

# FATAWA SHARES, STOCKS, COMMODITIES, OPTIONS, BONDS, ETC. 2007

## Trading on the Stock Markets

**Subject: Trading on the Stock Exchange**

From: M. through Islam on line

Sent: Tuesday, February 13, 2007 2:51 AM

Question

Dear Dr. Monzer,

Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

Is it haram to trade on the stock exchange (aka the share market)?

Jazakum Allahu Khairan for your constant help

My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. M.

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

It is permissible to trade stocks provided with two conditions: 1) one must trade only permissible stocks. there are certain criteria about permissibility that include the permissibility of main line of business and that the company is not loaded with no permissible transactions/contracts, and 2) that the trading (of stock) contract is permissible. For instance the AAOIFI (Auditing and Accounting Organization of Islamic Financial Institutions) resolved that buying stock on future delivery or on a loan from broker are not permissible.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Trading Stocks**

From: Muaad

Sent: Monday, February 19, 2007 6:47 PM

Question

Salamu Alaikum Dr. Kahf,

Jazak Allahu Khairan for answering my previous question regarding "Dealing with Interest". You mentioned that I would find the income from interest a company receives through their Revenue or Profit/Loss Statement. Forgive me I am still not sure where to find this. I have reviewed the Income Statement and do not see anything that clearly indicates interest as an income. If there is a technical financial term for this, I would truly appreciate if you could point me in the right direction.

Secondly, and more importantly: I have read most of your fataawa regarding trading the financial markets (equity, options, futures, forex, etc.), and you have mentioned that in the equity market, as long as the company meets the criteria you have stated ( i.e. Industry, Debt/Equity, Income from Interest, etc.) then it is permissible to trade, and I have also read others asking you about day trading with cash accounts, and your response has been in the positive. However, although equities are not considered futures contracts, what is one to make of the settlement dates (usually 3 business days - T+3) that take place after entering and exiting a position?

For example, if I purchased stock ABC today, although it would be credited to my account immediately, my broker would take up to 3 business days to "deliver" the shares from the seller I purchased from. So, if I decide to sell my shares sooner than that, is this permissible? If the stock drops in value and I need to protect my capital, or the stock rises in value and I am ready to take my profit in a shorter period than 3 business days, is this permissible? Or do I have to wait for the stock settlement date regardless of my open profits or losses before taking action? The same process takes place with the capital after selling a position - it can take up to 3 business days to settle in the account, in which you can use it to make another purchase. For me, I am using much less capital to trade than my total current account value is worth, but this may change in the future.

Again, Jazak Allahu Khairan for your time. Salam,  
Muaad

My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Muaad

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

A lot of information gets lost when closing accounts are consolidated. Every company that is listed on the Exchange has consolidated accounts but to see the ingredients of these accounts you have to dig more. It is your responsibility or you will have to depend on those who studied these components such as the Dow Jones Islamic market index. I don't have this info and I can't give help you in this regard. On the other question, day trading requires that you get hold of the stocks you purchase in your account before you can sell them. This you have to arrange with your broker. Brother be assured that you are not the only one who makes day trading and the brokers have arrangements for these matters.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**Subject: What Is Haram and Halal Investment**

From: Sr. V. through Islam on line  
Sent: Sunday, March 25, 2007 7:27 AM

Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,  
Thank you so much for the help you provide on this website. I am a new Canadian convert to Islam. I want to invest a large amount of money from my savings. I already hold stocks and bonds from before I converted to Islam. These investments are from diverse grouped investment funds chosen by my financial counsellor (because I do not know much about finance) and they regroup investments in many different companies and governments. I am not sure whether they constitute Haram investments. Before investing this additional large amount of money in these funds, I would like to know what is Haram and Halal investment, and how can I make sure that my investments are Halal, how can I find this information. I do not know much about finance unfortunately and being the only Muslim in my family and not knowing much Canadian Muslims makes it very difficult for me to find information. Jazakum Allahu Khairan for your constant help

My Answer

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Sr. V  
Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

To go into the details investment really takes a lot of time, effort and patience on your part. Let me give you certain clues and I suggest that you should attend some of the training courses that are offered on this issue.

The basic principles are the following:

1. Interest is prohibited in Islam, please refer to the Qur'an Verses 2:275-279 and several other verses too. This means that all government and corporate bonds are not permissible.
2. It is also not permissible to be a partner in a company whose main line of business is not permitted in the Islamic religion. This includes stocks of banks, insurance companies, entertainment industry, military weapon industries, liquor breweries, tobacco companies and the like
3. In principle, it is also prohibited to be a partner in a company whose management make interest contracts or any other production or contracts that is not permitted in Islam because the management acts on behalf of shareholders, to their benefit and in their name. But since the application of this condition excludes most companies and leaves very small room for reasonable investment by people like you and me, the

rule of Shari'ah is that whenever it is harsh or very difficult to abide by a prohibition and such a hardship applies to a large number of people, the prohibition is relaxed to the extent that make normal living activities reasonable done with no difficulty. This degree of tolerance is of course relative and the closer we are to the ideal situation the better we would be.

I suggest to you to consult the internet and search for ""Islamic finance"" and make some reading or go to my website and select some readings from it and acquaint your self with the principles of Islamic finance.

