Although this simulation implies that portfolios that are rebalanced more frequently track the target asset allocation more closely, it also suggests that the cost of rebalancing may place upper limits on the optimal number of rebalancing events. Transaction costs and taxes (when applicable) detract from the portfolio’s return, potentially undermining the risk-control benefits of some rebalancing strategies. In our simulation, the number of rebalancing events and the annual turnover were proxies for costs, with actual costs depending on a portfolio’s unique transaction costs and taxes.

After taking into consideration reasonable expectations for return patterns, average returns, and risk, we concluded that for most broadly diversified equity and bond portfolios, annual or semi-annual monitoring, with rebalancing at 5% thresholds, produced a reasonable balance between risk control and cost minimisation.

There are several potentially significant drawbacks of measuring relative performance against customised benchmarks. For one, the estimated customised benchmark removes the potential to add value through longer-term style tilts if the tilt is gradual in magnitude. Such "corrections" may actually misrepresent the manager's style if the "style drift" reflects an intentional active position incurred by an active fund manager in an attempt to beat a style- box index.

Another potential criticism of returns-based customised benchmarks relates to investability.

Since customised benchmarks are estimated by regressing an active fund's past performance, how often one should update the customised benchmark weights is an important consideration for active fund classification and evaluation.

In the end, style analysis is an ex post (after the fact) performance attribution model, and thus cannot possibly read the mind of the active manager. Conceivably, an investor could replicate an active fund's strategic allocation (as suggested by its customised benchmark) by "cloning" the active fund's beta exposure through an indexing strategy. Of course, such a replication strategy would have to assume that the fund's strategic asset allocation did not change in the future. That is, the fund's betas would have to remain stable over time.