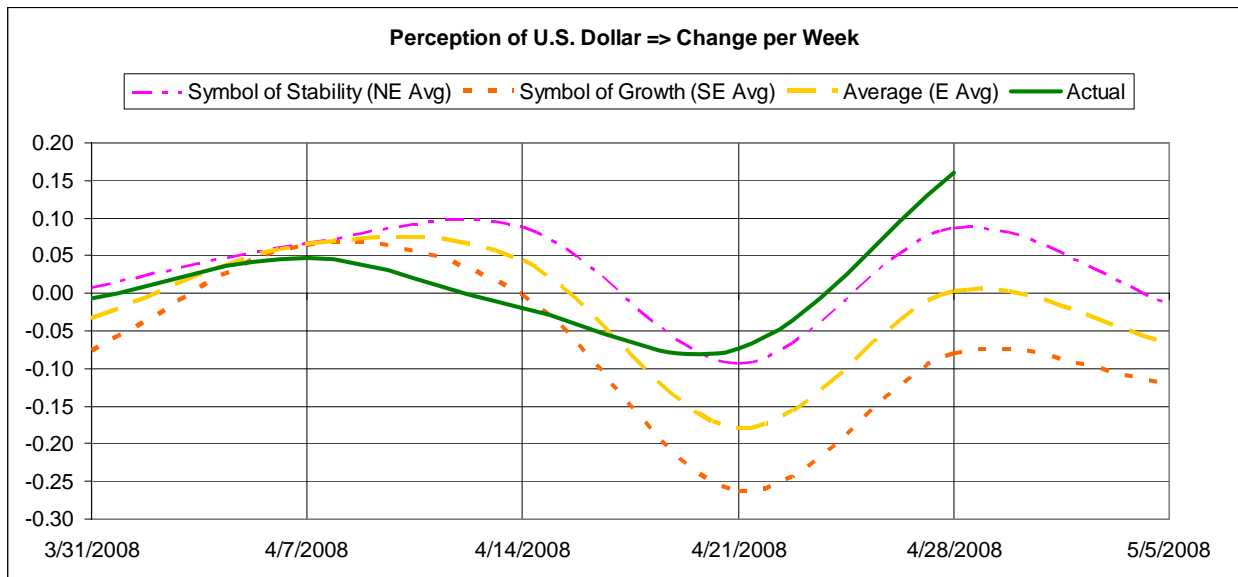
May 19 – 23: Global mood shows some relief, perhaps concurrent with attempts to resolve whatever real or imagined concerns have been plaguing the world of late. The stock market may try to muster a relief rally. Euros are getting ready to turn down again, and crude as well should be hitting a ceiling.

May 26 – 30: The global mood becomes extremely serious. The dollar could rise substantially. The stock market may see the beginnings of a panic scale sell-off. Crude oil should decline a bit, but the geopolitical situation may appear too serious for it to stay down.

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.

Review of April U.S. Dollar Perception / Movement

Last month there were several extreme currency movements. We would like to show how it is that we forecast the Dollar's movement based on the shift in perception of the U.S. Government / U.S. Dollar. The chart below is a key tool we use to forecast the Dollar's movement. Last month's movement is a great example to show how well it can work. It is derived from the values for the MoodLines that have been published in the MoodCompass. Beginning this month, we will also publish one of these derived charts for each market to make it more clear to our subscribers why we make the calls that we do. We look forward to the day that our readers will be able to comment, question, or even disagree with some of our calls based on what they see in these charts, or even some they derive on their own.



Change per week is measured by closing price - opening price each week.

