

MOODCOMPASS[®]
PROPHET FOR YOUR PORTFOLIO[™]

October 2008

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October 2008 – Holding the Global Pieces Together

Last month we focused on the United States and a possible market crash between September 16th and the 26th. While as of the date of this publication, September 27th, the stock market indices have not reflected a crash in “points,” the month saw the demise of several “great American institutions” such as Lehman Brothers, and Washington Mutual Bank. Many individual stocks experienced declines of crash proportions. Retirement portfolios comprised of unlucky investments were destroyed.

In October, the focus quickly shifts away from the United States to the global scene. As economies around the world lick their wounds from last month, the awareness grows as to just how fragile the interconnected, globalized way of life truly is. While a spirit of unity or common goals might go far to solve the issues at hand, that is not what we find this month. Every nation and sub-group is ready to fight for their own interests. And it is in this spirit of self-assertive self interest that world leaders will try to hold the pieces of the fragile global puzzle together. We wish them luck!

In the U.S. an election draws near. Over the past couple of years occasional speculation has been made in various blogs and publications that something would occur near the election to draw attention away from domestic issues. Interestingly, the configuration for U.S. social mood is externally focused throughout the month even though the economy is in serious difficulty and an important election is about to take place. What a curious coincidence!

Below is a summary of the market activity expected week by week:

Sep 29 – Oct 3: Panic from the U.S. “train wreck” subsides and markets move again. U.S. Society has a surge of new direction, although the country may not be united behind it. The stock market could rally big 10/1-3. Crude may decline strongly.

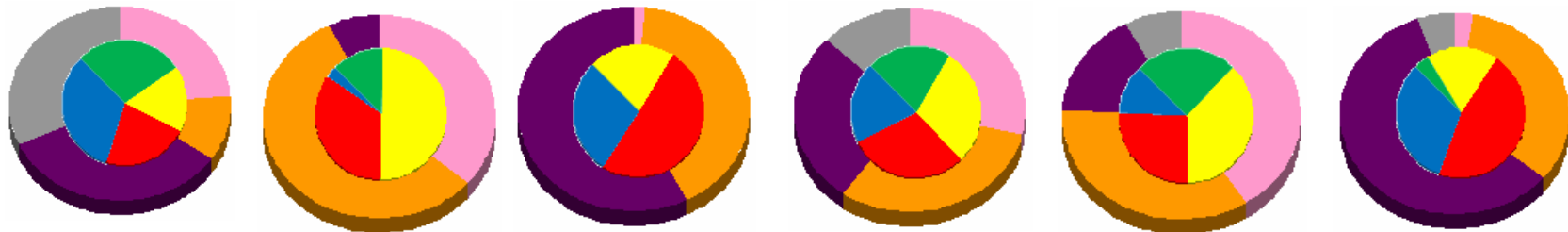
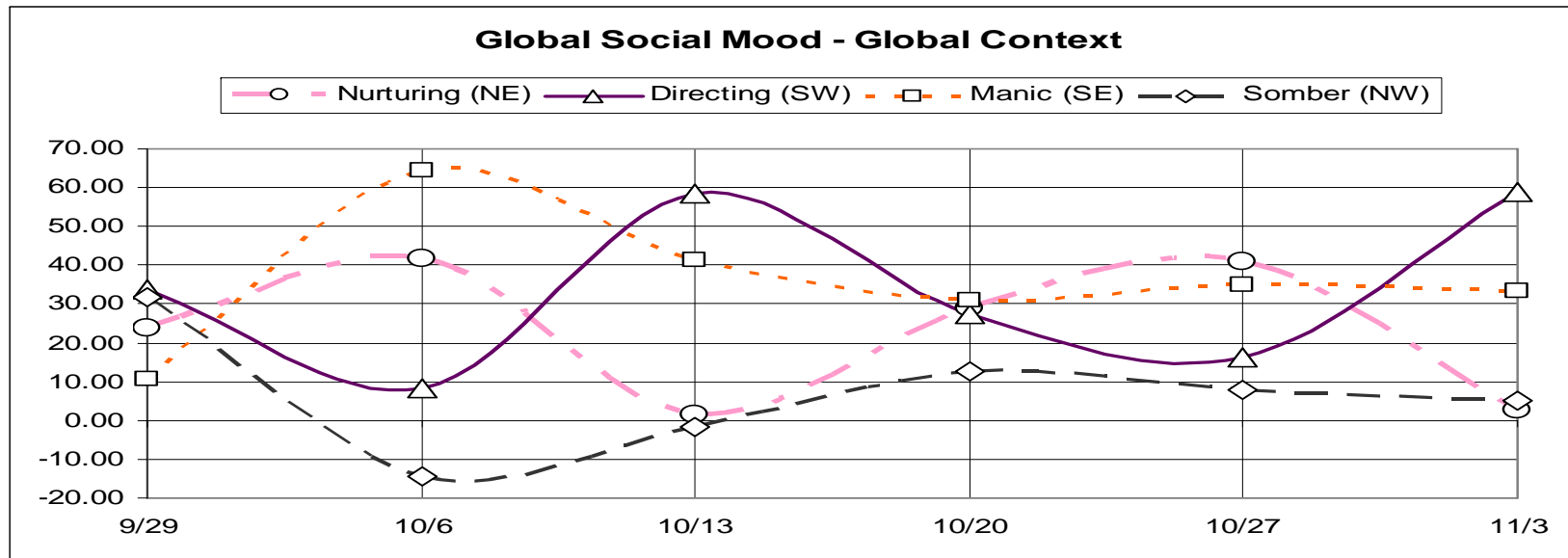
Oct 6 - 10: Stability is short lived, and the relief rally in the stock market becomes a decline. Crude may attempt a meager rally as geopolitical tension rises early in the week.

