

Gilliland Investment Management, Inc.

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Form ADV, Part 2A Brochure

October 13, 2015

This Brochure provides information about the qualifications and business practices of Gilliland Investment Management, Inc. If you have any questions about the contents of this Brochure, please contact us at 806-655-5909 or by email at mark@gillilandinvestment.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.

Gilliland Investment Management, Inc. is a Registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an adviser.

Additional information about Gilliland Investment Management, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov. The searchable IARD/CRD number for Gilliland Investment Management, Inc. is 124490.

Brochure prepared on October 13, 2015

Item 2 – Material Changes

The material changes in this brochure from the last annual updating amendment of Gilliland Investment Management, Inc. on March 31, 2015 are described below. This list summarizes changes to policies, practices or conflicts of interests only.

- Gilliland Investment Management was reorganized as a corporation, Gilliland Investment Management, Inc., in October 2015.

Currently, our Brochure may be requested by contacting our office at 806-655-5909 or by emailing us at mark@gillilandinvestment.com. Our Brochure is also available on our web site www.gillilandinvestment.com, also free of charge.

Additional information about Gilliland Investment Management, Inc. is also available via the SEC's web site www.adviserinfo.sec.gov. The SEC's web site also provides information about any persons affiliated with Gilliland Investment Management, Inc. who are registered, or are required to be registered, as investment adviser representatives of Gilliland Investment Management, Inc..

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Item 4 – Advisory Business

Gilliland Investment Management, Inc. (hereinafter “GIM”, “the firm”, “our”, or “we”) is an independent investment firm that provides advice and portfolio management services on a continuing basis, including the appropriate allocation of managed assets among stocks, bonds, cash, mutual funds, exchange traded funds, closed-end funds, real estate investment trusts (REITs), and publicly-traded master limited partnerships (MLPs) with the selection of specific securities which will provide diversification and help meet the client’s stated investment objectives.

Though GIM provides investment advice regarding all types of securities, our focus is on building client investment portfolios through the purchase of individual stocks for the equity portion of a portfolio and bond funds for the fixed income portion of a portfolio. The exceptions are smaller clients for whom building a portfolio of individual stocks is not feasible and clients who simply prefer a portfolio built with funds.

Gilliland Investment Management, Inc. is a corporation organized in the State of Texas and registered as an investment advisor firm in October 2015. The principal owner is Mark Gilliland. The firm was formerly Gilliland Investment Management, a sole proprietorship owned by Mark Gilliland and established in October 2002.

As of December 31, 2014 GIM has \$16,578,149 in assets under management. All of these assets are managed on a discretionary basis.

Item 5 – Fees and Compensation

The specific manner in which fees are charged by GIM is established in a client’s written agreement. The annual fee for investment advisory services will be charged as a percentage of assets under management according to the schedule below.

<u>Assets Under Management</u>	<u>Annual Fee</u>
\$10,000 - \$249,999	1.75%
\$250,000 - \$499,999	1.50%
\$500,000 - \$749,999	1.25%
\$750,000 - \$1 million	1.00%
\$1 million - \$3 million	0.75%
\$3 million and up	0.50%

All fees are subject to negotiation. Fees are payable quarterly, in arrears at the end of each calendar quarter based on the value (market value or fair market value in the absence of market value) of the client’s account as of the last business day of the quarter.

Our clients authorize the account custodian to debit their client account for the amount of our investment advisory fee. At the end of each quarter, we will notify your custodian of the amount of the fee due and payable to us through our fee schedule and contract. The custodian does not check our fee, its calculation or the assets on which the fee is based. They will deduct the fee from your account(s) and credit our account. In limited situations we may provide an alternative payment method.

Each month you will receive a statement directly from your custodian showing all transactions, positions and credits/debits to or from your account; the statements after the quarter end will reflect these transactions, including the advisory fee paid by you to us.

