

THE STEWART REPORT HOTLINE

Subscriber Update for the New Year's Market

Monday, December 31, 2007

Leaving Las Vegas

After a month of illness, a lost weekend in Las Vegas and the 28-day treatment program that followed, I found myself sensing a strange empathy for the likes of John Gotti, Martha Stewart and anyone else who has been forced manage their enterprises from a “highly confined environment.”

That's not to say that I was behind bars. I was not. But, towards the end of 2007, I did spend too much time sitting at them, imbibing spirits. Now, those days are thankfully gone. The important thing is that I'm fit and glad to be back in the arena. And, on the plus side, the Z-06 Corvette is back in California, and my winnings at the Bellagio covered most of my rehab expenses.

So, it could have been worse. I even managed to squeeze in a brief holiday. Yesterday, I drove down to the San Diego Museum to see The Dead Sea Scrolls. I had no false expectations. Tiny scraps of parchment will never sport the ancient opulence or royal glamour of the King Tut exhibit – but it was truly inspiring to actually stand before the earliest known record of the Ten Commandments.

If there is any present-day tie-in to this – and I believe there is – it was something I noticed on a timeline the Museum used to illustrate the historical flow of key events and significant writings. The timeline's very first notation was dated 3200 B.C. – that being the approximate year a Chinese emperor wrote the *I Ching*. Frankly, I don't recall the emperor's name well enough to spell it, and I didn't do the best job of memorizing the Museum's overview of *I Ching* – but, paraphrased, it went something like this:

It is important to be observant of the dynamic balance of opposites; of the Yin and the Yang ... to appreciate that the eventuality of events is a process, and to have acceptance for the inevitability of change.

As brilliant as they are basic, these simple truths are 100 percent germane to everything Wall Street. That's especially the case if you follow the timeline 5000 years to the right – all the way to the present – and remind yourself that, relative to the process of change, virtually every major advancement in our mechanized, computerized, industrialized world of common luxury, energy, communication and transportation has been realized in the most recent 100 years.

Anyone reading this now has been born into a remarkable era of change, growth and unprecedented advancement. Each of us has personally witnessed the development of many new technologies, and we have been privileged to know wise elders who were alive to see earlier ones that we missed. To me, it's absolutely fantastic that my great grandmother's father was the town blacksmith, and that she was 12 years of age before she ever saw an automobile.

Even my own father was in middle school before he got his first store-bought shirt. Apparently, for many Americans in the 1940s, you either ordered things from the Sears catalog or made them yourself. So, it's pretty wild to consider that both the sewing machine and catalog shopping were relatively new advancements the same year the first atomic bomb was dropped. Stranger still, a colleague of mine told me that, as a boy growing up on a ranch in Montana, they had a rope tied between the ranch house and

the outhouse. That's so they wouldn't get lost in a blizzard. That conversation took place two years ago on his private jet. No doubt, each of you have similar stories – stories that cumulatively suggest we are living on the crest of the most progressive period in all of human history.

Even more remarkable is the fact that, in America, virtually every modern-day wonder is available to the common man. And not just for his pleasure and comfort, but to invest in and to profit from as well. This is especially true now that we have the Internet. In 2008 A.D., the middle class has access to almost every advantage and opportunity enjoyed by the monied class.

The bottom line? Never in history has the playing field been this level – or this green.

The most lucrative places to play are real estate, precious metals and the stock market. Most would agree that the greatest gains to be made in precious metals have already been made. As for real estate, the days of treating your principle residence like a private ATM machine and playing “Flip This House” with the other properties are all but over. The only thing left will be the final wave of bankruptcies and foreclosures.

You will see that, in 2008, the best place to score the big money will be on NASDAQ – the greatest casino of them all. Of course, if you know me at all, you know it's no surprise that **I** would think that. We could be in the throes of World War III and I'd still find an angle to justify investing in the stock market – mostly because there always is one.

