

## Do Investors of Islamic Equity Funds Follow Warren Buffet's Advice? A Regression Assessment

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### ABSTRACT

*Researchers have doubted Islamic funds' ability to provide promising financial returns due to the shariah screening procedures. Despite its popularity, Islamic funds are still in doubt to generate attractive returns. Survival of Islamic funds is highly contingent on their capacity to foresee Shariah compliance opportunities in economic shifts. Investors defer fund withdrawal of the worst-performing funds and anticipate the manager will adjust the fund's investing strategy for a future with higher yields. Thus, this paper aims to investigate investors' reactions to the Islamic equity fund results (IEs) according to the opportunity motive of Warren Buffet. This is accomplished by evaluating the relationship between fund flow and performance. This allows us to determine whether investors behave toward the greatest and worst-performing funds by transferring cash into or out of the funds. This study uses panel data analysis to investigate 134 IEs from 2007 through 2019. The findings revealed that the link between fund flow and performance of IEs is incompatible with the asymmetric relationship, implying that the cash outflow for poorly performing funds declined. In contrast, cash inflow fell for funds that performed the best. Consistent with Warren Buffet's advice.*

*Keywords: Islamic equity funds; fund flow; fund performance; Warren Buffet*

### INTRODUCTION

A famous successful investor named Sir Warren Buffet once said, "Be fearful when others are greedy and greedy when others are fearful". The quote frankly indicates that a wise investor should refrain from subscribing to more units of funds when the market uptrend. At the same time, the optimum time to purchase additional units is if the market is falling. This is because when the market is performing well, the prices per unit of the funds are more incredible than when the market is experiencing price adjustments. Some investors panic when they experience a downward market, which leads to redemption from the bad-performing funds. The cost that we spend, and the value is what we receive, thus paying a high price can knock out the returns on any investments (Brownlee 2022). The worth of a stock is proportional to the value of earnings it makes during the investment window. Thus, paying a high price for the best-performing funds would not render investors a profitable investment.

Trading in Islamic funds is becoming increasingly popular on the existing economy, which is consistent with the advancements of such Islamic financial system. Additionally, it has become a vital element of the global monetary system. Previously, it was hypothesised that Muslim investors pick Islamic investments as religious commitments to avoid shariah-prohibited aspects in traditional investments.

At the beginning of the twenty-first century, scepticism existed over the ability of Islamic funds to generate attractive returns. Numerous research found that Islamic funds couldn't really outperform

conventional funds. Accordingly, Muhammad and Mokhtar (2008), Alam and Rajjaque (2010), Hopner et al. (2011) & Hayat & Kraeussl (2011) found that Islamic funds underperformed their conventional counterparts. Nevertheless, Mansor et al. (2019) revealed that Islamic funds performed comparably to conventional funds. Therefore, the possibility of Islamic funds as **a viable investment vehicle should no longer be questioned. As the market has expanded, several Islamic funds accessible for diversification** have grown, providing investors with a large selection of funds to match their risk tolerance. Nonetheless, Muslim prudent investors should avoid from purchasing additional units of a fund during a market uptrend. Conversely, the optimal time to acquire extra units is when the market is declining. Consequently, this is comparable to Warren Buffet's ideas. This is to ensure that Islamic funds continue to outperform their peers.

Though religion remains one of the motivating factors, researchers have discovered that Islamic funds could gain an advantage over conventional funds during a financial crisis, as Rubio et al. (2012) and Binmahfouz & Hassan (2012) posited that Islamic funds can outperform their conventional counterparts despite being limited to a smaller asset universe. Moreover, Mansor et al. (2019) found that the performance of Islamic funds is more stable during economic situations. The resistance of Islamic funds to the effects of the financial crisis can be attributed to their small investment portfolios, reduced debt levels, and strict adherence to screening standards, which have prevented them from investing in dangerous financial assets.

