

THE STEWART REPORT INVESTOR HOTLINE

Monday, November 3, 2008

Overview:

In a nation ruled by swine, all pigs are upward-mobile – and the rest of us are fucked until we can put our acts together: Not necessarily to Win, but mainly to keep from Losing Completely. We owe that to ourselves and our crippled self-image as something better than a nation of panicked sheep ... but we owe it especially to our children, who will have to live with our loss and all its long-term consequences.

– Hunter S. Thompson, “*The Great Shark Hunt*”

It doesn't seem right, or fair, or even *believable* that something written in the aftermath of the Vietnam war, the rape of America by OPEC and all things Nixon would be just as poignant in the final days of 2008 as it was 30 years ago, when Thompson wrote it. But here we are ...

Apparently, the only thing that's changed is the name of the country we have invaded, and the president who sent us there and the congressmen and senators who voted for it. The current generation of great American fat cats has turned almost every sector of the U.S. economy completely inside out, leaving one in five homeowners with mortgages that are upside down.

Fortunately, they're still “considering” our energy alternatives. While we wait for the committees to sort that one out, some of the brighter boys are working to penalize Exxon because it dared to earn 25 percent after tax. (As everyone knows, only Microsoft is allowed to do that.) Taxing the hell out of successful American oil producers will teach the Saudis an important lesson and put us on the road to energy independence. In the meantime, the rest of us are left to vote for someone to lead us out of the whole wicked mess.

Sadly, there's not much to choose from. The political pundits say the election will be decided by those who are still undecided. A record number of voters fall into this category, and it's easy to see why. Except for wide-eyed college students, repressed blacks and clueless celebrities, it's hard to imagine anyone truly enamored with their presidential choice. Obama is favored to win because Obama promises “Change.” If more government, more government spending, more government services and higher taxes to pay for it all is, indeed, change, then Obama will surely provide it. As for McCain, I don't know what to think – but neither does he, so that's probably okay. Besides, a vote for him is really just a vote against Obama, and maybe – as voters – that's the best we can do.

As investors, however, we can do much, much better.

Even if things haven't changed much in the last 30 years, the market has. In 1979 – the year Thompson published *The Great Shark Hunt* – the Dow Jones Industrial Average was around 900. Today – even amidst all the turmoil, all the negativity, the fear and all of the resulting losses – the DJIA has still risen better than ten-fold. In short, the idea that, “The more things change, the more they stay the same,” is a truism for mankind – not the markets. As long as our markets are free markets, we will prosper. The best way to participate in free-market prosperity is through the market itself. You do this by buying shares in undervalued stocks. And, what better time to find undervalued shares than during a really bad market?

Don't wait! That's the advice of America's richest man – a man who made his billions solely by investing in securities during some very insecure times ... Mr. Warren Buffett. A couple of weeks ago, he pointed out that, “the people who lost money buying equities in the 20th century were those who only bought when they felt comfortable doing so.” He added, “Bad news is an investor's best friend.”

If you wait for the news to turn good before you buy, then you missed the entire point.

The lion's share of *The Stewart Report's* income comes from owning the stocks I recommend – and then being right. If you have a couple hundred thousand shares of a 10-cent stock that goes to a dollar, it's not a bad living. It's been a while since anything like that has happened so, like many Americans, I “dipped” into my savings using the financial equivalent of a seven-ton backhoe. It wasn't pleasant.

I tend to burn through money like a junkie tears through coke. By my late 20's, I realized that, for me, savings had to be fairly illiquid, otherwise they didn't stay saved for very long. I was in real estate for years, but took my own advice from the Christmas HotLine of 2004 and sold. That was fortunate, of course – and so was my transition to car collecting. As far as savings accounts go, you can't beat 'em. Monthly drives are far more pleasant than monthly statements. The transition from real estate was easy because, as a friend explained, "If worse comes to worse, you can always sleep in your car – but you can't drive your house." Real thinker, he was. Anyway, my "nest eggs" sit, not in bank accounts, but in garages – though three of them are now vacant.

First, I sold "Lisa" – a fairly rare silver on white, Ferrari C/4, which I used to pay off all debt. I doubled my money, but only 500 C4s were ever made, meaning it will be almost impossible to replace and I'll likely pay up for it when I do – regardless of the economy. From an investment standpoint, this is very much worth noting. You must be very aware of the production numbers for classic cars – or anything else in which you choose to invest.

The best way to gauge potential demand (and therefore potential appreciation) is to weigh it against availability. Sometimes the number made is finite, as with steel-bumpered Ferraris, original Picassos, etc. Over time, they have no place to go but up. The same logic holds true in real estate. California beachfront properties, over time, are a can't-miss proposition. The rich are always rich, and there will always be more dollars than property. On the flip side, one of the biggest problems facing the housing market is the huge backlog of unsold properties. Tens of thousands of tract homes that are already on the market – and have been for months – will have to find buyers before prices can begin to recover. That will take a very long time.