Wa Allahu A'lam  
Wa Alhamdu li Allah Rabb al 'Alamin  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**Subject: Conditions in Trading stocks, options and futures**

From: Faisal

Sent: Tuesday, May 15, 2007 2:03 AM

Question

Respected Dr. Monzer,

I hope this email finds you in the best of health and security. please help me finding the answer of this question.

I found the following answer given by you on [www.islamonline.net](http://www.islamonline.net) dated 30/12/2003. the complete url address of the page is [http://www.islamonline.net/servlet/Satellite?cid=1119503543720&pagename=IslamOnline-English-Ask\\_Scholar%2FFatwaE%2FFatwaEAskTheScholar](http://www.islamonline.net/servlet/Satellite?cid=1119503543720&pagename=IslamOnline-English-Ask_Scholar%2FFatwaE%2FFatwaEAskTheScholar) by reading this page I have concluded following things:

(1) Future and option trading is not permitted in Islam

**This is my opinion and this is the content of the OIC Fiqh Academy resolution of 1992.**

(2) Spot trading of currencies ( also called forex trading) is allowed even on margin and both forms of trade i.e. buying and short selling if you buy and sell on same day or within 3 days as described by you even physical exchange of commodity was never meant. Kindly guide me whether the conclusion drawn by me are right.

**This is not accurate: spot trading of currency is permissible if credit and debit of the full amount of exchanged currencies is done at the time of the contract. This debit and credit replaces physical delivery of both of them. Forex may be spot or future. When it is spot with the said condition it is then also permissible. If the normal practice and market organizer's conditions require three days for effecting the debit and credit in the books then only in this case 3 days delay in debit**

**and credit is tolerable. This means that 3 days transactions are considered Riba if the system works on debit/credit immediately or within same day. Settling a transaction within the day is permissible although it creates room for excessive speculation that is not desired in Shari'ah and therefore avoiding or reducing it would be better**

(3) i have also concluded that options are haram as really delivery of commodity is never meant to occur but if there is some sort of option that are deliverable in the true spirit but the buyer and seller as a practice (with mutual consent) do not exercise their option and settle the affair with net gain or loss arising because of price change.....will it make option Halal.....?

**Making profit can only be by owning a real asset that has either physical intrinsic utility or intrinsic productivity (debts not included). Options are not this kind of asset. Therefore options cannot be bought for the purpose of creating profit although they are financial rights. This is the essence of the OIC Fiqh Academy resolution in this regard and I go by it. This consensual mutual settlement is exactly what exists in the market and it does not legalize options as an ""asset"" that may create profit according to Shari'ah.**

Jazak Allah  
Faisal

My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Faisal

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Please see my answers below each point of your query.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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**Subject: Trading on margins and Options**

From: Faisal

Sent: Tuesday, May 15, 2007 7:09 AM

Question

Respected Dr. Monzer.

I am really grateful for the answer provided to me. Can you please clarify the following transaction:

I buy one Euro with the help on dollar when the transaction rate is 1.50 \$ = 1 \$. to make this transaction i pay 10 % of the money ( that is 0.15\$) right now and remaining will be paid say after 48 hours. Now after 36 hours rate move in my favour say at 1.75\$ = 1 Euro, so I sell the same Euro at this rate and hence make a profit of 0.25\$ and simultaneously settle off my liability of remaining 0.90\$. Is this transaction halal

Regards Jazak Allah  
Faisal

My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Faisal

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Margin trading is not permissible because the condition is: debit of Dollar and credit of Euro at the time of transaction. In margin trading you are debited for only 10% (in your example) and also the other guy is debited for 10% (there must be no Shari'ah justification for this margin taken from the seller, as it is not a part of the price, she is the receiver of the price. I understand why it is needed and done, the escrow idea, but if it is taken to guarantee the seriousness of transaction the same applies to buyer too, and this is the fact. This means no payment is done at all at a time that could have been done [this possibility is proven by debiting the margin, then you can debit the full amount!]). Other words, each of these two transactions (buying and selling even when we take them independently) includes Riba (the three day delay is considered Riba).

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: Faisal

Sent: Tuesday, May 15, 2007 7:09 AM

Question

Respected Dr. Monzer.

I am really grateful for the answer provided to me. Can you please clarify the following transaction:

I buy one Euro with the help on dollar when the transaction rate is 1.50 \$ = 1 \$. to make this transaction i pay 10 % of the money ( that is 0.15\$) right now and remaining will be paid say after 48 hours. Now after 36 hours rate move in my favour say at 1.75\$ = 1 Euro, so I sell the same Euro at this rate and hence make a profit of 0.25\$ and simultaneously settle off my liability of remaining 0.90\$. Is this transaction halal

Regards Jazak Allah  
Faisal

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**Subject: trading stocks and real estate agents**

From: Nabil through Islam on line

Sent: Monday, November 12, 2007 1:12 AM

Question

What do you think about Canadian and US stock market if I avoid all Haram business can I buy mining, soft-ware, medical company(stock).

Please I want to know also whether working as real estate agent in Montreal it s Halal or Haram?

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Nabil

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Helping people sell and buy real estates anywhere in the world is permissible and its commission is also Halal. Of course commissions must be known, contractual, open and transparent to the person you serve and take commission from. Kick-backs that are given behind the person you serve, such as what some take from finance providers, are not permissible.

