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Do 2013 market gains forecast the same for 2014?

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The Dow Jones Industrial Average increased more than 26 percent over the course of 2013 and closed strongly in the waning hours of Dec. 31.

But does that mean the market will continue to see gains in the coming year? The answer is an unqualified "perhaps."

Historically, in years when the market has increased more than 22 percent, it does not keep up that pace in the following year. In addition, there were a number of factors that influenced last year's growth that may not continue through 2014.

For starters, the monthly $85 billion plus bond purchase funded through the Federal Reserve has been reduced slightly, and while that didn't cause so much as a hiccup in the market, seasoned investors nonetheless will be keeping a wary eye on "quantitative easing" for the coming year.

The reduction in the Fed's economic support was prompted to some degree by positive economic indicators, and foremost among these is the housing market, which itself benefitted from efforts to reduce the foreclosure backlog. Nationwide, housing prices increased by about 10 percent last year, but while a further increase is expected in 2014, again, not by as much.

Overall the economy improved in 2013 and many analysts expect continued growth, but that improvement was not of the "wow factor" variety. In 2014, while continued improvements are forecast, they are not expected to be remarkable either. Actually, while there were positive and improving economic indicators throughout last year, there also were some signs of confusion.

In my opinion, foremost among these was the week-by-week, month-by-month reporting of unemployment figures. The reports prompted regular and ongoing debates over whether the job market is indeed growing, and people are going back to work, or if huge numbers of workers are simply leaving government unemployment rolls.

A further subset of the employment/unemployment debate is whether the types of job gains that are being reported are of the fulltime steady income producing variety, or part-time jobs held by workers who barely remain in the workforce. And the issue of "real" unemployment numbers easily spills over to the subject of the gorilla in the room — Obamacare.

Some analysts who hold to the theory that government unemployment numbers are not accurate because they don't take into account people who have exhausted their benefits or are "underemployed," also tend to consider Obamacare a new anchor on economic growth. The accuracy of that position appears to wax or wane depending on individual political beliefs.

Nonetheless, there are many political factors that must be considered in 2014, the impact Obamacare will have on jobs and the economy being one of them, and continuing debates over the debt ceiling being another.

When all of these factors are considered it becomes clear that 2014 essentially has good news for investors, but that is "good" with an asterisk and that asterisk means caution. All in all, 2014 appears to be a year when a diversified portfolio — one which takes growth in overseas markets into account — is the best approach.

That may appear to be an overly cautious prediction, but when was the last time you heard of a successful investor whose motto is "Fools Rush In?"

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