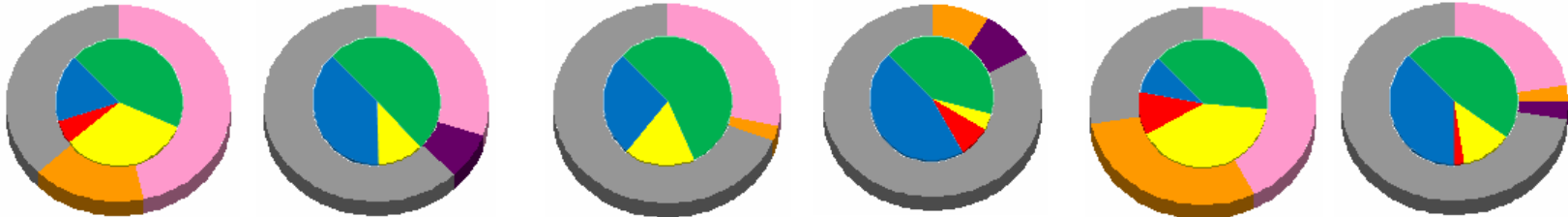
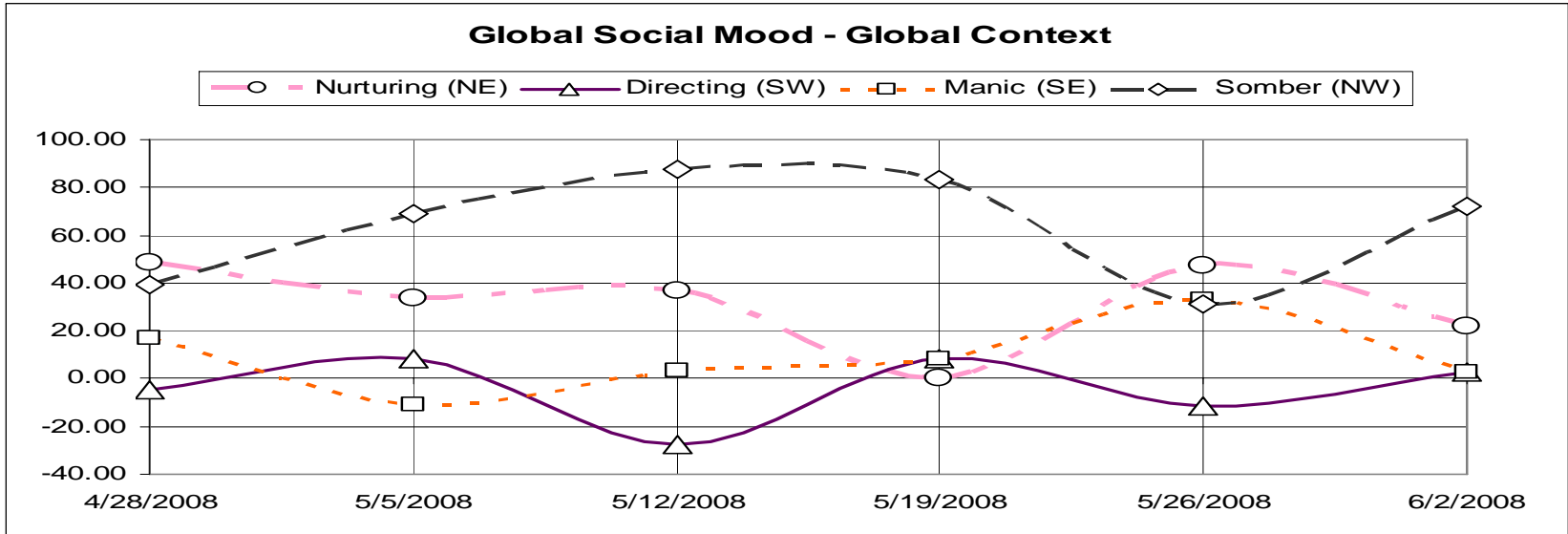
The Dollar is a symbol of value, but it not attached to anything “real” such as gold as it was in the past. Its value is based on sentiment, and on the trust of a government to honor its debts. Because of this, its value ebbs and flows along with the oscillations of perception about the U.S. government.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

For the technically inclined, we will include here how each line in the chart above is derived from the values of the MoodLines.