Oct 13 - 17: The currency markets are extremely turbulent. Crude may break down then suddenly spike up. A critical global shift occurs near Oct. 17th – 20th. The U.S. government is perceived as confusing and misdirecting. Confidence in U.S. leadership reaches new lows.

Oct 20 - 24: The geopolitical situation is more serious than ever, but crude goes DOWN! Global anxiety is high, and global markets are down. The U.S. stock market is extremely volatile. The U.S. Dollar is nearing a top.

Oct 27 - 31: Tempers flare on a global scale. International negotiations break down, and diplomacy is abandoned. The stock market may rally early in the week as markets try to stabilize, but should end the week down. Last week’s and this week’s market declines could be the beginning of a next leg 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.



A More Rational Chaos

Panic from last week's U.S. "train wreck" subsides and markets move again. Focus shifts to global instability (Manic) and diplomacy (Nurturing). Global markets should be highly volatile and confused.

Fading Optimism (again)

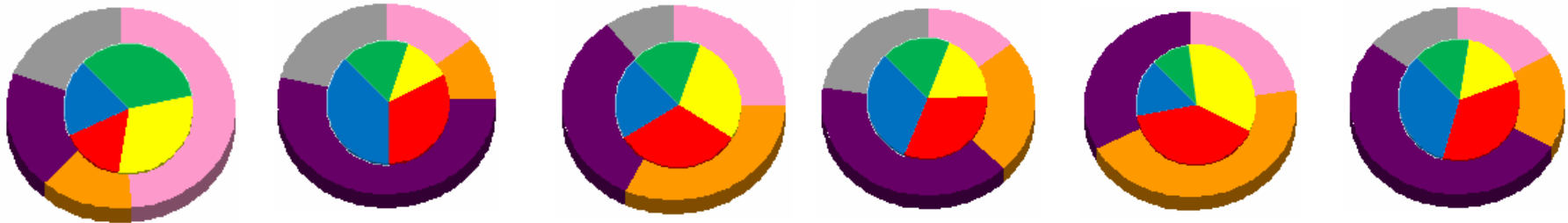
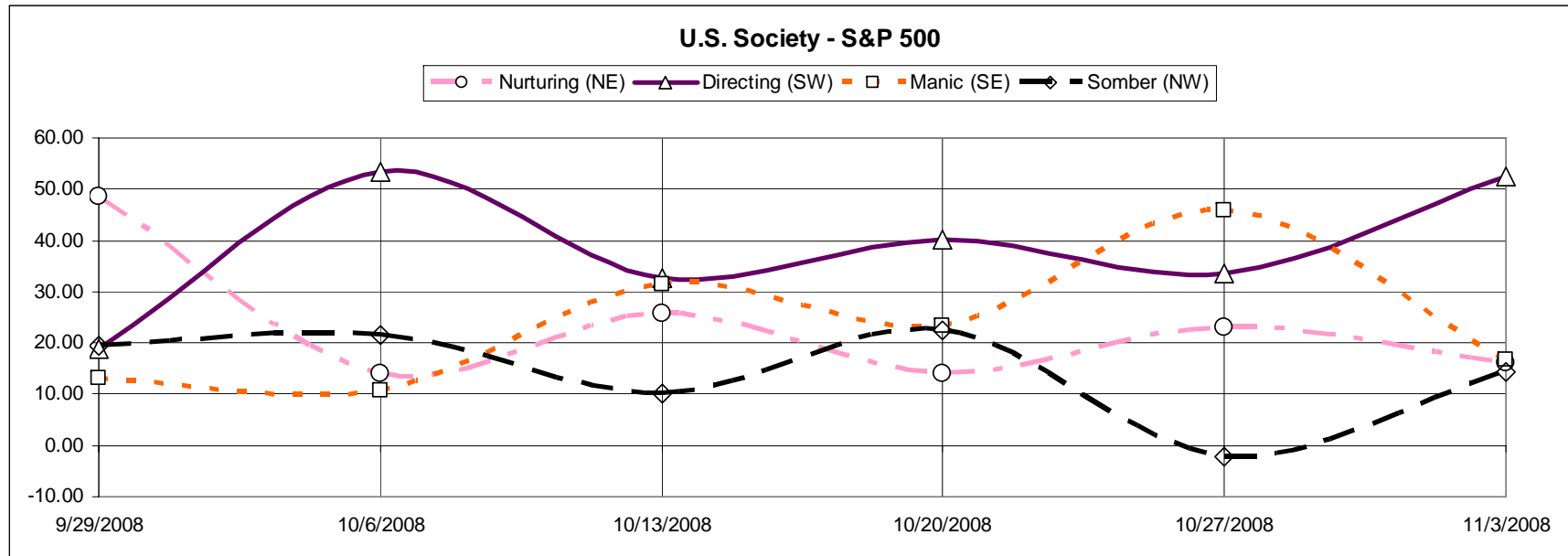
Decrease in Directing indicates lowered optimism. Both South factors high corresponds with high volatility and a slight upward market direction. Look for a critical global shift centered near 10/17-20.

Reasonable Anxiety

The global situation produces a lot of talk (East). Diplomacy (Nurturing) and global instability (Manic) are again the focus. Global markets are down. Anxiety is high, but for good reason.

Not Nice!

International negotiations (Nurturing) break down. The global situation is unstable. Directed aggressive action is likely.

***Charging Ahead!***

U.S. Society has a surge of new direction, although the country may not be united behind it. The stock market could rally big 10/1-3.

