

MUTUAL FUNDS

Mutual Funds

Are mutual funds permissible in the Shariah?

Mutual funds represent groups of investors who assign a professional investment manager (also known as the mutual fund) to invest in diversified securities; whereas individuals invest in individual securities, mutual funds allow individuals to invest in many securities through a single investment, offering diversification, professional management, and cost efficiency for the individual investor.

Mutual funds are lawful provided:

1. the mutual fund invests exclusively into lawful companies using lawful securities (see conditions for investing in stocks);
2. the investor invests directly into companies, not just into the mutual fund, which is merely pooled money; the distinction being that investment into a company entitles the investor to an actual shareholding of non-liquid assets, whereas investment into a pool of money represents a stake in a collection of money, which is a liquid asset and creates riba at anything other than face value;
3. the investor knows in which companies the mutual fund invests to be able to ascertain their lawfulness; if the investor is not able to ascertain the lawfulness of the companies invested in (by knowing the names of the companies), it is not permissible to invest in the mutual fund.