

Performance of Sharia Mutual Funds Based on Stock Selection Skill and Market Timing Ability in Indonesia

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Abstract

The objective of this study is to examine how stock selection and market timing knowledge affect the performance of Islamic mutual funds registered with the Financial Services Authority. The selected sample was 73 (Seventy-three) mixed Islamic mutual funds, money market, fixed income, and stocks in Indonesia during the period of December 2016 to December 2021 which were selected using the purposive sampling method. This study is calculated as a quantitative group with the analysis equipment used is a multiple regression of panel information. The findings show whether knowledge of market timing and stock selection have a favorable impact on mutual fund performance.

Keyword: Kinerja Reksa Dana; Stock Selection Skill; Market Timing Ability

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1. INTRODUCTION

Mutual funds are regarded as a significant kind of investing. For private investors who lack the necessary knowledge and experience to invest directly, they provide as an alternative method of investment. There are several asset management companies that take money from individual clients with the intention of investing it in various assets. Because they base their investment choices on risk and return, investors are particularly interested in risk and return studies of mutual funds. Mutual funds are an excellent way to invest, but there is risk involved. They contain a variety of risks, including downside risk, fund-specific risk, market risk, and other hazards. Islamic mutual funds can have a risk related to shari'ah compliance.

Due to the inherent unpredictability in the market, the fund may suffer financial losses in the event of systematic or market risk. These risks may develop as a result of events outside the managers of the fund's control, such as inflation, changes in interest rates, or general economic circumstances (Hayat and Kraeussl, 2011).

According to Vidal-Garca and Vidal (2014), mutual funds are similarly vulnerable to idiosyncratic

or fund-specific risk. Fund-specific risk is the risk connected with certain funds and is not a market-wide phenomena. This sort of risk varies depending on the fund. It can be lowered by diversification since it is caused by microeconomic issues that fund managers can control and regulate. Finally, mutual funds are vulnerable to downturns. The possibility of losses connected with mutual funds in the event of a market drop is referred to as downside risk. To put it simply, it is the financial risk linked with losses.

This research is worthwhile to try because Sharia mutual funds, as a sharia investment instrument, continue to grow and investors in ensuring alternative types of Sharia mutual funds that exist, one of which is the performance of Sharia stock mutual funds, mixed mutual funds, money market mutual funds, and fixed income mutual funds can be seen sourced from mutual fund performance.

2. RESEARCH METHODS

This study employs a quantitative method in the form of explanatory research. According to Sugiyono (2017: 6), explanatory research is a study technique that involves disclosing the location of the variables

under consideration as well as the effect of one variable on another.

Operational Variable

No	Variable	Indicators	Source Data	Scale
Variabel Dependen (Y)				
1.	Mutual Fund Performance Using the Sharpe Way is a method for calculating Mutual Fund performance based on how much accumulated investment returns are received per unit of risk absorbed (Kusumawati, 2016)	<p>Metode Sharpe:</p> $Sr = \frac{Ri - Rf}{\sigma i}$ <p>Note: <i>Sr</i>: Sharpe Ratio <i>Ri</i>: Average return of Mutual Funds during the observation period <i>Rf</i>: Average risk-free return on investment during the observation period <i>σi</i>: Standard deviation of Mutual Fund returns during the observation period (Tendelin, 2017)</p>	<ul style="list-style-type: none"> - Data on mutual fund returns is derived from the Net Asset Value of Sharia Mutual Fund Products retrieved from the official OJK website, specifically www.reksadana.ojk.go.id - Risk-free investment data, meaning the BI Rate, is acquired from Bank Indonesia's official website, namely www.bi.go.id - Standard deviation data is calculated using Excel Software with the STDEV.P formula. 	Ratio
Variabel Independen (X)				
2	Stock selection skill level and market timing ability utilizing Treynor-Mazuy is an investment manager's capacity to analyze market circumstances. 2017 (Manurung)	<p>Treynor-Mazuy:</p> $Rp_t - Rf_t = \alpha + \beta_\rho(Rm_t - Rf_t) + \rho(Rm_t - Rf_t)^2 + \varepsilon$ <p>Note: <i>Rp_t</i>: Average return of Mutual Funds <i>Rf_t</i>: Average return risk-free <i>Rm_t</i>: Average return market <i>α</i>: Parameters for measuring the selectivity ability of investment managers <i>β_ρ</i>: Excess market return regression coefficient or down (bearish) <i>ρ</i>: The regression coefficient indicates the investment manager's ability to time the market. <i>εt</i>: Random error (Chu & McKenzie, 2008)</p>	<ul style="list-style-type: none"> - Stock selection skill & Market timing ability data obtained from regression results using the Treynor-Mazuy model 	Ratio