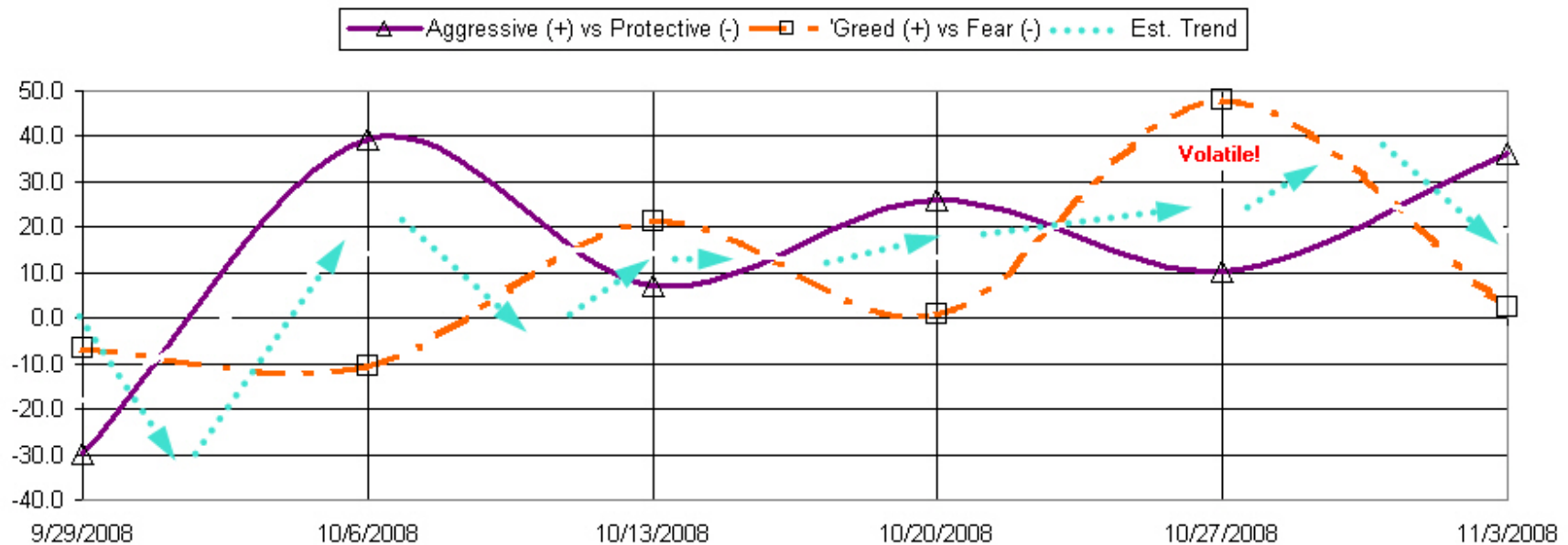
Holding Pattern

U.S. society is focused on other issues than the stock market and the U.S. economy. The stock market is sideways to slightly up.

Increased Agitation

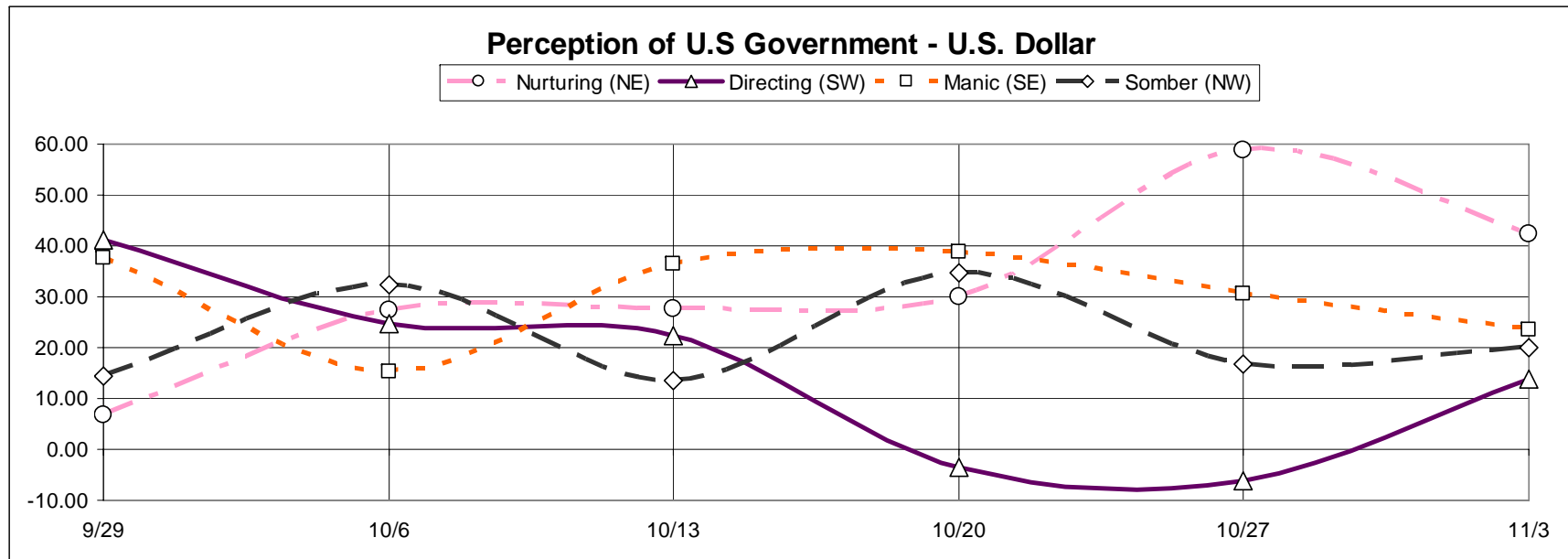
U.S. society is increasingly vocal and unsettled. There is a strong geopolitical focus (Directing surge) as well as attention to political differences domestically. This is not a "friendly" time. Markets are mixed.

