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PERFORMANCE OF ISLAMIC VERSUS CONVENTIONAL SHARE INDICES: INTERNATIONAL EVIDENCE

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İSLAMİ ENDEKS VE GELENEKSEL ENDEKSLERİN ULUSLARARASI KANITLARLA PERFORMANS DEĞERDENDİRMESİ

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1) Islamic Finance
2) Islamic Index
3) Conventional Index
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ABSTRACT

This study compares the performance of conventional and Islamic indices in the United States, Malaysia, Indonesia, United Kingdom, and the World for the time period of 2008 to 2018. It is found that there is a strong positive correlation between conventional and Islamic indices in all markets. Moreover, we show that there are no significant differences in mean returns between conventional and Islamic indices except for Jakarta Stock Exchange. Once we compare the performance of indices during and after the crisis period, mix results are documented. There is no bi-directional or unidirectional relationship between conventional and Islamic indices in the United States and Malaysia. For the case of the United Kingdom and Indonesia, there is a bidirectional relationship between conventional and Islamic indices. For those markets, we can conclude that Islamic index granger cause the conventional index and vice versa.

ÖZET

Bu çalışma,2008 ve 2018 arası Birleşik devletlerdeki, Malezya'daki, Endonezya'daki, Amerika'daki ve tüm dünyadaki geleneksel ve islami endekslerin performansını karşılaştırmaktadır. Tüm pazarlarda geleneksel ve islam endeksleri arasında güçlü bir pozitif ilişki olduğu bulunmuştur. Ayrıca, Jakarta borsası dışında, geleneksel ve Islamik endeksler arasındaki ortalama getiri arasında önemli bir fark bulunmuyor. Kriz dönemindeki ve sonrasında endekslerin performansını karşılaştıracağımız zaman, karisik sonuclar elde edilmistir. Birleşik devletlerde ve Malezya'daki geleneksel ve İslami endeksler arasında iki yönlü veya tek yönlü bir ilişki yoktur. Birleşik krallık ve Endonezya için, geleneksel ve İslami endeksler arasında çift yönlü bir ilişki vardır. Bu pazarlar için, islamik indeks grangerinin konvansiyonel endekse ve tersine yol açtığı sonucuna varabiliriz.

1. INTRODUCTION

Islamic Finance has been rapidly developing since the 1960s. In today's world, one can argue that Islamic finance is even more popular than conventional finance. Jamaldeen (2012) states that the use of Islamic finance has grown so much that its market is now worth $700 billion globally. It is in fact considered to have grown %50 more than all the banking sectors globally. There are proclamations that Islamic banking will eventually account for half of the entire banking assets in Islamic countries. Islamic finance's increasing popularity even led it to perform densely even in non-Muslim countries. As Islamic Finance is collated conventional finance, it is clear that is markedly different from conventional finance; however, it is often difficult to determine which type of finance performs better as a whole.

This study will compare the performance of conventional and Islamic indices in the United States, United Kingdom, Malaysia, Indonesia, and the World. We will also consider the impact of financial crisis on the returns of indices while analyzing the correlation between conventional and Islamic indices. Moreover, the co-integration between two indices will be analyzed.

The next section will provide basic definitions and information about Islamic Finance and also compares traditional and Islamic finance. Section 3 will focus on the contents of Islamic indices. The literature review will summarize the previous studies analyzing the performance of the two indices. Section 5 shows the data source and period while also presenting the methodology. Section 6 presents the findings and the last section concludes the paper.

2. ISLAMIC FINANCE

2.1. BASIC DEFINITIONS

Jamaldeen (2012) goes through the basic definition and outcomes of Islam to figure out Islamic finance, and its obligations. Islam is not only a religion; it is form of life that is involved with social, economic and political incidents. Looking through the main frame of Islam is the fact that Allah owns all prosperity in the world and people are the custodians of this wealth. As people are the trustees of Allah's wealth, they need to operate this wealth based on the commands of Allah. The commands of Allah lead some activities to be inhibited, but a Muslim can enjoy his wealth without inhibition as long as what his activities are according to Shariah law (the basic principles of Islam). According to Muslim belief Islam is not restrictive to economic activity, but it should serve to benefit people causing the environment to be protected, income to be distributed fairly to honor Allah. Even though Islam lets free market economy to operate in which main figures of supply and demand are decided spontaneously in the market, not by the force of governmental regulation, there are still some laws and ethics of Islam that leads its financial methods to be in accordance to specific regulations of Islamic values. The reason of laws and ethics in Islam is to provide social justice, equality, as an Islamic value social justice is a must for humanity. Islam has its own ways to accomplish social justice. The ways Islam uses to serve social justice are listed as: encouraging fidelity to Islam, demanding Zakat, expressing the responsibility of the state, banning interest which is considered usury, promoting shared risk, abstaining from gambling and all uncertain business activities. Encouraging fidelity to Islam is based on the expectations of being a Muslim. What is expected from a Muslim is to practice the mandatory acts, and stick to the main beliefs of Islam. Recalling Muslims their Islamic obligations result as stronger relationships between people, and environment, between each person and Allah, and among collective individuals, Requirement of Zakat is another way of Islamic act that aims the fairly distribution of wealth. Zakat is an Islamic property tax that is a type of tax that each

Muslim with enough wealth has to distribute an amount of his wealth each year to the people in need. Zakat is a way of turning tax in to beneficial way of sharing it for the sake of all community as also encouraging Muslims to be socially responsible for the distribution of wealth. Expressing the responsibilities of the state is based on the values of Islam, in Islam it is argued that state should show the existence of social justice to community. This form of ensuring of social justice is state's way of showing the community that state is serving for the sake of them. It is even argued by Islamic scholars that state should collect Zakat, and help wealth distribution to sustain basic needs of everyone. Islamic scholars also stat that states should protect the real value of money by practicing fiscal policy strictly for the favor of its' population's wealth and economic development. Inhibition of interest is another principle of Islam that serves in favor of social justice. According to Islam money can never be a priority, and using money to generate more money can never be morally right business transaction. Money should act in favor of people, people should not act in favor of money, interest which is called riba leads people to serve to money and makes money as a priority of financial transaction which takes away all the ethical values established by Islamic Finance transactions. In Islam, and Islamic Finance money should be shared and should support productive economic activities. Money can never be the aim of financing. Islam also believes in promoting shared risk in a way of not putting too much burden on one party's shoulder as the risk is shared by two or more parties the burden within those economic transactions are decreased and divided among each party. Along with the mentioned values of Islam, Islam also restrains on gambling and considers it as an invasion of social justice, and fair distribution of wealth. There are two types of gambling in Islam, one is called Maysir, which is the acquisition of wealth only by chance without any effort, the other is Qimar that includes all types of chance games in modern gambling. Gambling transactions lead to uncertainty (Gharrar) in business transactions and are prohibited in Islamic laws

Kammer et al (2015) emphasize on the definition of Islamic finance as the relatively newer format of finance based on Islamic jurisprudence called Shariah. Shariah rules are very restricted: they prohibit interest (called Riba), products with too much uncertainty or asymmetrical information (called Gharar), gambling (called Maysir), short sales and financing of banned activities that the rules of Shariah consider harmful for the community. Shariah rules call for those engaged in Islamic Finance to follow the rules of fair treatment. According to Islamic finance, all transactions must be based on real economic activities, and risk sharing must be included in these economic transactions.

Warwick-Ching (2015) defines Islamic Finance as a banking and financing method that is loyal to Sharia law. The main principle of Islamic Finance is to avoid all haram (harmful) activities as charging interest is one of them. Once an institution is considered as Islamic Institution it should follow the principles of Shariah in order to stay that way. Islamic Finance's aim of avoiding interest is to prevent unfair profit. The operations of Islamic Finance should involve both customer and the bank as the entire process is mutually shared in terms of loss and profit in the transactions.

Naveed (2015) elucidates the similarities between the Islamic financial system that is similar to the financial system of conventional banking such as reliance on capital markets, fund managers, investment firms, and insurance companies. The most fundamental difference between Islamic finance and conventional banking lies within the obligations on Islamic finance practiced by Islamic law and regulations.

Jamaldeen (2012) centers upon the Islamic theories lasting for thousands of years. Prominent Muslim scholars had offered key points of Islamic economics that are still observed today. Social and political confusion put the brakes on Islamic finance for a very long time; only in the 20th century did Academics and Muslim scholars determinedly begin to revisit Islamic finance topics. As the Islamic finance established today has emerged during 1963 with the first Islamic bank recorded which is named the Mit Ghamr Savings Bank in Egypt, the establishment of Islamic finance lies within 1400 years ago, with the establishment of Quran, but the rising of Islamic finance started through era of mid 7th to 13th century with documenting the Islamic Economic principles.

Naveed (2015) outlines the history of Islamic Finance starting from the very backdated history; Post- Roman Europe. In Post- Roman Europe, people did not use money for exchange; they did trading of furs and lumber instead. The Islamic Califate in Post- Roman Europe led the population to look for a currency in Islamic format, which led to the formation of Islamic coinage. Islamic coins were found in Europe and were used as monetary tool for Muslims. The presence of Islamic coinage has been widely spread fast, and even had dominance in the economies of Europe, Middle East, and India. It is even believed by economic historians that the flow of Muslim coinage had played a very significant role in re-monetization of Europe after the Roman Empire, and regeneration of the European banking system. The era of Ottoman Empire's presence (starting from 1301 till 1922) was the time of significant global trade growth, but Islamic Finance was not highly demanded as due to the limited presence of Islamic Finance products. Even though it is considered that the first Sukuk was established in 1775 by Ottoman Empire and it was used to borrow money against future income on tobacco custom levies to support budget deficit the presence of Islamic Finance transactions did not play an important role in Ottoman history. Another important establishment was the opening of Barclays Bank in Cairo in 1890. Barclays Bank's branch in Cairo's transactions aimed the construction of Suez Canal. Islamic scholars opposed to the operations of Barclays Bank due to its involvement with interest. Islamic scholars' criticism of Barclays Bank has dispersed around Arab regions and Indian sub-continent. The reviews of Islamic scholars led many scholars of Shariah to clarify that all forms of interest are banned as an important component of Riba. 1930s were the period when the Islamic Finance has emerged in India. The emergence of modern Islamic economies led the Muslim population of India (as them being the minority due to India's presence of having Hindu-dominated population) to fear that there would be enmity and discrimination against them by the Hindu-dominated population. The Muslim Indian population that had concerns on the emergence of Islamic finance was mainly Muslim farmers that had build-up debt to Hindu money lenders that were ready to distrain on the lands in case of having issues in the payment of the lending. After the ban of pawn-broking in Pakistan, the country gained value globally in 1950s. The gained emphasis of Pakistan as a country globally led to Muslim population to be supportive to Pakistani bank that would give away money without charging interest in return. Even though Muslim population supported the Pakistani bank, this could not help the bank to stay efficient in the market-causing bank to run out of deposit and be closed.

