

**THE DEVELOPMENT OF IARIBA FINANCING AND  
INVESTMENTS PORTFOLIOS FOR THE RETAIL SYSTEM,**

**THE VALUE OF FINANCIAL PLANNING FOR THE  
INDIVIDUAL HOUSEHOLD, and**

**THE EMERGENCE OF THE LARIBA FINANCIAL  
CONSULTANT**

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**INTRODUCTION**

The values of free market economic theory were first promoted by Prophet Muhammad when he transformed “Yathrib” into “Al-Madinah Al-Munawara”, and then were reinforced by many of the subsequent Muslim Khalifah's. Subsequently, they were stressed by “Ibn-Khaldoun” and then popularized by Adam Smith. These values are becoming the order of the day in most every corner of the world. The failure of communism and centrally planned economies and the failure of the current capitalistic system to meet a strict ethical and moral value system as witnessed by the episodes of Arthur Anderson and others’ justified “fixing of the books”, Enron, Worldcom and the Internet bubble, have given way to a new era in the 21st century where freedom will make it easier for the values of Faith-Based Economic System in Islam and Islamic Economic, monetary and financial theories to capture the imagination of the people of all faiths to offer stability and fulfill the faith-based needs of the masses (*al-nass*) in the world. It is from this premise that the author believes that the time is now to bring to the LARIBA retail system the value of SOUND FINANCIAL PLANNING and proper portfolio construction

in order to plan for the future of the family. In doing so, we put to work what we learn from the Holy Quraan in sura Yusuf about the value of planning (seven fat cows and the seven lean cows) and what Prophet Muhammad (s) said about living in this world and planning as if one lives forever.

In a world that has become a “*global village*” through the internet, 'dish' TV antennas, and mass advertising, the average citizen in the world is preached constantly to convert and join the forces of consumerism. In doing so, many people spend what they have today and even borrow from the future in an ape-like behavior without paying attention to the future.

It is the responsibility of the leaders in the LARIBA financial services industry to expand beyond catering to the larger and more affluent institutions, government and mega deals into serving the people “*al-nans*” (*all people regardless of ethnic background, religion, socio-economic status or skin color*) at the grass roots level. In doing so, the members of each household will begin to think long term, will become more loyal to his/her communities and home lands by saving for the future, will be investing in its economy, and will not resort to sending the savings (through the process of monetary leakage) abroad to seek better safety and higher returns.

A brief comparison between the Riba (Conventional) Banking and the LaRiba (Faith-Based) Banking is summarized below:

### **Riba & LaRiba; WHAT IS THE DIFFERENCE?**

		<b>RIBA Conventional</b>	<b>Faith-Based LARIBA</b>
<b>1</b>	<b>Dominant Attractor</b>	<b>Money</b>	<b>Life As Prescribed by God In All Abrahamic Faiths</b>
<b>2</b>	<b>Defining Purpose</b>	<b>Use Money to Make Money for Those Who Have Money</b>	<b>Employ Available Resources to Meet the Basic Needs of Everyone without Extravagance</b>
<b>3</b>	<b>Firm Size</b>	<b>Very Large, e.g. Mega Banks</b>	<b>Small and Medium-Size</b>
<b>4</b>	<b>Costs</b>	<b>Externalized to the Public</b>	<b>Internalized by the User</b>
<b>5</b>	<b>Ownership</b>	<b>Impersonal, Absentee</b>	<b>Personal, Rooted</b>
<b>6</b>	<b>Financial Capital</b>	<b>Global with No Borders</b>	<b>Local/National with Clear Community Reinvestment Borders</b>
<b>7</b>	<b>Purpose of Investment</b>	<b>Maximize Private Profit &amp; Wealth</b>	<b>Increase Beneficial Output to the Community</b>
<b>8</b>	<b>The Role of Profit</b>	<b>An End to be Maximized</b>	<b>An Incentive to Invest Productively in the Community</b>
<b>9</b>	<b>Coordinating Mechanisms</b>	<b>Centrally Planned by Mega-Corporations</b>	<b>Self-Organizing Markets and Networks of Communities Around Synagogues, Churches and Masjids.</b>

