AI-04453 Market Behavior and Power

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Are there similarities between the 1929 Stock Market crash and the KOSPI crash in 2026 in terms of human behavior where layman investors (shoe shine worker) giving stock tip to Koreans investing leverage products? In 1929, who hold more investment, retail investor or institutional investors? What about in 2026 Korea? What about in 2026 USA? Enumerate the weight of the 2 types of investors and who has the more power to crash the market. Also from the list below, extract the theme and lessons learned briefly.

The Ascent of Money – Learn the history of finance.
The Men Who Built America – Understand how enduring businesses are created.
Inside Job – See how systemic risk develops.
The Big Short – Watch independent analysis uncover a market bubble.
Margin Call – Experience crisis decision-making from inside a major financial institution.
Too Big to Fail – Understand the government's response.
1929 Stock Market Crash – Compare the Great Depression with the 2008 crisis.
Becoming Warren Buffett – Finish by learning a long-term investing philosophy.

Speculative Euphoria: 1929 Wall Street vs. 2026 KOSPI

The behavioral parallel between the **1929 Wall Street Crash** and the **2026 KOSPI Crash** centers on **unprecedented retail leverage, widespread "fear of missing out" (FOMO), and democratic access to high-risk financial instruments**.

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      1929 WALL STREET                         2026 KOSPI
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│  • "Shoe Shine Boy" Tips    │         │  • Viral Social Media Tips   │
│  • 10% Margin Accounts       │   VS   │  • Single-Stock Leveraged ETFs│
│  • Unregulated Brokerages   │         │  • Massive "Ant" Margin Debt │
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- **The 1929 "Shoe Shine Boy" Moment:** Joseph Kennedy famously realized the market was at its unsustainable peak when a shoe shine boy gave him stock tips. In 1929, retail investors could buy stocks on **10% margin** (putting down $10 to buy $100 of stock). Speculation moved from Wall Street professionals to street-level laymen who had no understanding of underlying corporate earnings.
- **The 2026 KOSPI "Ant" Craze:** In 2026, South Korea's benchmark KOSPI index experienced extreme volatility driven by retail ("ant") investors piling into **single-stock 2x/3x leveraged ETFs** and margin accounts tied to chip giants like Samsung Electronics and SK Hynix.
- **The Behavioral Loop:** In both eras, layman investors were enticed by quick paper gains. When prices reversed, the extreme leverage turned modest pullbacks into rapid, forced margin liquidations and circuit-breaker halts.

Retail vs. Institutional Ownership Across Eras

Era & Market	Retail Investor Weight	Institutional Investor Weight	Market Structure Dynamics
1929 United States	~10% of households directly owned stock; held significant float in retail brokerages.	Dominated by bank-led investment trusts, trading syndicates, and private wealth.	Lack of modern institutional capital (pension funds, index funds). High concentration of wealth in private hands and unregulated trusts.
2026 South Korea	**~50% of KOSPI volume** and **>60% of KOSDAQ volume**.	Foreign institutions and domestic institutions share the remainder.	Dominated by active retail day-traders ("ants") who trade rapidly, creating high stock turnover.

2026 United States	Holds ~10–20% of total equity asset value, but represents **20–36% of daily trading volume**.	**~70–80% of total market capitalization** owned by institutions (pension funds, ETFs, mutual funds, hedge funds).	Institutional capital dominates long-term ownership, though retail flows dictate momentum in high-beta/leveraged products.

Who Has More Power to Crash the Market?

1. South Korea (2026): Retail Investors ("Ants")

- In Korea, **retail investors carry disproportionate power to initiate or accelerate a crash**.
- Because retail traders represent over half of all daily trading volume and concentrate heavily in single-stock leveraged ETFs and margin loans, a sudden drop triggers automated margin calls. This forced selling cascade overwhelms institutional bids, causing single-day drops and frequent circuit-breaker triggers.

2. United States (1929 & 2026): Institutional Capital & Systemic Lenders

- **In 1929:** Lenders and investment trusts held the true crash leverage. When commercial banks and brokers cut off margin loans and demanded cash collateral, it forced massive panic selling across the board.
- **In 2026:** While US retail investors can create temporary squeezes or localized panics in specific stocks, **institutional investors (hedge funds, systematic quant funds, asset managers) hold the real structural power to crash the broader market**. Institutional de-leveraging, algorithmic risk-off triggers, and wholesale liquidity withdrawals dictate major market drawdowns.

Core Themes & Lessons Learned

> **Central Theme:** Human nature—specifically greed, excessive leverage, and systemic opacity—remains constant across centuries. Financial crises are

> rarely caused by a single bad asset; they are caused by **fragile structures built on debt and overconfidence.**

Summary of Lessons Learned

- **The Ascent of Money & 1929 Stock Market Crash:** Money is a credit system built on trust. When trust dissolves and unsustainable debt/leverage is unwound, the entire real economy suffers.
- **The Men Who Built America:** Enduring wealth comes from building tangible asset base operations and real industrial productivity, not from chasing speculative trading vehicles.
- **Inside Job & Too Big to Fail:** Systemic risks build when regulation fails to keep pace with complex financial engineering, shifting risk onto the taxpayer and public infrastructure.
- **The Big Short & Margin Call:** Market panics happen rapidly when market participants realize risk was mispriced. Independent analysis and objective math always prevail over consensus euphoria.
- **Becoming Warren Buffett:** Sustainable investment success relies on patience, low-leverage, margin of safety, and ignoring market noise in favor of long-term value compounding.

