

Item 1. Cover Page

December 31, 2011

ABERNATHY INVESTMENT MANAGEMENT, LLC

1803 HARPETH RIVER DRIVE
BRENTWOOD, TN 37027

Contact: JOHN M. ABERNATHY III

Phone: 615-376-8244

Fax: 615-376-9488

E-mail: jma_aim@yahoo.com

This brochure provides information about the qualifications and business practices of Abernathy Investment Management, LLC. If you have any questions about the contents of this brochure, please contact John Abernathy at 615-376-8244 or jma_aim@yahoo.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Abernathy Investment Management, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2. Material Changes

There are no material changes to report with this filing. Should future filings contain material changes, they will be disclosed in this section of the brochure.

Item 3. Table of Contents

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Item 4. Advisory Business

Abernathy Investment Management, LLC was formed in March, 2005 by its sole owner and principal, John M. Abernathy III, to provide portfolio management and advisory service for clients on a discretionary basis. The vast majority of my clients are individuals and my focus is on establishing and maintaining long-term relationships and offering a personalized advisory service. I do not advertise nor do I actively market my advisory business. The emphasis is on research and management on behalf of my existing client base and new business development is not a priority. When a new relationship is established, a significant investment in time is made at the front end to discuss and formulate reasonable investment objectives and to outline a plan to attain those objectives. Depending on the pre-determined allocation of clients' funds, portfolios are typically invested in three asset classes – equities (stocks), fixed-income instruments (bonds) and cash equivalents (money-market funds). Investments in individual securities are the favored approach; however, I will utilize Exchange-Traded Funds (ETFs) and mutual funds to gain broader exposure to a certain industry sector or overseas markets or in circumstances when account size dictates the use to meet diversification requirements. While I maintain a general model portfolio based on the investment environment and my selection process (see Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss) at any given time, I recognize that individual needs and goals can vary greatly, and I tailor the use of my model portfolios to meet specific individual circumstances. Additionally, my clients have complete authority to place restrictions or limitations on investing in certain securities and/or types of securities. Such restrictions or limitations will be duly noted in a client's investment profile. (Also, see Item 16 – Investment Discretion).

As of December 31, 2011, Abernathy Investment Management had \$45,500,000 in assets under management. All assets are managed on a discretionary basis. The only compensation that Abernathy Investment Management receives for its services is a management fee which is calculated based on the value of the assets under management. The structure of the fee schedule is addressed in Item 5 – Fees and Compensation.

Abernathy Investment Management, LLC does not participate in wrap fee programs.

Item 5. Fees and Compensation

Abernathy Investment Management, LLC will manage clients' portfolios on a discretionary basis. For this service, a fee will be charged that is determined by applying a percentage to the market value of assets under management in accordance with the schedule below.

Schedule of Fees

On first \$2,000,000	0.75%*	0.1875%**
On next \$2,000,000	0.60%	0.15%
On next \$1,000,000	0.50%	0.125%
On next \$3,000,000	0.40%	0.10%
Over \$8,000,000	0.30%	0.075%

*Annual Rate

**Quarterly Rate

The management fee will be paid quarterly in arrears (approximately 6 weeks after the end of the quarter for which services were provided) and will be based upon the market value of the portfolio as of the end of the related quarter. By this time, I have provided clients with their quarterly report detailing the various positions held in their portfolio and the performance. Clients will also have received a statement from the qualified custodian who actually holds their assets. Usually, the fee is disbursed to Abernathy Investment Management directly from the managed account; however, a client can be billed separately if such an arrangement is preferred. There will be a proration of the fee if a client cancels the advisory contract during a quarter or a new account is established at some time in the quarter. The proration will be calculated by applying the ratio of days that the portfolio was under management to the total number of days in the quarter.

