

## NISM Series XB: Investment Adviser (Level 2) Certification Examination

### Sample Questions

#### Chapter 1:

1. **The proportion of a public issue of shares allocated to various categories of investors is decided by**
  - a. **SEBI**
  - b. Issuer
  - c. Stock exchange
  - d. Registrar and Transfer agent
  
2. **In a leveraged investment in an IPO, the profits to the investor depends upon**
  - a. Issue price & listing price
  - b. Cost of borrowing and period of borrowing
  - c. **Shares allotted and listing premium**
  - d. Interest paid and issue price
  
3. **A high turnover in a stock is an indicator of which of the following**
  - a. Higher price
  - b. **Higher liquidity**
  - c. Lower volatility
  - d. Lower returns

#### 4. **Read the following caselet and answer the questions that follow:**

**Mr. A is a conservative investor who is looking to invest in equity markets. He is evaluating shares of VKP Ltd. with a PE ratio of 22, PEG ratio of 0.98, dividend yield of 3.5.**

- a. **Which of the following may make VKP Ltd unsuitable for Mr. A as a conservative investor?**
  - i. PEG ratio lower than 1
  - ii. A dividend yield lower than the risk free rate of interest
  - iii. **PE ratio higher than peer average**
  - iv. Dividend yield higher than dividend yield of index
  
- b. **The PEG ratio of the company classifies it as**
  - i. Overvalued

- ii. **Undervalued**
  - iii. Low growth stock
  - iv. High growth stock
- c. **Mr. A is attracted by the high dividend yield of the stock. Which of the following is a likely feature of the investment going forward?**
- i. High growth in EPS
  - ii. Low dividend payout
  - iii. High capital appreciation
  - iv. **Low earnings growth**
5. **A decrease in interest rates is likely to see a greater impact on the price of which bond?**
- a. AAA rated 5 year bond
  - b. **15 year Government security**
  - c. 30 year bond with 2 years to maturity
  - d. Commercial paper of company

**Chapter: 2**

1. **A nomination made in a mutual fund folio**
- a. Can be changed by the PoA
  - b. Cannot be cancelled
  - c. Can be cancelled by the first holder in a jointly held account
  - d. **Can be changed by all the holders signing for the change**
2. **In a jointly held folio, the PAN and KYC process has to be complied with by**
- a. **All the joint holders**
  - b. The first holder only
  - c. Any one of the joint holders
  - d. The joint holders depending upon mode of operation
3. **An NRI returning to India and becoming a Resident Indian has to do which of the following with respect to holdings in demat account?**
- a. Operate the existing demat account
  - b. **Open a new demat account and transfer holdings**
  - c. Change the existing account status to resident
  - d. Open a new account for future investment and maintain current account for existing investments.

4. **Mr. D holds investments in UPP equity scheme. He makes an investment in an MIP of the same mutual fund. Will it be held under the same folio?**
  - a. No, since the scheme is different
  - b. Can be held in either the same folio or different folio**
  - c. Can be held only under the same folio
  - d. Will depend upon the mutual fund policy
  
5. **A request for dematerialization of securities may be rejected if**
  - a. Securities are not dematerialised at the time of listing
  - b. Securities are not dematerialized within the period specified by SEBI
  - c. Dematerialization request is not accompanied by R&T verification of signature.
  - d. Delay of more than 15 days in the receipt of physical securities from the day of electronic request.**
  
6. **Ms. L takes a loan against her mutual fund holdings. Only a portion of her units are required as security. How will she give effect to this?**
  - a. Transfer the required portion to a new folio and mark a lien on it
  - b. Mark lien on the entire holdings, irrespective of the requirement
  - c. Mark lien only on the portion required in the existing folio**
  - d. Transfer the required portion to a new folio and make the lender the joint holder

### **Chapter: 3**

1. **Which of the following is an indication of indebtedness?**
  - a. Expenses Ratio
  - b. Leverage Ratio**
  - c. Solvency Ratio
  - d. Net Worth
  
2. **Current cost is translated into a cost in future using which of the following formulae?**
  - a.  $P \times (1 + i)^n$**
  - b.  $P \div (1 + i)^n$
  - c.  $P \times (1 - i)^n$
  - d.  $P \div (1 - i)^n$
  
3. **Read the following caselet and answer the questions that follow:**

**Mr. P earns a gross salary of Rs 50,000, including company's contribution to PF of Rs 5,000; an equal contribution is made by Mr. P. Deductions are made towards loan repayments of Rs 4,000 and investments of Rs 1,000. Mr. P receives Rs 3,000 towards income from past**

investments. He spends Rs 7,000 on rent, Rs 11,000 on grocery and Rs 15,000 on other expenses.

a. What is the net take home salary of Mr. P?

