MOODCOMPASS®
PROPHET FOR YOUR PORTFOLIO™

November 2008

November 2008 – Post Election Chaos

Last month, as was indicated, the fragility of the global economy was of high concern and world leaders actively attended to keeping the system running. While one of our "big picture" indicators showed an extremely low probability of geopolitical escalation (October issue, page 11), there was a strong indication of "external focus" by U.S. society. We did see large anti-U.S. demonstrations in Iraq and attacks by U.S. troops across the border in Syria and Pakistan. However, these did not grab America's attention. Interestingly, a similar mood configuration for U.S. society appeared near the two political conventions last spring. Apparently, the usual signals for an external or international focus (the "warrior" configuration), also show up when polarized factions "battle" for an election within a country, even when peaceful and democratic.

In November, the focus returns to the United States as the world closely watches our presidential election hoping for a better future for all. Whatever the outcome of the election, there is a most curious shift that occurs in all of our charts immediately afterwards that builds to an extreme the following week. Perhaps there is a "snag" in the election results, or perhaps the election goes fine and there are new economic issues to deal with which return to the foreground once the honeymoon period of having elected a new president is over with. Without a context, such extremes are difficult to interpret.

After the election, the U.S. social mood shifts to what could be either anger or excitement (or both). The following week this turns to high anxiety, and the week of the 17th to an extreme Manic configuration which would indicate chaos and confusion. The U.S. government's configuration is one with extreme preoccupation with keeping order the entire month beginning immediately after the election and peaking near the 14th. Be watching the news for a build up of tension and anxiety in this country and for more information on the specific context as to how this will be expressed. Pay particular attention near the 19th of the month when the tension resolves itself into the chaos configuration for U.S. society. Unfortunately, this is one of those situations that is so out of the ordinary that it is impossible to be more specific. Staying informed is your best bet.

As for the markets, look for serious declines in the stock market beginning within days after the election. There should be strong gains in crude oil and gasoline prices through the 14th as the Dollar declines sharply. Following that, deflation is back in the foreground with losses across the board in both stocks and commodities. The bright side is that December may bring a moment of relative stability.

Below is a summary of the market activity expected week by week:
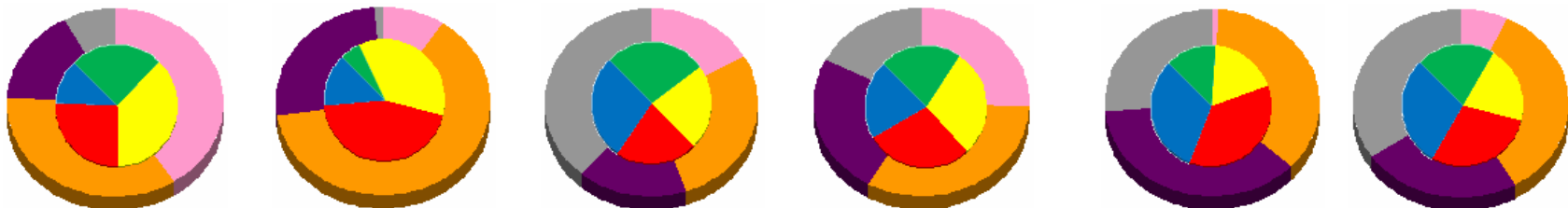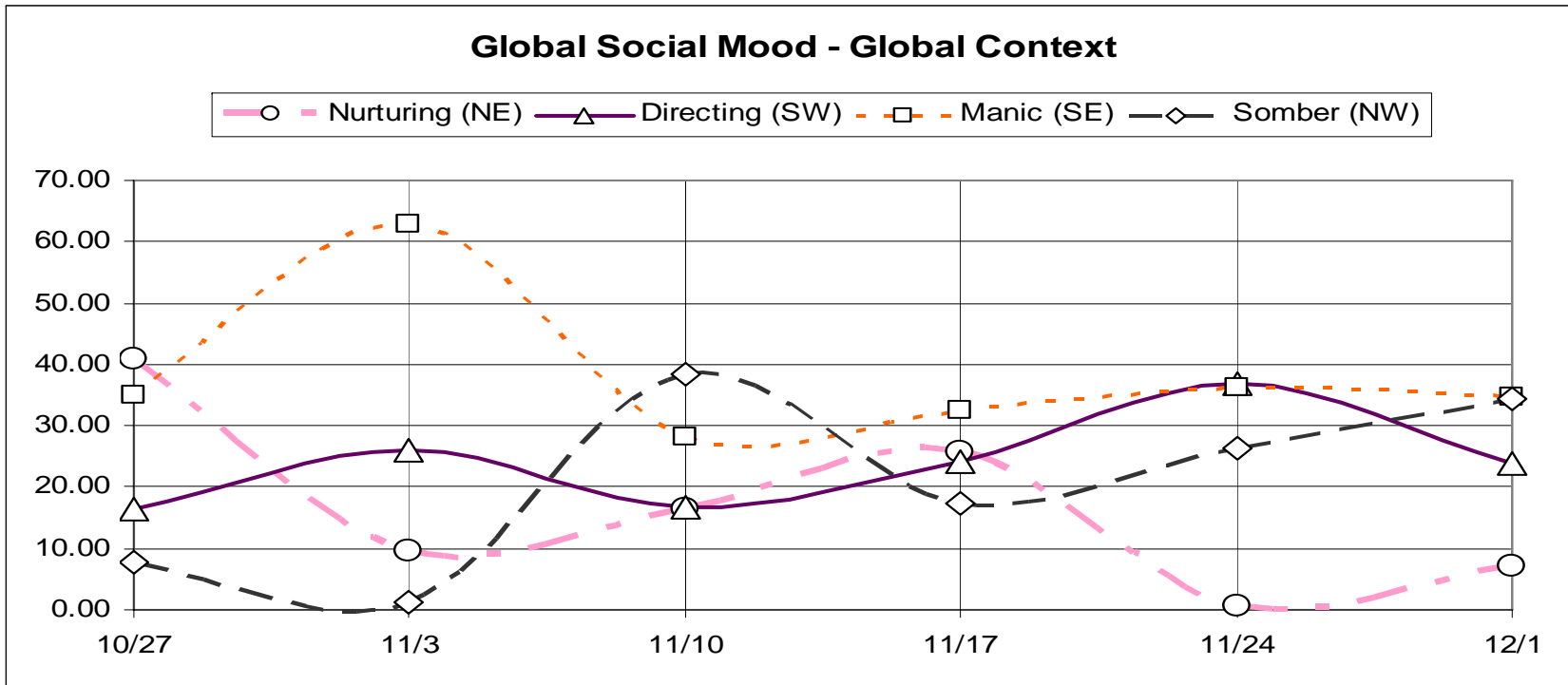
Nov 3-9: There's a perceptible shift in the U.S. social mood after the election to anger, excitement, or both. The stock market likely begins the next downturn by the end of the week. The Dollar declines sharply and crude is up. The U.S. government may begin to appear "irrational" or deluded.

