

NISM Series X-A: Investment Adviser Level 1

Introduction to Personal Financial Planning

LEARNING OBJECTIVES: Concept of Financial Planning • Need & Scope • Assets & Liabilities • 6-Step Process • Advisory Models

1 Chapter Overview

<p>01 Financial planning is a holistic process to manage current income while preparing for future expenses like retirement, education, or medical emergencies.</p>	<p>02 A Financial Planner bridges the gap between complex financial products and the unique personal needs of each client.</p>
<p>03 Financial planning differs from ordinary financial advice in being comprehensive, goal-driven, continuous, and holistically integrated.</p>	<p>04 The scope of financial planning covers 8 areas: goal-setting, cash flow, insurance, debt, investment, tax, retirement, and estate planning.</p>
<p>05 Assets minus Liabilities = Net Worth — the key measure of a household's financial health, tracked periodically for progress.</p>	<p>06 The financial planning process follows a 6-step cycle — from establishing a client relationship all the way to monitoring the plan.</p>
<p>07 Advisory models vary: Fee-only advisers, Execution-only distributors, and Wraps/Platforms — each with different income models.</p>	<p>08 SEBI regulates financial advisers in India — separating advice from distribution to prevent mis-selling and protect investor interests.</p>

2 Key Concepts Explained

What is Financial Planning?

Financial Planning — Definition

The process of streamlining income, expenses, assets and liabilities of a household or individual to take care of both current and future needs for funds. It is a holistic approach that evaluates the existing financial position, anticipates future needs, funds those needs through a structured plan, and reviews progress regularly.

Think of it as a **GPS for your money** — it tells you where you are financially, where you want to go, and the best route, rerouting when life throws surprises.

REAL EXAMPLE — VINOD'S CASE

Vinod, 40 years old, earns Rs.2 lakhs/month and saves Rs.40,000. He has investments, loans, and insurance — yet lacks a formal financial plan. Financial planning would help him answer: Do I have an emergency fund? Is my insurance adequate? Am I saving enough for retirement? What investments are right for me? These are questions a plan systematically addresses.

S.M.A.R.T. Goal Setting

Every financial goal must have five qualities to be truly actionable:



Example: "Retire in 20 years with Rs.5 crore corpus" is SMART. "I want to be rich" is not.

Assets, Liabilities & Net Worth

Assets

Things of value owned by the household — broadly classified as Physical Assets (real estate, gold) and Financial Assets (bank deposits, shares, mutual funds). Assets can be growth-oriented, income-oriented, or both.

Liabilities

Obligations to repay money borrowed — such as home loans, car loans, credit card dues. Liabilities impose a cost (interest) and reduce the future ability to save.

Net Worth

The simple yet powerful measure of financial well-being: $\text{Net Worth} = \text{Total Assets} - \text{Total Liabilities}$. A higher number = stronger financial position. Track it periodically to measure financial progress.

Mis-selling & Conflict of Interest

When a financial adviser earns a **commission from the product manufacturer** (like a mutual fund company), there is a risk they may recommend products that earn them higher commissions — not necessarily the best ones for you. This is called **mis-selling**. SEBI's regulations aim to separate advisers (who charge the client a fee) from distributors (who earn commissions from producers).

SIMPLE ANALOGY

Imagine a doctor who gets paid by a pharma company for every prescription of their brand — would you trust their prescription? That's why SEBI wants advisers to be paid by the client, not the product company.

The 6-Step Financial Planning Process

Every financial adviser follows this structured cycle with every client:



■ This is a cyclical process — Step 6 feeds back into Steps 2 and 3 as the client's life evolves over time.

Financial Planning vs. Typical Financial Advisory

Aspect	Financial Planning	Typical Advisory
Scope	Comprehensive — all aspects of personal finance	Narrow — one area (stocks, insurance etc.)
Core Focus	Client's overall goals are central to everything	Specific product or transaction
Goal Setting	✓ Central to the entire process	✗ Not always prioritised
Integration	All activities coordinated & aligned	Steps may unknowingly conflict each other
Monitoring	✓ Built-in, ongoing & proactive	✗ Client must take own initiative
Risk	Risk AND return always considered together	Often only return is the focus

Continuity	✓ Long-term, continuous relationship	✗ Often one-time or piecemeal
Personalisation	Tailored to individual's unique situation	Often generic and product-driven

Net Worth Concept Diagram

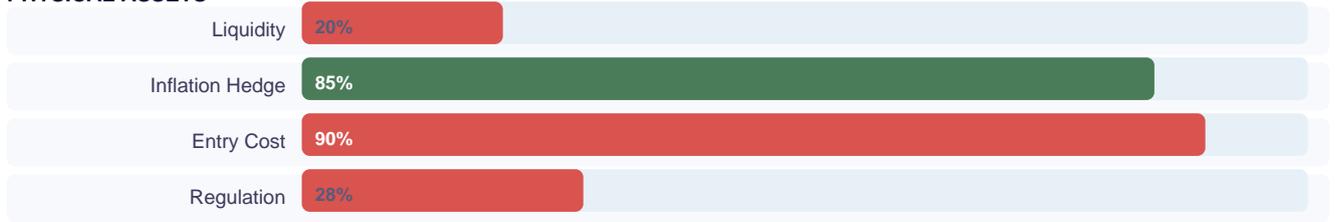


Higher Net Worth = Stronger Financial Health. Track it quarterly or annually.

