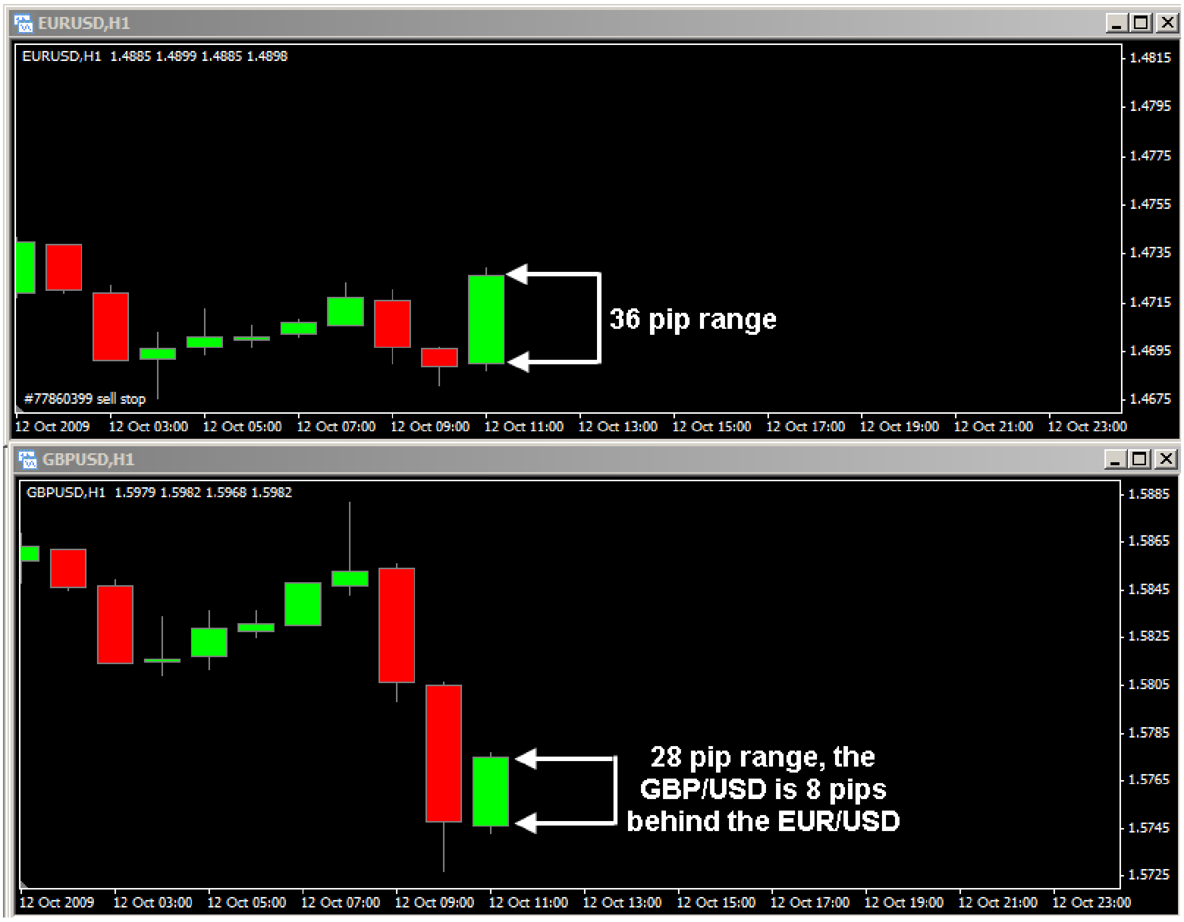
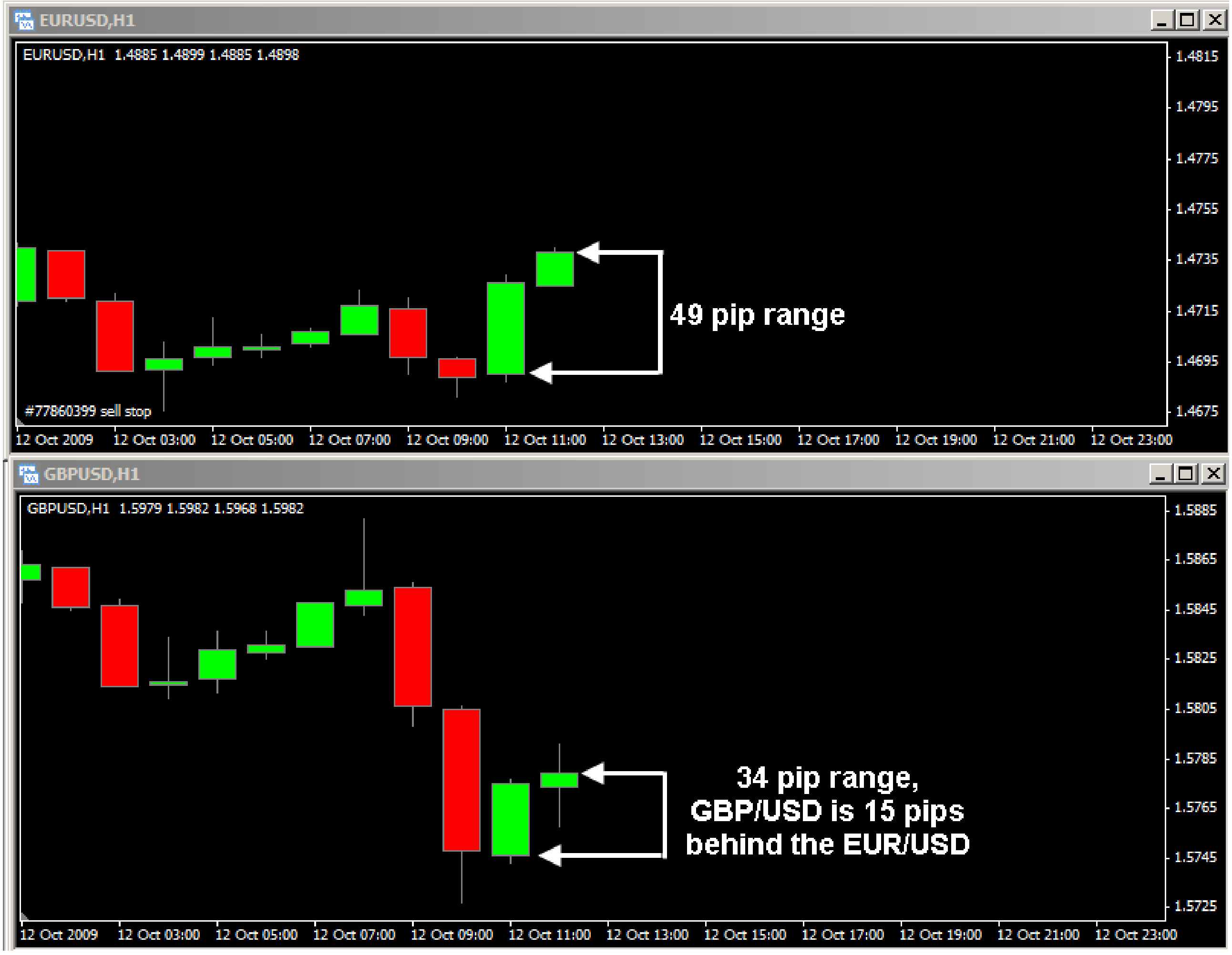
When we're trading with correlation, we're not *only* looking at direction…we're also looking at the RANGE.

