

A Sentiment Analysis on Short Selling: An Islamic Perspective

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This research was conducted to examine the perception of short selling within the scope of the Islamic capital market sector in terms of scientific research in published journals that discuss short selling. The method used is descriptive statistical analysis with meta-analysis, sentiment analysis from secondary data in the form of 30 papers published in the last 10 years, then processed using Microsoft Excel 2016 and SentiStrength software. The results of the sentiment analysis show that there is a tendency for perceptions that tend to be blurred in the scientific literature on short selling, with neutral sentiment at 40%, negative sentiment at 37%, positive sentiment at 23%, and the remaining high negative sentiment and high positive sentiment at 0%. The results of the meta-analysis also show that in the last 10 years there is still not much research on short selling, so there is still a lot that needs to be studied about short selling. In addition, publications related to short selling have fluctuated from year to year.

Keywords: Short Selling; Sentiment Analysis; Islamic Capital Market

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INTRODUCTION

The Islamic capital market plays an important role in contributing to the economic growth and prosperity of the country. Where the function of the Islamic capital market is almost the same as the conventional capital market, but what distinguishes it is that its activities and practices do not conflict with sharia principles. This means that the Islamic capital market must be free from the involvement of activities prohibited by Islam and from elements such as usury (riba), gambling (maysir) and excessive ambiguity (gharar). (Dusuki & Abozaid, 2008)

Securities lending is an essential aspect of stock market activities all over the worldwide. It began in the United Kingdom in the 1950s and 1960s and quickly extended to the United States, as well as developed and emerging nations (Ahmadvand, Dezfuli, & Sadehvand, 2014). Short selling is generally associated with a stock market fall and is perceived as negative news by the average person on the street (Mohamad, 2013). In the September 2008 financial crisis, stock market regulators in 30 countries such as Australia, France, UK, Germany, and the US banned short selling with the aim of stabilizing financial markets only to find that the ban was detrimental to market liquidity. (Beber & Pagano, 2013). Short selling, contrary to popular belief, can aid price discovery (Mohamad, 2013).

There are differences of opinion and views on short selling, where according to most scholars, short selling has a concept that violates sharia principles. The concept in question is where a financial asset is sold without any prior ownership or ownership. (Sifat & Mohamad, 2016). This is in contrast to the Sharia Advisory Board of the Malaysian Securities Commission (SAC) which allowed short selling in 2006. SAC allowed short selling based on ijarah and Istihsan. (Sifat & Mohamad, 2016).

Although short selling is prohibited by law, there are several viewpoints that might lead to Shari'ah-compliant relative to conventional short selling. Wa'd and Salam-based constructions are their entries (Rahman & Ramle, 2021). Where the Wa'd structure in question is a merger with a murabahah contract which is based on two irrevocable promises. First, in a Wa'd-based structure it is done because shares will be purchased in a murabaha contract by a short seller from a broker at a murabaha price. After that, the shares will be sold based on market price to other parties. Then, the broker will carry out its role by preparing a unilateral promise and giving it to the

short seller. A unilateral promise contains that the shares will be repurchased in the future by the short seller at a pre-agreed price. A unilateral promise will also be given by the short seller to the broker to sell the shares on that date at the agreed price. (Rahman & Ramle, 2021)

Meanwhile, Salam-based short selling is a simultaneous cash sale and purchase of shares (Nejad, 2009). Where salam refers to a sale and purchase agreement in which the seller agrees to offer specific commodities to buyers in the future for a mutually agreed upon price that is paid in full (Dar, 2007). The shareholder sells his shares to the short seller for cash, according to the Salam-based arrangement (Rahman & Ramle, 2021). Simultaneously, the owner will acquire the same number of shares from the short seller through Salam at the agreed price (Rahman & Ramle, 2021). The credit purchase price includes dividends as well as a sum equal to interest on the revenues of the shares exchanged. Instead of paying cash, the short seller receives ownership of the stock, allowing him to sell it to a third party at a market price (Al-Yahri, Elsiefy, & Abdulazeem, 2015).