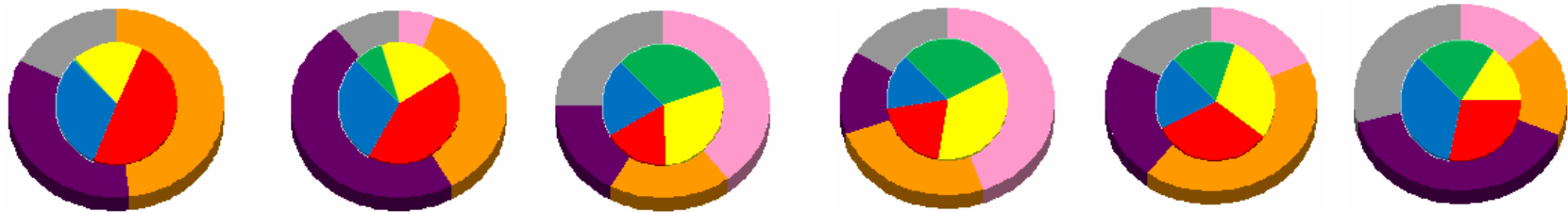
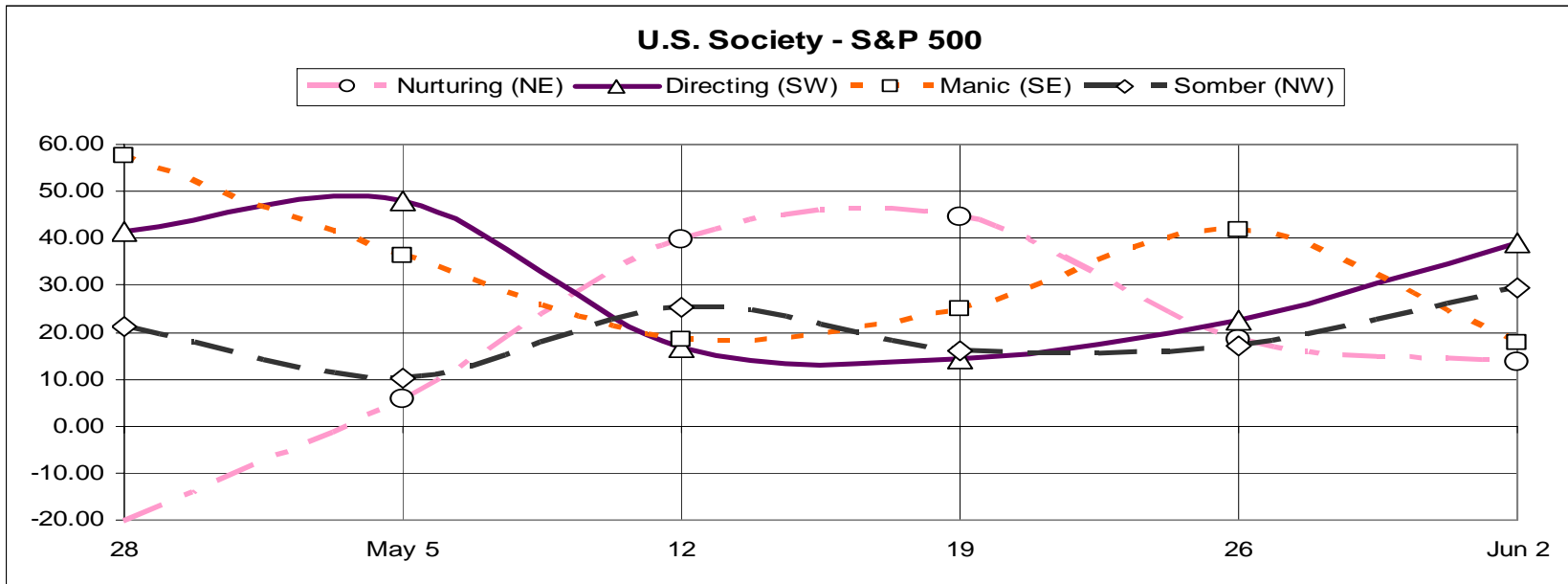
NE Avg = Average (Nurturing (NE) – Directing (SW)) and (Manic (SE) – Nurturing (NE)))

SE Avg = Average (Manic (SE) – Directing (SW)) and (Manic (SE) – Somber (NW)))

E Avg = Average (NE Avg and SE Avg).



<p>Paralysis <i>Central banks have little room to move, and global markets likewise have little response to their actions.</i></p>	<p>Pervasive Global Gloom <i>Fear of food shortages and other irrational concerns abound with excessively high Somber. Global markets should move down to sideways with extremely low Directing. Watch May 7th, and 15th in particular.</i></p>	<p>High Anxiety <i>This combination of Nurturing, Somber and Manic indicates a protective stance—a desire to take care of one’s own w/o regard to consequences for others.</i></p>	<p>Despair <i>Somber dramatically re-climbing may lead to conclusions of “there is no hope” on a global scale. Especially watch May 28-29.</i></p>
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Forced Optimism