Following Pakistani bank, Islamic bank in Egypt was established by Ahmed El-Nagar in 1963. The Islamic bank in Egypt led to success, which created the next step for Islamic banking. The achievement of Islamic Bank in Egypt caused Nasser Social Bank to be founded. The established Islamic banks led to merging with the help of $2 million USD by the government of Egypt. The merging of two Islamic banks (Nasser Social Bank and Islamic Bank in Egypt) is strictly cohesive to Shariah rules. As the new Islamic bank followed the Shariah rules religiously the loans were given interest free. The loans of the new Islamic bank were given out to social welfare and projects by the preference of the bank committee. What new Islamic Bank offered was to make sure that the bank is serving well to society and doing beneficial transactions to community not on behalf of earning higher money flow. The new Islamic bank even offered restrictions to depositors to not to re-deposit from this bank to conventional banks in order to earn interest. The merging Islamic Bank made sure that none of the assets earned by the Islamic Bank goes in return for conventional banks that can lead these assets to have interest value.

Naveed (2015) explicates the effects of falling apart colonization, and Muslim countries gaining independency in Islamic Finance. As Indonesia declared independency in 1945, followed by Algeria in 1963, these accomplishments led more Muslim countries to have their own freedom of speech in a way. The developments in Islamic Finance are validly seen in countries like Gulf, Pakistan, and Malaysia during the late 1970s. Wider spread of Islamic Finance around developing Muslim countries led to the first steps of Islamic border to be taken. The foundation of the Egyptian Nasser Social Bank was considered as an achievement by other Muslim countries that were looking forward to imitating its banking model. Especially Saudi Arabia had been very supportive to the formation of other Islamic

Banks in Gulf States. In 1975 Dubai joined Islamic Finance movement, and Dubai Islamic Bank was settled. Dubai Islamic Bank was a modernized Islamic Bank, which was owned and operated by private investors. Even though Dubai Islamic Bank was a private Islamic Bank it still involved a committee of religious advisors to control the operations and to look at whether the operations are according to Shariah rules or not. In 1977, Kuwait Finance House, which was owned by government, was formed as an Islamic Bank for Kuwait. In addition to that in 1977, the Faisal Islamic Bank of Egypt, and the Faisal Islamic Bank of Sudan, which were named after Saudi Arabia's Prince Mohammad bin Faisal that played a big role in the founding of these Islamic banks. The 1980s were the times when Iran and Sudan involved in Islamic reforms that caused all kinds of interest to be taken away from their national banking systems. Now a day Iran is considered as the World's biggest Islamic Finance market that formed assets worth $ 300 billion in 2012. Besides those developments, the downfall of the Pakistani bank led Asian countries to find different methods to form a successful Islamic Bank. Philippine government formed the Philippine Amchan Bank, which offers both Islamic, and conventional banking services. Southeast Asia can be the origin place of many practices, products, and services of modern Islamic banking system, but the important role that this region played was not established till the foundation of Islamic Bank in Malaysia in 1983. Starting from 1983 Malaysia had played a significant role in the modernization of Islamic banking practices and incorporation phase of Islamic banking in to the mainstream global banking system. In Malaysia, and Islamic Institution was even established before the foundation of the first Islamic Bank. The foundation of Muslim Pilgrims Savings Corporation in 1963 supported Pilgrims in Malaysia to perform Hajj. Muslim Pilgrims Savings Corporation was named as Tabung Hajj later on, and kept helping Pilgrims to invest their Hajj savings in to businesses that are in accordance to Shariah. Tabung Hajj's practices were so successful that soon it led to formation of Bank Islam Malaysia, which has been an innovator in Modern Islamic Banking. Tabung Hajj played such an important role in the development of Bank Islam Malaysia that it was responsible for 12.5% of this bank's primary capital. The way Islamic Banks in Malaysia operate is based on keeping both

Conventional, and Islamic banking systems to figure out global aims of these banks. On the other hand side, the way Bahrain handled Islamic Banking was mainly based on prioritizing Islamic Banking in the global market, but the results show that Malaysia is a head of Bahrain in terms of being able to see all aspects of banking system, and being innovative. Even though Bahrain's Islamic banking system seems to be less efficient than Malaysia's Islamic banking system Bahrain is the leader in offshore Islamic banking based on having the highest number of offshore Islamic Financial Institutions. The failure of first Pakistani Islamic bank did not stop to country to engage in a new way to achieve Islamic Banking. Pakistan took away interest from all banking operations slowly starting from 1979 to 1985. Pakistan's movement of mandatory conversion to Islamic banking is also a way that some strictly Muslim countries like Iran and Sudan use in the format of Islamic Banking as well.

Jamaldeen (2012) goes through the timeline of Islamic finance, and the history of Islamic finance shows that middle of 1960s was critical time for the developments of Islamic Finance. The timeline of Islamic finance states that 1963 was the year of new beginnings for the market as not only the first bank was established, but also the Pilgrims Saving Corporation of Malaysia started to set up primary Islamic banking concepts. The Islamic Development Bank was established in 1975 in Saudi Arabia, and officially provided Islamic finance industry with significant international visibility. The Islamic Development Bank gathered countries with membership of Islamic finance and gave financial products offerings to them to encourage economic and community development for Islamic finance. 1979 was the year when the first Islamic insurance (or Takaful) company, called the Islamic Insurance Company of Sudan, was established. The year 1986 was the year that the Amana Income Fund, the world's first Islamic mutual fund (which invests only in Shariah-compliant equities), was founded in Indiana. Besides those developments, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was settled to make an industry based on the standards of accounting and auditing, and Islamic bond market was visibly active with the first tradable Sukuk as being the Islamic alternative to conventional bonds which were emitted in

Malaysia by Shell MDs in 1990. Citibank's start of offering Islamic banking services was a very important step towards international visibility as this offering led to the settlement of the Citi Islamic Investment Bank in Bahrain in 1996. One of the most important criteria for Islamic investment performance, Dow Jones Islamic Market Index (DJIMI), was established in 1999. To set up more visible international presence, the Malaysia based Islamic Financial Services Board (IFSB) was founded to create a global standard-setting body for Islamic financial institutions in 2002. The final milestone for Islamic Finance occurred with the Islamic Bank of Britain becoming the first Islamic bank settled up outside the Muslim world, which showed a bigger establishment of international visibility, and increasing performance of Islamic finance around the globe.

Naveed (2015) underlines the developments of Islamic Finance by the 2000s especially by the agreement signed in between institutions in Bahrain, Indonesia, Sudan, Saudi Arabia, and Malaysia to establish the International Islamic Financial Market (IIFM) in 2001. The main aim of establishing International Islamic Financial Market was to help Sukuk and other Islamic financial instruments to have bigger market presence in the international field. International Islamic Financial Market (IIFM) plays an important role in harmonizing the different government's Sukuk issuances and criticism of Shariah in different governmental regulations. As different Islamic Financial Instruments are gathered in International Islamic Financial Market (IIFM), all these instruments formed in harmony with the supervision of Shariah Supervisory Committee in International Islamic Financial Market (IIFM) that is consisted of scholars from different regions of Shariah schools that enables the Islamic Instruments to meet each other half way with harmony and conciling. Islamic Financial Market (IIFM) established acceptance of Islamic Finance internationally as attracting global investors with profitable, legitimate financial instruments. The foundation of Islamic Financial Market (IIFM) also led Muslim countries to strengthen their economic ties, operate more adaptively, combine each other's different views of Shariah to Islamic Instruments. What international Islamic Financial Market faces today is the increasing need for faster liquidity management as each business transaction is occurring gradually it leads Islamic Financial Instruments to still not to be adaptable to modern markets regardless of all the developments through history. To come up with short-term Sukuk providing the liquidity factor for Islamic Finance International Islamic Liquidity Management was established, and short-term Sukuk was issued based in Kuala Lumpur. In 2005, the innovations in Islamic Banking emerged while making Islamic Financial Instruments more flexible and agile in liquidity management. The problems of liquidity, and short term profitable returns, returns of Sukuk bonds are still considered as issues of Islamic Finance faced in today's Islamic Finance World.

World Economic Forum (2017) defines Islamic finance as a system that considers money as a parameter to explain the value of something. Money is not considered valuable in and of itself, and therefore, it cannot generate money on its own, it should be used as the value of something such as a product or an investment. What Islamic banks do to earn money is to share the risk of the investors in maintaining operations on profit-loss basis, not considering money as a tool of generating more money. Money has no value of its own; it is only used to describe the value of something. The way Islamic banks make money is based on sharing all the possible outcomes with the investors including risks and rewards, therefore the Islamic bank operations are under an elaborate control to make sure that stable and long-term beneficial investments are made.

Ambrose (2017) zooms in Islamic finance's contract based nature. As all products in Islamic finance are contract based, they are divided into four categories: debt-like financing structured as sales, profit and loss sharing services as safe keeping contracts, contract of exchange, contract of participation. First category, debt-like financing structured sales, such as sales of which the payment of sales can be marked up and deferred (called Murabahah) or deferred delivery of purchased products can occur (called Salam for basic products while it is called Istisna for fabricated products) and leases with different options of buying are possible (called Ijarah). On the other hand, pure lending is permitted only in cases of altruism.

Warwick-Ching (2010) puts the emphasis on the different formats of profit and loss sharing in Islamic finance. Profit-and- loss sharing is financing with two ways; 1) profit sharing and loss bearing (Mudarabah) where the investor or bank (finance provider) obtains capital and the claimant ensures labor and skills (profits are shared but the losses are carried away by the financier who has no right to intervene in the management of the financed operation, but, if there is an omission, misconduct, violation of the contract, the circumstances change and they can be proven) 2) pure profit and loss sharing (called Musharakah) in which two parties have equally divided financing of the project as they share profits and losses, services including safe-keeping of the contracts (called Wadi'ah), current deposits or contracts of agency (called Wakalah), as all of these services are incrementally used for money market transactions. Islamic Finance is recently offered in 500 financial institutions.

The World Bank (2015) focuses on different aspects of Islamic finance. Islamic finance revolves around five main convepts, that is Murahaba, Ijara, Mudaraba, Musharaka and Sukuk. Murabaha is an accurate kind of sale and not a financing in its origin. The main idea is cost-plus sale. Basic rules of Murabaha financing are that; 1) an asset must exist to be sold 2) a sale price should be determined 3) sales must be assured. Ijara literally means 'to give something on rent'. Ijara is an Islamic alternative of leasing under acceptable transaction of Shariah. Mudaraba is a trustee finance contract. One side contributes effort or expertise while the other side contributes capital. The investor is not guaranteed that bears and return of any financial loss and profits are shared observance to a predetermined ratio). Musharaka is a form of partnership between two or more parties each of whom provides capital towards the financing of established or new projects. Sukuk is a financial certificate or an Islamic bond,and is a certificate of investment in a project in which the Sukuk holders have to be involved in the underlying asset or project Sukuk issue.

