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# Stock Picking and Market Timing of the Gulf Fund Managers: Evidence from the Financial Crisis

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**Abstract**
From five Gulf countries over the 2007-2012 period, this paper offers a comprehensive investigation for these managerial skills during and after the Financial Crisis (FC) of 2007-2008; it also inspects the relative differences in performance between equity conventional mutual funds (CMFS) and Islamic ones. The results show no evidence of over-or-under performance for the fund managers due to these two skills, where there are no structural changes for the regression line across the two sub-periods, but it reveals the superiority of equity CMFS performance in Kuwait in particular along the overall period. Thus, it seems that if the investors cannot gain superior returns by investing in the Gulf mutual funds on general, they may attain a comparative advantage by investing in the conventional funds against the Islamic ones especially in Kuwait. It also implies that the ethical screening, which is adopted by the Islamic funds of Kuwait, already limits their diversification opportunities and then adversely affects their performance.

*JEL classification: G1; G2*
*Keywords*: Capital markets, Islamic mutual funds, performance evaluation, market timing ability, stock picking ability

## 1. Introduction

Lately, an empirical evidence ofFei et al., (2013)documents that financial markets turn to be more effective after the crisis period; it considers a precious opportunity of a better external environment by easing the nerves of the recipient country's government. The investment strategies will be more positive, diversified and complementary to the own real economy. But does this in turn means a better skills and then performance for the fund managers across the same periods? A recent stream of the literature investigates the above-mentioned relationship for several mutual funds across different periods of financial turbulent, while the results are assorted. Even in the emerging economics that experienced huge private capital inflows in the wake of the emerging markets crisis in the 1990s, and prior to the global FC of 2007–2008 (Christian, 2011), and which are supposed to provide a prime opportunity for larger profits comparing to these of the developed ones (Francis, 2012), the results are conflicting. Where, in most mature, premature, and emerging market places; relying on different periods of time, samples sizes, benchmarks, and evaluating measures,some academics find no evidence on the managers' skills of market timing and selectivity; (see e.g.Kaushik & Pennathur, 2012, and Yang-pin et al., 2012), against some other ones who documents that the funds do

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out-perform the intended index even after adjusting for the risk(see e.g.Hubner et al., 2012; Beehary et al., 2009).To this end of overlapping this study offers new empirical evidence from five Gulf countries 'Kuwait, United Arab Emirates, Kingdom of Bahrain, Sultanate of Oman, and State of Qatar' as an example from Islamic emerging economies by answering the following research questions: Do the Gulf fund managers have the skills of security selection and market timing during and after the crisis period? Are there any significant differences between the performance of equity CMFs and their Islamic counterparts? Actually, littlescholars in the area ofmutual fundshas devoted his investigations towards the Middle East, where the markets are less saturated and more accepting for new brands, (Marketing Week, 2012). Hence, it is important to extend the recent literature with evidence from these emerging economies and open up new horizons for the financial intermediation services. Towards this point, this study investigates a sample of 90 diversified mutual funds selected from five Gulf countries. Meanwhile, in order to reveal the performance differences between the funds' categories, we divide the sample into two sub-groups: equity conventional and Islamic ones. Subsequently, to explore the funds' performance over the whole period, and to test the impact of the financial turmoil on the funds' access returns, it employs both of conventional and Islamic MSCI market indexes of these countries across two sub-periods: 'the financial crisis period' that covers the two years of 2007-2008 and 'the Post-Crisis period' which holds between 2009 and the mid of 2012. The reminder of this paper is organized as follow. Section 2 presents a brief literature review. Section 3 displays the methodology, data sources, while the empirical tests' results are presented in Section 4 and the conclusions follow in Section 5.

