ABSTRACT

This thesis presents three related empirical studies on the performance and the long and short run dynamics between screened investment portfolio represented by Kuala Lumpur Syariah index (KLSI) and non-screened investment portfolio represented by Kuala Lumpur Composite index (KLCI) in Bursa Malaysia. The KLCI contains the largest 100 companies in Malaysia. This index facilitates as a barometer of the Malaysian economy while, the KLSI is the first Syariah compliant index in Bursa Malaysia. KLSI represents companies abiding to Islamic laws of transactions, which is determined by the scholars in the Shariah supervisory board employed by Bursa Malaysia. The KLCI represents the non-screened, which started with 400 companies in 1999 and reached 900 by 2007, common shares while KLSI represents the screened common shares in Bursa Malaysia. This thesis is aimed at investigating the performance of KLSI and its relationship towards macroeconomic variables and firms specific variables from 1999 up to 2005.

The first part of the thesis investigates the performance of KLSI as compared to KLCI, investigate the long run equilibrium between these two indices, and investigate the short run causality between them. The main findings indicate that both indices yield the same returns, and they are cointegrated or have long run equilibrium. In addition, there is bidirectional causality between the two stock market indices. The second part of the thesis examines whether both indices are influenced by the same selected macroeconomic variables, and whether each index is cointegrated with the same variables. Both indices seem to be affected by the same macroeconomic variables, and are cointegrated with the same macroeconomic variables. The third part of the thesis examines two main issues. First issue is whether there is a difference in returns between screened and non-screened firms, and the second is whether both screened and non-screened firms react similarly to the same firm specific variables. The findings, after using panel data analysis, indicate that there is no difference between screened and non-screened firms in term of returns and that the variables that affect screened firms are different from those affecting non-screened firms.