

## The Effect of Stock Selection Ability, Market-Timing Ability, and Fund Cash Flow on the Performance of Sharia Equity Mutual Funds (Study During the Covid-19 Pandemic, 2020-2021)

**Rakhmad Pambudi**

*Universitas Muhammadiyah Purworejo, Indonesia*  
Email: [rakhmad210217@gmail.com](mailto:rakhmad210217@gmail.com)

**Mahendra Galih Prasaja**

*Universitas Muhammadiyah Purworejo, Indonesia*  
Email: [mahendra.galih@umpwr.ac.id](mailto:mahendra.galih@umpwr.ac.id)

**Agus Saur Utomo**

*Universitas Muhammadiyah Purworejo, Indonesia*  
Email: [agussaur@umpwr.ac.id](mailto:agussaur@umpwr.ac.id)

**Corresponding Author:** Agus Saur Utomo

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**Abstract:** The COVID-19 pandemic posed significant challenges to global capital markets, including Islamic equity mutual funds in emerging economies such as Indonesia. This study investigates the effects of stock selection ability, market-timing ability, and fund cash flow on the performance of Islamic equity mutual funds during the 2020–2021 pandemic period. Using monthly NAV data from 39 Sharia-compliant equity mutual funds registered with Indonesia’s Financial Services Authority (OJK), we applied multiple linear regression models with the Sharpe index as a performance proxy. The results show that all three variables—stock selection ability, market-timing ability, and fund cash flow—exert a positive and statistically significant influence on mutual fund performance. These findings highlight the crucial role of fund managers' strategic competencies during crisis periods and reinforce the importance of liquidity dynamics in Sharia fund resilience. This study contributes to the Islamic finance literature by empirically validating how investment decision-making quality affects Sharia mutual fund outcomes in crisis contexts. Furthermore, it offers a methodological foundation for comparative international studies on Islamic versus conventional mutual fund performance under systemic shocks. Future research may expand this framework across different Islamic financial jurisdictions or explore non-linear relationships using advanced econometric models.

**Keywords:** Islamic Equity Mutual Funds; Stock Selection Ability; Fund Cash Flow; Sharpe Index; Sharia Finance

## Introduction

The coronavirus pandemic has had an extraordinary impact on the economies of countries in the world, including Indonesia. In two consecutive quarters, national economic growth contracted up to 5.32%. Indonesia's economic growth in 2020 has slowed down and even experienced negative growth. This economic condition was reflected in the collapse of the stock market index in Indonesia, which reached a low point of 3,397. <sup>1</sup>The mutual fund market was also under pressure due to the decline in the JCI. In Semester 1 of 2020, almost all Sharia mutual fund indices recorded negative performance. The Sharia stock fund index fell 22.03%, the mixed Sharia fund index was negative 8.78%, and the Sharia fixed income mutual fund index fell 0.78%. The Islamic money market mutual fund index was the only one that posted positive performance with a return of 1.13%.

Mutual funds are an alternative investment in Indonesia, which is rapidly developing. The advantages of mutual funds compared to other types of investment, such as stocks, are lower risks because an investment manager manages the funds. According to Law number 8 of 1995, article 1 paragraph 27, mutual funds are a vehicle used to raise funds from public investors to be invested in securities portfolios by investment managers.<sup>2</sup>

There are several types of mutual funds, including money market, fixed income, mixed and stock mutual funds. Based on the operational principles, mutual funds are classified into two types, namely conventional mutual funds and Islamic mutual funds.<sup>3</sup> The operational basis for Islamic mutual funds is DSN-MUI Fatwa No: 20/DSN-MUI/IV/2001 concerning investment implementation guidelines for Islamic mutual funds. According to the Financial Services Authority (OJK), Sharia mutual funds are a collective investment vehicle managed by investment managers by investing managed funds in Sharia securities in the form of Sharia stocks, *sukūk* or other Sharia instruments. Investment Policy and management of funds collected from investors must be under the principles of Islam. This Sharia mutual fund is intended to provide an alternative more comprehensive investment, especially to Muslim investors. Activity investment based on Islamic principles will be attractive primarily because it gives the belief that investment activity is also a form of *mu'āmalah* activity. Muslim investors can also maintain their religious law in investing, such as avoiding usury and gharar but can generate investment returns. In addition, Islamic mutual funds will increase the number of investment instruments marketed on the capital market to advance the financial services industry in Indonesia.