IFSB (2014) points out Islamic finance's different service offerings. Islamic finance is a rapidly growing market; nowadays, it provides many services for the investors, and through time many more investors prefer to continue with investing on Islamic finance. Islamic banking is highly important share of Islamic Finance as it being eighty percent of all Islamic finance assets of the year 2013. Kammer et al (2015) focus on importance of Sukuk in Islamic Finance which covers the fifteen percent of Islamic assets in the market, as the other Islamic finance services can be listed as leasing, equity markets, investment funds, insurance (called Takaful) and microfinance. As growing market, Islamic finance offers very wide aspects of services.

World Economic Forum (2017) clarifies what Sukuk bond is. Sukuk is a Shariah based bond; which is a different format of bonds. In conventional bonds what is offered to the bondholders is to pay an interest through a period of time while in Sukuk bond there is no interest that is gradually established, there is a fixed a rate of profit to be paid back by bondholders in return. Sukuk bond has played an important role in the establishment of Islamic Finance in Saudi Arabia. Sukuk is divided in to two credit payable categories, as one being a five year bond, which investors pay profit rate of 2.89% while the other being ten year bond which investors pay profit rate of 3.63 %. Sukuk bonds have many different forms, and Al-Ijara is one of the mutual structures of the bonds. Al-Ijara is the structure, which is an Islamic Finance form of lease. The Al-Ijara structure is based on the transfer of assets from bondholder to investor via investor's payment of fixed rent for a determined period of time. When the investor makes the determined time of payment, the assets are entirely owned by investor. Sukuk bonds even played an important role in the non- Muslim countries. United Kingdom government decided to use Al-Ijara structure of Sukuk and was the first government of non-Muslim country that issued a Sharia- based sovereign bond in 2014. . The £ 200 million worth Sukuk bond was purchased by three United Kingdom government properties. This £ 200 million worth Sukuk bond will be based on five-year period of the bond, and United Kingdom government will be charged rent for using the properties which will leads the bondholders to take 2.036% fixed rate of profit from the United

Kingdom government. Since the United Kingdom's Shariah bonds were purchased in 2014, the maturity of the bonds will occur in 2019 leading the ownership of the properties back to United Kingdom government by gradually paying fixed rate of profit to bondholders in five years. Popularity of Sukuk bonds around the world did not end with the United Kingdom, the order of Sukuk in 2014 has reached £2.3 billion globally. The reason underneath the growing popularity lies within the global financial crisis in 2008 as well. The global financial crisis led investors to have trouble seeing the future of their investments due to increasing uncertainty, and they looked for more stable investment plans, and Sukuk bonds were a great way to establish that plan. In April 2017, Saudi Arabia's largest issuance of Shariah-complaint bond was made to Irish Stock Exchange.

Jamaldeen (2012) explains the developments of Islamic finance through time. Considering all the establishments by Islamic finance transactions, now there are more 500 Islamic financial institutions globally starting from 1970s as 300 of those institutions being Islamic banks. As the Islamic finance started to grow after 1970s, in the last twenty years, the Islamic finance industry faced average growth of 14 percent per year, and its assets are approximately worth $1 trillion. Now, in 21st century, Islamic financial institutions are not only operating in Muslim countries, they are recently functioning in 124 Muslim and non-Muslim countries around the world, and this will keep increasing due to increasing demand for Islamic finance as it offers higher stability for the investors.

Islamic finance's most fundamental principles, which are based on Shariah, do not allow a high degree of uncertainty, as such, they leave no room for significant fluctuations. The way Islamic finance works is based on having control on all phases of transactions. While such involvement may cause administration costs to soar, it also provides an additional level of security for customers' assets. Islamic finance's main tool for transactions is not money, and as it operates according to principles, and contracts, assets, and sharing of the entire operations including owning the assets with Islamic Financial Institution and customers, it creates a community of financial help of its own to customers.

Samfn (2014) focuses on the advantages of Islamic finance. Five most recognized advantages of Islamic finance are: helping with financial contribution of customers, decreasing the effect of detrimental products and services, emphasizing on the principal of impartialness, supporting stability in investments, and expediting economic development.

Guidance Residential (2018) emphasizes helping with financial contribution as an advantage of Islamic Finance. This advantage leads more businesses and individuals to gain access to reasonably priced financial products and services according to their needs. Shariah law may prohibit payment and receipt of interest but it also gives chance to promote financial contribution and bring higher amounts of savings in the local and global economy to be distributed more equally. Decreasing the effect of detrimental products and services is an advantage of Islamic finance that happens due to the banning of some business activities and transactions in industries that are against Islamic principles such as gambling, tobacco, and alcohol industry. This impact is very beneficial for humanity as people can have less access to industries that are harmful to society & its development by the help of Islamic finance.

Jamaldeen (2012) centers on the financial justice on behalf of Islamic finance. As financial justice is a must for Islamic finance products to operate according to Shariah coherent way, principle of financial justice is another advantage of Islamic finance as this format provides a way for the customers involved to share the profit, loss, and risk with Islamic Financial Institution proportionately. The World Bank (2015) equates the risk of creditor-debtor relation of Islamic banking to conventional banking. In conventional banking the creditor- debtor relation leads the customer to have the risk of paying higher interest rates while not sharing the challenges equally with the institution and going to a riskier edge. Islamic finance investments have slower, more convenient and perceptive decision making process than the investments of conventional finance. This less risky way of Islamic finance helps the companies with risky financial operations to be audited and analyzed while promoting the decreasing risk and opening space for better investment stability. All these features make Islamic banks' encouraging stability in investments an advantage for them.

Dseven (2018) screens the advantages of Islamic Banking in terms of having better customer relations than conventional banking's due to its high involvement of all the phases of investment. Islamic banks also serve to the customers in a way that will be beneficial for them as guiding them to the most stable investment while ensuring the investors that the funds are used for proliferous purposes. Islamic banking's perception of thinking about social welfare, being beneficial to community also leads investors to see the Islamic banking system from the aspect of socio-economic justice. Islamic banking system's principle of profit and loss sharing leads the system to have minimum requirement to sustain high liquidity. Islamic Banking system also has a moral way of cooperating in terms of choosing moral business activities, substantiating socially desirable (more ethical) investments. The transparency of Islamic banking is also another advantage as investors do not end up with results that they have not realized, and even the profit shared ratio of the Islamic bonds are pre-determined from the start stably. Even though Islamic banking is named under a religious belief it serves to entire humanity.

Innovation Enterprise (2017) depicts Islamic finance companies' own way of making profit and growth. All Islamic banks are willing to invest in promising business ventures to stand out from their competitors and to captivate more funds from their depositors. All these transactions will cause high returns on investments both for banks and depositors, thus expediting economic development, yet another feature of Islamic banking that is considered an advantage.

2.2. THE COMPARISON OF ISLAMIC FINANCE AND CONVENTIONAL FINANCE

Compared to traditional finance, otherwise known as conventional finance, Islamic Finance is a very different format of finance.As the presence of Islamic finance grew around the world, and investors started to pay more attention to investments governed by Islamic Finance on conventional finance investments began to decline. Even though conventional finance investments have seen a decline, this type of finance still has more established presence. Important difference between the two is the fact, whereas the conventional finance's most important efficiency tool is interest rate, Islamic finance forbids interest rates. The significance of interest rates affect conventional finance highly while for Islamic finance these types of changes do not have a huge impact on the stability of the investments as interest does not lead to any volatility.

Hanif (2014) concentrates upon the most fundamental commonality between Islamic Finance and conventional finance have in common which is the fact they both operate in the same community as they operate in same countries only belonging in to different institutions. Islamic Finance operates in Islamic Financial Institutions, conventional finance operates in traditional financial institutions. What each financial system should provide as services can be divided in to two, savings mobilization from savers to entrepreneurs, and procurement of general utility services containing transfer of funds, making international trades more convenient, consultancy services, keeping valuable assets safe, and related services with an offered fee.

What Muslim Inc (2015) questions as the services stated above are provided by both Islamic and conventional finance, is whether they are against the Shariah rules or not. In addition to those the service of savings mobilization includes two steps, as being accepting deposits, and enlarging financing and investments. The collection of deposits works the same way for both Islamic and conventional finance as they are gathered from savers regardless of rewarding. The reward system is the difference between Islamic and conventional finance: conventional finance has a reward that is preset, and fixed, as the deposits made pursuant to Islamic Finance are accepted via Musharaka (partnership) and Mudaraba (trust financing contract) the reward varies based on the circumstances and decisions. Conventional finance offers higher banking returns on long term deposits, and lower returns on short-term deposits. For Islamic finance, the case is not much different as Islamic banking shares the profit depositors, and higher weight of profit sharing is tasked with long term deposits, it creates availability for banks to invest in longer term projects creating higher returns and lower weight for short term deposits that cannot be invested in long and higher return term projects. The risk and reward sharing phases of Islamic and conventional finance are completely different. For conventional finance system the risk is brought to an investor by the bank, and the entire reward is owned by the bank after the servicing of the depositors at fixed rates. Conventional finance is involved with intangible assets that lead to future benefits while Islamic finance focuses on tangible and backed assets that present safer method of investment. In Islamic finance, both risks and rewards are shared by depositors. Reward of depositors is related to Islamic finance institution's yield of investments. Islamic Financial Institution is the only control mechanism that can collect deposits due to its credibility, and importance of the institution under the eye of the society.

Islamic Bankers Resource Centre (2015) strikes to the comparison of the saving mobilization process of conventional banking to Islamic banking. As second step of saving mobilization process is considered as being the expansion of credit facility to business and industry for return, it can easily be stated that both Islamic and conventional institutions are ensuring financing to efficient channels for reward to maintain ongoing effectiveness and efficiency. The difference in the second step of mobilization lies within financing agreements. The financial transaction of each different financial system leads different kinds of banking systems to occur as being conventional and Islamic banking based on the financial principles of their finance procedures. As conventional banking offers loans for a constant reward, Islamic banking (Islamic Finance Institution) can not offer rewards on loans because it does not charge interest. Islamic Finance Institutions can charge profitability on investments, but definitely no interest on loans, due to the prohibition of interest in Islamic Finance. Conventional banking offers three types of loans to investors: short-term loans, overdrafts, and long-term loans; however, the only loans that Islamic banks can offer is loans without interest. Nevertheless, Islamic banking can still perform by supplying required assets to clients or participating in the final output of main projects.

Shaikh (2006) likens the tools of financing of conventional banking to Islamic banking. In conventional banking, banks offer the opportunity to obtain or spend more than what the personal account contains, but how the bank gets the money back is based on charging interest. Besides that, conventional banks also offer customers credit card, which gives customers the opportunity to spend money without actually carrying money, which is the provision of dual facility for customers. In Islamic banking facility of financing is obtained by Murabaha which is the delivery of desired commodity by Islamic Finance Institution, as debit card is used for this facility, how the debit card meets the demands of shopping is based upon the accounts' availability of credit balance. If the balance on a credit card in conventional banking is not paid on time by the customer, he is charged interest, but with Murabaha form as there is no form of interest, the only profit from this financial facility lies within the moment commodity is delivered to the customer. Islamic finance is more based on profit and loss sharing.