For trading stocks, here is an answer I just gave to another person:

1. Trading shares is not Haram, its income and also loss are not Haram either.
2. Besides, ZAKAH IS ON THE TOTAL MARKET VALUE ON THE DAY WHEN YOU ZAKAH IS DUE OF ALL STOCKS YOU HAVE PLUS ANY CASH AND DEBTS ON OTHERS.
3. It is not only on the gains you make.
4. Further, trading stocks may give you a profit but rarely gives the Ummah or humanity any considerable benefits because it is only speculative in most of cases.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: trading in shares**

From: Anis through Islam on line

Sent: Monday, November 12, 2007 1:22 AM

Question

Salams dear Dr. Monzer

Kindly enlight me whether doing business share trading is hlal or haram? Can zakat be paid from the income earned from the stock trading?

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Anis

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Trading shares is not Haram and its income and also loss are not Haram either. Besides, ZAKAH IS ON THE TOTAL MARKET VALUE ON THE DAY WHEN YOU ZAKAH IS DUE OF ALL STOCKS YOU HAVE PLUS ANY CASH AND DEBTS ON OTHERS.

It is not only on the gains you make. Further, trading stocks may give you a profit but rarely gives the Ummah or humanity any considerable benefits because it is only speculative in most of cases.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: Investment in stock market**

From: Drita

Sent: Wednesday, October 31, 2007 5:45 PM

Question

Selamu alaikum we rahmetullah we berekatuhu

May Allah reward you about your articles, I have read some of them, they are very useful, I am trying to translate in our language one of them (Budget Deficits and Public Borrowing Instruments in an Islamic Economic System) its very interesting where I want my people to know the Islamic approach about this field of economy.

Professor I've got your email from <http://www.kahf.net> and I am very happy that I have a chance to ask you about that I am concerned

I would like to ask you two questions from which I want to have a direct question, and it would be good for me if you illustrate them with examples.

Is trading on the stock exchange Haram? Is it really gambling as some people say? and

What is in fact The Dow Jones Islamic Market Indexes, where is the difference comparing with Dow Jones Market Indexes?

I want to have clear Islamic concept about them.

Thank you very much

respectfully

Dirta



My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad,  
wa ala Aalihi wa Sahbihi Ajma'in

Dear Dirta

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Before I can give you a permission of translation I need to know who you are, where are you and in what language you want to translate my paper into?

For the questions you had here is my answers:

1) investment in the stock market is not Haram because it is permissible to buy and sell parts of companies (shares represent equal parts of companies). Excessive speculative trading may raise a flag because its aim is only profiteering not really creating value. But the distinction between speculation and real trading is difficult to detect externally. Hence, it remains a matter of intention in the heart of the person and we can't claim that the action of buy and the action of sale is Haram.

2) The Islamic market indexes, D J and others are indices of shares that pass certain screening test. The idea: is we know that all companies that are listed in stock markets in major Exchanges undertake certain Haram activities. This immediately implies that a Muslim cannot invest in any such company because owning a stock makes you a real partner (with a vote in the General Assembly) in all the actions/transactions of the company that are always undertaken on the basis of delegation of authority from the general assembly to the management. This position creates hardship for all Muslims. The rule in Shari'ah that hardship, whenever it relates to a large number of persons, call for relaxation of prohibition as much as necessary to remove such a hardship. Accordingly, each of these indices has its own Shari'ah scholars that develop certain criteria to determine how much tolerance there should be to avoid the hardship. The following is a general description of the bases of these criteria:

1) avoid a company whose main line of business is not permitted such as liquor breweries and conventional banks.

2) avoid companies that have a high percentage of its total net income coming from forbidden activities such as sale of liquor on airplanes, earning from interest, etc. this percentages ranges between 5% and 25 % from one index to another in accordance to what is perceived to be needed to remove the hardship.

3) avoid companies that have high percentage of assets that are suspicious to be interest-based in normal Western practices, these assets are total of receivables and cash.

4) avoid companies that depend on borrowing (leveraging) to a high level.

And finally after investing apply the purification principle: give to charity, preferably Muslim charity the amount of net profit (dividends and capital gain) that you estimate it is caused by Haram activities.

There is a variation of the percentages adopted by different indices' Shari'ah boards on the percentages in applying these criteria as personal assessment of tolerance differ and the structure of markets varies.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin  
Wassalam  
Prof. Dr. Monzer Kahf

From: Drita  
Sent: Wednesday, October 31, 2007 5:45 PM

Question  
Professor, Selamu alaikum we rahmetullah we berekatuhu

Professor, I live in one country where the majority is non Muslims, from one place from West Europe.  
I would like to ask about trading on the stock exchange haram? Respectfully  
Dirta

My Answer:  
Bismillah al Rahman al Rahim  
Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in  
Dear Br. Drita  
Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I am glad to know you and your ethnic background.  
PERMISSION IS GRANTED TO TRANSLATE THE ARTICLE and I am always there available for any further help. I also love sometime to visit your country that I hear is very beautiful and meet you and your colleagues.  
FOR INVESTMENT IN STOCK, PLEASE READ AGAIN MY ANSWER, I NEVER SAID IT IS HARAM TO INVEST IN THE LOCAL STOCK MARKET IN YOUR COUNTRY. I SAID IT IS PERMISSIBLE. Yet we have to select companies that have the least Haram transactions like for instance avoid conventional banks' shares. Also after investment we have to estimate the percentage of profit that arises from Haram activities of the company (e.g., companies borrow in interest and earn interest) and give it away to Muslim charity.

