

MOODCOMPASS[®]
PROPHET FOR YOUR PORTFOLIO[™]

September 2008

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September – The Great Market Crash of 2008

How do we say this... Let's see... THIS LOOKS REALLY BAD!!! Last month we discussed an event or series of events centered around August 8-11 that could change the geopolitical and/or global economic landscape. The Russia/Georgia conflict certainly qualifies. This month, the globalization experiment continues to be severely challenged as cooperation between nations and even within nations continues to deteriorate. The global economy, already damaged, is likely to be severely crippled by the time this month is over.

However, our primary concern this month is not “the world.” It is one country in particular... the United States of America. For the last few weeks, optimism has been on the rise. There have been calls of bottoms in the stock market, beginning with the zany Jim Cramer of CNBC. Analysts have begun suggesting that it is time to buy stocks again. As of today (the 22nd), the stock market is up for the month of August. In a bear market, fading pessimism is not a good sign. It is a clear sign that the next leg down is about to start, and this next one looks particularly severe.

There may be increasing signs that the American consumer is not doing well, or that businesses are in trouble. Anxiety among stock market traders may begin to increase as the stock market does not sell off like “it should” in the face of the seriousness of the global and national indicators. Eventually, the rubber band will snap. This next one should be unlike any stock market decline in recent memory.

It is the aftermath of this, how it changes the face of America that is of primary concern. How will all of our lives be affected as the investments, the life savings of so many are wiped out? How do retired persons or those about to retire who did the “right thing” now face that they have nothing of substance to live on? How do businesses large enough to be publicly owned companies continue to retain workers when their capitalization has been practically wiped out? What is the effect of such extreme socioeconomic changes just before a presidential election?

This is not good news. There is no apparent silver lining. We have taken on the task of warning of approaching storms. It is time to hunker down. This one will be a doozie

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

Aug 25 – 29: Global instability is on the rise. Diplomatic efforts become increasingly hostile in tone. U.S optimism fades as does the recent stock market rally. The Dollar rebounds. Crude declines early in the week, but may spike late week.

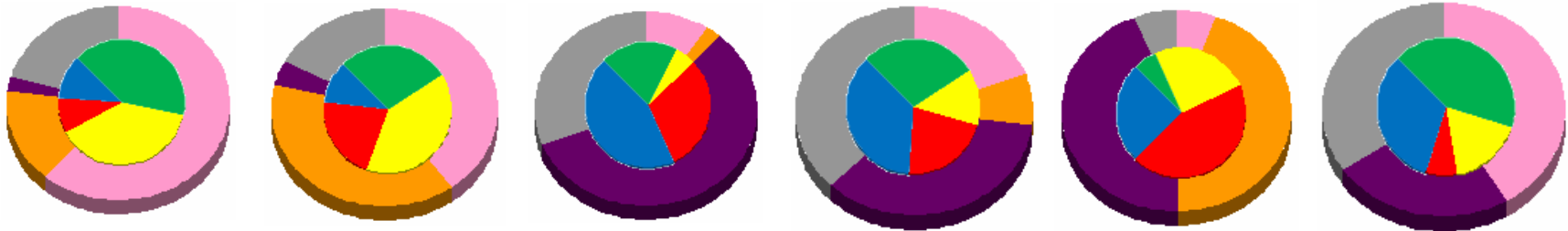
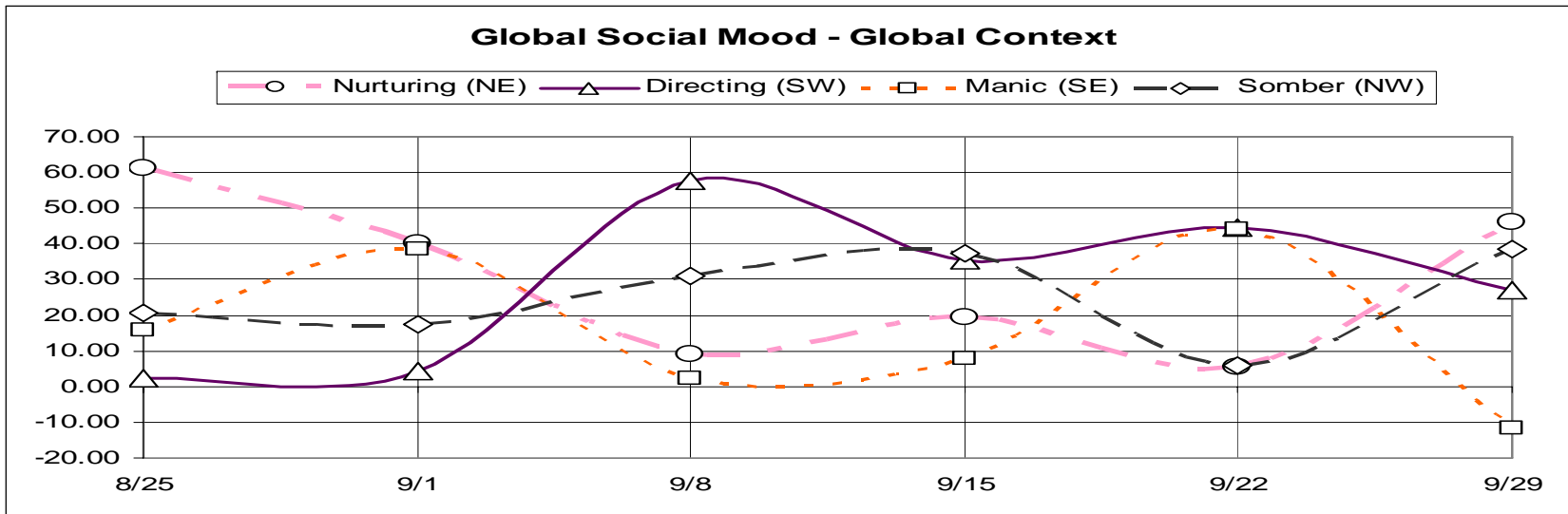
Sep 1 – 5: The global theme is “every man for himself” as violence and fragmentation spreads. Stock market rallies give way to further declines. The Dollar’s rally is complete for at least a few weeks. Look for short covering in crude oil.

