

THE STEWART REPORT HOTLINE

New Year's Eve Bonus Edition – Welcome to 2009!

Overview:

“If you meet the Buddha on the road, kill him.” This would be my advice. A certain mindset is needed if you are to transition from the “warm fuzzies” of the 2008 holidays and prepare yourself for a cold-as-Russian-steel 2009 economy that most investors are simply too terrified to grapple with. This is not acceptable. Fear is easily the worst possible investment stance because scared money never wins.

Scared money never wins because it's always second guessing itself. It's also the kind of money that's most easily exploited.

So, what does this have to do with Buddha?

Well, Grasshopper, for our purposes, Buddha is a metaphor for all the charlatans who want you to believe they know more about your money than you do. Buddha is anyone who professes to know it all. Buddha is anyone with an infomercial airing before 10 a.m. or after 10 p.m. Buddha is the person offering you numismatic coins with a forced British accent, or anyone who tricks your kid into attending an Amway meeting, utters the words “multi-level marketing” or implores you to be a Team Player. Buddha is anyone elected to Congress in the last eight years, any lobbyist for AIG, Merrill Lynch, et. al., who has appeared before Congress in the last eight months – and anyone else who would be morally comfortable in a used car lot. Buddha is every television evangelist ever born; all street recruiters for Scientology; and anyone on Bravo who says they can help can help you buy, sell, fix, finance or flip your house.

There has never been a time in history when great change wasn't accompanied by great opportunity. Run with it. This is no time to be second-guessing yourself – and it's never a good time to let posers do the guessing for you.

'Fortune' Telling

With so many people looking for answers, the prophecy business is booming. The other morning, I saw a five-minute fluff piece on **Headline News** noting a remarkable shift in the number of people going to get their palms read, their tarot cards read, tea leaves deciphered – you name it. If it looks like tomorrow's paper, they want it interpreted.

According to the Madam Zelda-types HLN interviewed, this is typical during bad economic periods. But, what's far from typical are the questions being asked. Even during the worst of times, people almost always want to know what the future holds for their love life. Not today.

Today's questions are focused on tomorrow's finances. Things like: “Will I get laid off?” ... “Will my house sell this month?” ... “Do you think the finance company knows where I hid my car?”

Which is all very stupid. It's stupid to ask a psychic these questions – and it's even more stupid not to already know the obvious answers: “Of course,” you will get laid off. “No,” your house is not going to sell – not this month; not even in the coming year. And, if you think Santa Claus is good at knowing stuff, then you've never dealt with a finance company – so, “Yes, Virginia, there is a Repo Man,” and he's going to find your Beemer. Probably before the sun sets on New Year's Day.

Be that as it may, if there is anything important you can take from some of this, it's the idea that you shouldn't let this Horror Show called a "weakened American economy" allow you to become weak yourself. Don't allow the media's almost mindless opinions to become your opinions – or look too much further than yourself, your family and your faith for solutions.

True, it's a very, very difficult environment right now. This economy will be a very long time recovering. If you don't have staying power, find it ... One way or another, just find it! Staying power is all you really need because the ability to act and to think long term is – as it always has been – the key to financial strength for those who can think for themselves.

Today is a wonderfully ugly, horribly unique, frightfully opportunistic *moment* in history. If ever there was a time when the average guy could pick up 40,000 or 50,000 shares in two or three companies – trading for a just a few cents – and then sell those same shares for a couple bucks each, this is it.

Penny Stocks Re-Defined

In the bloody aftermath of all the bad luck, bad decisions, poor planning, leveraged buyouts, failed industries, criminal activities, corporate excesses and unbridled greed that crippled the economy and made 2008 the worst stock market year in decades, penny stocks are now almost as common as pennies themselves.

Even a number of formerly elite Blue Chips are now, quite simply, "Blue Cheap." Boise, Avigen and Citadel Broadcasting are all trading noticeably under a dollar a share, while time-honored names such as Sun Microsystems, Liz Claiborne, AIG, GM and Ford continue to drift precipitously closer.

This being the case, you must first appreciate that – regardless of a similar share price – a small, emerging-growth company and large company that's failing are two different animals entirely. One is like a feisty kitten with ready access to steroids and a keen ambition to become a "Lion King," while the other is like a tired Clydesdale from a '60's Super Bowl spot, now on its way to the glue factory. In short, one has a future; the other has only a past.

Looking forward, I'll take the little company every time – especially when the time is now.

Large companies are spread far afield. U.S. multinationals have their fingers in a great many pies, in a great many countries. But, since the recession is global, the whole world must turn around before they can turn around. That will take a great deal of time.