"Range": The difference between the high and the low prices during a specified period of time.

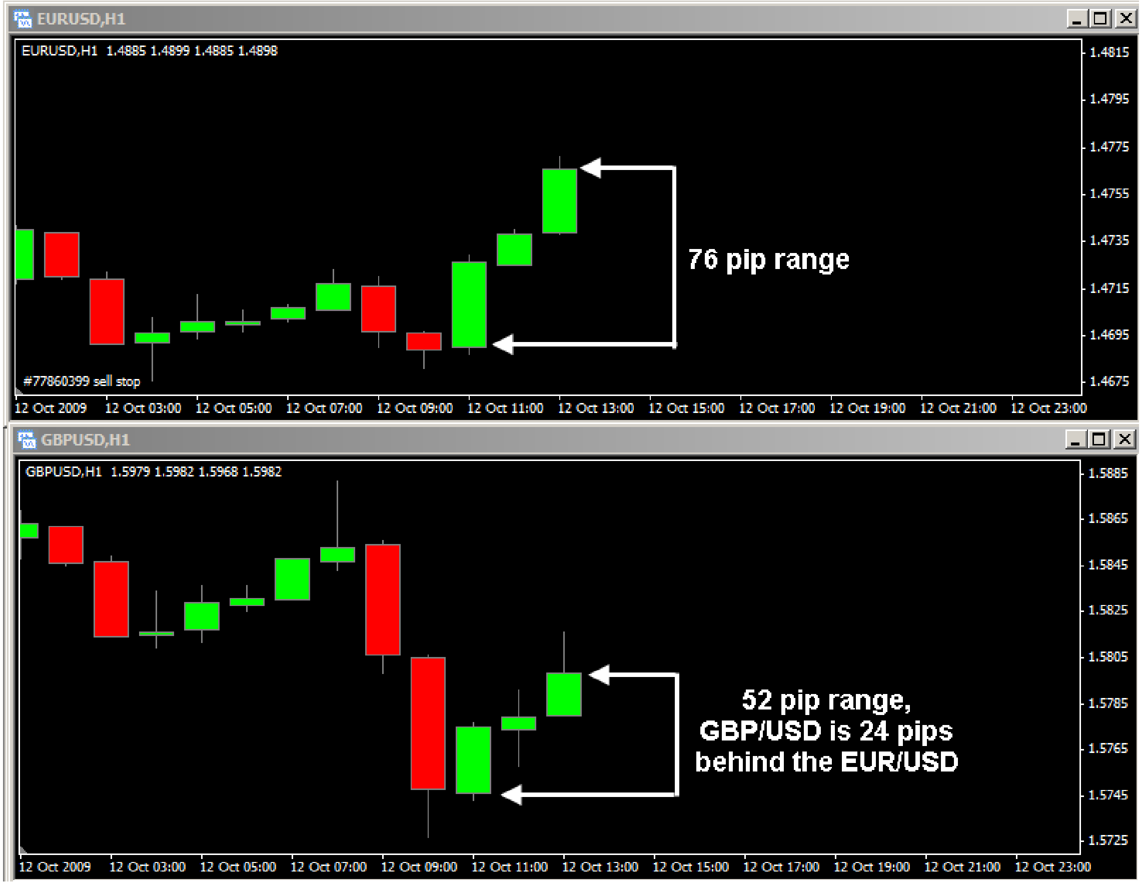
We know, for example, that **the GBP/USD normally has a much larger range than the EUR/USD**.
In other words, while these correlated pairs will generally move in the same direction, the GBP/USD should have lower valleys and higher peaks than the EUR/USD. So, when we see that the range of the GBP/USD is lagging behind the range of the EUR/USD for one bar (see screenshot below), we have a potential trade setup.
Once the "range lag" is **20 pips or greater**, we take the trade with the expectation that the GBP/USD will make up the "gap", and overtake the range of the EUR/USD within a few bars.
Let's go back and take a look at the chart…



Right now the range of the GBP/USD is lagging the EUR/USD by 8 pips. That's enough of a lag to take notice, but it's not enough to take the trade yet.
We are looking for **at least a 20 pip lag before we take the trade**, so we watch it for another bar and see what happens…

