

Five Shariah compliant investment options for Muslim investors

Practicing Muslims may not be aware of the wide range of Shariah compliant investment options that are available today. From mutual funds and 401(k) plans to alternative investments, there are Halal choices that can help Muslims achieve their long-term financial goals, including education expenses and ensuring a secure retirement. ALIREDDHA WALJI delves further.



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Stocks and Islamic Exchange-traded funds are eligible for Shariah compliant consideration only if the companies they invest in receive less than 5% of their total income from non-compliant income sources which include non-Shariah compliant industries such as alcohol, tobacco, weapons, gambling, pornography, pork products, music and cinemas or broadcasting. Speculative trading in shares, short-selling, trading in derivatives or trading in unidentified items are prohibited, as are companies offering conventional financial services and insurance products.

But just because Shariah compliant investing prohibits certain companies, that does not mean that these investing options have to underperform. In the US, the S&P 500 Shariah Index has steadily outperformed the S&P 500 over the last five years. This is true globally as well, where in South Africa the Kagiso Islamic Equity Fund was the best single performing equity fund over the last three years. Shariah compliant investing is also a great hedge against leverage, as demonstrated during the 2008 financial crisis, where the FTSE Shariah All-World Index significantly outperformed the FTSE All-World Index.

There are five primary investment options for Muslims to consider when deciding on a Shariah compliant investment plan as explained in the following.

1. **Robo-advisors:** One of the easiest ways to start building your investment portfolio is to use a Halal robo-advisor. Tapping into sophisticated technology, these automated advisor services can be a good choice for investors who are comfortable with online digital systems. Ideal for clients with smaller portfolios, robo-advisors

feature automate onboarding and self-service investment options that are developed by experienced wealth managers. Look for:

- Low-cost, fee-only pricing; no commissions, and
- Clear interfaces and helpful online resources.

2. **Wealth management advisors:** A personal financial advisor who is familiar with Shariah law can provide managed investment solutions to help achieve your financial goals while conforming to your values. These professionals can create customized portfolios of Halal stocks and mutual funds, along with some alternative assets, taking into account your personal risk tolerance. Look for:

- Fiduciaries that are legally obliged to provide unbiased advice
- Dedicated client support, and
- Management fees only; no commissions.

3. **Real estate:** Along with helping you to save to purchase your own house, Halal financial advisors can provide Shariah compliant real estate investments to complement and diversify traditional stock portfolios. These real estate investments are designed to be debt-free, in accordance with Shariah laws banning speculative investments. No debt means no risk of mortgage default and foreclosure, so investors can achieve stable, reliable returns with an opportunity for capital appreciation. Look for:

- Investments structured for 100% equity/0% debt
- Ease of entry into the investment vehicle
- Pass-through provisions for tax deductions, and
- Competitive returns.

4. **401(k) plans:** If you are a business owner, you probably know that 401(k) plans are an important benefit for companies seeking to attract and retain high-value employees in

a competitive market. Halal 401(k) plans offer a wide range of Shariah compliant mutual funds designed to help your employees prepare for a comfortable retirement, with important tax advantages for both employers and employees. Look for:

- Ready-to-go turnkey plans
- Flexible employer allocation options
- Robust educational and advice tools
- Competitive administrative fees, and
- Reporting and compliance management.

5. **IRAs and Roth IRAs:** There are a number of ways you can save for your retirement, including with a Shariah compliant individual retirement account or IRA. With a traditional IRA, the contributions you make may be fully or partially tax deductible, depending on your circumstances; you will be taxed when you withdraw the funds in the future. A Roth IRA is funded with post-tax income, which means you cannot deduct your current contributions, but future withdrawals are tax-free. A rollover IRA allows you to move funds from an old employer-sponsored 401(k) plan into an IRA without paying current taxes or early withdrawal penalties. And a SEP IRA is for self-employed individuals or small business owners; contributions are tax-deductible. Look for:

- Low fees, and
- Competitive pricing.

Regardless of which of these five options is right for you, Halal investment strategies allow you to support companies that are socially responsible in their products and practices. And with the ethical strategies available from Shariah compliant investment professionals, you can be well positioned to achieve your long-term financial goals without compromising your personal values. ☺