

NISM-Series-V-A — Mutual Fund Distributors

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CH-1

Investment Landscape (Part 1)

Topic 1 — Investors and Their Financial Goals

- **Investor** — A person or entity that puts surplus money into an asset expecting a return over time. Individuals, HUFs, companies, trusts and institutions are all investors.
- **Financial goal** — A specific future need that money must meet, such as a child's education, a house or retirement. A usable goal has an amount, a target date and a priority.
- **Needs versus wants** — Needs (food, housing, health cover, retirement income) are funded first. Wants (a luxury car, a foreign holiday) come after the needs are secure.
- **Why goals matter** — The goal decides the time horizon, and the horizon decides how much risk the money can take. The same investor may hold very different products for different goals.

Classifying goals by time horizon

Horizon	Typical goals	Suitable investment tilt
Short-term (up to about 3 years)	Emergency fund, school fees next year, a planned trip	Safety and liquidity first: savings account, deposits, liquid or money market funds
Medium-term (about 3–7 years)	Car, down payment for a flat, higher studies abroad	Mix of debt and some equity; moderate risk
Long-term (beyond about 7 years)	Retirement, child's graduation 15 years away	Growth assets such as equity can dominate; time absorbs volatility

Life-cycle view of goals

Life stage	Main priorities	Risk-taking ability
Young earner, no dependants	Emergency fund, start long-term investing early	High — long horizon, few obligations
Young family	Insurance, home loan, children's education	Moderate to high
Mid-career	Peak earning; education and retirement corpus	Moderate
Pre-retirement	Protect the corpus, reduce debt	Falling
Retired	Regular income, liquidity for health costs	Low

Example: Arjun Mehta, 28, a software engineer in Pune, lists three goals: a ₹3 lakh emergency fund now, a ₹15 lakh down payment in 5 years and retirement at 58. The emergency fund goes into a liquid option, the down payment into a balanced mix, and retirement money mainly into equity.

Remember this

- Every goal needs an amount, a date and a priority; the horizon decides the risk the money can take.
- Needs are funded before wants.

Topic 2 — Investment Objectives and Constraints

- **Safety of capital** — The investor does not want the principal to fall. Priority for emergency money and for retirees living off the corpus.
- **Regular income** — The investment should pay interest, dividends or rent at intervals, e.g. a retired couple meeting monthly expenses.

- **Growth (capital appreciation)** — The value of the investment should rise faster than inflation over time. Needed for long-term goals such as retirement.
- **Liquidity** — The ability to convert the investment into cash quickly, at a fair price and low cost.
- **Tax efficiency** — The return that matters is the post-tax return; the tax treatment of mutual funds is covered separately (see CH-14).

No single product meets every objective

Objective	Usually traded off against	Illustration
Safety	Growth	A bank deposit protects capital but may barely beat inflation
Growth	Safety and short-term stability	Equity can fall 20–30% in a bad year
Liquidity	Return	Savings balance is instantly available but earns little
Regular income	Growth	High-payout options leave less money compounding

Constraints that shape the choice

- **Time horizon** — How long the money can stay invested before the goal falls due.
- **Risk capacity and willingness** — How much loss the investor can afford and is comfortable with (see CH-2 for risk profiling).
- **Liquidity needs, tax status and legal limits** — For example, lock-in periods, minimum investment amounts and the investor's residential status.

Example: Mr and Mrs Bose, both 66, in Kolkata need ₹35,000 a month from a ₹70 lakh corpus. Their primary objectives are regular income and safety, with liquidity for medical needs; growth is a secondary objective for a smaller part of the corpus.

Remember this

- Five objectives: safety, income, growth, liquidity, tax efficiency — always trade-offs.
- Horizon, risk capacity, liquidity needs and tax status are the constraints.