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



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.”

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.

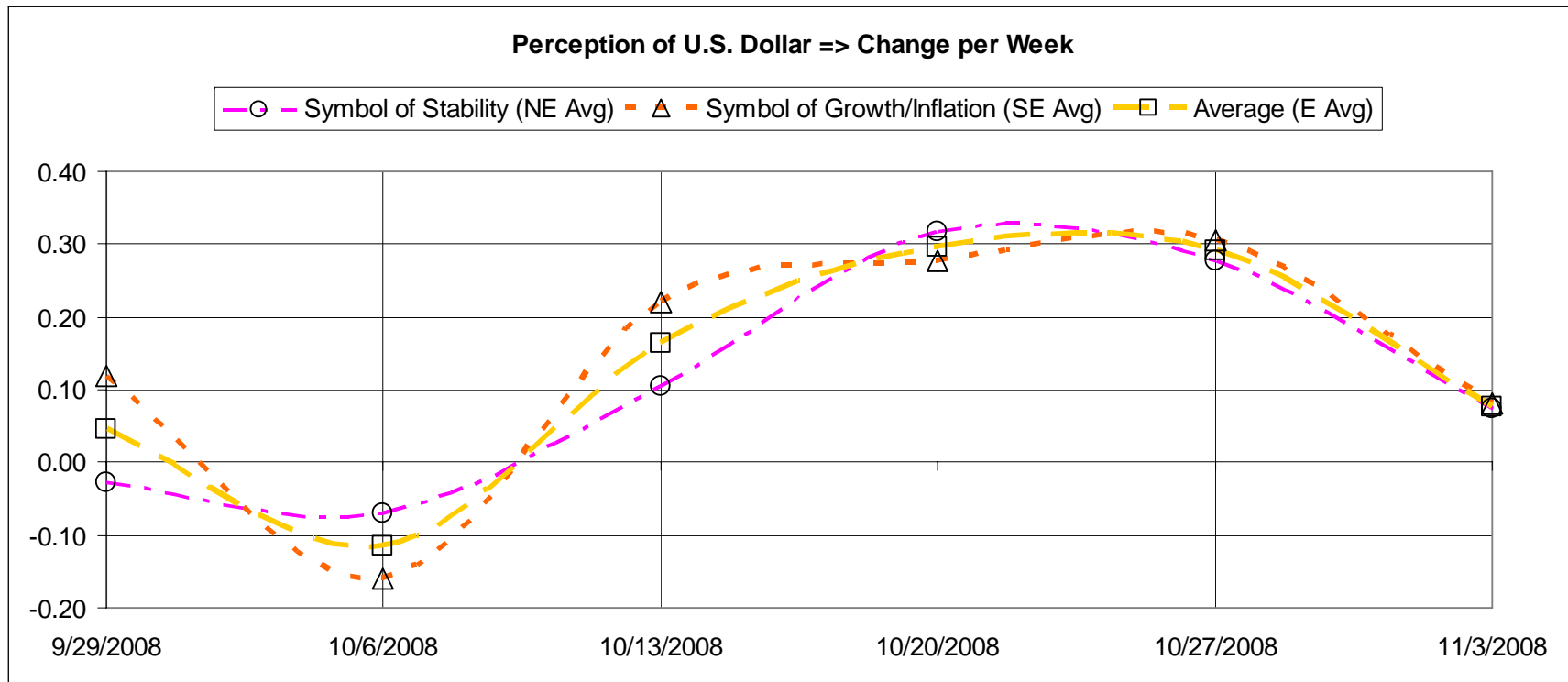


Activity Ends
The high activity (South) surge on the part of the U.S. government is completed.

Stability
The outcome of recent efforts results in brief stability of the markets and the U.S. Dollar.

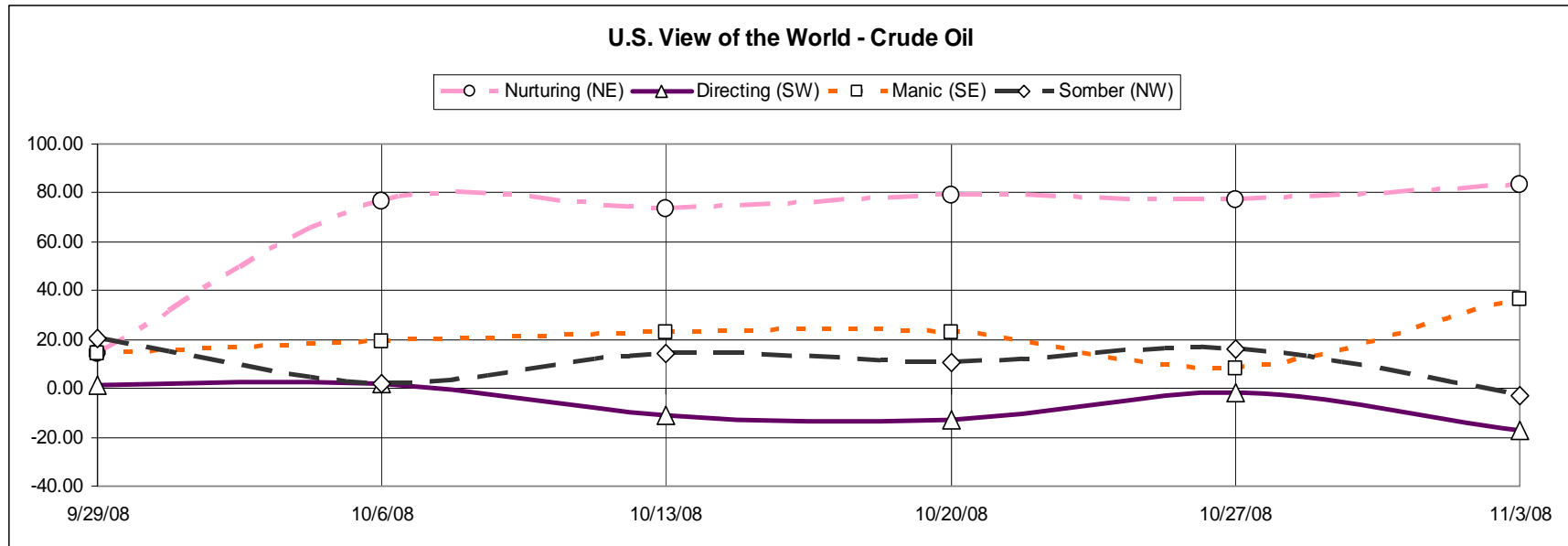
Confusion and Misdirection
The brief stability is replaced with a very talkative (E), but confusing government with questionable leadership competence (extremely low Directing). Trust in the government reaches new lows.