Many people have argued that short selling is unacceptable in Islamic finance (Zaher & Hassan, 2001). In addition, the replication technique used to imitate short-selling complies with the letters of Islamic commercial law. However, to show that the benefits (Masalih) it generates are greater than the evil (Mafasid) is another discussion and requires a deeper discussion. (Calder, 2010).

Based on this framework, it is clear that short selling has been extensively examined and debated in the area of scientific research, and its practice has been implemented in a number of global capital markets. Short selling is a fascinating topic to examine, not just because of its widespread appeal, but also because of its distinct function. However, the benefits and drawbacks of Islamic law's short-selling regulation, as well as its adherence to sharia, continue to divide the larger society. This study aims to determine how researchers' perceptions of short selling are influenced by their opinions and tendencies.

LITERATURE REVIEW

Short selling is an instrument in the conventional capital market that allows investors to make money without actually owning shares (Dusuki & Abozaid, 2008). Where an investor (with the help of

a prime broker) borrows other people's securities and then sells them, when the price of the securities falls, then he will buy back the securities to be returned to the lender. then, the profits that investors will get from a decrease in the price of securities (Calder, 2010).

In the old adage: 'buy low, sell high', in practice short selling performs the old adage in reverse where they first sell high and then buy low (Sifat & Mohamad, 2016). According to Fabozzi & Modigliani (2003) investors choose to do short selling for two main reasons, namely speculation and hedging. When it comes to speculation, investors believe that speculating on overvalued companies or markets would profit them. The short seller will purchase the stock at a lower price than when he first purchased it. As a result, if the stock price declines, the short seller will profit. When it comes to speculation, investors believe that speculating on overvalued companies or markets would profit them. The short seller will purchase the stock at a lower price than when he first purchased it. As a result, if the stock price declines, the short seller will profit (Dusuki & Abozaid, 2008). Meanwhile, investors who engage in short selling for the sake of hedging. When investors employ short selling instruments to deliberately decrease investment risk from adverse price fluctuations in an asset, they are referred to as "short sellers." Investors diversify their portfolios by making new investments. As long as the two invested assets are negatively linked, this significantly decreases their exposure to market price risk (Dusuki & Abozaid, 2008).

In an Islamic perspective, short selling is prohibited. Because in practice there are elements that are not in accordance with sharia principles such as speculation (Naughton & Naughton , 2000) usury (Elsief, Abozaid, & Al-Yahri, 2016), gharar (Dusuki & Abozaid, 2008) gambling and selling other people's assets (Ahmadvand & Tamalloki, 2017). Where in the Islamic stock market every contract and agreement must be in accordance with Islamic principles. In connection with usury on short selling in lending assets in conditions of receiving more than the amount borrowed at the time of return, the transaction is void (Staley, 1996). Likewise with gharar, gambling and selling other people's assets that cause losses and I feel for one party so that the transaction cancels (Staley, 1996).

Research on short selling has been done by several previous researchers. Such as Among them Ahmadvand, Dezfali, & Sadehvand (2014) discusses

alternatives to short selling on the Iranian stock market. On the other hand, (Al-Yahri , Elsiefy, & Abdulazeem, 2015) discusses shariah issues and potential implementation in the qatar capital market. In addition, insight into the Islamic perspective on short selling has also been discussed by Aminy (2018).

Research on the efficiency and role of short selling has also been discussed by several researchers. Saff & Sigurdsson (2011) discuss how the efficiency of stock prices and the distribution of returns is affected by short-sale constraints. Charoenrook & Daouk (2009) in their research found that short selling improves market quality. In addition, Boehmer & Wu (2013) in their research found that stock prices are more accurate when short sellers are more active.

In addition, Ahmadvand & Tamalloki (2017) in their research discusses alternative short selling contracts that are in accordance with Islam. Where in practice, short selling is prohibited in Islam. The results showed that by using the VIKTOR method several alternatives were produced for short selling simulations such as the Arboon sale method, Salaf or Salam method, Wa'ad or promise method, Cash sale and Salaf purchasing method, and The method of combining Murabaha and Wa'ad (Ahmadvand & Tamalloki, 2017).

