Wavelet Analysis of Stock Price Behaviour: Evidence from Dow Jones Islamic GCC Stock Index Returns

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1. Introduction

Fund managers and investors began many years ago to take into account the Islamic component of the GCC stock markets in order to benefit from the diversification opportunities offered by the Islamic stock markets for their investments in equity markets. This can improve the return and reduce the risk associated with their investments. However, these investors are also concerned about linkage aspects of those markets in relation with the international ones regarding integration and shock transmission, in particular, during the financial crisis.

Given the evidence of frequent crises taking place all over the world, our study, therefore, attempts to evaluate the stability of one particular market (Islamic GCC through beta values) with unique characteristics and experience of rapid growth recently, which is the Islamic capital market.

Given these unique features, i.e. the lower leverage, smaller size of firms, and under-diversification of the market, our study has the main objective of investigating