Nov 10-16: The U.S. government is extremely focused on maintaining order and/or damage control. The stock market is down. Crude reaches a peak and the Dollar finds a short term bottom. The anxiety level for U.S. society is high.
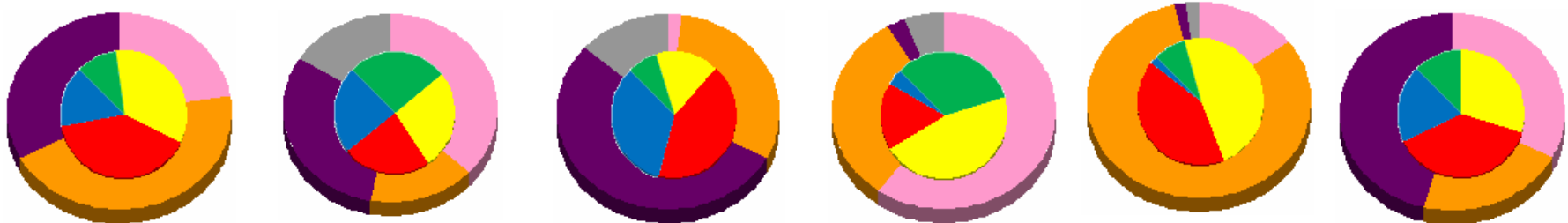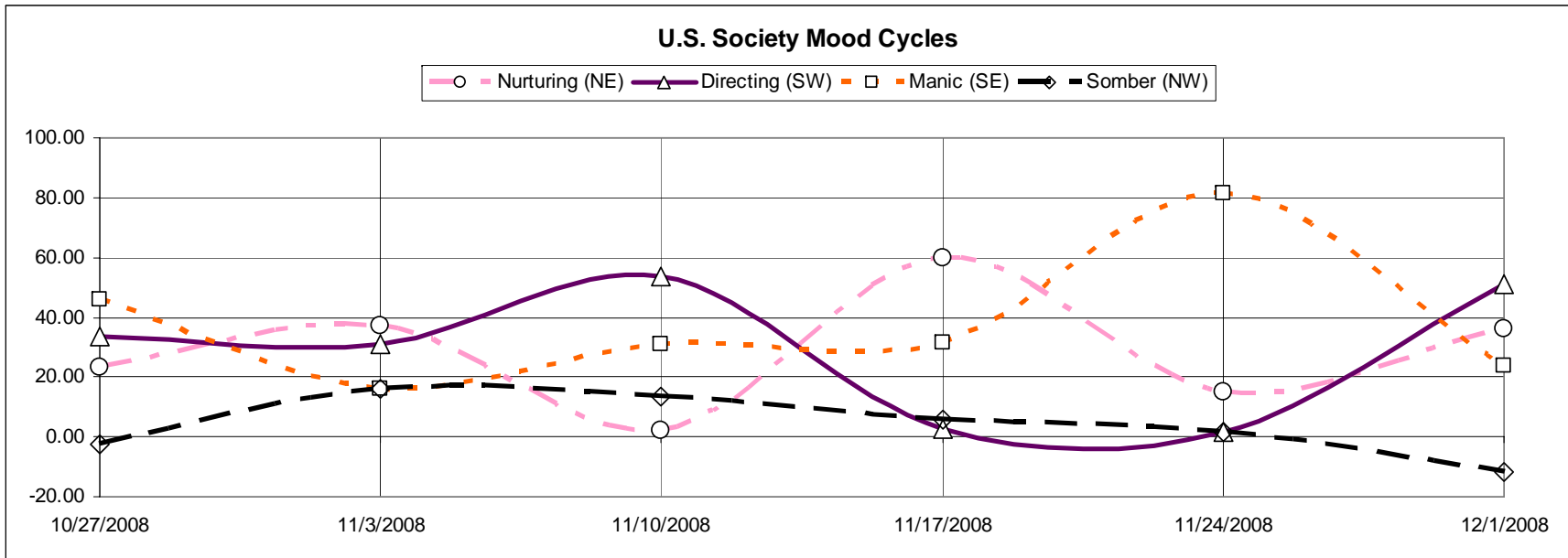
Nov 17-23: In one form or another, "chaos" breaks out in the United States. U.S. markets are extremely volatile. Global markets are also affected. Commodity prices crash as the deflation scenario returns.

Nov 24-30: By the end of the week, signs of a new stability, a "new order" begins to emerge. The Dollar continues its decline, but at a more reasonable pace.

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.
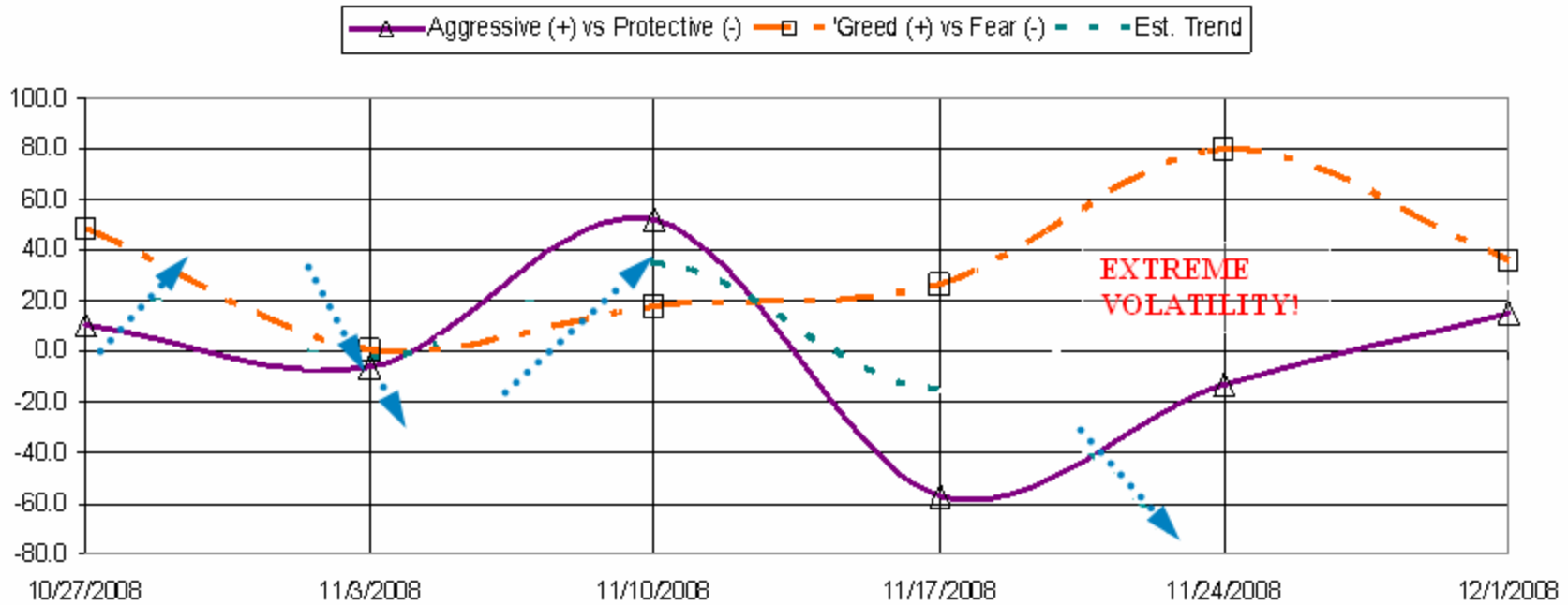
Global Social Mood - Global Context

