

## Risk Spillover Between Stock Indices and Real Estate Mixed Copula Modeling

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**Abstract :** The current paper examines the relationship and diversification ability of Islamic stock indices /conventional stocks indices and Real Estate Investment Trust (REITs).To represent conditional dependency between stocks and REITs in a more realistic way, new modeling technique, time-varying copula with switching dependence is used. It represents reliance structure more accurately and realistically than a single copula regime as dependence may alter between positive and negative correlation regimes with time. The fluctuating behavior of markets has significant impact on economic variables; especially the downward trend during crisis. Overall addition of Real Estate Investment Trust in stocks portfolio reduces risks and provide better diversification benefit. Results varied depending upon the circumstances of the country. REITs provides better diversification benefits for Islamic Stocks, when both markets are bearish and can provide hedging benefit for conventional stocks portfolio.

**Keywords :** conventional stocks, real estate investment trust, copula, diversification, risk spillover, safe heaven

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