Sep 8 – 12: The global situation is increasingly serious as is the likelihood of panic periods in the markets (especially the 11th and 12th). The currency markets are particularly volatile.

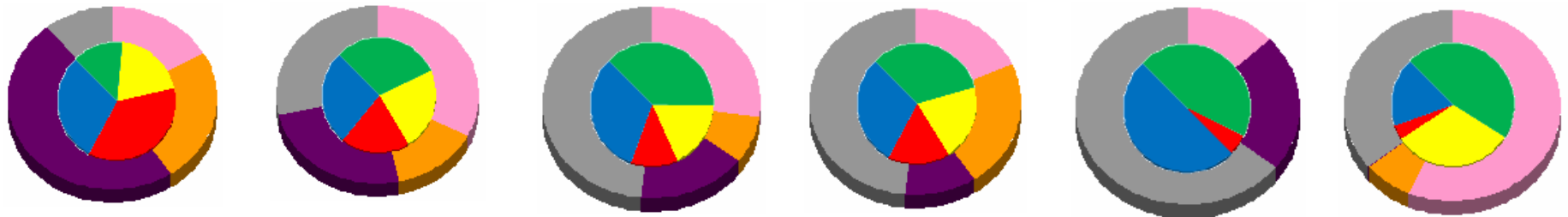
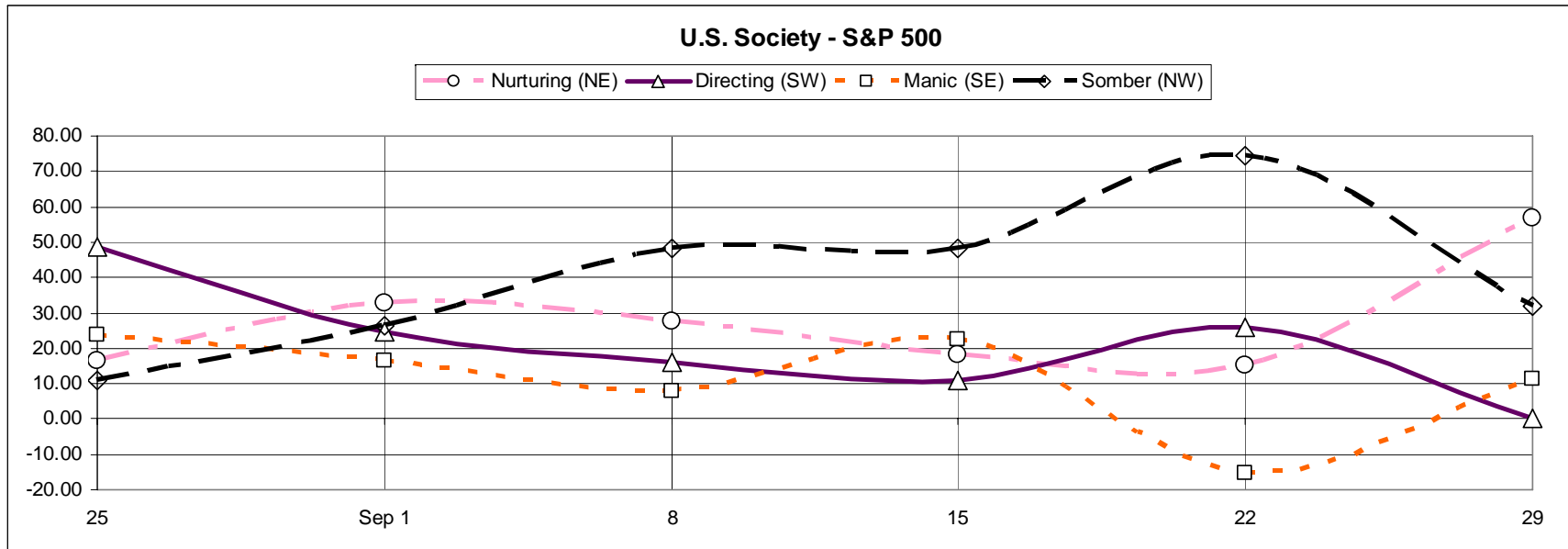
Sep 15 – 19: Global instability may reach a short term climax. The U.S. stock market could see serious losses, although movement is likely to be choppy. The Dollar appears to stabilize.

Sep 22 – 26: The global situation settles somewhat. However, the situation in the U.S. is far less optimistic. The configuration for the U.S. government towards the end of the week indicates a perception of it being either in chaos or incompetent. The configuration for U.S. society at the same time indicates a strong increase in “safety seeking.” The U.S. stock market is likely to see severe declines.

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.

