S. Korea’s market meltdown holds three lessons for India

The Korean stock market crash underscores the risks of leverage, concentration and Fomo

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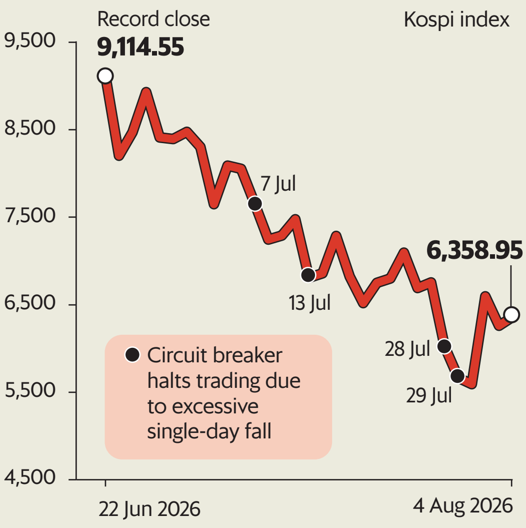
A crash course in Korea's AI stock frenzy

Single-stock leveraged ETFs and the fear of missing out on the AI rally in SK Hynix and Samsung amplified Korea’s market crash.

Kospi’s correction from its peak



Source: Korea Exchange; daily closing values; Bloomberg

Why South Korea’s markets turned volatile

23 June — Kospi falls **10%**. Leveraged ETFs amplify selling

2 July — Index below **8,000**, down **16%** from record

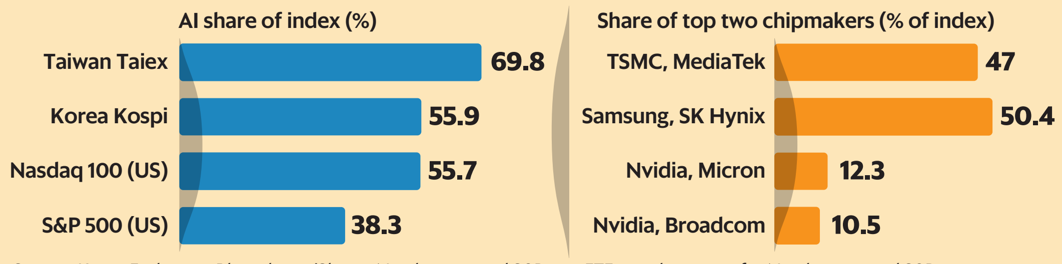
28 July — SK Hynix falls **16.2%**; index down **10.8%**

29 July — SK Hynix Q2 earnings miss the estimates

Through July — Single-stock leveraged ETFs unwind as margin calls hit. With SK Hynix and Samsung over half the index, entire market falls

30 July — Kospi closes **38.6%** down from 22 June’s record close

AI concentration across global indices



AI share of index (%)	
Taiwan Taiex	69.8
Korea Kospi	55.9
Nasdaq 100 (US)	55.7
S&P 500 (US)	38.3

Share of top two chipmakers (% of index)	
TSMC, MediaTek	47
Samsung, SK Hynix	50.4
Nvidia, Micron	12.3
Nvidia, Broadcom	10.5

Source: Korea Exchange, Bloomberg, iShares Nasdaq 100 and S&P 500 ETFs used as proxy for Nasdaq 100 and S&P 500; Taiex and Kospi data as of 4 Aug 2026, S&P 500 data as of 3 Aug 2026 and Nasdaq 100 as of 31 Jul 2026

Note: AI share = chip and AI-hardware companies plus hyperscalers building AI data centres; Apple and Tesla excluded; Kospi data indicates share of total market cap

Lessons for Indian investors

- **Leverage can backfire**, as Korea’s single-stock leveraged ETFs showed.
- **Margin trading facility** lets investors take leveraged bets in India.
- **Investors should understand** the risks before using such facility.
- **Index investing**: check concentration of top companies in an index.
- **Avoid FOMO**; stick to a well-diversified portfolio.

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South Korea’s Kospi index witnessed extreme volatility this year. The index hit an all-time high in June before tumbling around 40% in just six weeks. Circuit breakers were triggered four times in July. On the Korea Exchange, an 8% dip halts trading for 20 minutes, to interrupt panic selling and giving investors time to reassess.

