

Are Faithful Investors Rewarded by the Market Place? Evidence from Australian Shariah-compliant Equities

Mehdi Sadeghi*

This paper investigates the impacts of index revisions on the return and liquidity of Shariah-compliant Australian shares, using a sample of companies added to and deleted from the Dow Jones Islamic Market Index. In contrast to the findings of conventional index revision studies, and index revision studies in Muslim countries, our results show that these stock prices respond negatively to index additions, and positively to index deletions. Furthermore, our study provides overwhelming evidence in support of long-term decline in the returns and liquidity of added shares, and long-term improvement in the returns of the deleted shares. Results for changes in the liquidity of deleted firms are mixed and no clear pattern can be determined.

Keywords: Shariah-compliant investment, index revision, event study, abnormal returns.

JEL Classification: G14, G15