

Shearer and Gray Investment Management, LLC Firm Brochure

This brochure provides information about the qualifications and business practices of Shearer and Gray Investment Management, LLC. If you have any questions about the contents of this brochure, please contact us at (215) 656-4384 or by email at: charles@shearerinvest.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 Shearer and Gray Investment Management, LLC is also available on the SEC's website at www.adviserinfo.sec.gov. Shearer and Gray Investment Management, LLC's CRD number is: 148610

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Registration does not imply a certain level of skill or training.

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Item 2: Material Changes

Shearer and Gray Investment Management, LLC has transitioned from SEC to State registration since the previous annual update on February 22, 2011. The entire brochure document should be reviewed carefully.

Item 3: Table of Contents

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Item 4: Advisory Business

A. Description of the Advisory Firm

This firm has been in business since 1/04/2009, and the principal owners are Charles Edward Shearer and Michael Kennedy Gray.

B. Types of Advisory Services

Shearer and Gray Investment Management, LLC (hereinafter "SGIM") offers the following services to advisory clients:

Investment Supervisory Services

SGIM offers ongoing portfolio management services based on the individual goals, objectives, time horizon, and risk tolerance of each client. SGIM creates an Investment Policy Statement for each client, which outlines the client's current situation (income, tax levels, and risk tolerance levels) and then constructs a plan (the Investment Policy Statement) to aid in the selection of a portfolio that matches each client's specific situation. Investment Supervisory Services include, but are not limited to, the following:

- Investment strategy
- Asset allocation
- Risk tolerance
- Personal investment policy
- Asset selection
- Regular portfolio monitoring

SGIM evaluates the current investments of each client with respect to their risk tolerance levels and time horizon. SGIM will request discretionary authority from clients in order to select securities and execute transactions without permission from the client prior to each transaction. Risk tolerance levels are documented in the Investment Policy Statement, which is given to each client.

Performance Based Fees

SGIM will charge a "Performance Fee" to qualified clients for assets managed as special situation investments ("Special Situation Account"). Special situation investments shall include investments that involve initial public offerings, private equity placements, mutual bank conversions, or any other investments that require specific access, information, or research.

Rule 205-3 of the Investment Advisers Act of 1940, as amended (the "Advisers Act") permits an investment adviser to enter into a performance fee agreement with certain clients who have the capacity to bear the potential additional risks of such a fee arrangement (referred to as "Qualified Clients"). Qualified Clients are natural persons

and entities that have either at least \$750,000 under management with us immediately after entering into this Agreement or a net worth at the time of this Agreement in excess of \$1.5 million (a natural person's net worth may include assets held jointly with a spouse). You specifically acknowledge and understand that the Performance Fee may be an incentive for use to make investments that are riskier or more speculative than would be the case absent the Performance Fee.

Rebalancing

The percentage weighting assigned to each asset class within Client portfolios can and will vary. The percentage weighting for each asset class will be allowed to vary within reasonable ranges depending upon market conditions. If rebalancing is required, investment yield and net cash flows will be used to meet the strategic asset allocation targets. If cash flow is insufficient to meet the target allocation for any asset class, SGIM will review the situation in consultation with the client and decide whether to effect transactions in order to rebalance the asset allocation.

Services Limited to Specific Types of Investments

SGIM does not limit its investment advice and/or money management to specific types of investments or securities. SGIM may use a variety of securities to help diversify a portfolio when applicable.

C. Client Tailored Services and Client Imposed Restrictions

SGIM offers the same suite of services to all of its clients. However, specific client financial plans and their implementation are dependent upon the client Investment Policy Statement which outlines each client's current situation (income, tax levels, and risk tolerance levels) and is used to construct a client specific plan to aid in the selection of a portfolio that matches restrictions, needs, and targets.

Clients may impose restrictions in investing in certain securities or types of securities in accordance with their values or beliefs. However, if the restrictions prevent SGIM from properly servicing the client account, or if the restrictions would require SGIM to deviate from its standard suite of services, SGIM reserves the right to end the relationship.

D. Wrap Fee Programs

SGIM does not participate in any wrap fee programs.

E. Amounts Under Management

SGIM has the following assets under management:

Discretionary Amounts:	Non-discretionary Amounts:	Date Calculated:
\$9,493,352.61	\$23,828,385.41	12/31/2011

Item 5: Fees and Compensation

A. Fee Schedule

Investment Supervisory Services Fees

Total Assets Under Management	Annual Fee
\$1 - \$1,000,000	3.00%
\$1,000,001 - \$3,000,000	1.50%
\$3,000,001 - \$5,000,000	1.00%
Above \$5,000,000	0.85%

These fees are negotiable and the final fee schedule will be attached as Exhibit II of the Investment Advisory Contract. Fees are paid quarterly in advance, and clients may terminate their account with written notice. Refunds will be given on a prorated basis, based on the number of days remaining in a quarter at the point of termination. Clients may terminate their accounts without penalty, for full refund, within 5 business days of signing the advisory contract.