## 2. Related literature and empirical hypotheses

### *2.1. Conventional Mutual Funds (CMFs)' performance across the crisis period in developed and emerging economies*

Over a period of 50 years, relying on various studies acrossdifferentmature,premature, and emerging economies, it seems that the skills of the CMF$_S$' managers are quietly convergent across the crisis period, where Hoepner et al., (2009)inthe US,Heaney et al., (2007) in Australia,Evangelos (2009) in Turkey, and Beehary et al., (2009) in Mauritianrefer to the existence of the market timing capability between the fund managers, even if it was slightly weak especially during the turbulent periods like this of (2007-2008), and that there have been considerable periods of time when the individual international funds rolling alphas suggests that the funds out-perform the intended index after adjustment for risk. Meanwhile, Kaushik and Pennathur (2012) in US,Keith et al., (2008) in the British economy, Yang-pin et al., (2012) internationally,George et al., (1998) in Canada, Yue-Cheong and Louis (2003) U.S-based Asian, Phaniswara and Mallikarjuna (2009) in India,Craig and Micael (1997) in South Africa,Roberto et al., (2001) in Italy, Amporn and Yosawee (2011) in Thailand,Sit and Manuel (2011) in Philippine,Murhadi (2010) in Indonesia, Reza et al., (2011) in Iran, Shazia et al., (2010) in Pakistan, and Samira and Slaheddine (2011) in Tunis, find no evidence on the managers' skills of market timing and selectivity; they document that the majority of funds with positive abnormal performance can be attributed to good luck, not only this, but once when accounting for the drop-market conditions of (2007-2008)the coefficient of the

downturn dummy variable is negative and highly significant. In brief, the trade-off between this positive and negative results has to be taken into account when investigating the performance of the Gulf CMFs, but given that the majority of the practical investigations that took place so far have resulted in negative outcomes, it is expected that any trial for judging the capabilities of the fund managers in new areas such as these of the Arabian Gulf as a part from the Middle East across the crisis period will also involve the same negative results.

**2.2 Islamic Mutual Funds (IMFs)Performance over the crisis period in different economics**

Islamic mutual funds are running based on Islam principles, under which business and trade activities that generate fair and legitimate profit arepermissible,interest-based transactions are prohibited(Bakri. et al., 2012), while the schemes of risk and profit-sharing and partnership is the base (Christian and Sebastian, 2012). Hereafter, they distinguish themselves from conventional funds by the type of the ethical screening they apply, where, they screen out stocks of companies engaged in making money from alcohol, tobacco, gambling, pornography, pork processing, entertainment and all other such activities that violates Muslim ethical values in terms of usury. They also avoid stocks of companies that use the leverage in their equity structure (Dawood, 2013), inaddition to investments in preferred stocks and bonds, since both promise a fixed rate of return and grant no voting rights (Naughton and Naughton, 2000). But, it seems that these unique features of IMFs are a double edged weapon, where some academics suppose that this crisis would not have occurred under an Islamic financial system, because most, if not all, of its causes are not allowed under guidance and rules of Shari'a (Hassan and Kayed, 2010), meanwhile, some other researchers suggest that their ethical screenings, which limit its potential of diversification will also limit its potential for financial growth (Abul Hassan. et al., 2005).Unfortunately, the proof of Islamic finance resilience against the FC compared to the conventional one, and the negative impact of their ethical screening on their financial performance is assorted too. The results of applied researches that verified this instance are completely incompatible, whereas, in regard to the first assumption of Islamic finance reliability against the FC, Miranti & Ilham (2012)in Indonesia and Malaysia,Nafis Alam (2010) in the European market,NafisAlam (2013)in UK, Dawood (2013)inSaudi Arabian, show that the risk-return relationship of IMFs is relatively stable as compared with asset allocation strategy, which means that the portfolio of Shari'ah Compliant equities outperforms this of the CMFs. Secondly, in respect to the impact of ethical screenings and values of IMFs and SRIFs on their financial performance, the findings were also tangled. Where, in US,Luis et al., (2011) show that the "Negative Screens" and "Religious" portfolios show a significant and negative stock-picking ability, while Abul Hassan, et al., 2005 in US, too, and Stefano & Stefano (2009)in Italy document that the assumption thatexpected returns of Islamic screened portfolios being lower than this of conventional portfolios is completely rejected. Shortly, The Arabian Gulf is a main part of the Middle East; it also plays an important role for offering the Islamic financial system in the Arabian region,there for any trial for examining how FC affected IMFs and Islamic financial system of the Middle East economics should investigate the Gulf

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countries. But, because the differences in performance between IMFs and equity CMFs were not always significant for most studies that took place in the Islamic economics, it is also expected to be the same when verifying the Gulf stock markets.