Calm Down!
The U.S. government tries to keep people at home calm as well as the international community diplomatically (Nurturing). Near month's end, however, placating becomes less of a concern and more aggressive directed action is likely.



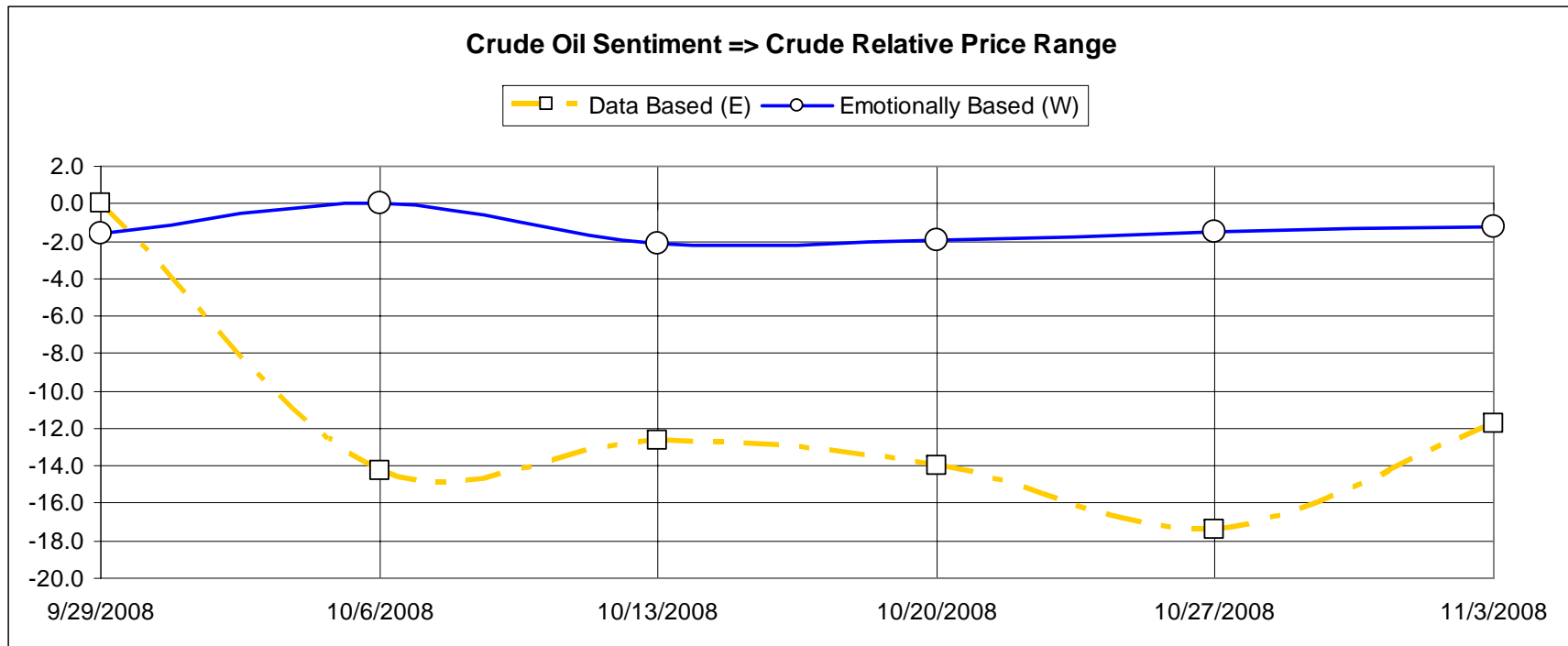
Explanation of chart lines: *The Dollar is a symbol of value, but it not attached to anything “real” such as gold as it was in the past. Its value is based on sentiment, and on the trust of a government to honor its debts. Because of this, its value ebbs and flows along with the oscillations of perception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

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.



