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The Differences of Conventional and Sharia Mutual Fund Performance

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Abstract: This purpose of this study is to know performance from unit trust that is sharia and conventional fund in Indonesia be based on rate of return and Treynor Index. As well as to know rate of risk based on selectivity and market timing. This research data obtained from 16 sharia fund and 23 conventional fund coming from three type unit trust that is, equity fund, fixed income fund, and mixed fund enlisted in BAPEPAM that were active during the research period since year 2007 until 2011. The analysis method which used in this study is normality test (Kolmogorov Smirnov) and Mann Whitney test. The Result of this study indicates that in general, performance of conventional and sharia unit trust has significant differences base to rate of return and Treynor Index. And rate of risk base to selectivity is significant differences, but base to market timing is no differences.

Keywords: units trust, performance, rate of risk, mutual fund, sharia

I. INTRODUCTION

Investing is a saving process. It is oriented to certain purposes and how to achieve the purpose (Pratomo, 2007). One of the fund allocation alternatives is by investing in capital and money market. In Indonesia, those market are organized by Indonesia Stock Exchange (IDX). Global crisis that hit most countries in the world in 2008 resulted negative impact to all economic sectors, including in Indonesia. It became prudent factors for Investors, to be more cautious in choosing investment type. Investors also concerns about long recovery time. The negative impact makes investors reconsiders their investment type. One of the investment reference is a mutual fund. Based on Capital Market Laws No. 8 Year 1995 article 1 paragraph 27, a mutual fund is a pool of money invested in a securities portfolio by investment manager. There are many Indonesian interested in this investment due to its flexibility and ease.

Sharia mutual fund is a mutual fund that operates under the provisions and principal of Islamic Sharia. It is either in the form of an agreement between investor (shahibul maal) and investment manager as shahibul maal representative, or between investment manager and investment user (Soemitra, 2010). The investment instrument must fulfil Halal category. The Halal instrument occurs when the issuer don't run any activities that againts Islamic laws. Therefore, all instruments issued by a company with production or sale of alcohol, pork product, gambling, and pornographic entertainment business cannot be included in sharia mutual fund portfolio. Basically, there's still ongoing debat among experts about which financial system that has better performance. There are some indicators to assess good performance portfolio. They are rate of return, risk level, Sharpe ratio, Treynor ratio, Jensen Alpha ratio, M^2 ratio, Treynor-Mazuy method (market timing) and Fama Decomposition (selectivity) ratio. Abdullah et al. (2007) said that sharia mutual fund has better performance than conventional in crisis and post-crisis period. Eventhough both mutual funds have negative values, the conventional has a better selectivity ability.

The purpose of this research is to determine the differences in performance and risk level between sharia and conventional mutual fund in Indonesia Capital Market. It is supported by Shah et. Al (2012) research that shows sharia mutual fund is better than conventional. The sharia mutual fund risk level is lower and has average profit higher than market average profit. He also mentioned that the investment manager of both mutual funds experience a success in market timing. It was indicated from a positive beta value in both mutual funds.

The research's purpose is to determine the differences in performance and risk level between sharia and conventional mutual fund in Indonesia Capital Market.

II. LITERATURE STUDY

An investing activity, an investor invests in many alternative financial instruments in order to secure the investment from loss. In order to achieve the objectives, investors need to know the portfolio performance and risk level especially sharia and conventional mutual fund. A rate of return and its method can be used to determine a portfolio performance. Selectivity and market timing ability can be used to determine the risk level. Abdullah et al (2007) stated that the performance was measured according to situations. They are before monetary crisis (1991 – 1996), during monetary crisis (1997 – 1998), and after the crisis (1999 – 2001). Based

on risk return, before monetary crisis there were no differences in sharia and islamic performance. During the crisis there were differences, while after the crisis there were none. The portfolio performance based on Treynor Index, before, during, and after the crisis there were differences. However, based on selectivity, there were risk level differences in sharia and conventional mutual fund. Since it has to in accordance with Shariah principle, sharia mutual fund has limitations. The mutual fund must be free from riba, gambling, gharar and other alcoholic and pornographic related activities. Meanwhile conventional mutual fund has no limitation.

A right investment decision happens when a profit generated by investment manager of sharia and conventional mutual fund able to guarantee rate of return and risk level. Based on the above explanation, in this research, to measure sharia and conventional mutual fund performance have to be based on rate of return and its method, which are Treynor Index. While, risk level have to be based on selectivity and market timing.

III. METHODOLOGY

Type of data that was used in this research was secondary data. It was available and ready to use, such as Net Asset Value and Stock Price Index.

The variables for this research are mutual fund performance and risk level.