i. Rs 40,000

ii. **Rs 35,000**

iii. Rs 45,000

iv. Rs 5,000

b. What is the monthly surplus of Mr. P?

i. **Rs 5,000**

ii. Rs 10,000

iii. Rs 15,000

iv. Rs 16,000

c. What is the monthly savings of Mr. P?

i. Rs 5,000

ii. Rs 10,000

iii. Rs 15,000

iv. **Rs 16,000**

d. What is the savings ratio of Mr. P?

i. 42.1%

ii. 11.3%

iii. **30.2%**

iv. 20.8%

#### **Chapter:4**

1. EMI for a loan can be worked out using the \_\_\_\_\_ function in MS Excel.

a. PV

b. NPV

c. EMI

d. **PMT**

2. Which of the following depends on the market?

a. Strategic asset allocation

b. **Tactical asset allocation**

c. Investor risk profile

d. None of the above

3. Read the following caselet and answer the questions that follow:

Ms. T invests Rs 60,000 in a 10% yielding asset, using leverage of 1.4 times. Borrowing was at 9% p.a.

- a. How much own funds did Ms. T invest?
- i. Rs 35,000
  - ii. Rs 25,000**
  - iii. Rs 42,857
  - iv. Rs 17,143
- b. How much interest did Ms. T need to pay?
- i. Rs 2,250
  - ii. Rs 5,400
  - iii. Rs 3,150**
  - iv. Rs 3,500
- c. What was Ms. T's net return?
- i. Rs 6,000
  - ii. Rs 2,850**
  - iii. Rs 3,750
  - iv. Rs 2,500
- d. What was Ms. T's return on equity?
- i. 1%
  - ii. 10.4%
  - iii. 10.9%
  - iv. 11.4%**

### Chapter:5

1. Which of the following is NOT considered in the calculation of ROI?
- a. Realized capital appreciation
  - b. Periodic interest
  - c. Expected dividend**
  - d. Unrealized capital appreciation
2. Which of these investments is most likely to be affected by inflation?
- a. Real estate
  - b. Equity shares
  - c. Bank deposits**
  - d. Gold

**3. Which of these investments is seen as riskiest?**

- a. Investment with low standard deviation
- b. Investment with high credit rating
- c. Investment with low market volatility
- d. Investment with high beta**

**4. The benefits of diversification in a portfolio is seen in the form of**

- a. Eliminating risk
- b. Maximising returns
- c. Guaranteeing returns
- d. Enhancing risk adjusted returns**

**5. Read the following caselet and answer the questions that follow:**

**Mr. C is a 45 year single earning member of his family with a good income. He is saving for different financial goals, some of which are due for funding now. He has a home loan and car loan that he is servicing.**

**a. How would you best categorize Mr. C's risk profile?**

- i. Conservative
- ii. Moderate**
- iii. Liquidity seeker
- iv. Aggressive

**b. What are the assets that will be most suitable for Mr. C given his situation?**

- i. Primarily growth with some income-oriented assets**
- ii. Primarily liquid assets
- iii. Primarily growth assets
- iv. Combination of liquid and income-oriented assets

**c. Mr C. has to park the funds from fixed deposits that have matured for a short period till it will be used for his daughter's education. What will you suggest as a suitable investment option?**

- i. Large-cap equity, to capture growth but with lower risk
- ii. Current account, to enable liquidity
- iii. Alternative investments, to increase the corpus
- iv. Short-term fixed deposit, to ensure liquidity and some returns**

6. Which of the following will define the risk and return features of a mutual fund scheme?
- a. Market cycles and portfolio selection
  - b. Asset class performance and investment style adopted
  - c. Investment objective and asset class chosen**
  - d. Economic cycle and fund manager expertise

## Chapter:6

1. Which of the following need to compulsorily register as investment adviser with SEBI?

- a. Mutual fund distributor
- b. Insurance adviser
- c. Lawyer
- d. **None of the above**

2. Which of the following can deal with multiple insurance companies?

- a. **Insurance broker**
- b. Insurance agent and broker
- c. Corporate insurance agent
- d. Bank assurance channel

3. Read the following caselet and answer the questions that follow

**Mr. X is in the business of mutual fund distribution. He wants to become an insurance adviser.**

a. Which of the following is applicable for Mr. X?

- i. Has to register as investment adviser if he sells either product
- ii. Can sell either mutual fund or insurance – not both
- iii. Can sell both mutual fund and insurance if he registers as investment adviser
- iv. **There is no bar on Mr. X selling both products**

b. Mr. X wants to pay back to clients, part of the moneys he collects from them?