<b>10</b>	<b>Cooperation</b>	<b>Among Competitors to Escape the Discipline of Competition.</b>	<b>Among People and Communities to Advance the Common Good for All.</b>
<b>11</b>	<b>Purpose of Competition</b>	<b>Eliminate the Unfit and Capture Markets</b>	<b>Stimulate Efficiency and Innovation</b>
<b>12</b>	<b>Government Role</b>	<b>Protect the Interests of Property</b>	<b>Advance the Human Interest as Revealed in All God's Messages</b>
<b>13</b>	<b>Trade</b>	<b>Free, But For The Benefit of Mega Corporations.</b>	<b>Free, But Fair and Balanced</b>
<b>14</b>	<b>Political Orientation</b>	<b>Elitist, Democracy of Money (Dollars)</b>	<b>Populist, Democracy of Persons</b>

Based on a Listing by: David C. Korten: The Post-Corporate World - Life After Capitalism,  
Published by: Berrett-Koehler & Kumarian Presses.

If we want the LARIBA *system* to prosper, the LARIBA Bankers have to touch the lives of every household in their lands in order to make a difference in *peoples'* lives. In the developed countries, investment banking firms and brokerage houses make it their prime goal to offer the saver as many investment alternatives as possible. In developing countries and low-income communities, such efforts will help to minimize the flight of saved capital, however small, outside the economic borders of their lands and communities. It has been proven over the years that government controls, restrictions, regulations and policing of capital transfer have failed. The most efficient way was proven to be a "hands off" system as Adam Smith might say. It simply involves that the Financial Consultants communicate with the people, understand their needs, and offer them articulated sound investment plans and opportunities that are commensurate with their needs. It is the responsibility of the LARIBA Banker to make financial planning a popular process for those with humble means as much as the rich and affluent are using it. In doing so, the credibility of the LARIBA banking *system* and its professionals, the LARIBA bankers and Financial Consultants will prevail.

#### FINANCIAL PLANNING – The Questions

When one mentions financial planning, many think that it is reserved for the rich and affluent. The LARIBA Banker and Financial Consultant must make it their prime responsibility to change this stereo type image. It is the middle income families and the poor who need financial planning the most.

When one thinks about financial planning, what questions come to mind? Having enough money to pay the bills each month? Being able to afford one's dream apartment or house? An education for the children? And/or A comfortable retirement?

Many think that financial planning is something complex that requires knowing all about the financial markets and how to read the financial pages of the daily newspaper.

This paper is an effort to give the reader some practical answers to such questions.

Financial Planning means taking control *of one's* present and future security. This is done by defining one's goals, saving regularly and investing prudently. Financial Planning is the process *of* assessing one's financial situation, evaluating one's financial goals and devising a strategy to achieve such goals in a way that is right for the individual in question.

## FINANCIAL PLANNING – The Steps

There are four basic steps to financial planning by the LARIBA Financial Consultant that everyone should take, regardless of their net worth, in order to determine what they want to achieve or how they will manage their assets. These are :

1. Figure your client's net worth.
2. Articulate and help define the client's goals.
3. Establish a savings plan that is acceptable to the client
4. Implement an investment program that meets the client's expectations, the client's level of risk acceptance, and the client's financial goals.

The foundation for the success of a LARIBA Financial Consultant is a strict code of ethics, which adheres to full confidentiality (which is the core of keeping a trust as an Amana “trust”) without even the financial consultant's spouse knowing who the clients are or any details of their private financial matters in addition to a strict discipline to seek the best benefit to the client by exercising prudence and without involving any expectations for higher personal gains. The LARIBA Financial Consultant is trained to always heed the almighty God in his/her dealings with others.

### **1. Figure Client's Net Worth**

It is interesting to observe that most people world-wide do not invest a short while of their time to figure their net worth.