Explain the Too Big Too Fail Documentary and lessons

Too Big to Fail (2011) is an HBO biographical drama adapted from Andrew Ross Sorkin's bestselling non-fiction book. Directed by Curtis Hanson, it offers an insider, play-by-play chronicle of the pivotal months between March and October 2008—the epicenter of the global financial meltdown.

Rather than focusing on retail investors or mortgage borrowers, the film zeroes in on the top government officials and Wall Street CEOs who held the global financial system in their hands.

🎬 Overview & Synopsis

The film primarily centers around **Henry "Hank" Paulson** (U.S. Treasury Secretary and former CEO of Goldman Sachs), **Ben Bernanke** (Chairman of the Federal

Reserve), and **Timothy Geithner** (President of the Federal Reserve Bank of New York).

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                    THE DOMINO EFFECT (2008)

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│ BEAR STEARNS │───>│LEHMAN BROS.  │───>│  AIG & WEAK  │───>│  GLOBAL CREDIT│
│  (Rescued /  │    │ (Allowed to  │    │  BANKS       │    │  FREEZE &    │
│ Sold to JPM) │    │  Fail/BKR)   │    │ (Bailed Out) │    │  TARP RESCUE │
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1. **The Catalyst:** After broker Bear Stearns nearly collapses in early 2008 and is hastily sold to JPMorgan Chase, Treasury Secretary Hank Paulson vows to end government-funded bailouts to stop **moral hazard** (the risk that banks take bad bets knowing taxpayers will save them).
2. **The Fall of Lehman Brothers:** Investment bank Lehman Brothers, led by CEO Dick Fuld, is drowning in toxic subprime mortgage debt. Paulson attempts to engineer a private acquisition by Bank of America or Barclays without using government money. When Bank of America pivots to buy Merrill Lynch instead, and British regulators veto Barclays' participation, Lehman files for bankruptcy on September 15, 2008.
3. **The Contagion & Credit Freeze:** Allowing Lehman to fail triggers global financial panic. Interbank lending completely freezes. Simultaneously, insurance giant **AIG** faces total insolvency because it wrote hundreds of billions in credit default swaps (insurance) on those subprime mortgages. Realizing an AIG collapse would take down every major bank globally, Paulson is forced to reverse course and issue an $85 billion loan to rescue AIG.
4. **TARP & Direct Capital Injections:** With credit markets paralyzed, Fed Chair Ben Bernanke warns Congress that doing nothing will lead to another Great Depression. Treasury creates the **Troubled Asset Relief Program (TARP)**—a $700 billion fund. Ultimately, the government forces the top nine major U.S. banks to accept direct government capital injections (buying non-voting preferred stock) to restore confidence and force liquidity back into the economy.

💡 Key Lessons Learned

1. The Danger of Extreme Interconnectedness

The film demonstrates that financial institutions were so closely linked through complex derivatives and short-term debt markets that no firm was an island. When Lehman failed, it wasn't just one bank going down—it created a counterparty cascade that threatened every major firm on Earth.

> **Takeaway:** Financial contagion spreads faster than regulators can draft solutions. Understanding counterparty exposure is as important as looking at a single company's balance sheet.

2. Moral Hazard vs. Systemic Survival

Paulson originally refused to bail out Lehman Brothers to prove a point about **moral hazard**—that private companies must face market consequences for reckless behavior. However, when the alternative was total collapse of the real economy (payrolls unpayable, small business credit frozen), theory gave way to cold pragmatism.

> **Takeaway:** When systemic collapse is imminent, governments will choose moral hazard over global depression every time.

3. Illiquidity Can Kill a Solvent-Looking Bank in Days

Financial panics are driven by confidence. Modern investment banks relied heavily on overnight repo markets and short-term debt to fund daily operations. Once other institutions stopped trusting their collateral and refused to roll over short-term loans, liquid reserves vanished almost instantly.

> **Takeaway:** Cash flow and short-term liquidity, not just long-term accounting solvency, dictate immediate survival during a crisis.

4. Bailing Out Banks Doesn't Guarantee They Will Lend

In the film's closing scenes, after receiving hundreds of billions of federal TARP capital, Treasury officials ask whether the banks will actually use the cash to start lending to consumers and businesses. Because no strict operational conditions were attached to the injections, many banks simply hoarded the cash to shore up their own balance sheets or pay executive compensation.

> **Takeaway:** Government interventions often fix immediate solvency problems without guaranteeing that funds trickle down to benefit the broader economy.