In addition, the increasing statistics reported by the Islamic Financial Services Board demonstrate the growing interest in Islamic funds (IFSB 2021). The report shows that Islamic banking performed 4.3% better in 2020 than 12.4% in 2019. The Islamic banking segment made up 68.2% (72.4% in 2019) of IFSI assets in 3Q20, mainly due to the rise of the Islamic Capital Market (ICM) segment. Due to the sovereign and multilateral sukuk issuances in important Islamic finance markets, the ICM sector had 30.9% of worldwide IFSI assets by 2020. Islamic funds' total assets under management grew 31.9%, and Islamic equity markets returned in late 2020 after the COVID-19 pandemic's initial shock and volatility in 1Q20. Consequently, despite the reduced returns, investors continue to prefer Islamic funds. However, investing funds in an unprofitable investment scheme might be the behaviour of an irrational investor who disregards the investment's profitability and performance.

The study on the association between fund flows with fund performance could capture investors' responses to the fund's performance in response to market volatility. Fund flows are the net cash flow from purchases (inflow) and redemptions (outflow) of a fund (outflow). The link between fund flow and performance captures investors' reactions to a fund's temporary outperformance or underperformance by sending more money into or out of the fund.

According to Berk and Green (2003), the motivation for investigating the link between fund flow and effectiveness stems from three basic sources. First, fund flows to determine the assets managed by fund management businesses. Chevalier and Ellison (1997) found that the link between fund flows and performance motivates money managers to adjust the riskiness of their funds. Investors want the fund company to use its best judgement to get the best risk-adjusted returns for the fund. A fund company, on the other hand, wants to increase its value as a business, so it has a reason to do things that bring in more investments.

Another motivation could be due to Prospect Theory by Kahneman (1979). Investors evaluate gains and losses differently, giving perceived gains a higher priority than perceived losses. When given two equal options, an investor will pick the one with the highest prospective gains. Moreover, when a fund gets a lot of money, it is less likely to take risks. Funds with large net flows that have done well in the past tend to take on more risk. High-performing funds take on more risk by increasing the number of trades, increasing the share of stock holdings, and buying more winners. Flow-driven transactions of high-performing investments also cause risk shifting, which hurts fund performance (Jin et al. 2022).

Fundamentally, the link between money flow and investment horizon is asymmetric, meaning that poor-performing funds are not penalised to the same extent as top-performing funds. The asymmetrical relation captures investors' unwillingness to withdraw from underperforming investments as much as they are to

subscribe to top-performing funds. Thus, funds that have succeeded well have had increased capital inflows, whereas funds that have performed poorly have suffered decreased capital outflows (Ippolito 1992; Chevalier & Ellison 1997; Sirri & Tufano 1998; Del et al. 2002; Lynch & Musto 2003; Berk & Green 2004; 2012; Wang et al. 2018; Khan & Noor 2020; Khan & Noor 2021). This suggests that investors engage to products with the greatest historical performance and are unwilling to redeem from funds with poor performance. In addition, some research attributes the association to investors' disproportionate capital allocation. For instance, Chevalier & Ellison (1997) and Nanda et al. (2004) concluded that investors distribute capital in an irrational manner between the top performing and underperforming funds.

Buying in trust funds provides investors with greater diversification advantages than investing in stocks. Diversification is a method for reducing risk by credit utilisation among a wide range of financial tools, industries, and other sectors. It wants to enhance returns by placing investments in many sectors that respond differently to a similar occurrence. Nevertheless, Islamic finances are limited by a screening process. To be recognised as 'Islamic,' funds must through the Shariah screening method, which may be incompatible with firms that seek to maximise profits. Friedman (1970) was the first to criticise screened investment portfolios in his research of socially responsible investment portfolios. The study asserted that an ethically oriented corporation constantly seeks to give social objectives or a sense of social responsibility, which might also differ from the efficient investment goal of maximising profits. Diversification is the greatest way to construct an optimal portfolio with the highest expected return and the lowest degree of risk; however, screening would prevent this (Johnson & Neave 1996; Kurtz 2005; Langbein & Posner 1980; Rudd 1981).

Briefly, a screened investment portfolio generates prejudices for Islamic funds because of diversification caused by the exclusion of specific assets, reducing the asset universe. In addition, the element in the process would incur the additional cost of managing the assets, exposing the funds to more risk, poorer return, and a lower level of **overall utility maximisation, which Johnson and Neave (1996) refer to as allocative inefficiency.** Consequently, the filtering criterion is among the reasons why returns on Islamic investments are lower.