To calculate the net worth, the LARIBA Financial Consultant needs to sit down with the client and the spouse with their latest bank and investment statements and what they “remember” they own. It is important to include all of the client's financial assets, including retirement plans, pensions, savings, CDs, car(s), and any other assets like jewelry, real estate and land. Add these to calculate the total assets of the client.

Next, the LARIBA Financial Consultant should focus on client's liabilities, which usually take the form of outstanding loans like Riba mortgages, car loans, credit card balances or any other money owed by the client. Here the LARIBA Financial Consultant will have a golden opportunity to *show* his concern to the client's Riba involvement and if the LARIBA Financial Consultant is a real believer in ridding all people of Riba, he/she will make this as one of his/her important goals.

The net worth of the client can now be estimated as the total assets minus the total liabilities.

## **2. Help Your Client In Articulating Their Financial Goals**

Everyone has a dream they hope to achieve. However, many people around the world have not taken the time to define and spell these goals out in a written form. Two of the most common goals are funding for retirement and/or education for the children or grandchildren. Other goals may include: starting a business, traveling for *hajj* or for other purposes, going back to school or buying a better home, or another home.

The bottom line is whatever the client's hope is, they will need money to achieve it.

In structuring the clients' goals, we can look at the following goal categories in the order of their priorities:

### Day-to-Day Expenses:

At the foundation of the client's goal “pyramid” are the day-to-day expenses. We all need enough money to support the lifestyle we have chosen. This includes not only, the necessities such as food, housing, and clothing, but also the so called “extras.” This means buying gifts, going for picnics or vacations, sending children to private schools, etc... whatever the clients feel is necessary to live the life which the family (husband & wife) has chosen for itself.

### Emergencies :

Next, we all have to put aside a certain amount of money as a reserve for emergencies. Most financial planners say that three to six months of take-home pay *is* a comfortable cushion. Again, this is up to the family (husband and wife). If the family can easily borrow money from a relative in an emergency, for instance, the cushion may be smaller. If the family knows that a major expense is needed in the near future, then the cushion should be larger.

### Small Goals:

Then we all have our smaller goals, such as buying a new car and making a major purchase, such as furniture or appliances. The client may be able to finance these purchases (the LARIBA way) but the clients still have to account for them in the family's budget.

### Large Goals:

Attaining large goals such as a house as a primary residence, an apartment for elderly parents or for the future family of their children is usually closely related the age of the clients.

### Long-Term Goals :

Financing long-term goals is the real reason many people need to seek help from a financial advisor. The earlier the family thinks about how they are going to fund their long-term goals, the more the family can use time to their benefit in achieving these goals. An important aspect is the preparation for long-term care when the parents reach an age that may make them unable to meet their basic living needs.

### Estate Planning:

Finally, regardless of the family's net worth, the LARIBA financial consultant who believes that having a will and planning for the day when one passes on is a requirement upon every Muslim.; The saying of Prophet Muhammad states, "It is not permissible for any Muslim who has something to will, to stay for two nights without having his last will and testament written and kept ready with him." [4:1-O.B.]. Furthermore, the tax laws regarding inheritance and estate planning can be burdensomely complicated. At the very least, the family, with the help of the LARIBA financial consultant, should have a will drawn up to determine the best way to distribute the family's assets and care for minor children (*aj-yatamaa - the orphans*). At best, the LARIBA Financial Consultant should develop a sound estate plan for the family with the objective of minimizing the usual in-fighting after the death of the parents, the unnecessary taxes and expenses and the waste of accumulated assets.

### **3. Help In Establishing A Savings Plan for the Client**

The next step in financial planning is to establish a workable savings plan. How much does the family have to save each month and invest at what rate of return on investment (using different LARIBA investment instruments) in order to meet the family's financial goals. This may also include saving for the down payment for a house for the children.

The family pattern of saving is also investigated; does the family have a regular savings program or does the family just put away whatever is left after it has paid the daily living expenses? If this *is so*, the LARIBA Financial Consultant has to guide the family to turn their thinking around if they want to meet their stated goals. Starting from a certain day, the family - that is; husband and wife, commit to pay themselves first (that is by saving for the future) and live on the rest. The LARIBA Financial Consultant needs to train the husband and wife to think of the amount they save each month as a bill that they have to pay regularly and investing that savings prudently.

