NISM-Series-X-A — Investment Adviser (Level 1)

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LEARNING SESSIONS

CH-1 Introduction to Personal Financial Planning

Topic 1 — Meaning and Need for Personal Financial Planning

- **Personal financial planning** — A structured process of managing an individual's or family's money so that life goals are met with the resources available, now and later.
- **Core idea** — It links three things: where the client is today (income, assets, debts), where the client wants to be (goals), and the path between the two (savings, investments, protection).
- **Holistic view** — Income, spending, borrowing, insurance, investments, tax and estate matters are looked at together, because a decision in one area affects the others.
- **Continuous activity** — A plan is not a one-time document; it is reviewed as income, family, markets and rules change.

Why individuals need a plan today

Driver	What it means for the household
Rising life expectancy	Retirement may last 20–30 years; savings must last longer.
Inflation	Cost of education, health care and daily living keeps rising; idle money loses value.
Nuclear families	Less support from the joint family; each household must build its own safety net.
Limited social security	Most private-sector and self-employed people have no assured pension.
Wide product choice	Many products with different risk, return, cost and tax; wrong choices are costly.
Changing work patterns	Job changes, gig work and business income make cash flows uneven.
Easy credit	Cards and instant loans make overspending easy; debt needs control.

Saving vs investing

Point	Saving	Investing
Meaning	Setting aside part of income instead of spending it	Putting saved money into assets expected to earn a return
Aim	Safety and liquidity	Growth to beat inflation and fund goals
Risk	Very low	Varies with the asset — from low (deposits) to high (equity)
Example	Savings bank balance	Equity fund SIP, bonds, PPF

- **Both are needed** — Saving creates the surplus; investing makes that surplus work. Saving without investing loses to inflation; investing without a saving habit has nothing to invest.
- **Spend what is left after saving** — Treating saving as the first "expense" each month builds discipline (see CH-3).

Benefits of a financial plan

- **Clarity of goals** — Vague wishes become measurable targets with a date and a cost.
- **Better use of income** — Surplus is identified and directed to goals instead of drifting into spending.
- **Protection** — Risks such as death, illness and job loss are covered before they derail goals.
- **Discipline in volatile markets** — A written plan reduces panic selling and impulse buying.

Example: Arjun (32), a software engineer in Pune, saves whatever is left at month-end in a savings account. After planning, he fixes a monthly SIP for his daughter's education, buys term cover, and keeps six months' expenses as an emergency fund — the same income now serves three goals.

Remember this

- Financial planning = present position + goals + action plan, reviewed regularly.
- Inflation, longer life and limited social security make planning a necessity, not a luxury.

Topic 2 — Scope and Areas of Financial Planning

- **Comprehensive scope** — A full plan covers every area of a client's financial life, not just investments.
- **Inter-linkage** — High EMIs reduce the surplus for SIPs; poor insurance can force sale of investments; tax rules change post-tax returns.

Area	Key question answered
Cash flow and budgeting	Is income enough for expenses, EMIs and savings? (see CH-3)
Debt management	How much borrowing is safe and which loan is cheapest? (see CH-4)
Risk management and insurance	What happens to the family if income stops due to death, illness or disability?
Investment planning	Which assets, in what mix, will fund each goal?
Tax planning	How can the plan be made tax-efficient within the law?
Retirement planning	How large a corpus is needed and how much to save each month?
Estate planning	How will wealth pass smoothly to heirs (nomination, will)?

- **Investment planning is only one part** — Investing without an emergency fund or insurance leaves the plan exposed.
- **Order of priority** — Usually: cash-flow control → emergency fund → protection → debt clean-up → goal investing → estate arrangements.

Example: Neha, a doctor in Jaipur, asks only for "good mutual funds". Her adviser finds no health cover for her parents and a credit-card balance at high interest. The plan first fixes protection and debt; only then are funds selected.