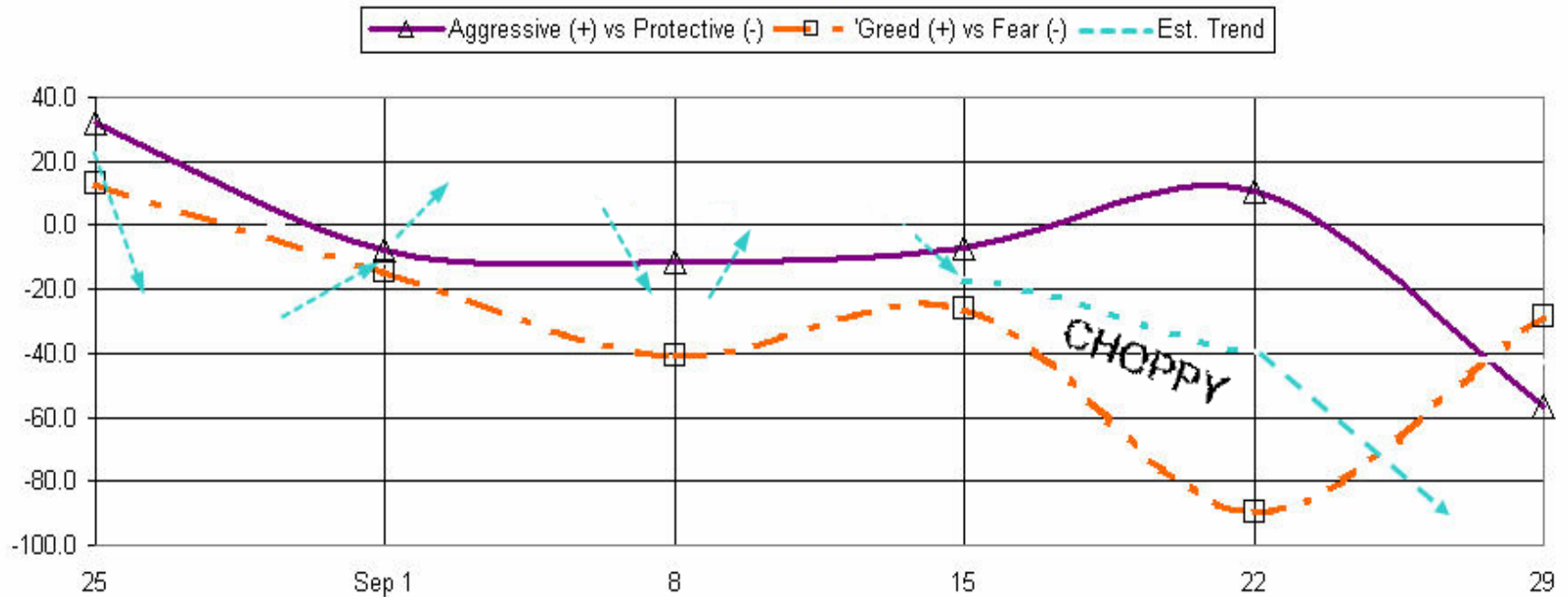


<p><i>Rising Instability</i> <i>Stabilization is the global priority and focus. Rising Manic and lowering Nurturing indicates that diplomatic endeavors should become increasingly hostile in tone. Trade disruptions are possible.</i></p>	<p><i>“Every Man for Himself”</i> <i>The world is increasingly violent and fragmented, but global markets are primarily up.</i></p>	<p><i>What Goes Up...</i> <i>The global situation is increasingly serious and panic moments in the markets are increasingly likely as optimism fades (Directing) and is replaced with (Somber). This is in turn replaced with the highly incendiary and unstable combination of both South factors.</i></p>	<p><i>Relief</i> <i>The global mood settles a bit and markets may rally (both North factors high).</i></p>
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<p>Fading Optimism Decline in Directing shows that optimism and the stock market are likely down.</p>	<p>Relief With both North factors high there is a momentary pause in pessimism.</p>	<p>Increasing Pessimism to Extreme Levels Socioeconomic pessimism is on the increase while denial is stronger than ever (Somber). Markets are choppy and confused. Something shakes things loose near September 11 with the rise in Manic. The extreme surge in Somber accompanied by Directing rise the week of the 15th indicates moments of panic and despair are likely for both U.S. society and the stock market.</p>	<p>This Changes Everything! As the configuration changes to "Seeking Safety" (high Nurturing, low Directing) a large scale stock market decline is likely.</p>
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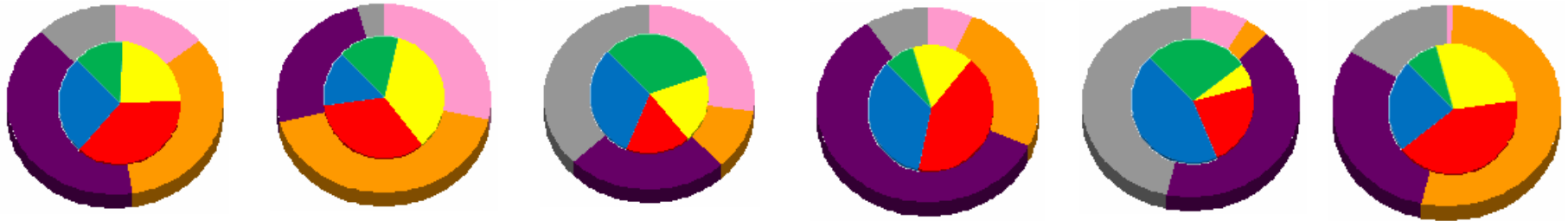
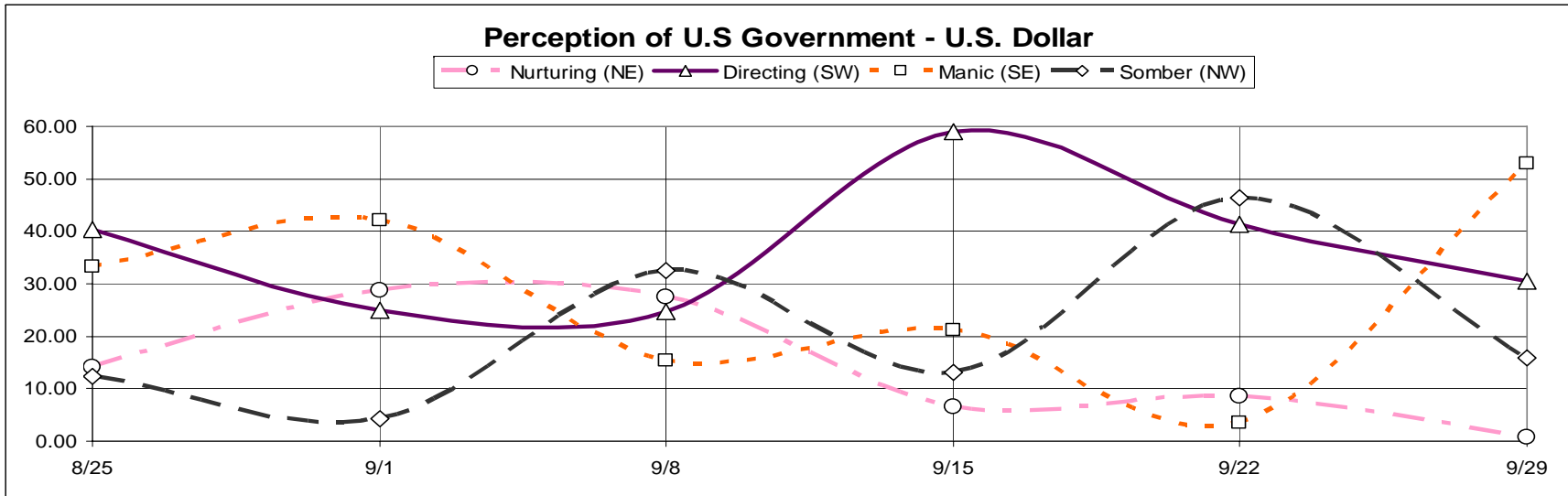
U.S. Society Mood Pairs => Stock Market Trend