### **4. Implement An Investment Plan**

Simply put, investing is putting the family's money to work in order to create job opportunities, prosperity in the community, and in the process, earn a good return on invested capital.

There are four basic investment classes. Each asset class represents a different risk level, and the amount of potential reward one expects is obviously positively correlated to that risk..:

1. Cash (Amana Deposits.)
2. Income Generating Asset-Based Investments, (e.g. Ijara - Leasing contracts on homes, automobiles, equipment and/or small businesses.), and
3. Growth investments (e.g. growth oriented LARIBA sanctioned stock portfolios, joint ventures and/or limited partnerships)

### **1. Cash**

Cash and cash equivalents (LARIBA CDs & Short Term Instruments) contain very little risk, so one can expect safety of principal, but lower returns than one would on investments with higher risk. The main risk is that inflation may be higher than the return on short term instruments resulting in a *loss of purchasing power*. The main benefit is their high liquidity, meaning they are easily and quickly convertible into cash.

### **2. Income Generating Investments – Substitute for Riba Bonds**

Income producing investments are a broad category that fall in the middle range of risk. They usually provide higher returns than cash equivalents. Examples of LARIBA income generating investments are :

- 2.1. LARIBA Home Financing Freddie Mac Participation Certificates (PC's.),
- 2.2. Dividend Paying Stocks, which are sanctioned by Islamic LARIBA guidelines.
- 2.3. Portfolios of asset backed LARIBA leases (Ijara) contracts on autos, equipment, and small businesses

### **3. Growth Investments**

Typically, but not always, growth investments offer the greatest potential for high returns. Often they are subject to greater short-term risks than either cash equivalents or income-oriented investments. Examples are:

- Stocks, equity based financing.
- LARIBA mudharaba (Money Management)* pools with the prime objective of growth.

Building an investment portfolio is a process and not an event. This means that a continual relationship should exist between the LARIBA Financial Consultant and his/her client. In doing so, any change in the situations of the family, the economy, or other factors will be considered and, corresponding changes made in the investment portfolio.

So, the process consists of :

- Establishing Client's Objective.
- Building the Portfolio, and
- Ongoing Evaluation of the Portfolio and the Client's Situation / Needs

### Establishing Client's Objectives

The first step as mentioned earlier is to establish a realistic set of objectives with the client (Husband, Wife and grown-up children). Along with the client, the LARIBA Financial Consultant will evaluate:

- Financial Goals,
- Investment Time Horizon,
- Risk Tolerance,
- Past Investment Experience, and
- Clients' Knowledge of the capital markets and the LARIBA concepts.

### Building The Investment Portfolio

The question then becomes, "How does the LARIBA Financial Consultant use the available universe of investments to work with the client/the family in order to achieve their financial goals?" It is important to educate the client that certain investments are more appropriate for meeting different types of goals.

If the time horizon for the client's goal, for example, is short and if it is expected that the client will need the funds at a moment's notice, then the funds should be kept in relatively low-risk and liquid investments. For example, this category includes daily expenses and emergency funds. Cash equivalents like The LARIBA Money Market Fund will be a suitable investment.

If the client has a longer time horizon, the client probably could afford more relative risk. Funds can be invested for longer-term goals in higher income securities, which may be relatively illiquid (depending on liquidity preference of the client). In this manner, one has the potential of earning more on his/her funds and reaching the goal of the family more quickly. However, the LARIBA Financial Consultant should educate his/her clients and make sure that they understand that financial markets fluctuate. If money is taken out of these investments when the market is down, one might get back less than the original capital investment. One way to protect against this is thorough diversification. Longer term investments would probably be best placed in assets that have a history of growth over time. [THE PROBLEM WITH THIS



STATEMENT IS THAT MANY OF THESE LARIBA INSTRUMENTS HAVE LITTLE OR NO HISTORICAL PERFORMANCE; i.e. [jara backed securities, stocks in community LARIBA banks in less-developed countries, etc.]