At some point, each of our stocks has enjoyed a good run to the upside. However, net/net, profits have largely evaded me for the last year or two. But, the way I see it, everybody has a couple of bad years.

The important thing is the companies. We have three of them that are poised to strike higher. Indeed, now that the tax selling is completely over, you'll almost certainly see each of them appreciably higher by the end of the week. All three are fairly solid at this point. They're reasonably close to fulfilling their respective ambitions as outlined by management during 2007, yet they're still selling within inches of their 52-week lows. As such, their individual runs should easily carry prices forward through the spring.

Seriously, with just a little luck – and one or two good breaks – we could be looking at a very lucrative 2008.

As for the few remaining hours of 2007, everyone is, of course, out of pocket. The market closed at the usual time, but Philippe Niemetz – the key investor relations contact – left well before the final bell. Ron Stauber – our hand-picked securities attorney for critical SEC filings – is in Palm Springs playing golf. Bill Lopshire – CEO of ICRD – is skiing with his family. Phillip Dascher – CEO of EMFP and the heir apparent at APNN – is with his family in New York. And, perhaps most amazingly, Dr. Joe Cummins, the workaholic CEO of AMAR, actually took an entire day off.

Thus, seasonal absenteeism – coupled with my personal two-month disappearing act – has left me with very few details at this time. In three weeks, though, I will have everything I'll need to give you a good and proper report on all of our positions. Specifically, the next HotLine will be e-mailed, snail mailed and recorded on Monday, **January 21**. Mark your calendar. I will be punctual; that much I promise! In the meantime, here's what I do have:

Emergency Filtration Products, Inc. (NASDAQ/BB: EMFP – \$0.12) – 52-Week High: \$0.92; 52-Week Low: \$0.12; Market Cap: \$5.55 million. Applied Nano owns the intellectual properties, so EMFP is little more than a calling card for the parent company as it approaches the FDA. If you still own this stock, **HOLD**. Once the merger is ratified (three to six months out), you will automatically become the beneficial owner of APNN – commission free.

Applied Nanoscience, Inc. (NASDAQ/BB: APNN – \$0.36) – 52-Week High: \$1.01; 52-Week Low: \$0.34. Market capitalization is yet to be calculated pending aforementioned finalization of the merger. Soon, the Form 10 will be filed, making APNN a full reporting company and lifting the shares from the Pink Sheets to proper NASDAQ status. From recent news releases, we know that the in-house hurdles regarding product safety, shelf life and the proprietary ability to protect against avian influenza H9N2 and MRSA continue to be met. Proper FDA application could be as soon as 45 days away. I view this situation as a strong and immediate **BUY**.

Amarillo Biosciences, Inc. (NASDAQ/BB: AMAR – \$0.29) – 52-Week High: \$1.08; 52-Week Low: \$0.22; Market Cap: Just \$0.68 million. I heard a rumor that a substantial university grant is imminent. Since the only thing AMAR is lacking is the cash to finish FDA trials for its various applications, this would be a very big plus. **BUY**.

International Card Establishment, Inc. (NASDAQ/BB: ICRD – \$0.12) – 52-Week High: \$0.26; 52-Week Low: \$0.05; Market Cap: \$4.23 million. I believe that some very big news could be released as early as next week. ICRD's revenue stream is already strong – approximately \$10 million annually. That's better than 2X market cap, which is almost unheard of in this – or most any other – industry. If the buzz as to a large new card deal is true, this stock will rise rapidly. Either way, it's a steal at or near the current price – and destined to be the focus of a full, eight-page *Report*, as I mentioned in October.

Finally, let my last words of 2007 be to wish you a happy, healthy and prosperous 2008, with a promise to give you current and valuable investment advice throughout the year ahead – and to thank you with the greatest of sincerity for your continued trust, patience and patronage!

A handwritten signature in black ink, appearing to read 'D. Stewart', with a stylized flourish at the end.

Analyst and Publisher, *The Stewart Report*

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