Nonetheless, if one uses negative screening to build a values-aligned portfolio, he could miss out on the best-performing stocks in a market index like the FTSE 250 or S&P 500. This could cause one to earn less than the market average.

Islamic funds adhere to Shariah compliance that bans *riba*, or interest-based income; hence, it is impossible to build fixed-income instruments (let alone complex strategies such as short selling). Thus, there are few bond (Sukuk) funds. Shariah laws also restrict the variety of possible investment vehicles; as a result, diversification is

anticipated to occur in equity funds, within sectors, styles, and geographic markets, and not in the instruments' structures.

Investors in Islamic funds are required to fulfil religious obligations while pursuing spiritual value, posing the question of whether they allocate cash to the best funds based on reasonable investing decisions. Consequently, the purpose of this article is to determine whether Islamic fund investors behave with poor or superior performance while making investment selections. The findings will determine if these investors follow Warren Buffet's investment guidance. The fund flow is defined as a function of present and historical fund performance on the total return and non-performance variables using a regression technique.

The remaining sections of this work are organised as follows: This study's literature review is discussed in Section 2. The third section of the report explains the data sample, variables, techniques, and models. Section 4 discusses the findings, while section 5 provides a conclusion.

#### LITERATURE REVIEW

The asymmetric relationship refers to the condition where investors chase outstanding returns however unwilling to let go of their investment in the bad-performing funds. Based on Warren Buffet's advice, an asymmetric relationship explains that investors are greedy as they respond to a bullish market where fund prices increase (Rehman et al. 2021). On the other hand, being reluctant to let go of the bad-performing funds indicates that investors are not withdrawing from their lost investments. Hence, an asymmetric relationship suggests investors are not following Warren Buffet's advice.

What could be the reasons for an asymmetric relationship? Bellando and Dieu (2011) proposed multiple explanations for the asymmetrical relation. Ippolito (1992) highlighted that it is tricky for investors to recognise underperforming funds, causing them to remain invested for longer periods. We hypothesise that this may occur when the fund's performance fluctuates due to changes in market conditions. Moreover, according to Lynch and Musto (2003), investors are hesitant to exit from underperforming investments because they believe the portfolio manager and investing plan are much more inclined to shift. As market volatility are not permanent, this is incredibly accurate. When the market recovers, fund performance will increase. Recovery occurs when the market moves upward following a downturn (Taskinsoy 2019). Therefore, investors should continue to hold the underperforming funds in the belief that the adjustments in financial strategy and financial adviser would improve the funds' performance in the future.

However, the asymmetrical relation may also be described by the psychological state, which shows that the majority of investor decisions be irrational due to a fear of loss. One of the hypotheses is known as Festinger's theory,

developed in Festinger's work (1957). This hypothesis suggests that cognitive dissonance permits investors to lower the cognitive expense of probable loss by being too optimistic about the success of their previous investing decisions. Thus, investors would stay on to their lost capital for too long to back past regrettable selections. In addition, Shefrin and Statman (1985) and Odean (1998) refer to the inconsistency of investors as the disposition effect, which describes their tendency to keep losers for too long and sell winnings too fast. Throughout this view, investors are keen to generate profits. Investors have a high preference for learning about the best-performing funds as compared to the worst-performing ones, but they are reluctant to accept losses.

Investors depend largely on previous performance to anticipate future success. Berk and Green (2004) suggested that historical fund performance cannot foresee fund yield or management expertise. If return forecasts were realistic, investors would still have picked funds with more outstanding performance and shunned funds with lower performance. Furthermore, some upward slope of such a relationship between fund flow and performance implies a tremendous cash inflow and rising fund returns. When deciding whether to invest, investors must watch market conditions to estimate the fund's performance.

Warren Buffet describes timing the market as a lousy investment strategy where investors who flock in and out of investment are unlikely to succeed (Baker 2022). Buffet also said that "forecasts may tell you a big deal about a forecaster; they tell you nothing about the future" (Powell 2018). This advice indicates that no one knows the future, even if one is an investment expert. Thus, the best strategy is to keep investing irrespective of the market condition. Buffet suggests that "our favourite holding period is forever; if you are not willing to own a stock for ten years, do not even think of owning it for 10 minutes".

