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Islamic Discretionary Funds and Conventional Discretionary Funds

ABSTRACT

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The objective of this paper is to compare return and risk islamic discretionary funds and conventional discretionary funds in Indonesia as emerging market , by using direct comparison and one-performance measurement. Result of this research shows that islamic discretionary funds return is not significantly different from conventional discretionary funds return using direct comparison. In the other hand, the risk islamic discretionary funds is significantly lower than conventional discretionary funds using 5% of significant level. Finally, with using one-performance measurement results a ranking of mutual funds.

Key word : islamic discretionary fund, conventional discretionary fund, return, risk, comparison.

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1. Introduction

In general, the development of the Indonesian economy shows promising developments can be seen with some Indonesian macroeconomic indicators , such as the projected economic growth of 6 % in 2013 , inflation stabilized around 5.4 % with a deviation of + / -1 % with a stable exchange rate in the range of Rp 9.540 / U.S. $ and also with Indonesian Central Bank Rate which is around 5.75 % by looking at the macro indicators then can be said that the Indonesian economy is stable and promising .

The good indicators of the economy resulted in a growing variety of investment in Indonesia is one of the investment industry is progressing rapidly enough mutual fund industry , it can be seen with the total reaching 189 trillion fund which is managed by the mutual fund industry and led to the increasing number of financial institutions that issued the product investments such as mutual funds , this makes many financial institutions who issued various investment alternatives that result in more and more options and new types of mutual funds that have sprung.

Seen from the point of view of the increasing number of Indonesian investors in mutual funds make investment choices even more diverse , with each of the mutual funds have risk and return characteristics of the different , especially with the existence of a mutual fund based on Islamic principles that accommodate Islamic community in Indonesia development is very rapid after the issuance of Bank Indonesia regulations on asset quality No.5/7/PBI/2003 for Islamic Banking , Chapter II, article 7, paragraph 2, which states that the mutual fund based on islamic is current assets . Bright prospect should be owned by the Islamic mutual funds in Indonesia with huge market potential and the majority of the population is Muslim , this is what led to the urgent need for a principled Islamic investment vehicle this reason along with the increasing awareness of preserving the religion which, according to John Naisbitt in his book, Mega Trend 2000 will happen in this new century , with a mutual fund Islamic principles of Islam in Indonesia , the community can express and implement not only a religious ritual of worship , but also with regard to the issue muamallah , and civil society no longer be wishful thinking sheer .

Investing in Islam is not only limited to the implementation of islamic-compliant but also must provide benefits to investors , a rational investor should consider the investment return to be in comparison with other investments . So the benefit you'll get by an investor would be optimal it can be done by looking at the historical data on the performance of a mutual fund even though it can not guarantee that a mutual fund that has a good historical performance can give good performance in the future .

Distinguishing feature between Islamic and conventional mutual funds is the management strategy . Islamic mutual funds in the form of the first filtered the investment portfolio as well as Islamic mutual funds can not index tracking strategy , but already the halal index stocks , active strategy be in use but not speculative , this strategy can be used with the basic whereas fundamental analysis technical strategies tend to be in use in because of the technical strategy tends to be speculative , the existence of these characteristics then causes the difference between risk and return of Islamic mutual funds to conventional mutual funds , with different characteristics between risk and return of Islamic mutual funds and conventional mutual funds then there are differences in performance , the characteristics of which is the distinguishing factor that led to an Islamic mutual fund is better or worse than conventional mutual funds . Islamic mutual funds or are more familiar with the socially responsible or ethical investment and investment in Malaysia known as unit trusts perform filtering in portfolio construction , with the screening raises a presumption against the two screening / filtering of the investment portfolio , the first being the notion that the screening process will be bad for their investment portfolio in accordance opinion it Rothchild (Fortune , 5/13/1996) " Limitating choices based on nonfinancial criteria is determental to financial gains of portfolio performance" of Rothchild 's opinion is based on research that result that the average ethical funds are in rigorous , on average worse than the S & P 500 the views of other experts there is also a view that the process of screening the investment portfolio will cause the portfolio in the form of being illiquid but this is different from the reports of Elghari Islamic equity funds in 1996 that Islamic Equity fund in issuing it worked out - performed the MSCI (Morgan Stanley Capital International) , in Malaysia its Islamic Index shows that the performance was not lost on the KLSE (Kuala Lumpur Stock Exchange) Composite Index (Cash , 04/10/2001) , a study made by IGGI H. Achsien in 1999 over a mutual fund management in Malaysia also showed that roughly the same results , how the Islamic mutual funds in Indonesia does have performance better or worse than conventional mutual funds . According to the National Islamic Board Members M. Gunawan Yasni " If you want to compare apple to apple , surely the result of Islamic mutual fund greater " Gunawan added again according to the results of the level difference between Islamic and conventional mutual funds that invest in the same instruments can reach 1 % -2 % higher , but it is different from the results of research Karim Business Consulting (KBC) which describe the Islamic Banking Outlook according to Islamic mutual funds give an average return that is smaller than conventional mutual funds in Indonesia (Reuters , 9/12/2004).