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<sup>1</sup> Utomo.AS, "Sharia Stock Performance During the Covid-19 Pandemic", *SEGMENT Journal of Management and Business*, Vol.18, No.1 (2022), p.181-191.

<sup>2</sup> Adley H. Manurung. *Mutual Funds Investments Fifth Edition* (Jakarta: Kompas, 2008). 2.

<sup>3</sup> Dina Aulia Rachmah and Asrid Juniar, " Analysis of the Influence of *Stock Selection Skills* , *Market-Timing Ability* and *Fund Longevity* on the Performance of Sharia Equity Mutual Funds ," *Journal of Science Management and Entrepreneurship*. No.1 (2016) : 61-69.

The growth of the Sharia mutual fund market in Indonesia has increased quite well. This development was not only caused by the increasing public interest in investing but also supported by the majority of Indonesia's population, who are Muslims. Before the Covid-19 pandemic crisis, in 2019 there were 265 Sharia mutual funds traded with a Net Asset Value (NAV) of 53,735.58. However, during the Covid-19 pandemic, the development of Sharia mutual funds tended to stagnate and even decline. In 2020 the number of Sharia mutual funds traded on the mutual fund market had increased to 289 with a NAV of 74,367.44. Meanwhile, in 2021 the number of Sharia mutual funds was stagnant at 289. However, the NAV value throughout 2021 decreased to 44,004.18 or 39.75 % compared to 2020. Compared to the growth of conventional mutual funds, in 2021 the number of conventional mutual funds decreased to 1,909. However, the decline in the number of conventional mutual funds in 2021 was actually followed by an increase in the NAV of 534,434.11, an increase of 6.59% compared to 2020. This phenomenon indicates a decline in the performance of investment managers of Islamic mutual funds in Indonesia during the Covid-19 pandemic. In contrast, the performance of conventional mutual fund investment managers was still quite good because they were able to increase the NAV value even though the number of conventional mutual funds decreased.

Table.1 Total and NAV of Sharia and Conventional mutual funds in 2019-2021

Year	Number of Mutual Funds		NAV (Rp. Billion)	
	Sharia Mutual Funds	Conventional Mutual Funds	Sharia Mutual Funds	Conventional Mutual Funds
2019	265	1916	53,735.58	488,460.78
2020	289	1930	74,367.44	499,174.70
2021	289	1909	44,004.18	534,434.11

Source: OJK Data 2022

NAV reflects the performance of a mutual fund. The performance of a mutual fund can be seen from the movement of the NAV and NAV/UP of the Mutual Fund. The greater the NAV value indicates the ability of the investment manager to select securities or assets that provide a reasonable rate of return. In addition, investment managers are also considered to be able to assess market conditions, such as selling and buying shares in a timely manner to prevent and minimize losses.<sup>4</sup>

Mutual fund performance is the ability of a mutual fund to provide a specific return according to a certain level of risk. The level of risk is the possibility of the

<sup>4</sup> Muhammad Pambudi Wicaksono and R. Djoko Sampurno, "Analysis of the Influence of Fund Age, Market-Timing Ability, Stock Selection Skill, Portfolio Turnover And Fund Size of Period Sharia Mutual Fund Performance 2013 – 2015", *Diponegoro Journal of Management*, Vol. 6, No. 3 (2017), p. 1-11.

actual expected return because of the factors that influence it. The greater the return and the smaller the resulting risk, the higher the ratio, the better the mutual fund's performance.<sup>5</sup> So investors will get an optimal return level with a comparable risk level if the performance of mutual funds is good. Mutual fund performance is influenced by stock selection ability, Market-Timing ability, and fund cash flow.<sup>6</sup> Several research results on mutual funds also show that mutual fund performance is influenced by stock selection ability, Market-Timing ability, and fund cash flow.<sup>7</sup> Stock selection ability is the ability of investment managers to choose the right stocks for mutual funds to provide optimal returns. A good stock selection will positively affect the performance of equity funds. It indicates that if the investment manager has good stock selection abilities, namely the ability to choose the right stocks to include or exclude from the mutual fund portfolio to obtain a return that is better than the market return, the mutual fund's performance can increase.<sup>8</sup>

Apart from stock selection ability, Market-Timing ability is the next variable affecting mutual fund performance. Market-Timing ability is the ability of the investment manager to manage a portfolio where the investment manager buys stocks with a beta above one when the market is going up, sells the shares and then is replaced by buying stocks with a beta below one when the market is going down.<sup>9</sup> Market-Timing ability shows the ability of investment managers to anticipate changes in the price of a security by way of investing funds or withdrawing funds from an investment promptly.