Naveed (2015) confronts with the social good serving of conventional and Islamic banking. The involvement of money causes rich to get richer, and poor to get poorer, as conventional banking's main tool is money it makes the same effect for poor countries; keep getting poorer, and keep going in to debt to rich countries. Conventional banking system's emphasis on money leads it to be similar to slavery as poor keep asking for more money, they are doomed to work in favor of rich to survive. In Islamic banking the disapproval of interest causes financial transactions to focus on more morally, real world values and developments rather than focusing on easily shaped factors. The Islamic banking is working in favor of moral values, humanity rather than money, the main value of Islamic banking is to share the assets withheld with the community.

Alzoubi (2017) benchmarks the loans given by conventional banks to loaning system of Islamic banking. Conventional banks offer small, and medium loans to customers to meet the capital demands, and to invest in accounts receivable, and inventories, but for Islamic banking the inventory investment is supplied by Murabaha (which means that a specific period of profit is shared by Islamic Finance Institution on prorate basis). In the short term, it is visible that usage of Murabaha can be risky due to Islamic Financial Institution's involvement of transactions that makes it hard for the costly operations to lead to profit in short term basis. Even though Murabaha is risky in short term loans, and investments, Murabaha financing is very convenient for short to medium term financial demands of business, individuals asking for financial guidance, and non-profit organization. As Murabaha financing is asset based financing, anyone who is showing that the assets will be used Halal (lawful) goals can request assets provided by Islamic Financial Institution, but if there is delay of payment by customer, the penalty is not paid or included in the income of Islamic Financial Institutions (not paying back the assets to where people get it from), it is paid for charity purposes.

Iqbal (1997) analogizes the security of mortgages in the aspects of both conventional and Islamic banking. Looking through the operations on house financing which is called mortgage, even though this format of financing is secure for both financial system (conventional and Islamic) there are still important differences based on the different principles of each system. Conventional banking system, just like how it handles with loans, the mortgages are given to get interest in return, but for Islamic banking system the facility is supplied with declining Musharakah (partnership) that this financed house is collectively owned by Islamic Financial Institution and customer in this form of partnership. In Islamic financing, the mortgage method with Musharakah is provided with Islamic Financial Institutions' renting out the share of property with a recognized amount of rent from both sides. The share of Islamic Financial Institution is split in to units of small denomination. As the customer pays each rent charged by Islamic Financial Institution, the purchase price of a unit is also added up to that amount. With the agreed amount paid by the customer, the property share of customer keeps increasing while the property share of Islamic Financial Institution is decreasing. As the final payment to Islamic Financial Institution are made the house is now entirely owned by the customer while leaving no share to the institution.

Wahab et al (2014) place the emphasis on the difficulty of operating with the financing of Musharakah (partnership) and Mudarabah (intermediation), as Islamic finance's Shariah based financing scheme nature leads the operations to satisfy the principles of Islamic Financial Institution it leads to spending lots of time and money on administration process. Usmani (1998) emphasizes the longer amount of time needed to satisfy Islamic Finance Institution's transactions to be completed. The need for more time leads medium to long-term loans to be less profitable, more time consuming and also leads to the risk of losing the investment in question due to higher administration costs. As each operation in Islamic banking is under the control of Shariah Board, this results as detailed controls that lead to more stable investments that can have an outcome in the long run. Islamic Finance does not get involved with volatile, risky investments that can only lead to profit in the short run.

A.Mian (2008) mentions the criteria of Shariah screening in Islamic Finance, which is a way to figure out if companies or corporations are meeting the minimum agreeable levels of Shariah rules. The pioneer country of Islamic Finance, Malaysia established Shariah Advisory Council in 1996, and this Council established Shariah screening method. The Shariah screening methodology is based on looking through the businesses in two ways; one being business activity screens, the other being financial ratio screen. For a business to be Shariah complaint it needs to meet all the needs of the principles. Looking through the business activities, if a business is involved in activities such as alcohol, tobacco and pork-related products; entertainment (hotels, gambling, cinema/movie theatres, music, pornography and so on); weapons and defense; conventional financial services (banking, insurance ,etc),biotechnology companies involved in human/animal genetic, engineering, it is impossible to classify that business as Shariah compliant. If a company's minimum 95% of its total income is not generated from the business activities mentioned above, that company can suit to the business activity screen of Shariah complaint.

Although there are established principles in Shariah screening, some Shariah scholars exclude more business activities such as newspaper, media, advertisement, printing from Islamic Finance. The main reason behind the prohibition of the business activities stated above is the prohibition of the manufactured products from these businesses in Islamic teachings. The second Shariah screening is Financial Ratio Screens that are monitored by Shariah scholars as well. The criteria of Financial Ratio Screens is to make sure that interest is not involved in transactions, and to look for Shariah based investments in companies. By financial ratio screening the companies that do not satisfy the minimum needs of leverage, receivables, and interest income are eliminated. For a company to be Shariah compliant, there are some critic approvals in terms of level of debt, receivables or impure interest income, which can be listed as; total debts (non-Shariah compliant) should be less than 33% of the equity; account receivables should be less than 49% of total assets; and interest income from cash and interest-bearing securities should not be more than 5% of the total income. If the strict rules of Islamic Finance are not satisfied, it is not possible for a company to operate as an Islamic Institution.
Wahab et al (2014) compare the aims of conventional and Islamic finance banking system, and how they operate according to those goals. As conventional finance and banking system is entirely based upon the rules created by people to maximize profitability, Islamic finance and banking system is based upon the Islamic rules of Shariah. Conventional banking has the penalty of charging extra money based on interest rate in the case of defaults from clients. Islamic banks due to Shariah principles pay a lot of attention on charity as Islamic banking has no penalty for defaulters but uses small amount of charity to be given away by that sense. The fact that Islamic finance is based on Islamic principles led the system to function with also emphasizing on religious beliefs. Zakat is important (giving extra money to the ones in need) in Islam, it is also important in its banking system. Islamic banking system operates with Zakat collection center of its own in which the investors are enabled to pay their Zakat. Conventional banking system's analytic and formulizing format of each transaction leads it to not to get involved in religious beliefs which leads them to have nothing to do with Zakat.

Loan Street (2016) parallels the perception of ensuring growth with equity of conventional and Islamic banking system. The conventional banks work with the outstanding interest rates of their own while not providing growth with equity. As opposed to conventional banking system, the Islamic banking system puts significant emphasis on providing growth with equity. In contrast to conventional banking system, Islamic banking system emphasizes a lot on providing growth with equity but it provides the public interest rates to be based on significance of necessity. The importance of appraisals, evaluations on operations is another difference of conventional and Islamic banking. For Islamic banks, as each person involved with the phases of appraisal, and evaluation is sharing the profit and loss of the transactions, it pays a lot of attention on all these phases. In conventional banking system, as people involved in the phases of appraisals, and evaluations have fixed income advance, these phases are not as emphasized as it is in the Islamic banking system. In addition to all those, the loan contract or conventional finance and Islamic Finance is different as well. In conventional financing there is the loan contract called Loan Facility Agreement that clarifies the interest rates to be paid during the payment of the loan, and the contract is not based on an absolute value, the sooner the borrower pays the principal, the sooner the interests paid fades away. In Islamic Finance the contract of investment is based on partnership with the investor, as the investor pays a fixed profit rate stated in the contract gradually which is considered as rent the investor ends up earning the entire share of the assets. Islamic banking offers relief to investors that what you consume today can be paid later without intense interest rates.

Jamaldeen (2012) goes through the contracts of Islamic Finance. The contracts of Islamic Finance are divided in to three formats in terms of transactions. The contracts are listed as contracts of partnership (allowance of two or more parties to develop wealth by sharing the phases of risk and return together)which includes Mudaraba (the sharing of profit from the investment based on a determined ratio, but losses are only affecting the investor not the fund manager) Musharaka (joint venture of two parties that share profit and loss mutually), contracts of exchange(transfer of commodity) including Murabaha (sales of deferred payments by the investor), Salam,(the investor pays commodity in advance and gets the fund in the future) Istisna (purchase of a product by Islamic Financial Institution for the investor that will be ready and delievered in the future) and contracts of safety and security (contracts used to the Islamic funds safe)keep including Wadia (property given to another party for safe guarding) ,Hiwala (debt transferred from one debtor to another to provide remittance of money among people), Kafala (third party's acceptance being responsible for someone else's liability which is called surety or guaranty in the conventional finance) ,Rahn (property purchased under an obligation, to secure the financial liability one party is enable to pledge).

Wahab et al (2014) compare the types of transactions each system finds worthy. For conventional banks, the inquiry focuses on credit-worthiness of the client, whereas for Islamic banks it is the feasibility of a project that makes the transaction worth working on. The relationships established with clients also vary from conventional to Islamic banking, especially based on where the bank and clients stand in each system. In conventional banking, relationship with its client is a debtor relationship while the parties in and Islamic banking transactions are partners, investors, and traders, buyers and sellers.

Conclusively, Maldives Islamic Bank (2011) checks against the aim and expected outcome of conventional and Islamic finance. The basis of conventional finance is profitability, and economic sustainability, and the main function of conventional banking is to provide loans to customers get paid back with compounding interest. The main principles are based Shariah, and Islamic principles; therefore the main function of Islamic banking is partnership participation business involving many parties sharing the entire process from profit to loss. In conventional finance , the main commodity is money, it brings along the inflation with the fluctuations in the market. What Islamic banking values is in building up networks in the real sectors of economic system by doing trade related activities, not by using money as a commodity, but using trade linked activities eventually leads to access to real assets, money and economic development followed by those phases. The involvement of money in conventional banking system brings along operations (payments) with cash finance, running finance or working capital finance but there is no usage of agreements for exchange of goods and services in the system. The Islamic banking's high involvement with Shariah rules leads to operating with agreements for the exchange of goods and services as main principle while the payment methods of the banks are based on the funds under contracts such as Murabaha, Salam and Istisna, as there is no money involved.

2.3. DEVELOPMENTS İN ISLAMIC FINANCE

Center of Islamic Banking and Economics (2017) emphasizes how Islamic finance keeps developing itself dynamics change with time. As Islamic finance keeps getting more supply in the global finance curve, more countries started using Islamic finance. The increasing presence of Islamic finance leads non-muslim countries started to have significant presence of Islamic finance and banking in their countries. One of the most import antreasons why Islamic finance is more demanded is the fact that conventional finance was not able to get through the global financial crisis in 2008. The stability, and low debt to equity ratio of Islamic finance and banking made it more convenient for the global investors. It is even stated that Islamic finance can be capable of ending poverty, and helping the prosperity to increase, and better division of distiribution of income. Muslim countries such as Indonesia, Malaysia, Turkey, Pakistan, United ArabEmirates, Qatar, SaudiArabia, Kuwait&Bahrain are outstanding countries involved with Islamic Banking having 82% Islamic Banking assets of the Global Islamic banking market.

