

interest on the activity of investment. Therefore, the outsourcings of the investment activities are better for them.

- Lack of time

This is the second group of investor who frequently seek outside assistance. He or she does not have enough time to manage the investment activities. Although they are the people who may do the excellent job but the time constraint limit them from doing so. They realize that their time is better spent focusing upon their business or career.

- Lack of interest

This is the third group of investor who simply lack the interest to actively manage their own investment. As an example, upon retiring, many people choose to enjoy their time by traveling, recreation, family, friends, and other activities. At this time the income become the secondary motive of their life.

- Inability to control emotions

For the investors who fail to control their emotions are most in need of an outside advisor. This is because an emotion plays the important role in controlling the activity of a person. The investors may do the wrong doing if they make the decision based on their emotion. In order to avoid the risk, the investors may choose the outside advisors as their investment agents.

- Insufficient knowledge

An investor is the outsider who has surplus money but not necessary he or she must have sufficient knowledge. However in recent situation, knowledge becomes a main pillar in investment. This is due to the complexity of the transaction.

For the insufficient knowledge investors, they may assign the task to the outside advisors. This is because the outside advisors are the expert in this field.

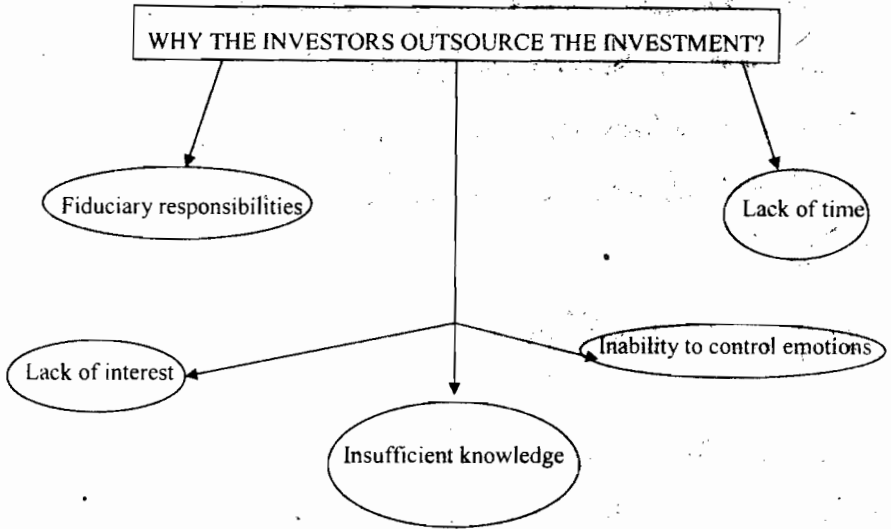
CONCLUSION

Islamic fund is an alternative for an Islamic investor. The purpose of this fund is to encourage Muslims to activate their wealth and avoiding from being idle. As we all know that Islam will penalize the idle wealth by the obligation of zakat payment. The most major question is whether the fund is truly complying with the shari'ah or not.

In this century, Muslim held surplus money for the consumption. However their wealth is not properly invested in Islamic manner. Therefore the existence of Islamic fund is the best solution for these investors.

As the addition, the cooperation between the wealthy and the knowledgeable Muslims may empower the society. The developed Muslim society is the final result of this cooperation.

WHY THE INVESTORS OUTSOURCE THE INVESTMENT?



There are a number of investors who pass out totally the job of investment to the investment company. This kind of investors normally did not care much on the revenue he or she going to gain. However, there are also investors who are very meticulous in every cent he or she invests. For these groups of people, they will try to evaluate the performance of the portfolios by their own.

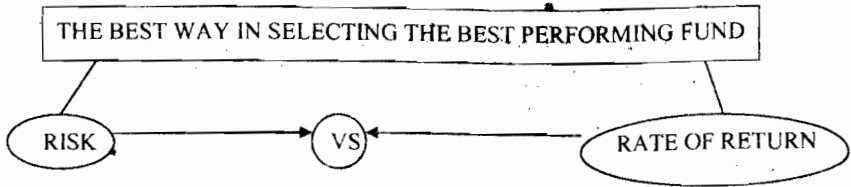
There are a number of reasons why the investors try to avoid doing evaluation of the invested portfolio. Here we are going to discuss a few reasons why an investor prefers to outsource the evaluation to the outside advisors. Basically there are four reasons why the investors try to avoid from evaluating the investment by their own; a desire to avoid fiduciary responsibilities, a lack of time, a lack of interest, an inability to control emotions, and insufficient knowledge.

