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Sharia compliant gold investment in Malaysia: Hedge or safe haven?

Abstract

This paper studies the hedge and safe haven characteristics of *Sharia* compliant gold in Malaysia. Specifically, we would like to know whether the official gold and gold account traded, which complies with Islamic principles, can be used as a hedge or a safe haven for the Malaysian market. To answer this question, we examine both constant and time-varying relations between domestic stock and gold returns. The notable finding is that the official gold standard of Malaysia can act as a strong hedge relative to the use of the Islamic gold account. On the other hand, the domestic gold, in particular the Islamic gold account, does not perform attractively as a safe haven during the episodes of extreme drops in stock market. These findings show that gold does not play a major role during the stock market declines in Malaysia. Nevertheless, we note that the official gold standard performs better than the gold account.