- i. He is permitted to rebate only in case of mutual funds
- ii. He is permitted to rebate only in case of insurance
- iii. **He is not permitted to rebate in either mutual funds or insurance**
- iv. He is free to rebate in both mutual funds and insurance

c. Mr. X wants to focus on a business where there is no requirement of complying with a code of conduct. He should

- i. Do mutual funds, since code of conduct is not compulsory
- ii. Do insurance, since code of conduct is not compulsory
- iii. Can do either product, because both do not insist on a code of conduct
- iv. **Re-consider, because both mutual funds and insurance require compliance with code of conduct**

- d. **Mr. X tells a consultant that he will not register as investment adviser, because he does not want to appoint a compliance officer. What should the consultant tell Mr. X?**
- i. Consultant should explain to Mr. X, the benefits of appointing a compliance officer
  - ii. **Consultant should explain to Mr. X that appointment of compliance officer is compulsory only for non-individuals**
  - iii. Consultant should advise Mr. X not to worry, because SEBI is unlikely to verify
  - iv. Consultant should advise Mr. X that it is SEBI's job to give him a compliance officer

## **Chapter: 7**

### **Case 7.1**

Mr. Z, aged 52 years, is working in a leading company. His net savings are Rs 50,000 p.m. Based on salary growth and other factors, he expects this to rise by 20% p.a. till his retirement at age 60. This does not include monthly contributions of Rs 9,000 (Rs 4000 own contribution; Rs 5000 employer contribution) to various funds towards retirement corpus. These are expected to grow by 20% p.a. till retirement. The retirement corpus by the end of the year will be Rs 12 lakhs, entirely in debt, which will yield 8% p.a. on average. Besides his own residential house and the retirement corpus, his savings and investments will amount to Rs 50 lakhs by the end of the year, 30% of which will be in equity. He has a practice of investing, at the end of each year, his disposable savings into debt and equity in the ratio of 80:20. In the long run, he expects equity to yield 15% and debt to yield 8.5%. At the end of age 55, he expects an outflow of funds amounting to Rs 5 lakhs, which he hopes to meet out of annual savings.

He expects inflation of 10% and post-retirement investment return on his portfolio at 11%. His current expenses are Rs 40,000 per month.

Assume zero date as the end of age 52. Calculations are to be done on annual basis. Ignore taxation and interest income on savings and contributions during the year.

**1) On retirement, how much will Mr. Z have in his retirement corpus?**

- a. Rs. 46,65,905
- b. Rs. 50,65,910
- c. Rs. 44,81,442
- d. Rs. 48,65,917**

**2) At the end of Age 55, what percentage of Mr. Z's portfolio will be in debt (excluding retirement corpus)?**

- a. 69.49%**
- b. 68.29%
- c. 66.99%
- d. 71.79%

**3) If he re-invests the entire retirement corpus in debt, what percentage of Mr. Z's portfolio will be in debt when he retires?**

- a. 72.76%
- b. 70.51%**

- c. **74.21%**
- d. 76.29%

**4) What is the corpus requirement to ensure that he is able to sustain the same standard of living for 15 years after retirement?**

- a. **Rs. 14,496,632**
- b. Rs. 13,861,919
- c. Rs. 15,239,389
- d. Rs. 15,254,894

**Calculations are shown in the following table:**

Comprehensive Financial Plan of Mr. Z

	Age ---->										
	52	53	54	55	56	57	58	59	60		
<b>Savings</b>											
Monthly (Rs.)	50000										
Annual	600000	720000	864000	1036800	1244160	1492992	1791590.4	2149908.48	2579890.176		
Growth in savings		20%	20%	20%	20%	20%	20%	20%	20%		
Outflow at age 55				500000							
Net savings available to invest		720000	864000	536800	1244160	1492992	1791590.4	2149908.48	2579890.176		
Invested in											
Debt		576000	691200	429440	995328	1194393.6	1433272.32	1719926.784	2063912.141		
Equity		144000	172800	107360	248832	298598.4	358318.08	429981.696	515978.0352		
<b>Investment Portfolio</b>											
Lumpsum					5000000						
<b>Debt</b>											
Opening Balance		3500000	4378500	5436447.5	6327985.54	7861192.308	9723787.254	11983581.49	14722112.7		
Interest		297500	371747.5	462098.038	537878.771	668201.3462	826521.9166	1018604.427	1251379.58		
Additions (A)		576000	691200	429440	995328	1194393.6	1433272.32	1719926.784	2063912.141		
Closing Balance		4373500	5436447.5	6327985.54	7861192.31	9723787.254	11983581.49	14722112.7	18037404.42		
<b>Equity</b>											
Opening Balance		1500000	1869000	2322150	2777832.5	3443339.375	4258438.681	5255522.563	6473882.644		
Returns		225000	280350	348322.5	416674.875	516500.9063	638765.8022	788328.3845	971074.8966		
Additions (B)		144000	172800	107360	248832	298598.4	358318.08	429981.696	515978.0352		
Closing Balance		1869000	2322150	2777832.5	3443339.38	4258438.681	5255522.563	6473882.644	7960885.576		
Allocation to Debt		70.06%	70.07%	69.49%	69.54%	69.54%	69.51%	69.46%	69.38%		
Allocation to Equity		29.94%	29.93%	30.51%	30.46%	30.46%	30.49%	30.54%	30.62%		
<b>Retirement Corpus</b>											
Opening Balance		1200000	1425600	1695168	2017405.44	2402747	2863705	3415288	4075494		
Interest		96000	114048	135613	161392	192220	229096	273223	326040		
Additions		129600	155520	186624	223949	268739	322486	386984	464380		
Closing Balance		1425600	1695168	2017405.44	2402746.68	2863705	3415288	4075494	4865914		
<b>Asset Allocation to Debt at Retirement</b>											
<b>Asset Allocation to Equity at Retirement</b>											
										74.21%	
										25.79%	