Legend: Nurturing (NE) — Directing (SW) — Manic (SE) — Somber (NW)

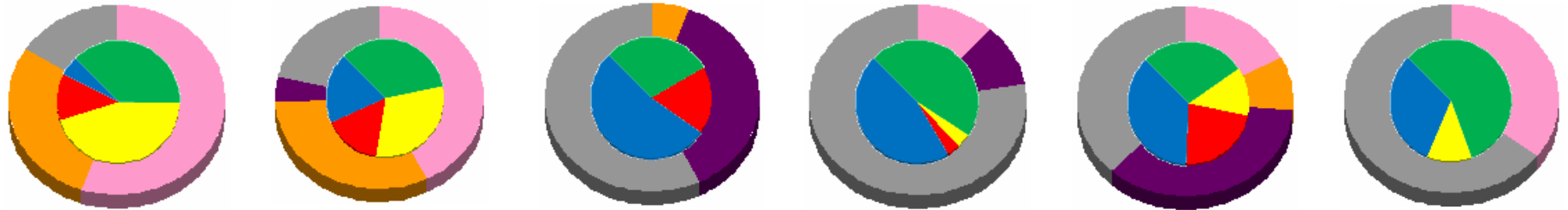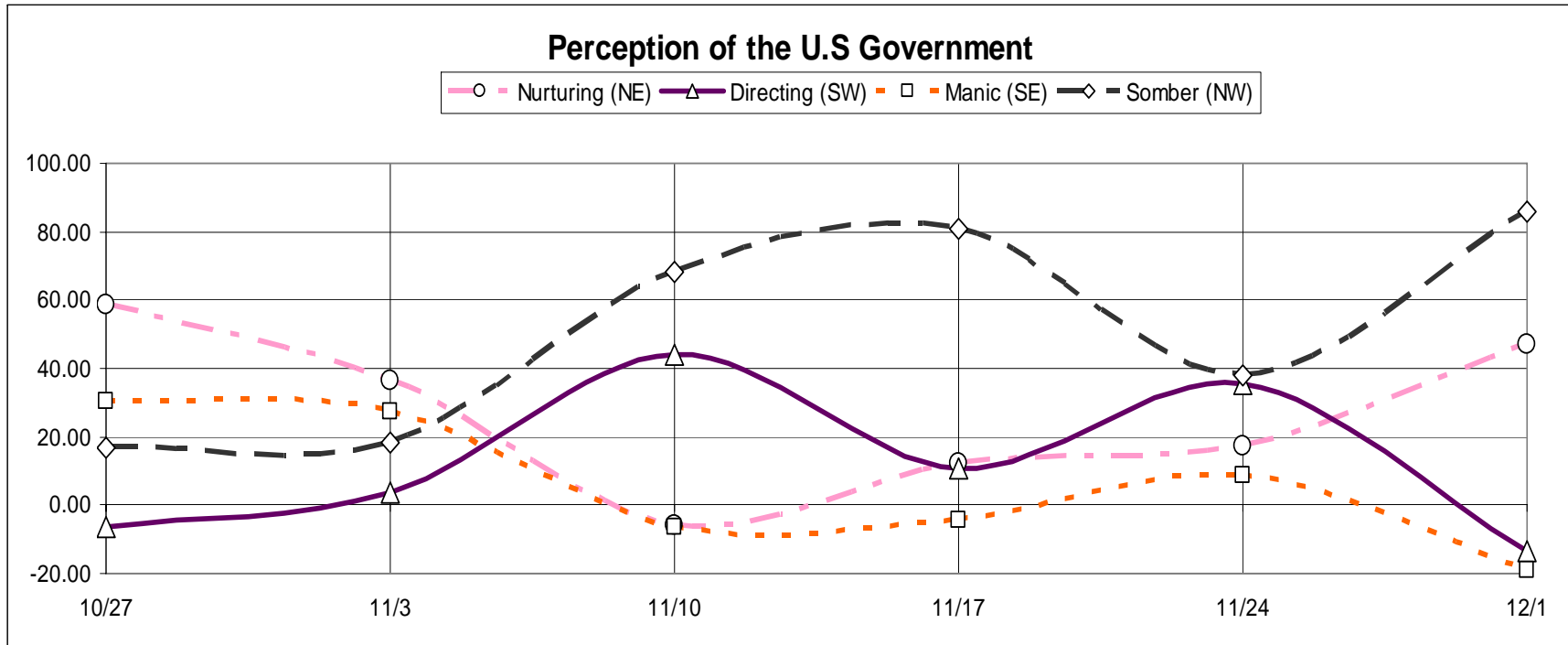| Volatility!	Breath Holding	Tension Resolving into Action
With both South factors high the global watchword is volatility. Geopolitical escalations are possible and markets can turn on a dime.	*The "life" polarity (Nurturing/Directing) is collapsed and things look dark on a global scale. The world holds its breath.*	*Tension near 11/14-17 resolves itself into action and volatility (high South factors). Extremely low Nurturing often corresponds with a breakdown in diplomacy or cooperation. Note that while this parallels what is occurring in the U.S. the cycles here are much less extreme. This likely points to a U.S. centered issue.*

U.S. Society Mood Cycles

Legend: —○— Nurturing (NE)　—△— Directing (SW)　■ Manic (SE)　◆ Somber (NW)

Waiting for the Election	Angry and/or Excited	High Anxiety	An Outbreak of Chaos in the U.S.
U.S. Society is "on hold" as the election draws near (restricted configuration).	*Both South factors high immediately after the election indicate anger and/or excitement.*	*Very high Nurturing indicates a build up of tension and anxiety. The stock market should be decidedly down.*	*The tension resolves itself into an extreme Manic configuration. Outbreaks of chaos, confusion, and disorder are likely to appear in the United States.*

