FIRST OPPORTUNITY FUND INC
Form N-CSR
June 06, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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, 2011

Date of Reporting Period: March 31, 2011

Item 1. Reports to Stockholders.

The Report to Stockholders is attached herewith.

First Opportunity Fund, Inc. Letter from the Advisers

March 31, 2011 (Unaudited)

Dear Stockholders:

For the 12 month period ending March 31, 2011, the First Opportunity Fund, Inc. (the Fund) returned 12.6% on net assets. This compared to 15.7% returned by the S&P 500 during the same period. The table below shows the historic returns for the Fund for various periods ending March 31, 2011:

TOTAL RETURNS AS OF MARCH 31, 2011

	3 M	6 M	1 YR	3 YRS*	5 YRS*	10 YRS*	Since June 2010^
First Opportunity Fund (NAV)	2.5%	11.0%	12.6%	-2.2%	-4.8%	9.4%	13.6%
First Opportunity Fund (Market)	-2.4%	11.0%	3.0%	-6.2%	-10.1%	8.3%	16.0%
S&P 500 Index	5.9%	17.3%	15.7%	2.4%	2.6%	3.3%	23.7%
Dow Jones Industrial Average	7.1%	15.7%	16.5%	3.1%	4.9%	4.7%	24.1%
NASDAQ Composite	5.1%	18.0%	17.2%	7.9%	4.5%	5.0%	24.3%

**Annualized*

^ Since June 1, 2010, when the current Advisers became investment advisers to the Fund.

The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and the principal value of an investment will fluctuate and shares, if sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted.

Since the new Advisers were appointed and the Fund restructured in June of 2010 (allowing it to invest heavily in hedge funds), the Fund s net assets have increased 13.6% while the S&P has increased 23.7%.

As expected, the Fund s most significant contributors to its performance were the Fund s large investments in hedge funds. Wolf Creek Partners, L.P., in which the Fund owns a $49.4 million stake (18.7% of the Fund s assets), returned 25% since the Fund made its investment on June 1, 2010. Bay Pond Partners, L.P., a $45.7 million stake (17.3% of the Fund s assets), returned 15.7% since the investment was made on June 1, 2010. J. Caird Partners, L.P., in which the Fund owns a $20.5 million stake (7.7% of the Fund s assets), returned 13.7% since July 1, 2010. An equity investment, First Republic Bank, which represents about 5.5% of the Fund s portfolio, returned 82.8% since its acquisition in June 2010. The First Republic shares are restricted, which limits the Fund s ability to sell. On the negative side, North River Partners, L.P., in which the Fund owns a $15.9 million stake, returned -6.1% since August 2, 2010.

Since becoming advisers to the Fund in June 2010, in addition to hedge fund investments, we have made new investments that have included Sanofi-Aventis SA ADR (SNY), Total SA ADR (TOT), Pengrowth Energy Corp. (PGH), Johnson & Johnson (JNJ), and Energy Transfer Partners LP (ETP). We anticipate making additional new investments in hedge funds and operating companies as opportunities arise from time to time, although, because of the Fund s diversification requirements, such positions will be on the smaller side relative to our earlier hedge fund investments (e.g., not greater than 5% of the Fund s assets at the time of purchase).

Tempering the Fund s performance were financial stocks in the legacy portfolio which still make up a substantial portion of the Fund s assets around $67 million or about 25.4% of the Fund s assets. As measured by the SNL Daily Thrift, financial stocks returned -7.7% during the one year period ended March 31, 2011, underperforming US equities (15.7%) as measured by the S&P 500 Index. Within the financial sector, Republican wins in the November election have tempered political rhetoric against US banks in the short-term. However, implementation of the Dodd Frank bill continues to provide uncertainty for banks.

Banks still face a challenging climate entering 2011. Although changes to capital requirements from Basel III won t take effect until 2015, banks are already under pressure to raise capital ratios. In addition, fee growth

from debit and credit cards will be challenging going forward given the passage of the Durbin amendment, and workouts on poor-performing loans remain a headwind. Many see opportunities for stronger banks to grow by acquiring failing peers, especially within the mid-cap range, where many banks have broken business models and shrinking balance sheets. However, intense competition among the stronger banks has resulted in acquisitions occurring at a large premium to current stock prices, eliminating many of the financial efficiencies in such deals. Recent M&A activity has shifted away from FDIC-assisted deals to whole bank transactions, where relatively healthy organizations take over the less healthy. This type of activity will likely continue as the economy stabilizes, revenue growth opportunities in the industry remain slack, and the operating outlook for many of the acquirees stays bleak.

During the one year period ended March 31, 2011, the Fund s five largest eliminations from the legacy portfolio included Bank of America, Goldman Sachs, AerCap Holdings, Chimera Investment, and Synovus Financial. The Fund also reduced the notional exposure of the legacy portfolio s CDS positioning, as previously purchased protection was removed on several individual European and U.K. banks, as well as exposure to investment grade credit indices.

Since the Fund restructured, the Fund s discount has gone from -18.4% to -21.1% on March 31, 2011. There are likely numerous reasons for the discount widening, not the least of which is the Fund being delisted from the NYSE in May 2010. The discount and approaches to dealing with it are discussed by the Fund s Board on a quarterly basis. We understand that, in the best of worlds, the market value would closely track net asset value. However, as the Advisers to the Fund, we only have the ability to affect the long-term performance of the net assets and have limited, if any, ability to impact the market price on a long-term basis.

We are optimistic about delivering a more favorable report next year and look forward to continuing our partnership with our long-term stockholders. On another note, I am pleased to inform stockholders that Stewart Horejsi has assumed full portfolio management responsibilities for the Advisers (Rocky Mountain Advisers and Stewart Investment Advisers).

