Business, Entrepreneurship, and Management Journal
E-ISSN: 2963-4539
Vol. 4 No. 2 Year 2025

THEMATIC ANALYSIS OF SHARIA STOCK PORTFOLIO DIVERSIFICATION AND FINANCIAL RATIOS: A CONCEPTUAL STUDY BASED ON THE INDONESIAN SHARIA STOCK INDEX (ISSI)

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Abstract

Indonesia's sharia capital market, represented by the Indonesian Sharia Stock Index (ISSI), has shown rapid growth; however, sharia stock portfolio diversification practices and the use of financial ratios for profit optimization have not yet been applied systematically by investors. This study aims to thematically analyze various sharia stock portfolio diversification strategies and to explain the role of financial ratios in shaping an optimal portfolio based on issuers included in the ISSI. The method employed is a qualitative approach with a conceptual study design, using content analysis and thematic coding of secondary data sources, including journal articles, Islamic investment management books, Financial Services Authority (OJK) regulations, DSN MUI fatwas relevant to the sharia capital market, and official reports and documents related to the ISSI. The analysis identifies several main themes: diversification strategies based on sector and market capitalization, cross-instrument diversification within sharia assets, and strengthened risk management through stock selection grounded in profitability, leverage, liquidity, and valuation ratios. These findings indicate that integrating portfolio diversification strategies with the appropriate use of financial ratios has the potential to enhance returns on sharia stock portfolios while keeping risk within acceptable limits, thereby offering a conceptual contribution to the development of ISSI based sharia investment strategies.

Keywords: *Portfolio diversification; sharia stocks; financial ratios; profit optimization; Indonesian Sharia Stock Index (ISSI).*

Introduction

1.1 Background

Sharia compliant investment occupies a strategic position in Indonesia's economy because most Indonesians are Muslim and seek halal financial instruments that avoid riba, gharar, and maysir (Lewis & Algaoud, 2007; Iqbal & Mirakhor, 2007). Regulatory developments, including the Capital Market Law, provisions issued by the Financial Services Authority (OJK), and DSN MUI fatwas on stocks, mutual funds, and the sharia capital market, reflect an institutional commitment to strengthening an investment ecosystem that is both sharia compliant and economically competitive (DSN MUI, 2000; DSN MUI, 2003).

The Indonesian Sharia Stock Index (ISSI) is a central benchmark for Indonesia's sharia equity market because it includes all stocks listed in the Sharia Securities List on the Indonesia Stock Exchange (Rudiyanto, 2013). Compared with selective sharia indices such as the Jakarta Islamic Index, the ISSI offers a broader view of sharia stock performance across sectors, making it a key reference for investors, investment managers, and regulators in evaluating developments in the sharia capital market (Arnianti et al., 2021; Febrianti et al., 2021).

In portfolio management, diversification is a core mechanism for reducing unsystematic risk by distributing investments across issuers, sectors, and fundamental characteristics (Markowitz, 1952; Husnan, 2000). In a sharia setting, diversification becomes more salient because the investable universe is constrained by sharia screening, market volatility can be high, and investors must balance profitability with compliance requirements (Mubarok et al., 2017; Suciati et al., 2024). Effective diversification among ISSI constituents is therefore expected to mitigate portfolio risk while maintaining competitive returns for both Muslim and non Muslim investors.

Financial ratios such as Return on Assets (ROA), Debt to Equity Ratio (DER), Earnings Per Share (EPS), and Price to Book Value (PBV) are widely used to assess issuer performance and prospects in capital markets (Alvi & Noor, 2024; Putri & Sartika, 2023). For sharia equities, these ratios capture profitability, capital structure, and valuation, while also supporting screening and stock selection aligned with sharia criteria, including constraints on leverage and the quality of income (Ruswandi et al., 2021; Suciati et al., 2024). Accordingly, systematic use of financial ratios can provide a rational basis for constructing and weighting ISSI based sharia equity portfolios.

Prior empirical studies suggest that accounting information and fundamental ratios significantly influence the risk and return of sharia stock portfolios. Yet much of the literature remains quantitative and examines partial relationships among selected ratios and portfolio performance (Mursyidah et al., 2022; Firdausi, 2024; Khaddafi et al., 2025). This leaves a conceptual gap, as relatively few studies integrate diversification strategies and financial ratio based selection into a unified analytical framework developed through a qualitative approach. Consequently, the conceptual understanding of how diversification and financial ratios jointly shape an optimal ISSI based sharia stock portfolio remains underdeveloped. For conceptual articles intended for reputable journals, thematic analysis is particularly suitable because it synthesizes empirical evidence and theory into coherent, layered themes (Braun & Clarke, 2006). By applying content analysis and thematic coding to SINTA indexed national journals, reputable international journals, sharia investment management books, OJK regulations, DSN MUI fatwas, and official ISSI documents, this study aims to develop a more comprehensive theoretical account of sharia stock portfolio diversification strategies and the role of financial ratios in profit optimization.