SGIM will withdraw advisory fees directly from the client's accounts with a qualified custodian only with written authorization from the client. SGIM will send the qualified custodian written notice of the amount of the fee to be deducted from the client's account. SGIM send the client a written invoice itemizing the fee, including any formulas used to calculate the fee, the time period covered by the fee, and the amount of assets under management on which the fee was based. Lower fees for comparable services may be available from other sources.

Performance Based Fees

SGIM will be compensated based on an asset based management fee of 2.00% for all assets under management. In addition, qualified investors will be charged a performance based fee of 20% of net profits for the year on special situation investments. Fees are only charged based upon a high water mark since the inception of the account - a previous period's losses must be offset before a fee is charged. The performance fee is charged on the amount by which the ending value of the Special Situation Account exceeds the beginning value of the Special Situation Account for each calendar year adjusted for any additions or withdrawals of funds by the Client.

For the purpose of calculating the Performance Fee, the beginning value of the Special Situation Account shall be the Special Situation Account value as of the beginning of the calendar year (e.g., January 1) or the date thereafter on which the Special Situation Account was established. The ending value of the Special Situation Account shall be the Special Situation Account value as of the end of the calendar year (e.g., December 31) or the date prior on which the Special Situation Account was terminated.

Performance Based Fees can only be utilized by individuals who meet the following qualifications:

- i.) A natural person or a company that immediately after entering into the contract has at least \$1,000,000 under the management of the investment adviser; or
- ii.) A natural person who or a company that the investment adviser entering into the contract (and any person acting on his behalf) reasonably believes, immediately prior to entering into the contract, has a net worth (together, in the case of a natural person, with assets held jointly with a spouse) of more than \$2,000,000 at the time the contract is entered into.

No Performance Fee will be charged in any year that the Special Situation Account's value for the period covered does not exceed that of the Special Situation Accounts starting value for the period covered adjusted for funds withdrawn or added to the Special Situation Account including the payment of any fees or commissions. Once a Performance Fee has been paid to SGIM for any period, SGIM shall retain such Performance Fee notwithstanding subsequent losses in the Special Situation Account.

In addition, assets managed in a Special Situation Account shall pay, in advance, an asset management fee ("Base Fee") of 0.4% of the value of assets under management at the start of each fiscal quarter. Base Fees will be paid at the beginning of each quarter (e.g., January 1, April 1, July 1, and October 1) or the date at which the Special Situation Account is established. There will be no refund of asset management fees if the management agreement is terminated and/or the account is closed prior to quarter end.

Assets managed in core account strategies ("Core Account") shall pay, in advance, only a Base Fee dependent upon the value of assets under management at the start of each fiscal quarter. Core account strategies are defined as including but not limited to fixed

income, open market stock, arbitrage, and risk arbitrage strategies. The classification of an investment as a core or special situation investment, and the inclusion of an investment in the Core Account or Special Situation Account are purely at our discretion.

Base Fees will be paid at the beginning of each quarter (e.g., January 1, April 1, July 1, and October 1) or the date at which the Core Account is established. There will be no refund of asset management fees if the management agreement is terminated and/or the account is closed prior to quarter end.

B. Payment of Fees

Payment of Investment Supervisory Fees

Advisory fees are withdrawn directly from the client's accounts with client written authorization. Fees are paid quarterly in advance.

Payment of Performance Based Fees

Performance based fees are paid quarterly in arrears.

C. Clients Are Responsible For Third Party Fees

Clients are responsible for the payment of all third party fees (i.e. custodian fees, mutual fund fees, transaction fee etc.). Those fees are separate and distinct from the fees and expenses charged by SGIM. Please see Item 12 of this brochure regarding broker/custodian.

D. Prepayment of Fees

SGIM collects fees in advance and in arrears. Fees that are collected in advance will be refunded based on the prorated amount of work completed at the point of termination and the total days during the billing period. Fees will be returned within fourteen days to the client via check or wire.

E. Outside Compensation For the Sale of Securities to Clients

Neither SGIM nor its supervised persons accept any compensation for the sale of securities or other investment products, including asset-based sales charges or services fees from the sale of mutual funds.

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

SGIM accepts performance based fees, fees based on a share of capital gains on or capital appreciation of the assets of a client. SGIM also manages accounts that are billed on a share of capital gains on or capital appreciation of the assets of a client. Managing both kinds of accounts at the same time presents a conflict of interest because SGIM or its supervised person's have an incentive to favor accounts for which SGIM and its supervised persons receive a performance-based fee. SGIM addresses the conflicts by ensuring that clients who have performance based accounts do not receive preferential treatment. SGIM provides best execution practices and upholds its fiduciary duty for all clients.