In the case of screened investment funds, i.e., Social Responsible Investment (SRI) funds and Islamic finances, spiritual values could influence investors' investment decisions; thus, investors will be more likely to hold onto bad-performing funds longer as studies found that investors are less sensitive towards bad-performing funds. For SRI funds, Benson and Humphrey (2008) determined that investors plough resources they had already retained due to the hitches in discovering substitute funds that will meet their non-financial aims. Furthermore, by obeying religious obligation, the fund of flow-performance that link Islamic funds is lesser delicate toward the bad-performing. Marzuki and Worthington (2015) and Rao et al. (2015) discovered the asymmetrical flow-performance connection in Malaysian and Pakistan settings, demonstrating that poor-performing funds experienced fewer redemptions.

Atta and Marzuki (2019) suggest that Islamic fund investors are rational decision-makers in making an investment decision as these investors direct more capital flows into good-performing funds. However, their study

did not describe the market condition influencing a fund's performance. In addition, Yas et al. (2022) discovered that the association between fund flow and performance of Islamic funds seems to be more significant compared to that of traditional investments., where both top and bottom funds' performance experienced more considerable money inflow and outflows than traditional funds.

In addition, to fund performance, non-performance-related variables play an important role in defining investment vulnerability (Marzuki & Worthington 2015; Benson & Humphrey 2008; Chevalier & Ellison 1997; Ferreira et al. 2012; Huang et al. 2007; Sirri & Tufano 1998). For instance, larger funds are anticipated to attract greater capital inflows (Gruber 1996). This is because organisations with substantial resources may invest so much on marketing and are therefore more likely to attract media attention. However, Sirri and Tufano (1998) suggested that larger funds draw much less cash flow. When fund age is considered, older funds are anticipated to receive fewer inflows than younger funds. The age of a fund may be a proxy for investor knowledge of the fund (Marzuki & Worthington 2015).

Consequently, older investments may have a well-established image, which may be positive or negative based on prior performance. Some research, such as that conducted by Barber et al. (2005) and Sirri and Tufano (1998), suggests that larger marketing expenses incurred by younger funds attract more capital inflow. The administrative cost of capital is typically the most critical component in determining fund flow responsiveness in Islamic funds (Othman et al. 2022). In conventional funds, the fund size determines the fund flow sensitivity.

Previous studies have examined the link between fund flow and fund performance. Still, the lack of findings makes it hard to apply Warren Buffet's advice about the opportunity motive (Buffett 2021; Koch 2020) to Islamic funds that follow syariah. Most studies only look at people who don't take risks and keep going. This study tries to fill that gap by looking into how investors reacted to the results of Islamic equity funds (IEs) using Warren Buffet's "opportunity motive."

#### HYPOTHESIS

Marzuki and Worthington (2015) said that investors in Islamic funds try to reach both financial and non-financial objectives with the money they put in. In line with the assumption that led to the inter utility attribute, investors' decisions were based on the admixture utility value function if IEs were involved. So, the fund stream is likely to be related negatively to funds that aren't doing well because investors won't move their money out of funds that aren't doing well, and positively to funds that are doing well because investors will chase those funds for higher yields. So, it's likely that the relationship between fund flows and performance will be asymmetric, meaning that funds that do poorly won't be punished with

outflows as much as funds that do well will be rewarded with inflows. So, here is how the study's hypothesis:

H<sub>1</sub> Fund flow-performance relationship of Islamic equity funds (IEs) is asymmetric.

#### DATA AND METHODOLOGY

##### DATA SELECTION

This study restricts the samples to open-ended Islamic equity funds (IEs), which have 100% asset allocation in equity or mixed-asset allocation with some percentage of equity, such as the balanced funds available in the Datastream database. The purpose of restricting equity funds was because the funds are categorised as aggressive fund, which is more volatile than non-equity. The monthly data for the fund's dividend yield and cumulative estimated assets were collected to approximate the fund size. Since both active and inactive and dissolved investments were included in the samples, longevity bias was not present. The selected funds must have a minimum of 24 months of data; thus, excluding funds with insufficient and too many missing data. Our final selections left us with 134 IEs which comprise of funds of 74 Malaysian funds, 49 Saudi Arabian funds, and 11 Indonesian price. The study period was from 2007 to 2019 since many of the Islamic funds are available from 2007 and onward in most countries.

