# CAPITAL PROTECTED FUNDS BASED ON THE "ARBOON" SALE

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Capital protected funds based on the sale of "arboon" are an alternative to the conventional model in which assets are mainly zero coupon bonds. Sale of "arboon" is a Shari'ah form of sale contract in which seller and buyer effect a contract where only a small portion of the price is paid. The buyer will then hold an option for a specific length of time (days or months but not more than one year) to either go through with the purchase or cancel the contract. If he decides, during or at the last day of the option period, to go through with the purchase, he will than have to pay the rest of the price. If he decides to walk out then the portion of the price, which has been paid, is retained by the seller. In the jargon of modern finance, this portion is the option price.

In using the sale of "arboon" to structure a capital protected fund, the manager may divide capital of the fund (which is say $ 100 m) into two portions: one consisting of, say, 95%. This portion will be invested in Murabaha giving a return of 5% (at least) with good standing obligors, for the life of the investment fund (such funds are usually closed-ended for one year). This way the capital is protected. Then the manager will use the 5% remaining in the fund to effect an arboon sale where he purchase a $ 100 m worth of stocks and pay this $ 5 m as the "paid portion" of the price. The manager will select company shares he expects to go up in price during the life of the fund. Once his expectations materialize (say share price increased 15%), he can sell these shares, pay $ 95 m to seller. A 15-m profit has been realized to the fund. It is possible to enter into more than one arboon sale contract during the life of the fund. If his expectation did not take place, the paid portion will be retained by the seller and he is free now to sell the shares to third parties. The principal of investors is preserved. This model affords investors to have the best of two worlds: low risk (through protection of principal) and high return (by the speculative arboon purchase).

Two important differences between sale of arboon and conventional option contracts: (a) The option don’t have a separate pricing, the set price is that of the underlying asset. (b) That the sold items (shares in our case) must remain in the ownership and custody of the seller for the whole duration of the contract. No rational or short selling is permitted.