



Libyan International Medical University  
Faculty of Business Administration



# A Comparative Study Between The Performance of Conventional Portfolio and Islamic Portfolio in Bursa Malaysia

**Student Name:** Loaloah Mohammed Albeira

**Student ID:** 1925

**Supervised By:** Dr. Hani Rohuma

**Co-supervisor:** Dr. Sabri Elkrghli

**E-mail:** [Loloah\\_1925@limu.edu.ly](mailto:Loloah_1925@limu.edu.ly)

## How to cite this research paper:

Albeira Loaloah, Elkrghli Sabri & Rohuma Hani (2021), "A Comparative Study Between The Performance of Conventional Portfolio and Islamic Portfolio in Bursa Malaysia", *Faculty Research Volume*, Faculty of Business Administration, Libyan International Medical University, 1(6), pp. 1-24.

---

# Content:

1. Introduction
2. Research problem
3. Research objectives
4. Hypothesis
5. Islamic investment
6. Differences between conventional and Islamic investment
7. Bursa Malaysia
8. Islamic stocks vs. conventional stocks in Bursa Malaysia
9. Literature review
10. Reflection
11. Methodology
12. Data
13. Portfolios' samples
14. Evaluation measures
15. Data analysis
16. Risk and return performance evaluation
17. Mean difference returns analysis
18. Return correlation analysis
19. Key results
20. Discussion
21. Limitations
22. Recommendations
23. References

---

# Introduction

- The rapid growth of Islamic finance in the past decades has motivated many investors to focus on Islamic stocks rather than conventional stocks. The argument about whether the performance of Islamic stocks is better compared to conventional stocks remains.
- This research examines whether there are differences in the performance of Islamic stocks and conventional stocks in Bursa Malaysia over the period from 1 January 2010 to 31 December 2016.

# Islamic Finance:

- The Islamic financial services industry's value increased to \$2.44 billion in 2019 from \$2.19 billion in 2018 (IFSB, 2020), and the overall value of the business is predicted to reach \$3,809 billion by the end of 2023 (Mohamed et al., 2018).
- According to Islamic principles, it is not permissible to acquire the stocks of the companies which are directly or indirectly attributed to riba or interest ( Jamal et al., 2010).

---

# Comparison Between Islamic and Conventional Portfolio:

## Conventional portfolio

1. The investment seeks to maximize financial return only.
2. Unlimited. All securities can be selected or admitted into the conventional portfolio.
3. Economic rationale individuals who typically prefer more profit and low risk.

## Islamic portfolio

1. The investment seeks financial return while conforming to Sharia law.
2. Limited. Only the approved Sharia-compliant securities are allowed for investment.
3. Religious or ethically-concerned investors.

Source: ( Rahimey, 2010, p 54)

---

# Why Bursa Malaysia:

- Bursa Malaysia is consists of two markets that work in parallel, conventional market and Islamic market.
- The FTSE Bursa Malaysia EMAS index is a market benchmark (market proxy). This index represents all the stocks listed on Bursa Malaysia. As it consists of shares of companies with a small market capitalization, medium and large size.
- According to the securities commission report in 2021, Malaysia's conventional capital market size was RM3, 572.01 billion in October 2021, while the Malaysia Islamic capital market size was RM 2,342.00 billion in October 2021(Securities Commission of Malaysia, 2021, p 4-5).

---

# Research Problem:

- In general, portfolio managers construct a portfolio according to investors' policy and need. The selection process of assets (asset allocation) in the conventional portfolio depends on risk and return.
- On the other hand, the Islamic portfolios depend on Sharia standards, yet risk and return are also considered crucial factors. Therefore, the Sharia standards may affect negatively the performance of the Islamic portfolio as a result of the efficient diversification problem.
- Previous researches on this has contributed such as Rahimie 2010 and Reddy 2014. This was the main reason for doing the current research. Thus, this research examines whether Sharia restriction will affect the performance of Islamic portfolios negatively or not.

---

# Research Questions:

- Is there a difference in the performance of conventional portfolio and Islamic portfolio in Bursa Malaysia
1. Are there any significant differences in the risk and return characteristics of conventional and Islamic portfolios over the examination period in Bursa Malaysia?
  2. Are there any significant differences in the risk-adjusted return of conventional and Islamic portfolios over the examination period in Bursa Malaysia
  3. Are there any significant differences in the mean return of conventional and Islamic portfolios over the examination period in Bursa Malaysia?
  4. Is there any significant relationship between the return movements of conventional and Islamic portfolios over the examination period in Bursa Malaysia?



---

# Research objectives:

- The main objectives of this research are:
  1. To construct hypothetical conventional and Islamic portfolios, and compare their risk and return characteristics and risk-adjusted return over the examination period.
  2. To compare the risk-adjusted performance between conventional portfolio and Islamic portfolio over the examination period.
  3. To investigate whether there is a significant difference in the mean return between conventional portfolio and Islamic portfolio over the examination period.
  4. To examine the relationship between the return movements of conventional portfolio and Islamic portfolio over the examination period.