Dudley (2017) examines the list of countries where Islamic finance system plays an important role in the banking system. The importance of systematical banking of Islamic finance is valid for only 11 countries which can be listed as Indonesia, Malaysia, Turkey, Pakistan, United Arab Emirates, Qatar, Saudi Arabia, Kuwait &Bahrain, Iran, Egypt. Even in countries where systematical banking of Islamic finance matters a lot, it still covers only the minority of the entire banking and finance shares. Besides those countries, in 2017, Morocco emerged as an important player using Islamic finance as in the start of year 2017, the central bank of Morocco called Bank Al-Maghrib, proclaimed that five groups were allowed to open to Shariah compliant banks. Similar proclamations happened for countries like Qatar (as International Islamic Bank that is in the partnering phase with the local CIH Bank) the Saudi Arabia,Bahraini (as both of these countries' based bank Dallah Albaraka is operating with BMCE Bank; and the Saudi group Guidance is teaming up with Banque Centrale Populaire.

ICD-Thomson Reuters (2015) classifies the countries using Islamic finance based on different categories that they get regulated on. As the Muslim countries' usage of Islamic finance can be divided in to three groups due to sub indicators, the three sub indicators can be listed as regulation sub-indicators, governance indicators, Sharia governance sub-indicators. Top 10 countries with regulation sub indicators can be listed as Malaysia, Pakistan, Bahrain, Nigeria, Indonesia, Iran, Maldives, United Arab Emirates, Qatar, Sudan, Brunei Darussalam, Kazakhistan. Top 10 countries with governance indicators can be listed as Bahrain, Malaysia, Kuwait, Pakistan, Oman, Indonesia, Sudan, United Arab Emirates, Qatar, Maldives. Top 10 countries with Shariah governance sub- indicators are Bahrain, Malaysia. Kuwait, Bangladesh, Sudan. Oman, Indonesia, Pakistan, Lebanon, Egypt. As Middle East, Gulf, South East Asia, and Africa (especially the north part and parts near the Arabian peninsula are the regions where majority of the countries are Muslim, and the presence of the Islamic finance has always been visible. Among all the Muslim countries, it can be stated that Malaysia, Saudi Arabia and Iran have the highest share of Islamic finance and return of assets.

PWC (2013) lists the countries that are practicing Islamic finance. Non-Muslim countries like United States, France, Germany, Belgium (Luxemburg), China, Russia, and U.K. also started to be important regions for the Islamic finance. Most importantly the KT Bank was opened in Germany as being the first Islamic Bank in the Europe in 2015. The rise of Islamic finance started with the global financial crisis in 2008. The global financial crisis led the western countries to tend to invest more on Islamic finance due less risky and more controlling operations of Islamic finance and banking, while the invisibility of Islamic finance inclined accordingly. The global operations of Islamic finance are spreading through the globe to different regions; in North America, to countries like Canada and U.S.A., in Europe, to countries like France, Germany, United Kingdom, in Asia and Australia , to countries like Thailand, South Korea, Japan, Hong Kong, Singapore, Australia, Malaysia, in Africa, Senegal, South Africa, Ethiopia, Uganda, North Africa, Tunisia, Algeria, in Middle East countries like Qatar, Oman, United Arab Emirates, Dubai, Syria started to be more involved with Islamic Finance. 124 countries are currently using Islamic finance with Islamic Finance establishing a presence in more countries as time goes by.

3. ISLAMIC INDICES

3.1. BASIC DEFINITION OF ISLAMIC INDICES

Financial Times (2017) defines what Islamic indices are, and what Shariah rules stand for in those indices. Islamic indices are the table of facts that are used to point out what can be concluded due to the criteria's that can be used under the allowance of principles of Islamic finance. Islamic indices are indices used to help operations to link to real transactions that are allowed to Shariah law. Islamic indices can be used to determine the size of a specific market, performance of specific fund managers, comparison of the periodical values, efficiency of periodical adjustments, and periodical adjustments of salaries or wages based on changes in level of prices. As an index, it is allowed for Shariah to relate the pricing package of a fund manager, Mudarib's bonus variable rent in an Ijaraha contract, deferred allocation of a donation to a charitable body with a particular index which shows that those indices can be used because they are not particularly money, trading or payments with money based indices. Indices that are based on payment, bill of money and the changes in them that is used with money values not with the transactions of buying or selling assets is prohibited according to Shariah law. According to Shariah law the indices that are based entirely on money are considered indices that are involved with a form of gambling. As the Islamic indices should be based on Shariah law, the businesses that are such law prohibits cannot have indices that are categorized as Islamic indices (businesses like pork, tobacco, alcohol). The dynamics of the Shariah rules are not based on one side of the Holly Book Quran, but tend to follow teachings in the Quran as a whole, especially in issues like justice, freedom, poverty, wealth, property, equality of opportunity, sharing of God's generosity . Which concepts can in turn be combined in a number of ways to provide even broader indices standing for economic, political or human rights conditions. The aim of indices is to ensure a benchmark for Islamic teachings to evaluate the performance of a country. Indices can be separated in to two types such as: cross-sectional indices that do comparison (a score and ranking) of all countries; longitudinal indices for individual countries supplying a display of a performance for a single country over the years. For the development of Islamic indices, Shariah submission should be engaged in the components of the indices, and Shariah supervisory board should be assigned to make periodical reviews and reporting.

A. Mian (2008) focuses on which indices can be considered as Islamic indices and which cannot. To determine whether an index can qualify as an Islamic index, one must look to the principles of Islamic finance rules. Islamic Indices can only be according to Shariah laws, and therefore the businesses that are against Shariah law cannot have any values on the indices of businesses listed such as: alcohol, tobacco and pork-related products; entertainment (hotels, gambling, cinema/movie theatres, music, pornography), weapons and defense, conventional financial services (banking, insurance),biotechnology companies involved in human/animal genetic, engineering. To finalize, in Islamic finance what is considered as Islamic Indices must be based on the businesses that are present in the real world, and must be businesses that avoid uncertainty, which is called as Ghara in Islamic Finance. Stability of economics, and enabling to share with investors for the sake of humanity is the main principle of Islamic Finance, and the indices serving to that goal are accepted as Islamic Indices.

3.2. WHAT ARE ISLAMIC INDICES?

Islamic Indices are the indices approved by Shariah law, and accordingly, by Islamic finance. MSCI (2016) states that even though Islamic Indices can occur in all the country indices (such as European Islamic Indices, Malaysian Islamic Indices) there are some businesses that can never have Islamic indices which includes the businesses like pork, tobacco, alcohol, aerospace, defense, casinos, gambling, entertainment including movies, restaurants, hotels, distillers, broadcasting, cabling and satellite. As Islamic Indices excludes some businesses listed in the previous sentence most of the conventional indices are used as Islamic indices only by adding “Islamic” next to the indices criteria. The Islamic Indices used in reviews can be listed as: MSCI World Islamic Index is the index, Dow Jones Islamic Market World Index, Dow Jones Islamic Market Index, FTSE Bursa Malaysia Hijarah Sharia Index, Financial Times Islamic Index, Jakarta Islamic Index, FTSE Shariah All World Index, Asia- Pacific Islamic Index, UK Islamic Index, Canada Islamic Index, Japan Islamic Index, Europe Islamic Index, Emerging Markets Islamic Index, Developed Country Islamic Index, FTSE South Africa Islamic Index, Indonesia Islamic Index, Malaysia Islamic Index, Switzerland Islamic Index, India Islamic Index and France Islamic Index. There are some specific Index values that refer to index values of countries such Financial Times Index, it is referred to Index value of United Kingdom, and as the indices are Financial Times Index, and Financial Times Islamic Index it refers to conventional, and Islamic indices respectively, the case is the same for Dow Jones Index, as it refers to index values of United States as Dow Jones Index being conventional index while Dow Jones Islamic Index being Islamic index. The indices vary according to regions, countries, industries they are involved in as long as they are appropriate to Islamic teachings, and rules the criteria's are way too many.

4. LITERATURE REVIEW

Ho et al. (2014) compare the performance of Islamic and conventional indices for the time period of 2000 to 2011. They consider the monthly data of 12 global Islamic and conventional indices from eight countries (United States, United Kingdom, Malaysia, Indonesia, Hong Kong, Switzerland, India and France). The authors choose the countries where both Islamic and conventional indexes exist in order to be able to compare their performance. The performance measures are Treynor index, Sharpe ratio, and Jensen's alpha. According to those three risk-adjusted return measurements, it is found that the returns on Islamic indices are less affected compared to conventional indices for the first crisis period from 2000 to 2002. However, results from the first after crisis period are mixed. During the crisis of 2007-2008, both indices decrease while Islamic indices outperform their conventional counterparts. Mean returns for both conventional and Islamic indices for the overall period are mostly negative and they underperformed the benchmark of Morgan Stanley All World Index. However, it can be concluded that the majority of Islamic indices performed relatively better than the conventional indices.

Al Khazali et al. (2014) use stochastic dominance (SD) methodology to compare the performance of analyze Islamic and conventional stock indices over the periods of 1996–2012. Their data set includes 9 Dow Jones Islamic indexes and their Dow Jones conventional counterparts from Asia Pacific, Canadian, Developed Country, Emerging Markets, European, Global, Japanese, UK, and US indexes. The authors consider three time periods namely: 1) 1996-2000: The era when two important economic incidents occurred (Asian Financial crisis (1997-1998) and the rise of IT prices among 1998 to 2000 as the rise of IT companies finally led to failure of IT companies right after the burst due to market capitalization); 2) 2001-2006: In this period, stock market crashed due to failure of big companies like Enron and Arthur Anderson. This was followed by September 11 attack and both those events had a huge influence on both developed and developing countries; 3) 2007- 2012: This period has important incidents as lending crisis that is followed by 2008 global financial crisis. Looking through all the data gathered during this time, it is seen that Islamic institutions did not lead to have any failure caused by global financial crisis, while for conventional institutions the result was significantly different which led to important failure. The comparison of Islamic and conventional Dow Jones indices by using CAPM statistics leads to mixed results. The betas are found to be higher for conventional indices while in 7 markets, Sharpe ratios are higher for Islamic indices. As the returns on are not normally distributed, Al Khazali et al. (2014) follow the stochastic dominance (SD) approach. SD results for the whole time period indicate that conventional index stochastically dominates Asia Pacific, Canadian, UK, Developed Country, Emerging Markets, and Global Dow Jones Islamic indexes at second and third orders. On the contrary, the European Islamic index stochastically dominates its conventional counterpart while for Japan and the U.S., there is no evidence of SD relationship. The results for first sub-period (1996–2000) is in line with the overall period results. The SD findings for the second sub-period (2001–2006) document that except for Europe, all conventional indexes stochastically dominate their Islamic counterparts. In the last sub-period (2007–2012), the European, global and US Islamic indexes stochastically dominate their conventional peers. This finding is opposed to the perception arguing that ethical investing will underperform conventional investing. It is concluded that Islamic indexes can serve as a good hedge during the last financial crisis period. Conventional indexes stochastically dominate Islamic index in all markets except the European market in the overall period.