Fund cash flow is the amount of funds managed after being reduced by liabilities, where decisions can be made for the investment process or funding.<sup>10</sup> The net cash flow from the fund represents additions to the fund's assets. The incoming and outgoing cash flow will affect the beta and return of the mutual fund portfolio. The higher the net cash flow, the better the performance of the mutual fund because a high net cash flow has a higher rate of return than funds with an average net cash flow.<sup>11</sup>

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<sup>5</sup> Priyo Pratomo, Eko, *Mutual Fund Investment Planning Solutions in the Modern Era*, (Jakarta: Gramedia Pustaka Utama, 2009).

<sup>6</sup> Adley H. Manurung, *Fifth Edition Mutual Funds Investments* (Jakarta: Kompas, 2008). 61.

<sup>7</sup> Nur Syahid, Erman Denny A. "Analysis of the Influence of *Stock Selection Skill, Market-Timing Ability, Fund Longevity, Fund Cash Flow* and *Fund Size* on Mutual Fund Performance (Case Study: Equity Mutual Funds Period 2010-2014)". *Diponegoro Journal Of Management*. Vol.4, No.4 (2015), p.1-11.

<sup>8</sup> Paramitha Azizah Nursyabani and Mahfud, "Analysis of the Influence of *Cash Flow, Fund Size, Family Size, Expense Ratio, Stock Selection Ability* and *Load Fee* on the Performance of Equity Mutual Funds for the 2012-2014 Period", *Diponegoro Journal of Management*, Vol. 5, No. 3 (2016), p.1-15.

<sup>9</sup> Adley H. Manurung, *Fifth Edition Mutual Funds Investments* (Jakarta: Kompas, 2008). 187.

<sup>10</sup> Alif Nurriansyah Firdaus and Bambang Hadi Santoso, " Analysis of the Influence of *Stock Selection Ability, Fund Cash Flow* and *Fund Size* on the Performance of Equity Mutual Funds ", *Journal of Management Science and Research*. Vol . 7, No. 4 ( 2018 ): p.1-19.

<sup>11</sup> Nur Syahid, Erman Denny A. "Analysis of the Influence of *Stock Selection Skill, Market-Timing Ability, Fund Longevity, Fund Cash Flow* and *Fund Size* on Mutual Fund Performance (Case

Based on the Efficient Market Hypothesis theory, investment managers need Market-Timing skills to increase the return and performance of a mutual fund. In addition, knowledge of market conditions in a bullish or bearish condition will help investment managers sell and buy shares on time.<sup>12</sup> Much research has been done on the performance of conventional mutual funds during regular times. However, there has yet to be much specific research on the performance of Islamic equity mutual funds during the COVID-19 pandemic. This study examines the effect of stock selection ability, Market-Timing ability, and fund cash flow on the performance of Islamic equity mutual funds in Indonesia during the Covid-19 pandemic crisis.

### **Research Methods**

The study uses monthly secondary data from Islamic equity mutual funds traded at OJK. The population used in this study is all mutual funds sharia stock funds traded from January 2020 to December 2021. A sampling of this population uses purposive sampling with the following criteria: (1) Islamic equity mutual funds that are actively registered with OJK and traded during the period January 2020 to December 2021. (2) Islamic mutual funds reported monthly NAV to OJK during 2020-2021 on the OJK website.

The population used is all Islamic equity mutual funds traded during the period January 2020 to December 2021 of 60 Islamic equity mutual funds. Based on the criteria, the samples used were 39 Islamic stock mutual fund companies. Data analysis in this study used a multiple linear regression model. The multiple linear regression model used in this study is as follows:

$$KR_{i,t} = \alpha_0 + \beta_1 SSA_{i,t} + \beta_2 MTA_{i,t} + \beta_3 FCF_{i,t} + \varepsilon_{i,t}$$

Description:

KR: Performance of Islamic equity mutual funds proxied by the Sharpe index, SSK: Stock Selection Ability as measured by intercept Treynor-Mazuy, MTA: Market-Timing Ability as measured by the quadratic regression coefficient Treynor-Mazuy, FCF: Fund Cash Flow

Mutual fund performance reflects the ability of a mutual fund product to generate returns provided by a mutual fund for its investors. Mutual fund performance is proxied by the Sharpe index. Sharpe is a measuring tool for the ratio of returns/risk (reward/risk ratio) developed by William F. Sharpe. Measurement with the Sharpe method is based on the premium on risk or risk premium. Sharpe index base The calculation is based on the concept of the capital market line as a benchmark, namely by dividing the portfolio risk premium by its

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Study: Equity Mutual Funds Period 2010-2014)". *Diponegoro Journal of Management*. Vol.4, No.4 (2015), p.1-11.