• **Fiduciary responsibilities**

There are some people who have surplus money. They have an intention to invest their money but they do not have enough time to invest their money by their own. They are the people who have expertise in managing the money. However, they have other priorities to do.

The group consists of a son, daughter, spouse, or other relative who inherit the wealth of a late family, the individuals on the board of directors of a school, mosque, or any foundation, and the trustees for retirement plans. All of them do not have much

THE BEST WAY IN SELECTING THE BEST PERFORMING FUND



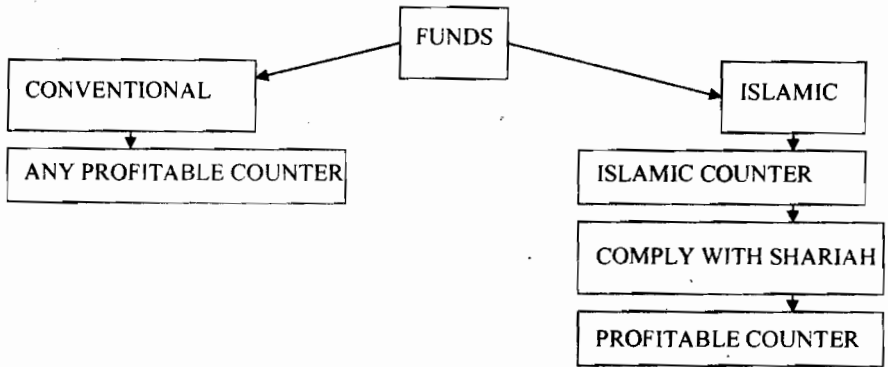
Gaining the highest revenue from the investment is the main objective of all investors. They hope that the fund management company will invest properly their money. Although, the investment and analysis were doing by the company, the investor also may prepare their own analysis.

The academicians, money managers, and thoughtful individual investors have drafted some formulas in selecting the best performing fund. They agreed that the assets should be measured based on risk and rate of return.

According to the study the rate of return is a mix of any change in market value, any dividends, interests, and other receive from the investment. All of these are expressed in a percentage gain. After calculating the rate of return, the next is measuring the level of risk. Based on the same study, the risk could be measured by several different statistics. One of these statistics is beta coefficient. Beta coefficient is a ratio of the average performance of a given stock or mutual fund relative to that of some of market average. As an example, if a beta coefficient of Company A is 2.0, it would indicate that the mutual fund tends to move twice as rapidly as general market.

In viewing to use this statistics, we have to find the company, which offers the Beta coefficient equal to zero, or zero risk company. Then we have to know the rate of return of the invested company. Let say, the company's rate of return is 5% and the beta is 0. Therefore, an investor may select the other risky fund, which offers the rate of return higher than 5%.

The next step is an investor has to find the second higher risky than zero risk fund. Let say the beta is 1 and the rate of return is 10%. An investor may invest in such 10% but he or she has to face one level higher risk in gaining 10% rate of return. If there is a fund, which offers higher rate of return than 10% but lower risk (<1), or in other words, the rate of return is more than 10% per unit of risk is called as outperformed the market and called as under performed if it is vice versa.

ISLAMIC FUND VS. MUTUAL FUND

Mutual fund is the company that pools the money to invest in various counters and to buy the portfolio of the securities. The managements of the company consist of the investment expert. They have enough knowledge in studying the power of the company and in planning the prospect of the future earning of the company.

The money that pooled by the company is invested in buying various portfolios securities on behalf of the whole group. All portfolio securities are eligible for the conventional mutual fund. However, the scanning must be done for an Islamic fund. The purpose of the scanning is to check the compliances of the operation with the sharia'ah. The Syari'ah Supervisory Board of the company does the scanning.

In conventional mutual fund, the investors will share the profits and losses earned from the investment. The ratio of the profit and loss is based on the amount of shares they invested. Meanwhile, in Islamic fund investment, the profit and shares is distributed based on modes of investment agreed by the investors; among the modes of investment are *Ijarah fund*, *equity fund*, *commodity fund*, *murabahah fund*, *mixed fund* and many more

ماہنامہ اسلامی بظاہر بے ضابطہ ہے جس کا استعمال عذر کی وجہ سے جائز ہو عذر ختم ہوتے ہی جواز بھی ختم ہو جائے گا۔

by Allah SWT through the obligation to pay the zakat. This is because in the idle money is the right of the eight asnaf (the zakat beneficiaries).

There are two types of investment available for an investor. They can invest in physical assets and financial assets. The physical assets are gold, coins, and other touchable assets. Meanwhile, financial assets are stocks, bonds, mutual fund and etc. Between these two assets, financial assets are preferable to invest in. This is the effect of the liquidity of the investment. The investment in the financial assets is more liquid differ to the physical assets. An investor can easily pull out his or hers capital in the financial assets. He or she can sell easily his or hers stock certificate to the other buyers through the investment agents or stock brokers.