Topic 3 — Saving or Investing

- **Saving** — The part of income not spent on consumption. $\text{Saving} = \text{Income} - \text{Expenses}$.
- **Investing** — Putting those savings into assets that can earn interest, dividends, rent or capital gains. Investing makes savings work.
- **Sequence** — Saving comes first; without a surplus there is nothing to invest. A disciplined habit is to save first and spend the balance, not the reverse.
- **Cost of only saving** — Money left idle earns little or nothing. When inflation is higher than the return, the purchasing power of savings falls every year.

Basis	Saving	Investing
Purpose	Safety, short-term needs, emergencies	Growth of wealth for future goals
Return	Low or nil	Higher expected return, not guaranteed
Risk	Very low	Varies by asset; can include loss of capital
Liquidity	Very high	Varies; some products have lock-ins
Typical avenue	Savings account, cash at home	Equity, bonds, mutual funds, real estate, gold

**Emergency fund before investing**

- **Emergency fund** — A cushion for job loss, illness or urgent repairs. A common rule of thumb is about 3 to 6 months of household expenses.
- **Where to keep it** — Products with high liquidity and low risk, so that money is available within a day or two without loss.
- **Insurance first** — Adequate life and health cover protects investments from being broken in a crisis.

Example: Fatima Shaikh of Lucknow saves ₹20,000 a month but keeps it all in her savings account. She first sets aside 6 months of expenses (₹1.8 lakh) as an emergency fund and then starts investing the monthly surplus for her goals.

Remember this

- Saving = income minus expenses; investing = putting savings to work.
- Build the emergency fund and insurance cover before investing for goals.

Topic 4 — Compounding, Inflation and Real Return

- **Simple interest** — Interest is earned only on the original principal.
- **Compound interest** — Interest is earned on principal plus interest already earned. The longer the period, the larger the gap over simple interest. Starting early is the biggest lever.
- **Inflation** — The general rise in prices. It reduces what a rupee can buy, so the future cost of a goal is higher than its cost today.
- **Nominal and real return** — Nominal return is the stated return. Real return is the return after removing inflation; only a positive real return grows purchasing power.
- **Rule of 72** — A quick estimate: years to double money $\approx 72 \div$ annual return (%). It also shows how fast inflation halves purchasing power.

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

$$\text{Real return} = \frac{1 + \text{nominal}}{1 + \text{inflation}} - 1$$

$$\text{Years to double} \approx \frac{72}{r \text{ (in \%)}}$$

N1. [Numerical] Deepak invests ₹1,00,000 at 8% a year for 10 years. Compare the value under simple interest and under annual compounding.

Item	Value
Principal (PV)	₹1,00,000
Rate (r)	8% a year
Period (n)	10 years

Solution:

Formula:

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

Simple interest value = $1,00,000 + (1,00,000 \times 8\% \times 10) = ₹1,80,000$.

$$(1.08)^{10} = 2.158925$$

$$FV = 100000 \times 2.158925 = 215892.50$$

Compounding adds ₹35,892 more than simple interest.

Answer: Simple interest ₹1,80,000; compounded value ₹2,15,892

N2. [Numerical] Meera's daughter's engineering course costs ₹10,00,000 today. If education inflation is 6% a year, what will it cost in 12 years?

Item	Value
Cost today	₹10,00,000
Inflation	6% a year
Years	12

Solution:

$$(1.06)^{12} = 2.012196$$

$$FV = 1000000 \times 2.012196 = 2012196$$

The goal amount is about double today's cost; Meera must plan for ₹20.12 lakh, not ₹10 lakh.

Answer: About ₹20,12,196

N3. [Numerical] Rahul's bank deposit pays 7.25% a year. Inflation is 5%. Find his real rate of return (ignore tax).

Item	Value
Nominal return	7.25%
Inflation	5%

Solution:

Formula:

$$\text{Real} = \frac{1.0725}{1.05} - 1$$

$$\frac{1.0725}{1.05} = 1.021429$$

Real return = $1.021429 - 1 = 0.021429 = 2.14\%$.

Quick approximation $(7.25 - 5)$ gives 2.25%; the exact figure is slightly lower.