U.S. Society Mood Pairs ⇒ Stock Market Trend

Legend: ──△── Aggressive (+) vs Protective (-) ──▫─ · 'Greed (+) vs Fear (-) ▪ ▪ ▪ ▪Est. Trend
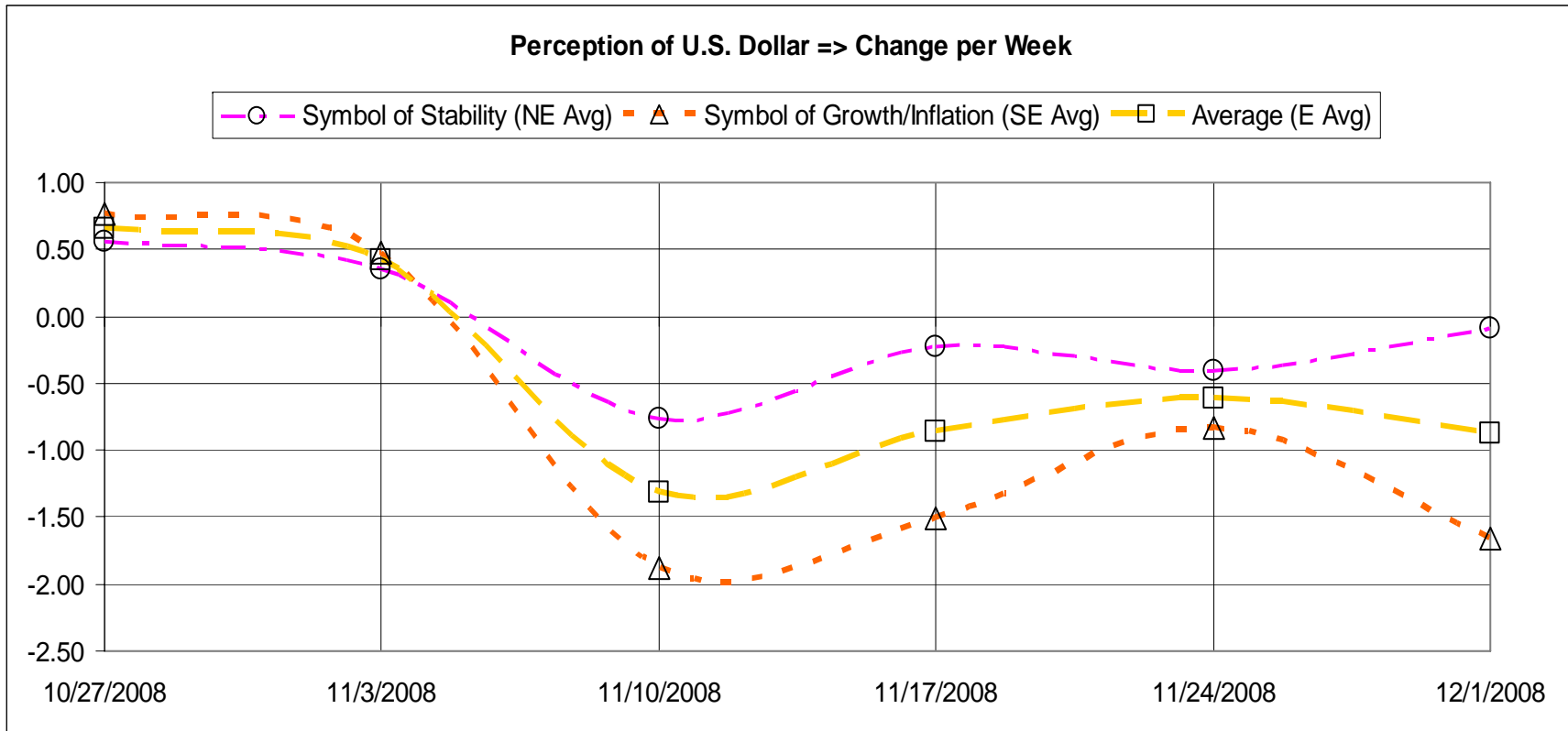
EXTREME VOLATILITY!

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 market holds some kind of hope through the U.S. election, and possibly throughout that week. Afterwards, the stock market appears to fall off a cliff. The week of the 17th is particularly volatile, and gets increasingly so as the week progresses.
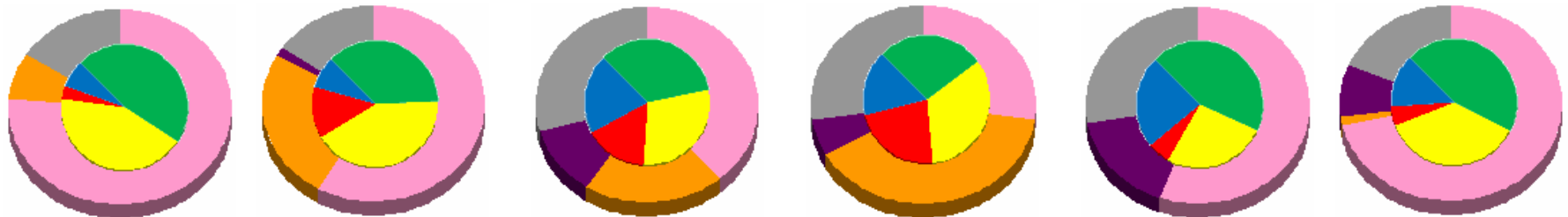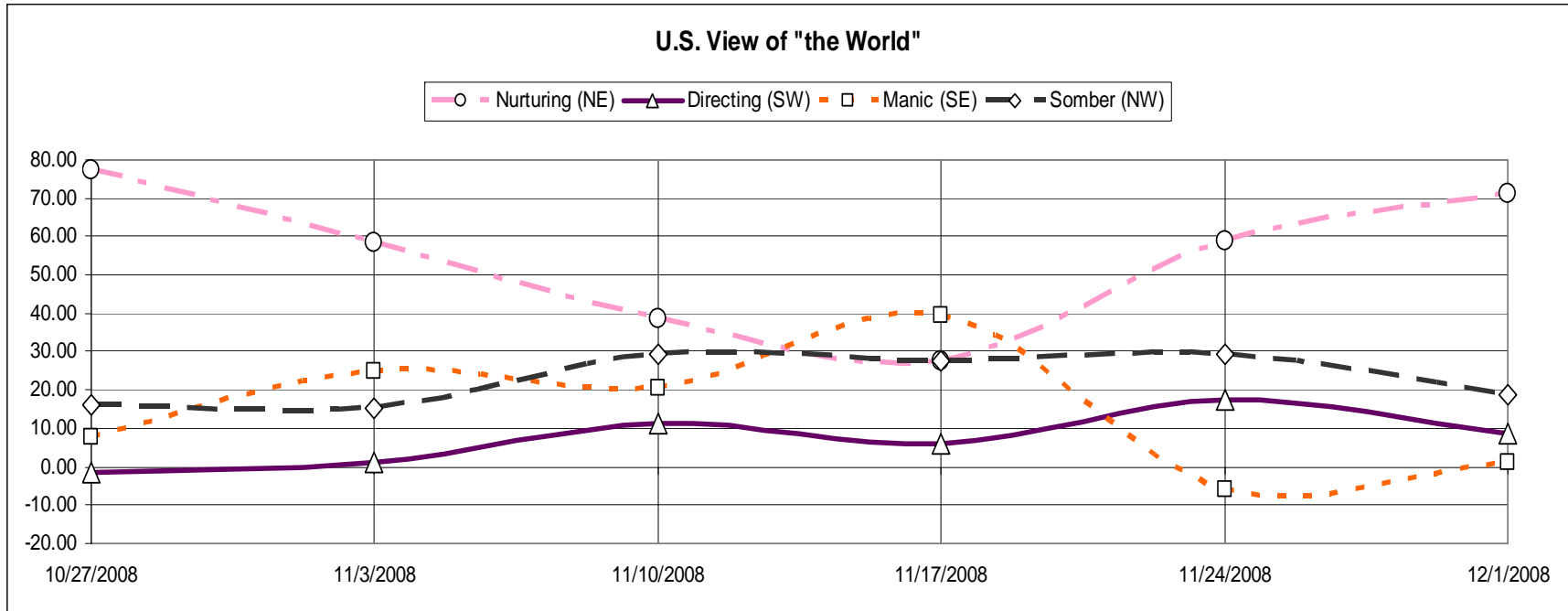
Perception of the U.S Government