Remember this

- Scope covers cash flow, debt, insurance, investment, tax, retirement and estate — all inter-linked.

Topic 3 — Financial Goals: Setting and Classifying

- **Financial goal** — A future need or wish that has a money value and a target date, e.g. a child's higher education, a home, or retirement.
- **Wish vs goal** — "I want to be rich" is a wish; "₹50 lakh for my son's MBA in 2038" is a goal.

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SMART goals

Letter	Test	Illustration
S — Specific	What exactly?	Down payment for a 2BHK flat
M — Measurable	How much money?	₹20 lakh in today's value
A — Achievable	Possible from the surplus?	₹35,000 a month can be saved
R — Realistic / Relevant	Fits the client's priorities?	Ranked above a foreign holiday
T — Time-bound	By when?	March 2031

Classification of goals

Basis	Types	Typical examples
Time horizon	Short-term (about a year), medium-term (a few years), long-term (many years)	Vacation; car purchase; retirement
Priority	Essential (needs) and aspirational (wants)	Child's education vs luxury car
Nature	One-time and recurring	Wedding vs annual school fees

- **Inflation-adjust every goal** — Cost today must be converted to cost on the goal date (method in CH-2).
- **Horizon decides product** — Short-term goals need safety and liquidity; long-term goals can carry growth assets such as equity.
- **Prioritise when money is short** — Essential goals (emergency fund, protection, retirement, education) come before aspirational ones; goal dates or amounts may need revision.

Example: Farida (40) lists five goals but her surplus funds only three. Her adviser ranks retirement and her daughter's education as essential, postpones the second car by four years and trims the holiday budget.

Remember this

- A goal = amount + date + priority; make it SMART and inflation-adjusted.
- Time horizon guides asset choice: short = safe and liquid, long = growth.

Topic 4 — Life Cycle Stages and Financial Priorities

- **Life cycle approach** — A person's needs, income, responsibilities and risk capacity change with age and family situation; the plan must match the stage.
- **Earning years fund non-earning years** — Savings made while working must support childhood dependants and retirement.

Life stage	Typical situation	Main financial priorities
Childhood / student	Dependent; no income	Education funding by parents
Young, unmarried	New income, few responsibilities, long horizon	Budget habit, emergency fund, start SIPs, health cover
Young married	Two incomes possible, home planning	Joint budget, term cover, home down payment
Married with young children	Rising expenses, home loan EMIs	Adequate life and health cover, child education goals
Married with older children	Peak earnings, peak expenses	Fund education/wedding, step up retirement savings, cut debt
Pre-retirement	Children settled, few years of work left	Close loans, build retirement corpus, shift to stable assets
Retirement	Salary stops; health costs rise	Regular income, liquidity, medical cover, estate planning

- **Risk capacity falls with age** — A young earner can recover from market falls; a retiree depending on the corpus cannot.
- **Responsibilities, not just age** — A 30-year-old single earner with dependent parents and two children has less risk capacity than a 30-year-old with no dependants.

Example: Ravi (26, single, Bengaluru) can hold a high equity share for retirement. His uncle Mohan (58, two years to retirement) is advised to repay his home loan and move part of his corpus to fixed income.

Remember this

- Match the plan to the life stage: accumulate early, protect in the middle, secure income later.

Topic 5 — The Wealth Cycle

- **Wealth cycle** — The stages through which a person's wealth moves: it is built, then consolidated, then used, and finally passed on.
- **Link with life cycle** — The wealth cycle runs alongside the life cycle; each stage calls for a different mix of products and risk.

