

UNIVERSITI TEKNOLOGI MARA

TECHNICAL REPORT

**ANALYSIS OF RISK FEATURES AND
PERFORMANCE EVALUATION OF SHARIAH-
COMPLIANT STOCKS USING STANDARD
RISK-ADJUSTED METHODS**

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IN THE NAME OF ALLAH, THE MOST GRACIOUS, THE MOST MERCIFUL

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ABSTRACTS

The Islamic Capital Market (ICM) has been growing exponentially with a recent increase in local Shariah-compliant stocks demand. This is because Muslim investors always seek Shariah compliance vehicles to suite their investment objectives. The main objective of this study is to analyse the risk features of 57 Shariah-compliant stocks by separating the total risk into systematic and unsystematic components for all 12 sectors listed in Bursa Malaysia from 2013-2018. While the performance of unit trust funds in Malaysia has been widely studied, there are few studies that discuss the performance of shariah-compliant stocks in particular. Therefore, this study employed the standard-risk adjusted performance measurement such as Sharpe, Treynor and Jensen's alpha ratio towards the composite index of the Kuala Lumpur Stock Exchange (KLCI) as the market benchmark. The empirical results show that the total risk of Shariah-compliant stocks due to unsystematic risk component is very high with an average diversifiability measure of 0.914. This finding show that all Shariah-compliant stocks are not fully diversified and there are great opportunities for diversification. For the same period, the results also indicate that Chi Hin Group Property Bhd is a superior stock while BLD Plantation Bhd is an inferior stock. In addition, Shariah-compliant stocks slightly outperformed the KLCI. Plus, by considering average beta construction is found as the best sector. Finally, the findings highlight the importance of embedding risk into performance analysis and provide good perspectives to investors who are considering Shariah-compliant stocks as an alternative income-generating investment vehicle in constructing a diversified portfolio. For further study, other approaches can be used to evaluate the performance such as Modigliani Measure that are easier and not complicated.