Legend: Nurturing (NE) — Directing (SW) — Manic (SE) — Somber (NW)

Rationality Rules	**Maintaining Order Irrationally**		**Calm, but Firm**
With both East factors high, the U.S. government appears reasonable and is oriented to the facts. High Nurturing indicates a focus on domestic matters.	A switch to extreme Somber immediately after the election indicates a preoccupation with maintaining order. Both West factors high could point to the government being perceived as irrational or "delusional."		The government appears to have a more solid and stable footing.

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

—○— Symbol of Stability (NE Avg)   ▪ △ ▪ Symbol of Growth/Inflation (SE Avg)   —□— Average (E Avg)
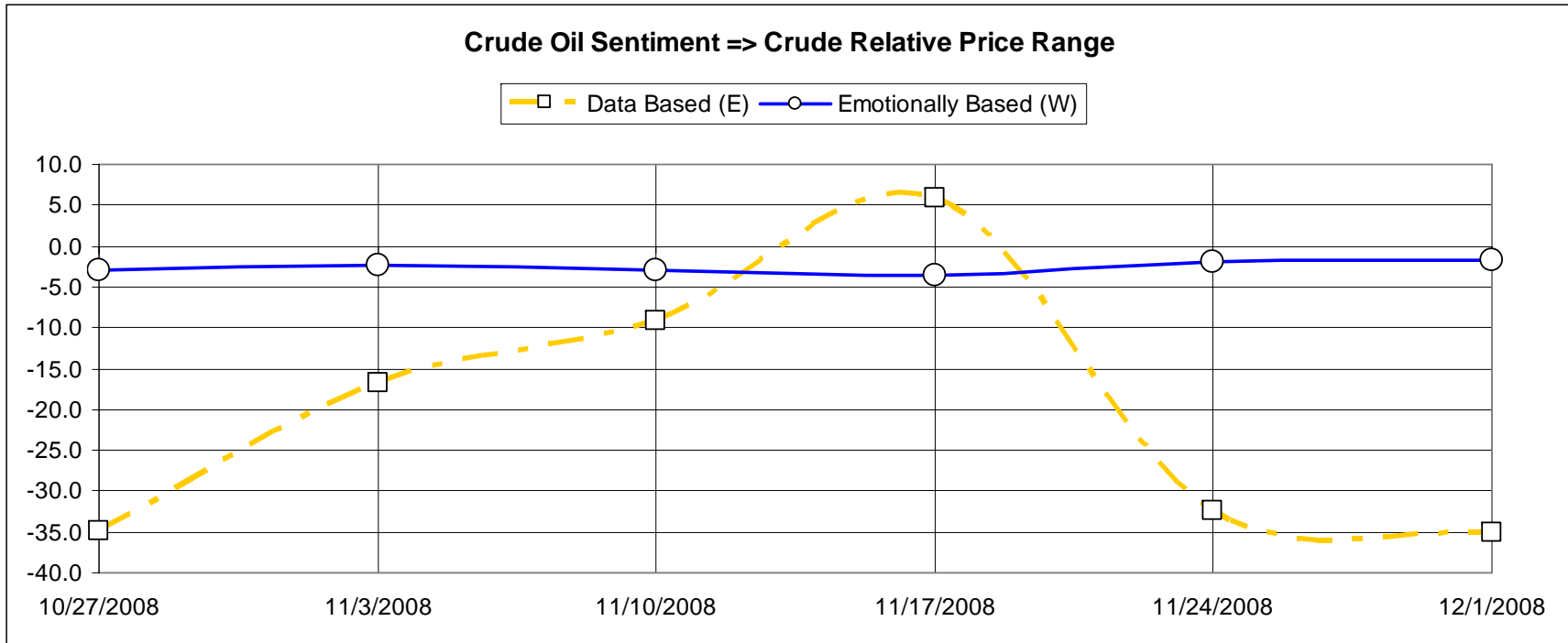

