

## Documents

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**Performance evaluation of Islamic mutual funds relative to conventional funds: Empirical evidence from Saudi Arabia**

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**Abstract**

**Purpose** – This paper seeks to review and extend previous research on the performance of Islamic mutual funds (IMFs) by evaluating the relative performance of IMFs and conventional funds during the global economic crisis in the context of the Saudi Arabian capital market. **Design/methodology/approach** – This paper compares the market timing and stock selection abilities of 159 mutual funds listed on the Saudi Arabian stock market from 2007 to 2011 by using the CAPM regression and Treynor and Mazuy models. The paper addresses the benchmark problem from which most prior IMFs studies suffered by using appropriate regional benchmarks. As a robustness check, coefficients of IMFs and conventional funds are compared by using the differences in mean and standard deviation analysis obtained from the standard CAPM model on individual funds. **Findings** – The empirical results show evidence of better performance of IMFs relative to conventional funds during periods of economic crisis. In addition, although there is no evidence of relative superiority in market timing ability, managers of IMFs appear to have better stock selection ability during times of economic crisis. **Research limitations/implications** – The combination of superior stock selection ability of IMFs and the negative market timing ability of conventional funds suggest that IMFs offer better hedging opportunities for investors during periods of economic downturn. **Practical implications** – The findings of this paper suggest that IMFs can provide hedging benefits during adverse economic conditions – an issue of great importance due to the current and forecast insecurity surrounding the global capital markets. By holding a portion of their investment portfolio in IMFs, investors can experience a higher degree of confidence in terms of investment security, growth and returns. Similarly, managers of conventional funds can improve risk adjusted performance by following similar screening criteria as IMFs during economic slowdowns. **Originality/value** – This paper represents the first comprehensive study on the comparative performance of Islamic and conventional mutual funds during the current financial crisis by including all fund managers listed on the Saudi Arabian stock market. The paper extends the knowledge of the emerging literature of Islamic finance and mutual fund performance. © 2013, © Emerald Group Publishing Limited.

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