Data Type and Source

The type of data used in this study is secondary data, namely Sharia stock mutual funds in Indonesia with the period December 2016 – December 2021. The required data includes Net Asset Value (NAV), Bank Indonesia certificate profit sharing rate, and

Bank Indonesia interest rate (BI Rate). The data was obtained from the www.reksadana.ojk.go.id, www.ojk.go.id, www.bi.go.id websites.

Population and Sample

The study population is 271 sharia mutual funds (as of October 2022) registered with the Financial

Services Authority. The research sample uses purposive sampling technique, namely companies that meet the following criteria:

- a. Mutual funds are actively operating at least effectively in the period January 1st, 2016 or previously issued;
- b. Mutual funds actively operate in the form of stock, mixed, fixed income, and money market mutual funds;
- c. Availability of data owned in accordance with the research period.

Based on this criterion, 78 samples of Sharia stock mutual funds were obtained from 271 sharia stock mutual fund populations.

Analysis Technique

This study used multiple linear regression analysis techniques with SPSS software version 25. Multiple linear regression analysis is a statistical analysis that uses several independent variables with one dependent variable. This analysis can test the effect of Stock Selection Skill (X1) and Market Timing Ability (X2), on the Performance of Sharia Stock Mutual Funds (Y).

Regression analysis is stated to be possible if it meets the scale of the data and performs a linearity test. According to (Ghozali, 2012) before conducting multiple linear tests, in order to achieve the best results then the method requires to conduct a test of classical assumptions. Requirements through classical assumption tests that must meet normality tests, multicollinearity tests, heteroskedasticity tests, autocholation tests.

3. RESULTS AND DISCUSSION

3.1. Research Result

Tabel 1.

Results of Multiple Linear Regression Analysis

Model	Koefisien	Sig.	Kesimpulan
(Constant)	0.002	0.75	-
Stock Selection Skill	0.016	0.846	Tidak Signifikan
Market Timing Ability	0.003	0.000	Signifikan
Simultan (F)	-	0.000	Signifikan
R Square	0.261	-	

Source: SPSS 25 data processing results

Linearity Test

Based on the scatterplot diagram shows that the dots are scattered and intersect the direction of the

diagonal line. It can be concluded that the regression model satisfies the assumption of linearity.

Normality Test

Based on the Smirnov kolmogrov normality test for multiple linear regression analysis requirements showed that the results obtained from the Kolmogrov-Smirnov test had a significance (2-tailed) value of 0.200 greater than 0.05 indicating that the data was normally distributed.

Multicholinerity Test

Based on the results of the multicholinerity test, it shows that the variables are independent in this study has a tolerance value of > 0.1 and a VIF of < 10. Of the two independent variables contained in the regression model and tested in this study, it showed no signs of multicholinerity.

Heteroskedasity Test

Based on the results of the heteroskedasticity test using SPSS software version 25, it shows that the dots randomly spread out and do not form a distinctive pattern. It can be concluded that the regression model is free from signs of heteroskedasticity.

Autocholation Test

Based on the results of the autocollaboration test with Durbin–Watson showed results with a value of 1,788 which means that the Durbin – Watson value is still in the auto-free region because it is between -2 to +2. From these results it can be seen that the regression model is free of autocorrosion.