<sup>12</sup>Deni Sunaryo, *Investment and Portfolio Management*, (Pasuruan: Qiara Media Partner, 2019), 135.

standard deviation. Thus, the Sharpe index measures the risk premium for each unit of risk in mutual funds. In addition, the Sharpe index can be used to rank portfolios based on their performance. The higher the Sharpe index of a portfolio compared to other portfolios, the better the performance of the portfolio.<sup>13</sup> The equation for calculating the performance of equity funds using the Sharpe index equation formula is as follows:<sup>14</sup>

$$\hat{S}_p = \frac{\bar{R}_p - \bar{R}_F}{\sigma_{TR}}$$

Description:

Sharpe index,  $\bar{R}_p$  = average portfolio return p during the observation period,  $\bar{R}_F$  = average risk-free return during the observation period, and  $\sigma_{TR}$  = standard deviation of portfolio return p during the observation period.

Stock selection ability is measured by the Treynor-Mazuy method.<sup>15</sup> Stock selection ability is the ability of investment managers to choose the right stocks for mutual funds so that they can provide optimal returns.<sup>16</sup> A good stock selection will positively affect the performance of equity funds. It indicates that if the investment manager has good stock selection abilities, namely the ability to choose the right stocks to include or exclude from the mutual fund portfolio to obtain a return that is better than the market return, the mutual fund's performance can increase. The investment manager's success rate in-stock selection is seen from the intercept value ( $\alpha$ ). If the intercept ( $\alpha$ ) has a positive value, then portfolio formation by investment managers is optimal.<sup>17</sup> The Treynor-Mazuy equation formula used in this study is as follows :

$$R_p - R_f = \alpha + \beta(R_m - R_f) + \gamma(R_m - R_f)^2 + \epsilon_p$$

Description:

$R_p$  = Return of mutual funds in period t,  $R_f$  = Risk-free return in period t,  $R_m$  = return of the market in period t,  $\alpha$  = Intercept which is an indication of stock selection ability from the investment manager,  $\beta$  = Regression coefficient of excess market return or slope when the market is down (bearish),  $\gamma$  = Regression coefficient which is an indication of Market-Timing ability of the investment manager,  $\epsilon_p$  = Random error.

<sup>13</sup> Adley H. Manurung, *Fifth Edition Mutual Funds Investments* (Jakarta: Kompas, 2008). 500.

<sup>14</sup> Tandelilin, Eduardus, *Portfolio & Investment Management Capital Market*, (Yogyakarta: PT Kanisius, 2017): p.500-501.

<sup>15</sup> Adley H. Manurung, *Fifth Edition Mutual Funds Investments* (Jakarta: Kompas, 2008). 188.

<sup>16</sup> Paramitha Azizah Nursyabani and Mahfud, "Analysis of the Influence of *Cash Flow, Fund Size, Family Size, Expense Ratio, Stock Selection Ability* and *Load Fee* on the Performance of Equity Mutual Funds for the 2012-2014 Period", *Diponegoro Journal of Management*, Vol. 5, No. 3 (2016), p.1-15.

<sup>17</sup> Kaslani, R. " Measurement of *Market-Timing Capability* and Level of Success Selection of Securities in Equity Mutual Fund Portfolios for the Period 1999-2003 ", (Dissertation—University of Indonesia, Depok, 2004).

The Market-Timing ability variable is also measured using the Treynor-Mazuy method. Market-Timing ability is the ability of the investment manager to manage a portfolio where the investment manager buys stocks with a beta above one when the market is going up, sells the shares and then is replaced by buying stocks with a beta below one when the market is going down.<sup>18</sup> Market-Timing ability shows the ability of investment managers to anticipate changes in the price of a security by way of investing funds or withdrawing funds from an investment promptly. Manager investment is said to have Market-Timing ability if the value of  $\gamma > 0$  or positive value. Hal; this indicated that the manager investment generates excess return mutual portfolio more significant fund than the excess market return.<sup>19</sup> Market-Timing ability is measured using the Treynor-Mazuy equation as follows:

$$R_p - R_f = \alpha + \beta(R_m - R_f) + \gamma(R_m - R_f)^2 + \epsilon_p$$

Description:

$R_p$  = Return of mutual funds in period t,  $R_f$  = Risk-free return in period t,  $R_m$  = return of the market in period t,  $\alpha$  = Intercept which is an indication of stock selection ability from investment manager  $\beta$  = Regression coefficient of excess market return or slope when the market is down ( bearish ),  $\gamma$  = Regression coefficient which is an indication of Market-Timing ability of the investment manager,  $\epsilon_p$  = Random error.