This distinction is necessary to study the performance of Islamic mutual funds in because that may be the findings generated is mere coincidence , because it happened the same with the right coincides with the truth , because it is an empirical findings . To determine whether screening is done in the formation of Islamic mutual funds mutual funds can make a superior or even make it give a low return .

2 . Framework and Methodology

Investments in general is an activity carried out by the investor with the aim to increase the value of the assets owned , investments in financial assets are the activities carried out by buying securities (marketable securities) to defend it and sell it in the future with the hope that the price of the assets will be more expensive than when purchased , this is what causes the increase in one's wealth but to note here is to make an investment means investors lost an opportunity to use his property in the hope that the treasure he would invest a larger amount in the future that will come , but as we all know the future is uncertain , because we can not predict precisely the future so that there is a possibility that in the future something will happen outside prediction , this is what is called investment risk . Frank K. Reilly (1997:5) describes as an investment is a commitment which investors will receive compensation for funds invested based on time , inflation and other uncertainties .

In investing it is expected that each investor can carefully and accurately in selecting investments and also to be adjusted with the investment objectives and expectations to be achieved by investment in addition to the expected investors in the investment period has thus become clear direction of investment , if you want to investing in financial assets are investment instruments lies in financial instruments or on capital assets that are investment instruments on capital goods in order in though and exploited for profit , other than that the investor can also choose whether to entrust the care of direct investment or investment in others , if care (direct investment) means ownership of securities owned directly and if trust in others (indirect investment), this occurs when a securities held by a traded investment company that serves as an intermediary , ownership of assets that are not directly through financial institutions that are registered and acted as an intermediary.

One alternative investments done in indirect investment is a mutual fund , which according to the Capital Market Law no.8 of 1995 Article 1 paragraph (27) be interpreted as a container used to collect funds from public investors to be invested in a portfolio of securities by the Investment Manager has received permission from the Securities and Exchange Commission .

Mutual funds accommodate investors who want a form of investment with risk that is not too big and has a few funds , as we all know that mutual funds are a mix of the investment portfolio by diversifying the mix or is expected to reduce the risk that happening , by Suad Husnan described in his book Basics of Portfolio Theory and Securities Analysis (1994:39) , says investors can easily spread (diversification) investments in various investment opportunities . This is why mutual funds have less risk.

In conducting this study the authors limit research only on a mix of mutual funds , due to the mix of mutual funds in the investment portfolio already includes stocks , bonds and money markets .

In the portfolio formation , there are 2 kinds of mutual funds are mutual funds that are based on Islamic and conventional funds . The most obvious distinguishing Islamic mutual funds with conventional funds is the screening process (screening) in constructing portfolios. Investment vehicles contained in it is only lawful instruments , for shares of the issuer if the issuer has a core activity in illicit activities should not be put on a portfolio of mutual funds , mutual fund investment vehicles only Islamic halal instrument , interest -based debt (interest) is can be sure out of the halal investment vehicles , companies that manufacture , distribute, or engage with products such as cigarettes , alcohol , gambling or pornography shares are not entered in the investment portfolio , the other distinguishing feature is in terms of strategy management , strategy management tends speculative should not be in use for example is a daily trading strategy , these traits are not easily observed technically this can only be known by looking at the data turnover (turnover) portfolio that can be used as a guide , can be said that the higher the portfolio turnover closer just the last speculative activity that distinguishes Islamic mutual funds with conventional mutual funds is cleansing (cleansing) the percentage that is considered not halal , but the mechanism of this field there is no agreement within the meaning of the Islamic mutual funds are running and some are not due to basically this cleansing reduce the net asset value of mutual funds is concerned .

Investing in mutual funds is based on islamic principles syirkah and mudaraba are according to DR . M. Nejatullah Siddiqi (1996:8) participation syirkah is two or more people in a specific business with a number of capital charge based on an agreement to jointly run a business and gains and losses in the section that has been set .