Certain clients of GIM with pre-existing relationships may initially be charged fees which are more or less than those set out above

Management fees shall be prorated for capital contributions made during the applicable calendar quarter (with the exception of de minimis contributions). Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any earned unpaid fees will be due and payable.

Item 5a – Additional Fees and Expenses:

Advisory fees payable to us do not include all the fees you will pay when we purchase or sell securities for your account(s). The following list of fees or expenses are what you pay directly to third parties, whether a security is being purchased, sold or held in your account(s) under our management. We do not receive, directly or indirectly any of these fees charged to you. They are paid to your broker, custodian or the mutual fund or other investment you hold. These fees may include brokerage commissions, transaction fees, exchange fees, SEC fees, advisory fees and administrative fees charged by mutual funds, exchange traded funds, money market funds, custodial fees, deferred sales charges, transfer taxes, wire transfer and electronic fund processing fees, and commissions or mark-ups / mark-downs on security transactions.

GIM is a fee only investment advisor. We do not have or employ any employee that receives compensation from the sale of securities or investments that are purchased or sold for your account(s). We do not have any potential conflicts of interest present that relate to any additional (and un-disclosed) compensation from your or your assets that we manage.

Consulting services

Fees for consulting services may be billed at an hourly rate of up to \$100 per hour. Consulting services may be focused on particular investment and financial advisory issues. Consulting services and fees will be agreed to in advance by the firm and the client.

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

GIM does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

Item 7 – Types of Clients

GIM provides portfolio management services to individuals, high net worth individuals, and corporations.

The minimum initial investment is \$10,000 for management of accounts. Fees and account sizes are subject to negotiation and may differ based on a number of factors. These factors may include the amount of assets and the number and range of supplemental advisory and client related services.

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

Investment Strategies

We begin the investment process by carefully listening to the client and gaining a thorough understanding of the client's goals, risk tolerance, investment time horizon, cash flow needs, and other circumstances. We then determine an appropriate investment strategy for the client based on those understandings.

From this understanding, we develop an asset allocation model that properly balances risk and reward over a long-term time horizon. Asset allocation is the relative mix of cash, fixed income, and equity securities suitable for a client's investment portfolio. We believe that investment risk is lessened when a portfolio is diversified. Diversification is achieved by investing across asset classes and securities within an asset class.

We combine asset allocation with diversification to ensure a client's portfolio will be managed in a prudent manner.

Equity Investing – Fundamental Analysis

The equity portion of a client's portfolio is generally built with individual stocks. GIM employs the principals of value investing to determine the stocks that will be selected for the equity portion of the portfolio. We believe that value investing is best method of investing to balance risk and reward over a long-term horizon. Value investing involves estimating the intrinsic value of a stock and purchasing only those stocks that we believe are trading below fair market value. If we can buy stocks below our estimate of their fair market value we should be able to earn a reasonable return

on the investment. Additionally, investing in securities at a price we believe to be below fair market value also provides for a “margin of safety” on the investment.

Margin of safety is a concept developed by Benjamin Graham and David Dodd in their book, *Security Analysis*, published in 1934. The lower below fair market value an investment can be made, the greater the margin of safety. The greater our margin of safety, the more we reduce the risk that we will suffer a permanent loss of capital in an investment if our analysis is wrong, if a company in which we invest suffers a misfortune, or if the market as a whole suffers a downturn. If all the stocks we purchase for an investment portfolio are purchased with a margin of safety, then we should be able to reduce the overall risk of the equity portion of the portfolio.

For accounts where the equity allocation is too small to purchase a portfolio of 16-20 individual stocks, we will select either no-load mutual funds that are highly rated by Morningstar, have successful long-term track records, low expense ratios, and good management; or we will select exchange-traded funds (ETFs) that we believe offer good value with limited risk.