# Hypotheses:

- **Hypothesis 1:**
- **H0:** There is no significant differences in the risk and return characteristics of conventional and Islamic portfolios over the examination period in Bursa Malaysia.
- **H1:** There is differences in the risk and return characteristics of conventional and Islamic portfolios over the examination period in Bursa Malaysia.
- **Hypothesis 2:**
- **H0:** There is no significant differences in the risk-adjusted return of conventional and Islamic portfolios over the examination period in Bursa Malaysia.
- **H1:** There is significant differences in the risk-adjusted return of conventional and Islamic portfolios over the examination period in Bursa Malaysia.

# Hypotheses (cont.)

- **Hypothesis 3:**
- **H<sub>0</sub>:** There is no significant differences in the mean return of conventional and Islamic portfolios over the examination period in Bursa Malaysia.
- **H<sub>1</sub>:** There is significant differences in the mean return of conventional and Islamic portfolios over the examination period in Bursa Malaysia.
- **Hypothesis 4:**
- **H<sub>0</sub>:** There is no significant relationship between the return movements of conventional and Islamic portfolios over the examination period in Bursa Malaysia.
- **H<sub>1</sub>:** There is significant relationship between the return movements of conventional and Islamic portfolios over the examination period in Bursa Malaysia.

---

# Literature review:

- After I reading more than 20 research papers on this topic and researching the details of the role of Islamic portfolio, I concluded that Islamic portfolio have a huge role in economy development, especially in Islamic countries.
- Islamic portfolios have almost the same return as conventional portfolios, but conventional portfolios are looking for high returns only, but Islamic portfolios follow the sharia's law and that is why religious investors feel safe in these portfolios.
- Although Islamic portfolios have less diversification than conventional portfolios, but 70% of the research papers conclude that it does not affect the return of the portfolio by comparing the return of the conventional portfolio.

# Methodology (1. Data):

- This research depends on secondary data which has been analyzed by using the quantitative analysis. This research employs monthly data as it is less fluctuant than daily or weekly data.

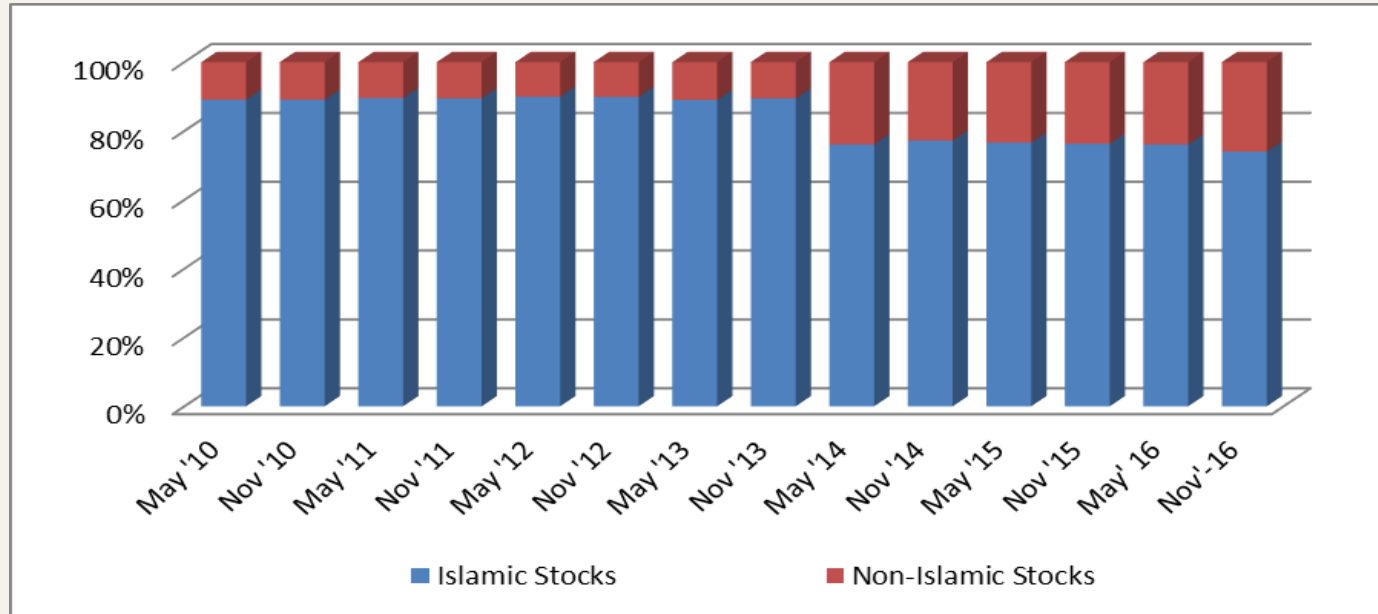
# Methodology (2. Portfolios Samples):

- **Conventional Portfolio (CP):** conventional portfolio is a portfolio that consists of all stocks in the database.
- **Islamic Portfolio (IP):** Islamic portfolio is a portfolio that consists of all stocks in the database that complies with Sharia.