Sneha Regis

Physical Assets vs Financial Assets — Feature Comparison

PHYSICAL ASSETS



FINANCIAL ASSETS



Concept Map: The 8 Pillars of Financial Planning Scope



Three Business Models in Financial Advisory

Fee-Only Adviser	Execution-Only Distributor	Wraps & Platforms
<p>Earns exclusively from client fees. Provides comprehensive financial planning. Does NOT sell products or earn commissions.</p> <p>Fee types: One-time plan fee, ongoing review fee, asset-based % fee, referral fee.</p>	<p>Earns commissions from product manufacturers. Focuses on distributing/selling financial products. May use aggregator models.</p> <p>Core function: Transaction execution, not advice.</p>	<p>Technology-driven standardised advisory solutions. Offer model portfolios for clients. Advisers monitor all client portfolios in one place.</p> <p>Revenue: Platform fee charged to client, shared with adviser.</p>

<p>Physical Assets — Key Features</p> <ul style="list-style-type: none"> ◆ Tangible — real estate, gold, precious metals ◆ Natural hedge against inflation (price rises with inflation) ◆ Primarily growth-oriented; some also yield income ◆ Drawbacks: Illiquid, limited regulation, large ticket size ◆ Don't confuse consumption assets (car) with investment assets 	<p>Financial Assets — Key Features</p> <ul style="list-style-type: none"> ◆ Intangible — claim on benefits (interest, dividends, gains) ◆ Standardised; regulated by SEBI, RBI, IRDAI ◆ Listed securities = high liquidity; private placements = low ◆ Can be growth (equity), income (deposits), or hybrid ◆ Suitable for small amounts — SIPs from Rs.500
<p>Goal Prioritisation Framework</p> <ul style="list-style-type: none"> ◆ Priority 1 — Critical: Emergency fund, life & health insurance ◆ Priority 2 — Long-term Essential: Retirement, children's education ◆ Priority 3 — Medium-term: Home purchase, car ◆ Priority 4 — Lifestyle: Holidays, luxury purchases ◆ Never sacrifice Priority 1 & 2 for Priority 4 	<p>Debt Management Principles</p> <ul style="list-style-type: none"> ◆ Borrowing = using tomorrow's income today ◆ Loans for appreciating assets (property) = acceptable ◆ Loans for depreciating assets (car) = use cautiously ◆ Leveraging (borrowing to invest) = risky due to volatility ◆ Excessive debt can lead to a debt trap

The 8 Pillars of Financial Planning — Scope

<p>Goal Setting & Prioritisation</p> <p>Set SMART goals, prioritise critical ones, stagger where needed</p>	<p>Cash Flow & Budgeting</p> <p>Match inflows & outflows; maintain a monthly personal budget</p>
<p>Insurance Planning</p> <p>Life, health, accident, general insurance for risk coverage</p>	<p>Debt Management</p> <p>Evaluate, plan, and manage all borrowings efficiently</p>
<p>Investment & Asset Allocation</p> <p>Top-down approach; align asset classes to goals and risk</p>	<p>Tax Planning</p> <p>Optimise post-tax returns; guidance not tax-driven decisions</p>
<p>Retirement Planning</p> <p>Compounding, inflation, corpus building, portfolio rebalancing</p>	<p>Estate Planning</p> <p>Wills, trusts, gifts — smooth inter-generational wealth transfer</p>

SEBI Regulatory Framework

<p>Registration</p> <p>Anyone offering financial advice for a fee must be registered with SEBI as an Investment Adviser (IA)</p>	<p>Separation Rule</p> <p>Individual IAs cannot do both advisory AND distribution — must choose one role only</p>	<p>Non-Individual IAs</p> <p>Corporate IAs can do both, but must maintain strict arm's-length separation between divisions</p>	<p>Revenue Rule</p> <p>Advisers earn from clients, not producers. Distributors earn commissions from product companies</p>
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Real-Life Applications

Young Couple — Starting Out

Priya & Rajan, both 28, just got married. A financial planner sets up a joint emergency fund, term life & health insurance, SIP for a home down payment in 5 years, and automated retirement savings — all coordinated.

