

Documents

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The market timing ability and return performance of Islamic equities: An empirical study
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Abstract

This study investigates the determinants of return performance of Islamic equity indices (IEIs). Empirical evidence suggests that the selection of securities and rebalancing of funds to comply with Islamic screening standards may result in superior returns for the investing public. We employ an extended four factor dynamic condition correlation GARCH model to a sample of IEIs from different regions for the period 2002-2013. The empirical results indicate a statistically significant difference between IEIs from developed markets and those from emerging markets during the sample period. Findings suggest that Shari'ah screening helps IEIs to select securities of firms that are not financially distressed, are growth oriented and are exhibiting a positive momentum. We further investigated whether Shari'ah-based screening provides any superior market timing ability over conventional benchmark indices using both parametric and non-parametric approaches. Market timing results showed that the majority of IEIs have negative market timing ability reflecting the conservative nature of Islamic equity investments whereby Shari'ah discourages investment in equities of highly leveraged corporations. © 2015 Elsevier B.V.

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