1.2 Problem Formulation

Against the backdrop of Indonesia's expanding sharia capital market, the strategic role of the Indonesian Sharia Stock Index (ISSI) as a national reference for sharia equities, and the need to integrate diversification logic with financial ratio based decision making, this study formulates the following research questions to guide a thematic analysis of national and international journals, textbooks, OJK regulations, and relevant DSN MUI

fatwas (Lewis & Algaoud, 2007; Iqbal & Mirakhor, 2007; DSN MUI, 2000; DSN MUI, 2003).

First, how does the literature conceptualize sharia stock portfolio diversification within the ISSI context, based on modern portfolio theory and sharia investment principles, including intra index diversification across sectors, capitalization, and liquidity, and cross instrument diversification across sharia assets such as stocks, sukuk, and sharia mutual funds (Husnan, 2000; Rudiyanto, 2013; Arnianti et al., 2021; Mubarok et al., 2017)?

Second, how are key financial ratios, including Return on Assets (ROA), Debt to Equity Ratio (DER), Earnings Per Share (EPS), and Price to Book Value (PBV), positioned as evaluation tools and decision inputs for stock selection, portfolio weighting, and profit oriented portfolio design among ISSI issuers, particularly for managing the return risk tradeoff under sharia constraints (Alvi & Noor, 2024; Putri & Sartika, 2023; Ruswandi et al., 2021; Khaddafi et al., 2025)?

Third, what core themes emerge from thematic analysis of SINTA 1 indexed national journals, reputable international journals, sharia investment management books, OJK regulations, DSN MUI fatwas, and official ISSI documents regarding diversification strategies and financial ratio use in risk management and return optimization, including sharia diversification approaches, ratio based research patterns, compliance performance linkages, and implications for sharia portfolio model development in Indonesia (Mursyidah et al., 2022; Firdausi, 2024; Suciati et al., 2024; Natalina, 2015)?

Fourth, to what extent does content analysis and thematic coding support a consolidated conceptual framework, or strengthen an existing theoretical model, linking diversification strategies, financial ratio use, and profit optimization in ISSI based sharia stock portfolios, consistent with SINTA 1 conceptual article standards that require rigorous synthesis and an explicit research gap (Braun & Clarke, 2006; Sanusi, 2011)?

1.3 Research Objectives

This study aims to address the above questions and respond to gaps in ISSI based sharia investment and portfolio research (Lewis & Algaoud, 2007; Iqbal & Mirakhor, 2007). First, to map and classify the dominant themes of sharia stock portfolio diversification reported in prior studies, both within the ISSI and across other sharia indices, using content analysis and thematic coding of journals, books, and regulatory documents (Husnan, 2000; Rudiyanto, 2013; Arnianti et al., 2021; Natalina, 2015). Second, to clarify how ROA, DER, EPS, and PBV are employed for stock screening and selection, portfolio weighting, and performance evaluation among issuers included in the ISSI (Alvi & Noor, 2024; Putri & Sartika, 2023; Ruswandi et al., 2021; Khaddafi et al., 2025).

Third, to propose an ISSI based conceptual model for profit optimization that integrates diversification themes and financial ratio use within a risk management and

sharia compliance framework (Mursyidah et al., 2022; Firdausi, 2024; Suciati et al., 2024).

1.4 Research Benefits

1.4.1 Theoretical Benefits

The study contributes by strengthening three conceptual areas. First, it consolidates and systematizes diversification forms and strategies for sharia stock portfolios, with specific emphasis on the ISSI context (Husnan, 2000; Rudiyanto, 2013; Arnianti et al., 2021). Second, it sharpens the role of financial ratios as core decision variables in sharia investment by linking issuer fundamentals to risk control and return objectives (Alvi & Noor, 2024; Putri & Sartika, 2023; Ruswandi et al., 2021). Third, it advances an integrative framework connecting diversification, financial ratios, and profit optimization as a basis for future empirical testing and academic discussion in SINTA 1 and international outlets (Braun & Clarke, 2006; Sanusi, 2011; Mursyidah et al., 2022).