The sell-off was amplified by leverage. Leveraged exchange-traded funds (ETFs), which use derivatives and borrowing to amplify returns, poured into Samsung and SK Hynix after Korean asset managers launched 16 such funds in late May. As these ETFs grew, their need to buy into rallies and sell into declines began influencing prices, amplifying both gains and losses.

The reversal began in late June. Concerns over AI data centre overbuilding by major US tech firms, disappointing earnings and rising Chinese competition erased 27% of SK Hynix’s market value in just three trading days in late July, dragging Samsung lower. Falling prices triggered margin calls on leveraged accounts and deepened the selling, sending the broader market lower as the two stocks dominated the index.

MTF: India’s leverage tool

India does not permit leveraged or inverse ETFs like those in South Korea, Hong Kong and the US. But, investors can still use leverage through the margin trading facility (MTF), under which brokers lend money to buy stocks.

The combined MTF book crossed ₹1 trillion for the first time in September 2025. Under MTF, investors pay only part of a stock purchase upfront, with brokers funding the rest against cash or pledged shares, charging daily interest. Exchange rules require margins of 20-50%, implying leverage of roughly 2-5 times, although brokers typically offer 2-4 times depending on the stock.

The biggest risk is a margin call. If a funded position falls below the required margin, investors must add cash or pledge more securities—or brokers will sell the holdings to recover dues. “Investors should understand the risks of leverage before getting into it,” said Vishal Dhawan, founder of Plan Ahead Wealth Advisors. “Leverage changes the nature of a risk you carry. An unlevered investor in a falling market can choose to wait. A levered one may not get that choice, with the broker deciding when the position closes.”

Zerodha co-founder Nithin Kamath said in a post on X: “My biggest nightmare as a broker is what’s happening in Korean markets right now. The source of my nightmare is the way our MTF book has been growing along with the industry as a whole. In terms of pure risk, MTF is by far the biggest risk we have taken since we started in 2010.”

He said although MTF remains small relative to India’s overall market cap, a sharp correction could trigger severe selling in small- and mid-cap stocks. He also warned that much of the MTF exposure is concentrated in stocks outside the futures and options segment, which can hit successive lower circuits during panic selling, leaving investors and brokers unable to exit.

Hidden concentration

The second lesson is understanding “diversification”. A Korean investor who bought a plain Kospi index fund in June was, in effect, investing over half the money in two semiconductor firms serving the same market. The index did exactly what it was designed to do—track free-float market capitalization—but the result was a concentrated bet rather than a diversified portfolio.

Market-cap-weighted indices favour the largest firms, enhancing liquidity and making them easier to track but they also raise exposure to stocks that have already rallied the most, raising concentration and valuation risks. “Whether you invest in domestic market or international ones, understand what you are actually buying when you use passive funds,” said Anish Teli, managing partner at QED Capital Advisors.

“Look at the factsheet or the index disclosures to understand the constituents, and get a sense of sectoral biases. That tells you if the index is dominated or heavily influenced by the fortunes of just a few sectors or as in the case of South Korea, by just two stocks.”

> **Study index holdings before investing to identify hidden concentration risks beyond market narratives**

Fomo and narratives

The third lesson is behavioural. In a social media post, a Korean investor wrote that he put the money saved for an apartment into stocks after deciding it was wasteful to leave it idle for six months until the next instalment. Watching everyone else profit from Samsung Electronics made him feel like “the only fool left out.”

He took a course on leverage and invested money in two stocks. Early gains equalled a month’s salary every other day. The position then lost over half its value. He said he can no longer get a loan approved and, even counting his severance pay, can’t make instalment payment on the apartment. Many similar accounts circulated through July. “This episode has shown the risks of chasing narratives,” said Dhawan. “A few months ago we saw a narrative play out in silver as it rallied sharply over the past year.”

Korean investors also paid for a second, less obvious concentration, he added. “For many Korean retail investors, Korea was the only market they were invested in. When your entire equity exposure sits in a single country, a domestic shock leaves you nowhere to hide. Geographic diversification is not about chasing higher returns; it is about not having every part of a portfolio depend on the same set of events.”

Key takeaway

The Korean market rout reinforces the value of investing basics. Dhawan said a rebalancing framework within a diversified multi-asset portfolio would have nudged investors to trim Korean equity exposure as the rally skewed their portfolios.

Investors must ensure their portfolios are not overly dependent on a few stocks, sectors, investment styles or fund managers. As Harry Markowitz famously observed, diversification is the only free lunch in investing.

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