

Fast Breaks from High Ground

Semiconductor drawdown signals, 1997–2026, and the live July 2026 setup in SOX / SMH

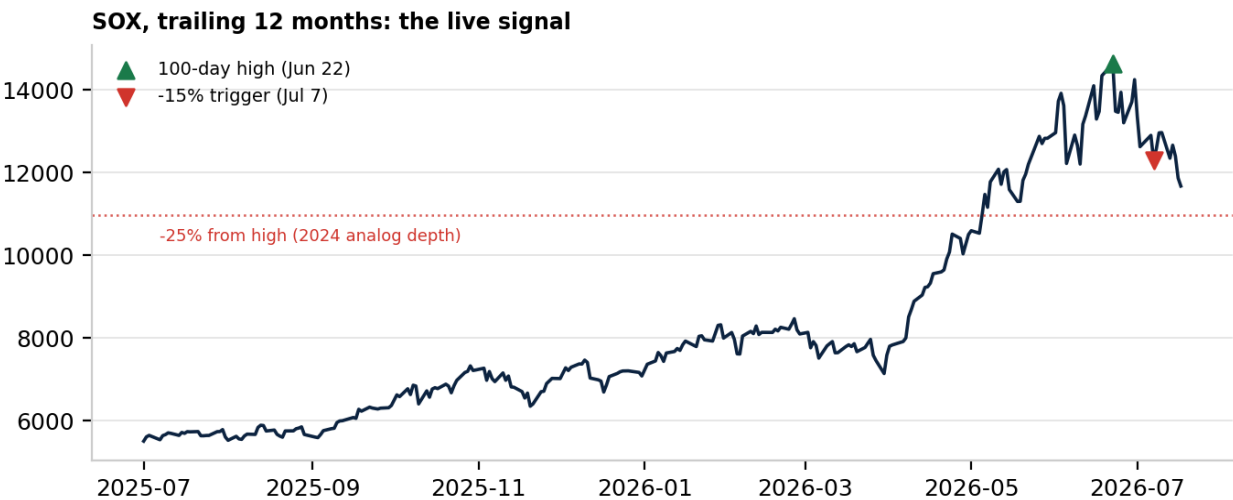
Executive summary

Semiconductors are 10 sessions removed from an all-time high and roughly 17% below it. That specific sequence — a fresh 100-day high followed by a -15% break within 20 sessions — has occurred nine times in the SOX since 1997, about once every three years. Six of the eight completed instances resolved higher within a year (median +21%); the two failures, April 2000 and January 2022, were cycle tops and lost -55% and -12% respectively. The single most useful discriminator in the sample is the **velocity of the break**: fast breaks (high-to-trigger in ≤ 12 sessions: 2020, 2024) suffered brutal near-term follow-through — a further -12% to -23% within three weeks — but produced the best one-year outcomes in the study and included no cycle tops. Slow, grinding breaks (≥ 16 sessions) had gentler paths but contained both catastrophes. The current break, at 10 sessions, sits in the fast cohort. The corroborating SMH momentum-washout study (15-day ROC crossing below -10%, April 2023–present) shows 6 of 7 completed signals positive at 21 sessions (median +11%) and 7 of 7 positive at 60 sessions (median +21%).

Bottom line: the historical evidence supports treating this as a buyable dislocation rather than a top — but it equally clearly says the trigger is rarely the low. The construct below scales in across the -17% / -20% / -25% depth zones with hard price and time invalidations, sized for the possibility that the base rate is wrong.

I. Situation

SOX printed a closing all-time (and 100-day) high of 14,635 on June 22, 2026. Ten sessions later, on July 7, it closed 15.9% below that high at 12,301, triggering the event-study condition. The subsequent tape has shown the signature whipsaw of prior fast breaks: a bounce of roughly +5% by t+3, fully retraced, with Friday July 17 closing at 11,674 — about 5.1% below the trigger and 20.2% below the high. SMH tells the same story: its 15-day ROC crossed below -10% on July 13 at \$585.62, and Friday closed at \$556.53, a weaker start at t+4 than any of the seven completed post-April-2023 washout signals.