Hasan & Khan (2016) in his research discusses short selling in the Islamic capital market. The results of his research explain the factors that make short selling prohibited in Islam. In addition, there are six sharia contracts discussed for use in sharia-compliant short selling. In addition, research (Angel & McCabe , 2008) also discusses the controversy related to short selling.

METHODOLOGY

This study relies on data from scientific research publications that have been published on the topic of short selling in Islamic stock market research. The technique employed in this study is a qualitative method approach with a descriptive statistical literature review of 30 papers linked to Short Selling published in the previous ten years from 1999 to 2021. The qualitative research technique is founded on post-positivist philosophy and is used to investigate the state of natural things using the researcher as the primary instrument. Triangulation (mixed) data gathering procedures are used, data processing is inductive/qualitative, and qualitative research findings stress meaning rather than generalization (Sugiyono, 2010).

Sentiment analysis or opinion development is the method used in this study. Sentiment analysis is a type of study that is widely used to measure public opinion on a certain topic. Sentiment Analysis is an area of text mining study that first gained popularity in early 2002. Sentiment analysis is a type of study that is widely used to gauge public opinion on a topic. Five unique data sources were chosen as data sources, primarily academics who are professionals in the topic of Islamic economics. The researcher employs SentiStrength software, which is commonly used in sentiment analysis research, to assess the sentiment map on the perception findings from journal papers connected to short selling.

To date, most of the research in sentiment analysis has been dedicated to English because there are so many tools/resources for English. Some of the frequently used sources for sentiment analysis are SentiWordNet and WordNet. The fundamental goal of sentiment analysis is to categorize the text's polarity at the level of documents, sentences, or features and aspects, and to determine whether the views conveyed in documents, sentences, and feature entities are positive, negative, or neutral. Furthermore, sentiment analysis can be stated emotionally as sad, glad, or furious in order to provide an analysis that can be

used as a reference for establishing impressions of certain themes (Rusydia & Marlina, 2020).

Microsoft Excel 2016 was used to examine data in the form of trends in the number of publications on the perception of short selling topics and top authors who became the subject of study connected to published articles. Meanwhile, researchers employed SentiStrength software, which is commonly used in research, to assess the sentiment map in the outcomes of published journals on views of short selling. research on sentiment analysis. Other studies using sentiment analysis for the example can be seen at Aziza (2023), Riani & Ikhwan (2023), and also Firmansyah (2022).

RESULT AND ANALYSIS

Meta Analysis

This section lists the number of papers that have been published on the subject of short selling. There were 20 papers published over 10 years, from 1999 to 2021. Table 1 shows the distribution of papers per year over the last 10 years, ranging from 0 to 8 papers per year. The most published short selling subject papers were released in 2020, with up to eight papers published that year. There have also been vacancies for publication in some years.