Research information is generated both internally and obtained from external sources. External research sources we may utilize include:

- Annual reports, 10-Ks and 10-Qs filed with the SEC
- Research materials prepared by other firms
- Company earnings announcements, press releases, and websites
- Financial websites, newspapers, or magazines, and industry publications
- Government and economic reports

Technical Analysis

Technical analysis is a security analysis discipline for forecasting the direction of prices through the study of past market data, primarily price and volume, usually using charts. At GIM we first use fundamental analysis to determine which securities should be purchased. After we have performed our fundamental analysis, we use technical analysis to help us determine the buy point of a security we have already determined to be a good value. Once a stock has been purchased, we monitor a chart of that stock to track its progress over time. And finally, when a stock has reached our price target, we use charts to help determine set a sell target for the stock.

Fixed Income Investments

Client assets allocated to fixed income securities are primarily invested in our “bond basket”. Our bond basket is a group of 3-7 bond funds. These funds may be no-load mutual funds, exchange traded funds (ETFs), or closed-end funds (CEFs). Each bond fund covers a different sector of the bond market, including foreign bonds. We analyze bond funds using research from Morningstar, research reports prepared by other firms, and our own fundamental analysis.

Our bond basket is designed to maximize income while being highly diversified across the bond market, as well as add stability to our clients' portfolios.

Other Asset Classes

Investing in non-traditional asset classes can further diversify the portfolio and reduce risk. We may invest in real estate via publicly traded real estate investment trusts (REITs). We may also invest in commodities via exchange traded funds (ETFs) or exchange traded notes (ETNs). We do not invest in futures contracts, nor will we directly own commodities, precious metals or natural resources. Investments in these asset classes are made only in highly liquid investments.

Risk of Loss

Investing in securities involves risk of loss that clients should be prepared to bear. Securities markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. When securities are sold they may be worth less than they were purchased for, which means that you could lose money.

Item 9 – Disciplinary Information

GIM has never been the subject of an investment related regulatory or legal complaint. No employee of GIM has ever been the subject of an investment related regulatory complaint or litigation.

Item 10 – Other Financial Industry Activities and Affiliations

In addition to being a Texas state-registered investment advisor, sole proprietor Mark Gilliland is also a licensed certified public accountant (CPA) and is the sole stockholder of Gilliland & Co., PC, a professional corporation licensed to practice accounting in Texas by the Texas State Board of Public Accountancy. As such, GIM may sell other services or products to advisory clients. Accounting and tax preparation services provided by Gilliland & Co., PC are separate and distinct from the advisory services provided by GIM, and are provided for separate and typical compensation. No GIM client is obligated to use Gilliland & Co., PC for any accounting and/or tax preparation services, and no accounting/tax client of Mr. Gilliland is obligated to utilize the advisory services of GIM. Gilliland & Co., PC's accounting services do not include the authority to sign checks or otherwise disburse funds on any advisory client's behalf.

Mr. Gilliland expects to spend less than 25% of his time with non-advisory activities.

Item 11 – Code of Ethics

GIM has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at GIM must acknowledge the terms of the Code of Ethics annually, or as amended.

GIM anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which GIM has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which GIM its affiliates and/or clients, directly or indirectly, have a position of interest. GIM's employees and persons associated with GIM are required to follow GIM's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of GIM and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for GIM's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of GIM will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of GIM's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between GIM and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with GIM's obligation of best execution. In such circumstances, the affiliated and client accounts receive securities at a total average price. The custodian will charge commissions based on its established rates for each client account. GIM will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

GIM's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Mark Gilliland.

It is GIM's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. GIM will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client.

Item 12 – Brokerage Practices

All client assets are held by third party custodians. Clients may choose any custodian they prefer. If the client has no preference, GIM typically recommends that clients use Fidelity Investments Institutional Wealth Services ("Fidelity IWS") as the custodian. All client assets under management are currently held at Fidelity IWS. Fidelity IWS provides us with access to its institutional trading and custody services, which are typically not available to retail investors. These services generally are available to independent investment advisors. Prospective clients are hereby advised that lower brokerage fees for comparable services may be available from other sources. We have a duty to get best execution for our clients. Best execution is not only brokerage fees, but also involves price improvement and speed of execution. We periodically review our transaction costs in light of current market circumstances, available published statistical analysis as well as other relevant information.