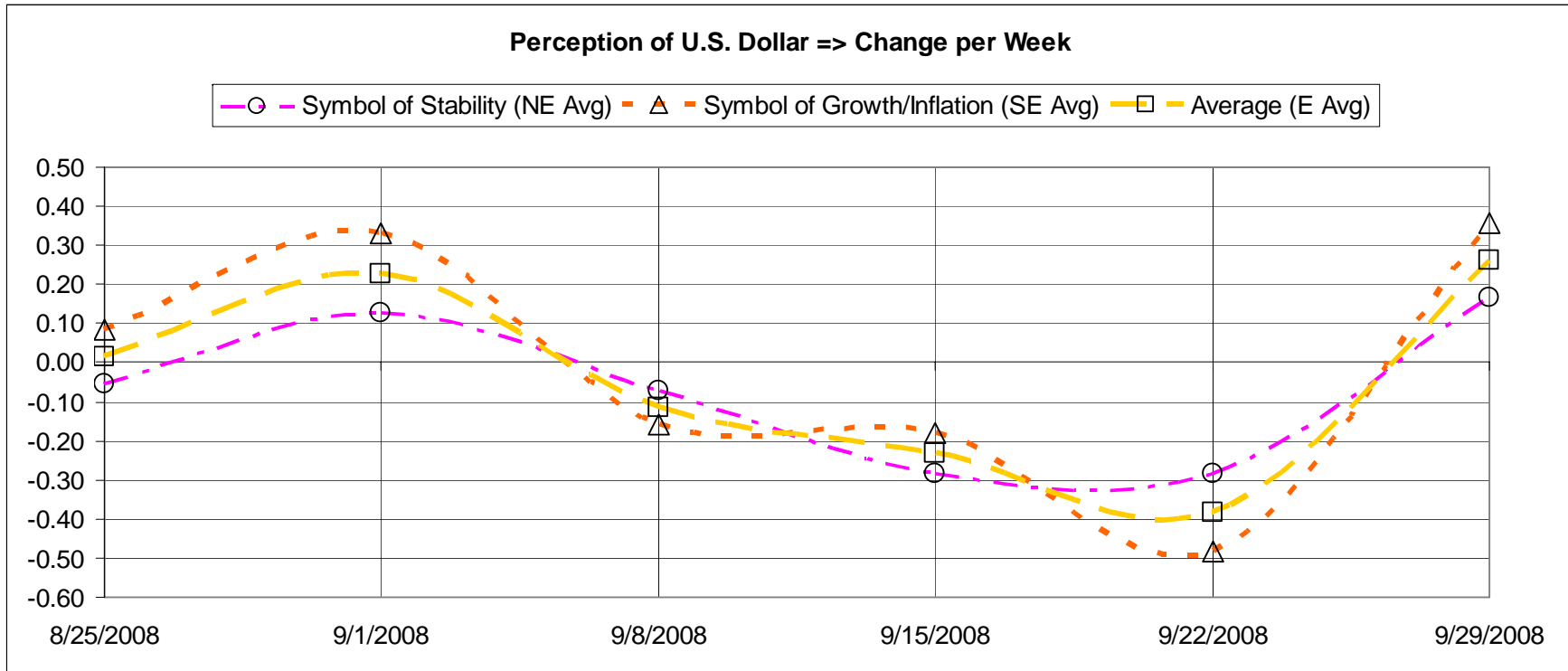
Explanation of chart lines: *It is common knowledge among traders that movement in the stock market is based on a “tug of war” between pairs of sentiment. This charts the two primary pairs which correspond to the general stock market trend. “Aggressive vs Protective” is the difference of the values of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

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.