3.2. Discussion

The Impact of Stock Selection Skills on Sharia Stock Mutual Fund Performance

According to the statistical data in this study, the stock selection skill regression coefficient of 0.016 with a significance value of 0.846 is larger than 0.05. Based on these findings, it is possible to infer that stock selection abilities have a favorable but modest impact on the performance of Islamic stock mutual funds. With a regression coefficient of 0.016, each improvement in stock selection abilities increases the performance of Islamic stock mutual funds by 0.016 units. As a result, the hypothesis that stock selection skills influence the performance of Islamic stock mutual funds is supported. in Indonesia, the period March 2019 - March 2021 was rejected. According to the findings of this study, stock selection abilities have a favorable but modest influence on the performance of Islamic stock mutual funds. According to the results

of the stock selection skills from eight Sharia stock mutual funds from March 2019 to March 2021, only one Sharia stock mutual fund has the ability to select shares, and the ability to select shares has no significant influence on improving the performance of Sharia stock mutual funds. Based on these findings, it is possible to infer that investment managers do not yet have the ability to choose the appropriate shares, making them ineffective in portfolio management.

The Influence of Market Timing Ability on the Performance of Sharia Stock Mutual Funds

Based on the statistical data in this study, the market timing ability regression coefficient of 0.003 with a significance value of 0.000 is less than 0.05. These findings suggest that market timing skill has a favorable and considerable impact on the success of Islamic stock mutual funds. With a regression coefficient of 0.003, each improvement in stock selection abilities increases the performance of Islamic stock mutual funds by 0.003 units. Thus, the premise that market timing ability influences the performance of Islamic stock mutual funds is accepted in Indonesia for the period March 2019 - March 2021. According to the findings of this study, market timing skill has a favorable and significant impact on the performance of Islamic stock mutual funds. This may be observed in the eight Sharia stock mutual funds that performed well ahead of WHO's declaration of the Covid-19 epidemic in March 2020. From these results, the fund manager has the ability to choose portfolio instruments by buying or selling shares in order to adjust the portfolio of assets under management. Unstable market conditions affect the ability of investment managers to make precise time measurements even though investment managers have the ability to measure the right time with unstable market conditions will have a tendency to get a small profit and reduce the risks received by paying attention to what risks will occur.

The Influence of Stock Selection and Market Timing Ability on Sharia Stock Mutual Fund Performance

According to the statistical data in this study, the significance of stock selection skill regression and market timing ability of 0.000 is less than 0.05, with an R-Squared value of 0.261. Based on these findings, it is possible to conclude that stock selection abilities and market timing ability both have an impact on the success of Islamic stock mutual funds. Thus, the

hypothesis suggests that stock selection abilities and market timing ability have a major impact on the performance of Islamic stock mutual funds at the same time. Thus, the hypothesis states that stock selection skills and market timing ability simultaneously have a significant effect on the performance of Islamic stock mutual funds. In Indonesia the period March 2019 – March 2021 is accepted. This is due to the increasing performance of Islamic equity mutual funds reflecting the ability and experience of investment managers in managing portfolios optimally.

4. CONCLUSION

Islamic stock mutual funds are a type of capital market tool. When investing in mutual funds, investors should be aware of the investment manager who makes investment choices and manages the money. Investment managers strive to enhance the performance of managed mutual funds in order to provide optimal returns while minimizing risks by conducting stock selection capabilities and understanding when to purchase or sell shares.

Based on the findings of the investigation, the following conclusions may be drawn: First, stock selection abilities have a favorable, albeit little, impact on the performance of Islamic stock mutual funds in Indonesia. Second, market timing skill has a favorable and somewhat substantial impact on the performance of Sharia stock mutual funds in Indonesia before and after the Islamic financial crisis. Investment managers can foresee the proper moment with major fluctuations in stock values, allowing them to purchase or sell shares at the optimal period to maximize profits while minimizing risks, improving the performance of Islamic stock mutual funds. Observations made to see the factors that can affect the performance of Islamic stock mutual funds need to be carried out by investment managers because these decisions can affect the performance of Islamic stock mutual funds and investors can choose alternative investments by looking at the performance of mutual funds. Investment managers must conduct observations to determine the elements that might impact the performance of Islamic stock mutual funds since these decisions can affect the performance of Islamic stock mutual funds and investors can pick alternative investments based on mutual fund performance.

The disadvantage of this study is that it only employs stock selection abilities and market timing

ability to calculate the performance of Islamic stock mutual funds. Other variables are required to explain the improvement in the performance of Islamic stock mutual funds in order for them to deliver the desired returns to investors.

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