

Part 2A of Form ADV: Firm Brochure

Item 1 Cover Page

This brochure provides information about the business practices of Peterson Investment Management, Inc.

We strive for effective and concise communication and wrote this brochure in a narrative format using plain English.

We desire full and truthful disclosure of all material facts relating to our business so that prospective, new and existing clients may understand our advisory relationship.

We seek to avoid conflicts of interest with our clients, and make full disclosure of all material conflicts of interest that could affect the relationship.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Please contact us with any questions. You may find additional information about Peterson Investment Management, Inc. on the SEC's website at www.adviserinfo.sec.gov.

Peterson Investment Management, Inc.
421 W Riverside Ave., Ste. 315
Spokane WA 99201-0402
509-838-4438

This brochure is dated January 5, 2012

Item 2 Material Changes

There have been no material changes since our Other-Than-Annual Amendment dated August 11, 2011.

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Item 4 Advisory Business

- A. Firm description, officers and ownership.
 - a. Peterson Investment Management, Inc. is a domestic corporation of Spokane, Washington and was organized under the laws of Washington State on December 24, 1979. The corporation has no subsidiaries.
 - b. The sole corporate officer is Robb M. Peterson, who holds the corporate offices of President and Secretary, and serves as Chief Compliance Officer
 - c. The corporate stock is owned entirely by Robb M. Peterson.
- B. Firm services: We offer portfolio management for individuals, businesses and institutions.
- C. Service customization: We tailor client portfolio management to accommodate: required liquidity, safety, income, time horizon, specific companies or industries to avoid, and consideration of taxes with respect to capital-loss carry forwards, income and capital-gain tax rates.
- D. Wrap Fee Programs: We do not participate in programs that combine trading commissions and investment management fees.
- E. Assets under Management: As of December 31, 2011, we had client assets under management of \$67,597,954. All assets under management were discretionary, meaning that we have the power to act according to our judgment for the client's benefit.

Item 5 Fees and Compensation

- A. **Advisory Service Compensation:** We are compensated by a fee based on assets under management according to the schedule below. Fees are not negotiable and are calculated on portfolio value. Multiple accounts for the same owner shall be aggregated to determine the lowest possible fee and that fee shall be apportioned such that all accounts pay the same rate per dollar under management. 501(c)(3) organizations receive a 30% discount from schedule below.

Amount under Supervision	Annual Fee
First \$500,000	1.000%
Next \$1,000,000	0.750%
Next \$1,000,000	0.500%
Over \$2,500,000	0.375%

Examples of Annual Fee Calculation:

Example	Portfolio Value	Calculation	\$ Annual Fee	Annual Fee %
Client #1	\$500,000	$\$500,000 \times 0.01$	\$5,000	1.000%
Client #2	\$1,000,000	$(\$500,000 \times 0.01) + (\$500,000 \times 0.0075)$	\$8,750	0.875%
Client #3	\$500,000		\$3,750	0.750%
	<u>\$1,500,000</u>		\$11,250	0.750%
	\$2,000,000	$(\$500,000 \times 0.01) + (\$1,000,000 \times 0.0075) + (\$500,000 \times 0.005)$	\$15,000	0.750%

- B. **Fee Payment:** Fees are paid quarterly, in advance, and deducted from the client's portfolio unless other arrangements have been made. New clients, who commence management during a quarter, will have their management fee prorated based on the quarter's remaining term and that fee will be paid in arrears with the following quarter's fee billing.

Example of quarterly fee billing for a current client: Client has a portfolio worth \$500,000 on December 31. On January 2, we bill the client's portfolio custodian one quarter of the \$5,000 annual fee for the first quarter. The custodian deducts \$1,250 from the portfolio's money market fund and remits it to Peterson Investment Management, Inc.