Explanation of chart lines: *The Dollar is a symbol of value, but it not attached to anything "real" such as gold as it was in the past. Its value is based on sentiment, and on the trust of a government to honor its debts. Because of this, its value ebbs and flows along with the oscillations of perception 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 first week of November should see serious losses for the Dollar. The trend for the remainder of the period is down for the Dollar. However, the direction for the week of the 17th is unclear and the Dollar may even climb. The decline returns sometime during the week of the 24th.
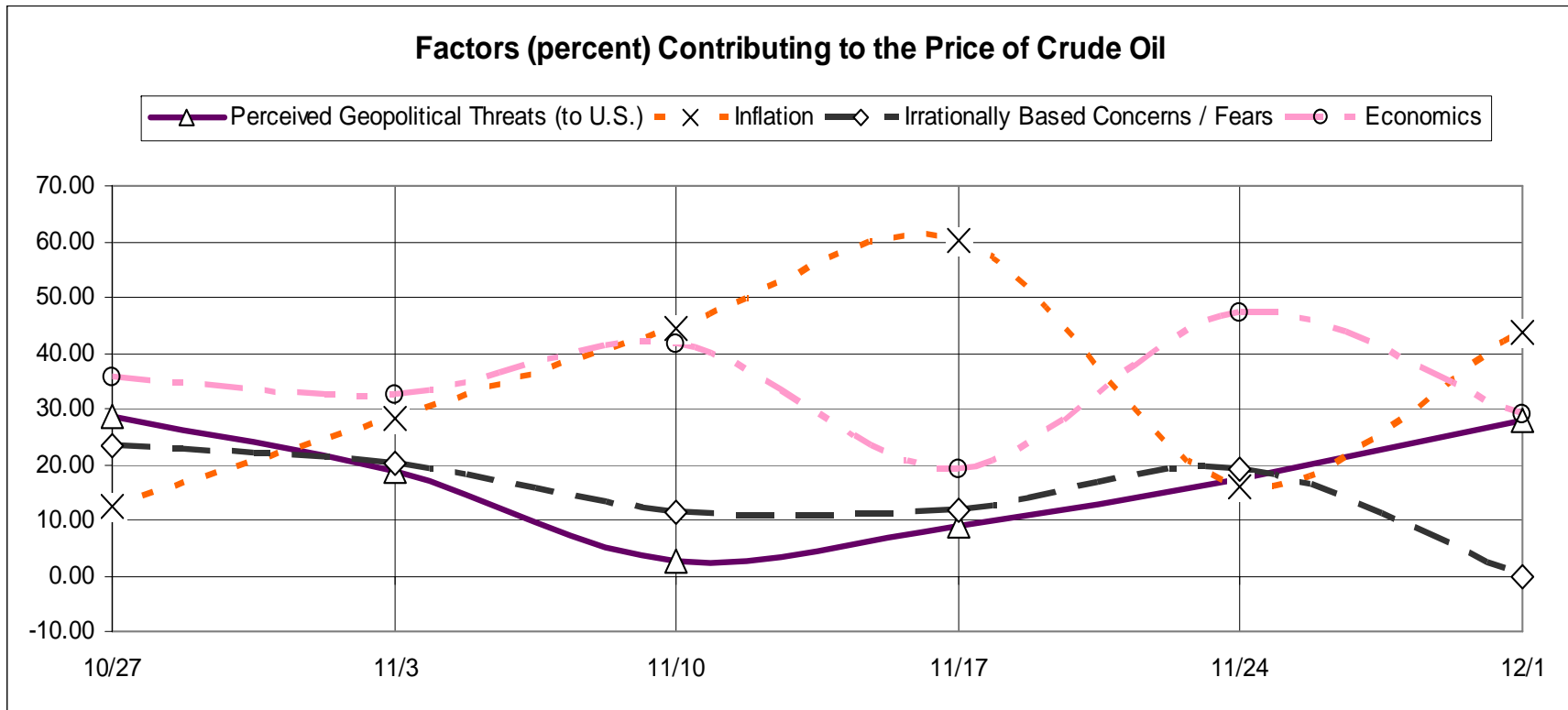
U.S. View of "the World"

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

The World Seems less Anxious	***Destabilization***	***The World is Anxious and Vulnerable***
High Nurturing indicates continued anxiety and economic preoccupation, however it declines substantially almost to background "noise." Low Directing the entire period indicates low perception of threats directed at the U.S., economic or otherwise, from the outside world.	*Uncertainty and confusion reappear on the global stage (high Manic).*	*The World again appears unsafe, anxious, and vulnerable as levels quickly surge back to the high October levels. Again low Directing indicates a relatively low perception of threats directed at the U.S. from the outside world.*

Crude Oil Sentiment => Crude Relative Price Range

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.*

While sentiment toward crude is relatively flat (W) to negative, the fundamentals support steadily increasing prices through the week of the 10th (E). The week of the 17th, the bottom drops out of the global economy (once again) and crude prices follow with an extremely sharp decline.

