



Investing Basics

Including Islamic Considerations

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Saving & Islam

- Saving usually means putting money in your bank saving account or CD which are insured by FDIC up to \$250,000
- Saving also can be done through investing in money market account which is also relatively safe and liquid but it is not insured by FDIC
- The return is very low and often less than inflation
- The return is always in the form of interest which is prohibited in Islam
- We recommend saving for 6 months of your expenses
- You can ask your bank to cancel the interest or you can take it and give it to needy people (it does not count as part of your zakat)

Investing & Islam

- Investment return is usually much higher than saving especially long term
- The return is in the form of income (dividend) and growth (increase in value)
- Higher return comes with an additional risk
- Different type of investments have different level of risk
- Types: stocks (permissible in Islam under certain conditions), bonds and money market (both are prohibited in Islam because they pay interest)
- Some stocks are compatible with Islamic principles and some are not
- Mutual funds and ETFs are collection of stocks and can be evaluated by screening their individual stocks (most have mix of permitted and prohibited stocks)

Investing Right

- Investment must be compatible with Islamic principles
- Investment must be managed by professionals
- Investment must be diversified
- Investment must be allocated to your risk tolerance and time horizon
- Fees must be transparent and reasonable (look for total annual fee <1% of Asset Under Management)
- No commissions (avoid firms that sell you products for commission)
- Avoid market timing and day-trading
- Invest early, regularly and for the long term

Identify Your Goals

- Retirement : most important
- Education: college education for your children
- Owning a house: investment can be used to save for a down payment.
You may be eligible to use part of your retirement account to pay for your home
- Marriage
- Vacation
- Hajj
- General investing

Retirement

- The most important goal
- Calculate how much you need for retirement
- Start investing as early as possible
- Retirement account will provide you income during retirement years
- Retirement account will provide income to your surviving spouse
- Retirement account can be passed on to you heirs
- Retirement account can be used to support your charitable legacy
- Depends on your situation, you may use IRA, Roth-IRA, SEP-IRA, 401(k) or other types of accounts

Education

- Planning to pay for college of your children(and grandchildren)
- [College saving calculator](#)
- Tuition cost increase is higher than inflation
- Scholarships and grants cover only part of the cost
- Student loans are prohibited in Islam due to interest (students with no other option may use it as of necessity)
- Same principles of investment for retirement: invest early, regularly and for the long term
- 529 plan is very flexible and earnings are tax-deferred. Unfortunately, no current 529 plan offer holdings that are compatible with Islamic values

Diversification

- Between asset classes: dividing the money between fixed income, cash and stocks
- Within the same asset class: dividing the money between small-cap and large-cap stocks, growth and income stocks, domestic and international stocks, different sectors, and different business cycle
- Islamic way of diversifying outside stocks: beside stocks, bonds and money market funds are not compatible with Islamic principles. Alternatively, I recommend having enough cash saving to cover 6 months expenses, pay your house down (real investment is less volatile, saves you from paying interest, and it is a hedge against inflation) and invest in business venture.

Risk Tolerance & Allocation

- [Take a validated risk tolerance questionnaire](#)
- Identify your time horizon (how long before you need the money)
- Allocate your investment based on the above 2 factors:
 1. Conservative: usually for retiree or near retirement
 2. Moderately conservative
 3. Moderate: a mix of both strategies
 4. Moderately aggressive
 5. Aggressive: usually for young investors