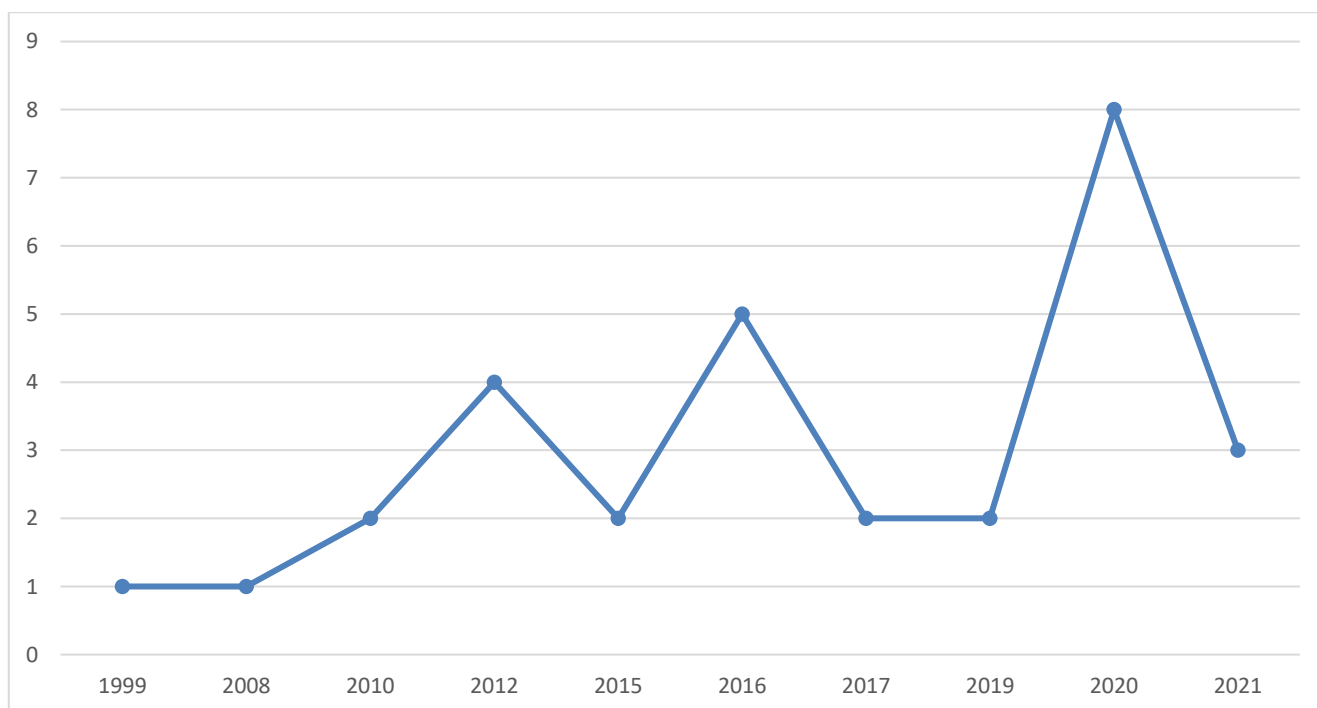


Figure 1. Number of Papers Theme Short Selling

Table 1. Number of papers

Year	Number of papers
1999	1
2008	1
2010	2
2012	4
2015	2
2016	5
2017	2
2019	2
2020	8
2021	3

Based on the table and graph above, there is a tendency for more articles to be published with the theme of short selling. However, there was a vacancy for publication of related theme articles from 2000 to 2007. There was also a vacancy in publication in 2009, 2011, 2013, 2014, and 2018. Then there was an increase until it reached the highest number of publications in 2020 with a total of 8 papers, before decreasing in 2021. However, because 2021 has not been completed until December, this data is still provisional, and it is still possible to add to the collection of publications in this research.

analysis is a type of research that is widely used to analyze public opinion on a particular topic. The research was conducted on 30 items of literature as primary data sources. SentiStrength is used in this study as a tool to process data obtained from related publications.

The opinion findings were divided into five kinds of ratings: high positive (very good), positive (good), neutral (neutral), negative (poor), and high negative (very bad). The results of sentiment analysis on short selling which are divided into five types of categories can be seen in the following figure:

Sentiment Analysis

This study attempts to estimate sentiment from published studies on short selling. Sentiment