Answer: Real return $\approx 2.14\%$ a year

Remember this

- Compounding rewards time — start early.
- Real return = $(1 + \text{nominal}) \div (1 + \text{inflation}) - 1$; a negative real return destroys purchasing power.
- Rule of 72: at 9% money doubles in about 8 years; at 6% in about 12 years.

Topic 5 — Investment or Speculation

- **Investment** — Committing money to an asset for a reasonable period, based on its fundamentals (earnings, interest, rent), expecting a fair return with acceptable risk.
- **Speculation** — Taking a position mainly to profit from short-term price movements, accepting high risk. It often uses borrowed money or leverage.
- **Gambling** — Staking money on an uncertain event with no economic basis; the expected outcome is a loss. Speculation is not gambling, but it can become close to it when done without analysis.
- **Role of speculators** — They add liquidity and help price discovery in markets, but most retail investors are not equipped for it. SEBI studies have found that a large majority of individual traders in equity F&O lose money.

Basis	Investment	Speculation
Objective	Steady wealth creation, income	Quick profit from price change
Time horizon	Medium to long term	Very short (days, even minutes)
Decision basis	Fundamentals, valuation, goals	Market sentiment, tips, charts, news
Risk	Moderate, matched to the investor	High, including total loss
Leverage	Rarely used	Frequently used (margin, F&O)
Source of return	Income + long-term growth	Price difference only

Example: Sunita buys units of a diversified equity fund every month for her retirement 20 years away — this is investment. Her colleague Vikram borrows ₹2 lakh to buy index options expiring this week hoping to double it — this is speculation.

Remember this

- Investment = fundamentals + time + acceptable risk; speculation = short-term price bet, often leveraged.
- Goal-based money should be invested, not speculated.

Topic 6 — Physical and Financial Assets

- **Physical (real) assets** — Tangible items with intrinsic use value: land, house, gold jewellery, silver, vehicles, commodities.
- **Financial assets** — Contracts or claims on someone else's income or assets: bank deposits, bonds, shares, mutual fund units, PPF, insurance policies, pension accounts.
- **Financialisation of savings** — Indian households have traditionally held most wealth in real estate and gold. A steady shift towards financial assets, including mutual funds, channels savings to productive use in the economy.

Feature	Physical assets	Financial assets
Divisibility	Lumpy (a flat cannot be sold in pieces)	Highly divisible (units, small amounts)
Liquidity	Low; sale takes time	Generally high; many can be redeemed in days
Transaction cost	High (stamp duty, brokerage, making charges)	Low
Holding cost	Maintenance, storage, insurance	Minimal; demat or statement form
Price transparency	Low; no single market price	High for listed/NAV-based products
Regulation	Limited investor protection	Regulated by SEBI, RBI, IRDAI, PFRDA

Example: Gurpreet of Ludhiana needs ₹2 lakh urgently. Selling part of a plot is not possible, and selling jewellery involves loss on making charges. Redeeming ₹2 lakh of mutual fund units is quick, and the rest of his holding stays invested.

Remember this

- Financial assets are claims; physical assets are tangible.
- Financial assets win on divisibility, liquidity, cost and transparency.

Topic 7 — Asset Classes — Equity, Fixed Income and Cash

- **Asset class** — A group of investments with similar risk-return features that behave alike in the market. The main classes are equity, fixed income (debt), cash, real estate, gold and alternatives.
- **Equity** — Ownership in a company. Returns come from dividends and capital appreciation. Highest long-term growth potential among traditional classes, but prices are volatile and there is no assured return.
- **Fixed income (debt)** — The investor lends money and earns interest; principal is repaid at maturity. Includes Government securities, State Development Loans, corporate bonds and debentures, bank fixed deposits and small savings schemes.
- **Cash and cash equivalents** — Savings balances and money market instruments with maturity up to one year: Treasury Bills, commercial paper, certificates of deposit and TREPS. Very safe and liquid, low return.