What is the stock? Stocks are the shares of the company that have being apportioned into the units. The amount of the capital contributed by an investor is determined by the numbers of units of company's share. The vote power to the company also determined by the number of shares. The dividend and the disbursement of the income also distributed based on the number of units share hold by an investor.

Meanwhile, the stocks of the company is divided into two types, one is ordinary and the other one preference. The difference between two is the preference holders are entitled for fix receipt over the years, regardless the company makes profit or loss. Meanwhile the ordinary is determined by the decision of the management of the company.

The fix return receipt from an investment of stock preference is haram according to the Islamic scholars. This is because of the concept of justice in Islam. In stock preference, the investor has being promised to receive a certain fix rate annually. In other words, the future dividends are determined prior to the determination of the profit of the year. Therefore, Islam views stock preference as haram since it involves with the uncertainty. The amount receipt from stock preference is considered as *riba al-fadhl*. As a solution, Muslim may invest in the common stock.

In other points, an investor may reduce the liability of the investment through diversification. Diversification means an investor invests in diverse industries and companies rather than in the related companies and groups. Let say, if an investor invests in the crude oil company which the company facing the economic downturn in that particular year, at the same time he or she also invests in the motor industries which is used oil as the main power. As the effect of un-diversification, (not diversified the investment) the investor will stand facing the high risk problem. However, this kind of problem can be avoided by practicing the diversification. Diversifying the investment in various industries may help the investor to reduce the risk. Although he or she will incur loss in crude oil investment but this loss can be covered by the profit he or she gains from an investment of the other unrelated industries.

Here, the writer will state four basic types of investors who are dealing with the risks for the investment; aggressive, moderate, conservative, and extremely conservative. Aggressive investor is the person who is not interested to the current income but he is interested to the capital appreciation; capital appreciation is the value increases when the company's capital growth as the impact of the company's business success. This type of person is willing to accept high market risk.

The second groups of investors are who willing to accept moderate market risk. He or she views current income as a subordinate to capital appreciation. For them, current income is a second important receipt after capital appreciation.

The third groups of peoples are conservative. The conservative is the person who is willing to accept only limited market risk. For them, current income is highly important rather than capital appreciation. Meanwhile, extremely conservative are not willing to accept any risk. He or she tries to greatly reduce the market risk and extremely increase the market return or current income. He is not interested most on capital appreciation.

For further discussion, the writer is going to state about the acceptable risk for the investment. The level of acceptable risk is referred as *risk tolerance*. The risk tolerances for the investors are differed among the investors. Usually, the investors will determine the risk tolerance based on the individual's current economic circumstances. The best measurement for risk tolerance is *sleep quotient*; sleep quotient is the level of risk that a person thinks it is disturbing. If a person feels that he or she is not comforted with the highly risky investment, he or she may start selling them and move to the lower risky fund or counter.

It is simple to say that, investment is the activity that involved most with the matter of faith. The fluctuation of economics situation is determined by the environment scenario. No one knows about the future economics scenario. There are many external scenarios which will affect the economics fluctuation. Therefore the investors have to be braved enough in practicing their investment.

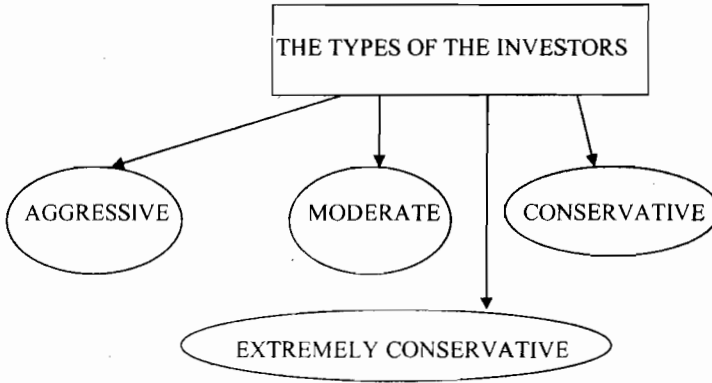
INVESTMENT IN ISLAMIC POINT OF VIEW

Saving refers to a part of money that is not spent on consumption. Meanwhile investment refers to the expenditure that is not for the consumption but for the purpose of capital appreciation, and on creation of a new capital. The idle money cannot be considered as an investment. This is because the idle money will loose it purchasing power. Study has proven that the idle money will loose 93% of the purchasing power over the last 200 years.