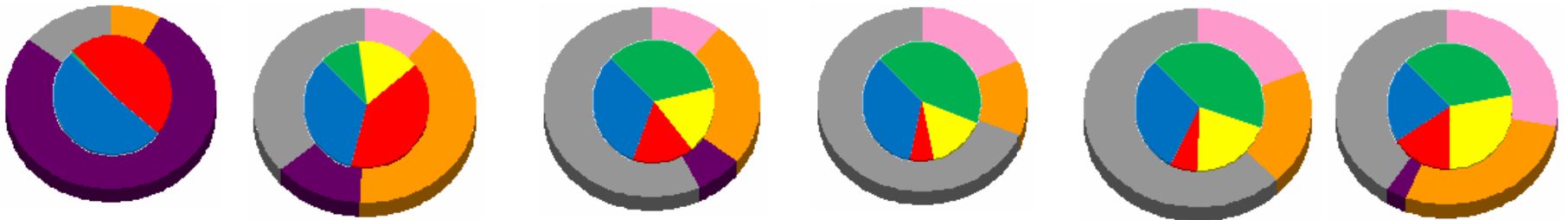
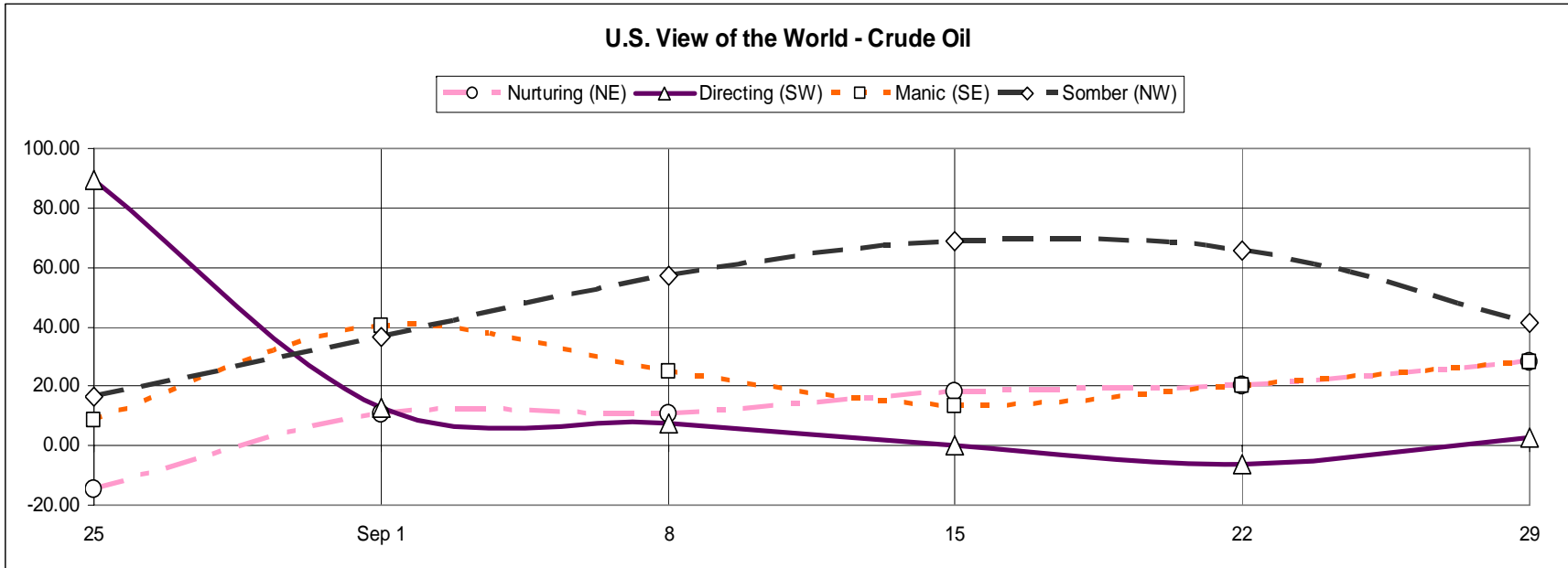


<p>Dollar Rallies Again <i>The U.S. government is highly vocal (Manic). Both E factors rising means the Dollar should rally again this period.</i></p>	<p>A Has Been <i>The Dollar's brief rise is over for now. Currency markets are turbulent.</i></p>	<p>What in the World? <i>The U.S. government's activity level surges both at home and abroad as strong leadership or initiative is required (Directing). Diplomacy is non-existent; previous issues are no longer negotiable. The U.S. Dollar declines sharply.</i></p>	<p>Pure Chaos <i>Either the U.S. government is in chaos or perceived as extremely incompetent (Manic surge). The Dollar is extremely unstable.</i></p>
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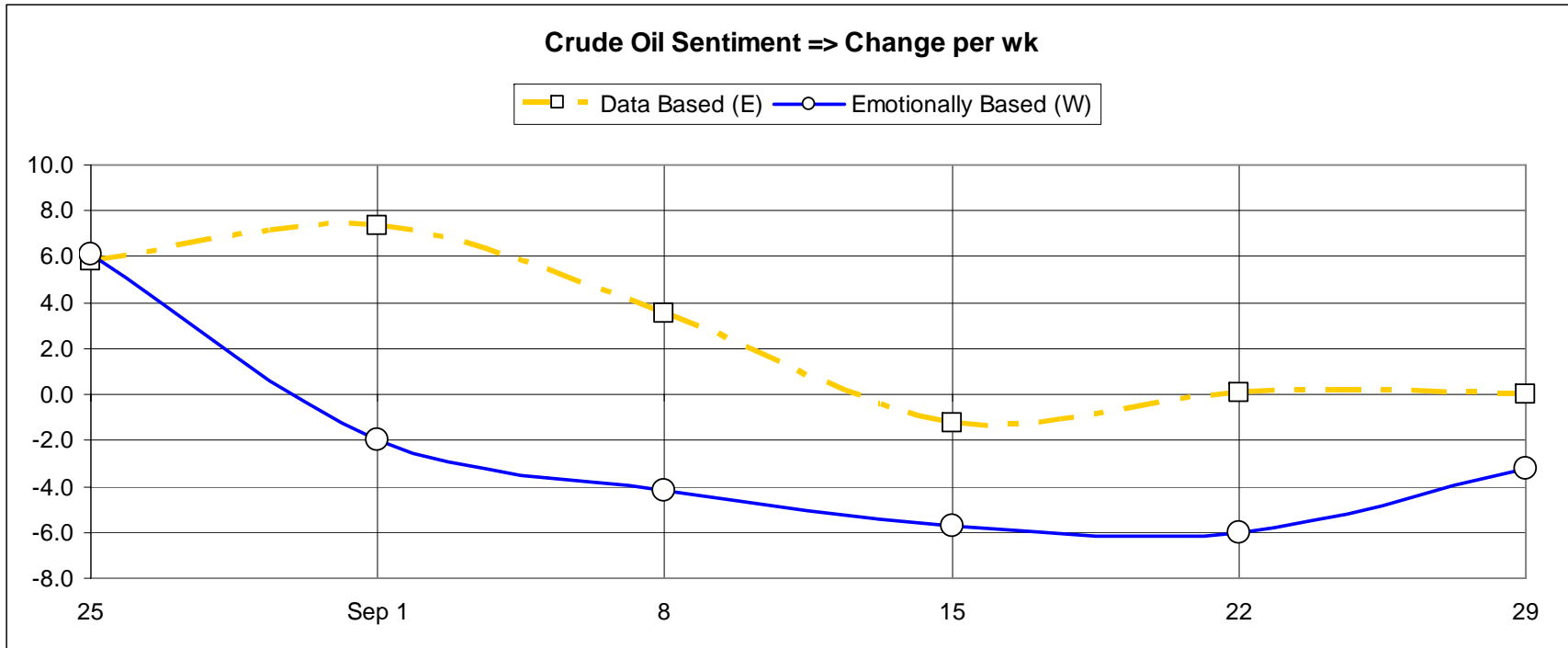


Explanation of chart lines: *The Dollar is a symbol of value, but it not attached to anything “real” such as gold as it was in the past. Its value is based on sentiment, and on the trust of a government to honor its debts. Because of this, its value ebbs and flows along with the oscillations of perception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

After one more upswing the week of August 25th, the Dollar’s trend turns down for several weeks. At some point during the week of September 22, the Dollar turns up and makes a strong recovery (or the Euro makes a steep decline). Extreme caution is warranted from a trading perspective, as the factors contributing to inflation overtake the factors contributing to stability.