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Main fixed income instruments

Instrument	Issuer	Key feature
Government securities (G-Secs)	Central Government	No credit risk; prices move with interest rates
State Development Loans	State Governments	Slightly higher yield than G-Secs of similar maturity
Corporate bonds / debentures	Companies	Higher yield for credit risk; rated by credit rating agencies
Bank fixed deposits	Banks	Fixed rate; premature withdrawal may carry a penalty
Small savings schemes	Government (post office, banks)	Sovereign backing; rates reset quarterly

Interest-rate link: When market interest rates rise, prices of existing fixed-rate bonds fall, and vice versa. A depositor holding a deposit to maturity does not see this price change, but a bond or debt fund investor does.

Key government small savings schemes

- **Public Provident Fund (PPF)** — 15-year account; deposit ₹500 to ₹1.5 lakh per financial year; loan allowed from the 3rd to the 6th financial year; deposit qualifies under section 123 (earlier 80C) in the old regime.
- **Senior Citizens' Savings Scheme** — For persons aged 60 and above; 5-year tenure; deposit cap ₹30 lakh; interest paid quarterly.
- **Rates** — The Government resets small savings rates every quarter; rates for October–December 2026 are unchanged from the previous quarter.

Asset class	Return source	Risk	Liquidity
Equity	Dividend + capital gain	High	High if listed
Fixed income	Interest; some price gain/loss	Low to moderate (credit, interest rate)	Varies; deposits may have penalty
Cash / money market	Interest	Very low	Very high

Example: Kiran buys shares of Narmada Cement Ltd — she is a part-owner and shares in its profits. Her brother buys the same company's 8% debentures — he is a lender who gets fixed interest whether or not profits rise.

Remember this

- Equity = owner (growth, volatile); debt = lender (interest, more stable); cash = safety and liquidity.
- PPF: 15 years, ₹500–₹1.5 lakh a year, loan in the 3rd–6th financial year.

Topic 8 — Asset Classes — Real Estate, Gold and Alternatives

- **Real estate** — Land and buildings, earning rent and capital appreciation. Drawbacks: large ticket size, low liquidity, high transaction and holding costs, and title risk. REITs and InvITs give access in financial, listed form.
- **Gold** — Valued as a hedge against inflation, currency weakness and crises. Physical gold earns no income and carries storage, purity and making-charge costs. Financial forms: gold ETFs, gold fund of funds and electronic gold receipts.
- **Alternative investments** — Private equity, venture capital, hedge-fund strategies, structured products, commodities, art. Usually complex, less liquid and suited to wealthy, informed investors.
- **Low correlation** — Real estate, gold and alternatives often move differently from equity and debt. That is why a small



share of them can improve diversification.

Managed investment vehicles and their minimums

Vehicle	Minimum investment	Note
Mutual fund schemes	Small amounts; SIPs possible	Retail-friendly, SEBI-regulated
Specialised Investment Fund (SIF)	₹10 lakh	Under the MF framework; distributors need NISM V-D
Portfolio Management Services (PMS)	₹50 lakh	New PMS Regulations, 2026 apply from 1 Apr 2027
Alternative Investment Fund (AIF)	₹1 crore	Accredited investors are exempt from the minimum

Example: Mr Iyer, a retired banker in Chennai with ₹40 lakh to invest, is attracted by a venture capital AIF. He cannot invest unless he is an accredited investor, because the AIF minimum is ₹1 crore. He can instead use a gold ETF and a mutual fund for diversification.

Remember this

- Real estate: lumpy and illiquid; gold: hedge with no income; alternatives: complex and for wealthy investors.
- Minimums: SIF ₹10 lakh, PMS ₹50 lakh, AIF ₹1 crore.