Example of quarterly billing for a new client: Client commences management with a portfolio worth \$450,000 on November 30. There is no fee billed in advance because the client commenced management during a quarter. On December 31, the portfolio is worth \$500,000. We bill a fee in arrears of \$382.19 for the 31-day period from November 30 to December 31. The fee is calculated as: $\$450,000$ (portfolio value) $\times 0.01$ (annual rate) $\times (31/365)$ (fraction of year). Additionally, we bill a fee in advance of \$1,250.00 for the first quarter fee. The fee is calculated as $\$500,000$ (portfolio value) $\times 0.01$ (annual rate) $\times 0.25$ (reducing annual rate to one quarter).

- C. **Other Fees or Expenses Paid:**
- Portfolio Management Interface License:** Peterson Investment Management, Inc. utilizes software to record client account activity, review accounts and produce reports. Our software license includes a complimentary interface to Charles Schwab & Co., Inc. The interface eliminates hand entry of portfolio transactions. Clients are free to select the custodian of their choice, but we reserve the right to charge their portfolio for our cost of the interface license.
 - Commissions:** The custodian for the client's portfolio of securities will receive payment from the

client's portfolio for most transactions. Purchases and sales of stocks will incur commissions according to the custodian's fee schedule. The commission rate is influenced by many factors, including: portfolio size, total assets that the client has with the custodian, quantity of shares purchased, client's election to receive portfolio statements and trade confirmations via electronic delivery and promotional rates for new accounts.

- c. **Markups and Markdowns:** The custodian will increase the purchase price or reduce the sales price of a security transaction when the custodian is buying for its own account as a principal, rather than acting as an agent for buyer or seller. The markup or markdown is in lieu of a commission.
 - d. **Transaction Fees:** The custodian may charge an extra fee or higher commission for transactions on foreign exchanges.
 - e. **Foreign Tax:** The custodian may be required to withhold foreign tax on dividend payments by foreign companies.
 - f. **Fund Management Fees:** investments made in mutual funds, exchange traded funds and any other type of managed investment will incur management fees in addition to those levied by Peterson Investment Management, Inc.
- D. **Fee Billing and Advisory Contract Termination:** As covered in Item 5.B., management fees must be paid in advance. Should a client terminate advisory services, we will issue a prorated refund for the prepaid period not utilized. The refund calculation is made by taking the fee paid and multiplying by the fraction of the remaining days in the billing quarter.

Example of prorated refund: Based on a client's March 31 portfolio value of \$500,000, we billed a client's custodian a \$1,250 fee for the second quarter from April 1 to June 30. The custodian debits the \$1,250 fee from the portfolio's money-market fund and remits to Peterson Investment Management, Inc. On May 17, the client notifies Peterson Investment Management, Inc. that their services are terminated. The client is due a refund for the 44 days of prepaid service from May 17 to June 30. Because the quarter contains 90 days, the client receives a refund of \$611, which is calculated as $\$1,250 \times (44/90)$.

- E. **Other Compensation:** Peterson Investment Management, Inc. and its employees do not receive compensation for the purchase or sale of securities or any other investment products.

Item 6 Performance-Based Fees and Side-By-Side Management

Peterson Investment Management, Inc. and its employees do not accept performance-based fees – that is, fees based on a share of capital gains on or capital appreciation of the assets of a client's portfolio.

Item 7 Types of Clients

Peterson Investment Management, Inc. provides investment advisory services to the following account types:

- A. Individuals:
 - a. Individual accounts
 - b. Community Property
 - c. Joint Tenant accounts
 - d. Trust accounts
 - i. Charitable Remainder Trusts
 - ii. Generation Skipping Trusts
 - iii. Irrevocable Living Trusts
 - iv. Revocable Living Trusts
 - v. Survivor Trusts
 - vi. Testamentary Trusts
 - e. Individual Retirement Accounts
 - i. Contributory IRAs
 - ii. Inherited IRAs
 - iii. Rollover IRAs
 - iv. Roth IRAs
 - v. SEP IRAs
- B. Businesses:
 - a. Capital accounts
 - b. Profit-Sharing Plan & 401(k)
- C. Charities:
 - a. Capital accounts
 - b. Foundation accounts