GIM has an arrangement with National Financial Services LLC and Fidelity Brokerage Services LLC (collectively, and together with all affiliates, "Fidelity") through which Fidelity provides GIM with "institutional platform services." The institutional platform services include, among others, brokerage, custody, and other related services. Fidelity's institutional platform services that assist GIM in managing and administering clients' accounts include software and other technology that (i) provide access to client account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of fees from its clients' accounts; and (v) assist with back-office functions, recordkeeping and client reporting.

Fidelity also offers other services intended to help GIM manage and further develop its advisory practice. Such services include, but are not limited to, performance reporting, financial planning, contact management systems, third party research, publications, access to educational conferences, roundtables and webinars, practice management resources, access to consultants and other third party service providers who provide a wide array of business related services and technology with whom GIM may contract directly.

GIM is independently operated and owned and is not affiliated with Fidelity.

Fidelity generally does not charge its advisor clients separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through Fidelity or that settle into Fidelity

accounts (i.e., transactions fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions). Fidelity provides access to many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges.

Fidelity is providing GIM with certain brokerage and research products and services that qualify as "brokerage or research services" under Section 28(e) of the Securities Exchange Act of 1934 ("Exchange Act").

Item 13 – Review of Accounts

Client accounts are reviewed by Mark Gilliland, sole proprietor of Gilliland Investment Management, Inc. on a regular basis. The frequency of the review is dependent upon the type of review being performed.

On a daily basis, GIM downloads transactions from the custodian for posting into our portfolio management system. Before posting, all transactions are reviewed to confirm that they are authorized. Unusual transactions are investigated. After transactions have been posted, all client accounts are reconciled to balances reported by the custodian.

Securities held in client accounts are reviewed on a daily basis. Unusual moves, either up or down, are investigated.

Client accounts are reviewed on at least a monthly basis. In this review, account performance is compared to other accounts with similar asset allocation models. We identify any large fluctuations and take action as necessary.

On a quarterly basis, we mail reports to all clients. Each package includes an account statement for each client account, a performance report for each account, and a billing statement showing how the management fee was calculated for the previous quarter. Before mailing the quarterly statements, we review the asset allocation model and compare it to the target asset allocation model. We also compare performance for accounts with similar asset allocation models. Any necessary changes are made.

Item 14 – Client Referrals and Other Compensation

While we very much appreciate any referrals that clients may make on our behalf, we do not offer or participate in any programs where we compensate someone for client referrals.

Item 15 – Custody

We do not have custody of client assets. Therefore, each client must select a custodian and may be required to pay custodian fees. Also, clients will incur brokerage and other transaction costs in the course of our management of their accounts. Clients should receive at least quarterly statements from the custodian that holds and maintains client's investment assets. GIM urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Item 16 – Investment Discretion

GIM usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, GIM observes the investment policies, limitations and restrictions of the clients for which it advises. Investment guidelines and restrictions must be provided to GIM in writing.

Item 17 – Voting *Client* Securities

As a matter of firm policy and practice, GIM does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. GIM may provide advice to clients regarding the clients' voting of proxies.

Item 18 – Financial Information

Gilliland Investment Management, Inc. does not have any financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding. In addition we do not require or solicit pre-payment of advisory fees.

Item 19 – Requirements for State-Registered Advisers

GIM currently has only one management person/executive officer: Mark Edward Gilliland. Education, business background and other business activities can be found on the Form ADV Part 2B brochure supplement for such individual.

GIM does not accept performance-based fees or other fees based on a share of capital gains on or capital appreciation of the assets of a client.

No management person at GIM or GIM has been found liable 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.

Any material relationships that a management person may have with issuers of securities are reflected in Item 10 and 11.