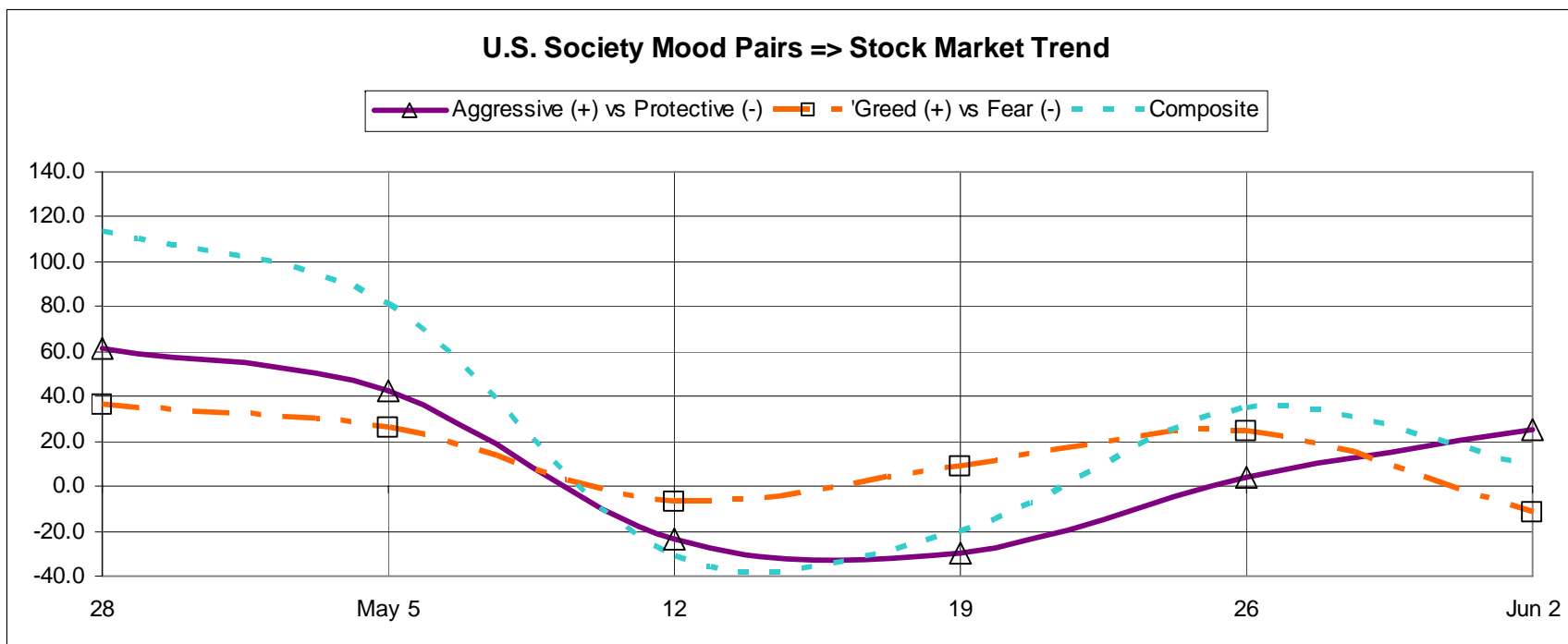
The FOMC meeting may help stocks to rally a bit (increased Directing), but background bearishness (quickly rising Nurturing) will keep gains in check.

The Bears are Back!

The U.S. Social mood is changing to Protective (high Nurturing) where anxiety is high and risk avoidance returns. Supports may hold strong at first, but this market is going down. The shift to bearishness should be clear by May 8-9 as Nurturing replaces Directing. Look for a short term bottom and reversal near May 17th.

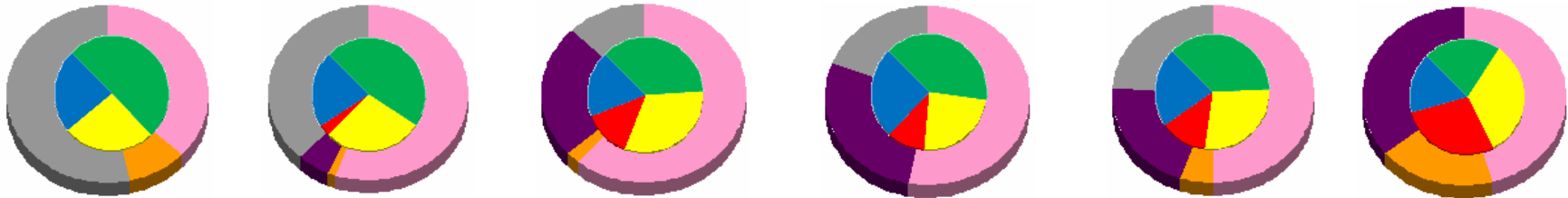
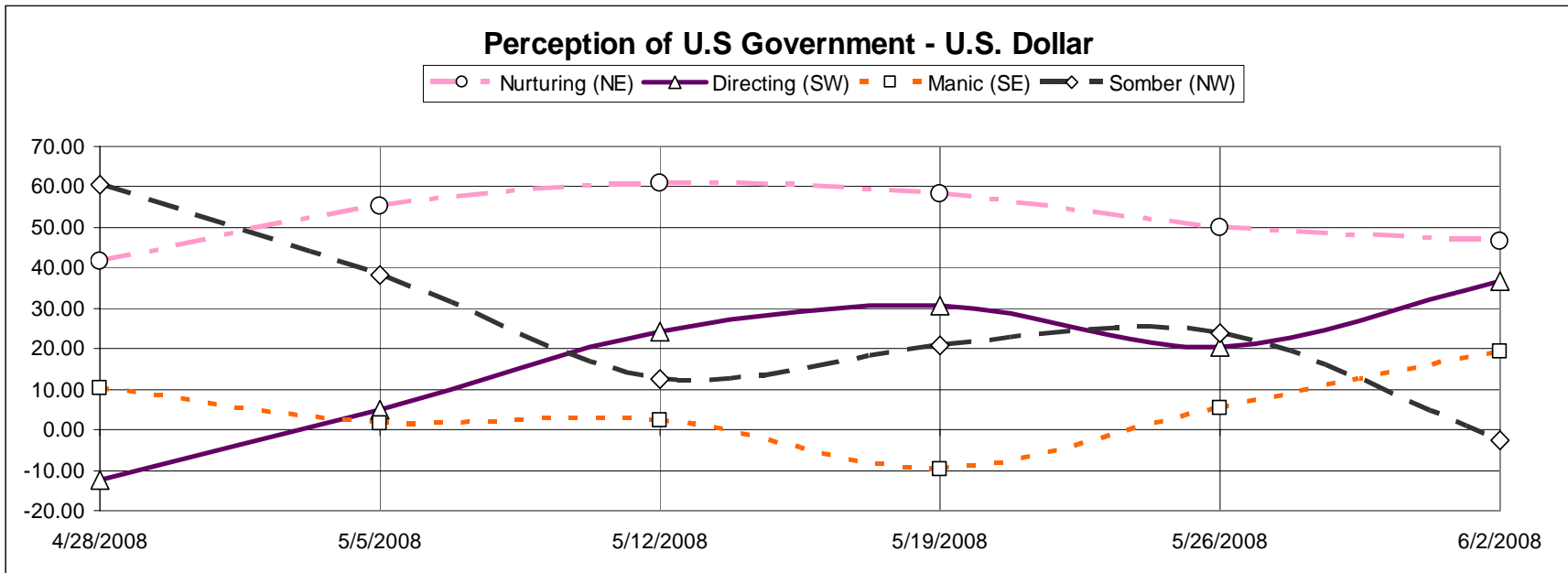
Some Relief, and then...