As stated in Item 4 – Advisory Business, I may utilize exchange-traded funds and mutual funds in certain instances. These investment vehicles have embedded expenses which are separate from the quarterly management fee that is deducted from my clients' accounts. While clients do not pay these embedded fees directly to the mutual fund company or the issuer of the exchange-traded funds, the fees detract from the overall return realized by the client. An analysis of the appropriateness of these fees is an important part of my investment selection process. In addition to the management fee paid to Abernathy Investment Management, clients will also pay transaction costs when securities are purchased or sold by Abernathy Investment Management on their behalf. Also, custodian fees may be applied. For more detailed information regarding transaction costs and custodian arrangements, please refer to Item 12 – Brokerage Practices.

Abernathy Investment Management does not accept compensation for the sale of securities or other investment products. The sole source of compensation is the quarterly management fee outlined in the schedule above.

Item 6. Performance-Based Fees and Side-by-Side Management

Abernathy Investment Management does not engage in performance-based fee arrangements. The only fee arrangement is asset-based as discussed in Item 5 – Fees and Compensation.

Item 7. Types of Clients

Abernathy Investment Management focuses on the personalized portfolio management needs of individuals to include trust and retirement arrangements for those individuals. At the end of 2011, such clients comprised approximately 95% of my client base.

Abernathy Investment Management does not require that an account be of a minimum size to be opened or maintained. However, prior to opening an account that, due to limited size, should be invested in mutual funds or exchange-traded funds to achieve proper diversification, I will discuss the embedded fees associated with these investment vehicles as discussed in Item 5 – Fees and Compensation.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

Abernathy Investment Management structures client portfolios through a blend of equities (individual stocks, exchange-traded funds or mutual funds), fixed-income issues (individual bond issues, exchange-traded funds or mutual funds) and cash equivalents (money market funds). Obviously, investing in securities involves the risk of loss of client capital. Therefore, in-depth research is the driving priority to combat this risk. Also, recognizing that unpredictable events can impact market action negatively from time to time, my analysis and ultimate commitment of capital to an investment is based upon a long-term view.

For the equity portion of portfolios, my “standard day” model will have 30 stocks with a 3% position each and 10% cash which provides the opportunity to add to existing positions or buy another one without having to sell. Exchange-Traded Funds and mutual funds may also be utilized; however, individual securities allow a “hands on” approach and give me better control of tax impact consequences from transactions. I stress that this “standard day model” is only a starting point. I use the analogy from my naval aviation days. Aircraft performance charts were based on a “standard day” of 59 degrees Fahrenheit ambient air temperature and 29.92 millibars of atmospheric pressure. Performance calculations were adjusted according to the deviation from those standard measures and I cannot recall making a takeoff when adjustments were not required.

The process begins with what is known as a “top down” approach. That is, I first evaluate the economic environment for indications of which major industry sectors (healthcare, technology, energy, etc.) will be favored in the existing and forecasted economy. I attempt to

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identify trends and determine if they have strength and durability as opposed to being a passing fad. I evaluate investor sentiment looking for market preferences – large companies vs. mid-sized and small, growth companies vs. value, domestic vs. international and traditional investments vs. alternatives. The next step is to establish the weightings (percent of the portfolio) to allot to the major industry sectors and sub-sectors. At this point, the individual selection of stocks within the industry sectors begins. In fundamental analysis, I look for companies in good businesses with above average growth prospects. I favor those that can be low-cost providers and market share gainers and have a technological and/or marketing superiority over competitors. I look for companies with solid financials (strong balance sheet), sustainable profit margins and the capacity to finance their growth through their own free cash flow and to return some of that cash to investors. I also give consideration to the health of the technical chart of a company's stock. I utilize information contained in annual reports, financial newspapers and magazines, corporate rating services, company press releases and research prepared by others. For the most part, I consider the research offered by Wall Street firms to be "noise," which may serve as a temporary headwind or tailwind to a stock's price action.

Once the "list" is determined, the commitment of capital is market opportunity driven and based on a valuation process to include the present price to earnings (P/E) ratio vs. the historical average (minus unusual extremes), price to book value, and price to free cash flow. Each commitment is made with a future price objective.