Stage	What happens	Planning focus
Accumulation	Early and middle working years; regular saving from income	Growth assets, SIPs, disciplined saving, protection
Transition (consolidation)	Goals such as education, home or wedding draw on savings; net worth still rising	Shift goal money to safer assets as each goal date nears
Reaping / distribution	Retirement; corpus is drawn down for living expenses	Regular income, capital protection, liquidity, longevity risk
Inter-generational transfer	Wealth passes to the next generation	Nomination, will, succession planning

- **Transition is goal-specific** — Money for a goal due in two years should move out of volatile assets even if the client is young.
- **Distribution stage risk** — Withdrawing too fast or holding too much risk can exhaust the corpus during the client's lifetime.
- **Transfer stage** — Up to 3 nominees can be named for demat accounts and MF folios (from 1 Sep 2026; earlier up to 10). Probate is optional, not compulsory.
- **Sudden wealth** — A windfall such as an inheritance, the sale of a business, a large bonus or a lottery win can arrive at any stage. Park it in safe, liquid instruments (for example a liquid fund or short deposit) until a considered plan is made, instead of spending or investing it in a hurry.

Example: Sunita, 45, is in accumulation for retirement but in transition for her son's college fees due next year; the two goals are invested differently.

Remember this

- Wealth cycle: Accumulation → Transition → Reaping/Distribution → Inter-generational transfer.
- Sudden wealth can occur at any stage: hold it safe and liquid until it is planned.

LEARNING SESSIONS

Topic 6 — The Financial Planning Process

- **Six-step process** — Financial planning follows a standard cycle used by professional planners and advisers.
- **Client-centric** — Every step starts from the client's goals, circumstances and risk profile, not from a product.

Step	What the adviser does
1. Establish and define the relationship	Explain services, scope, fees, responsibilities and conflicts; sign the agreement.
2. Gather client data and goals	Collect quantitative data (income, assets, loans, policies) and qualitative data (goals, attitudes, family needs).
3. Analyse and evaluate the financial status	Prepare net-worth and cash-flow statements, ratios, risk profile, gaps in insurance and goals.
4. Develop and present recommendations	Suggest a written plan with alternatives, assumptions and asset allocation.
5. Implement the recommendations	Agree who does what and by when; execute investments, insurance and debt changes.
6. Monitor and review	Track progress; revise on life events, market moves or rule changes.

Data the adviser must collect

Quantitative (hard data)	Qualitative (soft data)
Income, expenses, EMIs	Goals and their priority
Assets and liabilities	Attitude to risk, investment experience
Insurance policies, nominations	Health, family values, career plans
Tax status, existing investments	Preferences, such as avoiding certain sectors

- **Garbage in, garbage out** — An incomplete data set (e.g. a hidden personal loan) makes every recommendation unreliable.
- **Assumptions in writing** — Inflation, return and life-expectancy assumptions should be stated so the client understands the plan's basis.
- **Review triggers** — Marriage, a child's birth, job loss, inheritance, a large market fall or a tax change call for a review, apart from the scheduled one.

Example: Adviser Kavita meets Deepak and Shruti, agrees scope and fee in writing (step 1), collects their salary slips, loan statements and goals (step 2), and builds their net-worth statement (step 3) before suggesting any product.

Remember this

- Relationship → Data → Analysis → Recommendations → Implementation → Monitoring.
- Both hard (numbers) and soft (attitudes, goals) data are essential.

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Topic 7 — Approaches to Financial Planning

Cash-flow approach vs net-worth approach

Feature	Cash-flow approach	Net-worth approach
Starting point	Each goal and the cash needed for it	The total corpus needed for all goals
Method	Goals are mapped to future cash flows; savings and investments are matched to each goal's timing	Estimate the net worth required by a target date; plan savings to build it
Focus	Timing and amount of inflows and outflows	Size of wealth at a point in time
Best suited to	Distinct goals with clear dates (education, home)	Broad targets such as financial independence
Limitation	Many goals make it detailed and data-heavy	Ignores timing; money may not be liquid when needed

Comprehensive vs goal-based (modular) planning

- **Comprehensive (holistic) planning** — Covers all areas together; best long-term outcome but needs complete data and more time.
- **Goal-based / modular planning** — Addresses one need at a time, e.g. only retirement or only a child's education; quicker but may miss conflicts with other goals.
- **Product-led advice is not planning** — Selling a product first and fitting it to the client later is the opposite of a client-centric plan.

