After bouncing up and down around the 13000 level for a week, the Dow Jones Industrial Average finally closed above that psychologically important mark for the first time since May 2008.

As last summer's fears of a U.S. recession and a European debt collapse have gradually waned, the Dow has staged a 22% rebound since early October, and its 6.4% gain for 2012 marks the strongest beginning to a year since 1998.

With stocks up so far in such a short time, money managers find themselves torn between concerns the market is overdue for some kind of pullback and fears the market's strength could leave them regretting any decision to get out now.

Reflecting those competing pressures, trading volumes have waned this year and, over the past week in particular, daily stock moves have been limited. Tuesday's gains left the Dow at 13005.12 on a gain of 23.61 points, or 0.2%.

If history is any guide, stocks could come under pressure again even after closing above the big, round number. On top of that, traders will be chewing over the mixed economic news as they weigh whether to buy or sell.

"We think there will be setbacks. We have some dry powder," said Marc Stern, chief investment officer at Bessemer Trust, which oversees about $62 billion in New York. By dry powder, he meant money sitting in cash or Treasury bonds waiting to move into riskier investments after a market pullback.

But Mr. Stern added that he remains relatively optimistic and has kept the great majority of clients' money invested in global markets: "The stock market should be erratically higher this year," he said.

Monday's gains were spurred by news of a 12-month high in the Conference Board's measure of consumer confidence. Reflecting the mixed nature of the recent economic news, however, investors also got gloomy reports on home prices and on orders for heavy equipment.

Overall, the news since October has been better than most investors expected. The market has benefited from Europe's approval of another bailout agreement for Greece and from the new European Central Bank governor's efforts to provide financing for European banks.

Talk also is circulating that the U.S. Federal Reserve continues to
contemplate a fresh program to stimulate the economy by buying bonds at any sign of economic weakness. Stock investors have been reassured by declines in borrowing costs for countries such as Italy and Spain, a sign lending jitters are waning.

Many investors question how much the Dow will rise from here. They worry about the slowing growth rate of corporate profits and fear stocks are overdue for a pullback after their five-month surge. They worry China's real-estate bubble could pop, threatening growth in that country, and that the U.S. and Europe are far from resolving their own debt problems. But, so far, world growth has been stronger than expected, and that is what investors have focused on. Some economists even are predicting a milder recession than had been expected for Europe.

Taking inflation into account, which most economists recommend, the Dow remains well below its real value of May 2008, when it last was at 13000 on a nominal basis. Although inflation has been mild, the Dow would have to exceed 14000, a further 7.9% gain, to return to its May 2008 level after adjusting for inflation.

"We don’t think the economic statistics are going to bear up very well in the next few weeks. We have used this rally as an opportunity to lighten up on our stock exposures, especially overseas stocks," said Bruce McCain, who helps oversee $20 billion as chief investment strategist at Cleveland’s Key Private Bank, an arm of KeyCorp.

"We have not ruled out the possibility of a bear market this year," meaning a decline of 20% or more, he said, although he added that the risk seems to have declined in recent weeks. "At the least, we will get a strong pullback."

Europe’s ability to keep financing its debt, along with the U.S. ability to sustain at least moderate economic growth, has forced people like Mr. McCain to rethink their skepticism. Although Mr. McCain has maintained a defensive posture, some others have given in and boosted their stock exposure, to keep up with the market gains.

The Dow would need to rise just 8.9% to return to the record 14164.53 hit Oct. 9, 2007, although it would need to surpass 15876 on an inflation-adjusted basis.

The Standard & Poor’s 500-stock index, which finished Tuesday at 1372.18, up 0.3%, is trading at less than 13 times analysts’ forecast of profits for its member companies this year. In the current environment of exceptionally low interest rates and weak bond returns, that price-to-earnings ratio looks low to many analysts—as long as profits come in as predicted.

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