Further DR . M. Nejatullah Siddiqi (1996:8) defines mudaraba as one party provides capital and the other party to use it for business purposes , according to the consensus that the profits of the business will be divided according to the specified section .

In investing through mutual funds are Islamic profit sharing and loss accountability provided that losses are part of capital which is lost , because the losses will be divided into sections on invested capital and will be borne by the owners of capital and profits will be at the partners effort with parts that have been specified.

In the conventional mutual fund investments in portfolio selection based on nonfinancial unknown screening , and selection is based on the portfolio only fundamental analysis and technical analysis , so the conventional mutual fund portfolio consists of all existing financial instruments provided that such instruments provide a good performance based on financial .

So mutual fund returns contain 3 different types of return that the cash dividend or interest disbursement , the Islamic mutual funds are not in the know the distribution of flowers , the flowers usually in exchange for a revenue-sharing , the second is the return on capital gain and the third is the change in NAV if dividends and capital gains are not in share , in mutual funds in the form of collective investment contracts (KIK) both Islamic mutual funds and conventional mutual funds , dividends and capital gains are not refunded to the investor , but directly invested back and the effect on changes in its NAV , so if NAV down means there is capital loss and if there is a capital gain NAV rise .

In investing through mutual funds need to be in the analysis and evaluation in order to compare its performance with other funds , so investors can invest in determining the choice of investment , in this study there are two kinds of comparisons that direct comparisons and comparisons using performance measures particular (one performance parameter) .

By doing performance comparisons investor can determine the extent to which investment managers can achieve the level of expected results and how investment managers can control the risk and also to assess the extent to which fund managers earned rate of return on other investment managers compare .

Based on the description of the framework , the authors proposed a hypothesis :

1 . Return on Islamic balanced fund is smaller than the conventional balanced fund returns .

2 . Risks in Islamic balanced fund is smaller than the conventional balanced fund risk .

Based on the research goal performance comparison analysis on a mixture of Islamic mutual funds and conventional mutual fund mix, then this type of research is a comparative verification. By performing a comparison of the two types of samples and also analyze each of the variables in the test object during a period of time and also to test the truth of the hypothesis formulated earlier.

3. **Discussions**

Return mixture of Islamic discretionary funds in the 16 -month study period by using the time weighted rate of return earned on the average return of 1.25 % per month , while the level of risk during the 16 -month study period was 2:03 % .

Conventional discretionary fund returns mixed in a 16-month study period using time weighted earn a rate of return on an average return of 1.73 % per month , while the level of risk during the study period of 16 months at 2.72 % .

Inferential statistical tests were performed using different test average in the sample can be said that the Islamic discretionary fund returns do not differ significantly in comparison with conventional discretionary fund return , although almost always under conventional discretionary fund return , but according to the test in statistics do not show any significant difference .

While the variance of different test will be undertaken at the conclusion that the risks pull Islamic discretionary fund smaller than the conventional discretionary fund risk significantly by a second look at the above conclusion can be said that the comparison between Islamic discretionary fund and a conventional discretionary fund statistical based test showed that in Islamic discretionary funds do better than conventional discretionary funds , with a lower risk can generate returns that are not significantly different from conventional discretionary funds .

This study concludes that the Islamic discretionary fund returns are no different from conventional discretionary fund returns , while the risk of Islamic discretionary fund is lower than the conventional discretionary fund risk significantly, this conclusion is strengthened by inferential statistical tests were done with $\alpha = 5$ % .

Islamic discretionary fund ranking is measured by the method of one- parameter performance measures with methods Sharpe performance under conventional discretionary fund , using the Treynor Islamic discretionary fund is above the conventional discretionary funds , and the method of Jensen Islamic discretionary fund under conventional discretionary fund .

So the recommendation for investors who want to invest in the stock market with a number of constraints that have little or no funds have the time to monitor the investment fund is a good choice , because with the mutual funds we do not require substantial capital to invest in the stock market and the Investment Manager who manages the funds so investors do not need to perform continuous monitoring of its investments .

Investors who want to place their funds with long-term acceleration of investment and investment certainty are like the placement of the pension fund is a discretionary fund investing right choice because it provides security with a low level of risk , and if you want an even lower risk then mutual funds are a mix Islamic choice .

For other researchers who are interested in similar studies recommended for comparison of performance with a particular performance measure using other models that do not use as a comparison in the risk free because of the assumption on Islamic economy that no risk-free investment .

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