$$(C+E)/(C+E)$$

$$(D)/(C+E)$$

### Calculation of Retirement Corpus Required

Living expenses at age 52	40000 x 12	480000
Years to retirement @60		8
Inflation		10%
Living expense on retirement	FV(10%,8,-480000)	1028922.629
Number of years in retirement to provide for		15
Expected investment return		11%
Inflation adjusted returns	$((1+11\%)/(1+10\%))-1$	0.91%
Retirement corpus required	PV(0.91%,15,-1028922.629,,1)	<b>14496632</b>

### Case 7.2

Mr. Y, aged 40, has the following goals ahead of him. (1) Son's post-graduate education: Due in Year 5. Current cost Rs 15,00,000 p.a. to be incurred at the end of each year for 2 years. Likely Inflation 15% p.a. (2) Daughter's marriage: Scheduled in end of Year 7. Current cost Rs 1,00,00,000. Inflation is assumed to be at 10% p.a. Mr. Y has provided a corpus of Rs 2,00,00,000 towards these two needs. The corpus is invested in a mix of debt and equity yielding 8% p.a. Ignore taxation.

**1) How much money will need to be set apart from the corpus at the end of Year 5, to finance the son's post-graduate education? Assume the amount set apart will earn 6% interest.**

- a. Rs. 59,34,184
- b. Rs. 62,90,235**
- c. Rs. 64,12,209
- d. Rs. 60,35,259

**2) What is the likely outflow on account of daughter's marriage in the year it is planned?**

- a. Rs. 1,94,87,171**
- b. Rs. 1,77,15,610
- c. Rs. 2,14,35,888
- d. Rs. 2,05,10,865

**3) How much will be left in the corpus after both goals are fulfilled (assume that he does not set apart money in the 6% corpus mentioned in Q1)?**

- a. Rs. 81,24,932
- b. Rs. 69,65,820**

c. **Rs. 75,23,085**

d. Rs. 66,42,292

**4) How would you describe the investment policy Mr. Y is using for the corpus?**

a. A little conservative

b. A little aggressive

c. Very aggressive

d. **Very conservative**

**Calculations as shown in the following table:**

**Goal 1: Fund the son's two-year post-graduation education due in 5 years**

Current cost of medical education for son	1500000 per annum
Period after which has to be met	Years 5 and 6
Expected inflation	15%

**Future Cost of Education**

For year 1 (After 5 years)	3017035.781	FV(15%,5,-1500000)
For year 2 (After 6 years)	3469591.148	FV(15%,6,-1500000)

**Funding the Goal**

Funds required after 5 years to meet the cost of education of year 1.....(a)

3017035.78

Funds required after 5 years to meet the cost of education of year 2.....(b)

3273199.20

PV(6%,1,-3469591)

Rs.3273199 invested for one year @ 6% grows to the amount required for year 2, Rs.3469591)

Total amount of money required in year 5 to fund the cost of education for year 1, year 2...(a)+(b)

6290235

**Goal 2: Fund the daughter's marriage at the end of 7 years**

Current cost of marriage	Rs.100,00,000
Number of years after which the expense has to be met	7 years
Expected inflation	10%
Future Cost of the Goal	19487171   $FV(10\%, 7, , 10000000)$

**Balance in corpus after funding goals**

	Age----->	41	42	43	44	45	46	47
Opening Balance		20000000	21600000	23328000	25194240	27209779.2	26369525.8	25009496.67
Returns	8%	1600000	1728000	1866240	2015539.2	2176782.34	2109562.06	2000759.733
Outflow						-3017036	-3469591.15	-19487171
Closing Balance		21600000	23328000	25194240	27209779.2	26369525.8	25009496.7	<b>7523085.4</b>