##### METHODOLOGY

This study applies the estimating technique of panel data analysis. The estimate of static panel data covers the ordinary least squares (OLS) approach, the fixed-effect model (FEM), and the random effect model (REM) (REM). The specific tests will determine the most appropriate model to be used. The Breusch and Pagan Lagrangian Multiplier test chooses between the OLS or REM. Hausman test is employed to differentiate between REM and FEM effect. Following Ferreira et al. (2012) and Sirri and Tufano (1998), total fund flow of fund in country *a* at *t* is computed as follows:

$$Flow_{i,a,t} = \frac{TNA_{i,a,t} - TNA_{i,a,t-1}(1 + R_{i,a,t})}{TNA_{i,a,t-1}}$$

where,

$TNA_{i,a,t}$	=	net asset value in local currency of fund <i>i</i> in country <i>a</i> at <i>t</i> ,
$TNA_{i,a,t-1}$	=	net asset value in local currency of fund <i>i</i> in country <i>a</i> at <i>t-1</i>
$R_{i,a,t}$	=	return of fund <i>i</i> from country <i>a</i> in week <i>t</i> .

##### ASYMMETRIC RELATIONSHIP

The fund flow is formulated in terms of the current and historical performance of the fund based on total return performance measurements and control variables which

are the fund size and fund age. The present study excludes other variables such as expense ratio, transaction cost front and end loads in the manner of Rao et al. (2016) as some data are not sufficient for analysis.

This equation is represented as:

$$FF_{it} = \beta + \beta_1 TR_{it} + \beta_2 LN(size) + \beta_3 LN(age)_{it} + \varepsilon_{it} \quad (1)$$

Where,

$FF_{it}$	=	Fund flow at $t$ ( <i>time</i> )
$FP_{it}$	=	Fund performance (total return)
$LN(Size)_{it}$	=	natural logs (total net asset) $i$ at $t$
$LN(Age)_{it}$	=	natural logs (age of fund) $i$ at $t$
$\varepsilon_{it}$	=	Error

Equation (1) serves as the fund flow-performance relationship base model. To test the fund flow-performance connection between best to poor performing funds, performance is categorised as bottom and top-performing funds. In the manner of Marzuki and Worthington (2015), funds' performance is divided into positive and negative performance. Thus, we specified the fund's positive returns as top-performing funds while negative returns as bottom performing funds.

So do the dummy variables. To avoid the dummy mistake, only the bottom and top performances are considered in the regression as show in Equation (2) below.

$$FF_{it} = \beta + \beta_1 TR_{it} * Dbot_{it} + \beta_2 TR_{it} * Dtop_{it} + \beta_3 LN(size)_{it} + \beta_4 LN(age)_{it} + \varepsilon_{it} \quad (2)$$

where,

$Dbot_{it}$	=	Dummy variable of 1 equal to fund bottom performance or 0 otherwise
$Dtop_{it}$	=	Dummy variable of 1 equal top performance or 0 otherwise

Equation (2) estimates the regression in the current performance. Besides, in the manner of Benson and Humphrey (2008), lag-1, lag-2, lag-3 and lag-13 are assigned to re-estimate the regression in the past performances. In addition, we also combine all setting in one regression to check for any differences with the single settings.

## RESULTS

### DESCRIPTIVE STATISTIC

The descriptive results are presented in Table 1. The mean of fund flow is positive at 0.19%, with standard deviation of 8.841%. For fund performance, the mean total return is 0.3%. The maximum total return obtained is 44.61%, while the maximum fund size in our sample is USD 11.9 million. Finally, the older fund in the sample is 51 years.

TABLE 1. Descriptive results

Variable	Mean	Std. Dev.	Min	Max
FF (%)	.19	8.41	-91.40	91.77
TR (%)	.311	4.87	-37.83	44.61
Size (USD million)	11789.91	67489.11	0	11931.46
Age (month)	118.75	95.27	0	615

Note: FF = the fund flow, TR = Fund Total return, Size = Fund size, Age = Fund age

The estimations formed VIF results that less than 10, which shows that there are no problems with the variables being too similar. The outcomes of such Breusch Pagan LM test for all regressions show that REM can be used in

addition to the OLS estimator to estimate the overall IEs. Also, the Hausman test shows that the FEM estimator is better than with the REM estimator. For robust standard errors, the concerns of heteroscedasticity as well as autocorrelation have been fixed.