Sincerely,

Stephen C. Miller

The views and opinions in the preceding commentary are subject to change. This material represents an assessment of the market environment at a specific point in time, should not be relied upon as investment advice and is not intended to predict or depict performance of any investment.

Note to Stockholders on Investments in Hedge Funds: The Fund s investment advisers feel it is important that stockholders be aware that the Fund has highly concentrated positions in certain hedge funds and may take concentrated positions in other securities. Concentrating investments in a fewer number of securities (including investments in hedge funds) may involve a degree of risk that is greater than a fund which has less concentrated investments spread out over a greater number of securities. For example, the value of the Fund s net assets will fluctuate significantly based on the fluctuation in the value of the hedge funds in which it invests. In addition, investments in hedge funds can be highly volatile and may subject investors to heightened risk and higher operating expenses than another closed-end fund with a different investment focus.

	Per Share of Common Stock		
	Net Asset Value	Closing Market Price	Dividend Paid
3/31/10	$ 8.16	$ 7.04	$ 0.00
4/30/10	8.62	7.01	0.00
5/31/10	8.09	6.25	0.00
6/30/10	7.84	5.97	0.00
7/31/10	8.06	6.38	0.00
8/31/10	7.92	6.34	0.00
9/30/10	8.28	6.53	0.00
10/31/10	8.36	6.66	0.00
11/30/10	8.34	6.85	0.00
12/31/10	8.97	7.43	0.00
1/31/11	8.95	7.22	0.00
2/28/11	9.11	7.28	0.00
3/31/11	9.19	7.25	0.00

Investments as a % of Net Assets

Portfolio of Investments | First Opportunity Fund, Inc.
March 31, 2011

Shares	Description	Value (Note 1 & 2)
LONG TERM INVESTMENTS (98.2%)		
DOMESTIC COMMON STOCKS (35.6%)		
Banks & Thrifts (14.9%)		
32,825	1st United Bancorp, Inc.*	$230,432
54,790	Alliance Bankshares Corp.*	304,632
27,800	American River Bankshares*	185,982
8,439	Ameris Bancorp*	85,740
406,400	AmeriServ Financial, Inc.*	963,168
30,289	Bank of Commerce Holdings	128,425
62,500	Bank of Virginia*	131,875
42,700	BCB Bancorp, Inc.	439,810
28,000	Bridge Capital Holdings*	264,320
35,498	Carolina Trust Bank*	112,529
340,815	CCF Holding Co.*(a)	85,204
14,044	Central Valley Community Bancorp*	86,371
29,600	Central Valley Community Bancorp*(b)(c)	182,040
38,860	Centrue Financial Corp.*	19,430
12,300	Citizens & Northern Corp.	206,763
60,000	Community Bank*(b)(c)(d)	4,409,400
56,800	The Connecticut Bank & Trust Co.*	352,160
65,566	Eastern Virginia Bankshares, Inc.	236,693
4,085	Evans Bancorp, Inc.	57,599
97,200	FC Holdings, Inc.*(b)(c)(d)	10,692
4,300	First Advantage Bancorp	59,426
39,700	First American International*(b)(c)(d)	538,332
61,678	First California Financial Group, Inc.*	231,292
17,400	First Capital Bancorp, Inc.*	66,294
518,508	First Republic Bank*(b)(c)(d)	14,424,374
144,200	First Security Group, Inc.*	134,106
66,726	First Southern Bancorp, Inc. - Class B*	834,075
28,200	First State Bank*(b)(c)(d)	7,050
2,880	First Trust Bank*	10,800
193,261	Florida Capital Group*(b)(c)(d)	96,631
7,820	FNB Bancorp	87,975
155,800	Great Florida Bank - Class A*	31,160
15,300	Great Florida Bank - Class B*	306
66,000	Greater Hudson Bank N.A.*	349,800
228,000	Hampshire First Bank*(b)(c)	1,892,400
8,500	Heritage Financial Corp.	120,445
199,918	Heritage Oaks Bancorp*(b)(c)	697,714
36,900	ICB Financial*	140,220
14,200	Katahdin Bankshares Corp.	202,350
126,100	Metro Bancorp, Inc.*	1,557,335
905,600	National Bancshares, Inc.*(b)(c)(d)	190,176
17,300	New England Bancshares, Inc.	167,637

First Opportunity Fund, Inc.

Portfolio of Investments
March 31, 2011

Shares	Description	Value (Note 1 & 2)
Banks & Thrifts (Continued)		
4,000	North Dallas Bank & Trust Co.[(d)]	$213,240
30,400	Oak Ridge Financial Services, Inc.*	138,624
1,900	Old Point Financial Corp.	21,888
44,800	OmniAmerican Bancorp, Inc.*	709,632
24,000	Pacific Continental Corp.	244,560
162,590	Pilot Bancshares, Inc.*	286,158
190,540	Republic First Bancorp, Inc.*	531,607
4,500	Shore Bancshares, Inc.	43,875
76,195	Southern First Bancshares, Inc.*	608,798
79,900	Southern National Bancorp of Virginia, Inc.*	584,069
302,900	Square 1 Financial, Inc.*(b)(c)(d)	1,608,399
73,100	State Bancorp, Inc.	759,509
9,960	Tower Bancorp, Inc.	222,008
39,164	Valley Commerce Bancorp*	346,601
57,400	Wells Fargo & Co.	1,819,580
238,000	Western Liberty Bancorp*	925,820
12,404	Xenith Bankshares, Inc.*	52,965
		39,450,496
Diversified Financial Services (2.0%)		
16,241	Affinity Financial Corp.*(b)(c)(d)	