Clients that are paying a performance based fee should be aware that investment advisors have an incentive to invest in riskier investments when paid a performance based fee due to the higher risk/higher reward attributes.

Item 7: Types of Clients

SGIM generally provides investment advice to the following Types of Clients:

- ❖ Individuals
- ❖ High-Net-Worth Individuals
- ❖ Pension and Profit Sharing Plans
- ❖ Corporations or Business Entities

Minimum Account Size

There is an account minimum, \$5,000, which may be waived by the investment advisor, based on the needs of the client and the complexity of the situation.

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

A. Methods of Analysis and Investment Strategies

SGIM's methods of analysis include fundamental and technical analysis.

Fundamental analysis involves the analysis of financial statements, the general financial health of companies, and/or the analysis of management or competitive advantages.

Technical analysis involves the analysis of past market data; primarily price and volume.

Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.

B. Material Risks Involved

SGIM uses Long Term, Short Term, Trading, Short Sales, Margin Transactions, Options Writing including covered options, uncovered options, or spreading strategies, bank conversions and private equity participation in public equity.

SGIM utilizes investment strategies that are designed to capture market rates of both return and risk. Frequent trading, when done, can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.

C. Risks of Specific Securities Utilized

SGIM generally seeks investment strategies that do not involve significant or unusual risk beyond that of the general domestic and/or international equity markets.

Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.

Item 9: Disciplinary Information

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of this advisory business or the integrity of our management.

Item 10: Other Financial Industry Activities and Affiliations

A. Registration as a Broker/Dealer or Broker/Dealer Representative

Neither SGIM nor its representatives are registered as a broker/dealer or as representatives of a broker/dealer.

B. Registration as a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor

Neither SGIM nor its representatives are registered as a FCM, CPO, or CTA.

C. Registration Relationships Material to this Advisory Business and Possible Conflicts of Interests

Neither SGIM nor its representatives have any material relationships to this advisory business that would present a possible conflict of interest.

D. Selection of Other Advisors or Managers and How This Adviser is Compensated for Those Selections

SGIM does not utilize nor select other advisors or third party managers. All assets are managed by SGIM management.

Item 11: Code of Ethics, Participation in Transactions, Personal Trading

A. Code of Ethics

We have a written Code of Ethics that covers the following areas: Prohibited Purchases and Sales, Insider Trading, Personal Securities Transactions, Exempted Transactions, Prohibited Activities, Conflicts of Interest, Gifts and Entertainment, Confidentiality, Service on a Board of Directors, Compliance Procedures, Compliance with Laws and Regulations, Procedures and Reporting, Certification of Compliance, Reporting Violations, Compliance Officer Duties, Training and Education, Recordkeeping, Annual Review, and Sanctions. Clients may request a copy of our Code of Ethics from management.

B. Recommendations Involving Material Financial Interests

SGIM does not recommend that clients buy or sell any security in which a related person to SGIM has a financial interest.

C. Investing Personal Money in the Same Securities as Clients

From time to time, representatives of SGIM may buy or sell securities for themselves that they also recommend to clients. SGIM will always document any transactions that could be construed as conflicts of interest and will always transact client business before their own when similar securities are being bought or sold.

D. Trading Securities At/Around the Same Time as Clients' Securities

From time to time, representatives of SGIM may buy or sell securities for themselves at or around the same time as clients. SGIM will not trade non-mutual fund or non-ETF securities 3 days prior to or 3 days after trading the same security for clients.

Form ADV 2A Version: 5/4/2012

Item 12: Brokerage Practices

A. Factors Used to Select Custodians and/or Broker/Dealers

The Custodian was chosen based on their relatively low transaction fees and access to mutual funds and ETFs. SGIM will never charge a premium or commission on transactions, beyond the actual cost imposed by Custodian.

1. *Research and Other Soft-Dollar Benefits*

SGIM receives no research, product, or service other than execution from a broker-dealer or third-party in connection with client securities transactions ("soft dollar benefits").

2. *Brokerage for Client Referrals*

SGIM receives no referrals from a broker-dealer or third party in exchange for using that broker-dealer or third party.

3. *Clients Directing Which Broker/Dealer/Custodian to Use*

SGIM allows clients to direct brokerage. SGIM may be unable to achieve most favorable execution of client transactions if clients choose to direct brokerage. This may cost clients money because without the ability to direct brokerage SGIM may not be able to aggregate orders to reduce transactions costs resulting in higher brokerage commissions and less favorable prices.