TABLE 2. Fund flow-performance results

Variable	Dependent var: $FF_{it}$			
	current	Lag - 3 month	Lag - 1 year	Overall
Cons	3.01* (1.42)	0.810 (1.44)	-1.66 (1.63)	-1.13 (1.55)
$TR_{it}$	-0.21*** (0.03)	-	-	-0.26*** (0.03)
$TR_{it-1}$	-	-	-	0.46*** (0.03)
$TR_{it-2}$	-	-	-	0.11*** (0.02)
$TR_{it-3}$	-	0.08*** (0.02)	-	0.03** (0.01)
$TR_{it-13}$	-	-	-0.04*** (0.01)	-0.05*** (0.01)
$LN(size)_{it}$	1.16** (0.38)	1.25*** (0.37)	1.49*** (0.35)	1.26*** (0.34)
$LN(age)_{it}$	-2.62*** (0.52)	-1.64** (0.544)	-0.64 (0.63)	-0.71 (0.60)
$R^2$	0.02	0.008	0.005	0.10

\*\*\*, \*\*, \* show significance level at 1%, 5% and 10%

$FF_{it}$  = fund flow at  $t$ ,  $TR_{it}$  = fund performance (total return),  $LN(size)_{it}$  = natural log size of funds  $i$  at  $t$ ,  $LN(age)_{it}$  = natural log of the fund's age  $i$  at  $t$

Table 2 shows how the relationship between fund flow and performance turned out. For clarity, we display the actual performance after 3 months, after 1 year, and even the total setting parameters in one model. At the 1% level, the coefficients for the current performance and the performance one year ago are significantly negative. Simultaneously time, the first three monthly performance lags have coefficients that are positive and significant at the 1% level. Also, the coefficients for the control variables demonstrate that fund flow is linked to a log of fund size in a positive way across all variation, whereas most coefficients for fund age seem to be significantly and negatively associated.

The results show that investors in IEs care less about how well the IE is doing right now and how well it has done in the past year. These results support the idea that investors in Islamic funds get more value from the non-financial aspects, which is like what Benson and Humphrey (2008) found with SRI funds. But the results also show that investors in IEs care more about how the investments have done in the past month than in the past year. This fits with the belief that investors use the past performance of a fund to decide which one to invest in (Sirri & Tufano 1998).

TABLE 3. Fund flow-performance relationship in bottom and top performance

Variable	Dependent var: $FF_{it}$			
	current	Lag - 3 month	Lag - 1 year	Overall
Cons	4.25** (1.46)	0.60 (0.596)	-2.05 (1.67)	-1.81 (1.72)
$TR_{it} * D_{bot}$	-0.08 (0.04)	-	-	-0.26*** (0.04)
$TR_{it} * D_{top}$	-0.37*** (0.04)	-	-	-0.28*** (0.04)
$TR_{it-1} * D_{bot}$	-	-	-	0.48*** (0.03)
$TR_{it-1} * D_{top}$	-	-	-	0.418*** (0.04)
$TR_{it-2} * D_{bot}$	-	-	-	0.09** (0.03)
$TR_{it-2} * D_{top}$	-	-	-	0.13*** (0.03)
$TR_{it-3} * D_{bot}$	-	0.06** (0.02)	-	-0.02 (0.02)
$TR_{it-3} * D_{top}$	-	0.11*** (0.02)	-	0.09*** (0.02)
$TR_{it-13} * D_{bot}$	-	-	-0.09*** (0.02)	-0.07*** (0.02)
$TR_{it-13} * D_{top}$	-	-	-0.03 (0.02)	-0.02 (0.02)
$LN(size)_{it}$	1.17** (0.38)	1.26*** (0.18)	1.49*** (0.35)	1.29*** (0.34)
$LN(age)_{it}$	-3.08*** (0.54)	-1.57*** (0.23)	-0.49 (0.64)	-0.45 (0.66)
$R^2$	0.024	0.008	0.005	0.102

