



UNIVERSITI TEKNOLOGI MARA

**VOLATILITY AND PERFORMANCE OF
MALAYSIAN STOCK MARKET: A PARALLEL
MARKET EVIDENCE**

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ABSTRACT

Financial system consists of financial institutions and also financial market. Financial market is divided into four categories which are money and foreign exchange market, capital market, derivatives market and offshore market. As in Malaysia, the operation of capital market is quite unique. This is because the conventional capital market operated parallelly with the Islamic capital market. A little of contrast from the Islamic capital market Islamic market is referring to financial market transactions, operations and services that comply with Islamic rules, principles, philosophy and code of practices. The law and rules of the religion requires certain types of activities, risks or rewards to either be prohibited or promoted. This includes the Shariah investing activities conducted by investor. Meanwhile, conventional capital market is offer investment instruments for any profitable project whether it is beneficent to the society or not, the only important factor is how profitable and how risky is it. Thus, conventional financing is not bound by any restrictions, as this is opposite from Islamic law. What are fascinating in this financial market is Islamic market are widely accepted by world-wide because the differential that exists in Islamic product compare to conventional product that presence far before. Since existence of Islamic stock market, Muslim investors tend to choose it over conventional stock market as they are obligate to invest in Shariah compliant product as requirement of religion to avoid matters that contradictory with principles of Islam such as *riba*, *gharar*, *maysir* and other non-permissible activities. In addition, non-Muslim are welcome to invest in Islamic market as there is no prohibition.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

Financial system consists of financial institutions and also financial market. Financial market is divided into four categories which are money and foreign exchange market, capital market, derivatives market and offshore market. As in Malaysia, the operation of capital market is quite unique. This is because the conventional capital market operated parallelly with the Islamic capital market. A little of contrast from the Islamic capital market, Islamic market is referring to financial market transactions, operations and services that comply with Islamic rules, principles, philosophy and code of practices. The law and rules of the religion requires certain types of activities, risks or rewards to either be prohibited or promoted. This includes the Shariah investing activities conducted by investor.

All transactions that carried out in Islamic capital market (ICM) obeys to the principle of Muslim and religion of Islam. Islamic capital market plays an important role for generating economic growth along conventional capital market. It is also plays a complementary role to Islamic banking system to broadening and deepening Islamic financial markets in Malaysia. The Securities Commission's giving a big supportive to Islamic Capital Market and dedicated to setting up infrastructure support that needed. Islamic Capital Market Department (ICMD) purpose is to carry out research and development (R&D) activities to strengthen the ICM in Malaysia for long term plan. The Shariah Advisory Council (SAC) was established in May 1996 as to advise the Commission on Shariah matters pertaining to the ICM. Members of the SAC are qualified individuals who can present Shariah opinions and have vast experience in the application of Shariah, particularly in the areas of Islamic economics and finance.

Meanwhile, conventional capital market is offer investment instruments for any profitable project whether it is beneficent to the society or not, the only important factor is how profitable and how risky is it. Thus, conventional financing is not bound by any restrictions, as this is opposite from Islamic law. What are fascinating in this financial