Sensoy et al. (2015) focus on the comparison of weak form efficiency of Islamic and conventional equity markets. They analyze six conventional Dow Jones Islamic and conventional market indexes (U.S., U.K., Europe, Japan, Canada, Asia-Pacific) at country and regional levels. Dataset is daily covering a time period from 1998 to 2014 which includes the 2008 global financial crisis. For the given time period, the highest daily average return is observed for the Canadian conventional index followed by the Islamic Indexes of Canada and Asia-Pacific. In UK, both of the Islamic and conventional indexes has the lowest daily average return. The authors show that all markets (both Islamic and conventional) have different degrees of time-varying efficiency. While for UK and Japan, the variance in efficiency is relatively low for both groups, markets in Europe and Canada experience severe changes in the given period. Based on the dynamic approach, market efficiency is found to be higher in conventional indices compared to their Islamic counterparts (for Canada and Japan, this difference is not statistically significant). A further analysis consider the ARCH effects, Islamic equity markets in Canada and Japan perform better than their conventional counterparts in terms of market efficiency. In terms of the effect of the global crisis of 2008, it is shown that the crisis has varying effects on the efficiency of markets. The crisis hits the efficiency of the Islamic markets much stronger than their conventional counterparts in US and Asia-Pacific. For the case of Japan and the UK, there is no different in terms of efficiency.

Pranata and Nurzanah (2015) examine the performance and volatility of Islamic and conventional stock indices in Indonesia for January 2006 to November 2015. Moreover, they also consider the determinants of the Islamic stock index. The study uses Capital Asset Pricing Model (CAPM) to compare the performance of conventional and Islamic indices, Beta to measure volatility, and Autoregressive Distributed Lag (ARDL) to capture the determinants. It is found that there is no significant performance difference between conventional and Islamic indices in Indonesia however Islamic index has less volatility compared to its conventional counterpart. In the short run, the performance of the Islamic index is affected from USD exchange rate, oil price, interest rate, net foreign flow, and inflation.

Abu – Alkheil et al. (2017) focusing on the comparison of Islamic indices and conventional indices in many aspects covering three periods as them being the period of pre-crisis (2002-2006), global financial crisis (2007-2009), and post crisis (2010-2014). By implementing the VARMAX procedure and Johansen's co-integration approach, they analyze the co-integration of indices, efficiency of Islamic indices, the existence of diversification benefits. Their dataset includes 32 Islamic indices and 32 counter parts from FTSE, DJ, MSCI, S&Ps and Jakarta series. It is found that there is no co-intergration in the long-run between 31 pairs of Islamic and their respective conventional indices. This implies that Islamic indices can provide diversification opportunities to the investors. Stochastic dominance analysis document that conventional indices stochastically dominate their Islamic counterparts during pre-crisis and the financial crisis periods. However, in the post crisis period, there is no evidence of dominance between two indices. For the entire sample period (2002-2014), conventional indices provide higher monthly returns than Islamic indices at a distinct S-Shape second order stochastic dominance. It is also argued that risk taker investors are more willing to invest on conventional stock indices instead of Islamic stock indices. However for risk-averters, the case is vice versa as they are willing invest more on Islamic stock indices.

Jawadi et al. (2014) compare the financial performance of conventional and Islamic indexes in three different regions: Europe, the USA, and the World over the period from 2000 to 2011. This time span includes the impact of the recent global finance crisis. Therefore, the time period is divided into two as 2000-2007 (pre-crisis) and 2007-2011 (post crisis). Three risk adjusted performance measures namely the Sharpe Ratio, Treynor Ratio, and Jensen Alpha are used to compare the performance of conventional and Islamic indexes. Sharpe ratios of Islamic and conventional investments are not very different from each other in the first sample (pre-crisis), however Islamic indexes perform relatively better in the latter years. Treynor ratio is often close to zero implying that there is no significant difference between conventional and Islamic indices. Omega ratio is higher for conventional indexes before the subprime crisis and Islamic indexes outperform conventional prices in the post-crisis period. It is concluded that the performance of Islamic indices is better than conventional indices during the turbulent time however conventional funds are preferred in the calm periods. There are heterogeneous results for the three regions in terms of the performance of indices. The Islamic indices are also affected from the recent financial crisis but this effect is less severe compared to conventional indices. Therefore, Islamic indices can provide new investment opportunities and diversification benefits.

Dhai (2014) aims to figure out the differences between the financial performance of shares on the stock of Islamic bank and conventional bank in South Africa from the time period of June 1996 to 30 April 2008 with 155 monthly data. Financial Times Stock Exchange (FTSE) South Africa Islamic Index is used as a proxy for the Islamic index. The returns of this index are compared to three conventional indices: (1) All Share Index on the Johannesburg Stock Exchange (JSE); (2) Resources Index and Financial-Industrial Index; (3) A four-factor model. The average monthly return is for the Islamic Index was 1.7% while the conventional index return is 1.4%. Moreover, volatility of Islamic Index is greater than the conventional index. In terms of the performance, there is no significant difference between Islamic and conventional index, which is due to the fact that index, is dominated by a small number of large capitalization shares. Those shares are included in the Islamic index therefore the Islamic investment market in South Africa does not differ significantly to the conventional market.

5. DATA & METHODOLOGY

The data for conventional and Islamic indices are obtained from Thomson Reuters. The data period is from April 2008 to April 2018 (10 year period) on monthly basis in USD. The data is Table 5.1 represents the list of conventional and Islamic indices. The data set includes conventional and Islamic indices from 4 different countries and also the includes FTSE All World Index (WI) and FTSE Shariah All- World Index (WIS) in order to have a global perspective.

Table 5.1. Lists of global conventional and Islamic indices

Country of origin	Conventional indices	Islamic indices
United States	Dow Jones Composite Index (DJCI)	Dow Jones Islamic Market Index (DJIMI)
Malaysia	FTSE Bursa Malaysia Kuala Lumpur Composite Index (KLCI)	FTSE Bursa Malaysia Hijrah Shariah Index (KLSI)
United Kingdom	Financial Times Index (FTSE)	Financial Times Islamic Index (FTSEII)
Indonesia	Jakarta Composite Index (JCI)	Jakarta Islamic Index (JII)
World	FTSE All World Index (WI)	FTSE Shariah All-World Index (WIS)

The arithmetic returns are calculated by subtracting the previous month's index value from the current month index value and dividing it by the previous month's index value. This is shown in Equation 1.

$$R_t = (P_t - P_{t-1})/P_{t-1} \qquad (1)$$

Where R_t is the index return at time t, P_t is the index at time t, and P_{t-1} is the index at time t-1. The index return is calculated for the whole sample period and also calculated as crisis (April 2008 – June 2009) and post-crisis period (July 2009 - April 2018). This will let us to observe and compare the performance of conventional and Islamic indices during and after the crisis.

We also aim to focus on the relationship between conventional and Islamic indices. More specifically, we will analyze which index Granger-cause the other index. The common method for testing Granger causality is to regress a variable on lagged values of other variable and test the null hypothesis that the estimated coefficients on the lagged values of are jointly zero.

$$x_t = c_1 + \sum_i^p a_i x_{t-i} + \sum_i^p \beta_i y_{t-i} + u_t \qquad (2)$$

where y and x are the returns of conventional and Islamic indices. Granger causality test can lead to one of the following four results:

- Unidirectional causality from $x_t \longrightarrow y_t$ (conventional index granger cause Islamic Index or Islamic Index granger cause conventional index)
- Unidirectional causality from $y_t \longrightarrow x_t$ (Return of Conventional index granger cause Islamic Index or Islamic Index granger cause conventional index)
- Feedback or bilateral causality $y_t \leftrightarrow x_t$ (conventional index granger cause Islamic Index and vice versa)
- Independence (No Granger causality between indices)

6. FINDINGS

Figure 6.1 represents the index values of Dow Jones Composite Index and Dow Jones Islamic Market Index through eras starting from April of 2008 till April of 2018. It can be seen that Dow Jones Composite Index is more volatile than Dow Jones Islamic Index. During the crisis period of 2008-2009, both indices declined dramatically. In the post-crisis period, both indices has increased while the increasing trend of Dow Jones Composite Index is relatively higher than the Dow Jones Islamic Market Index. On the other hand, during April 2009 to 2010, the Dow Jones Composite Index was still volatile. From April 2010 to October 2014 the volatility of Dow Jones Composite Index kept increasing, but after October 2014 there has been a significant stabilization in the volatility till October 2016 as it was followed by higher volatility till 2018. For Dow Jones Islamic Index volatility is similar to Dow Jones Composite Index as during the post crisis era the volatility is higher starting from April 2008 till April 2009. From April 2009 till October 2016 as there was a small amount volatility that was followed by higher volatility till April 2018. Comparison of Dow Jones Composite Index, and Dow Jones Islamic Index can be concluded as Dow Jones Composite Index being more volatile than Dow Jones Islamic Index but the dynamics of volatility through the years and the results are not very different from each other, as they follow a similar path during the critic eras.

Figure 6.2 shows index values for the FTSE Bursa Malaysia KL Composite Index and FTSE Bursa Malaysia Hijirah Shariah Index for the time period of 2008 to 2018. We can see the negative impact of the sub-prime mortgage crisis on the FTSE Bursa Malaysia KL Composite Index and FTSE Bursa Malaysia Hijirah Shariah Index. Both indices decreased dramatically during the crisis period. After the crisis, both indices have an increasing trend. However, they experienced two decreases in 2011 and 2015. In April 2018, they almost managed to reach their values in 2008

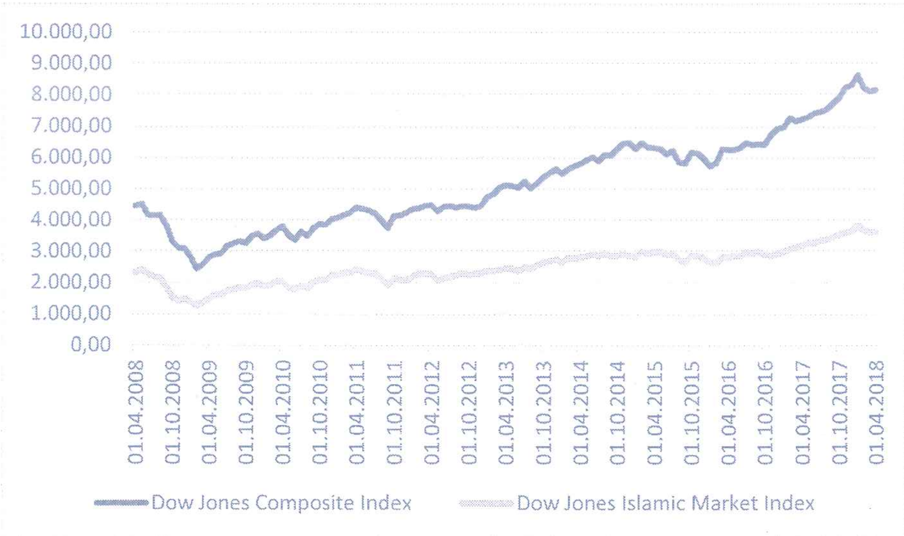

Figure 6.1 Dow Jones Composite Index & Dow Jones Islamic Index (2008-2018)

