

## Frequently Asked Questions – Investments

### Question 1: What is meant by REITs? Can we invest in them?

Real Estate Investment Trusts (REITs) invest in property markets and gain through purchase/sale of properties and rental income. REITs investing funds in properties and giving them on rent will get regular rental income and hence will be able to provide their unit holders' regular source of income.

### Question 2: What is Sukuk? Can we invest in them?

Yes, Sukuk is a very good instrument to invest in for regular stream of income on medium to long term basis. Sovereign Sukuk is issued by statutory bodies for project finance and development finance. In Pakistan, Government of Pakistan (GoP) had issued several Ijarah Sukuk and its public sector units like National Highway Authority and WAPDA has also issued Sukuk in past. Corporate Sukuk are issued by corporations for project finance and finance of fixed tangible assets using Ijarah, Istisna and Diminishing Musharakah as an underlying mode of financing.

### Question 3: Can we invest in Forex Market?

Yes, people can trade in different currencies on the spot as both are considered different commodities. This however should be used only to hedge currency risk. However, forwards, futures, options, swaps, or short selling in currencies cannot be used.

In response to a query, Mufti Taqi Usmani once said:

**“Currencies are originally a medium of exchange and should only be exchanged for personal use in different countries. To make them a tradable commodity only for earning a profit is also against the basic philosophy of Islamic economics.”**

(Source: [http://www.albalagh.net/qa/Forex\\_currency\\_trading.shtml](http://www.albalagh.net/qa/Forex_currency_trading.shtml))

### Question 4: Can we invest in Stocks?

Yes, investment in stocks is permissible. However, forwards, futures, options, swaps or short selling in stock trade cannot be used. Islamic scholars have also laid down certain operational restrictions to discourage leverage and non-compliant sources of income. These could be summarized as follows:

1. The business of the investee company must be Halal.
2. Total assets must not be financed through interest bearing debt exceeding 37 percent of the total assets.
3. Total assets must not be invested in interest bearing instruments or other non-compliant investments exceeding 33 percent of the total assets.

4. Non-compliant source of income must not exceed 5 percent of the total gross revenue earned by the company.
5. Illiquid assets which have intrinsic value like tangible assets must comprise a significant portion of the total assets, like 25 percent, as prescribed by scholars in Pakistan.
6. One unit of the common stock of the company cannot be traded below net liquid asset per share for the company.

#### **Question 5: Can we invest in mutual funds?**

Mutual funds also offer a very good investment option to people who are not well versed in managing portfolios due to a shortage of expertise or time required to do research in selecting the best stocks for the portfolio. Such people can invest in diverse categories of mutual funds. Islamic funds now come in the categories of income funds, cash funds, sovereign funds, equity funds, balanced funds, and capital protected funds. But, mutual funds which invest in stocks of companies selling something Haram, or those which invest in interest based instruments or those which violate Islamic prohibition of Riba, Qimar, and Gharar should be avoided.

#### **Question 6: Can we invest in preferred stocks?**

Preferred stock guarantee stipulated profits. Hence, such stipulation of profits is not in line with the Islamic principle of profit and loss sharing. For appropriate profit sharing mechanism, Islamic principles envisage setting of pre-agreed profit sharing ratio and actual profits shall be distributed among partners on the basis of pre-agreed profit sharing ratio. It is not right to stipulate fixed profit for some partner. Hence, preferred stock investment shall be avoided.

#### **Question 7: Can we invest in corporate bonds?**

Corporate bonds which stipulate a fixed return to bond holders actually pay Riba. Bondholders while purchasing bonds provide a loan to the bond issuer. But, in return, they not only get the bond price back on the maturity date, but they are also paid coupon payments during the period of bond's life at equidistant intervals. Such coupon payments constitute Riba as anything paid over and above the principal amount in a loan transaction constitutes Riba.

#### **Question 8: Can we invest in national saving schemes?**

National saving schemes work much like corporate bonds. These schemes stipulate a fixed return to savers, which is Riba. Savers while purchasing such certificates of the scheme provide a loan to the government. But, in return, they not only get the certificate price back on the maturity date, but they are also paid extra payments during the period of the certificate's life at equidistant intervals. Such payments constitute Riba as anything paid over and above the principal amount in a loan transaction is Riba.