A. Methods of analysis and investment strategies:

We are investors and thus think and behave differently from many other investment advisors of mutual funds that buy securities based on fads or speculation. We do not emphasize market-timing schemes. There is no persuasive evidence that investors can time the market profitably since the market moves in ways that concentrate a significant portion of certain cycles' up performance in a short period of time. Numerous studies convincingly prove that to capture the best return, you have to be and remain invested. We do not know what the market will do, but we do know that because stocks are risky, they have, over the long-term, returned the greatest returns-- greater than bonds, money markets or gold. Keeping in mind that investing in securities involves risk of loss that clients should be prepared to bear, the best way to capture these risk-based returns is to be a long-term investor.

We are skeptical of Wall Street's ability to forecast company earnings. We use simple measures of valuation, which have demonstrated over time to be reliable indicators of undervalued securities. We concentrate on large, successful companies with a preference for persistent earnings growth. Management and markets served are important in arriving at conclusions on this critical point.

We are interested in developing themes that may be driving forces in the economy. These trends may be related to demography, productivity enhancement derived from capital spending or changing consumer-spending patterns.

Portfolios are balanced with select bond holdings to tailor the account to meet the liquidity, safety and income requirements of each individual client.

B. Material risks involved with methods of analysis and investment strategies, reported alphabetically:

- a. Accounting Risk, the risk that the reported financial condition of a company is incorrectly stated.
- b. Interest Rate Risk, the risk that interest rates will change. Rising rates will cause existing bond prices to fall and may cause stock prices to decline also, as rising bond yields compete with stocks.
- c. Currency Risk, the risk that foreign exchange rates change and those securities we have invested in become more or less attractive because the currency that they are denominated in is rising or falling compared to other currencies.
- d. Commodity Risk, the risk that a company's share price will rise or fall with market price for its production.
- e. Disaster Risk, the risk of natural or man-made disasters affecting operations of companies that we have invested in.
- f. Equity Risk, the risk that security prices and /or the implied volatility will change.
- g. Management Risk, the risk that the share price of a company we have purchased stock in declines due to poor management or loss of management.

C. Material risks involved with primary securities: We primarily invest in common stocks, which are subject to the risks listed in 8.B.

Item 9 Disciplinary Information

There are no legal or disciplinary events to report for Peterson Investment Management, Inc. or for management persons.

Item 10 Other Financial Industry Activities and Affiliations

There are no other financial industry activities and affiliations to report for Peterson Investment Management, Inc. or for management persons.

Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

- A. Peterson Investment Management, Inc. Code of Ethics adopted pursuant to SEC rule 204A-1:
The client's best interest is supreme:
- a. Custodian recommendations – When requested, we shall furnish prospective clients with three custodian recommendations. Our recommendations will be based on a combination of price and service.
 - b. Custodian compensation – We shall not receive direct or indirect compensation from custodians for directing client trading to the custodian.
 - c. Favoritism – There shall be no preference given to any client with respect to allocation of trades. Client orders shall be aggregated and executed as one order, with the execution calculated at an average price that is allocated to all clients.
 - d. Trading – The client's outcome is paramount to the interests of Peterson Investment Management, Inc. and its employees, family, friends and associates. Purchases and sales of securities for client portfolios shall be either aggregated with orders for the firm and employee accounts or shall precede order entry for firm and employee accounts.
- B. See 11.A.d
C. See 11.A.d
D. See 11.A.d