Wa Allahu A'alam  
Wa Alhamdu Lillahi Rab al Alamin  
Wassalam  
Prof. Dr. Monzer Kahf

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**Subject: question on Sukuk**  
From: Aazam  
Sent: Thursday, November 01, 2007 5:43 AM

Question  
Dear Prof. Kahf, سلام عليكم

I am Aazam from Iran. At the first thank you for the workshop in Tehran.

I have a question on sukuk.

If buyer of the asset differ from the lessee (in lease contract not lease-back) ,Can lessee select the SPV for issuing sukuk? Thanks

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Aazam

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The SPV is not a part of the Shari'ah issues in Sukuk. It can be selected by lessee or any other entity like a financial intermediary depending on what function is assigned to the SPV. In the example you mentioned, yes the lessee can select the SPV so that it issues the Sukuk and be the agent of lessee to accept the lease contract from the Trustee (that represent Sukuk holders who own the asset), and to receive the asset and pay the rentals periodically to the Trustee.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: Stocks and Shares**

From: sherif

Sent: Wednesday, October 24, 2007 6:57 AM

Question

Dear MR Monzer

I have read all your FATWAs about stocks either in your site or islam online. But i did not find an answer for the following question: Can we short stocks and buy it same day? by this i do not pay any interest to the broker and he is only facilitate lending the stocks of other investor to me (Can the stock itself be borrowed?) Thanks and best regards  
Sherief from Kuwait

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Sherif

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

My opinion is that a stock can be borrowed for a short period, so if it is for the day, yes it can be borrowed. There are others who argue that stocks cannot be borrowed because the content of a company and its market valuation are continuously variable so that what you

return is different from what you borrowed. There are also others who allow borrowing with no limit on the ground that stock are equal shares in a company. This last one has no foundation in Shari'ah in my opinion because the Shari'ah always looks at what does a security represent, the security itself is just a piece of paper or an entry on computer. Accordingly, my answer to your question is that it is permissible to short a stock with no interest and with settling it by a buy in the same day, or within a few days.

Wa Allahu A'alam  
Wa Alhamdu Lillahi Rab al Alamin  
Wassalam  
Prof. Dr. Monzer Kahf

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**Subject: ADVICE investment in stocks and preferred shares**

From: Intiaz

Sent: Thursday, October 18, 2007 5:24 PM

Question

Assalaamu Alaikum, I pray that all is well with you and yours.

Could you give the Islamic position of investing in a company that has both preferred and ordinary shares. May Allah bless you. Wassalaamu alaikum

Intiaz

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad,  
wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Intiaz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

It is good to hear from you in such a long time. Investment in common shares does not depend on whether the company issues or not preferred shares. It depends on the main line of activities of the company and how much of its transactions violate the Shari'ah rules, issuing preferred shares is one of these violations but it may not be a major contributor to its income especially if the actual profit distribution to every share happens to be more than the guaranteed percentage for the preferred shares so that this guarantee clause is not invoked. You need to know more about the company's business to determine whether it is permissible to invest in its common shares.

Wa Allahu A'alam  
Wa Alhamdu Lillahi Rab al Alamin  
Wassalam  
Prof. Dr. Monzer Kahf

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**Subject: Question on stock trading**

From: Osman

Sent: Monday, September 17, 2007 11:23 AM

### Question

Dear Dr Monzer, Al Sallam Allaikum Wa Rahmat Allah Wa Barkatu.

I hope that you will excuse me emailing you out of the blue like this but I am hoping that you can help me with a few questions that I have not been able to find a conclusive answer to on Islamic websites. From my research on the internet, I came across your name on Islam Online and thought that you might be able to help me since you seem to have a lot of knowledge in the area of financial matters.

I live in the west and I am a partner in a business with a non-muslim that is in the financial trading industry. We sell courses that teach people how to analyze financial charts to make buying/selling decisions. The industry term is ""Technical Analysis"" and it is something that is used in Muslim countries as well as western countries to analyze financial markets.

Technical Analysis is fairly well known so I have not included a thorough description of it but please let me know if you are not aware of it and I will try to provide a balanced summary.

Although the methods that we teach can be used to analyze any chart in general in addition to any stock whether sharia-compliant or non-sharia compliant, the focus of our business is currently on people that are involved in short term trading i.e. day trading although the course teaches people to work with any time frame.

The business has 3 products:

1. A technical analysis course that teaches investors how to analyze financial charts of any market whether sharia-compliant or non-sharia compliant.
2. A service that advises people of potential trading opportunities in the index futures market. We don't give specific buy or sell recommendations but we give market analysis using the methods we teach e.g. we tell people that there might be a change in market conditions in the afternoon around 3.00 PM which could make for a trading opportunity, but we don't tell them to buy/sell.
3. We have online training sessions where we show people how to apply the methods on the markets. The primary market is a day trading futures market and my partner who is responsible for trading, does sometimes day trade with his own money.

