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PORTFOLIO MANAGEMENT WITH ISLAM EQUITY IN KOREA STOCK MARKET

Abstract:

This paper investigated the volatility spillover effects between Islamic stock markets and Korean stock market using the AR-DCC-GARCH models. First, we found bi-directional volatility transmissions between the Islamic and Korean financial markets. Second, we compared the correlation of KOSPI-DJIM portfolio and that of KOSPI-SHX portfolio. It shows the correlation of KOSPI-DJIM portfolio has stronger linkage than that of KOSPI-SHX portfolio. In the portfolio perspective, the S&P 500 Sharia stock Index(SHX) acts as a better hedge asset than DJIM against the risk of stock market. Last, The hedge ratio between two Islamic stock market and Korean stock market pairs is generally low, indicating that the Korean stock risk can be effectively hedged by taking a short position in the Islamic stock markets. In comparison with two pairs, the pair of KOSPI-SHX relatively shows a cheaper hedging cost than that of KOSPI-DJIM pair. This evidence indicates that S&P 500 Sharia index serve more effective hedging role against the risk of Korean stock market.

Keywords:

Islamic market, hedge ratio, AR-DCC-GARCH model

JEL Classification: G11, G15