Portfolio managers must be able to estimate transaction costs when constructing and rebalancing portfolios. This is not only true for active but also for passive investment styles. Index trackers are especially vulnerable, as they are allowed only very small deviations from their benchmarks. The following article demonstrates how transaction costs can be estimated and incorporated in the portfolio construction process. First, we develop the RiskLab Transaction Cost Model (TraC'M). In a second step we include transaction costs in a standard index tracking model. Finally, we show how portfolio managers can improve their overall performance when regarding transaction costs.