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2013 is now one for the record books – and if you were like most diversified investors, the year turned out to be a pretty good one. Just about every developed market in the world turned in pretty impressive numbers. The US, as measured by the S&P 500 index was up over 30%, Europe rebounded smartly and Japan's stock market finally caught fire with close to a 50% jump. One of the laggards, unfortunately, was Canada – which barely squeaked into double-digit territory. Bringing up the rear were Emerging Markets at close to -10% and bonds, which declined in value as interest rates began their long-expected ascent.

The $64,000 question, of course, is where we go from here.

I don't think I've talked to anyone in the investment industry who would be surprised at a bit of a correction taking place over the next month or so. It's been a long time since our last correction (ie a 10% pullback) and markets rarely go up in a straight line. At the same time, history tells us that unusually good years in the market (2013 was the 6th best year for the S&P 500 since WWII) are typically followed by positive years – not significant pullbacks.

In addition, the fundamentals of the current market environment would tend to back up the bias for another decent year. First, the "$64,000 question" is still pretty much the $64,000 question – it's not the $70,000 question or the $84,000 question. Inflation is virtually absent from the developed economies of the world. That allows central bankers to keep interest rates low without worrying about inflation (in fact, many are now trying to bring a bit of inflation back into their economies). And when inflation and interest rates are low, stock multiples can expand (stocks go up) because investors are more confident that a $ worth of earnings in the future won't be eroded away by inflation.

A second vote for a continuation of the market rally is, ironically, that economic growth has been quite weak. Normally, four or five years after a recession, the economy is firing on all cylinders and central bankers start thinking about when the brakes need to be applied. This is clearly not the case now - we're likely years away from "tight money". It's that tightening (typically causing short-term rates to rise above long-term rates) that leads to recessions and bear markets.

And finally, another market driver is corporate profitability - and the huge pool of cash that still makes up a large part of many company's balance sheets. For a variety of reasons, this cash has not been channeled back into hiring new employees. Instead, it's sitting there, waiting to be deployed in share buy backs, dividend increases and mergers & acquisitions – all of which tend to drive share prices higher.

So, while we may see some volatility in the immediate term, our call is to stay invested - stocks still appear to have room to move higher over the course of the year.

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There's Wealth in Our Approach.™