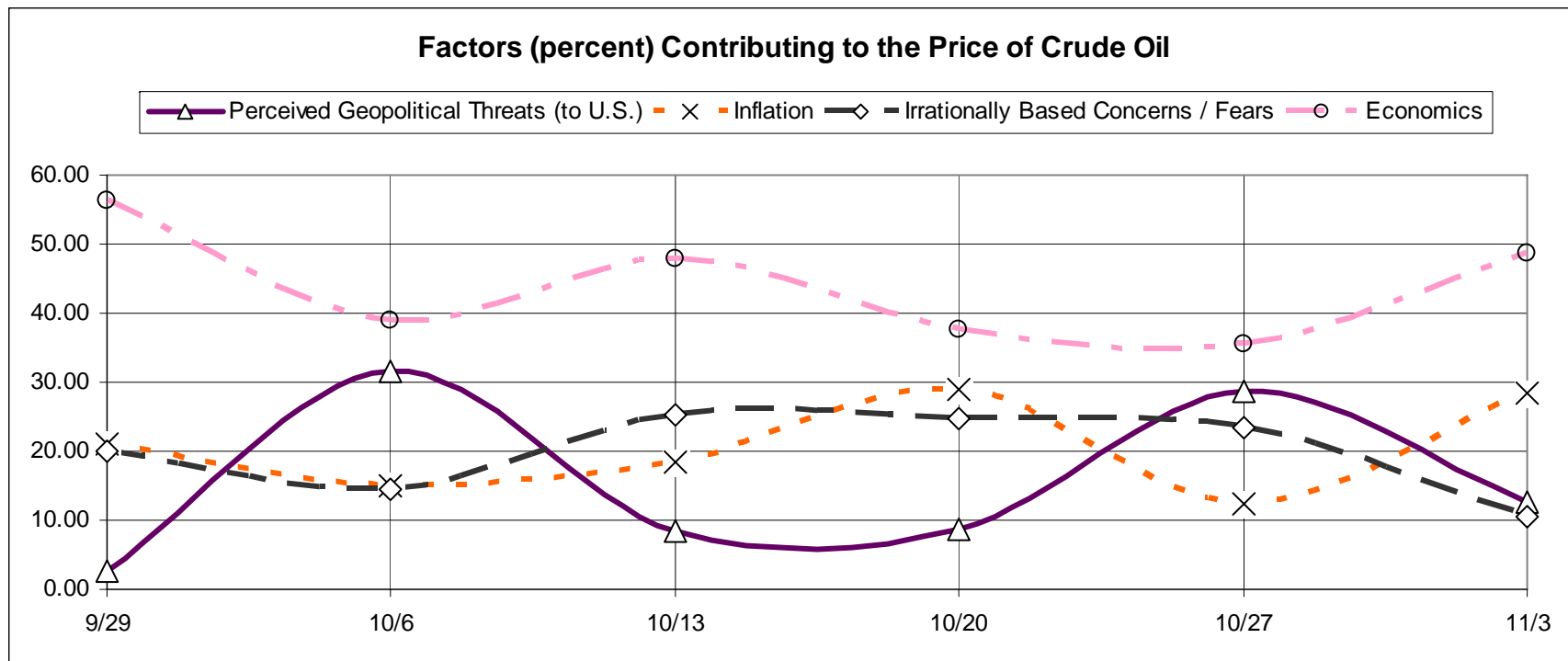
The World is Anxious, Unsafe, and Vulnerable

With extreme Nurturing this entire period, the world outside the U.S. appears to be an unsafe place, vulnerable to attack or otherwise in need of "protection." A global preoccupation with diplomacy should be extremely intense this entire period with global stability a prime international concern. In spite of extreme geopolitical anxiety, crude prices should stay relatively low.



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 geopolitical anxieties may create brief, but contained surges (W), the economic fundamentals (E) will continue to pull prices down. Price movement should be down to sideways with little net change by the end of the period.

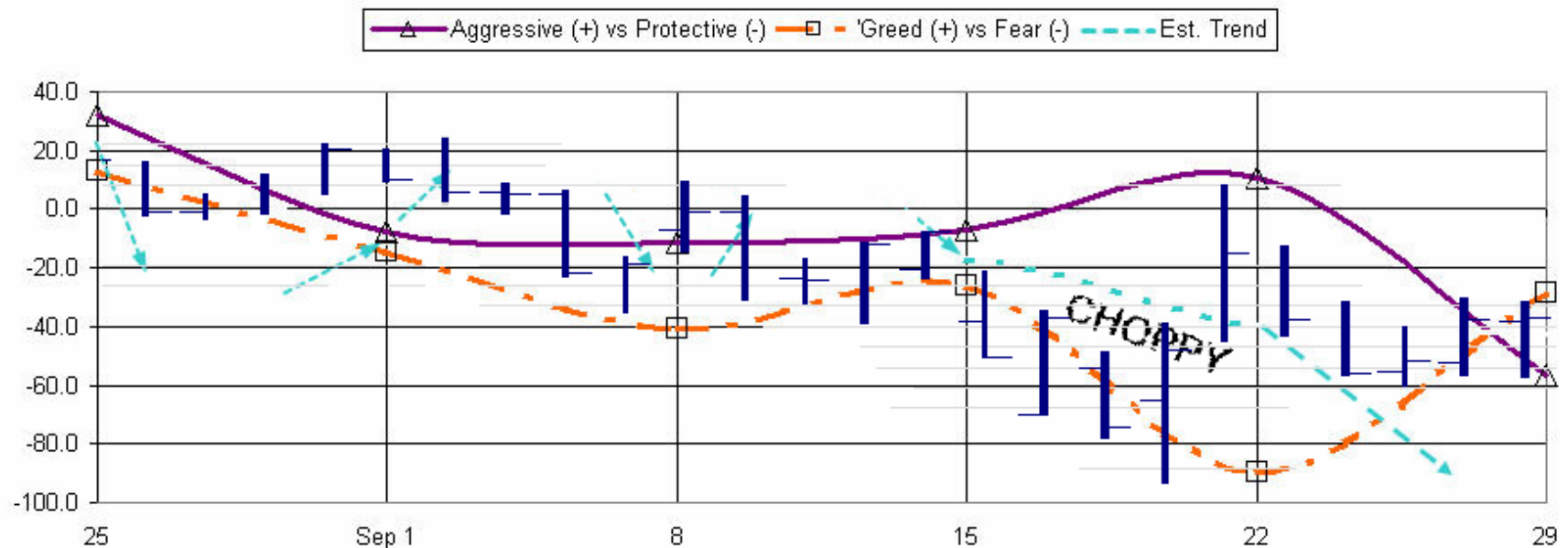


Explanation of chart lines: The values for the Moodlines (Directing, Manic, and Somber) for U.S. View of the World/Crude Oil and the inverse of Perception of U.S. Government/U.S. Dollar are combined to produce this chart. This chart is useful in searching for potential geopolitical events, and escalated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

Once again economic concerns are the primary factor in crude price, although geopolitical anxieties should be supportive, especially near 10/3-6 and 10/24-27. While changes in the Dollar may have some influence, it is of limited consequence.