My questions are:

1. Since the focus of our business is on teaching people how to use the methods for day trading (since this is the main market in the west), am I doing something haram and if so, how can I change things so that I can have peace of mind that I am not doing anything wrong? Should I for example concentrate on teaching the methods to a general audience and its then up to them to use it on other markets and sharia-compliant or non-sharia compliant stocks or am I OK selling the course to people that are interested in day trading as long as I am not day trading myself? Should I only take profit from the services that would be OK with Islam.

I have invested my own money in this business and it is what I would like to do in the long term but how can I make sure that I go about this the right way? Do I only take profits from selling courses that don't teach people to day trade i.e. do I create a course

that can teach people to analyze charts in general and then leave it up to people to use it at their discretion?

The biggest problem is that the target market in the west is mainly non-muslims so in order for the business to continue to exist, the business needs to target people that day trade (from a marketing point of view).

2. Is it permissible to make buying/selling decisions on stocks strictly based on technical analysis if the stocks are sharia-compliant? Example, an Islamic stock research company recommends a number of stocks that are sharia-compliant, can I analyze the relevant charts and make buying/selling decisions based on then price movement on the charts? Technical analysis is not about guessing what the market is going to do but it is about carrying out thorough research before making informed decisions.

Also, would it be OK to only hold on to the stock for a few days or a few weeks? I understand that investing in stocks is permissible because it is looked upon as an (long term?) investment and I am not clear on whether short term trading of a few days or weeks is also prohibited because it might not be considered ""investment"" and is just buying with the intention to sell once the prices increase or the price of the stock appreciates in value. I am not clear since I think that everyone buys in the hope of selling at a higher price.

I should be grateful for your help and please accept my apologies for the long question. This issue has been really bothering me because I am worried that I might be doing something inappropriate. I have been as honest as I can in my description of my business and I hope that you will be able to give me advice.

Jazak Allah Khair

Osman

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Osman

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

I think the issue you are raising is important and we need to address it intelligently: first day trading and second technical analysis

Is day trading permissible?

1. Trading stocks (that are permissible to own from Shari'ah point of view) is permissible because they represent shares in the ownership of companies. This is established in the classical Fiqh and it is affirmed by an OIC Fiqh Academy resolution in the year 1412H. This generality does not really distinguish between short term and long term. In other word, the fact is that there is no difference, at this general level of permissibility, between day trading and other trading of stocks. We have incidences of day trading in tangible goods at the time of the Prophet, pbuh and there is no evidence to rule otherwise in regard to stocks.
2. But there is in fact a difference between stocks and other tangible goods, that is: stocks are in fact not wanted for their own utility, they are essentially wanted because they represent a productive system that is a company that creates new value

(goods and services). Does this change anything in the permissibility? from one angle, it should not make a change because suppose the whole company is represented by one share, can it be day-traded? I don't see any evidence to prohibit this kind of trades, with intention or without intention.

3. Yet is day trading a transaction that creates value or merely speculates (the role of technical analysis is to allow us to use scientific method for speculation) on quick price changes? It seems that it is really difficult to argue that there is a real value created in day trading. Suppose we take a machine (it is wanted only for what does it produce, remember a share is only a veil and we look at what it represent, hence, a machine may be a good approximation) and action it for sale, then the buyer return it for auction again and the next buyer does the same and this is repeated a hundred or a thousand time, does all that add anything to its productivity?
4. in other words, I mean to reach a conclusion that: while it is difficult to claim any prohibition of day trading, we look at it with disfavor, it is profiteering from almost pure speculation. And we call on governments to narrow its availability to a large extent. It is a thing that is not Haram but may be very much disliked.

The Technical analysis?

1. It is a tool that can be used for any kind of trade. It can't be argued that it is not permissible to found decisions of buy and sell on a given technical analysis.
2. Like any other tool, if its only use is for a prohibited action, it is prohibited too. But most tools have permissible use and some people may abuse them or use them for wrong objectives. This does not change the permissibility of the tool.
3. Besides, since day trading is not Haram, teaching its strategies and researching its techniques are also not Haram. They may also be disliked if the only use of a course is disliked but if it is applicable to multi-uses it is not Haram or disliked although some persons may use it for a bad action.

I tried to make it clear and may have failed! These are thoughts on the issues, please come back with any comment or clarification

Wa Allahu A'alam  
Wa Alhamdu Lillahi Rab al Alamin  
Wassalam  
Prof. Dr. Monzer Kahf

From: Osman  
Sent: Wednesday, September 19, 2007 5:21 PM

Question

Dear Professor Monzer, Jazak Allah Khair Wa Rabana Ya3tik Al'siha Wa Al'afia.  
Thank you for your time in answering my questions, it is greatly appreciated. I would like to excuse you with 1 last question related to the nature of my involvement in the business.

The nature of our marketing involves a lot of cross promotions or joint ventures, that typically fall under 2 scenarios:

1. Scenario 1: We locate another company or individual that has a database of people interested in trading whether that be futures, stocks or forex and we offer the database owner a commission if they would promote the course to their database. The promotions focus on the area of interest to the database e.g. if the database is made up of people interested in futures trading, we say that the methods can be used for futures trading in our sales letters. The emphasis on the effectiveness of the methods in futures markets for example, is not general in nature but is very much specific and we do it with the aim of matching the benefits of the methods to their futures trading requirements. We also promote the newsletter, which acts as a learning tool as well as an additional source of revenue, to people interested in futures trading (which I believe is not permitted to Muslims along with options).

