FIRST OPPORTUNITY FUND INC
Form N-CSR
June 08, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-04605

First Opportunity Fund, Inc.
(Exact name of registrant as specified in charter)

Fund Administrative Services

2344 Spruce Street, Suite A

Boulder, CO 80302
(Address of principal executive offices) (Zip code)

Fund Administrative Services

2344 Spruce Street, Suite A

Boulder, CO 80302
(Name and address of agent for service)

Registrant s telephone number, including area code: (303) 444-5483

Date of fiscal year end: March 31, 2009

Date of reporting period: March 31, 2009

Item 1. Reports to Stockholders.

The Report to Stockholders is attached herewith.

Table of Contents

Annual Report | March 31, 2009

Dear Shareholders:

The First Opportunity Fund (the Fund) returned -42.5% on net asset value for the twelve-month period ending March 31, 2009. Financial stocks underperformed the overall market index, as measured by the S&P 500, which returned -38.1%.

TOTAL RETURNS *as of March 31, 2009*

	YTD	6 M	1 YR	3 YRS	5 YRS	10 YRS
First Opportunity Fund NAV	-7.9%	-27.8%	-42.5%	-21.6%	-8.7%	8.1%
S&P 500 Index	-11.0	-30.5	-38.1	-13.1	-4.8	-3.0
NASDAQ Composite*	-1.7	-25.7	-31.5	-12.2	-4.2	-4.1
NASDAQ Banks*	-25.6	-37.8	-40.8	-22.5	-12.6	-1.5
SNL All Daily Thrift	-16.2	-27.9	-45.3	-30.9	-19.1	-2.5

Sources: Wellington Management Company, LLP

**Principal Only*

Periods greater than one year are annualized

The past year was one of the most challenging since the Fund s inception. After several years of piling leverage into the system, both on consumer and corporate balance sheets, the situation finally came to a crisis with extreme levels of volatility and illiquidity not seen in the post-World War II era. For financial sector stocks, it has turned into an epic battle between the financial meltdown and the federal government s policy response. While it was clear that the Fed and the Treasury did not like the vital signs of its patient, the US financial economy, the good news is that they have responded extraordinarily boldly and without precedent with new medicines such as TARP, TALF, and direct security purchases to re-hydrate the liquidity. The challenge is that we do not know what the long-term side effects or ultimate consequences will be from this unprecedented response. We have seen estimates that the quantitative monetary and fiscal easing both applied and proposed by the government is more than ten times, as a percent of GDP, what was applied during the Great Depression. These intervention programs have shown some success in helping to buy the time necessary to help heal our insolvent financial system. Without these government programs, many more banks would have failed by now. We will see more failures, as bad loan recognition accelerates, and it will take time for the resource-constrained FDIC to deal with this work load.

Letter from the Adviser

Despite ongoing political uncertainty, and as we interpret the results of the government s stress tests , it is clear to us that banks will need to raise significant amounts of capital in the coming months to have a fighting chance at long term survival. We expect some champion banks to emerge from this process. These banks will be the big beneficiaries of the FDIC process of seizing banks and selling off their deposits. The most successful will be those with management teams able to use their excess capital to buy and integrate failed banks effectively.

While the government s policy response has arrested the liquidity meltdown in the financial economy, and it has given us some hope, there is little evidence yet that the decline of the real economy will slow as well. However, the de-leveraging of our historically overleveraged homeowners will take years, not months. Substituting government demand for vanishing consumer demand by borrowing $2 trillion a year helps numb the pain, but that remedy, borrowing and leveraging up, is ironically quite like what got us into this situation in the first place. At this point, it is difficult to ascertain what the unintended consequences might be from such vast government intervention.

During this challenging environment, we took a defensive posture and increased the cash position in the Fund, which was approximately 23% of total investments at the end of the period. We invested in companies with the least exposure to loans, such as Goldman Sachs and the property and casualty insurers. During the twelve-month period ended March 31, 2009, Goldman Sachs (+49.3%), a US-based bank holding company and investment bank, was the strongest contributor to absolute performance. The company s shares moved higher in 2009 as the firm s relatively cleaner balance sheet and the market s higher confidence in its book value relative to peers attracted investors as an industry-leading safe haven. Shares also benefited from an announcement that the firm was looking for ways to pay back the government TARP loans sooner than anticipated. Specialty finance company Chimera Investment (+53.4%) and insurance/reinsurance company Lancashire Holdings (+14.3%) were also positive contributors to absolute performance during the period.