B. Aggregating (Block) Trading for Multiple Client Accounts

SGIM maintains the ability to block trades purchases across accounts but will rarely do so. While block trading may benefit clients buy purchasing larger blocks in groups, we do not feel that the clients are at a disadvantage due to the best execution practices of our custodian.

Item 13: Reviews of Accounts

A. Frequency and Nature of Periodic Reviews and Who Makes Those Reviews

Client accounts are reviewed at least daily by Charles Edward Shearer, Managing Member and/or Michael Gray. They are the chief advisors and are instructed to review clients' accounts with regards to their investment policies and risk tolerance levels. All accounts at IA are assigned to these reviewers.

Form ADV 2A Version: 5/4/2012

B. Factors That Will Trigger a Non-Periodic Review of Client Accounts

Reviews may be triggered by material market, economic or political events, or by changes in client's financial situations (such as retirement, termination of employment, physical move, or inheritance).

C. Content and Frequency of Regular Reports Provided to Clients

Each client will receive a monthly written report detailing the clients account performance, which may come from the custodian.

Item 14: Client Referrals and Other Compensation

A. Economic Benefits Provided by Third Parties for Advice Rendered to Clients (Includes Sales Awards or Other Prizes)

SGIM does not receive any economic benefit, directly or indirectly from any third party for advice rendered to SGIM clients.

B. Compensation to Non –Advisory Personnel for Client Referrals

SGIM does not directly or indirectly compensate any person who is not advisory personnel for client referrals.

Item 15: Custody

SGIM with client written authority has limited custody of client's assets through direct fee deduction of SGIM's Fees only. If the client chooses to be billed directly by the Custodian, SGIM would have constructive custody over that account and must have written authorization from the client to do so. Clients will receive all required account statements and billing invoices that are required in each jurisdiction, and they should carefully review those statements for accuracy.

Item 16: Investment Discretion

For those client accounts where SGIM provides ongoing supervision, the client has given SGIM written discretionary authority over the client's accounts with respect to securities to be bought or sold and the amount of securities to be bought or sold. Details of this relationship are fully

disclosed to the client before any advisory relationship has commenced. The client provides SGIM discretionary authority via a limited power of attorney in the Investment Advisory Contract and in the contract between the client and the custodian.

Item 17: Voting Client Securities (Proxy Voting)

SGIM will not ask for, nor accept voting authority for client securities. Clients will receive proxies directly from the issuer of the security or the custodian. Clients should direct all proxy questions to the issuer of the security.

Item 18: Financial Information

A. Balance Sheet

SGIM does not require nor solicit prepayment of more than \$500 in fees per client, six months or more in advance and therefore does not need to include a balance sheet with this brochure.

B. Financial Conditions Reasonably Likely to Impair Ability to Meet Contractual Commitments to Clients

SGIM nor its management have any financial conditions that are likely to reasonably impair our ability to meet contractual commitments to clients.

C. Bankruptcy Petitions in Previous Ten Years

SGIM nor its management have been the subject of a bankruptcy petition in the last ten years.

Item 19: Requirements For State Registered Advisers

A. Principal Executive Officers and Management Persons; Their Formal Education and Business Background

SGIM currently has two management persons/executive officers; Michael Gray and Charles Shearer. Their education and business background can be found on the Supplemental ADV Part 2B form.

B. Other Businesses in Which This Advisory Firm or its Personnel are Engaged and Time Spent on Those (If Any)

Michael Gray and Charles Shearer's other business activities can be found on the Supplemental ADV Part 2B form.

C. How Performance Based Fees are Calculated and Degree of Risk to Clients

SGIM accepts performance based fees, fees based on a share of capital gains on or capital appreciation of the assets of a client

SGIM will be compensated based on an asset based management fee of 2.00% for all assets under management. In addition, qualified investors will be charged a performance based fee of 20% of net profits for the year on special situation investments. Fees are only charged based upon a high water mark since the inception of the account - a previous period's losses must be offset before a fee is charged. The performance fee is charged on the amount by which the ending value of the Special Situation Account exceeds the beginning value of the Special Situation Account for each calendar year adjusted for any additions or withdrawals of funds by the Client.

Clients that are paying a performance based fee should be aware that investment advisors have an incentive to invest in riskier investments when paid a performance based fee due to the higher risk/higher reward attributes.

D. Material Disciplinary Disclosures for Management Persons of this Firm

No management person at SGIM or SGIM has been involved in an arbitration claim or been found liable in a civil, self-regulatory organization, or administrative proceeding that is material to the client's evaluation of the firm or its management.

E. Material Relationships That Management Persons Have With Issuers of Securities (If Any)

Neither SGIM, nor its management persons, has any relationship or arrangement with issuers of securities.