1.4.2 Practical Benefits

Practically, the study provides a structured reference for individual and institutional sharia investors to design ISSI based portfolios using financial ratios in an evidence based manner, balancing risk and return while maintaining sharia compliance (Selasi et al., 2024; Taufik & Rusmana, 2023). For investment managers and sharia capital market product developers, the study clarifies how the literature links diversification strategy, financial ratio based selection, and portfolio performance, supporting investment policy, product design, and client communication. The proposed conceptual model can also inform training, sharia capital market education, and the development of sharia financial literacy modules in universities and financial institutions (Mubarok et al., 2017; Natalina, 2015; Khaddafi et al., 2025).

2. Method

2.1 Research Approach

This study adopts a descriptive qualitative approach aimed at developing a deeper conceptual understanding of sharia stock portfolio diversification, the role of financial ratios, and profit optimization mechanisms within the Indonesian Sharia Stock Index (ISSI) context. The approach is selected because the study does not seek to test numerical hypotheses, but to synthesize, interpret, and reconstruct existing scholarly findings into a more systematic and integrative conceptual framework, as recommended for advanced conceptual research in Islamic economics (Sanusi, 2011).

The analytical strategy combines content analysis and thematic analysis, following the framework of Braun and Clarke (2006), which is widely used in socio economic qualitative research to develop conceptual themes from textual data. Content analysis is used to systematically examine journal articles, books, and regulatory documents related to sharia investment and portfolio management, while thematic analysis identifies patterns, themes, and conceptual linkages relevant to diversification, financial ratios, and

ISSI characteristics (Braun & Clarke, 2006; Lewis & Algaoud, 2007). This approach is consistent with conceptual article practices in SINTA 1 journals that emphasize rigorous literature synthesis and clear theoretical construction.

2.2 Data Sources

The study relies on secondary data drawn from scholarly and regulatory documents relevant to the sharia capital market, the ISSI, sharia portfolios, and financial ratios. The sources include:

1. SINTA indexed national journals addressing sharia capital markets, sharia stock portfolios, the ISSI, and financial ratio use, including Khaddafi et al. (2025) on accounting information and sharia portfolio optimization, Mursyidah et al. (2022) and Firdausi (2024) on optimal portfolio construction, and Suciati et al. (2024) and Ruswandi et al. (2021) on the effects of fundamental ratios on sharia stock returns.
2. Reputable international literature on sharia investment theory, risk return structures, and the integration of Islamic principles into modern finance, including Lewis and Algaoud (2007) and Iqbal and Mirakhor (2007).
3. Textbooks and monographs on sharia investment and portfolio management, such as Rahmawati (2019), Rudiyanto (2013), and Natalina (2015), providing conceptual and practical foundations on portfolio strategy, risk, and performance assessment.
4. Official ISSI and sharia capital market documents issued by the Indonesia Stock Exchange and OJK, covering the ISSI definition, index formation, sharia issuer criteria, market statistics, and ecosystem development policies.
5. DSN MUI fatwas related to the sharia capital market, including guidance on stock transactions, sharia mutual funds, sharia capital market practices, and sharia security criteria, which function as normative references for screening and sharia portfolio construction (DSN MUI, 2000; DSN MUI, 2003).
6. User uploaded PDF scientific articles covering accounting information in sharia portfolios, sharia mutual fund portfolio management strategies, investment literacy development, and case studies of sharia investment implementation in different settings.

2.3 Data Collection Technique

Data are collected through documentary study, including systematic searching, selection, critical reading, and structured note taking of all identified documents. The process begins with keyword searches such as sharia stock portfolio, ISSI, sharia portfolio diversification, and financial ratios in sharia investment, followed by selection based on quality criteria, including SINTA indexing, Scopus coverage, or publication in reputable national journals. The literature is coded in three stages:

1. Initial coding or open coding, assigning preliminary codes to meaning units, such as sector diversification, stock sukuk sharia mutual fund combination, ROA as a profitability indicator, DER and sharia screening, and ISSI as a benchmark.
2. Axial coding, grouping related codes into broader categories, for example consolidating ratio related codes into fundamental indicators for sharia portfolios, or diversification related codes into ISSI based sharia diversification strategies.
3. Selective coding, identifying core categories most relevant to the research objectives and building conceptual relationships among them, for example linking portfolio diversification, financial ratios, risk return, and sharia compliance.