Even if we were somehow insulated from international misfortunes, the credit markets would have to loosen up, the housing glut would have to be absorbed and commodity markets would need to stabilize. For a turnaround to start in earnest, the demand for automobiles, technology items, luxury goods and million different types of consumer non-durables will have to be revived, as will consumer confidence. A sustained appetite for something other than all of the world's whiskey to wash down the grim reality facing each of the emaciated service sectors – including the restaurant, hotel and travel industries – will have to be created. That can't happen until jobs are created – jobs that are dependent on everything just mentioned.

And so it goes, 'round and 'round ... Unless you are super-small and absolutely unique.

One contract, one U.S. patent, one FDA approval, a single new product design, a buyout offer ... Overnight, any of these things – and a thousand others – can turn a micro-cap into a big-time money maker. This is why tiny companies are so exquisite: They can do amazing things in the blink of an eye. Those who own a piece of the action can realize huge wins in just a little time.

And, while a relatively small event can completely rearrange the value of the investment, the investment itself isn't necessarily tied to the larger situation. Let me explain by example:

International Card Establishment (NASDAQ/BB: ICRD – \$0.03) is in the bankcard business at a time when everyone's Visa is maxed out – probably because it's being used to make the minimum payment on their MasterCard. (The Amex card was cut up months ago.) Worse still, ICRD's particular bankcard niche is the Gift & Loyalty sector – a sector that's 100 percent dependent on retailers – the same retailers who just recorded their worst holiday season in 40 years. Even so, the Company's income statement and balance sheet have never looked better.

That's not an analyst's opinion; it's a mathematical fact. And, if the Company manages to capture even a fragment of a sliver of a tiny chip of the smartcard action in Europe, look out! It doesn't matter if the whole of a \$50 billion industry is in the tank when all you need to double your revenues and probably quadruple your bottom-line earnings is a measly \$3 million extra quarterly.

Strange Perspectives

Personally, I find it intriguing as hell to find myself buying companies with current per-share prices that might be smaller than next year's per-share earnings! To me, that's an intelligent game to be in – and it doesn't take much money to play.

A similar statement could be made relative to the place of **Amarillo Biosciences (NASDAQ/BB: AMAR – \$0.06)** in global pharmaceuticals; or the role of **Applied Nanoscience (NASDAQ/Pink Sheets: APNN – \$0.09)** in the burgeoning new world of nanotechnology. Before the first HotLine of 2009 is published, you will see my share positions in all three stocks appreciably greater – especially in APNN.

Cumulatively, these three companies are poised to participate in a trillion dollars worth of global industry. Cumulatively, their market caps total \$5.1 million. Put in perspective, that's about one-sixth of the \$30-plus million that has been invested up to this point in their combined patent and technology portfolios. For those of you with an interest in ethical investing, it's also \$4.9 million less than the \$10 million bonus Merrill Lynch's CEO tried to give himself (on top of the \$15 million signing bonus he took less than two years ago) for losing \$9.8 billion in the fourth quarter of 2008 alone.

Which brings me to the subject of managerial style. It's a short subject: Most captains of modern industry don't have any. Of those that do, I can think of several who would have done less damage if they were at the wheel of the Exxon Valdez, and would have killed fewer investors if they had piloted the Titanic. Of course, that's just part of why I prefer speedboat drivers to those who command tankers or luxury liners. Oh, sure, they have their share of Labor Day weekend mishaps, but at least these boaters are rarely guilty of anything more than inexperience or exuberance – mistakes I find infinitely more palatable than self-absorbed acts of runaway avarice and pre-meditated malice.

Besides, the right speedboat can go from a standing start to 80 m.p.h. in a financial heartbeat and turn on an economic dime. By comparison, if you are looking for a vehicle that can start, stop or change directions quickly, ships are not for you. I've seen tobacco suits have been settled in less time than it takes for one of these monsters to turn around. And that was when they had warm winds at their back, and the seas were smooth and green-deep in cash. Not anymore.

Again, the only craft that can chart a new and direction turn around fast are those that are light and nimble. It's just a shame a theorist like Einstein isn't here to explain things properly because ship performance and design – same as the modern investment equation – is clearly, somehow, a function of velocity relative to mass. But he's not, so we're each left to our own ideas and experience ...

Mine has taught me that true penny stocks of very small, truly entrepreneurial companies will give you, by far, the biggest bang for your buck. That's especially true in today's market, where money is tight, things are changing rapidly and management needs to be accessible to the shareholders – not just the directors.

Finally, and just as importantly as anything discussed thus far: The investment must have the potential to turnaround rapidly – and independent of the national or global economy.

To that end, penny stocks are your best bet for 2009. May your year be as profitable as it is healthy, joyous, and entirely progressive.

As always, thank you for subscribing – and, once again, have a Happy and Highly Prosperous New Year!

A handwritten signature in black ink, appearing to read "J. David Stewart". The signature is fluid and cursive, with a prominent initial "J" and "S".

J. David Stewart

Analyst and Publisher, *The Stewart Report*

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