The net cash flow calculation can be done based on the fund's total net asset value, assuming that the cash flow occurs at the end of the period. Fund cash flow is calculated using the equation formula following:<sup>20</sup>

$$NCF = \frac{TNA_{p,t} - TNA_{p,t-1} * (1 + R_{p,t})}{TNA_{p,t-1}}$$

Description:

NCF = Net Cash Flow,  $TNA_{p,t}$  = Total Asset Value at period t,  $TNA_{p,t-1}$  = Total Asset Value in the previous period t-1,  $R_{p,t}$  = Average Mutual Fund return in period t.

Fund cash flow is the amount of funds managed after successfully deducting liabilities, where decisions can be made for the investment process or funding.<sup>21</sup>

<sup>18</sup> Adley H. Manurung. *Mutual Funds Investments Fifth Edition*, (Jakarta: Kompas, 2008). p.s. 187-188.

<sup>19</sup> Mega Mustika Sari, Sri Mulyati, " The Influence of *Stock Selection Skills, Market-Timing Ability, Turnover Ratio and Cash Flow* on the Performance of Sharia Mutual Funds (Case Study of Sharia Mutual Fund Companies Registered at the OJK for the 2011-2014 Period)". *Islamic Economic, Accounting and Management Journal*. Vol . 1 No. 1 ( 2019 ), p.1-11.

<sup>20</sup> Suppa-Aim, T. "Mutual fund performance in emerging markets: The case of Thailand." thesis. (Dissertation--University of Birmingham, 2010).

The net cash flow from the fund represents additions to the fund's assets. Flow in and out of cash will affect the beta and return of the mutual fund portfolio. The higher the net cash flow, the better the performance of the mutual fund because a high net cash flow has a higher rate of return than funds with an average net cash flow.<sup>22</sup>

Multiple linear regression tests, classical assumption tests were carried out, including the normality test, multicollinearity test, and heteroscedasticity test. The classical assumption test is carried out to ensure that the data is not disturbed and is feasible for further testing.

## Results

Here is the data that the author has calculated regarding mutual fund performance, stock selection ability, market timing, and mutual fund cash flow:

Table.2 Calculation Results for Mutual Fund Performance, Stock Selection Ability, Market-Timing Ability, and Fund Cash Flow

Mutual Fund Performance	Stock Selection Ability	Market-Timing Ability	Fund Cash Flow
0.063	-0.018	6038	-0.287
-0.252	-0.025	2,230	-0.377
-0.042	-0.020	3,893	-0.077
-0.018	0.008	1,514	-0.048
-0.185	-0.014	-2,074	-0.062
-0.185	0.013	-0.794	-0.131
0.021	-0.006	1,248	0.044
-0.220	-0.003	-2,774	-0.013
0.278	0.026	13,478	0910
-0.161	-0.122	1874	-0.210
-0.031	-0.019	4,868	-0.278
-0.092	0.025	1,400	0.217
-0.470	0.019	0.011	-0.482
-0.036	-0.001	-1,500	-0.161
-0.018	0.004	-2,172	-0.179
-0.131	-0.013	-0.232	-0.076
-0.268	-0.026	0.317	-0.293
-0.098	-0.018	1694	-0.180
-0.013	0.073	-0.083	-0.170
-0.080	0.012	-8,054	-0.335
-0.025	-0.036	9,794	-0.230
-0.256	-0.069	6,968	-0.637
-0.145	0.048	3,957	-0.380

<sup>21</sup> Alif Nurriansyah Firdaus and Bambang Hadi Santoso, " Analysis of the Influence of *Stock Selection Ability, Fund Cash Flow* and *Fund Size* on the Performance of Equity Mutual Funds ", *Journal of Management Science and Research*. Vol . 7, No. 4 ( 2018 ): p.1-19.

<sup>22</sup> Nur Syahid, Erman Denny A. "Analysis of the Influence of *Stock Selection Skill, Market-Timing Ability, Fund Longevity, Fund Cash Flow* and *Fund Size* on Mutual Fund Performance (Case Study: Equity Mutual Funds Period 2010-2014)". *Diponegoro Journal of Management*. Vol.4, No.4 (2015), p.1-11.

