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Asset Allocation With Correlation: A Composite Trade-Off

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**Highlights**

- Dynamic correlation-based asset allocation outperforms 1/N pre-transaction costs
- Estimation error not the primary obstacle to successful portfolio optimization
- Performance benefits diminish after transaction costs due to excessive rebalancing
- Limiting portfolio turnover restores the outperformance of optimized strategies
- Evidence for a series of trade-offs central to optimal portfolio performance

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