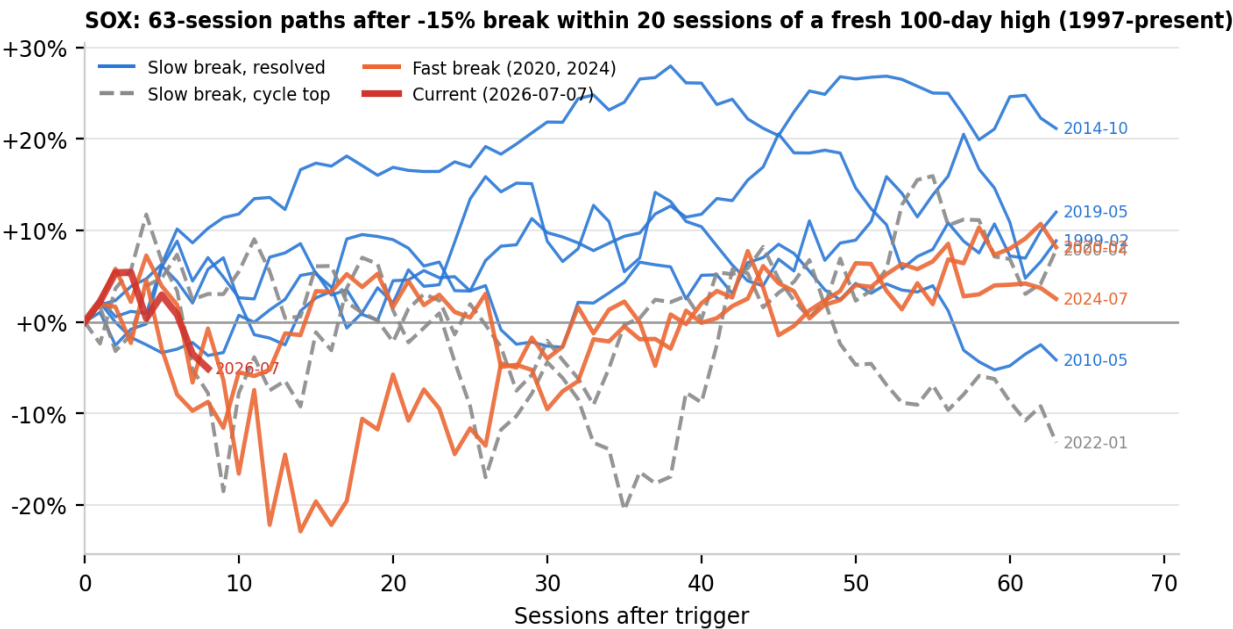


II. Study 1 — SOX 100-day-high breaks, 1997–present

Definition. A qualifying event occurs when the SOX closes at least 15% below a closing 100-day high set within the prior 20 sessions. After an event, the signal re-arms only once a new 100-day high prints, so overlapping declines count once. Nine events qualify since 1997, including the live one.

High date	Trigger	Sess.	+5d	+21d	+63d	+126d	+252d	Worse DD, 63d
1999-01-29	1999-02-26	19	+6.0	+5.7	+8.9	+46.1	+189.7	-2.6
2000-03-10	2000-04-03	16	+6.7	-2.2	+7.9	-23.9	-55.2	-20.6
2010-04-26	2010-05-20	18	+6.2	+8.1	-4.2	+9.8	+27.4	-5.2
2014-09-18	2014-10-13	17	+6.3	+16.6	+21.1	+29.1	+13.3	0.0
2019-04-24	2019-05-20	18	-3.4	+4.6	+12.0	+29.5	+32.0	-3.7
2020-02-19	2020-02-27	6	+3.9	-10.8	+8.2	+34.9	+83.8	-22.9
2021-12-27	2022-01-25	20	+4.8	+1.4	-13.2	-13.1	-11.5	-13.2
2024-07-10	2024-07-25	11	-2.9	+4.5	+2.5	-3.0	+14.7	-11.6
2026-06-22	2026-07-07	10	+2.9	—	—	—	—	-5.1 (open)
Median (completed)			+5.4	+4.5	+8.1	+19.5	+21.0	-5.2

Forward returns in percent from trigger-day close. "Worse DD" is the maximum additional decline below the trigger close over the following 63 sessions. Source: NASDAQ SOX daily closes, Sep 1996–Jul 17 2026; AQI calculations.