The portfolio will be specifically designed to match the client's return objectives and risk tolerance (volatility).

It is important to make sure that the client's definition of risk matches that of the LARIBA Financial Consultant. A thorough understanding of a client's risk tolerance is key to a successful and long lasting relationship with the clients and to their commitment to the LARIBA investing approach.

## THE INVESTMENT RISK

### A) MICROECONOMIC RISK (Investment-specific):

1) EQUITY RISK includes an assessment and study of: volatility, frequency of quarterly losses in investment and consecutive quarterly losses [ WHY QUARTERLY?], the degree *of loss* in percentage of assets and the ability to recover from losses which includes time-economic cycle and an estimate of the projected increase following losses. Capitalization credit and operating history of the companies one invests in and the quality of management represent factors decided upon by the style of investing.

2) CREDIT RISK, which is more relevant to income generating securities, involves the ability of a company to pay its liabilities in a timely manner, the consistency in which it pays expected distributions, and the value and liquidity of the assets backing the instruments.

### B) MACROECONOMIC RISK (Environment-related):

1) The economy and the style of investing represent two macroeconomic major risk factors. Inflation interest rates environment and where one is in the economic cycle are ingredients to the economic risk. INFLATION poses a constant threat to purchasing power. A \$100,000 portfolio in 1945 would have a purchasing power which is 90% less in 1995 (50 years) if the inflation rate was a mere 4.4% per year.

2) It is important to note that investing experience has proven that the longer an investor's *time horizon* the smaller the chance of losing money by investing in stocks.

## PLANNING FOR RETIREMENT

The most important long term goal for just about everyone is to have enough money to provide for a comfortable and dignified retirement.

The LARIBA Financial Consultant should persistently teach the client that the most important solution to a comfortable retirement is to take control of the situation himself / herself (or the family as a whole) and start doing something today. There are five steps to successful Retirement Planning. These are :

1. Begin Today. Do not wait
2. Save regularly, not erratically
3. Aim for tax deferral if applicable
4. Understand Risk Fully
5. Implement an Investment Program relying on expert help by using a professional Money Manager (*Mudharib*) to help in allocating the assets

There is a pervasive myth that retirement represents just a small portion of one's life. Most retirees should plan their finances assuming that they will live for about 20 years on average after retirement. One of the most significant trends into the 21st century is the aging of America and the rest of the world. Because of rapid advances in medicine and technology people live longer and healthier lives. As a result, retirees and those planning for retirement will need more money than their parents and grandparents did. But inflation, taxes, and the rising cost of living and health care will have more time to erode their resources. As an example if one has \$1,000,000 today and is investing the money at a rate of return of 7% year and he / she needs \$100,000 to spend per year assuming 4% inflation per year; THE PORTFOLIO WILL BE DEPLETED IN ONLY 12 years.

It is important to remember that most people's "retirement" career will last longer than their "work" career... thirty five years to build a career and perhaps 25 to 35 more years to enjoy the fruits of those labor on average. The goal is to plan with the need to never resort to extending one's hand out to seek help from anybody while in retirement.

#### REASONS TO HIRE A LARIBA FINANCIAL ADVISOR

The LARIBA Financial Consultant should make it clear why the investor should hire and rely on the services of a *MUDHARIB* (Money Manager). Here is a recommended list

1. Money Manager (*Mudharib*) helps improve performance by allocating the investment to suitable shari'aa sanctioned vehicles that fit the client's particular situation with liquidity diversification, accurate timing and continuity of management in mind.
2. Investors do not have the time to pay close continual attention to the performance of the investment.
3. Investors do not have the investment expertise to conduct prudent due diligence.
4. The process removes the emotions from making the wrong investment decisions

- S. The Money Manager has and is fully aware of his / her fiduciary responsibility
- 6. The Money Manager provides accurate and timely reporting of the performance of the investment.

With the implementation of this plan the LARIBA banking system will gain the credibility needed and the confidence of the masses (Al- Naas).

And Allah only knows best and we ask Him for support and guidance

Yahia Abdul-Rahman