- A. Factors considered in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation: We seek to recommend a custodian who will hold your assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others:
- Combination of transaction execution services and asset custody services.
 - Capability to buy and sell securities for your account.
 - Capability to facilitate deposits, transfers and withdrawals.
 - Breadth of available investment products.
 - Quality of services.
 - Competitiveness of commission costs and other account fees.
 - Reputation and financial strength.
 - Prior service to us and our clients.
1. Research and other soft dollar benefits – In connection with client security transactions placed with Charles Schwab & Co., Inc., we receive educational compliance bulletins and access to research on Schwab's website. We do not consider this a conflict of interest because our clients' institutional commission schedule is identical to Schwab's retail commission schedule.
 - i. These are typical services provided by a custodian to an advisor. When we use client brokerage commissions to obtain research or other products or services, we receive a benefit because we do not have to produce or pay for the research, products or services.
 - ii. There is a possible conflict of interest in that we may have an incentive to select or recommend a broker-dealer based on our interest in receiving the research or other products or services, rather than on our clients' interest in receiving most favorable execution.
 - iii. We have not caused our clients to pay commissions higher than those charged by other broker-dealers in return for soft dollar benefits.
 - iv. We use soft dollar benefits to service all of our clients' accounts.
 - v. Within our last fiscal year we benefited with our relationship with Charles Schwab by receiving the following:
 1. Print and electronic versions of Schwab's Compliance Review publication.
 2. Online access to research and provide opinions to clients and prospective clients on their holdings of mutual funds.
 3. Software interface to facilitate download of daily portfolio transactions.
 - vi. In the last fiscal year, we did not direct client transactions to a particular broker-dealer in return for soft dollar benefits.
 2. Brokerage for client referrals: Peterson Investment Management, Inc. does not consider, in selecting or recommending broker-dealers, whether it, or a related person, receives client referrals.
 3. Directed Brokerage: Peterson Investment Management, Inc. does not recommend, request or require that a client direct us to execute transactions through a specified broker-dealer. We may permit a client to direct brokerage, but would have to evaluate the costs to the client and assess the likelihood of a favorable execution. We presently do not direct transactions away from our client portfolio custodians because the client's portfolio would incur an additional trade expense. A discussion of order aggregation appears under 11.A.c-d.

Item 13 Review of Accounts

- A. Periodic account review: Client portfolios are reviewed by John A. Peterson and/or Robb M. Peterson.
 - a. Daily transaction review and reconciliation: Each business day, Robb M. Peterson reviews all portfolio activity for the prior business day. Typical transactions include deposits, withdrawals, interest and dividend payments, and purchases and sales. Transactions are posted to client portfolios and the portfolio positions are reconciled against custodian records to ensure their database integrity. We may take action on significant changes in money-market balances or current asset allocation versus targeted asset allocation.
 - b. Daily investment and market review: John A. Peterson and/or Robb M. Peterson monitor daily prices for various market indices and all client holdings, as well as financial news.
 - c. Weekly review of portfolio money-market balances and asset allocation. John A. Peterson and/or Robb M. Peterson review portfolio money-market balances and asset allocation versus target values.
 - d. Quarterly portfolio review: John A. Peterson and/or Robb M. Peterson review portfolio realized gains and losses report, performance analysis.
- B. Non-periodic account review: Client portfolios are reviewed on a non-periodic basis when there are:
 - a. Significant changes in the value of investments held or in overall market conditions.
 - b. Significant changes in the client's objectives.
 - c. Client request for review.
- C. Client reporting: In addition to the client receiving reports of transactions made and monthly account statements, Peterson Investment Management, Inc. furnishes a quarterly newsletter and portfolio reports as of the last day of each quarter. The reports are mailed to clients within 15 days of quarter end. The reports include the following:
 - a. Billing Statement
 - b. Realized Gains and Losses
 - c. Expense Report
 - d. Performance Analysis
 - e. Portfolio Statement

Item 14 Client Referrals and Other Compensation

- A. Economic benefits received from non-clients for servicing our clients: Employees of Peterson Investment Management, Inc. have benefited from paid meals while conducting business with agents of Charles Schwab & Co., Inc. and have attended business forums at the invitation and expense of Charles Schwab & Co., Inc.
- B. Client referrals: Peterson Investment Management, Inc. does not compensate any person or company for client referrals.