May 20-27 should see an attempt at a relief rally with Manic high and Nurturing retreating. However, May 28-30 should see the return of a panic level sell-off with high Directing / Somber and Manic retreating.

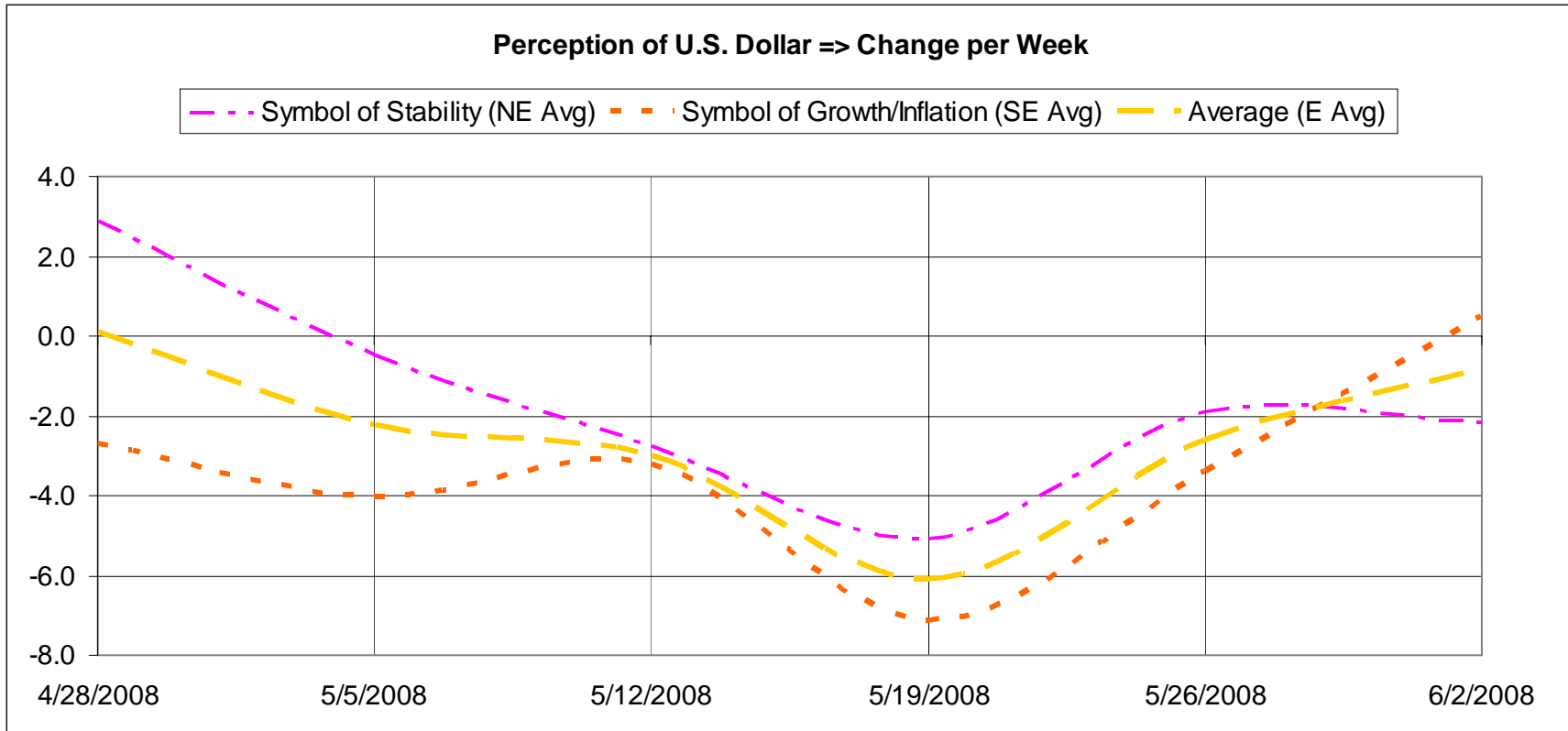


Explanation of chart lines: *It is common knowledge among traders that movement in the stock market is based on a “tug of war” between pairs of sentiment. This charts the two primary pairs which correspond to the general stock market trend. “Aggressive vs Protective” is the difference of the values of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

A sell-off is expected the week of May 5th. The week of May 12th should see the market bottom and start to show some resilience; the week should end relatively unchanged. Things should begin to pick up a bit the week of the 19th. The week of the 26th is difficult to determine from this chart alone, however given the global context, the likely outcome is that the market turns aggressively bearish.



