

5. Conclusion and Recommendations

This paper empirically investigates the relationship and degree of cointegration between the newly developed Islamic equity style indices based on the FTSE EMAS Shariah index in Malaysia. The six Islamic equity style indices were found to be non-stationary in variable form, but were found to become stationary after first differencing and there is no long-run relationship between the indices. By applying the Vector Autoregression method in order to test the short-run dynamics between the six Islamic equity style indices, the evidences indicate that the LV index has information content that precedes the LG as well as the SV indices.

These results are useful to investors as well as researchers studying the forecasting abilities of equity style indices specifically from the point of view of Islamic stocks in emerging economies. The study in fact corroborates previous results from Liew and Vassalou (1999), Tan and Lau (2013) as well as Lau and Lee (2015) on the information transmission capabilities of the equity style indices. Furthermore, the results would suggest that the newly developed Islamic equity style indices are useful to investors for purposes of predicting the performance of Islamic equity style stocks. In particular, the results of Granger causality tests imply that the predictive qualities of the LV index would be useful for investors and fund managers for purposes of making investment decisions. Future studies could be extended to include studies of the information transmission capabilities of Islamic equity style indices between stock markets in different countries. Analyst and investors would then be able to gain more insights as to the idiosyncratic nature of Islamic equity style stocks and its potential for purposes of diversification.

6. References

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