2.4 Data Analysis Technique

Data are analyzed using thematic analysis adapted from Braun and Clarke (2006) for sharia portfolio and ISSI research. The steps include:

1. Data familiarization, repeatedly reviewing the selected articles, books, and documents to understand context, arguments, and author positions regarding sharia diversification, financial ratios, and the ISSI. Reflective notes are maintained to capture early ideas and potential conceptual linkages.
2. Generating initial codes, systematically coding relevant text segments, such as systematic and unsystematic risk, Modern Portfolio Theory adaptation, sharia screening and financial structure, the role of ROA ROE EPS PBV, and ISSI portfolio return optimization. Coding is iterative and supported by reference management and thematic matrices to maintain consistency.
3. Searching for themes, clustering similar codes into candidate themes, for example sharia portfolio diversification strategies, financial ratios as fundamental indicators, and the ISSI and DES as sharia market infrastructure.
4. Reviewing themes, evaluating internal coherence and distinctiveness across themes. Broad themes may be separated into subthemes such as cross sector diversification and cross instrument sharia diversification, while overlapping themes may be merged or refined.
5. Defining and naming themes, specifying each theme's focus, scope, and relevance to the research questions and objectives, with titles such as ISSI based sharia portfolio diversification, financial ratios as the basis for selection and weighting, and a conceptual framework for ISSI portfolio profit optimization. Theme definitions integrate perspectives from prior studies.
6. Producing the thematic narrative, presenting findings as a structured academic narrative that connects themes to prior evidence, explains inter theme relationships, and culminates in a conceptual model for optimizing ISSI based sharia stock portfolios. The narrative follows SINTA 1 article conventions, with consistent citations and reference lists managed in Mendeley to support transparency and future research development.

With this design, the study is expected to produce a robust thematic map and a coherent conceptual model that is academically relevant and practically useful for sharia portfolio research and management in Indonesia.

3. Results and Discussion

3.1 The Concept of Sharia Portfolio Diversification

The thematic analysis indicates that, for sharia investors, portfolio diversification is understood not merely as a mathematical risk reduction strategy, but also as a form of responsible wealth stewardship aligned with prudence and the prohibition of excessive speculation (Iqbal & Mirakhor, 2007; Rahmawati, 2019). Diversification is viewed as a practical way to avoid concentrating all risk in a single point, so that when one issuer or sector underperforms, losses can be absorbed by other portfolio assets that are more stable or performing better.

The sharia portfolio literature also emphasizes the link between diversification and the management of systematic and unsystematic risk. Unsystematic risk arising from firm specific, sector specific, or managerial conditions can be reduced by spreading investments across sharia issuers, sectors, and instruments, whereas systematic risk driven by macro factors such as inflation, policy rates, and global economic shocks cannot be eliminated but can be managed through fundamentally strong stock selection and prudent asset allocation (Husnan, 2000; Selasi et al., 2024). In the ISSI context, this is reflected in recommendations to avoid overconcentration in sectors highly sensitive to commodity cycles or fiscal policy, and instead allocate across consumer, infrastructure, energy, and sharia finance sectors with different risk return profiles (Arnianti et al., 2021; Febrianti et al., 2021).

Evidence from ISSI related practice further suggests a preference for cross asset diversification within sharia instruments, combining sharia equities with sukuk, sharia mutual funds, and sharia money market instruments to achieve a more balanced portfolio profile. Sharia equity mutual funds, for example, provide managed diversification for retail investors by spreading exposure across multiple ISSI stocks under professional management (Natalina, 2015; Rudiyanto, 2013). Sukuk and sharia fixed income funds are commonly treated as stabilizers because they typically exhibit lower volatility than equities; during equity market corrections, the fixed income component helps limit declines in total portfolio value (Mubarok et al., 2017; Selasi et al., 2024).

At the theoretical level, multiple studies suggest that key Modern Portfolio Theory principles proposed by Markowitz (1952), including cross asset correlation, portfolio efficiency, and the risk return tradeoff, can be applied in a sharia setting with specific adjustments (Iqbal & Mirakhor, 2007; Lewis & Algaoud, 2007). These adjustments include restricting the investable universe to halal instruments, excluding short selling, interest based margin trading, and speculative derivatives, and requiring that selected assets be linked to sharia permissible real sector activity (Suciati et al., 2024; Mursyidah et al., 2022). With these constraints, the literature concludes that an efficient frontier can

still be constructed within a sharia domain, although the feasible asset combinations are shaped by sharia criteria and the specific characteristics of ISSI stocks that have passed screening under OJK and DSN MUI guidance.

3.2 The Role of Financial Ratios in Investment Decision Making

The thematic synthesis shows that sharia investors and researchers in Islamic capital markets treat financial ratios as central decision tools because they provide an objective picture of issuer performance, stability, and valuation before inclusion in a portfolio (Alvi & Noor, 2024; Putri & Sartika, 2023). Ratios help investors interpret firm quality behind price movements, encouraging decisions that are not driven solely by short term market trends but anchored in fundamentals consistent with sharia values of fairness and transparency (Lewis & Algaoud, 2007; Rahmawati, 2019).