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

Q1. Kavya, 30, plans to buy a car in 2 years, fund her son's college in 14 years and retire at 60. Which classification of her goals is correct? [Ref: Topic 1, p. 2]

- (a) Car short-term; college and retirement long-term
(b) Car medium-term; college short-term; retirement long-term
(c) All three are long-term because she is young
(d) Car long-term; college and retirement medium-term

Q2. Consider: I. A usable financial goal has an amount, a target date and a priority. II. Wants should be funded before needs because they motivate saving. Which is/are correct? [Ref: Topic 1, p. 2]

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

Q3. Rohan keeps ₹8 lakh in a savings account earning 2.5% for 5 years while inflation averages 5%. What happens to his money? [Ref: Topic 3, p. 2]

- (a) Its real value rises because the balance grows
(b) Its real value is fully protected by the bank
(c) Its purchasing power falls every year
(d) It becomes risk-free in both nominal and real terms

Q4. Priyanka has just started her first job in Indore. Which step should normally come before she invests for long-term goals? [Ref: Topic 3, p. 2]

- (a) Buying direct equity on tips
(b) Building an emergency fund of a few months' expenses
(c) Taking a personal loan to invest more
(d) Putting all savings in real estate

Q5. Using the Rule of 72, in about how many years will Ankit's investment double if it earns 8% a year? [Ref: Topic 4, p. 3]

- (a) 6 years (b) 8 years (c) 12 years (d) 9 years

Q6. A bond fund gives Suresh a nominal return of 8% when inflation is 6%. His exact real return is closest to: [Ref: Topic 4, p. 3]

- (a) 1.89% (b) 2.00% (c) 14.00% (d) 1.33%

Q7. A family wedding costs ₹5 lakh today. With 7% annual inflation, what will it cost in 10 years (approx.)? [Ref: Topic 4, p. 3]

- (a) ₹8.50 lakh (b) ₹9.84 lakh (c) ₹12.00 lakh (d) ₹10.70 lakh

Q8. Vikram borrows ₹2 lakh to buy index options expiring this week, hoping the market will jump. This is best described as: [Ref: Topic 5, p. 3]

- (a) Long-term investment (b) Goal-based saving
(c) Asset allocation (d) Speculation

Q9. Which feature distinguishes investment from speculation? [Ref: Topic 5, p. 3]

- (a) Decisions based on fundamentals over a reasonable horizon
(b) Frequent use of leverage to boost returns
(c) Profit only from short-term price differences
(d) Reliance on market tips and momentum

Q10. Which of the following held by Lalitha is a financial asset? [Ref: Topic 6, p. 4]

- (a) A residential plot in Mysuru (b) Gold bangles
(c) Units of an equity mutual (d) A tractor leased to a farmer fund

Q11. Consider: I. Physical assets are generally less divisible than financial assets. II. Physical assets usually have lower transaction costs than financial assets. Which is/are correct? [Ref: Topic 6, p. 4]

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

Q12. Kiran's brother buys 8% debentures of Narmada Cement Ltd. What is his position? [Ref: Topic 7, p. 4]

- (a) Part-owner entitled to a share of profits
(b) Lender entitled to interest and repayment
(c) Speculator in the company's shares
(d) Holder of a physical asset

Q13. Neha opened a PPF account in financial year 2022-23. From which financial year can she first take a loan against it? [Ref: Topic 7, p. 4]

- (a) 2023-24 (b) 2025-26 (c) 2024-25 (d) 2028-29

Q14. Mr Iyer, not an accredited investor, has ₹40 lakh and wants a venture capital AIF. What is the position? [Ref: Topic 8, p. 4]

- (a) He can invest because the AIF minimum is ₹10 lakh
(b) He can invest only through a distributor
(c) He can invest if he holds it for 3 years
(d) He cannot invest because the AIF minimum is ₹1 crore

Q15. Which statement about gold as an asset class is correct? [Ref: Topic 8, p. 4]

- (a) Physical gold pays regular interest to the holder
(b) It is mainly valued as a hedge against inflation and crises
(c) It always moves in the same direction as equity
(d) It has no storage or purity issues in physical form

Answer key

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

CH-2

Investment Landscape (Part 2)

Topic 1 — Investment Risk — Meaning, Systematic and Unsystematic

- Risk** — The chance that the actual return differs from the expected return, including the chance of losing capital. Every investment carries some risk; only its type and size differ.