## 3. Methodology

### 3.1. Sample selection

The empirical analysis of this work conducts by investigating a sample of 90 diversified mutual funds selected from 5 Gulf countries (Kuwait, United Arab Emirates, Sultanate of Oman, State of Qatar, and Kingdom of Bahrain) for the period between 31/12/2006 and 30/06/2012. However, since some academics refer that the market down-turn period of the global FC was confined between the two years of 2007 and 2008 (David H. and Pedro, 2012), it is proper to divide the overall period into two sub-periods: the former is termed as 'the financial crisis period' and covers the two years of 2007-2008 and the latter as 'the Post-Crisis period', it holds for the last 3.5 years from 1/1/2009 to 30/6/2012. This choice is mainly attributed to two main reasons. Firstly, to verify the validity of the FC supposition in the Gulf stock markets. Secondly, this sub-division enables us making the required comparison between the results of the two periods when investigating the impact of the FC on funds' performance, which is a key purpose for this study. For verifying the impact of the FC on the Gulf stock markets we run Chow-Test (Chow, 1960),to explore how the regression line and coefficients are stable across the two sub-periods by using F – Ratio. Meanwhile, to test the impact of the FC on the funds' performance we insert a dummy variable to take one for each moth of the first sub-period and zero otherwise, then re-estimate the regression coefficients as a vigorous check.Concurrently, in order tocompile the investigated sample, and to run the proper comparison, the following criteria have been used. First, the sample was restricted to diversified funds (conventional and Shari'ah compliant), that were publicly traded as of June 2012, covered bythe Gulf Financial Firms, and guided by the Gulf Capital Market Authorities. This results in 167 diversified funds. Second, the sample has been restricted to funds that their life-time exceeds five years by the end of June 2012 in order to keep the funds that witnessed the FC; this also results in 90 diversified funds. Third, for exploring thefund managers' capabilities of selectivity and market timing, a database has been constructed for the selected sample, while all returns are calculated from monthly net asset value (NAV) of funds resulting in returns that are inclusive of any distributions. Fourth, as the standard procedures in mutual funds research requires covering 36 monthly observations at least(Elton, Gruber and Green, 2007), this study covers more than five years (66 monthly observations) for assuring the accuracy of the research data. Fifth, for improving the comparability, funds are divided regionally into four sub-categories: the first one is the overall funds; it helps testing the first hypothesis. The second one is the conventional funds; it contains 8 investment groups based on their types (Stock, Bonds, Balanced, Equity, Money Market, Index, Guar & Secure, and Real Estate). The third category is the equity conventional funds, while the fourth category is the Shari'ah compliant ones. The last three categories help testing the second hypothesis.Finally, given the fact thatIMFs investments are subject to Shari'ah constraints, and that their holdings are more concentrated on equities only (Dawood, 2013); this paper compares the performance of IMFs against its equity CMFs

counterpart alone when testing the second hypothesis; it also uses MSCI Islamic 'Shari'ah compliant' indexes as benchmarks for measuring the performance of IMFs, and MSCI indexes as benchmarks for measuring the performance of CMFs. It employs MSCI Kuwait, MSCI United Arab Emirates, MSCI Oman, MSCI Qatar, and MSCI Bahrain as benchmarks for the conventional funds of the five Gulf countries. Meanwhile, it uses MSCI Islamic Index as a benchmark for Shari'ah compliant funds in both of Kuwait and United Arab Emirates. We also use the return of 3-monthstreasury-bill of the Gulf Countries Council GCC as a risk free rate. In brief, Table 1 summarizes the sample selection process.

**Table 1:** sample selection

| | N. of funds | N. of funds dropped | Remaining funds |
|---|---|---|---|
| Population of mutual funds:<br>(Less) Funds which did not witness the beginning of the FC | | | 167 |
| - Kuwait | 82 | 26 | |
| - United Arab Emirates | 58 | 35 | |
| - Oman | 15 | 9 | |
| - Qatar | 6 | 4 | |
| - Bahrain | 6 | 3 | |
| Final Sample | | | 90 |

### 3.2. Performance measures

#### 3.2.1. Fund manager's skills (stock picking and market timing)

Following Jensen's alpha, this paper evaluates the ability of fund manager to select the appropriate investments for his portfolio by the following generalized CAPM based regression model.

$$Rit - Rft = \alpha i + \beta i(Rmt - Rft) + \varepsilon it \quad (1)$$

Where $R_{it}$ is the return on fund $i$ in month $t$. $R_{ft}$ is the return on the 3-month Egyptian T-bill in month $t$. $R_{mt}$ is the return on the Egyptian general index in month $t$. $(Rmt - Rft)$ is the exess monthly return on market index, while $\varepsilon_{it}$ is the error term. The intercept $a_i$ is the Jensen's alpha, which is consistently represent a measure of stock picking ability of the fund manager and $\beta_i$ (beta) is the systematic risk.Meanwhile, following the basic Treynor and Mazuy (1966) model, which separates the performance of fund managers into three components, this paper measure the Egyptian fund managers ability of timing the market as follow:

$$Rit - Rft = \alpha i + \beta i(Rmt - Rft) + \gamma i(Rmt - Rft)\text{^}2 + \varepsilon it$$