The literature consistently highlights several ratio clusters. First, profitability ratios such as Return on Assets (ROA) and Return on Equity (ROE) measure the extent to which firms convert assets and shareholder capital into earnings. Issuers with persistently strong ROA and ROE are typically considered more suitable for ISSI based portfolios because they signal operational efficiency and durable competitiveness (Ruswandi et al., 2021; Khaddafi et al., 2025). Second, liquidity ratios such as the Current Ratio (CR) and Quick Ratio (QR) are interpreted as indicators of the capacity to meet short term obligations, supporting business continuity and reducing distress risk (Rahmawati, 2019; Selasi et al., 2024). Sharia investors tend to avoid issuers with very weak liquidity because it increases failure probability and can threaten invested capital. Third, solvency metrics, particularly the Debt to Equity Ratio (DER), are strategically important because they simultaneously address financial risk and sharia compliance. Across many studies, excessively high DER is linked to higher default risk and potential noncompliance with sharia constraints on interest based debt within capital structure (Lewis & Algaoud, 2007; Suciati et al., 2024). As a result, DER often functions not only as a solvency indicator but also as an additional sharia filter beyond formal screening through the Sharia Securities List. Fourth, valuation ratios such as Earnings Per Share (EPS), Price Earnings Ratio (PER), and Price to Book Value (PBV) are used to assess whether an ISSI sharia stock is relatively expensive or cheap compared with earnings performance and book value (Alvi & Noor, 2024; Putri & Sartika, 2023). EPS reflects earnings per share, PER reflects how many times the market prices those earnings, and PBV compares market price with book equity per share. The literature commonly uses these ratios in combination to identify ISSI stocks that appear undervalued but fundamentally strong, consistent with value investing approaches that remain compatible with sharia principles (Mursyidah et al., 2022; Firdausi, 2024).

Overall, the thematic findings suggest that no single ratio is treated as universally dominant. Instead, a multi ratio approach combining ROA, ROE, DER, EPS, PBV, and often PER is viewed as a more robust basis for sharia investment decisions. Khaddafi et al. (2025) report that integrating ROA, DER, EPS, and PBV simultaneously yields a more

optimal ISSI based sharia portfolio than relying on one or two ratios. In thematic terms, financial ratios therefore function as the core of fundamental analysis supporting competitive returns while helping maintain a controlled risk profile and sharia compliance in portfolio composition.

3.3 Profit Optimization through Integrating Diversification and Financial Ratios

The thematic review of journal articles, textbooks, and regulatory materials indicates that profit optimization in ISSI based sharia stock portfolios rests on a close integration of diversification strategy and financial ratio based fundamental analysis. Diversification acts as risk management by spreading exposure across issuers, sectors, and sharia instruments, while financial ratios ensure that selected assets meet minimum standards of financial quality and align with Islamic finance principles (Husnan, 2000; Rahmawati, 2019).

Conceptually, the literature suggests that optimal sharia portfolio formation begins with defining the sharia investable universe, namely stocks that have passed sharia screening through the Sharia Securities List and are included in the ISSI (DSN MUI, 2003; OJK, 2019; Rudiyanto, 2013). From this universe, issuers are then screened using combinations of profitability ratios (ROA, ROE), liquidity ratios (CR, QR), solvency ratios (DER), and valuation ratios (EPS, PER, PBV) to generate a candidate set of stocks with relatively strong financial performance and controlled risk exposure (Alvi & Noor, 2024; Putri & Sartika, 2023; Ruswandi et al., 2021; Khaddafi et al., 2025).

The next step is to design diversification across sectors and sharia instruments. ISSI studies indicate that portfolios combining stocks from multiple halal sectors with different volatility, capitalization, and business cycle sensitivity tend to exhibit more balanced risk return profiles than portfolios concentrated in a single sector (Arnianti et al., 2021; Febrianti et al., 2021). Adding sukuk and sharia fixed income funds to a sharia equity portfolio is also reported to reduce overall volatility without eliminating return potential, particularly under heightened uncertainty (Natalina, 2015; Mubarok et al., 2017; Selasi et al., 2024).

Thematically, the relationship among diversification, financial ratios, and return can be framed as mutually reinforcing. Financial ratios support the selection of financially sound issuers, reducing the likelihood of including weak quality stocks. Diversification then structures the distribution of selected assets so risk does not accumulate in a single issuer or sector but is allocated proportionally to the investor's risk profile (Husnan, 2000; Mursyidah et al., 2022). Findings reported by Khaddafi et al. (2025) and Mursyidah et al. (2022) suggest that combining fundamental ratio analysis with diversification principles can produce higher returns with more controlled risk than portfolios formed without rigorous fundamental screening.