III. The velocity split

Partitioning the eight completed events by the speed of the high-to-trigger decline produces the study's sharpest finding. Fast breaks resemble forced selling and panic; slow breaks resemble distribution. The former have been violent but benign; the latter are where the cycle tops hide.

Horizon	Fast breaks (n=2): 2020, 2024	Slow breaks (n=6): 1999, 2000, 2010, 2014, 2019, 2022
+10d	mean -11.0%	mean +2.5%

Horizon	Fast breaks (n=2): 2020, 2024	Slow breaks (n=6): 1999, 2000, 2010, 2014, 2019, 2022
+21d	mean -3.2%	mean +5.7%
+63d	mean +5.3%	mean +5.4% / median +8.4%
+252d	mean +49.3% (both positive)	mean +32.6% / median +20.3% (min -55.2%)
Max add'l DD (63d)	-17.2% average	-7.5% average / -4.5% median
Cycle tops in cohort	None	Both (2000, 2022)

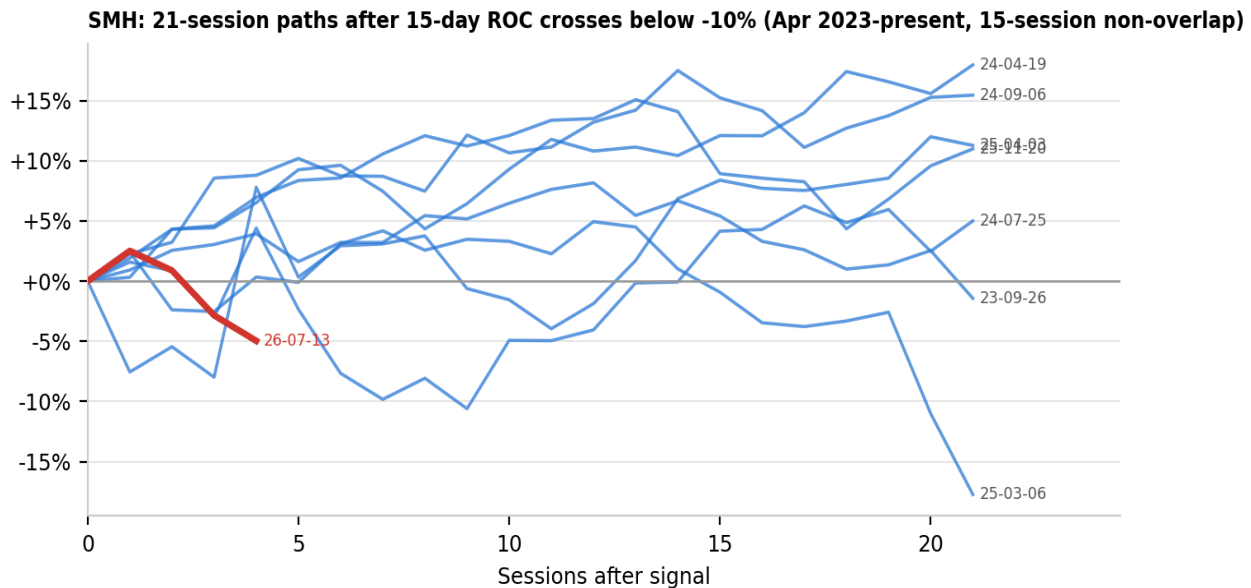
The current event, at 10 sessions high-to-trigger, belongs to the fast cohort. Taken at face value this argues (a) the trigger will not hold — both precedents bottomed 9–14 sessions after triggering, a further 12–23% down, placing the projected maximum-pain window in late July through early August 2026 and the projected depth zone at roughly 10,200–11,000 on SOX; and (b) the probability that June 22 was a 2000/2022-style cycle top is modestly reduced. Both inferences rest on two data points and deserve the corresponding humility. The fast/slow partition is a hypothesis the current event will test, not a law it must obey.

IV. Study 2 — SMH momentum washouts, April 2023–present

Definition. Signal fires when SMH's 15-day rate of change crosses below -10% (prior session $\geq$ -10%), with a 15-session lockout between signals. Eight signals since April 2023; seven completed. This shorter study measures the post-2022 regime specifically — the regime in which momentum washouts in semis have been systematically bought.

