

## **DCC Analysis of the ‘Safe Haven’ Property of Gold against Stock Market: Indian Scenario**

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*A safe haven can be broadly defined as an asset allowing the preservation of wealth during financial turmoil. This can be characterized by looking at its negative correlations with risky assets specifically during crises. The present paper employs a Dynamic Conditional Correlation Autoregressive Conditional Heteroskedasticity (GARCh) Dynamic Conditional Correlation (DCC) (DCC-GARCh) model proposed by Engel (2002) to test the safe haven property of gold against stock market in India during the recent financial crisis. For the purpose we utilize 3001 daily observations (after adjusting for the dates and missing observations due to holidays) on gold price and BSE SENSEX index closing price from 1<sup>st</sup> January, 1998 to 30<sup>th</sup> September, 2009. The empirical evidence is consistent with the study by Baur and Lucey (2010) that gold is a safe haven and hedge in extreme stock market conditions.*

### **I Introduction**

In recent decades the radical liberalization or globalization measures adopted by most of the countries have made the world stock markets more interdependent. As a result, the world stock markets have become more exposed to crises. This has made it necessary to have an asset which has the potential to act as a safe haven during the turmoil. Through a dynamic conditional correlation (Engel 2002) analysis, this paper tries to empirically study whether gold is a safe haven against stock market in India during the recent financial crisis.

A safe haven can be broadly defined as an asset allowing the preservation of wealth during periods of financial turmoil. This can be characterized by looking at negative correlations with risky assets, specifically during crises. An asset having the safe haven character can trim down the negative return from other assets during the period of economic stress.

Gold has been accepted as the medium of exchange and store of value throughout human history. Recently the chaotic global economic condition has made it the most preferred asset for the investors worldwide. Investors generally

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