This integration also extends sharia portfolio theory by adding a further dimension to portfolio efficiency. In Markowitz style Modern Portfolio Theory, efficiency is defined as maximizing return for a given risk level (Markowitz, 1952). In a sharia framework,

efficiency must also incorporate sharia compliance and sound financial structure (Iqbal & Mirakhor, 2007; Lewis & Algaoud, 2007). Accordingly, a sharia efficient frontier can be understood as a set of portfolios that simultaneously maximize halal returns, control overall risk through diversification, and ensure that constituent stocks satisfy sharia standards and healthy ratio benchmarks.

3.4 Final Conceptual Model

Based on thematic synthesis of SINTA indexed national journals, reputable international studies, Islamic investment texts, ISSI documents, and DSN MUI fatwas, this study proposes an ISSI based conceptual model for profit optimization in sharia stock portfolios. The model is intended as a theoretical foundation for future empirical studies and as a reference for sharia portfolio management practice.

The model comprises the following components and linkages:

1. Normative and regulatory environment, a. DSN MUI fatwas and OJK regulations provide the normative framework for sharia capital market practice, including rules on stock trading, sharia mutual funds, and sharia security criteria (DSN MUI, 2000; DSN MUI, 2003; OJK, 2019). b. The Sharia Securities List (DES) operationalizes these standards by listing issuers that satisfy sharia criteria in terms of business activity and selected financial thresholds.
2. ISSI as the sharia investable universe, a. The ISSI represents the set of exchange listed stocks included in the DES and functions as the initial universe for Indonesian sharia equity portfolios (Rudiyanto, 2013; Arnianti et al., 2021). b. Because of its broad sector coverage and market representation, the ISSI serves as the starting point for asset screening in the model.
3. Fundamental analysis using financial ratios, from the ISSI universe, issuers are screened using: a. Profitability ratios (ROA, ROE) to assess earnings generation capacity. b. Liquidity ratios (CR, QR) to assess short term obligation coverage. c. Solvency ratios (DER) to evaluate funding structure and control leverage under sharia constraints. d. Valuation ratios (EPS, PER, PBV) to assess price fairness and undervaluation potential. This stage produces a candidate set of financially sound and sharia compliant stocks used as inputs for portfolio construction.
4. Sharia portfolio diversification strategy, for the candidate set, diversification is implemented across multiple dimensions: a. Cross sector diversification, allocating across halal sectors within the ISSI to reduce sector specific risk (Arnianti et al., 2021; Febrianti et al., 2021). b. Cross instrument sharia diversification, combining ISSI stocks with sukuk and sharia mutual funds to balance risk return profiles and strengthen portfolio stability (Natalina, 2015; Mubarok et al., 2017). c. Portfolio weighting, assigning weights based on risk return characteristics, cross asset correlations, and investor risk preferences, while rioritizing assets with strong fundamentals.

5. Output: optimal ISSI based sharia portfolio, a. The resulting portfolio is expected to lie on a sharia efficient frontier, defined as the asset combination that maximizes halal returns at an acceptable risk level under sharia constraints and healthy financial structure criteria (Iqbal & Mirakhor, 2007; Khaddafi et al., 2025). b. Output evaluation extends beyond statistical risk return measures to include sharia compliance, transparency, and alignment with maqashid sharia objectives in wealth management.

In a conceptual diagram suitable for a SINTA 1 article figure, the model can be represented as a staged flow: DSN MUI fatwas and OJK regulations lead to the DES, which defines the ISSI universe. The ISSI universe then undergoes financial ratio based screening to produce a candidate set, followed by diversification across sectors and sharia instruments and weight assignment, resulting in an ISSI based sharia portfolio that seeks an optimal risk return profile while maintaining sharia compliance.