How We Did – Comparing our Charts with Actuals

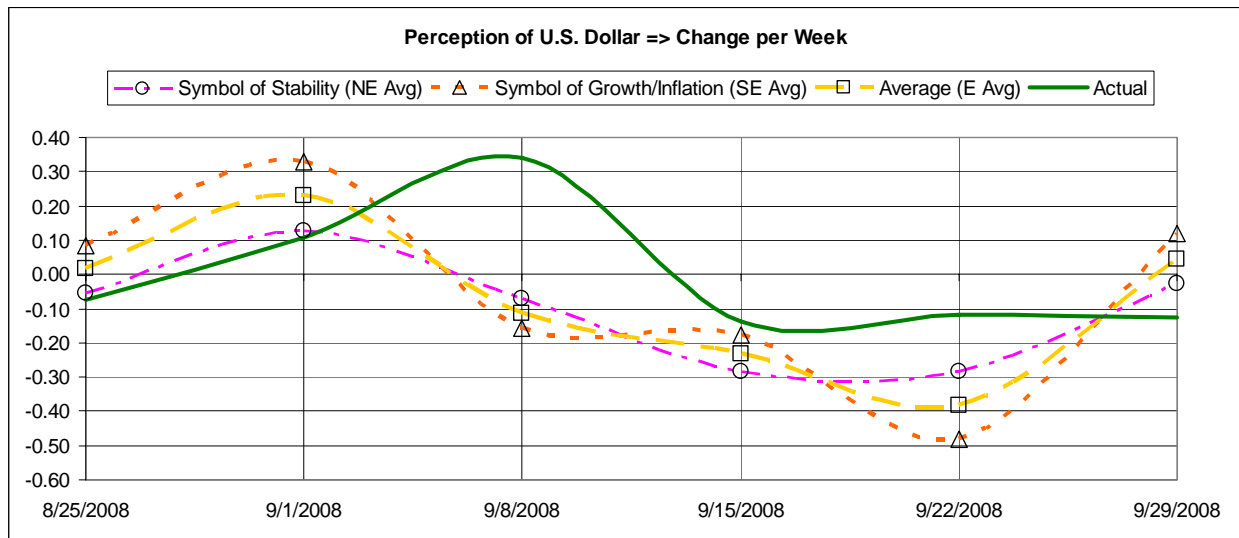
U.S. Society Mood Pairs => Stock Market Trend



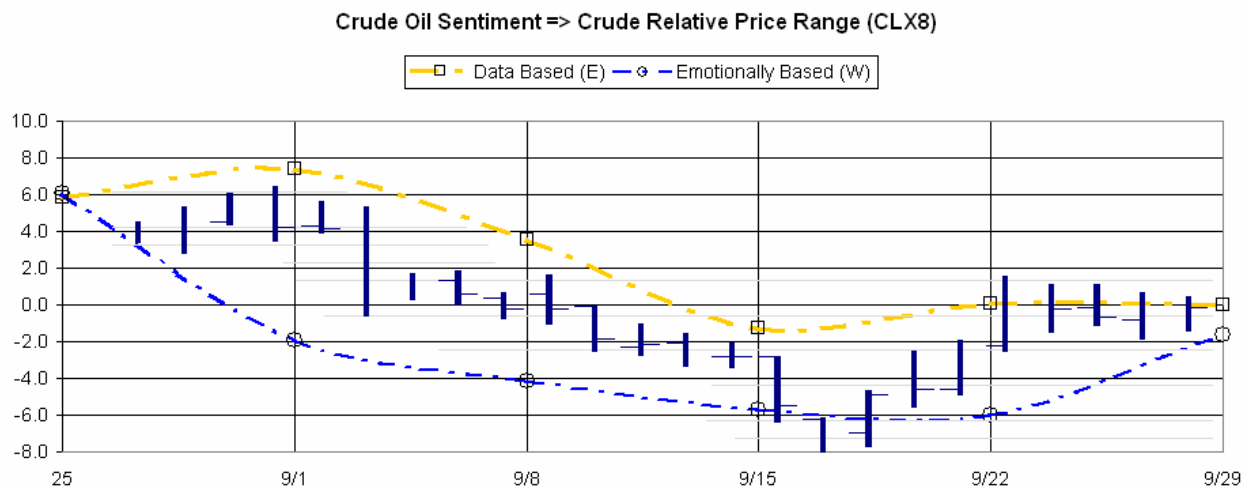
We said: The cycle patterns this month are so complex and full of cross currents that we could not solely rely on our usual model to calculate estimated trend. The arrows above were derived from the patterns displayed by the Moodlines on the previous page from experience with the patterns and associated market direction. In summary, there is a range-bound / topping pattern though approximately September 10. It is clear that there is very little overall direction because the Directing-Nurturing polarity is almost collapsed (close to 0) from approximately August 28 – September 18. This period of lethargic non-direction is followed by an accelerating decline through the end of the month.

