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: Islamic finance portfolio simulations financial crisis

□ JEL Classification:: G01 G11 C32

Notes

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¹ See Sousa (2010, 2012a) for wealth effects and macroeconomic impacts of these central bank actions and measures.

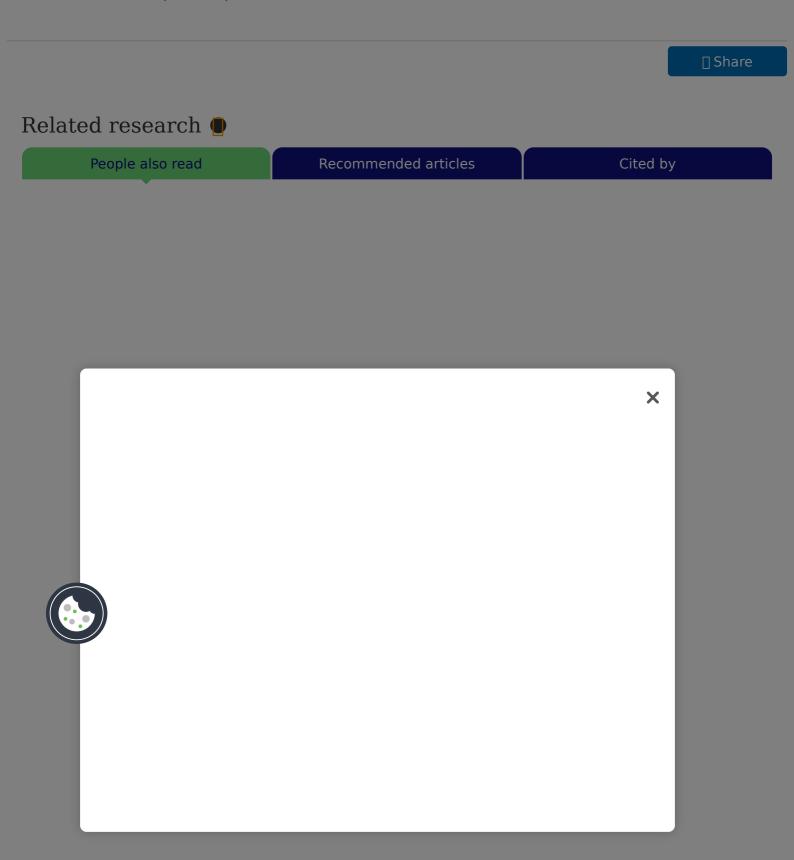
² It is important to note that while the period under consideration enables us to investigate the contribution of investment in Islamic funds before and after the subprime crisis, this cannot apprehend the nature of investment opportunities after the impact of Lehmann's collapse or the EU sovereign debt crisis. Such issues could be the focus of future research work. We would like to thank the anonymous reviewer for this

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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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