<p><i>Domestic Issues have Primary Focus for U.S. Government</i> <i>As economic woes resurface, the U.S. government turns its focus inward (high Nurturing). The U.S. dollar should decline, especially after 4/30. The U.S. government becomes more assertive in dealing with its concerns as Directing rises. This could also signal an increasing additional preoccupation with external geopolitical concerns.</i></p>	<p><i>Major Shift - Dollar Strengthens</i> <i>The U.S. government is seen as taking an increasing leadership role in domestic/world situations as Directing rises. Rapidly rising Manic signals a rebound in the dollar, especially the week of the 26th.</i></p>
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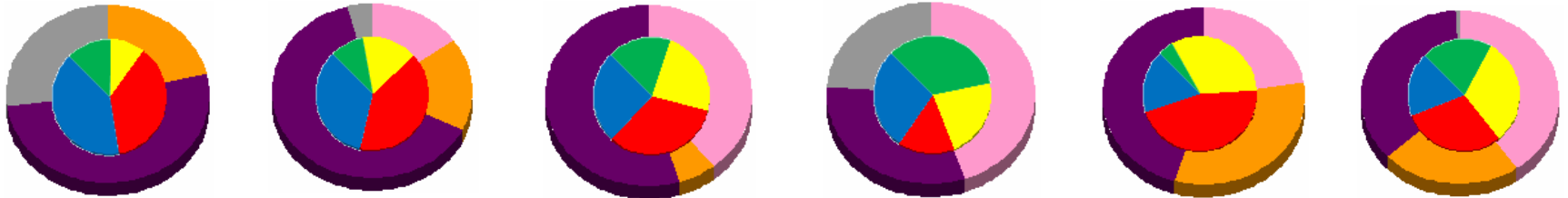
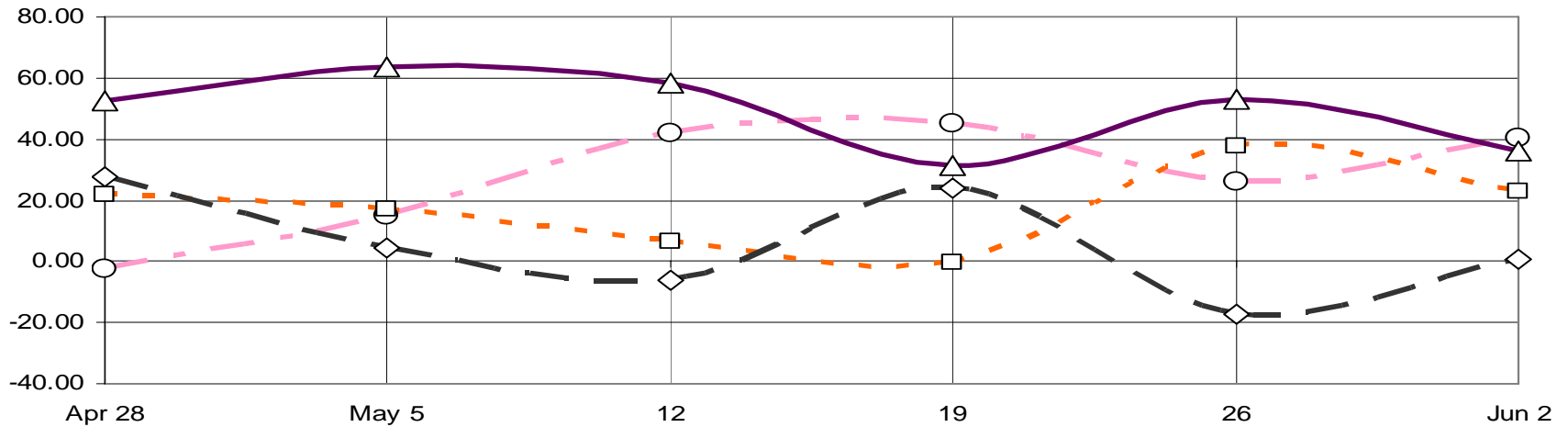