\*\*\*, \*\*, \* show significance level at 1%, 5% and 10%

$FF_{it}$  = fund flow at  $t$ ,  $TR_{it}$  = fund performance (total return),  $D_{bot_{i,t}} = 1$  as bottom performer, 0 otherwise,  $D_{top_{i,t}} = 1$  as top performer, 0 otherwise,  $LN(size)_{it}$  = natural log size of funds  $i$  at  $t$ ,  $LN(age)_{it}$  = natural log of the fund's age  $i$  at  $t$

The bottom and top fund flow performances are displayed in Table 3. In the manner of Bollen (2007), positive coefficients on positive or high performance correspond to a cash inflow, whereas a positive coefficient on negative or low performance corresponds to a cash outflow. Meaning that, good (poor) performance shall interpret the increase or decrease of cash inflow (outflow). Our results explain that the lowest performance indicate that IE investors were unresponsive to funds with poor performance. In the overall setting column, however, in which all the returns have been regressed simultaneously, the results suggest that IE investors reacted to both poor-

performing and top-performing funds in the month, with cash outflow decreasing with poor-performing funds (-0.26\*\*\*); while cash inflow decreasing with top-performing funds (-0.28\*\*\*). The current performance's findings are contradictory to the asymmetrical relationship. Instead, it indicates that bottom and top performances drew greater outflows (inflows) whenever current performance was poor (good). Therefore, the results did not confirm the study's hypothesis. As posit by Chevalier and Ellison (1997) and Nanda et al. (2004), investors could allocate capital irrationally between the best-performing and worst-performing funds.

The outcomes of the initial 3 months lags for prior performance reveal that investors are attentive to both the lowest and highest performances. It implies that shareholders of IE should direct a greater cash outflow from underperforming funds and a greater cash inflow into top-performing funds. Similarly, Benson & Humphrey (2008), investors withdrew less capital from underperforming funds during the one-year lag in performance. Investors did not react, however, to the best-performing funds. Nevertheless, considering the previous year's performance, it's clear that these investors continue to hold onto funds with poor performance, when neither pursuing nor selling the top-performing funds.

#### CONCLUSION

Investors of Islamic funds are said to make irrational decisions as they choose to direct capital into the non-promising investment. In addition, it is claimed that Muslim investors are affected by their obligation and spiritually worth in their investing decisions, which would drive investors to choose a less rational option because it deviates from the objective of maximising risk return. However, for Warren Buffet, human is naturally irrational, and the irrational behaviour that drives stock prices fluctuate excessively, creating the best investment opportunity investors should take advantage of. Therefore, one should react to the market volatility wisely by directing capital at the appropriate time.

Intriguingly, our regression results indicate that the relationship between fund flow and performance of IEs is contradictory to the asymmetrical relation in either present or historical performance. The findings indicate that cash outflow decreased for funds with poor performance, whereas cash inflow reduced for those with the best performance. This study finding implies that Islamic fund investors follow Buffet's advice. Noted that bad performances are temporary, which resulted from a market correction, investors of Islamic funds did not flock out /redeem from funds they had already held, as shown by the decrease in cash outflow from the bad-performing funds. Furthermore, these investors did not chase/ subscribe to the best-performing funds, as shown in the reduction in cash inflow. This is because best-performing funds are influenced by the uptrend market, thus, increasing the price per unit of the funds.

Furthermore, the act of not directing money out of the bad-performing funds, as shown in our finding also consistent with Buffet's advice of "only buy something that you would be happy to hold if the market shut down for ten years". In countries with less developed Islamic financial systems, investors of Islamic funds are served with limited choices of funds that are compliant with religious views. However, for this group of investors, if they feel the pleasure from their investment choices, they are willing to remain with their choices, regardless of market conditions. As Buffet advises, "give time for your investment to grow, and you will reap the benefits."

This advice explains that investors should opt for long-term investment as investing is about minimising risk to generate wealth in the long run, not generating short-term profits.

The findings from our study lead to a question of making differences in countries' Islamic financial development influence differences in Islamic funds investors' reactions to funding performance. Future studies could examine the topic within the context of the Islamic economy and states. In addition, comparative research would assist this field of study by yielding more precise results.

This study may implicate Islamic fund management based on its findings that cash outflow decreased for funds with bad performance while cash inflow fell for those with the highest version. During difficult times, policymakers and Islamic fund managers could be prompted by the opportunity incentive.

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