-0.271	0.013	-5,825	-0.057
-0.212	-0.002	-6,565	0.142
0.096	0.031	-6,257	0.064
0.109	0.036	6,160	-0.175
0.043	-0.022	7,339	-0.063
0.408	0.104	-6,143	0.429
-0.165	-0.019	2,152	-0.147
0.104	0.035	13,294	-0.285
0.214	0.019	7,908	-0.172
-0.252	-0.012	-3,950	-0.387
-0.065	0.057	-0.204	-0.082
-0.059	-0.029	7,057	-0.216
-0.169	-0.018	0.293	-0.245
-0.259	0.050	-5,531	-0.403
0.046	-0.028	9,149	-0.316
0.450	0.016	4,456	0.059

Source: Data processed by the authors

Here is the statistic description that the author has calculated regarding mutual fund performance, stock selection ability, market timing, and mutual fund cash flow:

Table.3 Descriptive Statistics

Ket	Mutual Fund Performance	Stock Selection Ability	Market-Timing Ability	Fund Cash Flow
Means	-0.0601	0.0017	1.6649	-0.1356
Median	-0.0645	-0.0025	1.3999	-0.1724
Maximum	0.4502	0.1038	13.4785	0.9104
Minimum	-0.4702	-0.1220	-8.0543	-0.6368
std. Dev.	0.1876	0.0388	5.3805	0.2617
Skewness	0.7263	-0.2371	0.2520	1.7163
kurtosis	3.8649	5.0250	2.5597	8.2000
Jarque-Bera probability	4.6442	7.0288	0.7278	63.0877
Observations	0.0981	0.0298	0.6950	0.0000
	39	39	39	39

Source: Data processed by the authors;

Table 3 shows descriptive statistics from mutual fund performance data, stock selection ability, Market-Timing ability and fund cash flow. The mean performance of Islamic equity funds looks negative, indicating the low performance of Islamic equity mutual funds. Islamic equity mutual fund investment managers' average stock selection ability and Market-Timing ability still look positive. However, based on Table 2 of the 39 Islamic equity mutual funds

observed, 21 mutual funds have negative stock selection abilities and 15 mutual funds have negative Market-Timing abilities. The mean of negative cash flow funds indicates that the low cash flow performance of Islamic equity mutual funds is low. The normality test with the Jarque-Bera shows that stock selection ability and fund cash flow have a probability value of 0.0298 and 0.000 respectively ( $<0.05$ ), so it can be said that the data of the two variables are not normally distributed. Furthermore, the stock selection ability and fund cash flow data are transformed into the logarithmic form so that the data is usually distributed.

Mutual fund performance data, Market-Timing ability, and fund cash flow have value-positive skewness, indicating that the data distribution is skewed to the left of the normal distribution. All data on the variables used have a positive kurtosis value so that the data distribution is tapered (there is one value that dominates in each variable). The results of the classic assumption test are in the form of a multicollinearity test which aims to test whether, in the regression model, a correlation is found between the independent variables showing the VIF value of all independent variables is less than 10. It indicates that there is no multicollinearity. The Glesjer test results show an Obs\* R-squared value of 2,793 with a probability value of 0,451 ( $> 0.05$ ), which indicates that there is no heteroscedasticity problem in the data model of this study.

Table.4 Regression Test Results

Variable	Coefficients	Standard Error	t Stats	P-values
Intercepts	-0.0427655	0.026138	-1,636	0.1108
Stock Selection Ability	3.5182814	1.13051	3.1121	0.0037
Market-Timing Ability	0.0161647	0.003942	4.1002	0.0002
Fund Cash Flow	0.699455	0.176489	3.9632	0.0003
<b>Regression Statistics</b>				
multiple R	0.760704			
R Square	0.5786705			
Adjusted R Square	0.5425566			
Standard Error	0.1268545			
Observations	39			

Source: Data processed by the authors

Table 4 presents the regression test results on the effect of stock selection ability, Market-Timing ability and fund cash flow on the performance of Islamic stock mutual funds.  $\beta_1$ ,  $\beta_2$  and  $\beta_3$  are positive and significant at the significance level of 1%, 5% and 10%. These results show that stock selection ability (X1), Market-Timing ability (X2) and fund cash flow (X3) partially have a positive and significant effect on the performance of Islamic equity mutual funds. The R square

value of 0.57 shows that the variable stock selection ability, Market-Timing ability, and fund cash flow together can explain the changes that have occurred in the performance of Islamic equity mutual funds by 57%. In contrast, the remaining 43% is explained by other variables outside the study.