Mid-Career — Retirement

Vinod (40) relies on PF & EPF — but his planner demonstrates it won't be enough. They build a supplementary corpus using NPS and equity funds, rebalancing to bonds as he nears 60.

Debt-Trapped Household

The Kapoors spend 70% of income on EMI. A planner counsels them to liquidate one car, consolidate debt, and follow a structured repayment plan — restoring stability in 3 years.

Parent — Education Goal

Arjun, 35, has a 5-year-old daughter. College fees in 13 years will cost ~Rs.20 lakhs (inflation-adjusted). The planner calculates the exact SIP and manages risk shift as the goal approaches.

Business Owner — Tax & Estate

Meena has wealth in real estate and stocks. Her planner optimises tax outflows, helps her make a Will, sets up a trust for her children, and advises on gifting strategies.

Your Daily Life

List monthly income & expenses, identify savings gaps, set 1 short & 1 long-term SMART goal, track net worth every 6 months, and automate savings before spending.

6

Quick Revision Sheet — Exam Ready

CORE DEFINITIONS

- Financial Planning = streamline income, expenses, assets & liabilities
- Net Worth = Assets - Liabilities; higher = better financial health
- Savings = portion of current income earmarked for future needs
- Asset Allocation = distributing money across asset classes
- Mis-selling = unsuitable products pushed by commission motive
- Leveraging = borrowing to invest in financial assets (risky)

SCOPE — 8 AREAS

- Goal setting & prioritisation (SMART goals)
- Cash flow management & budgeting
- Insurance planning (life, health, general)
- Debt management & counselling
- Investment planning & asset allocation
- Tax planning (post-tax return matters)
- Retirement planning (compounding is key)
- Estate planning (wills, trusts, gifts)

ASSET CLASSIFICATION

- Physical: real estate, gold — illiquid, inflation hedge
- Financial: deposits, equity, MF — liquid, regulated
- Growth assets: equity, real estate — capital appreciation
- Income assets: deposits, bonds — regular interest
- Appreciating loans = acceptable (home loan)
- Depreciating loans: use with caution (car loan)

THE 6-STEP PROCESS

- Step 1: Establish client-planner relationship
- Step 2: Gather client data including goals
- Step 3: Analyse & evaluate financial status
- Step 4: Develop & present recommendations
- Step 5: Implement the plan
- Step 6: Monitor & review (ongoing, cyclical)

ADVISORY MODELS & SEBI

- Fee-only advisers: paid by client, no commission
- Execution-only distributors: paid by manufacturer
- Wraps & platforms: tech-based, model portfolios
- Individual IAs: cannot do advisory + distribution
- Non-individual IAs: can do both with arm's length
- SEBI registration mandatory for any paid advice

KEY DIFFERENCES

- FP is comprehensive; advisory is narrow & specific
- FP has built-in monitoring; advisory needs client initiative
- FP considers risk AND return; advisory may focus only on return
- FP is continuous; advisory can be one-time
- FP aligns all activities; advisory may create conflicts
- Goal staggering = deferring goals to protect critical ones

- 01 **Financial planning is a holistic, goal-driven process** — not just investing money. It integrates income, expenses, assets, liabilities, and future goals into one coherent system.
- 02 **Every household needs a financial plan** regardless of income level. Without one, even high earners may be under-insured, under-saved, or poorly invested.
- 03 **Financial planners bridge the gap** between complex products and individual needs — bringing expertise, objectivity, and time that most individuals lack.
- 04 **Financial planning is fundamentally different from normal advisory** — comprehensive, continuous, goal-centred, risk-aware, integrated, and monitored.
- 05 The **8 pillars of financial planning scope** — goal setting, cash flow, insurance, debt, investment, tax, retirement, and estate planning — must work together.
- 06 **SMART goals** (Specific, Measurable, Achievable, Realistic, Time-bound) are the foundation. Vague aspirations like "being rich" have no place in a financial plan.
- 07 **Net Worth = Assets – Liabilities** is the single best measure of financial health. Track it regularly; improving it is the ultimate objective of financial planning.
- 08 Assets are classified as **physical** (real estate, gold — illiquid, inflation-hedged) or **financial** (shares, deposits, MFs — liquid, regulated, flexible).
- 09 The **6-step planning process** — Establish → Gather → Analyse → Develop → Implement → Monitor — is cyclical and client-centric, not a one-time event.
- 10 **Conflict of interest and mis-selling** arise when advisers earn from product manufacturers. SEBI's regulations separate advice from distribution to protect investors.
- 11 Three advisory models: **Fee-only advisers** (client-paid, most objective), **Execution-only distributors** (commission), and **Wraps/Platforms** (digital).
- 12 **Start early, prioritise wisely, review regularly** — the magic of compounding rewards those who begin saving for long-term goals early and stay disciplined.