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The U.S. Dollar’s rise will slow in the first week, and begin to decline. The decline should not be smooth. The decline should accelerate the week of the 12th, and slow the week of the 19th. The Dollar should begin to climb again by the week of the 26th.

U.S. View of the World - Crude Oil

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



The Bulls Hang On

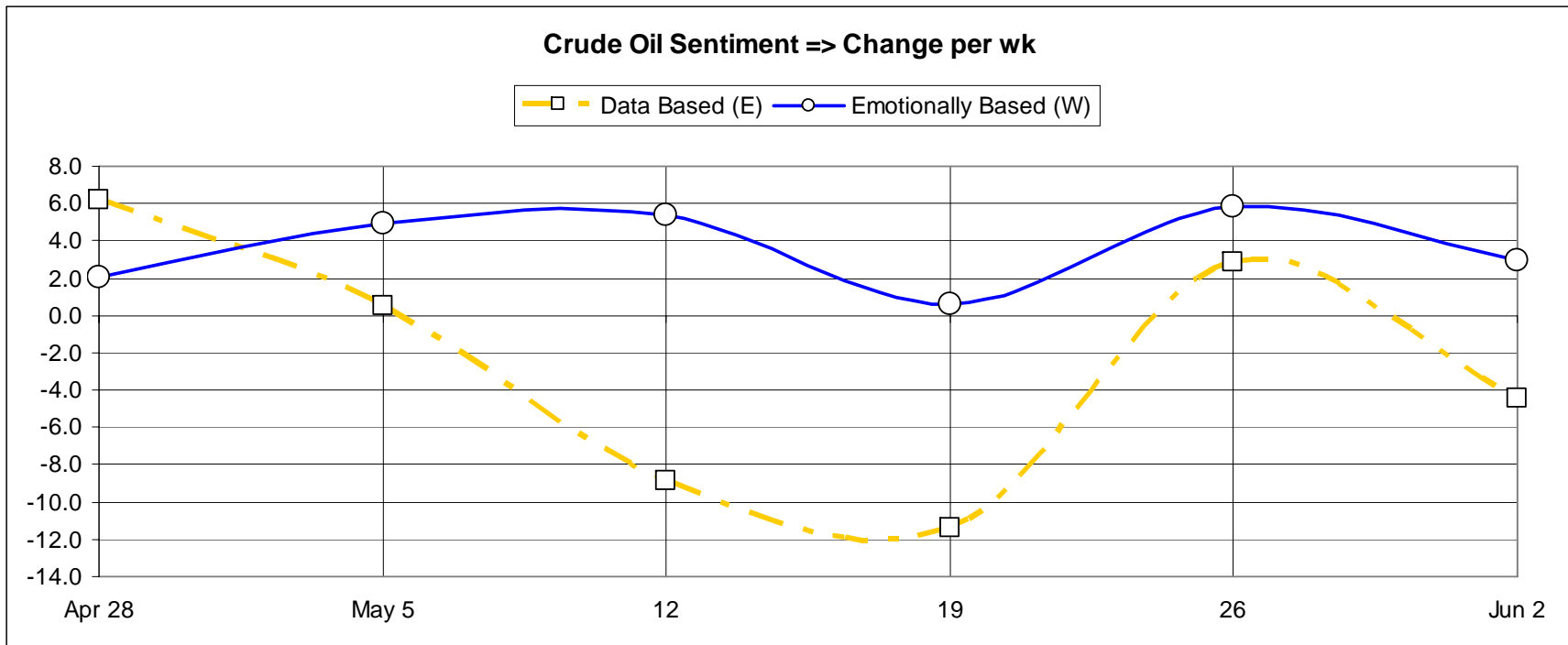
The world still looks threatening (high Directing), and fear keeps crude oil propped up. However, as Nurturing approaches Directing, it has very little room to move.

Deflation

Crude may lose a little steam 5/14-20 with North factors high.

Surging (again)

Crude should make a big surge as geopolitical uncertainty ramps up with rising South factors 4/21-4/26. A brief decline follows this big move up.