Factors (percent) Contributing to the Price of Crude Oil

Legend: 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.*

While the economy continues to be a prominent concern, and a substantial limit on crude prices, inflation concerns (and a dramatically falling Dollar) come back into the picture this month, especially the week of November 10th. The exception is the week of the 17th where both the economy and deflation are back in focus. Potential geopolitical threats are of minimal concern most of the period.
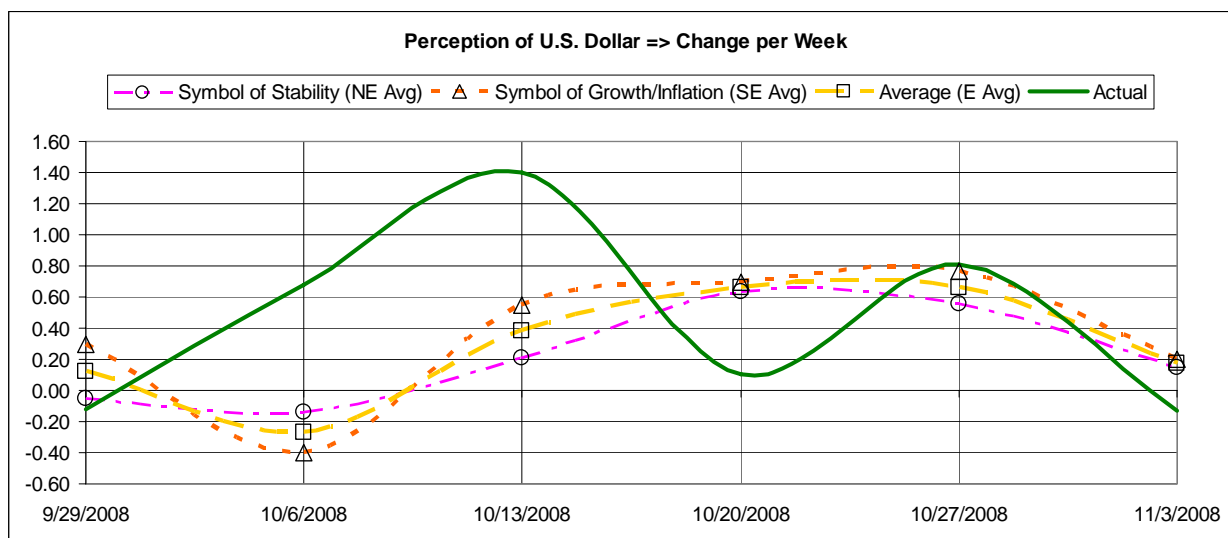
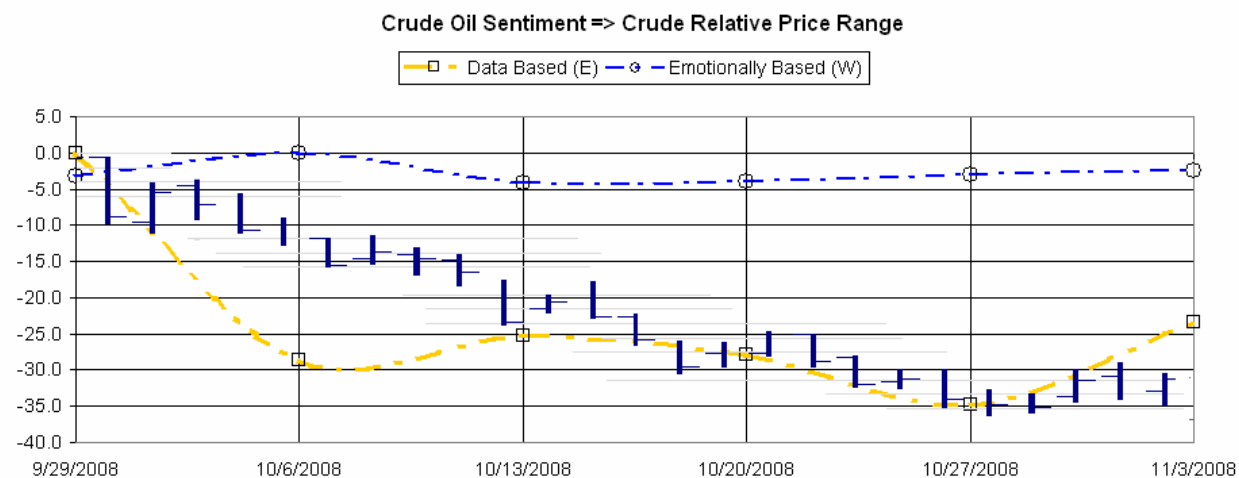## How We Did – Comparing our Charts with Actuals
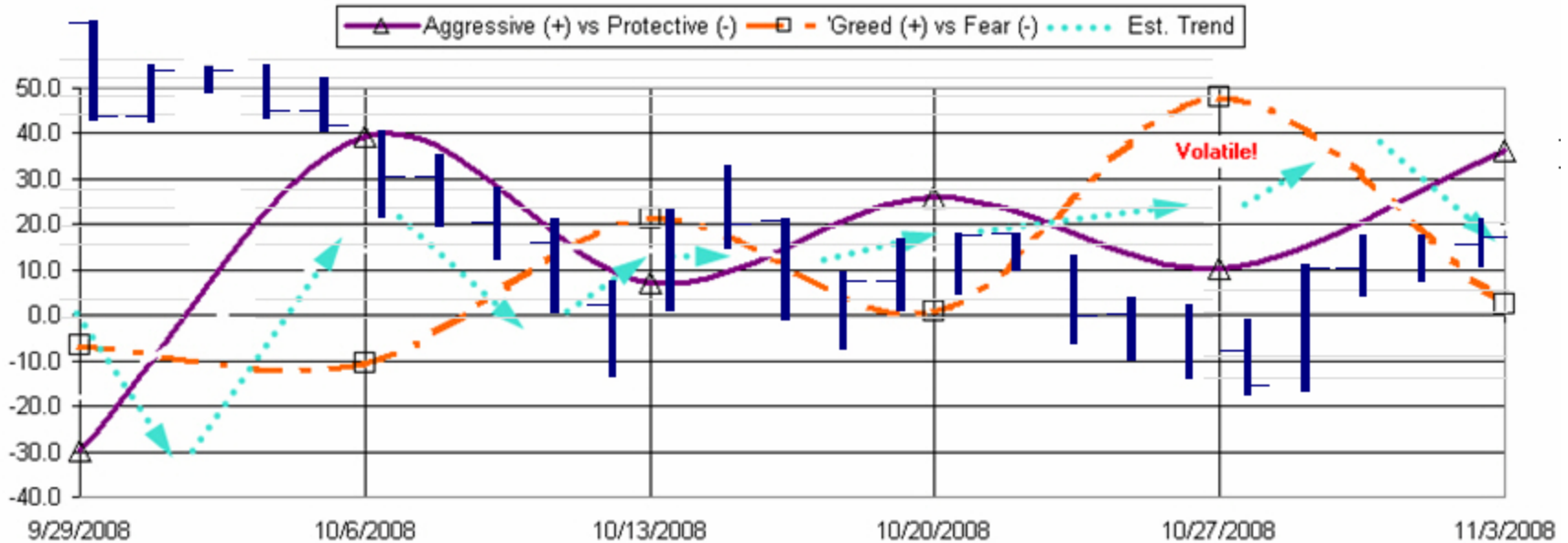
We said: After a climax move down and the prerequisite relief rally, the market turns choppy and sideways with a slight upward bias. Whether by exhaustion or legislation, the market has very little room to continue its downward move for the moment, but has limited enthusiasm for long positions. This consolidation period continues through much of the remainder of this period. Near the end of the month is an increase in volatility followed by what may be the beginning of the next leg down.

Other than the sharp downward move indicated at the beginning of the week of 9/29, there was little similarity with our model that week. There is however, a very high correlation 10/6 through 10/22 after which time volatility did increase as forecast. The final week saw market gains as indicated, and a pause where a decline was indicated.

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

(line chart; y-axis from -0.60 to 1.60; x-axis dates 9/29/2008, 10/6/2008, 10/13/2008, 10/20/2008, 10/27/2008, 11/3/2008)

Dollar: *Previously said: This is a topping period for the U.S. Dollar, perhaps its last hurrah, so to speak. The currency markets should be extremely choppy and confused, especially through 10/16. The Dollar should then climb until near month's end.* Bullish outlook was certainly correct, as every week except the last week of this period has been positive for the Dollar. Correlation with our model is moderate in general direction, but low week by week, as is normal for an end of trend period. Model scaling was adjusted by a factor of 2 due to extreme volatility.

Crude Oil Sentiment => Crude Relative Price Range

─□─ Data Based (E)   ─⊙─ Emotionally Based (W)

(candlestick/line chart; y-axis from -40.0 to 5.0; x-axis dates 9/29/2008, 10/6/2008, 10/13/2008, 10/20/2008, 10/27/2008, 11/3/2008)

Crude: *Previously said: While geopolitical anxieties may create brief, but contained surges (W), the economic fundamentals (E) will continue to pull prices down.* Our bearish outlook was correct, as the month saw a record decline in crude prices with very little upside whatsoever. The last week saw the only rise in prices and shows a possible bottoming process as was indicated. Model scaling was adjusted by a factor of 2 due to extreme volatility.