This shows our estimated S&P trend chart from last month overlaid with actual daily price data (courtesy futuresource.com). We did really well on this one! We got the general flow correct through September 18. The range between market highs and lows was very well illustrated by the gap in the two lines near September 19-22. While we had anticipated a steeper decline in the final week, the change in mood that occurred near September 25-26 (where the lines crossed) is quite apparent. Also note how the medial line (estimated trend) forms an important support and resistance September 15 – 23. After the 23rd, the midpoint between the two lines again becomes the trend “magnet”.

How We Did – Comparing our Charts with Actuals



Dollar: *Previously said: After one more upswing the week of August 25th, the Dollar's trend turns down for several weeks. The Dollar climbed one additional week, then turned down. We called the retracement correctly, but a week early. Moderate overall correlation.*



Crude: The “facts” (E) were supportive (hurricanes, supply stocks, etc), but sentiment (W) continued to pull prices down regardless. Correlation of price with our model is extremely high.

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.

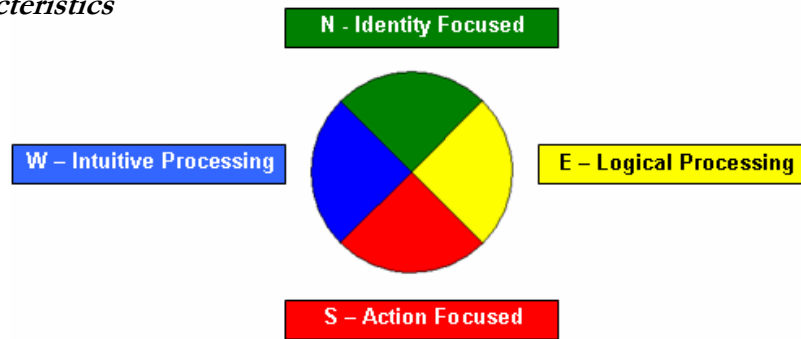
Researchers spent the rest of 2007 analyzing these correlations and identifying the formulas that yielded curves that best mirrored each market’s curve. By the end of 2007 they had successfully generated a curve for each segment that very accurately predicted whether its corresponding market was trending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

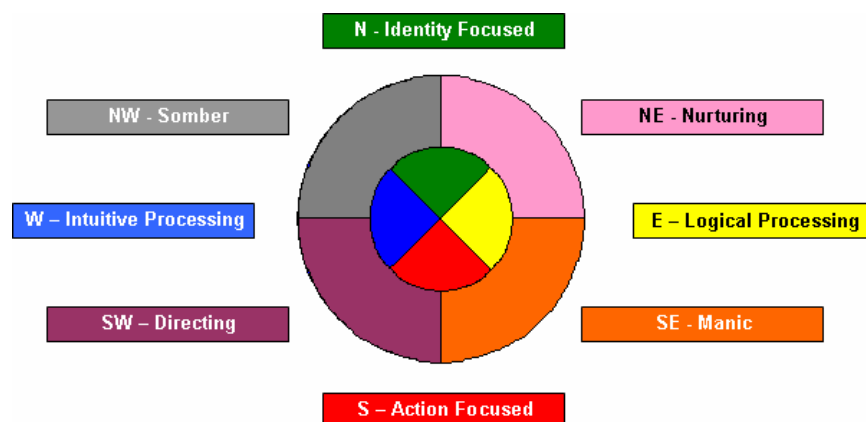
How It Works

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.

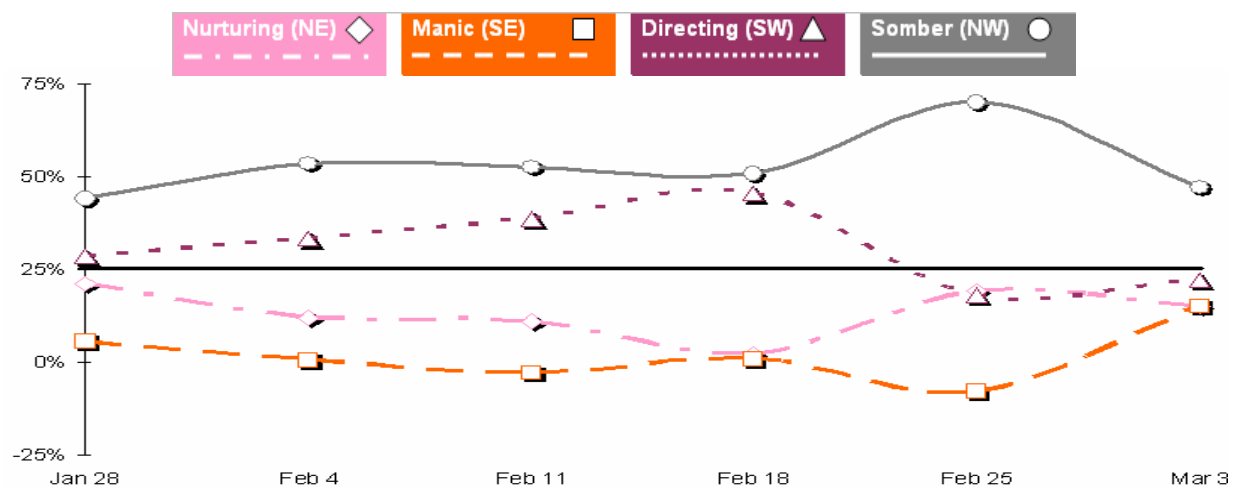
Tracking Profiles Over Time

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).



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

A stock and ETF version of Market Mood Oscillator for those who trade the stock market. It can be accessed at <http://collective2.com/go/stockmmo>.

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

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.