Item 15 Custody

Under government regulations, Peterson Investment Management, Inc. is deemed to have custody of your assets if, for example, you authorize us to instruct your account custodian to deduct our advisory fees directly from your account, or if you grant us authority to move your money to another person's account. Your custodian maintains actual custody of your assets. You will receive account statements directly from your account custodian at least quarterly. They will be sent to the email or postal mailing address you provided to your account custodian. You should carefully review those statements promptly when you receive them. We also urge you to compare your custodian statements to the quarterly reports you will receive from us.

Item 16 Investment Discretion

Peterson Investment Management, Inc. accepts and requires discretionary authority to manage securities accounts on behalf of clients. Please see Item 4.C for a discussion of customization of service and limitations that clients may place on our authority.

Before we can commence investment management, we require the following items:

- A. Peterson Investment Management, Inc. Client Information and Instruction Record
- B. Peterson Investment Management, Inc. Investment Advisory Agreement
- C. Custodian Limited Power of Attorney

Item 17 Voting Client Securities

The Securities and Exchange Commission adopted SEC rule 206(4)-6 on January 31, 2003 that requires registered investment advisers to adopt written policies and procedures to ensure that the adviser votes proxies solicited by corporate management in the best interest of its clients.

Peterson Investment Management, Inc. has proxy voting responsibility for certain clients, and in those cases proxies are sent to the office of the firm. In other cases, the proxies are delivered to the individual clients, and Peterson Investment Management, Inc. takes no responsibility for voting these proxies. In the event that proxies are delivered to Peterson Investment Management, Inc., the responsible officers of the firm will vote those proxies so received in the manner, that in their judgment, best serves the client's interest.

With regard to voting for corporate officers and directors, Peterson Investment Management, Inc., absent any information that might be damaging to the current corporate management's reputation, or failing Peterson Investment Management, Inc.'s express knowledge concerning any action that reasonably may be considered as resulting in fraud or malfeasance, will generally vote to elect the nominated officers and directors. The same reservation applies to nominations of accountants and other pro forma matters.

With regard to issues of compensation of officers and directors, re-capitalization's, share increases or matters relating to awards of stock options and other related share incentive programs, Peterson Investment Management, Inc. officers will generally vote proxies in accordance with management's recommendations.

With regard to individual shareholder resolutions, Peterson Investment Management, Inc. officers will vote proxies using their best judgment concerning the potential effect of such resolutions on their client's best interest.

In the event that a conflict of interest arises, wherein Peterson Investment Management, Inc. has a direct beneficial or financial interest concerning a proponent of a proxy resolution, or an interest of a commercial nature with a corporation issuing a proxy that Peterson Investment Management, Inc. has the responsibility to vote, such potential conflict of interest will be specifically revealed to the client, and approval of the intended proxy vote will be secured before any vote, or other election takes place. Records of such communications will be maintained.

Records of proxy voting by Peterson Investment Management, Inc. will be kept and be available for client inspection at the office of Peterson Investment Management, Inc. for the prescribed five year holding period. Please contact us should you wish to review our voting records.

Item 18 Financial Information

- A. Peterson Investment Management, Inc. is not required to provide a balance sheet because it does not require or solicit prepayment of advisory fees six months or more in advance.
- B. There is no financial condition that is reasonably likely to impair the ability of Peterson Investment Management, Inc. to meet contractual commitments to clients.
- C. Peterson Investment Management, Inc. has not been the subject of a bankruptcy petition at any time.

Item 19 Requirements for State-Registered Advisers

A. Identification of principal executive officers and management persons with curriculum vitae:

a. John A. Peterson:

Formal Education:

BA Degree in Economics, Whitman College, 1954

MBA Degree, Harvard University, 1956

Business Background:

1st Lieutenant United States Army, 1956-1959

Finance Corps, responsibility for U.S. forces total cash acquisition, accountability and disbursement for the European theatre of operations.