Example: Joseph (35) has three goals with fixed dates — school admission in 2028, a home in 2031 and retirement in 2051. His adviser uses the cash-flow approach, earmarking separate investments for each date.

Remember this

- Cash-flow approach = goal-by-goal timing; net-worth approach = total wealth target.

Topic 8 — Role of the Financial Planner and Investment Adviser

- **Investment adviser (IA)** — A person registered with SEBI who gives investment advice for a fee; financial planning is part of investment advice under the IA Regulations.
- **Fiduciary role** — The adviser must act in the client's best interest, disclose conflicts and recommend only what is suitable.
- **Advice vs distribution** — An individual IA cannot provide any distribution services, and the IA's family members cannot distribute to the IA's advisory clients (details in Key Regulations, see CH-21 to CH-23).

Skills and qualities of a good adviser

Quality	Why it matters
Technical knowledge	Products, markets, tax and regulation change constantly
Communication and listening	Soft data comes out only through trust and good questions
Analytical ability	Statements, ratios and goal projections need accuracy
Ethics and objectivity	Advice must not be coloured by commissions or self-interest
Continuing education	The NISM certification must be kept valid through CPE

- **Client's responsibilities** — Give complete and true data, follow the agreed actions and inform the adviser of life changes.

- **Behavioural coaching** — Advisers help clients avoid common biases such as herd behaviour, overconfidence and loss aversion, especially during market swings.

Common behavioural biases

Bias	How it shows up
Loss aversion	Pain of a loss feels larger than joy of a gain; leads to panic selling or holding losers too long
Herd behaviour	Buying what friends or social media are buying, usually near market peaks
Overconfidence	Over-trading and concentrated bets after a few lucky gains
Anchoring	Fixing on a past price ("I'll sell when it returns to my cost")
Mental accounting	Treating a bonus as "free money" to spend while carrying costly debt

Example: During a sharp market fall, Rohan wants to stop all SIPs. His adviser reminds him that his retirement goal is 22 years away and the plan already assumed volatility; Rohan continues his SIPs.

Remember this

- An IA advises for a fee in the client's best interest; an individual IA cannot distribute products.

NISM-Series-X-A | Module A | CH-1 | MCQs

Q1. Arjun keeps all his savings in a savings account and says planning is unnecessary because he "never touches the money". Which factor most directly shows that his approach will hurt his long-term goals? *[Ref: Topic 1, p. 2]*

(a) Low liquidity of savings bank balances
(b) Inflation eroding the real value of idle money
(c) Absence of any nomination on the account
(d) High tax on interest from savings deposits

Q2. Which of the following is NOT usually a reason why financial planning has become more important for Indian households? *[Ref: Topic 1, p. 2]*

(a) Assured employer pensions for most private-sector workers
(b) Longer retirement periods due to higher life expectancy
(c) Growth of nuclear families with less family support
(d) A wide range of products with different risk and cost

Q3. Neha asks her adviser only to select mutual funds. The adviser finds no health insurance and an unpaid credit-card balance. As per a comprehensive plan, what should come first? *[Ref: Topic 2, p. 2]*

(a) Choosing high-return equity funds for quick growth
(b) Starting a large SIP and paying the card in instalments
(c) Buying a single-premium policy for tax savings
(d) Fixing protection and clearing the costly card debt

Q4. Statement I: A goal stated as "I want to retire rich" is a SMART goal. Statement II: "₹30 lakh for my daughter's engineering course in June 2034" is specific, measurable and time-bound. Which is/are correct? *[Ref: Topic 3, p. 2]*

(a) Only I (b) Only II (c) Both I and II (d) Neither I nor II

Q5. Farida's monthly surplus can fund only three of her five goals. Which pair should her adviser normally keep, while deferring the others? *[Ref: Topic 3, p. 2]*

