

Halal

al-Basirah

A Series of Insights on Halal Business and Lifestyle

An Insight into Halal Business and Lifestyle

The halal economy is a trillion-dollar industry. The growth of the halal economy and the spread of halal activities and lifestyle have created a high demand for halal professionals and talent

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An Insight Into Halal Business

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- The power of synergy: How Islamic banking drives the advancement of the halal industry
- Halalpreneurs: Driving positive change through core values

Making your money work for your beliefs. Investment for youth, where to start?

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PEOPLE often think that investment is complicated and requires a lot of money. This assumption is presumably a result of a lack of financial knowledge, which also influences investment behaviour and decision-making. According to the Youth Capital Market Survey conducted by the Securities Commission Malaysia (SC) in 2022, only 38 per cent of total respondent have a high level of financial literacy while 62 per cent were not. It shows that Malaysian young people have little financial knowledge, which can influence their investments

choice. Investing is an essential aspect of making future plans and ensuring a secure retirement. It not only offers financial security, but it also has the potential to grow wealth over time. Making a smart financial choice today could be beneficial in the long run.

THE IMPORTANCE OF INVESTMENT FOR YOUTH

Investing is a good way for young people to reach their financial goals and create long-term financial security. They will have a better chance at success in the future if they start early and maintain their focus. Here are some of the most important reasons for young people to invest:

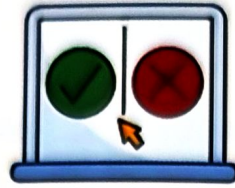
First, young people who start investing early in life have more time to reach their financial goals, such as saving for retirement, buying a home, or starting a business.

Second, investing gives young people a chance to build their wealth over time. Instead of just keeping money in low-profit savings accounts, they can make money on their investments.

HALAL INVESTMENT

Investment activities based on Shari'ah principles

IMPORTANT!



Why important?

- Achieve financial goals and long-term financial securities
- Wealth over time
- Protection against inflation
- Financial discipline
- Wider time horizon

Matters to consider

- High liquidity
- Low fees
- Diversification of portfolio
- Follow Shari'ah principles
- Risk profile
- Sustainability

Islamic investment products

- Islamic unit trusts
- Shares from Shari'ah compliance companies
- Islamic ETFs
- Commodity such as gold
- Derivative such as FCPO
- Islamic REITs
- Digital assets

Third is protection against inflation, in which diminishes the purchasing power of money. By investing in assets that increase in value, young people can preserve the value and purchasing power of their money over time.

Fourthly, investing can teach young people the value of financial discipline, such as saving money, establishing financial objectives, and developing a long-term plan. It is an effective way to acquire the fundamentals of money management.

Last but not least, investing at a young age gives one the flexibility to spread out their investments over a wider range of horizons. They can diversify their risk by investing in assets that have different maturities and different time horizons. For example, the cash flow from short and medium-term

investments can be reinvested or spent as needed. In addition, a long-term investment makes sure that a portion of the portfolio is protected against needless expenditure.

CONCEPT ON HALAL INVESTMENT

Muslims are encouraged to seek for wealth as Allah says in the Quran,

"And when the Prayer is finished, then ye disperse through the land, and seek of the Bounty of Allah; and celebrate the Praise of Allah often (and without stint); that ye may prosper." [Q. Al- Fumu'ah, 62: 10]

Investing is a way to accumulate wealth. For Muslim investors, it is essential to make sure that the investments abide by shari'ah law. Investing in corporate products that conform to Islamic law and values is known as halal investment.

halal investments, financial transactions and activities are governed by the shari'ah principles, which prohibit certain elements such as charging or paying interest (riba), engaging in speculative or risky ventures (mumar), and investing in companies that are regarded as haram or forbidden, like those that deal in alcohol, gambling, or pornography. Investors who follow halal investment principles frequently prioritise investments that are morally and socially responsible as well as those that generate profit in an ethical way, such as by providing a valuable service or good.