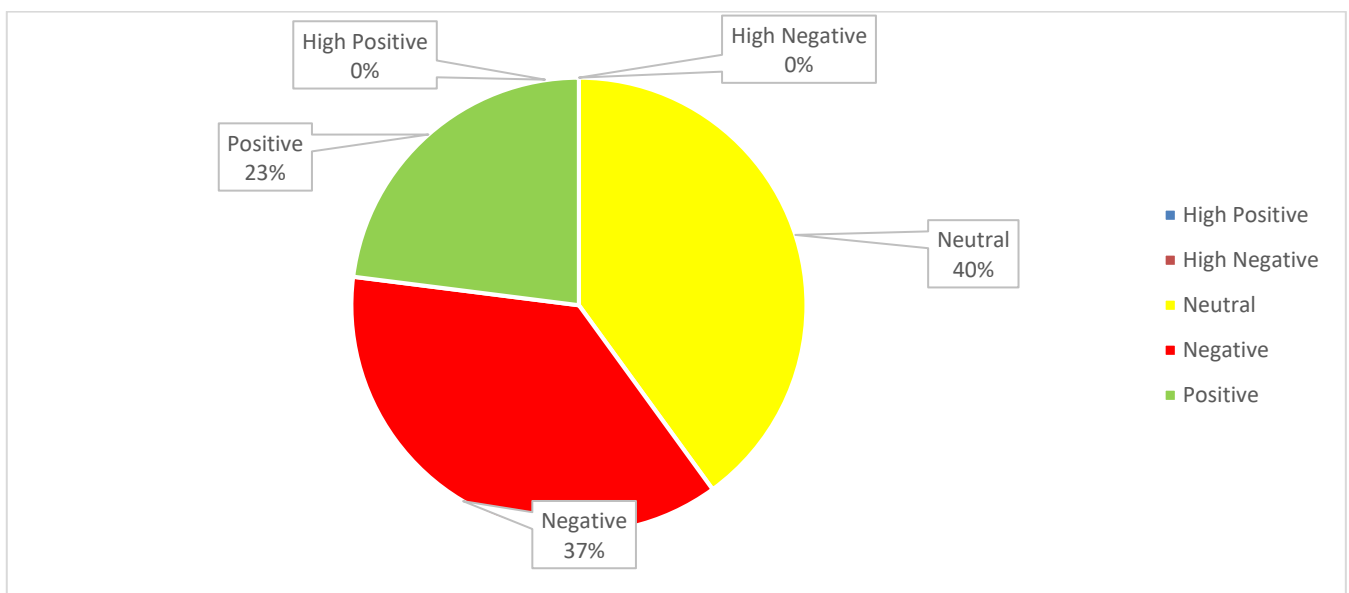


Figure 2. Sentiment Analysis

The existence of short selling in the Islamic economic literature published is quite a lot, and has various sentiments according to SentiStrength

grouping, namely good (positive) sentiment of 23%, bad (negative) sentiment of 37%, very bad sentiment

(high negative) of 0%, the very good category (high positive) is 0%, and the remaining 40% is neutral.

Sentiment results are obtained from the opinion of the researcher expressed in his research, and the words in the form of written text are then sorted from a very negative interval (-5) to a very positive interval (5), with a score of 0 representing neutrality. The sentiment score of each word listed in SentiStrength is added up to calculate the opinion score of the sentence submitted by the respondent.

The positive (positive) sentiment expressed by respondents in the survey is that they are optimistic about the existence of short selling. Meanwhile, bad (negative) sentiment is a negative survey opinion that is pessimistic about the future of short selling and claims that short selling cannot be widely used for various reasons.

These data indicate that the majority of related literature is more neutral in responding to the

existence of short selling. We found that negative responses outnumbered positive ones. However, there was no sentiment showing disagreement and strongly agree with a very high negative level and a very high positive level, each with a result of 0% against short selling. Therefore, there must be clarity from the parties involved in the practice of short selling and discuss more clearly about this short selling, so as not to create bias. And so that there is clarity whether the contract and all the practices used in short selling are in accordance with the rules of Islamic law or not.

Findings

Table 1 summarizes the findings of the study, which includes the main characteristics that influence public sentiment, either neutral, or negative, based on 30 data articles published on the topic of short selling over the last 10 years.

Table 2. Key Factor Influencing Sentiment

Positive	Negative
<ul style="list-style-type: none"> • Market Efficiency • Liquidity • Enhances Market Quality 	<ul style="list-style-type: none"> • Usury • Sharia Rules • Gambling • Gharar • Selling others assets

Many studies on short selling have been conducted based on the results of a literature review. Sentiment analysis provides an overview of responses and opinions about Short Selling. However, short selling is still facing a lot of debate due to the lack of understanding of public literacy about this one contract, so it is hoped that there will be an increase in literacy in the Muslim community.