(2)

Superior market timing ability shows up in positive$\gamma_i$. While$a_i$ and $\beta_i$, are coefficients indicating stock selection and systematic risk of funds.Meanwhile, in order to test whether or not the Gulf fund managers do selectivity and/or market timing during the FC then to capture the impact of downturn period; Kaushik and Pennathur (2012)

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suggest creating a down dummy variable (*Dum* Month $_i$) to take a value of 1 if the period is between January 2007 and December 2008 and zero otherwise. It means computing the fund alpha using the two previous models for the entire 2007-2012 period, then using a dummy variable to indicate the market fall of 2007-2008 period and re-estimate the regression coefficients (alpha and gamma), which allow drawing interpretations on how the market downfall impacts the fund managers practices and performances.Simultaneously, for assuring the validity of occurring the global FC in the selected five Gulf countries during the first sub-period of 2007-2008, we use Chow-Test, (Chow, 1960), to investigate the instability of the regression line and regression coefficients across the two sub-periods. We measure this supposition by the following F – Ratio.

$$F = \frac{(a-b)}{p} \div \frac{b}{(n-2p)}$$

Where:$= Rss_p$ : is the residual sum of square for the entire period.

$b = Rss_{p1} + Rss_{p2}$ : are the residual sum of square for the two sub-periods $p_1$ and $p_2$.

$n$ : the number of observations.

$p$ : the number of parameters.

While the null hypothesis can be accepted at 5% and 1% levels if the *F* value was lower than 3.01 and 4.64 respectively, which mean that there are no any structural changes for the regression line across the two sub-periods.

### 3.2.2. Performance differences between equity conventional and Islamic mutual funds

To investigate the significance of differences between the two categories of equity CMFs and IMFs we use Hayat and Kraeussl (2011) method. They propose regressing the excess return of each fund ($R_{it}$ - $R_{ft}$) against the excess return of the market portfolio ($R_{mt}$ - $R_{ft}$), and then comparing the resulted alpha and beta coefficients for each fund group with each other in a statistically way in order to assess the significance of differences between their performances. Accordingly, we obtain alpha and beta coefficients by using the (CAPM) regression between the funds excess return and the benchmarks excess return with Newey-west hetroscedasticity and auto correlation (HAC) robust-standard errors. Thus we run T- test in order to check the significance of differences in mean and standard deviation for the estimated alphas and betas assuming unequal variance. A significant positive difference between the estimated alphas would imply that one managers' group on average has better stock selection capabilities than its counterpart. Similarly a positive beta difference would imply that this managers' group is more market sensitive than its counterpart too (Dawood, 2013). Finally,to test the research hypotheses, the empirical results obtained from applyingboth of Jensen (1968) and Treynor&Mazuy (1966) models during-and-post-period of FC, in addition to Hayat and Kraeussl (2011) approach will be presented in the next section to show the significance of these regressionmodels coefficients.

## 4. Empirical Results

### 4.1 The stock picking ability

By applying the single index model of the first equation; the mutual funds sample is regressioned against the MSCI proper benchmarks; the results are displayed in the two sub-sections of Table 2. (Panel A) of this table shows that when compared to the market index across the whole period, most of the fund groups (12 out of 17) show overall negative selectivity skills; where alpha is negative but statistically insignificant, indicating that if all funds groups are unable to overcome their relative index and have no any selectivity skills, the market cannot significantly beat the Gulf managers on average. On the other hand, when compared to the MSCI conventional index and MSCI Islamic one, $CMF_S$ show negative performance, but this performance is not statistically significant implying that none of the two fund groups can show any selectivity skill. This result is consistent with the finding of Shazia et al., (2010) in Pakistan; Samira and Slaheddine (2011) in Tunis; Reza et, al., (2011) in Iran, and Fikriyah, et al., (2007) in Malaysia, who document that fund managers on average are not engaged in selectivity. To test the impact of the (FC) on funds alpha, a dummy variable is inserted and funds' alpha is re-estimated. The result is presented in (Panel B) of the same table. It illustrates that the funds alphafor the overall group remains statistically insignificant. It can also be seen that alpha for most of the funds categories (13 out of 17) is negative, but remain statistically insignificant. Thus, in selectivity context the results of both sub-periods are completely identical, implying that the average fund managers are not skilled in selecting their stocks during or after the (FC). Furthermore, the coefficient of the dummy for more than half of the funds categories is negative, but insignificant as well, stating that there is no real impact for the period of 2007-2008 on manager's performance. Furthermore, in respect to $IMF_S$ against $CMF_S$ones, the coefficient of the dummy for the latter group found to be negative, but statistically insignificant, signifying that the both groups cannot significantly over or under-perform the relative benchmark. This result differs from this of Kaushik and Pennathur (2012) who stated that the (FC) negatively and significantly affects the fund alphas.

