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Are Islamic finance innovations enough for investors to escape from a financial downturn? Further evidence from portfolio simulations

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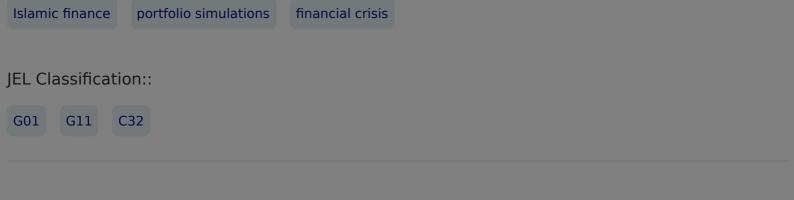
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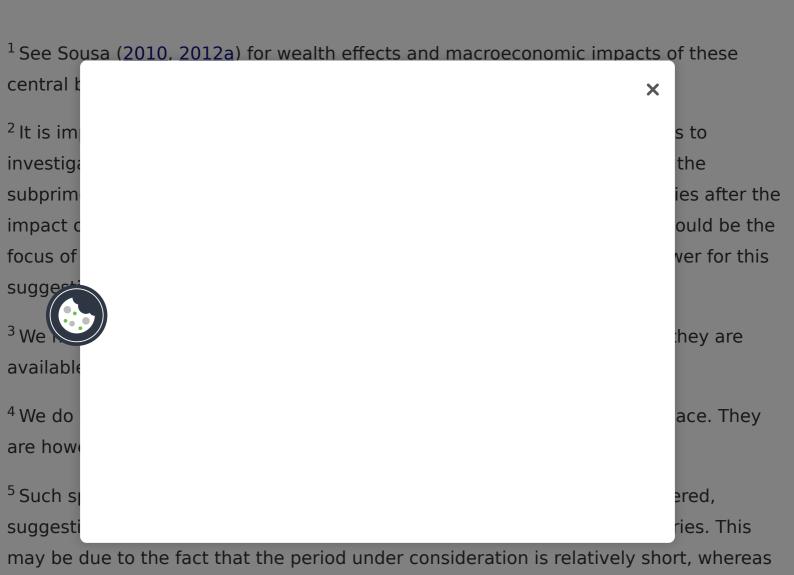
finance by generating investment and diversification opportunities during periods of

crisis. In addition, we develop optimal portfolio strategies and investment proportions for conventional and Islamic funds to ensure the best resource allocation. Our main findings are: (i) the impact of the current crisis on the Islamic finance industry is less marked than on conventional finance, (ii) investment in Islamic products generates high returns, (iii) portfolios that include Islamic products reduce systemic risk and generate significant diversification benefits, (iv) the US crisis has led to significant changes in resource allocation through changes in investment choices.

Keywords:



Notes

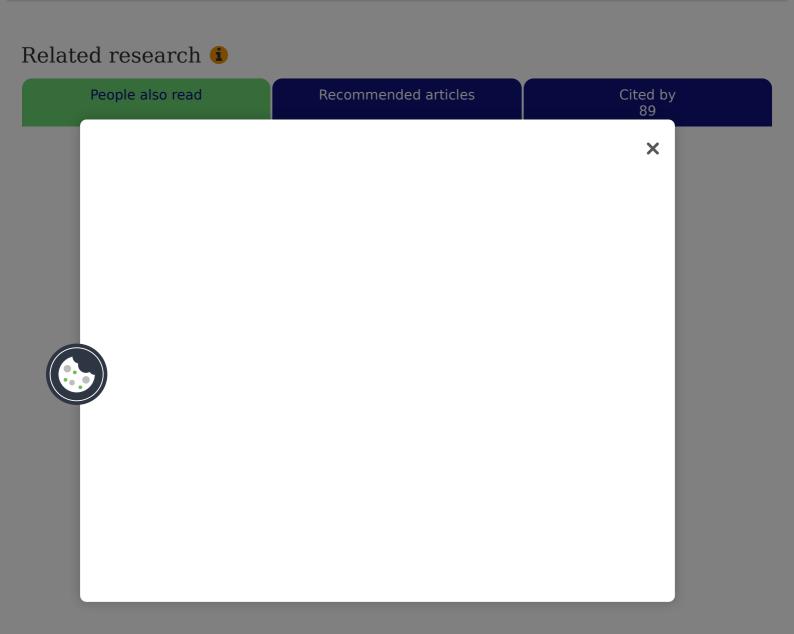


significant changes to the relationship between these two financial industries probably require much more time.

⁶ Jawadi et al. (<u>2011</u>) also investigate the performance of Islamic funds with regard to conventional funds before and after the crisis and show how Islamic products supplanted conventional assets to some extent after the US crisis.

⁷ For more details about changes in investor's preference, see Sousa (<u>2012b</u>), who explores the nature of preferences of the representative investor to emphasize the role of wealth shocks in explaining time-variation in portfolio composition. Also, Sousa (<u>2012c</u>, d, e) recently investigated the linkages between asset wealth, labour income, stock returns and government bond yields, and provides evidence of changes in investor's choices and preference.

⁸ We would like to thank the anonymous reviewer for his/her suggestion regarding the derivation of an optimal portfolio.



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