2. Scenario 2: Since we approach other people to promote our course, we also get approached by others in order to promote their products. The primary products in the trading industry are either educational in nature as in courses teaching people trading in different markets or products being promoted by financial institutions as in brokers trying to get people to open trading accounts with them.

We get a commission in return for any sales we help to generate.

My question is:

Under my capacity as the partner in charge of marketing in the business, is it prohibited for me to specifically market the methods to people trading in futures, non-sharia compliant stocks, options and forex? 99.99% percent of our target market in the west are non-muslims!

If you were in my shoes, what would you do to run this business with a clear conscience?

I am trying to strike a balance between running a business that I depend on to make a living while making sure that the business does not compromise any Islamic rules.

Jazak Allah Khair and I can't find the words to describe how grateful I am for your time. I have looked so hard for so long for answers to my questions since I have really been worried by them and you are the first person that has so far taken up the time to help me.

Thank you once again for your time and help and Insha'alla Rabana Ya'barik Feek Wa Ya'Jallak Min Ahal Al'Jana. Sallam,

Osman

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Osman

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

It seems to me that there is no difference between Muslims and non-Muslims when it comes to helping in a prohibited transaction. If the transaction is prohibited for us Muslims (example future forex) it is also prohibited to give a product, like training, to those who practice it even if they were not Muslims. Its non-prohibition for them under the Islamic law is not based on a relative concept of morality but rather on respect of individual freedom and a principle that is special to 'Shari'ah of declining from imposing our values on those who do not believe in our faith. In other word, future forex is as bad



for non-Muslims as it is bad for Muslims (so is liquor or tobacco), but out of respect of their freedom and their religion we do not impose our values on them.

The implication of the preceding argument is that helping them in matters that are specific to doing any thing that is forbidden in our religion is not permissible also as if it were helping a Muslim committing this same sin.

On the other hand training and programs that can be used for say either spot forex or future forex are not Haram because then we are talking about a common tool that leaves it to the user to choose its application. Also offering your mailing list to other organizations is permissible with the consent of addressees, unless it is used to promote a thing that is specifically prohibited in Shari'ah or a thing that can only be used for a prohibited function or transaction. here again if what is promoted has multiple uses, mixed Haram and Halal, its promotion is not prohibited.

If I were in your shoes, I would shift to Islamic banking and finance plain and pure!

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

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**Subject: Shares and Investment**

From: Yusuf through Islam on line

Sent: Wednesday, August 15, 2007 7:43 AM

Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,  
May Allah swt reward you for your efforts regarding this website. My question is about shares and investment. I work for a healthcare company and we have a company share scheme. Every month we are able to purchase up to £125 worth of shares and in addition to this the company gives us an additional £125 worth of shares as an Employee benefit. The shares are held in trust for a minimum of 3 years after which it is transferred in our name and we are able to sell them at the current market price. If we hold the shares for an additional 2 years we are able to sell them free of tax. During this period we also receive dividends. Is this kind of investment halaal? Thank you for taking the time and reading my question,

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad,  
wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Yusuf

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

This kind of scheme is permissible to give for a Muslim company and permissible to take for a Muslim employee. For you as an employee, the company's matching amount is a gift or bonus from employer, it is permissible, the amount you invest is also permissible

and holding it for 3 or 5 years for certain benefits is also permissible as long as it is contractual.

One point you need to consider, important as it is, it is the purification principle. You did not tell me what kind of company your's is. Let us say it is health insurance, then there may be a good amount of its net revenue coming from interest and other prohibited sources, this percentage you need to estimate, out of its dividends and capital gain and give it away to a Muslim charity. even if your company is a hospital such revenues are a possibility. **YOU NEED TO CLEAN YOUR OWN MONEY FROM THE EVIL OF HARAM** by estimating to the best of your educated guess and ability, the percentage of this Haram and give it to Muslim charities.

Wa Allahu A'alam  
Wa Alhamdu Lillahi Rab al Alamin  
Wassalam  
Prof. Dr. Monzer Kahf  
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**Subject: question on investment in stocks**

From: Salahuddin

Sent: Saturday, July 07, 2007 10:08 AM

Question

السلام عليكم

Is it haram to invest in businesses such as Airline companies because they offer pork in their flight meals? Also, I prefer not to gain any interest on my money in the bank, but someone told me that it is better to put it in any interest gaining fund and give the proceeds to the poor. Is this true? Thank you.

Salaheddin

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Salaheddin

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Investing in stocks makes you a partner in the company and responsible for the action of the management, legally and financially. Therefore, the principle that is established in the OIC Fiqh Academy resolution is that ""In principle it is not permissible for a Muslim to invest in stocks of a company that undertake any forbidden activity, contract or transaction. But because the application of this principle creates a lot of hardship on individual Muslim investors like you and me, a group of Shari'ah specialist argue that this hardship must be removed and a set of applicable criteria must be put in place so that Muslim investors can invest with an added condition that they must always purify their own investment by giving to Muslim charities the amount they estimate as resulting from non-permissible activities of the management of the company they invest in. The

mentioned set of criteria aims at selecting the lesser of an evil by investing in companies that have the least of Haram. This requires exclusion of certain sectors such as conventional banking and insurance, entertainment, port and liquor industry, weapon industry. In addition the selection within the remaining companies is based on the percentage of the non-permissible activities they make relative to their total transactions such as the percentage of interest income, assets used in interest-bearing securities, degree of dependence of interest-based borrowing and the like. You must look at these criteria in details and apply them to the companies you want to invest in.