The top detractor from absolute performance during the period was Thornburg Mortgage (-83.8%). Shares of this Mortgage REIT declined sharply as the company faced a liquidity crisis with the pulling of its rep lines, and despite a quality prime mortgage portfolio, it ultimately was forced to file for bankruptcy. The Fund s participation in the private capital raise for Washington Mutual in April 2008 proved disappointing after liquidity concerns about its deposits resulted in a government forced sale to JP Morgan. AerCap Holdings (-81.4%), a global aviation company engaged in aircraft and engine leasing, was also a significant detractor from the Fund s absolute returns during the period.

In terms of industry positioning, the Fund has remained primarily invested in Regional Banks (29%) and Thrift & Mortgage Finance names (29%). We trimmed our exposure to Regional Banks and to Asset Management & Custody names over the past twelve months, while significantly increasing our exposure to Investment Banking & Brokerage firms (13%). At the end of the period, approximately 7% of the Fund s equity securities were domiciled outside the US. The Fund s top holdings at the end of the period included Goldman Sachs, Community Bank, Northfield Banc NJ, and MF Global.

While we expect continued volatility ahead in the markets and substantial amounts of capital to be raised, our best bet will be to remain flexible and opportunistic. We will look to invest in those companies in a position to grow their pre-tax pre-loan provision profitability and to those with access to capital. It is our hope that these extraordinary times will provide tremendous investment opportunities for long-term fund shareholders.

As always, we appreciate your support of the Fund.

Nicholas C. Adams

Senior Vice President and Equity Portfolio Manager
Wellington Management Company, LLP

Financial Data

	Per Share of Common Stock Net Asset Value	NYSE Closing Price	Dividend Paid
3/31/08	$ 10.18	$ 9.04	$ 0.00
4/30/08	10.28	9.66	0.00
5/31/08	10.19	9.76	0.00
6/30/08	8.75	8.28	0.00
7/31/08	8.81	8.79	0.00
8/31/08	8.77	7.95	0.00
9/30/08	8.07	7.63	0.00
10/31/08	6.97	5.76	0.00
11/30/08	6.30	4.84	0.00
12/31/08	6.17	5.09	0.13
1/31/09	5.66	4.50	0.00
2/28/09	5.49	4.28	0.00
3/31/09	5.68	4.32	0.00

First Opportunity Fund, Inc. (formerly First Financial Fund, Inc.) was ranked #1 in Lipper Closed-End Equity Fund Performance for the 10 years ending:

- December 31, 2006
- December 31, 2005
- December 31, 2004

and the 5 years ending:

- December 31, 2004 by Lipper Inc.

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INVESTMENTS AS A % OF NET ASSETS (UNAUDITED)

Portfolio of Investments

March 31, 2009

Shares	Description	Value (Note 1)
LONG TERM INVESTMENTS (77.4%)		
DOMESTIC COMMON STOCKS (66.0%)		
Banks & Thrifts (26.4%)		
97,144	1st United Bancorp, Inc.*	$ 354,576
73,090	Alliance Bankshares Corp.*	131,562
541,900	AmeriServ Financial, Inc.	899,554
7,870	Bank of Commerce Holdings	39,665
34,000	Bank of Marin	731,340
83,300	Bank of Virginia*	283,220
57,000	BCB Bancorp, Inc.	511,290
64,300	Beverly National Corp.	935,565
37,400	Bridge Capital Holdings*	168,300
13,400	Cambridge Bancorp	304,850
47,298	Carolina Trust Bank*	227,030
340,815	CCF Holding Co.(a)	204,489
51,860	Centrue Financial Corp.	277,451
60,000	Community Bank(b)(c)	4,594,199
75,800	The Connecticut Bank & Trust Co.*	239,528
114,831		