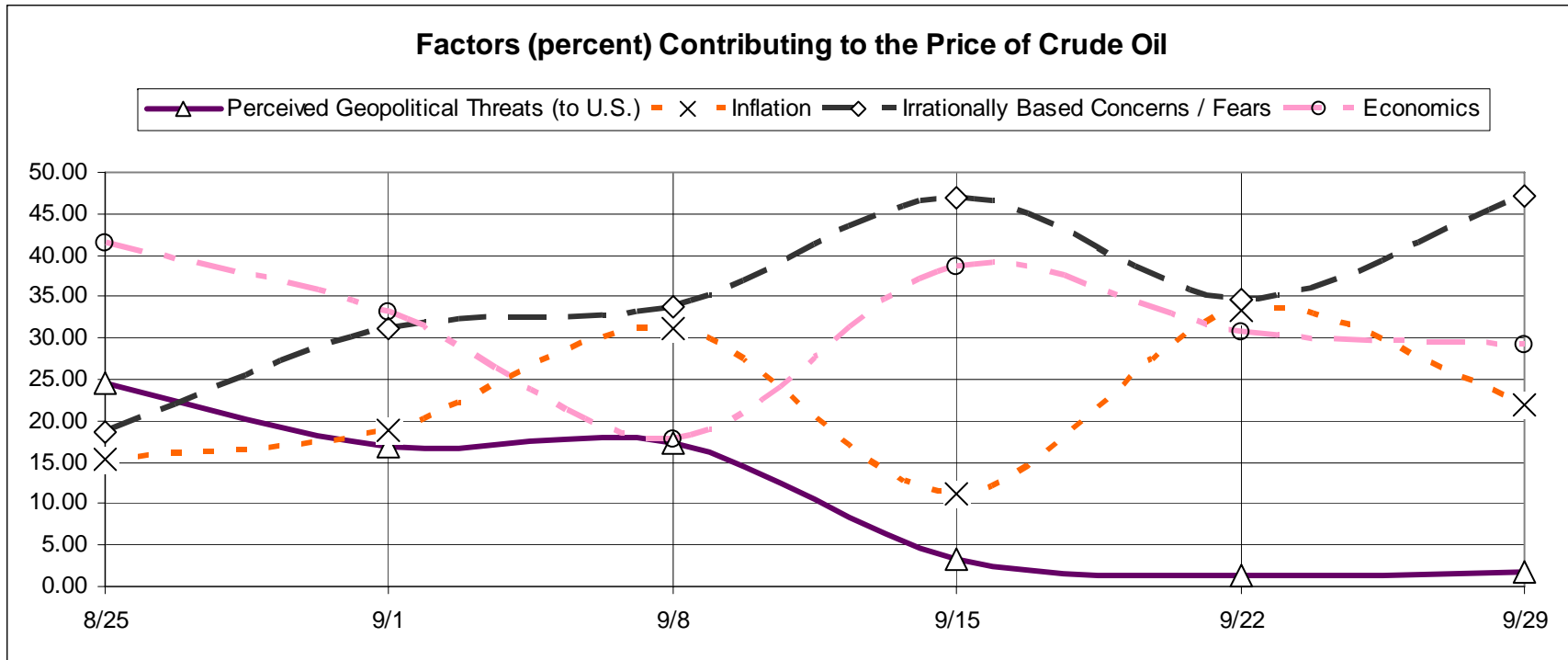


<p>Big Sell-Off <i>There's a perception of lowered global threat and crude sells off (Directing decline).</i></p>	<p>Global Tensions Increase; Situation Serious <i>The global situation degrades again (Manic), It is highly serious, but unclear (Somber). Crude reverses its decline and stabilizes in spite of economic concerns.</i></p>	<p>It's Not So Bad <i>The situation outside the U.S. is looking less serious (Somber decline). Crude trend is about to change again.</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.*

With the dominant factor (E) greater than 0 through September 10, fundamentals (the data/the facts) will tend to support crude prices, although there will continue to be a strong undercurrent (pull) down from the emotionally based factors (W). Crude prices in general for this period should be relatively unchanged or “sideways”. Prices are least predictable September 11 through the end of the period as the dominant factor oscillates close to zero (indicating a trend in flux).