This study found the level of sentiment analysis from various studies in assessing the existence of short selling. Neutral sentiment that dominates the results with a percentage of 40% indicates that there is still a knowledge gap about short selling. In addition, short selling is still a topic of controversy in the stock market (Angel & McCabe , 2008). This is a challenge for stakeholders engaged in sharia investment to continue to improve product innovation that can show the differentiation between products that comply with sharia rules and those that do not.

Negative sentiment occupied the second highest value, where the value of negative sentiment towards short selling was 37%. This shows that there

are more bad perceptions that must be reviewed more deeply into the causes. Several sources indicate that the Indonesian Ulema Council forbids short selling on the grounds that it is not in accordance with sharia rules. Where in practice there is ambiguity and contains riba (Ahmadvand, Dezfuli, & Sadehvand, 2014). In addition, the practice of short selling is prohibited in Islam because it allows investors to sell shares that they do not own (Aminy, 2018). In addition, short selling also contains elements of speculation (Naughton & Naughton , 2000), gharar (Dusuki & Abozaid, 2008), and (Elsief, Abozaid, & Al-Yahri, 2016). This is the reason the value of negative sentiment is greater than the value of positive sentiment towards short selling.

In addition, the value of positive sentiment occupies the third position with a percentage of 23%. This shows that the capital market sector is a topic that is always in the spotlight. In addition, Short selling plays a unique role in financial markets (Reed, 2013) In conventional capital markets short selling provides liquidity, reduces overpriced stock prices and

generally increases market efficiency. (Ahmadvand, Dezfuli, & Sadehvand, 2014). As for the Iranian stock market, the "combination of Murabahah and Wa'ad" approach was introduced as an Islamic alternative to short selling (Ahmadvand, Dezfuli, & Sadehvand, 2014). In addition, it was found that when short selling was allowed to increase market quality (Charoenrook & Daouk, 2009).

Short selling in Islam is a topic that has generated debate among Islamic scholars and finance experts. In conventional finance, short selling involves selling a financial instrument (such as stocks or commodities) that the seller does not own, with the intention of buying it back later at a lower price. This practice is considered speculative and involves the assumption that the price of the asset will fall. In Islamic finance, short selling is generally not permissible according to traditional interpretations. This is because it involves selling something that one does not own, which can lead to uncertainty (*gharar*) and potential harm to either party involved. Additionally, short selling may involve borrowing assets, which can introduce elements of *riba* (usury/interest), another prohibited element in Islamic finance.

However, some modern Islamic finance scholars have proposed alternative structures that mimic the economic effects of short selling without violating Islamic principles. For example, a "short sale" can be structured as a deferred sale (*bai' al-mu'ajjal*), where the seller agrees to sell the asset at a future date for a predetermined price. This approach aims to avoid the issues of selling what one does not own and the potential for speculation. It's important to note that opinions on short selling in Islamic finance can vary among scholars and within different Islamic finance institutions. As with many aspects of Islamic finance, there is ongoing discussion and interpretation regarding the compatibility of financial practices with Islamic principles.

CONCLUSION

Based on the results of this sentiment analysis, it can be seen that the tendency of sentiment in viewing Islamic home financing is still dominated by neutral perceptions in the middle because there are still some knowledge gaps, but then this neutral sentiment is followed by negative sentiment which has a value greater than the value of positive sentiment. Great efforts are needed by stakeholders to further clarify practices that still have bias and there are some

rules that still violate sharia rules. So we need a product innovation that is in accordance with sharia rules. However, there is a positive sentiment that is quite high, meaning that short selling does have its own role in the capital market and some parties accept its existence.

The limitations of this study are the limited number of papers that are the object of research, where the number of papers is only 30 documents with a span of the last 10 years. So that the suggestion for further researchers to develop this paper is to multiply the object of research, both from the number of papers, the time span of the publication of the paper, besides that further research can also use other more relevant methods. So that more comprehensive results can be obtained and include more research objects. It should be noted that the purpose of this study is to determine the sentiment towards short selling as well as an overview of research trends with the theme of short selling in recent years. The results presented are still dynamic and may change over time as new trends or variables increase in the future.

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