The year just passed was an enigma. In early January, only days after the strains of Auld Lang Syne had faded, the investment markets plunged, causing many investors to fear the worst. Yet, as is the typical aftermath, prices rebounded from the trough. Even so, until well into the summer, we were going sideways in a broad trading range.

As the days en route to November's election ticked away, volatility picked up and concerns about a possible Armageddon grew. Indeed, on Election Day as the voting data increasingly pointed toward an upset, the futures market briefly showed signs of a devastating rout that would begin at the next morning's opening bell. At its worst, the Dow Jones Industrial Average appeared to be looking toward a loss of more than 800 points. Surprise, surprise, the averages did an abrupt about-face during the wee hours and began an unexpected rally that lasted through the remainder of the year.

In the absence of a better-than-expected acceleration of corporate profits this year, the gains enjoyed in late 2016 may well temper advances that lie ahead. When prices rise without a proportionate gain in underlying profits, valuations stretch. Sometimes, they stretch in anticipation of a hoped-for upturn in business. That's quite reasonable. But sometimes, as in 2001-2002, they stretch based on the pure fantasy of a new economy in which the old rules did not apply. We all know what happened after that.

The good news is that the latest widening of valuations will probably be followed by an improving economy rather than pipe dreams. Yes, prices have risen, but they remain within a normal range, especially when one considers the prevailing interest rate environment. Low interest rates go hand in hand with broad valuations, so unless there is a massive upswing in rates, which is highly unlikely, one can continue to justify current valuations without working very hard. The most promising situations, however, will be situations where there is a strong, sustainable upturn under way.

There are still worthwhile opportunities for investors, but even greater selectivity will be needed as we move forward.