One of the most difficult aspects in portfolio management is developing an effective sell discipline. Once a position is purchased, the research continues. I tend to lend more attention to unfavorable commentary about my selections at this time in the process than to the cheerleaders. While it is very important to have conviction about a selection, it is equally important to constantly question my thought process. Mistakes will be made, and as hard as it is to do, they need to be corrected early. When stocks appreciate as expected and the original price objective is reached, I make a decision whether to liquidate the entire position, sell a portion or reset to a higher price objective.

The ultimate goal for the equity portion of portfolios is to attain capital appreciation with reasonable income generation (dividends) with low turnover, low transaction costs and tax efficiency when possible.

The fixed-income (bond) portion of portfolios requires in-depth research as well. Inflationary expectations, market psychology, and erratic swings in the perceived credit quality of issuers have increased the volatility of this asset class, but the focus needs to remain on actual creditworthiness. Again, the process begins with a look at the health of the U.S. and global economies. After considering the business cycle, demand for credit and interest rate forecasts, I attempt to identify relative value along the yield curve (short, intermediate and long-term maturities). With corporate issues, the same analysis used for equities is applied to determine creditworthiness. For municipal issues, credit history, current debt burden, population trends, the local business environment and industry diversification are considerations.

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Depending on a client's risk tolerance and tax status, fixed-income portfolios will consist of individual government, corporate and municipal bonds, bond mutual funds and exchange-traded funds (ETFs) as well as foreign funds and ETFs. When portfolios consist of multiple corporate bonds, a concentration in one industry sector is avoided. When municipal bonds are a part of portfolios, diversification across various municipalities is an investment principle. A laddered-maturity structure is standard in portfolios consisting of individual issues. The fixed-income portion of portfolios will usually be fully invested.

Item 9. Disciplinary Information

Neither Abernathy Investment Management nor John M. Abernathy III has been involved in any legal or disciplinary events.

Item 10. Other Financial Industry Activities and Affiliations

Neither Abernathy Investment Management nor John M. Abernathy III is involved in other financial industry activities and neither has other financial industry affiliations.

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

As sole Principal, President, Chief Investment Officer and Chief Compliance Officer, the full burden of ethical business conduct falls on me, John M. Abernathy III. The fiduciary responsibility which I undertake on behalf of clients is profound and "loyalty to client" is the centerpiece of my business strategy. Every decision made in the conduct of business is scrutinized first for potential conflicts of interest, and in every instance, the well-being of clients is placed ahead of all other factors. I believe that professionalism and integrity foster the trust that is vital to any fiduciary relationship, and as such, these characteristics must be constantly demonstrated. In pursuit of such demonstration, I communicate frequently with clients, often in person, to review portfolio performance, discuss transactions, update or confirm objectives, discuss operational issues and consider the appropriateness of the custodian relationship. In conducting business, I diligently protect the privacy of my clients. A copy of Abernathy Investment Management's Code of Ethics is available upon request.

When I purchase or sell a security for my clients' accounts, I will purchase or sell the same security in my personal account at the same time. This practice has the potential to create a conflict of interest, and accordingly, a standard procedure is in place to address the potential conflict. I maintain personal accounts at three primary custodians (see Item 12 – Brokerage Practices) and the purchase or sale of securities in my accounts will be executed as part of a "block" trade (the aggregation of shares for all clients executed as one transaction and subsequently allocated to clients' accounts as well as my own). The total number of shares to be purchased or sold and the subsequent allocation is predetermined before the transaction is

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submitted for execution. This practice ensures that client accounts (as well as my account) at that particular custodian receive the same price at the same time and that the number of shares from the aggregated trade are allocated appropriately.

I do not recommend to clients or buy or sell for client accounts, securities which I have a material financial interest.