## **Discussion**

mean sharp index of Islamic stock mutual funds shows that the performance of investment managers during the Covid-19 pandemic was not good. This result is reinforced by the finding that of the 39 Islamic equity mutual funds observed, 28 had a negative value, and the rest had a positive value. The fall in the NAV value of Islamic equity mutual funds by 39.75% from 2020 to 2021 also indicates the poor performance of Islamic equity mutual funds.

Based on Table 4, the regression coefficient value of the stock selection ability variable on the performance of Islamic stock mutual funds is 3.52 with a p-value = 0.0037 indicating that stock selection ability has a positive and significant influence on the mutual performance of Islamic stock fund. It also indicates the low ability of mutual investment managers in Islamic stock funds to select stocks in the mutual fund portfolio. This low stock selection ability ultimately reduces the performance of mutual funds. Table 2 shows that of the 39 investment managers of Islamic equity mutual funds, only 18 investment managers have positive stock selection ability values.

These results show that in investing in equity funds, an investor must consider the investment manager's ability, especially to deal with certain conditions. An investment manager must be able to choose which stock composition can provide the maximum profit and predict when economic conditions will worsen and when they will improve so that returns from mutual funds can provide maximum results.<sup>23</sup> The performance of Islamic stock mutual funds will be good if the stock selection ability of the investment manager increase. Investment managers of Islamic equity mutual funds must be able to choose a stock so that the portfolio can be optimized to increase the value of Islamic equity mutual funds. The performance of Islamic stock mutual funds is said to increase if the performance value of the mutual fund proxy with the SAHRPE index has a positive value. The higher the Sharpe index's value, the better the Islamic stock mutual funds' performance. If the performance of Islamic equity mutual funds increases, the rate of return increases and investors are expected to be achieved optimally.

Mutual fund investment managers should be able to choose the right stock so that mutual fund performance is good. If the stock selection ability of the investment manager is good, then the portfolio formed from the selected stocks

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<sup>23</sup> Paramitha Azizah Nursyabani and Mahfud, "Analysis of the Influence of *Cash Flow, Fund Size, Family Size, Expense Ratio, Stock Selection Ability* and *Load Fee* on the Performance of Equity Mutual Funds for the 2012-2014 Period", *Diponegoro Journal of Management*, Vol. 5, No. 3 (2016), p.1-15.

will also have a reasonable rate of <sup>24</sup>return. The level of success of investment managers in selecting stocks can be seen from the positive intercept value ( $\alpha$ ). The investment manager's portfolio formation is optimal if the intercept has a positive value.<sup>25</sup> The value of the stock selection ability regression coefficient is 3.52 in this study, indicating that if the stock selection ability investment manager decreased by 1 unit, the performance of Islamic equity mutual funds will decrease by 3,518 units.

Based on Table 4, the regression coefficient value of the Market-Timing ability variable on the performance of Islamic equity mutual funds is 0.016, which means there is a positive influence of Market-Timing ability on the performance of Islamic equity mutual funds. The p-value of 0.0002 ( $<0.05$ ) indicates that Market-Timing ability significantly influences the performance of the Syariah Equity mutual fund. These results indicate that investment managers' weak ability to determine the right time to sell and buy Islamic shares affects the low performance of Sharia equity mutual funds.

The Market-Timing ability of an investment manager will improve the performance of mutual funds. Conversely, if the investment manager is skilled in determining market timing, then the performance of the mutual funds will be high. Investment managers of Islamic equity mutual funds must be able to choose the right time when buying or selling shares. The increasing ability of Islamic stock investment managers to choose the right time to buy stocks when stock prices are low and sell stocks when prices are high will improve the performance of Islamic stock mutual fund securities. It will further increase investors' interest in choosing and buying an Islamic stock mutual fund security. However, on the contrary, if the investment manager of Islamic stocks needs to gain the skills to choose the right time to sell and buy shares, then the performance of Islamic stock mutual funds will decrease. The low performance of Islamic equity mutual funds will also increase the withdrawal risk of Islamic equity mutual funds. Withdrawal risk is the risk the Islamic equity investment manager bears when the customer withdraws or sells an Islamic equity mutual fund and replaces it with another mutual fund due to the low performance of Islamic equity mutual funds.