5. Regulatory Lag and Financial Engineering

The crisis occurred because financial innovation (mortgage-backed securities, collateralized debt obligations, and credit default swaps) ran far ahead of existing regulatory frameworks. Neither the Fed nor the Treasury had the legal tools or real-time visibility to manage modern shadow banking.

> **Takeaway:** Structural market risk builds quietly in unregulated or poorly understood financial instruments long before it causes a sudden shock.

Post 2008, What are the reforms created by the US Government, Treasury Dept, Fed, SEC to provide countermeasures of the event.

Following the 2008 global financial crisis, the U.S. Government, Treasury, Federal Reserve, and SEC fundamentally overhauled the financial architecture to eliminate systemic vulnerabilities. The centerpiece of this effort was the landmark **Dodd-Frank Wall Street Reform and Consumer Protection Act (2010)**, along with corresponding international standards (Basel III).

Here is a breakdown of the structural reforms and countermeasures created across key government entities:

1. Federal Reserve: Capital, Stress Tests & Ending "Too Big to Fail"

The Fed's focus shifted from traditional monetary policy alone to intensive, forward-looking supervision of **Systemically Important Financial Institutions (SIFIs)**.

- **DFAST & CCAR Stress Testing:** The Fed instituted mandatory annual stress tests (**Dodd-Frank Act Stress Testing** and the **Comprehensive Capital Analysis and Review**). Banks must prove they maintain sufficient capital buffers to survive severe economic downturns before paying dividends or buying back shares.

- **Higher Capital & Liquidity Ratios (Basel III Framework):** Large banks were forced to significantly increase high-quality Common Equity Tier 1 (CET1) capital and hold liquid assets capable of funding a 30-day run (Liquidity Coverage Ratio).
- **The Volcker Rule:** Restricted commercial banks from engaging in speculative **proprietary trading** (trading for the bank's own profit) and limited their investments in hedge funds and private equity.
- **Living Wills (Resolution Plans):** Large financial firms are required to submit detailed plans explaining how they can be safely wound down in bankruptcy without requiring a government bailout.
- **Orderly Liquidation Authority (OLA):** Created under FDIC/Fed jurisdiction to step in, seize, and liquidate a failing mega-bank in an orderly fashion without triggering a broader credit freeze.

2. Treasury Department: Systemic Risk & Macroprudential Oversight

Prior to 2008, financial regulation was fragmented, leaving regulators blind to risks spreading across different market corners.

- **Financial Stability Oversight Council (FSOC):** Chaired by the Secretary of the Treasury, FSOC brings together all major financial regulators (Fed, SEC, FDIC, CFTC, CFPB) to identify structural, cross-market risks before they become crises.
- **SIFI Designation:** FSOC gained the power to designate non-bank financial institutions (like massive insurance companies or asset managers) as "Systemically Important," placing them under Federal Reserve supervision.
- **Office of Financial Research (OFR):** Established inside the Treasury Department to collect, standardize, and analyze deep market data across institutions to spot hidden concentrations of leverage and counterparty risk.

3. SEC & CFTC: Derivatives & Wall Street Transparency

Because unregulated over-the-counter (OTC) derivatives and credit default swaps (CDS) amplified the 2008 collapse, regulators targeted financial shadow markets.

- **Over-the-Counter Derivatives Clearing:** The SEC and CFTC brought multi-trillion-dollar swap markets out of the dark. Most standardized derivatives now must be cleared through central clearinghouses and traded on regulated exchanges.
- **Money Market Fund (MMF) Reform:** To prevent funds from "breaking the buck" (as the Reserve Primary Fund did in 2008), the SEC mandated floating Net Asset Values (NAVs) for institutional prime money market funds and allowed liquidity fees/gates during market runs.
- **Credit Rating Agency Rules:** The SEC imposed stricter accountability, conflict-of-interest controls, and disclosure requirements on agencies like Moody's and S&P, which had previously stamped toxic subprime bonds with AAA ratings.
- **Whistleblower Program:** Created an SEC office offering monetary rewards to insiders who expose securities fraud, market manipulation, or systemic accounting misstatements.

4. Consumer Protection: Curbing Abusive Lending

Because predatory mortgage practices triggered the subprime crash, Congress consolidated scattered consumer finance authorities into a single watchdog.

- **Consumer Financial Protection Bureau (CFPB):** Created as an independent regulatory agency tasked specifically with protecting retail consumers from abusive, deceptive, or predatory financial products.
- **Ability-to-Repay / Qualified Mortgage Rules:** The CFPB eliminated "NINJA" loans (No Income, No Job, No Assets) by requiring lenders to verify a borrower's income, debt-to-income ratio, and employment prior to issuing a mortgage.

> **The Core Takeaway:** Post-2008 reforms shifted financial regulation from *reactive* (bailing out failed firms after a crash) to *preventative and structural* (forcing higher cash reserves, eliminating hidden off-balance-sheet leverage, and creating tools to let failing mega-banks collapse safely).