With stocks, the key figure – relative to the known supply – would be the number of shares issued and outstanding. This number is particularly critical in small stock investments. Emerging and developmental-stage companies are always looking for money. More often than not, they are forced to trade too much stock for too little cash and completely dilute the value of shares already outstanding. Your slice of the pie becomes proportionately smaller, therefore less valuable – and, eventually, a greater number of new buyers will have to be attracted to the stock for it to climb. Along that vein, one of the more impressive things about **Amarillo Biosciences, Inc. (NASDAQ/ BB: AMAR – \$0.10)**, is that – despite the tremendous costs associated with its ongoing research efforts and expensive process of securing international patents, year after year – AMAR's total capitalization has remained virtually unchanged (around 30 million shares for as long as I've been following it). That's because the potential for oral interferon as a drug is mammoth, and bigger companies have covered most of Amarillo's research costs virtually every step of the way.

Albeit for entirely different reasons – and except for a poisonous funding too far back to remember – **International Card Establishment, Inc. (NASDAQ/BB: ICRD – \$0.04)**, has masterfully managed to hold steady at 35,286,000 shares for several years now ... Unbelievable, really, considering that ICRD is tied to the bankcard industry and most people's bankcard debt is no more enviable than their mortgage. As for **Applied Nanoscience, Inc. (OTC/Pink Sheets: APNN – \$0.05)**, it's too early to know what the market capitalization will be because the merger with EMFP is not complete – or even close, from what I hear.

Wave Bye-Bye ... Then BUY!

The second car I sold was my beloved Ferrari Dino 246 GTS. She wasn't a 12 cylinder like the C/4, nor was she quite as rare (from memory, 1,074 copies were made), but the 1974 Ferrari Dino is much more valuable all the same. This model – and the Jaguar E-type Series III of the same year – were probably the last two cars ever produced with more curves than Marilyn Monroe. Just like Marilyn herself, there will never be another. I bought the key chain for the Dino when I was 16 years old, but it took me until age 44 to match the key chain to the keys themselves. Her name was "Mia" – short for Mia Toto Mia, or "Mine All Mine." (Not any more ... Waaaa!) It's a shame – but you can't allow yourself to be emotional about your investments, even if they're investments you love. Besides, the monies from that sale will buy me several months staying power to continue funding *The Stewart Report*. *The Stewart Report* keeps me focused on the stocks – and the stocks are what paid for these cars in the first place.

I led hundreds of investors into these stocks, and I intend to stay in business long enough to lead them out – profitably! Since I'm one of those several hundred investors, I will continue to take my own advice and buy additional shares in all Stewart Stocks. In fact, I've already started. Since the last HotLine of Sept. 16, and the

subsequent sale of the Dino Ferrari on Saturday, Oct. 4, I've increased my position in each of The Stewart Stocks, as follows:

Amarillo Biosciences, Inc.: From 25,000 to 174,000. **Applied Nanoscience, Inc.:** From 50,000 to 90,000.
International Card Establishment, Inc.: From 365,000 to 510,000.

That was a very weird and hellacious 45 days, as all of you know. The general market swings were insane; the VIX was posting volatility numbers that nobody thought possible; most everything went down, including O.J., while everything else was either bailed out, merged or sold. With the political commentators talking about economic theory, the stock market analysts speaking with false authority about the elections, and morning entertainment hosts passionately explaining the mortgage crisis, there was so much hired bullshit floating around that, by early October, nobody knew what to think.

Frankly, neither did I, so I decided to just do what has always worked in the past – which is to simply do the opposite of what everyone else is doing. So, I began buying shares.

During the same above-referenced period – between Sept 16 and Friday's close – AMAR declined in price by 44.4%. My ownership increased 596 %. APNN fell a precipitous 64.2%. I increased my stake by 80%. ICRD was unchanged, but at a mere 4 cents! I boosted my position 39.7%. During the process, I learned a few things that I should share with you now. Even though October was one of the worst market months of the past century (the absolute worst for the Dow Industrials), none of these stocks was easy to buy. Not in size. Especially Amarillo Biosciences. This surprised me – but it shouldn't have. Each stock fell on very little volume, so it's only logical that they were difficult to buy in size.

Looking forward, it's just as logical to think that very little buying could drive them higher. That will take some news – and, at present, there simply isn't any. As in none. And I really thought there would have been by now! That's why I tentatively scheduled this HotLine for release “circa October 10,” and had Jim print the envelopes a week before that. But, I called everyone at least once a week for five or six weeks, and no luck.