Market-Timing ability is the ability to choose the right time to buy or sell shares, which can increase the value of Islamic stock mutual funds. The Market-Timing ability of an investment manager is reflected in the value of positive  $\gamma$  or gamma. <sup>26</sup>The magnitude of the market-timing ability regression coefficient of

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<sup>24</sup> Muhammad Pambudi Wicaksono and R. Djoko Sampurno, "Analysis of the Influence of *Fund Age, Market-Timing Ability, Stock Selection Skill, Portfolio Turnover And Fund Size* of Period Sharia Mutual Fund Performance 2013 – 2015", *Diponegoro Journal of Management*, Vol. 6, No. 3 (2017), p. 1-11.

<sup>25</sup> Kaslani, R. " Measurement of *Market-Timing Capability* and Level of Success Selection of Securities in Equity Mutual Fund Portfolios for the Period 1999-2003 ", Dissertation—University of Indonesia, Depok, (2004).

<sup>26</sup> Treynor, J.L. 1965. "How to rate management of investment funds." *Harvard Business Review* Vol. 43, no. 1, (1965), p. 63-75.

0.016 in this study indicates that if the investment manager's Market-Timing ability decreases by 1 unit, it will reduce the performance of Islamic equity mutual funds by 0.016 units.

Based on Table 4, the value of the regression coefficient of fund cash flow on the performance of Islamic stock mutual funds is 0.69, which means there is a positive influence of fund cash flow on the performance of Islamic stock mutual funds. The p-value is 0.0003 ( $<0.05$ ), indicating that fund cash flow significantly influences the performance of Islamic stock mutual funds. These results indicate that the lower cash flow of Islamic equity mutual funds will affect the lower performance of Islamic equity mutual funds.

This means The negative cash flow of Islamic equity mutual fund funds shows that the cash flow turnover of Islamic equity mutual funds during the Covid-19 pandemic was not good. Negative cash flow indicates that the strategy implemented and the investment manager's ability to manage funds in equity fund companies are not good because investment managers need to use the funds from investors to portfolios immediately. Low net cash flow in equity mutual funds can also mean low fund growth.<sup>27</sup> The ability of investment managers to manage funds in Islamic equity mutual fund companies in the 2020-2021 period still needs improvement. Of the 39 Islamic mutual fund investment managers in the study sample, only 7 Islamic equity mutual funds had positive cash flow. It indicates that investment managers need to be more active in using the funds provided by mutual fund investors. Low cash turnover can have a negative impact on the expected rate of return because there is potential for unoptimized funds. The low cash flow turnover of a mutual fund can cause investors to think again about investing their funds in an equity mutual fund company, and fewer investors will buy Islamic equity mutual funds, which can reduce the performance of Islamic equity mutual funds. Conversely, the significant cash flow managed by investment managers will increase investors' confidence so that many investors will buy Islamic equity mutual funds in one Islamic stock mutual fund security, improving the performance of Islamic equity mutual funds. The magnitude of the value of the regression coefficient of fund cash flow is 0.69 in this study, indicating that if the fund cash flow decreases by 1 unit, it will be able to reduce the performance of Islamic stock mutual funds by 0.69 unit.

## **Conclusion**

Based on the results of research and discussion, variable stock selection ability, Market-Timing ability, and fund cash flow partially has a positive and significant effect on the performance of Islamic stock mutual funds. The performance of Islamic stock mutual funds during the Covid-19 pandemic tended to decline. The decline in the performance of Islamic equity mutual funds was significantly influenced by the ability of the investment manager, namely stock

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<sup>27</sup>Bitomo, Habib and Harjum Muharam, "Analysis of Factors Influencing Mutual Fund Performance in Indonesia (Empirical Study on Conventional Mutual Funds in Indonesia Period 2012-2014)", *Diponegoro Journal Of Management*, Vol 5, No. 2 (2016), p.435-445.

selection ability and Market-Timing ability and fund cash flow. The decline in the performance of Islamic equity mutual funds during the Covid-19 crisis can be explained by the low stock selection and Market-Timing ability of investment managers and the negative cash flow of Sharia equity mutual fund funds. The study furthermore recommended comparing the performance of investment managers of Islamic equity funds with the performance of investment managers of conventional equity funds. This research was also only conducted on Islamic stock mutual funds. Furthermore, future research can use a combined sample of Islamic stock mutual funds and mixed Islamic equity mutual funds in a more extended research period. Measuring mutual fund performance also only focuses on the Sharpe index so that further research can add other methods to measure mutual fund performance, such as the Treynor and Jensen Alpha methods so that they can be compared with previous studies.

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