Item 12. Brokerage Practices

Abernathy Investment Management does not maintain actual custody of client assets, which must be held in an account at a “qualified custodian,” generally a broker-dealer or bank. Abernathy Investment Management primarily utilizes three custodians for client assets – two local branches within the Morgan Stanley Smith Barney system and Charles Schwab. As previously disclosed in Item 11 - Custody, I maintain a personal account at each of these custodians, but Abernathy Investment Management is not affiliated with either Morgan Stanley Smith Barney or Charles Schwab. Prior to entering an investment management arrangement, the selection of a custodian will be discussed in depth and advantages and disadvantages based on my prior experience will be identified.

Several factors will be considered, including:

- Combination of transaction execution services and asset custody services
- Breadth of available investment products such as stocks, bonds, mutual funds, exchange-traded funds, etc.
- Reputation, financial strength and stability
- Competitiveness of price (commission rates and other fees)
- Capability to make timely transfers and payments to and from accounts such as wire transfers and check requests
- Account size
- Existing security holdings
- Client preference
- Quality of services received through the custodial relationship
- Availability of investment research

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While I may recommend a custodian, the client will actually open the account by entering into an account agreement directly with the custodian. I do not open accounts on behalf of clients but will assist clients in doing so.

The custodian relationship with Schwab, through Schwab Advisors Services, is tailored to complement an investment advisory practice, while the Morgan Stanley Smith Barney system is not. The relationship with the Morgan Stanley Smith Barney branches originated with my employment with The Robinson-Humphrey Company and most clients with assets held at these branches have long-standing relationships and have maintained their accounts there. Recently, Morgan Stanley Smith Barney increased custodian and administrative fees for certain accounts based on size and these relationships are under review.

By maintaining client assets at qualified custodians, Abernathy Investment Management receives certain services, which are a benefit to Abernathy Investment Management (Soft Dollar Benefits) but may not directly benefit clients. Investment research (both the custodian's proprietary and that offered by the custodian from a third party) is used to a degree in managing all of my clients' accounts, not just the accounts held by the research provider. Abernathy Investment Management does not pay for this benefit because it is available as a result of clients maintaining assets with the custodian and executing client transactions with the custodian for which the custodian receives commission dollars. Allocation of aggregated trades is not proportioned to accounts according to the soft dollar benefit generated, but rather by a predetermined security weighting relative to the portfolio size. Custodians provide on-line access to client account data and facilitate trade execution and allocate aggregated trades for multiple accounts. They provide asset pricing and market data and assist with back-office functions, record-keeping and client reporting. They also facilitate payment of management fees from client accounts. In addition, Schwab may offer other services intended to benefit the management and development of advisory firms through educational conferences and events and consultation on technology and compliance needs.

The services that Abernathy Investment Management receives from custodians are generally available on an unsolicited basis (I do not request them). Abernathy Investment Management does not pay for these services; however, Schwab may charge a quarterly service fee of \$1,200 should the collective assets for my clients held there fall below \$10 million. The incentive to steer clients to Schwab to avoid this fee is a potential conflict of interest. At present, Abernathy Investment Management's assets with Schwab are comfortably above this minimum level and this is not a relevant factor; however, it will be disclosed to clients during the custodian selection process.

Abernathy Investment Management does not receive client referrals from custodians and does not recommend, request or require that clients direct the execution of transactions through a specified broker-dealer.

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In addition to the client relationships held at Morgan Stanley Smith Barney, which were previously referenced, Abernathy Investment Management will permit a client to direct brokerage. I will agree to this only after detailing that I will most likely be unable to achieve most favorable execution of the client's transactions, that commission rates will likely be higher and, as a result of being unable to aggregate orders with those for other clients, less favorable prices may be received.

