

ADVANCES *in* ISLAMIC
FINANCE, MARKETING,
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An Asian Perspective

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Advances in Islamic Finance, Marketing, and Management

An Asian Perspective

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Preface

The Islamic financial industries have been growing at a double-digit rate for over a decade now. Referring particularly to the post-financial crisis era, challenges of the management of Islamic financial, management and marketing have reached new heights. Islamic financial institutions (IFIs) from the South Asia, Southeast Asia, and the Middle Eastern countries hold a major percentage of Islamic assets. New opportunities are opening up in the Central Asian countries as well. Currently, the knowledge base on *Shari'ah*-compliant business and finance is particularly limited, and largely written on the development of finance and allied industries. Experts foresee the need for a useful integration of Islamic finance, *halal* marketing, and management of Islamic businesses.

This book “*Advances in Islamic Finance, Marketing, and Management: An Asian Perspective*” aims to balance these gaps by focusing on the Asian perspective of Islamic businesses and by incorporating, alongside finance, the development in Islamic marketing and management of Islamic business. The book is divided into three sections, considering:

1. Islamic finance that includes topics on Islamic equity and mutual funds, risk and performance of Islamic banks, long-term investment and *Sukuk*, dynamics of credit portfolios, and financial crimes in Islamic perspective.
2. Islamic marketing that includes topics on Islamic marketing theory, *halal* marketing in several Asian markets, and *halal* logistics.
3. Islamic business management that includes topics on management of *Zakat* institutions, and the corporate social responsibility in Islamic organizations.

A group of international experts offer original conceptual articles, empirical research findings, case studies, and critical reviews in the areas of Islamic finance, banking, capital market,

halal marketing, consumer perception, services orientation, risk management, industry readiness for better customer satisfaction, as well as policy issues coupling strategy and best practices. As expected, major portion of the discussion surrounds already established Islamic finance industry and a preliminary discussion on the management of businesses. The book can be considered as a guidebook for the academicians as well as the practitioners in the areas of Islamic finance, marketing, and management.

CHAPTER

1

The Last Alibi: *Shari'ah* Compliant Stocks on Momentum Profitability Assessment

Bob Li, Mong Shan Ee, Yee Ling Boo and
Mamunur Rashid

ABSTRACT

Purpose – Ever since the publication of the original Jegadeesh and Titman (1993) study, momentum effect has been tested vigorously to validate its pervasiveness for different time periods and across different markets. In spite of numerous out-of-sample tests, there is one apparent alibi – little research has been devised for steady increasing of *Shari'ah* compliant stocks.

Methodology/approach – This study is to examine the momentum strategy returns in a global *Shari'ah* compliant stock setting.

Findings – It finds strong presence of stock momentum returns for Pakistan and Malaysia. And the momentum returns are neither driven by industry momentum nor by the small size stocks. Though no momentum profits are found for the portfolios formed by global *Shari'ah* compliant

stocks, this seems to be largely due to return reversal for the small size Shari'ah compliant stocks.

Originality/value – The strong presence of momentum profits for relatively large Shari'ah compliant stocks is a desirable trait as it indicates that the momentum trading strategies are practical and implementable.

Keywords: Momentum; *Shari'ah* compliant stocks; industry momentum; firm size; momentum profit; Islamic equities

1. Introduction

Momentum is one of the major violations of the efficient market hypothesis. The market offers additional returns for buying the recent winners and selling the recent losers. In classical papers, initially by Jegadeesh and Titman (1993) (hereafter JT), and later by Rouwenhorst (1998) and Hong and Stein (1999), researchers reported a double digit abnormal return earned using momentum strategies both in the U.S. and international markets. Aside from the house of the behavioural scientists, the efficient market gurus (see Fama & French, 1996) have also found significant appeal for momentum returns over a short period of time, typically six months. Due to a number of reasons, researchers could not reach a consensus on the determinants of momentum returns in various countries. For instance, over a period of two decades, Moskowitz and Grinblatt (1999) (hereafter MG) and Demirer, Lien, and Zhang (2015) have reported that herding behaviour – retail investor herding for the prior study and industry herding for the latter, are important determinants of momentum returns. However, their arguments, on industry- and institution-categorisation that has led to positive momentum returns, do not hold in Australian market where Li, Stork, Chai, Ee, and Ang (2014) have reported no industry-specific momentum return. Researchers have also debated but reported a mixed bag of results on determinants of relatively lower momentum return in Asian and emerging markets (Chui, Titman, & Wei, 2002).

Over- and under-reactions to new information have been the usual suspects causing global momentum. In the past, De Bondt (1993) and De Bondt and Thaler (1985, 1987) have reported that overreaction to recent news and under-reaction to long-term

information have led to greater reliance on recent news for decision-making. Studies have found past volume and price volatility have led to such momentum profits (Lee & Swaminathan, 2000). In recent years, researchers have argued that a number of risk factors and size proxies can explain momentum returns, particularly in the U.S. market (Asness, Moskowitz, & Pedersen, 2013). However, this fundamental nature of determinants of momentum return has been exceptionally mixed among developed and emerging markets. Despite the classical belief that momentum returns, if any, in developed markets can mostly be explained by fundamental factors, a number of studies on Asian and emerging markets have reported otherwise. Using the data from eight Asian countries between 1976 and 2000, Chui et al. (2002) have reported very weak momentum returns in all Asian markets except Indonesia and Korea. Both Chui et al. (2002) and another study by Hong, Lim, and Stein (2000) agreed that the momentum return, particularly in Asia, is stronger in smaller stocks. It is worth noting that in post-Asian crisis data, Chui et al. (2002) reported that extremely lower momentum profit can be attributed to volatility of the momentum portfolio.

Further to these assorted findings, Pan, Tang, and Xu (2013) have reported that the Korean and Indonesian markets exhibit positive momentum returns alongside other Asian markets. Their findings have established that momentum returns in Asian markets, particularly the weekly momentum, are still significant. Their study has also reported quite a different story. Griffin, Ji, and Martin (2003), Chui, Titman, and Wei (2010) and Fama and French (2012) have reported that momentum strategy is relatively less efficient in Asian countries. From this onward, with the exception to Li et al. (2014), there are two major dimensions to momentum returns in Asian and emerging countries. Firstly, industry-specific characteristics carry important implications for momentum profit. Secondly, there are possibilities that industry-specific characteristics to determine momentum profit may rely heavily on other country-, context-, and fund management-specific issues as to the fact that the existing studies do not offer any clear clues on these issues. The recent studies (e.g., Breloer, Scholz, & Wilkens, 2014; Vayanos & Woolley, 2013) support our view on these two dimensions. While the first study focuses on how strong is the industry-, index-, country-, and sector-specific factors in determining momentum returns, the latter offers the support on how these factors, the industry herding in particular, can be supported from the efficient fund management