As a robustness check, and for seeking the reasons of why managers' performance does not influenced by the FC, Chow-Test was performed after dividing the whole period into two sub-periods; it is an initial procedure for testing the null hypothesis of the regression line stability across the two sub-periods. The results of the estimated F-Ratio after exploiting the returns of MSCI indexes across the five countries are presented in Table 3. It clarifies the results of measuring the impact of the down-market phenomena for the five Gulf countries on average and for each single country. As shown in this table the values of F-Ratios for both of Kuwait, United Arab Emirates, Qatar, Oman, and Bahrain are 1.549, (-0.189), 0.592, 0.206, and 1.736 respectively. Subsequently, because these values are lower than both (3.01) and (4.61) that matches the significance levels of 5% and 1% respectively. It implies accepting the null hypothesis referring that there are no structural changes either for the regression line or for the regression coefficients across the two sub-periods for the whole five countries. The average value of F-Ratio for the five countries on average is also 0.373 and lower than both (3.01) and (4.61) that match the same significance two levels of 5% and 1% respectively too, which confirms the same results. This result clearly explains the reasons of fund managers' performance similarity across the two sub-periods as it was mentioned previously. This in turn either means that the Gulf stock market has not been affected by the FC or means that it has

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been affected by it, but at a different time, which needs to be discussed in subsequent studies.

### 4.2 The market timing ability

Following Treynor&Mazuy (1966) model of the second equation; the mutual funds sample is also regressioned against the MSCI proper benchmarks; estimated alpha and gamma are presented in the two sub-sections of Table 4. As reported in (Panel A) of this table; except for five fund groups in Oman, Bahrain, and Qatar; portfolios'gammas for the overall funds and different fund groups including both of IMFs and equity CMFs are insignificant across the overall period of 2007-2012. Similarly, and for the five countries on average, gamma coefficients for the main four categories (overall, conventional, Islamic, and equity) are statistically insignificant. It suggests that fund managers of these Gulf countries on average do not have any superior market timing skills. This result is also agreed with those of Islamic emerging economics, which was mentioned previously except of Mauritian. But it does not match these of Amporn & Yosawee (2011); Sit & Manuel (2011); and Craig and Micael (1997) in other Non-Islamic premature economic, who report that fund managers are skilled in timing their markets. Once again, to verify the impact of the (FC) on funds gamma, (Panel B) of table 6 displays the funds gamma results with the dummy variable for the period 2007-2008. Like to the results reported in (Panel A), it is true that the average gammas for the overall funds and both conventional and Islamic ones are insignificantfor the 2007-2008 periods, except for the previously five fund groups in Oman, Bahrain, and Qatar, where Gamma coefficients are negative and statistically significant, but because the estimated coefficients of the dummy variable for the whole funds groups across the same two years period are insignificant as well; it finally means that on average too fund managers cannot anticipate their market movements during and after the (FC) referring that (FC) has no impact on the managers' performance. This result are also consistent with the findings of Fung et al., (2002); French & Ko (2007) and Park (2010) who show that there is no statistically significant evidence of market timing for fund managers across the (FC).

### 4.3 Significance of differences between equity CMF$_S$ and IMF$_S$ performances

To test the significance of differences between equity CMF$_S$ and IMF$_S$ performances in both of Kuwait and United Arab Emirates; T – test is conducted for alpha and beta estimations of both fund groups. The three Sections of Table 5 display the results of this test for the two countries of Kuwait and United Arab Emirates on average and for each single one. As shown in (Panel A) of Sections 1 and 2, for the overall sample of 46 funds of the two countries or for the sample of 33 funds of Kuwait, the alpha coefficients for equity CMF$_S$ are positive and significant indicating that on average, equity CMF$_S$ perform better than their Islamic counterparts over the whole period from 2007 to 2012. When measuring the market risk as shown in Sections 1 and 2, it is found that the beta coefficients for equity CMF$_S$ are statistically higher than IMFs suggesting that these funds, on average, have a higher systematic risk as adopted by their respective benchmarks. However, and as displayed in Section 3 of (Panel A) too which documents the differences between the two fund categories in United Arab Emirates

alone, alpha coefficients for both equity CMFs and IMFs are not statistically different implying that no one of them performed better than the other one over the period 2007-2012. Similarly, when computing the systematic risk, it is found that the beta coefficients for both types are not statistically different, suggesting that these funds, on average, have a similar systematic risk as adopted by their relevant benchmark.