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. They decided to publicly 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:
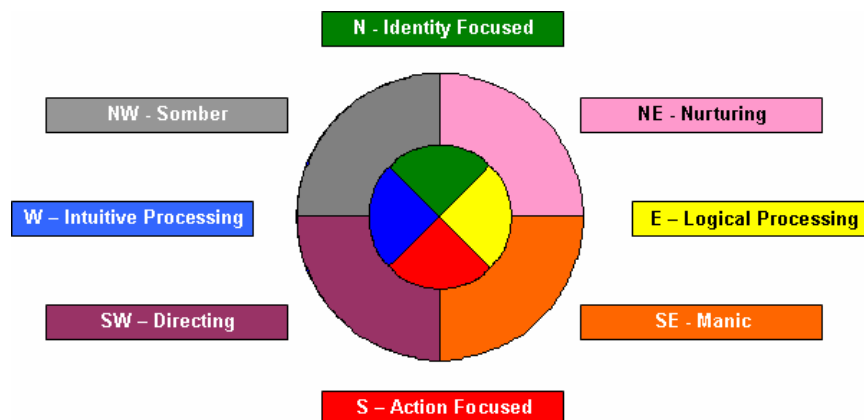
Primary Characteristics
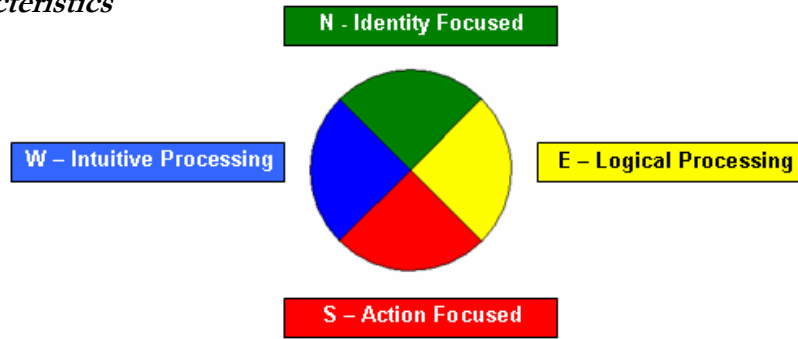
Hybrid Characteristics

        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 is "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).
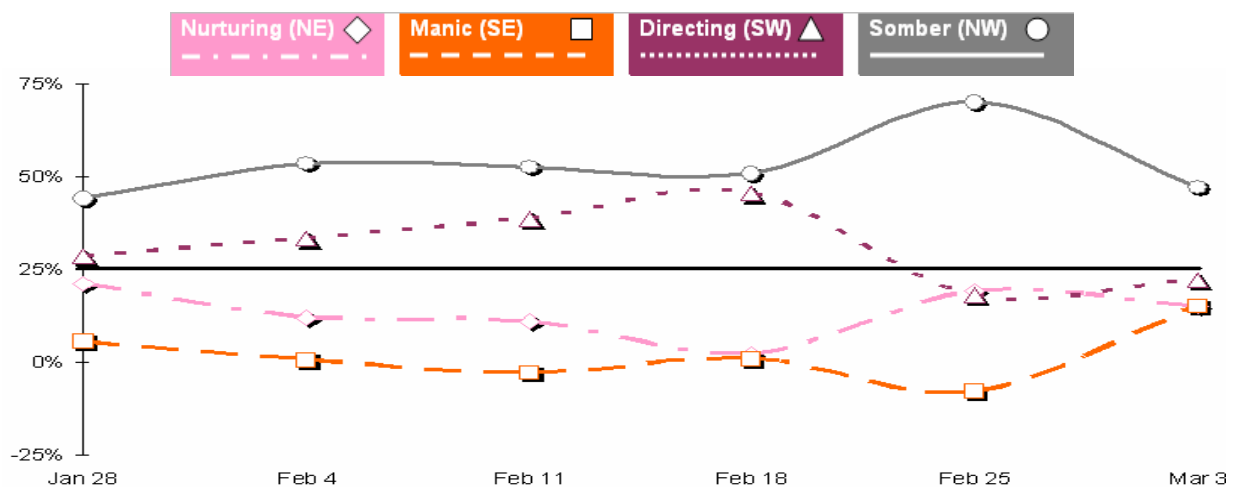
Historical Performance

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. Since January 2008, statistics have been gathered by a third party (info available on request), and continue to show outstanding performance.

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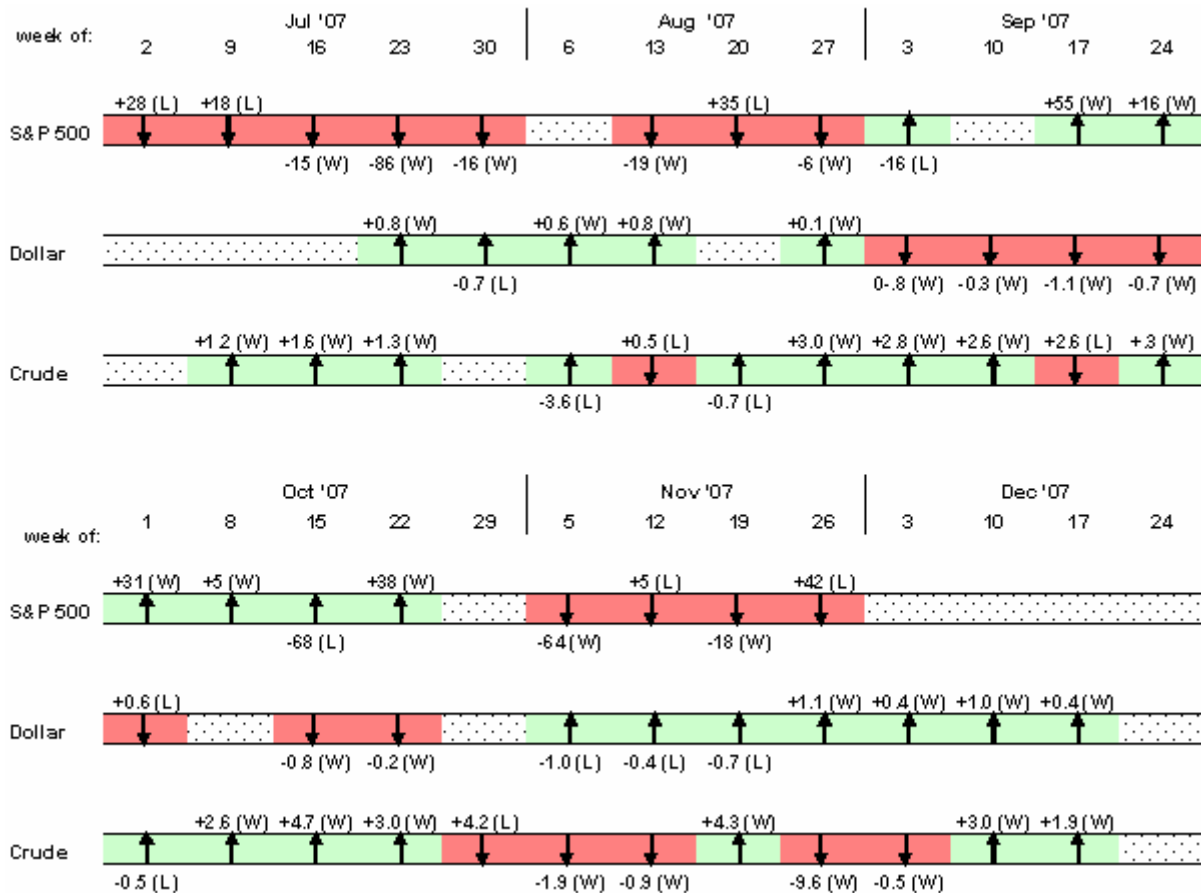
Methodology: For more information on our research and methodology, please see: http://anewstory.org/documents/methodology.pdf.