The stock market's race to all-time highs has impressed and surprised many on Wall Street. But these days even bulls are wondering whether the rally has gone too far, too fast.

Before it registered a modest pullback on Friday, the Dow Jones Industrial Average had recorded 10 straight days of gains and hit a string of record highs. Meanwhile, the Standard & Poor's 500-stock index climbed to within two points of its own record. Even after Friday's pullback, which saw each index slip by 0.2%, the Dow is up 11% this year, while the S&P 500 has gained 9.4%.

With seemingly little on the horizon to alter the near-term outlook for the economy, corporate earnings or Federal Reserve policy, so-called market technicals are dominating the picture.

On that front, chart-watchers are split.

Some argue that based on the declining number of stocks hitting new highs, and the major stock benchmarks' divergence from their longer-term trends, the rise has been too steep. They also worry that sentiment among investors has grown too optimistic.

That, they say, suggests that like a rubber band, the market will snap back to a trend of modest, if less spectacular, gains. But in the process, investors could forfeit some of their recent gains.

Relax, says another faction. These more bullish readers of the tape say there could be a pullback after the past few weeks' steep climb. But they argue that the broad participation of many different parts of the stock market is evidence that any retreat won't last long, and should be used as a buying opportunity.
The debate is over the degree to which investors should take some chips off the table.

"Nothing goes straight up or straight down forever," David Kotok, chief investment officer of Cumberland Advisors in Sarasota, Fla., wrote in a note to clients last week. Mr. Kotok's group, which manages $2.2 billion, raised cash holdings in some client accounts.

Mr. Kotok thinks the longer-term bull market is intact. However, he wrote, "Most measures of market movement, sentiment, direction, and momentum have reached levels of intensity that approach extremes."

For individual investors, the lights seem to be flashing green. Mutual funds specializing in U.S. stocks—including exchange traded funds—took in roughly $3 billion, according to Lipper Inc. That marked the 10th straight week of inflows.

On Thursday, a weekly survey by the American Association of Individual Investors showed bullish sentiment among its members rising by its largest amount since July 2010. About 45% of respondents said they expect stock prices to rise in the next six months, from a two-year low of 28% just two weeks earlier.

But Walter Zimmermann, a technical analyst at brokerage firm United-ICAP, is among those who argue the market is due for a fall. He foresees a major correction that could exceed 20%.

"You want to see stocks move at a steady pace higher, not burst higher," he says. "A market that explodes higher makes itself vulnerable to an explosion on the downside."

Making Mr. Zimmermann nervous are indicators such as the relative strength index, which looks at the speed and magnitude of stock-price movements. To Mr. Zimmermann, the upward momentum in stocks is reminiscent of the readings in February 2011, just weeks before the Dow began a summer slide that erased 17% amid a flare-up in Europe's debt crisis.

"The last time the market was this overbought, it was a setup—a prelude," Mr. Zimmermann says.

Adding to his worries, the Market Vane indicator, a measure of advice given by professional investment advisers, has been showing about 70% of advisers bullish on stocks. During the technology-stock bubble in 1999 and 2000, the indicator topped out at 61% bullish; at the market's 2007 highs, about 69% were bullish.
"That kind of bugged my eyes out a little," says Mr. Zimmermann, who has recommended clients not put more money into stocks. His advice to clients: "Make believe you're in the middle of a river walking on ice, and you're starting to hear cracking sounds."

Some technical analysts foresee a potential pullback, but say that any decline likely will prove shallow and brief.

"When you have momentum as strong as it is and as persistent as it is, it normally means that we'll go up and try to make another round of higher highs" after a period of weakness, says John Schlitz, chief U.S. market technician at brokerage Instinet. Mr. Schlitz has been telling clients to ride out any declines, because they should be mild.

When a year starts as strongly as it has, the indexes tend to finish even higher by year's end, Mr. Schlitz says. Just twice in the last 60 years have stocks tacked on 8% or more in the first quarter of the year only to finish the year lower, he says.

Another positive, Mr. Schlitz says, is that the broad rally has been led by economically sensitive financial and consumer-discretionary stocks.

One source of contention between bulls and bears is how to interpret the S&P 500's 200-day moving average, a longer-term reading of the stock chart that smooths out day-to-day gyrations to highlight the broader trend.

The index is nearly 10% above its 200-day moving average, a reading that some say warrants concern. The three times that has occurred in the past three years, stocks have tumbled shortly thereafter, says Dan Greenhaus, chief global strategist for BTIG.

But to Chris Verrone, technical analyst at Strategas Research Partners, the 10% threshold "doesn't really matter too much. Historically, it has not been a reliable overbought signal," he told clients on Friday. Mr. Verrone pointed to the mid-1990s, when the S&P 500 traded 10% above its 200-day average for several months at a time without a major pullback.

Instead, Mr. Verrone sees "the market's resiliency as a testament to the strength of the trend."

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