As also shown in Table 5; (Panels B) report the T-test statistics on the equality of standard deviations of alpha and beta coefficients as suggested by Levene (1960). As it revealed in Sections 1 and 2 the significant positive differences between the standard deviations of estimated alphas for the two countries on average and for Kuwait alone imply that the selectivity skill of equity CMFs fluctuates considerably and, therefore, this group of funds is more likely to be riskier than their Islamic counterparts. But, as reported in Section 3 the similarity between the standard deviations of estimated alphas for the two groups in United Arab Emirates implies that the stock selection ability of both CMFs and IMFs fluctuates in parallel and, therefore, no group too is riskier than the other. As expected, the standard deviation of the estimated alpha coefficient of equity CMFs is not significantly different from that of the IMFs. If read together, on average of the two countries or for Kuwait, the differences in means and variance implies that equity CMFs have better stock selection ability than IMFs. However, this additional return derived by a higher level of risk. Meanwhile, in United Arab Emirates, the similarity of mean and standard deviations between equity CMFs and IMFs implies that CMFs have no better selectivity ability than IMFs. However, these proxies of comparable returns are attributed to the similar level of market risk they both expose across the total period. This result of United Arab Emirates differs from that of Luis et al., (2012) who add that religious mutual fund managers underperform their conventional counterparts, but it express about the same result in Kuwait or on average.

## Conclusion

The recent study provides a comprehensive analysis of themutual funds'performance for five Gulf countries over the period 2007-2012. Literature review find mixed results regarding the managers' skills across mature, premature, and emerging economics. Using a sample of 90 mutual funds, this paper examined the two skills of market timing and selectivity. In addition to exploring a new region, it adds to the recent literature by investigating the impact of the financial crisis (FC) of 2007-2008 on funds' performance, besides inspecting the comparative performance between equity CMFS and Islamic ones. The results for the two regression models of Jensen (1966), and Treynor&Mazuy, (1966) are the same. Funds' performances are indecisive between positive and negative for these five countries on average and for each separate one, but always insignificant for the overall period. This result remains the same when accounting for the down-market condition of 2007-2008;the coefficients for the downturn dummy variable for nearly half of the selected funds show negative values, but they are insignificant; Chow-test supports this result, where it shows no structural changes for the regression line and coefficients across the two sub-periods. This result is consistent with this ofEllaboudy, (2010), who reports thatthe economy of the Arab rich 'Gulf Cooperation Council' GCC which is mostly dependent on oil revenue is thought to be better insulated from the effect of the

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financial crisis. Furthermore, equity CMFS shows superiority in Kuwait alone, where alpha coefficients are positive and significant implying that, on average, and for the whole period this fund group perform better than their Islamic counterparts, but this over-performance is always accompanied by a significant higher level of systematic risk. Conversely, the priority of equity CMFs performances cannot be acknowledged in the United Arab Emirates, where there no any significant differences between funds' performances indicating that no one of the two groups performed better than the other.It seems that the Gulf fund managers are not able to out-perform their industry benchmark even for the full period or the fallen-market period due to their poor skills of market timing and selectivity. To this extent, the results are nearly consistent with the prior studies that conducted in most emerging economics except for Turkey, Malaysia, and Mauritian, where, Evangelos, (2009); Fadillah and Ishaq, (2009); and Beehary et al., (2009) respectively propose that fund managers are already skilled in selecting their assets and in timing their markets.

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## Appendix A: Tables

**Table 2.** Model 1 and Model 2: Results of the stock picking ability across the two sub-periods.

| | | | **Panel B Overall Period 2007 – 2012 Model 1** | | | **Panel B Crisis Period 2007 – 2009 Model 2** | | |
|---|---|---|---|---|---|---|---|---|
| **Sample** | **No of Funds** | **Obs** | **Variable** | **Estimated Value** | **p-value** | **Variable** | **Estimated Value** | **p-value** |
| Overall | 90 | 5940 | Alpha<br>Beta | -0.002<br>0.454 | 0.717<br>0.000 | Alpha<br>Beta<br>Dummy | -0.002<br>0.454<br>0.000 | 0.785<br>0.000<br>0.976 |
| Coventional | 68 | 4488 | Alpha<br>Beta | -0.002<br>0.449 | 0.668<br>0.000 | Alpha<br>Beta<br>Dummy | 0.000<br>0.446<br>-0.005 | 0.946<br>0.000<br>0.641 |
| Islamic | 22 | 1452 | Alpha<br>Beta | 0.000<br>0.417 | 0.958<br>0.000 | Alpha<br>Beta<br>Dummy | -0.007<br>0.433<br>0.018 | 0.433<br>0.000<br>0.211 |
| Equity | 29 | 1914 | Alpha<br>Beta | 0.002<br>0.522 | 0.807<br>0.000 | Alpha<br>Beta<br>Dummy | 0.005<br>0.517<br>-0.008 | 0.592<br>0.000<br>0.565 |