(a) Retirement and her daughter's education
(b) A second car and an overseas holiday
(c) An overseas holiday and a home renovation
(d) A second car and her daughter's education

Q6. A goal is due in 11 months. Which feature should the investment chosen for it have above all? *[Ref: Topic 3, p. 2]*

(a) High growth potential over the long run
(b) Maximum tax deduction in the current year
(c) Exposure to small-cap equity for higher return
(d) Safety of capital and easy liquidity

Q7. Mohan is 58, has two years to retirement and an outstanding home loan. Which priority best matches his life stage? *[Ref: Topic 4, p. 3]*

(a) Raising equity exposure to catch up on growth
(b) Taking a top-up loan to buy a second property
(c) Closing loans and shifting to stable assets
(d) Starting a long-term child education plan

Q8. Two clients are both 30 years old. Kiran is single with no dependants; Imran is the sole earner for his parents, wife and two children. Which statement is correct? *[Ref: Topic 4, p. 3]*

(a) Kiran generally has higher risk capacity than Imran
(b) Both have the same risk capacity as they are the same age
(c) Imran has higher risk capacity as he has more responsibilities
(d) Risk capacity depends only on income, not on dependants

Q9. Sunita (45) is regularly saving for retirement and her son's college fees fall due next year. In the wealth cycle, the money for the college fees is in which stage? *[Ref: Topic 5, p. 3]*

(a) Accumulation (b) Transition
(c) Reaping / distribution (d) Inter-generational transfer

Q10. A retired couple is drawing a monthly amount from their corpus. Which risk is MOST important in this stage of the wealth cycle? *[Ref: Topic 5, p. 3]*

(a) Missing a high-growth IPO opportunity
(b) Not getting a tax deduction on fresh investments
(c) Under-using credit card reward points
(d) Running out of money during their lifetime

Q11. Adviser Kavita has signed the advisory agreement with Deepak and is now collecting his loan statements, salary slips and goals. Which step of the financial planning process is she in? *[Ref: Topic 6, p. 4]*

(a) Establishing and defining the relationship
(b) Gathering client data and goals
(c) Developing and presenting recommendations
(d) Monitoring and reviewing the plan

Q12. Which of the following is qualitative (soft) data in financial planning? *[Ref: Topic 6, p. 4]*

(a) Outstanding principal on a car loan
(b) Sum assured of a term insurance policy
(c) The client's attitude towards market losses
(d) Monthly take-home salary

Q13. Joseph has three goals with fixed dates and wants a separate investment earmarked for each date. Which planning approach suits him best? *[Ref: Topic 7, p. 4]*

(a) Net-worth approach (b) Product-led approach
(c) Cash-flow approach (d) Single-corpus approach

Q14. Statement I: The net-worth approach focuses on the total wealth needed by a target date. Statement II: Its weakness is that it may ignore whether money will be liquid exactly when each goal arrives. Which is/are correct? *[Ref: Topic 7, p. 4]*

(a) Only I (b) Only II (c) Both I and II (d) Neither I nor II

LEARNING SESSIONS

Q15. Ramesh is registered as an individual investment adviser. A client asks him to also sell her the mutual fund units he recommended and earn the commission. What is the correct position? *[Ref: Topic 8, p. 4]*

(a) He may do so if he discloses the commission in writing
(b) He may do so for direct plans only
(c) He may do so for clients with assets above ₹1 crore
(d) He cannot provide distribution services at all

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	b	4	b	7	c	10	d	13	c
2	a	5	a	8	a	11	b	14	c
3	d	6	d	9	b	12	c	15	d

CH-2 Time Value of Money

Topic 1 — Concept of Time Value of Money

- **Time value of money (TVM)** — A rupee received today is worth more than a rupee received in the future, because today's rupee can be invested to earn a return.
- **Why money has time value** — (1) Opportunity cost: money in hand can earn interest; (2) Inflation: prices rise, so future money buys less; (3) Risk: a future payment may not be received; (4) Preference for present consumption.
- **Compounding** — Moving a present amount forward to find its future value (FV).
- **Discounting** — Bringing a future amount back to its present value (PV). The rate used is the discount rate.