Islam encourages Muslims to stream their income to the certain areas. The areas are defined by Islamic priority. If the income or money is kept idle, this money is punished

- 9) Beware of the last year achievement. An investor should not totally depend to the last year achievement of the company. The situation and environment are always kept on changing. Therefore the past year achievement is only the basis. It can be used as a rough glance, not totally depend on it. The past achievement is good for checking the reliability of the internal control of the management, but it is not good to measure the future prospect.
- 10) The financial market is related to the fears, hopes, knowledge and greed of all investors everywhere. The environment situation moulds the feeling of all investors. Sometimes the feeling may boost the market and lead the market be bullish, if not the market will lead to bearish. For Muslim investors, all of these feeling should not be there. This is because; they will lead to serious speculation which is haram.
- 11) An investor should have long term planning. To be as a good investor, he or she to have long term planning. The investors should not grab a chance which is short term based. This is because patience and consistency are valuable assets for the intelligent investors

THE TYPES OF THE INVESTORS

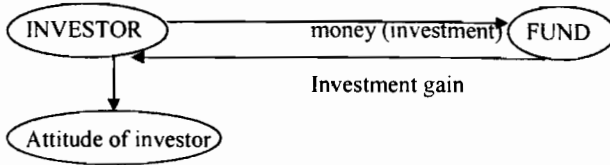


Actually, the types of funds to invest are depending on the objective of the investors. The investors have to decide how big the risks they are going to accept. The acceptance is based on how much and how long they are going to accept the risks. The ultimate purpose of investment is the income the investors are going to receive.

money is entitled for zakat if it is over the certain limit or nisab and being passed the haul or period of time. The idle is zakatable because Islam encouraged the ummah to activate his wealth. And later he the wealthy peoples are being able to help the poor.

- 4) Today is better than yesterday. This is the principle of the Muslims. A Muslim must be today is better than yesterday. Based on this principle, an investor who has been in investment field so long has to be more expert in choosing the companies to invest. So, the Muslim investors are logically being able to gain more after some time in investment field.
- 5) An investor has to diversify his investment. In investment, an investor is better to invest in various types of businesses. He has to invest in multiple types of risk businesses. Rather than stick on only one type of business. This is because the diversification will help the investor balances his risk. In short, an investor who invests in three companies will have more chances to balance the risks rather than the investor who only invests in one company. The lost of a company can be covered by the profit of the other two companies. However, for single company the lost will solely from that company and there is no company which is available to bring the investor to the equilibrium point or more.
- 6) Cost-benefit analysis is the best in determining which companies are the best places to invest. Cost-benefit analysis is prepared by taking into consideration all the costs those be incurred when the investor invests. These costs will be deducted from the expecting benefits those be receipt after the investment. If the receipt is higher than the expense so the investor may decide to invest, if not is vice versa.
- 7) Know the operating of the business. Before investing in any business, an investor is required to know at least basic information regarding the activity of the business he or she wants to invest. This is to ensure that, an investor will not do the blind imitation and blind investment. The blind investment may lead to the loss of capital. This lost of capital can be avoided if the investors do the homework in studying the prospect types of the businesses. He or she can rely on the current users' behaviors, environments, status of the economy and other financial and non-financial data. He or she also can rely his or hers assumption based on the rating provided by rating agencies such as RAM in Malaysia.
- 8) The investors have to have balance estimation. It means, not to be overestimates and be underestimates. Usually, the investors will do the prior estimation before doing any analysis and later accept or reject to invest. This prior estimation is so important whether the investors will choose it or not for further analysis. Overestimates and underestimates will lead the investor to the state of frustration if he or she failed to achieve his or hers estimation.

HOW TO MANAGE THE ISLAMIC FUND



*attitudes of the investor are being discussed in the text

Investment is an activity involving a portion of money to allocate to the certain types of business and seeking for profit. The investors will not do anything related to the operation of the company. Since the investors are not involved in managing the operating of the company, so he is not entitled for any salaries or wages, he is only entitled for the profit gained by the company. Thus, the investors have to have certain expertise in choosing which companies those have bright prospect in gaining the profit.