**Table 3.**Regression line stabilityacross the two sub-periods.

| Period | N | Sum of Squares | df | No of Obs | No of Parameters | F Value | F Table | S - Level |
|---|---|---|---|---|---|---|---|---|
| **For 5 Countries** | | | | | | | | |
| Total Period | 66 | 0.084 | 65 | | | | 3.01 | 5% |
| FC - Period | 24 | 0.062 | 23 | 66 | 2 | 0.373 | | |
| Post-Crisis Period | 42 | 0.021 | 41 | | | | 4.64 | 1% |
| **In Kuwait** | | | | | | | | |
| Total Period | 66 | 0.084 | 65 | | | | 3.01 | 5% |
| FC - Period | 24 | 0.034 | 23 | 66 | 2 | 1.549 | | |
| Post-Crisis Period | 42 | 0.046 | 41 | | | | 4.64 | 1% |
| **In UAE** | | | | | | | | |
| Total Period | 66 | 0.163 | 65 | | | | 3.01 | 5% |
| FC - Period | 24 | 0.134 | 23 | 66 | 2 | -0.189 | | |
| Post-Crisis Period | 42 | 0.030 | 41 | | | | 4.64 | 1% |
| **In Qatar** | | | | | | | | |
| Total Period | 66 | 0.160 | 65 | | | | 3.01 | 5% |
| FC - Period | 24 | 0.124 | 23 | 66 | 2 | 0.592 | | |
| Post-Crisis Period | 42 | 0.033 | 41 | | | | 4.64 | 1% |
| **In Oman** | | | | | | | | |
| Total Period | 66 | 0.151 | 65 | | | | 3.01 | 5% |
| FC - Period | 24 | 0.113 | 23 | 66 | 2 | 0.206 | | |
| Post-Crisis Period | 42 | 0.037 | 41 | | | | 4.64 | 1% |
| **In Bahrain** | | | | | | | | |
| Total Period | 66 | 0.132 | 65 | | | | 3.01 | 5% |
| FC - Period | 24 | 0.091 | 23 | 66 | 2 | 1.736 | | |
| Post-Crisis Period | 42 | 0.034 | 41 | | | | 4.64 | 1% |

**Table 4.** Model 1 and Model 2: Results of the market timing ability across the two sub-periods.

| | | | **Panel B Overall Period 2007 – 2012 Model 1** | | | **Panel B Crisis Period 2007 – 2009 Model 2** | | |
|---|---|---|---|---|---|---|---|---|
| **Sample** | **No of Funds** | **Obs** | **Variable** | **Estimated Value** | **p-value** | **Variable** | **Estimated Value** | **p-value** |
| Overall | 90 | 5940 | Alpha | -0.005 | 0.991 | Alpha | 0.000 | 0.941 |
| | | | Beta | 0.417 | 0.000 | Beta | 0.416 | 0.000 |
| | | | Gamma | -0.486 | 0.425 | Gamma | -0.511 | 0.419 |
| | | | | | | Dummy | -0.002 | 0.869 |
| Coventional | 68 | 4488 | Alpha | -0.001 | 0.004** | Alpha | -0.002 | 0.982 |
| | | | Beta | 0.425 | 0.000 | Beta | 0.357 | 0.006 |
| | | | Gamma | -0.303 | 0.518 | Gamma | -1.365 | 0.153 |
| | | | | | | Dummy | 0.019 | 0.205 |
| Islamic | 22 | 1452 | Alpha | 0.004 | 0.646 | Alpha | 0.000 | 0.809 |
| | | | Beta | 0.369 | 0.005 | Beta | 0.428 | 0.000 |
| | | | Gamma | -1.075 | 0.247 | Gamma | -0.246 | 0.710 |
| | | | | | | Dummy | -0.004 | 0.719 |
| Equity | 29 | 1914 | Alpha | 0.000 | 0.980 | Alpha | 0.003 | 0.729 |
| | | | Beta | 0.563 | 0.000 | Beta | 0.570 | 0.000 |
| | | | Gamma | 0.535 | 0.563 | Gamma | 0.703 | 0.463 |
| | | | | | | Dummy | -0.011 | 0.464 |