By Friday, I was so desperate that, if **Tom Allen** had told me he got a bad haircut or **Dr. Joe Cummins** said he had found a new steak house or bought a pair of shoes – or even some Dr. Scholl's gel inserts ... anything, man – I would have printed it. However, this was not the case, so I will follow the fine precedent set by network TV professionals and just make up scenarios as I go along. Here's a brief one for the stock I'm now most interested in accumulating more of:

Amarillo Biosciences has had **Dr. Peter Mueller** on board for several months now. Mueller is a notorious deal maker with big connections in important public and private bio-pharma companies all over Europe. He is working for Amarillo Biosciences almost exclusively – and he's working exclusively for stock. In return, he's asked only that Dr. Cummins allow him to focus exclusively on COPD, a malady with a current annual worldwide cost of \$31.4 billion – and an estimated \$800 billion tab over the next 20 years. Mueller is absolutely convinced that AMAR's oral interferon will be the preferred drug for this worsening condition. In his first week as Amarillo's chief operating officer, Mueller directed a series of presentations in New York aimed at raising venture capital. By all accounts, the meetings went swimmingly. Mueller has also used his influence to hold several meetings since – and they reportedly all went very well, too.

But, to date, not one penny has been raised. Mueller is suddenly very tight-lipped, as is Dr. Cummins – very uncharacteristic for him. He wouldn't tell me anything – (his exact words were, “Leave me alone just this once; you're too good at prying things out of me.”) – but he was in a terrific mood. I also learned a couple of weeks ago that Joe sold his house – which, believe it or not, may actually be relevant. If you knew Joe Cummins as well as I do, you'd know he loves Amarillo, Texas, as much as the Company he named after it. And, if you appreciated Mueller's reputation as much as everyone in bio-pharma does, you'd realize that he could have raised a couple of hundred thousand dollars in the first 15 minutes he was in New York. After putting those thoughts together, I'm thinking Joe is moving the Company. He's considered this several times in the past as a way of earning big government subsidies, sizeable relocation grants, total access to university research facilities and grad students, and all the other perks associated with such a maneuver. Additionally, since Dr. Mueller has not raised even a small amount of money, I'm thinking he's going after millions.

Like I said earlier, Joe is masterful at avoiding dilution. So, if I'm right and the Company has found a rich uncle, the uncle will likely provide the cash in return for licensing rights – not stock. Either way, the stock has been so

overly victimized by the general market sell-off that, if I didn't know better, I'd think Amarillo Biosciences was a consumer-goods retailer that also offered luxury 6-liter, 8-passenger SUVs and had a mortgage banking division pushing those "easy, low-interest, no-money-down home loans with a small balloon payment near the end that will be easy to make because you can always borrow against the equity of your home since it's the biggest ATM machine in history."

But it's not. It's Amarillo Biosciences, a biopharmaceutical Company on the verge of greatness, a Company whose stock is not at all easy to buy – which tells me it probably should be bought.

A Real Sweetheart Deal

Sorry not to have anything concrete for you – but hopefully there'll be some good stuff for the next HotLine. That's tentatively scheduled for December 1 – sooner if something important comes up. Beyond that – and as a personal note only – I do have one other strategic sale worth reporting: A few days ago, I sold "Melissa" (actually, I traded her for some cash and a 1957 T-Bird).

Melissa was a black Ferrari Testarossa with biscuit leather. I bought her from my securities attorney, **Ron Stauber** – and I named her after **Melissa Montgomery**, his valued legal assistant, whom I met during the transaction. But, before we signed the papers, Ron phoned out of the clear blue to tell me it would be better if I didn't ask her out. So, of course, I asked her out – forbidden fruit and all that. You know what I'm talking about ... I had no choice. Right? Right.

Anyway, that was three years ago – on November 17, 2005. We've been dating off and on ... and off and on ... and on and off ... and so forth, ever since. Finally, I couldn't take it any more, so I used the proceeds from the sale of the first "Melissa" to buy an engagement ring for the second one. My editor, Larry Spears, will be the Best Man. Ron Stauber, the guy who warned me not to take her out in the first place, will be the one giving her away. That will be at The Bellagio – on November 17, 2008. (Poetic, huh?)

Of course, The Bellagio has been hitting my credit card like a slot machine ever since. It's something new every day. Yesterday, it was an extra hour with the photographer ... big yawn. The day before, it was some woman who plays the harp ... big expensive yawn. Who knows what it will be tomorrow. Already, I'm logged on at broke-to-pieces.com – and I still have to buy a tux, a dozen or so airline tickets, almost as many hotel rooms for the guests and Lord only knows what else.

But that's nothing. The worst part was telling the car guys I traded a Ferrari Testarossa ... for a Wife and a Ford. Not an easy thing to do. Fortunately, I was able to fall back on my training as an analyst: Ferrari made 7,177 Testarossas, but there's only one Melissa Montgomery! Like I said, you must always consider the "Total Number Produced."

Sincerely,



J. David Stewart

Analyst and Publisher, *The Stewart Report*

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