Signal	ROC15	+5d	+15d	+21d	+60d	+120d
2023-09-26	-10.1	+1.6	+5.4	+2.5*	+20.9	+55.7
2024-04-19	-11.5	+9.3	+12.1	+18.0	+27.6	+27.8
2024-07-25	-12.3	-2.3	+4.1	+5.0	+6.3	+7.1
2024-09-06	-12.7	+10.2	+15.2	+15.5	+15.3	+4.2
2025-03-06	-11.6	-0.1	-0.9	-17.7	+10.7	+35.4
2025-04-03	-10.9	+0.3	+8.4	+11.3	+41.0	+64.2
2025-11-20	-10.6	+8.4	+8.9	+11.0	+26.6	+71.7
2026-07-13	-11.3	—	—	—	—	—
Median (completed)		+1.6	+8.4	+11.0	+20.9	+35.4

Forward returns in percent from signal close. *+21d column shown at t+21. The 2026-07-13 signal was -5.0% at t+4 as of July 17, the weakest start in the cohort at that horizon. Source: BATS SMH daily closes; AQI calculations.



V. Tension

The two studies agree on the base case and disagree on the path. The regime evidence (Study 2) says buy the washout: every completed post-April-2023 signal was positive at 60 sessions. The depth evidence (Study 1, plus the SMH 50-day-high companion study whose lone 2024 analog bottomed -24.8% from the high) says the trigger is almost never the low — median additional drawdown of -5%, and four of eight events saw another -11% to -23% before bottoming. The unresolvable question is regime: every input to the bullish read assumes the post-2022 uptrend is intact, and the one thing this framework cannot do is distinguish a correction from the first leg of a bear market in real time. The 2022 cohort of the companion ROC study — where identical signals carried negative expectancy — is the standing counterexample. March 2025 is the nearer-term one: a signal that looked survivable for three weeks and then collapsed 17% in five sessions, rescued only by the next, deeper washout.

VI. Options & recommendation

Three constructions were considered: (1) full-size entry at market, which maximizes exposure to the fast-cohort flush that history says is probably still ahead; (2) waiting for the -25% analog depth, which risks missing the trade entirely if the V comes early (April 2025 bottomed at t+3); and (3) a three-tranche scale keyed to the analog depths. The evidence favors (3), weighted toward the deeper levels per the velocity finding.

Tranche	SMH level	SOX equiv.	Depth from high	Rationale
25%	~\$556	~12,300	-17%	Washout already fired; regime base rate favorable
35%	~\$535	~11,700	-20%	Final-week zone of the 2024 analog decline
40%	~\$502	~11,000	-25%	2024 capitulation depth; fast-cohort projected zone

Blended entry if fully filled: approximately -21% from the June 22 high. **Invalidation is dual.** Price: a close below -28% from the high (SMH ~\$482 / SOX ~10,540) exceeds every non-cycle-top analog and flips the working hypothesis to regime break; exposure comes off. Time: every winning analog had stopped bleeding by t+15 of the ROC signal and the fast-cohort lows arrived by t+14 of the SOX trigger; a position still underwater and making new lows beyond mid-August fails the template even without touching the price stop. Risk to the hard stop from blended entry is roughly -9%; the completed-cohort median payoff at 60 sessions is roughly +20%, for approximately 2:1 or better if the regime holds.

Sizing note. Under the firm's Kelly-Thorp framework, the raw cohort statistics (75% win rate, ~2:1) imply an uncomfortably large fraction. Applying the standard sample-size discount for $n=8$ — and the -55% tail that defines the loss distribution — the position should be sized such that the full three-tranche fill at the hard stop costs a planned, survivable fraction of book, not a Kelly-optimal one. The tail is the reason this note exists.

VII. Mechanics & monitoring

Instruments: SMH for simplicity; SOXX substantially identical; SOXL explicitly out of scope given the path-dependence documented above (a -23% further drawdown is a construct-ending event in 3x). Monitoring checklist: (1) the fast-analog clock — a durable low should form between roughly July 20 and August 8 if the 2020/2024 template holds; (2) failed-bounce count — both fast analogs bottomed on the second flush, and the first bounce has already failed; (3) the SMH 200-day test underway at current levels; (4) breadth and credit confirmation at any retest — the 2000/2022 tops were accompanied by deteriorating internals on each recovery attempt, the fast-cohort bottoms were not. This study will be updated as the open event completes at $t+63$ (approximately October 6, 2026).

Disclosures

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