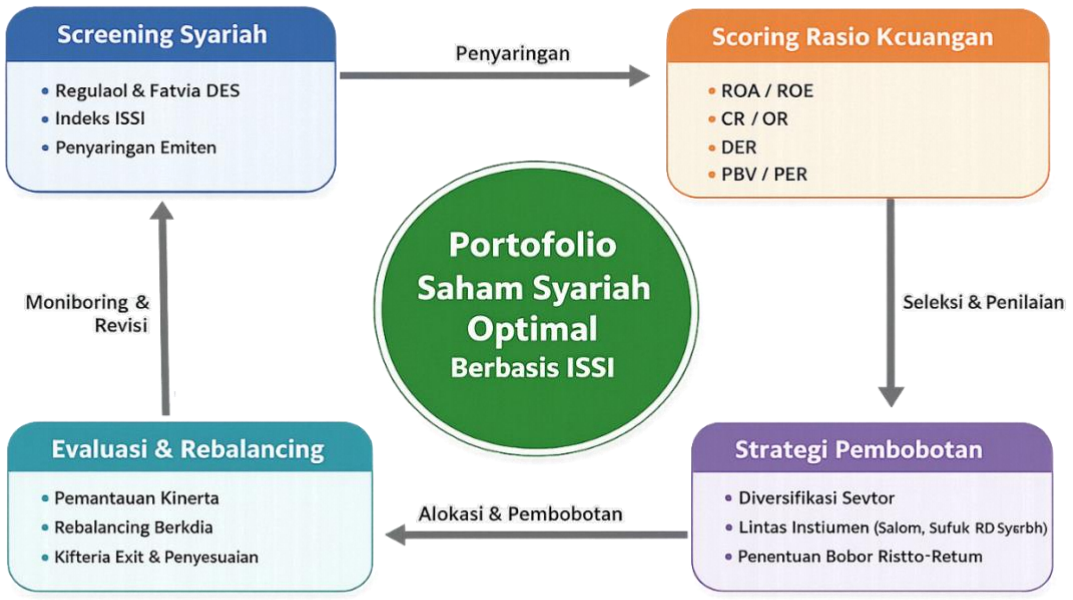

Figure 1. Diagram

Diagram presents a traceable, rule-based workflow for portfolio construction: (1) sharia screening grounded in relevant regulations and fatwas and operationalized via DES compliance, using ISSI membership as the initial investment universe; (2) financial-ratio scoring (ROA/ROE, CR/QR, DER, PBV/PER) to produce a comparable cross sectional ranking of candidates; (3) a weighting strategy incorporating sector diversification, cross instrument allocation (e.g., equities sukuk sharia mutual funds), and risk, eturn, consistent position sizing; and (4) evaluation and rebalancing through performance monitoring,

periodic rebalancing, and explicit exit/adjustment criteria. The directional arrows indicate the sequential decision logic screening → selection/assessment → allocation/weighting → evaluation along with a feedback loop for monitoring and revision when performance deviates from targets or sharia status changes.

Notes: DES = Sharia Securities List; ISSI = Indonesia Sharia Stock Index; ROA = Return on Assets; ROE = Return on Equity; CR = Current Ratio; QR = Quick Ratio; DER = Debt-to-Equity Ratio; PBV = Price-to-Book Value; PER = Price-to-Earnings Ratio. *Source:* Author's elaboration (illustrative).

Illustration

1. Sharia Screening (U0 → U1)

Assume an initial universe (U0) containing five issuers. After sharia screening using ISSI membership as a compliance proxy, four issuers pass and form the screened universe: U1 = {A, B, C, D}.

2. Fundamental Inputs (U1)

Table 1 reports illustrative issuer-level financial ratios used for cross-sectional scoring within U1.

Issuer	ROE	ROA	CR	QR	DER	PER	PBV
A	18	9	1.8	1.2	0.6	12	2.1
B	14	7	1.3	0.9	1.1	9	1.6
C	22	11	1.1	0.8	0.4	25	3.0
D	10	5	2.2	1.5	0.9	15	1.2

Table 1. Illustrative financial ratios for issuers in the screened universe (U1).

3. Fundamental Scoring (Illustrative Design)

Scoring is implemented in a traceable, rule-based manner:

Normalization: min–max scaling within U1 for comparability. For "lower is better" ratios (e.g., DER, PER, PBV), the scale is inverted. Dimension weights (moderate mandate): Profitability 0.35, Liquidity 0.20, Solvency 0.25, Valuation 0.20. Liquidity soft constraint: apply a penalty of 0.03 to the composite score if QR < 1.0. Solvency hard constraint (example): exclude if DER > 1.2 (not triggered in this illustration).

Composite score (conceptual): $S_i = \Sigma_d w_d \cdot D_{i,d} - penalty_i$.

4. Scoring Results and Candidate Selection

Table 2 summarizes the resulting composite scores, penalties, and ranks. A Top K rule with K = 2 selects issuers A and C for the equity sleeve.

Issuer	Composite Score	Penalty	Final Score	Rank
A	0.6639	0.00	0.6639	1
C	0.6000	-0.03	0.5700	2
D	0.4339	0.00	0.4339	3
B	0.3269	-0.03	0.2969	4

Table 2. Illustrative scoring outcomes and ranking (after applying the liquidity penalty).