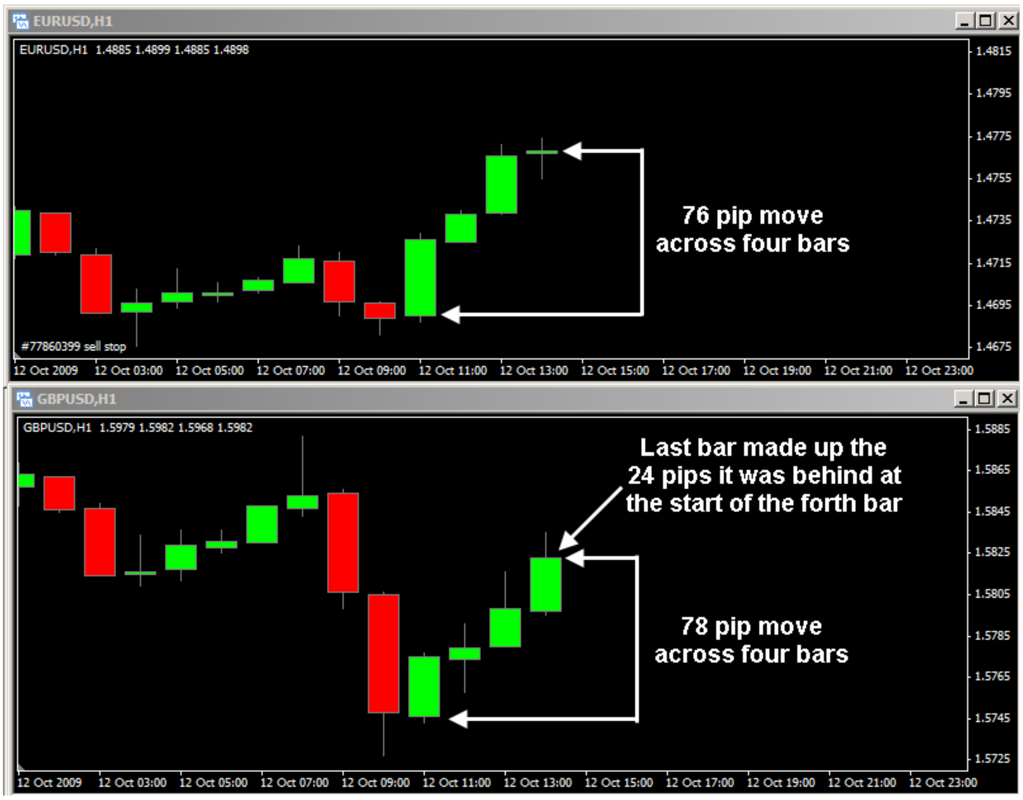


When the second bar closes, the range is now lagging by 15 pips. It's still not enough for us to take the trade yet, but the fact that the range lag still hasn't corrected itself (and is actually growing wider) is an ongoing alert. We´ll wait and watch it for one more bar and see if the "range lag" widens enough for us to take the trade…



The third bar has closed, and the “range lag” has now widened to 24 pips. That’s greater than the 20 pip minimum we need, so we´re going to take this trade and go long on the GBP/USD.

Our expectation is that the GBP/USD will at a bare minimum make up the 24 pip “range lag”, and possibly even go beyond that since historically the range of the GBP/USD is supposed to be LARGER than the EUR/USD Now that we’re in this trade, watch it and see what happens next…



As you can see, the very next bar the GBP/USD made up the "range lag" and returned to "normal" just as we expected it to. **We then exit the trade at the end of the bar and pocket the 24 pips.**

So to recap, all we need to do is:
1) Watch these 2 pairs simultaneously.
2) Track the movement of both pairs at the close of each bar.
3) Once we see one of the pairs begin to pull away, pay attention because we are now looking at a potential trade setup.
4) Calculate the "range lag" and when it exceeds 20 pips, we enter the trade, and we know what our target will be, as it will always be about equal to the "range-lag"