A. Performance

a. Rate of Return

Jayadev (1996), explained that rate of return is measured by the difference of current and previous net asset value divided by previous net asset value.

b. Treynor Index

Treynor Index is a ratio of average return of systematic risk (beta). It can be calculated by : average of return subtracted by average of interest rate and divided by systematic risk (beta) (Taib and Isa, 2007).

The average rate of return can be calculated by the amount of overall rate of return per year divided by the number of periods. (Jayadev, 1996)

The average of interest rate can be calculated by the amount of overall interest rate per year divided by the number of periods. (Jayadev, 1996).

Systematic ratio (beta) can be calculated by: (the amount of samples multiplied by subtraction of market return and interest rate multiplied by the subtraction of rate of return and interest rate) subtracted (the subtraction of rate of return and interest rate multiplied by the subtraction of market return and interest rate) divided by (the amount of samples multiplied by the subtraction of quadratic of market return and interest rate) subtracted by (the amount of subtraction of market return and interest rate then quadrated). (Jayadev, 1996)

B. Level of Risk

a. Selectivity Ability

The ability (Professional acument) of investment manager in choosing the securities value, can be calculated by (the level of return subtracted by interest rate) subtracted by deviation standard and divided by market deviation (market return level subtracted by interest rate). (Jayadev, 1996).

A total risk (deviation standard) can be calculated by: square rooting (the amount of rate of return subtracted by the average of rate of return per year then quadrated) divided by the amount of samples). (Jayadev, 1996).

The total of market risk can be calculated by: square root of (the subtraction of market return level per month and interest rate per month) subtracted by (the subtraction of the average market return and the average of squared rooted interest rate) divided by the amount of sampel subtracted by one. (Jayadev, 1996).

Market return level can be calculated by Stock Price Index subtracted by previous Stock Price Index and divided by previous Stock Price Index. (Jayadev, 1996).

b. Market Timing Ability

It is an analysis to determine the buy – sell ability (market timing) that based on rate of return, market return and systematic risk (beta) on sharia and conventional mutual fund. This analysis is based on Treynor and Mazuy model.

Mann Whitney test is to compare the performance and risk level of sharia and conventional mutual fund.

IV. DISCUSSION

This study was to research the performance of mutual fund in Indonesia especially sharia and conventional that is based on rate of return and Treynor Index (TI). It also research risk level based on selectivity ability and buy – sel ability (market timing) on sharia and conventional mutual fund. Mann Whitney test showed that performance based on rate of return has positive significant differences during 2007 to 2009. However, there are no differences during 2011 until 2011.

In 2011, there were positive significant differences in mutual fund performance. In 2007 and 2010, for selectivity risk level there were positive significant differences between sharia and conventional mutual fund. However, in 2008, 2009 and 2011 there were no differences. Based on market timing analysis, there were positive significant differences in 2007, 2009 and 2011. While in 2008 and 2010, there were no differences.

Overall, based on market timing analysis, there were no differences between sharia and conventional mutual fund.

The result of this research was inconsistent with Abdullah et al (2007) results, which stated that the performance and risk level were measured according to situations: before monetary crisis (1992 – 1996), during crisis (1997 – 1998), and after crisis (1999 – 2001). Based on rate of return, there were no performance differences before monetary crisis. During crisis, there were positive significant differences. After the crisis, there were none. Based on Treynor Index (TI), there were differences between sharia and conventional mutual fund. On selectivity analysis there were negative significant differences while on market timing analysis there were no differences.

V. CONCLUSION

Based on the analysis and discussions, it can be concluded that a performance was measured by rate of return and Treynor Index, while risk level was measured by selectivity and market timing analysis.

➤ year 2007

There were performance differences of sharia and conventional mutual fund based on rate of return and Treynor Index. Based on selectivity and market timing analysis, there were significant differences in risk level.

➤ Year 2008

There were differences in mutual fund performance based on rate of return and Treynor Index. However, there were no differences in risk level based on selectivity and market timing analysis.

➤ year 2009

Based on rate of return analysis, there were significant performance differences, while based on Treynor Index there were none. Based on selectivity, there were no differences in risk level, while based on market timing there were significant differences.

➤ year 2010

There were no performance differences based on rate of return and Treynor Index analysis. For risk level, there were significant differences in selectivity analysis and none in market timing analysis.

➤ year 2011

For performance, there were no differences based on rate of return analysis but there were in Treynor Index. For risk level, there were no differences in selectivity but based on market timing there were differences.

From the above explanations, the result of this research implicated as follows:

1. for Investment Manager

The performance of sharia and conventional mutual fund can be determined by using rate of return and Treynor Index method. To determine risk level, selectivity and market timing analysis can be used. These analysis and method are used to choose correct mutual fund investment.

2. For Investor.

In determining sharia and conventional mutual fund performance, rate of return analysis can be used. Another analysis was technical analysis, which was price movement, and fundamental analysis, which was financial ratio performance.

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