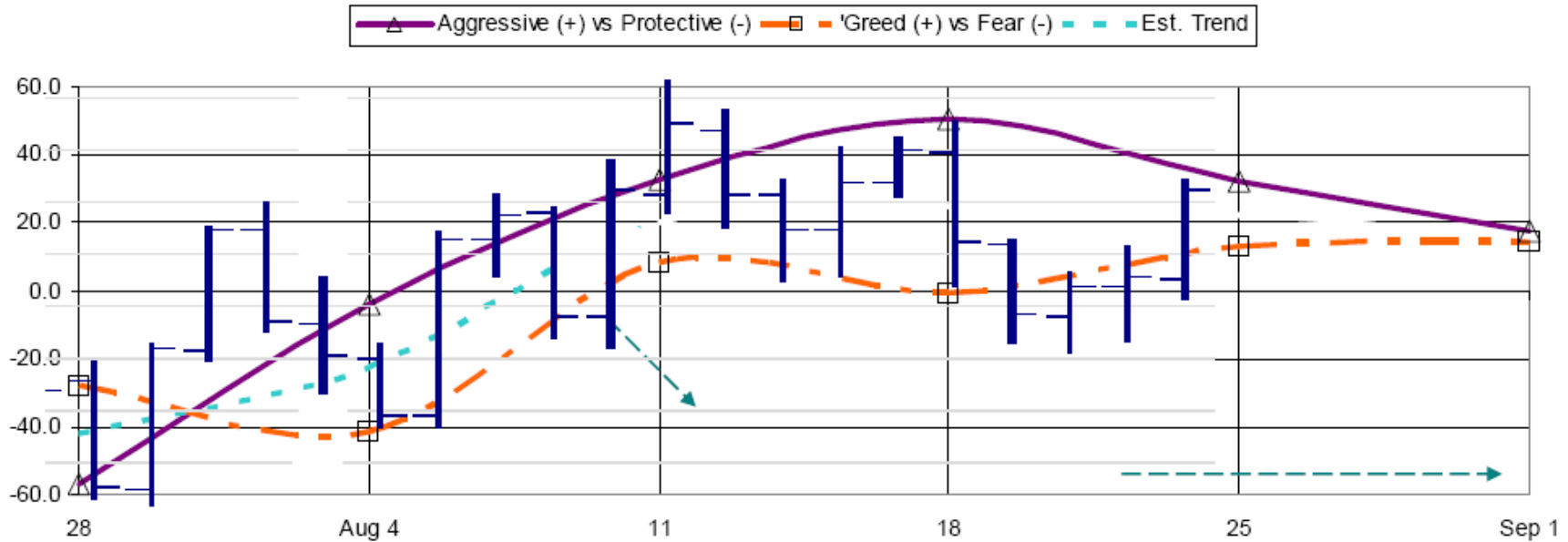


Explanation of chart lines: *The values for the Moodlines (Directing, Manic, and Somber) for U.S. View of the World/Crude Oil and the inverse of Perception of U.S. Government/U.S. Dollar are combined to produce this chart. This chart is useful in searching for potential geopolitical events, and escalated 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 global economic picture, especially concerns of decline, has played a key role in crude prices for the last two months. By September 2, it is the fear of the unknown that becomes the primary support for crude prices. Also, the Dollar (inflation) plays a much larger role this period than it has for some time. Throughout this entire period, fear of supply disruptions are high, yet there is little perception of a likely attack or armed conflict with the U.S.; the lowest this factor has been for quite a while.

How We Did – Comparing our Charts with Actuals

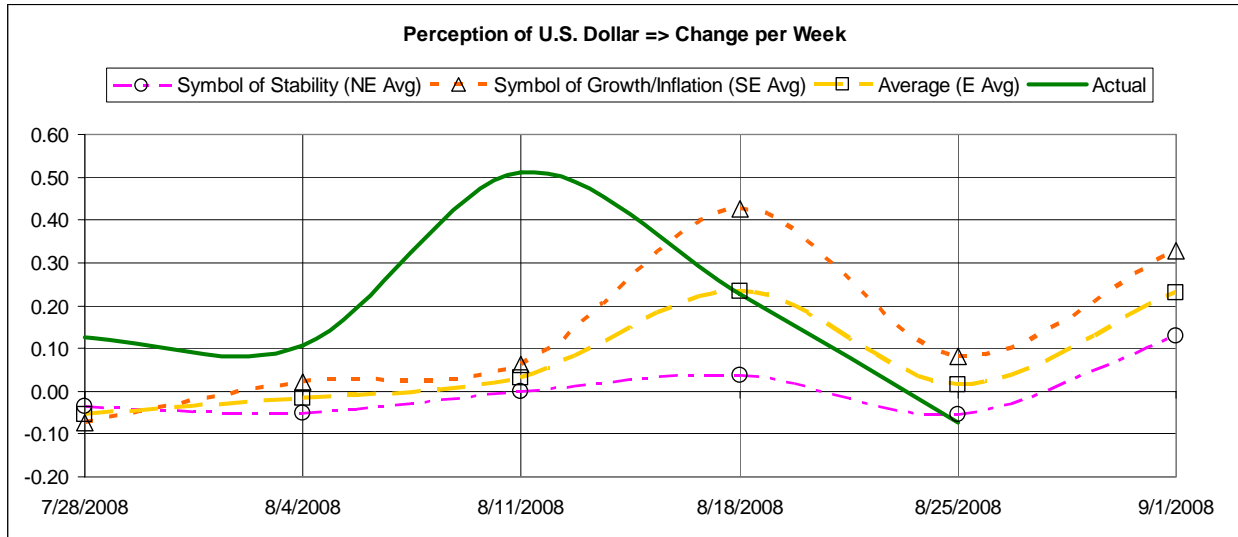
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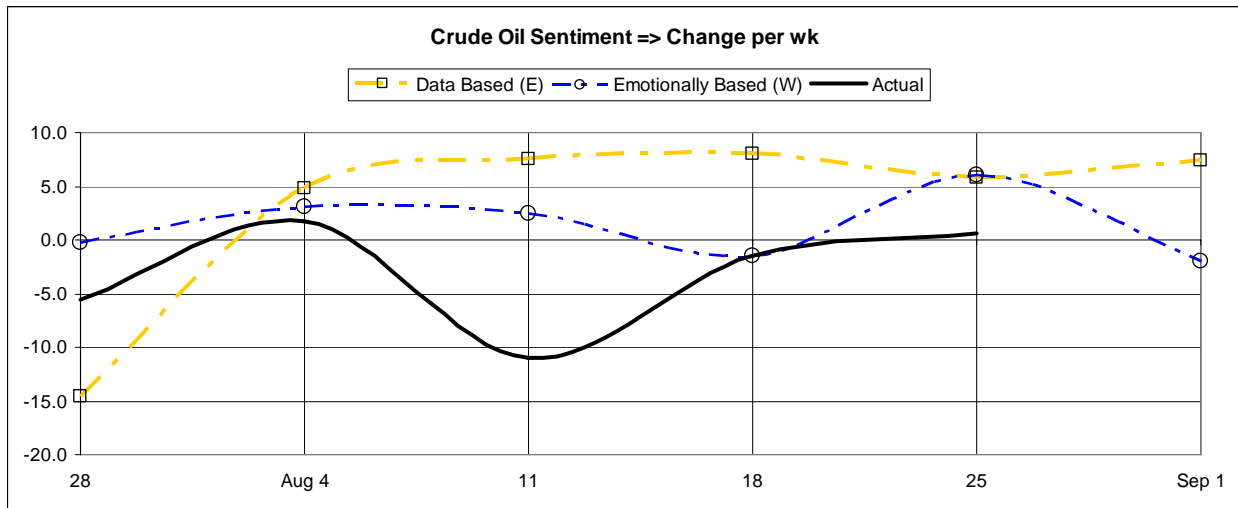
We said: The estimated trend is calculated as the average of the two other lines. Markets should be sideways to up through approximately August 7th. Between August 8 and 20th estimated trend can not be calculated. During this period the survival oriented configuration (high Aggressive and Greed vs. Fear polarity near zero) appears and the trend is “undefined.” Our *best guess* is that the markets will be down sharply. A consolidation period appears when the calculated trend resumes near August 21. Net change for the month should be relatively small.

