

**RISK-ADJUSTED PERFORMANCE, MARKET
TIMING AND SELECTIVITY OF MUTUAL
FUNDS: A COMPARATIVE ANALYSIS OF
ISLAMIC AND CONVENTIONAL MUTUAL
FUNDS OF PAKISTAN**

**By
Syed Hamid Shah Afridi**



**NATIONAL UNIVERSITY OF MODERN LANGUAGES
ISLAMABAD**

December 2019

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MBA, Qurtaba University Peshawar, 2010

A THESIS SUBMITTED IN PARTIAL FULFILMENT OF
THE REQUIREMENTS FOR THE DEGREE OF

MASTER OF SCIENCE

In **MANAGEMENT SCIENCES**

To

FACULTY OF MANAGEMENT SCIENCES
Finance



NATIONAL UNIVERSITY OF MODERN LANGUAGES, ISLAMABAD

December, 2019

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The undersigned certify that they have read the following thesis, examined the defense, are satisfied with the overall exam performance, and recommend the thesis to the Faculty of Management Sciences

Thesis Title: **Risk-Adjusted Performance, Market Timing and Selectivity of Mutual Funds: A Comparative Analysis of Islamic and Conventional Mutual Funds of Pakistan.**

Submitted By: **Syed Hamid Shah Afridi** Registration #: **180- MSBA/PSC/S 16**

Master of Science in Business Administration

Management Sciences

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Candidate of Master of Science in Business Administration at the National University of Modern languages do hereby declare that the thesis: Risk-Adjusted Performance, Market Timing and Selectivity of Mutual Funds: A Comparative Analysis of Islamic and Conventional Mutual Funds of Pakistan submitted by me in partial fulfillment of MS degree, is my original work, and has not been submitted or published earlier. I also solemnly declare that it shall not, in future, be submitted by me for obtaining any other degree from this or any other university or institution.

I also understand that if evidence of plagiarism is found in my dissertation at any stage, even after the award of a degree, the work may be cancelled and the degree revoked.

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Syed Hamid Shah Afridi

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Submitted by: Syed Hamid Shah Afridi

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This thesis has been read by me and has been found to be satisfactory regarding content, English usage, format, citations, bibliographic style, and consistency, and thus fulfils the qualitative requirements of this study. It is ready for submission to the Faculty of Advanced Integrated Studies and Research for internal and external evaluation.

Supervisor: Dr. Alam Rehman

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ABSTRACT

Title: Risk-Adjusted Performance, Market Timing and Selectivity of Mutual Funds: A Comparative Analysis of Islamic and Conventional Mutual Funds of Pakistan

This study examines and explores, the risk adjusted performance, timing and selection abilities of conventional and Islamic funds. The study analyzed and evaluated the data of total 90 mutual funds in which 45 pertaining to the conventional funds and 40 funds represent Islamic funds. The study covers the period 2011-2016. The results of risk adjusted performance has been obtained through Sharp ratio, Treynor ratio and Jensen Alpha while the selectivity and timing abilities have been determined through TM model. The results demonstrate that majority of conventional funds in term of sharp ratio perform better than Islamic style portfolios. The results also predicted that overall the different categories of conventional funds while comparing to the Islamic style portfolios are better performing in term of Treynor ratio and Jensen alpha. The results showed that conventional mutual funds have better selectivity skills than Islamic funds, while analyzing the different styles of these both major funds categories. The results also reported higher risk for the conventional funds than their counterparts. Majority of the conventional funds style categories have higher beta values than Islamic counterparts. The results also demonstrated that conventional funds are better in term of timing abilities as compared to the Islamic counterparts. Furthermore, the result posits that Conventional fund have the selection and timing ability than Islamic funds. One possible explanation for the underperformance of Islamic funds than Conventional funds is that Islamic funds have some constraints and impotent to invest in non-Islamic businesses. Therefore, it can be argued that conventional funds have more freedom in the selection of securities for investment and thus have the opportunity for better performance. The study is overall beneficial for the fund's managers, investors and other stakeholders. This research will extend benefits to the investment companies and asset management companies in Pakistan to gain trust and confidence of investors for investment in their portfolios.

Keywords: Risk-Adjusted Performance, Market Timing and Selectivity of Mutual Funds: A Comparative Analysis of Islamic and Conventional Mutual Funds of Pakistan

DECLARTOIN

I, Syed Hamid Shah Afridi, declare that no portion of my research work mentioned to in the research thesis has been submitted for any other degree or qualification of this or in any other university or institute.

Name: Syed Hamid Shah Afridi

Signature

Date: December, 2019

DEDICATION

This research thesis is dedicated to my parents, my teachers, and especially to my beloved Father, who is the real source of inspiration to me and his prayers and love enable me to do something valuable in my life. I also dedicate this research to my other family members who provide a sound environment for the compilation of this work. No doubt due to the special blessing of ALLAH and support and prayers of my parents today I am able to compile my research study.

ACKNOWLEDGEMENT

I am especially thankful to my supervisor, Dr. Alam Rehman, whose constant support and guidance made this dissertation possible for me. I also acknowledge his soft, approachable attitude which had always been a source of great encouragement for me, especially in my most challenging times during the research. However, this study would not have been possible without the cooperation of few other individuals. That is my parents and Chairman who took some burden off me regarding my domestic responsibilities during the research and supporting me, practically and psychologically, in every possible way until the completion of my thesis.

Thank you all very much!