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Two questions and two answers regarding the future of the U.S. investing environment

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There are only two answers I care about right now.

And the questions that go with the answers that I seek are "What will be different about the investing environment for the foreseeable future?" and "Will Europe and China improve faster than will the U.S. economy erode from rising interest rates?" Oh yeah, things are pretty serious when we need to rely on one economy that is a basket case and the other entering the black hole-like gravitational pull of economic maturation.

First, I don't become negative or positive about the economy or financial instruments from a feeling. (I hate the expression "I have a feeling.") But I do form an interpretation from data.

1. Like muted reactions to earnings beats, intensified reactions to earnings misses, national retailers telling us consumers are cautious, new home sales disappoint, declining mortgage refinancing, and when stocks have bad breadth (when a smaller group of stocks push the major averages higher while a lot of stocks technically breakdown on the charts).

2. I have never read anything that is specific about what percentage of the stock market rally was due to QE and what percentage was due to fundamentals. Even the most bullish of bulls are pulling in their horns because it is an unknown. And it is probably something many don't want to face. I have little doubt that it is a combo and the answer is below where we are now. I also don't really see much value in recent charts since they were formed during this unusual period.

3. The money holding up U.S. equities right now is emerging market cash running into the arms of American equities as a flight to safety. An analogy is that back in late '99 and early '00, many small tech stocks were retreating rapidly but the money was finding a home in CSCO, LU, MSFT, INTC and a few other mega-cap techs stocks as a flight to safety within the sector. It was the pure definition of bad breadth. I think this is happening now regarding the relationship between emerging market equities and U.S. large cap equities. I am not calling for another 2000 or 2007 market crash; this is not my forecast. I believe stocks need to find the equilibrium between fundamentals and Fed intervention, which is very different than believing the global economy is on the verge of another collapse.

4. The canary in the coal mine to me is JPM. 50 is the critical level, sort of like a PMI for investors. Below 50 and we are seeing the financial sector in contraction.

5. The retail fixed income investor is the biggest loser in all of this. So much junky fixed income products were heaved at them in the name of safety and income, that they are already stuck. Unfortunately, the preponderance of retail investors deals with loss of value by waiting for their securities to come back. But unless the yield on the 10-year Treasury drops to 1.6% again, they're toast. This isn't to say that a defined asset allocation model of equities and fixed income should be thrown out the window, just that for those who gorged on fixed income packaged products and

non-traded financial products, may be permanently stuck in a lowered quality of life.
6. As emerging market stocks and currencies disintegrate, the central banks of these countries (China being the exception) are going to blow their foreign reserve assets very quickly. Plus, if they raise interest rates or put in capital controls, they damage their local economies (by causing recession) and turn off foreign investors just when they are needed most. This doesn't take away the thesis of a giant emerging economy middle class that wants to live more like us, but it sure can slow things down for a few years.
7. Europe is showing signs of recovery. But outside of Germany, the negative picture hasn't improved much. It helps companies that export to Europe, so there's a plus.
8. Too much reliance on second half strength in the U.S. economy is a dangerous thing. If we get it - it probably won't be great. If we don't get it, we still get tapering. We could have rising rates in a slowing economy. That is the biggest danger we face. It'll mean we are out of bullets. I guess we could get something out of our politicians regarding productive fiscal policy, but I don't rely on fantasy in forming my investment thesis.
9. Banks are raking in the profits, but strip out gains from reversing loan loss reserves and it isn't as great as it looks.
10. Gold investors could be further hurt by capital controls put in place by India on the yellow metal.
11. New Fed head, Obamacare, and Syria introduce more uncertainty. This is not a call on whether or not these issues work out well or not, just that at least we won't have long to wait to see.

The bottom line is that the easy money of just buying blue chips that pay dividends is clearly over and the sooner investors realize this, the better for it we'll all be. I would be remiss if I were to leave out the positives I see; abundant domestic energy resources, a replacement cycle in housing, passenger and commercial vehicles, cash rich balance sheets, a well reserved banking sector, and improving but nascent economic stats out of both Europe and China. But those two regions are not enough to pull us along with them; helpful yes, but far from a cure-all. Plus, if the stock market does in fact continue to retreat, then that alone could help to introduce new opportunities. Anyhow, that's one answer.

I am not getting out of stocks. I am changing the stocks I am getting into. There are creative stories, underfollowed stocks, M&A candidates, new FDA approvals, replacement cycles, and maybe even the next Google. The stocks that are currently holding up well are the ones that interest me the most. But now investors and the professionals they entrust their money to have to work harder to find these stocks and they have to be much more patient going forward. I believe this is the environment we're in and it'll be that way for a long time. That's the other answer. Personally, this is the environment that attracted me to the business in the first place. Finally, when you hear it is a stock picker's market, it'll actually be true now.

the amount you invested.

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