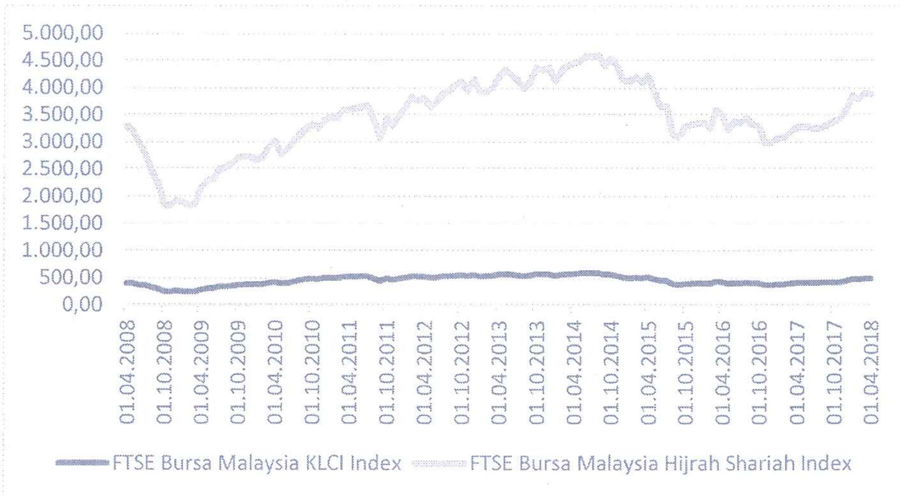

Figure 6.2 FTSE Bursa Malaysia KL Composite Index & FTSE Bursa Malaysia Hijirah Shariah Index (2008-2018)

Figure 6.3 screens The Financial Times Index and Financial Times Islamic Index through the years 2008 till 2018. Financial Times Index is very volatile during the era from April 2008 till February 2009, from February 2009 till April 2018 there is an ongoing volatility and fluctuations of ups and downs but the volatility during these eras are somewhat more stable than the era April 2008 till February 2009. Likewise, Financial Times Islamic Index is also negatively affected from the crisis period.

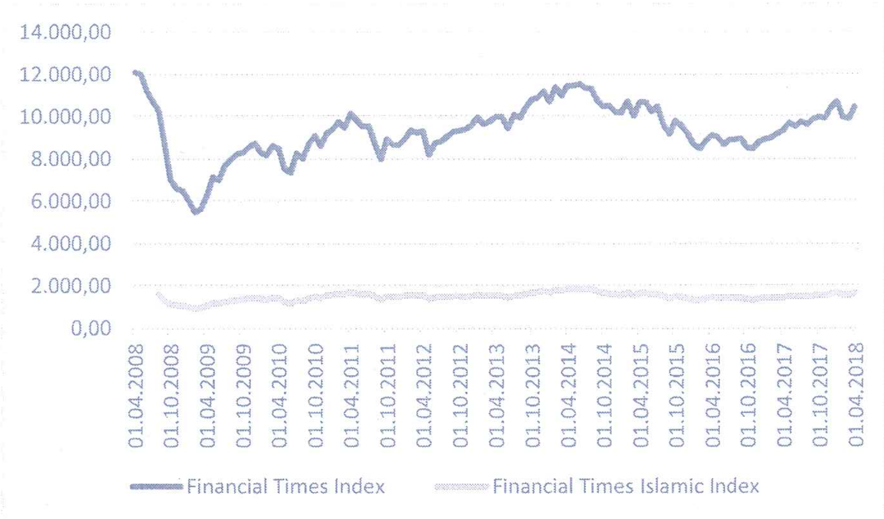

Figure 6.3 Financial Times Index & Financial Times Islamic Index

Figure 6.4 shows index values for the Jakarta Composite Index and Jakarta Islamic Index from 2008 to 2018. From the figure, it can be seen that both indices moved in line with the above mentioned indices. Both indices declined during financial crisis (2008-2009) and increased till 2013. However, they experienced a sharp decrease in between 2013 and 2015.

Figure 6.5 indicates the FTSE All World Index and FTSE Shariah All- World Index from 2008 to 2018. From the figure it can be easily established that there is no significant difference in the volatility of the FTSE All World Index and FTSE Shariah All- World Index. Within the past ten years of observation (2008-2018), it is clarified that in all around the world the dynamics and fluctuations of the Indexes are similar.

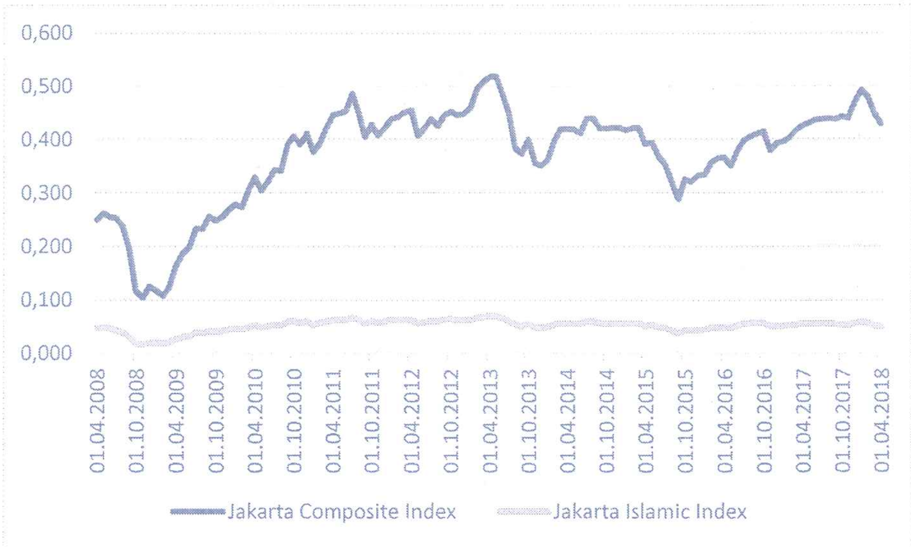

Figure 6.4 Jakarta Composite Index & Jakarta Islamic Index

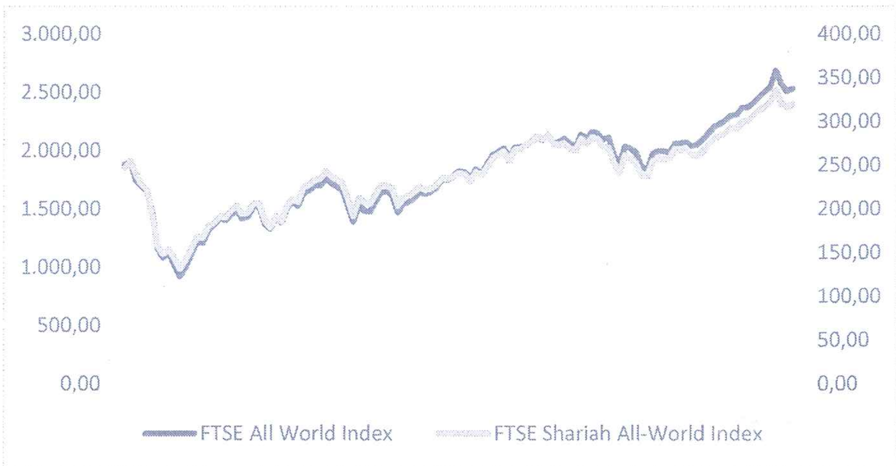

Figure 6.5 FTSE All World Index & FTSE Shariah All- World Index

Table 6.1 presents the mean, standard deviation, minimum and maximum values for both conventional and Islamic indices. Dow Jones Composite Index has mean of 0.0059 and Dow Jones Islamic Index has mean of 0.0047 which shows that Dow Jones Composite Index has a higher return compared to its Islamic counterpart. The standard deviation of Dow Jones Composite Index is 0.0403 and Dow Jones Islamic Index is 0.0455, this result states that Dow Jones Islamic Index is more volatile than Dow Jones Composite Index. As the minimum value of Dow Jones Composite Index is -0.1417 and for Dow Jones Islamic Index it is -0.1823, it marks to the point that in the case of loss Dow Jones Islamic Index is capable having a higher loss than Dow Jones Composite Index. The maximum value of Dow Jones Composite Index is 0.1032 and Dow Jones Islamic Index is 0.1131

Kuala Lumpur Composite Index has a mean of 0.0027 while Kuala Lumpur Islamic Index has a mean of 0.0026 this means that they have similar returns. Likewise, their standard deviations are also similar meaning that their volatility is almost same. Minimum value of Kuala Lumpur Composite Index is -0.1783, and for Kuala Lumpur Islamic Index it is -0.1714. Maximum value of Kuala Lumpur Composite Index is 0.1626 and it is 0.1542 for Kuala Lumpur Islamic Index.

Mean return of Financial Times Composite Index is 0.0016 while mean return of Financial Times Islamic Index it is 0.0017. Standard deviation of Financial Times Composite Index is 0.0532. Both the mean returns and standard deviations are almost same for both indices. Minimum value of Financial Times Composite Index is -0.1952 followed by minimum value of Financial Times Islamic Index being -0.1854. Financial Times Composite Index's lower minimum value than Financial Times Islamic Index eventuates as higher loss for Financial Times Composite Index than for Financial Times Islamic Index. Financial Times Composite Index's maximum value is 0.1394 and Financial Times Islamic Index's maximum value is 0.1275.

Jakarta Composite Index has a mean return of 0.0078 while for Jakarta Islamic Index it is 0.0041. This result implies that Jakarta Composite Index has a better return than Jakarta Islamic Index. Looking through the standard deviation values of

Jakarta Composite Index being 0.0792 and Jakarta Islamic Index being 0.0819. Minimum value of Jakarta Composite Index and Jakarta Islamic Index is equal to -0.4025 and -0.4108, respectively. Jakarta Composite index having maximum value of 0.311 and Jakarta Islamic Index having a maximum value of 0.2898, the higher potential of gain is established by Jakarta Composite Index.

To finalize, World Index has a mean of 0.0037 while World Islamic Index has a mean of 0.0033. Standard deviation values for World Index and World Islamic Index are 0.0483, and 0.0462, respectively. The minimum values of World Index and World Islamic Index are -0.2002 and -0.18, respectively. In terms of maximum returns, World Index has a slightly higher return compared to World Islamic Index. Based on this table, we can conclude that expect Jakarta stock exchange, the mean returns are not different from each other for conventional and Islamic stock indices. In terms of volatilities, again we don't observe a significant difference among conventional and Islamic indices.