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, including technical indicators. 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.*

While both fundamentals and technical factors may strongly show crude is overpriced, emotional factors remain positive (>0) this entire period. Some decline may be seen the week of the 12th, a sharp rise is likely to correct that decline the week of the 19th, and the week of the 26th may see a slight decline. The overriding theme here is that the influence of fear this month on the price of crude far exceeds what the price of crude “should be” in any rational, data driven or economic sense.

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.

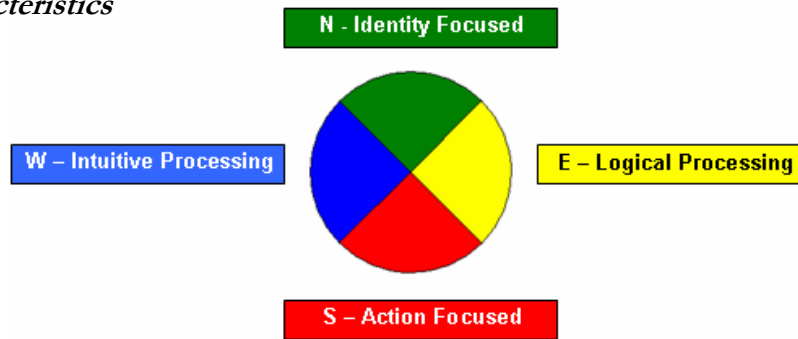
MoodCompass was Born

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

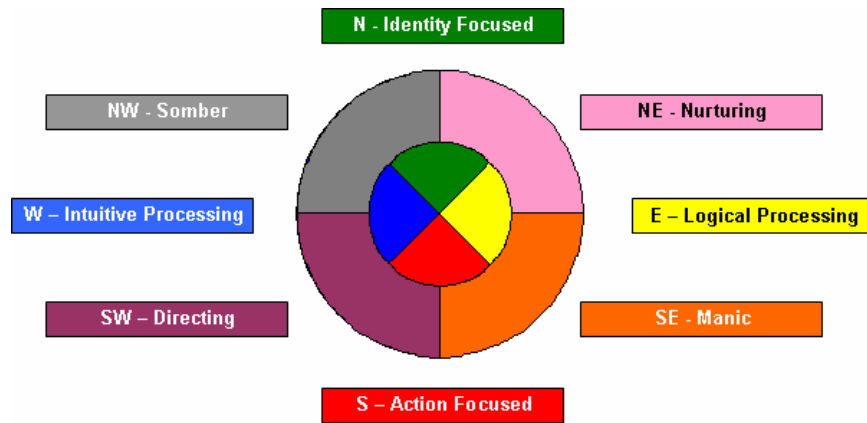


Hybrid Characteristics



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.

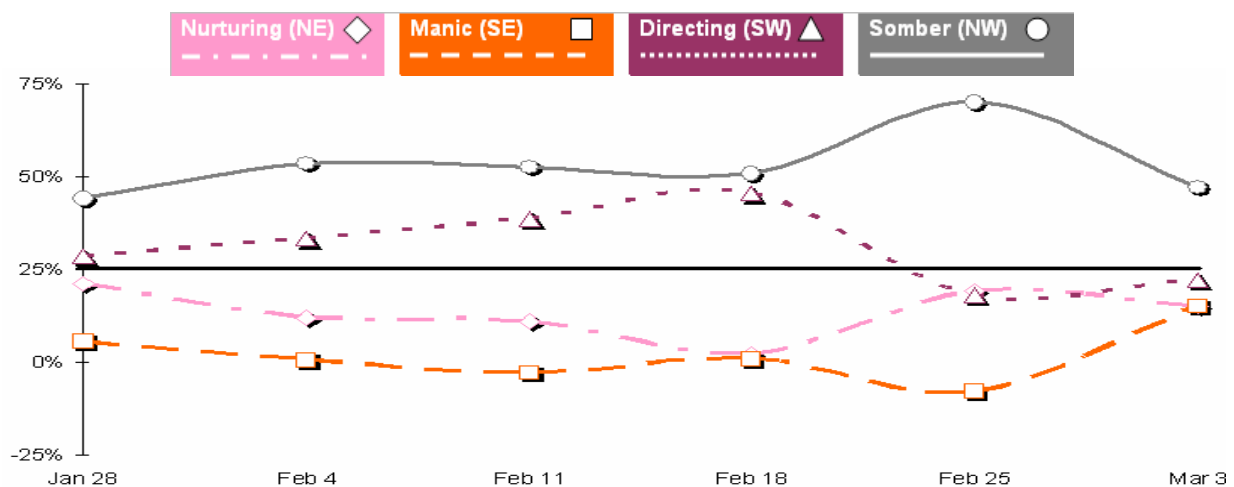
Tracking Profiles Over Time

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>.

etf-MMO

This system is for stock traders and mirrors the basic MMO using exchange traded funds (ETFs) such as SDS, UDN, TLT and DCR. 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.