The purchase and sale of securities for clients' accounts held at Schwab and Morgan Stanley Smith Barney will be aggregated whenever possible. This practice will allow all accounts held at Schwab to receive the same price and all accounts held at Morgan Stanley Smith Barney to receive the same price. The executed prices at Schwab and Morgan Stanley Smith Barney will likely differ slightly. The ability to aggregate at Morgan Stanley Smith Barney has allowed those clients to realize reduced transaction costs and aggregation may lead to more favorable prices at both custodians. For clients that custody at Morgan Stanley Smith Barney, I will transact all trades through Morgan Stanley Smith Barney. At Schwab, I have the option to conduct transactions away from Schwab and have the securities bought or funds received from securities sold deposited into clients' accounts at Schwab. For this, Schwab applies a flat fee in addition to the commission paid to the executing broker-dealer. The combination of the fee and commission paid usually exceeds the commission paid to transact at Schwab and negates any pricing benefit. As such, I will execute the vast majority of trades for accounts held at Schwab directly through Schwab.

Item 13. Review of Accounts

I formally review and provide written portfolio reports on each client's account quarterly, either by mail or through an in-person meeting. This process serves to confirm client objectives and ensure that portfolios remain structured to meet those objectives. These written reports reflect in detail all securities held as of the report date, the related cost basis, current market value and the annual income that each is projected to produce.

Item 14. Client Referrals and Compensation

Abernathy Investment Management does not compensate others for client referrals and has never had such an arrangement. Abernathy Investment Management does receive an economic benefit from qualified custodians in the form of support products and services which may be provided; however, this benefit is not based on my giving particular investment advice or promoting a particular investment product to clients. Please refer to Item 12 – Brokerage Practices.

Item 15. Custody

Under government regulations, I am deemed to have custody of clients' assets if, for example, they authorize Abernathy Investment Management to instruct their custodian to deduct the investment management fee directly from the managed account. Actual custody of clients' assets managed by Abernathy Investment Management is maintained by a qualified custodian (see Item 12 – Brokerage Practices). Clients will receive, at a minimum, quarterly statements from their custodian which will reflect assets held at the custodian and the market value of those assets as of the date of the report. I also provide quarterly reports. Clients should carefully review both the custodian's reports and those provided by me and compare them for discrepancies. The report which I provide will contain a legend reminding clients to make this comparison and contact me if there is a question.

Item 16. Investment Discretion

Abernathy Investment Management manages its clients' assets on a discretionary basis. Before entering into this arrangement, a client will sign an Investment Management Agreement which appoints Abernathy Investment Management as the client's investment advisor and assigns discretionary authority for the management of the account. This agreement further states that the client may impose limitations or restrictions on this authority by notice in writing.

Item 17. Voting Client Securities

As stated in the management agreement which is executed at the time of the establishment of a relationship, I do not intend to vote client securities.

Depending on the custodian, clients may receive proxies and other solicitations directly from the custodian or through me, if desired. I am always available to discuss questions which clients may have regarding a particular solicitation.

Item 18. Financial Information

Abernathy Investment Management does not require advance payment for its services, rather, as indicated in Item 5 – Fees and Compensation, Abernathy Investment Management charges a management fee for its services approximately six weeks after the end of the related quarter.

Abernathy Investment Management does not foresee any financial issue or condition that will impair its ability to fulfill its contractual obligations to clients.

Neither Abernathy Investment Management nor John M. Abernathy III has ever been the subject of a bankruptcy petition.

Item 19. Requirements for State Registered Advisors

Not applicable at this time.

Item 20. Supplemental Information for John M. Abernathy III

Year of Birth: 1952

Formal Education: Vanderbilt University
Bachelor of Arts Degree, 1974

Business Background: Abernathy Investment Management, LLC
2005 – Present
Lee, Danner and Bass, Inc.
1999 – 2005 (Portfolio Manager)
The Robinson-Humphrey Co.
1899 – 1999 (Registered Representative)

Additional Background: Naval Flight Training
1974 – 1976
Naval Aviator
1976 – 1986, Active Service
1986 – 2004, Reserve Service
Captain, U.S. Naval Reserve (Retired)