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**Table 5.**Results of T – test for the differences in performances between equity CMFs and IMFs.
**Section 1:** For both of Kuwait and United Arab Emirates' funds

| | Variable (1) | N (2) | Sample (3) | Mean (4) | Std. deviation (5) | Std. error (6) | *t-stat* (7) | Sig (8) |
|---|---|---|---|---|---|---|---|---|
| **Panel A** | **Alpha** | 22 | Islamic | 0.0000 | 0.02741 | 0.00584 | -1.821 | 0.076* |
| **Differences** | | 23 | Equity | 0.0170 | 0.03463 | 0.00722 | -1.830 | 0.074* |
| **In** | | | | | | | | |
| **Mean** | **Beta** | 22 | Islamic | 0.4263 | 0.52076 | 0.11101 | -1.760 | 0.086* |
| | | 23 | Equity | 0.7013 | 0.52735 | 0.10996 | -1.760 | 0.085* |
| **Panel B** | **Alpha** | 22 | Islamic | 0.0113 | 0.02594 | 0.00553 | -2.025 | 0.049** |
| **Differences** | | 23 | Equity | 0.0320 | 0.04075 | 0.00850 | -2.045 | 0.048** |
| **In** | | | | | | | | |
| **S.Deviation** | **Beta** | 22 | Islamic | 0.0804 | 0.21548 | 0.04594 | -2.328 | 0.025** |
| | | 23 | Equity | 0.3374 | 0.46687 | 0.09735 | -2.363 | 0.025** |

**Section 2:** For Kuwait Funds

| | Variable (1) | N (2) | Sample (3) | Mean (4) | Std. dev (5) | Std. error (6) | *t-stat* (7) | Sig (8) |
|---|---|---|---|---|---|---|---|---|
| **Panel A** | **Alpha** | 19 | Islamic | 0.0008 | 0.02952 | 0.00677 | -1.786 | 0.084* |
| **Differences** | | 14 | Equity | 0.0216 | 0.03719 | 0.00994 | -1.724 | 0.084* |
| **In** | | | | | | | | |
| **Mean** | **Beta** | 19 | Islamic | 0.5142 | 0.54812 | 0.12575 | -1.766 | 0.087* |
| | | 14 | Equity | 0.8489 | 0.52390 | 0.14002 | -1.778 | 0.086* |
| **Panel B** | **Alpha** | 19 | Islamic | 0.01205 | 0.02794 | 0.00641 | -2.167 | 0.038** |
| **Differences** | | 14 | Equity | 0.0405 | 0.04737 | 0.01266 | -2.008 | 0.059* |
| **In** | | | | | | | | |
| **S.Deviation** | **Beta** | 19 | Islamic | 0.0825 | 0.23266 | 0.05338 | -1.835 | 0.076* |
| | | 14 | Equity | 0.3433 | 0.55977 | 0.14960 | -1.642 | 0.120 |

**Section 3:** For United Arab Emirates' Funds

| | Variable (1) | N (2) | Sample (3) | Mean (4) | Std. dev (5) | Std. error (6) | *t-stat* (7) | Sig (8) |
|---|---|---|---|---|---|---|---|---|
| **Panel A** | **Alpha** | 3 | Islamic | -0.0053 | 0.00058 | 0.00033 | -1.669 | 0.126 |
| **Differences** | | 9 | Equity | -0.0046 | 0.00073 | 0.00024 | -1.888 | 0.126 |
| **In** | | | | | | | | |
| **Mean** | **Beta** | 3 | Islamic | 0.2430 | 0.01758 | 0.01015 | 0.495 | 0.631 |
| | | 9 | Equity | 0.2386 | 0.01223 | 0.00408 | 0.406 | 0.715 |
| **Panel B** | **Alpha** | 3 | Islamic | 0.0067 | 0.00058 | 0.00033 | 0.310 | 0.763 |
| **Differences** | | 9 | Equity | 0.0066 | 0.00053 | 0.00018 | 0.295 | 0.786 |
| **In** | | | | | | | | |
| **S.Deviation** | **Beta** | 3 | Islamic | 0.0667 | 0.00681 | 0.00393 | -0.383 | 0.710 |
| | | 9 | Equity | 0.0681 | 0.00533 | 0.00178 | -0.335 | 0.761 |