



DOES GOLD ACT AS A HEDGE AGAINST THE MALAYSIAN
EXCHANGE RATE? EVIDENCE FROM THE FINANCIAL
CRISIS IN 2008

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ABSTRACT

CHAPTER 1

Using a model of classical linear regression covering 10 years of daily data for MYR exchange rates, this paper addresses a practical question: Does gold act as a hedge against the Malaysian Ringgit or not? This study is divided into three sections of timeline that highlight the possible effect on the economic crisis in 2008. A key finding from this two variable regression model is that there is significant negative relationship between price of gold and Malaysian exchange rate during the course of years.

the Argentine financial crisis in 2001-2002 and most notably the US subprime crisis in 2007 and the Greece financial crisis in 2009. Therefore, finding a good hedge risk investment is needed to reduce their return volatility.

Most investors diversify their portfolio to minimize the return volatility of their assets and to hedge against the risks. A criterion for a good portfolio according to portfolio allocation guidelines is that the assets must be negative or low correlation assets. This criteria will help to maintain a sound return rate as well as reduce risks.

Gold almost always included in the investors' portfolios because gold is a precious metal with function that a currency has (Wang and Lee, 2011). Unlike other commodities, gold has a history where it holds a central role in the monetary system before the Bretton Woods system in 1971. Gold was once unarguably its credibility as an investment by the investors and funds manager due to its historical performance. During that time, investors allocate for gold investment in their portfolio in a little portion or none at all. Gold shows steady hike in value when there is a sudden fall in stock market. Surprisingly, gold has almost tripled its value in US dollar terms when on the 22nd April 2013, gold bullion broke through the US\$ 1,500 per troy ounce barrier, reaching an all time high of \$1,704 in its eleventh year of