5. Weighting and Cross-Instrument Allocation

Strategic allocation across instruments (illustrative): equities 60%, sukuk 25%, and sharia mutual funds 15%. Within the equity sleeve, weights are proportional to final scores of the selected Top-K issuers (A and C):

Equity proportion(A) = 0.5381; Equity proportion(C) = 0.4619.

Component	Target Weight	Notes
Equity – Issuer A	32.28%	0.60 × 0.5381
Equity – Issuer C	27.72%	0.60 × 0.4619
Sukuk	25.00%	Strategic allocation
Sharia mutual funds	15.00%	Strategic allocation

Table 3. Final illustrative portfolio weights (cross-instrument + within-equity allocation).

6. One Month Performance Evaluation (Illustrative)

Assume the following one-month returns: A = +3.0%, C = +1.0%, sukuk = +0.6%, sharia mutual funds = +0.8%.

Component	Weight	Return (1M)	Contribution
Equity – Issuer A	0.3228	0.030	0.009684
Equity – Issuer C	0.2772	0.010	0.002772
Sukuk	0.2500	0.006	0.001500
Sharia mutual funds	0.1500	0.008	0.001200

Table 4. Illustrative return attribution (weight × return).

Portfolio return: Rp ≈ 0.009684 + 0.002772 + 0.001500 + 0.001200 = 0.015156 (≈ 1.52%). If the ISSI benchmark return is 1.20% for the same month, the illustrative excess return is approximately +0.32%.

4. Conclusion and Suggestion

This study conceptualizes the linkage between sharia equity portfolio diversification and financial,ratio,based screening to support return optimization within the Indonesia Sharia Stock Index (ISSI). The framework synthesizes evidence from SINTA-indexed national studies (e.g., Khaddafi et al., 2025; Mursyidah et al., 2022; Firdausi, 2024; Suciati et al., 2024), international scholarship (Lewis & Algaoud, 2007; Iqbal & Mirakhor, 2007), standard references (Rahmawati, 2019; Rudiyanto, 2013; Natalina, 2015), and sharia governance/regulatory foundations (DSN MUI, 2000; DSN MUI, 2003; OJK, 2019). The thematic synthesis indicates that diversification in sharia investing is multidimensional: it reduces idiosyncratic risk while reflecting prudence (amanah) in wealth management, particularly through sectoral diversification within ISSI and cross-instrument allocation across sharia assets. Financial ratios profitability (ROA, ROE), liquidity (CR, QR), solvency (DER), and valuation (EPS, PER, PBV) function as core screening tools, capturing both issuer quality and practical signals aligned with sharia constraints (notably leverage and valuation reasonableness). Integrating diversification with multi-ratio selection is consistently associated with improved risk return profiles relative to single-pillar approaches, thereby extending Markowitz's portfolio logic to a sharia setting by explicitly embedding sharia compliance and issuer

fundamentals as defining conditions of an "efficient" sharia portfolio. Conceptually, the study positions ISSI as a sharia-screened investment universe, treats financial ratios as design components (not merely explanatory variables), and frames diversification as the mechanism linking fundamentals to portfolio risk return outcomes, offering a systematic reference for investors and product designers aligned with OJK policy direction.

Study Limitations

This study is literature-based and relies exclusively on secondary sources (academic articles, textbooks, and regulatory/sharia governance documents), making its conclusions dependent on the scope and depth of existing publications; some domains (e.g., investor behavior and internal asset-management practices) may be insufficiently documented. The analysis does not include quantitative market evidence (e.g., realized returns, volatility, and correlations among ISSI constituents) or primary qualitative data (e.g., practitioner interviews). Accordingly, the proposed model is not statistically validated and should be interpreted as a conceptual framework requiring empirical verification. Because the discussion is anchored in Indonesia's ISSI context, generalization to other jurisdictions should be approached cautiously due to differences in regulation, investor characteristics, and issuer composition.

Recommendations for Future Research

Future research should empirically test the proposed model using historical ISSI constituent data by constructing optimized portfolios (e.g., Markowitz or Single Index Model) while explicitly incorporating key ratios (ROA, ROE, DER, EPS, PBV) to evaluate the joint effect of diversification and fundamentals on sharia portfolio risk and return. Mixed-method designs are recommended to bridge the theory practice gap by complementing document analysis with interviews or focus groups involving sharia fund managers, product developers, and retail investors to capture operational, behavioral, and institutional factors in day-to-day decision-making. Further work can develop optimization models with explicit sharia constraints (e.g., leverage caps, non halal income thresholds, sector exclusions consistent with DSN MUI) and evaluate modern solution approaches (e.g., genetic algorithms, multi-objective optimization) to strengthen both scholarly contribution and implementability for ISSI-based portfolio design.

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