In this section, the paper will discuss some pillars of wisdom in investing the money. The pillars were taken from the idea of conventional fund management but have been taken into consideration by the writer regarding the Islamic point of view. The writer tried to view them in the Islamic point of view. The pillars are:

- 1) Successful investing involves doing just a few things right and avoiding serious mistakes. It means an investor has to beware. He has to plan and do the homework regarding the strength, weaknesses, opportunities, and threats of the prospect organization. He or she also has to know the activities of the company. He has to know whether the company pros or cons the Islamic shari'ah. He has to be careful in each step he moves. He has to avoid any serious mistake that will give big impact to his investment.
- 2) When there are multiple solutions to the problem, choose the simplest one. Sometimes, an investor will face a serious problem. This problem is usually difficult to solve. Once the problem is clearly defined, there are multiple solutions to this problem. So, the investor will again facing the problem in choosing the solution. Based on the prudent concept, the writer suggests the investor to choose the simplest one. As an example, if an investor confuse whether to invest in highly risk company or low risk company, the high risk company offered 5% rate of return but low risk company only offer 2.5% rate of return, based on this principle, the investor has to rely on the investment which is more guaranteed.
- 3) Try to earn money every time even it is small. The investor has not left his money idle. He has to gain something even the gaining is too small. In Islam the idle

Muslims are the second larger group of religions after Christians. These peoples have a lot of wealth to invest. However, there are a few of Islamic counter offered for Muslims. This scenario gives a bad impact to Muslims because Muslims' daily activities should be within the limit of shari'ah. Otherwise, it will be rejected by the Allah and the doers will be considered as ignorant.

Islamic fund management is a solution for Muslim investors. This solution gives more chances for Muslim to invest accordance to the shari'ah. This fund is basically similar to the conventional fund except in the compliances with the shari'ah rules and regulations. For an Islamic fund, it is prohibited to invest in the companies which involved in the haram activities such as gambling, alcoholic business, pornographic, ribawi institutions and the companies which financed by ribawi institutions.

These strict rules and regulations made by Islam is purposely to be sure that Muslims operate within the limit of shari'ah. In Al-Quran Allah SWT has mentioned as

Business is halal for a Muslim but any transaction which is based on riba is considered haram. When an activity is considered haram it will be rejected by Allah and will be grouped among sinful people. Of course these groups of people will be not entitled for the rewarded.

Every investment deals with the risks. In Islamic fund also there are risk. The risks in Islamic fund are various depending on counters chosen by the investors. Islam accepts risk as its own but rejects any kind of speculations. This is because speculation may bring to the gharar and maisir. These two principles are among the haram which are clearly highlighted by Islamic scholars. These concepts also may lead the stronger people depress those weak.

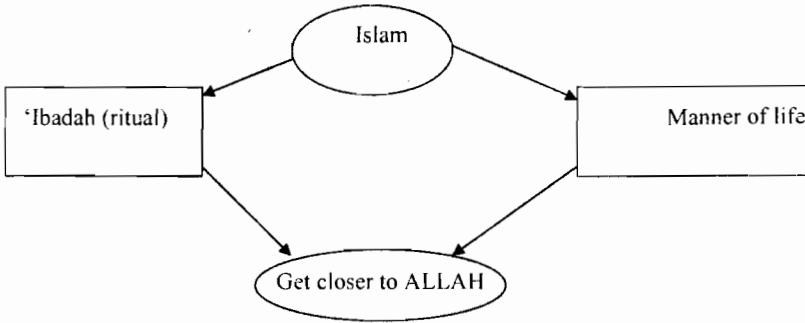
As the time changes, Islamic fund becomes a popular investment opportunity. This was proved by the increasing in the number of Islamic counters. The growths of the Islamic counters were occurred in every part of the world. As examples Saudi American Bank in Saudi Arabia, Bank Islam Malaysia Berhad in Malaysia and many more.

At last, Islamic fund is an alternative especially for Muslims at large and generally for the whole population. The fund is purposely to enhance the economic status of the ummah. At the same time, it will purify and get closer the Muslims to their Creator. The fund will give the chance for a Muslims to avoid themselves enrolled in haram's counter. From the points, the activities of Islamic fund are a Fardhu Kifayah. For the Muslims, they have to support this sacred activity. Although, the efficiency of the organization is still debatable but the task of Muslims to support the organization are still there. Allah SWT has encouraged the Muslims to support the good deeds and prohibit the bad deeds.

ISLAMIC FUND MANAGEMENT AND ITS WORLDVIEW

©Prof. Dr. Mohd. Ma'sum Billah¹

Introduction



Islam is a religion that was revealed by Allah SWT since the creation of human being. Islam did not separate between *ibadah* or ritual and method or manner of life. It is derived from the meaning of Islam as *ad-deen*. Ad-deen can be defined as a way of life and faith to Allah SWT.

The purpose of human's creation is to oblige Allah SWT. This obligation is not limited either by the time or by the place, but it covers all aspects of human life. Every activity of human being which is within the limit of *shari'ah* is measured as *ibadah*. This activity will be rewarded by Allah SWT.

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