Wa Allahu A'alam  
Wa Alhamdu Lillahi Rab al Alamin  
Wassalam  
Prof. Dr. Monzer Kahf

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**Subject: Purchasing and Selling Stocks Online**

From: Muhammad through Islam on line

Sent: Thursday, June 14, 2007 8:57 AM

Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,  
Dear Scholar! Is it permissible to purchase and sell stocks online? And what is the opinion about scholars investing in Amana Mutual Funds, is it halal? Thankyou.  
Jazakallah Khair!

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad,  
wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Muhammad

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

1) Trading stocks on line or through brokers are similar from the point of view of their permissibility or non-permissibility. The matter is to select stocks that are permissible to buy and own. Here is a brief of an answer I gave a few days ago to a similar question: The principle is: it is of course prohibited to do any amount of Haram, small or big. When you buy a stock you in fact become a partner with a voting right in the company and the management acts on your behalf and in your name, of course collectively. But since the application of this principle in the Western markets practically prevents any investment in any stock, we have to revert to a degree of tolerance that removes the hardship. This is a matter of discussion and of course personal understanding, perception and judgment of individual investors and scholars. In other words, the relaxation of the rule is not determined by any Shari'ah standard but only guided by the principle that you loosen the knot to the needed extent that removes hardship and therefore by the perceived degree of tolerance. Here I feel that the following guidelines are relevant:

1. Avoid companies whose main line of business is not permissible, although they may have some permissible activities such as conventional banks and insurance companies, liquor , etc
2. Avoid companies that indulge heavily in non permissible activities such as companies that heavily speculate on future prices like the defunct Enron. or companies that have high percentages of non-permissible income or assets used in non-permissible investments or depend heavily on interest-based borrowing.
3. When investing in other companies, estimate, to the best of your ability, the percentage of capital gain and dividends that are generated by Haram activities and donate the same to Muslim charities because this money is Haram for you.

2) I cannot give an opinion on any individual company, Amana or others, unless it asks me to inspect its activities and evaluate them from Shari'ah point of view. Hence, you need to see for yourself, as an investor, whether it really applies the above mentioned guidelines and make your own judgment accordingly.

Wa Allahu A'alam  
Wa Alhamdu Lillahi Rab al Alamin  
Wassalam  
Prof. Dr. Monzer Kahf

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## **The purification Principle**

**Subject: Applying the purification when Trading Stocks**

From: Muaad

Sent: Tuesday, January 23, 2007 10:04 PM

Question

Salamu Alaikum Dr. Kahf,

I am currently trading stocks for a living and have read your fataawa regarding trading the markets. I have a few key important questions regarding the three agreed upon key points you mentioned in your fatwa.

First, as far as the Debt/Equity ratio is less than 1/3 or 33.3%... this is calculated by taking the total Short-term and Long-term debt over the Shareholder's equity, correct? Secondly, you mentioned how one must calculate the interest recieved by company as an income. I am not certain where to find this number. I have looked through the balance sheets and key stats of the company. Please direct me in the right place.

Lastly, which is the point I am most concerned about, you mentioned how one must purify his money of this interest by giving that percentage of his profits as charity (preferably not to an islamic center, etc.) How exactly does this work? I trade actively, closing anywhere from 3 - 7 trades a week. Do I need to take that exact amount after each profitable trade and set it aside in my account, then take all of that together and give it to charity? Or can I take this total at the end of each month or at the end of each year and then dispose of it? Of course my concern is that if I do it on a monthly or annual basis is

that I am using my total profits (which indoubtably includes the haram portion) to make more money in the short-term before disposing of the haram portion.  
Forgive me I am not yet as well versed in the various financial and Shariah concepts as I aspire to be. Jazak Allahu Khairan for your time,  
Muaad

My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br.Muaad

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

You are correct on the calculation of first ratio.

Interest earned will be found in the revenue and expenses (or profit and loss) statement, of course you don't find it in the balance sheet.

The principle of purification is giving what you don't own to Muslim charity preferably not for construction or administration of a Mosque. There must be no inconvenience to you when you make this calculation and disposition. Some Islamic funds make it every quarter, but if it is easy for you to make every month, that is definitely better, don't be preoccupied by minute differences in days and pennies, these are normally covered by generosity in rounding up your estimation.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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## **Investment through 401K and Similar Schemes**

**Subject: 401K saving and stock investment schemes**

From: Jan

Sent: Thursday, March 08, 2007 12:30 PM

Question

Salaam Borthar,

I am 28 years old and i want to start putting money in 401k and IRA. But i dont know what Islam's porhabits like Interest when its comes to putting money in 401k and IRA. I went to a advisor and he needs interest definition and also is it ok to buy stock? I have email alot of Ismic scholars but hanvet recieved answer yet. please help. Khudahafiz.

My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Jan

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Sorry, Brother, I hit sent by mistake instead of save.