Term	Symbol	Meaning
Present value	PV	Value today of a sum or stream
Future value	FV	Value at a future date
Rate per period	r	Interest/return per compounding period
Number of periods	n	Years, half-years, quarters or months
Payment	PMT / C	Equal periodic cash flow (annuity)

- **Periods and rate must match** — With monthly payments use the monthly rate and number of months.
- **Uses in planning** — Goal corpus, SIP amount, retirement corpus, EMI, comparing products and valuing bonds or projects.
- **Choice of rate** — For a client, the rate is the return that can realistically be earned on the money (the opportunity cost); for a loan it is the interest rate charged.

Which TVM tool to use

Planning question	Tool
What will my lump sum grow to?	FV of a single sum
How much to invest today for a goal?	PV of a single sum
What will my monthly SIP grow to?	FV of an annuity
How much corpus to pay a fixed pension?	PV of an annuity
What is my EMI?	PV of an annuity solved for payment
Which deposit pays more?	Effective annual rate
Is this investment worth it?	NPV / IRR

Remember this

- Compounding takes money forward; discounting brings it back.
- Rate and periods must be in the same time unit.

Topic 2 — Simple and Compound Interest

- **Simple interest** — Interest is earned only on the original principal; it is the same every year.
- **Compound interest** — Interest is earned on principal plus interest already added; the base grows every period ("interest on interest").
- **Gap widens with time** — The longer the period and the higher the rate, the bigger the advantage of compounding.

$$SI = P \times r \times n \qquad FV_{SI} = P(1 + rn)$$

$$FV_{CI} = P(1 + r)^n$$

N1. *[Numerical]* Lakshmi invests ₹1,00,000 for 5 years at 8% a year. Find the maturity value under simple and annual compound interest.

Item	Value
Principal (P)	₹1,00,000
Rate (r)	8% a year
Years (n)	5

Solution:

$$SI = 100000 \times 0.08 \times 5 = 40000$$

Simple interest maturity = ₹1,40,000.

$$FV = 100000 \times (1.08)^5 = 100000 \times 1.469328 = 146933$$

Compound interest maturity = ₹1,46,933; extra from compounding = ₹6,933.

Answer: Simple ₹1,40,000; compound ₹1,46,933

Feature	Simple interest	Compound interest
Base for interest	Original principal only	Principal + accumulated interest
Interest each year	Constant	Rises every period
Growth pattern	Straight line	Accelerating curve
Typical use	Interest paid out regularly (non-cumulative deposits, coupons)	Cumulative deposits, reinvested returns, SIPs

- **Payout vs cumulative** — When interest is paid out and spent, the investor effectively earns simple interest; reinvesting it gives compounding.
- **Start early** — Because compounding accelerates with time, the years invested matter more than the amount invested.

Remember this

- Compound interest = interest on interest; it always beats simple interest for n more than 1.

Topic 3 — Future Value and Present Value of a Single Sum

$$FV = PV \times (1 + r)^n$$

$$PV = \frac{FV}{(1 + r)^n}$$

- **FV factor** — $(1 + r)^n$; it rises with both rate and time.
- **PV (discount) factor** — $1 \div (1 + r)^n$; it falls as rate or time rises. A higher discount rate means a lower present value.
- **Use of PV** — Tells how much must be invested today to reach a goal; also used to compare offers paid at different times.

N2. *[Numerical]* Meera invests ₹2,50,000 today at 9% a year compounded annually. What will it grow to in 10 years?

Item	Value
PV	₹2,50,000
r	9%
n	10 years