This shows our estimated S&P trend chart from last month overlaid with actual daily price data (courtesy futuresource.com). We were mistaken about the inability to use our model for calculated trend. The actual price would have followed an average of the purple and orange lines above quite well. We were correct in our assessment that “net change for the month should be relatively small” as so far August S&P movement has been primarily sideways. Following this, movement for the week of the 25th should end down slightly.

How We Did – Comparing our Charts with Actuals



Dollar: We had the direction of trend and rapid climb correct, however the most rapid climb was 1 week earlier than forecasted.



Crude: We were correct in our assessment that this model is still “out of sync,” however it is beginning to more closely correlate again with actual rate of change.

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.

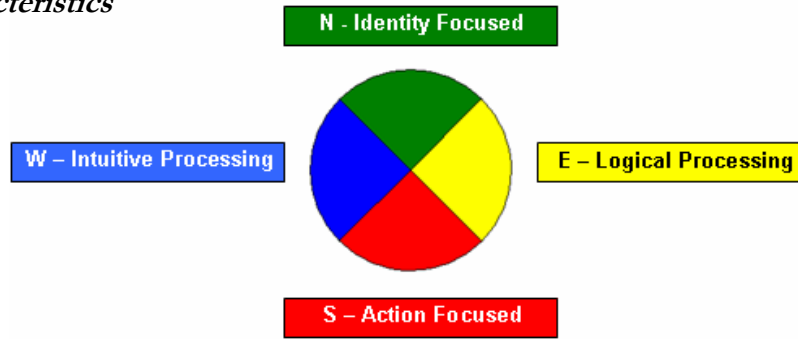
MoodCompass was Born

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

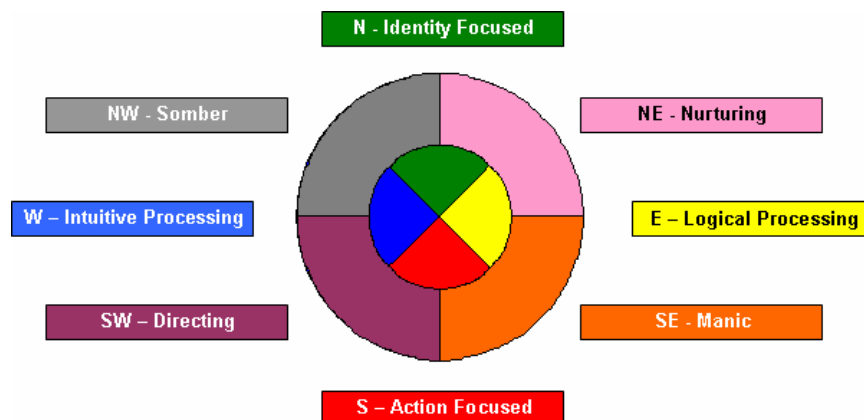


Hybrid Characteristics



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 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.

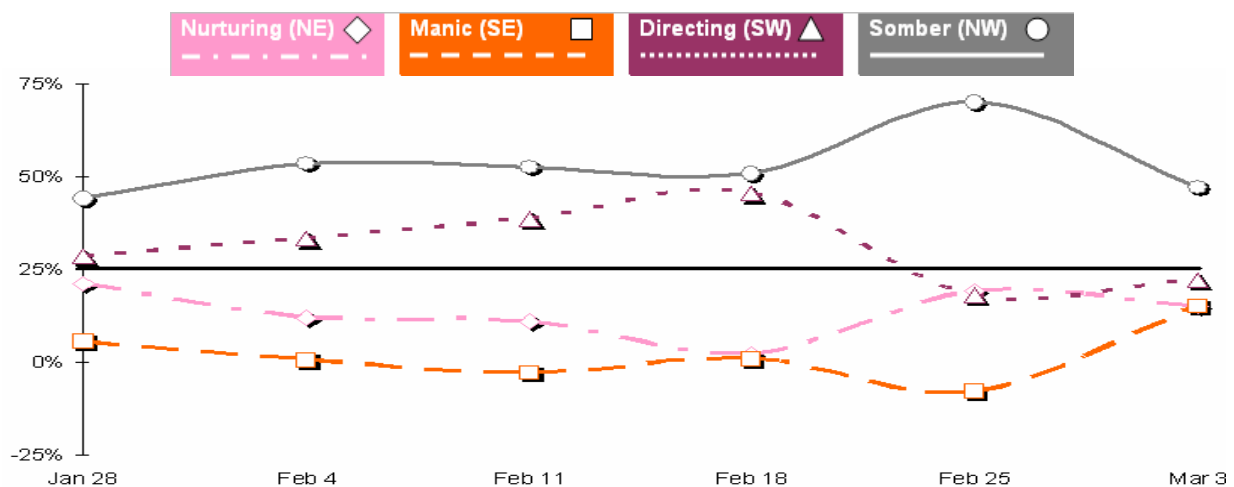
Tracking Profiles Over Time

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>.

In the Mood for \$

This system takes the basic trading plan and adapts it for FOREX. It can be accessed at <http://collective2.com/go/moodforex>.

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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.