Kidder Peabody & Company Inc., 1959-1968; New York, NY and San Francisco, CA
Assistant vice president and member Investment Advisory Committee.

W.M. Hutchinson & Company, 1968-1970; San Francisco, CA
Founding partner of New York Stock Exchange Firm
Director of Investment Advisory Department

Kidder Peabody & Company, 1970-1977; San Francisco, CA
Vice President and Investment Research Officer
Supervisory analyst certification, NYSE
Member, Financial Analyst Federation

Peterson Investment Management, Inc., 1977-2011; Spokane, WA
President, Secretary & Treasurer

Peterson Investment Management, Inc., 2011-present; Spokane, WA
Chairman

b. Robb M. Peterson:

Formal Education:

BA Degree in Economics, Whitman College, 1986

Business Background:

The Dun & Bradstreet Corporation, 1986-1987; Burlingame, CA
Credit Analyst

Kidder Peabody & Company, Inc. 1987-1993; San Francisco, CA
Registered Representative

Peterson Investment Management, Inc., 1993-2011; Spokane, WA
Vice President and Chief Compliance Officer

Peterson Investment Management, Inc., 2011-present; Spokane, WA
President, Secretary and Chief Compliance Officer

B. Peterson Investment Management, Inc. is not actively engaged in any business other than that described in this brochure.

C. Peterson Investment Management, Inc. and its supervised persons are not compensated for advisory services with performance-based fees.

D. Peterson Investment Management, Inc. and its management persons have not been found liable in an

arbitration claim or in a civil, self-regulatory organization, or administrative proceeding.

- E. Peterson Investment Management, Inc. and its management persons have no relationship with any issuer of securities other than our connection to our custodian(s) as a financial advisor with limited power of attorney for client portfolios.

Congress passed the Gramm-Leach-Bliley Act in November 1999, with its main goal being the dismantling of the Glass-Steagall Act, allowing banks, brokers and insurers to merge. The G-L-B Act also included a provision protecting consumers from privacy violations. This part of the G-L-B Act required seven federal agencies, including the Securities and Exchange Commission, to promulgate rules enforcing the statute. On June 22, 2000, the SEC released Regulation S-P, a rule intended to protect the privacy of nonpublic financial information about individuals. Regulation S-P requires federally regulated Registered Investment Advisors, among others, to adopt privacy policies governing their collection and use of nonpublic personal information about individuals, to inform certain individuals of their privacy policies, and to offer those individuals the opportunity to “opt out” of certain types of information sharing. Peterson Investment Management, Inc. (“we”) is mandated to deliver this privacy notice to new clients and to render an annual offer of our privacy notice during the continuation of our relationship. Additionally, you are entitled to a revised privacy notice if we change our information disclosure practices.

Maintaining your privacy is important to us. You have a right to know what information is being collected about you and how that information will be used.

We collect nonpublic personal information about you, but only possess that which you have provided to us. Sources include client contracts, questionnaires, brokerage account applications and from ongoing confidential discussions and from review and collection of personal financial documents that you may provide to us to aid you in acting as your financial advisor.

We do not disclose your nonpublic personal information to anyone, except as permitted by law. Under the law, the information we collect is provided to companies that perform support services on our or your behalf as necessary to affect, administer, or process a transaction, or for maintaining and servicing your account. We will, at your request, share information with your other professional advisors, such as an attorney or CPA.

We maintain physical, administrative and technical safeguards to protect your nonpublic personal information. We restrict access to your nonpublic personal information about you to those employees who need to know that information to provide services to you. Discarded paper and electronic records are destroyed. The computer network is secured and restricted to employee access only. The office is secured when employees are not present.

You do not need to contact us as a result of this notice. It is meant to inform you of how we safeguard your nonpublic personal information. Please call with any questions or concerns.