Table 6.1 Descriptive Statistics for Conventional and Islamic Indices

Index	Mean	Std. Dev.	Min	Max
DJCI	0.0059	0.0403	-0.1417	0.1032
DJIMI	0.0047	0.0455	-0.1823	0.1131
KLCI	0.0027	0.0493	-0.1783	0.1626
KLSI	0.0026	0.0489	-0.1714	0.1542
FTSE	0.0016	0.0532	-0.1952	0.1394
FTSEII	0.0017	0.0539	-0.1854	0.1275
JCI	0.0078	0.0792	-0.4025	0.3111
JII	0.0041	0.0819	-0.4108	0.2898
WI	0.0037	0.0483	-0.2002	0.1173
WIS	0.0033	0.0462	-0.18	0.1095

Table 6.2 presents the correlation and t-test for differences of means between conventional and Islamic stock indices. It is shown that there is a strong positive correlation between conventional and Islamic indices. Almost in all countries, the

correlation coefficient is almost 1. Only in the case of the United States, the correlation coefficient is 0.89. These high correlations imply that there is a high tendency for the market indices to move together. Paired sample t-tests are performed in order to assess whether the mean returns are statistically different from each other. We find that there are no significant differences in mean returns between conventional and Islamic indices except for Jakarta Stock Exchange. The difference between JCI and JII is found to 0.37%. It can be concluded that Islamic and conventional stock indices yield similar returns. This finding is in line with Ho et al. (2014)

Table 6.2. Correlation and test of differences between conventional and Islamic indices

Indices	Correlation coefficient	Paired sample t-test		
		Difference (in percentages)	t-Value	p-Value
DJCI–DJIMI	0.89	0.11492	0.6049	0.5464
KLC-KLSI	0.97	0.00858	0.0859	0.9317
FTSE-FTSEII	0.96	-0.00983	-0.0735	0.9415
JCI-JII	0.98	0.36992	2.4347	0.0164*
WI-WIS	0.99	0.04158	0.5727	0.5679

Note: * indicates significance at 5%.

Table 6.3 shows the returns of conventional and Islamic indices in the crisis and post-crisis period. For the case of United States, both indices decreased during the crisis period however DJCI was more affected compared to DJIMI. People investing in the Islamic index lost less compared to people investing in conventional index in United States. A similar situation is documented for United Kingdom. For the case of Malaysia, the opposite was observed, as the KLSI decreased more than KLCI. The most significant difference was seen for Indonesia as the return of JCI and JII were 1.18% and 0.54%, respectively. On the contrary to other 4 indices, Indonesian stock exchanges had positive returns in the crisis period. For the case of the global indices, there is no significant different in both two periods.

Table 6.3. Returns of conventional and Islamic indices in the crisis and post-crisis period

	Mean return (%)	Crisis (%)	Post-Crisis (%)
DJCI	0.59	-2.00	0.96
DJIMI	0.47	-1.61	0.77
KLCI	0.27	-0.95	0.44
KLSI	0.26	-1.46	0.51
FTSE	0.16	-2.03	0.39
FTSEII	0.17	-1.84	0.38
JCI	0.78	1.18	0.72
JII	0.41	0.54	0.39
WI	0.37	-1.94	0.70
WIS	0.33	-1.72	0.62

The Granger causality test results are presented in Table 6.4. There is no Granger-Causality relationship between conventional and Islamic indices in the United States and Malaysia. For those markets, there is no bi-directional or unidirectional relationship between two indices. For the case of the United Kingdom and Indonesia, there is a bidirectional relationship between conventional and Islamic indices. For those markets, we can conclude that Islamic index granger cause the conventional index and vice versa. Investors should be following the relationship between conventional and Islamic indices. Considering the global perspective, there is also a bidirectional relationship between conventional and Islamic indices (at the 10% significance level).

Table 6.4 Granger causality test

Direction of the Relation			chi2	Prob > chi2
DJCI	→	DJIMI	**2.3992**	**0.301**
DJIMI	→	DJCI	**1.8012**	**0.406**
KLCI	→	KLSI	**2.5189**	**0.284**
KLSI	→	KLCI	**2.42**	**0.298**
FTSE	→	FTSEII	**7.4121**	**0.025****
FTSEII	→	FTSE	**6.3421**	**0.042 ****
JCI	→	JII	**9.3021**	**0.010****
JII	→	JCI	**13.479**	**0.001*****
WI	→	WIS	**5.7457**	**0.057***
WIS	→	WI	**5.6302**	**0.060 ***

Note: ***, **, and * represent significance at the 1%, 5%, and 10% levels.

7. CONCLUSION

Islamic Finance's rapid growth is clearly visible in today's economy, and as time goes by, it becomes more popular globally. The most accomplished finance method was conventional finance, but with the growth of Islamic finance starting from the years 1960s this method started to be very popular all around the World including non-muslim countries. The most significant establishment of Islamic Finance started in 1963 with the development of Mit Ghamr Savings Bank in Egypt. Another important development was the entrance of Islamic Development Bank in Saudi Arabia in 1975. In 1979, the first Islamic Insurance Company called Islamic Insurance Company of Sudan was built. Auditing Organization for Islamic Financial Institution was formed in 1990. In 1996, Citibank's of offering of Islamic services led to huge visibility of Islamic Finance and Citi Islamic Investment Bank in Bahrain was settled. Another milestone was Dow Jones Islamic Market Index's establishment in 1999 followed by the creation of Islamic Financial Services Board in 2002, which led to standard- setting for Islamic Financial Institutions by creating higher visibility. Islamic finance is now used in 124 countries actively around the World. The start of growth of Islamic Finance led 500 financial institutions to be built, and 300 of those institutions are Islamic banks internationally spread. The last twenty years has been very profitable for Islamic Finance as the industry has grown approximately 14 percent each year, and Islamic assets are almost worth $1 trillion. Islamic finance has its own way of dynamics that are different than the financial methods practiced by conventional finance. Islamic finance's main tool for finance is not money, and this leaves monetary transactions to not to be a priority in the practice of Islamic Finance. The usage of interest is inhibited in Islamic Finance and this is called riba as being one of the most important rules of Islamic Finance. What Islamic Finance offers is not generating money based on lending money, it finds it ethically wrong to provide money as a commodity of exchange. In Islamic Finance, profit and loss is share by shareholders and there is a form of partnership that is called Musharaka.

Islamic Finance has five main transaction principles that can be listed as Murabaha, Ijara, Mudaraba, Musharakah and Sukuk. Murabaha is based on cost-plus sales having principles of 1) assets to be sold must exist 2) sales prices should be determined 3) sales must be assured. Ijara (original meaning of giving something for rent) is a form of leasing transaction based on Shariah law. Mudaraba is a trustee finance contract, which is established via one side's contribution of effort or expertise while the other side's contribution is giving capital. Musharakah(partnership) is a form of partnership that enables customers to be able to purchase a house via paying rent to Islamic Financial Institution. The customers' payment keeps leading the Islamic Financial Institution to have less share of the house that soon leads the customer to have the flat of his own. Sukuk is a financial certificate or and Islamic bond that enables Sukuk holders to focus on underlying asset or project of Sukuk issue.

What makes Islamic Finance so convenient for the investors, what is Islamic Finance, the answers to those questions simple, it is the finance according to Islamic Laws, and does not allow high levels of uncertainty. The lower levels of uncertainty make Islamic Finance more convenient on the eyes of the investors as their investments. The rules of Islamic Finance are according to Islamic Shariah rules, which are according to Quran, Sunna, and also agreement and individual reasoning of Islam. The Shariah laws are not generalized laws, they have their own way of adaptations and remarks based on the specific transactions, and determined rules to manage them. Islamic Finance has Shariah Board that controls the Islamic Financial Institutions' transactions, and looking through whether those transactions, and products are Shariah compliant or not.

The comparison of conventional finance and Islamic Finance can easily be listed as the difference of their usage of money, usage of lending and mortgage. What is clearly seen is the fact that as conventional finance is riskier in the cases of economic fluctuations as the Islamic finance is more stable in terms of not being as much affected as conventional finance has the basis of money, the changes in the valuation of money directly affects the interest rates, and the outcomes of conventional finance. What Islamic Finance offers to the investors is the sharing of risks and rewards. As Islamic Finance's main commodity is not money, the investments are based on tangible assets that lead to safer investment. In Islamic Finance, the risks and rewards are shared by depositors, and Islamic Financial Institution controls the collection of deposits due to credibleness, and importance of the institution. For conventional finance as the main commodity is money the investments are based on intangible assets, and risks are brought to investors by the bank while the bank earns the reward after paying the depositors at fixed rate.

Conventional finance has higher returns of investment in short terms due to volatility while for Islamic Finance as the investments returns has more detailed processes in short terms the investments can turn in to losses so the way Islamic Finance leads to profitable returns is based on long- term investments.

The relation of investors and the bank system is very different in Islamic and conventional finance. In conventional finance, the banking system serves to the bank, and the bank is the institution that benefits from the transactions the most by earning more money by operating money, but in Islamic Finance as risks and rewards are shared in a way it can be stated that both bank and investors have mutual benefit, or investors have higher benefit than the bank in the long term outcomes.

The aims of conventional finance and Islamic Finance are completely different. As both conventional and Islamic Finance serves to the same community, conventional banks' main goal is to maximize profitability while the main aim of The Islamic Banks is to do transactions according to Shariah laws, and to follow the right procedures. Islamic Finance is more focused on sharing and being beneficial for the community rather than only maximizing profit in terms of money flow.

Islamic indices can be used to figure out the size of a specific market, performance of specific fund managers, comparison of the periodical values, efficiency of periodical adjustments, periodical adjustments of salaries or wages based on changes in level of prices. Most significantly, what differs Islamic Indices from the conventional indices is the fact that the indices of Islamic Finance should be according to Shariah rules. The indices that Shariah rules approves are much more restricted than conventional indices. According to Shariah rules there are some businesses of which have indices that can never be included in Islamic Indices based on being the businesses prohibited by Shariah law. The businesses prohibited by Shariah laws are listed as tobacco, guns and millitary weapons, pork, gambling alcohol, aerospace, defense, casinos, gambling, entertainment including movies, restaurants, hotels, distillers, broadcasting, cabling and satellite biotechnology companies involved in human/animal genetic, engineering. Excluding the indices against Shariah law the conventional indices formatted way of Islamic Indices can be considered as only putting "Islamic" to the beginning of the names of the indices. The Islamic Indices can be listed as : MSCI World Islamic Index is the index, Dow Jones Islamic Market World Index, and the conventional indices can be listed as : MSCI World Index, Dow Jones Market World Index relatively based on the countries and markets that they perform on. The indices can be based on the region, country, business, and industry as long as it meets the demands of Shariah rules it can be listed as Islamic Indices, for conventional indices there is no such restriction, which makes its variety of indices more than Islamic Finance Indices'.

This study examines the performance of conventional and Islamic indices in United States, Malaysia, Indonesia, United Kingdom, and the World. It is found that there is a strong positive correlation between conventional and Islamic indices in all markets. Moreover, we find that there are no significant differences in mean returns between conventional and Islamic indices except for Jakarta Stock Exchange. The difference between JCI and JII is found to 0.37%. It can be concluded that Islamic and conventional stock indices yield similar returns. This finding is in line with Ho et al. (2014). Once we compare the performance of indices during and after the crisis period, mix results are documented. There is no Granger-Causality relationship between conventional and Islamic indices in the United States and Malaysia. For those markets, there is no bi-directional or unidirectional relationship between two indices. For the case of the United Kingdom and Indonesia, there is a bidirectional relationship between conventional and Islamic indices. For those markets, we can conclude that Islamic index granger cause the conventional index and vice versa.

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