## Number of stocks in the Islamic portfolio and conventional portfolio:

	Starting Period	End Period
	Jan' 2010	Dec' 2016
CP	674	767
IP	594	692

# Islamic stocks vs. conventional stocks in Bursa Malaysia:



Source: (SAC Reports , 2010-2016)

# Methodology (3. Evaluation measures):

## 1. Risk and Return Characteristics

- Return Measures:
  1. ROI
  2. Average Return
- Risk Measures:
  1. Standard deviation
  2. Beta Coefficient

## 2. Risk-adjusted Return Measures

1. Sharpe ratio (1966)
2. Treynor ratio (1965)
3. Jensen's Alpha (1968)

## 3. Sample paired t-test

## 4. Correlation Measure

## 6. Benchmark

1. Risk-free rate
2. Market Benchmark



# Data Analysis:

- **Results: Risk And Return Performance Evaluation:**

**Table 1 Performance Evaluation for conventional and Islamic portfolios**

Overall Period (1 January 2010 - 31 December 2016)

Measures	CP	IP	Market Benchmark
Return	0.768%	0.784%	0.393%
Std. Dev.	4.002%	4.019%	2.728%
Beta Coefficient	0.5433	0.5346	1.0000
Sharpe Ratio	0.1313	0.1265	0.0551
Treynor Measure	0.0097	0.0095	0.0015
Jensen's Alpha	0.0044	0.0045	0.0000

# Data Analysis: (cont.)

- **Results: Mean Difference Returns Analysis**

**Table 2 Results of the Sample Paired t-test**

	<b>Mean</b>	<b>df</b>	<b>t</b>	<b>Sig. (2-tailed)</b>
IP - CP	0.000	83	0.744	0.459
IP - Benchmark	0.004	83	1.417	0.160
CP - Benchmark	0.004	83	1.389	0.169

# Data Analysis: (cont.)

- Results: Return Correlation Analysis

**Table 3 Results of the Pearson correlation test**

Correlations				
		IP	CP	Benchmark
IP	Pearson Correlation	1	0.999**	0.788**
	Sig. (2-tailed)		0.000	0.000
	N	84	84	84
CP	Pearson Correlation	0.999**	1	0.797**
	Sig. (2-tailed)	0.000		0.000
	N	84	84	84
Benchmark	Pearson Correlation	0.788**	.797**	1
	Sig. (2-tailed)	0.000	.000	
	N	84	84	84

\*\* . Correlation is significant at the 0.01 level (2-tailed).

---

# Key results:

- The results of the risk and return characteristics (average return, standard deviation and beta coefficient) and the traditional three risk-adjusted return measures, namely, Sharpe ratio, Treynor ratio and Jensen's alpha. The results show that although there were some minor differences in performance, however, these differences were not statistically significant.
- Investigate whether there is a statistically significant in the mean return of the CP and IP. By employing the Sample paired t-test, the results indicate that the differences in the mean return between the IP, CP and also with the market benchmark are not statistically significant.

---

## Key results: (cont.)

- The research investigates the relationship in the return's movement between the IP, CP and benchmark. By employing the Pearson correlation test, these results show that the returns of the CP, IP and benchmark move in the same direction, since the correlation coefficients between IP, CP and benchmark portfolios are strong and significant at a 1% level.

---

# Limitations:

- The limitations of this research are linked to the study period.
- The results may only valid for Bursa Malaysia so they may differ from one market to another, due to differences in the laws and characteristics of countries.
- The research depends only on quantitative analyses.

---

# Recommendations:

1. For the investors who only seek to achieve profit. They do not need to delve into Sharia standards when making any investment decision Since it is no different in the performance between Islamic and conventional portfolios.
2. Sharia standards may differ from one financial market to another, and therefore, Sharia scholars must standardize these standards in order not to confuse the investors.
3. The results of this study should not be used as a basis for any future investment decision, as any decision must be made with an in-depth study from a consultation of specialists and brokers in this field.

# Further Research:

1. The research suggests making the study where the market is not mostly Sharia stocks such as Indonesia Stock Exchange where in this market the listed Islamic stocks are around 50% of stocks.
2. Can be done by using qualitative analyses or different statistical methods.
3. The research could also be done on a comparison between the Islamic and conventional portfolios before, during and after a covid-19 period.