Please notice that both 401K and IRA are voluntary saving schemes. They benefit you by postponing taxes to a time when your income is most likely smaller and meanwhile you can invest all these savings and get return on them. Of course for these privileges, the government imposes certain limitations and constrains on your accessibility to using these savings for consumption purposes and also to methodologies of investment that are available for you regarding these savings. This introduction is necessary to understand the Shari'ah position on these kinds of savings.

Here I summarize the Shari'ah points:

1. Shari'ah encourages you to save, invest and become rich of course without violating the Islamic tenets.
2. These schemes of 401K, IRA Keogh and the like are useful and have useful privileges that need not be sacrificed.
3. Money you save in 401K is yours the moment you save it (once deducted from your pays) and money contributed by employer has usually a certain period to become vested, so that money that is not vested yet, although you make the choice of investing it, is not yours until this period passes.
4. You are usually given a choice between different stocks and stock funds. Here you are required to make an educated choice based on two sets of elements: Shari'ah elements and profitability elements. Check with investment advisors of the second set of elements. The Shari'ah elements are as follows:
  1. The principle is to invest only in Halal stocks such as stocks of Islamic banks and Islamic insurance companies and any other companies that do not deal with any Haram product say like liquor or contract say like interest.
  2. Of course, none of these companies are available in the USA. The second best is to relax the condition and invest in companies that have the least evil and at the same time apply the purification principle by giving away to Muslim charity out of the increase in value and dividends an amount that you estimate coming Haram products/contracts.
  3. A group of scholars suggested certain criteria to apply on selection of Stock that are permissible to invest in: a) the main line of business must be permissible, then avoid stocks of banks, breweries, insurance companies, casinos, etc.; b) income from Haram, especially interest, must not exceed 10% of net income of the company, c) assets suspected of having more likelihood to generate interest must not exceed 1/3 of total assets, d) the company must not depend on interest based loans for more than 1/3 of its funds available to it.
  4. Of course applying these criteria will be difficult for Funds that you can choose from in 401K and IRA but you can avoid bonds funds, and funds that are heavy in the finance, entertainment, food and the like sectors. That still leaves a lot like health, social funds, technology, environmental sector, energy, etc.

5. Look at the reports of the funds offered and choose those that are profitable while having least Haram and give of the return a generous amount such as 30% for charity, this number must cover any Haram activities that may exist still in the good selection of funds.
6. The Zakah issue: These savings are subject to Zakah as part of your assets that are subject to Zakah. Zakah is the third pillar of this religion and must be paid every year if one has the Nisab (# US\$ 1000). Hence, if the total of these savings (minus unvested funds) plus other items like saving and checking accounts, gold and silver, cash, debts on others, etc, becomes 1000 Dollars you Zakah year begins and after 354 days you are required to distribute the due Zakah. Delaying its distribution is sinful except for the assets that you cannot liquidate without a loss. Hence, you have the choice of either pay Zakah on 401k and IRA from your other resources or delay the payment on these savings until you start withdraw, but remember then you have to pay the amounts of Zakah due for all past years.

Please come back again if my answer was not complete.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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## **Day Trading of Shares and Stocks**

### **Subject: Day trading in Shares**

From: Nasir through Islam on line

Sent: Monday, March 12, 2007 7:57 AM

#### Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

I have started day trading in stock markets.. Is it Haraam to trade in share. For example i buy some shares and sell when the price goes up.. Please advise me... I feel that a lot of factors are considered such as volume of shares, graphs resistance and supports etc...

There is effort gone in day trading... so will you please let me know whether the income is Halal or Haram. Jazakum Allahu Khairan for your constant help

#### My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Nasir

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Day trading is mere speculation with due respect to all graphs and studies in the area. You profit from the loss of others, plain and pure! There is no increase in value. Yet I can't claim that it is Haram but definitely it is not a useful or value creating business/transactions.

On the other hand buying a stock, even with the intention to hold it for seconds, makes a partner in the company and there are conditions to become a partner in a company because as a partner you become a part of the actions and contracts undertaken by the management. Please consult the Islam on line Fatwa bank for criteria of stock that can be purchased by a Muslim.

Wa Allahu A'lam  
Wa Alhamdu li Allah Rabb al 'Alamin  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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## **Investment through Mutual Funds**

**Subject: Query on mutual funds**

From: Rhahir

Sent: Monday, April 30, 2007 6:23 AM

Question

Dearest Dr. As-salamu alaykum

I want to know whether the "Mutual funds" and "Life Insurance policies" in India are forbidden in Islam or not. Thanks in advance,

My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Thahir

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

We have discussed this issue of insurance many times. In India it is more necessary for Muslims and Mosques than in other areas because of the communal riots. We've always argued that insurance, of all kinds, is permissible provided we avoid interest in the contract and that only one kind of life insurance (the whole life) is based on interest. Other insurances including life, cars, accidents, hazards and shipping all not based on interest.

For Mutual funds, there is no difference again between India and other countries. It depends on the permissibility of buying and owning the stocks in which the mutual fund invests. If these stocks are permissible, the fund is then permissible. If the stocks are tolerable with purification, the fund is also tolerable with purification and if the stocks are not permissible, the fund is also not permissible.



Wa Allahu A'lam  
Wa Alhamdu li Allah Rabb al 'Alamin  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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