MATTERS TO CONSIDER WHEN INVESTING

People can now choose from a wide variety of investment products based on their values, financial objectives, and risk tolerance. Liquidity is one of the most important matters to consider especially for young investors. The investment product should be relatively simple to purchase and sell so that young investors can access their funds when necessary. This is essential for individuals who may require access to their funds for unanticipated expenses or opportunities.

Fees are another important consideration since young investors may have limited financial resources. It is preferable to select investments with low and reasonable fees and expenses so it does not outweigh the returns later.

The investment product should then offer the diversification, which means spreading the investment across a variety of asset classes, industries, and geographic areas. Diversification lowers risk and increases long-term income at the same time. To spread out their risk, young investors might want to think about investing in different types of assets. Thus, if one class of asset loses money, the gains from the other class of asset may make up the difference and lead

to a profit.

For Muslims, the most crucial aspects are ensuring that the investment products comply with shari'ah law while also avoiding any prohibited investments or activities. This makes sure that the investment reflects their values and beliefs.

One of the most crucial and fundamental aspects of investing is determining the risk profile of investors. Investors should evaluate the risk and return of an investment with objectivity, focusing particularly on the risk factor. If investors do not initially understand their risk profile or level of risk, they cannot tolerate on each investment they participate in, it is argued that they may panic and make an inappropriate investment decision (for example, buy a share at the wrong time).

Finally, sustainability is another issue to consider. Investment should prioritise the elements of moral and socially responsible behaviour, such as investing in businesses that support sustainable practises or have a positive impact on society.

DIVERSIFY YOUR PORTFOLIO WITH VARIOUS TYPES OF ISLAMIC INVESTMENT PRODUCTS

Diversification is one way to mitigate risk. As stated in the Qur'an;

"Further he said: O my sons! Enter not all by one gate: go in by different gates. I can naught avail you against Allah. Lo! The decision rests with Allah only. In Him do I put my trust, and in Him let all the trusting put their trust."

[Q. Yusuf, 12: 67]

Diversification is a risk-mitigation strategy that entails spreading investments across a wide range of financial instruments, industries, and other categories. Diversification may help spread the risk by spreading money across multiple types of investments. It seeks to maximise return by investing in various areas that will react differently to the same event.

ISLAMIC UNIT TRUST

There are numerous investment products from which young investors can choose and diversify their portfolio. Islamic unit trusts are one of the popular investment products due to it has a low-risk appetite when compared to other types of investment products. The Islamic unit trust is made up of money pools from various investors who have similar financial goals, investment strategy, and risk tolerance. Professional fund managers will invest these funds in a shari'ah-compliant portfolio of securities in accordance with the fund's objective and investment strategy. A common example of unit trust in Malaysia is Amanah Saham Bumiputera (ASB). There are also other unit trust products offered in Malaysia. Bursa Malaysia has introduced Bursa Malaysia's interactive fund information platform, which gives investors in-depth knowledge of unit trusts and wholesale funds. This initiative represents another innovation in the promotion of the value of investment in unit trusts to the general public and could be considered a positive step towards assisting investors in making better-informed investment choices and enticing more investors, particularly young investors, to put their money into diversified portfolios.

SHARES

In addition, young investors can also invest their money in shares. The shares are traded on Bursa Malaysia, and investors can buy and sell them at any time during trading hours. However, it is important for Muslim investors to ensure that the shares they buy are from a shari'ah-compliant company. The list of shari'ah-compliant securities is usually updated twice a year, in May and November, by the SC.

EXCHANGE TRADED FUNDS (ETFs)

Next, exchange traded funds (ETFs) are another investment option for young

individuals. The ETFs are referred to as open-ended investment fund that is listed and traded on a stock exchange. It combines the characteristics of an index fund and a stock. Therefore, the liquidity of an ETF also reflect the liquidity of an individual basket of shares. ETFs are categorized into several types, including equity-linked leveraged and inverse ETFs, fixed income ETFs, and commodity ETFs. They can be composed of baskets of stocks, futures contracts, or commodities that are based on an index. As for the Islamic ETF, it tracks an index whose constituent securities comprised wholly of shari'ah-compliant securities. Currently, there are six shari'ah-compliant ETFs listed and traded on Bursa Malaysia such as MyETF Dow Jones Market Malaysia Titans 25 (MyETF-DJ25), MyETF Dow Jones US Titans 50 (MyETF-DJ50), MyETF MSCI Malaysia Dividend (MyETF-MMID), MyETF MSCI Islamic Dividend (MyETF-MSEAD), MyETF Thomson Reuters Asia Pacific ex-Islamic Agribusiness (MyETF-AGRI), and MyETF Trade Plus Shari'ah Gold Tracker (GOLLI).

