

Investing in Islamic exchange-traded funds

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INVESTMENT is quintessential in Islam for ummah socio-economic extensions. Two perspectives are offered. Firstly, an investment that is conducted according to Shariah offered a source of new passive income channel for sustainability. Secondly, an investment allows an improved ecosystem of income generated platform due to our amalgamation and an integrative approach.

Investing in the pandemic epoch demands individuals to be scrupulous when choosing the terminals or instruments to be invested. The timing for investing the funds saved is also vital in which the ability to buy and sell is tantamount to the equally established success.

Yet, the capacity to shield the invested capital through knowledge investment [KI] is also imperative as a successful ruler. After all, the energy to multiple profits via endured investment patronisation is another pathway.

Today, retail investors are not circumscribed to distinct sectors to generate active or passive income. Indeed, the options are many and subject to the discretions of investors to take up their portfolio effectively.

Islamic exchange-traded funds (IETFs) are acknowledged as one of the important investment platforms existed today and available for retail investors' patronisation, participated through Bursa Malaysia.

Two questions are answered. Q#1 - What are the IETFs? Q#2 - Are there any issues sprung from the IETFs?

By definition, the IETF is an investment vehicle traded on a stock market. In other words, it is an index-tracking fund. The IETF is generally priced and traded throughout the business day, through a stockbroker.

The IETF is different than that of its conventional peer via the considered use of the benchmark index.

The IETFs only track an Islamic benchmark index, where the index constituents incorporate Shariah-compliant companies. To work, the IETFs need Shariah advisors' expertise and guidance to secure that their structure, investment and all matters related to the funds activities comply with Shariah.

To invest, one should have a central depository system (CDS) account or Bursa Malaysia

Depository (BMD) and a trading account maintained with a broker. The investor can buy and sell IETFs through their broker, remisier or via online trading during trading hours.

There are at least five benefits that are drawn from investing in the IETFs. The details are provided.

BENEFIT #1 - The funds enable investors to have privileges sourced from the companies listed under the index without investing in each of the stocks owned by the companies directly. The funds yield investors to have entered to the variety of stocks offered by companies with different weightage accordingly.

BENEFIT # 2 - The funds are maintained as a Shariah-compliant investment to adhere to Shariah principles and practices. It is also a recognition for non-Muslim investors who prefer to invest in such funds for profitable earnings, safely invested funds and secured research platform.

BENEFIT # 3 - The funds transacted are priced during trading hours on the stock exchange. Generally speaking, the constituent stocks of the index are promulgated on the funds or the websites of the service providers. The investor is, therefore, easier to access the information for sound investment decisions.

BENEFIT # 4 - The funds are tradable in which the buying and the selling of the IETFs are done at any point of time during the trading hours of the stock exchange.

BENEFIT # 5 - The funds have lower annual management fees compared with other unit trust products. This is because the IETFs are being bought and sold at the alike transaction cost as those charged for trading shares on the stock exchange.

Though the IETF is fruitful at least to the retail investors, however, its penetration rate is minimal that justifies its marginal receptiveness drawn from retail investors.

The book is generously written by academicians rather than the practitioners that breeds the gorge deemed as a peril for the IETFs' continuity in the future.

There is also a circumstance in which an investor is not connected to the outlet due to the confined geography that leads to the limited investment opportunities to invest in the IETFs though he is a well-versed investor with enhanced investment skill and knowledge.

If a common method of doing the thing is lengthened, the strength for the IETFs to compose an impact tends to be lowest and if any only those outliers will have the positive consequence at expense of the majority.

There is also a fallacy that signifies the IETF and an index fund are used interchangeably as if both are siblings. Laymen may conceive that the IETF as just added type of index fund as far as the IETF belongs to a specific index when investing. This is primarily transpired owing to the wrong message conveyed by a particular dilettante who shares a shallow thought via a general medium of interaction. Consequently, a faulty verdict stretches its horizon covering tireless perplexing.

To address, the interplay between the academicians and the practitioners should be turned on concerning an educative programme of engendered endeavour to instil the significance of the investing in the IETFs. Rather than an examination basis, a know-how approach is a better-considered support that can jack up the quality of the digested skill on the IETFs that breed a conation to lead the way.

In a nutshell, Islam approves any profit generated that results from accountability sourced from work, effort and liability. Generally speaking, when the risk is higher, the return is higher and vice versa. This is based on the fiqh maxim that says "al-ghunmu bi al-ghurmi" - profit bears a risk. The considered risk should be evaded by diversification to indulge the investors' goal as well as the funds' objectives.

To a certain extent, paying the experts to acquire their experiences can help retail investors to make their investments a success. With the right plan, the investors can generate a first profit that motivates the second profit follows, where newly gained experience and the generated passive income are brought into play, at least.

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