GOLD INVESTMENT

Young investors also have the opportunity to diversify their portfolios through gold investment. This is because gold is perceived as a safe and is always in demand. It can be invested in physical form or through a gold investment account. Those who choose to invest in physical gold, they can buy few types of physical gold such as coins, bars, or jewellery to keep in their possession while reaping additional benefits in the near future. In addition to investing in physical gold, investors can also invest in gold through bank accounts. Numerous financial institutions offer gold accounts as a convenient method for clients to invest in gold without storing the precious metal. This gold investment account enables customers to invest in gold in a convenient, secure,

most-effective manner, thereby maximising their capital gain.

REAL ESTATE

Real estate is one of the best long-term investments, but for young investors, it may be challenging as it takes a lot of money to invest in real estate. As an alternative, real estate investment trusts (REITs) are available for those looking to invest in real estate with limited funds. REITs allow young investors to buy commercial, luxury, and real estate like hotels and malls at affordable prices without having to buy the buildings outright. REITs typically generate rental income from the tenants who occupy their properties. Investors can invest in REITs on stock exchanges such as Bursa Malaysia. Currently, Bursa Malaysia lists four Islamic REITs, including Al-'Aqar Healthcare REIT, Axis REIT, KLCC REIT, and Al-Salam REIT. As for retail investors, it is essential to identify good REITs investments that can increase their income distributions and accomplish long-term capital appreciation. In addition to profit, Muslim investors must ensure that the income from REITs is derived from shari'ah-compliant activities or, in the case of mixed activities, adheres to the 20 per cent benchmark set by the Shari'ah Advisory Committee (SAC) of the SC.

DERIVATIVE INSTRUMENTS

In addition to the aforementioned opportunities, investing in derivative instruments is yet another possibility. Commodity derivatives, equity derivatives, and financial derivatives are the three types of derivatives that are now being made available by Bursa Malaysia Derivative (BMD), respectively. At present, futures contracts on crude palm oil (FCPO) are one of the most actively traded types of derivatives in Malaysia. The SAC of the SC concluded that the contracts provided in Bursa Malaysia derivatives, such as FCPO, are in accordance

with the principles outlined in the shari'ah. In an unpredictable market condition, investors may consider diversifying their portfolios with futures contracts.

DIGITAL ASSETS

Lastly, there is an interesting and an additional option to invest in digital assets. Digital assets refer to any piece of text or media that has been converted to a binary format and comes with the right to use it. Digital assets include cryptocurrencies, non-fungible tokens (NFTs), stablecoins, and security tokens. The SAC of the SC announced in July 2020 that it is permissible to invest and trade in digital currencies and digital tokens on registered digital asset exchanges (DAXs) that meet the SAC's resolution requirements. This acknowledged the significance of digitalisation in the capital market and the growing interest among market players in using digital platforms. Essentially, the SAC concluded that digital assets are assets from a shari'ah perspective.

Meanwhile, in 2021, the SC recognized Bitcoin Cash as a digital asset that can be traded on local DAXs. To date, the DAX-regulated operators in Malaysia include Luno Malaysia Sdn Bhd, MX Global Sdn Bhd, SINEGY DAX Sdn Bhd, and Tokenize Technology (M) Sdn Bhd.

CONCLUSION

It is essential to begin investing at an early age to have a more secure financial future. For Muslims, several factors must be considered to guarantee that the investment complies with shari'ah law and principles. The variety of products available today makes investment much easier than it was a few years ago. However, different stages of young investors may react differently to investment decisions based on their requirements and financial goals. To this end, knowledge on halal investment is what young people need for them to be smart investors.